

Challenger Limited

Group Audit Committee Charter

Challenger Limited (**Company**)
ACN 106 842 371

1. Introduction

- 1.1 The Board Audit Committee (**Committee**) is a committee of the Board of directors of Challenger Limited (**Company**).
- 1.2 The Board established the Committee in accordance with the Company's constitution.
- 1.3 This charter sets out the scope of the Committee's responsibilities in relation to the Company and its controlled entities (**Group**).
- 1.4 The role of the Committee is not an executive role.

2. Objective

- 2.1 The objective of the Committee is to assist the Board discharge its responsibilities in relation to:
 - (a) compliance with laws and regulations;
 - (b) reviewing the effectiveness of the risk management framework incorporating management, operational and financial controls;
 - (c) ensuring the Company has accurate management and financial reporting;
 - (d) maintaining an effective and efficient audit program; and
 - (e) promoting high standards of business ethics and corporate governance.
- 2.2 The key responsibilities of the Committee include oversight of:
 - (a) all APRA statutory reporting requirements;
 - (b) other financial reporting requirements;
 - (c) professional accounting requirements;
 - (d) internal and external audit; and
 - (e) the appointment and removal of the Company's external auditor and chief internal audit executive or external service provider acting in this capacity.
- 2.3 The Committee will additionally endeavour to:
 - (a) maintain and improve the quality, credibility and objectivity of the financial accountability process;
 - (b) promote a culture of compliance;
 - (c) provide the Board with objective non-executive review of the effectiveness of the Company's and/or Group's financial reporting and risk management framework;
 - (d) ensure effective communication between the Board and the Chief Financial Officer, the Chief Risk Officer, the General Counsel and Company Secretary;
 - (e) ensure effective audit functions and communication between the Board and the auditors (as and when they are appointed); and
 - (f) ensure that directors and executive management are provided with financial and non-financial information that is of high quality and relevant to the judgments to be made by them.
- 2.4 In fulfilling its responsibilities, the Committee:

- (a) receives regular reports from executive management. Each member of the Committee is entitled to rely on the executive management of the Company for matters that are their responsibility and on the advice of counsel and other experts, so long as they are not aware of any grounds where reliance would be inappropriate;
- (b) will maintain a dialogue with the Chief Financial Officer, Chief Risk Officer and other relevant members of executive management with the objective of having a view on the integrity of the Group's finance and risk management functions and critical processes, and to report on any significant issues or concerns to the Board;
- (c) will regularly communicate with and (where required) report to the Board Risk Committee;
- (d) will periodically meet with the internal auditors; and
- (e) will periodically meet with the external auditors.

3. Financial Reporting

The Committee is responsible for:

- (a) reviewing any half-yearly and annual financial reports, and all other financial information prepared for the purpose of the Company's financial statements with management, advisers and the internal and external auditors (as appropriate) and recommending to the Board whether the financial reports reflect the understanding of the Committee of, and otherwise provide a true and fair view of, the financial position and performance of the Company;
- (b) reviewing and recommending to the Board provisioning and payments for losses and write-offs, where approval is in excess of management's delegated authorities;
- (c) oversight of Australian Prudential Regulation Authority (**APRA**) statutory reporting requirements;
- (d) reviewing and recommending to the Board proposed material changes in accounting policies;
- (e) assessing the appropriateness and application of the Company's accounting policies and principles and any changes to them, so that they accord with the applicable financial reporting framework;
- (f) obtaining an independent judgment from the external auditor about:
 - (i) the acceptability and appropriateness of accounting policies and principles put forward by management; and
 - (ii) the clarity of current or proposed financial disclosure practices as put forward by management;
- (g) assessing any significant estimates or judgments in the financial reports (including those in any consolidated financial statements) by:
 - (i) asking management how they were made; and
 - (ii) asking the external auditors how they concluded that those estimates were reasonable;
- (h) assessing whether the resources devoted to the finance function are adequate to ensure that financial reporting is of high quality and to advise the Board of any identified shortcomings;
- (i) receiving from management confirmation that the integrity of financial reports is founded on a sound system of risk management and internal compliance and control;

- (j) endeavouring to ensure that significant adjustments, adjusted differences, disagreements with management and critical accounting policies and practice are discussed with the external auditors;
- (k) ensuring that the Board is aware of matters which may significantly impact the financial condition of the Group's business;
- (l) assessing information from internal and external auditors that may affect the quality of financial reports (for example, actual and potential material audit adjustments, financial report disclosures, non-compliance with laws and regulations, and internal control issues);
- (m) monitoring the continuous disclosure process adopted by the Board and recommending to the Board any necessary changes;
- (n) reviewing compliance with all related party disclosures requirements (where applicable) established by accounting standards and the *Corporations Act 2001 (Cth)*; and
- (o) monitoring the Company's and Group's regulatory capital requirements.

4. External audit

The Committee is responsible for:

- (a) approving and recommending to the Board for acceptance the terms of engagement of the external auditor;
- (b) regularly reviewing with the external auditor:
 - (i) the scope and adequacy of the external audit plan;
 - (ii) identified risk areas; and
 - (iii) any other agreed procedures,
 to ensure they cover all material risks and financial reporting requirements of the Company;
- (c) ensuring that the external auditor:
 - (i) has access to all data, information, reports and staff of the Group that the external auditor reasonably believes is necessary to fulfil its role and responsibilities under Prudential Standard *3PS 310 Audit and Related Matters*;
 - (ii) is fully informed of all prudential requirements applicable to the Company; and
 - (iii) is provided with any other information APRA has provided to the Company that may assist the external auditor in fulfilling its role and responsibilities under Prudential Standard *3PS 310 Audit and Related Matters*;
- (d) regularly reviewing the findings of audits and ensuring that issues are being managed and rectified in an appropriate and timely manner;
- (e) approving and recommending to the Board for adoption policies and procedures for appointing or removing an external auditor, including criteria for:
 - (i) technical and professional competency;
 - (ii) adequacy of resources; and
 - (iii) experience, integrity, objectivity and independence;

- (f) annually reviewing the external auditor's engagement and providing prior endorsement to the Board for approval in respect of the appointment or removal of an external auditor. If the external auditor is removed from their position, the reasons for removal must be discussed with APRA as soon as practicable, and no more than 10 business days after the Committee's endorsement is agreed;
- (g) approving the remuneration of the external auditor;
- (h) regularly (including pursuant to (f) above) reviewing the effectiveness, adequacy and independence of the external auditor taking into account:
 - (i) whether the external auditor is a fit and proper person in accordance with the Group's Fit and Proper Policy and is otherwise not subject to a direction or order issued under any prudential legislation;
 - (ii) the length of appointment;
 - (iii) the last dates lead engagement partners were rotated;
 - (iv) an analysis and disclosure of fees paid to external auditors, including the materiality of fees paid for non-audit services and the nature of those services;
 - (v) any relationships with the Group or any other body or organisation that may impair or appear to impair the external auditor's independence; and
 - (v) whether the auditor otherwise meets the requirements for Auditor Independence set out in *APES 110 Code Of Ethics for Professional Accountants* and Prudential Standard *CPS 510 Governance*;
- (i) as part of the process of ascertaining the independency of the external auditor, the Committee must ensure the Company obtains a declaration from the auditor to the effect that:
 - (i) the auditor is independent, both in appearance and in fact;
 - (ii) the auditor has no conflict of interest situation; and
 - (iii) there is nothing to the auditor's knowledge (either in relation to the individual auditor or any audit firm or audit company of which the auditor is a member or director) that could compromise that independence;
- (j) approving the types of non-audit services that the external auditor may provide without impairing or appearing to impair the external auditor's independence, together with a process for the engagement of the external auditor to provide any such services;
- (k) meeting periodically with the external auditors (at least annually) and inviting them to attend Committee meetings to:
 - (i) review their plans for carrying out internal control reviews;
 - (ii) identify if there have been any significant disagreements with management, whether or not they have been resolved;
 - (iii) consider any comments made in the external auditor's management letter, particularly, any comments about material weaknesses in internal controls and management's response to those matters;
 - (iv) make recommendations to the Board; and

- (v) otherwise bring to the attention of the Board any matters required to enable the external auditors to perform their functions;
- (l) where appropriate, ensuring that the external audit engagement partners are rotated in accordance with relevant statutory requirements, and otherwise after a maximum of five years' service;
- (m) monitoring and reporting to the Board on management's response to the external auditor's findings and recommendations;
- (n) reviewing all representation letters signed by management; and
- (o) receiving and reviewing the reports of the external auditor.

5. Internal audit

The Committee will review and approve the appointment of an internal audit function.

The Committee is responsible for:

- (a) providing the prior endorsement for the appointment or removal of the Company's chief internal audit executive or external service provider acting in the capacity of internal audit. If the chief internal audit executive is removed from their position, the reasons for removal must be discussed with APRA as soon as practicable, and no more than 10 business days after the Committee's endorsement is agreed;
- (b) ensuring any chief internal audit executive or external service provider is independent of the external auditor;
- (c) ensuring the external auditor does not provide internal audit services;
- (d) overseeing the scope of the internal audit plan, including:
 - (i) reviewing the internal audit team's mission, charter, qualifications and resources; and
 - (ii) ensuring that the scope includes a regular review of the policies, processes and controls put in place by management to comply with APRA's prudential requirements;
- (e) ensuring that the internal audit function is adequately resourced and has unfettered access to all business lines and support functions within the Company and the Group;
- (f) regularly reviewing and approving the scope of the internal audit plan and work program which must include (at least annually) an evaluation of compliance with and effectiveness of the financial and risk management framework of the Company. The results of these reviews must be reported to the Committee;
- (g) monitoring the progress of the internal audit work program and considering the implications of the internal audit findings for the control environment;
- (h) monitoring and reporting to the Board on management's responsiveness to internal audit findings and recommendations;
- (i) evaluating the process for monitoring and assessing the effectiveness, adequacy and independence of the internal audit function, and where services provided by an external service provider, taking into account:
 - (i) the length of appointment;
 - (ii) the last dates lead engagement partners were rotated;

- (iii) an analysis and disclosure of fees paid to the internal audit service provider, including the materiality of fees paid for non-internal audit services and the nature of those services; and
- (iv) any relationships with the Group or any other body or organisation that may impair or appear to impair the internal audit service provider's independence;
- (j) overseeing the liaison between the internal audit function and the external auditor;
- (k) regularly receiving and reviewing the internal audit reports and findings; and
- (l) ensuring that the internal audit function reports directly and has unfettered access to the Committee.

6. Other responsibilities

The Committee is responsible for overseeing policies and procedures for employees of the Company and/or the Group to confidentially submit information about accounting, internal control, risk management, compliance, audit and other matters about which an employee may have concern. The Committee must also have a process for ensuring employees are aware of these policies and for dealing with matters raised by employees under these policies.

7. Committee composition

- 7.1 The Committee must comprise:
- (a) at least three members;
 - (b) all members are non-executive directors; and
 - (c) a majority of independent directors.
- 7.2 The Board of the Company will appoint the chairperson. The chairperson must be an independent director of the Company and may not be the chairperson of the Board. The chairperson of the Board Risk Committee may also chair the Committee. The members of the Committee may be the same members that sit on the Board Risk Committee.
- 7.3 The Company Secretary will be the secretary of the Committee.
- 7.4 The Committee must be of sufficient size, independence and technical expertise to effectively discharge its mandate.
- 7.5 Each member of the Committee should have an understanding of the Financial Services Industry.
- 7.6 A member may act by their alternate.
- 7.7 Committee members must be available to meet with APRA on request.

8. Committee meetings

- 8.1 The Committee will meet a minimum of four times each year.
- 8.2 A quorum for a Committee meeting is two Committee members.
- 8.3 Other members of the Board are entitled to attend Committee meetings under a standing invitation but have no voting rights.

- 8.4 Committee meetings may be held by any technological means allowing its members to participate in discussions even if all of them are not physically present in the same place. A member who is not physically present but participating by technological means is taken to be present.
- 8.5 The Committee may pass or approve a resolution without holding a meeting in accordance with the procedures (so far as they are appropriate) in section 248A of the *Corporations Act 2001 (Cth)*.
- 8.6 The Committee may invite other persons it regards appropriate to attend Committee meetings. The Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the External Auditor, the internal auditor and the Appointed Actuary of the Life Company (Permanent Invitees) are invited to join meetings of the Committee. The Permanent Invitees are permitted to speak at meetings of the Committee, but will not be entitled to vote on matters put to the Committee.
- 8.7 The Committee Secretary will circulate the agenda and papers a reasonable period in advance of each meeting.
- 8.8 The chairperson of the Committee may request the chairpersons of any Audit, Risk and Compliance Committees appointed by subsidiary companies in the Group to attend and to present reports on particular matters considered by their respective committees.

9. Minutes of Committee meetings

- 9.1 The Committee must keep minutes of its meetings, which minutes will be held by the Company Secretary.
- 9.2 Draft minutes of each Committee meeting must be included in the papers for the next full Board meeting after each meeting of the Committee.
- 9.3 Minutes must be distributed to all Committee members, after the Committee chairperson has approved them.
- 9.4 Minutes, agenda and supporting papers are available to directors upon request to the Committee secretary, except if there is a conflict of interest.

10. Reporting to the Board

The Committee chairperson must report the Committee's findings to the Board after each Committee meeting.

11. Access to information and independent advice

- 11.1 The Committee may seek any information it considers necessary to fulfil its responsibilities.
- 11.2 The Committee has free and unfettered access to:
- (a) executive management and management to seek explanations and information from them and particularly in respect of audit and risk management matters, the Chief Financial Officer, the Chief Risk Officer, the General Counsel and Company Secretary; and
 - (b) internal and external auditors to seek explanations and information from them, including without management being present.
- 11.3 Similarly, the Chief Financial Officer, the Chief Risk Officer, internal auditor, the General Counsel and Company Secretary have free and unfettered access to the Committee to bring to bear information relating to audit matters.

- 11.4 The Committee may seek professional advice from employees of the Group and from appropriate external advisers, at the Company's cost. The Committee may meet with these external advisers without management being present.

12. Review and changes to this charter

- 12.1 The Committee will review this charter annually or as often as it considers necessary.
- 12.2 The Board may change this charter from time to time by resolution.

13. Approved and adopted

This charter was originally approved by the Board in November 2003 for adoption by the Committee and most recently updated on 25 May 2017.