

**Market
release**

**Replacement
of
subordinated
debt**

Challenger Limited
6 November 2017

REPLACEMENT OF TIER 2 SUBORDINATED DEBT

Challenger Limited (ASX:CGF) today announced it has commenced a process to replace Challenger Life Company's (CLC's) Tier 2 subordinated debt with a new Australian dollar Tier 2 subordinated debt issue.

CLC, rated A by S&P with a stable outlook, has mandated National Australia Bank, UBS and Westpac Banking Corporation to arrange a series of meetings with Australian and Asian based fixed income investors, commencing on 9 November 2017. A copy of the investor presentation to be used in these meetings is attached.

An Australian dollar denominated Tier 2 subordinated debt issue may follow these meetings, subject to market conditions. The subordinated debt issue will be rated by S&P and qualify as Tier 2 regulatory capital under the Australian Prudential Regulation Authority (APRA) Life and General Insurance Capital Standards. The timing and any amount raised under any new Tier 2 subordinated debt issuance has not been determined.

Subject to APRA approval, CLC has agreed to repay its existing \$400 million Tier 2 subordinated debt instrument on 30 November 2017.

ENDS

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Challenger Life Company Limited

Tier 2 Subordinated Notes issue

6 November 2017

Tier 2 Subordinated Notes issue

Outline

Section 1 About Challenger Group

Section 2 About Challenger Life Company Limited (CLC) and
Life Business Unit

Section 3 CLC Subordinated Notes overview

Appendix Additional information

Section 1

About Challenger Group

Tier 2 Subordinated Notes issue

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

About Challenger

Two core businesses benefiting from super system growth

Challenger Limited (ASX: CGF)

- ASX100 listed company (code CGF) with \$8.1 billion market capitalisation¹
- 655 employees and \$2.9 billion in net assets¹
- \$74 billion Group assets under management¹
- Operates two businesses – Life and Funds Management
- Both businesses benefit from growth in Australia's superannuation system

Life

#1 market share in annuities³



Leading provider of annuities and guaranteed retirement income solutions in Australia

Products offer certainty of guaranteed cash flows with protection against market, inflation and longevity risks

Partnering with the leading provider of Australian dollar annuities in Japan

Regulated by Australian Prudential Regulation Authority

Funds Management

One of Australia's fastest growing fund managers⁴



Fidante Partners

Co-owned, separately branded, active fixed income, equity and alternative boutique investment managers

Investment Managers located in Australia and the United Kingdom

Challenger Investment Partners

Originates and manages assets for Life and 3rd party investors

Tier 2 Subordinated Notes issue

1. Market capitalisation as at 31 October 2017; employees and net assets as at 30 June 2017; and Groups asset under management as at 30 September 2017.
2. Life and Funds Management percentage of earnings based on Life and Funds Management EBIT and excludes Corporate EBIT.
3. Strategic Insights annuity market share as at 30 June 2017.
4. Consolidated FUM for Australian Fund Managers – Rainmaker Roundup March 2012 - 2017.

Australia's superannuation system

Attractive market with long-term structural growth drivers

Two phases of superannuation

Accumulation phase

Super 'savings'

Funds Management
target market

- Pre-retirement phase
- Supported by mandated and increasing contributions

Retirement phase

Super 'spending'

Life
target market

- Post-retirement phase
- Supported by ageing demographics, rising savings and Government focused on enhancing retirement phase

Accumulation phase

Retirement phase

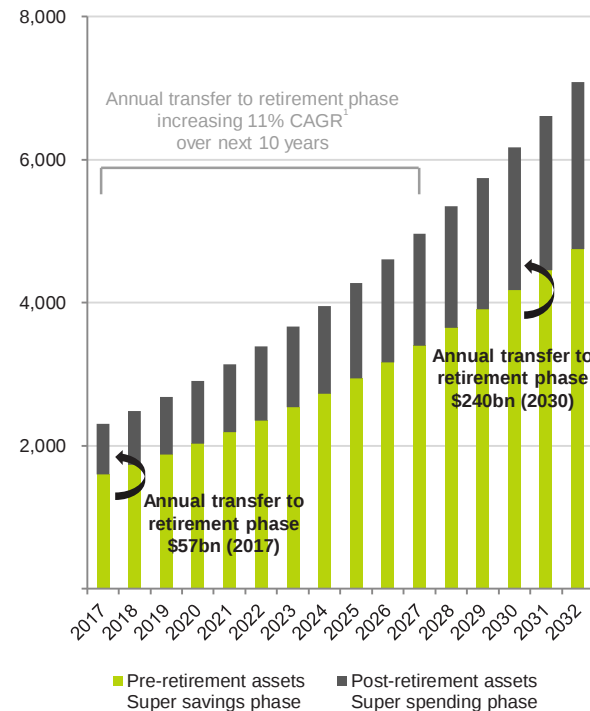
\$57bn in 2017

Transfer from
accumulation to
retirement phase¹

- increasing 11% CAGR over next 10 years¹
- Challenger domestic annuity sales currently ~5% of transfer to retirement phase

Australian super system 4th largest global pension market¹

Projected superannuation assets 2017 – 2032¹ (\$bn)



Super system
growing twice
speed of global
pension markets
10% CAGR last
5 years²

Assets expected
to increase from
~\$2 trillion to
~\$5 trillion
over next
10 years²

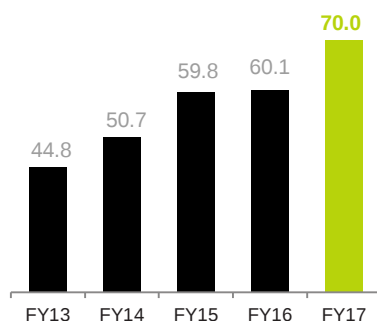
Tier 2 Subordinated Notes issue

1. Rice Warner 2016 Super Projections.
2. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.

Group FY17 highlights

Record results underpinned by strong Life book & AUM growth

Group Assets Under Management (\$bn)

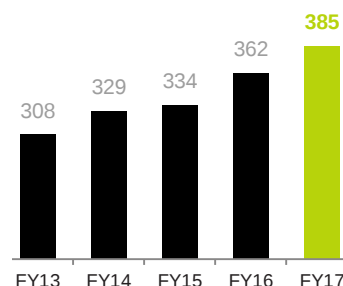


Up 17% to \$70.0bn

Benefiting from strong close to the year

Average Group AUM up 12%

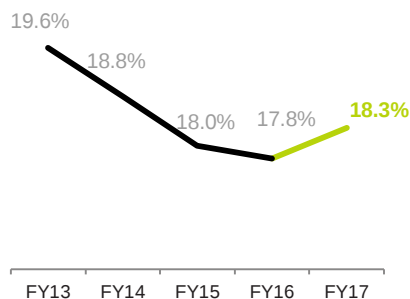
Group Normalised NPAT¹ (\$m)



Normalised NPBT up 8% to \$505m

Normalised NPAT up 6% to \$385m

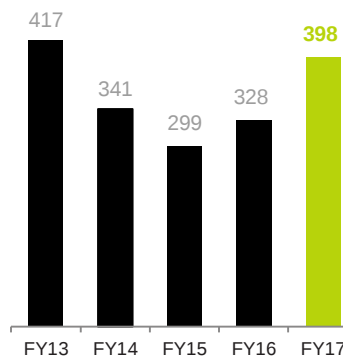
Group Normalised ROE² (%)



Up 50 bps to 18.3%

Exceeds 18% target

Group Statutory NPAT (\$m)



Statutory NPAT up 21%

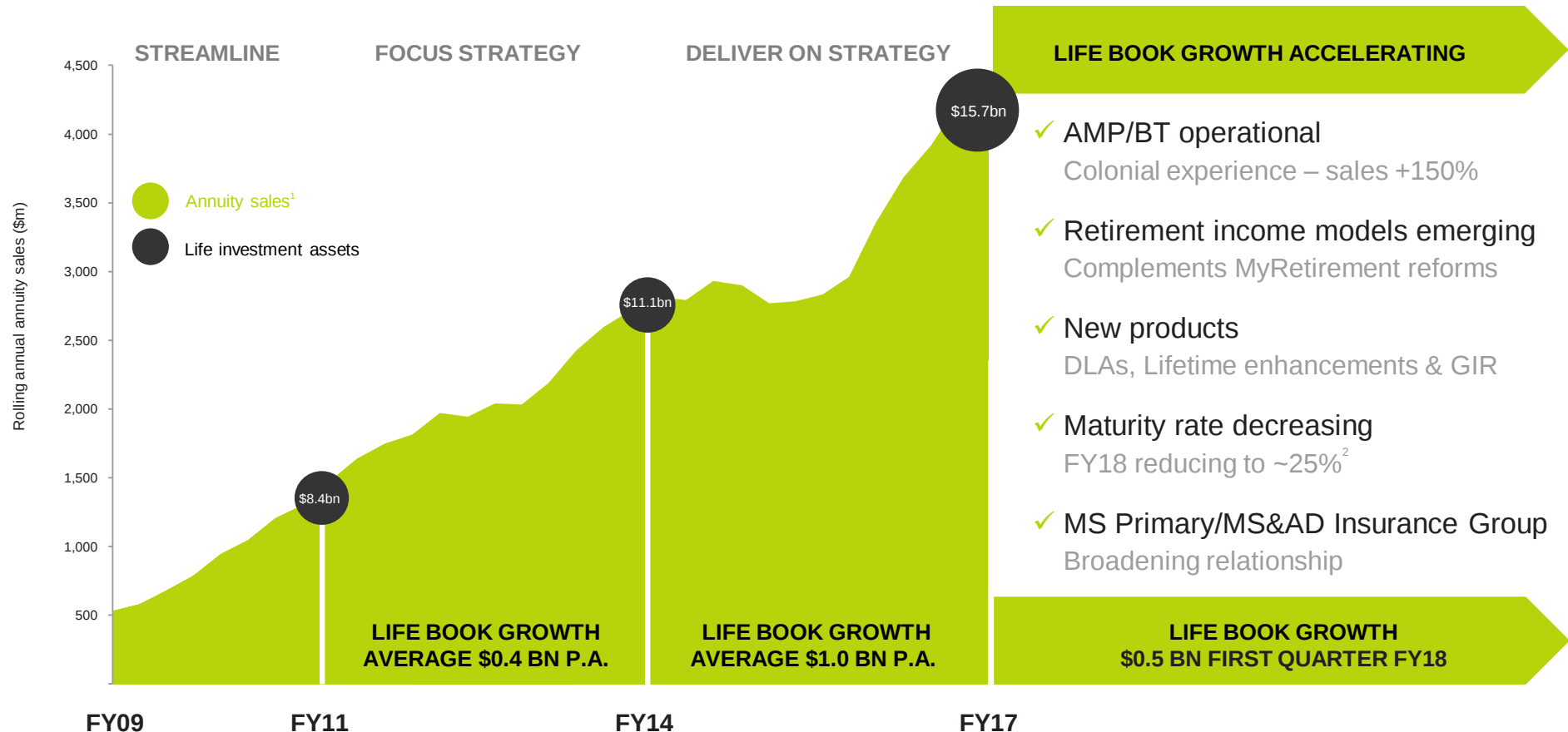
Includes asset and liability investment experience

Tier 2 Subordinated Notes issue

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 and well positioned



Tier 2 Subordinated Notes issue

1. Challenger rolling annual annuity sales.
2. FY18 annuity maturity rate expected to be ~25% of opening period annuity policy liability.

Expanding Japanese relationship

Broadening relationship and funding future growth

MS Primary annuity relationship

- Large and established Japanese AUD annuities market
- MS Primary
 - subsidiary of MS&AD Insurance Group Holdings
 - No.1 in foreign currency annuities with A\$28bn of AUD annuities in force¹
- Challenger issuing 20 year fixed rate annuity to support reinsurance agreement² – commenced November 2016
- MS Primary 19% of Challenger's Q118 annuity sales

MS&AD strategic relationship

- Formed August 2017
- Increases Challenger's access to Japanese market
- \$500m equity placement to support relationship & fund future growth
 - represented 6.3% of issued capital
 - MS&AD intends to increase holding to 10% via market³
 - current MS&AD shareholding 8.4%⁴ of issued capital

MS&AD

MS&AD Insurance Group

~A\$24bn market cap 40,600 employees
Total assets ~A\$241bn 5 business domains
(as at 31 March 2017)

1 Japanese general insurer

#1 market share

MS&AD Mitsui Sumitomo Insurance

MS&AD Aioi Nissay Dowa Insurance

MS&AD Mitsui Direct General Insurance

2 Japanese life insurer

#7 market share

#1 foreign currency annuity provider

MS&AD Mitsui Sumitomo Aioi Life Insurance

MS&AD Mitsui Sumitomo Primary Life Insurance

3 International operations

operations in 45 countries

#1 ASEAN general insurer

MS&AD **amlin**

A Member of **MS&AD** INSURANCE GROUP



Tier 2 Subordinated Notes issue

1. As at 31 March 2017.

2. Issued by Challenger Life Company Limited via Statutory Fund No. 4.

3. Subject to market conditions, any necessary or desirable regulatory approvals and Challenger's circumstances.

4. Change in substantial shareholding notice 2 October 2017.

Section 2

About Challenger Life Company Limited (CLC) and Life Business Unit

Challenger Group

Structure

CGF
(BBB+/stable)

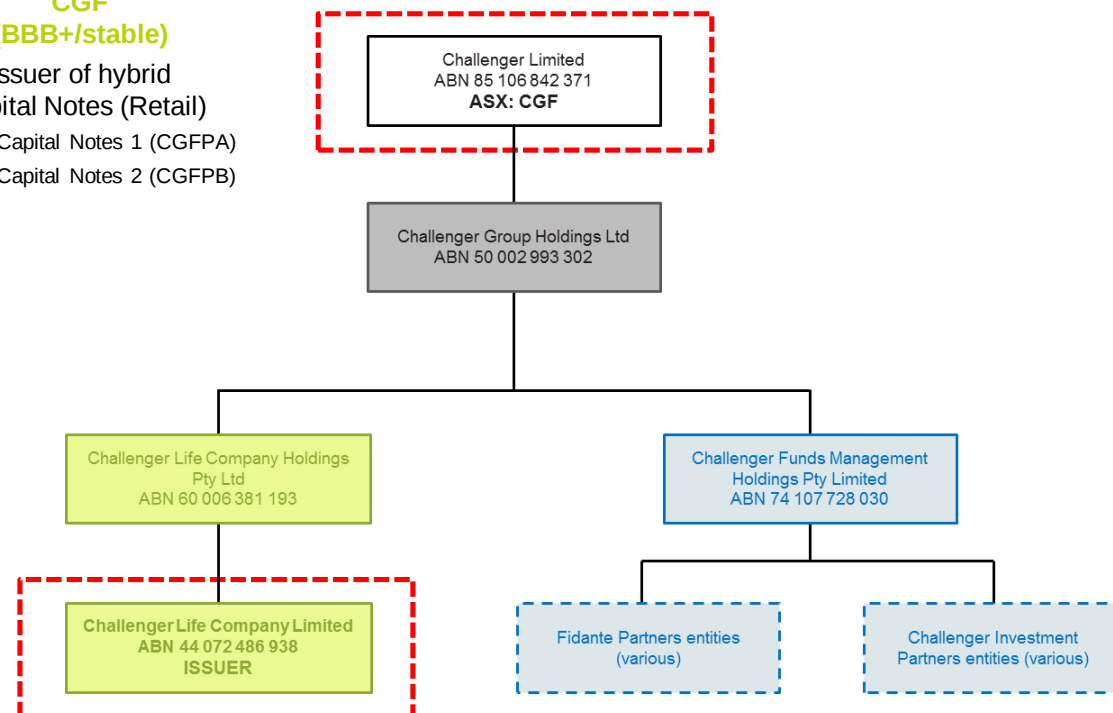
Issuer of hybrid
Capital Notes (Retail)

- \$345m Capital Notes 1 (CGFPA)
- \$460m Capital Notes 2 (CGFPB)

CLC
(A/stable)

Issuer of

- Additional Tier 1 (AT1) notes
(issued to Challenger Limited)
- Existing Subordinated Notes (Wholesale)¹
- Proposed Subordinated Notes (Wholesale)²



Tier 2 Subordinated Notes issue

1. Subject to APRA approval, CLC has agreed to repay its existing \$400 million Tier 2 subordinated debt instrument on 30 November 2017.
2. Proposed Subordinated Notes referable to Statutory Fund No.2, which covers the bulk of CLC's Australian domestic annuity business. It does not include the entire CLC business or the entire Life Business Unit. For example, it does not include annuities which back the reinsurance agreement with MS Primary. CLC's 2017 Annual Report is available at www.challenger.com.au/share.

Life business overview

Australian retirement income leader in high growth market

- Domestic annuity products distributed by financial advisers through retail and industry superannuation networks
- Life generates income by investing principal received from annuity customers in assets generating an investment return in excess of the guaranteed returns to its customers
- Life seeks to match cash flows from investment assets with liability cash flows (i.e. payments to annuity customers)

#1 in Annuities

Australia's leading annuity provider¹ in a high growth market supported by a favourable regulatory environment²

15%

Annuity sales CAGR over last 5 years

20%

FY17 annuity sales growth

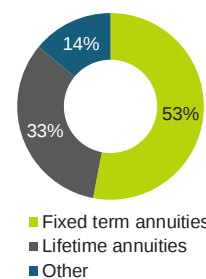
S&P 'A' rated (stable)

Credit rating unchanged for 10+ years

Regulated by APRA³

APRA supervisory approach is forward looking, primarily risk-based, consultative and in line with international standards

Product mix



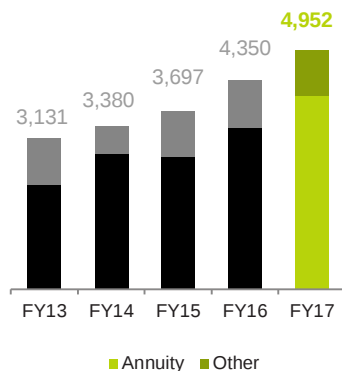
Tier 2 Subordinated Notes issue

1. Strategic Insights annuity market share as at 30 June 2017.
2. Refer to page 26 for summary of retirement income regulatory reforms underway.
3. Australian Prudential Regulation Authority (APRA).

Life financial performance track record

Consistently delivered above 18% normalised ROE target¹

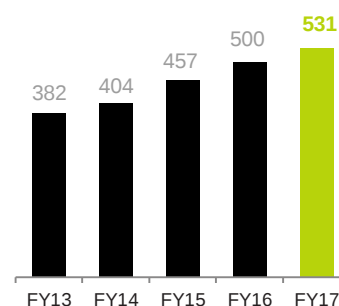
Total Life sales (\$m)



FY17 sales up 14% to \$5.0bn

Annuity sales growth (+20%) benefiting from new distribution initiatives

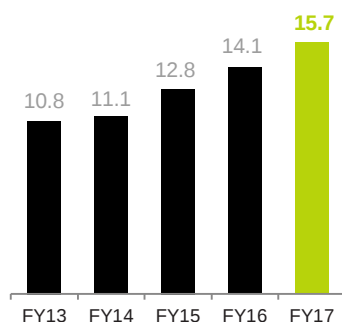
Life normalised EBIT (\$m)



FY17 Life normalised EBIT up 6% to \$531m

Higher average investment assets (up 12%) offset by lower return on shareholder capital and change in product mix

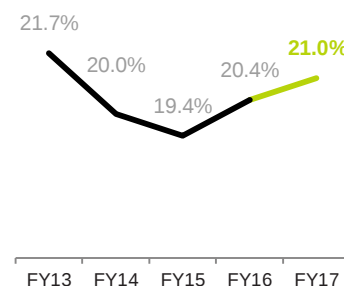
Life investment assets (\$bn)



FY17 assets up 11% to \$15.7bn

10% CAGR over last 5 years

Life normalised ROE¹ (pre-tax) (%)



FY17 up 60 bps to 21.0%

Exceeds 18% target

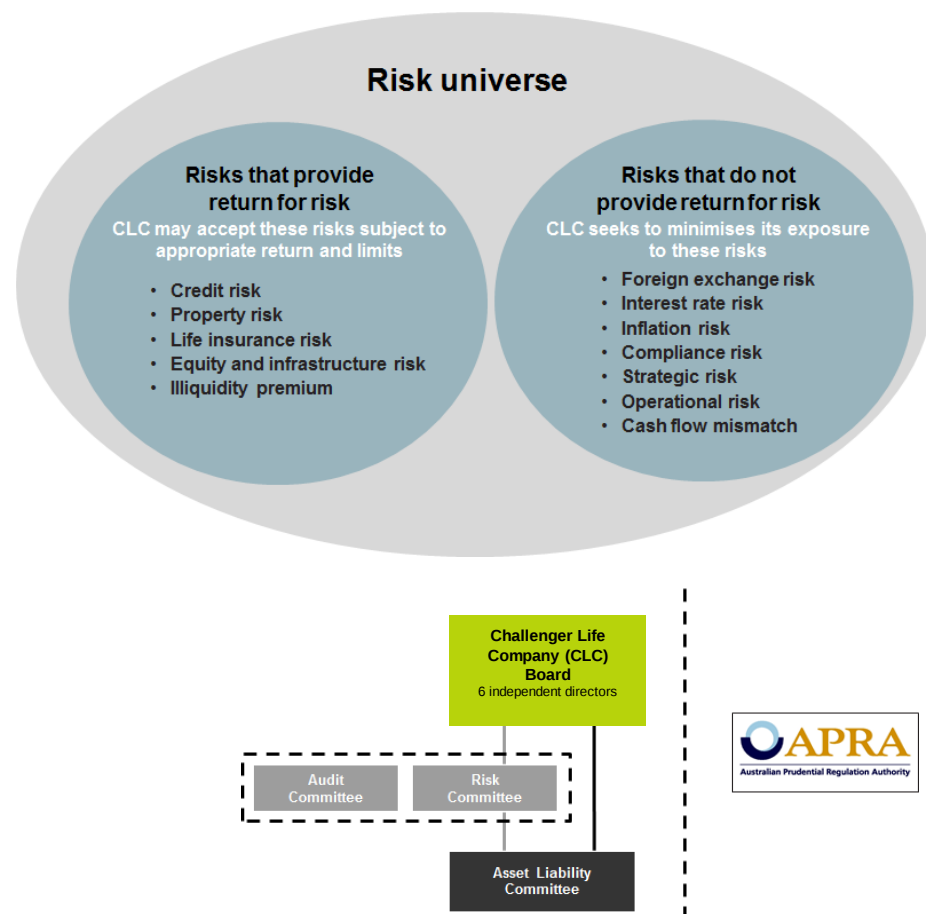
Tier 2 Subordinated Notes issue

1. Life normalised Return on Equity (ROE) pre-tax.

Governance & risk management framework

Entrenched risk management culture with Board oversight

- **Fundamental principle – assets and liabilities cash flow matched**
- Risk appetite differentiates between risks that provide an economic return and those that do not
- Risk management entrenched in corporate culture
- Board Risk Committee and Audit Committee implement and monitor risk appetite through
 - policies
 - limits
 - capital requirements
 - behavioural standards
- APRA's prudential framework includes regular monitoring and reporting



Life investment portfolio

High quality portfolio providing reliable income

Investment portfolio - \$15.7bn¹

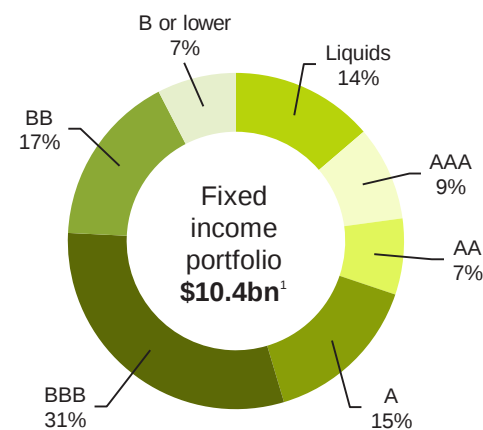
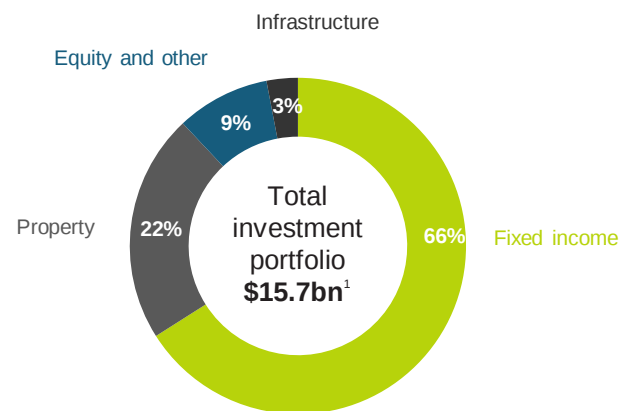
- Highly diversified portfolio
- Asset allocation reflects relative value and annuity tenor
- Portfolio meeting 18% (pre-tax) ROE target

Fixed income portfolio

- 76% investment grade
 - 23% cash and AAA rated
 - last five years >75% investment grade
- Credit default experience
 - 5 year average 7 bps per annum

Property portfolio

- 90% Australian assets
- 54% of tenants investment grade
- 32% of rental income from Government tenants
- 55% of contracted leases expire in FY22 and beyond
- All properties independently valued



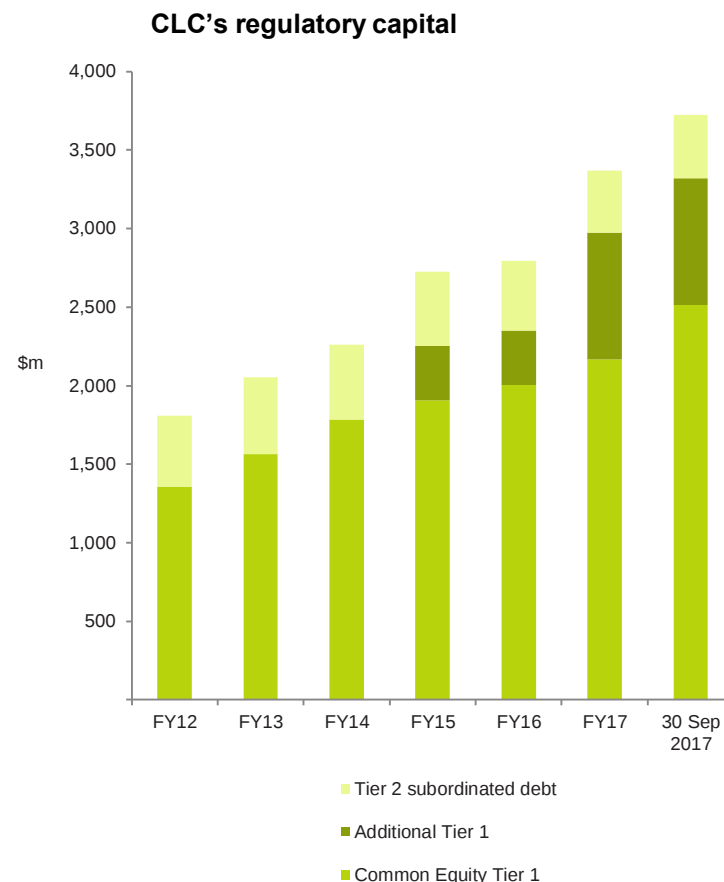
Tier 2 Subordinated Notes issue

1. Life Business Unit as at 30 June 2017.

CLC strongly capitalised

Excess capital to support future growth

- CLC regulated by APRA
- \$3.7bn of regulatory capital¹, including
 - Common Equity Tier 1
 - increased by \$500m following MS&AD equity placement (August 2017)
 - Additional Tier 1 equity, including
 - \$345m issued August 2014
 - \$460m issued April 2017
 - Tier 2 subordinated debt
- Capital held to back customer guarantees
 - APRA PCA \$2.3bn¹
- CLC PCA ratio 1.6 times^{1,2}
 - holding 60% more than APRA requirement
 - at top end of CLC's target of 1.3 to 1.6 times
- Excess regulatory capital to support future growth



Tier 2 Subordinated Notes issue

1. Regulatory capital and Prescribed Capital Amount (PCA) as at 30 September 2017 and includes \$500m equity placement to MS&AD in August 2017 and retained earnings net of dividend paid in Q1 FY18 and increased capital requirements due to growth in Life AUM. Subject to APRA approval, CLC has agreed to repay its existing \$400 million Tier 2 subordinated debt instrument on 30 November 2017.
2. Challenger Life Company Limited (CLC) total regulatory capital base divided by Prescribed Capital Amount (PCA) as at 30 September 2017.

Section 3

CLC Subordinated Notes overview

Tier 2 Subordinated Notes issue

Key terms

Capitalised terms appearing in this section have the meaning given in the terms and conditions of the Subordinated Notes

Issuer	Challenger Life Company Limited (CLC) referable to the Statutory Fund No.2
Issuer rating	A / stable (S&P)
Currency and size	A\$ "benchmark"
Ranking	Direct, unsecured, and subordinated, ranking in a Winding-Up ahead of obligations of CLC in respect of Junior Ranking Instruments and equally with obligations of CLC in respect of Equal Ranking Instruments
Maturity	[•] 2042 [Year 25]
Coupons	Fixed to floating rate and/or floating rate, subject to the Solvency Condition
Optional deferral	- Coupons may be deferred at the discretion of CLC, subject to a dividend pusher - Any deferred coupon is cumulative and will accrue interest at the applicable Interest Rate until it is paid
Dividend pusher	CLC is only able to defer a coupon at its own discretion if no distributions have been made on Junior Ranking Instruments or certain Equal Ranking Instruments during the Financial Year in which such coupon payment date falls, and no dividend on its ordinary shares has been paid in the preceding 12 months
Optional redemption	[•] 2022 [Year 5]
Early redemption	CLC may redeem the Subordinated Notes at par if a regulatory event or tax event occurs, subject to APRA's prior written approval and certain conditions being satisfied

Key terms (cont'd)

Holder conversion	• Holder Conversion Date: [•] 2024 [Year 7] • Holders have the option to require Conversion of CLC Subordinated Notes into CGF Ordinary Shares¹ at a 1% discount to the VWAP during the 20 Trading Days immediately prior to (but not including) the Holder Conversion Date, capped at the Maximum Conversion Number (set by reference to 50% of the Issue Date VWAP)
Conversion at PONV	• Upon a Non-Viability Trigger Event, the Subordinated Notes might, and in some circumstances, must, be immediately Converted into CGF Ordinary Shares¹ in full or in part (as may be determined by APRA), subject to certain conditions. If for any reason Conversion does not occur within 5 Scheduled Trading Days, Subordinated Notes will not be Converted and instead will be Written-Off
Non-viability Trigger Event	• Occurs if APRA determines that conversion or write-off of Relevant Capital Instruments is necessary because: (a) without the conversion or write-off, APRA considers that CLC or the Statutory Fund would become non-viable; or (b) without a public sector injection of capital or equivalent support, APRA considers that CLC or the Statutory Fund would become non-viable
Regulatory treatment	• Tier 2 capital for APRA purposes
Denominations	• A\$10,000 (generally subject to minimum purchase and transfer amounts of A\$500,000)
Settlement	• Austraclear; Euroclear and Clearstream via Austraclear bridge
Listing	• Unlisted
Governing Law	• New South Wales, Australia
Arranger	• UBS
Joint Lead Managers	• NAB, UBS, Westpac

Tier 2 Subordinated Notes issue

1. Subject to Condition 8.12 of the Terms and Conditions, a Holder can request the issue of Ordinary Shares to a nominee, which subject to applicable laws may be sold for cash.

CLC Subordinated Notes

Comparison of AUD insurance Tier 2

	CLC	Suncorp (AAI)	QBE	IAG
Issue date	[•] November 2017	6 October 2016	29 September 2015	19 March 2014
Issuer rating	A (Stable) (S&P)	A1 (Stable) / A+ (Stable) / A+ (Moody's / S&P / Fitch)	Baa2 (Pos) / A- (Stable) / A- (Stable) (Moody's / S&P / Fitch)	AA- (Stable) (S&P)
Size	A\$ benchmark	\$330m	\$200m	\$350m
Final maturity	[•] November 2042 (Year 25)	6 October 2042 (Year 26)	29 September 2040 (Year 25)	19 March 2040 (Year 26)
Call date(s)	[•] November 2022 (Year 5)	6 October 2022 (Year 6)	29 September 2020 (Year 5) and every interest payment date until and excluding 29 September 2021 (Year 6)	19 March 2019 (Year 5) and every interest payment date until and including 19 March 2020 (Year 6)
Coupon	Fixed ¹ and/or Floating rate	BBSW+320bps	BBSW+400bps	BBSW+280bps
Solvency condition	Yes	Yes	Yes	Yes
Optional coupon deferral	Yes, subject to dividend pusher	Yes, subject to dividend pusher	Yes, subject to dividend pusher	Yes, subject to dividend pusher
Look-back period for dividend pusher	Same financial year, except for ordinary dividends for which it is preceding 12 months	Same financial year	Same financial year	Same financial year
Holder conversion option	[•] November 2024 (Year 7)	6 October 2024 (Year 8) and every interest payment date thereafter	No	19 March 2022 (Year 8) and every interest payment date thereafter
PONV conversion	Yes	Yes	Yes	Yes

Tier 2 Subordinated Notes issue

1. Coupon becomes floating rate after the call date if the Subordinated Notes are not called.

CLC Subordinated Notes

Investment highlights



CLC APRA compliant Tier 2

- Issued by CLC - operating company level
- Similar economic terms to other recent equity-credit insurance Tier 2 issues
 - deferrable coupons, subject to a dividend pusher
 - holder conversion option at Year 7



Strong capitalisation

- Excess regulatory capital of \$1.4bn¹
 - PCA ratio 1.6x¹
 - Excess capital at top end of target range and held to fund future growth



Strong credit rating profile

- A / stable (S&P) issuer rating
 - unchanged for 10+ years



Consistently strong profitability provides coupon protection

- CLC has consistently delivered a ROE² above its 18% target
- Aggregate T2 coupons equivalent to 6.1% of CLC ordinary share dividends in FY17



Market leader in high growth market

- Australia's #1 annuity provider
- Strong market growth supported by a favourable regulatory environment and demographics
 - superannuation assets expected to double over next 10 years



Prudent and pro-active regulator

- CLC is regulated by APRA
- APRA's supervisory approach is forward-looking, primarily risk based, consultative and in line with international standards

1. Regulatory capital and Prescribed Capital Amount (PCA) as at 30 September 2017 and includes \$500m equity placement to MS&AD in August 2017 and retained earnings net of dividend paid in Q1 FY18 and increased capital requirements due to growth in Life AUM. Subject to APRA approval, CLC has agreed to repay its existing \$400 million Tier 2 subordinated debt instrument on 30 November 2017.

2. Life normalised Return of Equity (RoE) pre-tax. FY18 impacted by higher levels of capital until fully deployed.

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Appendix

Additional information

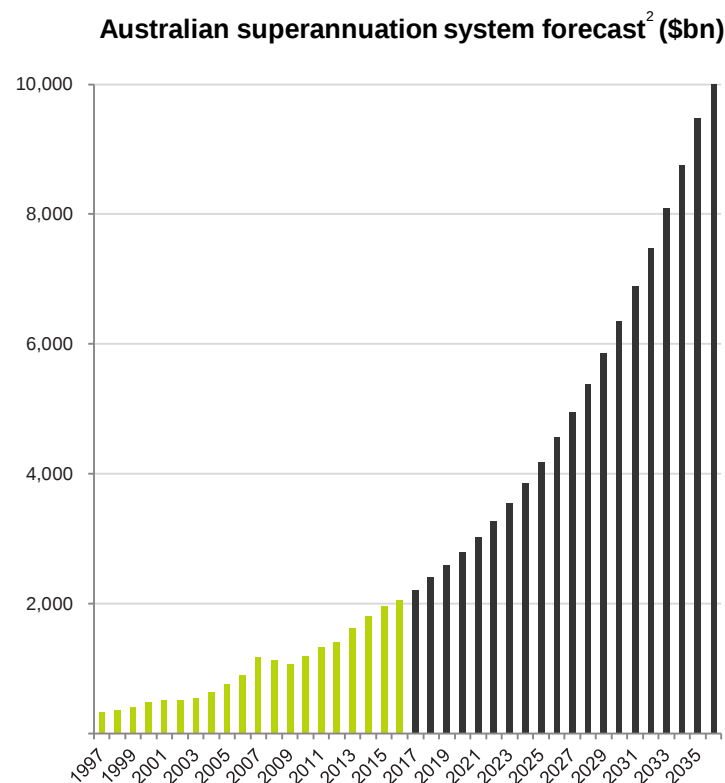
Tier 2 Subordinated Notes issue

Strategy targeting superannuation system

Attractive market with long-term structural drivers

Superannuation system growth

- 4th largest global pension market¹
- Australian super system growing twice the speed of global pension markets¹
 - 10% CAGR over last 5 year
- Assets expected to
 - double to ~\$5 trillion over next 10 years²
 - quintuple to ~\$10 trillion over next 20 years²
- System growth supported by
 - mandatory and increasing contribution rate
 - increasing from 9.5% to 12%³ (of wages)
 - \$104bn of super contributions in 2016⁴
 - ageing demographics
 - Government enhancing retirement phase

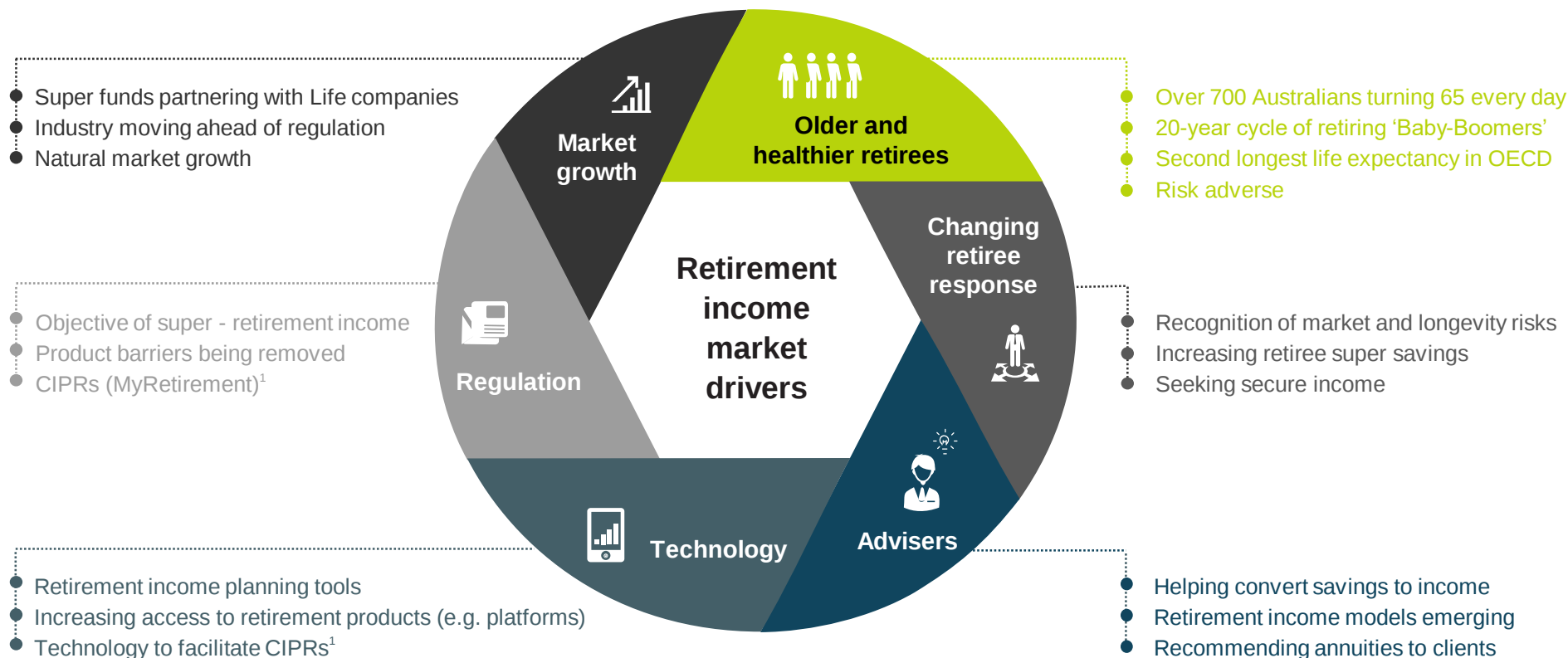


Tier 2 Subordinated Notes issue

1. Towers Watson Global Pension Study 2017.
2. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.
3. Percentage of gross wages required to be contributed to superannuation. Contribution rate increases to 10% on 1 July 2021 and increases by 0.5% per annum until reaching 12% on 1 July 2025.
4. APRA statistics – Annual Superannuation bulletin June 2016.

Retirement phase market drivers

Market leader well positioned in high growth market



Tier 2 Subordinated Notes issue

1. Comprehensive Income Products for Retirement (CIPR) – as recommended by the Financial System Inquiry and supported by Government.

Government enhancing retirement phase

Reforms well underway ... setting overall industry direction

Objective of superannuation

- To provide income in retirement to substitute or supplement the Age Pension (as recommended by FSI)
- Superannuation policy to be assessed against objective

New retirement income rules

- New framework to enable product innovation, including DLAs
- Provides building block for CIPRs (Comprehensive Income Products for Retirement)
- Key legislation enacted - effective 1 July 2017
- Awaiting social security means testing

CIPR (MyRetirement)

- Reform to lift living standards and choices for retirees
- To help guide retirement income decision-making
- CIPRs - combined income product offered by trustees to members on retirement
- Minimum product requirements including stable income for life
- Government discussion paper submissions closed July 2017

Disclaimer

The material in this presentation is general background information about the activities of Challenger Limited and Challenger Life Company Limited and is current at the date of this presentation. The material in this presentation is intended solely for holders of an Australian Financial Services Licence or other wholesale clients, as defined in the Corporations Act 2001 (Cth) (Corporations Act). 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 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. 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. 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 has not been 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.

Past performance is not an indication of future performance.

While Challenger has sought to ensure that information is accurate by undertaking a review process, it makes no representation or warranty as to the accuracy or completeness of any information or statement in this document.

Unless otherwise indicated, all numerical comparisons are to the prior corresponding period.