

# Directors' Report – Remuneration Report for the financial year ended 31 March 2011 continued

## Introduction

Through its remuneration strategy, Macquarie aims to generate superior shareholder value over the long term and to reward staff in line with the outcomes they achieve. This broad strategy has been in place since the inception of Macquarie, evolving over time to ensure the system continues to meet its overriding objectives.

The Board of Directors (the Board) oversees Macquarie's remuneration arrangements, including executive remuneration and the remuneration of Non-Executive Voting Directors. The Board and the Board Remuneration Committee (BRC) annually review the remuneration strategy to encourage the best possible outcomes for Macquarie and its shareholders over the medium to longer term. Following this year's review, the Board's view is that:

**While Macquarie's underlying remuneration principles remain unchanged, Macquarie is continuing to enhance its remuneration arrangements to even more strongly align staff and shareholders' interests and to remain in line with or ahead of market practice.**

- 1 Macquarie's remuneration framework remains sound and is continuing to deliver against objectives.
- 2 However, some remuneration-related challenges need to be addressed.
- 3 Therefore, Macquarie is enhancing its remuneration arrangements while ensuring its overall remuneration approach remains in place.

These points are discussed in detail in sections one to three of this Remuneration Report.

This Remuneration Report has been prepared in accordance with the *Corporations Act 2001 (Cth)* (the Act). The Report contains disclosures as required by Accounting Standard AASB 124 *Related Party Disclosures* as permitted by Corporations Regulation 2M.3.03.

Financial information is used extensively in this Report. Some long-term trend information is presented, although accounting standards and practices have changed over time. In particular, throughout this Report:

- financial information for Macquarie relating to the years ended 31 March 2006 through to 31 March 2011 has been presented in accordance with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial information has also been prepared in accordance with and complies with IFRS as issued by the IASB
- financial information for Macquarie relating to the year ended 31 March 2005 has been restated to comply with revised Australian Accounting Standards, with the exception of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*, which became effective from 1 April 2005
- financial information for Macquarie relating to earlier periods has not been restated, and is, therefore, presented in accordance with the Australian Accounting Standards prevailing at the time.

## 1 Macquarie's remuneration framework remains sound and is continuing to deliver against objectives

### 1.1 Macquarie's remuneration framework has undergone incremental changes

The Board considers that Macquarie's underlying remuneration framework is robust and has contributed to Macquarie's long-term success in growing earnings. That approach, and its consistency over time, has served shareholders well during recent externally difficult times, as well as over the longer term. The Board considers that this continues to be the appropriate approach.

The overarching objective of Macquarie's remuneration framework is to drive superior shareholder returns over the long term, while managing risk in a prudent fashion. This is delivered through two key drivers. The first is to attract and retain high quality people by offering a competitive performance-driven remuneration package that encourages both long-term commitment and superior performance. The second key driver is to use remuneration to align the interests of staff and shareholders by motivating staff through its remuneration policies to increase Macquarie's NPAT and sustain a high relative ROE while managing risk.

The principles that underpin Macquarie's remuneration framework are unchanged:

- emphasising performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk (refer section 3.1)
- linking rewards to create sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (refer section 3.2)
- using equity to create alignment with shareholder interests (refer section 3.3)
- designing retention mechanisms to encourage a long-term perspective and hence alignment with shareholders (refer section 3.3.1 to 3.3.7)
- using consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded (refer section 3.3)
- ensuring arrangements are competitive on a global basis with Macquarie's international peers (refer discussion in section 2.2 in regards to the competitive environment).