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For 2011, 70 per cent of the Managing Director and CEO's annual gross profit share allocation is retained, up from 55 per cent in 2010. For Executive Committee members and Designated Executive Directors<sup>1</sup>, between 50 and 70 per cent of their profit share is retained; whereas retained profit share for other Executive Directors is between 40 and 70 per cent. The 70 per cent upper limit represents an increased deferral from prior years, reflecting market conditions. After Performance Share Units (PSUs) are taken into account, the effective deferral rate for the Managing Director and CEO is 76 per cent and between 61 and 76 per cent for Executive Committee members. In addition, retention rates for staff below Executive Director have also been increased, dependent on certain thresholds.

Retained profit share for the Managing Director and CEO, other Executive Committee members and Designated Executive Directors is released on a pro-rata basis between years three and seven. In the case of other Executive Directors, it is released on a pro-rata basis between years three and five. Retained amounts are invested in a combination of Macquarie ordinary shares and notionally in Macquarie-managed fund equity dependent on an individual executive's responsibilities. Such an approach also strengthens alignment with Macquarie shareholders and security holders in Macquarie-managed funds.

All Executive Directors are subject to a minimum shareholding requirement which is satisfied through the delivery of equity under the current remuneration arrangements.

**PSUs**, which are only allocated to the Managing Director and CEO and Executive Committee members, vest in three tranches after two, three and four years, but only if challenging performance hurdles are met.

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

- shares held to satisfy the minimum shareholding requirement
- shares to be delivered under the equity plan, the Macquarie Group Employee Retained Equity Plan (MEREP), including PSUs
- shares held under the Executive Committee Share Acquisition Plan
- unvested options.

Executives can only trade Macquarie ordinary shares during designated trading windows.

In accordance with the 2009 shareholder approval, a departing Executive Director's unvested retained profit share is only paid out in the case of genuine retirement, redundancy or in certain other limited exceptional circumstances, and is forfeited in stages if a 'disqualifying event' occurs within two years of leaving. For example, the payment of a departing Executive Director's retained profit share will be subject to forfeiture if it is found that the individual has acted in a way that damages Macquarie, including but not limited to action or inaction that leads to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses.

From 2012, the Board will have discretion to reduce or eliminate unvested profit share amounts (Malus) where it determines that an employee's action or inaction has caused Macquarie significant reputational harm, a significant unexpected financial loss or a material financial restatement. This will apply to the Executive Committee, Designated Executive Directors, Code Staff under the FSA Remuneration Code, senior risk and financial control staff and any other staff as determined by the Board Remuneration Committee (BRC).

The remuneration approach is managed via **strong governance structures and processes**. Conflicts of interest are managed proactively and assiduously. The BRC makes recommendations to the Non-Executive Directors of the Board on key decisions.

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

**This overall approach to remuneration has over the long haul, contributed to creating value for shareholders.**

<sup>1</sup> Executive Directors who are members of Operations Review Committee and others who have a significant management or risk responsibility in the organisation.