Market release

Chairman and CEO addresses

Challenger Limited
26 October 2017

ANNUAL GENERAL MEETING
CHAIRMAN AND CEO ADDRESSES

CHAIRMAN ADDRESS

Ladies and gentlemen.

I hope you enjoyed watching the latest advertisement played earlier from our brand campaign.

It demonstrates the valuable role secure and stable income plays in retirement.

Earlier this month, National Seniors Australia released their annual research report into the attitudes and preferences of Australian seniors. It found that the two most important financial considerations for retirees are:

- regular income to cover their needs; and,
- money that lasts throughout their lifetime.

It is the desire for financial security in retirement that continues to drive demand for the retirement income products Challenger provides.

Challenger has continued to make great progress in 2017. Successful implementation of our strategy, coupled with prudent operational management, has led to another year of growth and strong returns for shareholders.

At the same time, we have put in place a series of strategic initiatives that position your company extremely well for the future.

We have expanded our customer base through new product and distribution relationships.

At last year's AGM I announced two of these distribution initiatives. One in Australia, with AMP and the other with Mitsui Sumitomo Primary Life Insurance Company, known as MS Primary, which is the leading provider of Australian dollar annuities in Japan.

Both of these initiatives are now bearing fruit.

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The AMP annuity relationship launched last month, with our full range of annuity products now available to AMP's retail and corporate superannuation customers.

This is an important step in making Challenger annuities more easily available as AMP has one of Australia's largest networks of financial advisers.

The MS Primary annuity relationship was launched in November 2016 and has grown quickly, accounting for 15% of our total 2017 annuity sales.

In August this year we announced a strategic relationship with MS&AD Insurance, the largest general insurer in Japan and the parent company of MS Primary. This strategic development builds on our successful relationship with MS Primary and broadens our access to the Japanese market, enhancing our existing Japanese footprint.

The relationship was supported by a $500 million equity placement to MS&AD, representing 6.3% of issued capital. The new shares were issued at a premium to the prevailing share price.

MS&AD has said it intends to grow its holding via market acquisitions to 10% of issued capital and act as a supportive Challenger shareholder.

The strategic association with MS&AD provides a range of new growth opportunities for both groups and we look forward to working with them.

We also achieved good momentum in our Funds Management business, and we are one of Australia's fastest growing managers. Pleasingly this trend continued into the first quarter of the 2018 financial year, with funds under management increasing by $4 billion.

Our Funds Management business is highly complementary to the Life business, with both businesses helping provide our customers with financial security for retirement. The Funds Management business also provides key investment capability to help manage Life's investment portfolio, and being capital light provides earnings to support growth in our more capital intensive Life business.

Financial results

Looking at our financial results, I am pleased to report Challenger continued to deliver growth in the 2017 financial year. Total assets under management increased 17% to $70 billion, providing a good base for growth in the year ahead.

Normalised net profit after tax, which we believe is the most meaningful profit measure for our business, grew 6% to $385 million. Earnings per share also increased 6% on a normalised basis to 68.5 cents.

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Statutory net profit after tax, which includes unrealised mark to market gains on our assets and liabilities, rose 21% to $398 million.

We remain strongly capitalised and well positioned to fund future growth. At the end of the year we held 1.57 times the minimum level of capital required by APRA, and this position was strengthened further through the equity placement to MS&AD in August.

Dividends and TSR

The financial results enabled the Board to declare a final dividend of 17.5 cents a share, making the full-year dividend 34.5 cents a share fully franked. This is up 6% on last year.

These distributions represented a dividend payout ratio at the top end of our target payout ratio of 45-50% of normalised net profit after tax.

We continue to have a good response to our Dividend Reinvestment Plan which gives shareholders the option to receive some, or all, of their dividends as Challenger shares, instead of in cash, without any brokerage and associated costs. It remains an efficient way for shareholders to reinvest their dividends and increase their holding.

Challenger's shareholder returns continue to demonstrate superior performance.

Challenger's total shareholder return has outperformed the ASX All Ordinaries Accumulation Index by a multiple of four to five times over one, three and five year timeframes.

Executive remuneration

Overseeing executive remuneration policy and practices is a key function of the Board and this year we have continued to review our approach to ensure it remains strongly aligned to shareholder interests.

I am confident we have achieved the right balance for shareholders, with remuneration that aligns well to external benchmarks, provides a strong focus on driving a prudent risk management culture, and includes performance pay linked directly to shareholder outcomes.

The Board believes that linking executive long-term incentives to total shareholder returns strongly connects with outcomes for our shareholders.

This alignment between executive remuneration and shareholder interests has been recognised with all proxy advisory firms recommending shareholders vote in favour of Challenger's 2017 remuneration report.

Corporate governance and sustainability

This year, we refreshed and further strengthened our approach to corporate sustainability to focus on the matters that are material to our business.

Our new sustainability report outlines what we are doing to manage the risks and capture the opportunities to create value in the short, medium and long term.

For us, being sustainable is about looking ahead and facing the issues that have the potential to challenge the financial security of our customers or affect our business. We look at these under six key themes.

These are: ethical conduct; sustainable retirement incomes; regulatory change; long-term risk management; demographic shifts; and, corporate governance.

Meeting the challenge of sustainable retirement incomes is at the heart of our business. It guides our business activities as we seek to create and distribute products that help retirees manage their financial risks.

This challenge has also driven our extensive contributions to public policy through research and thought leadership which support reforms that will create a world-class retirement income system.

Over the past year there has been meaningful reform with government legislation to enable a broader range of retirement income products, including deferred lifetime annuities.

Challenger also participated in a Treasury consultation focused on the design of MyRetirement products. This is the first stage in a process to create a framework for an easier transition to the retirement phase of superannuation.

Culture and diversity

We are fortunate at Challenger to have an excellent team, led by highly capable executives. Our employee engagement, measured by an independent survey, is well above the norm for high performing companies globally.

We recognise the value in being a good employer, investing in a customer-focused, diverse and inclusive workforce. And we are always looking to improve.

One of the targets we have set ourselves is to increase the representation of women at all levels of the organisation. I am pleased to report that we are making good progress.

In 2017 we exceeded our targets for women in the business and in management roles. Women in management roles has increased by 6% to 34%.

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We are now working towards our 2020 target, of 38% women in management.

Governance

Turning to your Board, I would like to record my sincere thanks to Brenda Shanahan, who is retiring as a Non-Executive Director at today's meeting.

Brenda has been involved with Challenger for many years with her most recent appointment being as a Non-Executive Director in 2011. She has served on a number of Challenger Group subsidiaries and also committees, including Risk, Audit, Remuneration and Nomination.

Brenda has diligently represented the interests of all shareholders and I have personally appreciated her insight and broad expertise.

Challenger has a highly capable Board with diverse skills and experience, which we seek to preserve and expand through our Board renewal process. We are currently undertaking search and selection with a view to appointing new directors in the 2018 financial year.

In this regard, the Board is committed to diversity, including gender diversity, and continues to target 30% women on the Board by 2020.

Conclusion

On behalf of the Board I would like to thank the entire Challenger team for their passion and commitment in delivering the strong outcomes we have reported this year and putting in place a range of strategic initiatives that will propel our business into the future.

The Board is proud of the results Challenger has achieved and confident we have the right strategy and team to continue to deliver sustainable long-term growth for our shareholders.

I will now hand over to our Chief Executive Officer, Brian Benari, to provide more detail on Challenger's strategy and operational performance.

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CEO ADDRESS

Thank you Chairman and good morning to everyone joining us today.

It's a real pleasure to be able to share with you the results of another excellent year for Challenger. In many ways it's one of the best years Challenger has ever had. While we delivered record outcomes across key financial metrics, more importantly, as our Chairman has pointed out, it was a year where we put in place a range of strategic initiatives that will deliver long-term growth into the future.

Before talking through some of the detail of our operational results, I would like to outline the strategy that continues to underpin our performance and provide a pathway for growth.

Our vision and strategy

We have a clear plan for long-term growth built upon our vision to provide our customers with financial security for retirement.

There are four strategic pillars to ensure we deliver on our vision. The first is about increasing the allocation of the Australian retirement savings pool to secure and stable income streams.

We've been an active participant in the regulatory reform process, and we'll continue to work with the Government and industry to help build a system that delivers the best possible outcomes for Australia's retirees.

Our second strategic pillar is to be the market leader and partner of choice in retirement income solutions with a broad product offering.

We made significant progress on this strategic pillar in 2017, including the establishment of our annuity relationship with MS Primary in Japan.

This partnership benefits from the strengths of both businesses. Challenger brings tried-and-tested long-term asset, liability and risk management capabilities, and a track record of product innovation. Whist MS Primary is the largest provider of Australian dollar annuity and life insurance products in Japan, with market leading distribution reach through the Japanese bancassurance channel.

As you know, the result of this new partnership has been outstanding, accounting for some 15% of our 2017 annuity sales.

We're now further broadening this relationship across the MS&AD Group with a strategic relationship that will provide long-term benefits for all our shareholders. As outlined by the Chairman, the MS&AD strategic relationship was supported by a $500 million equity placement, which ensures we are fully aligned and can continue to capitalise on the growth opportunities to the benefit of both institutions.

Closer to home we are leveraging our market leading retirement position by continuing to build relationships with profit-for-member funds and retail superannuation platforms.

Last month we launched our full range of annuity products via AMP's adviser portal to AMP retail and corporate superannuation clients.

AMP has one of the largest networks of financial advisers in Australia and having Challenger annuities available on their platforms, makes it easier for AMP advisers and their clients to access our products.

We have already announced plans to offer Challenger annuities on the BT platform and expect to go live with BT in the second half of the financial year. When they join our existing arrangements, Challenger annuities will be represented on platforms used by two-thirds of Australia's financial advisers.

In addition, in 2017 we launched a number of new distribution and product initiatives, including:

- Making Challenger annuities available to three profit-for member funds: Local Government Super, CareSuper and legalsuper;
- Suncorp offering Challenger-backed annuities through its branch network; and
- An agreement to distribute the Standard Life Absolute Return Global Bond Strategy in Australia under the Challenger name, which is a testament to the strength of our retirement income brand.

The third strategic pillar of our strategy is to provide customers with relevant investment strategies that exhibit consistently superior performance.

Our Funds Management division continued to build on its track record of providing customers with superior investment outcomes. In Fidante Partners, our boutique fund manager business, 93% of funds outperformed their benchmark for the year and over five years 97% have outperformed.

This strong performance is attracting record levels of net inflows and provides a strong pipeline for future growth.

We are also expanding existing boutique manager offerings and last year we added two new fund managers, Avenir Capital and Lennox Capital Partners. Both are off to a strong start.

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Throughout, we've continued to focus on how we operate to enable us to deliver superior customer outcomes. We are making sure we have sustainable business practices and that's the fourth strategic pillar.

We maintained our focus on risk management as a critical foundation for our business. The strength of this focus is demonstrated through our employee survey results, which saw our employees rate our risk culture six percentage points higher than the norm for high-performing companies globally.

Overall, employee engagement at Challenger remained a very high 88%, which is well above Australian and global norms for high-performing companies.

Financial performance

Our consistent focus on our vision and strategic pillars over many years, has translated into strong financial outcomes. Our Chairman has already mentioned a few of the highlights.

Growth in assets under management was a standout this year. Extremely strong net flows into our Funds Management division and record annuity sales in our Life division combined to drive a record 17% increase, taking us to $70 billion of assets under management. Funds Management flows in the final quarter of 2017 were particularly strong, which boosted the 30 June closing number. Even so, average assets under management for the year was up a very healthy 12%. And we have started 2018 strongly, with a 5% increase in assets under management for the first quarter.

Our normalised net profit before tax was up 8%, with lower interest rates impacting the return on shareholder capital. Normalised net profit after tax was up 6% to a record $385 million and statutory profit was up 21% to $398 million.

We exceeded our normalised pre-tax return on equity target with 18.3% achieved for the year, up 50 basis points.

As you know, we have focused on efficiency over many years. In 2017, we improved our cost-to-income ratio by 120 basis points to a new low of 33.4%, which shows the scalability of our model is working.

Our 2017 results were underpinned by significant growth in annuity sales, which increased by 20% to $4 billion. This clearly demonstrates the ongoing demand for the security and stability that annuity products provide.

However, it was not just the growth in annuity sales that was impressive, but also the composition of sales with a strong contribution from long-dated and lifetime products. These accounted for 40% of sales, up from 17% in the previous year. The increase in long-dated products increased the

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average tenor of new annuity sales from 6.5 years to 10.8 years. This focus on long-dated business is embedding greater value for shareholders.

In Funds Management, net flows were a record $6 billion for the year, which represents a growth rate well above the industry average. These strong flows are no doubt being attracted by the performance of our Fidante boutiques and the breadth of our product offering.

Track record of delivery

Over time, we've shown that disciplined implementation of our strategy has delivered strong and sustainable growth. I showed a similar slide to this at our results presentation for the 2014 financial year.

Since then, we have delivered on our plans, substantially diversified our business model and achieved significant growth in both annual annuity sales and Group assets under management.

As you've heard, we've expanded our distribution footprint with relationships across retail platforms and profit-for-member superannuation funds. We've substantially increased our presence on the platforms financial advisers use. In fact, annuity sales via platforms increased 80% in the last year alone.

We've broadened our product offerings and expanded into the Japanese annuity market through our relationship with MS Primary.

At the same time, we've reweighted our annuities book towards longer-term business, setting us up for lower maturities and higher book growth over the medium term.

In Funds Management, we've expanded our successful boutique model into Europe, where we are now beginning to build momentum.

In total, we've built a scalable and efficient business with an industry-leading cost-to-income ratio. And throughout, we continue to target and achieve a normalised pre-tax return on equity of 18%.

When I presented that slide back in 2014, I believed strongly in our growth plans, but looking back now, the last three years have frankly exceeded my expectations.

We've finished 2017 in a really strong position.

Clear plan for long term growth

I hope my presentation today has given you a good overview of the results for the 2017 financial year and, most importantly, demonstrated how your company is positioned for strong growth into the future.

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So how do things look in 2018?

In 2018, we'll continue to focus on implementing the clear strategy I talked about earlier.

Firstly, we'll keep on actively engaging with Government and industry to move retirement income reforms forward with a continued and growing focus on ensuring superannuation is doing what it was intended to do, providing stable and secure incomes in retirement.

We'll expand our product offering further with the roll-out of our new Standard Life product and deferred lifetime annuities. We'll work hard to ensure success for our AMP and BT platform arrangements and we'll explore further opportunities with MS&AD as we continue to build this important strategic relationship for the long term.

In Funds Management, we'll expand our offering with new boutiques or strategies and continue to explore opportunities to further grow our Fidante Europe business. Challenger Investment Partners will target new third-party offerings.

Outlook

Nearly four months into the new year, I'm pleased to reaffirm the guidance we've provided. For the 2018 financial year we expect net profit before tax to be between $545 million and $565 million, which represents growth of between 8% to 12%.

We continue to target a normalised pre-tax return on equity of 18%, noting that it will be impacted in the 2018 year by higher levels of capital following the equity placement to MS&AD. It will take time to fully deploy this capital.

We are strongly capitalised and are always seeking to optimise our capital structure. We may, subject to market conditions and APRA approval, look to replace existing subordinated debt on issue with new APRA qualifying Tier 2 subordinated debt this financial year.

In concluding I would like to thank our employees for their commitment and outstanding contribution. It is their hard work and dedication that has delivered on our growth plan and positioned your company for future success.

We go into 2018 with all the right pieces in place – innovative products, expanding distribution, highly efficient operations and the capital to fund our growth.

As you can well imagine, I'm really excited about what lies ahead for Challenger.

I'd now like to hand back to our Chairman.

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Challenger Limited

Providing our customers with financial security for retirement

2017 Annual General Meeting

26 October 2017

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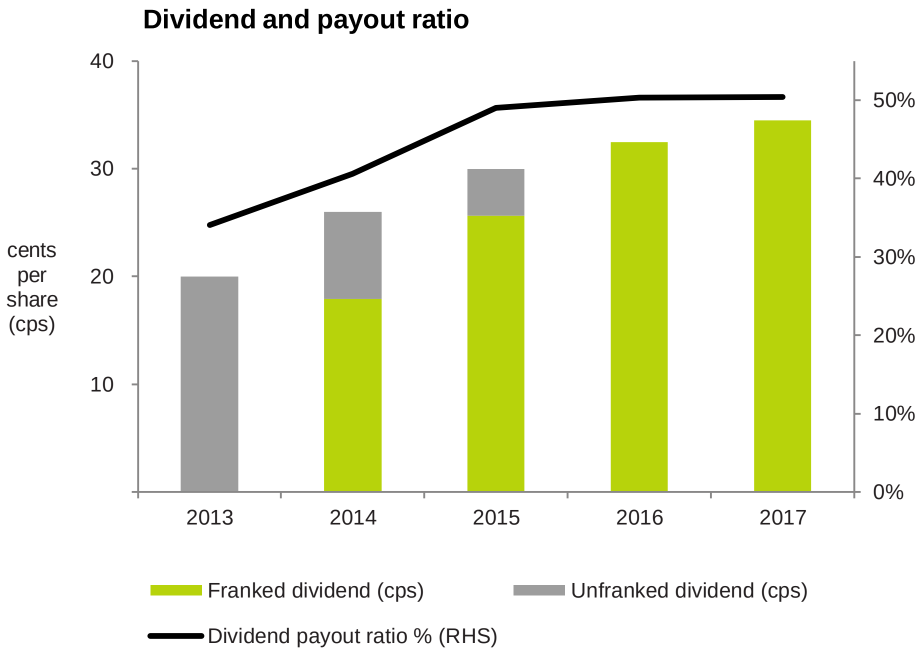
Mr Peter Polson

Chair

Dividend

Sustainable growth and fully franked

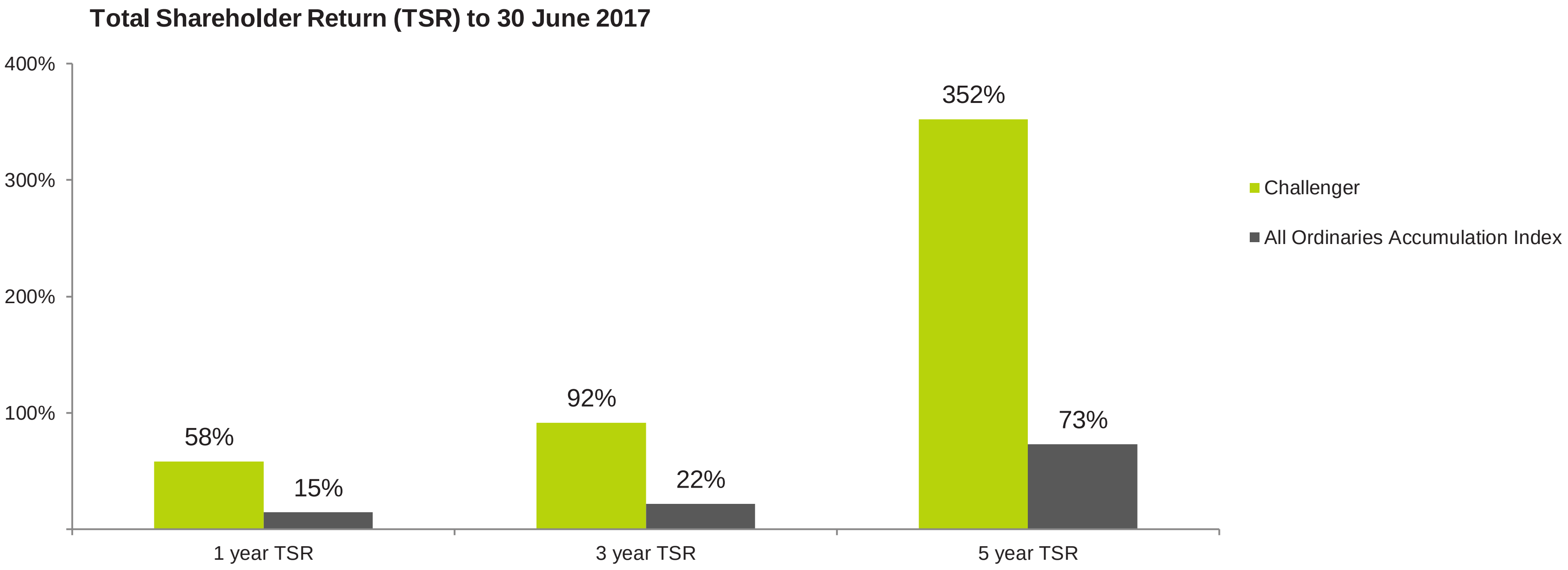
- 2017 dividend
  - 34.5 cents per share
  - 100% franked
  - up 6% on last year
- Dividend Reinvestment Plan in place
- Dividend guidance[1]
  - target dividend payout ratio 45% to 50%
  - expect future dividends to be 100% franked



1. Dividend payout ratio based on normalised EPS. Dividend payout ratio and franking levels subject to market conditions and capital allocation priorities.

Total Shareholder Return

Superior long-term performance



Mr Brian Benari

Managing Director and CEO

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Our vision and strategy

A clear plan for long-term growth

To provide our customers with financial security for retirement

Increase the Australian retirement savings pool allocation to secure and stable incomes

Be recognised as the leader and partner of choice in retirement income solutions with a broad product offering

Provide customers with relevant investment strategies exhibiting consistently superior performance

Deliver superior outcomes to customers and shareholders through a highly engaged, diverse and agile workforce committed to sustainable business practices and a strong risk and compliance culture

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FY17 strategic initiatives

Significant progress against long-term plan

Increase the Australian retirement savings pool allocation to secure and stable incomes

Grow allocation to secure and stable retirement incomes

- ✓ Superannuation reforms – engagement and advocacy
- ✓ Thought leadership helping build retirement models
- ✓ Adviser tools – Retirement Illustrator launched

FY17 strategic initiatives

Significant progress against long-term plan

Be recognised as the leader and partner of choice in retirement income solutions with a broad product offering

Be the market leader and partner of choice

- ✓ MS Primary annuity relationship
- ✓ AMP, BT and Standard Life relationships
- ✓ Annuities on platform
  - 3 profit-for-member funds
  - 3 retail platforms

FY17 strategic initiatives

Significant progress against long-term plan

Provide customers with relevant investment strategies exhibiting consistently superior performance

Provide relevant and superior investments for customers

- ✓ Fidante outperforming benchmark – 97% of FUM over 5 years[1]
- ✓ Two new Fidante boutiques
  - Avenir Capital
  - Lennox Capital Partners
- ✓ Seven new strategies offered by existing Fidante boutiques

1. Investment performance represents percentage of FUM meeting or exceeding benchmark over five years.

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FY17 strategic initiatives

Significant progress against long-term plan

Deliver superior outcomes to customers and shareholders through a highly engaged, diverse and agile workforce committed to sustainable business practices and a strong risk and compliance culture

Sustainable business practices to deliver superior outcomes

- ✓ Highly efficient with market leading cost to income ratio[1]
- ✓ Risk culture engagement score – 6 points above GHPN[2]
- ✓ Refreshed corporate sustainability approach

1. Challenger's normalised cost to income ratio (FY17: 33.4%) is 17 percentage points lower than the average cost to income ratio for banks and diversified financials (includes AMP, ANZ, BEN, BOQ, BTT, CBA, IFL, MFG, MQG, NAB, PPT, WBC). Source: Challenger Limited.
2. Willis Towers Watson Global High Performing Norm.

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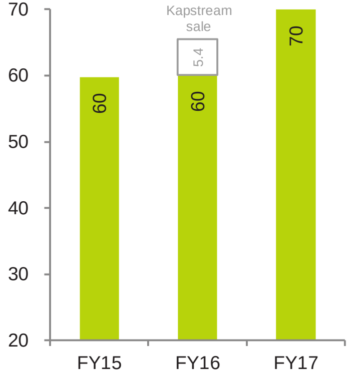
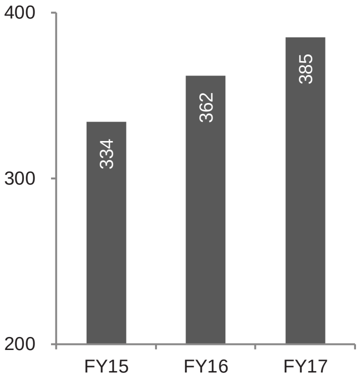
FY17 financial highlights

Record results underpinned by strong AUM growth

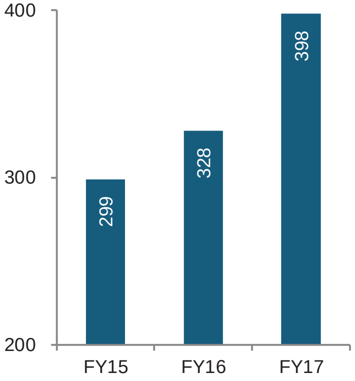
17%↑
Assets Under Management
$70 billion



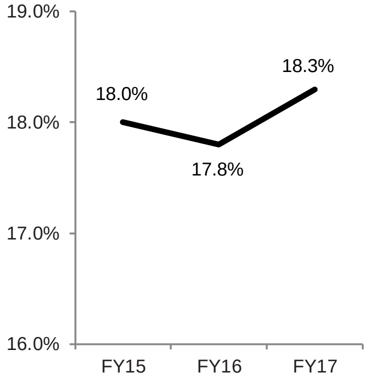
6%↑
Normalised profit after tax[1]
$385 million



21%↑
Statutory profit after tax
$398m



50bps↑
Normalised ROE[2]
18.3%



1. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in Section 2 of the Operating and Financial Review in the 2017 Annual Report.
2. Normalised Return on Equity (ROE) pre-tax.

Track record of delivery

Disciplined implementation of strategy

1. Challenger rolling annual annuity sales.
2. 18% Normalised Return on Equity (pre-tax) target.

Outlook

Positioned for future growth

FY18 profit guidance

Normalised net profit before tax of between $545m to $565m – growth of between 8% to 12%

Target 18% ROE over medium term[1]

FY18 – impacted by higher levels of capital until fully deployed

Maintain normalised dividend payout ratio

45% to 50% of normalised NPAT[2]

1. Return on Equity (pre-tax) target.
2. Normalised dividend payout ratio guidance based on normalised EPS and subject to market conditions and capital allocation priorities.

Important note

The material in this presentation is general background information about Challenger Limited activities and is current at the date of this presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Challenger also provides statutory reporting as prescribed under the Corporations Act 2001. The annual report is available from Challenger's website at **www.challenger.com.au**. This presentation is not audited. The statutory net profit after tax has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Challenger's external auditors, Ernst & Young, have reviewed the statutory net profit after tax. Normalised net profit after tax has been prepared in accordance with a normalised profit framework. The normalised profit framework has been disclosed in Section 2 of the Operating and Financial Review in the 2017 Annual Report. The normalised profit after tax has been subject to a review performed by Ernst & Young. Any additional financial information in this presentation which is not included in Challenger Limited 2017 Financial Report was not subject to independent audit or review by Ernst & Young.

This document may contain certain 'forward-looking statements'. The words 'forecast', 'expect', 'guidance', 'intend', 'will' and other similar expressions are intended to identify forward-looking statements. Forecasts or indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. You are cautioned not to place undue reliance on forward looking statements. While due care and attention has been used in the preparation of forward-looking statements, forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance and may involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Challenger. Actual results, performance or achievements may vary materially from any forward-looking statements and the assumptions on which statements are based. Challenger disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

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