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# Corporate Governance Statement

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The Board is committed to Macquarie seeking to achieve superior financial performance and long-term prosperity, while meeting stakeholders' expectations of sound corporate governance practices. This Statement outlines Macquarie's main corporate governance practices.

The Board, in conjunction with the Board Corporate Governance Committee, determines the most appropriate corporate governance arrangements for Macquarie. As with all its business activities, Macquarie is proactive in respect of corporate governance and puts in place those arrangements which it considers are in the best interests of Macquarie and its shareholders, consistent with its responsibilities to other stakeholders. It actively reviews Australian and international developments in corporate governance including the prudential requirements of the Australian Prudential Regulation Authority (APRA).

As required by the ASX Listing Rules, this statement sets out the extent to which Macquarie has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations during the year to 31 March 2008. On 13 November 2007, Macquarie Group Limited replaced Macquarie Bank Limited as the listed parent of the Macquarie Group. The governance practices described below largely applied to Macquarie Bank until 12 November 2007 and have applied to Macquarie Group Limited since 13 November 2007. This statement reports against the revised Recommendations released by the ASX in August 2007.

Macquarie considers that its governance practices are consistent with all but one of the 28 ASX Recommendations. The Board believes that Non-Executive Director David Clarke, although not an independent director, is the most appropriate person to be Macquarie's Chairman. An explanation for departure from this Recommendation is provided on pages 29–30.

Macquarie has posted copies of its corporate governance practices on its website at [www.macquarie.com.au/au/about\\_macquarie/corporate\\_governance.htm](http://www.macquarie.com.au/au/about_macquarie/corporate_governance.htm).

## Principle 1

### Lay solid foundations for management and oversight

The Board Charter details the composition and role and responsibilities of the Board and their relationship with management to accomplish the Board's primary role of promoting the long term health and prosperity of Macquarie. A copy of the Board Charter is available on Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie). (*ASX Recommendation 1.3*)

As set out in the Board Charter, the Board has delegated specific authorities to the various Board Committees and the Managing Director. Macquarie's Executive Committee and Operations Review Committee operate as management committees appointed by the Managing Director pursuant to his delegated powers and, in exercising these powers, he typically makes decisions regarding significant issues, in consultation with one of these committees. (*ASX Recommendation 1.1*)

The Board has guidelines for its members for declaring and dealing with potential conflicts of interest which include:

- Board members declaring their interests as required under the Corporations Act 2001 (Cth), Australian Stock Exchange Listing Rules and general law requirements;
- Board members with a material personal interest in a matter not receiving the relevant Board paper and not being present at a Board meeting during the consideration of the matter and subsequent vote unless the Board (excluding the relevant Board member) resolves otherwise; and
- Board members with a conflict not involving a material personal interest may be required to absent themselves from the relevant deliberations of the Board.

The Board has also established protocols for identifying, managing and highlighting conflicts within the Macquarie Group.

Macquarie has a number of Non-Voting Executive Directors. Pursuant to Macquarie's constitution, they have no right to attend or vote at any Board meeting. However, they do have the power to exercise management powers delegated by the Board including to sign and countersign Macquarie's common seal.

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### Performance of Key Executives

The process adopted by the Board to review the performance of Macquarie's most senior executives is available on Macquarie's website at [www.macquarie.com.au](http://www.macquarie.com.au). The performance of Macquarie's senior executives has been assessed this year in accordance with the process adopted by the Board.

(ASX Recommendation 1.3) Key aspects of the review process are described below.

The Managing Director will annually present a self-assessment to the Non-Executive Directors, who formally review the performance of the Managing Director. The presentation will include financial performance, the business environment, prudential performance, staff and human relations and other achievements. The Non-Executive Directors report on this to the Board.

The Managing Director will evaluate, at least annually, the performance of the following key executives: the Deputy Managing Director and the Group Heads, including the Chief Information Officer. Both qualitative and quantitative measures are used, consistent with the dimensions for reviewing the Managing Director. The Managing Director reports to the Board Remuneration Committee in conjunction with the remuneration review process on the performance of these key executives. In conjunction with the annual strategy review, the Board also considers key executive succession planning and their capabilities. (ASX Recommendation 1.2)

### Principle 2

#### Structure the Board to add value

The Board considers that its membership should comprise directors with an appropriate mix of skills, experience and personal attributes that allow the directors individually, and the Board collectively, to:

- discharge their responsibilities and duties under the law effectively and efficiently;
- understand the business of Macquarie and the environment in which Macquarie operates so as to be able to agree with management the objectives, goals and strategic direction which will maximise shareholder value; and
- assess the performance of management in meeting those objectives and goals.

The membership of the Board is set out below. Details of each individual Voting Director's background are set out in Schedule 1 of the Directors' Report (see pages 116–118) in the Annual Report. (ASX Recommendation 2.6)

### Current Board composition

Voting Director	Board Membership	Date of Appointment
David Clarke AO	Non-Executive Chairman	August 2007
Allan Moss AO	Managing Director and CEO*	August 2007
Nicholas Moore	Executive**	February 2008
Laurie Cox AO	Executive	August 2007
Peter Kirby	Independent	August 2007
Catherine Livingstone AO	Independent	August 2007
Kevin McCann AM	Independent	August 2007
John Niland AC	Independent	August 2007
Helen Nugent AO	Independent	August 2007
Peter Warne	Independent	August 2007

\* Mr Moss' appointment as CEO was effective on 13 November 2007.

\*\* Upon Mr Moss' retirement on 24 May 2008, Mr Moore will become Managing Director and CEO.

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Macquarie's constitution provides that the maximum number of Voting Directors shall be ten unless amended by a resolution of the Board. Following the resignation of Mr Moss, the maximum number of Voting Directors will be nine.

The Board Charter provides that the number of Voting Directors necessary to constitute a quorum at a Board meeting is:

- not less than one-third of the Voting Directors currently in office; and
- the number of Non-Executive Directors (NEDs) present at a meeting must be greater than the number of Executive Voting Directors present.

#### **Independent Directors**

Macquarie recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance. A majority of the Board members are Independent Directors. (ASX Recommendation 2.1)

The Board believes that independence is essentially a state of mind evidenced by an ability to constructively challenge and independently contribute to the work of the Board. The independence of directors is assessed annually by the Board Corporate Governance Committee (BCGC) and, to assist the BCGC, the Board has adopted the following definition of an Independent Director which is available on Macquarie's website: (ASX recommendation 2.6)

A Voting Director will be considered independent if not a member of management and if he/she meets the following criteria (to the satisfaction of the BCGC):

- is not a substantial shareholder of Macquarie or of a company holding more than five per cent of Macquarie's voting stock or an officer of or otherwise associated directly or indirectly with a shareholder holding more than five per cent of Macquarie's voting stock;
- has not within the last three years been employed in an executive capacity by Macquarie or another group member or been a director after ceasing to hold any such employment;
- is not a principal or employee of a professional adviser to Macquarie and its entities whose billings exceed five per cent of the adviser's total revenues. A Voting Director who is a principal or employee of a professional adviser will not participate in any consideration of the possible appointment of the professional adviser and will not participate in the provision of any service to Macquarie by the professional adviser;
- is not a significant supplier or customer of Macquarie or its entities or an officer of or otherwise associated directly or indirectly with a significant supplier or customer. A significant supplier is defined as one whose revenues from Macquarie exceed five per cent of the

supplier's total revenue. A significant customer is one whose amounts payable to Macquarie exceed five per cent of the customer's total operating costs;

- has no material contractual relationship with Macquarie or any of its associates other than as a director of Macquarie;
- is not a director of any of Macquarie's subsidiaries or responsible entities other than Macquarie Bank Limited and any intermediary holding company;
- has not served on the Board for a period exceeding Macquarie's agreed tenure rules (including transitional arrangements); and
- has no other interest or relationship that could interfere with the Voting Director's ability to act in the best interests of Macquarie and independently of management.

The BCGC has determined that each of the six Voting Directors designated as Independent Directors in this Statement satisfy all of the above criteria and bring an independent mind to their duties as a director. The criteria used to assess independence, including the materiality thresholds referred to above, are reviewed from time to time.

The independence of each Independent Director is monitored by the BCGC and Voting Directors may be required to provide information to the BCGC to enable it to assess the Independent Directors' ongoing independence. Each year, the Independent Directors are requested to confirm in writing their continuing status as an Independent Director and they have each undertaken to inform the Board as soon as practical if they think that their status as an Independent Director has or may have changed. (ASX Recommendation 2.6)

#### **Chairman**

David Clarke was Executive Chairman of Macquarie Bank Limited ("Macquarie Bank", the "Bank" or "MBL"), the previous parent company of the Macquarie Group, from its formation until 31 March 2007. He has since continued to serve on the Board of Macquarie Bank and, since 30 August 2007, on the Board of Macquarie, as Non-Executive Chairman. Due to his recent role as Executive Chairman of Macquarie Bank, Mr Clarke is not considered to be an Independent Director.

Macquarie has noted the ASX Corporate Governance Council's recommendation that listed companies have an independent director as chairman. However, for the reasons set out below, the Board believes that David Clarke is the most appropriate person to be Macquarie's Chairman and that measures adopted by Macquarie provide an appropriate check on executive power. APRA's Governance Standard also requires the

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chairperson of the Board to be an Independent Director. Notwithstanding this requirement, APRA has confirmed that it will allow Mr Clarke to continue as Chairman of Macquarie and Macquarie Bank Limited. (ASX Recommendation 2.2 and 2.6)

Mr Clarke was Joint Managing Director of Hill Samuel Australia Limited, the business predecessor to Macquarie Bank from 1971 to 1977, sole Managing Director from 1977 to 1984 and then Executive Chairman. Given Macquarie's diverse, complex and highly specialised activities, it is important that the Board is chaired by someone with a deep understanding of Macquarie's operations. Mr Clarke's experience in investment banking, and as a chairman of major listed entities, is also important in ensuring that management provides the Board with adequate information to facilitate effective decision making. His wide experience enables him to provide support and advice to the Managing Director while respecting executive responsibility.

Macquarie's dependence on the performance of its staff is a further reason why, like most global investment banking organisations, Macquarie believes it to be in shareholders' interests to have a number of Board members with operating experience of the businesses. Mr Clarke's role as Executive Chairman worked very well for a long time at Macquarie Bank and it is considered to be in shareholders' interests for Mr Clarke to continue as Macquarie's Non-Executive (Non-Independent) Chairman. Macquarie has also adopted a number of practices to regulate the division of responsibilities between the Board and management, and the accountability of management to the Board, including:

- separate individuals perform the roles of Chairman and Managing Director; (ASX Recommendation 2.3)
- the appointment of a Lead Independent Director to act as a conduit for issues that the Independent Directors have as a group;
- having a majority of Independent Directors on the Board;
- the Non-Executive Directors meet at least once per year in the absence of management. The Independent Directors may also meet on their own with the Lead Independent Director chairing such meetings;
- the delegation of certain responsibilities to Board Committees, a number of which the Chairman is not a member. The Board Audit and Compliance Committee Charter states that the Chairman of the Board shall not be eligible to be the Chairman of that Committee; and
- the ability of Voting Directors to seek independent professional advice for company related matters, including Board Committee matters, at Macquarie's expense, subject to the estimated costs being approved by the Chairman in advance as being reasonable. (ASX Recommendation 2.6)

### Board Committees

Five standing Board Committees have been established to assist in the execution of the Board's responsibilities. All Board members are free to attend any meeting of any Board Committee. The membership of each Committee is outlined in the table below. Attendance at Board and Committee meetings is set out on page 53 of the Directors' Report. (ASX Recommendation 2.6)

It is the policy of the Board that a majority of the members of each Board Committee be Independent Directors, that the Board Audit and Compliance Committee comprise only Independent Directors and that the Board Remuneration Committee and the Board Corporate Governance Committee be chaired by Independent Directors.

Each Committee has a charter which includes a description of their duties and responsibilities. The Charters are available in the Corporate Governance section of Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie). (ASX Recommendation 2.6)

### Nomination of Directors and Board Renewal

The Board Nominating Committee comprises the Chairman and two Independent Directors. (ASX Recommendation 2.4)

The Nominating Committee's role, which is outlined in its charter, is to review and consider the structure and balance of the Board and make recommendations regarding appointments, retirements and terms of office.

The Board has adopted a Policy on Board Renewal and Appointment of Directors to govern the selection and appointment of Voting Directors, a copy of which is available on Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie). (ASX Recommendation 2.6)

The Nominating Committee has unlimited access to senior management of the Macquarie Group and is able to engage recruitment consultants to undertake research on, or assess, candidates for new positions on the Board, or to consult other independent experts where it considers it necessary to carry out its duties and responsibilities.

Standing Committee Membership	Audit and Compliance	Corporate Governance	Nominating	Remuneration	Risk
<b>Non-Executive (Non-Independent) Directors</b>					
David Clarke AO			Chairman	Member	Chairman
<b>Executive Voting Directors</b>					
Allan Moss AO					Member
Nicholas Moore <sup>1</sup>					Member
Laurie Cox AO					Member
<b>Independent Directors</b>					
Peter Kirby <sup>2</sup>	Member	Member			Member
Catherine Livingstone AO	Chairman		Member		Member
Kevin McCann AM	Member	Chairman			Member
John Niland AC <sup>3</sup>		Member		Member	Member
Helen Nugent AO			Member	Chairman	Member
Peter Warne <sup>4</sup>	Member			Member	Member

<sup>1</sup> Mr Moore has been a member of the MGL Risk Committee since his appointment to the Board in February 2008.

<sup>2</sup> Mr Kirby was a member of the MBL Remuneration Committee until August 2007 when he was appointed to the Audit and Compliance and Corporate Governance Committees.

<sup>3</sup> Dr Niland was a member of the MBL Audit and Compliance Committee until August 2007 when he was appointed to the Remuneration Committee.

<sup>4</sup> Mr Warne was appointed to the MBL Audit and Compliance Committee effective on his joining to the MBL Board in July 2007 and became a member of the Remuneration Committee in August 2007.

The Board recognises that it is important that it undergoes a regular process of renewal via changes in membership. Independent Directors are appointed for terms that will not exceed 12 years. Time served by Independent Directors on the Board of Macquarie Bank, calculated in accordance with transitional provisions that broadly weight past time on the Board prior to 2003 at 50 percent, apply to Independent Directors appointed before the restructure of Macquarie Group in November 2007.

#### **Performance of the Board**

The Board undertakes a formal annual performance self-assessment, including an assessment of the Board, Board Committees and individual Board members with emphasis on those individual Directors who are required to stand for re-election at the next AGM. The process adopted by the Board to review the performance of the Board and Macquarie's most senior executives is available on Macquarie's website at [www.macquarie.com.au](http://www.macquarie.com.au). The performance of the Board has been assessed this year in accordance with the process described below. (ASX Recommendation 2.6)

The process for conducting the Board's performance review consists of the Chairman conducting individual interviews with each of the Voting Directors and the Lead Independent Director discussing the performance of the Chairman with other Voting Directors then with the Chairman. Prior to that, the Voting Directors complete

a questionnaire and are able to make other comments or raise any issue that they have relating to the Board's or a Board Committee's operation. The results of the questionnaire and interviews are compiled and include a quantitative and a qualitative analysis. (ASX Recommendation 2.5)

A written report discussing the results, issues for discussion and recommendations for initiatives is presented to the Board and discussed at a Board meeting.

Board Committee members also use a questionnaire as part of the Committee review process. The results of the questionnaire are compiled and a written report discussing the results is issued and presented to the relevant Committee, then discussed at a Committee meeting. Each of the Board Committees undertakes a periodic review of its performance in accordance with its Charter which requires at least biennial review. Three of the five standing Committees undertook a review of their performance during the year, including the Board Risk Committee as part of the Board review. (ASX Recommendation 2.5 and 2.6)

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### Principle 3

#### Promote ethical and responsible decision-making

Macquarie's Board and management are committed to Macquarie continuing to be a good corporate citizen. Macquarie has a robust framework of policies, underpinned by its Goals and Values and Code of Conduct, relevant to environmental, social and governance (ESG) responsibilities. A statement setting out Macquarie's position on ESG issues is available on Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie).

Macquarie's Code of Conduct and the policies discussed below set the standards for dealing with obligations to external stakeholders. A statement of Macquarie's community engagement is detailed in the Macquarie Group Foundation's annual report, which is available on Macquarie's website. Further information regarding Macquarie's ESG initiatives can be found in Macquarie's Annual Report. Each of Macquarie's listed funds provides information on ESG initiatives undertaken by the fund in their respective Annual Reports.

#### Code of Ethics and Conduct

Macquarie's Voting Directors and staff are required to maintain high ethical standards of conduct.

The Group's Code of Ethics, *Macquarie – What We Stand For*, covers Macquarie's dealings with external parties and how Macquarie operates internally. It is periodically reviewed and fully endorsed by the Board. The Code of Ethics is distributed to all staff and its standards communicated and reinforced at Macquarie-wide induction programs, presentations to workgroups and annual staff meetings.

Macquarie has adopted a Code of Conduct (the Code), which incorporates the Group's Code of Ethics. The Code is also reflected in, and supported by, a broad range of Macquarie's internal policies and procedures. The Code includes a requirement to conduct all Macquarie's business in accordance with applicable laws and regulations in the jurisdictions in which Macquarie operates, and in a way that enhances its reputation in those markets. (ASX Recommendation 3.1)

A copy of the Code is available on Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie). (ASX Recommendation 3.3)

#### Integrity Office (ASX Recommendation 3.1)

To strengthen Macquarie's commitment to conducting its business activities in accordance with the highest ethical standards, Macquarie has appointed Executive Directors, Michael Price and James Hodgkinson, as Integrity Officers. In acknowledgement of the expanding international nature of Macquarie's business, Regional Integrity Officers and Regional Integrity Support Officers have been appointed in Asia, Europe and the Americas.

The Integrity Officers serve as an independent point of contact with whom Voting Directors and staff can raise concerns about integrity-related issues. The Integrity Officers report directly to the Managing Director and provide a regular report on the activities of the Integrity Office to the Board Corporate Governance Committee.

The role of the Integrity Officers is to:

- develop and implement strategies in the Australian and international offices to assist Macquarie to properly address issues of integrity in the conduct of its business;
- educate, advise and counsel management and staff regarding integrity issues;
- devise and introduce systems to ensure that claims of integrity breaches and any integrity-related concerns are dealt with impartially, promptly and confidentially; and
- ensure that the rights of all parties are respected and maintained at all times.

Macquarie has established whistleblower policies in accordance with the legislative requirements and best practice recommendations in each of the jurisdictions in which Macquarie operates. The policies aim to provide a working environment that enables employees to voice genuine concerns in relation to:

- a breach of relevant legislation;
- a breach of Macquarie's Goals and Values;
- financial malpractice or impropriety or fraud;
- failure to comply with legal obligations;
- danger to health and safety or the environment;
- criminal activity; and
- attempts to conceal any of the above.

#### Macquarie and Corporate Citizenship

Macquarie is directly involved in a number of business activities relevant to the environment including sustainability audits of Macquarie premises and purchasing of 'green' power, emissions trading, and investment in sustainable forestry, renewable energy and clean technology.

Macquarie invests continually in the development and training of its staff, including through a venture with a leading world educational institution. Macquarie also contributes to the communities in which it operates through the work of the Macquarie Group Foundation and by supporting staff in their philanthropic and volunteering endeavours.

### **Staff Dealing**

Macquarie's Personal Dealing Policy identifies the principles by which Macquarie balances the personal investment interests of staff against Macquarie's responsibility to ensure that the personal dealing and investment activities in any financial product of its staff are conducted appropriately. A summary of Macquarie's trading policy is available on Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie). (ASX Recommendation 3.2 and 3.3)

The Policy applies to Voting Directors and all Macquarie staff (all full and part-time employees and contractors engaged for more than three months). It also applies generally to "associates" of staff, which includes persons or entities over whom a staff member has investment control (such as spouses, dependent children, self-managed super funds and private and family-controlled companies and trusts).

One of the key aspects of the Policy requires Voting Directors, staff and their associates to pre-clear their securities trading with Macquarie.

Voting Directors and staff may only trade in Macquarie securities and related derivatives during designated trading windows. These are typically of three to five weeks' duration and follow Macquarie's announcements of its interim and full year profits and after the AGM. However, in all cases Macquarie prohibits Voting Directors and staff from dealing in such investments while they possess material non-public price-sensitive information about Macquarie.

The Board has also agreed that Voting Directors generally should not sell MGL shares while the shares are subject to an on-market buy-back, and should not undertake short-term trading in any Macquarie-related securities and derivatives without the prior approval of the Chairman (or the Managing Director in the case of the Chairman).

All Voting Director's financing arrangements relating to their Macquarie securities must be managed in accordance with Macquarie's trading policy.

Executive Directors are also not permitted to undertake any action that is designed to limit their exposure to Macquarie shares which are subject to retention arrangements, or their unvested Macquarie options. Non-executive directors may also not enter into a transaction that operates to limit the economic risk of their Macquarie shareholding below their minimum shareholding requirement. Employees are not permitted to take net short positions in MGL shares or any Macquarie-managed funds.

### **Principle 4**

#### **Safeguard integrity in financial reporting**

##### **Financial Reporting**

Macquarie's Board has the responsibility for the integrity of Macquarie's financial reporting. The Bank's Board has the responsibility for the integrity of the Bank's financial reporting. To assist the Boards in fulfilling their responsibility the processes discussed below have been adopted. The processes are aimed at providing assurance that the financial statements and related notes are complete, in accordance with applicable accounting standards and provide a true and fair view.

##### **Financial Assurance**

The **Board Audit and Compliance Committee (BACC)** is comprised of four Independent Directors. (ASX Recommendation 4.1 and 4.2) Details of each individual Voting Director's background are set out in Schedule 1 of the Directors' Report (see pages 116–118) in the Annual Report. Attendance at BACC meetings is set out in the Directors' Report on page 53. (ASX Recommendation 4.4)

The main objective of the BACC is to assist the Boards of MGL and MBL in fulfilling their responsibility for overseeing the quality and integrity of the accounting, auditing, financial reporting and compliance practices of the Macquarie Group including:

- overseeing the compliance of the financial statements with legislative and other mandatory professional reporting requirements;
- making informed decisions regarding accounting and regulatory policies, practices and disclosures and reviewing the scope and results of Internal Audit reviews, and external audits;
- making informed decisions regarding compliance policies and reviewing the scope and results of compliance reviews;
- assessing the effectiveness of the Group's internal control and operational risk framework; and
- assessing the effectiveness of the Group's credit assurance function.

The responsibilities of the BACC are set out in its charter, which is posted on Macquarie's website. (ASX Recommendation 4.3)

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The BACC meets at least six times a year, with additional meetings as required. The Committee also meets privately with the following parties at least annually in separate sessions to discuss any matters that the Committee or the parties believe should be discussed privately with the Committee:

- Head of Internal Audit;
- Head of Risk Management Group (RMG);
- Head of RMG Compliance;
- Head of RMG Credit Assurance; and
- the external auditors.

The BACC makes a periodic, but at least biennial, evaluation of its performance and annually reviews the extent to which it has met the requirements of its charter.

The BACC has unlimited access to the Heads of RMG, RMG Credit Assurance, RMG Compliance, and Internal Audit, the external auditors, the Group's compliance officers and senior management of the Group. The Committee also has the power to institute and oversee special investigations including consultation with independent experts as needed.

#### *Declaration by the Chief Executive Officer and Chief Financial Officer*

The Chief Executive Officer and the Chief Financial Officer provide the Boards of Macquarie and the Bank with written confirmation that the financial reports present a true and fair view, in all material respects, of Macquarie's and the Bank's financial condition and operational results and are in accordance with relevant accounting standards.

#### *Auditor Independence*

The BACC is also responsible for overseeing the external audit of Macquarie and the Bank.

The policy on auditor independence applies to services supplied by the external auditor and their related firms to Macquarie, its related entities and the trusts and entities managed by Macquarie. A copy of Macquarie's external auditor policy statement is available on Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie). (ASX Recommendation 4.4)

Under the policy the external audit engagement partner and review partner must be rotated every five years. Macquarie's lead audit engagement partner will rotate at the conclusion of the 2008 financial reporting period.

#### **Principle 5**

##### **Make timely and balanced disclosure**

#### *Commitment to Shareholders and Informed Market*

Macquarie believes that shareholders, regulators, ratings agencies and the investment community generally, should be informed of all major business events and risks that influence Macquarie in a factual, timely and widely available manner. Macquarie has a Continuous Disclosure Policy which is incorporated in the External Communications Policy. A summary of the External Communications Policy is available on Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie). (ASX Recommendation 5.1 and 5.2)

It is Macquarie's policy that any price-sensitive material for public announcement, including annual and interim profit announcements, release of financial reports, presentations to investors and analysts and other prepared investor briefings for MGL and MBL, will be:

- lodged with the ASX as soon as practical and before external disclosure elsewhere; and
- posted on Macquarie's website as soon as practical after lodgement with the ASX.



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**Principle 6**  
**Respect the rights of shareholders**

*Communications (ASX Recommendation 6.1 and 6.2)*

It is Macquarie's policy, as set out in the summary of the External Communications Policy referred to in Principle 5, that all external communications by Macquarie will:

- be factual and subject to internal vetting and authorisation before issue;
- not omit material information; and
- be timely and expressed in a clear and objective manner.

Macquarie's website, [www.macquarie.com.au/shareholdercentre](http://www.macquarie.com.au/shareholdercentre), contains recent announcements, presentations, past and current reports to shareholders, answers to frequently asked questions and a summary of key financial data. Investors may also register here to receive copies of significant announcements by email as soon as practical after they have been lodged with the ASX.

*General Meetings*

Macquarie encourages shareholders to participate in general meetings. Macquarie typically holds its AGM in July of each year. The Bank's AGM will typically be held on the same day, after the Macquarie AGM. Macquarie will choose a date, venue and time considered convenient to the greatest number of its shareholders. This year, Macquarie will hold its AGM in Melbourne for the first time to allow Victorian shareholders an opportunity to attend. Macquarie will also request its auditor to attend each AGM and be available to answer questions about the conduct of the audit, and the preparation and contents of the auditor's report.

Notices of Meeting will be accompanied by explanatory notes on the items of business and together they will seek to clearly and accurately explain the nature of business of the meeting. Full copies of Notices of Meeting will be placed on Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie).

Shareholders are encouraged to attend the meeting or, if unable to attend, to vote on the motions proposed by appointing a proxy. The proxy form included with a Notice of Meeting will seek to clearly explain how the proxy form is to be completed and submitted. Online proxy voting is also available to shareholders.

Unless specifically stated in a Notice of Meeting, all holders of fully paid ordinary shares are eligible to vote on all resolutions.

Holders of Macquarie Income Securities have the right to attend Macquarie Bank Limited AGMs, at which they have limited voting rights, as set out in the terms of their issue.

Macquarie will webcast the formal addresses at its AGM and any other Macquarie general meetings which may be held, for the benefit of those shareholders unable to be present in person.

**Principle 7**  
**Recognise and manage risk**

*Identifying Significant Business Risks*

There are many risks in the markets in which Macquarie operates. A range of factors, some of which are beyond Macquarie's control, can influence performance. In many of its businesses, Macquarie constantly and deliberately assumes financial risk in a calculated and controlled manner. Macquarie has in place limits and a range of policies and procedures to monitor the risk in its activities, and these are periodically reviewed by the Board and the Board Risk Committee. (ASX Recommendation 7.2)

Further information regarding Macquarie's system of risk oversight and management is set out in the Risk Management Report on pages 38–51. (ASX Recommendation 7.1 and 7.4)

*Board Oversight*

The Board established the Board Risk Committee, which is comprised of all Board members to focus appropriate attention on the risk management framework of Macquarie and the particular significance of risk to Macquarie's performance.

The Board Risk Committee Charter is found on Macquarie's website at [www.macquarie.com.au](http://www.macquarie.com.au).

*Risk Management Framework*

Macquarie's approach to risk management is described in some detail in the Risk Management Report. The risk management framework, including policies, limits and procedures, continues to apply across the Macquarie Group following the Restructure whereby Macquarie Group Limited has become the ultimate parent of the Macquarie Group. (ASX Recommendation 7.2)

In brief, the principles followed by Macquarie in risk management are:

- Independence – RMG, which is responsible for assessing and monitoring risks across Macquarie, is independent of the operating areas of Macquarie, reporting directly to the Managing Director and the Board. RMG authority is required for material risk acceptance decisions;
- Centralised Prudential Management – RMG's responsibility covers the whole of Macquarie. Therefore, it can assess risks from a Macquarie-wide perspective and provide a consistent approach across all operating areas;
- Approval of all new business activities – Operating areas cannot undertake new businesses or activities, offer new products, or enter new markets without first consulting RMG. RMG reviews and assesses risk and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board;

# Corporate Governance Statement

## continued

- Continuous assessment – RMG continually reviews risks to account for changes in market circumstances and Macquarie's operating areas; and
- Frequent monitoring – Centralised systems exist to allow RMG to monitor credit and market risks daily. RMG staff liaise closely with operating and support Divisions.

### **Chief Executive Officer and Chief Financial Officer Declaration**

The Chief Executive Officer and the Chief Financial Officer provide the Board with written confirmation that:

- their statement given to the Board on the integrity of Macquarie's and the Bank's financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- Macquarie's risk management and internal compliance and control system is operating effectively in all material respects in relation to financial reporting risks.

Macquarie's senior management has reported to the Board on the effectiveness of the management of material business risks faced by the Groups for the year ended 31 March 2008. (ASX Recommendation 7.2 and 7.4) The Board has also received the Chief Executive Officer and the Chief Financial Officer declaration described above for this financial year. (ASX Recommendation 7.3 and 7.4)

### **Principle 8**

#### **Remunerate fairly and responsibly**

##### **Macquarie's Remuneration Committee**

Board oversight of remuneration and the role of the Board Remuneration Committee is described in the Directors' Report (see pages 85 to 87) in Macquarie's 2008 Annual Report. The composition of the Board Remuneration Committee (shown in the table on page 31) consists of a majority of Independent Directors and is chaired by an Independent Director. Committee member's attendance at Committee meetings is included in the Directors' Report (see page 53). (ASX Recommendation 8.1 and 8.3)

A copy of the Committee's charter is available on Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie). (ASX Recommendation 8.3)

##### **Executive Director and Senior Executive Remuneration**

Macquarie's remuneration policies and practices in relation to Executive Voting Directors and senior executives are as disclosed in Macquarie's Remuneration Report (see pages 56 to 110), contained in the 2008 Annual Report. Macquarie considers that disclosure of the structure and objectives of the remuneration policies, and their relationship to Macquarie's performance, allows investors to understand the costs and benefits of those policies and the link between remuneration paid to Executive Voting Directors and key executives and corporate performance. Details of the nature and amount of remuneration (including non-monetary components such as options) paid to each Executive Voting Director and the members of the Executive Committee within Macquarie are set out in the Remuneration Report. (ASX Recommendation 8.2)

Macquarie's trading policy prohibits Executive Directors, who are the most senior executives of the Macquarie Group, from entering into a transaction that is designed or intended to hedge their exposure to a Macquarie Group share that is subject to retention arrangements, an unvested Macquarie option, or both. A summary of Macquarie's trading policy is available on Macquarie's website at [www.macquarie.com.au/au/about\\_macquarie](http://www.macquarie.com.au/au/about_macquarie). (ASX Recommendation 8.3)

##### **Non-Executive Director Remuneration**

The remuneration policy for Macquarie's NEDs and the amount of remuneration paid to NEDs is discussed in detail in the Remuneration Report. NEDs are not granted options nor receive bonus payments. There are no termination payments to NEDs on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration. (ASX Recommendation 8.2 and 8.3)

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### Corporate Governance in Macquarie Managed Funds

Macquarie's expertise in managing fund assets and sourcing new value-adding opportunities is a key attraction for investors in Macquarie managed funds. Macquarie recognises that unitholders have entrusted their investments to us because of the Macquarie association and management. The Macquarie managed funds governance standards provide an alignment of interests between the manager and investors in the funds and adopt an appropriate governance framework to ensure protection of security holders' interests.

Macquarie's key expectations for Macquarie-managed Funds ("Funds") are that:

- funds management activity is conducted in accordance with Macquarie's high standards and industry best practice, with reference to community expectations and Macquarie's Goals and Values;
- market, credit, liquidity, operational, legal and regulatory risks arising in relation to Funds are managed and monitored within an appropriate risk management framework;
- each Fund is managed within an appropriate corporate governance framework so as to ensure that investment and other key decisions are made in accordance with the Fund's mandate and taken with appropriate regard to the interests of the investors as a whole;
- new Funds are subject to a robust internal approval process that requires independent review and sign-off of key aspects of the Fund structure.

The key elements of Macquarie's corporate governance framework for Funds are as follows:

- conflicts of interest arising between a Fund and its related parties should be managed appropriately and, in particular:
  - related party transactions should be identified clearly and conducted on arms' length terms;
  - related party transactions should be tested by reference to whether they meet market standards; and
  - decisions about transactions between listed Funds and Macquarie or its affiliates should be made by parties independent of Macquarie;

- a majority of independent directors should be appointed to the boards of responsible entities of listed Funds. For these purposes, the definition of independence is consistent with the definition applied by Macquarie;
- funds management businesses should be resourced appropriately. In particular:
  - staff involved in managing a Fund should be dedicated to the relevant funds management business, rather than to advisory or other activities;
  - all recommendations to Fund boards (and supporting information) should be prepared or reviewed by funds management staff;
  - each listed Fund that invests in operating assets or businesses should have its own managing director or chief executive officer; and
  - Chinese Walls operate to separate Macquarie's corporate finance, advisory and equity capital markets business from its funds management businesses.

The Macquarie Board (or the Bank Board if appropriate) exercises oversight of the funds management activities of the Macquarie Group through the following:

- requiring all funds management subsidiaries to adopt and maintain a risk management framework and principles similar to that employed by Macquarie;
- requiring Board approval for all new Funds that:
  - are listed or to be listed within 12 months of their establishment;
  - exceed specified monetary thresholds in size;
  - invest in operating businesses or assets in certain specified industries; and
- receiving and reviewing appropriate information from the funds management subsidiaries relating to their operations.

While Macquarie exercises general oversight of its funds management subsidiaries as set out above, decision-making relating to transactions by Funds are made by the directors of the responsible entities of, and companies within, the Funds. Where a Fund acquires an interest in another company, the board of the underlying company is responsible for decisions relating to that company's business and operations.