

Notice of Annual General Meeting 19 July 2007

MACQUARIE BANK LIMITED

ACN 008 583 542



MACQUARIE
BANK

10.30 AM, THE GRAND BALLROOM
LOWER LEVEL, THE WESTIN SYDNEY,
NO. 1 MARTIN PLACE, SYDNEY, NSW

Macquarie Bank Limited
ABN 46 008 583 542

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13 June 2007



Dear Shareholder

Please find enclosed notice of the 2007 Annual General Meeting of Macquarie Bank Limited (the "Bank") which will be held in the Grand Ballroom, Lower Level, The Westin Sydney, No. 1 Martin Place, Sydney, New South Wales on Thursday, 19 July 2007, at 10.30 am.

The Managing Director and I will comment briefly on the Bank's performance during the year to 31 March 2007 at the meeting and you are also referred to the comments in the Bank's 2007 Annual Review for further information.

The meeting will cover the ordinary business transacted annually, together with the following special business:

- an increase in the maximum aggregate remuneration for Non-Executive Voting Directors; and
- the issue of options to Executive Voting Directors.

If you are unable to attend the meeting, please appoint a proxy to attend and vote on your behalf, either online using the share registry's website www.computershare.com/au/proxy/mbi or using the enclosed proxy form.

Shareholders are invited to join the Board for light refreshments at the conclusion of the meeting.

If you plan to attend the meeting, please bring the enclosed proxy form to facilitate your registration. I look forward to seeing you then.

Yours faithfully



David S Clarke
Chairman

NOTICE OF MEETING

Notice is hereby given that the 2007 Annual General Meeting of Macquarie Bank Limited (ACN 008 583 542) (the "Bank"), will be held in the Grand Ballroom, Lower Level, The Westin Sydney, No. 1 Martin Place, Sydney, New South Wales on Thursday, 19 July 2007, at 10.30 am. Registration will open at 9.30 am.

Ordinary Business

1. Financial Statements

To consider and receive the Financial Report, the Directors' Report and the Auditor's Report of the Bank for the year ended 31 March 2007.

2. Remuneration Report

To consider and, if thought fit, to pass the following as an ordinary resolution:

To adopt the Remuneration Report of the Bank for the year ended 31 March 2007.

3. Re-election of Mr DS Clarke as a Voting Director

To consider and, if thought fit, to pass the following as an ordinary resolution:

That Mr DS Clarke be re-elected as a Voting Director of the Bank.

4. Re-election of Ms CB Livingstone as a Voting Director

To consider and, if thought fit, to pass the following as an ordinary resolution:

That Ms CB Livingstone be re-elected as a Voting Director of the Bank.

5. Election of Mr PH Warne as a Voting Director

To consider and, if thought fit, to pass the following as an ordinary resolution:

That Mr PH Warne, having been appointed as a Voting Director since the last general meeting, be elected as a Voting Director of the Bank.

Special Business

6. Voting Directors' Maximum Aggregate Remuneration for acting as Voting Directors

To consider and, if thought fit, to pass the following as an ordinary resolution:

That the annual remuneration of the Voting Directors for acting as Voting Directors, for the years from and including the year commencing on 1 July 2007, be increased by \$1,000,000 from \$2,000,000 to such annual sum, not exceeding \$3,000,000, as the Voting Directors determine, to be divided in accordance with the Bank's Constitution.

Approval of Executive Voting Directors' Participation in the Employee Share Option Plan

7. Mr AE Moss

To consider and, if thought fit, to pass the following as an ordinary resolution:

That the following be approved:

- a) *participation in the Macquarie Bank Employee Share Option Plan ("Plan") as to a maximum of 159,400 options, by Mr AE Moss, Managing Director or, if Mr Moss so elects, a Controlled Company (as defined in the rules of the Plan) of his; and*
- b) *acquisition accordingly by Mr Moss or his Controlled Company of options up to the stated maximum and, in consequence of exercise of those options, of ordinary shares of the Bank,*

all in accordance with the terms of the Plan and on the basis described in the Explanatory Notes on Items of Business accompanying the Notice of Meeting convening this meeting.

8. Mr LG Cox

To consider and, if thought fit, to pass the following as an ordinary resolution:

That the following be approved:

- a) *participation in the Macquarie Bank Employee Share Option Plan ("Plan") as to a maximum of 9,000 options, by Mr LG Cox, Executive Director or, if Mr Cox so*

elects, a Controlled Company (as defined in the rules of the Plan) of his; and

- b) *acquisition accordingly by Mr Cox or his Controlled Company of options up to the stated maximum and, in consequence of exercise of those options, of ordinary shares of the Bank,*

all in accordance with the terms of the Plan and on the basis described in the Explanatory Notes on Items of Business accompanying the Notice of Meeting convening this meeting.

Voting Exclusion Statement

The Bank will disregard any votes cast on Items 6, 7 and 8 by any Voting Director and any associate of a Voting Director. However, the Bank need not disregard a vote if:

- a) it is cast by a Voting Director or any associate of a Voting Director as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- b) it is cast by a Voting Director who is chairing the meeting, as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

ASX has granted a waiver allowing the Bank to limit the application of ASX Listing Rule 14.11 to trustees of trusts in relation to which a Voting Director benefits, or is capable of benefiting (other than a trustee of a trust in which the majority of beneficiaries or potential beneficiaries are family members of the relevant Voting Director), such that:

- a) a trustee of a unit trust in which a relevant Voting Director holds less than 20% of the trust units; or
- b) a trustee of a fixed trust (other than a unit trust) in which a relevant Voting Director has a beneficial interest in less than 20% of the trust assets,

is not excluded from voting on Items 6, 7 and 8.

By order of the Board



Dennis Leong
Company Secretary
Sydney, 13 June 2007

Notes

1. Proxies

If you cannot attend, you may appoint a proxy to attend and vote for you. If you are entitled to cast two or more votes, you may nominate two persons to vote on your behalf at the meeting. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. Fractions of votes will be disregarded. If no such number or proportion is specified, each proxy may exercise half your votes. A proxy form and a reply paid envelope have been included for shareholders with this Notice of Meeting. Proxy voting instructions are provided on the back of the proxy form.

A proxy need not be a shareholder. Votes may be cast "For", "Against" or you may "Abstain" from voting on a resolution. If you wish to direct a proxy how to vote on any resolution, place a mark (e.g. a cross) in the appropriate box on the proxy form and your votes may only be exercised in that manner. You may split your voting direction by inserting the number of shares or percentage of shares that you wish to vote in the appropriate box. If you place a mark in the "Abstain" box, your votes will not be counted in computing the required majority on a poll.

2. Online Proxy Facility

You may also submit your proxy appointment online by visiting the webpage: www.computershare.com/au/proxy/mbi. To use this online proxy facility, you will need your Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode, as shown on your proxy form. You will be taken to have signed the proxy form if you lodge it in accordance with the instructions on the website. If you wish to use this facility, you must lodge your proxy form through the facility by no later than **10.30 am (Sydney time) on Tuesday, 17 July 2007**. A proxy cannot be appointed electronically if they are appointed under a power of attorney or similar authority. The online proxy facility may not be suitable for some shareholders who wish to split their votes on an item of business or appoint two proxies with different voting directions. Please read the instructions for the online proxy facility carefully before you lodge your proxy using this facility.

3. Proxy Delivery

Proxies given by post, fax or delivery must be received by the Bank's share registry, Computershare Investor Services Pty Limited, at GPO Box 242, Melbourne,

NOTICE OF MEETING

Victoria, 3001 (facsimile number (03) 9473 2118) or at Level 2, 60 Carrington Street, Sydney, NSW, 2000 or at the Bank's registered office in the ACT, by no later than **10.30 am (Sydney time) on Tuesday, 17 July 2007**. Any revocations of proxies (including online proxies) must be received at one of these places before the commencement of the meeting, or at the registration desk at The Westin Sydney for the 2007 Annual General Meeting from 9.30 am on the day of the meeting until the commencement of the meeting.

4. Power of Attorney

If a shareholder has appointed an attorney to attend and vote at the meeting, or if the proxy is signed by an attorney, the power of attorney (or a certified copy of the power of attorney) must be received by the Bank's share registry, Computershare Investor Services Pty Limited, at the addresses or facsimile number in 3. above, or at the Bank's registered office in the ACT, by no later than **10.30 am (Sydney time) on Tuesday, 17 July 2007**, unless the power of attorney has been previously lodged with the Bank's share registry for notation.

5. Corporate Representatives

If a corporate shareholder wishes to appoint a person to act as its representative at the meeting, that person should be provided with a letter or certificate authorising him or her as the company's representative (executed in accordance with the company's constitution) or with a copy of the resolution appointing the representative, certified by a secretary or director of the company. A form of certificate may be obtained from the Bank's share registry.

6. Shareholders Eligible to Vote

Pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)*, the holders of the Bank's ordinary shares for the purposes of the meeting, will be those registered holders of the Bank's ordinary shares at 7.00 pm (Sydney time) on Tuesday, 17 July 2007.

This Notice of Meeting is also being sent to holders of Macquarie Income Securities. Holders of these securities may attend the Annual General Meeting but are not entitled to vote on any of the proposed resolutions.

7. Voting at the Meeting

In light of the large number of proxy votes which are usually received from the Bank's shareholders, it is intended that voting on each of the proposed resolutions at this meeting will be conducted by poll, rather than on a show of hands.

8. Definitions

The terms "Voting Director" and "Executive Voting Director" are defined in the Explanatory Notes on Items of Business accompanying this Notice of Meeting.

Item 1: Financial Statements

As required by section 317 of the *Corporations Act 2001 (Cth)* (the "Act"), the Financial Report, Directors' Report and Auditor's Report of Macquarie Bank Limited (the "Bank" or "Macquarie") for the most recent financial year will be laid before the meeting.

Shareholders will be provided with the opportunity to ask questions about the reports or about the Bank generally but there will be no formal resolution put to the meeting.

Item 2: Remuneration Report

As required by section 250R(2) of the Act, a resolution that the Bank's Remuneration Report be adopted must be put to the vote. The Report is contained within the Directors' Report in the Bank's 2007 Annual Review on pages 47 to 90.

Section 250R(3) of the Act provides that the vote on the resolution is advisory only and does not bind the Voting Directors or the Bank.

Shareholders will be provided with the opportunity to ask questions about or make comments on the Remuneration Report.

The following paragraphs summarise the objectives and governance framework that apply to the Bank's remuneration arrangements, as presented in more detail in the Remuneration Report.

Objectives

With only incremental variations, Macquarie's executive remuneration approach has been in place since the Bank commenced business in 1985.

The Bank is facing an increasingly competitive remuneration environment, with growing competition for quality staff amongst investment banks and between investment banks and private equity firms. Losing valued staff for compensation reasons is not in the Bank's or shareholders' interests, so it is essential that the Bank provides remuneration that is competitive against its competitors.

The overarching goal of the Bank's remuneration approach is to drive shareholder returns over the short and longer term. It does this by structuring its remuneration approach to meet the objectives of:

- aligning the interests of staff and shareholders; and
- attracting and retaining high quality staff.

The following principles underpin these objectives and are embedded in the Bank's remuneration system:

- to ensure that a significant amount of remuneration is at risk and solely dependent on performance;
- to appropriately motivate staff to focus on shareholder value creation by linking the profit share pool to the key drivers of shareholder returns, namely the Bank's profitability and return on ordinary equity in excess of the cost of capital;
- to provide for staff equity purchases or option participation that create identification with shareholder interests;
- to provide retention and deferral arrangements that encourage a long-term commitment to the Bank and hence to shareholders;
- to provide remuneration arrangements that are competitive on a global basis with the Bank's peers; and
- to provide consistency over time to ensure staff have the confidence that efforts over multiple years will be rewarded.

Driving Shareholder Returns by Aligning the Interests of Staff and Shareholders

The Bank aims to grow total returns for shareholders by motivating staff through its remuneration policy to increase the Bank's net profit after tax while sustaining a high relative return on ordinary equity. Growing net profit after tax and sustaining a high return on ordinary equity are fundamental drivers of total shareholder returns. These twin objectives encourage staff to expand existing businesses and establish promising new activities.

The Voting Directors consider that the remuneration approach and its consistency over time have been significant factors in driving the Bank's growth in earnings, and the maximisation of both return on ordinary equity and total returns to shareholders:

- the Bank's net profit after tax attributable to ordinary shareholders has increased from \$117 million in 1997 to \$1,463 million in 2007, reflecting a compound annual growth rate of 28.7 per cent over ten years, higher than that of its international investment banking competitors over the same period; and
- the Bank's Total Shareholder Return from its listing in 1996 to 31 March 2007 has been 1,814 per cent, which is higher than that of any company in the ASX Top 50 at the time the Bank listed its shares on ASX, and also higher than that of its international

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investment banking competitors over the same period.

More details of the outcomes are provided in the Remuneration Report.

Driving Shareholder Returns by Attracting & Retaining High Quality Staff

The Bank aims to ensure that it attracts high quality staff and retains them by offering a competitive performance-driven remuneration package that encourages both long-term commitment and superior performance.

The retention of staff has become even more critical as the Bank has expanded internationally, as the Bank must be able to provide remuneration which is globally competitive.

In 2007, 55 per cent of income (excluding earnings on capital and after directly attributable costs including fee and commission expenses) came from offshore activities. As at 31 March 2007, 35 per cent of staff were based offshore.

Macquarie's success in staff retention is demonstrated by the very low levels of turnover experienced by the Bank. In the year to 31 March 2007, voluntary turnover at the Director levels (Executive Directors, Division Directors and Associate Directors) was approximately 7 per cent. However, this was up from less than 5 per cent the previous year and is up to double the Bank-wide average in the key international regions in which the Bank operates.

A consequence of this high retention is that Directors have a high average tenure at the Bank, with one-quarter of Directors having at least ten years experience at Macquarie (or an acquired company) and over thirty per cent having between five and ten years experience at Macquarie (or an acquired company), as at 31 March 2007.

Board Oversight

Board oversight of the Bank's remuneration policies and practices incorporates the following features:

- the Board Remuneration Committee comprises a majority of independent directors, with a formal charter which is available on the Bank's website;
- stringent processes are in place for managing conflicts of interest;
- an approval framework is in place which ensures that remuneration

recommendations for executives and Non-Executive Voting Directors are approved at the most appropriate level:

- remuneration recommendations relating to Executive Committee members and Executive Voting Directors have been approved by the Independent Directors of the Board, subject to shareholder approval of performance option grants for Executive Voting Directors; and
- remuneration recommendations relating to all other Executive Directors are approved by the Board Remuneration Committee.

Independent Review

The Voting Directors have again sought independent advice from a US office of Towers Perrin that specialises in remuneration for investment banks. The key conclusions of this review included:

- Macquarie has used essentially the same remuneration system since the Bank was founded;
- the objectives on which Macquarie's remuneration system are built are similar to those cited in other leading global investment banks;
- Macquarie's remuneration system:
 - has assisted Macquarie's top-of-market total shareholder return, return on ordinary equity and earnings growth over the past decade;
 - has helped ensure that pay and performance are linked tightly; and
 - has several means to align executive reward and shareholder value creation;
- Macquarie's remuneration governance process is similar to that in place at Macquarie's peer US investment banks;
- Macquarie's remuneration components support its remuneration principles and are very much in line with practices at peer global investment banks, including that:
 - fixed remuneration is modest relative to total compensation, the bulk of which is delivered through variable means (annual and long-term incentives);
 - Macquarie's annual profit share is based on profit and return on ordinary equity, similar to other investment banks;
 - individual profit share awards to executives are highly differentiated by individual contribution and results;
 - a portion of profit share is invested in equity and withheld for several years;

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- executives must maintain an equity stake in the company; and
- equity-based compensation (in the form of MBL options) is used as a long-term incentive for executives;
- Macquarie's deferred profit share arrangements impose a longer vesting period than most of its international investment banking competitors;
- Macquarie uses performance hurdles on its options for Executive Directors, whereas typical US practice is either to have options vest solely after the fulfilment of service requirements, or to use restricted shares which also typically vest solely based on service; and
- Macquarie's total remuneration as a percentage of income or earnings before tax is in the same general range as that of peer global investment banks.

The findings of this review were critically evaluated by the Board's six Independent Voting Directors ("Independent Directors").

Detailed descriptions of the Bank's remuneration arrangements and other relevant disclosures are also contained in the Remuneration Report.

Noting that each Voting Director has a personal interest in their own remuneration from the Bank, as described in the Remuneration Report, the Board unanimously recommends that shareholders vote in favour of adopting the Remuneration Report.

Items 3 and 4: Re-election of Voting Directors Retiring by Rotation

Voting Directors, David Clarke, Mark Johnson, Catherine Livingstone and John Allpass, retire by rotation. Mr Clarke and Ms Livingstone offer themselves for re-election.

Mr Allpass and Mr Johnson have decided not to stand for re-election and so will retire from the Board at the end of this annual general meeting.

John Allpass has been an Independent Non-Executive Voting Director of the Bank since January 1994. He has been a valuable contributor to the Board, especially in his capacity as a member of the Board Audit and Compliance Committee, which he chaired for many years. The Board wishes to thank him for his significant contribution.

Mark Johnson joined Hill Samuel Australia Limited (the predecessor to Macquarie Bank Limited) in 1971 as Joint Managing Director, a position he held until 1977. He returned to the Bank in 1987 when he became an Executive Voting Director. Mr Johnson became Deputy Chairman in 2000 and recently retired as an Executive of the Bank. He has made an outstanding contribution to the business and the Bank over a long period and we thank him for his efforts.

David S Clarke, AO, BEc (Hons), Hon DScEcon (Syd), MBA (Harv)

Non-Executive Chairman from April 2007

Executive Chairman from the Bank's inception in February 1985 to March 2007

*Chairman of the Board Nominating Committee
Member of the Board Remuneration Committee*

Chairman of the Board Risk Committee

He is 65 years of age

David Clarke has been Chairman of Macquarie Bank Limited since its formation in 1985. From 1971 to 1977 he was Joint Managing Director of Hill Samuel Australia Limited (predecessor to Macquarie Bank Limited), from 1977 to 1984 Managing Director, and from 1984 to March 2007 Executive Chairman. On 31 March 2007 he retired from executive responsibilities, stepping down from his position on the Bank's Executive Committee, and continues as Non-Executive Chairman. At the same time Mr Clarke retired as Chairman from the following Macquarie ASX-listed property trusts – Macquarie CountryWide, Macquarie ProLogis and Macquarie Office.

Mr Clarke will continue as Chairman of the Macquarie Bank Foundation.

He is also Chairman of McGuigan Simeon Wines Limited and Macquarie Goodman Group. He is an associate of ASX Limited ("ASX") and a member of the Investment Advisory Committee of the Australian Olympic Foundation, the Harvard Business School Asia Pacific Advisory Committee, the Board of the Centre for the Mind and the Bloomberg Asia Advisory Board.

Prior to submitting himself for re-election, Mr Clarke acknowledged to the Bank that he would have sufficient time to properly fulfil his duties to the Bank.

The Bank has noted that one of the ASX Corporate Governance Council's best practice recommendations is that listed companies should have an independent director as chairperson. While Mr Clarke is now Non-

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Executive Chairman, he is not considered an Independent Director due to his recent service as an executive of the Bank. However, for the reasons set out below, the Board believes that Mr Clarke is the most appropriate person to continue to be the Bank's Chairman and that other measures adopted by the Bank provide an appropriate check on management.

He has been Chairman of Macquarie Bank Limited since it was founded and accordingly, has an extensive knowledge of the activities of the Bank and its businesses, gained at the most senior management level. Given the Bank's diverse, complex and highly specialised activities, it is important that the Board is chaired by someone with a deep understanding of the Bank's operations.

Mr Clarke's experience in investment banking, and as a chairman of major listed companies, is also important in ensuring that management provides the Board with adequate information to facilitate effective decision making. Mr Clarke's wide experience enables him to provide support and advice to the Managing Director and Chief Executive Officer while respecting executive responsibility.

The Bank's dependence on the performance of its staff is a further reason why, like most global investment banks, the Bank believes it is in shareholders' interests to have a number of Board members with operating experience of the businesses.

Mr Clarke has had a key role in setting the broad business strategies, recruitment and remuneration policies and professional and ethical standards, which have been the foundations of the Bank's long-term success.

The Bank has adopted a number of practices to regulate the division of responsibilities between the Board and management, and the accountability of management to the Board, including:

- the separation of the role of Chairman from that of the Managing Director and Chief Executive Officer;
- the appointment of Mr Kevin McCann as Lead Independent Director in 2003;
- having a majority of Independent Directors on the Board;
- the Independent Directors meeting at least once annually as a group and in the absence of any executives;
- the delegation of certain responsibilities to Board Committees, a number of which the Chairman is not a member;
- all Voting Directors having access to other members of management in relation to the

Board Committees of which they are members;

- the ability of Voting Directors to seek independent professional advice for company related matters at the Bank's expense;
- appropriate induction procedures for new Voting Directors so that they can fully contribute to Board discussions at the earliest possible time; and
- an annual assessment of the Chairman and the Managing Director by the Independent Directors.

The Board unanimously recommends that shareholders vote in favour of David Clarke's re-election.

Catherine B Livingstone BA (Hons) (Macquarie), FCA, FTSE

Independent Voting Director – joined the Board in November 2003

Chairman of the Board Audit and Compliance Committee

Member of the Board Nominating Committee

Member of the Board Risk Committee

She is 51 years of age

Catherine Livingstone was the Managing Director of Cochlear Limited from 1994 to 2000. Prior to that she was the Chief Executive Finance at Nucleus Limited and before that held a variety of finance and accounting roles including having been employed by chartered accounting firm, Price Waterhouse, for several years.

Ms Livingstone was awarded an Eisenhower Fellowship in 1999, the Institute of Chartered Accountants in Australia Chartered Accountant in Business Award in 2000 and the Centenary Medal in 2003 for service to Australian Society in Business Leadership. She was elected a Fellow of the Australian Academy of Technological Sciences and Engineering in 2002.

She is currently a director of Telstra Corporation Limited, a member of the Board of the Macquarie Graduate School of Management and a member of the Federal Education Minister's Business/Industry/Higher Education Council. She is a former Chairman of the CSIRO and a former director of Rural Press Limited, Goodman Fielder Limited and the Sydney Institute.

Prior to submitting herself for re-election, Ms Livingstone acknowledged to the Bank that she would have sufficient time to properly fulfil her duties to the Bank.

Ms Livingstone has a major interest in and understanding of innovation, including new business models, experience across a range of industries and in working with government and the public sector. She brings to the Board significant experience as a non-executive director with a focus on risk management and the tasks of audit committees.

The Board unanimously recommends that shareholders vote in favour of Catherine Livingstone's re-election.

Further information on Mr Clarke and Ms Livingstone is contained in Schedule 1 to the Directors' Report on pages 96 and 97 of the Bank's 2007 Annual Review.

Item 5: Election of Voting Director Appointed since the Last General Meeting

In May 2007 the Board resolved that the maximum number of Voting Directors, effective at the end of this year's Annual General Meeting, would be nine.

Mr PH Warne, having been appointed by the Board in June 2007 as a Voting Director, effective 1 July 2007, offers himself for election.

Peter H Warne BA (Macquarie)

Independent Voting Director

He is 51 years of age

An actuary by background, Peter Warne has strong experience in financial markets. From 1981 to 1999, he was employed at Bankers Trust Australia Limited ("BTAL") and from 1988 to 1999 was Head of BTAL's Financial Markets Group. He managed staff dealing and advising in fixed interest, money markets, treasury, futures, foreign exchange, economics and technical research. He also had additional responsibility for interest rate and foreign exchange derivatives, metals and mining, soft commodities and capital management from 1993 to 1999.

He has been a consultant to a variety of leading financial markets participants in Australia and was a consultant to the Bank for six months in 1999 on integration issues when the Bank acquired BTAL's investment banking business.

Mr Warne was a Director of the Sydney Futures Exchange ("SFE") from 1995 to 1999 and from 2000 to 2006 and was Deputy

Chairman from 1995 to 1999. When the SFE merged with the Australian Stock Exchange last year, he joined that board and remains a Director of ASX Limited.

He is Chairman of Next Financial Limited, Australian Leisure and Entertainment Property Group and Capital Markets CRC Limited. He is also a Director of WHK Group Limited and Securities Industry Research Centre of Asia Pacific Limited and is a Member of the Advisory Board of the Australian Office of Financial Management.

He has recently announced his resignation from the board of Macquarie Capital Alliance Group.

Prior to his appointment to the Board, Mr Warne acknowledged to the Bank that he would have sufficient time to properly fulfil his duties to the Bank.

The Board unanimously recommends that shareholders vote in favour of Peter Warne's election.

Item 6: Voting Directors' Maximum Aggregate Remuneration for acting as Voting Directors

It is proposed to increase the maximum aggregate remuneration of the Board for acting as Voting Directors ("Remuneration Cap") by \$1.0 million from \$2.0 million per annum to \$3.0 million per annum. No Executive Director receives fees for acting as a Voting Director.

Shareholder approval is sought both under Article 52 of the Bank's Constitution and ASX Listing Rule 10.17.

The proposed increase primarily reflects the necessity to include a Non-Executive Chairman fee given Mr Clarke's retirement from executive responsibilities in March 2007. The Board's policy is to remunerate Non-Executive Voting Directors ("NEDs") at market rates for comparable companies for the time commitment and responsibilities involved. Where considered appropriate, external advice on market rates is taken.

NED remuneration is reviewed annually for alignment with market rates. An external review of NED remuneration, based on the remuneration of non-executive directors at comparable companies in Australia, was finalised in early 2007. Board fees were increased following this advice.

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Following this review, the Board has adopted a Non-Executive Chairman's fee of \$680,000 per annum on an ongoing basis, subject to shareholders approving the requisite increase in the Remuneration Cap. Mr Clarke will not be separately remunerated for other Board Committee duties and is no longer entitled to participate in executive remuneration arrangements such as the Directors' Profit Share Plan or the Macquarie Bank Employee Share Option Plan.

For other NEDs, base remuneration is currently \$190,000 per annum. Remuneration is also payable to NEDs for Board Committee duties, as follows:

- Chairman of the Board Audit and Compliance Committee - \$60,000 per annum;
- Member of the Board Audit and Compliance Committee - \$30,000 per annum;
- Chairman of the Board Remuneration Committee - \$40,000 per annum;
- Member of the Board Remuneration Committee - \$20,000 per annum;
- Chairman of the Board Corporate Governance Committee - \$28,000 per annum;
- Member of the Board Corporate Governance Committee - \$14,000 per annum;
- Member of the Board Nominating Committee - \$4,500 per annum; and
- Member of the Board Risk Committee - \$16,500 per annum.

NEDs also receive fees for other ad hoc work on behalf of the Bank such as membership of due diligence committees and the Board Sub-Committee on the Basel II risk framework implementation. In 2007 additional fees will be payable for due diligence responsibilities in relation to the proposed restructure of the Macquarie Bank Group.

Base fees and committee fees are paid quarterly. NEDs may elect to be paid their remuneration, in part, in the form of superannuation contributions and, following approval at the Bank's 1999 Annual General Meeting ("AGM"), in the form of shares in the Bank acquired under the Macquarie Bank Non-Executive Director Share Acquisition Plan ("NEDSAP"). Such shares are acquired on-market at prevailing market prices.

In order to encourage long-term commitment and more closely align the interests of the Board with shareholders, the Board has a minimum shareholding requirement for its

NEDs. They are required to acquire and maintain a minimum shareholding in the Bank, with progressive annual step-ups to 6,000 fully paid ordinary shares over a five year period. This may be contributed to via participation in the NEDSAP. All NEDs currently meet or exceed their minimum shareholding requirement.

There are no termination payments to NEDs on their retirement from office (and never have been) other than payments relating to their accrued superannuation entitlements comprising part of their remuneration.

The maximum aggregate remuneration for Voting Directors was last increased at the Bank's 2005 AGM. Since then, the Bank has grown significantly:

- annual profit after tax attributable to ordinary shareholders from \$812 million to \$1,463 million;
- basic annual earnings per share from \$3.70 to \$5.92;
- net assets from about \$4.4 billion to over \$7.5 billion;
- total assets from about \$68 billion to over \$136 billion;
- assets under management from about \$97 billion to over \$197 billion; and
- permanent staff numbers from approximately 6,500 to over 10,000.

In addition, since 2005, demands on directors of listed companies under the law, by regulators and through community expectations, have continued to increase. In response to these demands, and due to the significant continuing growth of the Bank, the responsibilities and time commitment of NEDs have grown.

The number of Board and Committee meetings held each year has increased since 2005, with more matters being discussed.

The current, ongoing aggregate NED remuneration (excluding the Non-Executive Chairman) is approximately \$1.7 million, allowing for expected due diligence committee meetings and other responsibilities. Adding a full year's Non-Executive Chairman's fee takes the aggregate to about \$2.4 million, which is in excess of the current cap of \$2.0 million.

The proposed Remuneration Cap increase will:

- create capacity for an appropriate full year fee to be paid to the Non-Executive Chairman;
- allow for growth in Board remuneration over time to reflect market movements,

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increasing workloads and changing responsibilities, including potential new Board committee duties which may arise from corporate governance and other developments; and

- provide the Board with the flexibility to appoint a new Voting Director should this be considered appropriate and desirable.

In determining the appropriate Remuneration Cap, the Board took into account the fact that, excluding the Chairman, the Board has one less Non-Executive Director going forward than when the Remuneration Cap was last changed.

The Bank considers it essential that it has the resources available to attract and retain the highest quality candidates for Board and Board Committee positions.

With NEDs noting their interests in the matter, the Board unanimously recommends that shareholders approve the increase in the maximum aggregate Board remuneration.

Items 7 and 8: Approval of Executive Voting Directors' Participation in the Employee Share Option Plan

Requirement for Approval

ASX Listing Rule 10.14 provides that a listed company may only permit a director of the company to acquire shares or rights to shares under an employee incentive scheme where that director's participation has been approved by an ordinary resolution of shareholders. This rule applies to Voting Directors of the Bank.

The approval of shareholders is sought to permit Allan Moss and Laurie Cox to participate this year, with other executives, in the Macquarie Bank Employee Share Option Plan ("Plan") up to the maximum acquisition amounts specified in the resolutions.

Following shareholder approval at the Bank's 2006 AGM, the following options were issued to Voting Directors or their controlled companies on 1 August 2006 with an exercise price of \$61.79:

- Allan Moss – 165,400 options;
- Mark Johnson – 18,495 options; and
- Laurie Cox – 9,245 options.

Approval Limits

The maximum number of ordinary shares and options to acquire ordinary shares for which approval is sought assumes that all of the

options offered to the Executive Voting Directors are granted and subsequently exercised.

Terms of Issue

The proposed options will be granted pursuant to the rules governing the Plan ("Rules") and, other than as described in these Explanatory Notes, will have essentially the same terms as options issued to Executive Voting Directors under the Plan in recent years.

The five year options will be granted for no cash consideration and be exercisable at the weighted average price of ordinary shares traded on ASX during the one week up to and including 15 August 2007 (adjusted for special trades and any cum-dividend trading).

The options will vest as to one third of the allocation on each of 1 July 2009, 1 July 2010 and 1 July 2011. Each option cannot be exercised before vesting and will generally lapse unexercised if the relevant Executive Voting Director leaves the Bank before the option has vested. The Board has the authority to accelerate the vesting of options. The Board would consider exercising that discretion in the event of the bona fide retirement of an Executive Voting Director who has completed at least five years of service with Macquarie and who retires in good standing.

Once vested, options may only be exercised if the Bank's average annual return on ordinary equity for the three previous financial years has been above the 65th percentile of the corresponding figures for all companies in the then S&P/ASX 100 Index, with the condition to be examined at the time of vesting only. If the condition is not met at the time of vesting, those options which have just vested will no longer be exercisable.

Background

Further information about the Bank's remuneration policy for Executive Voting Directors, including details concerning the use of options, is set out in the Remuneration Report in the 2007 Annual Review (pages 47 to 90). No significant changes to the remuneration arrangements of the Executive Voting Directors are proposed for 2007/08.

Included on pages 65 to 68 of the 2007 Annual Review is a description of the basis of the return on ordinary equity performance hurdle noted above and some data on how the Bank's return on ordinary equity compares with the relevant index and its international investment banking competitors – this information demonstrates that it is a challenging hurdle.

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As previously indicated, the Board Remuneration Committee commissioned an independent review of remuneration in 2007 by a US office of remuneration consultants, Towers Perrin. The review considered the overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant competitor information was available.

General findings of the report are included in the Remuneration Report on page 59 of the 2007 Annual Review.

Towers Perrin's specific conclusions on the Bank's use of options included:

- it is common for Macquarie's investment banking competitors to use equity-based compensation as an important part of their total remuneration programs in order to align management interests with those of shareholders;
- Macquarie's option program differs from typical US practice in that, in addition to the time-based vesting requirements, a return on ordinary equity hurdle must be met before any option granted to an Executive Voting Director can be exercised, whereas most US option grants vest based on service;
- return on ordinary equity is an appropriate measure to use for option vesting;
- the use of the S&P/ASX 100 index as the reference group for the performance hurdle is appropriate recognising a variety of factors, including that:
 - the Bank is an Australian company with a majority of Australian investors and, consistent with investor feedback, its performance should be judged against other major listed Australian companies;
 - the Bank's market capitalisation is such that the S&P/ASX 100 index is more appropriate than a broader index;
 - the S&P/ASX 100 index is maintained by an independent third party; and
 - the use of global investment banks as an alternative would produce a very small sample against which the Bank's performance would be judged, and the determination of such a sample may be considered subjective; and
- Macquarie's share utilisation is in line with the Bank's US investment banking competitors.

In summary, Towers Perrin's US office concluded that Macquarie's use of options

provides another incentive for management to focus on both a critical input to value creation (return on ordinary equity) and the output of share price appreciation on which the actual value of an option depends.

As a result of the review, the Independent Directors of the Board are satisfied that for top management, compensation is appropriate and is structured in a way that is aligned with shareholder interests.

The Independent Directors believe that the Bank's remuneration policies and practices have been successful in meeting the Bank's remuneration objectives and delivering long-term value to shareholders. This is borne out by the Bank's very strong and sustained profit history and superior total shareholder returns, as discussed in the Bank's Remuneration Report.

The majority of option allocations are made in broadly the same manner as the annual allocation of profit share. This allows the Bank to match reward with performance and, due to the vesting over time of employee options, provide further incentives for executives to stay with the Bank and improve the Bank's performance, which will drive share price appreciation.

This year, it is proposed to grant Allan Moss 159,400 options and Laurie Cox 9,000 options under the Plan, broadly consistent with the approach described above.

The fair value of each option on grant will not be known precisely until they have been granted. However, as an indication for shareholders, the fair value has been estimated at \$16.95 per option using a trinomial option pricing framework adjusted to take account of option trading period restrictions and the vesting timeframes. The following key assumptions were adopted in estimating the value of the proposed options: 6.8 per cent per annum risk free interest rate, four year expected average life of options, 20 per cent volatility of share price and dividend yield of 3.43 per cent per annum. The market price of the ordinary shares and the exercise price of the proposed options for the purpose of this calculation were assumed to be \$87.60, the closing market price on 31 May 2007.

Each option is exercisable into one ordinary share of the Bank. As at 31 May 2007, the number of ordinary shares on issue was 262,989,892. Assuming that each of the options that are proposed to be granted to Mr Moss and Mr Cox is exercised, the extent to

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which existing shareholders' interests will be diluted by the exercise of these options is less than 0.1%.

A summary of ASX trading in ordinary shares over the last year is shown in the following table.

Summary of Trading in Macquarie Bank Limited ordinary shares on ASX from June 2006 to May 2007

Month	Monthly Share Price (\$)			Monthly Volume (Millions)
	High	Low	Close	
2006				
June	70.45	60.10	69.00	26.165
July	70.00	60.61	61.85	22.864
August	64.87	59.30	64.80	26.430
September	69.15	62.00	69.15	20.225
October	75.75	68.80	74.55	23.615
November	76.60	70.65	72.82	23.226
December	78.99	71.11	78.93	16.010
2007				
January	81.90	75.30	80.99	16.149
February	85.59	78.21	78.99	21.971
March	82.90	77.39	82.75	23.284
April	90.49	80.90	87.00	15.379
May	98.64	86.50	87.60	35.011

The Executive Voting Directors currently eligible to participate in the Plan are Allan Moss and Laurie Cox. Details of the remuneration and existing Bank share and option holdings of the Executive Voting Directors are shown on pages 71 to 95 in the Directors' Report in the 2007 Annual Review and in *Note 35 – Key Management Personnel disclosure* in the 2007 Financial Report.

As at 31 May 2007, the following options were held under the Plan by Allan Moss and Laurie Cox (or their controlled companies): Allan Moss 511,000 options and Laurie Cox 23,265 options.

Noting the interests of the Executive Voting Directors, the proposed option grants (being consistent with the grant of options to other senior executives of the Bank) are unanimously recommended to shareholders by the Independent Directors of the Board and, if approved, will be made as soon as practicable and no later than 31 December 2007.

Definitions

In these Explanatory Notes on Items of Business the terms "Executive Voting Director", "Non-Executive Voting Director" and "Voting Director" have the meaning given in the Constitution. The Voting Directors as at the date of the Notice of Meeting are: David S Clarke, Mark RG Johnson, Allan E Moss, John G Allpass, Laurence G Cox, Peter M Kirby, Catherine B Livingstone, H Kevin McCann, John R Niland and Helen M Nugent. Peter H Warne was appointed a Voting Director in June 2007 with effect from 1 July 2007.

