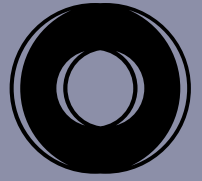


MACQUARIE BANK LIMITED

ACN 008 583 542

Interim Report 30 September 1998



MACQUARIE
BANK





MACQUARIE
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MACQUARIE BANK LIMITED
INTERIM REPORT

for the half-year ended 30 September 1998

INTERIM RESULT

Macquarie Bank is pleased to announce a record half-year result for the six months to 30 September 1998. Consolidated after tax profit increased to \$80.5 million compared with \$64.3 million in the previous corresponding period, an increase of 25 per cent. Profit before tax increased by 27 per cent to \$106.3 million. The annualised return on average shareholders' funds was 26.6 per cent.

Basic earnings per share were 49.6 cents, up 23 per cent from the previous corresponding period.

Total operating income rose by 26 per cent from the previous corresponding period to \$399.2 million. Fee and commission income contributed 66 per cent of income for the Group and rose 30 per cent on the previous corresponding period. Trading income was down due to a reduced contribution from the Hong Kong equity derivatives activities. The rise in net interest income is attributed to growth in both the balance sheet and in structured finance transactions.

All six business Groups made solid contributions to the result. Excellent results were achieved by the Asset and Infrastructure Group and the Treasury and Commodities Group. For Asset and Infrastructure, the result reflects high levels of business activity both domestically and internationally, including a number of very good structured finance and infrastructure transactions. For Treasury and Commodities, the result reflects excellent contributions from the bullion, base metals and foreign exchange businesses. The Corporate Finance Group also made a substantially increased contribution reflecting very high levels of mergers and acquisitions activity.

Relative Contributions by Operating Group (%)

	Half year to 30/9/1998	Full year to 31/3/1998
Asset and Infrastructure	35	26
Treasury and Commodities	26	24
Corporate Finance	11	8
Banking and Property	10	9
Investment Services	9	11
Equities	9	22
Direct Investment	0	0
Total	100%	100%

The figures set out in the table above should be taken as a guide only and are derived from management accounts.

Consolidated Group Profits (\$ million)
Six Months Ended 30 September

	1998	1997	Change
Total operating income	399.2	317.1	26%
Total operating expenses	292.9	233.7	25%
Pre-tax profit	106.3	83.4	27%
Income tax expense	25.8	19.1	35%
Net operating profit	80.5	64.3	25%

Contribution to Operating Income

	Half year to 30/9/1998	Full year to 31/3/1998
Fee and commission income	66%	64%
Trading income	18%	24%
Net interest income	15%	13%
Other	1%	-1%
Total operating income	100%	100%

BALANCE SHEET AND CAPITAL ADEQUACY RATIOS

Loans and advances, lease receivables and balances due from governments ('total loan assets') grew from \$3,029 million at 31 March 1998 to \$3,574 million at 30 September 1998. Over the period loans and advances grew by 25 per cent, primarily reflecting growth in the commercial leasing portfolio and the return to on-balance sheet funding for most of the Geared Equity Investment portfolio.

Net loan losses during the September half were minimal. Impaired loans, set out in the table below, rose during the half, although the increase was from a very small base. The Bank does not expect to incur any significant losses from impaired loan exposures.

Impaired Loans (net of specific provisions) (\$ million)		
	30/9/98	31/3/98
Non-performance	28.9	3.0
Partial performance	5.1	5.2
Restructured	0.0	0.0
Other real estate owned	3.3	3.4
Total	37.3	11.6
% of total loan assets	1.0%	0.4%

Capital Adequacy	30/9/98	31/3/98	30/9/97
Tier 1 Capital (\$m)	623	581	548
Total Capital (\$m)	853	813	724
Risk Weighted Assets (\$m)	4,736	4,967	5,925
Tier 1 ratio (%)	13.3	11.7	9.3
Total ratio (%)	18.0	16.4	12.2

At 18.0%, Macquarie Bank Group's capital adequacy ratio continues to well exceed the 8% minimum imposed by the Australian Prudential Regulatory Authority (APRA). In addition, the Tier 1 ratio of 13.3% also well exceeds the APRA minimum of 4%.

The increase in capital ratios is a product of both increased Tier 1 and Total Capital and a reduction in Risk Weighted Assets. Risk Weighted Assets have declined over the half-year because an increase in total assets has been offset by a favourable switch between assets of high and low risk weightings.

The strong capital position of the Bank enhances its commercial flexibility and ensures counterparty confidence. However, the Bank is constantly reviewing its capital position to ensure that it has the appropriate level for its businesses going forward.

CREDIT RATINGS

Macquarie Bank's credit ratings continue to reflect its strong financial performance, the quality of its business dealings, strength of the management team and sound risk management policies.

The Bank has no exposures to hedge funds and only very limited exposures to emerging markets.

	Short-term	Long-term
Standard & Poor's	A1	A
FitchIBCA	F1	A+
Moody's	P-2	A3
Thompson BankWatch	TBW-1	AA- (senior debt)

REVIEW OF OPERATIONS

ASSET AND INFRASTRUCTURE GROUP

The **Project and Structured Finance Division** (PSF) arranges finance for, or acts as financial adviser in respect of, major assets such as power stations, pipelines, trains and infrastructure generally. In addition to Australia and New Zealand, PSF has offices in Asia, North America and Europe. The Division's income in the first half was evenly split between Australia and overseas.

Major transactions in Australia included acting for the successful bidders for Adelaide, Parafield and Coolangatta airports; arranging four aircraft leases with an aggregate value of A\$550 million; and arranging the sale of BHP's gas pipeline assets in the Pilbara region of Western Australia. The Division also concluded a large number of smaller transactions.

Major international transactions undertaken during the half-year included a US\$1.5 billion lease over a power generation plant in Africa; a US\$545 million railcar lease for the City of Vienna; a US\$600 million lease for Austrian Railways over two strategic marshalling yards; an £80 million financing for National Physical Laboratories in the UK (the first infrastructure transaction concluded by Macquarie in that country); and a US\$119 million aircraft lease in Asia.

Macquarie Capital provides and arranges finance for the government and corporate sectors with a particular emphasis on motor vehicle and IT equipment leasing and technology financing.

At 30 September 1998, the Division was responsible for a portfolio of loans, advances and lease receivables of over \$1.5 billion, more than half of which consisted of government receivables. No material loan or receivable losses were suffered by the Division during the period.

The Division's presence in the motor vehicle leasing business continues to grow. Following the acquisition of DASFLEET in 1997, a major State Government fleet contract was awarded to the Division during the period.

Macquarie Leasing, which provides leasing and asset purchase facilities to the professional and small to medium sized business markets, is now well established in Sydney and Melbourne and has experienced very satisfactory growth in its first full six months of operation.

Macquarie Technology Investment Banking provides advisory services specifically to the technology sector, operating through offices in Australia, the USA and Malaysia. During the period, the Division completed a number of assignments including a successful fundraising for Looksmart Limited, an internet portal company based in Australia and San Francisco.

Macquarie IT continues to be a market leader in the provision of operating and finance leases for all types of information technology equipment. Macquarie IT now services clients throughout Australia and New Zealand, winning significant new business in the financial and government sectors during the period.

Infrastructure & Specialised Funds (ISF) manages the Infrastructure Trust of Australia Group (ITA), the High Yield Infrastructure Debt Trust (HYIDT), the Horizon Energy Group and Hills Motorway Trust.

The management of ITA in particular involves Macquarie Bank executives in the active management of the assets held by ITA, generally through representation on the Boards of the entities which own these assets. This management extends to operational and marketing issues as well as financial matters.

Highlights of the work undertaken by ISF during the first half included the restructuring of debt for Interlink Roads Pty Limited, the company holding the concession for the M5 Motorway in Sydney. ITA owns 50% of Interlink's equity. The restructuring brought forward distributions to equity by 10 years and provided additional funding for construction of new tolled on and off ramps.

During the half-year ISF also managed the sale of a 5% equity parcel in Airport Motorway Group (AMG), the developer and operator of the Eastern Distributor toll road. ITA owned 73.4% of the AMG equity before the sale and the sale price represented a 51% increase on ITA's initial investment in AMG which was made in August 1997.

ISF was also responsible for the negotiation of HYIDT's subordinated debt investments in Adelaide Airport and Transurban's City Link toll road during the first half.

The outlook for the Asset and Infrastructure Group as a whole for the second half appears favourable. Transactions already in progress, if brought to a successful conclusion, will see the Asset and Infrastructure Group achieving a strong full-year result.

TREASURY AND COMMODITIES GROUP

Bullion and Commodities had a record first half with all business units achieving strong results. While volatile market conditions provided good trading opportunities, most of the Division's income was earned from customer-related transactions. The gold price recovered from its December 1997 low of approximately US\$270 per ounce to reach US\$315 per ounce in April. This rally, and the subsequent fall to the low US\$270's per ounce in late August, produced considerable customer activity. The gold price has subsequently recovered and the medium-term outlook appears reasonably positive with central bank sales stalling in the face of global turmoil. Base metal prices drifted lower over the half-year on the back of lower Asian demand and generally weaker commodity prices. Despite this, there was increased demand for the Division's services as some international dealers withdrew credit from the Asia Pacific region following substantial losses in Russia and in other markets.

The outlook for the second half is reasonable. The Division has several mine financing mandates in place and a likely continuation of volatile markets should translate to continued strong customer activity.

Foreign Exchange and Capital Markets Division provides 24-hour interbank price-making services in \$A spot, forwards and options as well as quoting on other major currency pairs. In addition, the structured products area provides term hedging solutions for both importers and exporters domestically and internationally, and is regarded as a market leader in this field.

The Division has had an outstanding six months with significant contributions being made by all desks. In particular, the trading desks have had record results.

Money Market Division is responsible for the Bank's funding in addition to trading most interest rate markets. The Division continued to manage the Bank's liabilities very effectively.

Futures Broking and Clearing's half-year profit was satisfactory. The period was marked by unprecedented volatility in activity levels. The early months were extremely quiet whilst June and September were very active. The Division remains focused on providing the full range of futures services to its clients and is preparing for electronic trading on the Sydney Futures Exchange, expected during 1999.

Debt Markets Division had a satisfactory first half. Despite quieter market conditions, the Division maintained its leading position in the arrangement and placement of non-vanilla debt securities and continued its trading activities in CPI and mortgage-backed securities.

Highlights for the half-year included the arrangement and underwriting of subordinated debt issues for Adelaide Airport and for the management buy-out of the Australian and New Zealand businesses of McKechnie plc, and the placement of mortgage-backed securities for National Mutual Home Loans.

Risk Advisory Services has consolidated its business following significant growth over the last 12 months, achieving profit similar to last year's levels. Although competition has increased over the year the Division has been successful in winning some significant new mandates. The outlook is for steady profit growth into the future.

The **Energy and Agriculture Division** is the market leader in the provision of wool and electricity hedging products. Wool growers who hedged with Macquarie Wool Futures were sheltered from the drastic fall in wool prices, whilst electricity clients achieved protection against higher electricity prices. Over 200 wool growers took advantage of the Division's stock market in Wool International Units to liquidate their holdings. Despite difficult conditions in both markets the Division traded profitably.

OUTLOOK

The Treasury and Commodities Group has had an excellent half-year, avoiding exposures to emerging markets, hedge funds and other turbulent financial market sectors. The Group is well placed for the possibility of diminishing liquidity and aims to capitalise on strong market positions. However, it is likely that both turnover and profitability will be lower in the second half.

CORPORATE FINANCE GROUP

The **Corporate Advisory Division** had a good half-year. The result was significantly higher than the corresponding period last year, reflecting a higher level of mergers and acquisitions activity and continuing strength in the Division's share of the Australian and New Zealand M&A markets.

The Division advised on a broad range of transactions during the period including: the purchase of Plutonic Resources Limited by Homestake Mining Company; the privatisation of Aluvic by the Victorian Government; the acquisition of Aberfoyle by Western Metals; the sale by PepsiCo of the snack brands business to Dollar Sweets; and Forward Corporation's acquisition of the minority interests in Waco Kwikform. In New Zealand, the Division has advised on the sale by the Bank of Scotland of its interest in Countrywide Banking to Lloyds Bank and the sale of Wellington Airport by the New Zealand Government.

The current transaction flow remains strong. Transactions currently being worked on and which have been announced publicly include: advice to GIO on its defence of the bid by AMP; the merger between RGC and Westralian Sands; advice to SGIO on the offer from NRMA; and advice to Smorgon Steel on the potential acquisition of a number of ANI's businesses.

Equity Capital Markets had an excellent start to the year raising over \$1.4 billion for its clients.

The Division was lead manager for a large number of issues during the first half of the year, including: Network Ten Holdings' initial public offer; the Caltex Australia sell-down by Pioneer International; the Homemaker Retail Property Trust initial public offer; the Bonlac unsecured note issue; the Leisurewide Property Trust initial

public offer; and converting preference share issues for Western Metals and Resolute. The Division also acted as co-lead manager in the issue of instalment receipts for HHH Winterthur and as co-manager in the AMP and TAB initial public offers.

The Division has raised \$320 million in convertible securities in the year to date, consolidating its position as the clear leader in this type of issuance in Australia. This was highlighted by the use of converting preference shares in an innovative funding package for Western Metals in its successful takeover of Aberfoyle.

Notwithstanding quieter market conditions, Equity Capital Markets is extremely busy with a number of convertible and takeover related issues including a rights issue for the Property Income Investment Trust and a converting note issue for HHH Insurance. The Division has also recently established a Melbourne presence to better service its client base.

BANKING AND PROPERTY

Property Investment Banking Division's contribution in the September half was up on the corresponding period last year, due primarily to improved performances in Property Finance and Property Advisory and Structuring. The stronger result was achieved despite costs incurred in the establishment of new operations offshore, the establishment of an equity placement desk and a number of new business initiatives. The Division has expanded its activities in the leisure markets through Medallist Golf Developments (a joint venture with Greg Norman's Great White Shark Enterprises), the establishment of a Hotel Investment Banking business and the creation of the listed Leisurewide Trust.

Advisory and other fee earning activities remain at high levels. The Division is continuing its role with the Commonwealth Government as lead advisor on the commercial property divestment programme for the Department of Finance and Administration, the largest property divestment role in Australia this year.

A number of new business initiatives begun in the last 12 months have provided access to international niche markets and investment banking opportunities in the US and Asia. Medallist Golf Developments launched its first Australian project in Queensland and is currently finalising its first US project in Florida.

The Division manages five listed property trusts - Industrial Property Trust of Australia, Property Income Investment Trust, CountryWide Retail Trust, LeisureWide and Celsius House Trust. During the half-year, property assets managed by the Property Funds Management business grew by 18% to \$1.2 billion. Macquarie Direct, a new property syndication business was established and completed its first project, Engadine Court.

The second distribution to investors in the initial China Housing Fund was made in June, reflecting the successful completion of the Fund's first project in Tianjin.

Macquarie Securitisation has responsibility for all the Bank's securitisation activities, including the PUMA mortgage securitisation business. PUMA continued to write large volumes with over \$1.6 billion of new mortgages originated in the half, primarily through Aussie Home Loans. At the end of September, PUMA's total mortgage book stood at \$7.6 billion. The POLAR commercial paper vehicle grew rapidly in the half-year reaching outstandings of \$925 million. The Division made an increased earnings contribution relative to the corresponding period last year.

In October, the Bank announced its intention to seek offers for the PUMA mortgage securitisation business. This decision followed an earlier strategic review of Macquarie's domestic securitisation business. The rationale behind testing the market is Macquarie's belief that another party with a larger presence in the Australian mortgage market may be able to derive additional value from the PUMA business.

The possible sale will have no impact on home loans funded by Macquarie Securitisation, nor PUMA bonds held by institutional investors in Australia or offshore.

The **Banking Services Division** is an innovative provider of financial services to significant niche markets. The provision of value-added services to relationship banking clients has enabled the Division to maintain fee and margin income levels, despite general price competition in the market. The continued roll out of electronic solutions for client transactions (Active Banking and DEFT) will reduce paper processing and increase service efficiencies, delivering significant benefits to clients of Banking Services.

The Division remains cautious about future market conditions and continues to maintain high credit standards. As a result, growth during the period was steady and solid. There was also pleasing growth in deposit taking, with several new clients from the stockbroking industry.

The Division continues to invest heavily in technology and is close to completing its migration to a new banking system (Pivot). This will become the platform for several future electronic commerce initiatives. Significant investment has also been made in Cashfac, a virtual bank system enabling greater back-office efficiency and further value-added service to the Division's many professional and business clients.

The Margin Lending business launched in January by Equities Lending continues to perform strongly. The rapid growth of the business is due to its high service standards and the dedication of its staff. The business has won a number of mandates to provide margin lending services to external stockbroking firms.

Private Banking has recently become a separate Division within the Banking and Property Group. This step emphasises the independence of the private advisory business from product origination and distribution. During the year, PRISM (Private Investment Selection Masterfund) was launched. This is an innovative vehicle which provides private investors with access to alternative and wholesale investment opportunities normally only available to institutions. The Division continued to grow its team of skilled staff to cope with increasing demand for private banking services.

INVESTMENT SERVICES GROUP

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

At 30 September 1998, the Group's portfolio under management was \$17.9 billion, comprising:

- \$9.6 billion managed on behalf of individual investors through the Retail Investments Division; and
- \$8.3 billion managed for superannuation funds, corporations and institutions through the Institutional Funds Division and Macquarie Portfolio Services.

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

The Division enhanced its broad investment product range to include the Macquarie Leaders Imputation Trust and Small Companies Trust. These specialist equity funds have been developed and launched over the past six months in response to increasing retail market demand for niche products.

Macquarie's \$5.5 billion Cash Management Trust, Australia's largest managed investment, continued to dominate its market, with net inflows of more than \$500 million since 31 March 1998.

Going forward, the Retail Investments Division will continue to invest heavily in its long-term profit growth, particularly focussed on client profitability and brand development. Client profitability will be improved by investment in technology, enabling further enhancements to the product range and to client service. Brand development, essential to client profitability and market share, will continue to be supported by the highly successful "Ask Macquarie" campaigns.

The **Institutional Funds Division** has significantly improved its profitability over the past six months, despite a decline in funds under management. This has been achieved by a successful marketing focus on more profitable growth investment products, including several new products developed over the past six months:

- the new active equities products (100 Leaders Trust and Small Companies Trust) have performed well and attracted considerable investor interest;
- the new Diversified Fixed Interest Trust, which incorporates corporate and emerging market debt, has also attracted profitable new business.

In addition large active equities and enhanced equities mandates have provided significant boosts to revenues. And the continued success of master trust products has seen funds under management and fee income increase by more than 30% in the last six months.

The **Asset Management Division** and **Equities Funds Management Division** are responsible for the management of the Group's wholesale and retail funds.

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

The Equities Funds Management Division manages domestic equity portfolios using a 'Price for Earnings Growth' approach. This style is based on identifying stocks which are currently undervalued relative to their earnings growth prospects.

Specialist Australian equity funds that focus on niche areas such as resource companies, large capitalisation companies, and small companies have had strong performance since their inception.

Macquarie Portfolio Services has extended Macquarie's capabilities to provide a full range of administrative, processing and client services to external fund managers. With expertise in superannuation, unit trust and investment bond administration processing, Macquarie is one of the few full service providers in the industry.

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

A flexible back-office will be vital to success in the financial services industry in the future. The Division's processing systems, which enable management of complex financial products and services, will position the business well to expand rapidly in the fledgling outsourcing market.

Overall, current investment in asset management, technology, service and product capabilities by the Investment Services Group will place it in an excellent competitive position in this rapidly changing industry.

EQUITIES GROUP

International equity markets experienced very high volatility during the first half-year. A combination of factors were responsible for creating these circumstances, many relating to excessively leveraged exposures to equity, currency and fixed income markets.

Despite these conditions, Macquarie's prudential and market risk controls, combined with its position management systems, protected the Equities Group from sustaining any financial damage. All the operating Divisions of the Group were profitable during the first half. However, one consequence of these tumultuous conditions is a likely reduction in market volumes, which may have an impact on the level of profitability of the Equities businesses. The Group is, however, confident that performance in the first half can be matched in the second half.

For the **Equity Markets Division**, the first half-year has seen variable results in the different operations. Resilient market conditions and volumes in the Australian market helped the domestic operation post a solid six month result. Conversely, offshore operations experienced a number of difficulties, but were nonetheless profitable.

In Hong Kong, trading operations were adversely affected by Government intervention in the stock market in late August. Additionally, trading volumes and market liquidity have contracted sharply from the levels seen one year earlier. Nevertheless, the Hong Kong operation has been profitable in the first half and the outlook for the remainder of the year is slightly more positive.

The Malaysian equity derivatives joint venture with Arab-Malaysian Merchant Bank remains inactive due to a deteriorating regulatory environment. There are no plans to reactivate this operation in the near future.

The South African equity derivatives joint venture with the Standard Bank of South Africa commenced operations in March this year. Some initial establishment issues were encountered but the venture is now trading profitably and the outlook is very positive.

Equity Markets retains its mantle as one of Australia's leading product innovators and has successfully introduced several equity structured products this half-year. These include index warrants and equity-linked bonds. Additional products are scheduled for launch in the second half-year.

The past six months have possibly been the most volatile since the 1987 stock market crash. Most world stock markets have experienced unprecedented turbulence. Recently, this volatility has been replaced by stagnant markets and low turnovers. If sustained, lower liquidity would adversely affect the second half performance of Equity Markets.

Macquarie Equities Limited is the Bank's stockbroking division, providing a full range of institutional and corporate stockbroking services to local and offshore investors.

Despite competitive institutional market conditions and downward pressure on brokerage rates, the domestic institutional desks have acquired new high-volume clients and are performing well, comfortably maintaining market share. The establishment of a facilitation desk has increased client service levels and contributed to increased trading volumes and profitability. The New York office continues to generate significant growth.

A number of marketing initiatives were undertaken relating to research. These include quantitative research commencing for the Hong Kong market, expanding the Property Trust analyst team and improving Research Online Service via internet, Reuters, Bloomberg and Firstcall.

Private Client Investments (PCI), the retail Division of Macquarie Equities, expanded its equity distribution capability with the acquisition of Nevitts Limited, a Queensland private client broker (now trading under the name Macquarie Nevitts) and through the opening of a retail advisory outlet in Chatswood, Sydney. The acquisition of Nevitts provides access to an established regional client base and distribution network. Continued regional expansion is being considered and, if completed, should provide increased access to distribution channels for the Equities Group and other Groups within the Bank.

Subdued market conditions and ASX trading volumes dominated the retail broking horizon during the first half of the year. As a consequence, core brokerage income showed only a slight increase over the corresponding period last year. The Division's profitability was enhanced in the period by some successful IPOs distributed in conjunction with Equity Capital Markets.

Adviser Broking Services (ABS), a dedicated service for financial intermediaries, has enjoyed continued growth. Directrade, PCI's online broking service, continues to maintain steady growth.

PCI also participates in the Bank's Equities Lending business which is jointly run with the Banking Services Division.

DIRECT INVESTMENT

Direct Investment did not realise any investments during the first half of the year and accordingly traded at a modest loss.

Considerable progress was, however, made on realising Macquarie Investment Trust's (MIT) investment in Millers Self Storage and it is expected that this company will be sold to a listed US company at the end of the calendar year. The proceeds from this sale will result in a substantial gain and incentive fees being recognised during the second half of the year.

During the half-year MIT II completed two new transactions: a \$10 million investment in Signature Security and a \$5 million investment in Financial Network Services. With the completion of these transactions MIT II is now more than 60% invested.

Recent turbulence in the public debt and equity markets has effectively closed these markets to all but the largest issuers with the result that Direct Investment is seeing a considerable number of opportunities.

Plans for MIT III are close to being finalised and the Division expects the marketing of this fund to commence in November.

YEAR 2000 SYSTEMS

Macquarie Bank commenced work in mid-1996 to ensure that any issues relating to Year 2000 compliance of the Bank's systems and infrastructure are properly addressed well before the year 2000. A dedicated project team drawn from business units and the Bank's Information Services Division is responsible for coordinating activity across all businesses. This team reports to the Board of Directors and the Bank's Information Technology Committee, which have taken an active interest in management of the issue.

The project is progressing satisfactorily, and based on results to date, the Macquarie Bank Group of companies is confident its own systems will be substantially Year 2000 compliant by 31 December 1998. The Bank's systems are relatively young and few compliance issues have been discovered during testing. Those issues identified have been relatively straightforward to correct. Testing the Year 2000 compliance of interfaces between the Bank's systems and third parties is scheduled for the first half of 1999. This will include active participation in interbank testing which is scheduled to commence early 1999.

External parties upon which the Bank relies for provision of important services have been identified and assessed for risk based on the potential impact of their prospective non-compliance. The Bank is currently assessing the level of risk faced by its businesses and implementing strategies to reduce or eliminate risk, which will include developing contingency plans where necessary.

The total cost of the project is still estimated to be in the order of \$10 million. This estimate is unchanged from previous reports. A provision of \$4 million was raised in the financial year ended 31 March 1998. The balance of Year 2000 project expenses are charged to Profit and Loss as incurred.

TOTAL GROUP ASSETS UNDER MANAGEMENT AND ADMINISTRATION

Total Group assets under management and administration are \$30.0 billion, the same aggregate figure as was achieved at 31 March 1998. The principal factor influencing the absence of overall growth was the withdrawal of \$2.2 billion of currency overlay funds, a very low fee product, over the period from 31 March 1998. Other categories of assets under management and administration continued to grow in the first half. As mentioned in the Investment Services Group section, the Macquarie Cash Management Trust grew beyond \$5 billion in funds during the half-year. It is, by a significant margin, the largest cash management trust in the Australian market.

Assets under management are those assets that the Group actively manages where the underlying business is wealth creation. Assets under administration are assets that the Group either monitors or services but does not actively involve itself in increasing the assets' value. These assets are detailed below:

	30/9/98	31/3/98
	(\$ billion)	
Assets Under Management		
Retail	9.6	9.0
Wholesale	8.3	10.3
Listed Trusts	1.7	1.6
Other	0.5	0.5
Total	20.1	21.4
Assets Under Administration		
Mortgages	8.0	7.0
Listed Trusts	1.5	1.3
Other	0.4	0.3
Total	9.9	8.6
Total	30.0	30.0

INTERIM DIVIDEND

The Board has resolved to pay an interim dividend of 30 cents per fully paid ordinary share in respect of the half-year to 30 September 1998 and this is fully franked. The record date for the dividend will be 1 December 1998 and the dividend will be paid on 22 December 1998. This represents a pay-out ratio of 60 per cent of first half earnings.

The Bank has adjusted its dividend policy during the period. The intended pay-out ratio has been increased to between 65 per cent and 70 per cent of full-year earnings from the previous band of between 55 per cent and 60 per cent.

The extent of franking of future dividends is uncertain and dependent on the Bank's taxable income and receipt of franked dividends. While it is hoped that the final dividend this year will also be fully franked, future year dividends are expected to be largely, though not fully, franked.

BOARD AND ORGANISATIONAL CHANGES

Subsequent to the half-year, the Brunei Investment & Commercial Bank sold approximately 16 million of its Macquarie Bank shares to a range of Australian institutions.

Following the sale, it is expected that Mr Abdul Rahman, the Brunei Investment and Commercial Bank's representative on the Board, will resign as a Voting Director of Macquarie Bank Limited.

The Bank recently announced the appointment of Warwick Smith as an Executive Director and Head of the Corporate Relations Division. Warwick was Minister for Family Services in the first Howard Government and brings a wealth of government and industry experience to the Bank.

OUTLOOK

Macquarie Bank enters the second half of the 1998/99 financial year mindful that, as recent events around the world have shown, the markets in which it operates are volatile and there are many unpredictable external influences that can affect performance. Against this background, the Bank is entering this period with a very strong capital position and with no significant problems arising from credit or trading exposures.

The Bank's current expectation is that the second half result will be broadly in line with this result and the result for the six months to March 31, 1998, before taking into account any profit arising from the possible sale of the PUMA mortgage securitisation business.

The investment banking industry, both domestically and internationally, is currently undergoing a period of significant rationalisation with the withdrawal of a number of commercial banking competitors from the market and a contraction in the operations of some other market participants. For Macquarie Bank, these circumstances provide an opportunity to further strengthen domestic and international market positions.



Director: D.S. Clarke



Director: A. E. Moss

Sydney
17 November 1998

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES
DIRECTORS' REPORT

for the half-year ended 30 September 1998

In accordance with a resolution of the Voting Directors ("the Directors") of Macquarie Bank Limited, the Directors submit herewith the balance sheet at 30 September 1998 and statements of profit and loss and cash flows of the Bank and its controlled entities for the half-year ended on that date ("the period") and report as follows:

DIRECTORS

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

Executive Directors:

D.S. Clarke, AO Executive Chairman
 A.E. Moss, Managing Director
 M.R.G. Johnson

Non-Executive Directors:

B.N. Kelman, AO, CBE Deputy Chairman
 J.G. Allpass
 L.G. Cox, AO
 B.R. Martin
 H.K. McCann
 A.B.A. Rahman
 F.D. Abidin (alternate for A.B.A. Rahman)

Unless indicated, the above Directors each held office as a Director of the Bank throughout the period.

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

DIRECTORS' MEETINGS

The number of Directors' meetings and meetings of Committees of the Board and the number of meetings attended by each of the Directors of the Bank during the period is summarised in the table below.

PRINCIPAL ACTIVITIES

The principal activities of the Bank and its controlled entities during the period were:

- Conduct of banking business;
- Acceptance of deposits;
- Provision of short and medium term finance including lease finance and leveraged leasing;

	Board Meetings		Committee Meetings	
	eligible to attend	attended	eligible to attend	attended
D.S. Clarke	7	6	7	7
A.E. Moss	7	7		
M.R.G. Johnson	7	7		
B.N. Kelman	7	7	3	3
J.G. Allpass	7	7	7	7
L.G. Cox	7	7		
B.R. Martin	7	7		
H.K. McCann	7	5	4	4
A.B.A. Rahman	7	-		
F.D. Abidin	7	-		

The committee meetings held during the period were in respect of the Compensation Committee (3) and the Audit and Compliance Committee (4).

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES
DIRECTORS' REPORT CONT'D

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

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

RESULT

The consolidated profit for the period attributable to members of the consolidated entity after provision for income tax was \$80,513,000 (1997: \$64,312,000).

DIVIDENDS

The Bank paid or provided the following dividends during the period:

Date	Type	\$	In respect of year ending	
2/7/98	Final	48,619,562	31/3/98	Paid
22/12/98	Interim	48,344,461	31/3/99	Provided

STATE OF AFFAIRS

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

REVIEW OF OPERATIONS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

On 15 October 1998 the Directors announced that Macquarie Bank Limited is considering the sale of its domestic mortgage securitisation business Macquarie Securitisation (formerly known as PUMA). An information memorandum was prepared and offers sought for the sale of the business, including its interest in the \$7.6 billion mortgage book.

The closing date for offers was 5 November 1998. The Bank is currently considering the offers received.

Except for the possible sale of the securitisation business discussed above, at the date of this report there is no other matter or circumstance which has arisen since 30 September 1998 that has significantly affected or may significantly affect:

- (a) the operations, in financial periods subsequent to 30 September 1998, of the consolidated entity constituted by Macquarie Bank Limited and the entities it controls from time to time; or
- (b) the results of those operations; or
- (c) the state of affairs, in financial periods subsequent to 30 September 1998, of that consolidated entity.

LIKELY DEVELOPMENTS

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

DIRECTORS' INTERESTS AND BENEFITS

Other than any benefit that may have been derived from loans provided by and to the Bank or a controlled entity and any amounts received in respect of previously accrued remuneration no Director has, during the period, become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the annual consolidated financial statements, or the fixed salary of a full-time employee of the Bank or of a related entity) by reason of a contract made by the Bank or a related entity with the Director, or with a firm of which he/she is a member, or with an entity in which he/she has a substantial financial interest, with the exception of consulting fees paid, in the normal course of business totalling \$226,111 (1997: \$453,718) to the legal firm of Allen Allen & Hemsley of which Mr H.K. McCann is a partner.

At the date of the Directors' Report the following Directors or entities controlled by them have relevant interests in shares and share options of the Bank, as detailed in the table below.

Half-year to:	Share Options			Partly Paid Shares			Fully Paid Shares		
	30/9/98	31/3/98	30/9/97	30/9/98	31/3/98	30/9/97	30/9/98	31/3/98	30/9/97
D.S. Clarke *	318,750	-	-	-	-	753,426	426,849	426,849	676,849
A.E. Moss *	601,371	601,371	601,371	148,629	148,629	148,629	474,857	724,857	823,857
M.R.G. Johnson *	450,000	450,000	450,000	-	-	-	700,000	700,000	700,000
B.N. Kelman	-	-	-	-	-	-	79,833	79,833	89,833
J.G. Allpass **	-	-	-	-	-	-	10,229	10,229	10,229
L.G. Cox	130,000	130,000	130,000	-	-	-	207,692	207,692	207,692
B.R. Martin	-	-	-	-	-	-	2,198	2,198	2,198
H.K. McCann	-	-	-	-	-	-	1,000	1,000	1,000

*These share options are subject to the exercise conditions now applying to all new grants of options for Executive Directors. All other Directors' share options were granted on the same terms and conditions as those granted to other employees.

**Mr J.G. Allpass has an interest in 2,000 (1997: 2,000) warrants over Ordinary Shares of the Bank. These warrants expire on 30 June 2007.

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 157,784 (1997: 161,533) Ordinary Shares of \$1.00 each fully paid of the Bank.

During the period Directors received dividends relating to the abovementioned share holdings at the same rate as other fully and partly paid shareholders.

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES
DIRECTORS' REPORT CONT'D

DIRECTORS' INDEMNIFICATION

Under the Bank's Articles of Association, the Bank indemnifies:

- (a) all past and present officers of the Bank and all past and present officers of wholly-owned subsidiaries of the Bank, including at this time, the Directors named in this Report, Dennis Leong, the Secretary, Douglas Hunt, the Assistant Secretary, and persons concerned in or taking part in the management of the Bank against all liabilities incurred by them in their respective capacities in successfully defending proceedings against them; and
- (b) all past and present officers of the Bank, including at this time, the persons named in paragraph (a) above, against liabilities incurred by them, in their respective capacities as an officer of the Bank or of a wholly-owned subsidiary of the Bank, to other persons (other than the Bank or its related bodies corporate), unless the liability arises out of conduct involving a lack of good faith.

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

- (a) indemnify a current or past Voting Director to the full extent of the indemnity given in relation to officers of the Bank under its Constitution in force from time to time;
- (b) take out and maintain a company reimbursement insurance policy and make available to Directors a Directors and Officers insurance policy (each policy to be in an amount and on terms and conditions appropriate for a reasonably prudent company in the Bank's position) for seven years after the Director ceases to be a Director of the Bank;
- (c) loan funds to a Director to cover the Director's legal costs in defending a claim, repayable

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

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

CONTINUOUS DISCLOSURE

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

ROUNDING OF AMOUNTS

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



D.S. Clarke, Director



A.E. Moss, Director

Sydney
 17 November 1998

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES
DIRECTORS' REPORT SCHEDULE

Directors' experience and special responsibilities

**DAVID S. CLARKE, AO, B EC(HONS)(SYD),
MBA(HARV) (56)**

*Executive Chairman of Board since the Bank's inception in
February 1985*

Chairman of Board Compensation Committee

Chairman of Board Nominating Committee

Member of Board Audit & Compliance Committee

Mr Clarke has been Executive Chairman of Macquarie Bank Limited since its formation in 1985. From 1971 to 1977 he was Joint Managing Director of Hill Samuel Australia Limited (predecessor to Macquarie Bank Limited), from 1977 to 1984 Managing Director, and from 1984, Executive Chairman. He is also Chairman of Goodman Fielder Limited, Brian McGuigan Wines Limited, the Wine Committee of the Royal Agricultural Society and the Salvation Army Education Foundation. Mr Clarke is President of the National Council of Opera Australia and Chairman of Australian Rugby Union Limited. He is an associate of Australian Stock Exchange Limited, and a member of the Executive Committee of the Royal Agricultural Society, the Board of Trustees of the Financial Markets Foundation for Children, the Investment Advisory Committee of the Australian Olympic Foundation, the Harvard Business School Asia Advisory Committee and the Monash Mount Eliza Business Council.

BRYAN N. KELMAN, AO, CBE, B ENG(SYD) (72)

Deputy Chairman of Board since September 1992

Member of Board since the Bank's inception in February 1985

Member of Board Compensation Committee

Member of Board Nominating Committee

Mr Kelman spent his early career in the construction industry and prior to joining CSR he was Chairman and Managing Director of Ready Mixed Concrete (UK) Limited. He joined CSR in 1966 and was a Deputy General Manager of the company for 10 years from 1972 to 1982. He was Chief Executive Officer from 1983 to 1987 and a Director of CSR until July 1998. He is Chairman of Lombard Capital Australia Limited, Tarawa

Consolidated Pty Limited, the CRC for Molecular Engineering and Technology and the CRC for Cardiac Technology. He is also a Director of Spotless Services Limited and a special consultant to the Board of Homestake Mining Corporation of San Francisco. He served on the Trade Development Council from 1976 to 1981 and was Chairman for the last three years of that period. He is a former Chairman of Homestake Gold of Australia Limited, the State Superannuation Investment & Management Corporation and the State Authorities Superannuation Board.

**ALLAN E. MOSS, BA LLB (HONS)(SYD),
MBA(HARV) (49)**

Managing Director since August 1993

Member of Board since June 1989

Mr Moss joined Hill Samuel Australia Limited (predecessor to Macquarie Bank Limited) in the Corporate Services Group in 1977 and in 1982 became a Director of Hill Samuel Australia. In 1983, he led the team responsible for preparing the submission to the Australian Government for the formation of Macquarie Bank. The following year he founded the Financial Management Division, which is responsible for the Bank's credit and other prudential controls. In 1986, Mr Moss was made responsible for the Corporate Banking Group. He was appointed Head of the Financial Markets Group in 1988 and Deputy Managing Director the following year. Mr Moss became Managing Director in 1993. He was appointed to the Board of CSR Limited in 1996.

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT SCHEDULE CONT'D

Directors' experience and special responsibilities

JOHN G. ALLPASS, FCA, FCPA, FAICD (57)

*Member of Board since January 1994
Chairman of Board Audit & Compliance Committee
Member of Board Compensation Committee*

Mr Allpass is a Chartered Accountant and has 32 years experience in the accounting profession. He was Managing Partner of KPMG Peat Marwick's Queensland practice for nine years until 1993. He was also a member of the KPMG Peat Marwick National Board. He currently holds a number of other appointments including directorships of Queensland Investment Corporation, Envestra Limited (Group) and The Wesley Hospital (Brisbane) and Vice President of the Australian Institute of Company Directors, Queensland Division. He has also held a number of other corporate appointments.

LAURENCE G. COX, AO, B COM(MELB), FCPA, FSIA (59)

*Joint Chairman of Macquarie Corporate Finance Limited
Member of Board since January 1996*

Mr Cox joined the Board as a Non-Executive Director and also became Joint Chairman of Macquarie Corporate Finance Limited in January 1996. He was previously Executive Chairman of the Potter Warburg Group of Companies and a Director of S G Warburg Securities of London. Mr Cox is the immediate past Chairman of Australian Stock Exchange Limited (1989 to 1994). He was a Director of the ASX from its inception in 1987, a Director of Securities Exchanges Guarantee Corporation from 1987 to 1995 and a member of the Executive Committee of the Internationale Bourses des Valeurs from 1990 to 1992. He is currently an associate of the ASX, a member of the International Markets Advisory Board and NASDAQ Stock Market (USA) and has been a member of the Executive Committee of the Australia Japan Business Co-operation Committee since 1981. He is Chairman of Transurban City Link Limited, Fortis Australia Limited and the Murdoch Research Institute and is a Director of Smorgon Steel Group Limited.

MARK R. G. JOHNSON, LLB(HONS)(MELB), MBA(HARV) (58)

*Executive Director
Joint Chairman of Macquarie Corporate Finance Limited
Member of Board since February 1987*

Mr Johnson joined Macquarie Bank in February 1987 as an Executive Director of the Bank and Chairman of the Corporate Services Division. He was Joint Managing Director of Hill Samuel Australia Limited (predecessor to Macquarie Bank Limited) with David Clarke from 1971 to 1977 and an Executive Director of Hill Samuel & Co. London until 1980. Mr Johnson was founding Director of the Australian Bank in 1981 and resigned from that position in 1986 before rejoining Macquarie Bank. He is a director of The Australian Gas Light Company Limited, Pioneer International Limited, Biota Holdings Limited and Victor Chang Cardiac Research Institute Limited.

BARRIE R. MARTIN, B EC, FAII (62)

*Member of Board since August 1993
Member of Board Nominating Committee*

Mr Martin is a former Non-Executive Chairman of Prudential Corporation Australia Limited and was Managing Director for the Prudential Group in Australia and New Zealand from July 1984 to December 1994. He was Chairman of the Life Insurance Federation of Australia from May 1990 to May 1992 and was Chairman of the Insurance Employers Industrial Association from 1990-1992. He stepped down from the position of Deputy President of the State Chamber of Commerce (NSW) in 1991 and was President of the Council of the Australian Insurance Institute in 1994/1995. Mr Martin is a Member of the Executive Committee of the Committee for Economic Development of Australia and is Chairman of The Brandenburg Orchestra, Alpha Health Care Limited, Barkworth Holdings Limited and Brazin Limited and is a Director of Life Insurance Complaints Service Limited, the Sundowner Group and Christie Retail Management Limited.

**H. KEVIN McCANN, BA LLB (HONS)(SYD),
LLM(HARV) (57)**

*Member of Board since December 1996
Member of Board Audit & Compliance Committee*

Mr McCann is Chairman of Partners, Allen Allen & Hemsley. He has practiced as a commercial lawyer since admission as a Partner in 1970, specialising in Mineral and Resources Law and Capital Markets Transactions. He is Chairman of Healthscope Limited and is a Director of Pioneer International Limited and Orogen Minerals Limited and is Chairman elect of the Sydney Harbour Federation Trust, which will be established to manage surplus defence land on the Sydney Harbour foreshores.

**PEHIN OKPS HAJI ABDUL AZIZ ABDUL RAHMAN,
MSC(LSE) (45)**

Member of Board since June 1997

Mr Abdul Rahman was until recently the Managing Director of the Brunei Investment Agency, managing its investments in public equity and bond markets worldwide. He is a member of the Boards for Brunei Investment and Commercial Bank, Sapphire Securities Limited (Philippines), Century Securities Co Limited (Tokyo), Citicorp China Investment Mgmt (BVI) Limited, NIF Taiwan Ventures Limited and Audley Hotels and Resorts (Asia) Limited. Past positions include Deputy Managing Director of Brunei Investment Agency from 1983 to 1992 and concurrently from 1986 to 1992, the Managing Director of International Bank of Brunei (currently known as the Islamic Bank of Brunei).

FA'AIZAH DATO ABIDIN, BSC (MANCHESTER) (34)

Alternate Voting Director since June 1997

Ms Abidin is Mr Abdul Rahman's alternate as a Non-Executive Voting Director of the Bank. She has been an Investment Officer for Brunei Investment Agency since 1986, where she is currently with the Banking and Finance Unit which is responsible for strategic investments in banks and financial institutions, and for the setting up of Brunei Investment and Commercial Bank.

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES

CONSOLIDATED PROFIT AND LOSS STATEMENT

for the half-year ended 30 September 1998

	Notes	6 months to Sept 98 \$'000	6 months to Mar 98 \$'000	6 months to Sept 97 \$'000
Interest and similiar income	2	61,652	45,342	35,702
Trading income	2	72,153	84,707	84,370
Fee and commission income	2	263,012	220,706	202,770
Other operating income/(expense)	2	2,400	(3,154)	(5,708)
Total operating income	2	399,217	347,601	317,134
Employment expenses	2	(201,410)	(178,906)	(145,920)
Accommodation expenses	2	(18,118)	(16,759)	(20,211)
Non-salary technology expenses	2	(19,724)	(16,073)	(19,522)
Other operating expenses	2	(53,668)	(52,417)	(48,046)
Total operating expenses	2	(292,920)	(264,155)	(233,699)
Operating profit before income tax		106,297	83,446	83,435
Income tax expense	3	(25,784)	(6,603)	(19,123)
Operating profit after income tax		80,513	76,843	64,312
Retained earnings at the start of the period		351,385	323,162	291,884
Total available for appropriation		431,898	400,005	356,196
Less: Dividends paid or provided	4	(48,344)	(48,620)	(33,034)
Retained earnings at the end of the period		383,554	351,385	323,162
Earnings per share	5	49.6	47.7	40.4

Cents per share

The accompanying notes form part of these financial statements.

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES
CONSOLIDATED BALANCE SHEET

at 30 September 1998

	Notes	As at Sept 98 \$'000	As at Mar 98 \$'000	As at Sept 97 \$'000
ASSETS				
Cash and liquid assets		155,902	137,113	94,167
Bullion		72,601	51,863	133,739
Due from clearing houses		163,878	282,176	126,882
Securities	6	1,996,583	1,421,764	1,814,920
Loans and advances		2,832,495	2,267,666	2,153,950
Due from other financial institutions		65,104	129,164	201,011
Due from governments		477,614	456,200	662,260
Lease receivables		264,211	304,778	283,209
Other assets	7	2,967,913	2,650,332	2,390,669
Investments		35,931	42,888	37,269
Regulatory deposits		55,049	46,202	51,744
Fixed assets		54,168	46,300	41,277
Future income tax benefit		95,319	92,584	95,739
Total Assets		9,236,768	7,929,030	8,086,836
LIABILITIES				
Deposits		3,006,105	2,803,385	3,251,889
Due to other financial institutions		995,539	362,124	208,039
Due to clearing houses		167	6,743	82,143
Negotiable certificates of deposit		1,260,278	1,145,149	1,006,789
Securities borrowed		102,107	88,800	93,525
Other liabilities	8	2,686,857	2,407,720	2,415,354
Provision for dividend		48,344	48,620	33,034
Provision for income tax		31,568	18,576	33,084
Provision for deferred income tax		115,821	110,992	122,568
Provision for employee entitlements		26,167	20,969	21,946
Provision for uncertainties	9	26,384	31,892	33,380
		8,299,337	7,044,970	7,301,751
SUBORDINATED DEBT		313,953	303,155	236,764
Total Liabilities		8,613,290	7,348,125	7,538,515
SHAREHOLDERS' EQUITY				
Share capital	10	239,924	160,518	159,727
Share premium reserve	10	-	69,002	65,432
Retained earnings		383,554	351,385	323,162
Total Shareholders' equity attributable to members of Macquarie Bank Limited		623,478	580,905	548,321
Total Liabilities and Shareholders' Equity		9,236,768	7,929,030	8,086,836

The accompanying notes form part of these financial statements.

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS

for the half-year ended 30 September 1998

	6 months to Sept 98 \$'000	6 months to Mar 98 \$'000	6 months to Sept 97 \$'000
Cash flows from operating activities			
Interest and bill discounts received	202,873	188,890	157,960
Interest and other costs of finance paid	(134,483)	(108,174)	(168,123)
Dividends and trust income received	18,037	31,820	23,003
Fees, royalties and commissions received	294,454	261,736	240,629
Fees and commissions paid	(45,089)	(39,027)	(51,101)
Net payments and proceeds/receipts from dealing in financial instruments, foreign exchange and commodities	(517,793)	322,328	(753,892)
Customer loans granted and repaid	(575,617)	(51,383)	(118,238)
Recovery of loans previously written off	833	765	1,405
Leases granted and repaid	(11,582)	167,298	(56,933)
Net increase in money market and other deposit accounts	928,264	(193,248)	706,682
Employment expenses paid	(214,163)	(139,292)	(174,112)
Net receipts/payments from debtors and creditors	(67,250)	(176,341)	320,407
Income taxes paid	(10,698)	(29,533)	(7,476)
Net cash from operating activities	(132,214)	235,839	120,211
Cash flows from investing activities			
Payment for acquisition of business	-	-	(404,582)
Payments for property, plant and equipment	(20,158)	(15,465)	(16,797)
Proceeds on sale of property, plant and equipment	18	972	93
Proceeds on sale of controlled entities	-	-	2
Net cash flows from investing activities	(20,140)	(14,493)	(421,284)
Cash flows from financing activities			
Proceeds from the issue of share capital	10,404	4,361	17,168
Proceeds from issue of subordinated debt	-	60,000	50,000
Dividends paid	(48,620)	(33,034)	(39,772)
Net cash flows from financing activities	(38,216)	31,327	27,396
Net (decrease)/increase in cash held	(190,570)	252,673	(273,677)
Cash at the beginning of the period	472,178	219,505	493,182
Cash at the end of the period	281,608	472,178	219,505

The accompanying notes form part of these financial statements.

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

at 30 September 1998

1. BASIS OF PREPARATION

Basis of Accounting

These general purpose financial statements for the half-year ended 30 September 1998 ("the period") are consolidated financial statements of Macquarie Bank Limited ("the Bank") and the entities it controlled at the end of, or during, the period. These financial statements have been prepared in accordance with AASB 1029 - Half-Year Accounts and Consolidated Accounts, other mandatory professional reporting requirements and the Corporations Law. Accounting policies adopted in preparing the financial statements for the year ended 31 March 1998 and the half-year ended 30 September 1998 have been consistently applied.

These half-year financial statements should be read in conjunction with the Bank's 31 March 1998 financial statements and any announcements made by the Bank during the period in accordance with the continuous disclosure requirements of the Corporations Law. Where necessary, comparative figures have been adjusted to conform with changes in presentation at 30 September 1998.

2. OPERATING PROFIT

Operating Profit before Income Tax has been determined after crediting as income/(charging) as expense:

	6 months to Sept 98 \$'000	6 months to Mar 98 \$'000	6 months to Sept 97 \$'000
Interest and similar income			
Interest income received/receivable	174,320	144,306	146,901
Interest expense paid/payable	(145,178)	(134,226)	(132,439)
Lease rental income	32,510	35,262	21,240
Total interest and similar income	61,652	45,342	35,702
Trading income			
Arising from trading securities:			
- income	33,436	56,929	64,547
- expense	(25,429)	(36,099)	(35,675)
Net gains on foreign currency trading	28,173	15,164	9,699
Arising from other financial instruments:			
- income	47,710	44,022	56,211
- expense	(26,389)	(24,921)	(33,415)
Dividends received/receivable	14,652	29,612	23,003
Total trading income	72,153	84,707	84,370
Fee and commission income			
- income	309,822	257,853	253,983
- expense	(46,810)	(37,147)	(51,213)
Total fee and commission income	263,012	220,706	202,770

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

at 30 September 1998

2. OPERATING PROFIT CONT'D

	6 months to Sept 98 \$'000	6 months to Mar 98 \$'000	6 months to Sept 97 \$'000
Other operating income/(expense)			
Provision for uncertainties	5,508	1,488	(7,363)
Charge for bad and doubtful debts:			
- recovery of loans previously written off	833	765	1,405
- recovery of loans previously provided for	512	300	3
- specific provisions for loan losses	(3,566)	(1,509)	(184)
- loan losses written off	(49)	(61)	(32)
Other income	6,411	2,997	5,149
Other expense	(7,249)	(7,134)	(4,686)
Total other operating income/(expense)	2,400	(3,154)	(5,708)
Total operating income	399,217	347,601	317,134
Employment Expenses			
Provision for holiday pay	(3,012)	260	(2,744)
Provision for long service leave	(1,645)	(525)	(1,248)
Salary and salary related costs, superannuation, performance related profit share and staff training *	(196,753)	(178,641)	(141,928)
Total employment expenses	(201,410)	(178,906)	(145,920)
Accommodation Expenses			
Operating lease rental	(12,306)	(11,569)	(11,082)
Depreciation	(3,364)	(3,376)	(3,209)
Other **	(2,448)	(1,814)	(5,920)
Total accommodation expenses	(18,118)	(16,759)	(20,211)
Non-Salary Technology Expenses			
Depreciation	(8,413)	(5,512)	(4,584)
Other ***	(11,311)	(10,561)	(14,938)
Total non-salary technology expenses	(19,724)	(16,073)	(19,522)
Other Operating Expenses			
Auditors' remuneration			
- auditors' remuneration for auditing services	(381)	(467)	(354)
- auditors' remuneration for other services	(859)	(806)	(202)
Total auditors' remuneration	(1,240)	(1,273)	(556)
Other depreciation	(513)	(661)	(614)
Profit on sale of property, plant and equipment	18	80	15
Other operating expenses	(51,933)	(50,563)	(46,891)
Total other operating expenses	(53,668)	(52,417)	(48,046)
Total Operating Expenses	(292,920)	(264,155)	(233,699)

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

** An amount of \$Nil (6 months to September 1997: \$4,000,000) has been provided in the period in respect of the costs of moving to new premises at 1 Martin Place, Sydney.

***An amount of \$Nil (6 months to September 1997: \$4,000,000) has been provided in the period in respect of the costs of ensuring the Bank's computer systems are Year 2000 compliant.

3. INCOME TAX EXPENSE

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

	6 months to Sept 98 \$'000	6 months to Mar 98 \$'000	6 months to Sept 97 \$'000
Tax expense on operating profit	(38,267)	(30,040)	(30,037)
Add/(deduct) tax effect of permanent differences:			
Rebatable dividend income	1,894	5,424	6,464
Non-deductible expenses	(469)	(547)	(496)
Recoupment of group tax losses	3,557	2,753	3,304
Rate differential on offshore income	4,861	12,175	342
Other items	2,640	3,632	1,300
	12,483	23,437	10,914
Income tax expense in profit and loss account	(25,784)	(6,603)	(19,123)
Income tax expense comprises movements in:			
- Current tax expense	(23,690)	(14,484)	(12,924)
- Deferred tax (liability)/benefit	(2,094)	7,881	(6,199)
	(25,784)	(6,603)	(19,123)

Macquarie Bank Limited and its controlled entities have tax years ending on 30 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 liability and in accordance with this believe that provisions made are adequate.

4. DIVIDENDS PAID OR PROVIDED

	6 months to Sept 98 \$'000	6 months to Mar 98 \$'000	6 months to Sept 97 \$'000
Dividends provided *	48,344	48,620	33,034

* Fully franked at 36%

5. EARNINGS PER SHARE

	Cents Per Share		
Basic Earnings per Share	49.6	47.7	40.4
Diluted Earnings per Share	48.1	46.1	40.7
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	162,184,045	160,235,099	159,195,656

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

at 30 September 1998

6. SECURITIES

	Sept 98 \$'000	Mar 98 \$'000	Sept 97 \$'000
Trading Securities			
Australian government bonds	361,899	229,397	3,916
Treasury notes and other government securities	284,575	175,350	340,723
Bills discounted	574,411	379,603	454,478
Securities held as part of trading activities	749,070	616,856	996,680
Units in unit trusts	20,888	19,711	1
	1,990,843	1,420,917	1,795,798
Other securities			
Units in unit trusts	5,608	715	18,990
Unquoted shares	132	132	132
	5,740	847	19,122
Total Securities	1,996,583	1,421,764	1,814,920

7. OTHER ASSETS

Amounts due from R&D joint ventures	300,058	286,044	272,764
Amounts due from brokers and clients	156,101	294,741	103,527
Unrealised gains on revaluing financial instruments	2,031,189	1,644,294	1,580,572
Debtors and prepayments	188,696	162,351	218,041
Stock lending debtors	23,402	14,194	15,471
Other	255,889	233,701	200,294
Property purchased for sale and development	12,578	15,007	-
Total Other Assets	2,967,913	2,650,332	2,390,669

8. OTHER LIABILITIES

Amounts due to brokers and clients	367,514	234,012	242,144
Unrealised losses on revaluing financial instruments	1,665,238	1,571,937	1,542,210
Creditors	276,242	286,759	332,435
Accrued charges and sundry provisions	171,223	171,322	141,867
Other	206,640	143,690	156,698
Total Other Liabilities	2,686,857	2,407,720	2,415,354

9. PROVISION FOR UNCERTAINTIES AND SPECIFIC PROVISIONS

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. The specific provisions relate to Loans and Advances where doubtful loans have been identified and provided for.

9. PROVISION FOR UNCERTAINTIES AND SPECIFIC PROVISIONS CONT'D

	6 Months to Sept 98		6 Months to Mar 98		6 Months to Sept 97	
	Specific	Uncertainties	Specific	Uncertainties	Specific	Uncertainties
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	4,624	31,892	8,314	33,380	10,788	26,017
Provided during the period	3,566	(5,508)	1,509	(1,488)	184	7,363
Bad debts written off	(2,129)	-	(4,899)	-	(2,655)	-
Written back during the period	(512)	-	(300)	-	(3)	-
Closing Balance	5,549	26,384	4,624	31,892	8,314	33,380
Specific provision as a percentage of loan assets	0.16%		0.15%		0.27%	
Provision for uncertainties as a percentage of risk weighted exposures		0.55%		0.64%		0.55%

10. SHARE CAPITAL AND RESERVES

	Sept 98 \$'000	Mar 98 \$'000	Sept 97 \$'000
Issued Capital			
159,761,695 (1997: 156,316,993) fully paid ordinary shares	165,054	157,625	156,317
Transfer of share premium reserve to share capital on 1 July 1998 *	71,454	-	-
Total fully paid shares	236,508	157,625	156,317
4,021,779 (1997: 6,131,779) partly paid ordinary shares (non-voting until converted to fully paid)	3,190	2,893	3,410
Transfer of share premium reserve to share capital on 1 July 1998 *	226	-	-
Total partly paid shares	3,416	2,893	3,410
Total Issued Capital	239,924	160,518	159,727
Share Premium Reserve			
Balance at start of period	69,002	65,432	52,568
Premium paid on conversion of partly to fully paid shares	1,490	2,429	8,706
Premium paid on exercise of share options	1,188	1,227	4,158
Amount applied to bonus issue	-	(86)	-
Transfer of share premium reserve to share capital on 1 July 1998: *			
- in respect of fully paid shares	(71,454)	-	-
- in respect of partly paid shares	(226)	-	-
Balance at end of period	-	69,002	65,432

* Share premium reserve was transferred to share capital on 1 July 1998 in accordance with the Company Law Review Act 1998 which repealed the provisions in the Corporations Law relating to the par value of shares from that date.

11. EVENT OCCURRING AFTER REPORTING DATE

On 15 October 1998 the Directors announced that Macquarie Bank Limited is considering the sale of its domestic mortgage securitisation business Macquarie Securitisation (formerly known as PUMA). An information memorandum was prepared and offers sought for the sale of the business, including its interest in the \$7.6 billion mortgage book. The Bank is currently considering the offers received. This event has had no effect on these financial statements.

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES
DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 22 to 29:

- (a) comply with Accounting Standards and the Corporations Regulations and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the consolidated entity's financial position as at 30 September 1998 and of its performance, as represented by the results of their operations and their cash flows for the half-year ended on that date.

In the Directors' opinion there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable.

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



D.S. Clarke, Director



A.E. Moss, Director

Sydney
17 November 1998

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF MACQUARIE BANK LIMITED

SCOPE

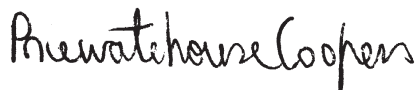
We have reviewed the financial report of Macquarie Bank Limited ("the Bank") for the half-year ended 30 September 1998 as set out on pages 22 to 30. The Bank's Directors are responsible for the financial report which includes the consolidated statements of the consolidated entity comprising the Bank and the entities it controlled at the end of, or during, the half-year. We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 - Half-Year Accounts and Consolidated Accounts, other mandatory professional reporting requirements and the Corporations Law, so as to present a view which is consistent with our understanding of the Bank's financial position, and performance as represented by the results of its operations and its cash flows.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

STATEMENT

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Bank is not in accordance with:

- (a) the Corporations Law; including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 September 1998 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 - Half-Year Accounts and Consolidated Accounts and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.



PricewaterhouseCoopers
Chartered Accountants



D.H. Armstrong
Partner

Sydney
17 November 1998

MACQUARIE BANK LIMITED AND ITS CONTROLLED ENTITIES
FIVE YEAR SUMMARY

Year ended 31 March	1994	1995	1996	1997	1998	Half-year 1999
Profit and Loss (\$million)						
Total operating income	338.6	355.1	435.2	530.1	664.7	399.2
Operating expenses	245.4	284.9	336.1	391.9	497.8	292.9
Operating profit before income tax	93.2	70.2	99.1	138.2	166.9	106.3
Income tax (expense)/benefit	(19.3)	5.9	(5.9)	(21.3)	(25.7)	(25.8)
Operating profit after income tax	73.9	76.1	93.2	116.9	141.2	80.5
Balance Sheet (\$million)						
Total assets	4,260	4,624	5,174	6,849	7,929	9,237
Total liabilities	3,921	4,244	4,746	6,349	7,348	8,613
Shareholders' funds	339	380	428	500	581	623
Capital and subordinated debt	521	590	662	679	884	937
Total loan assets (a)	1,743	2,233	2,455	2,470	3,029	3,574
Impaired assets (net of provisions)	51	49	57	46	12	37
Share Information						
Basic earnings per share						
Adjusted (cents) (b)	50.5	51.0	61.0	74.9	88.1	49.6
Cash dividends per share						
Adjusted (cents) (b)	21.5	28.2	34.7	43.0	51.0	30.0
Share price at 31 March/30 Sept						
Unadjusted (\$)	6.00	4.80	6.00	8.50	14.35	13.18
Adjusted (\$) (b)	5.15	4.37	5.78	8.50	14.35	13.18
Bonus issue ratio	1:17	1:17	1:26	-	-	-
Issued capital (million shares) (c)	118.8	128.2	138.7	151.4	157.6	159.8
Market capitalisation at 31 March/30 Sept (fully paid ordinary shares) \$million	713	616	832	1,287	2,262	2,106
Ratios						
Return on average shareholders' funds	23.5%	21.1%	23.1%	25.2%	26.1%	26.6%
Capital adequacy ratio	13.8%	15.4%	15.4%	13.2%	16.4%	18.0%
Tier 1 Capital adequacy ratio	9.1%	10.2%	10.6%	10.7%	11.7%	13.3%
Impaired assets as % of loan assets	2.9%	2.2%	2.3%	1.8%	0.4%	1.0%
Net loan losses as % of loan assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Funds Under Management (\$billion)						
Retail	4.7	4.7	5.6	7.2	9.0	9.6
Wholesale	4.5	6.3	7.5	8.5	10.3	8.3
Listed trusts	0.3	0.8	0.6	1.1	1.6	1.7
Other	0.1	0.1	0.1	0.1	0.5	0.5
	9.6	11.9	13.8	16.9	21.4	20.1
Assets Under Administration (\$billion)						
Mortgages	0.2	0.9	2.7	4.8	7.0	8.0
Listed trusts	-	-	1.1	1.3	1.3	1.5
Other	-	-	0.2	0.2	0.3	0.4
	0.2	0.9	4.0	6.3	8.6	9.9
Total	9.8	12.8	17.8	23.2	30.0	30.0
Staff Numbers	1,428	1,704	1,732	1,965	2,474	2,595

(a) Includes loans & 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/30 Sept, excluding options and partly paid shares.



MACQUARIE
BANK

DIRECTORY

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

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Sydney

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Fax: (02) 8234 5050

CAPITAL NOTES REGISTRY

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Fax: (02) 9321 1659

QANMACS REGISTRY

Coopers & Lybrand Share Registry
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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.