MACQUARIE GROUP
2008 ANNUAL REPORT

MACQUARIE

MACQUARIE GROUP LIMITED ACN 122 169 279

Corporate Governance Statement

The Board is committed to Macquarie seeking to achieve superior financial performance and long-term prosperity, while meeting stakeholders' expectations of sound corporate governance practices. This Statement outlines Macquarie's main corporate governance practices.

The Board, in conjunction with the Board Corporate Governance Committee, determines the most appropriate corporate governance arrangements for Macquarie. As with all its business activities, Macquarie is proactive in respect of corporate governance and puts in place those arrangements which it considers are in the best interests of Macquarie and its shareholders, consistent with its responsibilities to other stakeholders. It actively reviews Australian and international developments in corporate governance including the prudential requirements of the Australian Prudential Regulation Authority (APRA).

As required by the ASX Listing Rules, this statement sets out the extent to which Macquarie has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations during the year to 31 March 2008. On 13 November 2007, Macquarie Group Limited replaced Macquarie Bank Limited as the listed parent of the Macquarie Group. The governance practices described below largely applied to Macquarie Bank until 12 November 2007 and have applied to Macquarie Group Limited since 13 November 2007. This statement reports against the revised Recommendations released by the ASX in August 2007.

Macquarie considers that its governance practices are consistent with all but one of the 28 ASX Recommendations. The Board believes that Non-Executive Director David Clarke, although not an independent director, is the most appropriate person to be Macquarie's Chairman. An explanation for departure from this Recommendation is provided on pages 29–30.

Macquarie has posted copies of its corporate governance practices on its website at www.macquarie.com.au/au/about_macquarie/corporate_governance.htm.

Principle 1
Lay solid foundations for management and oversight

The Board Charter details the composition and role and responsibilities of the Board and their relationship with management to accomplish the Board's primary role of promoting the long term health and prosperity of Macquarie. A copy of the Board Charter is available on Macquarie's website at www.macquarie.com.au/au/about_macquarie. *(ASX Recommendation 1.3)*

As set out in the Board Charter, the Board has delegated specific authorities to the various Board Committees and the Managing Director. Macquarie's Executive Committee and Operations Review Committee operate as management committees appointed by the Managing Director pursuant to his delegated powers and, in exercising these powers, he typically makes decisions regarding significant issues, in consultation with one of these committees. *(ASX Recommendation 1.1)*

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

- Board members declaring their interests as required under the Corporations Act 2001 (Cth), Australian Stock Exchange Listing Rules and general law requirements;
- Board members with a material personal interest in a matter not receiving the relevant Board paper and not being present at a Board meeting during the consideration of the matter and subsequent vote unless the Board (excluding the relevant Board member) resolves otherwise; and
- Board members with a conflict not involving a material personal interest may be required to absent themselves from the relevant deliberations of the Board.

The Board has also established protocols for identifying, managing and highlighting conflicts within the Macquarie Group.

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

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Performance of Key Executives
The process adopted by the Board to review the performance of Macquarie's most senior executives is available on Macquarie's website at www.macquarie.com.au. The performance of Macquarie's senior executives has been assessed this year in accordance with the process adopted by the Board. *(ASX Recommendation 1.3)* Key aspects of the review process are described below.

The Managing Director will annually present a self-assessment to the Non-Executive Directors, who formally review the performance of the Managing Director. The presentation will include financial performance, the business environment, prudential performance, staff and human relations and other achievements. The Non-Executive Directors report on this to the Board.

The Managing Director will evaluate, at least annually, the performance of the following key executives: the Deputy Managing Director and the Group Heads, including the Chief Information Officer. Both qualitative and quantitative measures are used, consistent with the dimensions for reviewing the Managing Director. The Managing Director reports to the Board Remuneration Committee in conjunction with the remuneration review process on the performance of these key executives. In conjunction with the annual strategy review, the Board also considers key executive succession planning and their capabilities. *(ASX Recommendation 1.2)*

Principle 2
Structure the Board to add value

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

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

The membership of the Board is set out below. Details of each individual Voting Director's background are set out in Schedule 1 of the Directors' Report (see pages 116–118) in the Annual Report. *(ASX Recommendation 2.6)*

Current Board composition

Voting Director	Board Membership	Date of Appointment
David Clarke AO	Non-Executive Chairman	August 2007
Allan Moss AO	Managing Director and CEO*	August 2007
Nicholas Moore	Executive**	February 2008
Laurie Cox AO	Executive	August 2007
Peter Kirby	Independent	August 2007
Catherine Livingstone AO	Independent	August 2007
Kevin McCann AM	Independent	August 2007
John Niland AC	Independent	August 2007
Helen Nugent AO	Independent	August 2007
Peter Warne	Independent	August 2007

* Mr Moss' appointment as CEO was effective on 13 November 2007.
** Upon Mr Moss' retirement on 24 May 2008, Mr Moore will become Managing Director and CEO.

Macquarie's constitution provides that the maximum number of Voting Directors shall be ten unless amended by a resolution of the Board. Following the resignation of Mr Moss, the maximum number of Voting Directors will be nine.

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

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

Independent Directors

Macquarie recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance. A majority of the Board members are Independent Directors. *(ASX Recommendation 2.1)*

The Board believes that independence is essentially a state of mind evidenced by an ability to constructively challenge and independently contribute to the work of the Board. The independence of directors is assessed annually by the Board Corporate Governance Committee (BCGC) and, to assist the BCGC, the Board has adopted the following definition of an Independent Director which is available on Macquarie's website: *(ASX recommendation 2.6)*

A Voting Director will be considered independent if not a member of management and if he/she meets the following criteria (to the satisfaction of the BCGC):

— is not a substantial shareholder of Macquarie or of a company holding more than five per cent of Macquarie's voting stock or an officer of or otherwise associated directly or indirectly with a shareholder holding more than five per cent of Macquarie's voting stock;
— has not within the last three years been employed in an executive capacity by Macquarie or another group member or been a director after ceasing to hold any such employment;
— is not a principal or employee of a professional adviser to Macquarie and its entities whose billings exceed five per cent of the adviser's total revenues. A Voting Director who is a principal or employee of a professional adviser will not participate in any consideration of the possible appointment of the professional adviser and will not participate in the provision of any service to Macquarie by the professional adviser;
— is not a significant supplier or customer of Macquarie or its entities or an officer of or otherwise associated directly or indirectly with a significant supplier or customer. A significant supplier is defined as one whose revenues from Macquarie exceed five per cent of the supplier's total revenue. A significant customer is one whose amounts payable to Macquarie exceed five per cent of the customer's total operating costs;
— has no material contractual relationship with Macquarie or any of its associates other than as a director of Macquarie;
— is not a director of any of Macquarie's subsidiaries or responsible entities other than Macquarie Bank Limited and any intermediary holding company;
— has not served on the Board for a period exceeding Macquarie's agreed tenure rules (including transitional arrangements); and
— has no other interest or relationship that could interfere with the Voting Director's ability to act in the best interests of Macquarie and independently of management.

The BCGC has determined that each of the six Voting Directors designated as Independent Directors in this Statement satisfy all of the above criteria and bring an independent mind to their duties as a director. The criteria used to assess independence, including the materiality thresholds referred to above, are reviewed from time to time.

The independence of each Independent Director is monitored by the BCGC and Voting Directors may be required to provide information to the BCGC to enable it to assess the Independent Directors' ongoing independence. Each year, the Independent Directors are requested to confirm in writing their continuing status as an Independent Director and they have each undertaken to inform the Board as soon as practical if they think that their status as an Independent Director has or may have changed. *(ASX Recommendation 2.6)*

Chairman

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

Macquarie has noted the ASX Corporate Governance Council's recommendation that listed companies have an independent director as chairman. However, for the reasons set out below, the Board believes that David Clarke is the most appropriate person to be Macquarie's Chairman and that measures adopted by Macquarie provide an appropriate check on executive power. APRA's Governance Standard also requires the

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chairperson of the Board to be an Independent Director. Notwithstanding this requirement, APRA has confirmed that it will allow Mr Clarke to continue as Chairman of Macquarie and Macquarie Bank Limited. *(ASX Recommendation 2.2 and 2.6)*

Mr Clarke was Joint Managing Director of Hill Samuel Australia Limited, the business predecessor to Macquarie Bank from 1971 to 1977, sole Managing Director from 1977 to 1984 and then Executive Chairman. Given Macquarie's diverse, complex and highly specialised activities, it is important that the Board is chaired by someone with a deep understanding of Macquarie's operations. Mr Clarke's experience in investment banking, and as a chairman of major listed entities, is also important in ensuring that management provides the Board with adequate information to facilitate effective decision making. His wide experience enables him to provide support and advice to the Managing Director while respecting executive responsibility.

Macquarie's dependence on the performance of its staff is a further reason why, like most global investment banking organisations, Macquarie believes it to be in shareholders' interests to have a number of Board members with operating experience of the businesses. Mr Clarke's role as Executive Chairman worked very well for a long time at Macquarie Bank and it is considered to be in shareholders' interests for Mr Clarke to continue as Macquarie's Non-Executive (Non-Independent) Chairman. Macquarie has also adopted a number of practices to regulate the division of responsibilities between the Board and management, and the accountability of management to the Board, including:

— separate individuals perform the roles of Chairman and Managing Director; *(ASX Recommendation 2.3)*
— the appointment of a Lead Independent Director to act as a conduit for issues that the Independent Directors have as a group;
— having a majority of Independent Directors on the Board;
— the Non-Executive Directors meet at least once per year in the absence of management. The Independent Directors may also meet on their own with the Lead Independent Director chairing such meetings;
— the delegation of certain responsibilities to Board Committees, a number of which the Chairman is not a member. The Board Audit and Compliance Committee Charter states that the Chairman of the Board shall not be eligible to be the Chairman of that Committee; and
— the ability of Voting Directors to seek independent professional advice for company related matters, including Board Committee matters, at Macquarie's expense, subject to the estimated costs being approved by the Chairman in advance as being reasonable. *(ASX Recommendation 2.6)*

Board Committees

Five standing Board Committees have been established to assist in the execution of the Board's responsibilities. All Board members are free to attend any meeting of any Board Committee. The membership of each Committee is outlined in the table below. Attendance at Board and Committee meetings is set out on page 53 of the Directors' Report. *(ASX Recommendation 2.6)*

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

Each Committee has a charter which includes a description of their duties and responsibilities. The Charters are available in the Corporate Governance section of Macquarie's website at www.macquarie.com.au/au/about_macquarie. *(ASX Recommendation 2.6)*

Nomination of Directors and Board Renewal

The Board Nominating Committee comprises the Chairman and two Independent Directors. *(ASX Recommendation 2.4)*

The Nominating Committee's role, which is outlined in its charter, is to review and consider the structure and balance of the Board and make recommendations regarding appointments, retirements and terms of office.

The Board has adopted a Policy on Board Renewal and Appointment of Directors to govern the selection and appointment of Voting Directors, a copy of which is available on Macquarie's website at www.macquarie.com.au/au/about_macquarie. *(ASX Recommendation 2.6)*

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

Standing Committee Membership	Audit and Compliance	Corporate Governance	Nominating	Remuneration	Risk
Non-Executive (Non-Independent) Directors					
David Clarke AO			Chairman	Member	Chairman
Executive Voting Directors					
Allan Moss AO					Member
Nicholas Moore[1]					Member
Laurie Cox AO					Member
Independent Directors					
Peter Kirby[2]	Member	Member			Member
Catherine Livingstone AO	Chairman		Member		Member
Kevin McCann AM	Member	Chairman			Member
John Niland AC[3]		Member		Member	Member
Helen Nugent AO			Member	Chairman	Member
Peter Warne[4]	Member			Member	Member

[1] Mr Moore has been a member of the MGL Risk Committee since his appointment to the Board in February 2008.
[2] Mr Kirby was a member of the MBL Remuneration Committee until August 2007 when he was appointed to the Audit and Compliance and Corporate Governance Committees.
[3] Dr Niland was a member of the MBL Audit and Compliance Committee until August 2007 when he was appointed to the Remuneration Committee.
[4] Mr Warne was appointed to the MBL Audit and Compliance Committee effective on his joining to the MBL Board in July 2007 and became a member of the Remuneration Committee in August 2007.

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

Performance of the Board
The Board undertakes a formal annual performance self-assessment, including an assessment of the Board, Board Committees and individual Board members with emphasis on those individual Directors who are required to stand for re-election at the next AGM. The process adopted by the Board to review the performance of the Board and Macquarie's most senior executives is available on Macquarie's website at www.macquarie.com.au. The performance of the Board has been assessed this year in accordance with the process described below. *(ASX Recommendation 2.6)*

The process for conducting the Board's performance review consists of the Chairman conducting individual interviews with each of the Voting Directors and the Lead Independent Director discussing the performance of the Chairman with other Voting Directors then with the Chairman. Prior to that, the Voting Directors complete a questionnaire and are able to make other comments or raise any issue that they have relating to the Board's or a Board Committee's operation. The results of the questionnaire and interviews are compiled and include a quantitative and a qualitative analysis.
(ASX Recommendation 2.5)

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

Board Committee members also use a questionnaire as part of the Committee review process. The results of the questionnaire are compiled and a written report discussing the results is issued and presented to the relevant Committee, then discussed at a Committee meeting. Each of the Board Committees undertakes a periodic review of its performance in accordance with its Charter which requires at least biennial review. Three of the five standing Committees undertook a review of their performance during the year, including the Board Risk Committee as part of the Board review.
(ASX Recommendation 2.5 and 2.6)

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Principle 3
Promote ethical and responsible decision-making

Macquarie's Board and management are committed to Macquarie continuing to be a good corporate citizen. Macquarie has a robust framework of policies, underpinned by its Goals and Values and Code of Conduct, relevant to environmental, social and governance (ESG) responsibilities. A statement setting out Macquarie's position on ESG issues is available on Macquarie's website at www.macquarie.com.au/au/about_macquarie.

Macquarie's Code of Conduct and the policies discussed below set the standards for dealing with obligations to external stakeholders. A statement of Macquarie's community engagement is detailed in the Macquarie Group Foundation's annual report, which is available on Macquarie's website. Further information regarding Macquarie's ESG initiatives can be found in Macquarie's Annual Report. Each of Macquarie's listed funds provides information on ESG initiatives undertaken by the fund in their respective Annual Reports.

Code of Ethics and Conduct
Macquarie's Voting Directors and staff are required to maintain high ethical standards of conduct.

The Group's Code of Ethics, *Macquarie – What We Stand For*, covers Macquarie's dealings with external parties and how Macquarie operates internally. It is periodically reviewed and fully endorsed by the Board. The Code of Ethics is distributed to all staff and its standards communicated and reinforced at Macquarie-wide induction programs, presentations to workgroups and annual staff meetings.

Macquarie has adopted a Code of Conduct (the Code), which incorporates the Group's Code of Ethics. The Code is also reflected in, and supported by, a broad range of Macquarie's internal policies and procedures. The Code includes a requirement to conduct all Macquarie's business in accordance with applicable laws and regulations in the jurisdictions in which Macquarie operates, and in a way that enhances its reputation in those markets. *(ASX Recommendation 3.1)*

A copy of the Code is available on Macquarie's website at www.macquarie.com.au/au/about_macquarie. *(ASX Recommendation 3.3)*

Integrity Office (ASX Recommendation 3.1)
To strengthen Macquarie's commitment to conducting its business activities in accordance with the highest ethical standards, Macquarie has appointed Executive Directors, Michael Price and James Hodgkinson, as Integrity Officers. In acknowledgement of the expanding international nature of Macquarie's business, Regional Integrity Officers and Regional Integrity Support Officers have been appointed in Asia, Europe and the Americas.

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

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

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

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

Macquarie and Corporate Citizenship
Macquarie is directly involved in a number of business activities relevant to the environment including sustainability audits of Macquarie premises and purchasing of 'green' power, emissions trading, and investment in sustainable forestry, renewable energy and clean technology.

Macquarie invests continually in the development and training of its staff, including through a venture with a leading world educational institution. Macquarie also contributes to the communities in which it operates through the work of the Macquarie Group Foundation and by supporting staff in their philanthropic and volunteering endeavours.

Staff Dealing
Macquarie's Personal Dealing Policy identifies the principles by which Macquarie balances the personal investment interests of staff against Macquarie's responsibility to ensure that the personal dealing and investment activities in any financial product of its staff are conducted appropriately. A summary of Macquarie's trading policy is available on Macquarie's website at www.macquarie.com.au/au/about_macquarie.
(ASX Recommendation 3.2 and 3.3)

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

One of the key aspects of the Policy requires Voting Directors, staff and their associates to pre-clear their securities trading with Macquarie.

Voting Directors and staff may only trade in Macquarie securities and related derivatives during designated trading windows. These are typically of three to five weeks' duration and follow Macquarie's announcements of its interim and full year profits and after the AGM. However, in all cases Macquarie prohibits Voting Directors and staff from dealing in such investments while they possess material non-public price-sensitive information about Macquarie.

The Board has also agreed that Voting Directors generally should not sell MGL shares while the shares are subject to an on-market buy-back, and should not undertake short-term trading in any Macquarie-related securities and derivatives without the prior approval of the Chairman (or the Managing Director in the case of the Chairman).

All Voting Director's financing arrangements relating to their Macquarie securities must be managed in accordance with Macquarie's trading policy.

Executive Directors are also not permitted to undertake any action that is designed to limit their exposure to Macquarie shares which are subject to retention arrangements, or their unvested Macquarie options. Non-executive directors may also not enter into a transaction that operates to limit the economic risk of their Macquarie shareholding below their minimum shareholding requirement. Employees are not permitted to take net short positions in MGL shares or any Macquarie-managed funds.

Principle 4
Safeguard integrity in financial reporting

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

Financial Assurance
The Board Audit and Compliance Committee (BACC) is comprised of four Independent Directors. *(ASX Recommendation 4.1 and 4.2)* Details of each individual Voting Director's background are set out in Schedule 1 of the Directors' Report (see pages 116–118) in the Annual Report. Attendance at BACC meetings is set out in the Directors' Report on page 53.
(ASX Recommendation 4.4)

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

- overseeing the compliance of the financial statements with legislative and other mandatory professional reporting requirements;
- making informed decisions regarding accounting and regulatory policies, practices and disclosures and reviewing the scope and results of Internal Audit reviews, and external audits;
- making informed decisions regarding compliance policies and reviewing the scope and results of compliance reviews;
- assessing the effectiveness of the Group's internal control and operational risk framework; and
- assessing the effectiveness of the Group's credit assurance function.

The responsibilities of the BACC are set out in its charter, which is posted on Macquarie's website.
(ASX Recommendation 4.3)

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

- Head of Internal Audit;
- Head of Risk Management Group (RMG);
- Head of RMG Compliance;
- Head of RMG Credit Assurance; and
- the external auditors.

The BACC makes a periodic, but at least biennial, evaluation of its performance and annually reviews the extent to which it has met the requirements of its charter.

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

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

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

The policy on auditor independence applies to services supplied by the external auditor and their related firms to Macquarie, its related entities and the trusts and entities managed by Macquarie. A copy of Macquarie's external auditor policy statement is available on Macquarie's website at www.macquarie.com.au/au/about_macquarie. *(ASX Recommendation 4.4)*

Under the policy the external audit engagement partner and review partner must be rotated every five years. Macquarie's lead audit engagement partner will rotate at the conclusion of the 2008 financial reporting period.

Principle 5
Make timely and balanced disclosure

Commitment to Shareholders and Informed Market
Macquarie believes that shareholders, regulators, ratings agencies and the investment community generally, should be informed of all major business events and risks that influence Macquarie in a factual, timely and widely available manner. Macquarie has a Continuous Disclosure Policy which is incorporated in the External Communications Policy. A summary of the External Communications Policy is available on Macquarie's website at www.macquarie.com.au/au/about_macquarie. *(ASX Recommendation 5.1 and 5.2)*

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

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

Principle 6
Respect the rights of shareholders

Communications (ASX Recommendation 6.1 and 6.2)
It is Macquarie's policy, as set out in the summary of the External Communications Policy referred to in Principle 5, that all external communications by Macquarie will:

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

Macquarie's website, www.macquarie.com.au/shareholdercentre, contains recent announcements, presentations, past and current reports to shareholders, answers to frequently asked questions and a summary of key financial data. Investors may also register here to receive copies of significant announcements by email as soon as practical after they have been lodged with the ASX.

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

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

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

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

Holders of Macquarie Income Securities have the right to attend Macquarie Bank Limited AGMs, at which they have limited voting rights, as set out in the terms of their issue.

Macquarie will webcast the formal addresses at its AGM and any other Macquarie general meetings which may be held, for the benefit of those shareholders unable to be present in person.

Principle 7
Recognise and manage risk

Identifying Significant Business Risks
There are many risks in the markets in which Macquarie operates. A range of factors, some of which are beyond Macquarie's control, can influence performance. In many of its businesses, Macquarie constantly and deliberately assumes financial risk in a calculated and controlled manner. Macquarie has in place limits and a range of policies and procedures to monitor the risk in its activities, and these are periodically reviewed by the Board and the Board Risk Committee. *(ASX Recommendation 7.2)*

Further information regarding Macquarie's system of risk oversight and management is set out in the Risk Management Report on pages 38–51.
(ASX Recommendation 7.1 and 7.4)

Board Oversight
The Board established the Board Risk Committee, which is comprised of all Board members to focus appropriate attention on the risk management framework of Macquarie and the particular significance of risk to Macquarie's performance.

The Board Risk Committee Charter is found on Macquarie's website at www.macquarie.com.au.

Risk Management Framework
Macquarie's approach to risk management is described in some detail in the Risk Management Report. The risk management framework, including policies, limits and procedures, continues to apply across the Macquarie Group following the Restructure whereby Macquarie Group Limited has become the ultimate parent of the Macquarie Group. *(ASX Recommendation 7.2)*

In brief, the principles followed by Macquarie in risk management are:

- Independence – RMG, which is responsible for assessing and monitoring risks across Macquarie, is independent of the operating areas of Macquarie, reporting directly to the Managing Director and the Board. RMG authority is required for material risk acceptance decisions;
- Centralised Prudential Management – RMG's responsibility covers the whole of Macquarie. Therefore, it can assess risks from a Macquarie-wide perspective and provide a consistent approach across all operating areas;
- Approval of all new business activities – Operating areas cannot undertake new businesses or activities, offer new products, or enter new markets without first consulting RMG. RMG reviews and assesses risk and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board;

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- Continuous assessment – RMG continually reviews risks to account for changes in market circumstances and Macquarie's operating areas; and
- Frequent monitoring – Centralised systems exist to allow RMG to monitor credit and market risks daily. RMG staff liaise closely with operating and support Divisions.

Chief Executive Officer and Chief Financial Officer Declaration
The Chief Executive Officer and the Chief Financial Officer provide the Board with written confirmation that:

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

Macquarie's senior management has reported to the Board on the effectiveness of the management of material business risks faced by the Groups for the year ended 31 March 2008. *(ASX Recommendation 7.2 and 7.4)* The Board has also received the Chief Executive Officer and the Chief Financial Officer declaration described above for this financial year.
(ASX Recommendation 7.3 and 7.4)

Principle 8
Remunerate fairly and responsibly

Macquarie's Remuneration Committee
Board oversight of remuneration and the role of the Board Remuneration Committee is described in the Directors' Report (see pages 85 to 87) in Macquarie's 2008 Annual Report. The composition of the Board Remuneration Committee (shown in the table on page 31) consists of a majority of Independent Directors and is chaired by an Independent Director. Committee member's attendance at Committee meetings is included in the Directors' Report (see page 53).
(ASX Recommendation 8.1 and 8.3)

A copy of the Committee's charter is available on Macquarie's website at www.macquarie.com.au/au/about_macquarie. *(ASX Recommendation 8.3)*

Executive Director and Senior Executive Remuneration
Macquarie's remuneration policies and practices in relation to Executive Voting Directors and senior executives are as disclosed in Macquarie's Remuneration Report (see pages 56 to 110), contained in the 2008 Annual Report. Macquarie considers that disclosure of the structure and objectives of the remuneration policies, and their relationship to Macquarie's performance, allows investors to understand the costs and benefits of those policies and the link between remuneration paid to Executive Voting Directors and key executives and corporate performance. Details of the nature and amount of remuneration (including non-monetary components such as options) paid to each Executive Voting Director and the members of the Executive Committee within Macquarie are set out in the Remuneration Report.
(ASX Recommendation 8.2)

Macquarie's trading policy prohibits Executive Directors, who are the most senior executives of the Macquarie Group, from entering into a transaction that is designed or intended to hedge their exposure to a Macquarie Group share that is subject to retention arrangements, an unvested Macquarie option, or both. A summary of Macquarie's trading policy is available on Macquarie's website at www.macquarie.com.au/au/about_macquarie. *(ASX Recommendation 8.3)*

Non-Executive Director Remuneration
The remuneration policy for Macquarie's NEDs and the amount of remuneration paid to NEDs is discussed in detail in the Remuneration Report. NEDs are not granted options nor receive bonus payments. There are no termination payments to NEDs on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration.
(ASX Recommendation 8.2 and 8.3)

Corporate Governance in Macquarie Managed Funds

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

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

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

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

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

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

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

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

Risk Management Report

Risk is an integral part of the Macquarie Group's businesses. Management of that risk is therefore critical to Macquarie'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.

Risk is owned at the business level with business heads responsible for identifying risks within their businesses and ensuring that they are managed appropriately. The aim is to give business heads a high level of entrepreneurial freedom to develop and implement business unit strategy, new products and services, new market initiatives and domestic and international alliances. However, boundaries exist in relation to credit, market, operational, regulatory and reputation risks. These areas have implications outside the businesses and are tightly controlled by the Risk Management Group (RMG). This is referred to as the "Freedom within Boundaries" philosophy.

RMG exercises centralised prudential management and ensures risks are assessed consistently from a Macquarie-wide perspective. RMG is mandated with identifying, quantifying and assessing all risks and setting appropriate prudential limits. RMG's authority is required for all material risk acceptance decisions.

The Head of RMG is a member of the Group's Executive Committee and reports directly to the Managing Director of the Group and the Board.

Risk Governance Structure
Risk management is sponsored by the Board, and is a top priority for senior managers, starting with the CEO.

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

There are 3 board committees that assist the Board in ensuring the appropriate focus is placed on the risk management framework.

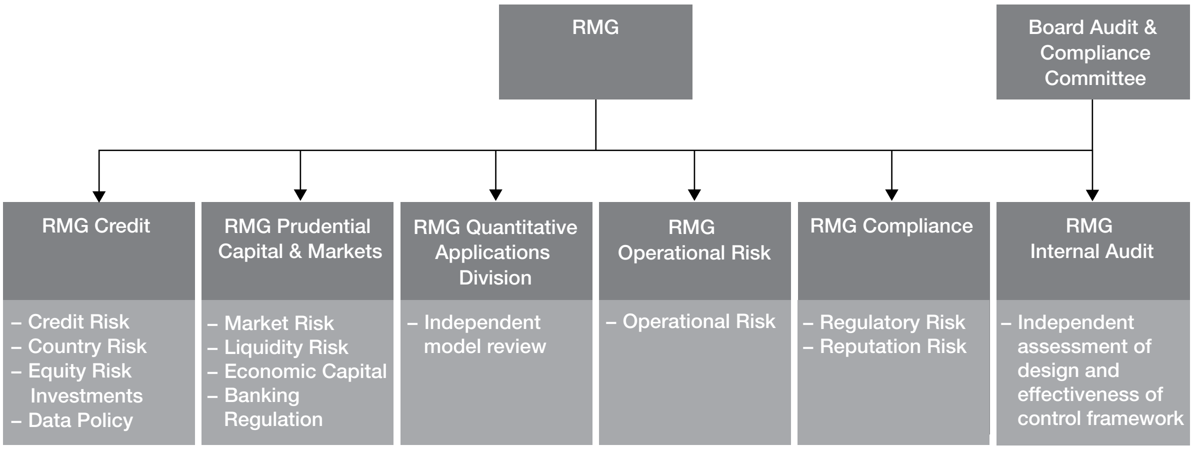
- The **Board Risk Committee** ("BRC") has responsibility for ensuring an appropriate risk management framework – including the establishment of policies for the control of risk – is in place. The BRC receives information on the risk profile of Macquarie, breaches of the policy framework and external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

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

Risk Management Framework
The risk management framework is based on the following 5 principles:

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

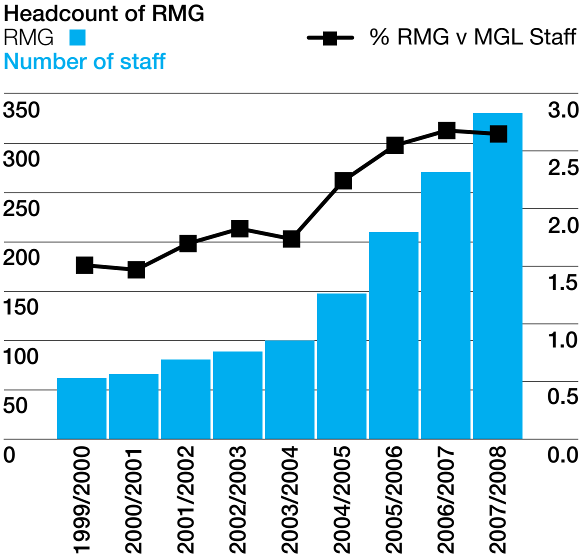
RMG structure and resourcing
RMG is structured into specialised teams who deal with specific risks. The Divisional split of RMG is detailed below.



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

Growth in RMG has been consistent with overall Macquarie Group growth over the past few years. Over the last year, RMG has grown 22 per cent to 331 full-time equivalent staff whilst headcount Macquarie wide increased 24 per cent.

Headcount of RMG



Risk Management Report
continued

As Macquarie's international offices have expanded, so have RMG staff levels based outside Australia. 36 per cent of total RMG staff (as at March 2008) were based internationally to ensure that the risks are managed and growth occurs in a controlled manner. Macquarie's international offices are subject to the same risk management controls that apply in Australia. Before an international office can be set up or undertake new activities, RMG analyses the proposed activities, infrastructure, resourcing and procedures to ensure appropriate risk management controls are in place. RMG staff monitor and routinely visit international offices to ensure compliance with prudential controls.

Consistent with the concept of business units owning risk, certain day to day operations are more appropriately discharged and embedded within the business units. The majority of operational risk and compliance functions are discharged within the business units. Divisional compliance staff ensure that day to day legal and compliance obligations are discharged at the business level whilst Business Operational Risk Managers (BORMs) are appointed by the Group Heads to be their representative on operational risk management matters, and act as their delegate in ensuring that operational risk is addressed appropriately within their business units. As at the end of March 2008, there were approximately 450 staff performing such functions within the business units. RMG provides a risk oversight role in relation to these staff members ensuring appropriate standards are adhered to. These divisional staff members have functional reporting lines to the relevant RMG divisional head.

New Business

The level of innovation across Macquarie tends to be high. Therefore, it is important that all elements of the new business initiatives are well understood (particularly in terms of new risks which they involve) before commencement.

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

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

Risk Management and Monitoring

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

Equity Risk

Risks arise on non-trading equity-like exposures, including:

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

Equity Risk Limit

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

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

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

Transaction Review and Approval Process

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

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

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

Credit Risk

Credit risk is the risk of financial loss as a result of failure by a client or counterparty to meet its contractual obligations. Credit risk arises from both lending and trading activities. In the case of trading activity, credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract once the settlement becomes due. In that situation, the credit exposure is a function of the movement of prices over the period of the contract.

Macquarie has a comprehensive and robust framework for the identification, analysis and monitoring of its credit risk exposure. This framework is maintained by the Credit team in RMG to ensure that all credit risks arising within each business are identified and analysed.

Key aspects of this framework include:

Analysis and Approval of Exposures

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

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

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

All credit exposures are subject to annual review.

Independent Analysis

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

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

Macquarie Group Ratings

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

All limits and exposures are allocated a Macquarie Group (MG) rating on a 1–13 scale which broadly correspond with S&P credit ratings. Each MG rating is assigned a Probability of Default (PD) estimate. Credit limits and exposures are also allocated a Loss Given Default (LGD) ratio reflecting the estimated economic loss in the event of default occurring.

Risk Management Report
continued

Measuring and Monitoring Exposures

Credit exposures are evaluated at either their full face value (e.g. loans) or their assessed credit exposure (e.g. derivatives).

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

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

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

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

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

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

Macquarie's policies to control credit risk include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

Loan Impairment Review

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

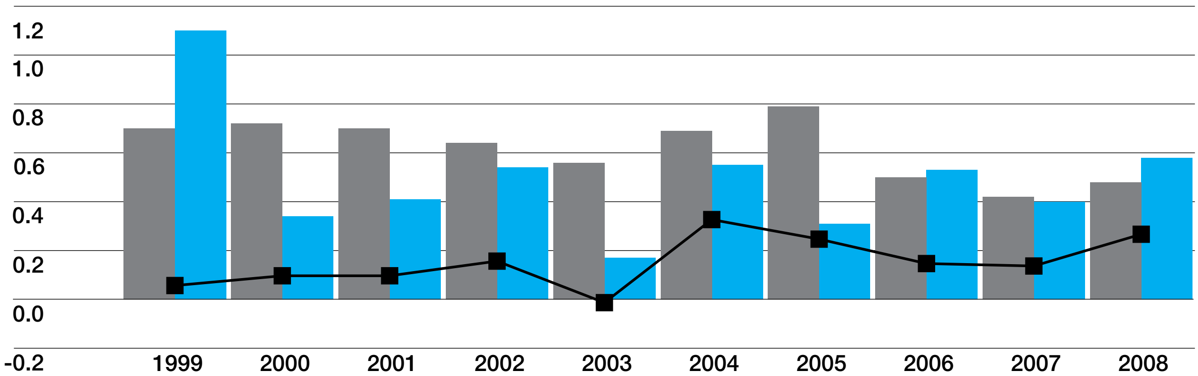
Specific provisions are recognised where specific impairment is identified. The rest of the loans are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified.

Country Risk

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

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

Collective provision to loans, advances and leases (Balance sheet)
Net credit losses to loans, advances and leases (Income statement)
Net impaired assets to loans, advances and leases (Balance sheet)
%



Note: Loans assets excludes securitised mortgages, securitised Macquarie Capital loans/leases and segregated futures funds. Net impaired assets and net credit losses includes loan assets, derivatives, trading and other assets, but excludes investment securities. Please refer to note 13 of the Financial Report for further information on impaired assets.

Operational Risk

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

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

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

Operational Risk Management Framework

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

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

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

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

Macquarie's Operational Risk Capital Framework

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

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

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

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

- new or increased loss scenarios and/or;
- an increased loss probability.

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

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

Risk Management Report
continued

Market Risk

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

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

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

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

Trading Market Risk

RMG monitors positions within Macquarie according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate, so that the risk profile approved for each business remains within Macquarie's aggregate level of risk. Limits are approved by members of management with appropriate authority for the size and nature of the risk, and remain the ultimate responsibility of the business. Macquarie adheres to a "No Limits, No Trading" policy. If a product or position has not been authorised by RMG, that product or position cannot be traded. Material breaches of the approved limit structure, for both businesses and in aggregate, are communicated monthly to the Boards.

RMG sets three complementary limit structures:

- **Contingent Loss Limits**: a wide range of price and volatility scenarios, including comprehensive worst case, or stress, scenarios. Worst case scenarios include market movements larger than have occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives;
- **Position Limits**: volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions;
- **Value at Risk (VaR) Limits**: statistical measure that determines the potential loss in trading value at both a business and aggregate level.

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

Aggregate Measures of Market Risk

Aggregate market risk is constrained by two risk measures, Value at Risk (VaR) and the Macro-Economic-Linkages (MEL) scenario. The VaR model predicts the maximum likely loss in Macquarie's trading portfolio due to adverse movements in global markets over holding periods of one and ten days. The MEL scenario captures simultaneous, worst case contingent loss movements across all major markets. Whereas MEL focuses on extremely large price movements which are considered worst case, VaR focuses on unexceptional price movements so that it does not account for losses that could occur beyond the 99 per cent level of confidence.

Macro-Economic-Linkages (MEL)

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

The period beginning July 2007 has been characterised by large market disruptions. Credit market turbulence was accompanied by significant volatility and diminished liquidity in foreign exchange, equity, precious metal and energy markets. The MEL approach described above already emphasised the cross-market effects of major market movements. In response to the recent market conditions RMG has expanded the scenarios to include a "Market Contagion" scenario.

The “Market Contagion” scenario considers the impact of a stock market crash, with simultaneous effects in global foreign exchange, interest rates and corporate margins. Downward shocks of up to 30 per cent are applied to equity markets and hedge fund values, foreign exchange and precious metals are moved by 5 per cent, interest rates are shifted by up to 200 basis points, corporate margins are shocked by 50 to 500 basis points and energy, agricultural commodities and base metals are shocked by up to 20 per cent. With associated moves in implied volatilities and correlations, the “Market Contagion” scenario accounts for all the significant markets to which Macquarie is exposed. The assumptions in this scenario are considerably more severe than the conditions that have prevailed in the recent period of market volatility. Although the new ‘Market Contagion’ scenario is very conservative, exposure to the MEL scenarios remained only a small percentage of the Group’s capital throughout the financial year.

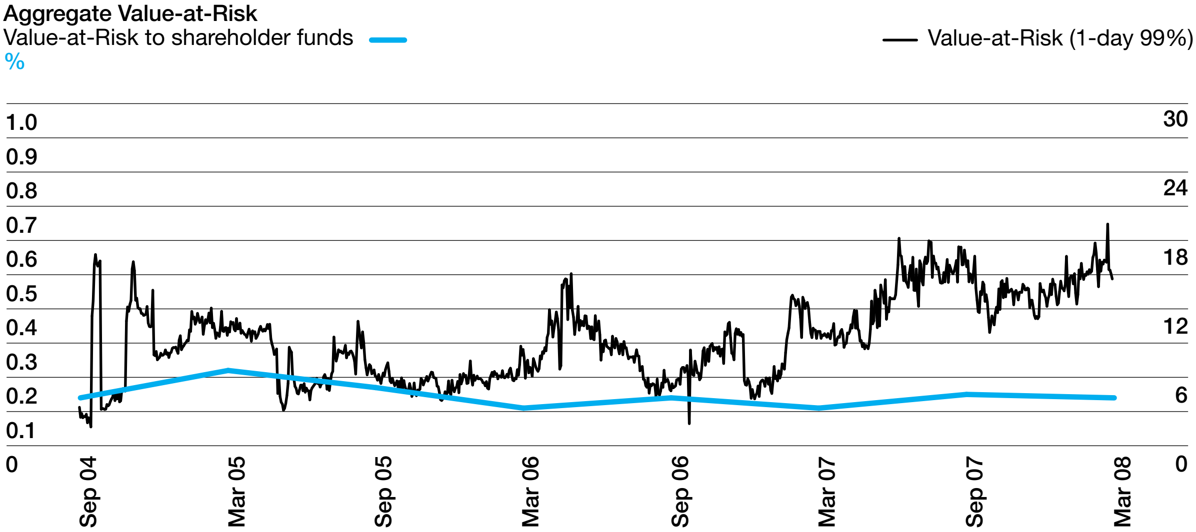
Value at Risk (VaR)
VaR provides a statistically based summary of overall market risk in the Group. The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 1000 benchmarks, based on three to ten years of historical data. Each benchmark represents an asset at a specific maturity, for example one year crude oil futures or spot gold. The benchmarks provide a high level of granularity in assessing risk, covering a range of points on yield curves and forward price curves, and distinguishing between similar but distinct assets; for example crude oil as opposed to heating oil, or energy products traded at different locations. Exposures to individual equities within a national market are captured by specific risk modelling incorporated into the VaR model. The benchmarks are correlated based on the same historical data.

The integrity of the VaR model is tested against daily profit or loss and reported to APRA quarterly. At the group level, the one day loss has never exceeded the one day VaR result.

Over a long period of time, market risk, as measured by VaR, has been modest in comparison to capital and earnings. VaR increased during the current financial year, reflecting a general increase in the range of activity and the volume of trading undertaken by all businesses. In particular, business activity has expanded internationally, as Macquarie entered new energy markets throughout North America and capitalised on equity market conditions in Asia. However, VaR as a percentage of shareholder funds has been stable over recent years. The graph below shows the daily VaR and the six month average VaR as a percentage of the six month average shareholder funds.

Although VaR remains concentrated in the equities market, the past year has seen an increase in Macquarie’s exposure to the commodities sector. In addition to new energy businesses, there was increased trading in oil, freight and agricultural commodities as trading businesses capitalised on market conditions and serviced large client trades. Trading in debt and structured securities has historically not been a large business for Macquarie and this continued in the past year. The reported VaR is also affected by changes in market volatility and correlations, and by ongoing enhancements to the VaR model.

Aggregate Value-at-Risk



Risk Management Report
continued

Value-at-Risk (VaR) figures for year ended 31 March

	2008 Average $m	2008 Maximum $m	2008 Minimum $m	2007 Average $m	2007 Maximum $m	2007 Minimum $m
Equities	7. 45	15. 30	4. 37	7. 91	13. 67	3. 39
Interest rates	3. 22	5. 51	2. 12	2. 13	3. 33	1. 26
Foreign exchange and bullion	3. 15	7. 77	1. 25	2. 19	4. 72	1. 39
Commodities	10. 80	17. 70	3. 73	3. 50	8. 00	1. 43
Aggregate	13. 55	19. 54	8. 69	8. 44	15. 22	2. 18

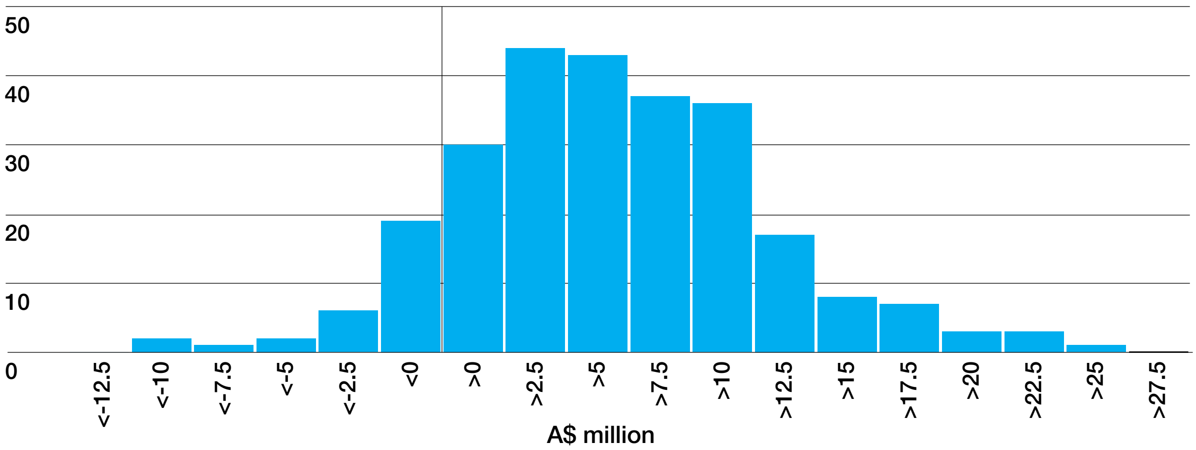
Trading Revenue

The effectiveness of Macquarie's risk management methodology can be measured by the Group's daily trading results. Particularly during periods of highly volatile market activity, as witnessed from August 2007 onwards; the small quantity and magnitude of daily losses incurred by Macquarie is indicative both of an effective risk management framework and business operations. Macquarie derives the majority of its trading revenue from servicing customer deal flow rather than proprietary position taking. The focus on customer flow has shown consistent profits and low volatility in trading results whilst allowing growth in those markets where significant gains can be realised. This is evident in the histogram below which shows that Macquarie made profit on 228 out of the 257 trading days.

Non-Trading Market Risk

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

Daily trading profit and loss
Number of days



Economic Capital
Macquarie has developed an economic capital model that is used to quantify the Group's aggregate level of risk. The economic capital framework complements the management of specific risk types such as equity, credit, market and operational risk by providing an aggregate view of the risk profile of the Group.

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

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

Capital Adequacy Assessment
Macquarie assesses capital adequacy for both MGL – the Group overall – and MBL – the Banking Group. In each case, capital adequacy is assessed on a regulatory basis and on an economic basis, with capital requirements assessed as follows:

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

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

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

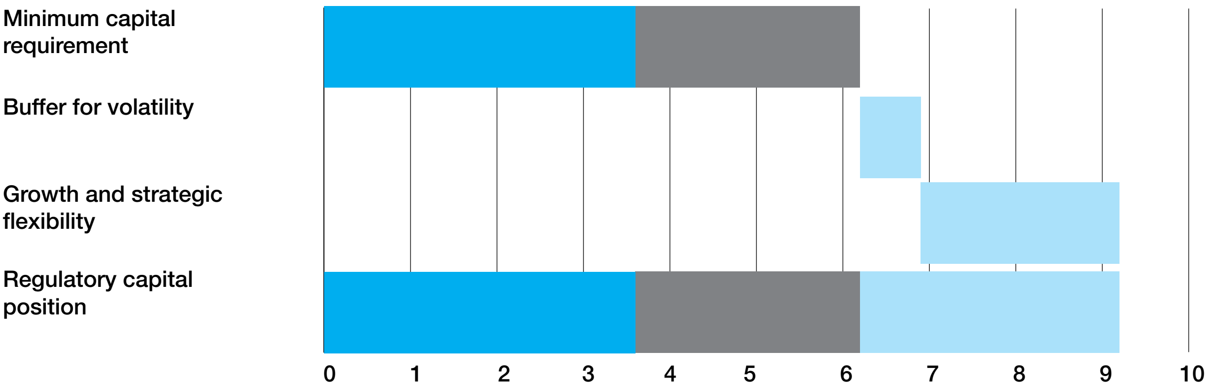
The ECAM quantifies the following types of risk:

- equity risk
- credit risk
- operational risk
- traded market risk
- non-traded market risk (i.e. interest rate risk in the banking book)
- liquidity risk.

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

The overall *regulatory* capital requirement of the non banking entities within the Macquarie Group agreed with APRA, is determined by the ECAM, as noted in the table to the left. The regulatory capital adequacy of MGL as at March 2008 is set out below.

Macquarie Group Limited – Regulatory capital position
31 March 2008
Banking Group ■ Non-Banking Group ■
$ billion



Risk Management Report
continued

MGL is currently well capitalised – a substantial regulatory capital surplus exists. An element of this surplus is set aside as a buffer against volatility in the drivers of capital adequacy – for example volatility in foreign exchange rates may alter the capital requirement by changing the Australian Dollar value of assets. The remaining surplus is available to support growth and provide strategic flexibility. Capital raisings in 2006 and 2007, significant retained earnings and the contributions of dividend reinvestment plans and other schemes have contributed to the strong capital position.

The Tier 1 and total capital ratios for the Banking Group as at 31 March 2008 were 12.4 per cent and 17.7 per cent respectively.

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

Risk Appetite Setting

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

Aggregate risk is broken down into two categories:

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

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

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

Aggregate risk is compared to the anticipated level of earnings plus surplus regulatory capital in the Risk Appetite Test.

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

Risk-adjusted Performance Measurement

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

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

Liquidity Risk

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

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

Funding and liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO). Group Treasury manage liquidity on a daily basis and provides regular reports to ALCO, the Executive Committees and Boards.

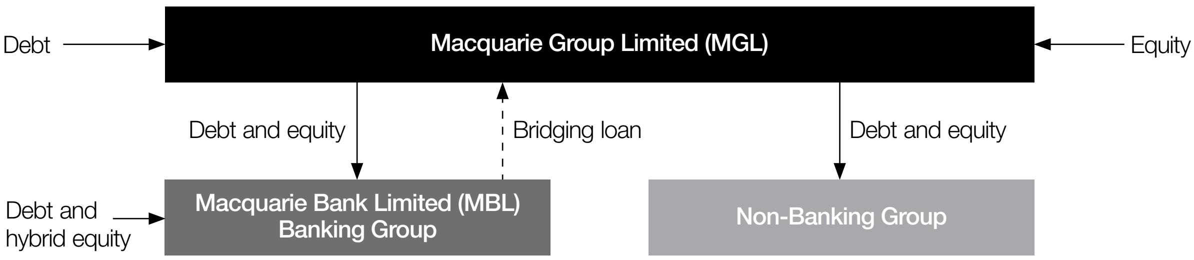
RMG provides independent prudential oversight of liquidity risk management, including the independent validation of liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

Liquidity Management

The Group is primarily funded through two entities – MBL and MGL:

- MGL provides funding to the Non-Banking Group and limited funding to some MBL Group Subsidiaries. Any funding provided by MGL to the MBL Group is subject to internal limits and is transacted on commercial terms.
- MBL provides funding to the MBL Group and as part of the restructure provided a bridge loan to MGL.

The high level funding relationships in the Group are shown below:



Macquarie Group Limited ("MGL")

The MGL liquidity policy outlines the requirements for the entire Group excluding Macquarie Bank Limited (see below for details). The policy requires MGL to meet all of its repayment obligations for the next twelve months with no access to wholesale funding markets.

Reflecting the longer term nature of the asset profile, MGL is funded with a mixture of capital and long term wholesale funding. The funding profile allows MGL to meet all repayment obligations for 12 months with no access to funding markets.

Macquarie Bank Limited ("MBL")

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

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

Risk Management Report
continued

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

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

In response to the current funding market disruption, the Group has increased its level of liquid asset holdings to $18.3 billion as at 31 March 2008 (31 March 2007: $6 billion). In addition to the liquid asset holdings, MBL has other trading assets, many of which are liquefiable at short notice.

As at 31 March 2008, Macquarie's credit ratings were as follows:

	Macquarie Group Limited			Macquarie Bank Limited		
	Short–term	**Long–term**	**Outlook**	**Short-term**	**Long-term**	**Outlook**
Fitch Ratings	F-1	A	Stable	F-1	A+	Stable
Moody's Investors Service	P-1	A2	Stable	P-1	A1	Positive
Standard & Poor's	A-2	A-	Stable	A-1	A	Stable

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

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

Reputational Risk

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

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

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

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

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

Internal Audit

Internal Audit provides independent assurance to senior management and the Board on the adequacy and effectiveness of Macquarie's financial and risk management framework. Internal Audit forms an independent and objective assessment as to whether risks have been adequately identified, adequate internal controls are in place to manage those risks and those controls are working effectively. Internal Audit is independent of 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.

Basel II

In December 2007, Macquarie Bank Ltd sought, and was accredited by APRA to operate as an advanced bank for credit (Foundational Internal Ratings Based approach) and operational risk (Advanced Measurement Approach). These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

Directors' Report
for the financial year ended 31 March 2008

In accordance with a resolution of the Voting Directors ("the Directors") of Macquarie Group Limited ("MGL" or "the Group"), the Directors submit herewith the balance sheets as at 31 March 2008, the income statements and the cash flow statements of MGL and the entities it controlled at the end of, and during, the financial year ended on that date and report as follows:

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

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

Executive Directors
A.E. Moss, AO, Managing Director and Chief Executive Officer*
N.W. Moore**
L.G. Cox, AO

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

* Mr Moss will retire from the role of Managing Director, Chief Executive Officer and Director effective 24 May 2008.
** Mr Moore was appointed to the Board in February 2008 and will assume the roles of Managing Director and Chief Executive Officer on 24 May 2008.
*** In accordance with MGL's definition of independence (as set out in the Corporate Governance Statement contained in the 2008 Annual Report).

The above Directors (with the exception of Mr Moore) were appointed Directors of the Group on 30 August 2007. Mr S.J. Dyson, Mr G.C. Ward and Mr W.R. Sheppard, all Non-Voting Directors of the Group, were Directors of the company from the beginning of the financial year until their retirement from the Board on 30 August 2007.

Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

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

Directors' Meetings

Regular monthly Board meetings and regular Board Committee meetings only commenced in August 2007, a few months prior to the corporate restructure.

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

Board meetings

	Monthly Board meetings		Special Board meetings	
	Eligible to attend	**Attended**	**Eligible to attend**	**Attended**
D.S. Clarke	8	8	4	4
A.E. Moss	8	8	4	4
L.G. Cox	8	8	2	2
P.M. Kirby	8	7	4	4
C.B. Livingstone	8	8	4	4
H.K. McCann	8	7	4	4
J.R. Niland	8	8	4	4
H.M. Nugent	8	8	4	4
P.H. Warne	8	8	4	4
N.W. Moore*	2	2	1	1
G.C. Ward**	–	–	1	1
S.J. Dyson**	–	–	1	1
W.R. Sheppard**	–	–	1	1

* Mr Moore was appointed a Director in February 2008.
** Mr Ward, Mr Dyson and Mr Sheppard retired as Directors on 30 August 2007.

Board committee meetings

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

* Mr Moore was appointed a Director in February 2008.

There was a special purpose Board Sub-Committee to conduct due diligence into the establishment of a NOHC ("NOHC Sub-Committee"). The NOHC Sub-Committee comprised of Ms Livingstone, Mr McCann and Mr Cox and certain Group executives. The MGL NOHC Sub-Committee met once with all members in attendance. In addition MBL had a NOHC sub-committee which met nine times.

The Non-Executive Voting Directors met once in the absence of the Executive Directors. All Non-Executive Voting Directors were in attendance at the meeting.

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

Principal activities
The principal activity of the Company during the financial year ended 31 March 2008 was to act as a non-operating holding company for the Macquarie Group. The activities of the Macquarie Group were those of a financial services provider offering a complete range of investing, commercial banking and retail financial services in Australia and selected financial services offshore. In the opinion of the Directors, there were no significant changes to the principal activities of the Company and its controlled entities during the financial year under review not otherwise disclosed in this report.

Result
The financial report for the financial years ended 31 March 2008 and 31 March 2007, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated profit from ordinary activities after income tax attributable to ordinary equity holders for the financial year ended 31 March 2008 was $1,803 million (2007: $1,463 million).

Dividends and distributions
Subsequent to year end, the Directors have announced a final ordinary dividend of $2.00 per share franked at 100 per cent, in relation to the financial year ended 31 March 2008. The final ordinary dividend is payable on 4 July 2008.

On 30 January 2008 the Company paid an interim ordinary dividend of $1.45 per share ($395,399,867.80 in aggregate) in respect of the financial year ended 31 March 2008. No other dividends or distributions were declared or paid during the financial year.

State of affairs
On 13 November 2007, the Macquarie Group restructured into a non-operating holding company structure. This followed receipt of the requisite approvals from Macquarie Bank Limited ("MBL") shareholders and option holders, as well as the Federal Treasurer, Australian Prudential Regulation Authority ("APRA") and the Federal Court of Australia. This restructure resulted in the Company being established as the ultimate parent of the Macquarie Group. The Macquarie Group comprises two separate sub-groups, a Banking Group and a Non-Banking Group.

Under the restructure, following MBL becoming a controlled entity of MGL, MBL sold certain Non-Banking Group controlled entities to MGL for fair value at the restructure date. The majority of the profits on sale of these controlled entities was distributed by MBL via dividends to MGL. MBL also obtained shareholder approval to reduce its capital by $3.0 billion. The funds received by MGL from these transactions were contributed to the capital base of the Non-Banking Group and helped finance the acquisition of the assets from MBL by the Non-Banking Group. MBL also paid a dividend to MGL of $2.25 billion and MGL simultaneously subscribed the same amount to MBL as a capital injection. These transactions occurred on 16 November 2007. On 19 November 2007, a new holding company (Macquarie B.H. Pty Limited) was introduced between MGL and MBL. All of these transactions were internal to the Macquarie group of companies.

Ordinary shareholders and option holders of MBL were issued with one MGL ordinary share/option for each ordinary share/option they held in MBL prior to implementation of the restructure.

Review of operations and financial position

Review of operations and financial result

The consolidated after-tax profit attributable to ordinary equity holders of the Macquarie Group for the year ended 31 March 2008 was $1,803 million, an increase of 23 per cent from $1,463 million in the previous year.

Earnings per share were $6.71, an increase of 13 per cent from $5.92 in the prior year.

Total operating income for the year ended 31 March 2008 was $8,248 million, an increase of 15 per cent on the prior year. International income increased by 14 per cent to $4,293 million and accounted for 57 per cent of total operating income[1] for the year.

Good corporate finance deal flow combined with favourable equity and commodity business contributions were key drivers of the overall growth in operating income. Income from asset realisations was down on the prior year. The increase in assets under management contributed to growth in base fees and performance fees during the year. The writedown of holdings in the Macquarie Group's listed real estate investments reduced income by $293 million.

Total operating expenses for the year to 31 March 2008 were $6,043 million, 15 per cent up on the prior year.

Additional information, including discussion and analysis relating to each of MGL's operating Groups' performance, is set out in the Chairman's and Managing Director's Report on pages 6-13.

Financial Position

Macquarie Group's capital management policy is to be conservatively capitalised and to maintain diversified funding sources in order to support business initiatives, particularly specialised funds and offshore expansion, whilst maintaining counterparty and client confidence. The restructure that Macquarie undertook during the year resulted in a more flexible capital structure to facilitate continuation of Macquarie's growth strategies, whilst enabling the Group to meet its obligations to APRA.

As an APRA authorised and regulated Non-operating Holding Company ("NOHC"), MGL is required to hold adequate regulatory capital to cover the risks for the whole Macquarie Group, including the Non-Banking Group. APRA is still developing its policy framework for supervising NOHCs. The new prudential standards, including those for capital, are not expected until 2009 at the earliest. Macquarie and APRA have agreed an interim capital adequacy framework for MGL, based on Macquarie's Board-approved Economic Capital Model and APRA's capital standards for Authorised Deposit-taking Institutions ("ADIs"). This will apply until APRA's capital rules for NOHCs are finalised and implemented.

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

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

The Macquarie Group as at 31 March 2008 has eligible capital in excess of the Level 3 MCR of $3 billion.

Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in the financial years subsequent to 31 March 2008 not otherwise disclosed in this report.

Likely developments in operations and expected outcomes

Outlook

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

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

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

[1] Operating income for the purposes of international income excludes earnings on capital and is after costs directly attributable to earning the income, including fee and commission expenses.

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

Contents

Executive summary

The cornerstone of the Macquarie Group's success is a remuneration approach that encourages staff to deliver superior returns for shareholders over time by aligning the short and long-term interests of staff and shareholders; and by attracting and retaining high quality people. These are pre-requisites to the establishment of a truly performance-based, growth-oriented culture.

Alignment between the interests of staff and shareholders is established by understanding the business drivers of superior shareholder performance over time – while recognising that historically, and often for short periods of time, markets may diverge from a company's underlying value. Independent research demonstrates that the critical business drivers of superior shareholder returns are growth in net profit after tax and return on equity. Macquarie's remuneration approach is, therefore, designed to provide staff with the incentive to strive for sustainable earnings growth, while encouraging the efficient use of available capital to maintain a high return on ordinary capital.

Staff attraction and retention is also encouraged by providing remuneration outcomes that are globally competitive. With over 5200 staff based outside Australia and 57 per cent of revenue generated offshore, offering globally competitive remuneration is a necessity if the Group is to sustain the shareholder returns that have been achieved historically. Staff mobility between countries also makes this essential for staff based in Australia.

The structure of the key elements of the remuneration package provides an appropriate balance between short and longer term incentives.

More specifically:

Fixed remuneration, in the form of a base salary, is low relative to senior roles in other Australian corporations, encouraging executives to take a more performance-oriented approach. In 2008, fixed remuneration for Macquarie's nine Executive Committee members comprised, on average, approximately 3 per cent of their total remuneration. The remaining 97 per cent of their 2008 remuneration, a direct result of Macquarie's continued strong financial performance, was entirely at risk.

Profit share is truly variable. It is allocated to businesses and, in turn, to individuals based on performance, primarily reflecting relative contributions to profits while taking into account capital usage. This results in businesses and individuals being motivated to increase earnings and use shareholder funds efficiently. In addition, in assessing the performance of individuals, other factors such as how business is done, long-term sustainability, people leadership and adherence to Macquarie's Goals and Values are taken into account. The performance of staff whose role is not linked to profit contribution is measured according to criteria appropriate to their position. Staff working in support areas may, for example, be rewarded on the basis of their contribution to the Group's financial reporting, risk management processes, or information systems. For executives with specific fund responsibilities, the performance of the relevant funds and the underlying assets is critical in determining that individual's profit share allocation. In general, staff are motivated to work co-operatively given that their profit share allocation will reflect the Group's overall performance, the relative performance of their business, as well as their individual contribution.

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

The outcome of using growth in net profit after tax and return on equity as drivers of performance is that:

- for a given level of net profit after tax, other things being equal, the total profit share will be less if more capital is used to generate it.
- for a given level of capital employed, the total profit share will rise or fall with the level of net profit after tax. In other words, the Group's total profit share pool increases with performance and no maximum ceiling is imposed. This is consistent with the alignment of staff and shareholders' interests and provides the strongest incentive to staff to continuously strive to maximise long-term profitability.

Profit share is deployed in ways that encourage a longer-term perspective and alignment with shareholders' longer-term interests, which, in turn, encourages the maximisation of profit, while not exposing the Group to risk or behaviours that would jeopardise long-term profitability or reputation. Further, it promotes staff retention. More specifically, for the Chief Executive Officer and other Executive Committee Members:

- 20 per cent of each annual profit share allocation is retained for ten years and is subject to vesting and forfeiture conditions. It is notionally invested in an investment portfolio of Macquarie-managed funds.
- in response to investor feedback, in 2008, an additional 10 per cent of profit share will be invested in Macquarie Group shares and retained for three years, except in the case of Mr Moss who is retiring in May 2008. In 2009, this amount will rise to 35 per cent for the new Chief Executive Officer and Managing Director, Mr Moore, and 20 per cent for other Executive Committee members.
- all Executive Directors are required to hold the deemed after tax equivalent of 10 per cent of their profit share over the last five years, or ten years in the case of Executive Committee members, in Macquarie Group shares.

Options over Macquarie shares are issued to approximately the most senior 20 per cent of staff based on performance and promotion. Options vest in three tranches after two, three and four years, giving an average vesting period of three years. In addition, options granted to Executive Directors may only be exercised if a challenging performance hurdle is met. The performance hurdle for members of the Executive Committee is for Macquarie's three-year average return on ordinary equity to be above the 65th percentile of that measure for those companies in the S&P/ASX 100 Index.

Hedging is forbidden in relation to unvested options, shares held to meet the minimum shareholding requirement, and shares held by Executive Committee members pursuant to the new requirement to allocate an additional profit share component into Macquarie shares. Executives are required to conduct trading in Macquarie shares only during designated trading windows.

Executive Directors who leave Macquarie may receive payments in respect of their vested retained profit share (subject to there being no disqualifying event) and, subject to regional variations, may be entitled to other contractual or statutory payments including notice, accrued service related benefits, and/or pension or superannuation benefits. They may also exercise vested options for a period of up to six months after termination. However, no other contractual termination entitlements exist.

This remuneration approach is managed through strong governance structures and processes. Conflicts of interest are managed proactively and assiduously, with the Board Remuneration Committee making recommendations to the Non-Executive Directors of the Board on key decisions that have not been delegated to the Remuneration Committee.

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

In these ways, superior returns over time have been generated for shareholders.

Introduction

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

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

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

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

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

The above five points are discussed in turn in Sections 1 to 5.

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

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

- financial information for the Group relating to the years ended 31 March 2006, 31 March 2007 and 31 March 2008 has been presented in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS);
- financial information for the Group relating to the year ended 31 March 2005 has been restated in accordance with AIFRS, with the exception of *AASB 132: Financial Instruments: Presentation* and *AASB 139: Financial Instruments: Recognition and Measurement*, which became effective from 1 April 2005; and
- financial information for the Group relating to earlier periods has not been restated in accordance with AIFRS, and is therefore presented in accordance with the Australian Accounting Standards prevailing at the time.

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

1 Focusing on appropriate objectives: remuneration policy

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

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

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

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

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

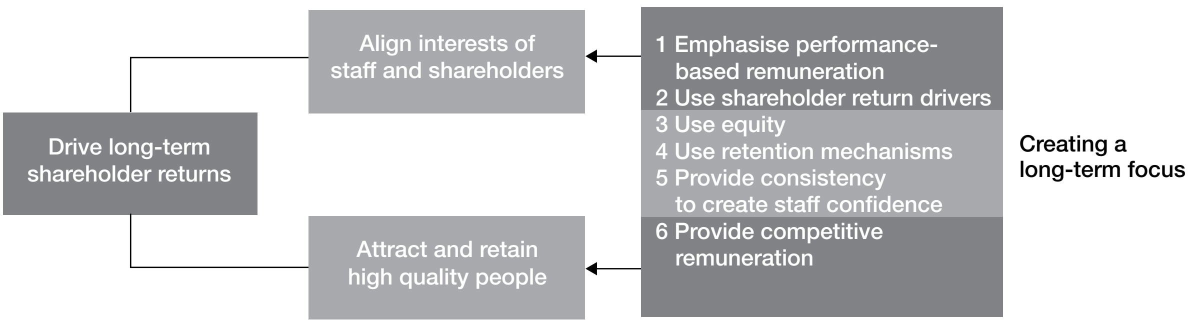
The Board aims to **attract and retain high quality people** by offering a **competitive** performance-driven remuneration package that encourages both long-term commitment and superior performance.

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

- a distinct emphasis on performance-based remuneration (refer section 3.1);
- rewards linked to shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (refer section 3.2);
- use of equity to provide rewards partly in the form of shares and partly in the form of options to create identification with shareholder interests (refer section 3.3);
- retention mechanisms designed to encourage long-term commitment to the Group and hence to shareholders (refer section 3.3);
- consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded (refer section 3.3); and
- arrangements which are competitive on a global basis with the Group's international peers (refer section 2.3).

The key elements are summarised in the diagram below.

Key elements of remuneration framework



2 Achieving results

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

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

Macquarie's success in achieving its remuneration objectives can be assessed by examining how it has:

- delivered long-term shareholder value;
- attracted and retained high quality people; and
- rewarded staff in line with outcomes achieved and the competitive remuneration environment.

These results, detailed below, demonstrate that the current arrangements are delivering the desired outcomes – i.e. shareholder value and retention of talented people.

Competitor comparisons

Analysis in this section involves peer or competitor comparison. However, competitor comparisons are complicated by the distinct nature of Macquarie's business mix. It is difficult to determine which are the best peers for comparison. In many ways the Group's business mix is a hybrid of the international investment banks and the private equity firms. Private equity firms are not required to publicly disclose aggregate or individual remuneration details. The best available comparisons are, therefore, the international investment banks, despite significant business mix differences.

As in prior years, the global investment banking competitor group used consistently throughout the Remuneration Report for comparison purposes comprises Babcock and Brown, Bear Stearns, Credit Suisse, Deutsche Bank, Goldman Sachs, Lehman Brothers, Merrill Lynch, Morgan Stanley and UBS. Where appropriate, segment information has been used as disclosed throughout the Report.

Competitor information has been presented in the same order throughout the Report, although this is not necessarily alphabetical order. Gaps have been left in charts and tables where the information for a particular competitor has not been available or is unable to be utilised for the particular measure captured by the chart.

2.1 Delivering outstanding long-term shareholder value

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

Performance over past five years

		2003	2004	2005	2006	2007	**2008**	5 Year Growth
Earnings								
Net profit after tax attributable to ordinary equityholders	$ millions	333	494	812	916	1,463	**1,803**	441%
Basic Earnings per Share	cents per share	164.8	233.0	369.6	400.3	591.6	**670.6**	307%
Return on equity								
Return on average ordinary shareholders' funds		18.0%	22.3%	29.8%	26.0%	28.1%	**23.7%**	
Total shareholder returns								
Dividend – interim and final	cents per share	93	122	161	215	315	**345**	271%
Dividend – special	cents per share	50	–	40	–	–	**–**	
Share price at 31 March	$	24.70	35.80	48.03	64.68	82.75	**52.82**	114%
Annual Total Shareholder Return*		(23.1%)	52.8%	39.0%	40.2%	32.6%	**(33.6%)**	
Five Year Total Shareholder Return*							**162%**	

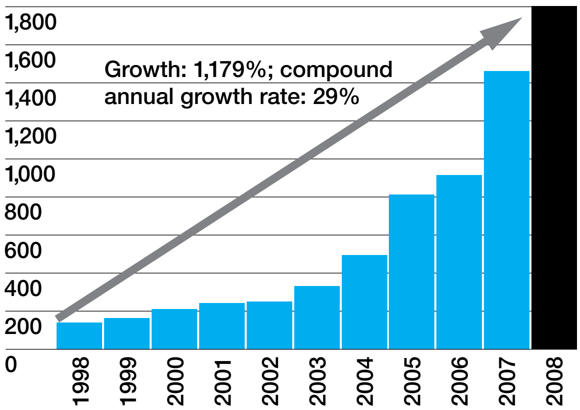
* Throughout this Report, Total Shareholder Return (TSR) represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date.

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

Even though Macquarie's Total Shareholder Return was negative during the challenging conditions of the 2008 financial year, Macquarie still outperformed the majority of the competitor peer group.

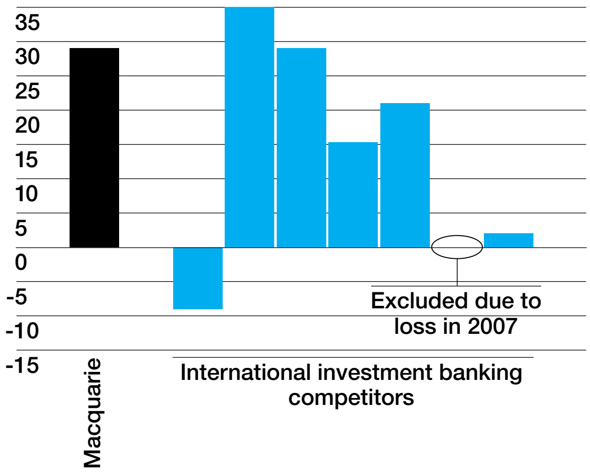
The Group's net profit after tax growth has been strong: 1,179 per cent over the last ten years, or a compound annual growth rate of 29 per cent, as demonstrated by the following charts:

Net profit after tax attributable to ordinary equityholders
$A million



Over the same period, return on ordinary equity has been sustained at a high level, an average of 25.1 per cent, greater than competitors over the same period and generally less volatile than competitors.

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



Competitors comprise Bear Stearns, Credit Suisse, Deutsche Bank, Goldman Sachs, Lehman Brothers and Morgan Stanley. Competitors which have been included in comparative analysis elsewhere in this Report but which have not continuously reported results over ten years or which have reported a loss either ten years ago or in the current year have been excluded from this chart, i.e. Babcock & Brown, Merrill Lynch and UBS.

Average return on ordinary equity over 10 years*

Macquarie versus international investment banking competitors

	Return on Ordinary Equity			
	1 Year %	3 Year Average %	5 Year Average %	10 Year Average %
Macquarie	23.9	25.8	25.9	25.1
Average of Competitors	11.0	18.8	16.2	16.3
Competitor	34.0	32.6	N/A	N/A
Competitor	1.8	11.8	14.0	14.9
Competitor	17.9	19.7	15.4	11.6
Competitor	18.5	16.8	12.8	12.8
Competitor	31.5	28.4	23.9	23.8
Competitor	20.9	22.0	20.0	18.9
Competitor	(25.4)	3.9	8.3	11.8
Competitor	9.7	16.8	16.7	20.2
Competitor	(10.3)	17.3	18.3	16.4

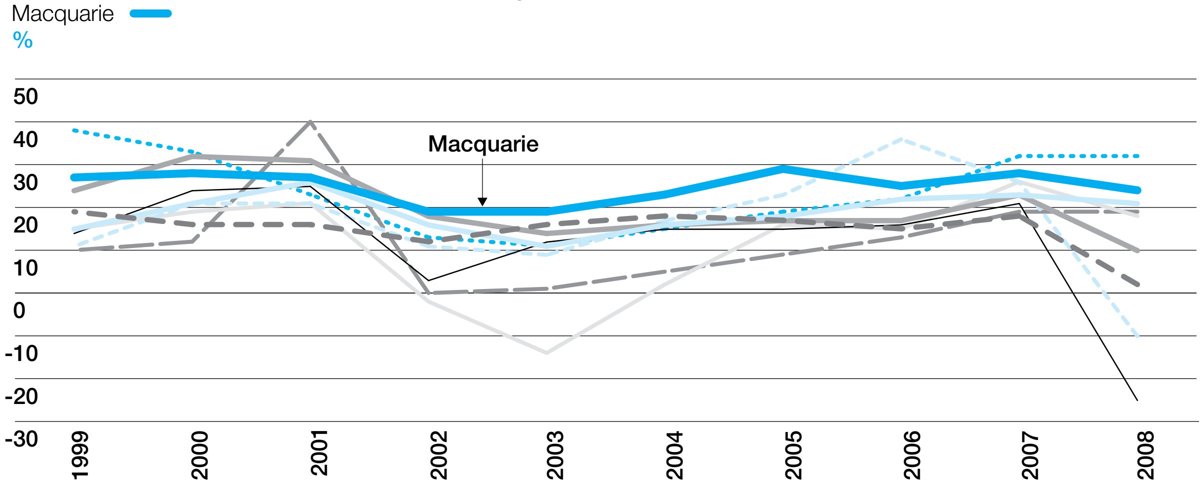
* Average of most recent ten years, except in cases where ten years of continuous data is not available for a competitor, in which case the longest time period for which continuous data is available for that competitor has been used.

Competitors comprise Babcock & Brown, Bear Stearns, Credit Suisse, Deutsche Bank, Goldman Sachs, Lehman Brothers, Merrill Lynch, Morgan Stanley, and UBS.

Source: Underlying data from Bloomberg (except MGL 1 year ROE calculated based on 2008 data which was not released at the date of this report). Note that the Bloomberg methodology for calculating return on equity differs to the Macquarie methodology used elsewhere in the Remuneration Report. Macquarie's data above has been calculated using the Bloomberg methodology to enhance comparability of information between organisations.

10 year return on ordinary equity

Macquarie versus international investment banking competitors

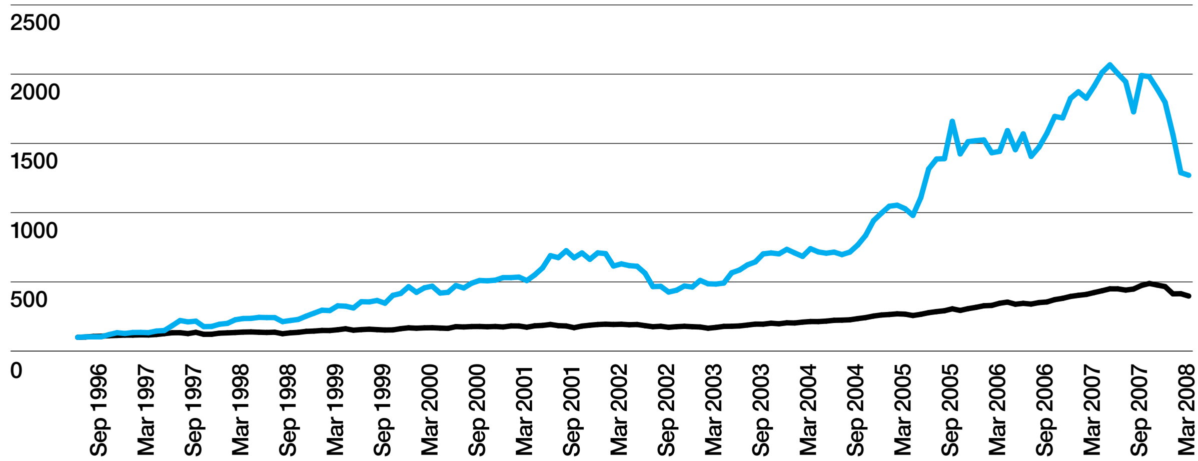


Competitors comprise Babcock & Brown, Bear Stearns, Credit Suisse, Deutsche Bank, Goldman Sachs, Lehman Brothers, Merrill Lynch, Morgan Stanley, and UBS.

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

These strong earnings and return on ordinary equity outcomes have contributed to the Group's superior shareholder returns over the long-term, compared with the Australian market and international investment banking competitors.

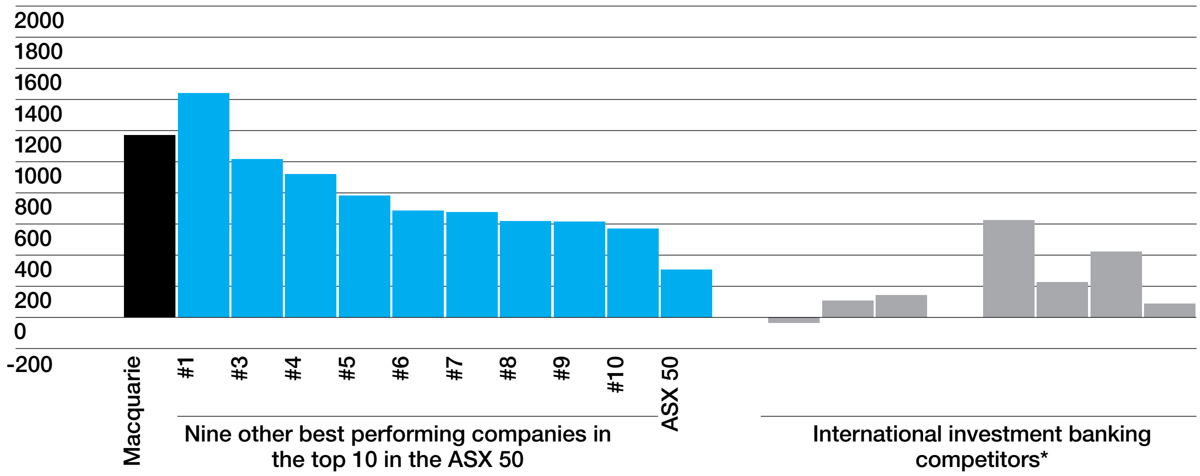
Macquarie Group Total Shareholder Return versus the All Ordinaries Accumulation Index
Macquarie Group Total Shareholder Return
All Ordinaries Accumulation Index



Indexed to 100 on 29 July 1996. The "All Ordinaries Accumulation Index" line in the above chart is based on the S&P/ASX 500 Accumulation Index from 31 March 2000, prior to this based on the All Ordinaries Accumulation Index.

Macquarie Total Shareholder Return calculations here and throughout this Report assume continuous listing. Hence, they are based on Macquarie Bank Limited (ASX code: MBL) data up to and including 2 November 2007, the last day of trading of MBL shares, and Macquarie Group Limited (ASX code: MQG) data from the commencement of trading MQG shares on 5 November 2007 onwards.

Total Shareholder Return since July 1996
MGL, other top performing ASX 50 companies, international investment banking competitors
%



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

Macquarie's TSR since listing is higher than that of all but one other company that was in the ASX Top 50 at the time that MBL listed in July 1996, and is significantly higher than the TSRs of the international investment banking competitors over the same period.

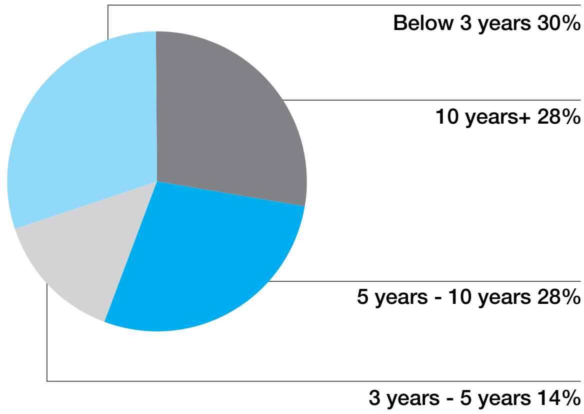
2.2 Attracting and retaining high quality people
Macquarie's remuneration arrangements function very effectively to attract, motivate and retain high quality people. Macquarie is readily able to attract good staff, receiving over 175,000 employment applications in the past year. During 2008, total staff increased by 31 per cent to 13,107 as Macquarie continues to invest in people to drive growth.

Macquarie has a highly engaged workforce. Engagement at Macquarie has been formally measured bi-annually via a Group-wide staff survey, the most recent being conducted in September 2006. The survey was conducted with the assistance of ISR, a global employee research and consulting firm. Macquarie significantly outperformed relevant external norm groups in most categories, including the Global Investment Banking norm and the Global High Performance norm. In addition, engagement was recently measured in November 2007, via an interim staff survey. The results showed that engagement continues to be strong overall.

Macquarie has a good track record at retaining senior people, with voluntary Director-level turnover of approximately 7 per cent in 2008 which is in line with last year. Considering current labour market conditions, the current level of turnover reflects the effectiveness of Macquarie's remuneration arrangements.

As at 31 March 2008, 28 per cent of Director level staff have at least ten years experience with Macquarie, and a further 28 per cent have between five and ten years experience, as summarised in the following chart*:

Directors' tenure as at 31 March 2008



* This measure includes accumulated service at acquired companies, for example Bankers Trust Investment Bank and ING's Asian Equities business.

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

2.3 Rewarding staff in line with outcomes achieved and the competitive remuneration environment

Given Macquarie's emphasis on linking remuneration with performance, staff are rewarded in line with the outcomes they achieve. In determining the relevant framework, the market in which the Group is competing for talent must be taken into account.

The following table compares the annual movement in key executive remuneration measures with the Group's key financial performance measures.

Comparison of performance measures and executive remuneration measures

		2007	**2008**	Increase/ (Decrease)
Performance measures				
Net profit after tax attributable to ordinary equityholders (NPAT)	$ millions	1,463	**1,803**	23%
Basic Earnings per Share	cents per share	591.6	**670.6**	13%
Return on average ordinary shareholders' funds		28.1%	**23.7%**	
Executive remuneration measures				
Total Compensation Expense*	$ millions	3,472	**3,878**	12%
Remuneration – Executive Key Management Personnel (excluding Mr D.S. Clarke, Mr M.R.G. Johnson and Mr W.J. Moss)**	$ millions	155.1	**124.7**	(20%)
Remuneration excluding earnings on restricted profit share – Executive Key Management Personnel (excluding Mr D.S. Clarke, Mr M.R.G. Johnson and Mr W.J. Moss)**	$ millions	144.3	**140.2**	(3%)

* Refer Note 3 of the 2008 Financial Statements.
** Refer Appendix 2 below.

Most of the growth in the total compensation expense in 2008 is due to higher aggregate fixed remuneration resulting from a 31 per cent increase in staff numbers over the last 12 months.

Variable remuneration has been relatively flat year on year and total remuneration for Executive Key Management Personnel has decreased slightly. This reflects the capital sensitivity of the remuneration arrangements, reflecting the importance of return on ordinary equity as a key driver in determining the profit share pool, as described in section 3.2.1. NPAT grew by 23 per cent in 2008, whereas average ordinary equity grew by 46 per cent, resulting in a decline in return on ordinary equity to 23.7 per cent from 28.1 per cent in 2007. However, this is still a very strong result.

In addition, remuneration outcomes must also reflect competitive considerations, especially given the intensity of the competition for talented people in the financial services industry.

Macquarie's growth and transition from an Australian institution growing internationally to a global institution headquartered in Australia has meant that global labour markets and the global remuneration environment play an even bigger role in Board decisions on remuneration.

In recent years, the remuneration environment has been extremely competitive with aggressive headhunting activity for high quality staff, and with international investment banks, private equity firms and boutique operations targeting Macquarie staff.

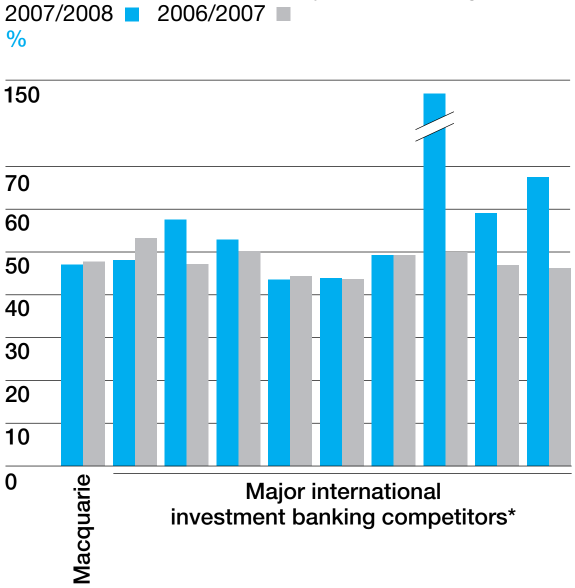
For most of Macquarie's peers, 2007 was dramatically different and substantially weaker with regard to performance than recent years due to market disruptions. As a result, some of Macquarie's global peers have experienced record losses.

Nonetheless, most investment banks and other major financial institutions continue to provide healthy bonuses to many staff. This reflects tight labour markets, the need to retain talent, and the structuring of bonus arrangements that are based on individual or business performance rather than that of the overall organisation.

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

Macquarie's compensation ratio is compared with that of a group of international investment banking competitors in the chart below. Given the recent turmoil in global financial services markets, information has been provided for the last two years.

2007/2008 and 2006/2007
Compensation expenses as per cent of net income
Based on most recent statutory accounts/filings



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

Data in the chart has been calculated by Macquarie. Adjustments have been made in preparing the above chart where considered to be appropriate. However, the information is, of necessity, based only on publicly available information for the competitor firms.

The above chart shows that the Group's overall remuneration level is within the same broad range as the competitor group. Over time this has also been the case.

As noted above, while a number of global competitors' 2007 results have been impacted by the credit crisis, remuneration levels across the firms remain strong, as evidenced by some of the comparator compensation ratios.

This compensation ratio analysis supports the Group's overall belief that its remuneration policies, including the approach to determining the profit share pool, operate in a manner which yields overall remuneration levels that are broadly in line with peers.

As noted at the beginning of this section, competitor comparisons are complicated by the fact that Macquarie has a distinctive business mix. It is particularly difficult to find individuals who have similar responsibilities to Macquarie executives and whose remuneration is publicly disclosed.

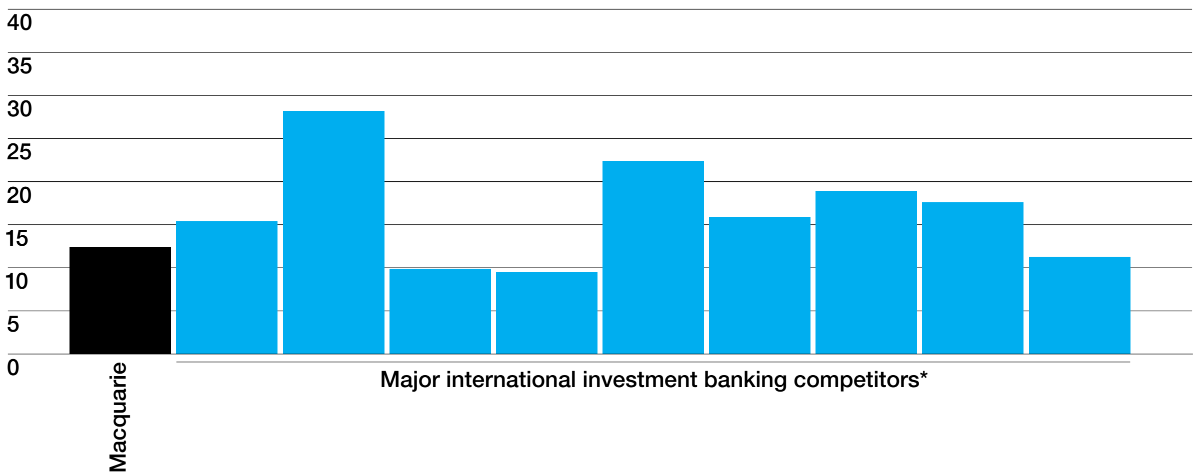
It should be noted that, while the compensation ratio effectively adjusts for differences in size between organisations, it is not a perfect measure to use in assessing compensation levels because it does not take into account factors such as:

- the impact of differences in the business mix between comparator organisations;
- performance differences between organisations, including such factors as capital usage and quality of earnings;
- different accounting practices used by comparator organisations; and
- the extent to which outsourcing is used.

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

Just as the compensation ratio is a general guide to the reasonableness of overall remuneration levels, in a similar way, a specific comparison of the level of equity/options usage can be made with the competitor group.

2007/2008 options/shares under equity plan as a percentage of overall diluted capital
Based on most recent statutory accounts, public filings
%



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

The above chart measures the number of outstanding shares, options, or other equity instruments issued as equity-based remuneration as a proportion of total ordinary equity (diluted for such options and other equity instruments).

While the overall level of options on issue may seem high relative to some other ASX listed companies, the Group's options as a proportion of its capital is moderate relative to its global competitors.

The Group's policy is to encourage alignment by providing options to a very broad group of senior staff, rather than confining grants to a small senior executive group. As at 31 March 2008, options outstanding are spread across 2,595 participants.

The size of individual options grants across this Group allocated as part of annual performance reviews is performance-based. As a result, it is highly variable.

3 Structuring remuneration to motivate staff: remuneration framework

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

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

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

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

- *emphasise* performance-based remuneration over fixed remuneration (refer section 3.1);
- *link* the quantum of an individual's annual performance-based remuneration to the individual's contribution to shareholder return drivers (refer section 3.2); and
- *deliver* remuneration in a manner which ensures that employees have a direct long-term alignment with shareholder interests (refer section 3.3).

Executive Remuneration is delivered in three components:

- fixed remuneration, in the form of a base salary;
- performance-based remuneration, in the form of a profit share allocation; and
- performance-based remuneration, in the form of options over Macquarie Group Limited shares.

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

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

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

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

Summary of remuneration structure for an Executive Director
The following table demonstrates the way that the remuneration structure has been designed to support the key remuneration principles introduced in section 1.

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

Profit share

Fixed remuneration

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

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

Options

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

* Refer also commentary in section 3.2.1 in relation to staff who have fund responsibilities.

Link between the remuneration principles and the remuneration arrangements

Principle	Features of the remuneration system
1. There is an emphasis on performance-based remuneration *Refer discussion in section 3.1*	– Levels of fixed remuneration are relatively low – Profit share allocations and option grants provide substantial incentives for superior performance, but low or no participation for less satisfactory performance – Profit share allocations are highly variable – Profit share allocations can comprise a high proportion of total remuneration in the case of superior performance (approximately 98 per cent in the case of Mr Moss)
2. Rewards are linked to shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital *Refer discussion in section 3.2*	– The overall profit share pool is determined as a function of net profit after tax and excess return on ordinary equity – The allocation of the pool to individual businesses is based primarily on relative contribution to profits, taking into account capital usage – Allocation to an individual is determined by individual performance and contribution over the year, based primarily on outcomes contributing to net profit after tax and return on ordinary equity* – Return on ordinary equity is used as a performance hurdle for Executive Director options
3. Equity is used to provide rewards partly in the form of shares and options to create identification with shareholder interests *Refer discussion in section 3.3*	– Option allocations to Director level staff occurs at promotion and annually (with performance hurdles for Executive Directors) – Executive Directors retained profit share is notionally invested in specialist funds managed by the Macquarie Group – Executive Directors are required to acquire and hold a minimum number of shares calculated based on their profit share history (5 per cent of total profit share over the last ten years for Executive Committee members and 5 per cent of total profit share over the last five years for all other Executive Directors) – For 2008 and onwards, a portion of Executive Committee members' annual profit share will be allocated to invest in MGL shares – Staff share plans are available to encourage broader staff equity participation
4. Retention mechanisms encourage a long-term commitment to the Group and hence to shareholders *Refer discussion in section 3.3*	– 20 per cent of Executive Director annual profit share is withheld and vests equally between five and ten years of service as an Executive Director – Time based vesting rules apply to options
5. Arrangements provide consistency over time to ensure staff have the confidence that efforts over multiple years will be rewarded *Refer discussion in section 3.3*	– Group's remuneration approach has been in place since the Group was founded with incremental changes over time as appropriate
6. Arrangements are competitive on a global basis with the Group's international peers *Refer discussion in section 2.3*	– Board reviews remuneration arrangements at least annually to ensure that they are equitable and competitive with peers – Compensation ratio is used as a general guide to consideration of the overall competitiveness of remuneration levels, but is not the basis on which the profit share pool is created.

* Refer also commentary in section 3.2.1 in relation to staff who have fund responsibilities.

The remainder of section 3 discusses the remuneration structure and these individual components in greater detail.

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

3.1 Emphasising performance-based remuneration

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

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

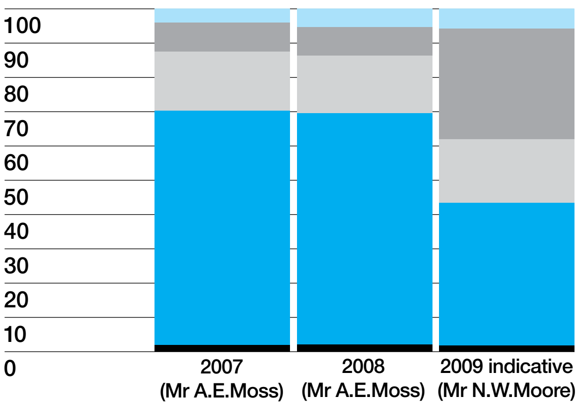
The following charts summarise the overall remuneration structure for the Managing Director and Chief Executive Officer and Other Executive Committee members for 2007, 2008 and 2009. With the introduction of the new additional equity components for Executive Committee members' arrangements, and taking into account options, the long-term and deferred elements are expected to total over 55 per cent of the Managing Director and Chief Executive Officer's annual total compensation, and over 40 per cent of annual total compensation for other Executive Directors, based on indicative numbers for 2009, derived from 2008 actual remuneration, as detailed in the footnotes to the charts below.

2008 is a transition year as the Group is modifying the way that profit share is delivered to the Executive Committee members. The charts below reflect the changing structure of remuneration for the Chief Executive Officer and other Executive Committee members, although the 2009 data should be regarded as hypothetical. It has been included to provide an indicative year-on-year comparison. However, actual 2009 remuneration will depend on 2009 performance.

Thus, remuneration arrangements have been structured so that only a very small amount is fixed (approximately 2 per cent for the Chief Executive Officer and Managing Director in the charts below), with the majority being at risk and based on performance.

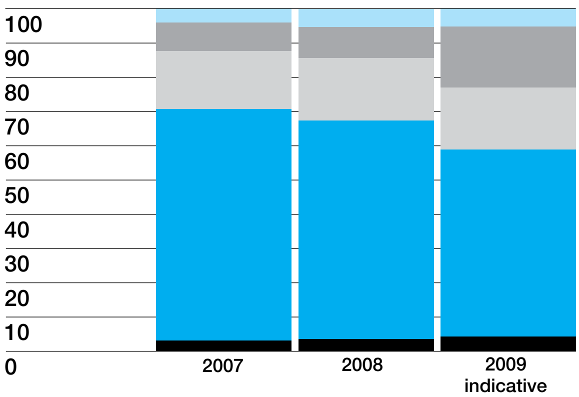
Composition of remuneration – Managing Director and Chief Executive Officer

Options over MGL shares
Minimum shareholding requirement/profit share MGL shares
Profit share – Macquarie-managed fund equity
Profit share – cash
Fixed remuneration
%



Composition of remuneration – other Executive Committee members (average)

Options over MGL shares
Minimum shareholding requirement/profit share MGL shares
Profit share – Macquarie-managed fund equity
Profit share – cash
Fixed remuneration
%



Data has been prepared on the following bases and assumptions:

- due to his retirement on 24 May 2008, Mr Moss will not be required to allocate additional profit share to invest in MGL shares;
- earnings on prior year restricted profit share are excluded;
- 2007 excludes the three individuals who ceased executive duties at the end of 2007 (to whom the minimum shareholding guidelines applicable to Executive Directors no longer applied);
- the minimum shareholding requirement/profit share – MGL shares category:
  - 2007 refers to the minimum shareholding requirement, assuming that additional shares are required to be purchased to meet the minimum shareholding requirement;
  - 2008 for Mr Moss refers to the minimum shareholding requirement, assuming that additional shares are required to be purchased to meet the minimum shareholding requirement;
  - 2008 for other Executive Committee members refers to the allocation of profit share to invest in MGL shares (these shares are eligible to meet the minimum shareholding requirement and accordingly are not shown separately);
  - 2009 refers to the allocation of profit share to invest in MGL shares (these shares are eligible to meet the minimum shareholding requirement and accordingly are not shown separately);
- the 2009 disclosures are hypothetical, being based on the 2008 remuneration numbers and have been adjusted only to reflect the changes in remuneration arrangements that were approved for Executive Committee members during 2008;
- 2007 and 2008 option amounts are measured consistently with the disclosures in the Executive Remuneration table in Appendix 2;
- the 2009 option amounts have been assumed to be the same as 2008;
- the MGL shares have been calculated based on gross profit share inclusive of employment on-costs.

In 2008, Mr Moss' fixed remuneration was $670,928, the same as previous years, apart from very minor variations over time in employment on-costs. In 2009, Mr Moore's fixed remuneration will be the same as for 2008 in his current role, that is $517,573, subject to future variations in employment on-costs.

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3.2 Linking remuneration to the drivers of shareholder returns

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

Net profit after tax and return on ordinary equity were selected as the most appropriate performance measures for the following reasons:

- they are correlated over time with total shareholder returns;
- they provide an appropriate incentive because they are elements of performance over which the executives can exercise considerable control;
- TSR, on the other hand, is influenced by many external factors over which executives have limited control; and
- net profit after tax and return on ordinary equity can both be substantiated using information that is disclosed in audited financial accounts, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff.

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

These drivers also feature prominently in the determination and allocation of profit share, discussed below. Return on ordinary equity is also the measure enshrined in the performance hurdle applicable to Executive Director options (refer section 3.3.2.3).

3.2.1 Profit share arrangements – determination and allocation

Overview of profit share arrangements

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

Determination of the profit share pool

The size of the pool is determined annually by reference to the Group's after-tax profits and its earnings over and above the estimated cost of capital. A portion of the Group's profits earned accrues to the staff profit share pool. Once the cost of equity capital is met, an additional portion of the excess profits is accrued to the profit share pool. The proportion of after-tax profit and the proportion of earnings in excess of the Group's cost of equity capital used to calculate the pool are reviewed at least annually. The cost of equity capital is also reviewed annually and has been increased for both 2008 and 2009. Changes to the methodology are reviewed by the Board Remuneration Committee and the Non-Executive Directors of the Board.

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

- to change the quantum of the pool to reflect external factors if deemed in the Group's and shareholders' interests. Historically, the Board has made no material alteration to the quantum of the profit share pool; and
- to defer the payment of profit share amounts to a subsequent year at a Group, business or individual level where it is in the interests of the Group and shareholders to do so. The Non-Executive Directors of the Board have exercised their discretion in relation to deferrals for 2006, 2007 and 2008. In accordance with the Group's accounting policy, the deferred amounts are expensed in the year in which the profits are generated.

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

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

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

Performance criteria vary according to an individual's role. Performance is linked where possible to outcomes that contribute directly to net profit after tax and excess return on ordinary equity.

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

– the earnings of the business significantly contribute to Macquarie Capital's allocation of the profit share pool which fund staff participate in. These earnings are aligned to the performance of the funds through base management fees and performance fees, which in the case of the listed funds are both linked to the security price performance of the funds;
– in evaluating each executive's contribution to determine their individual profit share allocation, the performance of the fund or funds for which they are responsible, and in particular the underlying factors influencing fund performance such as management and leadership, the performance of the fund, and capital management are considered; and
– finally, in the case of Executive Directors with fund responsibilities (in particular Fund Chairman and CEO's), retained profit share amounts are notionally invested in the relevant funds, as discussed in section 3.3.1.1, giving these individuals a further ongoing incentive to seek to grow the security price.

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

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

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

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

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

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

Profit share allocations to individuals are subject to retention arrangements as discussed in section 3.3.

Commentary on allocation to the Managing Director
In approving the profit share and option allocations to the Managing Director, the Non-Executive Directors annually assess the Managing Director's performance by considering a range of indicators including financial performance measures, strategic initiatives, staff and human relations indicators, prudential and compliance performance, reputation management and monitoring, and community and social responsibility matters. After 24 May 2008, when Mr Moore becomes Chief Executive Officer, his performance will be assessed through the same process.

Subject to performance, Mr Moss will be entitled to a final profit share allocation for the period from 1 April 2008 up to the date of his retirement on 24 May 2008, the amount of which will be determined when the results are finalised for the half-year ending 30 September 2008.

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3.3 Emphasising direct alignment with long-term shareholder interests

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

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

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

Number of Individuals		Delivery of Annual Profit Share Allocation *(Refer section 3.3.1)*	Aggregate Minimum Shareholding Requirement *(Refer section 3.3.1.3)*	Options *(Refer section 3.3.2)*
Managing Director and Chief Executive Officer	1	– 20 per cent retained for ten years and notionally invested in Macquarie-managed fund equity under the DPS Plan – From 2009, 35 per cent allocated into Macquarie shares for three years – May voluntarily allocate additional profit share into Macquarie shares under the staff share plans	– Required to hold shares to the value of at least 5 per cent of total profit share over the last ten years	– Eligible for options with a performance hurdle based on three year average return on ordinary equity against the 65th percentile of the companies in the S&P/ASX 100 Index
Other Executive Committee Members	8	– 20 per cent retained for ten years and notionally invested in Macquarie-managed fund equity under the DPS Plan – 10 per cent (20 per cent from 2009) allocated into Macquarie shares for three years – May voluntarily allocate additional profit share into Macquarie shares under the staff share plans	– Required to hold shares to the value of at least 5 per cent of total profit share over the last ten years	– Eligible for options with a performance hurdle based on three year average return on ordinary equity against the 65th percentile of the companies in the S&P/ASX 100 Index
Other Executive Directors	291	– 20 per cent retained for ten years and notionally invested, to varying degrees, depending on role, in Macquarie-managed fund equity under the DPS Plan – Eligible Australian Executive Directors may voluntarily allocate additional profit share into Macquarie shares under the staff share plans	– Required to hold shares to the value of at least 5 per cent of total profit share over the last five years	– Eligible for options with a performance hurdle based on three year average return on ordinary equity against the 50th percentile of the companies in the S&P/ASX 100 Index
Division Directors/ Associate Directors	2,264	– Retention of annual profit share amounts above certain thresholds – Eligible Australian staff may voluntarily allocate some profit share into Macquarie shares under the staff share plans	–	– Eligible for options
Other Staff	10,543	– Retention of annual profit share amounts above certain thresholds – Eligible Australian staff may voluntarily allocate some profit share into Macquarie shares under the staff share plans	–	–

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

– retaining 20 per cent of each annual profit share allocation into Macquarie-managed fund equity for 10 years, subject to forfeiture if a disqualifying event occurs;

– allocating an additional portion of each annual profit share allocation into Macquarie shares for at least three years;

– imposing an aggregate minimum shareholding requirement proportionate to an individual's ten year profit share history; and

– granting options over Macquarie shares which vest in three tranches over two, three and four years and are subject to a performance hurdle based on Macquarie's relative return on ordinary equity performance.

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

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

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

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

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

*** If an Executive Director leaves prior to the end of the ten year period then any vested retained amounts may be paid out earlier subject to a determination as to whether any disqualifying events have occurred (refer section 3.3.1.1).

These arrangements are explored in the remainder of section 3.3.

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

– the following cannot be hedged:
  – shares held to satisfy the minimum shareholding requirement;
  – shares held under the Executive Committee share acquisition plan; and
  – unvested options.

– all shares and options must be dealt with in accordance with the Trading Policy, which is available on Macquarie's website, including that trading must be conducted within designated windows.

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

More generally, long-term alignment is encouraged through the emphasis on a degree of consistency over time in remuneration arrangements. Many initiatives on which staff work can take a long time—sometimes years—to come to fruition. Because the remuneration system is outcomes driven, profit share allocations for transactions and business development activities that are "in progress" are low. Staff must, therefore, have confidence that when a transaction is completed potentially some years later, the remuneration system will recognise successful outcomes in the way the staff member anticipated at the outset of the transaction. This requires consistency over time.

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

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

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3.3.1 Profit share arrangements – delivery of profit share allocations

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

The following table sets out the way that each annual profit share allocation will be delivered to the Managing Director and Chief Executive Officer and other Executive Committee members in 2008 and 2009 compared with 2007.

% Allocations	Reference	Managing Director and Chief Executive Officer*			Other Executive Committee Members		
		2007	2008	2009	2007	2008	2009
Annual profit share allocation split as follows:							
Retained under the DPS Plan	Section 3.3.1.1	20	20	20	20	20	20
Allocated to MGL Shares**	Section 3.3.1.2	–	10	35	–	10	20
Otherwise available***		80	70	45	80	70	60
Total		100	100	100	100	100	100

* References to the Managing Director and Chief Executive Officer refer to the new Managing Director and Chief Executive Officer. The modifications noted here do not apply to the current Managing Director and Chief Executive Officer given his planned retirement.

** Subject to Minimum shareholding requirement.

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

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

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

The amounts retained under the DPS Plan begin to vest after five years of service as an Executive Director and fully vest after 10 years. Vested amounts are then released to an Executive Director at the earliest of the Executive Director's ceasing employment or the end of a 10 year period.

Assuming continued employment with the Group, a rolling 10 year retention always exists e.g. amounts retained in year 1 will be released in year 11, amounts retained in year 2 will be released in year 12, and so on.

Forfeiture rules

The retained amounts are subject to forfeiture should a disqualifying event occur. An Executive Director will not be entitled to any of their retained DPS (or any future notional income or capital growth on their retained DPS) if the Board or the Executive Committee, in its absolute discretion, determines that the Executive has:

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

Notional investment

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

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

- retained DPS for Executive Directors who are involved in the management of a particular fund (e.g. the CEO of a fund), will be 100 per cent notionally invested in the fund;
- retained DPS for Executive Directors who are involved more generally in the management of one of Macquarie's funds businesses, including certain Group Heads, will be 100 per cent notionally invested in a portfolio of funds managed by that particular business;

– retained DPS for other Executive Committee members will be 100 per cent notionally invested in a general portfolio of specialist funds managed by the Group;

– retained DPS for Executive Directors who provide other services to particular funds businesses (e.g. advisory services), will be 100 per cent notionally invested in a portfolio of funds managed by that particular business; and

– retained DPS for all other Executive Directors will be notionally invested in a general portfolio comprising a mix of cash and equity investments in various specialist funds managed by the Group.

Notional returns on these amounts may be paid annually to Executive Directors, and these amounts are required to be disclosed as remuneration for Key Management Personnel.

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

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

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

The shares will be acquired under, or issued via, a dedicated sub-plan of the Macquarie Group Staff Share Acquisition Plan (MGSSAP) at prevailing market prices. The MGSSAP is discussed in section 3.3.1.4.

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

In 2008, new shares will be issued under these arrangements in relation to all Executive Committee members, except Mr Nicholas Moore. In 2008, Mr Moore's shares under these arrangements will be acquired on-market.

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

3.3.1.3 Minimum shareholding requirement for Executive Directors
The DPS Plan also imposes on Executive Directors a requirement to hold MGL shares equivalent to the aggregate of 5 per cent (being the deemed after-tax equivalent of 10 per cent) of their annual gross DPS allocation for the past five years (for the wider Executive Director population) or ten years (for Executive Committee members).

These shares cannot be hedged.

For Executive Committee members, MGL shares delivered through the profit share arrangements described in section 3.3.1.2 above are eligible to meet this requirement.

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

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

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

– an employee's resignation from the Group or a related company;

– a request by the employee (after the expiration of the non-disposal period); and

– ten years from the date that the shares are registered in an employee's name.

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

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

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

Employee share plan

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

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

The number of shares each participant receives is $1,000 divided by the weighted average price at which the Group's shares are traded on the ASX on the seven days up to and including the date of allotment, rounded down to the nearest whole share.

In 2008, 1,735 eligible Australian employees elected to participate in the ESP (2007: 1,664).

3.3.2 Options

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

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

Options perform a number of critical functions:

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

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

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

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

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

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

As explained further below, the Group believes that its overall performance should be judged against other major ASX-listed companies, hence it uses the constituents of a relevant S&P/ASX index as the reference group for the performance hurdle, as explained in Section 3.3.2.3.

Executive Directors are forbidden from hedging unvested options.

3.3.2.1 Determination and allocation of the options pool

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

The majority of these options are allocated to individual executives in broadly the same manner as annual profit share allocations (refer section 3.2.1), i.e. it is performance based. The share utilisation chart in section 2.3 demonstrates that the total use of options is well within the normal range for the peer group.

3.3.2.2 General terms of option arrangements

The Plan

Plan	Macquarie Group Employee Share Option Plan (MGESOP)
History	The Macquarie Group has had an employee option plan in place since 1995, with only minor amendments to the Plan rules being made over that time. The MGESOP was established by Macquarie Group Limited with substantially the same terms as the predecessor plan, the Macquarie Bank Employee Share Option Plan, administered by Macquarie Bank Limited
Eligible staff	Associate Director, Division Director and Executive Director
Number of participants	2,595 as at 31 March 2008 (2007: 2,099)

Key Option Terms

Options over	Fully paid unissued ordinary shares in Macquarie Group Limited
Term of options	Five years
Consideration	Nil
Exercise price	Set at the prevailing market price: the exercise price will generally be the weighted average price of shares traded on ASX during one week up to and including the date of grant of the Options (adjusted for cum-dividend trading and excluding certain special trades)
Vesting schedule	Options vest progressively over time, with similar rules applying to new starters and existing employees as follows: – for new starters, options vest in three tranches as to one third of each grant after the second, third and fourth anniversaries of the date of commencement of employment; and – for existing employees, options vest in three tranches as to one third of each grant on 1 July two, three and four years after the allocation of the options In other words, the average option vesting period is three years However, vested options can only be exercised by Executive Directors if the relevant performance condition is also satisfied (refer section 3.3.2.3)
Hedging	Executive Directors are not permitted to hedge unvested options. Executive Directors are permitted to hedge options which have previously vested because the minimum service period and relevant performance hurdles, as described in this section have been satisfied

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3.3.2.3 Performance hurdles for Executive Director options

Description of performance hurdles for Executive Director options	
Applicability	Performance conditions are imposed as summarised below on options granted to Executive Directors
Description of performance hurdle	The performance hurdle requires that the Group's three year average return on ordinary equity exceeds the three year average return on ordinary equity of a reference group of companies at a certain percentile level. This hurdle operates in addition to both the vesting rules and the embedded share price hurdle
Basis of hurdle	Macquarie's **three year average return on ordinary equity** versus companies in a Reference Index *Rationale:* Refer to section 3.2 for the rationale behind the use of return on ordinary equity as a critical shareholder return driver
Reference index	S&P/ASX 100 Index (note that the S&P/ASX 300 Industrials Index was used for options granted prior to June 2006) *Rationale:* – The **S&P/ASX 300 Industrials Index** was initially chosen since the Group has few, if any, direct comparables and the S&P/ASX 300 Industrials Index is a widely recognised index of Australian larger listed companies – The change to a narrower group of companies, the **S&P/ASX 100 Index**, is in recognition of the increase in the Group's market capitalisation – The choice of this Reference Index reflects investor feedback and recognises that the Group is an Australian company and its performance should be judged against other major listed Australian companies – On this basis, the independent remuneration consultant concluded that the Reference Index was appropriate – If the Group wished to benchmark against a peer group, it would be very difficult to compile a comparator group of meaningful size of individually listed organisations with a sufficiently similar business mix – Such an index would likely comprise fewer than ten peers given that few, if any, organisations provide a close comparable to the Group in terms of important factors such as business mix. Different accounting practices globally would also impact the comparability of information between organisations – The independent remuneration consultant noted similar drawbacks to such an approach – The ASX Indices represent a well-known and third party produced index, and therefore comprise a more objective measure than would be the case for any subjectively-compiled peer group – The Group's performance against both these ASX indices and other major international investment banks has been strong (refer table below)

Performance level required to meet hurdle	For Executive Committee members, above the **65th percentile** was chosen as it was considered a challenging medium to long-term target, noting that if the hurdle is not met, none of the relevant options are able to be exercised *Rationale:* Being a three year average return on ordinary equity measure, the Group's performance hurdle rewards sustained strong performance and is relatively well insulated from short-term fluctuations. The Group, therefore, believes that it is appropriate for 100 per cent of the relevant options award to vest on satisfaction of the hurdle The conditions imposed on options issued to Executive Directors who are not members of the Group's Executive Committee or the Board are identical to those summarised in the table above, with the exception that the hurdle is the 50th percentile rather than the 65th percentile. This reflects the fact that these Executive Directors have less capacity to influence the Group's overall results and, individually, have less influence over the level of the Group's capital Note that from mid-2002 to November 2004, the performance level required to satisfy the hurdle for Executive Committee members was "at or above the 65th percentile" rather than "above the 65th percentile"
Application of retesting	No retesting for option grants has applied since June 2006. The performance hurdle is tested once only (at time of vesting). Prior to June 2006, the performance hurdle was retested on a quarterly basis until expiry
Calculation methodology	In assessing whether the Group's performance is above these hurdles, the Group obtains data from external sources and, where required, supplements this with data published by the individual companies. The percentile ranking of the Group based on the three year average annual return on ordinary equity against all companies in the applicable reference index is then determined quarterly. This method of assessment was selected because the data is readily available and easily computed

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

– only two of the competitors have a three year average ROE higher than Macquarie
– only two of the competitors would have met the performance hurdle that applies to the options of Macquarie's Executive Committee members

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

	Three year average return on ordinary equity as at 31 March 2008 %
Macquarie Group Limited	25.8*
S&P/ASX 100 Index – 65th percentile (current hurdle)	24.1
S&P/ASX 300 Industrials Index – 65th percentile (previous hurdle)	21.7
International Investment Banking Peers – 65th percentile	19.7
International Investment Banking Peers – average	18.8

* This three year average is based on the Group's 2006, 2007 and 2008 results. The performance hurdle test is actually applied as at the end of each calendar quarter in relation to the upcoming quarter. As at the last measurement date, 31 March 2008, the Group's most recent three year return on ordinary equity data was in relation to its 2005, 2006 and 2007 results (an average of 27.5 per cent) and this data was used in determining whether the performance hurdle had been satisfied in relation to Executive Director options due to vest in the period 1 April 2008 to 30 June 2008 inclusive.

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for the financial year ended 31 March 2008 continued

3.4 No special contractual termination payments

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

Length of contract	Permanent open ended
Remuneration review period	1 April – 31 March annually
Directors' profit share participation	All Executive Directors are eligible to participate in the Directors' Profit Share (DPS) Plan, referred to in section 3.3.1.1 above, which ensures that a large part of their remuneration is 'at risk'. The Rules of the DPS Plan are set out in the internal 'Macquarie Group Limited Executive Directors' Remuneration' booklets. Upon retirement from Macquarie, Executive Directors may be entitled to the vested retained DPS held under the Plan provided that it is determined that no disqualifying events have occurred
Option participation	All Executive Directors are eligible to participate in five year options over ordinary unissued Macquarie Group Limited shares, under the terms described in section 3.3.2. Subject to discretions able to be exercised by the Board or its delegates, on termination from Macquarie, Executive Directors are entitled to retain those options which have vested at the termination date
Termination of employment	Termination of employment by Macquarie or the executive requires four weeks notice*

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

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

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

4 Providing strong governance structures and processes: oversight of remuneration

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

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

4.1 Strong Board oversight to ensure sound overall remuneration governance

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

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

Helen Nugent	Committee Chairman	Non-Executive Director
David Clarke	Committee Member	Non-Executive Chairman
John Niland	Committee Member	Non-Executive Director
Peter Warne	Committee Member	Non-Executive Director

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

The responsibilities of the Committee are set out in a formal charter which is available on the Group's website. Board oversight of the approval framework for remuneration recommendations can be summarised as follows:

The **Non-Executive Directors of the Boards of Macquarie and the Bank**, as appropriate, approve the following on the recommendation of the Board Remuneration Committee:

- all individual remuneration/profit share recommendations for members of the respective Executive Committees and other Executive Voting Directors (including the Managing Director);
- all individual performance option grants to members of the respective Executive Committees, with the proviso that grants to Executive Voting Directors (including the Managing Director) must be approved by shareholders at the Annual General Meeting;
- other remuneration recommendations relating to individuals or groups of individuals which are disclosed or are significant because of their sensitivity or precedent implications; and
- the continued application of the profit share methodology.

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

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

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

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

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for the financial year ended 31 March 2008 continued

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

- all individual remuneration/profit share recommendations for Executive Directors, other than those required to be approved by the Non-Executive Directors of the Macquarie and Bank's Board as noted above;
- remuneration recommendations made outside of policy relating to individuals or groups of individuals (unless required to be approved by the Board);
- all individual promotion/performance options grants to staff other than those designated above; and
- the specific notional portfolio allocations of retained Directors' Profit Share amounts for individual Executive Directors.

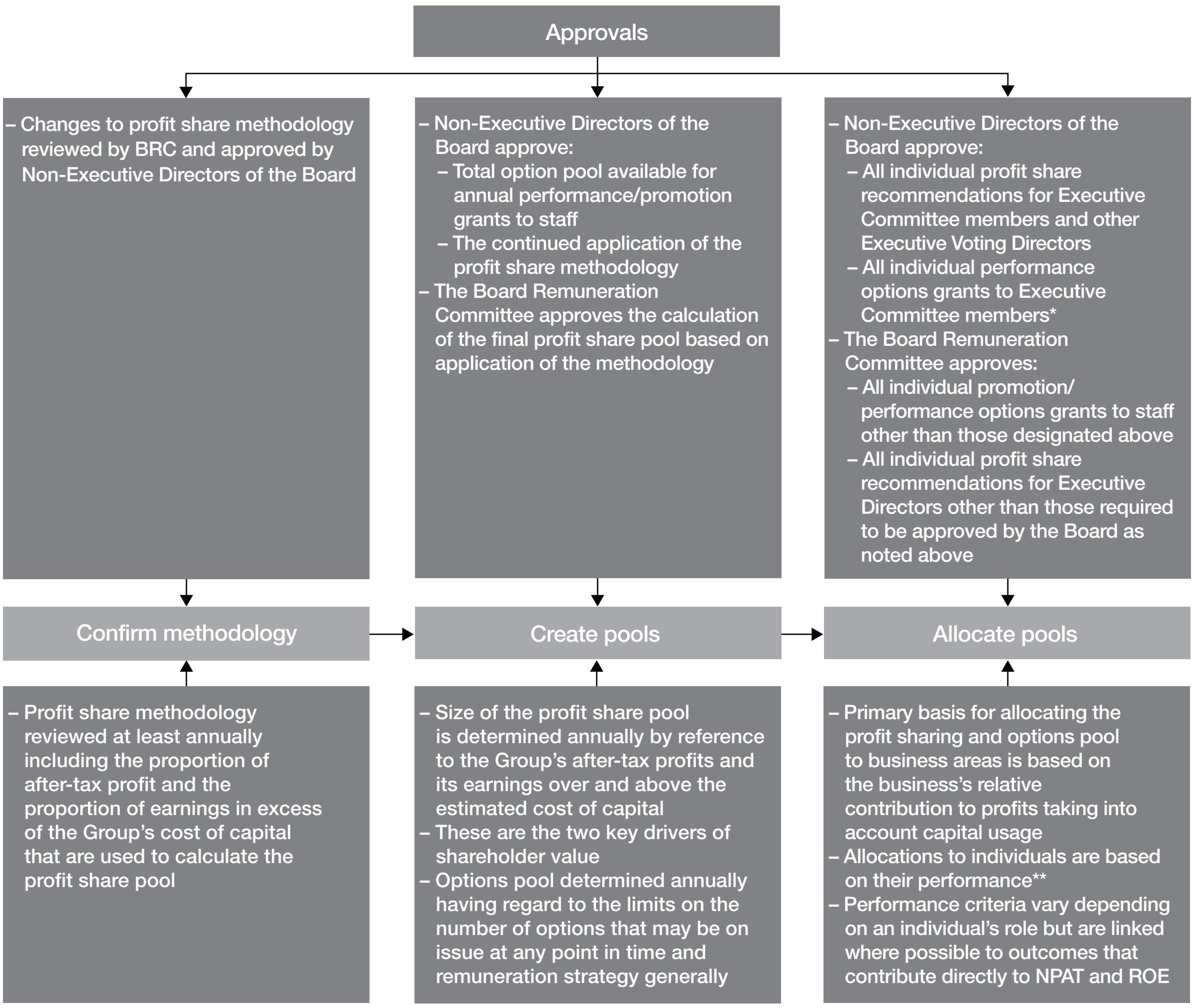
The Board Remuneration Committee also has the authority to monitor the implementation of the executive remuneration policy, including an annual review of compliance with the Executive Director minimum shareholding requirements.

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

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

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

Board oversight of remuneration decisions



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

** Refer also to the commentary in section 3.2.1 in relation to staff who have fund responsibilities.

4.2 Independent remuneration review

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

During 2008, the Board Remuneration Committee, on behalf of the Non-Executive Directors of the Group, commissioned an independent review of Executive Director remuneration from a US office of the global remuneration consultants, Towers Perrin. The review considered the overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant competitor information was available.

Findings from the review include that:

- Macquarie has used essentially the same remuneration system since the Group's founding;
- the objectives on which Macquarie's remuneration system are built are similar to those cited in other leading global investment banks;
- Macquarie's remuneration system:
  - has assisted Macquarie's top-of-market total shareholder return, superior return on equity results and stellar earnings growth over the past decade;
  - has helped ensure that pay and performance are linked tightly; and
  - has several means to align executive reward and shareholder value creation;
- Macquarie's remuneration governance process is fairly similar to that in place at Macquarie's peer US investment banks;
- Macquarie's remuneration components support its remuneration principles and are very much in line with practices at peer global investment banks, including that:
  - fixed remuneration is modest relative to total compensation, the bulk of which is delivered through variable means (annual and long-term incentives);
  - Macquarie's annual profit share is based on profit and return on equity;
  - individual profit share awards to executives are highly differentiated by individual contribution and results;
  - a meaningful portion of profit share is invested in equity and withheld for several years;
  - executives must maintain an equity stake in the company;
  - equity-based compensation (in the form of MGL options) is used as a long-term incentive for executives;
  - Macquarie imposes a long vesting period on the portion of profit share deferred into Group funds, which is akin to the practice of several US investment banks and financial institutions that imposes long-term sale restrictions on bonus that is deferred into shares;
- Macquarie's deferred profit share arrangements impose a longer vesting period than most of its international investment banking competitors;
- Macquarie uses performance hurdles on its options for Executive Directors whereas typical US practice is either to have options vest solely after the fulfilment of service requirements, or to use restricted shares which also typically vest solely based on service;
- Macquarie's total remuneration as a percent of income is in the lower half relative to investment bank peers; and
- additionally, Macquarie's remuneration ratios are meaningfully lower than many peers who had weak 2007 performance years.

An external review of Non-Executive Directors' remuneration was also commissioned in early 2008 from Mercer (refer section 5.2 for details).

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

5 Recognising Non-Executive Directors for their role

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

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

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

5.1 Non-Executive Director remuneration policy

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

(a) Setting Board and Committee fees at a level to ensure that Non-Executive Directors are remunerated in line with market rates for relevant Australian financial organisations for the time commitment and responsibilities involved;

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

(c) Requiring Non-Executive Directors to have a meaningful direct shareholding in Macquarie, and making available a similar share plan as is available to eligible Australian staff to allow Non-Executive Directors to allocate a portion of their Board and Committee fees into Macquarie equity; and

(d) Not providing termination or retirement benefits other than payments relating to their accrued superannuation contributions comprising part of their remuneration

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

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

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

5.2 Board and Committee fees

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

Such an external review was commissioned and conducted in early 2008 to ensure that the Non-Executive Directors' remuneration was in line with the relevant benchmark organisations and to ensure that the methodology and framework employed was appropriate. The review was conducted by Mercer. The Board of Directors critically evaluated the analyses and the conclusions reached.

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

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

Current per annum rates for Non-Executive Directors of Macquarie Group Limited (MGL) and Macquarie Bank Limited (MBL) became effective from 13 November 2007, the implementation date of the corporate restructure, and are as set out in the table below:

MGL and MBL Fees	**MGL fees**		**MBL fees**		**Total fees**	
From 13 November 2007 onwards	**Chairman**	**Member**	**Chairman**	**Member**	**Chairman**	**Member**
Board	$515,000	$140,000	$240,000	$65,000	$755,000	$205,000
Board Risk Committee	N/A*	$18,000	N/A**	N/A**	–	$18,000
Board Audit and Compliance Committee	$60,000	$30,000	N/A**	N/A**	$60,000	$30,000
Board Remuneration Committee	$50,000	$25,000	N/A**	N/A**	$50,000	$25,000
Board Corporate Governance Committee	$36,000	$18,000	N/A**	N/A**	$36,000	$18,000
Board Nominating Committee	N/A*	$8,000	N/A**	N/A**	–	$8,000

Prior to 13 November 2007, Non-Executive Directors were separately remunerated only for their responsibilities on the Macquarie Bank Limited Board. The per annum rates that applied for the various Board and Committee responsibilities were as follows:

MBL Fees	**1 July 2006 – 30 June 2007**		**1 July 2007 – 12 November 2007**	
Prior to 13 November 2007	**Chairman**	**Member**	**Chairman**	**Member**
Board	$680,000	$190,000	$755,000	$205,000
Board Risk Committee	N/A*	$16,500	N/A*	$18,000
Board Audit and Compliance Committee	$60,000	$30,000	$60,000	$30,000
Board Remuneration Committee	$40,000	$20,000	$50,000	$25,000
Board Corporate Governance Committee	$28,000	$14,000	$36,000	$18,000
Board Nominating Committee	N/A*	$4,500	N/A*	$8,000

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

** MBL does not have separate Committees, although MGL's Audit and Compliance Committee and Remuneration Committee support both Boards.

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for the financial year ended 31 March 2008 continued

These base and Committee fees are paid quarterly. Non-Executive Directors may elect to receive their remuneration, in part, in the form of superannuation contributions and by way of the Group's fully-paid ordinary shares issued via the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP), a mechanism for the Non-Executive Directors to acquire additional fully paid ordinary shares in the Group. The terms of the NEDSAP substantially replicate the terms of an equivalent plan that was operated by Macquarie Bank Limited, as approved at Macquarie Bank Limited's 1999 Annual General Meeting. Shares under the NEDSAP are acquired on-market at prevailing market prices.

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

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

5.3 Minimum shareholding requirements for Non-Executive Directors

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

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

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

Appendices: Key Management Personnel disclosures

Appendix 1: Key Management Personnel

The Macquarie Group restructured on 13 November 2007. The Key Management Personnel for the restructured MGL Group have remained the same as the predecessor entity Macquarie Bank Limited. Prior to the date of restructure, disclosures throughout this section of the Report are in respect of the MBL Group.

The restructure was accounted for as a reverse acquisition in accordance with *AASB 3: Business Combinations*. MGL's consolidated financial statements and the disclosures throughout this section of the report have been presented as a continuation of the Macquarie Group. Full details of the restructure can be found in Note 1 of the Financial Statements.

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

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

Directors:		*Changes during 2007 & 2008 (except as noted below)*
Executive		
N.W. Moore*	Group Head, Macquarie Capital	Appointed 22 February 2008
A.E. Moss, AO*	Managing Director and Chief Executive Officer	
L.G. Cox, AO		
Non-Executive		
J.G. Allpass		Retired 19 July 2007
D.S. Clarke, AO**	Chairman	
M.R.G. Johnson**	Deputy Chairman	Retired 19 July 2007
P.M. Kirby		
C.B. Livingstone, AO		
B.R. Martin		Retired 20 July 2006
H.K. McCann, AM		
J.R. Niland, AC		
H.M. Nugent, AO		
P.H. Warne		

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

** Mr Clarke and Mr Johnson both retired from Executive responsibilities on 31 March 2007.

Directors' Report – Remuneration Report
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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 Group and its controlled entities during the financial years ended 31 March 2008 and 31 March 2007, unless otherwise indicated:

Executives:

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

Notes:

The composition of the Macquarie Group Limited Board changed on 30 August 2007. For the period from incorporation until 30 August 2007, W.R. Sheppard, G.C. Ward and S.J. Dyson were Directors of Macquarie Group Limited. During this time, the company was dormant. W.R. Sheppard, G.C. Ward and S.J. Dyson did not receive any remuneration for their services as Directors.

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

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

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

The remuneration and other related party disclosures included in the Remuneration Report have been prepared in compliance with *AASB 124: Related Party Disclosures*. For the purpose of these disclosures, all the individuals listed above have been determined to be Key Management Personnel, as defined by the Accounting Standard. The Group's Non-Executive Directors are specifically required by the Accounting Standard to be included as Key Management Personnel. However, the Non-Executive Directors do not consider that they are part of 'management'.

Appendix 2: Remuneration disclosures

Executive remuneration

The remuneration arrangements for all of the persons listed above as Executive Directors or Executives are described in section 3 above. These executive remuneration arrangements applied to Mr Clarke and Mr Johnson up to and including 31 March 2007.

The individuals identified above as Key Management Personnel include the five highest remunerated Company Executives and Relevant Group Executives.

In accordance with the requirements of *AASB 124: Related Party Disclosures*, the remuneration disclosures in the remuneration tables for the year ended 31 March 2008 and the year ended 31 March 2007, only include remuneration relating to the portion of the relevant periods that each individual was a Key Management Person.

As explained in section 3.3.1.1 above, DPS amounts retained under the DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed specialist funds. This ensures that they are exposed to both the upside and downside of the underlying securities.

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors as additional remuneration and are included in the relevant remuneration disclosures below as part of Long-Term Employee Benefits (refer to the "Earnings on prior year restricted profit share" column in the tables on pages 94 to 95). When these amounts are negative, they are deducted from "Long-Term Employee Benefits" remuneration in the same column.

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

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

The information is also presented with Mr Clarke, Mr Johnson and Mr W.J. Moss excluded so that a proper year-on-year comparison can be made with the same individuals in both periods. Because the above named Executives either retired or resigned from Executive duties, they have been excluded from this analysis to provide a meaningful year-on-year comparison of data.

	2007 $	**2008** **$**	Increase/ (Decrease)
All Executive Key Management Personnel			
Total disclosed remuneration	207,074,381	**124,746,718**	(39.8%)
Less/(Add): Earnings/(Loss) on restricted profit share amounts	13,786,054	**(15,447,287)**	
Total underlying remuneration	193,288,327	**140,194,005**	(27.5%)
Executive Key Management Personnel excluding Mr Clarke, Mr Johnson and Mr W.J. Moss			
Total disclosed remuneration	155,115,059	**124,746,718**	(19.6%)
Less/(Add): Earnings/(Loss) on restricted profit share amounts	10,808,051	**(15,447,287)**	
Total underlying remuneration	144,307,008	**140,194,005**	(2.9%)

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		Short-Term Employee Benefits		
		Salary (including superannuation) $	Performance related remuneration (a) $	Total short-term employee benefits $
Executive Directors				
L.G. Cox	**2008**	**396,270**	**1,000,912**	**1,397,182**
	2007	395,886	1,139,168	1,535,054
N.W. Moore	**2008**	**517,573**	**18,726,921**	**19,244,494**
	2007	517,490	22,801,375	23,318,865
A.E. Moss (f)	**2008**	**670,928**	**27,223,798**	**27,894,726**
	2007	670,819	23,178,183	23,849,002
Other Executives				
J.K. Burke	**2008**	**383,387**	**12,200,292**	**12,583,679**
	2007	383,325	10,550,610	10,933,935
M. Carapiet	**2008**	**383,387**	**13,189,505**	**13,572,892**
	2007	383,325	15,825,915	16,209,240
A.J. Downe	**2008**	**479,234**	**11,738,659**	**12,217,893**
	2007	479,157	15,072,300	15,551,457
P.J. Maher	**2008**	**455,273**	**3,297,376**	**3,752,649**
	2007	455,199	3,202,864	3,658,063
N.R. Minogue	**2008**	**431,311**	**3,462,245**	**3,893,556**
	2007	431,241	4,144,882	4,576,123
W.R. Sheppard	**2008**	**517,573**	**3,363,324**	**3,880,897**
	2007	517,490	6,782,535	7,300,025
G.C. Ward	**2008**	**431,311**	**3,528,193**	**3,959,504**
	2007	432,211	3,956,479	4,388,690
Former Executive Directors and Executives				
D.S. Clarke (g)	**2008**	**–**	**–**	**–**
	2007	335,410	17,595,026	17,930,436
(0.90)				
M.R.G. Johnson (g)	**2008**	**–**	**–**	**–**
	2007	229,995	1,601,432	1,831,427
W.J. Moss (g)	**2008**	**–**	**–**	**–**
	2007	383,325	27,789,553	28,172,878
Total Remuneration – Executive Key Management Personnel	**2008**	**4,666,247**	**97,731,225**	**102,397,472**
	2007	5,614,873	153,640,322	159,255,195

Long-Term Employee Benefits			Share-Based Payments			Total Remuneration	Percentage of remuneration that consists of options
Restricted profit share (b) $	Earnings on prior year restricted profit share (c) $	Total long-term employee benefits $	Shares (d) $	Options (e) $	Total share-based payments $	$	%
250,228	**(54,098)**	**196,130**	**–**	**85,394**	**85,394**	**1,678,706**	**5.09**
284,792	77,283	362,075	–	58,920	58,920	1,956,049	3.01
5,350,549	**(2,194,999)**	**3,155,550**	**2,675,274**	**1,676,580**	**4,351,854**	**26,751,898**	**6.27**
5,700,344	2,478,509	8,178,853	–	1,396,821	1,396,821	32,894,539	4.25
–	**(4,877,847)**	**(4,877,847)**	**–**	**1,738,565**	**1,738,565**	**24,755,444**	**7.02**
5,794,546	2,437,804	8,232,350	–	1,408,466	1,408,466	33,489,818	4.21
3,485,798	**292,941**	**3,778,739**	**1,742,899**	**605,121**	**2,348,020**	**18,710,438**	**3.23**
2,637,652	584,091	3,221,743	–	497,409	497,409	14,653,087	3.39
3,768,430	**(1,449,207)**	**2,319,223**	**1,884,215**	**1,371,250**	**3,255,465**	**19,147,580**	**7.16**
3,956,479	1,674,341	5,630,820	–	1,077,890	1,077,890	22,917,950	4.70
3,353,903	**(3,203,246)**	**150,657**	**1,676,951**	**801,132**	**2,478,083**	**14,846,633**	**5.40**
3,768,075	1,567,560	5,335,635	–	604,805	604,805	21,491,897	2.81
942,107	**(729,050)**	**213,057**	**471,054**	**300,718**	**771,772**	**4,737,478**	**6.35**
800,716	366,902	1,167,618	–	274,085	274,085	5,099,766	5.37
989,213	**(932,937)**	**56,276**	**494,606**	**370,303**	**864,909**	**4,814,741**	**7.69**
1,036,221	463,166	1,499,387	–	314,359	314,359	6,389,869	4.92
960,950	**(1,621,746)**	**(660,796)**	**480,475**	**488,419**	**968,894**	**4,188,995**	**11.66**
1,695,634	847,754	2,543,388	–	416,711	416,711	10,260,124	4.06
1,008,055	**(677,098)**	**330,957**	**504,028**	**320,316**	**824,344**	**5,114,805**	**6.26**
989,120	310,641	1,299,761	–	273,509	273,509	5,961,960	4.59
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	1,209,653	1,209,653	–	(170,207)	(170,207)	18,969,882	
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	391,265	391,265	–	155,988	155,988	2,378,680	6.56
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	1,377,085	1,377,085	–	1,060,797	1,060,797	30,610,760	3.47
20,109,233	**(15,447,287)**	**4,661,946**	**9,929,502**	**7,757,798**	**17,687,300**	**124,746,718**	
26,663,579	13,786,054	40,449,633	–	7,369,553	7,369,553	207,074,381	

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

Notes on elements of executive remuneration

(a) Performance related remuneration represents the current portion of each individual's profit share allocation in relation to the reporting period. For 2008, in the case of Mr A.E. Moss, the amount included in this column in the table above also includes the related restricted profit share amounts (refer (b) below), which is expected to be paid or payable within twelve months of the end of the reporting period, in accordance with the requirements of *AASB 124: Related Party Disclosures*. For 2007, in the case of Mr Clarke, Mr Johnson and Mr W.J. Moss the amount included in this column in the table above also includes the related restricted profit share amounts (refer (b) below), which were paid within twelve months of the end of the reporting period, in accordance with the requirements of *AASB 124: Related Party Disclosures*.

(b) This is the retained amount relating to current year profit share allocations, which is deferred to future periods as described in section 3.3.1.1 above. For 2008, in the case of Mr A.E. Moss (because he is retiring), the retained amount is included within "Performance related remuneration" as it is expected to be paid or payable within twelve months of the end of the reporting period. For 2007, in the case of Mr Clarke, Mr Johnson and Mr W.J. Moss these retained amounts are included within "Performance related remuneration" since they were paid within twelve months of the end of the reporting period.

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

(d) This is the amount of the current year profit share allocation, which is allocated to invest in Macquarie Group Limited shares as described in 3.3.1.2 above.

(e) This amount has been calculated on the basis as described in Note 1 (xviii) Share based payments to the 2008 Financial Statements. Prior option grants for each individual have been measured at their grant dates based on each grant's fair value, and this amount is recognised evenly over the relevant vesting period. Therefore, the amounts included in this table are not able to be derived directly from the disclosures in Appendix 3 below. If an option lapses in a reporting period, amounts previously recognised as remuneration in relation to the lapsed options are deducted from remuneration in the reporting period. In the case of Mr Clarke, 80,200 unvested options lapsed when he retired from executive responsibilities on 31 March 2007. The reversal of the amounts previously recognised in relation to these options exceeded the amounts recognised in relation to his options which vested during the year, resulting in a negative balance in the table above for 2007.

Notes on individuals

(f) Mr A.E. Moss will retire on 24 May 2008. Subsequent to that date, subject to the Board determining that a disqualifying event has not occurred, he will become entitled to his vested profit share of $24,828,847 adjusted for any further notional earnings increment or decrement thereon. This vested profit share amount comprises the retained portion of his profit share allocations from 1998 to 2007 as well as the retained portion of the profit share allocations for the year ended 31 March 2008 (which are included within the "Performance related remuneration" disclosed in the table above).

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

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

As is evident from the tables on pages 94 to 95, the majority of the remuneration for the named Group executives is performance based (ranging from 91.1 per cent to 98.2 per cent for individuals who were Executive Committee members during the year ended 31 March 2008, excluding the impact of notional earnings on retained amounts). This is consistent with the comments previously made that the effect of the Group's profit sharing mechanism is to provide substantial incentives in relation to superior profitability but low or no participation for less satisfactory performance. The mechanism provides significant alignment of their interests with those of shareholders.

Future amounts payable for Executive Voting Directors

For each Group executive named in the remuneration table above, with the exception of Mr A.E. Moss, 70 per cent of the annual profit share entitlement was paid or payable in relation to the reported financial year. These amounts are indicated in the column headed 'Performance related remuneration' in the table. Of the amounts held, 10 per cent is invested in MGL shares for at least 3 years as set out in section 3.3.1.2 and disclosed in the column headed 'Shares' on page 95). The remainder of this section discusses the 20 per cent that is retained under the DPS Plan.

It has been a fundamental condition of the DPS arrangements that 20 per cent of the annual profit share entitlement is held subject to restrictions. Except in the case of Mr Clarke, Mr Johnson, Mr A.E. Moss and Mr W.J. Moss, these amounts are indicated in the column headed 'Restricted profit share' in the remuneration table above. These restricted amounts begin to vest after five years of service as an Executive Director and fully vest after ten years of service as an Executive Director, subject to any disqualifying events. As described in section 3.3.1.1 above, vested amounts will begin to be released to Executive Directors at the earlier of the end of the ten year period or on ceasing employment (up to six months after departure) provided that no disqualifying events have occurred.

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

For the Group executives named in the remuneration table above:

- subject to future notional investment earnings on the amounts retained, the maximum future value of their restricted profit share entitlements is reflected by the amounts in the 'Restricted profit share' column of that table (with the exception of Mr A.E. Moss for 2008 and Mr Clarke, Mr Johnson and Mr W.J. Moss for 2007 for whom it is equal to 20 per cent of the amount in the 'Performance related remuneration' column, subject to future notional investment earnings); and
- the minimum future value of their restricted profit share entitlements is zero in the event that certain defined disqualifying events occur and the amounts are forfeited.

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

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

Name and position	Balance of restricted profit share at 31 March 2007 plus 2007 DPS retention $	Amounts released from restricted profit share during the financial year (a) $	Actual balance of restricted profit share at 31 March 2008 $	Amount to be credited to restricted profit share in relation to the DPS allocation for the financial year (b) $	Negative notional earnings for the 12 months to 31 March 2008 $	Balance of restricted profit share at 31 March 2008 plus 2008 DPS retention $
Executive Directors						
A.E. Moss	25,152,211	(716,787)	24,435,424	5,779,340	(5,385,917)	24,828,847
N.W. Moore	24,811,910	(595,288)	24,216,622	5,679,340	(2,632,626)	27,263,336
L.G. Cox	740,000	–	740,000	263,340	(65,101)	938,239

(a) As outlined in section 3.3.1.1 above, retained DPS amounts are released to an Executive Director after ten years. During the financial year amounts retained from 1997 DPS allocations were released.

(b) Technically these amounts relating to 2008 DPS allocations are not credited until after 31 March 2008. However, they are added into the balance as at 31 March 2008 because that is the end of the financial year to which they relate.

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

Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as Non-Executive Directors are described in section 5 above. These Non-Executive Director remuneration arrangements have applied to Mr Clarke and Mr Johnson from 1 April 2007 onwards.

		Directors Fees $	Other Benefits (a) $	Total Compensation $
D.S. Clarke (b)	**2008**	**736,250**	**40,000**	**776,250**
	2007	–	–	–
J.G. Allpass (c)	**2008**	**77,727**	**27,218**	**104,945**
	2007	250,875	71,988	322,863
M.R.G. Johnson (d)	**2008**	**66,818**	**60,606**	**127,424**
	2007	–	–	–
P.M. Kirby	**2008**	**257,958**	**–**	**257,958**
	2007	221,375	–	221,375
C.B. Livingstone	**2008**	**286,000**	**45,600**	**331,600**
	2007	263,000	8,400	271,400
B.R. Martin (e)	**2008**	**–**	**–**	**–**
	2007	67,413	9,045	76,458
H.K. McCann	**2008**	**282,875**	**26,700**	**309,575**
	2007	259,625	–	259,625
J.R. Niland	**2008**	**262,542**	**–**	**262,542**
	2007	236,424	–	236,424
H.M. Nugent	**2008**	**273,500**	**–**	**273,500**
	2007	245,125	–	245,125
P.H. Warne (f)	**2008**	**206,417**	**–**	**206,417**
	2007	–	–	–
Total Remuneration – Non-Executive Key Management Personnel	**2008**	**2,450,087**	**200,124**	**2,650,211**
	2007	1,543,837	89,433	1,633,270

(a) Other benefits for Non-Executive Directors include due diligence committee fees paid to Mr Allpass of $7,000 (2007: $10,500), Ms Livingstone of $32,100 and Mr McCann of $26,700; fees paid to Mr Allpass, Mr Johnson and Mr Martin for Compliance Committee duties for certain related entities (Macquarie Infrastructure Group, Macquarie Infrastructure Group International Limited, Macquarie Infrastructure Investment Management Limited, Macquarie Investment Management Limited, Macquarie Investment Services Limited and Macquarie Private Portfolio Management Limited), and fees paid to Mr Allpass and Ms Livingstone for work performed in relation to the Basel II Board Sub-Committee.

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

(b) Mr Clarke retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman. His 2007 remuneration is reported as Executive Remuneration in the executive remuneration table earlier in this Appendix.

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

(d) Mr Johnson retired from the Executive Committee on 31 March 2007. He continued as a Non-Executive Director until he retired on 19 July 2007. His 2007 remuneration is reported as Executive Remuneration in the executive remuneration table earlier in this Appendix.

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

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

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

Appendix 3: Share and Option Disclosures
Aggregate Equity Participation

The following table sets out details of Key Management Personnel's (including their related parties) aggregate equity holdings in the Group, being fully paid ordinary shares of the Group and options over fully paid unissued ordinary shares of the Group.

	31 March 2008		31 March 2007	
Name and position	Number of shares (a)	Number of options (a)	Number of shares (a)	Number of options (a)
Executive Directors				
L.G. Cox	269,812	32,265	269,812	23,265
N.W. Moore	1,030,510	532,734	843,113	594,335
A.E. Moss	404,236	670,400	404,336	511,000
Non-Executive Directors				
J.G. Allpass (b)	18,513	–	18,513	–
D.S. Clarke (c)	704,868	–	651,113	53,734
M.R.G. Johnson (d)	293,803	84,795	293,803	84,795
P.M. Kirby	9,772	–	9,772	–
C.B. Livingstone	8,432	–	7,550	–
H.K. McCann	11,359	–	11,359	–
J.R. Niland	7,959	–	5,959	–
H.M. Nugent	20,613	–	19,762	–
P.H. Warne (e)	9,077	–	–	–
Executives				
J.K. Burke	31,657	224,678	25,000	181,335
M. Carapiet	531,274	383,067	525,934	356,838
A.J. Downe	176,036	248,334	121,035	218,335
P.J. Maher	125,323	85,001	60,153	125,000
N.R. Minogue	157,312	118,334	110,811	129,835
W.R. Sheppard	261,313	193,334	259,271	148,334
G.C. Ward	56,620	103,334	29,211	100,743

(a) Or date of retirement if earlier.
(b) Mr Allpass retired from the Board of Directors on 19 July 2007.
(c) Mr Clarke retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman.
(d) Mr Johnson retired from the Executive Committee on 31 March 2007. He continued as a Non-Executive Director until he retired on 19 July 2007.
(e) Mr Warne was appointed to the Board of Directors on 1 July 2007.

Shares

Shareholding of Key Management Personnel and their related parties

The following table sets out details of fully paid ordinary shares of the Group held during the year by the Key Management Personnel including their related parties. As a result of the corporate restructure that took place on 13 November 2007, shareholders of MBL obtained one MGL ordinary share for each ordinary share they held in MBL prior to implementation of the restructure.

For the year ended 31 March 2008

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

(a) Includes on market acquisitions and disposals.

(b) Or date of retirement if earlier.

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

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

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

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

Shares

Shareholding of Key Management Personnel and their related parties continued

For the year ended 31 March 2007

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

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

Options

Option holdings of Key Management Personnel and their related parties

The following table sets out details of options held during the year for the Key Management Personnel including their related parties. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. As a result of the corporate restructure that took effect on 13 November 2007, optionholders of MBL obtained one MGL ordinary option for each option they held in MBL prior to implementation of the restructure.

For the year ended 31 March 2008

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

(a) Vested options sold under facility provided by an external party unless otherwise noted.
(b) Or date of retirement if earlier.
(c) Includes options that were granted as part of remuneration in prior financial years.
(d) Mr Allpass retired on 19 July 2007. Balance at 31 March 2008 represents holdings at date of retirement.
(e) Mr Clarke retired as Executive Chairman 31 March 2007. He continues as Non-Executive Chairman.
(f) Mr Johnson retired from the Executive Committee on 31 March 2007. He continued as a Non-Executive Director until he retired on 19 July 2007. Balance at 31 March 2008 represents holdings at date of retirement.
(g) Mr Warne was appointed to the Board of Directors on 1 July 2007

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

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for the financial year ended 31 March 2008 continued

Options

Option holdings of Key Management Personnel and their related parties continued

For the year ended 31 March 2007

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

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

Details of options granted and their fair value at grant date

Name and position	Date options granted	Number of options granted	Option exercise price $	Fair value at grant date* $	Value of options granted as part of remuneration during the year $	Date first tranche can be exercised	Expiry date
For the year ended 31 March 2008							
Executive Directors							
L.G. Cox	15 August 2007	9,000	71.41	11.16	100,440	1 July 2009	15 August 2012
N.W. Moore	15 August 2007	154,400	71.41	11.16	1,723,104	1 July 2009	15 August 2012
A.E. Moss	15 August 2007	159,400	71.41	11.16	1,778,904	1 July 2009	15 August 2012
Executives							
J.K. Burke	15 August 2007	50,000	71.41	11.16	558,000	1 July 2009	15 August 2012
M. Carapiet	15 August 2007	126,000	71.41	11.16	1,406,160	1 July 2009	15 August 2012
A.J. Downe	15 August 2007	85,000	71.41	11.16	948,600	1 July 2009	15 August 2012
P.J. Maher	15 August 2007	25,000	71.41	11.16	279,000	1 July 2009	15 August 2012
N.R. Minogue	15 August 2007	35,000	71.41	11.16	390,600	1 July 2009	15 August 2012
W.R. Sheppard	15 August 2007	45,000	71.41	11.16	502,200	1 July 2009	15 August 2012
G.C. Ward	15 August 2007	30,000	71.41	11.16	334,800	1 July 2009	15 August 2012
For the year ended 31 March 2007							
Executive Directors							
L.G. Cox	1 August 2006	9,245	61.79	12.25	113,251	1 July 2008	1 August 2011
M.R.G. Johnson	1 August 2006	18,495	61.79	12.25	226,564	1 July 2008	1 August 2011
A.E. Moss	1 August 2006	165,400	61.79	12.25	2,026,150	1 July 2008	1 August 2011
Executives							
J.K. Burke	1 August 2006	65,000	61.79	12.25	796,250	1 July 2008	1 August 2011
M. Carapiet	1 August 2006	143,360	61.79	12.25	1,756,160	1 July 2008	1 August 2011
A.J. Downe	1 August 2006	85,000	61.79	12.25	1,041,250	1 July 2008	1 August 2011
P.J. Maher	1 August 2006	30,000	61.79	12.25	367,500	1 July 2008	1 August 2011
N.R. Minogue	1 August 2006	35,000	61.79	12.25	428,750	1 July 2008	1 August 2011
N.W. Moore	1 August 2006	160,000	61.79	12.25	1,960,000	1 July 2008	1 August 2011
W.R. Sheppard	1 August 2006	45,000	61.79	12.25	551,250	1 July 2008	1 August 2011
G.C. Ward	1 August 2006	30,000	61.79	12.25	367,500	1 July 2008	1 August 2011
Former							
W.J. Moss	1 August 2006	105,000	61.79	12.25	1,286,250	1 July 2008	1 August 2011

* Refer to notes on fair value below.

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

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

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

Options granted during the financial year were issued subject to the exercise conditions noted above and are only exercisable in three equal tranches on or after 1 July 2009, 1 July 2010 and 1 July 2011. Allocations of these options were in respect of performance for the Group's 2007 financial year.

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

– risk free interest rate: 7.00 per cent (weighted average)
– expected life of options: four years
– volatility of share price: 20 per cent per annum
– dividend yield: 3.43 per cent per annum

The exercise price of the options granted to Executive Directors and Executives in the current financial year was based on the weighted average market price of the Group's ordinary shares traded on ASX during the one week up to and including 15 August 2007 (adjusted for special trades and any cum-dividend trading).

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

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

For the year ended 31 March 2008

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

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

For the year ended 31 March 2007

Name and position	Number of options exercised during the financial year (a)	Number of shares issued on exercise of options	Exercise price paid in full per share $
Executive Directors			
L.G. Cox	1,700	1,700	34.71
Non-Executive Directors			
J.G. Allpass	1,700	1,700	34.71
B.R. Martin	1,000	1,000	34.71
H.K. McCann	1,700	1,700	34.71
Executives			
J.K. Burke	7,000	7,000	34.71
M. Carapiet	24,500	24,500	30.51
	26,666	26,666	28.74
	32,500	32,500	33.11
A.J. Downe	27,834	27,834	30.51
	26,666	26,666	28.74
P.J. Maher	13,334	13,334	34.71
G.C. Ward	2,591	2,591	28.74
	13,333	13,333	33.11

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

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

Appendix 4: Loan disclosures

Loans to Key Management Personnel

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

		Opening balance at 1 April $'000	Interest charged (a) $'000	Write-off $'000	Closing balance at 31 March $'000	Number in group 31 March $'000
Total for Key Management Personnel and their related parties	**2008**	**57,545**	**4,486**	**–**	**62,540**	**14**
	2007*	76,318	5,971	–	62,101	19
Total for Key Management Personnel	**2008**	**41,862**	**3,014**	**–**	**44,525**	**9**
	2007*	57,882	4,493	–	44,891	11

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

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

Certain loans are provided under zero cost collars secured over Macquarie Group Limited shares under normal terms and conditions consistent with other customers and employees.

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

For the year ended 31 March 2008

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

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

(b) Or date of retirement if earlier.

(c) Mr Clarke retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman.

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

For the year ended 31 March 2007

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

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

(b) Or date of retirement if earlier.

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

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

Appendix 5: Other disclosures

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

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

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

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

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

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

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

Former
W.J. Moss

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

Transactions with the Group

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

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

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

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

This is the end of the Remuneration Report

Directors' equity participation

At 19 May 2008, the Directors have relevant interests, as notified by the Directors to the Australian Securities Exchange in accordance with the Corporations Act 2001 (Cth), in the following shares and share options of MGL:

	Fully paid ordinary shares held at 19 May 2008	Share options held at 19 May 2008
D.S. Clarke	704,363	–
A.E. Moss	404,236	670,400*
L.G. Cox	269,812	32,265*
N.W. Moore	1,030,510	532,734
P.M. Kirby	11,386	–
C.B. Livingstone	8,432	–
H.K. McCann	11,359	–
J.R. Niland	7,959	–
H.M. Nugent	12,443	–
P.H. Warne	9,077	–

* These share options were issued pursuant to the Employee Option Plan and are subject to the exercise conditions applying to grants of options to Executive Directors, as described in note 38 to the full financial report – employee equity participation.

During the financial year, Directors received dividends relating to their shareholdings in MGL at the same rate as other shareholders.

The relevant interests of Directors as at 19 May 2008 in managed investment schemes made available by subsidiaries of the Group and contracts that confer a right to call for or deliver shares in the Group are listed on pages 113–114.

Directors' and officers' indemnification and insurance

Under MGL's Constitution, MGL indemnifies all past and present Directors and Secretaries of MGL (including at this time the Directors named in this report and the Secretaries), and its wholly-owned subsidiaries, against certain liabilities and costs incurred by them in their respective capacities. The indemnity covers the following liabilities and legal costs (subject to the exclusions described below):

- every liability incurred by the person in their respective capacity;
- all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which the person becomes involved because of their respective capacity; and
- legal costs incurred by the person in good faith in obtaining legal advice on issues relevant to the performance and discharge of their duties as an officer of MGL or of a wholly-owned subsidiary of MGL, if that has been approved in accordance with MGL policy.

This indemnity does not apply to the extent that:

- MGL is forbidden by law to indemnify the person against the liability or legal costs, or
- an indemnity by MGL of the person against the liability or legal costs, if given, would be made void by law.

MGL has also entered into a Deed of Access, Indemnity, Insurance and Disclosure (Deed) with each of the Voting Directors. Under the Deed, MGL, inter alia, agrees to:

- indemnify the Voting Director to the full extent of the indemnity given in relation to officers of MGL under its Constitution in force from time to time;
- take out and maintain an insurance policy against liabilities incurred by the Voting Director acting as an officer of MGL or a wholly-owned subsidiary of MGL, or acting as an officer of another company at the specific request of MGL or a wholly-owned subsidiary of MGL. The insurance policy must be in an amount and on terms and conditions appropriate for a reasonably prudent company in MGL's position. The insurance policy must also be maintained for seven years after the Voting Director ceases to be a Voting Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings); and
- grant access to the Voting Director to all company papers (including Board papers and other documents) of MGL or a subsidiary.

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

In addition, MGL made an Indemnity and Insurance Deed Poll on 12 September 2007 (Deed Poll). The benefit of the undertakings made by MGL under the Deed Poll have been given to each of the Directors, Secretaries, persons involved in the management and certain other persons, of MGL, its wholly-owned subsidiaries and other companies where the person is acting as such at the specific request of MGL or a wholly-owned subsidiary of MGL. The Deed Poll provides for the same indemnity and insurance arrangements for those persons with the benefit of the Deed Poll as for the Deed of Indemnity, Access, Insurance and Disclosure described above. However, the Deed Poll does not provide for access to company documents of MGL or any controlled entity of MGL.

The indemnities and insurance arrangements provided for under the MGL Constitution, the Deed and the Deed Poll, are broadly consistent with the corresponding indemnities and insurance arrangements provided under the Macquarie Bank Limited ("MBL") Constitution and deeds entered into by MBL, and were adopted by MGL upon the Macquarie Group restructure, under which MGL replaced MBL as the parent company of the Group.

MGL maintains a Directors' and Officers' insurance policy that provides cover for each person in favour of whom such insurance is required to be taken out under the Deed and the Deed Poll and for MGL in indemnifying such persons pursuant to the Deed and the Deed Poll. Individuals covered by the insurance policy pay the premium attributable to their direct coverage and MGL pays the premium attributable to the company reimbursement coverage under the policy. The Directors' and Officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

Directors' interests and benefits

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

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

Share options

Information on the Group's share option scheme, options granted and shares issued as a result of the exercise of options during or since the end of the financial year is contained in note 38 to the full financial report – Employee equity participation.

No person holding an option has or had, by virtue of the option, a right to participate in a share issue of any other corporation. No unissued shares, other than those referred to above, are under option as at the date of this report.

Directors' other relevant interests

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

Name and position	Direct interests	Indirect interests
Executive Directors		
D.S. Clarke	– 285,575 Zero Cost Collars[2]	– 391,617.10 Macquarie Balanced Growth Fund Units – 5,000 Macquarie Office Trust Units – 213,517 Cash Settled Put Options[1] – 100,784 Zero Cost Collars[3]
A.E. Moss	– 713,078 Macquarie Airports Stapled Securities – 500,000 Macquarie Communications Infrastructure Group Stapled Securities – 25,000 Macquarie Global Infrastructure Trust Units – 162,000 Macquarie Infrastructure Group Stapled Securities – 10,000 Macquarie Leisure Trust Units – 48,108.06 Macquarie Newton Australian Absolute Return Fund Units – 11,429 Macquarie Office Trust Units – 51,250 Macquarie Private Equity Trust Units – 100,000 Macquarie Technology Fund 1A Units – 414,813.14 Macquarie Cash Management Trust Units	– 250,000 Macquarie Capital Alliance Group Stapled Securities – 10,000 Macquarie CountryWide Trust Units – 6,334 Macquarie Office Trust Units – 378,366.17 Macquarie Cash Management Trust Units
N.W. Moore	– 680,415 Macquarie Airports Stapled Securities – 540,461 Macquarie Capital Alliance Group Stapled Securities – 483,674 Macquarie Global Infrastructure Fund (B) Ordinary Units – 108,365 Macquarie Global Infrastructure Fund (D) Ordinary Units – 2,531,935 Macquarie Media Group Stapled Securities – 5,000,000 Macquarie Reflexion Trusts June 2006 (Macquarie Financial Products Management Ltd) Units – 50,000 Macquarie Nine Film & Television Investment Fund (Macquarie Financial Products Management Ltd) ordinary shares – 50 Macquarie Timber Land Trust 2004 (Macquarie Alternative Assets Management Limited) Units – 75 Macquarie Timber Land Trust 2006 (Macquarie Alternative Assets Management Limited) Units	– 200,000 Macquarie Technology Fund – 1A ordinary shares – 272,283 Macquarie Communications Infrastructure Group Stapled Securities – 64,177 Macquarie Global Infrastructure Fund (B) Ordinary Units – 14,377 Macquarie Global Infrastructure Fund (D) Ordinary Units – 3,432,873 Macquarie Airports Stapled Securities – 250,504 Macquarie Infrastructure Group Stapled Securities – 623,565 Macquarie Media Group Stapled Securities – 2,000,000 Macquarie Global Infrastructure Fund III (B) (Macquarie Specialised Asset Management 2 Ltd) Units – 488,650 Macquarie Capital Alliance Group Stapled Securities – 2,307,227.37 Macquarie Cash Management Trust Units
L.G. Cox		– 605,800 High Yield Infrastructure Debt Trust Units – 189,236 Macquarie Airports Stapled Securities – 40,000 MP Structured Fund Units

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

Name and position	Direct interests	Indirect interests
Independent Directors		
P.M. Kirby	– 159,510 ConnectEast Group Stapled Securities – 117,064 Macquarie Infrastructure Group Stapled Securities – 30,000 Macquarie Media Group Stapled Securities – 100,000 DUET securities	– 42,800 Macquarie Infrastructure Group Stapled Securities
C.B. Livingstone		– 18,813 Macquarie CountryWide Trust Units – 66,600.09 Macquarie Cash Management Trust Units
H.K. McCann		– 103,000 Macquarie Martin Place Trust Units – 12,500 Macquarie Capital Alliance Group Stapled Securities – 50,819 Macquarie Communications Infrastructure Group Stapled Securities
J.R. Niland		– 58,000 Macquarie Capital Alliance Group Stapled Securities – 20,291 Macquarie Infrastructure Group Stapled Securities – 50,875 Macquarie Office Trust Units – 7,500 Macquarie Airports Stapled Securities
H.M. Nugent	– 28,611 Macquarie Airports Stapled Securities	
P.H. Warne	– 7,604 DUET Trust Units and 1,066 DUET Group Units	– 3,175 Macquarie Airports Stapled Securities – 1,790 Macquarie Infrastructure Group Stapled Securities – 11,443 Macquarie Office Trust Units – 155,983 Macquarie Capital Alliance Group Stapled Securities – 217,094 Macquarie Infrastructure Group Stapled Securities – 70,418 Macquarie CountryWide Trust Units – 95,114 Macquarie Office Trust Units – 941 Macquarie Airports Reset Exchange Securities Trust Units – 392 Macquarie Airports Reset Exchange Securities Trust Units

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

(2) Mr Clarke entered into a Zero Cost Collar transaction with MBL in respect of 153,296 fully paid ordinary MGL shares, which had the effect of acquiring cash-settled put options against movements in the MGL share price below the then current share price and disposing of the benefit of any share price movements above a nominated level over the period from 16 May 2003 to 12 June 2008, in respect of those shares. Mr Clarke entered into a Zero Cost Collar transaction with MBL in respect of 107,083 fully paid ordinary MGL shares, which had the effect of acquiring cash-settled put options against movements in the MGL share price below the then current share price and disposing of the benefit of any share price movements above a nominated level over the period from 20 May 2003 to 12 June 2008, in respect of those shares. Mr Clarke entered into a Zero Cost Collar transaction with MBL in respect of 25,196 fully paid ordinary MGL shares, which had the effect of acquiring cash-settled put options against movements in the MGL share price below the then current share price, and disposing of the benefit of any share price movements above a nominated level over the period from 19 August 2004 to 18 August 2009 in respect of those shares.

(3) A company in which Mr Clarke has an indirect interest entered into a Zero Cost Collar transaction with MBL in respect of 100,784 fully paid ordinary MGL shares, which had the effect of acquiring cash-settled put options against movements in the MGL share price below the then current share price and disposing of the benefit of any share price movements above a nominated level over the period from 16 May 2003 to 12 June 2008, in respect of those shares.

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

Environmental regulations

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

The Directors have determined that there has not been any material breach of those obligations during the financial year.

Non-audit services

Details of the amounts paid or payable to the auditor of the Group, PricewaterhouseCoopers ("PwC"), and its related practices for non-audit services provided, during the year, is disclosed in note 49 to the full financial report – Audit and other services provided by PricewaterhouseCoopers ("PwC").

The Group's external auditor policy, which is discussed in the Group's Corporate Governance Statement contained in the 2008 Annual Review, states that the external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for the Group, or audits its own professional expertise. The policy also provides that significant permissible non-audit assignments awarded to external auditors must be approved in advance by the Board Audit and Compliance Committee or the Committee Chairman, as appropriate.

The Board Audit and Compliance Committee has reviewed a summary of non-audit services provided during the year by PwC and its related practices, and has confirmed that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth) ("the Act"). This has been formally advised to the Board of Directors. Consequently, the Directors are satisfied that the provision of non-audit services during the year, by the auditor and its related practices did not compromise the auditor independence requirements of the Act.

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the Act, is set out on page 119 at the end of this report.

Rounding of amounts

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

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

David Clarke
Non-Executive Chairman

Allan Moss
Managing Director and Chief Executive Officer

Sydney
19 May 2008

Directors' Report Schedule 1
31 March 2008

Directors' experience and special responsibilities

David S Clarke, AO, BEc (Hons), Hon DScEcon (Syd), MBA (Harv) (age 66)
Non-Executive Chairman – joined the Board in August 2007
Chairman of the Board Nominating Committee
Chairman of the Board Risk Committee
Member of the Board Remuneration Committee

David Clarke has been Non-Executive Chairman of MGL since August 2007 and has been Non-Executive Chairman of MBL since 1 April 2007. He was Executive Chairman of MBL from its formation in 1985 until 31 March 2007. From 1971 to 1977, he was Joint Managing Director of Hill Samuel Australia Limited (predecessor to MBL), from 1977 to 1984 Managing Director and from 1984, Executive Chairman. He is also Chairman of Australian Vintage Limited (since November 1991), Goodman International Limited (since October 2000), Poole's Rock Wines Pty Ltd, the Sydney University Football Club Foundation and the George Gregan Foundation. He is an associate of ASX Limited and a member of the Investment Advisory Committee of the Australian Olympic Foundation, a member of the Harvard Business School Asia Pacific Advisory Committee, a member of the Seoul International Business Advisory Council, the Board of the Centre for the Mind and the Bloomberg Asia Pacific Advisory Board. He is also a member of Council of the Royal Agricultural Society of NSW and an honorary life member of the Financial Markets Foundation for Children. He is a member of the Corporate Governance Committee of the Australian Institute of Company Directors and Vice President of the Sydney University Cricket Club. He was previously Chairman of the management companies of Macquarie ProLogis Trust (from June 2002 until March 2007), Macquarie Office Trust (from June 1987 until March 2007) and Macquarie CountryWide Trust (from June 1995 until March 2007). Mr Clarke is a resident of New South Wales.

Allan E Moss, AO, BA LLB (Hons) (Syd), MBA (Harv) (age 58)
Managing Director and Chief Executive Officer – joined the Board in August 2007
Executive Voting Director
Member of the Board Risk Committee

Allan Moss was appointed Managing Director and Chief Executive Officer of MGL in August 2007. In November 2007, with the restructure of the Macquarie Group, he ceased to be Managing Director and Chief Executive Officer ("CEO") of MBL. Mr Moss will retire as Managing Director and CEO of MGL on 24 May 2008. Mr Moss joined Hill Samuel Australia Limited (predecessor to MBL) in the Corporate Services Group in 1977 and in 1982 became a Director of Hill Samuel Australia Limited. In 1983, he led the team responsible for preparing the submission to the Australian Government for the formation of Macquarie Bank. The following year, he founded the Risk Management Group which is responsible for MGL's credit and other prudential controls. In 1986, Mr Moss was made responsible for the Corporate Banking Group. He was appointed Head of the Financial Markets Group in 1988 and Deputy Managing Director the following year. Mr Moss became Managing Director of MBL in 1993. Mr Moss is a resident of New South Wales.

Nicholas W Moore, BCom LLB (UNSW), FCA (age 49)
Executive Voting Director since February 2008
Member of the Board Risk Committee

Nicholas Moore joined the Corporate Services Division of MBL in 1986. He led a range of transactions, including Hills Motorway, which led the development of Macquarie's infrastructure business. In 1996, Mr Moore was appointed Head of the Project and Structured Finance Division. In 1998 he was appointed Head of the Asset and Infrastructure Group and then Head of the Capital Markets Group (predecessor to Macquarie Capital) on its inception in 2001. In this role, he oversaw significant growth in Macquarie Capital's net income through the global growth of the advisory, fund management, financing and securities businesses. He was a Director of Macquarie Infrastructure Group (from January 1996 to April 2008), Macquarie Airports (from August 1996 to April 2008), Macquarie Communications Infrastructure Group (from February 1998 to April 2008), Macquarie Capital Alliance Group (from August 2003 to April 2008) and Macquarie Media Group (from September 2005 to April 2008). On Mr Moss' retirement in May 2008, Mr Moore will become Chief Executive Officer and Managing Director of MGL.
Mr Moore is a resident of New South Wales.

Laurence G Cox, AO, BCom (Melb), FCPA, SF Fin (age 69)

Voting Director – joined the Board in August 2007
Executive Voting Director
Member of the Board Risk Committee

Laurie Cox joined the Board of MBL as a Non-Executive Director and also became Joint Chairman of Macquarie Corporate Finance Limited in January 1996. He was appointed an Executive Director of MBL in March 2004. He was previously Executive Chairman of the Potter Warburg Group of Companies and a Director of S G Warburg Securities of London. Mr Cox was Chairman of Australian Stock Exchange Limited (now Australian Securities Exchange Limited) from 1989 to 1994. He was a Director of ASX from its inception in 1987, a Director of Securities Exchanges Guarantee Corporation from 1987 to 1995, and a member of the Executive Committee of the Internationale Bourses des Valeurs from 1990 to 1992. He is also a former member of the International Markets Advisory Board of The NASDAQ Stock Market (USA), a former Chairman of Transurban Group (from February 1996 to February 2007) and is currently an associate of ASX. He is Chairman of SMS Management & Technology Limited (since May 2001) and the Murdoch Childrens Research Institute and is a Director of Research Australia Limited. Mr Cox was appointed to the Board of OneSteel Limited ("OneSteel") in September 2007 and was a Director of Smorgon Steel Group Limited from September 1998 until its merger with OneSteel in September 2007. Mr Cox is a resident of Victoria.

Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits) (age 60)

Independent Voting Director – joined the Board in August 2007
Member of the Board Audit and Compliance Committee
Member of the Board Corporate Governance Committee
Member of the Board Risk Committee

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

Catherine B Livingstone, AO, BA (Hons) (Macquarie), FCA, FTSE (age 52)

Independent Voting Director – joined the Board in August 2007
Chairman of the Board Audit and Compliance Committee
Member of the Board Nominating Committee
Member of the Board Risk Committee

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

H Kevin McCann, AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 67)

Independent Voting Director – joined the Board in August 2007
Lead Independent Voting Director
Chairman of the Board Corporate Governance Committee
Member of the Board Audit and Compliance Committee
Member of the Board Risk Committee

Kevin McCann joined the Board of MBL as an Independent Voting Director in December 1996. Mr McCann is a former Partner and Chairman of Allens Arthur Robinson, a leading firm of Australian lawyers. He was a Partner at the firm from 1970 to 2004. He practiced as a commercial lawyer specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He is Chairman of Healthscope Limited (since March 1994), Origin Energy Limited (since February 2000) and the Sydney Harbour Federation Trust, a Director of BlueScope Steel Limited (since May 2002) and a Member of the Takeovers Panel and the Council of the National Library of Australia and is a NSW Councillor of the Australian Institute of Company Directors. He is a former Chairman of Triako Resources Limited (April 1999 to September 2006). Mr McCann is a resident of New South Wales.

Directors' Report Schedule 1
31 March 2008 continued

John R Niland, AC, BCom, MCom, HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD (age 67)
Independent Voting Director – joined the Board in August 2007
Member of the Board Corporate Governance Committee
Member of the Board Remuneration Committee
Member of the Board Risk Committee

John Niland joined the Board of MBL as an Independent Voting Director in February 2003. Dr Niland is a Professor Emeritus of the University of New South Wales (UNSW) and was Vice-Chancellor and President of UNSW from 1992 to 2002. Before that he was the Dean of the Faculty of Commerce and Economics. He is currently Chairman of the Centennial Park and Moore Park Trust and of Campus Living Funds Management Limited. He is a member of the University Grants Committee of Hong Kong and a member of the Board of Trustees of Singapore Management University, where he chairs the Finance and Remuneration Committee. In the region he is also active in providing consulting advice on governance and globalisation strategies to various government bodies and universities. Professor Niland is a former Chief Executive of the State Pollution Control Commission and Executive Chairman of the Environment Protection Authority. He has served on the Australian Universities Council, the Prime Minister's Science, Engineering and Innovation Council, and the Boards of realestate.com.au Limited, St Vincent's Hospital and the Garvan Institute. He is a former President of the National Trust of Australia (NSW). Dr Niland is a resident of New South Wales.

Helen M Nugent, AO, BA (Hons), PhD (Qld), MBA (Harv) (age 59)
Independent Voting Director – joined the Board in August 2007
Chairman of Board Remuneration Committee
Member of Board Nominating Committee
Member of the Board Risk Committee

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

Peter H Warne BA (Macquarie) (age 52)
Independent Voting Director – joined the Board in August 2007
Member of the Board Audit and Compliance Committee
Member of the Board Remuneration Committee
Member of the Board Risk Committee

Peter Warne was Head of Bankers Trust Australia Limited's ("BTAL") Financial Markets Group from 1988 to 1999. Prior to this he held a number of roles at BTAL. He was a Director and Deputy Chairman of the Sydney Futures Exchange ("SFE") from 1995 to 1999 and a Director from 2000 to 2006. When the SFE merged with the Australian Stock Exchange (now Australian Securities Exchange) ("ASX") in July 2006 he became a Director of ASX Limited. Currently, he is also Chairman of Next Financial Limited, ALE Property Group (since September 2003) and Capital Markets CRC Limited. Mr Warne is a Director of WHK Group Limited (since May 2007), Global Approach Limited (since April 2008) and Securities Research Centre of Asia Pacific Limited, and a Member of the Advisory Board of the Australian Office of Financial Management. He is a former Director of Macquarie Capital Alliance Group (from March 2005 to June 2007). Mr Warne is a resident of New South Wales.

Company secretaries' qualifications and experience

Dennis Leong, BSc BE (Hons) (Syd), MCom (UNSW), CPA, FCIS
Company Secretary since 12 October 2006

Dennis Leong is an Executive Director of Macquarie Group and Head of the Group's Company Secretarial and Investor Relations Division, which is responsible for the Group's company secretarial requirements and professional risks insurances and MGL's employee equity plans and investor relations. He has had over 14 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Michael Panikian, BBus (UTS) CA F Fin
Assistant Company Secretary since 27 August 2007

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

PRICEWATERHOUSECOOPERS

As lead auditor for the audit of Macquarie Group Limited for the year ended 31 March 2008, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Ian Hammond

Ian Hammond
Partner

PricewaterhouseCoopers

Sydney
19 May 2008

Macquarie Group Limited 2008 Financial report

Contents

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

Income statements
for the financial year ended 31 March 2008

	Notes	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Interest and similar income	3	**6,698**	4,632	**381**	–
Interest expense and similar charges	3	**(5,881)**	(3,904)	**(375)**	–
Net interest income		**817**	728	**6**	–
Fee and commission income	3	**4,645**	3,540	**–**	–
Net trading income	3	**1,835**	1,047	**–**	–
Share of net profits of associates and joint ventures using the equity method	3	**156**	242	**–**	–
Other operating income and charges	3	**795**	1,624	**(2)**	–
Total net operating income		**8,248**	7,181	**4**	–
Employment expenses	3	**(4,177)**	(3,733)	**(1)**	–
Brokerage and commission expenses	3	**(702)**	(421)	**–**	–
Occupancy expenses	3	**(264)**	(226)	**–**	–
Non-salary technology expenses	3	**(214)**	(163)	**–**	–
Other expenses	3	**(686)**	(710)	**(16)**	–
Total operating expenses		**(6,043)**	(5,253)	**(17)**	–
Operating profit/(loss) before income tax		**2,205**	1,928	**(13)**	–
Income tax (expense)/benefit	6	**(317)**	(377)	**5**	–
Profit/(loss) attributable to equity holders of Macquarie Group Limited from ordinary activities after income tax		**1,888**	1,551	**(8)**	–
Distributions paid or provided:					
Macquarie Income Preferred Securities		**(50)**	(54)	**–**	–
Macquarie Income Securities		**(34)**	(31)	**–**	–
Other minority interests		**(1)**	(3)	**–**	–
Profit attributable to minority interest		**(85)**	(88)	**–**	–
Profit/(loss) attributable to ordinary equity holders of Macquarie Group Limited		**1,803**	1,463	**(8)**	–
		Cents per share			
Basic earnings per share	8	**670.6**	591.6		
Diluted earnings per share	8	**653.5**	569.8		

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

Balance sheets
as at 31 March 2008

	Notes	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Assets					
Cash and balances with central banks		**7**	3	**–**	–
Due from banks	9	**10,110**	6,120	**–**	–
Cash collateral on securities borrowed and reverse repurchase agreements	10	**22,906**	25,909	**–**	–
Trading portfolio assets	11	**15,807**	15,518	**–**	–
Loan assets held at amortised cost	12	**52,407**	45,796	**–**	–
Other financial assets at fair value through profit or loss	14	**4,131**	2,779	**–**	–
Derivative financial instruments – positive values	42	**21,136**	11,913	**–**	–
Other assets	15	**10,539**	10,444	**1**	–
Investment securities available for sale	16	**16,454**	6,060	**–**	–
Intangible assets	17	**494**	100	**–**	–
Life investment contracts and other unit holder assets	18	**5,699**	5,847	**–**	–
Due from controlled entities		**–**	–	**13,891**	–
Interest in associates and joint ventures using the equity method	19	**5,500**	4,071	**–**	–
Property, plant and equipment	20	**375**	378	**–**	–
Investments in controlled entities	21	**–**	–	**23,693**	–
Deferred income tax assets	22	**718**	457	**1**	–
Non current assets and assets of disposal groups classified as held for sale	23	**967**	994	**–**	–
Total assets		**167,250**	136,389	**37,586**	–
Liabilities					
Due to banks	24	**10,041**	4,127	**4,864**	–
Cash collateral on securities lent and repurchase agreements	25	**13,781**	7,489	**–**	–
Trading portfolio liabilities	26	**11,825**	15,922	**–**	–
Derivative financial instruments – negative values	42	**21,399**	11,069	**–**	–
Deposits		**15,783**	12,403	**–**	–
Debt issued at amortised cost	27	**57,115**	51,365	**–**	–
Other financial liabilities at fair value through profit or loss	28	**6,288**	5,552	**–**	–
Other liabilities	29	**12,210**	11,958	**–**	–
Current tax liabilities		**193**	132	**49**	–
Life investment contracts and other unit holder liabilities		**5,689**	5,781	**–**	–
Due to controlled entities		**–**	–	**8,855**	–
Provisions	30	**179**	153	**–**	–
Deferred income tax liabilities	22	**121**	78	**–**	–
Liabilities of disposal groups classified as held for sale	23	**215**	170	**–**	–
Total liabilities excluding loan capital		**154,839**	126,199	**13,768**	–
Loan capital					
Subordinated debt at amortised cost		**1,704**	1,783	**–**	–
Subordinated debt at fair value through profit or loss		**646**	888	**–**	–
Total loan capital	32	**2,350**	2,671	**–**	–
Total liabilities		**157,189**	128,870	**13,768**	–
Net assets		**10,061**	7,519	**23,818**	–

Balance sheets
as at 31 March 2008 continued

	Notes	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Equity					
Contributed equity					
Ordinary share capital	33	**4,534**	3,103	**24,180**	–
Treasury shares	33	**(12)**	(7)	**–**	–
Exchangeable shares	33	**133**	–	**–**	–
Reserves	34	**456**	380	**42**	–
Retained earnings	34	**3,718**	2,795	**(404)**	–
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**8,829**	6,271	**23,818**	–
Minority interests					
Macquarie Income Preferred Securities	34	**752**	841	**–**	–
Macquarie Income Securities	34	**391**	391	**–**	–
Other minority interests	34	**89**	16	**–**	–
Total equity		**10,061**	7,519	**23,818**	–

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity
for the financial year ended 31 March 2008

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Total equity at the beginning of the year	**7,519**	5,337	**–**	–
Available for sale investments, net of tax	**(5)**	77	**–**	–
Associates and joint ventures (note 34)	**(6)**	(12)	**–**	–
Cash flow hedges, net of tax (note 34)	**24**	8	**–**	–
Exchange differences on translation of foreign operations	**(109)**	(3)	**–**	–
Net (expense)/income recognised directly in equity	**(96)**	70	**–**	–
Profit/(loss) from ordinary activities after income tax	**1,888**	1,551	**(8)**	–
Total recognised income and expense for the year	**1,792**	1,621	**(8)**	–
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity, net of transaction costs	**1,388**	1,160	**24,166**	–
Dividends and distributions paid or provided (note 7)	**(880)**	(602)	**(396)**	–
Minority interest:				
Contribution/(reduction) of equity, net of transaction costs	**75**	(21)	**–**	–
Changes in retained earnings due to acquisitions and disposals	**(2)**	30	**–**	–
Distributions paid or provided	**(85)**	(88)	**–**	–
Other equity movements:				
Net movement on issue of exchangeable shares (note 33)	**133**	–	**–**	–
Share based payments (note 34)	**126**	87	**56**	–
Net purchase of treasury shares	**(5)**	(5)	**–**	–
Total equity at the end of the year	**10,061**	7,519	**23,818**	–
Total recognised income and expense for the year is attributable to:				
Ordinary equity holders of Macquarie Group Limited	**1,796**	1,533	**(8)**	–
Macquarie Income Preferred Securities holders	**(39)**	54	**–**	–
Macquarie Income Securities holders	**34**	31	**–**	–
Other minority interests	**1**	3	**–**	–
Total recognised income and expense for the year	**1,792**	1,621	**(8)**	–

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

Cash flow statements
for the financial year ended 31 March 2008

	Notes	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Cash flows from operating activities					
Interest received		**5,894**	4,461	**381**	–
Interest and other costs of finance paid		**(5,788)**	(3,828)	**(358)**	–
Dividends and distributions received*		**407**	460	**16,635**	–
Fees and other non-interest income received		**4,679**	3,572	**–**	–
Fees and commissions paid		**(704)**	(380)	**–**	–
Net receipts/(payments) from trading securities and other financial assets/liabilities		**8,289**	(8,281)	**–**	–
Payments to suppliers		**(1,698)**	(797)	**(19)**	–
Employment expenses paid		**(3,531)**	(2,377)	**(1)**	–
Income tax paid		**(365)**	(626)	**(66)**	–
Life investment contract income		**497**	415	**–**	–
Life investment contract premiums received and other unit holder contributions		**3,225**	2,594	**–**	–
Life investment contracts payments		**(2,773)**	(2,469)	**–**	–
Assets of disposal groups classified as held for sale – net receipts from operations		**164**	173	**–**	–
Loan assets granted (net)		**(6,675)**	(11,621)	**(13,767)**	–
Proceeds from bridge facility provided by a controlled entity	36	**–**	–	**8,800**	–
Recovery of loans previously written off		**6**	3	**–**	–
Net increase in amounts due to other financial institutions, deposits and other borrowings		**16,984**	17,726	**4,847**	–
Net cash flows from/(used in) operating activities	35	**18,611**	(975)	**16,452**	–
Cash flows from investing activities					
Payments for financial assets available for sale and at fair value through profit or loss		**(58,296)**	(14,651)	**–**	–
Proceeds from the realisation of financial assets available for sale and at fair value through profit or loss		**55,042**	13,762	**–**	–
Payments for interests in associates		**(2,954)**	(1,525)	**–**	–
Proceeds from the sale of associates		**1,008**	1,080	**–**	–
Payments for the acquisition of assets and disposal groups classified as held for sale, net of cash acquired		**(812)**	(1,750)	**–**	–
Proceeds from the sale of assets and disposal groups classified as held for sale, net of cash disposed		**1,562**	2,159	**–**	–
Payments for the acquisition of controlled entities, excluding disposal groups, net of cash acquired		**(931)**	(25)	**(19,240)**	–
Proceeds from the disposal of controlled entities, excluding disposal groups, net of cash deconsolidated		**107**	–	**–**	–
Payments for life investment contracts and other unit holder assets		**(7,031)**	(6,083)	**–**	–
Proceeds from the sale of life investment contracts and other unit holder assets		**6,037**	5,520	**–**	–
Payments for property, plant and equipment		**(164)**	(199)	**–**	–
Proceeds from the sale of property, plant and equipment		**52**	7	**–**	–
Return of capital from a controlled entity	1	**–**	–	**3,000**	–
Net cash flows used in investing activities		**(6,380)**	(1,705)	**(16,240)**	–
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		**1,089**	946	**70**	–
Proceeds from other minority interests		**62**	5	**–**	–
Repayment of subordinated debt		**(225)**	–	**–**	–
Issue of subordinated debt		**–**	1,394	**–**	–
Dividends and distributions paid		**(668)**	(472)	**(282)**	–
Net cash flows from/(used in) financing activities		**258**	1,873	**(212)**	–
Net increase/(decrease) in cash		**12,489**	(807)	**–**	–
Cash and cash equivalents at the beginning of the financial year		**8,326**	9,133	**–**	–
Cash and cash equivalents at the end of the financial year	35	**20,815**	8,326	**–**	–

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

* Dividends received by the Company were treated as a return of capital (i.e. reduction in investment).

Notes to the financial statements
31 March 2008

Note 1. Macquarie Group Restructure

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

On restructure, ordinary shareholders and optionholders of MBL obtained one MGL ordinary share/option for each ordinary share/option they held in MBL prior to implementation of the restructure.

The restructure was accounted for as a reverse acquisition in MGL's 31 March 2008 consolidated financial statements, with MBL identified as the acquirer in accordance with AASB 3 *Business Combinations*. MGL's consolidated financial statements are presented as a continuation of the Macquarie Group. The comparative information presented is consistent with the disclosures made in the consolidated financial statements of MBL at 31 March 2007.

Under the restructure, following MBL becoming a legal controlled entity of MGL, MBL sold certain controlled entities and assets to the Non-Banking Group for fair value at the restructure date. The majority of MBL's profit on sale of these controlled entities was distributed by MBL via dividends to MGL. MBL also obtained shareholder approval to reduce its capital by $3.0 billion. The funds received by MGL from these transactions were contributed to the capital base of the Non-Banking Group and assisted in financing the acquisition of the controlled entities and assets from MBL by the Non-Banking Group. MBL also paid a dividend to MGL of $2.25 billion and MGL simultaneously subscribed the same amount to MBL as a capital injection. These transactions occurred on 16 November 2007. On 19 November 2007, a new holding company (Macquarie B.H. Pty Limited) was introduced between MGL and MBL. All of these transactions were internal to the Macquarie Group and did not impact MGL ordinary shareholders.

Note 2. Summary of significant accounting policies

i) Basis of preparation

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

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

Compliance with IFRS as issued by the IASB

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

Historical cost convention

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

Critical accounting estimates and significant judgements

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

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

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

Note 2. Summary of significant accounting policies
continued

Standards, interpretations and amendments to published standards that are not yet effective
Certain revised standards and amendments to existing standards have been published that are mandatory for the Company and Group for accounting periods beginning on or after 1 April 2008 or later periods but which the Company and Group have not yet adopted. The significant ones are as follows:

AASB 101: *Presentation of Financial Statements* and AASB 2007-08: *Amendments to Australian Accounting Standards arising from AASB 101* (effective from 1 January 2009). A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period.

AASB 3: *Business Combinations* and AASB 127: *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* (effective from 1 July 2009). These standards amend the accounting for certain aspects of business combinations and changes in ownership interests in controlled entities. Consequential amendments are made to other standards, AASB 128: *Investments in Associates* and AASB 131: *Interests in Joint Ventures*. Changes include:

– transaction costs are recognised as an expense at the acquisition date, unless the cost relates to issuing debt or equity securities;
– contingent consideration is measured at fair value at the acquisition date (allowing for a 12 month period post-acquisition to affirm fair values) without regard to the probability of having to make a future payment, and all subsequent changes in fair value are recognised in profit;
– changes in control are considered significant economic events, thereby requiring ownership interests to be remeasured to their fair value (and the gain/loss recognised in profit) when control of a controlled entity is gained or lost;
– changes in a parent's ownership interest in a controlled entity that do not result in a loss of control (e.g. dilutionary gains) are recognised directly in equity.

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

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

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

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

Controlled entities held by the Company are carried in its separate financial statements at cost in accordance with AASB 127: *Consolidated and Separate Financial Statements*. When the Macquarie Group restructured, Macquarie Group Limited's cost of investment in controlled entities was determined at the fair value of the investment received (i.e. $24 billion). The IASB issued an exposure draft in late December 2007 that attempts to address the accounting for such restructures and could have the effect of MGL restating its cost of investment in the Banking Group to historical book value. The outcome of the IASB's due process is uncertain at this stage, and consequently the investment may or may not be restated in a future period.

Notes to the financial statements
31 March 2008 continued

Note 2. Summary of significant accounting policies continued

The Company and Group 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 under 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 Group is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the Group's consolidated balance sheet and income statement.

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

– a majority of the benefits of an SPE's activities are obtained;
– a majority of the residual ownership risks related to the SPE's assets are obtained;
– the decision-making powers of the SPE vest with the Group; and
– the SPE's activities are being conducted on behalf of the Group 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 Group has significant influence or joint control, but not control, and are accounted for under the equity method except for those which are held for sale (see note 2(x)). The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Group'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 Company are carried in its separate financial statements at cost in accordance with AASB 127: *Consolidated and Separate Financial Statements*.

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

iii) Business combinations

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

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

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

Reverse acquisition for restructure

The restructure of the Macquarie Group has been accounted for as a reverse acquisition in the consolidated financial statements of the Group, with Macquarie Bank Limited identified as the acquirer in accordance with AASB 3: *Business Combinations*. Consequently, the consolidated financial statements of the Group are presented as a continuation of the Macquarie Group that includes both the Banking and Non-Banking Groups.

iv) Foreign currency translations

Functional and presentation currency

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

Transactions and balances

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

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

Controlled and other entities

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

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

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

v) Revenue recognition

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

Interest income

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

Fee income

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

Dividends and distributions

Dividends and distributions are recognised as income upon declaration.

Dividends from controlled entities that are sourced from pre-acquisition retained earnings are treated as a return of capital (i.e. reduction of investment).

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 Company and Group 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.

Notes to the financial statements
31 March 2008 continued

Note 2. Summary of significant accounting policies continued

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

Under the terms and conditions of the tax contribution agreement, the Company, 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 Company 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.

vii) Cash collateral on securities borrowed/lent and repurchase/reverse repurchase agreements
As part of its trading activities, the Group 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 Company sells securities under an agreement to repurchase, and reverse repurchase transactions, where the Company 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 Company and Group continually review 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 Company and Group have short-sold and are actively traded.

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

The Company and Group 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 Group 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 Company and Group 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 Company and Group recognise 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.

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

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 or loss, investment securities available for sale, and non current assets and disposal groups classified as held for sale. The classification depends on the purpose for which the investment was acquired, which is determined at initial recognition and, except for fair value through profit or loss, is re-evaluated at each reporting date.

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

Other financial assets at fair value through profit or loss
This category only includes those financial assets which have been designated by management as held at fair value through profit or loss on initial recognition. The policy of management is to designate a financial asset as such if the asset contains embedded derivatives which must otherwise be separated and carried at fair value if it is part of a group of financial assets managed and evaluated on a fair value basis; 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.

Notes to the financial statements
31 March 2008 continued

Note 2. Summary of significant accounting policies continued

The Company and Group 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 Company and Group evaluate among other factors, the normal volatility in share price and the amount of time for which the fair value has been below cost. In addition, impairment may be appropriate when there is evidence of deterioration in the financial condition of the investee, industry and sector performance, operational and financing cash flows or changes in technology.

Non current assets and disposal groups classified as held for sale

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

Assets and liabilities, including those within a disposal group, classified as held for sale are each presented separately on the face of the balance sheet. The revenue and expenses from disposal groups are presented net within the income statement and notes to the financial statements. Financial instruments that are part of disposal groups within the scope of AASB 5: *Non-current Assets Held for Sale and Discontinued Operations*, are not subject to the disclosures under AASB 7: *Financial Instruments: Disclosures*.

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

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

xii) Life business

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

Disclosure

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

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

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

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

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

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

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

Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are 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 Group's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill on acquisitions of controlled entities is included in intangible assets on the balance sheet. Goodwill on acquisitions of associates is included in the carrying value of investments in associates. Goodwill acquired in business combinations is not amortised but tested for impairment annually, or more frequently if events indicate that it might be impaired. When goodwill is impaired, it is carried at cost less accumulated impairment losses.

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

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

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

Notes to the financial statements
31 March 2008 continued

Note 2. Summary of significant accounting policies continued

xv) Financial liabilities

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

Other financial liabilities at fair value through profit or loss

This category only includes those financial liabilities which have been designated by management as held at fair value through profit or loss on initial recognition. The policy of management is to designate a financial liability as such if the liability contains embedded derivatives which must otherwise be separated and carried at fair value, if it is part of a group of financial assets managed and evaluated on a fair value basis, 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

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

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

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

Dividends

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

The Australian Treasurer granted relief from section 254T of the Corporations Act to allow the Company to make dividend payments from its profits including distributions received from the profits of controlled entities that relate to the period prior to the restructure.

xvii) Funds under management

Within the Group certain controlled, jointly controlled and associate entities act as a custodian and/or a single responsible entity for a number of investment funds and trusts. As at 31 March 2008, the investment funds and trusts, both individually and collectively, have an excess of assets over liabilities. The value of funds managed by the Group (measured based on the gross assets of the individual funds) is $232 billion (2007: $197 billion). This includes $6 billion (2007: $6 billion) in respect of the life business statutory funds and certain other funds that are consolidated in the financial report. Other investment funds and trusts have not been consolidated in the financial report because individual entities within the Group do not have control of the funds and trusts.

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

xviii) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. The exchangeable shares on issue (see note 33) are considered ordinary shares for the purposes of the earnings per share calculations.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders by the weighted average number of ordinary shares that would be issued on the exchange of all the dilutive potential ordinary shares into ordinary shares.

xix) Performance based remuneration

Share based payments

The Group operates share-based compensation plans, which include options granted to employees and shares granted to employees under share acquisition plans. The Group recognises an expense (and equity reserve) for its 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: 7.0 per cent (weighted average); expected life of options: four years; volatility of share price: 20 per cent and dividend yield: 3.4 per cent p.a.

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

Where options are issued by the Company to employees of controlled entities, the Company recognises the equity provided as a capital contribution to the controlled entity.

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

Profit share remuneration

The Group recognises a liability and an 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.

xx) Cash and cash equivalents

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

xxi) Leases

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

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

Purchased assets, where the Group 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.

xxii) Offsetting financial instruments

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

xxiii) Loan capital

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

xxiv) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

xxv) Comparatives

Where necessary, comparative information has been restated to conform with changes in presentation in the current year. MGL's consolidated financial statements are presented as a continuation of the Macquarie Bank Group. The comparative information presented is consistent with the disclosures made in the consolidated financial statements of MBL at 31 March 2007. For the MGL Company financial statements the comparatives are shown from the date of incorporation (12 October 2006).

xxvi) Rounding of amounts

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

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	**Company 2008 $m**	Company 2007 $m
Note 3. Profit for the financial year				
Net interest income				
Interest income received/receivable:				
– other entities	**6,698**	4,632	**–**	–
– controlled entities	**–**	–	**381**	–
Interest expense paid/payable:				
– other entities	**(5,881)**	(3,904)	**(96)**	–
– controlled entities	**–**	–	**(279)**	–
Total net interest income	**817**	728	**6**	–
Fee and commission income				
Fee and commission income	**4,610**	3,513	**–**	–
Income from life insurance business and other unit holder businesses (note 18)	**35**	27	**–**	–
Total fee and commission income	**4,645**	3,540	**–**	–
Net trading income*				
Equities	**1,167**	765	**–**	–
Commodities	**394**	295	**–**	–
Foreign exchange products	**255**	120	**–**	–
Interest rate products	**19**	(133)	**–**	–
Total net trading income	**1,835**	1,047	**–**	–
Share of net profits of associates and incorporated joint ventures accounted for using the equity method	**156**	242	**–**	–
Other operating income and charges				
Net gains on sale of investment securities available for sale	**123**	160	**–**	–
Impairment charge on investment securities available for sale	**(120)**	(8)		
Net gains on sale of associates (including associates held for sale) and joint ventures	**560**	650	**–**	–
Impairment charge on investment in associates and joint ventures	**(300)**	(4)	**–**	–
Net (expense)/income from disposal groups held for sale**	**(28)**	41	**–**	–
Gain on deconsolidation of controlled entities and businesses held for sale	**293**	469	**–**	–
Dividends/distributions received/receivable			**–**	
– investment securities available for sale	**91**	84	**–**	–
Group service charges and cost recoveries				
– controlled entities	**–**	–	**(2)**	–
Collective allowance for credit losses provided for during the financial year (refer to note 12)	**(37)**	(11)	**–**	–
Specific credit provisions				
– provided for during the financial year (refer to note 12)	**(85)**	(36)	**–**	–
– recovery of loans previously provided for (refer to note 12)	**35**	13	**–**	–
– loan losses written-off	**(27)**	(9)	**–**	–
– recovery of loans previously written-off	**6**	3	**–**	–
Other income***	**284**	272	**–**	–
Total other operating income and charges	**795**	1,624	**(2)**	–
Total operating income	**8,248**	7,181	**4**	–

* Included in the net trading income are fair value changes of $26 million for the year ending 31 March 2008 (31 March 2007: $68 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes $72 million profit as a result of changes in the credit spread on issued debt and subordinated debt carried at fair value. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. 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 2 (ix).

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

*** Included within other income is rental income of $282 million (2007: $169 million) less depreciation of $180 million (2007: $109 million) in relation to operating leases where the Group is the lessor.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 3. Profit for the financial year continued				
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(3,720)**	(3,362)	**(1)**	–
Share based payments	**(126)**	(87)	**–**	–
Provision for annual leave	**(21)**	(15)	**–**	–
Provision for long service leave	**(11)**	(8)	**–**	–
Total compensation expense	**(3,878)**	(3,472)	**(1)**	–
Other employment expenses including on-costs, staff procurement and staff training	**(299)**	(261)	**–**	–
Total employment expenses	**(4,177)**	(3,733)	**(1)**	–
Brokerage and commission expenses				
Brokerage expenses	**(561)**	(289)	**–**	–
Other fee and commission expenses	**(141)**	(132)	**–**	–
Total brokerage and commission expenses	**(702)**	(421)	**–**	–
Occupancy expenses				
Operating lease rentals	**(152)**	(151)	**–**	–
Depreciation: infrastructure, furniture, fittings and leasehold improvements (refer to note 20)	**(60)**	(36)	**–**	–
Other occupancy expenses	**(52)**	(39)	**–**	–
Total occupancy expenses	**(264)**	(226)	**–**	–
Non-salary technology expenses				
Information services	**(82)**	(64)	**–**	–
Depreciation: computer equipment and software (refer to note 20)	**(53)**	(38)	**–**	–
Other non-salary technology expenses	**(79)**	(61)	**–**	–
Total non-salary technology expenses	**(214)**	(163)	**–**	–
Other operating expenses				
Professional fees	**(228)**	(233)	**–**	–
Auditor's remuneration (refer to note 49)	**(18)**	(18)	**–**	–
Travel and entertainment expenses	**(200)**	(154)	**–**	–
Advertising and promotional expenses	**(46)**	(36)	**–**	–
Communication expenses	**(40)**	(34)	**–**	–
Depreciation: communication equipment (refer to note 20)	**(7)**	(7)	**–**	–
Other expenses	**(147)**	(228)	**(16)**	–
Total other operating expenses	**(686)**	(710)	**(16)**	–
Total operating expenses	**(6,043)**	(5,253)	**(17)**	–

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 4. Revenue from operating activities				
Interest and similar income	**6,698**	4,632	**381**	–
Fee and commission income	**4,610**	3,513	**–**	–
Premium income, investment revenue and management fees from life investment contracts and other unit holder businesses (note 18)	**211**	613	**–**	–
Net trading income	**1,835**	1,047	**–**	–
Profit on the sale of investment securities available for sale and associates and joint ventures	**683**	810	**–**	–
Other income/(expense) (excluding net gains on the sale of investment securities available for sale, associates and joint ventures)	**796**	1,108	**(2)**	–
Total revenue from operating activities	**14,833**	11,723	**379**	–

Note 5. Segment reporting
(i) Operating Segments

For internal reporting and risk management purposes, the Group is divided into seven operating Groups ("the Groups"). These Groups have been set up based on the differences in core products and services offered, and are outlined below.

Financial Services Group consists of two key Australasian-based divisions, Macquarie Adviser Services and Macquarie Private Wealth. Macquarie Adviser Services manages relationships with external financial intermediaries and provides sales services and product management of in-house and external products including retail superannuation. Macquarie Private Wealth provides a full-service stockbroking, investment planning, executive wealth management and private banking service.

Funds Management Group is one of Australia's largest fund managers and provides an innovative range of investment solutions to superannuation funds, corporations, financial advisers, platforms and retail investors in Australia and internationally.

Banking and Securitisation Group brings together Macquarie's retail lending and banking businesses.

Real Estate Group encompasses real estate funds management, finance, investing and advisory, development, securitisation, asset management and research.

Treasury and Commodities Group activities include trading and related activities in a broad range of financial and commodity markets. Activities range across foreign exchange, debt and futures, as well as agriculture, energy and metals commodities.

Equity Markets Group manages Macquarie's equity derivatives and trading business. It utilises its expertise in risk management and product structuring skills to design equity-based financial solutions and products for retail and wholesale clients. The group also operates Macquarie's stock borrowing & lending business.

Macquarie Capital includes the Macquarie Group's wholesale structuring, underwriting, corporate advisory, specialist funds management, private equity and specialised equipment financing, institutional stockbrokers and equities research.

Corporate includes the Group Treasury division and Head Office and central support functions. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, derivative volatility, income tax expense and profits attributable to minority interests. This is not considered to be an "Operating Group".

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

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

	Financial Services Group $m	Funds Manage-ment Group $m	Banking & Securitisation Group $m	Real Estate Group $m	Treasury & Commodities Group $m	Equity Markets Group $m	Macquarie Capital $m	Corporate $m	Total $m

Note 5. Segment reporting continued

									Consolidated 2008
Revenues from external customers	**733**	**398**	**2,860**	**513**	**1,942**	**2,564**	**4,982**	**713**	**14,705**
Inter-segmental revenue/(expense)*	**12**	**44**	**(536)**	**(166)**	**(202)**	**(424)**	**(325)**	**1,597**	**–**
Interest revenue	**10**	**3**	**2,741**	**203**	**895**	**1,261**	**825**	**760**	**6,698**
Interest expense	**–**	**–**	**(1,890)**	**(15)**	**(695)**	**(800)**	**(252)**	**(2,229)**	**(5,881)**
Depreciation and amortisation	**(10)**	**(1)**	**(10)**	**(2)**	**(8)**	**(4)**	**(198)**	**(60)**	**(293)**
Share of net profits/(losses) of associates and joint ventures using the equity method	**(1)**	**–**	**(7)**	**107**	**30**	**(2)**	**38**	**(9)**	**156**
Net operating expense from disposal groups held for sale	**–**	**–**	**–**	**–**	**–**	**–**	**(28)**	**–**	**(28)**
Reportable segment profit	**187**	**177**	**51**	**(81)**	**645**	**732**	**2,915**	**(2,823)**	**1,803**
Reportable segment assets	**2,623**	**3,989**	**38,569**	**3,748**	**38,521**	**38,460**	**23,710**	**17,630**	**167,250**
									Consolidated 2007
Revenues from external customers	828	406	2,183	676	1,790	1,314	4,240	3	11,440
Inter-segmental revenue/(expense)*	10	13	(407)	(121)	(190)	(407)	(408)	1,510	–
Interest revenue	1	2	2,041	160	1,003	602	645	178	4,632
Interest expense	–	–	(1,353)	(16)	(763)	(201)	(89)	(1,482)	(3,904)
Depreciation and amortisation	(7)	(1)	(5)	(2)	(4)	(2)	(126)	(43)	(190)
Share of net profits/(losses) of associates and joint ventures using the equity method	(1)	–	–	136	37	5	66	(1)	242
Net operating expense from disposal groups held for sale	–	–	–	–	–	–	41	–	41
Reportable segment profit	141	59	143	507	635	417	2,573	(3,012)	1,463
Reportable segment assets	2,646	3,854	31,876	3,391	28,630	41,034	20,255	4,703	136,389

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

(ii) Products and services
For the purposes of preparing a segment report based on products and services, the activities of the Group have been divided into four areas:

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

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

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

Lending: banking activities, mortgages, margin lending and leasing.

Notes to the financial statements
31 March 2008 continued

Note 5. Segment reporting continued
(ii) Products and services continued

	Asset and wealth management $m	Financial markets $m	Capital markets $m	Lending $m	Total $m
					Consolidated 2008
Revenues from external customers	**2,533**	**4,626**	**3,796**	**3,750**	**14,705**
					Consolidated 2007
Revenues from external customers	2,327	2,806	3,236	3,071	11,440

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

	Revenues $m	Non current assets* $m
		Consolidated 2008
Australia	**8,685**	**182**
Asia Pacific	**2,284**	**81**
Europe	**2,184**	**55**
North America	**1,510**	**550**
Other	**42**	**1**
Total	**14,705**	**869**
		Consolidated 2007
Australia	7,014	111
Asia Pacific	1,458	55
Europe	1,643	157
North America	1,314	155
Other	11	–
Total	11,440	478

* Non current assets consist of intangible assets and property, plant and equipment.

(iv) Major Customers
Macquarie Group Limited does not rely on any major customer.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 6. Income tax (expense)/benefit				
a) Income tax (expense)/benefit				
Current tax (expense)/benefit	**(536)**	(596)	**4**	–
Deferred tax benefit	**219**	219	**1**	–
Total	**(317)**	(377)	**5**	–
Deferred income tax revenue/(expense) included in income tax (expense)/benefit comprises:				
Increase in deferred tax assets	**260**	129	**1**	–
(Increase)/decrease in deferred tax liabilities	**(41)**	90	**–**	–
Total	**219**	219	**1**	–
b) Reconciliation of income tax (expense)/benefit to prima facie tax (payable)/receivable				
Prima facie income tax (expense)/benefit on operating profit/(loss)*	**(661)**	(578)	**4**	–
Tax effect of amounts which are (non deductible)/ non assessable in calculating taxable income:				
Rate differential on offshore income	**303**	195	**1**	–
Distribution provided on Macquarie Income Preferred Securities and similar distributions	**15**	16	**–**	–
Non-deductible options expense	**(38)**	(26)	**–**	–
Other items	**64**	16	**–**	–
Total income tax (expense)/benefit	**(317)**	(377)	**5**	–
c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in the income statement but directly recognised in equity:				
Net deferred tax – debited directly to equity	**2**	11	**–**	–
Total	**2**	11	**–**	–

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

As a consequence of an election made by the Company under the Income Tax Assessment Act 1997, the consolidated entity's Australian tax liabilities are determined according to tax consolidation legislation. The Company together with all eligible Australian resident wholly-owned subsidiaries of the Company represent a Tax Consolidated Group, with the Company 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 Company charges each controlled entity for all current tax liabilities incurred in respect of their activities and reimburses each controlled entity for current tax assets utilised, under the Group allocation method.

Should the Company 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 Company and entities in the Group.

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

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 7. Dividends paid and distributions paid or provided				
i) Dividends paid				
Ordinary share capital				
Interim dividend paid ($1.45* (2007: $1.25) per share)	398	312	395	–
2007 Final dividend paid ($1.90 (2006: $1.25) per share)	482	290	–	–
Total dividends paid	880	602	395	–

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

* Interim dividend paid by the Group includes $3 million of dividends paid to the holders of the exchangeable shares as detailed in note 33 – Contributed equity.

The Company's Dividend Reinvestment Plan ("DRP") remains activated. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares, without transaction costs, at a 2.5 per cent discount to the prevailing market value. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of fully paid ordinary shares issued pursuant to the DRP are included in note 33 – Contributed equity.

			Dividend per ordinary share	
Cash dividends per ordinary share (distribution of current year profits*)	$3.45	$3.15	$3.45	–

* The Australian Treasurer granted relief from section 254T of the Corporations Act to allow the Company to make dividend payments from distributions received from the profits of controlled entities that relate to the period prior to the restructure.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Franking credits available for the subsequent financial year at a corporate tax rate of 30 per cent (2007: 30 per cent)	133	176	133	–

The franked portion of dividends proposed as at 31 March 2008 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax payable at the end of the financial year.

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

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

ii) Dividends not recognised at the end of the financial year
Since the end of the financial year the Directors have recommended the payment of the 2008 final dividend of $2.00 per fully paid ordinary share, 100 per cent franked based on tax paid at 30 per cent. The aggregate amount of the proposed dividend expected to be paid on 4 July 2008 out of retained profits at 31 March 2008, but not recognised as a liability at the end of the financial year, is $552 million (including $3 million to be paid by a controlled entity to the holders of the exchangeable shares – refer to note 33 for further details of these instruments). This amount has been estimated based on the number of shares eligible to participate as at 31 March 2008.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 7. Dividends paid and distributions paid or provided continued				
iii) Distributions paid or provided				
Macquarie Income Securities				
Distributions paid (net of distributions previously provided)	**27**	24	**–**	–
Distributions provided	**7**	7	**–**	–
Total distributions paid or provided	**34**	31	**–**	–

The Macquarie Income Securities ("MIS") represent the minority interest of a consolidated entity. Accordingly, the distributions paid/provided in respect of the Macquarie Income Securities are recorded as movements in minority interest, as disclosed in note 34 – Reserves, retained earnings and minority interest. No dividends are payable under the preference shares until MBL, a consolidated entity, exercises its option to receive future payments of interest and principal under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to MBL Directors' discretion. Refer to note 34 – Reserves, retained earnings and minority interest for further details on these instruments.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided)	**28**	30	**–**	–
Distributions provided	**22**	24	**–**	–
Total distributions paid or provided	**50**	54	**–**	–

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

	Consolidated 2008	Consolidated 2007
Note 8. Earnings per share		**Cents per share**
Basic earnings per share	**670.6**	591.6
Diluted earnings per share	**653.5**	569.8
	$m	$m
Reconciliation of earnings used in the calculation of basic and diluted earnings per share		
Profit from ordinary activities after income tax	**1,888**	1,551
Profit attributable to minority interest:		
Macquarie Income Preferred Securities	**(50)**	(54)
Macquarie Income Securities	**(34)**	(31)
Other equity holders	**(1)**	(3)
Total earnings used in the calculation of basic and diluted earnings per share	**1,803**	**1,463**
		Number of shares
Total weighted average number of ordinary shares used in the calculation of basic earnings per share	**268,854,950**	247,313,494
Weighted average number of shares used in the calculation of diluted earnings per share		
Weighted average fully paid ordinary shares	**268,854,950**	247,313,494
Potential ordinary shares:		
Weighted average options	**7,023,038**	9,441,575
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**275,877,988**	256,755,069

Notes to the financial statements
31 March 2008 continued

Note 8. Earnings per share continued
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 1,775,747 (2007: 1,998,451) options that were converted, lapsed or cancelled during the financial year. There are a further 13,590,312 (2007: 1,765,225) options that have not been included in the balance of weighted average options on the basis that their adjusted exercise price was greater than the average market price of the Company's fully paid ordinary shares for the financial year ended 31 March 2008 and consequently, they are not considered to be dilutive.

On 13 November 2007, the date of the restructure of the Macquarie Group, all MBL options were cancelled and reissued by MGL, the new ultimate parent entity. This action has had no financial impact on the Group as the MGL options were issued with the same terms, conditions and vesting dates as the original MBL options.

	Consolidated 2008 $m	Consolidated 2007 $m	**Company 2008 $m**	Company 2007 $m
Note 9. Due from banks				
Cash at bank*	**3,136**	1,671	**–**	–
Overnight cash at bank	**2,134**	936	**–**	–
Other loans to banks	**4,034**	3,380	**–**	–
Due from clearing houses	**806**	133	**–**	–
Total due from banks	**10,110**	6,120	**–**	–

* Included within this balance is $119 million (2007: $nil) provided as security over payables to other financial institutions.

	Consolidated 2008 $m	Consolidated 2007 $m	**Company 2008 $m**	Company 2007 $m
Note 10. Cash collateral on securities borrowed and reverse repurchase agreements				
Central banks	**14**	–	**–**	–
Governments*	**225**	754	**–**	–
Financial institutions	**22,136**	24,650	**–**	–
Other	**531**	505	**–**	–
Total cash collateral on securities borrowed and reverse repurchase agreements	**22,906**	25,909	**–**	–

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

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 11. Trading portfolio assets				
Trading securities				
Equities and other securities	**12,102**	12,114	**–**	–
Promissory notes	**1,303**	809	**–**	–
Commonwealth government bonds	**807**	71	**–**	–
Corporate bonds	**734**	1,496	**–**	–
Other government securities	**258**	350	**–**	–
Foreign government bonds	**256**	6	**–**	–
Certificates of deposit	**198**	426	**–**	–
Bank bills	**45**	159	**–**	–
Total trading securities	**15,703**	15,431	**–**	–
Other trading assets				
Commodities	**104**	87	**–**	–
Total other trading assets	**104**	87	**–**	–
Total trading portfolio assets	**15,807**	15,518	**–**	–

Trading assets pledged as security
Included in the balance of equities and other securities, certificates of deposit and bank bills are assets provided as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is $1,348 million (2007: $971 million).

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 12. Loan assets held at amortised cost				
Due from clearing houses	**1,558**	2,827	**–**	–
Due from governments	**219**	165	**–**	–
Due from other entities				
Other loans and advances*	**44,962**	38,346	**–**	–
Less specific provisions	**(111)**	(71)	**–**	–
	44,851	38,275	**–**	–
Lease receivables**	**5,907**	4,620	**–**	–
Total due from other entities	**50,758**	42,895	**–**	–
Total gross loan assets	**52,535**	45,887	**–**	–
Less collective allowance for credit losses	**(128)**	(91)	**–**	–
Total loan assets held at amortised cost	**52,407**	45,796	**–**	–

* Included within this balance are mortgage loans of $21,710 million (2007: $20,034 million) held by consolidated mortgage SPEs which are available as security to noteholders and debt providers.
** Included within this balance is $2,916 million (2007: $1,631 million) provided as security over issued notes and payables to other external investors and financial institutions.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Specific provisions				
Balance at the beginning of the financial year	**71**	52	**–**	–
Provided for during the financial year	**85**	36	**–**	–
Loan assets written-off, previously provided for	**(9)**	(4)	**–**	–
Recovery of loans previously provided for	**(35)**	(13)	**–**	–
Attributable to foreign currency translation	**(1)**	–	**–**	–
Total specific provisions	**111**	71	**–**	–
Specific provisions as a percentage of gross loan assets	**0.21%**	0.15%	**–**	–

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

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Collective allowance for credit losses				
Balance at the beginning of the financial year	**91**	80	**–**	–
Provided for during the financial year	**37**	11	**–**	–
Total collective allowance for credit losses	**128**	91	**–**	–

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

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 13. Impaired assets				
Impaired assets have been reported in accordance with AASB 139 and include loan assets and impaired items in respect of unrecognised contingent commitments.				
Impaired debt investment securities available for sale with specific provisions for impairment	264	–	–	–
Less specific provisions	(56)	–	–	–
Impaired loan assets and other financial assets with specific provisions for impairment	285	166	–	–
Less specific provisions	(120)	(78)	–	–
Total net impaired assets	373	88	–	–
Note 14. Other financial assets at fair value through profit or loss				
Investment securities	684	789	–	–
Loan assets	3,447	1,990	–	–
Total other financial assets at fair value through profit or loss	4,131	2,779	–	–
Note 15. Other assets				
Security settlements*	4,682	3,580	–	–
Debtors and prepayments**	4,099	5,549	1	–
Assets under operating lease***	1,508	975	–	–
Property held for sale and development**	232	336	–	–
Other	18	4	–	–
Total other assets	10,539	10,444	1	–

* Security settlements are receivable within three working days of the relevant trade date.
** Included within these balances is $371 million of debtors and prepayments (2007: $383 million) and $86 million (2007: $309 million) of property held for sale and development which are provided as security over amounts payable to other financial institutions.
*** Assets under operating lease are stated net of accumulated depreciation of $429 million (2007: $158 million). Included within this balance is $653 million (2007: $nil) provided as security over payables to other financial institutions.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 16. Investment securities available for sale				
Equity securities				
Listed*	736	617	–	–
Unlisted**	338	377	–	–
Debt securities*** #	15,380	5,066	–	–
Total investment securities available for sale	16,454	6,060	–	–

* Included within this balance is $23 million (2007: $nil) provided as security over payables to other financial institutions.
** Included within this balances is $nil (2007: $155 million) provided as security over payables to other financial institutions.
*** Included within this balance are debt securities of $461 million (2007: $471 million) which are recognised as a result of total return swaps. The Group does not have legal title to these assets but has full economic exposure to them.
# Includes $13,213 million (2007: $2,245 million) of Negotiable Certificates of Deposit ("NCD") due from financial institutions and $268 million (2007: $474 million) of bank bills.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 17. Intangible assets				
Goodwill	**376**	39	**–**	–
Capitalised software	**–**	17	**–**	–
Other identifiable intangibles	**118**	44	**–**	–
Total intangible assets	**494**	100	**–**	–

Reconciliation of the Group's movement in intangible assets:

	Goodwill $m	Capitalised software $m	Other identifiable intangibles $m	Total $m
Balance at the beginning of the financial year	**39**	**17**	**44**	**100**
Acquisitions during the financial year	**360**	**–**	**89**	**449**
Disposals during the financial year	**–**	**–**	**(7)**	**(7)**
Amortisation expense for the financial year	**–**	**(17)**	**(8)**	**(25)**
Currency translation difference arising during the financial year	**(23)**	**–**	**–**	**(23)**
Balance at the end of the financial year	**376**	**–**	**118**	**494**

Note 18. Life investment contracts and other unit holder investment assets	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Cash and due from banks	**81**	63	**–**	–
Debt securities	**787**	865	**–**	–
Units in unit trusts	**4,640**	4,675	**–**	–
Equity securities	**191**	244	**–**	–
Total life investment contracts and other unit holder investment assets	**5,699**	5,847	**–**	–

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 (note 4)	**211**	613	**–**	–
Life investment contract claims, reinsurance and changes in policy liabilities	**(166)**	(578)	**–**	–
Direct fees	**(10)**	(8)	**–**	–
Total income from life investment contracts and other unit holder assets (note 3)	**35**	27	**–**	–

Solvency

Solvency requirements for the life investment contracts business have been met at all times during the financial year. As at 31 March 2008, the life investment contracts business had investment assets in excess of policy holder liabilities of $10 million (2007: $66 million).

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31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 19. Interest in associates and joint ventures using the equity method				
Interest in associates and joint ventures using the equity method				
Loans and investments without provisions for impairment	**5,039**	4,016	**–**	–
Loans and investments with provisions for impairment	**766**	60	**–**	–
Less provision for impairment*	**(305)**	(5)	**–**	–
Loans and investments at recoverable amount	**461**	55	**–**	–
Total interest in associates and joint ventures using the equity method**	**5,500**	4,071	**–**	–

Investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity (refer to note 2(ii)).

The fair values of interest in material associates and joint ventures exceeded their carrying amounts by $199 million (2007: $739 million).

* The investments in Macquarie CountryWide Trust and Macquarie Office Trust were written down to their fair value, which is based on their publicly quoted market prices at 31 March 2008 as an estimate of their value in use.

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

	Consolidated 2008 $m	Consolidated 2007 $m
(a) Reconciliation of movement in the Group's investment in associates and joint ventures using the equity method:		
Balance at the beginning of the financial year	**4,071**	3,463
Associates acquired/equity contributed	**3,068**	1,542
Share of pre-tax profits of associates and incorporated joint ventures	**223**	345
Share of tax expense of associates and incorporated joint ventures	**(67)**	(103)
Dividends received/receivable from associates	**(315)**	(374)
Associates disposed of	**(936)**	(720)
Investments in associates provided for/written-off	**(300)**	2
Foreign exchange and other adjustments	**(104)**	(100)
Transferred (from)/to held for sale, available for sale	**(140)**	16
Balance at the end of the financial year	**5,500**	4,071

Note 19. Interest in associates and joint ventures using the equity method continued
Interest in associates and joint ventures using the equity method continued
(b) Summarised information of certain interests in material associates and joint ventures is as follows:

Name of entity	Country of Incorporation	Reporting date	Ownership interest 2008 %	2007 %
Macquarie Airports (a)**	Australia	31 December	**20**	16
Macquarie Infrastructure Group (a)**	Australia	30 June	**8**	2
Diversified CMBS Investments Inc (c)*	USA	31 March	**57**	57
Macquarie Communications Infrastructure Group (a)**	Australia	30 June	**17**	12
Redford Australian Investment Trust (a)	Australia	30 June	**27**	27
Macquarie MEAG Prime REIT (b)	Singapore	31 December	**26**	24
Macquarie Countrywide Trust (b)**	Australia	30 June	**10**	9
Macquarie Media Group (e)***	Australia	30 June	**22**	22
Macquarie Capital Alliance Group (c)**	Australia	30 June	**18**	17
Macquarie Diversified (AA) Trust (c)	Australia	31 March	**19**	28
European Directories SA (d)***	Luxembourg	31 December	**13**	13
Macquarie Office Trust (b)**	Australia	30 June	**7**	6
Macquarie AirFinance Limited (a)#	Bermuda	31 December	**34**	34
Macquarie European Infrastructure Fund LP (a)**	UK	31 March	**5**	5
Macquarie Goodman Japan Limited (b)***	Singapore	30 June	**50**	–
Euro Gaming Limited (e)	UK	31 December	**–**	50

* Voting rights for this investment are not proportional to the ownership interest. The Group has joint control because neither the Group nor its fellow investors have control in their own right.
** The Group has significant influence due to its fiduciary relationship as manager of these entities.
*** Significant influence arises due to the Group's voting power and board representation.
\# In the prior year, the entity was reported as Macquarie Aircraft Leasing Limited, incorporated in Ireland.

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

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
(c) Contingent liabilities of associates and joint ventures are as follows:				
Share incurred jointly with other investors	**1**	24	**–**	–
For which the Group is severally liable	**–**	146	**–**	–
(d) Aggregated financial information of interests in associates and joint ventures are as follows:				
Group's share of:				
Assets	**16,300**	9,472	**–**	–
Liabilities	**10,724**	5,806	**–**	–
Revenues	**1,809**	1,359	**–**	–
Profit	**156**	242	**–**	–

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 20. Property, plant and equipment				
Furniture, fittings and leasehold improvements				
Cost	449	309	–	–
Less accumulated depreciation	(172)	(109)	–	–
Total furniture, fittings and leasehold improvements	277	200	–	–
Communication equipment				
Cost	33	29	–	–
Less accumulated depreciation	(25)	(22)	–	–
Total communication equipment	8	7	–	–
Computer equipment				
Cost	293	249	–	–
Less accumulated depreciation	(219)	(176)	–	–
Total computer equipment	74	73	–	–
Infrastructure assets				
Cost	17	106	–	–
Less accumulated depreciation	(1)	(8)	–	–
Total infrastructure assets	16	98	–	–
Total property, plant and equipment	375	378	–	–

	Furniture, fittings and leasehold improvements $m	Com-munication equipment $m	Computer equipment $m	Infrastructure assets $m	Total $m
Reconciliation of the movement in the Group's property, plant and equipment at their written-down value:					
Balance at the beginning of the financial year	200	7	73	98	378
Acquisitions	171	10	61	10	252
Disposals	(29)	(2)	(5)	–	(36)
Reclassification*	–	–	–	(90)	(90)
Foreign exchange movements	(7)	–	(2)	–	(9)
Depreciation expense	(58)	(7)	(53)	(2)	(120)
Balance at the end of the financial year	277	8	74	16	375

Fixed assets pledged as security

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

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

Note 21. Investments in controlled entities

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

ConnectEast Management Limited
Diversified CMBS Australia Holdings Pty Limited
M&I Debt Investments 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
Macquarie Australia Securities Limited
Macquarie B.H. Pty Limited
Macquarie Bank Limited
Macquarie Capital Advisers Limited
Macquarie Capital Alliance Management Limited
Macquarie Capital Funding L.P. (United Kingdom)
Macquarie Capital Funds Limited
Macquarie Capital Funds (Europe) Limited (formerly Macquarie Investment Management (UK) Limited) (United Kingdom)
Macquarie Capital Group Limited
Macquarie Capital International Holdings Pty Limited
Macquarie Capital Korea Co Limited (Korea)
Macquarie Capital Loans Management Limited (formerly Macquarie Infrastructure Debt Management Limited)
Macquarie Capital Securities (Australia) Limited (formerly Macquarie Securities (Australia) Limited)
Macquarie CLO Investments No.1 Pty Limited
Macquarie Communications Infrastructure Management Limited
Macquarie Corporate Finance Limited
Macquarie Countrywide Management Limited
Macquarie Direct Property Management Limited
Macquarie Equities (US) Holdings Pty. Limited
Macquarie Equity Capital Markets Limited
Macquarie Finance Limited
Macquarie Financial Holdings 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 Group Services Australia Pty Limited
Macquarie Holdings (U.S.A.) Inc (United States)
Macquarie Hong Kong Finance Limited (Cayman Islands) *
Macquarie Inc (United States)
Macquarie Infrastructure Investment Management Limited
Macquarie Infrastructure Management (Asia) Pty Limited
Macquarie Infrastructure Management (USA) Inc (United States)
Macquarie International Finance Limited
Macquarie Investment Holdings No.2 Pty Limited
Macquarie Investment Management (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 Health Clubs Pty Limited
Macquarie Leisure Management Limited
Macquarie Office Investments Pty Limited
Macquarie Office Management Limited
Macquarie Pastoral Management Limited

Notes to the financial statements
31 March 2008 continued

Note 21. Investments in controlled entities continued
Macquarie Property Investment Management 2 Limited
Macquarie Property Investment Management 5 Limited
Macquarie Property Investment Management 6 Limited
Macquarie Real Estate Korea Limited (formerly Macquarie Property Advisors Korea Limited) (Korea)
Macquarie Securities South Africa (Proprietary) Limited (South Africa)
Macquarie Securitisation Limited
Macquarie Specialised Asset Management (Bermuda) Limited (Bermuda)
Macquarie Specialised Asset Management 2 Limited
Macquarie Specialised Asset Management Limited

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

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

	Consolidated 2008 $m	Consolidated 2007 $m	**Company 2008 $m**	Company 2007 $m
Note 22. Deferred income tax assets/(liabilities)				
The balance comprises temporary differences attributable to:				
Provisions and accrued expenses	**904**	868	**1**	–
Tax losses	**70**	37	**–**	–
Fixed assets	**30**	20	**–**	–
Set-off of deferred tax liabilities	**(286)**	(468)	**–**	–
Total deferred income tax assets	**718**	457	**1**	–
Financial instruments	**(172)**	(386)		
Investments in associated and controlled entities	**(154)**	(82)	**–**	–
Available for sale financial assets	**(81)**	(78)	**–**	–
Set-off of deferred tax assets	**286**	468	**–**	–
Total deferred income tax liabilities	**(121)**	(78)	**–**	–
Net deferred income tax assets	**597**	379	**1**	–

Potential tax assets of approximately $68 million (2007: $52 million) attributable to tax losses carried forward by controlled entities have not been brought to account in the controlled entities and in the Group as the Directors do not believe the realisation of the tax assets is probable.

The Group's Australian tax liabilities are determined pursuant to tax consolidation legislation. All eligible Australian resident wholly-owned controlled entities of the Company represent a Tax Consolidated Group. Under the terms and conditions of a tax contribution agreement, the Company, 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 Company 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 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 23. Non current assets and disposal groups classified as held for sale				
Non current assets and assets of disposal groups classified as held for sale				
Associates held for sale*	**582**	750	**–**	–
Other non-current assets	**74**	–	**–**	–
Assets of disposal groups held for sale** #	**311**	244	**–**	–
Total non current assets and assets of disposal groups classified as held for sale	**967**	994	**–**	–

* Included within this balance are assets with a carrying value of $nil (2007: $409 million) provided as security over payables to other financial institutions.

** Included within this balance are assets with a carrying value of $243 million (2007: $34 million) provided as security over payables to other financial institutions.

\# This year's balance includes the assets of Taurus Aerospace Group Inc. and Longview Oil and Gas. The prior year balance represents the assets of ATM solutions and Longview Oil and Gas.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Liabilities of disposal groups classified as held for sale				
Total liabilities of disposal groups classified as held for sale##	**215**	170	**–**	–

\#\# This year's balance includes the liabilities of Taurus Aerospace Group Inc. and Longview Oil and Gas. The prior year balance represents the liabilities of ATM Solutions and Longview Oil and Gas.

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

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

Name of entity	Country of Incorporation	Reporting date	Ownership interest 2008 %	Ownership interest 2007 %
New World Gaming Partners Limited (a)	Canada	31 December	**50**	–
MEO Holdings Limited (b) +	Bermuda	30 June	**59**	–
International Infrastructure Holdings Limited (c)	Australia	31 December	**25**	–
Macquarie New York Parking 2 LLC (d) ^ @	USA	31 December	**7**	53
Taiwan Cable TV Investments Sarl (e) ^^	Taiwan	31 December	**–**	20
Retirement Villages Group (f) @	Australia	30 June	**10**	48
Lane Cove Tunnel Holding Company Pty Limited (c)	Australia	31 December	**–**	19

All associates and jointly-controlled entities classified as held for sale are unlisted companies.

Voting power is equivalent to ownership interest unless otherwise stated.

\+ At 31 March 2008, the Group had joint control because neither the Group nor its fellow investors had control in their own right.

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

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

@ The Group's interests in these entities were reclassified from held for sale to interest in associates and joint ventures during the financial year.

(a) Gambling infrastructure
(b) Offshore marine support operations
(c) Infrastructure
(d) Retail parking stations
(e) Media, television and internet investments
(f) Retirement homes

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	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 23. Non current assets and assets/liabilities of disposal groups classified as held for sale continued				
(b) For associates and jointly-controlled entities classified as held for sale, the Group's share of contingent liabilities is as follows:				
Share incurred jointly with other investors	–	–	–	–
For which the Group is severally liable	–	–	–	–
(c) For associates and jointly-controlled entities classified as held for sale, aggregated financial information is as follows:				
Group's share of:				
Assets	1,263	2,542	–	–
Liabilities	870	1,917	–	–
Revenues	79	372	–	–
Operating loss	(53)	–	–	–
Note 24. Due to banks				
OECD banks	8,537	3,056	4,864	–
OECD central banks	131	229	–	–
Clearing houses*	373	174	–	–
Other	1,000	668	–	–
Total due to banks	10,041	4,127	4,864	–

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

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 25. Cash collateral on securities lent and repurchase agreements				
Central banks	317	1,018	–	–
Governments	68	–	–	–
Financial institutions	12,397	5,730	–	–
Other	999	741	–	–
Total cash collateral on securities lent and repurchase agreements	13,781	7,489	–	–
Note 26. Trading portfolio liabilities				
Listed equity securities	7,604	14,258	–	–
Commonwealth government securities	4,053	1,243	–	–
Other government securities	154	352	–	–
Corporate securities	14	69	–	–
Total trading portfolio liabilities	11,825	15,922	–	–

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 27. Debt issued at amortised cost				
Debt issued at amortised cost*	**57,115**	51,365	**–**	–
Total debt issued at amortised cost	**57,115**	51,365	**–**	–

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

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 28. Other financial liabilities at fair value through profit or loss				
Debt issued at fair value	**254**	1,229	**–**	–
Equity linked notes	**6,034**	4,323	**–**	
Total other financial liabilities at fair value through profit or loss	**6,288**	5,552	**–**	–
Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:				
Australian dollars	**42,143**	28,596	**–**	–
United States dollars	**7,730**	15,936	**–**	–
Euro	**5,170**	5,120	**–**	–
Canadian dollars	**2,547**	214	**–**	–
Great British pounds	**2,133**	3,467	**–**	–
Japanese yen	**1,624**	571	**–**	–
Hong Kong dollars	**896**	1,592	**–**	–
Singapore dollars	**621**	240	**–**	–
Other currencies	**539**	1,181	**–**	–
Total by currency	**63,403**	56,917	**–**	–

The Group's primary sources of domestic and international debt funding are its multi-currency, multi-jurisdictional Debt Instrument Program and domestic NCD issuance. Securities can be issued for terms varying from one day to 30 years.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 29. Other liabilities				
Due to brokers and customers*	**5,016**	3,034	**–**	–
Accrued charges and sundry provisions	**3,993**	3,556	**–**	–
Creditors	**3,010**	5,166	**–**	–
Other	**191**	202	**–**	–
Total other liabilities	**12,210**	11,958	**–**	–

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

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 30. Provisions				
Provision for annual leave	**86**	69	**–**	–
Provision for long service leave	**64**	53	**–**	–
Provision for dividend	**29**	31	**–**	–
Total provisions	**179**	153	**–**	–

Notes to the financial statements
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Note 31. Capital

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

The Group's capital management objectives are to:

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

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

The Group is subject to minimum capital requirements externally imposed by APRA and from 1 January 2008, a Group controlled entity, Macquarie Bank Limited, has been granted accreditation by APRA to adopt the Basel II Foundation Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk. Prior to 1 January 2008, the Group reported to APRA under the prudential requirements referred to as Basel 1.

Regulatory capital requirements are measured at three levels of consolidation within the Group. MBL and certain controlled entities which meet the APRA definition of extended licensed entities are reported as "Level 1". "Level 2" consists of MBL, its controlled entities and its immediate parent less certain controlled entities of MBL which are deconsolidated for APRA reporting purposes. These include entities conducting insurance, funds management, non-financial operations and special purpose vehicles. "Level 3" consists of the Level 2 groups plus the Non-Banking Group. APRA requires Authorised Deposit-taking Institutions ("ADIs") to have a minimum ratio of capital to risk-weighted assets ("RWAs") of 8 per cent at both Level 1 and Level 2, with at least 4 per cent of this capital in the form of tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. Macquarie internal capital policy set by the Board requires capital floors above this regulatory required level. Under the Non-Operating Holding Company structure, APRA has imposed minimum regulatory capital requirements calculated as the sum of the dollar value of:

– MBL's minimum tier 1 capital requirement, based on a percentage of RWA's plus tier 1 deductions using prevailing APRA ADI Prudential Standards; and
– The non-ADI group capital requirement, using the Group's ECM. Transactions internal to the Macquarie Group are excluded.

The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The Group's Level 3 eligible capital is defined by APRA as Group Capital (ordinary equity plus reserves plus hybrids) less regulatory adjustments required for the Banking Group, less certain reserves of the Non-Banking Group.

The Group has satisfied its externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the year.

Note 32. Loan capital
Subordinated debt

Agreements between the Group 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 Group.

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

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Subordinated debt				
At call	**6**	–	**–**	–
30 March 2009	**7**	–	**–**	–
18 February 2013	**–**	227	**–**	–
2 May 2013	**25**	25	**–**	–
20 June 2013	**346**	332	**–**	–
15 September 2014	**301**	301	**–**	–
18 September 2015	**383**	432	**–**	–
19 September 2016	**372**	486	**–**	–
6 December 2016	**605**	576	**–**	–
31 May 2017	**305**	292	**–**	–
Total subordinated debt	**2,350**	2,671	**–**	–
Reconciliation of subordinated debt by major currency:				
Euro	**951**	908	**–**	–
Australian dollars	**569**	845	**–**	–
Great British pounds	**434**	486	**–**	–
United States dollars	**383**	432	**–**	–
Canadian dollars	**13**	–	**–**	–
Total subordinated debt by currency	**2,350**	2,671	**–**	–

In accordance with APRA guidelines, Macquarie Bank Limited, a controlled entity, includes the applicable portion of its loan capital principal as Tier 2 capital.

Notes to the financial statements
31 March 2008 continued

	2008 Number of shares	Consolidated 2007 Number of shares	2008 $m	Consolidated 2007 $m
Note 33. Contributed equity				
Ordinary share capital				
Opening balance of fully paid ordinary shares	**253,941,205**	232,440,369	**3,103**	1,916
Issue of 10,606,061 ordinary shares on 22 May 2006 at $66.00 per share	**–**	10,606,061	**–**	696
Issue of 8,620,690 ordinary shares on 21 May 2007 at $87.00 per share	**8,620,690**	–	**745**	–
On-market purchase of shares pursuant to the Macquarie Bank Staff Share Acquisition Plan ("MBSSAP") and Non Executive Directors Share Acquisition Plan ("NEDSAP") at $88.67 (2007: $67.94) per share	**(313,615)**	(288,009)	**(28)**	(20)
Allocation of shares to employees pursuant to the MBSSAP and NEDSAP at $88.67 (2007: $67.94) per share	**313,615**	288,009	**28**	20
On-market purchase of shares pursuant to the Macquarie Group Staff Share Acquisition Plan ("MGSSAP") and NEDSAP at $75.99 per share	**(12,664)**	–	**(1)**	–
Allocation of shares to employees pursuant to the MGSSAP and NEDSAP at $75.99 per share	**12,664**	–	**1**	–
Issue of shares on exercise of options	**7,260,989**	7,536,936	**263**	239
Issue of shares on 23 June 2006 pursuant to the Share Purchase Plan at $66.00 per share	**–**	137,947	**–**	9
Issue of shares on 25 June 2007 pursuant to the Share Purchase Plan at $87.00 per share	**912,076**	–	**79**	–
Issue of shares on 12 January 2007 pursuant to the Employee Share Plan effectively at $76.82 per share	**–**	21,632	**–**	2
Issue of shares on 11 January 2008 pursuant to the Employee Share Plan effectively at $70.39 per share	**24,290**	–	**2**	–
Issue of shares on 5 July 2006 pursuant to the Dividend Reinvestment Plan ("DRP") at $63.60 per share	**–**	1,523,326	**–**	97
Issue of shares on 15 December 2006 pursuant to the DRP at $70.23 per share	**–**	1,674,934	**–**	117
Issue of shares on 4 July 2007 pursuant to the DRP at $86.44 per share	**2,146,392**	–	**185**	–
Issue of shares on 30 January 2008 pursuant to the DRP at $68.38 per share	**1,665,095**	–	**114**	–
Issue of shares on 22 February 2008 pursuant to the DRP at $68.38 per share	**103**	–	**–**	–
Transfer from share based payments reserve for expensed options that have been exercised	**–**	–	**43**	27
Closing balance of fully paid ordinary shares	**274,570,840**	253,941,205	**4,534**	3,103

As at 31 March 2008, 39,035,761 (2007: 34,358,273) options granted to employees over unissued ordinary shares had not been exercised. For further information regarding the terms and conditions of the issue of options and shares to employees refer to note 38 – Employee equity participation.

	Company 2008 Number of shares	Company 2007 Number of shares	Company 2008 $m	Company 2007 $m
Note 33. Contributed equity continued				
Ordinary share capital				
Opening balance of fully paid ordinary shares	2	–	–	–
Issue of 2 ordinary shares on 12 October 2006 at $1.00 per share	–	2	–	–
Redemption of share capital via reverse acquisition on 13 November 2007 (note 1)	(2)	–	–	–
Issue of ordinary shares to Macquarie Bank Limited shareholders on a one-for-one basis on 13 November 2007 (note 1)	271,086,657	–	23,982	–
On-market purchase of shares pursuant to the MGSSAP and NEDSAP at $75.99 per share	(12,664)	–	(1)	–
Allocation of shares to employees pursuant to the MGSSAP and NEDSAP at $75.99 per share	12,664	–	1	–
Issue of shares on exercise of options	1,794,695	–	68	–
Issue of shares on 11 January 2008 pursuant to the Employee Share Plan effectively at $70.39 per share	24,290	–	2	–
Issue of shares on 30 January 2008 pursuant to the DRP at $68.38 per share	1,665,095	–	114	–
Issue of shares on 22 February 2008 pursuant to the DRP at $68.38 per share	103	–	–	–
Transfer from share based payments reserve for expensed options that have been exercised	–	–	14	–
Closing balance of fully paid ordinary shares	**274,570,840**	2	**24,180**	–

On 13 November 2007, the date of the implementation of the Macquarie Group restructure, MBL shareholders received shares in MGL on a one-for-one basis (with the exception of ineligible foreign shareholders). This resulted in the issue of 271,086,657 MGL ordinary shares.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Treasury shares	(12)	(7)	–	–
Exchangeable shares				
Exchangeable to shares in Macquarie Group Limited on a 1:1 basis	133	–	–	–
Total exchangeable shares	**133**	–	–	–

The exchangeable shares were issued by a controlled entity in November 2007 as cash consideration for the acquisition of Orion Financial Inc and are classified as equity in accordance with AASB 132 Financial Instruments: Presentation. They are eligible to be exchanged 1:1 for shares in Macquarie Group Limited (subject to staff trading restrictions) and will pay dividends equal to the Macquarie Group Limited dividends during their legal life. The exchangeable shares will expire in November 2017 and carry no Macquarie Group Limited voting rights.

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 34. Reserves, retained earnings and minority interest				
Reserves				
Foreign currency translation reserve				
Opening balance	1	4	–	–
Currency translation differences arising during the financial year, net of hedge	(20)	(3)	–	–
Total foreign currency translation reserve	(19)	1	–	–
Available for sale reserve				
Opening balance	228	151	–	–
Revaluation movement for the financial year, net of tax	33	175	–	–
Transfer to profit on realisation	(38)	(98)	–	–
Total available for sale reserve	223	228	–	–
Share-based payments reserve				
Opening balance	144	84	–	–
Option expense for the financial year	126	87	–	–
Options issued to controlled entity employees	–	–	56	–
Transfer to share capital on exercise of expensed options	(43)	(27)	(14)	–
Total share-based payments reserve	227	144	42	–
Cash flow hedging reserve				
Opening balance	10	2	–	–
Revaluation movement for the financial year, net of tax	24	8	–	–
Total cash flow hedging reserve	34	10	–	–
Share of reserves of interests in associates and joint ventures using the equity method				
Opening balance	(3)	9	–	–
Share of reserves during the financial year	(6)	(12)	–	–
Total share of reserves of interests in associates and joint ventures using the equity method	(9)	(3)	–	–
Total reserves	456	380	42	–

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 34. Reserves, retained earnings and minority interest continued				
Retained earnings				
Balance at the beginning of the financial year	**2,795**	1,934	**–**	–
Profit/(loss) attributable to ordinary equity holders of Macquarie Group Limited	**1,803**	1,463	**(8)**	–
Dividends paid on ordinary share capital (note 7)	**(880)**	(602)	**(396)**	–
Balance at the end of the financial year	**3,718**	2,795	**(404)**	–
Minority interest				
Macquarie Income Preferred Securities*				
Proceeds on issue of Macquarie Income Preferred Securities	**894**	894	**–**	–
Issue costs	**(10)**	(10)	**–**	–
	884	884	**–**	–
Retained Profits	**50**	54	**–**	–
Distribution provided on Macquarie Income Preferred Securities	**(50)**	(54)	**–**	–
Foreign currency translation reserve	**(132)**	(43)	**–**	–
Total Macquarie Income Preferred Securities	**752**	841	**–**	–
Macquarie Income Securities**				
4,000,000 Macquarie Income Securities of $100 each	**400**	400	**–**	–
Less transaction costs for original placement	**(9)**	(9)	**–**	–
Total Macquarie Income Securities	**391**	391	**–**	–
Other minority interest				
Ordinary share capital	**84**	9	**–**	–
Preference share capital	**6**	6	**–**	–
Accumulated (losses)/gains	**(1)**	1	**–**	–
Total other minority interest	**89**	16	**–**	–
Total minority interest	**1,232**	1,248	**–**	–

* On 22 September 2004, Macquarie Capital Funding LP, a member of the Group, issued £350 million of MIPS. MIPS – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent (2007: 6.177 per cent) semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at MGL's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent (2007: 2.35 per cent) per annum above the then five-year benchmark sterling gilt rate. MIPS may be redeemed on each fifth anniversary thereafter at MGL's discretion. The first coupon was paid on 15 April 2005.
The instruments are reflected in the Group's financial statements as a minority interest, with distribution entitlements being included with the minority interest share of profit after tax.

** The Macquarie Income Securities issued by MBL, a controlled entity, were listed for trading on the Australian Stock Exchange (now Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7 per cent p.a. (2007: 1.7 per cent p.a.). Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

These instruments are classified as equity in accordance with AASB 132: *Financial Instruments: Presentation* and reflected in the Group's financial statements as minority interest, with distribution entitlements being included with minority interests' share of profit after tax.

Distribution policies for these instruments are included in note 7 to the financial statements.

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 35. Notes to the cash flow statements				
Reconciliation of cash				
Cash at the end of the financial year as shown in the cash flow statements is reconciled to related items in the Balance Sheet as follows:				
Cash and balances with central banks	7	3	–	–
Due from other financial institutions			–	
– due from banks*	10,090	5,540	–	–
– trading securities**	10,718	2,783	–	–
Cash and cash equivalents at the end of the financial year	20,815	8,326	–	–
Reconciliation of profit from ordinary activities after income tax to net cash flows from operating activities				
Profit/(loss) from ordinary activities after income tax	1,888	1,551	(8)	–
Adjustments to profit from ordinary activities				
Accretion of interest on available for sale financial assets	(548)	(165)	–	
Amoritisation of capitalised software and other identifiable intangibles	25	6	–	–
Amounts provided during the financial year	535	55	–	–
Depreciation on property, plant and equipment	120	81	–	–
Dividends received as return of investments in controlled entities	–	–	16,635	–
Dividends received from associates	315	374	–	–
Fair value changes on available for sale financial assets transferred to profit or loss on realisation	(38)	(98)	–	–
Fair value changes on financial assets and liabilities at fair value through profit or loss	37	(87)	–	–
Gain on deconsolidation of previously controlled entities and businesses held for sale	(293)	(469)	–	–
Gains on disposal of property, plant and equipment	(19)	–	–	–
Net gains on sale of associates (including associates held for sale) and joint ventures	(560)	(650)	–	–
Net gains on sale of investment securities available for sale	(123)	(160)	–	–
Share based payment expense	126	87	–	–
Share of net profits of associates and joint ventures using the equity method	(156)	(242)	–	–
Changes in assets and liabilities				
Decrease in dividends receivable	1	376	–	–
Increase in amount due from controlled entities under tax contribution agreement	–	–	(119)	–
Increase in fees and commissions receivable	(192)	(66)	–	–
(Decrease)/increase in fees and commissions payable	(2)	41	–	–
Increase in current tax liabilities	170	215	49	–
Increase in deferred tax assets	(261)	(385)	(1)	–
Increase/(decrease) in deferred tax liabilities	43	(79)	–	–
Increase in interest receivable	(256)	(225)	–	–
Increase in interest payable	93	319	17	–
Increase in provisions for employment entitlements	28	20	–	–
Increase in loan assets granted (net)	(6,675)	(11,567)	(13,767)	–
Increase in loan payable to a controlled entity	–	–	8,800	–
Decrease/(increase) in debtors, prepayments, accrued charges and creditors	390	1,378	(1)	–
Decrease/(increase) in financial instruments, foreign exchange and commodities	6,069	(9,260)	–	–
Increase in amounts due to other financial institutions, deposits and other borrowings	16,984	17,462	4,847	–
Decrease in life investment contract receivables	910	513	–	–
Net cash flows from/(used in) operating activities	18,611	(975)	16,452	–

* Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses as per note 2(xx).
** Includes certificates of deposit, bank bills and other short-term debt securities as per note 2(xx).

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 35. Notes to the cash flow statements continued				
Non cash investing activities				
Capitalisation of amount receivable from a controlled entity	–	–	50	–
Total non cash investing activities	–	–	50	–

During the financial year, the Company capitalised an amount owing from a controlled entity, Macquarie Group Services Australia Pty Limited, with an issue of new shares by the controlled entity. This increased the Company's cost of investment in the controlled entity without a corresponding outflow of cash and cash equivalents.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Financing agreements				
Total unused	4,272	1,014	4,100	–
Total overdraft facilities	4,272	1,014	4,100	–

As at 31 March 2008, the Company has a $9 billion senior unsecured syndicated bank debt facility, provided by a group of 46 major International and Australian financial institutions, with maturities ranging out to November 2012. As at 31 March 2008, the company has drawn down $4.9 billion (2007: $nil) of the amount available.

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

Capital Meters Limited, a controlled entity of Macquarie Financial Holdings Ltd, incorporated in the United Kingdom, has a credit facility of GBP 113 million, equivalent to AUD 245 million (2007: GBP 118 million, equivalent to AUD 287 million). As at 31 March 2008, the entity had drawn down GBP 60 million, equivalent to AUD 130 million (2007: GBP 50 million, equivalent to AUD 122 million) of the facility available.

Macquarie Equities (Asia) Limited, a controlled entity of the Macquarie Financial Holdings Ltd, incorporated in Hong Kong, has an overdraft facility of HKD 200 million, equivalent to AUD 28 million (2007: HKD 200 million, equivalent to AUD 32 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 2008, the facility is undrawn (2007: undrawn).

Aviation Technical Services Inc, a controlled entity of the Macquarie Financial Holdings Ltd, incorporated in the United States, has an overdraft facility of USD 27 million, equivalent to AUD 29 million (2007: $nil). The facility may be drawn down based on qualifying assets based on the financial results of the company. As at 31 March 2008, the facility is undrawn (2007: undrawn).

Notes to the financial statements
31 March 2008 continued

Note 36. Related party information
Controlled entities

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

Transactions between the Company and its controlled entities principally arise from the granting of loans and the provision of management and administration services.

All transactions with controlled entities are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with controlled entities are eliminated in the consolidated financial statements. Amounts due from and due to controlled entities are presented separately in the balance sheet of the Company except when offsetting reflects the substance of the transaction or event.

Balances arising from lending and borrowing activities between the Company and its controlled entities are extended on arms length terms and where appropriate may be either subordinated or collateralised.

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

Subsequent to the restructure described above, the Company as the ultimate parent entity of the Macquarie Group, became the head entity of the tax-consolidated group. During the financial year, the Company entered into a tax contribution agreement with its eligible Australian resident controlled entities. The terms and conditions of this agreement are set out in note 2 (vi) – Summary of significant accounting policies. As at 31 March 2008, the amount receivable by the Company under the tax contribution agreement with the tax consolidated entities is $119 million (2007: $198 million). This balance is included in “Due from controlled entities” in the Company’s separate balance sheet.

In the prior financial year, the former ultimate parent entity of the Macquarie Group, Macquarie Bank Limited, entered into derivative transactions with its controlled entities to hedge their operations. The fair value of derivative financial instruments relating to transactions between Macquarie Bank Limited and its controlled entities at 31 March 2007 were $281 million positive value and $203 million negative value.

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

	Consolidated 2008 $m	Consolidated 2007 $m	**Company 2008 $m**	Company 2007 $m
Interest income received/receivable (note 3)	**–**	–	**381**	–
Interest expense paid/payable (note 3)	**–**	–	**(279)**	–
Management fees, group service charges and cost recoveries	**–**	–	**15**	–
Options issued to employees of controlled entities (note 34)	**–**	–	**(56)**	–
Dividends and distributions	**–**	–	**16,635**	–
The following balances with controlled entities were outstanding at the year end:				
Amounts receivable	**–**	–	**13,891**	–
Amounts payable	**–**	–	**(8,855)**	–

Note 36. Related party information continued

Associates and joint ventures

Transactions between the Group 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 Company and its controlled entities, in the consolidated income statement.

	Consolidated 2008 $m	Consolidated 2007 $m	**Company 2008 $m**	Company 2007 $m
During the year, the following transactions occurred with associates and joint ventures:				
Interest income received/receivable	**26**	80	**–**	–
Interest expense paid/payable	**(1)**	(13)	**–**	–
Fee and commission income*	**1,522**	967	**–**	–
Other income	**3**	4	**–**	–
Gains on sale of securities**	**85**	58	**–**	–
Dividends and distributions *** (note 19)	**315**	374	**–**	–
Brokerage and commission expense	**(22)**	(14)	**–**	–

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

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

*** Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not taken up as income but are recorded as a reduction of the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding at the year-end (these exclude amounts which in substance form part of the Group's net investment in associates, disclosed in note 19):

	Consolidated 2008 $m	Consolidated 2007 $m	**Company 2008 $m**	Company 2007 $m
Amounts receivable	**799**	721	**–**	–
Amounts payable	**(41)**	(68)	**–**	–

Balances arising from lending and borrowing activities between the Company and its associates and joint ventures are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

Notes to the financial statements
31 March 2008 continued

Note 37. Key Management Personnel disclosure

Key Management Personnel

The Macquarie Group restructured on 13 November 2007. The Key Management Personnel for the restructured MGL Group have remained the same as the predecessor entity Macquarie Bank Limited. Prior to the date of restructure, disclosures throughout this note are in respect of the MBL Group.

The restructure was accounted for as a reverse acquisition in accordance with AASB 3 *Business Combinations*. MGL's consolidated financial statements and the disclosures throughout this note have been presented as a continuation of the Macquarie Group. Full details of the restructure can be found in note 1.

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

The composition of the MGL Board changed on 30 August 2007. For the period from incorporation until 30 August 2007, W.R. Sheppard, G.C. Ward and S.J. Dyson were Directors of Macquarie Group Limited. During this time, the Company was dormant and these Directors did not receive any remuneration for their services as Director.

Otherwise the following persons were Voting Directors of MGL or its predecessor entity MBL during the financial years ended 31 March 2008 and 31 March 2007, or as indicated. The appointment date relates to the date appointed as an MGL Director.

Executive Directors

N.W. Moore*	Group Head, Macquarie Capital (appointed on 5 February 2008, resigned on 17 February 2008 and reappointed on 22 February 2008)
A.E. Moss, AO*	Managing Director and Chief Executive Officer (appointed 30 August 2007)
L.G. Cox, AO	(appointed 30 August 2007)

Non-Executive Directors

J.G. Allpass**	(retired 19 July 2007)
D.S. Clarke, AO	Non-Executive Chairman (appointed 30 August 2007)
M.R.G. Johnson**	Deputy Chairman (retired 19 July 2007)
P.M. Kirby	(appointed 30 August 2007)
C.B. Livingstone, AO	(appointed 30 August 2007)
B.R. Martin**	(retired 20 July 2006)
H.K. McCann, AM	(appointed 30 August 2007)
J.R. Niland, AC	(appointed 30 August 2007)
H.M. Nugent, AO	(appointed 30 August 2007)
P.H. Warne***	(appointed 30 August 2007)

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the Company and its controlled entities during the past two financial years ended 31 March 2008 and 31 March 2007, unless otherwise indicated.

Executives

J.K. Burke*	Group Head, Equity Markets Group
M. Carapiet*	Joint Head – Macquarie Capital Advisors, Macquarie Capital
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
W.R. Sheppard*	Deputy Managing Director
G.C. Ward*	Chief Financial Officer
W.J. Moss, AM	Former Group Head, Banking & Property Group (retired on 30 March 2007)

* Members of the Group's Executive Committee as at 19 May 2008.
** These directors retired as Directors of Macquarie Bank Limited, the former ultimate parent of the Macquarie Group.
*** P.H. Warne was appointed as a Director of Macquarie Bank Limited, the former ultimate parent of the Macquarie Group, on 1 July 2007.

Note 37. Key Management Personnel disclosure continued

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

The remuneration arrangements for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report on pages 56 to 110.

Key Management Personnel remuneration

The following tables detail the aggregate remuneration for Key Management Personnel. The Company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in Appendix 2 of the Remuneration Report.

				Short-term employee benefits	**Long-term* employee benefits**	**Share based payments**	
	Salary and fees (including superannuation) $	Performance related remuneration $	Other benefits $	Total short-term employee benefits $	Restricted profit share $	Options $	Total remuneration $
Executive Remuneration							
2008	**4,666,247**	**97,731,225**	**–**	**102,397,472**	**4,661,946**	**17,687,300**	**124,746,718**
2007	5,614,873	153,640,322	–	159,255,195	40,449,633	7,369,553	207,074,381
Non-Executive Remuneration							
2008	**2,450,087**	**–**	**200,124**	**2,650,211**	**–**	**–**	**2,650,211**
2007	1,543,837	–	89,433	1,633,270	–	–	1,633,270

* Includes earnings on restricted profit share.

Notes to the financial statements
31 March 2008 continued

Note 37. Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties

The following tables set out details of options held during the year for the Key Management Personnel including their related parties, on a consolidated Group basis. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. The opening balance relates to holdings over MBL options. As detailed in note 1, optionholders of MBL obtained one MGL ordinary option for each ordinary option they held in MBL at the date of the restructure. Further details in relation to the Option Plan are disclosed in note 38 – Employee equity participation.

For the year ended 31 March 2008

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

(a) Vested options sold under facility provided by an external party unless otherwise noted.
(b) Or date of retirement if earlier.
(c) Mr Allpass retired from the Macquarie Group on 19 July 2007, his balance at 31 March 2008 represents holdings at date of retirement.
(d) Mr Johnson retired from the Executive Committee on 31 March 2007. He continued as a Non-Executive Director until he retired on 19 July 2007. His balance at 31 March 2008 represents holdings at date of retirement.
(e) Mr Warne was appointed to the Board of Directors on 1 July 2007.
(f) Mr Clarke retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman.

Note 37. Key Management Personnel disclosure continued

For the year ended 31 March 2007

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

(a) Vested options sold under facility provided by an external party unless otherwise noted.
(b) Or date of retirement if earlier.
(c) Mr Clarke retired as Executive Chairman on 31 March 2007, whereupon 80,200 unvested options lapsed (with a value of $3,245,250). He will continue as Non-Executive Chairman.
(d) Mr Martin retired as a Non-Executive Director of MBL 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 2008 continued

Note 37. Key Management Personnel disclosure continued

Shareholding of Key Management Personnel and their related parties

The following tables set out details of fully paid ordinary shares of the Company held during the year by the Key Management Personnel including their related parties, on a consolidated Group basis. The opening balance relates to holdings over MBL shares. As detailed in note 1, shareholders of MBL obtained one MGL ordinary share for each ordinary share they held in MBL at the date of the restructure.

For the year ended 31 March 2008

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

(a) Includes on market acquisitions and disposals.
(b) Or date of retirement if earlier.
(c) Mr Allpass retired on 19 July 2007. His balance at 31 March 2008 represents holdings at date of retirement.
(d) Mr Johnson retired from the Executive Committee on 31 March 2007. He continued as a Non-Executive Director until he retired on 19 July 2007. His balance at 31 March 2008 represents holdings at date of retirement.
(e) Mr Warne was appointed to the Board of Directors on 1 July 2007. The opening balance on 1 April 2007 represents holdings as at the date of appointment as director on 1 July 2007.

Note 37. Key Management Personnel disclosure continued

For the year ended 31 March 2007

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

(a) Includes on market acquisitions and disposals.
(b) Or date of retirement if earlier.
(c) Mr Martin retired as a Non-Executive Director of MBL 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 2008 continued

Note 37. Key Management Personnel disclosure continued

Loans to Key Management Personnel and their related parties

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

		Opening balance at 1 April $'000	Interest charged* $'000	Write-off $'000	Closing balance at 31 March $'000	Number in group 31 March
Total for Key Management Personnel and their related parties	**2008**	**57,545**	**4,486**	**–**	**62,540**	**14**
	2007*	76,318	5,971	–	62,101	19
Total for Key Management Personnel	**2008**	**41,862**	**3,014**	**–**	**44,525**	**9**
	2007*	57,882	4,493	–	44,891	11

* Includes loans provided by the Group to Mr W.J. Moss and his related parties. Mr W.J. Moss retired from the Executive Committee on 30 March 2007. As such, he was not a Key Management Personnel on 1 April 2007 and his loans have not been included in the 2008 opening balance.

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

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

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

For the year ended 31 March 2008

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

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

(b) Or date of retirement if earlier.

(c) Mr Clarke retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman.

Note 37. Key Management Personnel disclosure continued

For the year ended 31 March 2007

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

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

(b) Or date of retirement if earlier.

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

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

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

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

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

Executive Directors

L.G. Cox, N.W. Moore

Non-Executive Directors

D.S. Clarke, P.M. Kirby

Executives

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

Notes to the financial statements
31 March 2008 continued

Note 37. Key Management Personnel disclosure continued

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

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

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

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

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

Note 38. Employee equity participation

Option Plan

In November 1995, MBL introduced an Employee Option Plan, as a replacement for its now closed partly paid share scheme. On 13 November 2007, the date of the restructure of the Macquarie Group, all MBL options were cancelled and replacement options over shares in the new ultimate parent entity, MGL, were issued on the same terms on a one-for-one basis under the Macquarie Group Employee Share Option Plan (the "Plan").

Staff eligible to participate in the Plan are those of Associate Director level and above and consultants to the Group. At 31 March 2008 there were 2,595 (2007: 2,099) participants in the Plan.

The fair value of each option is estimated on the date of grant using a trinomial option pricing framework. The following key assumptions have been adopted for grants made in the current financial year, risk free interest rate: 7.0 per cent (weighted average); expected life of options: four years; volatility of share price: 20 per cent and dividend yield: 3.4 per cent per annum.

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

Options, currently for five years, over fully paid unissued ordinary shares in the Company are granted to individuals or the individual's controlled company or an entity approved under the 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 options 2008	**Weighted average exercise price 2008 $**	Number of options 2007	Weighted average exercise price 2007 $
Outstanding at the beginning of the financial year	**34,358,273**	**51.63**	31,235,034	42.45
Granted during the financial year	**13,431,739**	**72.26**	11,987,127	62.88
Forfeited during the financial year	**(1,493,262)**	**61.38**	(1,326,952)	50.30
Exercised during the financial year	**(7,260,989)**	**36.16**	(7,536,936)	31.72
Outstanding at the end of the financial year	**39,035,761**	**61.23**	34,358,273	51.63
Exercisable at the end of the financial year	**5,897,912**	**44.27**	4,478,569	31.24

For options exercised during the financial year the weighted average share price at the date of exercise was $81.95 (2007: $67.09).

The range of exercise prices for options outstanding at the end of the financial year was $21.66 to $94.48 (2007: $20.57 to $83.55).

The weighted average remaining contractual life for the share options outstanding as at 31 March 2008 was 3.13 years (2007: 3.16 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range ($)	**Number of options 2008**	**Remaining life (years) 2008**	Number of options 2007	Remaining life (years) 2007
20 – 30	**1,490,161**	**0.42**	3,848,229	1.42
30 – 40	**4,532,811**	**1.37**	8,243,550	2.05
40 – 50	**617,604**	**2.35**	750,989	2.90
50 – 60	**216,503**	**3.96**	97,500	3.21
60 – 70	**19,000,370**	**2.95**	20,534,415	3.89
70 – 80	**11,977,534**	**4.34**	687,590	4.36
80 – 90	**977,778**	**4.15**	196,000	4.94
90 – 100	**223,000**	**4.22**	–	–
	39,035,761	**3.13**	34,358,273	3.16

The weighted average fair value of options granted during the financial year was $11.99 (2007: $12.45).

Notes to the financial statements
31 March 2008 continued

Note 38. 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 $594 million (2007: $506 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2008 was $2,062 million (2007: $2,843 million). No unissued shares, other than those referred to above, are under option as at the date of this report.

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

In respect of each tranche of vested options granted to Executive Directors of MBL 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 MBL'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 MBL'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 MBL'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 MBL 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 MBL's Executive Committee, Executive Voting Directors and other Executive Directors of MBL, options are only exercisable if MBL'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 Company's Executive Committee, Executive Voting Directors and other Executive Directors of the Company, options are only exercisable if the Company's average annual return on ordinary equity for the three previous financial years is above the 65th (Executive Committee and Executive Voting Directors) and 50th (other Executive Directors) percentiles, of the corresponding figures for all companies in the then S&P/ASX 300 Industrials Index, with the conditions examined quarterly from vesting until expiry.

For options granted to the members of MBL's and MGL's Executive Committee, Executive Voting Directors and other Executive Directors where the invitation to apply for the options was sent to the Executive on or after 30 June 2006, in respect of each tranche of vested options, options will only be exercisable if the Company's average annual return on ordinary equity for the three previous financial years is above the 65th (Executive Committee and Executive Voting Directors) and 50th (other Executive Directors) percentiles, of the corresponding figures for all companies in the then S&P/ASX 100 Index, with the conditions to be examined only upon vesting.

Note 38. Employee equity participation continued

Option Plan continued

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 per cent of the number of the Company's then issued ordinary shares plus the number of shares which the Company would have to issue if all rights to require the Company to issue shares, which the Company has then granted (including options) were then enforced or exercised to the greatest extent permitted. The Board has a second limitation on the number of options being effectively the same calculation as in the Plan Rules except that any exercised options granted less than five years ago, where the Executive is still with the Company, will be treated as still being unexercised.

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

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

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

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

- an employee's resignation from the Company or a related company;
- upon request from the employee (after the expiration of the non-disposal period); and
- ten years from the date that the options were originally granted.

Options carry no dividend or voting rights but have standard adjustment clauses for bonus and rights issues and reconstructions.

Notes to the financial statements
31 March 2008 continued

Note 38. Employee equity participation continued

Employee Share Plan

Following shareholder approval at the 1997 Annual General Meeting, MBL introduced the Macquarie Bank Employee Share Plan whereby each financial year, eligible employees are offered up to $1,000 worth of fully paid ordinary Company shares for no cash payment. MGL has since introduced a Macquarie Group Employee Share Plan ('ESP') on the same terms.

The Company's staff profit sharing pools and for certain staff, future commissions, are adjusted downwards by the aggregate market value of the shares issued under the ESP.

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

The number of shares each participant receives is $1,000 divided by the weighted average price at which the Company's shares are traded on Australian Securities Exchange Limited on the seven days up to and including the date of allotment, rounded down to the nearest whole share.

The employees who are eligible for an offer are those permanent or fixed term contract employees who have been continuously employed by the Company or a controlled entity of the Company since 1 April of the relevant year, are still employed by the Company or a controlled entity of the Company on the relevant allotment date and are Australian residents on both the closing date of an offer and on the relevant allotment date. Persons who are ineligible include all non-permanent staff, staff seconded to the Company from external companies, staff leaving Australia for an overseas posting prior to the allotment date, staff who have been given notice of dismissal from employment by the Company or controlled entity of the Company or who have tendered their resignation to avoid such a dismissal (even if they would, but for this requirement, be eligible to acquire shares) and any staff member that a Group Head believes should be ineligible based on poor performance.

The latest offer under the ESP was made during December 2007. A total of 1,735 staff participated in this offer. On 11 January 2008, the participants were each issued with 14 fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $70.39, a total of 24,290 shares were issued. The shares were issued for no cash consideration.

Staff Share Acquisition Plan

Following shareholder approval at the 1999 Annual General Meeting, MBL introduced the Macquarie Bank Staff Share Acquisition Plan ("MBSSAP") whereby each financial year, Australian based eligible employees were given the opportunity to nominate an amount of their pre-tax available profit share or future commission to purchase fully paid ordinary Company shares ("Shares") on-market. MGL has since introduced a Macquarie Group Staff Share Acquisition Plan ("MGSSAP") on the same terms.

The total number of Shares purchased under the MGSSAP is limited in any financial year to 3 per cent of the Company's Shares as at the beginning of that financial year.

The MGSSAP has been recently amended to include the ability to issue new shares as an alternative to acquire existing shares on-market, at the option of MGL. In 2008, most participation is expected to be in the form of newly issued shares. Any applicable brokerage expenses, workers' compensation premiums and payroll tax charges are applied to the employee's account.

Shares acquired under the MGSSAP cannot be sold, transferred or disposed of for a period of six months from the date that the Shares are transferred into a participating employee's name except in special circumstances if the employee resigns. The Shares held in the MGSSAP are also subject to forfeiture by an employee in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Company or a related company or if they carry out an act or fail to do an act which brings the Company or a related company into disrepute.

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

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

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

Eligible employees are Australian based permanent full-time or part-time employees or fixed term contract employees of the Company or a related company who either receive available profit share in the relevant year of at least $1,000 in total or allocate at least $1,000 in available commission towards the MGSSAP.

Note 38. Employee equity participation continued
Staff Share Acquisition Plan continued
The Macquarie Bank Executive Director Share Acquisition Plan ("MBEDSAP") was a sub-plan of the MBSSAP which was created in 2003 and was open to eligible Executive Directors. The disposal and forfeiture restrictions in the MBEDSAP differ to those in the MBSSAP. No further offers under the MBEDSAP are currently proposed. MGL has since introduced a Macquarie Group Executive Director Share Acquisition Plan ("MGEDSAP") on the same terms but no offers have been made under the plan.

Recently a further sub-plan of the MGSSAP has been created, the Macquarie Group Executive Committee Acquisition Plan, whereby members of the MGL Executive Committee must contribute certain proportions of their annual profit share to acquire MGL shares, which must be held for at least three years. Further information on this is provided in the Remuneration Report. The first offers under this sub-plan were made in May 2008.

Offers under the MBSSAP were made during May 2007. A total of 852 staff participated in the MBSSAP. In July 2007, 312,620 MBL shares were acquired on-market and in December 2007, 10,952 MGL 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, MBL also introduced the Macquarie Bank Non-Executive Director Share Acquisition Plan whereby each financial year Australian based Non-Executive Directors ("NEDs") of the Macquarie Group of companies were given the opportunity to contribute some or all of their future pre-tax remuneration from the Macquarie Group to acquire Macquarie Bank Limited shares ("shares"). MGL has since introduced a Macquarie Group Non-Executive Director Share Acquisition Plan ("NEDSAP") on the same terms.

NEDs may subsequently apply to reduce their previous allocations provided that the relevant buying period has not commenced. If NEDs wish to participate there is a minimum contribution of $1,000 of NED remuneration per buying period to go towards the NEDSAP.

Shares are acquired at prevailing market prices. Brokerage fees are applied to the NED's account.

Shares acquired under the NEDSAP cannot be sold, transferred or disposed of for a period of six months from the date that the Shares are transferred into a NED's name except in special circumstances if the NED resigns. The shares held in the NEDSAP are also subject to forfeiture by a NED in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Company or a related company or if they carry out an act or fail to do an act which brings the Company or a related company into disrepute.

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

- the participant ceases to be a NED of MGL;
- upon request by the NED (after the expiration of the non-disposal period); and
- ten years from the date that the shares are registered in a NED's name.

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

Shares resulting from participation in the NEDSAP may count towards meeting the minimum shareholding requirements of NEDs.

Offers under the NEDSAP were made during May 2007. A total of three NEDs participated in the NEDSAP. In July 2007, 280 MBL shares were acquired on-market and in December 2007, 1,712 MGL shares were acquired on-market.

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31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 39. Contingent liabilities and assets				
The following details of contingent liabilities and assets exclude derivatives.				
Contingent liabilities exist in respect of:				
Guarantees	**281**	321	**213**	–
Indemnities	**78**	25	**–**	–
Undrawn credit facilities	**5,306**	6,576	**–**	–
Undrawn credit facilities – revocable at any time	**1,236**	1,274	**–**	–
Other contingent liabilities *	**1,201**	1,139	**175**	–
Total contingent liabilities and assets	**8,102**	9,335	**388**	–

* Other contingent liabilities include letters of credit, commitments certain of drawdown and performance related contingencies. Also included are forward asset purchases whereby the Group 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 Group. The total commitment at 31 March 2008 was $52 million (2007: $1,115 million).

Contingent liabilities exist in respect of claims and potential claims against entities in the Group. Where necessary, appropriate provisions have been made in the financial statements. The Company and Group 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, $6.5 billion (2007: $7.8 billion) also represent contingent assets. Such commitments to provide credit may in the normal course convert to loans and other assets.

	Consolidated 2008 $m	Consolidated 2007 $m	Company 2008 $m	Company 2007 $m
Note 40. Capital and other expenditure commitments				
Not later than one year	**216**	30	**–**	–
Later than one year and not later than five years	**69**	23	**–**	–
Later than five years	**12**	–	**–**	–
Total capital and other expenditure commitments	**297**	53	**–**	–
Note 41. Lease Commitments				
Non-cancellable operating leases expiring:				
Not later than one year	**159**	145	**–**	–
Later than one year and not later than five years	**573**	474	**–**	–
Later than five years	**178**	216	**–**	–
Total operating lease commitments	**910**	835	**–**	–

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

Note 42. Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The Group 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 Group'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 Group also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in note 2 (ix).

Cash flow hedges

The Group is exposed to volatility in future interest cash flows arising from floating rate issued debt used to fund fixed rate asset positions. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non-trading interest rate risk of the Group, which is hedged with interest rate swaps.

In 2008, the Group recognised $nil (2007: $3 million loss) in the income statement due to hedge ineffectiveness. At 31 March 2008, the fair value of outstanding derivatives held by the Group and designated as cash flow hedges was $673 million negative value (2007: $676 million negative value).

Fair value hedges

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

As at 31 March 2008, the fair value of outstanding derivatives held by the Group and designated as fair value hedges was $76 million positive value (2007: $10 million positive value).

Net investment in foreign operations hedges

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

At 31 March 2008, the fair value of outstanding derivatives held by the Group and designated as net investment in foreign operations hedges was $148 million positive value (2007: $108 million positive value).

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

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

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

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

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

Notes to the financial statements
31 March 2008 continued

Note 42. Derivative financial instruments continued

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

	Consolidated 2008 Notional amount $m	Consolidated 2008 Asset revaluations $m	Consolidated 2008 Liability revaluations $m	Consolidated 2008 Net fair value $m	Consolidated 2007 Notional amount $m	Consolidated 2007 Asset revaluations $m	Consolidated 2007 Liability revaluations $m	Consolidated 2007 Net fair value $m
Interest rate contracts								
Exchange traded	**16,934**	**186**	**153**	**33**	12,548	8	14	(6)
Forwards	**16,366**	**26**	**13**	**13**	4,950	35	36	(1)
Swaps	**139,526**	**1,879**	**1,605**	**274**	121,996	1,265	795	470
Options	**2,812**	**16**	**10**	**6**	3,374	7	5	2
Total interest rate contracts	**175,638**	**2,107**	**1,781**	**326**	142,868	1,315	850	465
Foreign exchange contracts								
Forwards	**48,518**	**2,554**	**1,739**	**815**	23,350	944	703	241
Swaps	**110,949**	**2,047**	**2,399**	**(352)**	97,716	1,008	1,365	(357)
Options	**103,852**	**884**	**678**	**206**	133,717	624	501	123
Total foreign exchange contracts	**263,319**	**5,485**	**4,816**	**669**	254,783	2,576	2,569	7
Equity contracts								
Exchange traded	**266,694**	**338**	**455**	**(117)**	7,166	433	145	288
Swaps	**526**	**193**	**1,764**	**(1,571)**	13,117	53	838	(785)
Options	**36,553**	**2,078**	**1,704**	**374**	29,829	667	611	56
Other	**3,337**	**54**	**65**	**(11)**	972	115	157	(42)
Total equity contracts	**307,110**	**2,663**	**3,988**	**(1,325)**	51,084	1,268	1,751	(483)
Commodity contracts								
Exchange traded	**48,019**	**3,095**	**4,136**	**(1,041)**	41,961	1,642	2,551	(909)
Forwards	**26,828**	**3,098**	**1,594**	**1,504**	70,576	3,220	1,534	1,686
Swaps	**17,996**	**2,084**	**2,092**	**(8)**	12,998	505	497	8
Options	**207,183**	**2,604**	**2,992**	**(388)**	195,782	1,387	1,317	70
Total commodity contracts	**300,026**	**10,881**	**10,814**	**67**	321,317	6,754	5,899	855
Total derivatives contracts outstanding	**1,046,093**	**21,136**	**21,399**	**(263)**	770,052	11,913	11,069	844

Note 43. Financial risk management
Risk Management Group
Risk is an integral part of the Macquarie Group's businesses. The main risks faced by the Group are market risk, equity risk, credit risk, liquidity risk, operation risk, legal compliance risk and documentation risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group ("RMG") to ensure appropriate assessment and management of these risks.

RMG is independent of all other areas of the Macquarie Group, reporting directly to the Managing Director and the Board of Macquarie Group Limited. The Head of RMG is a member of the Executive Committee of Macquarie Group Limited and Macquarie Bank Limited. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

Note 43.1 Credit risk
Credit risk is the risk of a counterparty failing to complete its contractual obligations when they fall due. Credit risk arises from both lending and trading activities. In the case of trading activity, credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract at any stage. The resultant credit exposure is a function of the movement of prices over the term of the underlying contract and systems for the assessment of potential credit exposures exist for each of the Group's trading activities.

The Group's philosophy on credit risk management reflects the principle of separating prudential control from operational management. The responsibility for approval of credit exposures is delegated to specific individuals. All approvals reflect two principles: a requirement for dual sign-off and a requirement that, above specified limits, all credit exposures must be approved outside the business line proposing to undertake them. Most credit decisions are therefore taken within RMG.

All counterparties are rated on the Group rating scale which is similar to that used by public ratings agencies. Each rating is associated with a Probability of Default and an assessment is also made of the Loss Given Default. This classification enables effective application of resources to the management, pricing and monitoring of credit exposures.

No material credit exposures are assumed without appropriate analysis. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All limits and ratings are reviewed at least once a year, or more frequently if necessary, to ensure that the most current information available on counterparties is taken into account.

All credit exposures are monitored regularly against limits. Credit exposures which fluctuate through the duration of the transaction are monitored daily. These include exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

All counterparties with credit exposures are regularly monitored to ensure any deterioration is identified and reflected in an adjustment to their rating. Where appropriate these are reported to senior management and where recoverability is in doubt, appropriate provisions are held.

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

The Group's policies to control credit risk include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Group has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, interests in associates and joint ventures or bank notes and coin.

Notes to the financial statements
31 March 2008 continued

Note 43.1 Credit risk continued
Maximum exposure to credit risk
The tables below detail the concentration of credit exposure of the Group's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Group's assets.

Consolidated 2008	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements* $m	Trading portfolio assets $m	Loan assets held at amortised cost $m
Australia				
Governments	–	5,852	890	161
Financial institutions	1,295	1,637	1,959	2,503
Other	–	18	236	42,840
Total Australia	1,295	7,507	3,085	45,504
New Zealand				
Governments	–	11	–	3
Financial institutions	96	8	3	36
Other	–	–	–	86
Total New Zealand	96	19	3	125
Europe				
Governments	–	–	–	10
Financial institutions	5,188	13,106	66	1,049
Other	–	167	–	1,020
Total Europe	5,188	13,273	66	2,079
North America				
Governments	–	166	–	26
Financial institutions	1,508	885	99	1,602
Other	–	486	3	2,156
Total North America	1,508	1,537	102	3,784
Asia				
Governments	–	–	254	–
Financial institutions	1,141	14	29	116
Other	–	–	–	322
Total Asia	1,141	14	283	438
Other				
Governments	–	73	2	–
Financial institutions	882	473	43	21
Other	–	10	17	456
Total other	882	556	62	477
Total	10,110	22,906	3,601	52,407
Total gross credit risk				

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

The Group enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in the Equity Markets and Treasury and Commodities divisions. Stock borrowing and reverse repurchase arrangements entered into by the Group with external counterparties normally requires collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Other financial assets at fair value through profit or loss $m	Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale $m	Life investment contracts and other unit holder assets $m	Credit commitments and contingent liabilities $m	Total $m
52	76	160	–	–	–	7,191
220	2,653	–	9,058	608	–	19,933
3,491	8,201	3,055	365	260	3,611	62,077
3,763	10,930	3,215	9,423	868	3,611	89,201
–	–	4	–	–	–	18
–	–	–	–	–	–	143
–	–	50	–	–	20	156
–	–	54	–	–	20	317
–	–	242	175	–	–	427
116	2,192	–	3,671	–	–	25,388
–	5,465	1,136	4	–	2,086	9,878
116	7,657	1,378	3,850	–	2,086	35,693
–	9	73	–	–	–	274
26	796	–	1,231	–	–	6,147
–	809	362	–	–	2,051	5,867
26	1,614	435	1,231	–	2,051	12,288
–	–	55	–	–	–	309
–	542	–	214	–	–	2,056
–	255	3,226	9	–	109	3,921
–	797	3,281	223	–	109	6,286
–	–	4	–	–	–	79
20	94	–	653	–	–	2,186
25	44	111	–	–	225	888
45	138	115	653	–	225	3,153
3,950	21,136	8,478	15,380	868	8,102	146,938
						146,938

Notes to the financial statements
31 March 2008 continued

Note 43.1 Credit risk continued
Maximum exposure to credit risk continued

Consolidated 2007	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements* $m	Trading portfolio assets $m	Loan assets held at amortised cost $m
Australia				
Governments	–	3,344	895	40
Financial institutions	1,570	1,123	1,296	66
Other	–	363	742	36,754
Total Australia	1,570	4,830	2,933	36,860
New Zealand				
Governments	–	–	–	–
Financial institutions	52	1	4	–
Other	–	–	–	306
Total New Zealand	52	1	4	306
Europe				
Governments	–	–	6	–
Financial institutions	1,094	18,033	62	501
Other	–	1,743	103	2,845
Total Europe	1,094	19,776	171	3,346
North America				
Governments	–	595	–	1
Financial institutions	720	10	22	23
Other	–	674	181	4,877
Total North America	720	1,279	203	4,901
Asia				
Financial institutions	2,532	–	–	1
Other	–	11	–	224
Total Asia	2,532	11	–	225
Other				
Governments	–	–	6	–
Financial institutions	152	–	–	–
Other	–	12	–	158
Total other	152	12	6	158
Total	6,120	25,909	3,317	45,796
Total gross credit risk				

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

The Group enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in the Equity Markets and Treasury and Commodities divisions. Stock borrowing and reverse repurchase arrangements entered into by the Group with external counterparties normally requires collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

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

Notes to the financial statements
31 March 2008 continued

Note 43.1 Credit risk continued
Maximum exposure to credit risk continued

Company 2008	Other assets	Due from controlled entities	Credit commitments and contingent liabilities	Total
	$m	$m	$m	$m
Australia				
Other	1	13,885	62	13,948
Total Australia	1	13,885	62	13,948
North America				
Other	–	6	268	274
Total North America	–	6	268	274
Asia				
Other	–	–	58	58
Total Asia	–	–	58	58
Total	1	13,891	388	14,280
Total gross credit risk				14,280

Note 43.1 Credit risk continued

Credit quality of financial assets

The table below shows the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the Group's credit rating system.

Credit quality – Consolidated 2008

	Neither past due nor impaired					
	Investment grade $m	Below investment grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Due from banks	10,046	64	–	–	–	10,110
Cash collateral on securities borrowed and reverse repurchase agreements						22,906
Governments	6,030	72	–	–	–	6,102
Financial institutions	16,093	30	–	–	–	16,123
Other	671	10	–	–	–	681
Trading portfolio assets						3,601
Governments	1,144	2	–	–	–	1,146
Financial institutions	2,193	3	–	–	3	2,199
Other	246	10	–	–	–	256
Loan assets held at amortised cost						52,407
Governments	198	2	–	–	–	200
Financial institutions	5,159	167	–	–	1	5,327
Other	31,978	13,037	225	–	1,640	46,880
Other financial assets at fair value through profit or loss						3,950
Governments	52	–	–	–	–	52
Financial institutions	379	–	–	–	3	382
Other	512	3,000	–	–	4	3,516
Derivative financial instruments – positive values						21,136
Governments	82	3	–	–	–	85
Financial institutions	5,213	1,053	–	–	11	6,277
Other	10,656	4,118	–	–	–	14,774
Other assets						8,478
Governments	538	–	–	–	–	538
Other	4,703	2,701	–	160	376	7,940
Debt investment securities available for sale						15,380
Governments	175	–	–	–	–	175
Financial institutions	14,827	–	–	–	–	14,827
Other	92	76	1	–	209	378
Life investment contracts and other unitholder assets						868
Financial institutions	608	–	–	–	–	608
Other	260	–	–	–	–	260
Total						138,836

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

Notes to the financial statements
31 March 2008 continued

Note 43.1 Credit risk continued
Credit quality of financial assets continued
The table below shows the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the Group's credit rating system.

Credit quality – Consolidated 2007

	Neither past due nor impaired					
	Investment grade $m	Below investment grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Due from banks	6,105	15	–	–	–	6,120
Cash collateral on securities borrowed and reverse repurchase agreements						25,909
Governments	3,939	–	–	–	–	3,939
Financial institutions	19,167	–	–	–	–	19,167
Other	2,718	85	–	–	–	2,803
Trading portfolio assets						3,317
Governments	901	6	–	–	–	907
Financial institutions	1,380	4	–	–	–	1,384
Other	956	70	–	–	–	1,026
Loan assets held at amortised cost						45,796
Governments	40	1	–	–	–	41
Financial institutions	591	–	–	–	–	591
Other	32,938	10,956	187	–	1,083	45,164
Other financial assets at fair value through profit or loss						2,502
Governments	125	–	–	–	–	125
Financial institutions	50	5	–	–	–	55
Other	265	2,057	–	–	–	2,322
Derivative financial instruments – positive values						11,913
Governments	222	–	–	–	–	222
Financial institutions	6,658	108	–	–	–	6,766
Other	2,492	2,424	5	–	4	4,925
Other assets						8,967
Governments	424	–	–	–	–	424
Other	6,051	2,127	–	112	253	8,543
Debt investment securities available for sale						5,066
Financial institutions	2,134	–	–	–	–	2,134
Other	2,927	5	–	–	–	2,932
Life investment contracts and other unitholder assets						928
Financial institutions	622	–	–	–	–	622
Other	306	–	–	–	–	306
Total						110,518

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

Note 43.1 Credit risk continued

Credit quality of financial assets continued

The table below shows the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the Group's credit rating system.

Credit quality – Company 2008

	Neither past due nor impaired					
	Investment grade $m	Below investment grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Other assets						1
Other	1	–	–	–	–	1
Due from controlled entities						13,891
Other	13,885	–	–	6	–	13,891
Total						13,892

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

Financial assets whose terms have been renegotiated

The table below includes the carrying value, as at the reporting date, of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

	Consolidated 2008 $m	Consolidated 2007 $m	**Company 2008 $m**	Company 2007 $m
Loans assets held at amortised cost				
Other	24	8	–	–

Notes to the financial statements
31 March 2008 continued

Note 43.1 Credit risk continued
Ageing analysis of assets past due but not impaired and impaired assets

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
						Consolidated 2008	
Trading portfolio assets							
Financial institutions	3	–	–	–	–	3	–
Loan assets held at amortised cost							
Financial institutions	–	–	–	–	1	1	–
Other	1,007	94	191	228	120	1,640	2,325
Other financial assets at fair value through profit or loss							
Financial institutions	–	–	–	3	–	3	–
Other	2	1	1	–	–	4	4
Derivative financial instruments – positive values							
Financial institutions	11	–	–	–	–	11	–
Other assets							
Other	207	60	31	34	44	376	46
Debt investment securities available for sale							
Other	–	–	–	1	208	209	–
Total	1,230	155	223	266	373	2,247	2,375
						Consolidated 2007	
Loan assets held at amortised cost							
Other	717	114	52	154	46	1,083	1,512
Derivative financial instruments – positive values							
Other	–	–	–	–	4	4	–
Other assets							
Other	132	39	12	42	28	253	50
Total	849	153	64	196	78	1,340	1,562

Included in the past due category are balances overdue by one day or more.

Note 43.1 Credit risk continued

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

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance is disclosed in the past due analysis.

The factors taken into consideration by the Group when determining whether an asset is impaired are set out in note 2(xi).

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $1,692 million (2007: $1,225 million) relates to collateral held against past due balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due and impaired balances for other assets, represents equity securities held as security against failed trade settlements.

Repossessed collateral

During the year, the Group took possession of fixed assets and property assets with a carrying value of $38 million (2007: $nil). These assets are in the process of being sold.

In the event of customer default on a residential mortgage facility, any loan security is usually held as mortgagee in possession and therefore the Group does not usually hold any real estate or other assets acquired through the enforcement of security.

43.2 Liquidity risk

Liquidity Management

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

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

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

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

Notes to the financial statements
31 March 2008 continued

43.2 Liquidity risk continued

MGL and the Non-Banking Group

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. The policy requires MGL to meet all of its repayment obligations for the next twelve months with no access to wholesale funding markets.

Reflecting the longer term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long term wholesale funding. The funding profile allows MGL to meet all repayment obligations for 12 months without having to access funding markets.

MBL and the Banking Group

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

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

Liquid asset holdings

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

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

In response to the current funding market disruption, the Group has increased its level of liquid asset holdings to $18.3 billion as at 31 March 2008 (2007: $6 billion). In addition to the liquid asset holdings, MBL has other trading assets, many of which are liquefiable at short notice.

43.2 Liquidity risk continued

Credit ratings

As at 31 March 2008, the credit ratings for each of our funding vehicles were as follows:

	Macquarie Group Limited			Macquarie Bank Limited		
	Short–term	**Long–term**	**Outlook**	**Short-term**	**Long-term**	**Outlook**
Fitch Ratings	F-1	A	Stable	F-1	A+	Stable
Moody's Investors Service	P-1	A2	Stable	P-1	A1	Positive
Standard & Poor's	A-2	A–	Stable	A-1	A	Stable

Contractual undiscounted cash flows

The table below summarises the maturity profile of the Group's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the less than 3 months column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Notes to the financial statements
31 March 2008 continued

Note 43.2 Liquidity risk continued
Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Consolidated 2008
Due to banks	**2,599**	**1,554**	**548**	**5,947**	**516**	**11,164**
Cash collateral on securities lent and repurchase agreements	**3,437**	**3,128**	**7,323**	**–**	**–**	**13,888**
Trading portfolio liabilities	**–**	**11,825**	**–**	**–**	**–**	**11,825**
Derivative financial instruments (trading)	**–**	**20,492**	**–**	**–**	**–**	**20,492**
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	**–**	**2,730**	**2,508**	**4,139**	**796**	**10,173**
Contractual amounts receivable	**–**	**(2,610)**	**(2,166)**	**(3,621)**	**(887)**	**(9,284)**
Deposits	**8,936**	**4,802**	**830**	**476**	**833**	**15,877**
Debt issued at amortised cost*	**823**	**15,807**	**24,617**	**18,414**	**3,049**	**62,710**
Other liabilities**	**–**	**7,991**	**–**	**–**	**–**	**7,991**
Other financial liabilities at fair value through profit or loss	**1,340**	**575**	**818**	**3,701**	**341**	**6,775**
Life investment contracts and other unit holder liabilities	**–**	**5,689**	**–**	**–**	**–**	**5,689**
Subordinated debt	**6**	**34**	**110**	**1,112**	**2,047**	**3,309**
Total undiscounted cash flows	**17,141**	**72,017**	**34,588**	**30,168**	**6,695**	**160,609**
						Consolidated 2007
Due to banks	1,003	2,310	296	246	569	4,424
Cash collateral on securities lent and repurchase agreements	4,086	3,403	–	–	–	7,489
Trading portfolio liabilities	–	15,922	–	–	–	15,922
Derivative financial instruments (trading)	–	10,280	–	–	–	10,280
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	6,291	2,575	12,997	3,674	25,537
Contractual amounts receivable	–	(6,314)	(2,405)	(10,192)	(3,561)	(22,472)
Deposits	8,733	3,500	85	81	10	12,409
Debt issued at amortised cost*	17	20,444	15,160	17,445	1,483	54,549
Other liabilities**	–	8,135	–	–	–	8,135
Other financial liabilities at fair value through profit or loss	4	1,045	1,218	3,358	544	6,169
Life investment contracts and other unit holder liabilities	–	5,781	–	–	–	5,781
Subordinated debt	–	37	111	1,063	2,583	3,794
Total undiscounted cash flows	13,843	70,834	17,040	24,998	5,302	132,017

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

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

Note 43.2 Liquidity risk
Contractural undiscounted cash flows continued
Company 2008

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Due to banks	–	83	198	5,464	–	5,745
Due to controlled entities	56	2,683	1,862	4,989	–	9,590
Total undiscounted cash flows	56	2,766	2,060	10,453	–	15,335

43.3 Market risk

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

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

It is recognised that trading activities which give rise to market exposures contain an element of risk taking. The Group is prepared to accept such risks provided they are correctly identified, calculated and monitored by RMG, and reported to senior management on a regular basis.

RMG monitors positions within the Group according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Group as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

– *Contingent Loss Limits:* a wide range of price and volatility scenarios, including comprehensive worst case, or stress, scenarios. Worst case scenarios include market movements larger than have occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
– *Position Limits:* volume, maturity and open position limits are set on a large number of market instruments and positions in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions;
– *Value-at-Risk (VaR) Limits:* statistical measure based on a 10-day holding period and a 99 per cent confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a 1-day VaR against hypothetical and actual daily trading profit or loss.

The Company is not exposed directly to any material market risk.

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31 March 2008 continued

Note 43.3 Market risk continued

Value-at-Risk (VaR) figures

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

Consolidated	2008 Average $m	2008 Maximum $m	2008 Minimum $m	2007 Average $m	2007 Maximum $m	2007 Minimum $m
Equities	**7.45**	**15.30**	**4.37**	7.91	13.67	3.39
Interest rates	**3.22**	**5.51**	**2.12**	2.13	3.33	1.26
Foreign exchange and bullion	**3.15**	**7.77**	**1.25**	2.19	4.72	1.39
Commodities	**10.80**	**17.70**	**3.73**	3.50	8.00	1.43
Aggregate	**13.55**	**19.54**	**8.69**	8.44	15.22	2.18

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three to ten years of historical data. VaR focuses on unexceptional price moves, it does not account for losses that could occur beyond the 99 per cent level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For Macquarie Bank Limited capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Interest rate risk

The 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 the Group's Treasury and Commodities business and managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book as an unavoidable consequence of doing business. Residual risks have independent limits that are monitored by RMG.

Certain interest rate derivative transactions are undertaken to economically hedge interest rate risk associated with the MIPS. As the MIPS are classified as equity for accounting and the hedge accounting requirements cannot be met, the volatility arising from recognising these derivatives at fair value is reflected in the income statement. Interest rate sensitivity on these derivatives is not reflected in the VaR numbers above. Indicatively, a 50 basis point increase/decrease in interest rates would result in a decrease/increase in profit before tax of $34 million (2007: $40 million) respectively.

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

Foreign currency risk

The Group is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of the Group's investments in foreign operations. Movements in foreign currency exchange rates will result in gains or losses in the income statement due to the revaluation of certain balances or in movements in the Foreign Currency Translation Reserve due to the revaluation of foreign operations.

In order to appropriately manage this risk it is Group policy that all non-trading foreign currency exposures are appropriately hedged or trading foreign currency exposures remain within trading limits set by RMG.

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Compliance with this policy is actively monitored by RMG.

Foreign currency exposures arise on the Group's net investment in foreign operations with functional currencies other than the Australian dollar for both the Group and parent entity. Forward foreign exchange contracts, or borrowings in the same currency as the exposure, are designated as hedges under Australian Accounting Standards and offset movements on the net assets within foreign operations and are transferred to the Foreign Currency Translation Reserve.

As a result of the operation of the Group's foreign exchange policy, the Group is not exposed to any material residual foreign currency risk.

Note 43.3 Market risk continued

Equity price risk

The table below indicates the equity markets to which the Group had significant exposure at 31 March on its non-trading investment portfolio excluding interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

Consolidated

		2008			2007	
Geographic region	**Movement in equity price %**	**Sensitivity of profit before tax $m**	**Sensitivity of equity after tax $m**	Movement in equity price %	Sensitivity of profit before tax $m	Sensitivity of equity after tax $m
Listed						
Australia	**+10**	**7.5**	**26.6**	+10	1.4	25.5
America	**+10**	**9.5**	**7.9**	+10	2.2	3.8
Europe	**+10**	**3.3**	**6.0**	+10	10.4	2.3
Asia	**+10**	**–**	**10.0**	+10	0.7	11.1
Other	**+10**	**–**	**2.1**	+10	–	0.5
Unlisted	**+10**	**0.7**	**22.0**	+10	–	26.3
Listed						
Australia	**–10**	**(7.1)**	**(26.6)**	–10	(1.3)	(25.5)
America	**–10**	**(9.2)**	**(7.9)**	–10	(2.2)	(3.8)
Europe	**–10**	**(3.2)**	**(6.0)**	–10	(10.4)	(2.3)
Asia	**–10**	**–**	**(10.0)**	–10	(0.7)	(11.1)
Other	**–10**	**–**	**(2.1)**	–10	–	(0.5)
Unlisted	**–10**	**(0.7)**	**(22.0)**	–10	–	(26.3)

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

	Consolidated 2008			Consolidated 2007		
	Average balance $m	Income/ (expense) $m	Average rate %	Average balance $m	Income/ (expense) $m	Average rate %
Assets						
Interest bearing assets						
Due from banks	10,565	541	5.1	3,753	200	5.3
Cash collateral on securities borrowed and reverse repurchase agreements	21,363	1,221	5.7	16,889	865	5.1
Trading portfolio assets	3,994	258	6.5	4,379	260	5.9
Loans assets held at amortised cost	50,094	3,874	7.7	41,218	2,986	7.3
Other financial assets at fair value through profit or loss	943	72	7.6	820	55	6.7
Other assets	22	2	7.8	19	1	6.0
Investment securities available for sale	10,287	719	7.0	4,224	255	6.0
Net interest in associates and joint ventures using the equity method	227	11	5.0	197	10	5.2
Total interest bearing assets	97,495	6,698		71,499	4,632	
Total non-interest bearing assets	64,523			48,105		
Total assets	162,018			119,604		
Liabilities						
Interest bearing liabilities						
Due to banks	6,834	(473)	6.9	3,570	(176)	4.9
Cash collateral on securities lent and repurchase agreements	10,991	(593)	5.4	8,333	(432)	5.2
Trading portfolio liabilities	3,027	(189)	6.2	3,190	(179)	5.6
Deposits	16,992	(861)	5.1	10,720	(498)	4.6
Debt issued at amortised cost	56,442	(3,521)	6.2	45,407	(2,444)	5.4
Other financial liabilities at fair value through profit or loss	1,124	(56)	5.0	1,227	(46)	3.7
Other liabilities	568	(37)	6.5	118	(9)	7.5
Loan capital						
Subordinated debt	2,584	(151)	5.8	2,013	(120)	6.0
Total interest bearing liabilities	98,562	(5,881)		74,578	(3,904)	
Total non-interest bearing liabilities	54,335			38,359		
Total liabilities	152,897			112,937		
Net assets	9,121			6,667		
Equity						
Contributed equity						
Ordinary share capital	4,177			2,763		
Treasury shares	(11)			(3)		
Reserves	458			325		
Retained earnings	3,270			2,325		
Total capital and reserves attributable to equity holders of Macquarie Group Limited	7,894			5,410		
Minority interest	1,227			1,257		
Total equity	9,121			6,667		

Note 45. 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 – financial risk management, for discussion on the source of the Group's funding.

	Australia $m	Europe $m	North America $m	Asia Pacific* $m	Other $m	Total $m
						Consolidated 2008
Due to banks	**5,593**	**1,880**	**1,745**	**604**	**219**	**10,041**
Cash collateral on securities lent and repurchase agreements	**3,261**	**9,013**	**102**	**907**	**498**	**13,781**
Trading portfolio liabilities	**5,102**	**903**	**1,592**	**3,170**	**1,058**	**11,825**
Deposits	**13,777**	**505**	**639**	**701**	**161**	**15,783**
Debt issued at amortised cost	**44,492**	**5,638**	**6,795**	**190**	**–**	**57,115**
Other financial liabilities at fair value through profit or loss	**1,689**	**1,614**	**380**	**2,605**	**–**	**6,288**
Subordinated debt at amortised cost	**1,691**	**–**	**13**	**–**	**–**	**1,704**
Subordinated debt at fair value through profit or loss	**646**	**–**	**–**	**–**	**–**	**646**
Total deposits and borrowings by geographical location	**76,251**	**19,553**	**11,266**	**8,177**	**1,936**	**117,183**
						Consolidated 2007
Due to banks	1,551	1,172	709	588	107	4,127
Cash collateral on securities lent and repurchase agreements	4,276	2,654	459	57	43	7,489
Trading portfolio liabilities	2,632	10,096	2,510	638	46	15,922
Deposits	11,319	108	575	268	133	12,403
Debt issued at amortised cost	27,484	16,328	6,850	703	–	51,365
Other financial liabilities at fair value through profit or loss	905	1,393	557	2,697	–	5,552
Subordinated debt at amortised cost	442	1,341	–	–	–	1,783
Subordinated debt at fair value through profit or loss	403	485	–	–	–	888
Total deposits and borrowings by geographical location	49,012	33,577	11,660	4,951	329	99,529

* Excludes Australia

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Note 46. Maturity analysis of monetary assets and liabilities
The tables below detail the maturity distribution of selected monetary assets and liabilities. Maturities represent the remaining contractual period from the balance date to the repayment date.

Consolidated 2008

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
Assets							
Cash and balances with central banks	7	–	–	–	–	–	7
Due from banks	6,566	–	–	3,544	–	–	10,110
Cash collateral on securities borrowed and reverse repurchase agreements	8,745	13,879	282	–	–	–	22,906
Trading portfolio assets	–	15,807	–	–	–	–	15,807
Loan assets held at amortised cost	5,896	4,626	2,474	4,983	12,718	–	30,697
Other financial assets at fair value through profit or loss	422	111	217	3,230	151	–	4,131
Investment securities available for sale	1,808	10,125	1,060	1,717	670	1,074	16,454
Life investment contracts and other unit holder assets*	75	630	160	–	–	4,834	5,699
Interest in associates and joint ventures using the equity method	–	–	–	–	–	5,500	5,500
Sub-total monetary assets	23,519	45,178	4,193	13,474	13,539	11,408	111,311
Loan assets held at amortised cost by mortgage SPEs**	–	1,476	3,834	10,887	5,513	–	21,710
Total monetary assets	23,519	46,654	8,027	24,361	19,052	11,408	133,021
Liabilities							
Due to banks	2,005	601	1,185	5,842	408	–	10,041
Cash collateral on securities lent and repurchase agreements	5,713	852	7,216	–	–	–	13,781
Trading portfolio liabilities	–	11,825	–	–	–	–	11,825
Deposits	8,931	4,765	814	449	824	–	15,783
Debt issued at amortised cost	832	13,163	13,024	6,813	1,719	–	35,551
Other financial liabilities at fair value through profit or loss	214	579	1,909	3,342	244	–	6,288
Life investment contracts and other unit holder liabilities	–	–	–	–	–	5,689	5,689
Subordinated debt at amortised cost	6	–	–	618	1,080	–	1,704
Subordinated debt at fair value through profit or loss	–	–	–	–	646	–	646
Sub-total monetary liabilities	17,701	31,785	24,148	17,064	4,921	5,689	101,308
Debt issued at amortised cost by mortgage SPEs**	–	1,737	10,499	9,203	125	–	21,564
Total monetary liabilities	17,701	33,522	34,647	26,267	5,046	5,689	122,872

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

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

Note 46. Maturity analysis of monetary assets and liabilities continued

Consolidated 2007

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
Assets							
Cash and balances with central banks	3	–	–	–	–	–	3
Due from banks	3,119	2,988	–	13	–	–	6,120
Cash collateral on securities borrowed and reverse repurchase agreements	21,831	4,078	–	–	–	–	25,909
Trading portfolio assets	–	15,518	–	–	–	–	15,518
Loan assets held at amortised cost	5,278	7,468	3,359	5,048	4,609	–	25,762
Other financial assets at fair value through profit or loss	781	924	74	286	714	–	2,779
Investment securities available for sale	12	3,296	–	1,149	631	972	6,060
Life investment contracts and other unit holder assets*	146	550	198	121	–	4,832	5,847
Interest in associates and joint ventures using the equity method	–	–	–	–	–	4,071	4,071
Sub-total monetary assets	31,170	34,822	3,631	6,617	5,954	9,875	92,069
Loan assets held at amortised cost by mortgage SPEs**	–	1,171	3,117	9,820	5,926	–	20,034
Total monetary assets	31,170	35,993	6,748	16,437	11,880	9,875	112,103
Liabilities							
Due to banks	1,074	2,229	272	138	414	–	4,127
Cash collateral on securities lent and repurchase agreements	4,086	3,403	–	–	–	–	7,489
Trading portfolio liabilities	–	15,922	–	–	–	–	15,922
Deposits	6,808	4,719	761	101	14	–	12,403
Debt issued at amortised cost	1,236	17,009	6,713	5,153	1,322	–	31,433
Other financial liabilities at fair value through profit or loss	43	993	1,181	2,958	377	–	5,552
Life investment contracts and other unit holder liabilities	–	–	–	–	–	5,781	5,781
Subordinated debt issued at amortised cost	–	–	–	–	1,783	–	1,783
Subordinated debt issued at fair value through profit or loss	–	–	–	–	888	–	888
Sub-total monetary liabilities	13,247	44,275	8,927	8,350	4,798	5,781	85,378
Debt issued at amortised cost by mortgage SPEs**	–	549	7,614	9,864	1,905	–	19,932
Total monetary liabilities	13,247	44,824	16,541	18,214	6,703	5,781	105,310

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

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

Notes to the financial statements
31 March 2008 continued

Note 46. Maturity analysis of monetary assets and liabilities continued
Company 2008

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
Assets							
Due from controlled entities	5,089	1,202	3,800	3,800	–	–	13,891
Total monetary assets	5,089	1,202	3,800	3,800	–	–	13,891
Liabilities							
Due to banks	–	–	–	4,864	–	–	4,864
Due to controlled entities	53	1,202	3,800	3,800	–	–	8,855
Total monetary liabilities	53	1,202	3,800	8,664	–	–	13,719

Note 47. Interest rate risk
Consolidated 2008

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing: 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
On-balance sheet assets									
Cash and balances with central banks	7.0	7	–	–	–	–	–	–	7
Due from banks	4.5	9,403	614	73	–	20	–	–	10,110
Cash collateral on securities borrowed and reverse repurchase agreements	4.2	11,802	–	10,805	282	–	–	17	22,906
Trading portfolio assets	6.7	3,640	–	79	–	–	–	12,088	15,807
Loan assets held at amortised cost	8.4	46,503	713	3,676	160	1,221	134	–	52,407
Other financial assets at fair value through profit or loss	11.2	3,304	80	528	46	25	–	148	4,131
Derivative financial instruments – positive values		–	–	–	–	–	–	21,136	21,136
Other assets		–	–	–	–	–	–	10,539	10,539
Investment securities available for sale	7.6	1,704	7,418	3,739	1,098	1,671	–	824	16,454
Intangible assets		–	–	–	–	–	–	494	494
Life investment contracts and other unit holder assets*		–	–	–	–	–	–	5,699	5,699
Interest in associates and joint ventures using the equity method	7.2	356	–	–	–	–	–	5,144	5,500
Property, plant and equipment		–	–	–	–	–	–	375	375
Deferred income tax assets		–	–	–	–	–	–	718	718
Non current assets and assets of disposal groups classified as held for sale		–	–	35	–	–	–	932	967
Total on-balance sheet assets		76,719	8,825	18,935	1,586	2,937	134	58,114	167,250

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

Note 47. Interest rate risk continued
Consolidated 2008

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing: 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
On-balance sheet liabilities									
Due to banks	4.9	8,277	860	–	196	708	–	–	10,041
Cash collateral on securities lent and repurchase agreements	4.4	6,612	255	922	5,992	–	–	–	13,781
Trading portfolio liabilities	6.1	4,504	–	7,294	–	–	–	27	11,825
Derivative financial instruments – negative values		–	–	–	–	–	–	21,399	21,399
Deposits	6.2	10,677	1,686	2,324	719	277	100	–	15,783
Debt issued at amortised cost	6.9	9,794	30,843	9,928	4,648	1,902	–	–	57,115
Other financial liabilities at fair value through profit or loss	4.4	1,573	339	229	701	3,202	244	–	6,288
Other liabilities		–	–	–	–	–	–	12,210	12,210
Current tax liabilities		–	–	–	–	–	–	193	193
Life investment contracts and other unit holder liabilities		–	–	–	–	–	–	5,689	5,689
Provisions		–	–	–	–	–	–	179	179
Deferred income tax liabilities		–	–	–	–	–	–	121	121
Liabilities of disposal groups classified as held for sale		–	–	–	–	–	–	215	215
Subordinated debt issued at amortised cost	7.2	–	–	–	–	–	1,704	–	1,704
Subordinated debt issued at fair value through profit or loss	6.3	–	–	–	–	–	646	–	646
Total on-balance sheet liabilities		41,437	33,983	20,697	12,256	6,089	2,694	40,003	157,189
Total equity									10,061

Notes to the financial statements
31 March 2008 continued

Note 47. Interest rate risk continued
Consolidated 2007

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

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

Note 47. Interest rate risk continued

Consolidated 2007

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

Notes to the financial statements
31 March 2008 continued

Note 47. Interest rate risk continued
Company 2008

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing: 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
On-balance sheet assets									
Other assets		–	–	–	–	–	–	1	1
Due from controlled entities	8.3	8,802	–	–	–	–	–	5,089	13,891
Investments in controlled entities		–	–	–	–	–	–	23,693	23,693
Deferred income tax assets		–	–	–	–	–	–	1	1
Total on-balance sheet assets		8,802	–	–	–	–	–	28,784	37,586
On-balance sheet liabilities									
Due to banks	5.5	4,864	–	–	–	–	–	–	4,864
Current tax liabilities		–	–	–	–	–	–	49	49
Due to controlled entities	8.3	8,801	–	–	–	–	–	54	8,855
Total on-balance sheet liabilities		13,665	–	–	–	–	–	103	13,768
Total equity									23,818

Note 48. Fair value

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

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

The following methods and significant assumptions have been applied in determining the fair values of financial instruments carried at fair value and financial instruments carried at amortised cost.

Financial instruments carried at fair value:

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments, and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
- fair values of fixed rate loans and issued debt classified as fair value through profit or loss is estimated by reference to current market rates offered on similar loans.

Financial instruments carried at amortised cost:

- the fair values of liquid assets and other assets maturing within 12 months approximate their carrying amounts. This assumption is applied to liquid assets and the short term elements of all other financial assets and financial liabilities;
- the fair value of demand deposits with no specific maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
- the fair values of variable rate financial instruments, including loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximated by their carrying amounts. In the case of loan assets held at amortised cost, changes in the fair value do not reflect changes in their credit quality, as the impact of credit risk is largely recognised separately by deducting the amount of the allowance for credit losses;
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans. The fair values of these instruments are not materially different from their carrying amounts;
- substantially all of the Group'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;
- in the separate financial statements of the Company, the fair value of balances due from/to controlled entities is approximated by their carrying amount as the balances are generally receivable/payable on demand.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (e.g. for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as credit risk, volatility and correlation. Changing these assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values were determined in whole or in part using valuation techniques based on such assumptions (e.g. for certain exotic or structured financial instruments), would not significantly change the fair values recognised in the financial statements.

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $'000	Consolidated 2007 $'000	Company 2008 $'000	Company 2007 $'000
Note 49. Audit and other services provided by PricewaterhouseCoopers ("PwC")				
During the financial year, the auditor of the Company and Group, PwC, and its related practices earned the following remuneration:				
PwC – Australian firm				
Audit and review of financial reports of the Company or any entity in the Group	**5,745**	3,420	**15**	–
Other audit-related work	**1,374**	1,579	**31**	–
Other assurance services	**904**	454	**288**	–
Total audit and other assurance services	**8,023**	5,453	**334**	–
Advisory services	**76**	1,432	**–**	–
Taxation	**836**	361	**–**	–
Total remuneration paid to PwC – Australian firm	**8,935**	7,246	**334**	–
Related practices of PwC – Australian firm (including PwC – overseas firms)				
Audit and review of financial reports of the Company or any entity in the Group	**5,144**	3,460	**–**	–
Other audit-related work	**193**	425	**–**	–
Other assurance services	**434**	25	**–**	–
Total audit and other assurance services	**5,771**	3,910	**–**	–
Advisory services	**1,242**	5,681	**–**	–
Taxation	**1,625**	1,113	**–**	–
Total remuneration paid to related practices of PwC – Australian firm	**8,638**	10,704	**–**	–
Total remuneration paid to PwC	**17,573**	17,950	**334**	–

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

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

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

Note 50. Acquisition and disposal of controlled entities

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

- **America's Water Heater Rentals LLC**
  On 21 June 2007, a controlled entity of the Group acquired 100 per cent of America's Water Heater Rentals, which owns and services rental water heaters.
- **Marine Services Holdings Limited**
  On 19 July 2007, a controlled entity of the Group acquired 100 per cent of Express Offshore Transport, an offshore oil and gas platform transport service.
- **Orion Financial Inc.**
  On 30 November 2007, a controlled entity of the Group acquired 100 per cent of Orion Financial Inc., a Canadian institutional stockbroking and advisory business.
- **CIT Equipment Leasing**
  On 31 December 2007, a controlled entity of the Group acquired 100 per cent of CIT Equipment Leasing in the US which specialises in the provision of leases.

Other entities acquired during the year are as follows:

OzForex Pty Limited, Greater Peterborough Health Investment Plan, Macquarie Globalis Bric Advantage Fund, Five Oak Storage, Aviation Technical Services Inc and Brek Manufacturing Co, Utility Service Partners Inc., Federal Power Avenal LLC (post acquisition Avenal Power Centre LLC), Rochester Capital Master Fund Limited, Brook Asset Management Limited, Microstar Logistics Inc and Global Asset Management Inc.

Notes to the financial statements
31 March 2008 continued

Note 50. Acquisition and disposal of controlled entities continued

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

	2008 $m	2007 $m
Fair value of net assets acquired		
Cash and other financial assets	997	103
Derivatives and financial instruments – positive values	1	39
Property, plant and equipment and assets under operating leases*	300	8
Intangible assets	449	14
Assets of disposal groups classified as held for sale	286	1,189
Payables, provisions and borrowings	(550)	(135)
Liabilities of disposal groups classified as held for sale	(102)	(674)
Minority interest	(15)	–
Minority interest in disposal groups classified as held for sale	(5)	–
Total fair value of net assets acquired	1,361	544
Purchase consideration		
Cash consideration	1,228	544
Deferred consideration (note 33)	133	–
Total purchase consideration	1,361	544
Reconciliation of cash movement		
Cash consideration	(1,228)	(544)
Less cash acquired	120	10
Net cash outflow	(1,108)	(534)

* Includes assets under operating leases of $212 million (2007: $nil).

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

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

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

Note 50. Acquisition and disposal of controlled entities continued

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

– **Greater Peterborough Health Investment Plan**
On 30 August 2007, a controlled entity of the Group deconsolidated 100 per cent of its interest in the Greater Peterborough Health Investment Plan Project.

– **Emerging Markets Finance Limited**
On 31 March 2008, a controlled entity of the Group sold its 100 per cent holding in Emerging Markets Finance Limited.

Other entities disposed of or deconsolidated during the year are as follows:
ATM Solutions Australasia Pty Limited, Macquarie IMM Investment Management Co Limited, Japan Market Neutral Fund, Macquarie IMM Prime Equity Trust, Macquarie Commodities Fund Limited, Marine Services Holdings Limited, Windpark Bippen Grundstuecks, Windkraft Holleben 1, MACT Holding Co Pty Limited and Live Payments Pty Limited.

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

	2008 $m	2007 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash and other financial assets	**656**	2
Assets of disposal groups classified as held for sale	**1,291**	3,015
Property, plant and equipment	**3**	1
Intangible assets	**–**	21
Liabilities of disposal groups classified as held for sale	**(1,181)**	(2,361)
Payables and provisions	**(593)**	(1)
Minority interest	**(9)**	–
Total carrying value of assets and liabilities disposed of or deconsolidated	**167**	677
Reconciliation of cash movement		
Cash received	**459**	1,125
Less:		
Investment retained	**(47)**	(61)
Cash deconsolidated	**(65)**	(163)
Net cash inflow	**347**	901

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

Note 51. Events occurring after the balance sheet date
There were no material post balance sheet events occurring after the reporting date requiring disclosure in these financial statements.

Macquarie Group Limited
Directors' Declaration

In the Directors' opinion

(a) the financial statements and notes set out on pages 120 to 213 are in accordance with the *Corporations Act 2001*, including:

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

   (ii) giving a true and fair view of the Company and consolidated entity's financial position as at 31 March 2008 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 56 to 110 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

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

David Clarke
Non-Executive Chairman

Allan Moss
Managing Director and
Chief Executive Officer

Sydney
19 May 2008

Independent Audit Report
to the members of Macquarie Group Limited

PRICEWATERHOUSECOOPERS

Report on the financial report and the AASB 124 remuneration disclosures contained in the directors' report
We have audited the accompanying financial report of Macquarie Group Limited (the company), which comprises the balance sheet as at 31 March 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Group Limited and the Macquarie Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report under the heading "remuneration report" in pages 56 to 110 of the directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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

Auditor's responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independent Audit Report
to the members of Macquarie Group Limited continued

Independence
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of Macquarie Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 March 2008 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

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

In our opinion, the remuneration disclosures that are contained in pages 56 to 110 of the directors' report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ian Hammond

Ian Hammond
Partner

19 May 2008

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Macquarie shareholders can register to receive their shareholder communications, such as the Annual Report, electronically, by visiting www.etree.com.au/macquarie and registering their email address.