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ASX/Media Release

MACQUARIE BANK ANNOUNCES A 13% INCREASE IN REPORTED EARNINGS AND A 34% INCREASE IN ORDINARY DIVIDENDS FOR THE 2006 FULL YEAR

Key points

- **UNDERLYING PROFIT INCREASE OF 33%**
- **STRONG GROWTH IN ALL REGIONS AND ALL GROUPS AND CONTINUED INVESTMENT IN THE FUTURE**
- **48% OF THE BANK'S OPERATING INCOME NOW DERIVED FROM INTERNATIONAL MARKETS**
- **14th CONSECUTIVE YEAR OF RECORD PROFIT**

SYDNEY, 16 May 2006 – Macquarie Bank today announced a \$A916 million after tax profit attributable to ordinary equity holders for the full year to 31 March 2006, a 13% increase on the prior year.

Macquarie Bank Chairman, Mr David Clarke, said: “Excluding the impact of the new accounting standards, which are the Australian equivalent to International Financial Reporting Standards (AIFRS), and last year’s one off \$A91 million profit from the formation of the Macquarie Goodman Group (MGQ), net profit after tax increased 33% to \$A972 million.”

Earnings per share increased from \$A3.70 to \$A4.00, an 8% increase. Excluding the impacts of AIFRS and MGQ, earnings per share increased 27%.

The Bank declared a second half dividend of \$A1.25 per ordinary share, franked to 100%, taking total ordinary dividends for the year to \$A2.15 per share, an increase of 34% from last year’s ordinary

dividend of \$A1.61 per share. The payout ratio for the total dividend was 54%, within the Bank's stated target payout ratio of between 50% and 60% of net earnings.

"We expect future dividends will be fully franked for the next 18-24 months and thereafter at least 80% franked, subject to the future composition of income," Mr Clarke said.

"We are pleased to report another record result for our shareholders. Net profit has almost tripled in the last three years. This was a year of substantial growth, both internationally and in Australia. While overall income grew 17% to \$A4.4 billion, international income growth increased 59% to \$A2 billion. Risk weighted assets grew significantly, increasing 45% to \$A28.8 billion."

"Significant international growth across all Groups was particularly pleasing. We now have 2,517 international staff, an increase of 44% on the prior year (compared to the growth of our overall staff numbers of 25%). Our international colleagues now account for 31% of all staff," Mr Clarke said.

Mr Clarke added that activity in our specialist funds remained strong, with the assets in these funds performing well. A significant portion of these assets are now international: 72% of the property assets and 73% of the infrastructure assets are now located outside Australia.

Mr Clarke noted that over the last ten years (since the Bank listed in 1996), total shareholder returns have been 1,343% compared with 246% for the S&P/ASX All Ordinaries Index over the same period. In addition, the specialist funds continue to provide strong returns to investors. The aggregate total shareholder return for the Macquarie family of listed funds has been 455% compared with the Morgan Stanley Capital Index World Index return of 126% over the same period.

Macquarie Bank Managing Director and Chief Executive Officer, Mr Allan Moss, said all Groups reported record results (excluding the impact of the MGQ formation last year).

- Investment Banking Group – up 30% on pcp.
- Treasury and Commodities Group - up 36% on pcp.
- Equity Markets Group - up 50% on pcp.
- Banking and Property Group - up 11% on pcp (excluding the impact of the MGQ formation).
- Financial Services Group - up 33% on pcp.
- Funds Management Group - up 35% on pcp.

Other key drivers for the year included:

- The business climate for investment banking was generally good, with no major changes in key economic factors. It was characterised by many major transactions, and a solid Initial Public Offering (IPO) and new issuance market.

- Strong Australian and international equity markets contributed to the result with significant advisory and equity capital markets deal flow and a very strong performance by Australian and Asian institutional broking and Australian retail broking businesses.
- Strong demand for commodities and structured commodities products provided good conditions for the treasury and commodities businesses.
- Exceptional trading conditions seen in the key equity derivative markets in the first half were not repeated in the second half, due to increasing competition in Hong Kong crimping margins.
- Assets under management increased by 45% from \$A96.7 billion to \$A140.3 billion along with associated base fee growth. As expected, however, there were no material performance fees from the listed specialist funds in the second half.

Mr Moss commented: "There was strong growth across all regions and Groups and the Bank is investing for the future."

"This year we reported our 14th consecutive year of record profit. These results are made possible because of the quality of our staff and because we make a long term commitment to the markets in which we operate."

Mr Moss went on to say. "We have expanded the Bank's operations, geographic footprint and capabilities to develop a portfolio of focused financial services.

"We have experienced unprecedented international growth. With growth expected to continue, we wish to maintain our strategic flexibility to take advantage of the excellent opportunities available to the Bank."

"Our willingness to selectively enter new markets and to invest alongside our clients delivers excellent results for our shareholders, business partners and clients."

Mr Moss highlighted a number of notable achievements around the world for the year to 31 March 2006.

Asia - Income up 94% on pcp

The Bank's businesses in Asia consolidated their positions across the region, leveraging the platform established by the acquisition of ING's Asian cash equities business in 2004.

A number of major transactions were completed during the year, including Macquarie MEAG Prime REIT's \$S990 million listing on the Singapore Stock Exchange (SGX), the \$S803 million IPO of Macquarie International Infrastructure Fund (MIIF) on the SGX, and the KRW1,026 billion IPO and

dual listing of Macquarie Korea Infrastructure Fund (MKIF) on the Korean Stock Exchange (KRX) and London Stock Exchange (LSE).

The Bank also established a securities brokerage and corporate finance business in Mumbai, India and a stockbroking joint venture with TMB Bank in Thailand.

Post balance date

- The establishment of a corporate finance joint venture with Japan's Shinsei Bank (Macquarie Shinsei Advisory Co).
- The Macquarie Goodman Hong Kong Wholesale Fund (MGHKF) - \$HK4.8 billion unlisted property fund established by Macquarie Goodman Asia (MBL/Macquarie Goodman JV).

Europe, Africa and the Middle East - Income up 47% on pcp

There were a number of large transactions during the year including the \$US1.7 billion acquisition by a Macquarie-led consortium of the Norwegian headquartered commercial explosives company Dyno Nobel. In a follow-on transaction, part of Dyno Nobel's international assets were subsequently sold to Orica, whilst the Australian and US assets of Dyno Nobel were listed on the Australian Stock Exchange (ASX) after year end, in April 2006.

Macquarie European Infrastructure Fund achieved its final close with investor commitments of €1.5 billion.

During the year the Bank established a joint venture with UK-based office park developer Akeler and treasury and commodities and investment banking joint ventures with Abu Dhabi Commercial Bank. The Bank also expanded its Italian mortgages business to include a new office in Rome.

Post balance date

- The establishment of a AED1 billion (\$A366 million) unlisted infrastructure investment fund, Zonescorp Infrastructure Fund, in a joint venture with Abu Dhabi Commercial Bank, focusing on greenfield projects in Abu Dhabi and the United Arab Emirates.
- The establishment of the Macquarie European Infrastructure Fund II, a diversified unlisted fund focusing on infrastructure investments in Europe. First close happened in May 2006 with initial commitments of €615 million.

The Americas - Income up 34% on pcp

Macquarie Bank's activities in the US increased substantially with a number of initiatives. Highlights include the acquisition of LA-based Cook Inlet, an energy marketing and trading company with more

than 60 staff, and the \$US425 million IPO of the Macquarie Global Infrastructure Total Return Fund on the New York Stock Exchange.

Post balance date

- The establishment of Macquarie Infrastructure Partners (MIP) a North American diversified unlisted fund focusing on infrastructure and infrastructure-type investments in the USA and Canada.

Some US assets purchased by Macquarie and the specialist funds during the year included Smarte Carte, an airport baggage cart, locker and stroller business; Icon Parking, a Manhattan car parking business and the Indiana Toll Road (acquired by Macquarie Infrastructure Group). The Bank also acquired a specialist maritime ports team based in Seattle.

Australia and New Zealand - Income up 15% on pcp

The Bank maintained its leading market positions in Australia and New Zealand with Macquarie ranked no.1 broker in 2005 by ASX market share. Wrap and the Cash Management Trust and businesses such as mortgages and margin and protected lending experienced strong growth in volumes. Retail client numbers exceeded 645,000. A retail financial products distribution alliance was also established with Virgin Money Australia.

There were a number of key transactions during the year, including the IPOs of Macquarie Media Group, Macquarie Capital Alliance Group, and Macquarie Private Capital Group.

Financial Results

Total income from ordinary activities for the year was \$A4,393 million, up 17% from \$A3,752 million for the prior year while international income rose 59% to \$A2,028 million from \$A1,273 million for the same period. Net fee and commission income rose by 34% to \$A2,440 million, while the contribution from trading income rose by 19% to \$A876 million from \$A734 million in the previous year. Net interest income rose by 10% to \$A592 million, from \$A536 million previously. Other income decreased 27% from \$A661 million for the prior year to \$A485 million.

Global and Australian issues we are monitoring

Mr Moss said the Bank's increasingly global operations necessitated keeping a close eye on key economic issues.

Global and Australian issues the Bank is monitoring include:

- The increasingly high Australian and household consumer debt and the long-term decline in household savings rates across the OECD.

- The proportion of US consumption being fuelled by US consumers borrowing against the increasing value of their homes.
- Oil and base metal prices, which are still well below their historical highs in real terms.

Delivering for communities

Mr Moss noted that Macquarie Bank is delivering value – not only for investors and clients, but also for communities.

Taking one example of many, the construction of the fully electronically tolled 40km Westlink M7 by a consortium including Macquarie Infrastructure Group (MIG) (40%), was completed eight months ahead of schedule, reduces travel time for the average motorist by up to 30 minutes, and avoids 48 sets of traffic lights. By State Government estimates, it is anticipated to contribute significant economic benefits to Sydney, with the creation of 24,000 additional jobs in the region over three years, and up to \$A3 billion in economic output over the same period.

Outlook

Mr Moss said: “The Bank has had a very good start to the financial year ending 31 March 2007. Subject to prevailing market conditions continuing, we expect a strong IPO and M&A pipeline and good growth in the specialist funds. We expect the trading businesses to benefit from geographic and product expansion and from continued good equity broking volumes.

“The Bank expects to maintain leading market positions in Australia and focused positions in international markets. We will continue the rollout of investment banking services in Asia. International income will continue to make an increasingly important contribution.”

Mr Moss continued: “We expect to benefit from recent staff growth and note that this growth will continue with an emphasis on international.

“Potential swing factors will include the performance of specialist funds, asset realisations and general market conditions.”

“We will continue to roll out the existing business models. We do not envisage any material changes in strategy”.

Medium term outlook

Mr Moss added that over the medium term we continue to be well placed due to our good businesses, the benefits gained from major strategic growth initiatives, our committed quality staff, effective prudential controls and continued strong global investor demand for quality assets. If market conditions

do not deteriorate materially, we expect continued good growth in revenue and earnings across most of our businesses, especially the international businesses.

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