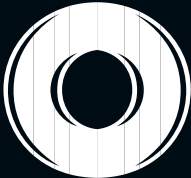


# MACQUARIE BANK LIMITED

ACN 008 583 542

## 1997 Financial Statements



MACQUARIE  
BANK

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Financial Statements

1997

# Risk Management Report

At 31st March, 1997

Financial Management Division (FMD) is responsible for prudential management within the Macquarie Bank Group. The Division assesses and controls market risk, credit risk, liquidity risk, legal risk, and documentation risk. The principles of Macquarie Bank's approach to prudential management are:

- Independence – FMD is independent of the operating areas of the Group, reporting directly to the Managing Director and the Board.
- 'No limits – no dealing' – Operating areas cannot undertake new businesses or activities, offer new products, or enter new markets, without first consulting FMD. The Division quantifies and assesses all risks and sets prudential limits. These limits are approved by Executive Committee and ratified by the Board where appropriate.
- Centralised prudential management – FMD's responsibility covers the whole of the Macquarie Bank Group. Therefore it can assess risks from a Group wide perspective and ensure a consistent approach across all operating areas.

- Continuous assessment – The Division continually reviews risks to account for changes in market circumstances and the Group's activities.
- Frequent monitoring – Centralised systems exist to allow the Division to monitor credit and market risks daily or less frequently where appropriate. FMD staff liaise closely with operating and support divisions when necessary.
- Quality – Macquarie Bank is committed to employing qualified personnel with expertise in the business and systems areas subject to prudential management. Strong prudential management has been a key to the Bank's success over the years.

A more detailed description of the Group's approach to risk is set out below.

## Market Risk

Market risk is the exposure to adverse changes in the value of the Group's trading portfolios as a result of changes in market prices or volatility. The Group trades in the foreign exchange, interest rates, commodities and equities markets. For many years FMD has had comprehensive systems to measure exposures in all markets. This is done daily for each dealing desk and for markets in aggregate. Risk exposures are measured on derivatives and underlying assets and liabilities in the same market, together.

FMD sets limits for all exposures in all markets. The aggregate exposure to each market is limited to a small percentage of the Group's capital base. Trading limits are not targets and actual exposures in normal day to day trading tend to be well below limits. The Division monitors market risks against limits daily and provides a report of market exposures to senior management every day.

Market exposures are measured for a wide range of price, volatility and liquidity scenarios. FMD has always performed daily stress testing ie worst case scenarios, as the cornerstone of its risk management approach. In addition, FMD has for some years calculated a statistically based Value At Risk (VAR) for a 95 per cent confidence level and a one day holding period. This is a widely used measure of risk in financial markets and we have included it here for comparative purposes. We have shown the average and highest VAR over the year, for the five major markets in which we operate, in Table 1. The aggregate VAR is the sum of the VARs in each of the five markets (ie uncorrelated).

**Table 1**  
**VAR Figures 1996/97**

	<b>1997 Average A\$m</b>	<b>1996 Average A\$m</b>	<b>1997 Maximum A\$m</b>	<b>1996 Maximum A\$m</b>
Equities	0.6	0.5	1.6	1.6
Interest Rates	0.7	0.4	1.8	1.2
Bullion	0.1	0.1	0.3	0.4
Base Metals	0.3	0.3	0.9	0.9
Foreign Exchange	0.2	0.2	0.7	0.9
Aggregate	1.9	1.5	3.2	2.9

## Risk Management Report continued

<b>Table 2</b> <b>Net Deferred</b> <b>Gains and Losses</b>	<b>Interest Rate</b> <b>Related Contracts</b> <b>\$m</b>	<b>Exchange Rate</b> <b>Related Contracts</b> <b>\$m</b>	<b>Total</b> <b>\$m</b>
Less than 1 year	(0.2)	(8.8)	(9.0)
1 – 3 years	(5.3)	(6.9)	(12.2)
3 – 5 years	(1.8)	(6.3)	(8.1)
Greater than 5 years	0.0	(3.9)	(3.9)
<b>Total</b>	<b>(7.3)</b>	<b>(25.9)</b>	<b>(33.2)</b>

We also calculate a VAR for regulatory purposes as discussed in the section on Capital Adequacy for Market Risk below.

### Derivatives

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

Over the last few years, the G30 and the Basle Committee on Banking Supervision, amongst others, have examined the risks associated with derivatives and released recommendations for managing those risks. The Bank complies with these recommendations to a high degree.

The Group also uses derivatives to hedge banking operations and for asset/liability management. Profits and losses on these transactions are brought to account over the life of the underlying transaction. Gains and losses arising from these positions and not yet recognised in the profit and loss account are shown in Table 2.

**Credit Risk**

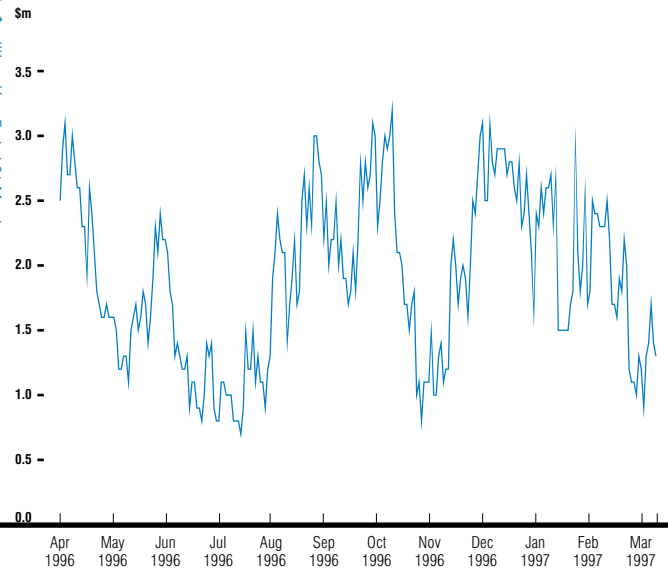
Credit risk arises from both lending and trading activities. In the case of trading activity credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract once the settlement becomes due. The resultant credit exposure will be a function of the movement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

Systems for the assessment of potential credit exposures exist for each of the Group's trading activities. As with market exposures no credit exposures are entered into without a full analysis.

The Group's philosophy on credit risk reflects the principle of separating prudential control from operational management. This in part is achieved through allocating individual, rather than committee, responsibility in approving credit. This responsibility is exercised through the delegation of various levels of authority to individual members of staff approved by the Board. Significant credit exposures require exercise of credit authority from individuals outside the relevant trading area.

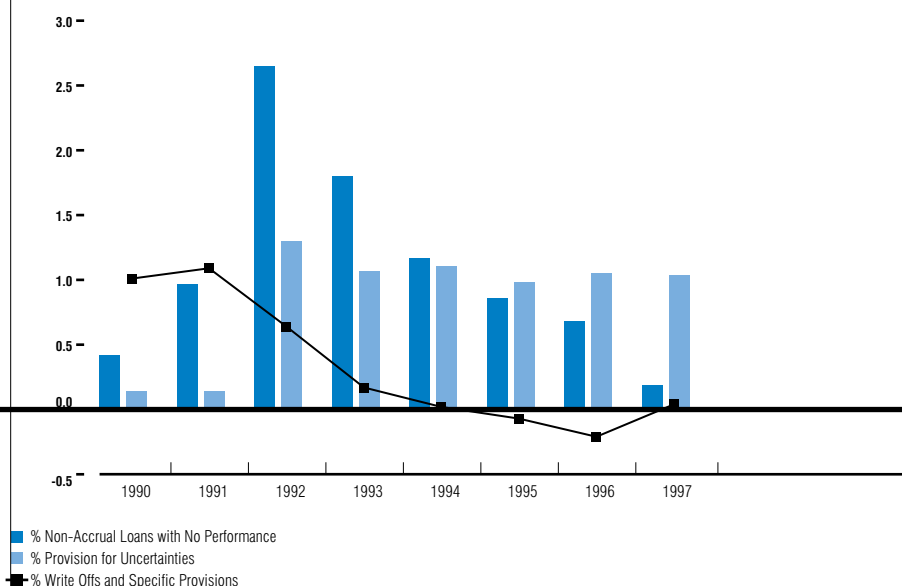
All credit exposures are monitored regularly. The frequency of monitoring depends on the volatility of the particular exposure. Credit exposures which fluctuate through time are monitored daily. These include off-balance sheet exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

Daily Value at Risk \$ millions Year Ended 31 March



## Risk Management Report continued

Provisions as % of Total Loan Assets



To mitigate credit risk the Group makes use of margining and other forms of collateral where appropriate. Systems to assist in tracking and maintaining legal documentation with counterparties have been improved significantly in the last year.

The Group's policies to control credit risk include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Large exposures to single counterparties or groups of counterparties are restricted unless the credit is of the highest standard or there is a high level of tangible security. The Group aims to restrict the term of exposures to within five years, recognising the additional risk of longer terms. All limits are reviewed at least once a year, or more frequently if necessary, to ensure that the most up to date information available on counterparties is taken into account.

The Group has limited cross-border exposure. There are small amounts held in nostro balances and limited exposures to OECD and selected Asian countries. The bulk of the Group's on and off-balance sheet exposures is to Australian counterparties.

The Group continues its policy of maintaining a general provision for uncertainties against which future as yet unidentified credit losses may be charged. There was a \$0.2 million increase in the provision in 1996-97. This increase does not reflect an expected increase in loan losses – rather it reflects a policy of matching the level of provision to the growth in the Group's assets and business. The provision amounts to 0.55 per cent of risk weighted assets at year end.

**Liquidity Risk**

The liquidity policy of the Bank is set by the Board. This policy is reviewed regularly by FMD to ensure it continues to meet the needs of the Bank under all market circumstances. The Group's liquidity policy ensures that core assets (that is those assets not capable of being liquidated within a few days) are funded by long term sources of funds (capital, subordinated debt and term deposits). There is a requirement that specified percentages of the total deposit base have maturities greater than six and twelve months. Within these parameters on a day to day basis, liquidity management is the responsibility of the funding desk.

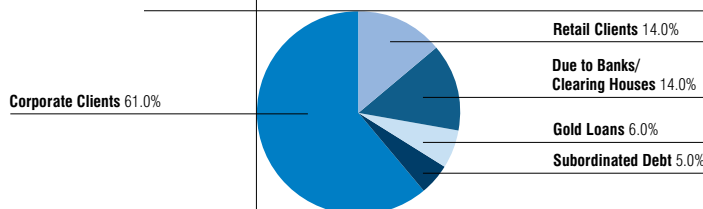
The overall objective is to achieve a sound deposit base with a wide spread of core depositors. The Group has focused its attention on small and medium sized corporate depositors who do not generally access the professional market. Retail deposits are accessed through the Bank's branches in Sydney, Melbourne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

The offshore Debt Instrument Programme has continued to provide a broad source of funds for the Group.

**Legal Risk**

Macquarie Bank has always viewed legal risk as an area requiring active management. The emphasis is on the Group's businesses developing and implementing their own legal risk management procedures. The central legal risk management function within FMD then assesses the risks from a Group wide perspective and works closely with the legal and prudential teams throughout the Group to ensure a consistent approach to legal risks. Overseas expansion and the growth in regulatory requirements, both domestically and overseas, are key areas of focus within this role.

Total Funding 1997 Year Ended 31 March



## Risk Management Report continued

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### Overseas Offices

Macquarie Bank's policy is that overseas offices are subject to exactly the same prudential controls that apply in head office. Before an overseas office can be set up, or undertake new activities, FMD analyses the proposed activities and procedures to ensure appropriate prudential controls are established. FMD staff routinely visit overseas offices to review operations and prudential controls.

In the three overseas centres that undertake trading activities – London, New York and Hong Kong – daily reports are produced in Sydney and all exposures, both credit and market, are monitored in Sydney against established limits. Market exposures also arise from Macquarie's equities trading joint venture in Kuala Lumpur. A FMD staff member is permanently placed in Kuala Lumpur and reports on exposures to Sydney every day.

### Balance Sheet

An important part of FMD's role is to ensure that the Group's policy of prudent growth in assets is maintained. Quality assets are recognised as one of the most important elements of the Group's continuing success. Assets are continually monitored to ensure that all credit and other prudential requirements are met.

As at 31 March 1997, loan assets (including loans and advances, balances due from governments and lease receivables) amounted to \$2,503 million, a 2 per cent increase over last year. Loan assets represent 41 per cent of total assets, compared with 47 per cent last year.

Non-loan assets generally consist of highly liquid marketable securities including a substantial proportion of Commonwealth and Semi-Government securities and bank bills. The level of these securities can change substantially from day to day as a result of changing client needs, market prices or trading strategies. Most securities held hedge forward commitments or positions in derivative instruments. The market risk on these securities has to be assessed in conjunction with their related off-balance sheet market related contracts. This is described in the earlier market risk section.

**Total Balance Sheet Risk Weighted Assets  
Year Ended 31 March 1997**

	Amount \$m	Risk Weight %	Risk Adjusted Balance \$m
Cash, Bullion, RBA, Australian Govt < 1 year	508	0	0
Authorised Dealers, Australian Govt > 1 year	58	10	6
Local Govt, Non-Commercial Public Trading Enterprises, Banks	1,142	20	228
Mortgage Loans, Stockbroking Debtors	864	50	432
Other Assets – 100% Risk Weighting	2,765	100	2,765
– 0% Risk Weighting	806	0	0
<b>Total</b>	<b>6,142</b>		<b>3,431</b>

Less: Attributable to C2 Subsidiaries

54

**Total Balance Sheet Risk Weighted Assets**

**3,377**

**Total Off-Balance Sheet Risk Weighted Assets  
Year Ended 31 March 1997**

	Nominal Amount \$m	Credit Conversion Factor	Credit Equivalent Amount	Risk Weighted %	Risk Adjusted Balance \$m
Guarantees, Letters of Credit and Endorsements	214	50-100	197	20-100	119
Forward Purchases and Undrawn Commitments	1,397	0-100	971	10-100	738
Foreign Exchange and Gold Contracts					
– < 1 year	26,983		750		
– 1-2 years	2,053		140		
– 2-5 years	2,306		144		
– > 5 years	988		66		
	32,330	N/A	1,100	10-50	405
Interest Rate Contracts					
– < 1 year	12,860		26		
– 1-2 years	1,107		34		
– 2-5 years	3,286		102		
– > 5 years	848		20		
	18,101	N/A	182	10-50	47
<b>Total Off Balance Sheet</b>					<b>1,309</b>
<b>Total Risk Weighted Exposure</b>					<b>4,686</b>

## Risk Management Report continued

### Capital Adequacy

The Group's capital adequacy ratio at 31 March 1997 measured under the Reserve Bank of Australia's guidelines amounted to 13.24 per cent (1996 – 15.37%). The Tier 1 ratio was 10.67 per cent (1996 – 10.61%).

The Group's capital base was made up of:

	31 March 1997 \$m	31 March 1996 \$m
<b>Tier 1</b>		
Share Capital and Reserves	500	428
<b>Tier 2</b>		
Subordinated Debt	194	234
Less Amortised amount	(9)	(4)
Less Ineligible amount	–	(16)
General Reserve for Losses	26	26
Less Associated Tax Benefits @ 36%	(9)	(10)
	<b>202</b>	230
Total Capital	<b>702</b>	658
Less Investment in and receivables from non-consolidated subsidiaries	<b>(81)</b>	(38)
Net Capital Base	<b>621</b>	620

### Capital Adequacy for Market Risk

The Reserve Bank of Australia has adopted the Bank for International Settlements' extension to the capital accord to include market risk. From 31 December 1997 all banks in Australia will be required to hold capital against market risk. Market risk will be measured for all trading positions according to the rules set out in the Reserve Bank's Prudential Statement C3 (PS C3). This risk measure will then be multiplied by a 'multiplication factor' to be set by the Reserve Bank and converted to an equivalent risk weighted asset. This figure will be aggregated with all other risk weighted assets to arrive at a capital ratio.

Macquarie Bank intends to use the 'internal models' approach to the calculation of market risk as set out in PS C3. This approach is based on a Value At Risk using a 99 per cent confidence interval and a 10 day holding period. The Reserve Bank must "recognise" banks' internal models before 31 December 1997. We have requested such recognition but the Reserve Bank has not yet undertaken its recognition process.

We have estimated the effect of PS C3 on our capital ratio on the basis that our internal model meets the requirements of the Reserve Bank, although this is subject to any changes they may impose. Furthermore, the Reserve Bank must set a multiplication factor of between 3 and 4 based on the results of backtesting the model. The VAR is multiplied by this number before being entered into the capital ratio calculation. Because our backtesting to date has been satisfactory, we have assumed a multiplication factor of 3; this is of course subject to change.

PS C3 allows exposures across markets to be correlated in order to arrive at a single VAR for the Group. We have calculated our VAR in this fashion.

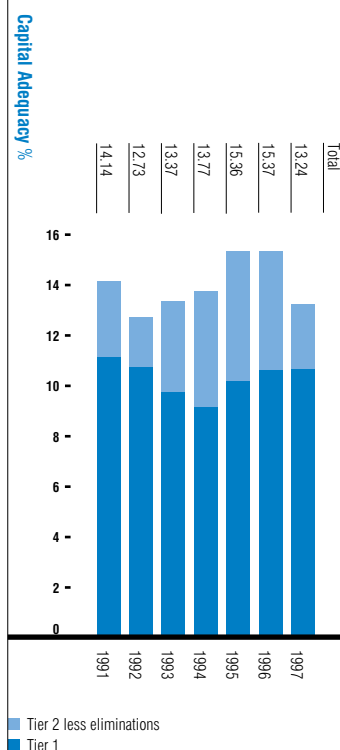
Using these calculations the capital ratio, after incorporating market risk, would be as follows:

	<b>\$m</b>
Total risk weighted assets under existing capital adequacy guidelines	4,686
Deduct trading securities risk weighted at 0% under the market risk guidelines	(1,320)
	<b>3,366</b>
Add equivalent risk weighted assets for market risk	516
Total risk weighted assets incorporating market risk	<b>3,882</b>
Tier 1 capital ratio	12.9%
Total capital ratio	16.0%

### Internal Audit

The Internal Audit function is an integral part of the prudential management of the Group. A risk based approach to audit is employed with the focus on areas of greatest current and emerging risk. This covers existing as well as new businesses, systems and products and interstate and overseas offices. The key objective of the approach, which entails a regular cycle of formal monitoring of risks within the Group's businesses, is to ensure that major issues are promptly identified and addressed.

Internal Audit reports directly to the Board Audit and Compliance Committee, which approves the annual audit programme. All audit reports are provided to the Board Audit Committee, as well as the Executive Committee. Each audit report goes through a formal follow up process until the issues identified have been resolved. Formal follow up reports are provided to the Board Audit Committee and senior management.



## Profit and Loss Accounts

For The Year Ended 31st March, 1997

	Notes	Consolidated 1997 \$'000	Consolidated 1996 \$'000	Bank 1997 \$'000	Bank 1996 \$'000
Net interest income	1	80,390	79,772	82,075	50,986
Trading income	1	103,970	92,789	93,699	71,031
Fee and commission income	1	345,768	262,631	179,858	153,163
Total operating income	2	530,128	435,192	355,632	275,180
Employment expenses	2	(253,976)	(208,646)	(192,866)	(145,684)
Accommodation expenses	2	(35,379)	(31,920)	(24,138)	(22,883)
Non salary technology expenses	2	(24,011)	(23,262)	(19,388)	(19,013)
Other operating expenses	2	(78,534)	(72,308)	(26,395)	(18,228)
Total operating expenses	2	(391,900)	(336,136)	(262,787)	(205,808)
Operating profit before income tax	2	138,228	99,056	92,845	69,372
Income tax (expense)/benefit	4	(21,285)	(5,883)	15,792	16,962
Operating profit after income tax		116,943	93,173	108,637	86,334
Retained earnings at the start of the year		245,699	210,623	100,126	74,938
Adjustment resulting from a change in accounting policy		–	(1,202)	–	(1,202)
Amounts transferred from reserves	19	–	–	(2,674)	(3,049)
Less: Dividends paid or provided	5	(70,758)	(56,895)	(70,758)	(56,895)
Retained earnings at the end of the year		291,884	245,699	135,331	100,126
<b>Cents per Share</b>					
Earnings per share	6	74.89	63.38		

The accompanying notes form part of these financial statements.

**Balance Sheets**

At 31st March, 1997

	Notes	Consolidated 1997 \$'000	Consolidated 1996 \$'000	Bank 1997 \$'000	Bank 1996 \$'000
<b>Assets</b>					
Coins, notes and cash at bankers		284,271	68,722	180,664	12,121
Bullion		101,134	75,124	101,134	75,124
Due from clearing houses		470,327	83,365	401,427	67,707
Securities	7	1,255,361	1,224,040	968,453	663,365
Loans and advances	8, 18	2,038,059	2,029,175	1,821,720	1,774,328
Balances due from other banks	9	178,828	233,356	168,202	197,574
Balances due from governments	10	283,993	258,269	164,421	82,102
Lease receivables	11	180,942	167,518	129,163	110,060
Other assets	12	1,173,315	885,441	618,883	426,961
Amounts due from controlled entities		–	–	485,566	549,936
Investments	13	36,734	20,756	21,439	7,093
Fixed assets	14	32,964	38,612	30,849	35,534
Future income tax benefit	15	106,320	89,275	78,174	69,849
Investments in controlled entities	16	–	–	449,260	424,629
<b>Total Assets</b>		<b>6,142,248</b>	5,173,653	<b>5,619,355</b>	4,496,383
<b>Liabilities</b>					
Deposits		2,515,367	1,973,398	2,363,525	1,846,334
Balances due to other banks		817,599	526,129	602,045	181,248
Due to clearing houses		3,350	83,651	2,962	83,651
Negotiable certificates of deposit		709,738	869,976	709,738	869,976
Securities borrowed		242,809	144,666	192,202	47,860
Other liabilities	17	920,647	678,397	585,749	434,155
Amounts due to controlled entities		–	–	382,406	270,053
Provision for dividend	5	39,772	52,406	39,772	52,406
Provision for income tax		28,176	6,599	8,250	6,253
Provision for deferred income tax	15	126,410	134,490	–	5,722
Provision for employee entitlements		18,460	16,650	15,437	14,085
Provision for uncertainties	18	26,017	25,777	23,366	23,126
<b>Total Liabilities</b>		<b>5,448,345</b>	4,512,139	<b>4,925,452</b>	3,834,869
<b>Capital and Reserves</b>					
Issued capital	19	155,423	142,903	155,423	142,903
Share premium reserve	19	52,568	38,912	52,568	38,912
Investment revaluation reserve	19	–	–	156,553	145,573
Retained earnings		291,884	245,699	135,331	100,126
<b>Total share capital and reserves attributable to members of Macquarie Bank Limited</b>		<b>499,875</b>	427,514	<b>499,875</b>	427,514
<b>Subordinated Debt</b>	20	<b>194,028</b>	234,000	<b>194,028</b>	234,000
		<b>693,903</b>	661,514	<b>693,903</b>	661,514
<b>Total Liabilities and Shareholders' Equity</b>		<b>6,142,248</b>	5,173,653	<b>5,619,355</b>	4,496,383

The accompanying notes form part of these financial statements.

## Statements of Cash Flows

For The Year Ended 31st March, 1997

	Notes	Consolidated 1997 \$'000	Consolidated 1996 \$'000	Bank 1997 \$'000	Bank 1996 \$'000
<b>Cash flows from operating activities</b>					
Interest and bill discounts received		406,790	386,390	336,141	336,298
Interest and other costs of finance paid		(328,760)	(314,842)	(302,654)	(313,617)
Dividends and trust income received		45,055	37,330	132,791	116,515
Fees, royalties and commissions received		472,471	225,274	193,975	118,171
Fees and commissions paid		(181,611)	(52,870)	(76,817)	(33,687)
Net payments and proceeds/receipts from dealing in financial instruments, foreign exchange and commodities		219,334	341,279	(19,778)	491,849
Customer loans granted and repaid		(58,066)	(253,272)	78,761	(347,228)
Recovery of loans previously written off		3,204	3,630	3,204	3,630
Leases granted and repaid		(39,365)	(25,428)	(101,423)	41,517
Net increase/(decrease) in money market and other deposit accounts		409,937	116,720	522,973	(35,934)
Employment expenses paid		(219,247)	(179,385)	(158,596)	(116,796)
Net receipts/payments from debtors and creditors		(270,864)	(130,968)	(238,183)	(150,858)
Income taxes paid		(19,684)	(14,229)	(8,424)	(5,420)
<b>Net cash flows from operating activities</b>	32	<b>439,194</b>	139,629	<b>361,970</b>	104,440
<b>Cash flows from investing activities</b>					
Investment in subsidiaries		–	–	(25,255)	(4,891)
Payments for property, plant and equipment		(12,012)	(13,016)	(8,600)	(13,012)
Proceeds on sale of property, plant and equipment		846	2,278	53	2,612
Proceeds on sale of controlled entities	32	10,813	–	10,813	–
<b>Net cash flows from investing activities</b>		<b>(353)</b>	(10,738)	<b>(22,989)</b>	(15,291)
<b>Cash flows from financing activities</b>					
Proceeds from issue of share capital		26,176	12,719	26,176	12,719
Repayment of subordinated debt		(44,972)	–	(44,972)	–
Proceeds from issue of subordinated debt		5,000	23,644	5,000	23,644
Dividends paid		(83,392)	(46,114)	(83,392)	(46,114)
<b>Net cash flows from financing activities</b>		<b>(97,188)</b>	(9,751)	<b>(97,188)</b>	(9,751)
Net increase in cash held		341,653	119,140	241,793	79,398
Cash at the beginning of the year		151,529	32,389	79,270	(128)
<b>Cash at the end of the year</b>	32	<b>493,182</b>	151,529	<b>321,063</b>	79,270

The accompanying notes form part of these financial statements.

# Notes to and forming part of the Financial Statements

At 31st March, 1997

## 1

### Principal Accounting Policies

Macquarie Bank Limited, incorporated in the Australian Capital Territory, is a 'prescribed corporation' in terms of the Banking Act, 1959 and Part 4.5 of the Corporations Law. The significant accounting policies adopted in the preparation of these financial statements and those of the previous year, except as otherwise stated, are:

#### i) Basis Of Preparation

These financial statements have been drawn up in accordance with the Banking Act, applicable accounting standards and Urgent Issues Group Consensus Views, Australian Accounting Standards, the Corporations Law and Schedule 5 of the Corporations Regulations to the extent applicable to a Bank.

They have been prepared on the basis of historical cost except where otherwise stated. Where necessary comparative figures have been adjusted to conform with changes in presentation in the current year.

#### ii) Consolidation

These financial statements comprise the financial statements of Macquarie Bank Limited ("the Bank"), being the chief entity, and its controlled entities (together, "the economic entity"). A controlled entity is one in which the Bank has the capacity to directly or indirectly control decision making in relation to financial and operating policies, so as to require that entity to conform with the Bank's objectives.

Where a controlled entity has been sold (or acquired) during the year, its results are included in consolidated profit up to the date of sale (or from the date of acquisition). All inter-entity balances and transactions have been eliminated on consolidation.

#### iii) Operating Income

The revenue of the economic entity and the Bank in the profit and loss accounts is shown as net interest income, trading income and fee and commission income. These amounts represent the aggregation of the results of like businesses as reported in the economic entity's internal management accounts.

- Net interest income includes all non-trading interest businesses in the Corporate Banking Group and in Money Market;
- Trading income represents client generated business and principal position taking in the trading businesses of the Equities and Treasury and Commodities Groups; and
- Fee and commission income combines the results of all the economic entity's agency businesses including Funds Management, Equities, Futures, Property Services, Project and Structured Finance, Corporate Advisory and all other advisory businesses.

Accordingly, net interest income in the profit and loss accounts varies from interest disclosures in Note 2 – Operating Profit which comply with Corporations Law requirements. These represent total interest brought to account during the year rather than the overall results of interest businesses.

## Notes continued

# 1

## Principal Accounting Policies continued

### iv) Life Insurance Business

The Bank conducts life insurance business through a controlled entity Macquarie Life Limited ("MLL"). The consolidated financial statements include the results of MLL's shareholder's fund.

Except for the shareholder's interests in the surplus of MLL's statutory funds, no other amounts of the statutory funds have been consolidated as the Bank does not have direct or indirect control of these funds, as defined by AASB 1024, Consolidated Accounts, due to the provisions of the Life Insurance Act 1945.

### v) Assets Under Management

Within the economic entity certain controlled entities act as a trustee and/or manager for a number of investment funds and trusts. The value of assets managed by the economic entity exceeds \$23.5 billion (1996: \$17.8 billion).

These funds and trusts have not been consolidated in the financial statements, as individual entities within the economic entity do not have control of the funds and trusts as defined by AASB 1024.

Commissions and fees earned in respect of the Bank's funds management and trustee activities are included in the operating profit for the year.

### vi) Interest Income

Interest income from loans and deposits is brought to account on an accrual basis.

### vii) Fees

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

### viii) Income Tax

The principles of the liability method of tax effect accounting have been applied whereby the income tax expense for the year is calculated by reference to the accounting profit after allowing for permanent differences between accounting profit and taxable income.

Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

### ix) Foreign Currencies

All foreign currency assets and liabilities have been translated into Australian currency at the rates of exchange prevailing at balance date. Transactions in foreign currencies have been recorded at the rates of exchange ruling at transaction dates. Gains or losses arising on transactions and from dealing in foreign exchange have been included in the operating profit for the year.

Forward foreign exchange contracts, entered into in the normal course of business, are accounted for as specified in the accounting policy note, Financial Instruments, below.

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

### x) Financial Instruments

Financial instruments include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and commodity markets. The Bank uses these derivative instruments for trading activities and in conjunction with the management of existing assets and liabilities.

# 1

## Principal Accounting Policies continued

Transactions that are entered into for trading purposes or used as hedges of other trading instruments are carried at market value, with resultant gains and losses recognised in operating profit for the year.

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

### xi) Securities

Trading securities are recorded at market value. Gains and losses realised from the sale of trading securities and unrealised market value adjustments are reflected in the operating profit for the year.

Other securities are shown at the lower of cost and net realisable value. Where the Directors are of the opinion that there has been a permanent diminution in the value of securities, the carrying amount of such securities is written down to its recoverable amount.

Securities borrowed and securities loaned represent equities and fixed interest securities transacted in the normal course of business. These securities are carried at market value.

### xii) Credit Review

All loans and advances are subject to continuous review and are classified according to the assessed level of credit risk. All bad debts are written off in the period in which they are recognised and specific provisions are made for all doubtful debts.

The definition of impaired assets is consistent with the Reserve Bank of Australia's statement on "Recognition and Measurement of Impaired Assets".

Impaired assets are classified as follows:

- (a) Non-accrual with:
- (i) no performance (representing assets on which no income is being received);
  - (ii) partial performance (representing assets on which income, which is less than the legal entitlement, is received); and
  - (iii) full performance with provisions (representing assets on which full income is being received but where a provision against loss has been made);
- (b) Restructured assets (where the original loan agreement has been modified); and
- (c) Other real estate owned (representing assets acquired through enforcement of security).

### xiii) Leases

The finance concept has been used to account for lease transactions whereby income is brought to account progressively over the life of the lease consistent with the outstanding investment balance.

### xiv) Investments

Investments in non related entities intended for long term retention are shown at cost. Changes in market values of these investments are not taken into account unless the Directors consider there has been a permanent diminution in value.

### xv) Property Purchased For Resale

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

### xvi) Fixed Assets

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

Art	10%
Computer Equipment*	33 <sup>1</sup> / <sub>3</sub> %
Furniture and Fittings	10%
Plant and Equipment	20%
Motor Vehicles	20%
Leasehold Improvements**	20%

\* Includes any purchased software which has been capitalised.

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

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

The costs of repair and maintenance are expensed as incurred. The internal development cost of new software is expensed.

## Notes continued

# 1

## Principal Accounting Policies continued

Where the economic life of an asset or class of assets has been reduced or effectively ended then the book value of such asset or class of assets or their economic lives would be reduced as appropriate. Adjustments arising from such restatements and on disposal of fixed assets are taken into account in determining operating profit for the year. Fixed assets are not carried in the balance sheet in excess of their recoverable amount.

### xvii) Investments In Controlled Entities

Investments in controlled entities are revalued by Directors to reflect the Bank's share of net assets at book value less any permanent impairment. Differences between the book value of net assets and cost of controlled entities are included in investment revaluation reserve (see Note 16 – Controlled Entities). No capital gains tax has been provided on the revaluation as it is not expected that any such liability will crystallise.

### xviii) Investments In Joint Ventures

The economic entity's investment in joint ventures, where supported by put options, is included in other assets. Where commercialisation income can be conservatively estimated it has been brought to account to the extent that it is supported by the put option.

### xix) Valuation Of Non-Current Assets

In assessing recoverable amounts for particular classes of non-current assets the relevant cash flows have not been discounted to their present value unless otherwise stated.

### xx) Provision For Uncertainties

The economic entity makes a general provision for uncertainties to cover the inherent risk of loss arising from non-recovery of amounts receivable or contingently owing. An assessment as to the adequacy of the provision is made at the end of each reporting period. Should the provision be considered inadequate, either due to losses applied against the provision or to changes in the size or risk characteristics of the economic entity's portfolio, a charge would be made against current year profit to adjust the provision.

### xxi) Preference Shares

Redeemable preference shares which are issued to third parties are included in the financial statements as a liability to the extent that such issues are for the purpose of short term financing. Dividends paid or payable to third parties on such preference shares are included as deductions from operating profit on an accrual basis.

Holdings of certain redeemable preference shares which are issued as financing instruments are included in the financial statements as balances or amounts due. Dividends received or receivable on preference shares held are brought to account on an accrual basis.

### xxii) Statements Of Cash Flows

For the purposes of the Statements of Cash Flows, cash includes cash on hand, clearing account balances and balances due from clearing banks.

## 2 Operating Profit

	Consolidated 1997 \$'000	Consolidated 1996 \$'000	Bank 1997 \$'000	Bank 1996 \$'000
<b>Operating Profit before Income Tax has been determined after crediting as income/(charging) as expense:</b>				
Interest income received/receivable:				
– controlled entities	–	–	75,540	39,319
– other entities	355,290	366,867	230,832	281,363
Interest expense paid/payable:				
– controlled entities	–	–	(21,376)	(9,262)
– other entities	(312,030)	(302,540)	(263,396)	(278,823)
Dividends received/receivable:				
– controlled entities	–	–	115,279	77,050
– other entities	45,055	37,330	38,991	35,675
Lease rental income	33,817	37,815	20,688	21,192
Net gains on foreign currency trading	24,561	27,148	24,561	27,148
Provision for uncertainties	(240)	(4,077)	(240)	(4,077)
Charge for bad and doubtful debts:				
– recovery of loans previously written off	3,204	3,630	3,204	3,630
– recovery of loans previously provided for	978	5,053	978	5,053
– specific provisions for loan losses	(4,127)	(3,580)	(4,127)	(3,580)
– loan losses written off	(942)	(10)	(942)	(10)
Other income	384,562	267,556	135,640	80,502
<b>Total operating income</b>	<b>530,128</b>	435,192	<b>355,632</b>	275,180
<b>Employment Expenses</b>				
Provision for holiday pay	(873)	(524)	(608)	(271)
Provision for long service leave	(1,835)	(1,500)	(1,293)	(877)
Salary and salary related costs, superannuation, performance related profit share and staff training*	(251,268)	(206,622)	(190,965)	(144,536)
<b>Total employment expenses</b>	<b>(253,976)</b>	(208,646)	<b>(192,866)</b>	(145,684)
<b>Accommodation Expenses</b>				
Operating lease rental	(21,931)	(21,892)	(14,593)	(14,352)
Depreciation	(6,959)	(6,973)	(4,357)	(6,450)
Other	(6,489)	(3,055)	(5,188)	(2,081)
<b>Total accommodation expenses</b>	<b>(35,379)</b>	(31,920)	<b>(24,138)</b>	(22,883)
<b>Non Salary Technology Expenses</b>				
Depreciation	(8,171)	(7,390)	(7,502)	(7,273)
Other	(15,840)	(15,872)	(11,886)	(11,740)
<b>Total non salary technology expenses</b>	<b>(24,011)</b>	(23,262)	<b>(19,388)</b>	(19,013)

## Notes continued

	<b>Consolidated</b> <b>1997</b> <b>\$'000</b>	Consolidated 1996 \$'000	<b>Bank</b> <b>1997</b> <b>\$'000</b>	Bank 1996 \$'000
<b>2 Operating Profit continued</b>				
<b>Other Operating Expenses</b>				
Auditors' remuneration**				
– auditors' remuneration for auditing services	<b>(784)</b>	(752)	<b>(607)</b>	(613)
– auditors' remuneration for other services	<b>(908)</b>	(990)	<b>(805)</b>	(790)
Total auditors' remuneration	<b>(1,692)</b>	(1,742)	<b>(1,412)</b>	(1,403)
Other depreciation	<b>(1,658)</b>	(1,709)	<b>(1,350)</b>	(1,564)
Loss on sale of property, plant and equipment	<b>(27)</b>	(155)	<b>(22)</b>	(138)
Write down of land and buildings	<b>–</b>	(662)	<b>–</b>	–
Other operating expenses	<b>(75,157)</b>	(68,040)	<b>(23,611)</b>	(15,123)
Total other operating expenses	<b>(78,534)</b>	(72,308)	<b>(26,395)</b>	(18,228)
<b>Total operating expenses</b>	<b>(391,900)</b>	(336,136)	<b>(262,787)</b>	(205,808)

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

\*\* The Bank has borne the audit fees of its Australian controlled entities.

### 3 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. As such the only segment information available in respect of the economic entity's businesses is the revenue disclosures in the profit and loss accounts.

## 4 Income Tax (Expense)/Benefit

Prima facie tax on operating profit is reconciled to the income tax expense charged in the profit and loss accounts as follows:

	Consolidated 1997 \$'000	Consolidated 1996 \$'000	Bank 1997 \$'000	Bank 1996 \$'000
<b>Income tax (expense)/benefit on operating profit*</b>	<b>(49,762)</b>	(34,783)	<b>(33,424)</b>	(24,912)
Add/(deduct) tax effect of permanent differences:				
Rebatable dividend income	14,406	15,033	47,749	42,609
Non deductible expenses	(1,509)	(1,249)	(723)	(1,002)
Recoupment of group tax losses	8,958	10,851	–	–
Other items	6,622	3,826	2,190	(5,946)
Adjustment to provision for deferred income tax and future income tax benefit as a result of the increase in tax rate to 36%	–	439	–	6,213
	<b>28,477</b>	28,900	<b>49,216</b>	41,874
<b>Income tax (expense)/benefit in profit and loss accounts</b>	<b>(21,285)</b>	(5,883)	<b>15,792</b>	16,962
Income tax (expense)/benefit comprises movements in:				
– Current tax expense	(45,754)	(8,750)	(8,255)	(8,403)
– Deferred tax benefit	24,469	2,867	24,047	25,365
	<b>(21,285)</b>	(5,883)	<b>15,792</b>	16,962

Macquarie Bank Limited and its controlled entities have tax years ending on 30th September.

The Macquarie Bank Group is currently subject to an audit by the Australian Taxation Office. Some amended assessments have been issued by the Australian Taxation Office for the 1988 to 1991 years. Other issues of potential taxation liability have been raised but have not yet been subject to the issue of amended assessments. Objections have been lodged in respect of the amended assessments and the other issues of alleged liability are also disputed. In preparing these financial statements the Directors have considered the information currently available and have taken legal advice as to the Bank's tax liability and in accordance with this believe that provisions made are adequate.

\* Prima facie tax on operating profit is calculated at the rate of 36% (1996: 33% on profits from 1st April, 1995 to 30th September, 1995 and at a rate of 36% on profits from 1st October, 1995 to 31st March, 1996).

## Notes continued

	<b>Consolidated</b> <b>1997</b> <b>\$'000</b>	Consolidated 1996 \$'000	<b>Bank</b> <b>1997</b> <b>\$'000</b>	Bank 1996 \$'000
<b>5 Dividends Paid or Provided</b>				
Dividends paid	<b>30,986</b>	4,489	<b>30,986</b>	4,489
Dividends provided	<b>39,772</b>	52,406	<b>39,772</b>	52,406
<b>Total Dividends Paid or Provided</b>	<b>70,758</b>	56,895	<b>70,758</b>	56,895
<b>6 Earnings Per Share</b>				
	<b>Cents Per Share</b>			
Basic earnings per share	<b>74.89</b>	63.38		
Diluted earnings per share is not materially different from basic earnings per share.				
	<b>Number</b>			
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	<b>156,149,326</b>	147,034,264		
The weighted average number of ordinary shares has been calculated using potential ordinary shares in accordance with AASB 1027, Earnings per Share.				
	<b>Consolidated</b> <b>1997</b> <b>\$'000</b>	Consolidated 1996 \$'000	<b>Bank</b> <b>1997</b> <b>\$'000</b>	Bank 1996 \$'000
<b>7 Securities</b>				
<b>Trading Securities</b>				
Australian government bonds	<b>31,144</b>	175,750	<b>31,144</b>	141,087
Treasury notes and other government securities	<b>223,110</b>	171,070	<b>223,110</b>	171,070
Bills discounted	<b>329,098</b>	468,887	<b>14,182</b>	74,295
Quoted securities held as part of arbitrage activities	<b>636,178</b>	396,425	<b>682,223</b>	265,072
Units in unit trusts	<b>17,699</b>	11,700	<b>17,699</b>	11,700
	<b>1,237,229</b>	1,223,832	<b>968,358</b>	663,224
<b>Other Securities</b>				
Units in unit trusts	<b>18,000</b>	50	–	20
Unquoted shares	<b>132</b>	158	<b>95</b>	121
	<b>18,132</b>	208	<b>95</b>	141
<b>Total Securities</b>	<b>1,255,361</b>	1,224,040	<b>968,453</b>	663,365

## 8

**Loans and Advances (Impaired Assets)**

Loans and advances include impaired assets which are classified as:

**(a) Non-accrual loans with specific provisions**

	<b>Consolidated 1997 \$'000</b>	Consolidated 1996 \$'000	<b>Bank 1997 \$'000</b>	Bank 1996 \$'000
(i) No performance	<b>8,898</b>	21,803	<b>8,898</b>	21,803
Specific provisions	<b>(4,128)</b>	(5,078)	<b>(4,128)</b>	(5,078)
	<b>4,770</b>	16,725	<b>4,770</b>	16,725
(ii) Partial performance	<b>34,972</b>	28,657	<b>34,972</b>	27,214
Specific provisions	<b>(4,860)</b>	(760)	<b>(4,860)</b>	(760)
	<b>30,112</b>	27,897	<b>30,112</b>	26,454
(iii) Full performance	-	1,008	-	1,008
Specific provisions	-	(500)	-	(500)
	-	508	-	508
<b>Total non-accrual loans after specific provisions</b>	<b>34,882</b>	45,130	<b>34,882</b>	43,687

The current average income being received on partial performance loans is 6.0% per annum (1996: 7.1%).

**(b) Restructured loans**

Restructured loans	<b>6,623</b>	6,497	<b>6,623</b>	6,497
Specific provisions	<b>(1,500)</b>	(1,500)	<b>(1,500)</b>	(1,500)
	<b>5,123</b>	4,997	<b>5,123</b>	4,997

**(c) Other real estate owned**

Other real estate owned	<b>5,910</b>	6,738	<b>5,910</b>	6,738
Specific provisions	<b>(300)</b>	-	<b>(300)</b>	-
	<b>5,610</b>	6,738	<b>5,610</b>	6,738

**Total Impaired Assets**

	<b>45,615</b>	56,865	<b>45,615</b>	55,422
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## 9

**Balances Due From Other Banks**

Balance due from clearing bank	-	83,093	-	83,093
Loans to other banks	<b>131,057</b>	108,929	<b>120,431</b>	73,147
Non-callable deposit – Reserve Bank of Australia	<b>47,771</b>	41,334	<b>47,771</b>	41,334
<b>Total Balances Due From Other Banks</b>	<b>178,828</b>	233,356	<b>168,202</b>	197,574

## Notes continued

	Consolidated 1997 \$'000	Consolidated 1996 \$'000	Bank 1997 \$'000	Bank 1996 \$'000
<b>10 Balances Due From Governments</b>				
Balances due from governments include loans and lease receivables due from Commonwealth, State and Local governments in Australia.				
Gross lease receivables	429,049	400,250	185,095	81,267
Unearned income	(149,933)	(154,053)	(21,297)	–
	<b>279,116</b>	246,197	<b>163,798</b>	81,267
Loans and advances	4,877	12,072	623	835
<b>Total Balances Due From Governments</b>	<b>283,993</b>	258,269	<b>164,421</b>	82,102
<b>11 Lease Receivables</b>				
Gross receivables	210,484	190,815	155,406	129,335
Unearned income	(29,542)	(23,297)	(26,243)	(19,275)
<b>Total Lease Receivables</b>	<b>180,942</b>	167,518	<b>129,163</b>	110,060
<b>12 Other Assets</b>				
Amounts due from R & D joint ventures (see Note 23)	259,305	250,444	–	–
Amounts due from brokers and clients	321,998	208,266	17,749	7,417
Unrealised gains on trading financial instruments	110,900	164,770	103,841	134,060
Debtors and prepayments	225,101	111,641	276,270	153,465
Stock lending debtors	54,952	52,636	54,952	52,636
Other	191,546	84,858	166,071	79,383
Property purchased for resale at cost	9,513	12,826	–	–
<b>Total Other Assets</b>	<b>1,173,315</b>	885,441	<b>618,883</b>	426,961
<b>13 Investments</b>				
<b>Investments in Non Related Entities</b>				
Quoted:				
Ordinary shares and units in unit trusts at written down value*	4,258	4,603	–	–
Ordinary shares and units in unit trusts at cost*	1,242	250	812	–
	<b>5,500</b>	4,853	<b>812</b>	–
Unquoted:				
Ordinary shares at written down value	19,291	4,840	14,424	2,905
Ordinary shares and units in unit trusts at cost	11,943	11,063	6,203	4,188
	<b>31,234</b>	15,903	<b>20,627</b>	7,093
<b>Total Investments</b>	<b>36,734</b>	20,756	<b>21,439</b>	7,093
* Market value of quoted investments	5,639	4,853	951	–

## 14

**Fixed Assets****Land and Buildings:**

	<b>Consolidated</b> <b>1997</b> <b>\$'000</b>	Consolidated 1996 \$'000	<b>Bank</b> <b>1997</b> <b>\$'000</b>	Bank 1996 \$'000
At Directors' valuation	-	926	-	-
Accumulated depreciation	-	(146)	-	-
	-	780	-	-

**Property, plant and equipment:**

At cost	<b>103,490</b>	93,602	<b>99,144</b>	89,604
Accumulated depreciation	<b>(70,526)</b>	(55,770)	<b>(68,295)</b>	(54,070)
	<b>32,964</b>	37,832	<b>30,849</b>	35,534
<b>Total Fixed Assets</b>	<b>32,964</b>	38,612	<b>30,849</b>	35,534

## 15

**Future Income Tax Benefit/(Provision for Deferred Income Tax)**

Provision for deferred income tax	<b>(172,616)</b>	(213,700)	<b>(47,732)</b>	(43,794)
Future income tax benefit applied against provision for deferred income tax	<b>46,206</b>	79,210	<b>47,732</b>	38,072
	<b>(126,410)</b>	(134,490)	-	(5,722)
Future income tax benefit not applied against provision for deferred income tax	<b>106,320</b>	89,275	<b>78,174</b>	69,849

Future income tax benefit is applied against provision for deferred income tax to the extent that both are expected to be realised in the same period. Future income tax benefit not applied against provision for deferred income tax relates to long term provisions and accruals which will not be realised until after 1998.

## 16

**Controlled Entities**

	<b>Contribution to Consolidated Profits 1997 \$'000</b>	Contribution to Consolidated Profits 1996 \$'000	<b>Investment in Controlled Entities At Cost 1997 \$'000</b>	Investment in Controlled Entities At Cost 1996 \$'000
<b>Macquarie Bank Limited</b>	<b>32,201</b>	32,725		
Adelaide Airport Limited				
Adelaide O Bahn Limited				
Aleatory Pty Limited			<b>400</b>	400
B.E.S.T. Management Pty Limited				
Bond Street Australia Limited	<b>359</b>	94	<b>505</b>	500
Bond Street Custodians Limited			<b>5,000</b>	5,000
Bond Street Lease Management Pty Limited				
<b>Boston Australia Limited</b>	<b>1,272</b>	4,044	<b>45,094</b>	45,094
Boston Leasing Pty Limited				
City Link Management Limited	<b>282</b>	354	<b>50</b>	50
CountryWide Retail Management Limited	<b>410</b>	-	<b>50</b>	50

## Notes continued

## 16

## Controlled Entities continued

	Place of Incorporation	Contribution to Consolidated Profits 1997 \$'000	Contribution to Consolidated Profits 1996 \$'000	Investment in Controlled Entities At Cost 1997 \$'000	Investment in Controlled Entities At Cost 1996 \$'000
Elytron Pty Limited					
<b>Felter Pty Limited**</b>					
Tryptic Pty Limited					
Gatesun Pty Limited		(44)	1,233		
Gondor Pty Limited					
Great Southern Rail Corporation Limited					
Hafling Pty Limited				100	100
Hills Motorway Management Limited		229	221	50	50
Indemco Pty Limited		–	2		
Industrial Property Management Limited		2	–	50	–
Jigsaw Pty Limited****		–	619	–	2,674
Joyce Indpac Limited					
<b>Koorileah Pty Limited</b>					
Banteer Investments (Proprietary) Limited	Sth Africa				
Lifesaver Rail Limited					
<b>Macquarie Acceptances Limited</b>		1,113	–	20,000	20,000
Bacala Pty Limited		142	207		
<b>Bond Street Investments Pty Limited</b>		1,484	(56)		
Macquarie Thirty-Fourth Aviation Leasing Pty Limited		–	10		
Macquarie Thirty-Seventh Aviation Leasing Pty Limited		8	54		
Macquarie Thirty-Third Aviation Leasing Pty Limited		17	18		
Bond Street Management Limited		2,262	184		
Chalce Pty Limited					
Cilea Limited***					
Foucault Pty Limited					
French Park Pty Limited					
Galanthus Pty Limited		123	122		
Gasteria Limited***					
Gillman Pty Limited					
<b>Gloriole Pty Limited</b>					
<b>Lanrod Pty Limited</b>					
<b>Valcora Pty Limited</b>		301	309		
Jevington Investments#	UK				
Macquarie Nominees ACT Pty Limited					
Hillsam Nominees Pty Limited					
Idameneo (No. 31) Pty Limited				1	1
<b>Macquarie Asset Management Limited</b>					
Corot Pty Limited		72	(4)		
Jubilee Pty Limited					
Coldava Limited					
Macquarie Deposits Pty Limited					
Macquarie IT Pty Limited					
<b>Macquarie NZ Holdings Limited</b>					
<b>Macquarie Group New Zealand Limited*</b>	NZ				
<b>Macquarie New Zealand Limited*</b>	NZ	449	231		
Liana Pty Limited##		856	845		

## 16

## Controlled Entities continued

	Place of Incorporation	Contribution to Consolidated Profits 1997 \$'000	Contribution to Consolidated Profits 1996 \$'000	Investment in Controlled Entities At Cost 1997 \$'000	Investment in Controlled Entities At Cost 1996 \$'000
Macquarie Property NZ Limited*	NZ				
New Zealand Cash Management Trust Limited*	NZ				
Telbane Pty Limited					
<b>Thaxted Pty Limited</b>		<b>33</b>	51		
Parlon Pty Limited		<b>41</b>	31		
Totara Pty Limited		-	(650)		
Tywyn Pty Limited					
<b>Macquarie Australia Pty Limited</b>		<b>(238)</b>	(60)		
Macquarie Investment (Hong Kong) Limited*	HK	<b>1,333</b>	948		
Macquarie Leasing Pty Limited				<b>1</b>	1
Sucette Pty Limited		<b>420</b>	411		
Macquarie Bank Superannuation (No. 2) Pty Limited					
Macquarie Bank Superannuation Pty Limited					
Macquarie Factoring Limited***				<b>1</b>	1
<b>Macquarie Finance Limited</b>		<b>(769)</b>	-	<b>1</b>	1
Macquarie Syndication (No. 4) Pty Limited					
Macquarie First Aviation Leasing Pty Limited					
Macquarie Funds Management Limited					
Macquarie Investment Management Limited		<b>973</b>	918	<b>1</b>	1
Macquarie Lease Management Pty Limited				<b>1</b>	1
Macquarie Lease Nominees Pty Limited				<b>1</b>	1
<b>Macquarie Leasing Qld Pty Limited</b>		-	193	<b>1</b>	1
Gabija Pty Limited					
Riverut Pty Limited					
Macquarie Leasing Vic Pty Limited				<b>1</b>	1
Macquarie Mortgage Management Pty Limited				<b>1</b>	1
Macquarie Property Management Limited		<b>1,476</b>	870	<b>150</b>	150
Macquarie Property Services Pty Limited		<b>149</b>	488		
Macquarie Property Services Qld Pty Limited		-	31		
Macquarie Property Services (Vic) Pty Limited		<b>188</b>	-		
Macquarie Risk Management Pty Limited				<b>1</b>	1
Macquarie Syndication (No. 1) Pty Limited		<b>1,292</b>	615		
Macquarie Syndication (No. 2) Pty Limited		<b>966</b>	300		
Macquarie Syndication (No. 3) Pty Limited		<b>1,508</b>	703		
Macquarie Thirteenth Aviation Leasing Pty Limited					
Macquarie Thirty-Ninth Aviation Leasing Pty Limited					
Macquarie Twelfth Aviation Leasing Pty Limited					
Macquarie Twentieth Aviation Leasing Pty Limited					
Macquarie Twenty-Eighth Aviation Leasing Pty Limited		<b>(166)</b>	956		
Macquarie Twenty-Seventh Aviation Leasing Pty Limited					
Macquarie Twenty-Third Aviation Leasing Pty Limited					
Macquarie Underwriting Limited		<b>4,881</b>	5,063	<b>1</b>	1
MBL Realty Investment Management Pty Limited					
Memnon Pty Limited					
Olary Pty Limited					
<b>Risk Averse Money Managers Pty Limited</b>		-	5		
Australian Index Money Managers Limited		<b>4</b>	5		

## Notes continued

## 16

## Controlled Entities continued

	Place of Incorporation	Contribution to Consolidated Profits 1997 \$'000	Contribution to Consolidated Profits 1996 \$'000	Investment in Controlled Entities At Cost 1997 \$'000	Investment in Controlled Entities At Cost 1996 \$'000
Tankerton Pty Limited***					
Teynham Pty Limited***					
Therfield Pty Limited***					
Thonock Pty Limited***					
<b>Macquarie Asia Holdings Pty Limited</b>					
Macquarie Indonesia Holdings Pty Limited					
<b>Macquarie Commercial Leasing Vic. Pty Limited</b>		-	949	701	701
Softwood View Pty Limited					
Macquarie Corporate Finance (UK) Limited*	UK				
Macquarie Corporate Finance (USA) Inc.*	USA	1,152	(169)	1,654	1,660
Macquarie Derivatives (Hong Kong) Pty Limited		2,594	(1,216)		
Macquarie Equipment Finance Pty Limited					
<b>Macquarie Equities Limited</b>		5,708	1,500	7,519	3,000
Belike Nominees Pty Limited					
Dexin Nominees Pty Limited					
Equitas Nominees Pty Limited					
Idameneo (No. 79) Nominees Pty Limited				1	1
Rema Nominees Pty Limited					
<b>Macquarie Equities (US) Holdings Pty Limited</b>					
<b>Macquarie Holdings (USA) Inc.*</b>	USA	161	186		
Macquarie Equities (USA) Inc.*	USA	(9)	107		
Macquarie Fourteenth Aviation Leasing Pty Limited		-	127	300	300
Macquarie Infrastructure Debt Management Limited					
Macquarie Infrastructure Funds Management Limited					
Macquarie Infrastructure Investment Management Limited		12,003	-	50	50
<b>Macquarie Innovations Pty Limited</b>					
Macquarie Technologies (M) Sdn Bhd	Malaysia				
Macquarie International Capital Markets Limited	HK	229	(551)	2	2
Macquarie Investment Pte Limited#	Singapore	67	-	176	-
Macquarie Investment Services Limited		34	-	600	-
<b>Macquarie Leasing NSW Pty Limited</b>		-	(7)	101	101
Acuba Pty Limited					
Macquarie Leasing (NZ) Limited*	NZ				
Macquarie Leasing (UK) Limited	UK	-	12		
Macquarie Life Limited		11,774	8,289	19,200	11,200
Macquarie N.T. Leasing Pty Limited		675	650	10	10
Macquarie Options Limited*	HK	(43)	224	4,927	4,954
Macquarie Options Pty Limited##		1,377	8,438	4,950	4,950
Macquarie Property Services (ACT) Pty Limited					
Macquarie Property International Pty Limited					
<b>Macquarie Property Asia Pty Limited</b>				300	-
<b>Macquarie Property China Pty Limited</b>		(611)	(740)		
Macquarie (Tianjin) Property Services Co. Limited	China	(193)	(4)		
Sedulous Investments Pty Limited					
Macquarie Property Finance Limited (formerly Moresby Enterprises Limited)	NZ				

## 16

## Controlled Entities continued

	Place of Incorporation	Contribution to Consolidated Profits 1997 \$'000	Contribution to Consolidated Profits 1996 \$'000	Investment in Controlled Entities At Cost 1997 \$'000	Investment in Controlled Entities At Cost 1996 \$'000
Macquarie Residential Mortgages Pty Limited##		1	1	500	500
<b>Macquarie Securities (UK) Limited*</b>	UK	2,746	(1,272)	4,793	4,484
Macquarie Finance (UK) Limited	UK				
<b>Macquarie Securities Limited*</b>	NZ				
<b>Ojai Holdings Limited*</b>	NZ				
National Cash Management Limited*	NZ				
Macquarie Securities Pty Limited		580	117	8,348	8,348
Macquarie Services (Hong Kong) Limited	HK	66	(32)		
Macquarie Syndication (No. 5) Pty Limited		1,005	430	12,584	12,584
Macquarie Syndication (No. 6) Pty Limited		706	303	11,081	11,081
Macquarie Syndication (No. 7) Pty Limited		(4)	(3)	598	323
Macquarie Syndication (No. 9) Pty Limited		(3)	(190)	311	311
Macquarie Syndication (No.10) Pty Limited		(6)	(1,374)	2,170	1,511
Macquarie Syndication (No.11) Pty Limited		(1)	(79)	82	47
Macquarie Syndication (No.12) Pty Limited					
Macquarie Syndication (No.13) Pty Limited					
Macquarie Syndication (No.14) Pty Limited		-	(1)	1	1
Macquarie Syndication (No.15) Pty Limited					
Macquarie Syndication (No.16) Pty Limited					
Macquarie Syndication (No.17) Pty Limited					
Macquarie Syndication (No.18) Pty Limited					
Macquarie Syndication (No.19) Pty Limited					
Macquarie Syndication (No.20) Pty Limited					
Macquarie Syndication (No.21) Pty Limited					
Macquarie Syndication (No.22) Pty Limited					
Macquarie Hotels and Leisure Pty Limited (formerly Macquarie Tourism and Leisure Limited)					
<b>Macquarie Twenty-Ninth Aviation Leasing Pty Limited</b>					
<b>Macquarie Corporate Finance Limited</b>		5,964	18,691		
Airport Motorway Infrastructure No. 1 Limited					
Airport Motorway Infrastructure No. 2 Limited					
Airport Motorway Infrastructure No. 3 Limited					
Airport Motorway Infrastructure No. 4 Limited					
Bulwer Island Cogen Holdings Limited					
Bulwer Island Cogen Limited					
Macquarie Asset Finance Limited		8,967	863		
Macquarie Infrastructure Limited		(2)	-		
Macquarie Infrastructure No. 2 Limited		69	-		
Macquarie Infrastructure No. 3 Limited					
Macquarie Infrastructure No. 4 Limited					
Tadina Pty Limited##					
Tenata Pty Limited##					
Tegny Pty Limited##					
<b>MAIL Holdings Limited</b>				79,273	79,273
CASL Financial Services Pty Limited					

## Notes continued

## 16

## Controlled Entities continued

	Place of Incorporation	Contribution to Consolidated Profits 1997 \$'000	Contribution to Consolidated Profits 1996 \$'000	Investment in Controlled Entities At Cost 1997 \$'000	Investment in Controlled Entities At Cost 1996 \$'000
<b>Macquarie Australia International Limited</b>		<b>3,028</b>	2,595		
CASL Nominees Pty Limited					
Macquarie Risk Advisory Services Limited		<b>949</b>	319		
Melbourne Rail Transit Limited					
Mining Equipment Company Pty Limited					
MAST Management Limited					
Pacific Rim Operations Limited					
<b>Paray Pty Limited</b>				<b>1</b>	1
Macquarie Syndication (No. 23) Pty Limited					
Park Australia Management Limited				<b>50</b>	–
Penchant Pty Limited		<b>849</b>	804	<b>13,239</b>	13,239
Placate Pty Limited		–	(90)		
Polbuoy Pty Limited****					
PUMA Management Limited		<b>3,193</b>	867	<b>50</b>	50
PUMA Mortgage Management Pty Limited				<b>500</b>	500
<b>Queensland Airports Limited</b>					
Queensland Airports Management Limited					
Randow Pty Limited					
Residco Pty Limited		–	98		
Royal Parade Apartments Pty Limited					
Secure Australia Limited****					
SECURE Australia Management Pty Limited		<b>445</b>	–		
South Coast Motorway Limited					
Southern Motorway Pty Limited					
SPAL Limited		<b>(164)</b>	1,277	<b>45,794</b>	45,794
Subscriber Television Asset Rentals Pty Limited					
Syndicated Asset Management Pty Limited					
Turnberry Resort Developments Pty Limited					
<b>Victorian Airports Limited</b>					
Victorian Airports Management Limited					
<b>West Australian Airports Limited</b>					
West Australian Airports Management Limited					
Zoffanies Pty Limited					
<b>Other controlled entities are:</b>					
Abaflow Finance Corporation#					
Bondi Unit Trust				<b>1,380</b>	–
French Park Unit Trust					
<b>Galanthus Australia Pty Limited</b>		<b>(18)</b>	(10)		
Galanthus Leasing Pty Limited		<b>(26)</b>	7		
Lindcraft Limited***					
Pebcorp Pty Limited***					
Renmix Pty Limited***					
Zelenka Pty Limited					
Hawthorn Business Centre Unit Trust					
Industrial Property Management Trust					
Kallerad Pty Limited					
Kallerad Unit Trust					

## 16

## Controlled Entities continued

	Place of Incorporation	Contribution to Consolidated Profits 1997 \$'000	Contribution to Consolidated Profits 1996 \$'000	Investment in Controlled Entities At Cost 1997 \$'000	Investment in Controlled Entities At Cost 1996 \$'000
Lygon Street Unit Trust					
Mac Fund One Trust					
Motto Farm Unit Trust					
Mount Annan Unit Trust					
Parsees Pty Limited##					
Vermont South Unit Trust					
<b>Utopia Pty Limited##</b>					
<b>Corporate Capital Equipment Financing Pty Limited</b>					
Decally Pty Limited					
Fragola Pty Limited					
Mendlesham Corporation Pty Limited		(5)	3		
Naysin Pty Limited					
Old Brampton Corporation Pty Limited					
Ophidian Pty Limited					
Ornate Pty Limited					
Poltava Pty Limited		(1)	1		
<b>Praen Pty Limited</b>		<b>69</b>	<b>(38)</b>		
Grosvenor Office Equipment Hire Pty Limited					
Reconnoitre Pty Limited		(1)	-		
Residium Pty Limited					
Resinal Pty Limited		(10)	1		
Second Resinal Pty Limited					
Dalou Pty Limited					
Fortescue Gardens Pty Limited					
Rovenda Pty Limited					
Rovny Pty Limited					
Samspin Limited					
Shadoof Pty Limited					
Thoresby Pty Limited***					
Votraint No. 610 Pty Limited					
Votraint No. 611 Pty Limited					
		<b>116,943</b>	93,173	<b>292,707</b>	279,056
Investment revaluation reserve on entities controlled at year end				<b>156,553</b>	145,573
		<b>116,943</b>	93,173	<b>449,260</b>	424,629

Note: All entities were incorporated in Australia unless otherwise stated.

Overseas controlled entities carry on business predominantly in their place of incorporation.

Beneficial interest in all entities is 100%.

\* Audited by other Price Waterhouse firms.

\*\* Holdings of redeemable preference shares in this entity have been accounted for as described in Note 1.

\*\*\* In voluntary liquidation.

\*\*\*\* Sold during the year.

# These entities have been audited by other firms.

## With the exception of the entities so marked, all private companies with affix "Pty Limited" qualify as small companies and as such are not required to prepare financial statements and are not subject to audit.

## Notes continued

	<b>Consolidated</b> <b>1997</b> <b>\$'000</b>	Consolidated 1996 \$'000	<b>Bank</b> <b>1997</b> <b>\$'000</b>	Bank 1996 \$'000
<b>17 Other Liabilities</b>				
Unrealised losses on trading financial instruments	<b>257,080</b>	127,911	<b>224,345</b>	117,688
Amounts due to brokers and clients	<b>227,325</b>	214,097	–	15,596
Creditors	<b>130,455</b>	106,971	<b>88,104</b>	94,757
Accrued charges and sundry provisions	<b>146,012</b>	122,866	<b>182,993</b>	159,847
Other	<b>159,775</b>	106,552	<b>90,307</b>	46,267
<b>Total Other Liabilities</b>	<b>920,647</b>	678,397	<b>585,749</b>	434,155
<b>18 Provision for Uncertainties and Specific Provisions</b>				
<b>Provision for Uncertainties</b>				
The provision for uncertainties is a general provision and is intended to cover the inherent risk of loss arising from the non-recovery of amounts receivable or contingently owing.				
Opening balance	<b>25,777</b>	21,700	<b>23,126</b>	19,049
Provided during the year	<b>240</b>	4,077	<b>240</b>	4,077
Closing balance	<b>26,017</b>	25,777	<b>23,366</b>	23,126
Provision for uncertainties as a percentage of risk weighted exposures	<b>0.54%</b>	0.64%		
<b>Specific Provisions</b>				
The specific provisions relate to Loans and Advances (Note 8) where doubtful loans have been identified and provided for.				
Opening balance	<b>7,838</b>	11,856	<b>7,838</b>	11,856
Provided during the year	<b>4,127</b>	3,580	<b>4,127</b>	3,580
Bad debts written off	<b>(199)</b>	(2,545)	<b>(199)</b>	(2,545)
Written back during the year	<b>(978)</b>	(5,053)	<b>(978)</b>	(5,053)
Closing balance	<b>10,788</b>	7,838	<b>10,788</b>	7,838
Specific provisions as a percentage of loan assets	<b>0.43%</b>	0.32%		

## 19

**Capital and Reserves**

	<b>Consolidated</b> <b>1997</b> <b>\$'000</b>	Consolidated 1996 \$'000	<b>Bank</b> <b>1997</b> <b>\$'000</b>	Bank 1996 \$'000
<b>Authorised Capital</b>				
400,000,000 (1996: 200,000,000) shares of \$1.00 each	<b>400,000</b>	200,000	<b>400,000</b>	200,000
2,000,000 shares of \$0.50 each	–	1,000	–	1,000
<b>Total Authorised Capital</b>	<b>400,000</b>	201,000	<b>400,000</b>	201,000
<b>Issued Capital</b>				
151,386,783 (1996: 138,745,486) Ordinary Shares of \$1.00 each fully paid	<b>151,387</b>	138,745	<b>151,387</b>	138,745
9,696,505 (1996: 16,258,768) Ordinary Shares of \$1.00 each at a premium and partly paid*	<b>4,036</b>	4,158	<b>4,036</b>	4,158
<b>Total Issued Capital</b>	<b>155,423</b>	142,903	<b>155,423</b>	142,903
<b>Share Premium Reserve</b>				
Balance at the start of the year	<b>38,912</b>	38,540	<b>38,912</b>	38,540
Premium paid on partly paid shares	<b>15,365</b>	4,457	<b>15,365</b>	4,457
Premium paid on issue of share options	<b>343</b>	–	<b>343</b>	–
Amount arising on the issue of 578,201 ordinary shares at a premium of \$5.76 per share	<b>3,330</b>	3,388	<b>3,330</b>	3,388
Amount applied to bonus issue	<b>(5,382)</b>	(7,473)	<b>(5,382)</b>	(7,473)
Balance at the end of the year	<b>52,568</b>	38,912	<b>52,568</b>	38,912
<b>Investment Revaluation Reserve</b>				
Balance at the start of the year	–	–	<b>145,573</b>	135,685
Revaluation of investment in controlled entities at Directors' valuation**	–	–	<b>8,306</b>	6,839
Amounts transferred to retained earnings	–	–	<b>2,674</b>	3,049
Balance at the end of the year	–	–	<b>156,553</b>	145,573

At 31st March, 1997 7,350,850 options granted to employees over unissued ordinary shares had not been exercised. Refer to Note 29 – Employee Equity Participation.

\* These shares have been issued to senior staff under the Bank's now closed Partly Paid Share Scheme.

\*\* During the year the Bank brought to account dividends from controlled entities of \$115,279,480 (1996: \$77,050,000) as shown in Note 26 – Dividends From Controlled Entities. These dividends in part may represent prior year retained earnings of controlled entities and as such would be included in the balance of the investment revaluation reserve. The increase in the revaluation reserve in the year is the net effect of these dividends and the increase in worth of controlled entities over the year.

## Notes continued

## 20

## Subordinated Debt

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

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

	Consolidated 1997 \$'000	Consolidated 1996 \$'000	Bank 1997 \$'000	Bank 1996 \$'000
31st May, 1996	-	34,972	-	34,972
19th August, 1996	-	5,000	-	5,000
1st August, 2000 <sup>†</sup>	45,000	50,000	45,000	50,000
1st April, 2003	10,000	10,000	10,000	10,000
1st April, 2004	70,028	70,028	70,028	70,028
1st April, 2005	29,000	29,000	29,000	29,000
16th January, 2006	40,000	35,000	40,000	35,000
<b>Total Subordinated Debt</b>	<b>194,028</b>	234,000	<b>194,028</b>	234,000

In accordance with Reserve Bank of Australia guidelines, the Bank includes the applicable portion of the principal sum as Tier 2 capital.

<sup>†</sup> This debt represents capital notes which were listed on Australian Stock Exchange Limited on 22nd April, 1993.

## 21

## Retirement Benefits

The amount paid by the Bank and economic entity to persons in a prescribed office or to a prescribed superannuation fund in connection with the retirement of these persons from Macquarie Bank was \$20,366 (1996: \$16,750). The Directors, having regard to the details involved, consider the provision of full particulars in regard to these payments would be unreasonable.

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

## 22

## Contingent Liabilities

At 31st March, 1997 contingent liabilities existed in respect of:

Guarantees (a)	66,634	41,644	164,743	153,701
Letters of credit (a)	23,815	25,220	27,015	32,833
Uncalled investments (b)	3,805	5,625	505	-
Controlled entity as asset manager (c)	97,058	98,521	-	-
Underwriting facilities (d)	219,000	336,700	60,200	156,700
Undrawn credit facilities	654,933	552,773	704,421	549,365
Legal action (e)	30,000	30,000	30,000	30,000
Cross border leasing indemnities (f)	9,314	16,374	5,007	10,324
<b>Total Contingent Liabilities</b>	<b>1,104,559</b>	1,106,857	<b>991,891</b>	932,923

## 22 Contingent Liabilities continued

- (a) All external guarantees, other than noted for Macquarie Investment Management Limited in (c) below, and letters of credit are provided by the Bank.
- (b) Uncalled investments comprise units in Macquarie Investment Trust \$nil (1996: \$1,500,000), units in Macquarie Investment Trust II \$3,300,000 (1996: \$4,125,000) and shares in Bond Street Australia Limited \$505,000 (1996: \$nil).
- (c) A controlled entity, Macquarie Investment Management Limited, covenants that while it acts as manager of the Macquarie Cash Management Trust unitholders in that Trust will be paid upon redemption or repurchase of a unit issued prior to 28th April, 1985, or a unit issued after 28th April, 1985 where the unitholder has continuously held units from 28th April, 1985 not less than the sum of \$1.00 : \$94,883,000 (1996: \$96,016,000). At 31st March, 1997 the audited financial statements of the Macquarie Cash Management Trust disclose the value of units on issue and the income entitlement thereon aggregating \$3,663,538,000 (1996: \$2,370,003,000) and the assets of the Macquarie Cash Management Trust aggregating \$3,782,534,000 (1996: \$2,405,474,000).
- The manager also guarantees the full value of investment deposits lodged in the Macquarie Approved Deposit Fund prior to 21st May, 1985 : \$2,032,000 (1996: \$2,505,000). At 31st March, 1997 the unaudited accounts of the Macquarie Approved Deposit Fund disclose the value of unitholders' funds, aggregating \$1,388,000,000 (1996: \$1,137,441,000) and the assets of the Macquarie Approved Deposit Fund aggregating \$1,398,000,000 (1996: \$1,148,946,000).
- Requests by unitholders to redeem units in the trusts managed by the entity are met by the trustees of the relevant trusts redeeming the investors' units out of trust assets. As a manager of a number of unit trusts, the entity has, under the terms of the relevant trust deeds, covenanted to repurchase units in the trusts at the request of any unitholder at a redemption price calculated in accordance with the trust deed. The entity complies with this obligation by managing the liquidity of the trusts to ensure that each trust will be able to meet any requests to redeem units.
- At 31st March, 1997 the relevant trusts had sufficient assets to meet any redemption requests.
- (d) Of the underwriting facilities listed above, the economic entity has sub-underwritten \$158,800,000 (1996: \$153,000,000) and the Bank has sub-underwritten \$nil (1996: \$20,000,000) of underwriting facilities provided.
- (e) HIH Casualty and General Insurance Limited ("HIH") has commenced legal action against the Bank and other parties in respect of alleged breaches of contract and duty relating to HIH's risk participation in loan facilities made available to a borrower. The Bank will defend the action and has been advised by its solicitors that HIH will not succeed in any of its claims and that, in any event, the Bank has recourse against other parties.
- (f) Indemnities granted to counterparties in respect of termination and default events in cross border leasing transactions.
- (g) Contingent liabilities exist in respect of claims and potential claims against entities in the economic entity. Where necessary appropriate provision has been made in the financial statements. The economic entity does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position.

## Notes continued

# 23

## Joint Ventures

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

Group Entity holding Joint Venture	Joint Venture Name	Participating Interest %	Interest In Assets Employed	
			1997 \$'000	1996 \$'000
<b>Unincorporated Joint Ventures</b>				
Penchant Pty Limited	AWA Syndicate No. 4 (a)	99.0	35,023	33,023
Macquarie Syndication (No.1) Pty Ltd	AWA Syndicate No. 6 (a)	90.0	48,027	43,430
Macquarie Syndication (No.2) Pty Ltd	EMSYS Syndicate No. 1 (a)	99.0	36,689	33,352
Macquarie Syndication (No.3) Pty Ltd	Transgenic R & D Syndicate No. 1 (a)	99.0	44,873	40,439
Macquarie Syndication (No.5) Pty Ltd	Anti Viral R & D Syndicate (a)	98.0	32,909	29,815
Macquarie Syndication (No.6) Pty Ltd	Rumentek Syndicate (a)	99.0	31,521	28,845
Macquarie Securities Pty Ltd	Datacraft Syndicate No. 1 (a)	99.0	22,917	21,262
Macquarie Syndication (No.9) Pty Ltd	Air Traffic Control No. 1 Syndicate (a)	15.0	947	895
Macquarie Syndication (No.10) Pty Ltd	Air Traffic and Aviation Systems Management Syndicate (a)	25.3	6,124	5,084
Macquarie Syndication (No.11) Pty Ltd	Omni Telecommunications R & D Syndicate (a)	3.5	269	216
Macquarie Syndication (No.14) Pty Ltd	AMRAD Biotechnical Projects R & D Syndicate (a)	0.1	4	3
<b>Incorporated Joint Ventures</b>				
Macquarie Bank Limited	AMMB Futures Sdn Bhd (b)	30.0	1,102	–
Macquarie Bank Limited	AMMB Asset Management Sdn Bhd (c)	30.0	565	–
Macquarie Bank Limited	Arab-Malaysian Unit Trust Berhad (d)	30.0	565	1
Macquarie Property China Pty Limited	Austian (Tianjin) Property Development Co. Limited (e)	50.0	1,914	–
Macquarie Property China Pty Limited	Tianjin Macquarie Property Development Management Company Limited (e)	50.0	1,600	–

(a) The principal activities of these joint ventures are to foster, develop and commercialise new technologies. The assets are secured by cash deposits of \$176,953,000 (1996: \$161,406,000). The contribution of the joint ventures to the profit of the economic entity is shown in Note 16 – Controlled Entities.

(b) Futures broking company with membership of the Malaysian Equity and Interest Rate Exchanges.

(c) Asset management company.

(d) Retail unit trust management company.

(e) Property development company.

<b>Consolidated</b>	Consolidated	<b>Bank</b>	Bank
<b>1997</b>	1996	<b>1997</b>	1996
<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000

## 24 Forward Commitments

In the normal course of business the Bank and its controlled entities have contingent commitments in respect of future funding arrangements including underwriting commitments in respect of promissory note facilities, foreign exchange contracts, forward rate agreements, options, interest rate swaps, repurchase agreements and guarantees granted to clients.

## 25 Lease Commitments

### Non-cancellable operating leases expiring:

Not later than one year	<b>21,575</b>	21,267	<b>26,158</b>	26,687
Later than one year and not later than two years	<b>21,483</b>	21,486	<b>25,842</b>	24,908
Later than two years and not later than five years*	<b>81,934</b>	44,589	<b>86,374</b>	47,671
Later than five years	<b>417,191</b>	17,704	<b>417,191</b>	17,704
<b>Total Operating Lease Commitments</b>	<b>542,183</b>	105,046	<b>555,565</b>	116,970

\* During the year the Bank agreed to lease new office premises at 1 Martin Place, Sydney for its Head Office and Sydney Branch. The new premises are expected to be completed in late 1999/early 2000.

## 26 Dividends From Controlled Entities

During the year the Bank brought to account the following dividends from controlled entities, being post acquisition profits:

Boston Australia Limited	<b>2,100</b>	2,600
Felter Pty Limited	<b>19,251</b>	11,258
Macquarie Acceptances Limited	<b>10,500</b>	6,875
Macquarie Equities Limited	<b>7,870</b>	1,125
Macquarie Life Limited	<b>23,200</b>	650
Macquarie Options Pty Limited	<b>6,108</b>	17,300
Macquarie Twenty-Ninth Aviation Leasing Pty Limited	<b>12,000</b>	15,000
MAIL Holdings Limited	<b>15,000</b>	7,832
PUMA Management Limited	<b>1,000</b>	2,500
SPAL Limited	<b>18,250</b>	11,910
<b>Total Dividends From Controlled Entities</b>	<b>115,279</b>	77,050

## Notes continued

## 27 Related Party Information

Macquarie Bank Limited is the chief entity of all entities listed in Note 16 – Controlled Entities. All transactions undertaken during the year with those entities are eliminated in the consolidated financial statements. The transactions principally arise from the provision of banking services, the granting of loans, acceptance of funds on deposit and other financial services. Support services are also provided by the Bank to controlled entities. Amounts due from and due to controlled entities, at balance date, are shown in the balance sheet. Interest received or receivable from and paid or payable to controlled entities is disclosed in Note 2 – Operating Profit. Dividends received and receivable by the Bank from controlled entities are disclosed in Note 26 – Dividends From Controlled Entities.

### Directors' Remuneration:

Remuneration received or receivable by Voting Directors of the Bank from it and all its controlled entities:

	Consolidated 1997 \$'000	Consolidated 1996 \$'000	Bank 1997 \$'000	Bank 1996 \$'000
Base remuneration	1,849	1,202	1,849	1,202
Performance related	4,095	3,843	4,095	3,843
	<b>5,944</b>	5,045	<b>5,944</b>	5,045

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

	Number 1997	Number 1996
\$0 and \$9,999	–	2
\$10,000 and \$19,999	1	–
\$20,000 and \$29,999	1	–
\$40,000 and \$49,999	–	4
\$50,000 and \$59,999	1	–
\$60,000 and \$69,999	–	1
\$70,000 and \$79,999	–	1
\$80,000 and \$89,999	1	–
\$90,000 and \$99,999	1	–
\$130,000 and \$139,999	1	–
\$470,000 and \$479,999	1	–
\$1,070,000 and \$1,079,999	1	–
\$1,120,000 and \$1,129,999	–	1
\$1,270,000 and \$1,279,999	–	1
\$1,590,000 and \$1,599,999	1	–
\$2,300,000 and \$2,309,999	–	1
\$2,400,000 and \$2,409,999	1	–

Eligible termination payments paid to retiring Directors as part of a retirement scheme are included in remuneration. These amounts are only paid, six months after retirement, if certain disqualifying events do not occur. If such events occur the amounts are forfeited.

The remuneration paid to Directors has been calculated in accordance with AASB 1028, Accounting for Employee Entitlements.

## 27 Related Party Information continued

### Directors' Loans:

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

Loans outstanding at the start of the year	<b>9,885</b>	8,657
Advances (D.S. Clarke, J.G. Allpass, L.G. Cox and J.F. Kirk)	–	1,299
Repayments (D.S. Clarke, M.R.G. Johnson, J.G. Allpass)	<b>(1,432)</b>	(71)
Loans outstanding at the end of the year	<b>8,453</b>	9,885

During the year the Bank brought to account interest income from loans made to Directors of \$833,478 (1996: \$863,543). The aggregate amount of guarantee facilities (undrawn) at 31st March, 1997 was \$673,950 (1996: \$254,557).

At the date of the Directors' Report the following Directors or entities related to them have relevant interests in the following shares and share options of the Bank:

	<b>Share Options 1997</b>	Share Options 1996	<b>Partly Paid 1997</b>	Partly Paid 1996	<b>Fully Paid 1997</b>	Fully Paid 1996
D.S. Clarke	–	–	<b>753,426</b>	753,426	<b>423,423</b>	379,837
A.E. Moss	–	–	<b>148,629</b>	750,000	<b>923,857</b>	378,550
M.R.G. Johnson	–	–	–	450,000	<b>800,000</b>	449,514
B.N. Kelman	–	–	–	–	<b>99,833</b>	96,136
J.G. Allpass	–	–	–	–	<b>10,229</b>	6,000
L.G. Cox	<b>130,000</b>	130,000	–	–	<b>207,692</b>	200,000
J.F. Kirk	–	–	–	–	<b>107,933</b>	103,936
B.R. Martin	–	–	–	–	<b>2,198</b>	2,117
H.K. McCann#	–	–	–	–	<b>1,000</b>	–

#Appointed as a Director 23rd December, 1996.

All Directors' share options were granted on the same terms and conditions as those granted to other employees.

Mr B.N. Kelman is a Director of the entity which acts as the trustee of the Macquarie Bank Superannuation Fund which has an interest in 161,533 (1996: 204,387) Ordinary Shares of \$1.00 each fully paid of the Bank.

During the year Directors received dividends and bonus shares relating to the abovementioned shareholdings at the same rate as other fully and partly paid shareholders.

### Other Transactions with Directors:

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

**1997**                      1996  
**\$'000**                      \$'000

## Notes continued

## 28

## Executive Officers' Remuneration

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

	Consolidated 1997 \$'000	Consolidated 1996 \$'000	Bank 1997 \$'000	Bank 1996 \$'000
Base remuneration	3,750	3,314	3,750	3,314
Performance related	13,605	11,131	13,605	11,131
	<b>17,355</b>	14,445	<b>17,355</b>	14,445

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

\$900,000 and \$909,999	-	1	-	1
\$1,070,000 and \$1,079,999	1	-	1	-
\$1,080,000 and \$1,089,999	1	-	1	-
\$1,120,000 and \$1,129,999	-	1	-	1
\$1,180,000 and \$1,189,999	1	-	1	-
\$1,240,000 and \$1,249,999	-	1	-	1
\$1,270,000 and \$1,279,999	-	1	-	1
\$1,380,000 and \$1,389,999	1	-	1	-
\$1,390,000 and \$1,399,999	-	1	-	1
\$1,400,000 and \$1,409,999	-	1	-	1
\$1,470,000 and \$1,479,999	2	1	2	1
\$1,550,000 and \$1,559,999	-	1	-	1
\$1,590,000 and \$1,599,999	1	-	1	-
\$1,660,000 and \$1,669,999	1	-	1	-
\$1,750,000 and \$1,759,999	-	1	-	1
\$1,990,000 and \$1,999,999	1	-	1	-
\$2,030,000 and \$2,039,999	1	-	1	-
\$2,300,000 and \$2,309,999	-	1	-	1
\$2,400,000 and \$2,409,999	1	-	1	-

Eligible termination payments paid to retiring executive officers as part of a retirement scheme are included in remuneration. These amounts are only paid, six months after retirement, if certain disqualifying events do not occur. If such events occur the amounts are forfeited.

The remuneration paid to executive officers has been calculated in accordance with AASB 1028, Accounting for Employee Entitlements.

## 29 Employee Equity Participation

### Share Scheme

Under the Bank's now closed partly paid share scheme (the "Scheme"), staff at Associate Director level and above were offered the opportunity of subscribing (either themselves or a nominee controlled by them) for partly paid ordinary shares. These have been registered in the name of a nominee company, Lacuna Nominees Pty Limited. The total number of partly paid shares which could be on issue at one time was limited to 20% of the Bank's fully and partly paid issued capital. The total number of partly paid shares at present is 9.7 million representing approximately 6% of the Bank's fully and partly paid issued capital. No partly paid shares have been issued since June 1995 and no further issues are proposed. At 31st March, 1997 there were approximately 179 employees participating in the Scheme.

Each partly paid share allotment has been subject to an individual deed of allotment. The terms of these deeds have developed over time and following is a description of the Scheme as it generally applies to the partly paid shares on issue.

Most shares have effectively been issued under the Scheme at the par value of \$1.00 plus a variable premium determined such that the sum of the par value and maximum premium for each issue of partly paid shares is the market price of the fully paid shares (as determined by the Board) at the date of issue. However, some partly paid shares issued early in the life of the Scheme (principally those issued at \$1.83) were issued at a fixed premium. With the exception, once again, of some partly paid shares issued early in the life of the Scheme, holders of partly paid shares have been subject to a two year "vesting period". If an employee ceases to be an employee within this vesting period, the holder effectively forfeits the entitlement to those shares and any bonus shares derived therefrom. In individual cases, mainly where employees resign with the Bank's agreement close to the end of the vesting period, the Bank may agree to waive the remainder of the vesting period. A holder who ceases to be an employee after that time must pay up the outstanding amounts within a reasonable period.

Each partly paid share participates equally in the fully paid ordinary share distributions in respect of any financial year above a participation threshold, which is equal to the maximum amount still to be paid up on the share multiplied by 11.5 and divided by 183. All bonus shares on partly paid shares since 1991 have been subject to an arrangement whereby on the sale of any such shares the Bank will make a call on the underlying partly paid shares equal to the notional after tax proceeds of the sale. Bonus shares on such shares are also subject to the same arrangement. The Bank also makes calls on partly paid shares equal to the notional after tax value of any cash dividends on partly paid and fully paid shares which are subject to the arrangement described above. For partly paid shares not issued at a fixed premium, the aggregate calls on the partly paid share may not be less than \$1.00 nor greater than the net amount that would then be available from an arms length disposal of the share and any associated bonus shares derived from the share.

Subject to the approval of the Board, partly paid shares may be paid up at any time and become full voting ordinary shares ranking *pari passu* with all other fully paid ordinary shares then on issue.

Until they are fully paid, partly paid shares carry no voting rights, other than in the limited situations described in the Bank's Articles of Association.

As at 31st March, 1997, there were 9,696,505 (1996: 16,258,768) partly paid shares on issue. The total amount paid up on partly paid shares was \$4,253,457 (1996: \$4,184,904) and the maximum unpaid amount was \$32,898,547 (1996: \$54,704,610).

## Notes continued

# 29

## Employee Equity Participation continued

### Option Plan

In December 1995, the Bank introduced an Employee Option Plan (the "Plan"), effectively as a replacement for the Scheme. Staff eligible to participate are those of Associate Director level and above and consultants to the economic entity. At 31st March, 1997 there were approximately 269 participants in the Plan.

Options, currently for five years, over fully paid unissued ordinary shares in Macquarie Bank Limited are granted to Lacuna Nominees Pty Limited as nominee for the individual or the individual's controlled company.

The options are issued for no consideration. Options granted on or before 15th May, 1996 are exercisable at the market price of the fully paid shares at the date of acceptance of employment if issued to a new employee, or the market price at 1st July in respect of employees who received options due to annual promotions and compensation reviews. The exercise price of options granted after 15th May, 1996 is based on the weighted average market price over the five trading days prior to acceptance of employment for new employees or over the last five trading days in June in respect of options granted as a result of annual promotions and compensation reviews.

## 29 Employee Equity Participation continued

### Option Plan continued

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

Latest Date for Exercise of Options	Exercise Price	Balance as at 1st April, 1996	Options Issued during the year	Options Exercised during the year	Options Lapsed during the year	Balance as at 31st March, 1997
5 January 2001	\$4.05	3,050,000	–	(114,000)	(205,000)	2,731,000 <sup>#</sup>
8 January 2001	\$4.50	20,000	–	–	–	20,000 <sup>#</sup>
29 January 2001	\$5.00	130,000	–	–	–	130,000 <sup>#</sup>
31 January 2001	\$5.00	20,000	–	–	–	20,000 <sup>#</sup>
27 February 2001	\$4.05	15,000	–	–	–	15,000 <sup>#</sup>
28 February 2001	\$4.50	70,000	–	–	–	70,000 <sup>#</sup>
1 March 2001	\$5.00	20,000	–	–	–	20,000 <sup>#</sup>
25 March 2001	\$5.50	20,000	–	–	–	20,000 <sup>#</sup>
26 April 2001	\$5.00	–	50,000	–	–	50,000 <sup>#</sup>
10 May 2001	\$6.00	–	20,000	–	–	20,000 <sup>#</sup>
14 May 2001	\$6.20	–	20,000	–	–	20,000 <sup>#</sup>
15 May 2001	\$6.50	–	40,000	–	(40,000)	–
26 June 2001	\$6.00	–	20,000	–	–	20,000 <sup>#</sup>
2 July 2001	\$7.10	–	20,000	–	–	20,000 <sup>#</sup>
22 July 2001	\$7.24	–	20,000	–	–	20,000 <sup>#</sup>
19 August 2001	\$6.84	–	20,000	–	–	20,000
20 August 2001	\$6.86	–	3,874,850	–	(185,000)	3,689,850
21 August 2001	\$6.75	–	60,000	–	–	60,000
22 August 2001	\$6.82	–	50,000	–	–	50,000
28 August 2001	\$6.84	–	20,000	–	–	20,000
1 October 2001	\$6.50	–	80,000	–	–	80,000
11 December 2001	\$6.71	–	20,000	–	–	20,000
12 December 2001	\$6.72	–	40,000	–	–	40,000
6 January 2002	\$8.30	–	30,000	–	–	30,000
13 January 2002	\$8.71	–	50,000	–	–	50,000
16 January 2002	\$6.80	–	20,000	–	–	20,000
24 February 2002	\$7.47	–	20,000	–	–	20,000
4 March 2002	\$8.59	–	20,000	–	–	20,000
26 March 2002	\$8.50	–	35,000	–	–	35,000
27 March 2002	\$8.49	–	20,000	–	–	20,000
<b>Total</b>		3,345,000	4,549,850	(114,000)	(430,000)	<b>7,350,850</b>

<sup>#</sup>Exercisable into approximately 1.0385 shares per option.

## Notes continued

## 29

## Employee Equity Participation continued

## Option Plan continued

Since 31st March, 1997, the following options have been issued:

Latest Date for Exercise of Options	Exercise Price	Balance as at 1st April, 1997	Options issued since 1st April, 1997	Options exercised since 1st April, 1997	Options lapsed since 1st April, 1997	Balance as at reporting date
7 April 2002	\$8.57	–	85,000	–	–	85,000
8 April 2002	\$8.11	–	20,000	–	–	20,000
16 April 2002	\$8.46	–	20,000	–	–	20,000
18 April 2002	\$8.59	–	20,000	–	–	20,000
22 April 2002	\$8.54	–	20,000	–	–	20,000
7 May 2002	\$8.41	–	20,000	–	–	20,000
23 May 2002	\$8.41	–	20,000	–	–	20,000
26 May 2002	\$8.32	–	50,000	–	–	50,000
27 May 2002	\$8.65	–	20,000	–	–	20,000
28 May 2002	\$8.49	–	20,000	–	–	20,000
29 May 2002	\$8.44	–	20,000	–	–	20,000
<b>Total</b>		–	315,000	–	–	315,000

A further 20,000 options exercisable at \$6.86 have lapsed so that at the reporting date, the number of options still available is 7,645,850, of which 3,176,000 are exercisable into approximately 1.0385 shares per option. The market value of shares under these options at 31st March, 1997 was \$8.50.

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

Options granted on or before 15th May, 1996 are not exercisable within a vesting period of two years and a holder who ceases to be an employee after that time must exercise the options within a reasonable period. Options granted after 15th May, 1996 have vesting periods ranging up to four years after the date of grant. Each new tranche of options is issued such that 25% of each tranche becomes exercisable after each of the first four anniversaries of the date of grant. The Board has resolved that options granted after and including those from the 1997 promotions and compensation reviews, will vest as to one third of each tranche after the second, third and fourth anniversaries of the date of grant. Options can be exercised after the vesting period at any time up to expiry. In individual cases, mainly where an employee leaves with the Bank's agreement close to the end of a vesting period, the Bank's Executive Committee has the power to waive the remainder of any vesting period and allow exercise of the relevant options.

The Bank will be seeking shareholder approval at the 1997 Annual General Meeting to modify the Plan Rules to allow for exercise conditions to be imposed. If approved, it is currently proposed to impose exercise conditions on grants of options to Executive Directors from then on.

The Plan Rules provide that the total number of options which can be on issue at any one time is limited such that the number of shares resulting from exercise of all unexercised options together with the number of partly paid shares then on issue do not exceed 20% of the number of the Bank's then fully paid ordinary shares plus the number of partly paid shares then on issue plus the number of shares resulting from exercise of all unexercised options. Fully paid ordinary shares issued on the exercise of options will rank pari passu with all other fully paid ordinary shares then on issue.

## 29 Employee Equity Participation continued

### Option Plan continued

Options carry no dividend or voting rights but have standard adjustment clauses for bonus and rights issues, reconstructions etc.

To the date of this report, 114,000 options have been exercised under this plan resulting in the issue of 118,382 fully paid ordinary shares. The Board has approved the issue of invitations for a further 7,547,071 options pursuant to the Plan. With the exception of 1,051,371 of these options which are subject to shareholder approval, these are expected to be granted in early to mid July 1997.

## 30 Future Income Tax Benefit

Potential future income tax benefits of approximately \$80,739,000 (1996: \$89,739,000) attributable to tax losses carried forward by a controlled entity have not been brought to account in the controlled entity and in the consolidated financial statements at 31st March, 1997 because the Directors do not believe it is appropriate to regard realisation of the future income tax benefit as virtually certain.

These benefits will only be obtained if:

- (i) the controlled entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;
- (ii) the controlled entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the controlled entity or the economic entity in realising the benefit from the deductions for loss.

## 31 Balance Sheet Format

Relief from the requirement to present the consolidated financial statements in the format required by subclauses 7(1), 7(2), 7(3) and Clause 13 of Schedule 5 of the Corporations Law, insofar as those provisions require the disclosure of assets and liabilities in current and non-current format, was granted by the Australian Securities Commission in an Order dated 24th June, 1992. Two conditions attach to this relief. First, the disclosure of assets and liabilities is to comply with International Accounting Standard 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions'. This standard, recognising that the current/non-current classification is inappropriate in a financial institution, states that a Bank should present a balance sheet that groups assets and liabilities by nature and lists them in an order that reflects their relative liquidity. This represents the Bank's existing practice. Second, information relating to the total assets and liabilities of controlled entities that are not prescribed corporations is to be shown by way of a note. This information is accordingly presented below. These figures represent an aggregation only, without the elimination adjustments which can only occur on consolidation with the parent entity.

	1997 \$'000	1996 \$'000
Total assets	2,169,156	2,181,231
Total liabilities	(1,660,721)	(1,683,675)

## Notes continued

## 32

## Notes to the Statements of Cash Flows

	Consolidated 1997 \$'000	Consolidated 1996 \$'000	Bank 1997 \$'000	Bank 1996 \$'000
<b>a) Reconciliation of Cash</b>				
Cash at the end of the year as shown in the Statements of Cash Flows is reconciled to the related items in the balance sheet as follows:				
Coins, notes and cash at bankers	284,271	68,722	180,664	12,121
Due from clearing houses	470,327	83,365	401,427	67,707
Due to clearing houses	(3,350)	(83,651)	(2,962)	(83,651)
Balances due (to)/from clearing bank	(258,066)	83,093	(258,066)	83,093
	<b>493,182</b>	151,529	<b>321,063</b>	79,270
<b>b) Reconciliation of Operating Profit after Income Tax to Net Cash Flows from Operating Activities</b>				
Operating profit after income tax	116,943	93,173	108,637	86,334
Add non-cash items:				
Provision for uncertainties	240	4,077	240	4,077
Specific provisions	2,950	(4,018)	2,950	(4,018)
Depreciation	16,788	16,073	13,209	15,287
Adjustment to retained earnings	-	(1,202)	-	(1,202)
Write down of land and buildings	-	663	-	-
Changes in assets and liabilities, adjusted for the sale of controlled entities during the financial year:				
Customer loans granted and repaid	(57,868)	(250,727)	66,792	(337,216)
Leases granted and repaid	(39,365)	(25,428)	(101,423)	41,517
Increase/(decrease) in income tax payable	21,577	(256)	1,997	728
Decrease in provision for deferred income tax	(19,975)	(8,766)	(14,047)	(31,253)
Loss on sale of property, plant and equipment	27	155	22	138
Profit on sale of controlled entities	(1,883)	-	(1,883)	-
Dividends receivable but not paid	(6,984)	-	(25,454)	3,790
Decrease/(increase) in interest receivable	17,685	(18,292)	9,081	(5,576)
Increase/(decrease) in interest payable	5,197	9,590	(3,289)	(11,180)
Increase in fees and commissions receivable	(52,491)	(18,720)	(5,815)	(376)
Decrease in fees and commissions payable	(453)	(4,543)	(242)	(16)
Increase in employment provisions	34,729	29,261	34,270	28,889
Decrease in accrued expenses	(182,279)	(21,750)	(181,824)	(108,356)
Net increase/(decrease) in savings, money market and other deposit accounts	409,937	116,720	522,973	(35,934)
Decrease/(increase) in financial instruments, foreign exchange and commodities	174,419	223,619	(64,224)	458,807
<b>Net Cash Flows from Operating Activities</b>	<b>439,194</b>	139,629	<b>361,970</b>	104,440

Movements in balance sheet items are disclosed net of the sale of controlled entities, refer (c) below.

<b>Consolidated</b>	Consolidated	<b>Bank</b>	Bank
<b>1997</b>	1996	<b>1997</b>	1996
<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000

## 32 Notes to the Statements of Cash Flows continued

### c) Details of entities disposed of are as follows:

Accrued royalties	14,078	–	14,078	–
Provision for deferred income tax	(5,148)	–	(5,148)	–
Net assets disposed of	8,930	–	8,930	–
Profit on disposal	1,883	–	1,883	–
<b>Proceeds on sale of controlled entities</b>	<b>10,813</b>	–	<b>10,813</b>	–

### d) Cash flows arising from the following activities are presented on a net basis in the Statements of Cash Flows

- deposits and withdrawals from money market and other deposit accounts;
- customer loans granted and repaid;
- sales and purchases of dealing securities and capital markets instruments; and
- payments and proceeds from commodities, foreign exchange and options trading.

## Directors' Statement

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In accordance with a resolution of the Directors of Macquarie Bank Limited:

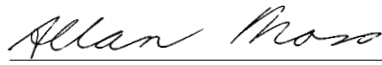
1. In the opinion of the Directors:
  - (a) the accounts of the Bank are drawn up so as to give a true and fair view of the results and cash flows for the financial year ended 31st March, 1997 and the state of affairs as at 31st March, 1997 of the Bank;
  - (b) the consolidated accounts have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law and give a true and fair view of the matters with which they deal; and
  - (c) at the date of this statement there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.
2. The accounts and the consolidated accounts have been drawn up in accordance with applicable accounting standards and Urgent Issues Group Consensus Views.

For and on behalf of the Board



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D.S. Clarke, *Director*



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A.E. Moss, *Director*

Sydney  
2nd June, 1997

## Independent Audit Report

### To the Members of Macquarie Bank Limited

#### Scope

We have audited the financial statements of Macquarie Bank Limited (the Bank) for the financial year ended 31st March, 1997 as set out on pages 10 to 46. The financial statements consist of the accounts of the Bank and the consolidated accounts of the economic entity comprising the Bank and the entities it controlled at the end of, or during, the financial year. The Bank's directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Bank.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements, being Urgent Issues Group Consensus Views, and the Corporations Law so as to present a fair view which is consistent with our understanding of the Bank's and the economic entity's state of affairs, the results of their operations and their cash flows.

We have not acted as auditors of the controlled entities identified in Note 16 to the financial statements. We have, however, received sufficient information and explanations concerning these controlled entities to enable us to form an opinion on the consolidated accounts.

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

#### Audit Opinion

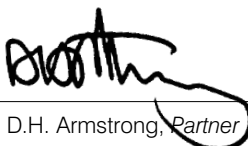
In our opinion, the financial statements of the Bank are properly drawn up:

- (a) so as to give a true and fair view of:
  - (i) the state of affairs at 31st March, 1997 and the results and cash flows for the financial year ended on that date of the Bank and the economic entity; and
  - (ii) the other matters required by Divisions 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with the provisions of the Corporations Law, in that the financial statements comply with the provisions of the Banking Act 1959;
- (c) in accordance with applicable accounting standards and other mandatory professional reporting requirements.



Price Waterhouse  
Chartered Accountants

Sydney  
2nd June, 1997



D.H. Armstrong, *Partner*

## Five Year Summary

Year ended 31 March	1993	1994	1995	1996	1997
<b>Profit and Loss (\$million)</b>					
Total operating income	281.0	338.6	355.1	435.2	530.1
Operating expenses	202.8	245.4	284.9	336.1	391.9
Operating profit before income tax	78.2	93.2	70.2	99.1	138.2
Income tax (expense)/benefit	(18.4)	(19.3)	5.9	(5.9)	(21.3)
Operating profit after income tax	59.8	73.9	76.1	93.2	116.9
<b>Balance Sheet (\$million)</b>					
Total assets	3,167	4,260	4,624	5,174	6,142
Total liabilities	2,762	3,740	4,034	4,512	5,448
Shareholders' funds	289	340	380	428	500
Capital and subordinated debt	405	521	590	662	694
Total loan assets (a)	1,562	1,743	2,233	2,455	2,503
Impaired assets (net of provisions)	84	51	49	57	46
<b>Share Information</b>					
Basic earnings per share					
Adjusted (cents) (b)	39.6	50.5	51.0	61.0	74.9
Cash dividends per share					
Adjusted (cents) (b)	15.7	21.5	28.2	34.7	43.0
Share price at 31 March					
Unadjusted (\$)	3.25	6.00	4.80	6.00	8.50
Adjusted (\$) (b)	2.55	5.15	4.37	5.78	8.50
Bonus issue ratio	1:10.5	1:17	1:17	1:26	–
Issued capital (million shares) (c)	104.9	118.8	128.2	138.7	151.4
Market capitalisation at 31 March (fully paid ordinary shares) (\$million)	341	713	616	832	1,287
<b>Ratios</b>					
Return on average shareholders' funds	21.3%	23.5%	21.1%	23.1%	25.2%
Capital adequacy ratio	13.4%	13.8%	15.4%	15.4%	13.2%
Impaired assets as % of loan assets	5.4%	2.9%	2.2%	2.3%	1.8%
Net loan losses as % of loan assets	0.2%	0.0%	0.0%	0.0%	0.0%
<b>Assets Under Management (\$billion)</b>					
Retail	4.5	4.7	4.7	5.6	7.2
Wholesale	4.0	4.5	6.3	7.5	8.5
Listed trusts	0.2	0.3	0.8	1.7	2.4
Mortgages	0.1	0.2	0.9	2.7	5.1
Other	0.1	0.1	0.1	0.3	0.3
Total	8.9	9.8	12.8	17.8	23.5
<b>Staff Numbers</b>					
	1,329	1,428	1,704	1,732	1,965

(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 offices from which Macquarie Bank and/or its subsidiary companies conduct operations.

## AUSTRALIA

### Sydney

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United Kingdom

### General

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### Equities

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### Foreign Exchange

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### Project and Structured Finance

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Telex: 916 962

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Fax: 536 3926

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Fax: (22) 2339 0255

### Wellington

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Wellington 6000 NZ

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Fax: (04) 473 1545

## REPRESENTED IN:

### Johannesburg

c/- Standard Bank of South Africa  
5 Simmonds Street  
Johannesburg, 2000  
South Africa

Telephone: (11) 636 2627  
Fax: (11) 636 8591

## INVESTOR RELATIONS

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Fax: (02) 9237 4330

## REGISTERED OFFICE

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Canberra ACT 2600

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## SHARE REGISTRY

KPMG Registrars Pty Ltd  
GPO Box 1486  
Sydney NSW 2001

Telephone: (02) 9232 4211  
Fax: (02) 9232 3719

## CAPITAL NOTES REGISTRY

Permanent Registry Limited  
GPO Box 4270  
Sydney NSW 2001

Telephone: (02) 9232 4400  
Fax: (02) 9225 8484

## QANMACS REGISTRY

Coopers & Lybrand Share  
Registry  
Locked Bag 14  
Sydney South NSW 2001

Telephone: (02) 9285 7111  
Fax: (02) 9261 8489

## Net Address

<http://www.macquarie.com.au>

## Please Note

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

**MACQUARIE BANK LIMITED**  
ACN 008 583 542

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