

**CHAIRMAN'S ADDRESS**  
**MACQUARIE BANK LIMITED 2001 ANNUAL GENERAL MEETING**  
**10.30 AM, 26 JULY 2001**  
**THE WESTIN SYDNEY, NO. 1 MARTIN PLACE, SYDNEY**

**WELCOME**

GOOD MORNING LADIES AND GENTLEMEN.

LET ME START BY WELCOMING ALL SHAREHOLDERS TO MACQUARIE BANK'S 2001 ANNUAL GENERAL MEETING.

IT IS NOW 10.30 AND IN ACCORDANCE WITH THE NOTICE OF MEETING, I WOULD LIKE TO FORMALLY OPEN THE MEETING.

I AM ADVISED BY THE COMPANY SECRETARY THAT A QUORUM IS PRESENT.

AS WELL AS THOSE SHAREHOLDERS PHYSICALLY PRESENT HERE THIS MORNING, THE HOLDERS OF OVER 129 MILLION SHARES, OR APPROXIMATELY 73 PER CENT OF THE BANK'S ORDINARY SHARES, ARE REPRESENTED BY PROXIES.

YOUR DIRECTORS ARE SEATED AT THE TABLE AND I WOULD LIKE TO INTRODUCE THEM TO SHAREHOLDERS WHO MAY NOT ALREADY KNOW THEM.

ON MY RIGHT IS YOUR COMPANY SECRETARY, DENNIS LEONG.

NEXT TO HIM, THE DEPUTY CHAIRMAN MARK JOHNSON, FORMER DEPUTY CHAIRMAN BRYAN KELMAN, THEN KEVIN McCANN, AND LAURIE COX.

ON MY LEFT IS YOUR MANAGING DIRECTOR ALLAN MOSS AND NEXT TO HIM, THE BANK'S CHIEF FINANCIAL OFFICER, GREG WARD, THEN HELEN NUGENT, JOHN ALLPASS AND BARRIE MARTIN.

I WOULD ALSO LIKE TO WELCOME ANY HOLDERS OF THE BANK'S CONVERTING PREFERENCE SHARES AND MACQUARIE INCOME SECURITIES WHO MAY BE HERE.

ALTHOUGH THERE ARE NO RESOLUTIONS TODAY ON WHICH THESE HOLDERS MAY VOTE, WE APPRECIATE THE INTEREST THAT YOU HAVE SHOWN IN YOUR INVESTMENT.

## **AGENDA**

THIS MORNING THERE ARE A NUMBER OF ITEMS ON OUR AGENDA.

APART FROM THE USUAL APPROVAL OF ACCOUNTS AND DIRECTORS RE-ELECTION, SHAREHOLDERS WILL CONSIDER RESOLUTIONS IN RELATION TO EMPLOYEE OPTIONS, THE INTRODUCTION OF A DIVIDEND REINVESTMENT PLAN AND AMENDMENTS TO THE CONSTITUTION .

## **FINANCIAL HIGHLIGHTS**

IT IS PLEASING TO BE ABLE TO REPORT ANOTHER RECORD RESULT FOR THE BANK'S 2001 FINANCIAL YEAR. <SLIDE1 – PROFIT>

CONSOLIDATED AFTER-TAX PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS FOR 2001 WAS \$242.0 MILLION, AN INCREASE OF 15.1 PER CENT, WHICH MAINTAINS THE BANK'S 10 YEAR RECORD OF ANNUAL INCREASES IN PROFITABILITY.

AT YEAR END, THE AFTER-TAX RETURN ON AVERAGE ORDINARY SHAREHOLDERS' FUNDS WAS 27.1 PER CENT, SLIGHTLY DOWN FROM 28.1 PER CENT LAST YEAR.

WE ARE PROUD OF THE FACT THAT OUR SHAREHOLDERS CONSISTENTLY BENEFIT FROM A RETURN ON EQUITY EXCEEDING 20 PER CENT PER ANNUM.

PRE-TAX PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS INCREASED MARGINALLY BY 2.3 PER CENT TO \$296.0 MILLION.

THE INCREASE IS 11.9 PER CENT IF THE ONE-OFF REALISATION FROM THE SALE OF LOOKSMART SHARES IN 2000 IS EXCLUDED.

THIS INCOME WAS DERIVED FROM A WIDE RANGE OF BUSINESSES OPERATING IN AUSTRALIA AND 24 INTERNATIONAL LOCATIONS, REFLECTING THE DIVERSITY OF OUR BUSINESS MIX AND GEOGRAPHIC SPREAD.

EARNINGS FROM OUR INTERNATIONAL OPERATIONS INCREASED 68 PER CENT THIS YEAR AND NOW REPRESENTS 29 PER CENT OF THE BANK'S INCOME AND 38 PER CENT OF ITS PROFIT.

## **DIVIDENDS**

ORDINARY SHAREHOLDERS WILL HAVE RECENTLY RECEIVED THE YEAR 2001 FINAL DIVIDEND.

IN ACCORDANCE WITH THE BANK'S DISTRIBUTION POLICY, THE DIVIDENDS FOR THE FULL YEAR TOTALLED 93 CENTS PER SHARE.

THE DIVIDEND WAS 70 PER CENT FRANKED.

## **GROUP OPERATING HIGHLIGHTS 2000/2001**

THE YEAR WAS CHARACTERISED BY CONTINUED GROWTH AND STRONG TRANSACTION FLOW ACROSS MOST OF THE BANK'S BUSINESSES.

WITH THE EXCEPTION OF THE FINANCIAL SERVICES GROUP, WHICH UNDERTOOK A MAJOR TECHNOLOGY SPEND DURING THE YEAR, ALL GROUPS MADE A POSITIVE CONTRIBUTION TO THE RESULT.

THE RELATIVE CONTRIBUTIONS ARE SET OUT IN THE TABLE YOU SEE ON THE SCREEN. <SLIDE 2 – GROUP CONTRIBUTION>

ASSET AND INFRASTRUCTURE ACHIEVED ANOTHER RECORD RESULT. THE GROUP CONTINUED TO DEVELOP IN ITS AUSTRALIAN AND INTERNATIONAL MARKETS ARRANGING FINANCE FOR MORE THAN \$20 BILLION OF ASSETS DURING THE YEAR.

TREASURY AND COMMODITIES ALSO HAD A SUCCESSFUL YEAR, WITH A RESULT WELL UP ON THE CORRESPONDING PERIOD.

NOTEWORTHY IS THE RESILIENCE OF THE GROUP'S PERFORMANCE DESPITE GENERALLY DEPRESSED, BUT OCCASIONALLY VOLATILE, MARKETS.

EQUITY MARKETS ENJOYED A RECORD RESULT DESPITE VARIED MARKET CONDITIONS ACROSS ITS INTERNATIONAL MARKETS.

A SIGNIFICANT PROPORTION OF ITS NET INCOME WAS GENERATED FROM ITS OFFSHORE OPERATIONS, WITH OUR SOUTH AFRICAN AND EUROPEAN BUSINESSES BOTH PERFORMING WELL.

HONG KONG WARRANT ISSUANCE MADE AN ESPECIALLY LARGE CONTRIBUTION.

CORPORATE ADVISORY AND INSTITUTIONAL STOCKBROKING'S REVENUE GREW DESPITE A FALL IN AUSTRALIAN EQUITY ISSUANCE AND SOFT EQUITY MARKETS.

BANKING AND PROPERTY ENJOYED AN EXCELLENT YEAR AND RECORD PROFIT. ALL OPERATING BUSINESSES – PROPERTY, BANKING, MORTGAGES AND SECURITISATION, GOLF AND LEISURE – MADE A SOLID CONTRIBUTION TO THE RESULT.

FUNDS MANAGEMENT CONTINUED TO ESTABLISH ITSELF AS A KEY PLAYER IN AUSTRALIA AND PROGRESSED A NUMBER OF NEW BUSINESS INITIATIVES IN ASIA. DURING THE YEAR FUNDS UNDER MANAGEMENT INCREASED BY 5 PER CENT TO \$22.4 BILLION.

AS FORESHADOWED, THE FINANCIAL SERVICES GROUP MADE A SMALL LOSS DUE TO THE SIGNIFICANT INVESTMENT IN TECHNOLOGY AND CHANGE PROGRAMS.

HOWEVER, THE GROUP MADE SUBSTANTIAL PROGRESS DURING THE YEAR IN THE IMPLEMENTATION OF THESE PROGRAMMES.

IT ALSO MADE A SIGNIFICANT CONTRIBUTION TO OTHER PARTS OF THE BANK THROUGH ITS RETAIL DISTRIBUTION ACTIVITIES.

#### **RECENT STRUCTURAL CHANGES**

YOU WILL NOTE IN THE GROUP CONTRIBUTION SLIDE THAT THE ASSET AND INFRASTRUCTURE AND CORPORATE ADVISORY AND INSTITUTIONAL STOCKBROKING GROUPS ARE LINKED TOGETHER.

IN MAY 2001, THE BANK ANNOUNCED THE MERGER OF THESE TWO GROUPS TO FORM THE INVESTMENT BANKING GROUP (“IBG”), WHICH BRINGS TOGETHER THE GROUP’S WHOLESALE STRUCTURING, STOCKBROKING, UNDERWRITING AND ADVISORY CAPABILITIES.

IN NOVEMBER 2000 THE FORMATION OF THE EQUITY MARKETS GROUP WAS ANNOUNCED.

PREVIOUSLY PART OF THE EQUITIES GROUP, THE EQUITY MARKETS GROUP NOW UNDERTAKES THE GROUP’S PRODUCT ISSUANCE, MARKET-MAKING, RISK ARBITRAGE AND PRINCIPAL-TRADING ACTIVITIES IN EQUITIES AND EQUITY DERIVATIVES.

THESE CHANGES, ALONG WITH LAST YEAR’S FORMATION OF THE FINANCIAL SERVICES GROUP, ARE FOCUSING THE BANK MORE CLOSELY ON THE NEEDS OF OUR CLIENTS.

WE ARE CONFIDENT THAT COMBINING THESE RESOURCES WILL POSITION US BETTER TO EXPLOIT GROWTH OPPORTUNITIES, AND WILL ALSO ASSIST IN DEEPENING RELATIONSHIPS WITH EXISTING CLIENTS AS WELL AS HELPING TO CREATE NEW CLIENT RELATIONSHIPS.

## **SHARE PRICE**

AT MARKET CLOSE YESTERDAY, THE BANK’S SHARE PRICE WAS \$37.88.

THIS PRICE GIVES MACQUARIE A MARKET CAPITALISATION OF \$6.7 BILLION, RANKING US AS THE TWENTIETH LARGEST COMPANY ON THE ASX.

IT WOULD APPEAR THAT PART OF THE REASON FOR THE APPRECIATION OF THE BANK'S SHARE PRICE IS THE FORTHCOMING INCLUSION OF THE STOCK IN THE MORGAN STANLEY CAPITAL INTERNATIONAL INDEX (MSCI).

THE MSCI IS ONE OF THE LEADING GLOBAL INDICES AND IS USED BY MANY FUNDS MANAGERS AS A BENCHMARK FOR THEIR FUNDS.

### **SPECIALIST FUNDS**

THERE HAS BEEN A VERY POSITIVE SHAREHOLDER REACTION TO THE INCREASED ACTIVITY BY VARIOUS GROUPS WITHIN THE BANK IN SPECIALIST ASSET-CLASS FUNDS.

THESE FUNDS ARE AN IMPORTANT STRATEGIC OPPORTUNITY, ALLOWING MACQUARIE TO COMBINE OUR INVESTMENT BANKING AND INDUSTRY SECTOR EXPERTISE.

AN EXAMPLE OF ONE OF MACQUARIE'S SPECIALIST FUNDS IS THE MACQUARIE INFRASTRUCTURE GROUP ("MIG").

MACQUARIE ESTABLISHED MIG, FORMERLY: INFRASTRUCTURE TRUST OF AUSTRALIA, WITH A SEED ASSET IN THE M5 MOTORWAY.

AS TRUST MANAGER, MACQUARIE WAS INSTRUMENTAL IN ACQUIRING ADDITIONAL INFRASTRUCTURE ASSETS, PRINCIPALLY OFFSHORE TOLLROADS AND BUILDING THIS WORLD-CLASS ENTITY.

MACQUARIE RECENTLY EARNED A PERFORMANCE FEE OF \$69 MILLION FOR ITS SUCCESSFUL MANAGEMENT OF THE TRUST.

MACQUARIE WILL RECEIVE THE SAME PERFORMANCE FEE IN EACH OF THE NEXT TWO YEARS PROVIDING MIG MAINTAINS ITS OUTPERFORMANCE OF THE RELEVANT INDEX.

ANOTHER RECENT EXAMPLE OF THESE SPECIALIST FUNDS IS THE MACQUARIE AIRPORT GROUP (MAG).

MAG IS SEEKING TO RAISE UP TO 600 MILLION EUROS, WITH A FIRST CLOSE SCHEDULED FOR AUGUST.

MAG'S INITIAL ASSET WILL BE A 50 PER CENT INTEREST IN BRISTOL INTERNATIONAL AIRPORT, PURCHASED BY THE BANK IN JANUARY.

MACQUARIE AND MAG ARE ALSO PARTICIPATING IN THE SALE PROCESS FOR SYDNEY (KINGSFORD SMITH) AIRPORT AS PART OF THE SOUTHERN CROSS CONSORTIUM.

WE ARE ALSO VERY PLEASED TO NOTE THE STRONG PERFORMANCE OF OUR LISTED PROPERTY TRUSTS.

MACQUARIE COUNTRYWIDE TRUST AND MACQUARIE OFFICE TRUST BOTH RANKED NUMBER ONE IN THEIR SECTORS FOR THE FIVE YEARS ENDING 31 MARCH 2001, WHILE MACQUARIE GOODMAN INDUSTRIAL TRUST WAS ALSO RANKED NUMBER ONE FOR THE THREE YEARS ENDING 31 MARCH 20001.

SPECIALIST PROPERTY FUNDS UNDER MANAGEMENT GREW BY 31 PER CENT FOR THE YEAR ENDED MARCH 2001 TO \$2.6 BILLION.



## **RISK MANAGEMENT**

IT IS IMPORTANT TO NOTE THAT UNDERLYING THESE INITIATIVES, AS WITH ALL MACQUARIE'S BUSINESS CONCERNS, IS A STRONG CULTURE OF RISK MANAGEMENT.

STRONG RISK MANAGEMENT IS INTEGRAL TO THE BANK'S APPROACH AND IS THE SUBJECT OF A HIGH LEVEL OF MANAGEMENT ATTENTION IN ALL OUR BUSINESSES AS WELL AS IN THE RISK MANAGEMENT DIVISION ITSELF.

ALTHOUGH WE HAVE SEEN SOME SIGNS OF CREDIT WEAKNESS IN WORLD ECONOMIES OVER THE LAST TWELVE MONTHS AS GROWTH IN THESE MARKETS SLOWS, MACQUARIE'S ASSET QUALITY REMAINS HIGH AND THE BANK HAS LOW LEVELS OF CREDIT LOSSES.

WE HAVE ALSO SEEN IN RECENT TIMES AN INCREASED INCIDENCE OF CORPORATE INSOLVENCY IN AUSTRALIA.

WE BELIEVE THAT THE BANK IS WELL POSITIONED IN THIS ENVIRONMENT.

## **NO BUY-BACK/DIVIDEND REINVESTMENT PLAN**

SINCE THE ANNOUNCEMENT OF THE BANK'S NEW DIVIDEND POLICY LAST NOVEMBER, WHICH INVOLVED SUPPLEMENTING DIVIDENDS WITH A PROGRAM OF ON-MARKET SHARE BUY-BACKS, THERE HAS BEEN A SIGNIFICANT GROWTH IN THE BANK'S ACTIVITIES AND IN RISK WEIGHTED ASSETS.

THE BANK SEES FURTHER GROWTH OPPORTUNITIES AHEAD.

IN PARTICULAR, THE DEVELOPMENT OF OUR SPECIALIST ASSET CLASS FUNDS INTERNATIONALLY MAY REQUIRE THE PURCHASE OF SEED ASSETS OR THE PARTICIPATION BY THE BANK AS AN INVESTOR – UP TO AROUND 10 PER CENT - IN SOME NEW FUNDS.

FOR THESE REASONS, THE BANK HAS DECIDED NOT TO UNDERTAKE A SHARE BUY-BACK IN THIS HALF YEAR.

WHILE THE BANK HAS NOT TAKEN ANY DECISION TO RAISE EXTERNAL CAPITAL, IT IS CONSIDERED PRUDENT THAT WE HAVE MAXIMUM CAPITAL RAISING FLEXIBILITY SHOULD THE NEED ARISE.

THE BANK CONSIDERS A DIVIDEND REINVESTMENT PLAN TO BE AN ATTRACTIVE CAPITAL RAISING MECHANISM AS IT OFFERS ALL ORDINARY SHAREHOLDERS THE OPPORTUNITY TO INVEST FURTHER IN THE BANK AND FUNDS CAN BE RAISED AT OR NEAR THE PREVAILING MARKET PRICE.

HENCE, AS DESCRIBED IN THE NOTICE OF MEETING THE BANK IS SEEKING SHAREHOLDER APPROVAL TO INTRODUCE A DIVIDEND REINVESTMENT PLAN (“DRP”).

SHOULD SHAREHOLDERS PASS THESE RESOLUTIONS, THE BOARD WILL KEEP ACTUAL IMPLEMENTATION OF A DRP UNDER CLOSE REVIEW HAVING REGARD TO THE BANK’S CAPITAL POSITION AND ITS GROWTH PROSPECTS.

## **REMUNERATION**

I WOULD NOW LIKE TO TURN YOUR ATTENTION TO SOME CHANGES IN THE STRUCTURE OF EMPLOYEE REMUNERATION.

LAST MONTH WE ANNOUNCED CHANGES IN RELATION TO THE BANK'S PROFIT SHARING ARRANGEMENTS.

THESE CHANGES ARE ALSO OUTLINED IN THE ANNUAL REPORT.

SINCE ITS INCEPTION, MACQUARIE BANK HAS HAD A PROFIT SHARING SCHEME FOR STAFF.

THE KEY PHILOSOPHY UNDERLYING THE SCHEME HAS BEEN TO ALIGN THE INTERESTS OF OUR STAFF WITH THOSE OF OUR SHAREHOLDERS.

PROFIT SHARE IS PAID OUT OF A BONUS POOL DETERMINED BY A FORMULA.

THE AMOUNT ACCRUING TO THE PROFIT SHARING POOL HAS BEEN DRIVEN BY RETURN ON EQUITY, WITH ESCALATING REMUNERATION LEVELS AS RETURN ON EQUITY INCREASES.

THE FORMULA HAS BEEN EFFECTIVE IN ENCOURAGING AND REWARDING COMMERCIAL ACHIEVEMENT IN THE BUILDING OF BUSINESSES.

HOWEVER, THIS FORMULA HAS CREATED A VERY HIGH IMPLIED HURDLE RATE FOR NEW INVESTMENTS.

THE BOARD AND SENIOR MANAGEMENT ARE KEEN TO ENCOURAGE STAFF TO PURSUE INVESTMENT OPPORTUNITIES, INCLUDING SEED INVESTMENTS IN SPECIALIST FUNDS, THAT WOULD BE IN SHAREHOLDERS' INTERESTS.

THUS WE HAVE MODIFIED THE BONUS DRIVER SO THAT AS FROM THE CURRENT YEAR , PERFORMANCE-BASED REMUNERATION WILL BECOME A FUNCTION OF

BOTH AFTER-TAX PROFIT AS WELL AS EARNINGS IN EXCESS OF THE BANK'S COST OF CAPITAL.

THE EFFECT OF THIS IS TO CONTINUE TO ENCOURAGE ACHIEVEMENT BUT TO REDUCE THE IMPLIED HURDLE RATE FOR GROWTH BY ACQUISITION OF ASSETS OR BUSINESSES.

WE BELIEVE THAT THERE WILL BE OPPORTUNITIES FOR THE ACQUISITION OF SEED ASSETS FOR SPECIALISED FUNDS OR SMALL BUSINESSES AND TEAMS THAT BRING EXPERTISE AND NEW SKILLS.

IN ADDITION TO THE STRATEGIC EFFECTS OF THESE CHANGES, THERE HAS ALSO BEEN A SMALL UPWARD ADJUSTMENT TO THE AMOUNT ACCRUING TO THE PROFIT-SHARING POOL IN RECOGNITION OF COMPETITIVE PRESSURES IN EMPLOYMENT MARKETS.

IF THE NEW ARRANGEMENTS HAD BEEN APPLIED IN THE YEAR ENDED 31 MARCH 2001, TOTAL EMPLOYMENT EXPENSES WOULD HAVE INCREASED BY 3 PER CENT. OVERALL REMUNERATION POLICIES REMAIN SUBJECT TO THE DISCRETION OF THE BOARD AND MUST BE CHANGED FROM TIME TO TIME TO REFLECT MARKET AND BUSINESS CONDITIONS.

IN SUMMARY, WE ARE CONFIDENT THAT THESE CHANGES WILL BETTER ALIGN STAFF AND SHAREHOLDER INTERESTS AND ENHANCE THE LONG-TERM GROWTH PROSPECTS OF THE BANK.

## **RETIREMENT OF BRYAN KELMAN**

BRYAN KELMAN WILL BE RETIRING FROM THE BOARD AT TODAY'S ANNUAL GENERAL MEETING.

BRYAN WAS A NON-EXECUTIVE DIRECTOR OF HILL SAMUEL AUSTRALIA FROM 1981 TO 1985 WHEN HE BECAME A FOUNDATION NON-EXECUTIVE DIRECTOR OF MACQUARIE BANK.

HE HAS BEEN A VERY VALUABLE CONTRIBUTOR OVER THESE TWENTY YEARS. HE WAS DEPUTY CHAIRMAN FROM SEPTEMBER 1993 TO SEPTEMBER 2000 AND A MEMBER OF THE BOARD COMPENSATION AND NOMINATING COMMITTEES.

ON BEHALF OF THE BOARD I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK BRYAN FOR HIS SUBSTANTIAL CONTRIBUTION TO MACQUARIE'S DEVELOPMENT AND TO WISH HIM WELL IN HIS RETIREMENT.

THE BOARD APPOINTED MARK JOHNSON AS THE NEW DEPUTY CHAIRMAN.

## **CORPORATE GOVERNANCE**

WHILE ON THE SUBJECT OF THE BOARD, I WOULD ALSO LIKE TO TAKE THIS OPPORTUNITY TO EXPLAIN WHY THE BOARD CONSIDERS IT APPROPRIATE TO HAVE SIGNIFICANT EXECUTIVE MEMBERSHIP.

THE BANK HAS MANY CHARACTERISTICS OF A LARGE DIVERSIFIED PROFESSIONAL SERVICES FIRM, INCLUDING AN UNUSUALLY HIGH DEPENDENCE ON ITS INTELLECTUAL CAPITAL – OUR STAFF – AND A 'PARTNERSHIP' VIEW OF THE FIRM BY ITS EMPLOYEES.

THE BOARD HAS FOSTERED THIS PROFESSIONAL SERVICES VIEW OF THE BANK TO THE GREAT BENEFIT OF THE BANK'S PERFORMANCE AND SHAREHOLDER RETURNS.

THE BANK'S 31-YEAR RECORD OF STRONG PERFORMANCE DEMONSTRATES THAT THIS APPROACH WORKS.

FOR SIMILAR REASONS, MOST OTHER INVESTMENT BANKS ALSO HAVE SUBSTANTIAL EXECUTIVE REPRESENTATION ON THEIR BOARDS.

MARK JOHNSON'S APPOINTMENT AS DEPUTY CHAIRMAN IS CONSISTENT WITH THIS PHILOSOPHY.

MARK IS IDEALLY PLACED HAVING HAD 35 YEARS INVESTMENT BANKING EXPERIENCE IN AUSTRALIA AND OVERSEAS.

HE WAS JOINT MANAGING DIRECTOR OF HILL SAMUEL AUSTRALIA LIMITED (PREDECESSOR TO MACQUARIE BANK LIMITED) FROM 1971 TO 1977 AND AN EXECUTIVE DIRECTOR OF HILL SAMUEL & CO. LONDON UNTIL 1980.

HE WAS ALSO FOUNDING DIRECTOR OF THE AUSTRALIAN BANK IN 1981.

#### **FIRST QUARTER RESULT**

I WOULD NOW LIKE TO TALK TO YOU ABOUT THE CURRENT YEAR.

THE BANK'S FIRST QUARTER RESULTS WERE AHEAD OF THE PRIOR CORRESPONDING PERIOD.

THIS INCREASED RESULT WAS PRIMARILY DUE TO THE SUBSTANTIAL MANAGEMENT PERFORMANCE FEE EARNED FROM MIG THAT WAS MENTIONED EARLIER.

LOOKING MORE CLOSELY AT THE INDIVIDUAL GROUPS' PERFORMANCES:

THE MIG PERFORMANCE FEE WAS A KEY CONTRIBUTOR TO THE INVESTMENT BANKING GROUP'S OVERALL STRONG RESULT.

ALTHOUGH THE PERFORMANCE OF THE FORMER CORPORATE ADVISORY AND INSTITUTIONAL STOCKBROKING BUSINESS IS DOWN ON THE CORRESPONDING PERIOD THE PIPELINE FOR DEALS IN THE CURRENT YEAR REMAINS PROMISING.

HOWEVER, THE GROUP'S PERFORMANCE IS LIKELY TO BE AFFECTED BY REDUCED INVESTOR INTEREST IN THE CROSS BORDER LEASING MARKET IN THE UNITED STATES.

DESPITE THIS WE ARE CONFIDENT THAT THE GROUP WILL CONTINUE TO CONTRIBUTE STRONGLY TO THE BANK'S PROFITABILITY.

EQUITY MARKETS GROUP'S RESULT WAS SIGNIFICANTLY LOWER THAN THE PRIOR CORRESPONDING PERIOD.

ITS HONG KONG OPERATIONS WERE SIGNIFICANTLY AFFECTED IN THE FIRST QUARTER BY LOW RETAIL ACTIVITY AND THE REGULATORY ENVIRONMENT IN WHICH IT OPERATES.

WARRANT ISSUANCE IN THE HONG KONG MARKET HAS CEASED WHILE REGULATORY CHANGES ARE IMPLEMENTED.

AT THIS STAGE IT IS NOT CLEAR WHEN THESE REGULATORY CHANGES WILL BE MADE.

AS A RESULT THE OVERALL OUTLOOK FOR EQUITY MARKETS, AT THIS STAGE, IS FOR A REDUCED FULL YEAR CONTRIBUTION.

TREASURY AND COMMODITIES GROUP'S FIRST QUARTER RESULT WAS MARGINALLY DOWN ON THE RECORD RESULT OF THE PRIOR CORRESPONDING PERIOD.

FOREIGN EXCHANGE HAD A NOTABLY GOOD QUARTER WITH PARTICULARLY GOOD PERFORMANCES FROM THE DERIVATIVE SALES AND TRADING DESKS.

METALS AND MINING ALSO RECORDED A STRONG QUARTER, MAINLY ATTRIBUTABLE TO THE PERFORMANCE OF THE BULLION BUSINESS.

AGRICULTURAL COMMODITIES' VERY STRONG PERFORMANCE IN THE FIRST QUARTER LAST YEAR WAS NOT MATCHED THIS YEAR, DUE LARGELY TO FLAT PRICES AND LITTLE VOLATILITY IN THE UNDERLYING COMMODITIES.

HOWEVER, THE CONTRIBUTION FROM THIS BUSINESS WAS STILL GOOD.

BANKING AND PROPERTY GROUP RECORDED A RESULT MARGINALLY AHEAD OF THE PRIOR CORRESPONDING PERIOD.

THE GROUP'S RESULT WAS BUOYED BY THE STRONG PERFORMANCE OF THE MORTGAGES AND SECURITISATION BUSINESSES, WHOSE STRATEGY OF DIVERSIFYING ITS DISTRIBUTION CHANNELS IS NOW PAYING DIVIDENDS.



THE PROPERTY DIVISION'S RESULT WAS SLIGHTLY DOWN ON THE PRIOR CORRESPONDING PERIOD, MAINLY DUE TO TIMING DIFFERENCES ON FEES .

THE FUNDS MANAGEMENT GROUP HAS STARTED THE YEAR UP ON THE PRIOR CORRESPONDING PERIOD.

THE RESULT WAS LARGELY DUE TO EARNINGS FROM THE INDEXED EQUITIES AND SMALL COMPANIES FUND SECTORS.

WE HAVE SEEN A PLEASING IMPROVEMENT IN THE GROUP'S ACTIVE EQUITIES PERFORMANCE FOLLOWING CHANGES TO OUR MANAGEMENT APPROACH OVER THE PAST YEAR.

WE HAVE PREVIOUSLY ANNOUNCED THAT THE FINANCIAL SERVICES GROUP WOULD INCUR MODERATE LOSSES OVER ITS FIRST TWO YEARS OF OPERATION DUE TO A MAJOR INVESTMENT IN SYSTEMS AND CHANGE COSTS.

WE ARE NOW INTO FSG'S SECOND YEAR OF OPERATIONS AND, CONSISTENT WITH PROJECTIONS, THE GROUP RECORDED A SMALL LOSS IN THE JUNE QUARTER.

THE IMPLEMENTATION OF THE BUSINESS PLAN IS CONTINUING ON TRACK AND FURTHER SUBSTANTIAL INVESTMENTS IN TECHNOLOGY WILL CONTINUE IN THE CURRENT YEAR.

I AM PLEASED TO REPORT THAT THE TECHNOLOGY ROLL-OUT PROGRAM IS ON SCHEDULE AND ON BUDGET AND WE BELIEVE THAT MUCH OF THE IMPLEMENTATION RISK IS BEHIND US.

THE BANK'S JOINT VENTURE WITH JOHN FAIRFAX, CALLED TRADINGROOM.COM.AU, WAS RECENTLY RESTRUCTURED.

TRADINGROOM WILL MOVE FROM A JOINT VENTURE ARRANGEMENT TO A DISTRIBUTION MODEL AND FROM NOW ON TRADINGROOM ONLINE CLIENTS WILL BE SERVICED DIRECTLY BY THE BANK.

## **OUTLOOK STATEMENT**

I WOULD NOW LIKE TO TURN TO THE OUTLOOK FOR THE BANK'S PERFORMANCE FOR THE CURRENT YEAR.

AS I HAVE ALREADY NOTED, THE BANK'S FIRST QUARTER RESULTS WERE AHEAD OF THE PRIOR CORRESPONDING PERIOD.

THE INCREASED RESULT WAS DUE TO THE SUBSTANTIAL PERFORMANCE FEE EARNED FROM MIG.

THE RESULT FOR THE FULL YEAR IS, AS USUAL, DIFFICULT TO FORECAST AND IT IS TOO EARLY TO DRAW ANY DEFINITIVE CONCLUSIONS FROM THE FIRST QUARTER RESULT.

AS THE MANAGING DIRECTOR AND I NOTED IN THE ANNUAL REPORT, THE BANK'S SHORT TERM PERFORMANCE IS SUBJECT TO MARKET CONDITIONS IN THE SECTORS AND REGIONS IN WHICH WE OPERATE.

WE ALSO HIGHLIGHTED THE POSITIVE OUTLOOK FOR SPECIALISED FUNDS AND THE GROWTH OF ANNUITY INCOME STREAMS.

MY EARLIER COMMENTS TODAY HAVE PROVIDED YOU WITH DETAILS OF THE SIGNIFICANT FACTORS CURRENTLY AFFECTING OUR OPERATING ENVIRONMENT,

INCLUDING REDUCED CROSS-BORDER LEASING ACTIVITY IN THE UNITED STATES AND THE DOWNTURN OF THE EQUITY MARKETS BUSINESS IN HONG KONG.

RETURNS FROM EQUITIES RELATED BUSINESSES ARE INHERENTLY VOLATILE BUT THE BANK IS MUCH LESS DEPENDENT ON THESE REVENUE STREAMS THAN OUR INTERNATIONAL PEERS.

WE REMAIN POSITIVE ABOUT PROSPECTS FOR CONTINUING GROWTH AND ARE CONFIDENT THAT WE CAN MAINTAIN OR ENHANCE OUR STRONG MARKET POSITIONS OVER THE MEDIUM TERM.