Directors' Report – Remuneration Report
for the financial year ended 31 March 2012
continued

1 Macquarie's remuneration approach is designed to achieve an appropriate balance between risk and return that aligns the interest of staff and shareholders

1.1 Macquarie's remuneration framework remains the same overall

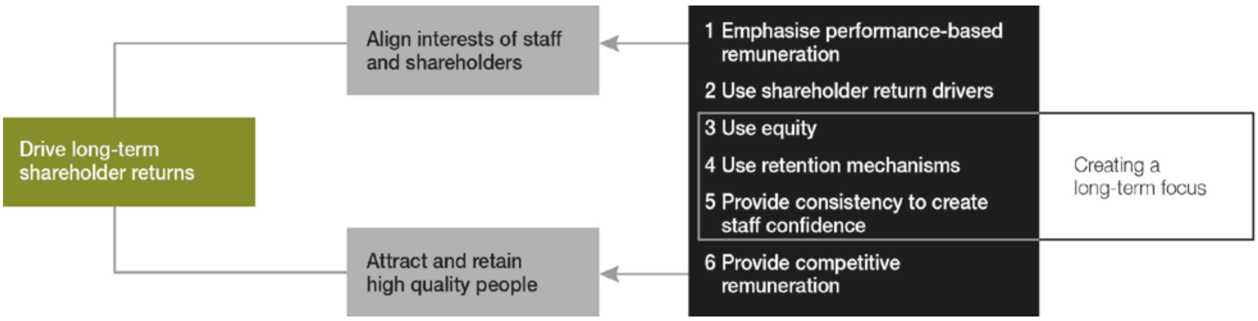
The overarching objective of Macquarie's remuneration framework is to achieve superior shareholder returns over the long term, while managing risk in a prudent fashion. This is delivered through two key drivers. The first is to attract, motivate and retain high quality people by offering a competitive performance-driven remuneration package that seeks to manage risk and return. 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
— 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
— using equity to create alignment with shareholder interests
— designing retention mechanisms to encourage a long-term perspective and hence alignment with shareholders
— using consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded
— ensuring arrangements are competitive on a global basis with Macquarie's international peers.

The following diagram summarises Macquarie's remuneration framework and shows how the remuneration arrangements reflect the underlying principles:

Key elements of the remuneration framework



1.2 Risk is incorporated into the remuneration process

The Board considers that the effective alignment of remuneration with prudent risk-taking is fundamental to its remuneration approach. Such alignment occurs at Group, business and individual levels, according to an approach and set of principles which are overlaid with the exercise of judgement.

Group

— The size of the overall profit share pool is determined annually with reference to Macquarie's after-tax profit and its earnings over and above the estimated cost of capital. A portion of Macquarie's profit earned accrues to the profit share pool. Once the cost of equity capital is met, an additional portion of excess profit is accrued to the profit share pool.

Business

— The profit share pool is allocated to businesses based on performance, primarily, but not exclusively, reflecting relative contributions to profit (not revenue) while taking into account economic and prudential capital usage.
— When assessing the performance of businesses, Management and the BRC look at a range of factors, including risk management, governance and compliance, the relationship between profitability and risk (as measured by economic capital usage by business), losses by divisions and by risk type and the contingent risks associated with large transactions concluded during the current financial year.