

Corporate Governance

Macquarie's key governance practices guide decision-making of MGL and its subsidiaries (Macquarie) to meet stakeholder expectations of sound corporate governance, acknowledging Macquarie's specific and broader responsibilities to shareholders, funders, clients, staff and the communities in which it operates.

Macquarie's governance practices have been consistent with the 3rd edition of the ASX Corporate Governance Council's *Principles and Recommendations* throughout the year. Relevant governance practices were updated during the year to reflect the 4th edition of the *Principles and Recommendations* from the end of FY2020.

Macquarie is a global financial services group operating in 31 markets in asset management, leasing and asset financing, retail banking and wealth management, market access, commodity trading, investment banking and principal investment.

Macquarie's *Code of Conduct* incorporates *What We Stand For*: the principles of Opportunity, Accountability and Integrity that guide Board, management and staff conduct. It is expected that they all meet these standards and deal honestly and fairly with our clients, counterparties and regulators. There are appropriate consequences for anyone who fails to meet our standards.

The balance between opportunity and accountability, while operating with integrity within a strong risk management framework, is a feature of Macquarie's success and a key factor in our long record of unbroken profitability. Macquarie's approach to corporate governance is to embed key governance principles in the implementation of its strategy.



The full Corporate Governance Statement (Statement) has been lodged with the ASX and is available on our website at macquarie.com/leadership-corporate-governance. This summary should be read with the Statement

Board oversight

The Board sets the 'tone at the top' in a highly visible manner. Board members have extensive contact with staff at all levels within the organisation and across regions.

There is a culture of open and frank discussion at the Board. Actions taken by the Board seek to promote long-term sustainability and prudent management of risk consistent with *What We Stand For*.

In FY2020 there were 50 formal Board and Board Committee meetings during the year with over 600 attendees who were not members of Macquarie's Executive Committee. At these meetings a total of approximately 700 items of business were considered. Between formal meetings management provided the Board with material business and other updates as well as information in response to requests from Board members.

Workshops scheduled during FY2020 included presentations on work health and safety, financial crime risk, InterBank Offered Rate (IBOR) transition program, future leadership and succession planning, scenario analysis and conflicts management.

Non-executive Board members also met regularly without members of management and held private meetings with each of the external auditor, Head of Internal Audit and Chief Risk Officer to assist with their oversight role.

Board members believe that informal conversations with staff are important in assessing the culture within Macquarie. During FY2020, Board members attended more than 21 staff functions in Australia and overseas offices to meet with staff at all levels.

Professional Conduct

The Board oversees compliance with key policies that are intended to instil a culture of acting lawfully, ethically and responsibly. Key policies are included in Macquarie's *Code of Conduct*. Material breaches of these policies are reported to the Board through the relevant Board Committee.

The following actions taken by the Board as part of its oversight role also support the Board in forming a view on culture at Macquarie.

Board oversight

- Commitment to achieving the highest standards of professional conduct across all Macquarie operations
- Regularly reinforce company-wide expectations and enhance Board reporting
- Diligently take action as part of its responsibility to clients, shareholders, communities and the environment in which Macquarie operates
- Review and monitor operations and challenge management.

Conduct and Culture

- Set high behavioural standards and act in accordance with these standards
- Take a dynamic approach to oversight of risk culture and conduct risk management in response to business outcomes and expectations of communities and regulators
- Monitor the actions management take to embed behavioural standards, including a sound risk culture, in operations:
 - staff training
 - direct communications to staff
 - monitoring and surveillance activity.

Business strategy

Assess ability of strategy to adapt to markets and deliver sound client and community outcomes within Board approved risk appetite and related limits.

Review capital management and funding strategies to deliver on business strategy while maintaining sufficient surplus capital and remaining well funded.

Financial and non-financial risk management

Approve Macquarie's Risk Management Strategy, Risk Appetite Statement and standards for managing material risks.

Review the operation of Macquarie's risk management framework, including compliance with regulatory requirements and Macquarie policies and procedures.

Pay for performance

Approve remuneration policies that provide alignment of the interests of staff and shareholders while effectively aligning remuneration with prudent risk taking.

Bottom up assessment of performance at both business and individual level, including review of breaches of Macquarie's standards of professional conduct and risk management framework to determine remuneration outcomes.

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FY2020 Governance activities

In addition to the Board's oversight of professional conduct, the Board has participated in consultation on significant regulatory change initiatives during the year. In Australia, the Australian Prudential Regulation Authority (APRA) is undertaking regulatory reviews in a number of areas and there are proposals responding to the Banking Royal Commission recommendations, including Treasury's proposal to extend the Banking Executive Accountability Regime (BEAR) for Authorised Deposit-Taking institutions (ADI) to a new regime that includes all APRA regulated entities.

Other Board governance activities included:

- continued oversight of the impact of increased expectations and actions from Macquarie's regulators across the industry through an extensive regulatory change agenda and management's response, including the enhancement of Macquarie's global framework for regulatory engagement to coordinate Macquarie's response across regions
- continued oversight of management initiatives to respond to additional regulatory focus on non-financial risk with particular attention to matters relating to Governance, Culture, Remuneration and Accountability
- enhanced cross-committee information sharing through the introduction of formal practices, including Board and Board Committee Chair meetings and specific reporting on non-financial risk matters considered by the Board Governance and Compliance Committee (BGCC) to the Board Risk Committee (BRIC)
- implementation of BEAR for Macquarie Bank Limited (Macquarie Bank), a subsidiary of Macquarie Group Limited, from 1 July 2019
- review of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (4th Edition). Macquarie's existing corporate governance practices were largely consistent with the changes introduced in the 4th Edition. Relevant governance practices were updated during the year to be consistent with the 4th edition of the *Principles and Recommendations* from the end of FY2020.

Corporate Governance framework

Macquarie's Code of Conduct

The Board approved *Code of Conduct*, which applies to Macquarie's Non-Executive Directors (NEDs) and staff:

- incorporates *What We Stand For*: the principles of Opportunity, Accountability and Integrity that guide the way staff conduct business
- provides clear guidance on good decision-making and escalation, encouraging staff to speak up and report genuine concerns about misconduct
- reinforces Macquarie's key policies, including the *Whistleblower Policy* and the *Anti-Bribery and Corruption Policy*.

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 periodic training and sign an annual certification that they understand the obligations imposed on them by the *Code of Conduct* (Code) as well as their responsibility to adhere to the Code.



What We Stand For and the *Code of Conduct* are available at [macquarie.com/what-we-stand-for](https://www.macquarie.com/what-we-stand-for)

Risk governance

Macquarie’s approach to risk management is based on stable and robust core risk management principles:



Details of Macquarie’s approach to risk management is contained in the **Risk Management** section

The Board annually approves Macquarie’s *Risk Appetite Statement* and *Risk Management Strategy*. The BRiC assists the Board with oversight of the operation of Macquarie’s risk management framework and the implementation of Macquarie’s risk management strategy. The BRiC forms a view of Macquarie’s risk culture and identifies and monitors any desirable actions to change the risk culture.

All independent directors of the Board are members of the BRiC to support strong risk governance and oversight. They constructively challenge management’s proposals and decisions on risk management arising from business activities. The Board is also assisted by the Board Audit Committee (BAC), the Board Remuneration Committee (BRC) and the BGCC in its oversight of financial and non-financial risk.

During each year, including the most recent year, the Board monitors the operation of Macquarie’s risk management framework to satisfy itself that the framework continues to be sound and that Macquarie is operating with due regard to the risk appetite set by the Board. 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 rolling three-year audit plan. During the year, senior management reported to the Board on the effectiveness of risk management and internal control systems in addressing material risks.

The risk management framework has been established on the premise that a disciplined approach to risk management is best maintained with a single risk management framework located within Macquarie Group that applies to all Macquarie Operating and Central Service Groups (including Bank Group entities).

The Bank Group maintains its own governance structure that is responsible for the sound and prudent management of the Bank Group, with due consideration to the interests of deposit holders.

Oversight of remuneration

Macquarie’s remuneration framework continues to support the overarching objective of delivering strong company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of Conduct* and *What We Stand For*.

The Board oversees Macquarie’s remuneration arrangements, assisted by the BRC. The BRC annually reviews whether Macquarie’s remuneration approach remains appropriate and that it creates a strong alignment of staff and shareholders’ interests while prudently managing risk.

Macquarie’s remuneration framework and consequence management processes are designed to promote accountability, encourage innovation, reward appropriate behaviours and discourage inappropriate behaviours.



Further information on the following is contained in the **Remuneration Report**:

- each NED’s current Macquarie shareholding, set out in the Key Management Personnel disclosure
- Macquarie’s approach and the amount of remuneration paid to NEDs and Executive KMP.

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Board and management

Macquarie's Constitution sets out requirements concerning 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 Directors is currently twelve.

The Board Charter details the Board's role and responsibilities, and matters expressly reserved for the Board, which include approving the annual strategy and business plan, adopting an annual budget, approving Macquarie's funding and capital management strategy, approving Macquarie's *Risk Appetite Statement* and *Risk Management Strategy*, monitoring material risks faced by Macquarie and how they are managed, appointing Macquarie's Chief Executive Officer and approving group policies relating to remuneration, diversity and a code for ethical behaviour. The role of the Board is to promote the long-term interests of Macquarie, taking into account Macquarie's specific and broader responsibilities to its shareholders, funders, clients, staff and the communities in which it operates.

The Board is assisted by its various Board Committees as detailed in each Board Committee Charter.



The Macquarie Group Limited Constitution and Board Charter are available at macquarie.com/leadership-corporate-governance

The Board determines delegations to management and approves applicable limits and policies.

The Managing Director and Chief Executive Officer (CEO) has been granted authority for 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 meeting. In addition to regular reporting from management, the Board has unlimited access to senior management and external advisers.

The Company Secretary is appointed by and accountable to the Board, through the Chair, 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. All Board members have access to all Board Committee meeting papers 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 Committee Chairs.

All NEDs are members of the BRiC to assist the Board in its oversight of Macquarie's risk management framework. The Chairs of the Board and each Board Committee meet to broadly consider the work plan, responsibilities and the performance of each Committee and to focus on any areas of overlap or gaps in Committee reporting and responsibilities, including coordination of non-financial risk reporting between Committees and the coverage of risk reporting across Committees.



The Board Committee Charters, detailing the responsibilities of each Committee are available at macquarie.com/leadership-corporate-governance

Allocation of responsibilities between Board Committees

The following table provides a summary of the allocation of responsibilities between Board Committees.

| Committee | Role |
|---|--|
| Board Risk Committee (BRiC) | The BRiC assists the Board by providing oversight 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 BRiC reviews and monitors Macquarie's risk culture and the extent to which it supports the ability of Macquarie to operate consistently within its risk appetite. The Chief Risk Officer reports directly to the CEO and has a secondary reporting line to the BRiC. |
| Board Governance and Compliance Committee (BGCC) | The BGCC assists the Board with adopting the most appropriate corporate governance standards for Macquarie and assists the Board in fulfilling its responsibility for oversight of the regulatory and compliance risk framework of Macquarie, including reviewing and monitoring compliance with Macquarie's <i>Conduct Risk Management Framework</i> . In addition, the BGCC reviews the operation of Macquarie's work health and safety, environmental and social risk management policies and customer and client reporting. The BGCC also set measurable objectives for increasing the diversity of Macquarie's workforce. The BRiC, BRC and BAC review aspects of the regulatory and compliance risk framework relating to their duties and responsibilities. |
| Board Remuneration Committee (BRC) | The BRC makes recommendations to the Board that promote appropriate remuneration policies and practices for Macquarie consistent with the risk management framework. The BRC also satisfies itself that Macquarie's remuneration policies and practices are consistent with and promote Macquarie's <i>Code of Conduct</i> and the accountability of staff for the business outcomes they deliver by encouraging a long-term perspective. The BRC reviews Human Resources-related reports and 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. |
| Board Audit Committee (BAC) | The BAC assists the Board with its oversight of the integrity of the financial statements. The BAC also reviews the adequacy of Macquarie's control framework for financial regulatory reporting to banking regulators and monitors 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 BGCC to the appropriate Board Committee. The BAC monitors and reviews the performance of the Head of Internal Audit and the effectiveness of the Internal Audit function. |
| Board Nominating Committee (BNC) | The BNC assists the Board in satisfying itself that it has an appropriate mix of skills, experience, tenure and diversity for the Board to be an effective decision-making body and to provide successful oversight and stewardship of Macquarie. |



Details of the Directors' qualifications, experience, Committee membership and meeting attendance are contained in the **Directors' Report**

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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 its *Continuous Disclosure & External Communications Policy*.

The Continuous Disclosure Committee considers matters that may require disclosure to ASX in accordance with Macquarie's continuous disclosure obligations.

All external communications which include any price-sensitive material for public announcement, annual and interim result announcements, release of financial reports, presentations to investors and analysts and other prepared investor presentations for Macquarie will:

- be factual and subject to internal review and authorisation before issue
- not omit material information
- be timely and expressed in a clear and objective manner.

Material announcements relating to matters which fall within the reserved powers of the Board and not delegated to management are referred to the Board for approval.



Macquarie's *Continuous Disclosure & External Communications Policy* is available at [macquarie.com/leadership-corporate-governance](https://www.macquarie.com/leadership-corporate-governance)

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.

As part of Macquarie's commitment to keep its investor base informed, management presents at various investment conferences and conducts investor visits and meetings throughout the year. All material presentations and other disclosures which include material information not previously released are lodged with ASX ahead of the presentation and made available on Macquarie's website.

Periodic corporate reports that are not audited or reviewed by PwC are verified internally by management prior to release to ASX. The verification process allocates material disclosures within the relevant document to contributors to substantiate the disclosures by reference to company source documents or, if no source documents are available, by persons with the knowledge and expertise to confirm the accuracy and completeness of the disclosures.

Macquarie's website

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 are all available in the investor centre on Macquarie's website. Investor Relations contacts are also available on the website.

Shareholders can also elect to receive communications electronically by contacting Macquarie's share registry.



Further information about Macquarie is available at [macquarie.com](https://www.macquarie.com)

Shareholder meetings

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 as soon as they are available after the meeting.

Macquarie typically holds its AGM in July of each year.

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.

If shareholders are unable to attend the meeting, they are encouraged to vote on the proposed motions by appointing a proxy. The proxy form included with a notice of meeting explains 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's practice is that voting on each proposed resolution is conducted by poll.

Macquarie seeks to conduct its shareholder meetings 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 at macquarie.com/investors

The Corporate Governance Statement is current as at 7 May 2020 and has been approved by the Board.



Our Corporate Governance Statement and Key to Disclosures (Appendix 4G) have been lodged with the ASX and are available at macquarie.com/leadership-corporate-governance