

CHALLENGER ANNOUNCES FY22 RESULTS

Building a diversified business and meeting more customer needs

- New Funds Management and Life products to expand offering
- Reset strategy with a clear focus on customer, including forming new Customer Division
- Two new strategic partnerships to build long-term growth

Profit toward the upper end of guidance range and strongly capitalised

- Normalised net profit before tax \$472 million and toward upper end of guidance
- Statutory net profit after tax \$254 million, down 57% due to investment markets resulting in unrealised investment experience
- Strongly capitalised with a PCA ratio of 1.60 times¹

Shareholder returns increasing

- Full year dividend 23.0 cents per share fully franked, up 15%
- Normalised pre-tax ROE 11.9%, up 70 bps

Challenger (ASX:CGF) today announced its full-year results for the 2022 financial year with a 19% increase in normalised net profit before tax of \$472 million. Profit was toward the upper end of the guidance range (\$430 million to \$480 million) and was driven by strong sales and FUM growth, coupled with stable margins.

Shareholder returns continued to increase during the year with normalised pre-tax ROE increasing by 70 basis points to 11.9%. Underscoring the strength of the business, the Board declared a full-year dividend of 23.0 cents per share fully franked, up 15% on last year.

Managing Director and Chief Executive Officer Nick Hamilton said the strong result was delivered against a challenging external backdrop including market volatility, economic uncertainties as well as the ongoing impacts of the pandemic.

“The result reflects the underlying strength of our franchise. Our Life business continues to leverage favourable retirement and demographic trends while higher interest rates are supportive for both annuity sales and investment returns,” Mr Hamilton said.

“Our Life business recorded book growth of 14%, driven by strong Life sales of \$9.7 billion. Institutional sales were up 68% to \$6.7 billion, reflecting our continued focus on expanding relationships with institutional partners. Retail sales increased by 11% to \$2.4 billion.

“The macro-economic environment presents both challenges and opportunities with rising interest rates supporting annuity sales and investment returns, however wider credit spreads and lower

¹ PCA ratio represents total Challenger Life Company (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 30 June 2022.

equity markets triggered unrealised market losses in the second half. Credit spreads have partially reversed in July.

“We continue to maintain a significant competitive advantage in funds management, with an exceptional range of managers and diversified offering, ensuring we have Australia’s leading active manager platform.

“Funds Management grew earnings by 17%, benefiting from average FUM growth of 13% and higher margins,” he said.

Mr Hamilton said Challenger had extended its strategy to play a more meaningful role in its customers lives and is focused on expanding its product and distribution capability.

“We’ve also announced new strategic partnerships with SimCorp and Apollo, which will generate new and diverse sources of revenue.

“The joint venture with Apollo reflects the continued success of our relationship, which we have been developing over a number of months. We see significant potential in the specialist lending market. This initiative will address an underserved market, providing businesses with high quality lending solutions and support.”

Mr Hamilton said Challenger has commenced a strategic review of Challenger Bank.

“The review is considering if the Bank will realise the expected benefits in the timeframe anticipated, and its alignment with Challenger’s strategy.

“As we look into FY23, our business is in great shape. We remain strongly capitalised and well positioned to leverage and benefit from our unique competitive advantages, and deliver for our customers, our shareholders and our people,” he said.

Group financial performance

Normalised net profit before tax of \$472 million was up 19% and towards the upper end of Challenger’s guidance range.

Statutory net profit after tax was \$254 million, reflecting wider credit spreads and lower equity markets driving unrealised mark-to-market investment experience.

Group assets under management (AUM) was down 10% to \$99 billion with strong Life book growth and higher AUM offset by lower Funds Management FUM.

Group expense management remained disciplined, increasing by 2% excluding the recently acquired Bank.

Challenger Life

Challenger Life is Australia’s leading retirement income brand, providing products and solutions to help older Australians achieve financial security for a better retirement.

Life earnings before interest and tax increased by 18% to \$472 million, driven by sales and AUM growth, with a stable cash operating earnings margin. Life Book growth was 14% for the year.

Sales results reflect a focus on broadening distribution channels and driving product innovation across retail and institutional markets, including the launch of the new market-linked lifetime annuity.

Total Life sales were up 40% to \$9.7 billion, including annuity sales of \$5.1 billion, an increase of 12% on FY21.

Institutional sales were up 68% to \$6.7 billion driven by sales of institutional term annuities and Challenger Index Plus, with an increased focus on expanding relationships with institutional partners.

The continued focus on working with financial advice groups and independent financial advisers saw domestic retail annuity sales increase by \$240 million or 11% to \$2.4 billion.

Japanese (MS Primary) annuity sales were \$617 million, exceeding the minimum agreed target, however sales were down 22% on last year.

Annuity sales finished the year strongly with fourth quarter sales \$1 billion, up 30% on last year with domestic retail sales particularly strong.

Funds Management

Challenger's Funds Management business is one of Australia's largest active fund managers² and is well positioned for growth with a diverse range of managers and asset classes. Fidante partnered with new affiliates during the year including Cultiv8 which is targeting emerging opportunities in Australia's agricultural sector.

Funds Management earnings before interest and tax increased by 17% to \$83 million, driven by average FUM growth, up 13% to \$104 billion and an expansion in margins. Margins benefited from a change in FUM mix, including the benefit of growth in Fidante's retail franchise.

The consistent value Fidante generates for its clients is demonstrated in superior investment performance, with 98% of FUM outperforming benchmark over three years.

Bank

The Bank incurred a loss before interest and tax of \$11 million, reflecting significant regulatory and integration expenses.

The net interest margin (NIM) was 0.93% for the 11 months to June 2022.

Bank strategic review

Since announcing the Bank acquisition in December 2020, market conditions have changed and it is becoming apparent the Bank is unlikely to realise the expected benefits in the timeframe anticipated. As a result, Challenger is reviewing the Bank's position within the group and has commenced a strategic review of the business.

Challenger is considering all options in relation to the Bank and has appointed Gresham Partners to assist.

² Calculated from Rainmaker Roundup, March 2022 data.

In the meantime, there will be no change to the Bank's operations. Challenger Bank will continue to offer products and services to existing and new customers.

Capital

Challenger continues to maintain a strong capital position with financial flexibility.

At the end of FY22, Challenger had \$1.8 billion of Group excess regulatory capital, representing a Group minimum regulatory requirement ratio of 1.68 times.

Challenger Life finished the year with a Prescribed Capital Amount ratio of 1.60 times, which is toward the top end of Life's PCA ratio range³.

Strategic Partnerships

Challenger announced two new joint venture partnerships in FY22, which will further diversify its revenue streams and build long-term growth.

A joint venture to be formed with global software provider SimCorp (CSE:SIM) will create a technology-led investment administration business, servicing Australian and Asia Pacific investment managers and superannuation funds.

Challenger and Apollo establish joint venture

Challenger has entered a definitive agreement with Apollo (NYSE:APO) to establish a joint venture.

The joint venture will aim to address a wide array of client financing needs, providing structured and asset-backed lending solutions such as accounts receivable finance, invoice and trade finance, equipment finance, auto finance and agricultural funding, among other bespoke credit solutions. The joint venture will focus on lending opportunities not well served by traditional syndicated markets and will be equally owned by Challenger and Apollo.

The execution of the binding legal documentation follows Challenger's announcement on 17 February 2022 that it had entered into a non-binding Memorandum of Understanding with Apollo.

The joint venture will leverage the capabilities of both Challenger and Apollo to drive opportunities for growth for both firms. It will bring together Challenger's operating platform and relationships across Australian lending markets with Apollo's extensive global scale and credit investing capabilities, whilst also providing important origination capability to support growth across Challenger's balance sheet.

Outlook

In FY23, Challenger is targeting normalised net profit before tax guidance between \$485 million and \$535 million.

³ Challenger Life Company (CLC) PCA ratio represents CLC total Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA)

Investor presentation webcast

Challenger will provide an investor update at 10.30am (Sydney time) on 16 August 2022. The presentation will be streamed live via webcast which can be accessed at www.challenger.com.au/shareholder.

ENDS

This release had been authorised by Challenger's Continuous Disclosure Committee.

Key metrics

	FY22	FY21	Change
Total Group assets under management (\$bn)	98.6	110.0	(10%)
CLC excess regulatory capital and Group cash (\$bn)	1.7	1.9	(8%)
Life net book growth (%)	14.3	14.4	(10bps)
Total Life sales (\$bn)	9.7	6.9	40%
Annuity sales (\$bn)	5.1	4.6	12%
Funds Management net flows (\$bn)	(8.5)	16.1	n.a
Normalised NPBT (\$m)	472	396	19%
Normalised NPAT (\$m)	322	279	15%
Statutory NPAT (\$m)	254	592	(57%)
Normalised EPS (cps)	47.6	41.5	15%
Statutory EPS (cps)	37.5	88.2	(57%)
Normalised ROE pre-tax (%)	11.9	11.2	70 bps
Normalised ROE post-tax (%)	8.1	7.9	20 bps
Normalised cost to income ratio (%)	38.7	41.2	(250 bps)
Full year dividend (cps)	23.0	20.0	15%

About Challenger

Challenger Limited (Challenger) is an investment management firm focused on providing customers with financial security for a better retirement.

Challenger operates three core investment businesses – a fiduciary Funds Management division, an APRA-regulated Life division and an APRA regulated authorised deposit-taking institution. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

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