



MACQUARIE BANK

Notice of General Meeting

relating to a proposed
Capital Return

10:30 am Monday, 10 December 2018

Macquarie's Sydney Office in the Auditorium
Level 10, 50 Martin Place,
Sydney, New South Wales

CHAIRMAN'S LETTER

Dear Securityholder

Please find enclosed a Notice of General Meeting of Macquarie Bank Limited (**MBL**) which will be held in Macquarie's Sydney Office in the Auditorium, Level 10, 50 Martin Place, Sydney, New South Wales on Monday, 10 December 2018.

The meeting is scheduled to commence at 10:30 am.

The General Meeting is being held to consider a proposed capital return comprising an equal reduction of MBL's ordinary share capital of up to \$2,040 million (**Capital Return**).

The Capital Return is to be undertaken in connection with a proposed internal restructure of Macquarie Group Limited (**MGL**) involving the transfer of the Corporate and Asset Finance Group's (**CAF**) Principal Finance and Transportation Finance businesses from the Bank Group to the Non-Bank Group (**Internal Restructure**). Subject to the satisfaction of all necessary conditions, it is proposed that the Capital Return will be effected on or about 10 December 2018.

Holders of MBL ordinary shares and Macquarie Income Securities (**MIS**) are entitled to vote on the proposed resolution. MIS holders are entitled to vote because it concerns a proposal to reduce MBL's share capital. However, MIS holders will not receive any payment in connection with the Capital Return and represent less than 1% of the total number of votes eligible to be cast on the resolution.

Macquarie B.H. Pty Limited (**MBHPL**), MBL's sole ordinary shareholder and a subsidiary of Macquarie Group Limited, has confirmed that it intends to vote its ordinary shares in favour of the resolution.

You are welcome to attend the meeting. If you cannot attend, you may submit your proxy appointment online. If you plan to attend the meeting, please bring the enclosed proxy form to facilitate your registration which will commence at 10:00am.

Yours faithfully



Peter Warne
Chairman

2 November 2018

Items of Business

Notes

Key dates

NOTICE OF MEETING

A General Meeting of Macquarie Bank Limited (ACN 008 583 542) (MBL, the Company) will be held in Macquarie's Sydney Office in the Auditorium, Level 10, 50 Martin Place, Sydney, New South Wales on Monday, 10 December 2018 at 10:30 am. Registration will commence at 10:00 am.

ITEMS OF BUSINESS**1. Approval of Capital Return Resolution**

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

That for the purposes of Part 2J.1 of the Corporations Act 2001 (Cth), and for all other purposes, approval is given for the share capital of Macquarie Bank Limited to be reduced by an aggregate amount of up to \$2,040 million, to be applied on a pro rata basis to Macquarie Bank Limited's ordinary shares.

The Chairman of the Meeting intends to vote undirected proxies in favour of Item 1.

For further information, please refer to the attached Explanatory Memorandum. Terms having a defined meaning in the glossary to the Explanatory Memorandum have a corresponding meaning in this Notice of General Meeting.

By order of the Board



Dennis Leong
Company Secretary

Sydney,
2 November 2018

NOTES

1. Proxies

If you cannot attend, you may appoint a proxy to attend and vote for you. A proxy need not be a securityholder of MBL. If you are entitled to cast two or more votes, you may nominate two persons to vote on your behalf at the meeting, in which case, 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 'Abstain' from voting, your votes will not be counted in computing the required majority on a poll. Proxy voting instructions are provided on the proxy form.

2. Online Proxy Facility

You may also submit your proxy appointment online at votingonline.com.au/MBLGM2018

Login to the Boardroom website using the holding details as shown on your proxy form. To use the online lodgement facility, Securityholders will need their Voting Access Code (VAC) 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 Daylight Saving Time (AEDT) on Saturday, 8 December 2018.**

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, Boardroom, 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 securityholder communications by email, your Notice of Meeting email will include a link to the online proxy appointment site.

Items of Business

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3. Proxy Delivery

Completed proxies must be received by MBL's share registry, Boardroom, online or at Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001 (facsimile number +61 2 9290 9655) or at Boardroom Pty Limited, Level 12, 225 George Street, Sydney NSW 2000 or at MBL's registered office in Sydney, by no later than 10:30 am (AEDT) on Saturday, 8 December 2018.

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 Macquarie's Sydney Office in the Auditorium, Level 10, 50 Martin Place, Sydney, New South Wales for the General Meeting from 10:00 am on the day of the meeting and no later than the commencement of the meeting.

4. Power of Attorney

If a Securityholder 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, Boardroom Pty Limited, 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 (AEDT) on Saturday, 8 December 2018, unless the power of attorney has been previously lodged with Macquarie's share registry.

5. Corporate Representatives

If a corporate Securityholder 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.

6. Securityholders Eligible to Vote

Pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the holders of MBL's ordinary shares and MIS for the purposes of the meeting, will be those registered holders of MBL's ordinary shares and MIS at 7:00 pm (AEDT) on Saturday, 8 December 2018.

NOTES

7. Voting at the Meeting

Voting on the proposed resolution at this meeting will be conducted by poll.

8. Conduct of the Meeting

MBL is committed to ensuring that its securityholder meetings are conducted in a manner which provides those Securityholders (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. MBL will not allow conduct at any meeting which is discourteous to those who are present at the meeting, or which in any way disrupts or interferes with the proper conduct of the meeting. The Chairman of the Meeting will exercise his or her powers as the Chairman to ensure that the meeting is conducted in an orderly and timely fashion, in the interests of all of those attending.

Key Dates

Last time and date to lodge a proxy form for the General Meeting with MBL's share registry	10:30 am, 8 December 2018
General Meeting	10:30 am, 10 December 2018
Capital Return effected (subject to satisfaction of the MBL Condition – see Section 2 of the Explanatory Memorandum)	10 December 2018

Please note that all dates and times are indicative only and subject to change. The Directors reserve the right to amend these dates and times in their absolute discretion.

Unless otherwise stated all \$ amounts refer to Australian Dollars.

You should read this document carefully and in full before deciding how to vote on the Capital Return. If necessary, please consult your financial, investment, legal, taxation or other professional adviser.

EXPLANATORY MEMORANDUM

1. INTRODUCTION

Macquarie Bank Limited (**MBL**) is a direct subsidiary of Macquarie B.H. Pty Limited (**MBHPL**). Both MBL and MBHPL are subsidiaries of Macquarie Group Limited (**MGL**). MBL and its subsidiaries are members of the Bank Group. MGL and its subsidiary, Macquarie Financial Holdings Pty Limited (**MFHPL**) and its subsidiaries, are members of the Non-Bank Group.

This Notice of Meeting and Explanatory Memorandum is being provided to MBHPL (as MBL's sole ordinary shareholder) and holders of Macquarie Income Securities (**MIS**).

On 2 November 2018, MBL announced a General Meeting to take place on 10 December 2018 to approve a proposed Capital Return comprising an equal reduction of MBL's ordinary share capital of up to \$2,040 million.

As announced on 2 November 2018, the Capital Return is to be undertaken in connection with an internal restructure of Macquarie Group Limited (**MGL**) involving the transfer of the Corporate and Asset Finance Group's (**CAF**) Principal Finance and Transportation Finance businesses (**CAF Businesses**) from the Bank Group to the Non-Bank Group (**Internal Restructure**). Further details in relation to the Internal Restructure are set out in Section 2 below and in MBL's 1H19 Interim Financial Report lodged with ASX on 2 November 2018.

Subject to satisfaction of all necessary conditions, it is expected that the Internal Restructure will be implemented on a designated 'Effective Date' (currently proposed to be 10 December 2018). The transfer of assets to the Non-Bank Group pursuant to the Internal Restructure will release capital in MBL. The Australian Prudential Regulation Authority (**APRA**) has given approval for MBL to return up to \$2,040 million of such capital to its sole ordinary shareholder, MBHPL, by way of the Capital Return and for MBHPL to in turn return such capital to its parent, MGL. MIS holders will not receive any payment in connection with the Capital Return.

Approval of the Capital Return requires approval of MBL's ordinary shareholder and holders of MIS by way of an ordinary resolution.

The Capital Return remains subject to confirmation by MBL on or prior to the Effective Date that there is no legal or regulatory impediment to MBL undertaking the Capital Return (see further at Section 2 below).

2. THE INTERNAL RESTRUCTURE

The Internal Restructure is intended to simplify Macquarie Group's structure by better reflecting the latest activities of the individual CAF Businesses.

CAF Principal Finance provides flexible primary financing solutions and engages in secondary market investing, across the capital structure. CAF Transportation Finance involves the financing of aircraft, rotorcraft and rail assets.

MBL has entered into two restructure deeds with other members of the Macquarie Group to implement the Internal Restructure. Pursuant to the restructure deeds, MBL has agreed to transfer all of the economic risk and benefit and decision making in relation to these CAF Businesses from the Bank Group to the Non-Bank Group on the Effective Date, which is currently proposed to be 10 December 2018. The post-tax profit of the CAF Businesses included in the Consolidated MBL results for the half year ended 30 September 2018 was approximately \$150 million, of the total of \$735 million attributable to the ordinary shareholder.

The CAF Businesses are both reported as part of the CAF operating segment and will be transferred for consideration reflecting aggregate fair value on the Effective Date, currently estimated to be approximately \$7.4 billion¹. As a consequence of the transfer, MBL will deconsolidate the net assets of the CAF Businesses resulting in a post tax increase in equity of approximately \$0.3 billion¹. Subject to satisfaction of all applicable legal requirements, MBL expects to pay this amount as a dividend to its sole ordinary shareholder, MBHPL, and for MBHPL to in turn pay a corresponding dividend to its parent, MGL.

In connection with the transfer, it is proposed to return up to \$2,040 million of capital from MBL to MGL. APRA has given approval for the Capital Return.

The balance of the consideration received will be predominately used to reduce the borrowings of MBL.

As a result of the Internal Restructure (including the Capital Return), MBL expects its regulatory CET1 ratio to increase by approximately 0.7%, from 10.4% reported at 30 September 2018 to 11.1% on a pro-forma basis².

The Internal Restructure (including the Capital Return) is not expected to affect MBL's credit ratings.

(1) Estimated valuation position in Australian dollars. The valuation will be updated to reflect the business position and exchange rates at the time of transfer. Accordingly, the dividend will be adjusted to reflect the value at the Effective Date, expected to be 10 December 2018.

(2) Estimated capital impact based on the current business position. The ultimate impact will reflect changes to the business position and exchange rates at the Effective Date, expected to be 10 December 2018.

MBL Condition

MBL's obligations to proceed with the Internal Restructure and Capital Return will be subject to confirmation by MBL on or prior to the Effective Date that there is no legal or regulatory impediment to MBL undertaking the Capital Return.

3. IMPACT OF CAPITAL RETURN ON MBL**3.1 Effect on capital structure**

If the Capital Return is implemented, MBL's ordinary share capital will be reduced by the aggregate amount of the Capital Return, being an amount up to \$2,040 million.

As no MBL ordinary shares will be cancelled in connection with the Capital Return, the Capital Return will not affect the number of ordinary shares on issue in MBL, or the control of MBL. The Capital Return will not affect the number of MIS held by each MIS holder.

3.2 Effect on financial position

In determining whether to implement the Capital Return, the Directors have satisfied themselves as to the solvency of MBL and consider that the Capital Return will not materially prejudice MBL's ability to pay its creditors.

3.3 Impact on hybrid securities

As at the date of this Notice of Meeting, MBL has on issue the following hybrid instruments:

- MIS;
- Macquarie Additional Capital Securities ("MACS"); and
- Macquarie Bank Capital Notes ("BCN").

Further detail in relation to the hybrid instruments is contained in MBL's 2018 Annual Report and available on Macquarie's website at macquarie.com/au/about/investors/reports

The proposed Capital Return will not result in any adjustment to the terms of the above hybrid securities, nor is it expected to materially affect MBL's ability to pay distributions under the terms of those instruments.

3.4 Impact on MBL's strategy

The Capital Return is not expected to have any material impact on MBL's ability to fund new investments in its core business, or to fund new investments consistent with its current strategy.

3.5 Tax implications

No adverse tax implications are expected to arise for MBL, MBL ordinary shareholders or MIS holders as a consequence of the Capital Return.

4. RATIONALE

4.1 Expected advantages of the Capital Return

The expected advantages of the Capital Return are as follows:

- The MBL Board has approved the Internal Restructure, subject to satisfaction of all necessary conditions. If the Internal Restructure is implemented, MBL will have excess regulatory capital that it is not currently anticipated to require and is available to be returned to its ultimate parent company, MGL, by way of the Capital Return; and
- MBL will continue to maintain a strong balance sheet position and a level of shareholders' equity for prudent and efficient capital management.

MBHPL, MBL's sole ordinary shareholder and a subsidiary of MGL, has confirmed that it intends to vote 100% of its shares in favour of the resolution. Holders of MIS are also entitled to vote on the proposed resolution because it concerns a proposal to reduce MBL's share capital. MIS holders represent less than 1% of the total number of votes eligible to be cast on the resolution. Assuming that MBHPL votes its shares in accordance with its current intention, the Capital Return resolution will be passed and the Capital Return will proceed, subject to the terms set out in this Notice of General Meeting including the Explanatory Memorandum.

4.2 Possible disadvantages and risks

The following are possible disadvantages and risks associated with the proposed Capital Return:

- the Capital Return will reduce MBL's shareholder equity;
- you may believe that MBL should retain the excess capital and use it in a different way within MBL; and
- you may disagree with the conclusion of the Board that MBL will continue to maintain a strong balance sheet position and a level of shareholders' equity for prudent and efficient capital management.

5. FURTHER DETAILS OF THE PROPOSED CAPITAL RETURN

5.1 Method of return of capital

The Capital Return will be implemented as an equal reduction of MBL's ordinary share capital for the purposes of the Corporations Act. The Capital Return is an equal reduction because it relates only to ordinary shares and applies to each MBL ordinary shareholder in proportion to the number of ordinary shares they hold with the terms of the reduction being the same for each ordinary shareholder (being MBHPL, as MBL's sole ordinary shareholder).

The payment of the Capital Return will be satisfied by the payment by MBL to its direct parent, MBHPL (or at its direction) of the Capital Return amount on the Effective Date.

The resolution to approve the Capital Return, if passed, will constitute the approval of MBL's shareholders under section 256C of the Corporations Act for the proposed equal capital reduction under section 256B of the Corporations Act, for an aggregate amount up to \$2,040 million, to be applied on a pro rata basis to MBL's ordinary shares.

5.2 Statutory requirements

Under section 256B of the Corporations Act, MBL may only reduce its share capital if the Capital Return satisfies the requirements which are set out below, together with a description of how that requirement is met in relation to the proposed Capital Return.

a) The Capital Return is fair and reasonable to MBL's shareholders as a whole.

As at the date of this Explanatory Memorandum (and subject to confirmation of satisfaction of the MBL Condition on or prior to the Effective Date), the Directors are of the view that the proposed Capital Return is fair and reasonable to MBL's shareholders as a whole.

All ordinary shareholders will be treated in the same manner under the terms of the Capital Return.

The Directors are of the view that the proposed Capital Return is also fair and reasonable to MIS holders as the Capital Return is not expected to materially affect MBL's ability to service its obligations under the terms of the MIS, including its ability to pay distributions on MIS.

b) The Capital Return does not materially prejudice MBL's ability to pay its creditors.

In determining whether to implement the Capital Return, the Directors have satisfied themselves as to the solvency of MBL and consider that the Capital Return will not materially prejudice MBL's ability to pay its creditors.

c) The Capital Return is approved by MBL shareholders under section 256C of the Corporations Act.

The resolution to approve the Capital Return will be considered by MBL's shareholders at the General Meeting for the purposes of complying with section 256C(1) of the Corporations Act. Holders of MIS are entitled to vote on the resolution in accordance with the terms and conditions of the MIS. In accordance with section 256C of the Corporations Act and terms and conditions of the MIS, the resolution must be approved by a simple majority of votes cast by or on behalf of MBHPL (as MBL's sole ordinary shareholder) and holders of MIS on the resolution, in order to be passed.

In accordance with section 256C(5) of the Corporations Act, a copy of this Notice of Meeting (including the Explanatory Memorandum) has been lodged with the Australian Securities and Investments Commission.

As noted in Section 2, in the event that the proposed resolution is approved by MBL's Securityholders, the Capital Return and Internal Restructure will remain subject to satisfaction of the MBL Condition, to be confirmed on or prior to the Effective Date.

5.3 No other material information

Other than as set out in this Notice of Meeting (including the Explanatory Memorandum), and any other information previously disclosed to the Securityholders of MBL, there is no other information that is known to MBL which may reasonably be expected to be material to the making of a decision by MBL ordinary shareholders or MIS holders whether or not to vote in favour of the Capital Return.

6. BOARD RECOMMENDATION

The MBL Board unanimously recommends that Securityholders vote in favour of the proposed Capital Return.

GLOSSARY

AEDT means Australian Eastern Daylight Saving Time.

APRA means the Australian Prudential Regulation Authority.

ASX means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange as appropriate.

Bank Group means MBL and its subsidiaries.

CAF means Corporate and Asset Finance Group.

CAF Businesses means the CAF Principal Finance and CAF Transportation Finance businesses, as further described in Section 1.

CAF Principal Finance means the global business by the name “Principal Finance” which forms part of CAF and provides flexible primary financing solutions and engages in secondary market investing across the capital structure.

CAF Transportation Finance means the global business by the name of “Transportation Finance” which is part of CAF and provides operating leases and financial accommodation in respect of commercial jet aircraft, helicopters and passenger and freight rail rolling stock assets.

Capital Return means the proposed capital return of MBL comprising an equal reduction of MBL’s ordinary share capital of up to \$2,040 million.

CET1 Capital means Common Equity Tier 1 (CET1) capital.

Corporations Act means the Corporations Act 2001 (Cth).

Effective Date means the designated implementation date for the Internal Restructure, currently proposed to be 10 December 2018.

Internal Restructure means the proposed restructure of MGL involving the transfer of the CAF Businesses by the Bank Group to the Non-Bank Group, as described further in Section 1.

Macquarie Group means MGL and its subsidiaries.

MBHPL means Macquarie B.H. Pty Limited
ABN 86 124 071 432.

MBL means Macquarie Bank Limited ABN 46 008 583 542.

MBL Condition means the confirmation by MBL that there is no legal or regulatory impediment to MBL undertaking the Capital Return, which forms a condition to the Internal Restructure and Capital Return.

MFHPL means Macquarie Financial Holdings Pty Limited
ABN 63 124 071 398.

MGL means Macquarie Group Limited ABN 94 122 169 279.

MIS or **Macquarie Income Securities** means Macquarie Income Securities, being ASX-listed stapled securities comprising an interest in a note, being an unsecured debt obligation of Macquarie Finance Limited (MFL), issued to a trustee on behalf of the holders of MIS (MFL note), and a preference share in MBL.

Non-Bank Group means MGL, MFHPL and MFHPL's subsidiaries.

Securityholder means a holder of MBL ordinary shares or a holder of MIS.

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Investor Information

Enquiries

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

Boardroom Pty Limited

Level 12, 225 George Street
Sydney NSW 2000 Australia

Telephone (within Australia): 1300 554 096
Telephone (internationally): + 61 1300 554 096
Facsimile: + 61 2 9290 9655

Email: macquarie@boardroomlimited.com.au
Website: investorserve.com.au

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

Investor Relations

Macquarie Group Limited
Level 6, 50 Martin Place
Sydney NSW 2000 Australia

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Facsimile: +61 2 8232 7780

Email: macquarie.shareholders@macquarie.com
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