FY18 financial results

Strong business momentum

14 August 2018

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Overview

Strong business momentum

FY18 highlights
Strategic progress
Brian Benari – Managing Director and Chief Executive Officer

Financial results
Andrew Tobin – Chief Financial Officer

Outlook
Brian Benari – Managing Director and Chief Executive Officer

Highlights

Strong business momentum

FY18 highlights

Earnings underpinned by strong AUM growth

Strategic progress

Strong business momentum and positioned for future growth

Financial results

Highly efficient and scalable business with significant cost advantage

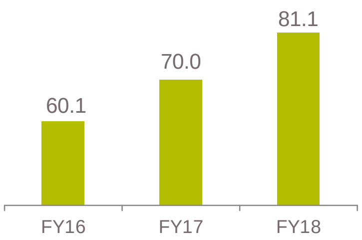
Outlook

Strategy positioning Challenger for next growth phase

FY18 highlights

Earnings underpinned by strong AUM growth

Group Assets Under Management ($bn)

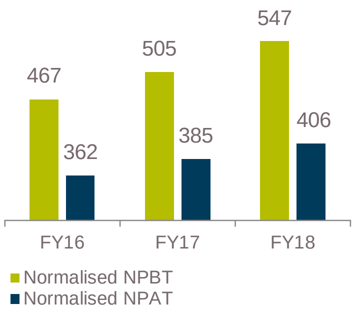


Group AUM +16%

Life AUM +15%

Funds Management FUM +17%

Normalised NPBT and NPAT[1] ($m)



Normalised NPBT +8%

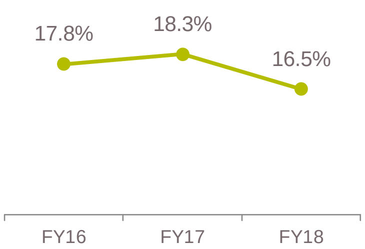
+11% excluding FY17 one-off Life Risk fee

Normalised NPAT +6%

2% increase in tax rate

+8% excluding FY17 one-off Life Risk fee

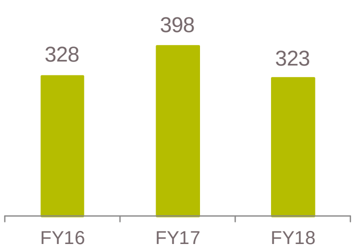
Normalised ROE[2] (%)



-180 bps and below 18% target

Below target in FY18 due to higher capital levels following MS&AD placement (August 2017)

Statutory NPAT ($m)[3]



-19% or -$75m

Higher normalised NPAT (+$21m)

Lower investment experience (-$89m)

Significant items (-$8m)

FY18 – 30 June 2018

1. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the 2018 Annual Report - Operating and Financial Review Section 8.
2. Normalised Return on Equity (ROE) pre-tax.
3. FY18 significant items represent one-off expenses, including the impairment of residual software and a Fidante Partners' boutique following its closure and restructure costs, partially offset by one-off revenue representing the partial writeback of deferred consideration in respect of the acquisition of Fidante Partners Europe.

FY18 highlights

Strong business momentum and positioned for future growth

Strong growth across business

Group – 16% AUM growth

Life – Record book growth of $1.8bn (+37%)

FM – Net flows $5.3bn (8% of opening FUM)

Highly rated by customers and advisers

Consumer brand familiarity 57% – 9% above target[2]

Industry leading net promotor score[3]

Retirement leader – recognised by 93% of advisers[4]

Diversifying product and distribution

AMP and BT annuities on platform

Diversifying product – e.g. credit fund, new MSP[1] product

New boutiques and strategies

Capital strengthened

$500m MS&AD equity placement

$400m subordinated debt replaced

CLC S&P rated ‘A’ and outlook upgraded to positive[5]

Excellent operating efficiency

Group EBIT margin expansion

Record low FY cost to income ratio

Agility program delivering efficiencies

Reforms support product innovation

New lifetime product rules[6]

Lifetime income means test rules[6]

Retirement Income Framework[6]

FY18 – 30 June 2018

1.MS Primary (MSP) – refer to page 64 for more detail. 2. Hall & Partners Open Mind Consumer Study (people aged 55 to 64 years old) – April 2018 and was nine percentage points above Challenger’s internal target. 3. Wealth Insights 2018 Adviser Market Trends Report. 4. Marketing Pulse Adviser Study December 2017 5. CLC rated A with a positive outlook and Challenger Limited rated BBB+ with a stable outlook. 6. New lifetime income rules enacted on 1 July 2017; new means test rules for lifetime products expected to take effect 1 July 2019; Retirement Income Framework with CIPRs expected to be legislated by 1 July 2019 and commence 1 July 2020.

Our vision and strategy

A clear plan for sustainable 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

Strategic priorities

Excellent progress executing long-term plan

Grow allocation to secure and stable retirement incomes

FY18 priority	
Focus on superannuation reforms	• Lifetime income streams means test rules finalised – new rules commence 1 July 2019 • Retirement Income Framework announced – stage 1: Retirement Income Covenant
Launch DLAs[1]	• DLA launched September 2017 – deferred Liquid Lifetime option • DLA means test rules finalised – new rules commence 1 July 2019
Maintain thought leadership	• Retirement thought leader – recognised by 77% of advisers[2] • Key contributor to numerous Government policy consultations

FY18 – 30 June 2018

1. Deferred Lifetime Annuity (DLA).
2. Marketing Pulse Adviser Study December 2017.

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Strategic priorities

Excellent progress executing long-term plan

Be the market leader and partner of choice

FY18 priority	
Leading adviser and consumer ratings	• Rated leader in retirement incomes by 93% of advisers[1] • Rated #1 by Wealth Insights across six key categories – including overall adviser satisfaction[2]
Leverage MS&AD relationship	• Tokyo office opened to support relationship and develop distribution opportunities • 2nd Australian dollar MS Primary annuity product developed – Challenger reinsuring in FY19
AMP and BT operational	• AMP launched September 2017 – increasing number of advisers writing Challenger annuities • BT platform – Challenger build completed and launching Q1 FY19

FY18 – 30 June 2018

1. Marketing Pulse Adviser Study December 2017.
2. In 2018 Wealth Insights undertook an analysis to compare the service level of Challenger annuities to the broader Australian funds management market. Challenger annuities rated number one across six key categories, including Overall Adviser Satisfaction (3rd year consecutive); BDM Team (7th consecutive year); Adviser Contact Centre (3rd consecutive year); Image and Reputation (3rd consecutive year); Technical Services (3rd consecutive year) and Website (2nd consecutive year).

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Strategic priorities

Excellent progress executing long-term plan

Provide relevant and superior investments for customers

FY18 priority	
Build-out offshore capability	• Japan – real estate licence granted and insourced management of Life's Japanese portfolio • Europe – two new US-based boutiques (Garelick Capital Partners and Latigo Partners)
Add new boutiques and strategies	• Six new strategies for existing boutiques and two new boutiques added • Fidante ActiveX ETF series developed – launch expected 1H19
New 3rd party CIP offerings	• CIP Credit Income Fund launched[1] – FUM $130m and performance exceeding benchmark • ~$1bn of new CIP 3rd party mandates, including Canada Pension Plan Investment Board

FY18 – 30 June 2018

1. Challenger Investment Partners (CIP) Credit Income Fund launched October 2017 and targets a cash plus 3% return.

Strategic priorities

Excellent progress executing long-term plan

Sustainable business practices to deliver superior outcomes

FY18 priority	
Employee engagement	• Diversity targets achieved and on track to exceed FY20 targets • Women in management roles up 5% to 38% and ahead of target
Innovation and efficiency through agility	• Comprehensive agility program embedded across business • 261 initiatives implemented to date – 79% result in time savings and 64% reduce risk
Maintain superior cost ratio[1]	• Record low FY cost to income ratio of 32.7% • Market leading cost to income ratio – improved from 48% to 33% over last 10 years

FY18 – 30 June 2018

1. Normalised cost to income ratio.

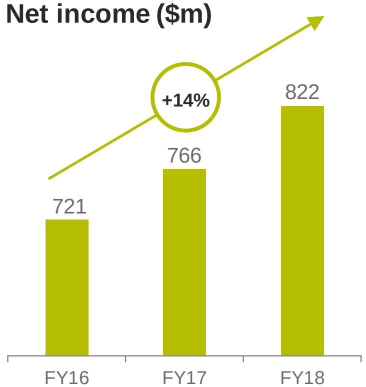
Financial results

Andrew Tobin
Chief Financial Officer

Group result

Highly efficient and scalable business with significant cost advantage

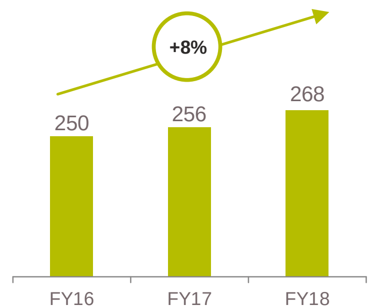
Net income ($m)



FY18 net income +7%

- +9% exc. FY17 Life Risk fee
- Life +6%
- FM +13%

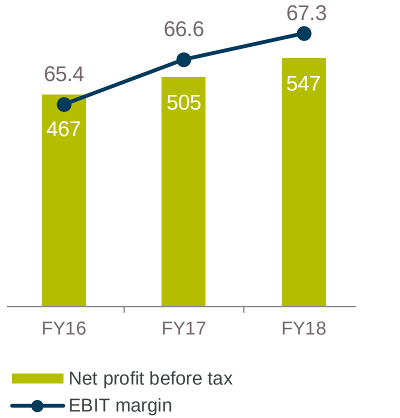
Expenses ($m)



FY18 expenses +5%

- Life +7%
- FM +5%
- Corporate +2%

Group NPBT and EBIT margin[1] (%)



FY18 Group

- NPBT +8% (+11% exc. FY17 Life Risk fee)
- EBIT margin[1] +70 bps

FY18 – 30 June 2018

1. EBIT divided by net income.

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Group result

Supported by AUM growth with margin reflecting product diversification

Normalised NPBT $547m (+8%)

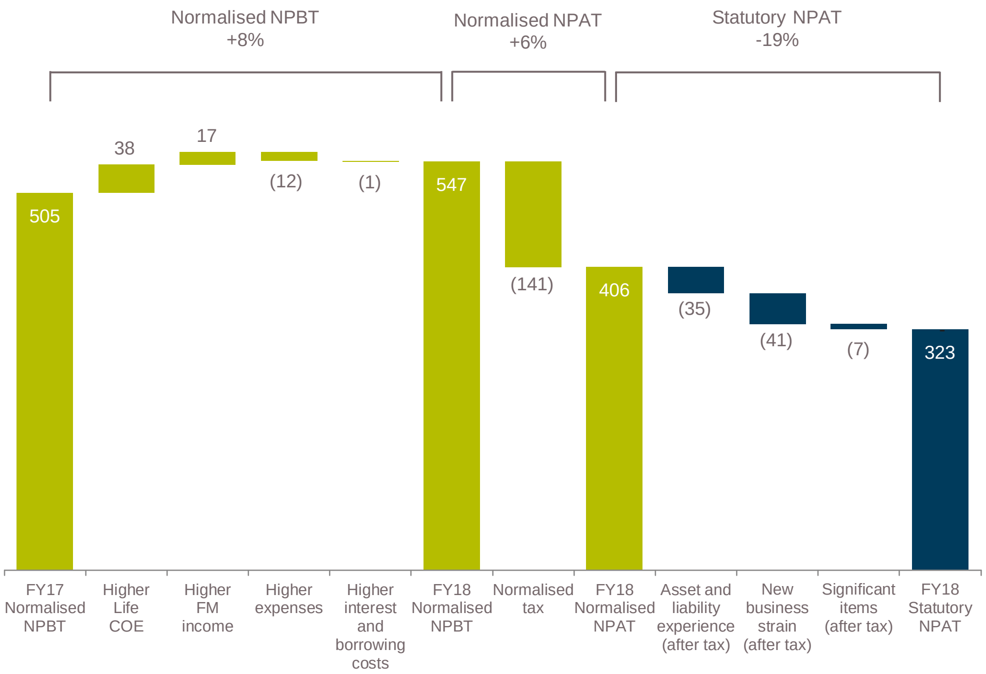
- +11% excluding FY17 one-off Life Risk fee (~$10m)
- Underpinned by strong asset growth
- Life margin impacted by product mix

Normalised NPAT $406m (+6%)

- Tax rate up 2%[1]

Statutory NPAT $323m (-19%)

- Asset and policy liability experience -$34m
- New business strain -$41m
- Significant items[2] -$8m



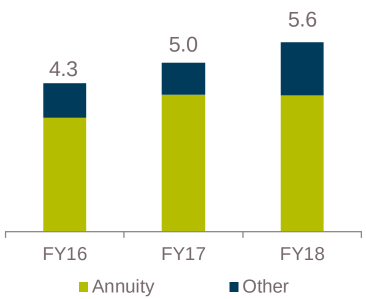
FY18 – 30 June 2018

1. FY18 normalised tax rate 25.8% (FY17 23.8%).
2. FY18 significant items represent one-off expenses, including the impairment of residual software and a Fidante Partners' boutique following its closure and restructure costs, partially offset by one-off revenue including partial writeback of deferred consideration in respect of the acquisition of Fidante Partners Europe.

Life result

Record book growth

Total Life sales ($bn)

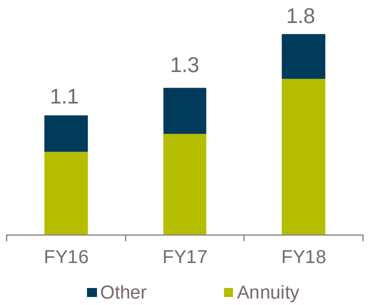


Life sales +12% to $5.6bn

Annuity sales $4.0bn (unchanged)

Other Life sales $1.6bn (+65%)

Life book growth ($bn)



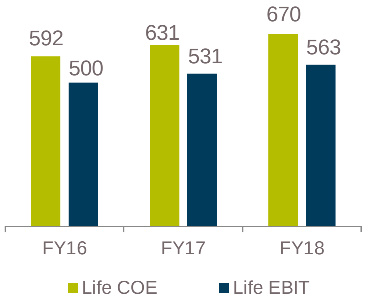
Life book growth $1.8bn (+37%)

15.0% growth in total liabilities

Annuity book growth $1.4bn (+55%)

13.5% growth in annuity liabilities

Life COE[1] and Life EBIT ($m)

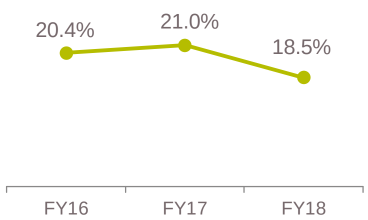


Life COE +6% to $670m

Life EBIT +6% to $563m

Life COE and EBIT up 8% excluding FY17 one-off Life Risk fee. Benefiting from book growth and impacted by product mix

Life normalised ROE[2] (pre-tax) (%)



-250 bps and above 18% target

Impacted in FY18 by higher capital levels following MS&AD placement (August 2017)

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

Life sales

Continuing to diversify product offering

Life sales $5.6bn (+12%)

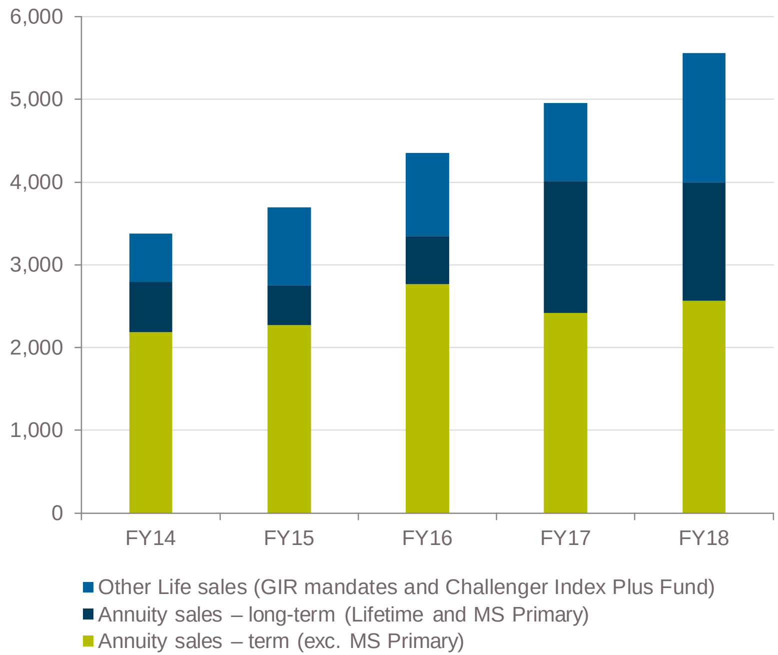
Annuity sales $4.0bn (unchanged)

- Long-term annuity sales[1] $1.4bn (-$158m)
- Term (exc. MS Primary) $2.6bn (+$148m)

Other Life sales $1.6bn (+65%)

- Other Life sales comprise
  - GIR mandate maturity rollovers $1.0bn
  - New GIR client mandate $0.4bn
  - New Challenger Index Plus Fund[2] $0.2bn
- 28% of FY18 total sales

Life sales ($m)



1. Long-term annuity sales represent Lifetime and MS Primary annuities.
2. Challenger Index Plus Fund is a liquid GIR product launched in 1H17.

Life annuity sales

Ongoing focus on long-term sales

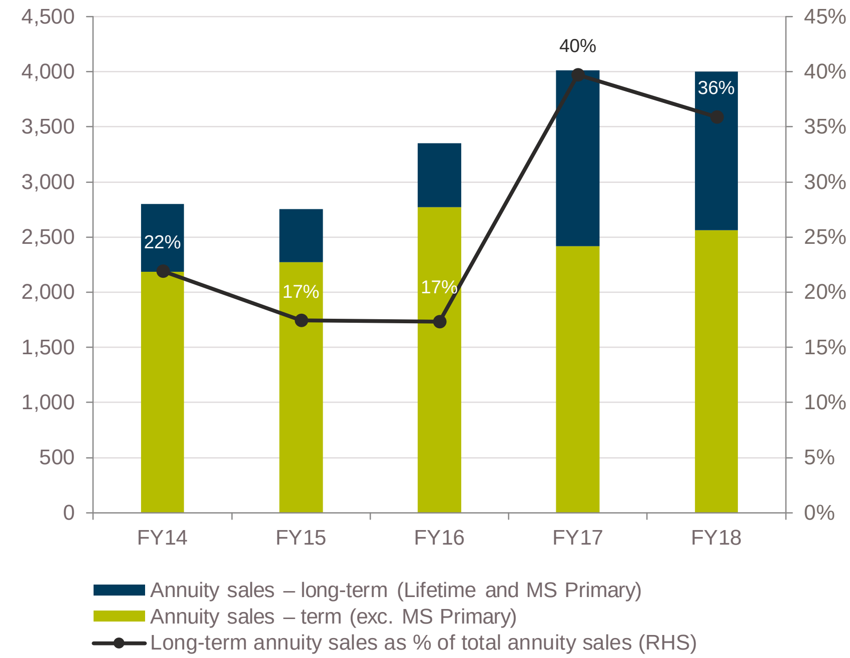
Long-term sales[1] $1.4bn (-10%)

- 36% of total annuity sales
- Lifetime 21% of annuity sales
  - Liquid Lifetime $0.5bn
    - impacted by means test review
    - new rules 1 July 2019
  - CarePlus $0.3bn
    - benefiting from ageing population
- MS Primary 15% of annuity sales
  - in line with ~$0.6bn guidance

Term (exc. MS Primary) $2.6bn (+6%)

New business tenor[2] 9.1 years

Annuity sales ($m)



FY18 – 30 June 2018

1. Long-term annuity sales represent Lifetime and MS Primary annuities.
2. New business tenor represents the average of maximum expected product maturity of new business sales. These products may amortise over the period.

Life annuity maturities

Realising benefits from focus on long-term annuities

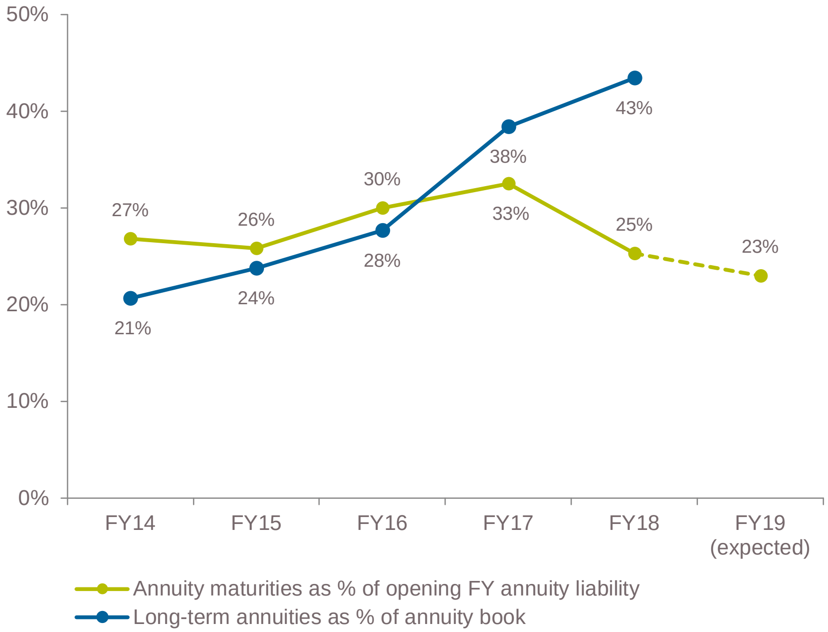
Annuity book shifting to long-term

- Long-term annuities[1] now account for 43% of annuity book, up from 21% five years ago

Annuity maturity rate reducing

- FY18 maturities $2.6bn
  - $0.5bn lower than FY17
  - lower maturities contributed ~5% to FY18 annuity book growth
- FY19 annuity maturities expected to reduce to ~23% of opening liability

Long-term annuity book and maturity rate[2]



FY18 – 30 June 2018

1. Long-term annuity sales represent Lifetime and MS Primary annuities.
2. Maturity rate represents annuity maturities and repayments (excluding interest payments) divided by opening period annuity liability.

Life book growth

Record result – 37% increase in Life book growth

Life book growth $1.8bn (up 37%)

- 15.0% growth in total liabilities

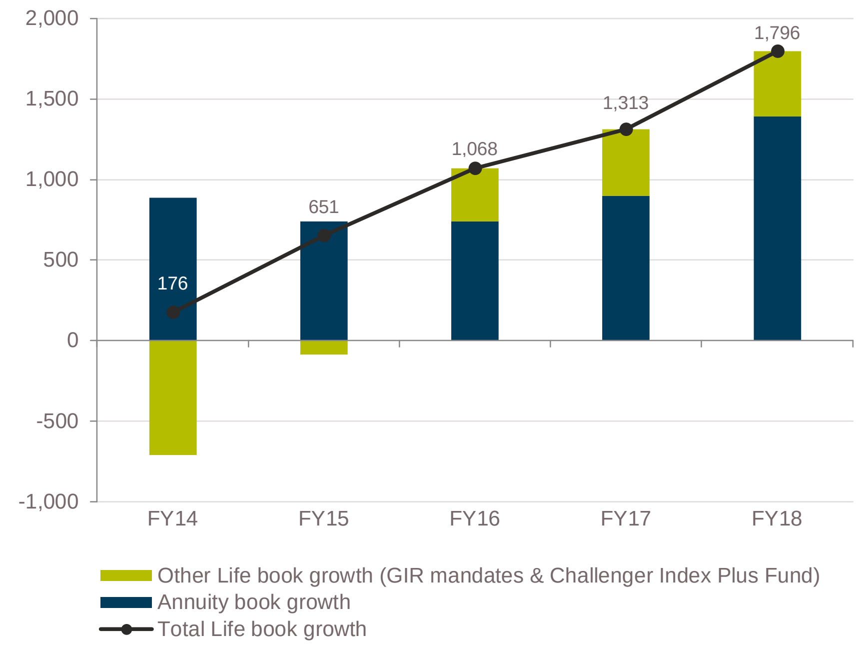
Annuity book growth $1.4bn (up 55%)

- 13.5% growth in annuity liabilities
- Benefiting from
  - new distribution initiatives
  - product innovation and diversification
  - long-term sales focus reducing maturity rate

Other book growth $0.4bn (unchanged)

- Benefiting from strong demand from institutional customers

Life book growth ($m)



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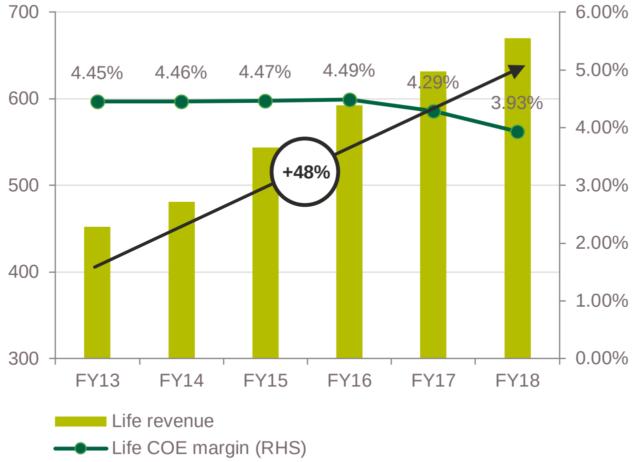
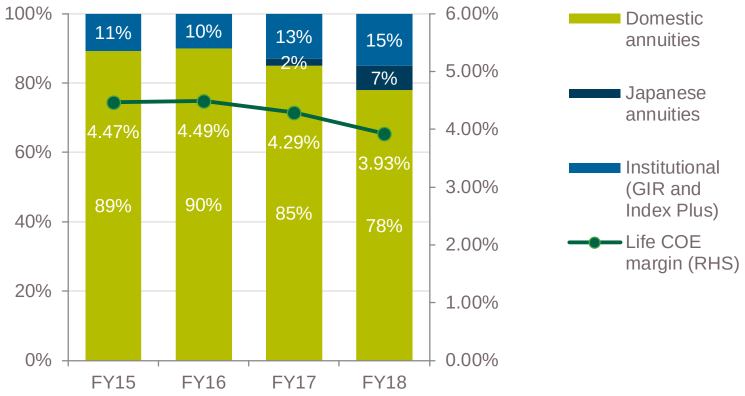
Life revenue

Strong growth with margin reflecting product diversification

Life cash operating earnings ($m) and COE margin (%)



Life liability mix[1]



- 5 year COE growth +48% – demographic trends, new products and expanded distribution
- 5 year COE margin -52bps – change in product mix, lower interest rates and compressed asset risk premiums

- COE margin varies by product – different asset allocation, distribution and operational costs
- Capital intensity varies by product with all product categories targeting 18% ROE[2]

FY18 – 30 June 2018

1. Average liability mix.
2. Normalised ROE pre-tax.

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Life investment portfolio

Favouring fixed income over property to optimise ROE

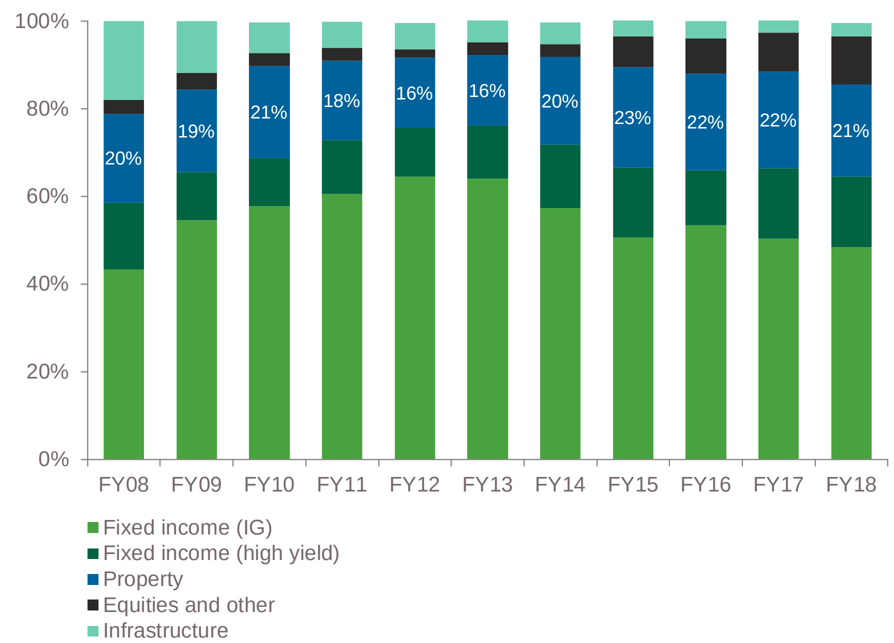
- Targeting reduction in property allocation from 21% (FY18) to mid-teens %
- $0.7bn property reduction substantially completed

Property reduction progress

- REITs sold – $0.2bn
- Direct property sales – $0.5bn
  - 53 Albert Street Brisbane – exchanged
  - Office sale well progressed
  - Average sale premium to cost >20%

- Property allocation expected to be ~17% following settlement

Life investment portfolio



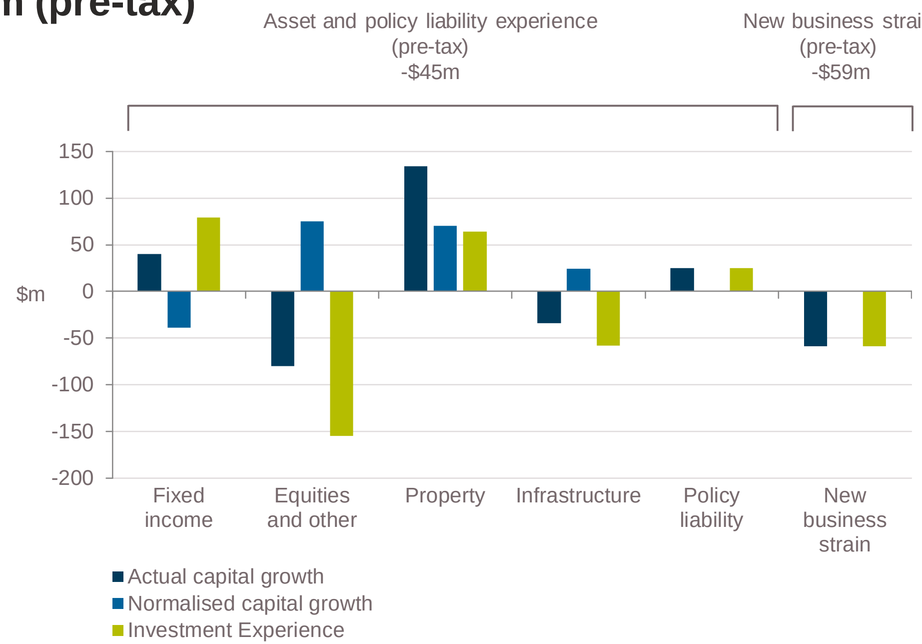
FY18 – 30 June 2018

Life Investment Experience

Driven by new business strain and equities and other experience

Asset and policy liability experience -$45m (pre-tax)

- Fixed income +$79m
- Equities and other -$155m
- Property +$64m
- Infrastructure -$58m
- Policy liability – Illiquidity premium and other assumption changes +$25m



New business strain -$59m (pre-tax)

- Valuing annuity liabilities at risk-free rate plus an illiquidity premium[1]
- Non-cash item that unwinds over contract

FY18 – 30 June 2018

1. In accordance with Prudential Standards and Australian Accounting Standards, Challenger Life values term annuities at fair value and lifetime annuities using a risk-free discount rate, both of which are based on the Australian Commonwealth Government bond curve plus an illiquidity premium.

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Life Investment Experience

Asset and policy liability investment experience driven by equities & other

Fixed income +$79m	• Valuation gain $40m; normalised growth $39m • Credit spreads contracted ~20 bps • Credit default experience -6 bps (5 year average -11 bps p.a.)
Equities and other -$155m	• Valuation loss $80m; normalised growth $75m • Includes loss on insurance linked assets (1H18 ~$33m) and underperformance of market neutral and alternative strategies offset by gains on market beta portfolios
Property +$64m	• Valuation gain $134m; normalised growth $70m • Valuations benefiting from renewal of Government leases – WALE up 1 year to 6.1 years • Australian portfolio cap rate tightened 25 bps to 6.06%
Infrastructure -$58m	• Valuation loss $34m; normalised growth $24m • Impacted by redevelopment of long-term offshore asset and timing of distributions (1H18 ~$26m) and valuation of unlisted assets
Liability +$25m	• Illiquidity premium -$15m from contraction in credit spreads • Lapse, expense and other policy liability assumption changes +$40m

CLC regulatory capital

Strongly capitalised to support growth

Regulatory capital

- Benefited from MS&AD equity placement
- Subordinated debt replaced

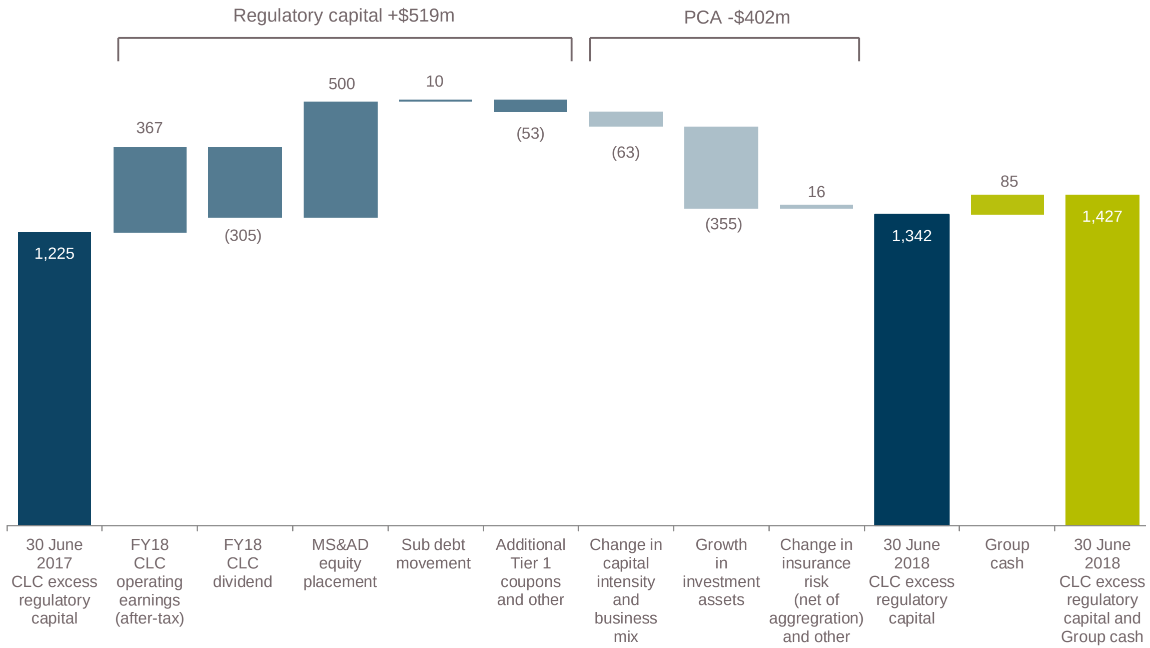
PCA

- Increase a result of growth in investment assets

CLC PCA ratio

- PCA ratio[1] 1.53x – target range 1.3x to 1.6x
- CET1[2] ratio 1.05x

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



FY18 – 30 June 2018

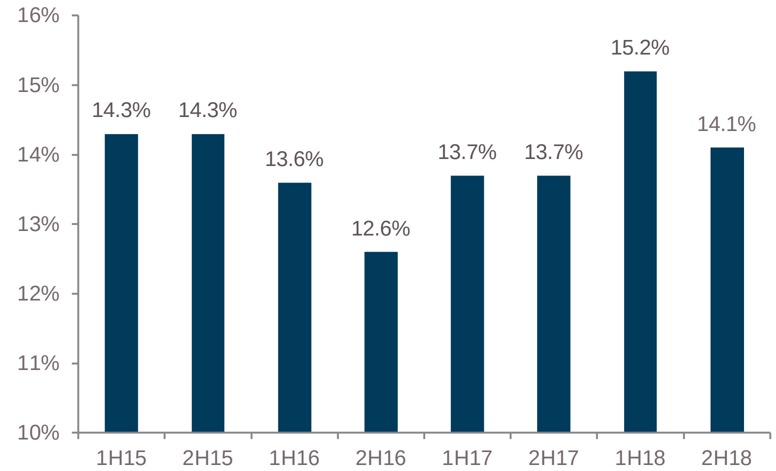
1. Challenger Life Company Limited (CLC) total regulatory capital base divided by Prescribed Capital Amount (PCA).
2. Challenger Life Company Limited (CLC) Common Equity Tier 1 divided by Prescribed Capital Amount (PCA).

CLC regulatory capital

Reducing capital intensity – expect to reduce further

- 1H18 capital intensity[1] (15.2%) elevated following MS&AD equity placement
- 2H18 capital intensity reduced to 14.1%, benefiting from
  - lower intensity investments
  - lower insurance risk charge
  - property sale yet to settle[2]
- Capital intensity expected to fall further with reduction in property allocation
- Maintaining PCA ratio target range of 1.3x to 1.6x

CLC PCA[3] to investment assets



1% reduction in capital intensity

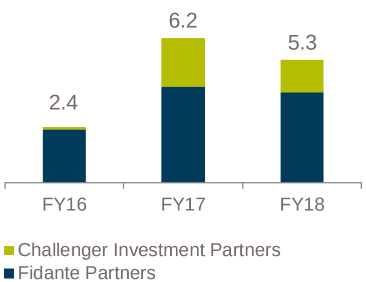
- increases excess regulatory capital by ~$180m
- supports ~$0.9bn of additional book growth[4]

1. Capital intensity represents CLC's Prescribed Capital Amount divided by Life investment assets.
2. 53 Albert Street Brisbane exchanged prior to 30 June 2018 and is expected to settle in early October 2018. Reduces capital intensity in 2H18 by ~0.3%.
3. Challenger Life Company Limited (CLC) Prescribed Capital Amount (PCA) under LAGIC.
4. Based on capital intensity of ~14.1% and PCA ratio of 1.45 times.

Funds Management result

Strong asset growth and scale benefits driving 28% increase in earnings

Net flows[1] ($bn)

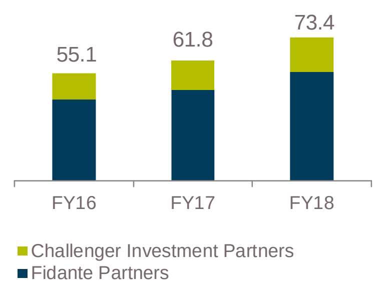


Net flows $5.3bn -15%
(8% of opening FUM)

Fidante Partners $3.9bn
(8% of opening FUM)

CIP[2] $1.4bn
(9% of opening FUM)

Average FUM ($bn)

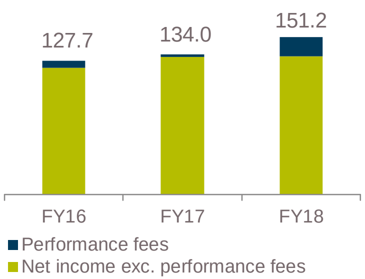


Funds Management +19%

Fidante Partners +19%

CIP[2] +17%

Net income ($m)



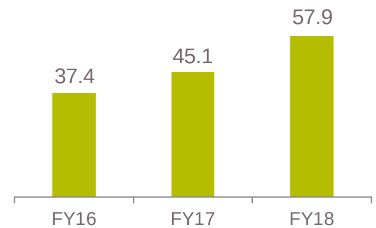
Net income +13%

Higher average FUM (+19%)

Higher performance fees (+$17m)

Lower UK transaction activity (-$12m)

EBIT ($m)



EBIT +28%

Net income +13%; Expenses +5%

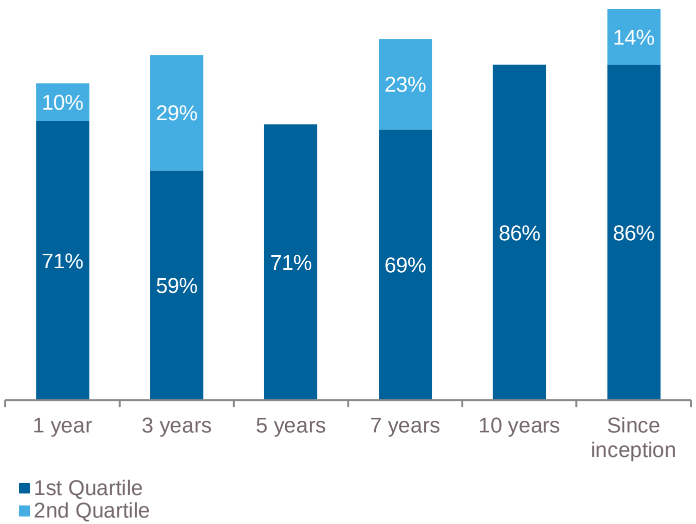
Cost to income ratio down 470 bps

1. FY16 represents organic net flows and excludes boutique acquisitions and disposals.
2. Challenger Investment Partners (CIP).

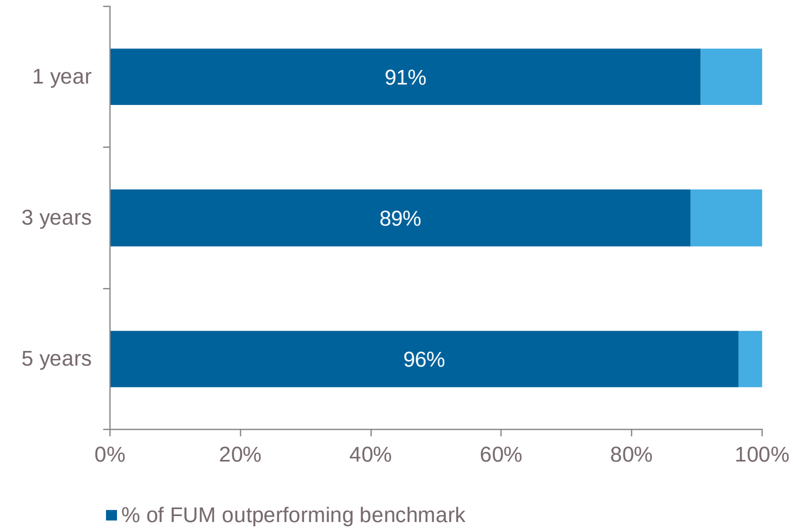
Funds Management investment performance

Strong performance underpinning superior net flows

Fidante Partners percentage of funds 1st or 2nd quartile[1]



Funds Management performance relative to benchmark[2]



21% of Funds Management FUM is eligible for performance fees

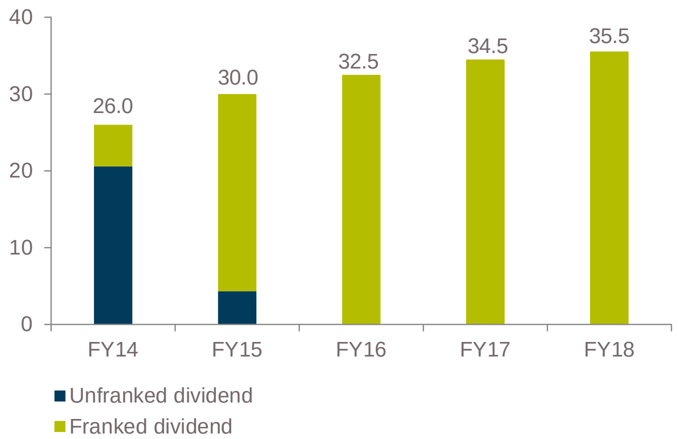
FY18 – 30 June 2018

1. Source: Mercer as at June 2018.
2. As at June 2018 and includes Fidante Partners' boutiques and Life AUM managed by Challenger Investment Partners.

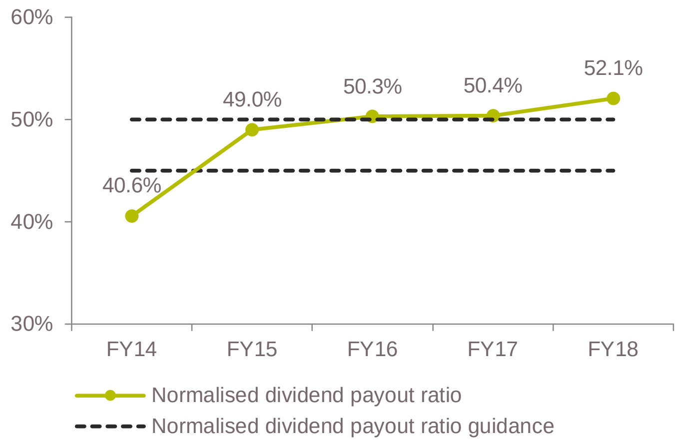
Dividends

Increasing shareholder returns

Dividend (cps)



Dividend payout ratio[1]



FY18 dividend 35.5 cps

- MS&AD entitled to FY18 dividend
- +3% on FY17 and 100% franked

FY18 dividend payout ratio 52.1%

- DRP in place with no discount applied
  - expected to reduce cash payout to ~50%[2]

FY18 – 30 June 2018

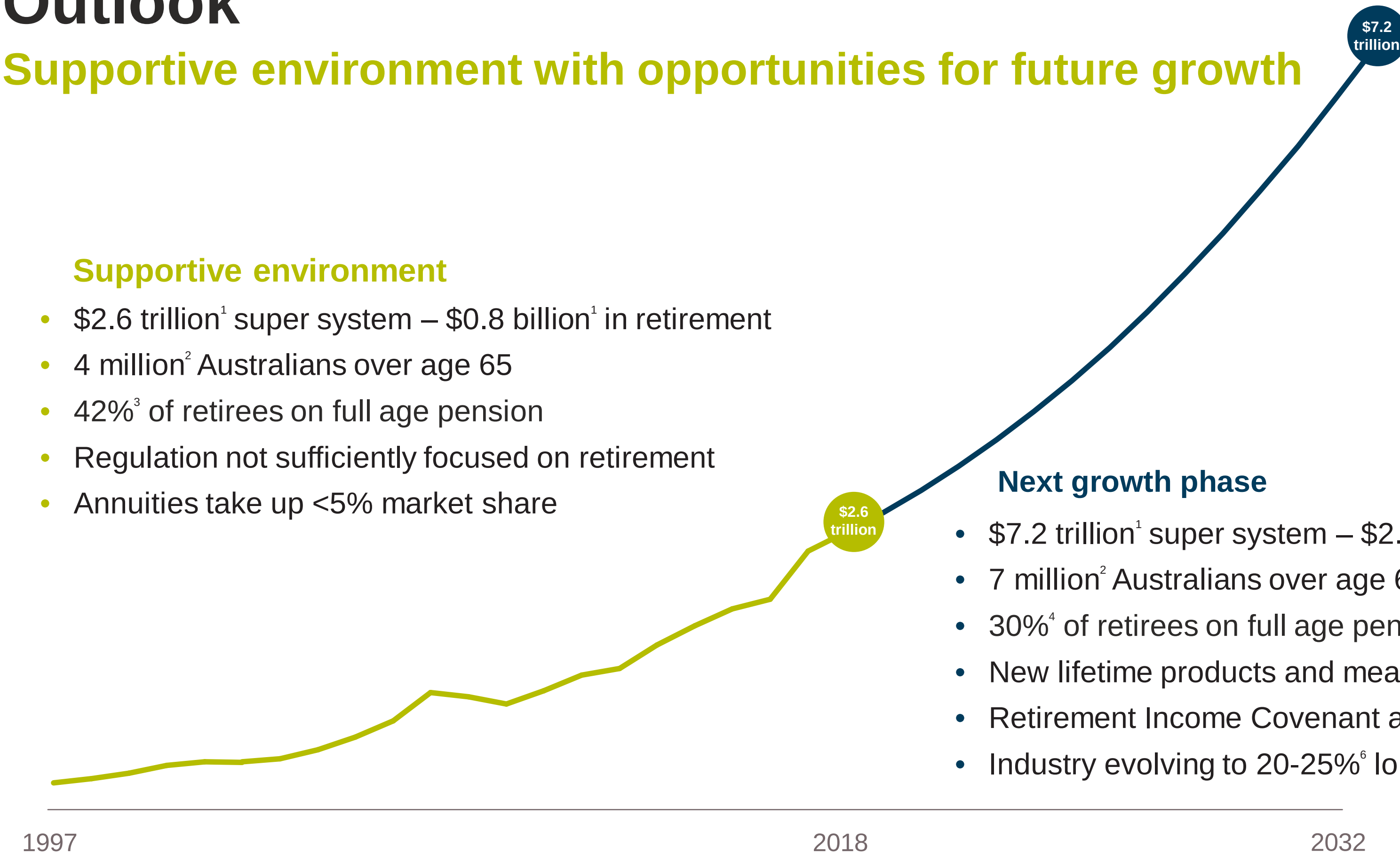
1. Normalised dividend payout ratio based on normalised EPS.
2. For the final FY17 dividend, the Dividend Reinvestment Plan (DRP) reduced the effective cash dividend payout ratio by ~2%.

Outlook

Brian Benari
Managing Director and
Chief Executive Officer

Outlook

Supportive environment with opportunities for future growth



Supportive environment

- $2.6 trillion[1] super system – $0.8 billion[1] in retirement
- 4 million[2] Australians over age 65
- 42%[3] of retirees on full age pension
- Regulation not sufficiently focused on retirement
- Annuities take up <5% market share

Next growth phase

- $7.2 trillion[1] super system – $2.1 trillion[1] in retirement
- 7 million[2] Australians over age 65
- 30%[4] of retirees on full age pension
- New lifetime products and means test rules
- Retirement Income Covenant and CIPRs[5]
- Industry evolving to 20-25%[6] longevity allocation

1.Super system 1997 to 2017: APRA data. 2018 – 2032: Based on Rice Warner 2017 superannuation projections applied to 2017 APRA superannuation assets. 2. Australian Bureau of Statistics Cat 3222.0 Series B. 3. Department of Social Services 2017 Annual Report. 4. ASFA Mythbusters: Myths that super will come up short: projection 24% by 2025. 5. Comprehensive Income Products for Retirement (CIPR) – a key feature of the Governments new Retirement Income Framework (refer to page 46 for more detail). 6. Retirement income models typically recommend 25% allocation to lifetime income product and supported by independent analysis.

Outlook

Strategy positioning Challenger for next growth phase

Grow allocation to secure and stable retirement incomes

- Maintain No.1 retirement income brand
- Launch new lifetime products
- Enhance offer and experience through customer and adviser research

Be the market leader and partner of choice

- Go live on BT platform and work with HUB24[1]
- Partner with super funds on retirement strategies
- Build on Japanese strategic relationship

Provide relevant and superior investments for customers

- Roll out ActiveX ETF across multiple strategies
- Add new Fidante boutiques/strategies
- Expand CIP 3rd party mandates

Sustainable business practices to deliver superior outcomes

- Optimise asset allocation and ROE
- Capture on-going scale benefits
- Maintain highly engaged and diverse workforce

1. To make Challenger annuities available on HUB24 platform with launch expected in FY19.

Outlook

Delivering on strategy for growth

FY19 profit guidance

Normalised NPBT growth between 8% and 12%

Includes Life's reallocation from property to fixed income

Return on equity

Target 18% ROE[1]

Expect FY19 ROE to increase but not reach 18% target

Capital

Remain strongly capitalised

Capital intensity expected to reduce further

Normalised dividend payout ratio target of 45% to 50% of normalised NPAT[2]

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

Highlights

Strong business momentum

FY18 highlights

Earnings underpinned by strong AUM growth

Strategic progress

Strong business momentum and positioned for future growth

Financial results

Highly efficient and scalable business with significant cost advantage

Outlook

Strategy positioning Challenger for next growth phase

Appendix

Additional background information

Our vision and strategy

A clear plan for sustainable 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 superannuation system growth

Challenger Limited (ASX:CGF)

Life

#1 market share in annuities[1]

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 active fund managers[2]

Fidante Partners
Co-owned, separately branded, active fixed income, equity and alternative investment managers, including Fidante Partners Europe.

Challenger Investment Partners
Originates and manages assets for Life and 3rd party institutions

Distribution, Product and Marketing (DPM)

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

1. Annuity market share – Strategic Insights.
2. Consolidated FUM for Australian Fund Managers – Rainmaker Roundup March 2018.

Appendix

Australian superannuation system overview

Australian superannuation system

Attractive market with long-term structural drivers

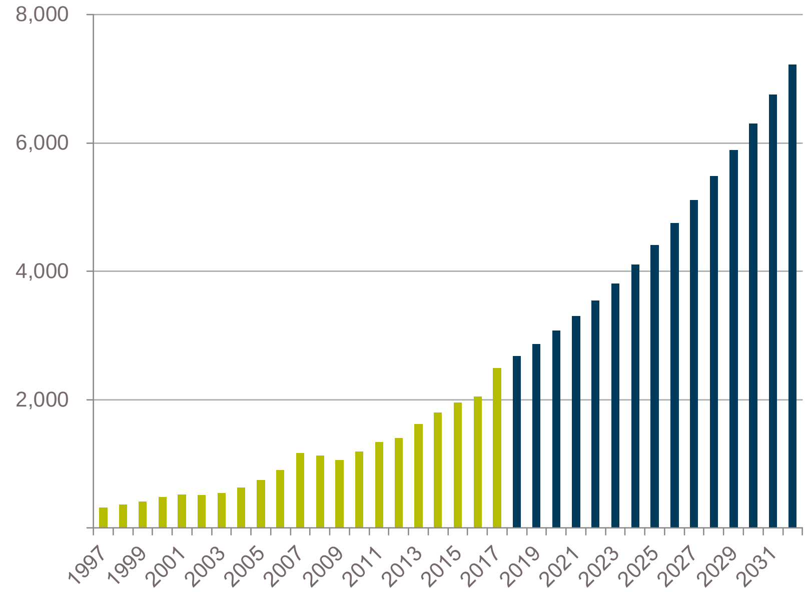
High growth market supported by

- Mandatory and increasing contributions
- Earnings compounding
- Population growth and ageing demographics

Resulting in

- 8% CAGR growth over last 10 years[1]
- 4th largest global pension market[2]
- Assets expected to double in next 10 years[3]

Australian superannuation growth[4] ($bn)



1. Growth in superannuation system assets, based on APRA data.
2. Willis Towers Watson Global Pension Study 2017.
3. Rice Warner 2017 superannuation projections.
4. 1997 to 2017: APRA data. 2018 – 2032: Based on Rice Warner 2017 superannuation projections applied to 2017 APRA superannuation assets.

Australian superannuation system

Attractive market with long-term structural drivers

Pre-retirement (super savings) phase

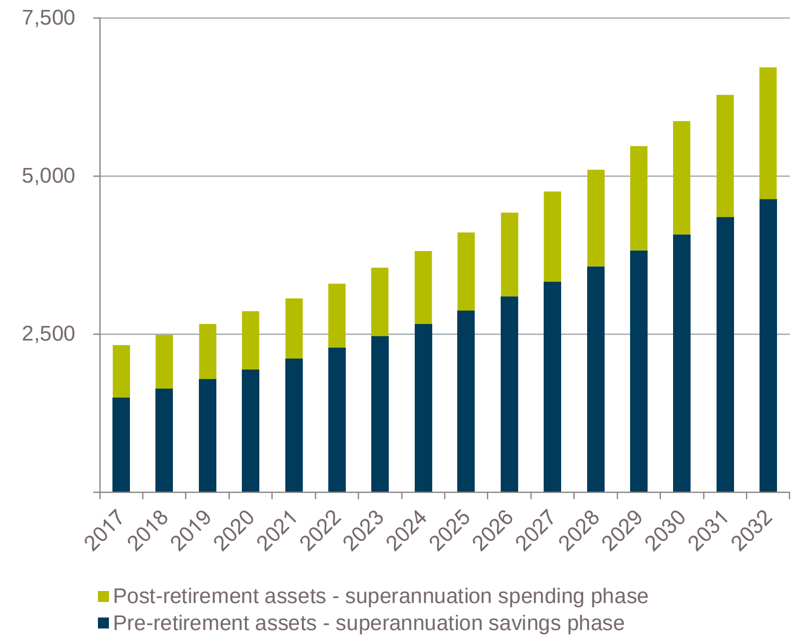
- Funds Management target market
- Supported by mandated and increasing contributions

Post-retirement (super spending) phase

- Life target market
- Supported by ageing demographics, rising superannuation savings and Government enhancing retirement phase

Annual transfer from pre to post retirement phase ~$60bn[1] in 2018

Projected superannuation assets[2] ($bn)



1. Australian Taxation Office.
2. Rice Warner 2017 superannuation projections.

Australian superannuation system

Attractive market with long-term structural drivers

Mandatory and increasing contributions

- Increasing from 9.5% to 12.0%[1]

Superannuation Guarantee contribution rate[1]

1992	1997	2002	2015	2021	2022	2023	2024	2025
3.0%	6.0%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%

Demographics

- Ageing population
- Australians have one of world's longest life expectancies[2]
- Medical and mortality improvements increasing longevity

Australians over 65 increasing[3]

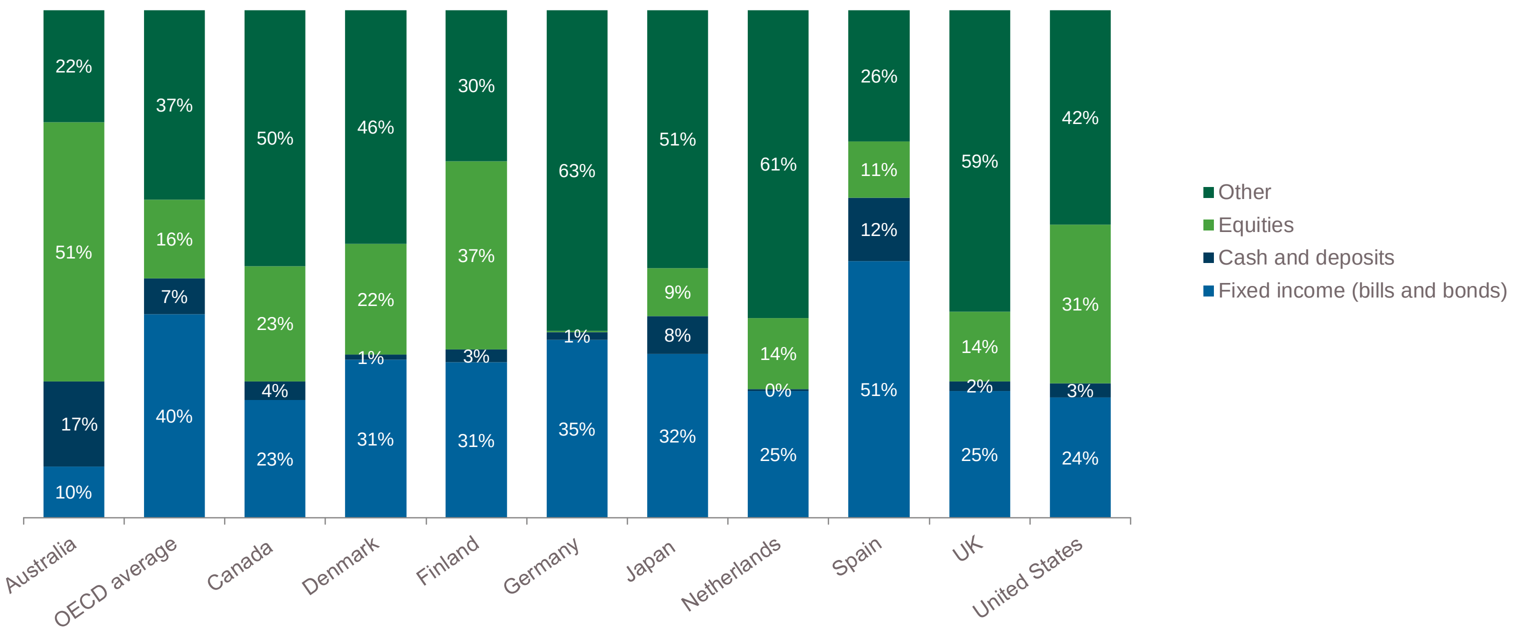
+40% over next 10 years
+70% over next 20 years

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. Australian Institute of Health and Welfare (www.aihw.gov.au).
3. Australian Bureau of Statistics population projections.

Australian superannuation system

High allocation to equities and low allocation to fixed income

Australia has low fixed income and high equity allocations[1]



FY18 – 30 June 2018

1. OECD Pension Markets in Focus – 2017.

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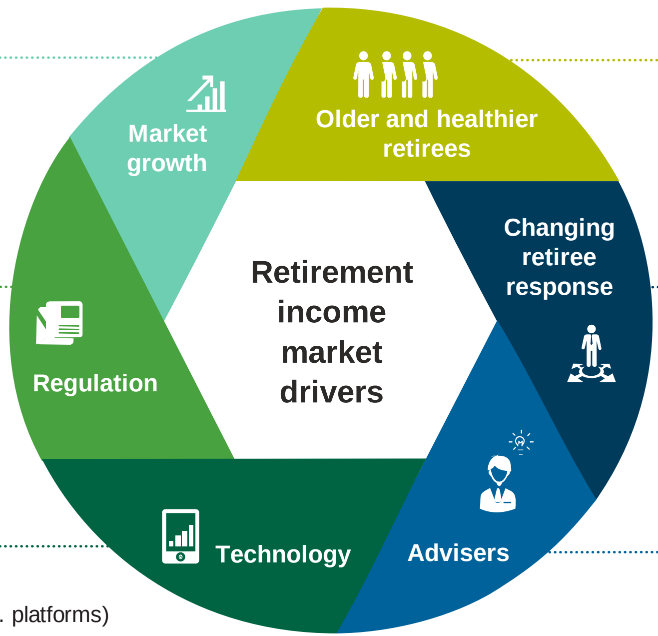
Post-retirement phase of superannuation

High growth market with structural drivers

- Super funds partnering with Life companies
- Industry moving ahead of regulation
- Natural market growth

- Over 700 Australians turning 65 every day
- 20-year cycle of retiring 'Baby-Boomers'
- Aust. has one of the longest life expectancies in OECD



- New lifetime income product rules
- New lifetime income means test rules
- Retirement Income Framework, inc. CIPRs[1]

- Recognition of market and longevity risks
- Increasing retiree super savings
- Risk adverse and seeking secure income

- Retirement income planning tools
- Increasing access to retirement products (e.g. platforms)
- Technology to facilitate CIPRs[1]

- Helping convert savings to income
- Retirement income models emerging
- Recommending annuities to clients

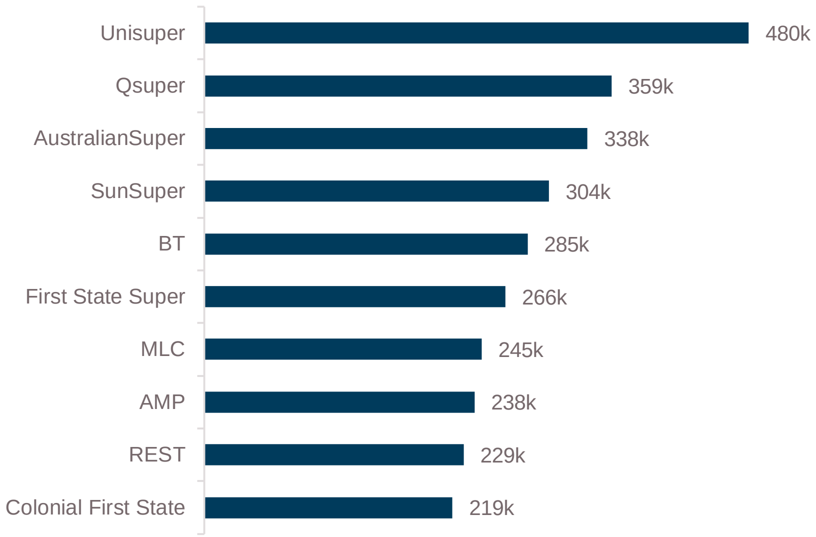
1. Comprehensive Income Products for Retirement (CIPR) – a key feature of the Governments new Retirement Income Framework. Refer to page 46 for more detail.

Post-retirement phase of superannuation

Australians now have meaningful balances in retirement

- Superannuation guarantee system not fully mature – established 26 years ago
- Operating for only half the working life of today's retiree
- One in four superannuation dollars now supporting retirement[1]
- Super system starting to make a significant contribution to the lives of Australian retirees

10 largest super funds – average retiree member balance[2] ($'000)



1. Based on APRA and ATO data.
2. APRA's Annual Superannuation Bulletin June 2017 edition and Annual Fund-level Superannuation Statistics report June 2017.

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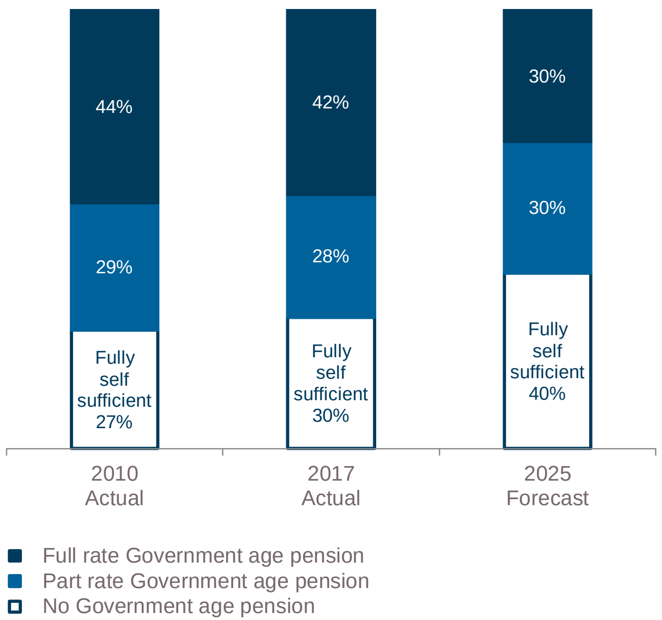
Post-retirement phase of superannuation

Superannuation starting to reduce reliance on age pension

- Average household wealth at retirement now $350k to $500k range[1]
- Age pension subject to asset and income tests
- 2.5m Australians receiving some age pension support
- Portion of retirees on full age pension expected to reduce from 42% to 30% over next 8 years
- However
  - number of retirees receiving support increasing
  - Government cost increasing
- Super system increasingly supplementing or substituting age pension

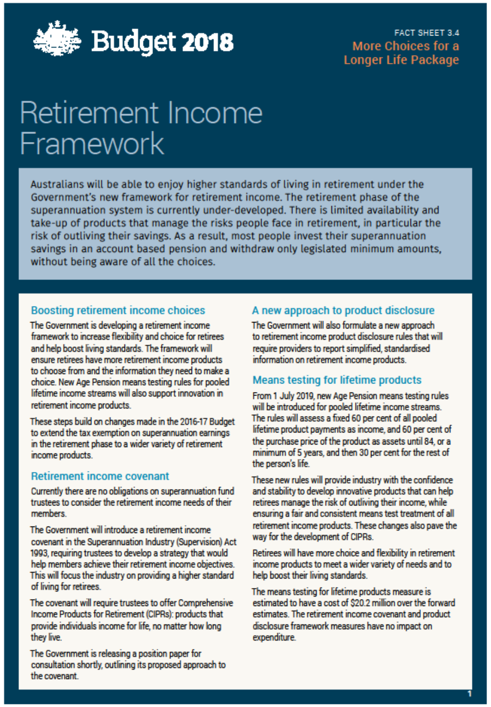
Portion of retirees reliant on age pension[2]



1. Average household wealth includes superannuation and non-superannuation assets and excludes the family home.
2. Source – 2010 and 2017 Actual: Department of Social Services and Department of Veteran Affairs; 2025 Forecast: The Association of Superannuation Funds of Australia (ASFA) projection.

Government enhancing post-retirement phase

Retirement Income Framework



Budget 2018

FACT SHEET 3.4

More Choices for a Longer Life Package

Retirement Income Framework

Australians will be able to enjoy higher standards of living in retirement under the Government's new framework for retirement income. The retirement phase of the superannuation system is currently under-developed. There is limited availability and take-up of products that manage the risks people face in retirement, in particular the risk of outliving their savings. As a result, most people invest their superannuation savings in an account based pension and withdraw only legislated minimum amounts, without being aware of all the choices.

Boosting retirement income choices

The Government is developing a retirement income framework to increase flexibility and choice for retirees and help boost living standards. The framework will ensure retirees have more retirement income products to choose from and the information they need to make a choice. New Age Pension means testing rules for pooled lifetime income streams will also support innovation in retirement income products.

These steps build on changes made in the 2016-17 Budget to extend the tax exemption on superannuation earnings in the retirement phase to a wider variety of retirement income products.

Retirement income covenant

Currently there are no obligations on superannuation fund trustees to consider the retirement income needs of their members.

The Government will introduce a retirement income covenant in the Superannuation Industry (Supervision) Act 1993, requiring trustees to develop a strategy that would help members achieve their retirement income objectives. This will focus the industry on providing a higher standard of living for retirees.

The covenant will require trustees to offer Comprehensive Income Products for Retirement (CIPRs): products that provide individuals income for life, no matter how long they live.

The Government is releasing a position paper for consultation shortly, outlining its proposed approach to the covenant.

A new approach to product disclosure

The Government will also formulate a new approach to retirement income product disclosure rules that will require providers to report simplified, standardised information on retirement income products.

Means testing for lifetime products

From 1 July 2019, new Age Pension means testing rules will be introduced for pooled lifetime income streams. The rules will assess a fixed 60 per cent of all pooled lifetime product payments as income, and 60 per cent of the purchase price of the product as assets until 84, or a minimum of 5 years, and then 30 per cent for the rest of the person's life.

These new rules will provide industry with the confidence and stability to develop innovative products that can help retirees manage the risk of outliving their income, while ensuring a fair and consistent means test treatment of all retirement income products. These changes also pave the way for the development of CIPRs.

Retirees will have more choice and flexibility in retirement income products to meet a wider variety of needs and to help boost their living standards.

The means testing for lifetime products measure is estimated to have a cost of $20.2 million over the forward estimates. The retirement income covenant and product disclosure framework measures have no impact on expenditure.

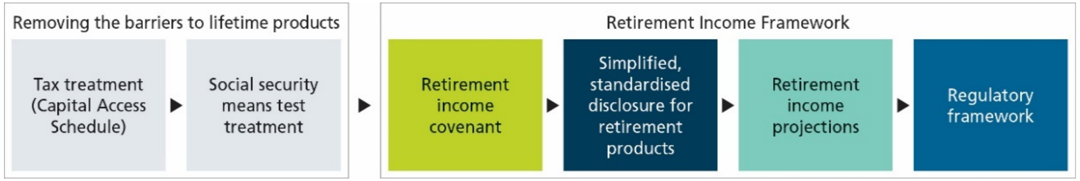
1

> ***The retirement phase of the superannuation system is currently under-developed. There is limited availability and take-up of products that manage the risks people face in retirement, in particular the risk of outliving their savings***

Federal Budget 8 May 2018

Retirement Income Framework

1. Boosting retirement income choices (new retirement rules)
2. Introducing Retirement Income Covenant (including CIPRs[1])
3. New means test rules for lifetime products



FY18 – 30 June 2018

1. Comprehensive Income Products for Retirement (CIPR) – a key feature of the Government's new Retirement Income Framework. Refer to page 46 for more detail.

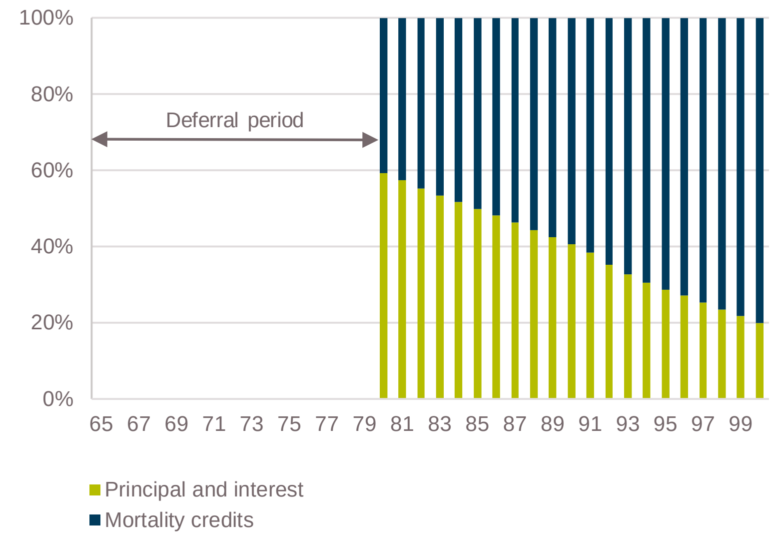
Government enhancing post-retirement phase

New retirement product rules from 1 July 2017

- Enables new lifetime products, including Deferred Lifetime Annuities (DLAs)
- Provide building block for CIPRs[1]
- New age pension means test rules to support retirement products
- DLAs are insurance-focused products providing certainty with longevity and inflation protection
- Income enhanced through pooling benefits

Benefits of pooling

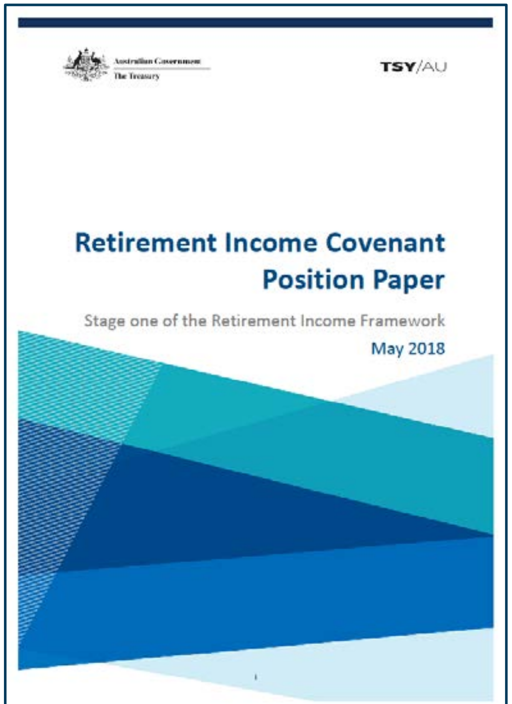
(illustrative DLA example with 15 year deferral period)



1. Comprehensive Income Products for Retirement (CIPR) – a key feature of the Government's new Retirement Income Framework. Refer to page 46 for more detail.

Government enhancing post-retirement phase

Retirement Income Covenant


Australian Government
The Treasury
TSY/AU
Retirement Income Covenant
Position Paper
Stage one of the Retirement Income Framework
May 2018

- Retirement Income Covenant proposed for SIS Act[1]
- Trustee required to develop member retirement income strategy
  - maximise income for life
  - manage risks that affect stability of income
  - provide access to capital
- CIPRs[2] a key feature of retirement income framework
  - 100% allocation to ABP[3] will not meet CIPR requirements
  - Likely require min. 15-20% allocation to pooled lifetime product

Retirement covenant consultation closed 15 June 2018	CIPR legislation by 1 July 2019	CIPRs commence from 1 July 2020

1. Superannuation Industry (Supervision) Act 1993.
2. Comprehensive Income Products for Retirement (CIPR) – a key feature of the Government's new Retirement Income Framework.
3. Account Based Pension (ABP).

Government enhancing post-retirement phase

New means test for lifetime income products from 1 July 2019

- New rules take effect 1 July 2019
  - existing rules to apply until then
  - means test of lifetime products purchased prior to be grandfathered
- DSS[1] delivering simplicity
- No change for term annuities[2]
- New rules result in outcomes broadly consistent with old rules

> ***"These new rules will provide industry with the confidence and stability to develop innovative products that can help retirees manage the risk of outliving their income. These changes also pave the way for the development of CIPRs"***
>
> Federal Budget 8 May 2018

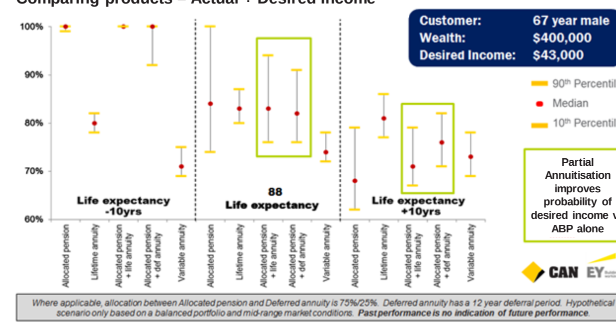
1. Department of Social Services (DSS).
2. Term annuities accounted for ~80% of Challenger's FY18 annuity sales.
3. Deferred Lifetime Annuities (DLAs).

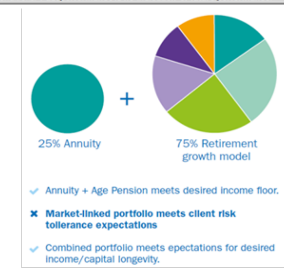
Government enhancing post-retirement phase

CIPR-style strategies already being implemented

- CIPR[1]-style strategies already being implemented by dealer groups and super funds
- Retirement income models emerging
  - typically recommend 25% allocation to lifetime income product
  - supported by independent analysis
- Challenger's Retirement Illustrator and tools support income layering and CIPRs
- Retirement Income Framework – CIPR[1]-style products implemented by trustees

Comparing products – Actual ÷ Desired Income[2]



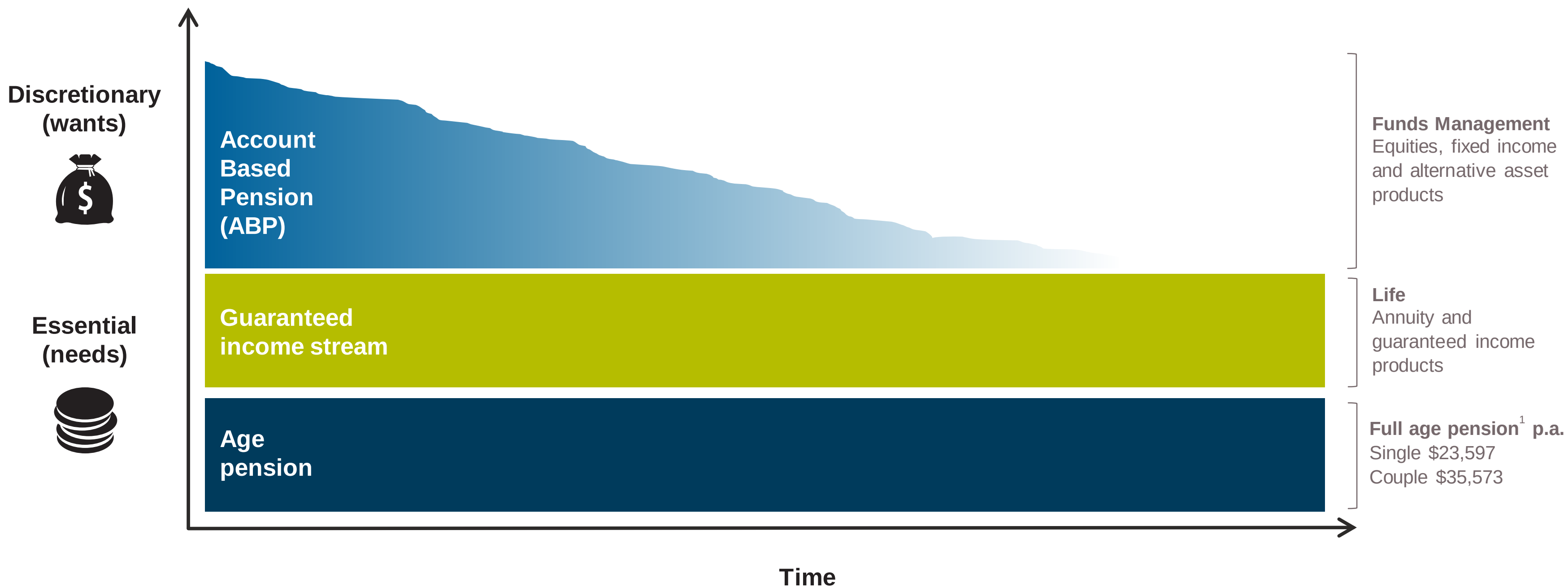


"annuities need to be one tool in the financial adviser's toolbox"
"we believe that an account based pension with a lifetime annuity or some sort of deferred lifetime annuity will be a good solution for Australian retirees"

1. Comprehensive Income Products for Retirement (CIPR) – a key feature of the Governments new Retirement Income Framework. Refer to page 46 for more detail.
2. 'Optimal solution to the retirement riddle', Actuaries Summit, May 2015.

Retirement strategies

Retiree needs addressed through combining products



FY18 – 30 June 2018

1. Department of Human Services and current as at 30 June 2018.

Overview of age pension system

Social safety net for those unable to support themselves

- Qualification age 65.5 (increasing to age 67)
- Age pension based on lower outcome under assets and income tests
- Many retirees move from assets to income test through retirement
- Different age pension outcomes when products held in combination (e.g. Lifetime Annuity and ABP[2])

Maximum age pension rates[1]

	Per fortnight	Per annum
Single	$907.60	$23,597
Couple	$1,368.20	$35,573

Asset test

Limits assets before it affects age pension[3]

Maximum assets for full pension	Homeowner	Non-homeowner
Single	$253,750	$456,750
Couple	$380,500	$583,500

Taper rate – age pension reduces by $78 (p.a.) per each $1,000 of assets above lower threshold

Maximum assets for part pension	Homeowner	Non-homeowner
Single	$556,500	$759,500
Couple	$837,000	$1,040,000

Income test

Limits income before it affects age pension

Maximum income for full pension (p.a.)	
Single	$4,368
Couple	$7,800

Taper rate – age pension reduces by $500 (p.a.) per each $1,000 of income above lower threshold

Maximum income for part pension (p.a.)	
Single	$51,563
Couple	$78,946

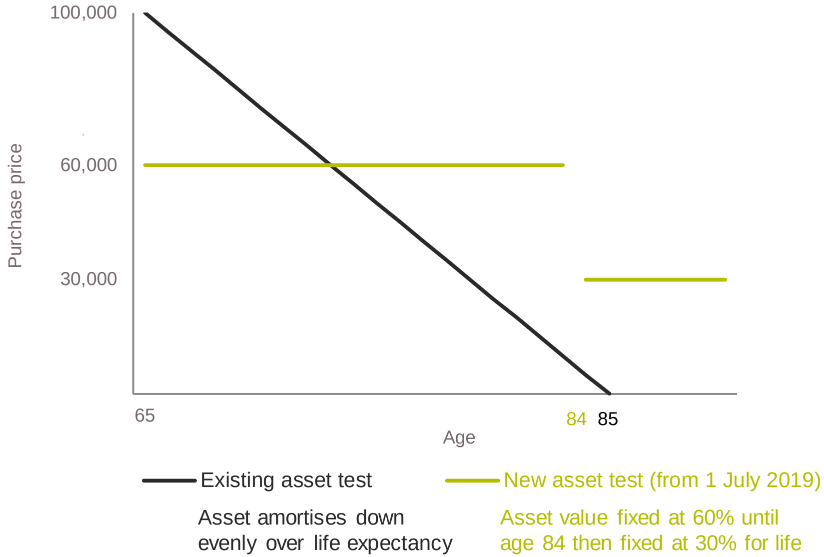
1. Department of Human Services and current as at 30 June 2018.
2. Account Based Pension (ABP).
3. Asset test excludes the primary residence.

Government enhancing post-retirement phase

New means test for lifetime income products from 1 July 2019

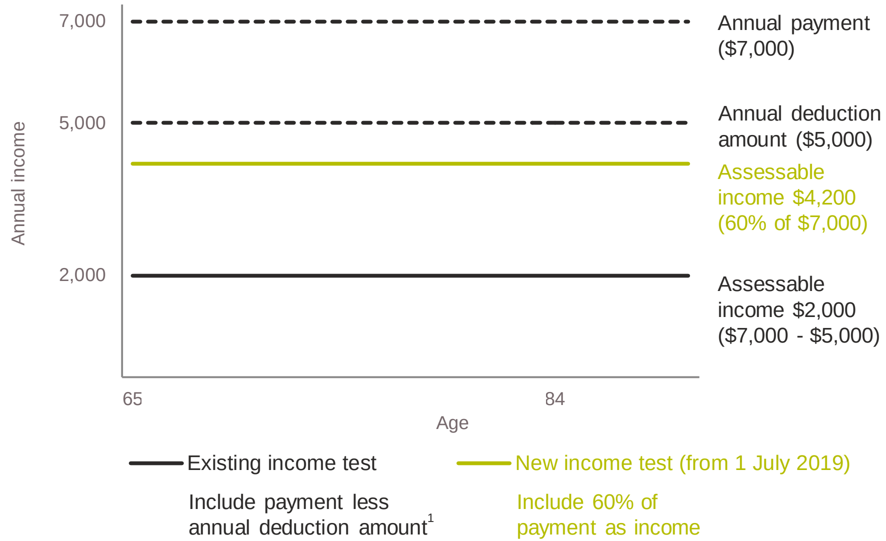
Asset pension test

Example - $100,000 lifetime income stream purchase price at aged 65



Income pension test

Example - $100,000 lifetime income stream paying $7,000 per year



1. Annual deduction amount equal to the purchase price ($100,000) divided by life expectancy (20 years) at time of purchasing lifetime income stream.

Retirement strategies – combined products

Enhances income and provides longevity and inflation protection

Case study

Jenny and John

- Homeowning couple
- $500,000 of super
  (in addition to family home)
- 65 years old
- Approaching retirement
- Target income $58,000 p.a.
- Status quo 100% ABP[1]
- Combined product
  - 70% ABP[1]; and
  - 30% Lifetime Annuity[2]

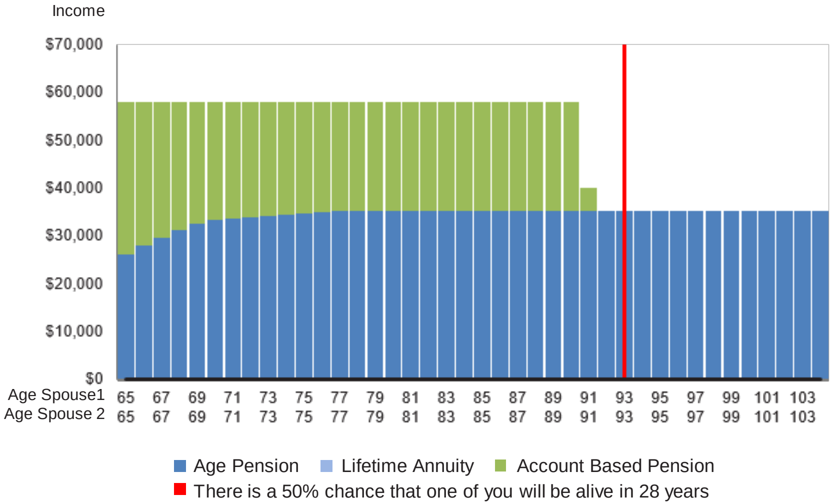
1. Account Based Pension (ABP).
2. Applying new means test rules for lifetime income products are expected to take effect from 1 July 2019.

Retirement strategies – combined products

Enhances income and provides longevity and inflation protection

Case study – Jenny and John

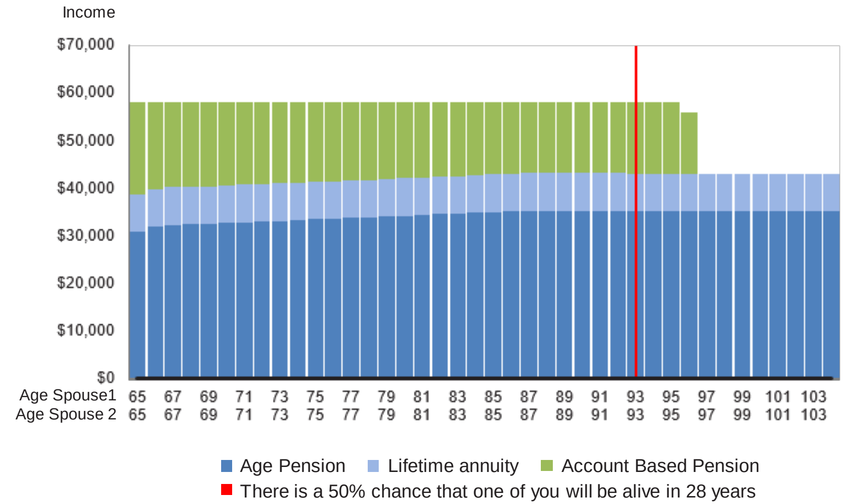
100% Account Based Pension (ABP)



All values are shown in today's dollars

- Provides $58k p.a. until age 90 then $33k p.a. thereafter
- 50% chance one is alive at age 93

Combined product (70% Account Based Pension; 30% Lifetime Annuity)



All values are shown in today's dollars

- Provides $58k p.a. until age 95 then $40k p.a. thereafter
- Income at least as good as 100% ABP – better the longer you live

Assumptions – 1. Means test rules for lifetime income streams from 1 July 2019; 2. 65 year old couple, homeowners, $250,000 each in super ($500,000 combined) drawing $58,000 per annum; 3. Account Based Pension assumptions – Growth 6.40%, Defensive 2.60% (net of fees); 4. Lifetime Annuity – Flexible income option, CPI indexation, monthly payments. Portfolio allocation of 50% growth / 50% defensive.

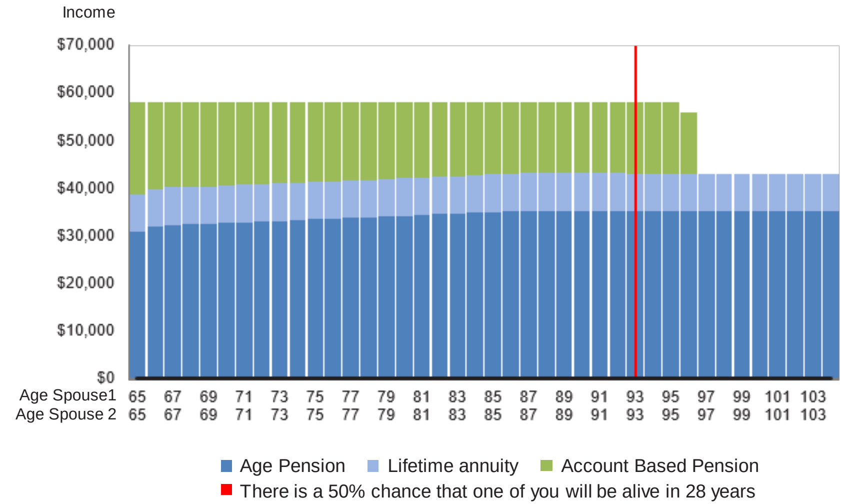
Retirement strategies – combined products

Enhances income and provides longevity and inflation protection

Combined product income enhanced through

1. mortality credits
2. interaction with age pension
3. growth assets left to grow
4. likely annuity outperformance against defensive alternatives

Combined product (70% Account Based Pension; 30% Lifetime Annuity)



All values are shown in today's dollars

- Provides $58k p.a. until age 95 then $40k p.a. thereafter
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Assumptions – 1. Means test rules for lifetime income streams from 1 July 2019; 2. 65 year old couple, homeowners, $250,000 each in super ($500,000 combined) drawing $58,000 per annum; 3. Account Based Pension assumptions – Growth 6.40%, Defensive 2.60% (net of fees); 4. Lifetime Annuity – Flexible income option, CPI indexation, monthly payments. Portfolio allocation of 50% growth / 50% defensive.

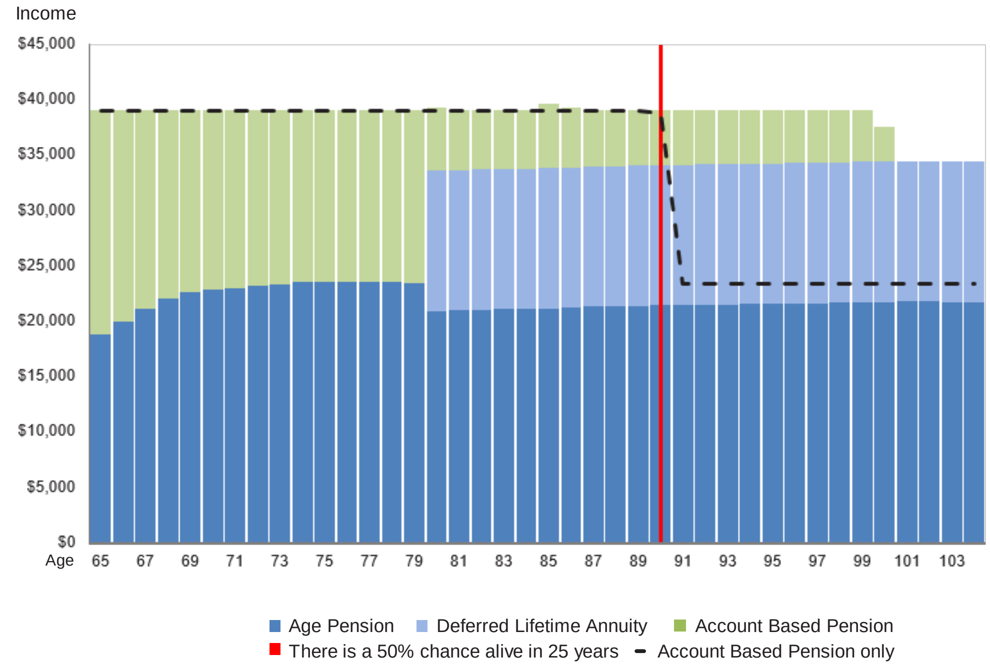
Retirement strategies – combined products

Enhances income and provides longevity and inflation protection

Case study

Elizabeth

- Single homeowner
- $350,000 of super (in addition to home)
- 65 years old
- Approaching retirement
- Target income $39,000 p.a.
- Status quo 100% ABP
- Combined product
  - 75% ABP; and
  - 25% DLA ($87,500 invested in DLA paying $12,666 p.a. commencing at age 80)



All values are shown in today's dollars

Assumptions – 1. Means test rules for lifetime income streams from 1 July 2019; 2. 65 year old single female, homeowner, $350,000 in super drawing $39,000 per annum (ASFA comfortable is $39,353); 3. Account Based Pension assumptions – Growth 6.40%, Defensive 2.60% (after fees); 4. Deferred Lifetime Annuity – Flexible income option, CPI indexation, monthly payments. Portfolio allocation 50% growth / 50% defensive.

Appendix

Life – Distribution, Product and Marketing (DPM)

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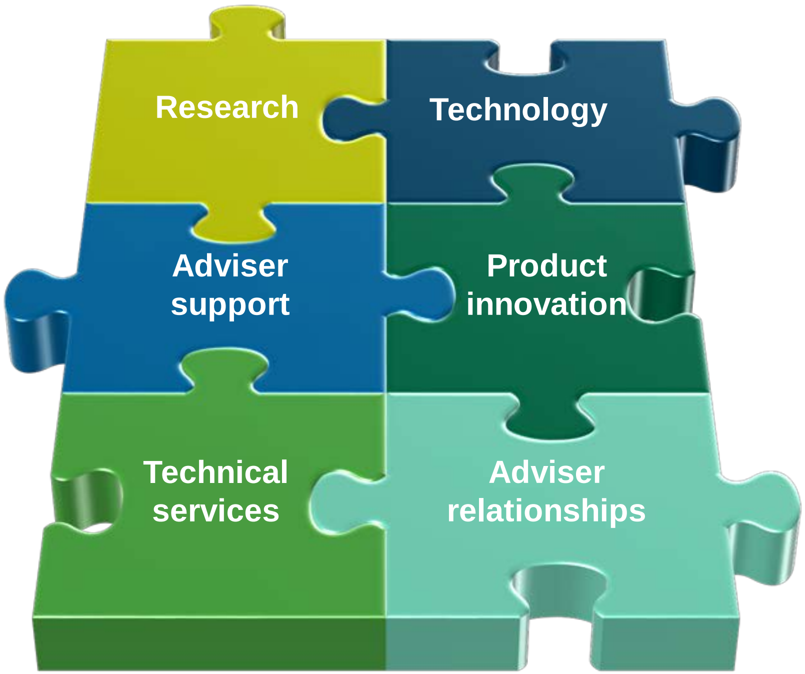
Distribution

A competitive advantage driving long-term growth

Influencing market practice

Retirement education and practice management

Superannuation rules support



Annuities on platform and retirement calculators improving retirement outcomes

Meeting goals and managing risks of retirement

Working with licencees and advisers to optimise retirement outcomes

Distribution – New relationships

Industry moving ahead of regulation – using annuities to build CIPRs[1]

2016	2017	2018 / 2019
Colonial First State: Australia's largest retail platform offering Challenger annuities	ClearView: ClearView Wealth Solutions platform offering Challenger annuities	AMP: Challenger annuities via investment and administration platforms (launched September 2017)
Link Group: Leading provider of services to Australian superannuation industry providing access to Challenger annuities	Suncorp: Suncorp branded annuities backed by Challenger	BT: Challenger annuities available on BT platforms (launch targeted for September 2018 quarter)
VicSuper: Profit for members fund providing access to Challenger annuities	Local Government Super, caresuper, legalsuper: Three Link Group clients offering Challenger annuities	HUB24: (launch targeted for FY19)
	Mitsui Sumitomo Primary Life Insurance (MS&AD Insurance Group): Annuity relationship with leading Japanese annuity provider	
	Standard Life Investments: Low risk absolute return bond product[2] for Australian market	

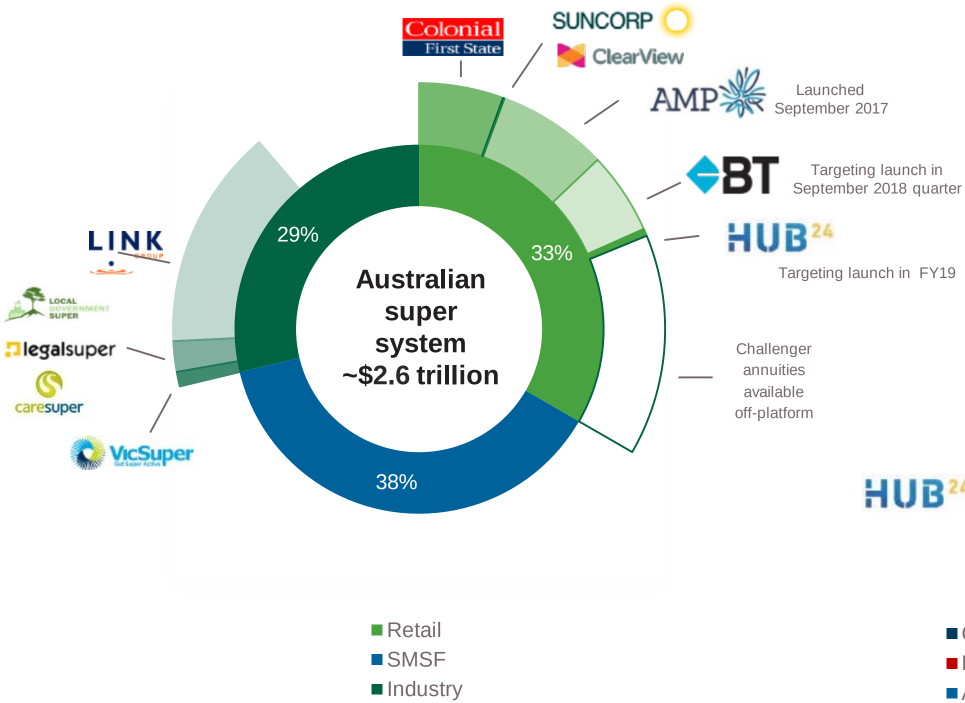
1. Comprehensive Income Products for Retirement (CIPR) – a key feature of the Government's new Retirement Income Framework. Refer to page 46 for more detail.
2. Standard Life Absolute Return Global Bond Strategy (ARGBS) and aims to provide positive investment returns in the form of income and capital growth in all market conditions over the medium to long term.

Distribution – New relationships

Platforms broadening access to Challenger annuities

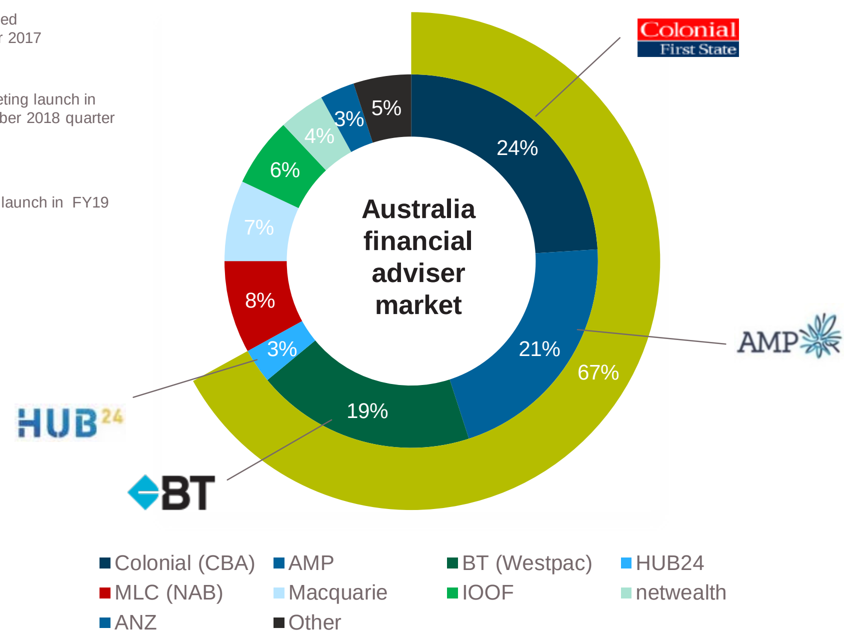
Platform relationships

Provides access to ~1/3rd of super industry FUM[1,2]



Platform relationships

Provides access to ~2/3rd's of financial advisers[3,4]



FY18 – 30 June 2018

1. Following launch of 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 BT, new platform relationships will provide access to two thirds of Australian financial advisers.
4. Primary platform used by advisers - Wealth Insights 2017 Adviser Market Trends Report - provider footprint.

Colonial First State (CFS) relationship

Annuities on platform case study

Ernst & Young stochastic model[1]

- To determine better outcomes for clients
  - combining lifetime annuity with account based pension often provides superior outcomes

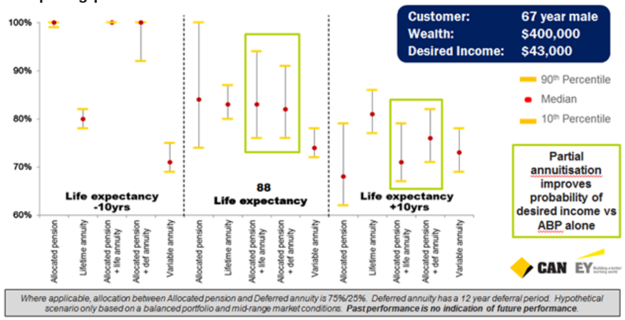
CFS retirement income model

- Supported by independent actuarial research[1]
- Layering annuities part of retirement solution

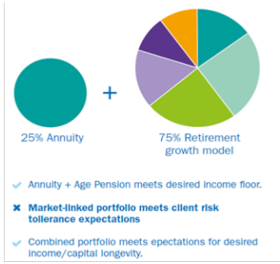
Annuities on platform − positive adviser feedback

- More likely to use annuities − simple to use, easy origination process, advisers and clients can view portfolio in one place
- Significant increase in Colonial sales following annuities on platform − sales up ~60% on FY17

Comparing products – Actual ÷ Desired Income[1]



Where applicable, allocation between Allocated pension and Deferred annuity is 75%/25%. Deferred annuity has a 12 year deferral period. Hypothetical scenario only based on a balanced portfolio and mid-range market conditions. **Past performance is no indication of future performance.**



"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"

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

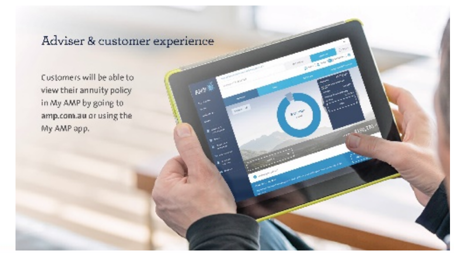
AMP relationship

Annuities on platform case study

- Annuities available via AMP's adviser portal
- Supported by Challenger retirement tools and calculators

AMP annuities on platform

- >50% of sales Lifetime annuities[1]
- ~40% of writers new to Challenger[2]
- ~30% of AMP advisers are using Challenger's Retirement Illustrator and Aged Based Pension calculators
- Longevity and aged care adviser education underway
  - ~1,645 advisers at AMP's 2018 Advice Summit
  - ~2,400 advisers at AMP National PD Series[3]
  - Challenger/AMP digital learning rolled out to AMP network



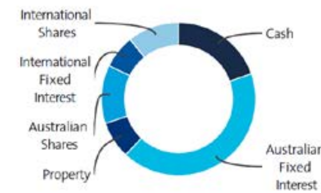
Superannuation		
North - Personal Pension	Y00811513	$210,810.44

Retirement		
Challenger Guaranteed Annuity (Liquid Lifetime)	501281814	$69,749.33

For Challenger products, the balance is an illustrative amount and it is not the amount you would receive if you withdraw. Please contact us for more information on this amount.

Asset allocation as at 13 Jun 2017

Asset class	%	$
Cash	19.62%	$55,059.68
Australian Fixed Interest	42.39%	$118,933.86
Property	7.81%	$21,907.56
Australian Shares	12.34%	$34,627.39
International Fixed Interest	7.01%	$19,669.79
International Shares	10.82%	$30,361.48
Total	100%	$280,559.77



FY18 – 30 June 2018

1. Lifetime includes Liquid Lifetime and CarePlus.
2. Defined as having not written a Challenger annuity in the past three years.
3. AMP National Professional Development Series.

What retirees want

Income that lasts a lifetime – a key CIPR[1] objective

National Seniors Social Survey 2018[2]

Retirement planning and investments are a major consideration for Australians over 50. The impact of the Global Financial Crisis (GFC) still lingers. Retirees are looking for income that lasts a lifetime.

84% *want regular constant income*

80% *want their money to last a lifetime*

53% *concerned with outliving their savings*

1. Comprehensive Income Products for Retirement (CIPR) – a key feature of the Government's new Retirement Income Framework. Refer to page 46 for more detail.
2. Conducted by National Seniors Australia and includes responses from 5,446 Australians with an average age of 69. A copy of the National Seniors Social Survey is available at nationalseniors.com.au.

MS&AD strategic relationship

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
- Broadens Challenger's existing Japanese footprint
- Challenger Tokyo office opened

Equity placement to MS&AD

- $500m or 6.3% of issued capital (August 2017)
- Shareholding subsequently increased to 10% via market
- MS&AD intends to be a supportive Challenger shareholder[1]

MS&AD

MS&AD Insurance Group

~A$24bn market cap
Total assets ~A$275bn

41,295 employees
5 business domains

(as at 31 March 2018)

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 Amlin A Member of MS&AD INSURANCE GROUP
MSIG
Box Innovation

1. 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.

MS Primary annuity relationship

Partnering with leading provider of AUD annuities in Japan

MS Primary

- MS&AD subsidiary
  - leading provider of foreign currency life products
  - 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

Japanese annuity market

- AUD annuities market multiple times the size of Australia's

Challenger

- Reinsurance agreement with MS Primary covering Australian dollar 20 year term annuity and Australian dollar lifetime annuity

Mitsui Sumitomo Primary Life Insurance
MS&AD INSURANCE GROUP

Product overview

20 year term annuity

- Australian dollar 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

Lifetime annuity

- Australian dollar single premium product
- An immediate lifetime annuity delivering fixed annual annuity payments for life
- A minimum guaranteed benefit of 80% or 100% of the single premium sum repayable via the annuity stream or as a death benefit upon early death

Life product overview

Providing customers with guaranteed income

Fixed term	Lifetime (long term annuities)	Other
48% of total book	**37% of total book**	**15% of total book**
Provides regular guaranteed payments for a fixed rate, fixed term	*Provides guaranteed regular payments for life*	*Institutional product providing guaranteed fixed income returns*
Average policy size[1] ~$200,000	Average policy size[1] ~$150,000	
Guaranteed Annuity • Guaranteed rate • Payment frequency options • Inflation protection options • Ability to draw capital as part of regular payment • Tax free income[2]	Liquid Lifetime • Inflation protection options • Liquidity options • Tax free income[2] CarePlus • Designed for aged care • Up to 100% death benefit MS Primary (refer page 64)	Guaranteed Index Return (GIR) • Institutional mandates targeting large Australian superannuation funds Challenger Index Plus Fund • Liquid version of GIR backed by high grade liquid fixed income

FY18 – 30 June 2018

1. Average FY18 policy size.
2. If bought with superannuation money and in retirement phase.

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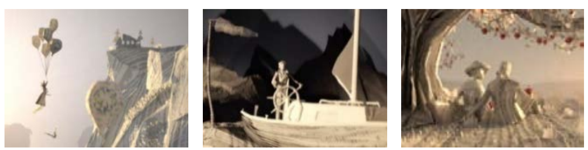
Brand strength

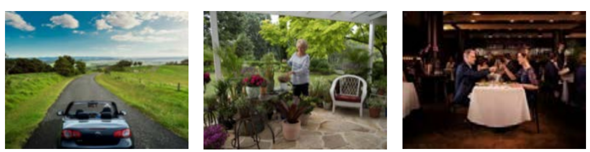
Strong consumer and adviser brand

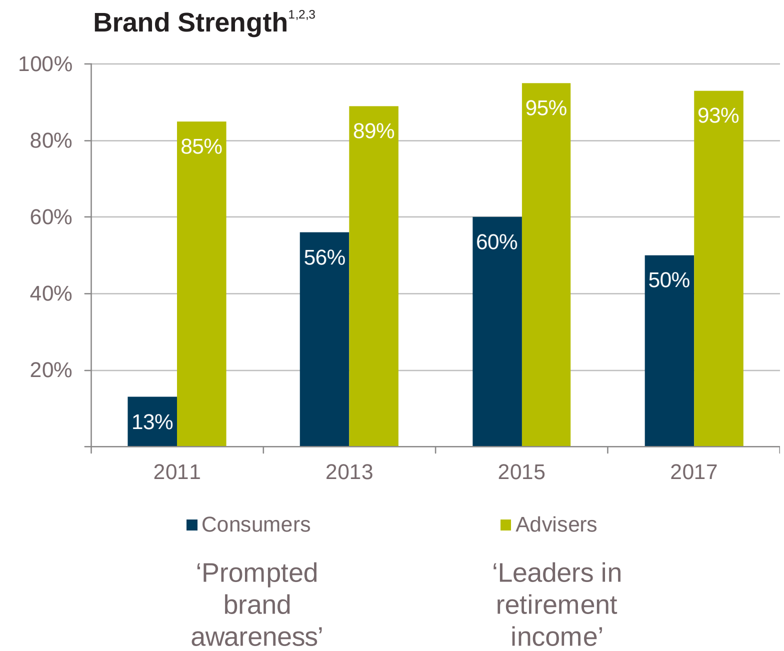
2011
'Real Stories'

2013
'On Paper'



2016
'Lifestyle Expectancy'





1. Consumer - Newspoll Consumer study (2011).
2. Consumer - Hall & Partners Open Mind Consumer Study (2013 to 2017) – people aged 55 to 64 years old.
3. Adviser - Marketing Pulse Adviser Study December 2017.

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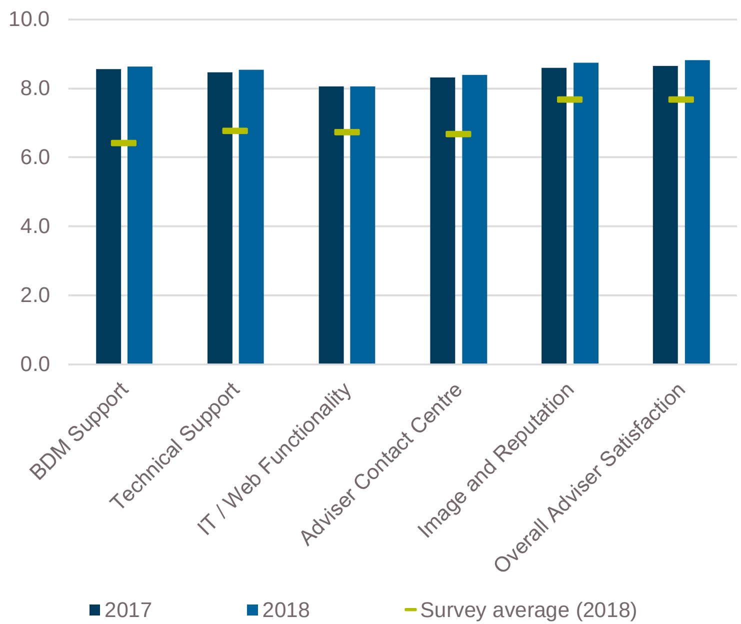
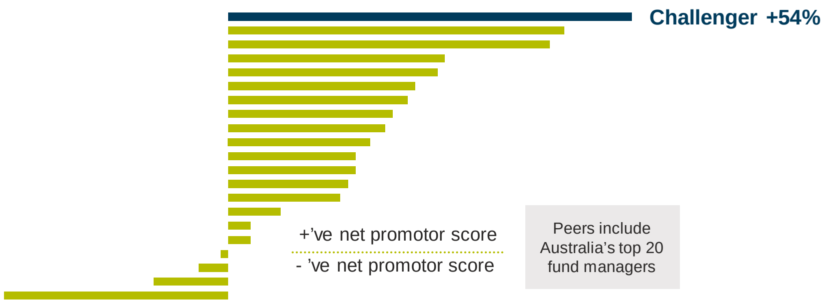
Clear leader in retirement incomes

Challenger rated #1 in overall adviser satisfaction

Challenger adviser satisfaction[1]



Wealth Insights net promoter score[1]



Challenger ranked #1[1]

- BDM Support (7th consecutive year)
- Technical Services (3rd consecutive year)
- IT / Web Functionality (2nd consecutive year)
- Adviser Contact Centre (3rd consecutive year)
- Image and Reputation (3rd consecutive year)
- Overall Adviser Satisfaction (3rd consecutive year)

1. Challenger annuities service level analysis conducted by Wealth Insights and compared to the broader Australian funds management market.
2. Wealth Insights 2018 Adviser Market Trends Report.

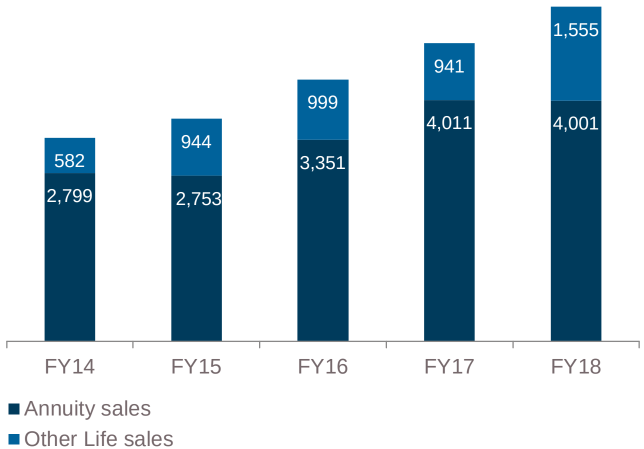
Appendix

Life – Financials

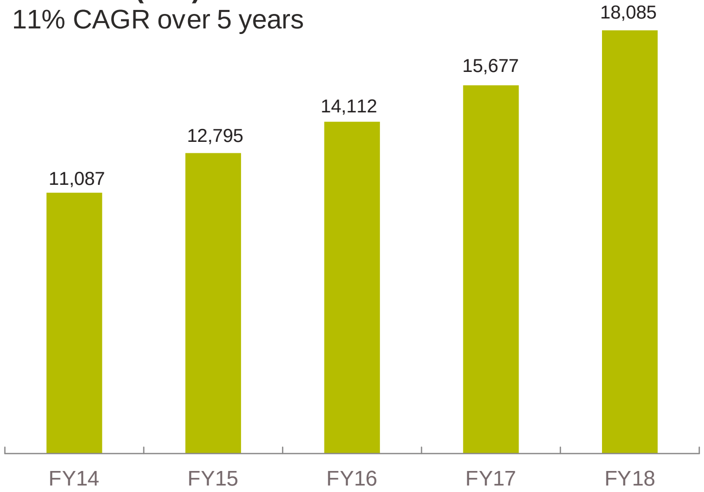
Life

Sales and AUM benefiting from diversity of products and distribution

Total Life sales ($m)
12% CAGR over 5 years



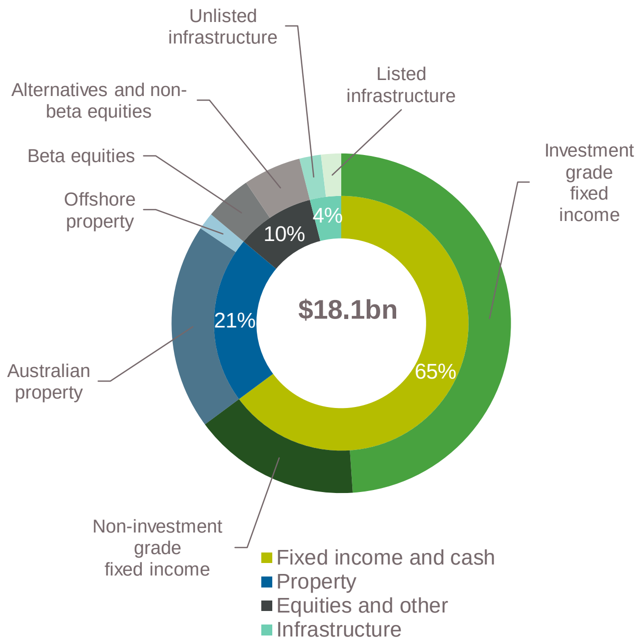
Life AUM ($bn)
11% CAGR over 5 years



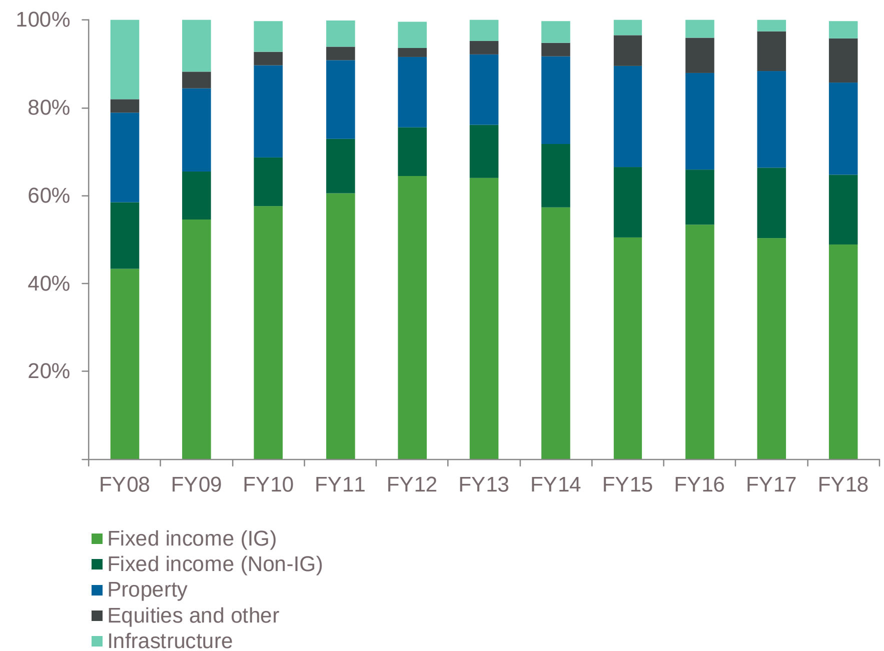
Life investment portfolio

High quality portfolio providing reliable income

Life investment portfolio[1]



Life investment portfolio – last 10 years

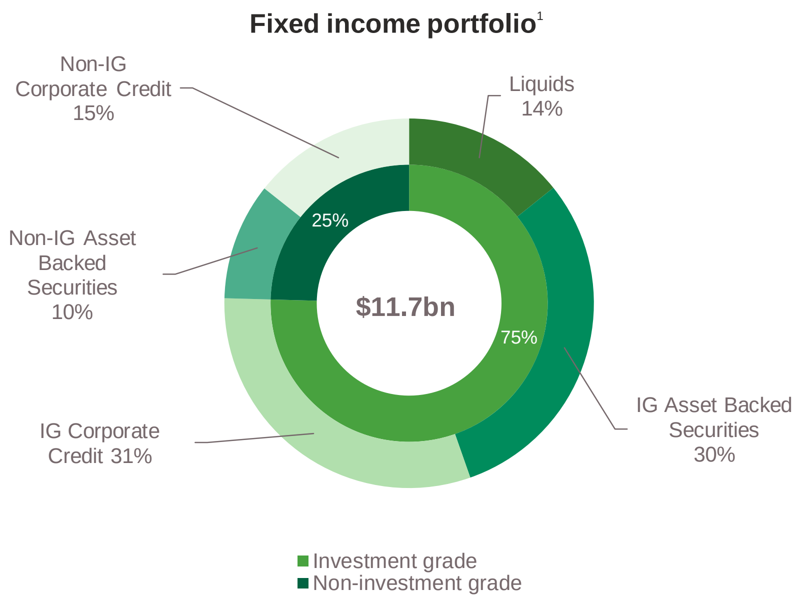


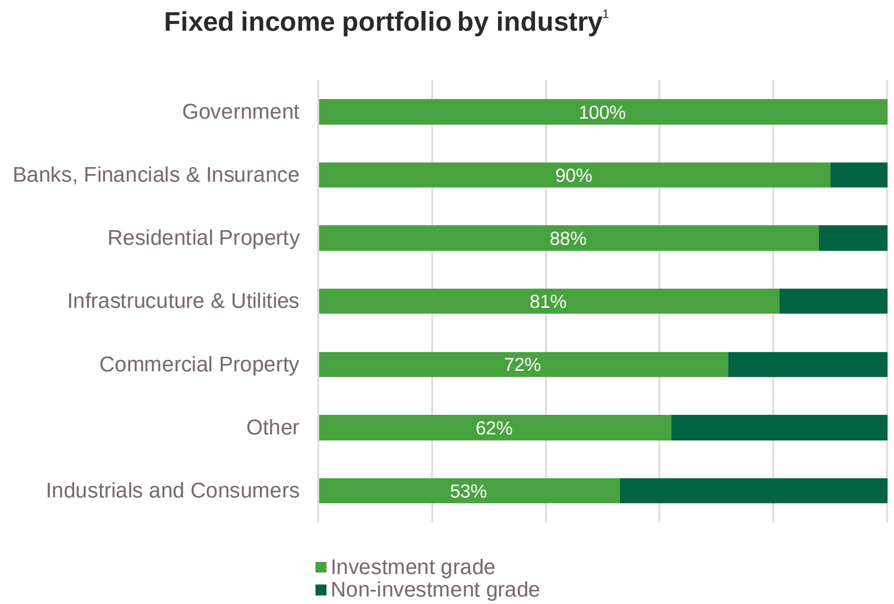
FY18 – 30 June 2018

1. As at 30 June 2018.

Life investment portfolio

Fixed income 65% of portfolio

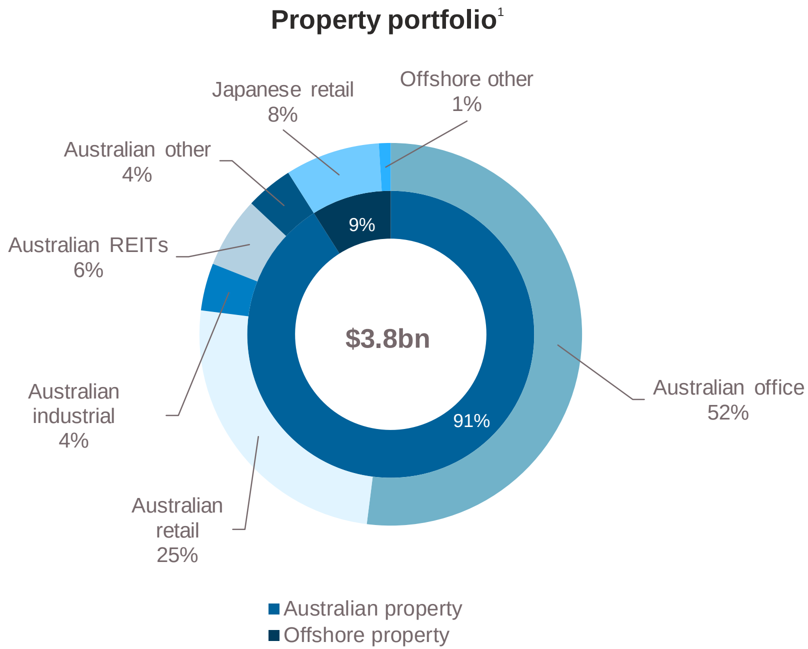




1. As at 30 June 2018.

Life investment portfolio

Property 21% of portfolio



Life's property portfolio

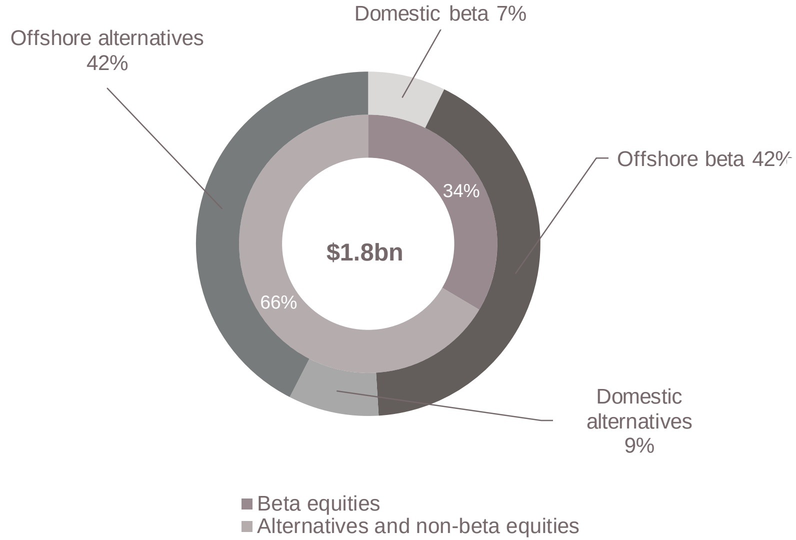
- 52% of tenants investment grade
- Australian Government is a major tenant
  - representing 32% of rental income[2]
- Average cap rate 5.9%
- WALE 6.1 years[3]
- 50% of lease expiries after FY22
- 96% occupancy rate[4]

1. As at 30 June 2018.
2. Total gross passing income attributable to the direct property portfolio.
3. Assumes tenants do not terminate leases prior to expiry of specified lease term. Based on weighted average lease expiry and measured by gross income.
4. As measured by area.

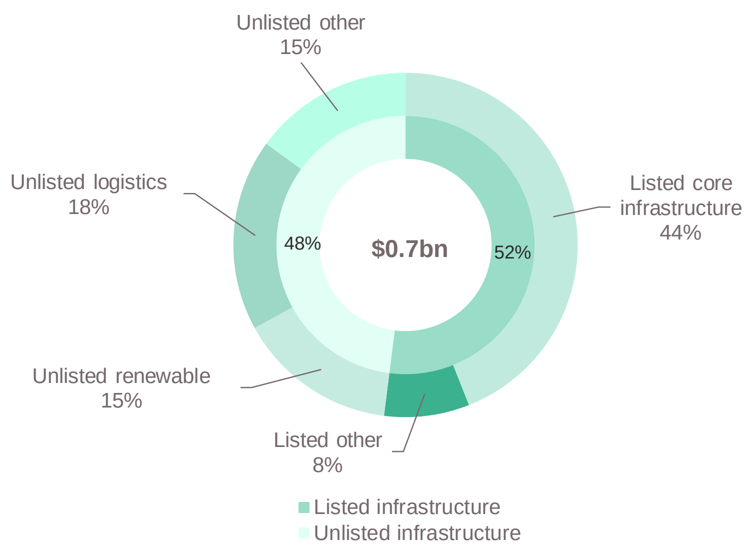
Life investment portfolio

Equities and other & infrastructure 14% of portfolio

Equity portfolio[1]



Infrastructure portfolio[1]



1. As at 30 June 2018.

Normalised profit framework

Reflects underlying performance of Life business

Investment Experience

Asset and policyholder liability valuation movements plus net new business strain

Asset and policy liability experience

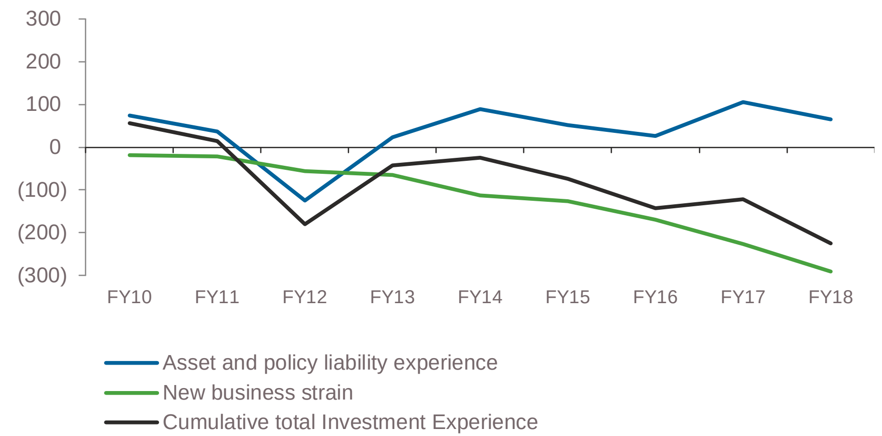
Difference between expected capital growth[1] for each asset class compared to actual investment returns

Includes impact of changes in macroeconomic variables[2] on the valuation of Life's liabilities

New business strain

New business strain is a non-cash accounting adjustment recognised when annuity rates on new business are higher than the risk free rate plus an illiquidity premium[3] used to fair value annuities. New business strain unwinds over the annuity contract.

Cumulative Investment Experience ($m)



Normalised assumptions	per annum
Fixed income (allowance for credit default)	-35 bps
Property	2.0%
Infrastructure	4.0%
Equities and other	4.5%

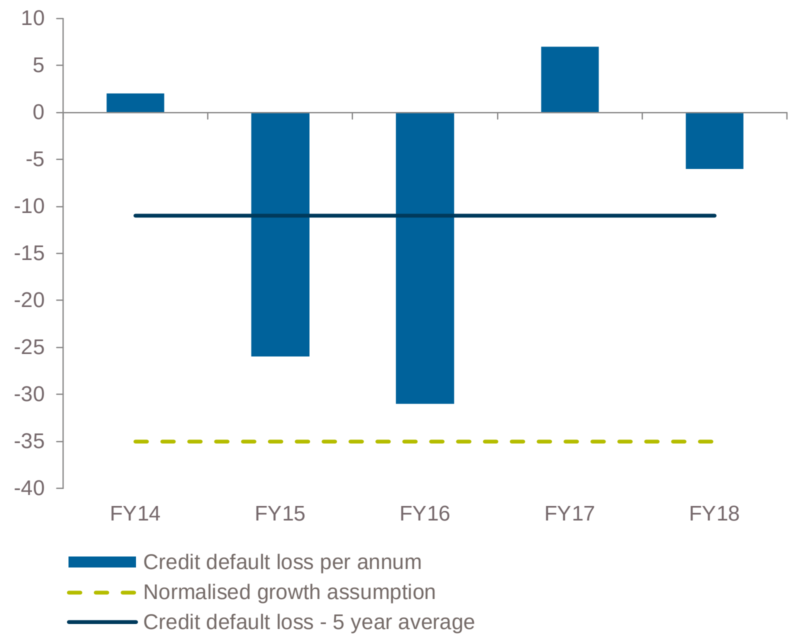
1. Based on normalised assumptions. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the 2018 Annual Report - Operating and Financial Review section 8.
2. Macroeconomic variables include changes to bond yields, inflation factors, expense assumptions and other factors.
3. Lifetime annuities are fair valued using a risk-free discount rate, based on the Australian Commonwealth Government bond curve plus an illiquidity premium.

Normalised profit framework

Credit default loss history

- Normalised growth assumptions includes -35 bps for fixed income
- Normalised assumption represents allowance for credit default losses
- FY18 -6 bps
- Five year average -11 bps p.a.

Credit default loss history (bps)



Asset allocation framework

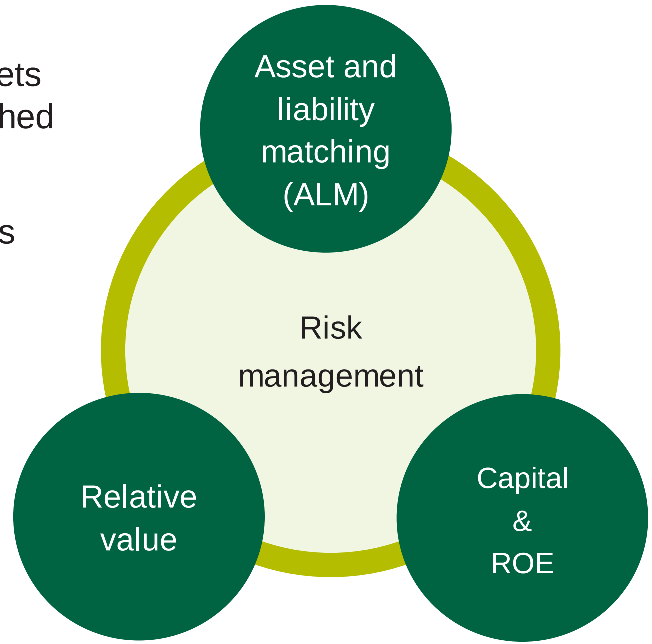
Consistently applied with strong risk management

Asset and Liability matching

- Fundamental principle – assets and liabilities cash flow matched
- Managed by dedicated team
- Liability maturity profile drives asset tenor

Relative value

- Investment returns considered relative to base swap rates
- Illiquidity premium contributes to relative value



Risk management

- Strong governance framework
- Risk management entrenched in corporate culture
- Minimise unwanted risks such as interest rate, currency and inflation risks

Capital & ROE

- Manage asset allocation to capital targets
- Investment decisions based on risk-adjusted returns
- 18% (pre-tax) return on equity target for all products

Asset and liability matching

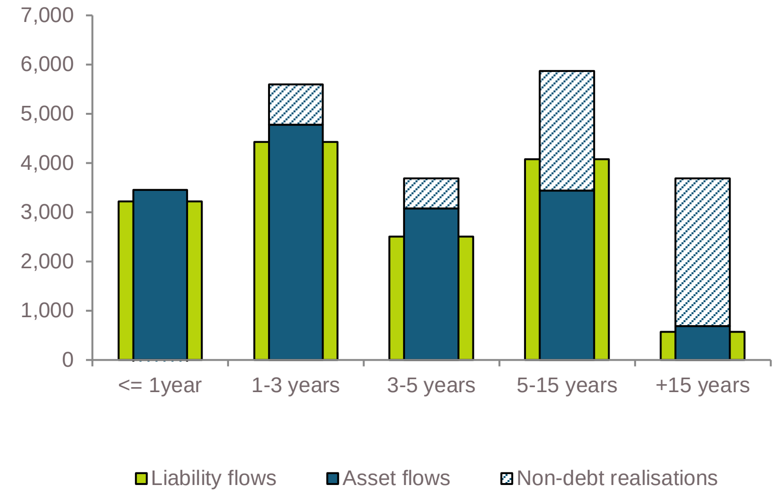
Unwanted risks mitigated with assets and liabilities cash flow matched

- Assets deliver contracted cash flows to match contracted liabilities
- Risk appetite seeks to minimise duration mismatch
- Asset and Liability matching impacts asset allocation

Minimise exposure to

- Foreign exchange risk
- Interest rate risk
- Inflation risk
- Liquidity risk
- Licence risk
- Operational risk

Asset and liability cash flow matching ($m) – June 2018



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Appendix

Funds Management

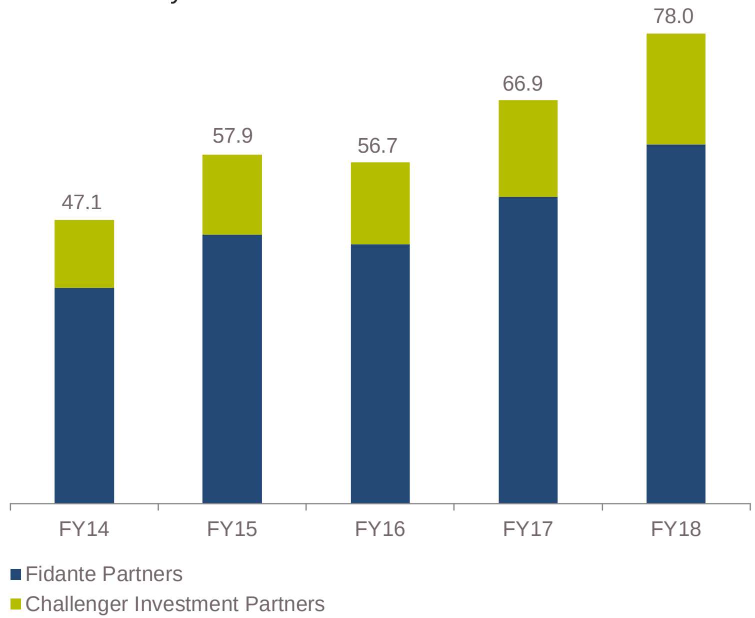
Funds Management

Strong FUM growth track record

- Fidante Partners
  - 16 boutique brands
  - located in Australia, UK and US
  - asset class diversification
  - replicating model in Europe

- Challenger Investment Partners (CIP)
  - proven track record in asset origination
  - strong investment performance
  - growing 3rd party credit and property offerings

Funds Under Management (FUM) ($bn)
14% over 5 years



Fidante Partners

Contemporary model with strong alignment of interests

Administration services

- Investment operations
- Client operations
- Risk and compliance
- IT infrastructure
- Finance
- Human Resources
- Company Secretarial
- Facilities

Distribution services

- Asset consultant & research
- Strategic positioning
- Product development
- Brand & marketing
- Sales planning & execution
- Investor relationships
- Client services
- Responsible entity

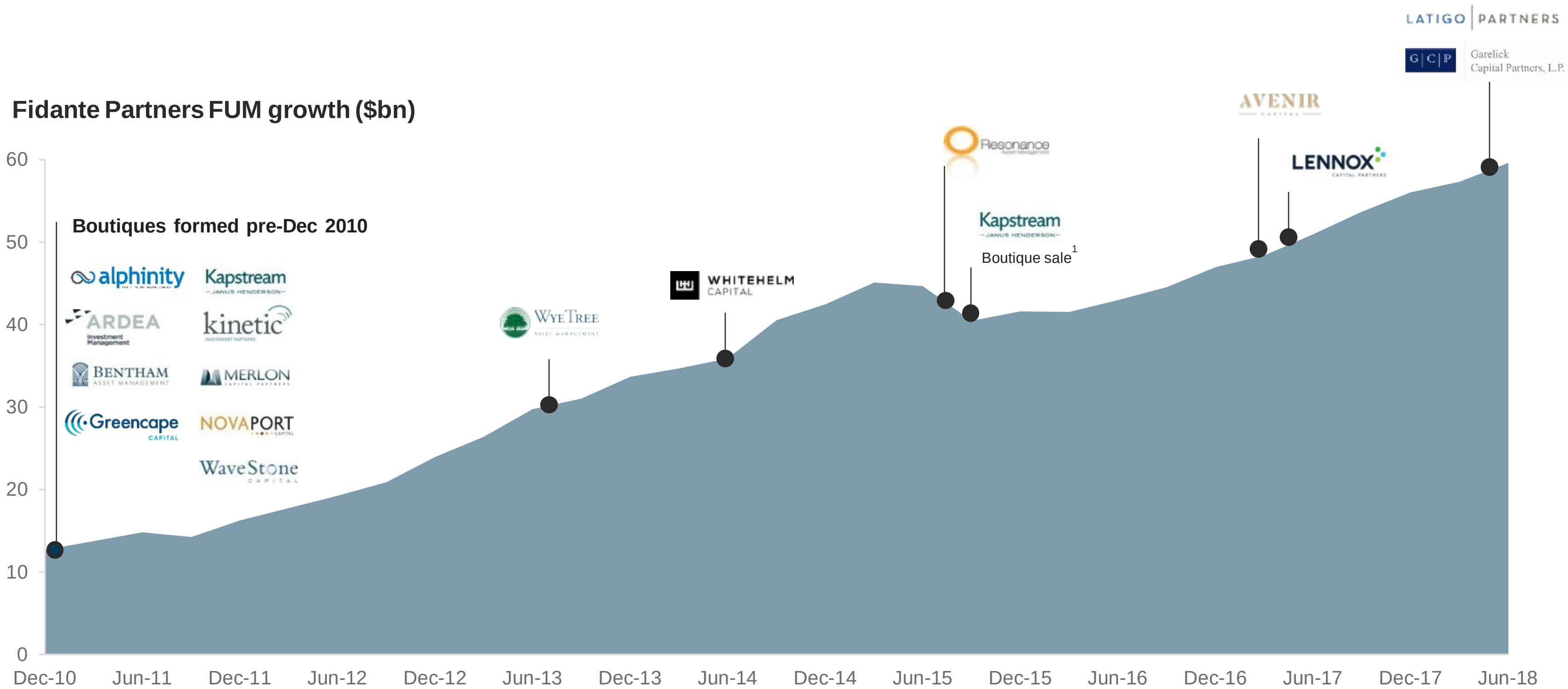
Partnership

- Equity participation and revenue share (Fidante non-controlling interest)
- Business planning, budgeting, strategic development, succession planning

1. As at 30 June 2018.

Fidante Partners – expanding capability

Adding new managers, strategies and building geographic footprint



FY18 – 30 June 2018

1. In July 2015 Kapstream was sold and $5.4bn of institutional FUM was derecognised. Fidante Partners continues to distribute Kapstream products to retail clients.

Funds Management – multiple brands and strategies

Scalable and diversified ~$78bn of FUM

Equities $26.3bn[1]

Multiple brands & strategies

Alternatives $14.3bn[1]

Fixed Income $37.4bn[1]

FY18 – 30 June 2018

1. Funds Under Management (FUM) as at 30 June 2018.

Fidante Partners boutique managers

Diversified managers and investment strategies

Boutique	Partnership commenced	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
G|C|P Garelick Capital Partners, L.P.	Feb 2018	Global equities
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
LATIGO | PARTNERS	Mar 2018	Event-driven credit specialist

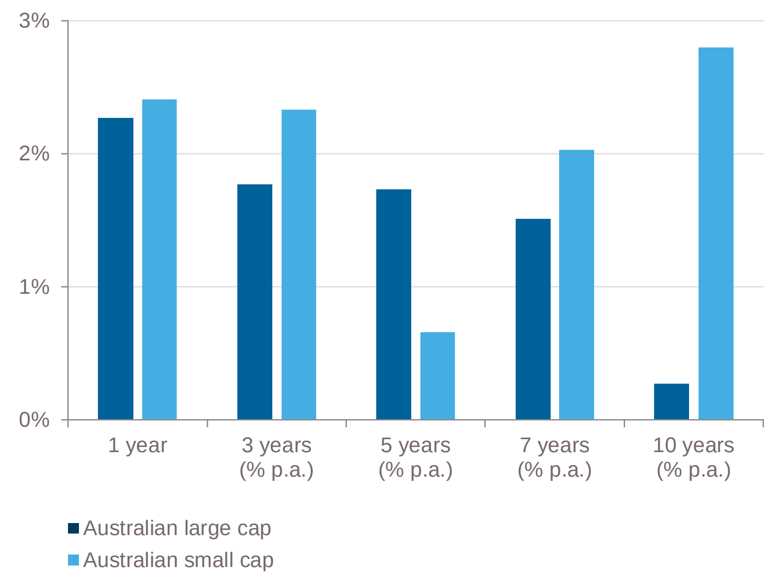
Boutique	Partnership commenced	Asset class
LENNOX CAPITAL PARTNERS	Mar 2017	Australian small cap equities
MERLON CAPITAL PARTNERS	May 2010	Australian equities (income focus)
NOVAPORT CAPITAL	Aug 2010	Australian small and micro cap equities
Resonance Asset Management	Jul 2015	Renewable energy and water infrastructure
WaveStone CAPITAL	Nov 2008	Australian equities (long only & long/short)
WHITEHELM CAPITAL	Jul 2014	Global core infrastructure
WYETREE ASSET MANAGEMENT	Jul 2013	US and European RMBS

Fidante Partners performance advantage

Model supports superior performance

- Outperformance across all periods
- Our boutiques
  - enjoy investment autonomy
  - are high conviction investors
  - take more active exposures
  - have generated consistent alpha
- Our business model
  - attracts talented portfolio managers
  - is favoured by investors due to alignment

Outperformance of Australian boutique managers[1]

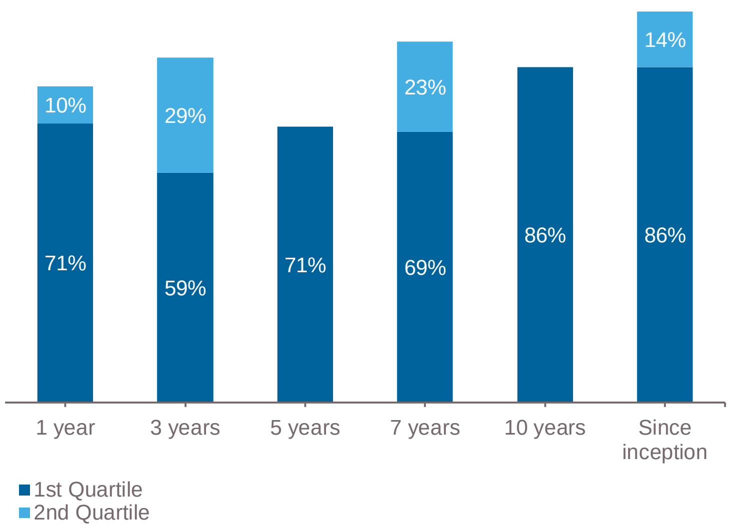


1. Fidante Partners study of Australian boutique performance. Data as at February 2018. Includes investment managers that are at least 20% owned by the portfolio managers.

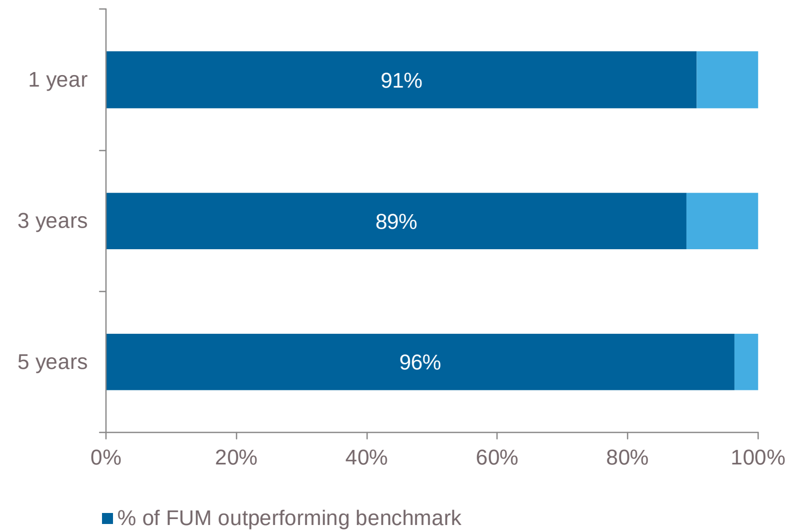
Funds Management investment performance

Strong performance underpinning superior net flows

Fidante Partners percentage of funds 1st or 2nd quartile[1]



Funds Management performance relative to benchmark[2]



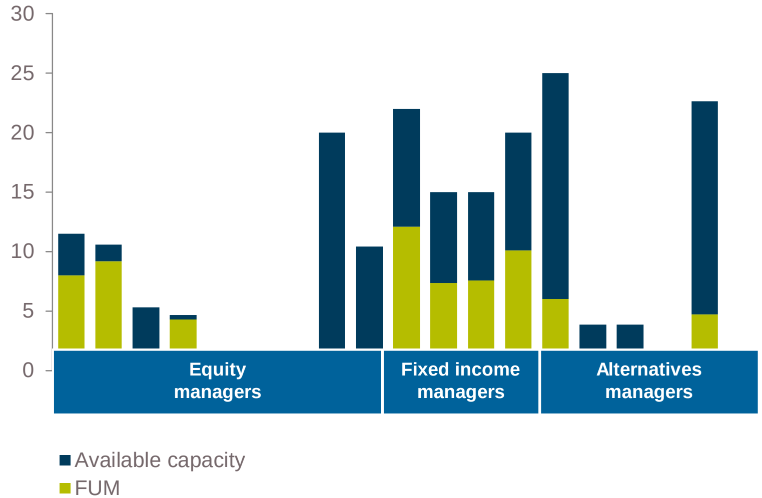
FY18 – 30 June 2018

1. Source: Mercer as at June 2018.
2. As at June 2018 and includes Fidante Partners' boutiques and Life FUM managed by Challenger Investment Partners.

Funds Management

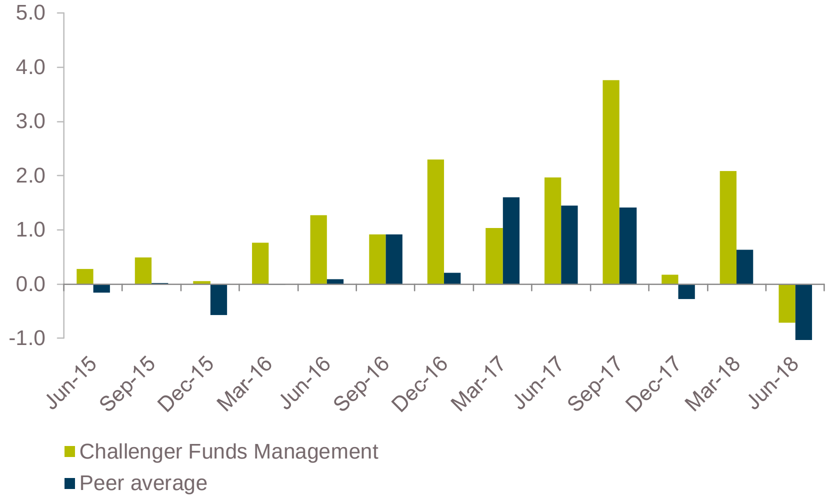
Growth supported by available capacity and superior flows

Manager capacity ($bn)



- ~$123bn of available capacity
- Capacity provides platform for growth

Quarterly net flows vs peers[1] ($bn)



- Net flows benefiting from superior long-term investment performance

1. Quarterly net flows for peers, including AMP Capital Investors, BTIM, Magellan, Pacific Current Group, Perpetual, and Platinum. June 2018 peer net flows includes only those that have reported June 2018 data by 10 August 2018.

Challenger Investment Partners (CIP)

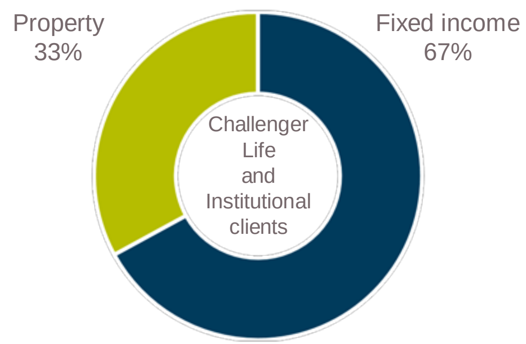
Proven long-term investment track record and capability

- $18 billion of FUM[1]
- Investment manager for Challenger Life and 3rd party institutions
- Clients benefit from experience and market insights through breadth and scale of mandates

Trusted partner

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

Asset specialisation



Institutional clients

- Sovereign wealth funds
- Australian superannuation funds
- International funds
- International insurance companies
- Pension funds
- Large family offices
- Manage ~80% of CLC portfolio

1. As at 30 June 2018.

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 2018 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 the Operating and Financial Review section of the Directors' Report in the Challenger Limited 2018 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 2018 Annual 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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