

Corporate Governance

Approach to Corporate Governance

Macquarie's governance approach aims to achieve **superior financial performance and long term prosperity while meeting stakeholders' expectations of sound corporate governance practices** by proactively determining and adopting the most appropriate corporate governance arrangements.

Macquarie's governance approach delivers these outcomes through:

1. **reviewing** developments in corporate governance;
2. **taking into account** corporate governance obligations;
3. **developing** a sound corporate governance framework supported by related processes and corresponding practices; and
4. **monitoring** the operation of the governance framework and processes.

Reviewing developments in corporate governance

Macquarie actively reviews Australian and international developments in corporate governance and considers the views of shareholders, regulators and other stakeholders. The Macquarie Board (the Board) adopts those arrangements which it considers are in the best interests of Macquarie and its shareholders, consistent with Macquarie's responsibilities to other stakeholders.

Taking into account corporate governance obligations

Macquarie Group Limited (Macquarie) is regulated by the Australian Prudential regulator, APRA, as a non-operating holding company of a licensed Australian Bank, Macquarie Bank Limited (Macquarie Bank). It is also supervised by the Australian corporate regulator, ASIC, and is listed on the Australian Securities Exchange (ASX). A number of key operating subsidiaries within the Macquarie group are supervised by regulators in the overseas jurisdiction in which they operate. Macquarie's governance obligations include APRA's Governance Standard (*Authorised Deposit-taking Institution Prudential Standard 510*), the ASX Corporate Governance Council's Principles and Recommendations and related ASX Listing Rules and Australian corporate law requirements.

Developing a sound corporate governance framework

Macquarie's corporate governance arrangements have been developed to achieve its aim as stated above. Six of the Board's nine members are Independent Directors, and all Board Committees are composed of a majority of Independent Directors. The Board, with the assistance of the Corporate Governance, Audit and Compliance, Remuneration, and Risk Committees, determines the most appropriate corporate governance arrangements for Macquarie which allow our people the flexibility, within risk limits, to continue to adapt business to changing markets.

In addition to requiring all Macquarie's business to be conducted in accordance with applicable laws and operations in the jurisdictions in which Macquarie operates, and in a way that enhances its reputation in those markets, Macquarie's Voting Directors and staff are required to maintain high ethical standards of conduct, consistent with the following goals and values to which Macquarie aspires:

- Integrity
- Client Commitment
- Strive for profitability
- Fulfilment for our people
- Teamwork
- Highest standards

Monitoring the operation of the governance framework

The Board Corporate Governance Committee assists the Board in monitoring the effectiveness of the Corporate Governance Framework. Each of the Board Committees assists the Board in monitoring the operation of key corporate governance processes.

The following description of the governance arrangements in place during the year to 31 March 2009 is in the order of the Principles set out in the 2nd edition of the *ASX Corporate Governance Principles and Recommendations (ASX Recommendations)* and provides references to relevant information contained in other sections of the Annual Report or available on Macquarie's website.

Macquarie considers that its governance practices during the year have been consistent with all but one ASX Recommendation. Macquarie believes the exception is appropriate for the reasons set out under Principle 2 below in the description of the role of Chairman. A checklist summarising Macquarie's compliance with the ASX Recommendations and copies of key corporate governance practices are available at www.macquarie.com.au/au/about_macquarie/corporate_governance.htm. All references to Macquarie's website in the following description of Macquarie's corporate governance approach are to this link unless otherwise stated.

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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.

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.

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.

Dealing with potential conflicts

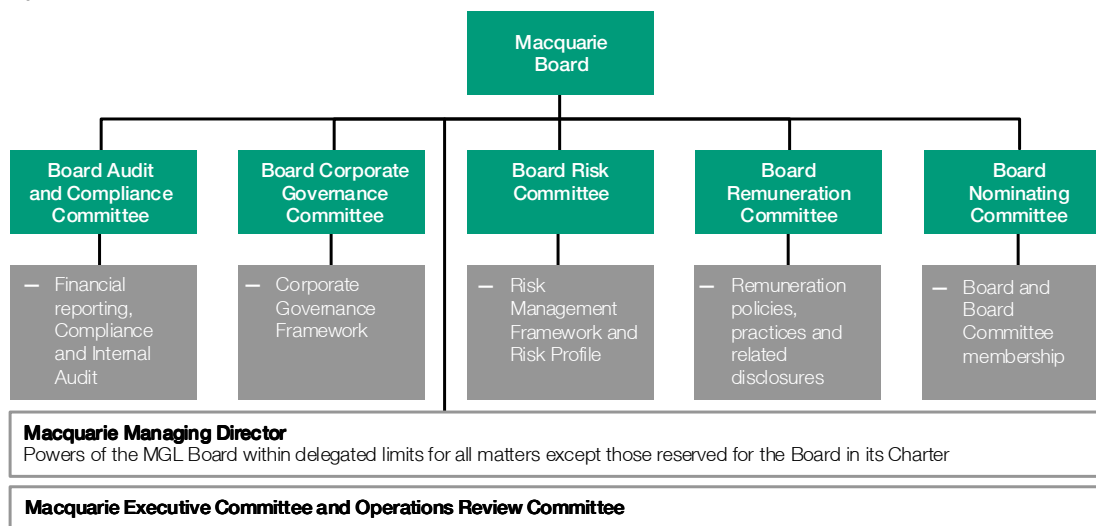
The Board has guidelines for its members for declaring and dealing with potential conflicts of interest which include:

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

The Board has also established systems and protocols to identify a conflict of interest and a framework for managing conflicts that include Divisional and Macquarie-wide policies, Lists, Information Protocols and appropriate disclosures. It is the responsibility of each of the businesses to ensure that conflicts of interest are adequately managed. Divisional and compliance staff ensure that the day to day legal and compliance obligations are discharged at the business level. The Risk Management Group (RMG) provides a risk oversight role in relation to these staff.

Macquarie Bank is a wholly owned subsidiary of Macquarie, and the Macquarie Bank Board is ultimately responsible for the sound and prudent management of the Macquarie Bank Group, with due consideration for the interests of deposit holders. The Macquarie Bank Board has processes in place to ensure arm’s length decision-making by the board of Macquarie Bank. Where potential conflicts arise, management will ensure that Directors of the relevant Board have sufficient information to manage conflicts appropriately.

Corporate Governance Framework



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. The performance of Macquarie's senior executives has been assessed this year in accordance with this process. Key aspects of the review process are described below.

The Managing Director annually presents a self-assessment to the Non-Executive Directors, who formally review the performance of the Managing Director. The presentation includes financial performance measures, strategic initiatives, staff and human relations indicators, prudential and compliance performance, reputation management and monitoring, and community and social responsibility matters. The Non-Executive Directors report on the performance of the Managing Director to the Board.

The Managing Director evaluates, at least annually, the performance of the following key executives: the Deputy Managing Director and the Group Heads, including the Head of Risk Management and the Chief Financial Officer. Both qualitative and quantitative measures are used that vary according to an individual's role. Factors relevant to assessing performance include relative contributions to profits while taking into account capital usage, how business is done, people leadership and adherence to Macquarie's Goals and Values. The performance of staff whose role is not linked to profit contribution is measured according to criteria appropriate to their position. Staff working in support areas may, for example, be rewarded on the basis of their contribution to Macquarie's financial reporting, risk management processes or information systems.

The Managing Director reports to the Board Remuneration Committee on the performance of these key executives. In conjunction with the annual strategy review, the Board also considers key executive succession planning and the capabilities of key executives.

Current Board composition

Voting Director	Board Membership	Date of Appointment
David Clarke AO	Non Executive Chairman (granted leave of absence)*	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 (Acting Chairman)*	August 2007
John Niland AC	Independent	August 2007
Helen Nugent AO	Independent	August 2007
Peter Warne	Independent	August 2007

* Due to illness, Mr Clarke sought and was granted leave of absence from 27 November 2008.

Mr McCann was appointed Acting Chairman on 27 November 2008.

** Upon Mr Moss' retirement on 24 May 2008, Mr Moore was appointed Managing Director and CEO.

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
- 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 in the Annual Report.

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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. On 30 April 2009, the Board resolved to reduce the maximum number of voting directors from nine to eight at the close of the 2009 AGM.

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
- the number of Non-Executive Directors 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. 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). To assist the BCGC, each Independent Board member considers criteria adopted by the Board for assessing director independence and confirms whether they meet the criteria. In February 2009, each Independent Director confirmed that there were no interests or relationships that could interfere with their ability to act in the best interests of Macquarie and independently of management and has undertaken to inform the Board as soon as practical if they think that their status as an Independent Director has or may have changed. The BCGC has determined that each of the six Voting Directors designated as Independent Directors in this Statement bring an independent mind to their duties as a director.

The criteria used to assess independence, including materiality thresholds, are reviewed from time to time and are available on Macquarie's website.

Chairman

David Clarke was Executive Chairman of Macquarie Bank Limited, 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 Group Limited, as Non-Executive Chairman. Given his prior role as Executive Chairman of Macquarie Bank, Mr Clarke is not considered to be an Independent Director.

Due to illness, Mr Clarke sought and was granted leave from 27 November 2008. Kevin McCann, the Lead Independent Director, was appointed Acting Chairman on 27 November 2008 and has served in this capacity from this time. Macquarie has noted the ASX Corporate Governance Council's recommendation that listed companies have an independent director as 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. The Board believes that David Clarke is the most appropriate person to be Macquarie's Chairman. APRA's Governance Standard also requires the 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 both Macquarie and Macquarie Bank Limited.

Macquarie has 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
- 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 a year in the absence of management. During the past year the Non Executive Directors met twice. 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 that all members shall be independent directors
- 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

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 ongoing membership of each Committee is outlined in the table below. However, for the duration of Mr Clarke's leave of absence, Mr McCann is a member and Acting Chairman of the Nominating Committee and a member of the Remuneration Committee and Mr Warne is Acting Chairman of the Risk Committee. Attendance at Board and Committee meetings is set out at the beginning of the Directors' Report.

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

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 of Independent Directors and that the Board Remuneration Committee and the Board Corporate Governance Committee be chaired by Independent Directors.

The allocation of responsibilities between Board Committees is summarised in the diagram of the Corporate Governance Framework under Principle 1. Each Committee has a charter which includes a more detailed description of their duties and responsibilities. The Charters are available in the Corporate Governance section of Macquarie's website.

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.

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 prior to the restructure of Macquarie in November 2007, calculated in accordance with the transitional provisions that broadly weight past time on the Board prior to 2003 at 50 percent, will be regarded as time served on the Macquarie Board.

The Board Nominating Committee and Board Renewal

The Board 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 Committee comprises the Chairman and two Independent Directors as set out above. Committee member's attendance is set out in the Directors' Report.

The Nominating Committee has unlimited access to senior management of Macquarie 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.

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Board Performance Review

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. The performance of the Board has been assessed this year in accordance with the process described below in conjunction with a qualitative external review.

The process for conducting the Board's performance review consists of individual interviews with each of the Voting Directors. The review includes an assessment of the individual contribution of each Board member as well as the performance of the Board as a whole. The Voting Directors also 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. An external review is conducted periodically in addition to the internal review process.

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

Each of the Board Committees undertakes a periodic review of their performance in accordance with their Charters which require at least biennial review. Board Committees may also use a questionnaire as part of the Committee review process. The results of the review are then discussed at a Committee meeting. Two 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.

Principle 3 – Promote Ethical and Responsible Decision-Making

Macquarie's Board and management are committed to being a good corporate citizen. Macquarie has a robust framework of policies, underpinned by its Goals and Values and Code of Conduct.

Macquarie's Code of Conduct, Integrity Officers, and 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. A statement on Macquarie's approach to climate change is included in this Annual Report.

Code of Conduct

Macquarie's Voting Directors and staff are required to maintain high ethical standards of conduct. Macquarie has adopted a Code of Conduct, which incorporates the Group's Code of Ethics (*What We Stand For*). The Code of Conduct is also reflected in, and supported by, a broad range of Macquarie's internal policies and procedures.

The Code of Conduct is intended to help Directors and staff to understand their responsibilities to uphold the following goals and values to which Macquarie aspires: Integrity, Client Commitment, Strive for profitability, Fulfilment for our people, Teamwork and Highest Standards. It also 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.

It covers Macquarie's dealings with external parties and how Macquarie operates internally. It is periodically reviewed and fully endorsed by the Board. The document titled *What We Stand For*, which includes Macquarie's Goals and Values, is distributed to all staff and its standards communicated and reinforced at Macquarie-wide induction programs, presentations to workgroups, online training and annual staff meetings.

A copy of the Code of Conduct is available on Macquarie's website.

Integrity Officers

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. 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
- 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
- attempts to conceal any of the above

Macquarie and Climate Change

Climate change has been a focus throughout the year with investments in renewable and clean energy projects, increasing activity in environmental markets and a corporate commitment to becoming carbon neutral by December 2010. Further information regarding Macquarie's approach to climate change can be found on page XX of the Annual Report.

Staff and Director Trading

Macquarie's Personal Dealing Policies identify 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 of its staff in any financial product are conducted appropriately. A summary of Macquarie's policy is available on Macquarie's website.

The Policy applies to Voting Directors and all Macquarie staff (full and part-time employees and contractors engaged for more than three months). It also applies generally to "associates" of staff, which include 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).

Key aspects of the Policy include:

- **pre-clear securities trading:** Voting Directors, staff and their associates must pre-clear their securities trading with Macquarie.
- **trading windows:** 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.
- **trading prohibition while in possession of material non-public price sensitive information:** 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.
- **unvested options, retained shares and minimum shareholding requirements cannot be hedged:** Executive Directors are 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.
- **net short positions not permitted:** Employees are not permitted to take net short positions in Macquarie shares or any Macquarie-managed funds.

The Board has agreed that Voting Directors generally should not sell Macquarie 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). Voting Directors and Executive Committee members are also required to annually disclose any financing arrangements relating to their Macquarie securities to the Chairman via the Company Secretary and manage their financing arrangements in accordance with Macquarie's trading policy.

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Principle 4 – Safeguard Integrity in Financial Reporting

Financial Reporting

Macquarie's Board has responsibility for the integrity of Macquarie's financial reporting. Macquarie Bank's Board has responsibility for the integrity of Macquarie 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. Details of each individual Voting Director's background are set out in Schedule 1 of the Directors' Report (see page XX) in this Annual Report. Committee members' attendance at BACC meetings is also set out in the Directors' Report.

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

The responsibilities of the BACC are set out in its Charter, which is available on Macquarie's website.

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
- the external auditors

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.

During the year, the BACC undertook an evaluation of its performance, following on from the previous year's extensive review process, and reviewed the extent to which it had met the requirements of its charter. It also commissioned an external review of the Internal Audit function within Macquarie.

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 Macquarie Bank with written confirmation that the financial reports present a true and fair view, in all material respects, of Macquarie's and Macquarie 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 Macquarie 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. Under the policy on auditor independence:

- the external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for the Group, or audits its own professional expertise
- significant permissible non-audit assignments awarded to the external auditors must be approved in advance by the Committee or, between Committee meetings, the Committee Chair
- the external audit engagement partner and review partner must be rotated every five years. Macquarie's lead audit engagement partner rotated 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.

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 Macquarie and Macquarie Bank, will be:

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

Principle 6 – Respect the Rights of Shareholders

Communications

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
- be timely and expressed in a clear and objective manner

Macquarie's website at www.macquarie.com.au/au/about_macquarie/investor_information.htm contains recent announcements, presentations, past and current reports to shareholders, answers to frequently asked questions and a summary of key financial data. There is also a link on this page allowing Investors to register to receive Macquarie announcements electronically by email as soon as practical after they have been lodged with the ASX.

Macquarie provides a webcast of its Annual General Meeting (AGM), any other general meetings, year end and half year results presentations and operational briefings for the benefit of shareholders who are unable to attend.

General Meetings

Macquarie typically holds its AGM in July of each year. Macquarie encourages shareholders to participate in general meetings and aims to choose a date, venue and time considered convenient to the greatest number of its shareholders. This year Macquarie's AGM will be held in Sydney and Macquarie Bank's AGM will be held on the same day, after the Macquarie AGM. Last year, Macquarie held its AGM in Melbourne for the first time to allow Victorian shareholders an opportunity to attend. Macquarie's auditor is required 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/investor_information.htm.

If shareholders are unable to attend the meeting, they are encouraged 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.

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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 the Macquarie Bank Limited AGM, at which they have limited voting rights, as set out in the terms of their issue which are located at http://www.macquarie.com.au/au/about_macquarie/investor_information/macquarie_income_securities.htm.

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. The Board Risk Committee has responsibility for the establishment and review of the Risk Management Framework and policies to control risk while the Board Audit and Compliance Committee has responsibility for assessing the effectiveness of the internal controls.

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. The Board Risk Committee Charter is found on Macquarie's website. In addition to the Board Risk Committee, the Board Audit and Compliance Committee and the Board Corporate Governance Committee assist the Board in ensuring the appropriate focus is placed on monitoring risk. Details of the responsibilities of these committees are provided in the description of the Risk Governance Structure below.

Risk Governance Structure

Risk management is sponsored by the Board, and is a top priority for senior managers, starting with the Chief Executive Officer. The Head of RMG is a member of Macquarie's Executive Committee, reports directly to the Chief Executive Officer of Macquarie and presents on risk matters at each Board meeting.

The Board oversees the risk appetite and profile of Macquarie and ensures that business developments are consistent with the risk appetite and goals of Macquarie.

There are three Board Committees that assist the Board in ensuring the appropriate focus is placed on the risk management framework.

- The **Board Risk Committee** has responsibility for ensuring an appropriate risk management framework – including the establishment of policies for the control of risk – is in place. The Committee receives information on the risk profile of Macquarie, breaches of the policy framework and external developments which may have some impact on the effectiveness of the risk management framework. It also approves significant changes to risk management framework and related policies.
- The **Board Audit and Compliance Committee** has responsibility for monitoring compliance with the risk management framework approved by the Board Risk Committee for internal control and compliance matters. In this role, the BACC monitors and reviews the effectiveness of the Internal Audit, Compliance and Credit Assurance functions.
- The **Board Corporate Governance Committee** has responsibility for any ethical and governance matters.

Committees exist at the executive management level to ensure the necessary elements of expertise are focused on specific risk areas. Executive Committees operate at both the Macquarie and the Macquarie Bank level and focus on strategic issues, operational issues and review the performance of the Group on a monthly basis. Beneath this level, other committees exist where senior specialists focus on specific risks as appropriate (e.g. Market Risk Committee, Asset and Liability Committee).

Risk Management Framework

Macquarie's approach to risk management, including the principles followed by Macquarie in risk management, is described in some detail in the Risk Management Report on page XX of this annual report. The risk management framework incorporates active management and monitoring of market, credit, equity, liquidity, operational, compliance, legal and regulatory risks. It is designed to ensure policies and procedures are in place to manage the risk arising within each business unit. Application varies in detail from one part of Macquarie to another, however, the same risk management framework applies across all business activities without exception.

Chief Executive Officer and Chief Financial Officer Declaration

The Macquarie and Macquarie Bank Boards receive written confirmation from the Chief Executive Officer and the Chief Financial Officer that:

- their statement given to the Board on the integrity of the 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 Macquarie and Macquarie Bank Boards on the effectiveness of the management of material business risks faced for the year ended 31 March 2009. The Boards have also received the Chief Executive Officer and Chief Financial Officer declarations described above for this financial year.

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 Remuneration Report which is contained within the Directors' Report (see pages XX to XX) in this Annual Report. The membership of the Board Remuneration Committee includes a majority of Independent Directors and the Committee is chaired by an Independent Director. Committee members' attendance at Committee meetings is included in the Directors' Report.

A copy of the Committee's Charter is available on Macquarie's website.

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. Macquarie acknowledges 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.

Macquarie's trading policy prohibits Executive Directors, who are the most senior executives of Macquarie, from entering into a transaction that is designed or intended to hedge their exposure to a Macquarie 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.

Non-Executive Director Remuneration

The remuneration policy for Macquarie's Non-Executive Directors and the amount of remuneration paid to them is discussed in detail in the Remuneration Report. Non-Executive Directors are not granted options, nor receive bonus payments. They do not receive termination payments on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration.

Corporate Governance

continued

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 Macquarie 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 holder's 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
 - 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
 - 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 Macquarie Bank Board if appropriate) exercises oversight of the funds management activities of Macquarie 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; and
 - invest in operating businesses or assets in certain specified industries
- 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.