



2020 Corporate Governance Report

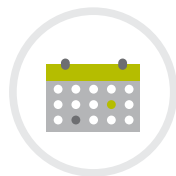
Providing
our customers
with financial
security for
retirement





Contents

- 03 Challenger's approach**
- 04 Principles and Recommendations**
- 04** Principle 1 – Lay solid foundations for management and oversight
- 07** Principle 2 – Structure the Board to be effective and add value
- 10** Principle 3 – Instil a culture of acting lawfully, ethically and responsibly
- 11** Principle 4 – Safeguard the integrity of corporate reports
- 12** Principle 5 – Make timely and balanced disclosure
- 13** Principle 6 – Respect the rights of security holders
- 14** Principle 7 – Recognise and manage risk
- 15** Principle 8 – Remunerate fairly and responsibly



Key dates

29 October 2020

2020 Annual General Meeting

9 February 2021

Half-year financial results

23 March 2021

Interim dividend payment date

10 August 2021

Full-year financial results

22 September 2021

Final dividend payment date

28 October 2021

2021 Annual General Meeting

Dates may be subject to change.
Any change in dates will be advised to the
Australian Securities Exchange.

Corporate Governance Report

The 2020 Corporate Governance Report is available online at:

› challenger.com.au/corporategovernance2020

2020 Annual Review

The 2020 Annual Review provides useful information about Challenger and its financial performance in an easy-to-read format. The Annual Review includes a performance update, a report from the Independent Chair and the Chief Executive Officer, and information on Challenger's approach to environmental, social and governance matters.

The Annual Review is available online at:

› challenger.com.au/annualreport2020

2020 Annual Report

The 2020 Annual Report, including the financial report for the year ended 30 June 2020, is available online at:

› challenger.com.au/annualreport2020

2020 Sustainability Report

The 2020 Sustainability Report outlines Challenger's approach to addressing environmental, social and governance risks and opportunities. It also tracks key achievements in the delivery of Challenger's sustainability strategy. The 2020 Sustainability Report is available online at:

› challenger.com.au/sustainabilityreport2020

2020 Annual General Meeting

Date

29 October 2020

Time

9.30am (Sydney time)

Full details of the meeting will be included in the Notice of Annual General Meeting, which will be sent to shareholders in September 2020.



Challenger's approach to corporate governance

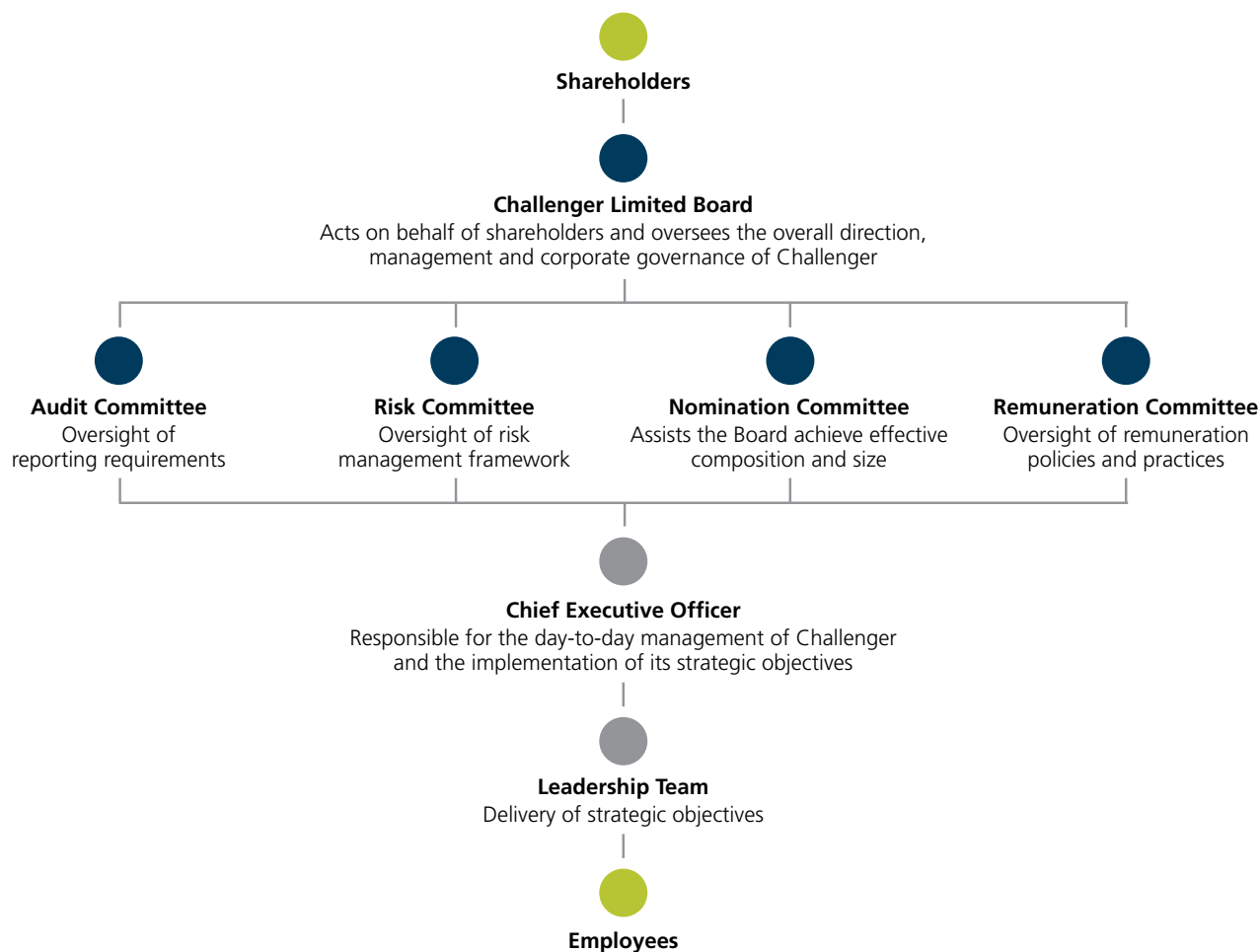
The Board of Directors (Board) and Challenger Limited (Challenger) are committed to implementing and maintaining a robust corporate governance system. Challenger believes that corporate governance adds value to its business and enhances stakeholder confidence.

The Board determines the most appropriate corporate governance practices for Challenger and its controlled entities (Group), taking into consideration Australian and international standards and the prudential requirements of regulators such as the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission.

This Corporate Governance Report reports against the Corporate Governance Principles and Recommendations (4th edition) published by the Australian Securities Exchange's (ASX) Corporate Governance Council in 2019 (Principles). As part of Challenger's commitment to contemporary corporate governance practice, where possible, the Board has adopted a number of the ASX's recommendations before they come into effect for financial years commencing from 1 July 2020.

This report applies to Challenger; however, some controlled entities have adopted additional policies and procedures to manage specific issues relevant to their businesses, for example Australian Financial Services Licence compliance.

Challenger's Corporate Governance Report has been approved by the Board and is current as at 30 June 2020.





Corporate Governance Principles and Recommendations

Principle 1 – Lay solid foundations for management and oversight

The role of the Board and delegations

The Board is accountable to shareholders for the activities and performance of Challenger by overseeing the creation of sustainable shareholder value within an appropriate risk framework and having regard for stakeholder interests and community expectations.

The Board is responsible for setting Challenger's vision and strategy. Challenger's vision is to provide its customers with financial security for retirement. This is a long-term vision and the Board sets strategic priorities each year to work towards fulfilling Challenger's vision.

Directors are actively involved in setting, approving and regularly monitoring Challenger's strategic priorities and holding management accountable for progress.

This process includes an annual Board strategy offsite, regular Board reporting and meetings, and discussion and review with management. Similarly, the Board ensures that rigorous governance processes operate effectively to guide decision-making across the business.

The Board's role and responsibilities are set out in the Board Charter, which is available at **challenger.com.au**.

The Board's responsibilities include:

- establishing, promoting and maintaining the strategic direction of Challenger;
- approving business plans, budgets and financial policies;

- considering management recommendations on strategic business matters;
- establishing, promoting and maintaining proper processes and controls to maintain the integrity of accounting and financial records and reporting;
- fairly and responsibly rewarding executives, having regard to the performance of executives, Challenger's risk management framework and culture, the interests of shareholders, market conditions and Challenger's overall performance;
- adopting and overseeing implementation of corporate governance practices;
- overseeing the establishment, promotion and maintenance of effective risk management policies and processes;
- determining and adopting Challenger's dividend policy;
- reviewing Board composition and performance;
- appointing, evaluating and remunerating the Chief Executive Officer (CEO) and approving the appointment of the Chief Financial Officer (CFO), Chief Risk Officer (CRO), General Counsel and Company Secretary; and
- determining CEO's delegated authority.

The Board has established committees to assist in carrying out its responsibilities and to consider certain issues and functions in detail. The Board committees are discussed under Principle 2.



Management responsibility

The Board has delegated to the CEO the authority and powers necessary to implement the strategies approved by the Board and to manage the business affairs of Challenger within the policies and delegation limits specified by the Board from time to time. The CEO may delegate authority to management, but remains accountable for all authorities delegated to management.

Nominations and appointment of new Directors

The Board has established a Nomination Committee comprised of a majority of Independent Non-Executive Directors and has at least three members and is chaired by an Independent Non-Executive Director. The Nomination Committee currently comprises all members of the Board and is chaired by the Chair of the Board, who is an Independent Non-Executive Director.

Appropriate checks are undertaken before appointing a person and recommending that person for election as a Director and being appointed. These include checks as to the person's character, fitness and propriety, experience, education, criminal record and bankruptcy history.

Similar checks are also undertaken for newly appointed senior executives.



The Nomination Committee conducts periodic assessments of the Board's competencies to assist in determining the appropriate composition of the Board and to consider the desirable breadth and range of skills required when selecting new Board members.

The Nomination Committee draws on industry contacts and, where appropriate, engages specialist external consultants to assist with identifying and selecting a diverse range of candidates who meet the Nomination Committee's desired competencies. The Nomination Committee also considers other factors, including independence, commercial capability, cultural fit and time availability to meet the commitment required.

The Nomination Committee assesses potential new Directors using these competencies and factors, and makes recommendations to the Board for consideration and approval.

A copy of the Nomination Committee Charter is available at challenger.com.au.

If a new Director is appointed during the year, that person must stand for election by shareholders at the next Annual General Meeting (AGM). Shareholders are provided with all material information known to Challenger that is relevant to a decision about whether or not to elect a Director.

On behalf of Challenger, the Chair provides a letter to each new Director, setting out the terms of their appointment, including their roles and responsibilities. All current Directors have received a letter confirming the terms of their appointment.

Retirement and re-election of Directors

Challenger's Constitution requires that, excluding the CEO and any Director appointed during the year, one-third of the remaining Directors must retire each year.

Any Director who is appointed during the year must stand for election at the next AGM. In addition, any Director who has been in office for three or more years, or for three

or more AGMs, must retire and stand for re-election at the third AGM.

Succession planning

In conjunction with the Nomination Committee, the Board considers the succession of its members, the CEO, CFO, CRO, General Counsel and Company Secretary, and Chief Executives of each of the business divisions.

Following the expansion of Challenger's strategic relationship with MS&AD Insurance Group Holdings Inc. (MS&AD), which was announced in March 2019, Mr Masahiko Kobayashi was appointed to the Board in August 2019. Mr Hiroyuki Iioka was appointed to the Board as the alternate Director for Mr Kobayashi in December 2019.

The Board continues to review its composition having regard to the knowledge, skills and experience of each Director.

Review of Board performance

The Board seeks to ensure that it is operating effectively and undertakes a formal review

of its performance, individual Directors and Board committees at least annually.

Regular reviews of the Board's performance are conducted by the Chair with all Board members, and this involves consideration of the effectiveness of the Board and its committees having regard to the attributes, knowledge, skills and experience of each Director.

The Board conducted an external review in the 2020 financial year, with the results incorporated into the Board's operations and planning processes.

Company Secretary

The Company Secretaries are accountable directly to the Board, through the Chair, on matters to do with the proper functioning of the Board.

Diversity

The Board is committed to promoting a diverse and inclusive culture at Challenger.





This commitment is reflected in a range of policies and practices, and these are assessed using measurable targets, including targeting a minimum 30% female Board representation by 2020.

While the Board currently has 25% female representation, Challenger remains committed to achieving its 30% target and anticipates it will be achieved in the 2021 financial year.

Challenger's approach to diversity and inclusion is set out in our Diversity Policy, which is available at challenger.com.au.

In July 2019, Challenger launched its new Diversity and Inclusion strategy, which focuses on three key areas:

- Diverse and inclusive workplace
- Gender equality
- Employment opportunities for people aged over 50.

To drive continued focus and implementation, Challenger has established a Diversity Committee which is sponsored by the Chair of the Board.

The Diversity Committee's objectives include designing, implementing and maintaining programs and initiatives to help achieve measurable objectives set by the Board each year. The effectiveness of the Group's diversity programs and initiatives and the Group's progress towards achieving those objectives are reviewed regularly by management and at least annually by the Remuneration Committee. The objectives and progress for the year ended 30 June 2020 are set out in the 2020 Sustainability Report, which is available at challenger.com.au/sustainabilityreport2020.

Challenger's most recent annual report to the Workplace Gender Equality Agency (WGEA), which reports on the 'Gender Equality Indicators' under the *Workplace Gender Equality Act 2012*, is available at challenger.com.au. For the third year in a row, Challenger was recognised as an Employer of Choice by the WGEA.

Executive performance assessment

Challenger has written employment agreements with each senior executive, and the performance of senior executives is reviewed at least annually against agreed performance objectives and measures, consistent with Challenger's performance management framework, which applies to all Challenger employees.

Detailed information about these performance measures and outcomes is included in the Remuneration Report in Challenger's 2020 Annual Report, which is available at challenger.com.au/annualreport2020.

All employees at Challenger are also assessed at least annually against Challenger's Values (refer to Principle 3).

The Remuneration Committee is responsible for reviewing the performance of the CEO at least annually, including setting the CEO's objectives for the year, reviewing progress and making remuneration recommendations to the Board.

The CEO and the Remuneration Committee set performance objectives and review performance of the CEO's direct reports (Leadership Team).

Performance evaluations for the CEO and Leadership Team have been undertaken in respect of the 2020 financial year in accordance with the above process.

Current Board members

Name	Position	Independent	Appointed
Peter Polson	Independent Chair	Yes	2003
Richard Howes	Managing Director & CEO	No	2019
John M Green	Non-Executive Director	Yes	2017
Steven Gregg	Non-Executive Director	Yes	2012
Masahiko Kobayashi ¹	Director	No	2019
JoAnne Stephenson	Non-Executive Director	Yes	2012
Duncan West	Non-Executive Director	Yes	2018
Melanie Willis	Non-Executive Director	Yes	2017
Hiroiyuki Iioka ²	Alternate Director	No	2019

¹ Mr Kobayashi was appointed to the Board on 26 August 2019.

² Mr Iioka was appointed to the Board as alternate for Mr Kobayashi on 13 December 2019.

Retired Board members

Name	Position	Independent	Appointed
Leon Zwier ¹	Non-Executive Director	Yes	2006

¹ Mr Zwier retired on 31 October 2019.





Principle 2 – Structure the Board to be effective and add value

Membership of the Board

The Board has a majority of Independent Non-Executive Directors and an Independent Chair, who is appointed by the Board. The roles of Chair and CEO are not held by the same person.

A list of Board members as at 30 June 2020 is set out on page 6. Details of Board members, including their skills, experience and tenure, are set out in the Directors' Report in the 2020 Annual Report, which is available at challenger.com.au/annualreport2020.

The Board is committed to ensuring that it has an effective composition, size and commitment to discharge its responsibilities and duties.

The Board has determined that its current members have an appropriate collective mix of skills, experience and expertise to:

- exercise independent judgement;
- have a proper understanding of, and competence to deal with, current and emerging issues of the business;
- encourage enhanced Challenger performance; and
- effectively review and challenge the performance of management.

The Board's competencies are assessed annually and the results of the most recent assessment are shown in the table on this page.

The Board skills matrix shows that Board members have a high level of competency across the areas of expertise relevant to Challenger's business.

The Board recognises that public policy is an emerging and constantly evolving issue. To keep abreast of the developments in this area, the Board supplements its competency through expert support from both in-house and external consultants. This includes presentations on emerging issues and frequent regulatory updates. The Board will continue to supplement its competency in this area as appropriate.

Director induction and education

All new Challenger Directors participate in an induction program detailing Challenger's business, with a focus on the Group's financial, strategic, operational and risk management position and processes.

Challenger supports and encourages continuous education. Ongoing Director education is provided through regular management presentations on key Challenger business functions or activities.

Regulatory developments are summarised and brought to the attention of the Board on a regular basis by the General Counsel and the CRO. Directors can access external education and professional development training, and are provided additional education sessions on topical issues presented by experts in relevant fields.

Ernst & Young (EY), the Group's external auditor, and KPMG, the Group's internal auditor, as well as other industry experts, regularly present to the Board on matters relevant to the Group's business and its operating environment.

Directors' skills matrix

Leadership & Strategy

Leadership, effective communication and influencing skills. Strategic thinking capability and transactional expertise.



■ Advanced competency 100%

Corporate Governance

Public company corporate governance literacy.



■ Advanced competency 100%

Financial Acumen

Financial reporting literacy including exposure to Accounting Standards.



■ Advanced competency 100%

Risk & Compliance

Financial services and fiduciary regulatory awareness. Relevant compliance and risk experience including legal and tax risk management.



■ Advanced competency 100%

Sectoral Exposure

Exposure to funds management and life insurance sectors, and market experience in jurisdictions in which Challenger operates.



■ Advanced competency 87.5%
■ Average competency 12.5%

Investment & Credit Expertise

Credit risk management and investment expertise including asset class literacy and exposure (eg: property, fixed income, equities, etc).



■ Advanced competency 87.5%
■ Average competency 12.5%

Customer

Experience in distribution, marketing and fostering key institutional customer relationships.



■ Advanced competency 75%
■ Average competency 25%

Public Policy

Experience in relevant public policy areas and key Government and regulator relationships.



■ Advanced competency 62.5%
■ Average competency 37.5%

IT and Digital

Understanding of IT strategy, the application of technology in large organisations, and innovation.



■ Advanced competency 75%
■ Average competency 25%

People & Remuneration

Experience in building capable and highly engaged teams and understanding of current remuneration regulation, structuring and sectoral conditions.



■ Advanced competency 87.5%
■ Average competency 12.5%



Director independence

The Board has adopted an Independence Policy that states that an Independent Non-Executive Director should be independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

The Board has undertaken a review of all Directors in the 2020 financial year, taking into account relevant factors including tenure, and has determined that each Non-Executive Director (excluding the MS&AD representatives) remains independent. The Board noted the expertise, judgement, industry knowledge and understanding of Challenger's business brought by each Director.

The Board regularly considers and assesses the independence of each Director in light of the interests and information that Directors disclose in accordance with the *Corporations Act 2001*.

In assessing independence, the Board has regard to whether the Director has any of the following relationships with Challenger or any Group company:

1. is, represents or has been within the last three years an officer or employee of, or professional adviser to, a substantial shareholder of Challenger;
2. receives performance-based remuneration (including options or performance rights) from, or participates in an employee incentive scheme of, Challenger;

3. is employed, or has previously been employed, in an executive capacity by Challenger or any of the other members of the Group, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
4. is, or has been within the last three years, in a material business relationship (e.g. as a supplier, professional adviser, consultant or customer of Challenger or the Group), or an officer of or otherwise associated with a material supplier, professional adviser, consultant or customer;
5. has close personal ties with any person who falls within any of the categories described in points 1 to 4 above; or
6. has been a Director of Challenger for such a period that his or her independence from management and substantial shareholders may have been compromised.

The Board will state its reasons if it considers a Director to be independent, notwithstanding the existence of a relationship of the kind referred to in points 1 to 6 above.

The Board has determined that the Chair is independent. While the Chair has served on the Board since 2003, the Board considers he is capable of exercising independent judgement and brings significant experience and business knowledge to the Board. The Board also considers the Chair's ongoing tenure is critical for continuity and leadership given the current operating environment, including disruption in the Australian financial advice market and market volatility as a result of the coronavirus pandemic market sell-off.

Determination of materiality in assessing independence

The materiality of a relationship is assessed on a case-by-case basis having regard to each Director's individual circumstances.

Conflicts of interest

In accordance with the Board Charter and the *Corporations Act 2001*, any Director with a material personal interest in a matter being considered by the Board must declare such an interest and may only be present when the matter is being considered at the Board's discretion. Directors with a material interest may not vote on any matter in which they have declared a personal interest.

Meetings of the Board

The Board meets formally approximately every six weeks. Details of Directors' meetings are set out in the table below.

In addition, the Board may meet, in person or via electronic means, whenever necessary to resolve specific matters needing attention between scheduled meetings. For example, the Board held regular meetings during the second half of the 2020 financial year to assess the impact of the pandemic-related market sell-off on Challenger's business and capital position.

The CEO, in consultation with the Independent Chair, establishes the meeting agendas to ensure adequate coverage of strategic, financial and material risk matters throughout the year. Senior executives regularly present at Board meetings and are available to be contacted by Independent Non-Executive Directors between scheduled Board meetings.

Board access to information and advice

All Directors have access to the necessary records and information to fulfil their responsibilities. The Company Secretaries provide Directors with guidance on corporate governance issues and developments, and on other matters reasonably requested by the Directors.

The Board or each Director has the right to seek independent professional advice to assist them in discharging their duties. Challenger will meet the cost of the advice provided the Chair's prior approval is obtained.

Board committees

To assist it in undertaking its duties, the Board has established the following standing committees:

- Group Risk Committee (GRC);
- Group Audit Committee (GAC);
- Remuneration Committee (RemCo); and
- Nomination Committee (NomCo).

Each committee has its own charter, copies of which are available at **challenger.com.au**.

The charters specify the composition, responsibilities, duties, reporting obligations, meeting arrangements, authority and resources available to the committees and the provisions for review of the charter. Details of Directors' membership of each committee and those eligible members' attendance at meetings throughout the period from 1 July 2019 to 30 June 2020 are set out on page 9.

**Directors' meetings**

Director	Board		Group Risk Committee		Group Audit Committee		Remuneration Committee		Nomination Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
P Polson	14	14	4	4	4	4	6	6	2	2
R Howes¹	14	14	-	-	-	-	-	-	-	-
J M Green	14	14	4	4	4	4	6	6	2	2
S Gregg	14	14	4	4	4	4	6	6	2	2
M Kobayashi²	13	12	-	-	-	-	-	-	1	1
J Stephenson	14	14	4	4	4	4	6	6	2	2
D West	14	14	4	4	4	4	-	-	2	2
M Willis	14	13	4	4	4	4	-	-	2	2
L Zwier³	1	1	-	-	-	-	-	-	1	0

1 The Managing Director and CEO attends the Group Risk Committee, Group Audit Committee, Remuneration Committee and Nomination Committee meetings at the invitation of these committees.

There are no management representatives appointed as members of any Board Committee.

2 Mr Kobayashi was appointed a Director, and joined the Nomination Committee, on 26 August 2019.

3 Mr Zwier ceased to be a Director on 31 October 2019.



Principle 3 – Instil a culture of acting lawfully, ethically and responsibly

The Board and Challenger's commitment to ethical and responsible decision-making is reflected in the internal policies and procedures, underpinned by Challenger's new values, which were launched in September 2019. The new values set out the employee behaviour needed to meet community expectations and to support Challenger to deliver on its vision and strategy. Challenger's values are:

- Act with integrity – we do things the right way.
- Aim high – we deliver outstanding results.
- Collaborate – we work together to achieve shared goals.
- Think customer – we make decisions with our customers front of mind.

Code of Conduct

Challenger's new Code of Conduct, adopted by the Board, applies to all Directors, executives, employees, consultants and contractors of Challenger and the Group. It articulates the standards of honest, ethical and law-abiding behaviour expected by Challenger.

Employees are actively encouraged to bring any issues or concerns to the attention of management or the Board, including activities or behaviour that may not comply with the Code of Conduct, other Group policies and procedures, regulatory requirements or laws. They can also do this anonymously using Challenger's whistleblower reporting process. A copy of the Code of Conduct is available at challenger.com.au.

Consequence management procedures exist for breaches of the Code of Conduct and supporting policies. Material breaches of the Code of Conduct are reported to the GRC and the Board. Non-compliance with the Code of Conduct and supporting policies may result in disciplinary action, including impacts to reward or termination of employment.

Whistleblower policy

Challenger is committed to an open culture in which concerns and issues about wrongdoing are disclosed in a supportive environment.

The Challenger Whistleblower Policy outlines the framework and sets out avenues for disclosures to be made on an anonymous basis. Material incidents are included in the reports by the CRO to the Board and GRC.

A copy of Challenger's Whistleblower Policy is available at challenger.com.au.

Fraud and Corruption Policy

Challenger is committed to the highest level of integrity and ethical standards in the way it conducts businesses.

Challenger has a Fraud and Corruption Policy which is available at challenger.com.au. The policy applies to all Challenger employees, and the consultants, Directors, officers, agents and contractors who provide services to Challenger and the Group.

Employees are encouraged to report suspected fraudulent or corrupt activities.

Incidents and breaches pertaining to bribery and corruption are part of the reporting by the CRO to the Board and GRC.

Political donations policy

The Board has adopted a policy of not making political donations in any country or jurisdiction in which it operates. The policy prohibits Challenger from making donations, or contributing funds, to any political party, parliamentarian, elected official or candidate for political office, and prohibits Challenger employees, executives and Directors from attending events, in their official capacity, where funds are raised for these purposes.

Challenger seeks to actively participate in effective policy development and will submit views to governments and other political stakeholders on matters that affect Challenger, its customers, shareholders and the wider community.

Director and Employee Trading Policy

The Board has approved a trading policy which prescribes the manner in which Directors and employees can trade in Challenger's securities.

Generally, pre-trade approval is required for all trading in Challenger securities.

Directors and employees are prohibited from trading in Challenger securities at any time while in possession of non-public price-sensitive information. In addition, Directors and employees are prohibited from trading in Challenger securities at certain times prior

to the release of Challenger's half-year and full-year financial results to the ASX. Other prohibited periods may also be imposed in accordance with the trading policy.

Challenger's trading policy prohibits any employees from hedging any unvested performance rights which they received as part of their remuneration.

It is also Challenger policy to prohibit Directors and employees from taking margin loans over Challenger shares.

A copy of the policy is available at challenger.com.au.

Sustainability

Challenger has a clear sustainability strategy that supports its business strategy.

Information about the Group's strategy and progress are reported in accordance with the Global Reporting Initiative Standards in Challenger's 2020 Sustainability Report, which is available at challenger.com.au/sustainabilityreport2020.

Slavery and human trafficking

Challenger will be publishing a modern slavery statement in accordance with the requirements of the *Modern Slavery Act 2018* (Cth) in March 2021.

During the year, Challenger undertook an assessment of modern slavery risks across its operations, investments and supply chains. It also identified mitigating factors and formed an implementation plan to update policies and processes. This will be detailed in Challenger's modern slavery statement.



Principle 4 – Safeguard the integrity of corporate reports

Integrity of corporate reports

The Board has the responsibility to ensure the truthful and factual presentation of Challenger's financial position. The Board has established the GAC to assist the Board to focus on issues relevant to the integrity of Challenger and the Group's financial reporting. In accordance with its Charter, the GAC comprises a majority of Independent Non-Executive Directors and has at least three members. The GAC must be chaired by an Independent Non-Executive Director, who is not Chair of the Board.

Details of the qualifications and experience of the members of the GAC are described in the Directors' Report in the 2020 Annual Report, a copy of which is available at challenger.com.au/annualreport2020.

The GAC typically meets four times a year, and additional meetings are scheduled as required.

The members of the GAC and attendance at meetings are set out in the table on page 9.

The GAC is responsible for reviewing the half-yearly and annual financial reports, and all other financial information prepared for Challenger's financial statements with management, advisers and auditors to ensure the reports and information provide a true and fair view of the financial position and performance of Challenger.

The GAC makes recommendations to the Board in relation to the appointment, review and removal of an external auditor, assessment of the external auditor's independence and the appropriateness of non-audit services that the external auditor

may provide. A copy of the GAC Charter is available at challenger.com.au.

Declaration by the CEO and CFO

In respect of the financial report for the year ended 30 June 2020, the Board has received a written declaration from the CEO and the CFO that:

- in their opinion, the Group's financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group; and
- that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Independent external audit

Challenger requires its independent external auditor to:

- provide stakeholders with assurance as to whether the Group's financial reports are true and fair; and
- ensure that Group accounting policies comply with applicable accounting standards and guidance.

Challenger's independent external auditor is Ernst & Young (EY). EY was first appointed in November 2003, and this appointment was ratified by shareholders at the AGM in November 2004. A competitive tender process was conducted in 2014, resulting in the re-appointment of EY.

The external auditor attends Challenger's AGMs and is available to answer shareholder questions relating to the external audit.

Verification of non-audited periodic corporate reports

Where periodic corporate reports are not audited or reviewed by external auditors (such as this Corporate Governance Report or Challenger's Sustainability Report, other than the carbon disclosure, which is audited by an independent auditor whose verification is contained in the Sustainability

Report available at challenger.com.au/sustainabilityreport2020), a thorough internal review and verification process is undertaken to ensure accuracy of the reports. Working groups (comprising relevant internal stakeholders and other external subject matter experts) are established to review and verify material statements of facts and opinions in the periodic corporate reports. Before it approves the corporate reports, the Board receives confirmation from management that the reports are true and accurate.





Principle 5 – Make timely and balanced disclosure

Continuous Disclosure Policy

Challenger is committed to ensuring that all investors have equal and timely access to material information about Challenger and that its announcements are factual and presented in a clear and objective manner.

The Board has approved and implemented a Continuous Disclosure Policy. A copy of the policy is available at **challenger.com.au**. The policy is designed to ensure compliance with the *Corporations Act 2001* and the ASX Listing Rules continuous disclosure requirements.

Challenger has a Continuous Disclosure Committee, which is responsible for:

- making decisions on what should be disclosed publicly under the Continuous Disclosure Policy; and
- ensuring that disclosure is made promptly and without delay.

The Board receives a copy of all material ASX announcements.

All materially price-sensitive announcements made by Challenger are lodged with the ASX and made publicly available via the ASX company announcements platform before being discussed with or disseminated to stakeholders. All shareholder and analyst presentations given by Challenger that contain new material information are lodged with the ASX ahead of the presentation.





Principle 6 – Respect the rights of security holders

Maintaining relationships with shareholders and noteholders

Challenger recognises the importance of enhancing its relationships with shareholders and noteholders by:

- communicating effectively;
- providing ready access to clear and balanced information about Challenger; and
- encouraging participation at AGMs.

Challenger's Investor Relations Practice Note details its approach to facilitating effective two-way communication and is available at challenger.com.au.

Online and electronic communication with Challenger is encouraged

As set out in Principle 5, it is Challenger's policy to announce to the market material information about Challenger in a timely, clear, balanced and objective manner.

Following release to the ASX, Challenger publishes half-yearly and annual reports, major announcements and other relevant information, including corporate governance information, on its website.

Half and full-year financial results and Investor Days are webcast, enabling greater shareholder participation. Challenger also encourages shareholders to receive reports, communications and announcements electronically.

Shareholders are encouraged to, and do, regularly communicate electronically with Challenger's registry, Computershare Investor Services, on all matters relating to their holdings.

Challenger also provides a facility to ask questions about its business via its website, which are answered directly. Interested parties can register via the website to receive updates regarding material Challenger market announcements.

Annual General Meeting (AGM)

Challenger believes that AGMs provide an important opportunity for shareholders to engage with the Board and management of their company.

A formal notice and AGM documents are sent to shareholders at least 28 days in advance of the meeting. The AGM documents include explanatory notes that clearly explain the nature of the AGM business and the resolutions to be put to shareholders.

Shareholders who are unable to attend the AGM are encouraged to appoint a proxy in advance of the meeting.

Generally, all resolutions being considered at Challenger's AGMs are decided by a poll rather than a show of hands. The AGM voting result is lodged with the ASX as soon as practicable after the AGM and published on the Challenger website.





Principle 7 – Recognise and manage risk

Risk management and compliance

The management of risk is fundamental to the Group's business, supporting better outcomes for our customers and to building shareholder value. At Challenger, risk is everybody's business.

The Board's Risk Appetite Statement outlines the level of risk that is acceptable in striving to achieve the Group's strategic goals and financial objectives. This is combined with an effective risk management framework which monitors, mitigates and manages the risks to which the Group is exposed.

The Board recognises the broad range of risks the Group faces as a participant in the financial services industry, including, but not limited to funding and liquidity risk; investment and pricing risk; counterparty risk; strategic, business and reputation risk; operational risk; licence and regulatory risk; climate change risk; and conduct risk. The Board also maintains a focus on contemporary and emerging risks, monitoring key risks to, and strategic signals impacting, Group strategy.

The Leadership Team is accountable for managing the risks within their divisions and is required to manage risk as part of business objectives with risk management integrated across business processes. There are clear accountabilities for risk management for all employees and this is measured through the Group's performance management process.

Oversight, analysis, monitoring and reporting of these risks is conducted by the Executive Risk Management Committee (ERMC), which is chaired by the CRO. The CRO is independent of the business units and accountable to the CEO, the Board and its committees.

An integral part of risk management for the Group is the maintenance of a strong risk culture among its employees. The Group's expectations of its employees are encapsulated in the Challenger values.

The Board has established the GRC, which is comprised of a majority of Independent Non-Executive Directors and has at least three members.

The GRC is chaired by an Independent Non-Executive Director, who is not the Chair of the Board.

The GRC meets a minimum of four times a year, and additional meetings are scheduled as required.

The members' names and details of attendance at meetings are set out on page 9.

On a day-to-day basis, the Risk division, which is separate from the operating segments of the business, has responsibility for monitoring the implementation of the risk framework, including the monitoring, reporting and analysis of the various risks faced by the business, and providing effective challenge to activities and decisions that may materially affect Challenger's risk profile. Internal

processes have been put in place to confirm that material transactions undertaken by the Group are in line with the Board's risk appetite.

The GRC reports to the Board on the effectiveness of the risk framework and internal controls. Challenger undertakes a detailed review of the Group's risk management strategy on an annual basis to satisfy the GRC and the Board that it continues to be sound.

While Challenger's risk framework remains robust and continues to operate efficiently, Challenger seeks continual improvements to enhance the framework. In addition, the risk management framework is reviewed on an ongoing basis against the external environment and internal reporting.

A summary of Challenger's risk management framework and a copy of the GRC Charter can be found at challenger.com.au.

Internal audit

Internal audit services for the Group were provided by KPMG during the financial year ended 30 June 2020. The GRC oversees the scope of internal audit and monitors the progress of the internal audit work program, which must include (at least annually) an evaluation of compliance with and effectiveness of the risk management framework of the Group.

The GRC receives reports from internal audit at each meeting and monitors management's responsiveness to internal audit findings and recommendations.

The internal audit function is independent of the external auditor and reports directly to the GRC.

Material exposure to environmental or social risks

There are a number of material business risks that could adversely affect the Group and the achievement of the Group's financial performance objectives. Those risks and how those risks are managed by the Group are described in Note 18 to the financial statements in the 2020 Annual Report, a copy of which is available at challenger.com.au/annualreport2020.

Challenger considers climate change risk both in terms of its investment decision-making and ownership practices, and how it manages the environmental impact from its direct operations.

Environmental, social and governance risks and how they are managed by the Group are described in Challenger's Sustainability Report, which is available at challenger.com.au/sustainabilityreport2020.



Principle 8 – Remunerate fairly and responsibly

The Board Remuneration Committee (RemCo)

The Board has established the RemCo, which is comprised of a majority of Independent Non-Executive Directors and has at least three members. The RemCo is chaired by an Independent Non-Executive Director.

Details of the qualifications and experience of the members of the RemCo are described in the Directors' Report contained in the 2020 Annual Report, which is available at challenger.com.au/annualreport2020.

The RemCo usually meets at least five times during the year, and additional meetings are scheduled as required. A copy of the RemCo Charter can be found at challenger.com.au.

The members' names and details of attendance at meetings are set out on page 9.

The RemCo is responsible for reviewing and making recommendations to the Board on:

- Challenger's remuneration, recruitment, retention and termination policies and procedures for senior executives;
- senior executives' remuneration and incentives;
- superannuation arrangements;
- the remuneration framework, including the reimbursement of expenses for Directors;
- remuneration by gender;

- the performance of the CEO, at least annually, including setting with the CEO goals for the coming year and reviewing progress in achieving those goals;
- the design of any incentive plan; and
- the design of any equity-based plan, including any performance hurdles.

Remuneration

Setting and overseeing remuneration policies and practices is a key responsibility of the Board. The policies and practices are aligned with the Group's vision, Challenger's values and overall business objectives, and take into account Challenger's long-term financial soundness and risk management framework.

The remuneration details for key management personnel and Non-Executive Directors are included in the Remuneration Report, which is contained in the Directors' Report in the 2020 Annual Report, which is available at challenger.com.au/annualreport2020.

Non-Executive Directors are not entitled to participate in Challenger incentive plans.

There are no termination payments to Non-Executive Directors on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration.

