
Allocation of the profit share pool

Allocation of the pool to businesses is based on performance, primarily, but not exclusively, reflecting relative contributions to profit (not revenue) while taking into account capital usage. It also takes into account other risk factors such as operational incidents, the risk profiles of the businesses and compliance with regulatory requirements as identified by the CRO to the BRC.

An individual's profit share allocation is based on performance, measured primarily through the performance appraisal policy that requires staff have at least one formal appraisal session with their manager each year.

Performance criteria vary according to an individual's role. Performance is linked where possible to outcomes that contribute directly to NPAT and excess ROE. Capital usage is important as it factors in the level of risk associated with the income derived.

Performance also takes into consideration how business is done. Superior performance looks at a range of indicators that go beyond financial performance and include risk management, governance and compliance, teamwork, people leadership, people development, and upholding Macquarie's *Goals and Values*.

The CRO advises the BRC on risk management issues including the return on economic capital by business, the relationship between profitability and risk (as measured by economic capital usage), losses by divisions and by risk type and the contingent risks associated with large transactions completed during the current financial year.

The performance of staff whose role is not linked to profit contribution is measured according to criteria appropriate to their position. Staff working in support areas may, for example, be rewarded on the basis of their contribution to Macquarie's financial reporting, risk management processes or information systems.

The Board and management seek to ensure that remuneration for risk and financial control personnel, including the CFO and the CRO, is structured so that it does not compromise the independence of these personnel in carrying out their functions and is determined in a way that maintains Macquarie's robust risk management framework. For instance, an evaluation of their performance occurs independently of the business with which they are associated.

Profit share allocations for risk and financial control personnel are reflective of their individual performance, including the quality and integrity of the control functions. The allocations to these staff are not directly linked to the profit of Macquarie or the businesses in which they operate.

The BRC reviews the allocation of the profit share pool to the central Risk Management Group, the central Finance function and Group Legal. It also annually recommends to the Board remuneration for all risk management and finance staff as a total category, in addition to specific recommendations for the CFO, CRO, General Counsel and other Executive Directors with a risk management or financial control role.

For staff with specific fund responsibilities, the performance of the relevant funds is important in determining that individual's profit share allocation. For example, in the case of the Macquarie Funds business, the following factors are relevant:

- in evaluating each executive's contribution to determine their individual profit share allocation, the performance of the fund or funds for which they are responsible, and in particular, the underlying factors influencing fund performance such as management and leadership, the operational performance of the underlying assets, and effective capital management
- in the case of Executive Directors with fund responsibilities (in particular Fund Chief Executive Officers), retained profit share allocated to the Post-2009 DPS Plan is notionally invested in the relevant funds, as discussed in section 3.3.2, giving these individuals a further ongoing incentive to seek to grow the value of the fund.

Arrangements are also in place to ensure that performance-based remuneration is appropriately allocated to the individuals who contributed to particular transactions. Therefore, businesses may further recognise cross-divisional contributions by allocating part of their profit share pool to individuals in other areas of Macquarie who have contributed strongly to their success.

In summary, profit share allocations to each individual generally reflect:

- Macquarie-wide performance – which determines the size of the overall profit share pool
- the performance of their business – which determines the profit share pool allocated to that business
- their individual performance – which determines their own share of the profit share pool for that business.

Profit share allocations to individuals are subject to retention arrangements as discussed in section 3.3.1.

Commentary on allocation to the Managing Director and Chief Executive Officer of Macquarie and the Managing Director and Chief Executive Officer of Macquarie Bank

In approving the profit share and PSU grants to the Managing Director and Chief Executive Officer of Macquarie Group and the Managing Director and Chief Executive Officer of Macquarie Bank, the Non-Executive Directors annually and specifically assess each Managing Director's performance by considering a range of indicators, including risk management, governance and compliance, financial performance measures, strategic initiatives, staff and human resources indicators, reputation management and monitoring, community and social responsibility matters and efforts in respect of diversity.