

Macquarie Bank Limited
ABN 46 008 583 542

No.1 Martin Place
Sydney NSW 2000
GPO Box 4294
Sydney NSW 1164

Telephone (61 2) 8232 3333
Facsimile (61 2) 8232 7780
Telex 122246
Internet <http://www.macquarie.com.au>
DX 10287 SSE
SWIFT MACQAU2S

Money Market 8232 3600 Facsimile 8232 4227
Foreign Exchange 8232 3666 Facsimile 8232 3019
Metals and Mining 8232 3444 Facsimile 8232 3590
Futures 9231 1028 Telex 72263
Debt Markets 8232 3815 Facsimile 8232 4414



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MACQUARIE BANK ANNOUNCES \$242 MILLION FIRST HALF PROFIT

Macquarie Bank today announced a \$242 million profit after tax attributable to ordinary shareholders for the half year to September 30, 2003. The result was underpinned by a strong rise in international income, which comprised 32 per cent of the Bank's total income for the period, up from 22 per cent for the prior corresponding period.

The interim result is an increase of 32 per cent over the \$183 million profit for the half year ended September 30, 2002 and represents a return on average ordinary shareholders' funds of 23.2 per cent per annum.

Profit before tax attributable to ordinary shareholders rose 27 per cent to \$318 million from \$250 million. Earnings per share for the six month period increased 27 per cent to 116.2 cents from 91.3 cents for the previous corresponding period.

Macquarie Bank Chairman David Clarke said the record result reflected the strengths and diversity of the Bank's businesses, with contributions from Macquarie's international operations - based in 22 locations - particularly pleasing. The result included a number of asset sales, such as the sale of the Bank's interest in East African Gold Mines.

"This result shows the Bank is also benefiting from an improvement in equity markets and from a policy of continuing to invest through the business cycle," he said.

Mr Clarke said the Bank was pleased to declare a dividend of 52 cents per share for the half year (franked to 90 per cent), a 27 per cent increase on last year's interim dividend of

41 cents per share (franked to 85 per cent), reflecting earnings growth and the revised dividend policy.

Macquarie Bank Managing Director and Chief Executive Officer Allan Moss said the Investment Banking Group performed particularly strongly, well up on the prior corresponding period. The Treasury and Commodities Group was up on its strong contribution from the previous year, boosted by an asset realisation. Banking and Property Group was down from a record first half last year, while Equity Markets Group made a greatly increased contribution from its international businesses. Financial Services Group improved its contribution, exceeding plans, while Funds Management Group's contribution was marginally up.

“Underpinning the record result were improving conditions in international equity markets, a solid corporate deal flow, a notable contribution from asset realisations, and a number of international infrastructure opportunities which came to fruition,” he said.

Mr Moss said the highlight of the result was the substantial increase in international income despite the strong Australian dollar. Particularly pleasing was the diversity of international income, with contributions from across the Groups.

Strong performances came from the Investment Banking Group in North America and Europe. Significant contributions were also made by the Equity Markets Group in the Hong Kong market and the Treasury and Commodities Group in Africa, while there was a notable increase from the Banking and Property Group in the Americas.

FINANCIAL HIGHLIGHTS

Total income from ordinary activities was \$1,176 million, with growth across all income categories, representing an overall increase of 20 per cent on the prior corresponding period (excluding transmission income for the four and a half months in the prior corresponding period when the Bank held the Broadcast Australia assets on its balance sheet).

Net fee and commission income rose by 6 per cent to \$705 million from \$662 million, while the contribution from trading income rose 2 per cent to \$225 million from \$220 million in the prior corresponding period. Net interest income increased 8 per cent to \$143 million, from \$132 million in the prior corresponding half.

Other income of \$103 million included a gain on disposal of the Bank's interest in East African Gold Mines and part of its interest in Sydney Futures Exchange.

The Bank continues to be strongly capitalised with a Tier 1 ratio of 18.5 per cent and there are no plans to reduce the Bank's capital in the medium term.

GROUP OPERATING HIGHLIGHTS

The **Investment Banking Group** recorded an excellent result, which was well up on last year's corresponding first half.

Corporate Finance benefited from strong contributions from the industry group sectors, which completed a significant number of mergers and acquisitions transactions, including advising Alinta on the acquisition of the Aquila assets by DUET and Alinta, advising Bank-West on its acquisition by Halifax Bank of Scotland, advising AWB on its acquisition of Landmark from Wesfarmers, and advising East African Gold Mines on its acquisition by Placer Dome. Equity Capital Markets also concluded a number of successful capital raisings, including Promina, POWERS Trust, AWB and the Macquarie Goodman Industrial Trust.

The global fund strategy continued with the establishment of a new Canadian fund, the Macquarie Essential Assets Partnership (MEAP), with funds raised from Canadian institutions (initial commitments of approximately \$285 million) for investments in Canadian utility assets. The seed asset for MEAP was Altalink, the electricity transmission business of TransAlta Utilities Corporation in the Canadian province of Alberta. The Korean Road Infrastructure Fund also completed its second close with commitments of approximately \$465 million. Active management saw an earnings increase for all three of the Australian Stock Exchange-listed infrastructure funds, with an 11 per cent increase in earnings before interest, tax, depreciation and amortisation for Macquarie Infrastructure Group's operating tollroads for the 12 months to June 30, 2003, a 16 per cent increase in Macquarie Airports' assets and a 24 per cent increase on Macquarie Communications Group's cornerstone asset, Broadcast Australia.

The contribution from Financial Products was lower due to transaction timing and difficult conditions in the cross border leasing market. Macquarie Capital experienced growth with asset based leasing volumes up 13 per cent to \$2.6 billion from March 31, 2003. Institutional stockbroking made a strong contribution to group profit with secondary market brokerage and issuance fees a strong contributor.

Treasury and Commodities Group was up overall on the prior corresponding period in mixed market conditions. Metals and Mining was well up, due to a \$37.5 million profit (pre-tax and before profit share) on the realisation of the East African Gold Mines investment and a positive contribution from the energy capital business. Foreign Exchange and Debt Markets continued to perform well, marginally down on the prior corresponding period. Agricultural Commodities was down on reduced hedging requirements from clients due to higher sugar prices, and lower market volatility and liquidity after a particularly strong first half last year. The Futures contribution fell due to lower margins and stronger exchange rate, as did the contribution from Treasury, reflecting a less volatile interest rate environment. The new Energy Markets Division made a positive contribution. A new commodity derivatives alliance with The Royal Bank of Scotland commenced in August 2003 and will leverage the skills of Macquarie's existing businesses.

Banking and Property Group was down on a strong performance in the prior corresponding period, reflecting the timing of transactions in the Property business. There were continued strong revenues from financing property developments and listed and unlisted property funds under management (including associates) grew 28 per cent to \$9.2 billion from March 31, 2003. The Australian mortgage portfolio grew to over \$10 billion – with record settlements up 39 per cent on the prior corresponding period. The mortgage business in the USA originated \$US166 (\$A244) million during the period, bringing the total book value to \$US173 (\$A254) million. Margin lending was up on an increased margin loan portfolio, while Banking Division was down on a strong prior corresponding result. There was continued growth in Golf and Leisure with long term investments making a strong contribution.

Equity Markets Group made a significantly increased contribution compared to the prior corresponding period with all major businesses performing well. Improved profitability from the Hong Kong market reflected increased equity market activity, stronger market positions in both warrants and equity linked notes, and new revenue streams from higher-margin structured products. Australia maintained its leading warrant market shares but was slightly down on the prior corresponding period, primarily due to lower warrant volumes. There was further diversification of Australian revenue through increased sales of unlisted products. The Sydney-based International Trading Desk, a global trading and risk management desk, experienced significant growth from the sale of US equity products to Asian investors. The contribution from the South African business alliance with Nedcor exceeded the contribution from its predecessor for the prior corresponding period. An alliance with Korea's Woori Bank commenced in September, on schedule and on budget. Elsewhere Japan was profitable and the restructured European International Structuring

business also moved to profitability. In Brazil, difficult conditions resulted in a flat result for the period.

Financial Services Group was significantly up on the prior corresponding period, exceeding plans. The Group increased annuity based revenue through Wrap (up 22 per cent to \$7.7 billion) and the Cash Management Trust (up 6 per cent to \$9.3 billion) and was voted Best Fund Manager and Best Master Trust/Wrap Provider in the ASSIRT 2003 Service Level Awards. The Group's private client broking business made a stronger contribution as it benefited from improved investor sentiment. The Group increased the number of private client advisers by more than 60.

Funds Management Group was marginally up on the prior corresponding period with total funds under management increasing 8 per cent to \$33.1 billion with strong growth in international funds under management. Progress on the new joint venture with United Securities Investment Trust Corporation, a mid-sized Taiwanese fund manager, was satisfactory. The move of all Australian equities funds to the proven Style Neutral approach met with broad market support.

Direct Investment recorded a small loss for the period, principally due to the Nardell Coal mine being placed in receivership. However, this was partially offset by a substantial gain made on the sale of the Sabco assets.

SINCE BALANCE DATE

- Macquarie Bank acquired two seed assets for the proposed Macquarie European Infrastructure Fund (MEIF), the UK water utility South East Water for \$948 million, and Sweden's Arlanda Express airport rail link for \$76 million. The Bank's intention is to sell the assets into MEIF within six to nine months, or to institutional investors.
- Banking and Property Group announced jointly with the US-based Developers Diversified Realty (DDR) plans to raise up to \$550 million from Australian investors for a new Australian Stock Exchange listed property trust. The Macquarie DDR Trust will acquire an 81 per cent share in a diversified portfolio of 11 community shopping centres in the USA valued at \$US745 million (\$1,093 million).
- Macquarie Investment Trust III, managed by Macquarie Direct Investments, realised its holding in JB Hi-Fi in October, when JB Hi-Fi successfully listed on the Australian Stock Exchange.

- The Korean Road Infrastructure Fund made its second investment, a 6.5 per cent (\$40 million) stake in the Daegu Busan toll road linking Korea's 2nd and 3rd largest cities.
- The Bank sold its 33 per cent holding in the joint venture with South Africa's Sanlam for proceeds of \$19 million, resulting in a profit of \$14 million.

DIVIDEND

Mr Clarke said the increased dividend is in accordance with the revised ordinary dividend policy announced in May 2003. Under this revised policy, the Bank aims to grow dividends broadly in line with earnings and frank dividends to at least 80 per cent.

Mr Clarke said the significant increase in the interim dividend also recognises the change in the pattern of the Bank's earnings between its first and second half reporting periods. In recent years, largely due to the timing of funds management performance fees, first half earnings have overtaken second half earnings, reversing the historical trend. This new pattern is expected to continue in the next few years. Hence, shareholders should not infer a large increase in the final dividend.

OUTLOOK

Mr Moss said current domestic market conditions are exceptionally favourable and international market conditions are favourable, with high volumes in most markets. "We are also experiencing markedly improved investor confidence, improving corporate confidence and continuing good credit quality," he said.

"In the current year we expect to continue to benefit from these positive conditions and anticipate the second half will be significantly up on the prior corresponding period, but, as usual, below the first half due to the timing of performance fees."

"Over the medium term we expect to benefit from growth initiatives across our businesses and we expect international growth to continue. However, we will continue to be influenced by market conditions and therefore caution should be exercised in extrapolating from the current year."

For further information, please contact:

Erica Sibree, Investor Relations, Macquarie Bank Limited

02 8232 5008

Lisa Jamieson, Public Relations, Macquarie Bank Limited

02 8232 6016