CHALLENGER LIMITED

ANNUAL GENERAL MEETING

CHAIRMAN'S ADDRESSES

26 NOVEMBER 2012

10:30AM

THE WESLEY CENTRE

220 PITT STREET SYDNEY

---

I am pleased to report that this year has been another successful one for your company.

We saw continued growth and momentum in both of our businesses, performance remained strong across a broad range of measures, and we met or exceeded all financial guidance metrics.

All of the macro business drivers and positive tailwinds that I have spoken about in previous years are continuing.

We continue to believe that the retirement incomes market is particularly attractive as we enter a 20 year growth phase due to Australia's baby boomer population, who at 65 started to retire in 2011.

The growing number of retirees moving from the accumulation phase to the drawdown or retirement phase within superannuation each year is increasing. In 2012, $53 billion moved from accumulation to retirement, up from $47 billion in 2011 and this is expected to grow strongly for the next decade.

Guaranteed income products like annuities represent a small but rapidly growing percentage of the overall retirement incomes market. In 2012, we continued to experience strong sales growth, recording an increase of 34% over 2011.

Retirees are seeking dependable and stable incomes in retirement as they begin to focus on financial and longevity risks. We believe that this increased awareness will continue to drive demand for our products, and will support our business for many years to come.

The Australian funds management industry is supported by mandated superannuation contributions. Australia's superannuation system is well-established and was further strengthened during the year with the government legislating an increase in the contribution rate from 9% to 12%, over the next seven years.

This reform should provide further growth and opportunities for both our Life and Funds Management businesses.

In a highly competitive market our Funds Management business has continued to achieve strong inflows.

Our boutique funds management business, now rebranded Fidante Partners, is a contemporary model with strong alignment of investor interests and has the backing of our institutional grade processes, governance and sales support.

The success of our model is evident, with our Funds Management business being one of Australia's fastest growing, and we are now the tenth largest domestic fund manager.

**Business performance**

In 2012 your company delivered a normalised net profit after tax of $297 million, representing 20% growth on the previous year. Last year was our sixth consecutive year where normalised net profit has increased.

Normalised earnings of 57.5 cents per share increased 11% for the year, with stronger earnings partly offset by an increased number of shares on issue following the options exercised by CPH Investments Management in October 2011. These options were approved by shareholders in 2003 and after being exercised resulted in us receiving approximately $190 million of additional capital.

The group continues to produce strong underlying operating cash flows, with $282 million generated for the year.

Statutory net profit for the year of $149 million was impacted by the volatility in financial markets pricing. Accounting standards require Challenger Life to record its financial assets, including Australian government and investment grade corporate bonds, at market value despite the fact that we generally hold them to maturity.

The price movements experienced in financial markets impact the value of our investment portfolio. In some years these movements result in statutory profit being greater than normalised profit and in other years, as was the case in 2012, statutory profit was less than normalised profit.

Consistent with prior years, we continue to direct shareholders to our normalised earnings, as we believe they provide a better picture of the underlying operating performance of the Company.

In keeping with our targeted dividend payout ratio of around 30% of normalised earnings, your Board declared a final dividend for 2012 of 10.5 cents per share, unfranked. This brings the total dividend across the year to 18.0 cents per share, unfranked, representing a 9% increase on the previous year.

Dividends remain a core component of shareholder returns and your Board is focused on increasing them over time in line with earnings growth.

We are also committed to franking dividends to the maximum extent possible. However, due to our current tax position, we do not expect to have franking capacity in the short to medium term.

Our Chief Executive Officer, Brian Benari, will provide more detail on the financial performance of the business during his address.

**Capital management**

Our Life Company is regulated by the Australian Prudential Regulation Authority, APRA, and is very well capitalised to ensure that we meet our obligations. Being in the business of offering guaranteed annuity payments means Challenger Life must hold capital in reserve to provide an additional level of security, ensuring that obligations to our customers are met.

In addition to the base regulatory capital as required by APRA, we also held $719 million above this requirement at 30 June, which increased from $678 million in 2011.

Over the past few years, APRA have been reviewing the capital standards that apply to all Australian life and general insurers. This review has resulted in new capital standards which will apply from 1 January 2013.

These new standards are designed to ensure that all Australian insurers can absorb a one in 200 year adverse shock, a risk significantly more remote than the Global Financial Crisis, which was considered a one in 70 year event.

The new standards will increase the amount of capital Challenger Life is required to hold, with the increase occurring over a transition period of three years. We expect to meet this higher requirement from organic capital generated via earnings while also ensuring that we maintain our existing dividend policy and continue growing the business.

Despite the strong financial performance of your company, the proposed capital standards have created some uncertainty, which has without doubt, impacted Challenger's share price over the past six months or so.

We are pleased to have confirmed to the market on Friday certainty on the transition arrangements for the new LAGIC capital standards. This certainty, together with our robust capital position and ongoing strong organic capital generation, has resulted in us announcing today that we are targeting to invest $50 million in our on-market share buy-back over the next six months. At the current share price, this represents approximately 3% of Challenger shares on issue.

## Board changes

Each year, we diligently review the effectiveness of your Board and re-evaluate the work load, skills, duties and obligations required of its members. This is particularly important for a growing, regulated business such as Challenger.

Hence we took the step of appointing to the Board as non-executive, independent directors Ms JoAnne Stephenson and Mr Steven Gregg in October 2012.

JoAnne was previously a partner with KPMG specialising in internal audit, risk management and consulting while Steven has had an executive career in management consulting with McKinsey & Company and investment banking with ABN Amro.

Both JoAnne and Steven will add considerable commercial experience and diversity to your Board.

We look forward to working with them.

Under Challenger's constitution, both are standing for election by shareholders today.

I am also pleased to report, that the CEO transition to Brian Benari has been extremely smooth. Brian's experience and track record makes him a worthy successor to Dominic Stevens. Over the past 10 years at Challenger, Brian has been deeply involved in our overall corporate strategy, finance and operations.

## Corporate governance

Your Board and management recognise their duties and obligations to maintain a robust approach to corporate governance.

Risk management is central to our governance approach and is fundamental in building long-term shareholder value.

Challenger has a strong risk management culture. During the year we continued to evaluate our risk management framework to ensure it reflects best practice.

It is also important for me to remind shareholders that our remuneration policies are closely aligned to our risk management framework and considers risk adjusted returns.

## Remuneration

Executive remuneration remains an important issue for shareholders of public companies both in Australia and globally.

Your Board is focused on ensuring that:

**Further enquiry:** Stuart Kingham, Head of Investor Relations, Challenger Limited, 02 9994 7125
Stuart Barton, General Manager of Marketing and Communications, Challenger Limited, 02 9994 7008

- there is appropriate alignment between shareholder and employee value creation;
- there is a clear link between performance and executive remuneration outcomes; and
- risk management is a key consideration when making remuneration decisions.

Your Board also recognises that an important and necessary step in formulating our remuneration strategy is to proactively engage with key shareholders and external stakeholders.

Between April and June this year, I consulted extensively with our institutional shareholders, retail shareholder representatives and proxy advisory firms to seek feedback on our remuneration practices.

I personally attended 17 meetings during this period, which provided valuable insights into various views regarding our approach.

In light of those discussions, key components of our remuneration policies remain consistent with last year.

Your Board is confident that Challenger's remuneration policies are well designed and there is a clear link between executive and shareholder outcomes. The pay levels and incentives are market competitive and structured to accommodate a changing remuneration environment.

I can assure you that your Board will continue to review our remuneration practices to ensure they strike the appropriate balance between broader market expectations and incentives that attract and encourage executives to strive for outperformance and increase returns for shareholders.

I am very pleased that the work we have undertaken on our approach to remuneration over the past few years has been recognised. All institutional proxy advisory firms have again recommended shareholders vote in favour of our 2012 remuneration report.

**Corporate and social responsibility**

Challenger is committed to making a positive and meaningful contribution to the community.

We operate a Community Giving Program, which allows employees to make regular donations to our community partners through their pre-tax salary.

Our shareholders have also been invited to support our community partners by donating some or all of their dividends through our dividend donation program.

We have recently signed a Memorandum of Understanding with the Australian Meals on Wheels Association and they have become one of our community partners. We will be assisting Meals on

Wheels to research volunteering trends in Australia and will be providing philanthropic support of financially disadvantaged Australians who rely on their services.

We now have six community partners, including Alzheimer's Australia, National Seniors Foundation Trust and Meals on Wheels.

Challenger also provides paid volunteer leave and actively encourages its employees to give both their time and skills to help community partners.

Sustainability is an area Challenger has also embraced and we aim to minimise our impact on the environment.

We have recently committed to further reduce our carbon footprint by offsetting 100% of our power usage from our head office in Sydney. Through a partnership with Climate Friendly, Challenger will invest in environmental projects to offset carbon produced from our energy consumption. This will lead to a reduction of approximately 1,100 tonnes of carbon annually.

**Outlook**

Finally, I will now provide some comments on the outlook for Challenger before handing over to Brian.

Annuity sales continue to benefit from changes in Australia's demographics and retirees' risk preferences. We expect the positive tailwinds from these macro business drivers to continue for many years.

The Australian funds management industry is undergoing significant change. We believe that our contemporary Fidante Partners boutique fund manager model is the right model and will continue to attract strong inflows.

Your Company is very well capitalised, ready to transition to the new APRA capital requirements, support future growth and maintain our existing dividend policy. Your Boards confidence in Challenger's financial strength is underscored by the announcement today of the on-market share buy-back, which provides additional shareholder returns.

In closing, our business is well positioned and we are confident that we have the right strategies and team in place to continue to grow strongly and increase shareholder value.

I would like to thank you, our shareholders for your ongoing support and commitment to Challenger.

I will now hand over to our CEO, Brian Benari.