

**CHAIRMAN'S ADDRESS**

**MACQUARIE GROUP LIMITED AGM**

**29 JULY 2009**

**THE WESTIN, SYDNEY**

**CHECK AGAINST DELIVERY**

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Good morning ladies and gentlemen and welcome to Macquarie Group's 2009 Annual General Meeting.

I'm Kevin McCann, the Acting Chairman of the Macquarie Group and I'll be chairing today's meeting.

The Company Secretary has confirmed that a quorum is present, so I formally declare the meeting open.

As well as those shareholders present in person, the holders of 213 million shares, or approximately 64 per cent of the Group's ordinary share capital, are represented by proxies.

Before we get underway, I would like to introduce our Directors and some of our senior executives.

On my right is your Chief Executive Officer Nicholas Moore.

Next to him is the Group's Chief Financial Officer Greg Ward, then Non-Executive Director Catherine Livingstone, Executive Director Laurie Cox and Non-Executive Director Peter Kirby.

On my left is our Company Secretary, Dennis Leong.

Next to him are Non-Executive Directors Helen Nugent, Peter Warne and John Niland.

There are three major components of this morning's meeting.

First, I will present a broad overview of the market conditions we have faced for the past financial year.

I will then hand over to Nicholas to discuss in greater detail our results for the full year to 31 March 2009.

Nicholas will also cover our first quarter performance and provide an update on the outlook for the remainder of the year.

Once we have completed the presentations, we will then move to consider the formal resolutions set out in the Notice of Meeting.

Please be advised that recording devices, photographic equipment and mobile phones may not be used during the meeting.

At the end of the meeting, you are invited to join us for refreshments in the foyer.

### **Global financial market turmoil in 2008-09**

Let me commence with an overview of the past financial year.

It was a year of extreme financial shocks and unexpected and unsettling developments.

A crisis of confidence developed which impacted all major financial markets and quickly spread to the wider economy.

The severity of the cycle was unprecedented as was its impact on financial institutions. Governments around the world acted promptly, particularly in the U.S.A. and Europe. They provided large amounts of capital to support financial institutions as well as guarantees of bank deposits and borrowings.

While the Australian banking system and the economy performed better than most of its global peers, it has not been immune.

## **Global financial market turmoil in 2008-09**

The scale of this crisis of confidence in global financial markets can be seen through movements in the yields of U.S. corporate bonds over a period of some years.

As you can see from the slide, up until the latter half of 2007, market sentiment was very positive.

Optimism for economic growth prospects led to an increase in investor risk appetite.

Equity markets were favourable. Credit was readily available. Housing sectors in key markets were strong and productivity levels were at all time highs.

One effect of these highly favourable conditions was a strong growth in asset prices, particularly in U.S. housing, which in turn led to the creation of an asset bubble.

In early 2007 interest rates began to rise and housing prices started to fall in many parts of the U.S.A., and eventually the housing bubble burst. Following the rapid deterioration of the sub prime mortgage market, home refinancing became increasingly difficult.

The willingness and ability of banks and financial institutions to extend real estate credit was significantly reduced. Defaults and foreclosure activity increased. All of which led to an accelerating crisis in confidence.

Investor fear also rapidly increased as primary liquid funding markets such as securitisation and commercial paper markets all but closed.

Financial institutions reduced or ceased lending to each other and increasingly to broader sections of the market.

Central banks across the U.S. and Europe sought to restore confidence, by injecting billions of dollars into the market within days. Notwithstanding this action, the crisis in confidence continued to grow.

The first key event occurred in March 2008 when J.P. Morgan, with the support of the U.S. Federal Reserve, stepped in to rescue Bear Stearns. This caused a contagion effect, impacting a range of corporates and financial institutions.

Inevitably it created extreme volatility across the full range of financial markets.

This developed into a full-blown panic in September 2008 when a major U.S. financial institution, Lehman Bros, filed for bankruptcy.

## **Level of fear highlighted by extreme volatility in financial markets**

Panic spread, rapidly escalating investor fear. And this affected the wider economy in the form of a steep decline in underlying economic activity.

This can be clearly seen in the extreme spike in the volatility index which, having been relatively benign for a number of years, rose to levels never seen before.

## **The crisis crossed over to the wider economy**

World GDP growth declined dramatically over the second half of 2008 and the first quarter of 2009 as the U.S.A., Japan and Europe descended into recession.

The recent global growth engines - China and India - also experienced sharp falls in domestic growth levels as international trade activity declined.

These falls in economic activity were primarily driven by businesses de-stocking inventory in the last quarter of calendar 2008, and through the first quarter of 2009, at a velocity not previously experienced.

In Australia, growth levels also slowed and the economy only narrowly averted recession in the first quarter of 2009.

## **Global policy response**

The severity of the panic led to an unprecedented and co-ordinated global policy response by governments.

In Australia, the Government introduced a package of fiscal stimulus initiatives to boost broader economic activity.

Also in co-ordination with governments in all the major economies, the Australian Government introduced a range of measures to assist approximately 200 Australian financial institutions cope with the severity of the disruption in the global funding markets and to reassure depositors of their stability.

They included a specific government guarantee of customer deposits and wholesale funding support in exchange for a fee calculated on the basis of the institution's underlying credit rating.

Macquarie, which is a single 'A' rated institution, pays an annual fee of 1% to the Government for a government guarantee of newly issued wholesale funding. We estimate fees to be paid for this guarantee to be approximately \$A200 million in FY 2010.

## **During this period, Macquarie's share price tracked global financials**

Throughout the last financial year global equity markets deteriorated, and financial stocks were particularly affected.

The fall in financial stocks can be seen in the movement in the MSCI World Diversified Financials Index which covers all major financial institutions.

From the beginning of August 2007 to the end of March 2009, the index fell 73% driven by the collapse of Bear Sterns and Lehmans. This was despite the injection of large amounts of government equity into financial institutions in the U.S.A. and UK.

As you can see from the slide, Macquarie's share price broadly tracked that of other global financial institutions. In the period from 1 August 2007 to the end of March 2009, Macquarie's share price fell 63%.

## **Macquarie remained profitable**

Importantly, despite extreme market volatility, lack of access to funding in global markets, the failure and enormous losses of global financial institutions, Macquarie remained profitable.

Macquarie recorded a profit after tax of \$A871 million for the year to 31 March 2009, which was down 52% on a record profit for the prior corresponding period. Our operating income was down 33% to \$A5.5 billion.

This result was marked by a significant number of one-off items including impairments in investments in listed funds and private equity as well as increased credit losses.

Underlying activity levels across the Group remained relatively solid with operating income before impairments falling only 14% on the very strong 2008 financial year.

Our employee profit-sharing model demonstrated clear shareholder alignment with employment expenses falling \$1.8 billion or 44% on the prior corresponding period.

Remuneration in financial institutions has attracted a great deal of global comment. I will deal with the Macquarie remuneration model and some observations on the call for uniform global regulation, when presenting the Remuneration Report later in the meeting.

While our Earnings Per Share and Return on Ordinary Equity fell, the 10% Return on Ordinary Equity which was achieved, was a top quartile outcome for financial institutions across the globe.

Total dividends for the full 2009 financial year were \$A1.85 per share, reflecting a 60% payout ratio.

### **Strong risk management remains at the core of Macquarie**

Our ability to remain profitable during a period of extreme market volatility is something we believe is based not only on the diversity and financial strength of our business but also on Macquarie's strong risk management framework.

Our long-standing and consistent approach to risk management has always been a fundamental part of the Macquarie model. Each operating group at Macquarie is accountable for risk management, subject to central oversight by the Risk Management Group.

It also receives the close attention of the Chief Executive Officer, the Executive Committee and the Board through the Board Risk Committee.

Every decision-making process at Macquarie requires a thorough analysis of risk.

Our aim is not to take no risk, but to ensure we understand and measure all risks undertaken in each business decision we make.

This analysis involves applying a worst-case approach to the risk assessment. It allows us to assess the financial, reputational or operational impact of the risk at hand.

We then determine the level of risk the Group is prepared to accept or if it is a transaction we wish to undertake.

We measure the impact of the risk on the earnings of a business and not whether it can be absorbed by the Group's capital levels. In other words, while we are prepared to lose some of our current year earnings, we do not wish to put our capital reserves at risk.

It was very reassuring that in a year of extreme volatility, only a few of our stress test limits were exceeded – providing validation of our risk management framework.

There are presently global calls for wholesale reform of the regulation of banks and financial institutions. We support initiatives which increase collaboration between regulators and the harmonisation of disclosures and regulatory regimes.

In Australia, however, we should resist regulation which addresses issues faced by other jurisdictions, but which were not experienced here, because of the prudent risk management practices of Australian banks under a solid regulatory regime.

Regulation should not operate to stifle a financial sector from providing innovative financial products of utility to business and general communities.

## **Board matters**

I turn now to some Board issues.

I am pleased to be able to confirm that David Clarke has made an excellent recovery from his illness and that we look forward to his return to the Chair of Macquarie Group and Macquarie Bank on 31 August.

My role, over the past eight months, as Acting Chair of Macquarie Group and Macquarie Bank has been greatly assisted by the whole-hearted support of my colleagues.

Particular thanks go the Chairs of our Board sub-committees, Helen Nugent, Chair of the Remuneration Committee, Catherine Livingstone, Chair of the Audit and Compliance Committee and Peter Warne who has been Acting Chair of the Risk Committee.

Nicholas Moore became Chief Executive Officer of Macquarie Group in the early stages of the financial crisis – and has throughout it provided highly effective leadership. Nicholas has truly proved to be a man for all seasons in

the way in which he has managed the unprecedented challenges we experienced over the last year.

On behalf of the Board, I would like to thank Nicholas and his Executive Management team for their work.

Let me now turn to the retirement of Laurie Cox.

Laurie Cox retires as a director of the Board at the conclusion of this meeting.

Laurie joined the Macquarie Bank Board as a Non-Executive Director and also became Joint Chairman of Macquarie Corporate Finance in January 1996. He became an Executive Director in March 2004.

Both the Board and the Macquarie management team have benefited from Laurie's long experience in the securities and investment banking industries, as well as his insight about equity capital markets in Australia and globally.

I would like you to join me in thanking Laurie for his outstanding contribution to Macquarie.

### **Macquarie remains well placed for continuing evolution**

In concluding my opening remarks and before I hand over to Nicholas, it is worth noting that while it is too soon to call an end to the recent period of

extreme market volatility, signs of increased market confidence are beginning to emerge.

Notwithstanding these early signs of improvement, confidence remains fragile and there is still a high degree of uncertainty.

While we expect it is more likely that things will improve, we continue to maintain a cautious stance and a conservative approach, particularly with respect to funding and liquidity.

With a solid capital and balance sheet position, strong liquidity, as well as a strong team of executives, Macquarie remains well placed for continuing successful evolution.

I will now hand you over to Nicholas Moore, your Chief Executive Officer, who will take you through the 31 March 2009 financial results in more detail.

Thank you.