

Board Charter

Challenger Financial Services Group Limited
ACN 106 842 371

Board charter

1. Introduction

- 1.1 Challenger Financial Services Group Limited ACN 106 842 371 (**Company**) is a listed public company.
- 1.2 The Board is responsible for the corporate governance of the Company. For the purposes of this Board Charter the term “Group” means the Company and its controlled entities as defined in the *Corporations Act 2001* (Cth) (**Corporations Act**).
- 1.3 The purpose of this charter is to:
 - (a) promote high standards of corporate governance;
 - (b) clarify the role and responsibilities of the Board; and
 - (c) enable the Board to provide strategic guidance for the Group and effective management oversight.
- 1.4 This charter is supported by the charters for various Board Committees, including Board Audit & Compliance Committee, Board Remuneration Committee and Board Nomination Committee.
- 1.5 To the extent that other Group companies operate in a regulated environment, and are required by law to have regard to the interests of stakeholders other than the Company's members, then this charter will be read subject to those requirements and subject to the board charters and similar terms of reference (if any) of such companies.
- 1.6 This board charter will apply subject to applicable legal and regulatory requirements, including, without limitation, duties and obligations imposed on the directors by statute and general law.
- 1.7 The Board may review and amend this charter at any time.
- 1.8 The Board acknowledges that:
 - (a) the Group includes a number of regulated entities subject to specific statutory duties and responsibilities including, in the case of registered life insurers, duties in relation to the investment, administration and management of the assets of statutory funds to give priority to the interests of policyowners and prospective policyowners; and
 - (b) the Board will give due consideration to the interests of all relevant stakeholders, including shareholders, policyowners, holders of financial products, customers and employees.

2. Board size, composition and independence

- 2.1 There must be a minimum of 5 directors and a maximum of 12 directors.
- 2.2 The Board must have a majority of independent directors.
- 2.3 A majority of directors must be Australian residents.
- 2.4 The Board must comprise:
 - (a) directors with an appropriate range of skills, experience and expertise;
 - (b) directors who can understand and competently deal with current and emerging business issues; and
 - (c) directors who can effectively review and challenge the performance of management and exercise independent judgment.
- 2.5 An independent director is a non-executive director who is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment. Circumstances in which a director will not be considered independent include if the director:

- (a) is a substantial shareholder (as defined in the Corporations Act) of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- (b) is employed, or has previously been employed in an executive capacity by the Company or another entity within the Group, and there has not been a period of at least 3 years between ceasing such employment and serving on the Board;
- (c) has within the last 3 years been a principal of a material professional adviser or a material consultant to the Company or another entity within the Group, or an employee materially associated with the service provided;
- (d) is a material supplier or customer of the Company or another entity within the Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- (e) has a material contractual relationship with the Company or another entity within the Group other than as a director.

If the Board is in doubt as to a director's independence, the Board may refer the matter to ARPA for guidance.

- 2.6 Each independent director's independence must be reviewed at least annually.
- 2.7 A majority of directors present and eligible to vote at all Board meetings must be non-executive directors.
- 2.8 The Board composition must be consistent with the Company's shareholding determined as follows:
 - (a) where shareholding constitutes not more than 15% of the Company's voting shares not more than 1 Board member who is an associate of the shareholder where the Board has up to 6 directors and not more than 2 Board members who are associates of the shareholder where the Board has 7 or more directors; or
 - (b) where an individual shareholder is greater than 15%, as approved under the *Financial Sector (Shareholdings) Act 1998* (Cth), the Board representation can be greater than allowed under paragraph 2.8(a) above, although it must be broadly proportionate to the shareholding concerned.

3. The Board's role and responsibilities

- 3.1 The Board acts on behalf of members and is accountable to members for the overall direction, management and corporate governance of the Company. The Board has authorised the Chief Executive Officer to make decisions concerning the Group (see paragraph 4), but has expressly reserved certain matters requiring a decision of the Board.
- 3.2 The Board is responsible for:
 - (a) approving the appointment and removal of:
 - (i) Chairperson;
 - (ii) Chief Executive Officer;
 - (iii) Company Secretary;
 - (iv) General Counsel; and
 - (v) Chief Financial Officer;
 - (b) ensuring that:
 - (i) collectively, the Board and senior management have the full range of skills needed for the effective and prudent operation of the Company;
 - (ii) senior management with responsibilities relating to the business in Australia are ordinarily resident in Australia; and

- (iii) senior management are available to meet with APRA on request;
- (c) ensuring that the Company and responsible persons satisfy the Prudential Standard LPS 520 'Fit and Proper';
- (d) approving applications by the Chief Executive Officer for permission to accept Board/Committee appointments outside the Group;
- (e) assessing the Group's and the Chief Executive Officer's performance;
- (f) establishing committees of the Board and in relation to each committee to:
 - (i) appoint members and Chairperson;
 - (ii) set the Committee's charter;
 - (iii) delegate authority to that Committee;
 - (iv) monitor the Committee's exercise of delegated authority; and
 - (v) review the responsibilities, composition and performance of the Committee at least annually;
- (g) on advice from the Board Remuneration Committee, and subject to the law and the Company's constitution, determining the remuneration of the non-executive directors (including the members of all Board Committees);
- (h) on advice from the Board Remuneration Committee, approving payment of retirement benefits to directors;
- (i) nominating candidates for election to the Board by the members;
- (j) ratifying other senior executive appointments, organisational changes and senior management remuneration policies and practices;
- (k) approving succession plans for the Chief Executive Officer's direct reports management;
- (l) monitoring implementation of strategy, and ensuring appropriate resources (including in relation to the internal audit function) are available;

Strategic issues

- (m) reporting to members;
- (n) providing strategic advice to management;
- (o) approving the Group's strategic plan, including the definition of the business and its boundaries;
- (p) approving a business plan on an annual basis or updates of that plan;
- (q) approving material strategic investment or business acquisitions and divestments;
- (r) approving key result areas for the Group and the Chief Executive Officer;

Financial items

- (s) recommending to members any increase or decrease in the share capital of the Company;
- (t) issuing, allotting, granting options over, offering or otherwise dealing with or disposing of unissued shares in the capital of the Company or rights to subscribe for or convert any security into shares in the capital of the Company in accordance with the Company's constitution;
- (u) making calls in respect of any money unpaid on shares and forfeiting or accepting surrender of shares in accordance with the Company's constitution;

- (v) approving a capital management strategy for the Group;
- (w) approving material Group funding facilities;
- (x) approving by the end of June of each year an operating and capital budget for the Group, for the financial year ahead, consistent with the Group business plan;
- (y) approving the transfer or transmission of shares in accordance with the Company's constitution, provided that such power may be delegated to a share registry;
- (z) approving the financial markets on which the Company's and the Group's securities will be listed;
- (aa) approving any notifications to the relevant exchanges for securities listing, suspensions, delisting or relisting;
- (bb) declaring the amount of profits available for payment of dividends, to fix the amount of a dividend to be recommended to members, and to declare and make arrangements for the payment of interim dividends in accordance with the Company's constitution;
- (cc) approving the establishment, amendment, suspension, resumption or cessation of a dividend re-investment scheme;
- (dd) approving the giving of guarantees, indemnities and letters of comfort by the Group where the amount of the relevant loan or other liability of another Group entity, related business entities or third parties exceeds A\$20 million;
- (ee) approving any security, mortgage or other pledge given over any of the Group's assets or revenues exceeding \$20 million;
- (ff) approving the Group's annual financial statements and reports to members;
- (gg) approving the Group's half year financial statements and reports to members;
- (hh) authorising charitable contributions by the Group above \$1 million pa (subject to the Board policy that the Group does not make donations to any political parties);
- (ii) reporting as appropriate, that the business is a going concern, with supporting assumptions or qualifications as necessary;
- (jj) on advice from the Board Audit and Compliance Committee, approving the Group's accounting policies;

Capital and general expenditure items (investments and divestments)

- (kk) approving all budgeted capital or general expenditure exceeding A\$5 million per item;
- (ll) approving all unbudgeted capital or general expenditure exceeding A\$2 million;
- (mm) approving divestments of capital assets of the Group (other than financial assets) exceeding A\$10 million per asset;

Professional appointments/advice

- (nn) on advice from the Board Audit & Compliance Committee, approving the appointment and removal of external auditors of the Group;
- (oo) considering and, if appropriate, accepting external audit reports including management letters;
- (pp) reviewing any recommendation from the Board Audit & Compliance Committee arising from internal audit reports;
- (qq) ensuring that the external auditor can raise matters directly with the Board;

Risk management

- (rr) reviewing reports and appraisals from the Board Audit & Compliance Committee on market and operational controls;
- (ss) reviewing and overseeing the implementation of the Group's corporate code of conduct and code of conduct for directors and senior executives;
- (tt) approving a Fit and Proper Policy for the Company;
- (uu) monitoring and ensuring compliance with legal and regulatory requirements and ethical standards and policies;
- (vv) monitoring and ensuring compliance with best practice corporate governance requirements;
- (ww) overseeing the Group, including its control and accountability systems;

Human resources

- (xx) on advice from the Board Remuneration Committee, approving the Group's remuneration policy and all other material human resources policies;
- (yy) on advice from the Board Remuneration Committee, approving the annual bonus pool for employees and to approve increases in aggregate remuneration levels across the Group;
- (zz) on advice from the Board Remuneration Committee, determining the remuneration and incentive arrangements for the Chief Executive Officer, direct reports of the Chief Executive Officer and other persons whose activities may, in the Board Remuneration Committee's opinion affect the financial soundness of the Company;
- (aaa) on advice from the Board Remuneration Committee, approving remuneration arrangements and material variations thereto of the categories of persons (other than persons covered by paragraph 3.2(zz)) covered by the Remuneration Policy;
- (bbb) on advice from the Board Remuneration Committee, approving severance or redundancy policy and any payment exceeding A\$5million;

Public affairs/stakeholder relations

- (ccc) convening meetings of members (including the annual general meeting) and to exercise all other powers relating to members' meetings given to directors in the Company's constitution;
- (ddd) approving all resolutions being put and matters concerned with a notice of general meeting or annual general meeting;
- (eee) approving the Group's Continuous Disclosure Policy and monitoring compliance with this policy;

General

- (fff) approving the establishment of overseas branch registers of the Group;
- (ggg) approving major transactions including the acquisition or sale of any company where the value of the transaction exceeds A\$25million. The approval of the Chairperson and the Chief Executive Officer are required for any transaction with a value exceeding A\$10million;
- (hhh) approving any material related party transaction and any transaction that any of the executive would directly benefit from;
- (iii) approving any material conflict of interest that the Group or a Group executive may have prior to relevant transactions being entered into; and
- (jjj) commencing and settling claims where the value of the claim exceeds A\$10million, other than claims involving a fund or statutory fund which shall be the responsibility of the relevant board.

Save where, and to the extent, restricted by law, regulation or the Company's constitution, the Directors may delegate any of the above powers to individual Directors, committees of the Board or executives. Any such delegation shall be in compliance with the law and the Company's constitution.

4. The Board and management

- 4.1 The Board has determined that the Chief Executive Officer is authorised to make all decisions in relation to the Group, except for the matters set out in **paragraph 3** above (which are expressly reserved to the Board for its collective decision), and those matters reserved for the Board through Board Committee Charters. This authorisation is subject to the law and board charters for regulated entities within the Group (see paragraphs 1.5 and 1.6, above).
- 4.2 The Chief Executive Officer manages the Group in accordance with the strategy and business plan approved by the Board.
- 4.3 In exercising his or her authority, the Chief Executive Officer is obliged to periodically consult with and report to the Board significant matters. Specifically, this includes:
- (a) reporting to, and consulting with, the Board or the relevant Board committee prior to approving any material project or other material decision which in the opinion of the Chief Executive Officer:
 - (i) amounts to a major initiative;
 - (ii) is a significant policy change or a significant departure from the Group's strategic plan approved by the Board; or
 - (iii) is likely to be of significant public interest;
 - (b) periodically reporting to the Board or to the relevant Board committee on all material matters affecting the Group and significant decisions made in exercise of the Chief Executive Officer's authority, including but not limited to:
 - (i) all material compliance issues;
 - (ii) material litigation or potential litigation involving the Group;
 - (iii) any unbudgeted capital expenditure approved by the CEO of between A\$1million and A\$2 million;
 - (iv) charitable contributions by the Group over A\$100,000; and
 - (v) appointments and resignations of staff who report directly to the Chief Executive Officer;
 - (c) bringing to the Board as soon as it is available:
 - (i) the Financial Condition Reports of the life company;
 - (ii) any material or relevant correspondence from APRA and other regulators or ratings agencies (eg. ASIC, ASX, S&P); and
 - (iii) any material potential financial or regulatory impact which is considered more likely than not to arise; and
 - (d) at the commencement of each quarter, bring to the Board a rolling financial forecast for the following 12 month period.
- 4.4 The Board must:
- (a) monitor the Chief Executive Officer's exercise of delegated authority; and
 - (b) assess the Chief Executive Officer's responsibilities and performance at least annually.

5. Board Committees

- 5.1 The Board has established the following committees to assist it in carrying out its responsibilities, to share detailed work and to consider certain issues and functions in detail:
- (a) Audit & Compliance Committee;
 - (b) Remuneration Committee; and
 - (c) Nomination Committee.
- 5.2 The charter or terms of reference of each Board Committee setting out matters relevant to the composition, responsibilities and administration of the committee must be approved by the Board.
- 5.3 The Board must:
- (a) monitor each Committee's exercise of delegated authority; and
 - (b) review the responsibilities, composition and performance of each Committee at least annually.

6. Chairperson of the Board

- 6.1 The Chairperson of the Board:
- (a) is appointed by the directors;
 - (b) must be an independent director; and
 - (c) may not be the same person as the Chief Executive Officer, and the Chief Executive Officer may not become the Chairperson of the Board for a period of at least 3 years from cessation of their role as the Chief Executive Officer. However, where the position of Chief Executive Officer is unexpectedly vacated, the Chairperson may serve as an interim Chief Executive Officer. After a period of 90 days, approval must be sought from APRA to allow this arrangement to continue.
- 6.2 The responsibilities of the Chairperson of the Board include:
- (a) providing leadership to the Board;
 - (b) promoting the efficient organisation and conduct of the Board's functions;
 - (c) monitoring the performance of the Board;
 - (d) facilitating Board discussions to ensure core issues facing the Group are addressed;
 - (e) briefing all directors in relation to issues arising at Board meetings;
 - (f) facilitating the effective contribution and ongoing development of all directors;
 - (g) promoting constructive and respectful relations between Board members and between the Board and management; and
 - (h) chairing general meetings.

7. Directors

- 7.1 Directors are expected to attend and participate in Board meetings and meetings of committees on which they serve.
- 7.2 Directors are expected to spend the time needed, and meet as often as necessary, to properly discharge their responsibilities.
- 7.3 Directors are expected to review meeting materials before Board meetings and committee meetings.

- 7.4 Directors are encouraged to ask questions of, request information from, and raise any issue of concern with, management. Directors are encouraged, where possible, to ask any questions and raise issues of concern before a meeting so that management is prepared to address them.
- 7.5 Directors must exercise independent judgment when making decisions.
- 7.6 Publicly, directors are expected to support the letter and spirit of Board decisions.
- 7.7 Directors must keep Board information, discussions, deliberations, and decisions that are not publicly known, confidential.
- 7.8 Directors are expected to comply with their legal duties when discharging their responsibilities as directors. Broadly, these duties are:
- (a) to act in good faith and in the best interests of the Company;
 - (b) to act with the degree of care and diligence that a reasonable person would exercise if they were in the same position as the director;
 - (c) to act for proper purposes;
 - (d) to appropriately manage or avoid a conflict of interest or duty;
 - (e) to refrain from making improper use of information gained through the position of director or taking improper advantage of the position of director; and
 - (f) to prevent insolvent trading by the Company
- 7.9 Directors must be available to meet with APRA on request.

8. Conflicts

- 8.1 Directors are expected to be sensitive to conflicts of interest or duty that may arise and mindful of their fiduciary obligations.
- 8.2 Directors must:
- (a) disclose to the Board any actual or potential conflict of interest or duty that might reasonably be thought to exist as soon as the situation arises;
 - (b) take necessary and reasonable action to resolve or avoid any actual or potential conflict of interest or duty; and
 - (c) comply with the Corporations Act and the Company's constitution in relation to disclosing material personal interests and restrictions on voting.
- 8.3 If a conflict exists, it is expected that any director to whom the conflict relates will leave the room when the Board is discussing any matter to which the conflict relates.
- 8.4 Directors are expected to inform the Chairperson of the Board of any proposed appointment to the board, committee or executive of another company as soon as practicable.

9. Access to information and independent advice by directors

- 9.1 Directors have access to any information they consider necessary to fulfil their responsibilities and to exercise independent judgment when making decisions.
- 9.2 Directors have access to:
- (a) management to seek explanations and information from management; and
 - (b) auditors, both internal and external, to seek explanations and information from them without management being present.
- 9.3 Directors may seek any independent professional advice they consider necessary to fulfil their responsibilities and to exercise independent judgment when making decisions in accordance with the procedure agreed by the directors.

- 9.4 If the Chairperson of the Board consents, the Company will pay a director's costs of seeking independent professional advice. That consent may not be unreasonably withheld or delayed.

10. Retirement of directors

- 10.1 This paragraph 10 is subject to the Company's constitution.
- 10.2 At the end of every annual general meeting, one-third of the directors (to the nearest whole number) must retire and may stand for re-election.
- 10.3 A director must retire at the end of the third annual general meeting after the director's appointment even if it means that more than one-third of directors retire at an annual general meeting.
- 10.4 Those directors who have been longest in office since their last appointment must retire by rotation. Directors appointed on the same day may agree among themselves or determine by lot who must retire.
- 10.5 The Chief Executive Officer or a director appointed to fill a casual vacancy or as an addition to the Board are not subject to retirement by rotation and are not taken into account when determining how many directors must retire by rotation. A director appointed to fill a casual vacancy or as an addition to the Board must retire at the next annual general meeting after their appointment.

11. Ethical Standards

- 11.1 The directors and other employees are expected to act lawfully, in a professional manner and with the utmost integrity and objectivity in their dealings with clients, contractors and competitors, the community and each other, striving at all times to enhance the reputation and performance of the Group.

12. Communication of information

- 12.1 The Board will aim to:
- (a) communicate effectively with members;
 - (b) give members ready access to balanced and understandable information about the Group and its corporate goals; and
 - (c) make it easy for members to participate in general meetings.
- 12.2 The Board must adopt a communications strategy to facilitate and promote effective communication with members and encourage participation at general meetings.

13. Review of Board performance

- 13.1 The performance of the Board and the directors will be reviewed at least annually.
- 13.2 This review will consider:
- (a) the Board's role;
 - (b) the processes of the Board and Board Committees;
 - (c) the Board's performance; and
 - (d) each director's performance.

14. Approved and adopted

This charter was approved and adopted by the Board on 29 January 2004 and amended or further approved by the Board on:

30 March 2004

26 August 2004

27 January 2005

7 February 2006

6 February 2007

5 February 2008

8 April 2010