Cover image

Growth in specialist funds
Drawing on our expertise in select sectors, an exciting area of growth is in the management of specialist asset class funds, such as infrastructure. During the year Macquarie Infrastructure Group acquired an effective holding of 43 per cent in Canada's Highway 407, the largest privatised tollroad in the world.

Risk Management Report

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

The main risks faced by the Group are market risk, credit risk, liquidity risk, operational risk, and legal compliance and documentation risk. It is the responsibility of the Risk Management Division to assess and manage these risks within the Macquarie Bank Group.

The principles followed by Macquarie Bank in risk management are:

— *Independence* – Risk Management Division is independent of the operating areas of the Group, reporting directly to the Managing Director and the Board

— *Centralised prudential management* – Risk Management Division's responsibility covers the whole of the Macquarie Bank Group. Therefore it can assess risks from a Groupwide perspective and ensure 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 Risk Management Division. The Division identifies, quantifies, and assesses all risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board

— *Continuous assessment* – Risk Management Division continually reviews risks to account for changes in market circumstances and the Group's operating areas

— *Frequent monitoring* – Centralised systems exist to allow Risk Management Division to monitor credit and market risks daily. Risk Management Division staff liaise closely with operating and support Divisions.

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 markets: changes in spot and forward exchange rates and the volatility of exchange rates

— interest rate markets: changes in the level, shape and volatility of yield curves, the basis between different interest rate securities and derivatives and credit margins

— equities markets: changes in the price and volatility of individual equities, equity baskets and equity indices

— bullion markets: changes in the price and volatility of gold and silver

— commodity markets: changes in the price and volatility of base metals and agricultural commodities.

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

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

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

Market risk limits are set on the following bases:

— a wide range of price and volatility scenarios, including comprehensive worst case, or stress, scenarios. These scenarios are measured every day and form the cornerstone of the risk management approach

— a statistically based Value At Risk (VAR) measure which, to correspond with the Australian Prudential Regulatory Authority's (APRA) capital adequacy standard, is based on a 10 day holding period and a 99 per cent confidence level. Risk Management Division performs back testing on the VAR results, that is a comparison of actual daily trading profits and losses against the daily VAR. VAR is calculated using a Monte Carlo simulation approach

— volume 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.

Risk Management Report continued

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 aggregate VAR is on a correlated basis.

	2002 Average A$M	**2002 Maximum A$M**	**2002 Minimum A$M**	2001 Average A$M	2001 Maximum A$M	2001 Minimum A$M
Value At Risk (VAR) Figures for Year ended March 2002						
Equities	**4.35**	**6.75**	**2.11**	5.21	10.46	2.32
Interest Rates	**1.48**	**4.40**	**0.72**	1.82	3.63	0.72
Foreign Exchange and Bullion	**1.18**	**3.90**	**0.27**	0.76	1.90	0.24
Commodities	**0.76**	**1.88**	**0.25**	0.76	1.63	0.35
Aggregate	**4.84**	**7.25**	**2.54**	5.65	10.38	3.57

There are two areas in which non-traded market risks arise in the Group.

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

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

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

Second, market risks arise on equity-like exposures that are taken by the Group from time to time. These exposures include:

- holdings in specialist funds managed by the Group
- direct investments in entities external to the Group
- property
- lease residuals.

All positions of this kind are reviewed and approved by Risk Management Division and, where appropriate, by Executive Committee and the Board. Consistent with the approach taken with market risks in the trading areas of the Group, equity positions are subject to worst case, or stress, scenario analysis. The Group's total exposure to equity positions on this worst case basis is subject to a portfolio limit approved by the Board.

Credit risk

Credit risk arises from both lending and trading activities. In the case of trading activity credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract once the settlement becomes due. The resultant credit exposure will be a function of the movement of prices over the period of the underlying contract.

Systems for the assessment of potential credit exposures exist for each of the Group's trading activities. As with market exposures, no credit exposures are entered into without appropriate analysis. Limits are set on the basis of these potential exposures.

The Group's philosophy on credit risk reflects the principle of separating prudential control from operational management. Responsibility for approval of credit exposures is delegated to specific individuals. All approvals reflect two principles: a requirement for dual sign-off and a requirement that, above relatively small figures, all credit exposures must be approved outside the business line proposing to undertake them. Most credit decisions are therefore taken within the Risk Management Division.

All limits are reviewed at least once a year, or more frequently if necessary, to ensure that the most current information available on counterparties is taken into account.

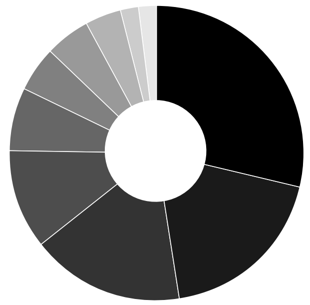
All credit exposures are monitored regularly against limits. Credit exposures which fluctuate through time are monitored daily. These include off balance sheet exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

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

The Group's policies to control credit risk include avoidance of unacceptable concentrations of risk either to an economic sector or to an individual counterparty. Large exposures to single counterparties or groups of counterparties are generally restricted unless the credit is of the highest standard or there is a high level of security.

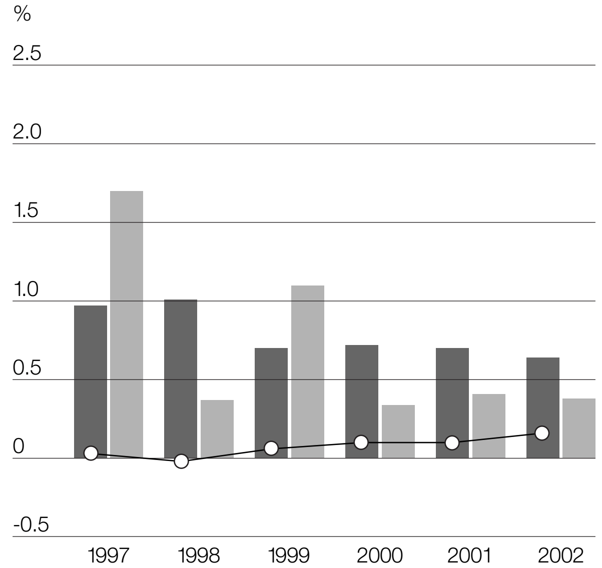
The Group has modest, though growing, exposures offshore. There are small amounts held in nostro balances and exposures to OECD and some Asia Pacific, Latin American and African countries. Where appropriate the country risk is covered by political risk insurance.

Loans, Advances and Leases by Sector 2002



Individuals and Households	29%
Finance and Insurance	19%
Property and Business Services	17%
Other	11%
Personal Services	7%
Govt Administration and Defence	5%
Manufacturing	5%
Mining	4%
Construction	2%
Electricity, Gas and Water Supply	2%

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



Provision for uncertainties to loans, advances and leases
Impaired assets to loans, advances and leases
Net loan losses to loans, advances and leases

Risk Management Report continued

Liquidity risk

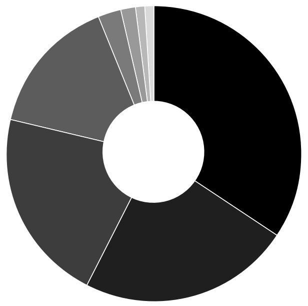
Liquidity risk is recognised as one of the most important issues for the Macquarie Bank Group. The Group's liquidity policy is reviewed regularly and has been agreed with APRA.

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

Risk Management Division monitors liquidity on a daily basis to ensure the funding profile meets liquidity policies.

A full description of the Group's liquidity policy is contained in Note 39 to the Financial Report.

Funding by Source



Short-Term Notes	34%
Corporate Clients	24%
Retail Clients	21%
Long-Term Bonds	15%
Gold Loans	2%
Subordinated Debt	2%
Due To Banks/Clearing Houses	1%
Convertible Preference Shares	1%

Operational risk

Macquarie Bank faces operational risks which could lead to reputation damage, financial loss or regulatory consequences in the event of an operational failure or error. Responsibility for management of operational risk lies in the first instance with the business unit concerned. Operational Risk Managers have been appointed within business units to help ensure business units meet this responsibility. Independently of management, Operational Risk Review (ORR) oversees and monitors operational risk.

Controls over operational risk are designed to ensure transactions are appropriately approved and that checks and balances exist over their processing, recording and reconciliation. These include procedures and controls which ensure that all transactions are accurately recorded and properly reflected in internal systems and records and that they are confirmed on a timely basis.

Consistent formalised controls operate across the Bank over the management of specific operational risks. Tight control is achieved through specialised centralised departments, formal approval processes, and bankwide policies and procedures. Project teams and special interest groups with clear reporting lines are formed to manage or focus on one-off or common risks where appropriate.

A Groupwide process of operational risk self assessment by management has been established to provide further consistency and focus on operational risk management.

Macquarie's approach to managing risk through the above framework allows new risks to be identified and dealt with in a pro-active manner, as well as regularly reviewing existing risks.

ORR's role is to ensure that operational risk management procedures in Macquarie are adequate. ORR undertakes independent reviews of risk throughout the Group, reporting directly to the Board Audit and Compliance Committee and senior management on issues or weaknesses.

Legal risk

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

Each of the Group's businesses is responsible for developing and implementing its own legal risk management procedures. Risk Management Division's Compliance function assesses legal compliance risk from a Groupwide perspective and works closely with the legal, compliance and prudential teams throughout the Group to ensure appropriate standards are applied consistently to legal risks and compliance. Overseas expansion, the development of new businesses and regulatory developments, domestically and overseas, are key areas of focus within this role.

International offices

Macquarie Bank's policy is that international offices are subject to the same standard of prudential controls that apply in Australia. Before an international office can be set up, or undertake new activities, Risk Management Division analyses the proposed activities and procedures to ensure appropriate prudential controls are in place. Risk Management Division staff monitor and routinely visit overseas offices to ensure compliance with prudential controls. In addition, Risk Management Division staff are located in certain of the larger offices.

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

Risk Management Report continued

Capital Adequacy

The Group's capital adequacy ratio at 31 March 2002, measured under APRA's guidelines, amounted to 19.4% (2001: 16.03%). The Tier 1 ratio was 17.8% (2001: 12.90%).

The Group's capital base was made up of:

	31 March 2002 $M	31 March 2001 $M
Tier 1		
Share Capital and Reserves, less goodwill and other deductions	1,900	1,272
Tier 2		
Macquarie Income Securities (excess over level allowable for Tier 1 capital)	133	141
Subordinated Debt	242	256
Less Amortised Amount	(49)	(25)
General Reserve for Losses	59	54
Less Capital Deductions	(18)	(18)
	367	408
Total Capital	2,267	1,680
Less Capital Deductions	(198)	(99)
Net Capital Base	2,069	1,581

Balance Sheet Risk-Weighted Assets – March 2002

	Amount $M	Risk Weight %	Risk Adjusted Asset $M
Cash, Bullion, Australian Government, RBA and Trading Book Securities	10,155	0	0
Local Government, Non-Commercial Public Trading Enterprises, Banks	3,597	20	719
Mortgage Loans, Stockbroking Debtors	2,439	50	1,219
Other Assets – 100% Risk Weighting	5,525	100	5,525
– 0% Risk Weighting	8,520	0	0
Total Assets	**30,234**		**7,463**
Less: Attributable to APS 120 Subsidiaries			98
Total Balance Sheet Risk-Weighted Assets			**7,365**

Off-Balance Sheet Risk-Weighted Assets – March 2002

	Nominal Amount $M	Credit Conversion Factor	Credit Equivalent Amount	Risk Weight %	Risk Adjusted Asset $M
Guarantees, Letters of Credit and Endorsements	509	50–100	391	0–100	350
Forward Purchases and Undrawn Commitments	3,692	0–100	1,201	0–100	770
Foreign Exchange, Interest Rate and other market related transactions	163,066	N/A	3,786	0–50	1,447
Total Off-Balance Sheet Risk-Weighted Assets					**2,567**

Market Risk – March 2002

	99% 10 day VAR* $M	Multiplier	Capital Charge $M	Conversion Factor	Risk Adjusted Asset $M
Interest Rates – General Market Risk	6				
Equities – General Market Risk	11				
Equities – Specific Risk	3				
Foreign Exchange and Bullion	3				
Commodities	2				
Aggregate	12	3	37	12.5	468
Surcharge for Equities Event & Default Risk			3	12.5	38
Debt Securities Specific Risk (Standard Method)			17	12.5	213
Total Market Risk Risk-Weighted Assets					**719**
Total Risk-Weighted Exposure					**10,651**

* Average for the 60 days to 31 March 2002

The Group has in place a high level capital management plan. The Board sets capital targets, having regard to APRA requirements, ratings agencies and market expectations, and the views of management. The actual capital adequacy position of the Group is calculated regularly by Risk Management Division and Financial Operations Division. In addition, forecasts of the Group's capital adequacy are made up to two years ahead so that the Group can anticipate future capital needs in response to new transactions and new businesses.

Statements of Financial Performance

For the financial year ended 31 March 2002

	Notes	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Interest income		1,009	1,018	848	884
Interest expense		(790)	(839)	(832)	(847)
Net Interest Income	2	219	179	16	37
Fee and commission income		1,210	988	371	361
Fee and commission expense		(207)	(157)	(115)	(85)
Net Fee and Commission Income	2	1,003	831	256	276
Net Trading Income	2	361	457	365	445
Net Other Income	2	17	5	363	302
Total Income from Ordinary Activities		1,600	1,472	1,000	1,060
Employment expenses	2	(859)	(775)	(599)	(559)
Occupancy expenses	2	(84)	(76)	(58)	(56)
Non-salary technology expenses	2	(79)	(70)	(62)	(54)
Other operating expenses	2	(223)	(226)	(132)	(138)
Total Expenses from Ordinary Activities		(1,245)	(1,147)	(851)	(807)
Profit from ordinary activities before income tax		355	325	149	253
Income tax (expense)/benefit	4	(76)	(53)	(18)	17
Profit from Ordinary Activities after Income Tax		279	272	131	270
Loss from ordinary activities after income tax attributed to outside equity interests		–	1	–	–
Profit from Ordinary Activities after Income Tax attributable to Equity Holders of Macquarie Bank Limited		279	273	131	270
Distributions paid or provided on Macquarie Income Securities	5	(29)	(31)	–	–
Profit from Ordinary Activities after Income Tax attributable to Ordinary Equity Holders of Macquarie Bank Limited		250	242	131	270
Revaluation of investments in controlled entities to Directors' valuation	27	–	–	–	(28)
Total Valuation Adjustments attributable to Ordinary Equity Holders Recognised Directly in Equity		–	–	–	(28)
		Cents Per Share			
Basic Earnings per Share	6	132.83	138.88		
Diluted Earnings per Share	6	131.90	139.69		

The accompanying notes form part of this Financial Report.

Statements of Financial Position

As at 31 March 2002

	Notes	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Assets					
Cash and liquid assets		283	295	165	210
Securities purchased under resale agreements	7	4,313	3,323	4,126	3,137
Trading assets	8	4,864	4,192	4,114	3,688
Other securities	9	1,937	270	52	415
Loan assets	10	9,209	7,785	7,201	5,853
Other financial market assets		4,630	7,493	4,726	7,598
Other financial assets	12	1,927	1,487	1,198	1,206
Life insurance investment assets	13	2,588	2,580	–	–
Due from controlled entities		–	–	3,608	1,936
Equity investments	14	102	88	26	27
Investments in associates and incorporated joint ventures	15	90	53	40	40
Fixed assets	16	135	108	123	100
Tax assets	17	156	174	147	115
Investments in controlled entities	18	–	–	2,161	1,157
Total Assets		30,234	27,848	27,687	25,482
Liabilities					
Due to other financial institutions	19	565	786	201	486
Securities sold under repurchase agreements	20	928	1,701	928	1,701
Securities borrowed	21	2,359	760	2,925	1,103
Deposits		4,520	3,865	4,487	3,831
Notes payable	22	9,434	8,000	9,693	8,080
Other financial market liabilities		3,811	6,099	3,930	6,160
Tax liabilities		17	24	8	6
Other liabilities	23	2,923	1,995	1,825	1,398
Life insurance policy liabilities		2,539	2,535	–	–
Due to controlled entities		–	–	1,177	787
Provisions for dividends and distributions	5	109	98	103	91
Deferred tax liabilities	17	100	138	–	–
Other provisions	24	120	103	117	99
Total Liabilities excluding Loan Capital		27,425	26,104	25,394	23,742
Loan Capital					
Subordinated debt	25	242	256	242	256
Converting Preference Shares	25	150	150	150	150
Total Liabilities		27,817	26,510	25,786	24,148
Net Assets		2,417	1,338	1,901	1,334
Equity					
Contributed Equity					
Ordinary share capital	26	1,012	392	1,012	392
Macquarie Income Securities	26	391	391	391	391
Investment revaluation reserve	27	–	–	144	272
Retained earnings	27	617	551	354	279
Total Equity Attributable to Equity Holders of Macquarie Bank Limited		2,020	1,334	1,901	1,334
Outside equity interests in controlled entities	27	397	4	–	–
Total Equity		2,417	1,338	1,901	1,334

The accompanying notes form part of this Financial Report.

Statements of Cash Flows

For the financial year ended 31 March 2002

	Notes	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Cash Flows from Operating Activities					
Interest and bill discounts received		980	1,017	817	884
Interest and other costs of finance (paid)		(821)	(790)	(827)	(782)
Dividends and trust income received		144	71	315	168
Fees, royalties and commissions received		1,149	956	679	493
Fees, royalties and commissions (paid)		(156)	(132)	(101)	(59)
Net receipts/(payments and proceeds) from dealing in financial instruments		627	(1,415)	900	(1,264)
Net (payments to suppliers)/receipts from customers (inclusive of GST)		(709)	(95)	(425)	(47)
Employment expenses (paid)		(816)	(727)	(554)	(528)
Income taxes (paid)		(165)	(141)	(66)	(27)
Life insurance investment income		84	119	–	–
Life insurance premiums received		1,854	1,739	–	–
Life insurance (policy payments)		(1,946)	(2,118)	–	–
Net Cash Flows from Operating Activities	28	225	(1,516)	738	(1,162)
Cash Flows from Investing Activities					
Loan assets (granted)/repaid		(3,698)	(1,076)	(5,295)	(1,136)
Proceeds from securitisation of loan assets		2,258	–	2,258	–
(Payments) for other securities		(1,788)	(75)	(43)	(65)
Proceeds from the sale of other securities		121	53	405	–
(Payments) for equity investments		(78)	(100)	–	(42)
Proceeds from the sale of equity investments		27	19	–	15
(Payments) for controlled entities		–	–	(1,151)	(115)
Proceeds from the sale of controlled entities		–	82	–	39
(Payments) for life insurance investments		(7,803)	(7,349)	–	–
Proceeds from the sale of life insurance investments		7,841	7,619	–	–
(Payments) for fixed assets		(75)	(67)	(55)	(61)
Proceeds from the sale of fixed assets		2	5	–	5
Net Cash Flows from Investing Activities		(3,193)	(889)	(3,881)	(1,360)
Cash Flows from Financing Activities					
Net increase in money market and other deposit accounts		2,231	2,526	2,753	2,647
Proceeds from the issue of ordinary share capital		623	55	623	55
Transaction costs for the placement of ordinary share capital		(3)	–	(3)	–
On-market buy back of ordinary share capital		–	(36)	–	(36)
Proceeds from outside equity interest		394	5	–	–
(Repayment) of subordinated debt		–	(85)	–	(85)
Dividends and distributions (paid)		(213)	(203)	(183)	(172)
Net Cash Flows from Financing Activities		3,032	2,262	3,190	2,409
Net Increase/(Decrease) in Cash		64	(143)	47	(113)
Cash at the beginning of the financial year		179	322	107	220
Cash at the End of the Financial Year	28	243	179	154	107

The accompanying notes form part of this Financial Report.

Notes to and forming part of the Financial Report

For the financial year ended 31 March 2002

Note 1. Significant Accounting Policies

The significant accounting policies adopted in the preparation of this financial report and that of the previous financial year, except as otherwise stated, are:

(i) Preparation of Financial Report

This financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, the Corporations Act 2001 and the Banking Act 1959.

This financial report has been prepared on a historical cost basis, except where otherwise stated. The carrying value of any non-current assets does not exceed their recoverable amount. In assessing recoverable amounts for particular classes of assets the relevant cash flows have not been discounted to their present values, unless otherwise stated.

As a result of applying the revised AASB 1018 Statement of Financial Performance, the revised AASB 1034 Financial Report Presentation and Disclosures and the revised AASB 1040 Statement of Financial Position for the first time, a number of comparative amounts were represented or reclassified to ensure comparability with the current financial year.

In accordance with Australian Securities & Investments Commission Class Order 98/0100 amounts in this financial report have been rounded off to the nearest million dollars unless otherwise indicated.

(ii) Consolidation

This financial report comprises the financial report of Macquarie Bank Limited (the Bank), being the chief entity, and its controlled entities (together, the economic entity). A controlled entity is one in which the Bank has the capacity to directly or indirectly control decision-making in relation to financial and operating policies, so as to require that entity to conform with the Bank's objectives. The effects of all transactions between entities in the economic entity have been eliminated in full. Outside equity interests in the results and equity of controlled entities, where the Bank owns less than 100% of the issued capital, are shown separately in the consolidated Statements of Financial Performance and Financial Position respectively.

Where control of an entity was obtained during the financial year, its results have been included in the consolidated Statement of Financial Performance 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.

Balances arise from lending and borrowing activities between the Bank and its controlled entities, and are repayable on demand. No security has been provided in respect of these lending activities.

(iii) Foreign currencies

All foreign currency monetary assets and liabilities, including those belonging to controlled entities located overseas, on the basis that they are integrated with the operations of the chief entity, have been translated into Australian currency at the rates of exchange prevailing at balance date, with all relevant movements recognised in the Statement of Financial Performance. Transactions in foreign currencies have been recorded at the rates of exchange prevailing at transaction dates. Gains or losses arising on transactions and from dealing in foreign exchange have been recognised in the Statement of Financial Performance.

Forward foreign exchange contracts, entered into in the normal course of business, are accounted for as specified in the accounting policy Note (xx) – Financial Instruments.

Foreign currency liabilities are generally matched by assets or derivative financial instruments in the same currency. The total amounts of unmatched foreign currency liabilities and assets and consequent foreign currency exposures are not material.

(iv) Interest income

Interest income from loans and deposits is brought to account on an accruals basis. Interest on finance leases is brought to account progressively over the life of the lease consistent with the outstanding investment balance.

Accrued coupons, amortisation of premiums and accretion of discounts on trading assets are brought to account as interest income on a yield to maturity basis in accordance with the term of the security.

(v) Fee income

Corporate advice and other fee income is brought to account as work is completed and a fee agreed with clients.

Fees earned from financing transactions are deferred and brought to account as interest income on a straight line basis over the term of the financing arrangement. Where the financing exposure is sold down to investors, the previously unearned amount is brought to account as fee income.

(vi) Dividends and distributions

Dividends and distributions are recognised as income in the Statement of Financial Performance upon declaration.

Notes continued

As at 31 March 2002

Note 1. Significant Accounting Policies continued

(vii) Income tax

The principles of the liability method of tax effect accounting have been adopted whereby the income tax expense for the financial year is calculated by reference to the accounting profit after allowing for permanent differences between accounting profit and taxable income. The tax assets relating to tax losses are not carried forward as an asset unless the benefit is virtually certain of realisation.

Income tax on cumulative timing differences are set aside to either the deferred tax liabilities or tax assets accounts at the rates which are expected to apply when those timing differences reverse.

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

(viii) Repurchase and reverse repurchase agreements

Securities purchased under resale agreements represent assets of the economic entity. The difference between the purchase price and the resale price is brought to account as interest income over the term of the agreement.

Securities sold under repurchase agreements represent liabilities of the economic entity. The difference between the sale price and the repurchase price is brought to account as interest expense over the term of the agreement.

(ix) Trading assets

Trading assets, including debt and equity securities, bank bills, treasury notes, bullion and commodities, are purchased with the intent that they be sold during the course of day-to-day trading operations. They are recorded at net market value, which approximates their net fair value. Any realised gains or losses from the sale of trading assets are recognised in the Statement of Financial Performance and unrealised gains or losses arising from market value adjustments and recorded in the Statement of Financial Position as “Other Financial Market Assets” and “Other Financial Market Liabilities”.

Securities borrowed include equities and fixed interest securities that are transacted in the normal course of business. They are recorded at market value, which approximates their net fair value. Any unrealised gains or losses arising from market value adjustments are recognised in the Statement of Financial Performance and recorded in the Statement of Financial Position as “Other Financial Market Assets” and “Other Financial Market Liabilities”.

(x) Other securities

Other securities are purchased with the intent that they be held for a period of time, though not necessarily until maturity. They are recorded at the lower of cost and recoverable amount. Any write-down in the value of other securities is recognised as an expense in the Statement of Financial Performance.

(xi) Credit review

All loan assets are subject to recurring review and assessment of the level of credit risk. All bad debts are written off in the period in which they are recognised and specific provisions are made for impaired assets.

Impaired loans are classified as follows:

(a) Non-accrual with:
- (i) no performance (representing loans on which no income is being received);
- (ii) partial performance (representing loans on which income, which is less than the legal entitlement, is received); and
- (iii) full performance with provisions (representing loans on which full income is being received but where a provision against loss has been made);

(b) Restructured loans (where the original loan agreement has been modified); and

(c) Other real estate owned (representing loans acquired through enforcement of security).

(xii) Property purchased for sale and development

Property purchased for sale and development represents properties purchased for the specific purpose of being held for development and sale. Property is stated at the lower of its purchase cost or recoverable amount.

(xiii) Equity investments

Investments in non-related entities intended for long-term retention are shown at cost. Where the carrying value of the investment is in excess of its recoverable amount, the investment will be written down to its recoverable amount and the difference recognised as an expense in the Statement of Financial Performance.

(xiv) Investments in associates and incorporated joint ventures

Investments in associates and incorporated joint ventures are accounted for on consolidation using the equity method. Associates are those entities over which the consolidated entity exercises significant influence but not control. The economic entity’s share of profits of these investments are recognised as income in the consolidated Statement of Financial Performance.

(xv) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets at the following rates:

Art	1%
Personal computers	50%
Other computer equipment	33.3%
Furniture and fittings	10%
Plant and equipment	20%
Leasehold improvements*	20%

* Where remaining lease terms are less than 5 years, leasehold improvements are depreciated at a higher rate to ensure they are fully depreciated by the end of the lease term.

Certain costs incurred in acquiring and developing certain software have been capitalised and are being amortised over their useful life, usually for a period of between 3 to 5 years.

Depreciation rates are reviewed annually and reassessed in the light of commercial and technological developments.

The costs of repairs and maintenance are expensed as incurred.

Where the useful life of an asset or class of assets has been reduced or effectively ended then the book value of such asset or class of assets or their useful lives would be reduced as appropriate. Adjustments arising from such restatements and on disposal of fixed assets are recognised in the Statement of Financial Position.

(xvi) Securitisation of loan assets

The economic entity securitises loan assets via the issue of bonds to investors through unrelated trusts and companies. Fees earned in respect of services provided in connection with the management of the trusts and companies are brought to account on an accrual basis. All credit and other risks associated with securitisation of the assets are assumed by the investors on purchase of the bonds.

(xvii) Provision for employee entitlements

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

(xviii) Provision for uncertainties

The economic entity maintains a provision for uncertainties to cover the inherent risk of loss that may arise from non-recovery of amounts receivable or contingent exposures. An assessment as to the adequacy of the provision is made at the end of each reporting period. Should the provision be considered inadequate, either due to losses applied against the provision or to changes in the size or risk characteristics of the economic entity’s portfolio, a charge would be made in the Statement of Financial Performance in the current financial year to adjust the provision.

(xix) Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash includes cash and liquid assets, balances due to and from the clearing bank and balances due to and from clearing houses.

(xx) Financial instruments

Financial instruments include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity and equity markets. The economic entity uses these derivative instruments for trading activities and in conjunction with the management of existing assets and liabilities (refer Note 36 – Objectives of Holding and Issuing Derivative Financial Instruments).

Transactions that are entered into for trading purposes or used as hedges of other trading assets or instruments are carried at market value, which approximates their net fair value with resultant gains and losses recognised in the Statement of Financial Performance.

Transactions entered into for hedging purposes or used to modify the interest rate characteristics of specific assets and liabilities are brought to account on the same basis as the income or expense which is recognised on the hedged instrument or the underlying asset or liability.

(xxi) Funds under management

Within the economic entity certain controlled entities act as a custodian and/or single responsible entity for a number of investment funds and trusts. As at 31 March 2002, the investment funds and trusts, both individually and collectively, have an excess of assets over liabilities. The value of funds managed by the economic entity exceeds $41.3 billion (2001: $30.9 billion).

These investment funds and trusts have not been consolidated in the financial report because individual entities within the economic entity do not have control of the funds and trusts.

Commissions and fees earned in respect of the economic entity’s funds management activities are brought to account on an accruals basis.

Notes continued

As at 31 March 2002

Note 1. Significant Accounting Policies continued

(xxii) Life insurance business

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

Fees and Charges

Fees and charges are recognised as revenue when services are provided to policy holders. This is commonly referred to as the "Margin on Services" methodology in accordance with Actuarial Standards AS 1.02 Valuation of Policy Liabilities issued by the Life Insurance Actuarial Standards Board.

Investment Assets

Investments are measured at net market value which approximates their fair value. Market value is determined based on quoted prices for listed securities and market yields for fixed interest and discount securities. Changes in net market values are recognised in the Statement of Financial Performance in the financial year 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 that fund, to acquire investments to further the business of the fund or as distributions when solvency and capital adequacy requirements are met. Shareholders can only receive a distribution, by way of dividend, when the capital adequacy requirements of the Life Insurance Act 1995 are met.

Policy Liabilities

Policy liabilities are measured as the accumulated benefits available to policy holders, calculated in accordance with AS 1.02.

Change in accounting policy

From 1 April 2001, the revised AASB 1041 Revaluation of Non-Current Assets became operative for the economic entity.

AASB 1041 requires that subsequent to initial recognition as assets, most non-current assets must be measured on either a cost or net fair value basis. When first applying AASB 1041, an entity may elect to revert to the cost basis for a class of non-current assets that was previously carried at a revalued amount. The existing carrying value can be deemed to be the cost or a retrospective adjustment can be made to reflect the assets at their original cost less any accumulated depreciation and any recoverable amount write-downs.

The Bank has elected to adopt a deemed cost basis in respect of its investments in controlled entities. Previously the investments in controlled entities were carried at the Bank's share of net assets with the revaluation increment or decrement recorded in the investment revaluation reserve. Under the amended policy, where the carrying value of these investments is in excess of their recoverable amount, the investment will be written down to its recoverable amount and the difference will be recognised as an expense in the Statement of Financial Performance.

Operating profit after income tax for the Bank for the financial year ended 31 March 2002 decreased by $19,000,000 as a result of the change in accounting policy. There was no impact on operating profit after income tax for the economic entity.

The application of the revised AASB 1041 has had no impact on the carrying value of any other classes of the economic entity's non-current assets.

Note 2. Profit from Ordinary Activities

Profit from ordinary activities before income tax has been determined after crediting as income/(charging as expense):

	Consolidated 2002 $M	Consolidated 2001 $M	**Bank 2002 $M**	Bank 2001 $M
Interest Income				
Interest income received/receivable:				
– other entities	**1,009**	1,018	**739**	850
– controlled entities	**–**	–	**109**	34
Interest expense paid/payable:				
– other entities	**(790)**	(839)	**(777)**	(821)
– controlled entities	**–**	–	**(55)**	(26)
Net Interest Income	**219**	179	**16**	37
Fee and Commission Income				
– revenue	**1,181**	956	**371**	361
– expense	**(207)**	(157)	**(115)**	(85)
Income from life insurance business (refer Note 13)	**29**	32	**–**	–
Net Fee and Commission Income	**1,003**	831	**256**	276
Trading Income				
Trading instruments	**137**	322	**176**	351
Net gains from foreign currency trading	**87**	64	**87**	64
Dividends and distributions received/receivable				
– other trading assets	**137**	71	**102**	30
Net Trading Income	**361**	457	**365**	445

Notes continued

As at 31 March 2002

Note 2. Profit from Ordinary Activities continued

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Other Income				
Share of Net Profits or Losses of Associates and Incorporated Joint Ventures Accounted for Using the Equity Method (refer Note 15)	6	–	–	–
Income arising from other securities	19	(1)	11	(2)
Life insurance income earned on shareholders' funds	5	6	–	–
Dividends received/receivable				
– other securities and equity investments	6	12	2	–
– controlled entities	–	–	83	143
Management fees and cost recoveries – controlled entities	–	–	317	223
Other income	16	23	2	17
Total other income	52	40	415	381
Provisions for uncertainties (refer Note 24)	(5)	(7)	(7)	(7)
Specific provisions (refer Note 10)				
– provided for during the financial year	(16)	(6)	(14)	(5)
– written back during the financial year	2	1	2	1
– loan losses written off	(2)	(3)	(1)	(2)
– recovery of loans previously written off	1	–	1	–
Total net charge for provisions	(20)	(15)	(19)	(13)
Write-down of investments in controlled entities to recoverable amount	–	–	(19)	–
Loss on sale of investments in controlled entities	–	–	–	(52)
Other expenses	(15)	(20)	(14)	(14)
Total other expenses	(35)	(35)	(52)	(79)
Net Other Income	17	5	363	302
Total Income from Ordinary Activities	1,600	1,472	1,000	1,060

Note 2. Profit from Ordinary Activities continued

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Employment Expenses				
Salary and salary related costs, superannuation, performance-related profit share and staff training*	(850)	(765)	(594)	(552)
Provision for annual leave	(6)	(6)	(3)	(4)
Provision for long service leave	(3)	(4)	(2)	(3)
Total Employment Expenses	(859)	(775)	(599)	(559)
Occupancy Expenses				
Operating lease rental	(62)	(55)	(44)	(42)
Depreciation: furniture, fittings and leasehold improvements (refer Note 16)	(13)	(11)	(10)	(8)
Other occupancy expenses	(9)	(10)	(4)	(6)
Total Occupancy Expenses	(84)	(76)	(58)	(56)
Non-Salary Technology Expenses				
Information services	(31)	(29)	(19)	(13)
Depreciation: computer equipment and software (refer Note 16)	(29)	(24)	(28)	(23)
Other non-salary technology expenses	(19)	(17)	(15)	(18)
Total Non-Salary Technology Expenses	(79)	(70)	(62)	(54)
Other Operating Expenses				
Auditors' remuneration (refer Note 42)	(7)	(5)	(3)	(3)
Legal and professional fees	(51)	(60)	(35)	(41)
Travel expenses	(42)	(39)	(25)	(24)
Communication expenses	(19)	(18)	(10)	(10)
Depreciation: communication equipment (refer Note 16)	(4)	(3)	(4)	(5)
Other operating expenses	(100)	(101)	(55)	(55)
Total Other Operating Expenses	(223)	(226)	(132)	(138)
Total Expenses from Ordinary Activities	(1,245)	(1,147)	(851)	(807)

* Includes an amount for performance-related profit share which has been provided for but not paid.

Note 3. Segment Information

The economic entity operates as a financial services provider principally in Australia. Some of the economic entity's services and products are offered in locations outside of Australia, where they are predominantly managed as part of the Australian divisional businesses, not as separate geographic locations. Certain segment information is available in Note 38 – Geographical Concentration of Deposits and Borrowings and in Note 41 – Credit Risk and Net Fair Value.

Notes continued

As at 31 March 2002

Note 4. Income Tax (Expense)/Benefit

Prima facie income tax on profit from ordinary activities is reconciled to the income tax (expense)/benefit charged in the Statement of Financial Performance as follows:

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Income tax (expense) on profit from ordinary activities*	(114)	(114)	(48)	(88)
Add/(deduct) tax effect of permanent differences:				
Recoupment of unbooked tax losses	12	16	–	–
Rate differential on offshore income	11	28	3	19
Distribution paid/provided on Macquarie Income Securities	9	11	–	–
Net effect of different tax treatments for life insurance business	4	4	–	–
Rebateable dividend income	2	2	31	47
Dividend paid/provided on Converting Preference Shares	(4)	(4)	(4)	(4)
Effect of change in tax rates	(2)	(3)	2	1
Other items	6	7	(2)	42
	38	61	30	105
Total Income Tax (Expense)/Benefit	(76)	(53)	(18)	17

* Prima facie income tax on profit from ordinary activities is calculated at the rate of 34% (2001: 36%) on profit from 1 April to 30 September 2001 and at a rate of 30% (2001: 34%) on profits from 1 October 2001 to 31 March 2002.

The economic entity has a tax year ending on 30 September.

The economic entity is currently subject to an audit by the Australian Taxation Office (ATO). Some amended assessments have been issued by the ATO for the 1988 to 1993 years. Other issues of potential taxation liability have been raised but have not yet been subject to the issue of amended assessments. Objections have been lodged in respect of the amended assessments and the other issues of alleged liability are also disputed.

The ATO is also reviewing the interests held by the economic entity in research and development syndicates. Amended assessments have been issued in relation to one of these syndicates, against which objections have been lodged and denied. The matter is currently proceeding to litigation.

In relation to the MIS, a draft public ruling was issued by the ATO which suggests that deductions for distributions on this type of security may not be available. The Bank has received independent legal advice confirming that deductions are available for the distributions paid or provided.

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

Note 5. Dividends and Distributions Paid or Provided

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Ordinary Share Capital				
Dividends paid	81	72	81	72
Dividends provided	103	91	103	91
Total Dividends Paid or Provided	184	163	184	163

The interim ordinary dividend paid during the financial year ended 31 March 2002 was 70% franked at 30% (2001: 70% franked at 34%). The final ordinary dividend provided as at 31 March 2002 is 70% franked at 30% (2001: 70% franked at 30%).

	Cents per Share			
Cash Dividends per Share	93.0	93.0	93.0	93.0

Converting Preference Shares

Dividends on these shares of $11,070,000 (2001: $11,070,000) have been charged to the Statement of Financial Performance as interest expense (refer Note 25 – Loan Capital). The dividend paid on 15 June 2001 was 70% franked at 34%, the dividend paid on 17 December 2001 was 70% franked at 30% and the dividend to be paid on 17 June 2002 will also be 70% franked at 30%.

Franking Credits Available for the Subsequent Financial Year at a Corporate Tax Rate of 30% (2001: 30%)	36	19	–	–

The franked portion of dividends proposed as at 31 March 2002 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

(d) franking debits that will arise from the receipt of tax receivables as at the end of the financial year.

Macquarie Income Securities				
Distributions paid (net of distributions previously provided)	23	24	–	–
Distributions provided	6	7	–	–
Total Distributions Paid or Provided	29	31	–	–

The distributions paid/payable in respect of the Macquarie Income Securities are classified as distributions on an equity instrument in accordance with AASB 1033 Presentation and Disclosure of Financial Instruments.

Notes continued

As at 31 March 2002

Note 6. Earnings Per Share

	Consolidated 2002 $M	Consolidated 2001 $M
	Cents per Share	
Basic Earnings per Share	**132.83**	138.88
Diluted Earnings per Share	**131.90**	139.69
Reconciliation of Earnings Used in the Calculation of Basic Earnings per Share		
Profit from ordinary activities after income tax	**279**	272
Loss from ordinary activities after income tax attributable to outside equity interests	**–**	1
Distributions paid or provided on Macquarie Income Securities	**(29)**	(31)
Total Earnings Used in the Calculation of Basic Earnings per Share	**250**	242
Reconciliation of Earnings Used in the Calculation of Diluted Earnings per Share		
Earnings used in calculating basic earnings per share	**250**	242
Additional interest from paying up potential ordinary shares	**21**	25
Other non-discretionary changes in earnings arising from dilutive potential ordinary shares	**19**	30
Income tax attributable to adjusted earnings	**(13)**	(19)
Total Earnings Used in the Calculation of Diluted Earnings per Share	**277**	278
Weighted Average Number of Shares Used in the Calculation of Basic Earnings per Share		
Weighted average fully paid ordinary shares	**188,505,201**	174,029,958
Weighted average fully paid equivalents of partly paid ordinary shares	**–**	198,425
Total Weighted Average Number of Ordinary Shares Used in the Calculation of Basic Earnings per Share	**188,505,201**	174,228,383
Weighted Average Number of Shares Used in the Calculation of Diluted Earnings per Share		
Weighted average fully paid ordinary shares	**188,505,201**	174,228,383
Weighted average partly paid ordinary shares prior to being fully paid	**–**	376,575
Weighted average options	**21,833,421**	24,457,361
Total Weighted Average Number of Ordinary Shares Used in the Calculation of Diluted Earnings per Share	**210,338,622**	199,062,319

The weighted average number of fully paid ordinary shares has been calculated using potential ordinary shares in accordance with AASB 1027 Earnings per Share.

Information Concerning the Classification of Securities

Partly paid shares carry the right to participate in dividends as detailed in Note 32 – Employee Equity Participation, and to that extent they have been recognised as equivalents of fully paid ordinary shares in the determination of basic earnings per share.

Note 7. Securities Purchased Under Resale Agreements

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Government securities	**3,146**	1,894	**3,146**	1,894
Listed equity securities	**935**	1,332	**748**	1,146
Foreign OECD government securities	**221**	89	**221**	89
Corporate securities	**11**	8	**11**	8
Total Securities Purchased Under Resale Agreements	**4,313**	3,323	**4,126**	3,137

Note 8. Trading Assets

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Trading Securities				
Listed equity securities	**1,480**	1,125	**1,403**	1,185
Debt securities	**1,289**	805	**1,028**	691
Certificates of deposit	**620**	612	**477**	453
Bank bills	**350**	802	**85**	546
Commonwealth government bonds	**220**	330	**220**	330
Other government securities	**573**	301	**573**	301
Other OECD government securities	**49**	35	**49**	–
Treasury notes	**225**	73	**225**	73
Total Trading Securities	**4,806**	4,083	**4,060**	3,579
Other Trading Assets				
Bullion	**58**	109	**54**	109
Total Other Trading Assets	**58**	109	**54**	109
Total Trading Assets	**4,864**	4,192	**4,114**	3,688

Note 9. Other Securities

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Debt investment securities	**1,701**	167	**2**	367
Units in unit trusts	**221**	91	**47**	47
Unlisted equity investment securities	**15**	12	**3**	1
Total Other Securities	**1,937**	270	**52**	415

Included in the balance of other securities is the economic entity's investment in the Macquarie Pro-Logis General Partnership, which was constituted in the United States. The economic entity owns 85% of the capital of the partnership. The entity is subject to joint control and has not been consolidated. The economic entity expects to sell down its interest in the partnership during the next financial year.

The market value of certain listed units held as at 31 March 2002 was $80,000,000 (2001: $64,000,000), as compared to a book value of $23,000,000 (2001: $25,000,000).

Notes continued

As at 31 March 2002

Note 10. Loan Assets

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Due from Other Financial Institutions				
Lease receivables	12	7	12	7
Loans and advances	699	449	636	391
Total Due from Other Financial Institutions	711	456	648	398
Due from Governments				
Lease receivables	522	527	403	284
Loans and advances	84	178	77	176
Total Due from Governments	606	705	480	460
Due from Other Entities				
Other loans and advances	7,395	6,254	6,034	4,939
Less specific provisions	(22)	(16)	(21)	(15)
	7,373	6,238	6,013	4,924
Lease receivables	519	386	60	71
Total Due from Other Entities	7,892	6,624	6,073	4,995
Total Loan Assets	9,209	7,785	7,201	5,853

Governments include Federal, State and Local governments and related enterprises in Australia.

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Specific Provisions				
Balance at the beginning of the financial year	16	11	15	11
Provided during the financial year	16	6	14	5
Bad debts written off	(8)	–	(6)	–
Written back during the financial year	(2)	(1)	(2)	(1)
Total Specific Provisions	22	16	21	15
Specific Provisions as a Percentage of Loan Assets	0.24%	0.20%	0.29%	0.26%

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

Note 11. Impaired Assets

Impaired assets includes loan assets and impaired items in respect of derivative financial instruments and unrecognised contingent commitments, which are classified as:

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Non-Accrual Loans Without Specific Provisions for Impairment	1	8	–	7
Non-accrual loans with specific provisions for impairment	55	27	50	24
Less specific provisions	(22)	(12)	(21)	(11)
Total Non-Accrual Loans with Specific Provisions for Impairment	33	15	29	13
Real estate acquired through the enforcement of security	–	12	–	12
Less specific provisions	–	(4)	–	(4)
Total Real Estate Acquired Through the Enforcement of Security	–	8	–	8
Total Net Impaired Assets	34	31	29	28
Revenue Forgone on Impaired Assets				
Interest	3	3	2	3
Total Revenue Forgone on Impaired Assets	3	3	2	3

Revenue recognised in respect of impaired assets was less than $1,000,000 for the financial years ended 31 March 2002 and 2001.

Note 12. Other Financial Assets

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Amounts due from brokers and clients*	918	426	318	178
Debtors and prepayments	838	923	844	953
Property purchased for sale and development	22	20	–	–
Other	149	118	36	75
Total Other Financial Assets	1,927	1,487	1,198	1,206

* Amounts due from brokers and clients are receivable within three working days of the relevant trade date.

Notes continued

As at 31 March 2002

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Note 13. Life Insurance Business				
Life Insurance Investment Assets				
Units in unit trusts	1,081	547	–	–
Debt securities	1,028	1,483	–	–
Equity securities	243	496	–	–
Cash assets	236	54	–	–
Total Life Insurance Investment Assets	2,588	2,580	–	–

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

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Income from Life Insurance Business				
Investment revenue and management fees	174	204	–	–
Life insurance policy liabilities	(138)	(164)	–	–
Direct fees	(7)	(8)	–	–
Total Income from Life Insurance Business	29	32	–	–

Solvency

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

As at 31 March 2002, the life insurance business had investment assets in excess of policy holder liabilities of $49,000,000 (2001: $45,000,000).

Note 14. Equity Investments

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Listed				
Shares and units in unit trusts at recoverable amount	4	16	4	15
Shares and units in unit trusts at cost	25	4	16	4
Total Listed Investments	29	20	20	19
Unlisted				
Shares and units in unit trusts at recoverable amount	4	8	4	5
Shares and units in unit trusts at cost	69	60	2	3
Total Unlisted Investments	73	68	6	8
Total Equity Investments	102	88	26	27

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

Note 15. Joint Ventures and Associated Entities

Unincorporated Joint Ventures

The economic entity has participating interests in the following unincorporated joint ventures:

Joint Venture Name	Participating Interest %	Interest in Assets Employed 2002 $M	Interest in Assets Employed 2001 $M
Concept Blue Joint Venture	50.0	6	–
Kingscliff South Joint Venture	33.0	*	–
Soap Joint Venture	3.0	*	*
Springthorpe Syndicate	28.0	6	3
Canberra Technology Partnership No. 1**	–	–	*
Canberra Technology Partnership No. 2 **	–	–	8
Queensland Technology Partnership No. 1 **	–	–	17
Total Interest in Assets Employed of Unincorporated Joint Ventures		12	28

* Value of investment held by economic entity is less than $1,000,000.

** The economic entity sold its interest in these unincorporated joint ventures during the financial year.

Associated Entities and Incorporated Joint Ventures

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Investments at recoverable amount	4	7	3	2
Investments at cost	86	46	37	38
Total Investments in Associated Entities and Incorporated Joint Ventures	90	53	40	40

Reconciliation of movement in the economic entity's investment in associated entities and incorporated joint ventures:

	Consolidated 2002 $M	Consolidated 2001 $M
Balance at the beginning of the financial year	53	32
Associates acquired during the financial year	44	30
Share of net profits of associates and incorporated joint ventures	6	–
Dividends received/receivable from associates during the financial year	(5)	–
Unrealised foreign exchange gains/(losses) on revaluation of investments in associates and incorporated joint ventures	(2)	–
Associates disposed of during the financial year	(3)	(6)
Share of associates' equity buy-backs	(3)	(3)
Balance at the End of the Financial Year	90	53

Notes continued

As at 31 March 2002

Note 15. Joint Ventures and Associated Entities continued

Name of Entity	Participating Interest %	Consolidated 2002 $M	Consolidated 2001 $M
303 Collins Street Trust (a)**	56	11	11
Absolute Best Limited (Hong Kong) (a)**	50	*	–
AMMB Asset Management (Malaysia) (c)	30	1	2
AMMB Investment Services (Malaysia) (c)	30	1	2
Artsim Pty Limited (b)	23	1	2
Austian (Tianjin) Property Development Co. Limited (China) (a)**	50	1	1
Bondi Beach Railway Limited (a)**	50	*	*
The Cannery Unit Trust (a)	20	*	1
China Housing Investment Fund No. 6 (a)**	83	2	3
Four Corners Capital Management LLC (United States) (c)**	67	26	–
Green Square Joint Venture (a)	30	3	*
Helmsman Funds Management Pty Limited (c)**	50	*	*
Helmsman Nominees Pty Limited (c)**	50	*	*
ICA Property Development Fund No. 1 P/L (a)	9	2	*
ICA Property Development Fund No. 2 P/L (a)	4	*	–
Innofin Pty Limited (South Africa) (c)	33	3	3
Macquarie Capital Partners LLC (United States) (a)	40	7	4
Macquarie CCY Feeder Fund (Bermuda) (c)	39	*	–
Macquarie FX Feeder Fund (Bermuda) (c)	39	*	–
Macquarie FX Feeder Fund No. 2 (Bermuda) (c)	39	*	–
Macquarie Goodman Management Limited (a)****	40	21	20
Macquarie Offshore Feeder Fund (Bermuda) (c)	39	*	–
Macquarie Offshore Feeder Fund No. 2 (Bermuda) (c)	39	*	–
Macquarie Offshore Feeder Fund No. 3 (Bermuda) (c)	39	*	–
Macquarie Real Estate Equity Fund No. 1 Pty Limited (a)	23	2	–
Medallist Golf Developments Pty Limited (a)**	70	*	*
Medallist Golf Development Trust (a)**	70	*	*
Medallist Holdings Inc. (United States) (a)**	80	2	*
Mining Equipment Company Pty Limited (d)	45	*	*
MP Management LLC (United States) (c)**	50	*	*
MPI Private Trustee Limited (c)**	50	*	*
OMNI Investments Pty Limited (e)	30	*	1
Ozestock Pty Limited (b)	20	*	*
River Links Development Pty Limited (a)	41	4	–
Securiclear Pty Limited (c)**	50	*	*
Shinhan Macquarie Financial Advisory Co. Limited (Korea) (c)	49	1	–
South African Infrastructure Funds Managers (Proprietary) Limited (South Africa) (c)**	50	*	*
Tasman Economics Pty Limited (c)	27	*	*
Tianjin Macquarie Property Development Management Co. Limited (China) (a)**	50	2	1
Trading Room Pty Limited (b)**	50	*	*
Vytel Spectrum Pty Limited (b)**	50	*	*
Edenbrooke Pty Limited (a)***	–	–	*
Macquarie Construction Investment Consulting and Management Co. Limited (China) (a)***	–	–	*
Shanghai AMP Property Company Limited (China) (a)***	–	–	2
Total Investments in Associates and Incorporated Joint Ventures		90	53

Note 15. Joint Ventures and Associated Entities continued

* Value of the investment held by the economic entity is less than $1,000,000.

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

*** The economic entity sold its interest in these associated entities and incorporated joint ventures during the financial year.

**** The market value of this investment as at 31 March 2002 was $145,000,000 (2001: $83,000,000).

(a) Property development/management entity

(b) Media, television and internet investments

(c) Funds management and investment banking services

(d) Mining equipment leasing

(e) Theme park and consulting services

Note 16. Fixed Assets

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Furniture, Fittings and Leasehold Improvements				
Cost	77	91	72	86
Less: accumulated depreciation	(37)	(52)	(35)	(50)
Total Furniture, Fittings and Leasehold Improvements	40	39	37	36
Computer Equipment and Software				
Cost	196	163	182	153
Less: accumulated depreciation	(109)	(105)	(103)	(100)
Total Computer Equipment and Software	87	58	79	53
Communication Equipment				
Cost	25	25	24	24
Less: accumulated depreciation	(17)	(14)	(17)	(13)
Total Communication Equipment	8	11	7	11
Total Fixed Assets	135	108	123	100

Reconciliation of the movement in the economic entity's fixed assets at their written-down value:

	Furniture, Fittings and Leasehold Improvements $M	Computer Equipment and Software $M	Communication Equipment $M	Total $M
Balance at the beginning of the financial year	39	58	11	108
Fixed assets acquired during the financial year	15	59	1	75
Fixed assets disposed of during the financial year	(1)	(1)	–	(2)
Depreciation expense for the financial year	(13)	(29)	(4)	(46)
Balance at the End of the Financial Year	40	87	8	135

Notes continued

As at 31 March 2002

Note 17. Tax Assets/Deferred Tax Liabilities

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Deferred tax liabilities	**(324)**	(303)	**(182)**	(143)
Less: tax assets applied against deferred tax liabilities	**224**	165	**182**	143
Total Deferred Tax Liabilities	**(100)**	(138)	**–**	–
Total Tax Assets	**156**	174	**147**	115

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

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Portion of Tax Assets Attributable to Tax Losses	**54**	48	**–**	–

A potential tax asset of approximately $19,000,000 (2001: $36,000,000) attributable to tax losses carried forward by a controlled entity has not been brought to account in the controlled entity and in the consolidated financial report as at 31 March 2002 because the Directors do not believe it is appropriate to regard realisation of the tax assets as virtually certain.

These benefits will only be obtained if:

(i) the controlled entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;

(ii) the controlled entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the controlled entity or the economic entity in realising the benefit from the deductions for loss.

Note 18. Investments in Controlled Entities

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Investments in controlled entities at deemed cost	**–**	–	**2,094**	–
Investments in controlled entities at recoverable amount	**–**	–	**67**	–
Investments in controlled entities at Directors' valuation	**–**	–	**–**	1,157
Total Investments in Controlled Entities	**–**	–	**2,161**	1,157

The net asset value of the Bank's investment in controlled entities as at 31 March 2002 is $2,280 million (2001: $1,157 million) resulting in an unrecognised revaluation increment of $119 million.

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

Bond Street Custodians Limited
City Link Management Limited
Felter Pty Limited
  Tryptic Pty Limited
Hills Motorway Management Limited
Horizon Energy Investment Management Limited
Mac Fund One Trust
Macquarie (HK) Financial Services Limited [incorp. in HKG]
  The Falcon General Partnership # (formed 6 December 2001) [incorp. in HKG]
Macquarie Acceptances Limited
  Bond Street Investments Pty Limited
    CH4 Pty Limited (minority interest 10%)
  Macquarie Asset Management Limited
    Macquarie NZ Holdings Limited
      Macquarie Group New Zealand Limited [incorp. in NZ]
        Macquarie New Zealand Limited [incorp. in NZ]
        Macquarie Equities New Zealand Limited [incorp. in NZ]
  Macquarie Direct Investment Limited
    Macquarie Direct Investment A Limited
    Macquarie Direct Investment B Limited
  Macquarie Investment Management Limited
    Macquarie-IMM Investment Management Limited [incorp. in Korea] (outside equity interest 35%)
Macquarie Office Management Limited
Macquarie Twelfth Aviation Leasing Pty Limited
Macquarie Airports Management Limited (formerly Bulwer Island Cogen Limited)
Macquarie Asset Services Limited
Macquarie Corporate Finance (USA) Inc. [incorp. in USA]
Macquarie Corporate Finance Holdings Pty Limited * (formerly Macquarie Twenty-Ninth Aviation Leasing Pty Limited)
  Macquarie Corporate Finance Limited
    Macquarie (Japan) Limited [incorp. in Japan]
    Macquarie (Malaysia) Sdn Bhd [incorp. in Malaysia]
    Macquarie Africa (Proprietary) Limited [incorp. in South Africa]
    Macquarie Asset Finance Limited
    Macquarie North America Limited [incorp. in Canada]
Macquarie CountryWide Management Limited
Macquarie Direct Property Management Limited
Macquarie Diversified Portfolio Investments Pty Limited
  Macquarie Diversified Investments Limited Partnership (outside equity interest 27%)
Macquarie Domestic Hedge Fund Management Limited #
Macquarie Equities (Asia) Limited [incorp. in HKG]

Notes continued

As at 31 March 2002

Note 18. Investments in Controlled Entities continued

Macquarie Equities (Australia) Limited
Macquarie Equities (US) Holdings Pty Limited
Macquarie Holdings (USA) Inc. [incorp. in USA]
Macquarie Real Estate Inc. (formerly Macquarie (Delaware) Inc.) [incorp. in USA]
Macquarie Real Estate Finance Inc.# (incorp. 8 November 2001) [incorp. in USA]
Macquarie Inc. [incorp. in USA]
Macquarie Equities Limited
Macquarie Equity Capital Markets Limited
Macquarie European Holdings Pty Limited
Macquarie Equities (UK) Limited [incorp. in UK]
Macquarie Finance Limited
Macquarie Infrastructure Debt Management Limited
Macquarie Infrastructure Investment Management (UK) Limited [incorp. in UK]
Macquarie Infrastructure Investment Management Limited
Macquarie International Capital Advisors Limited * (formerly Koorileah Pty Limited)
Macquarie International Limited [incorp. in UK]
Macquarie Leasing Pty Limited *
Macquarie Leisure Management Limited
Macquarie Life Limited
Macquarie Options Pty Limited *
Macquarie Property Development Finance Limited
Macquarie Securitisation Limited
Macquarie Services (Hong Kong) Limited [incorp. in HKG]
Macquarie Specialised Asset Management 2 Limited
Macquarie Specialised Asset Management Limited
Macquarie Technology Investments Limited
MAIL Holdings Limited
Macquarie Australia International Limited
SPAL Limited
Urban Pacific Limited

Note: All entities were incorporated in Australia unless otherwise stated.
Overseas controlled entities carry on business predominantly in their place of incorporation.
Beneficial interest in all entities is 100%, unless otherwise stated.

Explanation of symbols:
* With the exception of the entities so marked, all private companies with affix Pty Limited qualify as small companies and, as such, are not required to prepare an audited financial report.
# Entity acquired/incorporated during the financial year.

	Consolidated 2002 $M	Consolidated 2001 $M	**Bank 2002 $M**	Bank 2001 $M

Note 19. Due to Other Financial Institutions

	Consolidated 2002 $M	Consolidated 2001 $M	**Bank 2002 $M**	Bank 2001 $M
OECD central banks	**328**	292	**56**	37
Clearing houses	**31**	13	**2**	–
Clearing banks	**9**	103	**9**	103
Other	**197**	378	**134**	346
Total Due to Other Financial Institutions	**565**	786	**201**	486

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

Note 20. Securities Sold Under Repurchase Agreements

	Consolidated 2002 $M	Consolidated 2001 $M	**Bank 2002 $M**	Bank 2001 $M
Government securities	**549**	1,504	**549**	1,504
Foreign OECD government securities	**220**	86	**220**	86
Corporate securities	**88**	7	**88**	7
Listed equity securities	**71**	104	**71**	104
Total Securities Sold Under Repurchase Agreements	**928**	1,701	**928**	1,701

Note 21. Securities Borrowed

	Consolidated 2002 $M	Consolidated 2001 $M	**Bank 2002 $M**	Bank 2001 $M
Commonwealth government securities	**1,664**	316	**1,664**	316
Listed equity securities	**365**	302	**931**	645
Other government securities	**318**	133	**318**	133
Corporate securities	**12**	7	**12**	7
Foreign OECD government securities	**–**	2	**–**	2
Total Securities Borrowed	**2,359**	760	**2,925**	1,103

Note 22. Notes Payable

	Consolidated 2002 $M	Consolidated 2001 $M	**Bank 2002 $M**	Bank 2001 $M
Euro floating rate notes	**3,600**	3,152	**3,600**	3,152
Euro commercial paper	**2,340**	1,577	**2,340**	1,577
Negotiable certificates of deposit	**2,149**	2,412	**2,149**	2,412
US commercial paper	**609**	417	**609**	417
Domestic issued paper	**495**	243	**754**	323
Other notes	**241**	199	**241**	199
Total Notes Payable	**9,434**	8,000	**9,693**	8,080
Reconciliation of notes payable by major currency:				
United States Dollars	**4,586**	4,192	**4,586**	4,192
Australian Dollars	**2,656**	2,669	**2,915**	2,749
Euro	**738**	–	**738**	–
Hong Kong Dollars	**654**	429	**654**	429
British Pounds	**517**	342	**517**	342
Japanese Yen	**283**	368	**283**	368
Total Notes Payable by Currency	**9,434**	8,000	**9,693**	8,080

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

Note 23. Other Liabilities

	Consolidated 2002 $M	Consolidated 2001 $M	**Bank 2002 $M**	Bank 2001 $M
Amounts due to brokers and clients*	**1,874**	738	**1,002**	512
Accrued charges and sundry provisions	**657**	655	**612**	581
Creditors	**326**	510	**148**	232
Other	**66**	92	**63**	73
Total Other Liabilities	**2,923**	1,995	**1,825**	1,398

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

Notes continued

As at 31 March 2002

Note 24. Other Provisions

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Provision for uncertainties	59	54	59	52
Provision for annual leave	36	26	33	24
Provision for long service leave	25	23	25	23
Total Other Provisions	**120**	103	**117**	99

Provision for Uncertainties

The provision for uncertainties is a general provision and is intended to cover the inherent risk of loss that may arise from the non-recovery of amounts receivable or contingent exposures.

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Balance at the beginning of the financial year	54	47	52	45
Provided during the financial year	5	7	7	7
Total Provision for Uncertainties	**59**	54	**59**	52
Provision for Uncertainties as a Percentage of Risk-Weighted Exposures	**0.55%**	0.55%		

Note 25. Loan Capital

Subordinated Debt

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

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

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
1 April 2003	10	10	10	10
1 April 2004 (USD 50 million)	94	103	94	103
1 April 2005 (Yen 2 billion)	28	33	28	33
16 October 2007	50	50	50	50
23 April 2008	60	60	60	60
Total Subordinated Debt	**242**	256	**242**	256

All subordinated debt is denominated in Australian dollars unless otherwise stated.

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

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
1,500,000 Converting Preference Shares of $100 each	**150**	150	**150**	150

The Converting Preference Shares are classified as debt in accordance with AASB 1033 "Presentation and Disclosure of Financial Instruments". Non-cumulative dividends are paid six monthly at a fixed rate of 7.38% p.a. They convert to ordinary shares of the Bank, at a predetermined rate, on 15 June 2004 although if certain Trigger Events occur, including the non-payment of a dividend or in the event of the Bank being placed into liquidation or wound up, conversion may occur earlier. The Bank also has the option to convert them to ordinary shares any time after 15 June 2003.

In accordance with Australian Prudential Regulation Authority Guidelines, the Bank includes the Converting Preference Shares as Tier 1 capital.

Note 26. Contributed Equity

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Ordinary Share Capital				
Opening balance of 175,868,560 (2001: 171,225,003) fully paid ordinary shares	**392**	372	**392**	372
Opening balance of Nil (2001: 575,000) partly paid ordinary shares* (non-voting until converted to fully paid)	**–**	1	**–**	1
	392	373	**392**	373
Placement of 14,285,715 ordinary shares on 20 September 2001 at $35 per share	**500**	–	**500**	–
Transaction costs for placement of shares	**(3)**	–	**(3)**	–
Placement of 509,666 ordinary shares on 6 November 2001 at $35 per share	**18**	–	**18**	–
Transaction costs for placement of shares	**–**	–	**–**	–
Issue of 7,797,007 (2001: 5,314,311) shares on exercise of options	**104**	52	**104**	52
Issue of 38,880 (2001: 45,080) shares pursuant to the Employee Share Plan at $37.03 (2001: $28.28) per share**	**1**	1	**1**	1
Conversion of Nil (2001: 575,000) partly paid shares to fully paid	**–**	2	**–**	2
On-market buy-back of Nil (2001: 1,290,834) shares***	**–**	(36)	**–**	(36)
Total Ordinary Share Capital	**1,012**	392	**1,012**	392
Reconciliation of Total Ordinary Share Capital:				
198,499,828 (2001: 175,868,560) fully paid ordinary shares	**1,012**	392	**1,012**	392
Nil (2001: Nil) partly paid ordinary shares	**–**	–	**–**	–
Total Ordinary Share Capital	**1,012**	392	**1,012**	392

* These shares were issued under the Bank's now closed Partly Paid Share Scheme.

** The value of these shares was expensed as part of the employee profit share pool.

*** From 1 to 15 December 2000, the Bank purchased on-market and subsequently cancelled 1,290,834 fully paid ordinary shares, which represented less than 1% of the total number of ordinary shares then on issue. The buy-back and cancellation was approved by the Australian Prudential Regulation Authority. The shares were acquired at an average price of $27.89 per share. The total cost of the buy-back was $36,000,000. No external transaction costs were incurred.

There was no current on-market buy-back as at the end of the financial year and up to and including the date of this financial report.

As at 31 March 2002, 21,328,077 (2001: 23,622,773) options granted to employees over unissued ordinary shares had not been exercised. Refer to Note 32 – Employee Equity Participation.

For further information regarding the terms and conditions of the issue of options and shares to employees refer to Note 32 – Employee Equity Participation.

Notes continued

As at 31 March 2002

Note 26. Contributed Equity continued

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Macquarie Income Securities				
4,000,000 Macquarie Income Securities of $100 each	**400**	400	**400**	400
Less: transaction costs for original placement	**(9)**	(9)	**(9)**	(9)
Total Macquarie Income Securities	**391**	391	**391**	391

The Macquarie Income Securities are classified as equity in accordance with AASB 1033 Presentation and Disclosure of Financial Instruments. Interest is paid quarterly at a floating rate of BBSW plus 1.7% pa, with a minimum interest rate of 7.25% pa for the period to 15 January 2003. Payment of interest to holders is subject to certain conditions, including the profitability of the Bank. They are a perpetual instrument with no conversion rights. They were listed for trading on the Australian Stock Exchange on 19 October 1999.

Note 27. Reserves, Retained Earnings and Outside Equity Interests

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Investment Revaluation Reserve				
Balance at the beginning of the financial year	**–**	–	**272**	241
Amounts transferred (to)/from retained earnings*	**–**	–	**(128)**	59
Revaluation of investments in controlled entities to Directors' valuation**	**–**	–	**–**	(28)
Total Investment Revaluation Reserve* **	**–**	–	**144**	272

* During the current financial year, certain controlled entities paid dividends out of retained earnings as at 31 March 2001 to the Bank of $128 million. These retained earnings had been taken into account as at 31 March 2001 in determining the value of the Bank's investment in controlled entities.

** The Bank has adopted a deemed cost method for its investment in controlled entities from 1 April 2001. Revaluation (decrements)/increments are no longer recognised – Refer Note 1.

*** The unrecognised revaluation increment on investments in controlled entities at 31 March 2002 is $119 million (2001: $Nil).

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Retained Earnings				
Balance at the beginning of the financial year	**551**	472	**279**	231
Profit from ordinary activities after income tax attributable to ordinary equity holders	**250**	242	**131**	270
Amounts transferred from/(to) investment revaluation reserve	**–**	–	**128**	(59)
Dividends paid or provided on ordinary share capital (refer Note 5)	**(184)**	(163)	**(184)**	(163)
Total Retained Earnings	**617**	551	**354**	279
Outside Equity Interests in Controlled Entities				
Ordinary share capital	**6**	5	**–**	–
Partnership capital	**393**	–	**–**	–
Accumulated losses	**(2)**	(1)	**–**	–
Total Outside Equity Interests in Controlled Entities	**397**	4	**–**	–

Note 28. Notes to the Statements of Cash Flows

(a) Reconciliation of Cash

Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to related items in the Statement of Financial Position as follows:

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Cash and liquid assets	**283**	295	**165**	210
Due to other financial institutions				
– clearing houses	**(31)**	(13)	**(2)**	–
– clearing bank	**(9)**	(103)	**(9)**	(103)
Cash at the End of the Financial Year	**243**	179	**154**	107

(b) Reconciliation of Profit from Ordinary Activities after Income Tax to Net Cash Flows from Operating Activities

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Profit from Ordinary Activities after Income Tax	**279**	272	**131**	270
Non-Cash Flows in Profit from Ordinary Activities				
Charges for provisions	**20**	12	**21**	11
Depreciation	**46**	40	**32**	37
Converting Preference Shares distribution	**11**	11	**11**	11
Equity accounted profits	**(6)**	–	**–**	–
Loss on sale of fixed assets	**1**	2	**–**	–
Write-down of investment in controlled entities to recoverable amount	**–**	–	**19**	–
Changes in Assets and Liabilities				
(Increase)/decrease in dividends receivable	**(4)**	–	**(4)**	3
(Decrease) in fees and commissions receivable	**(31)**	(12)	**(9)**	(4)
Increase/(decrease) in fees and commissions payable	**50**	(1)	**14**	(1)
(Decrease)/increase in tax liabilities	**(7)**	(5)	**2**	(5)
Decrease/(increase) in tax assets	**18**	(107)	**(32)**	(28)
(Decrease)/increase in deferred tax liabilities	**–**	(32)	**–**	1
(Increase) in interest receivable	**(29)**	(1)	**(22)**	–
Decrease/(increase) in interest payable	**(42)**	38	**(15)**	55
Increase in employment provisions	**12**	47	**10**	30
(Increase)/decrease in debtors, prepayments, accrued charges and creditors	**(481)**	(7)	**(178)**	106
Decrease/(increase) in financial instruments	**383**	(1,773)	**626**	(1,648)
Dividends received from equity accounted investments	**5**	–	**4**	–
Dividends received from controlled entities	**–**	–	**128**	–
Net Cash Flows from Operating Activities	**225**	(1,516)	**738**	(1,162)

Notes continued

As at 31 March 2002

Note 28. Notes to the Statements of Cash Flows continued

(c) Disposal/Acquisition of Businesses and Controlled Entities

Details of the aggregate cash flows and consideration relating to the disposal during the financial year ended 31 March 2001 of businesses and controlled entities, and the aggregate assets and liabilities of the businesses and controlled entities at the date of acquisition are detailed below:

	Consolidated 2002 $M	Consolidated 2001 $M	**Bank 2002 $M**	Bank 2001 $M
Cash inflow	**–**	82	**–**	39
Other financial assets	**–**	(363)	**–**	(138)
Investments in controlled entities	**–**	–	**–**	11
Total Assets	**–**	(363)	**–**	(127)
Deposits	**–**	179	**–**	–
Deferred tax liabilities	**–**	102	**–**	36
Total Liabilities	**–**	281	**–**	36
Total Net Assets (Disposed)	**–**	(82)	**–**	(91)
Gain/(Loss) on Disposal	**–**	–	**–**	(52)
(d) Financing Arrangements				
Total Used	**55**	32	**–**	–
Total Unused	**71**	83	**–**	–
Total Overdraft Facilities	**126**	115	**–**	–

Macquarie Equities (Asia) Limited, a controlled entity of the Bank incorporated in Hong Kong, has a HKD 200,000,000 overdraft facility. The facility may be drawn down at any time and is subject to annual review. Should the facility be drawn upon, interest will be charged at a maximum rate of HIBOR plus 100 basis points pa. Fees are charged on the undrawn amount at a maximum of 0.15% pa.

Macquarie Finance (NZ) Limited, a controlled entity of the Bank incorporated in New Zealand, has a NZD 95,000,000 overdraft facility of which NZD 67,000,000 has been drawn at 31 March 2002 (2001: NZD 38,000,000). The overdraft is a 364 day rolling facility. The next roll date is 6 May 2002. Interest is payable on the drawn amount only at a floating rate of 5.09% pa (2001: 6.4%). This facility will mature on 6 February 2003.

The economic entity has not obtained any additional commercial standby facilities because there are liquidity controls in place which limit the extent of any cash flow mismatch.

Note 29. Related Party Information

Controlled entities

Transactions between the Bank and its controlled entities principally arise from the provision of banking and other financial services, the granting of loans, acceptance of funds on deposit and provision of management and administration services. These transactions may or may not be on commercial terms. All transactions undertaken during the financial year with controlled entities are eliminated in the consolidated financial report. Amounts due from and due to controlled entities, at balance date, are shown in the Statement of Financial Position. Interest received or receivable from and paid or payable to controlled entities and dividends received and receivable by the Bank from controlled entities are disclosed in Note 2 – Profit from Ordinary Activities.

Directors

The Directors who held office during the financial year were:

Executive Directors:
D.S. Clarke, AO *Executive Chairman*
A.E. Moss, *Managing Director and Chief Executive Officer*
M.R.G. Johnson, *Deputy Chairman*

Non-Executive Directors:
J.G. Allpass
L.G. Cox, AO
B.R. Martin
H.K. McCann
H.M. Nugent

In addition, Mr B.N. Kelman, AO, CBE held office as a Non-Executive Director of the Bank from the beginning of the financial year until his retirement on 26 July 2001.

Directors' remuneration

Eligible termination payments paid to retiring Directors as part of a retirement scheme are included in remuneration. These amounts are only paid, six months after retirement, if certain disqualifying events do not occur. If such events occur the amounts are forfeited. That portion of performance-related remuneration subject to restrictions noted in the Directors' Report is excluded from the disclosures following.

In addition to the remuneration shown over, fees were paid for consulting services provided during the financial year by Mr L.G. Cox $525,000 (2001: $493,000) and by Mr J.G. Allpass $27,000 (2001: $27,000). In addition, Mr Allpass received fees for attendance at due diligence committee meetings of $8,000 (2001: $9,000).

The remuneration paid to Directors has been calculated in accordance with AASB 1017 Related Party Disclosures and AASB 1028 Accounting for Employee Entitlements.

	Consolidated 2002 $000	Consolidated 2001 $000	**Bank 2002 $000**	Bank 2001 $000
Directors' Remuneration				
Remuneration received or receivable by Directors of the Bank from the Bank and all its controlled entities:				
Base remuneration	**1,711**	1,812	**1,711**	1,812
Performance-related remuneration	**8,468**	7,240	**8,468**	7,240
Remuneration recognised in the Statement of Financial Performance	**10,179**	9,052	**10,179**	9,052
Value of options granted	**2,054**	657	**2,054**	657
Total Directors' Remuneration	**12,223**	9,709	**12,223**	9,709

Notes continued

As at 31 March 2002

Note 29. Related Party Information continued

The number of Directors whose remuneration fell within the following bands was:

	Number 2002	Number 2001
$40,000 – $49,999	1	–
$50,000 – $59,999	1	–
$90,000 – $99,999	1	2
$100,000 – $109,999	1	1
$120,000 – $129,999	–	1
$130,000 – $139,999	1	–
$140,000 – $149,999	–	1
$160,000 – $169,999	1	1
$1,400,000 – $1,409,999	–	1
$2,410,000 – $2,419,999	1	–
$2,550,000 – $2,559,999	–	1
$3,080,000 – $3,089,999	1	–
$5,020,000 – $5,029,999	–	1
$6,130,000 – $6,139,999	1	–

Directors' Loans

Loans and guarantee facilities provided to Directors of the Bank and to parties related to them are made in the ordinary course of business on normal commercial terms and conditions.

	2002 $000	2001 $000
Loans outstanding at the beginning of the financial year	2,391	4,489
Advances (D.S. Clarke, M.R.G Johnson)	1,125	48
Repayments (D.S Clarke, L.G. Cox, M.R.G. Johnson)	(1,142)	(2,146)
Total Directors' Loans	2,374	2,391

During the financial year the Bank brought to account interest income from loans made to Directors of $151,000 (2001: $272,000). The aggregate amount of any undrawn facilities as at 31 March 2002 was $1,597,000 (2001: $1,439,000).

Loans and other financial instrument transactions are made by the Bank in the ordinary course of business with related parties. Relief from disclosure of these transactions (with the exception of transactions with Directors) is granted by the Australian Securities & Investments Commission in Class Order 98/110 dated 10 July 1998. The Class Order requires the Directors to issue a statutory declaration, signed by two Directors, stating that the Bank has systems of internal controls and procedures which provide assurance that any loans or other financial instrument transactions which are not entered into on normal terms and conditions are drawn to the attention of the Directors so that they may be disclosed in the financial report. The Bank will lodge the statutory declaration with the Australian Securities & Investments Commission with this Financial Report.

Note 29. Related Party Information continued

Directors' equity participation

As at 31 March 2002 the Directors held, in aggregate, the following interests in shares and share options of the Bank and details of the movements in those interests, including on-market transactions, are:

	Share Options		Fully Paid Ordinary Shares	
	2002	2001	2002	2001
Aggregate acquired during the financial year	197,500	89,583	480,151	949,958
Aggregate disposed of during the financial year	502,500	830,000	76,500	1,010,000
Aggregate held at the end of the financial year	567,204	872,204	2,107,993	1,704,342

A Director has an interest in 4,000 (2001: 4,000) endowment warrants over ordinary shares of the Bank. These warrants expire on 30 June 2007.

During the financial year the Directors received dividends relating to the abovementioned shareholdings at the same rate as other shareholders.

Other Transactions with Directors

During the financial year certain Directors had monies on deposit with the Bank within normal customer relationships on terms and conditions no more favourable than those available to other customers.

Note 30. Retirement Benefits

The amount paid by the Bank to Non-Executive Directors or a prescribed superannuation fund in connection with the retirement of these Directors from the Bank was $106,000 (2001: $43,000). The Directors, having regard to the details involved, consider the provision of full particulars in regard to these payments would be unreasonable.

The economic entity contributed to defined contribution superannuation funds in connection with the retirement of its employees. The economic entity does not have any liability to contribute to these superannuation funds beyond an annual percentage of employee earnings.

Notes continued

As at 31 March 2002

Note 31. Executive Officers' Remuneration

Remuneration received or receivable by executives principally involved in the management of the Bank and its controlled entities:

	Consolidated 2002 $000	Consolidated 2001 $000	Bank 2002 $000	Bank 2001 $000
Base remuneration	**4,795**	4,278	**4,795**	4,278
Performance-related remuneration*	**25,295**	22,228	**25,295**	22,228
Other amounts payable to retired executive officers***	**11,875**	–	**11,875**	–
Remuneration recognised in the Statement of Financial Performance	**41,965**	26,506	**41,965**	26,506
Value of options granted	**7,885**	2,640	**7,885**	2,640
Total Executive Officers' Remuneration	**49,850**	29,146	**49,850**	29,146

The number of executives whose remuneration fell within the following bands was:

	Number 2002	Number 2001	Number 2002	Number 2001
$380,000 – $389,999	**–**	1	**–**	1
$920,000 – $929,999	**–**	1	**–**	1
$1,280,000 – $1,289,000	**–**	1	**–**	1
$1,400,000 – $1,409,999	**–**	1	**–**	1
$1,500,000 – $1,509,999	**1**	–	**1**	–
$1,510,000 – $1,519,999	**1**	–	**1**	–
$1,690,000 – $1,699,999	**1**	–	**1**	–
$2,160,000 – $2,169,999	**–**	1	**–**	1
$2,220,000 – $2,229,999	**–**	1	**–**	1
$2,410,000 – $2,419,999	**1**	–	**1**	–
$2,550,000 – $2,559,999	**–**	1	**–**	1
$2,640,000 – $2,649,999	**–**	1	**–**	1
$2,680,000 – $2,689,999	**–**	1	**–**	1
$2,980,000 – $2,989,999	**–**	1	**–**	1
$3,070,000 – $3,079,999	**1**	–	**1**	–
$3,080,000 – $3,089,999	**1**	–	**1**	–
$3,330,000 – $3,339,999**	**1**	–	**1**	–
$3,690,000 – $3,699,999	**1**	–	**1**	–
$4,220,000 – $4,229,999	**1**	–	**1**	–
$4,850,000 – $4,859,999	**–**	1	**–**	1
$5,020,000 – $5,029,999	**–**	1	**–**	1
$5,840,000 – $5,849,999***	**1**	–	**1**	–
$5,900,000 – $5,909,999	**1**	–	**1**	–
$6,130,000 – $6,139,999	**1**	–	**1**	–
$7,430,000 – $7,439,999**	**1**	–	**1**	–

* The portion of performance-related remuneration subject to restrictions noted in the Directors' Report is excluded from the disclosures above.

** Includes contractual retirement benefits that have been previously accumulated. These amounts are only paid six months after retirement, if certain disqualifying events had not occurred. If such events had occurred, the amount would have been forfeited.

*** Includes an accrued contractual entitlement which will be payable upon retirement from the Bank.

The remuneration paid to executive officers has been calculated in accordance with AASB 1017 Related Party Disclosures and AASB 1028 Accounting for Employee Entitlements.

Note 32. Employee Equity Participation

Option plan

In December 1995, the Bank introduced an Employee Option Plan (the Plan), as a replacement for the Bank's now closed partly paid share scheme. Staff eligible to participate are those of Associate Director level and above and consultants to the economic entity. At 31 March 2002 there were 1,009 (2001: 887) participants in the Plan.

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

The options are issued for no consideration and are granted at prevailing market prices. The exercise price of new options granted is 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.

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

Latest Date for Exercise of Options	Exercise Price	Balance as at 1 April 2001	Options Issued during the Financial Year	Options Exercised during the Financial Year	Options Lapsed during the Financial Year	Balance as at 31 March 2002
19 August 2001	$6.86	654,518	–	(654,518)	–	**–**
1 October 2001	$6.50	20,000	–	(20,000)	–	**–**
6 January 2002	$8.30	7,500	–	(7,500)	–	**–**
13 January 2002	$8.71	12,500	–	(12,500)	–	**–**
4 March 2002	$8.59	20,000	–	(20,000)	–	**–**
26 March 2002	$8.50	8,750	–	(8,750)	–	**–**
27 March 2002	$8.49	5,000	–	(5,000)	–	**–**
7 April 2002	$8.57	16,250	–	(16,250)	–	**–**
8 April 2002	$8.11	20,000	–	(20,000)	–	**–**
16 April 2002	$8.46	5,000	–	(5,000)	–	**–**
18 April 2002	$8.59	5,000	–	(5,000)	–	**–**
23 May 2002	$8.41	5,000	–	(5,000)	–	**–**
26 May 2002	$8.32	37,500	–	(37,500)	–	**–**
28 May 2002	$8.49	17,500	–	(17,500)	–	**–**
29 May 2002	$8.44	8,100	–	(8,100)	–	**–**
24 June 2002	$9.00	5,000	–	(5,000)	–	**–**
25 June 2002	$9.13	32,500	–	(32,500)	–	**–**
18 July 2002	$11.17	3,556,952	–	(2,749,351)	(6,667)	**800,934**
8 August 2002	$8.65	6,668	–	(6,668)	–	**–**
11 August 2002	$11.17	351,371	–	(290,000)	–	**61,371**
12 August 2002	$11.17	15,000	–	(15,000)	–	**–**
23 October 2002	$13.17	20,000	–	–	–	**20,000**
24 October 2002	$9.14	13,334	–	(13,334)	–	**–**
7 November 2002	$11.90	50,000	–	(50,000)	–	**–**
10 November 2002	$13.20	20,000	–	(20,000)	–	**–**
24 November 2002	$13.49	7,002	–	(7,002)	–	**–**
25 November 2002	$13.18	16,615	–	(16,615)	–	**–**
2 December 2002	$12.30	6,668	–	–	(6,668)	**–**
19 December 2002	$10.38	20,000	–	(13,332)	(6,668)	**–**
22 December 2002	$10.96	23,336	–	(23,336)	–	**–**
23 December 2002	$11.59	6,668	–	(6,668)	–	**–**
10 March 2003	$11.39	13,334	–	(6,666)	–	**6,668**
11 March 2003	$13.20	20,000	–	(13,332)	–	**6,668**
30 March 2003	$11.53	20,000	–	–	–	**20,000**

Notes continued

As at 31 March 2002

Note 32. Employee Equity Participation continued

Latest Date for Exercise of Options	Exercise Price	Balance as at 1 April 2001	Options Issued during the Financial Year	Options Exercised during the Financial Year	Options Lapsed during the Financial Year	Balance as at 31 March 2002
8 April 2003	$11.95	33,334	–	(16,666)	–	**16,668**
29 April 2003	$12.34	20,000	–	(13,332)	(6,668)	**–**
30 April 2003	$13.15	20,000	–	(10,000)	–	**10,000**
8 May 2003	$13.48	13,334	–	(6,666)	–	**6,668**
9 May 2003	$14.35	13,334	–	(6,666)	–	**6,668**
14 May 2003	$13.82	13,340	–	(6,660)	–	**6,680**
15 May 2003	$14.32	13,200	–	–	–	**13,200**
18 May 2003	$13.28	20,000	–	–	–	**20,000**
19 May 2003	$14.09	20,000	–	(16,666)	(3,334)	**–**
20 May 2003	$14.47	11,334	–	(5,666)	–	**5,668**
11 June 2003	$14.31	11,334	–	–	–	**11,334**
12 June 2003	$14.89	50,000	–	–	–	**50,000**
26 June 2003	$14.52	17,000	–	(2,500)	–	**14,500**
27 July 2003	$14.89	17,000	–	–	–	**17,000**
21 August 2003	$14.47	38,334	–	–	–	**38,334**
28 August 2003	$14.29	3,044,292	–	(1,300,314)	(67,455)	**1,676,523**
16 September 2003	$14.83	42,500	–	(28,332)	–	**14,168**
18 September 2003	$14.59	17,000	–	(11,332)	–	**5,668**
22 September 2003	$14.67	13,300	–	–	–	**13,300**
23 September 2003	$13.11	17,000	–	(11,332)	–	**5,668**
25 September 2003	$14.62	22,674	–	(11,338)	–	**11,336**
28 September 2003	$13.54	42,500	–	(30,784)	(11,716)	**–**
6 November 2003	$14.48	17,000	–	(11,333)	–	**5,667**
9 November 2003	$12.61	9,443	–	(9,443)	–	**–**
11 November 2003	$13.50	11,334	–	–	–	**11,334**
24 November 2003	$14.54	17,000	–	(5,666)	–	**11,334**
25 November 2003	$13.03	17,000	–	(11,332)	–	**5,668**
26 November 2003	$13.40	73,667	–	(36,833)	–	**36,834**
2 December 2003	$12.25	17,000	–	–	–	**17,000**
4 December 2003	$14.65	17,000	–	–	–	**17,000**
6 December 2003	$12.73	17,000	–	–	–	**17,000**
7 December 2003	$15.23	42,500	–	(28,333)	–	**14,167**
12 February 2004	$15.06	17,000	–	(5,666)	–	**11,334**
15 February 2004	$13.32	42,500	–	(14,166)	–	**28,334**
22 February 2004	$14.55	42,500	–	(14,166)	–	**28,334**
23 February 2004	$14.18	28,334	–	–	–	**28,334**
24 February 2004	$14.58	17,000	–	–	(17,000)	**–**
25 February 2004	$15.60	17,000	–	–	–	**17,000**
26 February 2004	$14.53	110,500	–	(36,833)	(73,667)	**–**
31 March 2004	$18.89	142,500	–	(15,000)	–	**127,500**
23 April 2004	$14.46	17,000	–	(5,666)	–	**11,334**
27 April 2004	$14.36	144,500	–	(12,832)		**131,668**
28 April 2004	$17.07	17,000	–	–	–	**17,000**
29 April 2004	$17.17	17,000	–	(5,666)	–	**11,334**
30 April 2004	$17.29	15,000	–	(5,000)	–	**10,000**
11 May 2004	$16.82	17,000	–	(5,666)	–	**11,334**
4 June 2004	$17.33	20,000	–	–	–	**20,000**
8 June 2004	$14.52	17,000	–	–	–	**17,000**
15 June 2004	$14.36	15,000	–	(7,500)	(7,500)	**–**
25 June 2004	$17.11	17,000	–	(5,666)	–	**11,334**
28 June 2004	$14.48	42,500	–	(14,166)	–	**28,334**
13 August 2004	$18.51	7,147,851	–	(1,545,886)	(297,084)	**5,304,881**
16 August 2004	$19.07	15,000	–	(5,000)	–	**10,000**
17 August 2004	$18.44	80,000	–	(26,666)	–	**53,334**

Note 32. Employee Equity Participation continued

Latest Date for Exercise of Options	Exercise Price	Balance as at 1 April 2001	Options Issued during the Financial Year	Options Exercised during the Financial Year	Options Lapsed during the Financial Year	Balance as at 31 March 2002
18 August 2004	$14.36	17,000	–	–	–	**17,000**
19 August 2004	$19.00	37,500	–	(12,500)	–	**25,000**
23 August 2004	$18.08	15,000	–	(5,000)	–	**10,000**
24 August 2004	$19.07	37,500	–	(12,500)	–	**25,000**
25 August 2004	$19.09	15,000	–	(5,000)	–	**10,000**
26 August 2004	$17.92	15,000	–	(5,000)	–	**10,000**
30 August 2004	$17.82	37,500	–	(12,500)	–	**25,000**
31 August 2004	$18.51	887,166	–	(204,927)	(69,115)	**613,124**
6 September 2004	$18.14	15,000	–	(5,000)	–	**10,000**
7 September 2004	$18.08	67,500	–	(17,500)	–	**50,000**
24 September 2004	$18.51	34,125	–	(11,375)	–	**22,750**
27 September 2004	$18.51	50,000	–	(4,860)	(7,640)	**37,500**
11 October 2004	$18.51	10,000	–	–	(5,000)	**5,000**
9 November 2004	$18.86	5,000	–	–	–	**5,000**
10 November 2004	$20.28	5,000	–	–	–	**5,000**
12 November 2004	$19.07	15,000	–	–	(5,000)	**10,000**
15 November 2004	$17.93	37,500	–	–	–	**37,500**
16 November 2004	$17.83	15,000	–	(5,417)	(9,583)	**–**
25 November 2004	$18.51	35,000	–	–	(5,000)	**30,000**
29 November 2004	$20.29	75,000	–	–	–	**75,000**
1 December 2004	$18.51	5,000	–	(1,666)	–	**3,334**
3 December 2004	$20.10	5,000	–	(3,332)	(1,668)	**–**
7 December 2004	$20.01	5,000	–	–	–	**5,000**
9 December 2004	$20.18	5,000	–	–	–	**5,000**
10 December 2004	$19.52	15,000	–	(5,000)	–	**10,000**
13 December 2004	$20.29	15,000	–	–	–	**15,000**
20 January 2005	$20.18	50,000	–	(16,666)	–	**33,334**
21 January 2005	$18.51	19,500	–	–	–	**19,500**
24 January 2005	$19.97	17,500	–	–	–	**17,500**
25 January 2005	$20.05	5,000	–	–	–	**5,000**
28 January 2005	$23.22	32,500	–	(10,725)	–	**21,775**
31 January 2005	$20.55	12,500	–	–	(12,500)	**–**
10 February 2005	$20.05	100,000	–	–	–	**100,000**
6 March 2005	$18.51	32,500	–	(10,000)	–	**22,500**
21 March 2005	$21.16	5,000	–	–	–	**5,000**
22 March 2005	$24.14	5,000	–	–	–	**5,000**
24 March 2005	$24.56	5,000	–	–	–	**5,000**
27 March 2005	$24.44	7,500	–	–	–	**7,500**
28 March 2005	$23.76	32,500	–	–	–	**32,500**
21 July 2005	$23.94	4,028,030	–	(9,677)	(217,432)	**3,800,921**
1 August 2005	$20.14	5,000	–	(1,666)	–	**3,334**
2 August 2005	$23.94	50,000	–	–	–	**50,000**
3 August 2005	$18.51	20,000	–	(5,000)	–	**15,000**
5 August 2005	$24.29	5,000	–	–	–	**5,000**
7 August 2005	$24.69	30,000	–	–	–	**30,000**
8 August 2005	$23.94	14,583	–	(2,500)	–	**12,083**
9 August 2005	$24.12	5,000	–	–	–	**5,000**
10 August 2005	$25.71	5,000	–	–	–	**5,000**
11 August 2005	$23.94	135,600	–	(1,714)	(22,704)	**111,182**
12 August 2005	$25.49	5,000	–	–	–	**5,000**
13 August 2005	$23.06	5,000	–	–	–	**5,000**
14 August 2005	$24.16	12,500	–	–	–	**12,500**
15 August 2005	$24.24	5,000	–	–	–	**5,000**

Notes continued

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Note 32. Employee Equity Participation continued

Latest Date for Exercise of Options	Exercise Price	Balance as at 1 April 2001	Options Issued during the Financial Year	Options Exercised during the Financial Year	Options Lapsed during the Financial Year	Balance as at 31 March 2002
17 August 2005	$23.63	5,000	–	–	–	**5,000**
18 August 2005	$23.76	5,000	–	–	–	**5,000**
19 August 2005	$24.43	12,500	–	–	–	**12,500**
20 August 2005	$24.04	5,000	–	–	–	**5,000**
21 August 2005	$21.50	5,000	–	(1,842)	(3,158)	**–**
22 August 2005	$23.02	12,500	–	–	–	**12,500**
24 August 2005	$24.56	17,500	–	–	–	**17,500**
25 August 2005	$25.37	5,000	–	–	–	**5,000**
26 August 2005	$25.65	5,000	–	–	–	**5,000**
27 August 2005	$25.05	12,500	–	(2,088)	(10,412)	**–**
28 August 2005	$25.66	5,000	–	–	(5,000)	**–**
30 August 2005	$23.94	125,764	–	(1,005)	(3,995)	**120,764**
28 September 2005	$25.59	5,000	–	–	–	**5,000**
29 September 2005	$25.85	5,000	–	–	–	**5,000**
11 October 2005	$20.18	5,000	–	(1,666)	–	**3,334**
12 October 2005	$25.01	5,000	–	–	–	**5,000**
13 October 2005	$24.36	12,500	–	–	–	**12,500**
14 October 2005	$25.59	10,000	–	–	–	**10,000**
15 October 2005	$26.12	12,500	–	–	–	**12,500**
16 October 2005	$25.72	12,500	–	–	(12,500)	**–**
25 October 2005	$24.06	5,000	–	–	(5,000)	**–**
11 December 2005	$27.56	5,000	–	–	–	**5,000**
12 December 2005	$26.57	17,500	–	–	–	**17,500**
13 December 2005	$24.80	32,500	–	–	–	**32,500**
17 December 2005	$27.54	5,000	–	–	(5,000)	**–**
22 December 2005	$24.24	5,000	–	–	–	**5,000**
27 December 2005	$26.45	5,000	–	–	–	**5,000**
28 December 2005	$27.63	5,000	–	–	–	**5,000**
29 December 2005	$26.32	12,500	–	–	–	**12,500**
2 January 2006	$27.28	32,500	–	–	–	**32,500**
3 January 2006	$27.86	5,000	–	–	–	**5,000**
4 January 2006	$26.88	5,000	–	–	(5,000)	**–**
5 January 2006	$27.71	5,000	–	–	–	**5,000**
8 January 2006	$26.95	5,000	–	–	–	**5,000**
9 January 2006	$27.97	20,000	–	–	–	**20,000**
11 January 2006	$27.15	12,500	–	–	–	**12,500**
12 January 2006	$27.93	5,000	–	–	–	**5,000**
15 January 2006	$27.81	5,000	–	–	–	**5,000**
16 January 2006	$27.46	12,500	–	–	–	**12,500**
17 January 2006	$27.71	5,000	–	–	–	**5,000**
18 January 2006	$27.71	12,500	–	–	–	**12,500**
19 January 2006	$28.29	12,500	–	–	–	**12,500**
23 January 2006	$28.51	12,500	–	–	–	**12,500**
30 January 2006	$27.83	5,000	–	–	–	**5,000**
31 January 2006	$27.71	5,000	–	–	–	**5,000**
1 February 2006	$27.98	100,000	–	–	–	**100,000**
2 February 2006	$27.71	22,500	–	–	–	**22,500**
26 February 2006	$18.51	12,500	–	–	–	**12,500**
27 February 2006	$28.39	5,000	–	–	–	**5,000**
28 February 2006	$28.15	5,000	–	–	–	**5,000**
13 March 2006	$27.13	5,000	–	–	–	**5,000**
20 March 2006	$28.19	5,000	–	–	–	**5,000**
26 March 2006	$27.10	5,000	–	(849)	(4,151)	**–**
29 March 2006	$27.66	5,000	–	–	–	**5,000**

Note 32. Employee Equity Participation continued

Latest Date for Exercise of Options	Exercise Price	Balance as at 1 April 2001	Options Issued during the Financial Year	Options Exercised during the Financial Year	Options Lapsed during the Financial Year	Balance as at 31 March 2002
2 April 2006	$28.00	–	5,000	–	–	**5,000**
11 April 2006	$27.28	–	5,000	–	–	**5,000**
17 April 2006	$27.04	–	12,500	–	–	**12,500**
18 April 2006	$28.57	–	5,000	–	–	**5,000**
19 April 2006	$28.55	–	5,000	–	–	**5,000**
20 April 2006	$28.05	–	12,500	–	–	**12,500**
23 April 2006	$28.50	–	5,000	–	–	**5,000**
24 April 2006	$26.85	–	5,000	–	–	**5,000**
28 May 2006	$27.60	–	5,000	–	–	**5,000**
29 May 2006	$27.77	–	5,000	–	–	**5,000**
6 June 2006	$27.53	–	5,000	–	–	**5,000**
15 June 2006	$27.58	–	5,000	–	–	**5,000**
25 July 2006	$34.71	–	1,700	(1,700)	–	**–**
24 July 2006	$28.19	–	5,000	–	–	**5,000**
26 July 2006	$28.22	–	5,000	–	–	**5,000**
27 July 2006	$29.72	–	5,000	–	–	**5,000**
30 July 2006	$29.56	–	5,000	–	–	**5,000**
31 July 2006	$28.15	–	5,000	–	–	**5,000**
1 August 2006	$28.46	–	5,000	–	–	**5,000**
2 August 2006	$34.71	–	4,797,850	(171)	(116,610)	**4,681,069**
3 August 2006	$30.25	–	5,000	–	–	**5,000**
7 August 2006	$28.21	–	5,000	–	–	**5,000**
8 August 2006	$27.78	–	12,500	–	–	**12,500**
9 August 2006	$29.50	–	10,000	–	–	**10,000**
10 August 2006	$31.00	–	12,500	–	–	**12,500**
13 August 2006	$29.35	–	5,000	–	–	**5,000**
27 August 2006	$35.99	–	5,000	–	–	**5,000**
28 August 2006	$34.71	–	5,000	–	–	**5,000**
29 August 2006	$35.41	–	5,000	–	–	**5,000**
30 August 2006	$27.57	–	12,500	–	–	**12,500**
31 August 2006	$34.71	–	873,900	–	(61,680)	**812,220**
3 September 2006	$34.82	–	5,000	–	–	**5,000**
4 September 2006	$27.60	–	5,000	–	–	**5,000**
5 September 2006	$31.48	–	25,000	–	–	**25,000**
6 September 2006	$33.95	–	5,000	–	–	**5,000**
14 September 2006	$34.71	–	5,000	–	(5,000)	**–**
20 September 2006	$28.19	–	20,000	–	–	**20,000**
21 September 2006	$32.20	–	12,500	–	–	**12,500**
24 September 2006	$36.66	–	12,500	–	–	**12,500**
25 September 2006	$36.48	–	12,500	–	–	**12,500**
26 September 2006	$35.95	–	12,500	–	–	**12,500**
27 September 2006	$33.01	–	10,000	–	–	**10,000**
28 September 2006	$34.71	–	372,200	–	(68,264)	**303,936**
1 October 2006	$35.93	–	5,000	–	–	**5,000**
2 October 2006	$37.10	–	5,000	–	–	**5,000**
3 October 2006	$36.47	–	12,500	–	–	**12,500**
8 October 2006	$29.72	–	5,000	–	–	**5,000**
9 October 2006	$37.52	–	5,000	–	–	**5,000**
12 October 2006	$36.68	–	5,000	–	–	**5,000**
15 October 2006	$28.39	–	5,000	–	–	**5,000**
16 October 2006	$35.59	–	5,000	–	–	**5,000**
29 October 2006	$37.75	–	12,500	–	–	**12,500**
30 October 2006	$37.05	–	12,500	–	–	**12,500**
31 October 2006	$37.26	–	5,000	–	–	**5,000**

Notes continued

As at 31 March 2002

Note 32. Employee Equity Participation continued

Latest Date for Exercise of Options	Exercise Price	Balance as at 1 April 2001	Options Issued during the Financial Year	Options Exercised during the Financial Year	Options Lapsed during the Financial Year	Balance as at 31 March 2002
7 November 2006	$37.94	–	5,000	–	–	**5,000**
12 November 2006	$38.03	–	5,000	–	(5,000)	**–**
13 November 2006	$36.85	–	5,000	–	–	**5,000**
14 November 2006	$36.86	–	5,000	–	–	**5,000**
15 November 2006	$36.70	–	12,500	–	–	**12,500**
16 November 2006	$35.71	–	5,000	–	–	**5,000**
22 November 2006	$37.58	–	32,500	–	–	**32,500**
26 November 2006	$36.84	–	12,500	–	–	**12,500**
3 December 2006	$36.05	–	5,000	–	–	**5,000**
5 December 2006	$35.71	–	5,000	–	–	**5,000**
10 December 2006	$36.36	–	12,500	–	–	**12,500**
20 December 2006	$37.55	–	5,000	–	–	**5,000**
25 January 2007	$37.67	–	12,500	–	–	**12,500**
4 February 2007	$37.47	–	5,000	–	–	**5,000**
12 March 2007	$36.08	–	5,000	–	–	**5,000**
13 March 2007	$36.54	–	17,500	–	–	**17,500**
14 March 2007	$36.34	–	10,000	–	–	**10,000**
15 March 2007	$35.24	–	5,000	–	–	**5,000**
18 March 2007	$37.52	–	5,000	–	–	**5,000**
19 March 2007	$36.85	–	5,000	–	–	**5,000**
20 March 2007	$35.15	–	5,000	–	–	**5,000**
21 March 2007	$36.39	–	5,000	–	–	**5,000**
22 March 2007	$36.85	–	5,000	–	–	**5,000**
25 March 2007	$36.67	–	5,000	–	–	**5,000**
26 March 2007	$36.68	–	5,000	–	–	**5,000**
27 March 2007	$36.55	–	32,500	–	–	**32,500**
28 March 2007	$36.73	–	5,000	–	–	**5,000**
29 March 2007	$35.90	–	5,000	–	–	**5,000**
Total Options on Issue		23,622,773	6,673,150	(7,797,007)	(1,170,839)	21,328,077

Since 31 March 2002, the following options have been issued or have lapsed:

Latest Date for Exercise of Options	Exercise Price	Options Issued since 31 March 2002	Options Lapsed since 31 March 2002
1 April 2007	$36.34	12,500	–
2 April 2007	$37.52	5,000	–
3 April 2007	$34.82	12,500	–
4 April 2007	$35.99	12,500	–
5 April 2007	$35.22	5,000	–
8 April 2007	$35.59	5,000	–
9 April 2007	$37.34	5,000	–
10 April 2007	$36.67	5,000	–
17 April 2007	$36.48	5,000	–
18 April 2007	$36.95	5,000	–
2 August 2006	$34.71	–	(544)
15 November 2006	$36.70	–	(12,500)
Total		72,500	(13,044)

Note 32. Employee Equity Participation continued

The market value of shares under these options at 31 March 2002 was $709 million (2001: $653 million). No unissued shares, other than those referred to above, are under option as at the date of this report.

Options granted after 15 May 1996 and before 1997 promotions and compensation reviews had vesting periods ranging up to four years after the date of grant. Each new tranche of options was issued such that 25% of each tranche becomes exercisable after each of the first four anniversaries of the date of grant. Options granted thereafter vest as to one third of each tranche after the second, third and fourth anniversaries of the date of commencement of employment for new starters and, for existing employees, on 1 July two, three and four years after the allocation of the options. Subject to staff trading rules, options can be exercised after the vesting period at any time up to expiry. In individual cases, such as where an employee leaves with the Bank's agreement towards the end of a vesting period, the Bank's Executive Committee has the power to waive the remainder of any vesting period and allow exercise of the relevant options.

In respect of each tranche of vested options granted to Executive Directors of the Bank after the 1997 Annual General Meeting:

- one third of the vested options may only be exercised if the Bank's average annual Return on Equity for the three previous financial years is at or above the 55th percentile of the corresponding figures for all companies in the then ASX All Industrials Index;
- another third of the vested options may only be exercised if the Bank's average annual Return on Equity for the three previous financial years is at or above the 65th percentile of the corresponding figures for all companies in the then ASX All Industrials Index; and
- the final third of the vested options may only be exercised if the Bank's average annual Return on Equity for the three previous financial years is at or above the 75th percentile of the corresponding figures for all companies in the then ASX All Industrials Index,

with the conditions to be examined quarterly from vesting until expiry of the options. Options which have vested but are not able to be exercised at a particular examination date, will be exercisable (until expiry) at or after future quarterly examination dates when and if the exercise conditions pertaining to any of those dates have been met.

The Plan Rules provide that the total number of options which can be on issue at any one time is limited such that the number of shares resulting from exercise of all unexercised options does not exceed 20% of the number of the Bank's then issued ordinary shares plus the number of shares which the Bank would have to issue if all rights to require the Bank to issue shares, which the Bank has then granted (including options) were then enforced or exercised to the greatest extent permitted. The Board has a second limitation on the number of options being the same calculation as in the Plan Rules except that any partly paid shares issued less than five years ago, which have been fully paid up and where the relevant executive is still with the Bank, will be treated as still being partly paid and any exercised options granted less than five years ago, where the executive is still with the Bank, will be treated as still being unexercised.

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

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

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

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

- an employee's resignation from the Bank or a related company
- upon request from the employee (after the expiration of the non-disposal period), and
- 10 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 continued

As at 31 March 2002

Note 32. Employee Equity Participation continued

Employee Share Plan

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

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

The number of shares each participant receives is the offer amount divided by the weighted average price at which the Bank's shares are traded on Australian Stock Exchange Limited on the seven days up to and including the date of allotment, rounded down to the nearest whole share.

The employees who are eligible for an offer are those permanent employees who have been continuously employed by the Bank or a subsidiary of the Bank since 1 April of the relevant year, are still employed by the Bank or a subsidiary of the Bank on the relevant allotment date and are Australian residents on both the closing date of an offer and on the relevant allotment date. Persons who are ineligible include all non-permanent staff, staff seconded to the Bank from external companies, staff on leave without pay, staff who have been given notice of dismissal from employment by the Bank or subsidiary of the Bank or who have tendered their resignation to avoid such a dismissal (even if they would, but for this requirement, be eligible to acquire shares) and any staff member that a Group Head believes should be ineligible based on poor performance.

The latest offer under the ESP was made during December 2001. A total of 1,440 (2001: 1,288) staff participated in this offer. On 18 January 2002, the participants were each issued with 27 (2001: 35) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $37.03 (2001: $28.28) that is, a total of 38,880 (2001: 45,080) shares were issued. The shares were issued for no cash consideration.

Staff Share Acquisition Plan

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

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

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

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

— an employee's resignation from the Bank or a related company; and

— upon request by the employee (after the expiration of the non-disposal period); and

— 10 years from the date that the Shares are registered in an employee's name.

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

Eligible employees are Australian-based permanent full-time or part-time employees of the Bank or a related company who either receive available profit share in the relevant year of at least $1,000 in total or allocate at least $1,000 in available commission towards the SSAP.

The third offer under the SSAP was made during May 2001. A total of 293 (2001: 232) staff participated in the SSAP. On 27 and 30 July 2001, a total of 238,041 (2001: 277,880) shares were acquired on-market.

Note 33. Contingent Liabilities

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Contingent liabilities exist in respect of:				
Guarantees (a) (b)	**142**	137	**1,082**	597
Letters of credit (a)	**117**	16	**221**	142
Underwriting facilities	**496**	123	**496**	8
Undrawn credit facilities	**2,079**	2,114	**1,841**	1,907
Cross-border leasing indemnities (c)	**213**	225	**82**	81
Total Contingent Liabilities	**3,047**	2,615	**3,722**	2,735
Analysis of undrawn credit facilities by maturity:				
Current	**1,029**	1,031	**966**	916
Non-current	**1,050**	1,083	**875**	991
Total Undrawn Credit Facilities	**2,079**	2,114	**1,841**	1,907

(a) All external guarantees, other than noted for Macquarie Investment Management Limited (MIML) in (e) below, and letters of credit are provided by the Bank. Included in external guarantees are guarantees backed by cash of $16,000,000 (2001: $43,000,000).

(b) The Bank has entered into a group guarantee with a number of controlled entities who act as Single Responsible Entities and the Australian Securities & Investments Commission for the purposes of the Net Tangible Assets calculation under the controlled entities' dealers licence conditions. The Bank has provided a guarantee of $10,000,000 for 12 controlled entities, which is capped at $5,000,000 in respect of any one entity.

(c) Indemnities granted to counterparties in respect of termination and default events in cross-border leasing transactions.

(d) Contingent liabilities exist in respect of claims and potential claims against entities in the economic entity. Where necessary appropriate provisions have been made in the financial report. The economic entity does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position. Information regarding the ATO audit of the Bank is included in Note 4 – Income Tax (Expense)/Benefit.

(e) MIML covenants that while it acts as Single Responsible Entity of the Macquarie Cash Management Trust, unitholders in that trust will be paid upon redemption or repurchase of a unit issued prior to 28 April 1985, where the unitholder has continuously held units from 28 April 1985, not less than the sum of $1.00: $54,000,000 (2001: $55,000,000). At 31 March 2002 the audited financial report of the Macquarie Cash Management Trust discloses the value of units on issue and the income entitlement thereon aggregating $8,353,000,000 (2001: $7,341,000,000) and assets aggregating $8,429,000,000 (2001: $7,415,000,000).

Notes continued

As at 31 March 2002

	Consolidated 2002 $M	Consolidated 2001 $M	Bank 2002 $M	Bank 2001 $M
Note 34. Capital and Other Expenditure Commitments				
Not later than one year	**3**	8	**3**	8
Total Capital and Other Expenditure Commitments	**3**	8	**3**	8
Note 35. Lease Commitments				
Non-cancellable operating leases expiring:				
Not later than one year	**63**	56	**70**	63
Later than one year and not later than five years	**242**	217	**249**	230
Later than five years	**370**	407	**376**	407
Total Operating Lease Commitments	**675**	680	**695**	700

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

Note 36. Objectives of Holding and Issuing Derivative Financial Instruments

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

The economic entity also uses derivatives to hedge banking operations and for asset/liability management. Profits and losses on these transactions are brought to account over the life of the underlying transaction. The types of contracts which the economic entity trades are detailed below:

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

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

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

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

Note 37. Average Interest-Bearing Assets and Liabilities and Related Interest

	Consolidated 2002			Consolidated 2001		
	Av. Balance $M	**Interest Inc./(Exp.) $M**	**Av. Rate %**	Av. Balance $M	Interest Inc./(Exp.) $M	Av. Rate %
Assets						
Interest Bearing Assets						
Cash and liquid assets	**58**	**2**	**3.4**	158	9	5.7
Securities purchased under resale agreement	**3,593**	**158**	**4.4**	2,292	137	6.0
Trading assets	**3,254**	**166**	**5.1**	3,148	195	6.2
Other securities	**1,556**	**59**	**3.8**	201	13	6.5
Loan assets	**8,598**	**570**	**6.6**	7,301	584	8.0
Other financial assets	**39**	**2**	**5.1**	300	24	8.0
Total Interest Bearing Assets	**17,098**	**957**		13,400	962	
Total Non-Interest Bearing Assets	**12,466**	**–**		11,227	–	
Total Assets	**29,564**	**957**		24,627	962	
Liabilities						
Interest Bearing Liabilities						
Due to other financial institutions	**972**	**(27)**	**2.8**	1,127	(53)	4.7
Securities sold under repurchase agreements	**1,697**	**(74)**	**4.4**	913	(54)	5.9
Securities borrowed	**1,029**	**(51)**	**5.0**	573	(36)	6.3
Deposits	**4,126**	**(170)**	**4.1**	4,205	(241)	5.7
Notes payable	**9,128**	**(386)**	**4.2**	5,894	(367)	6.2
Other liabilities	**489**	**(18)**	**3.7**	261	(14)	5.4
Loan Capital						
Subordinated debt	**250**	**(14)**	**5.6**	285	(19)	6.7
Converting Preference Shares	**150**	**(11)**	**7.4**	150	(11)	7.4
Total Interest Bearing Liabilities	**17,841**	**(751)**		13,408	(795)	
Total Non-Interest Bearing Liabilities	**9,632**	**–**		9,950	–	
Total Liabilities	**27,473**	**(751)**		23,358	(795)	
Net Assets	**2,091**	**206**		1,269	167	
Equity						
Contributed Equity						
Ordinary share capital	**753**			349		
Macquarie Income Securities	**391**			395		
Retained earnings	**583**			523		
Total Equity attributable to Equity Holders of MBL	**1,727**			1,267		
Outside equity interests in controlled entities	**364**			2		
Total Equity	**2,091**			1,269		

Average interest income and expense in relation to assets and liabilities set off in the Statement of Financial Position in accordance with applicable accounting standards are not included in the above analysis. Such interest and expense is shown gross in Note 2 – Profit from Ordinary Activities in accordance with the requirements of AASB 1018 Statement of Financial Performance.

Notes continued

As at 31 March 2002

Note 38. Geographical Concentration of Deposits and Borrowings

	Australia $M	Europe $M	North America $M	Asia $M	Other $M	Total $M
			Consolidated 2002			
Due to other financial institutions	363	110	1	91	–	565
Securities sold under repurchase agreements	554	52	13	309	–	928
Securities borrowed	2,122	230	–	7	–	2,359
Deposits	4,198	49	193	74	6	4,520
Notes payable	2,742	43	703	5,946	–	9,434
Subordinated debt	120	–	94	28	–	242
Converting Preference Shares	150	–	–	–	–	150
Total Deposits and Borrowings by Geographical Location	10,249	484	1,004	6,455	6	18,198
			Consolidated 2001			
Due to other financial institutions	450	79	18	185	54	786
Securities sold under repurchase agreements	662	904	–	135	–	1,701
Securities borrowed	583	144	–	33	–	760
Deposits	3,642	50	35	116	22	3,865
Notes payable	2,338	9	547	5,106	–	8,000
Subordinated debt	120	–	103	33	–	256
Converting Preference Shares	150	–	–	–	–	150
Total Deposits and Borrowings by Geographical Location	7,945	1,186	703	5,608	76	15,518

The table details the source of deposits and borrowings, based upon the location of the relevant counterparty. The economic entity's exposure is not concentrated in any one particular industry or with one particular counterparty type.

Refer to Liquidity Management within Note 39 – Maturity Analysis of Monetary Assets and Liabilities and Liquidity Management, for a discussion on the sources of the economic entity's funding.

Note 39. Maturity Analysis of Monetary Assets and Liabilities and Liquidity Management

	Consolidated 2002							
	At call $M	Over-drafts $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 liquid assets	283	–	–	–	–	–	–	283
Securities purchased under resale agreements	3,383	–	743	187	–	–	–	4,313
Trading assets	4,864	–	–	–	–	–	–	4,864
Other securities	1,937	–	–	–	–	–	–	1,937
Loan assets	752	47	818	1,002	5,892	698	–	9,209
Life insurance investment assets*	234	–	698	325	4	–	1,327	2,588
Equity investments	–	–	–	–	–	–	102	102
Investments in associates and JVs	–	–	–	–	–	–	90	90
Total Monetary Assets	11,453	47	2,259	1,514	5,896	698	1,519	23,386
Liabilities								
Due to other financial institutions	204	–	89	36	236	–	–	565
Securities sold under repurchase agreements	449	–	479	–	–	–	–	928
Securities borrowed	2,359	–	–	–	–	–	–	2,359
Deposits	2,506	–	986	101	782	145	–	4,520
Notes payable	–	–	4,300	2,380	2,754	–	–	9,434
Life insurance policy liabilities	–	–	–	–	–	–	2,539	2,539
Subordinated debt	–	–	–	–	132	110	–	242
Converting Preference Shares	–	–	–	–	150	–	–	150
Total Monetary Liabilities	5,518	–	5,854	2,517	4,054	255	2,539	20,737

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

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

Maturities represent the remaining period at 31 March 2002 to the repayment date.

Notes continued

As at 31 March 2002

Note 39. Maturity Analysis of Monetary Assets and Liabilities and Liquidity Management continued

Consolidated 2001

	At call $M	Over-drafts $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 liquid assets	295	–	–	–	–	–	–	295
Securities purchased under resale agreements	1,275	–	2,048	–	–	–	–	3,323
Trading assets	4,192	–	–	–	–	–	–	4,192
Other securities	270	–	–	–	–	–	–	270
Loan assets	693	65	1,060	793	4,312	861	1	7,785
Life insurance investment assets*	51	–	–	1,137	245	102	1,045	2,580
Equity investments	–	–	–	–	–	–	88	88
Investments in associates and JVs	–	–	–	–	–	–	53	53
Total Monetary Assets	6,776	65	3,108	1,930	4,557	963	1,187	18,586
Liabilities								
Due to other financial institutions	197	–	431	141	17	–	–	786
Securities sold under repurchase agreements	182	–	1,519	–	–	–	–	1,701
Securities borrowed	760	–	–	–	–	–	–	760
Deposits	1,857	–	778	101	1,108	21	–	3,865
Notes payable	–	–	3,408	2,179	2,413	–	–	8,000
Life insurance policy liabilities	–	–	–	–	–	–	2,535	2,535
Subordinated debt	–	–	–	–	146	110	–	256
Converting Preference Shares	–	–	–	–	150	–	–	150
Total Monetary Liabilities	2,996	–	6,136	2,421	3,834	131	2,535	18,053

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

Note 39. Maturity Analysis of Monetary Assets and Liabilities and Liquidity Management continued

Liquidity management

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

1. Core assets (that is, on-balance sheet assets that cannot be liquidated quickly) plus liquidity buffers are funded with deposits/borrowings with a minimum maturity greater than one week (five working days);
2. Specified percentages of borrowings have maturities beyond six and twelve months. A limit is also set on the maximum percentage of deposits maturing within the next three months and in any one month; and
3. The economic entity must keep at least a certain percentage of total assets in highly liquid securities (Commonwealth and State Government debt, NCDs and Bank Bills).

Within these parameters, on a day-to-day basis, liquidity management is the responsibility of the funding desk within the Treasury and Commodities Group.

The overall objective of the economic entity's liquidity management process is to achieve a sound deposit base with a wide spread of core depositors. The Bank has focused its attention on small and medium sized corporate depositors who do not generally access the professional market. Retail deposits are accessed through the Bank's branches in Sydney, Melbourne and Brisbane and through a number of geographically dispersed agents. These agents are an important source of stable deposits. Deposits from other financial institutions and larger corporate entities who use the professional market are used as a source of funding for short-term trading positions only.

The offshore Debt Instrument Program, which enables funding in a variety of currencies and for various terms, has been expanded and continues to provide a broad source of funds for the economic entity. Another source of funding has been the domestic corporate bond market.

Notes continued

As at 31 March 2002

Note 40. Interest Rate Risk and Face Value

	Weighted average effective interest rate %	Floating interest rate maturities $M	Consolidated 2002 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 liquid assets	2.6	283	–	–	–	–	–	–	283
Securities purchased under resale agreements	4.4	3,384	929	–	–	–	–	–	4,313
Trading assets	3.3	–	1,007	640	213	696	770	1,538	4,864
Other securities	4.2	–	396	539	343	388	–	271	1,937
Loan assets	6.9	2,425	3,454	2,242	216	764	106	2	9,209
Other financial market assets	–	–	–	–	–	–	–	4,630	4,630
Other financial assets	–	14	–	–	–	–	–	1,913	1,927
Life insurance investment assets*	2.2	234	–	–	325	4	–	2,025	2,588
Equity investments	–	–	–	–	–	–	–	102	102
Investments in associates and JVs	–	–	–	–	–	–	–	90	90
Fixed assets	–	–	–	–	–	–	–	135	135
Tax assets	–	–	–	–	–	–	–	156	156
Total On-Balance Sheet Assets		6,340	5,786	3,421	1,097	1,852	876	10,862	30,234
On-Balance Sheet Liabilities									
Due to other financial institutions	2.5	172	51	38	36	237	–	31	565
Securities sold under repurchase agreements	4.9	487	428	13	–	–	–	–	928
Securities borrowed	4.8	–	–	–	–	971	1,023	365	2,359
Deposits	2.6	3,252	194	500	101	328	145	–	4,520
Notes payable	2.9	–	3,314	4,416	1,332	372	–	–	9,434
Other financial markets liabilities	–	–	–	–	–	–	–	3,811	3,811
Tax liabilities	–	–	–	–	–	–	–	17	17
Other liabilities	1.6	1,057	–	–	–	–	–	1,866	2,923
Life insurance policy liabilities	–	–	–	–	–	–	–	2,539	2,539
Provisions for dividends and distributions	–	–	–	–	–	–	–	109	109
Deferred tax liabilities	–	–	–	–	–	–	–	100	100
Other provisions	–	–	–	–	–	–	–	120	120
Subordinated debt	5.2	–	110	–	122	10	–	–	242
Converting Preference Shares	7.4	–	–	–	–	150	–	–	150
Total On-Balance Sheet Liabilities		4,968	4,097	4,967	1,591	2,068	1,168	8,958	27,817
Off-Balance Sheet Instruments		–	70	737	(1,558)	834	234	–	317
Analysis of Interest Sensitivity Gap									
Net		1,372	1,759	(809)	(2,052)	618	(58)		
Cumulative Interest Sensitivity Gap		1,372	3,131	2,322	270	888	830		

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

Changes in market interest rates affect the level of future cash flows. The table details the exposure of the economic entity's assets and liabilities to interest rate risk. The amount shown represents the face value of financial assets and liabilities, or the equivalent asset or liability arising from a derivative financial instrument.

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

Notes continued

As at 31 March 2002

Note 40. Interest Rate Risk and Face Value continued

	Weighted average effective interest rate %	Floating interest rate maturities $M	Consolidated 2001 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 liquid assets	3.5	295	–	–	–	–	–	–	295
Securities purchased under resale agreements	5.1	2,624	699	–	–	–	–	–	3,323
Trading assets	3.8	–	983	939	98	541	393	1,238	4,192
Other securities	3.6	–	5	73	20	68	–	104	270
Loan assets	7.4	1,278	1,977	2,674	665	1,119	61	11	7,785
Other financial markets assets	–	–	–	–	–	–	–	7,493	7,493
Other financial assets	–	176	–	–	–	–	–	1,311	1,487
Life insurance investment assets*	3.5	51	–	–	1,137	245	102	1,045	2,580
Equity investments	–	–	–	–	–	–	–	88	88
Investments in associates and JVs	–	–	–	–	–	–	–	53	53
Fixed assets	–	–	–	–	–	–	–	108	108
Tax assets	–	–	–	–	–	–	–	174	174
Total On-Balance Sheet Assets		4,424	3,664	3,686	1,920	1,973	556	11,625	27,848
On-Balance Sheet Liabilities									
Due to other financial institutions	3.3	189	228	203	136	17	–	13	786
Securities sold under repurchase agreements	5.3	347	1,354	–	–	–	–	–	1,701
Securities borrowed	3.0	–	–	–	–	60	398	302	760
Deposits	4.2	2,354	743	432	84	231	21	–	3,865
Notes payable	5.5	–	4,027	3,080	824	69	–	–	8,000
Other financial markets liabilities	–	–	–	–	–	–	–	6,099	6,099
Tax liabilities	–	–	–	–	–	–	–	24	24
Other liabilities	0.3	577	–	–	–	–	–	1,418	1,995
Life insurance policy liabilities	–	–	–	–	–	–	–	2,535	2,535
Provisions for dividends and distributions	–	–	–	–	–	–	–	98	98
Deferred tax liabilities	–	–	–	–	–	–	–	138	138
Other provisions	–	–	–	–	–	–	–	103	103
Subordinated debt	6.2	–	246	–	–	10	–	–	256
Converting Preference Shares	7.4	–	–	–	–	150	–	–	150
Total On-Balance Sheet Liabilities		3,467	6,598	3,715	1,044	537	419	10,730	26,510
Off-Balance Sheet Instruments		–	33	2,336	273	(1,100)	133	–	1,675
Analysis of Interest Sensitivity Gap									
Net		957	(2,901)	2,307	1,149	336	270		
Cumulative Interest Sensitivity Gap		957	(1,944)	363	1,512	1,848	2,118		

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

Notes continued

As at 31 March 2002

Note 40. Interest Rate Risk and Face Value continued

	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	Total $M
			Consolidated 2002			
Foreign exchange contracts	11,131	8,411	9,277	7,557	631	37,007
Commodity contracts	4,223	4,296	6,033	4,056	3,447	22,055
Equity contracts	797	2,973	1,432	857	39	6,098
Total Face Value of Off-Balance Sheet Financial Assets and Liabilities	16,151	15,680	16,742	12,470	4,117	65,160
			Consolidated 2001			
Foreign exchange contracts	16,840	8,998	11,213	11,192	1,345	49,588
Commodity contracts	4,505	5,016	3,995	2,872	1,269	20,657
Equity contracts	541	6,413	7,346	689	–	14,989
Total Face Value of Off-Balance Sheet Financial Assets and Liabilities	21,686	20,427	22,554	14,753	5,614	85,234

The table shows the face value of off-balance sheet financial assets and liabilities not included in the previous table.

The bandings represent the respective maturity or expiry date.

The interest rate risk table is prepared in accordance with the requirements of AASB 1033 Presentation and Disclosure of Financial Instruments and as such it does not include off-balance sheet derivative financial instruments relating to currencies, commodities or equities, nor certain off-balance sheet securities purchase and sale agreements, all of which are also interest rate sensitive. Therefore, for internal risk management, the Bank does not use the repricing information in the way presented in the table. Interest rate risk, like all market risk, is measured and controlled on the basis of a wide range of rate movement scenarios, including worst case scenarios, calculated daily and covering all interest rate sensitive instruments. The Bank also calculates daily Value At Risk measures for all market risks, including interest rate risk.

Note 41. Credit Risk and Net Fair Value

	Consolidated 2002 Credit Risk/Net Fair Value by Counterparty				
	Central Bank $M	Governments $M	Other Financial Institutions $M	Other $M	Total $M
On-Balance Sheet Financial Assets					
Cash and liquid assets	8	–	275	–	283
Securities purchased under resale agreements	–	81	1,602	2,630	4,313
Trading assets	–	1,189	1,133	2,542	4,864
Other securities	–	10	138	1,789	1,937
Loan assets	–	606	711	7,892	9,209
Other financial market assets	–	131	1,873	2,626	4,630
Other financial assets	–	–	–	1,927	1,927
Life insurance investment assets*	–	–	–	2,588	2,588
Equity investments	–	–	–	102	102
Investments in associates and JVs	–	–	–	90	90
Total On-Balance Sheet Financial Assets	8	2,017	5,732	22,186	29,943
Reconciliation of Other Financial Market Assets:					
Interest rate contracts	–	64	681	309	1,054
Foreign exchange contracts	–	67	961	1,319	2,347
Commodity contracts	–	–	231	841	1,072
Equity contracts	–	–	–	157	157
Total On-Balance Sheet Revaluations of Off-Balance Sheet Financial Assets	–	131	1,873	2,626	4,630

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

Net fair value reflects the present value of future cash flows associated with a financial asset or liability, including the cost of exchange or settlement where appropriate. Net fair value is a combination of the quoted market price and valuation techniques based upon option pricing models. Except for certain equity investments, the carrying value of on-balance sheet financial assets is not materially different to the net fair value of these items.

The net fair value in respect of financial assets represents maximum credit risk, which is the potential loss arising through the default of counterparties to financial instruments. In accordance with AASB 1033 Presentation and Disclosure of Financial Instruments the amount at risk excludes the value of any collateral or other security provided by the counterparty.

These disclosures do not reflect the impact of any master netting arrangements.

For the purposes of the disclosures, the definition of financial assets does not include fixed assets and tax assets.

Note 41. Credit Risk and Net Fair Value continued

Consolidated 2001
Credit Risk/Net Fair Value by Counterparty

	Central Bank $M	Governments $M	Other Financial Institutions $M	Other $M	Total $M
On-Balance Sheet Financial Assets					
Cash and liquid assets	133	–	110	52	295
Securities purchased under resale agreements	–	274	2,018	1,031	3,323
Trading assets	–	774	1,581	1,837	4,192
Other securities	–	10	6	254	270
Loan assets	–	705	456	6,624	7,785
Other financial market assets	–	359	3,089	4,045	7,493
Other financial assets	–	–	–	1,487	1,487
Life insurance investment assets*	–	–	–	2,580	2,580
Equity investments	–	–	–	88	88
Investments in associates and JVs	–	–	–	53	53
Total On-Balance Sheet Financial Assets	133	2,122	7,260	18,051	27,566
Reconciliation of Other Financial Market Assets:					
Interest rate contracts	–	104	985	798	1,887
Foreign exchange contracts	–	255	1,696	2,581	4,532
Commodity contracts	–	–	408	603	1,011
Equity contracts	–	–	–	63	63
Total On-Balance Sheet Revaluations of Off-Balance Sheet Financial Assets	–	359	3,089	4,045	7,493

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

Note 41. Credit Risk and Net Fair Value continued

Consolidated 2002
Credit Risk/Net Fair Value by Region of Exposure

	Australia $M	Europe $M	North America $M	Asia $M	Other $M	Total $M
On-Balance Sheet Financial Assets						
Cash and liquid assets	108	48	85	41	1	283
Securities purchased under resale agreements	3,645	599	69	–	–	4,313
Trading assets	3,853	410	95	470	36	4,864
Other securities	228	922	526	261	–	1,937
Loan assets	8,060	115	177	718	139	9,209
Other financial market assets	2,858	927	674	117	54	4,630
Other financial assets	1,465	320	86	52	4	1,927
Life insurance investment assets*	2,588	–	–	–	–	2,588
Equity investments	50	17	5	15	15	102
Investments in associates and JVs	43	–	35	9	3	90
Total On-Balance Sheet Financial Assets	22,898	3,358	1,752	1,683	252	29,943
Reconciliation of Other Financial Market Assets:						
Interest rate contracts	640	155	240	20	–	1,055
Foreign exchange contracts	1,465	560	287	33	1	2,346
Commodity contracts	614	204	147	54	53	1,072
Equity contracts	139	8	–	10	–	157
Total On-Balance Sheet Revaluations of Off-Balance Sheet Financial Assets	2,858	927	674	117	54	4,630

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

Notes continued

As at 31 March 2002

Note 41. Credit Risk and Net Fair Value continued

Consolidated 2001
Credit Risk/Net Fair Value by Region of Exposure

	Australia $M	Europe $M	North America $M	Asia $M	Other $M	Total $M
On-Balance Sheet Financial Assets						
Cash and liquid assets	191	11	43	37	13	295
Securities purchased under resale agreements	2,396	891	34	2	–	3,323
Trading assets	3,431	285	40	436	–	4,192
Other securities	183	–	12	75	–	270
Loan assets	6,789	252	50	511	183	7,785
Other financial market assets	4,517	1,652	1,075	249	–	7,493
Other financial assets	1,119	230	31	105	2	1,487
Life insurance investment assets*	2,580	–	–	–	–	2,580
Equity investments	28	19	12	17	12	88
Investments in associates and JVs	34	–	4	12	3	53
Total On-Balance Sheet Financial Assets	21,268	3,340	1,301	1,444	213	27,566
Reconciliation of Other Financial Market Assets:						
Interest rate contracts	1,246	310	309	22	–	1,887
Foreign exchange contracts	2,802	1,022	534	174	–	4,532
Commodity contracts	433	320	232	26	–	1,011
Equity contracts	36	–	–	27	–	63
Total On-Balance Sheet Revaluations of Off-Balance Sheet Financial Assets	4,517	1,652	1,075	249	–	7,493

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

Net Fair Value by Region of Exposure

	Australia $M	**Europe $M**	**North America $M**	**Asia $M**	**Other $M**	**Total $M**
			Consolidated 2002			
On-Balance Sheet Revaluations of Off-Balance Sheet Financial Liabilities						
Interest rate contracts	**415**	**194**	**364**	**5**	**1**	**979**
Foreign exchange contracts	**1,113**	**414**	**246**	**29**	**1**	**1,803**
Commodity contracts	**225**	**411**	**209**	**49**	**6**	**900**
Equity contracts	**123**	**6**	**–**	**–**	**–**	**129**
Total On-Balance Sheet Revaluations of Off-Balance Sheet Financial Liabilities	**1,876**	**1,025**	**819**	**83**	**8**	**3,811**

Note 41. Credit Risk and Net Fair Value continued

Net Fair Value by Region of Exposure

	Australia $M	Europe $M	North America $M	Asia $M	Other $M	Total $M
			Consolidated 2001			
On-Balance Sheet Revaluations of Off-Balance Sheet Financial Liabilities						
Interest rate contracts	878	304	413	19	3	1,617
Foreign exchange contracts	2,231	779	478	247	–	3,735
Commodity contracts	214	212	179	44	37	686
Equity contracts	61	–	–	–	–	61
Total On-Balance Sheet Revaluations of Off-Balance Sheet Financial Liabilities	3,384	1,295	1,070	310	40	6,099

The table details the net fair value of off-balance sheet financial liabilities.

Note 42. Audit and Other Services Provided by PricewaterhouseCoopers (PwC)

During the financial year, the auditor of the Bank, PwC, and its related practices earned the following remuneration:

	Consolidated 2002 $000	Consolidated 2001 $000	**Bank 2002 $000**	Bank 2001 $000
PwC – Australian Firm				
Audit and review of financial reports of the Bank or any entity in the economic entity	**1,184**	1,016	**805**	796
Other audit-related work	**618**	188	**618**	188
Other assurance services	**40**	232	**40**	232
Total audit and other assurance services	**1,842**	1,436	**1,463**	1,216
Advisory services	**725**	–	**725**	–
Taxation	**1,306**	1,974	**911**	1,478
Consulting	**–**	124	**–**	124
Total Remuneration Paid to PwC – Australian Firm	**3,873**	3,534	**3,099**	2,818
Related Practices of PwC – Australian Firm (including PwC – Overseas Firms)				
Audit and review of financial reports of the Bank or any entity in the economic entity	**641**	680	**9**	6
Other audit-related work	**271**	194	**8**	8
Other assurance services	**349**	480	**–**	–
Total audit and other assurance services	**1,261**	1,354	**17**	14
Taxation	**1,359**	451	**–**	–
PwC Legal	**44**	62	**44**	62
Total Remuneration Paid to Related Practices of PwC – Australian Firm	**2,664**	1,867	**61**	76
Total Remuneration Paid to PwC	**6,537**	5,401	**3,160**	2,894

It is the Bank's policy to employ PwC on assignments additional to their statutory audit duties where PwC's expertise and experience with the Bank are important; these assignments are principally tax advice and due diligence reporting on acquisitions, or where PwC is awarded assignments on a competitive basis.

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

Notes continued

As at 31 March 2002

Note 43. Events Subsequent to Balance Date

On 2 April 2002, a controlled entity of the Bank acquired 100% of the issued capital of ntl Belgium sprl, the chief entity of ntl Australia Holdings Pty Limited (collectively ntl).

The principal activities of ntl are:

— provision of television and radio transmission services to Australian national broadcasters;

— provision of equipment hosting services to regional and community broadcasters, telecommunications operators and emergency services communication providers; and

— construction of a microwave telecommunications network along the eastern coast of Australia for the carriage of digital video signals and wholesale bandwidth.

ntl Belgium sprl was purchased for an initial cost of $313 million with additional consideration payable of up to $20 million in 2003, subject to any warranty claims and purchase price adjustments.

The estimated fair value of the assets and liabilities of ntl at the date of acquisition were as follows:

	$M
Cash and other assets	47
Fixed assets	584
Intangible assets	
Customer contracts	247
Goodwill on acquisition	110
Payables and provisions	(138)
Enterprise Value	850
Borrowings	(517)
Total purchase price (subject to final adjustments)	(333)

The existing ntl borrowings have been refinanced through a bridge debt facility and funding from the MBL Group of $102 million.

The actual fair value of the net assets and resulting goodwill may change as a result of the completion of valuations (which are not yet completed due to the geographic diversity and number of assets acquired) and final allocation of the purchase price.

The financial effects of this transaction have not been brought to account as at 31 March 2002. The operating results, assets and liabilities of ntl will be consolidated from 2 April 2002.

Directors' Declaration
Independent Audit Report

Directors' declaration

The Directors declare that the financial report and notes set out on pages 8 to 66:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the Bank's and consolidated entity's financial position as at 31 March 2002 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

(a) the financial report and notes are in accordance with the Corporations Act 2001; and

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

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

D.S. Clarke
Director

A.E. Moss
Director

Sydney
15 May 2002

Independent Audit Report
To the Members of Macquarie Bank Limited

Scope

We have audited the financial report of Macquarie Bank Limited (the Bank) for the financial year ended 31 March 2002 as set out on pages 8 to 67. The Bank's Directors are responsible for the financial report which includes the financial statements of the Bank and the consolidated financial statements of the economic entity comprising the Bank and the entities it controlled at the end of, or during, the financial year. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Bank.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Act 2001 in Australia, so as to present a view which is consistent with our understanding of the Bank's and the economic entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of the Bank is in accordance with:

(a) the Corporations Act 2001, including:
  (i) giving a true and fair view of the Bank's and the economic entity's financial position as at 31 March 2002 and of their performance for the financial year ended on that date; and
  (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements.

PricewaterhouseCoopers
Chartered Accountants

D.H. Armstrong
Partner

Sydney
15 May 2002

Investor Information

Fully-paid ordinary shares

Twenty Largest Ordinary Shareholders at 20 May 2002	Ordinary Shares	% of Ordinary Shares
JP Morgan Nominees	22,012,899	11.09
National Nominees Limited	20,866,529	10.51
Westpac Custodian Nominees Limited	10,864,645	5.47
Queensland Investment Corporation	7,445,689	3.75
Citicorp Nominees Pty Limited <CFS Wsle Imputation Fnd A/C>	6,041,705	3.04
Citicorp Nominees Pty Limited	4,416,127	2.22
Commonwealth Custodial Services Limited	4,387,884	2.21
HSBC Custody Nominees (Australia) Limited	3,528,653	1.78
Citicorp Nominees Pty Limited <CFS Wsle Aust Share Fnd A/C>	3,431,065	1.73
Citicorp Nominees Pty Ltd <CFS Imputation Fund A/C>	3,377,541	1.70
Argo Investments Limited	3,236,120	1.63
AMP Life Limited	3,202,593	1.61
RBC Global Services Australia Nominees Pty Limited <MTRAEF>	3,076,030	1.55
ANZ Nominees Limited	2,700,768	1.36
Citicorp Nominees Pty Limited <CFS Wsle Geared Share Fnd A/C>	2,684,102	1.35
RBC Global Services Australia Nominees Pty Limited <RA A/C>	2,419,240	1.22
Citicorp Nominees Pty Ltd <CFS WSLE Industrial Shr A/c>	2,350,779	1.18
MLC Limited C/- Westpac Custodian Nominees Limited	2,250,455	1.13
ING Life Limited	2,013,376	1.01
The National Mutual Life Association of Australasia Limited	1,651,058	0.83
	111,957,258	56.37

Substantial shareholders

At 20 May 2002 the following shareholders were registered by the Company as substantial shareholders, having declared a relevant interest in accordance with the Corporations Law, in the voting shares below:

Holder	Ordinary Shares	Date of Notice
CBA Group Companies	25,908,213	9 April 2002
Deutsche Australia Limited	9,977,674	5 April 2002
Merrill Lynch Investment Managers Limited	9,945,272	18 January 2002
Permanent Trustee Company Limited	11,620,011	21 April 1999

Spread of ordinary shareholdings

Details of the spread of Ordinary shareholders at 20 May 2002 were as follows:

Range	Shareholders	Shares
1–1,000 shares	21,965	9,098,902
1,001–5,000	5,617	11,789,218
5,001–10,000	642	4,564,651
10,001–100,000	757	21,253,123
100,001 shares and over	144	151,793,934
	29,125	198,499,828

47 shareholders (representing 358 fully paid shares) held less than a marketable parcel.

All 21,387,533 options on issue at 20 May 2002 are held by Lacuna Nominees Pty Limited as nominee for participants in the Bank's Employee Option Plan.

Converting preference shares

Twenty Largest Converting Preference Shareholders at 20 May 2002	Converting Preference Shares	% of Converting Preference Shares
Westpac Custodian Nominees Limited	168,717	11.25
AMP Life Limited	130,000	8.67
RBC Global Services Australia Nominees Pty Limited <PP A/C>	57,477	3.83
Citicorp Nominees Pty Limited	50,580	3.37
Mr Alfred Orenstein & Mrs Lucy Orenstein	46,500	3.10
Citibank Limited c/- Regional Processing Centre Derivatives	37,500	2.50
Brencorp No 11 Pty Limited	29,094	1.94
GIO General Ltd	28,260	1.88
J P Morgan Nominees Australia	22,147	1.48
Questor Financial Services Limited <TPS RF A/C>	19,685	1.31
Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	19,078	1.27
The University of Melbourne	18,500	1.23
Perpetual Trustee Company Ltd <Flexiplan A/C>	15,862	1.06
Lucy Orenstein	15,000	1.00
Perpetual Trustee Company Limited <KAP004 A/C>	14,000	0.93
Trust Company of Australia Ltd <Common Fund V6 A/C>	11,405	0.76
Baker Custodian Corporation c/- ANZ Executors & Trustee Company Limited	11,000	0.73
Sydney Legacy Appeals Fund c/- Mr Sunil Arora	11,000	0.73
Hardings Hardware Pty Ltd	10,810	0.72
Commonwealth Custodial Services Limited	10,000	0.67
	726,615	48.43

Spread of shareholdings

Details of the spread of Converting Preference Shareholders at 20 May 2002 were as follows:

	Holders	Shares
1–1,000 shares	1,247	352,025
1,001–5,000	130	330,776
5,001–10,000	13	100,584
10,001–100,000	17	417,898
100,001 shares and over	2	298,717
	1,409	1,500,000

One shareholder (representing three converting preference shares) held less than a marketable parcel.

Investor Information continued

Macquarie Income Securities

Twenty Largest Macquarie Income Security Holders at 20 May 2002

	Macquarie Income Securities	% of Macquarie Income Securities
Citicorp Nominees Pty Ltd	245,264	6.13
National Mutual Life Nominees Limited <IM Account>	170,000	4.25
Treaty Services Pty Ltd	123,753	3.09
J P Morgan Nominees Australia Limited	96,270	2.41
Questor Financial Services Limited <TPS RF A/C>	79,715	1.99
National Nominees Limited	57,573	1.44
Perpetual Trustee Company Ltd <Flexiplan A/C>	49,552	1.24
UBS Warburg Private Clients Nominees Pty Ltd	43,848	1.10
Gehar Pty Ltd c/- Mr & Mrs G Harris	41,951	1.05
Tower Trust Limited	41,089	1.03
J B Were Capital Markets Limited	41,000	1.03
The Australian National University	32,775	0.82
Merrill Lynch (Australia) Nominees Pty Ltd	31,377	0.78
Commonwealth Custodial Services Limited	30,570	0.76
Westpac Custodian Nominees Limited	29,500	0.74
Temple Society Central Fund	25,500	0.64
Albert Investments Pty Ltd	25,000	0.63
J Albert & Son Pty Ltd	25,000	0.63
Brencorp No 11 Pty Limited	22,550	0.56
Courtware (Australia) Pty Ltd	20,000	0.50
	1,232,287	30.82

Spread of holdings

Details of the spread of Macquarie Income Security Holders at 20 May 2002 were as follows:

	Holders	Securities
1–1,000 securities	5,515	1,528,129
1,001–5,000	347	743,999
5,001–10,000	35	250,112
10,001–100,000	34	938,743
100,001 securities and over	3	539,017
	5,934	4,000,000

There were no Macquarie Income Securities holders with less than a marketable parcel.

2002 Annual General Meeting

The 2002 Annual General Meeting of the Bank will be held at 10.30 am on Thursday, 25 July 2002 at The Westin Sydney, in the Grand Ballroom, Lower Level, No. 1 Martin Place, Sydney. Details of the business of the meeting are contained in the separate Notice of Meeting sent to holders.

Voting rights

Ordinary shares

At meetings of members or classes of members each member may vote in person or by proxy or attorney. On a show of hands every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy or attorney has:

I. one vote for each fully paid share held, and

II. that proportion of a vote for any partly paid ordinary share held that the amount paid on the partly paid share bears to the total issue price of the share.

Converting preference shares

Holders of converting preference shares have:

A. the right to vote at any general meeting of the Bank only in the following circumstances:

i. during a period during which a dividend (or part of a dividend) in respect of the shares is in arrears

ii. on a proposal to reduce the Bank's share capital

iii. on a resolution to approve the terms of a buy-back agreement

iv. on a proposal that affects rights attached to the share

v. on a proposal to wind up the Bank

vi. on a proposal for the disposal of the whole of the Bank's property, business and undertaking

vii. during the winding up of the Bank, and

B. the same voting rights, in those circumstances, as holders of ordinary shares (as set out above).

Macquarie Income Securities

Holders of Macquarie Income Securities, as holders of preference shares, have:

A. the right to vote at any general meeting of the Bank only in each of the following circumstances:

i. during a period when two consecutive semi-annual dividends due and payable on the preference shares have not been paid in full, and no optional dividend (as defined in the preference share terms) has been paid

ii. on any proposal to reduce the Bank's share capital

iii. on any resolution to approve the terms of a buy-back agreement

iv. on any proposal that affects the rights attaching to the preference shares

v. on a proposal to wind up the Bank

vi. on any proposal for the disposal of the whole of the Bank's property, business and undertaking

vii. during the winding up of the Bank, and

B. the same voting rights, in those circumstances, as holders of ordinary shares (as set out above).

Stock exchange listing

Fully paid ordinary shares and converting preference shares issued by Macquarie Bank Limited and Macquarie Income Securities are quoted on the Australian Stock Exchange. Macquarie Bank's code on the Australian Stock Exchange is MBL, the converting preference shares' code is MBLPA and the Macquarie Income Securities' code is MBLHB.

Enquiries

Investors who wish to enquire about any matter relating to their shareholding or Macquarie Income Securities holding are invited to contact the Share Registry office below or visit its internet site at www.computershare.com.

Computershare Investor Services Pty Limited
GPO Box 7045
Sydney NSW 1115
Australia

Telephone: (03) 9615 5970
Freecall: 1300 855 080
Facsimile: (02) 8234 5050

Email: sydney.services@computershare.com.au

Website: www.computershare.com

Any other enquiries relating to your Macquarie Bank share investment or Macquarie Income Securities can be directed to:

Investor Relations
Macquarie Bank Limited
Level 15
No. 1 Martin Place
Sydney New South Wales 2000
Australia

Telephone: (02) 8232 4750
Facsimile: (02) 8232 4330

Email: investor.information@macquarie.com

The Bank's Company Secretary, Dennis Leong, may be contacted on the numbers above.

Five Year Summary

Year ended 31 March	1998	1999	2000	2001	2002
Financial Performance ($ million)					
Total income from ordinary activities	665	815	1,187	1,472	**1,600**
Total expenses from ordinary activities	498	597	885	1,147	**1,245**
Profit from ordinary activities before income tax	167	218	302	325	**355**
Income tax expense	26	53	79	53	**76**
Profit from ordinary activities	141	165	223	272	**279**
Outside equity interest	–	–	–	1	**–**
Macquarie Income Securities distributions	–	–	12	31	**29**
Profit from ordinary activities after income tax attributable to ordinary equity holders	141	165	211	242	**250**
($ million)					
Total assets	7,929	9,456	23,389	27,848	**30,234**
Total liabilities	7,348	8,805	22,154	26,510	**27,817**
Net assets	581	651	1,235	1,338	**2,417**
Risk weighted assets	4,967	4,987	8,511	9,860	**10,651**
Total loan assets	3,158	4,002	6,518	7,785	**9,209**
Impaired assets (net of provisions)	12	44	23	31	**34**
Share Information					
Cash dividends per share (cents per share)					
1st Half	21.0	30.0	34.0	41.0	**41.0**
2nd Half	30.0	38.0	52.0	52.0	**52.0**
Total	51.0	68.0	86.0	93.0	**93.0**
Basic earnings per share (cents)	88.1	101.3	124.33	138.88	**132.83**
Share price at 31 March ($)	14.35	19.10	26.40	27.63	**33.26**
Ordinary share capital (million shares) (a)	157.6	161.1	171.2	175.9	**198.5**
Market capitalisation at 31 March (fully paid ordinary shares) ($ million)	2,262	3,077	4,520	4,860	**6,602**
Ratios					
Return on average ordinary share capital	26.1%	26.8%	28.1%	27.1%	**18.7%**
Payout ratio	57.9%	67.2%	70.0%	67.5%	**73.6%**
Tier 1 ratio	11.7%	13.0%	14.5%	12.9%	**17.8%**
Capital adequacy ratio	16.4%	17.3%	18.4%	16.0%	**19.4%**
Impaired assets as % of loan assets	0.4%	1.1%	0.3%	0.4%	**0.4%**
Net loan losses as % of loan assets	0.0%	0.1%	0.1%	0.1%	**0.2%**
Funds Under Management ($ billion)					
Listed	2.3	3.0	4.2	6.9	**11.8**
Unlisted					
Retail	8.9	9.8	9.6	10.6	**11.7**
Wholesale	10.5	10.0	12.5	13.4	**17.8**
Total	21.7	22.8	26.3	30.9	**41.3**
Staff Numbers	2,474	3,119 (b)	4,070 (b)	4,467 (b)	**4,726 (b)**

(a) Number of fully paid ordinary shares at 31 March, excluding options and partly paid shares.

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

Contact Directory

Directory of offices from which Macquarie Bank and/or its subsidiaries conduct operations.

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Please note
No country codes have been included. When telephoning Australia or New Zealand, the first '0' in the area code should not be dialled.

www.macquarie.com.au

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