

Corporate Governance Statement

continued

Oversight of risk management

Risk management is sponsored by the Board and is a top priority for senior managers, starting with the Managing Director and CEO. Macquarie's CRO is a member of Macquarie's Executive Committee and reports directly to the Managing Director and CEO. The CRO has a secondary reporting line to the Board Risk Committee which approves the replacement, appointment, reassignment or dismissal of the CRO. The CRO presents on risk matters at each Board/Board Risk Committee meeting.

All members of the Board and the Managing Director of Macquarie Bank are members of the Board Risk Committee to focus appropriate attention on the oversight of risk. The Board, through the Board Risk Committee, oversees the risk appetite and profile of Macquarie and ensures that business developments are consistent with the risk appetite and goals of Macquarie. The Head of Internal Audit is jointly accountable to the BAC and the CRO. Internal Audit findings are reported to the BAC. The Head of Internal Audit cannot be removed or replaced without the approval of the BAC.

At the executive management level, the Macquarie and Macquarie Bank Executive Committees and Operations Review Committee focus on strategic issues, operational issues, material transactions, the management of risk and review the performance of Macquarie on a monthly basis. Beneath this level, there are other committees where senior specialists focus on specific risks as appropriate. The Market Risk Committee and the Asset and Liability Committee are examples of these committees.

Macquarie's approach to risk management is detailed in the *Risk Management Report* in the Annual Financial Report and is available on Macquarie's website.

Remuneration

The Board of Directors oversees Macquarie's remuneration arrangements, including executive remuneration and the remuneration of Macquarie's NEDs. The Board is assisted by the BRC. The BRC annually reviews the remuneration strategy to ensure it delivers the best outcomes for Macquarie and its shareholders.

Unlike Macquarie executives, NEDs are not granted equity, nor are they eligible to 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.

Macquarie's NEDs are remunerated for their services from the maximum aggregate amount approved by shareholders for that purpose. The current limit of \$A4 million was approved by Macquarie shareholders at the 2010 AGM. Details of Macquarie's approach and the amount of remuneration paid to NEDs are contained in the Remuneration Report in the Annual Financial Report.

To more closely align the interests of the Board with shareholders, NEDs are required to progressively acquire a minimum of 6,000 shares over the five years from the date of their appointment. Each NED's remuneration and current Macquarie shareholding are set out in the Remuneration Report and the Key Management Personnel disclosure in the notes to the financial statements in the 2013 Annual Financial Report.

Details of the nature and amount of remuneration (including non-monetary components such as equity grants) for each Executive Voting Director and the members of the Executive Committee as well as Macquarie's remuneration policies and practices are set out in the Remuneration Report.

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 (Funds).

The Macquarie-managed funds' governance standards adopt an appropriate governance framework to ensure that key decisions are taken in the best interests of investors consistently with the fund's mandate and regulatory requirements.

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

- appropriate management of conflicts of interest arising between a Fund and its related parties. Related party transactions should be identified clearly, conducted on arm's length terms and tested by reference to whether they meet market standards. Decisions by listed Funds about transactions with Macquarie or its affiliates should be made by parties independent of Macquarie.
- appropriate resourcing of funds management businesses. 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 a majority of independent directors on the Fund board
 - Chinese Walls operate to separate Macquarie's corporate finance, advisory and equity capital markets businesses from its funds management businesses.