

# Corporate Governance Statement

Macquarie Group

Year ended 31 March 2018





# Corporate Governance Statement

Macquarie's approach to corporate governance, which has remained largely consistent over time, is to:

- promote the long term profitability of Macquarie while prudently managing risk
- drive superior and sustainable shareholder value over the long term through the alignment of the interests of shareholders and staff
- meet stakeholder expectations of sound corporate governance as part of Macquarie's broader responsibility to clients, shareholders, investors and the communities in which it operates.

Macquarie's *Code of conduct* sets out the way staff are expected to do business. The *Code of conduct* has been approved by the Board and incorporates *What We Stand For*: the principles of Opportunity, Accountability and Integrity that guide the way staff conduct business. Macquarie established the Integrity Office in 1998. It provides staff with an independent and confidential point of escalation to raise concerns as well as promoting the principles of *What We Stand For*.

Macquarie Group Limited (Macquarie) is a global diversified financial group with a diverse range of activities across different locations. Its shares are listed on the Australian Securities Exchange (ASX).

Macquarie is regulated by the Australian Prudential Regulation Authority (APRA), the Australian banking regulator, as the non-operating holding company of Macquarie Bank Limited, an authorised deposit-taking

institution. APRA's prudential standards include governance and risk management requirements. A number of Macquarie subsidiaries are supervised by regulators in the overseas jurisdictions in which they operate.

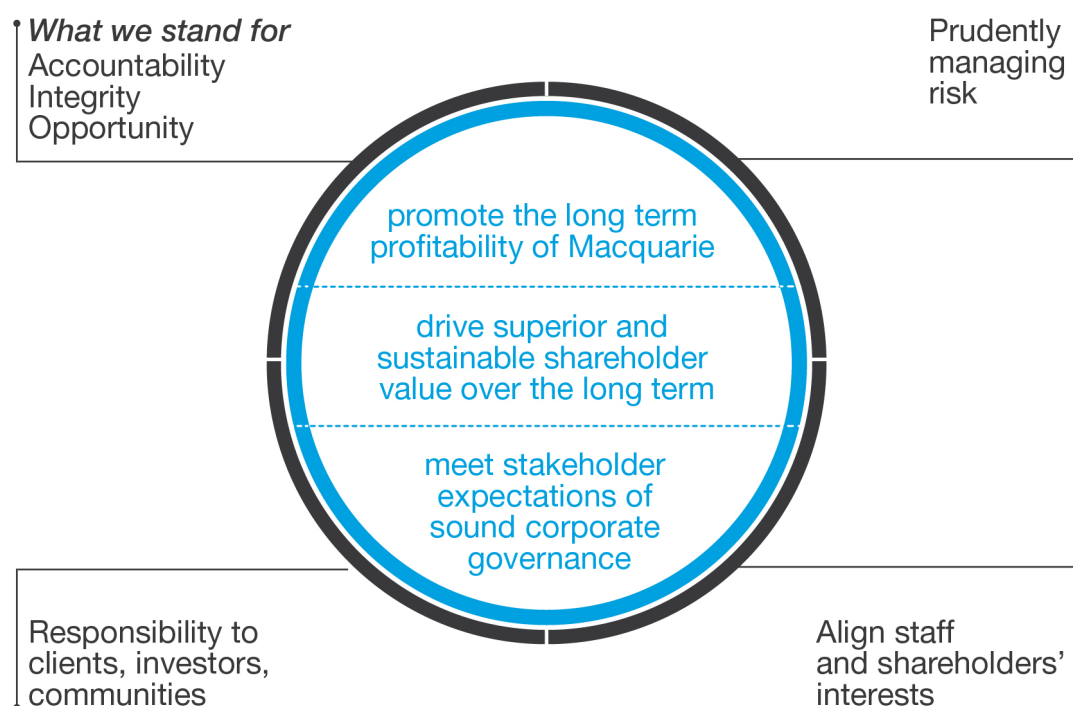
Macquarie's governance practices were consistent with the recommendations in the 3rd edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Recommendations) throughout the year. A Key to Disclosures - Corporate Governance Council Principles and Recommendations (Appendix 4G) has been lodged with the ASX and is available on Macquarie's website at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance)

Macquarie's corporate governance framework is set out below. This Corporate Governance Statement is current as at 3 May 2018 and has been approved by the Board.

## Board oversight

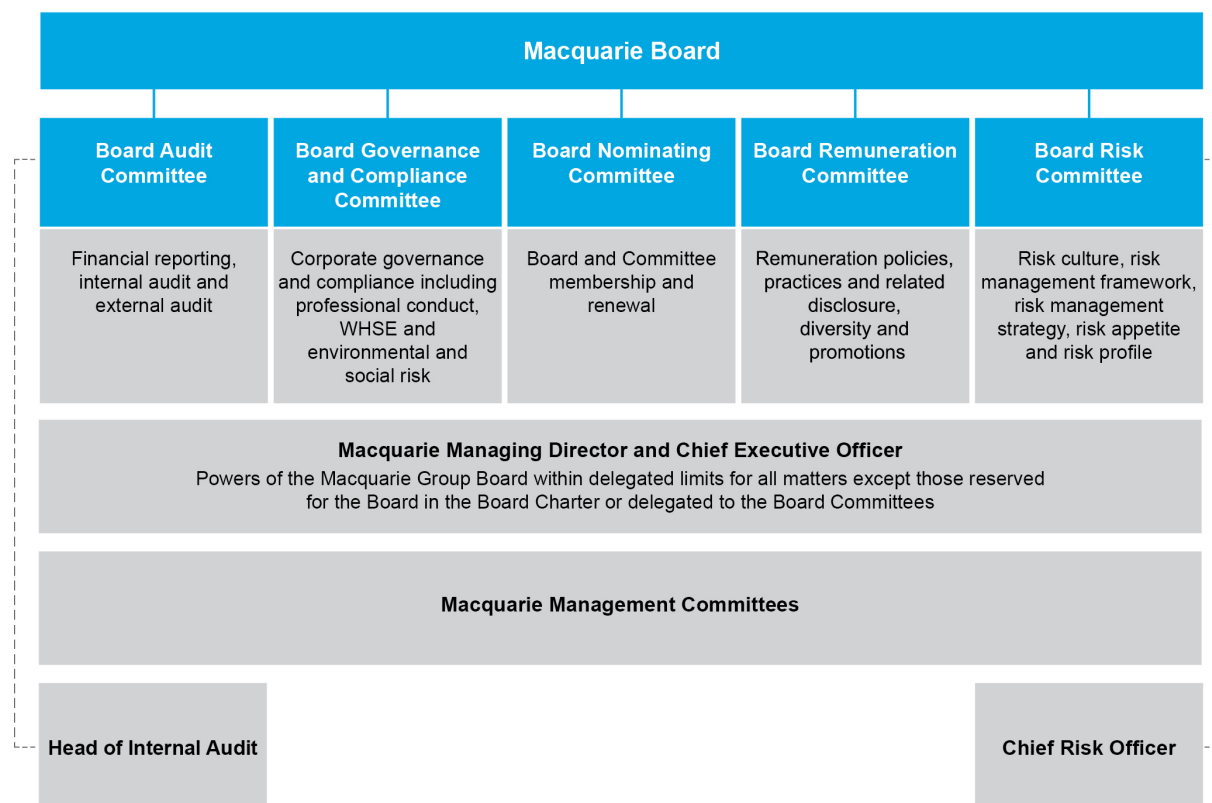
The primary role of the Board is to promote Macquarie's long-term health and prosperity. The *Board Charter* details the Board's role and responsibilities which include approving strategy, adopting an annual budget, approving Macquarie's *Risk Appetite Statement* and *Risk Management Strategy*, appointing Macquarie's Chief Executive Officer and considering matters relating to remuneration and diversity. The Board is committed to oversight of Macquarie's performance, risk management and culture and to promoting the creation of enduring value.

## Macquarie's approach to Corporate Governance



# Corporate Governance Statement

## Corporate Governance framework



Macquarie's *Constitution* sets out requirements concerning the setting of board size, meetings, election of directors and the powers and duties of directors. In accordance with the *Constitution*, the Board has resolved that the maximum number of Voting Directors (Directors) is currently ten.

A copy of the *Constitution* and *Board Charter* are available on Macquarie's website.

The Macquarie Board consists of ten Directors, nine of whom are independent. Peter Warne, an Independent Director, is Chairman. Nicholas Moore, Macquarie's Managing Director and Chief Executive Officer (CEO), is the only executive Board member.

During the year, Glenn Stevens was appointed to the Board, effective from 1 November 2017. Mr Stevens worked at the highest levels of the Reserve Bank of Australia for over 20 years and, as well as developing Australia's successful inflation targeting framework for monetary policy, played a significant role in central banking internationally.

The table below sets out the current composition of the Board, each Director's date of appointment and the membership of each Board Committee. Members' attendance at Board and Board Committee meetings during the past year is set out in the Directors' Report in the Annual Report available on Macquarie's website.

## Responsibilities of management

The Board has reserved certain matters for its approval as set out in the *Board Charter*. It has delegated specific responsibilities to its various Board Committees which are detailed in each *Board Committee Charter*. The Board also determines delegations to Management, approves relevant limits and reviews business developments for consistency within the Board-approved *Risk Appetite Statement* and *Risk Management Strategy*.

The CEO has been granted authority for those matters not reserved for the Board or a Board Committee. Macquarie's Management Committees assist in the exercise of the CEO's delegated authority. The CEO, the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO) report to the Board at each Board meeting. In addition to regular reporting from Management, the Board has unlimited access to Senior Management as well as external advisers.

The Company Secretary is appointed by and accountable to the Board, through the Chairman, for matters relating to the proper functioning of the Board.

## Board and Board Committee membership

	Macquarie Board	Audit	Governance and Compliance	Nominating	Remuneration	Risk
<b>Macquarie Independent Directors (when joined the Board)</b>						
<b>Peter Warne<sup>1</sup></b> (August 2007)	Chairman			Chairman	Member	Member
<b>Gary Banks AO</b> (August 2013)	Member		Member	Member	Member	Member
<b>Gordon Cairns</b> (November 2014)	Member			Member	Member	Member
<b>Michael Coleman</b> (November 2012)	Member	Chairman	Member	Member		Member
<b>Patricia Cross</b> (August 2013)	Member	Member		Member		Chair
<b>Diane Grady AM</b> (May 2011)	Member		Member	Member	Member	Member
<b>Michael Hawker AM</b> (March 2010)	Member	Member		Member	Chairman	Member
<b>Glenn Stevens AC</b> (November 2017)	Member			Member		Member
<b>Nicola Wakefield Evans</b> (February 2014)	Member	Member	Chair	Member		Member
<b>Macquarie Managing Director and Chief Executive Officer (when joined the Board)</b>						
<b>Nicholas Moore<sup>1</sup></b> (February 2008)	Member					

<sup>1</sup> The Chairman and the CEO attend meetings of Board Committees of which they are not a member as a matter of course.

# Corporate Governance Statement

## Board Committees

Macquarie's five standing Board Committees assist the Board in its oversight role. Each Board Committee has an independent Director as its Chairman and comprises members who are independent Directors. All Board members are sent Board Committee meeting agendas and may attend any Board Committee meeting. Subsequent to each Board Committee meeting, the minutes are included in the Board papers and presented to the Board by the respective Board Committee Chairs.

The *Board Committee Charters*, detailing the responsibilities of each Committee and how they exercise their authority, are available on Macquarie's website.

### Allocation of responsibilities between Board Committees

Committee	Key Responsibilities
<b>Board Audit Committee (BAC)</b>	The Board Audit Committee (BAC) assists the Board with its oversight of the integrity of the financial statements. The BAC is also responsible for reviewing the adequacy of Macquarie's control framework for financial regulatory reporting to banking regulators and monitoring the internal financial control environment. The BAC reviews reports from the external auditor and Internal Audit, referring matters relating to the duties and responsibilities of the Board Risk Committee (BRiC) and Board Governance and Compliance Committee to the appropriate Committee.
<b>Board Governance and Compliance Committee (BGCC)</b>	The Board Governance and Compliance Committee (BGCC) has responsibility for recommending to the Board the most appropriate corporate governance policies for Macquarie and for assisting the Board in fulfilling its responsibility for oversight of the compliance framework of Macquarie. The BRiC, Board Remuneration Committee (BRC) and BAC also review aspects of the compliance framework relating to their duties and responsibilities. In addition, the BGCC has oversight of Macquarie's work health, safety and environment practices and environmental and social risk management policies.
<b>Board Nominating Committee (BNC)</b>	The Board Nominating Committee (BNC) is responsible for assisting the Board to ensure that it has an appropriate mix of skills, experience, tenure and diversity to be an effective decision-making body in order to provide successful oversight and stewardship of Macquarie.
<b>Board Remuneration Committee (BRC)</b>	The Board Remuneration Committee (BRC) makes recommendations to the Board that promote appropriate remuneration policies and practices for Macquarie consistent with Macquarie's risk management framework. The BRC is responsible for liaising with the BRiC to ensure there is effective co-ordination between the two Committees to assist in producing a properly integrated approach to remuneration that reflects prudent and appropriate risk. The BRC is also responsible for remuneration related disclosures in the remuneration report.
<b>Board Risk Committee (BRiC)</b>	The Board Risk Committee (BRiC) assists the Board by providing oversight of the implementation and operation of Macquarie's risk management framework and advising the Board on Macquarie's risk position, risk appetite, risk culture and risk management strategy. The BRiC receives information on material risks and external developments that may have an impact on the effectiveness of the risk management framework.

---

## Director independence

Macquarie recognises that independent directors have an important role in assuring shareholders that the Board is able to act in the best interests of Macquarie and independently of Management. Macquarie's criteria for assessing director independence is available on Macquarie's website.

The independence of Non-Executive Directors (NEDs) is reviewed annually by the BGCC and the findings of the review are considered by the Board. Macquarie's criteria for assessing director independence are sent to each Independent Director. They are asked to confirm whether they have any material interests or relationships with Macquarie that could interfere with the exercise of their independent judgement. There were no material or substantial relationships noted by Directors in their annual declaration. Some of the Directors hold or have previously held positions in companies and professional service providers with which Macquarie has commercial relationships. All these dealings are in the ordinary course of business and on arm's length commercial terms.

Consistent with the ASX Recommendations, interests or associations of the type described in the commentary to the relevant recommendation were considered by the BGCC. A family member of Mr Coleman is employed as a Division Director of Macquarie and Mr Warne has served on the Board for 10 years. The BGCC considered that this does not impact their independence because in the course of Board deliberations, Mr Coleman and Mr Warne demonstrate an objective assessment of all matters before the Board.

With each member abstaining from consideration of their own position, the BGCC has determined that there have been no interests or relationships that have or could materially interfere with each NEDs' ability to act independently of Management and in the best interests of Macquarie. Therefore, all NEDs have remained independent during the year.

Directors are also able to consult independent experts at Macquarie's expense, subject to the estimated costs being approved by the Chairman in advance as being reasonable, and also have unlimited access to Senior Management of Macquarie.

## Board renewal, appointment and performance

The Board, with the assistance of the BNC, regularly assesses the skills, experience, tenure and diversity required collectively for the Board to effectively fulfil its role. Macquarie's *Policy on Board Renewal, Appointment of Directors and Board Performance Review* sets out the fundamental factors relevant to the selection and appointment of new Directors and the process for assessing performance of the Board. The policy is available on Macquarie's website.

The Board is comprised of highly experienced senior business leaders from a variety of professional backgrounds who each meet the fundamental requirements and, collectively, possess the skills, experience, tenure and diversity considered necessary to appropriately govern an ASX-listed, global, diversified financial group.

The BNC reviews on an ongoing basis the particular competencies and diversity required for the Board to best fulfil its responsibilities and to understand the business of Macquarie. Where the BNC identifies additional skills or experience which would benefit the Board, the Board seeks to meet these requirements through a number of measures including consulting with external advisors, board succession planning and board workshops.

# Corporate Governance Statement

## Board skills and experience

Macquarie is a diversified financial group providing clients with asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities.

Macquarie's purpose is to realise opportunity for the benefit of its clients, shareholders and staff. Macquarie is in business to be profitable and to achieve an appropriate and resilient return on capital.

The Board of Macquarie believes that its membership should comprise directors with an appropriate mix and diversity of skills, professional experience, tenure and personal background 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 the Macquarie Group 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.

Accordingly, in selecting potential new directors, the Board Nominating Committee identifies the competencies and diversity required to enable the Board to fulfil its responsibilities. In doing so, the Board Nominating Committee will have regard to the results of the annual appraisal of the Board's performance, the performance of each Director and ongoing succession planning.

A Director's continuing Board membership is subject to their ongoing performance and relevance of their skills and experience.

The competencies of the Macquarie Board members and the number of Directors with each skill and experience is set out below.



**80%** of Directors have held financial institution management roles



**100%** of Directors have international experience

## Collective Board skills and experience

**Senior leadership** - Having performed a CEO or senior executive level role provides understanding of developing, implementing and assessing business strategies and operating plans for an organisation of the scale and complexity of Macquarie

**Financial Services / Retail Banking** - Experience in a senior position within financial services or retail banking assists in understanding and reviewing Macquarie's businesses and strategy

**Investment Banking / Corporate Banking / Financial Markets / Funds Management** - Experience in a senior position within these sectors assists in understanding and reviewing Macquarie's businesses and strategy in these specialist areas

**Financial acumen** - Financial literacy assists in the understanding of financial reporting and capital management strategies

**Accounting** - Accounting qualifications and / or experience provide the Board with financial expertise in overseeing the integrity of financial reporting

**Business development and strategy** - Senior executive experience developing and directing the strategy of an organisation to assist with the Board's review of strategy

**People and culture management** - People management and human resources expertise assists with the Board's role in overseeing talent management and development including succession planning

**International background / experience** - Experience living and working overseas in a senior role in a global organisation or responsibility for overseas operations is important in understanding and reviewing Macquarie's global businesses and strategy

**Regulation and public policy** - Professional experience working or interacting with government, government organisations and regulators is relevant to Macquarie as it operates in many highly regulated markets globally

**Law** - Legal qualifications and / or practice assists the Board in meeting its legal and compliance requirements in highly regulated markets globally

**Corporate governance including risk management** - Experience developing strategy, policies and frameworks to support sound corporate governance including identifying and monitoring material risks in a complex organisation. Typically, experience as a Director at a listed company or a large organisation would provide such experience





## Directors' experience

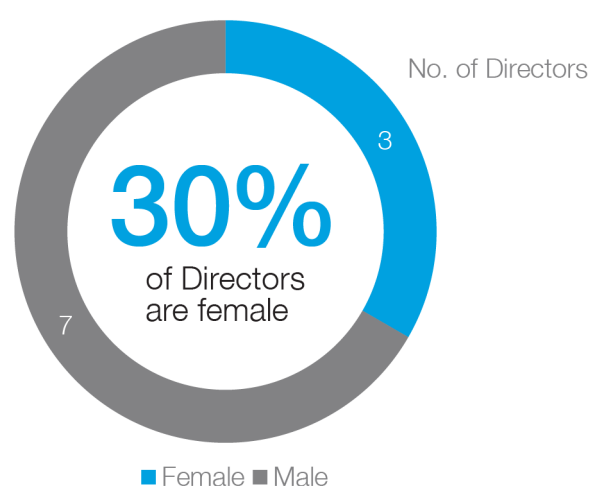
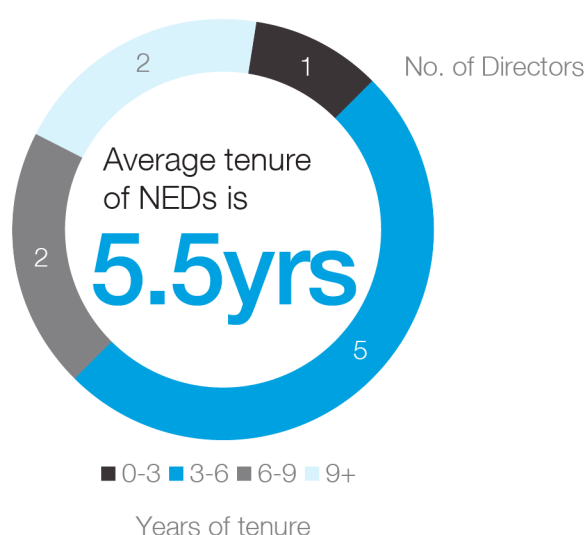
Name and Tenure	Experience
<b>Peter H Warne, BA (Macquarie), FAICD</b>  Independent Chairman of MGL since April 2016 Independent Voting Director of MGL since August 2007	Peter Warne has extensive knowledge of, and experience in, financial services and investment banking, through a number of senior roles at Bankers Trust Australia Limited, including as Head of its global Financial Markets Group from 1988 to 1999. Mr Warne was a Director of the Sydney Futures Exchange (SFE) from 1990 to 1999, then from 2000 to 2006. He served as Deputy Chairman of the SFE from 1995 to 1999. When the SFE merged with the ASX in July 2006, he became a Director of ASX Limited. Mr Warne has previously served as Chairman of ALE Property Group from 2003 to 2017 and OzForex Group Limited (now trading as OFX Limited) from 2013 to 2016, and as Deputy Chairman of Crowe Horwath Australasia Limited from 2008 to 2015.
<b>Nicholas W Moore, BCom LLB (UNSW), FCA</b>  Managing Director and Chief Executive Officer of MGL since May 2008  Executive Voting Director of MGL since February 2008	Nicholas Moore joined Macquarie in 1986 and led the global development of its advisory, funds management, financing and securities businesses.  Appointed Chief Executive Officer in 2008, he is now leading the continued global growth of Macquarie Group.  Macquarie is a diversified financial group providing clients with asset management, banking, leasing, advisory and risk and capital solutions across debt, equity and commodities. Headquartered and listed in Australia, it operates in 25 countries and has more than \$A496.7 billion in assets under management.
<b>Gary R Banks AO, BEc (Hons) (Monash), MEc (ANU)</b>  Independent Voting Director of MGL since August 2013	Gary Banks has extensive experience across economics, public policy and regulation in Australia and internationally. He was Chairman of the Australian Productivity Commission from its inception in 1998 until 2012 and subsequently Chief Executive of the Australia and New Zealand School of Government.  He has also held senior roles with the GATT Secretariat in Geneva, the Trade Policy Research Centre in London, the Centre for International Economics in Canberra and consulted to the World Bank, Organisation for Economic Co-operation and Development (OECD) and World Trade Organisation.
<b>Gordon M Cairns, MA (Hons) (Edin)</b>  Independent Voting Director of MGL since November 2014	Gordon Cairns has held a range of management and executive roles throughout his career with Nestle, Cadbury Ltd and Pepsico culminating as Chief Executive Officer of Lion Nathan Limited from 1997 - 2004. He has extensive experience as a company director, including nine years as a non-executive director of Westpac Banking Corporation, where he served on the Board Risk Management and Remuneration Committees.  He also served as a director on the boards of Lion Nathan Australia Limited and Seven Network Australia Limited and as Chairman of David Jones Limited and Rebel Group Pty Limited.
<b>Michael J Coleman, MCom (UNSW), FCA, FCPA, FAICD</b>  Independent Voting Director of MGL since November 2012	After a career as a senior audit partner with KPMG for 30 years, Mr Coleman has been a professional non-executive director for the past seven years. He has significant experience in risk management, financial and regulatory reporting and corporate governance.  Mr Coleman has been Chairman of ING Management Limited, a member of the Audit Committee of the Reserve Bank of Australia and a member of the Financial Reporting Council, including terms as Chairman and Deputy Chairman. He was KPMG's inaugural National Managing Partner Assurance and Advisory from 1998 to 2002, National Managing Partner for Risk and Regulation from 2002 to 2010 and Regional Leader for Asia Pacific Quality and Risk Management from 2002 to 2011.

# Corporate Governance Statement

<b>Patricia A Cross, BSc (Hons) (Georgetown), FAICD</b>	<p>Patricia Cross has extensive international financial and banking experience, through senior executive roles with Chase Manhattan Bank and Chase Investment Bank, Banque Nationale de Paris and National Australia Bank, where she was responsible for the Wholesale Banking and Finance Division and a member of the Executive Committee. She has lived and worked in seven different countries.</p> <p>Mrs Cross has served on a number of listed company boards, including National Australia Bank Limited, Qantas Airways, Wesfarmers Limited, AMP Limited and Suncorp-Metway Limited. She was Chair of Qantas Superannuation Limited and Deputy Chair of the Transport Accident Commission of Victoria and a Director of JBWere Limited. Mrs Cross has also served on many government bodies and not-for-profit organisations' boards.</p>
<p>Independent Voting Director of MGL since August 2013</p>	
<b>Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD</b>	<p>Diane Grady has extensive international experience in a variety of industries having served as a full time independent director of public companies and not-for-profit boards since 1994. Previous directorships include Australian Stationery Industries, BlueScope Steel Limited, Woolworths Limited, Goodman Group, Wattyl Limited, Lend Lease US Office Trust, Lend Lease Limited and MLC. She also served as a member of the ASIC Business Consultative Panel, the National Investment Council, the Sydney Opera House Trust and was President of Chief Executive Women.</p> <p>Ms Grady was a partner at McKinsey &amp; Company where she consulted for over 15 years to clients on strategic and operational issues related to growth and was a worldwide leader of the firm's Organisation and Change Management practice. She has a Masters degree in Chinese Studies and worked for three years as a journalist in Asia. She has published research on innovation, corporate governance and gender diversity.</p>
<p>Independent Voting Director of MGL since May 2011</p>	
<b>Michael J Hawker AM, BSc (Sydney), FAICD, SF Fin, FAIM, FIoD</b>	<p>Michael Hawker has substantial expertise and experience in the financial services industry including management experience in regulated entities in Australia and internationally and a deep understanding of risk management. He was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008 and has held senior positions at Westpac and Citibank.</p> <p>Mr Hawker was also President of the Insurance Council of Australia, Chairman of the Australian Financial Markets Association, a board member of the Geneva Association and a member of the Financial Sector Advisory Council.</p>
<p>Independent Voting Director of MGL since March 2010</p>	
<b>Glenn R Stevens AC, BEc (Hons) (Sydney), MA (Econ) (UWO)</b>	<p>Glenn Stevens worked at the highest levels of the Reserve Bank of Australia for 20 years and, as well as developing Australia's successful inflation targeting framework for monetary policy, played a significant role in central banking internationally. Most recently, he was Governor of the Reserve Bank of Australia between 2006 and 2016.</p> <p>Mr Stevens has also made key contributions to a number of Australian and international boards and committees, including as chair of the Australian Council of Financial Regulators between 2006 and 2016, as a member of the Financial Stability Board and on a range of G20 committees.</p>
<p>Independent Voting Director of MGL since November 2017</p>	
<b>Nicola M Wakefield Evans, BJuris/BLaw (UNSW), FAICD</b>	<p>Nicola Wakefield Evans has significant Asia-Pacific experience as a corporate finance lawyer and was a partner at King &amp; Wood Mallesons (and its predecessor, Mallesons Stephen Jaques) for more than 20 years. Ms Wakefield Evans has particular expertise in the financial services, resources and energy, and infrastructure sectors.</p> <p>She held several key management positions at King &amp; Wood Mallesons including Managing Partner International in Hong Kong and Managing Partner Practice in Sydney.</p>
<p>Independent Voting Director of MGL since February 2014</p>	

## Board diversity and tenure

The Board of Macquarie believes that its membership should comprise Directors with an appropriate mix and diversity of skills, professional experience, tenure and personal background. The general expectation is that NEDs will serve three 3-year terms from first election by shareholders. However, a Director's continuing Board membership is subject to their ongoing performance and relevance of their skills and experience. The Board considers the performance and particular skills of Directors standing for re-election and the requirement for any other particular skills or experience not currently available on the Board prior to the Board determining whether to recommend their re-election to shareholders. NEDs may serve for longer than three 3-year terms if the Board considers it to be of significant benefit to Macquarie.



## Director appointment, induction and development

In accordance with Macquarie's *Fit and Proper Policy*, prior to the Board appointing a Director, appropriate background checks are undertaken. Directors appointed to fill a casual vacancy stand for election at the first AGM following their appointment. The notice of meeting provides shareholders with material information relevant to a decision as to whether to elect a Director including their skills, experience, other directorships and an acknowledgement that they will have sufficient time to fulfil their responsibilities as a Director.

All new Directors receive an appointment letter setting out the terms of their appointment. The material terms of appointment are set out in Macquarie's *Policy on Board Renewal, Appointment of Directors and Board Performance Review*. New Directors also undertake an induction program covering relevant matters such as Board practices and procedures, prudential requirements and briefings with Senior Management. NEDs identify business awareness needs on an ongoing basis and regular Board workshops are held during the year. In 2018, the workshops included presentations on technology related matters, Macquarie policies and global market conditions. In addition to workshops, the Board schedules two separate regional visits to Macquarie overseas offices annually.



# Corporate Governance Statement

## Board performance

The Board reviews its performance and the performance of each Director on an annual basis with emphasis on those individual Directors who are required to stand for re-election at the next AGM. Every three years an external facilitator conducts the Board's performance review.

The process for conducting the review is agreed by the Board. Typically the process includes individual interviews by the Chairman or an external facilitator with each Director and the use of a questionnaire to cover matters such as:

- the Board's contribution to developing strategy and policy
- the Board's performance relative to its objectives
- interaction between the Board and management and between Board members
- the Board's oversight of business performance and compliance, risk controls and management
- Board composition, including consideration of relevant skills and structure
- the operation of the Board, including the conduct of Board meetings and group behaviours.

A nominated Independent Director or an external facilitator provides feedback to the Chairman on the Chairman's performance based on discussion with the other Directors.

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

The Board's review in the past year was conducted by the Chairman in accordance with the process described above.

## Board Committee performance

As part of the Board's annual performance evaluation, the functioning of the Board Committees was reviewed. Each Board Committee also undertakes a periodic review of its performance, at least biennially. The process for the review also includes use of a questionnaire and discussion of the outcomes, including recommendations, which is led by the Chair of the respective Board Committee. Each Board Committee undertook a review of their performance in FY2018.

## Employment and performance of senior executives

All senior executives receive an appointment letter setting out the terms of their appointment. The material terms of their employment are set out in the Remuneration Report in Macquarie's Annual Report.

Formal processes have been adopted by Macquarie to review the performance of Macquarie's most senior executives. The Board Remuneration Committee (BRC) oversees the process for the annual performance review of the CEOs of Macquarie and Macquarie Bank, and other Executive Key Management Personnel (Operating Group Heads, the CRO, the CFO and the Chief Operating Officer).

As part of the annual review, the CEO prepares a formal report on his performance and presents it to the NEDs. The NEDs review the CEO's performance by considering a range of indicators including financial position and performance, risk management and compliance matters, people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*, sustainability (planning and investment in the future), and community and customer outcomes. A similar process is followed to review the performance of the CEO of Macquarie Bank.

The CEO evaluates, at least annually, the performance of the Executive Key Management Personnel. Performance criteria vary according to the individual's role but include (as appropriate) financial performance, risk management and compliance, business leadership, people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*. The CEO reports to the Board and the BRC on the performance of these key executives and the BRC recommends individual senior executive remuneration for Board approval.

The Board and the CEO seek to ensure that remuneration for the CRO is determined in a way that preserves the independence of this function and maintains Macquarie's robust risk management framework.

A performance evaluation for senior executives has taken place during the year in accordance with the process described above. Macquarie's Remuneration Report in the Annual Report available on Macquarie's website contains further detail on Macquarie's remuneration policy.

## Ethical and responsible decision-making

### Code of conduct

The *Code of conduct*, which has been approved by the Board:

- incorporates *What We Stand For*: the principles of Opportunity, Accountability and Integrity that guide the way staff conduct business
- provides clear guidance to staff on good decision making and escalation, encouraging staff to speak up and report genuine concerns about misconduct
- reinforces Macquarie's policies, including the *Whistleblower Policy*, in relation to the protection of whistleblowers
- summarises the standards, policies and processes regarding conflicts of interest, disclosure and corruption.

To ensure that Macquarie's culture of honesty and integrity remains strong throughout the organisation, all staff who join Macquarie receive specific training on *What We Stand For* and the *Code of conduct*. Existing staff also receive training and sign an annual declaration that they have reviewed the *Code of conduct*.

A copy of *What We Stand For* and the *Code of conduct* are available on Macquarie's website at [macquarie.com/what-we-stand-for](http://macquarie.com/what-we-stand-for)

### Integrity office

Macquarie established its Integrity Office in 1998. Supporting the group-wide Integrity Officer are Integrity Officers in Macquarie's regional offices around the world. In addition to providing an independent and confidential point of escalation for staff to raise concerns, the Integrity Office works with business groups to support staff in good decision-making and to promote the principles of *What We Stand For*. The Integrity Office is responsible for Macquarie's Whistleblower Program including an externally managed staff hotline that enables staff to report suspected breaches of the *Code of conduct*, or other misconduct, anonymously. The Integrity Office is also a point of contact for external parties such as suppliers and former employees should they wish to raise concerns about misconduct by Macquarie staff.

The Integrity Office reports directly to the CEO and provides an annual report to the BGCC.

### Customer Advocate

Macquarie established the Customer Advocate office at the end of March 2017 as part of our continuing commitment to our Australian retail and small business clients. In addition to customer support provided by the business, the Customer Advocate's role is to promote fair and reasonable customer complaint outcomes, to review and assist with determining escalated customer complaints, and to provide a customer-centric voice when making recommendations to improve customer experience.

Clients that receive a final decision from Macquarie's complaint resolution teams in the businesses may request

the Customer Advocate or an external dispute resolution service (such as the Financial Ombudsman) review that decision.

The Customer Advocate reports directly to the CEO and provides an annual report to the BGCC.

### Dealing with potential conflicts

As a global organisation offering a diverse range of products and financial services, Macquarie may, from time to time, have interests which conflict with the interests of our clients, investors or counterparties. In accordance with Macquarie's *Code of conduct*, applicable laws, regulations and principles and guidance, Macquarie is required to manage conflicts of interest fairly.

Macquarie's *Conflicts of Interest Policy* sets out the framework, controls and administration for identifying, preventing and managing conflicts of interest – whether actual, potential or perceived.

Macquarie has established various systems and controls to prevent and manage conflicts of interest, many of which are outlined in Macquarie's policies in relation to conflicts of interest, investment research, gifts and entertainment, outside business activity, allocations and offers of financial products, remuneration and inducements. Conflict checks are required prior to entering into certain business arrangements.

It is the responsibility of each staff member to serve the best interests of Macquarie and its clients. Any conflict of interest between Macquarie or its clients and the interests of a staff member should be appropriately managed or avoided. Activities such as personal investment and outside business activities are subject to disclosure and pre-approval.

Macquarie prohibits Directors and staff from dealing in any security, including a Macquarie security, if they possess non-public price-sensitive information about or affecting the relevant security.

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

- Board members declaring their interests as required under the *Corporations Act 2001* (Cth) (the Act), the ASX Listing Rules and general law requirements
- Board members with a material personal interest in a matter before the Board not receiving the relevant Board paper and leaving 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 may be required to absent themselves from the relevant deliberations of the Board.

Macquarie Bank is a subsidiary of Macquarie. The Macquarie Bank Board is ultimately responsible for the sound and prudent management of Macquarie Bank with due consideration for the interests of deposit holders. Where potential conflicts arise, Management will assist by giving Directors of the relevant Board sufficient information to manage conflicts appropriately.

# Corporate Governance Statement

## Trading Macquarie securities

Macquarie's *Trading Policy* sets out the restrictions that apply to dealing in Macquarie securities by Directors and Macquarie staff, including Key Management Personnel, and is available on Macquarie's website.

Key principles of Macquarie's Trading Policy include:

- **trading prohibition while in possession of material non public price sensitive information:** Dealing in Macquarie securities while in possession of inside information is prohibited.
- **trading windows:** Generally, 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 announcement of its interim results, full year results and AGM
- **pre-clear securities trading:** Directors and staff must pre-clear their Macquarie securities trading
- **excluded dealings:** Certain types of transactions such as acquisition of securities under an employee share plan or participation in the dividend reinvestment plan may be effected outside a trading window without pre-clearance
- **deferred and unvested equity awards, retained shares and minimum shareholding requirements cannot be hedged:** Staff are not permitted to undertake any action that is designed to limit their exposure to Macquarie shares that are subject to retention arrangements, or their deferred and unvested equity awards. NEDs may not enter into a transaction that operates to limit the economic risk of their Macquarie shareholding below their minimum shareholding requirement.

Directors and staff are not permitted to take net short positions in Macquarie Group investments or Macquarie-managed funds.

Each member of the Board is encouraged to consider positions in a Macquarie security as a long-term investment and is not permitted to trade derivatives relating to a Macquarie security without the prior approval of the Chairman (or the CEO in the case of the Chairman). Board members and Key Management Personnel are also required to annually disclose to Macquarie any financing arrangements relating to their Macquarie securities and manage their financing arrangements in accordance with Macquarie's policies.

## 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 Funds' governance standards adopt an appropriate governance framework to ensure that key decisions are taken in the best interests of investors consistent with the Funds' mandates 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
  - information barriers operate to separate Macquarie's corporate finance, advisory and equity capital markets businesses from its funds management businesses.

## Diversity

The diversity of Macquarie's staff remains fundamental to its success. Macquarie's *Workforce Diversity Policy* defines Macquarie's diversity commitment and the structures in place to ensure its realisation. The principles contained in Macquarie's *Workforce Diversity Policy* are incorporated in *Our commitment to diversity and inclusion* statement available on Macquarie's website at [macquarie.com/diversity](http://macquarie.com/diversity)

Macquarie has implemented an extensive range of programs and initiatives to support the achievement of its diversity and inclusion strategy over the past year.

Macquarie's measurable objectives for achieving diversity are detailed in the Diversity Report in Macquarie's Annual Report available on Macquarie's website.

## Macquarie and the community

Macquarie engages in the wider community through the Macquarie Group Foundation (the Foundation). Together with Macquarie staff, the Foundation has contributed more than \$A330 million to thousands of community organisations since its inception in 1985. Staff also volunteer at a number of community organisations globally. In the year ended 31 March 2018, the Foundation and Macquarie staff contributed more than \$A28.3 million and approximately 60,000 hours to their communities.

Further information is available on Macquarie's website at [macquarie.com/community](http://macquarie.com/community)

## Commitment to shareholders and an informed market

Macquarie believes that shareholders, regulators, rating agencies and the investment community should be informed of all material business events and risks that influence Macquarie in a factual, timely and widely available manner.



Macquarie has a continuous disclosure policy that is incorporated in the *Continuous Disclosure and External Communications Policy*.

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

- be factual and reviewed internally before issue
- not omit material information
- be timely and expressed in a clear and objective manner.

Macquarie's continuous disclosure procedure includes reference to and consideration by Macquarie's Continuous Disclosure Committee as appropriate. A summary of the *Continuous Disclosure and External Communications Policy* is available on Macquarie's website.

Macquarie has an investor relations program to facilitate effective two-way communication with investors and analysts and to provide a greater understanding of Macquarie's business, performance, governance and financial prospects. Macquarie engages with institutional investors, private investors, sell-side analysts and buy-side analysts throughout the year via scheduled and ad hoc interactions.

### Macquarie's website

Macquarie's website at [macquarie.com/investors](http://macquarie.com/investors) contains recent announcements, past and current reports to shareholders, including summaries of key financial data, operational briefing presentations, AGM webcasts and copies of recent notices of meeting. There is also a link allowing investors to register to receive email notification of Macquarie public announcements. Shareholders can also elect to receive communications electronically by contacting the share registry.

### Shareholder 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, time and venue convenient to its shareholders. For shareholders who are unable to attend in person, Macquarie provides a webcast of its AGM and any other general meetings. The results of all resolutions are lodged with ASX after the meeting as soon as they are available.

This year, Macquarie's AGM will be held in Sydney, Australia.

Notices of meeting are accompanied by explanatory notes on the items of business and together they seek to clearly and accurately explain the nature of business of the meeting.

Shareholders, if unable to attend the meeting, are encouraged to vote on the proposed motions by appointing a proxy. The proxy form included with a notice of meeting will explain how to appoint a proxy.

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.

Macquarie seeks that its shareholder meetings are conducted in a manner which is courteous for those attending. In the interests of attending shareholders, the chair of the meeting will exercise his or her powers as the chair to ensure that the meeting is conducted in an orderly and timely fashion.

A shareholder calendar is available on Macquarie's website at [macquarie.com/investors](http://macquarie.com/investors)

## Financial reporting

On behalf of the Boards of Macquarie and Macquarie Bank, the BAC monitors:

- **the integrity of Macquarie's financial reporting and the operation of the financial reporting processes.** The processes are aimed at providing assurance that the financial statements and related notes are complete, in accordance with applicable legal requirements and accounting standards and give a true and fair view of Macquarie's financial position. During its review of Macquarie's interim and year-end financial reports the BAC meets with the external auditor in the absence of Management
- **the external auditor engagement.** The BAC reviews the appointment, the terms of the engagement and the performance of the external auditor before making recommendations to the Board on the appointment or removal of the external auditor
- **the operation of Internal Audit.** The BAC reviews the independence, appointment, performance and remuneration of the Head of the Internal Audit Division (IAD) as well as reviewing the IAD annual plan and the effectiveness of Internal Audit
- **Macquarie's control framework for financial regulatory reporting to banking regulators.**

## Auditor independence

Before the approval of the interim and year-end financial reports, the BAC reviews the independence of the external auditor.

Macquarie's *Auditor Independence Policy* requires BAC approval, or between meetings the approval of the BAC Chairman, for material non-audit work performed by its auditor. Also under the policy, which reflects Australian legal requirements, Macquarie's lead auditor and review auditor must be rotated every five years unless the Board grants approval to extend the term for up to a further two years.

Mr Kim Smith of PricewaterhouseCoopers is Macquarie's lead auditor for FY2018. 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 content of the auditor's report.

The *BAC Charter* and the *External Auditor Policy Statement* describe key aspects of Macquarie's *Auditor Independence Policy* and external auditor review process. They are available on Macquarie's website.

# Corporate Governance Statement

## Chief Executive Officer and Chief Financial Officer declaration

Before the Macquarie and Macquarie Bank Boards consider the interim and year-end financial statements each Board receives written confirmation from their respective CEO and CFO that, in their opinion, the financial records have been properly maintained; the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance; and the opinion is based on a sound system of risk management and internal control which is operating effectively in all material respects.

## Risk governance

Macquarie's approach to risk management is based on stable and effective core risk management principles. These are detailed in Macquarie's Risk Management Report in the Annual Report with additional information available on Macquarie's website at [macquarie.com/risk-management](http://macquarie.com/risk-management)

The Board monitors significant business risks and reviews how they are managed. It forms a view of Macquarie's risk culture and approves Macquarie's *Risk Appetite Statement* and *Risk Management Strategy*. It also determines delegations to Management, approves applicable risk limits and policies, and reviews business developments for consistency with Macquarie's *Risk Appetite Statement* and *Risk Management Strategy*.

During each year, including the most recent year, the Board also monitors Macquarie's risk management framework to satisfy itself that the framework continues to be sound. Key components of the framework are reviewed by the relevant Risk Management Group (RMG) divisions and the results are reported to the Board. All key elements of the framework – including those aspects managed by RMG – are reviewed by the Internal Audit Division over a three-year period. Additionally, during the year, Senior Management reported to the Board on the effectiveness of risk management and internal control systems in addressing material risks.

All Independent Directors are members of the BRiC. The BRiC assists the Board by providing oversight of the implementation and operation of Macquarie's risk management framework, Macquarie's risk profile, risk appetite and risk culture. The BRiC constructively challenges Management's proposals and decisions on risk management arising from the Group's activities. It receives information on breaches of the policy framework and external developments that may have a material impact on the effectiveness of the risk management framework. The Board is also assisted by the BAC, BRC and BGCC as summarised under the Allocation of Responsibilities between Board Committees as set out earlier in this statement.

## Macquarie's risk culture

Macquarie recognises that a sound risk culture is a fundamental requirement of an effective risk management framework. It has been integral to Macquarie's framework since inception. The long-held foundations of Macquarie's risk culture are the principles of *What We Stand For* –

Opportunity, Accountability and Integrity. Staff are made aware that these principles must form the basis of all behaviours and actions.

Macquarie drives behaviours in keeping with these principles through comprehensive and purpose-designed management frameworks and controls including policies, standards and processes. Senior Management measures and monitors risk culture indicators and constantly seeks opportunities for improvement. Senior Management has learnt from the past and from industry, and uses that knowledge to strengthen Macquarie's risk culture. Macquarie has robust remuneration and consequence management policies that further support adherence to the expected behaviours.

Primary responsibility for risk management in Macquarie, including risk culture, is at the business level. The Board, assisted by the BRiC, is responsible for:

- forming a view of Macquarie's risk culture, and the extent to which that culture supports Macquarie's ability to operate consistently within its risk appetite
- the identification of any desirable changes to evolve Macquarie's risk culture and for ensuring that Macquarie takes steps to address those changes.

Macquarie's long standing approach to risk culture assists the Board and Management in meeting their responsibilities. For further detail on Macquarie's approach to risk culture including conduct risk and consequence management, refer to the Risk Management Report in Macquarie's Annual Report or [macquarie.com/risk-management](http://macquarie.com/risk-management)

## Chief Risk Officer

The Head of RMG, as Macquarie's CRO, is a member of Macquarie's Executive Committee and reports directly to the CEO. The CRO has a secondary reporting line to the BRiC which reviews and endorses the appointment and removal of the CRO. The CRO presents on risk matters at the BRiC meeting, and in months where there is no scheduled BRiC meeting, at scheduled Board meetings.

## Management Committees

At the executive management level, Senior Management committees regularly focus on strategic issues, operational issues, material transactions and the management of risk, and review the performance of Macquarie. There are also other committees where senior specialists focus on specific risks, for example, the Market Risk and Asset and Liability Committees.

## Internal audit

Internal Audit Division (IAD) provides independent assurance to Senior Management and the Board on the adequacy and operational effectiveness of Macquarie's internal control, risk management, and governance systems and processes. All significant IAD findings are reported to the BAC and those relating to governance and compliance are reported to the BGCC. The Head of IAD is jointly accountable to the BAC and the CRO. The BAC approves the appointment and removal of the Head of IAD, who has unrestricted access to the BAC.

IAD reviews compliance with, and the effectiveness of, key components of the risk management framework on a rotational basis and reports the results to the BAC. The relevant reviews have been completed for the 2018 financial year.

### Environmental, Social and Governance risk

Macquarie's Board and Management recognise the importance of appropriate and current Environmental, Social and Governance (ESG) practices as part of their responsibility to clients, shareholders, communities and the environment in which Macquarie operates.

Macquarie has continued efforts to manage ESG risks in its business activities; pursue investments, markets and products with an ESG focus, including in renewable energy and energy efficiency; and advance the sustainability of its direct operations. Macquarie values its people and continues to invest in the development and well-being of its diverse talent base.

Further information on Macquarie's management of its material economic, environmental and social sustainability risks is provided in the Operating and Financial Review in Macquarie's Annual Report and within the ESG Report with additional information available on Macquarie's website at [macquarie.com/esg](http://macquarie.com/esg) and [macquarie.com/risk-management](http://macquarie.com/risk-management)

### Oversight of remuneration arrangements

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 whether Macquarie's remuneration approach remains appropriate and creates a strong alignment of staff and shareholders' interests while prudently managing risk.

Unlike Macquarie executives, NEDs are not granted equity, nor are they eligible to receive profit-share payments. They do not receive 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 annual amount approved by shareholders, currently \$A4.6 million. Details of Macquarie's approach and the amount of remuneration paid to NEDs are contained in the Remuneration Report in Macquarie's Annual Report which is available on Macquarie's website.

To align the interests of the Board with shareholders, NEDs are required to have a meaningful direct shareholding in MGL. In March 2018, the Board reviewed the minimum shareholding requirement for Non-Executive Directors given share price increases since it was last reviewed. To support Board diversity while maintaining a significant alignment with the interests of shareholders in a manner that directly relates to the level of remuneration paid to NEDs, the Board approved amending the minimum shareholding requirement as follows:

- for NEDs other than the Chair using an investment of one times the average annual NED fees for the financial year ending prior to their appointment
- for the Chair using an investment of one times the Chair fee,

with the minimum number of shares to be determined using the share price as at the date of a NED's appointment.

The above requirements apply to NEDs appointed after March 2018 and are to be met within three years from appointment with one third of the requirement to be held after one year, two thirds after two years and in full after three years. Transitional arrangements apply for NEDs whose tenure is less than five years.

Each NED's remuneration and current Macquarie shareholding are set out in the Key Management Personnel disclosure in the Remuneration Report in Macquarie's Annual 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 also set out in the Remuneration Report.



