

CHALLENGER ANNOUNCES 1H23 RESULTS¹

Strong performance reflects benefits of diversified business focused on customer needs

- Normalised NPBT² \$250 million (up 5%) with stronger contribution from Life offset by Funds Management and investing for growth
- Statutory NPAT \$123 million, down 56% due to largely unrealised investment market movements
- Interim dividend 12.0 cents per share fully franked, up 4%

Life positioned to take advantage of rising demand for guaranteed income

- Record half year Life sales \$5.5 billion (up 11%), driven by record annuity sales growth (up 41%), with particularly strong retail demand (retail annuity sales up 89%)
- Life book growth \$1.0 billion reflecting 5.5%³ book growth in 1H23
- Average Funds Management FUM \$93 billion, down 14% reflecting the sale of Whitehelm Capital in 2H22⁴ and investment markets
- Remains strongly capitalised with Life PCA ratio of 1.59 times⁵

Execution of growth strategy

- Investing in customer-focused initiatives, including launch of new digital capabilities
- Strategic partnerships to diversify revenue and leverage partner expertise progressing
- Simplifying the business, including sale of Challenger Bank

Challenger (ASX:CGF) today announced its financial results for the first half of FY23 with normalised net profit before tax up 5% to \$250 million.

The Life business is benefitting from a more favourable macroeconomic environment, with higher interest rates helping to accelerate annuity sales and expand margins. Funds Management earnings were lower, reflecting lower average funds under management (FUM) following the sale of Whitehelm Capital in the second half of FY22, and the market sell off last year.

Managing Director and Chief Executive Officer, Nick Hamilton said:

“Our strong performance over the half year again demonstrates the resilience we have embedded through our diversified business model, enabling us to capture opportunities in all market conditions.

“We have positioned the business to benefit from rising interest rates, which have stimulated strong demand for retail annuities, particularly longer dated products. Total annuity sales grew 41%, led by record retail annuity sales, which were up 89% to \$2.1 billion.

“In Funds Management, our diverse offering has allowed our business to largely withstand market conditions, with total FUM remaining stable over the half.

Mr Hamilton said Challenger had made significant progress implementing its customer-focused strategy and leveraging its strategic partnerships to drive future growth.

"In the first half we have been focused on building a more customer-centric business, simplifying our operations, and executing our growth strategy.

"We have re-organised our business, centralising our operations around our customers and investing in a range of initiatives that will help enhance and expand customer access to Challenger products and services. This includes launching a new registry service to support our customers and make it easier to access products, whilst also improving our ability to bring new solutions to market.

"The Apollo non-bank lending joint venture and Artega are progressing in line with management's expectations. Both businesses are now operational and have leadership appointed. These partnerships will leverage the capabilities and expertise of our global partners and will further diversify Challenger's revenue streams and build long-term growth.

"Reflecting the strength of the business, the Board determined an interim dividend of 12.0 cents per share."

Group financial performance

Normalised net profit before tax (NPBT) was up 5% to \$250 million, with the higher earnings driven by strong Life book growth and higher COE margins.

Statutory net profit after tax (NPAT) of \$123 million was down 56%, impacted by negative investment experience (\$42 million after tax) due to investment market movements resulting in largely unrealised investment experience.

Group Assets Under Management (AUM) were \$99 billion, which was up 1% in the half; however, down 14% on the prior comparable period (pcp).

Challenger Life Company Limited (Challenger Life or CLC) remains strongly capitalised with \$1.6 billion of excess regulatory capital, representing a PCA ratio of 1.59 times the minimum regulatory requirement.

Challenger Life

Challenger Life is Australia's leading retirement income brand⁶, playing an important role in helping older Australians achieve financial security for a better retirement.

Life earnings before interest and tax (EBIT) was \$263 million, up 13%, benefitting from a more favourable macroeconomic environment. Interest rates are rising off historical lows and fixed income credit spreads have widened as credit markets normalise.

Higher interest rates helped drive margin expansion and an acceleration of annuity sales. Demand is being driven by higher annuity pricing, which is the highest it has been in a decade, with customers attracted to longer-duration fixed term products.

Wider fixed income credit spreads are improving the return on Life's investment portfolio as they season through the portfolio.

Total Life sales were up 11% to \$5.5 billion, driven by exceptional growth in retail annuity sales (up 89% to \$2.1 billion). Retail sales are also benefitting from strong reinvestment rates, with 68% of fixed term maturities reinvested into a new product.

Higher retail sales and reinvestments drove strong annuity book growth of 5.9% for the half. This reflects retail demand for longer tenor products, with 71% of new business annuity sales⁷ for terms of two years or more, up from 61% in the pcg.

Institutional sales were down 14% to \$2.9 billion, with strong reinvestment rates across both institutional term annuities and Challenger Index Plus.

Japanese (MS Primary) annuity sales were steady at \$0.4 billion and are on track to deliver the minimum agreed annual sales target.⁸

Product innovation and enhancing customer experience

Challenger continues to lead the industry in product innovation, building on its retirement offering in the half. Challenger's market-leading Liquid Lifetime annuity has been enhanced with a new accelerated payment option now available, supporting customers who want more income at the start of retirement.

Challenger Life was also recognised for its innovative range of retirement products, awarded the Longevity Cover Overall Excellence Award by Plan For Life.

Work has also progressed on a range of initiatives to enhance the customer experience. This includes new digital innovations to improve the direct customer experience, which will enable customers to buy term annuity products within minutes.

Funds Management

Challenger's Funds Management business is one of Australia's largest active fund managers⁹ with a diverse range of contemporary affiliate managers, products and services.

Funds Management EBIT was down 32% to \$31 million due to lower average FUM of \$93 billion compared to the prior period.

However, Funds Management FUM across the half was broadly stable at \$93 billion, with positive investment markets (\$3.1 billion) offsetting net outflows (\$1.8 billion) and distributions to customers (\$1.4 billion). Net outflows primarily related to low margin fixed income products, with Funds Management net income margin increasing 0.7bps on the pcg to 18.7bps.

With a focus on enhancing customers' digital experience, Funds Management launched a new registry system to optimise client engagement and make it easier to transact.

The investment in digital innovation and brand will support Funds Management's strategy to broaden its customer base and make it easier to do business.

Funds Management is focused on further diversifying its offering by expanding its range of products available to customers. Fidante launched new funds in the half including the OxCap Dynamic Asia UCITS fund, the Cultiv8 Agriculture and Food Technology Fund, and two new Alphinity active ETFs.

Fidante was also recognised for its leading distribution capability, awarded Zenith Investment Partners' Distributor of the Year for the third year in a row.

Strategic Partnerships

Challenger is accelerating growth and diversifying revenue streams through strategic partnerships. Building on our existing relationship with MS&AD (TYO:8725), Challenger has established new partnerships with global investment management leader, Apollo (NYSE:APO) and investment administration technology leader, SimCorp (CSE:SIM).

Apollo strategic partnership and lending joint venture

Challenger and Apollo have been working together on a range of opportunities that leverage their common purpose, strong complementary skills, scale and capabilities.

This includes product and distribution opportunities including a partnership that will bring the Apollo Aligned Alternatives (AAA) fund to the Australian market.

Work has also progressed on Apollo and Challenger's non-bank lending joint venture, which will deliver finance solutions in sectors not well served by traditional providers, including the major banks.

In September 2022, Challenger announced the appointment of experienced business leader, Mr David Moffatt, as Chair of the joint venture, alongside senior Challenger executive, Mr Chris Plater, as CEO of the joint venture.

Artega Investment Administration launched and operational

In October 2022, Challenger and SimCorp established Artega Investment Administration, a new joint venture providing technology-led investment administration services to investment managers and superannuation funds in Australia.

The business is now operational with more than 130 Challenger employees transferred and investment administration services being undertaken for Challenger and its affiliate managers. Artega secured its first new third-party client, a \$2 billion multi-manager, in January 2023.

The venture is majority-owned by Challenger and led by long-standing Challenger executive, Mr David Mackaway, as CEO, with experienced financial services executive, Mr Brian Bissaker, appointed Independent Chair.

Challenger Bank

In October 2022, Challenger announced the sale of Challenger Bank Limited to Heartland Group Holdings Limited (NZX/ASX:HGH) (Heartland). The Bank sale follows the completion of a strategic review announced in August 2022, which concluded a sale was the best option for Challenger.

The Bank is strongly capitalised, with approximately \$100 million to be returned prior to completion. Completion is subject to regulatory approvals in Australia and New Zealand.

Outlook

In FY23, Challenger expects profit growth to continue and reaffirms its 2023 full year guidance range for normalised net profit before tax of between \$485 million and \$535 million.

Investor presentation webcast

Challenger's Managing Director and Chief Executive Officer, Nick Hamilton, and Chief Financial Officer, Alex Bell will provide an online investor update at 10.30am (Sydney time) on 14 February 2023.

The presentation will be streamed 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

	1H23	1H22	Change
Normalised NPBT (\$m)	250	238	5%
Normalised NPAT (\$m)	167	166	1%
Statutory NPAT (\$m)	123	282	(56%)
Normalised EPS (cps)	24.5	24.5	-
Statutory EPS (cps)	18.0	41.8	(57%)
Normalised ROE pre-tax (%)	12.3	12.1	20 bps
Interim dividend (cps)	12.0	11.5	4%
Total Group AUM (\$bn)	99.4	114.9	(14%)
Total Life sales (\$bn)	5.5	4.9	11%
Annuity sales (\$bn)	3.5	2.5	41%
Life net book growth (%)	5.5	8.4	(290 bps)
Funds Management net flows (\$bn)	(1.8)	0.9	n.a
CLC excess regulatory capital and Group cash (\$bn)	1.7	1.9	(10%)

About Challenger

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

Challenger operates 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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¹ All growth rates compare the half year ended 31 December 2022 against the half year ended 31 December 2021 unless otherwise stated.

² The normalised profit figures are non-statutory amounts and in Challenger's view better reflect the underlying operating performance of the business. The normalised profit figures exclude investment experience and significant items. Investment experience includes both assets and policy liability experience and net new business strain. Asset and liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and normalised capital growth in relation to assets, plus any economic and actuarial assumption changes in relation to policy liabilities for the period. New business strain results from using the risk-free rate plus an illiquidity premium to value term and lifetime annuities. New business strain is a non-cash item and subsequently reverses over the future period of the contract. The normalised profit also excludes any significant items which represent non-recurring income and expense items for the period. The normalised profit framework and reconciliation to statutory profit have been discussed in Section 8 of the Operating and Financial Review in the 2023 Interim Financial Report. The normalised profit is not audited but is subject to a review performed by Ernst & Young.

³ Book growth percentage represents net flows for the period divided by opening book value for the financial year.

⁴ In February 2022, Challenger completed the sale of Fidante's 30% equity interest in Whitehelm Capital to PATRIZIA AG for €32 million (~A\$50 million) and derecognised \$5,162 million of FUM.

⁵ PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 31 December 2022.

⁶ Plan For Life – September 2022 – based on annuities under administration.

⁷ New business annuity sales by tenor excluding reinvestment sales and MS Primary sales.

⁸ Reinsurance across both Australian and US dollar annuities, of at least ¥50 billion (A\$530m based on the exchange rate as at 30 June 2022) per year for a minimum of five years, commencing 1 July 2019. This is subject to review in the event of a material adverse change for either MS Primary or Challenger.

⁹ Calculated from Rainmaker Roundup, September 2022 data.