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The past year has been one of significant change in the Australian retail market through a broad range of mergers with independent financial planners, following mergers with regional brokers. Macquarie Financial Services provides an extensive range of services. The cover photograph is of optic fibre.

Macquarie Bank's annual report consists of two documents – the 1999 Annual Review (incorporating the Concise Report to shareholders) and the 1999 Financial Report. The 1999 Annual Review details the Bank's operations and provides a summary of the Financial Report.

If you would like to receive a copy of the 1999 Financial Report which details the statutory accounts in full please call us on (02) 9237 3333.

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ant growth for Macquarie Bank. The Bank increased its strong commitment to the dened distribution network. In addition to Macquarie's well established relationships tockbrokers and accountants, Macquarie Financial Services was established g firms in Brisbane, Perth and Adelaide. From 14 offices around Australia Macquarie ve array of products and services from a single point of contact. abling, representing the Bank's rapidly growing national distribution network.

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THE HOLEY DOLLAR

In 1813 Governor Lachlan Macquarie 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.

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HIGHLIGHTS

- Operating profit after tax increased 16.9 per cent to \$165.0 million (101.33 cents per share)
- Return on average shareholders' funds rose to 26.8 per cent
- Dividend of 68 cents per share (fully franked) for the year
- All six major operating Groups had a successful year with especially large increases from Asset and Infrastructure, Treasury and Commodities and Corporate Finance
- Excellent results in established Australian investment banking businesses including the completion of many major transactions for clients

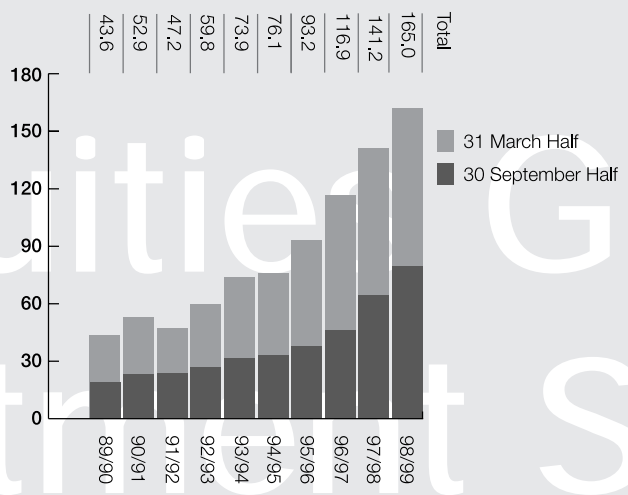
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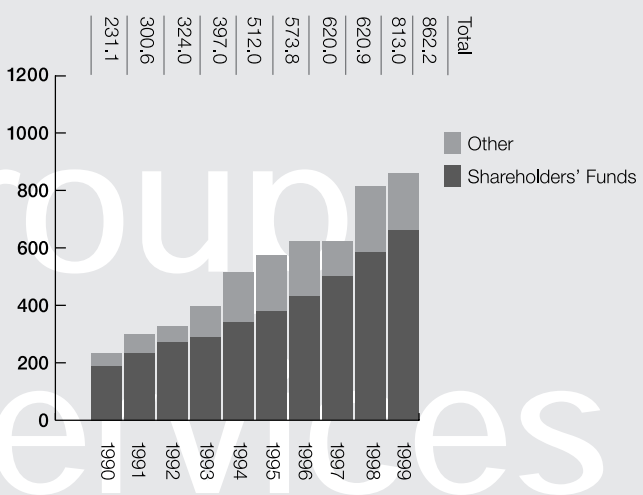
- International businesses contributed approximately 22 per cent of the Bank's profit
- Total capital and subordinated debt grew to \$961.5 million, with a year-end capital adequacy ratio of 17.3 per cent and a Tier 1 capital adequacy ratio of 13.0 per cent

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REPORTED ANNUAL NET PROFIT \$ MILLION



NET CAPITAL BASE (REGULATORY) \$ MILLION AT 31 MARCH



CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

Macquarie's continued success is a testament to the Bank's staff. With close to 3,000 staff, the flow of information is increasingly important. The Bank's vast volumes of information and intelligence

Macquarie Bank enjoyed another successful year in the 12 months to March 1999. Consolidated after-tax profit increased 16.9 per cent to \$165.0 million. Consolidated pre-tax profit increased 30.5 per cent to \$217.8 million. The after-tax return on average shareholders' funds was 26.8 per cent. These very pleasing results were achieved in generally favourable market conditions.

The year was characterised by continued high growth across most businesses. Higher staff numbers have been accompanied by rising profits. New businesses have been established and a number of additional offices have opened both domestically and offshore. The diversity of products and services offered by Macquarie has also grown. In particular, the Bank has increased its commitment to the Australian retail market. Whilst this growth is expected to continue into the future, the Bank remains loyal to its strategy of selective expansion, seeking only to enter markets where there is perceived to be a genuine opportunity to add value.

All six business Groups made solid contributions to the result. The Asset and Infrastructure Group and Treasury and Commodities Group both produced excellent results, significantly increasing their profits. The Asset and Infrastructure Group result reflects high levels of business activity, both domestic and international, including a large number of structured finance and infrastructure transactions. For the Treasury and Commodities Group, the result reflects particularly strong performance from the bullion and base metals businesses. The Corporate Finance Group made a substantially increased contribution to the Bank's earnings, reflecting higher levels of mergers and acquisitions activity and strong growth in equity capital markets.

The Equities Group had another very satisfactory year. However, the Group's overall contribution as a proportion of the Bank's total earnings was reduced compared to last year, reflecting less favourable trading conditions in Hong Kong markets. The Banking and Property Group and Investment Services Group both performed well, recording increased profitability.



tament to the talent, dedication to clients, strenuous work and team efforts of ff located in a growing number of offices nationally and internationally, the efficient tant to the Bank's successful operation. Technology plays a critical role in delivering ence throughout the organisation in a cost-effective, timely and secure manner.

Total operating income rose by 25.0 per cent to \$831.2 million. Fee and commission income contributed approximately 67.6 per cent of income for the Group and rose 32.7 per cent on the previous corresponding period.

During the year, the Bank increased its commitment to the fast-growing retail market. The Equities Group's private client business merged with some of the strongest regional broking firms in Australia to form Macquarie Nevitts in Brisbane, Macquarie Porter Western in Perth and (subsequent to year end) Macquarie Day Cutten in Adelaide.

A further strategic initiative, designed to provide a more holistic focus on Macquarie's clients, resulted in the creation of a new business within the Equities Group, Macquarie Financial Services (MFS). MFS represents the amalgamation of the Equities Group's private client business with the direct distribution business of the Investment Services Group.

The expansion into selected retail services is an important element of the Bank's growth strategy. The development of MFS will enable retail clients to access tailored investment solutions from a single point of contact in 14 offices throughout Australia.

The Bank continued to experience substantial growth in staff numbers, with full-time employees increasing by 17.9 per cent from 2,474 to 2,916 in the 12 months to 31 March 1999. As was the case last year, this growth was the main driver of a 29.3 per cent increase in employment costs, which continue to be the Bank's largest expense. These costs include a significant performance component linked to overall profitability.

All staff are eligible for bonuses. However, to ensure staff receive incentives for superior performance, staff participate in the profit sharing scheme once after-tax profit exceeds a predetermined target rate of return on shareholders' funds. As the rate of return (before provision for performance-based remuneration) increases above the target rate, the provision is calculated as an increasing proportion of earnings.

CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT (CONTINUED)

NOTE:

The figures set out in this table are proportionate contributions by business Group to the Bank's performance. They should be taken as a guide only to relative contributions and are derived from management accounts.

Chair man's and Managing Directors Report

The target rate is reviewed annually by the Bank's Executive Committee and then approved by the Board. For the year ended 31 March 1999, the target rate of return on shareholders' funds was 9.0 per cent after tax. Having regard to the downward trend in the cost of capital and competitive pressures, the Board resolved to reduce the target rate to 8.0 per cent for the year ended 31 March 2000.

The ability to retain staff is vital to Macquarie's ongoing success. Accordingly, overall remuneration policies are subject to the discretion of the Board and may be adapted to reflect changing competitive, market and business conditions.

The Bank continues to invest heavily in information technology in order to both enhance efficiency and improve client service. A reflection of Macquarie's ongoing investment in information technology is the fact that the Bank now has approximately one staff member in every six working directly on IT-related activities. For many of the Bank's businesses, systems capabilities provide a fundamental competitive advantage. Examples include the DEFT payments system, Macquarie Active Banking (which provides internet banking services to professional and business banking clients), PhoneLink (which provides telephone banking services to the Cash Management Trust) and transact@macquarie (which provides internet access to the Cash Management Trust). Additional services are planned for the next 12 months. The continued investment in and development of these systems remain a priority for the Bank. Internal systems costs are treated as operating expenses and are taken into account in the year the expense is incurred.

REVIEW OF OPERATIONS

In the Asset and Infrastructure Group, Project and Structured Finance (PSF) enjoyed another record year, remaining at the forefront of the infrastructure, structured finance and cross-border leasing markets. Reflecting PSF's strong market position, the Division was awarded *Project Finance International* magazine's no.1 ranking in Asia Pacific and no.3 ranking globally in terms of advisory mandates won.

The Division was again instrumental in the completion of a large variety of infrastructure and structured finance transactions in Australia and internationally, with the total value of transactions approaching \$8 billion. PSF's cross-border leasing activities were also highly successful during the year. The Division completed a number of leases and financings across a wide variety of jurisdictions with a total value in excess of \$7 billion.

Infrastructure and Specialised Funds continued to expand operations, with the level of infrastructure funds managed rising to over \$3 billion during the year.

One of the highlights for Macquarie Capital was the Division's Technology Investment Banking operation, which acted as financial adviser and Australian underwriter to LookSmart Limited (a US-based internet media company) for a US\$60 million mezzanine financing. The year also saw the launch of the Macquarie Technology Fund which has shown early indications of successful investment performance.

The Treasury and Commodities Group recorded another record result for the year. The Bullion and Commodities Division performed exceptionally well, further enhancing its reputation as a truly international operation. The base metals business now ranks as one of the largest participants in the London Metal Exchange (LME) market globally and the precious metals business continues to generate a large part of its revenue from international project finance and structured transactions.

RELATIVE CONTRIBUTIONS TO
CONSOLIDATED PROFIT BY OPERATING GROUP %

Year ended 31 March	1999	1998
Asset and Infrastructure	27	26
Treasury and Commodities	22	24
Corporate Finance	15	8
Equities	13	22
Banking and Property	11	9
Investment Services	10	11
Direct Investment	2	-
Total	100%	100%

CONSOLIDATED GROUP PROFITS

Year ended 31 March	1999 (\$ million)	1998 (\$ million)	% Change
Total operating income	831.2	664.7	25.0
Total operating expenses	(613.4)	(497.8)	23.2
Pre-tax profit	217.8	166.9	30.5
Income tax expense	(52.8)	(25.7)	105.4
Profit after tax	165.0	141.2	16.9

Foreign Exchange and Capital Markets capitalised on a year of high volatility with significant contributions from all trading and product desks. Money Market was also able to achieve strong profit growth on the back of volatile market conditions, reflecting the successful positioning of the Bank's balance sheet for interest rate movements through the year. Futures continued to perform well and extended its activities to the retail market with the launch of the Private Professional Trader Unit. International credit market volatility in the latter part of 1998 held back the Debt Markets Division's result for the year. Risk Advisory Services consolidated its growth over the past 18 months and achieved a significantly increased profit result. The Energy and Agriculture Division had another profitable year with both activities making similar contributions to the result.

In the Corporate Finance Group, the Corporate Advisory Division had a very successful year, advising over 140 clients on more than 175 mandates in Australasia and internationally. Transactions completed include advising SGIO on its takeover responses to bids from Wesfarmers and NRMA, advising Bank of Scotland on its divestment of Countrywide Bank in New Zealand to Lloyds Bank (National Bank of New Zealand) and advising GIO Insurance on its response to the takeover offer from AMP. In New Zealand, Corporate Advisory had another outstanding year, retaining its number two ranking in the *1998 Corporate Adviser Securities Data League Tables*.

The Equity Capital Markets Division experienced another year of strong growth, with executive staff numbers and total deal revenue both increasing by approximately 50 per cent. Among the deals in which Equity Capital Markets had a major involvement were the \$1.5 billion Smorgon Steel initial public offering (IPO) and the \$766 million Ten Network Holdings IPO.

The Equities Group enjoyed considerable success during the year with all operating Divisions making a positive contribution to the Bank's result. Macquarie Equities Limited (MEL) had one of its best years yet in terms of client rankings and market share, reflecting the high standards of research, client service and transaction expertise provided by the Division. MEL further strengthened its international distribution capabilities during the year. Half of its wholesale revenue is now generated in international markets.

During the year the Group successfully merged its private client business with some of the strongest regional broking firms in Australia.

A subsequent internal amalgamation of the direct distribution business of the Investment Services Group with Equities' private client business created Macquarie Financial Services (MFS). MFS has 140 advisers providing a wide range of products and services to a client base of over 175,000 individual investors.

In Australia, the Equity Markets Division performed well and maintained its market leadership in the development of listed and unlisted retail equity products. Trading in Hong Kong equity derivatives was also profitable during the year despite exceptionally difficult conditions across the region.

The Banking and Property Group performed well during the year. Property Investment Banking maintained its position as the leading property adviser in Australia, successfully advising the Commonwealth Government

Chairman's Report

earnings produced offshore during the year. Growth in offshore earnings is expected to come from new markets and businesses where the Bank can add genuine value.

on the disposal of a further \$361 million of commercial property during the year. The Division also successfully integrated the newly acquired Urban Pacific business into the Bank's operations and continued its activities in specialist areas including housing development in China and student accommodation in Australia.

Property Investment Management achieved significant growth and expansion during the year with total property trust assets under management growing 43 per cent to \$1.5 billion. Of the Division's listed property trusts, the Property Income Investment Trust, Industrial Property Trust of Australia and CountryWide Retail Trust all outperformed their specific property sectors for the year and were all ranked in the top 10 out of 43 property trusts surveyed in the BDO Nelson Parkhill 1998 Annual Review of Property Trusts. The LeisureWide Property Trust was listed in June 1998 and its performance in the first year is anticipated to be in line with prospectus projections.

The Property Finance Division continued to perform well. The Division was financier of the new Sydney suburb Liberty Grove, which was awarded Best Medium Density Development in Australia at the 1999 Urban Development Institute of Australia Awards.

Macquarie Securitisation Limited (MSL) experienced another good year. Despite an intensely competitive environment, MSL was able to maintain market share and improve profitability. MSL's mortgage portfolio grew by more than \$1.6 billion to \$8.3 billion at year end. In late 1998 the Bank investigated the possible sale of its mortgage securitisation business to test whether other market participants could derive greater value from the business than Macquarie Bank. The sale process was terminated in December and the Bank has reaffirmed its commitment to the business, which is now undertaking a number of initiatives.

Macquarie Mortgages comprises the Bank's own mortgage origination activities. These activities have recently been reorganised as a separate Division within the Banking and Property Group.

As a consequence of continued expansion, the Banking Services Division was restructured into three separate Divisions, each reflecting their core activities. These are lending and deposit taking (Banking Solutions), advising high net worth clients (Private Investment Banking) and distribution of financial products (Macquarie Distribution). In each of these businesses, information technology continues to play an important role in providing operating efficiencies and cost savings for clients.

The Investment Services Group recorded another good profit result in 1998/99 with funds under management rising to \$19.6 billion at year end.

In the Retail Funds Division, the Macquarie Cash Management Trust continued to lead the market, with inflows of more than \$900 million taking the Trust to \$5.7 billion by year end. The Macquarie Cash Management Trust remains Australia's largest cash management trust due to its unique combination of competitive yields and superior customer service. Reflecting the Division's continued commitment to service, the ASSIRT survey of financial advisers ranked Macquarie number one for overall service. Macquarie has held this ranking for six out of the last seven years.

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ade another important contribution with 22 per cent of the Bank's
ntinue in line with Macquarie's ongoing expansion into selected overseas

During the year, the management of equities was brought under the ambit of the Asset Management Division. The Division remains committed to the active equities style 'Price For Earnings Growth' introduced last year. Applying this style, Macquarie has continued its solid record of performance with a number of funds recording first quartile returns over a three year period, including the Enhanced Australian Equities Fund and Property Securities Fund. Following the success of the \$2.8 billion enhanced equities product, the Institutional Funds Division established the Macquarie Quant Fund, which employs a combination of active and enhanced strategies to add value whilst constraining portfolio risk.

The Portfolio Services Division has built on Macquarie's strengths in administrative, processing and client services to provide these services to external fund managers. With expertise in superannuation, unit trust and investment bond administration processing, Macquarie is one of the few full service providers in the industry. Funds under administration from external fund managers are now over \$1.5 billion.

INTERNATIONAL ACTIVITIES

Income from international businesses made another important contribution with 22 per cent of the Bank's earnings produced offshore during the year. Growth in offshore earnings is expected to continue in line with Macquarie's ongoing expansion into selected overseas markets and businesses where the Bank can add genuine value.

The Bank had a successful year in Asia with another strong performance in the region's markets. The Treasury and Commodities Group's base metals business had a particularly profitable year, with Macquarie being one of the principal market participants in the Asian timezone.

Macquarie's presence in Hong Kong continued to expand during the year, with the Bank now represented by staff from Project and Structured Finance, Macquarie Equities, Equity Markets, Property Investment Banking, Securitisation and Corporate Advisory.

Project and Structured Finance increased its activities in Kuala Lumpur during the year and also opened an office in Mumbai.

Property Investment Banking continued the development of its China Housing Investment Funds and was active in hotel investment throughout the Asian region. Medallist Golf Developments, a joint venture established in 1997 with Greg Norman's Great White Shark Enterprises, launched its first projects in the United States in 1998/99.

Subsequent to year end, the Bank signed an equities derivatives alliance with the Industrial Bank of Japan (IBJ) Group. This partnership has been established to combine Macquarie's derivative trading, structuring and technological expertise with the IBJ Group's distribution capability in the Japanese market. The business' activities will include the trading and origination of equities, derivatives and structured products for the Japanese market. The Bank's equity derivatives alliance with the Standard Bank of South Africa (which commenced in March 1998) generated significant profits during the year and continues to be profitable. The Bank's bullion alliance with Standard Bank is scheduled to end in December 1999.

Chair Directors Report

During the year, the Treasury and Commodities Group entered into a cooperative agreement with Kookmin, one of the largest commercial banks in Korea. Kookmin was awarded Commercial Bank of the Year in 1998 by *Asiamoney* magazine. The basis for the agreement is the transfer of Macquarie's trading experience and technological expertise to the Korean market.

In North America, PSF and Macquarie Equities both experienced another year of growth from their operations based in New York. Reflecting the increasingly global nature of the resources advisory market, Corporate Advisory opened an office in Toronto. The Division is already achieving recognition in the Canadian mergers and acquisitions market. PSF also expanded its activities in America with the establishment of a presence in Toronto.

In London, PSF was again very active, completing a large number of cross-border leasing transactions and significantly expanding its project and infrastructure capabilities. For Treasury and Commodities, membership of the LME continued to provide an important foundation for the Bank's price-making activities in base metals.

TOTAL GROUP ASSETS UNDER MANAGEMENT AND ADMINISTRATION

Total Group assets under management and administration have now reached \$33.0 billion, an increase of over 10 per cent since 31 March 1998. These assets are detailed on page 65 of this Annual Review. Assets under management are those assets that the Group actively manages where the underlying business is wealth creation. Assets under administration are assets that the Group either monitors or services but does not actively involve itself in increasing the assets' value.

DIVIDEND

The Board has resolved to pay a final cash dividend of 38 cents per fully paid ordinary share (1998: 30 cents) in respect of the year to 31 March 1999. The record date of the dividend is 11 June 1999 and the dividend will be paid on 2 July 1999. The total annual dividend of 68 cents per share (1998: 51 cents) represents a payout ratio of approximately 67 per cent of the year's after-tax earnings. This reflects the change in the Bank's dividend policy from 55-60 per cent of annual earnings to 65-70 per cent of annual earnings. The dividend is fully franked.

The extent of franking of future dividends is uncertain and dependent on the Bank's Australian taxable income. Future dividends are expected to be largely franked.

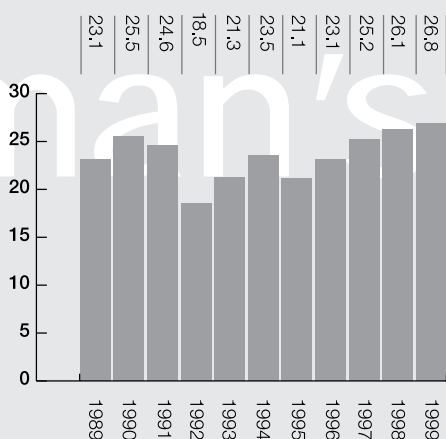
BALANCE SHEET

At 31 March 1999, total assets of the Macquarie Bank Group were \$9.3 billion compared with \$7.9 billion a year earlier, an increase of 16.7 per cent. Group shareholders' funds increased to \$651.3 million and total capital and reserves, including subordinated debt, rose to \$961.5 million. The Macquarie Bank Group's total capital adequacy ratio at 31 March 1999 was 17.3 per cent and the Tier 1 capital adequacy ratio was 13.0 per cent.

Loan and lease exposures totalled \$3,947 million at 31 March, compared to \$3,029 million a year earlier. Asset quality remains high, with loan losses as a percentage of total loan and lease exposures at 0.1 per cent.

RETURN ON AVERAGE SHAREHOLDERS' FUNDS

% pa year ended 31 March



RATINGS

	Short Term	Long Term
Standard & Poor's	A1	A
Fitch/BCA	F1	A+
Moody's	P2	A3
Thomson BankWatch	TBW1	AA-

Impaired loans have increased slightly during the year due to the inclusion of several property development projects.

Continuing the trend of the last few years, the Bank further diversified its funding sources. A revised Debt Instrument Programme was finalised and in January 1999 the inaugural issue of \$150 million Medium Term Notes was made offshore. Coupled with the US Commercial Paper Programme, the Bank now has access to all substantial funding markets.

Macquarie Bank's credit ratings continue to reflect its strong prudential controls and diversified earnings. It is pleasing to have four of the internationally recognised ratings agencies rating the Bank at high levels.

BOARD AND MANAGEMENT CHANGES

During the year, the Brunei Investment and Commercial Bank sold approximately 16 million of its Macquarie Bank shares to a range of Australian institutions. Following the sale, Mr Abdul Rahman, the Brunei Investment and Commercial Bank's representative on the Board, resigned as a Voting Director of Macquarie Bank Limited.

The Bank was pleased to recently announce the appointment of Dr Helen Nugent as a Voting Director of the Board, effective from 1 June. Helen brings substantial banking sector experience and general strategic abilities to the Board.

Helen Brown, Head of the Risk Management Division (RMD), retired in April 1999, but will continue as a consultant to the Bank. Helen joined the Bank as Head of Credit in December 1984 and took over as Head of RMD in 1989. The integrity of the Bank's prudential process and Macquarie's ongoing strength in volatile times are a testament to Helen's leadership, skill and diligence.

Mike Beck, an Executive Director and Head of Investment Services' Asset Management Division, has advised his intention to retire from the Bank at the end of June, although he will also continue to consult to the Bank after this date.

The management changes made as a result of these retirements are detailed in the Directory of Groups and Divisions section of this Annual Review.

PEOPLE

Macquarie Bank staff numbered 2,916 at the end of March 1999 and today number 3,203. The results this year once again reflect their talents, dedication to clients, strenuous work and team effort. Staff efforts are recognised through the Bank's remuneration system, which is heavily performance orientated. All staff are eligible for bonuses and approximately 20 per cent of staff are eligible for share options. The Board regards the remuneration system as a key driver of the Bank's success, and considers equity participation by management and staff important in aligning the interests of staff and shareholders.

During the year the Bank made its second offer under the Macquarie Bank Employee Share Plan, under which every qualifying permanent employee was offered up to \$1,000 worth (at the prevailing market price) of fully paid ordinary Macquarie Bank shares. Of the 2,154 eligible employees, 1,411 accepted the offer.

The Bank will be seeking shareholder approval for a new employee equity scheme at this year's Annual General Meeting. The scheme is being introduced in the spirit of the Federal Government initiatives to encourage employee ownership of shares. Under the proposed Macquarie Bank Staff Share Acquisition Plan, all eligible Australian-based employees will be able to nominate each year, a portion of their prospective bonus to be applied towards the acquisition of fully paid Bank shares. The shares will be acquired for employees by an independent plan company via on-market purchases. The shares would be subject to a six-month non-disposal period and forfeiture in certain situations.

Shareholder approval will also be sought at the Annual General Meeting for a similar scheme for Non-Executive Directors of the Macquarie Bank Group, in respect of their remuneration.

Chairman's Director's Report

RELOCATION OF HEAD OFFICE

As a consequence of the continued growth in staff numbers, the Bank will be relocating its Sydney headquarters from 20 Bond Street to No.1 Martin Place (the former General Post Office site) in the second half of this year. A significant presence will also be retained in 20 Bond Street, which will be substantially refurbished and upgraded. Both buildings will provide excellent conditions for staff and clients, including the sophisticated computing and communications infrastructures that are vital to all of the Bank's businesses. With the continuing growth in staff numbers overseas and in other Australian cities, the planning of premises and communications will remain a priority throughout the Group.

YEAR 2000

The Board and Senior Management are actively involved in and remain committed to the Year 2000 project. Based on progress to date, the Bank is highly confident that it will be well prepared for the Year 2000.

All core applications presently in use, and which are planned to be used after 30 June 1999, have been remediated and tested. The infrastructure supporting the applications has also been shown to be compliant.

Controls are now in place to ensure that ongoing changes to systems and infrastructure do not introduce Year 2000 problems.

The Bank has actively participated in recent coordinated industry testing of payment systems and equities trading and settlement systems. The Bank will also be participating in testing with the Sydney Futures Exchange. External interface testing with other third parties is also under way and will largely be completed in the first half of 1999. Some industry test timetables do, however, extend past the target date of 30 June 1999.

The Bank is also actively addressing potential business risks presented by the Year 2000 date change. The potential risks to each business have been identified and responses to these risks are being developed, with contingency plans scheduled to be substantially complete by 30 June 1999. The Bank will continue to communicate with suppliers, service providers and counterparties on which it relies for critical services, to assess their progress. The total cost of the Bank's project is likely to be in the order of \$12.5 million. These costs are charged to Profit and Loss as the expenses are incurred.

MACQUARIE BANK CHARITABLE FOUNDATION

Each year the Macquarie Bank Charitable Foundation makes donations to organisations working to improve the communities in which Macquarie operates. Funds are made available to the Foundation on a formula based on the Bank's profit each year. Social welfare, medical research, the arts and the environment are beneficiaries of the Foundation's funding. Donations made by the Foundation and the Bank since inception exceed \$3 million. Further, the Bank has donated surplus computer equipment to a range of community groups.

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Seventeen years ago the Bank established the Macquarie Bank Graduate Management Scholarship. The scholarship is awarded annually to enable study for a Master of Business Administration degree at the university of the recipient's choice. The aim of this and other Macquarie scholarships is to contribute to the development and maintenance of business skills in the community.

Macquarie Bank staff are involved with charities and community groups and the Bank encourages and often financially supports this involvement.

OUTLOOK

This year's result continues Macquarie's strong record of growth. A key driver of this growth has been the Bank's management approach, which provides businesses with operating freedom within tight controls on risk limits and observance of prudential and professional standards.

Within this framework, the Macquarie culture encourages a sense of ownership and responsibility by business leaders and promotes the entrepreneurial endeavour that has been (and will continue to be) fundamental to the Bank's success.

Consistent with this philosophy, there are many exciting initiatives in progress across the Bank, both domestically and internationally. We are confident that a good number of these will develop into valuable businesses for the Bank. For example, our new retail business, Macquarie Financial Services, will provide us with the opportunity to be an Australian leader in wealth management for individuals.

Our approach of focussing on niche activities where we can add genuine value continues to produce growth and sound profits. Australia is a highly efficient producer of quality investment banking services and Macquarie Bank is the only significant exporter of those services.

In the coming year we are confident that the strong market positions held by a large number of our domestic and international businesses will be maintained or strengthened. We are also encouraged by the favourable conditions in most of the markets in which we operate – an environment that has been characterised by strong growth, low interest rates, low bad debts and falling unit costs due to advances in information technology. At the same time, we are faced with intense competition across all of the Bank's activities.

Whilst this generally supportive environment is expected to continue in the current year, we remain mindful that there are many unpredictable external influences that can affect performance.



DAVID CLARKE
Executive Chairman



ALLAN MOSS
Managing Director and Chief Executive Officer

Sydney
28 May 1999

MANAGEMENT AND ORGANISATION

Management Organisation

QUANTITATIVE
APPLICATIONS DIVISION
JOHN GREEN

Macquarie Bank has six principal operating Groups – Asset and Infrastructure, Treasury and Commodities, Corporate Finance, Equities, Banking and Property and Investment Services.

The composition and role of the Bank's Board and its committees are set out in the Corporate Governance section of this Review. Business activities are carried out by Divisions which focus on particular products and markets. With the exception of the Direct Investment Division, these Divisions are coordinated within the six principal operating Groups listed above.

These Groups are supported by a number of support areas, namely the Corporate Affairs Group (Administration, Corporate Relations, Company Secretarial, Financial Operations and Taxation), the Information Services Division (systems and communications), the Risk Management Division, the Economics and Fixed Interest Research Division and the Quantitative Applications Division.

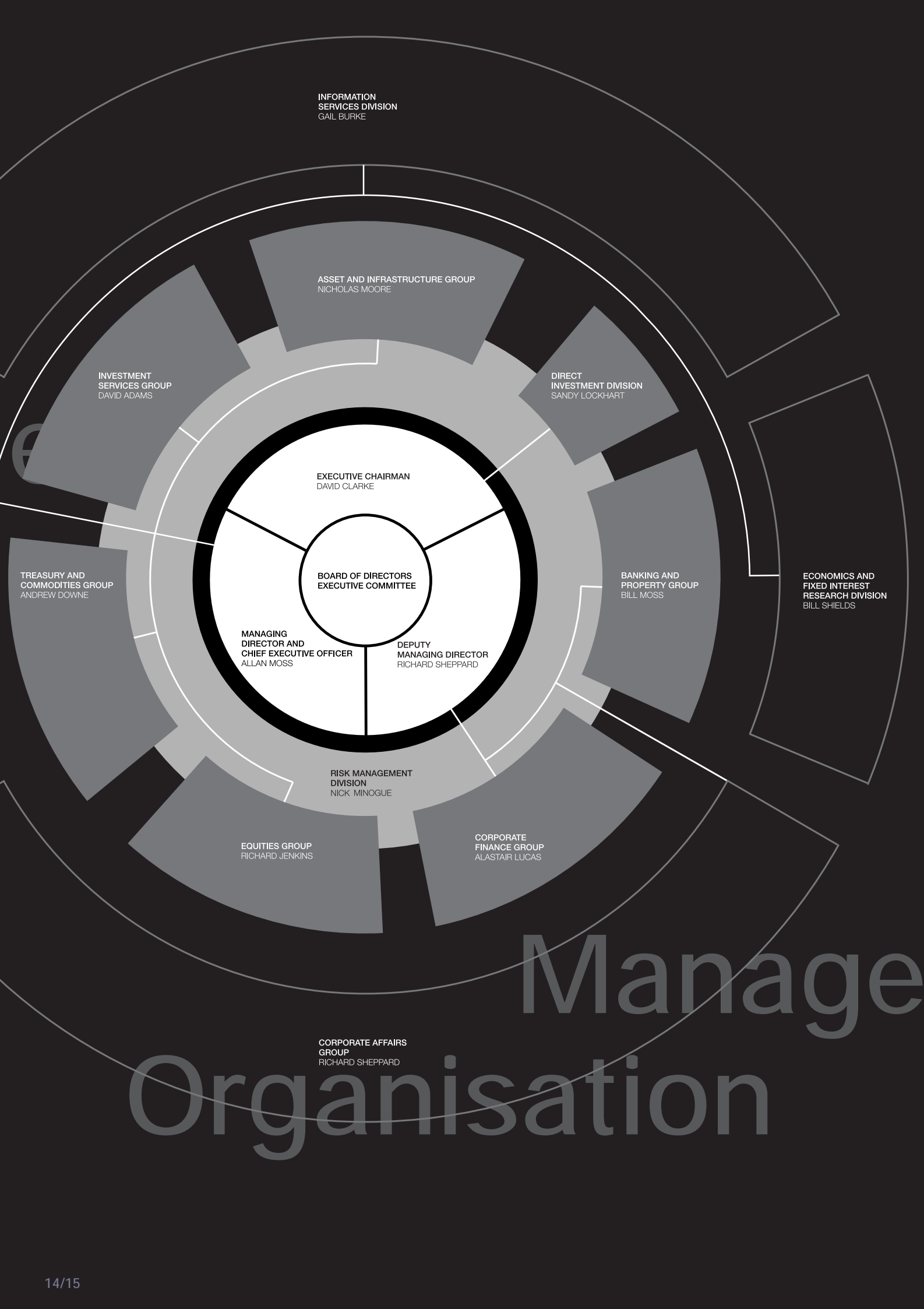
Details of the Bank's Groups and Divisions are set out on pages 66 and 67.

The management of the Bank is substantially delegated to the Executive Committee. Within overall guidelines and specific discretions set by the Board and Executive Committee, substantial discretion is exercised by Executive Directors and other senior management in the conduct of the various businesses.

In addition to maintaining high ethical and professional standards, Macquarie's management style aims to provide its businesses with a balance between operating freedom and controls over financial and name risk. Financial risks include credit risk (the risk of counterparty default), market risk (risk arising from changes in price or volatility of the underlying index or asset within trading portfolios) and operational risk (the risk arising from weak processes and operational controls). Name risk is concerned with protecting the strength and integrity of the Macquarie Bank brand.

Within this prescribed risk management framework, the Bank's businesses have the operating freedom to develop and implement business unit strategy, new products and services, market initiatives and domestic and international alliances.

This philosophy encourages a sense of ownership and entrepreneurial endeavour by business managers. It also allows top management to remain focussed on risks to the Group arising from market and industry forces and issues of medium and long-term significance.



Manage Organisation

The Project and Structured Finance Division enjoyed another record year, maintaining a dominant position within domestic markets and experiencing rapid growth in international leasing markets. PSF was again at the forefront of the infrastructure, structured finance and cross-border leasing markets, completing transactions with a total value of over \$15 billion. In Australia, Macquarie advised on a number of airport-related transactions, including the \$220 million development of Airtrain City Link, the new rail link between Sydney and the airport, and the \$200 million borrowing programme for Sydney Airports Corporation.

ASSET AND INFRASTRUCTURE GROUP

The Asset and Infrastructure Group comprises three Divisions: Project and Structured Finance, Infrastructure and Specialised Funds and Macquarie Capital. Project and Structured Finance conducts domestic and international origination activities (including infrastructure transactions, structured finance and big ticket leasing), Infrastructure and Specialised Funds performs funds management activities and Macquarie Capital undertakes the Group's balance sheet activities.

The Group performed strongly during the year, making another significant contribution to the Bank's result.

Project and Structured Finance (PSF) enjoyed another record year, maintaining a dominant position within domestic markets and experiencing rapid growth in its international operations. PSF was again at the forefront of the infrastructure, structured finance and cross-border leasing markets, completing transactions with a total value of over \$15 billion.

maintaining its dominant position in infrastructure, structured finance and cross-border operations. The total value of transactions completed during the year was over \$8 billion, including: the \$467 million acquisition of Adelaide, Coolangatta and Parafield Airports between Brisbane Airport, the City of Brisbane and the Gold Coast; and a \$1.9 billion



PSF's project and infrastructure finance business was ranked no.1 in the Asia Pacific region and no.3 globally for advisory mandates won, by industry publication *Project Finance International*.

The Division's international presence continued to grow during the year with an expansion of its activities in Hong Kong and Kuala Lumpur and the opening of offices in Mumbai and Toronto. PSF is now represented in 14 offices around the world. The London office also significantly expanded its project and infrastructure capabilities during the year.

PSF completed a number of major infrastructure and structured finance transactions in Australia and internationally, with a value approaching \$8 billion.

Transactions completed in Australia include:

- the \$1.67 billion acquisition by Boral and Envestra Limited of Energy 21/Stratus Networks, one of the three Victorian gas retail and distribution network businesses, in which Macquarie acted as financial adviser

- the \$467 million acquisition of Adelaide International Airport, Coolangatta Airport and Parafield Airport, in which Macquarie acted as equity and subordinated debt underwriter and financial adviser

- the \$220 million new rail link between Brisbane Airport, the City of Brisbane and the Gold Coast, in which Macquarie acted as sponsor, equity and subordinated debt underwriter and financial adviser

- the \$162 million acquisition of the Victorian Government's rail freight business, in which Macquarie acted as financial adviser to Rail America

- the \$1.9 billion borrowing programme of the Sydney Airports Corporation, in which Macquarie acted as financial adviser.

International transactions completed include:

- the provision of strategic sale advice to Tenaga Nasional Berhad on the \$300 million sale of its 330MW gas-fired power station in Melaka, Malaysia

Infrastructure

The Project and Structured Finance Div

completing a number of significant financings with a total value in excess of \$7 billion. The its drive to deliver better transactions to its clients.

- the \$1.02 billion acquisition of 40 per cent of the NZ government-owned power company, Contact Energy, in which Macquarie acted as financial adviser. (A joint team from Macquarie's Project and Structured Finance and Corporate Advisory Divisions worked on this transaction)
- Joint European Rail Infrastructure Deals of the Year 1998 from *Asset Finance International*, for separate rolling stock lease financings arranged for Austrian Railways and Rheinische Bahngesellschaft AG

- the \$225 million bid for the construction of the National Physical Laboratory in the UK, in which Macquarie acted as financial adviser.

PSF also acted in an advisory or arranging role in various asset-based and structured financings for a variety of domestic and international clients, including Transfield, Qantas, Swiss Telecom and Austrian Railways.

The Division continued its success in the cross-border leasing market, completing a number of significant financings with a total value in excess of \$7 billion. Among the most notable cross-border lease financings were:

- the US\$1.5 billion US cross-border lease for Eskom (South Africa)
- the US\$220 million financing over digital switching equipment for Tele Denmark
- the US\$1.3 billion financing over rolling stock for a number of European rail operators including ÖBB
- US\$630 million of aircraft leases for Qantas and Cathay Pacific.

The Division won a number of awards during the year, reflecting its drive to deliver better transactions to its clients. These include:

- Aviation Deal of the Year 1998 from *Asset Finance International*, for an aircraft lease financing arranged for Qantas Airways Limited

- Power Finance Deal of the Year 1998 from *Asset Finance International*, for a lease financing arranged for Eskom.

Macquarie Technology Investment Banking (MTIB) provides a full range of investment banking services to owners of, and investors in, technology-driven businesses.

Particular highlights of the year for MTIB include:

- acting as financial adviser and Australian underwriter to LookSmart Limited, a US-based internet media company, for a US\$60 million mezzanine financing
- acting as financial adviser to Fairlight ESP Pty Limited, a market leader in digital audio post production.

The Infrastructure and Specialised Funds

Division (ISF) manages a range of investments in infrastructure and technology assets, which at 31 March 1999 totalled approximately \$5 billion. The funds managed by ISF include:

- the Infrastructure Trust of Australia Group (ITA), one of the top 100 publicly listed entities on the Australian Stock Exchange (ASX), with a market capitalisation of approximately \$940 million
- the unlisted \$136 million High Yield Infrastructure Debt Trust, which was launched in 1997
- the Hills Motorway Trust, which is the financing vehicle for the M2 Motorway in Sydney and is also an ASX top 100 listed entity with a current market capitalisation of approximately \$800 million
- the Horizon Energy Investment Group, which owns 25 per cent of Loy Yang A power station and coal mine (the largest electricity generator in Victoria) with an original equity investment of \$335 million

Asset and Group

Division continued its success in the cross-border leasing market, Division won a number of awards during the year, reflecting

- the Transurban City Link Unit Trust, which is the financing vehicle for the City Link toll road under construction in Melbourne and has a current market capitalisation of approximately \$1.8 billion
- the Airport Motorway Group, which is developing the Eastern Distributor toll road in Sydney and has an estimated value of \$800 million.

ISF is also currently finalising negotiations on the first private toll road in Germany.

Highlights of the year for the Division include:

- a significant increase in the value of ITA's investment in the M5 toll road through a refinancing. This revaluation was confirmed by the subsequent sale of the other 50 per cent holding for more than double ITA's entry price
- the partial sale of ITA's interest in the Eastern Distributor toll road for more than 50 per cent above the initial investment within 10 months of financial close
- the establishment of the Macquarie Technology Fund (MTF). MTF invests venture capital in technology-based companies across a broad range of industries, with a particular emphasis on information technology, telecommunications and life sciences. Current indications are that the fund has achieved substantial unrealised capital gains on its initial investment portfolio.

Macquarie Capital provides financial services to the corporate and government sectors. The Division's products include motor vehicle and IT equipment leasing, commercial leasing and hire purchase and technology sector financing.

Macquarie Leasing provides both leasing and asset purchase facilities to the professional and small business markets. A wide variety of equipment is financed including motor vehicles, plant and equipment and office machinery. Macquarie Leasing commenced operations in March 1998 and now has assets of \$330 million which have been originated throughout Australia.

Macquarie Capital's motor vehicle fleet leasing business continued its strong growth, acting in the structuring and joint financing for the NSW Government of a \$200 million lease facility to finance the purchase and use of motor vehicles.

Macquarie IT, the Division's information technology equipment financing business, had another year of significant growth. Expansion during the year saw the opening of an office in New Zealand and the addition of a number of major new clients, including NZ Post.

OUTLOOK

Based on the encouraging level of business prospects flowing from its three Divisions, the Asset and Infrastructure Group expects another strong profit result in the coming year.

PSF is well positioned in the infrastructure and project finance market with a number of significant advisory mandates already in place, together with good prospects from a host of existing relationships. However, cross-border leasing is likely to be less profitable due to regulatory changes in a number of markets, most notably the United States. ISF and Macquarie Capital are expected to continue to perform well.



TREASURY AND COMMODITIES GROUP

The Treasury and Commodities Group's continues to provide opportunities for services a wide variety of producers, co one of the principal providers of liquidity London Metal Exchange (LME) market

The Treasury and Commodities Group consists of seven distinct businesses. These businesses participate in activities ranging from pricing the Australian dollar and exporting physical gold bullion throughout Asia, to the trading of electricity and wool derivatives.

The Group performed extremely well during the year, making another significant contribution to the Bank's result.

During the year the Group entered into a cooperation agreement with Kookmin Bank of Korea. The basis for the agreement is the transfer of Macquarie's derivative trading experience and technological expertise to the Korean market.

The **Bullion and Commodities Division** is a truly international operation, applying local expertise to finance and trading opportunities throughout the world. Macquarie offers 24-hour price-making facilities for base and precious metals together with financing and structured hedging facilities for precious metals. The Division enjoyed another excellent profit result during the year.

The base metals business is focussed on servicing a wide variety of producers, consumers and trader customers throughout the Asian region and North America. Macquarie is one of the principal providers of liquidity in the Asian timezone and now ranks as one of the largest participants in the LME market globally.

In precious metals, Macquarie continues to compete successfully in the local financing, hedging and trading market and continues to generate a large part of its revenue from international project finance and structured transactions. The Bank's bullion alliance with Standard Bank of South Africa is scheduled to end in December 1999.

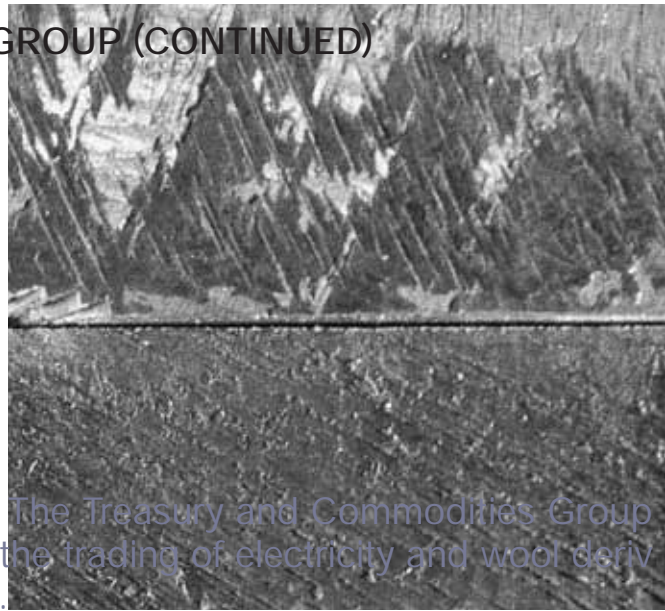


focus on adding value for clients through innovative product and superior service selective expansion in a global market. In base metals, including copper, Macquarie consumers and trader customers throughout Asia and North America. The Group remains ty in the Asian timezone and now ranks as one of the largest participants in the globally.

The Foreign Exchange and Capital Markets Division provides 24-hour interbank price-making services in Australian dollar spot, forwards and options as well as quoting on other major currency pairs. The Division had a very profitable year with significant contributions from all trading and product desks and, in particular, the spot trading desk.

Foreign Exchange and Capital Markets capitalised on a year of record volatility with all trading desks significantly increasing profitability via outstanding service, increased market share in the Australian dollar and proprietary trading. In addition, the structured risk management business completed another successful year, offering flexible term hedging products to both domestic and international corporations and institutions.

TREASURY AND COMMODITIES GROUP (CONTINUED)



exporting physical gold bullion throughout Asia, to the trading of electricity and wool deriv another significant contribution to the Bank's result.

Money Market is responsible for the balance sheet, liquidity and interest rate management of the Bank. During the year the Bank's funding base was further diversified and enhanced with a number of notable 'firsts' taking place. These included the Bank's first Hong Kong Dollar denominated issue and the Bank's first publicly listed Medium Term Note issue in Europe. In the face of high volatility and uncertainty, the Division was able to achieve a very strong profit result, maintaining its long-term reputation as a proven performer in balance sheet, liquidity and interest rate management.

The **Futures Division** had an improved result with all units making strong contributions. Progress has been made in meeting the challenges of an 'open' exchange environment with the Division looking to maximise the benefits of technology in providing services to its clients. During the year, the Division launched its Private Professional Trader Unit, recognising the role of exchange traded derivatives in tailoring the investment risk profile of professional individual investors.

Risk Advisory Services (RAS) offers a range of strategic financial advisory and risk management services across a broad spectrum of markets and issues. In addition to providing general financial advice on debt structure and debt raisings, it has specialised teams who focus on servicing the energy markets, the agricultural and resources markets and the treasury sector. RAS also has a specialised team responsible for the outsourced management of debt and asset portfolios for clients.

The Division is independent of the trading arms of the Bank, providing only fee-based services. These services include debt structure reviews, fund raising, financial policy development, strategic trading reviews, asset allocation advice, debt and asset benchmarks, establishing new treasury/trading operations and development of industry price management techniques.

During the year RAS consolidated on its growth over the past 18 months, achieving significantly increased profits for the year.

The **Debt Markets Division** arranges, underwrites, distributes and trades in credit securities, specialising in the inflation indexed, project finance, unrated corporate and mortgage and asset-backed securities markets. The Division has been at the forefront of developing the domestic market for non-vanilla debt securities since its formation in 1995.



participates in activities ranging from pricing the Australian dollar and
atives. The Group performed extremely well during the year, making

Treasury and up

Whilst the international credit market volatility in the latter part of 1998 held back the Division's results for the year, early 1999 has shown a significant improvement in credit market liquidity and the Division is well placed to capitalise on its position as the leading participant in the non-vanilla domestic debt markets.

The **Energy and Agriculture Division** provides risk management products to participants in the electricity and wool industries. The Division had another profitable year with both activities making similar contributions to the result. The number of electricity transactions was higher than for the previous year, as was the number of counterparties with whom the Division dealt; a pleasing result given the very difficult market conditions and increased competition. The Division also successfully expanded its electricity operations to Queensland during the year.

The Division is the market leader in wool price risk management products. Turnover of Macquarie Wool Futures and Options was higher than for the previous year. Wool growers' turnover, through brokers and advisers, increased significantly. The significant fall in wool prices demonstrated the important role of risk management to wool growers and the use of the contract is expected to grow further in the following year. The Division continued to operate a market in Wool International Units, however this activity is likely to cease with the transfer of Wool International's operation to a private company.

OUTLOOK

The Treasury and Commodities Group is a niche participant in a market driven by global consolidation. Its focus on adding value for clients through innovative product and superior service continues to provide opportunities for selective expansion as the Group and the Bank grow. The outlook for the Group is positive with a further increase in profitability expected over the coming year.

CORPORATE FINANCE GROUP

The year saw strong performance from clients on more than 175 mandates in The increasingly global nature of the ad including the Bank of Scotland's dives transactions of this scope the Division

The Corporate Finance Group comprises the Corporate Advisory Division, which is principally involved in mergers and acquisitions advice and the Equity Capital Markets Division, which advises on and carries out a range of issuance activities. Both businesses performed strongly during the year.

The Group's activities are complemented by the distribution and research capabilities of Macquarie Equities, enabling the Group to provide the complete range of capital markets and corporate finance services to its clients.

The **Corporate Advisory Division** provides advice to corporate and public sector clients on public mergers and acquisitions, private treaty acquisitions and divestments, valuations, fund raising, privatisations, corporate restructuring and other strategic financial issues. During the year the Division advised over 140 clients on more than 175 mandates in Australasia and internationally. The value of completed transactions exceeded \$9 billion.

The Division's financial institutions group has advised on a range of significant transactions in the Australasian market this year and has ongoing relationships with some of the most significant participants in the sector. It advised Bank of Scotland on its divestment of Countrywide Bank in New Zealand to Lloyds Bank. In Australia it advised GIO on its response to the takeover offer from AMP and SGIO on its responses to the bids from Wesfarmers and NRMA. It also advised Ansett Australia on the disposal of its interest in Diners Club and worked for a number of other significant financial institutions on various strategic initiatives.

In the resources sector, the Division continued to advise leading corporates on major transactions. Advice was provided to Rio Tinto on the structured acquisition of a 31 per cent interest in the Blair Athol coal mine; Billiton and Anglo American on the acquisition of BHP's manganese business; Western Metals on its takeover of Aberfoyle, with a simultaneous defence against a takeover offer by Asturiana de Zinc; RGC on its merger with Westralian Sands; and Plutonic on its acquisition by Homestake. The Division also advised the Victorian Government on the sale of Aluvic.



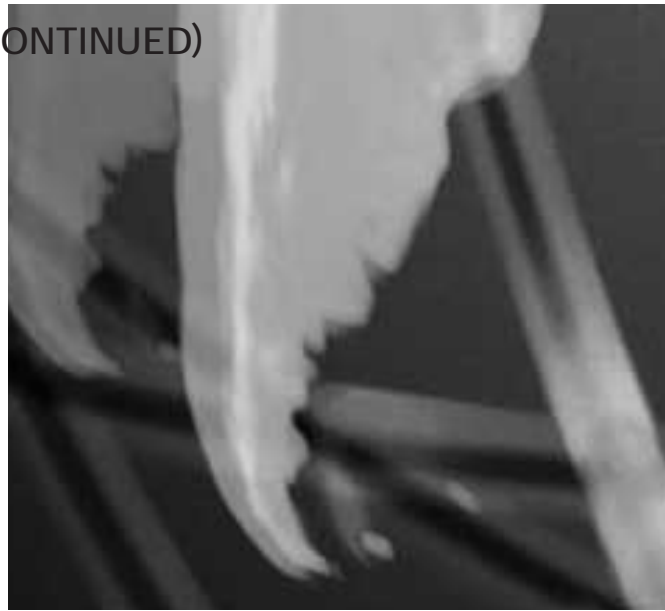
the Corporate Finance Group, with Corporate Advisory providing advice to over 140 Australasia and internationally. The value of transactions completed exceeded \$9 billion. Advisory business was reflected in several transactions in which the Division took part, including the acquisition of Countrywide Bank in New Zealand to Lloyds Bank. Through successful transactions, the Division continues to consolidate its growing reputation in the international sphere.

The increasingly global nature of the resources advisory market led to the opening of an office in Toronto in November, establishing a presence which will enable the Division to consolidate its growing reputation in the international sphere. This international focus was demonstrated when the Division advised a European client on a \$1 billion resource project in South America.

In the gaming sector, Macquarie's strong market position was reaffirmed by its appointment to advise Publishing & Broadcasting Limited on its acquisition of Crown Limited. Other notable mandates won during the year included advising the Northern Territory Government on the possible TAB privatisation and advising a North East Asian hotel and gaming company undertaking a simultaneous casino licence application and associated equity raising.

Corporate Advisory's food group completed the sale by PepsiCo of a portfolio of salty snack brands and assets to create a second competitor in the Australian market. At year end, the food group had a significant ongoing workload.

CORPORATE FINANCE GROUP (CONTINUED)



The year was one of substantial growth numbers and total deal revenue both increasing by approximately 50 per cent.

Corporate Finance

One of the Division's major transactions for the year was to advise the Smorgon family on the creation of Smorgon Steel Limited. Working with the Equity Capital Markets Division, Corporate Advisory assisted Smorgon by advising on the contested acquisition of ANI and simultaneous funding and listing of Smorgon Steel.

In New Zealand, Corporate Advisory had another outstanding year, achieving for the second consecutive year the number two place in the *1998 Corporate Adviser Securities Data League Tables*. Major roles included the sale of the New Zealand Government's 66 per cent shareholding in Wellington International Airport and the sale of Waipori Power Generation on behalf of Dunedin City Council. A joint Corporate Advisory and Asset and Infrastructure Group team advised Edison Mission on its successful acquisition of 40 per cent of the NZ government-owned power company, Contact Energy.

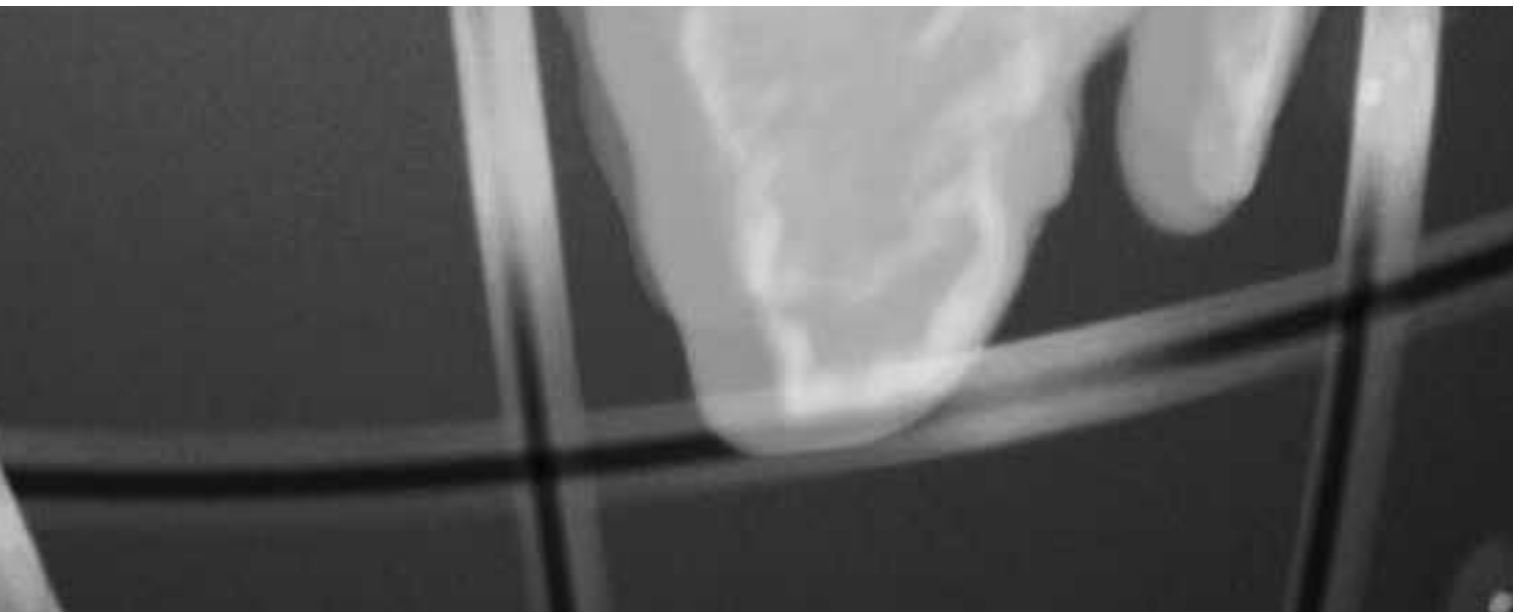
During the year the Auckland office was significantly expanded to provide advisory services to its increasing number of private sector clients based in the Auckland region.

Equity Capital Markets Division advises on, manages and underwrites the full range of equity capital market products, including initial public offers (IPOs), rights issues, sell-downs, placements and buy-backs. The Division also provides advice on capital management and communication with institutional investors. It has particular expertise in hybrid securities and in raising equity for infrastructure projects.

The year was one of substantial growth for the Division with executive staff numbers and total deal revenue both increasing by approximately 50 per cent. During the year the Division established a presence in Melbourne and also established offices in Perth and Adelaide (as part of the Bank's regional mergers with Porter Western and Day Cutten). This expansion will strengthen the nationwide origination and execution capability of the Division.

Highlights for the year include the following transactions, for which the Division was sole or joint lead manager:

- the \$1.5 billion Smorgon Steel IPO
- the \$766 million Ten Network Holdings IPO
- the \$365 million sell-down of Pioneer International's stake in Caltex Australia
- the \$174 million takeover equity financing for Western Metals
- a \$165 million placement for AAPT
- an \$89 million placement for the Infrastructure Trust of Australia.



for the Equity Capital Markets Division with executive staff

e Group

The Division has a leading share of the hybrid market in Australia. Major activity during the year included issues for Bonlac Foods, Resolute, Western Metals, HIH and Smorgon Steel.

Takeover financing has been a growth area for the Division and it has designed innovative funding packages involving ordinary and hybrid equity to assist Smorgon Steel in acquiring ANI, HIH in acquiring FAI and Western Metals in acquiring Aberfoyle.

The property sector has also provided much activity for the Division with the \$126 million Homemaker Retail Trust and \$118 million LeisureWide Property Trust initial public offerings. The Division was also involved in a rights issue and placement for both the Industrial Property Trust of Australia and the Property Income Investment Trust.

In addition, the Equity Capital Markets Division participated in syndicates to raise equity for AMP, TAB, Telecom New Zealand, HIH Winterthur and Suncorp-Metway.

OUTLOOK

While the transaction-based nature of the Corporate Finance Group's operations make earnings difficult to forecast, the Bank is confident that the Group's strong market positions will ensure continued growth.

The new financial year has started out very strongly for Corporate Advisory, with a number of significant mandates in the pipeline. The outlook for the Equity Capital Markets Division is also very positive with mandates secured for a number of undisclosed initial public offerings and other capital raisings.

The year has been one of significant growth incorporating Macquarie Nevitts, Macquarie investment products, information, research around Australia, Macquarie Financial Services, offering retail clients a complete

VICTORIA: MELBOURNE

EQUITIES GROUP

SOUTH AUSTRALIA: ADELAIDE/MOUNT GAMBIER

The Equities Group consists of three Divisions, Macquarie Equities, Macquarie Financial Services and Equity Markets. While the Group performed well and all Divisions were profitable, less favourable trading conditions in the Hong Kong equity markets saw the Group's contribution as a proportion of the Bank's total earnings decline compared to the previous year.

A significant feature of the year's operations across the Group has been growth. Domestically, the Group has increased its commitment to the fast-growing retail market by significantly expanding its private client stockbroking operations through mergers with regional stockbroking businesses in three states. These mergers resulted in the formation of Macquarie Nevitts in Queensland, Macquarie Porter Western in Western Australia and (subsequent to year end) Macquarie Day Cutten in South Australia.

growth for the Equities Group. The establishment of Macquarie Financial Services, Macquarie Porter Western and Macquarie Day Cutten, offers clients a seamless service in research and advice. Through innovative use of technology and a network of 14 offices Macquarie Financial Services will deliver a range of products and bring to the market an extensive array of investment options.

NEW SOUTH WALES: SYDNEY

WESTERN AUSTRALIA: PERTH

QUEENSLAND: BRISBANE/BUDERIM/BURLEIGH HEADS/CAIRNS/NOOSA/SOUTHPORT/TOOWOOMBA/TOWNSVILLE

Internationally, the Group's broking and trading operations have expanded in Hong Kong, South Africa, Europe and North America.

In conjunction with the Corporate Finance Group's Equity Capital Markets Division, the Equities Group participated in a large number of equity capital raisings during the year. The two Groups continue to work very closely, combining the Equities Group's research expertise and established distribution networks with the high quality client relationships developed by the Corporate Finance Group.

Macquarie Equities Limited (MEL) provides a full range of stockbroking services to domestic and international institutions, corporate clients and domestic private investors. This year, MEL has had one of its best years yet in terms of improvements in client ratings and market share – a testimony to the Division's high standards of research, client service and transaction execution.

In addition to a strong performance from the domestic sales team, MEL further strengthened its international distribution capabilities throughout the year. The Division now has a leading share of every institutional market for Australian stocks in the world, with half of its wholesale revenue generated in international markets. In particular, this year saw another strong performance from the institutional sales teams in New York and London.

Macquarie's research team continues to grow in stature and reputation, with the number of 'Top 5' analysts again increasing. Stock coverage was expanded throughout the year and a small companies group was established. This group comprises the institutional sales and research teams of the recently merged brokers, as well as MEL's existing research personnel in Sydney and Melbourne.

The Equities Group is committed to pro
to do so in the three core areas of product development, retail distribution and instituti

The past year has been one of significant growth and change for Macquarie's retail stockbroking and financial services business. The Division implemented its plan to build a national distribution base through mergers with some of the strongest regional broking firms in Australia.

A further strategic development, aimed at providing a more holistic approach to client needs, resulted in the internal amalgamation of MEL's private client investments business with the Investment Services Group's direct distribution business.

The combined effect of this internal merger and the Group's three regional mergers was the establishment of **Macquarie Financial Services (MFS)**, one of the largest financial services distributors in Australia. With 140 advisers providing a broad range of products and services to an active client base of 175,000 investors, MFS is well placed to capitalise on industry, regulatory and demographic changes which are likely to see wealth creation services become one of the country's fastest growing industries over the next decade.

MFS will leverage the strong research and technology capabilities of a large, national firm with the local knowledge and strong relationships of some of Australia's best regional groups. MFS aims to provide clients with a flexible, seamless service capability. From execution-only stockbroking via the internet-based DirecTrade, through to full financial planning, MFS aims to provide clients with the level of service that best suits their individual needs.

Whilst the short-term profitability of MFS may be impacted by acquisition and integration costs, the long-term growth prospects for this Division are very exciting.

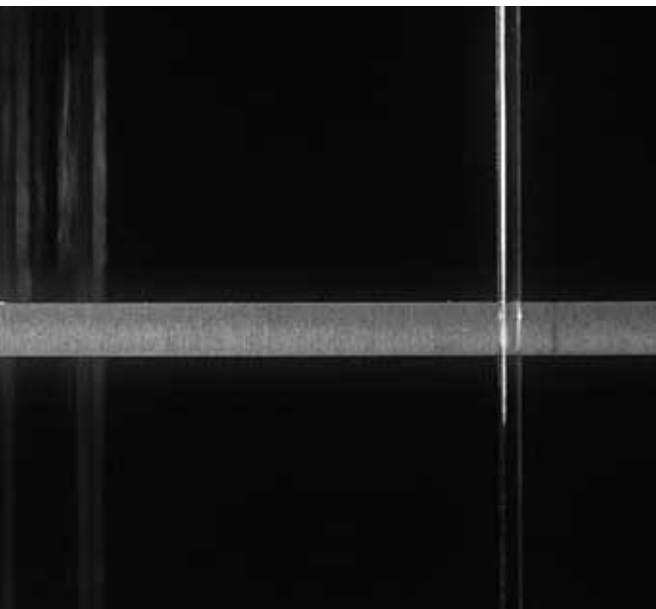
Equity Markets undertakes principal trading and market-making in equities and equity derivatives, originates equity-based financial products for retail and wholesale clients and runs the Bank's securities borrowing and lending operations. It currently has active operations in the Australian and Hong Kong markets, as well as in the South African market through an alliance with the Standard Bank of South Africa.

The Division assumes principal positions and makes markets in shares, exchange traded options over both shares and equity indices, warrants over both shares and indices, over-the-counter options and convertible securities. In addition, the Division provides the Bank's clients with structured hedging and price making services in shares and stock portfolios. The Division also offers a wide range of equity-based unlisted financial products to retail clients.

The Equity Markets Division has enjoyed a very successful year despite exceptionally difficult trading conditions around the world. Whilst volatility levels subsided in the latter part of the year, they were replaced in some parts of the world (most notably Asia) by stagnant markets and low turnover.

The Division's Australian operations have produced an excellent result, despite the difficult trading conditions in the first half of the year. Equity Markets continues to hold leading market share positions in all of its retail product classes and remains one of the innovators in this area.

The Division continues to be one of the leading Australian warrant issuers and has introduced a number of warrants that enable investors to gain tailored exposure to the market. In addition, a number of unlisted retail products were also successfully launched and this is rapidly becoming a significant source of business for the Division.



providing a high level of service to institutional, corporate and private clients and is well placed to support institutional sales and research.

Equities Group

In addition to turbulent conditions, trading in Hong Kong equity derivatives was also adversely affected by several factors during the year. These factors included lower turnover in derivative markets following the government intervention in the stockmarket in late August, a period of reduced liquidity in the securities lending market for Hong Kong stocks and changes to trading regulations.

Despite these factors, trading in Hong Kong equity derivatives remained profitable for the year and continues to make a significant contribution to the Division's result.

The South African equity derivatives alliance with the Standard Bank of South Africa (which commenced operations in March 1998) generated significant profits over the past 12 months and the outlook remains positive. Already the alliance has enabled Standard Bank to establish itself as the leading market-maker in over-the-counter structured equity derivatives and as the leading warrant issuer in the South African market.

Subsequent to year end, an equity derivatives business was entered into with the cooperation and support of The Industrial Bank of Japan (IBJ) Group.

This alliance has been established to combine Macquarie's derivative trading, structuring and technological expertise with the IBJ Group's distribution capability in the Japanese market. The business' activities will include the trading and origination of equity derivatives and structured products for the Japanese market.

The previously established Malaysian equity derivatives alliance with Arab-Malaysian Merchant Bank remains dormant due to the difficult regulatory environment in Malaysia. There are no plans to reactivate this operation in the near future.

OUTLOOK

The Equities Group is committed to providing a high level of service to institutional, corporate and private clients, and is well placed to do so in the three core areas of product development, retail distribution and institutional sales and research.

The establishment of MFS is an evolutionary step in the Group's retail development and will enable clients to access tailored investment solutions from a single point of contact.

The Group continues to explore ways to utilise technology in order to constantly improve the level of service provided to clients.

The outlook for the Group's trading businesses also appears to be very positive with trading conditions in its selected markets likely to improve considerably. The South African and Japanese operations are expected to contribute to the Group's result over the next year and further geographic expansion opportunities are being investigated.

Macquarie's property trust assets under Trust generated the best accumulated in the BDO Nelson Parkhill 1998 Annual first trust to focus on a new property in properties throughout Australia, the Tru supermarkets in Australia.

BANKING AND PROPERTY GROUP

The Banking and Property Group enjoyed continued growth during the year and made an increased contribution to the Bank's result.

The Banking and Property Group now comprises nine Divisions: Property Investment Management; Property Finance; Property Investment Banking; Medallist; Banking Solutions; Private Investment Banking; Macquarie Distribution; Macquarie Securitisation and Macquarie Mortgages. This structure more aptly reflects the Group's business activities and focus. The Group is represented worldwide with over 400 staff in 13 offices in seven countries.

Property Investment Management achieved significant growth and expansion during the year with total property trust assets under management growing 43 per cent to \$1.5 billion. The Division manages four listed, sector specific property trusts and three unlisted property syndicates. The listed trusts are the Property Income

Investment Trust (PII), Industrial Property Trust of Australia (IPY), CountryWide Retail Trust (CWI) and the LeisureWide Property Trust (LWT). In December 1998, Celsius House Trust merged with the Property Income Investment Trust.

Growth has been facilitated by a combination of significant rights issues and placements across the Trusts, the initial public offer of LeisureWide and the establishment of the Macquarie Direct Property unlisted syndication product for retail investors. The Division also established Macquarie Asset Services Limited, a specialist property services provider.

Strong investment performance continued during the year. The Property Income Investment Trust, Industrial Property Trust of Australia and CountryWide have all continued to outperform the ASX Property Trust Accumulation Index since their respective listings. These trusts all outperformed their specific property sectors for the year and were all ranked in the top 10 out of 43 property trusts surveyed in the BDO Nelson Parkhill 1998 Annual Review of Property Trusts. CountryWide has generated the best accumulated return of all listed property trusts over three years – 28.5 per cent per

management grew by 43 per cent during the year, to \$1.5 billion. CountryWide Retail return (28.5% pa over three years) of all listed property trusts and was ranked first overall in the Annual Review of Property Trusts. Established in November 1995, CountryWide was the first listed property trust in the retail class – supermarket-based shopping centres. Originally investing in 23 centres, it now comprises 59 properties and is the largest owner of Coles and Woolworths

annum – and achieved first place overall in the survey. The Property Income Investment Trust was equal top performer over the three years of the survey in the commercial sector.

LeisureWide was launched amid significant stockmarket volatility in June 1998 and although unit price performance has been below aspirations to date, the trust manager remains confident that prospectus forecasts will be met.

The **Property Finance Division** continued to perform well. The Division makes loans secured by mortgages over investment property and is a specialist financier to the property development industry, offering risk participation loans and co-sponsoring and managing property development syndicates. Business activity is undertaken with particular attention to property fundamentals and market cycles in accordance with established guidelines and limits.

During the year, outstanding funding commitments and funds under management averaged \$775 million. This included \$460 million in risk participation loans and development syndicates covering a variety of projects in the medium density housing, residential land subdivision, office refurbishment, student accommodation, serviced resort apartments and industrial sectors.

The Division was financier of the new Sydney suburb of Liberty Grove. This project was awarded Best Medium Density Development in Australia at the recent 1999 Urban Development Institute of Australia Awards. Liberty Grove is a 14.6 hectare former industrial site one kilometre from Stadium Australia at Homebush (the main Olympic venue). To be completed in 2001, the suburb (gazetted in 1998) will comprise 781 dwellings in a variety of types.

BANKING AND PROPERTY GROUP (CONTINUED)

Property

The Banking and Property Group is rep

In all businesses, cutting-edge technology continues to play an important role in providing

Property Investment Banking has maintained its position as the leading property adviser in Australia. Macquarie's continuing role as Principal Property Adviser to the Commonwealth Government resulted in the disposal of a further \$361 million of commercial property during the year. This brings the total sales managed by Macquarie to more than \$900 million. As with the first two disposal programmes, the third tranche of sales yielded results significantly above valuation.

The Division is currently focussing on asset ownership restructuring and corporate real estate opportunities to capitalise on the growing sophistication of property markets and the increasing demand for corporate businesses to maximise shareholder value through enhanced use of capital.

Over the past year, the newly acquired Urban Pacific Limited business was successfully integrated into the Division's activities. Apart from generating significant profit, it was successful in increasing the number of cooperative arrangements with governments, including the securing of a \$340 million 2,888 lot urban renewal project in a co-venture with the South Australian Government.

Property Investment Banking has continued its activities in specialist areas including the development of housing in China and student accommodation in Australia. The Division's hotel investment banking business was launched and is active in hotel investment throughout the Asian region, particularly north east Asia.

Medallist, a joint venture with Greg Norman's Great White Shark Enterprises, was formed to develop prestige, branded golf course-related property products in Australia, the US and Asia. Medallist grew during the year with the commencement of two projects in Australia and two in the US. A joint venture between Medallist and Troon Golf, a major US golf course manager, was also successfully established during the year. Medallist Troon is a golf management business seeking golf course management opportunities in Australia and Asia for Medallist-developed golf courses and appropriate third party-developed golf courses.

As a consequence of continued growth, the Banking Services Division was restructured during the year into three separate Divisions: Banking Solutions, Private Investment Banking and Macquarie Distribution.

The **Banking Solutions Division** comprises two businesses, Professional and Business Banking and Equities Lending. Professional and Business Banking maintained its focus on professional groups (notably real estate agents) and enjoyed substantial growth in loans and deposits during the year. Initiatives such as the DEFT Payment System (with over 225,000 cards currently on issue) have helped Macquarie cement its position as the market leader in service and innovation for the real estate industry. New initiatives focussing on Chameleon, a virtual banking system, are planned for the new year. Equities Lending also experienced strong growth during the year with the new margin lending business (established in 1998) well received in the market and loan volumes exceeding budget expectations.

The **Private Investment Banking Division** is a leading provider of private banking services to high net worth clients. This encompasses tailored investment advice and facilitation of access to investment opportunities, both from Macquarie and from other sources.

A highlight of the year was the launch of the Private Investment Selection Masterfund (PRISM), an innovative vehicle providing individuals with access to investment opportunities usually reserved for institutions. Since inception PRISM has raised \$40 million.

Macquarie Distribution is a new business established to promote and sell financial services via key industry outlets. Building on the relationships already established by the Banking Solutions Division, its first activities have focussed on the distribution of financial services through real estate agents and accountants.

Banking and Property Group

presented worldwide with over 400 staff in 13 offices in seven countries.
operating efficiencies and cost savings for clients.

In all businesses, cutting-edge technology continues to play an important role in providing operating efficiencies and cost savings for clients. In coming months, the Bank expects to implement a new retail banking system which will facilitate future enhancements leading to higher levels of client service and innovation.

Macquarie Securitisation Limited (MSL) experienced a good year with a strong increase in profit contribution. During the year, new mortgages settled totalled \$3.1 billion. The mortgage book grew by \$1.6 billion net to \$8.3 billion and 70,000 loans. These results were achieved in an environment of intense competition in the Australian mortgage market.

In October 1998, the Bank announced its intention to investigate the possible sale of the PUMA mortgage securitisation business (now renamed Macquarie Securitisation). This process was undertaken in order to test whether another party with a larger presence in the Australian mortgage market would be able to derive additional value from the business. This was shown not to be the case and in December the Bank announced its intention to retain PUMA. As a result of this process the Bank has reaffirmed its strong commitment to this business.

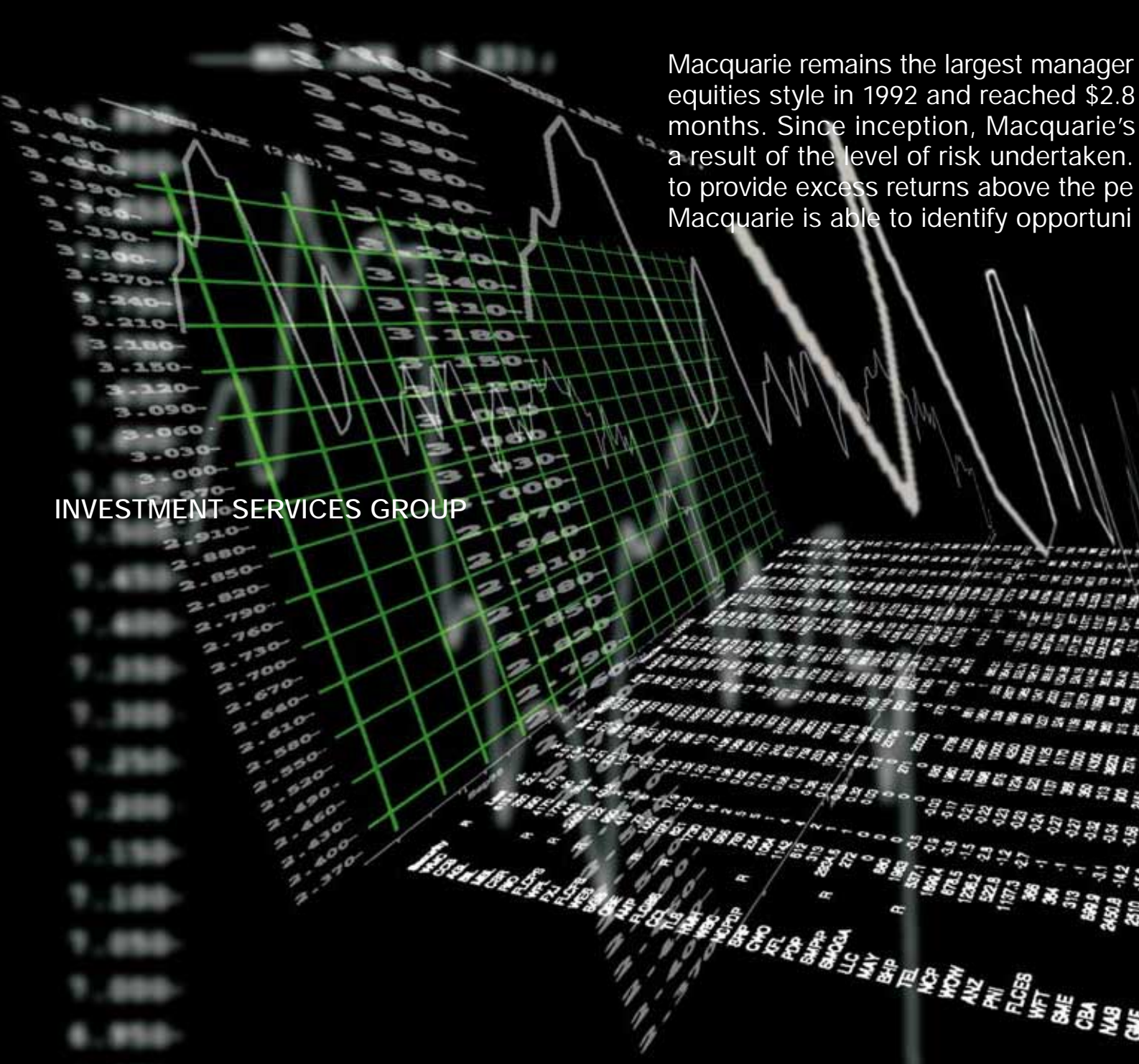
During the year, the Bank's successful relationship with Aussie Home Loans underwent a strategic review. This relationship, which has been running for five years, will continue, but on a non-exclusive basis. This will allow MSL to increase and diversify its client base. The expansion of the MSL client base has commenced with a move into the Credit Union and Building Society sectors. New client relationships have already been established with SGE The Service Credit Union, Metropolitan Credit Union and First Australian Building Society. MSL is positioning itself for a further push into these markets with the development of new wholesale products.

MSL's debt issuance programme saw more than \$3.0 billion of securities issued over the past 12 months. This issuance programme has confirmed MSL as the lowest cost issuer of Australian mortgage-backed securities. During the year, MSL entered the domestic market through its POLAR Commercial Paper Programme (now the fourth largest in Australia after 12 months of operation) and also entered the Euromarkets through PUMA for two issues.

Macquarie Mortgages comprises the Bank's own mortgage origination activities. These activities have recently been reorganised as a separate Division. In the past new mortgage business has been primarily secured through alliances with other major originators. While this will continue, the Bank also believes there are opportunities to increase marketing of its own mortgages. The early results of enhanced marketing activity have been very encouraging.

OUTLOOK

The growth experienced by the Banking and Property Group over the past year is expected to continue for the next 12 months. With a new structure in place designed to more aptly reflect business activity, most Divisions anticipate increased contributions in the coming year. Some Divisions, such as Banking Solutions and Medallist, should show increased contributions as a result of considerable investment in business development in the recent past. The Distribution Division is projected to operate at a net loss in the short term, as part of a conscious strategy to establish new distribution channels for financial services.



Macquarie remains the largest manager equities style in 1992 and reached \$2.8 months. Since inception, Macquarie's a result of the level of risk undertaken. to provide excess returns above the pe Macquarie is able to identify opportuni

INVESTMENT SERVICES GROUP

The Investment Services Group manages investments through a range of funds and trusts across a wide variety of asset classes, for both retail and institutional clients. The Group also offers fund and client administration services for other fund managers looking to outsource these activities.

Despite increased systems spending, the Group recorded an increased profit result in 1998/99.

At 31 March 1999, the Group's portfolio under management or administration was \$19.6 billion. The Group manages \$9.8 billion on behalf of individual investors through the Retail Investments Division and \$9.8 billion for superannuation funds, corporations and institutions through the Institutional Funds and Portfolio Services Divisions.

The **Retail Investments Division** currently has relationships with over 250,000 individual investors and 6,000 financial advisers.

The Division's broad product range of more than 70 investment choices has been enhanced to include:

- OneChoice - Macquarie's balanced superannuation fund
- the Macquarie Private Equity Trust
- the Macquarie Property Securities Trust
- the Macquarie Leaders Imputation Trust
- the Macquarie Small Companies Trust.

The specialist equity funds have been developed and launched over the past 12 months in response to increasing market demand for such products.

Macquarie's \$5.7 billion Cash Management Trust, Australia's largest managed investment, continued to lead the market in 1998/99 with inflows of more than \$900 million during the year. It remains Australia's largest cash management trust due to its unique combination of competitive yields, convenient features such as electronic settlement arrangements for stockbrokers and Macquarie's award-winning service.

of enhanced equities funds in the Australian market. Macquarie established its enhanced billion in funds under management this year, with inflows of \$900 million in the last 12 enhanced equities style has been rated no.1 in the market for excess return achieved as The enhanced equities style employs a number of low risk, value-adding enhancements performance of the All Ordinaries Index. By closely monitoring daily market activity ties to enhance performance within the fund's strict risk limits.



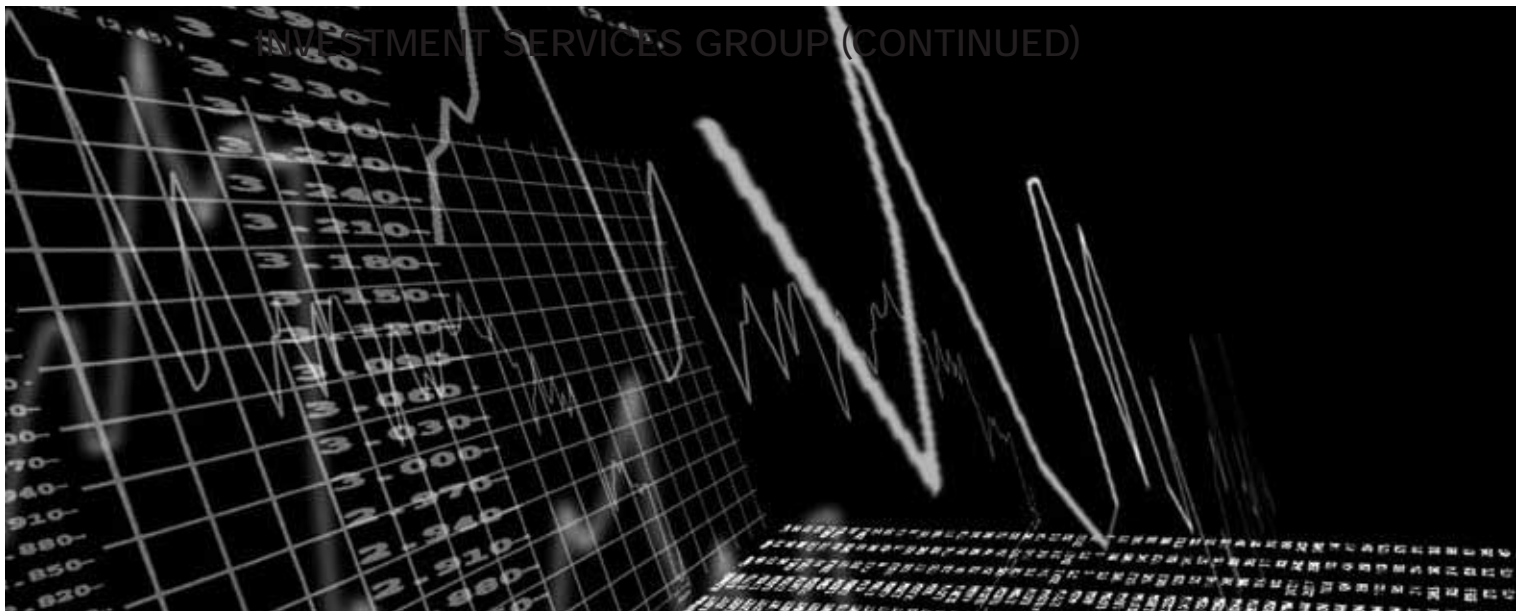
The Division's continued commitment to customer service not only assisted with acquiring and retaining business but also resulted in Macquarie's Adviser Marketing and Client Service areas being recognised by industry researcher ASSIRT as the leading service provider among fund managers in the retail investment management industry for 1998. Macquarie has held top ranking for six out of the last seven years. Macquarie has also received awards for outstanding service from major financial advisory groups, Godfrey Pembroke and RetireInvest.

The Division continues to invest heavily in electronic commerce in order to improve service and product functionality and to increase efficiency. During the year, the Division launched transact@macquarie, the internet banking service for the Cash Management Trust and the Macquarie Adviser site, a support site for Macquarie's

6,000 financial intermediary clients. Both of these sites will significantly enhance service levels while also improving business profitability.

The Retail Investments Division, together with the Portfolio Services Division, embarked on a major IT core systems project during the year. The project is designed to improve flexibility, improve service to investors and financial advisers and ensure that the Group is ready for the distribution challenges presented by electronic commerce. This project will continue into 1999/2000.

The **Institutional Funds Division** manages the development and distribution of Macquarie's funds management services to corporate and public sector superannuation funds, insurance companies, corporates and institutional investors. During the year the Division increased its profitability despite a small decline in funds under management. This was largely due to its continued strategic focus on increasing funds under management in the higher margin equities and diversified growth products and pooled funds. Over the year more than \$1 billion in new funds flowed into growth assets.



Applying the 'Price for Earnings Growth' style, Macquarie's specialist Australian equity funds focus on large capitalisation companies and small

The Division continued the expansion of its product range by launching a number of new products in both the growth and defensive asset sectors. In an effort to leverage the success of the \$2.8 billion enhanced equities product, the Macquarie Quant Fund was established. The Fund employs a combination of active and enhanced strategies to add value whilst constraining portfolio risk. The Division is also developing an enhanced property fund which seeks to generate moderate outperformance through low risk enhancement strategies.

The Division's cash and fixed interest product range was also further strengthened through the development of the Diversified Fixed Interest Fund, the Corporate Debt Fund and the Enhanced Fixed Interest Fund. The Diversified Fixed Interest Fund provides exposure to global fixed interest markets and utilises a unique risk management approach to ensure that overall portfolio risk remains consistent with that of an Australian bond portfolio.

The **Asset Management Division** is responsible for investment of the Group's wholesale and retail funds.

For the past two years, the management of equities funds has operated under a separate Division (the Equities Funds Management Division) in order to facilitate the establishment of an autonomous equities capability. With this capability now successfully installed, these Divisions have been restructured into a single Division, the Asset Management Division.

The Division is responsible for asset allocation in diversified funds and the management of cash, international and domestic fixed interest, Australian equities and property and international equity funds. The Division's approach relies upon a continuous process of economic analysis, market analysis, security analysis, portfolio construction and strategy implementation and review.

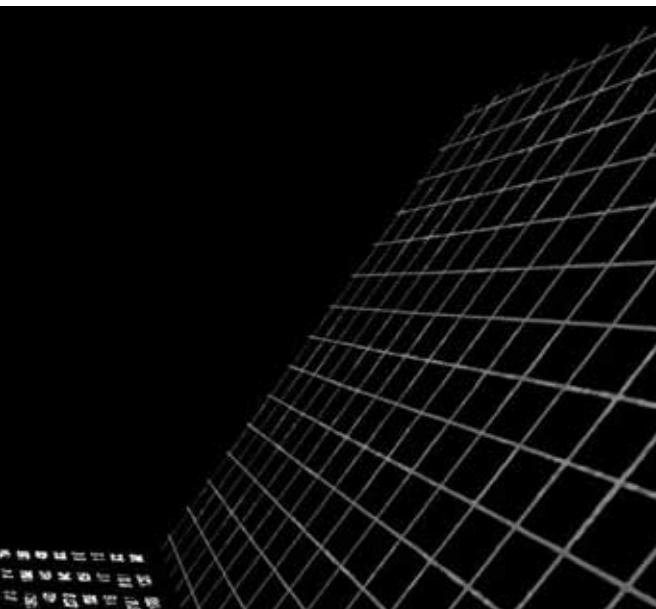
All asset classes use the common philosophy that markets are not efficient and that active management will therefore provide superior returns through exploiting inefficiencies. Macquarie identifies what is priced in by the market consensus and adds value where the Division and its processes differ from the consensus.

Within Australian equities, Macquarie exploits market inefficiencies using the 'Price for Earnings Growth' approach. This approach is based on identifying stocks which are undervalued relative to their medium-term profit growth prospects. As this style relies on in-depth security and market analysis, the Asset Management Division has developed sophisticated computer programmes and screening to support its team of expert analysts and portfolio managers.

Applying this style, Macquarie's specialist Australian equity funds that focus on niche areas such as resource companies, large capitalisation companies and small companies, have had strong performance since their inception.

The Asset Management Division continued its solid record of performance with first quartile returns over a three year period in a number of diversified and asset class-specific categories, including:

Services Group



nds that focus on niche areas such as resource companies, ll companies, have had strong performance since their inception.

t Services Group

- Capital stable (the Macquarie Life Capital Stable Fund)
- Enhanced equity (the Enhanced Australian Equity Fund)
- Fixed interest (the Australian Fixed Interest Fund)
- Listed property (the Property Securities Fund)
- Cash (average maturity less than one year)
- Specialist equities (the Small Companies Trust, since inception and the Leaders Imputation Trust, since inception).

Macquarie Portfolio Services has built on Macquarie's strengths in administration, processing and client services to provide these services to external fund managers. With expertise in superannuation, unit trust and investment bond administration processing, Macquarie is one of the few full service providers in the industry.

Funds under administration from external fund managers are over \$1.5 billion, with two major new clients successfully implemented during the year.

A flexible back-office will be vital to success in the financial services industry in the future. Processing systems that enable management of complex financial products and services will position the business to expand rapidly in the fledgling outsourcing market. Accordingly, the Investment Services Group's major IT project, referred to above, includes an investment in significant enhancements to Portfolio Services' processing capabilities in order to provide highly competitive functionality to clients.

In the coming year, Macquarie Portfolio Services also plans to launch a portfolio administration service for retail financial advisers and their clients. This service is an extension of Macquarie's administration capability and will provide advisers with an electronic transaction, administration and reporting facility which will enable advisers to outsource large components of their administration to Macquarie.

The **International Division** continued its support of the Investment Services Group's funds management joint venture in Malaysia with Arab-Malaysian Merchant Bank. Despite difficult conditions in the Malaysian investment environment, the operation remains profitable. The Group continues to seek additional opportunities within the region to export financial services management, marketing and operations expertise. Gradual improvements in the region are expected to provide favourable conditions for new opportunities in the coming year.

OUTLOOK

The Group is excited by the significant changes in the industry and will continue to restructure and refocus its operations accordingly.

The strategic initiatives outlined above, particularly the increased focus on distribution and IT capabilities, will place the Investment Services Group in a highly competitive position. New business opportunities will be continually developed to diversify and increase income sources.

Divisions

DIRECT INVESTMENT DIVISION

The **Direct Investment Division** manages the Bank's direct investment vehicles: Macquarie Investment Trust (MIT), Macquarie Holdings Trust (MHT), Macquarie Investment Trust II (MIT II) and Macquarie Holdings Trust II (MHT II). The first two trusts are in the process of being wound down and all new investments are being made through MIT II and MHT II. These trusts are approximately 70 per cent invested to date.

The trusts had a very active year selling out of two investments and closing a number of new ones. During the year MIT sold out of Miller's Self Storage and Associated Media Investments, while MIT II sold out of the remaining holding in Millers Retail Limited. The sale of Miller's Self Storage was particularly noteworthy given that during the early years of the trust's investment the company experienced financial problems. The final outcome on the sale was an internal rate of return (IRR) of approximately 20 per cent per annum on an investment held over 10 years. The decision to sell MIT's holding in Associated Media to MIT II was also made. This reflected the ongoing development of this business and the need for additional capital. The total return on this transaction was in excess of 40 per cent per annum. As a consequence of these sales, the Division reported good profits, albeit somewhat lower than planned due to the decision to defer the sale of the holding in Cinema Plus until next financial year.

During the year, MIT II completed a number of new and follow-on investments. In June, MIT II invested in Super Alloy Technologies, a Melbourne-based company engaged in the manufacture and distribution of forged titanium golf club heads for the United States export market. Subsequently, in August, the trust invested in Financial Network Services, a business specialising in software applications for the banking industry. In November the first resource investment was completed when MIT II financed Strike Oil, a Perth-based oil and gas company. Additionally, during the year the trust made follow-on investments in Signature Security and The Reject Shop.

During March, the Division commenced marketing for MIT III, the intent being to raise \$200 million domestically for a third direct investment vehicle. Of this amount, \$150 million is being sought from local institutions, with the balance to come from retail investors. Retail investors will invest through Macquarie Private Equity Trust, a public unlisted trust being organised through the Investment Services Group. The preliminary response from both institutions and retail investors has been very encouraging with the first closing scheduled for mid May.

QUANTITATIVE APPLICATIONS DIVISION

The **Quantitative Applications Division (QAD)** provides analytic services to all areas of the Bank. These skills ensure that financial instruments are accurately priced and that all financial risks are identified and thus able to be managed successfully. In addition, because these skills are in-house, new financial products can be quickly added to the Bank's extensive product range. This directly benefits clients since the Bank can respond promptly to individual financial needs.

The Division has an established history of innovation both in the application of technology and in product development and risk measurement. This assists the Bank to grow in both new and existing markets without being exposed to unexpected risks. By continuing to invest in new technology and thereby improving the efficiency of services offered, the Division has not had to increase its staff numbers. This contrasts with continuing strong growth over the year in quantitative support for alliances and the trading businesses of Macquarie Bank.

On a broader scale, QAD actively contributes to the financial community through its representation on committees at the Stock Exchange, a number of universities and the general finance industry. To foster analytic studies, Macquarie Bank this year awarded the second scholarship for excellence in Mathematics and Finance at the University of Technology, Sydney.

ECONOMICS AND FIXED INTEREST RESEARCH DIVISION

The **Economics and Fixed Interest Research Division** provides analytical advice and forecasts of economic and financial trends to operating Divisions and clients of Macquarie Bank, both through its regular publications and through research updates which address individual clients' specific business circumstances.

Divisions

During the past year, the Division has substantially expanded its research on key Asian economies, as well as on international capital flows. In order to keep clients abreast of current economic and financial developments, a new publication, *This Week In Asia*, was introduced to supplement the Division's broader assessment of major influences on the region covered in *The Macquarie Letter*.

The Division has also recently established a Regional Economist for Asia, located in Hong Kong.

In developing its Asian research capacity, the Division has adopted the same hands-on approach previously used to build research on the major industrial economies. Clients are provided with intensive briefings based on frequent research visits and consultations with senior policymakers, business leaders and market analysts in these countries.

The Division continues to publish a wide range of weekly, monthly and quarterly research papers, all of which can be provided to clients either as hard copy or electronically. *The Macquarie Weekly*, *Market Trends* and *The Macquarie Letter* provide a continuous assessment of the latest economic and financial developments and their impact on markets in Australia and New Zealand. The annual *Macquarie Property Review* is also produced in conjunction with the Banking and Property Group.

Recognition of the depth of the Division's analysis can be seen in the extent to which its economists are invited to participate in industry, business and government sponsored forums, within Australia and the region. During the past year, the Division Head was a member of the Prime Minister's Task Force on International Financial Reform.

CORPORATE AFFAIRS GROUP

The Corporate Affairs Group comprises the Administration, Corporate Relations, Company Secretarial (including Investor Relations), Financial Operations and Taxation Divisions. These Divisions provide important support services to the operating businesses of the Bank.

The **Administration Division** provides key support services for the Bank including human resource functions, premises, recruitment, staff development, training, business continuity, insurance and the administration of interstate and overseas offices.

The continued increase in staff numbers highlights the importance of the recruitment, remuneration and staff development areas. This increase in staff numbers has also necessitated a number of large office relocations and expansions during the year. The largest premises project is in progress in Sydney and will involve the relocation of approximately 2,200 staff during the second half of 1999. Sydney staff will be located in new premises at No.1 Martin Place (the former GPO building) and in refurbished premises at 20 Bond Street. Significant premises planning also continued in other Australian and overseas offices.

The **Corporate Relations Division** coordinates the Bank's community, media, government and public relations. The Division supports the operating businesses in their marketing activities such as client relations, sponsorship management, advertising, promotion and corporate events management. The Corporate Relations Division also administers the Macquarie Charitable Foundation.

Company Secretarial Division is responsible for the Bank's share registry, compliance with certain ASX and ASIC requirements, professional risk insurance and the Bank's investor relations activities. The Division has been instrumental in devising the new Staff Share Acquisition Plan and favourably restructuring the Bank's professional insurances. Shareholder numbers reached 10,000 in early 1999. The investor relations function has improved access to information by enhancing the Bank's internet site and organising greater exposure of the Bank's senior management to the investment community.

DIVISIONS (CONTINUED)

The Quantitative Applications Division ensures that all financial instruments are accurately priced and that all financial risks are identified

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Division

The **Financial Operations Division** is responsible for all financial operations of the Bank, including management information, financial planning, budgeting, capital management and all statutory and external financial reporting. The Division also maintains a settlements function which is independent of the operating areas to provide prudential control.

During the year, numerous strategic projects were undertaken, designed to achieve best practice for the Division, including replacement of the Bank's core financial systems. A main focus of the Division continues to be advising the business units on issues which impact their ongoing operations, including business process improvements, new legislation and overseas expansion.

The **Taxation Division** provides taxation support to all areas of the Bank's operations as well as managing the Bank's relationships with revenue authorities and external advisers.

INFORMATION SERVICES DIVISION

The **Information Services Division (ISD)** is responsible for managing the Bank's technology infrastructure, supporting, maintaining and enhancing existing business systems and delivering and deploying new systems, technologies and services. ISD provides each major business unit in the Bank with a dedicated team that works closely with the business to understand their particular technology needs.

During the year, ISD has continued to implement new solutions in the distributed computing environment, while maintaining some of the existing high volume, complex and mission critical processing on the mainframe. This approach realises and protects the value of the Bank's IT investment, while ensuring that the potential of new technologies is maximised.

The Bank continues to lead the industry in providing on-line services for its clients. This year has seen excellent growth in the uptake of DirecTrade, Macquarie Active Banking and PhoneLink. In future, ISD will work to enhance these existing services and will expand the range with the introduction of such innovative services as transact@macquarie, which

gives clients of the Bank on-line access to the Macquarie Cash Management Trust, enabling them to open accounts and perform basic transactions.

The Peoplesoft General Ledger was implemented late in the year. This was the second last phase of the core systems replacement programme for the Corporate Affairs Group. The last phase, implementing Peoplesoft Salary Packaging, is planned for the coming year.

ISD has facilitated the rapid integration of the merged regional stockbroking firms into the Bank's network. The Division has also employed new 'thin client' technology at some of the new remote offices. ISD has also built a new stock-lending system for equity markets.

The Bank's systems were enhanced to cater for the introduction of the Euro. As a result, the systems used by Futures, Bullion and FX now support the trading of all instruments and manage risk, both at Euro and base currency levels.

The AUD Interbank settlement process moved from net deferred to Real Time Gross Settlement (RTGS) in June 1998. The system ISD developed to support RTGS now takes payment feeds from most business areas across the Bank, facilitating greater understanding of the Bank's AUD liquidity.

A challenge for the next financial year will be to support the move of the Sydney Futures Exchange from pit trading to electronic trading. ISD will aim to ensure that the Bank's systems provide an efficient, seamless service to clients both directly and via the internet.

ISD is completing the implementation of Pivot which will replace the aging mainframe system used by the Group's banking businesses. Further releases of the DEFT payment system, such as the provision of BPay capabilities, have also been implemented.

In support of the drive by the Investment Services Group to continue to lead the market in customer service, ISD is developing new systems that are 'customer-centric' as opposed to the more traditional account-based view. ISD is also continuing to build new systems and enhance existing systems to support the Group's growing back-office processing outsourcing business.

n provides analytical services to all areas of the Bank. These skills ensure that and thus able to be managed successfully.

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Divisions

This year saw the successful completion of a worldwide search for an appropriate package for the Bank's leasing business. The implementation of the chosen software, LeaseTek, is now in the planning phase.

As planned, last year saw the upgrade of both the Sydney and Melbourne PABXs. The new PABX infrastructure places the Bank in an excellent position to take advantage of emerging voice network technologies, improved call flow handling and the reduced voice tariffs being offered by carriers and resellers.

The Bank's electronic mail and scheduling system was also replaced throughout the Australian, New Zealand, European and North American offices.

Some of the major infrastructure projects planned for next year include integrating desktop faxing with the new messaging system and providing capability for message encryption and digital certificates.

The relocation to the new Sydney premises is progressing well. ISD staff are rising to the challenge of a seamless move of office staff and equipment, while maintaining the highest levels of service to the Bank's businesses and clients.

OUTLOOK

With the aim of continually improving the services that ISD provides to the Bank, a programme of initiatives commenced during the year. These initiatives are focused on improving service delivery, strengthening the partnership with individual businesses and maximising the value of the Bank's investment in information technology. One of the key initiatives under way is a strategic review of Information Technology currently being conducted by Andersen Consulting.

The coming year will pose many challenges including the possible implementation of a government sales tax (GST), relocation to new premises and the advent of the Year 2000. ISD has strategies in place for handling all these issues and will continue to streamline and rationalise existing systems to reduce technical complexity, simplify business processes and reduce costs.

RISK MANAGEMENT DIVISION

Strong prudential management has been a key to the Bank's success over many years. The **Risk Management Division (RMD)** is an independent, centralised risk management unit. It is responsible for assessing and monitoring risks across the Macquarie Bank Group – market risk, credit risk, legal risk, operational risk, documentation risk and liquidity risk. RMD staff liaise closely with the operating areas to ensure all risks are understood and properly managed. The functions within RMD are Credit, Finance, Operational Risk Review, Compliance and Correspondent Banking.

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 Group, for example interest rate risk or foreign exchange risk. It sets trading limits and monitors exposures against those limits daily. Finance is also responsible for liaison with regulators, particularly the Reserve Bank of Australia and the Australian Prudential Regulation Authority for the Group's liquidity risk policies.

Operational Risk Review is concerned with operational risk in the Group. It reviews the adequacy of management systems and controls and ensures compliance with Group policies and with prudential standards.

Compliance oversees the policies and procedures for ensuring that all areas in the Group comply with applicable regulations and laws in Australia and overseas.

Correspondent Banking manages the Bank's relationships with other domestic and international banks and with ratings agencies.

Corporate Governance

The Board of Voting Directors (the "Board") is responsible for Macquarie Bank Limited and its controlled entities. The primary role of the Board is to ensure the long term health and prosperity of the Company. It accomplishes this by:

- setting of objectives, goals and strategic direction for management with a view to maximising shareholder wealth and monitoring management performance against these benchmarks;
- adopting an annual budget and the monitoring of 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;
- selecting and appointing new Voting Directors; and
- maintaining the highest business standards and ethical behaviour.

A number of Board Committees have been established to assist in the execution of the Board's responsibilities including a Nominating Committee, a Compensation Committee and an Audit and Compliance Committee. The Bank delegates substantial management responsibilities to the Executive Committee as described on page 14 (the members of this committee are noted on page 54).

Directors are made aware of current and forthcoming issues relevant to the Bank's operations and performance, through the monthly Board papers. These contain the monthly and year-to-date performance of all Divisions compared with budget and a Risk Management Division prudential report. Papers relating to particular issues are also included in the document and senior management are often invited to present and discuss these matters with the Board. Management is responsive to requests from the Board if it requires further information on any issue, including requesting that a particular Division or Group Head present to it on the performance, strategy or outlook for the respective Division or Group. An annual strategy session is also held in conjunction with senior management. Functions are also organised to enable Voting Directors to meet with representatives from clients, business partners, major suppliers and government and regulatory bodies as well as staff members.

BOARD COMPOSITION

At the date of this statement, the Board comprises three Executive Voting Directors and five Non-Executive Voting Directors. The three Executive Voting Directors are:

- David Clarke – Executive Chairman
 - Allan Moss – Managing Director and Chief Executive Officer
 - Mark Johnson – Joint Chairman of Corporate Finance
- The Non-Executive Directors are:
- Bryan Kelman – Deputy Chairman
 - Barrie Martin
 - John Allpass – a consultant to Macquarie Corporate Finance
 - Laurie Cox – a consultant to and Joint Chairman of Macquarie Corporate Finance
 - Kevin McCann.

Brief resumes of the Voting Directors are contained in the Directors' Report.

The Bank currently also has 69 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.

The Bank's Constitution provides that:

- the maximum number of Voting Directors shall be fifteen;
- at least one third of the Voting Directors (excluding the Managing Director) must retire from office at the annual general meeting 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; and
- 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.

The composition of the Board is reviewed periodically by the Nominating Committee which comprises David Clarke (Chairman), Bryan Kelman and Barrie Martin. The Nominating Committee ensures that the Voting Directors bring characteristics to the Board which

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provide a mix of qualifications, skills and experience, both nationally and internationally. When a vacancy exists or whenever it is considered that the Board would benefit from the services of a new Voting Director with particular skills, 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.

The Bank's remuneration policy for Directors and senior management is discussed in the Concise Report. It should be noted that these policies are designed to encourage long-term commitment to the Bank by senior executives. The Bank maintains sufficient depth of management to ensure adequate candidates for succession in the event of departures of senior management. Additionally, the Bank has a preference to fill vacancies from within and this has been aided by, as a general rule, retiring or resigning Executive Directors giving the Bank advance notice of their impending departure.

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;
- the term of appointment, subject to shareholder approval;
- the expectation of the Board in relation to attending and preparing for all Board meetings;
- procedures for dealing with conflicts of interest; and
- the 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. 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 Law applicable to public companies and common law directors' duties.

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 whilst such 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.

As described in the Directors' Report, the Bank's Constitution provides an indemnity to past and present Voting Directors. As with other insurable risks, the Bank has insured itself against payments under this indemnity to the extent considered prudent. Individual directors and officers of the Group are insured by and pay the premium on a directors' and officers' liability policy which is coordinated by the Bank. At the 1998 Annual General Meeting, shareholders approved the Bank entering into a Deed of Access, Indemnity and Insurance with Voting Directors which extended the above-mentioned indemnity and insurance arrangements as well as access to Board papers, to former Voting Directors in respect of their period in office.

COMPENSATION ARRANGEMENTS

The Concise Report contains details of the Board's compensation arrangements. It also outlines the approach to remuneration for the Bank's senior executives.

AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee comprises John Allpass (Chairman), David Clarke and Kevin McCann. Committee meetings are held periodically throughout the year and are attended by the Managing Director and, where appropriate, by the Head of Financial Operations Division, a representative from Group Compliance, representatives of the Bank's external auditors and, as required, other Bank executives and external advisers. The Head of the Bank's Operational Risk Review Division acts as secretary to the Committee and attends all meetings. The main objectives of the Committee are to assist the Board in:

- assessing the appropriateness of accounting policies, practices and disclosures and whether the quality of financial reporting is adequate;
- reviewing the scope and results of internal, external and compliance reviews and audits;
- maintaining open lines of communication between the Board and Operational Risk Review, the external auditors and the Group's compliance officers;

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- assessing the adequacy of the Group's internal controls based on information provided or obtained;
- making informed decisions regarding compliance policies, practices and disclosures;
- reviewing any matters of significance affecting the financial welfare of the Group.

To fulfil these responsibilities the Committee meets with and receives regular reports from Operational Risk Review, the external auditors and Group Compliance, 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 review and nomination of external auditors.

The Bank's external auditor, PricewaterhouseCoopers, has provided various non-audit services to the Group for which it has had to compete on an arm's length basis against other external firms.

IDENTIFYING SIGNIFICANT BUSINESS RISKS

There are many risks in the markets in which the Bank operates. Performance can be influenced by a range of factors, a number of which are beyond the Bank's control. 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 type of transaction, market, dealing operation or business is fully analysed in order to understand the risks involved. The Bank has in place limits and an extensive range of procedures to monitor the risk in its financial activities which are periodically reviewed by the Board.

ETHICAL STANDARDS

Macquarie Bank Directors and staff are required to maintain the highest ethical standards of conduct. To this end the Group's code of ethics, *Macquarie Bank – What We Stand For* continues to be endorsed by the Board. *What We Stand For* is continually

reviewed and enshrines the high standards that we require. The current version is set out on pages 66 and 67 of this Annual Review. It is made available to all staff and covers the Bank's overall goals, dealings with external parties and how the Bank operates internally. New executives and certain other staff attend a two-day residential seminar about the Bank and its goals and values. All other new staff attend a workshop/presentation on the code.

In order to strengthen the Bank's commitment to maintaining high ethical standards, it has appointed an Integrity Officer. While the Bank recognises the role management play in providing leadership on a day-to-day basis, the Integrity Officer:

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

COMMITMENT TO SHAREHOLDERS

One of the Board's key responsibilities is to its shareholders. The Board firmly believes that shareholders should be kept informed of all major business issues which influence the company.

To this end, the Bank produces two sets of financial information annually; the Interim Report for the six months to 30 September and the Annual Review and accompanying Financial Report for the year to 31 March. These are prepared pursuant to the Corporations Law and provide shareholders with an overview of the Bank's performance and operations twice a year.

The Bank also encourages shareholders to attend its Annual General Meeting (AGM), usually held towards the end of July. Shareholders are provided with notes on all 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 Law.

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.

1999 Concise Report

1999 Concise Report

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This Concise Report has been derived from the full Financial Report for the year ended 31 March 1999. The full Financial Report and auditor's report will be sent to members on request, free of charge.

Please call (02) 9237 3333 and a copy will be forwarded to you. Alternatively, you can access both the full Financial Report and the Concise Report via the internet at: www.macquarie.com.au.

The Concise 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 Financial Report.

DIRECTORS' REPORT

Macquarie Bank Limited and its Controlled Entities

Directors' Report

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 1999

In accordance with a resolution of the Voting Directors ("the Directors") of Macquarie Bank Limited, the Directors submit herewith the balance sheet at 31 March 1999 and statements of profit and loss and cash flows of the Bank and its controlled entities for 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

Non-Executive Directors

B.N. Kelman, AO, CBE, *Deputy Chairman*
J.G. Allpass
L.G. Cox, AO
B.R. Martin
H.K. McCann

Unless indicated, the above Directors each held office as a Director of the Bank throughout the year ended 31 March 1999.

Details of qualifications, experience and special responsibilities of Directors at the date of this report are shown in the Schedule hereto.

DIRECTORS' MEETINGS

The number of Directors' meetings 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 table below.

PRINCIPAL ACTIVITIES

The principal activities of the Bank and its controlled entities during the year ended 31 March 1999 were:

- Conduct of banking business;
- Acceptance of deposits;
- Provision of short and medium term finance including lease finance and leveraged leasing;
- Provision of foreign currency services to clients;
- Underwriting, sub-underwriting and dealing in marketable securities;

	BOARD MEETINGS		COMMITTEE MEETINGS	
	eligible to attend	attended	eligible to attend	attended
D.S. Clarke	14	13	12	12
A.E. Moss	14	14		
M.R.G. Johnson	14	13		
B.N. Kelman	14	14	5	5
J.G. Allpass	14	14	12	12
L.G. Cox	14	14		
B.R. Martin	14	14		
H.K. McCann	14	12	7	7
A.B.A. Rahman	9	-		
F.D. Abidin	9	-		

The committee meetings held during the year were in respect of the Compensation Committee (5) and the Audit and Compliance Committee (7).

- Provision of corporate and financial advice to clients;
- Provision of valuations, purchase, sale and lease back services to property investors;
- Floor member of the Sydney Futures Exchange Limited;
- Sydney Futures Exchange Clearing House member;
- Member of Australian Stock Exchange Limited;
- Associate broker clearing member of the London Metal Exchange;
- Provision of financial services to clients including swaps, options and derivative products;
- Bullion dealer and commodities trader;
- North American Securities Dealers Quotation licensed broker dealer;
- Broker member of the Hong Kong Stock Exchange;
- Trust and investments manager;
- Principal Member of the Financial Planning Association;
- Retail and institutional funds management;
- Conduct of life insurance business;
- Securitisation of mortgages and other assets; and
- Vehicle leasing, fleet management services and short term vehicle rentals.

There were no significant changes in the activities of the Bank during the year.

RESULT

The consolidated profit for the year ended 31 March 1999 attributable to members of the consolidated entity after provision for income tax was \$164,953,000 (1998: \$141,155,000).

DIVIDENDS

The Bank paid or provided dividends during the year as set out in the table below.

DIVIDENDS

Date	Type	\$	In respect of year ending	
2 July 1998	Final	48,619,562	31 March 1998	Paid
22 December 1998	Interim	48,344,461	31 March 1998	Paid
2 July 1998	Final	62,456,571	31 March 1998	Provided

No other dividends have been recommended, declared or paid during the financial year.

Directors'
Report

DIRECTORS' REPORT (CONTINUED)

Macquarie Bank Limited and its Controlled Entities

STATE OF AFFAIRS

In the opinion of the Directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or the consolidated financial report.

FINANCIAL REPORT

The consolidated financial report and financial report of the Bank for the year ended 31 March 1999, which are accompanied with an unqualified audit report, are included in the 1999 Financial Report book. All references to notes to the financial report are to this book, which will be provided to shareholders upon request and without charge.

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 consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in the financial years subsequent to 31 March 1999 not otherwise disclosed in this report or the consolidated financial report.

REVIEW OF OPERATIONS

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

LIKELY DEVELOPMENTS

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

SHARE OPTIONS

Information on the Bank's share option scheme and options granted during or since the financial year end is contained in Note 32 to the financial report – Employee Equity Participation.

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

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

DIRECTORS' INTERESTS AND BENEFITS

Other than any benefit that may have been derived from loans provided by and to the Bank or a controlled entity and any amounts received in respect of previously accrued remuneration, no Director has, during the 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 the consolidated financial 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 \$622,333 (1998: \$615,373) to the legal firm of Allen Allen & Hemsley of which Mr H.K. McCann is a partner.

Directors' interests are disclosed in Note 29 to the Financial Report – Related Party Information.

Directors' remuneration is disclosed in Note 31 to the Financial Report and in Note 5 to the Concise Report.

DIRECTORS' INDEMNIFICATION

Under the Bank's Constitution, the Bank indemnifies:

- (a) all past and present officers of the Bank and all past and present officers of wholly-owned subsidiaries of the Bank, including at this time, the Directors named in this report, Dennis Leong, the Secretary, Douglas Hunt, the Assistant Secretary, and persons concerned in or taking part in the management of the Bank against all liabilities incurred by them in their respective capacities in successfully defending proceedings against them; and

Directors' Report

- (b) all past and present officers of the Bank, including at this time, the persons named in paragraph (a) above, against liabilities incurred by them, in their respective capacities as an officer of the Bank or of a wholly-owned subsidiary of the Bank, to other persons (other than the Bank or its related bodies corporate), unless the liability arises out of conduct involving a lack of good faith.
- (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.

Following approval by shareholders at the 1998 Annual General Meeting, the Bank entered into a Deed of Access, Indemnity and Insurance dated 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

CONTINUOUS DISCLOSURE

The Directors approved the introduction of a Continuous Disclosure Programme in December 1994. This consists of an independent reporting system by which senior management and the Board can be notified of events which are reportable to the market under Australian Stock Exchange Limited Listing Rule 3.1.

ROUNDING OF AMOUNTS

In accordance with Australian Securities and Investment Commission Class Order 98/100 amounts in the financial report have been rounded off to the nearest thousand dollars unless otherwise indicated.



D.S. CLARKE
Director



A.E. MOSS
Director

Sydney
28 May 1999

DIRECTORS' REPORT (CONTINUED)

Macquarie Bank Limited and its Controlled Entities

DIRECTORS' EXPERIENCE AND SPECIAL RESPONSIBILITIES

David S. Clarke, AO, B Ec(Hons)(Syd), MBA(Harv) (57)
Executive Chairman of Board since the Bank's inception in February 1985

Chairman of Board Compensation Committee
Chairman of Board Nominating Committee
Member of Board Audit & Compliance 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 Goodman Fielder Limited, Brian McGuigan Wines Limited, the Australian Rugby Union Limited and the Wine Committee of the Royal Agricultural Society of New South Wales. Mr Clarke is President of the National Council of Opera Australia. He is a member of the Australian Stock Exchange Limited, a member of the Executive Committee of the Royal Agricultural Society of New South Wales, the Board of Trustees of the Financial Markets Foundation for Children, the Investment Advisory Committee of the Australian Olympic Foundation, the Harvard Business School Asia Advisory Committee, the Sydney Advisory Board of the Salvation Army and the Monash Mount Eliza Business Council.

Allan E. Moss, BA LLB(Hons)(Syd), MBA(Harv) (49)

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. He was appointed to the Board of CSR Limited in 1996.

Bryan N. Kelman, AO, CBE, B Eng(Syd) (73)
Deputy Chairman of Board since September 1992
Member of Board since the Bank's inception in February 1985

Member of Board Compensation Committee
Member of Board Nominating Committee

Bryan Kelman spent his early career in the construction industry and prior to joining CSR he was Chairman and Managing Director of Ready Mixed Concrete (UK) Limited. He joined CSR in 1966 and was a deputy general manager of the company for 10 years from 1972 to 1982. He was Chief Executive Officer from 1983 to 1987 and a Director of CSR until July 1998. He is Chairman of Tarawa Consolidated Pty Limited, the Cooperative Research Centre (CRC) for Molecular Engineering and Technology and the CRC for Cardiac Technology. He is also a Director of Spotless Services Limited. He served on the Trade Development Council from 1976 to 1981 and was Chairman for the last three years of that period. He is a former Chairman of Homestake Gold of Australia Limited, the State Superannuation Investment and Management Corporation, the State Authorities Superannuation Board and John Fairfax Holdings Limited.

John G. Allpass, FCA, FCPA, FAICD (58)

Member of Board since January 1994
Chairman of Board Audit & Compliance Committee
Member of Board Compensation 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 directorships of Queensland Investment Corporation, Envestra Limited and The Wesley Hospital (Brisbane) and Vice President of the Australian Institute of Company Directors, Queensland Division. He has also held a number of other corporate appointments.

Laurence G. Cox, AO, B Com(Melb), FCPA, FSIA (60)
Joint Chairman of Macquarie Corporate Finance Limited
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 currently an associate of the ASX and a member of the International Markets Advisory Board, the NASDAQ Stock Market (USA) and the Executive Committee of the Australia Japan Business Co-operation Committee. He is Chairman of Transurban City Link Limited, Fortis Australia Limited and the Murdoch Research Institute and is a Director of Smorgon Steel Group Limited.

Mark R.G. Johnson, LLB(Hons)(Melb), MBA(Harv) (58)
Executive Director
Joint Chairman of the Corporate Finance Group
Member of Board since February 1987

Mark Johnson joined Macquarie Bank in February 1987 as an Executive Director of the Bank and Chairman of the 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 a Director of The Australian Gas Light Company Limited, Pioneer International Limited, Biota Holdings Limited and the Victor Chang Cardiac Research Institute Limited.

Barrie R. Martin, B Ec, FAII (63)
Member of Board since August 1993
Member of Board Nominating 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 Alpha Healthcare Limited, the Barkworth Group and Brazin Limited and is a Director of the Sundowner Group, Christie Retail Management Limited, Life Insurance Complaints Service Limited and Brandenburg Ensemble Limited.

H. Kevin McCann, BA LLB(Hons)(Syd) LLM(Harv) (58)
Member of the Board since December 1996
Member of Board Audit & Compliance Committee

Kevin McCann is Chairman of Partners, Allen Allen & Hemsley. 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 and Triako Resources Limited and is a Director of Pioneer International Limited and Orogen Minerals Limited. He is Chairman elect of the Sydney Harbour Federation Trust, which will be established to manage surplus defence land on the Sydney Harbour foreshores.

DIRECTORS' REPORT (CONTINUED)

Macquarie Bank Limited and its Controlled Entities

List of Directors

LIST OF DIRECTORS

The following persons are Voting Directors of the Bank under the Company's Articles of Association and exercise the powers of directors for the purposes of the Corporations Law.

Executive Directors

David S. Clarke, AO #°

Executive Chairman

Allan E. Moss #°

Managing Director and Chief

Executive Officer

Mark R.G. Johnson #

Non-Executive Directors

John G. Allpass

Laurence G. Cox, AO

Bryan N. Kelman, AO, CBE

Barrie R. Martin

H. Kevin McCann

The following persons are Non-Voting Directors of the Bank under the Company's Articles of Association and do not exercise the powers of directors for the purposes of the Corporations Law.

EXECUTIVE DIRECTORS

W. Richard Sheppard #°

Deputy Managing Director

David C. Adams #°

Andrew H. Barnes

Michael T. Beck

Mark E. Bennett

William D. Best

Gavin J. Bradley

Gail M. Burke °

J.K. (Kim) Burke

Michael Carapiet

Stephen W. Cook

James Craig

Peter Curry

Andrew J. Downe #°

Robert A.F. Dunlop

Warwick W. Evans

Garry A. Farrell

Timothy F. Farrelly

Anthony J. Ferguson

Wayne Fitzgibbon

Robyn L. FitzRoy

Anthony P. Gill

Stephen M. Girdis

A. John Green

John M. Green

Rochelle Hall

Simon G. Hannes †

Tony Jackson

Richard H. Jenkins #°

Anthony L. Kahn

Wayne G. Kent

Ian Learmonth

Russell A. Leslie

Andrew A. Lockhart

Gregory D. Loveday

Alastair F. Lucas #°

Gregory J. Mackay

William P. Marynissen

Kerrie Mather

Gregory J. Matthews

Michael E. McFarlane

Simon V. McKeon

Nicholas R. Minogue °

Nicholas Moore #°

Warwick G. Morris

William J. Moss #°

Grant Munro

Paul Ow

Richard A. Pegum

Daniel Phillips

David G. Poole

John P. Prendiville

Michael J. Price

David G. Rickards

David G. Roseman

Paul J. Robertson

Jonathan Rourke

Ross S. Ryan

William J. Shields

Hon. Warwick L. Smith

T.Y. Song

Bruce N. Terry

Michael W. Traill

Ottmar Weiss

Charles W.S. Wheeler

Shemara R. Wikramanayake

Simon L. Wright

Oliver Yates

Peter Yates

Denotes member of the Executive Committee

° Denotes member of the Operations Committee

† On leave since 1 August 1996

CONSOLIDATED PROFIT AND LOSS STATEMENT

FOR THE YEAR ENDED 31 MARCH 1999 Macquarie Bank Limited and its Controlled Entities

	Notes	Consolidated 1999 \$'000	Consolidated 1998 \$'000
Interest and similar income		131,008	81,044
Trading income		131,293	169,077
Fee and commission income		562,142	423,476
Other operating income/(expense)		6,779	(8,862)
Total operating income		831,222	664,735
Employment expenses		(420,103)	(324,826)
Accommodation expenses		(38,874)	(36,970)
Non-salary technology expenses		(38,759)	(35,595)
Other operating expenses		(115,695)	(100,463)
Total operating expenses		(613,431)	(497,854)
Operating profit before income tax		217,791	166,881
Income tax expense		(52,838)	(25,726)
Operating profit after income tax		164,953	141,155
Retained earnings at the beginning of the year		351,385	291,884
Less: Dividends paid or provided	3	(110,801)	(81,654)
Retained earnings at the end of the year		405,537	351,385
		Cents per Share	
Earnings per share	4	101.33	88.09

The above Consolidated Profit and Loss Statement should be read in conjunction with the accompanying Notes and Discussion and Analysis

CONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED 31 MARCH 1999 Macquarie Bank Limited and its Controlled Entities

	Consolidated 1999 \$'000	Consolidated 1998 \$'000
ASSETS		
Cash and liquid assets	96,595	137,113
Bullion	53,485	51,863
Due from clearing houses	171,035	282,176
Securities	1,867,964	1,421,764
Loans and advances	3,222,297	2,267,666
Due from other financial institutions	55,805	129,164
Due from governments	472,096	456,200
Lease receivables	252,405	304,778
Other assets	2,785,292	2,650,332
Investments	42,348	42,888
Regulatory deposits	66,246	46,202
Fixed assets	53,664	46,300
Future income tax benefit	111,413	92,584
Total Assets	9,250,645	7,929,030
LIABILITIES		
Deposits	3,137,318	2,803,385
Due to other financial institutions	998,621	362,124
Due to clearing houses	3	6,743
Negotiable certificates of deposit	1,415,496	1,145,149
Securities borrowed	26,832	88,800
Other liabilities	2,442,088	2,407,720
Provision for dividend	62,457	48,620
Provision for income tax	27,564	18,576
Provision for deferred income tax	122,820	110,992
Provision for employee entitlements	28,006	20,969
Provision for uncertainties	27,916	31,892
	8,289,121	7,044,970
Subordinated Debt	310,262	303,155
Total Liabilities	8,599,383	7,348,125
CAPITAL AND RESERVES		
Issued capital	245,725	160,518
Share premium reserve	-	69,002
Retained earnings	405,537	351,385
Total capital and reserves attributable to members of Macquarie Bank Limited	651,262	580,905
Total Liabilities and Shareholders' Equity	9,250,645	7,929,030

The above Consolidated Balance Sheet should be read in conjunction with the accompanying Notes and Discussion and Analysis.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 1999 Macquarie Bank Limited and its Controlled Entities

	Consolidated 1999 \$'000	Consolidated 1998 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and bill discounts received	490,927	398,621
Interest and other costs of finance paid	(387,462)	(328,068)
Dividends and trust income received	42,261	54,823
Fees, royalties and commissions received	611,687	481,188
Fees and commissions paid	(83,598)	(75,902)
Net payments and proceeds/receipts from dealing in financial instruments, foreign exchange and commodities	(419,460)	(424,932)
Customer loans granted and repaid	(922,653)	(169,621)
Recovery of loans previously written off	1,172	2,170
Leases repaid and granted	(1,864)	110,365
Net increase in money market and other deposit accounts	1,202,306	513,434
Employment expenses paid	(362,160)	(313,404)
Net receipts/payments from debtors and creditors	(241,697)	144,066
Income taxes paid	(50,851)	(37,009)
Net cash flows from operating activities	(121,392)	355,731
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for acquisition of business	(4,802)	(404,582)
Payments for property, plant and equipment	(33,050)	(32,262)
Proceeds on sale of property, plant and equipment	462	1,065
Proceeds on sale of controlled entities	-	2
Net cash flows from investing activities	(37,390)	(435,777)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	16,205	21,529
Proceeds from issue of subordinated debt	-	110,000
Dividends paid	(96,964)	(72,806)
Net cash flows from financing activities	(80,759)	58,723
Net decrease in cash held	(239,541)	(21,323)
Cash at the beginning of the year	472,178	493,501
Cash at the end of the year	232,637	472,178

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying Notes and Discussion and Analysis.

DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED 31 MARCH 1999 Macquarie Bank Limited and its Controlled Entities

OVERVIEW OF OPERATING PERFORMANCE

The Macquarie Bank Group achieved a net profit after tax of \$165.0 million, a 16.9% increase on last year. The after tax return on average shareholders' funds was 26.8%.

This increase was principally due to:

- Operating income increased by \$166.5 million (25%) to \$831.2 million
- Interest and similar income rose to \$131.0 million from \$81.0 million, an increase of 62%
- Trading income fell \$37.8 million during the year to \$131.3 million
- Fee and commission income rose 32.7% to \$562.1 million
- Operating expenses were \$613.4 million representing an increase of 23.2% over 1998. This increase was principally driven by increased staff numbers over the period from 2,474 to 2,916.

INCOME TAX

- Income tax attributable to operating profits has risen from 15.4% of operating profits to 24.3% in 1999. The reduction in rebateable dividend income from other companies has been the main cause of this increase.
- The income tax expense is lower than the corporate rate of 36%, principally because of the receipt of rebateable dividends, the recoupment of tax losses of prior years, and the effect of lower rates of tax on certain offshore income.

EARNINGS PER SHARE

- Earnings per share rose to 101.33 cents for the year from 88.09 cents in 1998.

DIVIDEND

- The Board has resolved to pay a final cash dividend of 38 cents per fully paid ordinary share (1998: 30 cents) in respect of the year to 31 March 1999. The total annual dividend is 68 cents per share (1998: 51 cents per share). The dividend is fully franked.
- The extent of franking future dividends is uncertain and dependent on the Bank's Australian taxable income. Future dividends are expected to be largely franked.

YEAR 2000

- The Board and Senior Management are actively involved in and remain committed to the Year 2000 project. Based on progress to date we are highly confident that the Bank will be well prepared for the Year 2000. All core applications presently in use, and which are planned to be used after 30 June 1999, have been remediated and tested. The infrastructure supporting the applications has also been shown to be compliant. Controls are now in place to ensure that ongoing changes to systems and infrastructure do not introduce Year 2000 problems.

- The Bank has actively participated in recent coordinated industry testing of payment systems and Equities trading and settlement systems. We will also be participating in testing with the Sydney Futures Exchange. External interface testing with other third parties is also under way and will largely be completed in the first half of 1999. Some industry test timetables do, however, extend past our target date of 30 June 1999. The Bank is also actively addressing potential business risks presented by the Year 2000. The potential risks to each business have been identified, and responses to these risks are being developed, with contingency plans scheduled to be substantially complete by 30 June 1999. The Bank will continue to communicate with suppliers, service providers and counterparties on which we rely for critical services, to assess their progress. The total cost of the Bank's project is likely to be in the order of \$12.5 million. These costs are charged to Profit and Loss as the expenses are incurred.

DISCUSSION AND ANALYSIS OF FINANCIAL POSITION

- At 31 March 1999, total assets of the Macquarie Bank Group were \$9.3 billion compared with \$7.9 billion a year earlier, an increase of 17%. Group shareholders' funds increased to \$651 million and total capital and reserves, including subordinated debt, rose to \$962 million. The Macquarie Bank Group's total capital adequacy ratio at 31 March 1999 was 17.3% and the Tier 1 capital adequacy ratio was 13.0%.
- Loan and lease exposures totalled \$3.9 billion at 31 March 1999, compared to \$3.0 billion a year earlier. Asset quality remains high, with loan losses as a percentage of total loan and lease exposures at 0.1%.
- Continuing the trend of the last few years, the Bank further diversified its funding sources. A revamped Debt Instrument Programme was finalised and in January 1999 the inaugural issue of \$150 million Medium Term Notes was made offshore. Coupled with the US Commercial Paper Programme, the Bank now has access to all substantial funding markets.
- Macquarie Bank's credit ratings continue to reflect its strong prudential controls and diversified earnings. It is pleasing to have four of the internationally recognised ratings agencies rating the Bank at high levels.

DISCUSSION AND ANALYSIS OF STATEMENT OF CASH FLOWS

- Net cash flows from operating activities were lower than in the previous year primarily as a result of an increase in loans and advances.
- The net cash outflow from investing activities was significantly lower as no major acquisition was undertaken.
- Net cash flows from financing activities relate primarily to the payment of dividends.

NOTES TO AND FORMING PART OF THE CONCISE REPORT

FOR THE YEAR ENDED 31 MARCH 1999 Macquarie Bank Limited and its Controlled Entities

1. BASIS OF ACCOUNTING

The concise financial report has been prepared in accordance with the Corporations Law, Accounting Standard AASB 1039 'Concise Financial Reports', other mandatory professional reporting requirements and Class Order 98/112 issued by ASIC on 10 July 1998. The concise financial report and specific disclosures have been derived from the Macquarie Bank full financial report for the financial year. Other information included in the concise financial report is consistent with the Bank's full financial report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Bank as the full financial report.

The accounting policies have been consistently applied by each entity in the Macquarie Bank Group and are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

2. SEGMENT INFORMATION

The Bank and its controlled entities operate as an investment bank principally in Australia. Some of the Bank's services and products are offered in locations outside of Australia where they are predominantly managed as part of the Australian divisional businesses, not as separate geographic locations. Certain segment information is available in Note 35 – Concentrations of Deposits and Borrowings and Note 40 – Credit Risk and Net Fair Value, of the full financial report.

	Consolidated 1999 \$'000	Consolidated 1998 \$'000
--	--------------------------------	--------------------------------

3. DIVIDENDS PAID OR PROVIDED

Dividends paid*	48,344	33,034
Dividends provided*	62,457	48,620
Total Dividends Paid or Provided	110,801	81,654

* Fully franked at 36%

	Cents Per Share	
Cash dividends per share	68.0	51.0

The interim dividend was paid on 22 December 1998. The final dividend is expected to be paid on 2 July 1999.

4. EARNINGS PER SHARE

	Cents Per Share	
Basic earnings per share	101.33	88.09

Diluted earnings per share is not materially different from basic earnings per share.

	Number	
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	162,779,996	160,235,099

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

5. REMUNERATION POLICY FOR DIRECTORS AND EXECUTIVE OFFICERS

Non-Executive Voting Directors

The Board maintains a Compensation Committee which currently comprises David Clarke (Chairman), Bryan Kelman and John Allpass. The Committee reviews compensation arrangements for all Directors, both Voting and Non-Voting. The Committee is also responsible for reviewing and approving recommendations for annual staff remuneration made to it by the Bank's management. The review includes allocations made to Directors and executive staff under the profit share and option schemes. The Compensation Committee may obtain the advice of external consultants on the appropriateness of remuneration packages and other employment conditions if required. The Compensation Committee meets as the need arises. Recommendations of the Compensation Committee are submitted to the Board for approval.

Non-Executive Voting Directors are remunerated for their services from the maximum aggregate amount (currently \$800,000 p.a.) approved by shareholders for that purpose. Executive Voting Directors are not remunerated for acting as Voting Directors. The Deputy Chairman's remuneration is \$115,500 p.a. while all other Non-Executive Directors' base remuneration is set at the rate of \$63,000 p.a. The following additional remuneration has been set for Non-Executive Directors (excluding the Deputy Chairman) for additional duties:

- Chairman of the Audit and Compliance Committee \$21,000 p.a.
- Member of the Audit and Compliance Committee \$15,750 p.a.
- Member of the Compensation Committee \$2,625 p.a.
- Member of the Nominating Committee \$2,625 p.a.
- Chairman of Macquarie Life Limited \$18,900 p.a.
- Director of Macquarie Life Limited \$12,600 p.a.
- Chairman of Bond Street Australia Limited \$15,750 p.a.
- Director of Bond Street Australia Limited \$10,500 p.a.
- Chairman of Macquarie Investment Management Limited Compliance Committee \$15,750 p.a.
- Member of Macquarie Investment Management Limited Compliance Committee \$10,500 p.a.

The Bank is proposing that Non-Executive Voting Directors may be remunerated in part by way of shares via the proposed Macquarie Bank Non-Executive Director Share Acquisition Plan in the future, subject to approval by shareholders at the 1999 Annual General Meeting. In addition, Mr Cox participates in the Bank's Option Plan pursuant to his role as a senior consultant to the Corporate Finance Group.

Executive Directors and Executive Officers

The Bank's remuneration policy for Executive Directors and Executive Officers is designed to promote superior performance and long-term commitment to the Bank. Executive staff receive a base remuneration which is market-related, together with performance-based remuneration which is met out of staff profit sharing pools.

The Bank's Executive Directors (which include Executive Voting Directors and Executive Officers) participate in a Directors' profit share scheme (DPS) under which the Bank makes provision for performance-based remuneration. Allocations under the scheme are dependent upon after-tax profit exceeding a pre-determined target rate of return on shareholders' equity. The target rate may be changed from time to time in the event of sustained changes to long-term interest rates. The target rate for the year ended 31 March 1999 was 9.0% p.a. after-tax and has been set to 8.0% p.a. for the year ending 31 March 2000. As the rate of return (before provision for performance based remuneration) increases above the target rate, the provision is calculated as an increasing proportion of earnings.

The whole of the DPS provision for each year is charged against earnings in that year. However, in order to encourage long-term commitment, a portion of each Executive Director's allocation is subject to restrictions. These restrictions are lifted six months after retirement, if certain disqualifying events do not occur. The effect of DPS is to provide substantial incentives in relation to superior profitability but low or no participation for below average performance.

The target rate of return and quantum of profit share is reviewed periodically by the Executive Committee. Where appropriate, changes are recommended to the Board Compensation Committee and then to the full Board. Overall, remuneration policies, including the amount of provision for performance-related remuneration, are subject to the discretion of the Board and can be changed to reflect competitive, market and business conditions where it is in the interests of the Bank and its shareholders to do so.

Equity participation currently comprises the granting of options over the Bank's ordinary shares. Until 1995, Executive Directors and Executive Officers participated in the Bank's partly paid share scheme. This was replaced during 1995 by an options plan, although a significant number of partly paid shares are still on issue. Refer to Note 32 to the Financial Report for further information on the now closed partly paid share scheme and option plan.

From 1999/2000 it is proposed that Executive Directors will be able to acquire shares under the Macquarie Bank Staff Share Acquisition Plan, subject to shareholder approval at the 1999 Annual General Meeting.

DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

Name and Position	Base Remuneration (a) \$	Performance Related Remuneration \$	Other Benefits (e) \$	Total Remuneration \$	Number of Shares Issued	Number of Options Granted	Option Exercise Price \$	Date First Option Tranche Exercisable (c)
Executive Directors								
D.S. Clarke	249,230	1,925,104	-	2,174,334	-	318,750	14.29	28 Aug 2000
A.E. Moss	498,459	3,184,111	-	3,682,570	-	-	-	-
M.R.G. Johnson	287,168	1,415,443	-	1,702,611	-	-	-	-
Non-Executive Directors (b)								
B.N. Kelman	114,125	-	-	114,125	-	-	-	-
J.G. Allpass	120,015	-	39,059	159,074	-	-	-	-
L.G. Cox	58,260	-	436,491	494,751	-	-	-	-
B.R. Martin	76,406	-	5,383	81,789	-	-	-	-
H.K. McCann	50,625	-	27,188	77,813	-	-	-	-
A.B.A. Rahman	40,545	-	-	40,545	-	-	-	-
F.D. Abidin	-	-	-	-	-	-	-	-
Executive Officers (d)								
A. Downe	335,030	1,800,692	-	2,135,722	-	25,000	14.29	28 Aug 2000
R. Jenkins	378,222	1,723,560	-	2,101,782	-	63,750	14.29	28 Aug 2000
A. Lucas	382,912	1,712,937	-	2,095,849	58	212,500	14.29	28 Aug 2000
N. Moore	386,393	2,526,600	-	2,912,993	-	120,500	14.29	28 Aug 2000
R. Sheppard	413,242	1,689,850	-	2,103,092	-	-	-	-

(a) Includes the Bank's contributions to superannuation schemes other than for Non-Executive Directors.

(b) Non-Executive Directors' remuneration represents fees paid in connection with attending Board and Board Committee meetings and carrying out other duties. These duties are explained in the Annual Review.

(c) Options are issued subject to the exercise conditions referred to in Note 32 to the Financial Report – Employee Equity Participation and are only exercisable in tranches on the second, third and fourth anniversaries of the date of grant. The date shown above is the second anniversary of the date of grant and is the date that the first tranche of options is exercisable.

(d) Executive Officers shown above are the five highest paid members of the Executive Committee who are not members of the Board. Management of the Bank is substantially delegated by the Board of Directors to the Executive Committee.

(e) Other benefits represents the Bank's contributions to superannuation schemes and consulting fees paid to Mr J.G. Allpass \$32,500 (1998: \$26,500) and Mr L.G. Cox \$432,500 (1998: \$385,000).

DIRECTORS' DECLARATION

Macquarie Bank Limited and its Controlled Entities

6. COOPERS & LYBRAND AND PRICE WATERHOUSE MERGER

Coopers & Lybrand and Price Waterhouse merged on 1 July 1998. The merged firm PricewaterhouseCoopers is the auditor of the Bank and its controlled entities with effect from 1 July 1998. Auditors' remuneration includes all amounts paid to Price Waterhouse in the three months to 30 June 1998 and all amounts paid to PricewaterhouseCoopers in the nine months to 31 March 1999. A small number of former Coopers & Lybrand partners have loans with the Bank. Class Order 98/1868 dated 22 September 1998 was received from the ASIC which "grandfathers" all indebtedness of these partners. This Class Order requires:

- (a) The Bank to report to the ASIC within thirty days of its occurrence, any event of default or any enforcement action taken on these loans;

(b) the Directors of the Bank to report to the ASIC within seven days after signing the Directors' Report whether, in the opinion of the Board Audit and Compliance Committee, the Class Order has been complied with; and

- (c) PricewaterhouseCoopers to report to the ASIC within seven days after signing the Auditors' Report whether the audit has been influenced by the indebtedness.

7. 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) 9237 3333. Alternatively, both the full financial report and the concise financial report can be accessed via the internet at: www.macquarie.com.au

DIRECTORS' DECLARATION

The Directors declare that, in their opinion, the concise financial report of the consolidated entity for the year ended 31 March 1999 as set out on pages 55 to 62 complies with Accounting Standard AASB 1039: Concise Financial Reports.

The financial statements and specific disclosures included in this concise financial report have been derived from the full financial report for the year ended 31 March 1999.

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 consolidated entity as the full financial report which, as indicated in note 7, 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
28 May 1999

INDEPENDENT AUDIT REPORT

FOR THE YEAR ENDED 31 MARCH 1999 Macquarie Bank Limited and its Controlled Entities

Independent Auditors Report

TO THE MEMBERS OF MACQUARIE BANK LIMITED Scope

We have audited the concise financial report of Macquarie Bank Limited (the Bank) for the financial year ended 31 March 1999 as set out on pages 55 to 62, in order to express an opinion on it to the members of the Bank. The Bank's Directors are responsible for the concise financial report.

Our audit has been conducted 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 1999. Our audit report on the full financial report was signed on 28 May 1999, and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information included in it is consistent with the full financial report, and examination, on a test basis, of evidence supporting the amounts, discussion and analysis and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion as to whether the concise financial report complies with Accounting Standard AASB 1039: Concise Financial Reports in that, in all material respects, it is presented fairly in accordance with that standard.

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

Audit Opinion

In our opinion, the concise financial report of the Bank complies with Accounting Standard AASB 1039: Concise Financial Reports.



PRICEWATERHOUSECOOPERS
Chartered Accountants



D.H. ARMSTRONG
Partner

Sydney
28 May 1999

INVESTOR INFORMATION

Macquarie Bank Limited and its Controlled Entities

1999 ANNUAL GENERAL MEETING

The 1999 Annual General Meeting of the Bank will be held at 10.30 am on Thursday, 29 July 1999 at The Wentworth Hotel, in the Melbourne Room, on Level 3, 61-101 Phillip Street, Sydney. Details of the business of the Meeting are contained in the separate Notice of Meeting sent to shareholders.

VOTING RIGHTS

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

- I. one vote for each fully paid share held; and
- II. that proportion of a vote for any partly paid ordinary shares held that the amount paid on the partly paid share bears to the total issue price of the shares. However, partly paid shares issued under the Bank's Partly Paid Share Scheme have:
 - A. the right to vote only in the following circumstances:
 1. upon a proposal to reduce the share capital of the Bank;
 2. upon a proposal that affects rights attached to the share;
 3. upon a proposal to wind up the Bank;
 4. during the winding up of the Bank; and
 - B. the right, in those circumstances, to one vote upon a poll.

STOCK EXCHANGE LISTING

Fully paid ordinary shares issued by Macquarie Bank Limited are quoted on the Australian Stock Exchange. Macquarie Bank's code on the Australian Stock Exchange is MBL.

ENQUIRIES

Shareholders who wish to enquire about any matter relating to their shareholdings are invited to contact the Share Registry office below or visit its Internet site at www.cshare.com.au

Computershare Registry Services Pty Limited

GPO Box 7045

Sydney NSW 1115

Australia

Telephone: (02) 8234 5222

Facsimile: (02) 8234 5050

E-mail: sydney.services@computershare.com.au

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

Investor Relations

Macquarie Bank Limited

PO Box H68, Australia Square

Sydney NSW 1210

Australia

Telephone: (02) 9237 3250

Facsimile: (02) 9237 4330

E-mail: esibree@macquarie.com.au

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

FIVE YEAR SUMMARY

Macquarie Bank Limited and its Controlled Entities

Year ended 31 March	1995	1996	1997	1998	1999
Profit and Loss (\$million)					
Total operating income	355.1	435.2	530.1	664.7	831.2
Operating expenses	284.9	336.1	391.9	497.9	613.4
Operating profit before income tax	70.2	99.1	138.2	166.9	217.8
Income tax (expense)/benefit	5.9	(5.9)	(21.3)	(25.7)	(52.8)
Operating profit after income tax	76.1	93.2	116.9	141.2	165.0
Balance Sheet (\$million)					
Total assets	4,624	5,174	6,849	7,929	9,251
Total liabilities	4,244	4,746	6,349	7,348	8,599
Shareholders' funds	380	428	500	581	651
Capital and subordinated debt	590	662	679	884	962
Total loan assets (a)	2,233	2,455	2,470	3,029	3,947
Impaired assets (net of provisions)	49	57	46	12	44
Share Information					
Cash dividends per share (adjusted cents per share)					
1st Half	–	–	18.0	21.0	30.0
2nd Half (b)	28.2	34.7	25.0	30.0	38.0
Total (b)	28.2	34.7	43.0	51.0	68.0
Basic earnings per share					
Adjusted (cents) (b)	51.0	61.0	74.9	88.1	101.3
Share price at 31 March					
Unadjusted (\$)	4.80	6.00	8.50	14.35	19.10
Adjusted (\$) (b)	4.37	5.78	8.50	14.35	19.10
Bonus issue ratio	1:17	1:26	–	–	–
Issued capital (million shares) (c)	128.2	138.7	151.4	157.6	161.1
Market capitalisation at 31 March (fully paid ordinary shares) (\$million)	616	832	1,287	2,262	3,077
Ratios					
Return on average shareholders' funds	21.1%	23.1%	25.2%	26.1%	26.8%
Payout ratio	57.0%	61.0%	60.5%	57.9%	67.2%
Tier 1 ratio	12.1%	11.8%	12.9%	11.7%	13.0%
Capital adequacy ratio	15.4%	15.4%	13.2%	16.4%	17.3%
Impaired assets as % of loan assets	2.2%	2.3%	1.8%	0.4%	1.1%
Net loan losses as % of loan assets	0.0%	0.0%	0.0%	0.0%	0.1%
Funds Under Management (\$billion)					
Retail	4.7	5.6	7.2	9.0	9.8
Wholesale	6.3	7.5	8.5	10.3	9.8
Listed trusts	0.8	0.6	1.1	1.6	2.3
Other	0.1	0.1	0.1	0.5	0.5
	11.9	13.8	16.9	21.4	22.4
Assets Under Administration (\$billion)					
Mortgages	0.9	2.7	4.8	7.0	8.7
Listed trusts	–	1.1	1.3	1.3	1.5
Other	–	0.2	0.2	0.3	0.4
	0.9	4.0	6.3	8.6	10.6
Total	12.8	17.8	23.2	30.0	33.0
Staff Numbers	1,704	1,732	1,965	2,474	2,916

(a) Includes loans and advances, leases and balances due from governments.

(b) Adjusted for bonus issues, up to and including 1996 bonus issue.

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

DIRECTORY OF GROUPS AND DIVISIONS

Directory of Groups

Executive Chairman

David Clarke

Managing Director and Chief Executive Officer

Allan Moss

Deputy Managing Director

Richard Sheppard

Asset and Infrastructure Group

Nicholas Moore

Project and Structured Finance

Nicholas Moore

Infrastructure and Specialised Funds

Anthony Kahn

Macquarie Capital

Charles Wheeler

Treasury and Commodities Group

Andrew Downe

Bullion and Commodities

Warwick Morris

Foreign Exchange and Capital Markets

Simon Wright

Debt Markets

Kirri Stone/James Wilson

Energy and Agriculture

Randell Heyman

Futures

Bill Marynissen

Money Market

Paul Robertson

Risk Advisory Services

Stephen Wood

Corporate Finance Group

Alastair Lucas

Corporate Advisory

Alastair Lucas

Equity Capital Markets

Bill Best/Wayne Kent

Equities Group

Richard Jenkins

Macquarie Equities

Warwick Evans

Macquarie Financial Services

Robyn FitzRoy/Brett Spork

Equity Markets

Ottmar Weiss

Global Equity Services

Mike McCarthy

MACQUARIE BANK – WHAT WE STAND FOR

Macquarie Bank aspires to be a pre-eminent provider of financial services over the long haul. We recognise that, however our achievements to date are judged, the quest for improvement is never ending.

The Macquarie culture is represented by the way in which we act and work together. The values to which we aspire can be summarised in six principles:

INTEGRITY

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 about this dealing?", "Were my actions to become publicly known, would I be ashamed or embarrassed?"

CLIENT COMMITMENT

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 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.

STRIVE FOR PROFITABILITY

Profit is ultimately why we are in business. We seek to achieve consistently superior profitability and we take pride in our profit record.

What We Stand

ps and Divisions

Banking and Property Group

Bill Moss

Property Investment Management

Stephen Girdis

Property Finance

Grant Munro

Property Investment Banking

Steven Papadopoulos

Medallist

Tony Fehon

Banking Solutions

Andrew Barnes

Private Investment Banking

Tony Bates

Distribution

Andrew Barnes

Securitisations

Tony Gill

Macquarie Mortgages

Frank Ganis

Investment Services Group

David Adams

Institutional Funds

David Deverall

Investment Products

Bruce Terry

Asset Management

Greg Matthews

Portfolio Services

Judy Shade

Direct Investment Division

Sandy Lockhart

Corporate Affairs Group

Richard Sheppard

Administration and Overseas Operations

Wayne Leamon

Company Secretarial and Investor Relations

Dennis Leong

Corporate Relations

Warwick Smith

Financial Operations

Greg Ward

Taxation

Andrew McWhinnie

Quantitative Applications Division

John Green

Economics and Fixed Interest

Research Division

Bill Shields

Risk Management Division

Nick Minogue

Credit

Larry Sacks

Finance

Max Merven

Operational Risk Review

Nick Ridgewell

Information Services Division

Gail Burke

For

Profitability is fundamental to our success. It funds our continued growth and rewards both our shareholders and our employees.

FULFILMENT FOR OUR PEOPLE

Macquarie recognises that its most valuable assets go home every night. This is the foundation stone of our belief that Macquarie must be a fulfilling 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.

TEAMWORK

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.

While the basis of remuneration and advancement is the recognition of individual merit, this is not inconsistent with teamwork; indeed, the best performing individuals are those who are team players.

HIGHEST STANDARDS

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.

Our commitment to the six principles is vital for our continued growth and prosperity.

CONTACT DIRECTORY

Contact Director

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

AUSTRALIA

Sydney

No. 1 Martin Place
Sydney NSW 2000
Tel: (02) 9237 3333
Fax: (02) 9237 7780
Telex: 122246

20 Bond Street
Sydney NSW 2000
Tel: (02) 9237 3333
Fax: (02) 9237 3350
Telex: 122246

Level 9, 9 Hunter Street
Sydney NSW 2000
Tel: (02) 9237 3333
Fax: (02) 9237 7900

Level 1, 110 George Street
Parramatta NSW 2150
Tel: (02) 9840 6492
Fax: (02) 9840 6484

Cnr Victor Street and
Victoria Avenue
Chatswood NSW 2067
Tel: (02) 9410 3633
Fax: (02) 9410 1694

Melbourne

101 Collins Street
Melbourne VIC 3000
Tel: (03) 9635 8000
Fax: (03) 9635 8080
Telex: 32736

Level 4, 432 St Kilda Road
Melbourne VIC 3000
Tel: (03) 9864 2800
Fax: (03) 9866 6815

Brisbane

300 Queen Street
Brisbane QLD 4000
Tel: (07) 3233 5333
Fax: (07) 3233 5399
Telex: 40638

Macquarie Nevitts

Brisbane

Comalco Place 12 Creek Street
Brisbane QLD 4000
Tel: (07) 3233 5888
Fax: (07) 3233 5999

Buderim

11 Burnett Street
Buderim QLD 4556
Tel: (07) 5445 2822
Fax: (07) 5445 2248

Burleigh Heads

11 West Street
Burleigh Heads QLD 4220
Tel: (07) 5576 1044
Fax: (07) 5576 2175

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Cairns QLD 4870
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69 Mary Street
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Southport QLD 4215
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Toowoomba QLD 4350
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Townsville QLD 4810
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77 St Georges Terrace
Perth WA 6000
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Macquarie Porter Western

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Perth WA 6000
Tel: (08) 9422 2828
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Adelaide

Level 4, Sun Alliance Building
45 Grenfell Street
Adelaide SA 5000
Tel: (08) 8231 6113
Fax: (08) 8231 6107
Country callers: 1800 806 310

Macquarie Day Cutten Adelaide

Level 1, West Wing
50 Grenfell Street
Adelaide SA 5000
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8c Helen Street
Mount Gambier SA 5290
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Hobart TAS
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Canberra ACT 2601
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Tel: (0171) 776 7066
(Foreign Exchange)
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SHARE REGISTRY

Computershare Registry
Services Pty Ltd
GPO Box 7045
Sydney NSW 1115
Tel: (02) 8234 5222
Fax: (02) 8234 5050

CAPITAL NOTES REGISTRY

Permanent Registry Limited
Locked Bag 18
Australia Square NSW 1215
Tel: (02) 9274 8480 or 1800 807 409
Fax: (02) 9274 8484

QANMACS REGISTRY

Perpetual Registrars Limited
Locked Bag A14
Sydney South NSW 1232
Tel: (02) 9285 7111
Fax: (02) 9261 8489

NET ADDRESS

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Please note:

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

