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MACQUARIE BANK

ASX/Media Release

MACQUARIE BANK ANNOUNCES 60% INCREASE IN PROFIT AND 47% INCREASE IN DIVIDENDS PER SHARE

Key points

- **NET PROFIT OF $A1.46BN – 15TH CONSECUTIVE YEAR OF RECORD PROFIT**
- **MACQUARIE BANK NOW A GLOBAL INSTITUTION, BUT TO REMAIN HEADQUARTERED IN AUSTRALIA**
- **INTERNATIONAL INCOME OF $A3.46BN, A 70% INCREASE ON 2006 AND 55% OF THE BANK'S OPERATING INCOME**
- **ASSETS UNDER MANAGEMENT NEARING $A200BN, 41% INCREASE ON 2006**

SYDNEY, 15 May 2007 – Macquarie Bank today announced a $A1.46bn after tax profit attributable to ordinary equity holders for the full year to 31 March 2007, a 60% increase on the prior year and nearly six times the level of five years ago.

Macquarie Bank Chairman, Mr David Clarke, said: "Earnings per share increased 48% from $A4.00 to $A5.92. This is 4.5 times the level of earnings per share of five years ago."

The Bank declared a second half dividend of $A1.90 per ordinary share, franked to 100%, taking total ordinary dividends for the year to $A3.15 per share, an increase of 47% from last year's ordinary dividend of $A2.15 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 two years and thereafter at least 80% franked, subject to the future ratio of Australian to offshore-sourced income," Mr Clarke said.

Result overview

Mr Clarke said: “This was a year of substantial growth, particularly internationally but also in Australia. While overall income grew 49% to $A7.2bn, international income increased 70% to $A3.46bn. We regard the fact that total international income is now a majority of overall income as a watershed.

“The significant level of international growth across all Groups was particularly pleasing. We now have more than 3,500 international staff, an increase of 39% on the prior year (compared with the growth of our overall staff numbers of 22%). Our international colleagues account for 35% of all staff.

“About 80% of all assets in specialist funds and syndicates are located outside Australia. Activity in those specialist funds remained strong, with the assets in those funds performing well.”

Mr Clarke noted that over the last five years, total shareholder returns were 204% compared to 118% for the S&P/ASX All Ordinaries Index over the same period.

The Bank has created significant wealth for Australians: since their respective listings the Bank, together with its Australian-listed Macquarie-managed specialist fund vehicles, has delivered more than $A40bn in wealth for shareholders. Of this, more than $A30bn was generated for Australian shareholders and their beneficiaries – $A22bn through capital appreciation and $9bn from dividends and other distributions – either directly or indirectly through their superannuation investments.

International growth

Macquarie Bank Managing Director and Chief Executive Officer, Mr Allan Moss said: “The Bank has transitioned from being an Australian institution growing internationally, to being a global institution headquartered in Australia. International income was more than 50% of income across most of our businesses, international specialist fund equity raisings were more than triple Australian raisings and international institutions now hold more than 35% of Macquarie Bank Limited’s shares.

Mr Moss went on to say: “We have continued to significantly expand the Bank’s operations. We now have over 50 international offices in 23 countries and we are investing in broadening our international governance, compliance and risk management capabilities. We intend to submit an application to the UK Financial Services Authority in July to establish a UK-incorporated banking entity to support rapid growth in our UK businesses. This will also provide a European ‘passport’ for banking businesses.

“We have over 100 infrastructure and over 700 real estate assets worldwide employing some 65,000 people. Through these, we provide a range of essential community services to millions of people. These include electricity and gas, water and communications, and land, air and sea transport.

"Given the high and growing proportion of international income, the Macquarie Bank Board thought it appropriate to consider the Bank's head office location. The Board has resolved that the Group will stay headquartered in Australia. This decision was based on a number of factors, including that Australia remains our single largest market and is close to Asia. It is also where our success began."

Non-operating holding company (NOHC)

Mr Moss said: "We are continuing to develop our non-operating holding company restructure which will facilitate international growth. We are targeting shareholder approval in the December quarter of 2007. A formal NOHC Authorisation Application was submitted to the Australian Prudential Regulation Authority (APRA) at the end of February and APRA has advised that it expects to provide the necessary approvals within the proposed timetable. Approval is still subject to the finalisation of a number of operational matters."

Result drivers

Mr Moss said all Groups made record contributions.

- Investment Banking Group – up 78% on prior year
- Treasury and Commodities Group - up 56%
- Equity Markets Group - up 39%
- Banking and Property Group - up 179% (50% excluding the impact of the Macquarie Goodman sale)
- Financial Services Group - up 32%
- Funds Management Group - up 45%

Other key drivers for the year included:

- Continued good conditions across most markets, with good equity market conditions in Asia and Australia and favourable M&A market conditions
- Large asset realisations including Macquarie Goodman, Dyno Nobel, US oil and gas assets, other infrastructure and real estate
- Assets under management up 41% from $A140.3bn to $A197.2bn, with associated base fee growth – most new funds were raised offshore with substantial investment by institutional investors in unlisted international specialist funds
- Capital raised in May 2006 has supported strong business growth
- Significant balance sheet growth with total assets up 28% from $A106.2bn to $A136.4bn and risk-weighted assets up 37% from $A28.8bn to $A39.4bn
- Employment market conditions remained extremely competitive
- Expense to income ratio was slightly down
- Lower effective tax rate as a result of growth of offshore income, as foreshadowed

Mr Moss commented: “There was strong growth across all regions and all Groups. The Bank continues to invest for the future.

“This year we reported our 15th consecutive year of record profit. These results were possible because of the quality of our staff, an increasing proportion of whom are now outside Australia, and because we make a long-term commitment to the many markets in which we now operate.”

Financial Results

Total income from ordinary activities for the year was up 49% to $A7,181m; International income was up 70% to $A3,457m; Net fee and commission income was up 25% to $A3,540m; Trading income was up 20% to $A1,047m; Net interest income was up 23% to $A728m. Asset and equity investment realisations and other income were up 257% to $A1,866m. The expense to income ratio was slightly down at 73.2%.

Outlook

Mr Moss said: “The Bank has had a strong start to the financial year commencing 1 April 2007. All Groups in all regions are busy and there have already been significant transactions.

“Subject to prevailing market conditions continuing, we expect strong IPO and mergers and acquisitions activity 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 or strengthen market positions in Australia and internationally. We are planning for continued strong growth with international income expected to continue to make an increasingly important contribution. This will be underpinned by continued staff growth with an emphasis on international growth. Swing factors will include asset realisations and general market conditions.”

Medium term outlook

Mr Moss added that the Bank’s global reach has increased very significantly with strong increases in both domestic and international market shares. Over the medium term, Macquarie continues to be well placed due to its committed quality staff, good businesses, the benefits from major strategic growth initiatives, effective prudential controls, continued strong global investor demand for quality assets and growth in the capital base. Provided market conditions do not deteriorate materially, Macquarie expects continued good growth in revenue and earnings across most of its businesses, especially the international businesses.

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APPENDIX – Regional highlights for the year to 31 March 2007

ASIA-PACIFIC - Income up 26% to $A1.1bn

Our businesses continued to grow strongly with notable contributions from the equities-related businesses. Highlights included the establishment of a number of funds including Macquarie Goodman Hong Kong Wholesale Fund (an unlisted real estate fund established by Macquarie Goodman Asia – a Joint Venture (JV) between the Bank and Macquarie Goodman) with $HK4.8bn ($A758m) to invest in property; a wholesale fund investing in retail shopping malls in China and MGP Japan Core Plus Fund, established by Macquarie Global Property Advisors, an unlisted Japanese real estate fund with $US865m ($A1.07bn) in capital raised. In Japan, Macquarie established a new investment banking JV with Shinsei Bank Ltd. We secured lead manager equity capital markets roles in significant transactions in China/Hong Kong, Singapore, Thailand and the Philippines.

EUROPE, AFRICA AND THE MIDDLE EAST - Income up 100% to $A1.4bn

Asset realisations, structured transactions and advisory business drove performance across Europe, Africa and the Middle East. The £8bn ($A19bn) consortium acquisition of Thames Water Holdings by a consortium led by Macquarie European Infrastructure Funds and our advisory role on Grupo Ferrovial’s takeover of BAA were significant highlights. During the year, we established Macquarie European Infrastructure Fund II (MEIF II), with final close at €4.6bn ($A7.6bn).

Acquisitions during the year included Corona Energy, a UK gas supply company; Moto, a UK roadside catering service and the East London Bus Group from Stagecoach Group. Shareholders approved the offer for gaming centre operator Talarius in a JV with Tattersalls for £142m ($A345m). A number of assets were also acquired by Macquarie-managed funds.

THE AMERICAS - Income up 105% to $A1.0bn

Strong growth in the Americas was driven by the establishment of new funds and asset acquisitions. We established Macquarie Infrastructure Partners (MIP), an unlisted North American $US4bn ($A4.9bn) diversified infrastructure fund and formed a JV with leading investment management firm MD Sass. We entered an agreement to acquire Giuliani Capital Advisors – a US-based boutique investment banking firm specialising in restructuring and M&A advisory services and acquired Cervus Financial Group, a Canadian mortgage broker.

Assets purchased by Macquarie-led consortia included GATX Air, an aircraft leasing business, and Spirit Finance Corporation[1], a real estate investment trust. A number of assets were also acquired, or agreed to be acquired, by Macquarie-managed funds during the year, including MIP’s acquisitions of 50% of Macquarie Infrastructure Group’s (MIG) interests in four US tollroads for $US825m ($A1bn), North American utility company Duquesne Light (with a consortium including fellow Macquarie fund DUET) for $US1.6bn ($A2bn), a majority equity stake in water utility Aquarion and Canadian port terminals Halterm for C$173m ($A213m) and Fraser-Surry Docks.

AUSTRALIA - Income up 31% to $A2.8bn

The Bank maintained its leading market positions in Australia. Macquarie achieved No.1 2006 rankings in Australia for both announced and completed mergers and acquisitions (Thomson Financial), and maintained leading market positions for Australian equity raised and Asia-Pacific project finance mandates. The Bank was also ranked No. 1 2006 broker for the second consecutive year by ASX market share. There was strong transaction flow, with major transactions during the year including Macquarie's role as Global Co-ordinator and Joint Lead Manager on the $A1.9bn IPO of explosives manufacturer Dyno Nobel, and the sell-down of Macquarie's 7.7% stake in the Macquarie Goodman Group. Macquarie received awards for Investment Management in Australia and Research in Australia in the Euromoney Real Estate Excellence Awards. Mortgages Australia had $A22bn of loans outstanding, up 21% from March 2006, Macquarie Wrap Solutions had $A23.2bn of funds under administration and the Cash Management Trust had $A14.1bn funds under management at 31 March 2007.

Macquarie Infrastructure Group (MIG) undertook a range of initiatives which have resulted in a positive re-rating, including the demerger and listing of Sydney Roads Group (subsequently acquired by Transurban for $A1.3bn); the refinancing of the M6 Toll in the UK, which released £392m ($A931m) to MIG; the successful divestment of 50% of MIG's interest in its four US tollroads to MIP for $US825m ($A1bn) and the initiation of an $A1bn on-market buyback of stapled MIG securities.

Macquarie Airports (MAp) acquired an additional 15% interest in Sydney Airport for approximately $A663m.

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[1] Subject to shareholder approval.