MARKET RELEASE

CHALLENGER LIMITED
1H13 RESULTS

Increase in Normalised NPAT to $149 million, up 17%
Increase in Statutory NPAT to $222 million, up from $20 million
Increase in underlying operating cashflow to $151 million, up 8%
Increase in interim dividend to 9.5 cents per share up from 7.5 cents per share
Increase in total assets under management to $38.3 billion, up 29%
FY13 Life cash operating earnings guidance of $440-450 million reaffirmed

28 February, 2013 - Challenger Limited (ASX:CGF) today announced a normalised half-year net profit after tax (NPAT) of $149 million for the six months to 31 December 2012, representing a 17% increase on the prior corresponding period (pcp). Statutory NPAT was $222 million, up from $20 million on the pcp. Underlying operating cashflow for the half-year reached a record high of $151 million, up 8%.

Challenger's Managing Director and Chief Executive Officer Brian Benari said: "We've very pleased with the 17% rise in normalised NPAT.

"Over the last five years we have grown revenues by 48% and normalised profit by 40%, while our expenses have only risen 9%, making us one of the most efficient financial services companies in Australia".

The large increase in Challenger's statutory profit was due to positive investment experience following the recovery of debt markets during the half. It includes realised and unrealised gains and losses arising from the revaluation of assets and liabilities, as required by life insurance accounting standards[1]. Statutory profit can differ greatly from normalised profit, especially when markets are volatile. Hence Challenger considers normalised profit to be a better indicator of underlying operating performance.

Challenger's normalised earnings per share (EPS) rose 11% to 28.0 cents. The interim dividend per share is 9.5 cents per share, up from 7.5 cents per share, due to strong growth in normalised profits and a re-weighting between interim and final dividend payout ratios.

Statutory earnings per share of 41.8 cents represented a very large increase on the pcp result of 4.0 cents.

Continued growth in retirement income product sales, the winning of new investment mandates and buoyant debt and equity markets drove the group's total assets under management up 29% to $38.3 billion at 31 December 2012 from $29.6 billion at 31 December 2011.

[1] Challenger is required by accounting standards to value the assets and liabilities of Challenger Life at fair value ("mark to market") despite being fundamentally a long-term holder of assets to match annuitant liabilities. Hence a large proportion of gains and losses affecting statutory profit in any period are both unrealised and are expected to reverse over time. Normalised profit is reported consistently from period to period and seeks to more accurately reflect the underlying performance of the company. The normalised profit framework is described in the Directors' Report and segment note 2 of the 31 December 2012 Half Year Financial Report. The company's auditor Ernst & Young has provided a review statement in relation to specific matters pertaining to the normalised profit framework, for management's purposes.

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Life – annuities and other retirement income products

Challenger's life business, Australia's largest provider of annuities, achieved total sales for the half-year of $1.98 billion, an increase of 55% on the pcp and 43% on 2H12. This comprised $1.06 billion in retail sales and $921 million in institutional sales. Retail net book growth was $213 million, or 3.2%.

Over the last four years since 1H09, Challenger's retail annuity sales have grown at a compound annual rate of 33%. There are several long-term drivers of this demand, including the start of the Baby Boomer retirement wave, changes in retirees risk preferences to favour secure income investments, and a growing awareness of greater longevity risk due to mortality improvements and medical advancements.

Future annuity sales are likely to benefit from new white-label and co-branded annuity distribution arrangements with major super funds and banking institutions.

Mr Benari said that the Life division continued to work closely with the Distribution, Product and Marketing function to develop innovative lifetime annuity products and drive longer-term annuity sales.

"Most pleasingly, the tenor of new retail annuity sales has continued to lengthen, this time from 5.4 years in 2012 to 6.2 years this half. Only three years ago the average tenor of new sales was 4.2 years so we are very happy with our progress in this regard. Improving the mix of new sales to favour longer-tenor product delivers extended revenue streams, enables investment in longer dated assets which earn an illiquidity premium and is more efficient to distribute and administer

"The lengthening of the annuities book has been achieved through a range of distribution, product and marketing initiatives, aimed at addressing retirees demand for longer dated products. This has been driven by the growing realisation of extended longevity.

"These days people in their 60s are caring for parents in their 80s and 90s, which really drives home the need to make their savings last as long as they do. The only way to guarantee lifetime income is with longevity insurance, hence the strong sales of our innovative Liquid Lifetime and Care lifetime annuities. In fact, Challenger looks set to sell more lifetime annuities in 2013 than the entire industry has in any year since 2004.

"The Care Annuity is the fastest growing annuity product in Challenger's history, and with around 58,000 people moving into Aged Care in 2011 alone this represents a large, fast-growing and under-served market", said Mr Benari.

Challenger Life increased its assets under management to $10.2 billion, an increase of 17% on the pcp. Over the last four years since 1H09, Life's assets under management have grown at a compound annual rate of 13%.

Life's cash operating earnings for the half rose to $225 million, up 7%. Life's cash operating earnings guidance for FY13 has been reaffirmed at between $440 million and $450 million.

The implementation of APRA's new "LAGIC" capital standards will see an increase in Life's regulatory capital requirement by $323 million, which compares to previous guidance of an indicative range of $330 million to $375 million. Under transitional arrangements, the increase in capital will phase in at $108 million per annum over three years, with the first increase on 1 January 2014.

Inclusive of the $323 million transition balance, Life's excess regulatory capital, under LAGIC, stood at $919 million as at 31 December 2012, up from $719 million at 30 June 2012, calculated under the old capital standards.

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Funds management – Fidante Partners and Aligned Investments

Challenger's Funds Management division houses the Fidante Partners boutique funds business and also manages a series of aligned and co-investment mandates. Funds Management recorded a 27% increase in funds under management to $35.3 billion, and achieved a 30% increase in earnings to $13 million for the half.

"In terms of Funds Management, we're very well-positioned to benefit from the cash moving off the sidelines. Our Funds Management business is now a top 10 fund manager and one of the fastest growing", said Mr Benari.

New Aligned Investments activities were also pursued in the half, including a decision to launch the Challenger Relative Value Debt Fund, as well as the execution and fulfilment of investment and advisory mandates with major Australian super funds, offshore sovereign wealth funds and other institutional investors.

"The potential for growth in the Aligned Investments part of Funds Management is significant and we will be devoting leadership and resources to its expansion.

Outlook

"Growth in both our business divisions is underpinned by long-term trends", said Mr Benari.

"While funds management is leveraged to more positive market sentiment, equities' volatility also highlights the need for stable, retirement incomes such as those offered through our Life business. Shifting demographics and a change of risk preferences means that Baby Boomers will continue to seek suitable strategies to convert their lump sums into secure, life-long income streams".

ENDS

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