

challenger 

Analyst Pack
2024



Contents

Challenger Group

FY24 financial highlights	1
Business and market overview	2
Purpose, corporate strategy and values	4
FY24 strategic progress	5
Key performance indicators	9
Consolidated profit and loss	10
Dividends	13
Credit ratings	13
FY25 outlook	14
Group balance sheet	15
Issued share capital, dilutive share count and earnings per share	17
Consolidated operating cash flow	20

Life

Life financial results	21
Life sales and AUM	28
Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) and MS&AD relationship	30
Retirement income regulatory reforms	31
Life balance sheet	32
Life investment portfolio overview	33
Challenger Life Company Limited (CLC) debt facilities	44
Challenger Life Company Limited (CLC) regulatory capital	45
Profit and equity sensitivities	48
Risk management framework	49

Funds Management

Funds Management financial results	52
------------------------------------	----

Corporate

Corporate financial results	56
-----------------------------	----

Additional information

Normalised Cash Operating Earnings framework	57
Glossary of terms	59
Key dates	61

2024 Annual Report

can be downloaded from
Challenger's online
Shareholder Centre

> challenger.com.au/shareholder

Investor Relations

Mark Chen
General Manager Investor Relations
+61 2 9994 7815
machen@challenger.com.au

Irene Xu
Investor Relations Manager
+61 2 9994 7235
ixu@challenger.com.au
Challenger Limited ACN 106 842 371

Challenger acknowledges the Traditional Owners of Country throughout Australia and we pay our respects to Elders past and present.

We recognise the continuing connection that Aboriginal and Torres Strait Islander peoples have to this land and acknowledge their unique and rich contribution to society.

Important note

Information presented in the FY24 Analyst Pack is presented on an operational (rather than statutory) basis to reflect a management view of the business.

Challenger Limited (ACN 106 842 371) also provides statutory reporting as prescribed under the *Corporations Act 2001* (Cth).

The 2024 Annual Report is available from Challenger's shareholder centre at: www.challenger.com.au/shareholder

The FY24 Analyst Pack is not audited. The statutory net profit after tax as disclosed in the consolidated profit and loss (page 10) has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*.

Normalised net profit after tax, as disclosed in the consolidated profit and loss (page 10), has been prepared in accordance with a normalised profit framework, which is disclosed in Note 4 Segment Information of the 2024 Annual Report, and subject to a review performed by Ernst & Young.

The 2024 Annual Report has been subject to an audit performed by Ernst & Young.

Any forward-looking statements included in this document are, by nature, subject to significant uncertainties, risks and contingencies, of which many are outside the control of, and unknown to, Challenger, so that actual results or events may vary from those forward-looking statements, and the assumptions on which they are based.

Past performance is not an indicator of future performance.

While Challenger has sought to ensure that information is accurate by undertaking a review process, it makes no representation or warranty and (to the maximum extent permitted by law) accepts no liability as to the accuracy or completeness of any information or statement in this document. In particular, information and statements in this document do not constitute investment advice or a recommendation on any matter and should not be relied upon.

FY24 financial highlights^{1,2}

Group

Normalised net profit before tax \$608m, up 17%
 Normalised net profit after tax \$417m, up 14%
 Statutory net profit after tax³ \$130m, down 24%
 Normalised EPS⁴ 60.9 cents per share, up 14%
 Statutory EPS^{3,4} 19.0 cents per share, down 24%
 Net income \$927m, up 10%
 Expenses \$314m, down 1%
 Normalised cost to income ratio 33.8%, down 390 bps
 Group assets under management \$127.1b, up 21%
 Normalised Return On Equity (pre-tax) 15.6%, up 290 bps
 Normalised Return on Equity (post-tax) 10.7% up 180 bps
 Statutory Return On Equity (post-tax)³ 3.3%, down 90 bps
 Full-year dividend 26.5 cents per share (fully franked), up 10%
 Normalised dividend payout ratio 43.5%

Life

Normalised Cash Operating Earnings (COE) \$750m, up 15%
 COE margin 3.12%, up 30 bps
 Expenses \$116m, up 3%
 Normalised EBIT⁵ \$634m, up 17%
 Total Life sales \$9.1b, down 6%
 Annuity sales \$5.2b, down 6%
 Total Life book growth \$0.7b, or 3.6% growth in opening liabilities
 Annuity net book growth \$0.8b, or 5.5% growth in opening liabilities
 Average investment assets \$24.1b, up 4%
 Investment assets \$24.7b, up 5%
 Normalised Return On Equity (pre-tax) 18.5%, up 340 bps
 Prescribed Capital Amount (PCA) ratio 1.67 times, up from 1.59 times
 Common Equity Tier 1 (CET1) ratio 1.23 times, up from 1.16 times
 Capital intensity 10.8%, down from 11.4%

Funds Management

Net income \$174m, down 3%
 Expenses \$119m, up 2%
 EBIT⁵ \$55m, down 11%
 Net inflows \$10.1b, up from net outflows of \$0.5b
 Average Funds Under Management (FUM) \$106.1b, up 12%
 Closing FUM \$117.4b, up 19%
 Return On Equity (pre-tax) 17.8%, down 390 bps

¹ All percentage movements compare FY24 to the prior corresponding period 30 June 2023 (FY23) unless otherwise stated.

² Normalised metrics exclude Discontinued operations (Bank) in FY24, including Normalised profit before tax, Normalised profit after tax, Normalised EPS, Normalised cost to income ratio, Normalised tax rate, Normalised ROE and Total Group AUM. Prior periods are not restated to exclude Discontinued Operations (Bank).

³ Prior period FY23 Statutory net profit after tax, Statutory EPS and Statutory ROE has been restated to reflect the application impact of AASB 17.

⁴ Earnings per share (EPS).

⁵ Earnings before interest and tax (EBIT).

Business and market overview

Challenger's purpose is to provide customers with financial security for a better retirement. To fulfil this purpose, Challenger leverages capabilities across its two core businesses, Life and Funds Management.

Challenger's Life and Funds Management businesses are expected to benefit from long-term growth in Australia's superannuation system and demand for retirement income.

Australia's compulsory superannuation system commenced in 1992 and is now the fourth largest pension system globally¹ and one of the fastest growing, with assets increasing by an average of 10% per annum over the past 20 years².

Australia's superannuation system is forecast to grow from \$3.9 trillion today³ to over \$11 trillion⁴ in the next 20 years, making it one of the world's fastest growing pension markets.

Critical features driving the growth of Australia's superannuation system include Government-mandated and increasing contributions, tax incentives to encourage retirement savings and an efficient and competitive institutional model.

Growth in the retirement phase is also supported by ageing demographics and the Government's focus on enhancing the retirement phase of superannuation. Australian life expectancy is the fifth highest in the OECD⁵, with the average time spent in retirement approximately 24 years⁶.

Life

Life focuses on the retirement phase of superannuation, with products helping customers convert retirement savings into safe, secure and reliable retirement income.

Life is Australia's largest provider of annuities. Its products appeal to retirees as they provide security and certainty of guaranteed⁷ income that ensures customers have more confidence to spend in retirement.

Lifetime annuities also protect retirees from the risk of outliving their savings as they pay an income for life. Depending on the payment option selected, payments can be either fixed, indexed to inflation, linked to changes in the RBA cash rate or indexed to investment markets.

The retirement incomes Life pays to its customers are backed by a high-quality investment portfolio, predominantly invested in investment grade fixed income. These investments generate reliable investment income, which is used to fund the retirement incomes paid to customers.

Challenger is Australia's leading retirement income brand⁸ and has won the Association of Financial Advisers 'Annuity Provider of the Year' for the last 15 years, and won Plan for Life's 'Overall Longevity Cover Excellence Award' in 2023 for a fifth consecutive year.

Life is expected to continue to benefit from long-term growth in Australia's superannuation system and regulatory reforms designed to enhance the retirement phase of superannuation.

As Australia's superannuation system matures, the retirement phase of superannuation is expected to increase significantly, with an estimated 2.5 million Australians set to retire over the next 10 years⁹. Reflecting these demographic changes, and growth in the superannuation system, the annual transfer from the savings phase (or accumulation) of superannuation to the retirement phase was estimated to be approximately \$86 billion¹⁰ in 2023.

The objective of superannuation is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way¹¹. As the superannuation system matures and individual superannuation savings increase, retirees are transitioning from Government-funded age pensions to private superannuation-funded pensions. Retirees need retirement income products that convert their superannuation savings into safe, secure and reliable income, helping provide financial security and confidence to spend throughout retirement.

The Australian Government is progressing a range of retirement income regulatory reforms, including the Retirement Income Covenant, which are designed to enhance the retirement phase and better align it with the objective of the superannuation system. Refer to page 31 for more detail on retirement income regulatory reforms.

The Australian Government is also consulting on how to best enhance the retirement phase of superannuation. The Government is gathering views on how Australians can make the most out of their superannuation in retirement, including through better availability of assistance, information, and well-rounded retirement products.

These reforms provide an opportunity to increase the proportion of savings invested in products that are specifically designed to support retirees through delivering stable, regular and reliable retirement income. Annuities deliver these benefits yet currently only represent a very small part of the retirement phase of superannuation.

Life's products are distributed in Australia via independent financial advisers, financial adviser administrative platforms, superannuation funds and directly. Life's products are included on all major financial advice hubs' Approved Product Lists (APLs) and are available on leading independent investment and administration platforms.

Life is making progress building new institutional partnerships with superannuation funds, as they focus on supporting their members' needs through more comprehensive retirement income solutions. In addition, a number of funds and trustees have defined benefit pension liabilities and are looking to de-risk these liabilities. This provides a significant growth

¹ Thinking Ahead Institute Global Pension Assets Study 2024, as a percentage of GDP.

² APRA Annual Superannuation Bulletin.

³ The Australian Prudential Regulation Authority (APRA), as at March 2024.

⁴ Deloitte Superannuation Market Projections Report 2023.

⁵ Source: Australian Bureau of Statistics, Institute of Health and Welfare.

⁶ Challenger Retirement Income Research 2022, based on ABS data age at death.

⁷ The word 'guaranteed' means payments are guaranteed by Challenger Life Company Limited (CLC) from assets of either its relevant statutory fund or shareholder fund.

⁸ Plan For Life – March 2024 – based on annuities under administration.

⁹ Treasury modelling, Retirement phase of superannuation, Discussion Paper December 2023.

¹⁰ Based on Taxation Statistics 2021-22 from Australian Taxation Office.

¹¹ Australian Government, The Treasury, Legislating the objective of superannuation, Consultation Paper 20 February 2023.

opportunity for Challenger as trustees and funds seek trusted partners to deliver a range of de-risking solutions.

Challenger has a long-term technology partnership with Accenture that will deliver Challenger's customer experience uplift program, including the modernisation of Life's customer technology. This will improve how Challenger integrates its capabilities with advisers, wealth platforms, superannuation funds and make it much easier for customers to do business with Challenger.

In Japan, Life has an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) to reinsure Australian dollar, US dollar denominated and Japanese yen denominated annuities.

Refer to page 30 for more detail on the MS Primary and MS&AD relationship.

Funds Management

Funds Management focuses on wealth accumulation, predominantly in the pre-retirement phase of superannuation, through supporting customers to build savings by providing contemporary investment products and strategies that seek to deliver superior investment returns.

Funds Management is one of Australia's largest active fund managers¹² with funds under management (FUM) of \$117 billion, which has more than doubled over the last 8 years (up from \$57 billion in 2016).

Growth in FUM is supported by Challenger's award-winning retail and institutional distribution teams and business model, which is focused on high-quality managers with strong long-term investment performance and alignment with clients.

Funds Management comprises Fidante and Challenger Investment Management (CIM), with operations in Australia, the United Kingdom, Europe and Japan.

Funds Management, through its Fidante affiliates and CIM, invests across a broad range of asset classes, including fixed income, Australian and global equities and alternative investments.

Funds Management has extensive client relationships. For example, around 70% of Australia's top 50 superannuation funds are clients.

Fidante's business model typically involves taking minority equity interests in separately branded affiliate funds management firms, with Challenger providing distribution services, business support and investment administration services, leaving investment managers to focus entirely on managing investment portfolios.

Fidante has been successful in attracting and building active equity, active fixed income and alternative investment managers, while also maintaining strong investment performance.

Fidante is focused on broadening its product and investment offering, which includes partnering with best-in-class managers, and accessing new distribution channels.

Challenger Investment Management (CIM) is one of Australia's largest fixed income originators specialising in public and private credit markets. CIM manages investments on behalf of Challenger Life and other like-minded investors across a range of strategies focused on generating consistent income whilst managing capital volatility.

Challenger Kabushiki Kaisha (CKK) manages Japanese real estate for Challenger Life, MS Primary and other institutional investors.

Funds Management is well positioned to benefit from ongoing growth in both Australia's superannuation system and global pension markets.

¹² Calculated from Rainmaker Roundup, March 2024 data.

Purpose, corporate strategy and values

Our **purpose** is to provide our customers with financial security for a better retirement

OUR STRATEGIC PILLARS

Challenger has three strategic pillars to ensure that it achieves its purpose of providing customers with financial security for a better retirement.

Retirement leader

Broaden customer access across multiple channels



Investment excellence

Superior outcomes and financial resilience



Talented team and capability

Outstanding skills and ways of working



- ▶ Delivering better outcomes for our customers
- ▶ Trusted and well known brands
- ▶ Leading voice on all things related to retirement income
- ▶ Expanding our products and partners to meet more customer needs

- ▶ Strongly capitalised so we can always deliver on our promises
- ▶ Superior risk adjusted investment performance for our customers and shareholders
- ▶ Enabled by a scalable operating and investment platform

- ▶ Invest in our people to maximise their potential
- ▶ Building a growth focused and inclusive culture
- ▶ Leverage technology to make it easy to do business with us
- ▶ We make good risk aware commercial decisions

OUR VALUES

Act with integrity

We do things the right way

Aim high

We deliver outstanding results

Collaborate

We work together to achieve shared goals

Think customer

We make decisions with our end customers front of mind



At Challenger, our values are integral to our culture and linked to everything we do. They set out the behaviours we need to deliver on our purpose and strategy and to meet community expectations, now and in the future.

FY24 strategic progress

Progress over FY24 has been measured against Challenger's three strategic pillars.

1. Retirement leader

FY24 progress:

Market leader in Australian retirement income

Challenger is the market leader in Australian retirement incomes according to 95% of financial advisers – 40 percentage points ahead of its closest peer¹. In December 2023, Challenger won:

- Plan For Life's 'Best Overall Longevity Cover' award for a fifth consecutive year, which recognised Australian life companies and fund managers that have products designed to assist retirees in meeting the challenges of longevity;
- Plan For Life's 'Best Longevity Product' award for its Liquid Lifetime annuity product suite;
- Money Magazine's 'Longevity Product of Year' award in their 2023 Consumer Finance Awards; and
- 'Best of the Best 2024' award for 'Innovation – Leadership in Retirement Strategies' that recognised Challenger's innovative approaches to helping build resilient retirement income portfolios.

Delivering higher quality Life sales

Challenger is executing a range of strategic initiatives to improve the quality of the Life book by increasing longer duration and more valuable annuity business.

In FY24, sales across Life's retirement income products remained strong, supported by rising demand for guaranteed lifetime income and a growing number of Australians entering retirement and aged care.

The Life business achieved total Life book growth of 3.6% and annuity book growth of 5.5%, with total Life sales of \$9.1 billion including Challenger Index Plus sales of \$3.9 billion.

Annuity sales were \$5.2 billion supported by record sales of longer duration lifetime annuities of \$1.5 billion (up 110%), which included a group lifetime annuity policy to the value of \$0.6 billion from Aware Super Pty Ltd (Aware Super). The Aware Super win highlights the depth of Challenger's capability and strength of Challenger's investment and longevity risk solutions (refer below for more information).

Retail lifetime annuity sales were \$0.9 billion (up 27%) and included CarePlus sales of \$496 million (up 52%). CarePlus achieved its highest volume of sales in FY24 since launching in 2015. Reflecting the growing opportunity in aged care, CarePlus continues to experience strong momentum.

Fixed term annuity sales decreased 27% to \$3.0 billion as Challenger maintained its disciplined approach to pricing shorter duration business.

Challenger's focus on driving higher quality, longer duration sales is driving an increase in new business tenor that is leading to a significant reduction in maturities and will further support future book growth. In FY24, 88% of new business annuity sales were for tenors of 2-years or more² compared with 74% in FY23. The tenor on new business sales³ also increased to 8.5 years, up from 5.8 years in FY23 and the

maturity rate has reduced from 33% in FY23 to 26% in FY24 and is expected to be 24% in FY25.

Challenger Index Plus is an institutional product providing guaranteed excess return above a chosen index. Reflecting the focus on growing longer duration business, Challenger has been successful in extending the tenor of Index Plus business being written, with the tenor on new business sales increasing to 4.3 years compared to 1.6 years in FY23. In October 2023, Challenger secured a five-year Index Plus mandate to the value of \$500 million from an insurance client. This investment demonstrates Challenger's ability to attract longer-term investments from institutional clients.

Delivering retirement partnerships

Challenger is making progress in establishing retirement partnerships with superannuation funds.

There are opportunities for Challenger to engage and support funds to develop their retirement income propositions, a requirement under the Retirement Income Covenant. Refer to page 31 for more information.

Challenger's clients include Australia's top superannuation funds, who are in various stages of implementing their retirement offer for members.

In October 2023, profit-for-member fund TelstraSuper announced the launch of its RetireAccess Lifetime Pension, a retirement income product designed in partnership with Challenger that is indexed for inflation or market-linked, and able to be blended with a member's existing account-based pension. The RetireAccess Lifetime Pension is designed to give retirees confidence to spend their income in retirement and is the first profit-for-member guaranteed lifetime income stream launched since the Retirement Income Covenant came into force.

In November 2023, Challenger announced a strategic partnership with Commonwealth Superannuation Corporation (CSC) to provide a longevity solution to help meet its customers' needs in retirement. Challenger's lifetime income solution will form part of CSC's broader Retirement Income Strategy and will be blended with its existing account-based pension, providing its members confidence to draw down their savings. The CSC partnership is expected to commence in 1H25 and generate lifetime annuity sales for Challenger.

As Australia's leading provider of longevity protection with decades of experience, Challenger is well placed to lead the pension risk transfer opportunity in Australia, helping retirement plans de-risk their defined benefit liabilities. In July 2023, Challenger was selected as Aware Super's defined benefit fund partner to provide a group lifetime annuity policy to the value of \$619 million covering approximately 3,000 members. This partnership is the largest defined benefit buy-in in Australia and underscores the strength of Challenger's investment and longevity risk solutions.

Improving access to Challenger annuities in platform

In September 2023, Challenger launched fixed-term annuities 'in' the Netwealth platform, which provides advisers and their clients a seamless and contemporary experience to access

¹ Marketing Pulse Adviser Study June 2024 based on (% agree / strongly agree).

² FY24 new business annuity sales exclude reinvestments and Japanese sales.

³ Based on new business annuity sales, including term annuities and lifetime sales, excluding reinvestments.

Challenger fixed term annuities directly and to invest both superannuation and non-superannuation monies.

Building financial confidence among Australian retirees

Challenger undertakes research and works closely with the government, industry and wider community to help drive public discussion on how best to provide Australians with financial security for a better retirement.

In FY24, Challenger partnered with National Seniors Australia (NSA), Capital Preferences, and Macquarie University to gain deeper insights on the needs of Australians pre- and post-retirement. These partnerships aim to offer practical guidance that fosters confidence in spending and enjoying retirement.

Challenger's Retirement Income Research team published a series of research papers this year, addressing crucial topics such as inflation protection for retirement income, building financial confidence among Australians, and exploring the significant challenges facing retirees in 2024.

Enhancing Challenger's brand

In FY24, Challenger launched its new sponsorship strategy designed to enhance Challenger's brand, showcase Challenger's retirement credentials and ensure Challenger is the 'go to' brand for retirement income.

In October 2023, Challenger announced its first partnership in Australian sport with the Professional Golfers Association of Australia (PGA), including Golf Australia, the Women's PGA, PGA Legends Tour and Golf Management Australia. As part of the three-year partnership with the PGA, Challenger will be the exclusive naming rights partner. With over seven million viewers across the year, and a sport of choice for those aged 45 and over, which is Challenger's target market, the partnership represents an exciting opportunity to showcase Challenger's brand and retirement credentials as it focuses on taking a broader stance in retirement.

Committed to further enhancing the brand, in March 2024 Challenger sponsored the Melbourne International Flower and Garden Show. This sponsorship allows Challenger to reach new customers and educate and support them on retirement income matters.

Extended MS&AD relationship

MS&AD and Challenger have developed a collaborative and mutually beneficial relationship, which began as an annuity relationship with MS Primary, a subsidiary of MS&AD.

Since November 2016, Challenger Life has partnered with MS Primary to reinsure Australian dollar annuities. The arrangement subsequently expanded to include US dollar denominated annuities from 2019 and Japanese yen denominated annuities from November 2023.

In May 2024, the reinsurance partnership between Challenger and MS Primary was extended. Under the renewed agreement commencing 1 July 2024, MS Primary will provide Challenger Life an annual amount of reinsurance of at least ¥50 billion per year (equivalent to ~A\$490 million)⁴ for the next five years⁵ and Challenger Life will also support MS Primary with any new reinsurance requirements MS Primary may require assistance with.

MS Primary is a key Challenger strategic partner and the businesses engage extensively across a range of product

development and partnering opportunities. In recent years, the relationship has expanded to include real estate and fixed income asset management mandates.

2. Investment excellence

FY24 progress:

Award-winning investment strategies and products

Fidante's investment managers continue to be externally recognised. Fidante is the leading Australian funds management distributor and won Zenith Investment Partners' 'Distributor of the Year' award in October 2023 for a fourth consecutive year. The award recognises the quality of Fidante's affiliate managers and their ratings across the product suite, including excellent adviser support and transparency of key information.

In FY24, the following affiliates won investment manager awards:

- WaveStone – Dynamic Australian Equity Fund – 2023 SQM & Financial Newswire Awards – Fund Manager of the Year in the Long/Short Equities category;
- Eiger Capital – 2023 Zenith Fund Awards – Australian Equities – Small Cap;
- Ardea Real Outcome Fund – Money Magazine Best of the Best 2024 – Best Australian Fixed Interest Fund (Diversified);
- Ardea Investment Management – Insurance Asset Management Awards 2023 – Fixed Income Manager of the Year (up to €100bn AUM); and
- Greencapital – 2024 Morningstar Awards for Investment Excellence – Fund Manager of the Year Domestic Equities – Large Cap.

The long-term performance of Fidante's Australian affiliates remains strong with 93% of investments outperforming their respective benchmarks over the last five years⁶. Fidante's products are also continually recognised externally as high quality, with 87% of strategies (59 out of the 68) rated either Recommended or Highly Recommended by research houses⁷.

Expanding Apollo strategic relationship

Apollo Global Management Inc. (Apollo) (NYSE:APO) and its subsidiary Athene are Challenger strategic partners and hold a minority interest of approximately 20% of issued share capital.

Challenger and Athene, Apollo's retirement services insurance business, share a common purpose, with strong complementary skills and capabilities.

Both parties are working together on a range of opportunities, including the distribution of Apollo's Aligned Alternatives (AAA) strategy to the Australian market.

In November 2023, Challenger announced it had expanded its strategic relationship with Apollo. Challenger and Apollo have formed an origination partnership, which provides Challenger Life with access to Apollo's high-quality, privately originated global credit and alternative opportunities, which will help support both customer annuity rates and returns for Challenger shareholders.

In FY24, Challenger Life invested into Apollo's Asset-Backed Finance (ABF) strategy that provides exposure to asset-backed finance assets focusing on large, diversified pools of physical

⁴ Based on 3-month average exchange rate at 30 June 2024.

⁵ Subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

⁶ As at 30 June 2024. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

⁷ As at 30 June 2024.

assets with underlying contracted cash flows across the full spectrum of ABF capabilities on Apollo's investment platform.

Challenger Life and Apollo are also well advanced on a funding arrangement for an Australian non-bank lender, providing both Challenger Life and Apollo access to high quality residential mortgage investments.

A representative from Apollo was appointed as a Non-Executive Director of Challenger Limited in November 2023.

Innovative income solutions

Challenger is continuously focused on improving the way it delivers its retirement income solutions and investment capability to customers and partners.

In November 2023, Challenger Investment Management (CIM) launched its fourth fund in the CIM range, the Global Asset Backed Securities (ABS) Fund, a long-only fund focusing predominantly on investment grade publicly rated assets across developed markets. The fund builds on CIM's existing range of products, track record and experience in global securitisation markets and managing credit investment strategies. The Fund's income-based strategy is designed to provide incremental returns without speculating on interest rates or currencies, and targets a return between 3% and 4% above the Euro Short Term Rate per annum through the cycle⁸.

Expanding Fidante's offering

Fidante has a strategy to grow its alternatives products and distribution capability to respond to increasing demand from investors for high-quality alternative investment capabilities.

In July 2023, Challenger formed a strategic real estate partnership with Elanor Investors Group (ASX:ENN) (Elanor), which includes an exclusive distribution arrangement whereby Fidante would distribute Elanor's existing and new funds and Elanor became a new Fidante affiliate manager. The partnership also involved the formation of a Capital Markets Desk to service capital raisings that will further bolster Fidante's market-leading distribution capability.

Fidante successfully completed capital raises for Elanor throughout the year, including the acquisition of 55 Elizabeth Street, Brisbane, for \$109 million in December 2023.

In July 2023, Fidante acquired an equity stake in Resonance Asset Management (Resonance) and now has 35% ownership of the UK-based specialist infrastructure company. Fidante has been a partner to Resonance since its formation in 2015.

In September 2023, Fidante commenced distributing the AAA strategy to the Australian market. AAA is positioned as an equity replacement product and will provide clients with access to a diversified portfolio of private market opportunities, investing side-by-side with more than US\$10 billion of Apollo's own balance sheet capital.

In October 2023, UK-based Impax Asset Management (Impax), a specialist asset manager focused on the transition to a more sustainable economy, launched its Global Opportunities Fund in Australia. The launch follows rising demand from Australian investors for global sustainable investment options. The Fund seeks to achieve long-term capital growth by investing in companies with competitive advantages and strong alignment with a more sustainable global economy.

In June 2023, Fidante expanded its existing distribution arrangement with Proterra Investment Partners Asia (Proterra Asia), a leading private equity investor focused on the Asian food and agribusiness sectors. Under an expanded relationship, Fidante has a 12.5% revenue share in Proterra Asia. Concurrently, Fidante signed an exclusive distribution agreement and will commence raising capital for Proterra Asia's next vintage fund, Food Fund 4, in FY25.

Whole loan and mortgage servicing platform launched

Whole loans include mortgages, personal loans and asset finance. The whole loans asset class is a large and significant asset class both in Australia and globally.

Challenger has established a platform that will help originate large scalable pools of domestic whole loans for Challenger Life and institutional investors. CIM has also established a servicing business that will service pools of existing mortgages that will enhance its private loan investment capabilities.

3. Talented team and capability

FY24 progress:

Accenture technology partnership

Challenger has formed a technology partnership with professional services firm Accenture. The partnership supports Challenger's growth strategy through making it easier for customers to do business with Challenger, broadening its customer base and delivering a more innovative offering.

Accenture has a track record in delivering technological transformation programs for international insurance companies, and under the agreement has become Challenger's long-term technology partner.

The agreement commenced at the end of FY24 for a seven-year period. Under the arrangement, Accenture will run Challenger's technology platform, modernise Life's customer technology and enhance the customer experience. Challenger's technology operations were fully transitioned to Accenture in June 2024.

As a result of Life's customer experience uplift, customers, advisers and institutional clients will receive a seamless digital experience. Customers will be able to fully originate services online, advisers will be able to write new business more efficiently, and the business' interfaces and touchpoints with institutional clients will be upgraded.

The customer experience uplift program will also enable Challenger to improve how it integrates its offering with superannuation funds and wealth platforms, helping to position the business as the retirement partner of choice.

With an improved service, the speed with which Challenger can bring its innovative offering to market will be significantly improved. By leveraging automation, the program will also generate productivity gains and operating efficiencies.

The technology partnership is expected to deliver \$90 million of operating savings over seven years commencing FY25. Challenger expects to invest \$25 million across FY24 and FY25 that will be treated as a one-off significant item, with approximately \$20 million incurred in FY24.

⁸ Gross return before fees.

Diversity and inclusion

Challenger believes that a diverse and inclusive workplace delivers better outcomes for employees, the business and the community.

Challenger continues to make progress implementing its diversity and inclusion strategy and achieved a diversity and inclusion score of 83% in its latest employee engagement survey (conducted May 2024). Results of the survey included:

- 95% of employees believe that gender-based harassment and sexual harassment is not tolerated; and
- 86% of employees believe Challenger values diversity.

In FY24, Challenger continued to be recognised as an employer of choice for women and was ranked 6th in Australia and 16th among global public companies in the world by Equileap, a leading data and insights provider for gender equality, diversity and inclusion in the corporate sector, as part of their 2024 Gender Equality Report.

Challenger was also included as an Employer of Choice for Gender Equality by the Workplace Gender Equity Agency (WGEA) for the seventh year in a row.

Challenger is making great progress towards a zero gender pay gap, with our median Gender Pay Gap (GPG) at 9.3%, compared to an industry median of 23.2%. There was no disparity in pay for individuals in like-for-like roles.

Learning and development

Challenger is committed to investing in its people to maximise their potential. In FY24, Challenger has held over 120 Learning and Development sessions including leadership development, presentation skills, mentoring and development planning.

Embedding environmental, social and governance (ESG) practices across the business

Challenger recognises that sustainability is important to the long-term success of its business and reflects the responsibility we have to all stakeholders, including shareholders, customers and the community.

Challenger integrates ESG risks into the investment decision-making and ownership practices, portfolio construction and appointment of managers acting on its behalf. Challenger has been a signatory to the Principles for Responsible Investment (PRI) since 2015.

Managers that offer sustainability products include:

- Alphinity Investment Management – offers two sustainable products that focus on companies that have a net positive alignment to the United Nations Sustainable Development Goals;
- Cultiv8 Funds Management – a fund focused on investments in agricultural and food technologies with a sustainability objective;
- Proterra Asia – a private equity fund manager focused on the Asian food and agribusiness sectors; and
- Resonance Asset Management – an alternative asset management firm investing in sustainable water, energy, and waste management infrastructure.

In March 2024, the Australian Government introduced the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 to Parliament that includes updated legislation setting out the government's proposed climate-related financial disclosure (CRFD) regime. This aims to help Australian companies and investors mitigate the risks and maximise the opportunities arising from climate change.

Meeting these obligations forms a core part of Challenger's ESG program, which focuses on climate risk.

In FY24, Challenger continued to make progress in addressing the business' most significant environment, social and governance (ESG) risks and opportunities. This included expanding measurement of Scope 3 emissions across the investment portfolio to now include direct Australian real estate, in addition to corporate bonds and listed equities, enabling a stronger understanding of climate-related risks and opportunities across the portfolio.

Challenger's climate risk work program will be implemented in FY25. This will inform the business' longer term ESG priorities and strategy, and reflects its commitment to transparent reporting and strengthening sustainability disclosures in preparation for the proposed climate-related financial disclosure regime in Australia. Challenger also developed a carbon emissions reduction plan, that includes plans to be net zero across our scope 1 and 2 emissions from FY25.

Challenger also plays an active role in advocating for public policy and reforms that are in the best interests of its customers, shareholders and wider stakeholders, particularly those in relation to retirement.

Through its community engagement program, Challenger supports a number of organisations that make a significant contribution to local communities, including our partnerships with Women Up North and FoodLab Sydney.

Sale of Challenger Bank

In April 2024, Challenger announced it had completed the sale of Challenger Bank Limited (Bank) to Heartland Group Holdings Limited's (NZX/ASX:HGH) (Heartland) New Zealand subsidiary Heartland Bank Limited.

The sale of the Bank generated a pre-tax net gain on sale of approximately \$11 million, which has been reported as a significant item in FY24, and approximately \$65 million of capital has been injected back into Challenger Life.

The sale of the Bank simplifies Challenger's business and enables it to focus on driving performance in its core Life and Funds Management businesses while continuing to execute its growth strategy.

Key performance indicators

	FY24	FY23	FY22	2H24	1H24	2H23	1H23	2H22	1H22
Earnings									
Normalised NPBT ¹ (\$m)	608.1	520.7	472.3	317.8	290.3	270.3	250.4	234.8	237.5
Normalised NPAT ¹ (\$m)	416.6	364.0	321.5	215.9	200.7	196.8	167.2	155.9	165.6
Statutory NPAT ² (\$m)	129.9	171.4	253.7	73.6	56.3	140.2	31.2	(28.4)	282.1
Underlying operating cash flow (\$m)	398.7	323.7	145.3	278.1	120.6	295.2	37.3	36.5	108.8
EBIT margin (%) ¹	66.2%	62.3%	61.3%	66.9%	65.4%	63.1%	61.5%	60.7%	61.9%
Normalised cost to income ratio ¹ (%)	33.8%	37.7%	38.7%	33.1%	34.6%	36.9%	38.5%	39.3%	38.1%
Normalised effective tax rate ¹ (%)	31.5%	30.1%	31.9%	32.1%	30.9%	27.2%	33.2%	33.6%	30.3%
Earnings per share (cents)									
Basic – normalised ¹	60.9	53.3	47.6	31.6	29.3	28.8	24.5	23.1	24.5
Basic – statutory ²	19.0	25.0	37.5	10.8	8.2	20.4	4.6	(4.2)	41.8
Diluted – normalised ¹	56.0	46.3	40.9	28.9	26.7	25.2	22.3	19.9	20.7
Diluted – statutory ²	18.5	24.6	33.1	10.4	8.1	20.1	4.5	(4.2)	33.9
Return On Equity (%)									
Normalised ROE – pre-tax ¹	15.6%	12.7%	11.9%	16.1%	15.0%	13.1%	12.3%	11.7%	12.1%
Normalised ROE – post-tax ¹	10.7%	8.9%	8.1%	10.8%	10.4%	9.6%	8.2%	7.8%	8.4%
Statutory ROE – post-tax ²	3.3%	4.2%	6.4%	3.7%	2.9%	6.8%	1.5%	(1.4%)	14.3%
Capital management									
Net assets – average ³ (\$m)	3,960	4,091	3,970	4,009	3,904	4,151	4,025	4,048	3,904
Net assets – closing (\$m)	3,885	4,164	3,988	3,885	3,904	4,164	4,048	3,988	4,059
Net assets per basic share (\$)	5.69	6.09	5.86	5.69	5.70	6.09	5.94	5.86	6.00
Net tangible assets (\$m)	3,281	3,553	3,372	3,281	3,296	3,553	3,433	3,372	3,420
Net tangible assets per basic share (\$)	4.80	5.20	4.96	4.80	4.81	5.20	5.03	4.96	5.06
Dividend - fully franked (cps)	26.5	24.0	23.0	13.5	13.0	12.0	12.0	11.5	11.5
Normalised dividend payout ratio ¹ (%)	43.5%	45.0%	48.3%	42.7%	44.4%	41.7%	49.0%	49.8%	46.9%
PCA Capital ratio (times)	1.67	1.59	1.60	1.67	1.50	1.59	1.59	1.60	1.69
CET1 Capital ratio (times)	1.23	1.16	1.11	1.23	1.10	1.16	1.12	1.11	1.20
Sales, net flows and assets under management									
Life annuity sales (\$m)	5,185.5	5,517.3	5,122.7	1,890.2	3,295.3	1,973.4	3,543.9	2,606.4	2,516.3
Index Plus sales (\$m)	3,949.1	4,229.3	4,583.4	1,990.8	1,958.3	2,294.2	1,935.1	2,156.6	2,426.8
Total Life sales (\$m)	9,134.6	9,746.6	9,706.1	3,881.0	5,253.6	4,267.6	5,479.0	4,763.0	4,943.1
Life annuity net flows (\$m)	778.9	385.1	1,074.2	270.9	508.0	(416.9)	802.0	466.5	607.7
Life annuity book (\$m) ⁴	15,279	13,930	13,595	15,279	15,035	13,930	14,278	13,595	14,093
Life annuity book growth (%) ⁴	5.5%	2.8%	7.9%	1.9%	3.6%	(3.1%)	5.9%	3.5%	4.4%
Total Life net flows (\$m)	706.5	935.8	2,471.9	378.5	328.0	(49.1)	984.9	1,025.9	1,446.0
Total Life book (\$m) ^{4,5}	20,635	19,199	17,982	20,635	20,142	19,199	18,899	17,982	18,474
Total Life book growth (%) ⁴	3.6%	5.2%	14.3%	1.9%	1.7%	(0.3%)	5.5%	5.9%	8.4%
Funds Management – net flows (\$m)	10,079.8	(472.3)	(8,524.8)	4,477.3	5,602.5	1,353.9	(1,826.2)	(9,429.2)	904.4
Total Group AUM ² (\$m)	127,122	104,952	98,570	127,122	117,125	104,952	99,393	98,570	114,907
Other									
Headcount – Closing Full Time Employees (FTEs)	676	817	770	676	758	817	761	770	735
Weighted average number of basic shares on issue ⁶ (m)	684.6	682.1	675.7	684.9	684.3	683.1	681.1	676.9	674.6
Number of basic shares on issue ⁶ (m)	683.3	683.8	680.0	683.3	684.8	683.8	682.0	680.0	676.0
Share price closing (\$)	7.01	6.48	6.84	7.01	6.49	6.48	7.62	6.84	6.53

¹ Normalised metrics exclude Discontinued Operations (Bank) in FY24, including Normalised profit before tax, Normalised profit after tax, Normalised EPS, Normalised cost to income ratio, Normalised tax rate, Normalised ROE and Total Group AUM. Prior periods are not restated to exclude Discontinued Operations (Bank)

² Statutory metrics for Profit and Loss and the Balance Sheet includes the application impact of AASB 17 in FY24. Prior period FY23 Statutory net profit after tax, Earnings per share (Basic - statutory), Earnings per share (Diluted - statutory) and Statutory ROE is restated for the application impact of AASB 17. Refer to Challenger's 2024 Annual Report for Net Assets restated for the impact of AASB 17

³ Net assets – average calculated on a monthly basis.

⁴ Life annuity liabilities in 1H24 and FY24 includes the application impact of AASB 17 of \$362.3 million. Life annuity liabilities in 1H23 and FY23 are not restated for the application impact of AASB 17.

⁵ Total Life book includes the Life annuity book and Challenger Index Plus liabilities.

⁶ Excludes Challenger Performance Plan (CPP) Trust Treasury shares.

Consolidated profit and loss¹

\$m	FY24	FY23	FY22	2H24	1H24	2H23	1H23	2H22	1H22
Life Normalised Cash Operating Earnings	750.4	653.0	582.8	390.7	359.7	335.7	317.3	295.4	287.4
Funds Management net fee income	173.9	178.8	191.8	86.5	87.4	90.9	87.9	93.6	98.2
Bank net interest income	—	8.8	2.3	—	—	4.1	4.7	1.4	0.9
Other income	2.3	1.6	—	2.2	0.1	1.0	0.6	—	—
Total net income	926.6	842.2	776.9	479.4	447.2	431.7	410.5	390.4	386.5
Personnel expenses ²	(182.7)	(201.9)	(204.5)	(90.9)	(91.8)	(94.9)	(107.0)	(103.4)	(101.1)
Other expenses ²	(130.8)	(115.6)	(96.0)	(68.0)	(62.8)	(64.5)	(51.1)	(50.0)	(46.0)
Total expenses	(313.5)	(317.5)	(300.5)	(158.9)	(154.6)	(159.4)	(158.1)	(153.4)	(147.1)
Normalised EBIT	613.1	524.7	476.4	320.5	292.6	272.3	252.4	237.0	239.4
Interest and borrowing costs	(5.0)	(4.0)	(4.1)	(2.7)	(2.3)	(2.0)	(2.0)	(2.2)	(1.9)
Normalised profit before tax	608.1	520.7	472.3	317.8	290.3	270.3	250.4	234.8	237.5
Normalised tax	(191.5)	(156.7)	(150.8)	(101.9)	(89.6)	(73.5)	(83.2)	(78.9)	(71.9)
Normalised profit after tax	416.6	364.0	321.5	215.9	200.7	196.8	167.2	155.9	165.6
Asset experience	(89.2)	(90.1)	(183.5)	4.0	(93.2)	(32.4)	(57.7)	(258.5)	75.0
Liability experience	(194.4)	22.3	102.3	(142.4)	(52.0)	7.0	15.3	68.2	34.1
Application impact of AASB 17	—	(116.1)	—	—	—	(24.6)	(91.5)	—	—
Bank impairments after tax ³	—	(1.4)	(0.9)	—	—	0.7	(2.1)	(0.9)	—
Significant items after tax ⁴	0.5	(7.3)	14.3	(3.8)	4.3	(7.3)	—	6.9	7.4
Discontinued Operations (Bank)	(3.6)	—	—	(0.1)	(3.5)	—	—	—	—
Statutory net profit after tax	129.9	171.4	253.7	73.6	56.3	140.2	31.2	(28.4)	282.1
Performance analysis									
Normalised EPS – basic (cents)	60.9	53.3	47.6	31.6	29.3	28.8	24.5	23.1	24.5
Shares for basic EPS calculation (m)	684.6	682.1	675.7	684.9	684.3	683.1	681.1	676.9	674.6
Normalised cost to income ratio (%)	33.8%	37.7%	38.7%	33.1 %	34.6%	36.9%	38.5%	39.3%	38.1%
Normalised tax rate (%)	31.5%	30.1%	31.9%	32.1 %	30.9%	27.2%	33.2%	33.6%	30.3%
Total net income analysis (%)									
Cash earnings (Life)	79.7%	74.4%	68.7%	80.3%	79.0%	76.3%	72.5%	69.0%	68.5%
Normalised capital growth (Life)	1.3%	3.1%	6.3%	1.2%	1.4%	1.5%	4.8%	6.7%	5.9%
Net fee income (Funds Management)	18.8%	21.2%	24.7%	18.0%	19.6%	21.1%	21.4%	24.0%	25.4%
Net interest income (Bank)	—	1.1 %	0.3 %	—	—	0.9%	1.1%	0.3 %	0.2 %
Other income (Corporate)	0.2%	0.2 %	—	0.5%	—	0.2%	0.2%	—	—
Normalised EBIT by division (\$m)									
Life	634.2	540.5	472.3	332.7	301.5	277.2	263.3	239.3	233.0
Funds Management	54.6	61.6	82.8	26.1	28.5	30.9	30.7	37.7	45.1
Bank	—	(8.8)	(11.1)	—	—	(4.5)	(4.3)	(7.8)	(3.3)
Corporate	(75.7)	(68.6)	(67.6)	(38.3)	(37.4)	(31.3)	(37.3)	(32.2)	(35.4)
Normalised EBIT	613.1	524.7	476.4	320.5	292.6	272.3	252.4	237.0	239.4

¹ Normalised metrics exclude Discontinued Operations (Bank) in FY24, including Normalised EBIT, Normalised profit before tax, Normalised profit after tax, Normalised EPS, Normalised cost to income ratio and Normalised tax rate. Prior periods are not restated to exclude Discontinued Operations (Bank).

² In 2H23, investment operation staff were transferred from Challenger to Artega Investment Administration. Artega expenses, which include personnel costs, are charged to Challenger through a rate card and are reflected as other expenses. In 1H24, Challenger's real estate team was transferred to Elanor following the sale of Challenger's Australian real estate business.

³ Represents provision for fair value adjustments on Bank lending and financing assets. Included in the Discontinued Operations line for FY24 reporting

⁴ Significant items (after-tax) in FY24 relate to the gains from the sale of the Bank and Challenger's Australian real estate business to Elanor, one-off costs associated with the technology partnership with Accenture, and one-off costs associated with implementing AASB 17 and Funds Management affiliate write downs.

Consolidated profit and loss (continued)

AASB 17 Insurance Contracts

Challenger adopted new accounting standard AASB 17 *Insurance Contracts* effective from 1 July 2023.

AASB 17 *Insurance Contracts* replaces AASB 4 *Insurance Contracts*, AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts*.

The new standard establishes globally consistent principles for the recognition, measurement, presentation and disclosure of life insurance contracts. It does not change the economics of the underlying business, normalised profit, cash generation or dividend policy. However, it will affect the timing of insurance earnings recognition, not the overall quantum.

Life investment contracts, including Challenger's term annuities, are currently measured under AASB 9 *Financial Instruments* and will continue to be measured in the same way.

There are no material changes to Challenger's normalised profit framework (refer to page 57 for more information), with any movement in policy liabilities continuing to be reflected in Liability Experience.

In the FY24 Analyst Pack, the first full year financial statements under AASB 17 will be for the period ended 30 June 2024, with the following comparative figures restated for the adoption of AASB 17 in 30 June 2023 (FY23):

- Statutory net profit after tax;
- Statutory ROE;
- Earnings per share (Basic - statutory); and
- Earnings per shares (Diluted - statutory).

The comparative balance sheet (or associated KPI's) in the FY24 Analyst Pack have not been restated for the adoption of AASB 17, however a restated balance sheet can be found in the Challenger 2024 Annual Report.

Normalised profit after tax

FY24 normalised profit after tax was \$417m and increased by \$53m (14%) on FY23. The increase reflects higher normalised profit before tax (up \$87m), partially offset by higher normalised tax (up \$35m).

Normalised earnings per share (EPS)

Normalised EPS increased by 14% to 60.9 cps on FY23. The increase reflects higher normalised profit after tax (up 14%) partially offset by a higher average number of basic shares on issue (up 0.4%).

The weighted average number of basic shares on issue in FY24 was 685m shares, up 3m shares on FY23 as a result of new shares issued as part of Challenger's Dividend Reinvestment Plan in September 2023 and March 2024.

Net income

FY24 net income was \$927m and increased by \$84m (10%) on FY23, with:

- Life Normalised Cash Operating Earnings (COE) of \$750m was up \$97m (15%), driven by higher cash earnings, which benefitted from a higher COE margin (up 30 bps) and growth in average investment assets (up 4%); and
- Funds Management fee income of \$174m was down \$5m (3%), from lower FUM-based revenue (down \$6m) due to a change in FUM mix, with a higher share of lower margin business and lower transaction fees (down \$1m), partially offset by higher performance fees (up \$2m).

Expenses

FY24 total expenses were \$314m and decreased by \$4m (1%) on FY23. The decrease in expenses was due to:

- derecognition and sale of the Bank (\$17m);
- sale of the real estate business to Elanor (\$5m); partially offset by
- higher staff costs (\$8m);
- higher data and investment administration costs (\$7m); and
- investment in Challenger brand and other projects (\$3m).

The FY24 normalised cost to income ratio was 33.8% and decreased by 3.9 percentage points on FY23. The decrease in the ratio was driven by higher net income (up 10%) and lower expenses (down 1%).

Normalised EBIT

FY24 normalised EBIT was \$613m, up \$88m (17%) on FY23. Higher Life EBIT (up \$94m) was offset by lower Funds Management EBIT (down \$7m).

Life EBIT increased by \$94m (up 17%) to \$634m and reflected higher Normalised COE (up \$97m), partially offset by higher expenses (up \$4m).

Funds Management EBIT decreased by \$7m (down 11%) to \$55m, from lower FUM-based revenue (down \$6m), lower transaction fees (down \$1m) and higher expenses (up \$2m), partially offset by higher performance fees (up \$2m).

Normalised Return On Equity (ROE)

FY24 Normalised ROE (pre-tax) was 15.6% and increased by 290 bps on FY23. This was driven by higher Life ROE of 18.5% (up 340 bps) reflecting an increase in Normalised COE, partially offset by lower Funds Management earnings contribution and higher Corporate expenses.

Challenger's Normalised ROE (pre-tax) target remains at the RBA cash rate plus a margin of 12%. Refer to page 14 for more detail.

In FY24, the average RBA cash rate was ~4.3%, resulting in Challenger's Normalised ROE target being 16.3% (or ~11.2% after-tax using FY24 effective tax rate of 31.5%). Challenger's Normalised ROE in FY24 was 15.6% and below target.

Challenger has made significant progress towards achieving its Normalised ROE target and is on track to achieve its target in FY25, which represents the mid-point for the FY25 normalised net profit after tax guidance range.

Normalised tax

Normalised tax was \$192m and increased by \$35m (22%) on FY23. Higher normalised tax reflects a higher normalised net profit before tax and a higher normalised effective tax rate.

The normalised effective tax rate in FY24 was 31.5%, up from 30.1% in FY23.

The effective tax rate in FY24 is similar to Australia's statutory rate of 30.0% but is adjusted to reflect interest payments on Challenger's Capital Notes that are non-deductible (\$13m).

Asset and liability experience after tax

Challenger Life Company Limited (CLC) is required by Australian Accounting Standards to value assets at fair value, while liabilities are valued in accordance with relevant accounting standards. This gives rise to fluctuating valuation movements on assets and policy liabilities being recognised in the statutory profit and loss, particularly during periods of increased market volatility.

Challenger is generally a long-term holder of assets due to them being held to match the term of life contract liabilities. As a result, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements.

Asset experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and the normalised capital growth in relation to assets.

Liability experience reflects any economic and actuarial assumption changes in relation to policy liabilities for the period.

Liability experience also includes new business strain, being the requirement to apply the risk-free discount rate plus an illiquidity premium to value annuity liabilities, rather than the actual interest rate paid on annuity liabilities (refer to page 58).

FY24 asset experience after tax was a loss of \$89m and liability experience after tax was a loss of \$194m.

The asset experience loss after tax of \$89m was primarily driven by a reduction in commercial property valuations and valuation losses on alternatives, partially offset by gains on the fixed income portfolio driven by the tightening of credit spreads. Refer to page 26 for more detail, including asset experience by asset class.

The liability experience loss after tax of \$194m was driven by changes in the valuation of Life Risk liabilities that are expected to unwind over time as a result of applying AASB 17 (refer to page 27 for more detail) and new business strain resulting from longer duration annuity sales and net book growth over the period.

Significant items after tax

FY24 significant items were \$1m (after-tax) and represent:

- Net gain from the sale of Challenger's Australian real estate business (CRE) to Elanor of \$12m;
- Net gain from the sale of the Bank of \$11m (refer to below for more detail); partially offset by
- One-off project costs relating to the Accenture Technology Partnership, including restructuring costs (-\$20m); and
- Implementation of new accounting standard AASB 17 *Insurance Contracts*¹ and Funds Management affiliate impairments (-\$2m)

Discontinued Operations (Bank)

In FY24, the Bank division has been classified as a discontinued operation following its sale to Heartland.

In April 2024, the sale was completed, with approximately \$65m of capital subsequently injected into Challenger Life.

Statutory net profit after tax

Statutory net profit after tax includes after-tax asset and liability experience and significant one-off items.

FY24 statutory profit after tax was \$130m and decreased by \$42m (24%) on FY23, and includes:

- Normalised net profit after tax of \$417m;
- Asset and liability experience of -\$284m (refer to page 26 for more detail);
- Significant items of \$1m; and
- Bank net loss after tax of \$4m following its classification as a discontinued operation in FY23.

¹ AASB 17 *Insurance Contracts* is an accounting standard that replaces AASB 4 *Insurance Contracts*, AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts*, and is effective for Challenger from 1 July 2023.

Dividends

Dividend policy

Challenger targets a dividend payout ratio in the range of between 30% and 50% of normalised profit after tax and aims to frank the dividend to the maximum extent possible.

FY24 dividend

The Challenger Board has determined to pay a fully franked final FY24 dividend of 13.5 cps, bringing the full year dividend to 26.5 cps (fully franked), compared to 24.0 cps (fully franked) in FY23.

Dates for the final FY24 dividend are as follows:

- ex-date: 26 August 2024;
- record date: 27 August 2024;
- Dividend Reinvestment Plan (DRP) election date: 28 August 2024; and
- payment date: 18 September 2024.

The FY24 dividend payout ratio was 43.5%, which is within Challenger's normalised dividend payout ratio target of between 30% and 50% of normalised profit after tax.

Challenger's franking account balance at 30 June 2024 was \$234m. This amount is calculated from the balance of the franking account as at the end of the period, adjusted for income tax accrued on the balance sheet and for franking debits that will arise from the settlement of accrued interest on Challenger Capital Notes.

The final dividend of 13.5 cps will result in a total dividend of \$93m, which will reduce the franking account by \$40m.

Dividend Reinvestment Plan (DRP)

Challenger operates a DRP, providing an effective way for shareholders to reinvest their dividends and increase their shareholding without incurring transaction costs.

Under the terms of the DRP, new Challenger shares are issued based on a 10-day Challenger volume-weighted average price (VWAP), with no share price discount applied.

For the interim FY24 dividend paid in March 2024, the DRP participation rate was 2% of issued capital.

Credit ratings

In December 2023, Standard & Poor's Global Ratings (S&P) completed its annual ratings review and affirmed the credit rating and outlook for CLC and Challenger Limited.

Challenger's S&P ratings are as follows:

- CLC: 'A' rating with a stable outlook; and
- Challenger Limited: 'BBB+' rating with a stable outlook.

FY25 outlook

Normalised net profit after tax guidance

From FY25, Challenger will primarily reference key metrics, including earnings, on a post-tax basis. Challenger's FY25 normalised net profit after tax guidance is a range of between \$440m and \$480m.

The mid-point of the FY25 normalised net profit after tax guidance (\$460m) is 10% above FY24 normalised net profit after tax of \$417m and is consistent with achieving Challenger's Normalised ROE target.

Based on Challenger's assumed FY25 effective tax rate of ~31.3% this equates to a normalised net profit before tax guidance range of between \$640m and \$700m.

Challenger's FY25 normalised net profit after tax guidance assumes Life's current asset allocation will be maintained.

Normalised Return on Equity (ROE) target

Challenger's Normalised ROE pre-tax target is the RBA cash rate plus a margin of 12% (this is currently equivalent to a Normalised ROE post-tax target of ~11.2% based on a pre-tax target of 16.4% and an expected effective tax rate of ~31.3%).

Challenger has made significant progress towards achieving the Normalised ROE target and expects to meet the target in by the end of FY25.

Normalised cost to income ratio

Managing the business to a cost to income ratio ensures that any expense growth is appropriately positioned to support revenue growth.

In FY25, Challenger will target a cost to income ratio of 32% to 34%, which is a reduction from the current range of 35% to 37%. The FY24 normalised cost to income ratio of 33.8% is within the new lower cost to income ratio target range.

CLC excess capital position

CLC does not target a specific PCA or CET1 ratio. CLC's targeted PCA and CET1 ratio range is a reflection of internal capital models, and is not an input to them, and reflects asset allocation, business mix, capital composition and economic environment. The target PCA ratio range is 1.3 times to 1.7 times. This range may change over time. Refer to page 45 for more detail.

Dividend

Challenger continues to target a dividend payout ratio of between 30% and 50% of normalised profit after tax and seeks to frank the dividend to the maximum extent possible. However, the actual dividend payout ratio will depend on prevailing market conditions and capital allocation priorities at the time.

Group balance sheet¹

\$m	FY24	1H24	FY23	1H23	FY22	1H22
Assets						
Life investment assets						
Fixed income and cash ²	18,333.5	17,877.1	17,799.6	17,621.0	16,659.4	17,031.1
Property ²	2,761.6	2,963.7	3,062.4	3,178.3	3,227.0	3,583.3
Equity and infrastructure ²	448.3	365.2	291.3	259.0	971.1	1,096.1
Alternatives	3,167.1	2,888.1	2,384.7	2,026.6	1,366.3	1,226.4
Life investment assets	24,710.5	24,094.1	23,538.0	23,084.9	22,223.8	22,936.9
Bank lending and financing assets	—	346.8	225.4	406.6	390.5	230.1
Cash and cash equivalents (Group cash)	137.0	101.5	128.9	145.8	183.1	94.5
Receivables	182.4	179.1	174.6	164.4	355.1	153.7
Derivative assets	574.5	802.7	665.5	690.7	599.5	822.0
Investment in associates	86.6	81.4	81.9	74.3	74.9	79.7
Other assets	49.3	46.9	43.9	45.8	53.8	58.1
Fixed assets	19.4	21.8	23.5	24.0	24.8	26.4
Right-of-use lease assets	19.9	22.6	24.3	27.3	29.0	31.5
Tax assets	169.8	209.5	86.2	158.9	65.3	—
Goodwill and intangibles	584.7	585.3	587.4	586.8	587.2	607.4
Less Group/Life eliminations ³	(5.5)	(5.7)	(6.1)	(13.9)	(21.5)	(25.1)
Total assets	26,528.6	26,486.0	25,573.5	25,395.6	24,565.5	25,015.2
Liabilities						
Payables	221.5	192.9	216.3	156.9	184.3	173.2
Tax liabilities	—	—	—	—	—	107.0
Derivative liabilities	566.8	738.0	611.3	730.8	839.6	676.8
Subordinated debt	418.0	419.1	403.0	399.3	398.4	401.6
Challenger Capital Notes	727.0	725.8	725.1	840.2	838.6	864.8
Lease liabilities	46.8	51.3	54.7	59.2	62.5	66.3
Provisions	28.5	25.6	28.2	39.0	44.3	39.3
Life annuity liabilities ⁴	15,278.5	15,034.6	13,930.0	14,278.4	13,595.4	14,092.5
Challenger Index Plus liabilities	5,356.3	5,107.6	5,268.8	4,620.2	4,386.4	4,381.8
Bank deposit liabilities	—	287.2	171.7	224.1	227.7	152.6
Total liabilities	22,643.4	22,582.1	21,409.1	21,348.1	20,577.2	20,955.9
Group net assets⁵	3,885.2	3,903.9	4,164.4	4,047.5	3,988.3	4,059.3
Equity						
Contributed equity	2,512.4	2,522.3	2,513.1	2,496.9	2,481.5	2,451.8
Reserves	(18.4)	(25.7)	(35.8)	(49.8)	(49.3)	(55.0)
Retained earnings	1,387.4	1,345.3	1,683.1	1,600.4	1,556.1	1,662.5
Non controlling interest ⁶	3.8	3.8	4.0	—	—	—
Total equity (1H24 excl. Bank)	3,885.2	3,845.7	4,164.4	4,047.5	3,988.3	4,059.3
Discontinued Operations (Bank)	—	58.2	—	—	—	—
Total equity⁵	3,885.2	3,903.9	4,164.4	4,047.5	3,988.3	4,059.3

¹ Excludes consolidation of Special Purpose Vehicles (SPVs).

² Fixed income, property and infrastructure are reported net of debt.

³ Group/Life eliminations represent the fair value of the SPV residual income notes (i.e. NIM) held by Challenger Life Company Limited.

⁴ Life annuity liabilities in 1H24 and FY24 includes the application impact of AASB 17 of \$362.3 million. Life annuity liabilities in 1H23 and FY23 are not restated for the application impacts of AASB 17.

⁵ Group net assets and Equity in 1H23 and FY23 are not restated for the application impact of AASB 17. Refer to the 2024 Challenger Annual Report for the impact.

⁶ In relation to SimCorp's minority stake in Artega Investment Administration.

Change in Group net assets¹

\$m	2H24	1H24	2H23	1H23	2H22	1H22
Opening net assets	3,903.9	4,164.4	4,047.5	3,988.3	4,059.3	3,825.8
Impact of initial application of AASB 17	—	(253.5)	—	—	—	—
Restated opening balance	3,903.9	3,910.9	4,047.5	3,988.3	4,059.3	3,825.8
Statutory net profit after tax	73.6	56.3	164.8	122.7	(28.4)	282.1
Dividends paid	(89.7)	(82.4)	(82.1)	(78.4)	(78.1)	(70.7)
New share issue	13.5	9.2	27.4	10.6	1.7	13.4
Reserve movements	(1.0)	5.8	1.2	(0.5)	5.8	(4.2)
CPP ² Trust movements	(15.1)	4.3	1.6	4.8	—	12.9
Issued under Capital Notes conversion	—	—	—	—	28.0	—
Non-controlling interest ³	—	(0.2)	4.0	—	—	—
Closing net assets	3,885.2	3,903.9	4,164.4	4,047.5	3,988.3	4,059.3

¹ Periods prior to 1H24 have not been restated for the application impact of AASB 17.

² Challenger Performance Plan (CPP) Trust.

³ In relation to SimCorp's minority stake in Artega Investment Administration.

Issued share capital, dilutive share count and earnings per share

	FY24	FY23	FY22	2H24	1H24	2H23	1H23	2H22	1H22
Earnings per share (cents)									
Basic – normalised ¹	60.9	53.3	47.6	31.6	29.3	28.8	24.5	23.1	24.5
Basic – statutory ²	19.0	25.0	37.5	10.8	8.2	20.4	4.6	(4.2)	41.8
Diluted – normalised ¹	56.0	46.3	40.9	28.9	26.7	25.2	22.3	19.9	20.7
Diluted – statutory ²	18.5	24.6	33.1	10.4	8.1	20.1	4.5	(4.2)	33.9
Number of shares (m)									
Basic share count	683.3	683.8	680.0	683.3	684.8	683.8	682.0	680.0	676.0
CPP Trust Treasury shares	7.8	3.8	2.2	7.8	6.1	3.8	1.9	2.2	2.1
Total issued shares	691.1	687.6	682.2	691.1	690.9	687.6	683.9	682.2	678.1
Movement in basic share count									
Opening	683.8	680.0	672.6	684.8	683.8	682.0	680.0	676.0	672.6
CPP Trust deferred share purchase	(3.6)	—	—	—	(3.6)	—	—	—	—
Net Treasury shares (acquired)/released	(0.4)	(1.5)	1.2	(1.7)	1.3	(1.8)	0.3	(0.1)	1.3
New share issues	3.5	5.3	6.2	0.2	3.3	3.6	1.7	4.1	2.1
Closing	683.3	683.8	680.0	683.3	684.8	683.8	682.0	680.0	676.0
Movement in CPP Trust Treasury shares									
Opening	3.8	2.2	3.4	6.1	3.8	1.9	2.2	2.1	3.4
Shares vested to participants	(1.3)	(0.9)	(1.2)	—	(1.3)	(0.6)	(0.3)	0.1	(1.3)
Shares purchased (including settled forwards)	5.3	2.5	—	1.7	3.6	2.5	—	—	—
Closing	7.8	3.8	2.2	7.8	6.1	3.8	1.9	2.2	2.1
Weighted average number of shares (m)									
Basic EPS shares									
Total issued shares	690.2	684.6	678.1	691.0	689.4	686.0	683.2	679.1	677.2
Less CPP Treasury shares	(5.6)	(2.5)	(2.4)	(6.1)	(5.1)	(2.9)	(2.1)	(2.2)	(2.6)
Shares for basic EPS calculation	684.6	682.1	675.7	684.9	684.3	683.1	681.1	676.9	674.6
Diluted shares for normalised EPS									
Shares for basic EPS calculation	684.6	682.1	675.7	684.9	684.3	683.1	681.1	676.9	674.6
Add dilutive impact of unvested equity awards	13.7	13.3	10.0	13.7	11.7	13.2	12.6	9.8	13.3
Add dilutive impact of Capital Notes	110.8	140.7	126.3	110.8	121.1	132.7	115.0	126.3	133.4
Add dilutive impact of subordinated notes	60.3	74.3	58.3	60.3	65.9	64.0	75.1	58.3	59.1
Add dilutive impact of restricted shares	2.4	1.7	0.7	2.4	2.3	2.0	1.5	0.7	—
Shares for diluted normalised EPS calculation	871.8	912.1	871.0	872.1	885.3	895.0	885.3	872.0	880.4
Diluted shares for statutory EPS									
Shares for basic EPS calculation	684.6	682.1	675.7	684.9	684.3	683.1	681.1	676.9	674.6
Add dilutive impact of unvested equity awards	13.7	13.3	10.0	13.7	11.7	13.2	12.6	—	13.3
Add dilutive impact of Capital Notes ³	—	—	126.3	—	—	132.7	—	—	133.4
Add dilutive impact of subordinated notes ³	—	—	58.3	—	—	64.0	—	—	59.1
Add dilutive impact of restricted shares	2.4	1.7	0.7	2.4	2.3	2.0	1.5	—	—
Shares for diluted statutory EPS calculation	700.7	697.1	871.0	701.0	698.3	895.0	695.2	676.9	880.4
Summary of share rights (m)									
Hurdled Performance Share Rights									
Opening	17.1	15.8	14.7	19.1	17.1	16.9	15.8	16.4	14.7
New grants	3.9	3.9	3.7	—	3.9	0.9	3.0	0.1	3.6
Vesting/forfeiture	(2.1)	(2.6)	(2.6)	(0.2)	(1.9)	(0.7)	(1.9)	(0.7)	(1.9)
Closing	18.9	17.1	15.8	18.9	19.1	17.1	16.9	15.8	16.4
Deferred Performance Share Rights									
Opening	0.9	1.6	2.9	0.3	0.9	0.9	1.6	1.7	2.9
New grants	—	—	—	—	—	—	—	—	—
Vesting/forfeiture	(0.6)	(0.7)	(1.3)	—	(0.6)	—	(0.7)	(0.1)	(1.2)
Closing	0.3	0.9	1.6	0.3	0.3	0.9	0.9	1.6	1.7
Restricted Share Rights									
Opening	1.9	0.8	—	2.4	1.9	1.9	0.8	—	—
New grants	1.3	1.4	0.8	—	1.3	0.1	1.3	0.8	—
Vesting/forfeiture	(0.8)	(0.3)	—	—	(0.8)	(0.1)	(0.2)	—	—
Closing	2.4	1.9	0.8	2.4	2.4	1.9	1.9	0.8	—

¹ Normalised EPS (basic) and Normalised EPS (diluted) in FY24 excludes Discontinued Operations (Bank). ² Statutory EPS (basic) and Statutory EPS (diluted) in FY23 is restated to reflect the application impact of AASB17. ³ Dilutive impact of Capital Notes and Subordinated Notes for 1H23 is revised based on the updated Statutory net profit. Under AASB 133 *Earnings per Share*, convertible debt is considered dilutive whenever the interest per potential ordinary share for each of these instruments is less than Challenger's basic EPS for the period. Due to the restatement of prior period profit and loss on the application of AASB 17, statutory profit reduced which resulted in basic EPS becoming lower than the interest per potential ordinary share and hence convertible debt becoming non-dilutive.

Issued share capital

Issued share capital and diluted share count

The number of Challenger Limited shares listed on the ASX at 30 June 2024 was 691m shares. The number of shares on issue increased by 3m shares in FY24, with new shares issued under Challenger's DRP in September 2023 and March 2024.

The basic number of shares used to determine Challenger's normalised and statutory EPS is based on requirements set out in Australian Accounting Standards, as follows:

- the basic share count is reduced for Treasury shares;
- the dilutive share count includes unvested equity awards made to employees under the Challenger Performance Plan (CPP); and
- the dilutive share count considers convertible instruments (e.g. Challenger Capital Notes 3, Challenger Capital Notes 4 and subordinated debt) as determined by a probability of vesting test (refer to page 19 for more detail on the accounting treatment).

Treasury shares

The CPP Trust was established to purchase shares to satisfy Challenger's employee equity obligations arising from hurdle and deferred performance share rights issued under employee remuneration structures.

Shares are acquired by the CPP Trust to mitigate shareholder dilution and provide a mechanism to hedge the cash cost of acquiring shares in the future to satisfy vested equity awards.

The CPP Trust typically acquires physical shares on-market or via forward share purchase agreements. The use of forward share purchase agreements was implemented to increase capital efficiency. Shares held by the CPP Trust and share forward purchase agreements are classified as Treasury shares.

It is expected that should equity awards vest in the future, the CPP Trust will satisfy equity requirements via a combination of Treasury shares and settlement of forward purchase agreements. As such, it is not anticipated new Challenger shares will be issued to meet future vesting obligations of equity awards.

Weighted average share count

The basic weighted average number of shares used to determine both the normalised and statutory basic EPS increased by 3m shares in FY24 to 685m shares.

The increase reflects the weighted impact of new shares issued under Challenger's Dividend Reinvestment Plan in September 2023 and March 2024.

The weighted average number of shares used to determine normalised diluted EPS decreased by 40m shares (down 4.4%) in FY24 to 872m shares. The decrease primarily reflects:

- a lower dilutive impact on debt instruments, including Challenger Capital Notes 3 and 4 and subordinated notes, and increase in the Challenger share price that is used to calculate potential dilution (collectively reducing diluted share count by 44m shares – refer to page 19); partially offset by
- higher basic weighted average number of shares on issue (increasing diluted share count by 3m shares – refer above); and
- higher unvested equity awards and restricted shares to employees under the CPP (increasing diluted share count by 1m shares).

The weighted average number of shares used to determine statutory diluted EPS increased by 4m shares (up 1%) in FY24 to 701m shares. This is because Challenger Capital Notes and subordinated notes are not considered dilutive as the interest per potential ordinary share for each of these instruments is less than Challenger's statutory basic EPS in FY24.

Refer to page 19 for more detail on the accounting treatment of Capital Notes and subordinated debt.

Dilutive share count and earnings per share

Dilutive share count

Dilutive impact of unvested equity awards

Challenger's approach to executive remuneration includes providing equity awards to ensure alignment between key employees and shareholders.

Hurdled Performance Share Rights (HPSRs) vest over a period of up to five years subject to meeting certain performance hurdles¹ and continued employment.

A portion of variable remuneration is awarded in Restricted Shares, which vest over a period of up to four years, subject to continued employment².

The dilutive impact of these awards in any given period is based on the probability of future vesting.

Accounting treatment of Capital Notes and subordinated debt

Challenger Capital Notes 3, Challenger Capital Notes 4 and subordinated debt are effective sources of funding for Challenger. Refer to page 44 for more detail.

Capital Notes 3, Capital Notes 4 and subordinated debt have convertibility features that would result in these instruments converting to ordinary shares under certain circumstances, including APRA determining Challenger Life to be non-viable. Challenger may choose to redeem or resell (rather than convert) all or some of the notes for their face value at a future date, subject to APRA approval and market conditions.

However, under Australian Accounting Standards, convertible debt is considered dilutive whenever the interest per potential ordinary share for each of these instruments is less than Challenger's basic EPS for the period. As such, a test is required to be undertaken each reporting period to determine if they are included in the dilutive share count.

Dilutive impact of Capital Notes and subordinated debt

The dilutive share count for Challenger's convertible debt (Challenger Capital Notes 3 and 4, and subordinated debt) is based on the following formula:

$$\frac{\text{Face value of debt}}{\text{Conversion factor} \times \text{Challenger's 20-day volume weighted average price}}$$

The conversion factor for all of Challenger's convertible debt is 99%. The simple average of Challenger's 20-day volume weighted average share price (VWAP) in each reporting period, subject to a minimum VWAP floor, is used to determine the dilutive impact. The simple average of Challenger's 20-day VWAP leading up to 30 June 2024 was \$6.70 (30 June 2023 \$6.31).

Mandatory conversion of Challenger's convertible debt is subject to a VWAP floor, being 50% of the issue date VWAP. As a result, under mandatory conversion, the VWAP floor for mandatory conversion is as follows:

Issue	Issue date	Face value	VWAP floor price
Challenger Capital Notes 3	25 Nov 2020	\$385m	\$2.57
Challenger Capital Notes 4	5 Apr 2023	\$350m	\$3.26
Subordinated debt	16 Sep 2022	\$400m	\$3.23
Total		\$1,135m	

Earnings per share

Normalised diluted EPS

The normalised basic EPS for FY24 of 60.9 cps is greater than the interest cost per potential ordinary share for each of the Challenger Capital Notes 3, Challenger Capital Notes 4 and subordinated debt. As a result, all debt instruments were considered to be dilutive in FY24.

The weighted average number of shares used to determine the normalised diluted EPS decreased by 40m shares in FY24.

The decrease is due to:

- a \$110m decrease in the face value of debt following the repurchase of Challenger Capital Notes 2 to the value of \$460m and the issuance of Challenger Capital Notes 4, which raised \$350m (collectively reduced diluted share count by 16m shares. Refer to page 44 for more detail);
- a decrease in the dilutive impact of the Challenger Capital Notes 3 and 4 as a result of an increase in Challenger's weighted average share price over the last 20 days of FY24, decreasing the diluted share count by 14m shares. The higher Challenger share price results in a lower number of potential shares being issued should the debt convert to shareholder equity;
- a reduction in the dilutive impact of subordinated notes primarily due to simultaneously holding two subordinated debt instruments for two months in FY23 as part of the issue of \$400m of notes in September 2022 and redemption of \$400m of notes in November 2022 (refer to page 44 for more detail). This combined with a higher Challenger share price reduced diluted share count by 14m shares; partially offset by
- an increase in the weighted average number of basic shares on issue, which reflects new shares issued under Challenger's Dividend Reinvestment Plan in September 2023 (increased the basic share count by 3m shares); and
- higher unvested equity awards and restricted shares to employees under the CPP (increased diluted share count by 1m shares).

To determine the normalised diluted EPS, the normalised profit after tax is increased by \$72m in relation to Challenger Capital Notes 3, Challenger Capital Notes 4 and subordinated debt interest costs.

¹ For HPSRs granted before 2023, performance is measured against total shareholder return. For HPSRs granted from 2023, an additional performance measure of Culture will also need to be met for vesting of HPSRs to occur.

² Prior to 1 July 2021, Deferred Performance Share Rights (DPSRs) were awarded instead of Restricted Shares. DPSRs represent the right to receive a fully-paid ordinary Challenger share for nil consideration subject to continued employment at the time of vesting.

Consolidated operating cash flow

\$m	FY24	FY23	FY22	2H24	1H24	2H23	1H23	2H22	1H22
Receipts from customers	440.5	767.0	708.0	197.5	243.0	416.6	350.4	366.0	342.0
Dividends received	117.9	66.9	73.3	72.1	45.8	25.1	41.8	33.6	39.7
Interest received	1,205.0	900.2	605.0	645.4	559.6	494.3	405.9	297.7	307.3
Interest paid ¹	(677.5)	(582.7)	(343.7)	(327.2)	(350.3)	(325.7)	(257.0)	(183.8)	(159.9)
Payments to suppliers and employees	(665.6)	(696.3)	(632.4)	(319.7)	(345.9)	(340.8)	(355.5)	(311.0)	(321.4)
Income tax (paid) / refunded	(21.6)	(122.6)	(264.9)	10.0	(31.6)	25.7	(148.3)	(166.0)	(98.9)
Underlying operating cash flow	398.7	332.5	145.3	278.1	120.6	295.2	37.3	36.5	108.8
Adjusted for:									
Net annuity policy capital receipts/(payments)	778.9	385.1	1,074.2	270.9	508.0	(416.9)	802.0	466.5	607.7
Net Challenger Index Plus receipts/(payments) ¹	(368.2)	541.9	1,151.1	20.7	(388.9)	359.0	182.9	546.5	604.6
Other	34.3	14.1	116.2	22.3	12.0	2.4	11.7	82.8	33.4
Operating cash flow per financial report	843.7	1,273.6	2,486.8	592.0	251.7	239.7	1,033.9	1,132.3	1,354.5

¹ Current and prior periods have been restated and prepared whereby Challenger Index Plus hedging costs are reported below underlying operating cash flow.

² Other includes net SPV operating cash flow adjustments for differences between statutory operating cash flow and normalised cash operating earnings. FY22 includes net customer deposits receipts/(payments) related to Challenger Bank.

Underlying operating cash flow excludes cash flows that are capital in nature, such as annuity sales and annuity capital payments, and investing and financing-related cash flows.

FY24 underlying operating cash inflow was \$399m, up \$66m on FY23, and was \$18m lower than normalised net profit after tax of \$417m mainly due to:

- non-cash normalised capital growth (-\$12m); and
- accrued interest and other income not yet received (-\$7m).

Net annuity policy capital receipts

FY24 net annuity policy capital receipts were \$779m and comprised:

- annuity sales of \$5,186m; less
- annuity capital payments of \$4,407m.

Annuity capital payments represent the return of capital to annuitants and exclude interest payments.

FY24 net annuity policy capital receipts of \$779m represent annuity book growth of 5.5% for the year and is calculated as FY24 net annuity policy capital receipts divided by the opening Life annuity liability of \$14,292m³.

FY24 net annuity policy capital receipts benefited from strong lifetime sales and lower maturities (capital payments). The maturity rate in FY24 was 26% (down from 33% in FY23).

Net Challenger Index Plus payments

Net Challenger Index Plus Life payments includes the return of capital to clients and cash flows relating to the underlying hedging instrument backing the index cash payment to the client.

FY24 net Challenger Index Plus payments were \$368m and comprised:

- Challenger Index Plus sales of \$3,949m;
- Challenger Index Plus maturities and repayments of \$4,022m; and
- Challenger Index Plus hedging costs of \$296m;

FY24 total Life book growth was 3.6% for the year (FY23 5.2%) and can be calculated as total FY24 net flows (\$707m) divided by the sum of the opening period liabilities of \$19,561m³ (Life annuity liabilities and Challenger Index Plus liabilities – refer to page 29 for more detail).

³ On adoption of AASB 17 on 1 July 2023, policy liabilities increased by \$362.2 million.

Life financial results

\$m	FY24	FY23	FY22	2H24	1H24	2H23	1H23	2H22	1H22
Investment yield – policyholders' funds	1,374.4	1,122.6	806.0	711.4	663.0	601.5	521.1	417.4	388.6
Interest expense	(906.2)	(705.5)	(412.4)	(468.3)	(437.9)	(387.7)	(317.8)	(221.9)	(190.5)
Distribution expense	(7.6)	(8.1)	(12.3)	(3.8)	(3.8)	(3.2)	(4.9)	(3.4)	(8.9)
Other income ¹	58.2	49.4	45.6	31.4	26.8	25.5	23.9	21.8	23.8
Product cash margin	518.8	458.4	426.9	270.7	248.1	236.1	222.3	213.9	213.0
Investment yield – shareholders' funds	219.4	168.6	107.1	114.2	105.2	93.3	75.3	55.5	51.6
Cash earnings	738.2	627.0	534.0	384.9	353.3	329.4	297.6	269.4	264.6
Normalised capital growth	12.2	26.0	48.8	5.8	6.4	6.3	19.7	26.0	22.8
Normalised Cash Operating Earnings	750.4	653.0	582.8	390.7	359.7	335.7	317.3	295.4	287.4
Personnel expenses	(71.5)	(71.8)	(73.5)	(34.6)	(36.9)	(34.8)	(37.0)	(38.0)	(35.5)
Other expenses	(44.7)	(40.7)	(37.0)	(23.4)	(21.3)	(23.7)	(17.0)	(18.1)	(18.9)
Total expenses	(116.2)	(112.5)	(110.5)	(58.0)	(58.2)	(58.5)	(54.0)	(56.1)	(54.4)
Normalised EBIT	634.2	540.5	472.3	332.7	301.5	277.2	263.3	239.3	233.0
Asset experience	(119.2)	(132.1)	(260.6)	9.2	(128.4)	(49.0)	(83.1)	(368.1)	107.5
Liability experience ²	(275.8)	32.7	145.3	(202.0)	(73.8)	10.2	22.5	96.9	48.4
Application impact of AASB 17 ³	—	(165.9)	—	—	—	(35.2)	(130.7)	—	—
Net profit before tax	239.2	275.2	357.0	139.9	99.3	203.2	72.0	(31.9)	388.9
Reconciliation of asset experience to capital growth									
Asset experience	(119.2)	(132.1)	(260.6)	9.2	(128.4)	(49.0)	(83.1)	(368.1)	107.5
Normalised capital growth	12.2	26.0	48.8	5.8	6.4	6.3	19.7	26.0	22.8
Asset capital growth	(107.0)	(106.1)	(211.8)	15.0	(122.0)	(42.7)	(63.4)	(342.1)	130.3
Performance analysis									
Cost to income ratio ⁴ (%)	15.5%	17.2%	19.0%	14.8%	16.2%	17.4%	17.0%	19.0%	18.9%
Net assets – average ⁵ (\$m)	3,425	3,571	3,594	3,515	3,321	3,610	3,522	3,680	3,517
Normalised ROE (pre-tax) (%)	18.5%	15.1%	13.1%	19.0%	18.1%	15.5%	14.8%	13.1%	13.1%
Margins⁶									
Investment yield – policyholders' funds	5.71%	4.86%	3.60%	5.82%	5.60%	5.17%	4.54%	3.72%	3.46%
Interest expense	(3.76%)	(3.05%)	(1.84%)	(3.83%)	(3.70%)	(3.33%)	(2.77%)	(1.98%)	(1.70%)
Distribution expense	(0.03%)	(0.04%)	(0.05%)	(0.03%)	(0.03%)	(0.03%)	(0.04%)	(0.03%)	(0.08%)
Other income	0.24%	0.21%	0.20%	0.26%	0.23%	0.22%	0.20%	0.20%	0.22%
Product cash margin	2.16%	1.98%	1.91%	2.22%	2.10%	2.03%	1.93%	1.91%	1.90%
Investment yield – shareholders' funds	0.91%	0.73%	0.48%	0.93%	0.89%	0.80%	0.66%	0.49%	0.46%
Cash earnings	3.07%	2.71%	2.39%	3.15%	2.99%	2.83%	2.59%	2.40%	2.36%
Normalised capital growth	0.05%	0.11%	0.21%	0.05%	0.05%	0.05%	0.17%	0.23%	0.20%
Normalised Cash Operating Earnings (COE)	3.12%	2.82%	2.60%	3.20%	3.04%	2.88%	2.76%	2.63%	2.56%

¹ Other income includes Life Risk revenue (premiums net of expected claims) and Solutions revenue.

² Liability experience comprises economic and actuarial assumption changes in relation to policy liabilities, net new business strain, and the impact from AASB 17 accounting mismatches (including the effects of the UK mortality assumption change).

³ FY23 is restated to include the application impact of AASB 17.

⁴ Cost to income ratio calculated as total expenses divided by Normalised Cash Operating Earnings (COE).

⁵ Net assets – average calculated on a monthly basis.

⁶ Ratio of COE components divided by average investment assets.

Life flows

\$m	FY24	FY23	FY22	2H24	1H24	2H23	1H23	2H22	1H22
Sales									
Fixed term sales – 1-year	788.6	1,156.4	901.4	281.9	506.7	422.7	733.7	411.4	490.0
Fixed term sales – 2-years or more	1,463.1	1,754.6	1,003.4	590.1	873.0	721.8	1,032.8	583.6	419.8
Lifetime sales	901.1	708.7	462.9	432.0	469.1	333.5	375.2	242.1	220.8
Total retail annuity sales	3,152.8	3,619.7	2,367.7	1,304.0	1,848.8	1,478.0	2,141.7	1,237.1	1,130.6
Fixed term sales – 1-year	578.4	902.3	1,778.1	159.4	419.0	59.7	842.6	954.1	824.0
Fixed term sales – 2-years or more	126.3	240.4	336.6	64.3	62.0	92.9	147.5	197.6	139.0
Lifetime sales	619.2	14.0	23.7	—	619.2	14.0	—	23.7	—
Total institutional annuity sales	1,323.9	1,156.7	2,138.4	223.7	1,100.2	166.6	990.1	1,175.4	963.0
Total domestic annuity sales	4,476.7	4,776.4	4,506.1	1,527.7	2,949.0	1,644.6	3,131.8	2,412.5	2,093.6
Japan sales	708.8	740.9	616.6	362.5	346.3	328.8	412.1	193.9	422.7
Total Life annuity sales	5,185.5	5,517.3	5,122.7	1,890.2	3,295.3	1,973.4	3,543.9	2,606.4	2,516.3
Maturities and repayments	(4,406.6)	(5,132.2)	(4,048.5)	(1,619.3)	(2,787.3)	(2,390.3)	(2,741.9)	(2,139.9)	(1,908.6)
Total Life annuity flows	778.9	385.1	1,074.2	270.9	508.0	(416.9)	802.0	466.5	607.7
Closing Life annuity book ¹	15,278.5	13,930.0	13,595.4	15,278.5	15,034.6	13,930.0	14,278.4	13,595.4	14,092.5
Annuity book growth²	5.5%	2.8%	7.9%	1.9%	3.6%	(3.1%)	5.9%	3.5%	4.4%
Index Plus									
Index Plus sales	3,949.1	4,229.3	4,583.4	1,990.8	1,958.3	2,294.2	1,935.1	2,156.6	2,426.8
Index Plus maturities and repayments	(4,021.5)	(3,678.6)	(3,185.7)	(1,883.2)	(2,138.3)	(1,926.4)	(1,752.2)	(1,597.2)	(1,588.5)
Index Plus flows	(72.4)	550.7	1,397.7	107.6	(180.0)	367.8	182.9	559.4	838.3
Closing Index Plus liabilities ¹	5,356.3	5,268.8	4,386.4	5,356.3	5,107.6	5,268.8	4,620.2	4,386.4	4,381.8
Index Plus net book growth	(1.4%)	12.6%	38.5%	2.0%	(3.4%)	8.4%	4.2%	15.4%	23.1%
Total Life									
Total Life sales	9,134.6	9,746.6	9,706.1	3,881.0	5,253.6	4,267.6	5,479.0	4,763.0	4,943.1
Total maturities and repayments	(8,428.1)	(8,810.8)	(7,234.2)	(3,502.5)	(4,925.6)	(4,316.7)	(4,494.1)	(3,737.1)	(3,497.1)
Total Life net flows	706.5	935.8	2,471.9	378.5	328.0	(49.1)	984.9	1,025.9	1,446.0
Closing total Life book ¹	20,634.8	19,198.8	17,981.8	20,634.8	20,142.2	19,198.8	18,898.6	17,981.8	18,474.3
Total Life book growth²	3.6%	5.2%	14.3%	1.9%	1.7%	(0.3%)	5.5%	5.9%	8.4%
Assets									
Closing investment assets	24,711	23,538	22,224	24,711	24,094	23,538	23,085	22,224	22,937
Fixed income and cash	17,792	17,365	16,759	18,149	17,448	17,721	17,046	16,842	16,715
Property	2,989	3,198	3,470	2,927	3,048	3,183	3,211	3,466	3,491
Equity and infrastructure	360	541	945	408	314	271	770	1,026	884
Alternatives	2,931	2,014	1,226	3,108	2,748	2,283	1,746	1,285	1,167
Average investment assets³	24,072	23,118	22,400	24,592	23,558	23,458	22,773	22,619	22,257
Liabilities									
Closing liabilities (excluding Other liabilities)¹	21,796	20,345	19,227	21,796	21,305	20,345	20,151	19,227	19,749
Annuities and Index Plus liabilities	20,004	18,780	18,067	20,434	19,646	19,107	18,470	18,231	17,961
Capital Notes	735	838	868	735	735	832	845	865	873
Subordinated debt	421	471	403	426	418	414	518	401	404
Average liabilities^{1,3}	21,160	20,089	19,338	21,595	20,799	20,353	19,833	19,497	19,238

¹ Closing Life annuity book, closing total Life book, closing liabilities (excluding other liabilities), and average liabilities in 1H24 and FY24 are reported on an AASB 17 basis. On adoption of AASB 17 on 1 July 2023, policy liabilities increased by \$362.2 million. Prior periods have not been restated for the impact of AASB 17.

² Book growth calculations for prior periods have not been restated for AASB 17. Book growth percentage represents net flows for the period divided by opening book value for the financial year.

³ Average investment assets and average liabilities calculated on a monthly basis.

Life quarterly flows

Life quarterly sales and investment assets

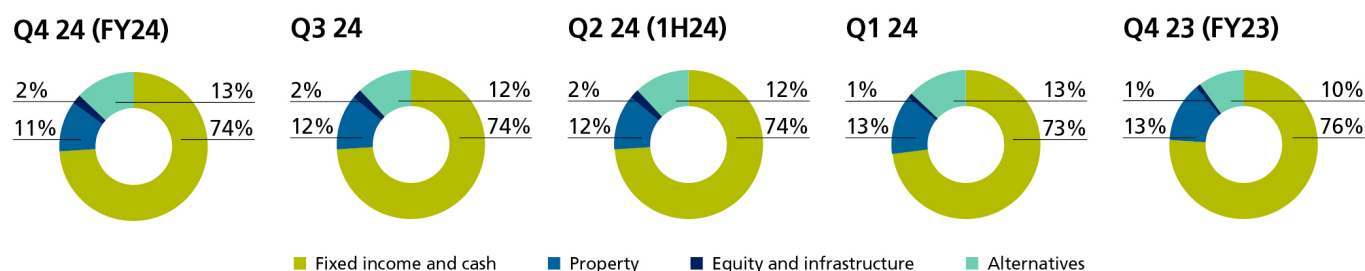
\$m	Q4 24	Q3 24	Q2 24	Q1 24	Q4 23
Life sales					
Fixed term sales – 1-year	161	121	247	260	229
Fixed term sales – 2-years or more	319	271	406	467	327
Lifetime sales ¹	230	202	251	218	187
Total retail annuity sales	710	594	904	945	743
Fixed term sales – 1-year	153	6	12	407	50
Fixed term sales – 2-years or more	22	43	28	34	5
Lifetime sales	—	—	—	619	14
Total institutional annuity sales	175	49	40	1,060	69
Total domestic annuity sales	885	643	944	2,005	812
Japan sales	183	180	206	140	117
Total Life annuity sales	1,068	823	1,150	2,145	929
Maturities and repayments	(884)	(736)	(1,239)	(1,548)	(807)
Total Life net flows	184	87	(89)	597	122
Annuity book growth²	1.3%	0.6%	(0.6%)	4.2%	0.9%
Index Plus Sales	1,065	925	1,267	691	1,331
Index Plus maturities and repayments	(1,042)	(841)	(811)	(1,327)	(993)
Index Plus flows	23	84	456	(636)	338
Index Plus net book growth	0.4%	1.6%	8.7%	(12.1%)	7.7%
Total Life sales	2,133	1,748	2,417	2,836	2,260
Total maturities and repayments	(1,926)	(1,577)	(2,050)	(2,875)	(1,800)
Total Life net flows	207	171	367	(39)	460
Total Life book growth²	1.0%	0.9%	1.9%	(0.2%)	2.5%
Life investment assets					
Fixed income and cash ³	18,334	18,356	17,877	16,921	17,800
Property ³	2,762	2,955	2,964	3,060	3,062
Equity and infrastructure ³	448	422	365	333	291
Alternatives	3,167	3,121	2,888	2,942	2,385
Total Life investment assets	24,711	24,854	24,094	23,256	23,538
Average Life investment assets⁴	24,776	24,473	23,593	23,446	23,600

¹ Lifetime sales include CarePlus, a product that pays income for life and is specifically designed for the aged care market.

² Book growth calculations for prior periods have not been restated for AASB 17. Book growth percentage represents net flows for the period divided by opening book value for the financial year.

³ Fixed income, property and infrastructure are reported net of debt.

⁴ Average Life investment assets is calculated on a monthly basis.



Life financial results

Life focuses on the retirement phase of superannuation, with products helping customers convert retirement savings into safe, secure and reliable retirement income.

Life is Australia’s largest provider of annuities. Its products appeal to retirees as they provide security and certainty of guaranteed¹ income that ensures customers have more confidence to spend in retirement.

Lifetime annuities also protect retirees from the risk of outliving their savings as they pay an income for life. Depending on the payment option selected, payments can be either fixed, indexed to inflation, linked to changes in the RBA cash rate or indexed to investment markets.

The retirement incomes Life pays to its customers are backed by a high-quality investment portfolio, predominantly invested in investment-grade fixed income. These investments generate reliable investment income, which is used to fund retirement incomes paid to customers.

Challenger is Australia’s leading retirement income brand² and has won the Association of Financial Advisers ‘Annuity Provider of the Year’ for the last 15 years, and won Plan for Life’s ‘Overall Longevity Cover Excellence Award’ in 2023 for a fifth consecutive year.

Life’s products are distributed in Australia via independent financial advisers, financial adviser administrative platforms, superannuation funds and directly. Life’s products are included on all major financial advice hubs’ Approved Product Lists (APLs) and are available on leading independent investment and administration platforms.

Life is making progress building new institutional partnerships with superannuation funds, as they focus on supporting their members’ needs through more comprehensive retirement income solutions.

In addition, a number of funds and trustees have defined benefit pension liabilities and are looking to de-risk these liabilities. This provides a significant growth opportunity for Challenger as trustees and funds seek trusted partners to deliver a range of de-risking solutions.

In Japan, Life has an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) to reinsure Australian dollar, US dollar denominated and Japanese yen denominated annuities. Refer to page 30 for more detail.

Life also participates in wholesale reinsurance longevity and mortality transactions (refer to page 26 for more detail).

Challenger Life Company Limited (CLC) undertakes Challenger’s guaranteed annuity and Index Plus business, and is an APRA-regulated entity. CLC’s financial strength is rated by Standard & Poor’s with an ‘A’ rating and stable outlook. CLC’s capital strength is outlined on page 45.

Normalised EBIT and ROE

Life’s normalised EBIT was \$634m in FY24 and increased by \$94m (17%) on FY23. The increase in EBIT reflects a \$97m (15%) increase in Normalised Cash Operating Earnings (COE), partially offset by a \$4m (3%) increase in expenses.

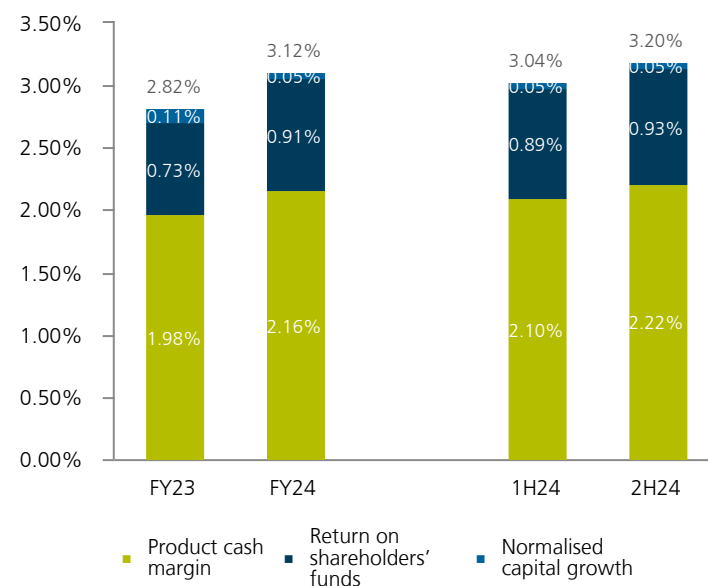
Life’s Normalised ROE (pre-tax) was 18.5% in FY24 and increased by 340 bps on FY23, driven by an increase in Normalised COE.

Normalised Cash Operating Earnings (COE) and COE margin

FY24 Normalised COE was \$750m and increased by \$97m (15%) on FY23. Normalised COE increased as a result of:

- higher average investment assets, which increased by 4% on FY23; and
- higher COE margin, which increased by 30 bps on FY23 to 3.12%.

Life COE margin composition



¹ The word ‘guaranteed’ means payments are guaranteed by CLC from assets of either its relevant statutory fund or shareholder fund.

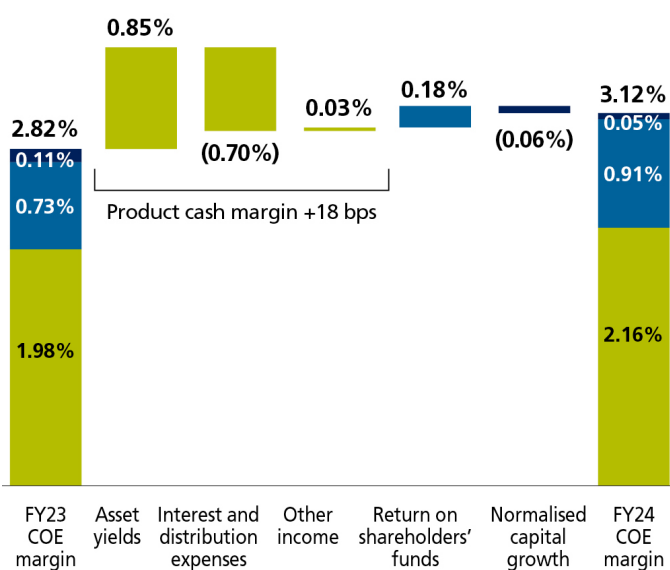
² Plan for Life - March 2024 - based on annuities under administration.

FY23 to FY24 COE margin

Life's FY24 COE margin was 3.12% and increased by 30 bps on FY23 as a result of the following:

- Higher product cash margin (+18 bps): The product cash margin represents the investment return on annuities and institutional products, less associated interest and direct distribution expenses. The product cash margin also includes other income, including Life Risk and Solutions revenue (refer to page 26). The product cash margin drivers included:
 - Higher investment yield on policyholder funds (+85 bps): Predominantly reflects higher yields on fixed income securities, a greater allocation to higher-yielding alternative investments, and higher distributions from equity and infrastructure investments;
 - Higher interest expense (-71 bps): Reflects the impact of higher interest rates on the reported cost of annuity and institutional business and higher subordinated debt costs over FY24;
 - Lower distribution expenses (+1 bp): Reflects lower volume of sales in FY24. Distribution expenses relate to payments made for the acquisition and management of annuities; and
 - Higher other income (+3 bps): Reflects higher Life Risk income (refer to page 26 for more detail).
- Higher return on shareholders' funds (+18 bps): This reflects the impact of higher interest rates. For example, the average 3-month Bank Bill Swap rate increased from 320 bps in FY23 to 432 bps in FY24 resulting in a significant increase in investment earnings on shareholder capital.
- Lower normalised capital growth (-6 bps): This reflects the lower allocation to equity and infrastructure, and property, and higher allocation to alternatives over FY24. Alternatives has a zero normalised growth assumption.

FY23 to FY24 COE margin

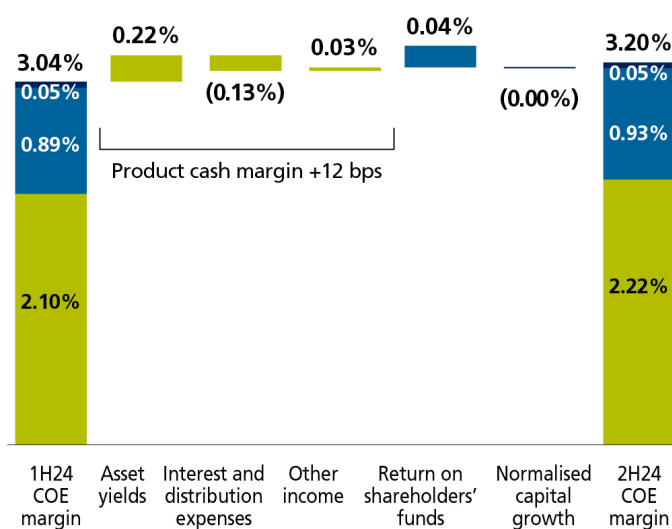


1H24 to 2H24 COE margin

Life's 2H24 COE margin was 3.20% and increased by 16 bps on 1H24 as a result of the following:

- Higher product cash margin (+12 bps): The product cash margin drivers included:
 - Higher investment yield on policyholder funds (+22 bps): Predominantly reflects a greater allocation to higher-yielding alternative investments;
 - Higher interest expense (-13 bps): Reflects the impact of higher interest rates on the reported cost of annuity and institutional business;
 - Stable distribution expenses: Distribution expenses relate to payments made for the acquisition and management of annuities; and
 - Higher other income (+3 bps): This reflects higher Life Risk income (refer to page 26 for more detail).
- Higher return on shareholders' funds (+4 bps): This mainly reflects higher returns on shareholder assets.
- Stable normalised capital growth: This reflects offsetting impacts from asset allocation changes.

1H24 to 2H24 COE margin



■ Product cash margin ■ Return on shareholders' funds ■ Normalised capital growth

Life Risk

Life Risk revenue represents premiums net of expected claims on wholesale reinsurance longevity and mortality transactions.

Wholesale longevity and mortality transactions are an investment strategy undertaken by the Life business. Life is participating in established markets, has specialised expertise, and is taking a disciplined approach to the wholesale Life Risk opportunity.

The present value of future management profits arising from the Life Risk portfolio was \$842m at 30 June 2024, up 24% from \$679m at 30 June 2023. The increase was largely driven by an update to the assumption for future UK mortality rates, which increased the expected future profitability of this business. This was partially offset by the release of profits recognised in Normalised COE in FY24.

The Life Risk portfolio has an average duration of 11 years.

FY24 Life Normalised COE includes \$54m of income from Life Risk transactions, which represents the release of profit and expense margins, and was up \$9m from \$45m in FY23, largely driven by FX impacts.

Solutions Group

Challenger's Solutions Group works with clients to address their evolving investment and retirement needs. Benefiting from the scale of the broader Challenger Group, the Solutions Group provides innovative portfolio management and balance sheet solutions. These include alpha and beta solutions, income solutions, retirement partnership solutions and defined benefit plan solutions.

Revenue from the Solutions Group is included in Other income within Life's Normalised COE.

Expenses

FY24 Life expenses were \$116m and increased by \$4m (3%) on FY23. This was primarily driven by the full year impact of Artega expenses that included higher datafeed costs (\$2m), and increased brand investment (\$2m).

With Normalised COE up 15%, Life's cost to income ratio decreased 170 bps to 15.5%.

Asset and liability experience overview

Challenger Life is required by Australian Accounting Standards to value assets at fair value, while liabilities are valued in accordance with relevant accounting standards. This gives rise to fluctuating valuation movements on assets and policy liabilities being recognised in the statutory profit and loss, particularly during periods of increased market volatility.

As Challenger is generally a long-term holder of assets, due to them being held to match the term of liabilities, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements.

Insurance liabilities are required to be valued using the risk-free discount rate plus an illiquidity premium, generating a loss at issue (new business strain). In addition, AASB 17 has introduced certain disconnects in the liability valuation after issue (refer to page 27 for more detail).

Asset and liability experience removes the volatility arising from valuation movements to more accurately reflect the underlying performance of the Life business. Changes in macroeconomic variables and actuarial assumptions impact the value of Life's assets and liabilities. This includes changes to bond yields, inflation factors, expense assumptions, mortality rate assumptions and other factors applied in the valuation of life contract liabilities.

FY24 asset experience was a loss of \$119m (pre-tax) along with a liability experience loss of \$276m (pre-tax) that included a \$105m loss in relation to new business strain and \$150m in relation to the AASB 17 impact on the Life Risk business.

(\$m)	Actual capital growth	Normalised capital growth	Total experience
Fixed income	228	62	290
Property	(313)	(60)	(373)
Equity and infrastructure	9	(14)	(5)
Alternatives	(31)	—	(31)
Total Asset experience	(107)	(12)	(119)
Policy liabilities	(21)	—	(21)
New business strain	(105)	—	(105)
Impact of AASB 17 on Life Risk business	(150)	—	(150)
Total Liability experience	(276)	—	(276)

Asset experience

Asset experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and normalised capital growth in relation to assets.

Assets experience was a loss of \$119m in FY24, comprising the following:

- Fixed income (+\$290m): Comprising a net valuation gain of \$228m less normalised capital growth of -\$62m (representing an allowance for credit defaults).

The fixed income valuation gain is a result of movements in credit spreads, impacting the valuation of fixed income securities, and provisions for credit defaults. In FY24, credit spreads tightened with investment-grade credit spreads decreasing by ~10 bps and sub-investment-grade credit spreads decreasing by ~86 bps. The impact of tighter credit spreads was a fixed income valuation gain of \$262m.

Credit defaults in FY24 were -\$34m (-19 bps). Life's policy treats all investments rated below B- as being in default. Fixed income normalised capital growth of \$62m represents an allowance for credit defaults of -35 bps per annum, compared to actual credit defaults of -19 bps.

- **Property (-\$373m):** Reflects the revaluation of Life's property portfolio, with a revaluation loss of \$313m less normalised capital growth of \$60m.

All properties were revalued in 2H24, with 69% of direct properties independently valued. Movements in valuations as a result of cap rate expansion include domestic office (-14.9%), domestic industrial (-6.4%) and domestic retail (-2.3%).

- **Equity and infrastructure (-\$5m):** Reflects a revaluation gain of \$9m less normalised capital growth of -\$14m. In FY24, the MSCI Daily Total Return Net World Index (Bloomberg NDDLWI) returned ~21% over the period.
- **Alternatives (-\$31m):** Predominantly relates to Challenger's absolute return fund portfolio, which is broadly performed in-line with the Société Générale CTA Index in FY24.

This is partially offset by outperformance in the general insurance portfolio relative to the normalised growth assumption, with returns on general insurance-related investments broadly correlated to movements in the Swiss Re Cat Bond Index over FY24.

Liability experience

Liability experience includes any economic and actuarial assumption changes in relation to policy liabilities for the period, impacts of accounting mismatches within the liability valuation of Life Risk business under AASB 17, and new business strain. New business strain is the requirement to apply the risk-free discount rate plus an illiquidity premium to value annuity liabilities, rather than the actual interest rate paid on annuity liabilities.

Liability experience was a loss of \$276m in FY24, comprising the following:

- **Policy Liabilities (-\$21m):** Reflects illiquidity premium loss of -\$34m offset by \$13m of other policy gains, which reflect the impacts of relative movements of instruments used for hedging purposes, including inflation-linked and fixed-rate government and semi-government securities.
- **New business strain (-\$105m):** Driven by longer duration annuity sales and net book growth over the period. Refer to below for more information.
- **AASB 17 impact on Life Risk business (-\$150m):** Largely driven by an accounting mismatch that arises under AASB 17. Refer to below for more information.

Illiquidity premium

In accordance with the Prudential Standards and Australian Accounting Standards, Challenger Life values its annuities using a risk-free discount rate, which is based on the Australian Government Bond curve plus an illiquidity premium.

Movements in credit spreads impact the illiquidity premium.

The illiquidity premium loss in FY24 was -\$34m and reflects the impact of tighter credit spreads used to value policy liabilities.

New business strain

Life offers annuity rates to customers that are higher than the rates used to value liabilities. As a result, a loss is recognised when issuing a new annuity contract due to using a lower discount rate together with the inclusion of an allowance for future maintenance expenses in the liability.

New business strain is a non-cash item and, subsequently, reverses over the future contract period. The new business strain reported in the period represents the non-cash loss on new sales, net of reversal of the new business strain of prior period sales.

The FY24 new business strain was a loss of \$105m, up from a loss of \$87m in FY23, as a result of net book growth over the period and high lifetime annuity sales, which have a higher new business strain given their longer duration.

AASB 17 impact on Life Risk business

Accounting Standard AASB 17 Insurance Contracts (AASB 17) came into effect for Challenger on 1 July 2023, introducing a number of accounting mismatches that can create volatility in statutory profit. In particular, this impacts the Life Risk business where the liability includes the present value of future cash flows (PVFCF), which is measured at current interest rates, and a contractual service margin (CSM), which is measured at the interest rates on the date the business was written (locked-in rates).

This means that the policy liability for the Life Risk business is sensitive to changes in interest rates in the UK, the value of the British pound against the Australian dollar, and UK mortality rate assumptions, which creates ongoing profit volatility.

In 2H24, a review into UK mortality assumptions was conducted that showed a decline in mortality improvements, with a consequent increase in expected future net inflows to Challenger Life in relation to the UK Life Risk business. This is an economically positive outcome for Challenger Life.

Under AASB 17, this increase in expected future inflows is held on the balance sheet within the CSM and released over the life of the underlying contract. However, because the future inflows are valued at current interest rates and the CSM is valued at locked in rates that are on average materially lower, the assumption change (despite being positive economically) results in a material statutory loss, which is the main driver of the \$150 million in FY24 that has been reported in Liability Experience.

Under APRA Prudential Standards for capital, a more economic approach to valuing the liabilities is applied, rather than the accounting treatment (although there are secondary tax impacts on capital that arise related to the AASB 17 accounting liability).

Life sales and AUM

Total Life sales

Challenger is improving the quality of the Life book by increasing the duration of new annuity business. In FY24, sales across Life's retirement income products remained strong, supported by rising demand for guaranteed lifetime income and a growing number of Australians entering retirement and aged care.

Total Life sales were \$9.1b with record longer duration lifetime annuity sales more than offset by lower shorter duration fixed term annuity sales, particularly around 1- and 2-year business.

Annuity and Challenger Index Plus sales

In FY24, Challenger Life achieved annuity sales of \$5.2b, down \$0.3b or 6.0% on FY23.

Annuity sales comprised:

- Domestic retail term and lifetime annuity sales of \$3.2b, down \$0.5b or 13% on FY23;
- Domestic institutional term and lifetime annuity sales of \$1.3b, up \$0.2b or 15% on FY23; and
- Japanese sales of \$709m, down \$32m or 4% on FY23.

Domestic retail annuity sales

Domestic retail annuity sales were \$3,153m and comprised:

- term annuity sales of \$2,252m, which decreased by \$659m or 23% on FY23; and
- lifetime annuity sales of \$901m, which increased by \$192m or 27% on FY23.

Term annuities are cash, term and fixed income replacement products with flexibility around tenor and returns to suit a broad range of customer needs. In FY24, there was stronger competition in short term fixed income products, particularly for terms under 2-years, while Challenger maintained its disciplined approach to pricing shorter duration business.

Domestic retail lifetime annuity sales comprise Liquid Lifetime sales of \$405m (FY23 \$382m) and CarePlus sales of \$496m (FY23 \$327m).

CarePlus is a lifetime annuity specifically designed for aged care and achieved the highest volume of sales in FY24 since launching in 2015, reflecting the growing opportunity in aged care.

Domestic retail annuity sales growth is supported through solid reinvestment by customers, with approximately 66% of term maturities reinvested in FY24.

Challenger continues to experience demand from customers for longer-duration guaranteed retirement income solutions, with retail annuity sales with tenors of 3-years and more increasing 11% on FY23.

Domestic institutional sales

Domestic institutional sales were \$5,273m, down \$113m or 2% on FY23 and comprised:

- Institutional term annuity sales of \$705m, down \$438m or 38%;
- Institutional lifetime annuity sales of \$619m, up from \$14m; and
- Challenger Index Plus sales of \$3,949m, down \$280m or 7%.

Institutional term annuity sales of \$705m predominantly reflects lower reinvestment rates due to increased competition for short duration fixed income as well as some clients rotating away from short-term secure fixed income to other investments.

Challenger's strategy is to focus on longer duration and more profitable business. Given institutional term annuities are typically 1-year business, in accordance with its strategy, Challenger maintained a disciplined approach to institutional term annuity pricing that resulted in lower institutional term annuities reinvested.

A key focus for Challenger is growing longer duration business by deepening its relationships with institutional customers, particularly leading superannuation funds, and supporting them through the provision of innovative guaranteed income solutions. Refer to page 5 for more information on how Challenger is supporting institutional customers.

Institutional lifetime sales of \$619m reflect the group lifetime annuity policy relating to Challenger's defined benefit partnership with Aware Super.

The defined benefit pension market presents a significant growth opportunity for Challenger as an increasing number of corporate pension plans and superannuation funds look to de-risk their defined pension liabilities.

Challenger Index Plus sales represent the sales made on Index Plus products. The Challenger Index Plus range provides clients contractual alpha above a pre-agreed benchmark with flexibility in relation to the term and underlying index return, with the security of an A-rated¹, prudentially regulated counterparty and zero fees.

Superannuation funds have had an intense focus and pressure on fees and performance, which will aid Challenger Index Plus sales, as it delivers contractual alpha in a zero fee product.

Challenger Index Plus sales were \$3,949m, with \$1,178m of new inflows and \$2,771m of maturities reinvested. In October 2023, Challenger secured a five-year Index Plus mandate to the value of \$500m from an insurance client.

With the focus on growing longer duration business, Challenger has been successful in extending the tenor of Index Plus business written, with the tenor on new business sales increasing to 4.3 years compared to 1.6 years in FY23.

¹ Standard & Poor's Global Ratings (S&P) Challenger Life Company Limited 'A' rating with a stable outlook.

Japanese annuity sales

Since November 2016, Challenger has had an annuity reinsurance partnership with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary), a leading provider of both Japanese yen and foreign currency annuity and life insurance products in Japan (refer to page 30 for more information). This reinsurance partnership provides Challenger access to the Japanese annuities market and is helping to diversify its distribution channels and product offering.

In May 2024, the reinsurance partnership between Challenger and MS Primary was extended for a further five years. Under the new agreement, Challenger will receive a quota share of reinsurance across Australian dollar, US dollar and Japanese yen denominated annuities issued in Japan by MS Primary, commencing from 1 July 2024. MS Primary will provide to Challenger an annual amount of reinsurance of at least ¥50 billion per year (currently ~A\$490m²) for the next five years, subject to review in the event of a material adverse change for either MS Primary or Challenger.

Japanese (MS Primary) annuity sales are included in Life's annuity sales and were \$709m, down 4% from \$741m in FY23. This reflects the depreciation of the Japanese yen over FY24 (JPY: AUD down ~10%). On a constant currency basis, MS Primary annuity sales were up 3% on FY23.

MS Primary commenced reinsuring Japanese yen denominated annuities with Challenger in November 2023, which represented approximately 60% of total sales provided by MS Primary to Challenger in FY24.

MS Primary annuity sales represented 14% of Challenger's FY24 total annuity sales and exceeded the FY24 annual minimum target by ~36%.

New business tenor

Challenger continues to increase sales of longer duration and more valuable business.

This focus is reflected through 88% of new business annuity sales having a tenor of 2-years³ or more compared to 74% in FY23.

The tenor of new business annuity sales⁴ was 8.5 years in FY24, up from 5.8 years in FY23. The increase in Life's new business tenor is a result of growing longer-dated annuity sales, including a higher contribution from lifetime sales.

Life book liability maturity profile

Maturities represent annuity maturities and repayments (excluding interest payments) in the year. Total annuity maturities in FY24 were \$4.4b and represented 26% of opening period annuity liability (undiscounted liability of \$16.6b).

Challenger's focus on driving higher quality, longer duration sales is leading to a significant reduction in maturities and will further support future book growth. In FY25, the maturity rate is expected to fall to 24%.

Net book growth

Across both annuity and institutional Challenger Index Plus, FY24 total Life net flows were \$707m and represented total book growth of 3.6%.

Life annuity book growth

FY24 Life annuity net flows (annuity sales less capital repayments) were \$779m, up from \$385m in FY23. Net flows reflect Life annuity sales of \$5,186m (down 6%), comprising record lifetime annuity sales (up 110%) and lower maturities of \$4,407m (down 14%), partially offset by lower shorter-duration term annuity sales.

Based on the opening Life annuity book liability (\$14,292m), FY24 annuity book growth was 5.5%.

Reflecting Challenger's strategy to improve the quality of the Life book through growing longer duration business, annuity book growth (excluding shorter dated institutional annuities) was 7.8%.

Challenger Index Plus book growth

Challenger Index Plus net flows (i.e. Challenger Index Plus sales less capital repayments) represent net flows on the Challenger Index Plus products.

In FY24, Challenger Index Plus net outflows were \$72m, down from net flows of \$551m in FY23. Based on the opening Challenger Index Plus liabilities (\$5,269m), FY24 Challenger Index Plus book growth was -1.4%.

Average AUM

Life's average investment assets were \$24.1b in FY24 and increased by 4% (\$1.0b) on FY23.

The increase in average investment assets primarily reflects Life's net book growth.

² Based on 3-month average exchange rate at 30 June 2024.

³ Based on new business annuity sales, including term annuities and Lifetime sales, excluding reinvestments and Japanese sales.

⁴ Based on new business annuity sales, including term annuities and Lifetime sales, excluding reinvestments.

Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) and MS&AD relationship

Consistent with Challenger's strategy to diversify its range of products and expand its distribution relationships, in November 2016 Challenger commenced an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary).

MS Primary is a leading provider of annuity and life insurance products to Japanese customers and is part of MS&AD Insurance Group Holdings Inc. (MS&AD), a Nikkei 225 company.

Japan has one of the world's most rapidly ageing populations, which is looking for income from longer-dated annuity income products. This has driven significant demand for foreign currency annuities in addition to Japanese yen annuities.

From 1 November 2016, Challenger commenced issuing Australian dollar fixed rate annuities with a 20-year term to support the reinsurance agreement with MS Primary. Challenger provides a guaranteed interest rate and assumes the investment risk on a portion of each new policy issued by MS Primary.

In March 2019, Challenger and MS&AD announced an expansion to their strategic relationship. Under the expanded strategic relationship, from 1 July 2019, Challenger commenced a quota share reinsurance of US dollar denominated annuities and in November 2023, the relationship expanded again as Challenger commenced quota share reinsurance of MS Primary's Japanese yen denominated annuities.

In May 2024, the reinsurance partnership between Challenger and MS Primary was extended for a further five years. Under the new agreement, Challenger will receive a quota share of reinsurance across Australian dollar, US dollar and Japanese yen denominated annuities issued in Japan by MS Primary, commencing from 1 July 2024. MS Primary will provide to Challenger an annual amount of reinsurance of at least ¥50 billion per year (currently ~A\$490m¹) for the next five years, subject to review in the event of a material adverse change for either MS Primary or Challenger Life. Challenger will also support MS Primary with any new reinsurance requirements that MS Primary may have.

MS Primary is responsible for marketing and providing the products in Japan, including making payments to policyholders. Challenger guarantees a rate to MS Primary, which effectively includes Challenger's contribution towards marketing, distribution and administration costs in Japan. As such, for these products Challenger incurs limited distribution and operational costs as part of its direct expense base.

Under the reinsurance agreement, the guaranteed interest rate on new business can be revised and there are mechanisms to regulate volumes between MS Primary and Challenger. The agreement also includes the usual termination rights for both parties, including material breach, failure to make payments and events that may be triggered by changes in MS Primary's regulatory environment.

MS Primary sales were \$709m, down 4% on FY23 and represented ~14% of Challenger Life's FY24 total annuity sales (~13% in FY23).

MS Primary is a key Challenger strategic partner and the businesses engage extensively across a range of topics, including product development and partnering opportunities.

Reflecting on the strength and breadth of the strategic partnership, in April 2021 Challenger entered an Investment Management Agreement with MS Primary to assist in developing and executing its direct Japanese real estate strategy. This presents a significant growth opportunity for both Challenger and MS Primary.

MS&AD is a significant investor in Challenger and as at 30 June 2024, held ~15% of Challenger's issued capital.

In August 2019, a representative from MS&AD joined the Challenger Limited Board.

¹ Based on 3-month average exchange rate at 30 June 2024.

Retirement income regulatory reforms

Objective of superannuation

In 2023, the Australian Government launched a consultation to seek feedback on legislating the objective of superannuation.

It proposed that legislating the objective would provide stability and confidence to policymakers, regulators, industry and the community that changes to superannuation policy would be aligned to the purpose of the superannuation system. It was also proposed that legislation would ensure that superannuation members and funds have a shared understanding of the purpose of superannuation throughout both accumulation and retirement phases.

Challenger has been a strong advocate of retirement income reforms that enhance the lives of older Australians. Challenger supports the Federal Government's plan to legislate an objective for superannuation (to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way). Defining the objective of superannuation will give guidance to policymakers to prioritise the provision of retirement income, creating significant economic and social policy benefits.

In November 2023, the Government introduced the Superannuation (Objective) Bill 2023 into Parliament.

Delivering Better Financial Outcomes reform

In June 2023, the Australian Government issued its response to the Quality of Advice Review (QAR), and announced plans to accept 14 of the 22 recommendations from the review chaired by Michelle Levy. In December 2023, the Government provided its final response to the QAR, which was focused on improving the accessibility and affordability of quality financial advice in Australia. The Australian Government's final response to the QAR was provided as part of its 'Delivering Better Financial Outcomes' package of reforms and proposed that, in addition to reforms already progressed, the Government would enact the majority of the remaining recommendations made in the QAR, which was delivered to the Government in December 2022.

In July 2024, the first tranche of the Bill was passed with 11 recommendations being implemented and other consultations still ongoing.

Challenger supports the Government's response to the QAR, which will make quality financial advice more accessible to more Australians as they prepare for retirement.

Retirement Income Covenant

The Retirement Income Covenant (RIC) came into effect on 1 July 2022 as part of the *Superannuation Industry Supervision Act 1993* (Cth) (SIS Act) and requires trustees of all APRA-regulated superannuation funds to formulate, review regularly and give effect to a retirement income strategy that outlines how they plan to assist their members in, and approaching, retirement. The trustee's strategy will assist members to achieve and balance the key objectives of the covenant, to:

- maximise their expected retirement income;
- manage the expected risks to the sustainability and stability of their expected retirement income; and
- have flexible access to funds during retirement.

Superannuation funds are working on their retirement propositions and are looking to engage with trusted partners to deliver components of their comprehensive retirement offering.

In July 2023, APRA issued a report setting out the findings of a joint review undertaken by APRA and ASIC on the implementation of the RIC by a sample of superannuation funds. The review found that while superannuation funds were improving their offerings of assistance to members in retirement, there was a variability in the quality of approach taken and an insufficient urgency in embracing the RIC to improve members' retirement outcomes.

In July 2024, APRA and ASIC issued a joint update urging superannuation funds to strengthen the oversight of their retirement strategy to improve members' retirement outcomes. A recent survey identified a lack of progress being made by many superannuation funds in tracking the success of their retirement income strategies.

Challenger is supporting superannuation funds to develop comprehensive solutions for their members in retirement and is confident that, over time, funds will deliver retirement income solutions that address the risks that members face in the retirement phase, giving them confidence to spend their retirement savings as intended.

Discussion paper: Retirement phase of superannuation

In December 2023, the Government released a discussion paper seeking views on how the superannuation system can best provide the security and income Australians need as they live longer and healthier lives in retirement. The paper notes that while there has been a focus on the importance of superannuation in building savings, there has been less attention on optimising its role in retirement.

Challenger strongly supports the Government's work to enhance Australia's superannuation system, addressing the risks Australians face through retirement to help make the most of their superannuation savings. Challenger supports many of the concepts raised in the discussion paper, including the need for Australians to have better access to information, advice and well-rounded retirement income products, which can be best provided by a competitive and innovative lifetime income market.

Life balance sheet

\$m	FY24	1H24	FY23	1H23	FY22	1H22
Assets						
Life investment assets						
Cash and equivalents	2,960.6	2,614.1	2,363.2	2,344.2	1,585.0	2,092.1
Asset-backed securities	10,990.0	10,382.0	10,133.8	9,920.3	9,994.6	9,300.6
Corporate credit	4,383.0	4,881.0	5,302.6	5,356.5	5,079.8	5,638.4
Fixed income and cash (net)	18,333.5	17,877.1	17,799.6	17,621.0	16,659.4	17,031.1
Australian – Office	1,410.5	1,577.4	1,656.9	1,762.5	1,775.0	2,139.6
Australian – Retail	681.9	685.8	697.6	726.5	787.4	756.5
Australian – Industrial	233.9	240.5	250.0	242.6	243.5	225.8
Japanese	324.8	359.7	358.6	337.5	320.9	358.4
Other	110.5	100.3	99.3	109.2	100.2	103.0
Property (net)	2,761.6	2,963.7	3,062.4	3,178.3	3,227.0	3,583.3
Equity and infrastructure	448.3	365.2	291.3	259.0	971.1	1,096.1
Alternatives	3,167.1	2,888.1	2,384.7	2,026.6	1,366.3	1,226.4
Life investment assets	24,710.5	24,094.1	23,538.0	23,084.9	22,223.8	22,936.9
Other assets (including intangibles)	637.3	610.4	619.7	619.7	543.0	696.1
Total assets	25,347.8	24,704.5	24,157.7	23,704.6	22,766.8	23,633.0
Liabilities						
Life annuity book ¹	15,278.5	15,034.6	13,930.0	14,278.4	13,595.4	14,092.5
Index Plus liabilities	5,356.3	5,107.6	5,268.8	4,620.2	4,386.4	4,381.8
Subordinated debt ²	426.3	427.5	411.3	407.8	399.7	401.6
Challenger Capital Notes	735.0	735.0	735.0	845.0	845.0	872.7
Other liabilities	99.2	76.8	81.3	50.9	7.7	224.5
Total liabilities	21,895.3	21,381.5	20,426.4	20,202.3	19,234.2	19,973.1
Net assets	3,452.5	3,323.0	3,731.3	3,502.3	3,532.6	3,659.9

¹ Life annuity book in 1H24 and FY24 is reported on a AASB 17 basis. On adoption of AASB 17 on 1 July 2023, policy liabilities increased by \$362.2 million. Prior periods have not been restated for the impact of AASB 17.

² FY24 Tier 2 regulatory capital – subordinated debt (\$426.3 million) differs to the Group balance sheet (\$418.0 million) due to accrued interest.

Life investment portfolio overview

Life maintains a high-quality investment portfolio in order to generate cash flows to meet future annuity obligations.

Life reviews its investment asset allocation based on the relative value of different asset classes, expected ROE and tenor of liabilities as Life maintains a cash flow matched portfolio. Accordingly, Life's investment asset allocation may vary from time to time.

Life's investment assets are as follows:

\$m	30 June 2024	30 June 2023
Fixed income and cash	74 %	76 %
Property	11 %	13 %
Equity and infrastructure	2 %	1 %
Alternatives	13 %	10 %

Fixed income portfolio overview

Life's fixed income and cash portfolio was \$18.3b at 30 June 2024 and increased by 3% (\$0.5b) from \$17.8b at 30 June 2023. The increase primarily reflects FY24 net book growth.

The fixed income and cash portfolio represented 74% of Life's investment assets at 30 June 2024, down from 76% at 30 June 2023. The fixed income portfolio comprises approximately 1,900 different securities.

Challenger manages credit risk by maintaining a high-quality investment portfolio and applying a rigorous investment process. The fixed income portfolio is diversified across industries, rating bands and geographies.

Life's policy liability cash flows provide the opportunity to invest in longer-term and less liquid fixed income investments, which generate an illiquidity premium.

Life targets to hold at least 75% of its fixed income portfolio as investment grade (i.e. BBB or higher). At 30 June 2024, 80% of the fixed income portfolio was investment grade, up 3% from 77% at 30 June 2023.

A total of 83% of the fixed income portfolio is externally rated (Standard & Poor's, Fitch or Moody's) with the remainder internally rated based on methodologies calibrated to Standard & Poor's or Moody's ratings framework.

The fixed income and cash portfolio is predominantly Australian focused, with approximately 63% of the fixed income portfolio invested in Australian-based securities.

The average direct fixed income illiquidity premium generated over the last five years has been between 1% and 2%.

Fixed income credit default experience

Challenger's normalised growth assumption for fixed income is -35 bps, representing an allowance for credit default losses. In FY24, the credit default loss recognised in asset experience was -19 bps (-\$34m), which is below Challenger's -35 bps per annum assumption.

Over the past five financial years, the average credit default loss experience recognised in asset experience has been -17 bps per annum.

Detailed disclosure of Life's fixed income portfolio is included on pages 34 to 37. The fixed income disclosures include the following tables:

- Table 1 – Fixed income portfolio overview;
- Table 2 – Fixed income portfolio by credit rating;
- Table 3 – Fixed income portfolio by rating type;
- Table 4 – Fixed income portfolio by industry sector; and
- Table 5 – Fixed income portfolio by geography and credit rating.

Table 1: Fixed income portfolio overview

30 June 2024		\$m	% portfolio	
Liquids		2,961	16%	Includes cash and equivalents and Government Bonds (net of repurchase agreements) and strategies earning a spread with limited credit risk
	Residential Mortgage-Backed Securities (RMBS)	3,441	19%	Financing secured against a pool of underlying residential mortgages
	Other ABS	3,855	22%	Financing secured against underlying assets, where asset security includes motor vehicle, equipment and consumer finance
Asset-Backed Securities (ABS)	Senior Secured Loans	3,180	17%	Senior debt secured by collateral and typically originated by Challenger
	Aviation Finance	65	0%	Secured commercial aircraft financing
	Commercial Mortgage-Backed Securities (CMBS)	449	2%	Securitisations of underlying commercial property mortgages
	Banks and Financials	981	5%	Corporate loans to banks, insurance companies and fund managers
	Infrastructure	527	3%	Long-dated inflation-linked bonds issued by Public Private Partnership projects and loans to infrastructure companies
Corporate Credit	Senior Secured Loans	421	2%	Senior debt secured by collateral
	Non-Financial Corporates	1,940	11%	Traded commercial loans to non-financial corporates (includes exposures to retail, hotels, media, mining and health care)
	Commercial Real Estate	514	3%	Loans secured against commercial real estate assets and typically originated by Challenger
Total		18,334	100%	

Table 2: Fixed income portfolio by credit rating

30 June 2024 (\$m)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	\$m
Liquids										
Government bonds ¹	993	—	—	—	—	993	—	—	—	993
Covered bonds	213	—	—	—	—	213	—	—	—	213
Cash & Equivalents ²	1,755	—	—	—	—	1,755	—	—	—	1,755
Asset-Backed Securities										
RMBS	—	1,410	1,019	582	282	3,293	94	54	148	3,441
Other ABS	—	1,271	865	522	440	3,098	477	280	757	3,855
Senior Secured Loans	—	1,223	565	267	464	2,519	658	3	661	3,180
Aviation Finance	—	—	—	12	21	33	6	26	32	65
CMBS	—	122	75	109	88	394	41	14	55	449
Corporate Credit										
Banks and Financials	—	—	66	378	476	920	57	4	61	981
Infrastructure	—	2	84	154	231	471	56	—	56	527
Senior Secured Loans	—	—	—	—	17	17	84	320	404	421
Non-Financial Corporates	—	6	35	1	514	556	639	745	1,384	1,940
Commercial Real Estate	—	—	—	113	271	384	115	15	130	514
Total	2,961	4,034	2,709	2,138	2,804	14,646	2,227	1,461	3,688	18,334
Fixed income portfolio (%)	16%	22%	15%	12%	15%	80%	12%	8%	20%	100%
Average duration (years)	—	1.7	2.4	3.1	3.7	2.6	3.3	2.9	3.2	2.8

30 June 2024 (%)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Liquids										
Government bonds ¹	100%	—	—	—	—	100%	—	—	—	100%
Covered bonds	100%	—	—	—	—	100%	—	—	—	100%
Cash & Equivalents ²	100%	—	—	—	—	100%	—	—	—	100%
Asset-Backed Securities										
RMBS	—	41%	30%	17%	8%	96%	2%	2%	4%	100%
Other ABS	—	33%	22%	14%	11%	80%	13%	7%	20%	100%
Senior Secured Loans	—	38%	18%	8%	15%	79%	21%	—	21%	100%
Aviation Finance	—	—	—	18%	33%	51%	9%	40%	49%	100%
CMBS	—	27%	17%	24%	20%	88%	9%	3%	12%	100%
Corporate Credit										
Banks and Financials	—	—	7%	38%	49%	94%	6%	—	6%	100%
Infrastructure	—	—	16%	29%	44%	89%	11%	—	11%	100%
Senior Secured Loans	—	—	—	—	4%	4%	20%	76%	96%	100%
Non-Financial Corporates	—	—	2%	—	27%	29%	33%	38%	71%	100%
Commercial Real Estate	—	—	—	22%	53%	75%	22%	3%	25%	100%
Total	16%	22%	15%	12%	15%	80%	12%	8%	20%	100%

¹ Government Bonds are shown net of \$3,552 million of Australian Government Bonds and \$1,780 million of Australian Semi-Government Bonds, which are held via repurchase agreements. Government Bonds refinanced with repurchase agreements are used to hedge movements in interest rates. Refer to page 44 for more detail.

² Includes strategies earning a spread with limited credit risk.

Table 3: Fixed income portfolio by rating type

30 June 2024 (\$m)	Investment grade					Total	Non-investment grade			Total	\$m
	Cash & Equivalents	AAA	AA	A	BBB		Less BB than BB	Total			
Liquids											
Externally rated	2,961	—	—	—	—	2,961	—	—	—	2,961	
Internally rated	—	—	—	—	—	—	—	—	—	—	
Asset-Backed Securities											
Externally rated	—	3,975	2,434	1,266	738	8,413	589	190	779	9,192	
Internally rated	—	51	90	225	558	924	687	187	874	1,798	
Corporate Credit											
Externally rated	—	7	149	631	1,415	2,202	376	536	912	3,114	
Internally rated	—	1	36	16	93	146	575	548	1,123	1,269	
Total	2,961	4,034	2,709	2,138	2,804	14,646	2,227	1,461	3,688	18,334	
Externally rated	100%	99%	95%	89%	77%	93%	43%	50%	46%	83%	
Internally rated	—	1%	5%	11%	23%	7%	57%	50%	54%	17%	

30 June 2024 (%)	Investment grade					Total	Non-investment grade			Total	%
	Cash & Equivalents	AAA	AA	A	BBB		Less BB than BB	Total			
Liquids											
Externally rated	100%	—	—	—	—	100%	—	—	—	100%	
Internally rated	—	—	—	—	—	—	—	—	—	—	
Asset-Backed Securities											
Externally rated	—	43%	27%	14%	8%	92%	6%	2%	8%	100%	
Internally rated	—	3%	4%	13%	31%	51%	39%	10%	49%	100%	
Corporate Credit											
Externally rated	—	—	5%	21%	45%	71%	12%	17%	29%	100%	
Internally rated	—	—	3%	2%	7%	12%	45%	43%	88%	100%	
Total	16%	22%	15%	12%	15%	80%	12%	8%	20%	100%	

Table 4: Fixed income portfolio by industry sector

30 June 2024 (\$m)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	\$m
Industrials and consumers	—	2,528	1,495	848	1,413	6,284	1,790	1,328	3,118	9,402
Residential property	—	1,365	967	493	275	3,100	153	53	206	3,306
Banks, financials & insurance	1,967	12	86	405	524	2,994	112	40	152	3,146
Government	994	—	—	—	—	994	—	—	—	994
Commercial property	—	127	77	238	356	798	101	29	130	928
Infrastructure and utilities	—	2	84	154	236	476	71	6	77	553
Other	—	—	—	—	—	—	—	5	5	5
Total	2,961	4,034	2,709	2,138	2,804	14,646	2,227	1,461	3,688	18,334

30 June 2024 (%)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Industrials and consumers	—	27%	16%	9%	15%	67%	19%	14%	33%	100%
Residential property	—	41%	30%	15%	8%	94%	4%	2%	6%	100%
Banks, financials & insurance	63%	—	3%	13%	16%	95%	4%	1%	5%	100%
Government	100%	—	—	—	—	100%	—	—	—	100%
Commercial property	—	14%	8%	26%	38%	86%	11%	3%	14%	100%
Infrastructure and utilities	—	—	15%	28%	43%	86%	13%	1%	14%	100%
Other	—	—	0	—	—	—	—	100%	100%	100%
Total	16%	22%	15%	12%	15%	80%	12%	8%	20%	100%

Table 5: Fixed income portfolio by geography and credit rating

30 June 2024 (\$m)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	\$m
Australia	2,295	2,396	1,634	1,292	1,592	9,209	1,361	974	2,335	11,544
United States	571	880	240	245	659	2,595	717	324	1,041	3,636
United Kingdom	—	119	184	118	154	575	11	8	19	594
Europe	24	352	587	390	324	1,677	56	34	90	1,767
New Zealand	—	279	64	93	63	499	70	112	182	681
Rest of world	71	8	—	—	12	91	12	9	21	112
Total	2,961	4,034	2,709	2,138	2,804	14,646	2,227	1,461	3,688	18,334

30 June 2024 (%)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Australia	20%	21%	14%	11%	14%	80%	12%	8%	20%	100%
United States	15%	24%	7%	7%	18%	71%	20%	9%	29%	100%
United Kingdom	—	20%	31%	20%	26%	97%	2%	1%	3%	100%
Europe	1%	21%	33%	22%	18%	95%	3%	2%	5%	100%
New Zealand	—	41%	9%	14%	9%	73%	10%	17%	27%	100%
Rest of the world	63%	7%	—%	—%	11%	81%	11%	8%	19%	100%
Total	16%	22%	15%	12%	15%	80%	12%	8%	20%	100%

Property portfolio overview

Life's property portfolio principally comprises directly held properties and is diversified across office, retail and industrial properties.

Life's property portfolio was \$2.8b (net of debt) at 30 June 2024 and decreased by 10% from 30 June 2023, primarily reflecting lower valuations, which reduced by \$296m.

As a result of revaluations, the property allocation reduced from 13% of Life's investment portfolio at 30 June 2023 to 11% at 30 June 2024.

Life's property portfolio is mainly focused on domestic properties providing long-term income streams. Australian properties accounted for 88% of the property portfolio.

Challenger Life has a policy that all directly owned properties are independently valued each year with approximately 50% valued in June and 50% valued in December. Internal valuations are undertaken for properties not independently valued each June and December. An independent valuation is subsequently undertaken if the internal valuation shows a significant variance to the most recent independent valuation.

In 2H24, independent valuations were obtained for 69% of the direct property portfolio.

For FY24, the movement in the carrying value of properties was as follows:

- Australian office -14.9%;
- Australian retail -2.3%;
- Australian industrial -6.4%; and
- Japanese portfolio -9.9% (driven by the depreciation of the Yen; actual Japanese portfolio was stable in FY24).

Life maintains a more defensive property portfolio than the broader listed real estate trust market, with a focus on long-term income streams. Australian office accounts for 51% of the portfolio, with the Federal and State governments being major tenants, accounting for 53% of FY24 gross office rental income¹.

Australian direct retail assets account for 25% of the direct portfolio and comprise eight grocery-anchored convenience-based shopping centres, including two assets that were exchanged for sale in May 2024 and July 2024. Approximately half of the rental income is derived from major supermarket chains, major Australian banks or essential services.

The weighted average capitalisation rate on Life's Australian direct portfolio was 6.60% at 30 June 2024, up 90 bps from 30 June 2023.

Property includes a net \$325m exposure to Japanese property (12% of the portfolio), consisting primarily of suburban shopping centres focused on non-discretionary retailing. Over half of the Japanese rental income is derived from supermarkets or pharmacies. The valuation of the Japanese portfolio was down 10% in FY24 driven by the depreciation of the Yen.

The property portfolio generates long-term cash flows to match long-term liabilities, with a weighted average lease expiry of 5.6 years and 54% of leasing area having contracted leases expiring in FY29 and beyond. The portfolio had an occupancy rate of 91% at 30 June 2024, which was down 2% from 30 June 2023.

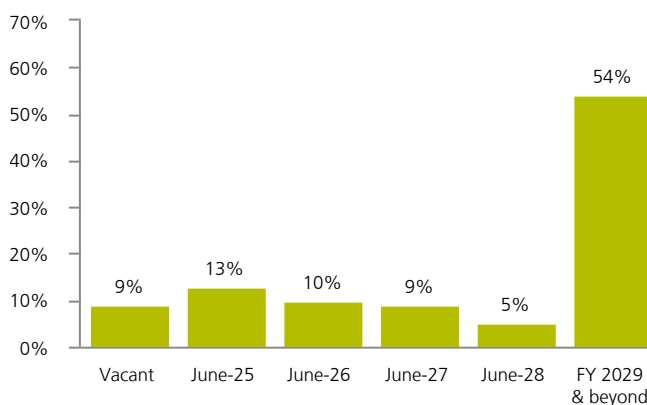
Approximately 67% of contracted leases have either annual fixed increases or inbuilt increases based on inflation or market outcomes (e.g. CPI).

Full details of Life's property portfolio are listed on pages 39 to 41.

Property portfolio summary

% of total portfolio	FY24	FY23
Australian office	51%	54%
Australian retail	25%	23%
Australian industrial	8%	8%
Other	4%	3%
Australian total	88%	88%
Japanese retail	12%	12%
Total	100%	100%

Portfolio lease expiry overview²



¹ Represents total gross passing Government income relative to direct office portfolio.

² Direct property portfolio and jointly held assets only.

Direct property portfolio overview¹

30 June 2024		Office	Retail	Industrial	Total
Total rent (%) ²		53%	39%	8%	100%
WALE ³ (years)		5.4	5.7	5.9	5.6
Tenant credit ratings					
	AAA	21%	—	—	21%
	AA	7%	1%	—	8%
	A	1%	2%	—	3%
	BBB	2%	8%	2%	12%
	BB	10%	16%	2%	28%
	B or below	3%	4%	4%	11%
	Not rated	1%	8%	—	9%
	Vacant	8%	0%	—	8%
	Total	53%	39%	8%	100%
% of total gross net					
	Investment grade	31%	12%	2%	45%
	Non-investment grade	14%	28%	5%	47%
	Vacant	8%	1%	—	9%

¹ Direct property portfolio assets only.

² Excludes vacant floors/suites available for lease.

³ Weighted Average Lease Expiry (WALE) assumes tenants do not terminate leases prior to expiry of specified lease term.

Direct property investments

30 June 2024	Acquisition date ¹	Total cost (\$m) ²	Carrying value (\$m)	Cap rate FY24 (%) ³	Last external valuation date
Australia					
Office					
6 Chan Street (formerly DIBP Building), ACT	01 Dec 01	128.8	224.0	6.50	30 Jun 24
14 Childers Street, ACT	01 Dec 17	104.8	72.5	8.00	30 Jun 24
35 Clarence Street, NSW	15 Jan 15	163.2	192.0	6.75	30 Jun 24
45 Benjamin Way (formerly ABS Building), ACT	01 Jan 00	152.8	201.0	6.88	30 Jun 24
82 Northbourne Avenue, ACT	01 Jun 17	63.2	28.5	7.25	30 Jun 24
215 Adelaide Street, QLD	31 Jul 15	274.0	197.0	7.75	30 Jun 24
565 Bourke Street, VIC	28 Jan 15	114.4	124.5	6.25	30 Jun 24
839 Collins Street, VIC	22 Dec 16	212.1	192.5	6.25	30 Jun 24
Discovery House, ACT	28 Apr 98	106.1	138.0	6.63	30 Jun 24
Executive Building, TAS	30 Mar 01	36.4	40.5	7.25	30 Jun 24
Retail					
Channel Court, TAS ⁴	21 Aug 15	89.6	81.3	n/a	30 Jun 23
Gateway, NT	01 Jul 15	124.2	108.0	7.00	30 Jun 24
Golden Grove, SA	31 Jul 14	163.0	154.0	6.50	31 Dec 23
Helicon Drive, SA	05 Oct 22	10.8	9.2	6.00	30 Jun 24
Karratha, WA ⁴	28 Jun 13	59.4	45.4	n/a	30 Jun 23
Kings Langley, NSW	29 Jul 01	16.8	27.0	5.75	31 Dec 23
Lennox, NSW	27 Jul 13	70.6	77.0	6.25	30 Jun 24
North Rocks, NSW	18 Sep 15	191.9	180.0	6.00	31 Dec 23
Industrial					
21 O'Sullivan Circuit, NT	27 Jan 16	48.0	25.5	8.00	31 Dec 23
31 O'Sullivan Circuit, NT	27 Jan 16	34.2	33.0	7.75	31 Dec 23
Cosgrave Industrial Park, Enfield, NSW	31 Dec 08	93.8	175.4	5.13	30 Jun 24
Total Australia		2,258.1	2,326.3	6.60	

¹ Acquisition date represents the date of CLC's initial acquisition or consolidation of the investment vehicle holding the asset.

² Total cost represents the original acquisition cost plus additions less partial disposals since acquisition date.

³ The capitalisation rate is the rate at which net market income is capitalised to determine the value of the property. The rate is determined with regard to market evidence.

⁴ Currently held for sale.

Direct property investments (continued)

30 June 2024	Acquisition date ¹	Total cost (\$m) ²	Carrying value (\$m)	Cap rate FY24 (%) ³	Last external valuation date
Japan					
Retail					
Aeon Kushiro	31 Jan 10	30.5	27.3	5.40	31 Dec 23
Carino Chitosedai	31 Jan 10	119.2	98.6	4.40	31 Dec 23
Carino Tokiwadai	31 Jan 10	78.1	60.8	4.50	30 Jun 24
DeoDeo Kure	31 Jan 10	32.2	25.0	5.40	30 Jun 24
Fitta Natalie Hatsukaichi	28 Aug 15	12.1	10.6	5.80	31 Dec 23
Izumiya Hakubaicho	31 Jan 10	70.1	54.9	4.90	31 Dec 23
Kansai Super Saigo	31 Jan 10	13.3	10.5	5.10	31 Dec 23
Kojima Nishiarai	31 Jan 10	12.2	11.8	4.20	30 Jun 24
Kotesashi Towers	28 Nov 19	25.2	16.9	5.00	31 Dec 23
Life Asakusa	31 Jan 10	28.4	27.9	4.00	30 Jun 24
Life Higashi Nakano	31 Jan 10	33.3	28.9	4.10	30 Jun 24
Life Nagata	31 Jan 10	25.2	23.1	4.20	30 Jun 24
MaxValu Tarumi	28 Aug 15	17.1	14.5	5.50	31 Dec 23
Seiyu Miyagino	31 Jan 10	9.8	8.2	5.00	30 Jun 24
TR Mall Ryugasaki	30 Mar 18	86.7	71.7	5.30	31 Dec 23
Valor Takinomizu	31 Jan 10	28.0	18.6	5.40	31 Dec 23
Valor Toda	31 Jan 10	42.9	32.7	5.00	30 Jun 24
Yaoko Sakado Chiyoda	31 Jan 10	19.9	16.5	4.70	31 Dec 23
Yorktown Toride	05 Mar 20	32.2	20.3	5.20	30 Jun 24
Industrial					
Aeon Matsusaka XD	26 Sep 19	14.8	11.0	5.10	30 Jun 24
Total Japan		731.2	589.9	4.84	
Europe					
Retail					
Aulnay sous Bois, Avenue de Savigny, France	31 Dec 08	20.3	10.2	8.00	31 Dec 23
Total Europe		20.3	10.2	8.00	
Total Overseas		751.5	600.1	4.89	
Total direct portfolio investments		3,009.6	2,926.4	6.24	

¹ Acquisition date represents the date of CLC's initial acquisition or consolidation of the investment vehicle holding the asset.

² Total cost represents the original acquisition cost plus additions less partial disposals since acquisition date.

³ The capitalisation rate is the rate at which net market income is capitalised to determine the value of the property. The rate is determined with regard to market evidence.

Equity and infrastructure portfolio overview

Life's equity and infrastructure portfolio was \$0.4b at 30 June 2024 and increased by 54% (\$0.2b) from 30 June 2023.

The increase in equities and infrastructure in FY24 primarily reflects private equity investments.

Equity and infrastructure represented 2% of Life's total investment assets at 30 June 2024, up from 1% at 30 June 2023.

Challenger's equity investments primarily comprise private equity investments and beta investments. The total returns on beta investments are expected to be broadly correlated to the MSCI Daily Total Return Net World Index (Bloomberg NDDLWI).

Challenger seeks infrastructure assets that generate reliable and consistent cash flows, which are preferably inflation linked, giving rise to sustainable income growth over time.

The infrastructure portfolio is held entirely in unlisted investments, predominantly utility and renewable energy assets. Australian infrastructure accounted for ~60% of infrastructure investments with the remainder diversified across geographic regions and sectors.

Equity and infrastructure portfolio

30 Jun 2024	Domestic	Offshore	Total
Equity beta	80	26	106
Low beta	—	—	—
Private equity	—	233	233
Infrastructure	62	47	109
Total equity & infrastructure	142	306	448

30 Jun 2023	Domestic	Offshore	Total
Equity beta	52	11	63
Low beta	33	—	33
Private equity	—	75	75
Infrastructure	68	52	120
Total equity & infrastructure	153	138	291

Alternatives portfolio overview

The alternatives portfolio includes absolute return funds and insurance-linked investments. These investments provide liquid capital and financial flexibility and are expected to have a low correlation to credit and equity markets.

Funds in the absolute return portfolio take long and short positions in securities across different asset classes, which results in performance that is expected to be uncorrelated to capital markets.

Life utilises 17 external managers across systematic and discretionary global macro funds and market-neutral long/short funds. When these strategies are combined with traditional asset classes, they tend to provide diversification leading to improved risk-adjusted returns for the portfolio.

Over the long term, within Life's absolute return portfolio, the total return on global macro funds is expected to be broadly correlated to the Société Générale CTA Index, while the total return on equity market neutral funds is expected to be broadly correlated to the Barclays Equity Market Neutral Index (Bloomberg BGHSNEUT).

The general insurance-related investments include catastrophe bonds. Life utilises 4 external managers within the general insurance portfolio. Over the long term, the total return on Life's general insurance portfolio is expected to be broadly correlated to the Swiss Re Cat Bond Index (Bloomberg SRCATTR).

Life's alternatives portfolio was \$3.2b at 30 June 2024 and increased by 33% (\$0.8b) from 30 June 2023. The increase was driven by an increased deployment into absolute return funds and general insurance-related investments.

Alternatives portfolio

30 Jun 2024	Domestic	Offshore	Total
Absolute return funds	24	2,316	2,340
General insurance	—	735	735
Life insurance	—	92	92
Total alternatives	24	3,143	3,167

30 Jun 2023	Domestic	Offshore	Total
Absolute return funds	23	1,760	1,783
General insurance	—	506	506
Life insurance	—	96	96
Total alternatives	23	2,362	2,385

Alternatives portfolio overview

30 June 2024

		\$m	% portfolio	
Absolute Return	Global macro funds	1,621	50%	Externally managed funds which deploy systematic or discretionary strategies that seek exposure to multiple factors such as trend, mean-reversion, value, carry, macro-economic relationships, statistical relationship, short term futures, market flows. These funds may also have a minority allocation to equity long/short or market neutral strategies.
	Equity market neutral funds	719	23 %	Externally managed funds that invest in equity market neutral or equity long/short strategies. Systematic equity market neutral strategies quantitatively screen stocks to take exposure to risk premia and the behavioural biases of market participants through long and short positions in a large number of stocks. Equity long/short strategies are more concentrated and have a net equity exposure that can vary within tight bands, whereas equity market neutral target zero net equity exposure.
General Insurance	Catastrophe bonds	719	23%	Externally managed funds that predominantly take exposure to residual property and casualty insurance risks.
	Insurance sidecars	16	1%	Externally managed special purpose vehicles that predominantly take exposure to first-loss property and casualty insurance risks.
Life Insurance	Life settlements	92	3%	Beneficial interests in portfolios of life insurance policies over individual lives in the US.
Total		3,167	100%	

Challenger Life Company Limited (CLC) debt facilities

\$m	FY24	1H24	FY23	1H23	FY22	1H22
Repurchase agreements	5,323.3	5,226.0	4,069.7	3,716.7	3,735.1	3,542.5
Controlled property debt	250.8	280.9	281.9	347.8	334.0	382.2
Subordinated debt	418.0	419.1	403.0	399.3	398.4	400.0
Challenger Capital Notes	735.0	735.0	735.0	845.0	845.0	872.7
Infrastructure debt	155.8	160.3	164.4	168.4	172.3	175.7
Other finance	—	0.7	0.7	0.7	0.7	0.7
Total CLC debt facilities	6,882.9	6,822.0	5,654.7	5,477.9	5,485.5	5,373.8

Life debt facilities

Life debt facilities include debt which is non-recourse to the broader Challenger Group and secured against assets held in Challenger Life investment vehicles, including direct property and infrastructure investments.

Life debt facilities at 30 June 2024 were \$6.9b and increased by \$1.2b on 30 June 2023 due to an increase in repurchase agreements used to hedge interest rate movements.

Repurchase agreements

Repurchase agreements at 30 June 2024 were \$5.3b, up \$1.2b from \$4.1b at 30 June 2023.

Life enters into repurchase agreements whereby fixed income securities are sold for cash while simultaneously agreeing to repurchase the fixed income security at a fixed price and fixed date in the future. The use of repurchase agreements is part of Challenger's strategy to hedge interest rate movements.

Life uses Australian Government and Semi-Government Bonds with repurchase agreements, interest rate swaps and bond futures to hedge movements in interest rates and inflation on its asset portfolio, annuity policy liabilities, Index Plus liabilities, and subordinated debt.

Derivatives such as interest rate swaps and bond futures are self-financing, whereas the use of bonds requires repurchase agreement financing.

Subordinated debt

In September 2022, CLC issued \$400m of fixed-to-floating rate, unlisted, unsecured subordinated notes, paying a semi-annual fixed rate of 7.186% per annum for the first 5 years, before reverting to paying floating rate interest at a margin of 3.55% per annum above the 3-month Bank Bill Swap rate. The subordinated notes fully qualify as Tier 2 regulatory capital under APRA's Prudential Standards and have a term of 15 years, with a maturity date in September 2037. The subordinated notes include an option for CLC to redeem the subordinated notes in September 2027 subject to APRA's prior written approval (which may or may not be given).

Capital Notes

Over the past nine years, Challenger has issued four separate tranches of subordinated, unsecured convertible notes (Challenger Capital Notes, Challenger Capital Notes 2, Challenger Capital Notes 3 and Challenger Capital Notes 4), with proceeds used to fund qualifying CLC Additional Tier 1 regulatory capital. Challenger Capital Notes and Challenger Capital Notes 2 no longer remain outstanding and have been

fully redeemed and/or converted to Challenger ordinary shares.

For Challenger Capital Notes 3 and Challenger Capital Notes 4, Challenger may choose to redeem or resell (rather than convert) all or some of the capital notes for their face value at a future date, subject to APRA's prior written approval (which may or may not be given).

Challenger Capital Notes 3 (ASX code: CGFPC)

In November 2020, Challenger issued Challenger Capital Notes 3 to the value of \$385m. Challenger Capital Notes 3 pay a margin of 4.60% above the 3-month Bank Bill Swap rate, with the total distribution reduced by available franking credits.

Challenger Capital Notes 3 are convertible to Challenger ordinary shares at any time before 25 May 2028 on the occurrence of certain events, and mandatorily convert to Challenger ordinary shares thereafter, in both cases subject to meeting certain conditions.

Challenger may choose to redeem or resell (rather than convert) Challenger Capital Notes 3 on the occurrence of some of the events referred to above, including on the Optional Exchange Date of 25 May 2026 (subject to certain conditions being met, including prior written approval from APRA, which may or may not be given).

If Challenger exercises its option to redeem or resell, there will be no conversion of Challenger Capital Notes 3 to Challenger ordinary shares and no subsequent shareholder dilution.

Challenger Capital Notes 4 (ASX code: CGFPD)

On 5 April 2023, Challenger issued Challenger Capital Notes 4 to the value of \$350m. Challenger Capital Notes 4 pay a margin of 3.60% above the 3-month Bank Bill Swap rate, with the total distribution reduced by available franking credits.

Challenger Capital Notes 4 are convertible to Challenger ordinary shares at any time before 25 February 2032 on the occurrence of certain events, and mandatorily convert to Challenger ordinary shares thereafter, in both cases subject to meeting certain conditions.

Challenger may choose to redeem or resell (rather than convert) Challenger Capital Notes 4 on the occurrence of some of the events referred to above, including on any Optional Exchange Date on or about 25 May 2029, 25 August 2029, 25 November 2029 and 25 February 2030 (subject to certain conditions being met, including prior written approval from APRA, which may or may not be given).

If Challenger exercises its option to redeem or resell, there will be no conversion of Challenger Capital Notes 4 to Challenger ordinary shares and no subsequent shareholder dilution.

Challenger Life Company Limited (CLC) regulatory capital

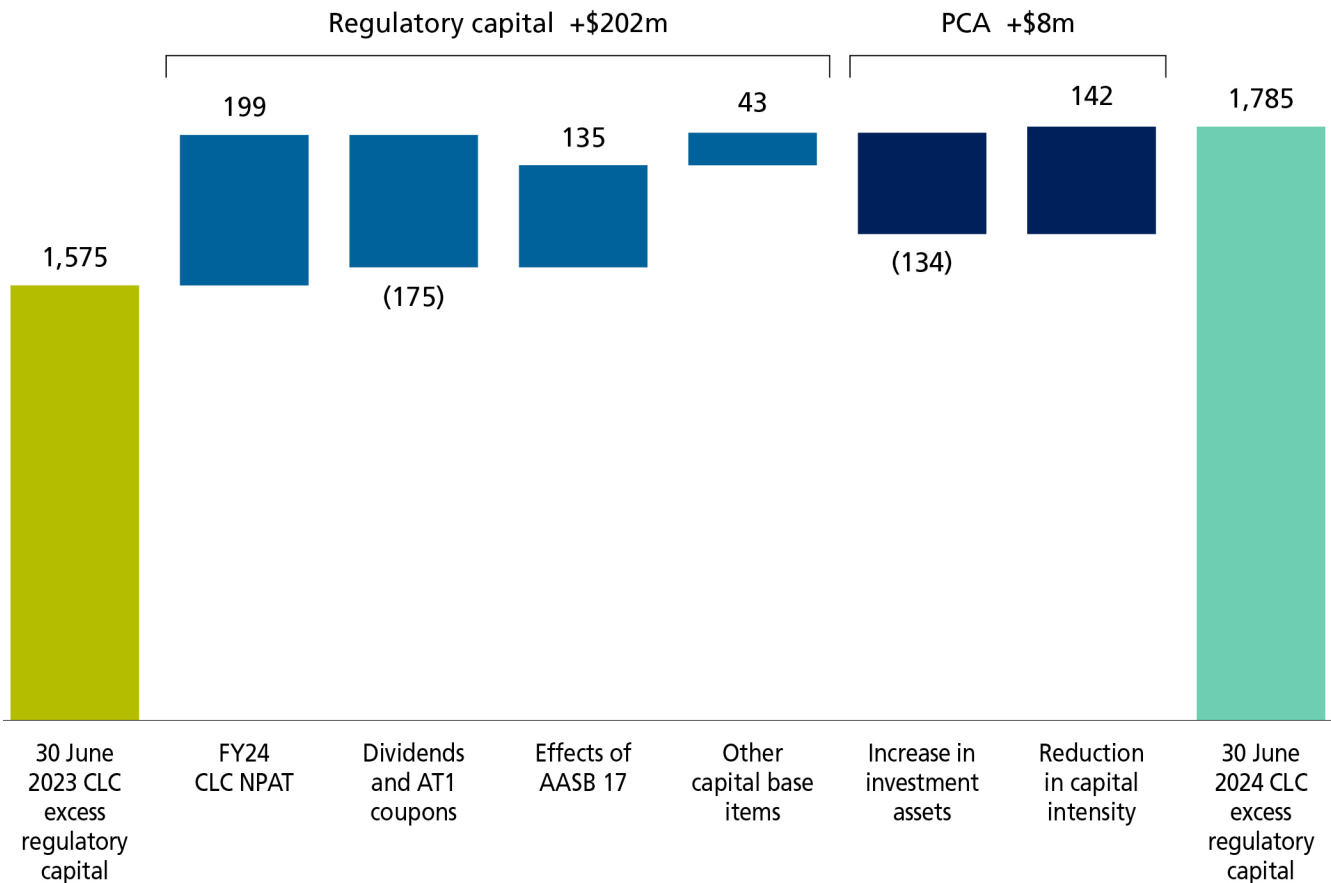
\$m	FY24	1H24	FY23	1H23	FY22	1H22
CLC regulatory capital						
Common Equity Tier 1 (CET1) regulatory capital	3,297.4	3,141.0	3,110.5	2,947.9	2,858.0	3,120.3
Additional Tier 1 regulatory capital	735.0	735.0	735.0	845.0	845.0	872.7
Tier 2 regulatory capital – subordinated debt ¹	426.3	427.5	411.3	407.8	399.7	402.4
CLC total regulatory capital base	4,458.7	4,303.5	4,256.8	4,200.7	4,102.7	4,395.4
CLC Prescribed Capital Amount (PCA)						
Asset risk charge	1,964.9	1,966.9	1,804.7	1,774.8	1,726.1	1,812.6
Combined Stress	589.9	770.8	777.3	766.9	741.4	658.0
Insurance risk charge	136.1	174.6	125.0	127.6	151.5	233.5
Operational risk charge	87.3	81.9	70.7	65.4	58.6	60.7
Aggregation benefit	(104.2)	(132.0)	(95.8)	(97.6)	(114.3)	(171.0)
CLC PCA	2,674.0	2,862.2	2,681.9	2,637.1	2,563.3	2,593.8
CLC excess over PCA						
PCA ratio (times) ²	1.67	1.50	1.59	1.59	1.60	1.69
Tier 1 ratio (times)	1.51	1.35	1.43	1.44	1.44	1.54
CET1 capital ratio (times)	1.23	1.10	1.16	1.12	1.11	1.20
Capital intensity ratio (%) ³	10.8%	11.9%	11.4%	11.4%	11.5%	11.3%

¹ FY24 Tier 2 regulatory capital – subordinated debt (\$426.3 million) differs to the Group balance sheet (\$418.0 million) due to accrued interest.

² Application impact of AASB 17 is reflected in the CLC PCA ratio for 1H24 and FY24. Prior periods are not restated for the impact of AASB 17.

³ Capital intensity ratio is calculated as CLC PCA divided by Life closing investment assets.

Movement in CLC excess regulatory capital (\$m)



Challenger Life Company Limited (CLC) regulatory capital

Capital management

CLC holds capital in order to ensure that under a range of adverse scenarios, it can continue to meet its regulatory requirements and contractual obligations to its customers.

CLC is regulated by APRA and is required to hold a minimum level of regulatory capital.

CLC's regulatory capital base and PCA (equivalent to its regulatory capital requirement) have been calculated based on the prudential standards issued by APRA.

CLC's regulatory capital base

CLC's regulatory capital base at 30 June 2024 was \$4.5b and increased by \$0.2b in FY24. The increase reflects:

- CLC's statutory profit after tax for the year (+\$199m);
- impact of AASB 17 on the valuation of policy liabilities, including the UK mortality assumption update (+\$135m) (refer to below);
- other capital items (+\$43m) that include capital injected back into the Life business following the sale of Challenger Bank; partially offset by
- dividend and coupon payments on Additional Tier 1 instruments (-\$175m).

CLC's regulatory capital position benefited from the introduction of AASB 17, and the subsequent updates to UK mortality assumptions, due to the tax treatment on policy liability movements, which recognises a current tax asset owing to the deduction available for increases in policy liabilities. This benefit emerges partly through an increase in capital base and partly through a reduction in the PCA (see below).

CLC's Prescribed Capital Amount (PCA)

CLC's PCA at 30 June 2024 was \$2.7b and decreased by \$8m in FY24 reflecting:

- a reduction in capital intensity (-\$142m) (refer below); partially offset by
- growth in investment assets (+\$134m).

Reduction in capital intensity

CLC's capital intensity ratio, which is calculated as CLC's PCA divided by Life's closing investment assets, decreased from 11.4% at 30 June 2023 to 10.8% at 30 June 2024.

The reduction in capital intensity was driven by:

- the benefit of balance sheet diversification strategies, which have resulted in a reduction in the PCA of -\$251m (refer to page 51 for more information);
- a capital benefit from the tax treatment of policy liability movements which increases on the introduction of new accounting standard AASB 17 and subsequent updates to UK mortality assumptions, reducing the PCA by -\$113m (refer to above); partially offset by
- an increased allocation to alternatives and equities, which carry a higher asset risk charge, and lower allocation to

property, which in combination increased the PCA by +\$139m; and

- an increase in deferred tax assets by +\$83m.

CLC's excess capital position

CLC's excess capital above PCA at 30 June 2024 was \$1.8b and increased by \$210m in FY24. CLC's capital ratios at 30 June 2024 were as follows:

- PCA ratio 1.67 times – up 0.08 times from 1.59 times at 30 June 2023;
- Total Tier 1 capital ratio 1.51 times – up 0.08 times from 1.43 times at 30 June 2023; and
- Common Equity Tier 1 (CET1) capital ratio 1.23 times – up 0.07 times from 1.16 times at 30 June 2023.

APRA's Prudential Standards require the capital base to be at least the PCA, Total Tier 1 capital to be at least 80% of the PCA and CET1 capital to be at least 60% of the PCA.

Challenger's PCA ratio (1.67 times), Total Tier 1 capital ratio (1.51 times) and CET1 capital ratio (1.23 times) are well in excess of APRA's minimum requirements.

Target surplus level of excess capital

CLC maintains a target level of capital representing APRA's PCA plus a target surplus. The target surplus is a level of excess capital CLC seeks to carry over and above APRA's minimum requirement to ensure it provides a buffer for adverse market or insurance risk experience.

CLC uses internal capital models to determine its target surplus, which are risk based and responsive to changes in CLC's asset allocation and market conditions.

CLC does not target a specific PCA ratio. CLC's target PCA ratio range is a reflection of internal capital models, not an input to them, and reflects asset allocation, business mix, composition of capital base and economic circumstances. The target surplus produced by these internal capital models for FY24 corresponded to a PCA ratio of between 1.3 times and 1.7 times. This range may change over time.

In assessing CLC's capital targets, the internal capital models consider various constraints, including statutory capital minimums set by APRA, a measure of economic capital, and ratings agency capital. As noted above, there are three levels at which APRA statutory capital minimums are assessed: total capital base (which is assessed by the PCA ratio), Tier 1 capital and CET1 minimum requirements. Based on risk appetite relative to each of the five measures (the three statutory capital measures, economic capital and ratings agency capital), CLC determines its target capital position.

The metric that generates the worst outcome relative to target forms CLC's constraining target. Given CLC's current mix of capital at 30 June 2024, CLC's constraining target was CET1. The target surplus produced by the internal capital models for FY24 corresponded to a CET1 ratio of between 0.8 times and 1.2 times. This ratio may change over time.

Additional Tier 1 regulatory capital and subordinated debt

Challenger Limited has on issue two separate subordinated, unsecured convertible notes (Challenger Capital Notes 3 and Challenger Capital Notes 4), with proceeds used to fund qualifying Additional Tier 1 regulatory capital for CLC. CLC has on issue one series of Tier 2 notes, issued in September 2022, with a face value of \$400m, which fully qualify as Tier 2 regulatory capital under APRA's Prudential Standards. Further details on Challenger's convertible debt instruments are included on page 44.

Profit and equity sensitivities

\$m	Change in variable	Profit/(loss) after tax FY24 ⁶	Profit/(loss) after tax FY23
Credit risk			
Fixed income assets (change in credit spreads) ¹	+/- 50 bps	-/+ 126.1	-/+ 124.9
Policy liabilities (illiquidity premium change in credit spreads) ²	+/- 50 bps	+/- 63.8	+/- 63.8
Property risk			
Direct and indirect properties	+/- 1%	+/- 21.1	+/- 23.4
Equity and infrastructure risk			
Equity and infrastructure investments	+/- 10%	+/- 31.4	+/- 20.4
Alternatives risk			
Alternatives investments	+/- 10%	+/- 221.7	+/- 166.9
Life Insurance risk			
Mortality, morbidity and longevity³			
Retail and institutional lifetime annuities	+/- 50%	-/+ 36.4	-/+ 25.4
Life Risk ⁴	+/- 50%	+/- 73.4	
Total Life insurance contract liabilities	+/- 50%	+/- 37.0	
Interest rate risk			
Retail and institutional annuities and asset portfolio	+/- 100 bps	-/+ 3.8	+/- 0.6
Life Risk ^{4,5}	+/- 100 bps	-/+ 84.4	
Total change in interest rates	+/- 100 bps	-/+ 88.2	
Foreign exchange risk			
Asset portfolio	+/- 10%	+/- 1.5	+/- 0.3
Life Risk ³	+/- 10%	-/+ 35.3	
Total British pound exposure	+/- 10%	-/+ 33.8	
US dollar	+/- 10%	+/- 18.8	+/- 1.0
Euro	+/- 10%	+/- 2.3	—
Japanese yen	+/- 10%	+/- 3.3	+/- 0.3
NZ dollar (NZD)	+/- 10%	+/- 1.3	—
Other	+/- 10%	—	+/- 0.3

¹ Credit risk sensitivities excludes Australian Government Bonds, Australian Semi-Government Bonds and exposures with an Australian Government guarantee.

² FY23 sensitivity for Policy liabilities has not been restated for AASB 17, which came into effect 1 July 2023.

³ Mortality, morbidity and longevity life insurance contract liabilities sensitivity is net of any reinsurance with third parties and measures the impact of an increase in the rate of mortality improvement.

⁴ Sensitivity on Life Risk in FY24 reflects the application of accounting standard AASB 17, which came into effect 1 July 2023. FY23 sensitivities for Life Risk have not been restated for AASB 17.

⁵ Policy liability for Life Risk business is sensitive to changes in the UK 10-year yield curve.

⁶ Change in equity impact is the same as profit/(loss) after tax with the exception of FY23 Japanese yen, which was 0.7 / (0.7).

Profit and equity sensitivities set out the expected impact from changes in a range of economic and investment market variables on Challenger's statutory earnings and balance sheet. These sensitivities represent the after-tax impact on statutory profit, assuming a tax rate of 30%.

The sensitivities are not forward looking and make no allowance for events occurring after 30 June 2024. If using these sensitivities as forward looking, allowances for changes post-30 June 2024, such as sales, asset growth changes in asset allocation and changes in market conditions, should be made. These sensitivities assess changes in economic,

insurance and investment markets on the valuation of assets and liabilities, which, in turn, impact earnings. The earnings impact is included in asset and liability experience and does not take into consideration the impact of any under- or over-performance of normalised growth assumptions for each asset category (refer to page 57 for normalised growth assumptions). These sensitivities do not include the indirect impact on fees for the Funds Management business. Refer to the risk management framework for additional detail on how to apply the profit and equity sensitivities.

Risk management framework

Challenger's Board is responsible, in conjunction with senior management and all staff members, for the management of risks associated with the business and implementing structures and policies to adequately monitor and manage these risks.

The Board has established the Group Risk Committee (GRC) and Group Audit Committee (GAC) to assist in discharging its risk management responsibilities. In particular, these committees assist the Board in setting the appropriate risk appetite and for ensuring Challenger has an effective risk management framework that is able to manage, monitor and control the various risks to which the business is exposed.

The Executive Risk Management Committee (ERMC) is an executive committee, chaired by the Chief Risk Officer (CRO), which assists the GRC, GAC and Board in discharging their risk management obligations by implementing the Board-approved risk management framework.

On a day-to-day basis, the Risk division, which is separate from the operating segments of the business, has responsibility for monitoring the implementation of the risk framework, including the monitoring, reporting and analysis of the various risks faced by the business, and providing effective challenge to activities and decisions that may materially affect Challenger's risk profile.

Challenger has a robust risk management framework which supports its operating segments, and its risk appetite distinguishes risks from which Challenger will seek to make an economic return from those which it seeks to minimise and which it does not consider will provide a return. The management of these risks is fundamental to Challenger's business, customers and to building long-term shareholder value. Challenger is also prudentially supervised by APRA, which prescribes certain prudential standards that must be met by Challenger, its life insurance subsidiary Challenger Life Company Limited (CLC), and its registrable superannuation entity licensee, Challenger Retirement and Investment Services Limited (CRISL).

CLC is required under APRA Prudential Standards to maintain capital buffers in order to ensure that under a range of adverse scenarios it can continue to meet not only its contractual obligations to customers but also its regulatory capital requirements.

Challenger is exposed to a variety of financial risks, including market risk (including foreign exchange risk, interest rate risk, equity risk, and credit spread risk), credit default risk, life insurance risk, liquidity risk and operational risk (including cyber risk).

The management of these risks is fundamental to Challenger's business and building shareholder value.

Risk appetite

Challenger's risk appetite statement provides that, subject to acceptable economic returns and limits, it can retain exposure to credit risk, property risk, equity and infrastructure risk, other active trading strategy risk and life insurance risk.

Accept exposure¹

- Credit risk
- Property risk
- Equity and infrastructure risk
- Life insurance risk
- Other active trading strategy risk

Minimise exposure

- Asset and liability mismatch risk
- Foreign exchange risk²
- Interest rate risk
- Inflation risk
- Liquidity risk
- Regulatory and compliance risk
- Operational risk

Asset and liability mismatch risk

Challenger's asset allocation strategy is based on running a cash flow-matched portfolio of assets and liabilities and minimising the risk of cash flow mismatch. Annuity cash payments are generally met from contracted investment cash flows together with assets held in Challenger's liquidity pool, which are continually rebalanced through time.

Credit risk

Credit risk is the risk of loss due to a counterparty failing to discharge its contractual obligations when they fall due, a change in credit rating, movements in credit spreads, or movements in the basis between different valuation discount curves.

Challenger's approach to credit management utilises a credit risk framework to ensure that the following principles are adhered to:

- credit risk management team separation from asset originators;
- recognition of the different risks in the various businesses;
- credit exposures being systematically controlled and monitored;
- credit exposures being regularly reviewed in accordance with existing credit procedures; and
- ensuring credit exposures include the impact from derivative transactions.

Challenger makes use of external ratings agencies (Standard & Poor's, Fitch, Moody's) to determine credit ratings.

Where a counterparty or debt obligation is rated by multiple external ratings agencies, Challenger will use Standard & Poor's ratings where available.

All credit exposures with an external rating are also reviewed internally and cross-referenced to the external rating, if applicable.

Where external credit ratings are not available, internal credit ratings are assigned by appropriately qualified and experienced credit personnel who operate separately from the asset originators.

¹ Subject to appropriate returns.

² It is Challenger's policy to seek to minimise the impact of movements in foreign exchange rates on balance sheet items contributing to CLC's regulatory capital base, with the exception of exposures arising from currency overlay positions.

Credit spread risk sensitivity

Challenger is exposed to price movements resulting from credit spread fluctuations through its fixed income securities (net of subordinated debt) and the fair value of annuity and other liabilities.

As at 30 June 2024, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised loss/gain of \$126m (after-tax) on fixed income investments (net of debt).

In accordance with prudential standards and Australian Accounting Standards, Challenger Life values term annuities and lifetime annuities using a risk-free discount rate, which is based on the Australian Government Bond curve plus an illiquidity premium. Movements in fixed income credit spreads impact the illiquidity premium.

As at 30 June 2024, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised gain/loss of \$64m (after-tax) on the value of annuity liabilities.

Property risk

Property risk is the potential impact of movements in the market value of property investments on Challenger's income and includes leasing and tenant default risk, which may impact the cash flows from these investments.

Property risk sensitivity

Challenger is exposed to movements in the market value of property investments, through both directly and indirectly held investment properties.

The property sensitivities included on page 48 show the impact of a change in property valuations at 30 June 2024 and are based on Life's gross property investments of \$3.0b (net investments of \$2.8b plus debt of \$0.3b).

A 1% move in the direct and indirect property portfolio at 30 June 2024 would result in a \$21m (after-tax) movement in property valuations.

Equity and infrastructure risk

Challenger is exposed to movements in the market value of listed equity investments, unlisted equity investments, and infrastructure investments. Challenger holds equities and infrastructure as part of its investment portfolio in order to provide diversification across the investment portfolio.

Equity risk sensitivity

The equity and infrastructure risk sensitivities included on page 48 show a 10% move in the equity portfolio at 30 June 2024 would have resulted in a \$31m (after-tax) movement in the valuation of equity investments.

Alternatives risk

Alternatives risk is the potential impact of movements in the market value of alternative investments. Alternative investments include exposure to equity markets and futures markets, including rates, currencies and commodities, through absolute return strategies and insurance-related investments, with both expected to have a low correlation to credit and equity markets.

Challenger holds alternative investments as part of its investment portfolio in order to provide diversification across the investment portfolio and as a source of liquid capital.

Alternatives sensitivity

The alternatives risk sensitivity on page 48 shows a 10% market move in the alternatives portfolio at 30 June 2024 would have an impact of \$222m (after-tax) in the valuation of alternatives investments.

Liquidity risk

Liquidity risk is the risk that Challenger will encounter difficulty in raising funds to meet cash commitments associated with financial instruments and contracted payment obligations to annuitants. This may result from either the inability to sell financial assets at fair value, a counterparty failing to repay contractual obligations, or the inability to generate cash inflows as anticipated.

Challenger's Liquidity Management Policy aims to ensure that it has sufficient liquidity to meet its obligations on a short, medium and long-term basis. In setting the level of liquidity, Challenger considers new business activities in addition to current contracted obligations.

In determining the required levels of liquidity, Challenger considers:

- minimum cash requirements;
- collateral and margin call buffers;
- Australian Financial Services Licence requirements;
- cash flow forecasts;
- other liquidity risks; and
- contingency plans.

Required annuity cash outflows are met from contracted investment cash flows together with assets in Challenger's liquidity pool. Cash flows are well matched and the liquidity profile continues to be rebalanced through time.

Life insurance risk

Lifetime annuities provide guaranteed payments to customers for life. Through selling lifetime annuities and assuming wholesale reinsurance agreements, CLC takes longevity risk, which is the risk customers live longer, in aggregate, than expected. This is in contrast to mortality risk, which is the risk that people die earlier than expected. CLC is exposed to mortality risks on its wholesale mortality reinsurance business.

CLC is required under APRA Prudential Standards to maintain regulatory capital in relation to life insurance risks. CLC regularly reviews the portfolio and the market for longevity experience to ensure longevity assumptions remain appropriate.

Mortality rates are based on industry standards, which are adjusted for CLC's own recent experience and include an allowance for future mortality improvements.

CLC assumes future mortality rates for individual lifetime annuities will improve by between 0.4% and 2.5% per annum, depending on different age cohorts and sex. This has the impact of increasing the life expectancy of a male aged 65 from 24 years (per the base mortality rates) to 26 years.

Mortality and longevity sensitivities

The mortality sensitivities on page 48 set out the expected impact of an improvement in mortality. This is in addition to the mortality improvements Challenger already assumes.

A 50% increase in the annual mortality improvement rates already assumed would improve the life expectancy of an Australian male aged 65 from 26 years to 27 years.

For retail annuities, increased mortality improvements cause an increase in policy liability, leading to a loss (after-tax) of \$37m. However, for Life Risk wholesale reinsurance longevity transactions, there are two opposing effects which under AASB 17 are not equal in financial impact. The primary effect, in line with the impact on the retail annuity portfolio, is that higher mortality improvements increase the policy-related cash outflows, thereby increasing the present value of future cashflows (PVFCF) component of the policy liability. For the Life Risk business which has a positive contractual service margin (CSM), this is offset (in a projected cash flow sense) by a reduction in CSM. However, AASB 17 requires that the PVFCF is measured at current discount rates whereas the CSM is measured at the rates on the date the business was written (locked-in rates). At 30 June 2024, current UK rates were on average higher than locked-in rates, so the impact of higher mortality improvements is a profit (after tax) of \$73m.

In aggregate across the portfolio, despite increased mortality improvements being an economically negative impact, the application of AASB 17 (given UK interest rates as at 30 June 2024) means that the financial impact of this change is a reduction in policy liability valuation leading to a net positive \$37m (after-tax) impact.

Life Risk business

Accounting Standard AASB 17 Insurance Contracts came into effect for Challenger on 1 July 2023, introducing a number of accounting mismatches that can create volatility in statutory profit. In particular, this impacts the Life Risk business where the liability includes the PVFCF, which is measured at current interest rates, and a CSM, which is measured at the interest rates on the date the business was written (locked-in rates).

This means that the policy liability for the Life Risk business is sensitive to changes in interest rates in the UK, the value of the British pound against the Australian dollar, and UK mortality rate assumptions, which creates ongoing profit volatility.

The interest rate mismatch effect falls away under APRA capital standards, hence this volatility has no impact on CLC's capital position (other than second order impacts driven by tax).

Interest rate risk

Interest rate risk is the risk of fluctuations in Challenger's earnings arising from movements in market interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between the different yield curves and the volatility of interest rates.

The impact of movements in interest rates on Challenger's profit and loss and balance sheet is set out on page 48.

The sensitivities assume the change in variable occurs on 30 June 2024 and are based on assets and liabilities held at that date.

The economic impact of movements in interest rates is minimised through the use of interest rate swaps, Australian Government Bonds, Semi-Government Bonds and bond futures. As a result, Challenger's profit is not materially sensitive to changes in base interest rates for most products. However, as discussed above, AASB 17 introduces certain accounting mismatches, particularly in the Life Risk portfolio,

and so the interest rate sensitivities show an exposure to changes in base rates.

The sensitivities do not include the impact of changes in interest rates on earnings from CLC's shareholder capital as investment earnings are earned over the period, whereas the sensitivities assume a change in interest rates occurred on 30 June 2024.

Foreign exchange risk

Foreign exchange risk is the risk of fluctuations in Challenger's earnings arising from movements in foreign exchange rates.

It is Challenger's policy to seek to minimise the impact of movements in foreign exchange rates on balance sheet items contributing to CLC's regulatory capital base, with the exception of exposures arising from currency overlay positions.

CLC has recently implemented currency overlay strategies covering a range of foreign currencies, that aim to improve portfolio resilience in times of stress by taking advantage of the Australian dollar's tendency to devalue during major risk off events. Under the currency overlay strategy, CLC takes long positions in currencies that are expected to perform strongly in times of economic stress.

Currency exposure (outside the overlay strategies) arises primarily in relation to Life's investments in Europe (including the United Kingdom), Japan and the United States, and USD and JPY liabilities reinsured from MS Primary in Japan. As a result, currency risk arises primarily from fluctuations in the value of the Euro, British pound, Japanese yen and US dollar against the Australian dollar.

In order to manage foreign currency exchange rate risk, Challenger enters into foreign currency derivatives.

Foreign exchange sensitivity

The impact of movements in foreign currencies on Challenger's profit and loss and balance sheet is set out on page 48. As a result of foreign currency derivatives in place, Challenger's profit and loss is not materially sensitive to movements in foreign currency rates apart from exposures arising from currency overlay positions and the effects of translation of the unhedged Life Risk business.

Challenger invests with a range of third-party managers, for example absolute return fund managers. Some foreign exchange exposure can be embedded in those third-party managed portfolios.

Funds Management financial results

\$m	FY24	FY23	FY22	2H24	1H24	2H23	1H23	2H22	1H22
Fidante									
Fidante income ¹	123.4	111.0	121.4	61.9	61.5	57.0	54.0	58.3	63.1
Performance fees	6.8	4.7	4.0	1.6	5.2	1.6	3.1	1.6	2.4
Net income	130.2	115.7	125.4	63.5	66.7	58.6	57.1	59.9	65.5
Challenger Investment Management									
Challenger Investment Management income ²	43.7	63.1	66.4	23.0	20.7	32.3	30.8	33.7	32.7
Total net fee income	173.9	178.8	191.8	86.5	87.4	90.9	87.9	93.6	98.2
Personnel expenses	(50.6)	(63.0)	(70.3)	(25.0)	(25.6)	(27.0)	(36.0)	(35.4)	(34.9)
Other expenses	(68.7)	(54.2)	(38.7)	(35.4)	(33.3)	(33.0)	(21.2)	(20.5)	(18.2)
Total expenses	(119.3)	(117.2)	(109.0)	(60.4)	(58.9)	(60.0)	(57.2)	(55.9)	(53.1)
EBIT	54.6	61.6	82.8	26.1	28.5	30.9	30.7	37.7	45.1
Performance analysis									
Fidante – income margin (bps) ³	14.7	15.6	15.0	13.4	16.0	15.6	15.7	15.0	14.9
Challenger Investment Management – income margin (bps) ³	25.3	30.2	32.0	26.8	23.9	31.1	29.2	33.0	31.1
Funds Management – income margin (bps) ³	16.4	18.8	18.4	15.5	17.4	19.0	18.7	18.7	18.0
Funds Management – FUM-based income margin (bps) ⁴	15.2	17.7	17.1	14.7	15.8	17.8	17.6	17.3	16.7
Cost to income ratio	68.6%	65.5%	56.8%	69.8%	67.4%	66.0%	65.1%	59.7%	54.1%
Net assets – average ⁵	306.7	284.3	265.7	302.7	313.0	279.7	289.0	267.6	264.3
ROE (pre-tax)	17.8%	21.7%	31.2%	17.3%	18.1%	22.3%	21.1%	28.4%	33.8%
Fidante	100,081	78,075	72,438	100,081	90,879	78,075	72,390	72,438	88,512
Challenger Investment Management	17,327	20,392	21,010	17,327	16,715	20,392	20,985	21,010	20,778
Closing FUM – total	117,408	98,467	93,448	117,408	107,594	98,467	93,375	93,448	109,290
Fidante	88,777	74,025	83,544	95,082	82,773	75,606	72,211	80,426	87,371
Challenger Investment Management	17,306	20,927	20,726	17,277	17,250	20,926	20,936	20,591	20,869
Average FUM – total⁵	106,083	94,952	104,270	112,359	100,023	96,532	93,147	101,017	108,240
FUM and net flows analysis									
Fidante ⁶	13,406.9	379.6	(8,895.2)	3,915.0	9,491.9	2,045.9	(1,666.3)	(9,984.0)	1,088.8
Challenger Investment Management ⁷	(3,327.1)	(851.9)	370.4	562.3	(3,889.4)	(692.0)	(159.9)	554.8	(184.4)
Net flows	10,079.8	(472.3)	(8,524.8)	4,477.3	5,602.5	1,353.9	(1,826.2)	(9,429.2)	904.4
Distributions	(1,121.0)	(1,773.4)	(1,141.2)	(528.8)	(592.2)	(412.1)	(1,361.3)	(404.3)	(736.9)
Market-linked movement	9,982.0	7,264.7	(2,710.0)	5,865.4	4,116.6	4,150.2	3,114.5	(6,009.0)	3,299.0
Total FUM movement	18,940.8	5,019.0	(12,376.0)	9,813.9	9,126.9	5,092.0	(73.0)	(15,842.5)	3,466.5

¹ Fidante income includes equity-accounted profits, distribution fees, administration fees and transaction fees, which includes placement fees and dividend income.

² Challenger Investment Management income includes asset-based management fees and other income. Other income includes leasing fees, asset acquisition and disposal fees, development and placement fees.

³ Income margin represents net income divided by average FUM.

⁴ FUM-based income margin represents FUM-based income (net income excluding performance, transaction and placement fees and dividend income) divided by average FUM.

⁵ Calculated on a monthly basis.

⁶ 2H22 included the \$5,162m FUM derecognition following the sale of Whitehelm Capital.

⁷ 1H24 included \$3,253m FUM derecognition following the sale of Challenger's Australian real estate business to Elanor Investors Group (ASX: ENN).

Funds Management financial results

Funds Under Management and net flows

\$m	Q4 24	Q3 24	Q2 24	Q1 24	Q4 23
Funds Under Management					
Equities	63,988	58,887	52,853	43,914	44,020
Fixed Income	50,815	52,896	52,375	52,007	48,693
Property ¹	735	768	787	781	4,036
Alternatives	1,870	1,932	1,579	1,729	1,718
Total Funds Under Management	117,408	114,483	107,594	98,431	98,467
Fidante					
Fidante	100,081	96,778	90,879	81,692	78,075
Challenger Investment Management ¹	17,327	17,705	16,715	16,739	20,392
Total Funds Under Management	117,408	114,483	107,594	98,431	98,467
Institutional¹					
Institutional ¹	99,396	95,997	89,505	80,368	79,894
Retail	18,012	18,486	18,089	18,063	18,573
Total Funds Under Management	117,408	114,483	107,594	98,431	98,467
Average Funds Under Management					
Average Fidante	96,419	94,168	85,036	80,239	77,145
Average Challenger Investment Management	17,592	17,070	16,739	17,634	20,899
Total average Funds Under Management²	114,011	112,238	101,775	97,873	98,044
Analysis of flows					
Equities	5,029	515	5,733	663	2,368
Fixed Income	(1,564)	200	(441)	2,999	(107)
Property ¹	29	—	—	(3,254)	(64)
Alternatives	(35)	303	(130)	33	86
Total net flows	3,459	1,018	5,162	441	2,283
Fidante					
Fidante	3,594	321	5,227	4,265	2,928
Challenger Investment Management ¹	(135)	697	(65)	(3,824)	(645)
Total net flows	3,459	1,018	5,162	441	2,283
Institutional¹					
Institutional ¹	3,787	1,028	5,625	839	2,750
Retail	(328)	(10)	(463)	(398)	(467)
Total net flows	3,459	1,018	5,162	441	2,283

¹ Q1 24 included \$3,253m FUM derecognition following the sale of Challenger's Australian real estate business to Elanor Investors Group (ASX:ENN).

² Average total Funds Under Management calculated on a monthly basis.

Reconciliation of total Group assets and Funds Under Management

\$m	Q4 24	Q3 24	Q2 24	Q1 24	Q4 23
Funds Management Funds Under Management	117,408	114,483	107,594	98,431	98,467
Life investment assets	24,711	24,854	24,094	23,256	23,538
Adjustments to remove double counting of cross-holdings	(14,997)	(15,572)	(14,563)	(14,247)	(17,278)
Total Assets Under Management¹	127,122	123,765	117,125	107,440	104,727

¹ Total Assets Under Management excludes Bank lending and financing assets, which was sold in April 2024. Q3 24 - \$972 million, Q2 24 - \$346 million; Q1 24 - \$382 million; Q4 23 - \$225 million.

Funds Management financial results

Funds Management focuses on wealth accumulation, predominantly in the pre-retirement phase of superannuation, through supporting customers to build savings by providing contemporary investment strategies and products that seek to deliver superior investment returns.

Funds Management is one of Australia's largest active fund managers¹ with funds under management (FUM) of \$117 billion, which has more than doubled over the last 8 years (up from \$57 billion in 2016).

Growth in FUM is supported by Challenger's award-winning retail and institutional distribution teams and business model, which is focused on high-quality managers with strong long-term investment performance and alignment with clients.

Funds Management comprises Fidante and Challenger Investment Management (CIM), with operations in Australia, the United Kingdom, Europe and Japan.

Funds Management, through its Fidante affiliates and CIM, invests across a broad range of asset classes, including fixed income, Australian and global equities and alternative investments.

Funds Management has extensive client relationships. For example, around 70% of Australia's top 50 superannuation funds are clients.

Fidante's business model typically involves taking minority equity interests in separately branded affiliate funds management firms, with Challenger providing distribution services, business support and investment administration services, leaving investment managers to focus entirely on managing investment portfolios.

Fidante has been successful in attracting and building active equity, active fixed income and alternative investment managers, while also maintaining strong investment performance.

Fidante is focused on broadening its product and investment offering, which includes partnering with best-in-class managers, and accessing new distribution channels.

Challenger Investment Management (CIM) is one of Australia's largest fixed income originators specialising in public and private credit markets. CIM manages investments on behalf of Challenger Life and other like-minded investors across a range of strategies focused on generating consistent income whilst managing capital volatility.

Challenger Kabushiki Kaisha (CKK) manages Japanese real estate for Challenger Life, MS Primary and other institutional investors.

Funds Management is well positioned to benefit from ongoing growth in both Australia's superannuation system and global pension markets.

EBIT and ROE

Funds Management EBIT was \$55m and decreased by \$7m (11%) on FY23. The decrease was due to lower FUM-based fee income (down \$6m or 4%), lower transaction fee income (down \$1m) and higher expenses (up \$2m or 2%), partially offset by higher performance fees (up \$2m).

Funds Management ROE was 17.8% and decreased from 21.7% in FY23. ROE was impacted by the 11% decrease in EBIT and an 8% increase in average net assets.

Total net fee income

FY24 total net fee income was \$174m (down 3%) and comprised FUM-based fees of \$161m (down 4%), transaction fees of \$6m (down 10%) and performance fees of \$7m (up 45%).

FY24 FUM-based fees decreased 4% with higher average FUM (up 12%) offset by a lower FUM-based income margin of 15.2 bps (down 2.5 bps) due to changes in business mix including larger lower-margin institutional mandates.

FY24 performance and transaction fees were \$2m higher than in FY23.

Expenses

FY24 Funds Management expenses were \$119m and increased by \$2m (2%) on FY23. Staff costs reduced following the sale of Challenger's real estate business (CRE) to Elanor, however this was more than offset by higher Artega investment administration costs as a result of elevated affiliate trading and transaction volumes, and increased data feed costs primarily due to FX and inflation impacts.

The FY24 cost to income ratio was 68.6% and increased from 65.5% in FY23 due to lower net fee income (down 3%) and higher expenses (up 2%).

Fidante net income

Fidante's net income includes FUM-based distribution and administration fees; performance fees; transaction fees that includes placement fees and dividend income; and a share in the equity-accounted profits of affiliate investment managers.

Fidante's net income was \$130m in FY24 and increased by \$15m (13%) on FY23.

Fidante's net income comprised:

- FUM-based income of \$119m, up \$9m (8%) on FY23 as a result of a 20% increase in average FUM, partially offset by a decrease in FUM-based income margin (refer below for more information);
- Performance fees of \$7m, which increased by \$2m (45%) on FY23, mainly driven by outperformance in equity strategies; and
- Transaction fees of \$5m, which increased by \$4m on FY23, includes placement fees from Fidante's successful capital raises for Elanor during the year and dividends from the equity stake in Elanor.

Fidante income margin (net income to average FUM) was 14.7 bps, down 0.9 bps from FY23. FUM-based income accounted for 13.4 bps and decreased by 1.5 bps primarily due to a change in business mix from net inflows from lower-margin institutional mandates.

¹ Calculated from Rainmaker Roundup, March 2024 data.

Fidante FUM and net flows

Fidante’s FUM at 30 June 2024 was \$100.1b and increased by \$22.0b (28%) for the full year.

The increase was a result of:

- net inflows of \$13.4b reflecting \$14.7b of institutional inflows mainly across equity (\$12.4b) and fixed income (\$2.1b) affiliate managers, partially offset by \$1.3b of retail outflows across equity (\$0.5b) and fixed income manager (\$0.8b);
- positive impact from investment markets of \$9.6b, in particular positive equity and fixed income markets; offset by
- net distributions of \$1.0b.

Fidante’s FUM at 30 June 2024 was invested in the following asset classes:

- 64% in equities (FY23 56%);
- 34% in fixed income (FY23 41%); and
- 2% in alternatives (FY23 3%).

Challenger Investment Management (CIM)

CIM’s FY24 net income was \$44m and decreased by \$19m (31%) on FY23.

CIM’s net income included:

- FUM-based income of \$43m, down \$15m (26%) on FY23 primarily due to the sale of CRE; and
- transaction fees of \$1m down \$5m (82%) on FY23 due to the sale of CRE and lower fixed income upfront fees.

CIM’s FY24 income margin (net income to average FUM) was 25.3 bps, down 4.9 bps from FY23 due to lower FUM income and transaction fees following the sale of CRE.

The FUM-based contribution was 24.6 bps, down 2.8bps reflecting the change in FUM mix.

CIM FUM and net flows

CIM’s FUM at 30 June 2024 was \$17.3b and decreased by \$3.1b (15%) for the full year.

The movements included:

- net outflows and distributions of \$3.4b predominantly due to the derecognition of \$3.3b of Real Estate FUM following the sale of CRE; offset by
- positive market movement of \$0.4b.

Excluding the sale of the CRE, CIM FUM increased by \$0.2b (1%) for the year.

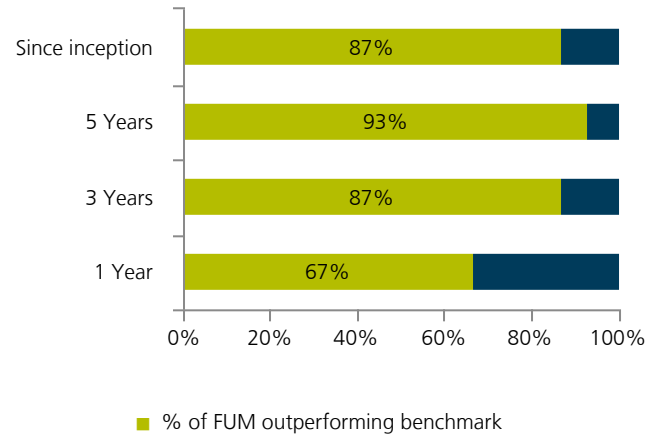
CIM’s 30 June 2024 FUM is invested in the following asset classes:

- 96% in fixed income (FY23 80%); and
- 4% in property (FY23 20%).

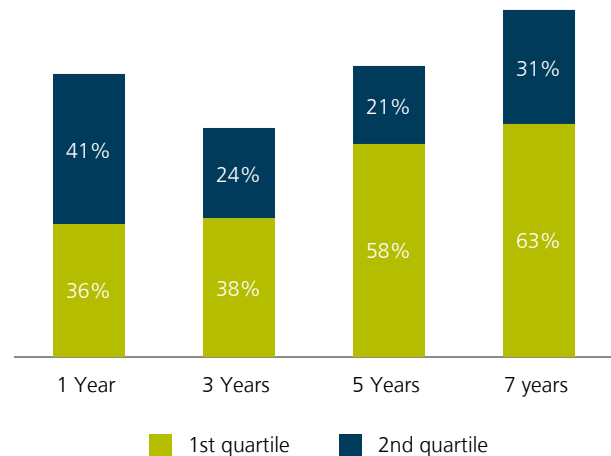
Approximately 20% of CIM’s FUM is from third-party clients with the balance managed on behalf of Challenger Life.

Funds Management investment performance

Investment performance represents the percentage of FUM meeting or exceeding performance benchmarks, with performance weighted by FUM. Long-term performance for Fidante’s affiliates remains strong with 93% and 87% of investments outperforming benchmark over five years and since inception respectively².



For Fidante affiliates, 79% of funds achieved first or second quartile performance over five years and 94% of funds achieved either first or second quartile investment performance over seven years³.



² As at 30 June 2024. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

³ Mercer as at June 2024.

Corporate financial results

\$m	FY24	FY23	FY22	2H24	1H24	2H23	1H23	2H22	1H22
Other income	2.3	1.6	—	2.2	0.1	1.0	0.6	0.0	0.0
Personnel expenses	(45.6)	(43.5)	(40.5)	(22.9)	(22.7)	(21.0)	(22.5)	(18.4)	(22.1)
Other expenses	(17.5)	(14.3)	(16.6)	(9.3)	(8.2)	(4.4)	(9.9)	(9.3)	(7.3)
Total expenses (excluding LTI)	(63.1)	(57.8)	(57.1)	(32.2)	(30.9)	(25.4)	(32.4)	(27.7)	(29.4)
Long-term incentives (LTI)	(14.9)	(12.4)	(10.5)	(8.3)	(6.6)	(6.9)	(5.5)	(4.5)	(6.0)
Total expenses	(78.0)	(70.2)	(67.6)	(40.5)	(37.5)	(32.3)	(37.9)	(32.2)	(35.4)
Normalised EBIT	(75.7)	(68.6)	(67.6)	(38.3)	(37.4)	(31.3)	(37.3)	(32.2)	(35.4)
Interest and borrowing costs	(5.0)	(4.0)	(4.1)	(2.7)	(2.3)	(2.0)	(2.0)	(2.2)	(1.9)
Normalised loss before tax	(80.7)	(72.6)	(71.7)	(41.0)	(39.7)	(33.3)	(39.3)	(34.4)	(37.3)

The Corporate division comprises central functions such as Group executives, finance, treasury, tax, legal, human resources, risk management and commercial.

Corporate also includes interest received on Group cash balances, equity accounted profits on joint ventures with strategic partners, and any interest and borrowing costs associated with Group debt facilities. All long-term incentive costs are allocated to the Corporate division.

Normalised EBIT

Corporate normalised EBIT was a loss of \$76m in FY24, up \$7m (10%) from FY23. The increase in EBIT loss was a result of higher expenses (up \$8m), partially offset by higher other income (up \$1m).

Other income

Other income represents interest received on Group cash balances and equity accounted losses associated with Artega Investment Administration.

FY24 other income was \$2m, up \$1m from FY23, due to higher interest rates received on Group cash balances, offset by equity accounted losses from Artega.

Total expenses

FY24 Corporate expenses were \$78m and increased by \$8m (11%) on FY23. The increase was due to higher staff and long-term incentive costs, as well as project-related costs associated with strategic initiatives.

Interest and borrowing costs

Interest and borrowing costs relate to debt facility fees on the Group's \$400m banking facility.

FY24 interest and borrowing costs were \$5m, reflecting line fees on the Group debt facility.

The \$400m facility remained undrawn throughout FY24. In July 2024, this has been refinanced to a smaller facility of \$250m.

Normalised Cash Operating Earnings framework

Life Normalised Cash Operating Earnings (COE) is Challenger's preferred profitability measure for the Life business, as it aims to reflect the underlying performance trends of the Life business.

The Life Normalised COE framework was introduced in June 2008 and the principles have been applied consistently since.

The framework removes the impact of market and economic variables, which are generally non-cash and the result of external market factors. The normalised profit framework is subject to a review performed by Ernst & Young each half year.

Life Normalised COE includes cash earnings plus normalised capital growth and excludes asset and liability experience (refer below).



Cash earnings

Cash earnings represents investment yield and other income, less interest expenses and distribution expenses.

Investment yield

Represents the investment return on assets held to match annuities and the return on shareholder investment assets.

Investment yield includes net rental income, dividend income, infrastructure distributions, accrued interest on fixed income and cash, accrued alternative investment income, and discounts/premiums on fixed income assets amortised on a straight-line basis.

Interest expense

Represents interest accrued at contracted rates to annuitants and Life subordinated debt holders and other debt holders.

Distribution expense

Represents payments made for the acquisition and management of Life's products, including annuities.

Other income

Other income includes revenue from the Solutions Group (refer to page 26) and profits on Life Risk wholesale longevity and mortality transactions (refer to page 26).



Normalised capital growth

Normalised capital growth represents the expected capital growth for each asset class through the investment cycle and is based on Challenger's long-term expected investment returns for each asset class.

Normalised capital growth assumptions have been set with reference to long-term market growth rates and are reviewed regularly to ensure consistency with prevailing medium to long-term market returns.

Normalised capital growth can be determined by multiplying the normalised capital growth assumption (see below) by the average investment assets for the period.

Normalised capital growth assumptions for FY24 are as follows:

Fixed income and cash (representing allowance for credit defaults)	-35 bps
Property	2.0%
Equity and infrastructure	4.0%
Alternatives	0.0%



Asset and liability experience

Challenger Life is required by accounting standards to value assets at fair value, while liabilities are valued in accordance with relevant accounting standards. This gives rise to fluctuating valuation movements on assets and policy liabilities being recognised in the profit and loss, particularly during periods of market volatility.

As Challenger is generally a long-term holder of assets, due to them being held to match the term of life liabilities, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements.

Asset and liability experience removes the volatility arising from valuation movements to more accurately reflect the underlying performance of the Life business. Changes in macroeconomic variables and actuarial assumptions impact the value of Life's assets and liabilities. This includes changes to bond yields, inflation factors, expense assumptions, mortality rate assumptions and other factors applied in the valuation of life contract liabilities.

Asset and liability experience

Asset experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and the normalised capital growth in relation to assets. Liability experience includes any economic and actuarial assumption changes in relation to policy liabilities for the period, impacts of accounting mismatches within the liability valuation of Life Risk business under AASB 17, and new business strain.

New business strain

In accordance with Australian Accounting Standards, Challenger Life values its annuities using a risk-free discount rate, which is based on the Australian Government Bond curve plus an illiquidity premium.

Life tends to offer annuity rates that are higher than these rates. As a result, on writing new annuity business, a non-cash loss is recognised when issuing the annuity contract due to a lower discount rate used to value the liability. In addition, maintenance expense allowances over the expected future term of new business are also included in the policy liability valuation.

New business strain is a non-cash item and subsequently reverses over the future period of the contract. The new business strain reported in the period represents the non-cash loss on new sales net of the reversal of the new business strain of prior period sales.

Glossary of terms

Terms	Definitions
AASB 17	The Australian Accounting Standards Board's new insurance contracts standard which is based on the equivalent International Financial Reporting Standard (IFRS 17) and establishes globally consistent principles for the recognition, measurement, presentation and disclosure of life insurance contracts.
Additional Tier 1 regulatory capital	High-quality capital that provides a permanent and unrestricted commitment and is freely available to absorb losses; however, it does not satisfy all the criteria to be included in Common Equity Tier 1 regulatory capital.
Asset experience (Life)	Represents fair value movements on Life's assets. Refer to page 58 for more detail.
Capital intensity ratio	CLC Prescribed Capital Amount (PCA) divided by Life investment assets.
Cash earnings (Life)	Investment yield and other income less interest and distribution expenses.
CET1 capital ratio	Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
Challenger Index Plus	Institutional product providing guaranteed excess return above a chosen index. Index Plus is available on traditional indices and customised indices.
Challenger Investment Management income	Challenger Investment Management income includes asset-based management fees, and other income such as leasing fees, acquisition and disposal fees, development and placement fees.
Common Equity Tier 1 regulatory capital	The highest quality capital comprising items such as paid-up ordinary shares and retained earnings. Common Equity Tier 1 capital is subject to certain regulatory adjustments in respect of intangibles and adjusting policy liabilities.
Cost to income ratio	Total expenses divided by Normalised Cash Operating Earnings (Life) or Total net fee income (FM).
Discontinued Operations (Bank)	A definition under the Australian Accounting Standards for a part of the business that has been divested, shut down or held for sale.
Distribution expenses (Life)	Payments made for the acquisition and management of annuities and Challenger Index Plus products.
Earnings per share (EPS)	Net profit after tax divided by weighted average number of shares in the period.
ESG	Environmental, Social, and Governance
Fidante income	Distribution and administration fees; Fidante's share of affiliate manager profits; and transaction fees which includes placement fees and dividend income.
Funds Under Management (FUM)	Total value of listed and unlisted funds/mandates managed by the Funds Management business.
Group assets under management (AUM)	Total value of Life's investment assets and Funds Management FUM after adjustments to remove double counting of cross-holdings.
Group cash	Cash available to Group, excluding cash held by Challenger Life Company Limited.
Interest and borrowing costs (Corporate)	Interest and borrowing costs associated with Group debt and Group debt facilities.
Interest expenses (Life)	Interest accrued and paid to annuitants, subordinated debt and other debt providers (including Challenger Capital Notes).
Investment yield (Life)	Net rental income, dividends received, accrued alternative investment income, and accrued interest and discounts/premiums on fixed income securities amortised on a straight-line basis.
Investment yield – shareholders' funds (Life)	Represents the return on shareholder capital held by the Life business.
Liability experience (Life)	Represents value movements on Life's policy liabilities, impacts of accounting mismatches within the liability valuation of Life Risk business under AASB 17, and net new business strain. Refer to page 58 for more detail.
Life annuity book growth	Net annuity policy capital receipts over the period divided by opening policy liabilities (Life annuity book).
Life book growth	Net annuity and other policy capital receipts over the period divided by the opening policy liabilities (Life annuity book and Challenger Index Plus liabilities).
Life investment assets	Total value of investment assets that are managed by the Life business.
Net annuity policy receipts	Life retail annuity sales less annuity capital payments.

Glossary of terms

Terms	Definitions
Net assets – average	Average net assets over the period (excluding non-controlling interests) calculated on a monthly basis.
Net fee income (FM)	Fidante income and Challenger Investment Management income.
Net management fees (FM)	Management fees for managing investments.
Net tangible assets	Consolidated net assets less goodwill and intangibles.
New business tenor	Represents the maximum product maturity of new business sales. These products may amortise over this period.
Normalised capital growth	Long-term expected capital growth based on long-term return assumptions. It is calculated as long-term capital growth assumption multiplied by average investment assets.
Normalised Cash Operating Earnings (COE) (Life)	Cash earnings plus normalised capital growth.
Normalised cost to income ratio	Total expenses divided by total net income.
Normalised dividend payout ratio	Dividend per share divided by normalised earnings per share (basic).
Normalised EBIT (FM)	Net income less total expenses.
Normalised EBIT (Life)	Normalised Cash Operating Earnings less total Life expenses.
Normalised net profit after tax (NPAT)	Statutory net profit after tax, excluding asset and liability experience and net new business strain; and significant items (refer to page 58 for more detail on asset and liability experience).
Normalised net profit before tax (NPBT)	Statutory net profit after tax, excluding normalised tax; asset and liability experience and net new business strain; and significant items (refer to page 58 for more detail on asset and liability experience).
Normalised Return On Equity (ROE) – pre-tax	Normalised Life EBIT, FM EBIT, and/or Normalised NPBT (Group) divided by average net assets.
Normalised Return On Equity (ROE) – post-tax	Group's normalised NPAT divided by average net assets.
Normalised tax rate	Normalised tax divided by normalised profit before tax.
Other expenses	Non-employee expenses, including external professional services, occupancy costs, marketing and advertising, travel, technology, communications and investment management costs.
Other income (Corporate)	Includes interest received on Group cash balances and equity accounted profits or losses associated with Artega Investment Administration.
Other income (Life)	Relates to revenue from the Solutions Group and Life Risk. Refer to page 26 for more detail.
PCA ratio	The ratio of the total CLC Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount.
Performance fees (FM)	Fees earned for outperforming benchmarks.
Personnel expenses	Includes fixed and short-term variable incentive components of remuneration structures. The amortisation of long-term incentive plans is reported separately within the Corporate results.
Prescribed Capital Amount (PCA)	Amount of capital that a life company must hold, which is intended to be sufficient to withstand a 1-in-200-year shock and still meet adjusted policy liabilities and other liabilities. For further details, refer to APRA's LPS110 <i>Capital Adequacy</i> .
Product cash margin (Life)	Represents the return on assets backing annuities and other income, less interest and distribution expenses.
Significant items	Non-recurring or abnormal income or expense items.
Statutory Return On Equity (ROE) – post-tax	Statutory NPAT divided by average net assets.
Tier 1 regulatory capital	Tier 1 regulatory capital comprises Common Equity Tier 1 regulatory capital and Additional Tier 1 regulatory capital.
Tier 2 regulatory capital	Tier 2 regulatory capital contributes to the overall strength of the Life Company and its capacity to absorb losses; however, it does not satisfy all the criteria to be included as Tier 1 regulatory capital.
Total expenses	Personnel expenses plus other expenses.
Total net income	Normalised Cash Operating Earnings (Life) plus net fee income (FM) plus other income (Corporate).

Key dates

Challenger Limited (ASX:CGF)	
Q1 2025 AUM, annuity sales and net flows	16 October 2024
2024 Annual General Meeting	24 October 2024
2025 Half year financial results	18 February 2025
Q3 2025 Sales and AUM	17 April 2025
2025 Full year financial results	19 August 2025
2025 Annual General Meeting	30 October 2025