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MACQUARIE
BANK

ASX/News Release

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MACQUARIE BANK ANNOUNCES 48 PER CENT PROFIT INCREASE AND 61 PER CENT INCREASE IN INTERNATIONAL INCOME

Macquarie Bank today announced a $494 million after tax profit attributable to ordinary equity holders for the year ended March 31, 2004.

The result is an increase of 48 per cent over the $333 million profit for the year ended March 31, 2003. Basic earnings per share increased 41 per cent to $2.33 from $1.65 for the previous year.

Pre-tax profit attributable to ordinary equity holders rose by 53 per cent to $654 million from $428 million.

Macquarie Bank Chairman David Clarke said the Bank will pay a final dividend of $0.70 per ordinary share franked to 90 per cent for the year ended March 31, 2004. This brings total dividends for the year to $1.22 per ordinary share, compared with last year's ordinary dividends of $0.93 per ordinary share (excluding the special dividend of $0.50 per ordinary share).

"Since listing on the Australian Stock Exchange in 1996 the Bank has delivered a better total shareholder return (TSR) than all the companies which comprised the ASX Top 50 companies index at that time (assuming reinvestment of all dividends and accounting for all corporate actions)," Mr Clarke said.

“We are pleased to be reporting another record result for our shareholders. The Bank has benefited from extremely favourable domestic, and favourable international, market conditions. This result is almost double that achieved just two years ago,” he said.

Macquarie Bank Managing Director and Chief Executive Officer Allan Moss said the year was characterised by strong international business growth and solid profit contributions from all major business groups as well as Macquarie Direct Investment.

“We have been very active internationally,” Mr Moss said. “Our international income for the year was up 61 per cent, contributing more than 30 per cent of total income (excluding earnings on capital), despite the weak US dollar.

“Our international strategy has been to focus where our particular skills and expertise can deliver significant value to our clients. This strategy has served us well.

“During the year we embarked on some strategic fund initiatives in Europe, North America, Asia and Africa, while we continued to grow our offshore businesses in areas including infrastructure, equity derivatives, US mortgages and oil and gas financing. This year we also acquired ING’s Asian equities businesses, giving us a solid institutional stockbroking platform in the Asia-Pacific region.

“Our commitment to growth and investment initiatives in prior tougher years has also paid off. The Investment Banking Group performed very well, posting a 46 per cent increase in results, while the Treasury and Commodities, Equity Markets and Banking and Property Groups also had record years.

“Four years of strategic investment and development benefited the Financial Services Group, which reported an outstanding increase in profit. The Funds Management Group’s results were also slightly ahead of the previous year, while Macquarie Direct Investment made a very substantial increase in earnings due to a record number of realisations during the financial year.”

Macquarie is now the third largest fund manager in Australia. Total assets under management increased by $11 billion to $63 billion, with significant increases from growth in Macquarie’s specialist infrastructure and property funds.

Mr Moss said staff performance and commitment had been excellent throughout the Bank and that staff numbers had risen 18 per cent during the year to approximately 5,700. This includes the addition of around 450 staff as a result of the acquisition of ING's Asian equities businesses.

Mr Moss said the top priority for senior managers was risk management. "The Bank's policy is not to eliminate all risks but to manage risks appropriately," he said.

FINANCIAL HIGHLIGHTS

The Bank remains very strongly capitalised with a Tier 1 ratio of 16.2 per cent. As previously stated, capital ratios are expected to reduce as the Bank grows. Total income from ordinary activities for the year was $2,380 million, up 30 per cent from $1,834 million for the prior year. Net fee and commission income rose by 18 per cent to $1,318 million from $1,116 million, while the contribution from trading income rose by 40 per cent to $562 million from $402 million in the previous year. Net interest income rose by 11 per cent to $304 million, from $274 million previously. Other income increased significantly to $196 million from $42 million for the prior year.

GROUP OPERATING HIGHLIGHTS

Investment Banking Group had a very strong year, recording a 46 per cent rise in profit compared with the prior year, driven by improved market conditions and strong market share with deal flow across the group consistently strong.

Corporate Finance maintained its leading market positions with roles advising Alinta/DUET on the acquisition of Aquila's Australian energy assets, Foster's Group Limited on the divestment of its Australian Leisure and Hospitality division, Macquarie Goodman Industrial Trust on the acquisition of the AMP Industrial Trust, and assisting PT Bumi Resource's acquisition of PT Kaltim Prima Coal in Indonesia.. Equity capital markets activity was particularly strong with Macquarie securing joint lead manager roles on the IPOs of Promina, Pacific Brands, Macquarie DDR Trust and the AMP rights issue.

In line with its strategy, the Bank continued to expand its infrastructure and specialised funds across domestic and international markets. The growth in the infrastructure and specialised funds saw assets under management, including undrawn commitments, increase by 13 per cent to $17.8 billion and the establishment of three new international funds:

- Macquarie Essential Assets Partnership (MEAP) - an unlisted fund focusing on investments in regulated and utility assets in North America;
- Macquarie/First Trust Global Infrastructure/Utilities Dividend and Income Fund (MFD) - a listed US closed-end fund focusing on investing in listed infrastructure stocks;
- African Infrastructure Investment Fund (AIIF) - an unlisted fund focusing predominantly on investing in South African infrastructure assets, established as a joint venture between Macquarie Bank and Old Mutual Asset Managers of South Africa.

Other infrastructure initiatives include:

- Global Infrastructure Fund II (GIF II) - an Australian unlisted closed-end fund focusing on smaller investments in infrastructure assets in OECD countries.
- Diversified Utilities Energy Trust (DUET) – an Australian based energy utility fund which is proposing to list on the Australian Stock Exchange later in 2004 as a joint venture between Macquarie Bank and AMP Capital.
- Japan Infrastructure Group (JIG) – established as a joint venture between Macquarie Bank and the Development Bank of Japan with a mandate to invest in Japanese infrastructure assets, acquired the Hakone Turnpike south-west of Tokyo.
- Korean Road Infrastructure Fund (KRIF) - achieved a third close and announced two new investments in the Baekyang Tunnel and Machang Bridge in Korea.

Macquarie Capital continued to broaden its global product mix, with leasing books increasing 30 per cent to $3 billion from $2.3 billion.

The overall contribution from Financial Products was up on the prior year. Cross-border leasing markets remain very subdued.

Institutional Stockbroking contributed a result significantly up on the prior year due to improved market share, strong market volumes and increased revenues from brokerage and issuance fees. A highlight of the year was the announcement of the acquisition of ING’s Asian equities businesses which included the addition of approximately 450 new staff. This business will be known as Macquarie Securities Asia and is expected to significantly strengthen Macquarie’s existing equities distribution capabilities and provide opportunities to broaden Macquarie’s overall investment banking activities in the Asia-Pacific region.

The Bank assumed the economic benefit and risk of ING's Asian equities businesses from March 1, 2004. Completion of the purchase is subject to regulatory approvals with formal close expected by July 31, 2004.

In **Treasury and Commodities Group,** a record result was achieved with profit rising 18 per cent on the prior year, driven by increased market shares in a variety of products.

Importantly, costs and risk profile were consistent with previous years.

The Metals and Mining Division contributed another record result as did the Foreign Exchange and Debt Markets Divisions. The Debt Markets Division's strong year was acknowledged by the industry with awards from many leading publications, including Thomson Financial, Finance Asia and INSTO Magazine.

The new Energy Markets Division successfully grew its customer base and provided a positive contribution to the Group's result. In its first full year of operation, the Division has developed a broad customer base across the energy sector, including producers, refiners, airlines and shipping companies.

The contribution from the Agricultural Commodities Division was significantly down on a very strong prior year, reflecting lower volatility and liquidity. The North American physical cotton trading business made a solid contribution and the Division opened an Australian physical cotton trading business during the year.

Equity Markets Group achieved a record profit, very significantly lifting its contribution to the Bank's result. The Group benefited from a more diverse business mix and better market conditions in several of the global equity markets in which it operates.

The Group's Hong Kong business produced a record result, despite the significant depreciation of the Hong Kong dollar against the Australian dollar. The business has significantly increased its market volumes to become the leading issuer in local warrants and a major issuer of unlisted equity-linked products. Hong Kong also successfully diversified both its product range and its customer distribution channels and achieved strong sales in higher margin structured products.

The Australian operation also achieved a record result, increasing the diversity of its product offering and maintaining a leading market share, particularly in warrant issuance.

Good contributions were made by a number of new businesses, in particular the South African business alliance with Nedbank Limited, which was in its first year, and the International Trading and International Structuring businesses.

Banking and Property Group posted its sixth consecutive record profit, with a 13 per cent profit rise on the prior year. Solid contributions were recorded from the Property, Securitisation, Banking and Golf and Leisure businesses.

Property Investment Banking participated in transactions totaling more than $3 billion, many international, and directly raised equity and debt of $400 million. Property assets under management (including associates) increased by 51 per cent from $7.2 billion to $10.9 billion, making Macquarie among the top three Australian listed property trust managers.

The profit contribution from Golf and Leisure, which combines development, finance, funds management and advisory services for the leisure and lifestyle industry, was up 100 per cent on the prior year.

The Banking Division delivered another strong profit contribution, although it was marginally down on the prior year due to increased investment in new product development. The Division is positioned for further future growth following the launch of four new products. Client numbers and loan and deposit volumes grew, while investment in new product development and continued upgrade of the core IT platform improved the Division's services and efficiency.

Margin Lending was up on the prior year, achieving significant growth in its core lending products, margin loans and capital protected loans. In the year to December 2003, the Division's margin loan portfolio grew at twice the industry's average. In the year ended March 31, 2004, it increased by more than 31 per cent to in excess of $940 million.

Mortgages and Securitisation experienced a significant increase in new business through both its retail and wholesale channels. The Division's Australian mortgage portfolio grew by 25 per cent to more than $11.6 billion from $9.3 billion during the year to March 31, 2004. In addition, the Division's US and Chinese mortgage businesses continue to grow, with the US business closing almost $1 billion in loans during the year ended March 31, 2004.

Financial Services Group's profit more than tripled. The significant increase was the culmination of four years of strategic investment and development, continued strong inflows into major products, and improved equity markets. The Group also benefited from the realisation of its one-third interest in Innofin, its South African joint venture with Sanlam, which contributed $14 million profit to the group. Wrap assets under administration increased 44 percent to $9.1 billion from $6.3 billion and the Macquarie Cash Management Trust grew 6 per cent to $9.3 billion from $8.8 billion. The successful integration of 46 Hartley's Limited brokers and their clients considerably increased the Group's market share and consolidated its position in the top tier of retail brokers.

Funds Management Group's profit contribution was marginally up on the prior year and assets under management increased by 18 per cent to $36.2 billion from $30.7 billion. This growth was primarily driven by the group's institutional business in Australia and the expansion of its Asian joint ventures.

Macquarie Direct Investment, the Bank's private equity division, recorded a substantial increase in earnings due to a record number of investment realisations during the year. These realisations represent the culmination of years of investment. A record number of medium to long-term investments were realised this year, including Sabco, Tower Technology, JB Hi-Fi, Repco, InvoCare and Staging Connections. Macquarie Investment Trust III's realisations delivered excellent results, although these were to some extent offset by a disappointing outcome on Western Metals and the final sale of Nardell Coal at a loss.

HIGHLIGHTS SINCE BALANCE DATE

- The Bank agreed to acquire Executive Air Support, an airport services company that owns and operates a network of ten Fixed Based Operations businesses in the United States, for $324 million. The Bank is exploring a range of options for the business including the potential transfer to a Macquarie managed fund, company or partnership.
- The Macquarie European Infrastructure Fund (MEIF) achieved first close with initial commitments of $670 million from institutional investors. Its seed assets included an interest in UK water utility, South East Water and Arlanda Express, the Swedish high speed airport rail link.
- The Bank closed its initial public offering and commenced trading of the Macquarie Power Income Fund on the Toronto Stock Exchange. The Fund will seek out

investments primarily in operating power generating assets, predominantly in Canada and the United States.

- Macquarie DDR Trust raised approximately $281 million through a public offer of new trust units to partially fund the acquisition of a $722 million portfolio of 12 community shopping centres across the United States
- Macquarie ProLogis Trust completed an institutional placement raising $73.8 million and acquired six further high quality industrial properties for its US portfolio
- The Bank completed the acquisition of units in the unlisted Diversified Utilities and Energy Trusts (DUET), with a value of approximately $120 million, from AMP Life Limited
- MEAP achieved final close after securing a further $134 million in commitments from Canadian investors, taking its total commitment to $476 million.

DIVIDEND POLICY

The Bank's dividend policy is to target a full year payout ratio in the range of 50 per cent to 60 per cent and a franking rate of at least 80 per cent. The final ordinary dividend has increased by 18 cents to 70 cents per share and is franked at 90 per cent, representing a full year payout ratio of 53.2 per cent.

OUTLOOK

Mr Moss said the Bank benefited in the year ended March 31, 2004, from very favourable domestic and favourable international market conditions and from significant asset realisations. However, the environment over the next 12 months may not be as favourable, especially internationally. Repeating the 2004 result for the year ending March 31, 2005, will be challenging.

"Over the medium-term we expect continued growth in revenue and earnings across most businesses, subject to market conditions not deteriorating materially.

"We will maintain our long-term strategy of full service in Australia and focused international operations and will continue to invest in growth through the cycle. We are well positioned because we have good businesses, effective prudential controls and committed quality staff," Mr Moss said.

For further information, including copies of the analyst and investor presentation and associated financials, please contact:

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