

MARKET RELEASE

LAGIC TRANSITION ARRANGEMENTS

16 August 2012, Sydney – Challenger Limited (ASX: CGF) today announced that the Australian Prudential Regulation Authority (APRA) has proposed to Challenger Life Company Limited (CLC) transition arrangements for regulatory capital requirements under the Life and General Insurance Capital (LAGIC) review. In October 2012 APRA will release new capital standards for all life and general insurers as a result of the LAGIC review which was initially announced in May 2009.

The new LAGIC standards are expected to be effective from 1 January 2013. Under transition arrangements proposed by APRA it is estimated that the impact on CLC's regulatory capital will be between \$110m and \$125m per annum for three years, with the first increase effective 1 January 2014.

Challenger CEO Brian Benari said: "For shareholders we're now in a position to provide greater clarity as to the effect of the new capital standards and can confirm that during the transition period Challenger's organic capital generation is expected to be sufficient to meet the additional capital requirements and maintain Challenger's existing dividend policy.

"In terms of our capital position, CLC's excess capital above regulatory minimum plus group cash stood at \$813m¹ at 30 June 2012.

"Additionally, policyholders will benefit from the extra assurance provided by the new LAGIC standards".

APRA has advised the following LAGIC transition arrangements with respect to CLC's subordinated debt:

- Existing subordinated debt tranches will continue to be fully eligible as regulatory capital until each instrument's first call date after 1 January 2013 and will then amortise over a minimum five year period. The largest tranche of CLC's existing subordinated debt will be fully eligible as Tier 2 capital until 2017 and thereafter continue, as a minimum, to be partially eligible until December 2021, noting that this tranche can remain outstanding until its legal maturity in 2037.
- Challenger will also have three years to transition to the minimum requirement that Tier 1 capital represents 80% of regulatory capital with the mechanics of the transition to be finalised.

Final arrangements are subject to continued discussions and confirmation from APRA which is expected to be received in the fourth quarter of calendar 2012.

As previously advised to the market, Challenger will release its FY12 results on 20 August 2012.

ENDS

¹ Comprising CLC excess capital of \$719m plus Group cash of \$94m as at 30 June 2012, subject to audit confirmation.

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