

**MACQUARIE BANK LIMITED**

**CHAIRMAN'S ADDRESS**

**2002 ANNUAL GENERAL MEETING – 25 JULY 2002**

GOOD MORNING LADIES AND GENTLEMEN

WELCOME TO MACQUARIE BANKS' 2002 ANNUAL GENERAL MEETING.

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

AS WELL AS THE SHAREHOLDERS PHYSICALLY PRESENT HERE THIS MORNING, THE HOLDERS OF 141 MILLION SHARES, OR APPROXIMATELY 70 PER CENT OF THE BANK'S ORDINARY SHARES, ARE REPRESENTED BY PROXIES.

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

ALTHOUGH THERE ARE NO RESOLUTIONS TODAY ON WHICH THESE HOLDERS MAY VOTE WE APPRECIATE THE INTEREST YOU HAVE SHOWN BY JOINING US HERE TODAY.

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

ON MY LEFT IS YOUR MANAGING DIRECTOR ALLAN MOSS.

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

ON MY RIGHT IS OUR COMPANY SECRETARY DENNIS LEONG.

NEXT TO HIM, THE DEPUTY CHAIRMAN MARK JOHNSON, THEN HELEN NUGENT AND KEVIN MCCANN.

WE CAN NOW TURN TO THE BUSINESS OF THE MEETING.

AS THERE IS A QUORUM PRESENT I DECLARE THIS MEETING OPEN.

DURING TODAY'S MEETING WE WILL DO THREE THINGS.

I WILL BRIEFLY REVIEW OUR RESULTS FOR THE PAST FINANCIAL YEAR AND TALK ABOUT THE BANK'S GOALS AND VALUES.

I WILL THEN ASK ALLAN MOSS TO DISCUSS THE YEAR IN MORE DETAIL AND GIVE YOU A PICTURE OF WHERE WE ARE HEADING.

WE WILL THEN CONSIDER, DISCUSS AND VOTE ON THE RESOLUTIONS SET OUT IN THE NOTICE OF MEETING.

AT THE END OF THE FORMAL PART OF THE MEETING, THE DIRECTORS AND MANY OF OUR SENIOR EXECUTIVES WOULD LIKE YOU TO JOIN US FOR TEA AND COFFEE IN THE FOYER.

AT THE OUTSET, LET ME SAY THAT 2001 WAS AN EXTRAORDINARY YEAR AND THESE REMAIN EXTRAORDINARY TIMES.

IT WAS A YEAR OF ENORMOUS CHALLENGES FOR ALL FINANCIAL INSTITUTIONS AND THERE IS NO DOUBT THAT IT TESTED ALL OF US AT MACQUARIE.

WE HAVE SEEN A SERIES OF CONTINUING IMPACTS ON THE WORLD ECONOMY INCLUDING A GLOBAL RECESSION, A TERRORIST ATTACK ON NEW YORK, THE END OF THE TECHNOLOGY COMPANY BUBBLE, BANKRUPTCIES OF UNPRECEDENTED SCALE IN THE UNITED STATES, THE COLLAPSE OF ONE OF AUSTRALIA'S TWO MAJOR AIRLINES, A ROYAL COMMISSION INTO THE COLLAPSE OF A MAJOR AUSTRALIAN INSURANCE COMPANY, THE IMPLOSION OF THE ARGENTINEAN ECONOMY AND CONTINUING ECONOMIC PROBLEMS IN JAPAN.

ANY ONE OF THESE ISSUES ALONE WOULD HAVE BEEN VIEWED AS A VERY SIGNIFICANT BLOW TO FINANCIAL MARKETS.

TOGETHER THEY HAVE SHAKEN PUBLIC CONFIDENCE IN CORPORATIONS AND FINANCIAL MARKETS WORLDWIDE.

WHILE THERE IS NO SIMPLE ANSWER TO THE ISSUE OF PUBLIC CONFIDENCE, INDIVIDUAL COMPANIES LIKE MACQUARIE BANK NEED TO RENEW THEIR FOCUS ON THE LONG TERM, PRACTICE GOOD CORPORATE GOVERNANCE AND DISCLOSURE AND EMPHASISE VALUES LIKE INTEGRITY AND WORKING TO THE HIGHEST POSSIBLE STANDARDS.

DESPITE THE CHALLENGES DURING THE YEAR MACQUARIE WAS ONE OF THE FEW MAJOR INVESTMENT BANKS IN THE WORLD TO RECORD AN INCREASE IN PROFIT.

OUR AFTER TAX PROFIT OF \$250 MILLION WAS THREE PER CENT HIGHER THAN LAST YEAR AND WHILE THIS RESULT WAS BELOW OUR OWN EXPECTATIONS, IT WAS SIGNIFICANTLY AHEAD OF OUR GLOBAL PEERS.

IN FACT OVER THE SAME 12 MONTH PERIOD THE PROFITS OF OUR INTERNATIONAL INVESTMENT BANKING COMPETITORS FELL ON AVERAGE BY ABOUT 50 PER CENT.

THIS YEAR'S INCREASE MARKED A DECADE OF CONTINUOUS PROFIT GROWTH FOR MACQUARIE.

THIS CONTINUOUS GROWTH IN VALUE FOR OUR SHAREHOLDERS OVER THE LONG TERM, IS THE ONE OF THE REAL TESTS OF OUR SUCCESS.

WE BELIEVE THAT OUR INVESTORS HAVE THE RIGHT TO EXPECT THAT FROM MACQUARIE.

OUR PRE-TAX PROFIT ROSE TEN PER CENT TO \$326 MILLION. THE AFTER TAX RETURN ON AVERAGE ORDINARY SHAREHOLDERS FUNDS WAS 18.7 PER CENT PER ANNUM.

ORDINARY SHAREHOLDERS WILL HAVE RECENTLY RECEIVED THEIR 2002 FINAL DIVIDEND.

IN LINE WITH MACQUARIE'S DISTRIBUTION POLICY THE DIVIDEND FOR THE FULL YEAR TOTALLED 93 CENTS A SHARE AND WAS 70 PER CENT FRANKED.

IMPORTANTLY MACQUARIE BANK IS IN A VERY STRONG FINANCIAL POSITION.

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

AT MARCH 31 THIS YEAR OUR TIER ONE CAPITAL WAS \$1.9 BILLION.

THIS WAS UP OVER \$600 MILLION.

OUR TIER ONE RATIO WAS 17.8 PER CENT WHICH IS HIGHER THAN ALL OTHER BANKS IN AUSTRALIA INCLUDING THE MAJOR TRADING BANKS.

OUR CREDIT QUALITY IS VERY SOUND.

BAD DEBT WRITE OFFS WERE 0.16 OF 1 PER CENT FOR THE YEAR TO MARCH 31, 2002 AND HAVE REMAINED BELOW 0.2 PER CENT FOR THE LAST TEN YEARS

SO IN AN EXTRAORDINARILY DIFFICULT TIME, OUR PROFITS GREW, WE STRENGTHENED OUR FINANCIAL POSITION AND WE INCREASED OUR SHARE OF MANY IMPORTANT MARKETS.

BUT WHAT DO WE BELIEVE IS BEHIND THAT CONTINUED, CONSISTENT GROWTH?

WHY ARE WE CONFIDENT THAT IT WILL CONTINUE?

AND WHAT IS IN PLACE TO MANAGE RISKS?

I THINK THE STARTING POINT IS TO UNDERSTAND THAT MACQUARIE BANK IS NOW A MAJOR PARTICIPANT IN WORLD FINANCIAL MARKETS.

BY FOLLOWING A VERY FOCUSED STRATEGY AND A SET OF SIX IMPORTANT PRINCIPLES, A DEDICATED AND COMMITTED STAFF HAVE TAKEN MACQUARIE FROM A HANDFUL OF OFFICES IN 1985 TO NOW BEING RANKED AMONG THE TOP INVESTMENT BANKS IN THE WORLD.

IMPORTANTLY, FROM AN AUSTRALIAN PERSPECTIVE, OF THE TOP 15 INVESTMENT BANKS IN THE WORLD WE ARE THE ONLY ONE HEADQUARTERED IN AUSTRALIA.

MACQUARIE NOW HAS 22 OFFICES IN 15 COUNTRIES.

LAST YEAR, INTERNATIONAL INCOME WAS ABOUT 26 PER CENT OF OUR TOTAL INCOME AND THIS CAME FROM A DIVERSE RANGE OF ACTIVITIES INCLUDING CROSS BORDER LEASING, STRUCTURED PRODUCTS, EQUITIES BROKERAGE, EQUITY DERIVATIVES, TREASURY AND COMMODITIES AND PROPERTY AND FUNDS MANAGEMENT.

WE ARE RECOGNIZED AS A WORLD LEADER IN ARRANGING INFRASTRUCTURE FINANCING.

THE MACQUARIE BANK GROUP IS ALSO ONE OF THE WORLD'S LEADING INFRASTRUCTURE FUND MANAGERS, WITH OUR FLAGSHIP FUND, THE MACQUARIE INFRASTRUCTURE GROUP, OWNING INTERESTS IN TOLL ROADS IN THE UK, OTHER PARTS OF EUROPE, AUSTRALIA AND CANADA.

MACQUARIE ALSO MANAGES INFRASTRUCTURE EQUITY INVESTMENTS IN THE UNITED STATES, SOUTHERN AFRICA AND KOREA.

WHEN WE BEGAN AS MACQUARIE BANK IN 1985 WE HAD NO IDEA THAT AN ORGANIZATION OF ABOUT 480 PEOPLE WOULD TURN INTO THE MACQUARIE BANK OF TODAY.

BUT WE DID HAVE SOME BIG AMBITIONS.

WE DEVELOPED AN AMBITION TO BECOME THE PRE- EMINENT PROVIDER OF FINANCIAL SERVICES OVER THE LONG HAUL.

THIS WAS A PRETTY LOFTY AMBITION FOR A SMALL BANK AT THE WRONG END OF THE WORLD.

IT WAS ALSO A PRETTY LOFTY AMBITION IN AN INDUSTRY WHERE THE ONLY REAL DIFFERENCE BETWEEN INVESTMENT BANKS IS IN THEIR PEOPLE, THEIR REPUTATION AND THEIR CULTURE AND THE CONVENTIONAL WISDOM WAS, AND STILL IS TO SOME EXTENT, THAT ALL THE BEST PEOPLE ARE IN NEW YORK, LONDON, FRANKFURT OR TOKYO.

SO TO BE ABLE TO COMPETE, TO BE ABLE TO MEET THAT LOFTY AMBITION WE HAD TO FIND NICHEs IN THE MARKET WHERE WE COULD HAVE A REAL ADVANTAGE.

WE HAD TO HAVE THE DISCIPLINE TO REMAIN FOCUSED ON THOSE NICHEs AND NOT BE TEMPTED TO MEET OUR BIGGER AND FINANCIALLY STRONGER COMPETITORS HEAD ON.

WE ALSO HAD TO HAVE AN ABNORMALLY LARGE SHARE OF THE TALENT POOL. WE NEEDED TO MAKE MACQUARIE A PLACE WHERE THE BEST AND BRIGHTEST PEOPLE WANTED TO WORK.

TO DO THAT WE DEVELOPED SIX PRINCIPLES WHICH STILL GUIDE ALL OF US AT MACQUARIE IN 2002.

THESE WERE PUBLISHED IN A BOOKLET CALLED “MACQUARIE BANK – WHAT WE STAND FOR”, A BOOKLET THAT IS USED A LOT IN MEETINGS WITH POTENTIAL CLIENTS AND POTENTIAL STAFF MEMBERS.

#### *1. INTEGRITY*

THE FIRST OF THE SIX PRINCIPLES IS INTEGRITY.

NO FINANCIAL INSTITUTION AND INCREASINGLY NO OTHER KIND OF INSTITUTION OR ORGANIZATION CAN SURVIVE WITHOUT INTEGRITY.

SOME YEARS AGO WE GAVE OUR TREASURER, PAUL ROBERTSON, THE ADDITIONAL ROLE OF INTEGRITY OFFICER.

ANYONE IN THE BANK CAN GO TO PAUL AND TALK CONFIDENTIALLY ON ANY CONCERN THEY HAVE ABOUT ANY ASPECT OF THEIR WORK OR WHAT THEY

SEE OTHERS DOING THAT MAY BE IN CONFLICT WITH SOUND ETHICAL PRACTICES OR OUR SIX PRINCIPLES.

WE HAVE FOUND PAUL'S ROLE DOES WORK AND MAKES A MAJOR CONTRIBUTION TO GOOD GOVERNANCE.

WHILE ON THE SUBJECT OF INTEGRITY, I SHOULD ALSO CONFIRM THAT ALL OUR ACCOUNTING PRACTICES ARE CONSERVATIVE AND ROBUST AS THEY ALWAYS HAVE BEEN.

## *2. CLIENT COMMITMENT*

THE SECOND IS CLIENT COMMITMENT.

OUR CLIENTS ARE AT THE CENTRE OF ALL THAT WE DO.

OUR CLIENTS INCLUDE INVESTORS AND INTERMEDIARIES, CORPORATES AND GOVERNMENTS AND PROFESSIONALS AND ENTREPRENEURS.

## *3. STRIVE FOR PROFITABILITY*

WE NEED TO STRIVE FOR PROFITABILITY.

ONLY IF WE ARE PROFITABLE CAN WE ATTRACT THE BEST PEOPLE, ATTRACT THE CHEAPEST CAPITAL, DELIVER VALUE TO OUR SHAREHOLDERS AND CONTRIBUTE TO THE BROADER COMMUNITY.

## *4. FULFILMENT FOR OUR PEOPLE*

COMPARED TO MANY COMPANIES IN AND OUTSIDE FINANCIAL SERVICES, OUR STAFF TURNOVER, PARTICULARLY AFTER THE EARLY YEARS OF A PERSON'S CAREER IS VERY LOW AND OUR PEOPLE GENERALLY STAY WITH US FOR A LONG TIME.

ONE OF THE REASONS FOR THIS IS OUR COMMITMENT TO FULFILMENT FOR OUR PEOPLE AND OUR EMPHASIS ON BALANCE BETWEEN WORKPLACE AND PRIVATE LIFE.

## *5. TEAMWORK*

WE ENCOURAGE ALL OUR PEOPLE TO WORK AS A TEAM.

WE WANT TO CREATE AN ENVIRONMENT WHERE FORMAL STRUCTURES AND POLITICS DON'T GET IN THE WAY OF PEOPLE DOING THE BEST JOB THEY CAN FOR OUR CLIENTS.

I WANT TO TAKE THE TIME HERE TO MAKE SPECIAL MENTION OF OUR 91 STAFF IN NEW YORK.

THREE OF THEM WERE IN THE WORLD TRADE CENTRE BUILDINGS AT THE TIME OF THE TERRORIST ATTACKS.

THANKFULLY THEY WERE NOT PHYSICALLY INJURED BUT LIKE ALL NEW YORKERS THEY WENT THROUGH A LONG PERIOD OF EXTRAORDINARY UNCERTAINTY AND STRESS AND ANGUISH.

TO ACKNOWLEDGE THEIR COMMITMENT IN A VERY DIFFICULT TIME, WE MADE A FINANCIAL CONTRIBUTION TO A NUMBER OF THE TRUSTS ESTABLISHED TO LOOK AFTER THE FAMILIES WHO LOST LOVED ONES ON SEPTEMBER 11.

*6. HIGHEST STANDARDS.*

THE FINAL BUT EQUALLY IMPORTANT PRINCIPLE IS ESTABLISHING AND WORKING TO THE HIGHEST PROFESSIONAL STANDARDS.

WE KNOW THAT WE WILL ONLY ACHIEVE SUPERIOR RETURNS THROUGH THE HIGHEST QUALITY WORK THUS PROVIDING SUPERIOR VALUE TO OUR CLIENTS AND OTHERS WITH WHOM WE DEAL.

I UNDERSTAND THAT WHEN I TALK ABOUT OUR PEOPLE, I KNOW THAT MANY OF YOU THINK OUR SENIOR EXECUTIVES ARE VERY HIGHLY PAID.

THE ISSUE THAT WE FACE IS THIS.

IN MANY WAYS WE HAVE BEGUN TO REALISE THAT AMBITION WE SET BACK IN 1985, WHEN THE BANK WAS FOUNDED OR IN FACT EVEN EARLIER WHEN WE WERE KNOWN AS HILL SAMUEL AUSTRALIA.

WE ARE NOW ONE OF THE TOP 15 INVESTMENT BANKS IN THE WORLD BUT...WE ARE THE ONLY ONE OF THOSE BANKS HEADQUARTERED IN AUSTRALIA.

THE REALITY FOR MACQUARIE BANK IS THAT WE COMPETE FOR TALENT WITH THE BIGGEST FINANCIAL INSTITUTIONS IN THE WORLD BOTH HERE AND IN OUR OVERSEAS OFFICES.

WHILE NONE OF OUR MAJOR COMPETITORS HAVE TO DISCLOSE THE REMUNERATION PAID TO EXECUTIVES IN AUSTRALIA, WE KNOW THAT THEIR AUSTRALIAN STAFF ARE ON SIMILAR COMPENSATION PACKAGES TO OUR OWN.

WITH A LARGE AND GROWING OFFSHORE PRESENCE, INCLUDING OPERATIONS IN MANY OF THE MAJOR FINANCIAL CENTRES AROUND THE WORLD, OUR BENCHMARK IS NOT ONLY WHAT BRANCH OFFICES OF INVESTMENT BANKS PAY IN SYDNEY OR MELBOURNE BUT ALSO WHAT THE HEADQUARTERS OF INVESTMENT BANKS PAY IN WALL STREET, OR THE CITY IN LONDON OR IN FRANKFURT OR IN HONG KONG.

WE HAVE A RESPONSIBILITY TO OUR SHAREHOLDERS AND TO OUR INVESTORS TO OFFER REMUNERATION THAT ATTRACTS THE BEST PEOPLE TO MACQUARIE BANK AND KEEPS THEM HERE.

WHAT IS IMPORTANT IS THAT WE HAVE MECHANISMS TO ENSURE WE CAN OBJECTIVELY DETERMINE THE APPROPRIATE LEVEL OF COMPENSATION, THAT THE COMPENSATION IS PRIMARILY PERFORMANCE BASED AND THAT THE COMPENSATION ALIGNS THE INTERESTS OF OUR PEOPLE WITH THE INTERESTS OF SHAREHOLDERS.

THERE ARE THREE MAJOR ELEMENTS TO OUR REMUNERATION POLICY.

THE FIRST ELEMENT IS A MARKET RELATED BASE SALARY.

GIVEN CURRENT MARKET CONDITIONS THERE WILL BE NO INCREASE IN BASE SALARY PAID TO SENIOR EXECUTIVES IN THIS CURRENT YEAR AND INCREASES ELSEWHERE IN THE BANK WILL BE VERY LIMITED.

THE SECOND ELEMENT OF REMUNERATION IS A CASH BONUS WHERE ALL STAFF SHARE IN A PROFIT POOL.

THIS PROFIT POOL IS DETERMINED BY TWO FACTORS:

THE AMOUNT OF NET PROFIT AFTER TAX

AND

THE PROFIT EARNED THAT IS IN EXCESS OF THE COST OF CAPITAL.

FOR SENIOR EXECUTIVES OF THE BANK, THEIR ANNUAL REMUNERATION IS HEAVILY WEIGHTED TOWARDS THEIR PERFORMANCE COMPONENT SO THERE IS A STRONG INCENTIVE FOR THEM TO MAXIMISE THE BANK'S NET PROFIT AND RETURN ON EQUITY

FURTHER, FOR THE BANK'S EXECUTIVE DIRECTORS ...THE TOP 140 EXECUTIVES.... A COMPONENT OF THEIR REMUNERATION IS DEFERRED FOR UP TO TEN YEARS TO ENCOURAGE LONG TERM COMMITMENT TO THE BANK.

THIS DEFERRED COMPONENT IS ALSO SUBJECT TO FORFEITURE IN CERTAIN CIRCUMSTANCES.

FOR EXECUTIVE DIRECTORS OF THE BANK THERE ARE ALSO PERFORMANCE HURDLES BASED ON THE BANK'S THREE YEAR AVERAGE RETURN ON ORDINARY EQUITY WHICH MUST BE MET BEFORE OPTIONS CAN BE EXERCISED.

AS FAR AS WE ARE AWARE, FEW, IF ANY, OF OUR GLOBAL COMPETITORS IMPOSE PERFORMANCE HURDLES ON THEIR EXECUTIVE OPTION PLANS.

FINALLY ON REMUNERATION, IT'S IMPORTANT TO NOTE THAT THE BANK'S EMPLOYEE OPTION PLAN, WHICH IS AVAILABLE TO ABOUT 20 PERCENT OF THE BANK'S STAFF, PROVIDES FOR VESTING OF OPTIONS OVER A FOUR YEAR PERIOD, FURTHER ENCOURAGING LONGER TERM COMMITMENT.

TOTAL EMPLOYMENT EXPENSES ARE APPROXIMATELY 50 PER CENT OF REVENUE WHICH IS IN LINE WITH OUR COMPETITORS IN AUSTRALIA AND OVERSEAS.

WHEN LOOKING AT DIRECTORS AND EXECUTIVE OFFICERS REMUNERATION IN THE ANNUAL REPORT IT IS IMPORTANT TO UNDERSTAND THAT THE INCREASE IN THE BASE REMUNERATION FROM THE PREVIOUS YEAR REPRESENTS EMPLOYMENT DECISIONS TAKEN 12 MONTHS AGO AND ALSO THE NUMBERS ATTRIBUTED TO OPTIONS RELATE TO OPTIONS ISSUED IN RESPECT OF THE 2001 FINANCIAL YEAR.

THIS ARISES BECAUSE THE OPTIONS WERE ISSUED SOME TIME AFTER BALANCE DATE. SIMILARLY, THE VALUE OF OPTIONS ISSUED IN RESPECT OF THE 2002 FINANCIAL YEAR WILL APPEAR IN NEXT YEAR'S ANNUAL REPORT.

*ON THE ISSUE OF OPTIONS THERE HAS BEEN A LOT OF DISCUSSION RECENTLY ON WHETHER COMPANIES SHOULD TREAT OPTIONS GRANTED TO EMPLOYEES AS EXPENSES.*

THE BANK'S VIEW IS THIS:

FIRSTLY WE BELIEVE A COMPANY'S REPORTING OF OPTIONS SHOULD BE TRANSPARENT.

WE ALREADY MAKE MORE DISCLOSURE IN RELATION TO OUR OPTIONS THAN PROBABLY ANY OTHER COMPANY ON THE AUSTRALIAN STOCK EXCHANGE.

AS A RESULT WHEN ANALYSTS LOOK AT MACQUARIE THEY ARE ABLE TO ASSESS THE IMPACT OF OPTIONS ON THE PROFIT AND LOSS ACCOUNT BECAUSE OUR REPORTING IS SO TRANSPARENT.

OUR CURRENT ESTIMATE OF THE AMOUNT THAT WOULD BE EXPENSED IF WE WERE TO ADOPT THE PROPOSED ACCOUNTING STANDARD WOULD BE IN THE ORDER OF \$50M BEFORE TAX.

SECONDLY, IF AND WHEN, GENERALLY ACCEPTED ACCOUNTING PRINCIPLES CHANGE TO TREATING OPTIONS AS AN EXPENSE, WE WILL BE AT THE FOREFRONT OF THAT CHANGE.

OPTIONS ARE PROBABLY THE MOST CONTENTIOUS ISSUE A CHAIRMAN FACES AT QUESTION TIME AT AN ANNUAL GENERAL MEETING AND ONE THAT CAUSES A SIGNIFICANT AMOUNT OF COMMENT IN THE BUSINESS MEDIA.

THE REALITY IS THAT THERE IS ONLY ONE REASON ANY COMPANY USES OPTIONS AND THAT IS TO BE COMPETITIVE IN THE EMPLOYMENT MARKET.

WHILE THEY CAUSE CRITICISM, OPTIONS DO ALIGN THE INTERESTS OF EMPLOYEES AND SHAREHOLDERS.

THEY DO WORK.

WHEN SHAREHOLDERS ARE REWARDED, SO ARE EMPLOYEES.

WHEN SHAREHOLDERS FEEL PAIN, SO TOO DO EMPLOYEES.

CLEARLY, BEING ABLE TO ATTRACT AND RETAIN THE MOST TALENTED PEOPLE IS CRITICAL TO OUR SUCCESS.

ANOTHER IMPORTANT CONTRIBUTOR HAS BEEN OUR STRATEGY.

A VERY IMPORTANT ELEMENT OF THE BANK'S STRATEGY IS TO BUILD STRONG POSITIONS IN IMPORTANT NICHE MARKETS.

ALLAN WILL TALK MORE ABOUT OUR STRATEGY BUT LET ME JUST SAY THAT WE ARE MARKET LEADERS IN IMPORTANT SEGMENTS OF THE GLOBAL INFRASTRUCTURE MARKET SUCH AS ROADS AND AIRPORTS, AND IMPORTANT SEGMENTS OF THE CROSS BORDER STRUCTURED FINANCE MARKET.

THE NET RESULT OF IMPLEMENTING OUR STRATEGY IS THAT TODAY MACQUARIE HAS A MORE FOCUSED YET MORE DIVERSE BUSINESS MIX THAT GENERATES MORE STABLE PROFITS.

OUR FUNDS ARE INVESTED IN ASSETS THAT ARE PRODUCING AND WILL CONTINUE TO PRODUCE VERY SOLID AND SAFE RETURNS OVER TIME, REGARDLESS OF STOCK MARKET FLUCTUATIONS.

EQUALLY WE HAVE CHANGED THE NATURE OF OUR SOME OF OUR BUSINESSES TO BUILD MORE ANNUITY INCOME INTO OUR BUSINESS MIX.

GIVEN THE SUSTAINABILITY OF OUR EARNINGS, OUR FINANCIAL STRENGTH AND OUR OUTLOOK FOR THE FUTURE, THE DROP IN OUR SHARE PRICE IS A DISAPPOINTMENT TO ALL OF US INSIDE THE BANK AND I KNOW PARTICULARLY TO YOU.

WE ARE VERY COMMITTED TO CREATING VALUE FOR EVERY INVESTOR IN MACQUARIE.

WHILE ALLAN WILL DETAIL SOME OF THE ACTIONS WE ARE TAKING TO ADDRESS THE ISSUES RAISED BY INVESTORS AND SHAREHOLDERS AND TALK ABOUT OUR SPECIALIST FUNDS, LET ME REITERATE ON BEHALF OF THE BOARD OUR COMMITMENT TO YOU AND TO CREATING AND DELIVERING SHAREHOLDER VALUE.

I ALSO WANT TO ASSURE YOU THAT THERE ARE VERY SOUND AND RIGOROUS PROCESSES IN PLACE TO ENSURE THAT OUR FUNDS BUY GOOD ASSETS AT GOOD VALUES.

THE APPROVAL PROCESS STARTS WITH A RISK ASSESSMENT CARRIED OUT BY THE RELEVANT FUNDS, INCLUDING APPROPRIATE DUE DILIGENCE.

THE APPROVAL PROCESS CONSIDERS FINANCIAL RISK, REPUTATION RISK, FUNDING REQUIREMENTS AND REGULATORY REQUIREMENTS.

IN EACH FUND, THERE ARE INDEPENDENT APPROVAL PROCESSES, WITH SEPARATE BOARDS, INCLUDING INDEPENDENT DIRECTORS WHO CAN, AND DO, SEEK INDEPENDENT ADVICE.

THERE ARE DEDICATED COMPLIANCE RESOURCES TO ENSURE THAT THE FUNDS MEET THEIR PROSPECTUS AND ONGOING COMPLIANCE OBLIGATIONS. THE APPROVAL PROCESSES ARE CONDUCTED WITH THE SAME RIGOUR AND DISCIPLINE AS APPLIES WITHIN THE BANK WHEN IT MAKES AN INVESTMENT DECISION.

FOR EXECUTIVES IN OUR FUNDS MANAGEMENT AREAS, THE PERFORMANCE OF THE RESPECTIVE FUNDS FOR INVESTORS IN THOSE FUNDS, IS A KEY CONSIDERATION IN ASSESSING EXECUTIVE PERFORMANCE.

OVER THE LAST SIX YEARS, MACQUARIE BANK HAS GROWN SIGNIFICANTLY.

WE HAVE MOVED INTO NEW AREAS LIKE ROADS AND AIRPORTS WHERE WE HAVE A MUCH WIDER RELATIONSHIP WITH THE GENERAL COMMUNITY IN AUSTRALIA AND INCREASINGLY OFFSHORE.

WHILE MACQUARIE HAS A TRADITION OF BEING INVOLVED IN THE COMMUNITY, WE NOW MANAGE A NUMBER OF ASSETS THAT ARE IMPORTANT TO THE WIDER COMMUNITY.

WE HAVE TO MOVE TO A BROADER DIALOGUE WITH THE COMMUNITY AND IN THIS AREA WE HAVE THINGS TO LEARN.

FOR OVER 20 YEARS, A PORTION OF OUR PROFIT EACH YEAR HAS GONE TO THE MACQUARIE BANK FOUNDATION TO HELP COMMUNITIES OF WHICH WE ARE A PART.

LAST YEAR WE SENT A COPY OF THE FOUNDATION'S REPORT TO EVERY SHAREHOLDER.

FROM THAT REPORT YOU WOULD HAVE SEEN OUR FOCUS IS ON EDUCATION, HEALTH RESEARCH, HEALTH CARE, WELFARE, THE ENVIRONMENT, THE ARTS AND INDIGENOUS AUSTRALIANS.

WE DIRECTLY SUPPORT MORE THAN 200 ORGANISATIONS AND OUR STAFF INDIVIDUALLY AND COLLECTIVELY SUPPORT MANY MORE.

OUR MAJOR PROGRAMS INCLUDE A PARTNERSHIP WITH ASTHMA AUSTRALIA TO FUND RESEARCH INTO A DISEASE THAT LIMITS THE LIFE EXPERIENCE OF THOUSANDS OF AUSTRALIAN CHILDREN.

THE FOUNDATION ALSO PROVIDES ASSISTANCE TO THE SYDNEY CITY MISSION, JUVENILE DIABETES, THE MS SOCIETY, THE NELSON MANDELA CHILDREN'S FUND, THE BANGARA DANCE THEATRE ,THE SALVATION ARMY EDUCATION FOUNDATION AND THE CHILDREN'S CANCER INSTITUTE (TO NAME JUST A FEW).

WE SUPPORT OUR PEOPLE WHO VOLUNTEER TIME AND TAKE A LEADERSHIP ROLE IN HELPING OTHERS DEVELOP AND REACH THEIR POTENTIAL.

IN TERMS OF OUR OTHER MAJOR CONTRIBUTION TO AUSTRALIA'S ECONOMY, WE BELIEVE THAT WE ARE BUILDING A GREAT INTERNATIONAL FINANCIAL INSTITUTION BASED IN AUSTRALIA.

THAT IN ITSELF HAS SIGNIFICANT BENEFITS.

OUR VIEW IS THAT THE ABILITY TO ATTRACT AND RETAIN CORPORATE HEAD OFFICES HELPS DETERMINE A NATION'S PROSPERITY.

THIS PROVIDES MORE CONTROL OVER A COUNTRY'S ECONOMIC FUTURE, HELPS CREATE BETTER QUALITY JOBS, ENHANCES THE COUNTRY'S REPUTATION, HELPS FORM AND CREATE INTERNATIONALLY COMPETITIVE SMALL BUSINESSES AND HAS IMPORTANT FLOW ON EFFECTS TO UNIVERSITIES AND OTHER INSTITUTIONS.

DIRECTLY AND INDIRECTLY, WE ESTIMATE THAT MACQUARIE SUSTAINS MORE THAN 15,000 JOBS IN AUSTRALIA.

THIS YEAR WE INCREASED STAFF NUMBERS AND EARNED OVER \$380 MILLION IN INTERNATIONAL INCOME.

IN RECENT MONTHS, THROUGH OUR FUNDS, \$4 BILLION HAS BEEN INVESTED IN AUSTRALIAN ASSETS, RETAINING THOSE ASSETS IN MAJORITY AUSTRALIAN OWNERSHIP.

BUT HAVING SAID THAT, WE UNDERSTAND THAT WE NEED TO STRENGTHEN OUR RELATIONSHIP BUILDING WITH THE COMMUNITIES IN WHICH WE WORK.

I KNOW THAT SHAREHOLDERS AND THE REST OF THE COMMUNITY EXPECT THAT FROM US.

NEARLY 5,000 PEOPLE MAKE UP MACQUARIE BANK.

THEY MADE A SIGNIFICANT CONTRIBUTION THIS YEAR UNDER DIFFICULT CONDITIONS AND ON YOUR BEHALF I WANT TO THANK THEM ALL.

TO SUM UP:

WHILE FINANCIAL MARKETS HAVE BEEN HIGHLY VOLATILE, WE BELIEVE THE OUTLOOK FOR THE GLOBAL AND AUSTRALIAN ECONOMIES REMAINS REASONABLE.

IN THE US, STRONG CONSUMER SPENDING HAS UNDERPINNED AN UPTURN IN INDUSTRIAL PRODUCTION PROMPTING THE US FEDERAL RESERVE TO REVISE ITS US GROWTH FORECAST UPWARDS.

THIS IMPROVEMENT IN DEMAND HAS, IN TURN, FLOWED THROUGH TO STRONGER GROWTH AMONG SOME OF AUSTRALIA'S ASIAN TRADING PARTNERS, SUCH AS KOREA AND CHINA.

OF COURSE IT IS POSSIBLE THAT SUSTAINED WEAKNESS IN FINANCIAL MARKETS COULD UNDERMINE CONFIDENCE AND SLOW THE PACE OF THE GLOBAL RECOVERY.

HOWEVER, GIVEN THE ABSENCE OF ANY INFLATIONARY PRESSURES IN THE GLOBAL ECONOMY, POLICYMAKERS HAVE THE ABILITY TO SUPPORT GROWTH IF THE NEED ARISES.

WE BELIEVE THE OUTLOOK ALSO REMAINS SOUND FOR AUSTRALIA.

WHILE A MODERATION IN HOUSING ACTIVITY SUGGESTS THAT ECONOMIC GROWTH MIGHT SLOW MODESTLY NEXT YEAR, FALLING UNEMPLOYMENT AND LOW INTEREST RATES HAVE RESULTED IN VERY STRONG LEVELS OF CONSUMER SENTIMENT AND THIS SHOULD CONTINUE TO UNDERPIN HEALTHY GROWTH IN CONSUMPTION.

AS ALWAYS, THERE ARE RISKS TO THIS OUTLOOK.

BUT, GIVEN THE LACK OF ANY SIGNIFICANT IMBALANCES IN THE AUSTRALIAN ECONOMY, THERE IS AMPLE SCOPE FOR POLICYMAKERS TO RESPOND QUICKLY TO THESE DEVELOPMENTS SHOULD THEY OCCUR.

THEY DID IN 2001.

GIVEN THE BANK'S FINANCIAL STRENGTH, OUR LEADING MARKET POSITIONS HERE AND OVERSEAS, A FIRM COMMITMENT TO OUR GUIDING PRINCIPLES AND A COMMITTED AND TALENTED STAFF WE EXPECT THAT SUBJECT TO REASONABLE MARKET CONDITIONS, MACQUARIE BANK WILL ENJOY CONTINUED GROWTH IN REVENUE AND PROFIT.

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

ALLAN.