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ASX/Media Release



MACQUARIE BANK ANNOUNCES 51 PER CENT INTERIM PROFIT INCREASE

Highlights

- **All operating Groups made record first half contributions**
- **International income up 38%**
- **Significant asset realisations**

14 November 2006 – Macquarie Bank today announced a \$A730 million profit after tax attributable to ordinary shareholders for the half year ended 30 September 2006, an increase of 51 per cent over the \$A482 million profit for the half year ended 30 September 2005.

Excluding the realisation of the Bank's holding in the Macquarie Goodman Group (MGQ), the result was a 32% increase on the prior corresponding period, highlighting the strong growth in underlying earnings.

Earnings per share for the six month period increased 41% to A300.9 cents from A212.9 cents for the prior corresponding period.

Macquarie Bank Chairman, David Clarke, said the Bank will pay an interim dividend of A125 cents per ordinary share franked to 100% for the half year ended 30 September 2006. This is a 39% increase on last year's interim dividend of A90 cents per ordinary share, franked to 90%.

Mr Clarke noted that, consistent with the Bank's announced dividend policy, the full year payout ratio is expected to be in the range of 50% to 60% of net earnings. Dividends are

expected to be fully franked for the next two years and thereafter at least 80% franked, subject to future composition of income.

“We are pleased to report another record result for our shareholders, with international income a key contributor for the half. International income was up 38% on the prior corresponding period. Outstanding team efforts by Macquarie’s staff in all locations underpinned this interim result,” he said.

International income amounted to 44% of Macquarie’s total operating income (excluding earnings on capital) for the half year to 30 September 2006, which is down slightly from 46% in the prior corresponding period, largely due to the realisation of MGQ. Excluding the income from the MGQ transaction, international income for the half would have represented approximately 49% of total operating income.

“All Groups increased their contribution to total income from international activities. For the Investment Banking, Equity Markets and Treasury and Commodities Groups, income from international activities was more than half of each Group’s total operating income,” Mr Clarke said.

He stated that while the Bank has been very active, its key focus is to continue to carefully manage risks to ensure they are appropriate relative to capital and revenues.

KEY DRIVERS FOR THE HALF

Macquarie Bank Managing Director and Chief Executive Officer, Allan Moss, said all operating Groups made an increased contribution from the prior corresponding period, with continued good international growth across the Bank. Since September 2005, international staff numbers increased 48% from 2,037 to 3,006, broadly in line with the increase in international income from \$A954 million to \$A1,321 million.

“Equity markets in key regions have held up well, contributing to strong broking revenues, however, Asian equity derivatives were significantly down on a very strong prior corresponding period due to increased competition,” he said.

Mr Moss noted that there was strong demand for commodities and structured commodity products and continuing strong demand for unlisted funds over the six month period.

The interim result also benefited from some major investment banking transactions, notably Dyno Nobel and BAA/Ferrovial; and asset realisations, such as MGQ and a US oil and gas asset.

“While asset realisations are a normal part of the Bank’s business, they are a swing factor,” said Mr Moss.

He added that that the lower tax rate for this period compared to the prior corresponding period was as a result of offshore tax rate differentials.

“The capital we raised in May 2006 has supported continued business growth during the half,” said Mr Moss.

FINANCIAL HIGHLIGHTS AND CAPITAL MANAGEMENT

Macquarie Bank Chief Financial Officer, Greg Ward, said total operating income from ordinary activities for the half year was \$A3,156 million, up 46% from \$A2,160 million for the prior corresponding period. This was driven by profits from the disposal of equity investments and realisations of assets (including the \$A302 million profit on sale of the Bank’s investment in MGQ), and favourable market conditions for investment banking activities.

Net fee and commission income increased 16% to \$A1,437 million from the prior corresponding period, with significant contributions from mergers and acquisitions, advisory and underwriting income, funds management fees and brokerage and commissions.

Assets under management were up 37% on the prior corresponding period to \$A153 billion. There was strong demand for unlisted funds, which constituted 78% of the \$A7.2 billion raised over the half year for specialist funds. Base fees were up 18% on the prior corresponding period to \$A321 million. However, as foreshadowed, there were no significant performance fees for the period.

The headline contribution from trading income declined 5% on the prior corresponding period to \$A456 million, mainly due to accounting impacts of swaps and the revaluation of derivatives. However, the underlying contribution from trading income increased 11% on the prior corresponding period.

Mr Ward added that net interest income rose 12% on the prior corresponding period to \$A330 million; however, after adjusting for the swaps classified as trading income for statutory purposes, net income increased 3% on the prior corresponding period.

Income from asset and equity investment realisations and other transactions increased to \$A933 million from \$A142 million. The main contributions were the sale of the Bank's stake in MGQ, Dyno Nobel and the US oil and gas asset.

The Bank's expense to income ratio of 70.1% for the half year to 30 September 2006 remains comparable to the prior corresponding period.

Mr Ward said: "The Bank's capital management policy is to be conservatively capitalised and to maintain diversified funding sources in order to support business initiatives, particularly specialised funds and offshore expansion, whilst maintaining counterparty and client confidence."

Capital initiatives undertaken by Macquarie during the half year to 30 September 2006 included a private placement in May 2006, combined with a share purchase plan of ordinary share capital in June 2006, which raised in excess of \$A700 million; and the re-introduction of the Dividend Reinvestment Plan discount.

Mr Ward added that, while risk-weighted assets grew by 28% over the period, the Bank's Tier 1 Capital ratio rose to 13.2%, maintaining a buffer in excess of the Group's minimum acceptable ratios.

UPDATE ON THE NON-OPERATING HOLDING COMPANY STRUCTURE

The Bank announced in July 2006 that it was examining a corporate restructuring, most likely involving the establishment of a non-operating holding company (NOHC), as it was outgrowing the conventional banking regulatory model.

Mr Ward said the Bank's diverse international businesses are now growing faster than its domestic banking business, and a significant portion of the Bank's businesses are not strictly banking in nature. Existing commercial banking regulations do not readily accommodate this growth in the non-banking businesses.

A NOHC structure potentially provides the Bank with the flexibility it requires to continue pursuing growth in the regions and markets in which it operates.

“The potential restructure, which would see the holding company owning banking and non-banking businesses could be completed in approximately 18 months. However, this is subject to the resolution of key tax, accounting and regulatory issues,” Mr Ward said.

Macquarie is holding ongoing discussions with the Australian Prudential Regulation Authority.

OPERATING HIGHLIGHTS

Mr Moss said all six major business Groups made record first half contributions to the result.

- The Investment Banking Group continued to be the largest contributor to the Bank’s overall result, with an excellent contribution which was 61% up on the prior corresponding period.
- Banking and Property Group’s contribution was up over 280% on the prior corresponding period, including the MGQ realisation. While the year-on-year contribution is expected to increase, the first half was marginally down on the prior corresponding period (excluding the MGQ realisation), primarily due to the timing of a number of asset sales.
- The Treasury and Commodities result was excellent and significantly up on a strong prior corresponding period. Its contribution increased 73% on the prior corresponding period, with significant contributions from Metals and Energy Capital (assisted by the realisation of a significant US oil and gas asset) and Commodity Markets divisions.
- The Equity Markets Group contribution was slightly up on the prior corresponding period. Trading conditions during the half were generally favourable. However, they deteriorated in the September quarter.
- The Financial Services Group’s contribution was 40% up on the prior corresponding period, due to favourable equity market conditions and significant inflows into Macquarie Wrap Solutions and the Cash Management Trust.
- The Funds Management Group’s contribution was 32% up on the prior corresponding period, driven by higher funds management volumes and fee revenues, especially in Australian equities.

MAJOR ACHIEVEMENTS BY REGION DURING THE HALF YEAR

INTERNATIONAL

Mr Moss said during the half year all regions experienced income growth compared to the prior corresponding period. Income from the Americas more than doubled, whilst the

Asia-Pacific region also experienced strong growth, up 40% on the prior corresponding period.

“Income was spread more evenly across the regions, with Asia-Pacific and Europe, Africa and the Middle East regions both contributing 35% of the total and the Americas contributing 30% of international income,” he said.

AMERICAS

Income from the Americas increased 121% to \$A403 million for the half year. This was mainly the result of favourable market conditions for Treasury and Commodities, in particular the strong result of the metals and energy trading businesses, which were aided by the acquisition of Macquarie Cook Energy in November 2005, and the realisation of a US oil and gas asset.

Some North American highlights included:

- The establishment of Macquarie Infrastructure Partners (MIP), a North American unlisted infrastructure fund.
- The acquisition of Canadian mortgage broker, Cervus Financial Group.
- The establishment of a Joint venture (JV) with MD Sass – a new investment manager incubator fund.
- DUET and MIP-led consortium executed a Merger Agreement to acquire 100% of the shares in the US electricity transmission and distribution business, Duquesne Light for \$US1.59 billion (subject to regulatory approval and Duquesne Light shareholder approval).
- Macquarie Infrastructure Company (MIC) acquisition of US airport services company, Trajen Holdings, for approx. \$US338 million and 50% of North American bulk liquid storage terminal business, International-Matex Tank Terminals, for approx. US\$250 million.
- MCAG-led consortium acquisition of vehicle tyre inflation equipment business, AIR-serv, for \$US420 million.
- MIP agreed to acquire 50% of the interests in four US roads from MIG for approximately \$US762 million (subject to MIG shareholder approval and other conditions precedent).
- MLE acquires US indoor family entertainment centre business, Main Event Entertainment Holdings.

- Post balance date
 - MIP agreed to acquire Canadian container terminal, Halterm Limited for \$C173 million (\$A199m).
 - Acquisition (with consortium) of aircraft leasing business, GATX Air, for \$US1.46 billion

ASIA-PACIFIC

The Asia-Pacific region's contribution to international income increased \$A132 million on the prior corresponding period to \$A461 million. The main driver of growth in the region was the continued expansion of Macquarie Securities' Asian institutional stockbroking operations, which experienced very strong income growth on the prior corresponding period. Equity derivative trading conditions were less favourable, and income fell in some key markets, including Hong Kong, Korea and Singapore.

A broadly favourable investment banking environment combined with increased activity of Macquarie-managed funds in the Asia-Pacific region contributed to an increase in funds management and mergers and acquisition revenue for the half.

Some Asia-Pacific highlights included:

- The establishment of the Macquarie Goodman Hong Kong Wholesale Fund – a \$HK4.8 billion (\$A850m) unlisted property fund established by Macquarie Goodman Asia (JV between MBL and Macquarie Goodman).
- New investment banking joint venture in Japan with Shinsei Bank Ltd.
- Macquarie Korea Opportunities Fund (MKOF) – committed funds of over \$A1 billion; acquisition of a 40% stake in six container terminals (Taiwan, Japan, US) controlled by Hanjin Shipping (subject to financial close).
- Post balance date:
 - MGP Japan Core Plus Fund established by Macquarie Global Property Advisors - unlisted Japanese property fund. Capital raised: \$US865 million.
 - Macquarie Korea Infrastructure Fund commitment to provide a subordinated loan of KRW80 billion (\$A113m) to the Seosuwon-Osan-Pyungtaek Expressway Project.

EUROPE, AFRICA AND THE MIDDLE EAST

Income from Europe, Africa and the Middle East increased 3% on the prior corresponding period to \$A458 million. The drivers were strong cyclical revenues from

structured equity derivatives products, gains on the disposal of investments in Brussels Airport and Arqiva, and increased corporate finance income assisted by the BAA/Ferrovial transaction. These revenues made up for an absence of performance fee income from the specialist funds, which was significant in the prior corresponding period.

Some European, African and Middle Eastern highlights included:

- The establishment of the Macquarie European Infrastructure Fund II, a European unlisted infrastructure fund, with raisings totalling €2.1 billion to date and a target of €3 billion.
- The establishment of ZonesCorp Infrastructure Fund – an unlisted JV fund in the United Arab Emirates, which raised AED1 billion (\$A365m).
- The establishment of Kagiso Infrastructure Empowerment Fund – an unlisted JV fund in South Africa, which raised R649 million (\$A112m).
- The acquisition by a Macquarie Bank-led consortium of UK roadside catering service, Moto.
- The acquisition of a London bus business of Stagecoach Group plc for £264 million.
- The establishment of Macquarie First South – a stockbroking and investment banking JV in South Africa.
- The acquisition of a UK gas supply company, Corona Energy.
- The acquisition by a consortium led by Global Infrastructure Fund II, of Itevelesa, Spain's third largest authorised provider of vehicle safety and gas emission inspections.
- MIG's £1 billion debt refinancing of M6 toll.

- Post balance date:
 - Acquisition of Thames Water by a consortium including Macquarie Bank, MEIF and MEIF II, and other institutional investors for £8 billion.
 - Sale of South East Water for an implied enterprise value of £655 million (as at 31 March 2006).
 - MEIF II announced a cash offer for Techem of €44.00 per share, representing total equity value of €1.1 billion.

AUSTRALIA

While international income continues to grow, the Bank is still experiencing significant growth in Australia, where income was up 52% on the prior corresponding period (including the impact of the MGQ realisation).

Other drivers of income growth included Dyno Nobel and strong mergers and acquisitions activity.

Some Australian highlights included:

- No. 1 2006 year-to-date ECM equity and equity-related league tables.
- No. 1 in ASX stockbroking turnover for the twelve months to 30 September 2006.
- Mortgages Australia reached \$A20.5 billion of loans outstanding, up from \$A18.5 billion at 31 March 2006.
- MIG conducting an on-market security buy-back of up to \$A500 million and is seeking approval from security holders to expand the buy back to up to 17.5% of MIG securities.
- MAp to acquire an additional 15% interest in Sydney Airport for approximately \$A712 million.

OUTLOOK

Mr Moss said the Bank benefited from asset realisations and generally good market conditions in the six months to 30 September 2006.

“Subject to the continuation of reasonable market conditions we expect the result for the six months to 31 March 2007 to be up on the \$A434 million achieved in the prior corresponding period,” he said.

For the remainder of the year, the Bank expects to continue to benefit from staff growth and increased market share and, subject to market conditions, it expects:

- Continued satisfactory transaction levels
- Most trading businesses will benefit from geographic and product expansion but market conditions may continue to negatively impact equity derivatives
- Substantial capital raisings in unlisted international specialist funds
- Performance fees at current relative prices not to be material
- Asset disposals may be a swing factor

Mr Moss said, as foreshadowed, the full year tax rate is expected to be lower than the prior year as a result of offshore tax rate differentials.

OUTLOOK FOR 2008 AND BEYOND

The Bank notes that the recent level of growth has been extraordinary, with results benefiting from a number of one-off transactions. This growth may be difficult to repeat in the short term, said Mr Moss.

“However,” Mr Moss added. “Over the medium term, Macquarie is well placed due to good businesses, diversification, committed quality staff and effective prudential controls. Subject to market conditions not deteriorating materially, it is expected the Bank will experience continued growth in revenue and earnings across most businesses over time, as well as continued international growth.”

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