

Directors' Report – Remuneration Report

for the financial year ended 31 March 2012

continued

4.2 An independent remuneration review has been undertaken

The BRC has access to Macquarie senior management and has retained an independent consultant, Pay Governance for the use of the Board to obtain advice on the appropriateness of Macquarie's remuneration system, objectives and program and other employment conditions as required.

The BRC, on behalf of the Non-Executive Directors of Macquarie, commissioned an independent review of Executive Director remuneration from a US office of Pay Governance (the Pay Governance Review). The only services that Pay Governance provides to Macquarie are executive compensation consulting to the BRC. This year, the Pay Governance Review considered the overall approach to remuneration, peer organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data. The cost of the Pay Governance Review was approximately \$US110,000.

Pay Governance has confirmed that their analyses and observations have been made free from undue influence by Macquarie's Executive Key Management Personnel (KMP).

The Board is satisfied that the remuneration review conducted by Pay Governance was made free from undue influence by the Executive KMP for the following reasons:

- the agreement for services was executed by the Chairman of the BRC under delegated authority on behalf of Macquarie
- the Pay Governance Review was provided by Pay Governance directly to the BRC
- Pay Governance attended two BRC meetings and presented their findings
- Pay Governance held a meeting with the BRC Chairman
- the only communication was through the BRC Chairman, and
- in relation to the Pay Governance Review, no senior executives had separate, direct contact with Pay Governance.

Pay Governance's findings were that:

- Macquarie has used essentially the same remuneration system since Macquarie's founding, which has incrementally evolved by adopting many emerging best practices in response to the changing market and regulatory environment
- the objectives on which Macquarie's remuneration system are built are similar to those cited by other leading global investment banks, including the need to align the interests of staff and shareholders, the importance of attracting and retaining the right talent, and that the remuneration structure does not encourage excessive risks
- Macquarie's remuneration system:
 - has a paramount goal to encourage management to drive shareholder returns over the short and longer-term
 - has assisted Macquarie's solid shareholder returns, consistent return on equity results, and steady earnings growth over the past decade
 - has helped ensure that pay and performance are linked tightly
 - has several means to align executive reward and shareholder value creation
 - orients senior staff toward longer-term value creation rather than short-term benefits
- Macquarie's remuneration governance structure is fairly similar to that in place at Macquarie's global peers
- Macquarie's remuneration components support its remuneration principles and are very much in line with practices at peer global investment banks, including that:
 - for senior executives, fixed remuneration is modest (although meaningful) relative to total compensation, the bulk of which is delivered through variable means (annual and long-term incentives)
 - the annual profit share is based on profit and return on equity, which are recognised by most peers as necessary to drive performance and therefore returns to shareholders, and takes risk management into account
 - individual profit share awards to executives are highly differentiated to take into account individual contribution and results
 - a significant portion of profit share is invested in both Macquarie equity and notionally in Macquarie-managed funds and withheld for several years
 - executives must maintain a meaningful equity stake in Macquarie
 - equity-based compensation (in the form of Macquarie shares and Macquarie PSUs for Executive Committee) is used as a long-term incentive for executives
 - Macquarie imposes a long vesting period on the portion of profit share deferred
 - Macquarie's total remuneration as a percentage of revenue is around the median relative to investment banking peers.