

Directors' Report – Remuneration Report

for the financial year ended 31 March 2011

continued

- the use of a sliding vesting scale diversifies the risk of not achieving the hurdle for executives, provides rewards proportional to performance for shareholders and replaces the all-or-nothing test which some have argued could, in the current climate, promote excessive risk taking. Sliding vesting scales are also more widely used and supported by governance agencies
 - use of a reference group of significant Australian financial companies and international peers provides an appropriate reference. This also recognises that, following the significant changes in global financial markets, regulated financial institutions will likely face increased regulatory requirements, which other companies will not. The inclusion of international peers recognises the extent of Macquarie's internationalisation. At 31 March 2011, over half of Macquarie's income and over half of Macquarie's staff were offshore. Also, international ownership of Macquarie's shares remains significant with non-Australian ownership averaging approximately 34 per cent over the three years to 31 March 2011
 - the approach is consistent with that advocated by APRA in not using TSR as a measure.
- Performance level required to meet hurdles:
- being two, three or four year average measures aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well insulated from short-term fluctuations
 - the ROE hurdle has vesting only commencing if the mid-point of peers' performance has been exceeded and 100 per cent vesting is only achieved if the 75th percentile has been reached
 - the use of an absolute EPS hurdle requires Macquarie to deliver increased business results before awards are vested, lessening the chance that awards could vest when results are negative as with the use of a relative measure
 - the chosen EPS CAGR hurdle is considered appropriate having regard to a range of factors including historical average market EPS CAGR figures. The table below shows the five year historical mean and 75th percentile EPS CAGRs for some relevant market sectors.

5 year EPS CAGR (per cent per annum)¹

	S&P/ASX 100 ex Resources	S&P/ASX Banks	S&P/ASX Financials ex Property Trusts	MSCI Financials
Mean	4.7	5.9	3.0	(0.3)
75th percentile	14.0	8.9	8.9	8.5

¹ Data provided by Macquarie Research Equities as at 31 March 2011. MSCI refers to the MSCI All Countries World Index.

Macquarie's EPS CAGR over the same five year period was (6.7) per cent per annum and since listing in 1996 has been 10.8 per cent per annum.