

ASX/Media Release

FIRST QUARTER PROFIT SUBSTANTIALLY UP – INTERNATIONAL GROWTH DRIVES INCOME



KEY HIGHLIGHTS

- **Very good first quarter – profit substantially up on the prior corresponding period**
- **Continued strong international income**
- **Busy start to the current financial year**

19 July 2007 – Macquarie Bank Managing Director and Chief Executive Officer, Allan Moss, said today the Bank had started the current financial year strongly in all Groups and major regions, with profit for the three months ended 30 June 2007 substantially up on the prior corresponding period.

Speaking ahead of the Bank's 2007 Annual General Meeting (AGM) in Sydney, Mr Moss said the Bank had seen increases in its first quarter earnings from every Group on the prior corresponding period. International income will continue to make an increasingly important contribution.

"The first quarter's performance reflects good market conditions and continued investment in growth," Mr Moss said.

Outlook for the current financial year

Speaking about the Bank's outlook, Mr Moss said that subject to prevailing market conditions continuing, the Bank expects strong initial public offering and mergers and acquisitions activity, good growth in specialist funds, trading businesses to benefit from geographic and product expansion and good equity broking volumes.

Mr Moss said that the Bank was planning for continued strong growth.

“We expect to benefit from recent international staff growth and to continue to maintain or strengthen our market positions in Australia and internationally.”

Mr Moss added that he expected the Bank’s growth to be predominantly organic but there may be some small and medium sized acquisitions. He also noted that swing factors in the outlook for the Bank would include asset realisations and general market conditions.

Speaking specifically on the Bank’s operating Groups, Mr Moss commented:

Investment Banking Group was substantially up on the prior corresponding period. This was driven by very good performances in equity capital markets and cash equities in Australia and Asia and a very good performance in mergers and acquisitions. Of note was the successful Boart Longyear initial public offering and performance fees from specialist funds, which included Macquarie Infrastructure Company (MIC) and Diversified Utility and Energy Trusts (DUET).

Equity Markets Group – which offers a range of specialised investment, trading and risk management products and hedge funds – was very substantially up on the prior corresponding period, driven by strong demand in Australian, European and Asian markets. The business environment remains highly competitive and the very strong first quarter revenues are largely seasonal.

Treasury and Commodities Group was well up on the prior corresponding period, with strong performances across most divisions. This was driven by a particularly strong performance from Debt Markets, which reflected strong business flows and the favourable realisation of some Mining and Energy Capital equity positions.

Real Estate Group was very substantially up on the prior corresponding period due to strong performances across all major businesses and geographies. While realisations made a significant contribution, the result would have been substantially up regardless.

Financial Services Group – which is the primary relationship manager for the Bank’s retail client base – was strongly up on the prior corresponding period, with continued growth in volumes and market share. The Group also received very large superannuation-related flows in both its Cash Management Trust and Wrap products.

Banking and Securitisation Group was up on the prior corresponding period despite increased investment in Canadian businesses and the launch of the Australian credit cards business. Highlights included:

- Strong volumes in Relationship Banking
- Investment Lending well up on the prior corresponding period and
- No exposure to US subprime mortgage market

Funds Management Group was only slightly up on the prior corresponding period due to the effect of large performances fees in the prior period. However, underlying assets under management and revenue base were well up on the prior corresponding period.

Busy start to the current financial year¹

In commenting on the Bank's start to the financial year (beginning 1 April 2007), Mr Moss noted the following significant acquisitions:

- the announcement of the proposed Gateway Casinos Income Fund acquisition in Canada, which is a joint venture between the Bank and Publishing & Broadcasting Limited
- the £2.5 billion acquisition of National Grid Wireless by Arqiva, which was led by Macquarie Communications Infrastructure Group (MCG)
- the £1.9 billion acquisition of Airwave by MCG and the Macquarie European Infrastructure Fund II (MEIF II) and
- the \$US615 million acquisition of Mercury Air Centers by MIC

Mr Moss also noted that MEIF II and Macquarie Infrastructure Partners – two infrastructure funds – had raised a total of more than \$US10 billion from major pension funds and other institutional investors around the world. Speaking about other business initiatives and developments, Mr Moss mentioned:

- the opening of the New Delhi office, which includes corporate finance, securities brokerage, equity research and equity capital markets capabilities
- the establishment of a commodity derivatives alliance in Japan with Nomura Securities
- the completion of the integration of Giuliani Capital Advisors into Macquarie Securities (USA) and

¹ See slide 53 of presentation to shareholders at the Macquarie Bank 2007 Annual General Meeting

- superannuation inflows² through Macquarie Adviser Services totalling \$A17.7 billion during the June quarter

Medium term outlook

Mr Moss said the Bank expects to benefit over the medium to longer term from committed quality staff, good businesses, diversification, major strategic growth initiatives and, effective prudential controls.

“Continued strong global investor demand for quality assets, growth in the Bank’s capital base and the establishment of the non-operating holding company (NOHC) will assist the Bank in achieving its international growth objectives,” said Mr Moss.

“Subject to market conditions not deteriorating materially, we expect continued growth in revenue and earnings across most businesses over time. We also expect good growth in international businesses to continue,” Mr Moss said.

Outlook with respect to capital requirements

In commenting on the Bank’s capital outlook, Mr Moss said that the Bank’s assessment is that it has ample capital from an economic perspective. Mr Moss noted that there are many developments in progress which are likely to affect the Bank’s regulatory capital requirements in the current financial year, including

- Basel II, which is a new global regime for the regulation of the Bank’s capital requirements
- other revised Australian prudential standards with respect to capital and possibly some related matters and
- the Bank’s proposed restructuring with the creation of a NOHC

Mr Moss said that these changes are complex and their impact on regulatory capital requirements depends on many factors, including:

- whether Macquarie is accredited under the Advanced Approaches with respect to Basel II
- decisions which APRA makes about the capital requirements of the restructured Macquarie Group
- the final form of the various new prudential standards and

² Please also refer to separate release issued earlier today: “Macquarie Adviser Services’ Super Inflows Top \$17 billion”

- the composition of Macquarie's balance sheet and the size and nature of our commitments

"The overall result of all of these changes is very difficult to forecast and could be materially negative in respect to regulatory capital ratios in some circumstances. However, we continue to believe that we have adequate Shareholders' Funds from both an economic and regulatory perspective to support growth in the current financial year," said Mr Moss.

Highlights from the Address of Macquarie Bank Chairman, David Clarke, include:

- Financial year 2006/07 marked the 15th consecutive year of record profit for Macquarie Bank and is almost six times the level of five years ago
- The Bank continues to experience very good market conditions. While no investment bank is immune to the effect of adverse market conditions, Macquarie remains diversified and its businesses are planned and operated to be robust through the business cycle
- For the first time, international income outstripped Australian income³, marking a watershed for the Bank. In the financial year 2006/07, international income constituted 55 per cent of the Bank's total operating income and is nine times higher than it was five years ago
- The Bank employs more than 10,000 staff and staff numbers have doubled in the past five years
- Commonwealth legislation was recently passed by the Federal Parliament to enable the Bank's restructure via the NOHC, which would own both banking and non-banking businesses. The restructure is highly complex but is on schedule. The Bank anticipates holding a shareholder meeting in the last quarter of 2007 to consider the restructure

Mr Clarke also said that for the first time the Bank intends to hold the AGM interstate in 2008, in Melbourne.

Long term performance

Commenting on long term performance, Mr Clarke said: "Since listing eleven years ago, Macquarie Bank and our Australian-listed specialist funds have generated more than

³ Total operating income for the purposes of international income excludes earnings on capital and is after directly attributable costs including fee and commission expenses.

\$A40 billion in wealth for shareholders. More than \$A30 billion of this has gone to Australian shareholders and their beneficiaries.”

Mr Clarke noted that since listing on the Australian Securities Exchange in 1996, the Bank had delivered a total shareholder return of 1,814 per cent, a better return than any of the companies in the S&P/ASX 50 index at that time.

An Australian institution growing internationally

Commenting on the Bank’s international expansion, Mr Clarke reiterated the Bank’s position announced in May: “Macquarie has evolved from an Australian institution growing internationally to a global institution headquartered in Australia.”

Mr Clarke said that as a result of the Bank’s international growth, the Board had considered the Bank’s head office location during the year.

“While a high and growing proportion of income is now international, Australia remains the Bank’s largest market. Australia enables us to access good quality staff and service industries and is in the Asian time zone, which is a significant region for us. For these reasons, we have resolved to remain headquartered in Australia for the foreseeable future,” Mr Clarke said.

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