challenger

Analyst Pack
1H24

Contents

2024 Interim Financial Report

can be downloaded from Challenger's online Shareholder Centre

> challenger.com.au/shareholder

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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 1H24 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 Interim Financial Report is available from Challenger's shareholder centre at: www.challenger.com.au/shareholder

The 1H24 Analyst Pack is not audited. The statutory net profit after tax as disclosed in the consolidated profit and loss (page 9) 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 9), has been prepared in accordance with a normalised profit framework, which is disclosed in Note 4 Segment Information of the 2024 Interim Financial Report.

The 2024 Interim Financial Report and normalised profit framework have both been subject to a review 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.

1H24 financial highlights[1,2]

Group	Normalised net profit before tax $290m, up 16%
	Normalised net profit after tax $201m, up 20%
	Statutory net profit after tax[3] $56m, up 80%
	Normalised EPS[4] 29.3 cents per share, up 20%
	Statutory EPS[3,4] 8.2 cents per share, up 78%
	Net income $447m, up 9%
	Expenses $155m, down 2%
	Normalised cost to income ratio 34.6%, down 390 bps
	Group assets under management $117.1b, up 18%
	Normalised Return On Equity (pre-tax) 15.0%, up 270 bps
	Statutory Return On Equity (post-tax)[3] 2.9%, up 140 bps
	Interim dividend 13.0 cents per share (fully franked), up 8%
	Normalised dividend payout ratio 44.4%
Life	Normalised Cash Operating Earnings (COE) $360m, up 13%
	COE margin 3.04%, up 28 bps
	Expenses $58m, up 8%
	Normalised EBIT[5] $302m, up 15%
	Total Life sales $5.3b, down 4%
	Annuity sales $3.3b, down 7%
	Total Life book growth $0.3b, or 1.7% growth in opening liabilities
	Annuity net book growth $0.5b, or 3.6% growth in opening liabilities
	Average investment assets $23.6b, up 3%
	Investment assets $24.1b, up 4%
	Normalised Return On Equity (pre-tax) 18.1%, up 330 bps
	Prescribed Capital Amount (PCA) ratio 1.50 times, down from 1.59 times[6]
	Common Equity Tier 1 (CET1) ratio 1.10 times, down from 1.16 times[6]
	Capital intensity 11.9%, up from 11.4%[6]
Funds Management	Net income $87m, down 1%
	Expenses $59m, up 3%
	EBIT[5] $29m, down 7%
	Net inflows $5.6b, up from net outflows of $1.8b
	Average Funds Under Management (FUM) $100.0b, up 7%
	Closing FUM $107.6b, up 15%
	Return On Equity (pre-tax) 18.1%, down 300 bps

1 All percentage movements compare 1H24 to the prior corresponding period (1H23) unless otherwise stated.
2 Normalised metrics exclude Discontinued Operations (Bank) in 1H24, 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 periods 1H23 and 2H23 Statutory net profit after tax, Statutory EPS and Statutory ROE are restated to reflect the application impact of AASB 17.
4 Earnings per share (EPS).
5 Earnings before interest and tax (EBIT).
6 Comparison period refers to 30 June 2023 (2H23).

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 fifth largest pension system globally[1] and one of the fastest growing, with assets increasing by 10% per annum over the past 20 years[2].

Australia's superannuation system is forecast to grow from $3.5 trillion today[3] to over $9 trillion[4] in the next 20 years.

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 world[5], with the average time spent in retirement approximately 24 years[6].

Life

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

Life's annuity products appeal to retirees as they provide security and certainty of guaranteed[7] income, while protecting against the risks of investment markets and inflation. By providing certainty of income, Challenger ensures customers have more confidence to spend in retirement.

Lifetime annuities also protect retirees from the risk of outliving their savings, given 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 brand[8] 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 fourth consecutive year.

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

As Australia's superannuation system matures, the retirement phase of superannuation is expected to increase significantly. The number of Australians over the age of 65 is expected to increase by nearly 56% over the next 20 years[9]. Reflecting these demographic changes, and growth in the superannuation system, the annual transfer from the savings phase of superannuation to the retirement phase was estimated to be approximately $87 billion[10] in 2022.

The purpose of superannuation is to provide income in retirement to substitute or supplement the Government-funded age pension. 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 in retirement.

The Australian Government is progressing a range of retirement income regulatory reforms designed to enhance the retirement phase and better align it with the objective of the superannuation system.

The Retirement Income Covenant took effect from 1 July 2022 as part of the ***Superannuation Industry Supervision Act 1993*** (Cth) (SIS Act) and requires all APRA-regulated superannuation funds to have a documented retirement income strategy that outlines how they plan to assist their members in retirement.

In December 2023, the Australian Government released its final response to the Quality of Advice Review (QAR), which is 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 proposes that, in addition to reforms already progressed, the Government will enact the majority of the remaining recommendations made in the QAR, which was delivered to the Government in December 2022. Refer to page 32 for more detail on the QAR.

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 deliver retirees 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,

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[1] Thinking Ahead Institute Global Pension Assets Study 2023.
[2] APRA Annual Superannuation Bulletin.
[3] The Australian Prudential Regulation Authority (APRA), as at September 2023.
[4] Deloitte Dynamics of the Australian Superannuation System: The Next 20 Years to 2041.
[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 – September 2023 – based on annuities under administration.
[9] 2023–2043 comparison based on Australian Bureau of Statistics, Population Projections Series B medium.
[10] Based on Taxation Statistics 2020-21 from Australian Taxation Office.

superannuation funds and directly. Life's products are included on all major advice hubs' Approved Product Lists (APLs) and are available on leading independent investment and administration platforms.

Consistent with Life's strategy to broaden customer access across multiple channels, Life recently launched a new online direct channel for retail customers to invest directly and has also launched annuities 'in' the Netwealth platform.

Life is also making significant 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 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 and Japanese yen denominated annuities. MS Primary is a leading provider of annuity products in Japan and is part of MS&AD Insurance Group Holdings Inc. (MS&AD).

Under the reinsurance arrangement, MS Primary is expected to reinsure at least ¥50 billion (equivalent to ~A$520 million)[11] of its Australian dollar, US dollar and Japanese yen annuities with Life in FY24. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

MS&AD holds approximately 15% equity interest in Challenger Limited and an MS&AD representative has been appointed to the Board.

Refer to page 31 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, by supporting customers build savings through providing contemporary investment strategies and products that seek to deliver superior investment returns.

Funds Management is one of Australia's largest active fund managers[12] with funds under management (FUM) of $108 billion, which has more than doubled over the last 10 years (up from $45 billion in 2014).

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 Asia.

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, over 70% of Australia's top 50 superannuation funds are clients.

Fidante's business model involves taking minority equity interests in separately branded affiliate funds management firms, with Challenger providing distribution services and business support, and Artega Investment Administration (Artega) providing 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. Over the last five years, long-term performance of Fidante's Australian affiliates was strong with 99% of investments outperforming their respective benchmarks[13].

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

CIM principally originates and manages fixed income and commercial real estate for leading global and Australian institutions, including Challenger Life. Challenger Life accounts for approximately 80% of CIM's FUM.

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

Bank

In October 2022, Challenger announced it had entered into a share sale agreement to sell the Bank to Heartland Group Holdings Limited (NZX/ASX:HGH). The Bank sale is subject to regulatory approval in Australia and New Zealand and is expected to settle in 2H24. Under the agreement with Heartland, Heartland is accountable for Bank operating losses from November 2023.

Risks

The above business and market overview for the Life, Funds Management and Bank businesses is subject to the following key business risks:

- investment market volatility;
- general uncertainty around the global economy and its impact on markets in which Challenger operates and invests;
- regulatory and political changes impacting financial services markets participants;
- demand for and competition with Challenger products, including annuities, term deposits and managed funds;
- inflation risk; and
- operational risk.

[11] Based on exchange rate as at 30 June 2023.
[12] Calculated from Rainmaker Roundup, September 2023 data.
[13] As at 31 December 2023. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

Purpose, corporate strategy and values

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

OUR STRATEGIC PRIORITIES

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

- Broaden customer access across multiple channels
- Leverage the combined capabilities of the group
- Expand the range of financial products and services for a better retirement
- Strengthen resilience and sustainability of Challenger

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.

1H24 strategic progress

Progress over 1H24 has been measured against Challenger's four strategic priorities.

1. Broaden customer access across multiple channels

1H24 progress:

Delivering higher quality Life sales

Challenger is executing a range of strategic initiatives to improve the quality of the Life book through growing longer duration and more profitable business.

In 1H24, the Life business achieved total Life book growth of 1.7% and annuity book growth of 3.6%, with total Life sales of $5.3 billion comprising annuity sales of $3.3 billion and Challenger Index Plus sales of $2.0 billion.

Annuity sales were supported by rising demand for guaranteed income that drove record sales of lifetime annuities of $1.1 billion (up 190%), which included a group lifetime annuity policy to the value of $0.6 billion to 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).

Excluding the Aware Super group lifetime annuity, retail lifetime annuity sales were $0.5 billion (up 25%) and included CarePlus sales of $263 million (up 45%). CarePlus achieved its highest volume of sales in 1H24 since launching in 2015, reflecting the growing opportunity in aged care.

Challenger's focus on driving higher quality, longer duration sales is reflected through 90% of new business annuity sales having a tenor of 2-years or more[1] compared with 72% in 1H23. The tenor on new business sales also increased to 8.9 years, up from 5.4 years in 1H23.

Challenger Index Plus is an institutional product providing institutional clients guaranteed excess return above a chosen index. With the focus on growing longer duration business, Challenger has been seeking to extend the tenor of Index Plus business being written. In October 2023, Challenger secured a five-year Index Plus mandate to the value of $500 million from a prominent insurance client. This investment demonstrates Challenger's ability to attract longer-term investments from institutional clients.

Delivering retirement partnerships

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

There are opportunities for Challenger to engage and support funds to develop their retirement income propositions, as required under the Retirement Income Covenant. Refer to page 32 for more information.

Currently, Challenger's clients include Australia's top superannuation funds.

In October 2023, profit-to-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-to-member guaranteed lifetime income stream since the Retirement Income Covenant commenced.

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 (RIS) and can 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 2H24 and generate ongoing 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 that covers approximately 3,000 members and de-risks the fund's lifetime pension liabilities. This partnership is the largest defined benefit buy-in in Australia to date 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 Challenger fixed term annuities directly and to invest both superannuation and non-superannuation monies.

Enhancing Challenger's brand

In 1H24, Challenger launched its new sponsorship strategy that is designed to enhance the Challenger brand, showcase Challenger's retirement credentials and ensure Challenger continues to be the 'go to' brand for retirement.

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, the partnership represents an exciting opportunity to showcase Challenger's brand and retirement credentials as it focuses on taking a broader stance in retirement.

Award-winning investment strategies and products

Challenger is the market leader in Australian retirement incomes according to 92% of financial advisers – 35 percentage points ahead of its closest peer[2].

In December 2023, Challenger won Plan For Life's 'Best Overall Longevity Cover' award for a fourth consecutive year, which recognised Australian life companies and fund managers that have products designed to assist retirees in meeting the challenges of longevity. Challenger also won the Plan For Life 'Best Longevity Product' award for its Liquid Lifetime annuity product suites and received Money Magazine

[1] 1H24 new business annuity sales exclude reinvestments and Japanese sales.
[2] Marketing Pulse Adviser Study December 2023 based on (% agree / strongly agree).

Australia's 'Best of the Best 2024' award for 'Innovation – Leadership in Retirement Strategies' that recognised our innovative approaches to helping build resilient retirement income portfolios.

Fidante's investment managers continue to be externally recognised. Fidante is a 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.

During 1H24, 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); and
- Ardea Investment Management – Insurance Asset Management Awards 2023 – Fixed Income Manager of the Year (up to €100bn AUM).

Fidante's products are continually recognised externally as high quality, with 85% of strategies (58 out of the 68) rated either Recommended or Highly Recommended by research houses[3].

2. Expand the range of financial products and services for a better retirement

1H24 progress:

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 global developed securitised markets. The fund builds on CIM's existing range of products and targets a return between 3% and 4% plus the Euro Short Term Rate per annum through the cycle[4].

Expanding alternatives offering

Fidante has a strategy to grow its alternatives products and distributions capability in response 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 will distribute Elanor's existing and new funds and Elanor became a new Fidante affiliate manager.

Fidante successfully completed a capital raising in partnership with Elanor in December 2023 to acquire 55 Elizabeth Street, Brisbane, for $109 million. The acquisition of 55 Elizabeth Street is well positioned to benefit from long-term growth in the Brisbane office market.

In July 2023, Fidante completed an agreement to acquire 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 September 2023, Fidante commenced distributing the Apollo Aligned Alternatives (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 the business. Concurrently, Fidante signed an exclusive distribution agreement with Proterra Asia and will commence raising capital for Proterra Asia's next vintage fund, Food Fund 4, in 2024.

3. Leverage the combined capabilities of the Group

1H24 progress:

Sale of Challenger Bank

In October 2022, Challenger announced it had entered into a share sale agreement to sell the Bank to Heartland Group Holdings Limited (NZX/ASX:HGH) (Heartland). The sale price will be calculated based on net assets at the time of the sale including any completion adjustments.

The Bank sale continues to progress and is subject to regulatory approvals in Australia and New Zealand. The Bank is strongly capitalised and remaining excess capital is expected to be returned to Challenger on or prior to completion.

Recognising the time from announcement of the sale, and demonstrating confidence that settlement will occur in 2H24, Heartland will be responsible for the operating losses of the Bank from late-November 2023, with Challenger reimbursed through an increase in the sale price.

4. Strengthen resilience and sustainability of Challenger

1H24 progress:

MS&AD relationship extended

MS&AD and Challenger have developed a mutually beneficial relationship over many years, which began as an annuity relationship with MS Primary and has expanded to a range of other initiatives, including real estate and fixed income asset management mandates.

[3] As at 31 December 2023.
[4] Gross return before fees.

In November 2023, Challenger extended its highly successful reinsurance agreement with MS Primary and commenced reinsuring Japanese yen denominated annuities alongside Australian dollar and US dollar annuities issued in the Japanese market by MS Primary. The evergreen relationship will further diversify the range of products Challenger reinsures and allow Challenger to continue to support MS Primary to provide financial security to its customers.

Apollo strategic relationship expanded

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

Challenger and Apollo share a common purpose, with strong complementary skills and capabilities.

Both parties are working together on a range of opportunities to help Challenger’s customers achieve financial security in retirement and deliver meaningful value for shareholders, which includes an agreement to distribute Apollo’s AAA strategy to the Australian market and a joint venture to build a non-bank lending platform in Australia and New Zealand.

In November 2023, Challenger announced it had further expanded its strategic relationship with Apollo to support its growth strategy. Under the expanded relationship, Challenger and Apollo have formed an origination partnership and a representative from Apollo was appointed as a Non-Executive Director of Challenger Limited in November 2023. The origination partnership will provide 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.

Embedding ESG across the business

Challenger recognises that sustainability is important to the long-term success of our business and reflects the responsibility we have to 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 our behalf. We have been a signatory to the Principles for Responsible Investment (PRI) since 2015 and achieved a positive PRI Assessment Outcome in the 2023 reporting cycle.

Managers that offer products with a sustainability theme 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 December 2023, the Australian Government released the exposure draft legislation for the introduction of the climate-related financial disclosure regime that 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 work program, which focuses on climate risk.

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 our community engagement program, we support a number of organisations that make a significant contribution to local communities. Challenger has established a new partnership with the Australian Academy of Technological Sciences and Engineering (ATSE) and was the founding partner of ATSE’s Traditional Knowledge Innovation award in October 2023 that recognised the next generation of Indigenous leaders in STEM.

In December 2023, Challenger submitted its 2023 Modern Slavery Statement which focused on strengthening our approach to identifying, assessing and mitigating risks relating to modern slavery across our business, operations and supply chains.

Transformation partnership

Challenger is undertaking a technology transformation partnership that will enable its growth strategy by making it easier to do business with Challenger, broadening the customer base and delivering an innovative offering.

Professional services firm Accenture, which has a track record in delivering technological transformation programs for international insurance companies, will become Challenger's long-term technology partner.

Under the arrangement, Accenture will run Challenger’s technology platform and modernise Life’s customer technology. The initial agreement will commence by the start of the 2025 financial year for a seven-year term.

The partnership will provide Challenger with access to Accenture’s world class technology and capability in a rapidly evolving technology landscape. 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.

Importantly, as Challenger focuses on broadening its customer reach, the transformation program will enable Challenger to improve how it integrates its offering with superannuation funds and 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.

A key priority of the technology transformation partnership will be to replace Life’s core annuity registry system with global insurance system ALIP (Accenture Life Insurance and Annuity Platform) and to provide new customer portals.

The transformation partnership is expected to deliver $90 million of operating savings over seven years, commencing in FY25.

Challenger expects to invest $25 million across FY24 and FY25 that will be treated as a one-off significant item ($4 million has been incurred in 1H24).

Key performance indicators

	1H24	2H23	1H23	2H22	1H22	2H21	1H21
Earnings							
Normalised NPBT[2] ($m)	290.3	270.3	250.4	234.8	237.5	199.6	196.2
Normalised NPAT[2] ($m)	200.7	196.8	167.2	155.9	165.6	141.7	136.8
Statutory NPAT[1] ($m)	56.3	140.2	31.2	(28.4)	282.1	369.5	222.8
Underlying operating cash flow ($m)	(88.3)	286.4	37.3	23.6	(124.9)	37.3	119.5
EBIT margin (%)[2]	65.4%	63.1%	61.5%	60.7%	61.9%	56.7%	61.0%
Normalised cost to income ratio[2] (%)	34.6%	36.9%	38.5%	39.3%	38.1%	43.3%	39.0%
Normalised effective tax rate[2] (%)	30.9%	27.2%	33.2%	33.6%	30.3%	29.0%	30.3%
Earnings per share (cents)							
Basic – normalised[2]	29.3	28.8	24.5	23.1	24.5	21.1	20.4
Basic – statutory[1]	8.2	20.5	4.6	(4.2)	41.8	54.9	33.2
Diluted – normalised[2]	26.7	25.2	22.3	19.9	20.7	17.8	17.5
Diluted – statutory[1]	8.1	20.1	4.5	(4.2)	33.9	43.4	27.3
Return On Equity (%)							
Normalised ROE – pre-tax[2]	15.0%	13.1%	12.3%	11.7%	12.1%	11.1%	11.5%
Normalised ROE – post-tax[2]	10.4%	9.6%	8.2%	7.8%	8.4%	7.8%	8.0%
Statutory ROE – post-tax[1]	2.9%	6.8%	1.5%	(1.4%)	14.3%	20.5%	13.0%
Capital management							
Net assets – average[3] ($m)	3,904	4,151	4,025	4,048	3,904	3,641	3,396
Net assets – closing ($m)	3,904	4,164	4,048	3,988	4,059	3,826	3,513
Net assets per basic share ($)	5.70	6.09	5.94	5.86	6.00	5.69	5.23
Net tangible assets ($m)	3,296	3,553	3,433	3,372	3,420	3,202	2,877
Net tangible assets per basic share ($)	4.81	5.20	5.03	4.96	5.06	4.76	4.28
Dividend (cps)	13.0	12.0	12.0	11.5	11.5	10.5	9.5
Dividend franking (%)	100%	100%	100%	100%	100%	100 %	100%
Normalised dividend payout ratio[2] (%)	44.4%	41.7%	49.0%	49.8%	46.9%	49.8 %	46.6%
PCA Capital ratio (times)	1.50	1.59	1.59	1.60	1.69	1.63	1.63
CET1 Capital ratio (times)	1.10	1.16	1.12	1.11	1.20	1.14	1.09
Sales, net flows and assets under management							
Life annuity sales ($m)	3,295.3	1,973.4	3,543.9	2,606.4	2,516.3	2,375.0	2,191.0
Other Life sales ($m)	1,958.3	2,294.2	1,935.1	2,156.6	2,426.8	1,115.6	1,246.5
Total Life sales ($m)	5,253.6	4,267.6	5,479.0	4,763.0	4,943.1	3,490.6	3,437.5
Life annuity net flows ($m)	508.0	(416.9)	802.0	466.5	607.7	922.2	157.6
Life annuity book ($m)	15,035	13,930	14,278	13,595	14,093	13,670	12,770
Life annuity book growth (%)[4]	3.6%	(3.1%)	5.9%	3.5%	4.4%	7.3%	1.3%
Total Life net flows ($m)	328.0	(49.1)	984.9	1,025.9	1,446.0	1,455.1	708.7
Total Life book[5] ($m)	20,142	19,199	18,899	17,982	18,474	17,302	15,801
Total Life book growth (%)[4]	1.7%	(0.3%)	5.5%	5.9%	8.4%	9.7%	4.7%
Funds Management – net flows ($m)	5,602.5	1,353.9	(1,826.2)	(9,429.2)	904.4	9,688.1	6,423.4
Total Group AUM[2] ($m)	117,125	104,952	99,393	98,570	114,907	109,960	96,087
Other							
Headcount – closing FTEs	758	817	761	770	735	738	709
Weighted average number of basic shares on issue[6] (m)	684.3	683.1	681.1	676.9	674.6	672.3	670.8
Number of basic shares on issue[6] (m)	684.8	683.8	682.0	680.0	676.0	672.6	672.2
Share price closing ($)	6.49	6.48	7.62	6.84	6.53	5.41	6.44

[1] Statutory metrics for Profit and Loss and the Balance Sheet includes the application impact of AASB 17 in 1H24. Prior periods 1H23 and 2H23 Statutory net profit after tax, Earnings per share (Basic - statutory), Earnings per share (Diluted - statutory) and Statutory ROE are restated for the application impact of AASB 17. Refer to Challenger's 2024 Interim Financial Report for Net Assets restated for the impact of AASB 17.

[2] Normalised metrics exclude Discontinued Operations (Bank) in 1H24, 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] Net assets – average calculated on a monthly basis.

[4] Life annuity liabilities in 1H24 includes the application impact of AASB 17 (1H24: $362.3 million). Life annuity liabilities in 1H23 and FY23 are not restated for the application impacts of AASB 17.

[5] Total Life book includes the Life annuity book and Other Life liabilities.

[6] Excludes CPP Trust Treasury shares.

Consolidated profit and loss[1]

$m	1H24	2H23	1H23	2H22	1H22	2H21	1H21
Life Normalised Cash Operating Earnings	359.7	335.7	317.3	295.4	287.4	268.8	244.0
Funds Management net fee income	87.4	90.9	87.9	93.6	98.2	88.0	81.3
Bank net interest income	—	4.1	4.7	1.4	0.9	—	—
Other income	0.1	1.0	0.6	—	—	—	—
Total net income	**447.2**	**431.7**	**410.5**	**390.4**	**386.5**	**356.8**	**325.3**
Personnel expenses[2]	(91.8)	(94.9)	(107.0)	(103.4)	(101.1)	(93.7)	(86.2)
Other expenses[2]	(62.8)	(64.5)	(51.1)	(50.0)	(46.0)	(60.8)	(40.6)
Total expenses	**(154.6)**	**(159.4)**	**(158.1)**	**(153.4)**	**(147.1)**	**(154.5)**	**(126.8)**
Normalised EBIT	**292.6**	**272.3**	**252.4**	**237.0**	**239.4**	**202.3**	**198.5**
Interest and borrowing costs	(2.3)	(2.0)	(2.0)	(2.2)	(1.9)	(2.7)	(2.3)
Normalised profit before tax	**290.3**	**270.3**	**250.4**	**234.8**	**237.5**	**199.6**	**196.2**
Normalised tax	(89.6)	(73.5)	(83.2)	(78.9)	(71.9)	(57.9)	(59.4)
Normalised profit after tax	**200.7**	**196.8**	**167.2**	**155.9**	**165.6**	**141.7**	**136.8**
Investment experience – AASB 17 transition impact after tax[3]	—	(24.6)	(91.5)	—	—	—	—
Investment experience – other after tax	(145.2)	(25.4)	(42.4)	(190.3)	109.1	231.5	87.1
Total investment experience after tax[3]	**(145.2)**	**(50.0)**	**(133.9)**	**(190.3)**	**109.1**	**231.5**	**87.1**
Bank impairments after tax[4]	—	0.7	(2.1)	(0.9)	—	—	—
Significant items after tax[5]	4.3	(7.3)	—	6.9	7.4	(3.7)	(1.1)
Discontinued Operations (Bank)	(3.5)	—	—	—	—	—	—
Statutory net profit after tax	**56.3**	**140.2**	**31.2**	**(28.4)**	**282.1**	**369.5**	**222.8**
Performance analysis							
Normalised EPS – basic (cents)	29.3	28.8	24.5	23.1	24.5	21.1	20.4
Shares for basic EPS calculation (m)	684.3	683.1	681.1	676.9	674.6	672.3	670.8
Normalised cost to income ratio (%)	34.6%	36.9%	38.5%	39.3%	38.1%	43.3%	39.0%
Normalised tax rate (%)	30.9%	27.2%	33.2%	33.6%	30.3%	29.0%	30.3%
Total net income analysis (%)							
Cash earnings (Life)	79.0%	76.3%	72.5%	69.0%	68.5%	70.3%	70.0%
Normalised capital growth (Life)	1.4%	1.5%	4.8%	6.7%	5.9%	5.0%	5.0%
Net fee income (Funds Management)	19.6%	21.1%	21.4%	24.0%	25.4%	24.7%	25.0%
Net interest income (Bank)	—	0.9%	1.1%	0.3 %	0.2 %	—	—
Other income (Corporate)	—	0.2%	0.2%	—	—	—	—
Normalised EBIT by division ($m)							
Life	301.5	277.2	263.3	239.3	233.0	206.1	192.8
Funds Management	28.5	30.9	30.7	37.7	45.1	35.7	35.3
Bank	—	(4.5)	(4.3)	(7.8)	(3.3)	—	—
Corporate	(37.4)	(31.3)	(37.3)	(32.2)	(35.4)	(39.5)	(29.6)
Normalised EBIT	**292.6**	**272.3**	**252.4**	**237.0**	**239.4**	**202.3**	**198.5**

1 Normalised metrics exclude Discontinued Operations (Bank) in 1H24, 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.
3 Investment experience and Statutory net profit after tax for 1H23 and 2H23 have been restated to include the application impact of AASB 17.
4 Represents provision for fair value adjustments on Bank lending and financing assets.
5 Significant items (after-tax) relate to the gains from the sale of Challenger's Australian real estate business to Elanor; one-off project costs relating to the implementation of new accounting standard AASB 17 ***Insurance Contracts*** and the Customer Technology Modernisation Program; and restructuring costs.

Consolidated profit and loss (continued)

AASB 17 Insurance Contracts

Challenger has 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 changes to Challenger's normalised profit framework (refer to page 59 for more information), with any movement in policy liabilities continuing to be reflected in Investment Experience.

In the 1H24 Analyst Pack, the first half year financial statements under AASB 17 will be for the period ended 31 December 2023, with the following comparative figures restated for the adoption of AASB 17 in 31 December 2022 (1H23) and 30 June 2023 (2H23):

- Investment experience after tax;
- 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) has not been restated for the adoption of AASB 17 and can be found in the Challenger 2024 Interim Financial Report.

Normalised profit after tax

1H24 normalised profit after tax was $201m and increased by $34m (20%) on 1H23. The increase reflects higher normalised profit before tax (up $40m), partially offset by higher normalised tax (up $6m).

Normalised earnings per share (EPS)

Normalised EPS increased by 20% to 29.3 cps on 1H23. The increase reflects higher normalised profit after tax (up 20%) partially offset by a higher average number of basic shares on issue (up 0.5%).

The weighted average number of basic shares on issue in 1H24 was 684m shares, up 3m shares on 1H23 as a result of new shares issued as part of Challenger's Dividend Reinvestment Plan in March 2023 and September 2023.

Net income

1H24 net income was $447m and increased by $37m (9%) on 1H23, with:

- Life Normalised Cash Operating Earnings (COE) of $360m was up $42m (13%), driven by higher cash earnings, which benefitted from a higher COE margin (up 28 bps) and growth in average investment assets (up 3%); and
- Funds Management fee income of $87m was down $1m (1%), from lower FUM-based revenue (down $3m), partially offset by higher transaction fees (up $1m) and higher performance fees (up $2m).

Expenses

1H24 total expenses were $155m and decreased by $4m (2%) on 1H23 (or up $5m (3%) including the 1H23 impact of Bank). The decrease in expenses was due to higher costs in Life (up $4m) and Funds Management (up $2m), partially offset by lower costs in Corporate (down $1m) and derecognition of the Bank ($9m).

Personnel expenses decreased by $15m (14%) driven by the transfer of employees to Artega ($10m), sale of the real estate business to Elanor ($4m) and the derecognition of the Bank ($6m). This was partially offset by CPI increases to salaries ($5m).

Other expenses increased by $12m (23%) primarily due to Artega expenses ($14m) and increased marketing costs ($1m), partially offset by the derecognition of the Bank ($3m).

Artega was launched in November 2022 with 1H23 other expenses reflecting less than two months of its operations.

Artega investment administration expenses are charged to Challenger through a rate card and are reflected as other expenses. Artega costs were higher due to elevated affiliate trading and transaction volumes, and increased software and data feed costs primarily due to FX and inflation impacts.

The 1H24 normalised cost to income ratio was 34.6% and decreased by 3.9 percentage points on 1H23 (or down 2.3 percentage points including the 1H23 impact of Bank). The decrease in the ratio was driven by higher net income (up 9%) and lower expenses (down 2%).

Normalised EBIT

1H24 normalised EBIT was $293m, up $40m (16%) on 1H23. Higher Life EBIT (up $38m) was offset by lower Funds Management EBIT (down $2m).

Life EBIT increased by $38m (up 15%) to $302m and reflected higher Normalised COE (up $42m), partially offset by higher expenses (up $4m).

Funds Management EBIT decreased by $2m (down 7%) to $29m, from lower FUM-based revenue (down $3m) due to lower margin flows and higher expenses (up $2m), partially offset by higher performance fees (up $2m) and transaction fees (up $1m).

Normalised Return On Equity (ROE)

1H24 Normalised ROE (pre-tax) was 15.0% and increased by 270 bps on 1H23. This was driven by higher Life ROE of 18.1% (up 330 bps) reflecting an increase in Normalised COE, partially offset by lower Funds Management ROE of 18.1% (1H23 21.1%).

Challenger's Normalised ROE (pre-tax) target remains at the RBA cash rate plus a margin of 12%. Refer to page 13 for more detail. There is a lag between the timing of changes in the RBA cash rate and the resultant change in earnings as it takes time for the impact of interest rates to season into both earnings and ROE.

In 1H24, the average RBA cash rate was ~4.2%, resulting in Challenger's Normalised ROE target being 16.2%. Challenger's Normalised ROE in 1H24 was 15.0% and below target.

Normalised tax

Normalised tax was $90m and increased by $6m (8%) on 1H23. Higher normalised tax reflects a higher normalised net profit before tax, partially offset by a lower normalised effective tax rate.

The normalised effective tax rate in 1H24 was 30.9%, down from 33.2% in 1H23. The 1H23 effective tax rate was driven by the inability to utilise foreign tax offsets relating to FY22. The effective tax rate in 1H24 is similar to Australia's statutory rate of 30.0%.

Investment experience after tax

Challenger Life Company Limited (CLC) is required by Australian Accounting Standards to value assets supporting the Life business 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.

Changes in macroeconomic variables impact the value of Life's assets and liabilities, with the impact included as investment experience.

Investment 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 60).

1H24 investment experience was a loss of $145m (after-tax) 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 27 for more detail, including investment experience by asset class.

Significant items after tax

1H24 significant items were $4m (after-tax) and represent:

- Net gain from the sale of Challenger's Australian real estate business (CRE) to Elanor of $10m; partially offset by
- One-off project costs relating to the implementation of new accounting standard AASB 17 ***Insurance Contracts***[1] (-$1m) and the Customer Technology Modernisation Program (-$4m); and
- Organisational restructuring costs (-$2m).

Discontinued Operations (Bank)

In 1H24, the Bank division has been classified as a discontinued operation following its sale to Heartland.

The Bank sale is expected to complete in 2H24 and is subject to regulatory approvals in Australia and New Zealand. The Bank is strongly capitalised and remaining excess capital is expected to be returned to Challenger on or prior to completion. From November 2023, Heartland have been responsible for operating losses incurred by the Bank.

Statutory net profit after tax

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

1H24 statutory profit after tax was $56m and increased by $25m (80%) on 1H23, and includes:

- Normalised net profit after tax of $201m;
- Life investment experience of -$145m (refer to page 27 for more detail);
- Significant items of $4m; and
- Bank net loss after tax of -$4m following its classification as a discontinued operation in FY23.

Dividends

[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.

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.

1H24 dividend

The Challenger Board has determined to pay a fully franked interim dividend (which relates to the period of 1H24) of 13.0 cps (fully franked), compared to 12.0 cps (fully franked) in 1H23.

Dates for the interim 1H24 dividend are as follows:

- ex-date: 20 February 2024;
- record date: 21 February 2024;
- Dividend Reinvestment Plan (DRP) election date: 22 February 2024; and
- payment date: 19 March 2024.

The 1H24 dividend payout ratio was 44.4%, 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 31 December 2023 was $248m. This amount is calculated from the balance of the franking account as at the end of the period, adjusted for franking debits that will arise from the settlement of accrued interest on Challenger Capital Notes and on ATO refunds from current tax assets.

The interim dividend of 13.0 cps will result in a total dividend of $90m, which will reduce the franking account by $39m.

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 final FY23 dividend paid in September 2023, the DRP participation rate was 25% 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' with a stable outlook; and
- Challenger Limited: 'BBB+' with a stable outlook.

FY24 outlook

Normalised net profit before tax guidance

Challenger's FY24 normalised net profit before tax guidance is a range of between $555m and $605m, which assumes:

- ~$10m investment across a range of initiatives, including Artega's operating platform, branding, risk and cybersecurity; and
- the Bank is excluded from FY24 guidance.

Given the pending sale of the Bank to Heartland, it has been classified as a discontinued operation.

The Bank sale is expected to complete in 2H24 and is subject to regulatory approvals in Australia and New Zealand. The Bank is strongly capitalised and remaining excess capital is expected to be returned to Challenger on or prior to completion of the sale. From November 2023, Heartland is responsible for operating losses incurred by the Bank.

Challenger is on track to achieve a FY24 normalised net profit before tax in the top half of the guidance range with 1H24 normalised net profit before tax of $290m representing 50% of the mid-point of the guidance range.

Normalised Return On Equity (ROE) target

Challenger's Normalised ROE (pre-tax) target is the RBA cash rate plus a margin of 12%.

Challenger continues to make progress towards achieving its ROE target. However, in FY24, Challenger does not expect to achieve the Group ROE target due to the lower contribution to Group earnings from Funds Management.

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 FY24, Challenger is targeting a cost to income ratio of 35% to 37%.

With a cost to income ratio of 34.6% in 1H24, Challenger expects to achieve a cost to income ratio at the bottom end of the target range in FY24.

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 circumstances. The target PCA ratio range is 1.3 times to 1.7 times. This range may change over time. Refer to page 47 for more detail.

In FY24, Challenger's risk appetite remains unchanged and Challenger will continue to apply the same approach to determining its target surplus.

Changes to the composition of the balance sheet over the past two years have resulted in a materially higher allocation to alternatives, which have a lower correlation to broader investment markets (but are treated as 100% correlated for regulatory capital purposes). Challenger has also been holding a higher proportion of CET1 regulatory capital within the regulatory capital base. As a result of these changes, in terms of the unchanged risk appetite and target surplus framework, the 31 December 2023 PCA ratio of 1.50 times is broadly equivalent to 1.60 times at 30 June 2021, which had a different balance sheet and regulatory capital composition.

Dividend

Commencing from FY24, Challenger will 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.

The target payout range has been extended from 45% to 50% (prior to FY24) to support Challenger's growth profile and provide flexibility, especially in periods of higher growth and attractive market conditions.

However, the actual dividend payout ratio will depend on prevailing market conditions and capital allocation priorities at the time.

Group balance sheet[1]

$m	1H24	FY23	1H23	FY22	1H22	FY21	1H21
Assets							
Life investment assets							
Fixed income and cash[2]	17,877.1	17,799.6	17,621.0	16,659.4	17,031.1	16,418.2	14,821.1
Property[2]	2,963.7	3,062.4	3,178.3	3,227.0	3,583.3	3,467.5	3,316.2
Equity and infrastructure[2]	365.2	291.3	259.0	971.1	1,096.1	623.2	604.2
Alternatives	2,888.1	2,384.7	2,026.6	1,366.3	1,226.4	1,054.3	892.5
Life investment assets	**24,094.1**	**23,538.0**	**23,084.9**	**22,223.8**	**22,936.9**	**21,563.2**	**19,634.0**
Bank lending and financing assets							
Fixed income, cash and cash equivalents	247.4	133.3	271.9	285.2	132.8	—	—
Retail lending and non-retail lending	99.4	92.1	134.7	105.3	97.3	—	—
Bank lending and financing assets	**346.8**	**225.4**	**406.6**	**390.5**	**230.1**	**—**	**—**
Cash and cash equivalents (Group cash)	101.5	128.9	145.8	183.1	94.5	223.0	136.6
Receivables	179.1	174.6	164.4	355.1	153.7	115.9	127.7
Derivative assets	802.7	665.5	690.7	599.5	822.0	641.9	450.1
Investment in associates	81.4	81.9	74.3	74.9	79.7	83.2	63.3
Other assets	46.9	43.9	45.8	53.8	58.1	63.1	61.4
Fixed assets	21.8	23.5	24.0	24.8	26.4	28.2	25.1
Right-of-use lease assets	22.6	24.3	27.3	29.0	31.5	34.7	37.9
Tax assets	209.5	86.2	158.9	65.3	—	—	—
Goodwill and intangibles	585.3	587.4	586.8	587.2	607.4	589.1	597.5
Less Group/Life eliminations[3]	(5.7)	(6.1)	(13.9)	(21.5)	(25.1)	(31.3)	(36.3)
Total assets	**26,486.0**	**25,573.5**	**25,395.6**	**24,565.5**	**25,015.2**	**23,311.0**	**21,097.3**
Liabilities							
Payables	192.9	216.3	156.9	184.3	173.2	196.9	162.4
Tax liabilities	—	—	—	—	107.0	104.8	39.7
Derivative liabilities	738.0	611.3	730.8	839.6	676.8	507.6	143.7
Subordinated debt	419.1	403.0	399.3	398.4	401.6	404.5	401.7
Challenger Capital Notes	725.8	725.1	840.2	838.6	864.8	863.3	881.6
Group debt	—	—	—	—	—	—	50.0
Lease liabilities	51.3	54.7	59.2	62.5	66.3	70.3	72.4
Provisions	25.6	28.2	39.0	44.3	39.3	35.7	31.8
Life annuity liabilities[4]	15,034.6	13,930.0	14,278.4	13,595.4	14,092.5	13,669.9	12,769.7
Other Life liabilities	5,107.6	5,268.8	4,620.2	4,386.4	4,381.8	3,632.2	3,031.5
Bank deposit liabilities	287.2	171.7	224.1	227.7	152.6	—	—
Total liabilities	**22,582.1**	**21,409.1**	**21,348.1**	**20,577.2**	**20,955.9**	**19,485.2**	**17,584.5**
Group net assets[5]	**3,903.9**	**4,164.4**	**4,047.5**	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**
Equity							
Contributed equity	2,522.3	2,513.1	2,496.9	2,481.5	2,451.8	2,425.5	2,422.6
Reserves	(25.7)	(35.8)	(49.8)	(49.3)	(55.0)	(50.9)	(55.5)
Retained earnings	1,345.3	1,683.1	1,600.4	1,556.1	1,662.5	1,451.2	1,145.7
Non controlling interest[6]	3.8	4.0	—	—	—	—	—
Total equity (1H24 excl. Bank)	**3,845.7**	**4,164.4**	**4,047.5**	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**
Discontinued Operations (Bank)	58.2	—	—	—	—	—	—
Total Equity[5]	**3,903.9**	**4,164.4**	**4,047.5**	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**

1 Excludes consolidation of Special Purpose Vehicles (SPVs), non-controlling interests.
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 includes the application impact of AASB 17 (1H24: $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 Interim Financial Report for the impact.
6 In relation to SimCorp's minority stake in Artega Investment Administration.

Change in Group net assets[1]

$m	1H24	2H23	1H23	2H22	1H22	2H21	1H21
Opening net assets	**4,164.4**	**4,047.5**	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**
Impact of initial application of AASB 17	(253.5)	—	—	—	—	—	—
Restated opening balance	**3,910.9**	**4,047.5**	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**
Statutory net profit after tax	56.3	164.8	122.7	(28.4)	282.1	369.5	222.8
Dividends paid	(82.4)	(82.1)	(78.4)	(78.1)	(70.7)	(64.0)	—
New share issue	9.2	27.4	10.6	1.7	13.4	2.9	34.8
Reserve movements	5.8	14.0	(0.5)	5.8	(4.2)	4.6	(4.6)
CPP[2] Trust movements	4.3	(11.2)	4.8	—	12.9	—	10.2
Issued under Capital Notes conversion	—	—	—	28.0	—	—	—
Non-controlling interest[3]	(0.2)	4.0	—	—	—	—	—
Closing net assets	**3,903.9**	**4,164.4**	**4,047.5**	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**

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

	1H24	2H23	1H23	2H22	1H22	2H21	1H21
Earnings per share (cents)							
Basic – normalised[1]	29.3	28.8	24.5	23.1	24.5	21.1	20.4
Basic – statutory[2]	8.2	20.5	4.6	(4.2)	41.8	54.9	33.2
Diluted – normalised[1]	26.7	25.2	22.3	19.9	20.7	17.8	17.5
Diluted – statutory[2]	8.1	20.1	4.5	(4.2)	33.9	43.4	27.3
Number of shares (m)							
Basic share count	684.8	683.8	682.0	680.0	676.0	672.6	672.2
CPP[3] Trust Treasury shares	6.1	3.8	1.9	2.2	2.1	3.4	3.4
Total issued shares	690.9	687.6	683.9	682.2	678.1	676.0	675.6
Movement in basic share count							
Opening	683.8	682.0	680.0	676.0	672.6	672.2	663.1
CPP Trust deferred share purchase	(3.6)	—	—	—	—	—	—
Net Treasury shares (acquired)/released	1.3	(1.8)	0.3	(0.1)	1.3	—	1.0
New share issues	3.3	3.6	1.7	4.1	2.1	0.4	8.1
Closing	684.8	683.8	682.0	680.0	676.0	672.6	672.2
Movement in CPP Trust Treasury shares							
Opening	3.8	1.9	2.2	2.1	3.4	3.4	4.4
Shares vested to participants	(1.3)	(0.6)	(0.3)	0.1	(1.3)	—	(1.0)
Shares purchased (including settled forwards)	3.6	2.5	—	—	—	—	—
Closing	6.1	3.8	1.9	2.2	2.1	3.4	3.4
Weighted average number of shares (m)							
Basic EPS shares							
Total issued shares	689.4	686.0	683.2	679.1	677.2	675.9	674.6
Less CPP Treasury shares	(5.1)	(2.9)	(2.1)	(2.2)	(2.6)	(3.6)	(3.8)
Shares for basic EPS calculation	684.3	683.1	681.1	676.9	674.6	672.3	670.8
Diluted shares for normalised EPS							
Shares for basic EPS calculation	684.3	683.1	681.1	676.9	674.6	672.3	670.8
Add dilutive impact of unvested equity awards	11.7	13.2	12.6	9.8	13.3	2.4	5.9
Add dilutive impact of Capital Notes	121.1	132.7	115.0	126.3	133.4	155.0	136.3
Add dilutive impact of subordinated notes	65.9	64.0	75.1	58.3	59.1	59.1	59.1
Add dilutive impact of restricted shares	2.3	2.0	1.5	0.7	—	—	—
Shares for diluted normalised EPS calculation	885.3	895.0	885.3	872.0	880.4	888.8	872.1
Diluted shares for statutory EPS							
Shares for basic EPS calculation	684.3	683.1	681.1	676.9	674.6	672.3	670.8
Add dilutive impact of unvested equity awards	11.7	13.2	12.6	—	13.3	2.4	5.9
Add dilutive impact of Capital Notes[4]	—	132.7	—	—	133.4	155.0	136.3
Add dilutive impact of subordinated notes[4]	—	64.0	—	—	59.1	59.1	59.1
Add dilutive impact of restricted shares	2.3	2.0	1.5	—	—	—	—
Shares for diluted statutory EPS calculation	698.3	895.0	695.2	676.9	880.4	888.8	872.1
Summary of share rights (m)							
Hurdled Performance Share Rights							
Opening	17.1	16.9	15.8	16.4	14.7	16.1	9.8
New grants	3.9	0.9	3.0	0.1	3.6	0.1	7.4
Vesting/forfeiture	(1.9)	(0.7)	(1.9)	(0.7)	(1.9)	(1.5)	(1.1)
Closing	19.1	17.1	16.9	15.8	16.4	14.7	16.1
Deferred Performance Share Rights							
Opening	0.9	0.9	1.6	1.7	2.9	2.9	2.1
New grants	—	—	—	—	—	—	1.8
Vesting/forfeiture	(0.6)	—	(0.7)	(0.1)	(1.2)	—	(1.0)
Closing	0.3	0.9	0.9	1.6	1.7	2.9	2.9
Restricted Share Rights							
Opening	1.9	1.9	0.8	—	—	—	—
New grants	1.3	0.1	1.3	0.8	—	—	—
Vesting/forfeiture	(0.8)	(0.1)	(0.2)	—	—	—	—
Closing	2.4	1.9	1.9	0.8	—	—	—

1. Normalised EPS (basic) and Normalised EPS (diluted) in 1H24 excludes Discontinued Operations (Bank). 2. Statutory EPS (basic) and Statutory EPS (diluted) in 1H23 and 2H23 is restated to reflect the application impact of AASB17. 3. Challenger Performance Plan (CPP) Trust. 4. Dilutive impact of Capital Notes and Subordinated Notes for 1H23 and 2H23 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 31 December 2023 was 691m shares. The number of shares on issue increased by 3m shares in 1H24, with new shares issued under Challenger's Dividend Reinvestment Plan in September 2023.

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 18 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 hurdled 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 1m shares in 1H24 to 684m shares.

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

The weighted average number of shares used to determine normalised diluted EPS decreased by 10m shares (down 1%) in 1H24 to 885m shares. The decrease primarily reflects:

- a lower dilutive impact on debt instruments following the repurchase of Challenger Capital Notes 2, partially offset by the issuance of Challenger Capital Notes 4 (refer to page 45 for more detail) and decrease in the Challenger share price that is used to calculate potential dilution (-10m shares – refer to page 18);
- lower unvested equity awards and restricted shares to employees under the CPP (-1m shares); partially offset by
- higher basic weighted average number of shares on issue (increasing diluted share count by 1m shares – refer above).

The weighted average number of shares used to determine statutory diluted EPS decreased by 197m shares (down 22%) in 1H24 to 698m 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 1H24.

Refer to page 18 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 hurdles[1] 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 employment[2].

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 45 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:

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

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 31 December 2023 was $6.13 (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	$2.5700
Challenger Capital Notes 4	5 Apr 2023	$350m	$3.2600
Subordinated debt	16 Sep 2022	$400m	$3.2250
Total		**$1,135m**	

Earnings per share

Normalised diluted EPS

The normalised basic EPS for 1H24 of 29.3 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 1H24.

The weighted average number of shares used to determine the normalised diluted EPS decreased by 10m shares in 1H24.

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 18m shares. Refer to page 45 for more detail);
- a net decrease in shares following the lapsing of unvested equity awards and restricted shares due to conditions not met or incapable of being satisfied (decreased diluted share count by 1m shares); partially offset by
- an increase in the weighted average number of basic shares on issue, which reflects the impact of new shares issued under Challenger's Dividend Reinvestment Plan in September 2023 (increased the basic share count by 1m shares); and
- an increase in the dilutive impact of the Challenger Capital Notes 3 and 4 and subordinated debt as a result of a decrease in Challenger's weighted average share price over the last 20 days of 1H24, increasing the diluted share count by 8m shares. The lower Challenger share price results in a higher number of potential shares being issued should the debt convert to shareholder equity.

To determine the normalised diluted EPS, the normalised profit after tax is increased by $36 million 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 1July 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.

Group regulatory capital

31 December 2023, $m	CLC	Challenger Bank Limited	Other (including Funds Management)[1]	Group
Regulatory capital base				
Shareholder equity	3,158.0	58.3	687.6	3,903.9
Goodwill and other intangibles	(69.0)	—	(516.3)	(585.3)
Other adjustments[2]	52.0	(1.7)	(98.5)	(48.2)
Eligible regulatory debt	1,162.5	—	—	1,162.5
Total capital base	**4,303.5**	**56.6**	**72.8**	**4,432.9**
Minimum Regulatory Requirement[3,4]	2,862.2	17.7	40.1	2,920.0
Excess over Minimum Regulatory Requirement	**1,441.3**	**38.9**	**32.7**	**1,512.9**
Common Equity Tier 1 (CET1) regulatory capital	3,141.0	56.6	—	3,197.6
Additional Tier 1 capital	735.0	—	—	735.0
Total Tier 1 regulatory capital	3,876.0	56.6	—	3,932.6
Tier 2 capital[5]	427.5	—	—	427.5
Other non-regulatory capital[1]	—	—	72.8	72.8
Total Capital base	**4,303.5**	**56.6**	**72.8**	**4,432.9**
CET1 capital ratio (times)[6]	1.10	3.20	—	—
Tier 1 capital ratio (times)[7]	1.35	3.20	—	—
Minimum Regulatory Requirement ratio (times)[8]	1.50	3.20	1.82	1.52

30 June 2023, $m	CLC	Challenger Bank Limited	Other (including Funds Management)[1]	Group
Regulatory capital base				
Shareholder equity	3,395.2	61.9	707.3	4,164.4
Goodwill and other intangibles	(70.0)	—	(517.4)	(587.4)
Other adjustments[2]	(214.7)	(1.4)	28.9	(187.2)
Eligible regulatory debt	1,146.3	—	—	1,146.3
Total capital base	**4,256.8**	**60.5**	**218.8**	**4,536.1**
Minimum Regulatory Requirement[3,4]	2,681.9	13.1	39.9	2,734.9
Excess over Minimum Regulatory Requirement	**1,574.9**	**47.4**	**178.9**	**1,801.2**
Common Equity Tier 1 (CET1) regulatory capital	3,110.5	60.5	—	3,171.0
Additional Tier 1 capital	735.0	—	—	735.0
Total Tier 1 regulatory capital	3,845.5	60.5	—	3,906.0
Tier 2 capital[5]	411.3	—	—	411.3
Other non-regulatory capital[1]	—	—	218.8	218.8
Total Capital base	**4,256.8**	**60.5**	**218.8**	**4,536.1**
CET1 capital ratio (times)[6]	1.16	4.62	—	—
Tier 1 capital ratio (times)[7]	1.43	4.62	—	—
Minimum Regulatory Requirement ratio (times)[8]	1.59	4.62	5.48	1.66

1 Includes Funds Management, Corporate and other Life/Bank entities. Funds Management Minimum Regulatory Requirement (MRR) for capital is based on requirements set by ASIC and regulators in other foreign jurisdictions. Challenger Retirement and Investment Services Limited MRR is based on APRA and ASIC requirements.
2 Other adjustments includes deferred tax asset, intercompany items and differences in measurement of policy liabilities and regulatory capital bases.
3 Minimum Regulatory Requirement is equivalent to PCA for CLC.
4 The Bank is an ADI regulated by APRA under the authority of the ***Banking Act*** 1959 (Cth). The Bank's regulatory capital base and minimum regulatory capital requirement is specified under APRA's ADI prudential standards.
5 CLC represents subordinated debt.
6 CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
7 Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
8 Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

Capital management

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

Challenger's Australian-based companies are regulated by APRA and/or the Australian Securities and Investments Commission (ASIC). Challenger's Funds Management business has operations in the United Kingdom, Europe and Asia, which are subject to regulation in each jurisdiction.

The relevant regulator in each jurisdiction requires a minimum level of regulatory capital to be held.

Challenger's capital position is managed with the objective of maintaining the financial stability of the Group, CLC and the Bank, while ensuring shareholders earn an appropriate risk-adjusted return.

Following completion of the Bank acquisition in 1H22, Challenger commenced reporting a consolidated (or Level 3) equivalent capital position for the entire business.

Regulatory capital base

Challenger Group's total regulatory capital base at 31 December 2023 was $4.4b, and is based on the Group's shareholder equity adjusted for items such as goodwill, intangibles and investments in associates and other items.

Minimum Regulatory Requirement

The Minimum Regulatory Requirements of capital for Challenger's regulated businesses are determined as follows:

- CLC: capital requirements as specified under APRA Life insurance prudential capital standards;
- Bank: capital requirements as specified under APRA's ADI prudential standards; and
- Funds Management: capital requirements as specified by ASIC and regulators in other foreign jurisdictions.

Challenger Group's Minimum Regulatory Requirement at 31 December 2023 was $2.9b, and includes:

- CLC of $2.9b – refer to page 47 for more detail;
- Bank of $18m; and
- Other, which includes the Funds Management business, of $40m.

Group excess capital position

Challenger Group's excess regulatory capital above the Minimum Regulatory Requirement at 31 December 2023 was $1.5b.

The Group's Minimum Regulatory Requirement ratio was 1.52 times, which is equivalent to Challenger holding 52% more regulatory capital than minimum requirements.

Consolidated operating cash flow

$m	1H24	2H23	1H23	2H22	1H22	2H21	1H21
Receipts from customers	243.0	416.6	350.4	366.0	342.0	351.4	323.8
Dividends received	45.8	25.1	41.8	33.6	39.7	31.4	33.6
Interest received	559.6	494.3	405.9	297.7	307.3	294.4	310.3
Interest paid	(559.2)	(334.5)	(257.0)	(196.7)	(393.6)	(257.7)	(234.3)
Payments to suppliers and employees	(345.9)	(340.8)	(355.5)	(311.0)	(321.4)	(300.3)	(304.9)
Income tax (paid) / refunded	(31.6)	25.7	(148.3)	(166.0)	(98.9)	(81.9)	(9.0)
Underlying operating cash flow	**(88.3)**	**286.4**	**37.3**	**23.6**	**(124.9)**	**37.3**	**119.5**
Net annuity policy capital receipts/(payments)	508.0	(416.9)	802.0	466.5	607.7	922.2	157.6
Net other Life capital receipts/(payments)	(180.0)	367.8	182.9	559.4	838.3	532.9	551.1
Net Bank deposit receipts/(payments)	—	(52.3)	(3.7)	75.1	18.4	—	—
(Purchase)/Proceeds of investments	(1,128.0)	(129.2)	(917.6)	(1,389.0)	(689.1)	(238.2)	(358.6)
Capital expenditures	(5.9)	(1.4)	(3.1)	(1.1)	(1.8)	(9.5)	(3.4)
Net equity placement proceeds	20.7	(67.7)	10.6	29.8	13.4	(0.2)	34.8
Net (repayments)/proceeds from borrowings	1,139.7	17.0	(25.7)	134.3	(658.3)	(967.8)	(387.9)
Receipts/(Payments) for Treasury shares	(2.9)	0.1	(7.8)	(0.1)	(1.6)	(1.7)	2.4
Net dividends paid	(82.3)	(82.1)	(78.4)	(78.1)	(70.7)	(61.1)	—
Net non-operating cash flows SPVs	—	—	—	(1.2)	(6.9)	1.6	(3.5)
Other cash flow	**269.3**	**(364.7)**	**(40.8)**	**(204.4)**	**49.4**	**178.2**	**(7.5)**
Net increase/(decrease) in cash and cash equivalents	**181.0**	**(78.3)**	**(3.5)**	**(180.8)**	**(75.5)**	**215.5**	**112.0**
Net (decrease)/increase in cash and cash equivalents from discontinued operations (Bank)[1]	21.3	—	—	—	—	—	—

1. 1H24 reflects Bank net cash flows as discontinued operations. Prior periods do not have Bank cash flows restated as discontinued operations.

Underlying operating cash flow

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.

1H24 underlying operating cash outflow was $88m and was $289m lower than normalised net profit after tax of $201m mainly due to:

- accrued interest and other income not yet received (-$119m);
- Challenger Index Plus distributions (-$93m) which are capital in nature and not operating cash flows (refer to below);
- accruals for inflation-linked and other bonds (-$89m);
- working capital adjustments (-$40m);
- non-cash normalised capital growth (-$6m); partially offset by
- tax timing variances (+$58m).

Net annuity policy capital receipts

1H24 net annuity policy capital receipts were $508m and comprised:

- annuity sales of $3,295m; less
- annuity capital payments of $2,787m.

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

1H24 annuity net flows of $508m represents annuity book growth of 3.6% for the half and is calculated as 1H24 annuity total net flows divided by the opening period (FY23) annuity liability of $13,930m.

1H24 annuity flows benefitted from record lifetime sales, offset by lower shorter-duration annuity sales and Japanese sales. The maturity rate in 1H24 was 17% (down from 18% in 1H23).

Net Index Plus Life capital receipts

Index Plus Life sales represent Institutional Guaranteed Index Plus.

1H24 net Index Plus Life capital payments were $180m and comprised:

- Index Plus Life sales of $1,958m; less
- Index Plus Life capital payments of $2,138m.

1H24 Index Plus net outflows of $180m included a new $500m 5-year mandate with a global insurer, which is consistent with Challenger's strategy on extending the duration of sales.

For Guaranteed Index Plus maturities of $2,138m, 55% were reinvested in a new Guaranteed Index Plus policy and form part of Index Plus Life sales.

1H24 total Life book growth was 1.7% for the half (1H23 5.5%) and can be calculated as total 1H24 net flows ($328m) divided by the sum of the opening period (FY23) liabilities of $19,199m (Life annuity liabilities and Other Life liabilities – refer to page 30 for more detail).

Life financial results

$m	1H24	2H23	1H23	2H22	1H22	2H21	1H21
Investment yield – policyholders' funds	663.0	601.5	521.1	417.4	388.6	377.1	375.3
Interest expense	(437.9)	(387.7)	(317.8)	(221.9)	(190.5)	(192.1)	(204.2)
Distribution expense	(3.8)	(3.2)	(4.9)	(3.4)	(8.9)	(4.6)	(4.8)
Other income[1]	26.8	25.5	23.9	21.8	23.8	20.6	19.4
Product cash margin	**248.1**	**236.1**	**222.3**	**213.9**	**213.0**	**201.0**	**185.7**
Investment yield – shareholders' funds	105.2	93.3	75.3	55.5	51.6	50.0	42.0
Cash earnings	**353.3**	**329.4**	**297.6**	**269.4**	**264.6**	**251.0**	**227.7**
Normalised capital growth	6.4	6.3	19.7	26.0	22.8	17.8	16.3
Normalised Cash Operating Earnings	**359.7**	**335.7**	**317.3**	**295.4**	**287.4**	**268.8**	**244.0**
Personnel expenses	(36.9)	(34.8)	(37.0)	(38.0)	(35.5)	(38.3)	(34.4)
Other expenses	(21.3)	(23.7)	(17.0)	(18.1)	(18.9)	(24.4)	(16.8)
Total expenses	**(58.2)**	**(58.5)**	**(54.0)**	**(56.1)**	**(54.4)**	**(62.7)**	**(51.2)**
Normalised EBIT	**301.5**	**277.2**	**263.3**	**239.3**	**233.0**	**206.1**	**192.8**
Asset and liability experience[2]	(144.4)	3.1	(15.6)	(264.8)	191.9	345.4	120.6
New business strain[2]	(57.8)	(41.9)	(45.0)	(6.4)	(36.0)	(14.8)	3.9
Total investment experience	**(202.2)**	**(38.8)**	**(60.6)**	**(271.2)**	**155.9**	**330.6**	**124.5**
Application impact of AASB 17[3]	—	(35.2)	(130.7)	—	—	—	—
Total investment experience after AASB17	**(202.2)**	**(74.0)**	**(191.3)**	**(271.2)**	**155.9**	**330.6**	**124.5**
Net profit after investment experience before tax	**99.3**	**203.2**	**72.0**	**(31.9)**	**388.9**	**536.7**	**317.3**
Reconciliation of investment experience to capital growth							
Asset and liability experience	(144.4)	3.1	(15.6)	(264.8)	191.9	345.4	120.6
Normalised capital growth	6.4	6.3	19.7	26.0	22.8	17.8	16.3
Asset and liability capital growth	**(138.0)**	**9.4**	**4.1**	**(238.8)**	**214.7**	**363.2**	**136.9**
Performance analysis							
Cost to income ratio[4] (%)	16.2%	17.4%	17.0%	19.0%	18.9%	23.3%	21.0%
Net assets – average[5] ($m)	3,321	3,610	3,522	3,680	3,517	3,365	3,065
Normalised ROE (pre-tax) (%)	18.1%	15.5%	14.8%	13.1%	13.1%	12.4%	12.5%
Margins[6]							
Investment yield – policyholders' funds	5.60%	5.17%	4.54%	3.72%	3.46%	3.72%	3.92%
Interest expense	(3.70%)	(3.33%)	(2.77%)	(1.98%)	(1.70%)	(1.89%)	(2.13%)
Distribution expense	(0.03%)	(0.03%)	(0.04%)	(0.03%)	(0.08%)	(0.05%)	(0.05%)
Other income	0.23%	0.22%	0.20%	0.20%	0.22%	0.20%	0.20%
Product cash margin	**2.10%**	**2.03%**	**1.93%**	**1.91%**	**1.90%**	**1.98%**	**1.94%**
Investment yield – shareholders' funds	0.89%	0.80%	0.66%	0.49%	0.46%	0.49%	0.44%
Cash earnings	**2.99%**	**2.83%**	**2.59%**	**2.40%**	**2.36%**	**2.47%**	**2.38%**
Normalised capital growth	0.05%	0.05%	0.17%	0.23%	0.20%	0.18%	0.17%
Normalised Cash Operating Earnings (COE)	**3.04%**	**2.88%**	**2.76%**	**2.63%**	**2.56%**	**2.65%**	**2.55%**

1 Other income includes Life Risk revenue (premiums net of expected claims) and Solutions revenue.
2 Investment experience comprises asset and liability experience and net new business strain.
3 Investment Experience for 1H23 and 2H23 is restated to include the application impact of AASB 17.
4 Cost to income ratio calculated as total expenses divided by normalised COE.
5 Net assets – average calculated on a monthly basis.
6 Ratio of normalised COE components divided by average investment assets.

Life flows

$m	1H24	2H23	1H23	2H22	1H22	2H21	1H21
Sales							
Fixed term sales – 1-year	506.7	422.7	733.7	411.4	490.0	392.3	429.0
Fixed term sales – 2-years or more	873.0	721.8	1,032.8	583.6	419.8	386.5	481.2
Lifetime sales	469.1	333.5	375.2	242.1	220.8	228.2	210.1
Total retail annuity sales	**1,848.8**	**1,478.0**	**2,141.7**	**1,237.1**	**1,130.6**	**1,007.0**	**1,120.3**
Fixed term sales – 1-year	419.0	59.7	842.6	954.1	824.0	750.0	240.8
Fixed term sales – 2-years or more	62.0	92.9	147.5	197.6	139.0	370.0	150.0
Lifetime sales	619.2	14.0	—	23.7	—	0.9	136.5
Total institutional annuity sales	**1,100.2**	**166.6**	**990.1**	**1,175.4**	**963.0**	**1,120.9**	**527.3**
Total domestic annuity sales	**2,949.0**	**1,644.6**	**3,131.8**	**2,412.5**	**2,093.6**	**2,127.9**	**1,647.6**
Japan sales	346.3	328.8	412.1	193.9	422.7	247.1	543.4
Total Life annuity sales	**3,295.3**	**1,973.4**	**3,543.9**	**2,606.4**	**2,516.3**	**2,375.0**	**2,191.0**
Maturities and repayments	(2,787.3)	(2,390.3)	(2,741.9)	(2,139.9)	(1,908.6)	(1,452.8)	(2,033.4)
Total Life annuity flows	**508.0**	**(416.9)**	**802.0**	**466.5**	**607.7**	**922.2**	**157.6**
Closing Life annuity book	15,034.6	13,930.0	14,278.4	13,595.4	14,092.5	13,669.9	12,769.7
Annuity book growth[1]	**3.6%**	**(3.1%)**	**5.9%**	**3.5%**	**4.4%**	**7.3%**	**1.3%**
Other Life sales	1,958.3	2,294.2	1,935.1	2,156.6	2,426.8	1,115.6	1,246.5
Other maturities and repayments	(2,138.3)	(1,926.4)	(1,752.2)	(1,597.2)	(1,588.5)	(582.7)	(695.4)
Other Life flows	**(180.0)**	**367.8**	**182.9**	**559.4**	**838.3**	**532.9**	**551.1**
Closing Other Life liabilities	5,107.6	5,268.8	4,620.2	4,386.4	4,381.8	3,632.2	3,031.5
Other Life net book growth	**(3.4%)**	**8.4%**	**4.2%**	**15.4%**	**23.1%**	**22.1%**	**22.8%**
Total Life sales	5,253.6	4,267.6	5,479.0	4,763.0	4,943.1	3,490.6	3,437.5
Total maturities and repayments	(4,925.6)	(4,316.7)	(4,494.1)	(3,737.1)	(3,497.1)	(2,035.5)	(2,728.8)
Total Life net flows	**328.0**	**(49.1)**	**984.9**	**1,025.9**	**1,446.0**	**1,455.1**	**708.7**
Closing total Life book[2]	20,142.2	19,198.8	18,898.6	17,981.8	18,474.3	17,302.1	15,801.2
Total Life book growth[1]	**1.7%**	**(0.3%)**	**5.5%**	**5.9%**	**8.4%**	**9.7%**	**4.7%**
Assets							
Closing investment assets	**24,094**	**23,538**	**23,085**	**22,224**	**22,937**	**21,563**	**19,634**
Fixed income and cash	17,448	17,721	17,046	16,842	16,715	15,574	14,328
Property	3,048	3,183	3,211	3,466	3,491	3,333	3,299
Equity and infrastructure	314	271	770	1,026	884	595	437
Alternatives	2,748	2,283	1,746	1,285	1,167	947	914
Average investment assets[3]	**23,558**	**23,458**	**22,773**	**22,619**	**22,257**	**20,449**	**18,978**
Liabilities							
Closing liabilities (excluding Other liabilities)	**21,305**	**20,345**	**20,151**	**19,227**	**19,749**	**18,579**	**17,095**
Annuities and Other Life liabilities	19,646	19,107	18,470	18,231	17,961	16,433	15,324
Capital Notes	735	832	845	865	873	887	830
Subordinated debt	418	414	518	401	404	404	401
Average liabilities[3]	**20,799**	**20,353**	**19,833**	**19,497**	**19,238**	**17,724**	**16,555**

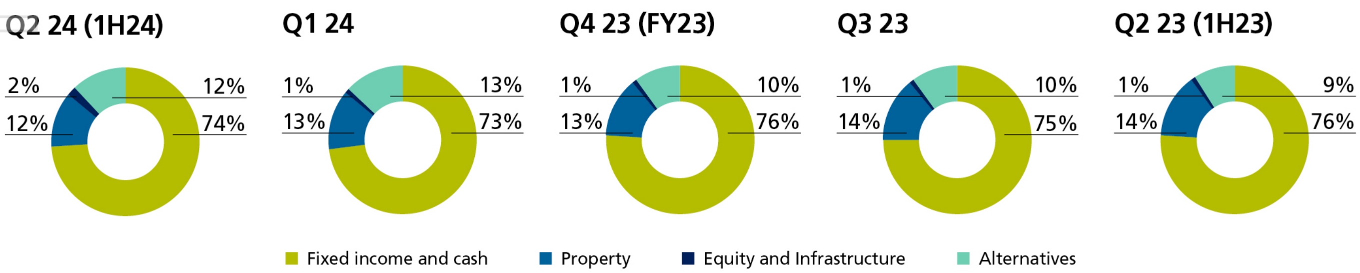
1 Book growth calculations for prior periods have not been restated for AASB 17. Book growth percentage represents net flows for the period divided by opening book value for the financial year.
2 Application impact of AASB 17 is reflected in closing Life annuity book, closing total Life book, closing liabilities and average liabilities in 1H24. Prior periods are not restated for AASB 17. AASB 17 impacts are increases in liabilities of 1H24: $362.2 million.
3 Average investment assets and average liabilities calculated on a monthly basis.

Life quarterly flows

Life quarterly sales and investment assets

$m	Q2 24	Q1 24	Q4 23	Q3 23	Q2 23
Life sales					
Fixed term sales – 1-year	247	260	229	194	385
Fixed term sales – 2-years or more	406	467	327	394	573
Lifetime sales[1]	251	218	187	147	195
Total retail annuity sales	**904**	**945**	**743**	**735**	**1,153**
Fixed term sales – 1-year	12	407	50	9	180
Fixed term sales – 2-years or more	28	34	5	88	145
Lifetime sales	—	619	14	—	—
Total institutional annuity sales	40	1,060	69	97	325
Total domestic annuity sales	**944**	**2,005**	**812**	**832**	**1,478**
Japan sales	206	140	117	212	225
Total Life annuity sales	**1,150**	**2,145**	**929**	**1,044**	**1,703**
Maturities and repayments	(1,239)	(1,548)	(807)	(1,583)	(1,244)
Total Life net flows	**(89)**	**597**	**122**	**(539)**	**459**
Annuity book growth[2]	**(0.6)%**	**4.2 %**	**0.9 %**	**(4.0)%**	**3.4 %**
Other Life sales	1,267	691	1,331	963	1,006
Other maturities and repayments	(811)	(1,327)	(993)	(933)	(891)
Other Life flows	**456**	**(636)**	**338**	**30**	**115**
Other Life net book growth	**8.7 %**	**(12.1)%**	**7.7 %**	**0.7 %**	**2.6 %**
Total Life sales	2,417	2,836	2,260	2,007	2,709
Total maturities and repayments	(2,050)	(2,875)	(1,800)	(2,516)	(2,135)
Total Life net flows	**367**	**(39)**	**460**	**(509)**	**574**
Total Life book growth[2]	**1.9 %**	**(0.2)%**	**2.5 %**	**(2.8)%**	**3.2 %**
Life					
Fixed income and cash[3]	17,877	16,921	17,800	17,506	17,621
Property[3]	2,964	3,060	3,062	3,236	3,178
Equity and infrastructure[3]	365	333	291	259	259
Alternatives	2,888	2,942	2,385	2,349	2,027
Total Life investment assets	**24,094**	**23,256**	**23,538**	**23,350**	**23,085**
Average Life investment assets[4]	**23,593**	**23,446**	**23,600**	**23,287**	**23,032**

1 Lifetime sales includes 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's annuity products appeal to retirees as they provide security and certainty of guaranteed[1] income while protecting against investment markets, longevity and inflation risks. By providing certainty of income, Challenger ensures customers have more confidence to spend in retirement.

Lifetime annuities also protect retirees from the risk of outliving their savings, given 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 brand[2] 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 fourth 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 advice hubs' Approved Product Lists (APLs) and are available on leading independent investment and administration platforms.

Consistent with Life's strategy to broaden customer access across multiple channels, Life recently launched a new online direct channel for retail customers to invest directly and has also launched annuities 'in' the Netwealth platform.

Life is also making significant 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 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 and Japanese yen denominated annuities. MS Primary is a leading provider of annuity products in Japan and is part of MS&AD Insurance Group Holdings Inc. (MS&AD). Refer to page 31 for more detail.

Life participates in wholesale reinsurance longevity and mortality transactions (refer to page 27 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 47.

Normalised EBIT and ROE

Life's normalised EBIT was $302m in 1H24 and increased by $38m (15%) on 1H23. The increase in EBIT reflects a $42m (13%) increase in Normalised Cash Operating Earnings (COE), partially offset by a $4m (8%) increase in expenses.

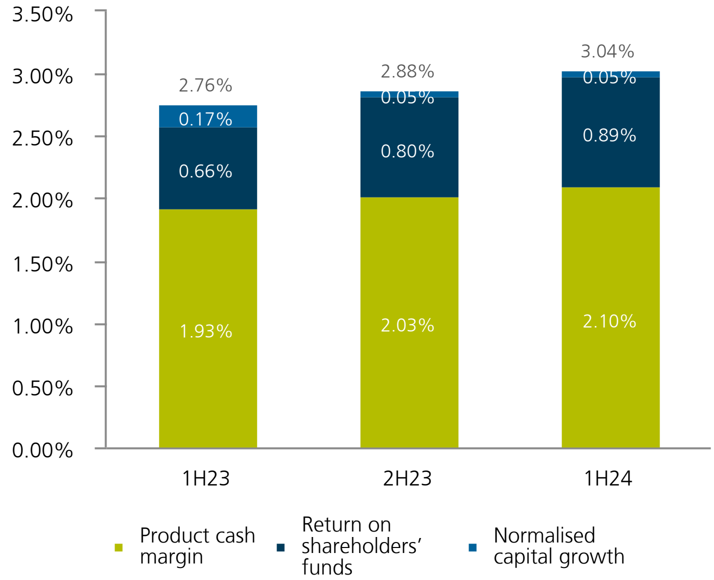
Life's Normalised ROE (pre-tax) was 18.1% in 1H24 and increased by 330 bps on 1H23, driven by an increase in Normalised COE.

Normalised Cash Operating Earnings (COE) and COE margin

1H24 Normalised COE was $360m and increased by $42m (13%) on 1H23. Normalised COE increased as a result of:

- higher average investment assets, which increased by 3% on 1H23; and
- higher COE margin, which increased by 28 bps on 1H23 to 3.04%.

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 - September 2023 - based on annuities under administration.

1H23 to 1H24 COE margin

Life's 1H24 COE margin was 3.04% and increased by 28 bps on 1H23 as a result of the following:

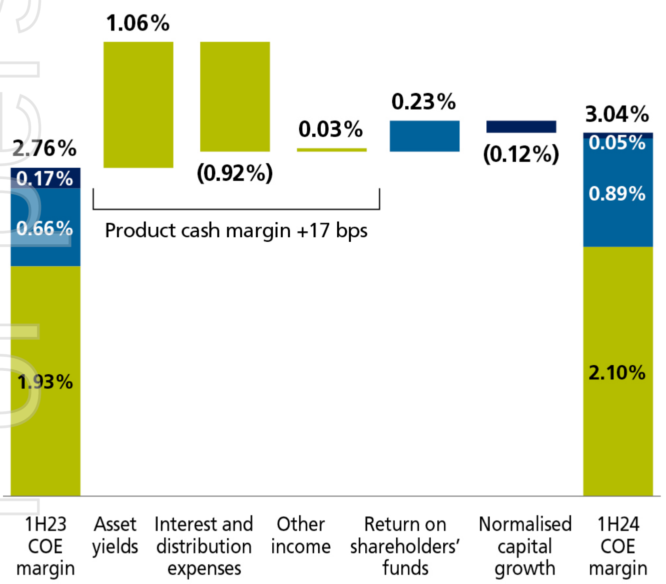
- Higher return on shareholder capital (+23 bps): Reflects the impact of higher interest rates. For example, the average 3-month Bank Bill Swap rate increased from 270 bps in 1H23 to 428 bps in 1H24 resulting in an increase in investment earnings on shareholder capital.
- Higher product cash margin (+17 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 27). The product cash margin drivers included:
  - Higher investment yield on policyholder funds (+106 bps): Reflects higher yields on fixed income securities and a greater allocation to higher-yielding alternative investments over 1H24;
  - Higher interest expense (-93 bps): Predominantly reflects higher annuity and institutional rates paid to customers as a result of the higher interest rate environment;
  - Lower distribution expenses (+1 bp): 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 27 for more detail).
- Lower normalised capital growth (-12 bps): Reflects the lower allocation to equity and infrastructure and property, and higher allocation to alternatives over 1H24. Alternatives has a zero normalised growth assumption.

2H23 to 1H24 COE margin

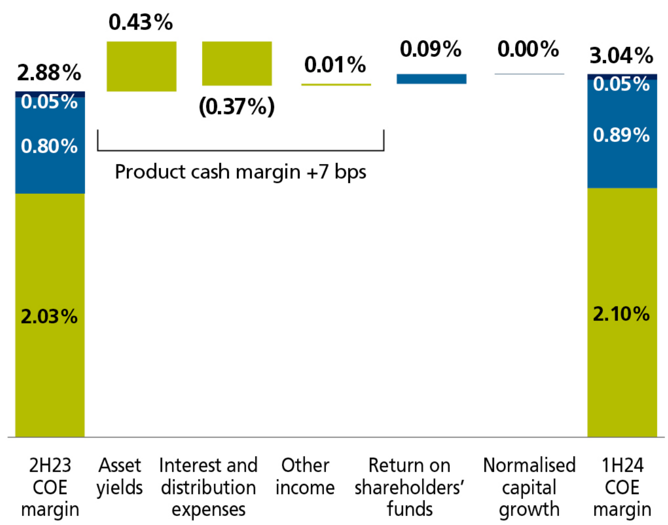
Life's 1H24 COE margin was 3.04% and increased by 16 bps on 2H23 as a result of the following:

- Higher return on shareholder capital (+9 bps): Reflects the impact of higher interest rates. For example, the average 3-month Bank Bill Swap rate increased from 370 bps in 2H23 to 428 bps in 1H24, resulting in an increase in investment earnings on shareholder capital.
- Higher product cash margin (+7 bps): The product cash margin drivers included:
  - Higher investment yield on policyholder funds (+43 bps): Reflects higher yields on fixed income securities, a greater allocation to alternative investments, and higher distributions from equity and infrastructure investments;
  - Higher interest expense (-37 bps): Reflects higher annuity and institutional rates paid to customers over 1H24 as a result of the higher interest rate environment;
  - Stable distribution expenses: Distribution expenses relate to payments made for the acquisition and management of annuities; and
  - Higher other income (+1 bp): Reflects higher Life Risk income (refer to page 27 for more detail).
- Stable normalised capital growth: Reflects the lower allocation to property and higher allocation to alternatives, offset by a reduction in allocation to fixed income and deployment into equity and infrastructure over 1H24. Alternatives has a zero normalised growth assumption while fixed income and equity and infrastructure attract -0.35% and 4.0% normalised growth assumptions respectively.

1H23 to 1H24 COE margin



2H23 to 1H24 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.

Undertaking wholesale longevity and mortality transactions is a natural extension for 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 $728m at 31 December 2023, up 7% from $679m at 30 June 2023, driven by lower UK government bond rates and new business flows, partially offset by currency movements.

The Life Risk portfolio has an average duration of 12 years.

1H24 Life Normalised COE includes $25m of income from Life Risk transactions, which represents the release of profit and expense margins, and was up $3m from 1H23.

Solutions Group

Challenger's Solutions Group works with clients to address their evolving investment and retirement needs. Benefitting 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. Solution's 1H24 revenue was $2m (1H23 $2m).

Expenses

1H24 Life expenses were $58m and increased by $4m (8%) on 1H23.

Personnel expenses in 1H24 were $37m and in line with 1H23, reflecting the transfer of Challenger investment operations employees to Artega, offset by higher salaries and variable reward costs.

Other expenses were $21m in 1H24 and increased by $4m (25%) due to Artega expenses ($2m) following the transfer of personnel costs, consultancy costs ($1m) and increased marketing costs, including brand sponsorship ($1m).

With Normalised COE up 13%, Life's cost to income ratio decreased 80 bps to 16.2%.

Investment experience overview

Challenger Life is required by accounting standards to value assets supporting the Life business 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.

Investment experience removes the volatility arising from asset and liability valuation movements to better reflect the underlying performance of the Life business.

Investment experience includes both assets and policy liability experience and net new business strain.

1H24 investment experience was a loss of $202m (pre-tax), comprising a $144m assets and policy liability loss and a $58m loss in relation to new business strain.

($m)	Actual capital growth	Normalised capital growth	Investment experience
Fixed income	112	31	**143**
Property	(126)	(31)	**(157)**
Equity and infrastructure	(5)	(6)	**(11)**
Alternatives	(104)	—	**(104)**
Policy liability	(15)	—	**(15)**
Assets and policy liability experience	**(138)**	**(6)**	**(144)**
New business strain	(58)	—	**(58)**
Total investment experience (pre-tax)	**(196)**	**(6)**	**(202)**

Assets and policy liability experience

Assets and policy 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.

Assets and policy liability experience includes the impact of changes in macroeconomic variables on the valuation of Life's assets and liabilities, bond yield and inflation factor assumptions, expense assumptions and other factors applied in the valuation of life contract liabilities.

Assets and policy liability experience was a loss of $144m in 1H24, comprising the following:

- Fixed income (+$143m): Comprising a net valuation gain of $112m and normalised capital growth of $31m (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 1H24, credit spreads tightened with investment-grade credit spreads decreasing by ~11 bps and sub-investment-grade credit spreads decreasing by ~73 bps. The impact was a fixed income valuation gain of $138m.

Credit defaults in 1H24 were -$26m (-15 bps) representing 2 new exposures - one issuer default and one exposure that was downgraded. Life's policy treats all investments rated below B- as being in default. Fixed income normalised capital growth of $31m represents an allowance for credit defaults of -35 bps per annum, compared to actual defaults of -15 bps (or -29 bps annualised).

- Property (-$157m): Reflects the revaluation of Life's property portfolio, with a revaluation loss of $126m and normalised capital growth of $31m.

  All properties were revalued in 1H24, with 62% of direct properties independently valued. Movements in valuations as a result of cap rate expansion include domestic office (-4.8%), domestic industrial (-3.8%) and domestic retail (-1.7%).

- Equity and infrastructure (-$11m): Reflects a revaluation loss of $5m and normalised capital growth of $6m. In 1H24, the MSCI Daily Total Return Net World Index (Bloomberg NDDLWI) returned ~7% over the six months to 31 December 2023.
- Alternatives (-$104m): Predominantly relates to Challenger's absolute return fund portfolio, which underperformed Challenger's normalised growth assumption of 0% per annum for alternatives. Returns on Challenger's absolute return portfolio broadly correlated to movements in the Société Générale CTA Index in 1H24.

  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 1H24.

- Policy liability (-$15m): Policy liabilities include changes in economic and actuarial assumptions, including the effects on policy liabilities of changes to bond yields and interest rates, expected inflation rates and expense assumptions. 1H24 policy liability movements include -$47m in relation to the illiquidity premium loss.

  This is partially offset by a $26m gain attributable to investment experience on the Life Risk portfolio driven by an accounting mismatch as a result of applying AASB 17 (refer to page 53 for further explanation on AASB 17 accounting impact), and $6m other gains on policy liabilities. 1H24 other policy liability gains reflect the impacts of relative movements of instruments used for hedging purposes, including inflation-linked and fixed-rate government and semi-government securities.

Illiquidity premium

In accordance with prudential standards and Australian Accounting Standards, Challenger Life values term annuities at fair value and lifetime annuities using a risk-free discount rate, both of which are based on the Australian Government Bond curve plus an illiquidity premium.

Movements in credit spreads impact the illiquidity premium.

The illiquidity premium loss in 1H24 was -$47m 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 1H24 new business strain was a loss of $58m, up from a loss of $45m in 1H23, primarily as a result of net book growth over the period driven by increased lifetime annuity sales, which have a higher new business strain.

Life sales and AUM

Total Life sales

Challenger is improving the quality of the Life book by growing longer duration business across both retail and institutional products and clients.

Total Life sales were $5.3b and decreased by 4% on 1H23, driven by record lifetime sales, offset by lower shorter-duration term annuity sales and Japanese sales.

Annuity and Other Life sales

In 1H24, Challenger Life achieved annuity sales of $3.3b, down $0.2b or 7% on 1H23.

Annuity sales comprised:

- Domestic retail term and lifetime annuity sales of $1.8b, down $0.3b or 14% on 1H23;
- Domestic institutional term and lifetime annuity sales of $1.1b, up $0.1b or 11% on 1H23; and
- Japanese sales of $346m, down $66m or 16% on 1H23.

Domestic retail annuity sales

Domestic retail annuity sales were $1,849m and comprised:

- term annuity sales of $1,380m, which decreased by $387m or 22% on 1H23; and
- lifetime annuity sales of $469m, which increased by $94m or 25% on 1H23.

Term annuities are a viable alternative to bank-issued term deposits and other short-term fixed income instruments. Competition around these investments has typically focused on shorter duration business, particularly for terms under 2-years.

Challenger continues to see demand for longer-duration guaranteed retirement income with retail term annuity sales with tenors of 3-years and more up 13% on 1H23.

Lifetime annuity sales comprise Liquid Lifetime sales of $206m (1H23 $194m) and CarePlus sales of $263m (1H23 $181m).

CarePlus is a lifetime annuity specifically designed for aged care and achieved the highest volume of sales in 1H24 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 61% of term maturities reinvested in 1H24.

Domestic institutional sales

Domestic institutional sales were $3,058m, up $133m (5%) on 1H23 and comprised:

- Institutional term annuity sales of $481m, down $509m or 51%;
- Institutional lifetime annuity sales of $619m, up from nil; and
- Other Life sales of $1,958m, up $23m or 1%.

Institutional term annuity sales of $481m predominantly reflects lower reinvestment rates due to increased competition for short duration funding as well as some clients rotating away from short-term secure fixed income 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.

Other Life sales represent the sales made on Guaranteed Index Plus products. The Guaranteed 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-rated[1], prudentially regulated counterparty and zero fees.

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

Other Life sales were $1,958m, with $787m of new inflows from existing clients, and $1,171m of maturities reinvested.

With the focus on growing longer duration business, Challenger has been seeking to extend the tenor of Index Plus sales. In October 2023, Challenger secured a five-year Index Plus mandate to the value of $500m from a prominent insurance client.

Japanese annuity sales

In November 2016, Challenger formed an annuity relationship 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 31 for more information). The MS Primary annuity relationship provides access to the Japanese annuities market and is helping to diversify Challenger's distribution channels and product offering.

Under the reinsurance arrangements, MS Primary will provide Challenger an amount of reinsurance across Australian dollar, US dollar and Japanese yen denominated annuities, of at least ¥50b (currently ~A$520m[2]) in FY24. This is 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 $346m, down 16% from $412m in 1H23.

MS Primary commenced reinsuring Japanese yen denominated annuities in November 2023 and represented almost a third of total 1H24 MS Primary annuity sales. 1H24 MS Primary annuity sales has had a strong start to the year and represented ~67% of FY24 minimum sales target.

MS Primary annuity sales represented 11% of Challenger's 1H24 total annuity sales.

[1] Standard & Poor's Global Ratings (S&P) Challenger Life Company Limited 'A' rating with a stable outlook.
[2] Based on the exchange rate as at 30 June 2023.

New business tenor

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

This focus is reflected through 90% of new business annuity sales having a tenor of 2-years or more compared to 72% in 1H23.

The tenor of new business annuity sales[3] was 8.9 years in 1H24, up from 5.4 years in 1H23. 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 1H24 were $2.8b and represented 17% of opening period annuity liability (undiscounted liability of $16.6b).

The FY24 maturity rate is expected to be 26% (2H24 9%).

Net book growth

Across both annuity and institutional Guaranteed Index Plus, 1H24 total Life net flows were $328m and represented total book growth of 1.7%.

Life annuity book growth

1H24 Life annuity net flows (annuity sales less capital repayments) were $508m, down from $802m in 1H23. Net flows reflect Life annuity sales of $3,295m (down 7%), comprising record lifetime annuity sales (up 190%), offset by lower shorter-duration term annuity sales and higher maturities of $2,787m (up 2%).

Based on the opening Life annuity book liability ($13,930m), 1H24 annuity book growth was +3.6%.

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 +6.8%.

Other Life book growth

Other Life net flows (i.e. other Life sales less capital repayments) represent net flows on the Guaranteed Index Plus products.

In 1H24, Other Life net outflows were $180m, down from net flows of $183m in 1H23. Based on the opening Other Life liabilities ($5,269m), 1H24 Other Life book growth was -3.4%.

Average AUM

Life's average investment assets were $23.6b in 1H24 and increased by 3% ($0.8b) on 1H23.

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

[3] Including Japanese annuity sales.

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 provides 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 products due to the low Japanese interest rate environment. 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.

In August 2023, Challenger announced the transition of its highly successful reinsurance agreement with MS Primary to an evergreen relationship that will be extended to include Japanese yen denominated annuities alongside Australian dollar and US dollar annuities issued in the Japanese market by MS Primary. Challenger commenced quota share reinsurance of Japanese yen denominated annuities in November 2023.

MS Primary is expected to reinsure at least ¥50 billion (equivalent to ~A$520 million[1]) of its Australian dollar, US dollar and Japanese yen annuities with Challenger in FY24. This is subject to review in the event of a material adverse change for either MS Primary or Challenger.

Challenger invests assets supporting the MS Primary annuity portfolio in broadly similar key asset classes that Challenger uses for its other business and the business is accounted for under Australian Generally Accepted Accounting Principles and Challenger's normalised profit framework, consistent with the rest of Challenger's Life business.

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 $346m, down 16% on 1H23 and represented ~11% of Challenger Life's 1H24 total annuity sales (~12% in 1H23).

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 31 December 2023, held ~15% of Challenger's issued capital.

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

[1] Based on exchange rate as at 30 June 2023.

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 policy makers, regulators, industry and the community that changes to superannuation policy will 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 policy makers 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. Measures are being developed over the second half of calendar year 2023 and early 2024 and are broken down into three streams of consultation.

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.

In December 2023, the Government provided its final response to the QAR, as part of its 'Delivering Better Financial Outcomes' reforms.

Retirement Income Covenant

The Retirement Income Covenant (RIC) came into effect on 1 July 2022. It requires trustees of APRA-regulated superannuation funds to formulate, review regularly and give effect to a retirement income strategy for 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 recent 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.

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	1H24	FY23	1H23	FY22	1H22	FY21	1H21
Assets							
Life investment assets							
Cash and equivalents	2,614.1	2,363.2	2,344.2	1,585.0	2,092.1	1,396.6	2,083.3
Asset-backed securities	10,382.0	10,133.8	9,920.3	9,994.6	9,300.6	8,246.2	6,964.8
Corporate credit	4,881.0	5,302.6	5,356.5	5,079.8	5,638.4	6,775.4	5,773.0
Fixed income and cash (net)	**17,877.1**	**17,799.6**	**17,621.0**	**16,659.4**	**17,031.1**	**16,418.2**	**14,821.1**
Australian – Office	1,577.4	1,656.9	1,762.5	1,775.0	2,139.6	2,081.8	1,947.9
Australian – Retail	685.8	697.6	726.5	787.4	756.5	722.9	709.1
Australian – Industrial	240.5	250.0	242.6	243.5	225.8	199.3	189.5
Japanese	359.7	358.6	337.5	320.9	358.4	357.7	366.8
Other	100.3	99.3	109.2	100.2	103.0	105.8	102.9
Property (net)	**2,963.7**	**3,062.4**	**3,178.3**	**3,227.0**	**3,583.3**	**3,467.5**	**3,316.2**
Equity and infrastructure	365.2	291.3	259.0	971.1	1,096.1	623.2	604.2
Alternatives	2,888.1	2,384.7	2,026.6	1,366.3	1,226.4	1,054.3	892.5
Life investment assets	**24,094.1**	**23,538.0**	**23,084.9**	**22,223.8**	**22,936.9**	**21,563.2**	**19,634.0**
Other assets (including intangibles)	610.4	619.7	619.7	543.0	696.1	773.9	896.0
Total assets	**24,704.5**	**24,157.7**	**23,704.6**	**22,766.8**	**23,633.0**	**22,337.1**	**20,530.0**
Liabilities							
Life annuity book[1]	15,034.6	13,930.0	14,278.4	13,595.4	14,092.5	13,669.9	12,769.7
Other Life liabilities	5,107.6	5,268.8	4,620.2	4,386.4	4,381.8	3,632.2	3,031.5
Subordinated debt[2]	427.5	411.3	407.8	399.7	401.6	404.5	401.7
Challenger Capital Notes	735.0	735.0	845.0	845.0	872.7	872.7	892.5
Other liabilities	76.8	81.3	50.9	7.7	224.5	210.7	269.8
Total liabilities	**21,381.5**	**20,426.4**	**20,202.3**	**19,234.2**	**19,973.1**	**18,790.0**	**17,365.2**
Net assets	**3,323.0**	**3,731.3**	**3,502.3**	**3,532.6**	**3,659.9**	**3,547.1**	**3,164.8**

1. Life annuity book in 1H24 includes the application impact of AASB 17 (1H24: $362.3 million). Prior periods are not restated for the impact of AASB 17.
2. 1H24 Tier 2 regulatory capital – subordinated debt ($427.5m) differs to the Group balance sheet ($419.1m) 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	31 December 2023	30 June 2023
Fixed income and cash	74 %	76 %
Property	12 %	13 %
Equity and infrastructure	2 %	1 %
Alternatives	12 %	10 %

Fixed income portfolio overview

Life's fixed income and cash portfolio was $17.9b at 31 December 2023 and increased by $0.1b from $17.8b at 30 June 2023. The increase reflects growth in Life's investment assets, partially offset by the reallocation to alternatives during the half.

The fixed income and cash portfolio represented 74% of Life's investment assets at 31 December 2023, down from 76% at 30 June 2023. The fixed income portfolio comprises approximately 1,800 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 31 December 2023, 77% of the fixed income portfolio was investment grade, unchanged from 30 June 2023.

A total of 85% 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 61% 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 1H24, the credit default loss recognised in investment experience was -15 bps ($26m), or -29 bps annualised, which is below Challenger's -35 bps per annum assumption. Credit defaults represented 2 new exposures - one issuer default and one exposure that was downgraded, per Life's policy to consider all investments rated below B- as being in default.

Over the past five financial years, the average credit default loss experience recognised in investment experience has been -18 bps per annum.

Detailed disclosure of Life's fixed income portfolio is included on pages 35 to 38. 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

31 December 2023		$m	% portfolio	
Liquids		2,614	15%	Includes cash and equivalents and Government Bonds (net of repurchase agreements) and strategies earning a spread with limited credit risk
Asset-Backed Securities (ABS)	Residential Mortgage-Backed Securities (RMBS)	3,754	21%	Financing secured against a pool of underlying residential mortgages
	Other ABS	3,657	21%	Financing secured against underlying assets, where asset security includes motor vehicle, equipment and consumer finance
	Senior Secured Loans	2,677	15%	Senior debt secured by collateral and typically originated by Challenger
	Aviation Finance	70	—	Secured commercial aircraft financing
	Commercial Mortgage-Backed Securities (CMBS)	224	1%	Securitisations of underlying commercial property mortgages
Corporate Credit	Banks and Financials	1,054	6%	Corporate loans to banks, insurance companies and fund managers
	Infrastructure	706	4%	Long-dated inflation-linked bonds issued by Public Private Partnership projects and loans to infrastructure companies
	Senior Secured Loans	409	2%	Senior debt secured by collateral
	Non-Financial Corporates	2,200	12%	Traded commercial loans to non-financial corporates (includes exposures to retail, hotels, media, mining and health care)
	Commercial Real Estate	512	3%	Loans secured against commercial real estate assets and typically originated by Challenger
Total		**17,877**	**100%**	

Table 2: Fixed income portfolio by credit rating

	Investment grade						Non-investment grade			Total
31 December 2023 ($m)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	$m
Liquids										
Government bonds[1]	1,007	—	—	—	—	**1,007**	—	—	**—**	**1,007**
Covered bonds	174	—	—	—	—	**174**	—	—	**—**	**174**
Cash & Equivalents[2]	1,433	—	—	—	—	**1,433**	—	—	**—**	**1,433**
Asset-Backed Securities										
RMBS	—	1,592	1,034	605	293	**3,524**	136	94	**230**	**3,754**
Other ABS	—	1,259	755	477	413	**2,904**	459	294	**753**	**3,657**
Senior Secured Loans	—	1,129	474	243	486	**2,332**	332	13	**345**	**2,677**
Aviation Finance	—	—	—	7	24	**31**	16	23	**39**	**70**
CMBS	—	12	35	63	68	**178**	37	9	**46**	**224**
Corporate Credit										
Banks and Financials	—	—	13	163	652	**828**	195	31	**226**	**1,054**
Infrastructure	—	—	87	123	254	**464**	140	102	**242**	**706**
Senior Secured Loans	—	—	—	—	28	**28**	69	312	**381**	**409**
Non-Financial Corporates	—	—	38	16	390	**444**	809	947	**1,756**	**2,200**
Commercial Real Estate	—	—	—	109	319	**428**	70	14	**84**	**512**
Total	**2,614**	**3,992**	**2,436**	**1,806**	**2,927**	**13,775**	**2,263**	**1,839**	**4,102**	**17,877**
Fixed income portfolio (%)	15%	22%	14%	10%	16%	**77%**	13%	10%	**23%**	**100%**
Average duration (years)	—	1.5	2.4	3.3	3.6	**2.5**	3.2	3.3	**3.2**	**2.7**

	Investment grade						Non-investment grade			Total
31 December 2023 (%)	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	—	42%	28%	16%	8%	**94%**	3%	3%	**6%**	**100%**
Other ABS	—	34%	21%	13%	11%	**79%**	13%	8%	**21%**	**100%**
Senior Secured Loans	—	42%	18%	9%	18%	**87%**	13%	—	**13%**	**100%**
Aviation Finance	—	—	—	10%	34%	**44%**	23%	33%	**56%**	**100%**
CMBS	—	5%	16%	28%	30%	**79%**	17%	4%	**21%**	**100%**
Corporate Credit										
Banks and Financials	—	—	1%	15%	62%	**78%**	19%	3%	**22%**	**100%**
Infrastructure	—	—	12%	17%	37%	**66%**	20%	14%	**34%**	**100%**
Senior Secured Loans	—	—	—	—	7%	**7%**	17%	76%	**93%**	**100%**
Non-Financial Corporates	—	—	2%	1%	18%	**21%**	37%	42%	**79%**	**100%**
Commercial Real Estate	—	—	—	21%	62%	**83%**	14%	3%	**17%**	**100%**
Total	**15%**	**22%**	**14%**	**10%**	**16%**	**77%**	**13%**	**10%**	**23%**	**100%**

[1] Government Bonds are shown net of $3,424m of Australian Government Bonds and $1,812m 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 45 for more detail.

[2] Includes strategies earning a spread with limited credit risk.

Table 3: Fixed income portfolio by rating type

31 December 2023 ($m)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	$m
Liquids										
Externally rated	2,614	—	—	—	—	**2,614**	—	—	—	**2,614**
Internally rated	—	—	—	—	—	**—**	—	—	—	**—**
Asset-Backed Securities										
Externally rated	—	3,891	2,203	1,188	720	**8,002**	555	216	771	**8,773**
Internally rated	—	101	95	207	564	**967**	425	217	642	**1,609**
Corporate Credit										
Externally rated	—	—	90	402	1,536	**2,028**	816	909	1,725	**3,753**
Internally rated	—	—	48	9	107	**164**	467	497	964	**1,128**
Total	**2,614**	**3,992**	**2,436**	**1,806**	**2,927**	**13,775**	**2,263**	**1,839**	**4,102**	**17,877**
Externally rated	100%	97%	94%	88%	77%	**92%**	61%	61%	**61%**	**85%**
Internally rated	—	3%	6%	12%	23%	**8%**	39%	39%	**39%**	**15%**

31 December 2023 (%)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Liquids										
Externally rated	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Internally rated	—	—	—	—	—	**—**	—	—	**—**	**—**
Asset-Backed Securities										
Externally rated	—	44%	25%	14%	8%	**91%**	7%	2%	**9%**	**100%**
Internally rated	—	6%	6%	13%	35%	**60%**	27%	13%	**40%**	**100%**
Corporate Credit										
Externally rated	—	—	2%	11%	41%	**54%**	22%	24%	**46%**	**100%**
Internally rated	—	—	4%	1%	10%	**15%**	41%	44%	**85%**	**100%**
Total	**15%**	**22%**	**14%**	**10%**	**16%**	**77%**	**13%**	**10%**	**23%**	**100%**

Table 4: Fixed income portfolio by industry sector

	Investment grade						Non-investment grade			Total
31 December 2023 ($m)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	$m
Industrials and consumers	—	2,437	1,238	622	1,174	**5,471**	1,536	1,456	**2,992**	**8,463**
Residential property	—	1,531	959	550	350	**3,390**	174	94	**268**	**3,658**
Banks, financials & insurance	1,607	5	84	273	796	**2,765**	283	88	**371**	**3,136**
Government	1,007	—	—	—	—	**1,007**	—	—	**—**	**1,007**
Commercial property	—	19	40	191	328	**578**	67	26	**93**	**671**
Infrastructure and utilities	—	—	87	124	256	**467**	148	106	**254**	**721**
Other	—	—	28	46	23	**97**	55	69	**124**	**221**
Total	**2,614**	**3,992**	**2,436**	**1,806**	**2,927**	**13,775**	**2,263**	**1,839**	**4,102**	**17,877**

	Investment grade						Non-investment grade			Total
31 December 2023 (%)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Industrials and consumers	—	29%	15%	7%	14%	**65%**	18%	17%	**35%**	**100%**
Residential property	—	42%	26%	15%	10%	**93%**	5%	2%	**7%**	**100%**
Banks, financials & insurance	51%	—	3%	9%	25%	**88%**	9%	3%	**12%**	**100%**
Government	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Commercial property	—	3%	6%	28%	49%	**86%**	10%	4%	**14%**	**100%**
Infrastructure and utilities	—	—	12%	17%	36%	**65%**	21%	14%	**35%**	**100%**
Other	—	—	13%	21%	10%	**44%**	25%	31%	**56%**	**100%**
Total	**15%**	**22%**	**14%**	**10%**	**16%**	**77%**	**13%**	**10%**	**23%**	**100%**

Table 5: Fixed income portfolio by geography and credit rating

	Investment grade						Non-investment grade			Total
31 December 2023 ($m)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	$m
Australia	1,951	2,490	1,359	1,053	1,749	**8,602**	1,255	982	**2,237**	**10,839**
United States	567	775	166	216	631	**2,355**	857	704	**1,561**	**3,916**
United Kingdom	—	92	225	91	127	**535**	10	5	**15**	**550**
Europe	25	281	607	351	340	**1,604**	21	32	**53**	**1,657**
New Zealand	—	275	57	84	63	**479**	79	106	**185**	**664**
Rest of world	71	79	22	11	17	**200**	41	10	**51**	**251**
Total	**2,614**	**3,992**	**2,436**	**1,806**	**2,927**	**13,775**	**2,263**	**1,839**	**4,102**	**17,877**

	Investment grade						Non-investment grade			Total
31 December 2023 (%)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Australia	18%	23%	12%	10%	16%	**79%**	12%	9%	**21%**	**100%**
United States	14%	20%	4%	6%	16%	**60%**	22%	18%	**40%**	**100%**
United Kingdom	—	17%	40%	17%	23%	**97%**	2%	1%	**3%**	**100%**
Europe	2%	17%	36%	21%	21%	**97%**	1%	2%	**3%**	**100%**
New Zealand	—	41%	9%	13%	9%	**72%**	12%	16%	**28%**	**100%**
Rest of the world	28%	31%	10%	4%	7%	**80%**	16%	4%	**20%**	**100%**
Total	**15%**	**22%**	**14%**	**10%**	**16%**	**77%**	**13%**	**10%**	**23%**	**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 $3.0b (net of debt) at 31 December 2023 and decreased by 3% from 30 June 2023, primarily reflecting revaluation decreases on property of $104m.

The property allocation reduced from 13% of Life's investment portfolio at 30 June 2023 to 12% at 31 December 2023 primarily as a result of revaluations.

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 1H24, independent valuations were obtained for 62% of the direct property portfolio.

For 1H24, the movement in the valuation of properties was as follows:

- Australian office -4.8%;
- Australian retail -1.7%;
- Australian industrial -3.8%; and
- Japanese portfolio stable.

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 53% of the portfolio, with the Federal and State governments being major tenants, accounting for 54% of 1H24 gross office rental income[1].

Australian direct retail assets account for 24% of the direct portfolio and comprise eight grocery-anchored convenience-based shopping centres. 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 6.02% at 31 December 2023, up 32 bps from 30 June 2023.

Property includes a net $360m 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 stable in 1H24.

The property portfolio generates long-term cash flows to match long-term liabilities, with a weighted average lease expiry of 5.7 years and 54% of leasing area having contracted leases expiring in FY28 and beyond. The portfolio had an occupancy rate of 92% at 31 December 2023, which was down 1% from 30 June 2023.

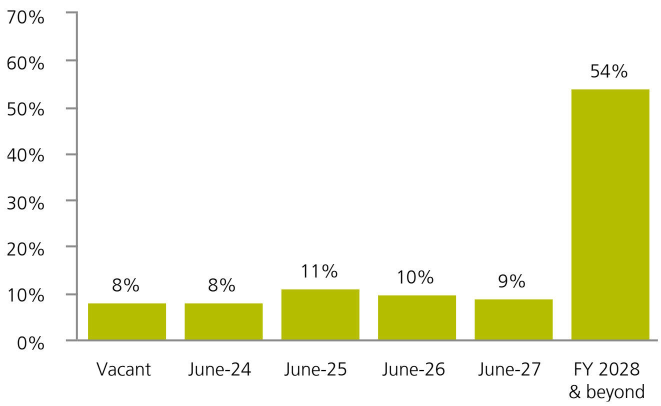
Approximately 66% of contracted leases have either annual fixed increases or inbuilt increases based on inflation or market outcomes (e.g. CPI).

Full details of Life's property portfolio are listed on pages 40 to 42.

Property portfolio summary

% of total portfolio	1H24	FY23
Australian office	53%	54%
Australian retail	24%	23%
Australian industrial	8%	8%
Other	3%	3%
Australian total	**88%**	**88%**
Japanese retail	12%	12%
Total	**100%**	**100%**

Portfolio lease expiry overview[2]



[1] Represents total gross passing Government income relative to direct office portfolio.
[2] Direct property portfolio and jointly held assets only.

Direct property portfolio overview[1]

31 December 2023		Office	Retail	Industrial	Total
Total rent (%)[2]		52%	40%	8%	100%
WALE[3] (years)		5.4	6.0	6.4	5.7
Tenant credit ratings					
	AAA	22%	—	—	22%
	AA	7%	1%	—	8%
	A	1%	3%	—	4%
	BBB	2%	8%	2%	12%
	BB	10%	13%	2%	25%
	B or below	2%	7%	4%	13%
	Not rated	1%	7%	—	8%
	Vacant	7%	1%	—	8%
	Total	**52%**	**40%**	**8%**	**100%**
% of total gross net	Investment grade	32%	12%	2%	46%
	Non-investment grade	13%	28%	5%	46%
	Vacant	7%	1%	—	8%

1 Direct property portfolio assets only.
2 Includes 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

31 December 2023	Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate 1H24 (%)[3]	Last external valuation date
Australia					
Office					
6 Chan Street (formerly DIBP Building), ACT	01 Dec 01	129.1	250.0	5.38	31 Dec 23
14 Childers Street, ACT	01 Dec 17	102.4	81.5	7.00	31 Dec 23
35 Clarence Street, NSW	15 Jan 15	163.5	216.5	5.75	31 Dec 23
45 Benjamin Way (formerly ABS Building), ACT	01 Jan 00	153.4	225.0	5.75	31 Dec 23
82 Northbourne Avenue, ACT	01 Jun 17	62.9	37.5	6.25	31 Dec 23
215 Adelaide Street, QLD	31 Jul 15	269.2	211.0	7.00	30 Jun 23
565 Bourke Street, VIC	28 Jan 15	113.3	130.0	5.88	31 Dec 23
839 Collins Street, VIC	22 Dec 16	212.0	227.5	5.25	31 Dec 23
Discovery House, ACT	28 Apr 98	106.0	155.0	5.38	31 Dec 23
Executive Building, TAS	30 Mar 01	36.1	43.5	6.75	31 Dec 23
Retail					
Channel Court, TAS	21 Aug 15	89.3	87.0	7.25	30 Jun 23
Gateway, NT	01 Jul 15	123.9	108.8	6.86	30 Jun 23
Golden Grove, SA	31 Jul 14	162.9	153.0	6.50	31 Dec 23
Helicon Drive, SA	05 Oct 22	10.8	10.0	6.00	30 Jun 23
Karratha, WA	28 Jun 13	58.9	48.5	7.75	30 Jun 23
Kings Langley, NSW	29 Jul 01	16.6	27.0	5.75	31 Dec 23
Lennox, NSW	27 Jul 13	69.6	72.5	6.50	30 Jun 23
North Rocks, NSW	18 Sep 15	190.9	179.0	6.00	31 Dec 23
Industrial					
21 O'Sullivan Circuit, NT	27 Jan 16	47.9	26.3	7.75	31 Dec 23
31 O'Sullivan Circuit, NT	27 Jan 16	34.2	33.6	7.50	31 Dec 23
Cosgrave Industrial Park, Enfield, NSW	31 Dec 08	93.4	180.6	4.75	31 Dec 23
Total Australia		**2,246.3**	**2,503.8**	**6.02**	

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.

Direct property investments

31 December 2023		Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate 1H24 (%)[3]	Last external valuation date
Japan						
Retail						
	Aeon Kushiro	31 Jan 10	30.5	30.5	5.40	31 Dec 23
	Carino Chitosedai	31 Jan 10	119.2	110.2	4.40	31 Dec 23
	Carino Tokiwadai	31 Jan 10	78.0	68.0	4.50	30 Jun 23
	DeoDeo Kure	31 Jan 10	32.2	27.0	5.50	30 Jun 23
	Fitta Natalie Hatsukaichi	28 Aug 15	12.1	11.9	5.80	31 Dec 23
	Izumiya Hakubaicho	31 Jan 10	69.9	61.3	4.90	31 Dec 23
	Kansai Super Saigo	31 Jan 10	13.3	11.7	5.10	31 Dec 23
	Kojima Nishiarai	31 Jan 10	12.2	13.0	4.30	30 Jun 23
	Kotesashi Towers	28 Nov 19	25.2	18.9	5.00	31 Dec 23
	Life Asakusa	31 Jan 10	28.0	30.5	4.10	30 Jun 23
	Life Higashi Nakano	31 Jan 10	33.3	32.0	4.20	30 Jun 23
	Life Nagata	31 Jan 10	25.2	24.2	4.20	30 Jun 23
	MaxValu Tarumi	28 Aug 15	17.0	16.2	5.50	31 Dec 23
	Seiyu Miyagino	31 Jan 10	9.8	9.1	5.10	30 Jun 23
	TR Mall Ryugasaki	30 Mar 18	86.7	80.0	5.30	31 Dec 23
	Valor Takinomizu	31 Jan 10	28.0	20.8	5.40	31 Dec 23
	Valor Toda	31 Jan 10	42.5	36.3	5.20	30 Jun 23
	Yaoko Sakado Chiyoda	31 Jan 10	19.9	18.4	4.70	31 Dec 23
	Yorktown Toride	05 Mar 20	32.2	22.7	5.20	30 Jun 23
Industrial						
	Aeon Matsusaka XD	26 Sep 19	14.7	12.2	5.20	30 Jun 23
Total Japan			**729.9**	**654.9**	**4.87**	
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			**750.2**	**665.1**	**4.92**	
Total direct portfolio investments			**2,996.5**	**3,168.9**	**5.79**	

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 31 December 2023 and increased by 25% ($0.1b) from 30 June 2023.

The increase in equities and infrastructure in 1H24 reflects equities purchased, particularly in beta investments.

Equity and infrastructure represented 2% of Life's total investment assets at 31 December 2023, up from 1% at 30 June 2023.

Challenger's equity investments primarily comprise beta investments, with total returns 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

31 Dec 2023	Domestic	Offshore	Total
Equity beta	58	194	**252**
Low beta	—	—	**—**
Infrastructure	67	46	**113**
Total equity & infrastructure	**125**	**240**	**365**

30 Jun 2023	Domestic	Offshore	Total
Equity beta	52	86	**138**
Low beta	33	—	**33**
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 14 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, the total return on Life's absolute return portfolio is expected to be broadly correlated to the Société Générale CTA Index.

The general insurance-related investments include catastrophe bonds. Life utilises 3 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 SRCATTRR).

Life's alternatives portfolio was $2.9b at 31 December 2023 and increased by 21% ($0.5b) from 30 June 2023. The increase was driven by an increased deployment into absolute return funds and general insurance-related investments from fixed income.

Alternatives portfolio

31 Dec 2023	Domestic	Offshore	Total
Absolute return funds	23	2,120	**2,143**
General insurance	—	648	**648**
Life insurance	—	97	**97**
Total alternatives	**23**	**2,865**	**2,888**

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**

Table 1: Alternatives portfolio overview

31 December 2023		$m	% portfolio	
Absolute Return	Global macro funds	1,622	57%	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	521	18 %	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	617	21%	Externally managed funds that predominantly take exposure to residual property and casualty insurance risks.
	Insurance sidecars	31	1%	Externally managed special purpose vehicles that predominantly take exposure to first-loss property and casualty insurance risks.
Life Insurance	Life settlements	97	3%	Beneficial interests in portfolios of life insurance policies over individual lives in the US.
Total		**2,888**	**100%**	

Challenger Life Company Limited (CLC) debt facilities

$m	1H24	FY23	1H23	FY22	1H22	FY21	1H21
Repurchase agreements	5,226.0	4,069.7	3,716.7	3,735.1	3,542.5	4,111.1	4,966.3
Controlled property debt	280.9	281.9	347.8	334.0	382.2	394.5	420.4
Subordinated debt	419.1	403.0	399.3	398.4	400.0	404.5	401.7
Challenger Capital Notes	735.0	735.0	845.0	845.0	872.7	872.7	892.5
Infrastructure debt	160.3	164.4	168.4	172.3	175.7	179.3	182.6
Other finance	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Total CLC debt facilities	**6,822.0**	**5,654.7**	**5,477.9**	**5,485.5**	**5,373.8**	**5,962.8**	**6,864.2**

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 31 December 2023 were $6.8b and increased by $1.1b on 30 June 2023 due to an increase in repurchase agreements used to hedge interest rate movements.

Repurchase agreements

Repurchase agreements at 31 December 2023 were $5.2b, up 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, other Life 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.

Challenger Capital Notes (ASX code: CGFPA)

In October 2014, Challenger issued Challenger Capital Notes to the value of $345m. Challenger Capital Notes paid a margin of 3.40% above the 3-month Bank Bill Swap rate, with the total distribution reduced by available franking credits.

In October 2020, Challenger announced a new offer of capital notes, being Challenger Capital Notes 3, with the proceeds intended to be used to help refinance Challenger Capital Notes.

In November 2020, Challenger announced the successful completion of the Challenger Capital Notes 3 offer, which raised $385m, of which $298m was used to partially refinance Challenger Capital Notes.

It was Challenger's intention to fully redeem all Challenger Capital Notes with the proceeds of Challenger Capital Notes 3; however, noteholders were not required to participate in the reinvestment offer or repurchase invitation. As a result, on 25 May 2021, approximately $28m of Challenger Capital Notes remained on issue.

In May 2022, Challenger mandatorily converted the remaining balance of Challenger Capital Notes into Challenger ordinary shares in accordance with the Challenger Capital Notes Terms and issued approximately 3.8m fully paid ordinary shares.

Challenger Capital Notes 2 (ASX code: CGFPB)

In April 2017, Challenger issued Challenger Capital Notes 2 to the value of $460m. Challenger Capital Notes 2 pay a margin of 4.40% above the 3-month Bank Bill Swap rate, with the total distribution reduced by available franking credits.

In March 2023, Challenger announced a new offer of capital notes, being Challenger Capital Notes 4, with the proceeds intended to be used to refinance Challenger Capital Notes 2.

On 5 April 2023, Challenger announced the successful completion of the Challenger Capital Notes 4 offer, which raised $350m, including approximately $224m of reinvestment demand from Challenger Capital Notes 2 holders.

On 22 May 2023, the outstanding face value of approximately $236m of Challenger Capital Notes 2 was fully redeemed.

Challenger Capital Notes 2 are no longer trading and were removed from official quotation on the ASX at the close of trade on 22 May 2023.

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).

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).

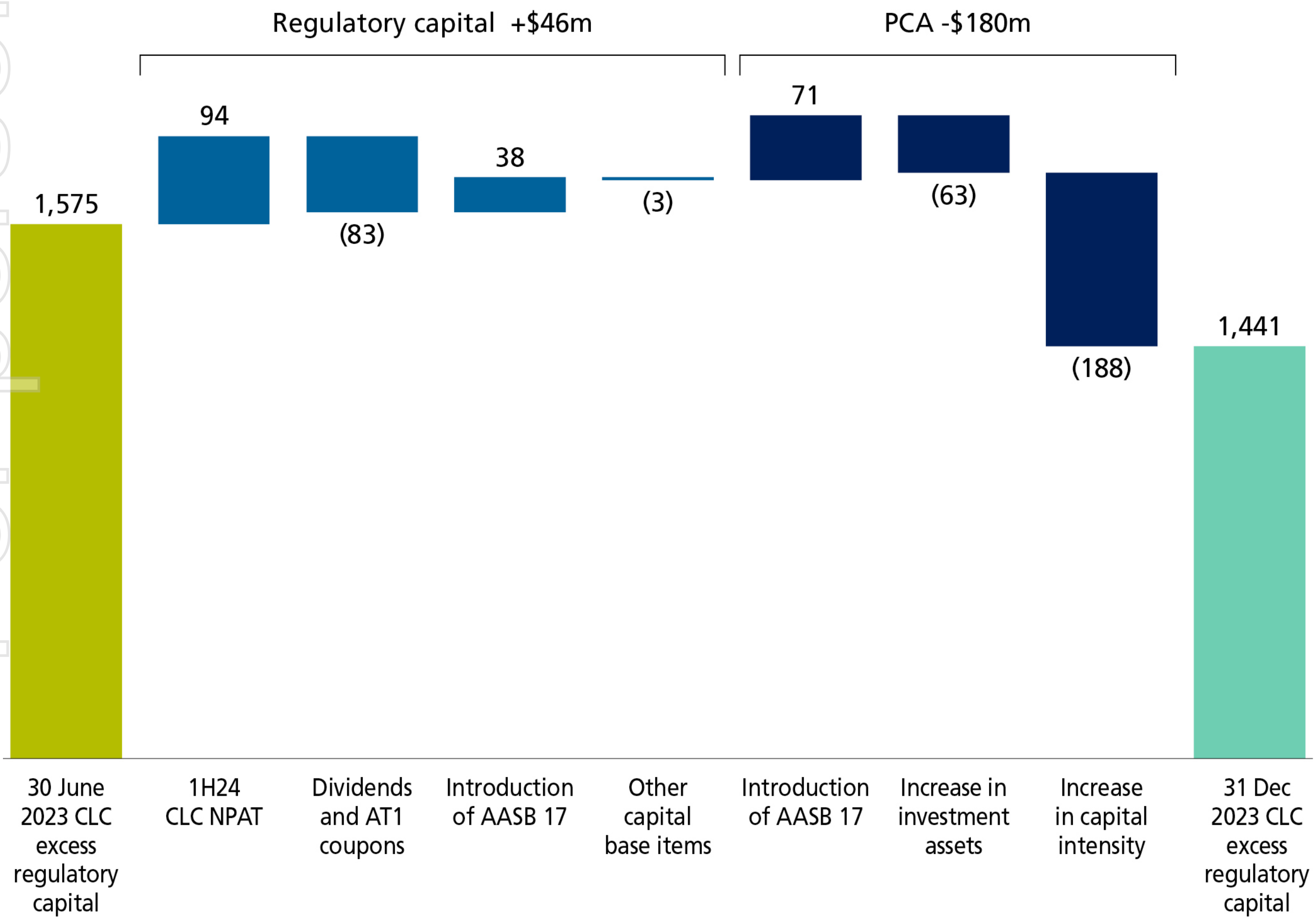
If Challenger exercises its option to redeem or resell, there will be no conversion of Challenger Capital Notes 4 to Challenger ordinary shares and no subsequent shareholder dilution.

Challenger Life Company Limited (CLC) regulatory capital

$m	1H24	FY23	1H23	FY22	1H22	FY21	1H21
CLC regulatory capital							
Common Equity Tier 1 (CET1) regulatory capital	3,141.0	3,110.5	2,947.9	2,858.0	3,120.3	2,971.2	2,622.9
Additional Tier 1 regulatory capital	735.0	735.0	845.0	845.0	872.7	872.7	892.5
Tier 2 regulatory capital – subordinated debt[1]	427.5	411.3	407.8	399.7	402.4	405.4	402.7
CLC total regulatory capital base	**4,303.5**	**4,256.8**	**4,200.7**	**4,102.7**	**4,395.4**	**4,249.3**	**3,918.1**
CLC Prescribed Capital Amount (PCA)							
Asset risk charge	2,737.7	2,582.0	2,541.7	2,467.5	2,470.6	2,481.8	2,290.2
Insurance risk charge	174.6	125.0	127.6	151.5	233.5	227.0	213.8
Operational risk charge	81.9	70.7	65.4	58.6	60.7	57.9	54.4
Aggregation benefit	(132.0)	(95.8)	(97.6)	(114.3)	(171.0)	(167.4)	(156.7)
CLC PCA	**2,862.2**	**2,681.9**	**2,637.1**	**2,563.3**	**2,593.8**	**2,599.3**	**2,401.7**
CLC excess over PCA	**1,441.3**	**1,574.9**	**1,563.6**	**1,539.4**	**1,801.6**	**1,650.0**	**1,516.4**
PCA ratio (times)[2]	1.50	1.59	1.59	1.60	1.69	1.63	1.63
Tier 1 ratio (times)	1.35	1.43	1.44	1.44	1.54	1.48	1.46
CET1 capital ratio (times)	1.10	1.16	1.12	1.11	1.20	1.14	1.09
Capital intensity ratio (%)[3]	11.9%	11.4%	11.4%	11.5%	11.3%	12.1%	12.2%

1 1H24 Tier 2 regulatory capital – subordinated debt ($427.5m) differs to the Group balance sheet ($419.1m) due to accrued interest.
2 Application impact of AASB 17 is reflected in the CLC PCA ratio for 1H24. 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 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 31 December 2023 was $4.3b and increased by $46m in 1H24. The increase reflects:

- CLC's statutory profit after tax for the half year (+$94m);
- capital benefit from the tax treatment of policy liability movements which increases on the introduction of new accounting standard AASB 17 (+$38m); partially offset by
- dividend and coupon payments on Additional Tier 1 instruments (-$83m).

CLC's regulatory capital position benefits from the introduction of AASB 17 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 assumes the tax treatment on policy liability movements arising from AASB 17 remains unchanged from the existing treatment and the ATO is yet to issue guidance on this position for life insurers.

CLC's Prescribed Capital Amount (PCA)

CLC's PCA at 31 December 2023 was $2.9b and increased by $0.2b in 1H24, primarily reflecting:

- increase in capital intensity (+$188m) (refer below);
- growth in investment assets (+$63m); partially offset by
- capital benefit from the tax treatment of policy liability movements which increases on the introduction of new accounting standard AASB 17, reducing the PCA (-$71m).

CLC's PCA benefits from the introduction of AASB 17 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 assumes the tax treatment on policy liability movements arising from AASB 17 remains unchanged from the existing treatment and the ATO is yet to issue guidance on this position for life insurers.

Increase in capital intensity

CLC's capital intensity ratio, which is calculated as CLC PCA divided by Life's closing investment assets, increased from 11.4% at 30 June 2023 to 11.9% at 31 December 2023.

The increase in capital intensity from 11.4% to 11.9% primarily relates to a higher allocation to the alternatives class, which carries a higher risk charge.

CLC's excess capital position

CLC's excess capital above PCA at 31 December 2023 was $1.4b and decreased by $134m in 1H24. CLC's capital ratios at 31 December 2023 were as follows:

- PCA ratio 1.50 times – down 0.09 times from 1.59 times at 30 June 2023 primarily reflecting changes in the investment portfolio with an increased allocation to alternatives;
- Total Tier 1 capital ratio 1.35 times – down 0.08 times from 1.43 times at 30 June 2023; and
- Common Equity Tier 1 (CET1) capital ratio 1.10 times – down 0.06 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 (1.50 times), Total Tier 1 capital ratio (1.35 times) and CET1 capital ratio (1.10 times) are well in excess of APRA's minimum requirements.

Changes to the composition of the balance sheet over the past two years have resulted in a materially higher allocation to alternatives, which have a lower correlation to broader investment markets (but are treated as 100% correlated for regulatory capital purposes). Challenger has also been holding a higher proportion of CET1 regulatory capital within the regulatory capital base. As a result of these changes, in terms of the unchanged risk appetite and target surplus framework, the 31 December 2023 PCA ratio of 1.50 times is broadly equivalent to 1.60 times at 30 June 2021, which had a different balance sheet and regulatory capital composition.

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 1H24 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 31 December 2023, CLC's constraining target was CET1. The target surplus produced by the internal capital models for FY23 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 45.

Profit and equity sensitivities

$m	Change in variable	Profit/(loss) after tax 1H24[4]	Profit/(loss) after tax FY23
Credit risk			
Fixed income assets (change in credit spreads)[1]	+/- 50 bps	-/+ 127.1	-/+ 124.9
Policy liabilities (illiquidity premium change in credit spreads)	+/- 50 bps	+/- 64.9	+/- 63.8
Property risk			
Direct and indirect properties	+/- 1%	+/- 22.7	+/- 23.4
Equity and infrastructure risk			
Equity and infrastructure investments	+/- 10%	+/- 25.6	+/- 20.4
Alternatives risk			
Alternatives investments	+/- 10%	+/- 202.2	+/- 166.9
Life Insurance risk			
Mortality, morbidity and longevity[2]			
Retail and institutional lifetime annuities	+/- 50%	-/+ 40.5	-/+ 25.4
Life risk	+/- 50%	+/- 67.7	—
Total Life insurance contract liabilities	+/- 50%	+/- 27.2	-/+ 25.4
Interest rate risk			
Retail and institutional annuities and asset portfolio	+/- 100 bps	-/+ 4.4	+/- 0.6
Life risk[3]	+/- 100 bps	-/+ 61.7	-/+ 8.4
Total change in interest rates	+/- 100 bps	-/+ 66.1	-/+ 7.8
Foreign exchange risk			
Asset portfolio	+/- 10%	+/- 0.1	+/- 0.3
Life risk	+/- 10%	+/- 24.1	+/- 8.7
Total British pound exposure	+/- 10%	+/- 24.2	+/- 9.0
US dollar	+/- 10%	-/+ 1.0	+/- 1.0
Euro	+/- 10%	—	—
Japanese yen	+/- 10%	+/- 0.2	+/- 0.3
Other	+/- 10%	—	+/- 0.3

1 Credit risk sensitivities excludes Australian Government Bonds, Australian Semi-Government Bonds and exposures with an Australian Government guarantee.
2 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.
3 Policy liability for Life Risk business is sensitive to changes in the UK 10-year yield curve.
4 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 31 December 2023. If using these sensitivities as forward looking, allowances for changes post-31 December 2023, 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 investment 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 59 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), its banking subsidiary, Challenger Bank Limited (CBL) and its registrable superannuation entity licensee, Challenger Retirement and Investment Services Limited (CRISL).

CLC and CBL are both required under APRA prudential standards to maintain capital buffers in order to ensure that under a range of adverse scenarios they can continue to meet not only their contractual obligations to customers but also their regulatory capital requirements.

Challenger is exposed to a variety of financial risks, including market risk (including foreign exchange risk, interest rate risk, inflation risk, equity risk, and credit spread risk), credit default risk, life insurance risk, liquidity risk and operational 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 exposure[1]	Minimise exposure
• Credit risk	• Asset and liability mismatch risk
• Property risk	• Foreign exchange risk
• Equity and infrastructure risk	• Interest rate risk
• Life insurance risk	• Inflation risk
• Other active trading strategy 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 risk 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.

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 31 December 2023, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised loss/gain of $127m (after-tax) on fixed income investments (net of debt).

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

As at 31 December 2023, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised gain/loss of $65m (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 50 show the impact of a change in property valuations at 31 December 2023 and are based on Life's gross property investments of $3.2b (net investments of $3.0b plus debt of $0.3b).

A 1% move in the direct and indirect property portfolio at 31 December 2023 would result in a $23m (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 50 show a 10% move in the equity portfolio at 31 December 2023 would have resulted in a $26m (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 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.

Alternatives sensitivity

The alternatives risk sensitivity on page 50 shows a 10% market move in the alternatives portfolio at 31 December 2023 would have an impact of $202m (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;
- associated reporting requirements;
- 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 22 years (per the base mortality rates) to 26 years.

Mortality and longevity sensitivities

The mortality sensitivities on page 50 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 25 years to 26 years.

For retail annuities, increased mortality improvements cause an increase in policy liability for retail annuities, leading to a loss (after-tax) of $41m. 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 31 December 2023, current UK rates were on average higher than locked-in rates, so the impact of higher mortality improvements is a profit (after tax) of $68m.

Despite increased mortality improvements being an economically negative impact, the application of AASB 17 (given UK interest rates as at 31 December 2023) means that the financial impact of this change is a reduction in policy liability valuation leading to a positive $27.2m (after-tax) impact.

Life Risk business

Accounting standard 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 PVFCF which is measured at current interest rates, and a CSM, measured at the interest rates on the date the business was written (locked-in rates).

This means that the policy liability for Life Risk business is sensitive both to changes in interest rates in the UK, and changes in the value of the British pound against the Australian dollar.

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

Interest rate sensitivity

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 50.

The sensitivities assume the change in variable occurs on 31 December 2023 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 31 December 2023.

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.

Currency exposure 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 50. 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 the effects of translation of the Life Risk business, which is not hedged.

Challenger invests with a range of third-party managers, for example absolute return fund managers. While Challenger does not actively seek to take foreign exchange risk, some foreign exchange exposure can be embedded in those third-party managed portfolios.

Funds Management financial results

$m	1H24	2H23	1H23	2H22	1H22	2H21	1H21
Fidante							
Fidante income[1]	61.5	57.0	54.0	58.3	63.1	52.3	45.1
Performance fees	5.2	1.6	3.1	1.6	2.4	5.5	4.6
Net income	**66.7**	**58.6**	**57.1**	**59.9**	**65.5**	**57.8**	**49.7**
Challenger Investment Management							
Challenger Investment Management income[2]	20.7	32.3	30.8	33.7	32.7	30.2	31.6
Total net fee income	**87.4**	**90.9**	**87.9**	**93.6**	**98.2**	**88.0**	**81.3**
Personnel expenses	(25.6)	(27.0)	(36.0)	(35.4)	(34.9)	(34.0)	(29.2)
Other expenses	(33.3)	(33.0)	(21.2)	(20.5)	(18.2)	(18.3)	(16.8)
Total expenses	**(58.9)**	**(60.0)**	**(57.2)**	**(55.9)**	**(53.1)**	**(52.3)**	**(46.0)**
EBIT	**28.5**	**30.9**	**30.7**	**37.7**	**45.1**	**35.7**	**35.3**
Performance analysis							
Fidante – income margin (bps)[3]	16.0	15.6	15.7	15.0	14.9	14.8	14.9
Challenger Investment Management – income margin (bps)[3]	23.9	31.1	29.2	33.0	31.1	29.8	31.7
Funds Management – income margin (bps)[3]	17.4	19.0	18.7	18.7	18.0	17.9	18.8
Funds Management – FUM-based income margin (bps)[4]	15.8	17.8	17.6	17.3	16.7	16.2	16.6
Cost to income ratio	67.4%	66.0%	65.1%	59.7%	54.1%	59.4%	56.6%
Net assets – average[5]	313.0	279.7	289.0	267.6	264.3	260.3	251.4
ROE (pre-tax)	18.1%	22.3%	21.1%	28.4%	33.8%	27.7%	27.8%
Fidante	90,879	78,075	72,390	72,438	88,512	84,943	71,826
Challenger Investment Management	16,715	20,392	20,985	21,010	20,778	20,881	19,416
Closing FUM – total	**107,594**	**98,467**	**93,375**	**93,448**	**109,290**	**105,824**	**91,242**
Fidante	82,773	75,606	72,211	80,426	87,371	78,754	66,127
Challenger Investment Management	17,250	20,926	20,936	20,591	20,869	20,481	19,763
Average FUM – total[5]	**100,023**	**96,532**	**93,147**	**101,017**	**108,240**	**99,235**	**85,890**
FUM and net flows analysis							
Fidante[6]	9,491.9	2,045.9	(1,666.3)	(9,984.0)	1,088.8	8,582.2	5,764.3
Challenger Investment Management[7]	(3,889.4)	(692.0)	(159.9)	554.8	(184.4)	1,105.9	659.1
Net flows	5,602.5	1,353.9	(1,826.2)	(9,429.2)	904.4	9,688.1	6,423.4
Distributions	(592.2)	(412.1)	(1,361.3)	(404.3)	(736.9)	(474.8)	(857.4)
Market-linked movement	4,116.6	4,150.2	3,114.5	(6,009.0)	3,299.0	5,368.9	4,241.0
Total FUM movement	**9,126.9**	**5,092.0**	**(73.0)**	**(15,842.5)**	**3,466.5**	**14,582.2**	**9,807.0**

1 Fidante income includes equity-accounted profits, distribution fees, administration fees, performance 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, 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	Q2 24	Q1 24	Q4 23	Q3 23	Q2 23
Funds Under Management					
Equities	52,853	43,914	44,020	40,632	37,991
Fixed Income	52,375	52,007	48,693	49,223	48,750
Property[1]	787	781	4,036	4,289	4,275
Alternatives	1,579	1,729	1,718	1,600	2,359
Total Funds Under Management	**107,594**	**98,431**	**98,467**	**95,744**	**93,375**
Fidante	90,879	81,692	78,075	74,571	72,390
Challenger Investment Management[1]	16,715	16,739	20,392	21,173	20,985
Total Funds Under Management	**107,594**	**98,431**	**98,467**	**95,744**	**93,375**
Institutional[1]	89,505	80,368	79,894	76,643	74,493
Retail	18,089	18,063	18,573	19,101	18,882
Total Funds Under Management	**107,594**	**98,431**	**98,467**	**95,744**	**93,375**
Average Fidante	85,036	80,239	77,145	73,808	71,760
Average Challenger Investment Management	16,739	17,634	20,899	21,014	21,015
Total average Funds Under Management[2]	**101,775**	**97,873**	**98,044**	**94,822**	**92,775**
Analysis of flows					
Equities	5,733	663	2,368	617	(491)
Fixed Income	(441)	2,999	(107)	(760)	667
Property[1]	—	(3,254)	(64)	—	(76)
Alternatives	(130)	33	86	(786)	(276)
Total net flows	**5,162**	**441**	**2,283**	**(929)**	**(176)**
Fidante	5,227	4,265	2,928	(882)	40
Challenger Investment Management[1]	(65)	(3,824)	(645)	(47)	(216)
Total net flows	**5,162**	**441**	**2,283**	**(929)**	**(176)**
Institutional[1]	5,625	839	2,750	(652)	116
Retail	(463)	(398)	(467)	(277)	(292)
Total net flows	**5,162**	**441**	**2,283**	**(929)**	**(176)**

[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	Q2 24	Q1 24	Q4 23	Q3 23	Q2 23
Funds Management Funds Under Management	107,594	98,431	98,467	95,744	93,375
Life investment assets	24,094	23,256	23,538	23,349	23,085
Adjustments to remove double counting of cross-holdings	(14,563)	(14,247)	(17,278)	(17,555)	(17,474)
Total Assets Under Management[1]	**117,125**	**107,440**	**104,727**	**101,538**	**98,986**

[1] Total Assets Under Management excludes Bank lending and financing assets, which have been held for sale: Q2 24 - $346m; Q1 24 - $382m; Q4 23 - $225m; Q3 23 - $322m; Q2 23 - $407m; Q1 23 - $415m.

Funds Management financial results

Funds Management focuses on wealth accumulation, predominantly in the pre-retirement phase of superannuation, through supporting customers 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 managers[1] with funds under management (FUM) of $108 billion, which has more than doubled over the last 10 years (up from $45 billion in 2014).

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 Asia.

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, over 70% of Australia's top 50 superannuation funds are clients.

Fidante's business model involves taking minority equity interests in separately branded affiliate funds management firms, with Challenger providing distribution services and business support, and Artega Investment Administration (Artega) providing 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. Over the last five years, long-term performance of Fidante's Australian affiliates was strong with 99% of investments outperforming their respective benchmarks[2].

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

CIM principally originates and manages fixed income and commercial real estate for leading global and Australian institutions, including Challenger Life. Challenger Life accounts for approximately 80% of CIM's FUM.

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

EBIT and ROE

Funds Management EBIT was $29m and decreased by $2m (7%) on 1H23. The decrease was due to lower FUM-based fee income (down $3m or 4%) and higher expenses (up $2m or 3%), partially offset by higher performance and transaction fees (up $3m).

Funds Management ROE was 18.1% and decreased from 21.1% in 1H23. ROE was materially impacted by the 7% decrease in EBIT and an 8% increase in average net assets.

Total net fee income

1H24 total net fee income was $87m (down 1%) and comprised FUM-based fees of $79m (down 4%), transaction fees of $3m (up 25%) and performance fees of $5m (up 68%).

1H24 FUM-based fees decreased 4% with higher average FUM (up 7%) offset by a lower FUM-based income margin of 15.8% (down 180bps) due to changes in business mix following the sale of Challenger's Australian real estate business (CRE) to Elanor Investors Group (ASX:ENN) (Elanor) in 1H24, inflows of lower-margin institutional mandates, and higher-margin retail outflows in 1H24.

1H24 performance and transaction fees were $3m higher than in 1H23.

Expenses

1H24 Funds Management expenses were $59m and increased by $2m (3%) on 1H23.

Personnel costs decreased by $10m (29%). This largely reflects the transfer of Funds Management operations staff to the newly formed joint venture Artega in 2H23 and the transfer of Challenger's real estate team to Elanor following the sale of CRE in July 2023.

Other expenses increased by $12m (57%) primarily due to increased Artega expenses. Artega expenses, which include personnel costs, are charged to Challenger through a rate card and reflected as direct expenses. Artega costs were higher for Funds Management as a result of elevated affiliate trading and transaction volumes, and increased software and data feed costs primarily due to FX and inflation impacts.

The net impact of the increase in Artega costs in Funds Management was ~$5m for the period.

The 1H24 cost to income ratio was 67.4% and increased from 65.1% in 1H23 due to lower net fee income (down 1%) and higher expenses (up 3%).

Fidante net income

Fidante's net fee 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 $67m in 1H24 and increased by $10m (17%) on 1H23.

Fidante's net income comprised:

- FUM-based income of $59m, up $5m (9%) on 1H23 as a result of a 15% increase in average FUM, partially offset by a decrease in FUM-based income margin (refer below for more information);
- Performance fees of $5m, which increased by $2m (68%) on 1H23, mainly driven by outperformance in equity strategies; and
- Transaction fees of $3m, which increased by $3m on 1H23, includes placement fees from Fidante's successful capital raise for Elanor in December 2023.

Fidante income margin (net income to average FUM) was 16.0 bps, up 0.3 bps from 1H23. FUM-based income accounted

[1] Calculated from Rainmaker Roundup, September 2023 data.
[2] As at 31 December 2023. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

for 14.1 bps and decreased by 0.7 bps primarily due to net inflows from lower-margin institutional mandates and net outflows of higher- margin retail.

Fidante FUM and net flows

Fidante's FUM at 31 December 2023 was $90.9b and increased by $12.8b (16%) for the half year.

The increase was a result of:

- net inflows of $9.5b reflecting $10.4b of institutional inflows mainly across equity ($6.8b) and fixed income ($3.7b) affiliate managers, partially offset by $0.9b retail outflows across equity and fixed income managers;
- positive impact from investment markets of $3.8b, in particular positive equity and fixed income markets; offset by
- net distributions of $0.5b.

Fidante's FUM at 31 December 2023 was invested in the following asset classes:

- 58% in equities (FY23 56%);
- 40% in fixed income (FY23 41%); and
- 2% in alternatives (FY23 3%).

Challenger Investment Management (CIM)

CIM's 1H24 net income was $21m and decreased by $10m (33%) on 1H23.

CIM's net income included:

- FUM-based income of $21m, down $8m (28%) on 1H23 due to the derecognition of $3.3bn of Real Estate FUM following the sale of CRE; and
- nil transaction fees, down $2m (88%) on 1H23 following the sale of CRE.

CIM's 1H24 income margin (net income to average FUM) was 23.9 bps, down 5.3 bps from 1H23 due to lower FUM income and transaction fees following the sale of CRE.

The FUM-based contribution was 23.5 bps, down 3.4 bps reflecting the sale of CRE.

CIM FUM and net flows

CIM's FUM at 31 December 2023 was $16.7b and decreased by $3.7b (18%) for the half year.

The movements in the period include:

- net outflows of $3.9b predominantly due to the derecognition of $3.3bn of Real Estate FUM following the sale of CRE and fixed income net outflows ($0.6bn); offset by
- positive market movement of $0.2b.

Excluding the sale of the CRE, CIM FUM decreased by $0.4b (2%) for the period.

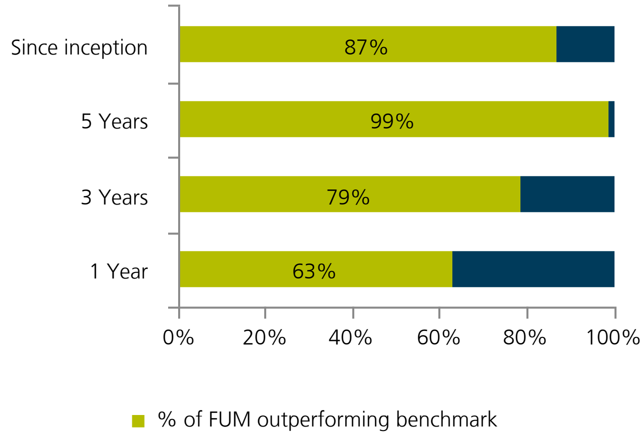
CIM's 31 December 2023 FUM is invested in the following asset classes:

- 95% in fixed income (1H23 80%); and
- 5% in property (1H23 20%).

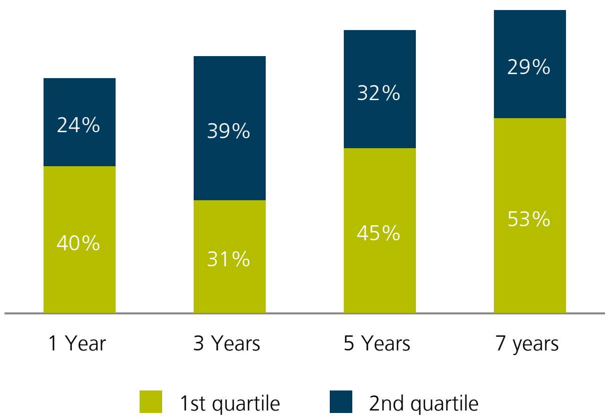
Approximately 20% of CIM's FUM is from third-party clients with the balance managed on behalf of Challenger Life.

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 99% and 87% of investments outperforming benchmark over five years and since inception respectively[3].



For Fidante affiliates, 77% of funds achieved first or second quartile performance over five years and 82% of funds achieved either first or second quartile investment performance over seven years[4].



[3] As at 31 December 2023. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.
[4] Mercer as at December 2023.

Corporate financial results

$m	1H24	2H23	1H23	2H22	1H22	2H21	1H21
Other income	**0.1**	**1.0**	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**
Personnel expenses	(22.7)	(21.0)	(22.5)	(18.4)	(22.1)	(18.7)	(16.8)
Other expenses	(8.2)	(4.4)	(9.9)	(9.3)	(7.3)	(18.1)	(7.0)
Total expenses (excluding LTI)	**(30.9)**	**(25.4)**	**(32.4)**	**(27.7)**	**(29.4)**	**(36.8)**	**(23.8)**
Long-term incentives (LTI)	(6.6)	(6.9)	(5.5)	(4.5)	(6.0)	(2.7)	(5.8)
Total expenses	**(37.5)**	**(32.3)**	**(37.9)**	**(32.2)**	**(35.4)**	**(39.5)**	**(29.6)**
Normalised EBIT	**(37.4)**	**(31.3)**	**(37.3)**	**(32.2)**	**(35.4)**	**(39.5)**	**(29.6)**
Interest and borrowing costs	(2.3)	(2.0)	(2.0)	(2.2)	(1.9)	(2.7)	(2.3)
Normalised loss before tax	**(39.7)**	**(33.3)**	**(39.3)**	**(34.4)**	**(37.3)**	**(42.2)**	**(31.9)**

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.

Normalised EBIT

Corporate normalised EBIT was a loss of $37m in 1H24, unchanged from 1H23. The EBIT loss was a result of lower other expenses (down $2m) offset by lower other income (down $1m) and higher LTI expenses (up $1m).

Other income

Other income represents interest received on Group cash balances and equity accounted profits (EAP) or losses associated with Artega Investment Administration and the joint venture with Apollo. 1H24 other income was nil ($1m in 1H23) due to higher interest rates received on Group cash balances offset by equity accounted losses from Artega.

Total expenses

1H24 Corporate expenses were $38m and decreased by 1% on 1H23.

Corporate expenses include:

- Personnel costs of $23m, broadly in line with 1H23;
- Other expenses of $8m, decreased by $2m (17%) due to lower project-related costs associated with strategic initiatives; and
- Long-term incentive costs of $7m, increased by $1m (20%) following the granting of hurdled performance share rights in 1H24.

Interest and borrowing costs

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

1H24 interest and borrowing costs were $2m, reflecting line fees on the Group debt facility.

The $400m facility remained undrawn throughout 1H24.

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 has 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 investment 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 27) and profits on Life Risk wholesale longevity and mortality transactions (refer to page 27).

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 1H24 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%

Investment experience

Challenger Life is required by accounting standards to value assets supporting the Life business 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.

Investment experience removes the volatility arising from asset and liability valuation movements so as to more accurately reflect the underlying performance of the Life business.

Investment experience includes both asset and liability experience and net new business strain.

Asset and liability experience

Asset and liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised, with assets supporting the Life business at fair value, while liabilities are valued in accordance with relevant accounting standards) and the normalised capital growth in relation to assets plus any economic and actuarial assumption changes in relation to policy liabilities for the period.

Changes in macroeconomic variables impact the value of Life’s assets and liabilities. Macroeconomic variables and actuarial assumption changes include changes to bond yields, inflation factors, expense assumptions, and other factors applied in the valuation of life contract liabilities.

New business strain

In accordance with Australian Accounting Standards, Challenger Life values term annuities at fair value and lifetime annuities using a risk-free discount rate, both of which are 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
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.
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).
Distribution expenses (Life)	Payments made for the acquisition and management of annuities and other Life 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; performance fees; 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 and excludes Bank lending and financing assets, which have been held for sale.
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 experience (Life)	Represents fair value movements on Life's assets, value movements on Life's policy liabilities and net new business strain. Refer to page 60 for more detail.
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.
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 Other Life liabilities).
Life investment assets	Total value of investment assets that are managed by the Life business.
Minimum Regulatory Requirement (MRR)	Represents the minimum capital requirement as required by regulators, including APRA, ASIC and other foreign jurisdictions.
Net annuity policy receipts	Life retail annuity sales less annuity capital payments.
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.

Glossary of terms

Terms	Definitions
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 calculated as long-term capital growth assumption multiplied by average investment assets.
Normalised Cash Operating Earnings (NCOE) (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 investment experience and net new business strain; and significant items (refer to page 60 for more detail on investment experience).
Normalised net profit before tax (NPBT)	Statutory net profit after tax, excluding normalised tax; investment experience and net new business strain; and significant items (refer to page 60 for more detail on investment 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 (EAP) or losses associated with Challenger's joint ventures with SimCorp (Artega Investment Administration) and Apollo.
Other income (Life)	Relates to revenue from the Solutions Group and Life Risk. Refer to page 27 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 *Capital Adequacy.*
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 Bank net interest income (discontinued operation in 1H24) plus other income (Corporate).

Key dates

Challenger Limited (ASX:CGF)	
Q3 2024 AUM, annuity sales and net flows	18 April 2024
2024 Full-year financial results	13 August 2024
Q1 2025 AUM, annuity sales and net flows	16 October 2024
2024 Annual General Meeting	24 October 2024