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2003 Concise Report



Macquarie and the Holey Dollar

In 1813 Lachlan Macquarie, Governor of the colony of New South Wales, overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching out the centres and creating two new coins – the 'Holey Dollar' (valued at five shillings) and the 'Dump' (valued at one shilling and three pence). This single move not only doubled the number of coins in circulation but increased their total worth by 25 per cent and prevented the coins from leaving the colony.

Governor Macquarie's creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol of the Macquarie Bank Group.

2003 Annual General Meeting

Macquarie Bank's 2003 Annual General Meeting will be held at 10.30am on Thursday, 31 July 2003 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 security holders.

The Macquarie Bank Group's annual report consists of two documents – the 2003 Annual Review (incorporating the Concise Report) and the 2003 Financial Report. The Annual Review provides an overview of the Group's operations and a summary of the financial statements.

If you would like a copy of the 2003 Financial Report, please call us on 612 8232 3333 or visit www.macquarie.com.au/investorrelations

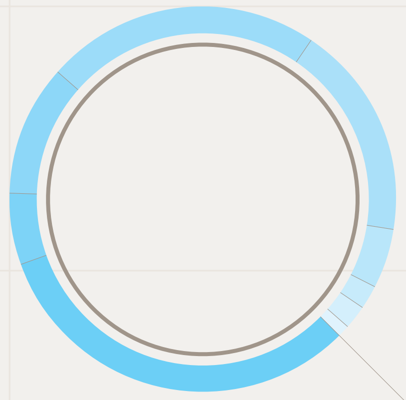
Contents



Cover image London Underground

Macquarie continued to establish itself as a key player in infrastructure advisory internationally. During the year Macquarie was financial adviser to Tubelines on the $11.5 billion program to upgrade and maintain the infrastructure of the Jubilee, Northern and Piccadilly lines of the London Underground network – helping to cement this as a core area of expertise and growth potential for the Bank.

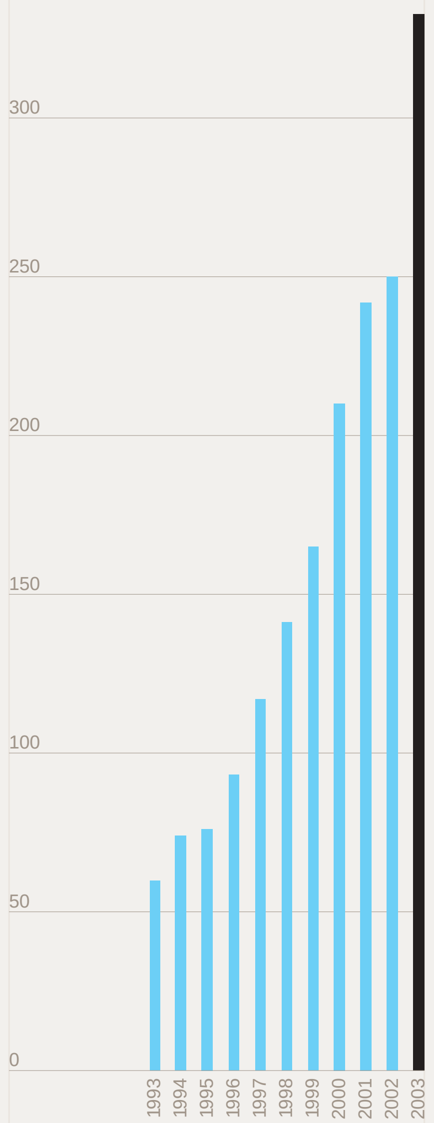
MACQUARIE BANK



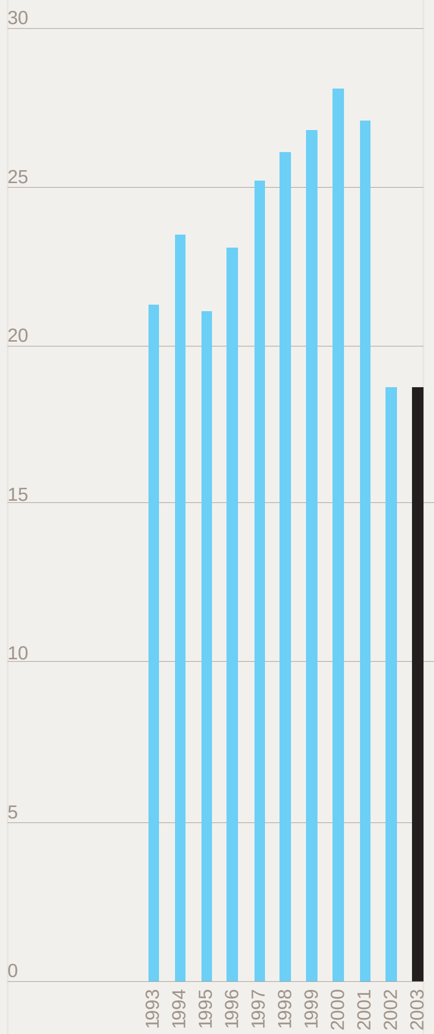
# Highlights

- Profit from ordinary activities after tax attributable to ordinary equity holders increased 33 per cent to $333 million
- Operating income increased 15 per cent to $1,834 million*
- Earnings per share increased 24 per cent to $1.65
- Return on average ordinary shareholders' funds was 18.7 per cent
- International income contributed 24 per cent of the Group's income
- Total assets grew by $2.3 billion to $32.5 billion
- Ordinary dividend of 93 cents per share for the year (interim dividend franked to 85 per cent and final dividend fully franked)
- Special dividend of 50 cents per share declared (fully franked)
- Capital adequacy ratio 21.4 per cent

Reported Annual Net Profit Attributable to Ordinary Equity Holders
$ million year ended 31 March




Return on Average Ordinary Equity Holders' Funds
% pa year ended 31 March




## Relative Contribution to Profit**

| | 2003 | 2002 |
|---|---|---|
| — CORPORATE FINANCE (INCLUDING INFRASTRUCTURE AND SPECIALISED FUNDS) | 32% | 30% |
| — FINANCIAL PRODUCTS (INCLUDING CROSS-BORDER LEASING) | 6% | 11% |
| — OTHER (INCLUDING INSTITUTIONAL BROKING, MACQUARIE CAPITAL) | 11% | 20% |
| TOTAL INVESTMENT BANKING | 49% | 61% |
| TREASURY AND COMMODITIES | 23% | 21% |
| BANKING AND PROPERTY | 18% | 16% |
| EQUITY MARKETS | 5% | — |
| FUNDS MANAGEMENT | 2% | 3% |
| FINANCIAL SERVICES | 2% | (1%) |
| DIRECT INVESTMENT | 1% | — |

** BASED ON MANAGEMENT ACCOUNTS – PRE-TAX AND PRE-PROFIT SHARE.

## Consolidated Profit

| YEAR ENDED 31 MARCH | 2003 $M* | 2002 $M | % CHANGE |
|---|---|---|---|
| TOTAL INCOME | 1,834 | 1,600 | 15 |
| TOTAL EXPENSES | (1,374) | (1,245) | 10 |
| PRE-TAX PROFIT | 460 | 355 | 30 |
| INCOME TAX EXPENSE | (96) | (76) | 26 |
| PROFIT AFTER TAX | 364 | 279 | 30 |
| OUTSIDE EQUITY INTEREST | (3) | — | — |
| DISTRIBUTION ON MACQUARIE INCOME SECURITIES | (28) | (29) | — |
| PROFIT AFTER TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS | 333 | 250 | 33 |

## Ratings

| | SHORT-TERM | LONG-TERM |
|---|---|---|
| FITCH RATINGS | F1 | A+ |
| MOODY'S INVESTORS SERVICE | P1 | A2 |
| STANDARD & POOR'S | A1 | A |

* ADJUSTED TO EXCLUDE THE BROADCAST AUSTRALIA TRANSMISSION INCOME AND OPERATING EXPENSES FOR THE HOLDING PERIOD FROM 2 APRIL 2002 TO 12 AUGUST 2002.

Profit is ultimately why we are in business. We seek to achieve consistently superior profitability and we take pride in our profit record. Profitability is fundamental to our success. It funds our continued growth and rewards both our shareholders and our employees.

Macquarie has achieved consistent long-term profit growth. Our profit has been driven by a deliberate focus on areas where our skills and expertise deliver a real advantage for clients. As a result we have established leading positions in a diverse range of international markets and regions. This strategy has also delivered strong results throughout challenging market and economic cycles. Macquarie's commitment to diversity of business activity has rewarded shareholders with long-term, stable profit growth.

## Strive for profitability

# Integrity

Integrity means being accountable for mistakes and understanding that the manner in which we do business, and the imprint we leave, is just as important as the business itself. At Macquarie we provide an environment that encourages staff to make their personal mark on their team, clients, customers and community. In all our activities we are judged by the mark we leave.

Macquarie's continued success depends upon the maintenance of its reputation for honesty and integrity and its ability to fulfil its promises. There are no degrees of integrity. Integrity, trust, honesty, ethics, truthfulness, by whichever word, it is this concept upon which all our actions are based and by which we are happy for our actions to be judged. We abide by the spirit of our commitments, as well as the letter. We recognise that while all our actions must be lawful, mere lawfulness is an inadequate test of integrity. Questions we ask before any transaction or dealing with another party are; "Were my position to be reversed, would I be happy with this dealing?", "Were my actions to become publicly known would I be ashamed or embarrassed?"

## Chairman's and Managing Director's Report

**Despite the challenging market conditions the Bank achieved its eleventh successive record profit, which illustrates resilience and ability to produce solid results through the economic cycle. We remain committed to our long-term strategy of full service investment banking in Australia and focusing on selected business activities in international markets.**

### Result

The Macquarie Bank Group (the Bank, Macquarie) delivered another record result in the financial year to 31 March 2003. Consolidated after-tax profit attributable to ordinary equity holders increased 33 per cent to $333 million and consolidated pre-tax profit increased 31 per cent to $428 million. Earnings per share increased 24 per cent from $1.33 to $1.65.

Total operating income* rose by 15 per cent to $1.8 billion. Trading, fee and commission and interest income were up on the previous year. Fee and commission income contributed approximately 61 per cent of income and rose 11 per cent on the previous corresponding period.

Continuing cost management initiatives around the Bank were evidenced by a decrease in the expense to income ratio from 77.8 per cent to 74.9 per cent. The Bank remains strongly and conservatively capitalised, with a Tier 1 capital ratio of 19.0 per cent, which provides the ability to both support business initiatives and maintain good credit ratings.

The past year was perhaps the most difficult in recent history, marked by terrorism, war, global uncertainty and equity market declines around the world. Despite the challenging market conditions the Bank achieved its eleventh successive record profit, which illustrates resilience and ability to produce solid results through the economic cycle.

The significant increase in profit reflects the strength of the Bank's business and the diversity of its operations across a wide variety of markets and locations. This result also reflects the benefits that have flowed from the Bank's capital raising that was undertaken in September 2001 and the subsequent investments that have been made to grow our business.

Although the Bank's share price fell during the course of the year, Macquarie outperformed most other peer investment banks in terms of total shareholder returns during the period. Total shareholder return reflects the value of a shareholding over time and assumes that dividends are reinvested into new shares when dividends are paid.

### Review of operations

All six major business Groups made solid contributions to the record result.

The Investment Banking Group continued to perform well in a difficult environment and its performance was marginally up on the prior year.

The Group maintained its position as a world leader in project and other structured financings and was ranked the 2002 No.1 project finance adviser in the Asia Pacific and in the Americas regions, and No. 2 globally, by industry publication *Project Finance International.* The Group was also named as No.1 mergers and acquisitions adviser in Australia in 2002 by *Thomson Financial*.



Strategic initiatives during the year included the launch of three new infrastructure funds in Australia – Macquarie Airports (MAP), Macquarie Communications Infrastructure Group (MCG) and Southern Cross FLIERS Trust (SCF) – and a road infrastructure fund in South Korea (Korean Road Infrastructure Fund (KRIF)). While the market performance of MAP (with interests in Sydney, Bristol, Birmingham and Rome airports) was disappointing, the operating environment for the aviation industry has been extremely difficult and the fund's management remains confident in the asset values and the scope for continued operational improvement at all its airports. Macquarie Essential Assets Partnership (MEAP), a Canadian essential infrastructure fund, was launched in May 2003.

Macquarie Capital continued to strengthen its position as a quality financial services provider to the corporate, professional, government and small business sectors. Leasing books increased by 21 per cent from $1.9 billion to $2.3 billion through organic growth.

Institutional Stockbroking's profitability was down due to lower issuance fees and stockholdings relating to underwriting shortfalls. However, secondary brokerage revenues were maintained.

The Treasury and Commodities Group had another outstanding year with every Division achieving a record or near-record result. Metals and Mining, Foreign Exchange, Treasury and Agricultural Commodities all delivered particularly good results.

The Group's contribution was driven by increased market share and product and market diversity, without increasing its risk profile or costs. In addition, two new businesses were launched, an energy trading business based in London and an oil and gas mezzanine finance business based in Houston.

The Banking and Property Group posted its fifth consecutive record profit, with increased contributions from the Property, Banking and Golf and Leisure businesses. Property funds under management (including associates) increased by 50 per cent from $4.8 billion to $7.2 billion. The Macquarie ProLogis Trust was listed in June 2002 and has performed strongly during the period, outperforming the S&P/ASX Property 200 Accumulation Index by 21 per cent for the nine months to 31 March 2003. Macquarie ProLogis was named "Best Newly Listed Company in Australia" for 2002 by *Asiamoney* magazine.

The Equity Markets Group's contribution to profit was well up on the break-even result last year despite the continuing adverse trading conditions that prevailed in most global equity markets. The Australian operation benefited from resilient investor demand and performed strongly by maintaining leading market shares. Although the profitable alliance with Standard Bank in South Africa was terminated as planned during the year, a new South African equity derivatives business alliance has since been entered into with Nedbank Limited.

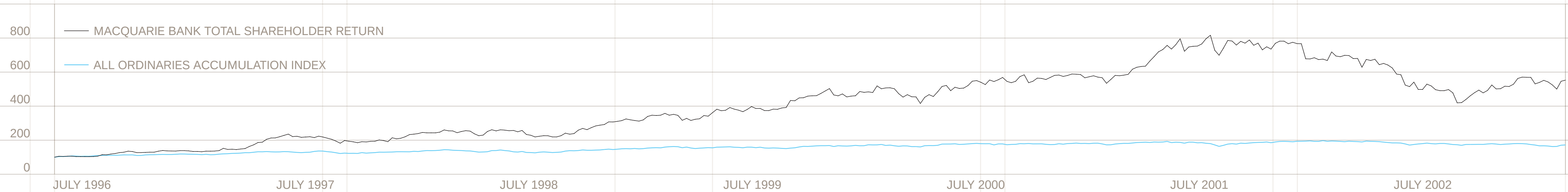
The Funds Management Group's contribution was broadly in line with the prior corresponding period despite the contraction of the overall Australian funds management industry. This result was primarily due to the increased contribution of the Group's institutional business. The Group's funds under management grew by 13 per cent from $27.1 billion to $30.7 billion.

After posting moderate losses over the past two years due to a major development of technology systems and consolidation of its services, the Financial Services Group achieved profitability this year, in line with expectations, despite difficult market conditions. This result was largely due to continued growth in client numbers and revenue. Wrap assets under administration increased by 62 per cent from $3.9 billion to $6.3 billion, making it the fastest growing Australian administrative platform in 2002 according to leading industry consultant ASSIRT. The Macquarie Cash Management Trust grew 7 per cent from $8.2 billion to $8.8 billion, holding more than 20 per cent market share. Continued cost efficiencies have also been achieved through the restructure and streamlining of systems and back-office functions.

### Long-term performance

Macquarie has continued to deliver strong earnings growth over the long-term. This strong earnings growth has translated into total shareholder returns of approximately 450 per cent for the period since the listing of the Bank's shares in July 1996 until 31 March 2003, as seen in the graph below. This compares very favourably with the returns generated by the other top 50 Australian listed companies over this period (average total shareholder return of approximately 90 per cent). At 31 March 2003, of the top 50 companies on the ASX when Macquarie Bank listed, Macquarie had delivered total shareholder returns better than all but one.

**Macquarie total shareholder return versus the All Ordinaries accumulation index**




INDEXED TO 100 ON 29 JULY 1996

* Adjusted to exclude the Broadcast Australia transmission income and operating expenses for the holding period from 2 April 2002 to 12 August 2002.

# Chairman's and Managing Director's Report continued

### Long-term performance continued

The diversity of our businesses not only differentiates us from our competitors but also allows us to generate earnings that are less volatile than our investment banking peers.

The consistently strong results produced by the Bank can be attributed to the continued implementation of strategies focusing on areas where we can add special value, developing annuity income streams and continuing to develop a portfolio of businesses providing income diversity.

### Commitment to specialist funds strategy

We are committed to our specialist funds strategy of creating and growing vehicles which give investors exposure to specific asset classes in areas such as property and infrastructure. We believe that our skills in these particular areas give us a competitive advantage in acquiring and managing assets and thereby delivering superior returns to shareholders. As the graph on page 11 illustrates, this strategy has delivered outstanding value to most investors in the specialist funds over the long-term.

We aim to continue to build portfolios of world-class assets in our infrastructure and property funds.

### Management approach

The Bank has maintained its commitment to a strategy of selective international expansion and has entered markets where there is a genuine opportunity to add value. This has been achieved via organic growth supplemented by joint ventures with local market partners or small acquisitions in niche markets. During the year, Macquarie increased its international network of offices to include Dublin (Ireland), Geneva (Switzerland), Houston, San Jose, San Diego and Memphis (US), and Labuan (Malaysia).

Staff numbers grew despite the difficult market conditions and significant job losses in the investment banking industry both in Australia and around the world. These difficult market conditions have provided some of our businesses with an opportunity to increase market share and demonstrate commitment to our clients, thereby positioning us to deliver future growth.

Macquarie has continued to focus on organic growth by building new businesses. In addition to the launch of a number of new specialist funds, various new business initiatives were undertaken during the year. These included the establishment of new equity derivatives alliances in South Africa and South Korea, an energy trading business based in London and an oil and gas mezzanine finance business based in Houston.

Our potential for continued organic growth by successfully building new businesses, depends on our ability to reward our people for their achievements.

Macquarie has maintained a consistent approach to remuneration, with minor adjustments reflecting regular review. Features of the Bank's remuneration are:

- Base remuneration determined by reference to market conditions
- Formula-driven profit share scheme (applied since Macquarie Bank's inception) based on levels of profitability and return on capital that provides for a significant portion (in the case of senior executives, a large portion) of remuneration being at risk and tied to performance
- Significant staff equity participation (encouraged through an options scheme and employee share acquisition plans)
- Profit share deferral and retention arrangements that encourage long-term commitment.

The principles of this remuneration structure have been publicised since the Bank's listing in 1996 and have aligned the interests of staff with those of our shareholders, contributed to generating strong long-term performance and created long-term management and staff commitment.

During the year, the Board engaged an independent consulting firm to perform a study of Macquarie's executive remuneration levels and current remuneration practice. The study confirmed that the level of executive remuneration is appropriate and competitive relative to peer organisations. However, some adjustments have been made to remuneration arrangements for senior executives to further align staff interests with those of our shareholders. These changes will result in senior management (Executive Directors) compulsorily investing a minimum of one-third of their deferred profit share in Macquarie Bank shares from 2004 onwards. Up to two-thirds of the deferred profit share may be invested on an optional basis.

Strong prudential risk management has been a key to the Bank's success over many years. The Risk Management Division is an independent, centralised unit, responsible for assessing and monitoring risks across the Macquarie Bank Group. Macquarie has a systematic approach to managing risk with a special emphasis on the main risks faced by the Group, including market risk, credit risk, liquidity risk, operational risk, and legal compliance and documentation risk. This approach has served the Bank well and will continue to be a key area of management focus.

### Business principles

We are committed to upholding the highest ethical and business standards. The values to which we aspire are summarised in six principles:

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

These values form the basis of our culture right across the Bank, they guide all of our actions, and they are essential to our success.



### Corporate governance

Macquarie Bank announced a number of significant corporate governance initiatives during the year. The initiatives are part of the Board's continuing review of corporate governance and reflect its ongoing commitment to the best representation of shareholder interests:

- The Board resolved to have a majority of independent directors. In February 2003, Professor John Niland was appointed to the Macquarie Bank Board as an independent director. Professor Niland's appointment brings further depth to the management expertise of the Board, particularly in the areas of science and technology, philanthropy, environmental regulation and education. In May 2003, Peter Kirby, until recently Chief Executive Officer of CSR Limited, was also appointed as a new independent director to commence on 28 June 2003. Mr Kirby brings significant industrial company management and international experience to the Board. On Mr Kirby joining the Board, it will comprise six independent directors out of ten.
- A Corporate Governance Committee was established, chaired by an independent director, Kevin McCann.
- David Clarke stepped down as Chair of the Bank's Remuneration Committee. Independent director Helen Nugent now chairs this committee.
- All other Board Committees will comprise a majority of independent directors with the Audit and Compliance Committee comprising only independent directors.
- The listed specialist infrastructure and property funds managed by Macquarie are well advanced in meeting the Bank's new corporate governance framework for its managed funds.

Further information on the Bank's corporate governance is provided in the corporate governance statement beginning on page 32.

### Dividend policy and special dividend

The Bank will pay a fully franked final dividend of 52 cents per share for the year to 31 March 2003 and a special fully franked dividend of 50 cents per share. The special dividend delivers to ordinary shareholders franking credits which will become available as a result of the tax consolidation regime recently introduced by the Federal Government.

This brings total dividends for the year to $1.43 per share, compared to 93 cents per share for the year ended 31 March 2002 (franked to 70 per cent). The interim dividend of 41 cents per share was franked to 85 per cent.

Having achieved full franking of the ordinary dividend, the Bank has revised its ordinary dividend policy such that dividends in future periods will grow in line with earnings. The Bank will target a payout ratio each year in the range of 50 per cent to 60 per cent, subject to a floor of 93 cents per ordinary share per annum. It is expected that future dividends will be at least 80 per cent franked.

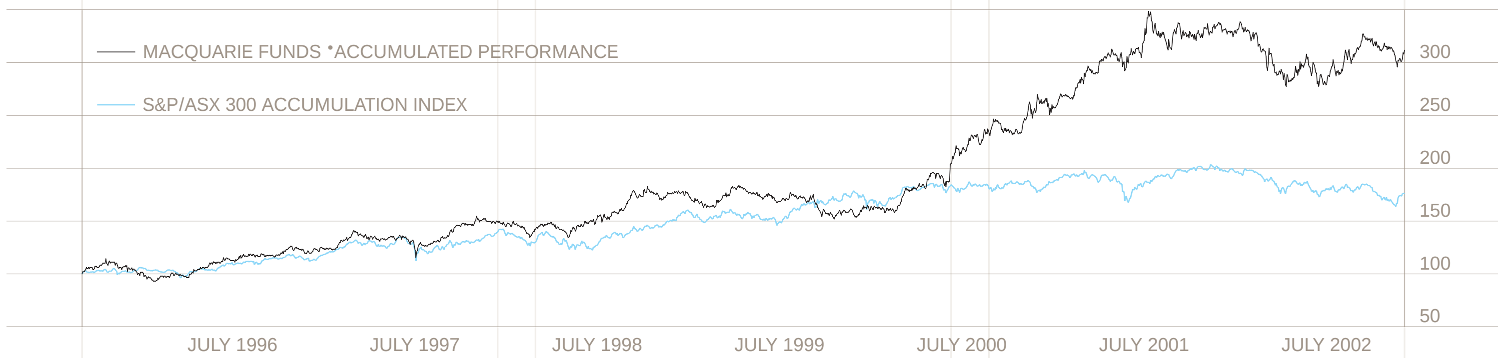
### Outlook

As noted elsewhere in this Annual Review, there are many initiatives underway across the Bank and we therefore remain positive about prospects for continuing growth. In particular, subject to no further material deterioration in market conditions, we expect to increase both revenue and profits further in the 2003/2004 financial year. We also expect to maintain or enhance our strong market positions. We believe we are well positioned to benefit from any improvement in equity markets and plan to continue our long-term strategy of full service in Australia and focused operations in international markets. The outlooks for the individual operating Groups are provided at the end of each Group's discussion on the following pages.

**David Clarke** Executive Chairman

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

**Macquarie family of listed funds* accumulated performance versus S&P/ASX 300 accumulation index since January 1996**




INDEXED TO 100 ON 29 DECEMBER 1995

* Comprises the accumulated performance of Macquarie Airports, Macquarie Communications Infrastructure Group, Macquarie Infrastructure Group, Macquarie CountryWide Trust, Macquarie Goodman Industrial Trust, Macquarie Leisure Trust, Macquarie Office Trust and Macquarie ProLogis Trust.

# Management and organisation

Key to Macquarie's success is a unique management style that aims to provide individual businesses with a balance between operating freedom, controls on risk limits and observance of professional standards.

This approach is reflected in the Bank's organisational structure. It is designed to be non-hierarchical and encourages a sense of ownership and entrepreneurial endeavour by business managers.

The Bank's activities are organised into six operating Groups, which focus on defined product or market segments. The six Groups are:

— Investment Banking Group
— Treasury and Commodities Group
— Banking and Property Group
— Equity Markets Group
— Funds Management Group
— Financial Services Group

Each Group comprises several Divisions. The six Groups have the operating freedom to develop and implement business unit strategy, new products and services, market initiatives and domestic and international alliances.

Outside the major business Groups is a specialist business, Macquarie Direct Investment, which is responsible for managing the Bank's private equity activities.

Strong prudential management has been fundamental to the Bank's success over many years and all business activities are encompassed by a robust risk management framework. The Risk Management Division manages financial risks including credit risk (risk of counter-party default), market risk (risk arising from changes in price or volatility of the underlying index or asset within trading portfolios), operational risk (risk of error or loss due to failed or inadequate internal processes, people and systems or from external events), legal compliance risk and liquidity risk.

A network of support areas provides the infrastructure that enables the Bank's businesses to operate. These include the Information Services Division (systems and communications technology), the Corporate Affairs Group (comprising Human Resources, Business Services, Financial Operations, Business Improvement, Company Secretarial, Investor Relations and Taxation) and the Quantitative Applications Division.

A full directory of the Bank's Groups and Divisions is set out on page 63.

All businesses operate within overall guidelines and specific parameters set by the Board and Executive Committee (a central group comprising the Chairman, Managing Director, Deputy Managing Director, business heads and Head of Risk Management). The focus of central management is on risks to the Bank arising from market and industry forces and issues of medium and long-term significance.


# Fulfilment for our people

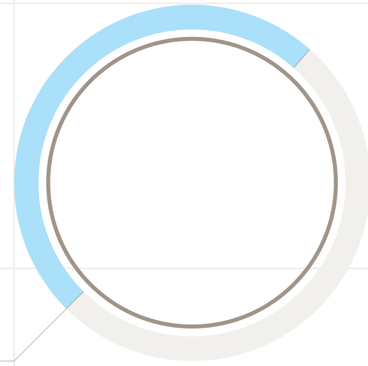
Macquarie encourages long-term commitment to the Bank through initiatives including profit sharing, share acquisition plans, flexible work arrangements and a flat management structure with promotion based on merit. During the last year, more than 65 people reached their ten-year anniversary of service to the Bank. In recognition of long-term commitment to the Bank, staff receive five-year and ten-year Service Awards.

Macquarie recognises that its most valuable assets go home every night. This is the foundation stone of our belief that Macquarie must be a fulfiling place to work, where all employees are treated as individuals, deserving the respect of their subordinates, peers and superiors. Macquarie seeks to recruit the best people without discrimination or bias and advancement and remuneration are based solely on merit. As Macquarie recognises its obligations to its employees, in turn, they recognise that Macquarie will be judged by their actions.

# Client commitment

8am Sydney, 6am Seoul, 11pm London: regardless of where our people are in the world, where our clients are located or the time of day, our service commitment remains constant. Through technologies such as secure computer network access cards, we can stay in contact with projects, transactions and team members to deliver a seamless and dedicated service to our clients.

Central to the success of Macquarie is our commitment to our clients. They are the core of our business and our recognition of this drives us to serve them with unswerving dedication. When acting for our clients, their interests come first absolutely. Not all our dealings are for clients – sometimes we act as a principal or arranger. However, in all our dealings we will always act fairly and honestly and disclose the nature of our role. We treat all those with whom we deal with professionalism, courtesy and respect. It is essential that we honour without reservation our obligations to maintain the confidentiality of our clients' information.



INVESTMENT BANKING GROUP CONTRIBUTION TO PROFIT 49%

## The Investment Banking Group continued to perform well in a difficult environment and maintained its position as a world leader in project and other structured financings.

The Investment Banking Group achieved a solid full-year result in a difficult environment, marginally up on its prior year performance. The Group comprises Corporate Finance (including Infrastructure and Specialised Funds), Financial Products, Macquarie Capital, Institutional Stockbroking and Macquarie Research Equities.

**Corporate Finance** includes the Group's Advisory, Equity Capital Markets and Infrastructure and Specialised Funds businesses. Within Corporate Finance, activities fall into six specialist industry sectors: Infrastructure, Resources, Industrials, Property, Financial Institutions, and Telecommunications, Media, Entertainment and Technology (TMeT).

The Australian and New Zealand Corporate Finance advisory business had a strong year, ranking as the No. 1 mergers and acquisitions (M&A) adviser in Australia for 2002 *(Thomson Financial)*, while the equity capital markets business performed well to maintain its No. 2 ranking for equity funds raised by transaction value *(Thomson Financial)*. Specialist funds under management increased 57 per cent from $9.8 billion to $15.4 billion and continued to expand with the establishment of three new Australian specialist infrastructure funds and one international fund:

— Macquarie Airports (MAP) – a listed Australian fund focused on investment in airports

— Macquarie Communications Infrastructure Group (MCG) – a listed Australian-based fund with investment in communications infrastructure

— Southern Cross FLIERS Trust (SCF) – an investment vehicle with listed units providing an opportunity to invest in Sydney Airport

— the unlisted Korean Road Infrastructure Fund (KRIF) – an unlisted fund investing predominantly in South Korean toll roads and tunnels.

Macquarie Essential Assets Partnership (MEAP), a $284 million Canadian essential infrastructure fund, was launched in May 2003.

MAP, with interests in Sydney, Bristol, Birmingham and more recently Rome airports, experienced a disappointing market performance. However, the fund's management team remains confident of the underlying asset values and is confident of continuing to make operational improvement at all of its airports. At the annual general meeting in May 2003, MAP announced an increase in its June 2003 forecast distribution to 5 cents per security which represents a 72 per cent increase on the July 2002 prospectus forecast of 2.9 cents per security.

Performance fees were received during the year on some of the Group's funds – Macquarie Infrastructure Group (MIG), MCG and South Africa Infrastructure Fund (SAIF).

In the infrastructure sector, Macquarie continued its strong development and was ranked by *Project Finance International* as the No.1 global investment bank project finance adviser in Asia Pacific and the Americas, and No. 2 globally.

International highlights included:

— advising Tubelines in the UK on the landmark $11.5 billion program to upgrade and maintain the infrastructure of three lines of the London Underground network, under a 30-year service contract

— advising BC Gas, Ontario Teachers' Pension Plan Board and Borealis Infrastructure Management Inc in Canada on the $1.3 billion acquisition of the Express Pipeline System

— advising on the $119 million purchase of container and stevedoring businesses from BC Rail Marine in Canada

— advising MIG on its acquisition of the proposed $935 million SR125 toll road in San Diego, US

— advising Kesas Sdn Bhd in Malaysia on a $393 million debt restructuring plan incorporating a public issue of Islamic debt securities

— establishing KRIF, which announced its first toll road investment in Kwangju and also secured exclusive or preferred positions in six other toll roads in South Korea

— advising Powerco in New Zealand on its acquisition of certain assets from United Networks Limited, for $744 million including underwriting New Zealand's largest equity raising of the year as well as assisting in its first ever jumbo placement, and in the arrangement of a $679 million debt facility.

Australian highlights included:

— advising AGL on the $880 million acquisition of Pulse Energy

— advising the Westlink consortium, which included MIG, Transurban, Leightons Contractors and Abigroup, on the successful bid for the $2.2 billion Western Sydney Orbital, Australia's largest privately financed project and largest urban toll road

— advising the Southern Cross consortium which included, among others, MAP, Macquarie Airport Group (MAG), Ferrovial Aeropuertos and HOCHTIEF AirPort, on the $5.6 billion acquisition of Sydney Kingsford-Smith Airport

— advising MAP, MAG and Macquarie's Global Infrastructure Fund (GIF) on the acquisition of a 44.7 per cent interest in Rome Airports

— the initial public offering (IPO) of the $600 million SCF which was one of the largest hybrid deals in the Australian market and the first structure of its type.

In the resources sector, Macquarie built on its domestic strength, advising Placer Dome on the $2.1 billion acquisition of AurionGold, Burrup Fertilisers on a $679 million project financing of a greenfield ammonia fertiliser plant in Western Australia and Centennial Coal on the $331 million acquisition of Powercoal and providing associated equity raising, debt arranging and an equity bridge facility. The Resources team further expanded its international expertise and capability globally, advising Francisco Gold in North America on its $443 million merger with Glamis Gold.

Macquarie's expertise in the industrials sector was demonstrated through advising leading companies on M&A and equity capital markets opportunities. Macquarie advised Constellation Brands on its $2.4 billion merger with BRL Hardy to create the world's largest wine company, and was joint lead manager on Qantas' $718 million equity raising, undertaken in August 2002. The team also advised Goodman Fielder on the $2.4 billion takeover bid by Burns Philp.

In a strong year, the property team broadened its revenue base and had several highlights, including its role as lead manager, underwriter and financial adviser on the $246 million IPO of Valad Property Group, one of the first stapled securities investing in property to be offered via an IPO. The team also advised Coles Myer on the $390 million sale of Sydney Central Plaza to Westfield Trust.

The financial institutions team increased its contribution this year. Highlights included its role in advising AXA Australia on the sale of its health insurance business, where the Bank participated in a consortium that acquired AXA Health for $595 million. The team was lead underwriter of a $350 million reset preference share issue and managed the $300 million buyback for Insurance Australia Group.

In a difficult year for the TMeT sector, Macquarie acquired Broadcast Australia (formerly NTL Australia) from NTL Inc as the seed asset for the $310 million IPO of MCG. MCG's security price has performed strongly and an inaugural distribution was made to security holders.

The **Financial Products** Division provides alternative investments and cross-border leasing solutions for clients. The overall contribution from Financial Products was down on the previous year with the US leasing business experiencing a downturn due chiefly to economic conditions. Nevertheless, there were a number of highlights including arranging leases for lessees including Post Austria and Linz AG (Austria), Swisscom (Switzerland), Qantas (Australia), SNCB (Belgium), and Chicago Transit Authority and New Jersey Transit (US).

Financial Products also arranged the refinancing of $1.2 billion of infrastructure bonds for CityLink Melbourne Limited and raised $170 million for the Macquarie Fusion Funds capital-protected funds product. The Macquarie Nine Film and Television Fund and two series of the Titan protected hedge funds in New Zealand were launched during the year.

**Macquarie Capital,** which carries out the Investment Banking Group's balance sheet activities, broadened its global product mix. Initiatives in information technology, general equipment and motor vehicles saw leasing books increase 21 per cent from $1.9 billion to $2.3 billion. Further growth is expected from new initiatives in engines, water infrastructure and electronics.



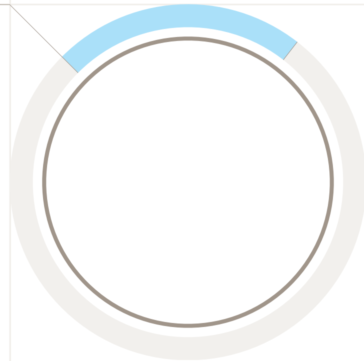
The contribution from **Institutional Stockbroking** and **Macquarie Research Equities** reflected the year's difficult market conditions. Profit from Institutional Stockbroking was down due to lower issuance fees and stockholdings related to underwriting shortfalls. However, secondary brokerage revenues were maintained and there was further revenue growth from the domestic client base. Macquarie Research Equities continues to offer extensive research on Australian and New Zealand stocks, covering 93 per cent (by market capitalisation) of the ASX/S&P 300 stocks.

### Outlook

For the next 12 months the Group anticipates an increase in revenue and profit assuming no material deterioration in equity market conditions. Growth is expected in infrastructure activities and specialised funds, with the growth of existing funds and the creation of new, particularly offshore, funds. A continued focus on offshore offerings will result in the development of new funds and asset classes, with areas of focus being MEAP in Canada, investment by KRIF, pursuing diversified infrastructure opportunities in Europe and potential toll roads in China. Subdued equity market conditions continue to affect overall listed equity issuance and M&A activity. The Group's advisory and equity capital markets businesses are well placed to maintain their market positions and contributions, with a healthy and diverse deal pipeline. Post balance date, the Group has facilitated a second closure on KRIF, launched MEAP, acted as joint adviser, global coordinator and joint bookrunner for the $2 billion Promina IPO and is an adviser to Alinta Gas on the acquisition by the Alinta Gas and AMP Henderson Consortium of Aquila's energy assets in Australia. The Group expects to maintain its strong market position with an enhanced deal pipeline in 2004.

## The Treasury and Commodities Group's contribution was driven by increased market share and product and market diversity.

TREASURY AND COMMODITIES GROUP CONTRIBUTION TO PROFIT 23%



Every major Division within the Group achieved a record or near-record result, with Metals and Mining, Foreign Exchange, Treasury and Agricultural Commodities Divisions all making strong and increased contributions to Group profit.
The 40 per cent increase in Group contribution on last year was largely driven by increased market share and product and market diversity, without increasing the risk profile or costs.

Metals and Mining Division offers price-making, derivative trading and financing across a range of base and precious metals. The Division greatly benefited from increased volatility which increased transaction activity. The Division opened an office in Houston, US during the year focusing on mezzanine finance opportunities in the oil and gas sector. Profitability in this new business is expected in the short term.

Foreign Exchange Division provides 24-hour price-making services in G7 currency spot, forward and option products to Australian and international corporates and institutions. The Division also tailors structured term hedging currency solutions for clients. The Division again enjoyed its most profitable year with all businesses significantly increasing their profit contribution. The growth in profitability reflected higher volume, increased market share and diversity of products such as the Internet delivery business offering margined spot trading to offshore clients in various currencies.

Treasury Division is responsible for management of the Bank's balance sheet, liquidity and interest rate exposure. This year, Macquarie further consolidated its position in global funding markets by undertaking a number of successful public and private transactions. While maintaining conservative management of the Bank's balance sheet and liquidity profile, the Division delivered an increased contribution, an excellent result given extreme volatility and market uncertainty.

Agricultural Commodities Division provides risk management solutions to the agricultural industry globally, its core business being the provision of tailored, over-the-counter hedging transactions. The Division produced an outstanding result, more than doubling the profit achieved in the prior corresponding period. Sugar was again a large contributor due to volatile market conditions, followed by grain, cocoa and cotton which all performed above expectations.

Debt Markets Division originates, places and structures debt for its clients in primary capital markets. It also supports its clients in secondary and trading markets in securities, interest rate and credit derivatives. The Division was a solid contributor to the Group with performance in line with the prior corresponding period, ranking first in the *Thomson Financial Securities* and *INSTO* magazine Australian league tables for all debt issued into the Australian market place for the calendar year. It also successfully grew its businesses, including an alliance in South Africa with ABSA Bank Limited.

Futures Division maintained its position as a leading execution and clearing member of the Sydney Futures Exchange. The Division has an established client base comprising many of Australia's leading fund managers, government and public enterprises and international banks. The Division recorded a solid result, consistent with the prior corresponding period.

Risk Advisory Services provides independent advice on risk and financial management and outsourced management of debt and asset portfolios to clients in commodity and treasury markets. It had a strong year, contributing significantly more profit than in the prior corresponding period.

Economic Research Division provides economic and financial trend analysis for business units and clients of the Bank. The Division also provides the Bank's views on significant economic policy issues to the media and industry groups. The Division has seen an increase in demand for services by several of the Bank's major corporate institutional investment clients.

Energy Trading Division began operations in London this year focusing on providing risk management solutions to oil industry participants globally. While this is a start-up business with little income contribution, the transaction growth is encouraging with profitability expected in the near term.

### Outlook

Treasury and Commodities Group operates in variable markets with conditions in these markets the key factor in the Group's future performance. It will be carefully monitoring exposures given the expected more challenging credit environment and will be seeking opportunities where reduced supply of credit allows it to enter a market with an appropriate return. The Group is optimistic about prospects for the next 12 months due to its leading market positions, business diversity and international growth initiatives. It will continue to focus on selective expansion, with the new energy trading and finance businesses reinforcing its focus on income diversity.



## The Banking and Property Group posted its fifth consecutive record profit with increased contributions from the Property, Banking and Golf and Leisure businesses.

Banking and Property Group posted its fifth consecutive record contribution, up 38 per cent on the prior corresponding period.

During the year, Macquarie Property and its associates increased property funds under management (including associates) by 50 per cent from $4.8 billion to $7.2 billion.

Property Investment Management listed Macquarie ProLogis Trust (MPR) on 26 June 2002. MPR is the first Australian listed property trust investing in North American industrial property. MPR outperformed its peer index for the period from listing to 31 March 2003 and was named Australia's "Best Newly Listed Company" for 2002 by *Asiamoney* magazine. Macquarie CountryWide Trust (MCW) continued to diversify its portfolio, making nine acquisitions in Australia, New Zealand and the US. In recognition of substantially increased activity in North America, a new division, Property Investment Management – North America, will operate from 1 April 2003.

Property Investment Banking participated in transactions totalling more than $3 billion and directly raised equity and debt of over $800 million. Domestic highlights included:

— the $105 million debt raising for the Proximity residential development in Sydney

— the arrangement of the $284 million syndicated debt facility for Latitude, a commercial development at World Square in Sydney

— the launch of Macquarie Real Estate Equity Fund No. 2, the Division's second wholesale property development fund.

International highlights included the acquisition of three office towers in Seoul, South Korea by the Macquarie-advised Schroder Asian Properties Fund, and Waratah Gardens the highly awarded residential development in China, was fully sold at a higher than projected return to investors.

Property development loan volumes grew strongly in Property Finance during the year, up 18 per cent. The closure of the New Zealand office allowed resources to be directed to a second North American office planned for southern California in mid-2003. The Division's loan portfolio is strong, with irregular loans comprising only 0.1 per cent of the total loan portfolio.

Macquarie Capital Partners is a US-based real estate investment banking business providing capital raising and advisory services. During the year it was responsible for facilitating the establishment and expansion of relationships with Regency Centers, in joint venture with Macquarie CountryWide Trust, ProLogis, culminating in the listing of MPR, and Archstone Smith, one of the leading apartment community owners in the US, with whom opportunities are being explored.

Golf and Leisure launched a specialist finance business during the year and now includes development, finance, funds management and advisory services for the leisure and lifestyle industries. Medallist Developments, Macquarie's joint venture with Greg Norman's Great White Shark Enterprises, had continued strong growth. Medallist projects are located in Australia, the US and Mexico and have a total development value of $3 billion.

The Group established a new Division, Macquarie Community Partnerships, to undertake property-based public-private partnerships with both local and state governments. The Division will seek to establish partnerships with government, taking the role of developer and financier to deliver community-based outcomes.

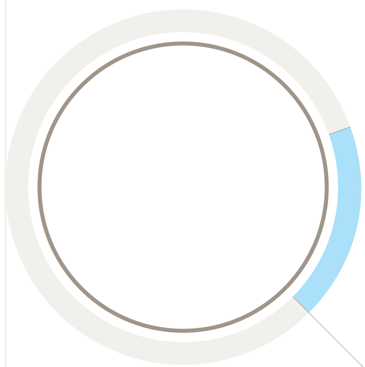
The Banking Division significantly increased its profit contribution. Growth was driven by an increase in both loan and deposit volumes, increased client use of Internet banking and productivity improvements following a restructure of the client service platform. Fee income as a percentage of total revenue improved following the successful introduction of fee-generating services and products.

Margin Lending continued to grow both margin lending and protected lending products, making another record profit contribution with significant business volumes. During the year, a new feature known as Covered Calls was introduced enabling clients to generate income by writing call options over shares held within their margin loan facility. The business was also first to market with two new products – Fusion protected loans over managed funds and Geared Equities Investment Plus, a new protected loan with a shared upside feature.

Securitisation and Mortgages experienced a significant increase in new business generated through its retail and wholesale channels, with a domestic mortgage portfolio of more than $9 billion. Two $US1 billion securitised bond deals were issued from the PUMA funding program during the year. The Division's international expansion strategy was also launched, with two offshore mortgage businesses established, in Memphis, US, and Shanghai, China.

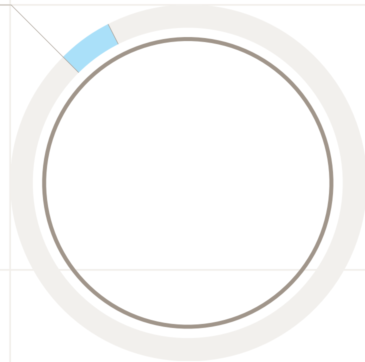
### Outlook

Banking and Property Group expects continued growth and further international expansion in specialist property funds, property finance and mortgage securitisation.
A softening in the sales rate in some property sectors throughout Australia is expected, though it is anticipated this will have only a minor impact on the Group's property finance and mortgage businesses. The Group is well positioned for the medium term and will continue to grow offshore businesses in the US and Asian markets where opportunities have been identified.



BANKING AND PROPERTY GROUP CONTRIBUTION TO PROFIT 18%

EQUITY MARKETS GROUP CONTRIBUTION TO PROFIT 5%



## The Equity Markets Group's contribution was well up on last year and it maintained its leading domestic market shares.

Equity Markets Group undertakes the Bank's principal trading, risk arbitrage and market-making activities in equities and equity derivatives. It utilises its risk management skills to originate equity-based financial solutions and products for retail and wholesale clients and operates the Bank's equity finance operations.

Equity Markets Group's contribution to profit was well up on the prior corresponding period recovering from last year's break-even result. The result was achieved despite adverse trading conditions in the majority of markets in which the Group operates. The Australian business made the most of resilient investor demand and performed strongly. In Asia, the Hong Kong and the Japanese markets experienced low investor activity levels but both businesses were profitable. In Europe, the business made a trading profit for the year but high operating costs resulted in a net loss.

The Australian operation enjoyed a very good year with the resilient domestic economy supporting continued demand for retail product. Macquarie was the leading warrant issuer by volume and, again by value in 2002 (Australian Stock Exchange (ASX)). Excellent progress was made in diversifying and expanding the offering of both retail and wholesale derivative products. A number of significant corporate derivative transactions were completed during the year.

A new international trading desk (ITD) was established in Australia during the second half. This desk is responsible for management of international market risks in the markets where the Group does not have a physical presence including the US. The European trading activity of the Group was integrated into the ITD as at year end.

In its last year of operation, the South African equity derivatives alliance with The Standard Bank of South Africa produced another very strong result. However, in accordance with the original terms of the agreement, the alliance ended in March 2003. The equity derivatives market in South Africa still remains attractive and consequently Macquarie has formed a new equity derivatives business alliance with Nedbank Limited, one of the leading commercial banks in South Africa. The business is anticipated to run for at least five years and Macquarie will receive a fee linked to the success of the business. The Group's prior experience in this market means the start-up phase should be shorter than usual and the new business is expected to achieve a small profit in its first year of operation.

The Group's equity derivatives business in the Hong Kong market returned to profitability following adverse market and regulatory conditions the preceding year. This was an excellent result given the difficult trading conditions where demand for retail financial products declined and market activity levels reached six-year lows. Macquarie improved its market share and increased its sales of listed and unlisted financial products and added successful new products including equity-linked instruments over international shares.

The European business, now in its third year of operation, made a trading profit for the year, notwithstanding the very weak performance of all European exchanges. However, high operating costs resulted in a net loss for the year. To achieve better economies of scale, a recent reorganisation saw the risk management and related infrastructure relocated to Australia. A distribution team remains in Europe to originate transactions in equity finance and structured products.

The Japanese equity derivatives business with Mizuho Securities continued to experience very poor trading conditions and resulting subdued customer deal flow. Despite this, the business made a small profit and is favourably leveraged to any recovery in Japanese market conditions from the current 20 year lows.

The Group's Brazilian equity derivatives business, in only its second year of trading, was again profitable. Market activity was adversely affected for two quarters due to the October Presidential election and associated rise in international risk premium. The Sao Paulo team has remained focused on the sale of equity structured products to the sizeable local pension fund industry and used these adverse conditions to establish Macquarie as a significant player in this market segment.

The Group has also recently entered into a South Korean equity derivatives alliance with Woori Bank, one of the largest banking and financial groups in South Korea. Deregulation of the local equity derivatives market together with significant liquidity, especially from retail investors, makes this market very attractive. It is anticipated that the lead time in establishing this business will be up to 12 months.

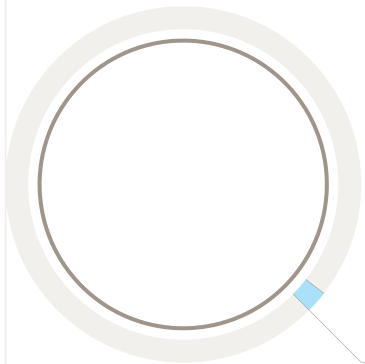
### Outlook

Continued geopolitical and economic uncertainty, combined with the effects of Severe Acute Respiratory Syndrome (SARS) in Asia, makes the immediate outlook for equity markets very uncertain. However, initiatives undertaken over the past two years in response to subdued market conditions means the Group can continue to expand into new markets and is well positioned to capitalise on any improvement in investor demand and increased transaction volumes.



## The Funds Management Group's contribution was chiefly driven by the growth in its institutional business.

FUNDS MANAGEMENT GROUP CONTRIBUTION TO PROFIT 2%



Funds Management Group's businesses continued to grow, which, during testing market conditions, highlighted the strength of its diverse business. The Group's funds under management grew by 13 per cent from $27.1 billion to $30.7 billion.

The Group achieved a profit marginally above its contribution in the prior corresponding period.

### Macquarie Funds Management

Division's growth was chiefly driven by the Division's institutional business, with funds managed for institutional investors increasing by 19 per cent from $14.5 billion to $17.3 billion. Retail funds grew by 4 per cent from $11.0 billion to $11.4 billion.

The Division maintained its strategy of seeking growth both in Australia and select international markets.

In Australia, funds growth was achieved despite the overall size of the funds management industry decreasing, with Macquarie Funds Management gaining market share.

Underlying this funds growth was an increase in the strength of Macquarie Funds Management's reputation in the Australian institutional market. This is evidenced by *Greenwich Associates* surveys conducted in 2002 which show an improvement in rankings with both clients and asset consultants. In addition, in December 2002, *Investor Weekly* named Macquarie Funds Management Best "All Rounder" Fund Manager for mandate wins in 2002.

Across the diverse range of funds managed by the Division in Australia, performance relative to competitors was satisfactory. The Macquarie Balanced Fund, which invests across all major asset classes, delivered top quartile performance over one, two and three years (*Mercer Pooled Fund Survey* for returns to 31 March 2003).

Macquarie's reputation as a leader in unlisted funds invested in cash, fixed interest, currency and listed property produced strong inflows, providing the business with good diversification against significantly weaker equity markets. Substantial allocations from institutional investors increased funds in cash, fixed interest and currency by over 20 per cent and listed property by over 60 per cent. Macquarie is now the second largest cash and fixed interest manager in Australia and was rated by leading Australian research house *Investorweb Research* as International Fixed Income Manager of the Year for 2002. An environment of modest returns focused investors' concerns on fees. This saw an increase of 40 per cent in the funds in the innovative True Index range, which delivers exact index returns in the major asset classes for no management fees. Active equities funds management remains challenging in difficult markets.

In both the UK and Hong Kong the Division continued to invest resources to build wholly-owned businesses offering enhanced equities funds to institutional investors. These funds are designed to consistently deliver incremental returns above the index for little additional risk. In both markets, fund performance was to expectation. The UK enhanced equities team gained encouraging reviews from consultants and prospective clients, who are increasingly interested in this emerging asset class. During the period, the Hong Kong team commenced the management of funds from its first mandate and resources for the team were increased to allow an additional focus on product development and marketing.

International Division exports the Group's expertise into deregulating markets and currently participates in joint ventures in Malaysia and South Korea.

The Division increased its profit contribution and saw strong funds growth, with total joint venture funds under management increasing by 30 per cent from $3.3 billion to $4.3 billion. Macquarie's share of these joint venture funds grew by 31 per cent from $1.6 billion to $2.1 billion.

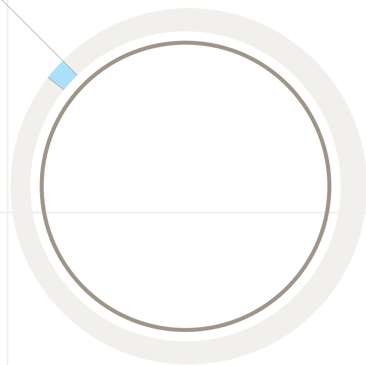
In South Korea, the fund size of Macquarie-IMM Investment Management (Macquarie has a 65 per cent interest) rose by 44 per cent from $1.6 billion to $2.3 billion. Through Macquarie Life Limited, the Division participated in the acquisition of Korea Life Insurance.

The Malaysian joint venture (Macquarie has a 30 per cent interest) with AmMerchant Bank Berhad grew funds under management by 25 per cent from $1.6 billion to $2.0 billion. It improved its position to be the second largest private fund manager in Malaysia with a market share of 13 per cent as at December 2002 according to data from *Lipper Asia Limited* and *Malaysian Association of Asset Managers.*

### Outlook

Despite uncertain conditions in equity markets, medium to long-term prospects for the Funds Management Group remain healthy. In Australia, as investors seek greater diversification in their portfolios and are increasing their allocations to cash, fixed interest and property, the Group expects to benefit from its leading position as a manager of these asset classes. Prospects for enhanced equities in the UK and Hong Kong are encouraging. Continued good growth is anticipated from the joint ventures in Malaysia and South Korea and expansion into Taiwan via a joint venture with an established local entity is being evaluated.

FINANCIAL SERVICES GROUP CONTRIBUTION TO PROFIT 2%



## The Financial Services Group achieved profitability, largely driven by a growth in client numbers and revenue.

The Financial Services Group passed breakeven and achieved a small profit on schedule, despite continued difficult market conditions. This has followed moderate losses over the past two years as the Group undertook a major development of technology systems and consolidation of its services. The Group has experienced growth in client numbers and revenue and the revenue has become increasingly annuity based. During the year, an agreement was entered into with Hartleys Limited to transfer select advisers and clients to the Group.

Cost containment and productivity enhancements were also a major focus this year with the Group completing the implementation of its information technology (IT) development program. The Group also conducted a review of its back-office operations and implemented a number of cost-saving measures. There are plans to achieve further efficiencies during the next 12 months. This program is part of a continual review to ensure the Group's operations are consistent with market conditions.

As part of the Group's focus on the regulatory environment the Financial Services Group has continued to work during the past year to ensure it is ready for the full transition to the provisions of the Financial Services Reform Act.

**Macquarie Adviser Services** Division had two main areas of growth. The first was in Macquarie Wrap Solutions (Wrap), an administration platform enabling clients to invest in a number of investments through a single portal, while providing efficient investment monitoring and consolidated investment and taxation reporting. Assets under administration in Wrap grew 62 per cent from $3.9 billion to $6.3 billion and the platform led the Australian market in inflows for the year to 31 December 2002. The other main area of growth was the Macquarie Cash Management Trust (CMT) which continued to grow steadily, up by 7 per cent from $8.2 billion to $8.8 billion. The net inflows into the Macquarie CMT for 2002 exceeded the net inflows of the rest of the Australian CMT market, again emphasising the strength of Macquarie CMT's market position.

The growth in these areas was largely due to the diversified portfolio solutions and client service available through the Wrap and the CMT's high level of service and functionality.

Macquarie Adviser Services was ranked first in the 2002 *ASSIRT* Service Level Survey in the "Overall Administration Support", "Ease of Doing Business with the Firm" and "IT Services" categories. *ASSIRT* conducts this survey of Australian fund managers annually. In addition, Macquarie was named *Investorweb Research's* Superannuation Manager of the Year 2002.

The continued focus on product and service excellence is a key part of our client's overall wealth management and is seen as critical to success for both our clients and the Division.

**Macquarie Financial Services** provides direct advisory services to Australasian investors in the form of stockbroking, financial planning, private banking and portfolio management services. Macquarie's direct advisory services were affected by volatile global market conditions during the past year. However, they have continued to grow throughout with market consolidation resulting in the acquisition of a number of additional private client advisers.

The Division continued to increase its focus on regulatory requirements and risk management by providing increased training and support for its advisers to ensure they fully comply with enhanced industry standards and regulations.

In November, the Group created its Wealth Management Team to provide greater choice, flexibility and quality of advice offerings to its non-broking clients. This newly integrated team is already demonstrating higher rates of growth in revenue and client acquisition.

Macquarie Private Bank, which provides tailored financial advice to high net worth clients, continued to grow its operations. During the year, it attracted several respected top level advisers in line with its plans to grow its operations and further improve client service during the next 12 months.

### Outlook

While market conditions may remain challenging, the Financial Services Group is confident that it will continue to increase its profit contribution in the longer term by offering a diverse and innovative range of products and services to both its adviser and direct client bases. This will extend to the Group's operations in New Zealand where an increased presence is planned through targeted adviser acquisition and alternative investment offerings.

As planned, over the past two years the Group has reviewed its operations, streamlined its cost base and increased its service offering for existing and new clients. The Group believes this strategic approach will produce long-term benefits and increased profitability. The "Forward Thinking" brand campaign launched in February 2003 is expected to increase awareness among the Group's target market.

The Group is confident that its strong service ethic, supported by the research and investment opportunities offered by other Groups within the Bank, will position it for increased growth in the retail investor market.



# Other Groups and Divisions

### Macquarie Direct Investment Division

Macquarie Direct Investment Division manages the Bank's private equity activities. Having invested more than $360 million in 42 companies to date, the Division offers both experience and expertise in this specialised asset class, as well as consistent top-quartile performance. This performance is a result of superior deal origination capabilities, a refined investment methodology and active portfolio management.

The Division made a positive contribution during the year, but with limited realisations, the principal focus was on building value within the existing portfolio of 20 companies as well as looking for new investment opportunities.

Macquarie Investment Trust III (MIT III), a $220 million fund, is now closed to new investments although some additional investment is expected in existing portfolio companies. CH4, a coal bed methane gas joint venture with BHP Billiton, was the final new investment in the MIT III portfolio. While business conditions are generally regarded as weak, the investee portfolio as a whole has done well even though a number of the investee companies exposed to market cycles have not fared as well.

During the year the Division commenced fund raising for Macquarie Investment Trust IV (MIT IV), which included a second retail fund (Macquarie Private Equity Trust II). A first closing of this fund, with commitments of $60 million, was completed in January and it is anticipated the fund will have a second close later in 2003. The Trust will target expansion, development or buyout capital in unlisted companies located in Australia and New Zealand, excluding property and infrastructure. MIT IV completed its first investment in May 2003 taking a 37.9 per cent stake in Super Alloy Technologies, a developer and manufacturer of golf culbs.

With considerable global uncertainty and generally depressed equity markets, opportunities for exits (either by way of trade sale or IPO) were very limited. As a result of these conditions, the planned float of JB Hi-Fi (MIT II), the leading retailer of audio visual equipment, CDs and DVDs in the Victorian market, did not proceed. However, a partial share buyback in Service Corporation International Australia (MIT III), Australia's largest provider of funeral, burial and cremation services, contributed to the Division's modest profit.

A decision in February 2003 to cease funding Nardell Coal (an investment in MIT III) was made based on the recommendation of an independent consulting firm engaged to review the operations. A Receiver, Manager, and Liquidator were subsequently appointed. MIT III recorded a write-down in the value of its investment. However, the manager remains confident of achieving the fund's target rate of return.

Although there is unquestionably increased competition in the Australian private equity market, Macquarie Direct Investment is well positioned for the future. The companies in which MIT II and MIT III have invested are generally performing well. As market conditions improve, it is expected that a number of these investments will be realised and will generate strong returns.

### Quantitative Applications Division

The Quantitative Applications Division provided the analytical framework for "Imagine", the new Equity Markets Group risk and reporting system. As a member of the cross-divisional team working on this project, the Division took a significant role in testing and reconciling the first implementation of "Imagine".

During the year the Division achieved recognition at international conferences for its research into the pricing of credit risk and associated financial instruments.

It was also active in introducing new financial instruments to the industry and will continue to participate in the creation of innovative financial products.

### Corporate Affairs Group

The *Financial Operations* Division supports the Bank's operating areas and management through the provision of Divisional accounting services, corporate services, international business support, financial planning and capital management and financial control. The Division also maintains a settlements function independent of the operating areas to provide prudential control.

During the financial year, the Division commenced a project to manage the Bank's implementation of International Financial Reporting Standards and provided support to the multi-divisional project teams responsible for implementing the requirements of the Australian Prudential Regulation Authority (APRA) conglomerates and tax consolidations regimes. In addition to these key projects, the Division continues to advise and assist the Bank's businesses with issues that affect their ongoing operations including business process improvements and new regulations.

# Other Groups and Divisions continued

The *Business Improvement* Division is a team of internal consultants servicing the Bank's businesses and support areas. The team's key objectives are to identify and deliver improvements in efficiency and effectiveness by working with both individual businesses and facilitating cross-divisional projects.

Utilising the team's broad consulting experience and strong relationship management, the Division has worked with an increasing number of areas within the Bank and offers a wide range of services, including organisation design, performance measurement and reporting, new product / business analysis, business process re-engineering, project management support information management and change management.

The *Taxation* Division provides taxation support to all areas of the Bank and manages the Bank's relationships with revenue authorities and external advisers globally.

The Division had a busy year coordinating the Bank's response to numerous legislative changes to maintain ongoing compliance with taxation obligations and ensure that the Bank's taxation affairs are appropriately managed. During the year, the Division relocated personnel to London and New York to more effectively support businesses in those time zones.

The Division will continue to focus on developing its support to the Bank's businesses and ensuring taxation compliance in all jurisdictions.

*Company Secretarial and Investor Relations* Division has responsibility for compliance with certain ASX and Australian Securities and Investment Commission requirements, the Bank's share registry, employee equity schemes, professional risks insurances and investor relations. The Division was closely involved in the Corporate Governance initiatives implemented and announced by the Bank in its Interim Report to shareholders late last year.

Investor Relations oversees the Bank's communications with the investment community and actively works to foster relationships with the Bank's shareholders. With heightened investor interest during the year, additional resources and focus were placed on investor relations to ensure investors receive timely and relevant information about the Bank. Consistent with the Bank's strategy of broadening its investor base, Investor Relations activities also focused on targeting new shareholders, particularly in offshore markets.

The *Human Resources* Division assists with recruiting, developing, rewarding and retaining the best people in Australia and internationally. The Division achieves this through sophisticated recruitment strategies and techniques, leadership, personal development and training programs that help staff realise their potential and expand their career horizons and performance-based reward mechanisms.

For the third year running, Macquarie Bank was again proud to be named one of the Best Employers to Work for in Australia (survey conducted by Hewitt Associates). Macquarie is one of just five organisations to achieve this status three years in a row and continues to be the only bank included in this group. The study results were based on a confidential staff survey and external evaluation of Macquarie's management practices and employee value proposition.

*Business Services* Division offers a diverse range of support functions to the Bank's international and domestic offices. During the year the Division challenged traditional office design concepts, ran a successful test of Martin Place's business continuity plans and conducted ongoing evaluation of support functions resulting in the re-engineering of a number of these functions.

Areas of focus for the next year will include development of key procurement strategies and business continuity and disaster recovery planning and testing.

## Corporate Communications Division

Corporate Communications Division manages the Bank's media, government and community relations domestically and internationally. It is responsible for the protection of the Bank's brand and reputation. The Division supports businesses in their marketing activities and manages advertising, sponsorships, website development, internal communications and media relations.

With the increased diversity in the Bank's activities internationally the Division has focused on increasing the profile of business activities in key offshore markets.

## Information Services Division

The Information Services Division is responsible for managing the Bank's technology infrastructure. It supports, maintains and enhances existing business systems, delivering and deploying new systems, technologies and services.

This year, through improved operational efficiency, the Division has reduced the overall cost of the Bank's technology services.

The infrastructure teams focused on enhancing and testing the Bank's disaster recovery capability and the business aligned account teams implemented a number of significant business systems, including replacing the portfolio management system for Financial Services Group, rolling out document management software to the Investment Banking Group and implementing a banking management reporting system for the Banking and Property Group.

## Risk Management Division

The Risk Management Division is an independent, centralised unit responsible for assessing and monitoring risks across the Bank. Its functions are Credit, Finance, Operational Risk Review (ORR), Compliance and the Data Policy Unit. A full Risk Management Report is contained in the 2003 Financial Report.

Credit assesses the credit risk on lending and trading transactions. It allocates credit limits for counterparties and countries, develops procedures for measuring credit exposures and reviews the adequacy of legal documentation.

Finance reviews market risk taken in the trading and banking books across the Group. It sets trading limits and monitors exposures against those limits daily. Finance is responsible for liaison with APRA and for ensuring compliance with its prudential standards. In addition, Finance is responsible for the Group's funding and liquidity policies and monitoring compliance with them.

ORR has two broad functions. In the assurance review role ORR provides independent assurance, primarily to the Board Audit and Compliance Committee and senior management, that significant operational risks are identified and adequately managed. The second function is to facilitate the continued improvement in operational risk awareness and culture through the development of the operational risk management framework, including setting of policies and standards, and education.

Compliance oversees measures to ensure compliance with applicable regulations and laws in Australia and overseas and with obligations of fidelity and confidence to clients and counterparties.

The Data Policy Unit ensures that uniform data standards are adopted by divisions so that accurate and reliable information is provided to the Division for credit monitoring and for regulatory and statistical reporting purposes.

## Macquarie in the Community

Macquarie supports many community activities through the Macquarie Bank Foundation. Each year, a portion of the Bank's profit is allocated to the Foundation to fund programs benefiting the community in the areas of education, the arts, health research and health care, welfare and the environment.

The Foundation also actively supports staff in their own community activities. Under a policy being increasingly utilised, employees can apply to the Foundation for donations to supplement their fundraising endeavours. A range of domestic organisations, including the Fred Hollows Foundation, the RSPCA, the Leukaemia Foundation, Royal Adelaide Hospital and the Starlight Foundation were supported under this policy this year. Diabetes UK and the Nuestra Seniora del Rosario orphanage in Buenos Aires were among the international organisations that received funding.

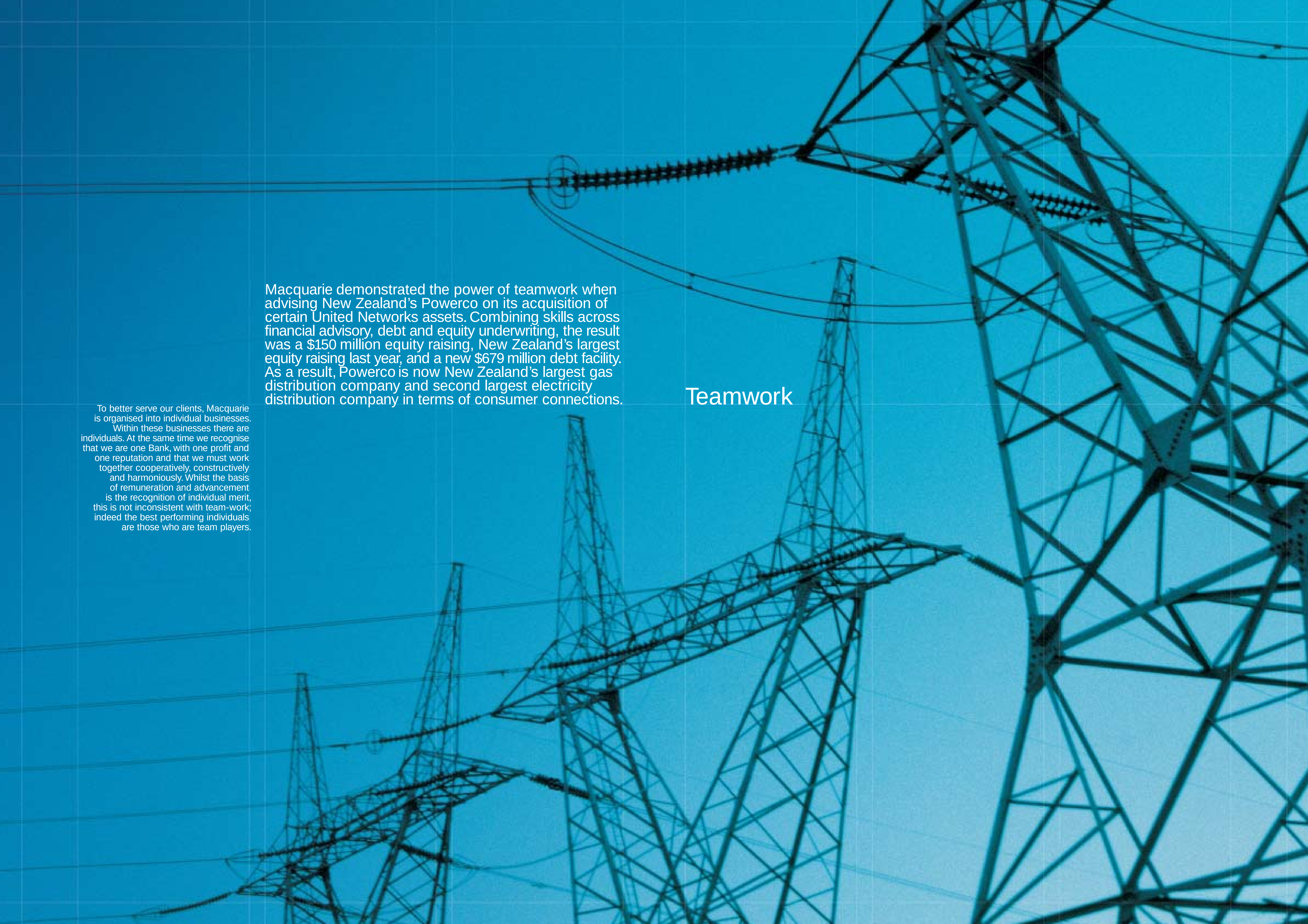
Further recognising the community efforts of Macquarie staff, the Foundation presented two Volunteer of the Year awards in 2002. One award was for work with special needs and disadvantaged young people and the other for work with goodcompany and Amnesty International Australia. Five staff also received highly commended awards.

The Bali tragedy and the crippling national drought highlighted the random hardships that can befall any of us. Through the Foundation and staff fundraising efforts, Macquarie Bank contributed almost $70,000 to the drought relief effort and almost $60,000 to the victims and families of the Bali bombing.

In its community activities, the Foundation aims to provide hands-on assistance as well as financial support. One such partnership is the Macquarie Bank Asthma Australia Research Alliance, to which the Bank has committed $1 million over five years to raise awareness of the disease and develop new research in search of a cure. The Alliance's first PhD research scholar has been asked to present his work – aiming to show asthma can be controlled by supplementing the diet with zinc – to the prestigious European Respiratory Society.

The Foundation also funds numerous programs designed to assist young people. The Macquarie Bank Future Problem Solving Program helps students engage their creative and analytical thinking skills. In international finals held at the University of Connecticut during the year, Australian students achieved first place positions in many categories.

The second National Sculpture Prize, a partnership between Macquarie Bank and the National Gallery of Australia, was awarded in March. Melbourne artist Lisa Roet won for her work, Political Ape. More than 520 entries were received, exceeding the 480 entries submitted for the inaugural prize.



# Teamwork

Macquarie demonstrated the power of teamwork when advising New Zealand's Powerco on its acquisition of certain United Networks assets. Combining skills across financial advisory, debt and equity underwriting, the result was a $150 million equity raising, New Zealand's largest equity raising last year, and a new $679 million debt facility. As a result, Powerco is now New Zealand's largest gas distribution company and second largest electricity distribution company in terms of consumer connections.

To better serve our clients, Macquarie is organised into individual businesses. Within these businesses there are individuals. At the same time we recognise that we are one Bank, with one profit and one reputation and that we must work together cooperatively, constructively and harmoniously. Whilst the basis of remuneration and advancement is the recognition of individual merit, this is not inconsistent with team-work; indeed the best performing individuals are those who are team players.


# Highest standards

Macquarie's commitment to delivering the highest standards was demonstrated by the Macquarie ProLogis Trust. The Trust, managed by a 50/50 joint venture between Macquarie Bank and ProLogis, has a portfolio of high-quality warehouses and distribution centres across North America. Since listing in June 2002, the Trust has been rated as Australia's "Best Newly Listed Company" by *Asiamoney* magazine in its annual Best Managed Companies poll and was highly commended for Best Investor Relations for an Initial Public Offer by *Investor Relations* magazine.

We recognise that superior returns are only achieved through the best work: providing superior value to our clients and others with whom we deal. Excellence, innovation and creativity are the foundations upon which we will build our pre-eminence. There is no place in Macquarie for work which is not of the highest quality and we recognise that complacency, cutting corners and mediocrity are our enemies. Adherence to the highest prudential standards is a fundamental element of our work.

## Corporate Governance Statement

The Board of Voting Directors (the Board) is responsible for Macquarie Bank Limited. The primary role of the Board is to ensure the long-term health and prosperity of the Company, which it accomplishes by:

— setting objectives, goals and strategic direction for management with a view to maximising shareholder value

— adopting an annual budget and monitoring financial performance

— ensuring adequate internal controls exist and are appropriately monitored for compliance

— ensuring significant business risks are identified and appropriately managed

— selecting, appointing and reviewing the performance of the Managing Director and Executive Chairman

— selecting and appointing new Voting Directors

— setting the highest business standards and code for ethical behaviour.

The Board has delegated authorities to the Executive Chairman and Managing Director to manage the business of the Bank and to its various Board Committees. Matters which are not covered by those delegations require Board approval. Among such matters include approvals above delegated levels of credit limits, country risk exposures, equity risk limits, market risk limits, loans and equity investments, underwriting risk, new managed funds and capital expenditure or expenditure outside the ordinary course of business, approval of major elements of strategy, including any significant changes in direction, approval of the interim and final accounts and related reports to the ASX, proposals for the issue of securities by the Bank and certain risk and management policies as prescribed by the Australian Prudential Regulation Authority.

The monthly Board papers make the Board aware of current and forthcoming issues relevant to the Bank's operations and performance. These contain the monthly and year-to-date performance of all Divisions compared with budget, a prudential report from the Risk Management Division and papers relating to particular issues. Senior management present significant matters to the Board. The Board may seek further information on any issue, including requesting that a particular Division or Group Head present to it on the performance, strategy or outlook for that Division or Group.

An annual Board strategy meeting is held in conjunction with senior management at which the strategic direction for the Bank in the short and longer term is discussed.

At the date of this statement, the Board comprises three Executive Voting Directors and six Non-Executive Voting Directors (NEDs) with a seventh NED appointed to start in June 2003. The members of the Board are listed in the table opposite. Brief resumes of the Board Members are contained in the schedule to the Directors' Report.

The Bank recognises that independent directors are important in assuring shareholders that the Board is properly fulfiling its role and is diligent in holding senior management accountable for its performance. In October 2002, the Board resolved that its composition should continue to have a majority of NEDs and, by 1 July 2003, a majority of independent directors, as determined by the Board Corporate Governance Committee.

The Bank published its criteria for determining the independence of its Board members in the Interim Report to shareholders for the period ending 30 September 2002. This has recently been updated and the current criteria are that Voting Directors will be considered independent if not a member of management (a NED) and if they meet the following criteria (to the satisfaction of the Board Corporate Governance Committee):

— Is not a substantial shareholder of the Bank or of a company holding more than ten per cent of the Bank's voting stock or an officer of or otherwise associated directly or indirectly with a shareholder holding more than ten per cent of the Bank's voting stock.

— Has not within the last three years been employed in an executive capacity by the company or another group member or been a director after ceasing to hold any such employment.

— Is not a principal or employee of a professional adviser to the Bank and its entities whose billings exceed five per cent of the adviser's total revenues. A Voting Director who is a principal or employee of a professional adviser will not participate in any consideration of the possible appointment of the professional adviser and will not participate in the provision of any service to the Bank by the professional adviser.

— Is not a significant supplier or customer of the Bank or its entities or an officer of or otherwise associated directly or indirectly with a significant supplier or customer. A significant supplier is defined as one whose revenues from the Bank exceed five per cent of the supplier's total revenue. A significant customer is one whose amounts payable to the Bank exceed five per cent of the customer's total operating costs.

— Has no material contractual relationship with the Bank or any of its associates other than as a director of the Bank.

— Is not a director of any of Macquarie Bank's subsidiaries or responsible entities.

— Has no other interest or relationship that could interfere with the Voting Director's ability to act in the best interests of the Bank and independently of management.

As a consequence, Kevin McCann retired from the boards of Macquarie Communications Infrastructure Limited and Macquarie Communications Infrastructure Management Limited and Helen Nugent retired from the board of Macquarie Airport Management Limited in December 2002. John Allpass and Barrie Martin retired from the board of Macquarie Life Limited in May 2003.

In October 2002, the Board also resolved to make two further appointments of independent Voting Directors by no later than 30 June 2003. As previously mentioned, John Niland was appointed as an independent Voting Director on 27 February 2003 and, in May 2003 Peter Kirby was appointed as an independent Voting Director effective from 28 June 2003. Mr Kirby will bring to the Board extensive industrial company management experience and international expertise, having been the Managing Director and Chief Executive Officer of CSR Limited from January 1998 to March 2003 and, before that, a senior executive of the ICI Group for many years.

Following these changes, the Board will have six independent Voting Directors on its Board of ten (see table below).

In October 2002, the Board also resolved that a majority of the members of each Board committee should be independent directors, that the Audit and Compliance Committee will continue to comprise only independent directors and that the Remuneration Committee and the Corporate Governance Committee be chaired by independent directors. As a consequence of this policy, Helen Nugent replaced David Clarke as Chairman of the Remuneration Committee but he remains a member of that committee.

The Board has also approved a policy that all independent directors will meet at least once per year in the absence of management and at other times as they determine. The convenor of the meetings will be the Chairman of the Corporate Governance Committee.

### Current Board composition

| DIRECTOR** | BOARD MEMBERSHIP |
|---|---|
| DAVID CLARKE | EXECUTIVE CHAIRMAN |
| ALLAN MOSS | MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER |
| MARK JOHNSON | EXECUTIVE AND DEPUTY CHAIRMAN |
| JOHN ALLPASS | INDEPENDENT |
| LAURIE COX | NON-EXECUTIVE |
| BARRIE MARTIN | INDEPENDENT |
| KEVIN McCANN | INDEPENDENT |
| JOHN NILAND* | INDEPENDENT |
| HELEN NUGENT | INDEPENDENT |

* APPOINTED AS A VOTING DIRECTOR ON 27 FEBRUARY 2003
** PETER KIRBY WILL JOIN THE BOARD AS AN INDEPENDENT VOTING DIRECTOR ON 28 JUNE 2003

The Bank acknowledges the importance of having independent directors as determined by objective criteria. As importantly, the Bank is committed to having a Board whose members have the capacity to act independently and have the composite skills to optimise the financial performance of the Bank and returns to shareholders.

The Bank has a high dependence on the performance of its staff and its operations are complex both financially and in business terms. These have been the reasons why the Bank, in common with many global investment banks, believes it to be in shareholders' interests to have Board members with first-hand experience of the businesses and an Executive Chairman. The role of the Executive Chairman is separate and distinct from that of the Chief Executive Officer.

# Corporate Governance Statement continued

The Bank's Constitution provides that:

— the maximum number of Voting Directors shall be 10 unless amended by a resolution of the Voting Directors

— one third of the Voting Directors (excluding the Managing Director and rounded down) must retire from office at the annual general meeting (AGM) each year; such retiring directors are eligible for re-election

— Voting Directors appointed to fill casual vacancies must submit to election at the next general meeting

— the number of Voting Directors necessary to constitute a quorum is:

a) not less than one third of the Voting Directors currently in office; and

b) the number of Non-Executive Voting Directors present at a meeting must be greater than the number of Executive Voting Directors present.

## Terms and conditions of appointment and retirement of Non-Executive Directors

The terms and conditions of the appointment and retirement of any new Non-Executive Voting Directors are set out in a letter of appointment, which prescribes:

— remuneration

— term of appointment, subject to shareholder approval

— expectation of the Board in relation to attending and preparing for all Board meetings

— procedures for dealing with conflicts of interest

— induction procedures

— indemnification and director's liability insurance

— disclosure obligations

— availability of independent professional advice.

The Bank's Constitution provides that a director may enter into an arrangement with the Bank or with any controlled entity and directors or their firms may act in a professional capacity for the Bank or its controlled entities. However, these arrangements are subject to the restrictions and disclosures in the Corporations Act applicable to public companies, common law directors' duties and the Bank's policy on the independence of directors. The indemnity and insurance arrangements for Voting Directors are described in the Directors' Report which follows this Corporate Governance Statement.

It is the practice of the Voting Directors that when a potential conflict of interest may arise, the Voting Director concerned does not receive a copy of the relevant Board paper and withdraws from the Board Meeting while the matter is being considered.

The Board has a policy of enabling Voting Directors to seek independent professional advice for company-related matters at the Bank's expense, subject to the estimated costs being approved by the Chairman in advance as being reasonable.

In order to encourage long-term commitment and more closely align the interests of the Board with shareholders, the Board has a minimum shareholding requirement for NEDs. They are required to compile and maintain a minimum shareholding in the Bank, currently set at 4,000 fully paid ordinary shares. This minimum holding may be accumulated over three years and may be contributed to via participation in the Non-Executive Director Share Acquisition Plan. Under this plan, NEDs may contribute a portion of their remuneration from the Macquarie Bank Group to acquire Macquarie Bank Limited shares at prevailing market prices. The Bank's Executive Voting Directors each have shareholdings in the Bank well above the minimum NED requirement.

## Board committees

Five Board committees have been established to assist in the execution of the Board's responsibilities, as described below. All Board members are free to attend any meeting of any Board Committee. The membership of each committee is outlined in the table on page 37.

The *Nominating Committee* periodically reviews the composition of the Board and ensures that the Voting Directors bring a mix of qualifications, skills and experience to the Board. The Bank's Chairman David Clarke chairs this Committee and Barrie Martin and Helen Nugent are members of the Committee.

When a vacancy exists or whenever it is considered that the Board would benefit from the services of a new Voting Director, the Committee selects one or more candidates with the appropriate expertise and experience. The Committee may use the services of a professional recruitment firm. Candidates are then submitted to the Board for approval.

*Audit and Compliance Committee* meetings are held periodically throughout the year and attended, where appropriate and as requested, by the Managing Director, the Chief Financial Officer, the Head of Risk Management Division, representatives of the Bank's external auditors and, as required, other Bank executives and external advisers. The Committee also has the power to conduct or authorise investigations into, or consult independent experts on, any matters within the Committee's scope of responsibility. The Head of Operational Risk Review acts as secretary to the Committee and attends its meetings.

The Committee comprises three independent directors, John Allpass as Chairman, Kevin McCann and Barrie Martin.

The Board updated the Committee's charter in March 2003. The main objective of the Committee is to assist the Board of Directors in reviewing any matters of significance affecting financial reporting and compliance of the Group including:

— exercising oversight of the accuracy and completeness of the financial statements

— making informed decisions regarding accounting and compliance policies, practices and disclosures

— reviewing the scope and results of operational risk reviews, compliance reviews, and external audits

— assessing the adequacy of the Group's internal control framework including accounting, compliance and operational risk management controls based on information provided or obtained. "Compliance" refers to compliance with laws and regulations, internal compliance guidelines, policies and procedures, and other prescribed internal standards of behaviour.

To fulfil these responsibilities the Committee meets with and receives regular reports from the external auditors and Risk Management Division, dealing with matters which arise in connection with their reviews, audits or other work performed.

The Audit and Compliance Committee is also responsible for the nomination of external auditors, monitoring the effectiveness, objectivity and independence of the external auditors, and reviewing the quality and scope of the services provided by reference to the following principles and practices which were adopted in May 2002 and revised in March 2003:

— the external auditor must remain independent of the Bank at all times and comply with Professional Statement F.1

— the external auditor must monitor its independence and report to the Board that it has remained independent every six months

— the external auditor is to be appointed to all entities in the Macquarie Bank Group. It is also our preference that the same external auditor be appointed to trusts and other entities managed by the Macquarie Bank Group

— the audit firm must comply with Professional Statement F.1 and with the Ramsay Report recommendations pertaining to employment relationships. In particular, a former audit partner or employee on the audit of the Macquarie Group or vehicles managed by the Macquarie Group is prohibited from becoming a director or officer in a senior audit facing role at the Macquarie Group or vehicles managed by the Macquarie Group until the lapse of a "cooling off" period of at least five years and, after the five years "cooling off" period, can have no continuing financial relationship with the audit firm

— the audit firm must adhere to the Ramsay Report recommendations and the requirements of Professional Statement F.1 pertaining to financial independence and business relationships

— the external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for the Bank, or audits its own professional expertise

— significant permissible non-audit assignments awarded to external auditors must be approved in advance by the Committee or, between Committee Meetings, the Committee Chair

— all non-audit assignments are to be reported to the Committee every six months

— these arrangements apply to services supplied by the external auditors and their related firms to the Bank, its related entities and the trusts and entities managed by the Bank.

From the financial year commencing 1 April 2003, the Bank will require that the external audit engagement partner and review partner be rotated every five years.

The Audit and Compliance Committee is also responsible for monitoring and reviewing the effectiveness of the Compliance function and the Operational Risk Review function in ensuring adherence to applicable laws and regulations and for ensuring that the Head of Operational Risk Review is independent of the external auditor.

The objectives of the *Remuneration Committee* are to assist the Board in ensuring that the Macquarie Bank Group's remuneration levels are appropriate in the markets in which it operates and are applied, and seen to be applied, fairly. The Committee is chaired by Helen Nugent and David Clarke and John Allpass are members. The Committee has the responsibility to:

— Review and approve, on behalf of the Board, recommendations for annual staff remuneration made by management including allocations made under the profit share and option schemes.

— Review remuneration arrangements relating to individuals or groups of individuals (including Voting Directors) in appropriate circumstances; such circumstances may include but are not limited to:

a) recommendations of the Executive Committee relating to the cessation of employment of senior executives

b) recommendations of the Executive Committee involving significant exceptions to policy.

# Corporate Governance Statement continued

The Committee may approve such arrangements unless they are significant, in which case the Committee will make a recommendation to the Board.

— Review and recommend to the Board:

a) proposals for changes to remuneration policies which are referred to the Board by the Executive Committee, Chairman or Managing Director

b) remuneration recommendations relating to the Chairman and Managing Director.

The Committee has a regular meeting cycle and meets more often as needed. The Committee has access to senior management of the Group and may consult independent experts where the Committee considers it necessary to carry out its duties.

The Bank's remuneration policies for Voting Directors and senior management are discussed in the Directors' Report. The policy for NEDs is designed to remunerate them at market levels for their time, commitment and responsibilities. There are no termination payments to NEDs on their retirement from office.

The policy for senior management is designed to encourage superior performance and long-term commitment to the Bank. In particular, a portion of each Executive Director's annual profit share is subject to restrictions (see Directors' Report for further discussion). The Bank maintains sufficient depth of management to ensure adequate candidates for succession when senior management depart. The Bank has a preference for filling vacancies with internal candidates.

The *Corporate Governance Committee* was established in October 2002 and is responsible for oversight of corporate governance at the Bank. This Committee is chaired by Kevin McCann and Mark Johnson and Barrie Martin are Committee members. It is planned that the Committee will meet at least four times each year. The responsibilities of the Corporate Governance Committee are documented in a Charter and include:

— to undertake an annual review of the alignment of the Board's operations with best corporate governance practice

— to undertake an annual review of the effectiveness with which Board Committees have discharged their function

— to oversee the process for the annual review of the Managing Director and Executive Chairman

— to approve the corporate governance statements of the Bank and to monitor the corporate governance statements of the Bank's subsidiaries and funds that the Macquarie Bank Group manages

— to determine the independence of the Voting Directors and monitor the ongoing status of those Directors

— to review existing behaviour and ethical guidelines for Voting Directors and consider questions of possible conflicts of interest arising for Voting Directors.

The *Risk Committee* was established in February 2003 to focus appropriate attention on the risk management framework of the Bank and the particular significance of risk to the Bank's performance. All Board members are members of the Risk Committee and the Chairman of the Bank acts as the Committee Chairman. Meetings of the Risk Committee are to be held at least quarterly and the Head of Risk Management Division will normally attend.

The Risk Committee is responsible for reviewing the risk profile of the Bank in the areas of market, liquidity, equity, credit, operational, and reputation and regulatory compliance risks and reviewing the Bank's risk management framework and any variations to it. The Risk Committee is also responsible for reviewing and endorsing the Macquarie Bank Group capital management plan including information on the Group's capital adequacy.

The Bank delegates extensive management responsibilities to the Managing Director and through him to the Executive Committee, as discussed on page 12.



## Committee Membership

| DIRECTOR | AUDIT AND COMPLIANCE | CORPORATE GOVERNANCE | NOMINATING | REMUNERATION | RISK |
|---|---|---|---|---|---|
| | COMMITTEE MEMBERSHIP | | | | |
| DAVID CLARKE | | | CHAIRMAN | MEMBER | CHAIRMAN |
| ALLAN MOSS | | | | | MEMBER |
| MARK JOHNSON | | MEMBER | | | MEMBER |
| JOHN ALLPASS | CHAIRMAN | | | MEMBER | MEMBER |
| LAURIE COX | | | | | MEMBER |
| BARRIE MARTIN | MEMBER | MEMBER | MEMBER | | MEMBER |
| KEVIN McCANN | MEMBER | CHAIRMAN | | | MEMBER |
| JOHN NILAND | | | | | MEMBER |
| HELEN NUGENT | | | MEMBER | CHAIRMAN* | MEMBER |

* HELEN NUGENT REPLACED DAVID CLARKE AS REMUNERATION COMMITTEE CHAIRMAN IN OCTOBER 2002.

The Bank currently also has over 130 Non-Voting Executive Directors. Pursuant to the Bank's Constitution, they have no right to attend or vote at any Board meeting. However, they do have the power to exercise management powers delegated by the Board including to sign and countersign the Bank's common seal.

### Board and director performance

In November 2002, the Board agreed to a formal annual performance self-assessment, including assessment of the Board's committees and individual assessment of those Voting Directors who are required to stand for re-election at the next AGM, pursuant to the provisions in the Bank's Constitution, whereby one-third of the Board (excluding the Managing Director) must retire at each AGM.

All directors who have offered themselves for re-election at the 2003 AGM have been reviewed and the Board has resolved to support their re-elections.

Furthermore, to ensure the Board has the benefit of regular new input and to avoid the potential for loss of objectivity over time, all new NEDs will retire after 12 years. Transitional arrangements, which broadly weight past time on the Board at 50 per cent, apply to NEDs who were Board members in November 2002.

### Identifying significant business risks

There are many risks in the markets in which the Bank operates. A range of factors, some of which are beyond the Bank's control, can influence performance. In many of its businesses the Bank constantly and deliberately assumes financial risk in a calculated and controlled manner. It is the Group's policy that any proposed new transaction, market, dealing operation or business is appropriately analysed in order to understand the risks involved. The Bank has in place limits and a range of procedures to monitor the risk in its financial activities, and these are periodically reviewed by the Board and, since its formation, the Risk Committee of the Board.

Risk Management Division is responsible for the review and analysis of prudential and risk issues across the Group. This Division, and the Bank's approach to risk management, are described earlier in this Review and also at the beginning of the Bank's 2003 Financial Report booklet.

### Corporate Governance in Macquarie managed funds

An integral part of the success of Macquarie's infrastructure funds management business has been its ability to draw upon the resources of the broader Macquarie group, particularly the global advisory team in the Investment Banking Group which contributes strongly in establishing funds, asset sourcing and execution of acquisitions and financings. To safeguard the interests of investors, Macquarie has applied a governance framework to its specialist funds activities. In November 2002, the Board reviewed and enhanced this framework for the infrastructure funds management business. The key elements of the framework are:

— The boards of both the corporate vehicles and the management company/responsible entity of the trusts of listed Macquarie-managed funds will in future comprise a majority of independent directors. The definition of independence is consistent with the Bank's definition.

— Related party transactions with Macquarie entities are clearly identified and governed by rules requiring they be undertaken on arm's length terms.

— Only independent directors make decisions about transactions which involve Macquarie or its affiliates as counterparties. Macquarie directors do not vote on related party matters.

— All related party transactions are tested by reference to whether they meet market standards. In particular, fee schedules and mandate terms and conditions are subject to third party expert review.

— There is a separate Infrastructure and Specialised Funds Division and staff in this area are dedicated to the funds management business. They serve the interests of unitholders and the boards of the funds.

— All recommendations to fund boards are prepared by funds management staff and all information and analysis supporting the recommendations to the boards are reviewed or prepared by funds management staff.

— Each listed fund has its own Managing Director.

— There is a "Chinese Wall" operating between the infrastructure funds management business and other parts of the Bank.

Similar principles will apply to property trusts managed by wholly-owned Macquarie entities.

# Corporate Governance Statement continued

## Ethical standards

Macquarie Bank directors and staff are required to maintain high ethical standards of conduct. The Group's code of ethics, Macquarie Bank – What We Stand For, covers the Bank's dealings with external parties and how the Bank operates internally. It is periodically reviewed and fully endorsed by the Board. What We Stand For is distributed to all staff and its standards communicated and reinforced at Bankwide induction programs, presentations to workgroups and annual staff meetings.

Since 1998, the Bank has had an Integrity Officer, who:

- provides education, advice and counselling to management and staff regarding integrity issues
- ensures that claims of integrity breaches are dealt with impartially, promptly and confidentially
- sees that staff who bring forward complaints of this nature are not victimised.

## Commitment to shareholders and an informed market

The Board believes that shareholders and the investment market generally, should be informed of all major business events that influence the company in a timely and widely available manner. In 1994 the Board instituted a Continuous Disclosure Policy, which in March 2001 was widened into a Policy on Disclosure of Bank Matters.

The policy includes a formal procedure for dealing with potentially price-sensitive information, which involves referrals to a Continuous Disclosure Committee. The Committee is responsible for ensuring the Bank meets its disclosure obligations under Australian Stock Exchange (ASX) Listing Rule 3.1.

The Bank's policy is to lodge with ASX and place on its website, market-sensitive information, including annual and interim result announcements and analyst presentations as soon as practically possible. The Bank's website (www.macquarie.com.au/investorrelations) contains recent announcements, presentations, past and current reports to shareholders, answers to frequently asked questions and a five year summary of key financial data. Investors may also register here to receive copies of significant announcements by email.

The Bank produces two sets of financial information annually: the Interim Report for the six months to 30 September and the Concise Report and the Financial Report for the year to 31 March, which are made available to shareholders.

Shareholders have the right to attend the Bank's AGM, usually held towards the end of July each year. Shareholders are provided with an explanatory memorandum on the resolutions proposed through the Notice of AGM. Unless specifically stated in the Notice of AGM, all holders of fully paid ordinary shares are eligible to vote on all resolutions. In the event that shareholders cannot attend the AGM they are able to lodge a proxy in accordance with the Corporations Act. Proxy forms may be lodged by facsimile. Holders of Macquarie Income Securities and the Bank's Converting Preference Shares have limited voting rights as set out in their terms of issue.

## Staff and director trading in the Bank's securities

Bank employees and Board members may only trade in the Bank's securities during nominated trading "windows" which are typically of three to five weeks duration and follow the Bank's announcements of its interim and full year profits and after the AGM. However, even within these designated windows, if an individual possesses material non-public price-sensitive information about the Bank, that person is prohibited from trading.

In June 2001, the Board agreed a policy on trading in Bank-related securities which also provides that Board members will generally not sell Bank shares while the shares are subject to an on market buy-back, not undertake short-term trading in any Bank-related security and not trade in a derivative of a Macquarie security without the prior approval of the Chairman (or the Managing Director in the case of the Chairman).

In March 2003, the Board also resolved that the Bank's Executive Directors will not be permitted to undertake any action that is designed to minimise the equity risk in relation to their holdings of Bank shares which are subject to retention arrangements or their unvested employee option holdings.

This Corporate Governance Statement reflects the practices in the Bank during the year. Unless otherwise indicated, they operated for the Bank's entire financial year. The ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("Principles") were released on the Bank's balance date of 31 March 2003. The Bank's current practices are substantially in accord with the Principles. However, the Bank is conducting a review of its practices and will make a full statement on its compliance with the Principles in its 2004 Annual Review. The Chairman will also comment on progress of this review at the 2003 AGM.



# 2003 Concise Report



This concise financial report has been derived from the full consolidated financial report for the financial year ended 31 March 2003. The full consolidated financial report and independent audit report will be sent to members on request, free of charge. Please call 02 8232 3333 and a copy will be forwarded to you. Alternatively, you may access the full consolidated financial report, the independent audit report and the concise financial report via the Internet at: http://www.macquarie.com.au.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Macquarie Bank Limited and its controlled entities as the full consolidated financial report.

# Directors' report

For the financial year ended 31 March 2003

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited (the Bank), the Directors submit herewith the statement of financial position as at 31 March 2003 and the statement of financial performance and the statement of cash flows of the Bank and the entities it controlled at the end of, and during, the financial year ended on that date and report as follows:

## Directors

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

*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 Director*

L.G. Cox, AO

*Independent* Non-Executive Directors*

J.G. Allpass
H.K. McCann
B.R. Martin
J.R. Niland, AC
H.M. Nugent

* In accordance with the Bank's definition of independence (as set out in the Corporate Governance Statement contained in the 2003 Annual Review)

The above Directors each held office as a Director of the Bank throughout the financial year ended 31 March 2003 with the exception of Prof. J.R. Niland, who was appointed as a Non-Executive Director of the Bank on 27 February 2003.

Details of qualifications, experience and special responsibilities of the Directors at the date of this report are set out in the Directors' Report Schedule following.

## Directors' meetings

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

## Principal activities

The principal activities of the Bank and its controlled entities during the financial year ended 31 March 2003 were those of a full service financial services provider offering a complete range of investment banking, commercial banking and retail financial services in Australia and selected financial services offshore.

## Result

The consolidated profit from ordinary activities after income tax attributable to ordinary equity holders for the financial year ended 31 March 2003 was $333 million (2002: $250 million).

## Dividends and distributions

The Bank paid or provided dividends and distributions during the financial year as set out in the table top right.

## State of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Bank and its controlled entities that occurred during the financial year under review not otherwise disclosed in this report or the concise financial report.

## Board meetings

| | REGULAR BOARD MEETINGS | | SPECIAL BOARD MEETINGS | |
|---|---|---|---|---|
| | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND | ATTENDED |
| D.S. CLARKE | 12 | 12 | 3 | 3 |
| A.E. MOSS | 12 | 12 | 3 | 3 |
| M.R.G. JOHNSON | 12 | 11 | 3 | 3 |
| J.G. ALLPASS | 12 | 12 | 3 | 3 |
| L.G. COX | 12 | 12 | 3 | 3 |
| H.K. McCANN | 12 | 12 | 3 | 3 |
| B.R. MARTIN | 12 | 11 | 3 | 3 |
| J.R. NILAND | 2 | 2 | — | — |
| H.M. NUGENT | 12 | 12 | 3 | 3 |

## Board Committee meetings

| | BOARD AUDIT AND COMPLIANCE COMMITTEE | | BOARD CORPORATE GOVERNANCE COMMITTEE | | BOARD NOMINATING COMMITTEE | | BOARD REMUNERATION COMMITTEE | |
|---|---|---|---|---|---|---|---|---|
| | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND | ATTENDED |
| D.S. CLARKE | — | — | — | — | 1 | 1 | 8 | 7 |
| A.E. MOSS | — | — | — | — | — | — | — | — |
| M.R.G. JOHNSON | — | — | 3 | 2 | — | — | — | — |
| J.G. ALLPASS | 8 | 8 | — | — | — | — | 8 | 8 |
| L.G. COX | — | — | — | — | — | — | — | — |
| H.K. McCANN | 8 | 8 | 3 | 3 | — | — | — | — |
| B.R. MARTIN | 8 | 8 | 3 | 3 | 1 | 1 | — | — |
| J.R. NILAND | — | — | — | — | — | — | — | — |
| H.M. NUGENT | — | — | — | — | 1 | 1 | 8 | 8 |

ALL MEMBERS OF THE BOARD OF DIRECTORS ARE MEMBERS OF THE BOARD RISK COMMITTEE.
ALL DIRECTORS WERE ELIGIBLE TO ATTEND THE ONE MEETING HELD AND ALL DIRECTORS ATTENDED THAT MEETING WITH THE EXCEPTION OF MR B.R. MARTIN.



| SECURITY | PAYMENT DATE | PAYMENT TYPE | $ | IN RESPECT OF FINANCIAL YEAR ENDED/PERIOD | |
|---|---|---|---|---|---|
| ORDINARY SHARES | 2 JULY 2002 | FINAL | 103,219,911 | 31 MARCH 2002 | PAID |
| | 20 DECEMBER 2002 | INTERIM | 83,038,572 | 31 MARCH 2003 | PAID |
| | 2 JULY 2003 | FINAL | 106,339,035 | 31 MARCH 2003 | PROVIDED |
| | 2 JULY 2003 | SPECIAL | 102,249,072 | 31 MARCH 2003 | PROVIDED |
| MACQUARIE INCOME SECURITIES | 15 APRIL 2002 | PERIODIC | 7,150,685 | 15 JANUARY TO 14 APRIL 2002 | PAID |
| | 15 JULY 2002 | PERIODIC | 7,230,137 | 15 APRIL TO 14 JULY 2002 | PAID |
| | 15 OCTOBER 2002 | PERIODIC | 7,309,589 | 15 JULY TO 14 OCTOBER 2002 | PAID |
| | 15 JANUARY 2003 | PERIODIC | 7,309,589 | 15 OCTOBER 2002 TO 14 JANUARY 2003 | PAID |
| | 15 APRIL 2003 | PERIODIC | 5,438,685 | 15 JANUARY TO 31 MARCH 2003 | PROVIDED |
| CONVERTING PREFERENCE SHARES | 17 JUNE 2002 | PERIODIC | 5,519,850 | 17 DECEMBER 2001 TO 16 JUNE 2002 | PAID |
| | 16 DECEMBER 2002 | PERIODIC | 5,519,851 | 17 JUNE TO 15 DECEMBER 2002 | PAID |
| | 16 JUNE 2003 | PERIODIC | 3,214,849 | 16 DECEMBER 2002 TO 31 MARCH 2003 | PROVIDED |

NO OTHER DIVIDENDS OR DISTRIBUTIONS HAVE BEEN RECOMMENDED, DECLARED OR PAID DURING THE FINANCIAL YEAR.

## Review of operations

A review of the operations of the Bank and its controlled entities and the results of those operations for the financial year under review are contained in the Chairman's and Managing Director's Report.

## Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Bank and its controlled entities, the results of those operations or the state of affairs of the Bank and its controlled entities in the financial years subsequent to 31 March 2003 not otherwise disclosed in this Report.

## Likely developments

Disclosure of information relating to the future developments in the operations of the Bank and its controlled entities which would not, in the opinion of the Directors, be prejudicial to the interests of the Bank and its controlled entities is contained in the Chairman's and Managing Director's Report.

## Remuneration policy for Directors and Executive Officers

The Board of Directors (the Board) maintains a Remuneration Committee (the Committee) which currently comprises Dr H.M. Nugent (Chairman), Mr D.S. Clarke and Mr J.G. Allpass. The Committee reviews compensation arrangements for all Directors and reviews and approves recommendations for annual staff remuneration made to it by the Bank's management. The review includes allocations made to Executive Directors and other staff under the profit share and Employee Option Plan. The Committee may obtain the advice of external consultants on the appropriateness of remuneration packages and other employment conditions if required.

The Committee has a regular meeting cycle and meets more often as needed. Committee recommendations on changes in policy, significant exceptions to policies and the remuneration of Directors are submitted to the Board for approval.

*Non-Executive Directors*

Non-Executive Directors (NEDs) are remunerated for their services from the maximum aggregate amount (currently $1,200,000 p.a.) approved by shareholders for that purpose. Executive Directors are not remunerated for acting as Directors. The Board's policy is to remunerate NEDs at market rates for comparable companies for the time commitment and responsibilities involved. Where considered appropriate, external advice on market rates is taken. The current base remuneration was last reviewed with effect from 1 November 2002. The following remuneration is payable to NEDs. These rates will be reviewed again with effect from 1 July 2003.

- Base fee for NED $100,000 p.a.
- Chairman of the Board Audit and Compliance Committee $50,000 p.a.
- Member of the Board Audit and Compliance Committee $25,000 p.a.
- Chairman of the Board Remuneration Committee $25,000 p.a.
- Member of the Board Remuneration Committee $12,500 p.a.
- Chairman of the Board Corporate Governance Committee $25,000 p.a.
- Member of the Board Corporate Governance Committee $12,500 p.a.
- Member of the Board Nominating Committee $4,400 p.a.

NEDs may elect to be paid this remuneration, in part, in the form of superannuation contributions and, following approval at the Bank's 1999 Annual General Meeting, by way of the Bank's fully paid ordinary shares issued via the Macquarie Bank Non-Executive Director Share Acquisition Plan (NEDSAP). Such shares are acquired on-market at prevailing market prices.

Shareholders approved at the Bank's 2000 Annual General Meeting, the Macquarie Bank Non-Executive Director Option Plan (NEDOP), under which the Bank's NEDs may be invited to apply for five-year options over fully paid shares in the Bank, in 2000, 2001 and 2002, valued at the time of determination at no more than 20 per cent of the then base NED annual fee, provided the Bank meets pre-determined performance benchmarks. An Australian Stock Exchange Limited (ASX) listing rule waiver was granted to allow this three-year approval.

# Directors' report continued

Before the grant of the 2002 options, the Board agreed to suspend the operation of the NEDOP and replace it with contingent additional remuneration equal in value to 20 per cent of the annual base NED-fee, conditional on the Bank meeting a pre-agreed performance benchmark in the relevant financial year, which would be offered to each NED only in the form of the Bank's fully paid ordinary shares acquired for the NED under the NEDSAP. The performance benchmark is that the Bank's average annual return on ordinary equity for the three previous financial years is at or above the 65th percentile of the corresponding figures for all companies in the then S&P/ASX 300 Industrials Index. The objective of these contingent payments is to assist in the recruitment, reward and retention of NEDs. The contingent payments have been taken into account when comparing NEDs' remuneration with market rates. The Bank has been granted an ASX listing rule waiver to provide the payments.

*Executive Directors and Executive Officers*

The Bank's remuneration policy for Executive Directors (which includes Executive Voting Directors and Executive Officers) is designed to promote superior performance and long-term commitment to the Bank.

Executive Directors (EDs) receive base remuneration, which is determined by reference to market conditions, and participate in a Directors' Profit Share Scheme (DPS) under which the Bank makes provision for performance-based remuneration. For the Bank's 2002 financial year and onwards, a revised profit sharing mechanism has been in place whereby all staff, including EDs, share in a pool whose size is determined annually by reference to the economic entity's after-tax profits and its earnings over and above the estimated cost of capital. The effect of this is to provide substantial incentives in relation to superior profitability but low participation for less satisfactory performance. For EDs, this means that a large part of their remuneration each year is "at risk" and performance based, providing significant alignment of their interests with those of shareholders.

The whole of the profit sharing provision for each financial year is charged against earnings in that year. To encourage a longer term perspective on the part of EDs, it is a fundamental condition of the DPS that 30 per cent of the annual DPS allocations is retained (unless the maximum allocation has been met, in which case a lesser amount is retained) whilst the ED remains employed as an ED of the Bank. These retained amounts vest over a ten-year period of service as an ED and after ten years they vest 100 per cent, subject to any disqualifying events. An ED will only receive the vested retained amounts six months after departure as an ED, if certain disqualifying events have not occurred.

The proportion of after-tax profit and proportion of earnings in excess of the Bank's cost of capital in the profit share formula is reviewed periodically. Where appropriate, changes are recommended by the Board Remuneration Committee to the full Board.

Following shareholder approval at the Bank's 1999 Annual General Meeting, Executive Directors are able to request that part of their profit sharing bonus be allocated for the on-market acquisition of shares in the Bank under the Macquarie Bank Staff Share Acquisition Plan. From 1995, EDs and Executive Officers have participated in the Bank's employee option plan. Refer to Note 33 to the full financial statements – Employee equity participation, for further information on the option plan.

The Bank's remuneration policies, including the amount of the provision for performance related remuneration, are subject to the discretion of the Directors and can be changed to reflect external factors.

The Bank commissioned an independent review of its remuneration in early 2003, which concluded that the Bank's remuneration expense is in line with, or more conservative than, competitors, options remain the primary long-term incentive vehicle used by global peers of the Bank and delivery of some of the annual long-term incentive in the form of equity is appropriate.

Following this review, it was concluded that no major changes to the Bank's remuneration policies were necessary, that the emphasis on performance based arrangements had worked well and should continue and that 30 per cent of ED's profit share would continue to be subject to long-term deferral arrangements. It was also agreed that while options were integral to the Bank having a competitive remuneration package compared to other investment banks, it was appropriate that the granting of options be reviewed once the regulatory environment becomes more certain. However, to further align the interests of EDs with shareholders, it was agreed that from 2004 onwards, EDs would be required to compulsorily invest the equivalent of one-third of annual retained DPS allocations (and up to two-thirds on an optional basis) in the Bank's shares.

*Directors' and Executive Officers' remuneration*

| NAME AND POSITION | BASE REMUNERATION (a) $ | PERFORMANCE RELATED REMUNERATION $ | OTHER BENEFITS (b) $ | TOTAL REMUNERATION EXPENSE $ | OPTIONS $ | TOTAL REMUNERATION $ |
|---|---|---|---|---|---|---|
| EXECUTIVE DIRECTORS | | | | | | |
| D.S. CLARKE | 328,682 | 2,426,252 | — | 2,754,934 | 197,568 | 2,952,502 |
| M.R.G. JOHNSON | 225,382 | 1,344,850 | — | 1,570,232 | 264,600 | 1,834,832 |
| A.E. MOSS | 657,363 | 4,835,898 | — | 5,493,261 | 470,400 | 5,963,661 |
| NON-EXECUTIVE DIRECTORS (c) | | | | | | |
| J.G. ALLPASS (d) | 266,275 | — | 21,374 | 287,649 | — | 287,649 |
| L.G. COX | 123,000 | — | 843,825 | 966,825 | — | 966,825 |
| H.K. McCANN (e) | 159,667 | — | 62,379 | 222,046 | — | 222,046 |
| B.R. MARTIN (d) | 207,509 | — | — | 207,509 | — | 207,509 |
| J.R. NILAND | 9,167 | — | — | 9,167 | — | 9,167 |
| H.M. NUGENT (f) | 140,934 | — | 95,272 | 236,206 | — | 236,206 |
| EXECUTIVE OFFICERS (g) | | | | | | |
| A.J. DOWNE | 469,545 | 3,140,737 | — | 3,610,282 | 250,500 | 3,860,782 |
| N.R. MINOGUE | 375,636 | 1,121,410 | — | 1,497,046 | 102,000 | 1,599,046 |
| N. MOORE | 507,109 | 3,331,500 | — | 3,838,609 | 474,000 | 4,312,609 |
| W.J. MOSS | 469,545 | 2,697,859 | — | 3,167,404 | 250,500 | 3,417,904 |
| W.R. SHEPPARD | 507,109 | 1,932,437 | — | 2,439,546 | 189,000 | 2,628,546 |

a) Base remuneration includes the Bank's contributions to superannuation schemes.

b) Other benefits for NEDs include consulting fees paid to Mr L.G. Cox, $843,825, and Mr J.G. Allpass, $13,374, due diligence committee fees paid to Mr Allpass, $8,000, and where applicable, fees paid for Board duties for certain of the Bank's subsidiaries that are Single Responsible Entities for Macquarie-branded trusts (refer (e) and (f) below). Mr Allpass ceased to be a consultant to the Bank effective 30 September 2002.

c) Non-Executive Directors' compensation represents fees paid in connection with attending Board and Board Committee meetings and carrying out other duties, some in respect of the Bank's subsidiaries (refer (d) below). These duties are explained in the Annual Review. Remuneration in the current financial year also includes amounts paid in lieu of a remuneration increase for the prior year because a scheduled fee review did not occur. The amounts paid were: $25,725 to Mr Allpass, $12,375 to Mr B.R. Martin, $9,375 to Mr H.K. McCann, $8,250 to Dr H.M. Nugent and $7,500 to Mr Cox.

d) Mr Allpass is the Chairman of the Board of Macquarie Life Limited (MLL), a member of the Board Audit and Compliance Committee of MLL and Chairman of the Macquarie Investment Management Limited (MIML) Compliance Committee. Mr Martin is a member of the Board of MLL, Chairman of the Board Audit and Compliance Committee of MLL and a member of the MIML Compliance Committee. Effective from 1 July 2002, fees paid in respect of these positions were:
— Chairman of Macquarie Life Limited $37,500 p.a.
— Director of Macquarie Life Limited $25,000 p.a.
— Chairman of Macquarie Investment Management Limited Compliance Committee $37,500 p.a.
— Member of Macquarie Investment Management Limited Compliance Committee $25,000 p.a.
These amounts were paid by the Bank.

# Directors' report continued

*Directors' and Executive Officers' remuneration continued*

The table below summarises the relevant meetings held and attended:

| | MLL REGULAR BOARD MEETINGS | | MLL BOARD AUDIT AND COMPLIANCE COMMITTEE MEETINGS | | MIML COMPLIANCE COMMITTEE MEETINGS | |
|---|---|---|---|---|---|---|
| | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND | ATTENDED |
| J.G. ALLPASS | 7 | 7 | 4 | 4 | 4 | 4 |
| B.R. MARTIN | 7 | 6 | 4 | 4 | 4 | 4 |

e) Mr McCann was Chairman of the Board of Macquarie Communications Infrastructure Management Limited (MCIML) for the period 30 May to 20 December 2002 and received fees of $62,379. The table below summarises the relevant meetings held and attended:

| | ELIGIBLE TO ATTEND | ATTENDED |
|---|---|---|
| BOARD OF MCIML | 2 | 1 |
| BOARD OF MACQUARIE COMMUNICATIONS INFRASTRUCTURE LIMITED | 6 | 5 |
| MACQUARIE COMMUNICATIONS INFRASTRUCTURE GROUP DUE DILIGENCE COMMITTEE | 10 | 6 |

f) Dr Nugent was Chairman of the Board of Macquarie Airports Management Limited (MAML) for the period 21 February to 6 December 2002 and received fees of $95,272 during the financial year. The table below summarises the relevant meetings held and attended during the financial year:

| | ELIGIBLE TO ATTEND | ATTENDED |
|---|---|---|
| BOARD OF MAML | 20 | 17 |
| MAML DUE DILIGENCE COMMITTEE | 9 | 8 |
| MAML BOARD AUDIT COMMITTEE | 1 | 1 |

g) Executive Officers shown above are the five highest paid current members of the Executive Committee who are not members of the Board.

*Directors' retained profit share*

To encourage a longer term perspective on the part of the Bank's Executive Directors (EDs), it is a fundamental condition of the Directors' Profit Share Scheme (DPS) that 30 per cent of the annual DPS allocations is retained (unless the maximum allocation has been met, in which case a lesser amount is retained) while ever the ED remains employed as an ED by the Bank. These retained amounts vest over a ten-year period of service as an ED and after ten years they vest 100 per cent, subject to any disqualifying events. An ED will only receive the vested retained amounts six months after retirement as an ED, if certain disqualifying events have not occurred.

A disqualifying event will arise if an ED leaves the Bank under circumstances of dishonesty or that may otherwise cause significant damage to the Bank. Examples of these actions include: misappropriation of funds, deliberate concealment of a transaction or taking a team of the Bank's staff to a competitor (or being instrumental in or causing a team to go to a competitor).

*Directors' retained profit share continued*

The balance credited to retained profit share during the current financial year has been recorded as an expense of the Bank in the current financial year. The balance of retained profit share as at 31 March 2003 has been recorded as an expense of the Bank in each and every financial year that a balance has been credited.

| EXECUTIVE DIRECTORS | BALANCE OF RETAINED PROFIT SHARE AT 31 MARCH 2002 $ | BALANCE CREDITED TO RETAINED PROFIT SHARE DURING THE FINANCIAL YEAR (a) $ | BALANCE OF RETAINED PROFIT SHARE AT 31 MARCH 2003 $ | DATE OF ENTRY TO DIRECTORS' PROFIT SHARE SCHEME | YEARS ENTITLEMENTS ACCRUED OVER |
|---|---|---|---|---|---|
| D.S. CLARKE | 5,023,120 | 1,069,823 | 6,092,943 | 1 FEBRUARY 1985 | 18 |
| M.R.G. JOHNSON | 4,130,102 | 577,500 | 4,707,602 | 1 MARCH 1987 | 16 |
| A.E. MOSS | 10,843,164 | 2,139,647 | 12,982,811 | 1 FEBRUARY 1985 | 18 |

a) This amount is excluded from the definition of remuneration for the current financial year because it is subject to the restrictions noted above. This amount equals 30 per cent of the profit share allocation

There are no other amounts that are contingently payable to the persons named above upon their departure from the Bank as a result of the terms and conditions of their employment.

*Share options granted to Directors and Executive Officers*

| NAME AND POSITION | DATE OPTIONS GRANTED | NUMBER OF OPTIONS GRANTED | VALUE OF OPTIONS AT GRANT DATE $ | OPTION EXERCISE PRICE $ | DATE FIRST OPTION TRANCHE EXERCISABLE (a) |
|---|---|---|---|---|---|
| EXECUTIVE DIRECTORS | | | | | |
| D.S. CLARKE | 30 AUGUST 2002 | 78,400* | 197,568 | $30.51 | 1 JULY 2004 |
| M.R.G. JOHNSON | 1 AUGUST 2002 | 88,200* | 264,600 | $30.51 | 1 JULY 2004 |
| A.E. MOSS | 1 AUGUST 2002 | 156,800* | 470,400 | $30.51 | 1 JULY 2004 |
| EXECUTIVE OFFICERS | | | | | |
| A.J. DOWNE | 1 AUGUST 2002 | 83,500 | 250,500 | $30.51 | 1 JULY 2004 |
| N.R. MINOGUE | 1 AUGUST 2002 | 34,000 | 102,000 | $30.51 | 1 JULY 2004 |
| N. MOORE | 1 AUGUST 2002 | 158,000 | 474,000 | $30.51 | 1 JULY 2004 |
| W.J. MOSS | 1 AUGUST 2002 | 83,500 | 250,500 | $30.51 | 1 JULY 2004 |
| W.R. SHEPPARD | 1 AUGUST 2002 | 63,000 | 189,000 | $30.51 | 1 JULY 2004 |

* The granting of these options was approved by shareholders at the Bank's 2002 Annual General Meeting.

a) Options are issued subject to the exercise conditions referred to in Note 33 to the full consolidated financial statements – Employee Equity Participation and are only exercisable in three equal tranches on or after 1 July 2004, 1 July 2005 and 1 July 2006. Allocations of these options were in respect of performance for the Bank's 2002 financial year.

The value of options at grant date represents the assessed fair value of options using a trinomial option pricing framework adjusted to take account of option trading period restrictions, vesting timeframes and, where appropriate, vesting restrictions and performance hurdles. The following key assumptions have been adopted: risk free interest rate: 5.9 per cent, expected life of options: four years, volatility of share price: 26 per cent and dividend yield: 3.1 per cent p.a.

The exercise price of the above options granted was based on the weighted average market price of the Bank's shares during the calendar month of June 2002.

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

# Directors' report continued

## Directors' equity participation

At 31 March 2003 the following Directors or entities related to them have relevant interests in the following shares and share options of the Bank:

| | FULLY PAID ORDINARY SHARES HELD AT 31 MARCH 2003 | SHARE OPTIONS HELD AT 31 MARCH 2003 |
|---|---|---|
| D.S. CLARKE | 681,453 | 272,650 * |
| A.E. MOSS | 386,228 | 447,800 * |
| M.R.G. JOHNSON | 793,803 | 88,200 * |
| J.G. ALLPASS | 9,699 | 4,200 ** |
| L.G. COX | 370,170 | 4,200 ** |
| H.K. McCANN | 5,295 | 4,200 ** |
| B.R. MARTIN | 6,110 | 4,200 ** |
| J.R. NILAND | 800 | — |
| H.M. NUGENT | 4,492 | 3,783 ** |

* These share options were issued pursuant to the Employee Option Plan and are subject to the exercise conditions applying to grants of options to Executive Directors, as described in Note 33 to the full financial statements – Employee equity participation.

** These share options were issued pursuant to the Non-Executive Director Share Option Plan. They were issued following shareholder approval at the Bank's 2000 Annual General Meeting. Mr J.G. Allpass, Mr L.G Cox, Mr H.K. McCann and Mr B.R. Martin each were granted 2,500 options in 2000 and 1,700 options in 2001. Dr H.M. Nugent was granted 2,083 options in 2000 and 1,700 options in 2001. No options were issued to NEDs during the financial year ended 31 March 2003.

Mr J.G. Allpass has an interest in 4,000 (2002: 4,000) endowment warrants over ordinary shares of the Bank. These warrants expire on 30 June 2007.

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

## Directors' indemnification

Under the Bank's Constitution, the Bank indemnifies all past and present Directors and Secretaries of the Bank, including at this time the Directors named in this report and the Secretaries, against every liability incurred by them in their respective capacities unless:

— the liability is owed to the Bank or to a related body corporate;

— the liability did not arise out of conduct in good faith;

— the liability is for a pecuniary penalty order or a compensation order under the Corporations Act 2001; and

— in the case of a liability for legal costs, the costs are incurred in relation to a liability excluded above, the person is found guilty, grounds for a court order in proceedings by the Australian Securities and Investments Commission or a liquidator are established, or the court denies relief to the person in the relevant proceedings.

Following approval by shareholders at the 1998 Annual General Meeting, the Bank entered into a Deed of Access, Indemnity and Insurance dated 4 August 1998, which protects Directors acting as Directors during their term of office and after their resignation (except where an individual engages in conduct involving a lack of good faith). Under the Deed, the Bank agrees to:

a) indemnify a current or past Voting Director to the full extent of the indemnity given in relation to officers of the Bank under its Constitution in force from time to time;

b) take out and maintain a company reimbursement insurance policy and make available to Directors a Directors' and Officers' insurance policy (each policy to be in an amount and on terms and conditions appropriate for a reasonably prudent company in the Bank's position) for seven years after the Director ceases to be a Director of the Bank;

c) loan funds to a Director to cover the Director's legal costs in defending a claim, repayable when the outcome of the proceedings is determined (where the outcome results in the Director having an indemnity for such legal costs, the loan will be repayable from the amount paid by the Bank to the Director under the indemnity); and

d) grant access to Directors to all Board papers for at least seven years after the Director ceases to be a Director of the Bank, and access to other documents if the documents were in the Bank's possession at the time the Director was a Director and where it is not contrary to the Bank's interest for the documents to be provided.

In addition, following the approval of shareholders at the 1999 Annual General Meeting, the Bank made an Indemnity and Insurance Deed Poll on 30 July 1999. The benefit of the undertakings made by the Bank under the Deed Poll have been given to each of the Directors and Secretaries of the Bank, its wholly-owned subsidiaries and certain officers of other companies where the director or secretary is acting as such at the specific request of the Bank or of a wholly-owned subsidiary of the Bank. The Deed Poll provides for the same indemnity and insurance arrangements for those persons with the benefit of the Deed Poll as for the Deed of Indemnity, Access and Insurance described above. However, the Deed Poll does not provide for access to documents of the Bank.

## Directors' interests and benefits

Other than any benefit that may have been derived from loans provided by and to the Bank or a related entity and any amounts received in respect of previously accrued remuneration, no Director has, during the financial year and the period to the date of this report, become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in this Report, or the fixed salary of a full-time employee of the Bank or of a related entity) by reason of a contract made by the Bank or a related entity with the Director, or with a firm of which he/she is a member, or with an entity in which he/she has a substantial financial interest, with the exception of consulting fees paid in the normal course of business totalling $1,291,000 (2002: $2,110,000) to the legal firm of Allens Arthur Robinson of which Mr H.K. McCann is a partner. These fees are not significant compared to the Bank's total legal expenses for the financial year.

## Share options

Information on the Bank's share option scheme and options granted during or since the end of the financial year is contained in Note 33 to the full financial statements – Employee equity participation.

No person holding an option has or had, by virtue of the option, a right to participate in a share issue of any other corporation.

No unissued shares, other than those referred to above, are under option as at the date of this report.

## Environmental regulations

To the best of their knowledge and belief, after making appropriate enquires, the Directors have determined that where there are environmental regulations that apply to the Bank and its controlled entities, that these have been complied with at all times during the financial year.

## Rounding of amounts

In accordance with Australian Securities & Investments Commission Class Order 98/0100 amounts in the full consolidated Financial Report and Concise Report have been rounded off to the nearest million dollars unless otherwise indicated.

D.S. Clarke Director

A.E. Moss Director
Sydney 12 May 2003

# Directors' report schedule

## Directors' experience and special responsibilities

**David S Clarke,** AO, 61,
BEc (Hons), Hon DScEcon (Syd), MBA (Harv)

- *Executive Chairman of Board since the Bank's inception in February 1985*
- *Chairman of Board Nominating Committee*
- *Member of Board Remuneration Committee*

David Clarke has been Executive Chairman of Macquarie Bank Limited since its formation in 1985. From 1971 to 1977 he was Joint Managing Director of Hill Samuel Australia Limited (predecessor to Macquarie Bank Limited), from 1977 to 1984 Managing Director, and from 1984, Executive Chairman. He is also Chairman of McGuigan Simeon Wines Limited, Macquarie ProLogis Management Limited, Macquarie Goodman Management Limited, Macquarie Goodman Funds Management Limited, the Wine Committee of the Royal Agricultural Society of New South Wales, the Opera Australia Capital Fund and the Sydney Advisory Board of the Salvation Army. He is an associate of the Australian Stock Exchange, a member of the Investment Advisory Committee of the Australian Olympic Foundation, the Harvard Business School Asia Advisory Committee and the Monash Mount Eliza Business Council.

**Mark RG Johnson,** 62,
LLB (Hons) (Melb), MBA (Harv)

- *Executive Deputy Chairman since September 2000*
- *Member of Board since February 1987*
- *Member of Board Corporate Governance Committee*

Mark Johnson joined Macquarie Bank in February 1987 as an Executive Director of the Bank and Chairman of its Corporate Services Division. He was Joint Managing Director of Hill Samuel Australia Limited (predecessor to Macquarie Bank Limited) with David Clarke from 1971 to 1977 and an Executive Director of Hill Samuel & Co. London until 1980. Mark was founding Director of the Australian Bank in 1981 and resigned from that position in 1986 before rejoining Macquarie Bank. He is Deputy Chairman of The Australian Gas Light Company Limited, Chairman of Macquarie Infrastructure Group, the Advisory Board to Axiss Australia, a division of the Commonwealth Treasury with responsibility for the promotion and development of Australia's financial sector, and EnGeneIC Pty Limited. He is a Director of IMBcom Pty Limited, Udu Resources Limited and Victor Chang Cardiac Research Institute Limited.

**Allan E Moss,** 53,
BA LLB (Hons) (Syd), MBA (Harv)

- *Managing Director since August 1993*
- *Member of Board since June 1989*

Allan Moss joined Hill Samuel Australia Limited (predecessor to Macquarie Bank Limited) in the Corporate Services Group in 1977 and in 1982 became a Director of Hill Samuel Australia Limited. In 1983, he led the team responsible for preparing the submission to the Australian Government for the formation of Macquarie Bank. The following year, he founded the Risk Management Division which is responsible for the Bank's credit and other prudential controls. In 1986, Mr Moss was made responsible for the Corporate Banking Group. He was appointed Head of the Financial Markets Group in 1988 and Deputy Managing Director the following year. Mr Moss became Managing Director in 1993.

**John G Allpass,** 62,
FCA, FCPA, FAICD

- *Member of Board since January 1994*
- *Chairman of Board Audit and Compliance Committee*
- *Member of Board Remuneration Committee*

John Allpass is a Chartered Accountant and has 32 years experience in the accounting profession. He was Managing Partner of KPMG Peat Marwick's Queensland practice for nine years until 1993. He was also a member of the KPMG Peat Marwick National Board. He currently holds a number of other appointments including Chairman of Envestra Limited and directorships of Queensland Investment Corporation and Medical Benefits Fund of Australia Limited, member of the Brisbane Advisory Board of the Salvation Army, Councillor of St John's College and Chairman of the National Trust St John's Cathedral Fund Raising Board. He has also held a number of other corporate appointments.

**Laurence G Cox,** AO, 64,
BCom (Melb), FCPA, FSIA

- *Member of Board since January 1996*

Laurie Cox joined the Board as a Non-Executive Director and also became Joint Chairman of Macquarie Corporate Finance Limited in January 1996. He was previously Executive Chairman of the Potter Warburg Group of Companies and a Director of S G Warburg Securities of London. Mr Cox is the immediate past Chairman of Australian Stock Exchange Limited (1989 to 1994). He was a Director of the ASX from its inception in 1987, a Director of Securities Exchanges Guarantee Corporation from 1987 to 1995 and a member of the Executive Committee of the Internationale Bourses des Valeurs from 1990 to 1992. He is also a former member of the International Markets Advisory Board, the NASDAQ Stock Market (USA). He is currently an associate of the ASX and on the Executive Committee of the Australia Japan Business Co-operation Committee. He is Chairman of Transurban Group, SMS Management & Technology Limited and the Murdoch Childrens Research Institute and is a Director of Smorgon Steel Group Limited.

**Barrie R Martin,** 67,
BEc, ANZIIF (Fellow)

- *Member of Board since August 1993*
- *Member of Board Nominating Committee*
- *Member of Board Audit and Compliance Committee*
- *Member of Board Corporate Governance Committee*

Barrie Martin is a former Non-Executive Chairman of Prudential Corporation Australia Limited and was Managing Director for the Prudential Group in Australia and New Zealand from July 1984 to December 1994. He was Chairman of the Life Insurance Federation of Australia from May 1990 to May 1992 and was Chairman of the Insurance Employers Industrial Association from 1990 to 1992. He stepped down from the position of Deputy President of the State Chamber of Commerce (NSW) in 1991 and was President of the Council of the Australian Insurance Institute in 1994/1995. Mr Martin is Chairman of the Barkworth Group and Brazin Limited and is a Director of BHP SVC Pty Limited and SciGen Limited. He is also Chairman of the Compliance Committee for Allianz Dresdner Asset Management Limited.

**H Kevin McCann,** 62,
BA LLB (Hons) (Syd), LLM (Harv), FAICD

- *Member of Board since December 1996*
- *Member of Board Audit and Compliance Committee*
- *Chairman of Board Corporate Governance Committee*

Kevin McCann is Chairman of Partners, Allens Arthur Robinson, a leading firm of Australian lawyers. He has practised as a commercial lawyer since admission as a Partner in 1970, specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He is Chairman of Healthscope Limited, Origin Energy Limited, Triako Resources Limited and the Sydney Harbour Federation Trust, a Director of BHP Steel Limited and a Member of the Takeovers Panel.

**John R Niland,** AC, 62,
BCom, MCom, HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD

- *Member of Board since February 2003*

John Niland was Vice-Chancellor and President of the University of New South Wales from 1992 to 2002 and before that was the University's foundation Professor of Economics and Industrial Relations. He is currently Chairman of the UNSW Foundation Limited, Research Australia Limited, the Centennial Park Trust and realestate.com.au Limited and is a member of the University Grants Committee of Hong Kong. He is also a former Chief Executive of the State Pollution Control Commission and Executive Chairman of the Environment Protection Authority. He has served on the Australian Universities Council, the Technical and Further Education Council of Australia, the Boards of St Vincent's Hospital and the Sydney Symphony Orchestra Foundation, and the successful Sydney Olympic bid's Building Commission.

**Helen M Nugent,** 54,
BA (Hons), PhD (Qld), MBA (Harv)

- *Member of Board since June 1999*
- *Chairman of Board Remuneration Committee*
- *Member of Board Nominating Committee*

Helen Nugent has held a number of roles in the finance sector. She is currently Chairman of Funds SA and Swiss Re Australia Limited and previously was Director of Strategy, Westpac Banking Corporation (1994 to 1999); Non-Executive Director of the State Bank of New South Wales (1993 to 1994) and Non-Executive Director of Mercantile Mutual (1992 to 1994). She is also a Director of UNiTAB Limited, Origin Energy Limited and Australian Postal Corporation and is a member of the Board of Freehills. She is a former Deputy Chairman of the Australia Council and former Chairman of the Major Performing Arts Board of the Australia Council. In 1999 she chaired the Ministerial Inquiry into the Major Performing Arts. Prior to joining Westpac, Helen was Professor in Management and Director of the MBA Program at the Australian Graduate School of Management and a partner at McKinsey and Company.

# Consolidated statement of financial performance

for the financial year ended 31 March 2003

| | Notes | Consolidated 2003 $M | Consolidated 2002 $M |
|---|---|---|---|
| Interest income | | 1,074 | 1,009 |
| Interest expense | | (827) | (790) |
| Net interest income | | 247 | 219 |
| Fee and commission income | | 1,370 | 1,210 |
| Fee and commission expense | | (254) | (207) |
| Net fee and commission income | | 1,116 | 1,003 |
| Trading income | | 402 | 361 |
| Other income | | 194 | 52 |
| Other expenses | | (69) | (35) |
| Total income from ordinary activities | | 1,890 | 1,600 |
| Employment expenses | | (970) | (859) |
| Occupancy expenses | | (92) | (84) |
| Non-salary technology expenses | | (84) | (79) |
| Professional fees, travel and communication expenses | | (123) | (117) |
| Other operating expenses | | (161) | (106) |
| Total expenses from ordinary activities | | (1,430) | (1,245) |
| Profit from ordinary activities before income tax | | 460 | 355 |
| Income tax (expense) | | (96) | (76) |
| Profit from ordinary activities after income tax | | 364 | 279 |
| (Profit) from ordinary activities after income tax attributable to outside equity interest | | (3) | — |
| Profit from ordinary activities after income tax attributable to equity holders of Macquarie Bank Limited* | | 361 | 279 |
| Distributions paid or provided on Macquarie Income Securities | 5 | (28) | (29) |
| Profit from ordinary activities after income tax attributable to ordinary equity holders of Macquarie Bank Limited | | 333 | 250 |
| | | Cents per share | |
| Basic earnings per share | 6 | 164.84 | 132.83 |
| Diluted earnings per share | 6 | 163.06 | 129.14 |

* There were no valuation adjustments recognised directly in equity.

The statement of financial performance should be read in conjunction with the accompanying notes and discussion and analysis.



# Consolidated statement of financial position

as at 31 March 2003

| | Notes | Consolidated 2003 $M | Consolidated 2002 $M |
|---|---|---|---|
| **Assets** | | | |
| Cash and liquid assets | | 311 | 283 |
| Securities purchased under resale agreements | | 5,155 | 4,313 |
| Trading assets | | 4,780 | 4,864 |
| Other securities | | 2,181 | 1,937 |
| Loan assets | | 9,894 | 9,209 |
| Other financial market assets | | 5,309 | 4,630 |
| Other financial assets | | 1,828 | 1,927 |
| Life insurance investment assets | | 2,516 | 2,588 |
| Equity investments | | 130 | 102 |
| Investments in associates and incorporated joint ventures | | 142 | 90 |
| Fixed assets | | 125 | 135 |
| Tax assets | | 146 | 156 |
| Total assets | | 32,517 | 30,234 |
| **Liabilities** | | | |
| Due to other financial institutions | | 517 | 565 |
| Securities sold under repurchase agreements | | 2,221 | 928 |
| Securities borrowed | | 2,381 | 2,359 |
| Deposits | | 3,966 | 4,520 |
| Notes payable | | 10,069 | 9,434 |
| Other financial market liabilities | | 4,718 | 3,811 |
| Tax liabilities | | 18 | 17 |
| Other financial liabilities | | 2,665 | 2,923 |
| Life insurance policy liabilities | | 2,456 | 2,539 |
| Provisions for dividends and distributions | | 213 | 109 |
| Deferred tax liabilities | | 30 | 100 |
| Other provisions | | 122 | 120 |
| Total liabilities excluding loan capital | | 29,376 | 27,425 |
| **Loan capital** | | | |
| Subordinated debt | | 406 | 242 |
| Converting Preference Shares | | 150 | 150 |
| Total liabilities | | 29,932 | 27,817 |
| Net assets | | 2,585 | 2,417 |
| **Equity** | | | |
| *Contributed equity* | | | |
| Ordinary share capital | | 1,137 | 1,012 |
| Macquarie Income Securities | | 391 | 391 |
| Retained earnings | 2 | 659 | 617 |
| Total equity attributable to equity holders of Macquarie Bank Limited | | 2,187 | 2,020 |
| Outside equity interests in controlled entities | | 398 | 397 |
| Total equity | | 2,585 | 2,417 |

The statement of financial position should be read in conjunction with the accompanying notes and discussion and analysis.

# Consolidated statement of cash flows

for the financial year ended 31 March 2003

| | Consolidated 2003 $M | Consolidated 2002 $M |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest received | 1,083 | 980 |
| Interest and other costs of finance (paid) | (856) | (821) |
| Dividends and distributions received | 90 | 144 |
| Fees and other non-interest income received | 1,294 | 1,149 |
| Fees and commissions (paid) | (257) | (156) |
| Net receipts from dealing in financial instruments | 1,113 | 627 |
| (Payments) to suppliers | (441) | (709) |
| Employment expenses (paid) | (866) | (816) |
| Income taxes (paid) | (197) | (165) |
| Life insurance investment income | 105 | 84 |
| Life insurance premiums received | 1,710 | 1,854 |
| Life insurance (policy payments) | (1,750) | (1,946) |
| Broadcast Australia – net receipts from operations | 17 | — |
| Net cash flows from operating activities | 1,045 | 225 |
| **Cash flows from investing activities** | | |
| Loan assets (granted) | (4,674) | (3,698) |
| Proceeds from securitisation of loan assets | 4,407 | 2,258 |
| Recovery of loans previously written-off | 1 | — |
| (Payments) for other securities | (737) | (1,788) |
| Proceeds from the realisation of other securities | 298 | 121 |
| (Payments) for equity investments | (109) | (78) |
| Proceeds from the sale of equity investments | 13 | 27 |
| (Payments) for fixed assets | (40) | (75) |
| Proceeds from the sale of fixed assets | 2 | 2 |
| (Payments) for life insurance investments | (5,881) | (7,803) |
| Proceeds from the sale of life insurance investments | 5,847 | 7,841 |
| Broadcast Australia – payment for acquisition, net of cash acquired | (296) | — |
| Broadcast Australia – cash deconsolidated | (17) | — |
| Net cash flows from investing activities | (1,186) | (3,193) |
| **Cash flows from financing activities** | | |
| Net (decrease)/increase in money market and other deposit accounts | (32) | 2,231 |
| Proceeds from the issue of ordinary share capital | 47 | 623 |
| Transaction costs for the issue of ordinary share capital | — | (3) |
| Proceeds from outside equity interest | 1 | 394 |
| (Repayment) of subordinated debt | (50) | — |
| Issue of subordinated debt | 225 | — |
| Dividends and distributions (paid) | (141) | (213) |
| Broadcast Australia – net proceeds from borrowings | 137 | — |
| Net cash flows from financing activities | 187 | 3,032 |
| Net increase in cash held | 46 | 64 |
| Cash at the beginning of the financial year | 243 | 179 |
| Cash at the end of the financial year | 289 | 243 |

The statement of cash flows above should be read in conjunction with the accompanying discussion and analysis.



# Discussion and analysis

for the financial year ended 31 March 2003

## Discussion and analysis of statement of financial performance

The economic entity achieved a profit from ordinary activities after income tax attributable to ordinary equity holders of $333 million, a 33% increase from last financial year. The return on average ordinary shareholders' funds was 18.7%, which was consistent with the previous financial year (18.7%). The increase in ordinary share capital was offset by the growth in earnings.

*Income from ordinary activities*
Income from ordinary activities increased by $290 million (18%) to $1.9 billion. This growth is attributable to increases in all major categories of operating income.

Net interest income increased by $28 million (13%) to $247 million. Interest income has increased by $65 million (6%) to $1.1 billion. The growth in interest bearing assets of $1.5 billion (9%), was offset by a reduction in the average applicable interest rates, particularly in respect of loan assets. There was also an increase in interest expense of $37 million (5%) to $827 million. Again, the growth in interest bearing liabilities of $1.8 billion (10%) was offset by a reduction in average applicable interest rates, particularly in respect of notes payable.

Net fee and commission income increased by $113 million (11%) to $1.1 billion. Fee income increased across the majority of businesses, largely attributable to the growth in management, performance and advisory fees, particularly in the Banking and Property and Investment Banking Groups.

Net trading income increased by $41 million (11%) to $402 million. The majority of the trading businesses experienced growth.

Net other income increased by $108 million to $125 million. This balance includes the gain on deconsolidation of Broadcast Australia and transmission income earned during the holding period. Profits earned on the partial realisation of the investment in Macquarie Infrastructure Group were offset by a write-down of the investment in Macquarie Airports.

Operating expenses increased by $185 million (15%) to $1.4 billion. This balance includes the operating expenses incurred by Broadcast Australia during the holding period and the increase is also attributable to the costs incurred to support the overall growth in the Bank's business. The expense to income ratio decreased from 77.8% for the previous financial year to 74.9% (adjusted to exclude Broadcast Australia transmission income and operating expenses for the holding period), which reflects a number of ongoing initiatives to manage costs across the economic entity.

*Income tax*
Income tax attributable to profits from ordinary activities attributable to ordinary equity holders has decreased from 23.3% of profit from ordinary activities for the previous financial year to 22.2% for the current financial year. This reflects the reduced corporate tax rate of 30%, which was applicable for the entire financial year.

*Earnings per share*
Basic earnings per share increased from 132.83 cents per share for 2002 to 164.84 cents per share, largely reflecting the strong growth in earnings.

*Dividends on ordinary share capital*
In line with the Bank's dividend policy, the Board has resolved to pay a final cash dividend of 52 cents per ordinary share (2002: 52 cents per ordinary share) in respect of the financial year ended 31 March 2003.

The tax consolidation regime will provide one-off access to franking credits. As a result, the Bank will also pay a special dividend of 50 cents per ordinary share. The special dividend will be fully franked.

The total annual dividend per ordinary share is 143 cents (2002: 93 cents per ordinary share).

The extent of franking of future dividends is dependent on the Bank's future Australian taxable income.

## Discussion and analysis of statement of financial position

Equity attributable to ordinary equity holders of the Bank increased by $167 million (10%) to $1.8 billion. The increase is due to growth in both retained earnings and ordinary share capital partly attributable to shares issued through the exercise of options and the activation of the Dividend Reinvestment Plan during the financial year.

The total capital adequacy ratio increased from 19.4% to 21.5% as at 31 March 2003 and the Tier 1 ratio also increased from 17.8% to 19.0% as at 31 March 2003. These increases were primarily the result of a reduction in risk-weighted assets.

Total assets increased by $2.3 billion (8%) to $32.5 billion. This increase is largely attributable to growth in loan assets, other securities, securities purchased under resale agreements and other financial market assets, which represents the positive fair value adjustments from trading in financial instruments.

The Bank's credit ratings continue to reflect strong prudential controls and diversified earnings. During the financial year, the Bank maintained all its external credit ratings.

## Discussion and analysis of statement of cash flows

Cash flows from operating activities for the financial year was a net inflow of $1 billion. This was a result of an increase in fee income, interest income and trading activities.

Cash flows from investing activities was a net outflow of $1.2 billion, a decrease of $2 billion from the last financial year. The organic growth in loan assets was offset by securitisation of loan assets.

Cash flows from financing activities was a net inflow of $187 million, a material decrease from the last financial year, which was a large net inflow of $3.0 billion as a result of a joint venture with a client. Although there was a net increase in the balance of subordinated debt on issue, unlike the previous financial year, there were no placements of share capital.

# Notes to and forming part of the concise financial statements

as at 31 March 2003

## Note One > Basis of accounting

The concise financial report is derived from the full financial report of Macquarie Bank Limited and the entities that it controlled (together, "the economic entity") at the end of and during the financial year ended 31 March 2003, which is 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.

The concise financial report has been prepared in accordance with Australian Accounting Standard AASB 1039 "Concise Financial Reports" and the relevant provisions of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year. A full description of the accounting policies adopted by the economic entity is provided in the full financial report.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current financial year.

| | Consolidated 2003 $M | Consolidated 2002 $M |
|---|---|---|
| **Note Two > Retained earnings** | | |
| Balance at the beginning of the financial year | 617 | 551 |
| Profit from ordinary activities after income tax attributable to equity holders | 361 | 279 |
| Distributions paid or provided on Macquarie Income Securities | (28) | (29) |
| Dividends paid or provided on ordinary share capital | (291) | (184) |
| Total retained earnings | 659 | 617 |
| **Note Three > Revenue** | | |
| Interest income | 1,074 | 1,009 |
| Fee and commission income | 1,342 | 1,181 |
| Investment revenue and management fees from life insurance business (refer Note 14 to the full financial statements) | 26 | 174 |
| Trading income | 402 | 361 |
| Proceeds from the sale of other securities and equity investments | 311 | 148 |
| Other income (excluding profit on the sale of other securities and equity investments) | 163 | 33 |
| Total revenue | 3,318 | 2,906 |

## Note Four > Segment reporting

Primary segment – business

| | Asset and Wealth Management $M | Financial Markets $M | Investment Banking $M | Lending $M | Total $M |
|---|---|---|---|---|---|
| **31 March 2003** | | | | | |
| Revenue from external customers | 669 | 1,039 | 1,035 | 575 | 3,318 |
| Intersegmental revenue | 3 | (157) | (37) | 191 | — |
| Profit from ordinary activities after income tax | 82 | 97 | 118 | 67 | 364 |
| Total assets | 3,058 | 16,998 | 3,684 | 8,777 | 32,517 |
| **31 March 2002** | | | | | |
| Revenue from external customers | 597 | 974 | 804 | 525 | 2,900 |
| Intersegmental revenue | 6 | (150) | (53) | 197 | — |
| Profit from ordinary activities after income tax | 51 | 56 | 112 | 60 | 279 |
| Total assets | 3,180 | 14,899 | 3,249 | 8,906 | 30,234 |

Secondary segment – geographical

| | Australia $M | Other $M | Total $M |
|---|---|---|---|
| **31 March 2003** | | | |
| Revenue from external customers | 2,732 | 586 | 3,318 |
| Total assets | 21,756 | 10,761 | 32,517 |
| **31 March 2002** | | | |
| Revenue from external customers | 2,333 | 567 | 2,900 |
| Total assets | 23,507 | 6,727 | 30,234 |

# Notes continued

as at 31 March 2003

## Note Five > Dividends and distributions paid or provided

| | Consolidated 2003 $M | Consolidated 2002 $M |
|---|---|---|
| *Ordinary share capital* | | |
| Dividends paid – interim (41 (2002: 41) cents per share) | 83 | 81 |
| Dividends provided | | |
| — final (52 (2002: 52) cents per share) | 106 | 103 |
| — special (50 (2002: Nil) cents per share) | 102 | — |
| Total dividends paid or provided | 291 | 184 |

The interim ordinary dividend paid during the financial year ended 31 March 2003 was 85% franked at 30% (2002: 70% franked at 30%). The final ordinary dividend provided as at 31 March 2003 is 100% franked at 30% (2002: 70% franked at 30%) and the special ordinary dividend provided as at 31 March 2003 is 100% franked at 30%.

On 8 May 2002, the Directors resolved that they would activate the Dividend Reinvestment Plan (the DRP) effective for the dividend to be paid on 2 July 2002. The DRP was approved by ordinary shareholders at the 2001 Annual General Meeting. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares, without transaction costs, at a 2.5% discount to prevailing market value. A shareholder can elect to participate in or terminate their involvement in the DRP at any time.

| | Cents per share | |
|---|---|---|
| Cash dividends per share | 143 | 93 |

Converting Preference Shares

Dividends on these shares of $11 million (2002: $11 million) have been charged to the Statement of Financial Performance as interest expense. The dividend paid on 17 June 2002 was 70% franked at 30%, the dividend paid on 16 December 2002 was 85% franked at 30% and the dividend to be paid on 16 June 2003 will be 100% franked at 30%.

| | | |
|---|---|---|
| Franking credits available for the subsequent financial year at a corporate tax rate of 30% (2002: 30%) | 40 | 15 |

With effect from 1 July 2002, Australian tax law requires companies to maintain franking accounts on a tax paid basis. The disclosure above, including the prior year comparatives, reflects therefore the new tax paid basis of measuring franking credits.

The franked portion of dividends proposed as at 31 March 2003 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 | 23 |
| Distributions provided | 5 | 6 |
| Total distributions paid or provided | 28 | 29 |

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”.

## Note Six > Earnings per share

| | Consolidated 2003 $M | Consolidated 2002 $M |
|---|---|---|
| | Cents per share | |
| Basic earnings per share | 164.84 | 132.83 |
| Diluted earnings per share | 163.06 | 129.14 |
| Reconciliation of earnings used in the calculation of basic earnings per share | | |
| Profit from ordinary activities after income tax | 364 | 279 |
| Profit from ordinary activities after income tax attributable to outside equity interests | (3) | — |
| Distributions paid or provided on Macquarie Income Securities | (28) | (29) |
| Total earnings used in the calculation of basic earnings per share | 333 | 250 |
| Reconciliation of earnings used in the calculation of diluted earnings per share | | |
| Earnings used in calculating basic earnings per share | 333 | 250 |
| Interest savings from conversion of Converting Preference Shares | 11 | 11 |
| Other non-discretionary changes in earnings arising from dilutive potential ordinary shares | 1 | 1 |
| Total earnings used in the calculation of diluted earnings per share | 345 | 262 |
| | Number of shares | |
| Weighted average number of shares used in the calculation of earnings per share | | |
| Basic earnings per share | 202,014,367 | 188,505,201 |
| Diluted earnings per share | 211,578,662 | 202,875,475 |

Comparative figures have been adjusted to conform with revisions to AASB 1027 “Earnings per Share” which were first applicable in the current financial year.

# Notes continued

as at 31 March 2003

## Note Seven > Acquisition and disposal of Broadcast Australia Holdings Pty Limited

*Acquisition*

On 2 April 2002, a controlled entity of the Bank, Macquarie Communications Infrastructure Limited (MCIL), acquired 100% of the issued capital of ntl Belgium sprl, the chief entity of ntl Australia Holdings Pty Limited, which was subsequently renamed Broadcast Australia Holdings Pty Limited (BA). The operating results of BA have been included in the Statement of Financial Performance from the date of acquisition until its deconsolidation on 12 August 2002.

The fair value of assets and liabilities acquired differs from those disclosed in the 31 March 2002 financial statements as a result of valuations being finalised subsequent to acquisition and revisions in the final allocation of the purchase consideration.

| Details of the acquisition are as follows: | $M |
|---|---|
| **Fair value of net assets acquired** | |
| Cash and other financial assets | 63 |
| Fixed assets | 527 |
| Intangible assets | 405 |
| Payables and provisions | (145) |
| Borrowings | (517) |
| Total fair value of net assets acquired | 333 |
| **Purchase consideration** | |
| Cash consideration | 313 |
| Deferred consideration | 20 |
| Total purchase consideration | 333 |
| **Reconciliation of cash movement** | |
| Cash consideration | (313) |
| Less: cash acquired | 17 |
| Total cash outflow | (296) |

## Note Seven > Acquisition and disposal of Broadcast Australia Holdings Pty Limited continued

*Deconsolidation*

The shares in MCIL and units in the Macquarie Communications Infrastructure Trust were stapled together to form the Macquarie Communications Infrastructure Group (MCG). On 12 August 2002, MCG ceased to be a controlled entity of the Bank following the public offering of 115 million stapled securities in MCG. The Bank has retained a holding of 50 million securities, which represents 32.25% of the securities on issue. These securities must be held in escrow for a 12 month period and the Bank has agreed to waive its voting rights during this period.

| Details of the deconsolidation are as follows: | $M |
|---|---|
| **Carrying value of assets and liabilities deconsolidated** | |
| Cash and other financial assets | 61 |
| Fixed assets | 492 |
| Intangible assets * | 418 |
| Payables and provisions | (104) |
| Borrowings ** | (921) |
| Total carrying value of assets and liabilities deconsolidated | (54) |
| **Reconciliation of cash movement** | |
| Cash received | — |
| Less: cash deconsolidated | (17) |
| Total cash outflow | (17) |
| **Gain on deconsolidation** | |
| MCG loss from ordinary activities after income tax from 2 April to 12 August 2002 | (54) |
| Recoupment of MCG loss from ordinary activities after income tax upon deconsolidation | 54 |
| Advisory fees recognised as income upon deconsolidation | 30 |
| Gain from holding investment in MCG | 20 |
| Total gain on deconsolidation | 50 |

* Includes advisory fees recognised as income by the Bank upon deconsolidation.

** Includes borrowings from the economic entity which were repaid subsequent to 12 August 2002.

In addition, the Bank also earned an underwriting fee of $5 million relating to the initial public offering of securities in MCG.

## Note Eight > Full financial report

Further financial information can be obtained from the full financial report which is available, free of charge, on request from the Bank. A copy may be requested by calling (02) 8232 3333. Alternatively, both the full financial report and the concise financial report can be accessed via the internet at: http://www.macquarie.com.au

# Directors' declaration

The Directors declare that, in their opinion, the concise financial report of the economic entity for the financial year ended 31 March 2003 as set out on pages 50 to 59 complies with Australian Accounting Standard AASB 1039 "Concise Finance Reports".

The financial statements and specific disclosures included in this concise financial report have been derived from the full consolidated financial report for the financial year ended 31 March 2003.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the economic entity as the full financial report, which as indicated in Note 8, is available on request.

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

D.S. Clarke Director

A.E. Moss Director
Sydney 12 May 2003



# Independent audit report

to the Members of Macquarie Bank Limited

## Audit opinion

In our opinion, the concise financial report of Macquarie Bank Limited (the Bank) for the financial year ended 31 March 2003 as set out on pages 50 to 60 complies with Australian Accounting Standard AASB 1039 "Concise Financial Reports" (AASB 1039).

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

## Scope and summary of our role

*The concise financial report – responsibility and content*
The preparation and content of the concise financial report for the financial year ended 31 March 2003 are the responsibility of the Directors of the Bank.

*The auditor's role and work*
We conducted an independent audit of the concise financial report in order to express an opinion on it to the members of the Bank. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the concise financial report is free of material misstatement.

We have also performed an independent audit of the full financial report of the Bank for the financial year ended 31 March 2003. Our audit report on the full financial report was signed on 12 May 2003, and was not subject to any qualifications. Our audit did not involve an analysis of the prudence of business decisions made by the Directors or management.

In conducting the audit of the concise financial report, we carried out a number of procedures to assess whether in all material respects the concise financial report is presented fairly in accordance with AASB 1039.

The procedures included:

— testing the information included in the concise financial report is consistent with the information in the full financial report;

— selecting and examining evidence, on a test basis, as required by auditing standards, to support amounts, discussion and analysis, and other disclosures in the concise financial report which were not directly derived from the full financial report. We did not examine every item of evidence available; and

— reviewing the overall presentation of information in the concise financial report.

*Independence*
As an auditor, we are required to be independent of the Bank and its controlled entities and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by the Institute of Chartered Accountants in Australia, the Corporations Act 2001 and the Auditing and Assurance Standards Board.

In addition to our statutory audit work, we were engaged to undertake other services for the Bank and its controlled entities. In our opinion the provision of these services has not impaired our independence.

PricewaterhouseCoopers
Chartered Accountants

D.H. Armstrong Partner
Sydney 12 May 2003

# Financial summary since listing*

| Financial year ended 31 March | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|
| **Financial performance ($ million)** | | | | | | | | |
| Total income from ordinary activities | 435 | 530 | 665 | 815 | 1,186 | 1,472 | 1,600 | 1,890 |
| Total expenses from ordinary activities | 336 | 392 | 498 | 597 | 885 | 1,147 | 1,245 | 1,430 |
| Profit from ordinary activities before income tax | 99 | 138 | 167 | 218 | 301 | 325 | 355 | 460 |
| Income tax expense | 6 | 21 | 26 | 53 | 79 | 53 | 76 | 96 |
| Profit from ordinary activities | 93 | 117 | 141 | 165 | 222 | 272 | 279 | 364 |
| Outside equity interest | — | — | — | — | — | (1) | — | 3 |
| Macquarie Income Securities distributions | — | — | — | — | 12 | 31 | 29 | 28 |
| Profit from ordinary activities after income tax attributable to ordinary equity holders | 93 | 117 | 141 | 165 | 210 | 242 | 250 | 333 |
| **Financial position ($ million)** | | | | | | | | |
| Total assets | 5,174 | 6,142 | 7,929 | 9,456 | 23,389 | 27,848 | 30,234 | 32,517 |
| Total liabilities | 4,746 | 5,642 | 7,348 | 8,805 | 22,154 | 26,510 | 27,817 | 29,932 |
| Net assets | 428 | 500 | 581 | 651 | 1,235 | 1,338 | 2,417 | 2,585 |
| Risk weighted assets | 4,030 | 4,686 | 4,967 | 4,987 | 8,511 | 9,860 | 10,651 | 10,030 |
| Total loan assets | 2,688 | 2,682 | 3,158 | 4,002 | 6,518 | 7,785 | 9,209 | 9,894 |
| Impaired assets (net of provisions) | 57 | 46 | 12 | 44 | 23 | 31 | 49 | 16 |
| **Share information** | | | | | | | | |
| Cash dividends per share (cents per share) | | | | | | | | |
| Interim | — | 18 | 21 | 30 | 34 | 41 | 41 | 41 |
| Final | 34.7 (a) | 25 | 30 | 38 | 52 | 52 | 52 | 52 |
| Special | — | — | — | — | — | — | — | 50 |
| Total | 34.7 (a) | 43 | 51 | 68 | 86 | 93 | 93 | 143 |
| Basic earnings per share (cents per share) | 61.0 (a) | 74.89 | 88.09 | 101.33 | 124.33 | 138.88 | 132.83 | 164.84 |
| Share price at 31 March ($) | 5.78 (a) | 8.50 | 14.35 | 19.10 | 26.40 | 27.63 | 33.26 | 24.70 |
| Ordinary share capital (million shares) (b) | 138.7 | 151.4 | 157.6 | 161.1 | 171.2 | 175.9 | 198.5 | 204.5 |
| Market capitalisation at 31 March (fully paid ordinary shares) ($ million) | 832 (c) | 1,287 | 2,262 | 3,077 | 4,520 | 4,860 | 6,602 | 5,051 |
| **Ratios** | | | | | | | | |
| Return on average ordinary shareholders' funds | 23.1% | 25.2% | 26.1% | 26.8% | 28.1% | 27.1% | 18.7% | 18.7% |
| Payout ratio (excluding special dividend) | 61.0% | 60.5% | 57.9% | 67.2% | 70.0% | 67.5% | 73.6% | 56.8% |
| Tier 1 ratio | 11.8% | 12.9% | 11.7% | 13.0% | 14.5% | 12.9% | 17.8% | 19.0% |
| Capital adequacy ratio | 15.4% | 13.2% | 16.4% | 17.3% | 18.4% | 16.0% | 19.4% | 21.4% |
| Impaired assets as % of loan assets | 2.3% | 1.7% | 0.4% | 1.1% | 0.3% | 0.4% | 0.5% | 0.2% |
| Net loan losses as % of loan assets | 0.0% | 0.0% | 0.0% | 0.1% | 0.1% | 0.1% | 0.2% | 0.0% |
| **Funds under management ($ billion)** | | | | | | | | |
| Listed | 0.6 | 1.1 | 1.6 | 3.0 | 4.2 | 6.9 | 11.8 | 18.0 |
| Unlisted | | | | | | | | |
| Retail | 5.6 | 7.2 | 9.0 | 9.8 | 9.6 | 10.6 | 11.7 | 12.4 |
| Wholesale | 7.6 | 8.6 | 10.8 | 10.0 | 12.5 | 13.4 | 17.8 | 21.9 |
| Total | 13.8 | 16.9 | 21.4 | 22.8 | 26.3 | 30.9 | 41.3 | 52.3 |
| Staff numbers (d) | 1,732 | 1,965 | 2,474 | 3,119 | 4,070 | 4,467 | 4,726 | 4,802 |

* The Bank's ordinary shares were quoted on the Australian Stock Exchange on 29 July 1996.

a) Adjusted for June 1996 bonus issue.
b) Number of fully paid ordinary shares at 31 March, excluding options and partly paid shares.
c) Based on unadjusted share price of $6.00.
d) Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees).



# Directory of Groups and Divisions

Executive Chairman
David Clarke

Managing Director
and Chief Executive Officer
Allan Moss

Deputy Managing Director
Richard Sheppard

Investment Banking Group
Nicholas Moore

*Corporate Finance*
Michael Cook
Michael Carapiet

*Financial Products*
Oliver Yates
Michael Price

*Infrastructure and Specialised Funds*
Anthony Kahn

*Macquarie Capital*
Garry Farrell

*Equities*
Roy Laidlaw

*Research*
David Rickards

Equity Markets Group
Ottmar Weiss

*Australia*
Greg Mackay

*Hong Kong*
Kim Burke

*Japan*
Paul O'Brien

*South Africa*
David Bavin

*Europe*
Andrew Evans

*Brazil*
Walter Pye

*International Trading Desk*
Greg Mackay

Treasury and Commodities Group
Andrew Downe

*Metals and Mining*
Gavin Bradley
James Mactier

*Foreign Exchange*
Simon Wright

*Debt Markets*
Paul Bide

*Agricultural Commodities*
Peter Thomas

*Futures*
Bill Marynissen

*Treasury*
Paul Robertson

*Risk Advisory Services*
Stephen Wood

*Economic Research*
Richard Gibbs

*Energy Markets Division*
Simon Grenfell

Banking and Property Group
Bill Moss

*Property* – Stephen Girdis

*Property Investment Management*
James Hodgkinson
Simon Jones

*Property Finance*
Grant Munro

*Property Investment Banking*
Matthew Banks

*Property Investment Banking North America*
Mark Baillie

*Golf and Leisure*
Tony Fehon

*Securitised Lending* – Tony Gill

*Mortgages*
Frank Ganis

*Margin Lending*
Scott Young
Mickey Perret

*Banking* – Greg Loveday

*Professional and Business Banking*
Craig Thompson

*Macquarie Community Partnerships*
Peter Wright

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David Deverall

*Macquarie Funds Management Division*
David Deverall

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Ben Bruck

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Peter Coleman

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Neil Roderick

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Andrew Murray

Macquarie Direct Investment
Sandy Lockhart

Corporate Affairs Group
Greg Ward

*Financial Operations*
Greg Ward

*Business Improvement*
Garry Hollis

*Human Resources*
Anne Matthews

*Company Secretarial and Investor Relations*
Dennis Leong

*Business Services*
Will Walker

*Taxation*
Andrew McWhinnie

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Warwick Smith

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John Green

Risk Management Division
Nick Minogue

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Mary Reemst

*Finance*
Max Merven

*Operational Risk Review*
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