

Notice of Annual General Meeting

MACQUARIE GROUP LIMITED
ACN 122 169 279



10.30 AM, 23 JULY 2008
PALLADIUM AT CROWN
LEVEL 1, CROWN TOWERS
8 WHITEMAN ST, SOUTHBANK
MELBOURNE, VICTORIA

Macquarie Group Limited

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13 June 2008



Dear Shareholder

Please find enclosed notice of the 2008 Annual General Meeting of Macquarie Group Limited ("Macquarie") which will be held in the Palladium at Crown, Level 1, Crown Towers, 8 Whiteman Street (Queensbridge Street end of the Crown complex), Southbank, Victoria on Wednesday, 23 July 2008. The meeting is scheduled to commence at 10.30 am and will also be webcast live on Macquarie's website at www.macquarie.com.au.

The Managing Director and I will comment briefly on Macquarie's performance during the year to 31 March 2008 at the meeting and you are also referred to the comments in Macquarie's 2008 Shareholder Review and 2008 Annual Report, available on Macquarie's website, for further information.

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

- the issue of options to an Executive Voting Director; and
- the issue of Macquarie Convertible Preference Securities.

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/MQG 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 which will commence at 9:30 am. I look forward to seeing you then.

Yours faithfully

David S Clarke
Chairman

NOTICE OF MEETING

Notice is hereby given that the 2008 Annual General Meeting of Macquarie Group Limited (ACN 122 169 279) ("Macquarie"), will be held in the Palladium at Crown, Level 1, Crown Towers, 8 Whiteman Street (Queensbridge Street end of the Crown complex), Southbank, Victoria on Wednesday, 23 July 2008, 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 Macquarie for the year ended 31 March 2008.

2. Remuneration Report

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

To adopt the Remuneration Report of Macquarie for the year ended 31 March 2008.

3. Re-election of Dr HM Nugent as a Voting Director

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

That Dr HM Nugent be re-elected as a Voting Director of Macquarie.

4. Election of Dr JR Niland as a Voting Director

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

That Dr JR Niland be elected as a Voting Director of Macquarie effective on the conclusion of this meeting.

5. Election of Mr PM Kirby as a Voting Director

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

That Mr PM Kirby be elected as a Voting Director of Macquarie effective on the conclusion of this meeting.

Special Business

6. Approval of Executive Voting Director's Participation in the Employee Share Option Plan

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

That the following be approved:

- a) *participation in the Macquarie Group Employee Share Option Plan ("Plan") as to a maximum of 243,900 options, by Mr NW Moore, Managing Director or, if Mr Moore so elects, a Controlled Company (as defined in the rules of the Plan) of his; and*
- b) *acquisition accordingly by Mr NW Moore or his Controlled Company of options up to the stated maximum and, in consequence of exercise of those options, of ordinary shares of Macquarie,*

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

Macquarie will disregard any votes cast on Item 6 by any Voting Director and any associate of a Voting Director. However, Macquarie 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.

Australian Securities Exchange Limited ("ASX") has granted a waiver allowing Macquarie 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 per cent 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 per cent of the trust assets,

is not excluded from voting on Item 6.

7. Approval of the issue of Macquarie Convertible Preference Securities

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

That the issue of up to 6,000,000 Macquarie Convertible Preference Securities by Macquarie Capital Loans Management Limited (ABN 18 077 595 012) ("Issuer") as the responsible entity of the Macquarie CPS Trust, on the terms and conditions as summarised in the Explanatory Statement to the Notice of Meeting convening this meeting and set out in the product disclosure statement issued by the Issuer and dated 28 May 2008, is approved for all ASX Listing Rule purposes.

Voting Exclusion Statement

Macquarie will disregard any votes cast on Item 7 by any person who may participate or has participated in the issue of Convertible Preference Securities ("CPS") and any associate of a person who may participate or has participated in the issue of CPS. However, Macquarie need not disregard a vote if:

- a) it is cast by a person or any associate of a person 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 person 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 Macquarie to limit the application of ASX Listing Rule 14.11 to trustees of trusts in relation to which a person who may participate or has participated in the issue of CPS 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 person who may participate or has participated in the issue of CPS), such that:

- a) a trustee of a unit trust in which a relevant person who may participate or has participated in the issue of CPS holds less than 20 per cent of the trust units; or
- b) a trustee of a fixed trust (other than a unit trust) in which a relevant person who may participate or has participated in the issue of CPS has a beneficial interest in less than 20 per cent of the trust assets,

is not excluded from voting on Item 7.

ASX has also granted a waiver allowing Macquarie to limit the application of Listing Rule 14.11 such that unrelated nominees ("Nominees") who may hold securities for underlying beneficial holders ("Beneficiaries") may vote on Item 7, subject to the following conditions:

- a) the Beneficiaries provide written confirmation to the Nominees that they will neither participate in the issue of CPS nor are they a person who might obtain a benefit, except a benefit solely in the capacity as a holder of ordinary securities if the resolution is passed, nor any associate of those persons;
- b) the Beneficiaries direct the Nominees to vote for or against the resolution; and
- c) the Nominees cannot exercise discretion in casting a vote on behalf of the Beneficiaries.

By order of the Board



Dennis Leong
Company Secretary
Sydney, 13 June 2008

NOTICE OF MEETING (CONTINUED)

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/MQG. To use this online proxy facility, you will need your Securityholder 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 (Melbourne time) on Monday, 21 July 2008**. 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 Macquarie's share registry, Computershare Investor Services Pty Limited, at GPO Box 242, Melbourne, Victoria, 3001 (facsimile number (03) 9473 2118) or at Level 2, 60 Carrington Street, Sydney, NSW, 2000 or at Macquarie's registered office in Sydney, by no later than **10.30 am (Melbourne time) on Monday, 21 July 2008**. 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 Palladium at Crown for the 2008 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 Macquarie's share registry, Computershare Investor Services Pty Limited, at the addresses or facsimile number in 3 above, or at Macquarie's registered office in Sydney, by no later than **10.30 am (Melbourne time) on Monday, 21 July 2008**, unless the power of attorney has been previously lodged with Macquarie'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 appointment of corporate representative may be obtained from Macquarie's share registry.

6. Shareholders Eligible to Vote

Pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)*, the holders of Macquarie's ordinary shares for the purposes of the meeting, will be those registered holders of Macquarie's ordinary shares at 7.00 pm (Melbourne time) on Monday, 21 July 2008.

7. Voting at the Meeting

In light of the large number of proxy votes which have been received from shareholders at Macquarie Bank Limited ("Bank") shareholder meetings prior to the restructure of the Macquarie Group, it is intended that voting on each of the proposed resolutions at this meeting of Macquarie Group Limited, the new parent of the Macquarie Group, 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.

EXPLANATORY NOTES ON ITEMS OF BUSINESS

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 Group Limited ("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 Macquarie generally but there will be no formal resolution put to the meeting.

The reports are available on Macquarie's website, www.macquarie.com.au

Item 2: Remuneration Report

As required by section 250R(2) of the Act, a resolution that Macquarie's Remuneration Report be adopted must be put to the vote. Section 250R(3) of the Act provides that the vote on the resolution is advisory only and does not bind the Voting Directors or Macquarie.

The Remuneration Report is contained within the Directors' Report in Macquarie's 2008 Annual Report on pages 56 to 110. This year, an Executive Summary of the Report has been included on pages 57 to 58 to further assist shareholders in understanding Macquarie's remuneration policy and arrangements. This summary is reproduced below.

The cornerstone of the Macquarie Group's success is a remuneration approach that encourages staff to deliver superior returns for shareholders over time by aligning the short and long-term interests of staff and shareholders; and by attracting and retaining high quality people. These are pre-requisites to the establishment of a truly performance-based, growth-oriented culture.

Alignment between the interests of staff and shareholders is established by understanding the business drivers of superior shareholder performance over time - while recognising that historically, and often for short periods of time, markets may diverge from a company's underlying value. Independent research demonstrates that the critical business drivers of superior shareholder returns are growth in net profit after tax and return on equity. Macquarie's remuneration approach is, therefore, designed to provide staff with the incentive to strive for sustainable earnings growth, while encouraging the efficient use of available capital to maintain a high return on ordinary capital.

Staff attraction and retention is also encouraged by providing remuneration outcomes that are globally competitive. With over 5,200 staff based outside Australia and 57 per cent of revenue generated offshore, offering globally competitive remuneration is a necessity if the Group is to sustain the shareholder returns that have been achieved historically. Staff mobility between countries also makes this essential for staff based in Australia.

The structure of the key elements of the remuneration package provides an appropriate balance between short and longer term incentives.

More specifically:

Fixed remuneration, in the form of a base salary, is low relative to senior roles in other Australian corporations, encouraging executives to take a more performance-oriented approach. In 2008, fixed remuneration for Macquarie's nine Executive Committee members comprised, on average, approximately three per cent of their total remuneration. The remaining 97 per cent of their 2008 remuneration, a direct result of Macquarie's continued strong financial performance, was entirely at risk.

Profit share is truly variable. It is allocated to businesses and, in turn, to individuals based on performance, primarily reflecting relative contributions to profits while taking into account capital usage. This results in businesses and individuals being motivated to increase earnings and use shareholder funds efficiently. In addition, in assessing the performance of individuals, other factors, such as how business is done, long-term sustainability, people leadership and adherence to Macquarie's Goals and Values are taken into account. The performance of staff whose role is not linked to profit contribution is measured according to criteria appropriate to their position. Staff working in support areas may, for example, be rewarded on the basis of their contribution to the Group's financial reporting, risk management processes or information systems. For executives with specific fund responsibilities, the performance of the relevant funds and the underlying assets is critical in determining that individual's profit share allocation. In general, staff are motivated to work co-operatively given that their profit share allocation will reflect the Group's overall performance, the relative performance of their business, as well as their individual contribution.

The outcome of using growth in net profit after tax and return on equity as drivers of performance is that:

- for a given level of net profit after tax, other things being equal, the total profit share will be less if more capital is used to generate it.
- for a given level of capital employed, the total profit share will rise or fall with the level of net profit after tax. In other words, the Group's total profit share pool increases with performance and no maximum ceiling is imposed. This is consistent with the alignment of staff and shareholders' interests and provides the strongest incentive to staff to continuously strive to maximise long-term profitability.

EXPLANATORY NOTES ON ITEMS OF BUSINESS (CONTINUED)

Profit share is deployed in ways that encourage a longer term perspective and alignment with shareholders' longer term interests, which, in turn, encourages the maximisation of profit, while not exposing the Group to risk or behaviours that would jeopardise long-term profitability or reputation. Further, it promotes staff retention. More specifically, for the Chief Executive Officer and other Executive Committee Members:

- 20 per cent of each annual profit share allocation is retained for ten years and is subject to vesting and forfeiture conditions. It is notionally invested in an investment portfolio of Macquarie-managed funds.
- in response to investor feedback, in 2008, an additional 10 per cent of profit share will be invested in Macquarie Group shares and retained for three years, except in the case of Mr Moss who retired in May 2008. In 2009, this amount will rise to 35 per cent for the new Chief Executive Officer and Managing Director, Mr Moore, and 20 per cent for other Executive Committee members.
- all Executive Directors are required to hold the deemed after tax equivalent of 10 per cent of their profit share over the last five years, or ten years in the case of Executive Committee members, in Macquarie Group shares.

Options over Macquarie shares are issued to approximately the most senior 20 per cent of staff based on performance and promotion. Options vest in three tranches after two, three and four years, giving an average vesting period of three years. In addition, options granted to Executive Directors may only be exercised if a challenging performance hurdle is met. The performance hurdle for members of the Executive Committee is for Macquarie's three-year average return on ordinary equity to be above the 65th percentile of that measure for those companies in the S&P/ASX 100 Index.

Hedging is forbidden in relation to unvested options, shares held to meet the minimum shareholding requirement, and shares held by Executive Committee members pursuant to the new requirement to allocate an additional profit share component into Macquarie shares. Executives are required to conduct trading in Macquarie shares only during designated trading windows.

Executive Directors who leave Macquarie may receive payments in respect of their vested retained profit share (subject to there being no disqualifying event) and, subject to regional variations, may be entitled to other contractual or statutory payments including notice, accrued service related benefits, and/or pension or superannuation benefits. They may also exercise vested options for a period of up to six months after termination. However, no other contractual termination entitlements exist.

This remuneration approach is managed through strong governance structures and processes. Conflicts of interest are managed proactively and assiduously, with the Board Remuneration Committee making recommendations to the Non-Executive Directors of the Board on key decisions that have not been delegated to the Remuneration Committee.

Non-Executive Director fees are set in line with market rates for relevant Australian financial organisations and to reflect the time commitment and responsibilities involved, within the shareholder approved aggregate limit.

In these ways, superior returns over time have been generated for shareholders.

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

Item 3: Re-election of Dr HM Nugent as a Voting Director Retiring by Rotation

Voting Director Dr Helen M Nugent, retires by rotation and offers herself for re-election.

Dr Helen M Nugent, AO, BA (Hons) PhD (Qld) MBA (Harv)

*Independent Voting Director since August 2007
Voting Director of Macquarie Bank since June 1999
Chairman of the Board Remuneration Committee
Member of the Board Nominating Committee
Member of the Board Risk Committee
She is 59 years of age*

Dr Nugent brings significant financial sector experience, both past and present, to the Board.

Currently, she is Chairman of Funds SA, a \$14 billion investment fund of the South Australian Government and Chairman of Swiss Re Life & Health Australia Limited. Swiss Re is one of the world's largest reinsurers.

Previously, she was a Non-Executive Director of the State Bank of NSW, and of Mercantile Mutual, now ING. From 1994 to 1999, she was Director of Strategy at Westpac Banking Corporation, reporting to the CEO and part of the executive team that was responsible for a significant turnaround in that bank's performance. Prior to joining Westpac, as a partner of McKinsey and Company, Dr Nugent worked extensively in the financial services sector, among other industries.

Currently, Dr Nugent is a full-time company director. In the non-financial services sector, she is a Non-Executive Director of Origin Energy and the Australian Davos Connection, as well as being a member of the board of Freehills. She also is a former part-time Executive Chairman of Hudson (Australia and New Zealand).

Dr Nugent has been actively involved in the community, particularly in the arts and education. In the arts, she was previously Chairman of the Major Performing Arts Board of the Australia Council, Deputy Chairman of the Australia Council, Deputy Chairman of Opera Australia and a Director of the Playbox Theatre. She was also Chairman of the Ministerial Inquiry into the Major Performing Arts, often referred to as the Nugent Inquiry. In education, she has been Professor in Management and Director of the MBA Program at the Australian Graduate School of Management and a member of the Council of Monash University. She is currently on the Council of Cranbrook School and is part of the panel undertaking the Higher Education Review.

The Board has greatly benefited from Dr Nugent's significant finance and strategy expertise. As an independent director with a keen interest in corporate governance, if re-elected, she looks forward to continuing to support the Board's role in adding value for shareholders.

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

Election of Voting Directors

Under the Company's Constitution only one Voting Director must retire at this meeting. Consistent with the intention of the recent restructure of Macquarie Bank Limited in November 2007 to maintain Macquarie's business model, culture, senior management and business approach, the Board has resolved to adopt the Macquarie Bank Limited Board Voting Director rotation schedule.

Voting Directors, Dr John Niland and Mr Peter Kirby, have agreed to resign effective at the end of the AGM in the event that they are not elected as Voting Directors at this meeting.

Item 4: Election of Dr JR Niland as a Voting Director

Dr John R Niland, having been appointed by the Board of Macquarie Bank Limited (acting at the time as sole shareholder of Macquarie) on 30 August 2007 as a Voting Director, offers himself for election.

Dr John R Niland, AC, BCom, MCom, HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD

Independent Voting Director since August 2007
Voting Director of Macquarie Bank since February 2003
Member of the Board Remuneration Committee
Member of the Board Corporate Governance Committee
Member of the Board Risk Committee
He is 67 years of age

Dr Niland brings a long and distinguished background in the academic sphere to the Board. He is a Professor Emeritus of the University of New South Wales ("UNSW") and was Vice-Chancellor and President of UNSW from 1992 to 2002. Before that he was the Dean of the Faculty of Commerce and Economics.

He is also a member of the University Grants Committee of Hong Kong and Deputy Chairman of the Board of Trustees of Singapore Management University, where he chairs the Finance and Remuneration Committee. He is active in providing consulting advice to government bodies and universities in the region on their globalisation strategies and governance standards.

Dr Niland has spent periods in management roles in the Australian steel industry and as CEO of the State Pollution Control Commission and Executive Chairman of the Environment Protection Authority.

Dr Niland brings significant and wide experience as a non-executive director. He is currently Chairman of the Centennial Park and Moore Park Trust and Chairman of Campus Living Funds Management Limited. In the past, Dr Niland has served on the Prime Minister's Science, Engineering and Innovation Council, the boards of realestate.com.au Limited, St Vincent's Hospital and the Sydney Olympic bid's Building Commission. He is the immediate past President of the National Trust of Australia (NSW).

Dr Niland, if elected, expects to continue to use the breadth of his experience in roles covering globalisation, environmental regulation, human resources and philanthropy as well as his extensive academic experience, to benefit the Board.

The Board unanimously recommends that shareholders vote in favour of Dr Niland's election.

Item 5: Election of Mr PM Kirby as a Voting Director

Mr Peter M Kirby, having been appointed by the Board of Macquarie Bank Limited (acting at the time as sole shareholder of Macquarie) on 30 August 2007 as a Voting Director, offers himself for election.

Mr Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits)

Independent Voting Director since August 2007
Voting Director of Macquarie Bank since June 2003
Member of the Board Audit and Compliance Committee
Member of the Board Corporate Governance Committee
Member of the Board Risk Committee
He is 60 years of age

The Board has significantly benefited from the depth and breadth of Mr Kirby's considerable business and management expertise gained over 30 years in a variety of roles.

Mr Kirby presided over CSR's transformation into one of the world's top ten building material groups over the five years from 1998 to March 2003, culminating in its successful demerger into two independent listed companies, Rinker Group Limited and CSR.

He was also a member of the Board of the Business Council of Australia from 2001 to 2003 and received the Centenary Medal in 2003.

Prior to joining CSR, Mr Kirby was with the Imperial Chemical Industries PLC group ("ICI") for 25 years in a variety of senior management positions around the world, including Chairman/CEO of ICI Paints, responsible for the group's coatings businesses worldwide, and a member of the Executive Board of ICI PLC, with responsibility for ICI Americas and the western hemisphere.

Mr Kirby is also a Director of Orica Limited and the Beacon Foundation and is a former Chairman of Medibank Private Limited.

EXPLANATORY NOTES ON ITEMS OF BUSINESS (CONTINUED)

If elected, Mr Kirby looks forward to continuing to make significant contributions to the Board based on his extensive operating experience.

The Board unanimously recommends that shareholders vote in favour of Mr Kirby's election.

Item 6: Approval of Executive Voting Director's 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 Macquarie.

The approval of shareholders is sought to permit Nicholas Moore to participate this year, with other executives, in the Macquarie Group Employee Share Option Plan ("Plan") up to the maximum acquisition amounts specified in the resolutions.

Following shareholder approval at Macquarie Bank Limited's 2007 AGM, the following options over Macquarie Bank Limited shares were issued to Voting Directors or their controlled companies on 15 August 2007 with an exercise price of \$A71.41:

- Allan Moss – 159,400 options; and
- Laurie Cox – 9,000 options.

Pursuant to the corporate restructure of the Macquarie Group, these options were cancelled on 13 November 2007, and replaced on a one-for-one basis by new options issued by Macquarie with the same vesting period, exercise price and option period.

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 Macquarie Bank Limited's Executive Voting Directors under the predecessor, Macquarie Bank Employee Share Option 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 2008 (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 2010, 1 July 2011 and 1 July 2012. Each option cannot be exercised before vesting and will generally lapse unexercised if the relevant Executive Voting Director leaves Macquarie 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 Macquarie'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.

For the purpose of measuring Macquarie's three year average annual return on ordinary equity, the calculation will be based on the return on ordinary equity of Macquarie Bank Limited for financial years ending before 13 November 2007 and the return on ordinary equity of Macquarie Group Limited for financial years ending after 13 November 2007.

Background

Further information about Macquarie's remuneration policy for Executive Voting Directors, including details concerning the use of options, is set out in the Remuneration Report in the 2008 Annual Report (pages 56 to 110). No significant changes to the remuneration arrangements of the Executive Voting Directors are proposed for 2008/09, except as set out in the Remuneration Report.

Included on pages 82 to 83 of the 2008 Annual Report is a description of the basis of the return on ordinary equity performance hurdle noted above and some data on how Macquarie'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.

The Board Remuneration Committee commissioned an independent review of remuneration in 2008 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 87 of the 2008 Annual Report.

Towers Perrin's specific conclusions on Macquarie'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 historical US practice but is consistent with the emerging trend among US investment banking peers in that, in addition to the time-based vesting requirements, a performance hurdle (return on ordinary equity for Macquarie) must be met before any option granted to an Executive Voting Director can be exercised, whereas most historical 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:
 - Macquarie 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;
 - Macquarie's market capitalisation is such that the S&P/ASX 100 index is more appropriate than a broader index, for example the S&P/ASX 300 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 Macquarie's performance would be judged, and the determination of such a sample may be considered subjective; and
- Macquarie's share utilisation is at the lower end of the range of its 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 Non-Executive Voting Directors of the Board are satisfied that for top management, compensation is appropriate and is structured in a way that is aligned with shareholders' interests. In particular, options are considered effective as they perform a number of critical functions: as a reward for past performance, as a long-term incentive, and, in combination with profit share arrangements, as a retention mechanism.

The Non-Executive Voting Directors believe that Macquarie's remuneration policies and practices, including the use of options, have been successful in meeting its remuneration objectives and delivering long-term value to shareholders. This is borne out by Macquarie's very strong and sustained profit history and superior long-term shareholder returns, as discussed in the Remuneration Report.

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

This year, it is proposed to grant Nicholas Moore 243,900 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 \$A12.27 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:

- 7.50 per cent per annum risk free interest rate;
- four year expected average life of options;
- 24 per cent volatility of share price;
- dividend yield of 3.47 per cent per annum; and
- 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 \$A54.50, the closing market price on 31 May 2008.

Each option is exercisable into one ordinary share of Macquarie. As at 31 May 2008, the number of ordinary shares on issue was 274,753,168. Assuming that each of the options that are proposed to be granted to Mr Moore is exercised, the extent to which existing shareholders' interests will be diluted by the exercise of these options is less than 0.1 per cent.

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/
Macquarie Group Limited* ordinary shares on
ASX from June 2007 to May 2008**

Month	Monthly Share Price (\$A)			Monthly Volume (millions)
	High	Low	Close	
2007				
June	92.70	84.40	85.00	35.30
July	92.88	78.85	82.50	47.54
August	80.79	61.90	73.30	111.42
September	84.94	69.10	84.40	52.44
October	88.73	79.03	84.05	40.90
November	85.50	74.51	80.30	52.77
December	82.85	72.50	76.20	39.82
2008				
January	77.31	58.20	65.00	60.27
February	71.10	52.70	53.61	65.78
March	55.30	42.95	52.82	74.83
April	64.45	51.89	63.42	53.24
May	67.20	53.80	54.50	51.46

* Trading in Macquarie Bank Limited ordinary shares up to and including 2 November 2007 and trading in Macquarie Group Limited ordinary shares from 5 November 2007 onwards.

EXPLANATORY NOTES ON ITEMS OF BUSINESS (CONTINUED)

The Executive Voting Directors currently eligible to participate in the Plan are Nicholas Moore and Laurie Cox. Details of the remuneration and existing Macquarie share and option holdings of the Executive Voting Directors are shown on pages 93 to 115 in the Directors' Report and in Note 37 – Key Management Personnel disclosure in the 2008 Annual Report.

As at 31 May 2008, the following options were held under the Plan by Nicholas Moore (or his controlled companies): 532,734 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 Macquarie) are unanimously recommended to shareholders by the Non-Executive Voting Directors of the Board and, if approved, will be made as soon as practicable and no later than 31 December 2008.

Item 7: Approval of the issue of Macquarie Convertible Preference Securities

On 28 May 2008, Macquarie Capital Loans Management Limited (ABN 18 077 595 012) ("Issuer") as the responsible entity of the Macquarie CPS Trust ("Trust"), lodged a product disclosure statement with the Australian Securities & Investments Commission for the offer of up to 6,000,000 Macquarie Convertible Preference Securities ("CPS") at an issue price of \$A100 per CPS. It is expected trading of CPS will commence on or about 8 July 2008. CPS are preference units in the Trust which are mandatorily convertible in certain circumstances into Macquarie ordinary shares, or a new class of Macquarie Preference Shares. The new class of Macquarie Preference Shares is also convertible into Macquarie ordinary shares in certain circumstances.

Reason for seeking approval

The conversion feature of the CPS means that CPS are "convertible securities" of Macquarie for the purposes of the ASX Listing Rules. Under Listing Rule 7.1, Macquarie is not permitted to issue more than 15 per cent of its issued capital in any 12 month period ("placement capacity") unless the issue is approved by Macquarie shareholders or an exemption applies to the issue. ASX has confirmed that for the purposes of Listing Rule 7.1.4(c) the maximum number of ordinary shares into which the CPS may be converted will be calculated at the market price of the ordinary shares at the time of issuing the CPS. If at the time of issuing the CPS, the Macquarie share price is \$A55.90, each CPS would be treated as the equivalent of 1.8 ordinary shares for the purpose of determining the amount of Macquarie's placement capacity used by the CPS issue.

Macquarie has determined that it is able to issue all of the CPS within the 15 per cent limit of its placement capacity and accordingly no shareholder approval is required in respect of the issue of the CPS. However, at current market prices, the issue will reduce Macquarie's future placement capacity by approximately four per cent unless shareholders approve the CPS issue. If shareholders approve the CPS issue, it will not be calculated as part of the 15 per cent limit of Macquarie's placement capacity referred to above, and Macquarie will have greater flexibility to make future placements of Macquarie shares and to raise funds for any future needs.

At the time of preparation of this notice of meeting, the offer of CPS is open to the public to subscribe. It is expected that the Issuer will issue the CPS on 8 July 2008. However it is possible that the offer may be extended. Accordingly it is not known at this time whether the CPS will have already been issued or remain to be issued at the date of the meeting. In either case, shareholder approval of the issue will have the effect of refreshing the placement capacity as described above.

A summary of the terms and conditions of the CPS are set out in the Appendix to these Explanatory Notes.

Additional information

The following additional information is provided in connection with the CPS:

- The maximum number of CPS which may be issued is 6,000,000.
- The issue price of each CPS is \$A100.
- Offers for CPS were made to institutional investors under a bookbuild process undertaken on 29 and 30 May 2008. The Offer remains open to participating brokers, eligible Macquarie shareholders under a priority offer and members of the general public. If there is excess demand, applications from eligible Macquarie shareholders will receive preferential allocations over other applicants who have applied under the general offer
- CPS are expected to be issued on 8 July 2008, however the Issuer may extend the timetable. CPS will not be issued later than three months after the date of the Annual General meeting.
- The purpose of the Offer is to raise funds for general business purposes of the Macquarie Group or to repay debt.

A copy of the product disclosure statement containing the full terms of the CPS can be obtained from the Macquarie website at www.macquarie.com.au.

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, Laurence G Cox, Peter M Kirby, Catherine B Livingstone, H Kevin McCann, Nicholas W Moore, John R Niland, Helen M Nugent and Peter H Warne.

EXPLANATORY NOTES ON ITEMS OF BUSINESS (APPENDIX)

Additional Information on Item 7

Summary of the terms of the CPS

The following is a summary only of the terms and conditions of the CPS ("CPS Terms"). The CPS Terms are set out in full in Appendix A of the CPS Product Disclosure Statement issued by the Issuer and lodged with ASIC on 28 May 2008. Defined terms used in this Summary have the meaning given to them in the CPS Terms.

Distributions

Distributions on CPS are preferred, non-cumulative and based on a fixed rate until 30 June 2013 and on a floating rate thereafter.

Distributions are scheduled to be paid on 30 June and 31 December in each year until, and including, 30 June 2013, and on 31 March, 30 June, 30 September and 31 December in each year thereafter but subject in all cases to certain Payment Tests (set out below).

The fixed Distribution Rate for the period until and including 30 June 2013 will be determined on the date of first issue of the CPS (expected to be 8 July 2008) as the sum of the prevailing Market Rate (being the Australian dollar 5-year swap rate on the Issue Date) plus the Margin (determined through the bookbuild for the CPS).

Distributions are discretionary and may not always be paid. In addition, for a Distribution to be paid, certain Payment Tests must be satisfied, including that, unless the Australian Prudential Regulation Authority ("APRA") otherwise agrees:

- (i) the amount of the Distribution does not exceed an amount of profits from which Distributions can be paid; and
- (ii) the Distribution will not result in Macquarie not complying with APRA's capital adequacy guidelines then applicable to Macquarie.

Macquarie Distribution Stopper

Subject to certain exceptions described in the CPS Terms, Macquarie has undertaken for the benefit of CPS holders that, if for any Distribution Period, Distributions are not paid in full by the Issuer within five business days of the relevant Distribution Payment Date, Macquarie will not pay dividends on Macquarie Ordinary Shares ("Ordinary Shares") and certain other securities. This distribution restriction will continue to apply until all Distributions scheduled to be paid in respect of the CPS during the preceding 12 months have been paid in full by the Issuer in accordance with the CPS Terms (by optional Distribution or otherwise) or all CPS have been Converted, Redeemed or Exchanged into Macquarie Preference Shares.

Mandatory Conversion into Ordinary Shares

CPS may convert into a variable number of Ordinary Shares on a Mandatory Conversion Date. The Mandatory Conversion Date will be 30 June 2013, provided certain conditions (described below) are satisfied or, if the conditions are not then satisfied, the next Distribution Payment Date on which they are satisfied.

On a Mandatory Conversion Date there are a number of possible outcomes for CPS holders:

- (i) the Issuer may arrange for one or more third-party purchasers to acquire all (but not some) CPS on issue for \$A100 each (called "Resale");
- (ii) if Resale does not occur, CPS will convert into a variable number of Ordinary Shares provided that the conversion conditions are satisfied (called "Conversion");
- (iii) if Resale or Conversion have not occurred, the Issuer may, with the prior written approval of APRA, Redeem CPS for \$A100 each, or
- (iv) if none of the above apply, the CPS will remain on issue.

The conditions to Conversion that must be satisfied are:

- (i) the VWAP at which Ordinary Shares trade on ASX on the 25th business day on which the trading in Ordinary Shares took place immediately preceding, but not including, the possible Mandatory Conversion Date is greater than 55.55 per cent of the Issue Date VWAP;
- (ii) the VWAP of Ordinary Shares over the 20 business days on which trading in Ordinary Shares took place immediately preceding, but not including, the possible Mandatory Conversion Date is greater than 50.51 per cent of the Issue Date VWAP; and
- (iii) the Ordinary Shares are listed or admitted to trading on ASX and trading of Ordinary Shares on ASX must not have been suspended for a period of longer than five consecutive business days prior to that relevant date and including that date.

The number of Ordinary Shares that a CPS will be convertible into ("Conversion Number") on a Conversion date will be calculated using the following formula:

$$\text{Conversion Number} = \frac{\text{Issue Price}}{99\% \text{ of VWAP}}$$

Provided that the maximum number of Ordinary Shares that a CPS will be convertible into will be the Maximum Conversion Number and will be calculated using the following formula:

$$\text{Maximum Conversion Number} = \frac{\$A100}{(\text{Issue Date VWAP} \times 50\%)}$$

EXPLANATORY NOTES ON ITEMS OF BUSINESS (APPENDIX CONTINUED)

Exchange

The Issuer may elect to Exchange (Convert, Redeem, Resell or Exchange into Macquarie Preference Shares) all (but not some) of the CPS at certain times before a Mandatory Conversion Date if:

- (i) the Issuer is to be removed as the responsible entity of the Trust and the replacement responsible entity is not a member of the Macquarie Group or a person approved by Macquarie;
- (ii) a meeting is called to consider a resolution directing the Issuer to wind up the Trust;
- (iii) Macquarie receives professional advice that there is a more than insubstantial risk that (A) there is a requirement to gross-up Distributions, interest payment or distribution on CPS or any "Eligible Asset" (broadly, interests in any member of the Group held by the Trust), (B) a payment in connection with the CPS or any Eligible Asset would be a frankable distribution for Australian income tax purposes, (C) income of Macquarie CPS LLC or the Issuer would be subject to United States federal income tax or Australian income tax, (D) one or more members of the Macquarie Group would be exposed to more than a *de minimis* amount of other taxes, assessments or other governmental charges in connection with the CPS or any Eligible Asset, or (E) taxes, duties or government charges would be imposed on the Issuer in connection with the CPS; or
- (iv) Macquarie receives advice from legal counsel that, as a result of a change of law or regulation on or after the Issue Date, additional requirements would be imposed on Macquarie which the Directors determine to be unacceptable or the Directors determine that Macquarie is not, or will not be, entitled to treat all CPS as Eligible Capital to support the Macquarie Group Limited capital requirements.

On Exchange the Issuer can choose:

- (i) subject to APRA giving its prior written approval, to (A) subject to certain conditions, convert each CPS into a variable number of Ordinary Shares equal to the Conversion Number, or (B) redeem CPS for A\$100 each;
- (ii) arrange that all CPS on issue be Resold; or
- (iii) exchange CPS for Macquarie Preference Shares.

Holders have no right to request Exchange.

In addition, CPS must, subject to APRA's prior written approval, be Redeemed or Converted if, subject to certain exceptions, an Acquisition Event in relation to Macquarie occurs.

Preference Share Exchange

CPS will be exchanged for Macquarie Preference Shares when one of the following events occurs:

- (i) the Issuer or Holders of 10 per cent of the CPS by value gives notice to Macquarie in respect of certain breaches of undertakings given by Macquarie;
- (ii) an order has been made or a resolution passed for the winding up of Macquarie or Macquarie CPS LLC or the Trust is wound up (subject in each case to certain exceptions);
- (iii) APRA takes certain action with respect to the required capital holdings of Macquarie or proceedings are commenced for the winding up of Macquarie (subject to certain exceptions);
- (iv) the consolidated retained earnings of the Macquarie Group have become negative; or
- (v) the Issuer has otherwise chosen to Exchange CPS for Macquarie Preference Shares pursuant to the CPS Terms.

Winding-up

If the Trust is wound up, Holders' claims rank for payment behind all creditors of the Trust. A Holder's only claim in a winding up of the Trust will be for an amount equal to the Issue Price (\$A100).

No Voting rights in Macquarie

Holders of CPS do not have any voting rights in Macquarie.

