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# Macquarie Bank Limited

Presentation to Shareholders and Analysts

*Allan Moss & Greg Ward*

16 May 2002



# Agenda

Result Presentation

Allan Moss

Managing Director & CEO

Result Analysis

Greg Ward

Chief Financial Officer



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# Macquarie Bank Group

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After-tax profit (attributable to ordinary shareholders): 3% increase

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31 March 2002  
\$250m

31 March 2001  
\$242m

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Pre-tax profit (attributable to ordinary shareholders): 10% increase

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31 March 2002  
\$326m

31 March 2001  
\$296m



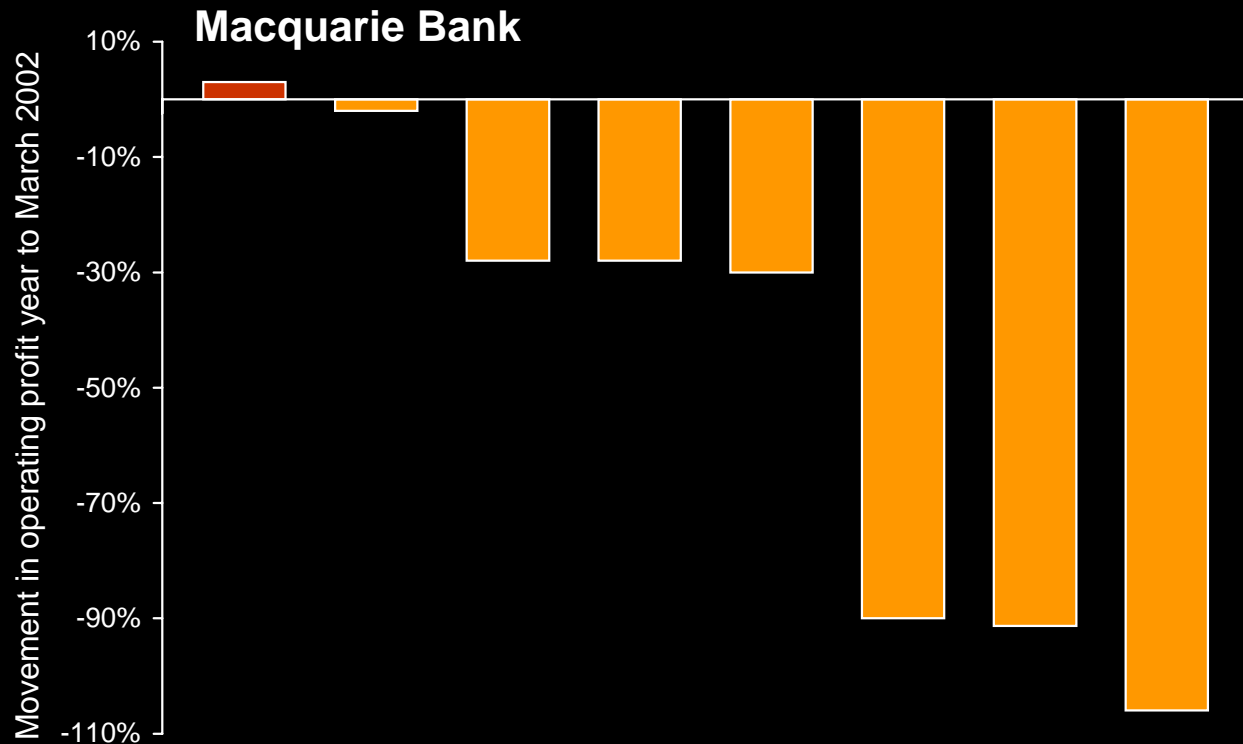
# Features of the year

- A good result in a tough environment:
  - Global competitors' profits way down
  - Achieved without material asset sales
  - Despite increase in effective tax rate
- The main drivers:
  - Equity Markets down to breakeven
  - Investment Banking well up
  - All other operating Groups have performed well
- A year of strategic initiatives:
  - Strong growth in specialist funds
  - Capital raised in September now mostly invested, especially NTL
  - Broad increases in market share



# Change in operating profit for leading investment banks

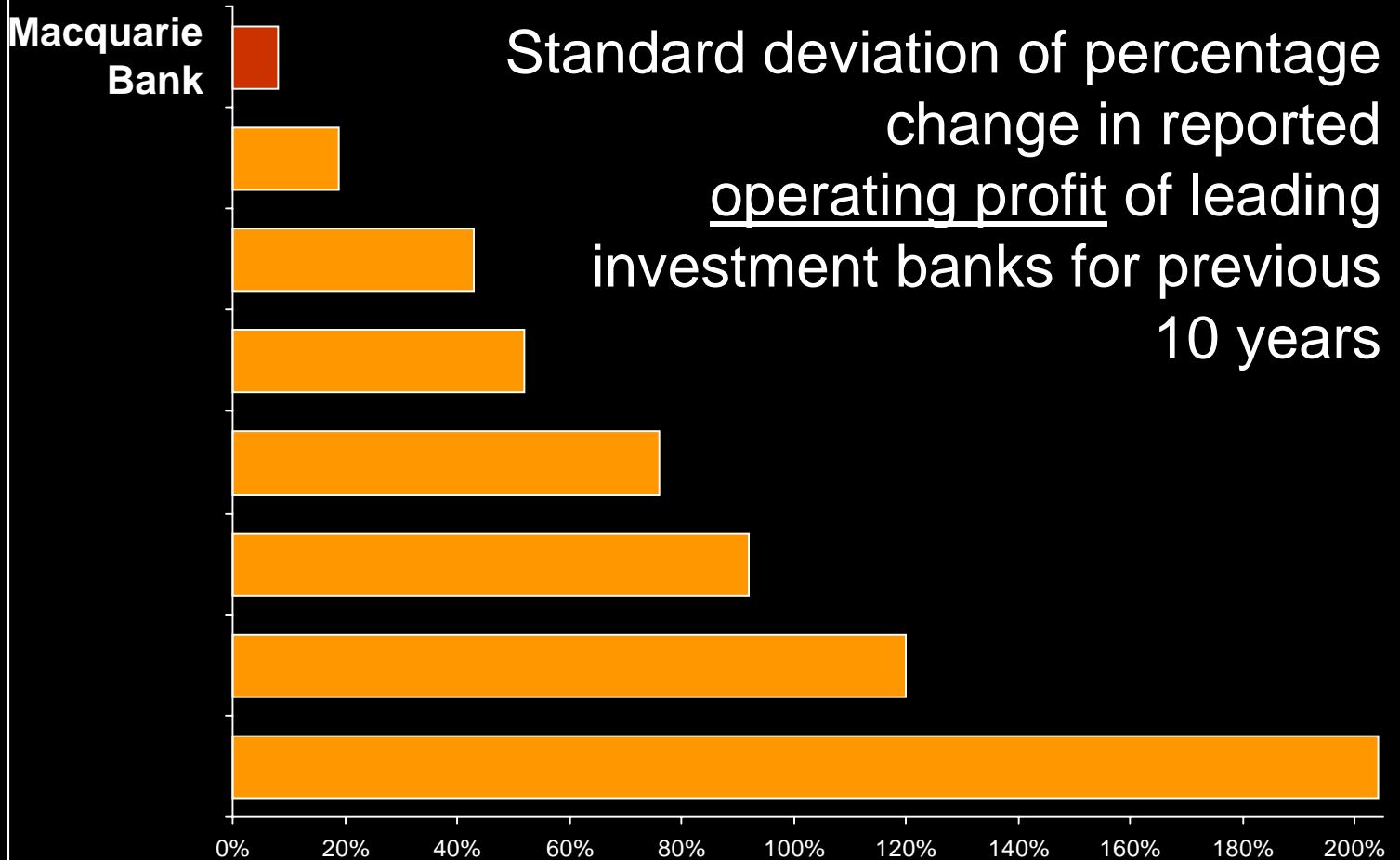
Down on average > 50%



Source: Bloomberg and published accounts



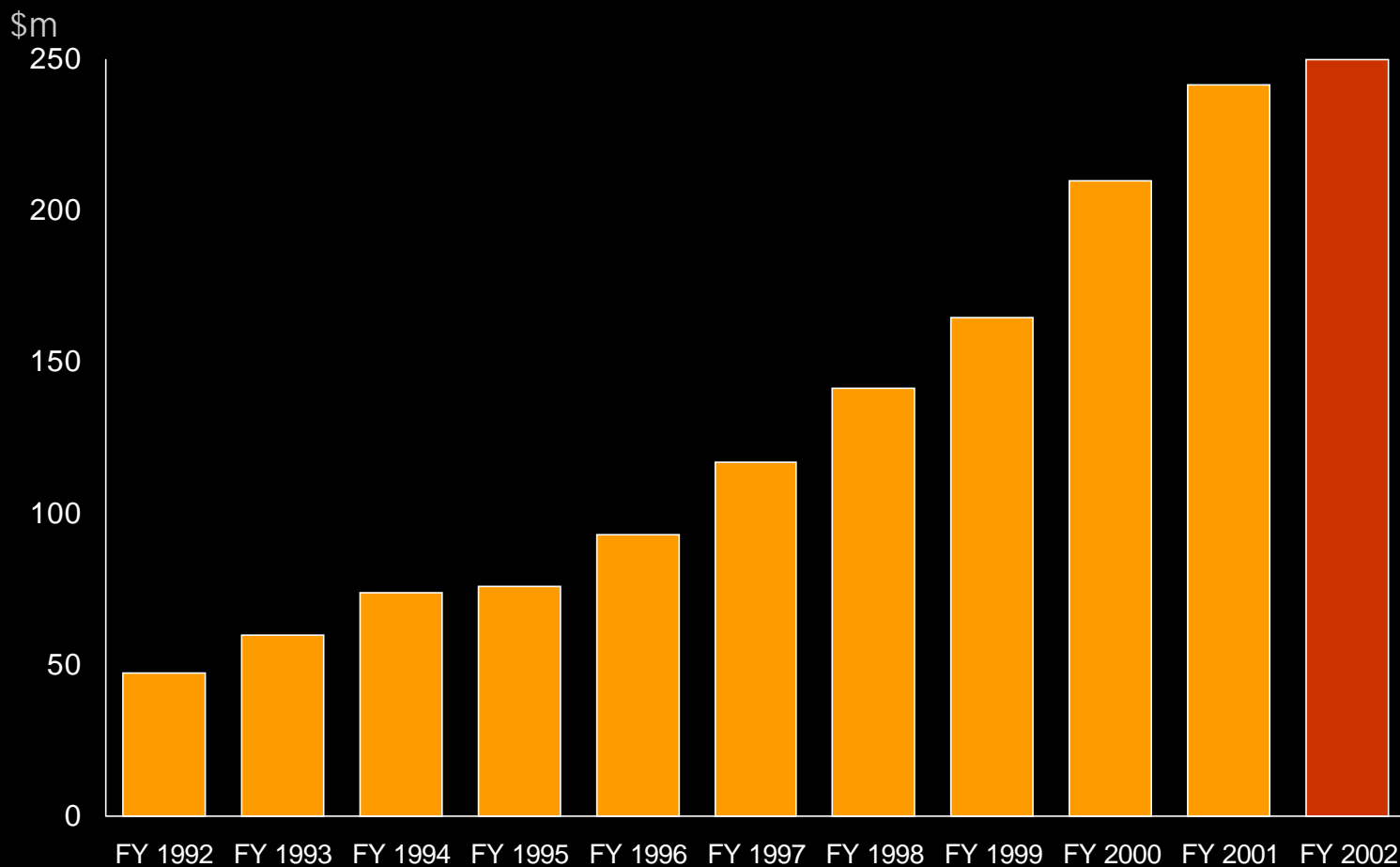
# Business diversity gives consistent profits



Source - Bloomberg



# A decade of continuous profit growth







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# Group contribution to profit

	Full Year 31/3/02 %	Full Year 31/3/01 %
Corporate Finance (incorporating funds)	30	19
Structured Finance & X-border Leasing	11	18
Mac Capital, Insto Broking & Other	20	9
Investment Banking	61	46
Treasury & Commodities	21	20
Banking & Property	16	14
Funds Management	3	3
Equity Markets	0	19
Financial Services	(1)	(3)
Other	-	1
Total	100%	100%

\* Based on management accounts – pre-tax and pre-profit share



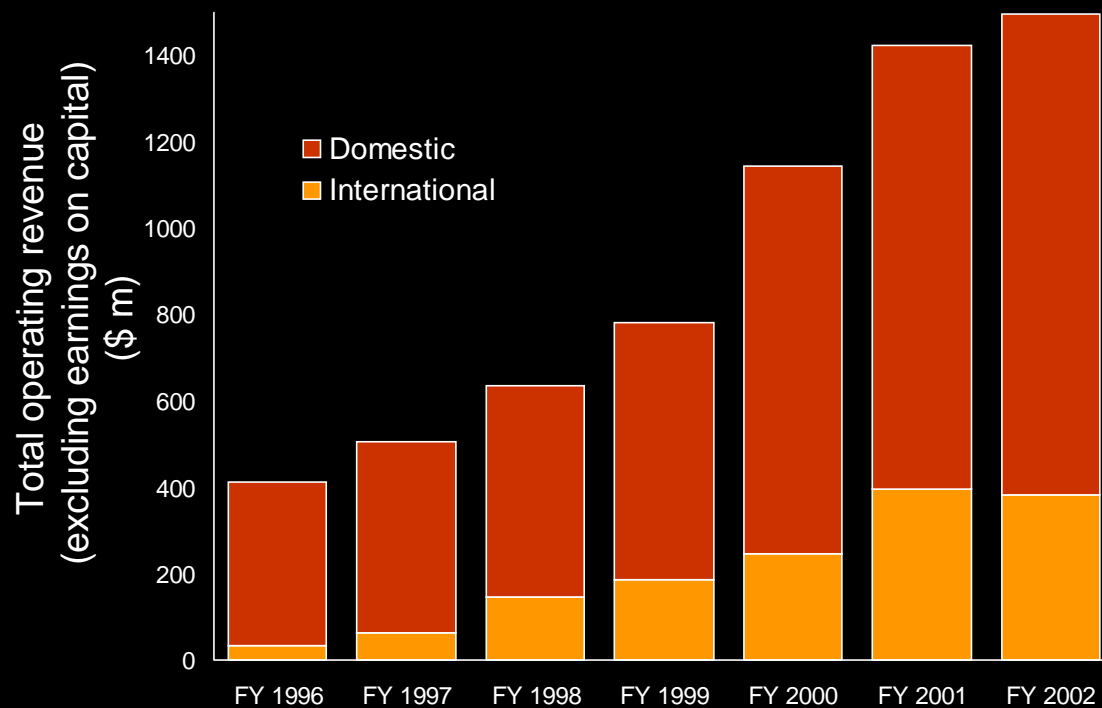
# Overview of Group performance

- **Investment Banking**
  - reorganised to enhance client focus
  - growth in specialist funds
- **Treasury & Commodities** - good income diversity and strong final quarter
- **Banking & Property** - record profit from all major businesses
- **Funds Management** – funds under management up 19%
- **Equity Markets** – Australia and South Africa up, Hong Kong and Europe way down
- **Financial Services (Retail)** – strong growth across the Group, technology programme substantially completed



# International

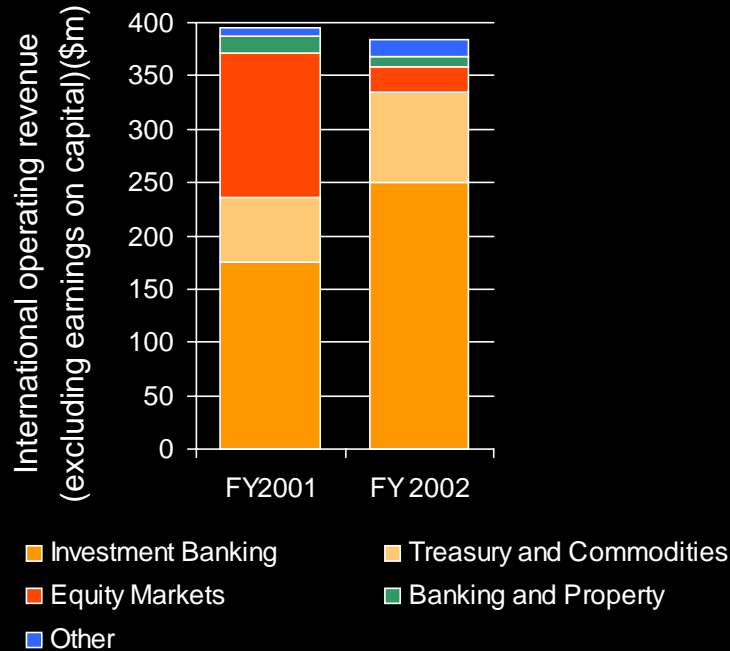
- International income up 10 times since 1996
- Only down 3% on pcp
- Much better than Wall Street



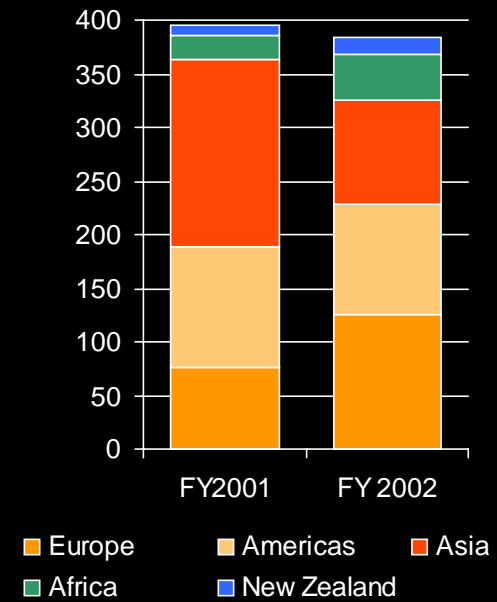


# International operating revenue

## Group



## Region

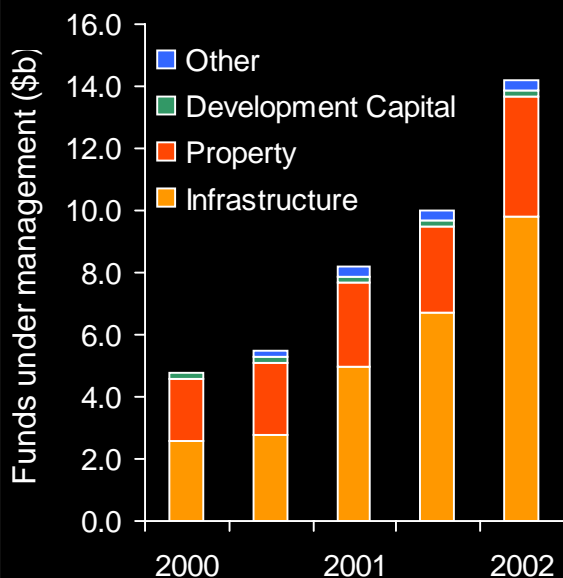


Other Groups make up for  
Equity Markets/Hong Kong

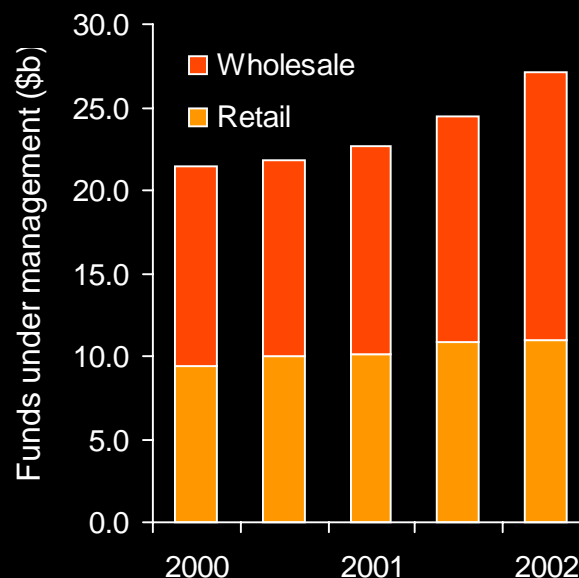


# Funds - huge growth in specialist, good growth generally

## Specialist



## Funds Management & Financial Services



- Specialist funds up 73% on prior year
- 19% growth in Funds Management and Financial Services (not including wrap)



# ntla update

- Acquisition completed on 2nd April. The effective acquisition price represents approximately:
  - 9.8 times forecast EBITDA for CY2003
  - 7.7 times forecast EBITDA for CY2004
- 97% of 2003 forecast revenue and 87% of 2004 forecast revenue is already under long-term contracts – mostly with ABC and SBS
- EBITDA/revenue ratio in excess of 50% in 2003 and 2004
- Compound annual growth in EBITDA forecast in excess of 27% pa to 2004
- \$2.4b contract order book (assuming exercise of options), mostly with ABC and SBS (up to 15-year initial term)
- Growth above underpinned by increased revenue from new services under existing contracts
- Significant barriers to entry



# Realisation of investment

- Work continues to maximise value of business before selldown
  - Refinance with non-recourse debt expected to occur within the next month (takes advantage of predictable EBITDA growth)
  - Other operating and structuring enhancements being made
- This would reduce MBL's economic capital commitment to approx \$200m (regulatory capital approximately \$400m)
- Selldown of equity expected to occur by 3rd quarter 2002



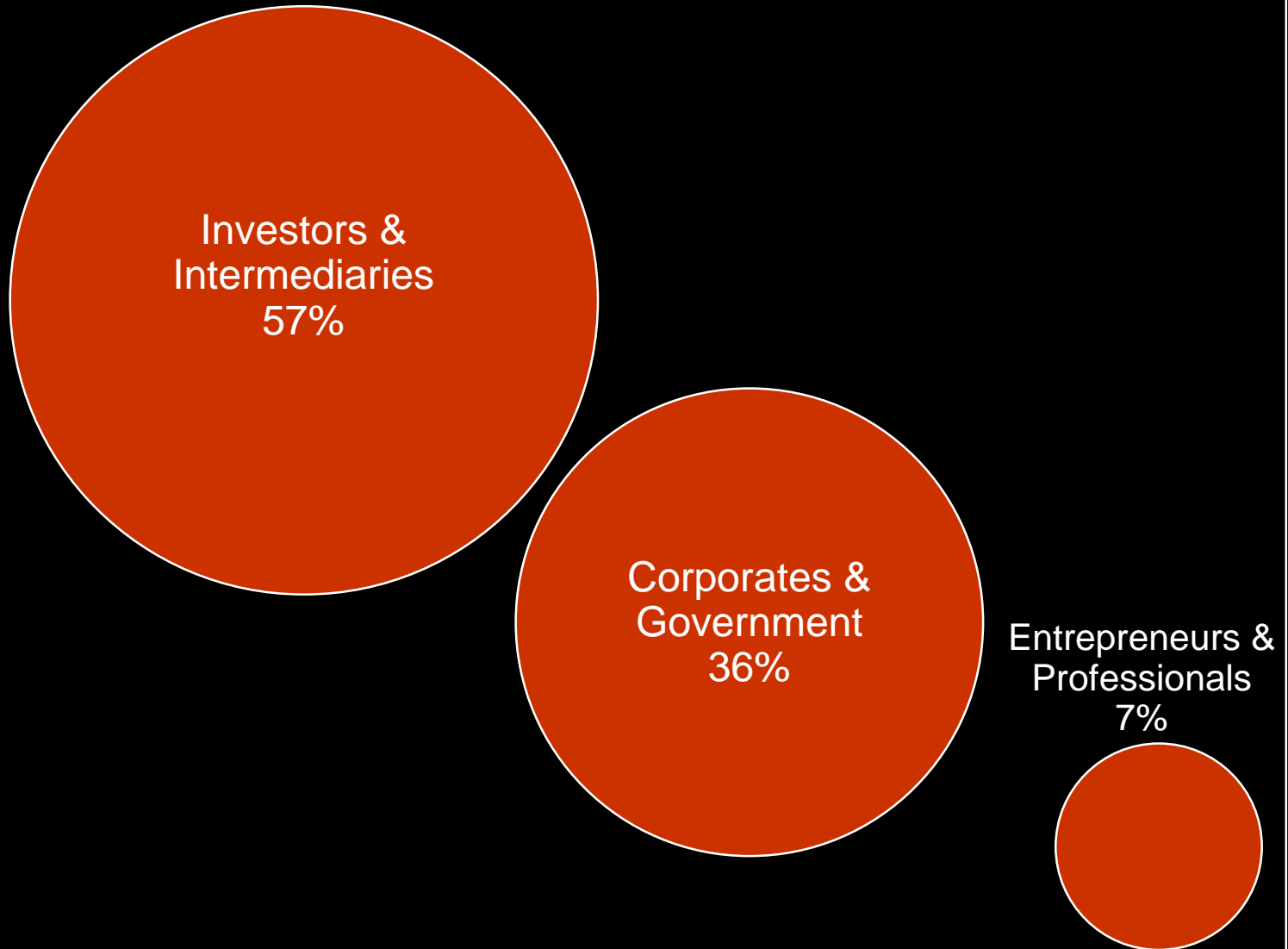
# Where the revenue comes from: a client based view

- The three main client sets:
  - Investors and Intermediaries
  - Corporates and Governments
  - Entrepreneurs and Professionals





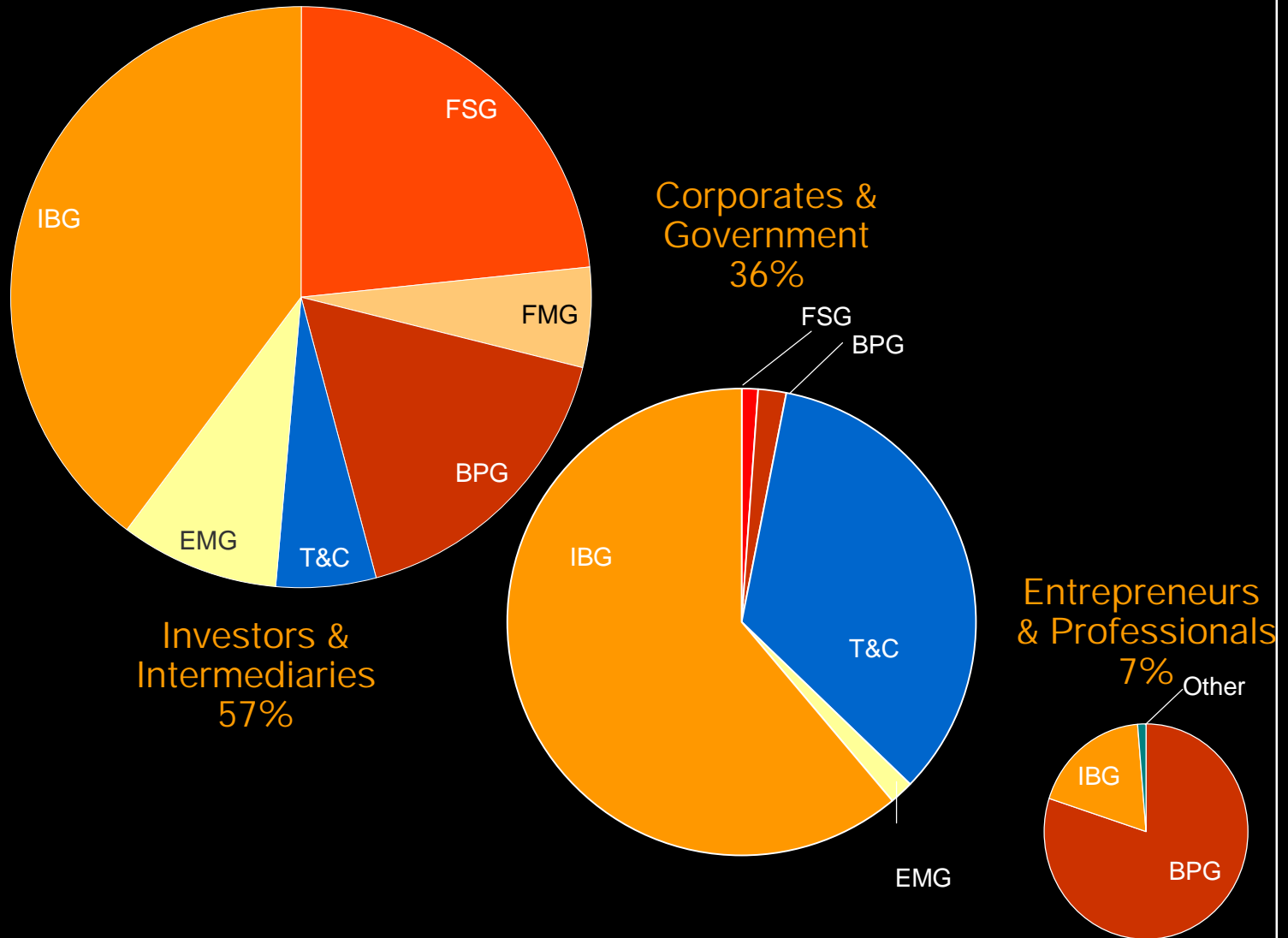
# Where the revenue comes from



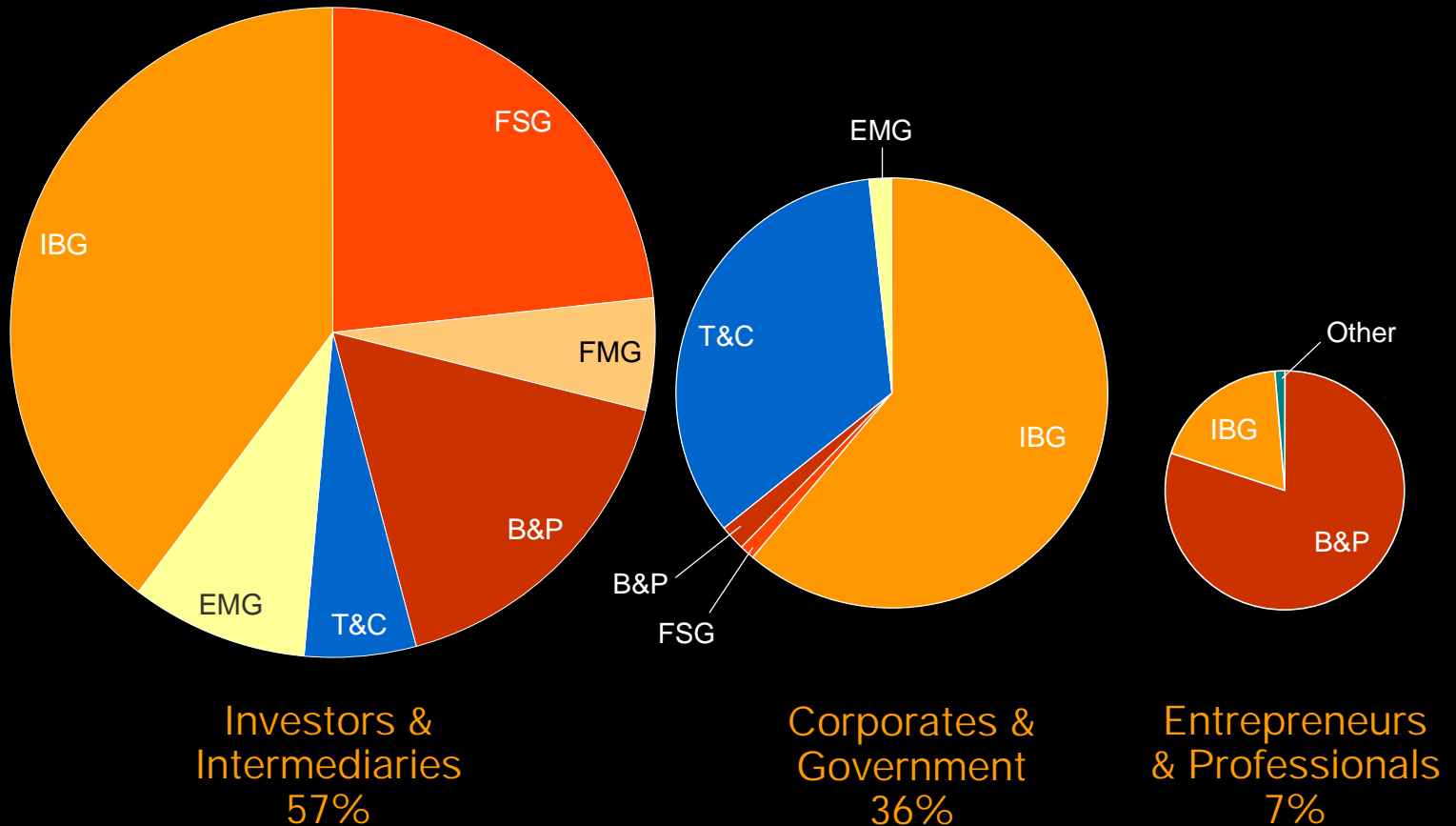


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# Where the revenue comes from



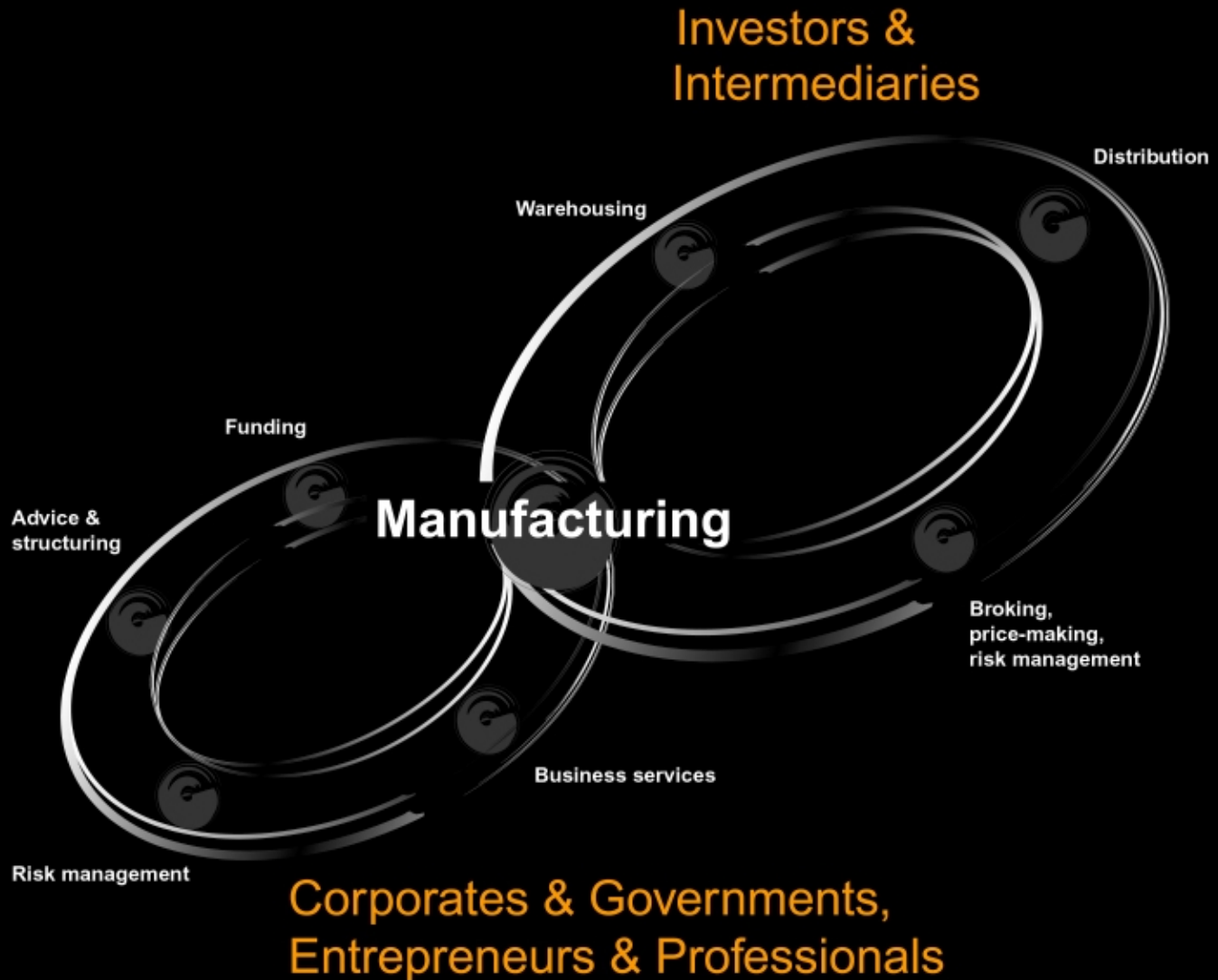
# Where the revenue comes from



- Investors and Intermediaries
  - Rapidly growing market
  - Committed across the Bank



# The Virtuous Circles around Our Clients





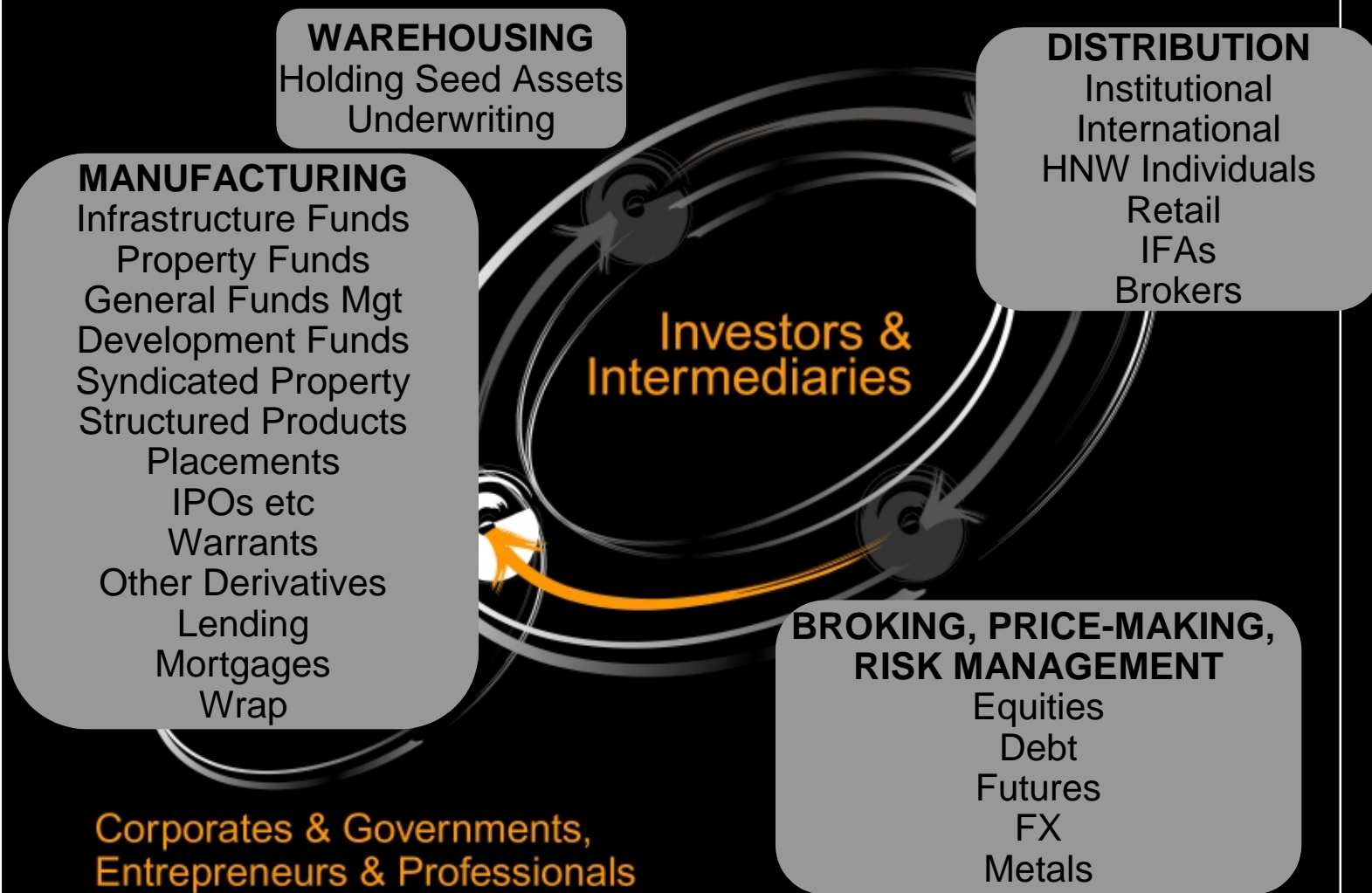
# The Virtuous Circle around The Investors & Intermediaries



Corporates & Governments,  
Entrepreneurs & Professionals

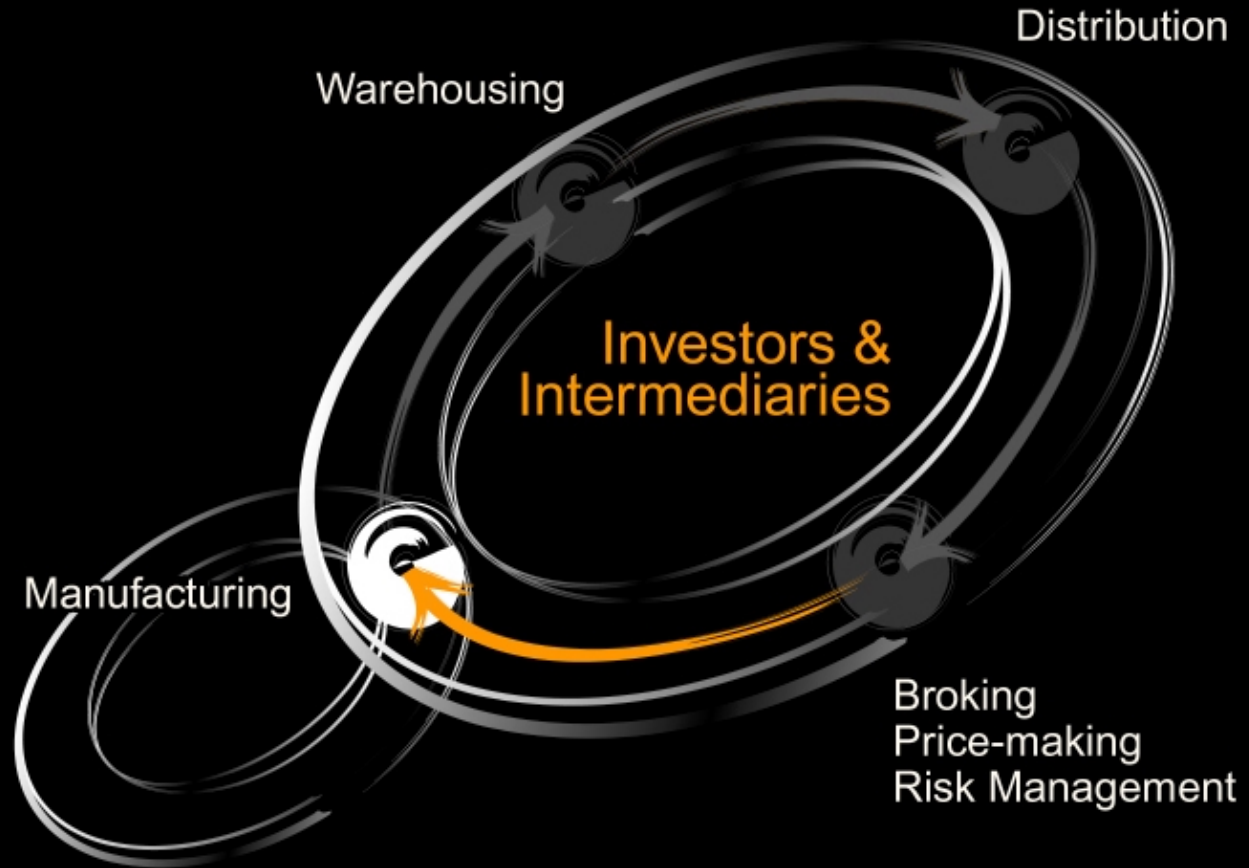


# The Virtuous Circle around The Investors & Intermediaries





# The Virtuous Circle around The Investors & Intermediaries



Corporates & Governments,  
Entrepreneurs & Professionals



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# Comments on the Groups





# Investment Banking

- Strong result – diverse income base
- Creation of Investment Banking Group → synergies and client focus
- Highlights:
  - MIG grew 115%
  - Airport funds, MAG and MAp
  - Acquisition of NTL Australia
  - Advised Normandy Mining on its takeover
  - Lead Manager in \$8.8b raisings including QBE, MIG/Cintra, MOF, GAS, MAP, ALL, STO
  - Funds up - \$5.3b to \$10.1b, leasing book up \$1.4b to \$1.8b



# Investment Banking

## International

- Growth and expanding capabilities:
  - North America – infrastructure, private debt
  - Asian equities
- Increasing number of transactions:
  - MIG's 40% strategic investment in Cintra
  - MAG acquisition of Bristol and Birmingham Airports
  - Cross-border leasing increased its market share
  - Taejon Expressway in Korea
  - 2 issues of stapled bonds in Malaysia
  - \$1.8b of UK PFI transactions – police stations, schools, refinancing of Yorkshire Link



# Investment Banking

## Outlook

- Some signs of a recovery in M&A and IPOs
- Continued growth in infrastructure advisory and financings, leasing books, Macquarie Equities and specialist funds management
- Cross-border leasing - positive for the year ahead, already documenting more deals than this time last year
- Growth expected from both existing and new funds



# Treasury and Commodities

- Very satisfactory result with good income diversity and strong final quarter
- Metals and Mining – only slightly down in tough but improving environment
- Foreign Exchange – record performance based on increased market share and volatile markets
- Treasury – good results from volatile interest rate markets
- Debt Markets – a leader in structured and corporate; innovative securitisations
- Futures – maintained No 1 position in clearing and No 2 position in execution on the SFE



# Treasury and Commodities

- Agricultural Commodities – contribution down due to low commodities prices and significant market disruptions
- Risk Advisory – liabilities under management over \$4.0b

## Outlook

- Moderate growth and some investments in new businesses
  - Establishing an energy trading and finance division focused on international markets
  - Continued strong outlook for FX and Metals and Mining given the expected fluctuations in currency markets and strong metals prices



# Banking and Property

- Record profit from all major businesses
- Mortgages and Securitisation improved profit and diversification of mortgage supply
- Property:
  - grew funds under management to \$3.9b from \$2.7b
  - international expansion (Asian funds management, US property finance, ProLogis alliance)
  - completed largest Australian property takeover of 2001 (Citigroup Centre) and advised on World Square, Sydney and Queen Victoria development, Melbourne - two of the southern hemisphere's largest projects
  - Macquarie Office and Macquarie Goodman Industrial trusts ranked No 1 for accumulated performance in their respective sectors over the last 5 years



# Banking and Property

- Continued excellent growth from Margin Lending
- Banking achieved record revenue growth and profit
- Medallist – continued growth in US and Australia

## Outlook

- Major transactions announced post-balance date: MOF acquires No. 1 Martin Place; \$800m Macquarie ProLogis Trust announced
- Expecting further geographic expansion in specialist property funds, property finance, mortgage securitisation and Medallist, and continued growth in margin lending
- May be some slowing in the domestic property market and possible pressure on lending margins



# Funds Management

- Total funds under management up 19% to \$27.1b
- Profit up slightly on previous 12 months
- Investment in international businesses
- Good performance in most funds
- Significant upgrades from researchers for Active Equities
- International businesses growing rapidly:
  - Korean JV funds up from \$0.1b to \$1.6 b
  - Malaysian JV funds up from \$1.1b to \$1.6 b
  - Hong Kong Enhanced Equities wins first mandate





# Funds Management

## Outlook

- Australia – expect to gain an increasing share of growing market based on performance and innovative product offers e.g. True Index range
- Continued strong growth in international businesses – Korea, Malaysia and Hong Kong



# Equity Markets

- Hong Kong – retail demand dramatically reduced, long suspension of warrant issuance
- Australia – strong result on the back of high retail demand and leading instalment and vanilla warrant market share
- South Africa – another good year – continues to be the leading warrant issuer and OTC market-maker
- Europe – trading losses in start-up phase
- Japan – very poor market conditions
- Brazil – breakeven in first year



# Equity Markets

## Outlook

- Europe - now restructured and focusing on product issuance
- Japan and Brazil – concentrating on growing client deal flow
- Hong Kong leveraged to market conditions
- Australian market conditions may become less buoyant
- Expansion in Asia under consideration
- Continuing strong performance in South Africa – JV expires next March, actively investigating future arrangements
- Overall, leveraged to market conditions and well positioned for any improvement in market sentiment



# Financial Services

- Modest loss as planned
- 8.9% increase in funds under management, currently \$11.0b
- Rapid growth in wrap - assets under administration up from \$1.0b to \$3.9b
- Distribution expanded in both direct (via selective acquisitions) and IFA
- Private client advisers increased by 32%, from 220 to 290
- Australian customer numbers increased by 90,000 to 540,000
- IT development programme 80% complete - delivered on time and within budget
- MBL geared products grew by over \$400m to \$751m



# Financial Services

## Outlook

- Further acceleration of wrap business, capitalising on existing relationships
- Significant reduction in IT development although IT expense will remain broadly the same
- Focus on extracting value from IT investments by increasing training of sales and service staff
- Investment in:
  - major brand awareness campaigns
  - bringing structured product range to retail market, previously only accessible by high net worth individuals
- If present market conditions continue, retail will pass breakeven point during financial year 2003
- Confident of increasing profit contribution longer term



# Direct Investment

- Poor market conditions for realising investments
- But good conditions for making investments
- MIT III – many transactions closed including \$250m MBO of Automotive Parts Group (RepcO)
- MIT IV – launched – target \$400m
- Expect several realisations this year



# Overall outlook

- Investment of the new capital will increasingly contribute to growth
- Confident of continued growth in specialist funds
- Equity Markets Group leveraged to market conditions and well positioned for any improvement in market sentiment
- Continued strong growth in “Investor & Intermediary” client set
- We will benefit from cost initiatives
- Subject to reasonable market conditions expect good earnings growth overall



# Specialist funds – the year in review

- 07.09.02 MIG: Successful completion of institutional offer associated with acquisition of 40% interest of Cintra - \$1.7b
- 13.09.01 MBL completed \$500m capital raising to buy seed assets for specialist funds
- 25.09.01 Four Corners Capital Management – collateralised debt obligation specialist funds management business in USA
- 14.11.01 ProLogis alliance – established with Macquarie Property and Macquarie Goodman Management Limited. ProLogis is world's largest owner and operator of industrial distribution facilities
- 13.12.01 Macquarie Airports Group – first closing and acquisition of a 24.125% stake in Birmingham International Airport





# Specialist funds – the year in review

- 31.01.02 Shanghai residential property development and funds management joint venture with Schroders Asian Properties LP
- 07.02.02 Appointed Senior Adviser to Schroders Asian Properties fund
- 22.02.02 NTL Australia acquisition announced
- 01.03.02 Macquarie Airports announced \$1b fund
- 21.03.02 MIG announced \$1b capital raising and acquisition of further interest in Highway 407
- 01.05.02 Macquarie Office Trust acquires No. 1 Martin Place
- 02.05.02 \$800m Macquarie ProLogis Trust announced



# Macquarie Bank Limited

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*Greg Ward - Chief Financial Officer*

16 May 2002



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# Financial measures

	Full Year 2002	Full Year 2001	Movement
Pre-tax profit (\$m)	326	296	10.1%
Headline result (\$m)	250	242	3.3%
Basic EPS (cps)	133	139	(4.3%)
Expense/Income Ratio	77.8%	77.9%	Steady
Total Assets (\$b)	30.2	27.8	8.6%
Tier 1 Capital Ratio	17.7%	12.9%	



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# Accounting practices

- Prudent accounting policies
- Notable investments:

	Book Value \$m	Market Value \$m (@ 15/05/02)
MIG	25	79
MGM	21	136
SFE	-	21

- No significant exposure to off-balance sheet vehicles
- ntl – consolidated from 2 April 2002



# EPS, dividends and franking

	Full Year 2002	Full Year 2001
Basic EPS (cps)	133	139
Diluted EPS (cps)	132	140
Dividend (cps)	93	93
Payout Ratio	74%	67%
Franking	70%	70%



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# Results analysis

	Full Year 2002 \$m	Full Year 2001 \$m
Income	1,600	1,472
Expenses	(1,245)	(1,147)
Profit Before Tax	355	325
Income tax expense	(76)	(53)
<b>Net Profit After Tax</b>	<b>279</b>	<b>272</b>
Outside equity interest	-	1
MIS distribution	(29)	(31)
<b>Profit Attributable to Ordinary Equity Holders</b>	<b>250</b>	<b>242</b>



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# Revenue

Overall growth indicates diversity

	Full Year 2002 \$m	Full Year 2001 \$m
Fees and commissions	1,003	831
Trading	361	457
Net interest	219	179
Other	17	5
<b>Total Revenue</b>	<b>1,600</b>	<b>1,472</b>



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# Fee and commission revenue

## A record result

	Full Year 2002 \$m	Full Year 2001 \$m
Mergers & acquisitions, advisory and underwriting	301	266
Management fees – base fees	235	179
Performance fees	88	13
Brokerage & commissions	166	130
Cross border leasing and structured finance	99	128
Banking, lending & securitisation	77	87
Other	37	28
<b>Total Fee and Commission Revenue</b>	<b>1,003</b>	<b>831</b>





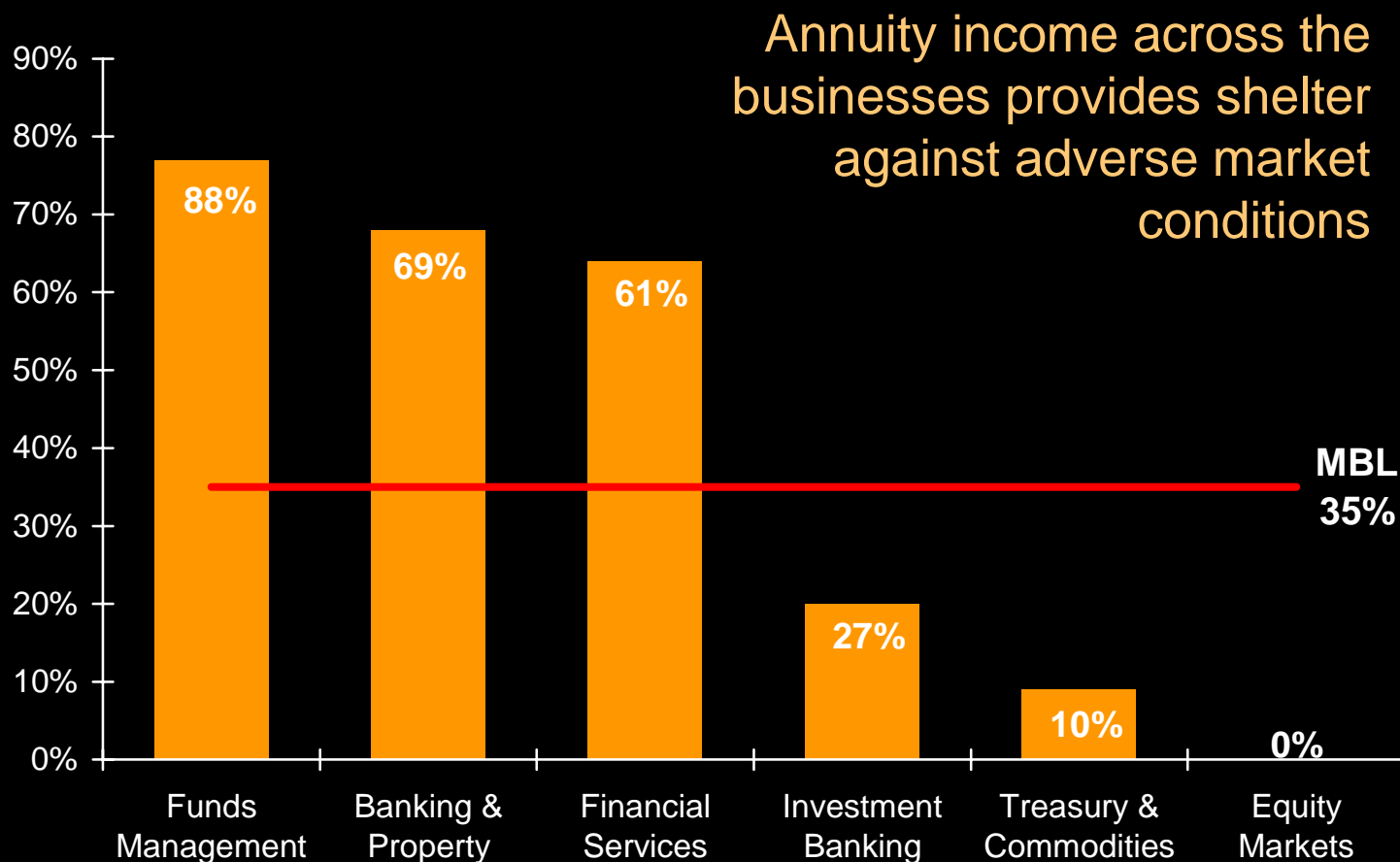
# Management and performance fees

FUM up 34% to \$41.3b

	Full Year 2002 \$m	Full Year 2001 \$m
<b>Specialist</b>		
Base fees	80	42
Performance fees	81	10
<b>Funds Management &amp; Financial Services</b>		
Base fees	155	137
Performance fees	7	3
<b>Total</b>	<b>323</b>	<b>192</b>



# Revenue from medium/long term arrangements – annuity income





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# Trading revenue

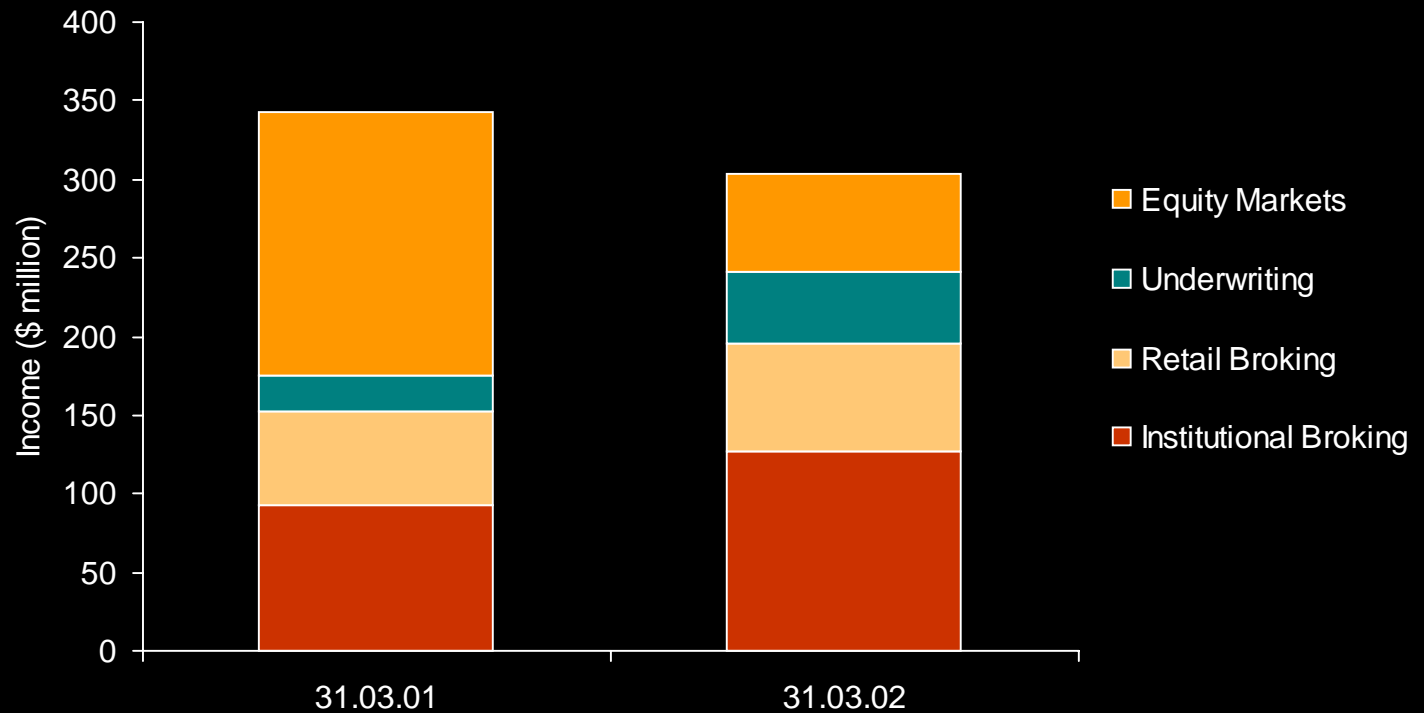
Good result despite difficult conditions

	Full Year 2002 \$m	Full Year 2001 \$m
Equities	135	219
Commodities	100	122
Foreign Exchange	87	64
Interest Rate Products	39	52
<b>Total Trading Revenue</b>	<b>361</b>	<b>457</b>



# Equities-related revenue

A strong contributor





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# Net interest income

	Full Year 2002			Full Year 2001		
	Interest \$m	Volume \$m	Spread %	Interest \$m	Volume \$m	Spread %
Loan Assets	207	8,598	2.41	153	7,301	2.10
Trading Assets and Other Securities	31	8,500	0.36	18	6,099	0.30
Non-Interest Bearing Assets	(19)			8		
<b>Net Interest Revenue</b>	<b>219</b>			<b>179</b>		



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# Operating expenses

	Full Year 2002 \$m	Full Year 2001 \$m
Employment expenses	859	775
Other Expenses	386	372
Total Expenses	1,245	1,147
Expense/Income Ratios	77.8%	77.9%

→ We will benefit from cost initiatives going forward



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# Headcount

Reflects increased activity

	30 March 2002	31 March 2001
<b>Operating Divisions</b>		
Financial Services	1,073	840
Investment Banking	1,022	1,005
Banking & Property	651	557
Treasury & Commodities	336	327
Equity Markets	188	150
Funds Management	133	134
Direct Investment	16	15
<b>Total Headcount - Operating Divisions</b>	<b>3,419</b>	<b>3,028</b>
<b>Total Headcount - Service Divisions</b>	<b>1,307</b>	<b>1,439</b>
<b>Total Headcount</b>	<b>4,726</b>	<b>4,467</b>



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# Composition of other expenses

## Cost control

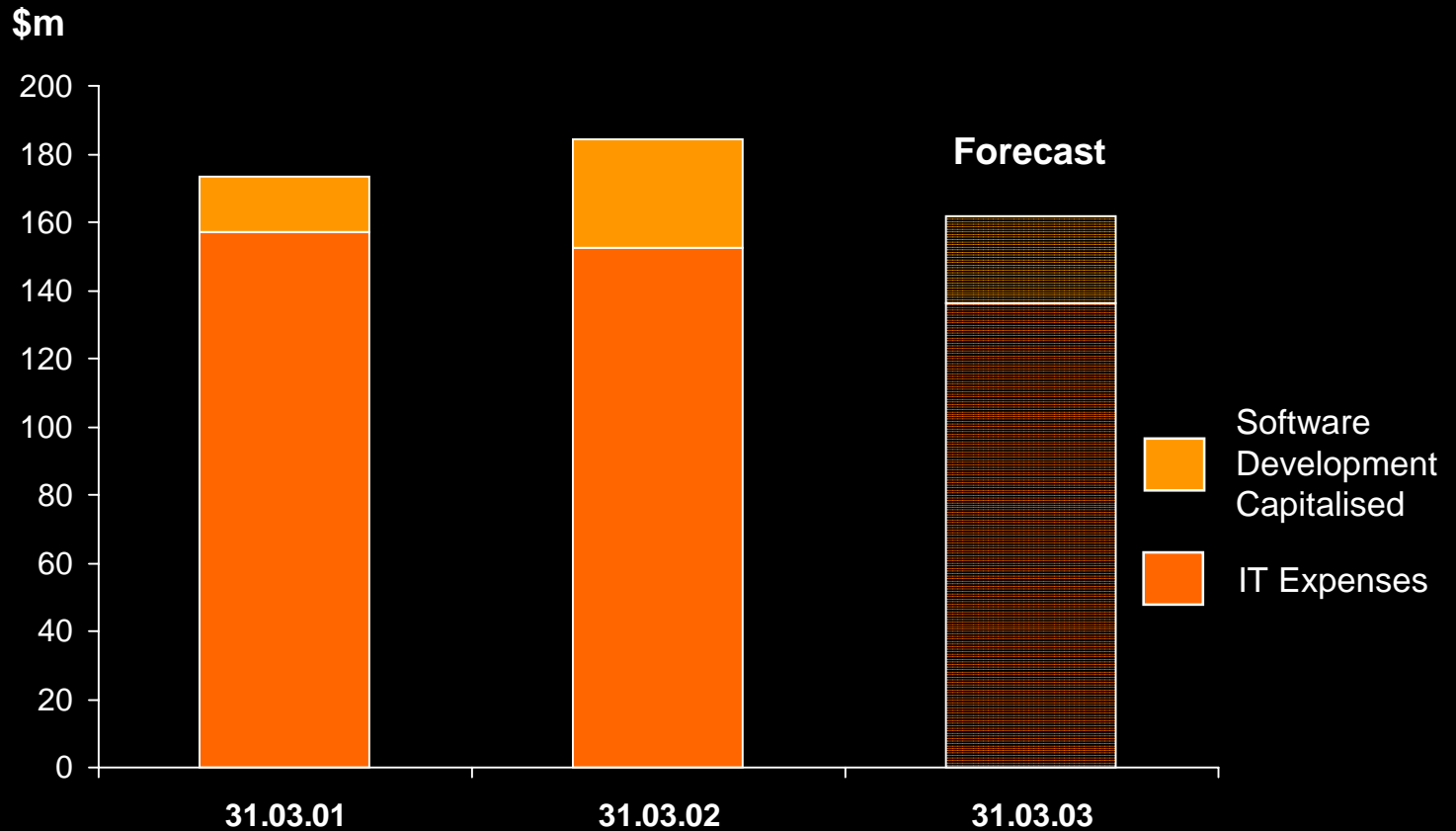
	Full Year 2002 \$m	Full Year 2001 \$m
Occupancy	84	76
Non-salary technology	79	70
Legal and professional fees	51	60
Travel	42	39
Communication	19	18
Other	111	109
<b>Total Other Expenses</b>	<b>386</b>	<b>372</b>





# Information technology expenditure

## Targeted spending





# Effective tax rate

Affected by change in income mix

	Full Year 2002 %	Full Year 2001 %
<b>Corporate Tax Rate (average)</b>	<b>32.0</b>	<b>35.0</b>
Rate differential on offshore income	(3.3)	(9.5)
Group tax losses	(3.6)	(5.4)
Converting Preference Shares	1.2	1.3
Other	(3.0)	(3.0)
<b>Effective Tax Rate</b>	<b>23.3</b>	<b>18.4</b>

- Effective tax rates will be influenced by tax reform, composition of income and offshore growth
- Best estimate of tax rate for 2003 is approximately the same as for 2002



# Taxation reform and other taxation issues

- Consolidation regime expected to apply from October 2002
- Macquarie Income Securities
- Taxation audit
- R&D syndicates



# Capital management

## Strategic flexibility

	2002 \$m		2001 \$m
	<b>Pre ntl</b>	<b>incl. ntl</b>	
Tier 1 Capital	1,900	1,543	1,272
Risk Weighted Assets	10,726	10,942	9,860
<b>Tier 1 Ratio</b>	<b>17.7%</b>	<b>14.1%</b>	<b>12.9%</b>



# Balance sheet and risk-weighted assets

	Total Assets \$b	Risk Weighted Assets \$b
<b>31 March 2001</b>	<b>27.8</b>	<b>9.9</b>
Increase in liquid assets	1.7	-
JV with client for investment in selected highly rated securities	1.5	0.3
Organic growth in loan assets	1.4	0.3
On Balance Sheet revaluation of financial instruments	(2.9)	0.2
Other movements	0.7	-
<b>31 March 2002</b>	<b>30.2</b>	<b>10.7</b>



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