Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
continued

role is risk and financial control, including the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO), preserves the independence of the function and maintains Macquarie's robust risk management framework.

Profit share is delivered in ways that encourage a longer-term perspective and ensures alignment with shareholders' longer-term interests and staff retention. In turn, this encourages staff to maximise profit without exposing Macquarie to risk or behaviours that jeopardise long-term profitability or reputation.

70 per cent of the Managing Director and CEO's annual gross profit share allocation is deferred and unvested. For Executive Committee members and Designated Executive Directors[1], 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. After PSUs are taken into account, the effective deferral rate for the Managing Director and CEO is 77 per cent.

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, with the balance between each type reflecting 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 can be satisfied through the delivery of equity under the current remuneration arrangements.

PSUs are only allocated to the Managing Director and CEO and Executive Committee members. From 2012 onwards they will vest in two tranches after three and four years, but are exercisable 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
— deferred and unvested awards to be delivered under the equity plan, the Macquarie Group Employee Retained Equity Plan (MEREP), including PSUs
— unvested options.

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

The Board has 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 applies to the Executive Committee, Designated Executive Directors, Code Staff under the FSA Code, senior risk and financial control staff and any other staff as determined by the Board Remuneration Committee (BRC).

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.

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 take into account 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 achieves an appropriate balance between risk and return that aligns the interests of staff and shareholders.

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