

Notice of 2017 Annual General Meeting

Macquarie Bank Limited

After the Macquarie Group Limited Annual General Meeting
but not earlier than 2:00 pm on Thursday, 27 July 2017

The Conference Room
Macquarie's Melbourne Office
Level 23, 101 Collins Street, Melbourne, Victoria



Macquarie Bank Limited
ABN 46 008 583 542

50 Martin Place
Sydney NSW 2000
GPO Box 4294
Sydney NSW 1164
AUSTRALIA

Telephone	(61 2) 8232 3333
Facsimile	(61 2) 8232 7780
Internet	www.macquarie.com

6 June 2017



Dear Securityholder

Please find enclosed notice of the 2017 Annual General Meeting of Macquarie Bank Limited (Macquarie Bank) which will be held in the Conference Room, Macquarie's Melbourne office, Level 23, 101 Collins Street, Melbourne, Victoria on Thursday, 27 July 2017. The meeting will follow the Macquarie Group Limited (Macquarie) Annual General Meeting on the same date but will not start before 2:00 pm.

An overview of the result for Macquarie Group, including Macquarie Bank, for the year ended 31 March 2017 will be presented at the 2017 Annual General Meeting of Macquarie. The Macquarie meeting will be held at the Sofitel Melbourne, Grand Ballroom, Level 1, 25 Collins Street, Melbourne VIC starting at 10:30 am (registration commences at 9:45 am). Holders of Macquarie Income Securities may attend the Macquarie Annual General Meeting as visitors.

The Macquarie Bank meeting will cover the items of business set out in the Notice of Meeting. Holders of Macquarie Income Securities may attend the Macquarie Bank Annual General Meeting but are not entitled to vote on the proposed resolutions.

Comments on the performance of Macquarie Bank during the year to 31 March 2017 are contained in Macquarie Bank's 2017 Annual Report, which is available on Macquarie's website at www.macquarie.com

Yours faithfully



Peter Warne
Chairman

Notice of Meeting

The 2017 Annual General Meeting of Macquarie Bank Limited (ACN 008 583 542) (Macquarie Bank, the Company) will be held in the Conference Room, Macquarie's Melbourne office, Level 23, 101 Collins Street, Melbourne, Victoria on Thursday, 27 July 2017 following the Macquarie Group Limited (Macquarie) Annual General Meeting on the same date, but not earlier than 2:00 pm. Registration will commence at 1:45 pm.

Ordinary Business

1. Financial Statements

To consider and receive the Financial Report, the Directors' Report and the Auditor's Report of Macquarie Bank for the financial year ended 31 March 2017.

2. Remuneration Report

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

To adopt the Remuneration Report of Macquarie Bank for the year ended 31 March 2017.

3. Approval of Termination Benefits

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

That approval be given for all purposes (including for the purposes of sections 200B and 200E of the Corporations Act 2001) for the giving of all benefits to current or future key management personnel of the Company or persons who hold a managerial or executive office in the Company or a related body corporate, in connection with the person ceasing to hold an office or position of employment in the Company or a related body corporate, as set out in the Explanatory Notes to the Notice of Meeting convening this meeting.

Voting Exclusion Statement

Item 2 – Remuneration Report

A vote on Item 2 must not be cast (in any capacity) by, or on behalf of:

- a) a member or a former member of the key management personnel (KMP) whose remuneration details are disclosed in Macquarie Bank's 2017 Remuneration Report; or
- b) a closely related party of such a KMP,

unless the vote is cast by a person as proxy for a person entitled to vote in accordance with a direction on the proxy form. A closely related party includes close family members and companies the KMP controls.

As at the date of this Notice of Meeting, no member of the KMP and no closely related party of a KMP, is an ordinary shareholder of Macquarie Bank.

The Chairman of the Meeting intends to vote undirected proxies in favour of Item 2.

The restriction on voting undirected proxies does not apply to the Chairman of the Meeting acting as proxy for a person entitled to vote on Item 2 because Macquarie Bank's proxy appointment expressly authorises the Chairman of the Meeting to exercise undirected proxies.

Item 3 – Approval of Termination Benefits

A vote on Item 3 must not be cast (in any capacity) by, or on behalf of, any person who may be entitled to receive a benefit in connection with that person's retirement from office, or position of employment, the subject of Item 3 (Relevant Executive), or an associate of that Relevant Executive. However, a person is entitled to cast a vote if:

- a) it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the resolution; and
- b) it is not cast on behalf of a Relevant Executive or an associate of a Relevant Executive.

In addition, a vote must not be cast on Item 3 by a member of the KMP of Macquarie Bank, or a closely related party of a KMP, acting as proxy for a person entitled to vote, if their appointment does not specify the way the proxy is to vote on Item 3.

As at the date of this Notice of Meeting, no Relevant Executive is an ordinary shareholder of Macquarie Bank.

Where the Chairman of the Meeting is appointed as proxy and none of the 'For', 'Against' or 'Abstain' boxes is marked for Item 3, the appointing shareholder will be deemed to direct the Chairman to vote in favour of Item 3.

By order of the Board

A handwritten signature in black ink, appearing to read "D. Leong". The signature is fluid and cursive, with a large initial "D" and a long, sweeping tail.

Dennis Leong
Company Secretary
Sydney, 6 June 2017

Notice of Meeting

Notes

Macquarie Bank is a subsidiary of Macquarie Group Limited. The following notes are provided for the ordinary shareholder(s) of Macquarie Bank. Holders of Macquarie Income Securities may attend and speak at the Annual General Meeting but are not entitled to vote on any of the proposed resolutions.

1. Proxies

If you cannot attend, you may appoint a proxy to attend and vote for you. A proxy need not be a shareholder. 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.

Votes may be cast 'For' or '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 or insert the number of shares or percentage of shares that you wish to vote in the appropriate box. A valid voting direction must not exceed the total number of shares held or 100 percent. If you place a mark in the 'Abstain' box, your votes will not be counted in computing the required majority on a poll. Proxy voting instructions are provided on the proxy form.

2. Proxy Delivery

Completed proxies must be received at Macquarie Bank's registered office at Level 6, 50 Martin Place, Sydney NSW 2000 (facsimile number +61 2 8237 1899) by no later than 6:00 pm (Australian Eastern Standard Time, AEST) on Tuesday, 25 July 2017. Any revocations of proxies must be received at the registered office before the commencement of the meeting or at the registration desk at Level 23, 101 Collins Street, Melbourne for the 2017 Annual General Meeting from 1:45 pm on the day of the meeting and no later than the commencement of the meeting.

3. 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.

4. Shareholders Eligible to Vote

Pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the holders of Macquarie Bank's ordinary shares for the purposes of the meeting, will be those registered holders of Macquarie Bank's ordinary shares at 7:00 pm (AEST) on Tuesday, 25 July 2017.

5. Voting at the Meeting

Voting on the proposed resolutions at this meeting will be conducted by a show of hands unless a poll is called.

6. Conduct of the Meeting

Macquarie Bank is committed to ensuring that its shareholder meetings are conducted in a manner which provides those security holders (or their proxy holders) who are present at the meeting with the opportunity to participate in the business of the meeting in an orderly fashion and to ask questions about and comment on matters relevant to the business of the meeting or about Macquarie Bank generally. Macquarie Bank will not allow conduct at any meeting which is discourteous to those who are present at the meeting, or which in any way disrupts or interferes with the proper conduct of the meeting. The Chairman of the Meeting will exercise his or her powers as the Chairman to ensure that the meeting is conducted in an orderly and timely fashion, in the interests of all of those attending.

7. Definitions

The terms 'Voting Director' and 'Executive Voting Director' used here and in the Explanatory Notes on Items of Business accompanying this Notice of Meeting have the meaning given in Macquarie Bank's Constitution. The Voting Directors as at the date of the Notice of Meeting are: Peter H Warne, Gary R Banks, Gordon M Cairns, Michael J Coleman, Patricia A Cross, Diane J Grady, Michael J Hawker, Nicholas W Moore, Mary J Reemst and Nicola M Wakefield Evans. Mr Moore and Ms Reemst are Executive Voting Directors.

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 Bank Limited and its subsidiaries for the most recent financial year will be laid before the meeting.

The reports are available on Macquarie's website at www.macquarie.com/about/investors/reports

Ordinary shareholders of Macquarie Bank and holders of Macquarie Income Securities will be provided with a reasonable opportunity to ask questions about, or make comments on the reports, the management of the Company or about Macquarie Bank generally but there will be no formal resolution put to the meeting.

PricewaterhouseCoopers, Macquarie Bank's external auditor, will attend the meeting and there will be an opportunity for members as a whole to ask questions relevant to the audit.

Item 2 – Remuneration Report

As required by section 250R(2) of the Act, a resolution that Macquarie Bank's Remuneration Report be adopted will be put to the vote.

Section 250R(3) of the Act provides that the vote on the resolution is advisory.

The Remuneration Report is contained within the Directors' Report in Macquarie Bank's 2017 Annual Report on pages 27 to 45.

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

Item 3 – Approval of Termination Benefits

Macquarie Bank is a subsidiary of Macquarie Group Limited (Macquarie). Macquarie is seeking shareholder approval at its 2017 Annual General Meeting, being held immediately before this meeting, in respect of termination benefits to certain directors and staff of Macquarie and its subsidiaries (Item 4 on the Macquarie Notice of 2017 Annual General Meeting (Macquarie 2017 AGM Notice)).

The reason Macquarie Bank requires the approval sought under Item 3 of this Notice is that Macquarie Bank and its subsidiaries may directly or indirectly fund or otherwise bear the cost of the remuneration arrangements to which the approval sought under Item 4 of the Macquarie 2017 AGM Notice applies, in respect of staff employed by, or directors of, Macquarie Bank or its subsidiaries (Banking Group Personnel). As a result, Macquarie Bank and its subsidiaries may directly or indirectly give benefits under Macquarie's remuneration arrangements in connection with Banking Group Personnel ceasing to hold a board, managerial or executive office in Macquarie Bank or a related body corporate of Macquarie Bank.

Certain sections of the Macquarie 2017 AGM Notice, particularly the Explanatory Notes to Item 4, provide information that is relevant to the approval sought under Item 3 of this Notice. A summary of the key features of Macquarie's current remuneration framework is set out in the Explanatory Notes on Item 3 in the Macquarie 2017 AGM Notice. Appendix A to the Macquarie 2017 AGM Notice contains relevant information concerning the terms of Performance Share Units granted to the Macquarie Executive Committee members under the Macquarie Group Employee Retained Equity Plan (MEREP). A copy of these sections of the Macquarie 2017 AGM Notice, is included as an appendix to these Explanatory Notes (Macquarie 2017 AGM Notice Extract).

The following is supplementary information about Macquarie Bank's role in the remuneration arrangements which should be read together with the corresponding details in the Macquarie 2017 AGM Notice Extract. Terms used in this Notice which are defined in the Macquarie 2017 AGM Notice Extract have the same meaning in this Notice.

Superannuation

The Explanatory Notes for Item 4 in the Macquarie 2017 AGM Notice Extract provide information on Macquarie's superannuation arrangements. Prior to November 2007, Macquarie Bank was the ultimate parent of the Macquarie Group and employed the majority of Macquarie Group's Australian staff. As the parent company, Macquarie Bank's

policy on superannuation arrangements was the same as Macquarie's current policy. Macquarie Bank and its subsidiaries continue to make contributions to staff superannuation and pension funds in accordance with this policy, which will include the arrangements described in the Explanatory Notes for Item 4 in the Macquarie 2017 AGM Notice Extract.

Macquarie Bank's ongoing role in the remuneration arrangements

Banking Group Personnel participate in all of the arrangements for which approval is sought under Item 3 in this Notice. As noted above, Macquarie Bank and its subsidiaries may directly or indirectly bear the cost of these arrangements in respect of the Banking Group Personnel. The manner in which the amount or value of a termination benefit provided under these arrangements is to be calculated and the matters, events and circumstances that will, or are likely to, affect that amount or value, are the same as those set out in the Explanatory Notes to Item 4 in the Macquarie 2017 AGM Notice Extract.

Additional information

Ordinary shareholders of Macquarie Bank and holders of Macquarie Income Securities will be provided with the opportunity to ask questions about or make comments on Item 3.

The Non-Executive Voting Directors of the Board unanimously recommend that shareholders approve Item 3 in the Notice of Meeting. Nicholas Moore, being the Managing Director and CEO of Macquarie and Mary Reemst, being the Managing Director and CEO of Macquarie Bank, each has a material personal interest in the item and, therefore, has abstained from providing a recommendation.

Appendix

Macquarie 2017 Annual General Meeting Notice Extract

The following is an extract from the Macquarie Group Limited Notice of 2017 Annual General Meeting (Macquarie Notice), being the Explanatory Notes relating to *Item 3 – Remuneration Report* and *Item 4 – Approval of Termination Benefits*.

Item 3 – Remuneration Report

As required by section 250R(2) of the Corporations Act 2001(Cth) (the Act), a resolution that Macquarie's Remuneration Report be adopted will be put to the vote. Section 250R(3) of the Act provides that the vote on the resolution is advisory. The Remuneration Report is contained within the Directors' Report in Macquarie's 2017 Annual Report on pages 54 to 82. The Executive Summary is largely reproduced below.

Executive Summary

During the year, the Board and the Board Remuneration Committee (BRC) have reviewed Macquarie's remuneration framework to ensure it continues to support the overarching objective of delivering superior company performance over both the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and the long-held foundations of Macquarie's risk culture, the principles of *What We Stand For* – Opportunity, Accountability and Integrity. In undertaking this assessment, the Board and the BRC have considered factors including:

- the degree of alignment between staff and shareholders
- Macquarie's performance during the year and the performance of each business
- shareholder returns
- the need to balance short-term and long-term incentives
- feedback from shareholders
- the risk and conduct culture of Macquarie
- the employment environment
- the evolving regulatory landscape
- market developments.

The Board believes that Macquarie's longstanding remuneration approach continues to create a strong alignment of staff and shareholders' interests while prudently managing risk and reinforcing the *Code of conduct* and *What We Stand For*.

The remuneration framework seeks to attract, motivate and retain exceptional people, while aligning their interests with those of shareholders. It comprises fixed remuneration, a profit share scheme and, for Macquarie's most senior executives, the Executive Committee, Performance Share Units (PSUs). The framework should be considered as an integrated whole. Each component is explained below.

One of the foundations of Macquarie's remuneration structure is the emphasis on performance-based remuneration. Fixed remuneration for senior staff remains low relative to comparable roles in other organisations, although it is sufficient to avoid inappropriate risk-taking. Moreover, it is low as a proportion of overall remuneration. In 2017, fixed remuneration for Macquarie's 12 Executive Committee members comprised approximately 7% of total remuneration. The balance remains at risk and is explicitly linked to performance.

While performance-based remuneration in the form of profit share is aligned with company performance, Macquarie's approach to performance-based remuneration is driven by a detailed assessment at the business group and individual level. The company-wide profit share pool is determined annually with reference to a proportion of Macquarie's after tax profits and its earnings over and above the estimated cost of capital.

The Board has the discretion to adjust the company-wide profit share pool up or down to reflect internal and external factors if deemed in the interests of Macquarie and shareholders. Such factors may include performance, risk and

compliance considerations, the employment environment and staff retention risk. As in some previous years, not all the profit share pool has been paid to employees in the current year.

Allocations to business groups and teams reflect their performance and are made with reference to the company-wide profit share pool taking into account each business' relative contribution to profits, capital and funding usage, risk management and compliance, market developments and the employment environment.

Allocations to individuals are based on their performance. The criteria used to assess each individual's performance vary depending on their role and include:

- financial performance
- risk management and compliance
- business leadership
- people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*.

For staff whose primary role is risk and financial control, including the Chief Risk Officer (CRO) and Chief Financial Officer (CFO), the Board also seeks to ensure that their remuneration preserves the independence of the function and maintains Macquarie's robust risk management framework.

Performance-based remuneration is delivered in ways that encourage a long-term perspective and ensure alignment with shareholders' long-term interests and staff retention. In turn, this encourages staff to maximise net profit after tax (NPAT) and return on ordinary equity (ROE) without exposing Macquarie to risk or behaviours that jeopardise long-term profitability or reputation. To achieve this outcome, a significant portion of performance-based remuneration is:

- retained and deferred over a long period (e.g. the retention rate for the Managing Director and Chief Executive Officer's (Managing Director) profit share allocation is 80%, retained for up to seven years). Including PSUs, the effective deferral rate for the Managing Director is 82% for this year
- delivered in a combination of Macquarie equity and Macquarie-managed fund equity
- subject to forfeiture in certain circumstances.

Performance-based remuneration in the form of PSUs provides an additional incentive to Executive Committee members to drive company performance over the long-term over and above their business group responsibilities. They are allocated to Executive Committee members based on their performance, using criteria similar to those used for profit share. PSUs vest in equal tranches after three and four years and are exercisable subject to the achievement of two performance hurdles linked to earnings per share (EPS) and ROE, with no retesting.

Other conditions apply that seek to align staff and shareholder interests. All Executive Directors are subject to a minimum shareholding requirement that can be satisfied by the delivery of equity under the current remuneration arrangements. This provides the strongest incentive to staff to maximise long-term profitability and shareholder returns.

Macquarie prohibits staff from hedging any of the following types of securities:

- shares held to satisfy the minimum shareholding requirement
- deferred and unvested awards to be delivered under the equity plan, the Macquarie Group Employee Retained Equity Plan (MEREP), including PSUs.

Staff can only trade MGL ordinary shares and other securities during designated trading windows.

Macquarie's remuneration outcomes are aligned to business results and shareholder returns.

Macquarie has delivered strong financial results for shareholders while appropriately managing remuneration for staff. The Board is of the view that the remuneration outcomes for senior executives are appropriately aligned to their businesses' performance, Macquarie's performance and the interests of shareholders.

Remuneration outcomes for Executive Key Management Personnel (KMP) varied according to their individual performance and the performance of their business.

Appendix

Macquarie 2017 Annual General Meeting Notice Extract

The analysis below shows that both the Managing Director's remuneration and total Executive KMP remuneration have increased broadly in line with the increase in NPAT and EPS.

Comparison of performance measures and executive remuneration measures: FY2016 – FY2017

		2017	2016	Increase/ (Decrease)%
Performance measures				
NPAT	\$Am	2,217	2,063	7
Basic EPS	Cents per share	657.6	619.2	6
Ordinary dividends	Cents per share	470.0	400.0	18
Return on equity	Percent	15.2	14.7	
Annual TSR ¹	Percent	44.6	(9.9)	
Executive remuneration measures				
Total Compensation Expense	\$Am	4,121	3,957	4
Compensation Expense to Income ratio	Percent	39.8	39.0	
Average staff headcount		13,990	13,902	1
Actual staff headcount 31 March		13,597	14,372	(5)
Statutory Remuneration – Managing Director	\$Am	18.71	18.16	3
Statutory Remuneration – Total Executive KMP	\$Am	126.46	116.28	9

Macquarie has a strong and effective remuneration governance framework.

The Board and the BRC remain committed to strong remuneration governance structures and processes. Strict processes are in place to ensure that conflicts of interest are appropriately managed. The BRC makes recommendations to the Board on key decisions. The Board (excluding the Managing Director) approves key remuneration decisions including outcomes for all Executive KMP members.

An independent remuneration review has also been obtained from an independent consultant, Pay Governance, to provide an opinion on the appropriateness of Macquarie's remuneration arrangements.

Non-Executive Director (NED) fees take into account market rates for relevant organisations and market trends within the shareholder approved aggregate limit.

In summary, Macquarie's longstanding approach to remuneration supports the overarching objective of delivering superior company performance over the short and long term, while prudently managing risk and reinforcing the *Code of conduct* and *What We Stand For*.

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.

1. TSR represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date.

Item 4 – Approval of Termination Benefits

Executive Summary

Macquarie's Board believes that Macquarie's longstanding remuneration approach continues to support its overarching objective of delivering superior company performance over the short and long term, while prudently managing risk and reinforcing the *Code of conduct* and the principles of *What We Stand For*.

On 25 July 2013, and previously in December 2009, Macquarie shareholders approved Macquarie giving termination benefits to departing staff consistent with Macquarie's remuneration framework and termination benefits arrangements (2013 Approval and 2009 Approval, respectively).

The proposed approval under Item 4 is only for the purposes of approving termination benefits. By passing Item 4, shareholders will reaffirm Macquarie's compliance with section 200B of the Corporations Act 2001 (the Act) in the context of Macquarie's remuneration framework. This framework, which has remained largely unchanged since the 2013 Approval, emphasises a longer-term perspective over a multi-year timeframe through deferred equity-based retention and seeks to attract, motivate and retain exceptional people, while aligning their interests and those of shareholders.

The Board considers it is in the interests of Macquarie and its shareholders to refresh the 2013 Approval at this time.

1. Termination benefits approval: Section 200B of the Corporations Act

The Act restricts companies from giving certain termination benefits to staff who hold a managerial or executive office² in Macquarie without shareholder approval. This includes a person who is a director of any Macquarie Group entity or whose remuneration details are included in Macquarie's Remuneration Report, and includes any person who held such an office in the three years before they ceased to be a director of, or ceased employment with, any Macquarie Group entity (Relevant Executive). Macquarie is a diversified financial group providing clients with asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. With over 13,500 staff across 27 countries, Macquarie has established corporate structures to support the scale of its business. Given Macquarie's long standing approach is to appoint senior staff with knowledge of the specific business to the boards of subsidiary companies of Macquarie Group, it currently has over 500 executives who are Relevant Executives.

Under the termination benefits provision of the Act, termination benefits cannot be provided to Relevant Executives unless approved by shareholders, or an exception or exemption applies. Under the Act, termination benefits are defined to include a range of payments or benefits given in connection with a person ceasing to hold an office or position of employment including termination payments, the acceleration or automatic vesting of a share-based payment and entitlements at or due to retirement.

At Macquarie, the termination benefits requiring shareholder approval include:

- in certain circumstances, the release of remuneration in the form of:
 - deferred remuneration
 - Performance Share Units (PSUs)
 - other deferred awards
- other superannuation and forms of retirement savings
- other leave benefits
- payments in lieu of notice (in certain circumstances)
- redundancy payments (in certain jurisdictions).

The amount of any payment or value of any other benefit that may be given to a Relevant Executive in connection with the termination of their employment or retirement from office depends on a number of factors, not all of which are within Macquarie's control. These factors include amendments to potential benefits set out in section 2 of these Explanatory Notes to address future changes to regulatory or legislative requirements. It is not possible to determine in

2. As defined under s. 200AA(1) of the Act.

Appendix

Macquarie 2017 Annual General Meeting Notice Extract

advance the monetary value of the potential benefits that may be received by any particular executive at some point in the future. Section 2 of these Explanatory Notes for Item 4 and, in particular, the table contained in that section, set out the manner in which the amount or value of the benefit will be calculated, and the matters, events and circumstances that will, or are likely to, affect the amount or value of a termination benefit paid to a Relevant Executive when they leave Macquarie.

Shareholder approval is sought under Item 4 to allow the provision of all benefits under Macquarie's remuneration framework which may be defined as termination benefits for the purposes of the termination benefits provisions of the Act and which are set out in these Explanatory Notes. The amount and value of the benefits for which shareholder approval is sought is the maximum potential benefit that could be provided to a Relevant Executive as set out in Section 2 in connection with the person ceasing to hold an office or position of employment with Macquarie.

2. Termination benefits provided to Relevant Executives

Macquarie's remuneration framework continues to support the overarching objective of delivering superior company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and the principles of *What We Stand For*. This is achieved in a number of ways, including by emphasising a performance-based remuneration approach where the company-wide profit share pool is determined annually with reference to a proportion of Macquarie's after tax profits and its earnings over and above the estimated cost of capital. In addition, a significant portion of performance-based remuneration is:

- retained and deferred over a long period
- delivered in a combination of Macquarie equity and Macquarie-managed fund equity
- subject to forfeiture in certain circumstances.

These arrangements could potentially result in Relevant Executives receiving termination benefits on termination of employment with Macquarie Group entities. The shareholder approval sought will cover the benefits set out in the following table, which also describes the:

- circumstances in which these benefits may be provided
- manner in which the amount or value of the benefit is to be calculated
- matters, events and circumstances that will, or are likely to, affect the calculation of that amount or value.

Key matters, events and circumstances affecting the calculation of the amount or value of the termination benefits provided to Relevant Executives

1. Deferred remuneration

1.1 A Relevant Executive's profit share allocation

One of the key foundations of Macquarie's remuneration structure is the emphasis on performance-based remuneration.

While performance-based remuneration in the form of profit share is aligned with company performance, Macquarie's approach to performance-based remuneration is driven by a detailed assessment at the business group and individual level.

The company-wide profit share pool is determined annually with reference to a proportion of Macquarie's after tax profits and its earnings over and above the estimated cost of capital.

The Board has the discretion to adjust the profit share pool up or down to reflect internal and external factors if deemed in the interests of Macquarie and shareholders. Such factors may include performance, risk and compliance considerations, the employment environment and staff retention risk.

Allocations to business groups and teams reflects their performance and is made with reference to the company-wide profit share pool taking into account:

- each business' relative contribution to profits
- capital and funding usage
- risk management and compliance
- market developments
- the employment environment.

For risk and financial control groups and other support groups, performance is assessed based on the quality and integrity of control functions and the quality of business support services and is not determined with reference to profitability.

Allocations to individuals are based on their performance. The criteria used to assess each individual's performance vary depending on their role and include:

- financial performance
- risk management and compliance
- business leadership
- people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*.

For the Managing Director and Chief Executive Officer, refer to page 68 of Macquarie's Remuneration Report for further performance criteria considered.

1.2 The amount of profit share retained for a Relevant Executive

Retention affects the value of deferred remuneration that a Relevant Executive may receive on termination.

For Relevant Executives who are Executive Directors, this is generally within the range of 40 – 80% and for Relevant Executives who are not Executive Directors, this is generally within the range of 25 – 70% (above specific monetary thresholds), depending on their role. However, retention can be higher in certain exceptional circumstances.

The Board or the Board Remuneration Committee (BRC) has discretion to change the percentage of profit share allocations retained on an annual basis to meet changing market conditions and to comply with regulatory and corporate governance guidance, provided that the retention percentage is at least 30% for Executive Directors. For each year's allocation, once the retention rate has been determined it remains fixed for that allocation.

Differing retention levels may also occur as the result of a business acquisition, where remuneration arrangements are entered into as part of a transition and/or integration process or where local laws impact the application of Macquarie's retention arrangements.

Macquarie's standard retention rates will continue to be disclosed each year in Macquarie's Remuneration Report.

Appendix

Macquarie 2017 Annual General Meeting Notice Extract

Key matters, events and circumstances affecting the calculation of the amount or value of the termination benefits provided to Relevant Executives

1. Deferred remuneration

1.3 Vesting and release period

The length of vesting and the timing of release affects the value of deferred unvested remuneration which a Relevant Executive may receive on termination.

Retained profit share vests and is released over a period that reflects the scope and nature of a Relevant Executive's role and responsibilities. For Relevant Executives who are Executive Directors, vesting periods are typically within the range of 3-7 years, and for Relevant Executives who are not Executive Directors, vesting periods are typically within the range of 2-4 years. However, the vesting periods may be shorter or longer in response to local regulatory or legislative requirements. Differing vesting periods may also occur as the result of a business acquisition, where remuneration arrangements are entered into as part of a transition and/or integration process.

The Board or the BRC has discretion to change the vesting and release period on an annual basis to meet changing market conditions, or to comply with regulatory or legislative requirements and corporate governance guidance. For each year's allocation, once the vesting period has been determined, it remains fixed for that allocation.

The applicable standard vesting and release period will continue to be disclosed each year in Macquarie's Remuneration Report.

1.4 Where retained profit share is invested

The allocation of retained profit share is a function of the Relevant Executive's role, responsibilities and level, as well as historical arrangements including acquisitions. Retained profit share is invested, either directly or notionally, in Macquarie equity or Macquarie-managed funds or in subsidiaries, in the case of acquired businesses. Retained profit share may be invested in varying proportions in a combination of these forms.

In limited circumstances, retained profit share may be invested either directly or notionally in other than Macquarie-managed fund equity or in Macquarie equity via the MEREP³. An example might include investment in funds or products of a specific business group where there is a need to directly align the interests of employees with those of their specific types of clients.

The BRC has discretion to review the percentage allocated to Macquarie-managed fund equity and the MEREP on an annual basis to reflect a Relevant Executive's responsibilities.

The standard percentages allocated to the MEREP and Macquarie-managed fund equity for Executive Directors will continue to be disclosed each year in Macquarie's Remuneration Report.

1.5 Change in value of the invested profit share

A change in the value of the invested profit share can be caused by:

- an increase or decrease in the value of the equity or underlying equity, Macquarie managed funds or other investment into which retained profit share has been invested
- returns on that equity or other investments including dividends and capital returns where applicable.

1.6 Number of years the Relevant Executive has participated in the profit share scheme

The number of years that the Relevant Executive has participated in the profit share scheme impacts the quantum of unvested profit share.

3. Macquarie Group Employee Retained Equity Plan.

Key matters, events and circumstances affecting the calculation of the amount or value of the termination benefits provided to Relevant Executives

1. Deferred remuneration

1.7 Application of Malus (if applicable)

Each year, the BRC identifies the executives, some of whom are Relevant Executives, who are subject to Malus.

Malus Events

For such Relevant Executives, the Board or its delegate has discretion to:

- reduce or eliminate in full, unvested profit share awarded **in respect of 2015 and onwards** if it determines that they have at any time:
 - acted dishonestly (including, but not limited to, misappropriating funds or deliberately concealing a transaction)
 - acted or failed to act in a way that contributed to a breach of a significant legal or significant regulatory requirement relevant to Macquarie
 - acted or failed to act in a way that contributed to Macquarie, Macquarie Bank or any Group within Macquarie incurring:
 - significant reputational harm
 - a significant unexpected financial loss, impairment charge, cost or provision
 - acted or failed to act in a way that contributed to MGL or MBL making a material financial restatement
 (each of the above is a Malus Event)
- reduce or eliminate unvested profit share awarded **in respect of any of the 2012 to 2014 years** where it determines that their action or inaction has caused Macquarie significant reputational harm, caused a significant unexpected financial loss or caused it to make a material financial restatement.

Additional provisions, including Malus and/or clawback provisions, may apply to staff in jurisdictions outside Australia to ensure compliance with local regulations.

The specific terms are periodically reviewed by the BRC and may be amended as considered appropriate. Macquarie's standard Malus terms will continue to be disclosed in the Remuneration Report each year.

1.8 Circumstances in which a termination benefit may be provided

Unvested retained profit share of a Relevant Executive is forfeited on termination of employment unless the Board, or its delegate, exercises its discretion to accelerate the vesting of a Relevant Executive's retained profit share and release it, in whole or in part on termination of employment. This discretion may be exercised in the case of death, serious incapacitation, genuine retirement, redundancy, disability, serious ill-health or limited exceptional circumstances, and in the case of Executive Directors, subject to the conditions of early release as set out below.

Limited exceptional circumstances may relate to business efficacy, strategic business objectives, including in connection with the divestment or internalisation of Macquarie businesses, or when a Relevant Executive resigns to fulfil a public service role in a governmental organisation or agency. In all cases where such discretion is exercised, the Board or its delegate may impose such other conditions as it considers appropriate.

Conditions of early release of retained profit share to departing Executive Directors 2015 and subsequent years – Post Employment Events

Where discretion is exercised to accelerate the vesting of a departing Executive Director's retained profit share awarded in respect of 2015 and subsequent years, the Board or its delegate may reduce or eliminate in full the retained profit share, if it determines that the Executive Director has at any time during or after their employment committed a Malus Event (as described above) or:

- a. taken staff to a competitor or been instrumental in causing staff to go to a competitor; or
 - b. joined a competitor
- (each of the above is a Post Employment Event).

Appendix

Macquarie 2017 Annual General Meeting Notice Extract

Key matters, events and circumstances affecting the calculation of the amount or value of the termination benefits provided to Relevant Executives

1. Deferred remuneration

Prior to 2015 – Disqualifying Events

Where discretion is exercised to accelerate the vesting of a departing Executive Director's retained profit share awarded in respect of years prior to 2015, the Executive Director will not be entitled to receive any of their unvested retained profit share where the Board or its delegate determines that they have during the period of employment with Macquarie or after:

- a. committed an act of dishonesty (including but not limited to misappropriation of funds and deliberate concealment of a transaction)
- b. committed a significant and wilful breach of duty that causes material damage to Macquarie
- c. joined a competitor of Macquarie Group
- d. taken staff to a competitor or been instrumental in causing staff to go to a competitor, or
- e. otherwise acted or failed to act in a way that thereby causes damage to Macquarie, including but not limited to situations where the action or inaction leads to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses

(each of the above is a Disqualifying Event).

In the case of death or serious incapacitation, the Board or its delegate will typically accelerate the vesting of retained profit share and immediately release it to the Relevant Executive, or to the Relevant Executive's legal personal representative. In other circumstances, subject to local regulatory requirements, the release will occur over the period from six months to two years after the Executive Director leaves, in accordance with the table set out below:

	First period	Second period	Third period
Time post departure	6 months	6 months – 1 year	1 year – 2 years
Unvested retained profit share released	From all but the last two years of employment	From the second year prior to the end of employment	From the year prior to the end of employment
Retained profit share pre 2015 – subject to Disqualifying Events	No Disqualifying Event	No Disqualifying Event during the First Period and no Disqualifying Event a, b, d and e during the Second Period	No Disqualifying Event during First Period and no Disqualifying Event a, b, d and e during the Second Period and no Disqualifying Event a, b and e during the Third Period
Retained profit share from 2015 onwards subject to Malus and Post Employment Events	No Malus Event or Post Employment Event	No Malus Event or Post Employment Event during First Period and no Malus Event or Post Employment Event a during the Second Period	No Malus Event or Post Employment Event during First Period and no Malus Event or Post Employment Event a during the Second Period and no Malus Event during the Third Period.

Where a Relevant Executive has a tax liability on termination of employment in respect of any retained profit share, the Relevant Executive may receive retained profit share up to an amount equal to the Relevant Executive's tax liability at an earlier time than noted above.

These provisions are subject to periodic review by the Board. Any changes will be disclosed in the Remuneration Report each year.

Key matters, events and circumstances affecting the calculation of the amount or value of the termination benefits provided to Relevant Executives

1. Deferred remuneration

1.9 Pre-2009 DPS

Some Executive Directors have pre-2009 retained profit share that was not transitioned to the MEREP, and which is grandfathered in the Pre-2009 Directors' Profit Share Plan (DPS Plan). Retained profit share amounts began to vest after five years of service as an Executive Director and fully vest after 10 years of service. Vested retained profit share is released (subject to the non-occurrence of Disqualifying Events a, b, c and d as set out above under 1.8) on the earlier of the Executive Director's ceasing employment with the Macquarie Group and the end of the ten year period commencing on the date on which the retained profit share was allocated to the Pre-2009 DPS Plan. The last of these arrangements will expire in 2018.

The Board or its delegate has discretion to accelerate the vesting and release of unvested retained profit share in the same circumstances and subject to the non-occurrence of Disqualifying Events a, b, c, and d as set out above under 1.8.

When released on cessation of employment, vested retained profit share is usually released six months after the cessation date, to enable the Executive Committee or the Board to determine whether any relevant Disqualifying Events have occurred post-cessation.

Further information in relation to the operation of the Pre-2009 DPS Plan is set out in the Notice of Meeting for the 2009 Approval.

1.10 Other deferred remuneration

A small number of individuals may receive a portion of their deferred remuneration as a share of performance fees paid by certain Macquarie-managed funds. The company-wide profit share pool is adjusted downwards to reflect these deferred remuneration arrangements which are also taken into account in determining the individual's profit share allocation.

Consistent with market practice these individuals are allocated an entitlement to a share of performance fees paid by a particular fund. This allocation is based on performance, seniority and the extent of their involvement with the particular fund. The entitlement will be forfeited if their employment ceases before five years from the date of allocation. Additionally, an individual will forfeit their entitlement to receive any such payments if at any time the Board determines that a Malus Event, as set out above under 1.7 has occurred, or if the individual's employment terminates, unless in the case of death, serious incapacitation, genuine retirement, redundancy, disability or serious ill health. The Board or its delegate has discretion to permit a departing individual to retain all or some of any entitlement they would otherwise forfeit in limited exceptional circumstances consistent with 1.8 above.

Where a departing individual retains their entitlement, they will receive a share of performance fees paid proportional to the period from when they became a participant to the end of their employment relative to the period from final close of the fund to the date the performance fee is paid, up to a maximum of 80% of what they would have been entitled to had their employment not ceased.

Appendix

Macquarie 2017 Annual General Meeting Notice Extract

Key matters, events and circumstances affecting the calculation of the amount or value of the termination benefits provided to Relevant Executives

2. Performance Share Units (PSUs) (applicable only to Executive Committee members).

2.1 The overall PSU pool	The Board approves the overall value of PSUs to be allocated to Executive Committee members each year. The aggregate value of PSUs to be allocated is determined with reference to profits over recent years.
2.2 The Relevant Executive's performance	<p>The allocation to individuals is based on:</p> <ul style="list-style-type: none"> – role scope and complexity – financial and non-financial performance assessment against a range of factors including financial results, risk management and compliance, business leadership, people leadership – upholding the <i>Code of conduct</i> and <i>What We Stand For</i>.
2.3 Number of PSUs awarded	<p>The number of PSUs awarded reflects the relevant assumptions adopted to determine the fair value of each PSU, and therefore the number of PSUs granted. The fair value is determined using a Monte-Carlo option pricing framework, designed to take account of trading restrictions, the fact that PSUs do not receive dividends and the vesting performance hurdles and timeframes. Further detail is provided in Appendix 3 of Macquarie's Remuneration Report.</p> <p>These assumptions are subject to periodic review. Any changes will continue to be disclosed each year in Macquarie's Remuneration Report.</p>
2.4 Exercisability of PSUs	<p>As set out in Appendix A of these Explanatory Notes, PSUs may only be exercised subject to two performance hurdles being met, each applying individually to 50 per cent of the total number of each tranche of PSUs awarded. Under both performance hurdles, the hurdle is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year end results available. To the extent that a condition is not met when examined, the PSUs due to vest under each condition will not be exercisable upon vesting, resulting in a nil benefit to Executive Committee members.</p> <p>The hurdles, including the reference group, are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The Board or the BRC has discretion to change the performance hurdles to meet changing market conditions as well as to comply with regulatory and corporate governance guidance.</p> <p>PSU hurdles will continue to be disclosed in each year's Remuneration Report.</p>
2.5 Vesting period	<p>PSUs vest in two equal tranches after three and after four years.</p> <p>The Board or the BRC has discretion to change the vesting period on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance guidance. For each year's allocation, once the vesting period has been determined it remains fixed for that allocation, subject to 2.7 below.</p> <p>The applicable vesting period will continue to be disclosed each year in Macquarie's Remuneration Report.</p>
2.6 Change in the underlying value of shares	Share price appreciation or depreciation affects the value of the PSUs upon vesting.
2.7 Circumstances of leaving Macquarie	To ensure continued alignment with shareholders post termination, in the case of death, serious incapacitation, genuine retirement, redundancy, disability, serious ill-health or limited exceptional circumstances, the Board or the BRC has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles. Unless one of the early release circumstances applies, unvested PSUs will be forfeited on termination.

Key matters, events and circumstances affecting the calculation of the amount or value of the termination benefits provided to Relevant Executives

3. Other deferred awards

3.1 Promotion awards

Relevant Executives who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards, based on seniority set with reference to an Australian dollar value. Currently these awards range from \$25,000 to \$175,000 depending on the promotion level. The BRC has discretion to change the quantum of awards on an annual basis.

These awards vest on a pro-rata basis over two, three and four years.

In the case of death, serious incapacitation, genuine retirement, redundancy, disability, serious ill-health or other limited exceptional circumstances, the Board or its delegate has discretion to accelerate the vesting of some or all of these awards and immediately release them to the Relevant Executive, subject to local regulatory requirements.

In all cases where the discretion is exercised, the Board or its delegate may impose such other conditions as it considers appropriate.

3.2 New hire and other awards

Relevant Executives who join Macquarie as Director level staff generally receive an allocation of MEREP awards as set out above under 3.1.

Relevant Executives may receive an additional or alternative equity grant when they join Macquarie. This may be, for example, to compensate for the value of deferred remuneration from their previous employer which they have forfeited upon joining Macquarie. Typically, these awards would be structured to mirror the terms of the deferred remuneration which has been forfeited, including the period over which the award or grant will vest and be released, subject to local regulatory requirements. Awards may also be granted as part of a business acquisition.

Occasionally, equity awards may be granted to retain staff, subject to local regulatory requirements. This may be, for example, to retain key staff in a business which is being wound-down or sold. Typically, these awards are structured to reflect the expected time frame over which the business is being wound-down or sold.

The Board or its delegate has discretion to accelerate these new hire and other awards in the same circumstances and in the same way as set out above under 3.1.

4. Superannuation and other forms of retirement savings

4.1 The applicable minimum statutory contributions or established market practices, which may change over time

In Australia, Macquarie makes the compulsory superannuation contributions required by law (currently 9.5% - subject to the maximum contribution base which is indexed annually) on behalf of staff including Relevant Executives. Currently, Macquarie does not contribute more than the statutory amount as an employer superannuation contribution, although executives may choose to salary sacrifice additional employee contributions.

4.2 The Relevant Executive's total remuneration over time

Outside Australia, Macquarie employs staff in a number of countries with statutory requirements for employers and/or employees to make contributions to superannuation or other forms of retirement savings. Macquarie complies with these obligations and may also facilitate employee contributions through salary sacrifice or other means. In other jurisdictions, there are established market practices for providing employer contributions to superannuation or other forms of retirement savings which may exceed the minimum statutory requirement or where there is no statutory requirement. Macquarie's approach is to follow reasonable market practices in these jurisdictions.

4.3 Any earnings and capital gain or loss, on contributions by Macquarie

4.4 The Relevant Executive's years of service

The value of a Relevant Executive's benefits from such arrangements will be equal to the contributions made by Macquarie to the relevant superannuation fund or other arrangement over the period of employment together with any earnings and capital growth or loss. The value of these benefits may also be a function of the terms of the particular scheme, years of service and salary upon termination of employment.

Appendix

Macquarie 2017 Annual General Meeting Notice Extract

Key matters, events and circumstances affecting the calculation of the amount or value of the termination benefits provided to Relevant Executives

5. Other leave benefits

5.1 The applicable statutory accruals or established market practices, which may change over time

In Australia, Macquarie accrues annual leave for Relevant Executives over time as required by law. Outside Australia, Macquarie employs staff in a number of countries where local statutory requirements also require accruals for annual, holiday or vacation leave and Macquarie complies with these obligations. In other jurisdictions, there are established market practices for such leave accruals which may exceed the minimum statutory requirement and Macquarie's approach is to follow reasonable market practices in these jurisdictions. Depending on the statutory requirements and market practice of each jurisdiction, any such accrued but untaken leave benefit may become payable on termination of employment.

5.2 The Relevant Executive's salary upon termination of employment

The value of a Relevant Executive's benefit from such arrangements will be equal to the level of accrued but untaken leave which is required to be paid out to the Relevant Executive on termination of employment pursuant to either legislation or market practice. The value of the benefit will also therefore be a function of the Relevant Executive's length of service and salary upon termination of employment.

5.3 The Relevant Executive's length of service

6. Payments in lieu of notice (in certain circumstances)

6.1 The Relevant Executive's remuneration at the time of termination, or in some cases, the period leading up to the time of termination

Relevant Executives have employment agreements which include notice periods. The majority of Relevant Executives have a contractual notice period of four weeks. Some Relevant Executives have notice periods that are aligned to local legislation or to country and regional markets and are other than four weeks or greater than the relevant legislative minimum.

6.2 The length of the notice period for which payment is being made

If the Relevant Executive serves their notice period, they will receive wages and accrued benefits which will be calculated up to that Relevant Executive's actual termination date, none of which will be a termination benefit.

6.3 Whether Macquarie's operational requirements at the time require the Relevant Executive to work through part or all of their notice period

However, there are circumstances where Macquarie may determine that it is more commercially appropriate to terminate the employment of a Relevant Executive and make a payment in lieu of the remuneration that the Relevant Executive would have received for the balance of their relevant notice period or is entitled to receive under their contractual notice provision. This discretion exists both under Macquarie's employment arrangements and under employment law generally and is common practice.

If a payment is made in lieu of notice to a Relevant Executive, that payment is a termination benefit within the meaning of the Act. The amount of any such payments can only be determined once notice is given. The Board considers that having this flexibility is an important part of conducting its business.

7. Redundancy terms (in certain jurisdictions)

7.1 The applicable minimum statutory or contractual redundancy entitlements or established market practices, which may change over time

In most cases, redundancy payments to Relevant Executives are exempt from the termination benefit restrictions in the Act.

7.2 The Relevant Executive's fixed remuneration over time

Macquarie's approach is to align its redundancy policies in each jurisdiction with market practice in that place or, where required, with local law. In most cases, redundancy payments are a pro-rata amount based on the number of years of service and current base pay. In other cases, the amount may be based on a set number of months' base remuneration in addition to a pro-rata amount. In some jurisdictions, Macquarie has full discretion as to the amount, if any, of redundancy payments whereas in other jurisdictions Macquarie's discretion is more limited.

7.3 The number of years the Relevant Executive has worked with Macquarie

The relevant termination benefits exemption in the Act applies to a reasonable payment made in accordance with Macquarie's redundancy policy as a result of a genuine redundancy, having regard to the length of a person's service with Macquarie. The approval sought under Item 4 will operate where the redundancy payment is not covered by this exemption, for example, where the payment is not made under Macquarie's standard redundancy policy for the relevant jurisdiction.

3. Other information

A summary of the key features of Macquarie's current remuneration framework is set out in the Explanatory Notes on Item 3 and described in more detail in the 2017 Remuneration Report. This includes specific information on the way Macquarie's remuneration framework operates, the amount of profit share retained, how retained profit share is invested and the forfeiture and vesting rules. Macquarie's 2017 Annual Report, which includes the Remuneration Report, is available online at www.macquarie.com

Shareholders should anticipate that aspects of Macquarie's remuneration arrangements, including Relevant Executives' deferred remuneration arrangements, will be amended from time to time, in line with market practice and changing regulatory and governance standards as well as legal requirements. These changes will be reported in Macquarie's future Remuneration Reports.

4. Consequences of approval not being obtained

If the approval sought under Item 4 is not obtained, Macquarie will continue operating under the 2013 Approval. However, this could in future constrain Macquarie's ability to comply with, or adapt to, emerging market, regulatory and legislative developments. This might create uncertainty for staff and impact Macquarie's ability to attract and retain high quality people.

The Non-Executive Voting Directors of the Board unanimously recommend that shareholders approve Item 4 in the Notice of Meeting. Nicholas Moore, being the Managing Director and Chief Executive Officer, has a material personal interest in the item and, therefore, has abstained from providing a recommendation.

Appendix

Macquarie 2017 Annual General Meeting Notice Extract

Appendix A – Performance hurdles for PSUs

Performance hurdles for PSUs

PSUs issued under the MEREP become exercisable upon the achievement of two performance hurdles, each applying individually to 50% of the total number of each tranche of PSUs awarded.

The following table provides a summary of the hurdles:

	EPS CAGR Hurdle	ROE Hurdle
Application to PSU awards	50%	50%
Performance measure	Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years).	Relative average annual ROE over the vesting period (three to four years) compared with a reference group of global financial institutions. ⁴
Hurdle	<p>Sliding scale applies:</p> <ul style="list-style-type: none"> – 50% becoming exercisable at EPS CAGR of 7.5% – 100% at EPS CAGR of 12%. <p>For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable.</p> <p>For awards made prior to 2013, the EPS CAGR hurdle range was 9% to 13%.</p>	<p>Sliding scale applies:</p> <ul style="list-style-type: none"> – 50% becoming exercisable above the 50th percentile – 100% at the 75th percentile. <p>For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable.</p>
Rationale for hurdles	<ul style="list-style-type: none"> – ROE and EPS are considered appropriate measures of performance as they drive long-term company performance and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool – ROE and EPS are appropriate for the Executive Committee because they can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors, including market sentiment, over which executives have limited control – The approach is consistent with that advocated by APRA in not using TSR as a measure – ROE and EPS can be substantiated using information that is disclosed in audited financial statements – The use of a sliding scale diversifies the risk of not achieving the hurdles, provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk taking – Macquarie's performance hurdles reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee. <p>Use of an international reference group recognises the extent of Macquarie's diversification and internationalisation. At 31 March 2017, total international income represented approximately 63% of Macquarie's total income with approximately 55% of Macquarie's staff located outside Australia.</p>	

4. The reference group comprises Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group for awards made from 2013 is Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG. The reference group for awards made prior to 2013 comprised Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Morgan Stanley and UBS AG as well as significant Australian commercial banks within the ASX 100 (ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation and Suncorp Metway Limited).

Testing of hurdles

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year end results available. To the extent that a condition is not met when examined, the PSUs due to vest under each condition will not be exercisable upon vesting, resulting in a nil benefit to Executive Committee members.

The PSUs that vested in July 2016 comprised the second tranche of those granted in 2012 and the first tranche of those granted in 2013. As the performance hurdles under each tranche were not met in full, not all of the awards became exercisable. As a result:

PSU Tranche	EPS CAGR Hurdle			ROE Hurdle		
	Macquarie result (for vesting period)	Hurdle	Outcome	Macquarie result (for vesting period)	Hurdle	Outcome
2012 Tranche 2	31.02%	9%-13%	100% exercisable	10.64%	50% above the 50th percentile: (6.78%) 100% at the 75th percentile: 18.57%	88% exercisable
2013 Tranche 1	35.08%	7.5%-12%	100% exercisable	11.85%	50% above the 50th percentile: (4.30%) 100% at the 75th percentile: 6.39%	100% exercisable

PSUs that did not meet performance hurdles expired.

This page has been intentionally left blank

Investor Information

Enquiries

Investors who wish to enquire about any matter relating to their Macquarie Income Securities holding are invited to contact the share registry:

Link Market Services Limited

Level 12, 680 George Street
Sydney NSW 2000 Australia

Telephone (within Australia): 1300 554 096
Telephone (internationally): +61 1300 554 096
Facimile: +61 2 9287 0309

Email: macquarie@linkmarketservices.com.au

Website: www.linkmarketservices.com.au

All other enquiries relating to Macquarie Income Securities can be directed to:

Investor Relations

Macquarie Group Limited

Level 6, 50 Martin Place

Sydney NSW 2000 Australia

Telephone: +61 2 8232 3333

Facimile: +61 2 8232 7780

Email: macquarie.shareholders@macquarie.com

Website: www.macquarie.com/investors

Website

The Macquarie Bank Limited 2017 Annual Report can be accessed on our website at:
www.macquarie.com/about/investors/reports