

EARNINGS AND GUIDANCE UPDATE

Challenger Limited (ASX: CGF) has provided an update on expected earnings for the half year ending 31 December 2018 (1H19) and guidance for the 2019 financial year (FY19).

1H19 normalised net profit

Challenger will release its financial information for 1H19 to the market on 12 February 2019. While the financial information is still being finalised and is subject to audit review, Challenger expects to report normalised net profit before tax¹ of \$270 million for 1H19.

Earnings have been impacted by increased market volatility during the half, including:

- lower cash distributions on Life's absolute return portfolio (AUM \$800 million²), which were \$10 million in 1H19, representing a yield of 1.3% for the half year. This was approximately \$13 million lower than the prior corresponding period; and
- lower Funds Management performance fees, which were \$2 million in 1H19 and were \$4 million lower than the prior corresponding period.

Challenger expects to report a normalised net profit after tax¹ of \$200 million.

1H19 statutory net profit

Statutory net profit includes valuation movements on assets and liabilities supporting the Life business, which results in investment experience. Challenger expects to report 1H19 investment experience of -\$194m (after tax), resulting in a statutory net profit after tax of \$6 million.

1H19 investment experience includes -\$153 million (after tax) in relation to Life's investment assets, mainly due to lower equity markets (-\$117 million after tax) and wider fixed income credit spreads (-\$34 million after tax), consistent with broader moves in these markets over the half.

1H19 investment experience also includes -\$41 million in relation to Life's policy liabilities.

1H19 PCA ratio and excess capital position

Challenger continues to be strongly capitalised with a PCA ratio³ of 1.54 times at 31 December 2018, up slightly from 30 June 2018. The PCA ratio is at the upper end of Challenger's target PCA range of 1.3 to 1.6 times and represents excess capital of \$1.3 billion above APRA's minimum PCA requirement. The CET1 ratio was 1.04 times at 31 December 2018.

¹ The normalised profit figures are non-statutory amounts and in Challenger's view better reflect the underlying operating performance of the business. The normalised profit figures exclude investment experience and significant items. Investment experience includes both assets and policy liability experience and net new business strain. Asset and liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and normalised capital growth in relation to assets, plus any economic and actuarial assumption changes in relation to policy liabilities for the period. New business strain results from using the risk-free rate plus an illiquidity premium to value term and lifetime annuities. New business strain is a non-cash item and subsequently reverses over the future period of the contract. The normalised profit also excludes any significant items which represent non-recurring income and expense items for the period. The normalised profit framework and reconciliation to statutory profit have been discussed in Section 8 of the Operating and Financial Review in the 2018 Annual Report. The normalised profit is not audited.

² Absolute return funds average AUM for 1H19 was \$802 million.

³ The Prescribed Capital Amount (PCA) ratio is the ratio of total Challenger Life Company Limited Tier 1 and Tier 2 regulatory capital base divided by the PCA.

Both the PCA and CET1 ratios benefited from a reduction in capital intensity within the portfolio. The capital intensity reduced by 1.1% over the half to 13.0%⁴ at 31 December 2018 and reflects changes to the portfolio including increasing the fixed income credit quality and implementing an equities collar strategy.

FY19 normalised net profit before tax guidance

As a result of lower than expected 1H19 normalised net profit before tax and changes to Life's investment portfolio to lower capital intensity, Challenger has reduced its FY19 guidance to a range of \$545 million to \$565 million.

Challenger Chief Executive Officer Richard Howes said that while conditions are challenging he remains very positive about the future.

"Challenger has a strong track record of success through the cycle, which gives me confidence in our performance over the longer term. We continue to be well placed to take advantage of growth in the retirement income market," Mr Howes said.

2019 half year results announcement

Further details will be provided at Challenger's half year results announcement on 12 February 2019.

ENDS

About Challenger

Challenger Limited (Challenger) is an investment management firm focused on providing customers with financial security for retirement.

Challenger operates two core investment businesses, a fiduciary Funds Management division and an APRA-regulated Life division. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

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⁴ Capital intensity ratio calculated as Challenger Life Company Limited's Prescribed Capital Amount divided by 1H19 investment assets.