

MACQUARIE BANK LIMITED  
CHAIRMAN'S ADDRESS  
2003 ANNUAL GENERAL MEETING  
31 JULY 2003  
(CHECK AGAINST DELIVERY)



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GOOD MORNING LADIES AND GENTLEMEN.

I'M DAVID CLARKE, THE CHAIRMAN OF MACQUARIE BANK AND I WILL BE CHAIRING YOUR MEETING TODAY.

THE COMPANY SECRETARY HAS ADVISED ME THAT A QUORUM IS PRESENT AND SO I FORMALLY DECLARE THE MEETING OPEN.

ON BEHALF OF THE DIRECTORS I WOULD LIKE TO WELCOME YOU TO THE 2003 ANNUAL GENERAL MEETING OF MACQUARIE BANK'S SHAREHOLDERS.

AS WELL AS THOSE SHAREHOLDERS PRESENT HERE THIS MORNING, THE HOLDERS OF 150 MILLION SHARES, OR APPROXIMATELY 71.5 PER CENT OF THE BANK'S ORDINARY SHARES, ARE REPRESENTED BY PROXIES.

FIRSTLY, LET ME TAKE THIS OPPORTUNITY TO INTRODUCE YOUR DIRECTORS AND SOME OF OUR SENIOR EXECUTIVES.

ON MY LEFT IS YOUR MANAGING DIRECTOR ALLAN MOSS.

NEXT TO HIM IS THE BANK'S CHIEF FINANCIAL OFFICER GREG WARD, THEN NON EXECUTIVE DIRECTORS BARRIE MARTIN, LAURIE COX, PETER KIRBY AND JOHN ALLPASS.

ON MY RIGHT IS OUR COMPANY SECRETARY, DENNIS LEONG.

NEXT TO HIM, IS THE DEPUTY CHAIRMAN MARK JOHNSON, AND NON EXECUTIVE DIRECTORS KEVIN MCCANN, HELEN NUGENT AND JOHN NILAND.

THERE ARE THREE MAJOR PARTS TO THIS MORNING'S MEETING:

I WILL START BY GIVING YOU A BRIEF OVERVIEW OF OUR RESULTS FOR THE PAST FINANCIAL YEAR AND THE GLOBAL ECONOMIC CONDITIONS WE FACED DURING THE YEAR.

I WILL THEN OUTLINE THE CHANGES WE HAVE MADE TO OUR CORPORATE GOVERNANCE REGIME AND OUR REMUNERATION POLICY AND I WILL TALK ABOUT OUR COMMUNITY INVOLVEMENT.

THEN ALLAN MOSS WILL DISCUSS THE YEAR IN MORE DETAIL, GIVE YOU AN OVERVIEW OF OUR STRATEGY AND DISCUSS THE OUTLOOK.

WE WILL THEN MOVE TO CONSIDER, DISCUSS AND VOTE ON THE SEVEN ITEMS SET OUT IN THE NOTICE OF MEETING

PLEASE SAVE YOUR QUESTIONS AND COMMENTS UNTIL THE COMPLETION OF THE FORMAL ADDRESSES.

ALSO, AS A COURTESY TO EVERYONE PRESENT, NO PHOTOGRAPHS OR VIDEO ARE TO BE TAKEN DURING THE MEETING.

AT THE END OF THE FORMAL PART OF THE MEETING, WE WOULD LIKE AS MANY SHAREHOLDERS AS POSSIBLE TO JOIN US FOR A CUP OF TEA OR COFFEE IN THE FOYER OUTSIDE.

[RESULTS]

IN DISCUSSING THIS YEAR'S RESULTS LET ME SAY AT THE OUTSET THAT A KEY UNDERLYING STRATEGY OF THE BANK IS SUSTAINABILITY.

THIS IS PARTICULARLY RELEVANT SINCE OUR GROWTH OVER THE LAST SEVEN YEARS HAS MOVED US INTO NEW AREAS WHERE WE HAVE STEWARDSHIP OF ASSETS AND INFRASTRUCTURE THAT ARE CRITICALLY IMPORTANT TO THE COMMUNITY.

OUR ABILITY TO HOLD, INVEST IN AND EXPAND THESE ASSETS RESPONSIBLY, DEPENDS ON OUR ABILITY TO GENERATE ABOVE AVERAGE RETURNS.

THIS IS EQUALLY TRUE AS WE COMPETE FOR THE CAPITAL AND THE PEOPLE REQUIRED TO MANAGE OUR MORE TRADITIONAL BUSINESSES.

SO, OUR ELEVENTH SUCCESSIVE INCREASE IN PROFIT IN 2003 DEMONSTRATES THE SUCCESS OF THAT UNDERLYING STRATEGY OF CONSISTENT LONG TERM PROFIT GROWTH.

THE YEAR TO MARCH 2003 WAS ESPECIALLY CHALLENGING - PERHAPS THE MOST DIFFICULT IN RECENT HISTORY.

DURING THE YEAR, THE GLOBAL ECONOMY AND CONFIDENCE WAS THREATENED BY TERRORISM, THE OUTBREAK OF SARS, THE IRAQ WAR AND WEAKNESSES IN THE ECONOMIES OF THE MAJOR WESTERN COUNTRIES.

AS A RESULT EQUITY MARKETS MOVED SHARPLY LOWER.

AT THEIR LOWEST, INTERNATIONAL INDICES FELL 49 PER CENT FROM THEIR 2000 PEAK.

AUSTRALIAN SHARES DID BETTER, BUT WERE STILL DOWN 15 PER CENT FROM THE HIGHS OF EARLY 2002.

THE DECLINE IN WORLD EQUITY MARKETS ALSO CREATED A VERY TOUGH ENVIRONMENT FOR TRADITIONAL INVESTMENT BANKING SERVICES AND WE WERE NOT IMMUNE.

THE PROFITS OF THE WORLD'S INVESTMENT BANKS (OUR DIRECT COMPETITORS) FELL BY AN AVERAGE 9 PER CENT IN 2002.

IN CONTRAST MACQUARIE BANK INCREASED THE AFTER TAX PROFIT ATTRIBUTABLE TO OUR ORDINARY EQUITY HOLDERS BY 33 PER CENT TO \$333 MILLION.

PRE-TAX PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS ROSE BY A SIMILAR MARGIN, UP 31 PER CENT TO \$428 MILLION.

EARNINGS PER SHARE ROSE 24 PER CENT TO \$1.65 AND RETURN ON ORDINARY SHAREHOLDERS' FUNDS WAS 18.7 PER CENT PER ANNUM.

OUR 39,000 SHAREHOLDERS SHARED IN THIS SUCCESS.

THE TOTAL DIVIDEND FOR THE YEAR WAS \$1.43 PER SHARE, COMPARED WITH 93 CENTS PER SHARE LAST YEAR.

SHAREHOLDERS WILL HAVE RECENTLY RECEIVED THEIR FINAL DIVIDEND OF 52 CENTS PER SHARE FULLY FRANKED, AS WELL AS THE SPECIAL DIVIDEND OF 50 CENTS PER SHARE, ALSO FULLY FRANKED.

OUR REVISED DIVIDEND POLICY IS FOR GROWTH IN DIVIDENDS TO BE BROADLY ALIGNED WITH THE BANK'S GROWTH IN EARNINGS PER SHARE.

IN THE MEDIUM TERM, WE AIM TO DELIVER A PAYOUT RATIO OF BETWEEN

50 AND 60 PER CENT OF NET PROFIT, WITH AT LEAST 80 PER CENT FRANKING.

THIS YEAR'S FINANCIAL RESULTS REFLECT A COMBINATION OF OUR CHANGING BUSINESS MODEL... OUR CONTINUING COMMITMENT TO INVEST IN GROWTH... AND PRUDENT FINANCIAL MANAGEMENT.

OVER THE LAST SEVEN YEARS WE HAVE DIVERSIFIED INTO AREAS LIKE SPECIALIST FUNDS, TO GIVE US A SUSTAINABLE, CONSISTENT INCOME STREAM.

MACQUARIE IS NOW AUSTRALIA'S FOURTH LARGEST FUND MANAGER, WITH MORE THAN \$52 BILLION IN FUNDS UNDER MANAGEMENT.

GLOBAL INFRASTRUCTURE IS THE FASTEST GROWING SEGMENT OF OUR FUNDS UNDER MANAGEMENT.

IN THE LAST YEAR, OUR INFRASTRUCTURE FUNDS UNDER MANAGEMENT GREW 57 PER CENT TO \$15.4 BILLION.

IMPORTANTLY, THIS GROWTH REFLECTS THE QUALITY OF OUR PEOPLE, WHO ARE RESPONSIBLE FOR FINDING AND BUILDING THE BUSINESSES ON WHICH MACQUARIE'S GROWTH IS BASED.

LET ME TURN NOW TO RISK MANAGEMENT.

MACQUARIE BANK IS RENOWNED FOR ITS INNOVATIVE APPROACH IN BUSINESS.

WE HAVE PIONEERED MANY OF THE ASSET CLASSES AND FINANCIAL PRODUCTS ON WHICH OUR SUCCESS IS FOUNDED.

BUT WE ARE CONSERVATIVE WHERE IT COUNTS.

WE HAVE A PRUDENT AND CAUTIOUS APPROACH TO RISK MANAGEMENT, CAPITAL MANAGEMENT, CREDIT QUALITY AND DISPUTE HANDLING.

THE TWO KEY TESTS OF FINANCIAL STRENGTH ARE A BANK'S TIER ONE CAPITAL ADEQUACY RATIO AND ITS CREDIT RATING, AS DETERMINED INDEPENDENTLY BY THE INTERNATIONAL RATING AGENCIES.

AT MARCH 31 THIS YEAR, OUR TIER ONE CAPITAL RATIO OF 19 PER CENT WAS WELL ABOVE OUR MINIMUM REGULATORY REQUIREMENT.

BEING CONSERVATIVELY CAPITALISED GIVES US THE STRATEGIC FLEXIBILITY TO PURSUE BUSINESS OPPORTUNITIES AS THEY ARISE.

IT ALSO MAINTAINS OUR GOOD CREDIT RATING.

THE MAJOR INTERNATIONAL RATING AGENCIES - MOODY'S, STANDARD AND POOR'S AND FITCH - HAVE ALL RECENTLY REAFFIRMED OUR STRONG CREDIT RATINGS, ALL OF WHICH ARE AT LEAST SINGLE "A".

MEANWHILE, MANY OF OUR COMPETITORS HAVE BEEN DOWNGRADED.

OUR CREDIT QUALITY IS ALSO VERY SOUND.

DESPITE THE MARKET DISRUPTIONS OVER THE PAST TEN YEARS MACQUARIE'S NET LOAN LOSSES HAVE NEVER EXCEEDED 0.17 PER CENT OF ITS LOAN ASSETS DURING THAT PERIOD.

WE HAVE ALSO EXERCISED PRUDENCE IN HANDLING DISPUTES.

IN THIS CONTEXT, OUR INDEPENDENT ADVISERS CONFIRM THAT RELATIVE TO OUR SIZE, THE DIVERSITY OF OUR BUSINESS AND THE INDUSTRY IN WHICH WE OPERATE, OUR CLAIMS RATE IS PARTICULARLY LOW, ON A

GLOBAL COMPARISON.

ANOTHER ELEMENT OF OUR APPROACH TO RISK MANAGEMENT IS IN OUR BUSINESS MIX.

A GROWING PERCENTAGE OF OUR FUNDS ARE NOW INVESTED IN ASSETS THAT PRODUCE STRONG, SECURE RETURNS OVER TIME, REGARDLESS OF STOCK MARKET FLUCTUATIONS.

MACQUARIE BANK IS NOW A MAJOR PARTICIPANT IN MANY WORLD FINANCIAL MARKETS.

THE GROUP HAS OVER 5,000 STAFF OPERATING IN 18 COUNTRIES, WITH 24 PER CENT OF OUR INCOME DERIVED FROM INTERNATIONAL ACTIVITIES.

WE HAVE SELECTED THESE OFFSHORE MARKETS CAREFULLY, ONLY CHOOSING THOSE WHERE WE BELIEVE WE CAN ADD REAL VALUE.

AND WE LEAD THE WORLD IN MANY OF THE THINGS WE DO.

MACQUARIE IS THE NUMBER ONE PROJECT FINANCE ADVISER IN THE ASIA PACIFIC AND AMERICAS REGIONS, AND NUMBER TWO GLOBALLY.

WE ARE ONE OF AUSTRALIA'S TOP MERGER AND ACQUISITION ADVISERS AND A LEADING DEBT ISSUER.

WE ARE ONE OF THE WORLD'S LEADING INFRASTRUCTURE FUND MANAGERS AND A LEADING ARRANGER OF CROSS BORDER LEASES.

INDEED, WE TAKE GREAT PRIDE IN THE FACT THAT WE ARE AN AUSTRALIAN INVESTMENT BANK COMPETING SUCCESSFULLY ON THE GLOBAL STAGE.

LET ME TURN NOW TO TALK BRIEFLY ABOUT OUR GOALS AND VALUES.

YOU WOULD NOT BE SURPRISED TO LEARN THAT WE ARE DOING THINGS TODAY THAT WEREN'T DREAMT OF TEN YEARS AGO.

AND NO DOUBT TEN YEARS FROM NOW WE'LL BE DOING THINGS UNTHOUGHT OF TODAY.

AND YET OUR VISION AND THE PRINCIPLES THAT DRIVE THE BANK HAVE REMAINED LARGELY UNCHANGED FROM DAY ONE.

THESE PRINCIPLES ENSURE A CONSISTENT APPROACH, NO MATTER HOW DIVERSE OUR ACTIVITIES BECOME, AND GUIDE US IN BOTH GOOD TIMES AND BAD.

MACQUARIE'S VISION, WHICH HAS STOOD THE TEST OF TIME OVER MORE THAN 30 YEARS, IS ENSHRINED IN SIX CORE GOALS AND VALUES.

WE ARE COMMITTED TO STRIVE FOR PROFITABILITY IN ORDER TO DELIVER STRONG RETURNS TO OUR SHAREHOLDERS.

WE WORK HARD FOR OUR CLIENTS' BENEFIT BECAUSE, QUITE SIMPLY, WE DON'T HAVE A BUSINESS UNLESS WE SERVE THEM WELL.

WE AIM TO PROVIDE THE HIGHEST STANDARDS OF TECHNICAL EXCELLENCE BECAUSE WE ARE COMMITTED TO BEING A PRE-EMINENT PROVIDER OF FINANCIAL SERVICES.

WE STRIVE TO ACT WITH INTEGRITY AT ALL TIMES BECAUSE WE UNDERSTAND THAT THE WAY WE DO BUSINESS IS JUST AS IMPORTANT AS THE BUSINESS ITSELF.

WE ENCOURAGE TEAMWORK BECAUSE WE RECOGNISE THE WIDE RANGE



OF SKILLS NECESSARY TO MAKE COMPLEX TRANSACTIONS SUCCEED.

AND WE AIM TO GIVE FULFILLMENT TO OUR PEOPLE BECAUSE THEY REPRESENT THE FOUNDATION OF OUR SUCCESS.

WE TAKE THESE GOALS AND VALUES VERY SERIOUSLY.

THEY ARE THE VERY CORNERSTONE OF OUR BUSINESS.

[CORPORATE GOVERNANCE]

LAST YEAR WE MADE COMMITMENTS TO YOU IN RELATION TO OUR CORPORATE GOVERNANCE REGIME.

AS A RESULT WE HAVE MADE SIGNIFICANT CHANGES, RELATING MAINLY TO THE BOARD'S COMPOSITION AND ITS OPERATION.

THE RECENT APPOINTMENTS OF PROFESSOR JOHN NILAND AND PETER KIRBY TO THE BOARD HAVE DELIVERED ON OUR COMMITMENT TO HAVE A MAJORITY OF INDEPENDENT DIRECTORS BY JUNE 30 THIS YEAR.

JOHN NILAND HAS A STRONG ACADEMIC BACKGROUND, HAVING SERVED A DISTINGUISHED TEN-YEAR TERM AS VICE CHANCELLOR AND PRESIDENT OF THE UNIVERSITY OF NEW SOUTH WALES.

HE ALSO HAS EXPERTISE IN A VARIETY OF RELEVANT ROLES COVERING SCIENCE AND TECHNOLOGY, ENVIRONMENTAL REGULATION AND INDUSTRIAL RELATIONS.

PETER KIRBY HAS MORE THAN 30 YEARS OF BUSINESS AND MANAGEMENT EXPERIENCE, MOST RECENTLY AS MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER OF CSR LIMITED.

HE HAS EXTENSIVE INTERNATIONAL BUSINESS EXPERIENCE, WHICH WILL PROVIDE AN IMPORTANT PERSPECTIVE FOR THE BOARD AS THE BANK CONTINUES TO EXPAND GLOBALLY.

I AM ALSO DELIGHTED TO ANNOUNCE TODAY THAT ANOTHER INDEPENDENT DIRECTOR, CATHERINE LIVINGSTONE, WILL JOIN THE BANK'S BOARD IN NOVEMBER.

CATHERINE CURRENTLY SERVES ON A NUMBER OF BOARDS, INCLUDING RURAL PRESS AND TELSTRA, AS WELL AS CHAIRING THE CSIRO.

SHE WAS MANAGING DIRECTOR OF COCHLEAR LIMITED FOR SIX YEARS, OVERSEEING ITS ASX LISTING IN 1995 AND THE SUBSEQUENT GROWTH OF ITS GLOBAL OPERATIONS.

CATHERINE'S APPOINTMENT WILL BRING THE BANK'S BOARD MEMBERSHIP TO ELEVEN, INCLUDING SEVEN INDEPENDENT DIRECTORS.

WE HAVE ALSO APPOINTED KEVIN MCCANN, IN HIS ROLE AS THE CHAIRMAN OF THE BOARD CORPORATE GOVERNANCE COMMITTEE, TO BE THE LEAD INDEPENDENT DIRECTOR.

THE INDEPENDENT DIRECTORS MEET AT LEAST ONCE A YEAR IN THE ABSENCE OF MANAGEMENT AND AT OTHER TIMES AS THEY DETERMINE.

WHILE WE ACKNOWLEDGE THE BENEFITS OF INDEPENDENCE AS AN IMPORTANT PART OF THE NETWORK OF CHECKS AND BALANCES, IT IS NOT, OF ITSELF, A SOLUTION FOR ALL ISSUES OF CORPORATE GOVERNANCE.

A DIRECTOR'S INDEPENDENCE DOES NOT GUARANTEE COMPETENCE, INTEGRITY OR THEIR ABILITY TO HELP DELIVER SUPERIOR RETURNS TO SHAREHOLDERS.

THAT'S WHY WE REMAIN COMMITTED TO MAINTAINING A BOARD THAT SEEKS TO OPTIMISE THE BANK'S FINANCIAL PERFORMANCE AND ITS RETURNS TO SHAREHOLDERS.

IN LIGHT OF THE COMPLEXITY OF THE BANK'S OPERATIONS, WE BELIEVE THAT SHAREHOLDERS ARE BEST SERVED BY HAVING SOME DIRECTORS WITH FIRST-HAND EXPERIENCE OF THE BANK'S BUSINESSES.

FOR THAT REASON, WE BELIEVE IT IS APPROPRIATE TO HAVE AN EXECUTIVE CHAIRMAN AND FOR A NUMBER OF EXECUTIVE DIRECTORS TO SERVE ON THE BOARD.

YOU WILL BE AWARE THAT THE AUSTRALIAN STOCK EXCHANGE RECENTLY RELEASED A SET OF PRINCIPLES RELATING TO CORPORATE GOVERNANCE.

WHILE THESE PRINCIPLES PROVIDE A GOOD GENERAL REFERENCE IN DETERMINING BEST PRACTICE, THEY ALSO RECOGNISE THAT ONE SIZE DOES NOT FIT ALL.

MACQUARIE BANK WAS ALREADY LARGELY COMPLIANT WITH THE PRINCIPLES THAT WERE RELEASED IN MARCH.

MOST OF THE MATERIAL THAT THE ASX HAS RECOMMENDED FOR PUBLIC DISCLOSURE IS ALREADY ON OUR WEB SITE, OR WILL BE THERE SHORTLY.

WE HAVE DECIDED, HOWEVER, IN AREAS WHERE WE CONSIDER IT TO BE IN THE BEST INTERESTS OF THE BANK THAT, WE WILL DEPART FROM THE ASX PRINCIPLES AND EXPLAIN THE REASON FOR SO DOING.

[BOARD REMUNERATION]

OUR ENHANCED CORPORATE GOVERNANCE REGIME, AS WELL AS

INCREASED REGULATORY AND COMMUNITY EXPECTATIONS, MEAN GREATER RESPONSIBILITIES FOR OUR BOARD.

IN VIEW OF THIS (BUT ALSO AS A RESULT OF ADDING THREE NEW DIRECTORS TO THE BOARD) WE ARE SEEKING AN INCREASE IN DIRECTORS' REMUNERATION.

AS YOU WILL BE AWARE FROM THE NOTICE OF MEETING, THERE IS A RESOLUTION ASKING THAT THE MAXIMUM DIRECTORS' REMUNERATION POOL BE INCREASED BY \$400,000 A YEAR TO \$1.6 MILLION.

I STRESS THIS IS AN AGGREGATE FIGURE, REPRESENTING THE MAXIMUM THAT CAN BE SHARED AMONG THE DIRECTORS CONCERNED.

IT ALSO APPLIES ONLY TO NON-EXECUTIVE DIRECTORS.

IN THIS CONTEXT, CAN I JUST SAY THAT THE BANK SEEKS TO REMUNERATE ITS NON-EXECUTIVE DIRECTORS AT PREVAILING MARKET RATES FOR THE TIME COMMITMENTS AND RESPONSIBILITIES INVOLVED.

[COMMUNITY AND COMMUNITY ASSETS]

I TURN NOW TO MACQUARIE'S COMMUNITY INVOLVEMENT.

MACQUARIE HAS ALWAYS STRIVED TO ENGAGE THE COMMUNITY, WITH OUR EFFORTS IN THIS AREA DATING BACK TO THE VERY FIRST DAYS OF THE BANK'S PREDECESSOR ORGANISATION, HILL SAMUEL.

FROM THE OUTSET, MORE THAN 30 YEARS AGO, WE COMMITTED OURSELVES TO ASSISTING THE COMMUNITIES IN WHICH WE OPERATE.

OUR VIEW, PUT SIMPLY, IS THAT, IT MAKES LITTLE SENSE TO TALK ABOUT SUCCESSFUL COMPANIES IN A SOCIETY WHERE SIGNIFICANT SECTIONS OF

THE COMMUNITY ARE NEGLECTED.

IT FOLLOWS THAT ONE OF A COMPANY'S IMPORTANT DUTIES IS TO WORK FOR THE BETTERMENT OF THAT COMMUNITY.

IN THE LONG RUN, THIS IS CONSISTENT WITH A COMPANY'S DUTY TO ITS SHAREHOLDERS.

EVERY YEAR, A FIXED PERCENTAGE OF OUR PROFIT SHARING POOL IS ALLOCATED TO THE MACQUARIE BANK FOUNDATION TO ASSIST THE COMMUNITY.

UNDER THIS FORMULA, THE FOUNDATION NOW CONTRIBUTES MORE THAN \$2 MILLION ANNUALLY TO HUNDREDS OF IMPORTANT COMMUNITY PROJECTS.

SOME OF THESE ACTIVITIES WERE HIGHLIGHTED IN THE SHORT VIDEO THAT PRECEDED THIS MEETING AND YOU HAVE ALSO RECEIVED TODAY A COPY OF THE FOUNDATION'S NEWSLETTER ENTITLED "MACQUARIE IN THE COMMUNITY".

THESE ACTIVITIES ARE ONGOING ACROSS ALL OF OUR OFFICES.

MACQUARIE BANK ALSO MANAGES A NUMBER OF ASSETS THAT AFFECT THE DAILY LIVES OF THE WIDER COMMUNITY.

THESE INCLUDE ROADS, AIRPORTS, ELECTRICITY TRANSMISSION SYSTEMS, TELE- COMMUNICATIONS INFRASTRUCTURE AND PROPERTY DEVELOPMENTS.

AND, WE ARE COMMITTED TO MANAGING THESE ASSETS EFFICIENTLY, BOTH FOR THE COMMUNITY THEY SERVE AS WELL AS THE INVESTORS IN THE FUNDS THAT OWN THEM.

SUCCESS IN THIS AREA HINGES IN LARGE PART ON THE PUBLIC'S ACCEPTANCE OF THE WAY WE MANAGE THE ASSETS.

FIRST, WE MUST BE ABLE TO DEMONSTRATE THAT WE ARE DELIVERING A QUALITY SERVICE THAT PROVIDES VALUE FOR MONEY.

AND SECONDLY, THE COMMUNITY EXPECTS TRANSPARENCY IN OUR STEWARDSHIP OF THE ASSETS.

WE UNDERSTAND AND RESPECT THE SIGNIFICANCE OF THIS RELATIONSHIP AND THE IMPORTANCE OF BUILDING STRONG COMMUNITY LINKS.

[PEOPLE BUSINESS]

IN BUILDING THE BUSINESSES FOR WHICH MACQUARIE IS KNOWN, WE DEPEND ON OUR PEOPLE.

THEY ARE THE ONES FINDING THE OPPORTUNITIES AND MAKING THEM HAPPEN.

THEY ARE THE ONES RESPONSIBLE FOR OUR CONTINUED GROWTH AND THE SUPERIOR RETURNS BEING EARNED BY YOUR COMPANY.

THERE IS OFTEN NO BLUEPRINT FOR WHAT THEY DO, AS IN MANY CASES THEY ARE PIONEERS IN THEIR FIELD.

THERE ARE RISKS INVOLVED, AND IT CAN TAKE MANY YEARS FOR THE REWARDS TO BE REALISED.

SO, IN ATTRACTING AND RETAINING STAFF, MACQUARIE HAS TO COMPETE WITH THE BIGGEST AND BEST FINANCIAL INSTITUTIONS IN THE WORLD.

THUS, OUR REMUNERATION POLICY IS AND MUST BE STRUCTURED TO REWARD EXCELLENCE.

IT HAS A NUMBER OF PERFORMANCE COMPONENTS TO MOTIVATE STAFF AND ALIGN THEIR INTERESTS WITH THOSE OF OUR SHAREHOLDERS.

THERE ARE THREE MAJOR ELEMENTS TO OUR REMUNERATION POLICY.

THE FIRST ELEMENT IS BASE SALARY.

THERE WERE MARGINAL INCREASES IN BASE PAY IN THE YEAR TO 31 MARCH 2003 (IN THE ORDER OF ABOUT FOUR PER CENT) AND THIS YEAR THE AVERAGE INCREASE WILL AGAIN BE IN THE VICINITY OF FOUR PER CENT.

THE SECOND ELEMENT OF REMUNERATION IS A PERFORMANCE- RELATED BONUS, WHERE ALL STAFF SHARE IN A PROFIT SHARING POOL.

THE SIZE OF THIS PROFIT SHARING POOL IS DETERMINED BY TWO FACTORS - THE AMOUNT OF TOTAL NET PROFIT EARNED BY THE BANK, AS WELL AS THE PROFIT EARNED IN EXCESS OF OUR COST OF CAPITAL.

FOR SENIOR EXECUTIVES OF THE BANK, WHOSE ANNUAL REMUNERATION IS HEAVILY WEIGHTED TOWARDS THEIR PERFORMANCE COMPONENT, THERE IS A STRONG INCENTIVE FOR THEM TO MAXIMISE THE BANK'S NET PROFIT AND EARNINGS PER SHARE.

WE BELIEVE THAT THESE ARE THE DRIVERS OF INCREASED RETURNS TO SHAREHOLDERS.

FURTHER, FOR THE BANK'S EXECUTIVE DIRECTORS , THE TOP 152 EXECUTIVES, A COMPONENT OF THEIR REMUNERATION VESTS OVER TEN

YEARS.

AND PAYMENT OF THE RETAINED AMOUNT IS DEFERRED UNTIL SIX MONTHS AFTER RETIREMENT, THUS FURTHER ENCOURAGING LONG TERM COMMITMENT TO THE BANK.

A RECENT POLICY CHANGE REQUIRES THAT FROM 2004 ONWARDS, EXECUTIVE DIRECTORS WILL COMPULSORILY INVEST THE EQUIVALENT OF AT LEAST ONE-THIRD OF ANNUAL RETAINED PROFIT SHARE IN MACQUARIE BANK'S SHARES, FURTHER ALIGNING THE INTERESTS OF EXECUTIVE DIRECTORS WITH SHAREHOLDERS.

WE ARE ALSO MOVING TO GREATER OF DISCLOSURE OF DEFERRED PAYMENTS, A MOVE PUBLICLY RECOGNISED TO BE BEST PRACTICE IN CORPORATE AUSTRALIA.

THE FINAL COMPONENT OF OUR REMUNERATION POLICY IS THE GRANTING OF OPTIONS.

THIS PROVIDES AN EQUITY-BASED, LONG-TERM INCENTIVE FOR STAFF AND IS CONSISTENT WITH COMPETITIVE PRACTICE.

FOR EXECUTIVE DIRECTORS OF THE BANK, THERE ARE PERFORMANCE HURDLES WHICH MUST BE MET BEFORE OPTIONS CAN BE EXERCISED.

MOREOVER, MOST GLOBAL PEERS DO NOT IMPOSE PERFORMANCE HURDLES AS WE DO.

AS OUTLINED IN OUR FULL YEAR RESULTS ANNOUNCEMENT, INTERNATIONAL REMUNERATION CONSULTANTS TOWERS PERRIN RECENTLY CONDUCTED AN INDEPENDENT REVIEW OF OUR REMUNERATION POLICY AND PRACTICES.



THE REVIEW REACHED A NUMBER OF CONCLUSIONS.

FIRSTLY, IT CONCLUDED THAT THE BANK'S REMUNERATION AS A PERCENTAGE OF REVENUE IS IN LINE WITH (OR MORE CONSERVATIVE THAN), OUR COMPETITORS.

AND IT FOUND THAT OPTIONS ARE STILL THE PRIMARY VEHICLE USED BY OUR GLOBAL PEERS FOR PROVIDING A LONG-TERM INCENTIVE TO STAFF.

IT CONCLUDED THAT NO MAJOR CHANGES WERE NECESSARY.

IN SUMMARY, WE BELIEVE THE CURRENT SYSTEM IS ALIGNED WITH SHAREHOLDERS' INTEREST AND IS APPROPRIATE TO ENSURE RETENTION OF STAFF.

[SHARE PRICE]

WE BELIEVE THE EMPHASIS ON PERFORMANCE- BASED REMUNERATION IS EFFECTIVE.

THIS IS REFLECTED IN THE VALUE ADDED BY OUR STAFF TO THE MACQUARIE BUSINESS OVER THE LONG TERM.

SINCE ITS LISTING IN 1996 UNTIL THE CLOSE OF TRADING LAST WEEK, MACQUARIE DELIVERED TOTAL SHAREHOLDER RETURNS OF AROUND 500 PER CENT.

THIS COMPARES WITH A RETURN OF AROUND 90 PER CENT FOR THE COMPANIES THAT COMPRISE THE ALL ORDINARIES ACCUMULATION INDEX AND APPROXIMATELY 210 PER CENT FOR OUR INVESTMENT BANKING PEERS.

PUT ANOTHER WAY, SHAREHOLDERS WHO INVESTED \$1,000 IN MACQUARIE

SHARES IN JULY 1996, WHEN THE BANK LISTED ON THE AUSTRALIAN STOCK EXCHANGE WOULD NOW HAVE AN INVESTMENT WORTH AROUND \$6,000.

THE SAME \$1,000 INVESTED IN FEBRUARY 1985, WHEN THE BANK COMMENCED OPERATIONS IN ITS OWN RIGHT, WOULD BE WORTH OVER \$84,000 TODAY.

SINCE MACQUARIE BANK LISTED IN 1996 AT \$6.50, IT HAS DELIVERED BETTER SHAREHOLDER RETURNS THAN ANY OF THE OTHER CURRENT TOP 50 COMPANIES WHO WERE LISTED ON THE ASX AT THAT TIME.

AND IN THE TWELVE MONTHS TO LAST FRIDAY, MACQUARIE DELIVERED A TOTAL SHAREHOLDER RETURN OF 28.3 PER CENT.

#### [CONCLUSION]

ONCE AGAIN, I BELIEVE THAT MACQUARIE HAS PROVEN ITS RESILIENCE IN DIFFICULT TIMES.

OUR ABILITY TO ACHIEVE STRONG PROFIT GROWTH IN THE MOST TESTING OF CLIMATES GIVES US CONFIDENCE IN THE BANK'S SUSTAINABILITY.

WE HAVE CONTINUED OUR STRONG PERFORMANCE IN THE FIRST QUARTER OF THE CURRENT FINANCIAL YEAR, AND WE ARE POSITIONED FOR FURTHER GROWTH IN A CLIMATE WHERE INTERNATIONAL MARKETS REMAIN UNCERTAIN.

THE ABILITY TO DELIVER STRONG RETURNS DEPENDS ON THE ABILITY AND DEDICATION OF THE 5,000 PEOPLE WHO MAKE UP MACQUARIE BANK.

WE RECOGNISE THAT THEY ARE OUR MOST VALUABLE ASSET AND THAT THEY GO HOME EVERY NIGHT.

ON BEHALF OF ALL SHAREHOLDERS AND THE BOARD, I WOULD LIKE TO CONGRATULATE THEM ON THEIR ACHIEVEMENTS THIS YEAR AND THANK EVERY ONE OF THEM FOR THEIR ENORMOUS CONTRIBUTION IN A VERY DIFFICULT ENVIRONMENT.

WE ARE CONFIDENT ABOUT OUR PROSPECTS FOR CONTINUING GROWTH, AND EXPECT TO INCREASE BOTH INCOME AND PROFIT THIS FINANCIAL YEAR.

LET ME NOW INTRODUCE ALLAN MOSS WHO WILL COMMENT IN MORE DETAIL ON THE BANK'S PERFORMANCE DURING THE PAST YEAR AND THE OUTLOOK FOR THE BANK IN THE YEAR AHEAD.

ALLAN.