

### 3.3.10 Staff share plans encourage broader staff equity participation – Employee share plan

Macquarie has the Macquarie Group Employee Share Plan (ESP) that encourages share ownership by employees. The ESP substantially replicates the terms of the Macquarie Bank Employee Share Plan which was approved by Macquarie Bank Limited's shareholders in 1997. Eligible employees in Australia are offered up to \$A1,000 worth of Macquarie ordinary shares funded from pre-tax available profit share.

Shares issued under the ESP cannot be sold until the earlier of three years after issue or the time when the participant is no longer employed by Macquarie or a subsidiary of Macquarie. In all other respects, shares issued rank equally with all other fully paid ordinary shares then on issue.

The number of shares each participant receives is \$A1,000 divided by the weighted average price at which Macquarie Group Limited's shares are traded on the ASX on the seven days up to and including the date of allotment, rounded down to the nearest whole share.

In 2011, 1,347 eligible Australian employees elected to participate in the ESP (2010: 1,635).

### 3.3.11 Performance share units (PSUs)

Executive Committee members are the only group of staff eligible to receive PSUs. Since their introduction, PSUs have been structured as DSUs with performance hurdles. Holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs.

Unlike options, there is no exercise price for PSUs.

#### 3.3.11.1 Determination and allocation of the PSUs

The Board approves the number of PSUs to be allocated to each Executive Committee member each year as part of the annual remuneration review process. This determination has regard to Macquarie's overall performance, the extent to which the Executive Committee members have fulfilled their roles, and the long term value delivered to shareholders. The allocation to individual executives is broadly in the same manner as annual profit share allocations i.e. it is performance based.

#### 3.3.11.2 Vesting Schedule

The PSUs vest in three equal tranches after two, three and four years from the deemed vesting commencement date (typically 1 July in the year of grant), giving an average vesting period of three years. As a general rule, unvested PSUs will lapse on termination. However, the Board or the BRC has the authority to accelerate the vesting of PSUs. The Board or the BRC may consider exercising this authority where, for example, a staff member dies, is totally and permanently disabled, gives notice of their intention to enter into genuine retirement or a staff member's employment ends on the grounds of redundancy, illness or in other limited exceptional circumstances, such as hardship or where business efficacy justifies exercising the discretion.

### 3.3.11.3 Performance hurdles for Executive Committee PSUs

PSUs issued under the MEREP are released or become exercisable upon the achievement of certain performance hurdles. There are two performance hurdles and each applies individually to 50 per cent of the total number of PSUs awarded.

The BRC periodically reviews the performance hurdles, including the reference group, and has discretion to change the performance hurdles in line with regulatory and remuneration trends.

#### Description of performance hurdles:

**Hurdle 1:** 50 per cent of the PSUs, based solely on the relative average annual ROE over the vesting period compared to a reference group of domestic and international financial institutions. Vesting is on a sliding scale with 50 per cent vesting above the 50<sup>th</sup> percentile and 100 per cent vesting at the 75<sup>th</sup> percentile. For example, if ROE achievement is at the 60<sup>th</sup> percentile, 70 per cent of the award would vest.

The reference group comprises significant Australian financial companies within the ASX100 as well as Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group comprises ANZ Group, Commonwealth Bank, National Australia Bank, Westpac, Suncorp, Bank of America, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

**Hurdle 2:** 50 per cent of the PSUs, based solely on compound annual growth rate (CAGR) in EPS over the vesting period. Awards vest on a sliding scale with 50 per cent vesting at EPS CAGR of 9 per cent and 100 per cent vesting at EPS CAGR of 13 per cent. For example, if EPS CAGR was 11 per cent, 75 per cent of the award would vest.

Under both performance hurdles, the objective is examined once only, effectively at the calendar quarter end immediately before vesting. If the condition is not met when examined, the PSUs due to vest expire.

Rationale for selection of performance hurdles:

- ROE and EPS are considered appropriate measures of performance as they are regarded as the drivers of longer term shareholder returns and are broadly similar to the performance measures Macquarie uses for determining annual profit share
- EPS provides closer alignment with the interests of shareholders as it is a measure with which they are directly concerned. In addition, such a measure is particularly appropriate for the Executive Committee who are at a level within Macquarie where they can affect its achievement without being highly impacted by factors, including market sentiment, over which other executives have reduced control
- ROE and EPS can be substantiated using information that is disclosed in audited financial statements, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff