

Corporate Governance Statement

Macquarie Group
Year ended 31 March 2016



Macquarie's approach to Corporate Governance

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 recognises that a key factor in delivering long-term shareholder returns is providing superior services to clients. 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 that 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 financial services provider 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. The notes to Macquarie's financial statements included in Macquarie's Annual Report include a list of material subsidiaries of the company.

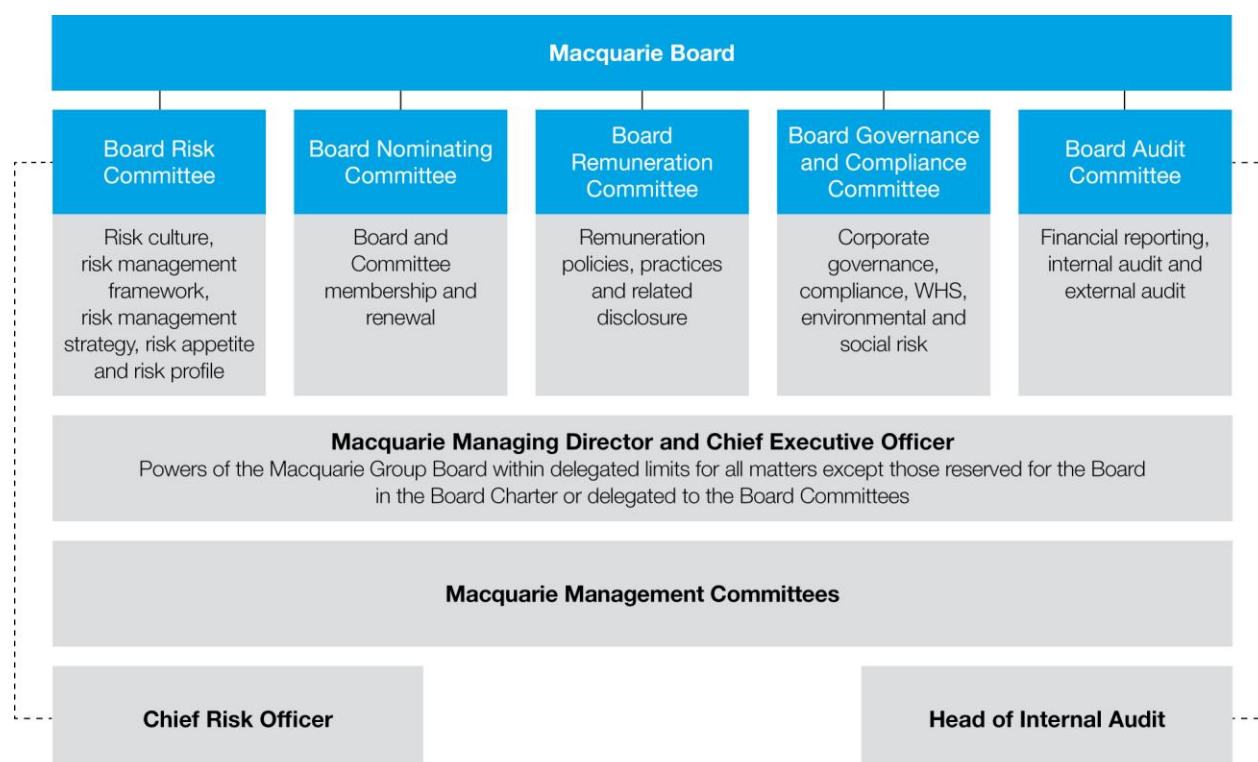
Macquarie's governance practices were consistent with the recommendations in the 3rd edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Recommendations) throughout the year. A Key to Disclosures - Corporate Governance Council Principles and Recommendations (Appendix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

Macquarie's corporate governance framework is set out below. This Corporate Governance Statement is current as at 5 May 2016 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 (RAS) and risk management strategy, appointing Macquarie's Chief Executive Officer and considering matters relating to remuneration and diversity.

Corporate Governance framework



Corporate Governance Statement

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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 nine Directors, eight 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.

The previous Chairman, Kevin McCann, retired on 31 March 2016 at which time Peter Warne became Chairman. Each Director's experience is available on Macquarie's website.

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.

Board and Board Committee membership

	Macquarie Board	Audit	Governance and Compliance	Nominating	Remuneration	Risk
Macquarie Independent Directors (when joined the Board)						
Peter Warne ⁽¹⁾ (July 2007)	Chairman			Chairman	Chairman ⁽²⁾	Member
Gary Banks AO (August 2013)	Member		Member	Member	Member	Member
Gordon Cairns (November 2014)	Member			Member	Member	Member
Michael Coleman (November 2012)	Member	Chairman	Member	Member		Member
Patricia Cross (August 2013)	Member	Member		Member		Chairman
Diane Grady AM (May 2011)	Member		Member	Member	Member	Member
Michael Hawker AM (March 2010)	Member	Member		Member	Member ⁽²⁾	Member
Nicola Wakefield Evans (February 2014)	Member	Member	Chairman	Member		Member
Macquarie Managing Director and Chief Executive Officer (when joined the Board)						
Nicholas Moore ⁽¹⁾ (February 2008)	Member					

⁽¹⁾ The Chairman and the CEO attend meetings of Board Committees of which they are not a member as a matter of course.

⁽²⁾ Peter Warne is Chairman of the Board Remuneration Committee (BRC) until 7 May 2016 after which time Michael Hawker will be Chairman of the BRC.

Responsibilities of management

The Board has reserved certain matters for its approval as set out in the *Board Charter*. It has delegated specific authorities 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 RAS 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 Committees

Macquarie's five standing Board Committees assist the Board in its oversight role. Each Board Committee has an independent Director as its Chairman. 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 Chairmen.

The Risk, Audit, Governance and Compliance, Nominating and Remuneration Committees comprise members who are Independent Directors. 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

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.

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 BRIc and Board Governance and Compliance Committee to the appropriate Committee.

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.

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. In addition, it has oversight of Macquarie's work health and safety practices and environmental and social risk management policies.

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.

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 dealings with these companies and with professional service providers are and have been 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. The BGCC considered that this does not impact his independence because the family member is not a member of Senior Management and in the course of Board deliberations, Mr Coleman demonstrates an objective assessment of all matters before the Board.

The previous Chairman, Kevin McCann, served on the Board of Macquarie for 19 years. He always demonstrated an objective and independent assessment of matters before the Board.

The BGCC has determined that there have been no interests or relationships that have or could materially interfere with each of the other NEDs' ability to act independently of Management and in the best interests of Macquarie. Therefore, each of the NEDs have been and continue to be independent.

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.

Corporate Governance Statement

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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 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 financial services provider. 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.

A summary of the key skills and experience of the nine members of the Board is set out below.

The qualifications, skills and experience of the individual members of the Board are available on Macquarie's website.

Skills and experience	No. of Directors
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	7
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	7
Financial acumen Financial literacy assists in understanding of financial reporting and capital management strategies	9
Listed company board experience Prior experience as a Director at a listed company supports strong and appropriate governance	8
International background/experience Experience in a senior role in a global organisation or overseas operations is important in understanding and reviewing Macquarie's global businesses and strategy	9
Senior management role Having performed a CEO or senior executive level role provides understanding of developing, implementing and assessing operating plans and business strategies for an organisation of the scale and complexity of Macquarie	9
Accounting Accounting qualifications and/or experience provide the Board with financial expertise in overseeing the integrity of financial reporting	2
Law Legal qualifications and/or practice assists the Board in meeting its legal and compliance requirements in highly regulated markets globally	2
Human capital management People management and human resources expertise assists with the Board's role in overseeing talent management and development including succession planning	8
Business development and strategy Senior executive experience developing and directing the strategy of an organisation to assist with the Board's review of strategy	9
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	7

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 appointing a person to the Macquarie Board, 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 2016, the workshops included presentations on technology related matters. In addition to workshops, the Board travels to various Macquarie overseas offices annually and the Chairman also visits other Macquarie overseas operations at least annually.

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.

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 with the assistance of an external facilitator in accordance with the process described above.

Board Committees performance

As part of the Board's annual performance evaluation, the functioning of the Board Committees is 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 Chairman of the respective Board Committee. All Board Committees reviewed their performance in FY2016.

Performance of senior executives

Formal processes have been adopted by Macquarie to review the performance of Macquarie's most senior executives. The 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 (COO)).

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. 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 BRC on the performance of these key executives and 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

Integrity office

Macquarie established the 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 externally managed staff hotline that enables staff to report suspected breaches of the *Code of conduct*, or other misconduct, anonymously.

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

Dealing with potential conflicts

Failure to identify a conflict of interest can give rise to considerable harm to Macquarie's relationship with clients and its reputation. Before entering into a transaction, undertaking any dealing (either directly with clients or otherwise), or undertaking any fiduciary role, appropriate checks are undertaken.

Macquarie has systems and protocols in place to identify a conflict of interest and a framework for managing conflicts. It is the responsibility of each business head to ensure that conflicts of interest are adequately managed and that their business is conducted in accordance with applicable laws, regulations, rules and statements of regulatory policy.

Macquarie has adopted a variety of measures to manage conflicts of interest, including Macquarie-wide policies and divisional policies, systems, lists, information protocols and appropriate disclosures. The appropriate mechanism to manage a conflict will depend on the circumstances and nature of the conflict. Conflict management arrangements

at Macquarie are subject to the oversight function of the Compliance Division within the Risk Management Group.

Macquarie has personal investment policies that apply to Directors and Macquarie staff. They identify the principles by which Macquarie balances the personal investing interests of staff with the responsibility of Macquarie and its staff to ensure that all personal dealing and investing activities are conducted appropriately, in compliance with applicable laws and regulations and are in the best interests of Macquarie, our clients and fellow staff.

Directors and staff must pre-clear their securities trading with Macquarie. In all cases, 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 do 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 may be required to absent themselves from the relevant deliberations of the Board.

Macquarie Bank is a subsidiary of Macquarie, and 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 Directors of the relevant Board to manage conflicts appropriately.

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 its website at macquarie.com/leadership-corporate-governance

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

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 \$A270 million to over 2,500 community organisations since its inception in 1985. Staff also volunteer at a number of community organisations globally. In the year ended 31 March 2016, the Foundation and Macquarie staff contributed close to \$A30 million and approximately 46,000 hours to their communities.

Further information is available on Macquarie's website at 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 *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 Disclosure Committee as appropriate. A summary of the *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's website

Macquarie's website contains recent announcements, past and current reports to shareholders, including summaries of key financial data, 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.

Recent AGM webcasts, year-end and interim results presentations and operational briefing presentations are available on Macquarie's website at macquarie.com/investors

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

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 FY2016. 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.

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 highly effective core risk management principles as detailed in Macquarie's Risk Management Report in the Annual Report which is available on Macquarie's website.

The Board monitors significant business risks and reviews how they are managed. During each year, the Board also monitors Macquarie's risk management framework to satisfy itself that it continues to be sound. Key components of the risk management framework are reviewed by the relevant Risk Management Group divisions and reported to the Board. During the year, Senior Management has reported to the Board on the effectiveness of risk management and internal control systems in addressing material risks.

The Board forms a view of Macquarie's risk culture and approves Macquarie's risk appetite statement and risk management strategy. The Board determines delegations to Management, approves applicable risk limits and policies, and reviews business developments for consistency with the risk appetite and strategy of Macquarie.

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. It constructively challenges Management's proposals and decisions on risk management arising from the Group's activities. The BRiC assists the Board with its oversight of Macquarie's risk profile, risk appetite and risk culture. The BRiC receives information on breaches of the policy framework and external developments that may have some 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 part of Macquarie's risk management 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 are expected to form the basis of all day-to-day 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 further 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 available on Macquarie's website.

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 approves the replacement, appointment, reassignment or dismissal of the CRO. The CRO presents on risk matters at the BRiC meeting, and in months where there is no scheduled BRiC meeting at the Board meeting.

Management Committees

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

Internal audit

IAD provides independent assurance to Management and the Board on the adequacy and operational effectiveness of Macquarie's internal control, risk management and governance systems and processes. IAD findings are reported to the BAC. The Head of IAD is jointly accountable to the BAC and the CRO. The BAC approves the replacement, appointment, reassignment or dismissal of the Head of IAD.

Internal Audit reviews the 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 2016 financial year. All material elements of the risk management framework are reviewed by IAD over a three-year period.

Environmental, Social and Governance risk

Macquarie's Board and Management view the commitment to Environmental, Social and Governance (ESG) performance as part of their responsibility to clients, shareholders and the communities 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.

Macquarie's approach is detailed in the ESG Report and other sections of the Annual Report with additional information available on Macquarie's website at macquarie.com/esg

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 bonus 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 progressively acquire a minimum of 6,000 shares in Macquarie over a period of five years from the date of their appointment. The Chairman is required to achieve a holding of 12,000 Macquarie shares within three years of becoming Chairman.

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.

Information referred to in this Corporate Governance Statement as being on Macquarie's website, unless indicated otherwise, may be found at macquarie.com/leadership-corporate-governance
