challenger

1H22 Analyst Pack

Providing our customers with
financial security for a better retirement

challenger.com.au

Challenger Limited ACN 106 842 371

Contents

2022 Interim Financial Report

can be downloaded from Challenger's online Shareholder Centre

challenger.com.au/shareholder

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Important note

Information presented in the 1H22 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 2022 Interim Financial Report is available from Challenger's shareholder centre at: **www. challenger.com.au/shareholder**

The 1H22 Analyst Pack is not audited. The statutory net profit after tax as disclosed in the consolidated profit and loss (page 11) 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 11), has been prepared in accordance with a normalised profit framework, which is disclosed as part of the Operating and Financial Review in the Directors' Report in the 2022 Interim Financial Report.

The 2022 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 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.

1H22 financial highlights[1]

Group	Normalised net profit before tax $238m, up 21%
	Normalised net profit after tax $166m, up 21%
	Statutory net profit after tax $282m, up 27%
	Normalised EPS[2] 24.5 cents per share, up 20%
	Statutory EPS[2] 41.8 cents per share, up 26%
	Net income $387m, up 19%
	Expenses $147m, up 16%
	Normalised cost to income ratio 38.1%, down 90 bps
	Group assets under management $114.9b, up 20%
	Normalised Return On Equity (pre-tax) 12.1%, up 60 bps
	Statutory Return On Equity (post-tax) 14.3%, up 130 bps
	Full-year dividend 11.5 cents per share (fully franked), up 21%
	Normalised dividend payout ratio 47%
Life	Normalised Cash Operating Earnings (COE) $287m, up 18%
	COE margin 2.56%, up 1 bps
	Expenses $54m, up 6%
	Normalised EBIT[3] $233m, up 21%
	Total Life sales $4.9b, up 44%
	Annuity sales $2.5b, up 15%
	Total Life book growth $1.4b, or 8.4% growth in opening liabilities
	Annuity net book growth $0.6b, or 4.4% growth in opening liabilities
	Average investment assets $22.3b, up 17%
	Investment assets $22.9b, up 17%
	Normalised Return On Equity (pre-tax) 13.1%, up 60 bps
	Prescribed Capital Amount (PCA) ratio 1.69 times, up from 1.63 times[4]
	Common Equity Tier 1 (CET1) ratio 1.20 times, up from 1.14 times[4]
	Capital intensity 11.3%, down from 12.1%[4]
Funds Management	Net income $98m, up 21%
	Expenses $53m, up 15%
	EBIT[3] $45m, up 28%
	Net flows $0.9b, down from $6.4b
	Funds Under Management (FUM) $109b, up 20%
	Return On Equity (pre-tax) 33.8%, up 600 bps
Bank	Net interest income $1m
	Net interest margin 0.99%
	Expenses $4m
	Normalised loss before interest and tax $3m
	Deposit sales $73m
	Net deposit book growth $18m, or 13.7% of opening deposits
	Average lending and financing assets $218m
	Capital adequacy ratio 72.9%
	CET1 capital ratio 6.90 times

1 All percentage movements compare 1H22 to the prior corresponding period (1H21) unless otherwise stated.
2 Earnings per share (EPS).
3 Earnings before interest and tax (EBIT).
4 Comparison period refers to 30 June 2021 (FY21).

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 Life, Funds Management and recently acquired Bank businesses.

Challenger's Life, Funds Management and Bank businesses are expected to benefit from the long-term growth in Australia's superannuation system and savings culture.

Australia's superannuation system commenced in 1992 and is the fifth largest pension system globally and one of the fastest growing, with assets increasing by 11% per annum over the past 20 years[1].

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.

Australia's superannuation system is forecast to grow from over $3 trillion today[2] to almost $9 trillion[3] over the next 20 years.

Growth in the retirement phase of the system is supported by ageing demographics and the Government's focus on enhancing the retirement phase of superannuation.

Life

Life focuses on the retirement spending phase of superannuation, providing products that help customers convert retirement savings into safe and secure income in retirement.

As Australia's superannuation system grows, the retirement phase of superannuation is expected to increase significantly. The number of Australians over the age of 65, which is Life's target market, is expected to increase by 50% over the next 20 years[4]. 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 $70 billion[5] in 2020.

The purpose of the superannuation system is to provide income in retirement to substitute or supplement the Government-funded age pension. With the transition from Government-funded age pensions to private pensions, retirees need retirement income products that convert savings into regular and secure income, helping to provide financial security 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 overall objective of the superannuation system (refer to page 32 for more detail).

These reforms provide an opportunity to increase the proportion of savings invested in products that deliver stable, regular and reliable retirement income. Annuities currently represent only a small part of the retirement phase, with lifetime annuities representing less than 2% of the annual transfer to the retirement phase.

As Australia's leading provider of annuities[6], Challenger Life is expected to continue to benefit from the long-term growth in Australia's superannuation system and regulatory reforms designed to enhance the retirement phase.

Challenger has been recognised as a retirement income product innovator and has won the Association of Financial Advisers 'Annuity Provider of the Year' for the last 13 years and remains the dominant retirement income brand in Australia.

An important distribution channel for Life's products are third-party financial advisers. Life's products are included on all major advice hubs' Approved Product Lists (APLs) and are available on leading independent investment and administration platforms.

Challenger is also focused on building institutional partnerships with large superannuation funds. As their members transition to retirement, major superannuation funds are increasing their focus on providing more comprehensive retirement solutions to their members. As the retirement system develops, the profit-for-member sector provides a significant growth opportunity for Challenger.

In Japan, Life has an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) to provide Australian dollar and US dollar annuities. MS Primary is a leading provider of annuity products in Japan and is part of MS&AD Insurance Group Holdings Inc. (MS&AD Group).

Under a reinsurance arrangement with MS Primary, which commenced in July 2019, MS Primary provides Challenger an annual amount of reinsurance, across both Australian and US dollar annuities, of at least ¥50 billion (equivalent to ~A$600 million[7]) per year[8]. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

At 30 June 2021, MS&AD held ~15% of Challenger Limited issued share capital and a representative from MS&AD and an Alternate Director have been appointed Non-Executive Directors of Challenger Limited.

Refer to page 31 for more detail on the MS Primary and MS&AD relationship.

The retirement incomes that Life pays are backed by a high-quality investment portfolio, predominantly invested in fixed income and commercial property investments. These long-term investments generate regular and predictable investment income which is used to fund retirement income paid to Life's customers.

[1] Willis Towers Watson Global Pension Study 2021.
[2] The Australian Prudential Regulation Authority (APRA), as at September 2021.
[3] Deloitte Dynamics of the Australian Superannuation System: The Next 20 Years to 2041.
[4] 2021 – 2041 comparison based on Australian Bureau of Statistics, Population Projections Series B, cat no. 3222.0.
[5] Based on Taxation Statistics 2018-19 from Australian Taxation Office.
[6] Plan for Life – September 2021 – based on annuities under administration.
[7] Based on the exchange rate as at 30 June 2021.
[8] Reinsurance across both Australian and US dollar annuities, of at least ¥50b per year for a minimum of five years, commencing 1 July 2019.

Funds Management

Funds Management focuses on building savings for retirement. As people work and save for retirement, the business supports them to build their wealth and savings by providing investment strategies that seek to deliver superior investment returns.

Funds Management is one of Australia's fastest growing[9] and third largest active fund manager[10], and is diversifying globally with operations in the United Kingdom and Europe, Japan and more recently Singapore.

Growth in funds under management can be attributed to the strength of Challenger's retail and institutional distribution teams, a market-leading business model focused on alignment with clients and high-quality managers with strong long-term investment performance.

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

Funds Management comprises Fidante Partners and CIP Asset Management.

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

Fidante Partners' business model has allowed it to attract and build successful active equity, active fixed income and alternative investment managers, while maintaining strong investment performance. Over the last three years, long-term performance for Fidante Partners Australian boutiques remains strong with 97% of funds and mandates outperforming their respective benchmarks.

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

Funds Management has extensive client relationships, for example over 90% of Australia's top 50 superannuation funds are clients of Fidante Partners.

CIP Asset Management principally originates and manages fixed income and commercial real estate, along with providing investment solutions for leading global and Australian institutions, including Challenger Life. Challenger is committed to growing the business and building on CIP Asset Management's breadth of investment expertise.

Bank

Challenger is diversifying its product offering and extending its customer reach.

In December 2020, Challenger announced it had entered into an agreement to acquire MyLifeMyFinance Limited (MyLife MyFinance or the Bank), an Australian-based customer digital bank.

The acquisition received formal approval from the Treasurer of the Commonwealth of Australia, with the acquisition completing on 30 July 2021.

MyLife MyFinance is an Australian-based authorised deposit-taking institution (ADI) and digital bank, offering a range of simple savings and lending products. MyLife MyFinance has an ADI licence with an existing term deposit offering.

The Bank provides Challenger the opportunity to significantly expand its secure retirement income offering by entering Australia's term deposit market.

Adding an ADI capability to sit alongside the existing Life and Funds Management operations broadens Challenger's product and distribution reach and helps fulfil its purpose of providing customers with financial security for a better retirement.

The Bank provides Challenger the opportunity to attract and engage with customers at an earlier age, as they approach and enter the retirement phase, increasing Challenger's brand recognition in early age demographics.

Initially, Challenger will offer government guaranteed retail term deposits[11], which are familiar banking products and represent a significant portion of both retiree and pre-retiree wealth.

The Bank will provide Challenger with access to a wider range of customers through multiple distribution channels, including new intermediated channels, such as the broker term deposit market and retail aggregator websites, to help accelerate Challenger's direct to customer offering.

To ensure speed to market, term deposits have initially been marketed under the MyLife MyFinance brand, with the business to transition to the Challenger brand during 2H22.

[9] Based on Rainmaker Roundup, September 2021 and September 2016 - 5-year CAGR for active managers.
[10] Calculated from Rainmaker Roundup, September 2021 data.
[11] Bank term deposits are guaranteed under the Financial Claims Scheme up to $250,000 per account-holder per authorised deposit-taking institution (ADI).

COVID-19 pandemic

The COVID-19 pandemic has presented significant challenges to global economies and investment markets.

Looking after the health of our people during this time has been a key business priority for Challenger, which transitioned almost all its employees to working from home arrangements from mid-March 2020 and again in July 2021.

Throughout 1H22, Challenger continued to support its employees with flexible work practices so they can continue to work from home or return back to the office for those employees that are double vaccinated. Challenger continues to fully comply with national and state public health orders.

Challenger has also been supporting its customers and business partners throughout the pandemic, including advisers, superannuation fund clients and commercial property tenants.

Investment market conditions have been significantly disrupted by the COVID-19 pandemic, initially resulting in a market sell-off and increased market volatility. Following the initial pandemic related market sell-off in March 2020, Life actively repositioned its investment portfolio to more defensive settings, which have been partially maintained.

Commencing in FY22, Challenger also extended its target capital ratios and intends to operate toward the top end of its range, which will provide increased flexibility in the face of future investment market volatility and reduce the risk of realising negative investment experience during significant market shocks. Refer to page 46 for additional detail on Challenger Life's excess capital position and target capital ratios.

Risks

The above outlook for the Life, Funds Management and recently acquired Bank businesses is subject to the following key business risks:

- investment market volatility;
- ongoing impact of COVID-19 pandemic on the global economy and the ability of individuals, businesses and governments to operate;
- 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; and
- operational risk.

Purpose and corporate strategy

In June 2021, Challenger announced a refreshed corporate strategy that builds on the foundations of the core strategic pillars that have been in place for many years.

The refreshed corporate strategy will make Challenger stronger and more relevant for the future as it seeks to further expand its offering for retirees.

Providing customers with financial security for a better retirement remains Challenger's purpose, which will be served by providing both guaranteed income products such as lifetime annuities and bank term deposits[1], as well as non-guaranteed Funds Management products that help customers save for retirement.

Challenger also introduced explicit vision statements for each key stakeholder group: customers, shareholders, employees, and the community, to help clarify Challenger's objectives and long-term ambitions.

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

Vision statements

Customers
By 2030 we will provide 1 in 5 Australian retirees with improved financial outcomes as consumers of Challenger products, and be the partner of choice for institutions and advisers.

Community
Champion financial security for retirement, providing financial help and education, advocating for constructive public policies and leading by example with responsible business practices.

Employees
Bring together a diverse group of top talent, inspired by our purpose, with strong culture and capabilities to deliver shared success.

Shareholders
Build resilient long-term shareholder value, leveraging the capabilities of the group to achieve compelling returns above our cost of capital.

Strategic priorities

Broaden customer access across multiple channels

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

Leverage the combined capabilities of the group

Strengthen resilience and sustainability of Challenger

I ACT values

Act with integrity | **Aim high** | **Collaborate** | **Think customer**

Reflecting Challenger's commitment to a more customer-centric business, the customer vision is ambitious: to provide one in five Australian retirees with improved financial outcomes as consumers of Challenger by 2030.

At the same time, Challenger will remain focused on the impact on other stakeholders and has a clear vision for ensuring it makes a positive contribution across all key stakeholder groups.

For the community, Challenger will champion financial security for retirement, providing financial help and education, advocating for constructive public policies and leading by example with responsible business practices.

For its employees, Challenger will bring together a diverse group of top talent, inspired by its purpose, with a strong culture and capabilities to deliver shared success.

And for its shareholders, Challenger will build resilient long-term shareholder value, leveraging capabilities across the Group to achieve compelling returns.

These vision statements will be achieved through the execution of four core strategic priorities.

1. Broaden the ways customers can access products across multiple channels;
2. Expand the range of products and services offered to support a better retirement;
3. Leverage the combined capabilities of the Group; and
4. Continue to strengthen the resilience and sustainability of Challenger.

[1] Bank term deposits are guaranteed under the Financial Claims Scheme up to $250,000 per account-holder per authorised deposit-taking institution (ADI).

1H22 strategic progress

Progress over 1H22 has been measured against the execution of Challenger's four core strategic priorities.

1. Broaden customer access across multiple channels

Challenger is focused on broadening the ways customers can access products and solutions across multiple channels to help provide them with financial security for a better retirement.

1H22 progress:

Diversification strategy delivering record Life sales – up 44% to $4.9 billion

Challenger is building more resilient sales by diversifying across a range of retail and institutional products and clients.

In 1H22, Life achieved both record sales and record annuity sales, despite the disruption from the COVID-19 pandemic, which particularly impacted retail sales.

Record sales were primarily driven by strong growth in institutional sales, representing institutional term annuities and the Challenger Index Plus product.

Total institutional sales were $3.4 billion in 1H22 (up 91%) and represented 69% of total Life sales. Sales are benefiting from an expansion in the institutional product offering, including the introduction of institutional term annuities, and a growing institutional client base. With the low interest rate environment, Challenger's institutional clients are focused on diversifying their investments and maximising returns. Institutional term annuity sales were $1.0 billion in 1H22 and increased by 146% on 1H21.

Building institutional partnerships

Challenger is focused on providing institutional investors with targeted solutions that help address their strategic and fiduciary objectives. Challenger does this by offering innovative strategies catering to the needs of superannuation funds, insurance companies and multi-managers.

Challenger's offering provides institutional clients with access to Challenger Life's capabilities, including:

- investment and structuring skills;
- asset and liability management; and
- intellectual property and thought leadership, especially around retirement income.

Challenger Life's institutional business continues to grow strongly, with the number of clients increasing fourfold over the past five years.

The focus on more comprehensive solutions, including using guaranteed income products, by retail and profit-for-member superannuation funds represents a significant growth opportunity for Challenger.

Superannuation fund clients are increasing their focus on providing retirement income solutions for their members and are engaging with Challenger as they build more comprehensive retirement solutions for their members. The Retirement Income Covenant (refer to page 32 for more detail) is also increasing superannuation funds' focus on providing their members with products that provide longevity risk protection.

Stable retail sales throughout COVID-19 pandemic

Since March 2020, the COVID-19 pandemic has impacted the ability of financial advisers to meet new clients, and their focus has been on servicing their existing client base, rather than on-boarding new clients. New clients on-boarded at the point of retirement represent an opportunity to recommend annuities, particularly lifetime and aged care focused annuities.

Retail annuity sales remained stable in 1H22 throughout the COVID-19 pandemic lockdowns.

Extending customer reach and entering Australia's term deposit market

The acquisition of MLMF in July 2021 is highly strategic and provides Challenger the opportunity to expand its secure retirement income offering, including entering Australia's term deposit market.

Adding an Authorised Deposit-Taking Institution (ADI) capability to sit alongside the Life and Funds Management businesses will broaden both Challenger's product and distribution reach and help fulfil Challenger's purpose to provide customers with financial security for a better retirement. Term deposits are Government guaranteed.[2] They are a familiar product among both retirees and those approaching retirement and form a significant portion of their wealth.

The acquisition also provides Challenger the opportunity to attract and engage with customers at an earlier age as they approach and enter the retirement phase, increasing Challenger's brand recognition in early age demographics. Initial sales of MLMF branded term deposits were $73 million, with 75% of term deposit sales to customers above 50 years of age.

International Funds Management expansion

Funds Management continues to see significant growth opportunities in Australia and recognises the significant opportunity to diversify globally. In recent years, Funds Management has expanded into Europe through its UK office and established a presence in Japan. More recently, Fidante Partners opened a Singapore office, which will provide a distribution hub and access to Asian investors.

Fidante Partners has also established Undertakings for Collective Investment in Transferable Securities (UCITS) funds to support its clients and provide access to its investment products. This includes an Ardea specific UCITS fund.

Fidante Partners offshore distribution efforts are succeeding, including winning a €1 billion (~A$1.5 billion) UK fixed income mandate, which was received in early January 2022.

In addition, the team won a significant mandate from a US-based investor, with Fidante Partners' product included in the clients multi-manager fund.

In Europe, the business also secured a new German client and commitments from a new Italian client to invest into Whitehelm Capital's Low Carbon Core Infrastructure Fund. This follows both wins in the Nordics and the strategic sale of Whitehelm Capital to PATRIZIA AG.

[2] Bank term deposits are guaranteed under the Financial Claims Scheme up to $250,000 per account-holder per authorised deposit-taking institution (ADI).

Resonance Asset Management, a UK-based boutique manager specialising in environmental assets including wind, water and waste treatment, closed further commitments into its second Wind Fund, taking total commitments to £150 million, and is close to fully deployed as at January 2022.

In 1H22, Ardea Investment Management (Ardea), a Fidante Partners fixed income manager with over $25 billion of funds under management, established a UK office. This represents the first Australian-based boutique to establish a business presence offshore. Ardea has now received Financial Conduct Authority authorisation and will commence managing money in 2H22.

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

Challenger is focused on expanding the range of products and services it provides customers to support a better retirement.

1H22 progress:

Innovative new retirement income solutions

In October 2021, Challenger introduced innovative market-linked payment options to its award-winning Liquid Lifetime annuity.

The market-linked lifetime annuity complements Challenger's existing lifetime annuity, providing customers with the ability to link future payments to changes in investment markets.

Customers can gain exposure to investment markets by choosing from five different indexation options: cash, conservative, conservative balanced, balanced, or growth. The indexation options are constructed from different combinations of investment market indices, including the AusBond Bank Bill; AusBond Government; MSCI World and S&P/ASX200 index returns.

Combining the benefit of a monthly income with exposure to investment markets, with the flexibility to review this annually, is a compelling option for clients and their advisers.

The market-linked lifetime annuity was introduced via a soft launch in October 2021. Initial focus has been on research agencies and seeking approval for the product to be included on Approved Product Lists to enable advisers to recommend the product to their clients. While some initial sales were made in 1H22, sales volumes are not expected until the product is on Approved Product Lists and supported by marketing activity, which will be undertaken during 2H22.

This product innovation is part of a broader strategy by Challenger to lead industry innovation, expand its range of innovative retirement income solutions, increase customer reach and provide retirees with better financial outcomes.

Ox Capital launched by Fidante Partners

In July 2021, Fidante Partners launched a new emerging market boutique, Ox Capital Asset Management (Ox Capital), under the leadership of Dr Joseph Lai, a renowned emerging markets investor.

Ox Capital will leverage the expertise of a five-strong team with a long and successful track record of investing across Asia and other emerging markets.

In September 2021, Ox Capital announced the launch of its flagship emerging market equity fund, the Ox Capital Dynamic Emerging Markets Fund. The fund will be a concentrated portfolio of companies in Asia ex-Japan and other emerging markets, diversified across countries, sectors and thematic exposures.

Alphinity launched Global Sustainable Equity Fund

In July 2021, Australian and global equities boutique fund manager, Alphinity Investment Management, launched a new Alphinity Global Sustainable Equity Fund which aims to invest in quality global companies that are supporting the transition to a more sustainable future and are also identified as undervalued and within an earnings upgrade cycle.

The new fund seeks to invest in a diversified portfolio of leading companies that offer attractive financial returns, have strong environmental, social and governance (ESG) practices, and are aligned with one or more of the 17 UN Sustainable Development Goals (SDGs). These SDGs cover key themes like equality, promoting healthier lives and wellbeing, building resilient infrastructure and combating climate change.

Whitehelm Capital sold to PATRIZIA

Whitehelm Capital (Whitehelm) was established in 2014 and is a global infrastructure boutique manager and investment adviser.

During 1H22, Challenger entered into an agreement to sell Fidante Partners' 30% equity interest in Whitehelm to a German-based global listed real estate manager, PATRIZIA, for €32 million (~A$50 million). The sale was completed on 1 February 2022.

Fidante Partners seeks to build longstanding relationships with boutique partners and benefit from their long-term growth. While not its strategy to sell interests in its boutique partners, the offer provided a unique and compelling opportunity for Challenger to deliver value for shareholders while ensuring clients benefit from a much broader and more diversified infrastructure investment offering.

CIPAM launched wholesale share class of Multi-Sector Private Lending Fund

Challenger is Australia's largest fixed income manager, with Fidante Partners managing $39 billion and CIP Asset Management (CIPAM) fixed income franchise managing over $16 billion across multiple strategies, comprising both public and private credit investments.

CIPAM launched a new share class of its successful CIPAM Multi-Sector Private Lending Fund, providing the opportunity for wholesale/sophisticated individual investors to access this unique offering. The fund is a multi-sector credit strategy investing in Australian and New Zealand private securitised, corporate and real estate lending.

The Fund aims to generate a consistent, high level of income by harvesting the illiquidity premium that exists in private lending markets. After first launching the fund in 2020, the wholesale share class was launched in June 2021. The fund is now over $350 million in size and has an impressive track record with a 1-year return of 6.75%.

3. Leverage the combined capabilities of the Group

Challenger is focused on leveraging the combined capabilities of the Group to help provide its customers with financial security for a better retirement.

1H22 progress:

Leverage Challenger Group to integrate MyLife MyFinance Bank

Following the acquisition of MyLifeMyFinance Limited (MLMF or the Bank) in late July 2021, integration of the Bank into Challenger is well underway and distribution partnerships are being formed to make Challenger's term deposits available via the retail broker channel.

To maximise the potential of the acquisition and streamline the integration process, Challenger has been leveraging capability right across the Group.

In 1H22, the Bank's employees relocated to Challenger's Melbourne office and its customer contact centre has been integrated into Challenger, with the Challenger customer service team now interacting directly with Bank customers. The Bank's general ledger has been migrated to Challenger's systems, enabling significant operational efficiencies for the broader finance function, and IT systems have also been migrated, including key websites and customer interfaces.

To support the Bank's ongoing growth, a treasury capability has been established, which leverages Challenger's established operations. Challenger is also investing in the Bank's lending activities, and expects to broaden its activities from residential lending to include SME and corporate lending. This will allow the Bank to access a wider range of assets, which will support its product offering.

Embed ESG across the business

The Challenger-wide ESG Steering Committee meets on a regular basis to support the business in managing sustainability risks and opportunities. Since inception, this committee has been integral in progressing important work, educating internal stakeholders and integrating ESG risks into Challenger's risk management framework.

In 1H22, to enhance governance across all sustainability issues and initiatives, the ESG Steering Committee started reporting to the Group Risk Committee quarterly, which also ensures appropriate oversight over key sustainability risks and opportunities. In addition, formalised reporting into the board for each Funds Management boutique partner was established. Challenger has enhanced ESG monitoring, which has been implemented across its investment teams and worked with Fidante Partners' first emerging markets boutique, Ox Capital, to develop an ESG integration process.

4. Strengthen resilience and sustainability of Challenger

Challenger is focused on strengthening the resilience and sustainability of Challenger to help provide its customers with financial security for a better retirement.

1H22 progress:

Market leading Life and Funds Management businesses and Bank capability

Challenger has three complementary businesses that help provide customers with financial security for a better retirement.

The Funds Management business helps customers build savings for retirement; the Bank helps customers save and transition to retirement; and the Life business helps customers convert their retirement savings to income in retirement.

Both the Life and Funds Management businesses hold market leading positions, with Life widely recognised as a market leader in Australian retirement incomes and the Funds Management business rated one of Australia's largest and fastest growing active fund managers[3]. The Bank will broaden Challenger's product and distribution reach by allowing it to offer term deposits to a wider cohort of customers as they approach and enter the retirement phase.

Challenger wins Longevity Cover Overall Excellence Award 2021

In November 2021, Challenger won the Plan For Life Overall Longevity Cover Excellence Award for 2021. The award recognises Australian Life companies and fund managers who design products to assist retirees in meeting the challenges of longevity.

Challenger also won the Client & Adviser Technical Support Award, for its in-depth, ongoing support for advisers, evidenced by the frequency of questions fielded from advisers, well attended adviser webinars, and highly informative and technical information material.

Fidante Partners wins Distributor of the Year and ranked number one for retail flows

Fidante Partners' distribution capability continues to be externally recognised and, for the second consecutive year, won Zenith Investment Partners (Zenith) Distributor of the Year.

Zenith recognises the quality of Fidante Partners' boutique managers and their ratings across the product suite, strong FUM flows, and the quality of its adviser support.

Fidante Partners also ranked as the top Australian active manager for retail net flows in the last 12 months to September 2021, with the highest net flows among 114 active managers[4]. Fidante Partners ranked number one for domestic fixed income flows (out of 32 managers) and number one for equities (out of 64 active managers).

Challenger and Apollo explore expanded strategic relationship

Challenger and Apollo (NYSE:APO) have entered into a non-binding Memorandum of Understanding with the intention to establish a joint venture to build a leading non-bank lending business in Australia and New Zealand. Apollo and Athene acquired an 18% minority interest in Challenger over the course of 2021, and Challenger and Apollo have since been engaged in confidential discussions over a number of months to explore additional opportunities to work together.

The strategic dialogue is part of a broader focus on building upon and enhancing the parties' retirement services offering in Australia. The proposed initiative is strongly aligned to Challenger's strategy and focus on pursuing growth opportunities, as well as further diversifying its business and providing important origination capability to support the growth of both the Life and Bank businesses. For Apollo and Athene, leading global providers of both guaranteed and non-guaranteed yield solutions, the proposed initiative is designed to enhance their ability to offer retirement services in scale in the region.

Challenger's relationships in Australian lending markets and its operating platform, coupled with Apollo's extensive global credit investing capabilities and range of retirement services

[3] Rainmarker Roundup, September 2021.
[4] Plan For Life Wholesale Trust Data, September 2021.

products, provides significant opportunities and potential value for both parties over the medium term.

Further detail will be provided in due course as negotiations progress.

Maintain market leading risk culture

Challenger has a strong risk culture, which was reflected in a risk culture score of 86% in the latest employee engagement score (conducted by Willis Towers Watson in April 2021). The score was four points above the Global High Performing Norm, and 10% higher than the Australian National Norm.

Challenger has continued to monitor its risk culture and undertakes a quarterly risk culture survey, with the latest survey completed in December 2021. Challenger also makes use of external reviews of Challenger's risk culture and monitors a range of metrics to determine how Challenger's risk culture compares to its target risk culture as articulated by the Board.

Overall, these results show a strong risk culture, a culture of discussing and addressing risk management issues, and clarity of what is expected of employees with respect to their risk objectives.

Second Modern Slavery statement

In December 2021, Challenger published its second modern slavery statement, which further strengthens the approach, and implemented actions to reduce the risk of modern slavery.

Supporting the community

Challenger has been recognised as one of the 30 best workplaces for giving back to the community in the country. The 2021 'Australia's Best workplaces to give back' recognised organisations empowering their employees to create social impact through donations, fundraising and volunteering.

In 2021, Challenger launched the Good2Give payroll giving platform, which now has approximately 10% of employees participating as at 31 December 2021, supporting over 60 charities.

In December 2021, Challenger also launched the Give a Jab for Christmas campaign, making a $5 donation (equivalent of two COVID-19 vaccines) for each vaccinated employee who took part in the initiative. These vaccines were donated to low income countries, reflecting Challenger's commitment to supporting those in need.

Key performance indicators

	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Earnings							
Normalised NPBT ($m)	237.5	199.6	196.2	227.9	278.6	278.3	270.0
Normalised NPAT ($m)	165.6	141.7	136.8	152.3	191.4	196.3	199.8
Statutory NPAT ($m)	282.0	369.5	222.8	(636.4)	220.4	301.7	6.1
Underlying operating cash flow ($m)	(124.9)	37.3	119.5	54.7	140.0	133.2	103.7
EBIT margin (%)	61.9%	56.7%	61.0%	61.9%	66.5%	67.5%	67.3%
Normalised cost to income ratio (%)	38.1%	43.3%	39.0%	38.1%	33.5%	32.5%	32.7%
Normalised effective tax rate (%)	30.3%	29.0%	30.3%	33.2%	31.3%	29.5%	26.0%
Earnings per share (cents)							
Basic – normalised	24.5	21.1	20.4	25.0	31.5	32.4	33.1
Basic – statutory	41.8	54.9	33.2	(104.4)	36.3	49.8	1.0
Diluted – normalised	20.7	17.8	17.5	21.1	27.7	27.8	30.1
Diluted – statutory	33.9	43.4	27.3	(104.4)	31.5	41.2	1.0
Return On Equity (%)							
Normalised ROE – pre-tax	12.1%	11.1%	11.5%	14.0%	15.2%	16.2%	15.6%
Normalised ROE – post-tax	8.4%	7.8%	8.0%	9.4%	10.4%	11.4%	11.5%
Statutory ROE – post-tax	14.3%	20.5%	13.0%	(39.2%)	12.0%	17.5%	0.3%
Capital management							
Net assets – average[1] ($m)	3,904	3,641	3,396	3,257	3,634	3,469	3,443
Net assets – closing ($m)	4,059	3,826	3,513	3,250	3,716	3,600	3,388
Net assets per basic share ($)	6.00	5.69	5.23	4.90	6.12	5.94	5.60
Net tangible assets ($m)	3,420	3,202	2,877	2,619	3,079	3,019	2,793
Net tangible assets per basic share ($)	5.06	4.76	4.28	3.95	5.07	4.98	4.61
Dividend (cps)	11.5	10.5	9.5	—	17.5	18.0	17.5
Dividend franking (%)	100.0	100.0	100.0	—	100.0	100.0	100.0
Normalised dividend payout ratio (%)	46.9%	49.8%	46.6%	—	55.5%	55.6%	52.9%
Group Minimum Regulatory Requirement ratio (times)	1.75	1.63	1.63	1.81	1.54	1.53	1.54
CET1 Capital ratio (times)	1.20	1.14	1.09	1.20	1.07	1.06	1.04
Sales, net flows and assets under management							
Life annuity sales ($m)	2,516.3	2,375.0	2,191.0	1,170.5	1,956.9	1,402.6	2,140.5
Other Life sales ($m)	2,426.8	1,115.6	1,246.5	841.8	1,182.2	407.1	599.8
Total Life sales ($m)	4,943.1	3,490.6	3,437.5	2,012.3	3,139.1	1,809.7	2,740.3
Life annuity net flows ($m)	607.7	922.2	157.6	(344.7)	93.6	192.3	493.5
Life annuity book ($m)	14,093	13,670	12,770	12,581	12,845	12,870	12,324
Life annuity book growth (%)	4.4%	7.3%	1.3%	(2.7%)	0.7%	1.6%	4.2%
Total Life net flows ($m)	1,446.0	1,455.1	708.7	(607.8)	923.6	(108.9)	583.7
Total Life book[2] ($m)	18,474	17,302	15,801	14,997	15,551	14,836	14,496
Total Life book growth (%)	8.4%	9.7%	4.7%	(4.1%)	6.2%	(0.8%)	4.2%
Bank deposit sales ($m)[3]	72.6	—	—	—	—	—	—
Bank net deposit flows ($m)	18.4	—	—	—	—	—	—
Bank deposit book ($m)	152.6	—	—	—	—	—	—
Bank deposit book growth (%)	13.7 %	—	—	—	—	—	—
Funds Management – net flows ($m)	904.4	9,688.1	6,423.4	661.3	1,879.6	(1,461.3)	(977.1)
Total Group AUM ($m)	114,907	109,960	96,087	85,237	86,339	81,770	78,386
Other							
Headcount – closing FTEs[4]	735	738	709	735	717	687	675
Weighted average number of basic shares on issue (m)	674.6	672.3	670.8	609.6	607.1	605.7	604.4
Number of basic shares on issue (m)	676.0	672.6	672.2	663.1	607.6	605.8	605.4
Share price closing[5] ($)	6.53	5.41	6.44	4.41	8.09	6.64	9.49

1 Net assets – average calculated on a monthly basis.
2 Total Life book includes the Life annuity book and Challenger Index Plus Fund liabilities.
3 Deposits includes At Call accounts and Term Deposits.
4 Full-time equivalent employees.
5 Closing share price as at 31 January 2022 was $5.72.

Consolidated profit and loss

$m	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Life Normalised Cash Operating Earnings	287.4	268.8	244.0	294.1	344.8	340.5	329.6
Funds Management net fee income	98.2	88.0	81.3	80.4	77.7	74.7	75.2
Bank net interest income	0.9	—	—	—	—	—	—
Other income	—	—	—	0.2	0.2	0.5	0.5
Total net income	**386.5**	**356.8**	**325.3**	**374.7**	**422.7**	**415.7**	**405.3**
Personnel expenses	(101.1)	(93.7)	(86.2)	(82.7)	(91.3)	(93.2)	(92.1)
Other expenses	(46.0)	(60.8)	(40.6)	(60.1)	(50.3)	(41.8)	(40.3)
Total expenses	**(147.1)**	**(154.5)**	**(126.8)**	**(142.8)**	**(141.6)**	**(135.0)**	**(132.4)**
Normalised EBIT	**239.4**	**202.3**	**198.5**	**231.9**	**281.1**	**280.7**	**272.9**
Interest and borrowing costs	(1.9)	(2.7)	(2.3)	(4.0)	(2.5)	(2.4)	(2.9)
Normalised profit before tax	**237.5**	**199.6**	**196.2**	**227.9**	**278.6**	**278.3**	**270.0**
Normalised tax	(71.9)	(57.9)	(59.4)	(75.6)	(87.2)	(82.0)	(70.2)
Normalised profit after tax	**165.6**	**141.7**	**136.8**	**152.3**	**191.4**	**196.3**	**199.8**
Life investment experience after tax	109.1	231.5	87.1	(788.7)	38.4	105.4	(193.7)
Bank impairments after tax	—	—	—	—	—	—	—
Significant items after tax[1]	7.3	(3.7)	(1.1)	—	(9.4)	—	—
Statutory net profit after tax	**282.0**	**369.5**	**222.8**	**(636.4)**	**220.4**	**301.7**	**6.1**
Performance analysis							
Normalised EPS – basic (cents)	24.5	21.1	20.4	25.0	31.5	32.4	33.1
Shares for basic EPS calculation (m)	674.6	672.3	670.8	609.6	607.1	605.7	604.4
Normalised cost to income ratio (%)	38.1%	43.3%	39.0%	38.1%	33.5%	32.5%	32.7%
Normalised tax rate (%)	30.3%	29.0%	30.3%	33.2%	31.3%	29.5%	26.0%
Total net income analysis (%)							
Cash earnings (Life)	68.5%	70.3%	70.0%	65.2%	64.9%	63.4%	62.1%
Normalised capital growth (Life)	5.9%	5.0%	5.0%	13.2%	16.7%	18.5%	19.3%
Net fee income (Funds Management)	25.4%	24.7%	25.0%	21.5%	18.4%	18.0%	18.5%
Net interest income (Bank)	0.2%	—	—	—	—	—	—
Other income (Corporate)	—	—	—	0.1%	—	0.1%	0.1%
Normalised EBIT by division ($m)							
Life	233.0	206.1	192.8	238.9	285.8	285.7	277.9
Funds Management	45.1	35.7	35.3	29.8	27.9	24.8	26.1
Bank	(3.3)	—	—	—	—	—	—
Corporate	(35.4)	(39.5)	(29.6)	(36.8)	(32.6)	(29.8)	(31.1)
Normalised EBIT	**239.4**	**202.3**	**198.5**	**231.9**	**281.1**	**280.7**	**272.9**

[1] 1H22 significant items relates to the gain on sale of Accurium, partly offset by bank integration costs. FY21 significant items (after-tax) of $5m represents the write-off of Challenger's investment in Avenir Capital, a boutique investment manager, following its closure and transaction costs associated with the MyLife MyFinance bank acquisition (refer to page 3 for more detail). 1H20 significant items (after-tax) of $9m represent the write-off of a Fidante Partners boutique intangible asset and costs associated with the closure of the FME Asset Management boutique investment manager.

Consolidated profit and loss (continued)

Normalised profit after tax

1H22 normalised profit after tax was $166m and increased by $29m (21%) from $137m in 1H21. The increase reflects higher normalised profit before tax (up $41m), partially offset by higher normalised tax (up $13m).

Normalised earnings per share (EPS)

Normalised EPS increased by 20% on 1H21 to 24.5cps. The increase reflects higher normalised profit after tax (up 21%), partially offset by a higher average number of basic shares on issue (up 1%). The weighted average number of basic shares on issue in 1H22 was 675m shares, up 4m shares on 1H21 predominately as a result of Challenger's dividend reinvestment plan.

Net income

1H22 net income was $387m and increased by $61m (up 19%) on 1H21, with:

- Life Normalised Cash Operating Earnings (COE) of $287m was up $43m (18%), as a result of higher average investment assets (up 17%) and the COE margin increasing by 1 basis point;
- Funds Management fee income of $98m was up $17m (21%), from higher FUM-based revenue (up $19m), partially offset by lower performance fees (down $2m): and
- Bank net interest income was $1m, following the Bank acquisition which completed on 30 July 2021.

Expenses

1H22 total expenses were $147m and increased by $20m on 1H21. The expense increase of $20m includes $4m in relation to the Bank which was acquired in July 2021. Excluding the Bank, expenses increased by $16m or 13% on 1H21.

Personnel expenses increased by $15m as a result of an increase in full-time equivalent employees (up 4%), higher annual leave balances due to COVID-19 and higher variable reward costs.

Other expenses increased by $5m as a result of integration of the Bank, Life product development expenses and costs associated with the new Singapore office.

The 1H22 normalised cost to income ratio was 38.1% and decreased by 0.9 percentage points on 1H21. The decrease in the ratio was driven by higher net income (up 19%), partially offset by higher expenses (up 16%).

Normalised EBIT

1H22 normalised EBIT was $239m, up $41m (21%) on 1H21. Higher Life EBIT (up $40m) and higher Funds Management EBIT (up $10m) were offset by a Bank EBIT loss of $3m and a higher Corporate EBIT loss of $35m (up $6m).

Life EBIT increased by $40m (up 21%) to $233m and reflected higher normalised COE (up $43m), partially offset by higher expenses (up $3m).

Funds Management EBIT increased by $10m (up 28%) to $45m, from higher FUM-based management fees (up $19m) due to higher average FUM (up $22b), partially offset by lower performance fees (down $2m) and higher expenses (up $7m).

Normalised Return On Equity (ROE)

1H22 normalised ROE (pre-tax) was 12.1% and increased by 60 bps on 1H21. Higher normalised ROE reflects higher normalised profit before tax (up 21%), partially offset by higher average Group net assets (up 15%). Group net assets were 15% higher than 1H21, reflecting retained earnings and positive investment experience.

Normalised tax

Normalised tax was $72m in 1H22 and increased by $13m (21%) on 1H21. Higher normalised tax reflects higher normalised net profit before tax.

The normalised effective tax rate in 1H22 was 30.3%, and remained unchanged from 1H21.

The effective tax rate is similar to Australia's statutory tax rate of 30% and includes offshore earnings, which are generally taxed below 30%, and interest payments on the various Challenger Capital Notes, which are generally not tax deductible.

Investment experience after tax

Challenger Life Company Limited (CLC) is required by Australian Accounting Standards to value investment assets and liabilities supporting the Life business at fair value. This gives rise to fluctuating valuation movements on investment assets and liabilities being recognised in the profit and loss.

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 63 for more detail).

1H22 investment experience was a gain of $109m (after-tax) primarily reflecting gains on Life's property and fixed income portfolios.

Refer to page 27 for more detail, including investment experience by asset class.

Bank impairments

In July 2021, Challenger completed the acquisition of the MyLife MyFinance Bank (refer to page 3 for more detail).

At 31 December 2021, the Bank held $230m of financing and lending assets, of which $97m related to residential lending. Due to the high-quality nature of the financing and lending assets, the impairment charge for 1H22 was zero.

Significant items

1H22 significant items were positive $7m (after-tax) and predominantely represent:

- the gain on sale of Accurium of $9m (refer to page 27 for more detail); partially offset by
- integration and transaction costs associated with the MyLife MyFinance acquisition ($2m); and
- restructuring, impairment and other expenses.

Statutory net profit after tax

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

1H22 statutory profit after tax was $282m, and increased by $59m (or 27%) on 1H21, and includes:

- Normalised net profit after tax of +$166m;
- Life investment experience of +$109m (refer to page 27 for more detail); and
- Significant items of +$7m.

Dividends

Dividend policy

Challenger targets a dividend payout ratio in the range of between 45% to 50% of normalised profit after tax and aims to frank dividends to the maximum extent possible.

1H22 dividend

The Challenger Board has declared a fully franked FY22 interim dividend (which relates to the the 1H22 period) of 11.5 cps, compared to 9.5 cps (fully franked) in 1H21.

Dates for the interim 1H22 dividend are as follows:

- ex-date: 24 February 2022;
- record date: 25 February 2022;
- Dividend Reinvestment Plan (DRP) election date: 28 February 2022; and
- payment date: 22 March 2022.

The 1H22 dividend payout ratio was 46.9%, which is within Challenger's normalised dividend payout ratio target of between 45% and 50% of normalised profit after tax.

Challenger operates a DRP (refer below), which has the effect of reducing the cash dividend paid.

Challenger's franking account balance at 31 December 2021 was $173m. This amount is calculated from the balance of the franking account as at the end of the period, adjusted for franking credits that will arise from the settlement of current income tax liabilities and interest on Challenger Capital Notes. The interim dividend of 11.5 cps will result in a total dividend of $78m, which will reduce the franking account by $33m.

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 will be issued based on a 10-day Challenger volume-weighted average price (VWAP), with no share price discount applied.

For the final FY21 dividend, the DRP participation rate was 19% of issued capital.

Credit ratings

In December 2021, Standard & Poor's Global Ratings (S&P) completed its annual ratings review and affirmed both Challenger Life Company Limited’s (CLC) and Challenger Limited's credit ratings.

S&P ratings are as follows:

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

MyLife MyFinance, Challenger’s recently acquired bank, is currently not rated by S&P. MyLife MyFinance is very strongly capitalised and Challenger expects to scale and grow the business over time. Once the Bank achieves sufficient scale, Challenger will seek to have the Bank rated by S&P.

FY22 outlook

Normalised net profit before tax guidance

Challenger's FY22 normalised net profit before tax guidance is a range of between $430m and $480m. The mid-point of the guidance range ($455m) represents Challenger's best estimate and would result in Challenger achieving its Normalised ROE pre-tax target (refer below) and maintaining a stable Life COE margin of approximately 2.5%.

Challenger is on track to achieve full year guidance with 1H22 normalised net profit before tax of $238m representing 52% of the mid-point of the guidance range.

Normalised Return On Equity (ROE) target

Commencing from FY22, Challenger's Normalised ROE (pre-tax) target has been revised from the Reserve Bank of Australia (RBA) cash rate plus a margin of 14% to the cash rate plus a margin of 12%.

The reduction in the ROE target reflects Challenger's decision to enhance its risk settings and hold higher levels of excess capital.

From FY22, Challenger is extending its target PCA ratio to 1.30 times to 1.70 times (from 1.30 times to 1.60 times) and is targeting to operate around 1.60 times (refer to page 46 for more detail).

As a result of increasing the targeted excess capital operating level, up from 1.45 times to 1.60 times, the Normalised ROE target reduced by 2% from FY22 to the RBA cash rate plus a margin of 12%.

There has been no change to how the target is applied in business decision-making, including capital allocation, annuity pricing and business case assessment.

In 1H22, the average RBA cash rate was 10 bps, resulting in Challenger's Normalised ROE target being 12.1%. Challenger's normalised ROE in 1H22 was 12.1% and is in line with the target.

Normalised effective tax rate

The 1H22 normalised effective tax rate was 30.3% and is broadly in line with Australia's 30% corporate tax rate.

Over the medium and long term, Challenger expects a normalised effective tax rate of approximately 30%.

Dividend

Challenger targets a dividend payout ratio of between 45% and 50% of normalised profit after tax and seeks to frank the dividend to the maximum extent possible. However, the actual dividend payout ratio and franking will depend on prevailing market conditions and capital allocation priorities at the time.

Group balance sheet[1]

$m	1H22	FY21	1H21	FY20	1H20	FY19	1H19
Assets							
Life investment assets							
Fixed income and cash[2]	17,031.1	16,418.2	14,821.1	13,970.6	12,956.7	12,459.8	12,014.5
Property[2]	3,583.3	3,467.5	3,316.2	3,292.1	3,337.8	3,382.0	3,739.4
Equity and infrastructure[2,3]	1,096.1	623.2	604.2	393.4	2,035.9	2,042.3	1,778.3
Alternatives[3]	1,226.4	1,054.3	892.5	647.2	1,338.8	1,126.3	1,092.1
Life investment assets	**22,936.9**	**21,563.2**	**19,634.0**	**18,303.3**	**19,669.3**	**19,010.4**	**18,624.3**
Bank lending and financing assets							
Fixed income, cash and cash equivalents	132.8	—	—	—	—	—	—
Residential lending and other lending	97.3	—	—	—	—	—	—
Bank lending and financing assets	**230.1**	**—**	**—**	**—**	**—**	**—**	**—**
Cash and cash equivalents (Group cash)	94.5	223.0	136.6	146.1	141.2	91.5	87.7
Receivables	153.7	115.9	127.7	163.0	121.2	182.7	167.7
Derivative assets	822.0	641.9	450.1	522.9	403.3	331.2	158.7
Investment in associates	79.7	83.2	63.3	63.0	56.1	58.1	53.4
Other assets	58.1	63.1	61.4	65.8	60.3	76.6	57.0
Fixed assets	26.4	28.2	25.1	25.9	27.3	28.3	29.7
Right-of-use lease assets[4]	31.5	34.7	37.9	32.4	34.4	—	—
Tax assets	—	—	—	43.1	—	—	—
Goodwill and intangibles	607.4	589.1	597.5	598.0	602.0	581.2	594.9
Less Group/Life eliminations[5]	(25.1)	(31.3)	(36.3)	(41.0)	(44.8)	(62.4)	(63.5)
Total assets	**25,015.2**	**23,311.0**	**21,097.3**	**19,922.5**	**21,070.3**	**20,297.6**	**19,709.9**
Liabilities							
Payables	173.2	196.9	162.4	191.4	189.6	256.1	306.5
Tax liabilities	107.0	104.8	39.7	—	204.8	158.2	31.8
Derivative liabilities	676.8	507.6	143.7	136.2	118.8	227.0	276.3
Subordinated debt	401.6	404.5	401.7	395.7	404.9	403.9	400.6
Challenger Capital Notes	864.8	863.3	881.6	799.5	798.3	796.5	794.7
Group debt	—	—	50.0	50.0	—	—	—
Lease liabilities[4]	66.3	70.3	72.4	67.6	70.2	—	—
Provisions	39.3	35.7	31.8	35.5	17.0	19.2	16.1
Life annuity liabilities	14,092.5	13,669.9	12,769.7	12,581.2	12,845.3	12,870.2	12,323.7
Challenger Index Plus Fund liabilities	4,381.8	3,632.2	3,031.5	2,415.8	2,705.6	1,966.2	2,172.3
Bank deposit liabilities	152.6	—	—	—	—	—	—
Total liabilities	**20,955.9**	**19,485.2**	**17,584.5**	**16,672.9**	**17,354.5**	**16,697.3**	**16,322.0**
Group net assets	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**	**3,600.3**	**3,387.9**
Equity							
Contributed equity	2,451.8	2,425.5	2,422.6	2,377.6	2,110.8	2,093.7	2,090.2
Reserves	(55.0)	(50.9)	(55.5)	(50.9)	(61.0)	(52.4)	(66.0)
Retained earnings	1,662.5	1,451.2	1,145.7	922.9	1,666.0	1,559.0	1,363.7
Total equity	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**	**3,600.3**	**3,387.9**

1 Excludes consolidation of Special Purpose Vehicles (SPVs) and non-controlling interests.
2 Fixed income, property and infrastructure are reported net of debt.
3 Commencing in 1H21, Life's investment portfolio categories have been amended to more accurately reflect Life's portfolio composition. The equities and infrastructure categories were combined, and absolute return funds and insurance-related investments reclassified from equities to alternatives. Comparatives have been restated.
4 Reflects the adoption of AASB 16 Leases on 1 July 2019.
5 Group/Life eliminations represent the fair value of the SPV residual income notes (i.e. NIM) held by Challenger Life Company Limited.

Change in Group net assets

$m	1H22	FY21	1H21	FY20	1H20	FY19	1H19
Opening net assets	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**	**3,600.3**	**3,387.9**	**3,485.4**
Statutory net profit after tax	282.0	369.5	222.8	(636.4)	220.4	301.7	6.1
Dividends paid	(70.7)	(64.0)	—	(106.7)	(109.7)	(106.4)	(109.4)
New share issue	13.4	2.9	34.8	266.8	2.6	3.4	3.4
Reserve movements	(4.1)	4.6	(4.6)	10.1	(8.6)	13.7	(32.7)
CPP[1] Trust movements	12.9	—	10.2	—	14.5	—	35.1
Transition of new leasing standard[2]	—	—	—	—	(3.7)	—	—
Closing net assets	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**	**3,600.3**	**3,387.9**

1 Challenger Performance Plan (CPP) Trust.
2 Reflects the adoption of AASB 16 ***Leases*** on 1 July 2019.

Issued share capital, dilutive share count and earnings per share

	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Earnings per share (cents)							
Basic – normalised	24.5	21.1	20.4	25.0	31.5	32.4	33.1
Basic – statutory	41.8	54.9	33.2	(104.4)	36.3	49.8	1.0
Diluted – normalised	20.7	17.8	17.5	21.1	27.7	27.8	30.1
Diluted – statutory	33.9	43.4	27.3	(104.4)	31.5	41.2	1.0
Number of shares (m)							
Basic share count	676.0	672.6	672.2	663.1	607.6	605.8	605.4
CPP[1] Trust treasury shares	2.1	3.4	3.4	4.4	4.4	5.8	5.8
Total issued shares	678.1	676.0	675.6	667.5	612.0	611.6	611.2
Movement in basic share count							
Opening	672.6	672.2	663.1	607.6	605.8	605.4	601.7
CPP[1] Trust deferred share purchase	—	—	—	—	—	—	(0.8)
Net Treasury shares (acquired)/released	1.3	—	1.0	—	1.4	—	4.2
New share issues	2.1	0.4	8.1	55.5	0.4	0.4	0.3
Closing	676.0	672.6	672.2	663.1	607.6	605.8	605.4
Movement in CPP Trust Treasury shares							
Opening	3.4	3.4	4.4	4.4	5.8	5.8	9.2
Shares vested to participants	(1.3)	—	(1.0)	—	(1.4)	—	(4.2)
CPP[1] Trust deferred share purchase	—	—	—	—	—	—	0.8
Shares bought into CPP Trust	—	—	—	—	—	—	—
Closing	2.1	3.4	3.4	4.4	4.4	5.8	5.8
Weighted average number of shares (m)							
Basic EPS shares							
Total issued shares	677.2	675.9	674.6	614.0	611.8	611.4	611.0
Less CPP[1] Trust Treasury shares	(2.6)	(3.6)	(3.8)	(4.4)	(4.7)	(5.7)	(6.6)
Shares for basic EPS calculation	674.6	672.3	670.8	609.6	607.1	605.7	604.4
Diluted shares for normalised EPS							
Shares for basic EPS calculation	674.6	672.3	670.8	609.6	607.1	605.7	604.4
Add dilutive impact of unvested equity awards	13.3	2.4	5.9	4.2	4.3	2.9	7.1
Add dilutive impact of Capital Notes	133.4	155.0	136.3	145.5	99.5	117.8	85.1
Add dilutive impact of subordinated notes	59.1	59.1	59.1	59.1	49.5	58.5	42.3
Shares for diluted normalised EPS calculation	880.4	888.8	872.1	818.4	760.4	784.9	738.9
Diluted shares for statutory EPS							
Shares for basic EPS calculation	674.6	672.3	670.8	609.6	607.1	605.7	604.4
Add dilutive impact of unvested equity awards	13.3	2.4	5.9	—	4.3	2.9	7.1
Add dilutive impact of Capital Notes	133.4	155.0	136.3	—	99.5	117.8	—
Add dilutive impact of subordinated notes	59.1	59.1	59.1	—	49.5	58.5	—
Shares for diluted statutory EPS calculation	880.4	888.8	872.1	609.6	760.4	784.9	611.5
Summary of share rights (m)							
Hurdled Performance Share Rights							
Opening	14.7	16.1	9.8	10.2	7.2	7.4	8.2
New grants	3.6	0.1	7.4	—	3.9	—	2.2
Vesting/forfeiture	(1.9)	(1.5)	(1.1)	(0.4)	(0.9)	(0.2)	(3.0)
Closing	16.4	14.7	16.1	9.8	10.2	7.2	7.4
Deferred Performance Share Rights							
Opening	2.9	2.9	2.1	2.1	2.5	2.6	2.8
New grants	—	—	1.8	—	1.1	—	1.4
Vesting/forfeiture	(1.2)	—	(1.0)	—	(1.5)	(0.1)	(1.6)
Closing	1.7	2.9	2.9	2.1	2.1	2.5	2.6

1 Challenger Performance Plan (CPP) Trust.

Issued share capital

Issued share capital and diluted share count

The number of Challenger Limited shares listed on the ASX at 31 December 2021 was 678m shares. The number of shares on issue increased by 2.1m shares in 1H22, with new shares issued under Challenger's dividend reinvestment plan.

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 1, Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt) as determined by a probability of vesting test (refer to page 19 for more detail on the accounting treatment).

Treasury shares

The CPP Trust was established to purchase shares to satisfy Challenger's employee equity obligations arising from 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 4m shares (up 1%) in 1H22 to 675m shares.

The increase reflects the weighted impact of new shares issued under Challenger's Share Purchase Plan completed in late July 2020, and new shares issued under Challenger's dividend reinvestment plan in September 2021.

The weighted average number of shares used to determine normalised diluted EPS increased by 8m shares (up 1%) in 1H22 to 880m shares. The increase primarily reflects a higher basic weighted average number of shares on issue (4m shares - refer above), the issue of unvested equity awards to employees under the CPP (7m), the issue of Challenger Capital Notes 3 in November 2020 net of the repurchase of Challenger Capital Notes 1 (refer to pages 44 and 45) and a lower dilutive impact on debt instruments as a result of the increase in the Challenger share price, which is used to calculate potential dilution (refer to page 19).

The weighted average number of shares used to determine statutory diluted EPS increased by 8m shares (up 1%) in 1H22 to 880m shares and is also used to determine normalised diluted EPS.

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, with vesting subject to meeting total shareholder return performance hurdles and continued employment.

A portion of variable remuneration is awarded in Deferred Performance Share Rights (DPSRs) and Restricted Shares, which vest over a period of up to four years, subject to continued employment.

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 1, Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt are effective sources of funding for Challenger. Refer to page 44 for more detail.

Each of Capital Notes 1, Capital Notes 2, Capital Notes 3 and subordinated debt have convertibility features which would result in these instruments converting to ordinary shares under certain circumstances, including APRA determining Challenger Life to be non-viable. It is Challenger's intention to refinance each of these instruments at their respective call dates, or prior to the mandatory conversion dates, and therefore conversion to Challenger ordinary shares is unlikely.

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 1, 2 and 3, and subordinated debt) is based on the following formula:

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

The conversion factor for all of Challenger's convertible debt is 99%. The simple average of Challenger's 20-day volume weighted average share price (VWAP) in each reporting period, subject to a minimum VWAP floor, is used to determine the dilutive impact. The simple average of Challenger's 20-day VWAP leading up to 31 December 2021 was $6.61 (31 December 2020 $6.03).

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 1	9 Oct 2014	$28m	$3.6140
Challenger Capital Notes 2	7 Apr 2017	$460m	$6.1500
Challenger Capital Notes 3	25 Nov 2020	$385m	$2.5700
Subordinated debt	24 Nov 2017	$400m	$6.8400
Total		**$1,273m**	

For subordinated debt, the minimum VWAP floor price is higher than the average Challenger 20-day volume weighted average share price VWAP leading up to 31 December 2021 ($6.61). Therefore, the VWAP floor price is used to determine the dilutive share count for Challenger's subordinated debt. The 20-day volume weighted average share price is used to determine the dilutive impact for all other debt instruments.

Earnings per share

Normalised diluted EPS

The normalised basic EPS for 1H22 of 24.5 cps is greater than the interest cost per potential ordinary share for each of the Challenger Capital Notes 1, Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt. As a result, all debt instruments were considered to be dilutive in 1H22.

The weighted average number of shares used to determine the normalised diluted EPS increased by 8m shares in 1H22.

The increase is due to:

- an increase in weighted average number of basic shares on issue that reflects the impact of new shares issued under Challenger's Share Purchase Plan completed in late July 2020 and shares issued under Challenger's dividend reinvestment plan in September 2021 (increased the basic share count by 4m shares);
- an increase in shares following the issue of unvested equity awards (increased the basic share count by 7m shares); partially offset by
- a reduction in the dilutive impact of the remaining Challenger Capital Notes 1, Challenger Capital Notes 2 and Challenger Capital Notes 3 as a result of an increase in Challenger's weighted average share price over the last 20 days of 1H22 (reduced the basic share count by 3m shares). The VWAP was $6.61, up from $6.03 at 31 December 2020. The higher Challenger share price results in a lower number of potential shares being issued should the debt ever convert to shareholder equity.

To determine the normalised diluted EPS, the normalised profit after tax is increased by $17m of interest expense in relation to Challenger Capital Notes 1, Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt.

Group Regulatory Capital

31 December 2021, $m	CLC	MLMF	Other (including Funds Management)[1]	Group
Regulatory capital base				
Shareholder equity	3,419.4	76.5	563.4	4,059.3
Goodwill and other intangibles	(75.6)	—	(531.8)	(607.4)
Other adjustments[2]	(223.6)	(0.5)	127.3	(96.8)
Eligible regulatory debt	1,275.2	0.5	—	1,275.7
Total capital base	**4,395.4**	**76.5**	**158.9**	**4,630.8**
Minimum Regulatory Requirement[3,4]	2,593.8	11.0	35.9	2,640.7
Excess over Minimum Regulatory Requirement	**1,801.6**	**65.5**	**123.0**	**1,990.1**
Common Equity Tier 1 (CET1) regulatory capital	3,120.3	76.0		3,196.3
Additional Tier 1 capital	872.7	—		872.7
Total Tier 1 regulatory capital	3,993.0	76.0		4,069.0
Tier 2 capital[5]	402.4	0.5		402.9
Total capital base	**4,395.4**	**76.5**	**158.9**	**4,630.8**
CET1 capital ratio (times)[6]	1.20	6.90		
Tier 1 capital ratio (times)[7]	1.54	6.90		
Minimum Regulatory Requirement ratio (times)[8]	1.69	6.95	4.43	1.75

1 Includes Funds Management, Corporate and other Life/Bank entities. Funds Management Minimum Regulatory Requirement (MRR) for capital based on requirements set by ASIC and regulators in other foreign jurisdictions. Challenger Retirement and Investment Services Limited MRR based on APRA and ASIC requirements.
2 Other adjustments predominantly related to intercompany items.
3 Minimum Regulatory Requirement is equivalent to PCA for CLC.
4 Minimum Regulatory Requirement for MLMF represents total capital requirements of 8% (of risk weighted assets) plus the capital conservation buffer of 2.5% (of risk weighted assets), as stipulated under APS 110 ***Capital Adequacy***.
5 CLC represents subordinated debt and MLMF represents general credit reserve.
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 and Europe, Japan and Singapore, 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, Challenger Life Company (CLC) and MyLifeMyFinance Limited (MLMF or the Bank) while ensuring that shareholders earn an appropriate risk-adjusted return.

Commencing in 1H22, Challenger has reported 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 2021 was $4.6b, 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;
- MLMF: capital requirements as specified under the 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 2021 was $2.6b, and includes:

- CLC of $2.6b - refer to page 46 for more detail;
- MLMF of $11.0m - refer to page 60 for more detail; and
- Other, which includes Challenger's Funds Management business of $35.9m.

Group excess capital position

Challenger Group's excess regulatory capital above the Minimum Regulatory Requirement at 31 December 2021 was $2.0b.

The Group's Minimum Regulatory Requirement ratio was 1.75 times, which is equivalent to Challenger holding 75% more regulatory capital than minimum requirements.

Consolidated operating cash flow

$m	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Receipts from customers	342.0	351.4	323.8	348.8	334.5	364.6	336.3
Dividends received	39.7	31.4	33.6	20.3	45.7	34.1	67.6
Interest received	307.3	294.4	310.3	327.0	384.9	367.0	413.4
Interest paid	(393.6)	(257.7)	(234.3)	(415.6)	(270.6)	(362.7)	(366.5)
Payments to suppliers and employees	(321.4)	(300.3)	(304.9)	(258.9)	(305.6)	(258.0)	(303.5)
Income tax (paid) / refunded	(98.9)	(81.9)	(9.0)	33.1	(48.9)	(11.8)	(43.6)
Underlying operating cash flow	**(124.9)**	**37.3**	**119.5**	**54.7**	**140.0**	**133.2**	**103.7**
Net annuity policy capital receipts/(payments)	607.7	922.2	157.6	(344.7)	93.6	192.1	493.7
Net other Life capital receipts/(payments)	838.3	532.9	551.1	(263.1)	830.0	(301.2)	90.2
Net Bank deposit receipts/(payments)	18.4	—	—	—	—	—	—
(Purchase)/Proceeds of investments	(689.1)	(238.2)	(358.6)	(568.5)	(899.2)	333.8	(1,238.6)
Capital expenditures	(1.8)	(9.5)	(3.4)	(3.3)	(6.0)	(18.5)	(41.4)
Net equity placement proceeds	13.4	(0.2)	34.8	264.1	—	—	—
Net (repayments)/proceeds from borrowings	(658.3)	(967.8)	(387.9)	825.7	(5.7)	35.6	470.7
Receipts/(Payments) for Treasury shares	(1.6)	(1.7)	2.4	(4.5)	(3.8)	(7.8)	(39.7)
Net dividends paid	(70.7)	(61.1)	—	(103.9)	(107.1)	(103.0)	(106.0)
Net non-operating cash flows SPV's	(6.9)	1.6	(3.5)	(19.8)	(8.5)	(22.0)	(21.9)
Other cash flow	**49.4**	**178.2**	**(7.5)**	**(218.0)**	**(106.7)**	**109.0**	**(393.0)**
Net increase/(decrease) in cash and cash equivalents	**(75.5)**	**215.5**	**112.0**	**(163.3)**	**33.3**	**242.2**	**(289.3)**

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.

1H22 underlying operating cash flow was -$125m, down $244m on 1H21.

1H22 underlying operating cash flow was $291m lower than normalised net profit after tax ($166m) mainly due to:

- Challenger Index Plus distributions (-$219m) which are capital in nature and not operating cash flows (refer below);
- non-cash normalised capital growth (-$23m);
- tax timing impacts (-$27m); and
- accruals for inflation-linked and other bonds (-$21m).

Challenger Index Plus distributions

The Challenger Guaranteed Index products pays the client a margin above an agreed index, with Challenger fully hedging exposure to the underlying index.

As required by Australian Accounting Standards, and similar to the treatment of capital receipts or payments for Challenger's annuity business, the cash settlement of index payments to the client are recognised in underlying operating cash flows. However, cash flows relating to the underlying equity swap index or hedging instrument are recognised in investing cash flows. Therefore, one component of the cash flow (index payment to the client) is included in operating cash flow and the offsetting cash flow (from the swap or hedge) is included in investing cash flows.

Challenger Index Plus distributions in 1H22 were $219m.

Net annuity policy capital receipts

1H22 net annuity policy capital receipts were +$608m and comprised:

- annuity sales of $2,516m; less
- annuity capital payments of $1,909m.

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

1H22 annuity net flows (+$608m) represents annuity book growth of +4.4% for the half year and is calculated as 1H22 annuity total net flows divided by the opening period annuity liability of $13,670m.

1H22 annuity net flows benefited from an increase in sales (up 15% on 1H21), partially offset by a slightly lower maturity rate. The maturity rate in 1H22 was 14.0%, down from 16.2% in 1H21.

Net other Life capital receipts

Other Life sales represent Institutional Guaranteed Index Plus.

1H22 net other Life capital receipts was +$838m and comprised:

- other Life sales of $2,427m; less
- other Life capital payments of $1,588m.

1H22 other Life net flows benefited from higher sales (up 95% on 1H21), partially offset by higher maturities and repayments (up 128%).

A significant proportion of the maturities were reinvested and included in other Life sales. Of the $1,588m in 1H22, 79% were reinvested and included in Other Life sales.

1H22 total Life book growth was +8.4% (1H21 +4.7%) and can be calculated as total 1H22 net flows (+$1,446m) divided by the sum of the opening period liabilities of $17,302m (Life annuity liabilities and Challenger Index Plus Fund liabilities – refer to page 33 for more detail).

Life financial results

$m	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Investment yield - policyholders' funds	388.6	377.1	375.3	398.4	442.1	438.8	432.5
Interest expense	(190.5)	(192.1)	(204.2)	(227.8)	(245.8)	(255.3)	(260.1)
Distribution expense	(8.9)	(4.6)	(4.8)	(4.8)	(5.7)	(7.3)	(11.0)
Other income[1]	23.8	20.6	19.4	31.2	16.0	15.3	18.3
Product cash margin	**213.0**	**201.0**	**185.7**	**197.0**	**206.6**	**191.5**	**179.7**
Investment yield – shareholders' funds	51.6	50.0	42.0	47.5	67.6	72.0	71.8
Cash earnings	**264.6**	**251.0**	**227.7**	**244.5**	**274.2**	**263.5**	**251.5**
Normalised capital growth	22.8	17.8	16.3	49.6	70.6	77.0	78.1
Normalised Cash Operating Earnings	**287.4**	**268.8**	**244.0**	**294.1**	**344.8**	**340.5**	**329.6**
Personnel expenses	(35.5)	(38.3)	(34.4)	(32.0)	(36.6)	(34.8)	(34.1)
Other expenses	(18.9)	(24.4)	(16.8)	(23.2)	(22.4)	(20.0)	(17.6)
Total expenses	**(54.4)**	**(62.7)**	**(51.2)**	**(55.2)**	**(59.0)**	**(54.8)**	**(51.7)**
Normalised EBIT	**233.0**	**206.1**	**192.8**	**238.9**	**285.8**	**285.7**	**277.9**
Asset and liability experience[2]	191.9	345.4	120.6	(1,157.3)	54.9	164.1	(234.3)
New business strain[2]	(36.0)	(14.8)	3.9	30.9	1.0	2.6	(35.9)
Total investment experience	**155.9**	**330.6**	**124.5**	**(1,126.4)**	**55.9**	**166.7**	**(270.2)**
Net profit after investment experience before tax	**388.9**	**536.7**	**317.3**	**(887.5)**	**341.7**	**452.4**	**7.7**
Reconciliation of investment experience to capital growth							
Asset and liability experience	191.9	345.4	120.6	(1,157.3)	54.9	164.1	(234.3)
Normalised capital growth	22.8	17.8	16.3	49.6	70.6	77.0	78.1
Asset and liability capital growth	**214.7**	**363.2**	**136.9**	**(1,107.7)**	**125.5**	**241.1**	**(156.2)**
Performance analysis							
Cost to income ratio[3] (%)	18.9%	23.3%	21.0%	18.8%	17.1%	16.1%	15.7%
Net assets – average[4] ($m)	3,517	3,365	3,065	2,982	3,388	3,164	3,151
Normalised ROE (pre-tax) (%)	13.1%	12.4%	12.5%	16.1%	16.8%	18.2%	17.5%
Margins[5]							
Investment yield – policyholders' funds	3.46%	3.72%	3.92%	4.20%	4.52%	4.73%	4.69%
Interest expense	(1.70%)	(1.89%)	(2.13%)	(2.40%)	(2.51%)	(2.75%)	(2.82%)
Distribution expense	(0.08%)	(0.05%)	(0.05%)	(0.05%)	(0.06%)	(0.08%)	(0.12%)
Other income	0.22%	0.20%	0.20%	0.33%	0.16%	0.16%	0.20%
Product cash margin	**1.90%**	**1.98%**	**1.94%**	**2.08%**	**2.11%**	**2.06%**	**1.95%**
Investment yield – shareholders' funds	0.46%	0.49%	0.44%	0.50%	0.70%	0.78%	0.78%
Cash earnings	**2.36%**	**2.47%**	**2.38%**	**2.58%**	**2.81%**	**2.84%**	**2.73%**
Normalised capital growth	0.20%	0.18%	0.17%	0.52%	0.72%	0.83%	0.84%
Normalised Cash Operating Earnings (COE)	**2.56%**	**2.65%**	**2.55%**	**3.10%**	**3.53%**	**3.67%**	**3.57%**

1 Other income includes Accurium revenue and Life Risk revenue (premiums net of claims).
2 Investment experience comprises asset and liability experience and net new business strain. Refer to page 63 for more detail.
3 Cost to income ratio calculated as total expenses divided by normalised COE.
4 Net assets – average calculated on a monthly basis.
5 Ratio of normalised COE components divided by average investment assets.

Life financial results

$m	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Sales							
Retail fixed term sales	909.8	778.9	910.2	594.0	775.3	747.5	1,374.2
Institutional fixed term sales	963.0	1,120.1	390.8	100.0	500.0	150.0	150.0
Japan sales	422.7	247.0	543.4	272.8	470.7	93.4	174.7
Fixed term sales	2,295.5	2,146.0	1,844.4	966.8	1,746.0	990.9	1,698.9
Lifetime sales	220.8	229.0	346.6	203.7	210.9	411.7	441.6
Life annuity sales	**2,516.3**	**2,375.0**	**2,191.0**	**1,170.5**	**1,956.9**	**1,402.6**	**2,140.5**
Maturities and repayments	(1,908.6)	(1,452.8)	(2,033.4)	(1,515.2)	(1,863.3)	(1,210.3)	(1,647.0)
Life annuity flows	**607.7**	**922.2**	**157.6**	**(344.7)**	**93.6**	**192.3**	**493.5**
Closing Life annuity book	14,092.5	13,669.9	12,769.7	12,581.2	12,845.3	12,870.2	12,323.7
Annuity book growth[1]	**4.4%**	**7.3%**	**1.3%**	**(2.7%)**	**0.7%**	**1.6%**	**4.2%**
Other Life sales	2,426.8	1,115.6	1,246.5	841.8	1,182.2	407.1	599.8
Other maturities and repayments	(1,588.5)	(582.7)	(695.4)	(1,104.9)	(352.2)	(708.3)	(509.6)
Other Life flows	**838.3**	**532.9**	**551.1**	**(263.1)**	**830.0**	**(301.2)**	**90.2**
Closing Challenger Index Plus Fund liabilities	4,381.8	3,632.2	3,031.5	2,415.8	2,705.6	1,966.2	2,172.3
Other Life net book growth	**23.1%**	**22.1%**	**22.8%**	**(13.4%)**	**42.2%**	**(14.1%)**	**4.2%**
Total Life sales	4,943.1	3,490.6	3,437.5	2,012.3	3,139.1	1,809.7	2,740.3
Total maturities and repayments	(3,497.1)	(2,035.5)	(2,728.8)	(2,620.1)	(2,215.5)	(1,918.6)	(2,156.6)
Total Life net flows	**1,446.0**	**1,455.1**	**708.7**	**(607.8)**	**923.6**	**(108.9)**	**583.7**
Closing total Life book[2]	18,474.3	17,302.1	15,801.2	14,997.0	15,550.9	14,836.4	14,496.0
Total Life book growth[1]	**8.4%**	**9.7%**	**4.7%**	**(4.1%)**	**6.2%**	**(0.8%)**	**4.2%**
Assets							
Closing investment assets	**22,937**	**21,563**	**19,634**	**18,303**	**19,669**	**19,010**	**18,624**
Fixed income and cash	16,715	15,574	14,328	13,691	12,836	12,241	11,802
Property	3,491	3,333	3,299	3,308	3,336	3,535	3,661
Equity and infrastructure[3]	884	595	437	1,089	2,027	1,817	1,789
Alternatives[3]	1,167	947	914	977	1,244	1,122	1,040
Average investment assets[4]	**22,257**	**20,449**	**18,978**	**19,065**	**19,443**	**18,715**	**18,292**
Liabilities							
Closing liabilities	**19,749**	**18,579**	**17,095**	**16,198**	**16,761**	**16,045**	**15,702**
Annuities and Challenger Index Plus Fund	17,961	16,433	15,324	15,499	15,341	14,646	14,194
Capital Notes	873	887	830	805	805	805	805
Subordinated debt	404	404	401	400	406	405	405
Average liabilities[4]	**19,238**	**17,724**	**16,555**	**16,704**	**16,552**	**15,856**	**15,404**

1 Book growth percentage represents net flows for the period divided by opening book value for the financial year.
2 Life annuity liabilities and Challenger Index Plus Fund liabilities.
3 Commencing 1H21, Life's investment portfolio categories have been amended to more accurately reflect Life's portfolio composition. The equities and infrastructure categories were combined, and absolute return funds and insurance-related investments reclassified from equities to alternatives. Comparatives have been restated.
4 Average investment assets and average liabilities calculated on a monthly basis.

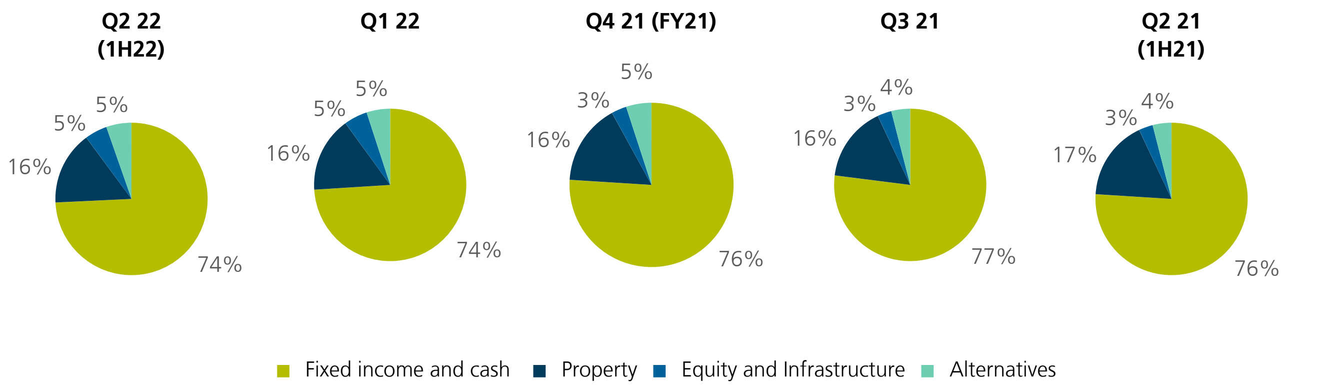
Life financial results

Life quarterly sales and investment assets

$m	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21
Life sales					
Retail fixed term sales	529	381	463	316	426
Institutional fixed term sales	459	504	50	1,070	240
Japan sales	178	245	168	79	153
Fixed term sales	1,166	1,130	681	1,465	819
Lifetime sales[1]	119	101	122	107	139
Life annuity sales	**1,285**	**1,231**	**803**	**1,572**	**958**
Maturities and repayments	(969)	(939)	(760)	(693)	(900)
Life annuity flows	**316**	**292**	**43**	**879**	**58**
Annuity book growth[2]	**2.3%**	**2.1%**	**0.3%**	**7.0%**	**0.5%**
Other Life sales	1,571	856	268	847	903
Other maturities and repayments	(1,035)	(554)	(233)	(349)	(366)
Other Life flows	**536**	**302**	**35**	**498**	**537**
Other Life net book growth	**14.8%**	**8.3%**	**1.5%**	**20.6%**	**22.2%**
Total Life sales	2,856	2,087	1,071	2,419	1,861
Total maturities and repayments	(2,004)	(1,493)	(993)	(1,042)	(1,266)
Total Life net flows	**852**	**594**	**78**	**1,377**	**595**
Total Life book growth[2]	**5.0%**	**3.4%**	**0.5%**	**9.2%**	**3.9%**
Life					
Fixed income and cash[3]	17,031	16,230	16,418	15,996	14,821
Property[3]	3,583	3,481	3,468	3,309	3,316
Equity and infrastructure[3,4]	1,096	1,067	623	569	604
Alternatives[4]	1,227	1,234	1,054	922	893
Total Life investment assets	**22,937**	**22,012**	**21,563**	**20,796**	**19,634**
Average Life investment assets[5]	**22,508**	**21,944**	**21,062**	**19,924**	**19,323**

1 Lifetime sales includes CarePlus, a product that pays income for life and is specifically designed for the aged care market.
2 Book growth percentage represents net flows for the period divided by opening book value for the financial year.
3 Fixed income, property and infrastructure reported net of debt.
4 Commencing 1H21, Life's investment portfolio categories have been amended to more accurately reflect Life's portfolio composition. The equities and infrastructure categories were combined, and absolute return funds and insurance-related investments reclassified from equities to alternatives. Comparatives have been restated.
5 Average Life investment assets calculated on a monthly basis.

Life asset allocation



Life financial results

Life focuses on the retirement spending phase of superannuation, providing products that help customers convert retirement savings into safe and secure income in retirement.

Life's annuity products appeal to retirees as they provide security and certainty of guaranteed[1] income while protecting against risks of market downturns and inflation. Lifetime annuities also protect retirees from the risk of outliving their savings by paying an income for life. Depending on the payment option selected, payments will either be fixed, indexed to inflation, linked to changes in the RBA cash rate or indexed to investment markets.

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

Life is a market leader in Australian retirement incomes, with a 80%[2] annuity market share, and has won the Association of Financial Advisers 'Annuity Provider of the Year' for the last 13 years and was recognised at the Plan For Life Excellence Awards as the winner of the Overall Longevity Cover Excellence Award for 2021.

Challenger is the dominant Australian retirement income brand and is recognised by 92%[3] of advisers as a leader in retirement incomes.

Life's products are distributed in Australia via both independent financial advisers and financial adviser administrative platforms. Life's products are available on leading independent investment and administration platforms.

Life is also expanding its relationships with institutional clients, including the profit-for-member sector of Australia's superannuation system. As superannuation fund members transition to retirement, funds are increasing their focus on providing more comprehensive retirement solutions. As the retirement system develops, the institutional superannuation sector provides a significant growth opportunity for Challenger.

In Japan, Life has an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) to provide Australian dollar and US dollar annuities. MS Primary is a leading provider of annuity products in Japan and is part of the MS&AD Insurance Group Holdings Inc. (MS&AD Group). 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 (CLC) undertakes Challenger's guaranteed annuity 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 46.

Normalised EBIT and ROE

Life's normalised EBIT was $233m in 1H22 and increased by $40m (21%) on 1H21. The increase in EBIT reflects a $43m (18%) increase in Normalised Cash Operating Earnings (COE), partly offset by a $3m (6%) increase in expenses.

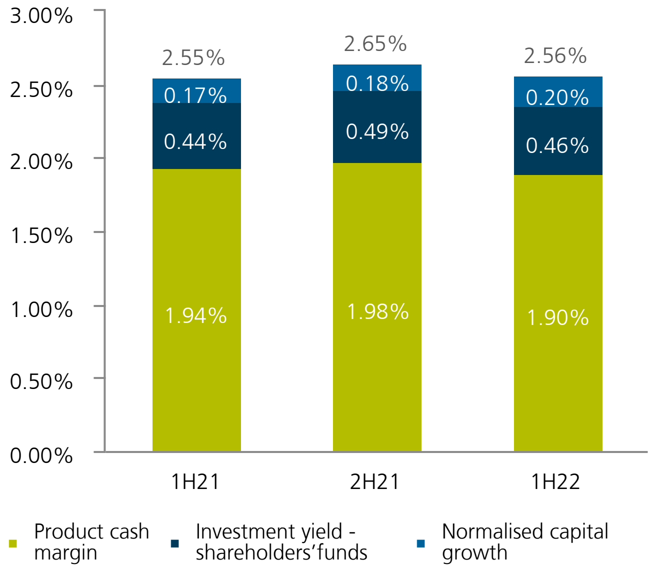
Life's normalised ROE (pre-tax) was 13.1% in 1H22 and increased by 60 bps on 1H21, driven by an increase in Normalised COE.

Normalised Cash Operating Earnings (COE) and COE margin

1H22 Normalised COE was $287m and increased by $43m (18%) on 1H21. Normalised COE increased as a result of:

- higher average investment assets, which increased by 17% on 1H21; and
- higher COE margin, which increased by 1 bps on 1H21 to 2.56%.

Life COE margin composition



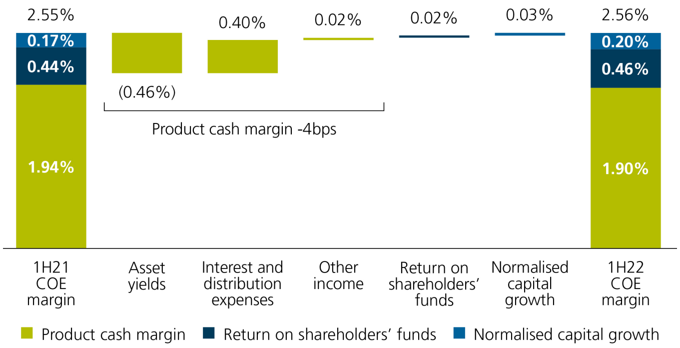
[1] The word 'guaranteed' means payments are guaranteed by Challenger Life Company Limited (CLC) from assets of its relevant statutory fund.
[2] Plan for Life – September 2021 – based on annuities under administration.
[3] Market Pulse Adviser Study, November 2021.

1H21 to 1H22 COE margin

Life's 1H22 COE margin was 2.56% and increased by 1 bps on 1H21 as a result of:

- Higher normalised capital growth (+3 bps): Increased as a result of a higher allocation to equities and infrastructure in 1H22;
- Higher return on shareholder capital (+2 bps): Reflects higher average shareholder net assets;
- Lower product cash margin (-4 bps): The product cash margin represents the investment return on annuities and institutional products, less associated interest and direct distribution costs. The product cash margin also includes other income, including Life Risk revenue (refer to page 27). The product cash margin decreased 4 bps from 1H21 due to:
  - Lower investment yield on policyholder funds (-46 bps): Reflects the impact of lower interest rates and tighter credit spreads reducing the return on fixed income investments, and lower returns on the property portfolio driven by revaluation gains;
  - Lower interest and distribution expense (+40 bps): Reflects lower annuity and institutional rates paid to customers as a result of the lower interest rate environment and annuity repricing initiatives implemented throughout 2H21.

    1H22 distribution expenses included an additional $5m (or -4 bps), representing the prepayment of trail commissions, which were paid directly to customers and will reduce future period distribution expenses; and
  - Higher other income (+2 bps): Reflects higher Life Risk income due to an increase in the present value of future profits following a revision of mortality rates in FY21, with mortality higher than expected.



2H21 to 1H22 COE margin

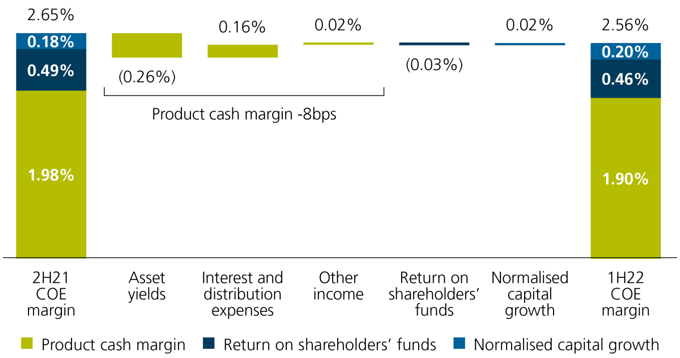
Life's 1H22 COE margin was 2.56% and decreased by 9 bps on 2H21 as a result of:

- Lower product cash margin (-8 bps): The product cash margin represents the investment return on annuities and institutional products, less associated interest and direct distribution costs. The product cash margin also includes other income, including Life Risk revenue (refer to page 27).

  The product cash margin decreased by 8 bps from 2H21 to 1H22 due to 2H21 including a one-off fee (12 bps) in relation to the early repayment of an asset backed security. Excluding last period's one-off fee, the product margin increased by 4 bps.

  The product cash margin movement for the half included:
  - Lower investment yield on policyholder funds (-26 bps): Approximately half of the reduction in investment yield relates to the one-off asset backed security fee (12 bps) received in 2H21. The remaining 14 bps reduction relates to lower investment returns on the portfolio from lower interest rates and tighter fixed income credit spreads, and lower property yields following revaluation gains.

    1H22 investment yield on policyholder funds includes $7m (or 6 bps) of higher than expected distributions on the alternatives portfolio, which are not expected to repeat in 2H22;
  - Lower interest expense (+19 bps): Reflects lower annuity and institutional rates paid to customers as a result of the lower interest rate environment and annuity repricing initiatives implemented over 2H21;
  - Higher distribution expenses (-3 bps): Distribution expenses relate to payments made for the acquisition and management of annuities and have been reducing following the removal of commissions from the Australian marketplace a number of years ago. 1H22 distribution expenses included an additional $5m (or -4 bps), representing the prepayment of trail commissions, which were paid directly to customers and will reduce future period distribution expenses; and
  - Higher other income (+2 bps): Reflects higher Life Risk income (refer to page 27 for more detail).
- Normalised capital growth (+2 bps): Reflects a higher allocation to equities and infrastructure in 1H22; and
- Lower return on shareholder capital (-3 bps): Reflects a lower return on shareholder capital, partially of set by higher shareholder net assets.



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 business 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.

1H22 Life normalised COE includes $22m of income from Life Risk transactions, which represents the release of profit and expense margins, up from $16m in 1H21. The increase was driven by a higher present value of future profits following the revision of mortality rates in FY21, with mortality higher than expected resulting on the business being more profitable.

The present value of future profits arising from the Life Risk portfolio was $1,076m at 31 December 2021, up 31% from $824m at 31 December 2020.

There were no additional wholesale longevity and mortality transactions written during the half year.

The Life Risk portfolio has an average duration of 17 years.

Accurium

Accurium Pty Ltd (Accurium) is one of Australia's leading providers of SMSF actuarial certificates. An actuarial certificate is required by an SMSF when one (or more) members are in the retirement phase of superannuation and one (or more) are in the savings (accumulation) phase of superannuation.

Accurium's 1H22 revenue was $2m, down $2m on 1H21 following its sale.

In 1H22, Challenger accepted an offer from CountPlus Limited (ASX:CUP) to acquire Accurium. Accurium was acquired by Challenger in 2014 with the expectation that regulation for accountants providing retirement advice to their self-managed superannuation fund clients would be enhanced.

As a result of the sale of Accurium, a gain on sale of $9m (after-tax) has been recognised as a significant item in 1H22. From 2H22, Life's normalised COE will no longer include approximately $6m (per annum) of Accurium revenue and Life's expenses will reduce by approximately $3m (per annum). The reduction to Life's EBIT is expected to be approximately $3m (per annum) as a result of the sale.

Expenses

1H22 Life expenses were $54m and increased by $3m (6%) on 1H21.

Personnel expenses in 1H22 were $36m and increased by $1m, reflecting higher variable reward payments.

Other expenses were $19m in 1H22 and increased by $2m, as a result of product development costs, including Challenger's new Market Linked Annuity, and other professional fees.

1H22 Life expenses of $54m were 13% lower than 2H21.

Despite the 6% increase in 1H22 expenses relative to 1H21, Life's cost to income ratio decreased by 210 bps to 18.9%, driven by higher Normalised Cash Operating Earnings, which increased by 18% on 1H21.

Investment experience overview

Challenger Life is required by accounting standards and prudential standards to value all assets and liabilities supporting the Life business at fair value. 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 asset and liability experience and net new business strain.

1H22 investment experience was a gain of $156m (pre-tax), comprising a $192m asset and policy liability gain and a $36m loss in relation to new business strain.

($m)	Actual capital growth	Normalised capital growth	Investment experience
Fixed income	(6)	29	**23**
Property	115	(35)	**80**
Equity and infrastructure	20	(17)	**3**
Alternatives	2	—	**2**
Policy liability	84	—	**84**
Assets and policy liability	**215**	**(23)**	**192**
New business strain	(36)	—	**(36)**
Total investment experience (pre-	**179**	**(23)**	**156**

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 gain of $192m in 1H22, comprising:

- Fixed income (+$23m): Representing a valuation loss of $6m and normalised capital growth of $29m. The fixed income valuation loss is a result of movements in credit spreads impacting the valuation of fixed income securities and credit defaults.

Fixed income normalised capital growth of $29m represents an allowance for credit defaults at -35 bps per annum. Actual credit defaults was -2 bps (annualised) in 1H22.

- Property (+$80m): Reflects the revaluation of Life's property portfolio, with revaluation gains of $115m partially offset by normalised capital growth ($35m).

  More than half of all direct properties were independently valued with revaluation gains on domestic office (+2.6%), domestic retail (+4.1%), domestic industrial (+12.3%), and Japan (+0.1%).
- Equity and infrastructure (+$3m): Reflects revaluation gains of $20m driven by higher domestic and international equity markets and was broadly in line with normalised capital growth ($17m). The normalised capital growth assumption for equities and infrastructure is 4% per annum.
- Alternatives (+$2m): Relates to Challenger's absolute return portfolio. Actual capital growth was broadly in line with the normalised growth assumption.
- Policy liability (+$84m): Includes $58m in relation to the illiquidity premium gain (refer below) and a $26m of other gains on policy liabilities. The policy liability includes changes in economic and actuarial assumptions, including changes to bond yields and interest rates used to hedge policy liabilities, expected inflation rates and expense assumptions on policy liabilities. For 1H22, the other policy liability gain was principally a result of the impact of interest rates on the Life Risk policy liability, expense assumptions and other adjustments.

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 fair value of assets as well as the illiquidity premium which forms part of the discount rate used to value policy liabilities.

The illiquidity premium used to value policy liabilities is calculated in accordance with AASB 1038 ***Life Insurance Contracts*** and AASB 139 ***Financial Instruments: Recognition and Measurement.***

The illiquidity premium gain for 1H22 was +$58m.

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 lower discount rates 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 1H22 net new business strain was a loss of $36m.

Life sales and AUM

Total Life sales

Challenger is focused on diversifying its sales channels to build more resilient sales across a range of retail and institutional products and clients.

Total Life sales were a record $4.9b and increased by 44% on 1H21 driven by record annuity sales and very strong institutional sales. Sales continue to benefit from Challenger's diversification strategy that focuses on:

- increasing institutional sales (refer to page 6 for more detail);
- working with a wider range of retail independent financial advice networks following structural change in the domestic financial advice market; and
- leveraging its annuity relationship with MS Primary in Japan to include reinsurance of AUD and US dollar denominated annuities (refer to page 31 for more detail).

Annuity sales

Total annuity sales were a half year record and were $2.5b in 1H22, and increased by $0.3b or 15% on 1H21.

Annuity sales comprised:

- Domestic retail sales of $1.1b, up 1% on 1H21;
- Domestic institutional sales of $1.0b, up 83% on 1H21; and
- Japan sales of $423m, down 22% on 1H21.

Domestic retail annuity sales

Domestic retail annuity sales were $1,131m and increased by 1% on 1H21. Retail annuity sales comprise term annuities ($910m) and lifetime annuities ($221m).

Retail annuity sales are benefiting from a stabilisation of the retail financial advice market, and increased sales from independent financial advisers (IFAs).

The Australian wealth management and financial adviser markets in recent years have been significantly disrupted following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) in 2019, which resulted in a range of industry changes. These changes include movement of financial advisers from bank-aligned to the independent advice market, and advisers exiting the market. These industry changes have impacted Challenger's annuity sales.

Adviser movement from major banks to IFA networks and advisers exiting the industry has now stabilised, as has the disruption to Challenger's domestic annuity sales.

Major banks accounted for only 5% of Challenger's 1H22 domestic fixed term annuity sales, significantly lower than the 35% contribution five years ago (1H17).

Domestic retail annuity sales comprised:

- term annuity sales of $910m, which were steady on 1H21; and
- lifetime annuity sales of $221m, which increased by $10m or 5%.

Lifetime annuity sales comprise Liquid Lifetime sales of $123m (1H21 $137m) and CarePlus sales of $98m (1H21 $74m). CarePlus is a lifetime annuity specifically designed for aged care.

Domestic institutional sales

Domestic institutional sales were $3,390m, up $1,616m or up 91% and comprised:

- Institutional term annuity sales of $963m, up $572m or 146%; and
- Institutional Guaranteed Index Plus sales of $2,427m, up $1,180m or 95%.

Institutional term annuity sales represent a relatively new distribution channel for Challenger, with sales growth benefiting from the institutional team focusing on new client opportunities.

Term annuities are a viable alternative to bank issued term deposits and other short-term fixed income instruments. These investments are usually shorter duration, particularly for an initial investment; however, clients typically roll the investment a number of times which extends the effective duration. The average duration of 1H22 institutional term annuity sales was 1.3 years (1H21 1.9 years).

Term annuities are a simple product for investors and are an effective way for Challenger to build institutional clients. They also provide a solid foundation for Challenger to develop broader relationships, including the exploration of retirement solution partnerships, with the profit-for-member superannuation sector. Profit-for-member funds accounted for 56% of 1H22 institutional term annuity sales (1H21 10%).

Institutional 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] counterparty and zero fees.

Sales are benefiting from a refresh and relaunch of the Index Plus product, providing a more attractive client proposition and an increase in the underlying indices available.

Superannuation funds have an intense focus and pressure on both fees and performance, which is aiding Index Plus sales as it delivers contracted alpha and in a zero fee product (refer to page 32 for more detail).

Institutional Guaranteed Index Plus sales were $2,427m in 1H22, with $306m of inflows from new clients, $859m of inflows from existing clients, and $1,262m of maturities reinvested. The maturities reinvested represent 79% of total 1H22 maturities.

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 foreign dollar annuity and life insurance products in Japan (refer to page 31 for more information). The MS Primary annuity relationship provides access to the Japanese foreign currency annuities market and is helping to diversify Challenger's distribution channels and product offering.

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

Under the reinsurance arrangements, MS Primary will provide Challenger an amount of reinsurance, across both Australian and US dollar denominated annuities, of at least ¥50b (currently ~A$600m[2]) per year for a minimum of five years. This is subject to review in the event of a material adverse change for either MS Primary or Challenger.

MS Primary annuity sales are included in term annuity sales and were $423m in 1H22, down 22% from $543m in 1H21 (or down 17% in Yen).

Despite 1H22 MS Primary annuity sales being lower than the prior period, they reflect a strong start to the year and represented ~70% of the full year minimum sales volume.

MS Primary annuity sales represented 17% of Challenger's 1H22 total annuity sales.

New business tenor

The tenor on new business annuity sales was 5.1 years in 1H22, down from 8.6 years in 1H21 and up from 4.1 years in 2H21.

The reduction in Life's new business tenor, relative to 1H21 is a result of:

- increased proportion of institutional term annuity new business sales sales, which tend to have shorter durations; and
- change in mix of retail annuity sales, including a lower contribution from Japanese sales (average duration of 10 years) and shorter average retail durations due to a flattening yield curve.

Life book liability maturity profile

The annuity maturity rate, which represents annuity maturities and repayments (excluding interest payments) divided by the opening period annuity liability, was 14% in 1H22, down from 16% in 1H21.

The maturity rate for annuities for FY22 is expected to be approximately 28%, with 14% in 1H22 and 14% in 2H22.

Total maturities in FY22 are expected to be $3.8b (FY21 $3.5b) and include $1.0b of institutional term annuity business. Excluding the institutional term annuity maturities, the retail maturity rate is expected to be approximately 20%.

Net book growth

Life annuity book growth

1H22 Life annuity net flows (i.e. annuity sales less capital repayments) were +$608m, up from $158m in 1H21.

Based on the opening Life annuity book liability ($13,670m), 1H22 annuity book growth was +4.4%, up from +1.3% in 1H21.

Annuity net book growth was higher than the prior period due to record annuity sales and lower maturities.

Other Life book growth

Other Life net flows (i.e. other Life sales less capital repayments) represent net flows on Challenger's Index Plus products.

In 1H22, Other Life net flows were +$838m, up from +$551m in 1H21.

Across both annuity and institutional Index Plus business, 1H22 net flows were +$1,446m for the half year and represent total book growth of +8.4%[3] for 1H22.

Average AUM

Life's average investment assets were $22.3b in 1H22 and increased by 17% ($3.3b) on 1H21.

The increase in average investment assets reflects higher Life net flows and positive investment experience (refer to page 27 for more detail).

[2] Based on the exchange rate as at 31 December 2021.

[3] Based on total Life net flows of +$1,446m divided by Life book of $17,302m (being opening period annuity book of $13,670m and opening period Challenger Index Plus book of $3,632m).

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.

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 its strategic relationship. Under the expanded strategic relationship, from 1 July 2019, Challenger commenced a quota share reinsurance of US dollar denominated annuities issued in the Japanese market by MS Primary.

MS Primary will provide to Challenger an amount of reinsurance, across both Australian and US dollar annuities, of at least ¥50 billion (~A$600 million[1]) per year for a minimum of five years.

This is subject to review in the event of a material adverse change for either MS Primary or Challenger.

The MS Primary annuity portfolio is invested in broadly similar key asset classes that Challenger currently invests in and is accounted for under Australian Generally Accepted Accounting Principles and Challenger's normalised profit framework, consistent with 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 toward 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 $423m, down 22% on 1H21 (or down 17% in Yen) and represented ~17% of Challenger Life's 1H22 total annuity sales (~25% in 1H21).

MS&AD's subsidiary, MS Primary, is a key Challenger strategic partner in both co-development and distribution of annuity products.

As part of the strategic relationship, MS&AD has become a significant investor in Challenger and as at 31 December 2021, held ~15% of Challenger's issued capital.

In August 2019 a representative from MS&AD, and in December 2019 a MS&AD Alternate Director, joined the Challenger Limited Board.

[1] Based on the exchange rate as at 30 June 2021.

Retirement income regulatory reforms

Retirement Income Covenant

In response to the 2014 Financial System Inquiry (FSI) and the Retirement Income Review in 2020, the Government has met its previous Budget commitment to legislate the Retirement Income Covenant (the Covenant).

The Covenant will come into force on 1 July 2022. It will require the trustees of APRA-regulated 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 expected funds during retirement.

Challenger has long supported and advocated for this important reform. While Australia has a world-class pensions system that is broadly adequate, sustainable and well governed[1], the superannuation system does not work as well for retired members as it does for those in accumulation. There are limited products to choose from, and the products that are available encourage an inadequate drawdown strategy and leave the unique risks faced by retirees unmitigated.

Challenger is confident the Covenant will lead to new and innovative retirement income solutions that address the unique risks that members face in the retirement phase, giving them the confidence to spend their retirement savings as intended.

Since the FSI's recommendation, more than 2 million Australian's have retired, and by 2030 more than $1.3 trillion of superannuation savings will have moved into the retirement phase. Challenger looks forward to partnering with institutional clients overtime to deliver innovative retirement income solutions as Australians plan for and enter retirement.

Challenger welcomes progress to ensure that Australia's superannuation system serves its members in retirement as well as it serves those in the accumulation phase. Retirees who have the confidence to spend their superannuation savings will enjoy an improved quality of life in retirement, enabling them to make a greater contribution to the broader economy, which will benefit all Australians.

Corporate Collective Investment Vehicle

The Government has legislated a Corporate Collective Investment Vehicle framework (CCIV), as recommended in 2009 by the Johnson Report, 'Australia as a financial centre: Building on our strengths.'

The CCIV creates a universally recognisable and preferred corporate structure for collective investment, while providing efficient tax treatment for offshore investors.

Challenger is a strong supporter of the CCIV, which we believe will be a significant for Australian funds management industry in the Asia region. Australia has the potential to be a regional leader in investment management given its enviable social, legal and governance environment, and the CCIV regime will support this.

Challenger is in a strong position to play a greater role in the Asia region, through exporting our funds management and other services expertise to Asia's rapidly expanding middle class. Challenger has high quality investment capability across all asset classes, and in line with its growth strategy, Challenger will leverage the CCIV to distribute these capabilities offshore.

[1] Mercer CFA Institute Global Pension Index 2021, page 28.

Life balance sheet

$m	1H22	FY21	1H21	FY20	1H20	FY19	1H19
Assets							
Life investment assets							
Cash and equivalents	2,092.1	1,396.6	2,083.3	3,002.7	760.0	361.0	1,518.3
Asset-backed securities	9,300.6	8,246.2	6,964.8	6,385.1	6,289.3	5,293.3	5,062.2
Corporate credit	5,638.4	6,775.4	5,773.0	4,582.8	5,907.4	6,805.5	5,434.0
Fixed income and cash (net)	**17,031.1**	**16,418.2**	**14,821.1**	**13,970.6**	**12,956.7**	**12,459.8**	**12,014.5**
Australian – Office	2,139.6	2,081.8	1,947.9	1,912.7	1,919.4	1,833.9	2,097.1
Australian – Retail	756.5	722.9	709.1	709.3	751.2	883.3	954.1
Australian – Industrial	225.8	199.3	189.5	187.5	193.3	185.2	180.4
Japanese	358.4	357.7	366.8	390.1	359.5	325.6	314.6
Other	103.0	105.8	102.9	92.5	114.4	154.0	193.2
Property (net)	**3,583.3**	**3,467.5**	**3,316.2**	**3,292.1**	**3,337.8**	**3,382.0**	**3,739.4**
Equity and infrastructure[1]	1,096.1	623.2	604.2	393.4	2,035.9	2,042.3	1,778.3
Alternatives[1]	1,226.4	1,054.3	892.5	647.2	1,338.8	1,126.3	1,092.1
Life investment assets	**22,936.9**	**21,563.2**	**19,634.0**	**18,303.3**	**19,669.3**	**19,010.4**	**18,624.3**
Other assets (including intangibles)	696.1	773.9	896.0	1,178.4	915.9	702.3	560.9
Total assets	**23,633.0**	**22,337.1**	**20,530.0**	**19,481.7**	**20,585.2**	**19,712.7**	**19,185.2**
Liabilities							
Life annuity book	14,092.5	13,669.9	12,769.7	12,581.2	12,845.3	12,870.2	12,323.7
Challenger Index Plus Fund liabilities	4,381.8	3,632.2	3,031.5	2,415.8	2,705.6	1,966.2	2,172.3
Subordinated debt	401.6	404.5	401.7	395.7	404.9	403.9	400.6
Challenger Capital Notes	872.7	872.7	892.5	805.0	805.0	805.0	805.0
Other liabilities	224.5	210.7	269.8	345.6	350.6	348.5	412.9
Total liabilities	**19,973.1**	**18,790.0**	**17,365.2**	**16,543.3**	**17,111.4**	**16,393.8**	**16,114.5**
Net assets	**3,659.9**	**3,547.1**	**3,164.8**	**2,938.4**	**3,473.8**	**3,318.9**	**3,070.7**

1 Commencing 1H21, Life's investment portfolio categories have been amended to more accurately reflect Life's portfolio composition. The equities and infrastructure categories were combined, and absolute return funds and insurance-related investments reclassified from equities to alternatives. Comparatives have been restated.

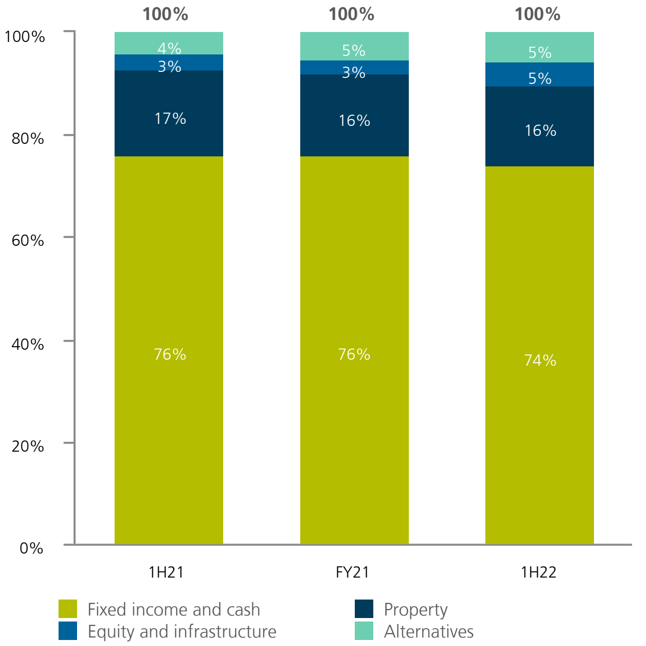
Life investment portfolio overview

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 annuity sales 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 Dec 2021	30 June 2021
Fixed income and cash	74%	76 %
Property	16%	16 %
Equity and infrastructure	5%	3 %
Alternatives	5%	5 %



Life investment portfolio repositioned

During the early stages of the COVID-19 pandemic (2H20), Life actively managed its investment portfolio and repositioned its portfolio to more defensive settings. These actions reduced Life's capital intensity and increased its excess regulatory capital position.

Exposure to equities, infrastructure and sub-investment grade fixed income was reduced and higher levels of liquidity were maintained.

Throughout FY21, the higher levels of cash and liquidity were redeployed into higher returning fixed income investments.

In 1H22, the only significant portfolio change has been a 2% decrease in the allocation to fixed income and a corresponding 2% increase in the equities and infrastructure allocation.

Fixed income portfolio overview

Life's fixed income and cash portfolio was $17.0b at 31 December 2021 and increased by 4% from $16.4b at 30 June 2021. The increase reflects growth in Life's investment assets, partially offset by the reallocation to equities and infrastructure during the half.

The fixed income and cash portfolio represented 74% of Life's investment assets at 31 December 2021, down from 76% at 30 June 2021. The fixed income portfolio comprises approximately 1,400 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, asset classes and geographies.

Life's policy liability cash flows provide the opportunity to invest in longer-term and less liquid fixed inc ome 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 2021, 79% of the fixed income portfolio was investment grade, which was unchanged for the half. However, within investment grade, the quality of the portfolio improved with BBB reduced (from 22% of the portfolio at 30 June 2021 to 18%), with increased holdings in cash and equivalents, AAA and A rated securities.

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 65% 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% and has remained attractive throughout the COVID-19 pandemic.

Fixed income credit default experience

Challenger's normalised growth assumption for fixed income is -35 bps, representing an allowance for credit default losses. In 1H22, the credit default loss recognised in investment experience was -2 bps (annualised), which is well below Challenger's 35 bps per annum assumption.

Over the past five financial years, the average credit default loss experience recognised in investment experience has been -14 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 2021		$m	% portfolio	
Liquids		2,092	12%	Government Bonds (net of repurchase agreements) and strategies earning a spread with limited credit risk
Asset-Backed Securities (ABS)	Residential Mortgage-Backed Securities (RMBS)	4,957	29%	RMBS expertise developed when Challenger was Australia's largest non-bank securitiser of RMBS (via Mortgage Management business sold in 2009)
	Other ABS	2,858	17%	Financing secured against underlying assets. Asset security includes motor vehicle, equipment and consumer finance
	Senior Secured Loans	1,344	8%	Senior debt secured by collateral and typically originated by Challenger
	Aviation Finance	98	1%	Secured commercial aircraft financing
	CMBS	44	—	Commercial mortgage-backed securities (CMBS)
Corporate Credit	Banks and Financials	979	6%	Corporate loans to banks, insurance companies and fund managers
	Infrastructure	1,186	7%	Long-dated inflation-linked bonds issued by Public Private Partnership projects and loans to infrastructure companies
	Senior Secured Loans	456	3%	Senior debt secured by collateral
	Non-Financial Corporates	2,182	13%	Traded commercial loans to non-financial corporates (includes exposures to retail, construction, hotels, media, mining and health care)
	Commercial Real Estate	835	5%	Loans secured against commercial real estate assets and typically originated by Challenger
Total		**17,031**	**100%**	

Table 2: Fixed income portfolio by credit rating

31 December 2021 ($m)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total $m
Liquids										
Government bonds[1]	669	—	—	—	—	**669**	—	—	**—**	**669**
Covered bonds	50	—	—	—	—	**50**	—	—	**—**	**50**
Cash & Equivalents[2]	1,373	—	—	—	—	**1,373**	—	—	**—**	**1,373**
Asset-Backed Securities										
RMBS	—	2,846	868	621	399	**4,734**	139	84	**223**	**4,957**
Other ABS	—	1,330	404	267	251	**2,252**	442	164	**606**	**2,858**
Senior Secured Bank Loans	—	572	136	73	298	**1,079**	252	13	**265**	**1,344**
Aviation Finance	—	—	—	29	21	**50**	25	23	**48**	**98**
CMBS	—	—	—	6	33	**39**	4	1	**5**	**44**
Corporate Credit										
Banks and Financials	—	—	16	234	557	**807**	133	39	**172**	**979**
Infrastructure	—	—	113	373	439	**925**	177	84	**261**	**1,186**
Senior Secured Loans	—	—	—	—	2	**2**	20	434	**454**	**456**
Non-Financial Corporates	—	4	15	100	647	**766**	512	904	**1,416**	**2,182**
Commercial Real Estate	—	53	3	338	331	**725**	85	25	**110**	**835**
Total	**2,092**	**4,805**	**1,555**	**2,041**	**2,978**	**13,471**	**1,789**	**1,771**	**3,560**	**17,031**
Fixed income portfolio (%)	12%	28%	9%	12%	18%	**79%**	11%	10%	21%	**100%**
Average duration (years)	—	1.9	2.8	3.8	3.8	**2.9**	3.5	3.8	3.6	**3.0**

31 December 2021 (%)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total %
Liquids										
Government bonds[1]	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Covered bonds	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Cash & Equivalents[2]	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Asset-Backed Securities										
RMBS	—	57%	18%	13%	8%	**96%**	3%	1%	4%	**100%**
Other ABS	—	47%	14%	9%	9%	**79%**	15%	6%	21%	**100%**
Senior Secured Bank Loans	—	43%	10%	5%	22%	**80%**	19%	1%	20%	**100%**
Aviation Finance	—	—	—	30%	21%	**51%**	26%	23%	49%	**100%**
CMBS	—	—	—	14%	75%	**89%**	9%	2%	11%	**100%**
Corporate Credit										
Banks and Financials	—	—	2%	24%	56%	**82%**	14%	4%	18%	**100%**
Infrastructure	—	—	10%	31%	37%	**78%**	15%	7%	22%	**100%**
Senior Secured Loans	—	—	—	—	1%	**1%**	4%	95%	99%	**100%**
Non-Financial Corporates	—	—	—	—	—	**—**	23%	41%	64%	**100%**
Commercial Real Estate	—	—	—%	40%	41%	**87%**	10%	3%	13%	**100%**
Total	**12%**	**28%**	**9%**	**12%**	**18%**	**79%**	**11%**	**10%**	**21%**	**100%**

[1] Gross Government Bonds are shown net of $3,531m of Australian Government Bonds and $1,841m of Australian Semi-government Bonds, that are held via repurchase agreements. Government Bonds refinanced with repurchase agreements are used to hedge movements in interest rates. Refer to page 44 for more detail.
[2] Includes strategies earning a spread with limited credit risk.

Table 3: Fixed income portfolio by rating type

31 December 2021 ($m)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total $m
Liquids										
Externally rated	2,092	—	—	—	—	**2,092**	—	—	—	**2,092**
Internally rated	—	—	—	—	—	**—**	—	—	—	**—**
Asset-Backed Securities										
Externally rated	—	4,599	1,363	774	465	**7,201**	388	133	521	**7,722**
Internally rated	—	149	45	222	537	**953**	474	152	626	**1,579**
Corporate Credit										
Externally rated	—	56	145	993	1,830	**3,024**	624	1,087	1,711	**4,735**
Internally rated	—	1	2	52	146	**201**	303	399	702	**903**
Total	**2,092**	**4,805**	**1,555**	**2,041**	**2,978**	**13,471**	**1,789**	**1,771**	**3,560**	**17,031**
Externally rated	100%	97%	97%	87%	77%	**91%**	57%	69%	**63%**	**85%**
Internally rated	—	3%	3%	13%	23%	**9%**	43%	31%	**37%**	**15%**

31 December 2021 ($m)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total %
Liquids										
Externally rated	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Internally rated	—	—	—	—	—	**—**	—	—	**—**	**—**
Asset-Backed Securities										
Externally rated	—	59%	18%	10%	6%	**93%**	5%	2%	**7%**	**100%**
Internally rated	—	9%	3%	14%	34%	**60%**	30%	10%	**40%**	**100%**
Corporate Credit										
Externally rated	—	1%	3%	21%	39%	**64%**	13%	23%	**36%**	**100%**
Internally rated	—	—	—	6%	16%	**22%**	34%	44%	**78%**	**100%**
Total	12%	28%	9%	12%	18%	**79%**	11%	10%	**21%**	**100%**

Table 4: Fixed income portfolio by industry sector

31 December 2021 ($m)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total $m
Industrials and consumers	—	2,017	579	485	1,199	**4,280**	1,154	1,444	**2,598**	**6,878**
Residential property	—	2,735	818	577	410	**4,540**	143	86	**229**	**4,769**
Banks, financials & insurance	764	—	30	250	606	**1,650**	141	76	**217**	**1,867**
Government	669	—	—	—	—	**669**	—	—	**—**	**669**
Commercial property	—	53	2	356	308	**719**	85	27	**112**	**831**
Infrastructure and utilities	—	—	113	373	438	**924**	177	84	**261**	**1,185**
Other	659	—	13	—	17	**689**	89	54	**143**	**832**
Total	2,092	4,805	1,555	2,041	2,978	**13,471**	1,789	1,771	**3,560**	**17,031**

31 December 2021 (%)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total %
Industrials and consumers	—	29%	8%	8%	17%	**62%**	17%	21%	**38%**	**100%**
Residential property	—	57%	17%	12%	9%	**95%**	3%	2%	**5%**	**100%**
Banks, financials & insurance	41%	—	2%	13%	32%	**88%**	8%	4%	**12%**	**100%**
Government	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Commercial property	—	6%	—	43%	37%	**86%**	10%	3%	**13%**	**99%**
Infrastructure and utilities	—	—	10%	31%	37%	**78%**	15%	7%	**22%**	**100%**
Other	79%	—	2%	—	2%	**83%**	11%	6%	**17%**	**100%**
Total	**12%**	**28%**	**9%**	**12%**	**18%**	**79%**	**11%**	**10%**	**21%**	**100%**

Table 5: Fixed income portfolio by geography and credit rating

31 December 2021 ($m)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total $m
Australia	1,224	3,713	1,014	1,440	1,870	**9,261**	950	884	**1,834**	**11,095**
United States	828	464	69	247	681	**2,289**	699	760	**1,459**	**3,748**
United Kingdom	—	200	176	101	117	**594**	5	3	**8**	**602**
Europe	3	114	226	123	236	**702**	68	62	**130**	**832**
New Zealand	—	314	68	130	66	**578**	61	47	**108**	**686**
Rest of world	37	—	2	—	8	**47**	6	15	**21**	**68**
Total	**2,092**	**4,805**	**1,555**	**2,041**	**2,978**	**13,471**	**1,789**	**1,771**	**3,560**	**17,031**

31 December 2021 (%)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total %
Australia	11%	33%	9%	13%	17%	**83%**	9%	8%	**17%**	**100%**
United States	22%	12%	2%	7%	18%	**61%**	19%	20%	**39%**	**100%**
United Kingdom	—	34%	29%	17%	19%	**99%**	1%	—	**1%**	**100%**
Europe	—	14%	27%	15%	28%	**84%**	8%	8%	**16%**	**100%**
New Zealand	—	45%	10%	19%	10%	**84%**	9%	7%	**16%**	**100%**
Rest of the world	54%	—	3%	—	12%	**69%**	9%	22%	**31%**	**100%**
Total	**12%**	**28%**	**9%**	**12%**	**18%**	**79%**	**11%**	**10%**	**21%**	**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 $3.6b (net of debt) at 31 December 2021 and increased by 3% in 1H22 as a result of property revaluation gains. There were no direct property purchases or disposals during the half year.

Property represented 16% of Life's investment portfolio at 31 December 2021, unchanged from 16% at 30 June 2021.

Life's property portfolio is mainly focused on domestic properties providing long-term income streams. Australian properties accounted for 90% 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.

As a result of the COVID-19 pandemic, all properties were independently valued in June 2020 (FY20), December 2020 (1H21) and 30 June 2021 (2H21). With the property market conditions stabilising, Challenger has returned to its practice of having 50% of the portfolio independently valued each half year. In 1H22, independent valuations were obtained for 55% of the direct property portfolio.

For 1H22, the valuation of properties increased as follows:

- Australian office +2.1%;
- Australian retail +4.2%;
- Australian industrial +12.4%; and
- Japanese portfolio +0.1%.

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 60% of the portfolio, with the Federal and State governments a major tenant, accounting for ~58% of 1H22 gross office rental income[1].

Australian direct retail assets account for 21% 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 or major Australian banks or essential services.

The weighted average capitalisation rate on Life's Australian direct portfolio[2] was 5.45% at 31 December 2021, tightening 19 bps from 2H21.

Property includes a net $358m exposure to Japanese property (10% of the portfolio), consisting of suburban shopping centres focused on non-discretionary retailing. Over half of the Japanese rental income comes from supermarkets or pharmacies. The valuation of the Japanese portfolio was stable in 1H22.

The property portfolio generates long-term cash flows to match long-term liabilities, with a weighted average lease expiry of 5.5 years and 49% of leasing area having contracted leases expiring in FY26 and beyond. The portfolio had an occupancy rate of 93% at 31 December 2021, which was up 1% since 30 June 2021.

Approximately 65% of contracted leases have either annual fixed increases or inbuilt increases based on inflation or market outcomes (e.g. CPI).

During the COVID-19 pandemic, Life has been supporting its commercial property tenants. In FY21, rental abatements and rent deferrals were provided to tenants in line with the regulated framework in each State or Territory.

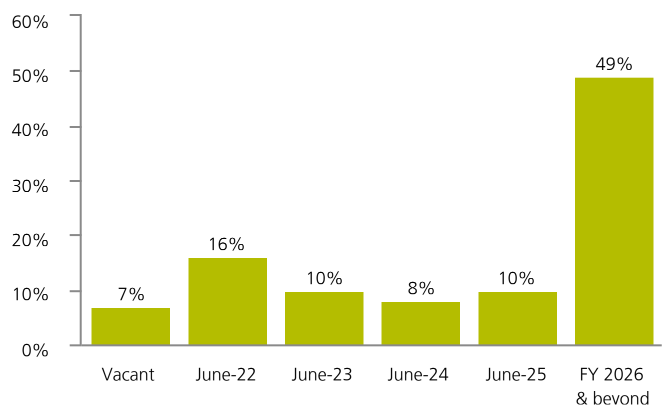
Given the ongoing nature of the COVID-19 pandemic and evolving restrictions and economic impacts, Life will continue to work with its tenants to support them, recognising any industry led initiatives and in line with Government guidelines. However, Challenger has reduced its rental expectation for FY22, which has been fully reflected in Challenger's FY22 normalised net profit before tax guidance (refer to page 14 for detail).

Full details of Life's property portfolio are listed on pages 39 to 42.

Property portfolio summary

% of total portfolio	1H22	1H21
Australian office	60%	59%
Australian retail	21%	22%
Australian industrial	6%	6%
Other	3%	2%
Australian total	**90%**	**89%**
Japanese retail	10%	11%
Other (including offshore)	0%	0%
Total	**100%**	**100%**

Portfolio lease expiry overview[3]



[1] Represents total gross passing Government income relative to direct property portfolio.
[2] Excluding the Victorian County Court.
[3] Direct property portfolio and jointly held assets only and development assets.

Direct property portfolio overview[1]

31 December 2021		Office	Retail	Industrial	Total
Total rent (%)[2]		52%	41%	7%	100%
WALE[3] (years)		5.3	6.1	3.6	5.5
Tenant credit ratings					
	AAA	19%	—	—	19%
	AA	15%	1%	—	16%
	A	1%	1%	—	2%
	BBB	2%	9%	3%	14%
	BB	6%	13%	4%	23%
	B or below	3%	6%	—	9%
	Not rated	1%	9%	—	10%
	Vacant	5%	2%	—	7%
	Total	**52%**	**41%**	**7%**	**100%**
% of total gross net	Investment grade	37%	11%	3%	51%
	Non-investment grade	10%	28%	4%	42%
	Vacant	5%	2%	—	7%

1 Direct property portfolio and jointly held assets only and excludes Australian REITs and development assets.
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 2021		Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate 1H22 (%)[3]	Last external valuation date
Australia						
Office						
	6 Chan Street (formerly DIBP Building), ACT	01 Dec 01	127.5	280.0	4.63	31 Dec 21
	14 Childers Street, ACT	01 Dec 17	100.4	85.0	6.25	31 Dec 21
	35 Clarence Street, NSW	15 Jan 15	156.7	238.3	5.00	30 Jun 21
	45 Benjamin Way (formerly ABS Building), ACT	01 Jan 00	150.4	260.0	5.13	31 Dec 21
	82 Northbourne Avenue, ACT	01 Jun 17	62.3	51.3	5.63	30 Jun 21
	215 Adelaide Street, QLD	31 Jul 15	256.9	229.0	5.88	31 Dec 21
	565 Bourke Street, VIC	28 Jan 15	111.2	154.3	5.00	31 Dec 21
	839 Collins Street, VIC	22 Dec 16	212.0	246.0	4.75	30 Jun 21
	County Court, VIC	30 Jun 00	219.5	388.0	n/a[4]	31 Dec 21
	Discovery House, ACT	28 Apr 98	104.4	167.3	5.00	30 Jun 21
	Executive Building, TAS	30 Mar 01	35.1	49.0	5.75	30 Jun 21
Retail						
	Bunbury Forum, WA	03 Oct 13	158.1	79.1	7.00	31 Dec 21
	Channel Court, TAS	21 Aug 15	88.1	83.6	7.13	30 Jun 21
	Gateway, NT	01 Jul 15	124.4	105.4	6.34	31 Dec 21
	Golden Grove, SA	31 Jul 14	160.1	153.0	6.13	30 Jun 21
	Karratha, WA	28 Jun 13	57.6	49.0	7.25	31 Dec 21
	Kings Langley, NSW	29 Jul 01	16.6	27.5	5.25	31 Dec 21
	Lennox, NSW	27 Jul 13	66.0	70.0	6.50	30 Jun 21
	North Rocks, NSW	18 Sep 15	186.9	189.0	5.75	31 Dec 21
Industrial						
	21 O'Sullivan Circuit, NT	27 Jan 16	47.8	30.2	7.65	30 Jun 21
	31 O'Sullivan Circuit, NT	27 Jan 16	29.5	28.6	7.15	30 Jun 21
	Cosgrave Industrial Park, Enfield, NSW	31 Dec 08	91.4	167.0	4.00	31 Dec 21
Total Australia			**2,562.9**	**3,130.6**	**5.45**	

1 Acquisition date represents the date of Challenger Life Company Limited's (CLC's) initial acquisition or consolidation of the investment vehicle holding the asset.
2 Total cost represents the original acquisition cost plus additions less full and partial disposals since acquisition date.
3 The capitalisation rate is the rate at which net market income is capitalised to determine the value of the property. The rate is determined with regard to market evidence.
4 The carrying value has been determined by references to the proposed sale agreement rather than the capitalisation of net market income.

Direct property investments

31 December 2021		Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate 1H22 (%)[3]	Last external valuation date
Japan						
Retail						
	Aeon Kushiro	31 Jan 10	30.5	34.5	5.40	31 Dec 21
	Carino Chitosedai	31 Jan 10	118.4	126.7	4.50	31 Dec 21
	Carino Tokiwadai	31 Jan 10	77.6	75.1	4.60	30 Jun 21
	DeoDeo Kure	31 Jan 10	32.2	31.1	5.50	30 Jun 21
	Fitta Natalie Hatsukaichi	28 Aug 15	11.7	13.5	5.80	31 Dec 21
	Izumiya Hakubaicho	31 Jan 10	69.6	70.9	4.80	31 Dec 21
	Kansai Super Saigo	31 Jan 10	13.3	13.1	5.50	31 Dec 21
	Kojima Nishiarai	31 Jan 10	12.2	14.6	4.10	30 Jun 21
	Kotesashi Towers	28 Nov 19	25.2	21.5	5.07	31 Dec 21
	Life Asakusa	31 Jan 10	27.9	34.9	4.20	30 Jun 21
	Life Higashi Nakano	31 Jan 10	32.9	36.5	4.30	30 Jun 21
	Life Nagata	31 Jan 10	25.2	27.6	4.90	30 Jun 21
	MaxValu Tarumi	28 Aug 15	17.0	18.2	5.70	31 Dec 21
	Seiyu Miyagino	31 Jan 10	9.8	10.5	5.20	30 Jun 21
	TR Mall Ryugasaki	30 Mar 18	86.7	90.1	5.50	31 Dec 21
	Valor Takinomizu	31 Jan 10	27.4	23.5	5.80	31 Dec 21
	Valor Toda	31 Jan 10	42.5	41.4	5.20	30 Jun 21
	Yaoko Sakato Chiyoda	31 Jan 10	19.8	20.8	4.70	31 Dec 21
	Yorktown Toride	05 Mar 20	32.0	25.8	5.10	30 Jun 21
Industrial						
	Aeon Matsusaka XD	26 Sep 19	14.7	13.6	5.60	30 Jun 21
Total Japan			**726.6**	**743.9**	**0.05**	
Europe						
Retail						
	Aulnay sous Bois, Avenue de Savigny, France	31 Dec 08	20.3	9.7	7.00	31 Dec 21
Total Europe			**20.3**	**9.7**	**7.00**	
Total Overseas			**746.9**	**753.6**	**4.98**	
Total direct portfolio investments			**3,309.8**	**3,884.2**	**5.35**	

1 Acquisition date represents the date of Challenger Life Company Limited's (CLC's) initial acquisition or consolidation of the investment vehicle holding the asset.
2 Total cost represents the original acquisition cost plus additions less full and 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 $1.1b at 31 December 2021 and increased by 76% ($473m) from 30 June 2021.

The increase in equities and infrastructure in 1H22 predominantly reflects equities purchased, particularly in low beta equity investments (+$490m).

Equity and infrastructure represented 5% of Life's total investment assets at 31 December 2021, up from 3% at 30 June 2021.

Challenger's equity investments comprise beta and low beta investments. For beta investments, returns are correlated to the MSCI World Net Daily Total Return Index. For low beta investments, over the long term, Life expects to participate in 40% of monthly equity market sell-offs and participate in 60% of monthly equity market rallies, resulting in an equity market beta for the strategy of approximately 0.5 times.

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 64% of infrastructure investments with the remainder diversified across geographic regions and sectors.

Equity and infrastructure portfolio

31 Dec 2021	Domestic	Offshore	Total
Equity beta	65	72	**137**
Low beta	131	676	**807**
Infrastructure	97	55	**152**
Total equity & infrastructure	**293**	**803**	**1,096**

30 Jun 2021	Domestic	Offshore	Total
Equity beta	38	102	**140**
Low beta	68	249	**317**
Infrastructure	117	49	**166**
Total equity & infrastructure	**223**	**400**	**623**

Alternatives portfolio overview

The alternatives portfolio includes absolute return funds and insurance-related investments. These investments are expected to have a low correlation to listed equity markets.

The absolute return portfolio includes systematic global macro funds and market-neutral long/short equity funds. 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.

For insurance-related investments, there is no appropriate index that can be used to track total returns.

Life's alternatives portfolio was $1.2b at 31 December 2021 and increased by 16% ($172m) from 30 June 2021. The increase was driven by an increase in absolute return fund and general insurance-related investments and valuation gains.

Alternatives portfolio

31 Dec 2021	Domestic	Offshore	Total
Absolute return funds	—	932	932
General insurance	—	204	204
Life insurance	—	90	90
Total alternatives	**—**	**1,226**	**1,226**

30 Jun 2021	Domestic	Offshore	Total
Absolute return funds	—	799	799
General insurance	—	155	155
Life insurance	—	100	100
Total alternatives	**—**	**1,054**	**1,054**

Challenger Life Company Limited (CLC) debt facilities

$m	1H22	FY21	1H21	FY20	1H20	FY19	1H19
Repurchase agreements	3,542.5	4,111.1	4,966.3	5,393.4	4,460.0	4,448.5	4,397.4
Controlled property debt	382.2	394.5	420.4	458.0	455.0	466.6	476.9
Subordinated debt	400.0	404.5	401.7	395.7	404.9	403.9	400.6
Challenger Capital Notes	872.7	872.7	892.5	805.0	805.0	805.0	805.0
Infrastructure debt	175.7	179.3	182.6	185.8	189.0	192.0	194.7
Other finance	0.7	0.7	0.7	0.7	0.7	13.2	13.9
Total CLC debt facilities	**5,373.8**	**5,962.8**	**6,864.2**	**7,238.6**	**6,314.6**	**6,329.2**	**6,288.5**

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 properties and infrastructure investments.

Life debt facilities decreased by $0.6b during 1H22 due to a decrease in repurchase agreements used to hedge interest rate movements (down $0.6b).

Repurchase agreements

Repurchase agreements at 31 December 2021 were $3.5b, down from $4.1b at 30 June 2021.

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 and the Challenger Index Plus liabilities.

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

Subordinated debt

In November 2017, Challenger Life Company Limited (CLC) issued $400m of Tier 2 subordinated notes. The subordinated notes fully qualify as Tier 2 regulatory capital under APRA's prudential standards and are floating rate notes, paying interest at a margin of 2.10% above the 90-day Bank Bill rate.

The subordinated notes mature in November 2042, with CLC having the option to redeem the notes in November 2022, subject to APRA approval. Challenger intends to issue a replacement security at the call date in November 2022, which would be subject to APRA approval.

The subordinated notes qualify 100% as Tier 2 regulatory capital until November 2038.

The subordinated notes include a holder conversion option, allowing the noteholder to convert the notes into Challenger ordinary shares in November 2024 if CLC has not already called the subordinated notes in November 2022.

If CLC exercises its option to redeem, there will be no conversion of subordinated debt to Challenger ordinary shares and no subsequent shareholder dilution.

Capital Notes

Over the past seven years, Challenger has issued three separate tranches of subordinated, unsecured convertible notes (Challenger Capital Notes 1, Challenger Capital Notes 2 and Challenger Capital Notes 3), with proceeds used to fund qualifying CLC Additional Tier 1 regulatory capital.

For Challenger Capital Notes, Challenger has an option to redeem or repurchase all or some of the Challenger Capital Notes for their face value at a future date and it is not Challenger's intention these debt instruments will convert into ordinary shares.

Challenger Capital Notes 1 (ASX code: CGFPA)

In October 2014, Challenger issued Challenger Capital Notes 1 to the value of $345m. Challenger Capital Notes 1 pay a margin of 3.40% above the 90-day bank bill rate, with the total distribution reduced by available franking credits.

Challenger intended to exercise its option to redeem the Capital Notes 1 and concurrently launch a replacement Notes offer on the Optional Exchange Date of 25 May 2020. However, investment markets leading up to this date were significantly disrupted and volatile in the early stages of the COVID-19 pandemic.

Given the unprecedented market conditions, APRA confirmed Challenger could repurchase all or some of the Challenger Capital Notes 1 on any future quarterly distribution date up to 25 May 2022.

In October 2020, Challenger announced a new Challenger Capital Notes Offer (Challenger Capital Notes 3) with the proceeds used to repay Challenger Capital Notes 1.

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 repurchase Challenger Capital Notes 1.

It was Challenger's intention to fully repurchase all Challenger Capital Notes 1 with the proceeds of Challenger Capital Notes 3; however, noteholders were not required to participate in the repurchase invitation given the Optional Exchange Date had passed. As a result, at 31 December 2020, approximately $47m of Challenger Capital Notes 1 remained on issue.

In April 2021, Challenger announced an invitation to noteholders to repurchase the remaining $47m of Challenger Capital Notes 1 on issue, with participation by noteholders being optional. Following completion of the repurchase invitation, approximately $28m of Challenger Capital Notes 1 remain on issue.

Challenger Capital Notes 1 will continue to trade on ASX until Wednesday 25 May 2022, at which point Challenger must convert any Challenger Capital Notes 1 that remain outstanding into Challenger ordinary shares in accordance with the mandatory conversion conditions under the Challenger Capital Notes 1 Terms.

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 90-day bank bill rate, with the total distribution reduced by available franking credits.

Challenger Capital Notes 2 are convertible to ordinary shares at any time before May 2025 on the occurrence of certain events, and mandatorily convert to ordinary shares thereafter, in both cases subject to meeting certain conditions.

Challenger may choose to redeem or resell (rather than convert) Challenger Capital Notes 2 on the occurrence of some of the events referred to above, including on the Optional Exchange Date of 22 May 2023 (subject to certain conditions being met).

If Challenger exercises its option to redeem or resell, there will be no conversion of Challenger Capital Notes 2 to Challenger ordinary shares and no subsequent shareholder dilution.

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 90-day bank bill rate, with the total distribution reduced by available franking credits.

Challenger Capital Notes 3 are convertible to ordinary shares at any time before May 2028 on the occurrence of certain events, and mandatorily convert to 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).

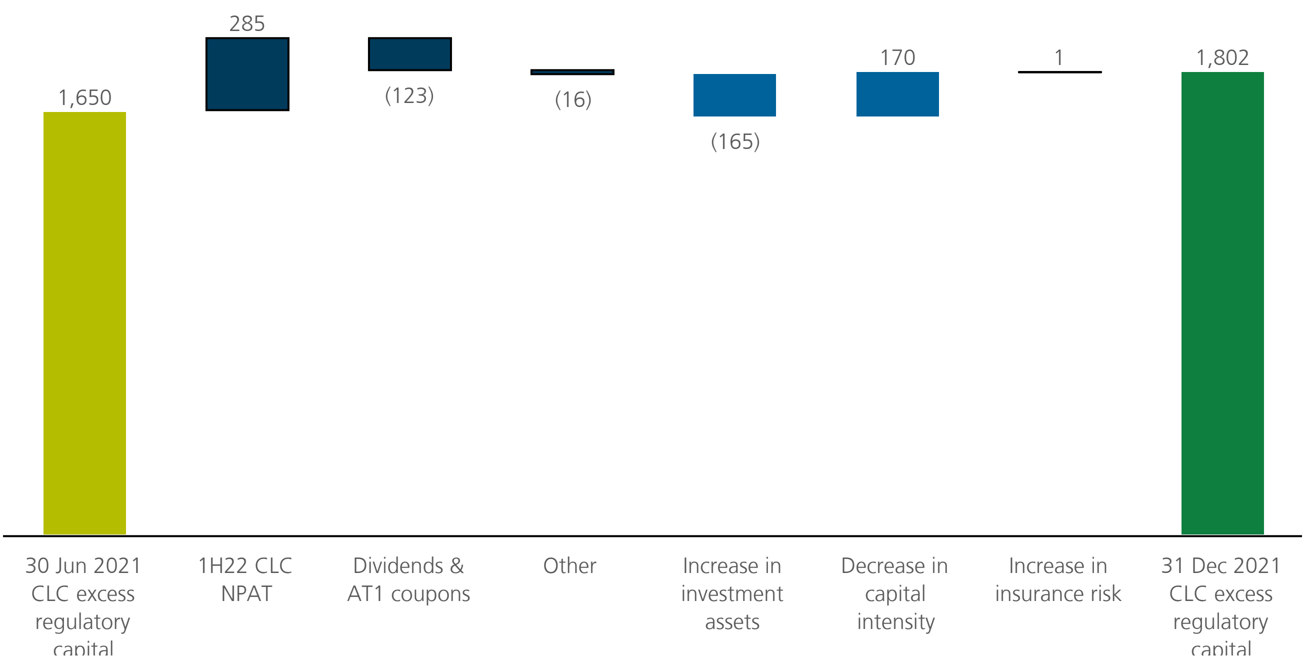
If Challenger exercises its option to redeem or resell, there will be no conversion of Challenger Capital Notes 3 to Challenger ordinary shares and no subsequent shareholder dilution.

Challenger Life Company Limited (CLC) regulatory capital

$m	1H22	FY21	1H21	FY20	1H20	FY19	1H19
CLC regulatory capital							
Common Equity Tier 1 (CET1) regulatory capital	3,120.3	2,971.2	2,622.9	2,337.0	2,811.3	2,789.4	2,517.6
Additional Tier 1	872.7	872.7	892.5	805.0	805.0	805.0	805.0
Tier 2 regulatory capital – subordinated debt[1]	402.4	405.4	402.7	396.7	406.2	405.3	402.2
CLC total regulatory capital base	**4,395.4**	**4,249.3**	**3,918.1**	**3,538.7**	**4,022.5**	**3,999.7**	**3,724.8**
CLC Prescribed Capital Amount (PCA)							
Asset risk charge	2,470.6	2,481.8	2,290.2	1,842.8	2,523.6	2,539.5	2,355.2
Insurance risk charge	233.5	227.0	213.8	199.5	164.6	135.3	83.3
Operational risk charge	60.7	57.9	54.4	56.5	53.4	51.8	47.5
Aggregation benefit	(171.0)	(167.4)	(156.7)	(144.8)	(125.4)	(104.0)	(64.8)
CLC PCA	**2,593.8**	**2,599.3**	**2,401.7**	**1,954.0**	**2,616.2**	**2,622.6**	**2,421.2**
CLC excess over PCA	**1,801.6**	**1,650.0**	**1,516.4**	**1,584.7**	**1,406.3**	**1,377.1**	**1,303.6**
PCA ratio (times)	1.69	1.63	1.63	1.81	1.54	1.53	1.54
Tier 1 ratio (times)	1.54	1.48	1.46	1.61	1.38	1.37	1.37
CET1 capital ratio (times)	1.20	1.14	1.09	1.20	1.07	1.06	1.04
Capital intensity ratio (%)[2]	11.3%	12.1%	12.2%	10.7%	13.3%	13.8%	13.0%

1 1H22 Tier 2 regulatory capital - subordinated debt ($402.4m) differs to the Group balance sheet ($401.6m) due to accrued interest and amortised costs.
2 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 2021 was $4.4b and increased by $0.1b in 1H22. The increase reflects:

- CLC's statutory profit for the period which includes investment experience gains ($282m); partially offset by
- dividend and coupon payments on Additional Tier 1 instruments (-$123m) and other adjustments (-$16m).

CLC's Prescribed Capital Amount (PCA)

CLC's PCA at 31 December 2021 was $2.6b and was stable on 2H21, reflecting:

- growth in investment assets (+$165m); which was offset by
- a reduction in capital intensity (-$170m) (refer below).

Reduction in capital intensity

CLC's capital intensity ratio, which is calculated as CLC PCA divided by Life's closing investment assets, decreased from 12.1% at 30 June 2021 to 11.3% at 31 December 2021.

The reduction in capital intensity relates to a reduction in the capital intensity for equities. The asset risk charge for equities is based on shocking the trailing S&P/ASX 200 dividend yield. Following an increase in the S&P/ASX 200 dividend yield and a return to more normal levels, the higher dividend yield reduced the asset risk charge for equities.

CLC's excess capital position

CLC's excess capital above PCA at 31 December 2021 was $1.8b and increased by $152m in 1H22 as a result of the increase in CLC's regulatory capital base.

CLC's capital ratios at 31 December 2021 were as follows:

- PCA ratio 1.69 times – up 0.06 times from 1.63 times at 30 June 2021;
- Common Equity Tier 1 (CET1) capital ratio 1.20 times – up 0.06 times from 1.14 times at 30 June 2021; and
- Total Tier 1 capital ratio 1.54 times – up 0.06 times from 1.48 times at 30 June 2021.

APRA's prudential standards require Total Tier 1 capital to be at least 80% of the PCA and CET1 capital to be at least 60% of the PCA. Both Challenger's Total Tier 1 capital ratio (1.54 times) and CET1 capital ratio (1.20 times) are well in excess of APRA's minimum requirements.

Target surplus level of excess capital

CLC maintains a target level of capital representing APRA's PCA. 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 and economic circumstances. The target surplus produced by these internal capital models for 1H22 corresponded to a PCA ratio of between 1.3 times to 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 capital position relative to target.

Given CLC's current mix of capital, the metric that generates the worst outcome relative to target forms CLC's constraining target. At 31 December 2021, CLC's constraining target was CET1. The target surplus produced by the internal capital models currently corresponds to a CET1 ratio of between 0.8 times to 1.2 times. This ratio may change over time.

Additional Tier 1 regulatory capital and subordinated debt

In November 2020, Challenger issued Challenger Capital Notes 3, to the value of $385m with the majority of the proceeds ($317m) used to redeem Challenger Capital Notes 1. As a result, CLC's Additional Tier 1 increased by $68m in FY21.

In November 2017, CLC issued new Tier 2 subordinated notes ($400m), which fully qualify as Tier 2 regulatory capital under APRA's prudential standards.

Further details on Challenger's convertible debt instruments are included from page 44.

Profit and equity sensitivities

$m	Change in variable	Profit/(loss) after tax 1H22	Change in equity 1H22	Profit/(loss) after tax FY21	Change in equity FY21
Credit risk					
Fixed income assets (change in credit spreads)[1]	+50bps	(144.3)	(144.3)	(146.9)	(146.9)
	-50bps	144.3	144.3	146.9	146.9
Policy liabilities (illiquidity premium change in credit spreads)	+50bps	77.7	77.7	78.9	78.9
	-50bps	(77.7)	(77.7)	(78.9)	(78.9)
Property risk					
Direct and indirect properties	+1%	25.1	25.1	24.3	24.3
	-1%	(25.1)	(25.1)	(24.3)	(24.3)
Equity and infrastructure risk					
Equity and infrastructure investments	+10%	76.7	76.7	43.6	43.6
	-10%	(76.7)	(76.7)	(43.6)	(43.6)
Alternatives risk					
Alternatives investments	+10%	85.9	85.9	73.8	73.8
	-10%	(85.9)	(85.9)	(73.8)	(73.8)
Life Insurance risk					
Mortality, morbidity and longevity[2]					
Life insurance contract liabilities	+50%	(28.1)	(28.1)	(29.9)	(29.9)
	-50%	28.1	28.1	29.9	29.9
Interest rate risk					
Change in interest rates	+100bps	4.5	4.5	1.5	1.5
	-100bps	(4.5)	(4.5)	(1.5)	(1.5)
Foreign exchange risk					
British pound	+10%	0.1	0.1	—	—
	-10%	(0.1)	(0.1)	—	—
US dollar	+10%	0.1	0.1	0.4	0.4
	-10%	(0.1)	(0.1)	(0.4)	(0.4)
Euro	+10%	—	—	—	—
	-10%	—	—	—	—
Japanese yen	+10%	0.2	0.4	0.2	0.8
	-10%	(0.2)	(0.4)	(0.2)	(0.8)

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.

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 2021. If using these sensitivities as forward looking, an allowance for changes post-31 December 2021, such as sales, asset growth and changes in asset allocation, 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 62 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, 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.

CLC is required under APRA prudential standards to maintain regulatory capital in order to ensure that under a range of adverse scenarios it can continue to meet its regulatory and contractual obligations to customers.

Challenger is exposed to a variety of financial risks, including market risk (credit spread risk, foreign exchange risk, interest rate risk, equity 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 long-term 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 life insurance risk.

Accept exposure (subject to appropriate returns)	**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 strategies	• 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 to minimise 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.

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 2021, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised loss/gain of $144m (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 2021, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised gain/loss of $78m (after-tax) on the fair 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 held investment properties and property securities.

The property sensitivities included on page 48 show the impact of a change in property valuations at balance date and are based on Life's gross property investments of $4.0b (net investments of $3.6b plus debt of $0.4b).

A 1% move in the direct and indirect property portfolio at 31 December 2021 would result in a $25m (after-tax) movement in property valuations.

Equity and infrastructure risk

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

Equity risk sensitivity

The equity and infrastructure risk sensitivities included on page 48 show a 10% move in the equity portfolio at 31 December 2021 would have resulted in a $77m (after-tax) movement in the valuation of equity investments.

Life has strategies in place to reduce the impact of investment markets on the valuation of its equity investments, including a collar strategy. As a result, a 10% movement in equity markets is expected to have a smaller impact on the valuation of Life's 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, both expected to have a low correlation to listed equity markets.

Challenger holds alternative investments as part of its investment portfolio in order to provide diversification.

Alternatives sensitivity

The alternatives risk sensitivity on page 48 assumes a 10% market move in the alternatives portfolio at 31 December 2021 would have impacted the valuation by $86m (after-tax).

Liquidity risk

Liquidity risk is the risk 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 face 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. As a result, cash flows are well matched and continue 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 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 0.3% and 2.4% 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 25 years.

Mortality and longevity sensitivities

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

A 50% increase in the annual mortality improvement rates already assumed would increase the life expectancy of a male aged 65 from 25 years to 27 years and increase the policy liability valuation by $28m (after-tax).

Interest rate sensitivity

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

The sensitivities assume the change in variable occurs on 31 December 2021 and are based on assets and liabilities held at that date.

The 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, the interest rate sensitivities show Challenger's profit is not materially sensitive to changes in base interest 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 2021.

Foreign exchange risk

It is Challenger's policy to seek to hedge the exposure of all balance sheet items for movements in foreign exchange rates.

Currency exposure arises primarily in relation to Life's investments in Europe (including the United Kingdom), Japan and the United States. 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 minimise foreign currency exchange rate risk, Challenger enters into foreign currency derivatives to limit Challenger's exposure to currency movements.

Foreign exchange sensitivity

The impact of movements in foreign currencies on Challenger's profit and loss and balance sheet is set out on page 48. As a result of foreign currency derivatives in place, Challenger's profit and loss is not materially sensitive to movements in foreign currency rates.

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	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Fidante Partners							
Fidante Partners income[1]	63.1	52.3	45.1	39.4	42.0	39.4	43.8
Performance fees	2.4	5.5	4.6	11.4	3.5	1.0	2.5
Net income	**65.5**	**57.8**	**49.7**	**50.8**	**45.5**	**40.4**	**46.3**
CIP Asset Management							
CIP income[2]	32.7	30.2	31.6	29.6	32.2	34.3	28.9
Total net fee income	**98.2**	**88.0**	**81.3**	**80.4**	**77.7**	**74.7**	**75.2**
Personnel expenses	(34.9)	(34.0)	(29.2)	(32.2)	(31.7)	(32.9)	(31.9)
Other expenses	(18.2)	(18.3)	(16.8)	(18.4)	(18.1)	(17.0)	(17.2)
Total expenses	**(53.1)**	**(52.3)**	**(46.0)**	**(50.6)**	**(49.8)**	**(49.9)**	**(49.1)**
EBIT	**45.1**	**35.7**	**35.3**	**29.8**	**27.9**	**24.8**	**26.1**
Performance analysis							
Fidante Partners – income margin (bps)[3]	14.9	14.8	14.9	16.8	14.8	14.0	15.9
CIP Asset Management – income margin (bps)[3]	31.1	29.8	31.7	30.0	31.7	36.4	30.6
Funds Management – income margin (bps)[3]	18.0	17.9	18.8	20.2	19.0	19.5	19.3
Funds Management – FUM-based income margin (bps)[4]	16.7	16.2	16.6	16.6	15.5	15.6	15.8
Cost to income ratio	54.1%	59.4%	56.6%	62.9%	64.1%	66.8%	65.3%
Net assets – average[5]	264.3	260.3	251.4	242.9	232.5	221.8	212.3
ROE (pre-tax)	33.8 %	27.7%	27.8%	24.7%	23.8%	22.6%	24.4%
Fidante Partners	88,512	84,943	71,826	62,393	62,693	58,912	56,330
CIP Asset Management	20,779	20,881	19,416	19,042	20,153	20,117	18,684
Closing FUM – total	**109,291**	**105,824**	**91,242**	**81,435**	**82,846**	**79,029**	**75,014**
Fidante Partners	87,371	78,754	66,127	60,866	60,887	58,173	58,621
CIP Asset Management	20,869	20,481	19,763	19,550	20,170	19,042	18,747
Average FUM – total[5]	**108,240**	**99,235**	**85,890**	**80,416**	**81,057**	**77,215**	**77,368**
FUM and net flows analysis							
Fidante Partners	1,088.8	8,582.2	5,764.3	1,854.4	1,943.4	(2,590.3)	(1,045.8)
CIP Asset Management	(184.4)	1,105.9	659.1	(1,193.1)	(63.8)	1,129.0	68.7
Net flows	904.4	9,688.1	6,423.4	661.3	1,879.6	(1,461.3)	(977.1)
Distributions	(736.9)	(474.8)	(857.4)	(297.5)	(464.7)	(353.0)	(441.7)
Market-linked movement	3,299.0	5,368.9	4,241.0	(1,774.3)	2,401.9	5,829.2	(1,550.7)
Total FUM movement	**3,466.5**	**14,582.2**	**9,807.0**	**(1,410.5)**	**3,816.8**	**4,014.9**	**(2,969.5)**

[1] Fidante Partners income includes equity-accounted profits, distribution fees, administration fees, and Fidante Partners Europe transaction fees.
[2] CIPAM 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 and transaction fees) divided by average FUM.
[5] Calculated on a monthly basis.

Funds Management financial results

Funds Under Management and net flows

$m	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21
Funds Under Management					
Fidante Partners					
Equities	42,960	38,935	37,428	33,820	30,229
Fixed income	38,510	41,445	40,609	38,378	35,090
Alternatives	7,042	7,166	6,906	6,566	6,507
Total Fidante Partners	88,512	87,546	84,943	78,764	71,826
CIP Asset Management					
Fixed income	16,065	16,273	16,278	16,020	14,470
Property	4,714	4,614	4,603	4,910	4,946
Total CIP Asset Management	20,779	20,887	20,881	20,930	19,416
Total Funds Under Management	**109,291**	**108,433**	**105,824**	**99,694**	**91,242**
Average Fidante Partners	87,810	86,977	82,206	75,305	67,963
Average CIP Asset Management	20,811	20,932	21,042	20,032	20,190
Total average Funds Under Management[1]	**108,621**	**107,909**	**103,248**	**95,337**	**88,153**
Analysis of flows					
Equities	2,582	514	641	2,071	5
Fixed income	(2,835)	943	2,147	3,420	3,327
Alternatives	(147)	32	254	50	86
Total Fidante Partners	**(400)**	**1,489**	**3,042**	**5,541**	**3,418**
CIP Asset Management	(111)	(74)	(383)	1,489	(571)
Net flows	**(511)**	**1,415**	**2,659**	**7,030**	**2,847**

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

Reconciliation of total Group assets and Funds Under Management

$m	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21
Funds Management Funds Under Management	109,291	108,433	105,824	99,694	91,242
Life investment assets	22,937	22,012	21,563	20,796	19,634
Bank lending and financing assets	230	213	—	—	—
Adjustments to remove double counting of cross-holdings	(17,551)	(17,457)	(17,427)	(16,332)	(14,789)
Total Assets Under Management	**114,907**	**113,201**	**109,960**	**104,158**	**96,087**

Funds Management financial results

Funds Management focuses on building savings for retirement. As people work and save for retirement, the business supports them to build wealth and savings by providing investment strategies that seek to deliver superior investment returns.

Funds Management is one of Australia's fastest growing[1] and third largest active fund manager[2].

Funds Management funds under management (FUM) was $109 billion and increased from $28 billion ten years ago.

Growth in FUM can be attributed to the strength of Challenger's retail and institutional distribution platform, a market-leading business model focused on alignment with clients and strong long-term investment performance.

Funds Management invests across a broad range of asset classes, including fixed income, commercial property, Australian and global equities and alternative investments.

Funds Management comprises Fidante Partners and CIP Asset Management (CIPAM) and has operations in Australia,the United Kingdom, Europe, Japan and Singapore.

Fidante Partners has been successful in attracting and building successful active equity, active fixed income and alternative investment managers, while maintaining strong investment performance. Recognising Fidante Partners' distribution capability, for the second consecutive year Fidante Partners was awarded 2021 Distributor of the Year at the annual Zenith Fund Awards.

Fidante Partners is diversifying globally and has distribution platforms in the United Kingdom and Europe, Japan and recently opened an office in Singapore.

CIPAM principally originates and manages fixed income and commercial real estate, along with providing investment solutions for leading global and Australian institutions, including Challenger Life. Challenger is committed to growing the business and building on its breadth of investment expertise and superior fixed income investment returns.

EBIT and ROE

Funds Management EBIT was $45m and increased by $10m (28%) on 1H21. The increase in EBIT was due to higher FUM-based fee income (up $19m), with average FUM up $22b (up 26%), partially offset by lower performance fees (down $2m) and higher expenses (up $7m).

Funds Management ROE was 33.8% and increased by 600 bps from 27.8% in 1H21. ROE benefited from the 28% increase in EBIT.

Total net fee income

1H22 total net income was $98m (1H21 $81m) and comprised FUM-based fees of $91m (1H21 $72m), transaction fees of $5m (1H21 $5m) and performance fees of $2m (1H21 $4m).

1H22 FUM-based fees increased as a result of higher average FUM (up $22b) and a steady FUM-based margin of 16.7bps.

1H22 performance and transaction fees were $3m lower than 1H21.

Expenses

1H22 Funds Management expenses were $53m and increased by $7m (15%) on 1H21.

Personnel costs increased by $6m (20%), driven by an increase in full-time equivalent employees (up 6%) and include an investment in CIPAM's fixed income and Fidante Partners retail distribution capabilities.

Other expenses increased by $1m as result of higher professional services costs and costs associated with establishing the Singapore office.

The 1H22 cost to income ratio was 54.1% and improved by 250 bps due to growth in net fee income (up 21%), which exceeded the increase in expenses (up 15%).

Fidante Partners' net income

Fidante Partners' net fee income includes FUM-based distribution and administration fees, transaction fees from Fidante Partners Europe, performance fees and a share in the equity-accounted profits of boutique investment managers.

Fidante Partners' net income was $66m in 1H22 and increased by $16m (32%) on 1H21.

Fidante Partners' net income comprised:

- FUM-based income of $62m, up $17m (38%) on 1H21 as a result of a 32% increase in average FUM and an expansion in FUM-based margin (refer to below for more information);
- Performance fees of $2m, decreased by $2m on 1H21; and
- Transactions fees of $1m, increased by $1m on 1H21.

Fidante Partners' income margin (net income to average FUM) was 14.9bps and was unchanged from 1H21.

Fidante Partners 1H22 FUM-based margin increased 0.6bps to 14.1bps, supported by higher margin retail and equities business, partially offset by a change in mix across Fidante Partners boutiques.

[1] Based on Rainmaker Roundup, September 2021 and September 2016 - 5-year CAGR for active managers.
[2] Calculated from Rainmaker Roundup, September 2021 data.

Fidante Partners' FUM and net flows

Fidante Partners' FUM at 31 December 2021 was $88.5b and increased by $3.6b (4%) for the half year.

The increase was a result of:

- net flows of $1.1b, including $2.6b of retail inflows and $1.5b of institutional outflows. Institutional outflows included a $4b fixed income mandate redemption by a single institutional investor;
- positive impact from investment markets of $3.2b; and
- net distributions of $0.7b.

Fidante Partners' 31 December 2021 FUM was invested in the following asset classes:

- 48% in equities (FY21 44%);
- 44% in fixed income (FY21 48%); and
- 8% in alternatives (FY21 8%).

CIP Asset Management

CIPAM's 1H22 net income was $33m and increased by $1m (4%) on 1H21.

CIP Asset Management's net income included:

- FUM-based income of $29m, up $2m (up 8%) on 1H21, reflecting a 6% increase in average FUM and an expansion in the FUM-based margin to 27.4bps (refer below for more information); and
- transaction fees of $4m, down $1m on 1H21 due to lower property development and acquisition fees.

CIPAM's 1H22 income margin (net income to average FUM) was 31.1 bps, down 0.6bps from 1H21 due to lower transaction fees (down $1m).

CIPAM's 1H22 FUM-based margin was 27.4bps, up 0.6bps following a change in product mix and move toward higher margin products.

CIP Asset Management's FUM and net flows

CIP Asset Management's FUM at 31 December 2021 was $20.8b and decreased by $0.1b for the half year.

The decrease was a result of:

- net outflows of $0.2b, predominantly from Challenger Life; and
- positive market movement of $0.1b.

CIP Asset Management's 31 December 2021 FUM is invested in the following asset classes:

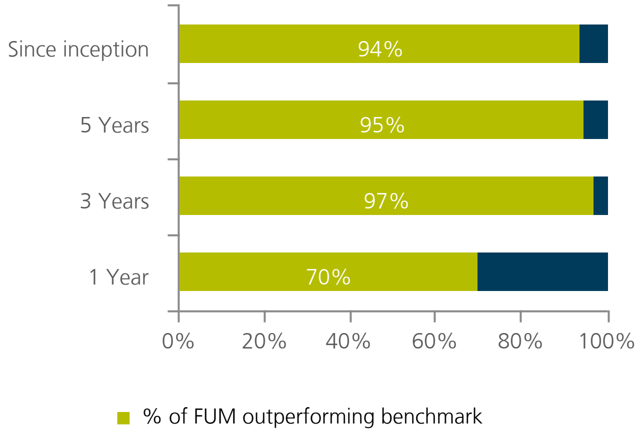
- 77% in fixed income (FY21 78%); and
- 23% in property (FY21 22%).

18% of CIP Asset Management's FUM is from third-party clients with the balance managed on behalf of Challenger Life.

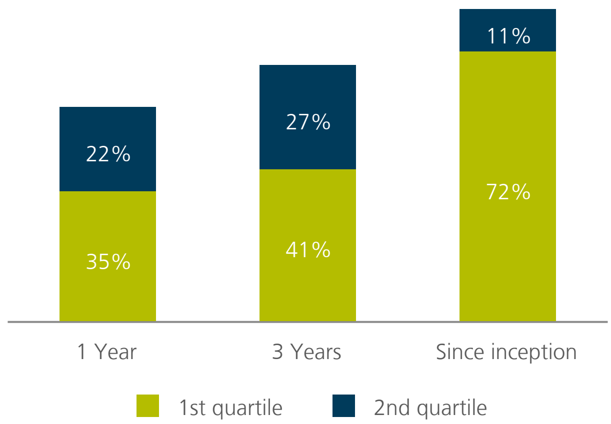
Funds Management investment performance

Investment performance represents the percentage of FUM meeting, or exceeding performance benchmarks, with performance weighted by FUM.

Long-term performance for Fidante Partners' Australian boutiques remains strong with 92% and 96% of FUM outperforming the benchmark over three and five years respectively[3].



For Fidante Partners Australian boutiques, 68% of funds achieved first or second quartile performance over three years and 83% of funds achieved either first or second quartile investment performance since inception[4].



[3] As at 31 December 2021. Percentage of Fidante Partner' Australian boutiques meeting or exceeding the performance benchmark.
[4] Mercer as at December 2021.

Bank financial results

$m	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Interest income	1.3	—	—	—	—	—	—
Interest expense	(0.4)	—	—	—	—	—	—
Net interest income	**0.9**	**—**	**—**	**—**	**—**	**—**	**—**
Personnel expenses	(2.6)	—	—	—	—	—	—
Other expenses	(1.6)	—	—	—	—	—	—
Total expenses	**(4.2)**	**—**	**—**	**—**	**—**	**—**	**—**
Normalised EBIT	**(3.3)**	**—**	**—**	**—**	**—**	**—**	**—**
Bank impairments before tax	—	—	—	—	—	—	—
Net profit after impairments before tax	**(3.3)**	**—**	**—**	**—**	**—**	**—**	**—**

Performance analysis							
Net interest margin (%)	0.99%	—	—	—	—	—	—
Cost to income ratio (%)	464.7%	—	—	—	—	—	—
Net assets – average[1] ($m)	76.2	—	—	—	—	—	—

[1] Calculated on a monthly basis.

In December 2020, Challenger announced it had entered into an agreement to acquire MyLifeMyFinance Limited (MyLife MyFinance or MLMF), an Australian-based customer digital bank, for $35 million.

The acquisition received formal approval from the Treasurer of the Commonwealth of Australia, with the acquisition completing in July 2021.

MyLife MyFinance is an Australian-based authorised deposit-taking institution (ADI) and digital bank, offering a range of simple savings and lending products. MyLife MyFinance has an ADI licence with an existing term deposit offering.

The Bank provides Challenger the opportunity to significantly expand its secure retirement income offering by entering Australia's term deposit market.

Adding an ADI capability to sit alongside the existing Life and Funds Management operations broadens Challenger's product and distribution reach and helps fulfil its purpose of providing customers with financial security for a better retirement.

The Bank provides Challenger the opportunity to attract and engage with customers at an earlier age, as they approach and enter the retirement phase, increasing Challenger's brand recognition in early age demographics.

Initially, Challenger will offer government guaranteed retail term deposits, which are familiar banking products and represent a significant proportion of both retiree and pre-retiree wealth.

The Bank will provide Challenger with access to a wider range of customers through multiple distribution channels, including new intermediated channels, such as the broker term deposit market and retail aggregator websites, and will help to accelerate Challenger's direct to customer offering.

To ensure speed to market, term deposits have initially been marketed under the MyLife MyFinance brand, with the business transitioning to a Challenger brand during 2H22.

Normalised EBIT and ROE

Bank's normalised EBIT was a loss of $3m in 1H22 and represents approximately 5 months of earnings since the acquisition completed in late July 2021.

Net interest income for the period was $0.9m and represents interest earned on the Bank's lending and financing assets ($1.3m), less interest costs associated with the Bank's deposit products ($0.4m).

Integration of the Bank is well progressed and Challenger is taking a deliberate approach by slowing deposit and asset growth until lending capabilities have been approved in order to maximise returns.

Net interest margin

The Bank's net interest margin (NIM) for 1H22 was 0.99% and has been calculated as annualised net interest income divided by 1H22 average lending and financing assets.

The NIM reflects a large proportion (~60%) of the financing and lending asset base ($230m as at 31 December 2021) invested in cash and equivalents, which will be redeployed into higher returning lending activities over time, which will support NIM expansion.

Expenses

Bank expenses for the period were $4m and predominantly relate to personnel expenses ($3m).

Bank impairments

The Bank maintains a high-quality financing and lending portfolio, with ~40% exposure to residential lending. Residential lending assets were $97m at 31 December 2021 and are subject to an impairment test each reporting period.

The expected loss provision as at 31 December 2021 was $37,000 and mortgages in arrears (90+ days) represented 0.09% of the residential lending assets.

The Bank is focused on maintaining a high-quality residential lending book with 86% of customers owner-occupied, an average book loan to value ratio of 51% and geographic exposure primarily skewed to Victoria (80%).

Bank financial results

$m	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Sales ($m)							
Bank deposit sales[1]	72.6	—	—	—	—	—	—
Maturities and withdrawals	(54.2)	—	—	—	—	—	—
Bank net flows	**18.4**	**—**	**—**	**—**	**—**	**—**	**—**
Closing Bank deposits[1]	152.6	—	—	—	—	—	—
Bank book growth[2]	**13.7%**	**—**	**—**	**—**	**—**	**—**	**—**
Lending and financing assets ($m)							
Closing lending and financing assets ($m)	**230**	**—**	**—**	**—**	**—**	**—**	**—**
Fixed income, cash and cash equivalents	133	—	—	—	—	—	—
SME Lending	—	—	—	—	—	—	—
Residential Lending	97	—	—	—	—	—	—
Corporate Lending	—	—	—	—	—	—	—
Commercial Real Estate Lending	—	—	—	—	—	—	—
Average lending and financing assets ($m)[3]	**218**	**—**	**—**	**—**	**—**	**—**	**—**
Deposit liabilities ($m)							
Closing Bank deposits[1]	153	—	—	—	—	—	—
Average deposits[3]	**141**	**—**	**—**	**—**	**—**	**—**	**—**

1 Deposits includes At Call accounts and Term Deposits.
2 Bank book growth percentage represents Bank net flows over the period divided by opening book value as at 30 July 2021 of $134m.
3 Calculated on a monthly basis.

Deposit sales and book growth

1H22 Bank deposit sales were $73m and maturities and withdrawals were $54m, resulting in net flows of $18m.

Based on the deposit book on acquisition of $134m, Bank net flows of $18m represents Bank deposit book growth of 14% for the five months since acquisition.

Deposit sales are benefiting from an expansion of distribution channels. From September 2021, MyLife MyFinance term deposits were made available to direct customers via bank-specific comparator sites, Mozo and Canstar. MyLife MyFinance is also preparing to make the products available with the broker channel, including via Australian Money Market, an online direct investment marketplace for retail term deposits.

The Bank provides Challenger the opportunity to attract and engage with customers at an earlier age, as they approach and enter the retirement phase, increasing Challenger's brand recognition in earlier age demographics. Reflecting this, for the period, ~75% of deposit sales were to customers aged 50 years or above.

Challenger is taking a deliberate approach and slowing deposit and asset growth until lending capabilities have been approved and established.

Lending and financing assets

Bank lending and financing assets at 31 December 2021 were $230m, with approximately ~60% invested in cash and equivalents and only ~40% deployed to residential lending.

As the business is integrated and lending activities are established, it is expected assets will be redeployed from cash and equivalents to other lending activities, including corporate, SME and residential lending markets.

Expanding the Bank's lending activities is expected to provide higher investment returns and expand the NIM.

Deposit liabilities

Bank deposit liabilities at 31 December 2021 were $153m, with approximately ~45% in at call accounts, 51% in term deposit products with a maturity less than 12 months, and 4% in term deposit products with a maturity greater than 12 months.

Bank quarterly sales and lending and financing assets

$m	Q2 22	Q1 22	Q4 21	Q3 21	Q2 21	Q1 21
Deposit sales						
Bank deposit sales[1]	43	30	—	—	—	—
Maturities and repayments	(28)	(27)	—	—	—	—
Bank net flows	**15**	**3**	**—**	**—**	**—**	**—**
Closing Bank deposits	153	137	—	—	—	—
Bank net book growth (%)[2]	**11.8%**	**1.9%**	**—**	**—**	**—**	**—**
Bank lending and financing assets						
Fixed income, cash and cash equivalents	133	111				
SME Lending	—	—	—	—	—	—
Residential Lending	97	102	—	—	—	—
Corporate Lending	—	—	—	—	—	—
Commercial Real Estate Lending	—	—	—	—	—	—
Total Bank lending and financing assets	**230**	**213**	**—**	**—**	**—**	**—**
Average Bank lending and financing assets[3]	**225**	**212**	**—**	**—**	**—**	**—**

1 Deposits includes At Call accounts and Term Deposits.
2 Bank book growth percentage represents Bank net flows over the period divided by opening book value as at 30 July 2021 of $134m.
3 Calculated on a monthly basis.

Bank balance sheet

$m	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Assets							
Cash and cash equivalents	55.9	—	—	—	—	—	—
Fixed income securities	76.9	—	—	—	—	—	—
SME Lending	0.0	—	—	—	—	—	—
Residential Lending	97.3	—	—	—	—	—	—
Corporate Lending	0.0	—	—	—	—	—	—
Commercial Real Estate Lending	0.0	—	—	—	—	—	—
Lending and financing assets	**230.1**	**—**	**—**	**—**	**—**	**—**	**—**
Trade and Other Receivables	8.3	—	—	—	—	—	—
Prepayments and other assets	1.0	—	—	—	—	—	—
Property, plant and equipment	0.0	—	—	—	—	—	—
Intangible assets[1]	0.0	—	—	—	—	—	—
Other assets	(0.1)	—	—	—	—	—	—
Total assets	**239.3**	**—**	**—**	**—**	**—**	**—**	**—**
Liabilities		—	—	—	—	—	—
Deposits	152.6	—	—	—	—	—	—
Long term borrowings	5.4	—	—	—	—	—	—
Provisions	0.0	—	—	—	—	—	—
Trade and other payables	4.8	—	—	—	—	—	—
Total liabilities	**162.8**	**—**	**—**	**—**	**—**	**—**	**—**
Net assets	**76.5**	**—**	**—**	**—**	**—**	**—**	**—**

1. Excludes goodwill of $19m.

Bank regulatory capital

$m	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Regulatory capital base							
Common Equity Tier 1 (CET1) regulatory capital	76.0	—	—	—	—	—	—
Additional Tier 1 capital	0.0	—	—	—	—	—	—
Total Tier 1 regulatory capital base	**76.0**	**—**	**—**	**—**	**—**	**—**	**—**
Tier 2 capital	0.5	—	—	—	—	—	—
Total regulatory capital base	**76.5**	**—**	**—**	**—**	**—**	**—**	**—**
Minimum Regulatory Requirement[1]	11.0	—	—	—	—	—	—
Excess over Minimum Regulatory Requirement	**65.5**	**—**	**—**	**—**	**—**	**—**	**—**
Minimum Regulatory Requirement Ratio (times)	6.95	—	—	—	—	—	—
CET1 capital ratio (times)	6.90	—	—	—	—	—	—
Risk weighted assets ($m)	104.9	—	—	—	—	—	—
Capital Adequacy ratio (%)	72.9%	—	—	—	—	—	—
Average RWA intensity ratio (%)	43.8%	—	—	—	—	—	—

1 Bank Minimum Regulatory Requirement represents total capital requirements of 8% (of risk weighted assets) plus the capital conservation buffer of 2.5% (of risk weighted assets), as stipulated under APS 110 Capital Adequacy.

Capital management

MyLifeMyFinance Limited (MLMF or Bank) holds capital to ensure that under a range of adverse scenarios it can continue to meet its regulatory requirements and contractual obligations to customers.

MLMF is regulated by APRA and is required to hold a minimum level of regulatory capital. MLMF's regulatory capital base and Minimum Regulatory Requirement of capital are specified under the APRA's ADI prudential standards.

Regulatory capital base

The Bank's regulatory capital base at 31 December 2021 was $76.5m and predominantly represents CET1 regulatory capital, which is similar to MLMF's 31 December 2021 net assets.

Excess over Minimum Regulatory Requirement and capital ratios

MLMF's excess over Minimum Regulatory Requirement at 31 December 2021 was $65.5m and its capital ratios were as follows:

- Minimum Regulatory Requirement ratio 6.95 times;
- Common Equity Tier 1 capital ratio (CET1) 6.90 times; and
- Capital adequacy ratio 72.9%.

Following its recent acquisition, MLMF has established its treasury function and is developing its lending activities. Currently, a significant portion of the Bank's financing and lending assets are invested in cash and cash equivalents. Over time, financing and lending assets will be redeployed to other forms of bank lending such as corporate, SME and commercial real estate lending, which should capture higher returns; however, they are more capital intense. As this occurs, it is expected MLMF's capital ratios will reduce.

Corporate financial results

$m	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Other income	**0.0**	**0.0**	**0.0**	**0.2**	**0.2**	**0.5**	**0.5**
Personnel expenses	(22.1)	(18.7)	(16.8)	(14.4)	(18.1)	(19.6)	(19.0)
Other expenses	(7.3)	(18.1)	(7.0)	(18.5)	(9.8)	(4.8)	(5.5)
Total expenses (excluding LTI)	**(29.4)**	**(36.8)**	**(23.8)**	**(32.9)**	**(27.9)**	**(24.4)**	**(24.5)**
Long-term incentives (LTI)	(6.0)	(2.7)	(5.8)	(4.1)	(4.9)	(5.9)	(7.1)
Total expenses	**(35.4)**	**(39.5)**	**(29.6)**	**(37.0)**	**(32.8)**	**(30.3)**	**(31.6)**
Normalised EBIT	**(35.4)**	**(39.5)**	**(29.6)**	**(36.8)**	**(32.6)**	**(29.8)**	**(31.1)**
Interest and borrowing costs	(1.9)	(2.7)	(2.3)	(4.0)	(2.5)	(2.4)	(2.9)
Normalised loss before tax	**(37.3)**	**(42.2)**	**(31.9)**	**(40.8)**	**(35.1)**	**(32.2)**	**(34.0)**

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

Corporate also includes interest received on Group cash balances and any interest and borrowing costs associated with Group debt facilities.

Normalised EBIT

Corporate normalised EBIT was a loss of $35m in 1H22, up $6m from a loss of $30m in 1H21. The increased EBIT loss was a result of higher personnel expenses (up $5m).

Other income

Other income represents interest received on Group cash and was nil in 1H22 due to the low interest rate environment. The Group cash balance as at 31 December 2021 was $95m.

Total expenses

1H22 Corporate expenses were $35m and increased by $6m on 1H21.

Corporate expenses include:

- Personnel costs of $22m, which increased by $5m on 1H21 as a result of higher variable reward costs and reduced annual leave as a result of the COVID-19 pandemic;
- Other expenses of $7m, were in line with 1H21; and
- Long-term incentive costs of $6m, which were unchanged from 1H21.

Interest and borrowing costs

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

During 2H20, the $400m facility was fully drawn to provide additional financial flexibility during the COVID-19 pandemic market sell-off.

At the start of 1H21, $50m remained drawn; however, it was fully repaid during the period. 1H22 interest and borrowing costs were $2m reflecting line fees on the Group debt facility.

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, 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 Accurium 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 FY22 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 and prudential standards to value all assets and liabilities supporting the Life business at fair value. 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

Challenger Life is required by accounting standards and prudential standards to value all assets and liabilities supporting the Life business at fair value. Asset and liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised and based on fair value) 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.
Bank book growth	Net deposits over the period divided by the opening deposit book.
Bank average RWA intensity ratio (%)	Risk Weighted Assets divided by Bank total assets.
Bank Capital adequacy ratio (%)	Total regulatory capital divided by Risk Weighted Assets.
Bank impairments	Impairments relate to Bank lending and financing assets and represents provision for losses, realised losses or recoveries on the assets which are held at amortised cost.
Bank Net Interest Margin (%)	Net interest income over average interest earning assets.
Bank Minimum Regulatory Requirement ratio (times)	Total regulatory capital dividend by Minimum Regulatory Requirement.
Bank Risk Weighted Assets	Risk weighted assets are used to determine the minimum amount of capital that must be held by banks and is a measure of the Banks assets weighted according to risk.
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.
CIPAM income	CIP Asset 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.
Fidante Partners' Income	Distribution and administration fees; Fidante Partners' share of boutique manager profits; performance fees and transactions fees.
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, Funds Management FUM and Bank lending and financing assets.
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 and Challenger Capital Notes 2).
Investment experience (Life)	Represents fair value movements on Life's assets and policy liabilities and net new business strain. Refer to page 63 for more detail.
Investment yield (Life)	Net rental income, dividends received 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 Challenger Index Plus liabilities).

Glossary of terms

Terms	Definitions
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.
MyLife MyFinance	MyLifeMyFinance Limited ABN 54 087 651 750.
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 Partners' income and CIPAM income.
Net management fees (FM)	Management fees for managing investments.
Net tangible assets	Consolidated net assets less goodwill and intangibles.
New business tenor	Represents the maximum product maturity of new business sales. These products may amortise over this period.
Normalised capital growth	Long-term expected capital growth based on long-term return assumptions 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 63 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 63 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 and communications costs.
Other income (Corporate)	Includes interest received on Group cash balances.
Other income (Life)	Relates to Accurium revenue 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.

Glossary of terms

Terms	Definitions
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 plus other income (Corporate).

Key dates

Challenger Limited (ASX:CGF)	
Q3 2022 Sales and AUM	21 April 2022
2022 Investor Day	2 May 2022
2022 Full-year financial results	16 August 2022
Q1 2023 Sales and AUM	20 October 2022
2022 Annual General Meeting	27 October 2022