

FY17 financial results

Record results

Strategic relationship and
equity placement

Positioned for future growth

15 August 2017



Overview

Record results

Strategic relationship and equity placement

Positioned for future growth

FY17 highlights

FY17 strategic initiatives

Positioned for future growth

Brian Benari – Managing Director and Chief Executive Officer

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Andrew Tobin – Chief Financial Officer

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Brian Benari – Managing Director and Chief Executive Officer

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Record results

Strategic relationship and equity placement

Positioned for future growth

FY17 highlights

Record results underpinned by strong AUM growth

Leading outcomes across multiple performance measures

FY17 strategic initiatives

Significant progress against long-term plan

Positioned for future growth

Disciplined implementation of strategy

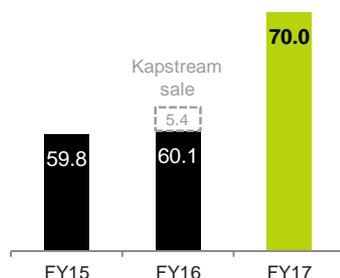
Life book growth accelerating

Strategic relationship with MS&AD and funding future growth

FY17 highlights

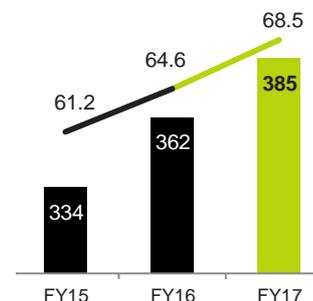
Record results underpinned by strong AUM growth

Group Assets Under Management (\$bn)



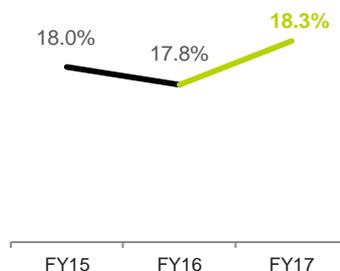
Up 17% to \$70.0bn
Benefiting from strong close to the year
Average Group AUM up 12%

Normalised NPAT¹ (\$m) and EPS (cps)



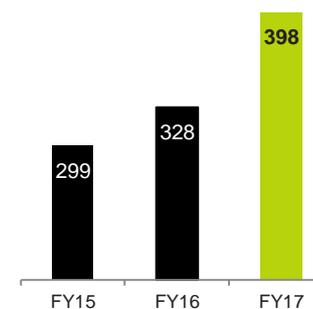
Normalised NPAT up 8% to \$505m
Normalised NPAT up 6% to \$385m
Normalised EPS up 6% to 68.5cps

Normalised ROE² (%)



Up 50 bps to 18.3%
Exceeds 18% target

Statutory NPAT (\$m)



Statutory NPAT up 21%
Includes asset and liability investment experience

FY17 – Full year 30 June 2017

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.

FY17 highlights

Leading outcomes across multiple performance measures



12.1%
Life book growth



\$6.2bn
Funds Management net flows



Rated #1 by advisers¹

- BDM Team
- Client Services
- Image and reputation
- Overall Satisfaction
- Technical Services



97%
97% of Fidante FUM
outperforming benchmark²



88% employee engagement
well above Global High Performing Norm³



6%
Dividend increase in line with
normalised profit growth

FY17 – Full year 30 June 2017

1. Challenger service level analysis conducted by Wealth Insights and compared to the broader market.
2. Fidante Partners' investment performance represents percentage of FUM meeting or exceeding benchmark over five years.
3. Willis Towers Watson Global High Performing Norm (GHPN).

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

FY17 strategic initiatives

Significant progress against long-term plan



Grow allocation to secure and stable retirement incomes

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



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 relevant and superior investments for customers

- ✓ Fidante outperforming benchmark – 97% of FUM over 5 years¹
- ✓ Two new Fidante boutiques – Avenir Capital & Lennox Capital Partners
- ✓ Seven new strategies offered by existing Fidante boutiques



Sustainable business practices to deliver superior outcomes

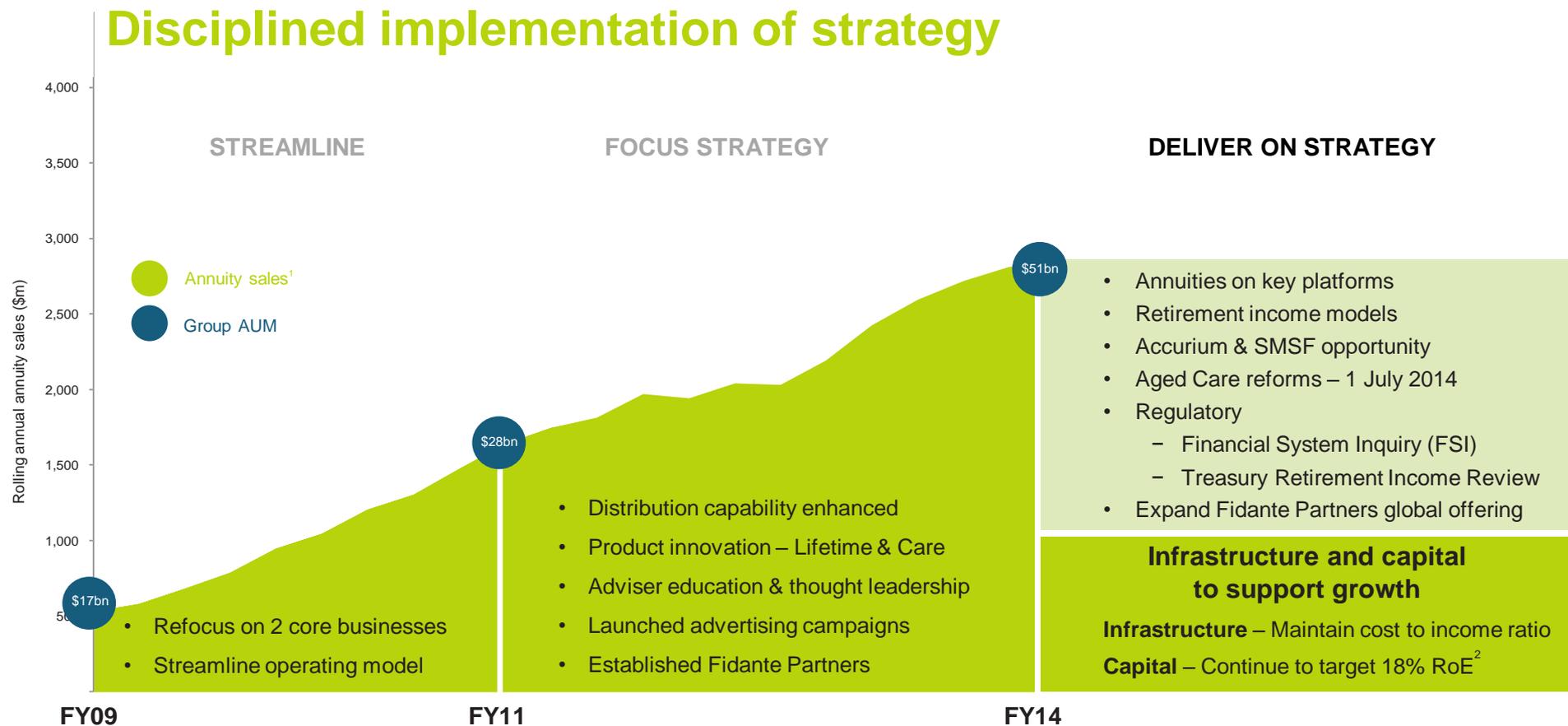
- ✓ Highly efficient with market leading cost to income ratio²
- ✓ Risk culture engagement score – 6 points above GHPN³
- ✓ Refreshed corporate sustainability approach

FY17 – Full year 30 June 2017

1. Investment performance represents percentage of FUM meeting or exceeding benchmark over five years.
2. 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).
3. Willis Towers Watson Global High Performing Norm.

Track record of delivery

Disciplined implementation of strategy

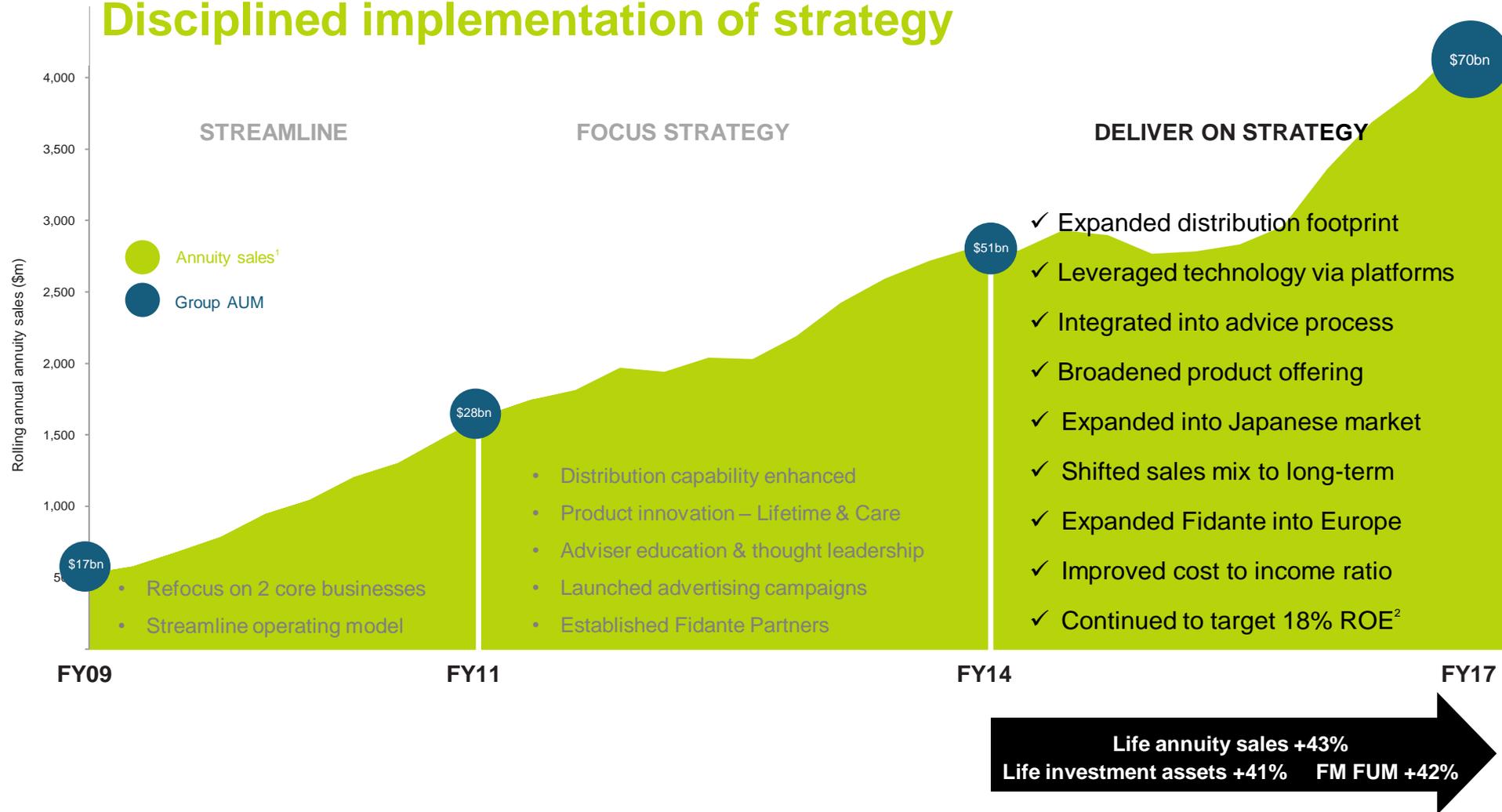


FY17 – Full year 30 June 2017

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

Track record of delivery

Disciplined implementation of strategy

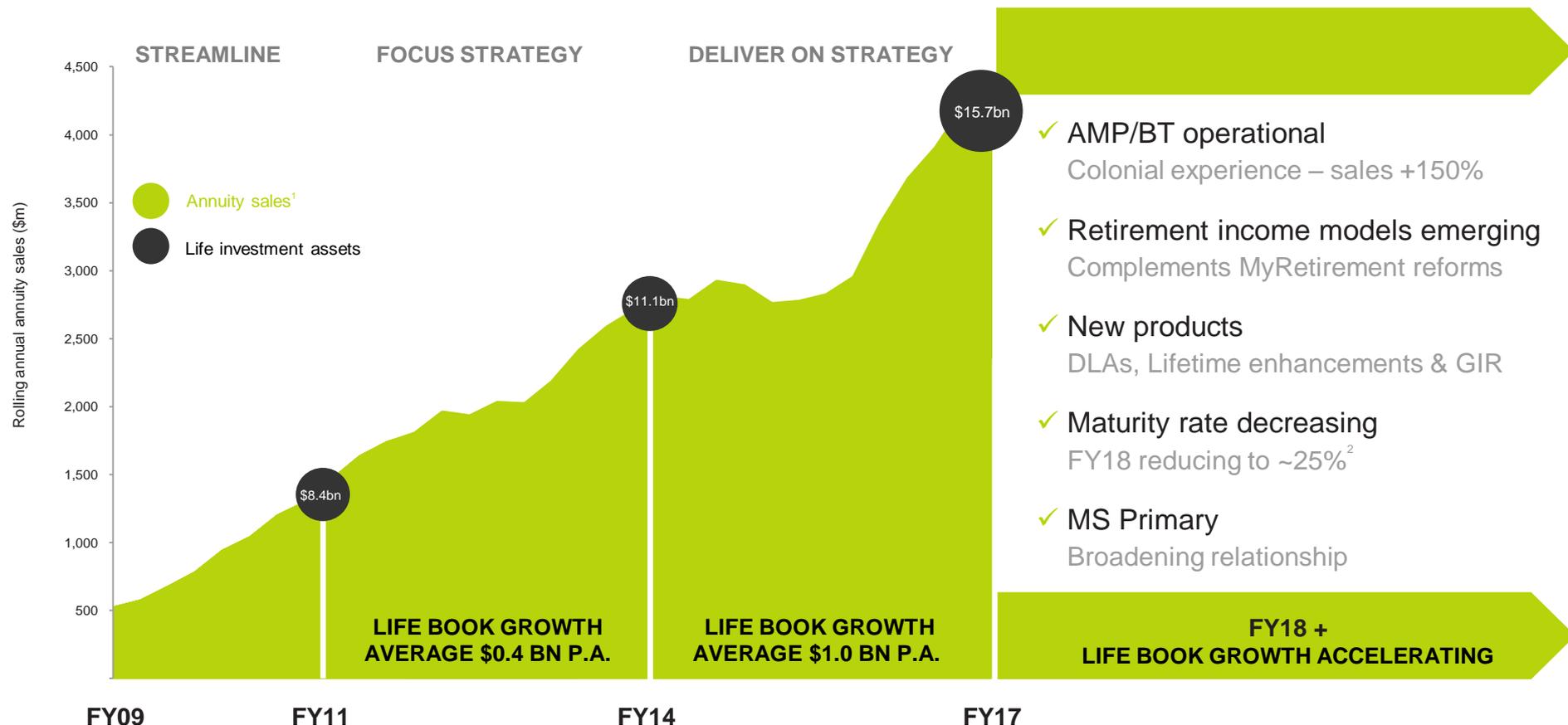


FY17 – Full year 30 June 2017

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

Positioned for the future

Life book growth accelerating



FY17 – Full year 30 June 2017

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

Strategic relationship and equity placement

Broadening relationship and funding future growth

Strategic relationship with MS&AD Group

- Increases access to Japanese market through MS&AD
- Opportunities for both Challenger and MS&AD
- MS Primary expected to contribute ~\$600m¹ of sales in FY18
- Broadens Challenger's existing Japanese footprint
- Challenger Tokyo office opened in 2H17 to support growth

\$500m equity placement to MS&AD at a premium

- 38.3m new shares to be issued at \$13.06 on 23 August 2017²
- Placement not eligible for FY17 final dividend (17.5 cents)
- Placement represents 6.3% of issued capital
- MS&AD intends to increase holding to 10% over 12 months via market³
- MS&AD intends to be a supportive Challenger shareholder³

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
MSIG Box Innovation

FY17 – Full year 30 June 2017

1. Volumes subject to change and the reinsurance agreement includes usual termination rights for both parties.
2. 38.3m new ordinary shares issued, based on a 2% premium to Challenger's 14 August 2017 30 business day VWAP (\$12.9719 per share), adjusted for final FY17 dividend (17.5 cents).
3. Subject to market conditions, any necessary or desirable regulatory approvals and Challenger's circumstances. MS&AD reserves the right to change its intentions and to acquire, dispose and vote Challenger shares as it sees fit.

Financial results

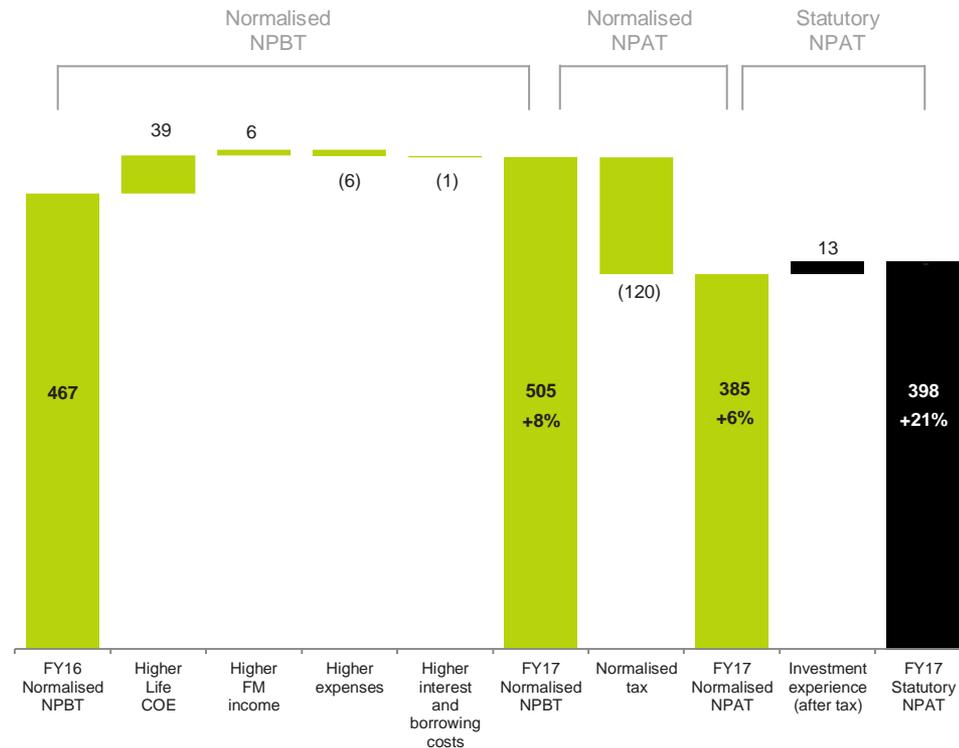
Andrew Tobin

Chief Financial Officer

Group result

Strong asset growth and tight cost control

Movement in Normalised and Statutory NPAT (\$m)



Normalised NPBT \$505m – up 8%

- Net income up \$45m (6.2%)
 - underpinned by strong asset growth
 - +12% average Group AUM to \$64.7bn
 - +17% closing Group AUM to \$70.0bn
- Expenses up \$6m (2.5%)
 - record low cost to income ratio (33.4%)
 - improved 120 bps in FY17

Normalised NPAT \$385m – up 6%

- normalised effective tax rate up 1%

Statutory NPAT \$398m – up 21%

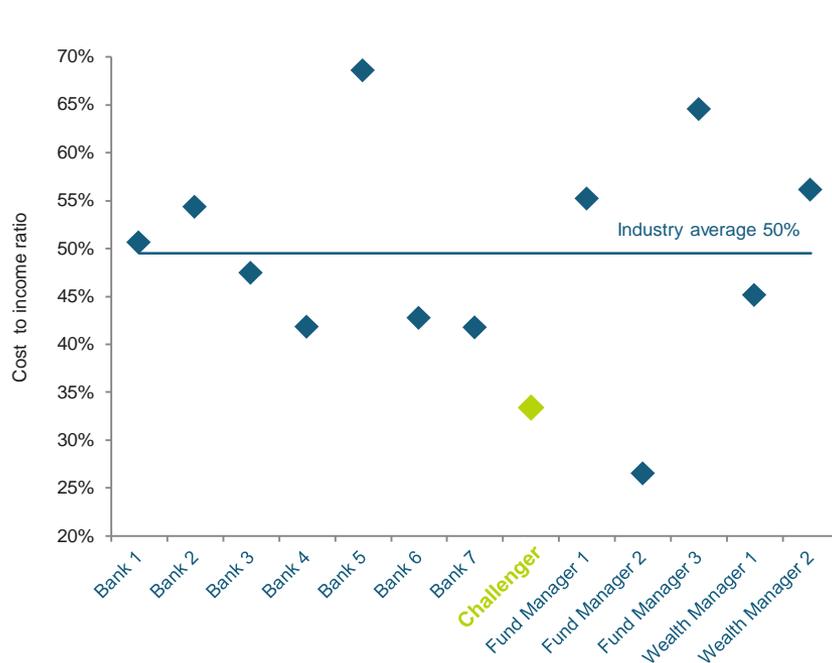
- +\$13m (after tax) investment experience

FY17 – Full year 30 June 2017

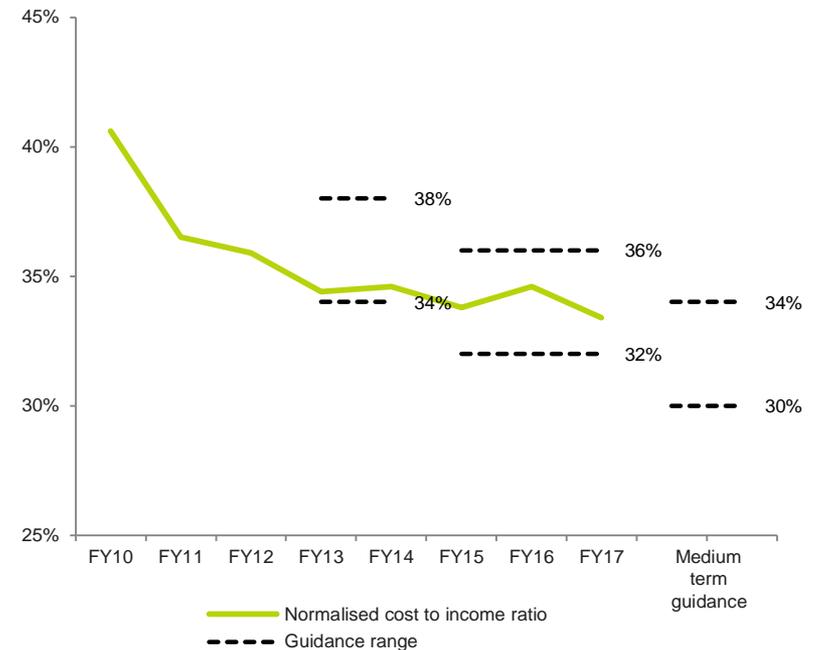
Group result

Highly scalable business with significant cost advantage

Challenger significantly lower than industry average¹



Normalised cost to income ratio (%)



- Significant cost and scale advantage
 - Challenger 17 points below industry average

- FY17 – record low cost to income ratio (33.4%)
- Medium term – resetting cost guidance

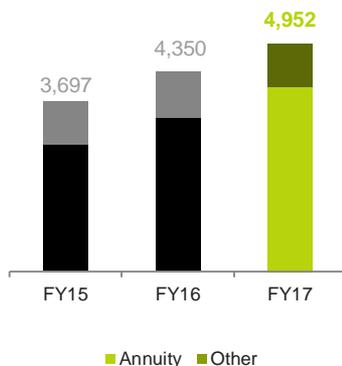
FY17 – Full year 30 June 2017

1. Banks include Australian and New Zealand Banking Corporation, Bank of Queensland, Bendigo and Adelaide Bank, Commonwealth Bank of Australia, Macquarie Bank, National Australia Bank and Westpac Banking Corporation. Fund Managers include BT Investment Management, Magellan Financial Group and Perpetual. Wealth Managers include AMP and IOOF.

Life result

New distribution initiatives driving sales and book growth

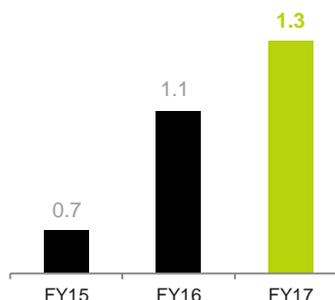
Total Life sales (\$m)



Sales up 14% to \$5.0bn

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

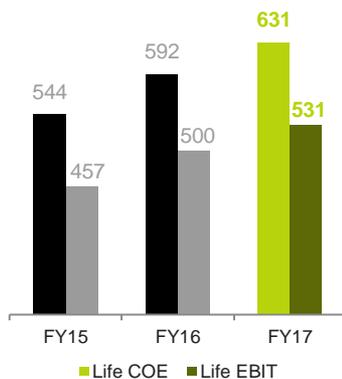
Life book growth (\$bn)



Life book growth +\$1.3bn up 23%

Representing 12.1% growth on opening period liabilities

Life COE¹ and Life EBIT (\$m)



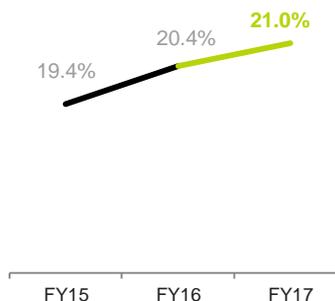
Life COE up 7% to \$631m

Life EBIT up 6% to \$531m

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

Expenses up \$8m following new distribution initiatives

Life normalised ROE² (pre-tax) (%)



Up 60 bps to 21.0%

Exceeds 18% target

FY17 – Full year 30 June 2017

1. Life Cash Operating Earnings (COE).
2. Life normalised Return on Equity (RoE) pre-tax.

Life sales

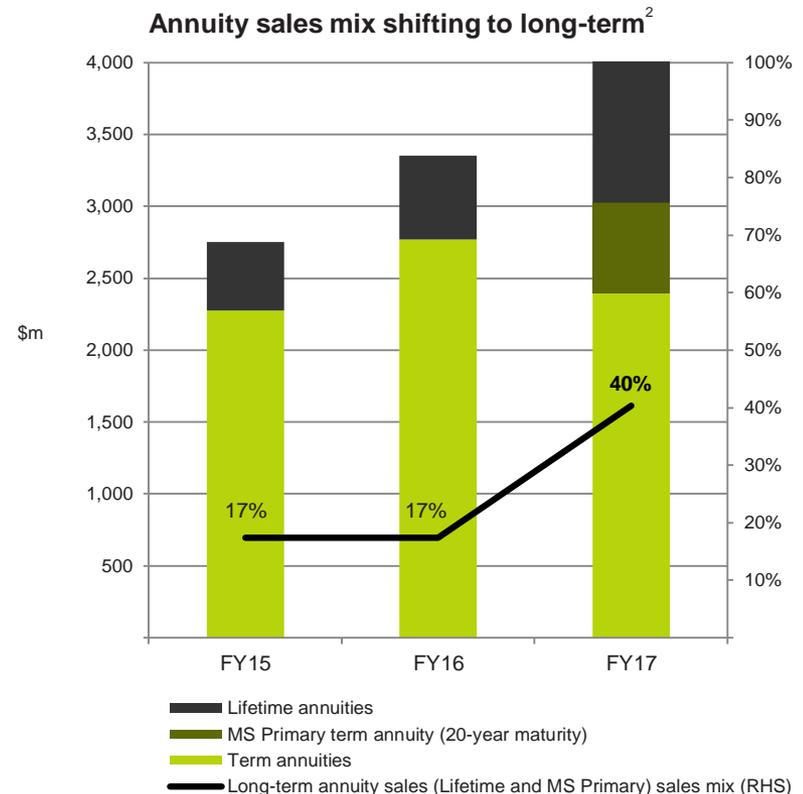
Strong sales growth and actively reweighted to long-term

FY17 annuity sales \$4.0bn – up 20%

- Lifetime sales \$1.0bn – up 70%
 - benefiting from platform initiatives
 - includes CarePlus¹ ~\$202m (up from \$60m)
- Term sales \$3.0bn – up 9%
 - includes MS Primary
 - actively reweighted to longer maturities
- Long-term annuity sales² 40%
 - Lifetime 25%; MS Primary 15%
 - long-term sales: 1H17 31%; 2H17 50%
 - average new business tenor³ 10.8 years (FY16 6.5 years)

FY17 other sales \$0.9bn

- GIR⁴ \$0.7bn – rollovers and \$0.2bn new mandate
- Challenger Index Plus Fund⁵ \$0.2bn – launched Q217



FY17 – Full year 30 June 2017

1. CarePlus launched August 2015.
2. Long-term annuity sales represent Lifetime and MS Primary annuities.
3. New business tenor represents maximum product maturity of new business sales. These products may amortise over the period.
4. Guaranteed Index Return (GIR) – refer to page 53 for more details.
5. Challenger Index Plus Fund is a pooled GIR product launched in Q217.

Life book growth

Record full year increase

Life book growth +\$1.3bn – up 23%

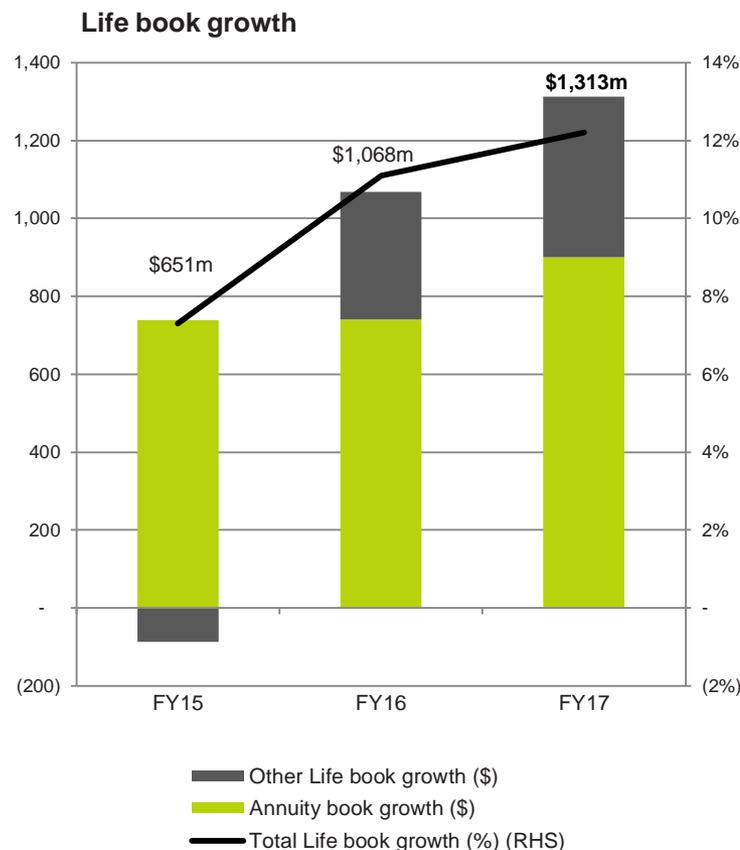
- represents 12.1%¹ growth on opening period liability

Annuity book growth +\$900m – up 22%

- represents 9.4% growth on opening period liability

Other Life book growth +\$413m

- New GIR mandate (\$0.2bn)
- New Challenger Index Plus Fund² (\$0.2bn)



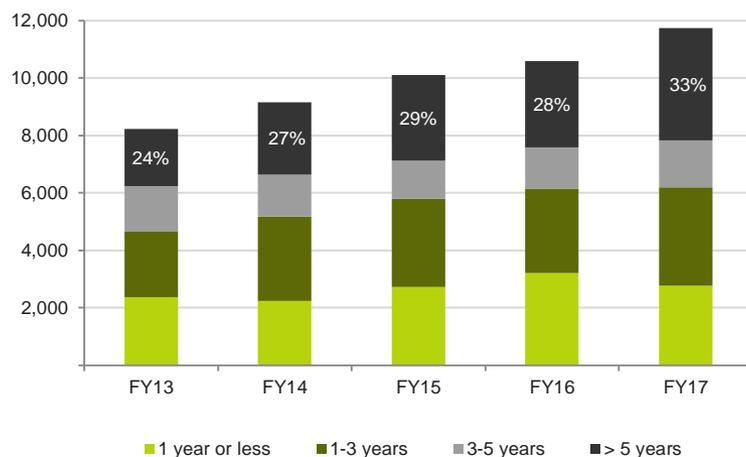
FY17 – Full year 30 June 2017

1. Life book growth (12.1%) calculated as net flows (\$1,313m) divided by the sum of opening period annuity liability, Guaranteed Index Return and Challenger Index Plus Fund liabilities (\$10,874m).
2. Challenger Index Plus Fund is a pooled GIR product launched in Q217.

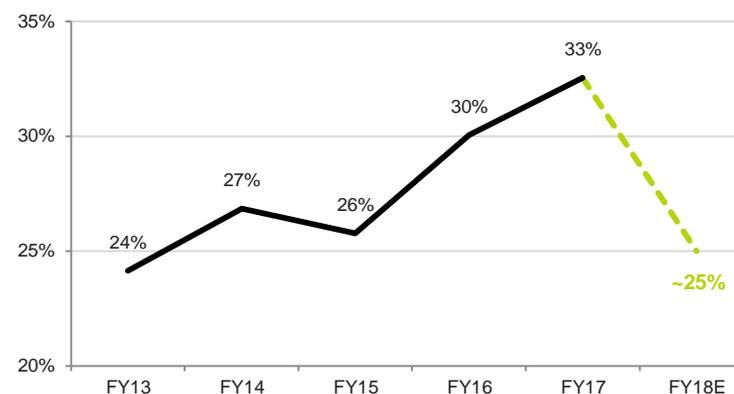
Life maturities

Benefiting from increased long-term sales

Annuity maturity profile – projection (\$m)¹



Annuity maturities – actual (% of opening liability)²



Liabilities extending

- Proportion greater than 5 years
 - 33% of total liabilities
 - up from 24% five years ago

Maturities reducing

- FY17 – elevated maturities
 - ~33% of opening liability
- FY18 – maturity rate reducing
 - expect ~25% of opening liability

FY17 – Full year 30 June 2017

1. Represents maturity profile of undiscounted liabilities as disclosed in the Financial Risk Management Note of the 2013 to 2017 Annual Reports. The maturity profile is based on contractual undiscounted repayment obligations, including both interest and principal repayments.
2. Represents annuity maturities and repayments (excluding interest payments) divided by opening period annuity liability.

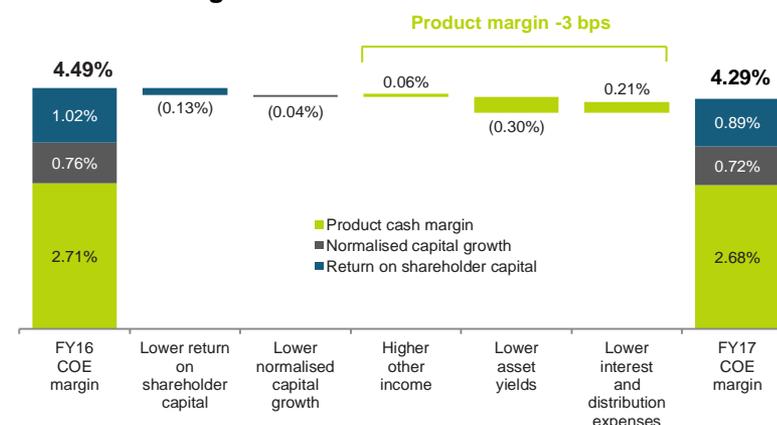
Life margins

Product margin driven by lower yields & change in product mix

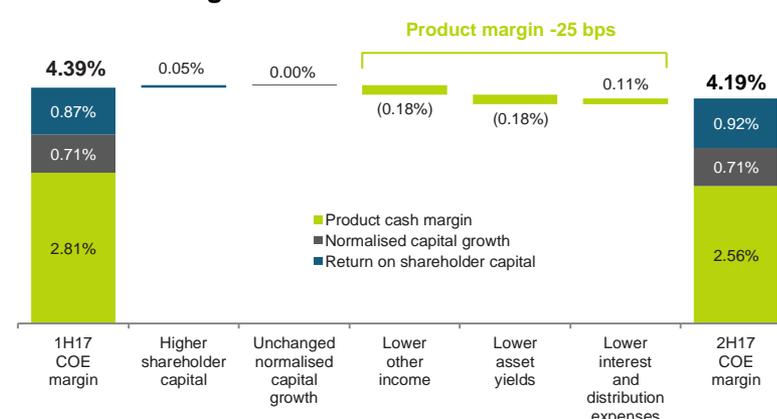
Life COE margin FY16 to FY17

- Return on shareholder capital -13 bps
 - lower return on shareholder capital
 - partially offset by higher shareholder capital
- Normalised capital growth -4 bps
 - higher fixed income allocation (average up from 64% to 66%)
- Product cash margin -3 bps
 - lower asset yields -30 bps
 - partially offset by lower interest and distribution expenses +21 bps
 - higher Life Risk income +6 bps

Life COE margin – FY16 to FY17



Life COE margin – 1H17 to 2H17



FY17 – Full year 30 June 2017

Life Return On Equity

All product categories meeting 18% ROE target

Product category	Domestic annuities	Japanese annuities	Institutional Guaranteed Index Return (GIR)
Product description	Amortising fixed term and lifetime annuities	Amortising fixed term annuities	Fixed term and liquid index return product
FY17 average liability mix	85%	2%	13%
Asset allocation	Backed by fixed income and real assets	Backed by fixed income and real assets	Backed 100% by investment grade fixed income
Distribution costs	Excluded from COE margin Included in expenses	Implicit in COE margin No distribution costs incurred	Limited distribution costs
Current COE margin	~4.3%	~3.7%	~2.0%
ROE (pre-tax)¹	>18%	>18%	>18%
	Long term track record of achieving 18% ROE	Lower COE margin with ROE benefiting from minimal distribution and operational costs	Lower COE margin with ROE benefiting from lower capital intensity

FY17 – Full year 30 June 2017

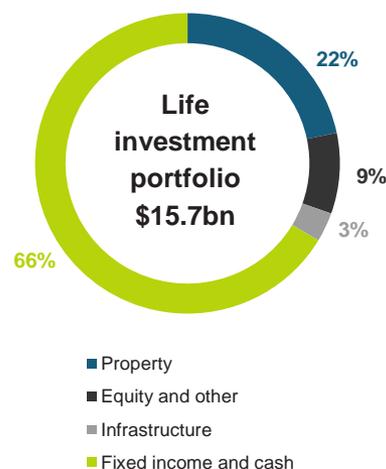
1. ROE represents Life normalised ROE (pre-tax).

Life investment portfolio

High quality portfolio providing reliable income

Fixed income (66%)

- \$1.1bn increase in FY17
 - 1H17 +\$0.2bn
 - 2H17 +\$0.9bn – including Challenger Capital Notes 2 (\$0.5bn)
- Investment grade 76%
- Credit default experience
 - 1 year +7 bps (recovery of prior defaults)
 - 5 year average -7 bps per year
- FY17 investment experience (+\$131m)
 - credit spreads contracted -55 bps
- 90% of RMBS investment grade
 - Australian historical default rate zero
- Availability of long-term fixed income investments increasing



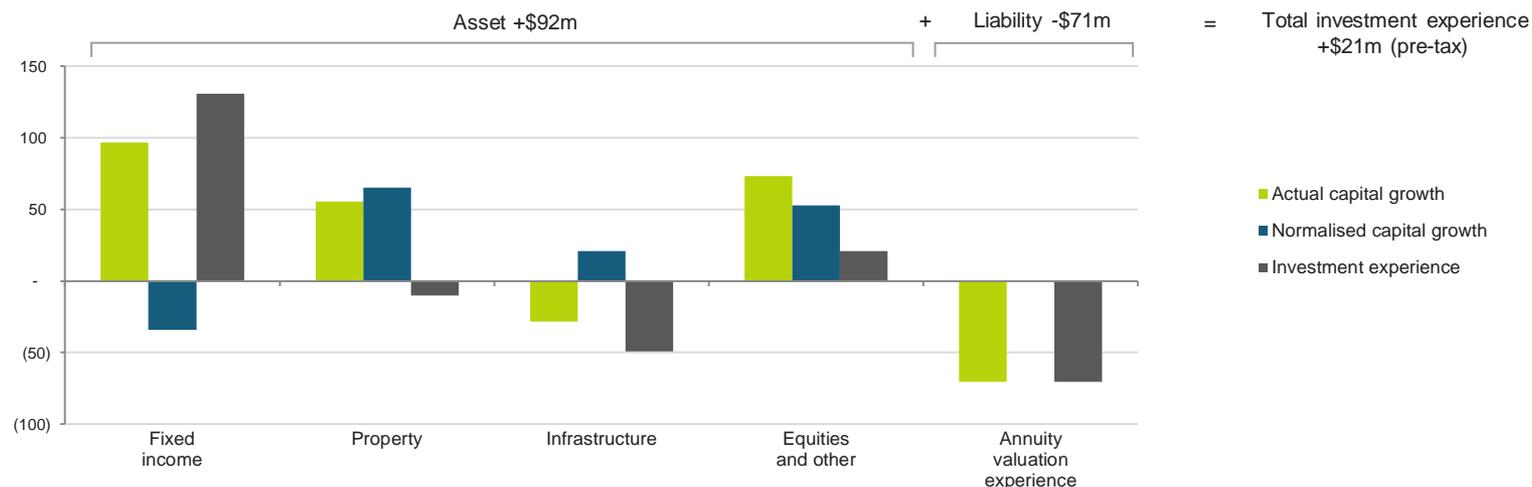
Property (22%)

- 1 property acquired (~\$60m)
 - Canberra office on 6.25% cap rate
- 4 properties disposed of (~\$100m)
 - average 6% premium to book
- ANZ new head office coming online over next two years (~\$200m)
- Renewing long-term leases
 - WALE ~5 years - expected to increase following renewal of long-term Government leases
- FY17 investment experience (-\$10m)
 - all properties independently valued
 - investment experience impacted by REITs
 - listed REITs fell ~10%
 - direct property revaluations +2% - in line with normalised assumptions

FY17 – Full year 30 June 2017

Life investment experience

Positive asset partially offset by liability experience



Asset investment experience (+\$92m)

- Fixed income +\$131m – refer page 23
- Property -\$10m – refer page 23
- Infrastructure -\$49m
 - 1H17 revaluation of an asset following repositioning and establishment of new long-term contract
- Equities and other +\$20m

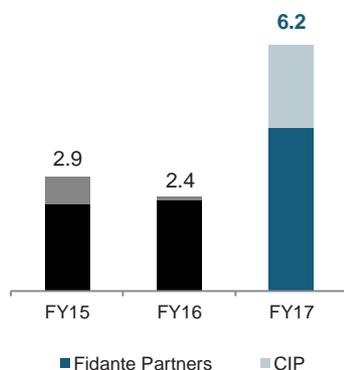
Annuity liability valuation experience (-\$71m)

- Illiquidity premium (-\$53m)
 - lower liability discount rate from contraction in credit spreads
- Net new business strain (-\$58m)
- Other assumption changes (+\$40m)
 - includes mortality and expense assumptions

Funds Management result

Strong net flows driving FUM and earnings growth

Net flows¹ (\$bn)



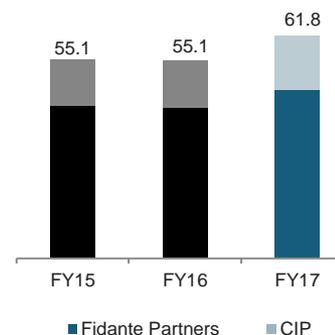
FY17 net flows \$6.2bn

Strong net flows for both
Fidante Partners and CIP²

Q417 +\$2.0bn

Strong equity and fixed
income boutique flows

Average FUM (\$bn)

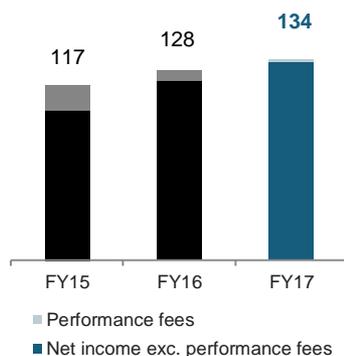


Average FUM up 12% or \$6.7bn

Fidante Partners +12%

CIP² +13%

Net income (\$m)



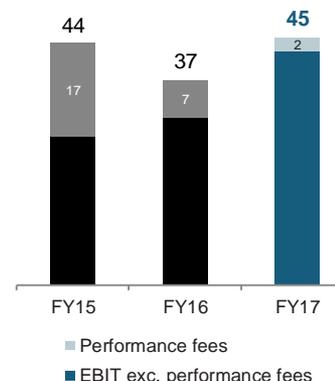
Up 5%

Higher average FUM offset by
lower performance fees

Up 9%

Excluding performance fees

EBIT (\$m)



EBIT up 21%

Net income up 5%
Expenses down 2%

Fidante Europe profitability
restored

Up 40%

Excluding performance fees

FY17 – Full year 30 June 2017

1. FY15 and FY16 represent organic net flows and exclude boutique acquisitions and disposals.
2. Challenger Investment Partners (CIP).

Funds Management performance

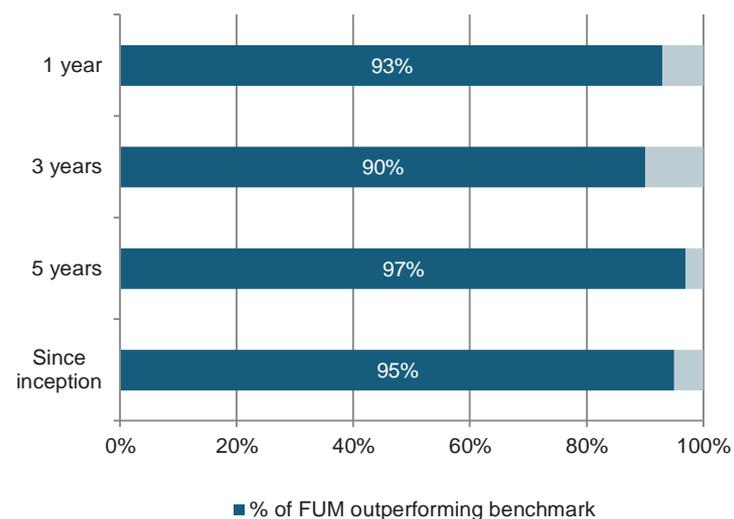
Long-term investment performance attracting net flows

Strong investment performance track-record

- Fund performance measured net of fees
- **Over one year** – 93% of FUM outperforming
 - up from 54% at December 2016
 - 44 of 45 fixed income strategies outperforming
 - 56 of 70 equity strategies outperforming
- Strong performance by new boutiques
 - Lennox Capital Partners (launched May 2017)
 - 5% above benchmark since launch
 - Avenir Capital (established 2001)
 - 5% above benchmark over one year
- **Over five years** – 97% of FUM outperforming benchmark

22% of Fidante Partners FUM eligible for performance fees

Fidante Partners' boutiques performance relative to benchmark¹



FY17 – Full year 30 June 2017

1. Investment performance represents percentage of FUM meeting or exceeding benchmark as at 30 June 2017.

Regulatory capital

Strongly capitalised to support growth

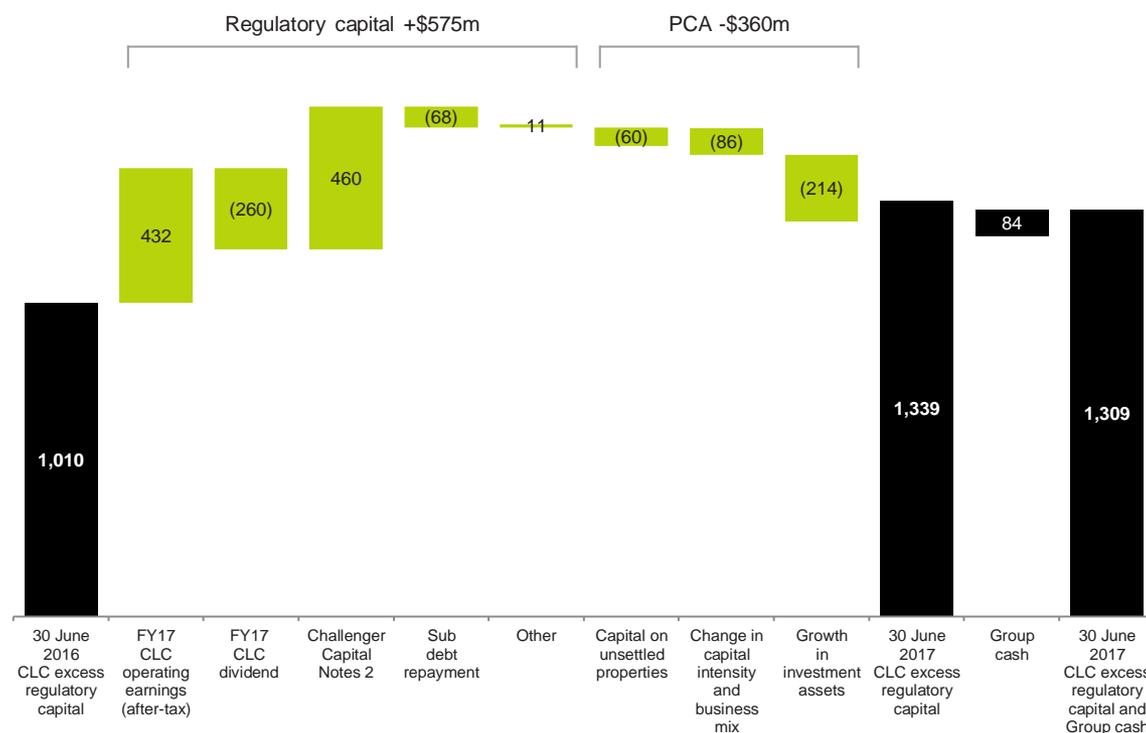
CLC excess capital

- \$1.3bn of excess regulatory capital and Group cash
- Increase in regulatory capital from retained earnings and Capital Notes 2
- Change in PCA includes
 - growth in investment assets (+\$1.6bn)
 - change in capital intensity (FY16 liquids now invested) and change in business mix
 - capital on ~\$200m of unsettled property

CLC PCA ratio¹

- CET1 ratio 1.01x
- PCA ratio 1.57x

Movement in CLC's excess regulatory capital (\$m)



FY17 – Full year 30 June 2017

1. Challenger Life Company Limited (CLC) total regulatory capital base divided by Prescribed Capital Amount (PCA).

Regulatory capital

Capital initiatives undertaken to support growth

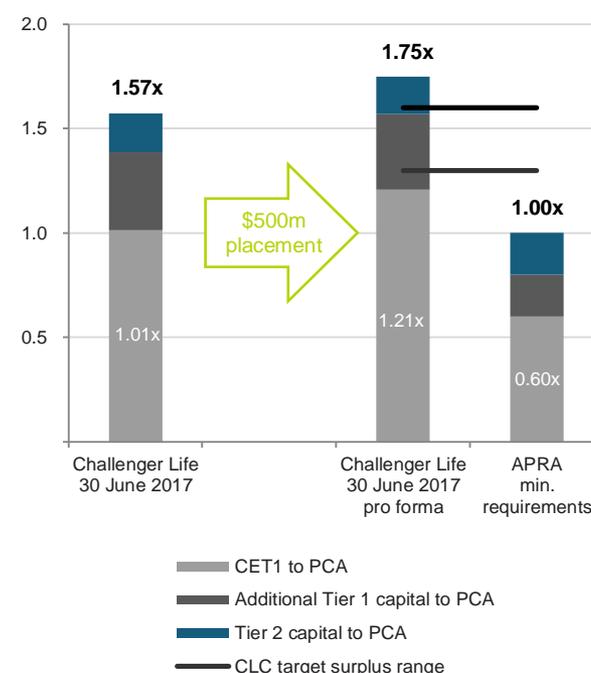
Challenger Capital Notes 2

- Offer upsized from \$350m to \$460m
- 4.40%¹ p.a. margin (bottom end of guidance range)
- Effective source of funding with franking credits reducing interest expense

Pro forma CLC capital ratios

- Pro forma includes
 - \$500m equity placement to MS&AD to be issued on 23 August 2017 increases CLC's Common Equity Tier 1
 - PCA increase based on 30 June 2017 capital intensity ratio
- CLC capital ratios
 - CLC excess capital increases to \$1.7bn (from \$1.2bn)
 - PCA ratio 1.75 times (from 1.57 times)
 - CET1 ratio 1.21 times (from 1.01 times)

Pro forma CLC PCA ratio²

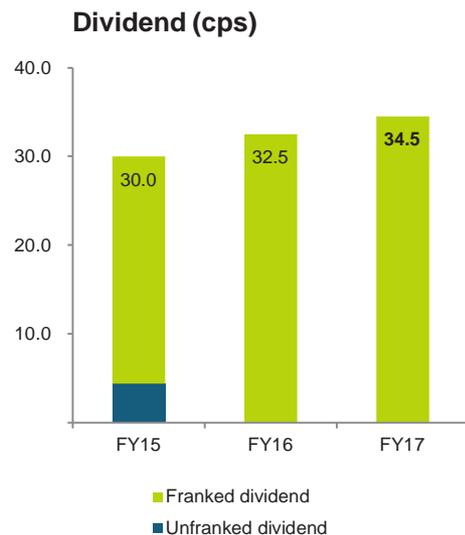


FY17 – Full year 30 June 2017

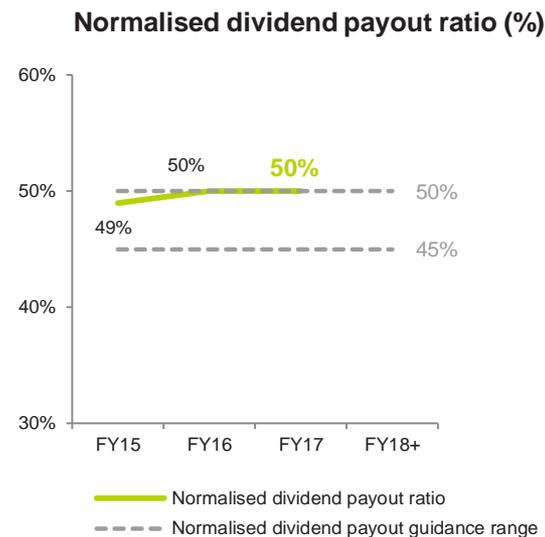
1. Margin above 90 day Australian Bank Bill Rate.
2. Pro forma CLC capital ratios include \$500m MS&AD placement to be issued on 23 August 2017 and 30 June 2017 capital intensity ratio of 13.7% of investment assets.

Dividends

Increasing shareholder returns



- FY17 dividend 34.5 cps (100% franked)
 - up 6% on FY16
- 2H17 dividend 17.5 cps (100% franked)
 - up 6% on 2H16



- Dividend payout ratio 50%¹
 - within payout guidance range (45% to 50%)
- Dividend Reinvestment Plan (DRP)
 - reduced cash payout ratio by ~2%²
- Dividend payout guidance maintained
 - 45% to 50% of normalised NPAT³

FY17 – Full year 30 June 2017

1. Normalised dividend payout ratio based on normalised EPS.
2. For the 2017 interim dividend, the Dividend Reinvestment Plan (DRP) reduced the effective cash dividend payout ratio by 2%.
3. Normalised dividend payout ratio and franking levels subject to market conditions and capital allocation priorities.

Outlook

Brian Benari

Managing Director and
Chief Executive Officer

A clear plan for long-term growth

FY18 strategic priorities



Grow allocation to secure and stable retirement incomes

- Focus on MyRetirement reforms
- Standard Life ARGBS¹ rollout
- Launch DLAs



Be the market leader and partner of choice

- Leading adviser and consumer ratings
- AMP and BT operational
- Leverage MS&AD strategic relationship



Provide relevant and superior investments for customers

- Add new boutiques / strategies
- Build-out Fidante Europe
- New 3rd party CIP offerings



Sustainable business practices to deliver superior outcomes

- Innovation and efficiency through agility
- Employee engagement above GHPN²
- Maintain superior cost to income ratio³

FY17 – Full year 30 June 2017

1. Absolute Return Global Bond Strategy (ARGBS).
2. Willis Towers Watson Global High Performing Norm (GHPN).
3. Medium term normalised cost to income ratio guidance of 30% to 34%.

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 term¹

FY18 – impacted by higher levels of capital until fully deployed

Maintain normalised dividend payout ratio

45% to 50% of normalised NPAT²

FY17 – Full year 30 June 2017

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.

Highlights

Record results

Strategic relationship and equity placement

Positioned for future growth

FY17 highlights

Record results underpinned by strong AUM growth

Leading outcomes across multiple performance measures

FY17 strategic initiatives

Significant progress against long-term plan

Positioned for future growth

Disciplined implementation of strategy

Life book growth accelerating

Strategic relationship with MS&AD and funding future growth

Appendix

**additional background
information**



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

Business overview

Two core businesses benefiting from super system growth

Challenger Limited (ASX:CGF)

Life

#1 market share in annuities¹

Life

Leading provider of annuities and guaranteed retirement income solutions in Australia

Partnering with the leading provider of Australian dollar annuities in Japan

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

Funds Management

One of the fastest growing fund managers²

Fidante Partners

Co-owned, separately branded, active fixed income, equity and alternative boutique investment managers. Includes Fidante Partners Europe following the acquisition of Dexion Capital in July 2015

Challenger Investment Partners

Originates and manages assets for Life and 3rd party investors

Distribution, Product and Marketing (DPM)

Central functions

Operations, Finance, IT, Risk Management, HR, Treasury, Legal and Strategy

FY17 – Full year 30 June 2017

1. Annuity market share – Strategic Insights.

2. Consolidated FUM for Australian Fund Managers – Rainmaker Roundup March 2012 - 2017.

Australian superannuation system overview

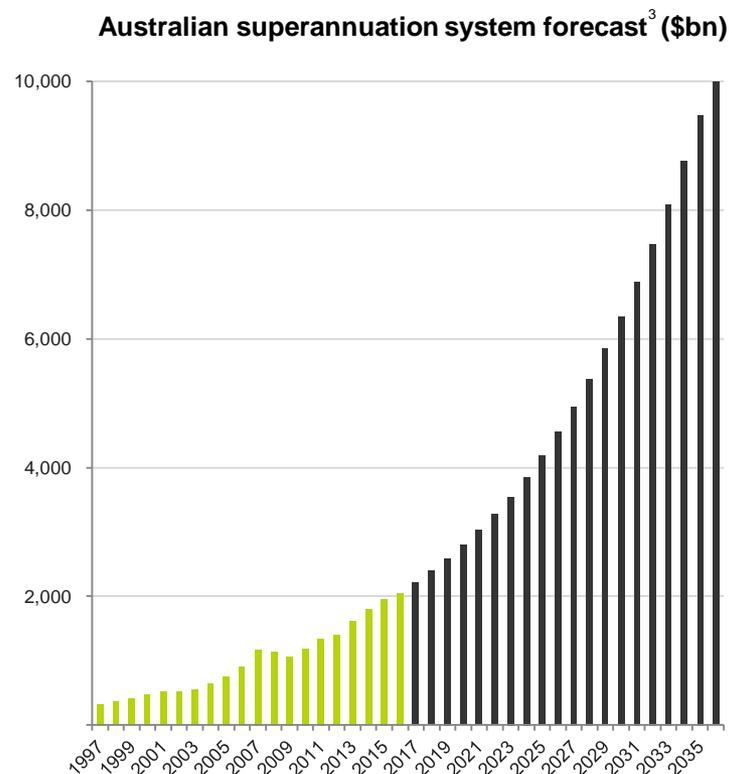
FY17 – Full year 30 June 2017

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 >\$4 trillion over next 10 years²
 - quintuple to ~\$10 trillion over next 20 years²
- System growth supported by
 - mandatory and increasing contribution rate
 - ageing demographics
 - Government enhancing retirement phase



FY17 – Full year 30 June 2017

1. Towers Watson Global Pension Study 2017.
2. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.
3. 1997 to 2016: APRA data. 2017 to 2035: Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.

Strategy targeting superannuation system

Attractive market with long-term structural drivers

Contribution rate

- Increasing from 9.5% to 12%¹ (of wages)
- \$104bn of super contributions in 2016²

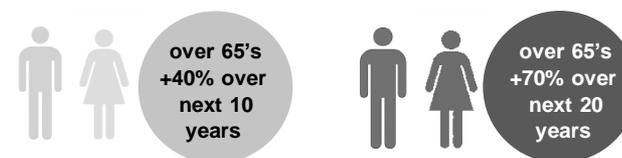
Superannuation Guarantee (SG) contribution rate¹



Demographics

- Supportive demographics from ageing population
- Post-retirement super phase growing fastest
- Australians have one of world's longest life expectancies
- Medical and mortality improvements increasing longevity

Australians over 65s increasing³



FY17 – Full year 30 June 2017

1. 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.
2. APRA statistics – Annual Superannuation bulletin June 2016.
3. Australian Bureau of Statistics population projections.

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

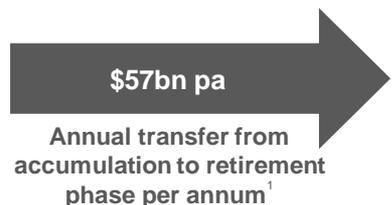
Super 'spending'

Life target market

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

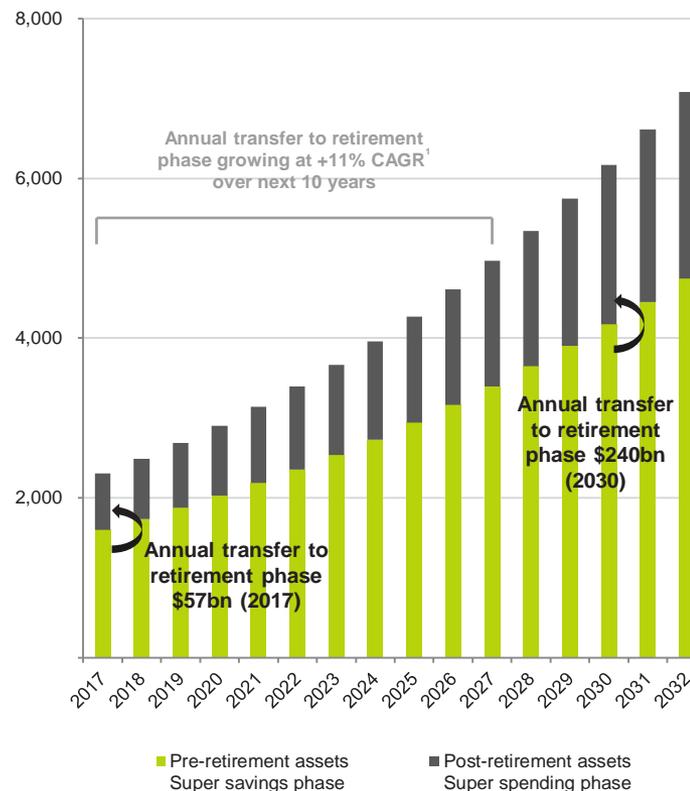
Accumulation phase

Retirement phase



- increasing 11% CAGR over next 10 years¹
- Challenger Life only capturing <5% of annual transfer

Projected superannuation assets 2017 – 2035¹ (\$bn)

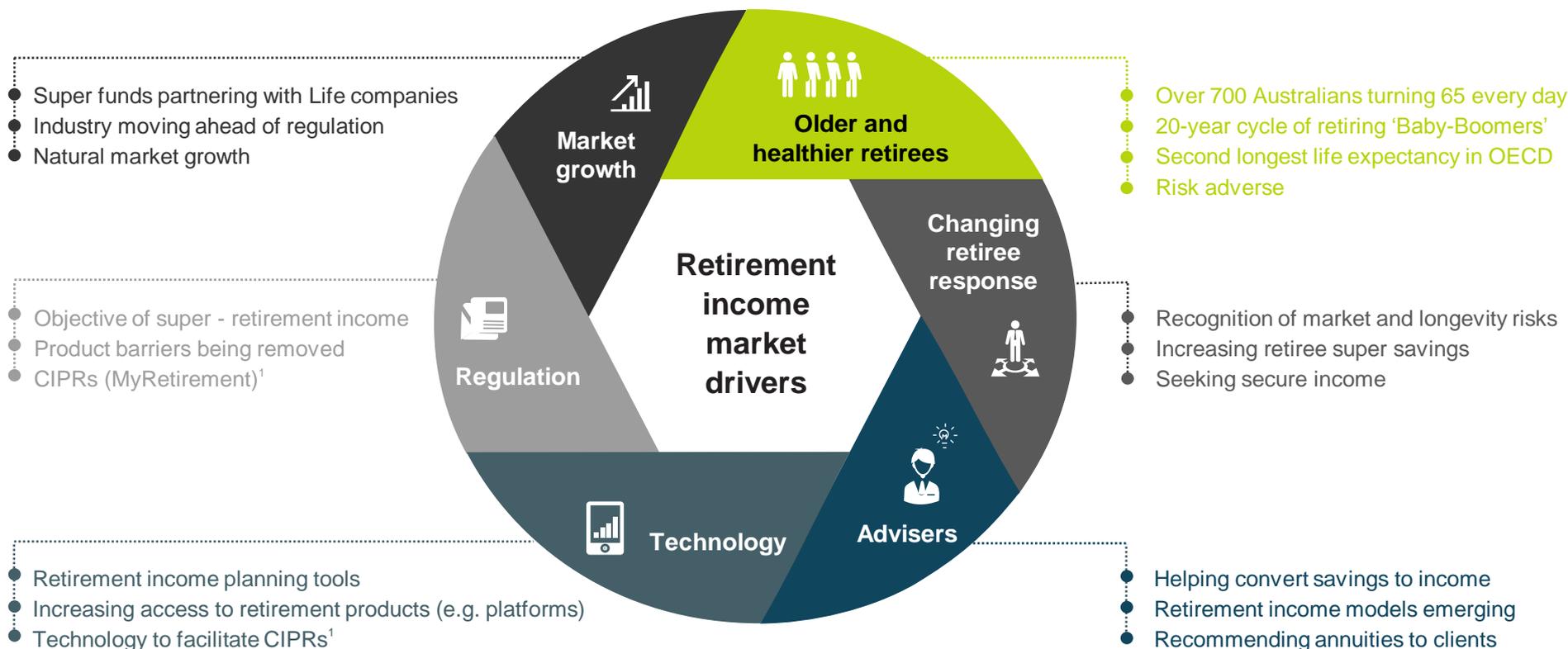


FY17 – Full year 30 June 2017

1. Rice Warner 2016 Super Projections.

Retirement phase market drivers

Market leader well positioned in high growth market



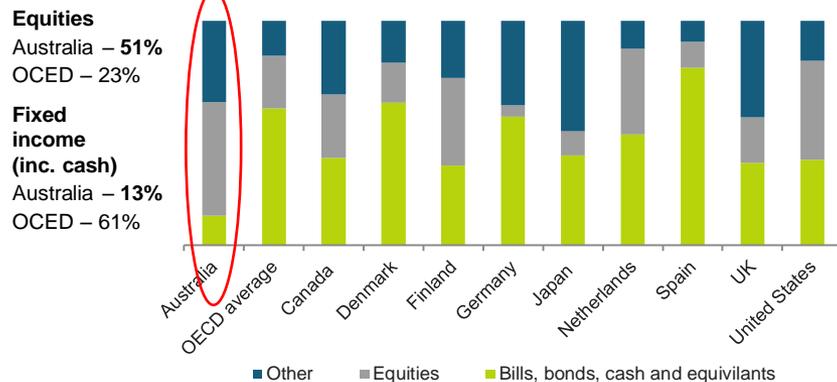
FY17 – Full year 30 June 2017

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

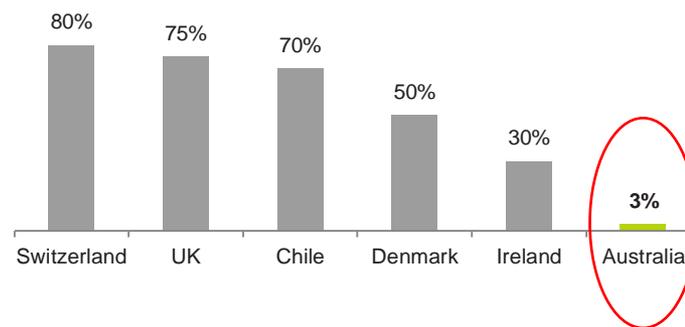
Australia's superannuation system

High allocation to equities ... low allocation to fixed income

Australia has low fixed income and high equity allocations¹

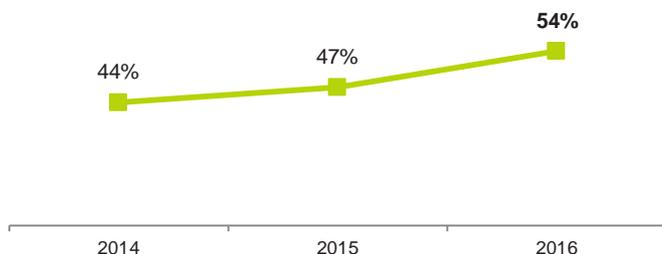


Australia's usage of annuities is low²



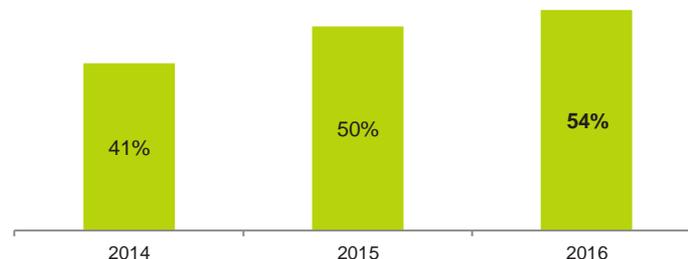
Client interest in annuities increasing³

(% of advisers receiving annuity enquiries from clients)



Adviser support for annuities increasing³

(% of advisers that will recommend annuities over next five years)

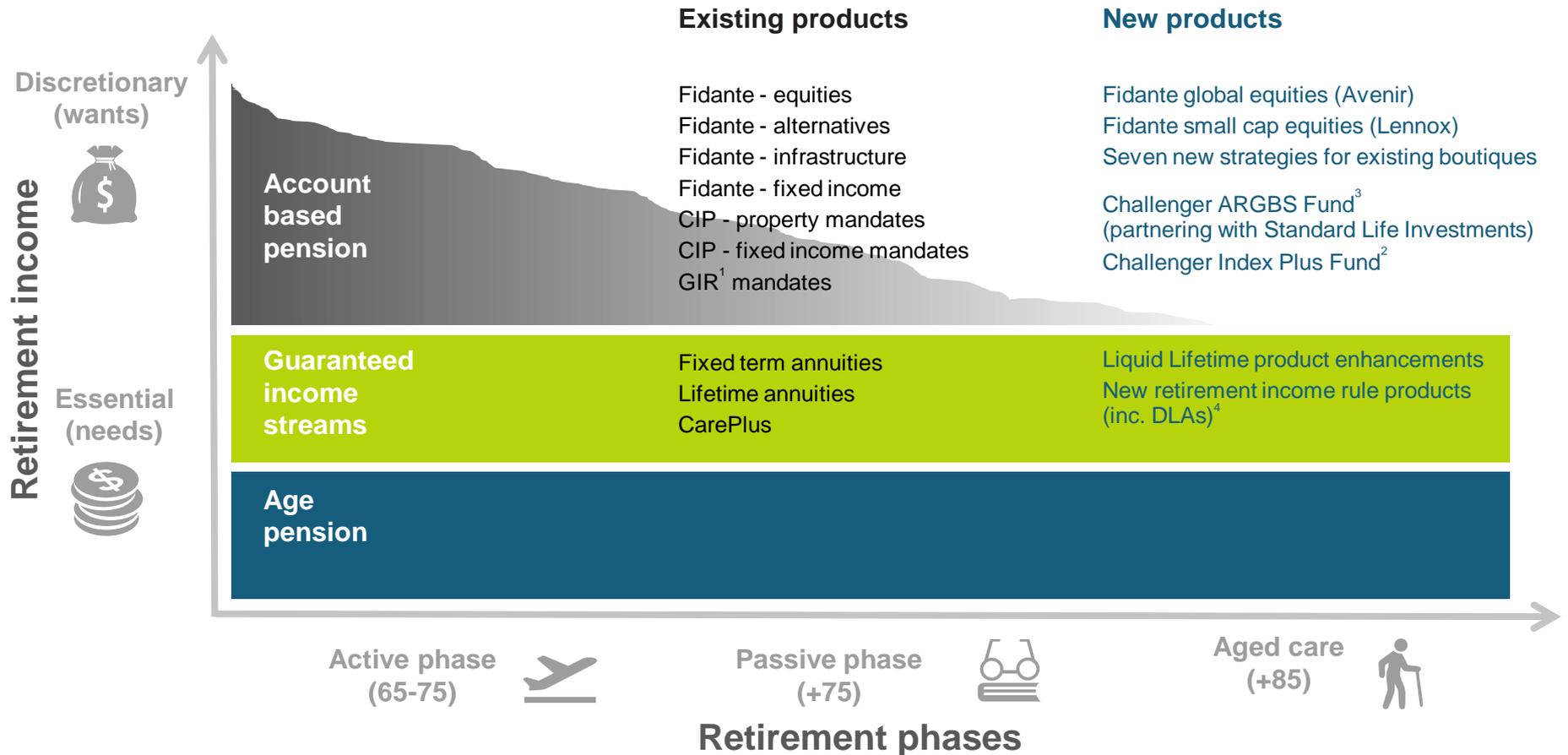


FY17 – Full year 30 June 2017

1. OECD Pension Markets in Focus – 2016.
 2. Public Pension Institute, Briefing Paper 66: Freedom and Choice in Pensions. Australia source: Wealth Insights 2016.
 3. Source: Marketing Pulse Adviser study.

Portfolio construction

Retiree needs addressed through income layering



FY17 – Full year 30 June 2017

1. Guaranteed Index Return (GIR).
2. Challenger Absolute Return Global Bond Strategies Fund is a registered Australian managed investment scheme that will interfund into the Australian hedged share class of the Standard Life Investments Absolute Return Global Bond Strategies Fund.
3. Challenger Index Plus Fund is a pooled GIR product launched in Q217.
4. New retirement income rules commenced 1 July 2017. Challenger launching DLA in FY18.

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)
- Social security means testing submission completed
- Key legislation passed parliament
- Commenced 1 July 2017

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

Regulation

Reforms well underway ... setting overall industry direction

Regulatory reform	Retirement Income Streams Review <i>Remove regulatory barriers restricting income stream products (e.g. DLAs)</i>	Objective of Superannuation <i>Enshrine objective of superannuation in legislation</i>	CIPRs (MyRetirement) <i>To help guide retirement income decision-making</i>
Financial System Inquiry (FSI) recommendation	✓ Dec 2014	✓ Dec 2014	✓ Dec 2014
Industry consultation	✓ Review – Sep 2014 Social Security – Feb 2017	✓ Apr 2016	✓ Closed Jul 2017
Legislation released by Government	✓ Oct 2016	✓ Oct 2016	
Legislation passed House of Representatives	✓ Nov 2016	✓ Nov 2016	
Legislation passed Senate	✓ Nov 2016	Currently being debated	
Regulations	✓ Jun 2017 ¹	Consultation closes Feb 2017	
Implementation date	1 July 2017	Following royal assent	Not before mid-2018



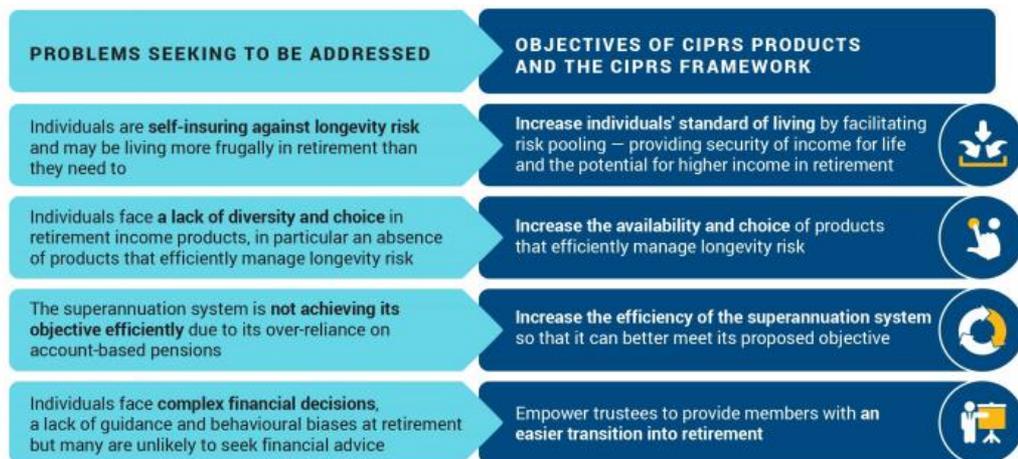
FY17 – Full year 30 June 2017

1. Awaiting final outcomes of means testing treatment.

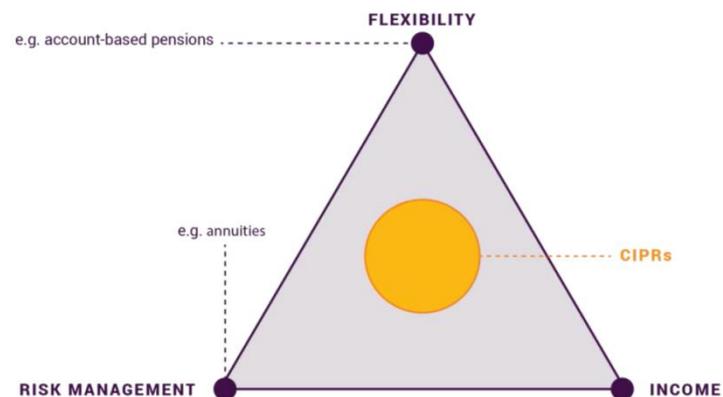
Government enhancing retirement phase

CIPR (MyRetirement) overview¹

Problems and objectives of proposed framework for CIPRs



CIPRs to provide stream of broadly consistent real income for life



FY17 – Full year 30 June 2017

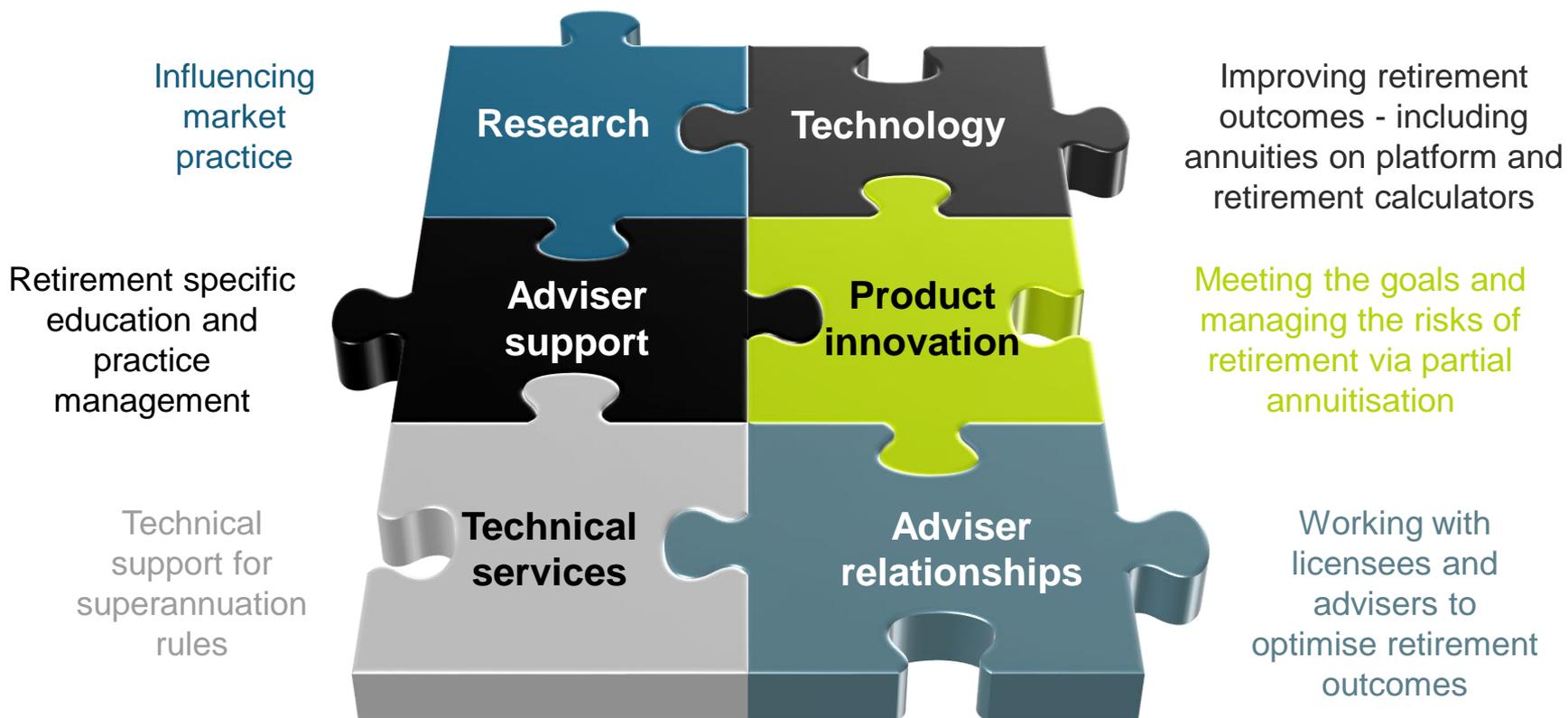
1. Extract from the discussion paper issued by the Australian Government on 15 December 2016 - Development of the framework for Comprehensive Income Products. Available at www.consult.treasury.gov.au.

Life – Distribution, Product and Marketing (DPM)

FY17 – Full year 30 June 2017

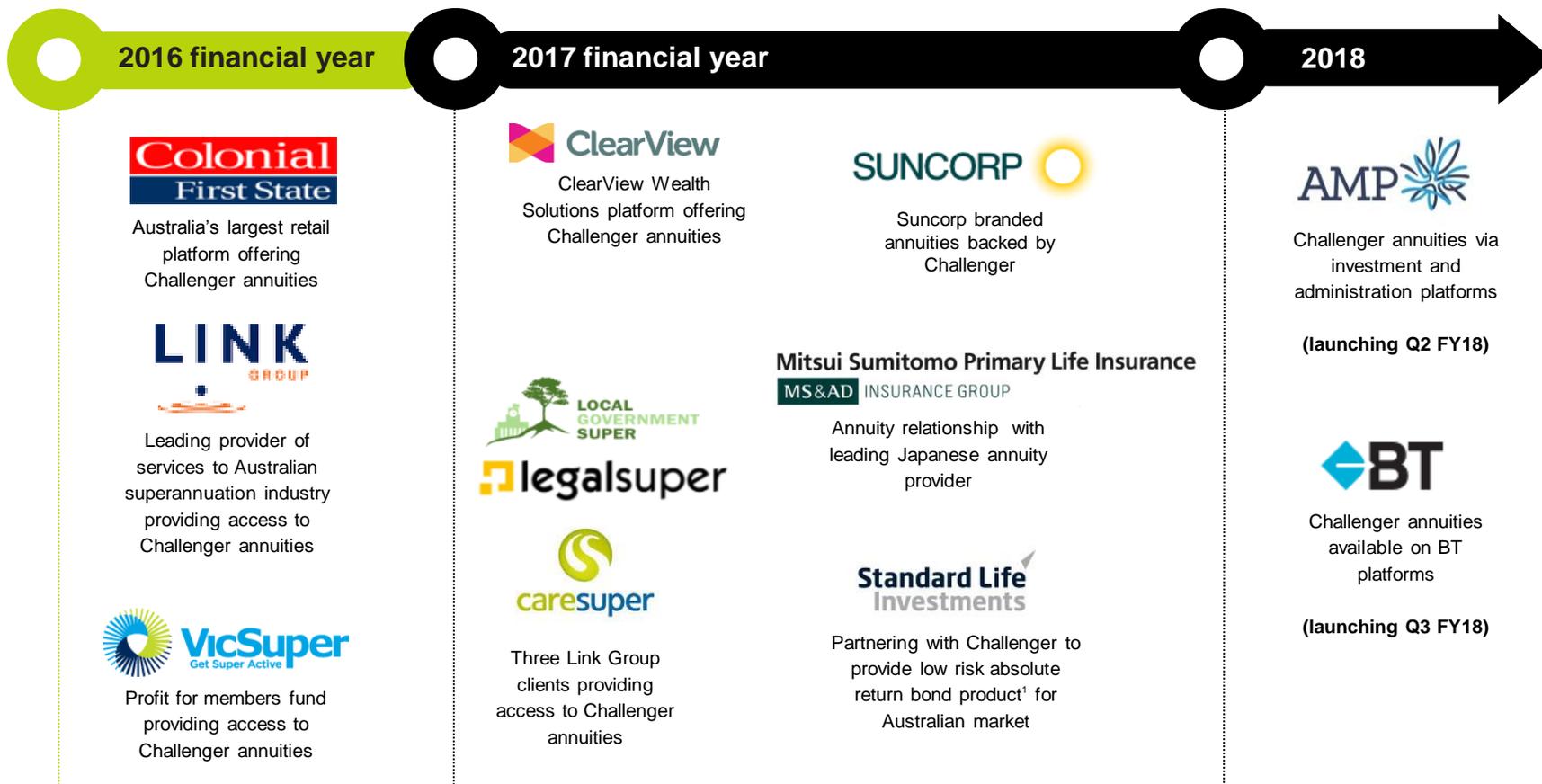
Distribution

A competitive advantage driving long-term growth



New relationships

Industry moving ahead of regulation – using annuities to build CIPRs



FY17 – Full year 30 June 2017

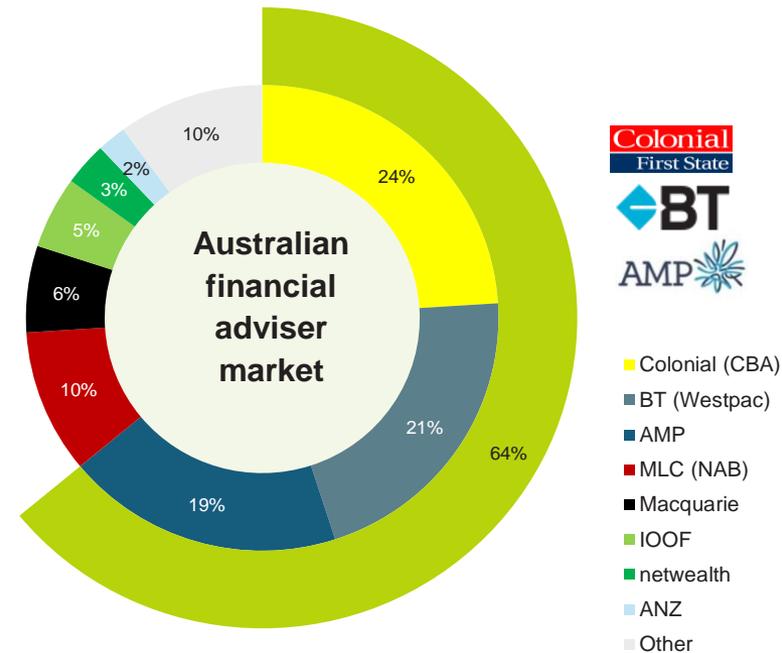
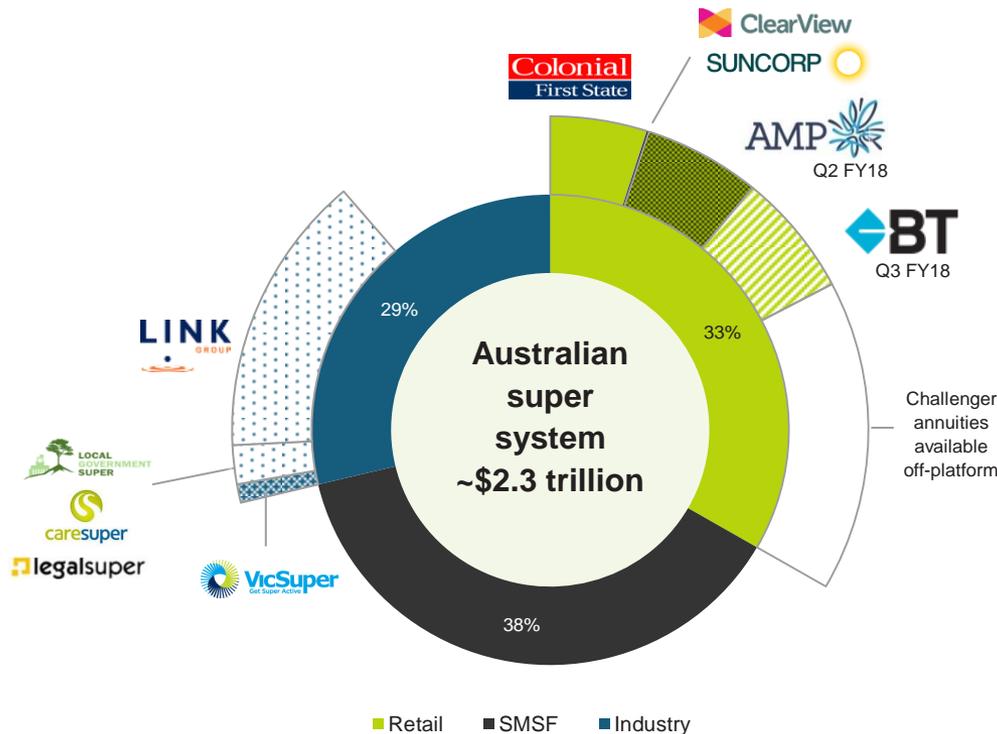
1. Standard Life Absolute Return Global Bond Strategy (ARGBS) and aims to provide positive investment returns in the form of income and capital growth in all market conditions over the medium to long term.

New relationships strengthening leadership

Platforms broadening access to Challenger annuities

New platform relationships
Provides access to ~1/3rd
of super industry FUM^{1,2}

New platform relationships
Provides access to ~2/3rd's
of financial advisers^{3,4}

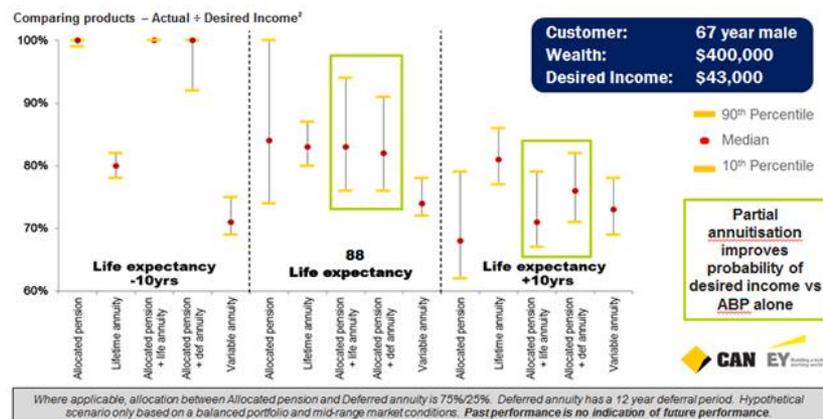


FY17 – Full year 30 June 2017

1. Following launch of AMP and BT, new platform relationships will provide access to one third of Australian superannuation industry FUM.
2. Australian super system size based on APRA annual superannuation bulletin and market share based on Strategic Insights analysis of retail managed funds.
3. Following launch of AMP and BT, new platform relationships will provide access to two thirds of Australian financial advisers.
4. Wealth Insights 2016 Adviser Market Trends Report - provider footprint (primary platform used by advisers).

Platform relationships

Colonial First State (CFS) case study



- ✓ Annuity + Age Pension meets desired income floor.
- ✗ Market-linked portfolio meets client risk tolerance expectations
- ✓ Combined portfolio meets expectations for desired income/capital longevity.

Why annuities may be Australia's missing piece.

*“annuities need to be one tool in the financial adviser’s toolbox”
“we believe that an account based pension with a lifetime annuity or some sort of deferred lifetime annuity will be a good solution for Australian retirees”*

- Based on Ernst & Young stochastic model¹
 - to determine product combinations delivering better client outcomes
 - concluded combining a lifetime annuity with account based pension often provides superior outcomes
- CFS retirement income models launched
 - supported by independent actuarial research¹
 - layering annuities as part of retirement solution
- Annuities on platform - very positive adviser feedback
 - more likely to use annuities; simple to use
 - easy origination process
 - easy for both advisers and clients to view their portfolio in one place
- Significant increase in Colonial sales following annuities on platform initiative
- FY17 Colonial platform sales up ~70% on FY16

FY17 – Full year 30 June 2017

1. 'Optimal solution to the retirement riddle', Actuaries Summit, May 2015.

MS Primary relationship

Partnering with leading provider of AUD annuities in Japan

- Large and established Japanese AUD annuities market
 - growth driven by ageing population and low domestic interest rates
 - AUD annuity market multiple times the size of Australia's
- MS Primary
 - wholly owned subsidiary of MS&AD Insurance Group Holdings
 - A\$28bn of AUD annuities inforce¹
 - extensive distribution footprint via bancassurance channel
- MS Primary attracted to Challenger's
 - long term asset, liability and risk management capability
 - product innovation capability
 - longevity risk experience
- Challenger issuing 20 year AUD fixed rate annuity
 - to support reinsurance agreement with MS Primary
 - similar to Challenger's existing fixed rate annuity product
 - commenced 1 November 2016

Mitsui Sumitomo Primary Life Insurance

MS&AD INSURANCE GROUP

Product overview

- ▶ Single premium product
- ▶ Whole-of life product with annuity payment period of 5, 10 or 20 years plus benefit payable on death
- ▶ Product provides insurance (whole-of life)
 - provided by MS Primary at end of 20 year fixed annuity term
- ▶ Challenger providing 20 year fixed rate amortising annuity – MS Primary assumes residual policy value at end of 20 year period
- ▶ Challenger assumes no currency risk as product AUD denominated
- ▶ Invested in same key asset classes as existing Challenger Life investment portfolio
- ▶ Guaranteed rate for new business can be revised for changes in markets (e.g. interest rates)

FY17 – Full year 30 June 2017

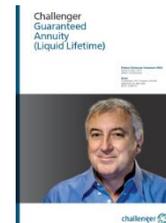
1. As at 31 March 2017.

2. Japan Cabinet Office – 2015 Annual Report on Ageing.

Life Australian product overview

Providing guaranteed income and peace of mind

Product category	% of total book	Key features
Fixed term annuities Guaranteed Annuity Guaranteed Income Plan Guaranteed Income Fund Guaranteed Pension Fund	53%	<ul style="list-style-type: none"> ✓ Available on leading platforms ✓ Guaranteed rate for a fixed term ✓ Payment frequency options ✓ Inflation protection options ✓ Ability to draw capital as part of regular payments ✓ Tax free income¹
Lifetime annuities Liquid Lifetime CarePlus	33%	<ul style="list-style-type: none"> ✓ Guaranteed payments ✓ Inflation protection options ✓ Payment for life ✓ Liquidity options ✓ Tax free income¹ <ul style="list-style-type: none"> ✓ Designed for aged care recipients ✓ Guaranteed payments for life ✓ Up to 100% death benefit
Other Guaranteed Index Return (GIR) Challenger Index Plus Fund ²	14%	<ul style="list-style-type: none"> ✓ Institutional product ✓ Guaranteed fixed income returns



More information
www.challenger.com.au/products

FY17 – Full year 30 June 2017

1. If bought with superannuation money and in retirement phase.
2. Challenger Index Plus Fund is a pooled GIR product launched in Q217.

Brand strength

Brand strengthening with consumers¹, leading with advisers²

2011
'Real Stories'



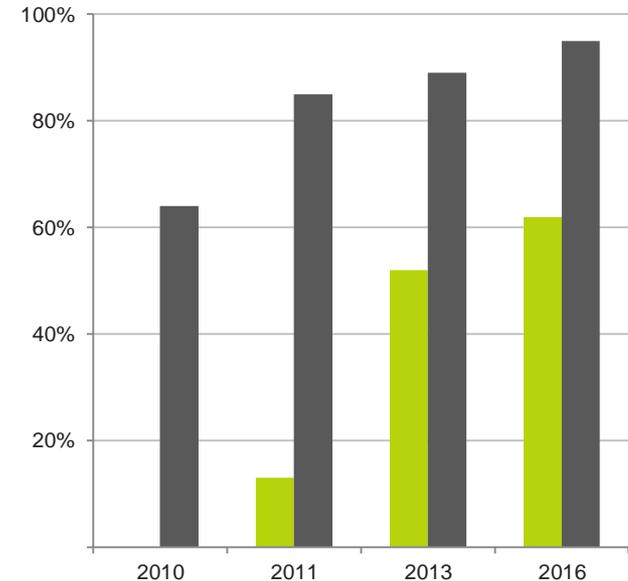
2013
'On Paper'



2016
'Lifestyle Expectancy'



Brand strength



■ Consumers

■ Advisers

'Prompted brand awareness'

'Leaders in retirement income'

FY17 – Full year 30 June 2017

1. Newspoll Consumer Study.
2. Marketing Pulse Adviser study.

Highly rated by advisers

Challenger No.1 in overall adviser satisfaction

Challenger annuities service analysis conducted by Wealth Insights and compared to the broader market¹

High profile industry survey

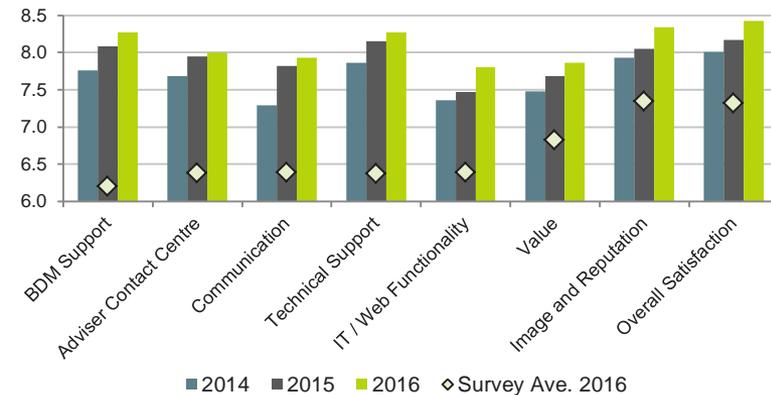
- over 850 financial advisers
- how clients regard Challenger vs. peers

Challenger ranked No.1

- ✓ BDM Team (5th consecutive year)
- ✓ Technical Services (first time)
- ✓ Client Services (first time)
- ✓ Image and Reputation (first time)
- ✓ Overall Satisfaction (first time)

Challenger clear leadership in retirement incomes²

Challenger annuities service analysis conducted by Wealth Insights¹



Wealth Insights net promoter score³



FY17 – Full year 30 June 2017

1. Challenger annuities service level analysis conducted by Wealth Insights and compared to the broader market.
2. Marketing Pulse Adviser study.
3. Wealth Insights Adviser Trends 2016.

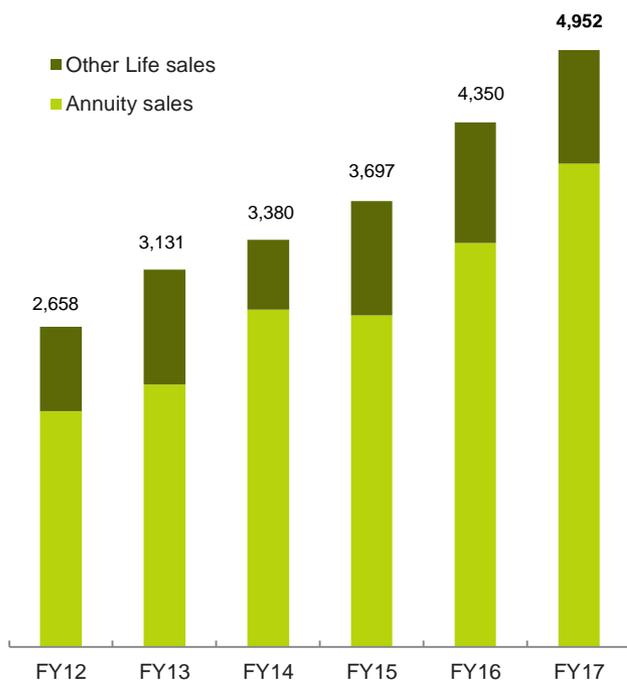
Life - financials

FY17 – Full year 30 June 2017

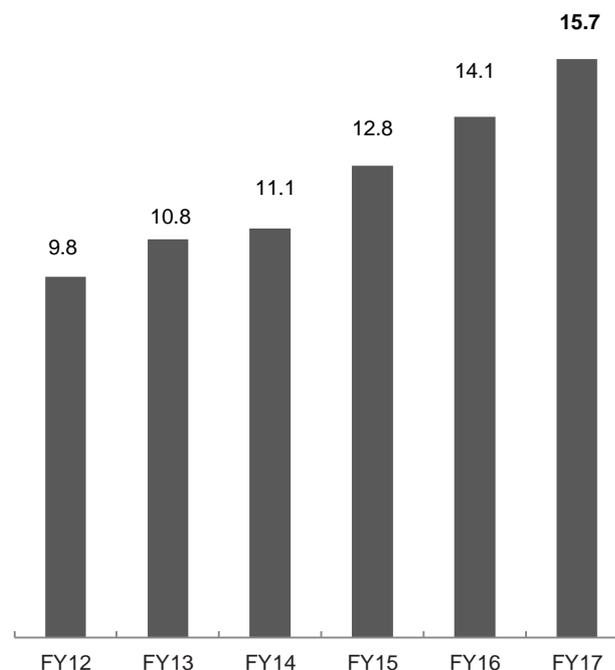
Life

Sales and AUM benefiting from new relationships

Total Life sales (\$m) – 13% CAGR over 5 years



Life AUM (\$bn) – 10% CAGR over 5 years



Average policy amount - Fixed term ~\$200,000 and Lifetime ~\$100,000

FY17 – Full year 30 June 2017

Life

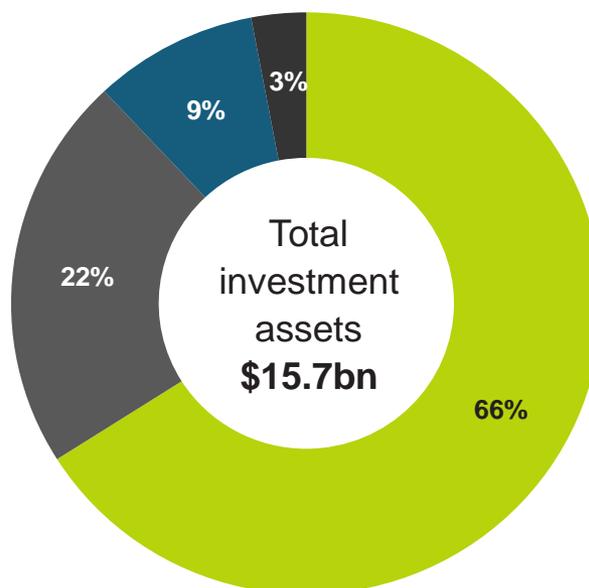
Investment portfolio overview

Equity and other (9%)

- 73% offshore equities
- 27% domestic equities
- 62% beta equities
- 38% alternatives and other

Property (22%)

- 90% domestic assets
- 10% offshore (Japan 7%)
- 32% Government tenants
- 54% Investment grade tenants



Infrastructure (3%)

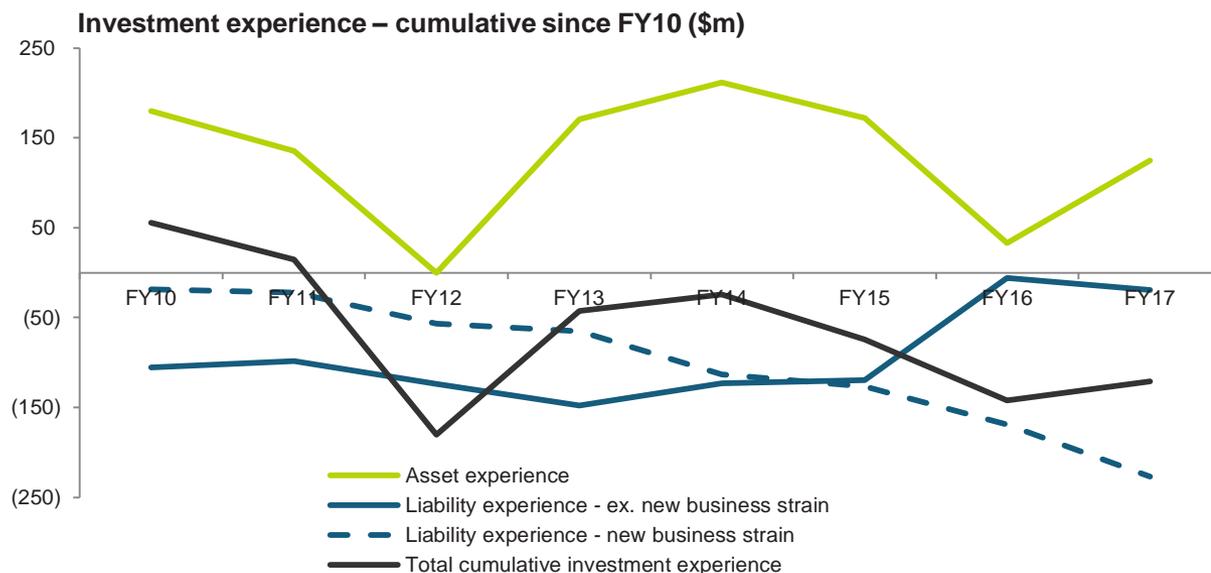
- 60% unlisted investments
- 40% listed investments
- 66% domestic assets
- 34% offshore assets

Fixed income (66%)

- 76% investment grade
- 78% externally rated
- 14% cash and Government bonds
- 42% Asset Backed Securities (ABS)
- 44% Corporate Credit

Normalised profit framework

Reflects underlying performance of Life business



Investment experience overview

Asset and liability valuation movements are reported as investment experience. These movements are generally non-cash, and by separating them from the Life business result, Life's reported earnings more closely represent the cash earnings of the business.

Investment experience since FY10

Asset experience	+\$125m
Liability – exc. new business strain	-\$19m
Liability – new business strain	-\$227m
Total investment experience	-\$121m

Asset experience

Difference between expected capital growth (based on normalised assumptions) for each asset class through the investment cycle compared to actual investment return.

Normalised assumptions:

- Fixed income -35 bps p.a. (credit default allowance)
- Property 2.0% p.a.
- Infrastructure 4.0% p.a.
- Equities and alternatives 4.5% p.a.

Liability experience

Impact of changes in macroeconomic variables on the valuation of Life's liabilities, including changes to bond yields, inflation factors, expense assumptions, new business strain and other factors.

New business strain (-\$227m since FY10) – Term annuities are valued at fair value and lifetime annuities using a risk-free discount rate, both based on the Australian Commonwealth Government bond curve plus an illiquidity premium. Life tends to offer annuity rates which are higher than these rates, as a result on writing new annuity business a loss is recognised due to using a lower discount rate. This loss is a non-cash item and unwinds over the period of the annuity contract.

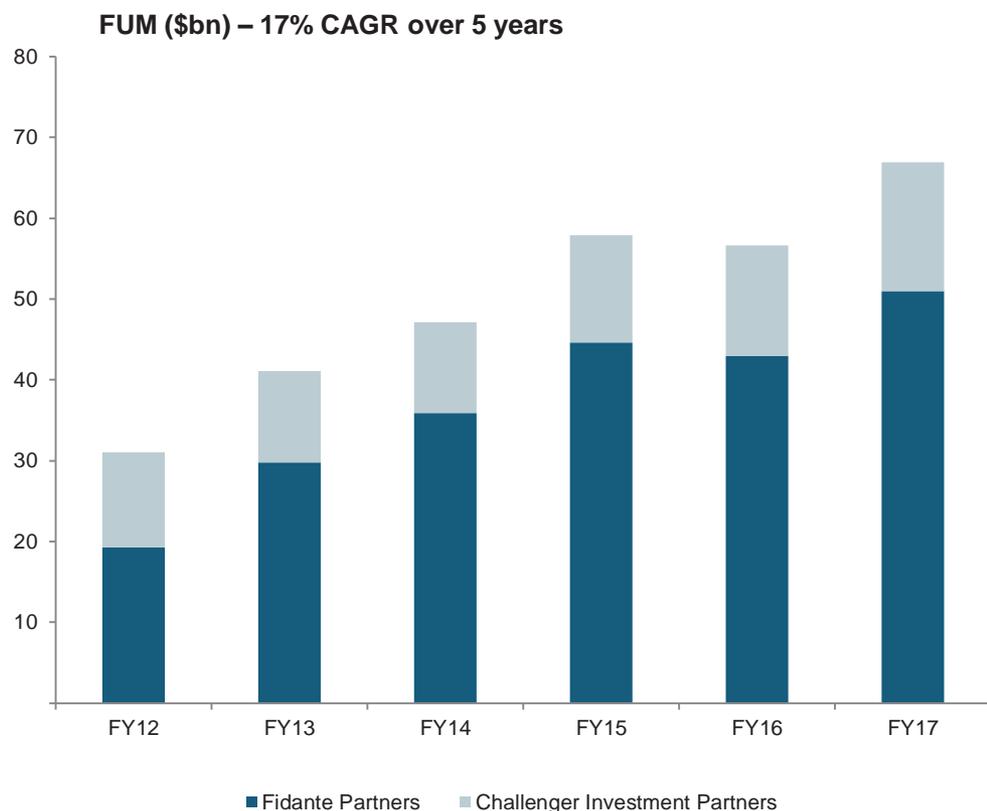
FY17 – Full year 30 June 2017

Funds Management

FY17 – Full year 30 June 2017

Funds Management

Strong FUM growth track record



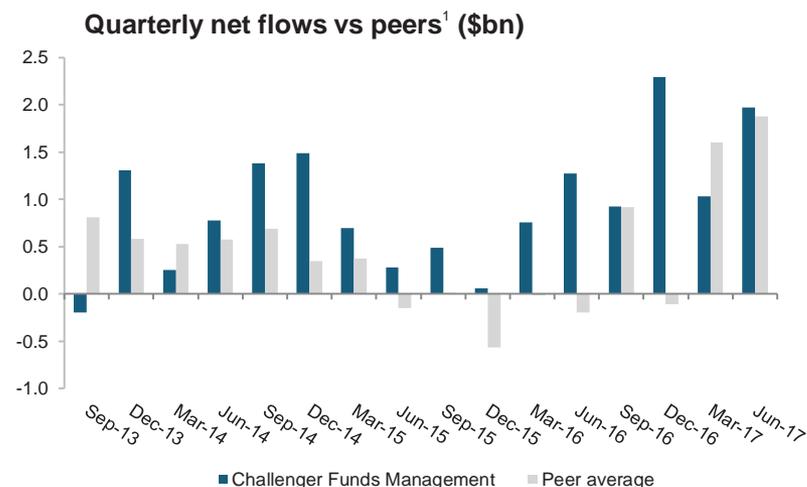
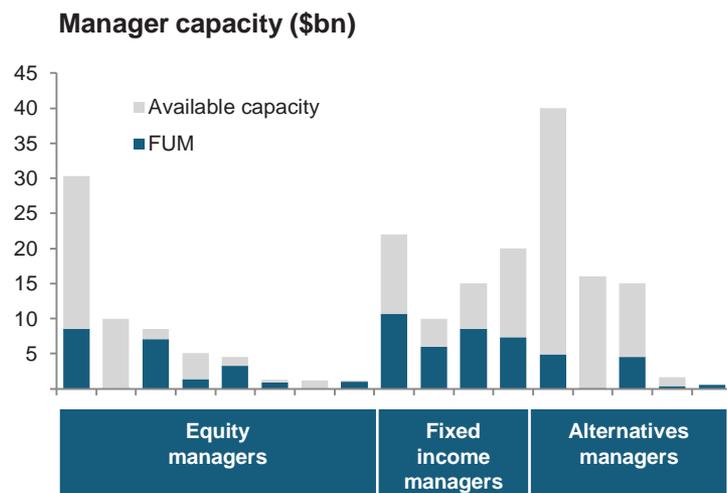
- Funds Management FUM \$67bn, up from \$31bn 5 years ago
 - annual growth 17% p.a.
 - market growth 10% p.a¹
- Fidante Partners
 - 15 boutique brands
 - geographic and asset class diversification
 - replicating model in Europe
- Challenger Investment Partners (CIP)
 - proven track record in asset origination and investment performance
 - continued growth in 3rd party client base

FY17 – Full year 30 June 2017

1. Rainmaker Roundup – March 2017.

Funds Management

Growth supported by available capacity and superior flows



- ~\$140bn of available capacity provides solid platform for future growth
- Boutique product expansion and Emerging Manager Program to maintain capacity

- Funds Management net flows have consistently outperformed peers
- Net flows benefit from superior long term performance and an aligned business model that appeals to investors

FY17 – Full year 30 June 2017

1. Quarterly net flows for peers, including AMP Capital Investors, BTIM, Magellan, Pacific Current Group, Perpetual, and Platinum. June 2017 peer net flows includes only those that have reported June 2017 data by 15 August 2017.

FM - multiple brands and strategies

Scalable and diversified ~\$67bn¹ of FUM



FY17 – Full year 30 June 2017

1. Funds Under Management (FUM) as at 30 June 2017.

FM - Fidante Partners

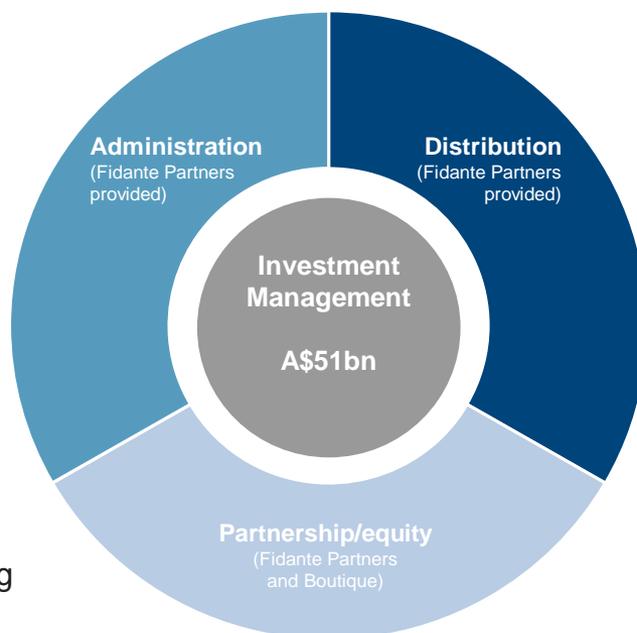
Contemporary model with strong alignment of interests

Administration services

- Investment operations
- Client operations
- Compliance
- IT infrastructure
- Finance
- Human Resources
- Company secretarial
- Facilities

Partnership

- Equity participation (non-controlling interest)
- Business planning, budgeting, strategic development, succession planning



Distribution services

- Asset consultant & researcher relationships
- Strategic positioning
- Product development & management
- Brand development & marketing support
- Sales planning & execution
- Investor relationships
- Client service
- Responsible entity



FY17 – Full year 30 June 2017

FM - Fidante Partners boutique managers

Diversified managers and investment strategies

Fidante Partners		
Boutique	Investment date	Asset class
 Alphinity	Aug 2010	Australian equities
 ARDEA Investment Management	Nov 2008	Australian fixed income
 AVENIR CAPITAL	Feb 2017	Global equities
 BENTHAM ASSET MANAGEMENT	Jun 2010	Global credit portfolios
 GREENCAPE CAPITAL	Sep 2006	Mid and large cap Australian equities
 Kapstream — JANUS HENDERSON —	Feb 2007	Global fixed income
 kinetic INVESTMENT PARTNERS	Oct 2005	Australian small cap equities
 LENNOX CAPITAL PARTNERS	Mar 2017	Australian small cap equities

Fidante Partners		
Boutique	Investment date	Asset class
 MERLON CAPITAL PARTNERS	May 2010	Australian equities (income focus)
 NOVA PORT CAPITAL	Aug 2010	Australian small and micro cap equities
 Resonance ASSET MANAGEMENT	Jul 2015	Renewable energy and water infrastructure
 TEMPO ASSET MANAGEMENT	Feb 2014	Global smart beta strategies
 WaveStone CAPITAL	Nov 2008	Australian equities (long only & long/short)
 WHITEHELM CAPITAL	Jul 2014	Global core infrastructure
 WYE TREE ASSET MANAGEMENT	Jul 2013	US and European RMBS

FY17 – Full year 30 June 2017

FM - Challenger Investment Partners (CIP)

Proven long-term investment track record and capability

- \$16 billion of FUM¹
- Investment manager for Challenger Life and 3rd party institutions
- Clients benefit from experience and market insights CIP gains through breadth and scale of mandates
- Key relationships with sovereign wealth funds and Australia's leading superannuation funds

Trusted partner for institutional clients

- Local relationships
- Asset origination capability
- Proven track record
- Strong execution
- Risk management expertise
- Excellent client service
- Strong compliance culture with APRA oversight

Asset specialisation



Institutional clients

- Sovereign wealth funds
- Australian superannuation funds
- International funds
- International insurance companies
- Pension funds
- Large family offices

FY17 – Full year 30 June 2017

1. Funds Under Management (FUM) as at 30 June 2017.

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.

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