

Notice of 2017 Annual General Meeting

Macquarie Group Limited

10:30 am on Thursday, 27 July 2017
Sofitel Melbourne
Grand Ballroom, Level 1
25 Collins Street
Melbourne, Victoria

Macquarie Group Limited
ABN 94 122 169 279

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



5 June 2017

Dear Shareholder

Please find enclosed notice of the 2017 Annual General Meeting of Macquarie Group Limited (Macquarie) which will be held at the Sofitel Melbourne, Grand Ballroom, Level 1, 25 Collins Street, Melbourne VIC on Thursday, 27 July 2017. The meeting is scheduled to commence at 10:30 am and will also be webcast live on Macquarie's website at www.macquarie.com

The Managing Director and Chief Executive Officer, Nicholas Moore, and I will comment briefly on the performance of the Macquarie Group during the year to 31 March 2017 at the meeting. You are also referred to the comments in Macquarie's 2017 Annual Report, which is available on Macquarie's website, for further information. The Directors standing for re-election will also each address the meeting. Shareholders will then be invited to join members of the Board and senior management for light refreshments before considering the formal business. The meeting will cover the items of business transacted annually, approval of termination benefits and an approval relating to the Macquarie Additional Capital Securities issued earlier this year. If you are unable to attend the meeting, we invite you to appoint a proxy to attend and vote on your behalf, either online using the share registry's website at www.linkmarketservices.com.au or using the enclosed proxy form.

If you plan to attend the meeting, please bring the enclosed proxy form to facilitate your registration which will commence at 9:45 am. I look forward to seeing you then.

Yours faithfully

Peter Warne
Chairman

Notice of Meeting

The 2017 Annual General Meeting (AGM) of Macquarie Group Limited (ACN 122 169 279) (Macquarie, MGL, the Company) will be held at the Sofitel Melbourne, Grand Ballroom, Level 1, 25 Collins Street, Melbourne VIC on Thursday, 27 July 2017, at 10:30 am. Registration will commence at 9:45 am.

Items of Business

1. Financial Statements

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

2. Election of Voting Directors

2a. Re-election of Mr GR Banks as a Voting Director Retiring by Rotation

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

That Mr GR Banks be re-elected as a Voting Director of Macquarie.

2b. Re-election of Mrs PA Cross as a Voting Director Retiring by Rotation

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

That Mrs PA Cross be re-elected as a Voting Director of Macquarie.

2c. Re-election of Ms DJ Grady as a Voting Director Retiring by Rotation

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

That Ms DJ Grady be re-elected as a Voting Director of Macquarie.

2d. Re-election of Ms NM Wakefield Evans as a Voting Director Retiring by Rotation

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

That Ms NM Wakefield Evans be re-elected as a Voting Director of Macquarie.

3. Remuneration Report

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

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

4. 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.

5. Approval of Executive Voting Director's Participation in the Macquarie Group Employee Retained Equity Plan (MEREP)

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

That the following be approved for all purposes:

- a) *participation in the Macquarie Group Employee Retained Equity Plan (MEREP) by Mr NW Moore, Managing Director and Chief Executive Officer; and*

- b) acquisition by Mr NW Moore of Restricted Share Units and Performance Share Units and the acquisition of shares in the Company in respect of those Restricted Share Units and Performance Share Units, all in accordance with the terms of the MEREP and on the basis described in the Explanatory Notes to the Notice of Meeting convening this meeting.

6. Approval of the Issue of MGL Shares on an Exchange of Macquarie Additional Capital Securities

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

That the agreement to issue US\$750 million worth of fully paid ordinary shares in the capital of Macquarie Group Limited (MGL) on an Exchange¹ of Macquarie Additional Capital Securities (MACS) issued by Macquarie Bank Limited, acting through its London Branch (Issuer), on 8 March 2017 on the terms and conditions summarised in the Explanatory Notes to the Notice of Meeting convening this meeting, is ratified for all purposes, including for the purpose of ASX Listing Rule 7.1.

Chairman's Voting Intention

The Chairman of the Meeting intends to vote undirected proxies in favour of Items 2, 3, 5 and 6.

Voting Exclusions

Item 3 – Remuneration Report

A vote on Item 3 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'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.

This 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 3 because Macquarie's proxy appointment expressly authorises the Chairman of the Meeting to exercise undirected proxies.

Item 4 – Approval of Termination Benefits

A vote on Item 4 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 4 (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 any event, Macquarie has determined that it will disregard any such votes by a staff member in determining whether Item 4 is passed.

In addition, a vote must not be cast on Item 4 by a member of the KMP of Macquarie, 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 4.

Where the Chairman of the Meeting is appointed as proxy and none of the 'For', 'Against' or 'Abstain' boxes is marked for Item 4, the appointing shareholder will be deemed to direct the Chairman to vote in favour of Item 4.

1. Exchange refers to the conversion of MACS into a variable number of MGL ordinary shares in accordance with the terms of the MACS offer. A summary of the terms of the MACS offer are set out in the Explanatory Notes on Items of Business accompanying this Notice of Meeting.

Notice of Meeting

Item 5 – Approval of Executive Voting Director’s Participation in the Macquarie Group Employee Retained Equity Plan (MEREP)

Macquarie will disregard any votes cast on Item 5 by the Managing Director and Chief Executive Officer (Managing Director) and any of his associates. However, Macquarie need not disregard a vote on Item 5 if:

- a) it is cast by the Managing Director or any associate of the Managing 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 the Chairman of 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.

In addition, a vote must not be cast on Item 5 by a member of the KMP of Macquarie, 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 5. This 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 5 because Macquarie’s proxy appointment expressly authorises the Chairman of the Meeting to exercise undirected proxies.

Item 6 – Approval of the Issue of MGL Shares on an Exchange of Macquarie Additional Capital Securities

In respect of Item 6, MGL will disregard any votes cast by any person who participated in the issue of Macquarie Additional Capital Securities (MACS) and any associate of those persons. However, MGL need not disregard a vote on Item 6 if:

- a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- b) it is cast by the Chairman of 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 Waiver – Macquarie Additional Capital Securities

ASX has granted a waiver allowing MGL to issue MGL shares on Exchange of MACS at any time rather than only within 3 months of MGL’s 2017 AGM.

ASX has also granted a waiver allowing MGL to limit the application of ASX Listing Rule 14.11 so that:

- the voting exclusion applies to shareholders who participated in the issue of MACS (MACS Issue)*; and
- votes of a shareholder who participated in the MACS Issue may be counted, to the extent only that the holder is acting solely in a fiduciary, nominee, trustee or custodial capacity on behalf of beneficiaries who did not participate in the MACS Issue (the Nominee Holder), on the following conditions:
 - a) the beneficiaries provide written confirmation to the Nominee Holder that they did not participate in the MACS Issue, nor are they an associate of a person who participated in the MACS Issue;
 - b) the beneficiaries direct the Nominee Holder to vote for or against Item 6; and
 - c) the Nominee Holder does not exercise discretion in casting a vote on behalf of the beneficiaries.

* No other shareholder’s votes will be disregarded as it cannot be known who may hold MACS at the time of any Exchange.

By order of the Board



Dennis Leong
Company Secretary
Sydney, 5 June 2017

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.

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.

For shareholders receiving the Notice of Meeting by post, a proxy form and a reply paid envelope have been included with this Notice of Meeting. Proxy voting instructions are provided on the proxy form.

2. Online Proxy Facility

You may also submit your proxy appointment online at www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on your Proxy Form. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Proxy Form).

You will be taken to have signed the proxy appointment if you lodge it in accordance with the instructions on the website. If you wish to use this facility, you must submit your proxy appointment through the facility by **no later than 10:30 am Australian Eastern Standard Time (AEST) on Tuesday, 25 July 2017**. A proxy cannot be appointed online if they are appointed under a power of attorney or similar authority. If you wish to appoint a second proxy contact Macquarie's share registry, Link Market Services, online or on 1300 554 096 (within Australia) or +61 1300 554 096 (internationally). Please read the instructions for the online proxy facility carefully before you submit your proxy appointment using this facility.

If you receive shareholder communications by email, your Notice of Meeting email will include a link to the online proxy appointment site.

3. Proxy Delivery

Completed proxies must be received by Macquarie's share registry, Link Market Services, online or at Link Market Services Limited, Locked Bag A14, Sydney South, NSW, 1235 (facsimile number +61 2 9287 0309) or at Link Market Services Limited, 1A Homebush Bay Drive, Rhodes, NSW, 2138 or Level 12, 680 George Street, Sydney, NSW, 2000 or at Macquarie's registered office in Sydney, by **no later than 10:30 am (AEST) on Tuesday, 25 July 2017**. Any revocations of proxies (including online proxy appointments) must be received at one of these places before the commencement of the meeting or at the registration desk at the Sofitel Melbourne on Collins Street, Melbourne for the 2017 Annual General Meeting from 9:45 am on the day of the meeting and no later than 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, Link Market Services, at the addresses or facsimile number in Note 3 above, or at Macquarie's registered office in Sydney, by **no later than 10:30 am (AEST) on Tuesday, 25 July 2017**, unless the power of attorney has been previously lodged with Macquarie's share registry.

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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 (AEST) on Tuesday, 25 July 2017**.

7. Voting at the Meeting

Voting on each of the proposed resolutions at this meeting will be conducted by poll.

8. Conduct of the Meeting

Macquarie is committed to ensuring that its shareholder meetings are conducted in a manner which provides those shareholders (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 generally. Macquarie will not allow conduct at any shareholder 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 attending shareholders.

9. Questions and Comments by Shareholders

At the meeting, shareholders will be provided with a reasonable opportunity to ask questions about or make comments on the business of the meeting, the management of the Company or about Macquarie Group generally. PricewaterhouseCoopers, Macquarie's external auditor, will attend the meeting and there will be an opportunity for shareholders to ask questions relevant to the audit.

10. 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'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 and Nicola M Wakefield Evans. Mr Moore is the only Executive Voting Director.

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) and its subsidiaries (Macquarie Group) for the most recent financial year will be laid before the meeting. There will be no formal resolution put to the meeting.

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

Items 2a, 2b, 2c and 2d – Election of Voting Directors

Voting Directors, Mr GR Banks, Mrs PA Cross, Ms DJ Grady and Ms NM Wakefield Evans retire by rotation and offer themselves for re-election. A brief summary of their qualifications and experience is provided below.

Item 2a – Re-election of Mr GR Banks as a Voting Director retiring by Rotation

Gary R Banks AO, BEc (Hons) (Monash), MEd (ANU)

Member of the Board Governance and Compliance Committee

Member of the Board Nominating Committee

Member of the Board Remuneration Committee

Member of the Board Risk Committee

Gary Banks joined the Boards of Macquarie Group and Macquarie Bank as an Independent Voting Director in August 2013.

Experience

Gary Banks has a wealth of experience across economics, public policy and regulation in Australia and internationally. He was Chairman of the Australian Productivity Commission from its inception in 1998 until 2012 and subsequently Chief Executive of the Australia and New Zealand School of Government.

He has also held senior roles with the GATT Secretariat in Geneva, the Trade Policy Research Centre in London, the Centre for International Economics in Canberra and consulted to the World Bank, Organisation for Economic Co-operation and Development (OECD) and World Trade Organisation.

Other current positions

Professor Banks is a Professorial Fellow at the University of Melbourne. He is Chairperson of the Australian Statistics Advisory Council. He is also a Senior Fellow at the Centre for Independent Studies. He chairs the OECD's Regulatory Policy Committee and is a Member of the Melbourne Institute's Advisory Board and the NSW Government's Economic Development Advisory Panel.

Mr Banks' appointment has enhanced the Board's skill set with his deep experience across economics, public policy and regulation in Australia and internationally.

Prior to submitting himself for re-election, Mr Banks confirmed that he would continue to have sufficient time to properly fulfil his Director duties for Macquarie. In accordance with Macquarie's policy on independence for non-executive directors, the Board (with Mr Banks abstaining) has determined that Mr Banks remains independent.

The Board (with Mr Banks abstaining) unanimously recommends that shareholders vote in favour of Mr Banks' re-election as an Independent Voting Director.

Explanatory Notes on Items of Business

Item 2b – Re-election of Mrs PA Cross as a Voting Director retiring by Rotation

Patricia A Cross, BSc (Hons) (Georgetown), FAICD

Chair of the Board Risk Committee

Member of the Board Audit Committee

Member of the Board Nominating Committee

Patricia Cross joined the Boards of Macquarie Group and Macquarie Bank as an Independent Voting Director in August 2013.

Experience

Patricia Cross has extensive international financial and banking experience, through senior executive roles with Chase Manhattan Bank and Chase Investment Bank, Banque Nationale de Paris and National Australia Bank, where she was responsible for the Wholesale Banking and Finance Division and a member of the Executive Committee. She has lived and worked in seven different countries.

Mrs Cross has served on a number of listed company boards, including National Australia Bank Limited, JBWere Limited, Qantas Airways, Wesfarmers Limited, AMP Limited and Suncorp-Metway Limited. She was Chair of Qantas Superannuation Limited and Deputy Chair of the Transport Accident Commission of Victoria. Mrs Cross has also served on many government bodies and not for profit organisations' boards.

Other current positions

Mrs Cross is a Director of Aviva plc, the Founding Chair of the 30% Club Australia and the Chair of the Commonwealth Superannuation Corporation. She is also an Australian Indigenous Education Foundation ambassador.

Mrs Cross' extensive expertise in wholesale and retail banking, international capital markets, financial risk management and treasury as well as considerable experience as a company director of financial and wealth management corporations has added significant financial expertise to the Macquarie Board.

Prior to submitting herself for re-election, Mrs Cross confirmed that she would continue to have sufficient time to properly fulfil her Director duties for Macquarie. In accordance with Macquarie's policy on independence for non-executive directors, the Board (with Mrs Cross abstaining) has determined that Mrs Cross remains independent.

The Board (with Mrs Cross abstaining) unanimously recommends that shareholders vote in favour of Mrs Cross' re-election as an Independent Voting Director.

Item 2c – Re-election of Ms DJ Grady as a Voting Director retiring by Rotation

Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD

Member of the Board Governance and Compliance Committee

Member of the Board Nominating Committee

Member of the Board Remuneration Committee

Member of the Board Risk Committee

Diane Grady joined the Boards of Macquarie Group and Macquarie Bank as an Independent Voting Director in May 2011.

Experience

Diane Grady has extensive international experience in a variety of industries having served as a full time independent director of public companies and not-for-profit boards since 1994. Previous directorships include Australian Stationery Industries, BlueScope Steel Limited, Woolworths Limited, Goodman Group, Wattyl Limited, Lend Lease US Office Trust, Lend Lease Limited and MLC. She also served as a member of the ASIC Business Consultative Panel, the National Investment Council, the Sydney Opera House Trust, and was President of Chief Executive Women.

Ms Grady was a partner at McKinsey & Company where she consulted for over 15 years to clients on strategic and operational issues related to growth and was a worldwide leader of the firm's Organisation and Change Management practice. She has a Masters of Chinese Studies and worked for three years as a journalist in Asia. She has published research on innovation, corporate governance and gender diversity.

Other current positions

Ms Grady is a Director of Spotless Group Holdings Limited and Tennis Australia, a member of the Centre for Ethical Leadership, the Heads Over Heels Advisory Board and the NFP Chairs Forum and is Chair of The Hunger Project Australia.

Ms Grady's experience as a director of major listed Australian companies with international businesses and her background in strategy and organisational issues has been of great benefit to Macquarie.

Prior to submitting herself for re-election, Ms Grady confirmed that she would continue to have sufficient time to properly fulfil her Director duties for Macquarie. In accordance with Macquarie's policy on independence for non-executive directors, the Board (with Ms Grady abstaining) has determined that Ms Grady remains independent.

The Board (with Ms Grady abstaining) unanimously recommends that shareholders vote in favour of Ms Grady's re-election as an Independent Voting Director.

Explanatory Notes on Items of Business

Item 2d – Re-election of Ms NM Wakefield Evans as a Voting Director retiring by Rotation

Nicola M Wakefield Evans, BJuris/BLaw (UNSW), FAICD

Chair of the Board Governance and Compliance Committee

Member of the Board Audit Committee

Member of the Board Nominating Committee

Member of the Board Risk Committee

Nicola Wakefield Evans joined the Boards of Macquarie Group and Macquarie Bank as an Independent Voting Director in February 2014.

Experience

Nicola Wakefield Evans is an experienced non-executive director and corporate finance lawyer. As a lawyer, Nicola has significant Asia-Pacific experience and was a partner at King & Wood Mallesons (and its predecessor, Mallesons Stephen Jaques) for more than 20 years. Ms Wakefield Evans has particular expertise in the financial services, resources and energy, and infrastructure sectors.

She held several key management positions at King & Wood Mallesons including Managing Partner International in Hong Kong and Managing Partner, Practice in Sydney.

Other current positions

Ms Wakefield Evans is a director of Lend Lease Corporation Limited, BUPA ANZ Healthcare Holdings Pty Ltd and BUPA ANZ Insurance Pty Ltd. She is also a member of the Takeovers Panel, the National Board of the Australian Institute of Company Directors, Asialink (University of Melbourne) and AsiaLink Business and The University of New South Wales Foundation Limited Board.

Ms Wakefield Evans' extensive Asia-Pacific experience as a corporate finance lawyer has added valuable expertise to the Macquarie Board.

Prior to submitting herself for re-election, Ms Wakefield Evans confirmed that she would continue to have sufficient time to properly fulfil her Director duties for Macquarie. In accordance with Macquarie's policy on independence for non-executive directors, the Board (with Ms Wakefield Evans abstaining) has determined that Ms Wakefield Evans remains independent.

The Board (with Ms Wakefield Evans abstaining) unanimously recommends that shareholders vote in favour of Ms Wakefield Evans' re-election as an Independent Voting Director.

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.

Explanatory Notes on Items of Business

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.

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 ²	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.

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

Explanatory Notes on Items of Business

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 office³ 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

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

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.

Explanatory Notes on Items of Business

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.

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 MEREP⁴. 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.

4. Macquarie Group Employee Retained Equity Plan.

Explanatory Notes on Items of Business

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).

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:

- committed an act of dishonesty (including but not limited to misappropriation of funds and deliberate concealment of a transaction)
- committed a significant and wilful breach of duty that causes material damage to Macquarie
- joined a competitor of Macquarie Group
- taken staff to a competitor or been instrumental in causing staff to go to a competitor, or
- 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.

Explanatory Notes on Items of Business

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.

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	The allocation to individuals is based on: – 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	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. These assumptions are subject to periodic review. Any changes will continue to be disclosed each year in Macquarie's Remuneration Report.
2.4 Exercisability of PSUs	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. 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. PSU hurdles will continue to be disclosed in each year's Remuneration Report.
2.5 Vesting period	PSUs vest in two equal tranches after three and after four years. 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. The applicable vesting period will continue to be disclosed each year in Macquarie's Remuneration Report.
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.

Explanatory Notes on Items of Business

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.

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. 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.
6.2 The length of the notice period for which payment is being made	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.
6.3 Whether Macquarie's operational requirements at the time require the Relevant Executive to work through part or all of their notice period	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. 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.
7.2 The Relevant Executive's fixed remuneration over time	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.
7.3 The number of years the Relevant Executive has worked with Macquarie	

Explanatory Notes on Items of Business

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.

Item 5 – Approval of Executive Voting Director’s Participation in the Macquarie Group Employee Retained Equity Plan (MEREP)

The approval of shareholders is sought to permit Nicholas Moore, Macquarie’s Managing Director and Chief Executive Officer (Managing Director), to participate this year, with other executives in the MEREP.

Background

This approval is being sought because ASX Listing Rule 10.14 provides that a listed company may only permit a director of the company to acquire newly issued shares or rights to shares under an employee incentive scheme where that director’s participation has been approved by an ordinary resolution of shareholders.

The Managing Director is eligible to receive Restricted Share Units (RSUs) under the MEREP. The shares required for this grant are expected to be purchased by the trust established to hold shares for MEREP purposes. Subject to shareholder approval of Item 5 in the Notice of Meeting, shares may instead be issued if purchasing becomes impractical or inadvisable.

The Managing Director is also eligible to receive Performance Share Units (PSUs) that are exercisable subject to performance hurdles. Shareholder approval under ASX Listing Rule 10.14 is being sought so that PSUs may be issued to the Managing Director under the MEREP. Further information on PSUs and the performance hurdles can be found in Appendix A to these Explanatory Notes.

Restricted Share Units

Approval is sought to allocate \$12.43 million of the Managing Director’s retained 2017 profit share under the MEREP, in the form of RSUs.

The RSUs for which approval is sought will vest over seven years. In all other respects, the RSUs will be subject to the same terms and conditions as RSUs awarded to other Executive Directors with retained profit share allocated under the MEREP. Macquarie’s 2017 Remuneration Report includes a summary of these terms and conditions.

The number of RSUs that will be allocated to the Managing Director will be determined by dividing his retained profit share amount to be invested in Macquarie shares (\$12.43 million) (Retained Amount) by the average price at which Macquarie shares are acquired during the Buying Period for the allocation of MEREP awards to other staff with retained profit share for the financial year ended 31 March 2017. For 2017, the Buying Period is expected to run from 16 May 2017 to 7 July 2017 but may be completed earlier or later. The average price is referred to as the Acquisition Price. If shares are issued to fill any shortfall in the number of shares acquired in the Buying Period for the Managing Director and concurrent MEREP offers to other staff, the number of RSUs that will be allocated to the Managing Director will be determined by dividing his Retained Amount by the volume weighted average of the Acquisition Price in respect of any shares that are purchased and the price at which any shares are issued. The latter will be the volume weighted average price of Macquarie shares traded on the ASX over the 5 trading days up to and including the issue date (Issue Price).

This is consistent with the methodology used for calculating the number of MEREP awards for other staff with retained profit share for the financial year ended 31 March 2017. The number of RSUs to be allocated to the Managing Director will not be known until the Acquisition Price, the Issue Price and/or the volume weighted average of the Acquisition Price and the Issue Price (Blended Price) (as applicable) are calculated at the end of the Buying Period. Macquarie will announce to the market the Acquisition Price, the Issue Price and/or the Blended Price (as applicable) and the number of RSUs to be allocated to the Managing Director, prior to the date of the AGM.

Performance Share Units

Approval is sought to allocate Mr Moore \$2.55 million worth of PSUs vesting in two equal tranches after three and four years from the deemed vesting commencement date (1 July 2017), giving an average vesting period of three and a half years. To ensure continued alignment with shareholders post termination, in cases of genuine retirement, PSUs continue to vest in accordance with the above vesting schedule and remain subject to the same performance hurdles. The Board or its delegate has the authority to accelerate the vesting of, or to forfeit, PSUs when the Managing Director leaves Macquarie. The Managing Director’s PSUs will be structured as Deferred Share Units (DSUs) with the performance hurdles described in Appendix A to these Explanatory Notes. A DSU is a right to receive on exercise of

Explanatory Notes on Items of Business

the DSU either a share held in the MEREP Trust (Trust) or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP.

As in previous years, the number of PSUs that will be allocated to the Managing Director will be calculated by dividing \$2.55 million by the fair valuation of a PSU at the date of grant. The fair value of PSUs that may be acquired by the Managing Director is \$2.55 million. The determination of the number of PSUs to be allocated will be deferred until after shareholder approval is received. The fair value per PSU is to be calculated at the date of grant and will be determined using a Monte-Carlo option pricing framework. The Monte-Carlo option pricing framework is a valuation technique that, based on input assumptions, generates thousands of possible outcomes and assigns a value to each.

The values are then averaged and discounted to the present to arrive at the fair value of a PSU. This valuation methodology is also designed to take account of trading period restrictions, the fact that PSUs do not attract dividends and the vesting performance hurdles and timeframes described in Appendix A to these Explanatory Notes. As a result, the fair value of a PSU is lower than the market value of a Macquarie share. The following key assumptions will be adopted in estimating the fair value of the proposed PSUs: a risk free interest rate⁵, share volatility⁶ and a forecast Macquarie share dividend yield. The market price of the Macquarie shares for the purpose of this calculation will be the closing market price preceding the date of grant, which is expected to be on or around 15 August 2017.

The table below provides an estimate of the number of PSUs to be granted at varying prices for Macquarie shares. The following assumptions were used in estimating these values: a risk free interest rate of 2.19% per annum, share volatility of 24.07% and a forecast dividend yield of 4.94% per annum (paid in two installments each year).

Macquarie Share Price	Fair Value of PSU Award	PSU Fair Value (per unit)	Estimated number of PSUs to be granted	Estimated Market Value
\$95	\$2,550,000	\$59.2752	43,019	\$4,086,805
\$90	\$2,550,000	\$56.1554	45,409	\$4,086,810
\$85	\$2,550,000	\$53.0357	48,080	\$4,086,800
\$80	\$2,550,000	\$49.9159	51,085	\$4,086,800

The value of any Macquarie shares that may be received by the Managing Director at a future date as a result of this allocation of PSUs will depend on factors including the extent to which the performance hurdles are achieved and the future price of Macquarie shares when any of these awards become exercisable. Further details regarding PSUs are set out on pages 61 to 63 of the Remuneration Report.

Executive Voting Director's remuneration

Full details of the Managing Director's remuneration and Macquarie share holdings in respect of the 2017 financial year are shown in Appendix 2 and Appendix 3 (pages 71 to 81) of the 2017 Annual Report.

Maximum number of RSUs and PSUs

The maximum number of PSUs that may be acquired by the Managing Director for which shareholder approval is sought will be calculated by dividing \$2.55 million by the fair value of a PSU on the date of grant, as described above. The maximum number of RSUs for which approval is sought will be announced to the market before the AGM.

Price payable on grant of Restricted Share Units

The effective aggregate price payable by the Managing Director for the RSUs for which shareholder approval is sought is approximately \$12.43 million, being the amount of Mr Moore's 2017 retained profit share to be allocated under the MEREP.

5. Being the zero coupon yield curve derived from the inter-bank interest rate swap curve as per industry practice for a Monte-Carlo simulation.

6. Being the actual three year historical volatility of the Macquarie share price.

Price payable on grant of Performance Share Units

The Managing Director will not make any cash payment for the PSUs for which shareholder approval is sought. The PSUs are an incentive mechanism for future performance and can only be exercised subject to satisfaction of the performance hurdles described in Appendix A to these Explanatory Notes.

Participants under previous approvals

The Managing Director is the only person referred to in ASX Listing Rule 10.14 entitled to participate in the MEREP.

The Managing Director was granted 156,144 RSUs at an assessed value of \$71.55 per share and 52,887 PSUs for nil cash consideration following shareholder approval at the 2016 Macquarie Group Annual General Meeting.

Terms of any loan relating to the acquisition of shares

No loan is being provided to the Managing Director in relation to the acquisition of shares under the MEREP.

Date by which grants will be made

The proposed grants of RSUs and PSUs to the Managing Director are expected to be made on or around 15 August 2017 but not later than 30 September 2017, subject to shareholder approval of this Item 5 in the Notice of Meeting.

Consequences if approval not obtained

If shareholders do not approve the proposed issue of RSUs and PSUs to the Managing Director under Item 5, the proposed grant of RSUs and issue of PSUs to him will not proceed. This may impact Macquarie's ability to incentivise the Managing Director and align his interests with those of shareholders and with the remuneration arrangements of the other Executive Directors. The Board will need to consider alternative remuneration arrangements, which may not be consistent with Macquarie's remuneration principles, including a cash payment.

The Non-Executive Directors of the Board unanimously recommend that shareholders vote in favour of Item 5 in the Notice of Meeting. Mr Moore, being the Managing Director and Chief Executive Officer, has a material personal interest in the resolution and, therefore, has abstained from providing a recommendation.

Explanatory Notes on Items of Business

Item 6 – Approval of the Issue of MGL Shares on an Exchange⁷ of Macquarie Additional Capital Securities

Background

In March 2017, Macquarie Bank Limited (MBL) completed the issue of US\$750,000,000 of Macquarie Additional Capital Securities (MACS) to wholesale investors with the proceeds used to assist with general corporate funding of MBL London Branch. MACS qualify as Additional Tier 1 capital of MBL for Australian Prudential Regulation Authority (APRA) purposes. MACS were issued by MBL acting through its London Branch, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof to wholesale investors.

MACS are fully paid, perpetual, unsecured, direct, subordinated and general obligations of MBL. A summary of the terms of the MACS is provided in Appendix B to these Explanatory Notes and capitalised terms relating to the MACS in these Explanatory Notes have the meaning given in the Cleansing Notice lodged with ASX on 8 March 2017.

The MACS are subject to Exchange upon a Non-Viability Event, a Common Equity Tier 1 Trigger Event or an Acquisition Event, in each case for a variable number of fully paid ordinary shares in the capital of Macquarie Group Limited (MGL Shares), subject to the Maximum Exchange Number. MGL has agreed to issue MGL Shares on an Exchange.

MACS are perpetual and have no maturity date unless they are redeemed, Exchanged for MGL Shares or are Written-Off. Redemption is subject to certain conditions, including APRA written approval and the occurrence of the Initial Reset Date, being 8 March 2027.

Reason for seeking approval

In general terms, ASX Listing Rule 7.1 imposes a limit on the number of equity securities (including ordinary shares) that a listed company can issue or agree to issue without shareholder approval (15% placement capacity) where an exemption to the rule does not apply.

ASX has confirmed that the impact of the agreement to issue MGL Shares on an Exchange of MACS on MGL's 15% placement capacity can be calculated as if the MACS were Exchanged on 28 February 2017.

Applying ASX's confirmation, the agreement to issue MGL Shares on an Exchange of MACS reduces MGL's 15% placement capacity by 11,439,853 MGL Shares or 3% of MGL's issued capital unless shareholders approve Item 6 in the Notice of Meeting (calculated as though Exchange occurred after close of trading on 28 February 2017 using a MGL Share price of \$85.62 and the USD exchange rate of 0.7657).

On this basis, MGL determined that it was able to agree to issue MGL Shares on an Exchange of MACS within its 15% placement capacity and accordingly no shareholder approval was required.

The effect of approving Item 6 will be to refresh MGL's 15% placement capacity under ASX Listing Rule 7.1 so that its capacity would be the same as if MGL had agreed to issue MGL Shares on an Exchange of MACS with shareholder approval. If shareholders approve Item 6, MGL will have greater flexibility to make future placements of MGL Shares and to raise funds to meet future needs. Notwithstanding an approval by shareholders of the proposed resolution in Item 6, any future equity raisings will remain subject to the 15% limit set out in ASX Listing Rule 7.1 where an exemption to the limit does not apply.

The Board unanimously recommends that shareholders vote in favour of Item 6 in the Notice of Meeting.

7. Exchange refers to the conversion of MACS into a variable number of MGL ordinary shares in accordance with the terms of the MACS offer. A summary of the terms of the MACS offer are set out in Appendix B to these Explanatory Notes.

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. ⁸
Hurdle	Sliding scale applies: – 50% becoming exercisable at EPS CAGR of 7.5% – 100% at EPS CAGR of 12%. For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable. For awards made prior to 2013, the EPS CAGR hurdle range was 9% to 13%.	Sliding scale applies: – 50% becoming exercisable above the 50th percentile – 100% at the 75th percentile. For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable.
Rationale for hurdles	– 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. 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.	

8. 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.

Appendix B – Summary of the terms of the Macquarie Additional Capital Securities

The following is a summary only of the terms of the MACS. The rights and liabilities attaching to the MACS as well as the rights and liabilities attaching to MGL Shares are provided in more detail in the Cleansing Notice lodged with the ASX on 8 March 2017.

About MACS

MACS are fully paid, perpetual, unsecured, direct, subordinated and general obligations of MBL, acting through its London Branch. MACS are denominated in US dollars and were issued to wholesale investors with a minimum parcel of US\$200,000. MACS constitute Additional Tier 1 capital of MBL under the Australian Prudential Regulation Authority's prudential standards.

Interest

MACS are scheduled to pay interest at a fixed rate semi-annually in arrears until all MACS are redeemed, Exchanged or Written-Off. Until 8 March 2027, the Interest Rate is 6.125% pa.

Interest payments on MACS are discretionary, which means MBL can determine not to pay interest and interest can only be paid if certain payment conditions are met (including that APRA does not object to the interest payment). Interest payments are non-cumulative, which means that if interest has not been paid on an Interest Payment Date then MBL has no obligation to pay any unpaid interest at any later date.

If interest is not paid in full within 10 Business Days of the Missed Interest Payment Date, in most circumstances, MBL is restricted from paying any dividend or returning capital on MBL ordinary shares until the next Interest Payment Date.

Exchange

Exchange refers to the conversion of MACS into a variable number of MGL Shares in accordance with the terms of the MACS offer.

MACS are subject to be Exchanged for a variable number of MGL Shares in the following circumstances:

- Non-Viability Event or Common Equity Tier 1 Trigger Event (Automatic Exchange Event): MBL will be required to immediately Exchange all or some MACS for MGL Shares if an Automatic Exchange Event occurs (or, if Exchange has not occurred for any reason within 5 Business Days of the Automatic Exchange Date, Write-Off all or some MACS). Exchange under these circumstances is not subject to any conditions.
- Acquisition Event: MBL will be required to immediately Exchange all MACS for MGL Shares if an Acquisition Event occurs (broadly, a change of control of MBL or MGL by takeover bid, scheme of arrangement or otherwise), provided certain conditions are met.

Under the terms of the MACS, the Maximum Exchange Number per US\$1,000 is 75.9297 (being the most MGL Shares that can be issued, per US\$1,000 on Exchange) based on the Issue Date VWAP of A\$86.52 and an exchange rate of 0.7611, giving an Exchange Floor Price of \$13.1701 per MGL Share. On this basis the maximum number of MGL Shares that MGL may issue is 56,947,275, which will be issued pursuant to Listing Rule 7.2 (Exception 13).

On an Exchange Event, MGL Shares will be issued to the holders of MACS at the time of the Exchange Event. An Exchange Event may not occur.

Ranking in a Winding-Up

In a Winding-Up of MBL, MACS will rank ahead of MBL ordinary shares and equally with other Equal Ranking Obligations but behind all Senior Creditors of MBL. Any return on MACS in a Winding-Up may be adversely affected or reduced to zero if an Automatic Exchange Event occurs.

Redemption

MACS may be redeemed at MBL's option on 8 March 2027 and on every fifth anniversary of that date. Redemption is subject to APRA's written approval and requires that APRA be satisfied with MBL's capital position after the redemption, or that MBL replace MACS with capital of the same or better quality prior to the redemption. Additionally, subject to the same conditions, MBL may redeem MACS on the occurrence of a Regulatory Event or Tax Event.

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For personal use only

Investor Information

Enquiries

Investors who wish to enquire about any matter relating to their Macquarie Group Limited shareholding 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
Facsimile: +61 2 9287 0309

Email: macquarie@linkmarketservices.com.au

Website: www.linkmarketservices.com.au

All other enquiries relating to a Macquarie Group Limited share investment 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

Macquarie's 2017 Annual Report is available on Macquarie's website at:
www.macquarie.com/about/investors/reports



Macquarie Group Limited
ACN 122 169 279

LODGE YOUR VOTE



ONLINE

www.linkmarketservices.com.au



BY MAIL

Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia



BY FAX

+61 2 9287 0309



BY HAND

Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138; or
Level 12, 680 George Street, Sydney NSW 2000



ALL ENQUIRIES TO

Telephone (within Australia): 1300 554 096
Telephone (International): +61 1300 554 096



CHANGE OF ADDRESS: If your address is incorrect, mark this box and make the correction on the form. Shareholders sponsored by a broker (reference number commences with 'X') should advise their broker of any changes.

LODGE A PROXY FORM

Your Proxy Form must be received by **10:30am (AEST) on Tuesday, 25 July 2017.**

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the reverse side of this Proxy Form and postcode for your shareholding.



BY MOBILE DEVICE

Our voting website is designed specifically for voting online. You can now lodge your Proxy by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier as shown on the reverse side of this Proxy Form and postcode for your shareholding.

To scan the code you will need a QR code reader application which can be downloaded free of charge on your mobile device.

QR Code



HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

HOW TO VOTE ON ITEMS OF BUSINESS

All your securities will be voted in accordance with your directions.

APPOINTMENT OF A PROXY

For important information relating to the appointment of a proxy to vote on your behalf, please refer to Step 1 overleaf.

Voting 100% of your holding:

Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (subject to the voting restrictions set out in the Notice of Meeting). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding:

Indicate a portion of your voting rights by inserting the percentage or number of shares you wish to vote in the 'For', 'Against' or 'Abstain' box or boxes opposite each item of business. The sum of the votes cast must not exceed your total number of shares or 100%.

Appointing a second proxy

You are entitled to appoint up to two proxies to attend the Meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of shares for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both proxyholders' names and the percentage of votes or number of shares in Step 1 and Step 2 overleaf. If you wish to give your second proxy different voting instructions, an additional Proxy Form may be obtained by telephoning the Share Registry or you may copy this form.

A proxy need not be a shareholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the shareholder must sign.

Joint Holding: Where the holding is in more than one name, all of the shareholders should sign.

Power of Attorney: This Proxy Form and any Power of Attorney must be lodged by 10:30am (AEST) on Tuesday, 25 July 2017. If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Company: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry, Link Market Services, or online at www.linkmarketservices.com.au

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**

PROXY FORM

I/We being a member(s) of Macquarie Group Limited (Company) and entitled to attend and vote appoint:

APPOINT A PROXY

☐ the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **10:30am (AEST) on Thursday, 27 July 2017 at the Sofitel Melbourne, Grand Ballroom, Level 1, 25 Collins Street, Melbourne VIC (the Meeting)** and at any postponement or adjournment of the Meeting.

Important for Items 3, 4 and 5: If the Chairman of the Meeting is your proxy and you do not direct your proxy to vote 'For', 'Against' or to 'Abstain' on:

- Items 3 and/or 5, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Items 3 and 5 (as applicable) even if that item is connected directly or indirectly with the remuneration of a member of the Key Management Personnel of Macquarie. The Chairman of the Meeting will vote undirected proxies in favour of Items 3 and 5; and/or
- Item 4, you will be deemed to have directed the Chairman of the Meeting to vote in favour of Item 4.

The Chairman of the Meeting will vote undirected proxies in favour of Items 2, 3, 5 & 6. If you do not wish for your vote to be cast in this way, you should direct your proxy how to vote.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 10:30am (AEST) on Tuesday, 25 July 2017.

Please read the voting instructions overleaf before marking any boxes with an ☒.

Items of Business	For	Against	Abstain*		For	Against	Abstain*
2a Re-election of Mr GR Banks as a Voting Director	☐	☐	☐	2b Re-election of Mrs PA Cross as a Voting Director	☐	☐	☐
2c Re-election of Ms DJ Grady as a Voting Director	☐	☐	☐	2d Re-election of Ms NM Wakefield Evans as a Voting Director	☐	☐	☐
3 To adopt the Remuneration Report for the year ended 31 March 2017	☐	☐	☐	4 Approval of Termination Benefits**	☐	☐	☐
5 Approval of Executive Voting Director's participation in the Macquarie Group Employee Retained Equity Plan (MEREP)	☐	☐	☐	6 Approval of the Issue of MGL Shares on an Exchange of Macquarie Additional Capital Securities***	☐	☐	☐

i * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**** Voting on Item 4.** Please refer to the Notice of Meeting for details on voting restrictions. If you may receive a benefit under Item 4, the Corporations Act 2001 prohibits you and your associates from voting on Item 4.

***** Voting on Item 6.** Please refer to the Notice of Meeting for details on voting restrictions and the related ASX waiver for Item 6. If you are a trustee, nominee or custodian who is subject to these voting restrictions, and you are directing your proxy to vote on Item 6, then by signing and lodging this Proxy Form you are confirming to Macquarie Group Limited that the conditions of the ASX waiver referred to in the Notice of Meeting have been satisfied in relation to all security holdings that are the subject of the proxy.

Appointing a second proxy

I/We wish to appoint a second proxy

State the percentage of your voting rights or the number of shares for this proxy

AND

%

OR

Name of second proxyholder

SIGNATURE OF SHAREHOLDER(S) – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

Contact Name

Contact Daytime Telephone

Date

MQG PRX1701N