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## Introduction

Macquarie's remuneration system, which has progressively evolved over time, has been designed to balance risk and return. This is reflected in Macquarie's overarching objective which seeks to align the interests of staff with those of shareholders so as to generate superior returns over time, while having due regard to risk.

However, an increasingly intense ongoing dialogue is occurring among governments, regulators and shareholders about whether risk and return is appropriately balanced. In the financial services sector, regulators and their governments want to protect depositors' funds and ensure the stability of the financial system. Shareholders share this concern, but also expect a return on their capital appropriate to the risk involved. In other words, there is an elevated recognition among governments, regulators and shareholders of the need to balance risk and return.

At the same time, Macquarie's remuneration approach must be able flexibly to respond to difficult market conditions, while recognising differential performance among and within business groups.

Throughout the year, Macquarie's Board of Directors and the Board Remuneration Committee (BRC) have actively assessed whether the design of its remuneration system has the inbuilt resilience to respond to the challenges posed by governments, regulators, shareholders and market forces.

The conclusion reached is that, subject to further incremental change, the existing remuneration approach has demonstrated resilience in dealing with external pressures while allowing for the motivation and retention of key staff. To that end, this report will demonstrate that:

1. Macquarie's remuneration approach is designed to achieve an appropriate balance between risk and return that aligns the interest of staff and shareholders.
2. With only incremental change, Macquarie's remuneration approach has allowed it to meet the expectations of governments, regulators and shareholders, as well as dealing with market pressures.
3. In a difficult year, Macquarie's creditable performance relative to peers has been supported by the remuneration approach, allowing it also to motivate and retain key staff.

Each of these matters is discussed in turn.

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 2012 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.