
Individual

- Profit share is allocated to individuals based on performance. Performance criteria vary according to an individual's role.
- When assessing the performance of individuals, Management and the BRC look at a range of factors, including capital usage (of the individual's division), information on significant losses and compliance breaches at an individual level, governance, people leadership, and upholding Macquarie's *Goals and Values*.
- More specifically, in the case of the Managing Director and CEOs of the Group and the Bank, the Non-Executive Directors take into account financial performance measures, performance against peers, business performance and platform growth, cost management initiatives, other strategic initiatives, prudential, risk and compliance management, staff and human resources indicators, reputation management and community and social responsibility matters.
- In relation to the CRO and the CFO and other risk and financial control staff, the Board of Directors seeks to ensure that the remuneration system and outcomes maintain the independence of the function and Macquarie's robust risk management framework.

In making an assessment as to whether to exercise judgement in relation to the allocation of remuneration at a Group, business or individual level, the Non-Executive Directors of the Board take into consideration the short and long-term interests of shareholders, risk considerations, the employment environment, and the need to retain staff in difficult market conditions. In making such decisions, the BRC is assisted by reports it receives from the CRO and CFO. The Global Head of Human Resources (HR) reports to the BRC on the link between risk outcomes (as reported by the CRO) and individual remuneration recommendations. The BRC uses this information when considering the profit share allocated to individual businesses and to the individuals that it considers.

The Non-Executive Directors of the Board have exercised their discretion this year to increase the size of the pool (in other years discretion has been exercised both up and down). Such funds have been used to allocate a level of profit share to businesses experiencing difficult market conditions, and to provide an allocation to some individuals within businesses experiencing such conditions. The outcome is a highly differentiated distribution of profit share across and within businesses. The Non-Executive Directors take the view that such an approach is in shareholders' long-term interest, allowing Macquarie to reward specific contributions made within businesses and to retain key staff in some areas facing extreme market pressures. Notwithstanding these exceptions, Macquarie nonetheless remains committed to its overall approach of pay for performance.

In addition, remuneration is structured and delivered in such a way that ensures there is alignment with risk in the following ways:

- a significant portion of profit share is retained and deferred over a long period
- a significant portion of performance-based remuneration is delivered in equity, aligning the interests of staff and shareholders
- from 2012, the Board has discretion to apply Malus
- a departing executive's unvested profit share is forfeited except where it is a genuine retirement, redundancy or another limited exceptional circumstance and is forfeited if certain events occur over a two year period
- one of the performance hurdles for Performance Share Units (PSUs) is linked to ROE, which takes into account the use of capital.

1.3 Macquarie's remuneration system is structured to balance risk and return

This section provides a more comprehensive overview of Macquarie's remuneration arrangements and demonstrates the balance between risk and reward. Macquarie adopts a tailored approach to ensure that retention levels and equity-based remuneration is appropriate given the role of the individual and their ability to influence results.