MARKET RELEASE

CHALLENGER LIMITED FY15 RESULTS

STRONG OPERATING RESULTS AND INVESTING FOR GROWTH

Assets under management up 18% to $59.8 billion

Record total Life product sales up 9% to $3.7 billion

Funds Management organic net flows of $2.9 billion

Normalised EBIT up 13% to $438 million

Statutory profit of $299 million

Full year dividend of 30 cents, up 15%; final dividend of 15.5 cents now fully franked

Annuities on platform now live and new aged care product launched

18 August 2015, Sydney – Challenger Limited (ASX:CGF) today announced operating results for the 2015 financial year with strong sales and growth in assets under management (AUM) delivering double-digit growth in normalised earnings before interest and tax (EBIT)^.

Total AUM across Life and Funds Management increased to $59.8 billion, at 30 June 2015, 18% higher than 12 months prior. Management of these assets produced normalised EBIT of $438 million, up 13%.

Normalised net profit after tax (NPAT) was $334 million, up 2% and equivalent to a 12% increase excluding the one-off impact of a higher tax bill due to the roll-off of a TOFA tax benefit*. Statutory net profit after tax was $299 million^^.

Chief Executive Officer Brian Benari said: “Challenger has again delivered strong operating performance with double digit earnings increases driven by AUM growth, stable Life margins and cost control. This is the third year in a row we have delivered a stable cash operating earnings margin, while our cost to income ratio has dropped 80 basis points to 33.8%, a new low.

“At the same time, we are investing in new streams of growth through partnering with super funds and investment and administration platforms and, in Funds Management, expanding our multi-boutique fund manager model into Europe. The benefits of these investments will be realised in the years ahead.

“In Australia, over the past 12 months, there has been a sea-change in attitudes towards retirement income, with increased attention from policymakers, the media and the superannuation industry.

“The superannuation industry is starting to move ahead of potential regulatory reform with forward-looking super funds and platforms just getting on with making retirement income solutions more accessible to financial advisers and retirees.”

Challenger’s normalised earnings per share (EPS) was 61.2 cents (FY14 64.0 cents) with increased earnings being offset by the TOFA roll-off and, a higher share count following a capital raising in the first half of the financial year. Excluding the TOFA impact, normalised EPS increased 5%.

The full year dividend increased 15% to 30 cents per share for the year. The final dividend of 15.5 cents is up 15% and is now 100% franked.

Mr Benari said: “Dividends have more than doubled over the last five years and, with a dividend payout target ratio of 45-50%, Challenger offers a rare combination: a strong growth proposition plus a track record of increasing dividends. Subject to market conditions, we anticipate the ability to pay 100% franked dividends for the foreseeable future.”

He added: “Challenger’s annuities business today has the nature and scale that allows us to maximise our shareholder returns, particularly return on equity (ROE), through optimising both our volume and margin mix. We delivered 18% pre-tax ROE for the full year and, in the second half, ROE rose to 18.6%, exceeding our target.”

Challenger ended the year with $1.1 billion of capital in excess of regulatory requirements including Group cash which, combined with organic capital generation, provides capacity for future annuity book growth.

Life (annuities)

Challenger Life had $12.8 billion of assets under management as at 30 June 2015. Average AUM over the year was $12.2 billion, up 13%, driving cash operating earnings (COE), up 13% to $544 million, and EBIT, up 13% to $457 million.

Total Life product sales reached a record $3.7 billion, up 9% on last year, comprising institutional sales of $944 million and retail sales of $2.8 billion, consistent with last year despite discontinuing sales of Care Annuity in November 2014. Retail sales excluding the Care Annuity were up 5%. A new aged care product, CarePlus, has been launched today.

Mr Benari said: “I’m delighted to announce the launch of CarePlus. We have engaged with our customers and financial advisers in developing this product which meets a clear market need. We have also worked with the Department of Social Services to confirm its social security treatment. We expect CarePlus to be popular with aged care retirees.”

Retail net flows of $738 million for the year resulted in retail book growth of 9.4%. This was achieved on the back of consistent year-on-year sales volumes.

Shareholders have benefitted from a growing book and sustained COE margin of 4.5% for the third year running, with the margin increasing in the second half of the year.

Funds Management – Fidante Partners and Challenger Investment Partners (CIP)

Funds Management’s net flows were $7.7 billion, up from $2.1 billion as a result of strong organic inflows across boutiques and, the formation of Whitehelm Capital and the transfer of a fixed income ABS portfolio, which together accounted for $4.8 billion of flows.

Average FUM rose 24% to $55.1 billion. Normalised earnings rose 2% to $44 million. Excluding one-off expenses of $3 million, relating to the sale of Kapstream and the establishment of Fidante Europe including the Dexion acquisition, underlying earnings rose 9% to $47 million. Funds Management is a capital-light business and generated ROE of 35.5%.

The Kapstream and Dexion transactions highlight the value and opportunity of the Fidante Partners multi-boutique model.

In July 2015, Fidante Partners sold a 25% shareholding in global fixed income specialist Kapstream Capital to US-based Janus Capital Group for $45 million and will recognise a $40 million pre-tax profit in FY16.

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Also in July, Fidante Partners acquired 100% of Dexion Capital, a European alternative investments group comprising interests in three specialist fund managers, as well as an investment distribution business, based in London. Challenger agreed fixed payments of £19.6 million (A$41 million) for the acquisition with the final price dependent on profitability over a period of up to six years. The acquisition is immediately earnings accretive and is expected to meet Challenger's 18% pre-tax ROE target.

Distribution, Product and Marketing

Challenger's products continue to be recognised as industry-leading. In the industry fund sector, Challenger partnered with VicSuper to create what is effectively Australia's first Comprehensive Income Product for Retirement, as recommended by the Financial System Inquiry. To further distribution to industry fund members, Challenger last month formed a strategic alliance with AAS, the leading administration provider for industry super funds, to provide annuities on platform. AAS services the needs of 10 million super fund members.

In an additional development, earlier this month, Colonial First State, the country's largest investment platform provider, launched Challenger annuities on its platforms.

Challenger's commitment to retirement income extends to the SMSF sector. Accurium has been repositioned as an SMSF retirement specialist and earlier this year launched Retirement Healthcheck, which uses market-leading stochastic modelling to provide trustees with a better understanding of income sustainability in retirement.

Mr Benari said: "As Australia's retirement income leader, we play an important role in helping shape our industry. Our competitive position is underpinned by strengths in product innovation, distribution, financial technology and brand. All of these have been to the fore over the past year. The competitive advantages we have developed contribute to the growth shareholders have seen this year and leave Challenger very strongly positioned as our market expands."

Capital

The Australian Prudential Regulation Authority's (APRA's) Life and General Insurance Capital Standards (LAGIC) are designed to ensure that life insurance policyholders would not be impacted by a 1 in 200-year adverse financial event. As at 30 June 2015, Challenger Life held $1.0 billion more capital than APRA's prescribed capital amount (PCA), 1.6 times the PCA minimum. This places Challenger in a strong position to support future growth opportunities and also provide appropriate shareholder returns by way of dividends.

With the return to full dividend franking, Challenger has established a Dividend Reinvestment Plan, which provides a mechanism for shareholders to reinvest their dividends and increase their holding without incurring transaction costs.

Outlook

"As our retirement system evolves we are seeing positive long term developments including a growing industry trend to make retirement income solutions more accessible, allowing financial advisers to build more comprehensive retirement products," said Mr Benari.

"While it will take time to build momentum we expect to see high quality flows beginning in FY16 through these distribution opportunities. In addition, the aged care market is attractive and CarePlus will fill a significant gap.

"Consequently, we are providing Life cash operating earnings guidance of $585-595 million for FY16. This is after revising our equities normalised growth assumption downwards to reflect current market conditions so, on a like-for-like basis, is equivalent to an 11% increase in cash operating earnings.

"Challenger continues to target an overall return on equity 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."

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Overview

Key Metrics	FY15	FY14	Movement
Total AUM ($bn)	59.8	50.7	18%
Total Life product sales ($bn)	3.7	3.4	9%
Total Funds Management net flows ($bn)	7.7	2.1	266%
Normalised EBIT ($m)	438	388	13%
Normalised NPAT ($m)	334	329	2%
Statutory NPAT ($m)	299	341	(12%)
Normalised EPS (cents)	61.2	64.0	(4%)
Statutory EPS (cents)	54.8	66.3	(17%)
Normalised ROE (pre-tax)	18.0%	18.8%	(80 bps)
Statutory ROE (post-tax)	12.4%	16.7%	(430 bps)
Cost to income ratio	33.8%	34.6%	80 bps
Full year dividend (cents per share)	30	26	15%
Average shares on issue (million)	546	514	6%

Challenger Chief Executive Officer, Brian Benari, and Chief Financial Officer, Andrew Tobin, will speak to the results at a presentation at 12pm (Sydney time) on 18 August 2015. The presentation will be streamed live via webcast which can be accessed through the following web address:
www.challenger.com.au

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^ 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, being 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). The normalised profit framework and reconciliation to statutory profit have been disclosed in section 4.3 of the Directors' Report included in the 2015 Annual Report. The normalised profit is not audited but has been subject to a review performed by Ernst & Young.

*Taxation of Financial Arrangements reforms produced a positive benefit of $30 million in 2014.

^^Group statutory NPAT of $299 million resulted from $35 million of negative investment experience for the year, compared with $12 million of positive investment experience in FY14. "Investment experience" includes unrealised gains and losses on the "mark to market" value of Challenger Life's assets and liabilities. Even when a life company intends to retain the relevant assets and liabilities to maturity, Life insurance accounting standards require unrealised fair valuation movements to be booked through the statutory profit and loss statement. While this regulatory requirement can make life company reported statutory profit more volatile than if historic cost rules applied (as with banks), its purpose is to give annuitants a high degree of transparency and confidence that life companies can meet their promises at any time.

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