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MARKET RELEASE

DEPARTMENT OF SOCIAL SERVICES PROPOSAL TO REDUCE AGE PENSION PAYMENTS TO CARE ANNUITANTS

Product to be 'redefined' for social security purposes

28 November 2014, Sydney –The Department of Social Services (DSS) has informed Challenger Limited (ASX:CGF) that it plans to reverse its means test assessment for the company's niche Care Annuity. This is expected to reduce the age pension paid to most of the DSS clients who are also investors in the Care Annuity, effective from January 2015.

Challenger regards the DSS original assessment as correct and maintains that it should not be reversed.

Challenger Chief Executive Officer Brian Benari said: "the Care Annuity is central to the security and quality of life of many aged care residents. The Department's unfair backflip targets some of our most vulnerable elderly and we will be taking action to protect them".

The Care Annuity was released by Challenger in 2012 to help older Australian retirees of modest means, whose greater longevity increases the risk of outliving their savings, particularly as medical and health care expenses rise with age.

With an average age of 87, Challenger's elderly and frail Care Annuity clients reside in full-time residential aged care or have been assessed to be in need of home-based care services.

The Care Annuity pays them additional, regular and guaranteed lifetime income to top up any age pension entitlements, enabling a better quality of life for the remainder of their retirement. This income is available to pay aged care services and healthcare costs, such as accommodation in high care facilities for those most in need.

The DSS newly announced plans for Care Annuitants results from the reversal of its March 2012 assessment of Care Annuity for the purpose of social security means testing. Prior to the launch of the Care Annuity in 2012, Challenger provided a detailed explanation of the product features to the DSS and obtained an assessment, in order to ensure that the correct social security outcome would be applied to Care Annuity investors.

The DSS now states that "the product has been incorrectly assessed in the past resulting in incorrect social security payments".

The reversal of the DSS Care Annuity assessment will also likely have the effect of increasing the daily aged care fees payable by these clients.

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On behalf of its affected Care Annuity clients, Challenger will pursue legal avenues to protect the interests of these investors, should this prove necessary.

Sales of the Care Annuity have been suspended while a resolution to this issue is reached.

In terms of the potential financial impact on Challenger, it's difficult to predict the effect of the DSS decision on Life's net book growth, hence the company is not in a position to confirm FY15 net book growth guidance. In FY14, Care Annuity sales were $279 million.

Life's cash operating earnings guidance for FY15 has been reduced by $10 million to a range of $525 million to $535 million to allow for the potential impacts of the reversal of the DSS assessment.

Challenger will continue to keep the market informed of any material developments.

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