Link between the remuneration principles and the remuneration arrangements

The following table shows how Macquarie's remuneration arrangements relate to its remuneration principles referred to in section 1.1.

	Principle	Features of the remuneration system
1	There is an emphasis on performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk (Refer discussion in section 3.1)	– Profit share allocations are highly variable – Performance-based remuneration can comprise a high proportion of total remuneration in the case of superior performance (approximately 93 per cent in the case of the Managing Director and Chief Executive Officer) – Profit share allocations and PSU grants for Executive Committee members provide substantial incentives for superior performance, but low or no participation for less satisfactory performance – The CRO advises the BRC on risk management issues – The CRO and CFO advise the BRC on the risk input into the determination of the profit share pool, such as the cost of equity capital to be used in the profit share pool calculation
2	Rewards are linked to sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (Refer discussion in section 3.2)	– The overall profit share pool is determined annually by reference to Macquarie's after-tax profit and its earnings over and above the estimated cost of capital – The allocation of the pool to individual businesses, and in turn to individuals, is based primarily, but not exclusively, on relative contribution to profit, taking into account capital usage and other factors including specific risk factors. Performance looks at a range of factors including risk management, governance and compliance, teamwork, people leadership, people development, and upholding Macquarie's *Goals and Values* – Earnings per share and ROE are used as performance hurdles for Executive Committee PSUs – ROE is used as the performance hurdle for Executive Director options granted under the old remuneration arrangements
3	Equity is used to provide rewards to create alignment with shareholder interests (Refer discussion in section 3.3)	– For Executive Directors, retained profit share is invested in a combination of Macquarie shares and notionally in Macquarie-managed fund equity. The investment mix varies depending on an individual's role – For most other staff, retained profit share is invested in Macquarie shares – PSU grants with performance hurdles are granted to Executive Committee members – Grants of Macquarie shares may be made to staff being hired or promoted – Executive Directors are required to acquire and hold a minimum number of shares calculated based on their profit share. This is satisfied through the current equity arangements – Employee Share Plan is available to encourage broader staff equity participation
4	Retention mechanisms encourage a long-term perspective and hence alignment with shareholders (Refer discussion in section 3.3.1 to 3.3.7)	– In 2011, 50-70 per cent (70 per cent for the Managing Director and Chief Executive Officer) of Executive Committee members annual profit share is retained. When PSUs are taken into consideration, a range of 61 to 76 per cent of performance-based compensation is retained for Executive Committee members (76 per cent for Managing Director and Chief Executive Officer) – For other Executive Directors, a minimum of 40 per cent of annual profit share is retained (50 per cent for Designated Executive Directors[1]) up to a maximum of 70 per cent – Retained profit share for Executive Committee members and Designated Executive Directors is released from years three to seven and from years three to five for other Executive Directors – PSUs for Executive Committee members vest from years two to four if performance hurdles are achieved – For staff below Executive Director, between 25 and 70 per cent of annual profit share is retained dependent on certain thresholds, vests and is released from years two to four
5	Arrangements provide consistency over time to ensure staff have the confidence that efforts over multiple years will be rewarded (Refer discussion in section 3.3)	– Macquarie's remuneration approach has been in place since it was founded with incremental changes over time as appropriate
6	Arrangements are competitive on a global basis with international peers (Refer discussion in section 2)	– The Board reviews the remuneration arrangements at least annually to ensure that they are equitable and competitive – The compensation ratio is used as a general guide to consider the overall competitiveness of remuneration levels but is not the basis on which the profit share pool is created

[1] Executive Directors who are members of Operations Review Committee and others who have a significant management or risk responsibility in the organisation.