

Market Release

CHALLENGER LIMITED HY2012 RESULTS

Record interim total annuity product sales of \$1.27 billion, up 74%
Record interim retail annuity sales of \$983 million, up 38%
Funds management FUM of \$27.7 billion, up 27% and back to pre-GFC levels
Record normalised interim net profit after tax of \$127 million, up 5%
Statutory interim net profit after tax of \$20 million
Operating cash flow of \$140 million, up 10%
Interim dividend of 7.5 cents, up 7%

Increases FY2012 retail annuity sales growth target from 25% to 30%
Upgrades FY2012 Life cash operating earnings guidance
from \$430 million to \$435 million

20 February 2012, Sydney – Challenger Limited (ASX:CGF) today announced a normalised interim net profit after tax (NPAT) of \$127 million for the six months to 31 December 2011. Statutory NPAT was \$20 million due to negative investment experience following a further dislocation of debt and equity markets during late 2011. It includes realised and unrealised gains and losses arising from the revaluation of assets and liabilities, as required by life insurance accounting standards.*

Normalised earnings per share (EPS) of 25.3 cents remained consistent with the previous corresponding period (pcp) due to increased earnings offsetting the dilutive effect of share issuance pursuant to the exercise of options granted in 2003. Statutory earnings of 4.0 cents per share decreased compared to the prior period.

The interim dividend has increased to 7.5 cents unfranked, up 7% on the pcp.

Newly-appointed Chief Executive Officer and Managing Director Brian Benari said: “It’s been an excellent half year for us, with record total annuity sales hitting \$1.27 billion. Challenger continues to benefit from demographic tailwinds as well as today’s consumer-driven, ‘back to basics’ approach to investment, which favours simple, regulated and guaranteed products.

“We’re also now starting to reap the full benefit of re-invigorated distribution, advertising and marketing efforts, with annuities increasingly being used as a tool in retiree portfolios, enabling client and adviser to build on age pension entitlements with a ‘bedrock’ level of income”, he said.

Record retail annuity sales of \$983 million combined with institutional product sales of \$288 million to deliver total sales of \$1.27 billion, or 74% more than total sales of \$732 million for the first half of fiscal 2011.

“We have decided to increase our full-year retail annuity sales growth target to 30%, and even at these levels there remains enormous long-term upside for those able to capture and keep a leadership position in the retirement incomes market. The number of retiring baby boomers grows each year, as does the pool of capital moving from super accumulation into the drawdown phase, which is expected to be \$53 billion this year.

“In terms of growth in the guaranteed incomes segment, the needle doesn’t have to move much to make an enormous difference to Challenger”, said Mr Benari.

Challenger’s funds management operations, which includes equity partnerships with ten independently-branded boutique funds, as well as aligned and co-investment activities with institutional investors, recorded a 27% increase in funds-under-management to \$27.7 billion.

Mr Benari said: “Our funds under management have now returned to pre-GFC levels. We’re especially pleased that our equities and fixed income boutique partnerships performed strongly despite difficult market conditions, having grown FUM by \$1.4 billion in the half to hit \$16.2 billion. At \$10 million our EBIT levels have been maintained in absolute terms despite product fee structures transitioning to contemporary levels”.

Challenger Limited’s total assets under management rose 15% to \$29.6 billion at 31 December 2011 from \$25.8 billion at 31 December 2010. The group’s normalised* cost to income ratio held steady at 37% despite ongoing investment in growth initiatives across both the life and funds management businesses.

Group debt remains at zero with \$209 million in cash held at the corporate level. As at 31 December 2011, Life also held more than \$600 million in surplus capital over its regulatory minimum.

Challenger Life’s assets under management increased by 14% to \$8.7 billion at 31 December 2011, while cash earnings reached \$211 million, an increase of 10% on the pcp.

Guidance for Life’s FY2012 cash operating earnings has been increased from \$430 million to \$435 million.

Mr Benari paid tribute to outgoing Chief Executive Officer Dominic Stevens, who announced in November 2011 his intention to retire from Challenger in July 2012 after 9 years with the company.

“It has been a privilege to work closely with Dominic for many years and to share a common vision for Challenger. His contribution has been tremendous and most recently as CEO he positioned us to enjoy ongoing success in one of the fastest growing segments of financial services. The senior management team and I wish him the very best during his sabbatical and afterwards”.

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* 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 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 Director’s Report and segment note of the 31 December 2011 Interim 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.