

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

Compensation is in line with performance

Macquarie has to balance its goal of attracting, motivating and retaining people through remuneration against ensuring staff are paid commensurate with Macquarie's overall performance. This aligns staff and shareholder interests and ensures the generation of shareholder value over the medium and long term.

The analysis below shows that total compensation levels are higher relative to the prior year, largely reflecting the increase in headcount. Average headcount grew from 13,136 to 15,325 over the 12 months to 31 March 2011, and is up from 4,589 in FY2002. FY2011 reflects:

- on a comparable basis, fixed compensation represents a higher proportion of total remuneration expense for FY2011 than for the previous year
 - the full year impact, for the first time, of acquisitions of businesses and associated teams in the second half of FY2010. Approximately 1,280 staff joined Macquarie through acquisitions made in the second half of FY2010, mainly in higher cost jurisdictions. In addition, approximately another 200 staff joined Macquarie as a result of acquisitions made during FY2011. Headcount, and therefore compensation, has also increased as a result of Macquarie's ongoing organic growth. During FY2011, approximately 350 new senior hires were recruited specifically for the purpose of developing organic growth opportunities. Through these strategic initiatives Macquarie is building its businesses for the future, with the benefit of their activities yet to be fully realised in income
 - base remuneration increases to realign the pay mix for risk and finance staff in order to meet regulatory guidance and market practice. Consistent with the theme of remuneration demonstrating greater risk alignment, regulators have been seeking a more balanced mix between fixed and variable remuneration. Reflecting a structural shift in the market, Executive Committee members have also had base remuneration increases although this has been largely compensation neutral through the adjustment of profit share. This allows greater balance between fixed and variable remuneration and is consistent with regulatory guidance and market practice. By way of background, prior to this year, the current Executive Committee members have not had base remuneration increases since either joining the Executive Committee or for up to 10 years.
- Whilst in recent years, Executive Key Management Personnel (Executive KMP) remuneration has moved broadly in line with profitability, it is significantly down on the pre-global financial crisis years demonstrating that Macquarie's remuneration system is working.
- The following factors should also be considered when reviewing the analysis below:
- In FY2009 to FY2011, the Non-Executive Directors of the Board have exercised their discretion to change the quantum of the profit share pool to reflect internal and external factors where they have considered it to be in the interests of Macquarie and shareholders to do so. In doing this, the Board considered shareholders' interests, the employment environment and staff retention requirements. It is critical that Macquarie has the flexibility to remain competitive in the global markets in which it operates while having due regard to shareholder interests over the short and medium term
 - In FY2011, three new members were appointed to Macquarie's Executive Committee, increasing total Executive KMP to 12 as at 31 March 2011. In addition, FY2011 included the full year impact of one Executive KMP who joined Executive Committee part of the way through FY2010. To reflect the impact of changes in the number of KMP across years, the analysis below represents Executive KMP who were in the Executive Committee for the full year in both FY2010 and FY2011
 - Compensation expense includes notional earnings on prior year restricted profit share allocations which are held under the Pre and Post-2009 DPS Plans. These notional earnings or losses reflect the investment performance of the assets in which the prior year retained DPS amounts have been invested. Their inclusion in the compensation expense, particularly for KMP disclosed in the Remuneration Disclosure in Appendix 2 may, therefore, cause distortions when year-on-year remuneration trends are examined. Compensation for comparable Executive KMP included a gain of \$A2.0 million for FY2010 and a gain of \$A5.1 million for FY2011
 - Even though Macquarie has ceased offering options in FY2009, the accounting expense in regards to previously granted options continues to be recognised evenly over the vesting period. For FY2011, Macquarie recorded an options expense of \$A44 million (FY2010 \$A109 million). The majority of these options are currently out of the money and are unlikely to vest.