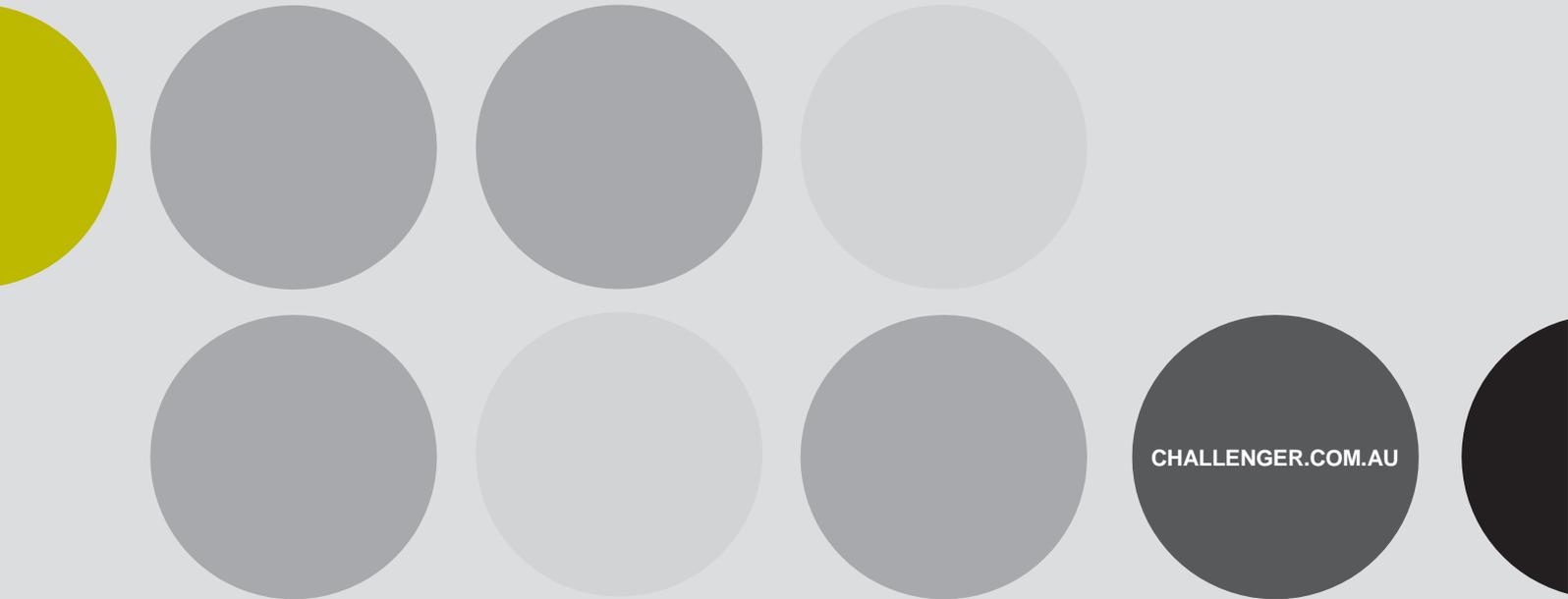


Corporate Governance Statement 2015

Challenger Limited provides
Australians with financial
security for retirement.



The Company's approach to corporate governance

The Board of Directors and management of Challenger Limited (the Company) recognise their duties and obligations to stakeholders to implement and maintain a robust system of corporate governance. The Company believes that the adoption of good corporate governance adds value to stakeholders and enhances investor confidence.

The Board of Directors of the Company (the Board) determines the most appropriate corporate governance arrangements for the Company and its controlled entities (the Group or Challenger), taking into consideration Australian and international standards and the prudential requirements of regulators such as the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC). This statement reports against the *Corporate Governance Principles and Recommendations* (3rd edition) published by the ASX Corporate Governance Council in 2014 (the Principles).

Throughout the financial year ended 30 June 2015, Challenger's governance arrangements were consistent with the Principles.

This statement applies to Challenger; however, some controlled entities have adopted additional policies and procedures to deal with specific issues relevant to their business, for instance Australian Financial Services Licence compliance. Where such policies and procedures have been adopted, they have been developed in line with the Principles.

This Corporate Governance Statement has been approved by the Board and is current as at 30 June 2015.

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 the Company by overseeing the development of sustainable shareholder value within an appropriate framework of risk and regard for all stakeholder interests.

The Board has identified the key functions which it has reserved for itself. These duties include those outlined below. Full details are set out in the Board Charter, a copy of which is available on the Company website (www.challenger.com.au/share/corporategovernance). The duties include:

- establishment, promotion and maintenance of the strategic direction of the Company;
- approval of business plans, budgets and financial policies;
- consideration of management recommendations on strategic business matters;

- establishment, promotion and maintenance of proper processes and controls to maintain the integrity of accounting and financial records and reporting;
- fairly and responsibly rewarding executives, having regard to the interests of shareholders, the performance of executives, market conditions and the Company's performance;
- adoption and oversight of implementation of appropriate corporate governance practices;
- oversight of the establishment, promotion and maintenance of effective risk management policies and processes;
- determination and adoption of the Company's dividend policy;
- review of the Board's composition and performance;
- appointment, evaluation and remuneration of the Chief Executive Officer (CEO) and approval of the appointment of the Chief Financial Officer (CFO), the Chief Risk Officer (CRO), the General Counsel and the Company Secretary; and
- determination of the extent of the 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 in Principle 2.

Non-Executive Directors are issued with formal letters of appointment governing their role and responsibilities. The responsibilities of the Chair and the Directors are also set out in the Board Charter.

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 the Company within the policies and specific delegation limits specified by the Board from time to time. The CEO may further delegate within those specific policies and delegation limits, but remains accountable for all authority delegated to management.

Nominations and appointment of new Directors

The Board has established a Nomination Committee comprised of a majority of independent Directors, having at least three members and chaired by an independent Director.

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

The Nomination Committee conducts periodic assessments of the Board's competencies. This assists the Nomination Committee in determining the appropriate composition of the Board and to consider the desirable depth and range of skills and diversity required for any new Board members. The Nomination

Principle 1 – Lay solid foundations for management and oversight (continued)

Committee will draw on industry contacts and, where appropriate, will engage external consultants to assist with the identification and selection of a diverse range of candidates who meet the Nomination Committee's desired competencies. The Nomination Committee will also have regard to such criteria as independence, commercial capability, cultural fit and time availability to meet the commitment required.

The Nomination Committee makes an assessment of potential new Directors on the above criteria and makes recommendations to the Board for consideration and approval. A copy of the Nomination Committee Charter can be found on the Company website.

If a new Director is appointed during the year, that person will stand for election by shareholders at the next annual general meeting. Shareholders are provided with all material information known to Challenger which is relevant to a decision on whether or not to elect or re-elect a Director.

On behalf of Challenger, the Chair provides a letter to each new Director, setting out the terms of appointment and relevant Board charters and policies. All current Directors have been provided with a letter confirming the terms of their appointment.

Retirement and re-election of Directors

The Company's constitution requires that, excluding the CEO, one third of the remaining Directors must retire each year. In addition, any Director who is appointed during the year or who has been in office for three or more years must retire and be put up for re-election at the next annual general meeting.

Succession planning

In conjunction with the Nomination Committee, the Board considers the succession of its members, the CEO, the CFO, and the Chief Executives of each of the business divisions, as required.

Review of Board performance

The Board Charter sets out the requirement for a formal review of the performance of the Board, individual Directors and Board Committees at least annually. A review of the Board's performance was conducted in June 2015.

The review of the Board's performance is conducted by the Chair with all Board members. The review involves consideration of the effectiveness of the Board and its committees, having regard to the knowledge, skills and experience of the Directors. The review involves considering the weighting of attributes, culture and capabilities of the Board.

Company Secretary

The Company Secretary is 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 the Company and has adopted a Diversity Policy that supports diversity and inclusion across the Company's employment practices. To provide continued focus on, and promotion of, a diverse and inclusive workplace, Challenger has a Diversity Committee, which is sponsored by the Chair of the Board. The Diversity Committee is chaired by the CFO and reports directly to the CEO.

Each year, the Board sets measurable objectives for achieving gender diversity and reviews progress against these objectives at the end of each financial year. The objectives for the financial year ended 30 June 2015 are set out in Appendix A of the Diversity Policy, a copy of which is available on the Company website. The Group's progress towards achieving those objectives, and the proportion of men and women on the Board, in senior executive positions and across the whole organisation, are provided in the Sustainability Report, available at www.challenger.com.au/sustainabilityreport.

Challenger's most recent annual report to the Workplace Gender Equality Agency against which it reports on the 'Gender Equality Indicators' under the *Workplace Gender Equality Act 2012* is available on the Company website.

Executive performance assessment

Challenger has written employment agreements with each of its senior executives, and the performance of senior executives is reviewed at least annually against appropriately agreed and documented performance objectives and measures, consistent with the performance management framework that applies to all Challenger employees. All employees at Challenger are also assessed against the Challenger Principles (refer to Principle 3).

The Remuneration Committee is responsible for reviewing the performance of the CEO at least annually, including setting the CEO goals for the coming year and reviewing progress in achieving those goals and making recommendations to the Board. The CEO and the Remuneration Committee set the performance objectives and review the performance of the CEO's direct reports.

Performance evaluations for the CEO and the CEO's direct reports have taken place in respect of the 2015 reporting period in accordance with the above process.

Principle 2 – Structure the Board to add value

Membership of the Board

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

The current Board as at 30 June 2015 is set out in the table below. Details of the members of the Board, including their skills, experience and their term of office are set out in the Directors' report in the Annual Report 2015 and are also available, available at www.challenger.com.au/share.

Name	Position	Independent	Appointed
Peter Polson	Chair	Yes	2003
Brian Benari	Managing Director and CEO	No	2012
Graham Cubbin	Non-Executive Director	Yes	2004
Steven Gregg	Non-Executive Director	Yes	2012
Jonathan Grunzweig	Non-Executive Director	Yes	2010
Russell Hooper*	Non-Executive Director	Yes	2003
Brenda Shanahan	Non-Executive Director	Yes	2011
JoAnne Stephenson	Non-Executive Director	Yes	2012
Leon Zwier	Non-Executive Director	Yes	2006

*Russell Hooper retired from his role as Non-Executive Director of Challenger on 27 February 2015.

As mentioned above, the Board has established a Nomination Committee to assist the Board in achieving its objective to ensure that Challenger has a Board of an effective composition, size and commitment to discharge its responsibilities and duties.

Collectively, the Board has an extensive range of commercial skills and other relevant experience which is vital for the effective management of the business. Board members, including some who are also directors of other ASX-listed companies, together have a combination of experience in the following business areas:

- banking;
- wealth management;
- accounting, economics and finance disciplines;
- risk management and consulting; and
- law, governance and regulation.

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

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

Director induction and education

All new Directors participate in an induction program covering Challenger's business, including the Group's financial, strategic, operational and risk management position.

Ongoing Director education is provided through regular management presentations on key 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. Ernst & Young (EY), the Group's external auditor and KPMG, the Group's internal auditor, as well as other industry experts, address the Board from time to time on matters relevant to the Group's business or its operating environment.

Director independence

The Board has adopted an Independence Policy that states that an independent 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 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*, Directors are required to advise the Company of any material personal interests they have in a matter.

Principle 2 – Structure the Board to add value (continued)

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

1. is a substantial shareholder (as defined by Section 9 of the *Corporations Act 2001*) of the Company, or is a Director or officer of, or otherwise associated directly with, a substantial shareholder of the Company;
2. is employed, or has previously been employed, in an executive capacity by the Company 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;
3. is, or has been within the last three years, a partner, director or senior employee of a material professional services provider to the Company or the Group;
4. is, or has been within the last three years, a material supplier or customer of the Company or the Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
5. has a material contractual relationship with the Company or the Group other than as a Director;
6. has close family ties with any person who falls within any of the categories described in points 1 to 5 above; or
7. has been a Director of Challenger for such a period that his or her independence 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 7 above.

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. In addition, the Board may meet whenever necessary to deal with specific matters needing attention between scheduled meetings.

The CEO, in consultation with the Chair, establishes the meeting agendas to ensure adequate coverage of strategic, financial and material risk matters throughout the year. Senior executives are invited to attend Board meetings and are available for contact by Non-Executive Directors between meetings. The Non-Executive Directors often hold a private session without any executive involvement in conjunction with scheduled Board meetings.

Board access to information and advice

All Directors have unrestricted access to the Company records and information. The Company Secretary provides Directors with guidance on corporate governance issues and developments, and on all other matters reasonably requested by the Directors, and monitors compliance with the Board Charter.

The Board or each individual Director has the right to seek independent professional advice to assist them in discharging their duties. The Company will meet the cost of the advice provided that the Chair's prior approval is obtained. Such approval is not to be unreasonably withheld or delayed.

Board Committees

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

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

Each committee has its own charter, copies of which are available on the Company website. 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 2014 to 30 June 2015 are set out on the following page.

Principle 2 – Structure the Board to add value (continued)

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	11	11	4	4	4	4	5	5	2	2
B Benari	11	11	-	-	-	-	-	-	-	-
G Cubbin	11	10	4	4	4	4	5	5	2	2
S Gregg	11	11	-	-	-	-	5	5	2	2
J Grunzweig	11	11	-	-	-	-	-	-	2	1
R Hooper*	8	7	-	-	-	-	-	-	2	2
B Shanahan	11	11	4	4	4	4	5	4	2	2
J Stephenson	11	10	4	4	4	4	-	-	2	2
L Zwier	11	9	-	-	-	-	-	-	2	1

[#] Formerly the Group Risk and Audit Committee, which was separated into the GRC and the GAC on 1 January 2015. The GRC and the GAC are constituted by the same members as the former Group Risk and Audit Committee.

*Russell Hooper retired from his role as Non-Executive Director of Challenger on 27 February 2015.

Principle 3 – Act ethically and responsibly

The Board and the Company's commitment to ethical and responsible decision-making is reflected in the internal policies and procedures, underpinned by the Challenger Principles of:

- Integrity;
- Commercial ownership;
- Working together;
- Compliance; and
- Creative customer solutions.

Code of Conduct

The Board has adopted a Corporate Code of Conduct (the Code) which applies to all Directors, executives, management, employees and contractors of the Company and the Group. The Code articulates the standards of honest, ethical and law-abiding behaviour expected by the Company. Employees are actively encouraged to bring any problems to the attention of management or the Board, including activities or behaviour which may not comply with the Code, other policies and procedures in place, or other regulatory requirements or laws. A summary of the Code can be found on the Company website.

Political donations policy

The Board has adopted a policy of not making political donations in any country or jurisdiction in which it operates. Representatives of the Company may on occasion attend political functions. This attendance is strictly for commercial reasons and is predicated on the price charged not being in excess of the commercial value (in terms of access) of the function.

Directors' and Staff Trading Policy

The Board has approved a Staff Trading Policy which prescribes the manner in which Directors, executives and staff can trade in the Company's shares. A copy of the policy is available on the Company website.

Sustainability

Details of the Group's initiatives, achievements and commitment to sustainability are provided in the Sustainability Report, a copy of which is available at www.challenger.com.au/sustainabilityreport.

Principle 4 – Safeguard integrity in corporate reporting

Integrity of corporate reporting

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

Details of the qualifications and experience of the Group Audit Committee members are described in the Directors' report in the Annual Report 2015, a copy of which is available at www.challenger.com.au/share. The Committee typically meets four times a year, and additional meetings are scheduled as required.

The members' names and attendance at meetings are set out in the table above.

Principle 4 – Safeguard integrity in corporate reporting (continued)

The Committee 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 Group Audit Committee Charter is available on the Company website.

Declaration by the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO)

In respect of the financial report for the year ended 30 June 2015, 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

The Company 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.

The Company's independent external auditor is EY. EY was appointed upon constitution of the Company in November 2003, and this appointment was ratified by members at the annual general meeting held in November 2004 and reaffirmed in 2014 after a competitive tender process.

External auditors are required to rotate the engagement partner assigned to the Company on a five-year basis. The next engagement partner rotation will take effect from the commencement of the next financial year, 1 July 2015.

The Board has requested, and it is anticipated, that EY will attend the Company's 2015 annual general meeting, and that EY be available to answer any shareholder questions relating to the external audit.

Principle 5 – Make timely and balanced disclosure

Continuous Disclosure Policy

The Company is committed to ensuring that all investors have equal and timely access to material information concerning the Company and that Company announcements are factual and presented in a clear and objective manner.

The Board has approved and implemented a Continuous Disclosure Policy. A summary of the policy can be found on the Company website. The policy is designed to ensure compliance with the *Corporations Act 2001* and the ASX Listing Rules continuous disclosure requirements. The Company has a Continuous Disclosure Committee which is responsible for:

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

Principle 6 – Respect the rights of securityholders

Maintaining relationships with stakeholders

The Company recognises the importance of enhancing its relationship with investors by:

- communicating effectively;
- providing ready access to clear and balanced information about the Company; and
- encouraging participation at general meetings.

The Group has in place an Investor Relations Practice Note which details the Group's procedures and practices to facilitate effective two-way communication with investors. A summary of the practice note is available on the Company website.

All major and price-sensitive announcements by the Company are lodged with the ASX and made publicly available via the ASX's website before being discussed with or disseminated to members of the investment community.

Online and electronic communication with securityholders is encouraged

As set out in Principle 5, it is Company policy that material information concerning the Company will be announced to the market in a timely, clear, balanced and objective manner. Following releases of information to the market, the Company publishes half-yearly and annual reports, announcements, media releases and other relevant information, including its governance arrangements, on its website.

Internet web-casting and teleconferencing facilities are provided for market briefings to encourage participation from all shareholders, regardless of their location. The Company also encourages greater use of electronic media by providing shareholders with greater access to the electronic receipt of reports and meeting notices. Shareholders are encouraged to, and do, regularly communicate electronically with

Principle 6 – Respect the rights of securityholders (continued)

Challenger's share registry, Computershare Investor Services, on all shareholder related matters.

The Company also provides a facility to ask questions about the Company via its website and have them answered directly via electronic means. Interested parties can also register on the website to receive updates regarding major Challenger market releases.

Annual General Meeting (AGM)

Challenger's 2015 AGM will be held on Tuesday 27 October 2015 at the Wesley Centre, 220 Pitt Street, Sydney. A formal notice and AGM documents are sent to shareholders at least 28 days in advance – this material includes 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 vote directly (online) in advance of the meeting or appoint a proxy. The AGM voting result is lodged with the ASX as soon as practicable after the AGM and published on the website.

Principle 7 – Recognise and manage risk

Risk management and compliance

The management of risks is fundamental to the Group's business and to building shareholder value. The Board recognises the broad range of risks that apply to the Group 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 reputational risk; operational risk; and licence and regulatory risk. The Board is responsible for determining the Group's risk management strategy and risk appetite. Management is responsible for implementing the Board's strategy and for developing policies and procedures to identify, manage and mitigate risks across the whole of the Group's operations in line with the risk appetite.

The key design component of the Group's approach to risk management is that the heads of the business units have accountability for the risks within their divisions, with oversight, analysis, monitoring and reporting of these risks 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 and the Board and its committees.

The framework and policies are developed by the CRO, which are then reviewed and approved by the GRC, and then made available to all staff of the Group.

In accordance with its Charter, the GRC must have at least three members, be comprised only of

Non-Executive Directors and have a majority of independent members. The Committee must be chaired by an independent Director who is not Chair of the Board.

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

The members' names and attendance at meetings are set out on page 6 of this statement.

The Group's risk management function has day-to-day responsibility for monitoring the implementation of the framework and policy, with regular reporting provided to the GRC, via the ERMC, on the adequacy and effectiveness of management controls for material business risk.

The GRC reports to the Board on the effectiveness of the framework, internal controls and policies, with a detailed review of the Group's risk management framework undertaken on an annual basis to satisfy the GRC and the Board that it continues to be sound. Such a review took place in the financial year ended 30 June 2015.

A summary of Challenger's Group Operational Risk Policy, Group Compliance Policy and a copy of the GRC Charter can be found on the Company website.

Internal audit

Internal audit services for the Group were provided by KPMG during the period. 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 financial and 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 economic, environmental and social sustainability 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 21 to the financial statements in the Annual Report 2015, a copy of which is available at www.challenger.com.au/share. Environmental and social sustainability risks and how those risks are managed by the Group are also described in the Sustainability Report, which is available at www.challenger.com.au/sustainabilityreport.

Principle 8 – Remunerate fairly and responsibly

The Board Remuneration Committee (RemCo)

The Board has established a RemCo comprised of a majority of independent Directors, having at least three members and chaired by an independent Director.

The background details of the RemCo members are set out in the Directors' report in the Annual Report 2015, a copy of which is available at www.challenger.com.au/share. 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 on the Company website.

The members' names and attendance at meetings are set out in Principle 2 of the Corporate Governance Statement.

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

- the Company's remuneration, recruitment, retention and termination policies and procedures for employees and senior executives;
- senior executives' remuneration and incentives;
- superannuation arrangements;

- the remuneration framework, including the reimbursement of expenses for Directors; and
- remuneration by gender.

Remuneration

The remuneration details for key executives and Non-Executive Directors are reported in the Directors' remuneration report, which is contained in the Directors' report in the Annual Report 2015, a copy of which is available at www.challenger.com.au/share. Non-Executive Directors are not entitled to participate in 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.

Challenger's Staff Trading Policy prohibits any executive or staff member from entering into a transaction that is designed or intended to hedge that component of their unvested remuneration which is constituted by the Company's shares, options or performance rights. A copy of the Staff Trading Policy is available on the website.

It is also Company policy to prohibit Directors, executives and staff members from taking out margin loans over Company shares.

