MARKET RELEASE

CHALLENGER LIMITED 1H16 RESULTS

CHALLENGER DELIVERS RECORD INTERIM PROFIT AND DIVIDEND

Normalised profit after tax up 18% to $182 million (1H15 $155 million)

Statutory profit of $234 million (1H15 $130 million)

Normalised earnings per share up 13%

Interim dividend up 10% to 16 cents per share and fully franked

Assets under management increase to $57.6 billion

Disciplined expense management improves cost to income ratio 60 bps

On track to deliver FY16 cash operating earnings of $585-595 million and 18% ROE guidance

---

16 February 2016, Sydney – Challenger Limited (ASX:CGF) today announced a record interim operating result boosted by continuing growth in annuity sales and an improved cost to income ratio.

The result has been achieved at the same time that Challenger has invested in broadening its distribution footprint through partnering with superannuation funds and investment and distribution platforms to make annuities more widely available.

Total assets under management (AUM) across Life and Funds Management were $57.6 billion at 31 December 2015, up 1% on a year prior and up 10% once allowing for the derecognition of $5.4 billion of funds under management (FUM) following the sale of Kapstream Capital in July 2015.

With the benefit of continuing cost discipline, the cost to income ratio was down 60 basis points (bps) to 33.8%, driving up normalised net profit after tax (NPAT) 18% to $182 million,^ a record for a first half period.

Statutory NPAT was $234 million,^^ up 80% due to normalised profit growth, positive investment experience of $30 million and significant one-off items of $22 million, including profit on the sale of Kapstream.

Chief Executive Officer Brian Benari said: “These are strong results with double digit growth in every key financial metric which influences shareholder value. This has been supported by AUM growth, margin expansion and an improved cost to income ratio.

“Underlying annuity sales continue to rise and are up 10% on the first half of 2015. We are seeing encouraging early signs from the recent launch of annuities on platform which already account for 5% of total annuity sales.

“Shareholders continue to benefit from Challenger’s growth proposition combined with a track record of increasing dividends which have doubled in the past four years.”

Challenger’s normalised earnings per share (EPS) was 32.6 cents (1H15 28.8 cents), up 13%.

Normalised return on equity (ROE) continues to meet Challenger’s 18% pre-tax ROE target.

Challenger Limited A.B.N 85 106 842 371
Further enquiries: Investors - Stuart Kingham, Head of Investor Relations Ph: 02 9994 7125 M: 0401 139 067
Investors - Simon Starr, Investor Relations Manager Ph: 02 9994 7158 M: 0416 836 550
Media - Paul Marriage, Senior Manager, Corporate Communications Ph: 02 9994 7053 M: 0405 848 327
Media - Nicole Webb, Corporate Communications Associate Ph: 02 9994 7806 M: 0413 974 073

The board declared an interim dividend of 16 cents per share, up 10% and fully-franked compared with a 70% franked dividend a year prior. The dividend represents a 49% payout ratio of normalised EPS.

Mr Benari said: “An underlying driver of our business is the needs of the rising number of Australian retirees. We are five years into a 20-year cycle of retiring ‘baby-boomers.’ With over 700 Australians turning 65 every day, ensuring this fast-growing cohort doesn’t run out of money is one of the great economic and social challenges of our time.

“The superannuation industry is clearly responding to this and is moving ahead of impending regulatory reform by making retirement income solutions more widely available to financial advisers and retirees.

“This has been helped by the Government’s endorsement of key provisions in the Financial System Inquiry, notably super fund trustees facilitating pre-selection of Comprehensive Income Products for Retirement (CIPRs). Following through with legislation will embed retirement income as the foundation of our superannuation system.”

Life (Annuities)

Challenger Life had $13.1 billion of assets under management as at 31 December 2015. Average AUM over the period was $13.0 billion, up 12% on the prior corresponding period (pcp). This combined with margin expansion of 10 bps to drive a 14% increase in cash operating earnings (COE) to $293 million and a 15% increase in earnings before interest and tax (EBIT) to $249 million, which benefitted from a 130 bps improvement in the cost to income ratio. Life’s COE margin has now been in the range of 4.4% to 4.5% for seven consecutive halves.

Total Life product sales were $2.1 billion, comprising record annuity sales of over $1.6 billion and other Life sales of $410 million. There was strong growth in term annuities, up 12% on the pcp. Lifetime annuity sales were relatively flat on the pcp but up 34% on 2H15, excluding Care sales.

Annuity sales were up 10%, excluding the impact of aged care products. Challenger’s Care annuity was discontinued in November 2014. A replacement product, CarePlus, was launched in 1H16 and included on the approved product lists of most major financial adviser groups in December 2015 and January 2016.

Total Life net flows were $347 million, representing 3.6% total book growth. Annuity net flows were $270 million, representing annuity book growth of 3.1% over the pcp.

The launch of annuities on Colonial First State’s (CFS) investment platforms increases Challenger’s access to the Australian superannuation market and allows annuities to be more efficiently combined with account based pensions. Of activity on the CFS platforms, 45% has been from advisers who had not written an annuity in the last three years.

Funds Management

Average FUM rose to $54.8 billion, up 4% on the pcp, or 15% excluding the Kapstream impact. Net income rose 20% to $67 million, reflecting income from Dexion Capital, which was acquired in July 2015, and income from new third-party mandates for Challenger Investment Partners. These mandates led to $450 million of third party property acquisitions that generate both transaction fees and ongoing management fees for Challenger.

Funds Management EBIT increased by 4% to $22 million with higher income offset by a higher expense base that now includes Dexion. This business has been substantially integrated into Challenger’s multi-boutique business, Fidante Partners, and rebranding is underway. It provides a beachhead for Fidante in the United Kingdom and European markets.

Fidante Partners generated organic net fund flows of $1.0 billion with strong equities and fixed income net flows across a range of boutique funds, partially offset by Whitehelm Capital’s realisation of successful infrastructure mandates.

Challenger Limited A.B.N 85 106 842 371
Further enquiries: Investors - Stuart Kingham, Head of Investor Relations Ph: 02 9994 7125 M: 0401 139 067
Investors - Simon Starr, Investor Relations Manager Ph: 02 9994 7158 M: 0416 836 550
Media - Paul Marriage, Senior Manager, Corporate Communications Ph: 02 9994 7053 M: 0405 848 327
Media - Nicole Webb, Corporate Communications Associate Ph: 02 9994 7806 M: 0413 974 073

Distribution, Marketing and Research

Challenger has partnered with superannuation funds and platforms as the industry responds to retiree demands for guaranteed retirement income products.

In August 2015 Colonial First State, the country's largest investment platform provider, launched Challenger annuities on its FirstChoice and FirstWrap platforms.

In October 2015, leveraging its initiative with Australian Administration Services (AAS), Challenger announced it would join forces with three super funds which use the AAS administration platform to make retirement income solutions backed by annuities available to their members by mid-2016. Together these funds, Local Government Super, Caresuper and legalsuper have 400,000 members and $24 billion of FUM.

Challenger continues to be seen as the leader in retirement income products by 95% of financial advisers in a recent Marketing Pulse survey conducted in January 2016. When asked which two companies first come to mind when thinking about retirement income products, Challenger had the highest unprompted awareness at 87%, up from 76% a year earlier. Amongst consumers, Challenger has maintained 66% brand awareness with 55-64 year olds, according to June 2015 Hall & Partners' research.

A new brand campaign will be launched nationally later this month. It highlights the three main risks for retirees: the risk of outliving their savings, market volatility and the rising cost of living.

Capital

Challenger Life holds a strong capital position to support future growth and, as at 1 January 2016, held substantially more capital than required by the Australian Prudential Regulatory Authority (APRA), being 1.55 times its Prescribed Capital Amount (PCA), at the upper end of a target range of 1.4 times to 1.6 times. Challenger Life's PCA ratio was at the top end of the target range at 31 January 2016, despite recent volatility in global markets.

Challenger Life has now completed its transition to the Life and General Insurance Capital standards (LAGIC) with all transition balances having been amortised. Challenger Life held $1.1 billion of excess regulatory capital and group cash post the final LAGIC amortisation.

Outlook

Challenger has reaffirmed its Life cash operating earnings guidance of $585 million to $595 million for FY16. Challenger continues to target an overall normalised ROE of 18% pre-tax and expects to maintain a fully franked dividend payout ratio of 45 to 50% of normalised profit, subject to prevailing market conditions.

Key Metrics

	1H16	1H15	Movement
Total AUM ($bn)	57.6	57.2	1%
Total AUM - excluding derecognised Kapstream Capital FUM ($bn)	57.6	51.8	11%
Annuity sales ($bn)	1.64	1.57	4%
Annuity sales – excluding Care annuities ($bn)	1.63	1.48	10%
Normalised EBIT ($m)	239	206	16%
Normalised NPAT ($m)	182	155	18%
Statutory NPAT ($m)	234	130	80%
Normalised EPS (cents)	32.6	28.8	13%
Statutory EPS (cents)	41.9	24.2	73%
Normalised ROE (pre-tax)	18.1%	17.4%	70bps
Statutory ROE (post-tax)	18.0%	11.1%	690bps
Cost to income ratio	33.8%	34.4%	60bps
Full year dividend (cents per share)	16.0	14.5	10%

Further enquiries: Investors - Stuart Kingham, Head of Investor Relations Ph: 02 9994 7125 M: 0401 139 067
Investors - Simon Starr, Investor Relations Manager Ph: 02 9994 7158 M: 0416 836 550
Media - Paul Marriage, Senior Manager, Corporate Communications Ph: 02 9994 7053 M: 0405 848 327
Media - Nicole Webb, Corporate Communications Associate Ph: 02 9994 7806 M: 0413 974 073

Challenger Chief Executive Officer, Brian Benari, and Chief Financial Officer, Andrew Tobin, will give an investor presentation on the results at 10:30 am (Sydney time) on 16 February 2015. The presentation will be streamed live via webcast which can be accessed through the following web address: www.challenger.com.au

ENDS

---

^ 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 is the difference between actual investment gains and losses (both realised and unrealised) and the normalised gains and losses (being based on Challenger's long term assumed returns), as well as any impact of changes in economic variables and assumptions used to value liabilities. The normalised profit also excludes any significant items which represent one-off or abnormal gains or losses for the period. The normalised profit framework and reconciliation to statutory profit have been disclosed in the Challenger Limited Interim Financial Report 2016. The normalised profit is not audited but has been subject to a review performed by Ernst & Young.

^^ $30 million of positive investment experience for the half and $22 million significant item gains contributed to Group statutory NPAT of $234 million.

Further enquiries: Investors - Stuart Kingham, Head of Investor Relations Ph: 02 9994 7125 M: 0401 139 067
Investors - Simon Starr, Investor Relations Manager Ph: 02 9994 7158 M: 0416 836 550
Media - Paul Marriage, Senior Manager, Corporate Communications Ph: 02 9994 7053 M: 0405 848 327
Media - Nicole Webb, Corporate Communications Associate Ph: 02 9994 7806 M: 0413 974 073