

3.3.12 Options, while discontinued, remain outstanding

Options were previously granted to approximately the most senior 20 per cent of staff based on performance and promotion. As previously noted, Macquarie has ceased offering options.

This section explains the options arrangements that were in place for previous option grants, some of which are currently unvested. These arrangements are no longer in place. However, background information is provided to assist in understanding the relevant option disclosures in Appendix 2 and Appendix 3. Final tranches will vest in October 2013.

3.3.12.1 General terms of option arrangements

The Plan and key option terms

Plan	Macquarie Group Employee Share Option Plan (MGESOP)
History	Macquarie has had an employee option plan in place since 1995, with only minor amendments to the Plan rules being made over that time.
Eligible staff	Associate Director, Division Director and Executive Director
Options over	Fully paid unissued ordinary shares in Macquarie Group Limited
Term of options	Five years
Consideration	Nil
Exercise price	Set at the prevailing market price: the exercise price will generally be the weighted average price of shares traded on ASX during one week up to and including the date of grant of the options (adjusted for cum-dividend trading and excluding certain special trades)
Vesting schedule	Options vest in three tranches after two, three and four years. However, vested options can only be exercised by Executive Directors if the relevant performance condition is also satisfied
Hedging	Staff are not permitted to hedge unvested options.

3.3.12.2 Performance hurdles for Executive Committee options

Description of performance hurdles for Executive Committee options

Applicability	Performance conditions are imposed as summarised below on options granted to Executive Committee members
Description of performance hurdle	The performance hurdle requires that Macquarie's three year average ROE exceeds the three year average ROE of companies in the S&P/ASX 100 Index at the 65th percentile. This hurdle operates in addition to both the vesting rules and the embedded share price hurdle
Application of retesting	No retesting for option grants has applied since June 2006. The performance hurdle is tested once only (at time of vesting)
Calculation methodology	In assessing whether Macquarie's performance is above these hurdles, Macquarie obtains data from external sources and, where required, supplements this with data published by the individual companies. The percentile ranking of Macquarie, based on the three year average annual ROE against all companies in the applicable reference index, is determined quarterly.

The majority of unvested options are currently out of the money and are unlikely to vest.