Annual Report
2022

challenger

Providing our customers with financial security for a better retirement

ABOUT THIS REPORT

The 2022 Annual Report, including the financial report for the year ended 30 June 2022, can be viewed at Challenger's online Shareholder Centre at:

challenger.com.au/shareholder

2022 CORPORATE GOVERNANCE STATEMENT

The 2022 Corporate Governance Statement can be viewed online at:

challenger.com.au/corporategovernance2022

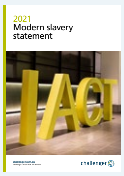
2022 SUSTAINABILITY REPORT

The 2022 Sustainability Report can be viewed online at:

challenger.com.au/sustainabilityreport2022

2021 MODERN SLAVERY STATEMENT

Challenger's Modern Slavery Statement can be viewed online at:



challenger.com.au/modernslaverystatement2021

CHALLENGER LIMITED ACN 106 842 371

WELCOME

The 2022 Annual Report brings together key information on our consolidated financial, operational and sustainability performance for the financial year ended 30 June 2022.

Please refer to the Sustainability section on **Page 32**

Reflecting increased commitment to sustainability, this year Challenger's Annual Report incorporates the Sustainability Report in addition to the Operating and Financial Review, Directors' Report and Financial Statements. The report provides our stakeholders with a holistic overview of Challenger's governance and performance for the year.

In this report, unless otherwise stated, references to 'Challenger', 'the Group', 'CGF', 'we', 'us' and 'our' refer to Challenger comprising the ASX listed entity and the Life, Funds Management and Bank businesses.

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KEY DATES

21 SEPTEMBER 2022
Final dividend payment date

27 OCTOBER 2022
2022 Annual General Meeting

14 FEBRUARY 2023
Half year financial results

21 MARCH 2023
Interim dividend payment date

15 AUGUST 2023
Full year financial results

20 SEPTEMBER 2023
Final dividend payment date

26 OCTOBER 2023
2023 Annual General Meeting

Full listing of key dates available at:

challenger.com.au/shareholder/shareholder-information/key-dates

ANNUAL GENERAL MEETING

DATE
27 October 2022

TIME
9.30 am (Sydney time)

LOCATION
The 2022 AGM will be held as a 'hybrid' meeting which will enable shareholders to attend either physically or virtually.

Venue: Wesley Conference Centre, 220 Pitt Street, Sydney NSW.

Full details of the meeting will be included in your Notice of Annual General Meeting, which will be sent to shareholders in September 2022.

Dates may be subject to change. Any change in dates will be advised to the Australian Securities Exchange.

BOARD NOMINATIONS

The closing date for receipt of nominations for the Challenger Limited Board is 24 August 2022.

Message from the Chairman

I am incredibly proud of what Challenger has built and the outcomes we have achieved for our customers, our people and our shareholders amid continuous and rapid change.

Since I joined the Board, Australia's superannuation system has undergone substantial change and successive governments have implemented significant regulatory reforms across the entire financial services sector. We have seen exponential technological change, endured volatile and evolving market cycles and we continue to navigate economic and social challenges of a global pandemic.

I have been privileged to Chair a company whose purpose is clear – provide our customers with financial security for a better retirement. With more Australians retiring every day, the importance of why Challenger exists cannot be overstated for the well-being of our customers as well as the broader economy.

DELIVERING STRONGER SHAREHOLDER OUTCOMES

I am delighted to say Challenger finished the year in great shape, strongly capitalised and well positioned for future growth. Our net profit was toward the upper end of our guidance range and drove stronger shareholder returns. The results of our Life and Funds Management businesses have again demonstrated the strength of Challenger's franchise and its ability to capitalise on the demographic and economic realities we operate within. Consequently, the Board has declared a full year dividend of 23.0 cents per share, which is fully franked and 15% higher than last year.

LOOKING AHEAD

Today, Challenger like all businesses exists in an environment influenced by domestic and global trends such as an ageing population, economic uncertainty and geopolitical shifts among others. We are well served by the fact that the Board and management have made deliberate choices to diversify the focus of our business to ensure we can navigate the challenges and capture the opportunities that come through cyclical and structural shifts that impact all of us. Most recently, we have reset our strategy and refocussed the business on where we believe clear growth opportunities exist in the years ahead and welcomed new executives to the Leadership Team with bias towards execution.

Rest assured, we intend to maintain a rapid pace in the year ahead and I remain confident that Challenger, its people, its customers and the communities we serve will all share in the benefits delivered by our purpose.

THANK YOU

On behalf of the Board, I want to thank all our Challenger colleagues for their hard work and commitment this year, particularly given the challenging professional and personal circumstances the pandemic has created for everyone. I also thank our shareholders for their continued support and our highly engaged and committed Board.

Upon my retirement in October, it will be my great pleasure to hand over the position as Chair of this very special company to Duncan West who along with our talented group of Directors and senior executives will continue to steer the business to an even greater contribution in service of all of our stakeholders.

I strongly believe I am leaving the business in great hands. This year, the Board was pleased to appoint Nick Hamilton as Challenger's new CEO. Prior to this Nick was CEO of Challenger's Funds Management business and has played a key role in developing Challenger's growth strategy. He has a deep understanding of our business and has a clear vision and plan for the future. Importantly, Nick moved quickly to execute his plans by simplifying the organisational structure and bringing new executives onto the leadership team.

It has been an honour to serve as your Chair and a Member of the Board for the past 19 years. It is no accident Challenger is Australia's leading retirement income brand and one of Australia's largest active fund managers with such unwavering support from our customers, our people and our shareholders.

PETER POLSON
INDEPENDENT CHAIR

Message from the CEO

Challenger is a unique business with an extraordinary opportunity to improve the financial outcomes of Australians in retirement, and it brings me immense pride to have taken on the CEO role at such an exciting time for the business.

Our Life business is Australia's leading retirement income brand, and our Funds Management business is one of the country's largest active fund managers with a highly diverse range of products and managers. Our complementary businesses create a dynamic and contemporary platform that combines both balance sheet and fee-generating businesses.

FINANCIAL PERFORMANCE

Our FY22 financial performance has been achieved against a backdrop of ongoing economic uncertainty, volatile investment markets, and the global pandemic which continues to bring challenges for the economy, the community and our business.

Normalised net profit before tax of $472 million was up 19% at the upper end of our guidance range. We achieved record Life and annuity sales and remain disciplined on management of our expenses. Clearly, the macro-economic environment presents both challenges and opportunities with rising interest rates benefiting annuity sales and margins but markets triggering an unrealised investment experience.

BUILDING A MORE DIVERSIFIED BUSINESS

This year we have refreshed our strategy, renewed our Leadership Team and reorganised our business as we execute our platform for growth.

A new Customer Division has been formed to support this ambition, bringing together skills and expertise from across the Group. This approach puts the customer at the centre of our business, reflecting our plans to broaden our customer reach and play a more meaningful role in their lives.

Recognising the important role that Australia's world class superannuation funds play in providing financial security for millions of Australians, and our ambitions to build meaningful retirement partnerships, we have aligned our leading investment capabilities to create a Life Investment and Group Solutions platform.

Our multi-affiliate business Fidante continues to grow, welcoming new affiliates and launching new investment capability for our existing managers. Our affiliate managers are building for the future, adding investment expertise and ensuring they retain their leading market positions.

We have launched two significant joint venture opportunities that will generate new revenue streams. Our agreement with global software provider SimCorp will deliver a leading investment operations platform, while our joint venture with Apollo will see us build a leading lending business in Australia and New Zealand.

We continue to extend our customer reach across Australia's financial advisers, having expanded our capability to meet the needs of the rapidly growing affluent wealth segment.

Looking back over 2022, I am particularly proud of the way our team have responded during the global pandemic, and the support they have provided to our customers and to each other. This speaks to our strong team culture and our One Challenger mindset of working together to deliver strong outcomes for our customers, shareholders and each other.

LOOKING AHEAD

As we look to the new year, our business is in great shape. We remain strongly capitalised and well positioned to leverage and benefit from our unique competitive advantages.

Finally, I would like to acknowledge the contribution of our outgoing Chair, Mr Peter Polson who retires at our Annual General Meeting in October. Over 19 years, Peter has provided guidance and stewardship as a Director and as Challenger's Chair as we have grown to become the incredible company we are today. On behalf of the Board, our employees and our shareholders I thank Peter for his commitment and dedication to Challenger over his long tenure.

NICK HAMILTON
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

FY22 Highlights

FINANCIAL PERFORMANCE

STATUTORY NET PROFIT AFTER TAX

$253.7m

NORMALISED NET PROFIT BEFORE TAX

$472.3m

GROUP ASSETS UNDER MANAGEMENT

$98.6bn

LIFE SALES

$9.7bn

NORMALISED GROUP ROE (PRE-TAX)

11.9%

▲ 70bps on FY21

FULL-YEAR DIVIDEND

23.0cps

▲ 15% on FY21

CAPITAL POSITION

1.68x

GROUP MINIMUM REGULATORY REQUIREMENT RATIO

OPERATIONAL HIGHLIGHTS

STRATEGIC PRIORITIES

BROADEN CUSTOMER ACCESS ACROSS MULTIPLE CHANNELS

RECORD LIFE SALES

▲ 40%

Fidante – Distributor of the Year

Bank term deposits available on comparison websites

LEVERAGE THE COMBINED CAPABILITIES OF THE GROUP

"One Challenger" approach

New Customer division

Bank rebrand

EXPAND THE RANGE OF FINANCIAL PRODUCTS AND SERVICES FOR A BETTER RETIREMENT

New market-linked lifetime annuity

New Fidante affiliates

Bank lending capability extended

STRENGTHEN RESILIENCE AND SUSTAINABILITY OF CHALLENGER

RISK CULTURE SCORE

90%

SimCorp Joint Venture

Apollo strategic partnership

SUSTAINABILITY

EMPLOYEE ENGAGEMENT[1]

81%

▲ 3% on the Australian norm

CUSTOMER SUPPORT

>$1bn

IN GUARANTEED PAYMENTS MADE TO SUPPORT

>140,000

CUSTOMERS

GENDER DIVERSITY

▸ 60.00% Male
▸ 39.75% Female
▸ 0.25% Other

GHG EMISSIONS (tCO_2-e)

▲ 15%

4,750

FY22

FY21 4,123

FY20 5,062

UN PRINCIPLES FOR RESPONSIBLE INVESTMENT[2]

A Rating

BY THE UNPRI FOR FIXED INCOME AND PROPERTY STRATEGIES

1. 2022 Your Voice employee engagement survey, April 2022.
2. UN PRI Rating given in 2020.

About Challenger

Challenger Limited (Challenger) was founded in 1985 and is Australia's largest annuity provider as well as one of its largest active fund managers.

Challenger is listed on the Australian Securities Exchange (ASX) and has offices in Australia, London, Singapore and Tokyo. At 30 June 2022, Challenger employed 770 people on a full-time equivalent (FTE) basis.

Challenger is regulated by the Australian Prudential Regulation Authority (APRA), the Australian banking, superannuation and insurance regulator. Challenger's activities are also subject to supervision by other regulatory agencies both in Australia and the other offshore markets in which it operates.

OUR STRATEGIC PRIORITIES

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

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

OUR VALUES

Act with integrity

We do things the right way

Aim high

We deliver outstanding results

Collaborate

We work together to achieve shared goals

Think customer

We make decisions with our end customers front of mind

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

OUR PURPOSE

To provide customers with financial security for a better retirement

To fulfil this purpose, we leverage the capabilities across our Life, Funds Management and Bank businesses. These core operating segments are supported by shared support functions which are responsible for providing centralised regulatory, compliance, financial reporting, tax, legal, risk management and human resources.

LIFE

Australia's leading provider of annuities

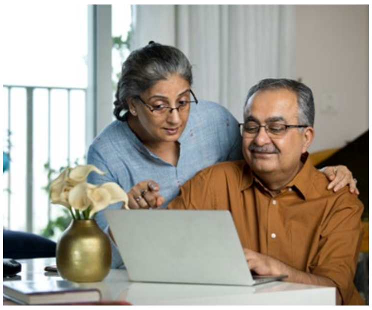
Life focuses on the retirement spending phase of superannuation, providing products that help customers convert retirement savings into safe and secure income in retirement. As Australia's superannuation system grows, the retirement phase of superannuation is expected to increase significantly.

FUNDS MANAGEMENT

One of Australia's largest active fund managers

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

BANK



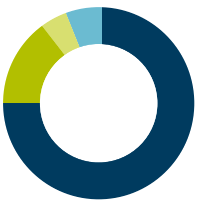
Australian-based digital bank

The Bank provides products to Australian customers in the form of deposit and loan products. It provides Challenger with access to a wider range of customers through multiple distribution channels to help broaden its customer offer.

Life business

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 ASSET ALLOCATION



- **75.0%** Fixed income and cash (net)
- **14.5%** Property (net)
- **4.4%** Equity and Infrastructure
- **6.1%** Alternatives

The Life segment includes Challenger Life Company Limited (CLC), an APRA-regulated life insurance company which is Australia's leading provider of annuities and guaranteed retirement income products.

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 nearly 50% over the next 20 years[1]. 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 $76 billion[2] in 2021.

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. In February 2022, the Australian Government legislated the Retirement Income Covenant when the Federal Parliament passed the *Corporate Collective Investment Vehicle Framework and Other Measures Act 2022* (the Act). The covenant requires all APRA-regulated superannuation funds to have a documented retirement income strategy that outlines how they plan to assist their members in retirement.

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.

As Australia's leading provider of annuities[3], Challenger Life is expected to continue to benefit from the long-term growth in Australia's superannuation system and the 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 14 years and remains the dominant Australian retirement income brand.

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.

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).

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$530 million)[4] per year[5].

1. 2022 – 2042 comparison based on Australian Bureau of Statistics, Population Projections Series B, cat no. 3222.0.
2. Based on Taxation Statistics 2019–20 from Australian Taxation Office.
3. Plan for Life – March 2022 – based on annuities under administration.
4. Based on exchange rate as at 30 June 2022.
5. Reinsurance across both Australian and US dollar annuities, of at least ¥50b per year for a minimum of five years, commencing 1 July 2019.

NET BOOK GROWTH

14.3%

In line with FY21

TOTAL LIFE SALES

$9.7bn

▲ 40.1% on FY21

"Expanding our customer reach, broadening our distribution channels and product innovation helped the Life business deliver an impressive performance, with record-breaking sales of $9.7 billion driving book growth of over 14% for the year."

ANTON KAPEL
CHIEF EXECUTIVE, LIFE

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

MS Primary sales comprised 12.0% of Life's total annuity sales in the period.

At 30 June 2022, MS&AD held ~15% of Challenger Limited issued share capital, and a representative (with an alternate) from MS&AD have been appointed to the Challenger Limited Board.

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 the retirement incomes paid to Life's customers.

PERFORMANCE

Life normalised EBIT increased by $73.4 million (up 18.4%) due to higher normalised COE (up $70.0 million or 13.7%) and lower operating expenses (down $3.4 million or 3.0%).

Higher normalised Cash Operating Earnings (COE) was largely attributable to an increase in Life's average investment assets, which increased by 13.6%.

Life generated a normalised RoE (pre-tax) of 13.1%, up by 0.6 percentage points from the prior corresponding period (pcp) driven by higher normalised EBIT.

LIFE NORMALISED RESULTS	2022 ($m)	2021 ($m)	CHANGE ($m)	CHANGE (%)
Normalised COE	582.8	512.8	70.0	13.7
Cash earnings	534.0	478.7	55.3	11.6
Normalised capital growth	48.8	34.1	14.7	43.1
Operating expenses	(110.5)	(113.9)	3.4	3.0
Normalised EBIT	**472.3**	**398.9**	**73.4**	**18.4**

LIFE SALES	2022 ($m)	2021 ($m)	CHANGE ($m)	CHANGE (%)
Fixed-term annuities	4,636.1	3,990.4	645.7	16.2
Lifetime annuities	486.6	575.6	(89.0)	(15.5)
Total Life annuity sales	5,122.7	4,566.0	556.7	12.2
Other Life sales	4,583.4	2,362.1	2,221.3	94.0
Total Life sales	**9,706.1**	**6,928.1**	**2,778.0**	**40.1**
Annuity net flows	1,074.2	1,079.8	(5.6)	(0.5)
Other Life net flows	1,397.7	1,084.0	313.7	28.9
Total Life net flows	**2,471.9**	**2,163.8**	**308.1**	**14.2**

Total Life sales increased from the prior period (up 40.1%), with increased annuity sales (up 12.2%) and other Life sales (up 94.0%).

Annuity net flows (new annuity sales less capital repayments) were in line with the pcp at $1,074.2 million. Based on the opening Life annuity book for the 2022 financial year ($13,669.9 million), annuity net book growth for the period was 7.9%, down from 8.6% in the pcp.

Other Life sales represents Challenger's Index Plus product which increased during the period as a result of a refresh and relaunch. Other Life net flows for the period were $1,397.7 million, increasing by $313.7 million compared to the pcp.

Total Life net flows were $2,471.9 million, representing total Life net book growth of 14.3% (30 June 2021: $2,163.8 million or 14.4% book growth).

Funds Management business

FUNDS UNDER MANAGEMENT

$93.4bn

▼ 11.72% on FY21

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

Funds Management is one of Australia's largest active fund managers[1] and is diversifying globally with operations in the United Kingdom and Europe, Japan and more recently Singapore.

Funds under management are supported by Challenger's retail and institutional distribution teams and 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 has extensive client relationships. For example, over 80% of Australia's top 50 superannuation funds are clients of the business.

Funds Management comprises Fidante and Challenger Investment Management (CIM).

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

Fidante's 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 Australian affiliates remains strong with 98% of funds and mandates outperforming their respective benchmarks[2].

Fidante 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.

Challenger Investment Management principally originates and manages fixed income and commercial real estate for leading global and Australian institutions, including Challenger Life.

1. Calculated from Rainmaker Roundup, March 2022 data.
2. As at 30 June 2022. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with performance weighted by FUM.

"The Funds Management business is one of the largest active fund managers in Australia. The team is continually looking to expand our customer offering and our extensive and growing line-up of affiliates continues to provide strong long-term returns for clients.''

VICTOR RODRIGUEZ
CHIEF EXECUTIVE, FM

PERFORMANCE

Funds Management normalised EBIT increased by 16.6% for the period, with increased net income primarily from an increase in average FUM, which increased by 12.5% on pcp.

Fidante's net income includes distribution fees, transaction fees, administration fees and a share in the equity accounted profits for the affiliate investment managers in which it has an equity interest.

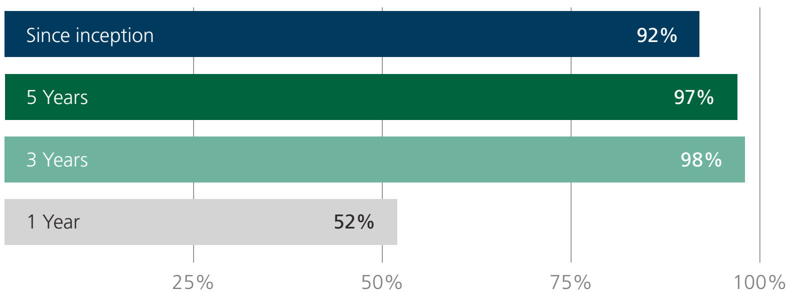
Fidante's net income improved for the period primarily as a result of higher FUM income (up $22.9 million) partially offset by lower performance fees (down $6.1 million).

Challenger Investment Management's (CIM, previously CIPAM) net income increased primarily due to higher net management fees (up $3.8 million) and higher transaction fees (up $0.9 million).

Funds Management's normalised RoE (pre-tax) for the period was 31.2%, up by 3.5 percentage points from the pcp.

Funds Management's FUM decreased by $12.4 billion (or 11.7%) compared to the pcp. During the period, net outflows were $8.5 billion (including $5.2 billion de-recognition following the sale of Whitehelm) compared to net inflows of $16.1 billion in the pcp.

FUNDS MANAGEMENT INVESTMENT PERFORMANCE
(% OF FUM OUTPERFORMING BENCHMARK)[1]



1. As at 30 June 2022. Percentage of Fidante's Australian affiliates meeting or exceeding the performance benchmark, with performance weighted by FUM.

FM NORMALISED RESULTS	2022 ($m)	2021 ($m)	CHANGE ($m)	CHANGE (%)
Net income	191.8	169.3	22.5	13.3
Fidante	125.4	107.5	17.9	16.7
CIM	66.4	61.8	4.6	7.4
Operating expenses	(109.0)	(98.3)	(10.7)	(10.9)
Normalised EBIT	**82.8**	**71.0**	**11.8**	**16.6**

FM FUM AND FLOWS	2022 ($bn)	2021 ($bn)	CHANGE ($bn)	CHANGE (%)
Total FUM	93.4	105.8	(12.4)	(11.7)
Fidante	72.4	84.9	(12.5)	(14.7)
CIM	21.0	20.9	0.1	0.5
Net flows	(8.5)	16.1	(24.6)	(large)
Fidante	(8.9)	14.3	(23.2)	(large)
CIM	0.4	1.8	(1.4)	(77.8)

Bank business

NET DEPOSITS FLOWS

$93.6m

The Bank is an Australian-based authorised deposit-taking institution (ADI) and digital bank.

In December 2020, Challenger announced it had entered into an agreement to acquire the Bank (formerly MyLifeMyFinance Limited).

The acquisition received formal approval from the Treasurer of the Commonwealth of Australia and was completed on 30 July 2021.

In June 2022, MyLifeMyFinance was rebranded to Challenger Bank Limited (Bank), leveraging Challenger's position as a leader in retirement and pre-retirement incomes.

The Bank offers a range of savings and lending products. This includes government-guaranteed retail term deposits[1], which are familiar banking products and represent a significant portion of retiree and pre-retiree wealth.

BANK NORMALISED RESULTS[1]	2022 ($m)	2021 ($m)	CHANGE ($m)	CHANGE (%)
Net interest income	2.3	–	2.3	n/a
Operating expenses	(13.4)	–	(13.4)	n/a
Normalised EBIT	**(11.1)**	**–**	**(11.1)**	**n/a**
Bank impairments[2]	(0.9)	–	(0.9)	n/a
Normalised loss before tax	**(12.0)**	**–**	**(12.0)**	**n/a**

1. Represents normalised result since the acquisition of the Bank on 30 July 2021.
2. Represents provision for expected credit losses.

Challenger announced a strategic review of its banking business.

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

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

There will be no change to the Bank's operations while the review is being undertaken. Challenger Bank will continue to offer products and services to existing and new customers.

PERFORMANCE

Bank's normalised EBIT was a loss of $11.1 million for the period and represents approximately 11 months of earnings since the acquisition completed on 30 July 2021.

Net interest income for the period was $2.3 million and represents interest earned on the Bank's lending and financing assets ($3.4 million), less interest costs associated with the Bank's deposit products ($1.1 million).

Bank operating expenses for the period were $13.4 million and relate to personnel expenses of $9.7 million and other direct costs of $3.7 million.

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

Corporate segment and other information

CORPORATE SEGMENT

The corporate segment comprises central functions such as the Group executive, finance, treasury, legal, tax, human resources, risk management and strategy.

Corporate segment normalised loss before tax was $67.6 million, up $1.5 million as a result of lower personnel costs (up $8.0 million) and higher long-term incentive costs (up $2.0 million), offset by lower other expenses (down $8.5 million) with the prior period including a one-off software impairment expense.

GUIDANCE FOR THE 2023 FINANCIAL YEAR

Challenger's FY23 normalised net profit before tax guidance is a range of between $485m and $535m and implies:

- Life COE margin higher than FY22;
- Funds Management opening FUM 10% lower than FY22 average FUM;
- Bank EBIT loss of $10m; and
- Expense growth of 5% to 6%.

CORPORATE AND OTHER NORMALISED RESULTS	2022 ($m)	2021 ($m)	CHANGE ($m)	CHANGE (%)
Operating expenses	(67.6)	(69.1)	1.5	2.2
Normalised EBIT	**(67.6)**	**(69.1)**	**1.5**	**2.2**
Interest and borrowing costs	(4.1)	(5.0)	0.9	18.0
Normalised loss before tax	**(71.7)**	**(74.1)**	**2.4**	**3.2**

PRINCIPAL ACTIVITIES

During the period Challenger acquired an Australian-based digital bank and created a new business segment – Bank. There have been no other significant changes in the nature of the principal activities of the Group during the period.

COVID-19 PANDEMIC

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

Looking after the health of Challenger's people during this time has been a key business priority.

Throughout the year, Challenger continued to support its employees with flexible work practices so they could continue to work from home or return back to the office.

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

2022 Strategic Progress

Progress over 2022 has been measured against Challenger's four strategic priorities.

1. BROADEN CUSTOMER ACCESS ACROSS MULTIPLE CHANNELS

FY22 PROGRESS:

Diversification strategy delivering strong Life sales	Challenger is building more resilient sales by diversifying across a range of retail and institutional products and clients. In FY22, Life achieved strong sales of $9.7 billion (up 40%). This was primarily driven by domestic retail sales of $2.4 billion (up 11%) and institutional sales of $6.7 billion (up 68%), representing institutional term annuities and the Challenger Index Plus product. Retail term annuity sales were $1.9 billion (up 13%) with term annuities seen as an attractive investment providing retirement income.
International Funds Management expansion	Funds Management continues to see significant growth opportunities in Australia and diversification opportunities globally. In recent years, Funds Management has expanded into Europe through its UK office and established a presence in Japan. More recently, Fidante opened a Singapore office, which will provide a distribution hub and access to Asian investors. In FY22, Ardea Investment Management (Ardea), a Fidante fixed income manager with over $23 billion of funds under management, established a UK office and received Financial Conduct Authority authorisation. This represents the first Australian-based affiliate to establish a business presence offshore. To support Fidante clients and provide access to its investment products, Fidante has established Undertakings for Collective Investment in Transferable Securities (UCITS) funds. Fidante's offshore distribution efforts are succeeding, including winning a €1 billion (~A$1.5 billion) UK fixed income mandate in January 2022. In addition, Fidante won a significant mandate from a US-based investor, with Fidante's product included in the client's multi-manager fund. Resonance Asset Management, a UK-based affiliate manager specialising in environmental assets including wind, water and waste treatment, closed further commitments into its second Wind Fund, with total commitments of £150 million now fully deployed. Fund raising activities are underway for a second Water Fund with a fund raise target of ~US$300m.
Award-winning investment strategies	Fidante's investment managers continue to be externally recognised. During FY22, the following funds won investment manager awards: – Bentham Global Income Fund – Morningstar Australasia Awards, Fund Manager of the Year – Fixed Interest (2022); – Greencape Broadcap Fund – Financial Standard Investment Leadership Awards, Australian Equities – Active Core (2022); – Ardea Real Outcome Fund – Financial Standard Investment Leadership Awards, Fixed Income – Aggregate Bonds (2022); and – Alphinity Sustainable Share Fund – Financial Standard Investment Leadership Awards, ESG – Australian Equities (2022). In addition to these investment management awards, Fidante Partners was awarded the Zenith Investment Partners' (Zenith) Distributor of the Year for the second consecutive year. This award recognises the quality of investment managers as well as the operating and distribution platform which supports them. Fidante also ranked as the top Australian active manager for retail net flows to March 2022, with the highest net flows among 146 active managers. Fidante ranked number one for domestic fixed income flows (out of 33 managers)[1]. For FY22, Fidante recorded retail net flows of $2.0 billion across platforms and direct adviser channels.
Accessing term deposit market	Challenger Bank Limited (Bank) offers a range of savings and lending products, including government guaranteed retail term deposits which are a familiar product among retirees and those approaching retirement and form a portion of their wealth. The Bank's term deposits were made available online and via comparison websites and brokers. Total Bank deposit sales were $219 million, with 77% of term deposit sales to customers above 50 years of age, Challenger's target market.
Challenger launches new Customer division	In May 2022, Challenger announced plans to create a new Customer division as part of its broader strategy to meet the needs of a wider range of customers across a greater number of distribution channels. The Customer division brings together Challenger's product, marketing, sales and customer service capabilities to put customer needs at the centre of the business.

2. EXPAND THE RANGE OF FINANCIAL PRODUCTS AND SERVICES FOR A BETTER RETIREMENT

FY22 PROGRESS:

Innovative new retirement income solutions	In October 2021, Challenger launched innovative market-linked payment options to its award-winning Liquid Lifetime annuity. The market-linked annuity reflects Challenger's commitment to expand its range of innovative retirement income solutions to meet the needs of a wider range of customers. Combining the benefit of a monthly income with exposure to investment markets that can be rebalanced is a compelling option for clients and their advisers. With the market-linked payment options, customers can gain exposure to investment markets by choosing from five different indexation options: cash, conservative, conservative balanced, balanced or growth. In March 2022, the market-linked annuity was added to Approved Product Lists and is available for use by major advice networks.
New investment strategies	Fidante continues to expand its product offering by developing new investment strategies for existing managers. In September 2021, Ox Capital announced the launch of its flagship emerging markets 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. In July 2021, Australian and global equities affiliate manager, Alphinity Investment Management, launched a new Alphinity Global Sustainable Equity Fund. The Fund 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.
New affiliates	Fidante has an active program of seeking and screening new affiliate managers to expand its product offering. In May 2022, Fidante announced the addition of Cultiv8 to its stable of affiliate managers. Based in Orange, New South Wales (NSW), Cultiv8 is a newly established agriculture and food technology venture capital fund with a track record of supporting the commercialisation of new and innovative technologies, leveraging its access to Australian industry, research and government networks. Cultiv8 is committed to building a world-class venture capital platform in agriculture and food technology in regional Australia.
Whitehelm Capital sale	Whitehelm Capital (Whitehelm) was established in 2014 and is a global infrastructure manager and investment adviser. In February 2022, Challenger completed the sale of Fidante's 30% equity interest in Whitehelm to a German-based global listed real estate manager, PATRIZIA AG, for €32 million (~A$50 million). Fidante seeks to build long standing relationships with affiliate partners and benefit from their long-term growth. While it is not its strategy to sell interests in its affiliate 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. Fidante continues to support the distribution activities of the Whitehelm investment capabilities under a distribution partnership with PATRIZIA AG.
Challenger Investment Management fixed income product expansion	Challenger is Australia's largest fixed income manager, with Fidante managing $34 billion and CIP Asset Management fixed income managing $17 billion across multiple strategies, comprising both public and private credit investments. CIP Asset Management will move to a Challenger brand following the rebrand to Challenger Investment Management (CIM). CIM is committed to growing the business that will include expanding beyond its primarily institutional client base with products structured to also reach the high net worth and retail markets. CIM has three income-focused credit funds that are around $1 billion in funds under management and provide investors with a range of return and risk options. Achievements during the year include: – the launch of a new share class of its successful Multi-Sector Private Lending Fund; and – the Credit Income Fund upgraded by Zenith during the year to the top rating of Highly Recommended.

1. Plan for Life Wholesale Trust Data, Financial year to date to March 2022.

2022 Strategic Progress continued

3. LEVERAGE THE COMBINED CAPABILITIES OF THE GROUP

FY22 PROGRESS:

'One Challenger' approach	With a 'One Challenger' approach, Challenger intends to bring the best of the business to even more Australians. Capitalising on the expertise across the Group and expanding the Challenger brand from a leader in retirement incomes, to a brand synonymous with high-quality income products and a wider retirement offering. Under this strategy, the Bank and its products have transitioned to the Challenger brand (Challenger Bank) and CIP Asset Management will move to Challenger Investment Management.
Leverage Challenger Group to integrate the Bank	Following the acquisition of MyLifeMyFinance Limited in July 2021, integration into the Challenger business has been completed. In 1H22, the Bank's employees relocated to Challenger's Melbourne office and its customer contact centre was integrated into Challenger, with the Challenger customer service team now interacting directly with Bank customers. The Bank's general ledger was migrated to Challenger's systems and IT systems were also migrated, including key websites and customer interfaces. Distribution partnerships have been formed to make Challenger term deposits available via bank-specific comparator sites, Mozo and Canstar, and the broker channel, including Australian Money Market.
Imaginate22 driving innovation	Imaginate22 is an internal program bringing together Challenger employees to innovate and generate ideas that strengthen and grow the business. Themes for 2022 were 'One Challenger', growth and simplification. Around 20% of the Challenger staff participated, with 81 ideas submitted to drive meaningful change in the business. Seven ideas were selected and will be implemented to support the Challenger growth strategy and customer focus.

4. STRENGTHEN RESILIENCE AND SUSTAINABILITY OF CHALLENGER

FY22 PROGRESS:

Overall Longevity Cover 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 Longevity Product (Non-investment Linked) award for the Liquid Lifetime annuity, the Innovation Long Term Product Award for the market-linked lifetime annuity and Client & Adviser Technical Support Award, for its in-depth, ongoing support for advisers, evidenced by its series of highly informative and technical information material.
Apollo strategic relationship	Apollo (NYSE:APO) and Athene acquired approximately 19% minority interest in Challenger over the course of 2021/2022. Challenger and Apollo share a common purpose, strong complementary skills and capabilities. Both parties are working together on a range of opportunities to help customers achieve financial security in retirement and deliver meaningful value for shareholders, including product and distribution opportunities. In August 2022, Challenger and Apollo entered a definitive agreement to establish a joint venture to build a lending platform in Australia and New Zealand. The joint venture will aim to address a wide array of client financing needs, providing structured and asset-backed lending solutions such as accounts receivable finance, invoice and trade finance, and equipment finance, auto finance and agricultural funding, among other bespoke credit solutions. The joint venture will focus on lending opportunities not well served by traditional syndicated markets and will be equally owned by Challenger and Apollo. The execution of the binding legal documentation follows Challenger's announcement on 17 February 2022 that it had entered into a non-binding Memorandum of Understanding with Apollo. The joint venture will leverage the capabilities of both Challenger and Apollo to drive opportunities for growth for both firms. It will bring together Challenger's operating platform and relationships across Australian lending markets with Apollo's extensive global scale and credit investing capabilities, whilst also providing important origination capability to support growth across Challenger's balance sheet.
Strategic joint venture with SimCorp	Challenger and SimCorp (CSE:SIM), a global leader in investment administration services, have entered into a non-binding Memorandum of Understanding with the intention to establish a joint venture to provide a market-leading investment operations platform, servicing customers across Australia and the Asia-Pacific region. The joint venture will leverage the capabilities of both Challenger and SimCorp to provide Australia's first fully technology-led, integrated front-to-back cloud-based investment operations platform to service Challenger, Fidante and third-party clients. The joint venture is expected to be operational in the first half of FY23. The platform will be powered by SimCorp's investment management solution, Dimension, and operated by Challenger's experienced investment operations team.

Employee engagement and strong risk culture	Employee engagement measures the strength of the relationship between an organisation and its employees. Challenger believes having a highly engaged team inspired by its purpose and values will lead to superior customer and shareholder outcomes. Challenger's employee engagement survey conducted by Willis Tower Watson in April 2022 demonstrated Challenger has maintained high employee engagement. Sustainable engagement score was 81%, which was 3% above the Australian National Norm. Challenger also has a risk-focused culture, which was reflected in a risk culture score of 90% in surveys conducted by Willis Towers Watson. This consistently high-risk culture result confirms risk culture is embedded throughout the business. Challenger monitors its risk culture on a regular basis through the risk culture survey, with the latest survey completed in May 2022. The results indicate a strong risk culture that supports the business to operate consistently within its risk appetite and enables discussing and addressing of risk management issues.
Diversity and inclusion	Challenger believes that a diverse and inclusive workplace delivers better outcomes for employees, the business and the community. Challenger continued to make progress implementing its Diversity and Inclusion strategy and achieved a Diversity and Inclusion score of 89% in the employee engagement survey conducted by Willis Tower Watson in April 2022. This was 10 points above the Australian National Norm and 6 points above the Global Financial Services Norm. In addition: – 96% of employees believe that gender-based harassment and sexual harassment is not tolerated at Challenger; – 94% of employees believe Challenger has a working environment that is accepting of differences in personal identity; and – 94% of employees believe they have the flexibility they need to manage their work and other commitments. In FY22, Challenger continued to be recognised as an employer of choice for women and was included as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency (WGEA) for the fifth year in a row.
Embed ESG across the business	As part of Challenger's commitment to embed sustainability and improve understanding across the business, Challenger held a two-day internal Sustainability Summit attended by Non-Executive Directors, the Leadership Team and senior executives. The summit included workshops and presentations from other listed peers, investors and industry experts, with the outputs informing Challenger's future sustainability focus.
Second Modern Slavery statement	Challenger understands the significance of modern slavery risks and is committed to addressing the risk to people throughout our operations, investments and supply chain. 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. In FY22, Challenger did not identify any instances of modern slavery and continues to monitor high-risk areas across its operations, investments and supply chain.
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 has donated almost $90,000 to over 90 charities. Following the floods in New South Wales and Queensland, Challenger also donated almost $30,000 to Women Up North, a highly regarded service for women, children and young people who have experienced domestic violence or abuse, including a number of indigenous communities.

Key performance indicators (KPIs)

NORMALISED NPBT ($m)

FY22	$472.3m	▲19.3%
FY21	$395.8m	

NORMALISED NPAT ($m)

FY22	$321.5m	▲15.4%
FY21	$278.5m	

NORMALISED ROE PRE-TAX (%)

FY22	11.9%	▲0.7%
FY21	11.2%	

PROFITABILITY AND GROWTH

KPIs for the year ended 30 June 2022 include:

	30 JUNE 2022	30 JUNE 2021	CHANGE (%)
Profitability			
Statutory profit attributable to equity holders ($m)	253.7	592.3	(57.2)
Normalised NPBT ($m)	472.3	395.8	19.3
Normalised NPAT ($m)	321.5	278.5	15.4
Statutory EPS (cents)	37.5	88.2	(57.5)
Normalised EPS (cents)	47.6	41.5	14.7
Total dividend (cents)	23.0	20.0	15.0
Total dividend franking (%)	100	100	–
Normalised cost to income ratio (%)	38.7	41.2	2.5
Statutory RoE after tax (%)	6.4	16.8	(10.4)
Normalised RoE pre-tax (%)	11.9	11.2	0.7
Normalised RoE after tax (%)	8.1	7.9	0.2
Sales, Flows, AUM			
Total Life sales ($m)	9,706.1	6,928.1	40.1
Total Life net flows ($m)	2,471.9	2,163.8	14.2
Total Life net book growth (%)	14.3	14.4	(0.1)
Bank net deposit flows ($m)	93.6	–	n/a
Total FM net flows ($bn)	(8.5)	16.1	(large)
Total AUM ($bn)	98.6	110.0	(10.4)

Challenger's statutory profit attributable to equity holders for the year ended 30 June 2022 was substantially lower than the statutory profit reported in the previous year. The difference was primarily due to investment markets impacting the fair value of Challenger Life Company Limited's (CLC's) assets and liabilities. Investment markets were significantly stronger last year.

Normalised NPAT increased by 15.4%, and normalised EPS increased by 14.7% compared to 2021, primarily reflecting higher earnings due to an increase in assets under management.

Investment experience after tax was a loss of $81.2 million compared to a $318.6 million profit in the pcp.

A final dividend of 11.5 cents was declared, franked at 100%. The total dividend for 2022 was 23.0 cents, which is 3.0 cents higher than the prior year.

Challenger's normalised cost to income ratio of 38.7% was lower than 2021 (41.2%). Higher normalised cash operating earnings for Life was the main driver of the lower cost to income ratio.

The normalised pre-tax return on equity (RoE) was 11.9% in 2022 compared to 11.2% in the prior year.

Statutory RoE after tax of 6.4% has decreased substantially compared to the prior year (2021: 16.8%) primarily as a result of lower investment experience. Normalised RoE after tax increased from 7.9% in the prior period to 8.1%, primarily reflecting higher normalised NPAT.

CAPITAL MANAGEMENT

Challenger holds capital to ensure that it can 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 also has international operations which are subject to regulation in each jurisdiction.

The main minimum regulatory capital requirements for Challenger's regulated businesses are determined as follows:

- CLC: capital requirements as specified under APRA life insurance prudential capital standards; and
- Bank: capital requirements as specified under APRA authorised deposit-taking institutions (ADI) prudential capital standards.

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

Challenger reports a consolidated (or level 3 equivalent) capital position across the entire business. At 30 June 2022, the Challenger Group was holding $1.8 billion in excess regulatory capital, which equates to a Group Minimum Regulatory Requirement ratio (times) of 1.68 times (31 December 2021: 1.75 times). This ratio represents Challenger holding 68.0% more regulatory capital than required by its regulators.

The following table highlights the key capital metrics for CLC, CBL and the Group.

CAPITAL AS AT 30 JUNE 2022	CLC[1] ($m)	CBL[1] ($m)	GROUP[1] ($m)
Regulatory capital base			
Common Equity Tier 1 (CET1) regulatory capital	2,858.0	119.3	2,977.3
Additional Tier 1 capital	845.0	–	845.0
Total Tier 1 regulatory capital	**3,703.0**	**119.3**	**3,822.3**
Tier 2 capital[2]	399.7	–	399.7
Total capital base	**4,102.7**	**119.3**	**4,399.5**
Minimum Regulatory Requirement[3,4]	2,563.3	24.3	2,625.7
Excess over Minimum Regulatory Requirement	**1,539.4**	**95.0**	**1,773.8**
CET1 capital ratio (times)[5]	1.11	4.91	–
Tier 1 capital ratio (times)[6]	1.44	4.91	–
Minimum Regulatory Requirement ratio (times)[7]	1.60	4.91	1.68

1. Includes CLC, CBL, Funds Management, Corporate and other Life/Bank entities. Refer to Note 12 for detailed split.
2. CLC represents subordinated debt.
3. Minimum Regulatory Requirement is equivalent to PCA for CLC.
4. Minimum Regulatory Requirement for Challenger Bank Limited 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. CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
6. Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
7. Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

Key performance indicators (KPIs) continued

CAPITAL MANAGEMENT
CONTINUED

CLC REGULATORY CAPITAL BASE

CLC is regulated by APRA and is required to hold a minimum level of regulatory capital. CLC's regulatory capital base and PCA have been calculated based on the prudential standards issued by APRA.

CLC maintains a target level of capital representing APRA's PCA plus a target surplus. The target surplus is a management guide to the level of excess capital that CLC seeks to hold over and above APRA's minimum requirements. CLC's target surplus is set to ensure that it provides a buffer against adverse market conditions and having regard to CLC's credit rating. CLC uses internal capital models to determine its target surplus, which are risk-based and are responsive to changes in CLC's asset allocation and market conditions.

CLC's internal capital models result in a target PCA ratio range under current circumstances of 1.3 to 1.7 times. This range can change over time and is dependent on numerous factors.

The PCA ratio at 30 June 2022 was 1.60 times (30 June 2021: 1.63 times), within this range of 1.3 to 1.7 times. The CET1 ratio was 1.11 times at 30 June 2022 down from 1.14 times at 30 June 2021.

BANK REGULATORY CAPITAL

The Bank is an ADI regulated by APRA under the authority of the *Banking Act 1959*. The Bank's regulatory capital base and minimum regulatory capital requirement is specified under APRA's ADI prudential standards.

The Bank's regulatory capital base at 30 June 2022 was $119.3 million and represents CET1 regulatory capital. The CET1 regulatory capital base is similar to the Bank's 30 June 2022 net assets. The minimum regulatory capital requirement for the Bank relates to a total capital requirement of 8% of risk weighted assets, plus a capital conservation buffer of 2.5% as stipulated under Prudential Standard APS 110 *Capital Adequacy* (APS 110). The Bank's excess over the minimum regulatory capital requirement at 30 June 2022 was $95 million and the Bank capital ratios were as follows:

- Minimum regulatory requirement ratio 4.91 times;
- Common Equity Tier 1 (CET1) capital ratio 4.91 times; and
- Capital adequacy risk weighted asset ratio 51.5%.

The Bank commenced its non-retail lending activities in the reporting period accompanied with a reallocation of the investment securities managed by the new in-house Treasury function. These activities have resulted in the deployment of surplus capital. The surplus over the minimum regulatory requirement ratio will continue to reduce as capital is deployed.

FUNDS MANAGEMENT AND OTHER

In addition to CLC's and CBL's excess over minimum regulatory capital, Challenger maintains cash and tangible assets within entities outside CLC and CBL. These assets can be used to meet regulatory capital requirements.

DIVIDENDS AND DIVIDEND REINVESTMENT PLAN

The Board targets a dividend payout ratio range of 45% to 50% of normalised earnings per share. The dividend payout ratio for the year ended 30 June 2022 was 48.3% (30 June 2021: 48.2%) and is within Challenger's targeted range.

The final dividend of 11.5 cents will be fully franked. The Company seeks to frank its dividends to the maximum extent possible and expects future dividends over the medium term to also be fully franked. However, the actual dividend payout ratio and franking level will depend on prevailing market conditions and capital allocation priorities.

The Company continued to operate its Dividend Reinvestment Plan (DRP) during the period. The participation rate for the 2022 interim dividend was 2.1%, and 257,086 ordinary shares were issued to satisfy DRP requirements on 22 March 2022.

The DRP will continue in operation for the 2022 final dividend, and the Board has determined that new shares will be issued to fulfil DRP requirements in respect of the final dividend. The new shares will not be issued at a discount to the prevailing Challenger share price.

No shares were bought back during the year.

CREDIT RATINGS

Challenger Limited and CLC are rated by Standard & Poor's (S&P). In December 2021, S&P reaffirmed both CLC and Challenger Limited's credit ratings.

Ratings were confirmed as:

CLC	CHALLENGER LIMITED
'A' with a stable outlook	BBB+ with a stable outlook

CBL is not currently rated by S&P.

DIVIDENDS	30 JUNE 2022	30 JUNE 2021	CHANGE
Interim dividend (cents)[1]	11.5	9.5	2.0
Final dividend (cents)[2]	11.5	10.5	1.0
Total dividend (cents)	23.0	20.0	3.0
Interim dividend franking	100%	100%	–
Final dividend franking	100%	100%	–

1. Interim dividend announced on 17 February 2022 and paid on 22 March 2022 in respect of the half year ended 31 December 2022.
2. Final dividend announced on 16 August 2022 and payable on 21 September 2022 in respect of the half year ended 30 June 2022.

Normalised profit and investment experience

NORMALISED FRAMEWORK (NON-IFRS)

CLC and its consolidated entities are required by AASB 1038 *Life Insurance Contracts* to value all assets and liabilities at fair value where permitted by other accounting standards.

This gives rise to fluctuating valuation movements on assets and liabilities being recognised in the profit and loss in CLC and on consolidation in Challenger Limited. CLC is generally a long-term holder of assets, due to holding assets to best maturity 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. Investment experience represents the difference between actual investment gains/losses (both realised and unrealised) and expected gains/losses based on CLC's medium to long-term expected returns together with the new business strain[1] from writing new annuity business. Investment experience also includes any impact from changes in economic and other actuarial assumptions.

A reconciliation between statutory revenue and the management view of revenue and net income is included in the financial report as part of Note 3 Segment information.

This note also includes a reconciliation of statutory NPAT and normalised NPAT (*Management's preferred view of post-tax profit*). The application of the normalised profit framework has been reviewed by Challenger's independent auditor to ensure that the reported results are consistently applied in accordance with the methodology described in Note 3 Segment information in the financial report.

1. New business strain is a non-cash accounting adjustment recognised when annuity rates on new business are higher than the risk-free rate used to fair value annuities. The new business strain unwinds over the life of the annuity contract.

MANAGEMENT ANALYSIS – NORMALISED RESULTS

Life normalised cash operating earnings (COE) and earnings before interest and tax (EBIT) increased as a result of higher Life average investment assets and lower operating expenses.

Life's average assets under management (AUM) increased by 13.7% as a result of annuity net book growth and growth in external unit holders' liabilities.

MANAGEMENT ANALYSIS – NORMALISED RESULTS	2022 ($m)	2021 ($m)	CHANGE ($m)	CHANGE (%)
Net income[2]	776.9	682.1	94.8	13.9
Comprising:				
Life normalised COE	582.8	512.8	70.0	13.7
FM net income	191.8	169.3	22.5	13.3
Bank net income	2.3	–	2.3	–
Operating expenses[2]	(300.5)	(281.3)	(19.2)	(6.8)
Normalised EBIT	**476.4**	**400.8**	**75.6**	**18.9**
Comprising:				
Life normalised EBIT	472.3	398.9	73.4	18.4
FM normalised EBIT	82.8	71.0	11.8	16.6
Bank normalised EBIT	(11.1)	–	(11.1)	–
Corporate and other normalised EBIT	(67.6)	(69.1)	1.5	2.2
Interest and borrowing costs	(4.1)	(5.0)	0.9	18.0
Normalised NPBT	**472.3**	**395.8**	**76.5**	**19.3**
Tax on normalised profit	(150.8)	(117.3)	(33.5)	(28.6)
Normalised NPAT	**321.5**	**278.5**	**43.0**	**15.4**
Investment experience after tax	(81.2)	318.6	(399.8)	large
Bank impairments	(0.9)	–	(0.9)	–
Significant items after tax	14.3	(4.8)	19.1	large
Statutory net profit after tax attributable to equity holders	**253.7**	**592.3**	**(338.6)**	**(57.2)**

2. Net income' and 'Operating expenses' are internal classifications and are defined in Note 3 Segment information in the financial report. These differ from the statutory revenue and expenses classifications, as certain costs (including distribution expenses, property expenses, management fees, special purpose vehicle expenses and finance costs) are netted off against gross revenues. These classifications have been made in the Directors' Report and in Note 3 Segment information to reflect how management measures business performance. While the allocation of amounts to the above items and investment experience differ to the statutory view, both approaches result in the same total net profit after tax attributable to equity holders.

Funds Management net income increased (up $22.5 million) due to increased equity accounted profits and distribution fee revenue. Funds Management average FUM increased by 12.5%.

Operating expenses increased by $19.2 million (or 6.8%) for the year due to an increase in personnel expenses and the full-year impact of owning the Bank.

Challenger's full-time equivalent employee numbers increased by 32 (or 4.3%) to 770 primarily due to including Bank employees following the acquisition in July 2021.

The normalised effective tax rate was higher than the prior year. The increase in the effective tax rate reflects the non-deductible interest payments on Challenger Capital Notes and the de-recognition of a deferred tax asset in relation to an offshore entity.

Significant items were $14.3 million (after tax) and represent net proceeds associated with the sale of Funds Management affiliates partially offset by costs relating to the integration and goodwill impairment of the Bank.

MANAGEMENT ANALYSIS – INVESTMENT EXPERIENCE

Investment experience after tax relates to changes in the fair value of Life's assets and liabilities. Investment experience is a mechanism employed to remove the volatility arising from asset and liability valuation movements and new business strain from Life business earnings so as to more accurately reflect the underlying performance of the Life business.

Pre-tax investment experience in 2022 comprised an experience loss of $115.3 million. These losses are largely unrealised and primarily due to widening fixed income credit spreads and lower global equity markets, partially offset by Property and Alternatives portfolios valuation gains.

MANAGEMENT ANALYSIS – INVESTMENT EXPERIENCE	2022 ($m)	2021 ($m)
Actual capital growth[1]		
Cash and fixed income	(442.5)	331.5
Equity and infrastructure	(81.5)	76.6
Property (net of debt)	222.8	120.6
Alternatives	89.4	47.5
Total actual capital growth	**(211.8)**	**576.2**
Normalised capital growth[2]		
Cash and fixed income	(58.7)	(51.9)
Equity and infrastructure	37.7	20.0
Property (net of debt)	69.8	66.1
Total normalised capital growth	**48.8**	**34.2**
Investment experience		
Cash and fixed income	(383.8)	383.5
Equity and infrastructure	(119.2)	56.6
Property (net of debt)	153.0	54.5
Alternatives	89.4	47.5
Policyholder liability experience[3]	187.7	(76.1)
Asset and policy liability experience	**(72.9)**	**466.0**
New business strain[4]	(42.4)	(10.9)
Investment experience before tax	**(115.3)**	**455.1**
Tax expense	34.1	(136.5)
Investment experience after tax	**(81.2)**	**318.6**

1. Actual capital growth represents net realised and unrealised capital gains or losses and includes the attribution of interest rate, inflation and foreign exchange derivatives that are used to hedge exposures.
2. Normalised capital growth is determined by multiplying the normalised capital growth rate for each asset class by the average investment assets for the period. The normalised capital growth rates represent Challenger's expectations for each asset class over the investment cycle. The annual normalised growth rate is +4.0% for equity and infrastructure, +2.0% for property, 0.0% for alternatives, and -0.35% for cash and fixed income in order to allow for credit defaults. The rates have been set with reference to medium to long-term market growth rates and are reviewed to ensure consistency with prevailing market experience.
3. Policyholder liability experience represents the impact of changes in macroeconomic variables, including bond yields and inflation factors, expense assumptions and other factors applied in the valuation of life contract liabilities.
4. New business strain is a non-cash accounting adjustment recognised when annuity rates on new business are higher than the discount rate, being a risk-free rate plus an illiquidity premium used to fair value annuities. The new business strain unwinds over the annuity contract.

Five-year history

	2022	2021	2020	2019	2018
Earnings ($m)					
Normalised Cash Operating Earnings (COE)	582.8	512.8	638.9	670.1	669.6
Net fee income	191.8	169.3	158.1	149.9	151.2
Bank net interest income	2.3	–	–	–	–
Other income	–	–	0.4	1.0	1.0
Total net income	**776.9**	**682.1**	**797.4**	**821.0**	**821.8**
Personnel expenses	(204.5)	(179.9)	(174.0)	(185.3)	(187.8)
Other expenses	(96.0)	(101.4)	(110.4)	(82.1)	(80.6)
Total expenses	**(300.5)**	**(281.3)**	**(284.4)**	**(267.4)**	**(268.4)**
Normalised EBIT	**476.4**	**400.8**	**513.0**	**553.6**	**553.4**
Interest and borrowing costs	(4.1)	(5.0)	(6.5)	(5.3)	(6.1)
Normalised profit before tax	**472.3**	**395.8**	**506.5**	**548.3**	**547.3**
Normalised tax	(150.8)	(117.3)	(162.8)	(152.2)	(141.2)
Normalised profit after tax	**321.5**	**278.5**	**343.7**	**396.1**	**406.1**
Investment experience after tax	(81.2)	318.6	(750.3)	(88.3)	(76.0)
Bank impairments after tax	(0.9)	–	–	–	–
Significant items after tax	14.3	(4.8)	(9.4)	–	(7.6)
Profit attributable to equity holders	**253.7**	**592.3**	**(416.0)**	**307.8**	**322.5**
Normalised cost to income ratio (%)	38.7%	41.2%	35.7%	32.6%	32.7%
Normalised effective tax rate (%)	31.9%	29.6%	32.1%	27.8%	25.8%
Statutory effective tax rate (%)	29.0%	28.7%	28.9%	29.2%	22.7%
Earnings per share (EPS) (cents)					
Basic EPS – normalised profit	47.6	41.5	56.5	65.5	68.1
Basic EPS – statutory profit	37.5	88.2	(68.4)	50.9	54.0
Diluted EPS – normalised profit	40.9	33.8	46.9	56.0	64.2
Diluted EPS – statutory profit	33.1	68.0	(68.4)	44.8	52.2
Capital management (%)					
Normalised return on equity – pre-tax	11.9%	11.2%	14.8%	15.8%	16.5%
Normalised return on equity – post-tax	8.1%	7.9%	10.0%	11.4%	12.2%
Statutory return on equity – post-tax	6.4%	16.8%	(12.1%)	8.9%	9.7%
Statement of financial position ($m)					
Total assets	29,725.2	29,917.9	28,461.6	27,457.5	25,300.5
Total liabilities	25,736.9	26,092.1	25,212.0	23,834.7	21,814.7
Net assets[1]	3,988.3	3,825.8	3,249.6	3,622.8	3,485.8
Net assets[2]	3,988.3	3,825.8	3,249.6	3,600.3	3,485.4
Net assets[2] – average[3]	3,970.0	3,518.9	3,424.4	3,462.1	3,323.3
Net tangible assets[4]	3,372.1	3,202.0	2,619.2	3,019.1	2,892.5
Net assets per basic share ($)	5.86	5.69	4.90	5.94	5.79
Net tangible assets per basic share ($)	4.96	4.76	3.95	4.98	4.81

	2022	2021	2020	2019	2018
Underlying operating cash flow ($m)	**(101.3)**	**194.7**	**194.7**	**236.9**	**197.4**
Dividends per share (cents)					
Interim dividend (cents)	11.5	9.5	17.5	17.5	17.5
Final dividend (cents)	11.5	10.5	–	18.0	18.0
Total dividend (cents)	**23.0**	**20.0**	**17.5**	**35.5**	**35.5**
Normalised dividend payout ratio(%)	48.3%	48.2%	31.0%	54.2%	52.1%
Statutory dividend payout ratio(%)	61.3%	22.1%	n/a	69.7%	65.7%
Sales and annuity book net flows ($m)					
Annuity sales ($m)	5,122.7	4,566.0	3,127.4	3,543.1	4,000.7
Other Life sales ($m)	4,583.4	2,362.1	2,024.0	1,006.9	1,554.9
Total Life sales	**9,706.1**	**6,928.1**	**5,151.4**	**4,550.0**	**5,555.6**
Life annuity net flows ($m)	1,074.2	1,079.8	(251.1)	685.8	1,392.7
Life annuity book ($m)	13,595.4	13,669.9	12,581.2	12,870.2	11,728.3
Life annuity net book growth (%)	7.9%	8.6%	(2.0%)	5.8%	13.5%
Total Life flows ($m)	2,471.9	2,163.8	315.8	474.8	1,796.3
Total Life book ($m)	17,981.8	17,302.1	14,997.0	14,836.4	13,863.3
Total Life net book growth (%)	14.3%	14.4%	2.1%	3.4%	15.0%
Bank deposit sales ($m)	219.3	–	–	–	–
Bank net deposit flows ($m)	93.6	–	–	–	–
Bank deposit book ($m)	227.7	–	–	–	–
Bank deposit book growth (%)	69.7%	–	–	–	–
Funds Management – net flows ($m)	(8,524.8)	16,111.5	2,540.9	(2,438.4)	5,301.2
Assets under management ($m)					
Life	22,224.0	21,563.0	18,303.0	19,010.0	18,085.0
Funds Management	93,448.0	105,824.0	81,435.0	79,029.0	77,984.0
Bank	390.5	–	–	–	–
Elimination of cross-holdings[5]	(17,492.6)	(17,427.0)	(14,501.0)	(16,269.0)	(14,926.0)
Total assets under management	**98,569.9**	**109,960.0**	**85,237.0**	**81,770.0**	**81,143.0**
Other					
Headcount – closing FTE	770	738	735	687	676
Weighted average number of ASX-listed basic shares on issue (m)	675.7	671.6	608.3	605.0	596.7
Number of shares on issue – closing (m)	680.0	672.6	663.1	605.8	601.7
Share price – closing ($)	6.84	5.41	4.41	6.64	11.83
Market capitalisation at 30 June ($m)[6]	4,651.2	3,638.8	2,924.3	4,022.5	7,118.1

1. Including minority interests.
2. Excluding minority interests.
3. Calculated on a monthly basis.
4. Excludes right-of-use lease asset, goodwill and other intangible assets.
5. Life assets managed by Funds Management.
6. Calculated as share price multiplied by ordinary share capital.

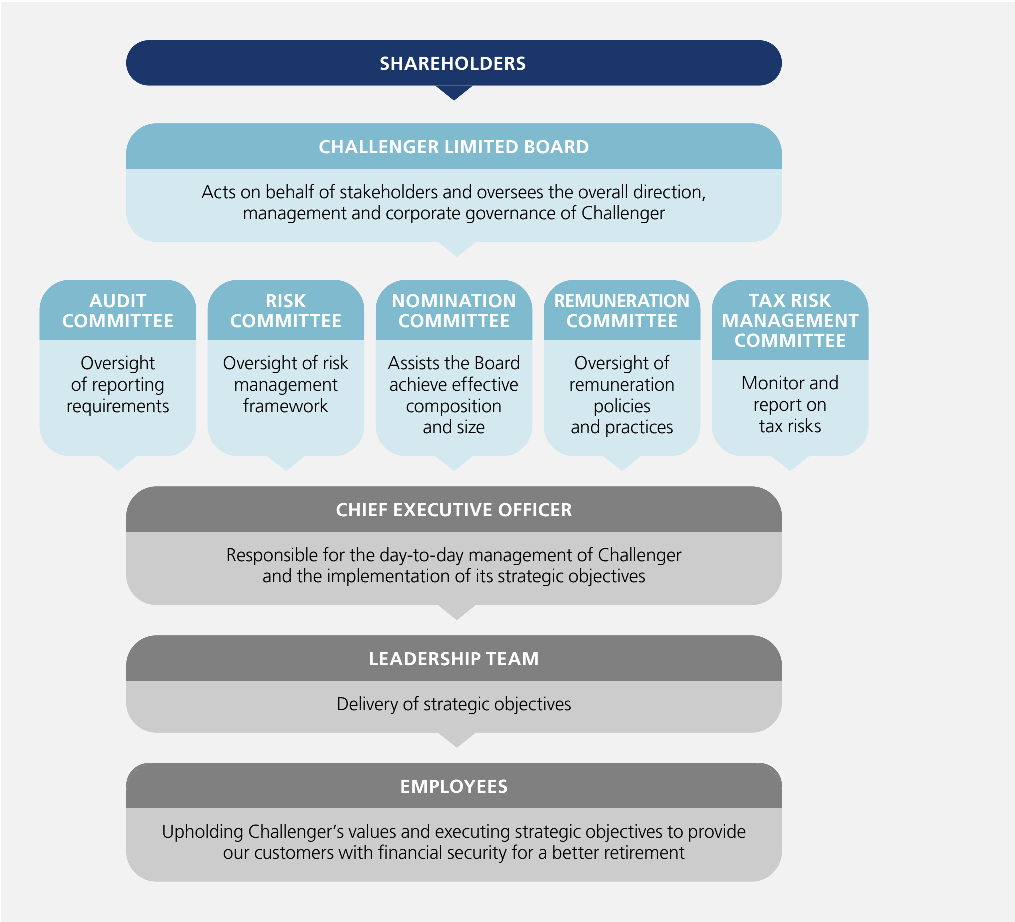
Corporate governance

At Challenger, we have a strong governance and risk management framework. We believe that corporate governance enhances stakeholder confidence and enhances business outcomes.

The way we work is informed by our strong corporate governance and risk culture, which is embedded throughout our business. At Challenger, good corporate governance comes from the top. The Board has oversight of the risks and opportunities for the business and acts on behalf of all of Challenger's stakeholders.

Our Board guides our strategic direction and establishes key policies and frameworks to assist management in delivering results for our stakeholders. The Board ensures appropriate governance and oversight in the management of our business. The Chief Executive Officer has delegated authority from the Board to, together with the Leadership Team, implement key strategies and policies, have oversight of the risks and opportunities for the business and act on behalf of our stakeholders.

OUR APPROACH TO CORPORATE GOVERNANCE



ROLES AND RESPONSIBILITIES OF BOARD AND MANAGEMENT

THE ROLE OF THE BOARD AND DELEGATIONS

The Board is accountable to shareholders for the activities and performance of Challenger by overseeing the creation of sustainable shareholder value within an appropriate risk framework and having regard for stakeholder interests and community expectations.

The Board is responsible for setting, approving and regularly monitoring Challenger's corporate strategy and strategic priorities and holding management accountable for progress.

Challenger's purpose is to provide our customers with financial security for a better retirement. This is a long-term purpose and the Board sets strategic priorities each year to work towards fulfilling this purpose. This includes annual Board strategy offsites, regular Board reporting and meetings, and discussion and review with management. Similarly, the Board ensures rigorous governance processes operate effectively to guide decision-making across the business.

The Board's responsibilities are set out in the Board Charter, which is available at:

challenger.com.au/about-us

In addition to strategy as described above, the Board's role and responsibilities include:

- approving business plans, budgets and financial policies;
- considering management recommendations on strategic business matters;
- establishing, promoting and maintaining proper processes and controls to maintain the integrity of accounting and financial records and reporting;
- fairly and responsibly rewarding executives, having regard to the performance of the executives, Challenger's risk management framework and culture, the interests of shareholders, market conditions and Challenger's overall performance;
- adopting and overseeing implementation of corporate governance practices;
- overseeing the establishment, promotion and maintenance of effective risk management policies and processes;
- determining and adopting Challenger's dividend policy;
- reviewing Board composition and performance;
- appointing, evaluating and remunerating the Chief Executive Officer (CEO) and approving the appointment of the Chief Financial Officer (CFO), Chief Risk Officer (CRO), General Counsel and Company Secretary; and
- determining the CEO's delegated authority.

The Board has established committees to assist in carrying out its responsibilities and to consider certain issues and functions in detail. The Board committees are discussed on page 28.

MANAGEMENT RESPONSIBILITY

The Board has delegated to the CEO the authority and powers necessary to implement the strategies approved by the Board and to manage the business affairs of Challenger within the policies and delegation limits specified by the Board from time to time. The CEO may delegate authority to management, but remains accountable for all authorities delegated to management.

DIRECTORS' SKILLS MATRIX

The Board has determined that its members have an appropriate collective mix of skills, experience and expertise to:

- exercise independent judgement;
- have a proper understanding of, and competence to deal with, current and emerging issues of the business;
- encourage enhanced Challenger performance; and
- effectively review and challenge the performance of management.

The Board's competencies are assessed annually and the results of the most recent assessment are shown in the table below.

The Board skills matrix shows that Board members have a high level of competency across the areas of expertise relevant to Challenger's business.

DIRECTORS' SKILLS MATRIX 2022

LEADERSHIP & STRATEGY

Leadership, effective communication and influencing skills.

Strategic thinking capability and transactional expertise.

INVESTMENT & CREDIT EXPERTISE

Credit risk management and investment expertise across asset classes and exposures (eg: property, fixed income, equities, etc).

CORPORATE GOVERNANCE

Public company corporate governance.

CUSTOMER

Experience in distribution, marketing and fostering key institutional customer relationships.

FINANCIAL ACUMEN

Financial reporting literacy including exposure to Accounting Standards.

PUBLIC POLICY

Experience in relevant public policy areas and key Government and regulator relationships.

RISK & COMPLIANCE

Financial services and fiduciary regulatory awareness.

Relevant compliance and risk experience including legal and tax risk management.

IT & DIGITAL

Understanding of IT strategy, the application of technology in large organisations, and innovation.

SECTORAL EXPOSURE

Exposure to Funds Management and Life insurance sectors, and market experience in jurisdictions in which Challenger operates.

PEOPLE & REMUNERATION

Experience in building capable and highly engaged teams and understanding of current remuneration regulation, structuring and sectoral conditions.

▶ Advanced competency

▶ Average competency

Corporate governance continued

BOARD COMMITTEES

To assist it in undertaking its duties, the Board has established the following standing committees:

- Group Risk Committee – Oversight of Challenger's risk management framework;
- Group Audit Committee – Oversight of regulatory reporting requirements;
- Group Remuneration Committee – Oversight of remuneration policies and practices;
- Nomination Committee – Assists the Board to ensure it maintains an effective composition and size; and
- Tax Risk Management Committee – Monitor and report on Tax risks.

Each committee has its own charter, copies of which are available at:

challenger.com.au

The charters specify the composition, responsibilities, duties, reporting obligations, meeting arrangements, authority and resources available to the committees and the provisions for review of the charter.

Details of Directors' membership of each committee and those eligible members' attendance at meetings throughout the period from 1 July 2021 to 30 June 2022 are set out below.

Management committees and groups that are responsible for progressing our strategic agenda include:

- Executive Risk Management Committee;
- ESG Steering Committee;
- Work Health and Safety Committee;
- Diversity and Inclusion Committee;
- Our Community Committee; and
- Sustainability Action Group.

Our ESG Steering Committee was established in 2021 in response to the increasing relevance of environmental, social and governance topics throughout our business. A quarterly sustainability update is submitted to the Group Risk Committee.

DIRECTORS' MEETINGS

	BOARD		GROUP RISK COMMITTEE		GROUP AUDIT COMMITTEE		GROUP REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
DIRECTOR	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED
P Polson	10	10	5	5	4	4	5	5	2	2
N Hamilton[1,2]	6	6	–	–	–	–	–	–	–	–
J M Green	10	9	5	5	4	4	5	5	2	2
S Gregg	10	10	5	4	4	3	5	5	2	2
M Kobayashi	10	9	–	–	–	–	–	–	2	2
H Smith	10	10	5	5	4	4	–	–	2	2
J Stephenson[3]	10	10	5	5	4	4	5	5	2	2
D West	10	10	5	5	4	4	–	–	2	2
M Willis	10	10	5	5	4	4	–	–	2	2
R Howes[1,2]	4	4	–	–	–	–	–	–	–	–

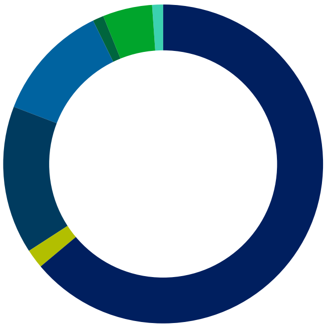
1. The Managing Director and CEO attends the Group Risk Committee, the Group Audit Committee, the Group Remuneration Committee and the Nomination Committee meetings at the invitation of these committees.
2. Mr Hamilton replaced Mr Howes as Managing Director and CEO on 1 January 2022.
3. Ms Stephenson was the Board Representative on the Tax Risk Management Committee and attended one meeting (being eligible to attend one meeting).

There are no management representatives appointed as members of the above-mentioned Board Committees.

Tax transparency

Challenger is committed to paying our fair share of taxes and we take our obligation to comply with prevailing taxation laws, practices and reporting requirements seriously.

2022 TOTAL TAX CONTRIBUTION



- **64%** Corporate income tax
- **2%** Employer payroll taxes
- **15%** GST
- **12%** Employee payroll taxes
- **1%** Customer withholding taxes
- **5%** Stamp duty and other local and council taxes
- **1%** Levies

We maintain an open relationship with key regulators, including the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO).

Challenger's tax disclosures meet the requirements of the Australian Board of Taxation's voluntary Tax Transparency Code (TTC) of which Challenger is a signatory. The tax transparency disclosures in this report and in the tax note conform with the TTC. Challenger's total tax contribution (paid and collected) to and on behalf of the Australian Government (state and federal) for FY22 was $415.4 million (FY21: $191.2 million).

OUR TAX STRATEGY AND GOVERNANCE FRAMEWORK

Since 2007, Challenger's tax charter governs how tax is managed within the organisation. Our charter states that Challenger will manage its tax obligations in a sustainable way, considering the commercial and social imperatives of the business and our stakeholders. It determines that Challenger will comply with prevailing laws while maintaining professional relationships with the regulatory and tax authorities where we operate. We maintain transparent and collaborative relationships with key regulators, including APRA, ASIC and the ATO.

Challenger's tax charter and tax risk governance is embedded in the broader Challenger risk governance frameworks and is reviewed and approved by the Challenger Board on a bi-annual basis. Challenger does not knowingly participate in the avoidance of tax or facilitate and/or promote the avoidance or evasion of tax by a third party.

Most of the tax paid by the Group is to the ATO. The Group seeks to maintain a "high assurance Justified Trust" over income tax and GST with the ATO. Under the ATO Justified Trust framework, the Group reports all significant transactions, risks and other issues to the ATO on a regular basis, and issues are resolved with the ATO in a constructive manner.

OFFSHORE OPERATIONS

We invest offshore to secure a diversified balanced portfolio and to match our policy liabilities. As at 30 June 2022, 37.0% of Challenger Life Company Limited's (CLC) investment assets were offshore. CLC is also a party to a number of global reinsurance agreements.

Our Funds Management business originates and manages offshore assets on behalf of CLC and third-party institutional investors, such as profit-for-member superannuation funds.

Due to offshore investments and operations, a number of overseas foreign structures are used to provide certainty over commercial, legal and tax aspects of the various transactions we enter into. Using entities in jurisdictions with similar laws to Australia or those that have substantially complied with the Organisation for Economic Co-operation and Development (OECD) guidelines on tax transparency, including information exchange with global tax authorities, enhances certainty.

The investment returns Challenger makes are taxable in the source country of the investment and are also taxed in Australia. This results in an effective tax rate for the group of 29.0% (2021: 28.7%) with no material tax rate difference recognised between the Australian and offshore operations.

Risk management

The management of risk is fundamental to Challenger's business and to building long-term shareholder value.

The Board's Risk Appetite Statement outlines the level of risk that is acceptable and is combined with an effective risk management framework which monitors, mitigates and manages the risks to which Challenger is exposed.

The Board recognises the broad range of risks that Challenger faces as a participant in the financial services industry. These include:

- funding and liquidity risk;
- investment and pricing risk;
- counterparty risk;
- strategic, business and reputation risk;
- operational risk;
- climate change risk;
- conduct risk; and
- licence and regulatory risk.

An integral part of risk management for Challenger is the maintenance of a strong risk culture amongst its employees. Challenger's expectations of its employees are encapsulated in its code of conduct and the 'Challenger I ACT' values of:

- Act with integrity;
- Aim high;
- Collaborate; and
- Think customer.

All employees are assessed against the Challenger I ACT values as part of the annual performance review process, and this outcome contributes to their overall performance rating and individual remuneration outcomes.

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 the 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 that there is 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 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 the responsibility for monitoring the implementation of the risk framework, including the monitoring, reporting and analysis of the various risks faced by the business, and providing effective challenge to activities and decisions that may materially affect Challenger's risk profile.

Challenger has a robust risk management framework which supports its operating segments, and its risk appetite distinguishes risks from which Challenger will seek to make an economic return from those which it seeks to minimise and which it does not consider will provide a return. The management of these risks is fundamental to Challenger's business, customers and to building long-term shareholder value. Challenger is also prudentially supervised by APRA, which prescribes certain prudential standards that must be met by Challenger, its life insurance subsidiary CLC and the ADI bank CBL, which Challenger purchased in July 2021.

Challenger regularly assesses its risk culture with a combination of external reviews and internal staff surveys to ensure that the management of risk and day-to-day compliance remains entrenched within the way in which Challenger operates. Challenger's risk appetite statement provides that, subject to earning acceptable economic returns, it can retain exposure to credit risk, property risk, equity risk and life insurance 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;
- **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;
- **equity risk** – is the potential impact of movements in the market value of listed equity investments, unlisted equity investments and investments in absolute return strategies. Absolute return strategies are generally uncorrelated to listed equity market returns. Challenger holds equities as part of its investment portfolio in order to provide diversification across the investment portfolio; and
- **life insurance risk** – represents both longevity risk and mortality risk. Through selling lifetime annuities and assuming wholesale reinsurance agreements, CLC takes longevity risk, which is the risk that 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 risk on its wholesale mortality reinsurance business.

Challenger seeks to minimise the risks for which it does not consider an appropriate return can be generated. These risks include:

- **foreign exchange risk** – is the risk of a change in asset values as a result of movements in foreign exchange rates;
- **interest rate risk** – is the risk of fluctuations in Challenger's earnings arising from movements in interest rates;
- **inflation risk** – is the risk of fluctuations in Challenger's earnings from movements in inflation rates;
- **operational risk** – is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events; and
- **regulatory and compliance risk** – is the risk of legal or regulatory sanctions or loss as a result of Challenger's failure to comply with laws, regulations or regulatory policy applying to its business.

Further details on Challenger's approach to risk management are included in Section 5 of this report.

Sustainability

Our corporate sustainability strategy has been developed to support the delivery of our business strategy.

OUR SUSTAINABILITY STRATEGY

Our corporate sustainability strategy reflects our most material social, environmental and governance opportunities and is aligned to our purpose.

FINANCIALLY RESILIENT CUSTOMERS AND COMMUNITIES

Helping our customers and communities to be strong and financially resilient

CONSTRUCTIVE PUBLIC POLICY SETTINGS

Taking action on issues affecting the ability of retirees to achieve financial security

RESPONSIBLE INVESTMENT

Investing responsibly by incorporating, environmental, social and governance (ESG) considerations

DOING THINGS RIGHT

Designing business practices that focus on our customers, employees, shareholders and the environment

STAKEHOLDER ENGAGEMENT

Engaging with our stakeholders ensures we're focused on the right environmental, social and governance topics.

At Challenger, we engage throughout the year across a number of channels.

Through regular feedback, we have the opportunity to understand and assess the needs and concerns of our stakeholders and respond to them. The key channels are listed below.

CUSTOMERS

- Survey
- Call centre
- Website and social media
- Presentations

SHAREHOLDERS

- Investor days
- Regular financial reporting
- Management meetings with investors and prospective investors
- Chair engagement with significant investors
- Market disclosures

GOVERNMENT & REGULATORS

- Policy analysis
- Government and industry submissions
- Industry forums and conferences
- Ongoing meetings

EMPLOYEES

- Employee briefings
- Surveys
- Senior leadership forums
- ESG workshops
- Sustainability Education days

COMMUNITIES

- Strategic partnership
- Workplace giving and matching
- Fundraising initiatives
- Volunteering
- Shared research activities

HIGHLIGHTS

EMPLOYEE ENGAGEMENT[1]

81% ▲3% on the Australian norm

CULTIV8, FIDANTE'S NEWEST AFFILIATE, EXPANDS THE PLATFORM INTO

sustainable agriculture and food technology

CUSTOMER SUPPORT

>$1bn

IN GUARANTEED PAYMENTS MADE TO SUPPORT AROUND

140,000

CUSTOMERS

GENDER DIVERSITY

1. 2022 Your Voice employee engagement survey, April 2022.

FY22 Materiality process

Our annual materiality process is a key stakeholder engagement activity that assesses feedback gathered throughout the year.

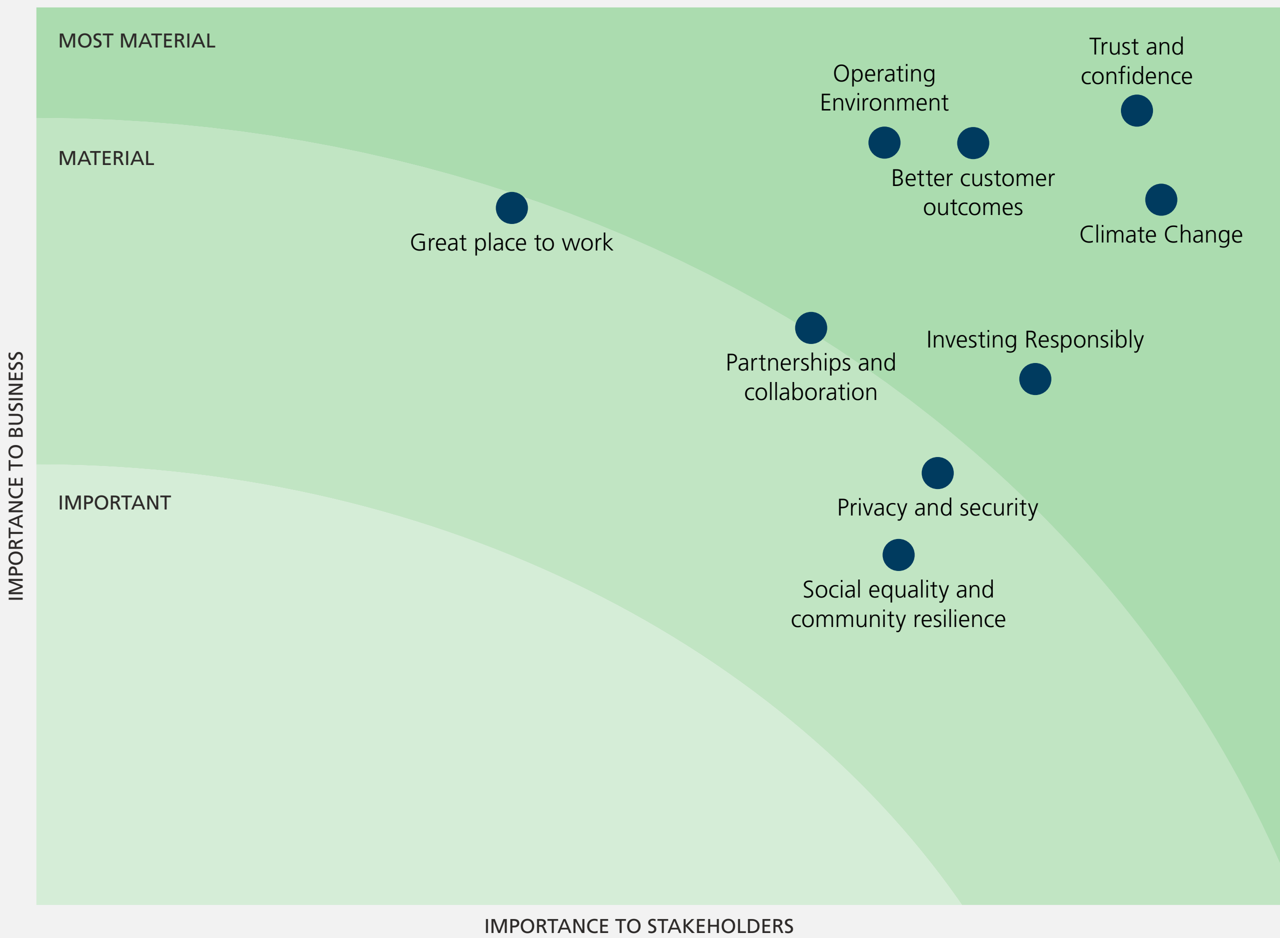
We use this process as well as information collected from sustainability related initiatives to identify what matters most to our stakeholders and our business.

Other materials assessed include:

- trend reports and competitor analysis;
- guidance from the GRI Standards;
- the UN Sustainable Development Goals;
- two-day Sustainability Summit with internal and external stakeholders;
- regular Board engagement and reporting; and
- monitoring of ESG-related media coverage.

Through this process we identified the following material topics and their relative importance to both our business and our stakeholders.

OUR MATERIAL MATTERS



OUR MATERIAL TOPICS

MATERIAL TOPIC	DESCRIPTION	STAKEHOLDERS	LINK TO STRATEGY AND UNSDGs
TRUST AND CONFIDENCE	As a financial institution maintaining trust is a key priority. Challenger recognises the importance of maintaining trust through culture and conduct, strong governance and risk management and effective balance sheet management.	– Customers – Employees – Government and regulators – Shareholders – Communities	8 DECENT WORK AND ECONOMIC GROWTH 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
CLIMATE CHANGE	Climate change will impact every part of the economy. Challenger understands the need for physical and transition risks to be incorporated into investment decision making and overall risk management frameworks. There are also investment opportunities that arise from climate change strategies.	– Employees – Regulators – Shareholders – Communities	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
BETTER CUSTOMER OUTCOMES	Challenger is committed to providing better customer outcomes that support financial security in retirement. We achieve this through product innovation, supporting intermediaries and helping customers navigate a changing environment.	– Customers – Government and regulators	8 DECENT WORK AND ECONOMIC GROWTH
OPERATING ENVIRONMENT	As an investment management company, Challenger closely monitors market fluctuations and regulatory shifts and takes action when appropriate to ensure that we continue to deliver high quality outcomes for our customers and shareholders.	– Government and regulators – Shareholders	8 DECENT WORK AND ECONOMIC GROWTH
INVESTING RESPONSIBLY	Challenger recognises the importance of incorporating environmental, social and governance considerations into our investment process. Responsible investment also includes how we can demonstrate the value that our business has on society more broadly.	– Employees – Government and regulators – Shareholders – Communities	8 DECENT WORK AND ECONOMIC GROWTH 13 CLIMATE ACTION
PARTNERSHIPS AND COLLABORATION	Collaboration and developing successful partnerships supports our business to deliver high quality outcomes for our stakeholders. This includes working closely with industry, government, strategic partners, academics and the wider community.	– Customers – Government and regulators – Shareholders – Communities	8 DECENT WORK AND ECONOMIC GROWTH
GREAT PLACE TO WORK	Challenger seeks to build and support an engaged workforce that embraces diverse thinking. Maintaining a collaborative and open culture is critical to our success, supporting our ability to deliver our strategy. Providing the tools and technology to enable employees to reach their potential are also essential elements of an engaged workplace.	– Employees	5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES
SOCIAL INCLUSION AND COMMUNITY RESILIENCE	As a retirement income provider, Challenger plays a key role in contributing to fiscally responsible solutions to support the ageing population. We work closely with the industry, government and the community on how to effectively plan for retirement and improve financial security for older Australians. Through our giving and volunteering programs, and community activities, we also connect with and support the communities in which we operate.	– Customers – Communities	10 REDUCED INEQUALITIES 17 PARTNERSHIPS FOR THE GOALS

Trust and confidence

UNSDGs

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Building trust and confidence enables us to deliver value for our stakeholders

WHY IT MATTERS

Maintaining trust across all stakeholders continues to be critical for businesses, key to which is improving transparency and maintaining a strong risk culture. This is reinforced by the 2022 Edelman Trust Barometer which found that "societal leadership is now a core business function".

OUR APPROACH

As a financial institution, maintaining trust is a key priority. Challenger achieves this through a strong employee culture and conduct, robust governance and risk management, and effective balance sheet management.

TRANSPARENCY

Challenger has a suite of policies that guide our business practices.

These are reviewed regularly and enhanced to ensure regulatory changes, current issues and trends are captured and considered. These include:

- Anti-Money Laundering and Counter Terrorism Financial policy
- Code of Conduct
- Conflicts of Interest policy
- Continuous Disclosure policy
- Discrimination and Harassment policy
- Financial Abuse of Elders and Vulnerable Customers framework
- Fraud and Corruption policy
- Gifts, Benefits and Entertainment policy
- Group Compliance policy
- Group Information Security policy
- Human Rights statement
- Inside Information policy and Practice Note
- IT Acceptable Use policy
- Political Donations policy
- Privacy policy
- Regulated Persons policy
- Risk Appetite statement
- Social Media policy
- Staff Trading policy
- Whistleblower policy
- Work Health and Safety policy
- Workplace Bullying policy

FRAUD AND CORRUPTION POLICY

During FY22, Challenger's Fraud and Corruption policy was reviewed and benchmarked against the new Australian Standard AS8001:2021 Fraud & Corruption Control. The policy is also published on Challenger's website in accordance with ASX corporate governance recommendations.

POLITICAL DONATIONS POLICY

Challenger Political Donations policy prohibits the company and its employees from making political donations and from attending political fundraiser events as a representative of Challenger. Challenger is committed to engaging on the Australian Government's policy-making agenda in an accountable and transparent way while also protecting our employees' freedom of political communication.

Throughout the year, neither Challenger or its employees as representatives of Challenger, made any donations to a political party or attended any political fundraising event.

WHISTLEBLOWER POLICY

Challenger's Whistleblower policy outlines the process for raising concerns as well as the systems in place to protect the confidentiality of individuals. We provide an independent whistleblower service to enable users to easily raise concerns through multiple channels anonymously.

We actively encourage our employees, contractors, former employees, suppliers, service providers and relatives to speak up and report any concerns of wrongdoing.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

TRANSPARENCY BUILDS TRUST IN FINANCIAL INSTITUTIONS

BALANCE SHEET MANAGEMENT

Challenger Life has an investment framework that is underpinned by a focus on capital and risk management. A strong risk culture and capital discipline is essential to a prudent investment strategy that takes proper consideration of both policyholder and shareholder interests.

Challenger has a return on equity target of the RBA cash rate plus 12 percent (pre-tax). To achieve this, we invest shareholder's capital to earn this targeted return on equity, whilst always giving primary consideration to its policyholders' best interests and overall risk appetite. This capital discipline informs not just asset allocation, but also capital management, our product pricing and sales strategy.

Climate change

UNSDGs

We are committed to supporting progress in transitioning to a low-carbon economy, working with our stakeholders to reduce risks and create a more resilient economy.

WHY IT MATTERS

The Intergovernmental Panel on Climate Change (IPCC) report (released in March 2022) highlighted a number of key global climate change risks, as well as particular considerations for each region across the world. The report states that in Australia, "climate risks are projected to increase for a wide range of systems, sectors and communities, which are exacerbated by underlying vulnerabilities and exposures".[1]

OUR APPROACH

Climate change will impact all sections of the economy and managing climate change is now considered a key part of effective risk management. Challenger recognises that physical and transition risks should be incorporated into investment decisions and overall risk management frameworks. Investment opportunities will also arise from climate change strategies.

GOVERNANCE

Challenger's governance framework incorporates the consideration of climate change.

Risks and opportunities identified in the business are taken to the Group Risk Committee as they arise which keeps the Board informed on the progress of initiatives. This regular reporting also provides guidance and education to the Board on relevant climate change considerations.

Climate is also a key consideration in our investment due diligence processes for the Fixed Income and Real Estate portfolios, as outlined in their Responsible Investment statements.

Challenger submitted a self-assessment to APRA based on CPG 229 Climate change financial risks. The outcomes of this assessment will be used to guide our approach going forward.

INCORPORATING CLIMATE CHANGE INTO OUR GOVERNANCE PRACTICES LEADS TO CLIMATE ACTION

1. IPCC Sixth Assessment Report Australasia Fact Sheet, March 2022.

STRATEGY

Challenger has undertaken a climate risk analysis project for the property portfolio that supports our strategic approach to climate change.

The analysis calculates the at-risk impact of physical and transitional risks across the portfolio including a measure of future carbon emissions based on a number of climate change and carbon price scenarios. The model also evaluates potential carbon reduction outcomes where new emission reduction and energy cost saving actions are forecast for implementation. The model will be updated regularly to support the development of strategies aimed at reducing climate risk and optimising properties across the portfolio.

7 AFFORDABLE AND CLEAN ENERGY

SUPPORTING RENEWABLE ENERGY PROJECTS IMPROVES ACCESS TO SUSTAINABLE ENERGY FOR EVERYONE

RISK MANAGEMENT

Following a climate risk assessment, the property portfolio was identified as Challenger's highest risk asset class.

This portfolio was analysed in further detail to identify property-level risks and develop mitigating activities. A due diligence framework was also developed to assess potential new acquisitions.

Work has been undertaken to assess the Fixed Income portfolio to understand the impact of climate across a greater proportion of Challenger's assets. The outcomes of this analysis will be used to develop strategies to mitigate current risks and define due diligence processes for new investments.

METRICS AND TARGETS

We are committed to monitoring and reducing our operational greenhouse gas emissions. We partnered with NDevr Environmental to calculate our emissions to ensure we align with industry as the transition to a low-carbon economy evolves and matures.

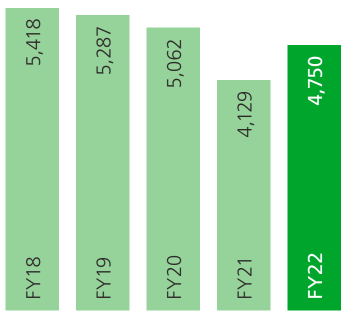
Overall our emissions increased 15% over the past year as employees began returning to the office and corporate travel resumed following pandemic lockdowns and border closures. Reflecting this, emissions relating to flights and accommodation were up slightly on FY21, however they were down 79% and 62% respectively on FY20.

Emissions from electricity, water and paper use were reduced further in FY21, however this was offset by an increase in emissions relating to IT equipment and software required to support hybrid working arrangements.

Scope 3 currently excludes the emissions intensity of our investment and lending activities. As the availability and robustness of emissions data increases we will aim to enhance our financed emissions reporting in future periods. Our full emissions reporting is provided on the Sustainability section of our website.

TOTAL GHG EMISSIONS (tCO_2-e)

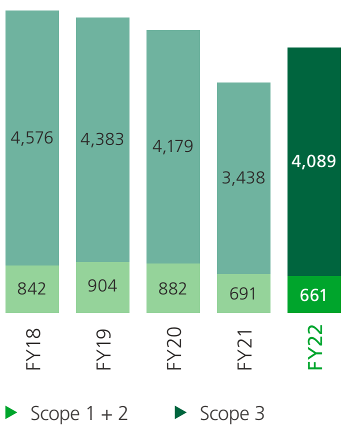
▲ **15%**
increase in GHG emissions compared to FY21



Emissions increased 15% over the past year as employees began returning to the office and corporate travel resumed following pandemic lockdowns and border closures.

SCOPE 1, 2 AND 3 EMISSIONS (tCO_2-e)

▼ **12%**
reduction in GHG emissions since 2018



Better customer outcomes

UNSDGs

8 DECENT WORK AND ECONOMIC GROWTH

93%

of advisers consider Challenger a leader in retirement income

WHY IT MATTERS

Customer expectations continue to evolve including a focus on personalisation, finding help immediately and maintaining control.

> "For companies to succeed – and outperform their peers – in this environment of constant change, a culture of customer-centricity is critical."[1]

OUR APPROACH

Challenger is committed to providing better customer outcomes for a wider range of customer needs. This is achieved through product innovation, supporting intermediaries and ensuring we help customers to navigate a changing environment.

This year we established a new Customer Division, bringing together skills capability and expertise from across the Group.

Challenger's Customer Brand Health Report conducted by Hall & Partners in February 2022, suggests that our business is well placed to provide Australian retirees with better retirement outcomes.

The report found that over half of Australian retirees (aged 65–74) are aware of the Challenger brand, of which almost 80% associate the brand as a provider of products for retirement, and almost 60% see Challenger as a leader in retirement income products.

IMPROVEMENTS FOR CUSTOMERS TO ACCESS INFORMATION

During the pandemic and move to remote working, Challenger responded quickly ensuring that investors and advisers could access information easily online and via webinars. Over the last year, the majority of adviser, investor and employee events were conducted virtually (100%) and hybrid (43%).

CONTEMPORARY SOLUTIONS

In October 2021, Challenger launched a new market-linked indexation option within the Guaranteed Annuity (Liquid Lifetime) product, providing retirees with the ability to index their lifetime payments to movements in a number of diversified market indices. This new indexation option complements other available options that index lifetime payments to inflation and the RBA cash rate, giving our customers a broad choice of options that can be specifically tailored to their retirement needs.

Our market-linked annuity is available through financial advisers as well as directly from Challenger.

Challenger conducted research to ascertain the desirability of three new product concepts with advisers and found that for the products to be compelling enough for their clients it must; 1) fit within the broader, holistic approach to managing the clients' portfolio; and 2) offer something that advisers cannot easily replicate themselves through an account-based pension (ABP). This customer-centred approach allows Challenger to build products and solutions that best meet the needs of clients.

Fidante continues to drive product innovation to address the needs of customers in a changing market environment. Several new funds and affiliates were launched by Fidante throughout the year. Alphinity launched its Global Sustainable Fund to sit alongside its Sustainable Strategy, providing both a global and domestic sustainable offering. Fidante also launched Ox Capital, providing an offering that looks to participate in the growth opportunities and long-term trends arising out of Asia and other emerging markets. In 2022 Fidante announced Cultiv8 as the newest affiliate to be added to the platform. Cultiv8 is a venture capital manager that invests in early-stage agriculture and food technology companies and is based in Orange, NSW. This new affiliate diversifies the platform and allows Fidante to explore the sustainable agriculture and food technology thematic.

1. Six customer pitfalls to avoid, March 2022, McKinsey & Company.

THROUGH DIVERSIFICATION OF OUR PRODUCTS WE'RE SUPPORTING SDG 8, IMPROVING ECONOMIC PRODUCTIVITY

SUPPORTING INTERMEDIARIES

At Challenger, we also aim to support and educate advisers. We do this through on-the-ground support by our highly experienced and knowledgeable distribution team; technical expertise from a team of retirement income and aged care specialists; and in the delivery of tailored adviser education programs.

The Marketing Pulse Adviser Brand survey (June 2022) identified Challenger as a leader in retirement income according to 93% of advisers.

Launched in February 2022, the Rethinking Retirement event series showcased our range of lifetime annuity options. Over 650 advisers attended the main launch event and/or subsequent workshops either virtually or face-to-face.

Throughout the year, Challenger also participated in over 60 adviser webinars, focused on topical areas such as implementation of the Retirement Income Covenant, industry and customer trends, and product innovation.

We've also partnered with the professional network for financial advisers, XY Advisers. Our most recent Professional Development session attracted over 1,100 advisers attending virtually.

NEW PRODUCTS AND INITIATIVES LAUNCHED IN FY22

We launched a range of new products and initiatives during the year to support better outcomes for our customers:

Our new Market-Linked Lifetime annuity

allows customers to link payment to changes in investment markets.

Fidante welcomed Ox Capital

a new Australian-based affiliate investment manager, specialising in emerging market equities.

Our Rethinking Retirement event series

provided tailored education and support to more than 650 financial advisers.

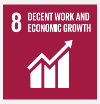
HELPING CUSTOMERS NAVIGATE A CHANGING ENVIRONMENT

In response to COVID-19, Challenger adapted quickly, offering more self-service and document lodgement options for our customers. Since January 2022, over 1,800 customers partially self-serviced and 15% of those fully self-serviced after speaking with us. As our client base is primarily over 65 years of age, with some in aged care, this was an important step to take quickly for our customers.

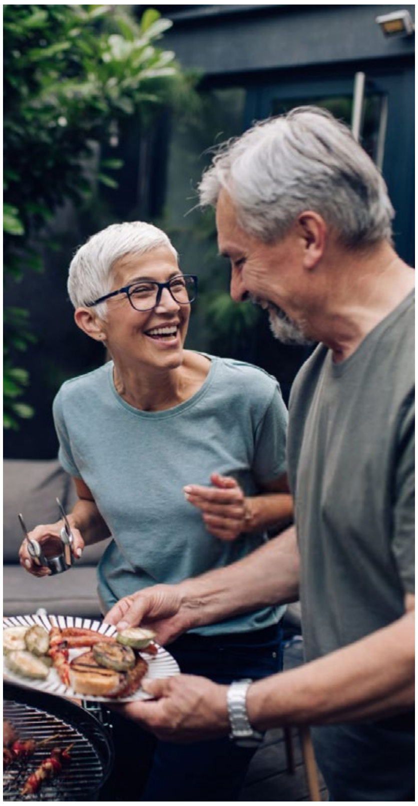
We also helped nearly 9,000 customers reinvest at maturity with a growing number choosing to do this over the phone without the requirement for forms and post.

Operating environment

UNSDGs



The Retirement Income Covenant (RIC) will help to significantly improve the financial outcomes of Australian retirees



WHY IT MATTERS

Over the last two years, our society has experienced significant economic, political, and social change. Rising inflation, geopolitical tensions and an ageing population remain serious challenges.

The financial services industry has also experienced significant regulatory change in recent years and the industry is now moving into the extensive implementation phase of this regulation.

OUR APPROACH

OUR STRATEGY

Challenger's updated strategy focuses on building a more diverse business that meets a wider range of customer needs. To achieve this, Challenger will expand its brand and deliver more products across a greater number of channels.

In delivering this updated strategy, Challenger is focused on helping more customers achieve financial security as they plan for and enter retirement.

REGULATORY AND GOVERNMENT POLICY

Challenger remains committed to working constructively with the Government.

In February 2022 the RIC and the Corporate Collective Investment Vehicle regime (CCIV) passed the Parliament with bipartisan support. Challenger has long supported and advocated for these important reforms.

The RIC will ensure the superannuation system works as well for its members in retirement as it does for those in accumulation. We are confident the RIC will lead to new and innovative retirement income solutions that address the unique risks that members face in retirement, giving them the confidence to spend their retirement savings as intended.

The CCIV will also assist Australian funds management 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.

ACCESS TO APPROPRIATE ASSETS

As a regulated life insurance company, the need for diversification and ensuring access to appropriate assets is an important focus for Challenger Life and its stakeholders.

As part of the investment selection process and ongoing investment management, Challenger Life considers environmental, social and governance issues.

One of our core investment principles is investing in assets that will produce cash flows to match liabilities. This allows Challenger Life to extract an illiquidity premium from its investment portfolio and minimise reinvestment risk.

Challenger's experienced investment team sources and manages private assets that enable the extraction of this illiquidity premium.

Whilst Challenger has a strong internal investment capability, Challenger Life also uses external managers to source investment assets. Our robust governance framework ensures that the selection of external managers considers a wide range of factors, including investment performance, risk management as well as environmental, social and governance issues.

CHALLENGER'S DIVERSIFIED APPROACH TO ASSET ALLOCATION SUPPORTS PRODUCTIVITY

Investing responsibly

UNSDGs

8 DECENT WORK AND ECONOMIC GROWTH

13 CLIMATE ACTION

Challenger has been a signatory to the UN PRI since 2015

Signatory of:

PRI Principles for Responsible Investment

THE RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA'S RESEARCH SHOWED THAT

74%

of Australians would change providers if they considered their current fund manager not to be aligned with their values.[1]

WHY IT MATTERS

Responsible investment is top of mind for consumers and investors in Australia, who increasingly expect funds to demonstrate the positive the impact their fund is making.

OUR APPROACH

Challenger recognises the importance of incorporating environmental, social and governance considerations into our investment process. Responsible investment also includes how we can demonstrate the value that our business has on society more broadly.

We have been a signatory to the Principles for Responsible Investment (PRI) since 2015.

Our Responsible Investment Policy and Challenger Life's Responsible Investment Statement outline our more detailed approach.

The investment team complies with these obligations:

– requiring that managers have a responsible investment policy and report on ESG risks across their portfolios; and

– incorporating ESG considerations into internal strategies, where relevant.

LIFE

Challenger Life Company (CLC) acknowledges the potential for climate change to have a significant impact on its investments through physical and transition risks.

For these reasons, CLC considers ESG risks in its own investment decision making and ownership practices, and when appointing managers to act on our behalf.

1. Responsible Investment Association Australasia, March 2022 (https://responsibleinvestment.org/wp-content/uploads/2022/03/Media-Release_FromValuestoRiches2022_2.pdf).

FUNDS MANAGEMENT

The Fixed Income team at Challenger Investment Management (CIM) continues to enhance its approach to responsible investment.

CIM's Fixed Income team has developed a proprietary set of ESG ratings intended to reflect the impact of an environmental, social or governance factor on the credit risk of a borrower.

These ratings drive relative value and screening decisions. CIM's Fixed Income team is also increasing its focus on assessing the carbon footprint of borrowers.

As a result of its scale and influence in domestic securitisation markets, the team has also taken a more active role in promoting responsible investment in securitisation markets. This includes publishing thought pieces, advocacy within investor groups and direct engagement with issuers on topics such as social residential mortgage-backed securities, and carbon footprinting of mortgage or asset backed portfolios.

8 DECENT WORK AND ECONOMIC GROWTH

OUR INVESTMENT POLICIES SUPPORT THE ERADICATION OF MODERN SLAVERY THROUGH THE WAY WE INVEST

ACHIEVEMENTS ACROSS THE AFFILIATES

Responsible investment is a core part of the Fidante affiliates' investment process. Our affiliates made significant progress in developing ESG initiatives during the year:

ALPHINITY SUSTAINABLE SHARE FUND

Winner of the Financial Standard MAX & Investment Leadership Awards for the ESG – Australian Equities category

ALPHINITY

Published their first ESG and Sustainability Report, including a disclosure on engagement activity

FIDANTE (IN ASSOCIATION WITH WHITEHELM)

Winner of the Best Social Impact Thought Leadership for the Pensions for Purpose Content Awards 2021

LENNOX CAPITAL PARTNERS

Became a signatory to the Net Zero Asset Managers Initiative

ARDEA

Signed the 2021 Global Investor Statement to Governments on the Climate Crisis

THE ARDEA RESEARCH TEAM IN PARTNERSHIP WITH UTS

Published the paper 'Climate Change Transition Risk on Sovereign Bond markets'

ARDEA

Became a signatory to the UK Stewardship Code

MERLON AND ALPHINITY

Have both grown their ESG teams

NOVAPORT

Signed up to the Task Force on Climate Related Financial Disclosure (TCFD)

13 CLIMATE ACTION

WE TAKE ACTION ON CLIMATE BY SUPPORTING INITIATIVES THAT FOCUS ON EMISSIONS REDUCTION AND NET ZERO

Partnerships and collaboration

UNSDGs

8 DECENT WORK AND ECONOMIC GROWTH
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Developing strong partnerships supports Challenger to enhance its impact through collaboration with industry, government, strategic partners, academics and the community

WHY IT MATTERS

According to Forbes magazine, one of the top business trends for 2022 is the role of partnerships, which can provide access to new markets and a broader range of stakeholders:

"The need to work together to solve key business challenges (not to mention humanity's biggest challenges) is great. Indeed, in the future, it will become increasingly difficult to succeed without really close partnerships with other organisations."[1]

OUR APPROACH

Collaboration and developing successful partnerships supports our business to deliver high quality outcomes for our stakeholders. At Challenger, we are committed to developing strong partnerships that will also enhance our impact through collaboration with industry, government, strategic partners, academics and the community.

OUR PARTNERS

Challenger has a strong track record of building enduring, value creating strategic partnerships as we look to diversify our business, generate scale and drive growth.

Our long-term relationship with the MS&AD Group, a leading Japanese provider of foreign currency life products with a strong and powerful brand, has broadened Challenger's distribution reach to the Japanese market.

Challenger continues to progress its strategic partnership with Apollo, a global alternative asset manager. Both parties are working together on a range of opportunities to help customers achieve financial security in retirement.

In 2022, Challenger also announced a new partnership with SimCorp, a global leader in investment administration services, with the intention of establishing a joint venture to provide a market-leading investment operations platform, servicing customers across Australia and APAC.

1. The 8 Biggest Business Trends in 2022, Nov 2021 (https://www.forbes.com/sites/bernardmarr/2021/11/01/the-8-biggest-business-trends-in-2022/?sh=88ad9c21da15).

Challenger has a strong research partnership with National Seniors Australia (NSA), established in 2013.

National Seniors AUSTRALIA

This partnership helps inform Challenger's understanding of what matters to retirees and what they need for a successful retirement. It also provides NSA members with greater exposure to financial concepts regarding retirement income.

8 DECENT WORK AND ECONOMIC GROWTH

OUR INNOVATIVE PARTNERSHIPS SUPPORT ECONOMIC PRODUCTIVITY TO IMPROVE DECENT WORK FOR ALL

HOW WE USE TECHNOLOGY

The integration of technology and processes for our newly-acquired Bank has now been completed, with all Bank and Challenger employees serviced on the same platforms. A new cloud-based contact centre solution has also been implemented, bringing our Bank and existing contact centres under the same platform.

Challenger supports the reuse of computer equipment where possible. As part of this effort, Challenger donates laptops to the Ethan Indigenous partners program, which supplies these laptops to Indigenous schools across Australia. We will continue to support this program as we renew older laptops in future.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

ENHANCED PRIVACY MEASURES AND TRANSPARENCY ON THE WAY WE WORK IMPROVES TRUST IN INSTITUTIONS

Challenger donates laptops to the Ethan Indigenous partners program, which supplies these laptops to Indigenous schools across Australia

ETHAN INDIGENOUS

Great place to work

Challenger was named an Employer of Choice by the Workplace Gender Equality Agency for the fifth year in a row

UNSDGs

5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES

WHY IT MATTERS

The pandemic motivated people to rethink how they work, where they work, and why they work. People also made it clear that they want to work for companies where the culture aligns with their values.

OUR APPROACH

At Challenger, we seek to build an engaged workforce that embraces diverse thinking. We recognise that maintaining a great culture and capabilities is critical to our success, supporting our ability to deliver our strategy. Providing the tools and technology to enable employees are also essential elements of an engaged workplace.

DIVERSITY & INCLUSION NETWORKS

Challenger has four employee-led diversity and inclusion networks which co-ordinate initiatives on areas that matter most to them:

LGBTQI+ Inclusion	together@ CHALLENGER
Age Inclusion	engAGE
Cultural Inclusion	kaleidoscope
Gender Inclusion	equal aGender

We continue to make great progress across our networks. In 2022, the Australian Workplace Equality Index (AWEI) benchmarking LGBTQI+ workplace inclusion scorecard highlighted an 80% increase in Challenger's overall score compared to our 2021 submission. This initiative was driven by Together@Challenger.

10 REDUCED INEQUALITIES **CELEBRATING A RANGE OF DIVERSITY NETWORKS REDUCES INEQUALITIES**

EMPLOYEE ENGAGEMENT

Challenger recognises that its people are key to our success. Building an open and honest culture, where feedback is encouraged and acted upon, is also critical.

One of the ways we measure this is through our Your Voice employee engagement survey. Our 2022 results remain strong and reinforce Challenger's culture of teamwork and delivery. Employee engagement was three points above the Australian norm at 81%. Diversity and inclusion was also strong at 89% with most employees feeling Challenger promotes a diverse and inclusive workplace and 10 points above the Australian norm. Pleasingly, 94% of employees believe in the goals and objectives of Challenger and 88% said they would recommend Challenger as a good place to work.

In 2022, Challenger hosted Imaginate22, an employee event where cross-divisional teams pitched more than 80 business ideas themed around One Challenger, growth and simplification. Many of the ideas explored how we can meet a wider range of customer needs highlighting the teams' energy and enthusiasm for a customer-first approach.

Challenger also held ImaginateIT22, where the technology team focused on ideas that build tangible and positive change across our business. During the one-day event, 20 teams removed the need for approximately 521 hours of future work and 40 hours per week of ongoing work.

FOCUS ON GENDER EQUALITY

For the fifth consecutive year, Challenger was named an Employer of Choice by the Workplace Gender Equality Agency. This recognises our work to improve gender equality across areas such as:

- Leadership, strategy and accountability;
- Developing a gender-balanced workforce;
- Gender pay equity;
- Support for caring;
- Mainstreaming flexible work;
- Preventing gender-based harassment and discrimination, sexual harassment and bullying; and
- Driving change beyond the workplace.

5 GENDER EQUALITY **OUR FOCUS ON GENDER EQUALITY SUPPORTS SDG 5, EMPOWERING WOMEN**

EMPLOYEE ENGAGEMENT SCORE[1]

81%

▲3% on Australian norm

DIVERSITY & INCLUSION SCORE[1]

89%

▲10% on Australian norm

SUPPORTING A HYBRID WORKFORCE

Throughout the year, Challenger undertook a range of initiatives to support hybrid working and help our people manage increased workloads and segregation of professional and personal lives. This included webinars covering the impact of technology on wellbeing, productivity and physical health, and tools to better manage these issues.

Virtual workshops were also organised outlining the key capabilities and skills needed to navigate the future of work, creating psychological safety, engagement and a normalised approach to flexible and hybrid work.

Senior leaders attended seminars that focused on providing an understanding of the psychological impact of COVID-19, how to re-energise teams, and preparing for a return to the office.

We have also progressed our Future of Work program with a focus on:

- Career growth
- Workplace design (office and in home)
- Ways of working and flexibility
- Wellbeing
- Reward and recognition

LEARNING AND DEVELOPMENT PROGRAMS

In 2022, our eleventh cohort of people managers completed Challenger's Leadership Foundations training, a tailored, three-day program that gives leaders the skills to inspire and motivate their teams.

In addition to personal and career development, Challenger offers employees a range of other rewards and benefits. This includes flexible working arrangements; the ability to purchase additional annual leave; a super top up worth up to $500 a year; a rolling social events calendar; and free flu shots and body health composition scans.

SUSTAINABILITY SUMMIT

As part of our commitment to embed sustainability and improve understanding across the business, Challenger held a two-day internal Sustainability Summit attended by non-executive Directors, the Leadership Team and senior executives. This included workshops and presentations from listed entities and consultancies with a strong commitment to sustainability, not for profit organisations and clients. The outputs from the Summit will inform Challenger's future focus on sustainability and the event received highly positive feedback from attendees, with a satisfaction rating of 4.6 out of 5.

8 DECENT WORK AND ECONOMIC GROWTH

PROVIDING LEARNING AND DEVELOPMENT OPPORTUNITIES FOR EVERYONE LEADS TO FAIR AND DECENT WORK

SAFETY AND WELLBEING

This year we partnered with the UNSW Gendered Violence Research Network (GVRN) and upskilled a number of our employees to become DFV first responders within the organisation.

Recognising the significant impact of the pandemic on our people, Challenger introduced an additional Wellbeing leave day for all employees, to be used during the year. And in response to employee feedback, we implemented a weekly Meeting Free Hour to provide valuable quiet time across the business.

STEPTEMBER *Move together for cerebral palsy*

'Our Community' is Challenger's employee-led community and social group. This year, the group coordinated Challenger's participation in STEPtember, Australia's leading health and wellness fundraising challenge for cerebral palsy.

>$27,000

raised by 145 employees

1. 2022 Your Voice employee engagement survey, April 2022.

Social inclusion and community resilience

UNSDGs

In FY22 we donated

$262,746

across 92 Charities

WHY IT MATTERS

Companies increasingly recognise that supporting a wider range of stakeholders will support future success. In his annual letter to CEOs, BlackRock CEO Larry Fink emphasised the power of stakeholder capitalism to drive mutually beneficial relationships between business and its stakeholders. Mr Fink highlighted the need for businesses to create value for and be valued by its full range of stakeholders including the community.[1]

OUR APPROACH

As a retirement income provider, Challenger plays a key role in contributing to fiscally responsible solutions to help support the ageing population. Using our internal expertise, we work closely with the finance industry on how to effectively plan for retirement to improve financial security for all Australians.

Through our giving and volunteering programs and community activities, we also aim to connect with and support the communities in which we operate.

EDUCATION

Challenger is committed to helping to educate older Australians on how to generate better retirement incomes and provide financial security in retirement. We undertake research and work closely with the government, community and media to drive debate on a range of issues affecting retirees. This includes working with National Seniors Australia (NSA) to provide their members with practical guidance on finance issues in retirement. We also engage with media and retirement-specific groups on how retirees can plan for and enjoy a more financially secure retirement.

VULNERABLE CUSTOMER POLICY

Challenger recognises the implications that elder financial abuse can have on customers. Our ability to effectively identify and manage the risk of financial abuse of elders and other vulnerable customers is central to our purpose of providing customers with financial security for a better retirement. During FY22, Challenger introduced its *Financial Abuse of Elders and Vulnerable Customers Framework*, which sets out the internal measures in place to manage these risks and how customers can protect themselves during their retirement. Supporting information has also been published on Challenger's website.

BY SUPPORTING VULNERABLE CUSTOMERS, WE REDUCE INEQUALITIES

COMMUNITY PARTNERSHIP

Challenger's partnership with Council on the Ageing NSW (COTA NSW) was established in 2019 to deliver a program of research, advice and practical support to address the underemployment of people aged over 50. This is of fundamental importance, both to setting older workers up for a better retirement – by enabling them to earn a living and save for retirement for longer – and in promoting positive age diversity in the workforce. The program aims to encourage people to talk about ways in which this important issue can be addressed, which includes giving employers the tools to attract and retain older employees.

For the first phase of the partnership, research was undertaken to understand the needs of both employees aged over 50 as well as employers of small, medium and large businesses. Using the outcomes of this research, a toolkit was developed covering four areas:

- education and advice for hiring managers;
- support for auditing existing programs and policies, and building new ones to promote age diversity;
- advice on fostering connections between age diverse groups at work; and
- developing training programs to deliver equal access to upskilling and training opportunities.

1. Larry Fink's Annual letter to CEOs, 2022 BlackRock.

The toolkit is currently being piloted by a small group of organisations and is intended to be released for broader use in 2023.

More detail on the community partnership can be found on our website.

17 PARTNERSHIPS FOR THE GOALS

PARTNERING WITH NOT FOR PROFITS TO ADDRESS A SOCIAL PROBLEM SUPPORTS SDG17

COMMUNITY GIVING

Challenger supports payroll giving through the Good2Give platform. Through this platform, employees are able to donate to their charity of choice and Challenger will match donations up to $500 per employee each year. Throughout FY22, total donations via the Good2Give platform were $89,131 across more than 92 charities. Challenger also continues to support employees to volunteer, providing one day of leave for volunteering every year.

Challenger employees visit the team from our charity partner, Women Up North in Lismore following the devastating floods in Northern NSW.

HOW WE SUPPORTED THE COMMUNITY IN FY22

$89,131

TOTAL DONATIONS VIA GOOD2GIVE

~$30,000

RAISED FOR FLOOD APPEAL FOR WOMEN UP NORTH

Workplace toolkit developed to help organisations better support older workers

Published our Vulnerable Customer Policy

NSA and Challenger research found only 14% of older Australians financially prepare for aged care costs

Directors' Report

The Directors of Challenger Limited (the Company) submit their report, together with the financial report of the Company and its controlled entities (the Group or Challenger), for the year ended 30 June 2022.

The information appearing on pages 1 to 51 forms part of the Directors' Report for the financial year ended 30 June 2022 and is to be read in conjunction with the following information.

Directors

The names and details of the Directors of the Company holding office during the financial year ended 30 June 2022 and as at the date of this report are listed below. Directors were in office for the entire period, unless otherwise stated.

Peter Polson

Independent Chair

Appointed 6 November 2003

Chair of Nomination Committee.

Member of the Group Audit Committee, Group Risk Committee, and Group Remuneration Committee.

Experience and qualifications:

Bachelor of Commerce (Witwatersrand University, Johannesburg, South Africa), Master of Business Leadership (University of South Africa, Pretoria, South Africa), Management Development Program (Harvard Graduate School of Education, Boston, United States).

Mr Polson's experience spans international and domestic markets in banking, insurance and funds management. Mr Polson previously held the positions of Group Executive, Investment and Insurance Services at Commonwealth Bank and Chief Executive of Colonial First State Limited.

Directorships of other listed companies:

Chair of IDP Education Limited (appointed 21 March 2007).

Nicolas Hamilton

Managing Director and Chief Executive Officer

Appointed 1 January 2022

Experience and qualifications:

Masters of Business Administration (Henley Business School, Reading, United Kingdom) and Bachelor of Economics (University of Sydney).

Mr Hamilton has previously held a number of senior executive roles at Challenger since joining in 2015, including Chief Executive, Funds Management.

Mr Hamilton has over 26 years financial services experience. Prior to joining Challenger, he held senior roles at Invesco in Europe and Colonial First State where his primary responsibilities included leading and expanding global fund teams and building out their global equities and multi-asset capability.

Directorships of other listed companies:

Not applicable.

John M Green

Independent Non-Executive Director

Appointed 6 December 2017

Member of the Group Audit Committee, Group Risk Committee, Group Remuneration Committee and Nomination Committee. Chair of Challenger Bank Limited.

Experience and qualifications:

Bachelor of Laws and Bachelor of Jurisprudence (UNSW), Fellow of the Australian Institute of Company Directors and Life Member and Senior Fellow of FINSIA.

Mr Green was previously an executive director at Macquarie Group, Deputy Chair of QBE Insurance Group and has also been a partner at two major law firms. He is a Director of Cyber Security Cooperative Research Centre and UOW Global Enterprises and also a novelist and co-founder of book publisher Pantera Press.

Directorships of other listed companies:

Non-Executive Director of QBE Insurance Group Limited (appointed 1 March 2010, appointed Deputy Chair 1 January 2015 and retired 5 May 2022).

Steven Gregg

Independent Non-Executive Director

Appointed 8 October 2012

Member of the Group Audit Committee, Group Risk Committee, Group Remuneration Committee and Nomination Committee.

Experience and qualifications:

Bachelor of Commerce (University of New South Wales).

Mr Gregg has held a number of executive roles in management consulting and investment banking. His more recent senior executive roles included Partner and Senior Adviser at McKinsey & Company and Global Head of Investment Banking at ABN AMRO. His experience has spanned both domestic and international arenas, because of his work in both the US and the UK.

Directorships of other listed companies:

Non-Executive Director of Tabcorp Holdings Limited (appointed 18 July 2012, appointed Chair 1 January 2021 and resigned 31 May 2022), Ampol Limited (formerly Caltex Australia Limited) (appointed 9 October 2015; appointed Chair 18 August 2017) and The Lottery Corporation Limited (appointed Director and Chair 20 May 2022).

Masahiko Kobayashi

Non-Executive Director

Appointed 26 August 2019

Experience and qualifications:

Master of Business Administration (Questrom School of Business, Boston University, Boston, United States), Bachelor of Law (Kyoto University, Kyoto, Japan) and is a Certified Internal Auditor.

Mr Kobayashi has over 30 years expertise in general and life insurance and is currently Director and Senior Executive Officer (Enterprise Risk Management and Investment Risk & Operations Management) of MS Primary, a subsidiary of MS&AD Insurance Group Holdings Inc. Prior to joining MS Primary, he held a number of executive and director roles within the MS&AD Group, including in Singapore and the United Kingdom.

Directorships of other listed companies:

Not applicable.

Heather Smith

Independent Non-Executive Director

Appointed 20 January 2021

Member of the Group Audit Committee, Group Risk Committee and Nomination Committee.

Experience and qualifications:

Bachelor of Economics (Hons 1) (University of Queensland), PhD in Economics (Australian National University).

Dr Smith has over 20 years experience in government, including as Secretary of the Australian departments of Industry, Innovation and Science, and Communications and the Arts, and as Deputy Secretary of the Department of Prime Minister and Cabinet and Foreign Affairs and Trade. She is a Professor at ANU National Security College, deputy chair of the United States Studies Centre and a recipient of the Public Service Medal.

Directorships of other listed companies:

Non-Executive Director of ASX Limited (appointed 29 June 2022).

JoAnne Stephenson

Independent Non-Executive Director

Appointed 8 October 2012

Chair of the Group Remuneration Committee.

Member of the Group Audit Committee, Group Risk Committee and Nomination Committee.

Experience and qualifications:

Bachelor of Commerce and Bachelor of Laws (Honours) (University of Queensland), member of Chartered Accountants Australia and New Zealand and member of the Australian Institute of Company Directors.

Ms Stephenson has extensive experience in financial services both in Australia and in the United Kingdom. Ms Stephenson was previously a partner with KPMG and has significant experience in internal audit, risk management and consulting.

Directorships of other listed companies:

Non-Executive Director of Asaleo Care Limited (appointed 30 May 2014 and ceased 1 July 2021), Japara Healthcare Ltd (appointed 1 September 2015, resigned 5 November 2021), Myer Holdings Limited (appointed 28 November 2016, appointed Chair 16 September 2021) and Qualitas Ltd (appointed 4 November 2021).

Duncan West

Independent Non-Executive Director

Appointed 10 September 2018

Chair of the Group Audit Committee.

Member of the Group Risk Committee and Nomination Committee.

Experience and qualifications:

Bachelor of Science in Economics (University of Hull, Hull, United Kingdom), Fellow of the Chartered Insurance Institute, member of the Australian Institute of Company Directors and a Senior Associate of the Australian and New Zealand Institute of Insurance and Finance.

Mr West has over 30 years experience in financial services in the UK and Australia. He has held a series of senior executive positions including as CEO of Vero Insurance and CGU Insurance, and as EGM of Insurance at MLC.

Directorships of other listed companies:

Non-Executive Director of Genworth Mortgage Insurance Australia Limited (appointed 1 September 2018) and Suncorp Group Limited (appointed 23 September 2021).

Melanie Willis

Independent Non-Executive Director

Appointed 6 December 2017

Chair of the Group Risk Committee.

Member of the Group Audit Committee and Nomination Committee.

Experience and qualifications:

Bachelor of Economics (University of Western Australia), Master of Law, Tax (University of Melbourne) and a Fellow of the Australian Institute of Company Directors.

Ms Willis has significant senior executive experience in corporate finance, strategy and innovation and funds management. Ms Willis previously held the position of Chief Executive Officer of NRMA Investments and senior executive roles at Deutsche Bank and Bankers Trust. She is also a Non-Executive Director of PayPal Australia Pty Limited and QBE Australia Pacific Limited.

Directorships of other listed companies:

Non-Executive Director of Southern Cross Media Group Limited (appointed 26 May 2016) and PEXA Group Limited (appointed 11 June 2021).

Richard Howes

Former Managing Director and Chief Executive Officer

Appointed 2 January 2019, resigned 1 January 2022

Experience and qualifications:

Bachelor of Commerce (Hons) and Bachelor of Economics (University of Queensland).

Mr Howes held a number of senior executive roles at Challenger since he joined in 2003, including Chief Executive of Distribution, Product and Marketing, Chief Executive of Challenger's Life business and Chief Investment Officer. He was most recently a consultant to the Company following his resignation as Managing Director and Chief Executive Officer on 1 January 2022.

Mr Howes has over 25 years financial services experience. Prior to joining Challenger, he held senior roles at Zurich Capital Markets, Macquarie Bank and Bankers Trust where his primary responsibility was providing risk management solutions to major companies and institutions globally.

Directorships of other listed companies:

Not applicable.

Hiroyuki Iioka

Non-Executive Director (alternate for Masahiko Kobayashi)

Appointed 13 December 2019

Experience and qualifications:

Master of Business Administration (Duke University, Durham, United States) and Bachelor of Economics (Kobe University, Kobe, Japan).

Mr Iioka is currently Senior General Manager (Global Business Development Department) at MS&AD Insurance Group Holdings Inc. in Japan.

Directorships of other listed companies:

Non-Executive Director of Phoenix Group Holdings plc, listed on the London Stock Exchange (appointed 23 July 2020).

Company Secretary

Linda Matthews (Bachelor of Laws, University of Technology, Sydney) is the Head of Company Secretariat. She is a qualified solicitor and was appointed as Company Secretary on 1 January 2021. Ms Matthews' responsibilities at Challenger involve the oversight of all company secretarial functions. Ms Matthews joined Challenger in 2013 as a Senior Legal Counsel in the Challenger Corporate and Investments Legal team from commercial law firm Norton Rose Fulbright, where she was a senior associate in the Banking and Finance practice. Ms Matthews has over 20 years experience as a solicitor and is admitted to practise in New South Wales and New York. Ms Matthews is an affiliated member of the Governance Institute of Australia.

Remuneration Report

Letter from the Chair of the Remuneration Committee

Dear Shareholders

Challenger delivered a strong performance in the 2022 financial year and is well positioned to progress its growth agenda. Our business continues to be well capitalised and our full year normalised profit before tax was at the upper end of our guidance range and increased by 19.3% on last year. We also achieved record annuity sales and growth in all key segments. These results highlight the benefits of our diversification strategy as we focus on building a business that meets a wider range of customer needs.

Appointment of Nicolas Hamilton as Managing Director and Chief Executive Officer
In December 2021, the Board appointed Mr Hamilton as CEO following Richard Howes' decision to retire. Mr Hamilton, who previously led the Funds Management business, has made a strong start over the second half of the financial year. This is reflected in strong financial results, the expansion of our updated strategy to bring the best of Challenger to even more customers and the initiation of a number of strategic initiatives.

Mr Hamilton's remuneration was increased on appointment as CEO, however his total target remuneration is 16% lower than Mr Howes' in line with the rebasing of remuneration as incumbents have been replaced in recent years.

Mr Howes remained employed by Challenger until 31 March 2022 to support a smooth transition of responsibilities to the new CEO. He was eligible for a pro rata short-term incentive (STI) for 2022 and his unvested equity remained 'on foot' in accordance with the terms of his employment. Mr Howes did not receive any termination payments.

Other KMP changes
There were a number of other KMP changes during the year, being:

- In August 2021 Chris Plater was appointed Deputy CEO.
- In January 2022, with the appointment of Mr Hamilton as CEO, Michael Clarke was appointed as the Acting Chief Executive, Funds Management.
- In May 2022 we announced:
  - the formation of a Customer division as part of our strategy to expand our proposition and reach more customers across a greater number of channels. The search to fill the role to lead this function is currently underway;
  - the appointment of Anton Kapel as the Chief Executive, Life and Solutions. This role encompasses Life investments, Investment Solutions and Actuarial; and
  - that Angela Murphy, Chief Executive, Life will leave the business following supporting the successful transition to this new structure.

2022 reward outcomes
Reflecting Challenger's strong business performance, STI outcomes for 2022 include:

- the incoming CEO's STI reflected Mr Hamilton's contribution leading the Funds Management business in the first half of the financial year and as CEO in the second half of the financial year (107% of target); and
- STIs for other KMP ranged between 39% and 111% of target (for those roles with a target opportunity in place).

While STIs are up on the last two years reflecting the stronger financial performance, LTIs will not vest in September 2022 for the fourth consecutive year demonstrating strong alignment between executives' realised reward and shareholder outcomes over the longer term.

Enhanced disclosure of performance and reward outcomes
No changes have been made to the executive reward framework during 2022. However, we have continued to listen to shareholders' feedback and have focused on enhancing disclosures to provide greater transparency on reward outcomes and the Board's decision-making processes. For the 2022 report, we have provided financial targets in the balanced scorecard and made improvements to the disclosure of awarded remuneration.

Looking forward - focus on regulatory change
Our primary focus during the 2023 financial year will be compliance with regulatory requirements, including APRA's new prudential standard CPS 511 ***Remuneration*** and the Financial Accountability Regime. This work is underway with the most significant aspect from a reward framework perspective being a comprehensive review of our long-term incentive plan, including changes to performance hurdles to meet the requirement for a material weighting to non-financial measures. As part of this review, the Board is reflecting on shareholder feedback in relation to the use of absolute TSR as a single hurdle and the five-year cumulative test.

In addition, we are reviewing the deferral of STIs and a range of associated governance frameworks and processes, for example, enhancing our approach to consequence management with the introduction of clawbacks as a further tool to adjust remuneration in the event of conduct matters. This is in addition to the malus that we already have incorporated into our incentive plans.

We look forward to continuing to engage with our shareholders during 2023 as we make these important changes to our reward framework.

Yours sincerely

JoAnne Stephenson
Remuneration Committee Chair

Contents

Key Management Personnel

Challenger's executive Key Management Personnel (KMP) for 2022 are detailed in the table below:

Name	Role	Term in 2022	Term in 2021	Detail
Current KMP				
Nicolas Hamilton	Managing Director and Chief Executive Officer	Full year	Full year	Chief Executive, Funds Management until 31 December 2021
Michael Clarke	Acting Chief Executive, Funds Management	From 1 January 2022	-	Interim appointment
Rachel Grimes AM[1]	Chief Financial Officer	Full year	From 3 May 2021	
Anton Kapel	Chief Executive, Life & Solutions	From 1 June 2022	7 December 2020 to 9 March 2021	During 2021, interim appointment as Acting Chief Executive and Chief Investment Officer, Life
Chris Plater	Deputy Chief Executive Officer	Full year	Full year	Chief Executive, Operations & Technology until 16 August 2021
Former KMP				
Richard Howes	Managing Director and Chief Executive Officer	Until 31 December 2021	Full year	Ceased employment 31 March 2022
Angela Murphy	Chief Executive, Life	Until 31 May 2022	Full year	Employment not ceased as at 30 June 2022
Andrew Tobin	Chief Financial Officer	-	Until 31 March 2021	Ceased employment 31 March 2021

1. Member of the Order of Australia.

Challenger's Non-Executive Directors for 2022 are detailed in the table below:

Name	Term in 2022	Term in 2021
Peter Polson (Chair)	Full year	Full year
John M Green	Full year	Full year
Steven Gregg	Full year	Full year
Masahiko Kobayashi[1]	Full year	Full year
Heather Smith	Full year	From 20 January 2021
JoAnne Stephenson	Full year	Full year
Duncan West	Full year	Full year
Melanie Willis	Full year	Full year

1. Hiroyuki Iioka is an alternate director to Masahiko Kobayashi.

The term KMP is used throughout the Remuneration Report to refer to executive KMP only.

Remuneration Report (continued)

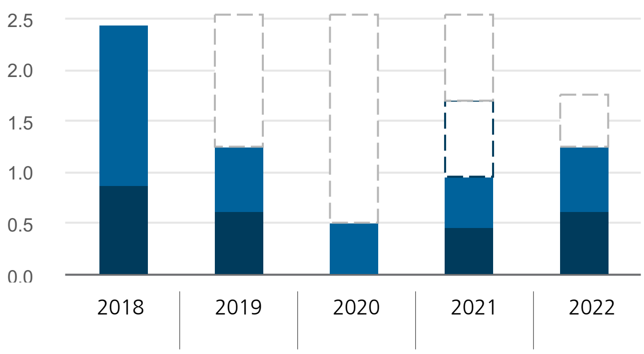
2022 at a glance

Summary of 2022 reward outcomes

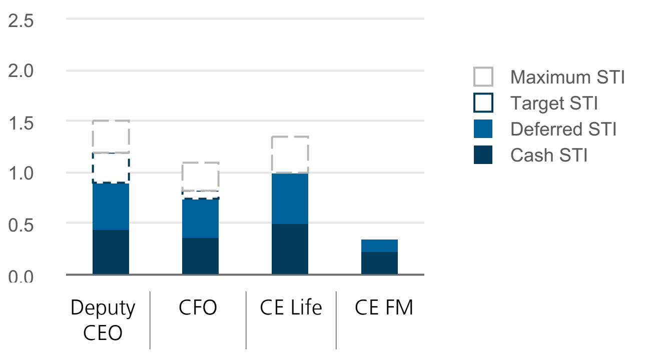
STI outcomes	• The incoming CEO's 2022 STI reflects strong Group performance and significant progress against strategic priorities as set out in the scorecard later in this report. The outcome of 107% of target reflects Mr Hamilton's contribution as Chief Executive, Funds Management for the first half of the financial year and as CEO for the second half of the financial year. • STIs for other KMP range between 39% and 111% of target, where a target was in place. Mr Clarke in his acting role, did not have an STI target opportunity in place, and Mr Kapel did not have STI target opportunity in place as he was not a KMP until 1 June 2022.
CEO remuneration arrangements	• Mr Hamilton's fixed pay was increased on his appointment as CEO. His total target remuneration is 16% lower than Mr Howes' in line with the rebasing of remuneration as incumbents are replaced. • Mr Howes remained employed until 31 March 2022 to support the transition to Mr Hamilton. He was eligible for a pro rata STI for 2022 and his unvested equity remained 'on foot' in accordance with the terms of the awards. Mr Howes did not receive any termination payments.
Annual fixed pay increases	• The only annual increase to fixed pay for financial year 2022 was Mr Hamilton in his prior role as Chief Executive, Funds Management, to reflect the additional size and complexity of this role, noting fixed pay was still 17% lower than his predecessor in the Funds Management role. • No annual increases are planned for financial year 2023.
No vesting of LTIs	• LTIs will not vest in September 2022 for the fourth consecutive year. While performance has rebounded after three challenging years, the non-vesting of LTIs demonstrates the strong alignment between executives' realised reward and shareholder outcomes over the longer term.
Non-executive director fees	• The Board undertook a comprehensive review in August 2022 which resulted in slight increases to committee fees and the introduction of fees for the new Bank subsidiary board. • No change was made to the Board Chair fee, noting the Board intends to use the retirement of the current Chair as a natural opportunity to reset the Chair fee.

Short-term incentive outcomes The charts below set out 2022 STI outcomes ($m) together with target and maximum opportunities (on an annualised basis) by role if the role had a target in place. The first chart includes historic STI outcomes for the incumbent CEO as at 30 June each year.

CEO STI outcomes - 5 year history

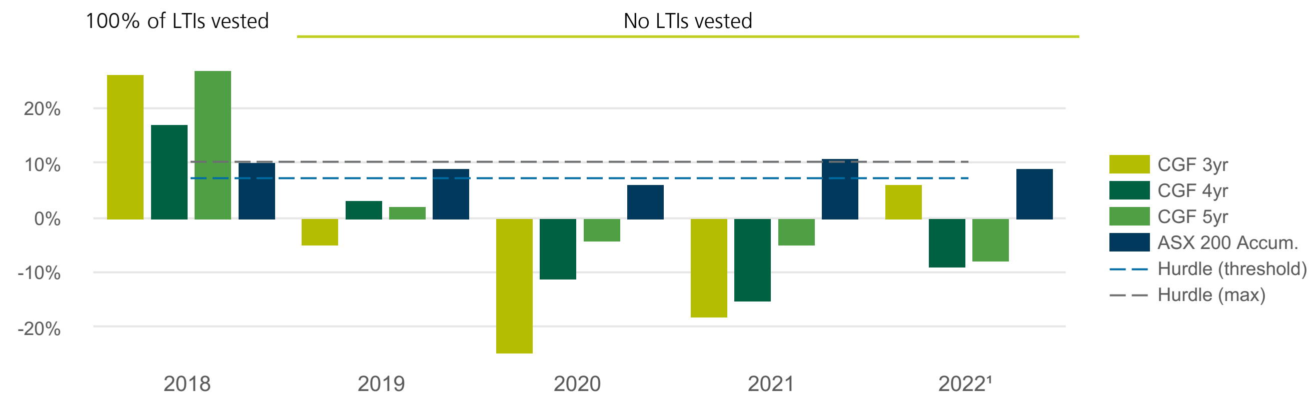


Other KMP STI outcomes - 2022



Long-term incentive vesting outcomes

The chart below illustrates Challenger's compound annual TSR performance over time versus the S&P/ASX 200 Accumulation Index five year compound annual growth rate (CAGR).



1. Indicative outcomes based on Challenger's share price as at 30 June 2022.

Remuneration strategy and structure

Our purpose	To provide our customers with financial security for a better retirement			
Our 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
Our values	**Act with integrity**	**Aim high**	**Collaborate**	**Think customer**
Remuneration strategy – guiding principles	Market-competitive	Performance-based and equitable	Aligned with shareholders	Underpinned by sound risk management

Remuneration structure for KMP

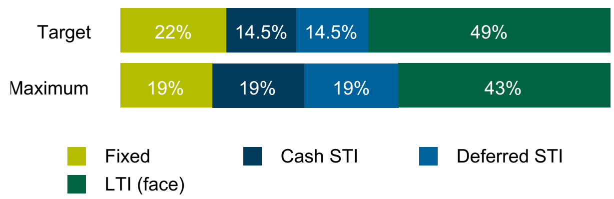
Fixed remuneration	Variable remuneration: Short-term incentives	Variable remuneration: Long-term incentives
Base salary, salary-sacrificed benefits and applicable fringe benefits tax. Employer superannuation contributions. Positioned around the market median using appropriate benchmarks, reflecting size and complexity of role, responsibilities, experience and skills.	Annual 'at risk' remuneration, rewarding Challenger performance and individual performance and behaviours. 50% is deferred into equity vesting over four years, subject to forfeiture provisions.	Longer-term 'at risk' remuneration awarded as hurdled share rights. Awards are subject to a cumulative absolute TSR hurdle tested after four or five years and subject to forfeiture provisions.

Pay mix

Remuneration arrangements for KMP are set with reference to the below pay mix framework. Where arrangements are outside this framework, they will be transitioned over time.

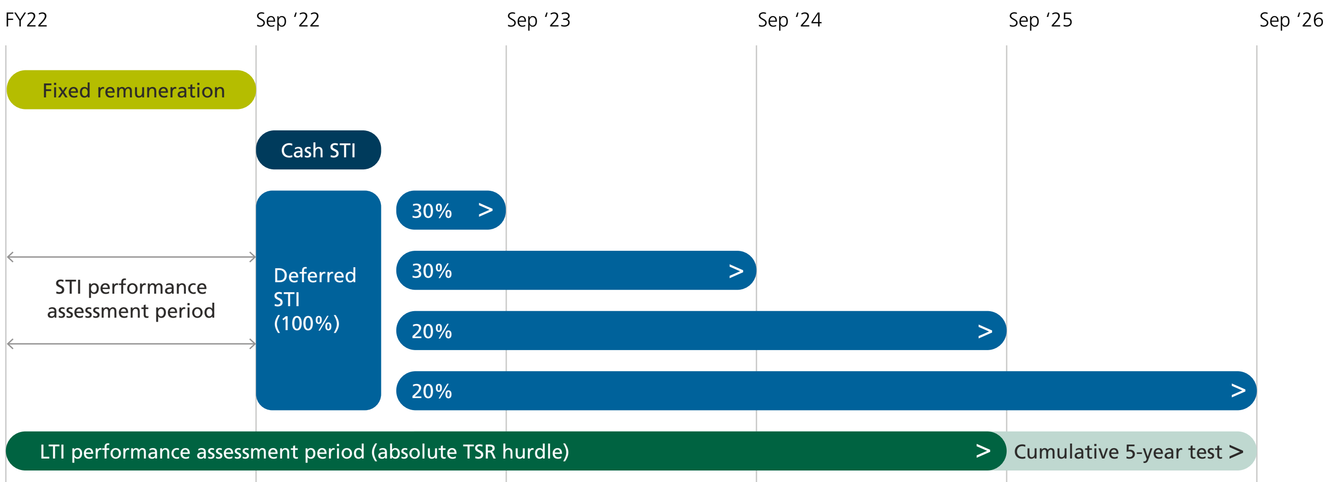
% of fixed	STI target	STI max	LTI face value
CEO & business lines	133%	200%	up to 225%
Control functions	100%	150%	125%

The CEO's pay mix (with each component expressed as a percentage of total reward) is set out below.



Delivery of remuneration for 2022

Reward is realised over an extended period with a significant weighting to variable reward supporting a focus on strong risk management and ensuring alignment with shareholders over the longer term.



Remuneration Report (continued)

Short-term incentives

Structure of short-term incentives

STIs provide annual 'at risk' remuneration which rewards Challenger and individual performance and behaviours. A significant portion is deferred into equity to provide strong alignment with shareholder interests and support retention.

Performance period	Annual in line with Challenger's financial year.
Award determination	STIs are determined with reference to the performance of Challenger, and individual performance and behaviours. Individual performance is assessed based on: • a balanced scorecard comprising financial, people and culture, customer and strategic KPIs and application of, and adherence to, the risk management framework; and • behaviour in line with the Challenger values which is a gate-opener and a modifier. The Board may apply an STI modifier to adjust STI outcomes to reflect a broad range of factors.
STI opportunity	Target STI opportunity is set in accordance with the pay mix framework, being 133% of fixed remuneration for the CEO and business line roles and 100% of fixed remuneration for control function roles. Maximum STI opportunity is 150% of target STI. STI targets for the Deputy CEO and the Chief Financial Officer are currently slightly outside the framework, however, the maximum opportunities per the framework of 200% and 150% of fixed remuneration respectively apply. These arrangements will be transitioned over time.
Delivery	50% of the STI award is delivered as cash and 50% is deferred into equity. Deferred STI awards are delivered as Restricted Shares. Prior to 1 July 2021, deferred STI awards were delivered as Deferred Performance Share Rights (DPSRs) which represent the right to receive a fully-paid ordinary Challenger share for nil consideration subject to continued employment at the time of vesting.
Allocation methodology	Face value with the number of Restricted Shares or DPSRs granted based on the five-day VWAP of shares prior to grant date.
Vesting period	Deferred STI awards vest over a four-year period in accordance with the schedule below: **At the end of year** — **% of grant vesting** 1 — 30% 2 — 30% 3 — 20% 4 — 20%
Vesting conditions	Vesting is subject to continued service.
Termination treatment	Termination for cause will result in forfeiture of all unvested equity awards. Where 'good leaver' treatment applies, all unvested awards remain 'on foot', except in the case of resignation where awards will remain 'on foot' only if two years have elapsed from the grant date. Where awards remain 'on foot' they will vest on the original vesting date.
Forfeiture (malus)	The Board has the ability to adjust unvested equity (including to zero) in a range of circumstances, including to protect financial soundness or respond to unexpected or unintended consequences that were significant and unforeseen by the Board (such as material risk management breaches, unexpected financial losses, reputational damage or regulatory non-compliance).

Summary of 2022 financial performance

This section provides performance information including five-year trends and key financial and operational outcomes for the year. Further commentary on performance is provided in the CEO's balanced scorecard on the following page.

For the year ended	30 June 2018	30 June 2019	30 June 2020	30 June 2021	30 June 2022
Normalised NPAT[1] ($m)	406.1	396.1	343.7	278.5	321.5
Normalised EPS (cents)	68.1	65.5	56.5	41.5	47.6
Closing share price ($)	11.83	6.64	4.41	5.41	6.84
Dividends per share (cents)	35.5	35.5	17.5	20.0	23.0

1. Normalised NPAT excludes asset or liability valuation movements that are above or below expected long-term trends and significant items that may positively or negatively impact financial results. Refer to the Operating and financial review section for further information.

2022 balanced scorecard outcome for the CEO

KPIs are aligned to Challenger's purpose and strategy and underpinned by strong risk management practices that inform how we deliver on our commitments to customers and shareholders. The CEO's 2022 balanced scorecard is provided below.

Measures	Performance
Financial (40%)	**Exceeded**
Profitability Not met Met Exceeded	**Group normalised NPBT** $472.3m – top end (top quartile) of earnings guidance range (target: $430m - $480m guidance range). **Statutory NPAT** $253.7m – below normalised NPAT ($321.5 million) as includes unrealised impact of investment markets (no target). **Normalised ROE** 11.9% – slightly below through cycle target of RBA cash rate plus 12.0% (target: 12.2%). Above normalised ROE target excluding Bank.
Capital Not met Met Exceeded	**Challenger Life** 1.60 times regulatory capital requirement – toward upper end of target (range of 1.30 to 1.70 times). **Challenger Group** strongly capitalised with 1.68 times the minimum regulatory capital requirement (no group target).
AUM Not met Met Exceeded	**Group AUM** $98.6bn (target: $124.4bn) – 20.7% (~$25.8bn) below target due to lower investment markets, outflows from sale of Whitehelm Capital (~$5.2bn) and redemption by single institutional investor (~$5.6bn) following asset reallocation. **Life sales** $9.7bn (target: $8.4bn) – record Life sales (15.5% above target) and record annuity sales (18.9% above target). **Life book growth** 14.3% (target: 12.0%) with both retail and institutional book growth well above target. **Funds Management net outflows** $8.5bn (target $5.6bn inflow) – outflows as described above under Group AUM.
People & culture (30%)	**Met**
Risk culture Not met Met Exceeded	**Risk culture** entrenched – 87% employees confident they can raise concerns regarding conflicts of interest and ethics without fear of repercussion and 86% employees feel it is safe to speak up and express their opinions (up 5 ppt on 2021)[1].
Employee engagement Not met Met Exceeded	**Sustainable engagement** – remains strong at 81% and 3ppt above Australian National Norm, 94% believe strongly in the goals and objectives of Challenger; 88% would recommend Challenger as a good place to work[1]. **Flexible hybrid working** – 94% have flexibility to manage work and other commitments[1].
Diversity Not met Met Exceeded	**Employer of Choice for gender equality** – recognised by Workplace Gender Equality Agency. **Diversity and inclusion** – strong at 89% and 10ppt above the Australian National Norm and 1ppt above Global high Performing Norm; 96% recognise gender-based harassment and sexual harassment is not tolerated[1.] **Female representation** – in all roles 42% (target 40-60%); in management roles 39% (target: 40-60%).

1. Willis Tower Watson, April 2022.

Remuneration Report (continued)

Short-term incentives (continued)

Customer (20%)	Met
Customer satisfaction and support Not met Met Exceeded	**Customer division** established with new leadership to focus on broadening customer and product reach to meet more customer needs. **Customer Focus** – 79% of employees believe Challenger has a strong customer focus and 92% believe they constantly look for better ways to serve customers. **Distributor of the year** – Fidante Distributor of the year at 2021 Zenith Fund Awards. **Investment performance** – superior performance with 98% of FUM outperforming benchmark over three years[1]. **Award winning** – Challenger Life - Plan for Life Overall Longevity Cover Excellence Award and Client & Adviser Technical Support Award; Funds Management – Greencape, Alphinity and Ardea winners at 2022 Financial Standard Investment Leadership Awards, and Bentham winner at Morningstar Australasia Awards; Bank – Mozo Expert Choice Award.
Expand products and distribution channels Not met Met Exceeded	**New products**: Bank Term Deposits, Alphinity global sustainable equity fund; Challenger Market-Linked Lifetime Annuity. **New Affiliates:** Ox Capital emerging markets, Cultiv8 agriculture and food private markets. **Growth in offering**: CIM fixed Income funds FUM exceeded $1bn. **New distribution channels**: Bank - Online comparator sites and broker channel for Bank Term Deposits; Funds Management - Ares Global Credit Income fund available on six platforms. **Funds Management global diversification**: significant mandate wins in UK and first US based institutional client. Multi-affiliates expanding offshore including Ardea Investment Management establishing UK office. **Whitehelm Capital sale** to deliver value for shareholders ($44.6m pre-tax profit on sale) with expanded client product offering.
Strategic (10%)	**Exceeded**
Progress growth strategy Not met Met Exceeded	**Apollo strategic relationship:** Joint venture MOU to build Australia and New Zealand non-bank lending platform. **SimCorp:** Joint venture MOU to build market-leading investment operations platform servicing Australia and APAC. **ESG enhancement:** inaugural two-day ESG conference with significant progress made embedding ESG principles in investment decision making processes. **Imaginate22:** employee innovation forum with initiatives focused on One Challenger, growth and simplification.
Overall outcome	**Met**

1. As at 30 June 2022. Percentage of Fidante Australian boutiques meeting or exceeding the performance benchmark, with performance weighted by FUM.

Short-term incentive outcomes

2022 STI outcome for the incoming CEO: **107% of target**

The Board determined an STI outcome of 107% of target (71% of maximum) which reflects the overall performance outcome of 'met' as set out in the balanced scorecard above together with an assessment of Mr Hamilton's behaviours as strongly in line with the Challenger values and risk management outcomes. In determining this outcome, the Board has taken into account Mr Hamilton's role for the first half of the year leading the Funds Management business, which has continued to perform well despite heightened market volatility. The Board has determined not to apply a modifier as discussed below.

2022 STI outcome for the outgoing CEO: **39% of target**

The Board determined an STI outcome of 39% of target (26% of maximum). This outcome considered Mr Howes' contribution, in his role as CEO and supporting a smooth transition to the incoming CEO.

Short-term incentive modifier

The Board recognises that the balanced scorecard outcome does not always capture the full range of factors that are relevant to making reward decisions and that the ability to make discretionary adjustments is an important governance mechanism.

The STI modifier makes explicit the magnitude of, and the rationale for, discretionary adjustments. In applying the modifier, the Board considers a broad range of factors, including the quality of financial results, risk and conduct matters with a Group-wide impact, and any other matter which it considers is not fully reflected in the scorecard.

STI outcomes for KMP (excluding the CEO) are calculated by applying the modifier to pre-adjustment STI outcomes, as recommended to the Board by the CEO. Pre-adjustment STI outcomes reflect performance outcomes which are informed by individual, business unit and Group performance and an assessment of behaviours.

Pre-adjustment STI outcome (0-150% of target)	x	Modifier (0-100%)	=	Final STI outcome (0-150% of target)

The modifier can vary between zero and 100% thereby acting as a gateway and a downwards adjustment mechanism. The modifier cannot adjust STI outcomes upwards as individual behaviours (including risk behaviours) can modify individual performance outcomes.

A consistent modifier generally applies for all KMP to reflect shared accountability for Group performance and other significant factors, for example, where a risk or conduct matter has a group-wide impact.

2022 STI modifier: **100%**

The Board has determined not to apply a modifier to 2022 STI outcomes for KMP.

The Chief Risk Officer has confirmed that no risk or conduct matters have been identified which would warrant the application of the modifier.

In addition, the Board has reviewed the adjustments made to 2020 and 2021 STI outcomes. The Board considers that these adjustments, in aggregate, are proportionate to the extent of the impact caused by the events of 2020.

2022 short-term incentive outcomes for KMP

The table below sets out the 2022 STI outcomes for current and former KMP as a percentage of target and maximum, including the impact of the modifier.

STI outcomes for KMP range between 39% and 111% of target (26% and 74% of maximum).

	2022 STI outcomes	
	% of target	% of max
Current KMP		
N Hamilton	107%	71%
C Plater	75%	60%
R Grimes AM	90%	68%
Former KMP		
R Howes	39%	26%
A Murphy	111%	74%

Excludes the Acting Chief Executive, Funds Management as Mr Clarke does not have an STI target. Excludes the current Chief Executive, Life & Solutions as Mr Kapel became KMP effective 1 June 2022 and prior to this time Mr Kapel did not have an STI target opportunity.

Remuneration Report (continued)

Long-term incentives

Long-term incentive structure

LTIs are awarded annually to support a continued focus on long-term performance and strong shareholder alignment. The meaningful weighting ensures a significant proportion of total reward is 'at risk' and directly linked to shareholder outcomes. LTI terms are set out in the table below.

The Board considers that TSR is an effective measure of shareholder outcomes and that an absolute rather than a relative TSR performance measure is appropriate because:

- there are no other listed companies in the Australian market with a retirement income business that are directly comparable to Challenger;
- a broader index is not considered an appropriate peer group as there is risk of misalignment between remuneration and shareholder value creation; and
- if the absolute TSR threshold performance target is set at a level above average market returns over the long-term, vesting will be directly linked to the delivery of superior returns to shareholders.

The Board determined to retain the thresholds of 7% to 10% (compounded annually) for 2022 on the basis they continue to be challenging in a low growth and low interest rate environment and represent a relatively strong return for shareholders. Over four years, 7% annual compound return represents total shareholder return of 31%, and 10% represents total shareholder return of 46%.

Where the hurdle is not satisfied at four years, a higher test is applied in year five (requiring total shareholder returns above 40% for any vesting to occur and total shareholder returns above 61% for full vesting to occur). As a higher hurdle applies in year five, Challenger's approach differs from traditional 're-tests' and reflects our commitment to driving focus on long-term performance and strong risk management. Any unvested awards lapse after five years.

The Board is currently undertaking a comprehensive review of LTIs to ensure they appropriately reflect Challenger's strategic priorities, continue to align strongly with shareholder outcomes and comply with regulatory requirements.

Quantum for KMP	Set in accordance with the pay mix framework, being up to 225% of fixed remuneration for CEO and business lines and 125% for control and support functions (at face value).
Delivery	Hurdled Performance Share Rights (HPSRs) which represent the right to receive a fully-paid ordinary Challenger share for nil consideration subject to satisfaction of an employment condition and a performance hurdle.
Allocation methodology	Face value with the number of HPSRs granted based on the five-day VWAP of shares prior to grant date. HPSRs for the CEO are granted following the shareholder vote at the Annual General Meeting using the same allocation price as other KMP.
Vesting period and conditions	LTI awards vest after four or five years subject to satisfaction of an employment condition and Challenger satisfying the absolute TSR performance hurdle. Awards are tested after four years with any unvested HPSRs subject to a final cumulative test after five years. Awards made prior to September 2019 will continue to be tested after three or four years and subject to a final cumulative test after five years. Two-thirds of an award is eligible to commence vesting after three years and the final third after four years.
Performance hurdle	Vesting is subject to an absolute TSR performance hurdle set out in the table below: **Absolute TSR hurdle** — **% of HPSRs that vest** Less than 7% p.a. — 0% 7% to 10% p.a. — Straight-line vesting between 50% and 100% 10% p.a. and above — 100% The start and end price for absolute TSR performance testing is calculated using a 90-day VWAP leading up to the relevant performance start or end date. A 90-day VWAP eliminates the potential for short-term price volatility to impact vesting outcomes.
Termination treatment	Termination for cause will result in forfeiture of all unvested equity awards. For other leaver scenarios, good leaver provisions will apply unless the Board determines otherwise. The good leaver treatment is that unvested awards remain 'on foot' on a pro rata basis based on the proportion of the performance period which has elapsed. Awards which remain 'on foot' will vest on the original vesting date, subject to satisfaction of the performance hurdle. Board discretion applies in relation to unvested awards issued prior to 30 June 2019.
Forfeiture (malus)	As detailed in the STI table in section 'Short-term incentives' above.

Long-term incentive vesting outcomes

No LTIs will vest in September 2022 for the fourth consecutive year. In September 2021, LTIs awarded in 2016, 2017 and 2018 were tested with annual compound TSR results of -5.4%, -15.2% and -18.36% respectively. As illustrated in the chart on page 56, the non-vesting of LTIs reflects strong alignment of executives' realised reward with shareholder outcomes over the longer term.

2022 awarded Key Management Personnel remuneration

Awarded remuneration represents the value of remuneration that has been awarded in respect of the financial year, as determined by the Board, and includes fixed remuneration, STIs (cash and deferred) and LTIs. The value of deferred STIs realised will depend on share price performance and LTIs will only deliver value to executives in the future if shareholder return hurdles are achieved. This ensures strong alignment between realised executive reward and shareholder outcomes over the longer term.

Remuneration for KMP has been decreasing over time driven by the rebasing of remuneration arrangements as incumbents have been replaced, in line with broader market trends. Realised reward for KMP has also been significantly impacted by the non-vesting of LTIs for four consecutive years.

The presentation of awarded remuneration for 2022 has been updated to provide greater transparency and to better align with the executive reward framework following a number of changes in recent years, noting these changes do not impact the statutory remuneration disclosures in Section 'Remuneration Governance'. Specifically:

- STI outcomes are shown as a percentage of target opportunity following the introduction of the pay mix framework in 2021;
- LTI awards are included in the financial year in which they are granted to reflect the focus on driving future performance, and that quantum is no longer linked to performance over the previous financial year. As such, in the table below the 2021 LTI includes the grants made in September 2020 and May 2021, and the 2022 LTI includes the awards made in September 2021;
- the fair value of LTI awards is no longer included reflecting the face value allocation methodology used since 2019; and
- total awarded remuneration at face value is included to provide greater transparency.

The CEO's LTI for the 2023 financial year will be granted following shareholder approval, which will be sought at Challenger's Annual General Meeting. Further details will be set out in the Notice of Meeting.

			Short-term incentive						
KMP[5]	Year	Fixed[1] $	% of target	Total $	Cash $	Deferred[2] $	Other[3] $	Long-term incentive (Face value)[4] $	Total awarded remuneration $
Current KMP									
N Hamilton	**2022**	**862,500**	**107%**	**1,250,000**	**625,000**	**625,000**		**1,518,750**	**3,631,250**
	2021	600,000	98%	784,000	392,000	392,000	6,944	1,350,000	2,740,944
M Clarke[6]	**2022**	**250,750**	**N/A**	**175,000**	**112,500**	**62,500**	**—**	**225,734**	**651,484**
	2021	—	—	—	—	—	—	—	—
R Grimes AM	**2022**	**725,000**	**90%**	**735,000**	**367,500**	**367,500**	**—**	**906,250**	**2,366,250**
	2021	120,834	70%	92,000	46,000	46,000	—	302,083	514,917
A Kapel	**2022**	**50,000**	**N/A**	**29,168**	**14,584**	**14,584**	**—**	**37,622**	**116,790**
	2021	154,865	N/A	39,286	32,738	6,548	385	118,241	312,777
C Plater	**2022**	**750,000**	**75%**	**900,000**	**450,000**	**450,000**	**—**	**1,687,500**	**3,337,500**
	2021	750,000	56%	672,000	336,000	336,000	20,293	1,687,500	3,129,793
Former KMP									
R Howes	**2022**	**637,500**	**39%**	**333,334**	**166,667**	**166,667**	**—**	**—**	**970,834**
	2021	1,275,000	56%	950,000	475,000	475,000	23,902	2,868,750	5,117,652
A Murphy	**2022**	**618,750**	**111%**	**916,668**	**458,334**	**458,334**	**—**	**1,392,188**	**2,927,606**
	2021	610,699	56%	465,000	232,500	232,500	7,674	1,518,750	2,602,123
Total	**2022**	**3,894,500**		**4,339,170**	**2,194,585**	**2,144,585**	**—**	**5,768,044**	**14,001,714**
	2021	3,511,398		3,002,286	1,514,238	1,488,048	59,198	7,845,324	14,418,206

1. Includes base salary and superannuation.
2. Deferred STIs will be allocated based on the five-day volume weighted average price (VWAP) prior to the grant date in September 2022.
3. Values represent distributions from the CPP Trust.
4. The LTIs granted during the financial year were allocated based on the five-day VWAP prior to grant in September 2021. The fair value, which is independently calculated and used to determine the accounting expense, differs to the face value to reflect the likelihood of performance hurdles being achieved, the deferred nature of the award and that awards do not carry a dividend entitlement.
5. Where an individual held a KMP role for part of either the current or prior reporting period, disclosure is pro-rata for the period in which they were KMP. Refer to Section 'Key Management Personnel' for further details.
6. Given Mr Clarke's acting role, his deferred STI is based on the policy that applies to non-LT members being deferral of 50% of the STI in excess of $100k. This deferral is for two years vesting in equal tranches 50% after 1 year and 50% after 2 years.

Remuneration Report (continued)

Remuneration governance

Challenger's remuneration governance structures, outlined in the table below, provide strong oversight of remuneration practices and policies. Detailed information concerning the scope of the Board and the Remuneration Committee's responsibilities can be found under the corporate governance section of Challenger's website.

Remuneration governance arrangements promote compliance with the provisions of the ASX Listing Rules, the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the ***Corporations Act 2001*** and, in respect of CBL, CLC and Challenger Retirement and Investment Services Limited, the principles contained in the relevant Australian Prudential Regulation Authority standards.

Board	• The Board is responsible for ensuring effective remuneration governance and related risk management practices. • The Board approves remuneration principles and structures and ensures that they are competitive and equitable and that they support the long-term interests of Challenger. • The Board receives recommendations from the Remuneration Committee and approves these remuneration recommendations, where appropriate.
Remuneration Committee	• The Board convenes a Remuneration Committee comprising at least three Independent Directors to assist the Board in discharging its responsibilities. • The Remuneration Committee meets at least five times during the year, with additional meetings scheduled as required. For the year ended 30 June 2022, five meetings were held. • The Remuneration Committee determines and recommends to the Board various principles and policies (including remuneration, recruitment, retention, termination and diversity), Managing Director & CEO and KMP remuneration, incentives, superannuation and life insurance arrangements, and the Directors' remuneration framework.
Independent remuneration advisers	• The Board, independent of management, appoints an adviser to the Remuneration Committee. • In 2022, the Board continued its engagement of KPMG. This engagement is based on a defined set of protocols. The Board is satisfied with KPMG's remuneration structure and quantum-related advice and that such advice is free from undue influence. • During 2022, KPMG attended all the Remuneration Committee meetings and provided advice with respect to KMP remuneration arrangements, updates on regulatory developments, tax advice and a review of incentive plans. No 'remuneration recommendations', as defined by the ***Corporations Act 2001,*** were provided by KPMG. • Mercer was retained in 2022 to independently value equity awards and test HPSR vesting outcomes.

Remuneration benchmarking

Challenger's remuneration strategy is supported by a strong focus on benchmarking remuneration against the external market to roles with comparable financial services, banking, insurance and capital markets skills.

Annually, the Board approves the peer groups to be used when benchmarking KMP remuneration, and in 2022 approved the following peer groups:

1. **Financial Industry Remuneration Group survey:** This peer group supports consideration of roles with comparable financial services, banking, insurance and capital markets skills to Challenger's KMP.
2. **Financial services publicly disclosed data:** Data is comprised of publicly disclosed KMP remuneration data for select financial services companies. This peer group supports consideration of roles with comparable skills to Challenger's KMP.

During the year, the Board considered remuneration benchmark data as an input when setting remuneration arrangements for new appointments and determining annual remuneration outcomes for KMP. The Board is confident that awarded remuneration reflects performance and is positioned and structured at a market-competitive level reflective of the markets in which Challenger competes for talent, and the specialist nature of the skills and experience of Challenger's KMP.

Variable remuneration governance

The Board approves a pool for total variable remuneration (cash STI and share-based) annually.

The Group pool is built on a bottom-up basis with individual allocations informed by internal and external market remuneration levels and individual contribution. Divisional pools for business lines are adjusted by the CEO to reflect contribution to Group financial results with pools for control and support functions informed by the quality and integrity of support provided. Divisional pools may also be adjusted for other factors, including risk management outcomes.

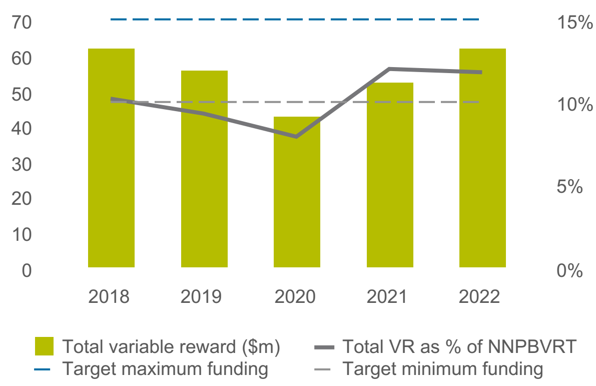
A number of top-down lenses are applied in determining the Group pool which is an aggregation of individual and divisional pools. Historically, the Board has used a range of 10-15% of normalised net profit before variable reward and tax (NNPBVRT) as one of these lenses.

While this continues to act as a guide, the Board considers a range of factors in assessing the appropriateness of the pool, including:

- overall business results against plan (financial and non-financial performance measures);
- progress against short and long-term strategic objectives;
- external remuneration levels and movements;
- the retention of key talent;
- the cost and amount of capital employed;
- factors beyond management's control; and
- the management of risk, including adjustments for any risk and conduct matters with a group-wide impact.

Variable remuneration governance (continued)

The Board approved a variable remuneration pool for 2022 close to the mid-point of the target funding range (11.8%). The Board considers that the pool reflects a reasonable and equitable distribution between shareholders and employees and provides a clear line of sight to, and a strong relationship between, performance and remuneration outcomes.



Minimum shareholding guidelines

The Board reviews KMP and Non-Executive Director minimum shareholding guidelines annually in order to ensure alignment with shareholders and market practice. The 2022 review determined that no changes were required to the guidelines at this time. Challenger's minimum shareholding guidelines do not count unvested deferred equity towards minimum holdings; however, for completeness the shareholding disclosures in Section 'Key Management Personnel remuneration arrangements' also show unvested deferred STIs.

Minimum shareholding requirements are detailed in the following table:

Group	Requirement	Implied value[1]
Non-Executive Directors (NEDs)	One times base fees	Chair: $525,500 NEDs: $179,000
Managing Director & CEO	Two times fixed remuneration	$2,150,000
Other KMP	One times fixed remuneration	$600,000 to $750,000

1. Based on fees and remuneration as at 30 June 2022.

A five-year transitional period in which to acquire the required shareholding applies for Non-Executive Directors and KMP. The Board retains discretion to allow Non-Executive Directors and KMP to vary from this guideline. Where fees are paid to the employer of the Non-Executive Director, the guidelines do not apply.

The shareholdings of Non-Executive Directors and KMP at 30 June 2022 are set out in Sections 'Key Management Personnel remuneration arrangements' and 'Non-Executive Director disclosures'.

Employee share trading policy

Employees, including Directors and KMP, must comply with Challenger's employee share trading policy and are required to obtain pre-approval from the Company if they wish to trade in Challenger shares.

Employees are prohibited from trading during specified periods, including prior to the release of Challenger's financial results.

Employees are prohibited from hedging their unvested equity awards, as this would not be consistent with Challenger's remuneration strategy or appropriate governance outcomes and is contrary to the intention of equity-based remuneration arrangements. Any breach of this requirement would be regarded as serious misconduct and may result in dismissal.

Challenger prohibits KMP and employees from taking out margin loans on Challenger shares, with any exceptions to this rule requiring Board approval. There have been no requests for exceptions to this policy for the year ended 30 June 2022 (no requests in 2021).

Employee share ownership

The Board believes that greater employee share ownership increases alignment with shareholders.

The Tax Exempt Share Plan provides permanent Australian employees a means to acquire Challenger shares at no cost, and to participate in the future growth and performance of Challenger. Eligible employees are offered $1,000 worth of fully-paid Challenger ordinary shares on an annual basis, subject to a three-year minimum holding period.

Challenger Performance Plan (CPP) Trust

The CPP Trust is an employee share trust established to satisfy Challenger's employee equity obligations arising from DPSRs and HPSRs.

Challenger shares held by the CPP Trust generate dividend income. The CPP Trust does not receive dividends from forward share purchase agreements.

The Trustee of the CPP Trust has absolute discretion to determine whether any net income earned from shares held by the CPP Trust is distributed to beneficiaries. Any undistributed income at the end of the year is taxed at the maximum marginal tax rate (which exceeds the Company tax rate) and carries no franking credits.

With the change from using rights to shares for the STI deferral, the CPP Trust is now managed to minimise the amount of unallocated dividends. The practice of paying distributions to employees and KMP has ceased, and following the September 2021 payments, no further distributions will be paid.

Remuneration Report (continued)

Risk and reward

The Board seeks to align remuneration with effective risk management, the generation of appropriate risk-based returns and Challenger's risk appetite.

The Board has agreed a risk management framework which sets out the Board's tolerance to risk exposures and the management of risk. Challenger's risk profile is continuously monitored and managed against its risk appetite and any divergence is resolved within Challenger through a series of escalations and delegated authorities culminating with the Board. All business activities are carried out in accordance with this risk management framework, regardless of potential remuneration outcomes.

During the year, the Risk Committee provides reports to the Remuneration Committee and the Board summarising risk management and risk outcomes, including any breaches of the risk management framework or other compliance policies. In addition, the Consequence Management Committee, which comprises representatives from Risk and Human Resources, reports to the Remuneration Committee bi-annually on matters referred to it. The Remuneration Committee and the Board consider these reports when finalising remuneration pools and individual allocations.

All employees are required to comply with Challenger's policies and other risk management and regulatory requirements as they apply to their role and business area. Breaches of compliance with these policies and other requirements are taken seriously and may result in a range of potential consequences including disciplinary action and termination of employment.

All employees are assessed against the Challenger values, which includes risk behaviours, as part of the annual performance review process. The values rating contributes to the overall performance rating and remuneration outcomes. Satisfactory assessment of behaviours against the Challenger values is treated as a gate-opener for variable reward and behaviours can either increase or decrease reward outcomes.

During 2022, the Conduct Risk and Consequence Management framework (approved by the Board in 2020) has been further embedded with a focus on enabling a higher bar to be applied in assessing conduct matters and considering appropriate consequences. This has included:

- raising awareness of risk management and regulatory requirements;
- transparency in relation to potential consequences for conduct matters;
- updating policies to improve clarity;
- enhancing reporting and monitoring capabilities; and
- embedding risk and consequence management in the annual performance and remuneration review.

The Remuneration Committee and the Board consider potential risk implications of performance targets when setting performance measures for variable reward plans.

The Board also places significant focus on risk culture and monitors and assesses Challenger's risk culture. In 2022, this included:

- risk culture questions included within the YourVoice employee engagement survey;
- risk culture pulse check surveys sent to employees throughout the year; and
- a range of key risk indicator metrics being monitored and assessed throughout the year.

Variable reward forfeiture provisions

Under the terms of the CPP, DPSRs, Restricted Shares and HPSRs may be reduced or forfeited should the Board determine that a KMP or employee:

- has committed an act of dishonesty;
- is ineligible to hold their office for the purposes of Part 2D.6 Disqualification from managing corporations of the *Corporations Act 2001*; or
- is found to have acted in a manner that the Board considers to be gross misconduct or is dismissed with cause.

In addition, the Board may resolve that an award of DPSRs, Restricted Shares or HPSRs should be reduced or forfeited in order to:

- protect financial soundness;
- respond to unexpected or unintended consequences that were significant and unforeseen by the Board (such as material risk management breaches, unexpected financial losses, reputational damage or regulatory non-compliance); and
- respond to any examples of misconduct, risk events, acts or omissions or breaches of law or regulation.

Prior to any awards vesting, the Chief Risk Officer confirms whether there are any matters that should be considered by the Board, including any ongoing investigations into potential matters.

Key Management Personnel remuneration arrangements

This audited remuneration report describes Challenger's KMP and Non-Executive Director remuneration arrangements as required by the *Corporations Act 2001.*

Statutory remuneration

Statutory remuneration represents the accounting expense of remuneration in the financial year. It includes fixed remuneration, cash STI awards, the fair value amortisation expense of deferred share awards granted, distributions from the CPP Trust, long service leave entitlements and insurance.

		Short-term employee benefits			Long-term employee benefits		
KMP[4]	Year	Salary[1] $	Super-annuation $	Cash STIs $	Other[2] $	Share-based payments[3] $	Total $
Current KMP							
N Hamilton	**2022**	**841,038**	**23,568**	**625,000**	**67,769**	**884,790**	**2,442,165**
	2021	581,172	21,694	392,000	32,030	668,516	1,695,412
M Clarke	**2022**	**238,966**	**11,784**	**112,500**	**5,291**	**125,212**	**493,753**
	2021	—	—	—	—	—	—
R Grimes AM	**2022**	**704,683**	**23,568**	**367,500**	**5,017**	**184,402**	**1,285,170**
	2021	117,301	3,616	46,000	115	8,546	175,578
A Kapel	**2022**	**48,325**	**1,964**	**14,583**	**6,133**	**14,375**	**85,380**
	2021	150,357	5,682	32,738	3,241	42,266	234,284
C Plater	**2022**	**728,781**	**23,568**	**450,000**	**20,447**	**1,070,040**	**2,292,836**
	2021	730,844	21,694	336,000	52,862	1,183,429	2,324,829
Former KMP							
R Howes	**2022**	**627,045**	**11,784**	**166,667**	**16,066**	**800,785**	**1,622,347**
	2021	1,256,237	21,694	475,000	60,861	1,759,563	3,573,355
A Murphy	**2022**	**587,922**	**21,604**	**458,333**	**17,075**	**727,575**	**1,812,509**
	2021	593,377	21,694	232,500	52,214	616,699	1,516,484
A Tobin	**2022**	**—**	**—**	**—**	**—**	**—**	**—**
	2021	515,968	16,271	192,500	6,784	742,645	1,474,168
Total	**2022**	**3,776,760**	**117,840**	**2,194,583**	**137,798**	**3,807,179**	**10,034,160**
	2021	3,945,256	112,345	1,706,738	208,107	5,021,664	10,994,110

1. Includes the cost of death, total permanent disability and salary continuance insurances.
2. Values represent distributions paid or payable from the CPP Trust and long service leave accruals.
3. Calculated on the basis outlined in Note 30 Employee entitlements and reflects the fair value of the benefit derived at the date at which they were granted. Fair value is determined using an option pricing model and is undertaken by an independent third party. The HPSRs included in share-based payments are subject to market-based performance conditions; consequently, no adjustment to the fair value following grant date is permitted to be made for the likelihood of performance conditions not being met. As a result, the value of the share-based payments included in the table may not necessarily have vested during the financial year.
4. Where an individual held a KMP role for part of either the current or prior reporting period, disclosure is pro-rata for the period in which they were KMP. Refer to Section 'Key Management Personnel' for further details.

Remuneration Report (continued)

Key Management Personnel remuneration arrangements (continued)

Split of statutory remuneration components

The splits of KMP statutory remuneration are set out below:

KMP[1]	Year	Fixed remuneration	Cash STI	Share-based payments	Other	Total
Current KMP						
N Hamilton	**2022**	**35%**	**26%**	**36%**	**3%**	**100%**
	2021	35%	23%	40%	2%	100%
M Clarke	**2022**	**51%**	**23%**	**25%**	**1%**	**100%**
	2021	—	—	—	—	—
R Grimes AM	**2022**	**56%**	**29%**	**14%**	**1%**	**100%**
	2021	69%	26%	5%	—%	100%
A Kapel	**2022**	**58%**	**17%**	**17%**	**8%**	**100%**
	2021	66%	14%	18%	2%	100%
C Plater	**2022**	**32%**	**20%**	**47%**	**1%**	**100%**
	2021	32%	14%	52%	2%	100%
Former KMP						
R Howes	**2022**	**40%**	**10%**	**49%**	**1%**	**100%**
	2021	36%	13%	49%	2%	100%
A Murphy	**2022**	**34%**	**25%**	**40%**	**1%**	**100%**
	2021	40%	15%	41%	4%	100%
A Tobin	**2022**	**—%**	**—%**	**—%**	**—%**	**—%**
	2021	36%	13%	50%	1%	100%

1. Where an individual held a KMP role for part of either the current or prior reporting period, disclosure is pro-rata for the period in which they were KMP. Refer to Section 'Key Management Personnel' for further details.

Shares and Share Rights granted

Restricted Shares

Deferred short-term incentives are delivered in the form of Restricted Shares which vest in tranches over four years. Restricted Shares granted to KMP during the year ended 30 June 2022 are detailed below:

KMP[1]	Date of grant	Awarded value from 2021 $	Face value allocation price $	Total number of shares granted[2]	Vesting (number of shares by tranche)[3] Tranche 1 1 September 2022	Tranche 2 1 September 2023	Tranche 3 1 September 2024	Tranche 4 1 September 2025
Current KMP								
N Hamilton	8/9/21	392,000	6.44	60,866	18,260	18,260	12,173	12,173
R Grimes AM	8/9/21	46,000	6.44	7,140	2,142	2,142	1,428	1,428
C Plater	8/9/21	336,000	6.44	52,172	15,652	15,652	10,434	10,434
Former KMP								
R Howes	8/9/21	475,000	6.44	73,756	22,127	22,127	14,751	14,751
A Murphy	8/9/21	232,500	6.44	36,100	10,830	10,830	7,220	7,220

1. Mr Clarke held a KMP role from 1 January 2022 until 31 July 2022 and Mr Kapel held a KMP role from 1 June 2022. Grant and vesting outcomes prior to that are not required to be disclosed.
2. The number of shares granted is determined by dividing the awarded value by the VWAP in the five days prior to grant (face value allocation price).
3. The fair value was $6.36 for all four tranches. The fair value is independently calculated and used to determine the accounting value which is amortised over the vesting period. The fair value differs to the face value to reflect the deferred nature of the award.

Hurdled Performance Share Rights

Long-term incentives are delivered in the form of HPSRs which vest after four years subject to achievement of absolute TSR performance hurdles. HPSRs granted to KMP during the year ended 30 June 2022 are detailed below:

KMP[1]	Grant date	Vesting Date	Awarded HPSR face value	Face value allocation price $	Total number of HPSRs granted[2]	TSR start price[3] $	Fair value at grant date[4]	Awarded HPSR fair value
Current KMP								
N Hamilton	8/9/21	1/9/25	1,518,750	6.4400	235,830	5.9014	3.59	846,630
R Grimes AM	8/9/21	1/9/25	906,250	6.4400	140,722	5.9014	3.59	505,192
C Plater	8/9/21	1/9/25	1,687,500	6.4400	262,034	5.9014	3.59	940,702
Former KMP								
R Howes	N/A	N/A	—	N/A	—	N/A	N/A	—
A Murphy	8/9/21	1/9/25	1,518,750	6.4400	235,830	5.9014	3.59	846,630

1. Mr Clarke held a KMP role from 1 January 2022 until 31 July 2022 and Mr Kapel held a KMP role from 1 June 2022. Grant and vesting outcomes prior to that are not required to be disclosed.
2. The number of rights granted is determined by dividing the awarded value by the VWAP in the five days prior to 8 September 2021 (face value allocation price).
3. The TSR start price is the VWAP in the 90 calendar days prior to 8 September 2021.
4. The fair value is independently calculated and used to determine the accounting value which is amortised over the vesting period. The fair value differs to the face value to reflect the likelihood of performance hurdles being achieved, the deferred nature of the award and that HPSRs do not carry a dividend entitlement.

Shares and Share Rights vested

The following tables show the short and long-term incentives that vested during the year ended 30 June 2022 for all KMP who were considered KMP at the vesting date.

Deferred Performance Share Rights

DPSRs which vested to KMP during the year ended 30 June 2022, are detailed below:

KMP[1]	Date of grant	Number	Face value at grant $	Vesting date	Vested value[2] $
Current KMP					
N Hamilton	11/9/18	7,233	74,991	1/9/21	47,325
	9/9/19	5,653	37,497	1/9/21	36,987
	7/9/20	35,495	142,335	1/9/21	232,241
C Plater	11/9/18	28,935	299,995	1/9/21	189,320
	9/9/19	22,342	148,199	1/9/21	146,182
	7/9/20	39,231	157,316	1/9/21	256,686
Former KMP					
R Howes	11/9/18	33,999	352,498	1/9/21	222,453
	9/9/19	28,266	187,494	1/9/21	184,943
	7/9/20	37,363	149,826	1/9/21	244,464
A Murphy	11/9/18	4,340	44,997	1/9/21	28,396
	9/9/19	11,872	78,749	1/9/21	77,678
	7/9/20	29,890	119,859	1/9/21	195,568

1. Mr Clarke held a KMP role from 1 January 2022 until 31 July 2022 and Mr Kapel held a KMP role from 1 June 2022. Grant and vesting outcomes prior to that are not required to be disclosed.
2. The vested value is based on the VWAP in the five days prior to the vesting date.

Remuneration Report (continued)

Key Management Personnel remuneration arrangements (continued)

Hurdled Performance Share Rights

No HPSR awards vested to KMP during the year ended 30 June 2022 as the absolute TSR performance hurdles were not achieved and no HPSRs will vest in September 2022.

	Grant details			Vesting details				
KMP[1]	Grant date	Number	Fair value at grant[2] $	Vesting date	Compound annual TSR outcome	Number vested	Number forfeited[3]	Number yet to vest or lapse
Current KMP								
N Hamilton	12/9/16	18,125	74,995	1/9/21	(5)%	—	(18,125)	—
	11/9/17	20,899	122,495	1/9/21	(15)%	—	—	20,899
	11/9/18	40,390	174,999	1/9/21	(18)%	—	—	40,390
C Plater	12/9/16	163,136	674,998	1/9/21	(5)%	—	(163,136)	—
	11/9/17	119,427	699,994	1/9/21	(15)%	—	—	119,427
	11/9/18	161,560	699,997	1/9/21	(18)%	—	—	161,560
Former KMP								
R Howes[4]	12/9/16	226,577	937,494	1/9/21	(5)%	—	(226,577)	—
	11/9/17	161,227	944,996	1/9/21	(15)%	—	—	161,227
	11/9/18	189,833	822,496	1/9/21	(18)%	—	—	189,833
A Murphy	12/9/16	63,441	262,496	1/9/21	(5)%	—	(63,441)	—
	11/9/17	17,914	104,998	1/9/21	(15)%	—	—	17,914
	11/9/18	24,234	104,999	1/9/21	(18)%	—	—	24,234

1. Mr Clarke held a KMP role from 1 January 2022 until 31 July 2022 and Mr Kapel held a KMP role from 1 June 2022. Grant and vesting outcomes prior to that are not required to be disclosed.
2. The fair value is independently calculated and has been determined by the Board as the best estimate of the awarded financial value at the grant date.
3. HPSRs awarded in 2016 lapsed during the year as a result of the higher hurdle test applied in year 5 not being met.
4. HPSRs awarded to Mr Howes in 2017 were subsequently forfeited on termination.

Shares and Share Rights held

Details of KMP DPSRs, Restricted Shares and HPSRs held as at 30 June 2022 are set out below:

KMP[1]	Instrument	Number held at 1 July 2021	Number granted as remuneration	Number forfeited	Number vested	Number held at 30 June 2022
Current KMP						
N Hamilton	DPSRs	138,738	—	—	(48,381)	90,357
	RS	—	60,866	—	—	60,866
	HPSRs	619,207	235,830	(18,125)	—	836,912
R Grimes AM	DPSRs	—	—	—	—	—
	RS	—	7,140	—	—	7,140
	HPSRs	75,246	140,722	—	—	215,968
C Plater	DPSRs	211,835	—	—	(90,508)	121,327
	RS	—	52,172	—	—	52,172
	HPSRs	1,118,865	262,034	(163,136)	—	1,217,763
Former KMP						
R Howes[2]	DPSRs	224,497	—	—	(99,628)	124,869
	RS	—	73,756	—	—	73,756
	HPSRs	1,724,699	—	(387,804)	—	1,336,895
A Murphy	DPSRs	131,674	—	—	(46,102)	85,572
	RS	—	36,100	—	—	36,100
	HPSRs	687,416	235,830	(63,441)	—	859,805

1. Mr Clarke held a KMP role from 1 January 2022 until 31 July 2022 and Mr Kapel held a KMP role from 1 June 2022. Grant and vesting outcomes prior to that are not required to be disclosed.
2. Mr Howes' unvested DPSRs, Restricted Shares and HPSRs remained 'on foot' on cessation of employment, subject to the applicable time based vesting conditions and, in the case of the HPSRs, specified performance hurdles. Mr Howes elected to forfeit HPSRs awarded in 2017.

Key Management Personnel and their affiliates' shareholdings in Challenger Limited

Details of KMP and their affiliates' shareholdings in Challenger Limited as at 30 June 2022 are detailed below, along with the number of unvested DPSRs and Restricted Shares. The CEO and other KMP are required to have a minimum shareholding equal to two times, and one times, their fixed remuneration respectively. From the date of appointment, KMP have a five-year transition period to reach the minimum shareholding.

							Shareholding as a multiple of fixed remuneration[1]	
KMP[2]	Year	Opening balance	Number of vested Share Rights	Number of shares (sold)/ acquired	Closing balance of shares	Number of unvested DPSRs & RS	Fully-owned shares	Shares, RS and DPSRs
Current KMP								
N Hamilton[3]	**2022**	**17,769**	**48,381**	**(30,000)**	**36,150**	**151,223**	**0.3**	**1.5**
	2021	—	17,769	—	17,769	138,738	0.2	1.4
R Grimes AM[3]	**2022**	**—**	**—**	**—**	**—**	**7,140**	**—**	**0.1**
	2021	—	—	—	—	—	—	—
A Kapel	**2022**	**—**	**—**	**—**	**2,000**	**15,745**	**—**	**0.2**
	2021	—	—	—	—	—	—	—
C Plater	**2022**	**212,672**	**90,508**	**(122,828)**	**180,352**	**173,499**	**1.6**	**3.2**
	2021	136,331	76,341	—	212,672	211,835	1.5	3.1
M Clarke	**2022**	**—**	**—**	**—**	**28,040**	**33,052**	**0.5**	**1.0**
	2021	—	—	—	—	—	—	—
Former KMP								
R Howes	**2022**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	2021	561,478	95,648	250,000	907,126	224,497	3.8	4.8
A Murphy[3]	**2022**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	2021	24,896	22,172	—	47,068	131,674	0.4	1.4
Total	**2022**	**230,441**	**138,889**	**(152,828)**	**246,542**	**380,659**		
	2021	722,705	211,930	250,000	1,184,635	706,744		

1. Shareholding multiple based on 30 June 2022 closing share price of $6.84 (30 June 2021: $5.41).
2. Where an individual held a KMP role for part of either the current or prior reporting period, disclosure is pro-rata for the period in which they were KMP. Refer to Section 'Key Management Personnel' for further details.
3. Mr Hamilton (KMP from 23 September 2019 and CEO from 1 January 2022), Ms Grimes AM (KMP from 3 May 2021) and Ms Murphy (KMP from 12 December 2018) are within their transition period. The requirements do not apply to Mr Clarke as he holds a KMP role on an interim basis.

Remuneration Report (continued)

Key Management Personnel remuneration arrangements (continued)

Nicolas Hamilton – incoming Managing Director & CEO

Mr Hamilton was appointed Managing Director & CEO effective 1 January 2022. All equity awards for the Managing Director & CEO are satisfied by the purchase of shares on market. The following table summarises the notice periods and payments which apply to Mr Hamilton upon termination.

	Notice period	Payment in lieu of notice	Eligibility for STI	Treatment of unvested shares and share rights[4]
Bad leaver termination[1]	Employee initiated: 12 months Employer initiated (Poor performance): 12 months Employer initiated (Misconduct): None	The Board may elect to make a payment of salary package in lieu of notice None	No	Lapse
Good leaver termination[2]	Employee initiated: 12 months Employee initiated (Material change[3]): 3 months Employer initiated: 12 months	The Board may elect to make a payment of salary package in lieu of notice	Eligible for a pro-rata STI payable at the usual payment date	Deferred STIs remain 'on foot' if termination is at least two years after grant date. LTIs remain 'on foot' pro rata based on proportion of vesting period served.

1. Includes where employment is terminated by Challenger for poor performance, misconduct or resignation without the prior approval of the Board.
2. Any circumstances that do not constitute a bad leaver termination.
3. Material change means where there is a substantial diminution of Mr Hamilton's duties, status, responsibilities and/or authority arising without his agreement. In the case of a material change, Mr Hamilton is entitled to receive a payment equal to nine months' fixed remuneration in addition to any payment in lieu in respect of the applicable three-month notice period.
4. Awards which do not lapse remain subject to the specified time based vesting conditions and/or performance hurdles and to the rules of the CPP.

Richard Howes – outgoing Managing Director & CEO

Mr Howes was Managing Director & CEO until 31 December 2021. He transferred to a non-KMP role effective 1 January 2022 to support the transition to the incoming CEO and ceased employment with Challenger on 31 March 2022.

No termination payments were made to Mr Howes on ceasing employment. Mr Howes' unvested equity was treated in accordance with the terms of the awards and his contract of employment. As such, all unvested DPSRs, Restricted Shares and HPSRs remained 'on foot' subject to the specified time based vesting conditions and/or performance hurdles and to to the rules of the CPP. Mr Howes elected to forfeit HPSRs awarded to him in September 2017.

Key Management Personnel (excluding Managing Director & CEO) employment agreements and notice periods

KMP do not have fixed terms of employment. The notice period for Challenger and the KMP is 26 weeks unless terminated for cause.

Upon termination, if the KMP is considered a good leaver (such as cessation of employment due to redundancy), they will be entitled to a pro-rata STI award. Board discretion applies in relation to unvested awards issued under the CPP prior to 30 June 2019. Awards issued under the CPP from 1 July 2019 onwards are subject to specific good leaver conditions specified at the time of grant, which apply unless the Board exercises its discretion to do otherwise.

Loans and other transactions

There were no loans made to Directors or key executives as at 30 June 2022 (30 June 2021: nil). From time to time, Directors of the Company or their Director-related entities may purchase products from the Company. These purchases are on the same arm's length terms and conditions as those offered to other employees or customers.

Non-Executive Director disclosures

Fee pool

The maximum aggregate amount of annual fees is approved by shareholders in accordance with the requirements of the *Corporations Act 2001.*

The current fee pool of $2,500,000 was approved by shareholders in 2016.

Fee framework and review

Challenger aims to attract and retain suitably skilled and experienced Non-Executive Directors to serve on the Board and to reward them appropriately for their time and expertise.

Non-Executive Directors are remunerated by way of fees paid in recognition of membership of the Board and its committees.

Additional fees are paid to the Chair of the Board and sub-committee chairs and members to reflect added responsibilities.

The Board is committed to periodically reviewing the fee framework in order to ensure that fees remain appropriate against the external market and support the attraction and retention of high quality Non-Executive Directors.

On recommendation from the Remuneration Committee, the Board approves the fee structure within the bounds of the overall maximum fee pool.

Fees are benchmarked annually to align with the market and to attract, retain and appropriately reward quality independent directors.

As a result of the review undertaken in August 2021:

- the fees for members of the Group Risk Committee and Group Audit Committee were increased. This increase provides consistency across the Board sub-committees and more closely aligns sub-committee fees and total board fees with relevant financial services peers;
- fees for services provided in respect of the Bank subsidiary board were introduced. These fees are set to reflect the regulatory complexity and additional time commitment associated with the recently acquired Bank business. Fees in respect of services provided to other subsidiary boards continue to be included in the Challenger Limited Board Chair and member fees;
- these changes did not impact the Board Chair fee which is inclusive of all committee and subsidiary board fees. However, the Board notes that it intends to use the retirement of the current Chair as a natural opportunity to reset the Chair fee; and
- no change was made to the maximum fee pool.

The following table summarises the fees applicable to membership and chairmanship of the Board for the year ended 30 June 2022. All amounts are inclusive of superannuation, where applicable.

	2022 fee structure		2021 fee structure[3]	
Board/Committee	Chair fee $	Member fee $	Chair fee $	Member fee $
Board[1,2]	525,500	179,000	525,500	179,000
Group Risk	47,000	23,500	47,000	14,000
Group Audit	47,000	23,500	47,000	14,000
Remuneration	47,000	23,500	47,000	23,500
Bank Board	50,000	25,000	—	—

1. Board Chair fees are inclusive of all services provided at the committee and subsidiary board level.
2. Board member fees are inclusive of Nomination Committee fees and fees for services provided at the subsidiary board level (except in respect of the Bank Board).
3. Prior to August 2021, the fee for the Chair of the Group Risk Committee included membership of the Group Audit Committee and the fee for the Chair of the Group Audit Committee included membership of the Group Risk Committee.

Remuneration Report (continued)

Non-Executive Director disclosures (continued)

Non-Executive Director fees for the year ended 30 June 2022

The following table summarises Non-Executive Director fees for the year ended 30 June 2022.

Non-Executive Director	Year	Director fees $	Superannuation $	Total $
P Polson	**2022**	**525,500**	**—**	**525,500**
	2021	475,933	—	475,933
J M Green	**2022**	**264,531**	**23,468**	**287,999**
	2021	196,880	18,704	215,584
S Gregg	**2022**	**242,818**	**23,521**	**266,339**
	2021	218,647	20,751	239,398
M Kobayashi[1]	**2022**	**—**	**—**	**—**
	2021	—	—	—
H Smith[2]	**2022**	**216,005**	**21,600**	**237,605**
	2021	84,768	8,053	92,821
J Stephenson	**2022**	**282,099**	**23,568**	**305,667**
	2021	232,848	21,235	254,083
D West[3]	**2022**	**251,559**	**—**	**251,559**
	2021	205,956	—	205,956
M Willis	**2022**	**257,873**	**23,544**	**281,417**
	2021	206,469	19,615	226,084
Total	**2022**	**2,040,385**	**115,701**	**2,156,086**
	2021	1,621,501	88,358	1,709,859

1. Mr Kobayashi as a shareholder representative, does not receive fees. Similarly his alternate Director, Mr Iioka, does not receive fees.
2. Ms Smith was appointed as Director on 20 January 2021. The 2021 remuneration reflects fees on a pro-rata basis.
3. Mr West provides a service through a company; fees exclude GST.

Superannuation

Non-Executive Directors receive superannuation contributions where required by Superannuation Guarantee legislation.

Equity participation

Non-Executive Directors do not receive equity as part of their remuneration and do not participate in any incentive arrangements.

Non-Executive Director shareholdings in Challenger Limited at 30 June 2022

Details of the Non-Executive Directors' and their affiliates' shareholdings in Challenger Limited are set out below:

Non-Executive Director	Year	Opening balance	Movements	Closing balance
P Polson	**2022**	**128,944**	**—**	**128,944**
	2021	122,000	6,944	128,944
J M Green[1]	**2022**	**16,944**	**5,840**	**22,784**
	2021	10,000	6,944	16,944
S Gregg[2]	**2022**	**14,000**	**—**	**14,000**
	2021	14,000	—	14,000
M Kobayashi[3]	**2022**	**—**	**—**	**—**
	2021	—	—	—
H Smith[1]	**2022**	**10,000**	**8,705**	**18,705**
	2021	—	10,000	10,000
J Stephenson[2]	**2022**	**21,629**	**5,000**	**26,629**
	2021	17,000	4,629	21,629
D West[1]	**2022**	**25,901**	**—**	**25,901**
	2021	18,957	6,944	25,901
M Willis	**2022**	**156,836**	**—**	**156,836**
	2021	149,892	6,944	156,836
Total	**2022**	**374,254**	**19,545**	**393,799**
	2021	331,849	42,405	374,254

1. Mr Green, Mr West and Ms Smith are within the five-year transitional period in which to acquire the required shareholding.
2. Due to significant share price movement in recent years, Mr Gregg's shareholdings as at 30 June 2022 did not satisfy the minimum shareholding requirements.
3. Mr Kobayashi is exempt from the minimum shareholding requirements. His alternate director, Mr Iioka, is also exempt.

Total remuneration of KMP and Non-Executive Directors[1]

KMP and Non-Executive Directors	Short-term benefits $	Post-employment benefits $	Share-based payments $	Other benefits $	Total $
Non-Executive Directors					
2022	**2,040,385**	**115,701**	**—**	**—**	**2,156,086**
2021	1,621,501	88,358	—	—	1,709,859
KMP					
2022	**5,971,343**	**117,840**	**3,807,179**	**137,798**	**10,034,160**
2021	5,651,994	112,345	5,021,664	208,107	10,994,110
All KMP and Non-Executive Directors					
2022	**8,011,728**	**233,541**	**3,807,179**	**137,798**	**12,190,246**
2021	7,273,495	200,703	5,021,664	208,107	12,703,969

1. No termination payments were made to KMPs or NEDs during the period.

Remuneration Report (continued)

Summary of key terms and abbreviations used in the remuneration report

Key term	Description
Awarded remuneration	Represents the value of remuneration that has been awarded for the financial year. This includes fixed remuneration, STI (cash and deferred) and LTI (face value).
Board	The Board of Directors of Challenger Limited is the main body responsible for the implementation of effective remuneration governance and related risk management practices at Challenger.
CPP	*Challenger Performance Plan.* Deferred equity awards are issued under the CPP.
CPP Trust	*Challenger Performance Plan Trust.* The CPP Trust was established in 2006 for the purpose of acquiring, holding and transferring shares to employees upon the vesting of their equity awards.
DPSR	*Deferred Performance Share Right.* Prior to 1 July 2021, deferred STI awards were delivered as DPSRs under the CPP. DPSRs represent the right to receive a fully-paid ordinary Challenger share for zero consideration subject to continued employment at the time of vesting. DPSRs do not provide an entitlement to vote or a right to dividends; however, employees with unvested DPSRs may receive a distribution of income from the CPP Trust. The Board has discretion to amend or withdraw DPSRs at any point.
Face value	The number of DPSRs, Restricted Shares and/or HPSRs granted to KMP is determined based on the face value of the shares using a five-day volume weighted average price (VWAP) prior to the grant date.
Fair value	The number of HPSRs awarded to KMP prior to 1 July 2019 was calculated by reference to the fair value. The fair value for HPSRs is calculated on the basis outlined in Note 30 Employee entitlements and reflects the fair value of the benefit derived at the date at which they were granted. An independent third party determines the fair value using an option pricing model and discounted cash flow methodology, as appropriate.
HPSR	*Hurdled Performance Share Right.* LTI awards are delivered as HPSRs under the CPP. HPSRs represent the right to receive a fully-paid ordinary Challenger share for zero consideration subject to satisfying an employment condition and Challenger satisfying the absolute TSR performance hurdle. HPSRs do not provide an entitlement to vote or a right to dividends. The Board has discretion to amend or withdraw HPSRs at any point.
KMP	*Key Management Personnel.* Persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any Director (whether executive or otherwise) as defined in AASB 124 *Related Party Disclosures.*
LTI	*Long-term incentive.* LTIs are awarded annually to KMP to support a continued focus on long-term performance outcomes. Executives will only realise value from LTIs if total shareholder returns exceed the hurdles set, ensuring a direct link between executive reward and shareholder outcomes.
Normalised NPAT	*Normalised net profit after tax.* Excludes asset or liability valuation movements that are above or below expected long-term trends and significant items that may positively or negatively impact financial results. Refer to the Operating and financial review section for further information.
Normalised RoE (pre-tax)	*Normalised return on equity (pre-tax).* Normalised profit before tax divided by average net assets.
Normalised NPBVRT	*Normalised net profit before variable reward and tax.* Excludes any asset or liability valuation movements that are above or below expected long-term trends and any significant items that may positively or negatively impact the financial results, and excludes STI expense, employee share award expense and tax.
Remuneration Committee	The Board convenes a Remuneration Committee comprising Independent Non-Executive Directors and which is a delegated committee of the Board to assist the Board in discharging its responsibilities.
Restricted Share	Deferred STI awards are delivered as Restricted Shares under the CPP. A Restricted Share is a beneficial interest in a fully-paid ordinary Challenger share acquired for zero consideration. Restricted Shares are subject to disposal restrictions and vest subject to satisfaction of an employment condition. Restricted Shares provide an entitlement to vote and a right to dividends.
Statutory remuneration	Represents the accounting expense of remuneration for the financial year. This includes fixed remuneration, cash STI awards, the fair value amortisation expense of share-based awards granted up to Statement of financial position date, distributions from the CPP Trust, long service leave entitlements and insurance.
STI	*Short-term incentive.* STIs are used to reward KMP and employees for significant contributions to Challenger's results over the course of the financial year. Individual STI awards are allocated on the basis of annual contribution and with reference to STI targets and market benchmarks. The Board has discretion to amend or withdraw the STI at any point. STIs may be awarded in the form of cash and/or equity.
TSR	*Total shareholder return.* TSR represents the change in share price plus dividends received over a given timeframe. Challenger uses absolute TSR as the measure of performance for HPSRs.
Variable remuneration	Consists of cash STI and share-based awards. Share-based awards comprise Restricted Shares (DPSRs prior to 1 July 2021) and HPSRs.
VWAP	*Volume weighted average price.* Ratio of the value of shares traded to total volume traded over a time horizon. A five-day VWAP is used to calculate the number of DPSRs per dollar of deferred STIs. A five-day VWAP is used to calculate the number of HPSRs per dollar of LTIs. A 90-day VWAP is also used for absolute TSR performance testing (start and end price) for HPSR awards.

Indemnification and insurance of Directors and officers

In accordance with its Constitution, and where permitted under relevant legislation or regulation, the Company indemnifies the Directors and officers against all liabilities to another person that may arise from their position as Directors or officers of the Company and its subsidiaries, except where the liability arises out of conduct that is fraudulent, dishonest, criminal, malicious or a reckless act, error or omission.

In accordance with the provisions of the ***Corporations Act 2001***, the Company has insured the Directors and officers against liabilities incurred in their role as Directors and officers of the Company. The terms of the insurance policy, including the premium, are subject to confidentiality clauses and therefore the Company is prohibited from disclosing the nature of the liabilities covered and the premium paid.

Indemnification of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement agreement. The primary purpose of the indemnity is to indemnify Ernst & Young for any loss that it may suffer as a result of a false representation given by Challenger management where a claim is made against Ernst & Young by a third party.

There is a caveat if Ernst & Young's loss results from its own negligence or wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

Environmental regulation and performance

Some members of the Group act as a trustee or responsible entity for a number of trusts that own assets both in Australia and overseas. Some of these assets are subject to environmental regulations under Commonwealth, state and offshore legislation. The Directors are satisfied that adequate systems are in place for the management of the Group's environmental responsibilities and compliance with various legislative, regulatory and licence requirements. Further, the Directors are not aware of any breaches of these requirements, and to the best of their knowledge all activities have been undertaken in compliance with environmental requirements.

Significant events after the balance date

On 26 July 2022, Challenger announced the appointment of Mr Victor Rodriguez to the role of Chief Executive, Funds Management, effective 1 August 2022.

On 16 August 2022 Challenger announced the election of Mr Duncan West as Challenger's new Chair. Mr West will replace the current Chair Mr Peter Polson, who will retire at the conclusion of the Annual General Meeting (AGM) on 27 October 2022.

On 16 August 2022 Challenger announced a strategic review of its banking business.

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

Challenger is considering all options in relation to the Bank and has appointed an external advisor to assist.

At the date of this financial report, no other matter or circumstance has arisen that has, or may significantly affect, the Group's operations, the results of those operations or the Group's state of affairs in future financial years which has not already been reflected in this report.

Rounding

The amounts contained in this report and the financial report have been rounded to the nearest $100,000, unless otherwise stated, under the option available to the Group under Australian Securities and Investments Commission (ASIC) ***Corporations Instrument 2016/191.***

Non-audit services

The Group Audit Committee has reviewed details of the amounts paid or payable for non-audit services provided to Challenger during the year ended 30 June 2022 by the Company's auditor, Ernst & Young.

The Directors are satisfied that the provision of those non-audit services by the auditor is compatible with the general standard of independence for auditors imposed by the ***Corporations Act 2001*** and did not compromise the auditor independence requirements of the ***Corporations Act 2001*** for the following reasons:

- all non-audit services were approved in accordance with the Auditor Independence Policy which outlines the approval process that must occur for all non-audit services and which involves the Challenger CEO, CFO or delegate, depending on size and circumstances; and
- no non-audit services were carried out that were specifically excluded by the Auditor Independence Policy.

For details of fees for non-audit services paid to the auditors, refer to Note 31 Remuneration of auditor in the financial report.

Authorisation

Signed in accordance with a resolution of the Directors of Challenger Limited:

P Polson
Independent Chair
16 August 2022

N Hamilton
Managing Director and Chief Executive Officer
16 August 2022

Auditor's independence declaration

The Directors received the following declaration from the auditor of Challenger Limited:

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's independence declaration to the Directors of Challenger Limited

As lead auditor for the audit of the financial report of Challenger Limited for the financial year ended 30 June 2022, I declare to the best of my knowledge and belief, there have been:

a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. no contraventions of any applicable code of professional conduct in relation to the audit; and

c. no non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Challenger Limited and the entities it controlled during the financial year.

Ernst & Young

Graeme McKenzie
Partner
16 August 2022

A member firm of Ernst & Young Global Limited

Liability limited by a scheme approved under Professional Standards Legislation

This financial report covers Challenger Limited (the Company) and its controlled entities (the Group or Challenger).

Statement of comprehensive income

For the year ended 30 June	Note	2022 $m	2021 $m
Revenue	1	1,860.7	2,769.8
Expenses	2	(1,872.9)	(1,646.5)
Finance costs[1]	16	331.5	(327.9)
Share of profits of associates	25	38.0	35.2
Profit before income tax		**357.3**	**830.6**
Income tax expense	4	(103.6)	(238.3)
Profit for the year after income tax		**253.7**	**592.3**
Other comprehensive income			
Items that may be reclassified to profit and loss, net of tax			
Translation of foreign entities	15	(20.6)	(49.7)
Hedge of net investment in foreign entities	15	20.8	46.8
Net gain/(loss) on cash flow hedges	15	0.4	(0.5)
Other comprehensive income for the year		0.6	(3.4)
Total comprehensive income for the year after tax		**254.3**	**588.9**
Earnings per share attributable to ordinary shareholders of Challenger Limited		**Cents**	**Cents**
Basic	18	37.5	88.2
Diluted	18	33.1	68.0

1. Refer to Note 16 Finance costs for further information on positive finance costs in the period.

The Statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June	Note	2022 $m	2021 $m
Assets			
Cash and cash equivalents	11	733.1	989.4
Receivables		647.5	830.4
Derivative assets	10	577.2	738.3
Investment assets	5	22,805.9	22,174.7
Investment and development property - held for sale	6	—	396.0
Investment and development property	6	3,483.3	3,389.7
Loan assets	7	551.7	570.3
Finance leases		19.7	26.8
Property, plant and equipment		24.8	28.2
Investment in associates	25	74.9	83.2
Other assets		53.8	63.1
Right-of-use lease assets	28	29.0	34.7
Deferred tax assets	4	137.1	4.0
Goodwill	27	579.9	579.9
Other intangible assets	27	7.3	9.2
Total assets of shareholders of Challenger Limited		**29,725.2**	**29,917.9**
Liabilities			
Payables		726.2	1,744.1
Current tax liability	4	66.5	48.1
Derivative liabilities	10	839.6	507.6
Deposits from customers	14	227.7	—
Interest bearing financial liabilities	13	5,783.0	6,323.5
External unit holders' liabilities	9	4,386.4	3,632.2
Provisions		44.3	35.7
Lease liabilities	28	62.5	70.3
Deferred tax liabilities	4	5.3	60.7
Life contract liabilities	8	13,595.4	13,669.9
Total liabilities of shareholders of Challenger Limited		**25,736.9**	**26,092.1**
Net assets of shareholders of Challenger Limited		**3,988.3**	**3,825.8**
Equity			
Contributed equity	12	2,481.5	2,425.5
Reserves	15	(49.3)	(50.9)
Retained earnings	15	1,556.1	1,451.2
Total equity of shareholders of Challenger Limited		**3,988.3**	**3,825.8**

The Statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

		Attributable to shareholders of Challenger Limited						
For the year ended 30 June 2021	Note	Contributed equity $m	Share-based payment reserve $m	Cash flow hedge reserve $m	Foreign currency translation reserve $m	Adjusted controlling interest reserve $m	Retained earnings $m	Total shareholder equity $m
Balance at 1 July 2020		**2,377.6**	**(56.2)**	**0.1**	**(0.5)**	**5.7**	**922.9**	**3,249.6**
Profit for the year	15	—	—	—	—	—	592.3	592.3
Other comprehensive income for the year		—	—	(0.5)	(2.9)	—	—	(3.4)
Total comprehensive income for the year		**—**	**—**	**(0.5)**	**(2.9)**	**—**	**592.3**	**588.9**
Other equity movements								
Ordinary shares issued	12	37.7	—	—	—	—	—	37.7
Treasury shares purchased	12	—	—	—	—	—	—	—
Treasury shares vested	12	10.2	—	—	—	—	—	10.2
Settled forward purchases of Treasury shares	12	—	—	—	—	—	—	—
Share-based payment expense net of tax less releases	15	—	3.4	—	—	—	—	3.4
Dividends paid	17	—	—	—	—	—	(64.0)	(64.0)
Balance at 1 July 2021		**2,425.5**	**(52.8)**	**(0.4)**	**(3.4)**	**5.7**	**1,451.2**	**3,825.8**
For the year ended 30 June 2022								
Profit for the year	15	—	—	—	—	—	253.7	253.7
Other comprehensive income for the year		—	—	0.4	0.2	—	—	0.6
Total comprehensive income for the year		**—**	**—**	**0.4**	**0.2**	**—**	**253.7**	**254.3**
Other equity movements								
Ordinary shares issued	12	15.1	—	—	—	—	—	15.1
Treasury shares purchased	12	(7.9)	—	—	—	—	—	(7.9)
Treasury shares vested	12	12.9	—	—	—	—	—	12.9
Settled forward purchases of Treasury shares	12	7.9	—	—	—	—	—	7.9
Share-based payment expense net of tax less releases	15	—	1.0	—	—	—	—	1.0
Issued under Capital Notes 1 conversion[1]	12	28.0	—	—	—	—	—	28.0
Dividends paid	17	—	—	—	—	—	(148.8)	(148.8)
Balance at 30 June 2022		**2,481.5**	**(51.8)**	**—**	**(3.2)**	**5.7**	**1,556.1**	**3,988.3**

1. Amount differs to the $27.7m of Capital Notes 1 repayment due to noteholders receiving a premium on conversion to equity.

The Statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June	Note	2022 $m	2021 $m
Operating activities			
Receipts from customers		680.1	645.1
Annuity and premium receipts	8	5,150.6	4,802.9
Annuity and claim payments	8	(4,339.1)	(3,787.9)
Bank deposit receipts		219.3	—
Bank deposit payments		(125.8)	—
Receipts from external unit holders		4,583.5	2,346.8
Payments to external unit holders		(3,436.4)	(1,397.9)
Payments to vendors and employees		(633.3)	(589.2)
Dividends received		73.3	65.0
Interest received		633.3	638.8
Interest paid		(53.8)	(56.1)
Income tax paid		(264.9)	(90.9)
Net cash inflows from operating activities	11	**2,486.8**	**2,576.6**
Investing activities			
Payments for net purchases of investments		(2,310.3)	(899.6)
Proceeds from sale of controlled entity, net of disposal costs and cash disposed	24	8.7	—
Payments for purchase of controlled entity, net of cash acquired[1]	24	(28.9)	(2.5)
Proceeds from sale of associate	25	51.1	—
Net loan repayments		159.9	105.3
Payments for purchases of property, plant and equipment		(2.9)	(12.9)
Payments for purchase of associate interest		(0.9)	(21.3)
Net cash outflows from investing activities		**(2,123.3)**	**(831.0)**
Financing activities			
Proceeds from issue of ordinary shares		—	35.0
Costs associated with issue of ordinary shares		(0.1)	(0.2)
Net repayments from borrowings – interest bearing financial liabilities	13	(476.5)	(1,443.7)
Payments for lease liabilities		(7.8)	(6.9)
(Payments for)/proceeds from for Treasury shares		(1.7)	0.7
Net dividends paid		(133.7)	(64.0)
Proceeds from the issue of Challenger Capital Notes 3	13	—	385.0
Costs associated with the issue of Challenger Capital Notes 3	13	—	(6.7)
Repayment of Challenger Capital Notes 1	13	—	(317.3)
Net cash outflows from financing activities		**(619.8)**	**(1,418.1)**
Net (decrease)/increase in cash and cash equivalents		**(256.3)**	**327.5**
Cash and cash equivalents at the beginning of the year		989.4	661.9
Cash and cash equivalents at the end of the year		**733.1**	**989.4**

1. Payment excludes deposit of $1.75 million and acquisition costs of $0.7 million paid during the year ended 30 June 2021.

The Statement of cash flows should be read in conjunction with the accompanying notes.

Section 1: Basis of preparation and overarching significant accounting policies

Challenger Limited (the Company or the parent entity) is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange (ASX).

The financial report for Challenger Limited and its controlled entities (the Group or Challenger) for the year ended 30 June 2022 was authorised for issue in accordance with a resolution of the Directors of the Company on 16 August 2022.

(i) Basis of preparation and statement of compliance

This is a general purpose financial report that has been prepared in accordance, and complies, with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Challenger Limited is a for-profit entity for the purposes of preparing financial statements.

The Group has prepared the financial statements on the basis that it will continue to operate as a going concern. The Directors consider that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

Unless otherwise stated, amounts in this financial report are presented in Australian dollars and have been prepared on an historical cost basis. The assets and liabilities disclosed in the Statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity. In the disclosure, the current/non-current split is between items expected to be settled within 12 months (current) and those expected to be settled in greater than 12 months (non-current).

(ii) Significant accounting judgements, estimates and assumptions

The carrying values of amounts recognised on the Statement of financial position are often based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the recognised amounts within the next annual reporting period are disclosed individually within each of the relevant notes to the financial statements.

Coronavirus (COVID-19) impact

COVID-19 continues to have an impact on global economies and equity and debt markets. The Group has considered the associated market volatility in preparing its financial statements and where required has applied further judgement in the areas in which significant judgement already occurs.

Given the dynamic and evolving nature of the disease, changes to the estimates and outcomes that have been applied in the measurement of the Group's assets and liabilities may arise in the future.

(iii) New and revised accounting standards and policies

Except for the matter referred to below, the accounting policies and methods of computation are the same as those adopted in the annual report for the prior comparative period.

Changes to significant accounting policies and disclosures

Investment assets

Effective 1 July 2021, the Group amended Note 5 Investment assets at fair value through profit and loss to Note 5 Investment assets in order to encompass changes in the asset mix following the acquisition of Challenger Bank Limited (formerly MyLifeMyFinance Limited (MLMF)) and the commencement of trading of precious metals commodities. The precious metals commodities strategy is outlined on page 97. The strategy results in an immaterial exposure to the underlying commodity price.

Historically, the Group categorised its investment assets as investment assets – fair value through profit and loss (being initially designated as such). Assets designated as fair value through profit and loss consist of fixed income, equity, infrastructure, property securities and hedged commodities. They are carried at fair value with unrealised gains and losses being recognised through the Statement of comprehensive income.

The newly acquired Bank has investment assets that are primarily repo-eligible high quality fixed income securities. These assets are measured at amortised cost as they are held within a business model to solely collect contractual cashflows and the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the acquisition of the asset and any costs that are an integral part of the effective interest rate. Gains and losses are recognised in the Statement of comprehensive income when the assets are derecognised or impaired.

Hedged commodities

In July 2021, the Group commenced trading precious metals futures. Precious metals are recognised in the Statement of financial position under the 'Investment assets' line item. Precious metals are disclosed in the 'Investment assets' note under 'Other investment assets' as 'Hedged commodities'. Assets are measured at fair value with changes recognised in the Statement of comprehensive income under 'Realised and unrealised gains/losses on hedged commodities'. Hedged commodities are treated as Level 1 investment assets under the fair value hierarchy on the basis that they are valued using active market prices. Commodities futures are recorded as 'Derivative financial instruments' and treated as Level 1 under the fair value hierarchy. The precious metals commodities strategy provides Challenger an opportunity to earn a spread between the price of physical commodities and the price of short futures contracts, resulting in an immaterial exposure to the underlying commodity price.

Loan assets

Loan assets are defined as loans that are not held for trading purposes and include the Group's lending activities to bank customers (mortgages, personal loans, and investment loans, as well as the existing CLC mortgages held within Special Purpose Vehicle (SPV) trusts), which were previously disclosed in a separate 'Special purpose vehicles' note. Due to the decreasing materiality of SPV related balances, other SPV specific disclosures have been reduced. Loans are non-derivative financial loan assets with fixed or determinable payments that are not quoted in an active market. They are recognised net of any expected credit losses.

Deposits from customers

Deposits from customers include variable rate at-call deposits as well as fixed rate term deposits from retail and wholesale customers. All bank customer deposits are initially recognised at the fair value of the amount received adjusted for any transaction costs. Deposits from customers are derecognised when they are extinguished, discharged, cancelled or matured. After initial recognition, deposits are measured at amortised cost using the effective interest rate method. Interest is calculated on the daily balance. Interest expense is recognised in the Statement of comprehensive income on an accrual basis.

Interest Rate Benchmark Reform

Background

Interbank Offered Rates (IBORs), including the LIBOR and Euribor are interest rate benchmarks which are commonly used to determine interest rates and payment obligations for a wide range of financial arrangements such as loans, bonds and derivatives.

One of the reforms mandated by the Financial Stability Board following the financial crisis was to advocate for benchmark IBORs, such as LIBOR, to be replaced by new official benchmark rates, known as alternative Reference Rates (ARRs). In March 2021 the UK's Financial Conduct Authority (FCA) announced the cessation of the publication of the following LIBOR settings after 31 December 2021: all GBP, EUR, CHF and JPY LIBOR settings and the one-week and two-month USD LIBOR settings. The remaining USD LIBOR settings including the overnight, one-, three-, six- and 12-month settings will cease to be published based on panel bank submissions after 30 June 2023.

Transitioning to ARRs is a complex process as ARRs are structurally different from IBORs. It is expected most financial arrangements that provide for IBOR-based payments will need to be modified to accommodate this transition.

Impact on financial statements

In 2018, the IASB added a project to its agenda to consider the financial reporting implications of interest rate benchmark reform. Resulting amendments to accounting standards were issued in two phases.

- Phase 1 pre-replacement issues - AASB 2019-3 ***Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*** was issued by AASB in October 2019 and amended hedge accounting requirements to provide relief from the potential effects of uncertainty caused by interest rate benchmark reform. The Group was not materially affected by this amendment.
- Phase 2 replacement issues - AASB 2020-8 ***Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2*** was issued by the AASB in September 2020, with mandatory adoption for periods starting on or after 1 January 2021. The Phase 2 Amendments provide the following changes in respect of financial instruments that are directly affected by the reform:
  1. a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted – the group does not have to derecognise or adjust the carrying amount of financial instruments subject to change as a result of the reform, but instead updates the effective interest rate to reflect the change to the alternative benchmark rate;
  2. reliefs from discontinuing hedge relationships;
  3. temporary relief from having to meet the separately identifiable requirement when an ARR instrument is designated as a hedge of a risk component; and
  4. additional disclosures – the group is required to disclose additional information about new risks arising from the report and how it manages the transition to alternative benchmark rates.

The Group's approach

The Group is exposed to the interest rate benchmark reform through the use of various financial instruments including derivatives and investment assets.

The Group has established a project to manage the transition for any of the contracts which may be affected. The project is led by the Head of Derivatives and includes members from a number of teams including front office, investment operations, systems, projects and legal. It provides regular updates to the Challenger Project Control Group. As at 30 June 2022 the Group had no exposure to instruments referencing rates which had ceased publication. Contracts held by the Group that referenced LIBOR or other IBORs that have ceased publication have been transitioned to ARR or closed out. The Group has a detailed plan in place for the remaining contracts, which are expected to transition prior to 30 June 2023.

The IBOR transition also exposes the Group to various additional risks which are detailed in Note 19 Financial Risk Management.

New accounting standards and amendments that are effective in the current financial year

There have been no other new or revised accounting standards or interpretations that are effective from the year beginning on 1 July 2021 which materially impact the financial results. Where applicable, comparative figures have been updated to reflect any changes in the current period.

Accounting standards and interpretations issued but not yet effective

AASB 17 *Insurance Contracts*

AASB 17 ***Insurance Contracts*** replaces AASB 4 ***Insurance Contracts***, AASB 1038 ***Life Insurance Contracts*** and AASB 1023 ***General Insurance Contracts,*** and is effective for Challenger from 1 July 2023. The Group will not be early adopting the standard. AASB 17 ***Insurance Contracts*** establishes globally consistent principles for the recognition, measurement, presentation and disclosure of life insurance contracts issued. Life investment contracts are currently measured under the financial instruments standard and will continue to be recognised under this standard.

AASB 17 requirements affect recognition, measurement, presentation and disclosure relating to insurance contracts. AASB 17 introduces changes to the profit emergence profiles of life insurance contracts but does not affect the underlying economics or cash flows of the contracts. The impacts on capital requirements are not expected to be material, based on preliminary responses from the Australian Prudential Regulation Authority (APRA). The impacts on income tax are unknown, pending responses from the Treasury and the Australian Taxation Office (ATO).

APRA released additional draft prudential and reporting standards for consultation in April 2022, which includes changes to current capital and reporting requirements impacted by the introduction of AASB 17. The Group's response to APRA's Quantitative Impact Study (QIS) was submitted in March 2022, which incorporated APRA's proposed changes to the reporting standards.

The main changes anticipated for the Group under AASB 17 are set out below.

- Insurance contract portfolios will be disaggregated to more granular levels and will be required to be evaluated by risk type, issue year and profitability.

Although conceptually similar, the Contractual Service Margin (CSM) recognises profit on a different basis to the current Margin on Services (MoS) approach and therefore the profit signature is likely to change for portfolios with positive profit margins.

- A new risk adjustment for non-financial risk will be introduced which reflects the compensation that the Group requires for bearing the uncertainty in relation to the amount and timing of cash flows. The confidence level used to determine the risk adjustment will need to be disclosed.
- Additional disclosures will be more extensive, requiring increased granularity and more analysis of movements.

The Group has conducted a business impact assessment in prior years and has implemented a project team to assess and implement the requirements of AASB 17. The Group has identified the following focus areas.

- Measurement model – The Group will adopt the General Measurement Model (GMM). In principle, the GMM is similar to the current MoS methodology as prescribed under AASB 1038. The GMM is a detailed methodology that will require enhanced data capture and storage for additional modelling and processes.
- Contracts affected – The Group expects that the majority of its contracts classified as insurance contracts under AASB 1038 will meet the definition of insurance contracts under AASB 17.
- Separating components – The Group has assessed the requirement to unbundle features and components under AASB 17 and expects that no change will be required compared to AASB 1038.
- Under AASB 17, assumptions are to be reviewed on an annual basis at a minimum with some items requiring more frequent review.
- Level of aggregation – AASB 17 requires insurance contracts that are subject to similar risks and managed together, to be allocated to a portfolio. AASB 17 requires that each portfolio be divided into a minimum of:
  1. a group that is onerous (loss-making) at initial recognition;
  2. a group that at initial recognition has no significant possibility of becoming onerous subsequently; and
  3. a group of any remaining contracts in the portfolio.

The Group has conducted a high-level review of historical data to ascertain the feasibility of meeting the level of aggregation required by AASB 17.
In addition, the Group will be formalising a policy for defining portfolios and contract groups. Due to the nature of the insurance products that Challenger offers its customers, the Group expects that most of the portfolios will be designated as onerous. If a portfolio is designated as onerous, a CSM calculation will not be required but the loss component will need to be tracked under AASB 17.

- Risk adjustment – The Group expects the risk adjustment methodology to align with the cost of capital approach.
- Discount rates – The Group expects to apply a 'bottom-up approach' which uses risk-free rates adjusted to reflect the illiquidity characteristics of the insurance contracts.
- Disclosure – AASB 17 introduces a new way of viewing life insurance revenue and expenses and accompanying financial disclosures. Under AASB 17, insurance contract revenue will be allocated to each period in proportion to the reduction in liability over the remaining coverage period. The Group has assessed the capability of the Group's general ledger system and confirms that no issues are anticipated for configuring the system to meet the new financial reporting and disclosure requirements under AASB 17.
- Transition balance sheet – Insurance contracts will need to be restated at 1 July 2023 (being the date of initial application). The first full year financial statements presented under AASB 17 will be for the year ended 30 June 2024 with comparatives required for the year to 30 June 2023. The first half year financial statements under AASB 17 will be for the period ended 31 December 2023, with comparatives required for 31 December 2022. The Group notes that the full retrospective approach may be impracticable in some cases, especially for older cohorts where assumptions cannot be determined without the use of hindsight, in which case either a modified retrospective approach or a fair value approach may be applied. The Group is currently assessing its transition approach across groups of contracts.

The Group is in the process of implementing its AASB 17 calculation platform and data solutions in order to produce the results and disclosures required under AASB 17 as well as working through remaining material judgements under consideration in order to finalise its AASB 17 related accounting policies. The interpretation and implementation of the various components of AASB 17 is extremely complex and this effect can be particularly material for the Group's long duration longevity reinsurance business, which has significant levels of profit margins under the current AASB 1038 measurement basis, due to the use of different discount rates for the fulfilment cash flows and CSM.
While the Group is progressed in its implementation of AASB 17 as noted above, due to the complexities of the requirements and evolving interpretations and views from an accounting, Treasury, ATO and APRA perspective, it is not yet practicable to reasonably quantify the financial impact to the Group.

(iv) Comparatives

Where necessary, comparative figures have been reclassified to conform to any changes in presentation made in this financial report.

(v) Rounding of amounts

Unless otherwise stated, amounts contained in this report and the financial report have been rounded to the nearest $100,000 under the option available to the Group under ASIC Corporations Instrument 2016/191.

(vi) Foreign currency

Both the presentation currency and the functional currency of the Company and its controlled Australian entities are Australian dollars. A number of foreign controlled entities have a functional currency other than Australian dollars.

Transactions in foreign currency are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Australian dollars at the foreign exchange rate at the Statement of financial position date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

Non-monetary items measured at fair value in a foreign currency are translated to the functional currency using the exchange rates at the date when the fair value was determined. Derivatives are used to hedge the foreign exchange risk relating to certain transactions. Refer to Note 10 Derivative financial instruments.

Foreign controlled entities

On consolidation, the assets and liabilities of foreign subsidiaries whose functional currency differs from the presentation currency are translated into Australian dollars at the rate of exchange at the Statement of financial position date. Exchange differences arising on the retranslation are taken directly to the foreign currency translation reserve in equity.

The change in fair value of derivative financial instruments designated as a hedge of the net investment in a foreign controlled entity is also recognised in the foreign currency translation reserve.

On disposal of a foreign controlled entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Statement of comprehensive income.

(vii) Finance leases

Where Challenger acts as a lessor, leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. Contracts to lease assets and hire purchase agreements are classified as finance leases for accounting purposes if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. Assets held under a finance lease are recognised at the beginning of the lease term at an amount equal to the net investment in the lease which comprises the gross investment in the lease discounted at the interest rate implicit in the lease.

The collectability of lease receivables is assessed on an ongoing basis and a provision for expected credit loss is made using inputs such as historical rates of arrears and the current delinquency position of the portfolio. Bad debts are written off as incurred.

(viii) Property, plant and equipment

Items of property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis to realise the net cost of each class of these assets over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful life of property, plant and equipment is three to five years.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Impairment losses are recognised in the Statement of comprehensive income.

Any impairment losses recognised in prior periods are reversed through the Statement of comprehensive income if there has been a change in the estimated useful life used to determine the asset's recoverable amount since the last impairment loss was recognised.

The increased carrying amount of an asset attributable to a reversal of an impairment loss would not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

(ix) Other assets

Other assets are mainly comprised of prepayments. Prepayments are recognised in the Statement of financial position at the value of the prepayment. These are amortised in the Statement of comprehensive income when the related expense is incurred; generally, within the subsequent 12 months.

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the Statement of financial position date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(xi) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the applicable amount of GST, except where the amount of the GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated with the applicable amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of financial position.

Cash flows are included in the Statement of cash flows on a gross (GST-inclusive) basis. The GST components of cash flows arising from investing and financing activities that are recoverable from, or payable to, the ATO are classified as operating cash flows.

(xii) Receivables

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. The entity has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue. The modelling methodology applied in estimating expected credit losses in these financial statements is consistent with that applied in the financial statements for the year ended 30 June 2021.

(xiii) Payables

Payables represent unsecured non-derivative, non-interest bearing financial liabilities in respect of goods and services provided to the Group prior to the end of the financial year. They include accruals, trade and other creditors and are recognised at amortised cost, which approximates fair value.

Section 2: Key numbers

This section presents the results and performance of the Group for the year and provides additional information about those line items on the Statement of comprehensive income that the Directors consider most relevant in the context of understanding the financial components of the Group's operations.

Note 1 Revenue

	30 June 2022 $m	30 June 2021 $m
Investment revenue		
Fixed income securities, loan assets and cash		
Interest revenue[1]	634.4	662.7
Net realised and unrealised (losses)/gains on fixed income securities	(1,384.7)	42.8
Investment property and property securities		
Property rental revenue	269.8	275.2
Dividend and distribution revenue	2.5	5.6
Net realised and unrealised gains on investment property and property securities	149.1	114.6
Equity and infrastructure investments		
Dividend and distribution revenue	27.5	22.1
Net realised and unrealised gains on equity investments	131.2	124.8
Net realised and unrealised losses on infrastructure investments	(40.9)	(13.0)
Other		
Net realised and unrealised gains/(losses) on foreign exchange translation and hedges	140.3	(78.6)
Net realised and unrealised (losses)/gains on interest rate derivatives	(474.0)	384.2
Net realised and unrealised gains/(losses) on equity swap derivatives	46.2	(16.1)
Net realised and unrealised (losses)/gains on credit default swap derivatives	(101.4)	23.6
Net realised and unrealised losses on commodities derivatives	(2.9)	—
Net realised and unrealised gains on hedged commodities	12.2	—
Fee revenue		
Management and performance fee revenue	240.1	190.7
Transaction fee revenue	23.0	22.8
Other revenue		
Life insurance contract premiums and related revenue[2]	1,120.4	1,600.6
Change in life insurance contract liabilities	722.0	(622.0)
Change in life investment contract liabilities	293.4	29.8
Change in reinsurance contract liabilities	(0.8)	—
Gain on disposal of subsidiary and associate[3]	53.3	—
Total revenue	**1,860.7**	**2,769.8**

1. This includes interest revenue earned for items measured at amortised cost using the effective interest method $21.6 million (30 June 2021: $29.7 million) and interest revenue earned for items measured at fair value through profit and loss $612.8 million (30 June 2021: $633.0 million).
2. Changes in life insurance and investment contract liabilities arising from new business, annuity payments, discount rates, inflation rates and other assumptions are recognised as revenue, with other movements being included in Note 2 Expenses.
3. Gain on the disposal of Accurium Pty Ltd & Whitehelm Capital Pty Limited. Refer to Notes 24 and 25 for further detail.

Accounting policy

Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing services to a customer. Revenues and expenses are recognised on an accrual basis. The following specific policies are applied.

- Interest revenue is recognised as it accrues using an effective interest rate method, taking into account the effective yield of the investment asset. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of a financial instrument, or where appropriate, a shorter period. Interest revenue on finance leases is recognised on a basis that reflects a constant periodic return on the net investment in the finance lease.
- Gains or losses arising from changes in the fair value of financial instruments and hedged commodities are classified as fair value through profit and loss and recognised as revenue in the Statement of comprehensive income when the change in value is recognised in the Statement of financial position.

Note 1 Revenue (continued)

Accounting policy (continued)

- Property rental revenue is accounted for on a straight line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned.
- Lease incentives granted are recognised as part of the total rental income. Operating lease rental income is recognised on a straight line basis over the life of the contract.
- Dividend revenue from listed equity shares and listed property securities is recognised as income on the date the share is quoted ex-dividend. Dividend revenue from unlisted equity shares and unlisted property securities is recognised when the dividend is declared.
- Management fees are invoiced quarterly based on a percentage of the funds under management (FUM). The fees relate specifically to the services provided in that quarter, and are distinct from services provided in other quarters.
- Performance fees are based on returns in excess of a specified benchmark market return, over the contract period. Performance fees are typically received at the end of the performance period specified in the contract. The Group recognises revenue from performance fees over the contract period, but only to the extent that it is highly probable that a significant reversal of revenue will not occur in subsequent periods.
- Transaction fee revenue is accrued when the transaction is executed.
- Life insurance contract premiums are recognised as revenue when risk is transferred to the Group.
- Changes in life insurance and investment contract liabilities arising from discount rates, inflation rates and other assumptions are recognised as revenue, with other movements being included in Note 2 Expenses.

Refer to Note 8 Life contract liabilities for more details on the accounting policy of life contract liabilities.

Note 2 Expenses

	30 June 2022 $m	30 June 2021 $m
Life insurance contract claims and expenses	954.0	852.4
Cost of life insurance contract liabilities	128.7	104.1
Cost of life investment contract liabilities	166.3	125.6
Cost of deposits from customers	1.1	—
Investment property-related expenses[1]	73.1	75.3
Management and performance fee expense	151.1	140.3
Distribution expenses	52.7	56.4
Employee expenses	201.6	168.6
Employee share-based payments	13.0	11.5
Occupancy expense – operating lease	4.7	4.2
Amortisation of right-of-use lease asset	5.8	6.0
Depreciation and amortisation expense	8.2	9.3
Technology and communications	36.1	29.5
Professional fees	40.5	37.3
Other expenses	36.0	26.0
Total expenses	**1,872.9**	**1,646.5**

1. Investment property-related expenses relate to rental income generating investment properties.

Accounting policy

Expenses are recognised on an accrual basis. The following specific policies are applied.

- Investment property expenditure, including rates, taxes, insurance and other costs associated with the upkeep of a building, are brought to account on an accrual basis. Repair costs are expensed when incurred. Rental expenses incurred under an investment property operating lease are recognised on a straight line basis over the term of the lease. Other amounts that improve the condition of the investment are capitalised into the carrying value of the asset.
- Life insurance contract claims and expenses are recognised when the liability to the policyholder under the contract has been established.
- Servicing costs incurred on deposits from customers are calculated using the effective interest rate method, which discounts the deposits' estimated future cash payments to their present value and allocates the interest expense over their expected life.
- Cost of life insurance and life investment contract liabilities recognised as an expense consists of the interest expense on the liability and any loss on the initial recognition of new business, less the release of liability in respect of expenses incurred in the current period. The interest expense on the liability represents the unwind of the discount on the opening liability over the period, whereas the impacts of changes in the discount rate applied for the current valuation are included in the change in life contract liabilities disclosed in Note 1 Revenue.

Refer to Note 8 Life contract liabilities for more details on the accounting policy of life contract liabilities.

Note 3 Segment information

Operating segments

The reporting segments[1] of the Group have been identified as follows.

30 June 2022	Life $m	FM $m	Bank[2] $m	Corporate and other[3] $m	Investment experience after tax $m	Significant items after tax $m	Profit attributable to shareholders $m
Net income	582.8	191.8	2.3	—			776.9
Operating expenses	(110.5)	(109.0)	(13.4)	(67.6)			(300.5)
Normalised EBIT	**472.3**	**82.8**	**(11.1)**	**(67.6)**			**476.4**
Interest and borrowing costs	—	—	—	(4.1)			(4.1)
Normalised net profit/(loss) before tax	**472.3**	**82.8**	**(11.1)**	**(71.7)**			**472.3**
Tax on normalised profit							(150.8)
Normalised net profit after tax							**321.5**
Other adjustments[4]	—	—	(0.9)	—	(81.2)	14.3	(67.8)
Profit attributable to shareholders							**253.7**
30 June 2021							
Net income	512.8	169.3	—	—			682.1
Operating expenses	(113.9)	(98.3)	—	(69.1)			(281.3)
Normalised EBIT	**398.9**	**71.0**	**—**	**(69.1)**			**400.8**
Interest and borrowing costs	—	—	—	(5.0)			(5.0)
Normalised net profit/(loss) before tax	**398.9**	**71.0**	**—**	**(74.1)**			**395.8**
Tax on normalised profit							(117.3)
Normalised net profit after tax							**278.5**
Other adjustments	—	—	—	—	318.6	(4.8)	313.8
Profit attributable to shareholders							**592.3**

1. Refer below for definitions of the terms used in the management view of segments.
2. Bank represents a new segment in the current year, hence there are no comparative figures for 30 June 2021.
3. Corporate and other includes corporate companies and Group eliminations.
4. Amount within the Bank segment relates to expected credit loss provision.

Other statutory information

	Life		FM		Bank		Corporate and other		Total	
	2022 $m	2021 $m	2022 $m	2021 $m	2022 $m	2021 $m	2022 $m	2021 $m	2022 $m	2021 $m
Revenue from external customers[1]	976.7	1,918.1	249.6	204.9	—	—	—	—	1,226.3	2,123.0
Interest revenue	630.9	662.2	—	—	3.4	—	0.1	0.5	634.4	662.7
Interest expense	370.9	(291.2)	(1.3)	(1.3)	—	—	(38.1)	(35.4)	331.5	(327.9)
Intersegment revenue	(41.8)	(44.8)	41.8	44.8	—	—	—	—	—	—
Depreciation and amortisation	(3.9)	(4.6)	(3.4)	(3.5)	(0.1)	—	(0.8)	(1.2)	(8.2)	(9.3)
As at 30 June						—				
Segment assets	22,766.8	22,337.1	320.0	300.6	391.1	—	6,247.3	7,280.2	29,725.2	29,917.9
Segment liabilities	(19,234.2)	(18,790.0)	(28.8)	(28.4)	(271.1)	—	(6,202.8)	(7,273.7)	(25,736.9)	(26,092.1)
Net assets attributable to shareholders	**3,532.6**	**3,547.1**	**291.2**	**272.2**	**120.0**	**—**	**44.5**	**6.5**	**3,988.3**	**3,825.8**

1. Funds Management revenue from external customers is predominantly management fees. Bank revenue is predominantly comprised of interest income from fixed income securities and customer loans.

Note 3 Segment information (continued)

Definitions

Operating segments

The following segments are identified on the basis of internal reporting to Key Management Personnel, including the Chief Executive Officer of the Group, and comprise component parts of the Group that are regularly reviewed by senior management in order to allocate resources and assess performance.

During the year, a new segment, 'Bank', was created following the acquisition of MyLifeMyFinance Limited. The division is responsible for the provision of a range of banking products and services to customers in Australia.

Life

The Life segment principally includes the annuity and life insurance business carried out by CLC. CLC offers fixed rate and other retirement and superannuation products that are designed for Australian investors who are seeking a low-risk, fixed term or lifetime investment and reliable income. CLC also offers fixed term and lifetime investments to investors in Japan through its reinsurance arrangement with MS&AD. CLC invests in assets providing long-term income streams for customers.

Funds Management

Funds Management earns fees from its Fidante and CIM operations, providing an end-to-end funds management business. Funds Management has equity investments in a number of Fidante's affiliate fund managers and, through the CIM business, offers a range of managed investments across fixed income and property.

Bank

The Bank provides a range of savings and lending products, including government guaranteed term deposits to customers in Australia. The Bank provides Challenger with access to a wide range of customers through multiple distribution channels, including new intermediated channels, such as the broker term deposit market and retail aggregator websites.

Corporate and other

The Corporate and other segment, which is not considered an operating segment of the Group, is used to reconcile the total segment results back to the consolidated results and consists of other income and costs that fall outside the day-to-day operations of the reportable segments. These include the costs of the Group CEO and CFO, shared services across the Group, long-term incentive costs, Directors' fees, corporate borrowings and associated borrowing costs and shareholder registry services. To reconcile to Group results, the Corporate and other segment also includes eliminations and non-core activities of the Group.

Transactions between segments

All transactions and transfers between segments are generally determined on an arm's length basis and are included within the relevant categories of income and expense. These transactions eliminate on consolidation.

Normalised vs. statutory results

Net income and operating expenses differ from revenue and expenses as disclosed in the Statement of comprehensive income as certain direct costs (including distribution expenses, property expenses and management fees) included in expenses are netted off against revenues in deriving the management view of net income above. Net income consists of the following sub-categories of management view of revenue:

- normalised cash operating earnings (Life segment);
- net interest margin (Bank segment);
- net income (Funds Management segment); and
- other income (Corporate and other segment).

Revenue also includes investment gains and losses which are excluded from the management view as they form part of investment experience (refer below).

Normalised cash operating earnings

This is calculated as cash earnings plus normalised capital growth (refer below). Cash earnings represent the sum of investment yield (being the management view of revenue from investment assets, such as net rental income, dividends and interest), interest expense, distribution expenses and fees.

Normalised EBIT

Normalised earnings before interest and tax (EBIT) comprises net income less operating expenses, as defined above. It excludes investment experience, corporate interest and borrowing costs, tax and any significant items (refer below).

Tax on normalised profit

This represents the consolidated statutory tax expense or benefit for the period, less tax attributable to investment experience and significant items.

Investment experience after tax

The Group is required by accounting standards to value applicable assets and liabilities supporting the life insurance business at fair value. This can give rise to fluctuating valuation movements being recognised in the Statement of comprehensive income, particularly during periods of market volatility.

As the Group is generally a long-term holder of assets, due to assets being held to match the term of life contract liabilities, the Group takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term volatility. Investment experience is a mechanism employed to isolate the volatility arising from asset and liability valuations within the results so as to more accurately reflect the underlying performance of the Group.

Investment experience is calculated as the difference between the actual investment gains/losses (both realised and unrealised) and the normalised capital growth (refer below) plus life contract valuation changes and new business strain. Investment experience after tax is investment experience net of tax at the prevailing income tax rate.

Normalised capital growth

This is determined by multiplying the normalised capital growth rate for each asset class by the average investment assets for the period. The normalised growth rates represent the Group's medium to long-term capital growth expectations for each asset class over the investment cycle.

The annual normalised growth rates are +4.0% for equity and infrastructure, +2.0% for property, 0.0% for alternatives and -0.35% for cash and fixed income. The rates have been set with reference to the composition of the asset classes and medium to long-term market growth rates, and are reviewed to ensure consistency with prevailing market conditions. The rates for the prior period were the same.

Life contract valuation experience

Life contract valuation experience represents the impact of changes in macroeconomic variables including bond yields and inflation factors, illiquidity premium, expense assumptions and other factors applied in the valuation of life contract liabilities. It also includes the attribution of the corresponding interest rate, foreign exchange and inflation derivatives used for hedging.

New business strain

New business strain is a non-cash valuation adjustment recognised when annuity rates on new business are higher than the risk-free rate used to fair value life contracts. Maintenance expense allowances over the expected future term of the new business are also included in the life contract valuation. New business strain reported in the period represents the valuation loss on new sales generated in the current period net of the reversal of new business strain of prior period sales.

Significant items after tax

The Group presents additional non-IFRS financial information to the market to provide meaningful insights into the financial condition of the business. Due consideration has been given to ensure that disclosure of Challenger's normalised profit framework is explained, reconciled and calculated consistently period-on-period. Within this framework, Challenger defines significant items as non-recurring or abnormal income or expense items.

Major customers

No individual customer amounted to greater than 10% of the Group's segment as defined above.

Geographical areas

The Group operates predominantly in Australia, hence no geographical split is provided to the chief operating decision maker. Reinsurance of annuities issued by Mitsui Sumitomo Primary Life Insurance Company Limited ("MS Primary") accounted for $606.0 million of the Group's life insurance premium income in the 2022 financial year out of total life insurance premium income of $1,092.6 million (2021: $788.1 million out of a total of $1,363.7 million) and comprised 16.1% of total policy liabilities outstanding as at 30 June 2022 (2021: 15.2%); while the underlying annuitant resides in Japan, the reinsurance service provided by CLC is considered to be Australian business and is therefore not recognised as a geographically separate segment.

Note 3 Segment information (continued)

	30 June 2022 $m	30 June 2021 $m
Reconciliation of management to statutory view of after-tax profit		
Operating segments normalised net profit before tax	544.0	469.9
Corporate and other normalised net loss before tax	(71.7)	(74.1)
Normalised net profit before tax (management view of pre-tax profit)	**472.3**	**395.8**
Tax on normalised profit	(150.8)	(117.3)
Normalised net profit after tax	**321.5**	**278.5**
Investment experience after tax	(81.2)	318.6
Bank impairments	(0.9)	—
Significant items after tax	14.3	(4.8)
Statutory view of profit after tax	**253.7**	**592.3**
Reconciliation of management view of revenue to statutory revenue		
Operating segments	776.9	682.1
Net income (management view of revenue)	**776.9**	**682.1**
Expenses and finance costs offset against revenue		
Loan asset expenses and finance costs offset against loan asset income	2.8	3.3
Bank expenses and finance costs offset against Bank income	1.1	—
Distribution expenses offset against related income	52.7	56.4
Change in life contract liabilities and reinsurance contracts recognised in expenses	1,249.0	1,082.1
Property-related expenses offset against property income	73.1	75.3
Interest and loan amortisation costs	(373.2)	289.0
Management fee expenses	151.1	140.3
Gain on disposal of subsidiary and associate	53.3	—
Adjustment for other items	(10.8)	(13.8)
Difference between management view of investment experience and statutory recognition		
Actual capital growth	(211.8)	576.2
Normalised capital growth	(48.8)	(34.1)
Life contract valuation experience	187.7	(76.1)
New business strain	(42.4)	(10.9)
Statutory revenue (refer Note 1 Revenue)	**1,860.7**	**2,769.8**

Note 4 Income tax

Reconciliation of income tax expense	30 June 2022 $m	30 June 2021 $m
Profit before income tax	357.3	830.6
Prima facie income tax based on the Australian company tax rate of 30%	(107.2)	(249.2)
Tax effect of amounts not assessable/deductible in calculating taxable income:		
- Challenger Capital Notes distributions	(8.6)	(7.9)
- non-assessable and non-deductible items	4.2	8.4
- tax rate differentials	9.7	10.6
- other items	(1.7)	(0.2)
Income tax expense	**(103.6)**	**(238.3)**
Underlying effective tax rate	**29.0 %**	**28.7 %**

Analysis of income tax expense	30 June 2022 $m	30 June 2021 $m
Current income tax expense for the year	(293.1)	(140.0)
Current income tax benefit prior year adjustment	7.4	1.9
Deferred income tax benefit/(expense)	190.3	(101.6)
Deferred income tax (expense)/benefit prior year adjustment	(8.2)	1.4
Income tax expense	**(103.6)**	**(238.3)**
Income tax benefit on translation of foreign entities	9.1	17.4
Income tax expense on hedge of net investment in foreign operations	(8.9)	(20.1)
Income tax benefit/(expense) from other comprehensive income	**0.2**	**(2.7)**

	Statement of financial position		Statement of comprehensive income	
Analysis of deferred tax	**30 June 2022 $m**	**30 June 2021 $m**	**30 June 2022 $m**	**30 June 2021 $m**
Deferred tax assets				
Accruals and provisions	40.4	49.3	(8.8)	(0.1)
Employee entitlements	6.3	5.5	0.8	0.4
Tax losses	7.5	6.1	(5.4)	(86.0)
Unrealised net losses on investments	78.1	—	78.1	—
Other	17.8	19.0	(2.4)	0.7
Total deferred tax assets	**150.1**	**79.9**	**62.3**	**(85.0)**
Set off of deferred tax assets	**(13.0)**	**(75.9)**		
Net deferred tax assets recognised in Statement of financial position	**137.1**	**4.0**		
Deferred tax liabilities				
Unrealised foreign exchange movements	(2.7)	(7.7)	6.7	(3.5)
Unrealised net gains on investments	—	(124.1)	124.0	(9.5)
Other	(15.6)	(4.8)	(10.9)	(2.2)
Total deferred tax liabilities	**(18.3)**	**(136.6)**	**119.8**	**(15.2)**
Set off of deferred tax liabilities	**13.0**	**75.9**		
Net deferred tax liabilities recognised in Statement of financial position	**(5.3)**	**(60.7)**		
Deferred income tax benefit/(expense) recognised in Statement of comprehensive income			**182.1**	**(100.2)**

Note 4 Income tax (continued)

Tax Transparency Code Disclosures

Australia and overseas tax expense	30 June 2022 $m	30 June 2021 $m	Change $m
Total Australia	(94.2)	(228.5)	134.3
Total overseas	(9.4)	(9.8)	0.4
Income tax expense	**(103.6)**	**(238.3)**	**134.7**

Analysis of current tax liability	30 June 2022 $m	30 June 2021 $m
Opening balance	48.1	1.0
Current income tax expense for the year	293.1	140.0
Current income tax prior year adjustment	(7.4)	(1.9)
Tax in equity	(0.4)	(0.4)
Income tax paid	(264.9)	(90.9)
Other	(2.0)	0.3
Closing balance	**66.5**	**48.1**

Unrecognised deferred tax balances	30 June 2022 $m	30 June 2021 $m
Non-tax consolidated group revenue losses - tax effected	8.9	7.6
Tax consolidated group capital losses - tax effected	56.4	56.4

Accounting policy

Income tax expense

Income tax expense for the year comprises current and deferred tax. Income tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised directly in equity.

Current tax assets and liabilities

Current tax assets and liabilities for the current and prior periods are the amounts expected to be recovered from or paid to the taxation authorities based on the respective period's taxable income. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted as at the Statement of financial position date. Current tax assets and liabilities have been offset where there is a legally enforceable right to set off.

Deferred income tax assets and liabilities

Deferred income tax is provided on temporary differences at the Statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognised for deductible or taxable temporary differences and are measured at the tax rates that are expected to apply to the year the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantially enacted as at the Statement of financial position date. Deferred income tax assets and liabilities have been offset where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group who have a legal right and an intention to settle on a net basis. Deferred tax assets are recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Tax consolidation

Challenger Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. Challenger Limited is the head entity of the tax consolidated group.

Tax effect accounting by members of the tax group

Members of the tax consolidated group have applied tax funding principles under which Challenger Limited and each of the members of the tax consolidated group agree to pay or receive tax equivalent amounts to or from the head entity, based on the current tax liability or current tax asset of the member. Such amounts are reflected in the amounts receivable from or payable to each member and the head entity. The group allocation approach is applied in determining the appropriate amount of current tax liability or current tax asset to allocate to members of the tax consolidated group.

Key estimates and assumptions

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Section 3: Operating assets and liabilities

This section discloses information relating to the assets and liabilities underpinning the Group's financial performance and the key sources of funding for those assets. It further presents the derivative financial instruments employed to hedge the Group's financial risk exposures, and consolidated information relating to the cash flows of the Group.

Note 5 Investment assets

	30 June 2022 $m	30 June 2021 $m
Investment assets held at fair value through profit and loss	22,561.9	22,174.7
Investment assets held at amortised cost	244.0	—
Total investment assets	**22,805.9**	**22,174.7**

Held at fair value through profit and loss	30 June 2022 $m	30 June 2021 $m
Domestic sovereign bonds and semi-government bonds	4,540.1	6,054.8
Floating rate notes and corporate bonds	6,079.3	6,576.3
Residential mortgage and asset-backed securities	9,342.0	7,653.6
Non-SPV/ADI mortgage assets	96.7	112.2
Fixed income securities	**20,058.1**	**20,396.9**
Shares in listed and unlisted corporations	194.3	143.1
Unit trusts, managed funds and other	1,374.0	1,201.3
Equity securities	**1,568.3**	**1,344.4**
Units in listed and unlisted infrastructure trusts	49.7	48.8
Other infrastructure investments	251.1	296.6
Infrastructure investments	**300.8**	**345.4**
Indirect property investments in listed and unlisted trusts	90.2	88.0
Property securities	**90.2**	**88.0**
Hedged commodities[1]	544.5	—
Other investment assets	**544.5**	**—**
Total investment assets – fair value through profit and loss	**22,561.9**	**22,174.7**
Current	14,368.3	11,911.1
Non-current	8,193.6	10,263.6
	22,561.9	**22,174.7**

1. The precious metals commodities strategy provides Challenger an opportunity to earn a spread between the price of physical commodities and the price of short futures contracts, resulting in an immaterial exposure to the underlying commodities price.

Note 5 Investment assets (continued)

Held at amortised cost	30 June 2022 $m	30 June 2021[1] $m
Floating rate notes	77.3	—
Negotiable certificates of deposits	67.0	—
Corporate and government bonds	79.7	—
Residential mortgage backed securities	19.3	—
Deposits with credit unions/ADIs	1.1	—
Fixed income securities	**244.4**	**—**
Less: allowance for expected credit losses	(0.4)	—
Total investment assets – amortised cost[2]	**244.0**	**—**
Current	115.9	—
Non-current	128.1	—
	244.0	**—**

1. No investment assets held at amortised cost prior to the acquisition of the Bank on 30 July 2021.
2. The fair values of assets held at amortised cost are materially in line with their amortised cost values due to the short duration of these investments. These assets would be classified as Level 2 in the fair value hierarchy table.

Accounting policy

The Group categorises its investment assets as investment assets - fair value through profit and loss (being initially designated as such) and investment assets at amortised cost. Assets designated as fair value through profit and loss consist of fixed income, equity, infrastructure, property securities and hedged commodities. They are carried at fair value, with unrealised gains and losses being recognised through the Statement of comprehensive income. Assets designated as amortised cost are primarily primarily repo-elgible high quality fixed income securities held by the Bank. They are held within a business model to solely collect contractual cashflows and the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the acquisition of the asset and costs that are an integral part of the effective interest rate. Gains and losses are recognised in the Statement of comprehensive income when the assets are derecognised or impaired.

Purchases and sales of investment assets are recognised on the date on which the Group commits to purchase or sell the asset and when all risks and rewards of ownership have been substantially transferred. Investment assets are then derecognised when the right to receive cash flows from the asset has expired.

The fair value of investment assets that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the statement of financial position date. Assets backing life contract liabilities of the statutory funds are required to be designated as fair value through profit and loss in accordance with AASB 1038 ***Life Insurance Contracts*** when permitted by other Australian Accounting Standards.

Key estimates and assumptions

Unlisted investment valuations

Investments held at fair value through profit and loss for which there is no active market or external valuation available are valued making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum, either by:

- reference to the current market value of another instrument that is substantially the same;
- using recent arm's length market transactions;
- option pricing models refined to reflect the issuer's specific circumstances;
- discounted cash flow analysis; or
- other methods consistent with market best practice.

Refer to Note 19 Financial risk management for further disclosure.

Note 6 Investment and development property

	30 June 2022 $m	30 June 2021 $m
Investment property held for sale[1]	—	388.0
Investment property in use	3,483.3	3,389.7
Development property held for sale[2,3]	—	8.0
Total investment and development property[4]	**3,483.3**	**3,785.7**

1. Investment property held for sale: No properties held for sale (30 June 2021: County Court).
2. Development property held for sale: No development properties held for sale (30 June 2021: Maitland).
3. Development property held for sale is recognised at fair value.
4. Investment and development property held for sale is considered current. All other investment property is considered non-current.

	Investment property held for sale		Investment property in use		Investment property under development		Development property held for sale	
Reconciliation of carrying amounts	30 June 2022 $m	30 June 2021 $m	30 June 2022 $m	30 June 2021 $m	30 June 2022 $m	30 June 2021 $m	30 June 2022 $m	30 June 2021 $m
Balance at the beginning of the year	388.0	—	3,389.7	3,679.7	—	6.2	8.0	—
Movements for the year								
– disposals	(388.7)	—	—	—	—	—	(8.0)	—
– net transfers to/(from) investment property held for sale	—	326.0	—	(326.0)	—	—	—	—
– transfers to/(from) investment property under development	—	—	—	—	—	(6.2)	—	6.2
– capital expenditure	0.7	0.7	19.4	50.3	—	—	—	0.1
– net revaluation gain	—	61.3	155.2	75.8	—	—	—	1.7
– foreign exchange loss	—	—	(81.0)	(90.1)	—	—	—	—
Balance at the end of the year	**—**	**388.0**	**3,483.3**	**3,389.7**	**—**	**—**	**—**	**8.0**

Accounting policy

Investment and development property

Investment and development property is initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment and development property is recognised at fair value.

Investment and development property is classified as held for sale if its carrying value will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when management is committed to the sale, and the sale is highly probable to occur in the next 12 months. Investment and development property held for sale is carried at fair value, being the latest valuation available, or agreed sale price.

Gains or losses arising from changes in the fair values of investment properties are included in the Statement of comprehensive income in the period in which they arise.

Investment and development properties are derecognised when they have either been disposed of or when the investment and development property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment or development property is recognised in the Statement of comprehensive income in the year of retirement or disposal.

Where properties are debt financed, that finance is provided either by secured mortgages or by funding that contains a number of negative undertakings (including undertakings not to create or allow encumbrances, and undertakings not to incur financial indebtedness which ranks in priority to existing debt).

Note 6 Investment and development property (continued)

Accounting policy (continued)

Investment property under development

When redevelopment of an existing investment property commences, it continues to be classified and measured as investment property when the asset is being redeveloped for continued future use as an investment property.

Investment property under construction is held at cost until an estimate of the fair value can be reliably determined.

Key estimates and assumptions

Independent valuations for all investment properties are conducted at least annually by suitably qualified valuers, and the Directors make reference to these independent valuations when determining fair value.

Each independent valuer is appointed in line with the valuation policy, which requires that valuers are authorised to practise under the law of the relevant jurisdiction where the valuation takes place and have at least five years of continuous experience in the valuation of property of a similar type to the property being valued, and on the basis that they are engaged for no longer than two consecutive years on an individual property.

The valuer must have no pecuniary interest that could conflict with the valuation of the property, must be suitably indemnified, and must comply with the Australian Property Institute (API) Code of Ethics and Rules of Conduct (or foreign equivalent).

Fair value for the purposes of the valuation is market value as defined by the International Assets Valuation Standards Committee. In determining market value, valuers examine available market evidence and apply this analysis to both the traditional market capitalisation approach and the discounted cash flow approach (using market-determined risk-adjusted discount rates).

Valuers are required to provide valuation methodology and calculations for fair value including reference to annual net market income, comparable capitalisation rates, and property-specific adjustments. The values of investment property do not reflect anticipated enhancement from future capital expenditure.

Analysis of investment property as at 30 June	Acquisition date[1]	Total cost[2] $m	Carrying value 2022 $m	Cap rate 2022[3] %	Last external valuation date	Carrying value 2021 $m	Cap rate 2021[3] %
Investment property in use and held for sale							
Australia							
6 Chan Street (formerly DIBP Building), ACT	01-Dec-01	127.7	281.0	4.63	31-Dec-21	261.0	4.88
14 Childers Street, ACT	01-Dec-17	100.8	85.0	6.25	31-Dec-21	85.5	6.50
21 O'Sullivan Circuit, NT	27-Jan-16	47.8	29.5	7.25	30-Jun-22	31.4	7.75
31 O'Sullivan Circuit, NT	27-Jan-16	29.5	32.7	6.75	30-Jun-22	28.5	7.25
35 Clarence Street, NSW	15-Jan-15	157.5	241.0	5.00	30-Jun-22	229.0	5.13
45 Benjamin Way (formerly ABS Building), ACT	01-Jan-00	151.4	259.0	5.13	31-Dec-21	251.0	5.38
82 Northbourne Avenue, ACT	01-Jun-17	62.7	51.0	5.63	30-Jun-22	51.8	5.75
215 Adelaide Street, QLD	31-Jul-15	260.5	227.0	5.88	31-Dec-21	225.0	6.00
565 Bourke Street, VIC	28-Jan-15	111.7	155.0	4.88	31-Dec-21	148.0	5.00
839 Collins Street, VIC	22-Dec-16	212.0	254.0	4.63	30-Jun-22	246.5	4.75
Bunbury Forum, WA	03-Oct-13	158.7	79.1	7.00	31-Dec-21	78.1	7.25
Channel Court, TAS	21-Aug-15	88.5	89.0	6.75	30-Jun-22	80.0	7.25
Cosgrave Industrial Park, Enfield, NSW	31-Dec-08	91.4	181.3	3.75	30-Jun-22	139.4	4.50
County Court, VIC[4]	30-Jun-00	—	—	—	—	388.0	n/a
Discovery House, ACT	28-Apr-98	104.8	173.0	4.88	30-Jun-22	164.0	5.13
Executive Building, TAS	30-Mar-01	35.4	49.0	5.50	30-Jun-22	49.0	5.75
Gateway, NT	01-Jul-15	123.3	110.0	6.34	31-Dec-21	102.9	6.34
Golden Grove, SA	31-Jul-14	160.8	155.5	6.00	30-Jun-22	148.0	6.25
Karratha, WA	28-Jun-13	57.9	51.0	6.88	31-Dec-21	45.4	7.50
Kings Langley, NSW	29-Jul-01	16.6	28.9	5.00	31-Dec-21	24.7	5.75
Lennox, NSW	27-Jul-13	67.9	79.0	6.00	30-Jun-22	65.0	6.75
North Rocks, NSW	18-Sep-15	187.6	195.0	5.50	31-Dec-21	179.0	6.00
Total Australia		**2,354.5**	**2,806.0**			**3,021.2**	

1. Acquisition date represents the date of 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. Classified as 'held for sale' in 2021 and sold during 2022.

Note 6 Investment and development property (continued)

Analysis of investment property as at 30 June (continued)	Acquisition date[1]	Total cost[2] $m	Carrying value 2022 $m	Cap rate 2022[3] %	Last external valuation date	Carrying value 2021 $m	Cap rate 2021[3] %
Europe							
Avenue de Savigny, Aulnay sous Bois	31-Dec-08	20.3	10.0	7.00	30-Jun-22	9.8	7.00
Japan							
Aeon Kushiro	31-Jan-10	30.5	30.9	5.40	31-Dec-21	34.2	5.40
Aeon Matsusaka XD	26-Sep-19	14.7	12.2	5.60	30-Jun-22	13.7	5.60
Carino Chitosedai	31-Jan-10	118.8	113.9	4.50	31-Dec-21	127.2	4.50
Carino Tokiwadai	31-Jan-10	77.7	67.3	4.60	30-Jun-22	75.5	4.60
DeoDeo Kure	31-Jan-10	32.2	27.8	5.50	30-Jun-22	31.2	5.50
Fitta Natalie Hatsukaichi	28-Aug-15	11.7	12.1	5.80	31-Dec-21	13.4	5.90
Izumiya Hakubaicho	31-Jan-10	69.7	63.6	4.80	31-Dec-21	71.4	4.80
Kansai Super Saigo	31-Jan-10	13.3	11.8	5.50	31-Dec-21	13.2	5.50
Kojima Nishiarai	31-Jan-10	12.2	13.1	4.10	30-Jun-22	14.6	4.10
Kotesashi Towers	28-Nov-19	25.2	19.3	5.07	31-Dec-21	21.5	5.07
Life Asakusa	31-Jan-10	27.9	31.0	4.20	30-Jun-22	35.1	4.20
Life Higashi Nakano	31-Jan-10	33.0	33.0	4.30	30-Jun-22	36.7	4.30
Life Nagata	31-Jan-10	25.2	24.7	4.90	30-Jun-22	27.7	4.90
MaxValu Tarumi	28-Aug-15	17.0	16.3	5.70	31-Dec-21	18.2	5.70
Seiyu Miyagino	31-Jan-10	9.8	9.3	5.20	30-Jun-22	10.6	5.20
TR Mall Ryugasaki	30-Mar-18	86.7	80.7	5.50	31-Dec-21	90.5	5.50
Valor Takinomizu	31-Jan-10	27.7	21.3	5.80	31-Dec-21	23.5	5.80
Valor Toda	31-Jan-10	42.5	37.3	5.20	30-Jun-22	41.7	5.20
Yaoko Sakato Chiyoda	31-Jan-10	19.9	18.6	4.70	31-Dec-21	20.9	4.70
Yorktown Toride	05-Mar-20	32.2	23.1	5.10	30-Jun-22	25.9	5.10
Total international		**748.2**	**677.3**			**756.5**	
Total investment property in use and held for sale[4]		**3,102.7**	**3,483.3**			**3,777.7**	
Investment property under development and development property held for sale							
Maitland, NSW[5]	6-Dec-06	—	—	—	—	8.0	n/a
Total investment property under development and development property held for sale		**—**	**—**			**8.0**	

1. Acquisition date represents the date of 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. At 30 June 2022, the investment property portfolio occupancy rate for Australia was 90.3% (30 June 2021: 90.3%) with a weighted average lease expiry of 5.3 years (30 June 2021: 5.1 years), Europe 100.0% (30 June 2021: 100.0%) with a weighted average lease expiry of 0.1 years (30 June 2021: 0.1 years) and Japan 99.6% (30 June 2021: 99.5%) with a weighted average lease expiry of 8.6 years (30 June 2021: 9.4 years).
5. Classified as 'held for sale' in 2021 and sold during 2022.

Note 7 Loan assets

Loan assets	30 June 2022 $m	30 June 2021 $m
Residential mortgages[1]	407.0	421.8
Investment loans[2]	133.8	160.3
Reverse mortgages[3]	4.3	—
Personal loans[4]	0.5	—
Chattel mortgages[5]	0.2	—
Commercial loans[6]	16.5	—
Less: provision for impairment	(10.6)	(11.8)
Balance at the end of the year	**551.7**	**570.3**

1. Residential mortgages are held both by the Bank and CLC. The CLC book is held within Special Purpose Vehicle (SPV) trusts that hold residential mortgage-backed assets and issue securitised financial liabilities. The trusts are entities that funded pools of residential mortgage-backed securities (RMBS). All borrowings of these SPVs are limited in recourse to the assets of the SPV. Bank's mortgages are core investment assets that are funded by term deposits of the business and include owner occupied loans.
2. Investment loans are loans to resident households for the purpose of housing, where the funds are used for a residential property that is not owner occupied.
3. Reverse mortgages represent loans provided by the Bank to individuals to supplement income while in retirement and are secured over residential property.
4. Personal loans represent secured and unsecured loans provided by the Bank to individuals for the financing of such items as the acquisition of a new vehicle, funding renovations or the consolidation of debt.
5. Chattel mortgages are loans used to purchase motor vehicles or other major business equipment, where the lender retains ownership of the asset until the loan is repaid.
6. Commercial loans are non-retail corporate loans provided by the Bank to corporate entities.

Accounting policy

Loans and advances are non-derivative financial loan assets with fixed or determinable payments that are not quoted in an active market. They are recognised net of any credit loss provision. These are held at amortised cost.

Key estimates and assumptions

The Group continues to primarily apply the historical provisioning methodology to its mortgage assets held within the NIM SPV structure, which is considered to be materially consistent with the provision estimated under the expected credit loss (ECL) impairment model.

The ECL impairment model is used for mortgage assets and non-retail lending products, including commercial loans held by the Bank. In estimating ECL, the Group makes judgements and assumptions in relation to expected repayments, the realisable value of the secured property, the prospects of the customer, the value of any mortgage insurance and the likely cost and duration of a workout process.

Analysis of loan assets impairment provision	30 June 2022 $m	30 June 2021 $m
Balance at the beginning of the year	11.8	11.5
Increase in provision	0.2	0.5
Utilisation of provision against incurred losses and adjustments to estimates	(1.4)	(0.2)
Balance at the end of the period[1]	**10.6**	**11.8**

1. Impairment provision balance includes provision of $0.2m million related to the Bank loan assets.

Note 8 Life contract liabilities

Fair value of life contract liabilities	30 June 2022 $m	30 June 2021 $m
Life investment contract liabilities – at fair value	6,748.4	6,230.4
Life insurance contract liabilities – at margin on services value	6,847.2	7,440.5
Outwards reinsurance contract liabilities – at margin on services value	(0.2)	(1.0)
Total life contract liabilities	**13,595.4**	**13,669.9**

Movement in life contract liabilities	Life investment contract liabilities 30 June 2022 $m	30 June 2021 $m	Life insurance contract liabilities 30 June 2022 $m	30 June 2021 $m	Outwards reinsurance contract liabilities 30 June 2022 $m	30 June 2021 $m	Total life contract liabilities 30 June 2022 $m	30 June 2021 $m
Balance at the beginning of the year	6,230.4	5,867.8	7,440.5	6,714.4	(1.0)	(1.0)	13,669.9	12,581.2
Deposits and premium receipts	4,030.2	3,202.3	1,120.4	1,600.6	—	—	5,150.6	4,802.9
Payments and withdrawals	(3,385.1)	(2,935.5)	(954.0)	(852.4)	—	—	(4,339.1)	(3,787.9)
Revenue per Note 1	(293.4)	(29.8)	(1,842.4)	(978.6)	0.8	—	(2,135.0)	(1,008.4)
Expense per Note 2	166.3	125.6	1,082.7	956.5	—	—	1,249.0	1,082.1
Balance at the end of the year	**6,748.4**	**6,230.4**	**6,847.2**	**7,440.5**	**(0.2)**	**(1.0)**	**13,595.4**	**13,669.9**

Analysis of life insurance and reinsurance contract liability and expenses	30 June 2022 $m	30 June 2021 $m
Best estimate liability		
Value of future life insurance contract benefits	6,375.7	6,928.6
Value of future expenses	173.0	196.6
Value of future acquisition expenses	173.7	175.1
Value of future premiums	(673.4)	(902.1)
Total best estimate liability	**6,049.0**	**6,398.2**
Value of future profit margins	798.0	1,041.3
Net life insurance and reinsurance contract liability	**6,847.0**	**7,439.5**
Life insurance and reinsurance contract operating expenses		
Maintenance expenses	68.2	61.6
Total life insurance and reinsurance contract operating expenses	**68.2**	**61.6**
Analysis of life contract profit		
Profit margin release on life insurance contracts	31.4	23.5
Loss recognition in respect of life insurance contracts[1]	(41.3)	(50.6)
Loss recognition in respect of life investment contracts	(52.6)	(88.7)
Difference in actual and assumed investment experience in respect of life insurance contracts	132.5	274.5
Difference in actual and assumed investment experience in respect of life investment contracts	140.9	255.9
Difference in actual and assumed other experience in respect of life insurance contracts	12.4	2.9
Difference in actual and assumed other experience in respect of life investment contracts	3.9	8.1
Loss arising from assumption changes on life insurance contracts	(2.2)	(8.5)
Profit/(loss) arising from assumption changes on life investment contracts	0.8	(1.5)
Profit arising from difference between actual and assumed experience	**225.8**	**415.6**
Investment earnings on assets in excess of life contract liabilities	38.5	212.1
Life contract profit after tax	**264.3**	**627.7**

1. Under margin on services (MoS), any profits expected over the life of a contract are recognised over the life of the contract; however, if on the liability valuation basis the contract is expected to be loss making, the capitalised value of these future losses is recognised at the point of sale. Retail insurance contracts are in loss recognition because the liability valuation basis uses a risk-free discount rate but the rates offered to customers are higher.

Accounting policy

The operations of the Group include the selling and administration of life contracts through CLC. These contracts are governed under the Life Insurance Act 1995 (the Life Act) and are classified as either life insurance contracts or life investment contracts. Life insurance and life investment contract liabilities are collectively referred to as life contract liabilities or policy liabilities.

Life investment contract liabilities

Life investment contracts are contracts regulated under the Life Act but which do not meet the definition of life insurance contracts under AASB 1038 ***Life Insurance Contracts***

For fixed term policies, the liability is based on the fair value of the income payments and associated expenses, being the net present value of the payments and expenses using an appropriate discount rate curve as determined by the Appointed Actuary.

Life insurance contract liabilities

Life insurance contracts are contracts regulated under the Life Act that involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS). Under MoS, the excess of premiums received over payments to customers and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service) unless future margins are negative, in which case the future losses are recognised in the Statement of comprehensive income immediately. The planned release of this margin is recognised in the Statement of comprehensive income as part of the movement in life insurance contract liabilities.

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, benefit payments and expenses) are projected into the future. The liability is calculated as the net present value of these projected cash flows using an appropriate discount rate curve as determined by the Appointed Actuary.

The key areas of judgement in the determination of the actuarial assumptions are the duration of claims/policy payments, mortality, surrenders, acquisition and maintenance expense levels, and economic assumptions for discount and inflation rates.

Life insurance premium revenue

Life insurance premiums are recognised as revenue when risk is transferred to the Group.

Life insurance claims expense

Life insurance claims expense is recognised in expenses when the liability to the policyholder under the contract has been established.

Inwards reinsurance

The Group has maintained inwards reinsurance arrangements during the period that meet the definition of a life insurance contract. The MoS methodology requires the present value of future cash flows arising from reinsurance contracts to be included in the calculation of life insurance contract liabilities.

Valuation

The MoS valuation, calculated in accordance with APRA Prudential Standards and AASB 1038 ***Life Insurance Contracts***, results in the systematic release of planned margins over the life of the policy via a 'profit carrier'. The Group maintains life insurance contracts including individual lifetime annuities, wholesale mortality, wholesale morbidity, longevity reinsurance and wholesale lifetime annuities. Annuity payments are used as the profit carrier for lifetime annuities and premium receipts or best estimate claim payments are used as the profit carrier for wholesale mortality, wholesale morbidity and longevity reinsurance.

Key assumptions applied in the valuation of life contract liabilities

Tax rates

The bases of taxation (including deductibility of expenses) are assumed to continue in accordance with legislation current at the reporting date.

Discount rates

Under APRA Prudential Standards and AASB 1038 ***Life Insurance Contracts***, life insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, set at the Commonwealth Government Bond curve plus an illiquidity premium where applicable, or for foreign-denominated liabilities, a curve derived from the yields of highly liquid AAA-rated sovereign risk securities in the currency of the policy liabilities plus an illiquidity premium where applicable. The illiquidity premium is determined by reference to observable market rates including Australian sovereign debt, corporate, securitised and collateralised debt publicly placed in the domestic market, and market swap rates.

Life investment contract liabilities are calculated under the fair value through profit and loss provisions of AASB 9 ***Financial Instruments.*** The discount rates are determined based on current observable, objective rates that relate to the nature, structure and term of the future liability cash flows.

For both insurance and investment contracts the approach is the same as adopted at 2021. Discount rates applied for Australian liabilities were between 1.8% - 4.5% per annum (30 June 2021: 0.3% - 2.8%).

Note 8 Life contract liabilities (continued)

Valuation (continued)

Key assumptions applied in the valuation of life contract liabilities (continued)

Expenses

Forecasted expenses for the next year are allocated between acquisition, maintenance and investment based on the nature of the expense. Forecasted maintenance and investment expenses are then converted to a per-contract unit cost or percentage of account balance, depending on the nature of the expense.

Inflation

Inflation estimates are based on long-term expectations and reviewed at least annually for changes in the market environment based on a comparison of real and nominal yields of instruments of equivalent term and credit risk. The current assumption for Australia is 3.2% per annum for short-term inflation and 2.2% per annum for long-term inflation (30 June 2021: 2.0% short-term, 2.3% long-term).

Surrenders

For life investment contracts, no surrenders or voluntary discontinuances are assumed. For Australian life insurance contracts where a surrender value is payable on withdrawal, a rate of surrenders is assumed in line with Challenger's own experience on these products, currently between 0.0% - 2.1% per annum (30 June 2021: 0.0% - 2.1%). For inwards reinsurance of Japanese business, a rate of surrenders is assumed in line with local experience in relation to similar contracts, currently 3.5% per annum (30 June 2021: 3.5%).

Where policyholders have the option to commute a life insurance contract, the value of this option is included within the life contract liabilities. We also assume surrender rates based on past experience for this business which vary by product types and duration in-force for the contract.

Mortality

Base mortality rates for individual lifetime annuities are determined as a multiple of annuitant experience based on LML08 and LFL08 tables, adjusted for Challenger's own recent experience. LML08 and LFL08 are mortality tables developed by the Continuous Mortality Investigation (CMI) based on United Kingdom annuitant lives experience from 2007–2010. The tables refer to male and female lives respectively. Rates are adjusted for expected future mortality improvements based on observed and expected improvements. For the age ranges and cash flow projection periods that contribute the majority of CLC's exposure, rates of future mortality improvement applied are between 0.4% - 2.6% per annum (30 June 2021: 0.3% - 2.5%).

Base mortality rates for wholesale mortality and longevity reinsurance are determined as a multiple of pensioner mortality rates (based on the self-administered pension schemes or SAPS3 tables mortality investigation developed by the Institute and Faculty of Actuaries (UK) using United Kingdom data collected between 2009–2016). Rates are adjusted for expected future mortality improvements based on observed and expected improvements.

For the age ranges and cash flow projection periods that contribute the majority of CLC's exposure, rates of future mortality improvement applied are between 0.2% - 2.3% per annum (30 June 2021: 0.2% - 2.3%). Base mortality rates for the inwards reinsurance of Japanese business are determined as a multiple of Japanese population mortality rates.

Mortality assumptions have been reviewed but not adjusted in light of the COVID-19 pandemic.

Impact of changes in assumptions on life insurance contracts

Under MoS, changes in actuarial assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Changes in future profit margins are released over future periods unless that product group is in an expected net loss position (loss recognition), in which case changes in assumptions are recognised in the Statement of comprehensive income in the period in which they occur. The valuation impact of changes to discount rate assumptions as a result of market and economic conditions, such as changes in benchmark market yields, are recognised in the Statement of comprehensive income in the period in which the changes occur.

Restrictions on assets

Investment assets held in the Group can only be used within the restrictions imposed under the Life Insurance Act 1995 (the Life Act). The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that statutory fund, to acquire investments to further the business of the statutory fund or as distributions when capital requirements are met.

Statutory fund information

The life contract operations of CLC are conducted within four separate statutory funds. Both the shareholders' and policyholders' interests in these statutory funds are reported in aggregate in the financial report of the Group. Fund 1 is a non-investment-linked fund and Fund 3 is investment-linked. Both of these are closed to new business. Funds 2 and 4 are the principal operating funds of the Group. Fund 2 contains non-investment-linked contracts, including the Group's term annuity business, lifetime annuity policies and the related outwards reinsurance, plus the wholesale mortality, wholesale morbidity and longevity inwards reinsurance. Fund 4 contains inwards reinsurance of annuity business written in Japan. Life contract liabilities for Funds 1, 2, 3 and 4 are set out below.

Life contract liabilities	30 June 2022 $m	30 June 2021 $m
Statutory Fund 1	1.4	1.5
Statutory Fund 2	11,401.9	11,582.4
Statutory Fund 3	2.5	3.0
Statutory Fund 4	2,189.6	2,083.0
Total life contract liabilities	**13,595.4**	**13,669.9**

Current/non-current split for total life contracts

There is a fixed settlement date for the majority of life contract liabilities. Approximately $4,643.8 million on a discounted basis (30 June 2021: $3,099.3 million) of life contract liabilities have a contractual maturity within 12 months of the reporting date. Based on assumptions applied for the 30 June 2022 valuation of life contract liabilities, $4,938.4 million of principal payments on fixed term and lifetime business are expected in the year to 30 June 2023 (expected in the year to 30 June 2022: $3,685.7 million).

Life insurance risk

The Group is exposed to longevity risk on its individual lifetime annuities (both direct and reinsured) and wholesale longevity reinsurance. Longevity risk is the risk that policyholders may live longer than expectations. The Group is exposed to mortality risk on the wholesale mortality reinsurance and reinsurance of fixed term business written in Japan. This is the risk that death rates in the reference portfolios exceed expectations. The Group is also exposed to morbidity risk on the wholesale morbidity reinsurance. That is the risk that morbidity rates in the reference portfolios exceed expectations.

The Group manages the longevity risk by regular reviews of the portfolio to confirm continued survivorship of policyholders receiving income plus regular review of longevity experience to ensure that longevity assumptions remain appropriate.

In addition, the Group maintains a reinsurance arrangement to manage longevity risk in respect of part of the closed book of individual lifetime annuities.

The Group manages the mortality and morbidity risk by regular reviews of the portfolio to ensure that mortality and morbidity assumptions remain appropriate. The Company's insurance risk policy is approved by the Board and sets out the relevant risk limits for insurance exposures, to ensure the insurance risk portfolio is appropriately diversified.

Insurance risk sensitivity analysis

The following table discloses the sensitivity of life insurance contract liabilities, profit after income tax and equity to changes in the key assumptions relating to insurance risk, both gross and net of reinsurance.

	Increase in life insurance contract liabilities				Loss after tax and equity impact			
	Gross		Net		Gross		Net	
	30 June 2022	30 June 2021	30 June 2022	30 June 2021	30 June 2022	30 June 2021	30 June 2022	30 June 2021
Insurance risk sensitivity analysis	$m	$m	$m	$m	$m	$m	$m	$m
50% increase in the rate of mortality improvement	30.5	43.3	29.1	42.7	21.3	30.3	20.3	29.9
10% increase in maintenance expenses	16.2	18.3	16.2	18.3	11.4	12.8	11.4	12.8

Liquidity risk for insurance contracts

The following table summarises the undiscounted maturity profile of the Group's life insurance contract liabilities. The analysis is based on undiscounted estimated cash outflows, including interest and principal payments. The undiscounted maturity profile of life investment contracts is disclosed in Note 19 Financial risk management.

Undiscounted life insurance contract liabilities	1 year or less $m	1-3 years $m	3-5 years $m	>5 years $m	Total $m
2022	**1,036.9**	**1,664.1**	**1,255.3**	**4,551.3**	**8,507.6**
2021	863.9	1,465.8	1,158.7	4,817.7	8,306.1

Actuarial information

Mr M Considine FIAA, as the Appointed Actuary of CLC, is satisfied as to the accuracy of the data used in the valuations of life contract liabilities in the financial report and the tables in this note.

The life contract liabilities have been determined at the reporting date in accordance with the Life Act, APRA Prudential Standards, AASB 1038 ***Life Insurance Contracts*** and AASB 9 ***Financial Instruments***.

Note 9 External unit holders' liabilities

	30 June 2022 $m	30 June 2021 $m
Current	4,072.8	3,090.1
Non-current	313.6	542.1
Total liabilities to external unit holders	**4,386.4**	**3,632.2**

Accounting policy

The Group controls a number of guaranteed index return trusts that contain contributed funds in respect of fixed term and daily liquid wholesale mandates. The fixed term and guaranteed nature of the mandates effectively places the balance of the risks related to the performance of the trusts with the Group. As a result, the Group is deemed to control these trusts.

The contributed funds for these trusts are classed as external unit holders' liabilities on the Statement of financial position and represent the funds owing to third parties on these mandates.The liability is recognised at fair value.

Note 10 Derivative financial instruments

Analysis of derivative financial instruments	30 June 2022 Notional value $m	30 June 2022 Net fair value assets $m	30 June 2022 Net fair value liabilities $m	30 June 2021 Notional value $m	30 June 2021 Net fair value assets $m	30 June 2021 Net fair value liabilities $m
Non-SPV						
Interest rate swaps						
Less than one year	19,806.1	1.4	(16.5)	5,086.2	8.8	(2.7)
One to three years	20,550.6	17.6	(68.9)	9,083.3	47.0	(47.4)
Three to five years	13,777.0	21.7	(50.6)	11,294.6	80.6	(79.6)
Greater than five years	47,648.5	314.8	(402.9)	42,527.3	315.1	(437.9)
Total interest rate swaps	**101,782.2**	**355.5**	**(538.9)**	**67,991.4**	**451.5**	**(567.6)**
Collateral securities[1]	**—**	**—**	**210.1**	**—**	**—**	**216.7**
Inflation-linked swaps						
Less than one year	243.0	—	(7.7)	300.0	—	(2.3)
One to three years	72.0	0.1	(0.1)	243.0	2.5	—
Three to five years	735.0	—	(57.2)	387.0	10.0	(4.6)
Greater than five years	722.0	25.3	(13.8)	1,092.0	60.3	(28.0)
Total inflation-linked swaps	**1,772.0**	**25.4**	**(78.8)**	**2,022.0**	**72.8**	**(34.9)**
Future contracts						
Less than one year	14,676.0	—	(2.4)	17,055.6	—	(1.0)
One to three years	327.8	0.1	—	—	—	—
Total futures contracts	**15,003.8**	**0.1**	**(2.4)**	**17,055.6**	**—**	**(1.0)**
Commodities futures contracts						
Less than one year	546.3	—	—	—	—	—
Total commodities futures contracts	**546.3**	**—**	**—**	**—**	**—**	**—**
Forward currency contracts						
Less than one year	3,535.0	28.4	(37.8)	2,850.1	32.0	(22.5)
Total forward currency contracts	**3,535.0**	**28.4**	**(37.8)**	**2,850.1**	**32.0**	**(22.5)**
Cross-currency swaps						
Less than one year	3,253.3	62.3	(52.6)	1,397.7	17.8	(17.9)
One to three years	3,204.8	61.8	(73.2)	3,187.4	29.9	(40.5)
Three to five years	4,222.3	36.2	(164.4)	2,482.5	11.6	(29.2)
Greater than five years	362.6	1.6	(10.6)	765.0	7.5	(9.8)
Total cross-currency swaps	**11,043.0**	**161.9**	**(300.8)**	**7,832.6**	**66.8**	**(97.4)**
Equity swaps						
Less than one year	1,363.2	5.9	(43.6)	1,475.0	16.4	—
One to three years	731.0	—	(24.8)	308.9	2.1	(0.4)
Total equity swaps	**2,094.2**	**5.9**	**(68.4)**	**1,783.9**	**18.5**	**(0.4)**

Note 10 Derivative financial instruments (continued)

Analysis of derivative financial instruments (continued)	30 June 2022 Notional value $m	30 June 2022 Net fair value assets $m	30 June 2022 Net fair value liabilities $m	30 June 2021 Notional value $m	30 June 2021 Net fair value assets $m	30 June 2021 Net fair value liabilities $m
Credit default swaps						
Less than one year	—	—	—	63.4	0.3	—
Three to five years	770.2	—	(22.4)	1,218.8	96.4	—
Total credit default swaps	**770.2**	**—**	**(22.4)**	**1,282.2**	**96.7**	**—**
Total Non-SPV	**136,546.7**	**577.2**	**(839.4)**	**100,817.8**	**738.3**	**(507.1)**
SPV						
Interest rate swaps – SPVs						
Less than one year	0.6	—	(0.1)	7.2	—	(0.1)
One to three years	0.5	—	—	0.7	—	—
Three to five years	0.2	—	—	0.6	—	—
Total interest rate swaps – SPV	**1.3**	**—**	**(0.1)**	**8.5**	**—**	**(0.1)**
Cross-currency swaps – SPVs						
Greater than five years	165.5	—	(0.1)	212.1	—	(0.4)
Total cross-currency swaps – SPV	**165.5**	**—**	**(0.1)**	**212.1**	**—**	**(0.4)**
Total SPV	**166.8**	**—**	**(0.2)**	**220.6**	**—**	**(0.5)**
Total derivative financial instruments[2]	**136,713.5**	**577.2**	**(839.6)**	**101,038.4**	**738.3**	**(507.6)**

1. Collateral securities relates to centrally cleared interest rate swaps.
2. The Group's derivative financial instruments are subject to enforceable netting arrangements under International Swaps and Derivatives Association (ISDA) Master Agreements with derivative counterparties, allowing for net settlement as a single arrangement of multiple instruments with a counterparty in the event of default or other specified circumstances. If applied to the derivative portfolio, the derivative assets would decrease by $315.0 million (30 June 2021: $284.9 million) and the derivative liabilities would decrease by $315.0 million (30 June 2021: $284.9 million).

Accounting policy

The Group uses derivative financial instruments predominantly to hedge its risks associated with interest rate, inflation and foreign currency fluctuations and to gain exposure to different markets. All derivative financial instruments are stated at fair value. Gains or losses arising from fair value changes on derivatives that do not qualify for hedge accounting are recognised in the Statement of comprehensive income. For the purpose of hedge accounting, hedges are classified as:

- cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- hedges of net investments in foreign operations when they hedge the exposure to changes in the value of the assets and liabilities of a foreign controlled entity when they are translated from their functional currency to the presentation currency.

At the inception of a hedge relationship to which the Group wishes to apply hedge accounting, the Group formally designates and documents the hedge relationship and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of the instrument in offsetting the exposure to changes in the hedged item.

Such hedges are expected to be highly effective in achieving offsetting changes in cash flows or foreign exchange difference and are assessed on an ongoing basis to determine that they actually have been highly effective over the period that they were designated.

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction, and that could affect the Statement of comprehensive income. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the Statement of comprehensive income.

Amounts recognised in equity are transferred to the Statement of comprehensive income when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-investment asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-investment asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the Statement of comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Hedges of net investments in foreign operations

The gain or loss on the effective portion of the hedging instrument is recognised directly in equity and the gain or loss on the ineffective portion is recognised immediately in the Statement of comprehensive income. The cumulative gain or loss previously recognised in equity is recognised in the Statement of comprehensive income on disposal or partial disposal of the foreign operation.

Derivatives designated as hedges of net investment in foreign currency operations

The Group hedges its exposure to accounting gains and losses arising from translation of foreign controlled entities from their functional currency into the Group's presentation currency on consolidation. At 30 June 2022, a post-tax gain of $20.8 million (30 June 2021: post-tax gain of $46.8 million) was recognised in Other comprehensive income (OCI) for the hedging of exposure to the net investment in foreign currency operations.

Derivatives designated as cash flow hedges

The Group applies hedge accounting when it can demonstrate that all, or a portion of, the value movements of a derivative financial instrument effectively hedges the variability in cash flows attributable to a specific risk associated with a recognised asset or liability or probable future transaction. As described in Note 19 Financial risk management, SPVs enter into interest rate swap agreements to hedge the interest rate risk between variable rate loans, which generally reprice with changes in official interest rates, and issued RMBS that reprice with changes in the 30-day and 90-day bank bill swap rates. Cross-currency swaps are also entered into to hedge currency movements on foreign denominated RMBS. The SPVs apply hedge accounting to both types of transaction, with the fair value change on the effective portion of the derivative being recognised in OCI.

For the year ended 30 June 2022, a post-tax gain of $0.4 million (30 June 2021: post-tax loss $0.5 million) was recognised in equity for cash flow hedges with no Statement of comprehensive income impact of any ineffective portions during either the current or prior comparative period.

Note 11 Notes to Statement of cash flows

Reconciliation of profit to operating cash flow	30 June 2022 $m	30 June 2021 $m
Profit for the year	**253.7**	**592.3**
Adjusted for		
Net realised and unrealised losses/(gains) on investment assets	1,524.9	(582.3)
Share of associates' net profit	(38.0)	(35.2)
Change in life contract liabilities[1]	(886.0)	73.7
Depreciation and amortisation expense	14.0	15.3
Impairment of associates and Bank goodwill	19.2	12.3
Share-based payments	13.0	11.5
Dividends from associates	42.5	33.7
Change in operating assets and liabilities		
Decrease in receivables	12.9	72.1
Decrease in other assets	21.4	1.7
Increase in payables	11.5	2.0
Increase in provisions	8.6	0.2
Increase in deposits from customers[2]	93.5	—
Increase in life contract liabilities	811.5	1,015.0
Increase in external unit holders' liabilities	754.2	1,216.4
(Decrease)/increase in net tax liabilities	(170.1)	147.9
Net cash flows from operating activities	**2,486.8**	**2,576.6**

1. Changes relate to movements through the Statement of comprehensive income.
2. Movement in deposits from customers represents the increase since the acquisition of Challenger Bank.

Reconciliation of cash	30 June 2022 $m	30 June 2021 $m
Cash at bank and on hand	733.1	989.4
Total cash and cash equivalents[1]	**733.1**	**989.4**

1. All cash and cash equivalents are considered current.

Accounting policy

Cash and cash equivalents are financial assets and comprise cash at bank and on hand plus short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The carrying amount of cash and cash equivalents is materially equal to fair value due to the assets being highly liquid. For the purposes of the Statement of cash flows, cash and cash equivalents are stated net of bank overdrafts.

Section 4: Capital structure and financing costs

This section outlines how the Group manages its capital structure and related financing costs, as well as capital adequacy and reserves. It also provides details on the dividends and earnings per share of the Company.

Note 12 Contributed equity

	30 June 2022		30 June 2021	
	No. of shares m	Value of shares $m	No. of shares m	Value of shares $m
Analysis of contributed equity				
Ordinary shares issued and fully paid	682.2	2,505.5	676.0	2,462.4
Employee shares treated as Treasury shares	(1.0)	(9.6)	(1.4)	(14.6)
CPP deferred share purchases treated as Treasury shares	(1.2)	(14.4)	(2.0)	(22.3)
Total contributed equity	**680.0**	**2,481.5**	**672.6**	**2,425.5**
Movements in contributed equity				
Ordinary shares				
Balance at the beginning of the year	676.0	2,462.4	667.5	2,424.7
Equity placement	—	—	8.1	34.8
Issued under dividend reinvestment plan	2.4	15.1	0.4	2.9
Issued under Capital Notes 1 conversion[1]	3.8	28.0	—	—
Balance at the end of the year	**682.2**	**2,505.5**	**676.0**	**2,462.4**
CPP Trust				
Balance at the beginning of the year	1.4	14.6	2.4	24.8
Shares purchased (including settled forwards)	0.8	7.9	—	—
Vested shares released to employees	(1.2)	(12.9)	(1.0)	(10.2)
Balance at the end of the year	**1.0**	**9.6**	**1.4**	**14.6**
CPP share purchases				
Balance at the beginning of the year	2.0	22.3	2.0	22.3
Settled forward purchases	(0.8)	(7.9)	—	—
Balance at the end of the year	**1.2**	**14.4**	**2.0**	**22.3**

1. No physical transfer of cash. Amount differs to the $27.7 million of Capital Notes 1 repayment, due to noteholders receiving a premium on conversion to equity.

Accounting policy

Ordinary shares are classified as equity and have no par value. Issued capital in respect of ordinary shares is recognised as the fair value of the consideration received by the parent entity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares are ordinary shares in the Company held by the Challenger Performance Plan (CPP) Trust or under CPP deferred share purchase agreements in respect of equity incentive plan awards to employees. Refer to Note 30 Employee entitlements for further details.

Components of contributed equity

Ordinary shares

A holder of an ordinary share is entitled to receive dividends and to one vote on a show of hands and on a poll.

Employee shares treated as Treasury shares

Restricted Shares (RS)

A Restricted Share is a beneficial interest in a fully-paid ordinary Challenger share. RS provide an entitlement to vote and a right to dividends, however legal ownership of these shares still resides with Challenger, therefore RS are treated as Treasury shares for the basic EPS calculation. After the vesting period, legal ownership transfers to the employee and RS cease to be considered Treasury shares and are included in the dilutive EPS calculation.

Challenger Performance Plan (CPP) Trust

The CPP Trust is a controlled entity and holds shares in the Company. As a result, the CPP Trust's shareholding in the Company is disclosed as Treasury shares and deducted from equity. Dividends paid from the Company to the CPP Trust are eliminated on consolidation.

CPP deferred share purchases treated as Treasury shares

The shares purchased under forward agreements are treated as Treasury shares from the date of the agreement. Shares are transferred to the CPP Trust on the future settlement date.

Note 12 Contributed equity (continued)

Capital management

A company is generally limited in the risk-taking activities that it can engage in by the amount of capital it holds, with capital acting as a buffer against risk, ensuring that there are sufficient resources to enable the company to continue normal business in the event of an unexpected loss.

The prudentially-regulated Challenger Life Company Limited (CLC) manages capital via an Internal Capital Adequacy Assessment Process (ICAAP). Under the prudential standards, a life company must have in place an ICAAP, documented in an ICAAP Summary Statement. CLC complied with these requirements at all times during the period.

The objective of the ICAAP is to ensure that CLC maintains adequate capital in respect of the risks to which it is exposed so that it can fulfil its obligations to policy owners (in particular, the duty to give priority to the interests of owners and prospective owners of policies referable to a fund). The ICAAP also enables CLC to invest both strategically and tactically in opportunities that deliver a return on equity above the cost of capital for shareholders.

During the period, management enhanced the presentation of minimum capital requirements and capital base to encompass the addition of the new operating segment – Bank. For completeness, Funds Management and Corporate was also included, which has resulted in a Group-wide view of the capital position as detailed on the following page.

Other than the change above, there were no material changes to the Group’s capital management process during the period.

All of the Group’s regulated entities have at all times during the current and prior financial period complied with the externally imposed capital requirements to which they are subject.

Prescribed capital amount (PCA)

PCA refers specifically to CLC’s regulatory capital requirements.

CLC is regulated by APRA and is required to hold a minimum level of regulatory capital. CLC’s regulatory capital base and PCA have been calculated based on the prudential standards issued by APRA.

CLC’s target surplus

CLC maintains a target level of capital representing APRA’s PCA plus a target surplus. The target surplus is a management guide to the level of excess capital that CLC seeks to hold over and above APRA’s minimum requirements. CLC’s target surplus is set to ensure that it provides a buffer against adverse market conditions and having regard to CLC’s credit rating. CLC uses internal capital models to determine its target surplus, which are risk-based and are responsive to changes in CLC’s asset allocation and market conditions.

CLC’s internal capital models result in a target PCA ratio range under current circumstances of 1.3 to 1.7 times. This range can change over time and is dependent on numerous factors.

The PCA ratio at 30 June 2022 was 1.60 times (30 June 2021: 1.63 times), within this range of 1.3 to 1.7 times. The CET1 ratio was 1.11 times at 30 June 2022 down from 1.14 times at 30 June 2021.

Bank regulatory capital

The Bank is an authorised deposit-taking institution regulated by APRA under the authority of the ***Banking Act 1959***. APRA sets minimum regulatory capital requirements for banks based on the Basel Committee on Banking Supervision guidelines.

For the purposes of meeting capital adequacy as prescribed by APRA, certain items such as intangibles and deferred tax assets do not qualify as capital and are excluded from the calculation.

Regulatory capital is divided into Common Equity Tier 1 (CET1), Additional Tier 1 Capital and Tier 2 Capital. The Bank’s regulatory capital base at 30 June 2022 was $119.3m and represents CET1 regulatory capital and is in compliance with APRA’s minimum capital adequacy requirements. The capital adequacy ratio of 51.5% reflects this capital as a percentage of total risk weighted assets.

To manage its capital, management reviews its adequacy continuously and reports its capital position to the Executive Leadership Team and Asset and Liability Committee on a monthly basis.

Funds Management and Other capital

In addition to CLC's and the Bank’s excess regulatory capital, Challenger maintains cash and tangible assets within the Funds Management and Corporate legal entities. These assets can be used to meet regulatory capital requirements. Challenger also has a Corporate debt facility of $400.0 million in place, which provides additional financial flexibility. The facility was undrawn as at 30 June 2022 (30 June 2021: undrawn).

Capital as at 30 June 2022	CLC[1] $m	CBL[2] $m	Other[3] $m	Group $m
Regulatory capital base				
Shareholder equity[4]	3,270.7	119.3	598.3	3,988.3
Goodwill and other intangibles	(70.4)	—	(516.8)	(587.2)
Other adjustments[5]	(342.3)	—	96.0	(246.3)
Eligible regulatory debt	1,244.7	—	—	1,244.7
Total capital base	**4,102.7**	**119.3**	**177.5**	**4,399.5**
Minimum Regulatory Requirement[1,2]	2,563.3	24.3	38.1	2,625.7
Excess over Minimum Regulatory Requirement	**1,539.4**	**95.0**	**139.4**	**1,773.8**
Common Equity Tier 1 (CET1) regulatory capital	2,858.0	119.3	—	2,977.3
Additional Tier 1 capital	845.0	—	—	845.0
Total Tier 1 regulatory capital	**3,703.0**	**119.3**	**—**	**3,822.3**
Tier 2 capital[6]	399.7	—	—	399.7
Total capital base	**4,102.7**	**119.3**	**177.5**	**4,399.5**
CET1 capital ratio (times)[7]	1.11	4.91	—	—
Tier 1 capital ration (times)[8]	1.44	4.91	—	—
Minimum Regulatory Requirement ratio (times)[9]	1.60	4.91	4.66	1.68

1. Minimum Regulatory Requirement is equivalent to PCA for CLC.
2. Minimum Regulatory Requirement for Challenger Bank Limited 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***.
3. 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.
4. Balances differ to Note 3 Segment information as regulatory requirements are applicable to individual legal entities.
5. Other adjustments predominantly related to deferred tax asset and intercompany items.
6. Refers to subordinated debt for CLC.
7. CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
8. Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
9. Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

Credit ratings

Standard & Poor's long-term credit ratings for the Company and CLC at the Statement of financial position date are 'BBB+' (stable) and 'A' (stable) respectively (30 June 2021: 'BBB+' (stable) and 'A' (stable) respectively). There were no changes to either the Company's or CLC's ratings during the period.

Dividends

The Group has historically targeted a dividend payout ratio of between 45% - 50% of normalised profit after tax over the medium term, subject to prevailing market conditions and alternate uses of capital.

The dividend payout ratio for the year ended 30 June 2022 was 48.3% of normalised profit after tax (30 June 2021: 31.0%).

Dividend Reinvestment Plan (DRP)

The Company resumed the DRP for the 2021 final dividend, and on 22 September 2021 issued 2,109,802 ordinary shares to satisfy the plan. The DRP issue price per share for the 2021 final dividend was $6.4010 and represented the volume weighted average share price over the 10 trading days from 2 September 2021 to 15 September 2021. The final DRP participation rate was 19.0% of all issued shares.

The Group continued the DRP for the interim 2022 dividend, and on 22 March 2022 issued 257,086 ordinary shares to satisfy the plan. The DRP issue price per share for the interim 2022 dividend was $6.4972 and represented the volume weighted average share price over the 10 trading days from 1 March 2022 to 14 March 2022. The interim DRP participation rate was 2.1% of all issued shares.

Capital Notes 1 conversion

On 25 May 2022, Capital Notes 1 converted to ordinary shares, having satisfied the mandatory conversion conditions on that date. 3,822,281 shares were issued on conversion, at a total value of $28.0 million.

Note 13 Interest bearing financial liabilities

	30 June 2021 Facility $m	Opening balance $m	Cash flow repayments $m	Non-cash movements: Foreign exchange $m	Fair value changes $m	Other $m	30 June 2022 Closing balance $m	Facility $m
Bank loans								
Corporate[1]	400.0	—	—	—	—	—	—	400.0
Controlled property trusts[2,3]	394.9	392.3	(17.5)	(40.7)	0.8	1.0	335.9	334.0
Controlled infrastructure trusts[3]	179.3	179.3	(7.2)	—	—	0.2	172.3	172.3
Term funding[4]	—	—	—	—	—	5.4	5.4	5.4
Repurchase agreements	4,111.1	4,111.1	(341.2)	—	—	—	3,769.9	3,769.9
Total bank loans	**5,085.3**	**4,682.7**	**(365.9)**	**(40.7)**	**0.8**	**6.6**	**4,283.5**	**4,681.6**
Non-bank loans								
Subordinated debt	400.0	404.5	—	—	(6.1)	—	398.4	400.0
Challenger Capital Notes 1[3]	27.7	27.7	—	—	—	(27.7)	—	—
Challenger Capital Notes 2[3]	460.0	456.3	—	—	—	1.9	458.2	460.0
Challenger Capital Notes 3[3]	385.0	379.0	—	—	—	1.2	380.2	385.0
Loan notes – SPV	373.3	373.3	(110.6)	—	—	—	262.7	262.7
Total non-bank loans	**1,646.0**	**1,640.8**	**(110.6)**	**—**	**(6.1)**	**(24.6)**	**1,499.5**	**1,507.7**
Total interest bearing financial liabilities	**6,731.3**	**6,323.5**	**(476.5)**	**(40.7)**	**(5.3)**	**(18.0)**	**5,783.0**	**6,189.3**
Current		4,683.3					4,191.6	
Non-current		1,640.2					1,591.4	
		6,323.5					**5,783.0**	

1. No amounts were drawn from the facility in the period.
2. Total facility limit consists of non-redraw loan facilities limits totalling $334.0 million (30 June 2021: $394.9 million).
3. Held at amortised cost. The fair value of these are: Challenger Capital Notes 1 nil (30 June 2021: $27.8 million), Challenger Capital Notes 2 $460.7 million (30 June 2021: $480.8 million), and Challenger Capital Notes 3 $392.3 million (30 June 2021: nil); controlled property trusts $345.9 million (30 June 2021: $396.3 million); controlled infrastructure trusts $175.5 million (30 June 2021: $182.3 million).
4. Reserve Bank of Australia (RBA) Term Funding Facility made available to ADIs. Balance taken on as part of the Bank's acquisition. The Bank accessed its allowance to the facility in two tranches: in September 2020 with a repurchase date in September 2023 and in June 2021 with repurchase date in June 2024.

	30 June 2020 Facility $m	Opening balance $m	Cash flows proceeds/ (repayments) $m	Non-cash movements: Foreign exchange $m	Fair value changes $m	Other $m	30 June 2021 Closing balance $m	Facility $m
Bank loans								
Corporate[1]	400.0	50.0	(50.0)	—	—	—	—	400.0
Controlled property trusts[2,3]	453.8	453.8	(17.5)	(45.9)	0.5	1.4	392.3	394.9
Controlled infrastructure trusts[3]	185.8	185.8	(6.5)	—	—	—	179.3	179.3
Repurchase agreements	5,393.4	5,393.4	(1,282.3)	—	—	—	4,111.1	4,111.1
Total bank loans	**6,433.0**	**6,083.0**	**(1,356.3)**	**(45.9)**	**0.5**	**1.4**	**4,682.7**	**5,085.3**
Non-bank loans								
Subordinated debt	400.0	395.7	—	—	8.8	—	404.5	400.0
Challenger Capital Notes 1[3]	345.0	345.0	(317.3)	—	—	—	27.7	27.7
Challenger Capital Notes 2[3]	460.0	454.5	—	—	—	1.8	456.3	460.0
Challenger Capital Notes 3	—	—	385.0			(6.0)	379.0	385.0
Loan notes – SPV	460.7	460.7	(87.4)	—	—	—	373.3	373.3
Total non-bank loans	**1,665.7**	**1,655.9**	**(19.7)**	**—**	**8.8**	**(4.2)**	**1,640.8**	**1,646.0**
Total interest bearing financial liabilities	**8,098.7**	**7,738.9**	**(1,376.0)**	**(45.9)**	**9.3**	**(2.8)**	**6,323.5**	**6,731.3**
Current		6,413.5					4,683.3	
Non-current		1,325.4					1,640.2	
		7,738.9					**6,323.5**	

1. In March 2020, the Group elected to fully draw its $400.0 million banking facility in order to provide additional financial flexibility during the COVID-19 crisis. $350.0 million of this drawing was repaid in June 2020. The remaining $50.0m was repaid during the year ending 30 June 2021.
2. Total facility limit consists of non-redraw loan facilities limits totalling $394.9 million (30 June 2020: $453.8 million).
3. Held at amortised cost except for the controlled property trust loan in respect of County Court. The fair value of these are: Challenger Capital Notes 1 $27.8 million (30 June 2020: $340.9 million), Challenger Capital Notes 2 $480.8 million (30 June 2020: $457.7), and Challenger Capital Notes 3 $407.9 million (30 June 2020: nil); controlled property trusts $396.3 million (30 June 2020: $474.9 million); controlled infrastructure trusts $182.3 million (30 June 2020: $189.8 million).

Accounting policy

All borrowings and subordinated debt are financial liabilities and are initially recognised at fair value. For those financial liabilities which require subsequent measurement at fair value through profit or loss, directly attributable transaction costs are expensed with movements on fair value recognised in the Statement of comprehensive income.

Financial liabilities, other than those held by CLC's statutory funds or their controlled entities, are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of comprehensive income over the period of the contract using the effective interest rate method.

Repurchase agreements are all short-term in nature, and are therefore valued at amortised cost which approximates fair value.

Details of liabilities

Bank loans	Type	Maturity	Rate type	Ranking/security
Corporate	Facility	Tranche 1: $150m expiring on 31 December 2024 Tranche 2: $250m expiring on 31 December 2026	Variable	Security by guarantees between members of the Group
Controlled property trusts[1]	Loan	March 2023 to October 2024	Variable	First ranking mortgages over Japanese investment properties: $335.8 million (30 June 2021: $378.6 million) First ranking mortgages over Gateway, NT $0.1 million (30 June 2021: $0.1 million) First ranking mortgage over County Court, VIC: Nil (30 June 2021: $13.7 million)
Controlled infrastructure trusts[2]	Facility	December 2035	Variable	First ranking mortgages over infrastructure assets
Term funding	Facility	Tranche 1: $3.1m expiring September 2023 Tranche 2: $2.3m expiring June 2024	Fixed	Security by sufficient repo-eligible high quality liquid assets

1. Controlled property trusts consists of multiple loans with maturity dates from March 2023 to October 2024. At 30 June 2022 $334.0 million (30 June 2021: $378.5 million) of these loans are held at amortised cost. The fair value of these liabilities at 30 June 2022 was $345.9 million (30 June 2021: $396.3 million).
2. Controlled infrastructure trusts relates to a loan facility for Oaklands Wind Farm and was refinanced during the year. This loan is held at amortised cost. The fair value of this liability at 30 June 2022 is $175.5 million (30 June 2021: $182.3 million).

Repurchase agreements

CLC has entered into repurchase agreements with certain counterparties 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. These agreements are finance bonds held for hedging purposes and are interest bearing, with interest factored into the price at which the bonds are repurchased and paid on repurchase. All agreements as at 30 June 2022 are current and all mature by July 2022. They will continue to be rolled into new agreements in the future.

CLC uses Australian Government and Semi-Government Bonds with repurchase agreements, interest rate swaps and bond futures to hedge movements in interest rates on its asset portfolio, annuity policy liabilities, Guaranteed Index Return mandates and the Challenger Index Plus Fund.

The Bank has entered into repurchase agreements with the RBA 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.

Non-bank loans

Subordinated debt

CLC issued subordinated notes of $400.0 million on 24 November 2017 with a call date on 24 November 2022. Holders of the subordinated notes have the option to convert their holding into ordinary shares of Challenger Limited on 24 November 2024 if CLC has not exercised its call option on 24 November 2022. If holders do not elect to convert the subordinated notes to ordinary shares of Challenger Limited, the subordinated notes will be fully eligible as Tier 2 regulatory capital of CLC until 24 November 2038.

Challenger Capital Notes – 1, 2 and 3 (Notes 1, Notes 2 and Notes 3)

On 19 May 2021, the Group completed the repurchase offering of outstanding Challenger Capital Notes 1 with $19.7 million of applications received leaving $27.7 million of Notes 1 holdings outstanding as at 30 June 2021. The remaining Capital Notes 1 converted to ordinary shares on 25 May 2022, having satisfied the mandatory conversion conditions on that date. The mandatory conversion conditions and associated conversion calculations are designed to ensure the Capital Note 1 holders receive approximately $101 worth of ordinary shares for each $100 Capital Note 1 they hold, based on the 20 day volume weighted average price of ordinary shares (VWAP) immediately preceding 25 May 2022. Upon conversion Challenger derecognised the interest-bearing liability at the current carrying value and recognised the full amount in share capital. The premium paid to note holders was recognised in the Statement of comprehensive income.

Note 13 Interest bearing financial liabilities (continued)

Details of liabilities

Challenger Capital Notes – 1, 2 and 3 (Notes 1, Notes 2 and Notes 3) (continued)

The remaining Notes 2 and 3 have similar structural characteristics including:

- quarterly, floating, discretionary, non-cumulative distributions based on a margin over 3 month BBSW;
- optional exchange whereby notes may be redeemed or resold for cash or converted to ordinary shares in the Company, at the Company's option, on the relevant Optional Exchange Date (or on an earlier date in certain circumstances), subject to APRA's prior written approval; and
- mandatory conversion to ordinary shares in the Company on the relevant Mandatory Conversion Date, subject to certain conditions being satisfied. If the conditions to mandatory conversion are not met on the relevant Mandatory Conversion Date, conversion will be deferred to a later date when the conditions are retested.

The costs associated with the issue of Notes 2 and 3 have been capitalised against the relevant liability and are being recognised in the Statement of comprehensive income over the life of the notes.

	Notes 1	Notes 2	Notes 3
Issue date	9 October 2014	7 April 2017	25 November 2020
Issue amount	\$345.0 million	\$460.0 million	\$385.0 million
Outstanding amount	Nil	\$460.0 million	\$385.0 million
Optional Exchange	25 May 2020	22 May 2023	22 May 2026
Mandatory Conversion[1]	25 May 2022	22 May 2025	22 May 2028

1. Conversion to a variable number of shares.

SPV loan notes

SPV interest bearing liabilities are initially recognised at fair value calculated net of directly attributable transaction costs, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of comprehensive income over the period of the contract using the effective interest rate method.

Key estimates and assumptions

Subordinated debt valuation

Subordinated debt is recognised at fair value and is valued by reference to market observable inputs at balance date.

The change recognised in the Statement of comprehensive income in respect of valuation changes for the year ended 30 June 2022 was a gain of \$6.1 million (30 June 2021: loss of \$8.8 million).

Note 14 Deposits from customers

Deposits from customers	30 June 2022 \$m	30 June 2021[1] \$m
At call	64.5	—
Term deposits	163.2	—
Total deposits from customers	**227.7**	**—**

Maturity analysis	30 June 2022 \$m	30 June 2021[1] \$m
At call	64.5	—
Up to 3 months (excluding at call)	51.4	—
From 3 to 6 months	32.2	—
From 6 to 12 months	67.9	—
From 1 to 5 years	11.7	—
Total deposits from customers	**227.7**	**—**

1. No deposits from customers existed prior to the acquisition of the Bank on 30 July 2021.

Accounting policy

All deposits from customers are initially recognised at the fair value of the amount received, adjusted for any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are classified and measured at amortised cost unless they are held for trading and designated by the entity as being at fair value through profit and loss (FVTPL).

Deposits from customers are held at amortised cost as they are not held for trading nor designated as being FVTPL.

Interest expense incurred is recognised in the Statement of comprehensive income on an accrual basis.

Note 15 Reserves and retained earnings

	30 June 2022 $m	30 June 2021 $m
Share-based payments reserve		
Balance at the beginning of the year	(52.8)	(56.2)
Share-based payments for the year	13.0	11.5
Releases from share-based payments reserve	(12.9)	(10.2)
Tax in equity	0.9	2.1
Balance at the end of the year	**(51.8)**	**(52.8)**
Cash flow hedge reserve – loan assets[1]		
Balance at the beginning of the year	(0.4)	0.1
Gain/(loss) on cash flow hedges	0.4	(0.5)
Balance at the end of the year	**—**	**(0.4)**
Foreign currency translation reserve[1]		
Balance at the beginning of the year	(3.4)	(0.5)
Loss on translation of foreign entities[2]	(20.6)	(49.7)
Gain on hedge of net investment in foreign entities[2]	20.8	46.8
Balance at the end of the year	**(3.2)**	**(3.4)**
Adjusted controlling interests reserve[1]		
Balance at the beginning of the year	5.7	5.7
Balance at the end of the year	**5.7**	**5.7**
Total reserves	**(49.3)**	**(50.9)**
Retained earnings		
Balance at the beginning of the year	1,451.2	922.9
Profit attributable to equity holders	253.7	592.3
Dividends paid	(148.8)	(64.0)
Total retained earnings	**1,556.1**	**1,451.2**

1. These items may eventually be recognised in the profit and loss section of the Statement of comprehensive income.
2. Net of tax.

Accounting policy

Share-based payments reserve

An expense is recognised over the vesting period of share-based payments granted to employees. This expense is based on the valuation of the equity benefits conferred at the grant date. When an instrument is granted, and an expense incurred, there is a corresponding increase in the share-based payments reserve directly in equity.

The total of this reserve is net of any gain or loss realised on the disposal of forfeited shares held within the schemes. On vesting of the award and delivery of shares to employees they are subsequently recognised as an increase in contributed equity and a reduction in share-based payment reserve at an average acquisition price, which may be higher or lower than the initial recognised valuation price.

Foreign currency translation reserve

This reserve is used to record foreign exchange differences arising from the translation of the foreign subsidiaries. It also includes the effective portion of fair value changes on foreign exchange derivative contracts designated as hedges of a net investment in a foreign entity.

Adjusted controlling interests reserve

This reserve relates to changes arising from movements in the ownership interests in entities already controlled by the Group. The difference between the fair value of the consideration paid/received for the change in holding and the change in the Group's share of the net assets of the entity is recorded in this reserve.

Cash flow hedge reserve – loan assets

This comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

Note 16 Finance costs

	30 June 2022 $m	30 June 2021 $m
Interest expense[1]	(377.5)	283.7
Interest expense – lease liabilities	2.8	3.0
Interest expense – loan notes - SPV	2.8	3.3
Interest expense – property trusts	4.3	5.3
Interest expense – Challenger Capital Notes 1, 2 and 3	31.3	28.4
Other finance costs	4.8	4.2
Total finance costs	**(331.5)**	**327.9**

1. Interest expense includes ($393.6 million) external unit holders' liabilities finance costs, representing the return to the external unit holders on assets held in the consolidated external unit holder liability investment trusts. The amount is a function of the performance of the underlying guaranteed index plus the agreed margin. The amount is an expense/(income) when the performance of the underlying guaranteed index plus the agreed margin is positive/(negative).

Accounting policy

Finance costs represent interest incurred on interest bearing financial liabilities (primarily external unit holders' liabilities return, repurchase agreements, the securitised residential mortgage-backed securities (RMBS) issued by the consolidated Special Purpose Vehicles (SPVs), subordinated debt, bank loans and other borrowings) and are recognised as an expense in the period in which they are incurred.

Finance costs that are directly attributable to the acquisition, construction or production of qualifying property assets (being assets that take a substantial period of time to develop for their intended use or sale) are capitalised as part of the cost of those assets. Revenue earned on the investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that the Group allocates general borrowed funds for the purpose of obtaining a qualifying property asset, the borrowing costs eligible for capitalisation are determined by applying a weighted average capitalisation rate to the expenditure on that asset.

Note 17 Dividends paid and proposed

	30 June 2022 $m	30 June 2021 $m
Dividends declared and paid during the year		
Final 30 June 2021 100% franked dividend: 10.5 cents (30 June 2020: nil)	70.8	—
Interim 30 June 2022 100% franked dividend: 11.5 cents (30 June 2021: 9.5 cents 100% franked dividend)	78.0	64.0
Total dividends paid	**148.8**	**64.0**
Dividend proposed (not recognised as a liability at 30 June 2022)		
Final 30 June 2022 dividend: 100% franked dividend: 11.5 cents (30 June 2021: 10.5 cents 100% franked dividend)	78.4	70.8

Refer to Note 12 Contributed equity for details of the dividend policy.

Dividend franking credits

Franking credits available to shareholders are $323.8 million (30 June 2021: $118.8 million), based on a tax rate of 30%. The amount is calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise after the end of the reporting period from the settlement of current liabilities for income tax and franking debits in respect of interest on Challenger Capital Notes 2 and 3. The impact of the proposed dividend will be to reduce the balance of the franking account by $33.6 million. All dividends are franked at a tax rate of 30%.

Note 18 Earnings per share

	30 June 2022 cents	30 June 2021 cents
Basic earnings per share	37.5	88.2
Diluted earnings per share	33.1	68.0
	$m	**$m**
Profit attributable to ordinary shareholders	253.7	592.3
Add back interest expense on Challenger Capital Notes 1, 2 and 3	28.3	26.1
Add back interest expense net of tax on CLC Subordinated Notes	6.3	6.0
Total earnings used in the calculation of diluted earnings per share	**288.3**	**624.4**
Number of shares	**Number**	**Number**
Weighted average of ordinary shares issued	678,145,134	675,201,946
Weighted average of Treasury shares	(2,362,878)	(3,550,972)
Weighted average ordinary shares for basic earnings per share	**675,782,256**	**671,650,974**
Adjusted for potential ordinary shares:		
Weighted average effect of Challenger Performance Plan	10,702,190	8,744,057
Weighted average effect of Challenger Capital Notes 1, 2 and 3[1]	126,293,826	178,254,426
Weighted average effect of CLC Subordinated Notes	58,337,603	59,070,235
Weighted average ordinary shares for diluted earnings per share	**871,115,875**	**917,719,692**

1. Capital Notes 1 have a dilutive effect only for the period up to 25 May 2022, the date of conversion to ordinary shares.

Accounting policy

Basic earnings per share is calculated by dividing the total profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. The number of ordinary shares outstanding is net of Treasury shares.

During the year, Capital Notes 1 converted to ordinary shares. Note holders received approximately $101 worth of ordinary shares for each $100 Capital Note 1 they held, based on the 20 day volume weighted average price of ordinary shares (VWAP) immediately preceding date of conversion. The conversion resulted in the issue of 3,822,281 ordinary shares.

The weighted average number of Treasury shares for the period was 2,362,878 (30 June 2021: 3,550,972).

Note 18 Earnings per share (continued)

Accounting policy (continued)

Accounting treatment of Capital Notes and subordinated debt

Challenger Capital Notes 2 and 3 and subordinated debt are an effective source of funding for Challenger.

Each of the Capital Notes 2 and 3 and subordinated debt have convertibility features which would result in these instruments converting to ordinary shares under certain circumstances, including APRA determining CLC to be non-viable.

With the exception of Challenger Notes 1 which converted to ordinary shares on 25 May 2022, it is Challenger's current intention to refinance each of the remaining instruments at their respective call dates, or prior to the Mandatory Conversion Date, and therefore conversion to ordinary shares is unlikely.

However, under AASB 133 ***Earnings per Share***, convertible debt is considered dilutive whenever the interest per potential ordinary share for each of these instruments is less than Challenger's basic EPS for the period. As such, a test is required at each reporting period to determine if they are included in the dilutive share count.

Diluted earnings per share is calculated by dividing the total adjusted profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of dilutive shares that may be converted under the terms of Challenger Capital Notes 2 and 3 (Notes), CLC Subordinated Notes and shares granted under the Challenger Performance Plan (CPP).

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:

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

The conversion factor on all Challenger's convertible debt is 99% of the weighted average Challenger share price over the last 20 days of trading (subject to a minimum VWAP floor) in each reporting period.

The profit attributable to ordinary shareholders is adjusted by $34.6 million interest on the Notes and CLC Subordinated Notes (30 June 2021: $32.1 million) for the diluted calculation when the Notes and CLC Subordinated Notes are considered dilutive.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

Section 5: Risk management

This section outlines how financial risk is managed within the Group and provides additional information about how the overall risk management program seeks to minimise potentially adverse financial effects associated with key financial risks. This section also provides disclosures on the fair values of assets and liabilities of the Group, the valuation techniques used in determining the fair value of those assets and liabilities, and the sensitivities of assets categorised as Level 3 instruments to reasonably possible changes in valuation assumptions.

Note 19 Financial risk management

Governance and risk management framework

The Group's activities expose it to a variety of financial risks, such as market risk (including currency risk, interest rate risk, inflation risk, equity price risk and credit spread risk), credit default risk and liquidity risk. The management of these risks is fundamental to the Group's business and to building shareholder value. The Board is responsible, in conjunction with senior management, for understanding the risks associated with the activities of the Group and implementing structures and policies to adequately monitor and manage those risks.

The Board has established the Group Risk Committee (GRC), the Life Risk Committee (LRC), the Bank Risk Committee (BRC), the Group Audit Committee (GAC), the Life Audit Committee (LAC) and the Bank Audit Committee (BAC) to assist in the discharge of certain responsibilities. In particular, the GRC assists the Board in setting the risk appetite and ensuring the Group has an effective risk management framework incorporating management, operational and financial controls.

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

The Group's Risk division has day-to-day responsibility for monitoring the implementation of the framework with oversight, analysis, monitoring and reporting of risks. The CRO provides regular reporting to the GRC and the Board.

The Group's principal financial instruments consist of cash and cash equivalents, receivables, investment assets at fair value through profit and loss and at amortised cost, payables, life contract liabilities, derivatives, loan assets, deposits from customers and other interest bearing financial liabilities.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instruments, are disclosed in Section 1: Basis of preparation and overarching significant accounting policies and are included in the relevant notes to the financial statements.

Market risk

Market risk is the risk that the fair value and/or future cash flows from a financial instrument will fluctuate as a result of changes in market factors. Market risk comprises (amongst others) interest rate risk (due to fluctuations in market interest rates), price risk (due to fluctuations in the fair value of equities and other alternatives or credit spreads) and currency risk (due to fluctuations in foreign currency exchange rates).

Interest rate risk

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

It is the Group's policy to minimise the impact of interest rate movements on debt servicing capacity, Group profitability, business requirements and company valuation. The amount of drawn net recourse corporate interest bearing liabilities, and their duration, is determined with reference to the annual budget and the most current forecasts. The Group's strategy is to have no interest rate hedges with a duration of greater than five years and targets average hedge duration of three years.

CLC's market risk policy is approved by the CLC Board and sets out the relevant risk limits for interest rate exposure. It is CLC's policy to minimise the impact of interest rate movements on its projected future cash flows. The management of the risks associated with life investment and life insurance contracts, including interest rate risk, is subject to the prudential requirements of the Life Act and APRA. This includes satisfying capital adequacy requirements, which in turn include consideration of how the interest rate sensitivity of assets and liabilities are matched.

For the SPV entities, the impact of a rising/falling bank bill swap rate (BBSW) results in an increase/decrease in the cost of funding and therefore on the profit of the trusts. This interest rate risk is mitigated by actively adjusting the interest rates charged to borrowers if a sustained adverse differential to the benchmark is evidenced. SPV entities are also exposed to the risks arising from borrowers fixing the rates on their mortgage. This interest rate risk is managed by using cash flow hedges to swap the fixed rate to a floating rate exposure at an amount equal to the notional value of the mortgages being fixed.

The Bank is exposed to interest rate risk in the banking book, that is, the exposure to risk as a result of interest rate changes on its fixed rate assets and liabilities and the mismatches between repricing dates of these assets and liabilities. The net interest rate margin risk on the banking book is measured and reported to the Board monthly, and any excess exposures are rectified through altering interest rates on available investment assets and term deposit liabilities. The Bank does not currently undertake derivatives as this 'on book' hedging strategy is considered adequate in addressing its interest rate exposure given the Bank's size and complexity.

Note 19 Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity

The Group's sensitivity to movements in interest rates in relation to the value of investment assets and liabilities is shown in the table below. It is assumed that the change happens at the Statement of financial position date and that there are concurrent movements in interest rates and parallel moves in the yield curve.

All material underlying exposures and related hedges are included in the analysis which includes investment properties with leases, where the future income stream is duration-hedged for interest rate movements. The impact on profit and equity is post-tax at a rate of 30%. The risks faced and methods used in the sensitivity analysis are the same as those applied in the comparative period. As shown below, 100 basis points (1%) movement in interest rates would have minimal impact on the Group's financial position:

	Change in variable	Profit/(loss) 30 June 2022 $m	Change in equity 30 June 2022 $m	Profit/(loss) 30 June 2021 $m	Change in equity 30 June 2021 $m
Non-loan exposure	+100bps	(3.6)	(3.6)	1.7	1.7
	-100bps	3.6	3.6	(1.7)	(1.7)
Loan exposure	+100bps	0.8	0.8	(0.2)	(0.2)
	-100bps	(0.8)	(0.8)	0.2	0.2
Total	**+100bps**	**(2.8)**	**(2.8)**	**1.5**	**1.5**
	-100bps	**2.8**	**2.8**	**(1.5)**	**(1.5)**

Interest Rate Benchmark Reform

Interbank Offered Rates (IBORs), including LIBOR and Euribor, are interest rate benchmarks which are commonly used to determine interest rates and payment obligations for a wide range of financial arrangements such as loans, bonds and derivatives.

During 2020 and 2021 a project team led by the Head of Derivatives was established to manage impacts of the interest rate benchmark reform, including overseeing the transition from IBORs to Alternative Reference Rates (ARRs).

As at 30 June 2022 the Group had no exposure to instruments referencing rates which had ceased publication. Contracts held by the Group that referenced LIBOR and other IBORs that have ceased publication have been transitioned to ARRs or closed out.

Given the progress of the transition noted above, there is a significant reduction in the remaining LIBOR transition effort and risks. The Group has a detailed plan in place for the remaining contracts, which are expected to transition prior to 30 June 2023.

Material inherent risks arising from transition of remaining USD LIBOR contracts include:

- financial risk: includes value transfers during transition to ARRs and basis risk from products and currencies moving at different times;
- legal risk: includes counterparty disputes over amendment terms; and
- operational risk: includes updates to infrastructure and processes that result in errors upon transition.

The interest rate benchmark reform including transition from LIBOR to ARRs has not resulted in changes to the Group's risk management strategy and these risks are managed within the existing risk management framework.

The AUD notional value of the Group's financial instruments which are yet to be transitioned to ARRs as at the reporting date are:

- derivatives: USD LIBOR exposure $16,818.7 million; and
- non-derivative financial assets: USD LIBOR exposure $1,569.7 million.

Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments. The Group is exposed to equity price risk on its holdings in equity securities, which include a range of investments in primarily low beta and absolute return strategies, where returns are generally considered to have low or no correlation to listed equity market returns, and credit spread risk on its fixed income securities.

The Group is required to fair value all equities and fixed income securities held to back life contract liabilities.

Equity risks will arise as a natural result of CLC's Asset Allocation Plan. Equity prices can be driven by a range of risk factors specific to an individual exposure including broad macroeconomic and instrument-specific factors that may be uncorrelated with broader equity markets. The Group's primary tools for managing investment price risks are CLC's Internal Capital Adequacy Assessment Process (ICAAP) and the Asset Allocation Plan.

Equity price risk sensitivity

The potential impact of movements in the market value of listed and unlisted equities on the Group's Statement of comprehensive income and Statement of financial position is shown in the sensitivity analysis. This sensitivity analysis has been performed to assess the direct risk of holding equity instruments; therefore, any potential indirect impact on fees from the Group's funds management business has been excluded.

The impact on profit and equity is post-tax at a rate of 30%. The risks faced and methods used in the sensitivity analysis are the same as those applied in the comparative period. As shown below, a 10% movement in equity prices would have a material impact on the consolidated Group's financial position. It is assumed that the relevant change occurs as at the Statement of financial position date.

Equities and other alternatives	Change in variable	Profit/(loss) 30 June 2022 $m	Change in equity 30 June 2022 $m	Profit/(loss) 30 June 2021 $m	Change in equity 30 June 2021 $m
Property securities	+10%	6.3	6.3	6.2	6.2
	-10%	(6.3)	(6.3)	(6.2)	(6.2)
Infrastructure investments	+10%	7.6	7.6	7.8	7.8
	-10%	(7.6)	(7.6)	(7.8)	(7.8)
Other equities and alternative assets	+10%	153.7	153.7	108.8	108.8
	-10%	(153.7)	(153.7)	(108.8)	(108.8)
Total assets	**+10%**	**167.6**	**167.6**	**122.8**	**122.8**
	-10%	**(167.6)**	**(167.6)**	**(122.8)**	**(122.8)**

Note 19 Financial risk management (continued)

Price risk (continued)

Credit spread risk sensitivity

The Group is exposed to price movements resulting from credit spread fluctuations through its fixed income securities (net of subordinated debt) and policy liabilities. As at 30 June 2022, a 50 basis point increase/decrease in credit spreads would result in a post-tax (at 30%) unrealised loss/gain in the Statement of comprehensive income and equity of $131.5 million in respect of fixed income securities partially offset by an unrealised gain/loss of $66.3 million million in respect of policy liabilities (30 June 2021: $146.9 million fixed income securities, $81.8 million policy liabilities).

Currency risk

It is the Group's policy to minimise the exposure of all Statement of financial position items to movements in foreign exchange rates other than instruments considered to be Tier 2 capital under regulatory standards. Currency exposure arises primarily as a result of investments in the Eurozone, Japan, the United Kingdom and the United States, so currency risk therefore arises from fluctuations in the value of the euro, Japanese yen, British pound and US dollar against the Australian dollar. In order to protect against foreign currency exchange rate movements, the Group has entered into foreign currency derivatives.

In addition, the Group has exposure to foreign exchange risk upon consolidation of its foreign currency denominated controlled entities and materially mitigates this by designating foreign currency derivatives as hedges of net investments in foreign entities in equity to match its foreign currency translation reserve exposure. Effectiveness is monitored on a regular basis to ensure that the hedge remains effective and any ineffective portion of the hedge is recognised directly in the Statement of comprehensive income.

The SPV entities hedge exposure to foreign currency risk arising from issuing mortgage-backed securities in foreign currencies. The currencies impacted are primarily the British pound, euro and US dollar. All derivatives in the SPV entities are designated as cash flow hedges. These hedges are effective and there is no material impact on the profit and loss.

The analysis in the currency risk table shows the impact on the Statement of comprehensive income and equity of a movement in the Group's major foreign currency exposure exchange rates against the Australian dollar using the net exposure at the balance date. All underlying exposures and related hedges are included in the analysis.

A sensitivity of 10% has continued to have been applied as it still reflects a reasonable measurement given the current level of exchange rates and the volatility observed. The impact on profit and equity is post-tax at a rate of 30%.

The risks faced and methods used in the sensitivity analysis are the same as those applied in the comparative period. As shown in the table on the following page, a 10% movement in foreign currency exchange rates would have minimal impact on the Group's financial position.

The following table details the Group's net exposure to foreign currency as at the reporting date in Australian dollar equivalent amounts:

	GBP $m	USD $m	Euro $m	JPY $m	Other $m
30 June 2022					
Investment assets	558.7	3,496.8	896.7	349.0	2.1
Investment liabilities	(2.9)	(1,544.0)	(6.5)	(0.1)	—
Foreign currency contracts and cross currency swaps	(557.1)	(1,965.2)	(900.1)	(345.6)	(1.6)
Net exposure in Australian dollars	**(1.3)**	**(12.4)**	**(9.9)**	**3.3**	**0.5**
30 June 2021					
Investment assets	765.7	1,999.1	1,164.7	387.2	574.6
Investment liabilities	(3.2)	(1,190.4)	(4.4)	0.1	—
Foreign currency contracts and cross currency swaps	(762.2)	(802.7)	(1,161.3)	(376.7)	(576.0)
Net exposure in Australian dollars	**0.3**	**6.0**	**(1.0)**	**10.6**	**(1.4)**

	Movement in variable against $	Profit/(loss) 30 June 2022 $m	Change in equity 30 June 2022 $m	Profit/(loss) 30 June 2021 $m	Change in equity 30 June 2021 $m
US Dollar (USD)	+10%	(0.8)	(0.8)	0.4	0.4
	-10%	0.8	0.8	(0.4)	(0.4)
Euro (EUR)	+10%	(0.7)	(0.7)	—	—
	-10%	0.7	0.7	—	—
Japanese Yen (JPY)	+10%	0.3	0.4	0.2	0.8
	-10%	(0.3)	(0.4)	(0.2)	(0.8)
Other	+10%	—	—	—	—
	-10%	—	—	—	—
Total	**+10%**	**(1.2)**	**(1.1)**	**0.6**	**1.2**
	-10%	**1.2**	**1.1**	**(0.6)**	**(1.2)**

Credit default risk

The Group makes use of external ratings agencies (Standard & Poor's, Fitch, Moody's or other reputable credit rating agencies) to determine credit ratings. Where a counterparty or debt obligation is rated by multiple external rating agencies, the Group will use Standard & Poor's ratings where available. All credit exposures with an external rating are also rated 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 risk originators.

Each business unit is responsible for managing credit risks that arise with oversight from a centralised credit risk management team.

Credit exposure by credit rating

The table below provides information regarding the maximum credit risk exposure of the Group in respect of the major classes of investment assets by equivalent credit rating. The maximum credit exposure is deemed to be the carrying value of the asset not including any collateral or other credit protection in place. The analysis classifies the assets according to internal or external credit ratings. Assets rated investment grade are those rated by Standard & Poor's at BBB– or above, with non-investment grade therefore being below BBB–.

	Investment grade				Non-inv.		
30 June 2022	**AAA $m**	**AA $m**	**A $m**	**BBB $m**	**grade $m**	**Other $m**	**Total $m**
Cash and cash equivalents	733.1	—	—	—	—	—	733.1
Receivables	33.3	483.8	5.2	18.2	52.8	54.2	647.5
Loan assets	180.8	54.7	139.2	71.5	16.5	89.0	551.7
Fixed income securities (held at fair value)	8,380.0	3,990.3	1,949.6	2,461.9	3,095.4	180.9	20,058.1
Fixed income securities (held at amortised cost)[1]	19.3	31.8	87.9	105.4	—	(0.4)	244.0
Derivative assets	—	556.4	20.8	—	—	—	577.2
Financial leases	—	—	4.1	4.8	10.8	—	19.7
Total assets with credit exposures	**9,346.5**	**5,117.0**	**2,206.8**	**2,661.8**	**3,175.5**	**323.7**	**22,831.3**
30 June 2021							
Cash and cash equivalents	989.4	—	—	—	—	—	989.4
Receivables	15.4	106.0	127.3	24.0	3.7	554.0	830.4
Loan assets	270.3	59.5	175.6	63.9	—	1.0	570.3
Fixed income securities (held at fair value)	9,162.3	3,559.8	1,984.7	3,023.4	2,427.1	239.6	20,396.9
Derivative assets	—	590.2	51.6	96.5	—	—	738.3
Financial leases	—	—	5.8	9.7	11.3	—	26.8
Total assets with credit exposures	**10,437.4**	**4,315.5**	**2,345.0**	**3,217.5**	**2,442.1**	**794.6**	**23,552.1**

1. Other relates to ECL provision in the Bank.

Note 19 Financial risk management (continued)

Credit default risk (continued)

Loan assets

Mortgage assets – SPV are funded via securitised residential mortgage-backed securities (RMBS). As a result, the Group is not exposed to significant credit risk on these assets as this is borne by the RMBS holder.

Collateral held over assets

In the event of a default against any of the mortgages in any SPV, the trustee has the legal right to take possession of the secured property and sell it as a recovery action against settlement of the outstanding account mortgage balance. At all times of possession, the risks and rewards associated with ownership of the property are held by the trustee on behalf of the RMBS holder.

Loan assets (Bank)

The credit risk on the Bank's loan assets is determined by the risk appetite of the Bank Board and responsibility for overseeing it is delegated to the Loans Committee. Credit risk provisioning is determined through the application of AASB 9 *Financial Instruments* and its requirements using the expected credit loss model. Refer to Note 7 Loan assets for further details on the recognition of expected credit losses.

Concentration risk

The credit risk framework includes an assessment of the counterparty credit risk in each business unit and at a total Group level. The Group has no significant concentrations of credit risk at the Statement of financial position date.

APRA prescribes prudential limits on exposure to an individual counterparty (or group of related parties) as a proportion of an ADI's Tier 1 regulatory capital - currently 10%. In the event that this is exceeded, a large exposure is considered to exist and APRA requires that the ADI must inform the regulator of these exposures through prudential reporting. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable. The Bank is not materially exposed to groupings of individual loans which concentrate risk and create exposure to particular segments.

Ageing/maturity of amortised cost investment assets

The table below gives information regarding the carrying value of the Group's investment assets measured at amortised cost. The analysis splits these assets by those that are not past due and those that are past due (including an ageing analysis at the Statement of financial position date):

		Past due				
Amortised cost investment assets	**Not past due $m**	**0-1 months $m**	**1-3 months $m**	**3-6 months $m**	**6+ months $m**	**Total $m**
30 June 2022						
Receivables	640.2	0.9	0.7	0.5	5.2	647.5
Fixed income securities (at amortised cost)	244.0	—	—	—	—	244.0
Loan assets[1]	487.6	20.1	14.1	3.3	26.6	551.7
Finance leases	19.7	—	—	—	—	19.7
Total amortised cost investment assets	**1,391.5**	**21.0**	**14.8**	**3.8**	**31.8**	**1,462.9**
30 June 2021						
Receivables	825.1	0.8	0.4	0.3	3.8	830.4
Loan assets[1]	487.3	23.8	14.4	36.4	8.4	570.3
Finance leases	26.8	—	—	—	—	26.8
Total amortised cost investment assets	**1,339.2**	**24.6**	**14.8**	**36.7**	**12.2**	**1,427.5**

1. Past due balances where the Group considers that principal and interest plus any associated costs will be recovered in full.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. This may result from the inability to sell investment assets at their fair values; a counterparty failing on repayment of a contractual obligation; the inability to generate cash inflows as anticipated; or an unexpected increase in cash outflows.

The Group 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 sufficient liquidity, the Group considers new business activities in addition to current contracted obligations. It considers: minimum cash requirements; collateral and margin call buffers; APRA and Australian Financial Services Licence (AFSL) requirements; cash flow forecasts; associated reporting requirements; other liquidity risks; and contingency plans.

The basis of the approach to liquidity management is to target sufficient liquidity to meet all cash requirements of the Group over an ensuing 12 month period which ensures that the regulatory guidelines set out in ASIC Regulatory Guide 166 *Licensing: Financial requirements* for holders of an AFSL are met.

Life

The Life liquidity management policy is approved by the CLC Board and sets out liquidity targets and mandated actions depending on actual liquidity levels relative to those targets. Detailed forecast cash positions are reported regularly to the Financial Risk Committee (FRC). The IC is a committee of investment professionals from within CLC and represents the first line of defence. The FRC is a committee of professionals mainly from the Risk division that is separate from the investment team of CLC. The FRC represents the second line of defence for CLC and CBL. At the reporting date, all requirements of the CLC Board-approved liquidity management policy were satisfied.

Maturity profile of undiscounted financial liabilities

The table on the following page summarises the maturity profile of the Group's undiscounted financial liabilities. This is based on contractual undiscounted repayment obligations. Totals differ to the amounts in the Statement of financial position by the amount of time value of money discounting reflected in the Statement of financial position values.

Bank

The Bank has separate policies and processes to manage liquidity risks. The policy is approved by the Bank Risk Committee and is subject to APRA's review for compliance with Prudential standards.The Bank's policy is to maintain adequate cash reserves, liquidity support facilities and reserve borrowing facilities in order to meet customer withdrawal demands when requested. Prudential liquidity ratios are monitored regularly, daily cashflows and longer term cashflow forecasts are reviewed continuously and contingency funding plans are in place to address liquidity shortfalls.

Maturing profile of undiscounted financial liabilities	1 year or less $m	1-3 years $m	3-5 years $m	>5 years $m	Total $m
30 June 2022					
Payables	699.9	5.1	21.2	—	726.2
Interest bearing financial liabilities	4,522.8	1,016.6	526.8	221.4	6,287.6
Deposits from customers	216.0	11.7	—	—	227.7
External unit holders' liabilities	4,072.8	313.6	—	—	4,386.4
Life investment contract liabilities	4,248.7	2,043.1	357.7	280.6	6,930.1
Life insurance contract liabilities[1]	1,036.9	1,664.1	1,255.3	4,551.3	8,507.6
Derivative liabilities	160.8	152.8	205.6	320.4	839.6
Total undiscounted financial liabilities[1]	**14,957.9**	**5,207.0**	**2,366.6**	**5,373.7**	**27,905.2**
30 June 2021					
Payables	1,711.6	5.1	27.4	—	1,744.1
Interest bearing financial liabilities	4,553.5	1,183.1	855.5	134.1	6,726.2
External unit holders' liabilities	3,090.1	542.1	—	—	3,632.2
Life investment contract liabilities	3,100.5	2,464.8	418.9	372.2	6,356.4
Life insurance contract liabilities[1]	863.9	1,465.8	1,158.7	4,817.7	8,306.1
Derivative liabilities	130.1	58.3	96.4	222.8	507.6
Total undiscounted financial liabilities[1]	**13,449.7**	**5,719.2**	**2,556.9**	**5,546.8**	**27,272.6**

1. Disclosure of life insurance contract liabilities is not required under AASB 7 ***Financial Risk Management***, however for reference purposes these have been included. Refer to Note 8 Life contract liabilities for further details.

Note 20 Fair values of investment assets and liabilities

Fair value determination and classification

Fair value reflects the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The majority of the Group's financial instruments are held in the life insurance statutory funds of CLC and, as a result, are required by AASB 1038 ***Life Insurance Contracts*** to be designated at fair value through profit and loss where this is permitted under AASB 9 ***Financial Instruments.***

Financial instruments measured at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level that is significant to the fair value measurement. The three levels are set out below.

Level 1	Unadjusted quoted prices in active markets are the valuation inputs for identical assets or liabilities (i.e. listed securities).
Level 2	Valuation inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) are used.
Level 3	There are valuation inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The unobservable inputs into the valuation of the Group's Level 3 assets and liabilities are determined based on the best information available, including the Group's own assessment of the assumptions that market participants would use in pricing the asset or liability. Examples of unobservable inputs are estimates about the timing and amount of cash flows, discount rates, earnings multiples and internal credit ratings.

Valuation techniques

The majority of the Group's listed and unlisted fixed income securities, over-the-counter derivative financial instruments and interest bearing liabilities including the subordinated debt issuance are classified as Level 2. This recognises the availability of a quoted price but not from an active market as defined by the accounting standard.

Fixed income securities where market observable inputs are not available are classified as Level 3. The Group's derivative financial instruments are traded over-the-counter so, while they are not exchange traded, there is a market observable price. Most of the fixed income securities and all of the government/semi-government securities have market observable prices.

Externally rated unlisted fixed income securities are valued by applying market observable credit spreads on similar assets with an equivalent credit rating and are classified as Level 2. Internally-rated fixed income securities are classified as Level 3 as the determination of an equivalent credit rating is a significant non-observable input.

Equity, infrastructure and property securities that are exchange traded are generally classified as Level 1. Where quoted prices are available, but are not from an active market, they are classified as Level 2. If market observable inputs are not available, they are classified as Level 3. Valuations can make use of cash flow forecasts discounted using the applicable yield curve, earnings-multiple valuations or, for managed funds, the net assets of the trust per the most recent financial report.

External unit holders' liabilities are valued at the face value of the amounts payable, being an approximation of fair value, and classified as Level 2. The portion of life investment contract liabilities classified as Level 2 represents products or product options for which the liability is determined based on an account balance, rather than a discounted cash flow as applied to the rest of the portfolio. Cash and cash equivalents are carried at amortised cost. Where an asset is liquid or maturing within three months, the carrying value is determined to approximate fair value. This assumption is applied to liquid assets and other short-term investment assets and liabilities.

The mortgage SPVs have total equity attributable to residual income unitholders (RIU) at amortised cost of nil (2021: ($0.4) million), being net of $0.1m assets and $0.1m liabilities, relates to interest rate swaps and cross currency swaps. The fair value of this RIU holders' asset is $21.2 million (2021: $31.3 million) and would be classified as Level 3 in the fair value hierarchy.

The Bank's fixed income investments are held at amortised cost. Their fair values are materially in line with their amortised cost values due to the short duration of these investments. These assets would be classified as Level 2 in the fair value hierarchy table.

Challenger Capital Notes 2 and 3 have carrying values (inclusive of unamortised issue costs) of $458.2 million and $380.2 million respectively. The fair value of these notes is $460.7 million and $392.3 million respectively and they are classified as Level 1 in the fair value hierarchy.

Valuation process

For financial instruments and investment properties categorised within Level 3 of the fair value hierarchy, the valuation process applied in valuing such instruments is governed by the CLC Practice Note on Investment Asset and Financial Liability Valuation. The Practice Note outlines the Valuation Committee's responsibilities in the valuation of investment assets and financial liabilities for the purposes of financial reporting. All significant Level 3 financial instruments are referred to the Valuation Committee which generally meets monthly, or more frequently if required.

All financial instruments and investment properties carried at fair value are measured on a recurring basis. Refer Note 5 Investment assets and Note 6 Investment and development property for further details on the valuation process applied to unlisted financial instruments and investment properties.

The table on the following page summarises the financial instruments and investment properties measured at fair value at each level of the fair value hierarchy as at the Statement of financial position date.

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
30 June 2022				
Derivative assets	—	577.3	—	577.3
Fixed income securities[1]	—	18,147.4	1,910.8	20,058.2
Equity and other alternatives	0.9	1,401.8	165.6	1,568.3
Infrastructure investments[1]	—	0.1	300.7	300.8
Hedged commodities	544.5	—	—	544.5
Property securities	—	—	90.2	90.2
Investment and development property[2]	—	—	3,483.3	3,483.3
Total assets	**545.4**	**20,126.6**	**5,950.6**	**26,622.6**
Derivative liabilities	2.3	837.4	—	839.7
Interest bearing financial liabilities	853.0	398.4	—	1,251.4
External unit holders' liabilities	—	4,386.4	—	4,386.4
Life investment contract liabilities	—	40.6	6,707.8	6,748.4
Total liabilities	**855.3**	**5,662.8**	**6,707.8**	**13,225.9**
30 June 2021				
Derivative assets	—	738.3	—	738.3
Fixed income securities	—	18,522.1	1,874.8	20,396.9
Equity and other alternatives	1.2	1,188.2	155.0	1,344.4
Infrastructure investments[1]	—	—	345.4	345.4
Property securities	—	—	88.0	88.0
Investment and development property[2]	—	396.0	3,389.7	3,785.7
Total assets	**1.2**	**20,844.6**	**5,852.9**	**26,698.7**
Derivative liabilities	0.8	506.8	—	507.6
Interest bearing financial liabilities	916.5	418.2	—	1,334.7
External unit holders' liabilities	—	3,632.2	—	3,632.2
Life investment contract liabilities	—	47.2	6,183.2	6,230.4
Total liabilities	**917.3**	**4,604.4**	**6,183.2**	**11,704.9**

1. The Group has exposures to structured entities (entities designed so that voting or similar rights are not the dominant factor in determining who controls the entity; for example, when any voting rights relate purely to administrative tasks) via investments in asset-backed finance vehicles (where it may act as a lender or purchaser of notes and/or residual income units) and securitisations (such as mortgages, finance leases and other types of collateralised vehicles). The Company assesses, at inception and at each reporting date, whether a structured entity should be consolidated based on the accounting policy. The maximum exposure to loss is limited to the reported fair value of the underlying securities plus any guaranteed undrawn commitments to the counterparties. At 30 June 2022 the carrying value of asset-backed financing assets was $37.1 million (30 June 2021: $76.7 million) with no undrawn commitments (30 June 2021: $56.4 million) and securitisations was $9,260.3 million (30 June 2021: $4,517.9 million) plus $59.1 million undrawn commitments (30 June 2021: $20.4 million).
2. Refer Note 6 Investment and development property for valuation techniques and key unobservable inputs.

Level 3 reconciliation

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within Level 3 of the fair value hierarchy during the year:

	30 June 2022		30 June 2021	
	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Balance at the beginning of the year	5,852.9	6,183.2	6,315.9	5,817.9
Fair value movements	(69.4)	(127.3)	(54.7)	95.2
Acquisitions	2,391.5	4,016.5	1,688.0	3,208.7
Maturities and disposals	(2,226.1)	(3,364.6)	(1,688.5)	(2,938.6)
Transfers to other categories[1,2]	1.7	—	(407.8)	—
Balance at the end of the year	**5,950.6**	**6,707.8**	**5,852.9**	**6,183.2**
Unrealised (losses)/gains included in the Statement of comprehensive income for assets and liabilities held at the Statement of financial position date	(69.4)	127.3	(54.7)	(95.2)

1. The Group transfers between levels of the fair value hierarchy when there is a change in the observability of the pricing inputs or a change to valuation methodology.
2. Transfers to/from other categories are due to changes in the market observability of inputs used in the valuation of financial instruments. There were no transfers between Level 1 and Level 2 during the reporting period. There was $49.1 million (30 June 2021: Nil) of transfers into level 3 from level 2 and $47.4 million of transfers out of level 3 into level 2 during the reporting period (30 June 2021: $407.8 million of transfers out of Level 3 and into Level 2).

Note 20 Fair values of investment assets and liabilities (continued)

Level 3 sensitivities

The following table shows the sensitivity of Level 3 financial instruments to a reasonably possible change in alternative assumptions in respect of the non-observable inputs into the fair value calculation:

	Level 3 value[1] $m	Positive impact $m	Negative impact $m	Valuation technique	Reasonably possible change in non-observable input[2,3,4]
30 June 2022					
Fixed income securities	1,910.8	12.5	(14.3)	Discounted cash flow	Primarily credit spreads
Equity and other alternatives	165.6	12.2	(13.5)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	300.7	4.3	(4.2)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	90.2	4.5	(4.5)	External financial report	5% change in valuation
Investment contract liabilities	(6,707.8)	2.6	(2.6)	Discounted cash flow	Primarily expense assumptions
Investment and development property	3,483.3	164.8	(129.4)	Market capitalisation, Discounted cash flow	Primarily capitalisation rate
Total Level 3	**(757.2)**				
30 June 2021					
Fixed income securities	1,874.8	13.5	(54.0)	Discounted cash flow	Primarily credit spreads
Equity and other alternatives	155.0	12.0	(13.0)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	345.4	4.3	(4.2)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	88.0	4.4	(4.4)	External financial report	5% change in valuation
Investment contract liabilities	(6,183.2)	2.4	(2.4)	Discounted cash flow	Primarily expense assumptions
Investment and development property	3,389.7	152.3	(124.9)	Market capitalisation, Discounted cash flow	Primarily capitalisation rate
Total Level 3	**(330.3)**				

1. The fair value of the asset or liability would increase/decrease if the credit spread or discount rate decreases/increases or if expense assumptions and the other inputs increase/decrease.
2. Specific asset valuations will vary from asset to asset as each individual industry profile will determine appropriate valuation inputs to be utilised.
3. The effect of a change to reflect a reasonably possible alternative assumption was calculated by moving the credit band by one tier, adjusting the discount rates by between 50bps – 100bps, adjusting property capitalisation rates by 25bps (Australia) or 10bps (Japan), adjusting credit spreads by 50bps, changing the valuation of the unlisted schemes by 5% and adjusting the expense assumption allocation splits by 10%.
4. The changes in non-observable inputs at 30 June 2022 are unchanged from 30 June 2021.

Note 21 Collateral arrangements

Accounting policy

CLC receives collateral, where it is considered necessary, when entering into certain financial arrangements. The amount of collateral required is subject to management's credit evaluation of the counterparty which is performed on a case-by-case basis. As at 30 June 2022 $85.9 million (30 June 2021: $264.5 million cash received from third parties - derivative credit support payables) cash received from third parties as collateral is recorded in payables and $115.4 million (30 June 2021: $74.6 million rehypothecated securities - collateral assets repledged) of collateral assets received from counterparties was repledged by the Company to third parties.

Except in the event of default, collateral received can be called back by the counterparty in accordance with the financial arrangement. CLC is required to pledge collateral, as part of the standard terms of transactions, when entering into certain financial arrangements. Cash paid to third parties as collateral is recorded in receivables. Other investment assets transferred as collateral are not derecognised from the Statement of financial position as the risks and rewards of ownership remain with CLC. At the balance sheet date the fair value of cash and investment assets pledged are as follows:

Collateral pledged as security	30 June 2022 $m	30 June 2021 $m
Cash	483.8	269.9
Other investment assets[1]	6,309.2	6,675.5
Total collateral pledged	**6,793.0**	**6,945.4**

1. Includes assets sold under repurchase agreements. Please refer Note 13 Interest bearing financial liabilities for more information.

Section 6: Group structure

This section provides details and disclosures relating to the parent entity of the Group, controlled entities, investments in associates and any acquisitions and/or disposals of businesses in the year. Disclosure for related parties is also provided in this section.

Note 22 Parent entity

Company	30 June 2022 $m	30 June 2021 $m
Statement of comprehensive income for the year ended		
Dividends and interest from controlled entities	288.7	244.3
Finance costs	(31.6)	(28.5)
Profit before income tax	257.1	215.8
Income tax benefit	0.9	0.6
Total comprehensive income for the year	**258.0**	**216.4**
Statement of financial position as at		
Assets		
Cash and cash equivalents	2.9	2.9
Receivables	1,749.8	1,594.5
Investment asset – fixed income securities[1]	845.0	872.5
Deferred tax assets	4.8	1.3
Investment in controlled entities	2,457.2	2,416.6
Total assets	**5,059.7**	**4,887.8**
Liabilities		
Payables	567.6	544.1
Current tax liabilities	65.8	45.0
Interest bearing financial liabilities	838.6	863.3
Total liabilities	**1,472.0**	**1,452.4**
Net assets	**3,587.7**	**3,435.4**
Equity		
Contributed equity	2,505.6	2,462.4
Share-based payments reserve	(108.8)	(109.0)
Retained earnings	1,190.9	1,082.0
Total equity	**3,587.7**	**3,435.4**

1. Investment asset – fixed income securities relates to the subscription by the Company of notes issued by CLC that qualify as Additional Tier 1 capital of CLC.

Refer Note 29 Contingent liabilities, contingent assets and credit commitments for details of any contingent liabilities applicable to the parent entity.

Note 23 Controlled entities

The table below presents the hierarchical structure of Challenger Limited showing its controlled entities that form the main composition of the Group as at 30 June 2022:

Entity name	Principal activity
Challenger Limited	
Challenger Group Holdings Limited	Corporate
Challenger Group Services Pty Ltd	Corporate
Challenger Treasury Limited	Corporate
Challenger Japan Holdings Pty Limited	Corporate
Challenger Funds Management Holdings Pty Limited	Funds Management
Fidante Partners Holdings Pty Limited	Funds Management
Fidante Partners Holdings Europe Limited (incorporated in the UK)	Funds Management
Challenger Investment Partners Limited	Funds Management
Challenger Life Company Holdings Limited	Life
Challenger Life Company Limited	Life
Challenger HoldCo2 Holdings Pty Ltd	Banking
Challenger Bank Limited (formerly "MyLifeMyFinance Limited")	Banking

Challenger's percentage holding of the above entities is 100% and all are incorporated in Australia unless otherwise stated.

Accounting policy

Controlled entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The acquisition method of accounting is applied on acquisition or initial consolidation. This method ascribes fair values to the identifiable assets and liabilities acquired. The difference between the net fair value acquired and the fair value of the consideration paid (including the fair value of any pre-existing investment in the entity) is recognised as either goodwill on the Statement of financial position or a discount on acquisition through the Statement of comprehensive income.

Principles of consolidation

The financial statements consolidate the financial information of controlled entities. An entity is controlled when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Statement of financial position date and the accounting policies of controlled entities are consistent with those of the Company. The Company assesses, at inception and at each reporting date, whether an entity should be consolidated based on the accounting policy.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full. Non-controlling interests, where they exist, represent the share in the net assets of subsidiaries attributable to equity interests not owned directly or indirectly by the Group.

Note 24 Acquisitions and disposals of subsidiaries

Acquisition of Challenger Bank (formerly MyLife MyFinance)

On 23 December 2020, Challenger Limited entered into an agreement to acquire 100% of the equity of MyLifeMyFinance Limited (subsequently rebranded to Challenger Bank Limited), a small ADI providing a suite of savings and lending products. The acquisition received formal approval from the Treasurer of the Commonwealth of Australia on 29 July 2021, with the transaction completing on 30 July 2021.The acquisition provides the Group a highly strategic opportunity to significantly expand its secure retirement income offering, and access to Australia's term deposit market.

From the date of acquisition, the Bank contributed $3.4 million of interest revenue and a normalised loss of $11.1 million before tax. Acquisition related transaction costs of $0.7 million have been incurred and recorded in other expenses in the Statement of comprehensive income in the prior year. Details of the fair values of the assets and liabilities acquired and goodwill on acquisition are as follows.

	30 Jun 2022 $m
Total purchase price consideration	37.0
Less: fair value of net identifiable assets acquired	(17.9)
Goodwill on acquisition[1]	**19.1**

1. Goodwill was subsequently impaired. Refer to Note 27 Goodwill and other intangible assets for further information.

Note 24 Acquisitions and disposals of subsidiaries (continued)

Acquisition of Challenger Bank (formerly MyLife MyFinance) (continued)

	Acquiree's carrying amount $m	Fair value $m
Assets		
Cash and cash equivalents	6.4	6.4
Investment assets – amortised cost	37.4	37.4
Loan assets	106.7	106.7
Receivables	0.2	0.2
Deferred tax asset	—	7.7
Other assets	0.3	0.3
Property, plant and equipment	0.1	0.1
Total assets	**151.1**	**158.8**
Liabilities		
Payables	0.7	0.7
Provisions	0.6	0.6
Deposits from customers	134.2	134.2
Interest bearing liabilities	5.4	5.4
Total liabilities	**140.9**	**140.9**
Net assets	**10.2**	**17.9**

Disposal of Accurium

On 1 November 2021, Challenger sold 100% of its equity in Accurium Pty Ltd and its parent entity Accurium Holdings Pty Ltd to CountPlus Limited for total purchase consideration of $9.1 million.

At the time of sale, the combined tangible net assets of Accurium totalled $0.2 million.

The Group recognised $8.7 million profit before tax from the sale. The profit on the sale is calculated as proceeds less tangible net assets less the relative value of goodwill associated with the operation being disposed of, and less disposal costs incurred. The relative goodwill amount was assessed as immaterial.

	30 Jun 2022 $m
Cash consideration	9.1
Less: carrying value of net assets of Accurium	(0.2)
Less: disposal costs	(0.2)
Total gain on disposal	**8.7**

Other than the acquisition of the Bank and the disposal of Accurium, there were no other significant acquisitions or disposals of controlled entities.

Note 25 Investment in associates

Associates

Name of company	Principal activity	Country of domicile	30 June 2022 %[1]	30 June 2021 %[1]	30 June 2022 $m	30 June 2021 $m
Alphinity Investment Management Pty Ltd	Funds Management	Australia	30	30	1.9	1.9
Ardea Investment Management Pty Ltd	Funds Management	Australia	30	30	24.6	25.6
Ares Australia Management Pty Ltd	Funds Management	Australia	35	35	0.3	0.4
Avenir Capital Pty Ltd[2]	Funds Management	Australia	—	40	—	—
Bentham Asset Management Pty Ltd	Funds Management	Australia	49	49	0.9	1.1
Cultiv8 Funds Management Pty Ltd	Funds Management	Australia	36	—	—	—
Eiger Capital Pty Ltd	Funds Management	Australia	40	40	1.0	1.0
Greencape Capital Pty Ltd	Funds Management	Australia	45	47	37.3	38.1
Lennox Capital Partners Pty Ltd	Funds Management	Australia	40	40	1.9	3.3
Merlon Capital Partners Pty Ltd	Funds Management	Australia	30	30	2.1	2.3
Novaport Capital Pty Ltd	Funds Management	Australia	49	49	0.2	0.3
Resonance Asset Management Limited[3]	Funds Management	UK	—	—	0.7	0.7
Ox Capital Management Pty Ltd	Funds Management	Australia	40	40	1.8	—
Wavestone Capital Pty Ltd	Funds Management	Australia	33	33	2.2	2.5
Whitehelm Capital Pty Ltd[4]	Funds Management	Australia	—	30	—	5.9
Wyetree Asset Management Pty Ltd	Funds Management	UK	—	49	—	0.1
Total investment in associates[5]					**74.9**	**83.2**

1. Represents voting rights percentages.
2. On 15 September 2021, Challenger sold its equity investment in Avenir Capital Holdings for a nominal value.
3. Challenger is deemed to have significant influence, due to its ownership of non-voting shares with optionality of conversion to voting shares, as well as its Directorship on the Board.
4. On 1 February 2022, Challenger sold its 30% equity interest in Whitehelm Capital Pty Ltd to PATRIZIA AG. Please see below for further detail.
5. Investment in associates is all considered non-current.

	30 June 2022 $m	30 June 2021 $m
Movements in carrying amount of investment in associates		
Opening balance	83.2	63.0
Acquisition of investment in associates	—	21.3
Share of associates' net profit	38.0	35.2
Dividends and net capital redemptions	(46.2)	(32.6)
Impairment of investment in associates	(0.1)	(3.7)
Carrying amount at the end of the year	**74.9**	**83.2**
Share of associates' profit or loss		
Profit after tax for the year	**38.0**	**35.2**
Share of the associates' Statement of financial position		
Current assets	43.6	45.7
Non-current assets	5.4	4.8
Total assets	**49.0**	**50.5**
Current liabilities	25.5	21.7
Non-current liabilities	2.5	3.0
Total liabilities	**28.0**	**24.7**
Net assets	**21.0**	**25.8**

Disposal of Whitehelm Capital Pty Ltd

In September 2021, Challenger announced that it has entered into an agreement to sell its 30% equity interest in Whitehelm Capital Pty Ltd to PATRIZIA AG for $51.1 million (€32 million). Challenger's sale consideration was paid in cash, with the transaction completing on 1 February 2022.

Following completion, Group recorded a $44.6 million pre-tax gain on sale of associate which is reported as a significant item. The Group also derecognised $6.5 million of investment in associate in relation to Whitehelm Capital Pty Ltd.

Note 25 Investment in associates (continued)

Accounting policy

Associates are entities over which the Group has significant influence of the entities' financial and operating policies but not control. Investments in associates, other than those backing life contracts, are accounted for under the equity method whereby investments are carried at cost adjusted for post-acquisition changes in the Group's economic share of the net assets of the entity.

Associates' financial reports are used to apply the equity method and both the financial year end date and accounting policies of associate and joint venture entities are consistent with those of the Group. The consolidated Statement of comprehensive income reflects the economic share of the results of operations of associates.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes in the Statement of changes in equity.

Key estimates and assumptions

An assessment is performed at each Statement of financial position date to determine whether there is any indication of impairment and whether it is necessary to recognise any impairment loss against the carrying value of the net investment in associates.

The Group determines the dates of obtaining or losing significant influence of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence the financial and operating policies of that entity.

Note 26 Related parties

Key Management Personnel

The Directors and key executives of Challenger Limited during the reporting period were as follows:

Directors[1]	
Peter Polson	Independent Chair
Nicolas Hamilton	Managing Director and Chief Executive Officer
John M Green	Independent Non-Executive Director
Steven Gregg	Independent Non-Executive Director
Masahiko Kobayashi[2]	Non-Independent Non-Executive Director
Heather Smith	Independent Non-Executive Director
JoAnne Stephenson	Independent Non-Executive Director
Duncan West	Independent Non-Executive Director
Melanie Willis	Independent Non-Executive Director

1. Where an individual held a KMP role for part of either the current or prior reporting period, refer to section Key Management Personnel of the Remuneration report for further details.
2. Hiroyuki Iioka is an Alternate Director to Masahiko Kobayashi.

Key executives[1]	
Current KMP	
Nicolas Hamilton	Managing Director and Chief Executive Officer
Chris Plater	Deputy CEO
Anton Kapel	Chief Executive, Life & Solutions
Michael Clarke	Acting Chief Executive, Funds Management
Rachel Grimes AM	Chief Financial Officer
Former KMP	
Richard Howes	Managing Director and Chief Executive Officer
Andrew Tobin	Chief Financial Officer
Angela Murphy	Chief Executive, Life

1. Where an individual held a KMP role for part of either the current or prior reporting period, refer to section Key Management Personnel of the Remuneration report for further details.

Controlled entities and associates

Unless an exception applies under relevant legislation, transactions between commonly-controlled entities within the Group (except where otherwise disclosed) are conducted on an arm's length basis under normal commercial terms and conditions. The Group's interests in controlled entities are disclosed in Note 23 Controlled entities.

Other related parties

During the year, there were transactions between the Group and Challenger-sponsored managed funds for the provision of investment management, transaction advisory and other professional services.

Transactions were also entered into between the Group and associated entities (refer to Note 25 Investment in associates) for the provision of distribution and administration services.

The Group earned fee income during the year of $67.7 million (2021: $54.5 million) from transactions entered into with non-controlled funds and associates. Transactions are conducted on an arm's length basis under normal commercial terms and conditions.

Loans to Directors and key executives

There were no loans made to Directors or key executives as at 30 June 2022 (30 June 2021: nil).

Group products

From time to time, Directors or key executives of the Company or their related entities may purchase products from the Group. These purchases are on the same arm's length terms and conditions as those offered to other employees or customers.

Total remuneration of Key Management Personnel and Non-Executive Directors[1]

KMP and Non-Executive Directors	Short-term benefits $	Post-employment benefits $	Share-based payments $	Other benefits $	Total $
Non-Executive Directors					
2022	**2,040,385**	**115,701**	**—**	**—**	**2,156,086**
2021	1,621,501	88,358	—	—	1,709,859
KMP					
2022	**5,971,343**	**117,840**	**3,807,179**	**137,798**	**10,034,160**
2021	5,651,994	112,345	5,021,664	208,107	10,994,110
All KMP and Non-Executive Directors					
2022	**8,011,728**	**233,541**	**3,807,179**	**137,798**	**12,190,246**
2021	7,273,495	200,703	5,021,664	208,107	12,703,969

1. No termination payments were made to KMPs or NEDs, while in their capacity, during the year.

Section 7: Other items

This section provides information that is less significant in understanding the financial performance and position of the Group perhaps due to lack of movement in the amount or the overall size of the balance. Nevertheless, these items assist in understanding the Group or are required under the Australian or International Accounting Standards, the *Corporations Act 2001* and/or the *Corporations Regulations*.

Note 27 Goodwill and other intangible assets

	30 June 2022 $m	30 June 2021 $m
Goodwill	**579.9**	**579.9**
Other intangible assets		
Software at cost	22.2	32.1
Less: accumulated amortisation	(15.6)	(15.2)
Less: asset impairment[1]	—	(1.1)
Less: asset reclassification[2]	—	(7.5)
	6.6	**8.3**
Commercial agreement	0.9	0.9
Less: accumulated amortisation	(0.2)	—
	0.7	**0.9**
Identifiable intangible (Assetsecure)	—	1.7
Less: accumulated amortisation	—	(0.1)
Less: asset reclassification[3]	—	(1.6)
	—	—
Total other intangible assets	**7.3**	**9.2**

1. Impairment in prior year of capitalised software following management assessment for indicators of impairment.
2. Reclassification in prior year of previously capitalised cloud computing software deployment costs following the IFRS Interpretations Committee guidance issued in April 2021.
3. Reclassification in prior year of Assetsecure identifiable intangible to capitalised software.

	Goodwill		Software		Commercial agreement		Identifiable intangible	
	30 June 2022 $m	30 June 2021 $m	30 June 2022 $m	30 June 2021 $m	30 June 2022 $m	30 June 2021 $m	30 June 2022 $m	30 June 2021 $m
Balance at the beginning of the year	579.9	579.9	8.3	16.5	0.9	—	—	1.6
Additions	19.1	—	1.0	4.9	—	0.9	—	—
Impairment	(19.1)	—	—	(1.1)	—	—	—	—
Amortisation expense[1]	—	—	(2.7)	(4.5)	(0.2)	—	—	—
Reclassification	—	—	—	(7.5)	—	—	—	(1.6)
Balance at the end of the year	**579.9**	**579.9**	**6.6**	**8.3**	**0.7**	**0.9**	**—**	**—**

1. Amortisation expense for the year ended 30 June 2022 differs from the movement in accumulated amortisation due to the reclassification of assets within the 30 June 2021 disclosure.

Accounting policy

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the fair value of the consideration for the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit, or group of units, to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates.

When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised and allocated first to reduce the carrying amount of any goodwill allocated to that CGU, then to reduce the carrying amount of the other assets in the unit on a pro rata basis. Impairment losses recognised for goodwill are not subsequently reversed.

CGUs within the Group are predominantly business operations.

When goodwill forms part of a CGU (or group of CGUs) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Other intangible assets

Other intangible assets acquired are recorded at cost less accumulated amortisation and impairment losses. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition.

Amortisation is calculated based on the timing of projected cash flows over the estimated useful lives.

Certain internal and external costs directly incurred in acquiring and developing on-premise software have been capitalised and are amortised on a straight line basis over their useful lives.

Software-as-a-Service (SaaS)

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. As such the Group does not receive a software intangible asset at the contract commencement date. The Group does not have control over the software nor can it restrict others' access to the benefits of the software.

The following outlines the accounting treatment of costs incurred in relation to SaaS arrangements:

Accounting treatment	Costs
Recognise as an operating expense over the term of the service contract	• Fee for use of application software
Recognise as an operating expense as the service is received	• Configuration costs • Customisation costs • Data conversion and migration costs • Testing costs • Training costs

Key estimates and assumptions

Goodwill recoverable amounts

The Group assesses whether goodwill is impaired at least annually in accordance with the accounting policy. The recoverable amount of each CGU is determined based on value in use calculations that utilise cash flow projections based on financial forecasts approved by senior management which cover an appropriate time horizon. In determining these cash flow projections management considers:

- current and expected performance of each CGU;
- Board and management-approved budgets and strategic plans; and
- changes in Australian and international economic and market environments.

Note 27 Goodwill and other intangible assets (continued)

Key estimates and assumptions (continued)

The cash flow projections determined by management are discounted using an appropriate discount rate. The determination of the discount rate is a matter of judgement and is based on a number of factors including a theoretical calculation, observation of third party reports and discount rates used by comparable financial services companies.

The relevant assumptions in deriving the value of the CGU are as follows:

- the budgeted net profit after tax for each CGU for each year within the cash flow projection period;
- the discount rate; and
- growth rates, which are consistent with long-term trends in the industry segments in which the CGUs operate.

The derived values in use for each CGU are in excess of the carrying values of goodwill.

The following CGUs represent the carrying amounts of goodwill:

			Discount rate		
CGU	**30 Jun 2022 $m**	**30 Jun 2021 $m**	**30 Jun 2022 %**	**30 Jun 2021 %**	**Cash flow horizon (years)**
Life	452.3	452.3	10.0	10.2	3
Funds Management	127.6	127.6	9.4	9.7	3
Total	**579.9**	**579.9**			

Bank CGU

During the year, the Group created a new CGU through the acquisition of the Bank. Being a new business operation, the Bank was identified as a standalone CGU. Goodwill was recognised on acquisition and represents the excess of the consideration paid over the fair value of the net assets and liabilities acquired.

As at 30 June 2022, given the operating performance of the business, Challenger has impaired the goodwill on acquisition of the Bank, resulting in a $19.1m impairment recognised in the Statement of comprehensive income.

On 16 August 2022 Challenger announced a strategic review of its banking business.

Sensitivity to change in assumptions

Management is of the view that reasonable changes in the key assumptions, such as an increase in the discount rate by 1% or a change in projected cash flows of 5%, would not cause the respective recoverable amounts for each CGU to fall short of the carrying amounts as at 30 June 2022. All goodwill is non-current.

Other intangible assets amortisation

Useful lives of intangible assets used in the calculation of the amortisation expense are examined on an annual basis and where applicable, adjustments are made on a prospective basis.

Intangible	Life	Depreciation method
Goodwill	Indefinite	Not applicable
Software	3-10 years	Straight line basis over its useful life, usually a period of five years
Commercial agreement	5.5 years	Straight line basis over the life of the intangible, based on the terms of the agreement

Note 28 Lease assets and liabilities

Right-of-use lease asset

	30 June 2022 $m	30 June 2021 $m
Cost	45.5	45.4
Less: accumulated depreciation	(16.5)	(10.7)
Right-of-use lease asset	**29.0**	**34.7**

	Office premises[1]		Property, plant and equipment[2]	
	30 June 2022 $m	30 June 2021 $m	30 June 2022 $m	30 June 2021 $m
Balance at the beginning of the year	34.4	32.0	0.3	0.4
Additions	0.1	8.4	—	(0.1)
Depreciation expense	(5.7)	(6.0)	(0.1)	—
Balance at the end of the year	**28.8**	**34.4**	**0.2**	**0.3**

1. The Group has entered into commercial leases for the rental of properties where it is not in the best interests of the Group to purchase these properties. These leases have terms ranging between one and 12 years with remaining lease terms of between 9 months and 6 years at 30 June 2022. Renewal terms are included in the contracts. Renewals are at the specific option of the entity that holds the lease.
2. Property, plant and equipment relates to leases for photocopying equipment.

Lease liabilities

Maturity analysis of contractual discounted cash flows	30 June 2022 $m	30 June 2021 $m
Amounts due in less than one year	8.1	8.0
Amounts due between one and two years	8.9	8.2
Amounts due between two and five years	28.2	26.7
Amounts due in greater than five years	17.3	27.4
Total lease liabilities	**62.5**	**70.3**

	30 June 2022 $m	30 June 2021 $m
Current	8.1	8.0
Non-current	54.4	62.3
Total lease liabilities[1]	**62.5**	**70.3**

1. Refer to Note 16 for interest expense on lease liabilities and the Statement of cash flows for total cash outflow for leases.

Accounting policy

Right-of-use-lease assets

The Group recognises right-of-use lease assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use lease assets are measured at cost, less any accumulated depreciation and impairment losses, and less any adjustments for any remeasurement of lease liabilities. The cost of right-of-use lease assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased assets at the end of the lease term, the recognised right-of-use lease assets are depreciated on a straight line basis over the shorter of its estimated useful life and the lease term. Right-of-use lease assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Note 28 Lease assets and liabilities (continued)

Accounting policy (continued)

The lease payments include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not exercise) the option to renew.

Note 29 Contingent liabilities, contingent assets and credit commitments

Warranties

Over the course of its corporate activity, the Group has given, as a vendor of assets including real estate properties, warranties to purchasers on several agreements that are outstanding as at 30 June 2022. Other than noted below, at the date of this report no material claims against these warranties have been received by the Group.

Parent entity guarantees and undertakings

The Company has extended the following guarantees and undertakings to entities that form part of the Group:

1. a guarantee supporting the corporate banking facility and certain other financial commitments, such as hedging arrangements;
2. letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise the Company's intention to provide support to those subsidiaries so that they can continue to meet their obligations;
3. Australian Financial Services Licence deeds of undertaking as an eligible provider; and
4. guarantees to support contractual commitments on warranties to certain third parties.

Third party guarantees

Bank guarantees have been issued by third party financial institutions on behalf of the Group and its subsidiaries for items in the normal course of business, such as rental contracts. The amounts involved are not considered to be material to the Group.

Contingent future commitments

CLC has made capital commitments to external counterparties for future investment opportunities such as development or investment purchases. As at 30 June 2022 there are potential future commitments totalling $496.6 million (30 June 2021: $867.9 million) in relation to these opportunities.

The Group has made capital commitments to associates to subscribe for up to $12.3 million (30 June 2021: $11.8 million) of non-redeemable preference shares to enable them to meet their working capital requirements. Contractual obligations for future property repairs and maintenance are in place but cannot be quantified until required.

In the normal course of the Bank's business the Company made commitments to extend credit to its customers of $24.5 million.

Subsidiary guarantees

CLC has provided a guarantee to a third party regarding the performance of its subsidiary in respect of certain reinsurance arrangements.

Contingent tax assets and liabilities

From time to time the Group has interactions and matters under review, audit or dispute with the Australian Taxation Office in relation to the taxation treatments of various matters including reportable tax positions.

Any potential tax liability resulting from these interactions is only provided for when it is probable that an outflow will occur and a reliable estimate of the amount can be made. No specific contingent liability amounts have been disclosed in relation to these matters as it is considered that it would be prejudicial to their conduct and outcome.

Analysis of credit commitments	30 June 2022 $m	30 June 2021 $m
Contracted capital expenditure		
Amounts due in less than one year	4.2	2.6
Amounts due between one and two years	0.8	0.8
Amounts due between two and five years	2.9	2.9
Amounts due in greater than five years	7.3	7.3
Total capital expenditure commitments	**15.2**	**13.6**
Non-cancellable operating leases – Group as lessor		
Amounts due in less than one year	(187.8)	(219.8)
Amounts due between one and two years	(173.2)	(174.5)
Amounts due between two and five years	(374.9)	(412.8)
Amounts due in greater than five years	(683.5)	(784.3)
Total operating leases – Group as lessor	**(1,419.4)**	**(1,591.4)**
Net commitments owed to Group	**(1,404.2)**	**(1,577.8)**

Other information

In the normal course of business, the Group enters into various contracts that could give rise to contingent liabilities in relation to performance obligations under those contracts. At the date of this report, the possibility of any outflow in settlement is remote.

Operating leases

Group as lessor

Investment properties owned by the Group are leased to third parties under operating leases. Lease terms vary between tenants and some leases include percentage rental payments based on sales volumes.

Contracted capital expenditure commitments

These represent amounts payable in relation to capital expenditure commitments contracted for at the Statement of financial position date but not recognised as liabilities. They primarily relate to the investment property portfolio and property, plant and equipment.

Other contracted commitments

This represents amounts payable in relation to fit out commitments and acquisition of investment properties that have exchanged prior to the balance date and will settle subsequent to the balance date.

Note 30 Employee entitlements

	30 June 2022 $m	30 June 2021 $m
Annual leave	9.6	8.4
Long service leave	11.4	9.9
Employee[1] entitlements provision	**21.0**	**18.3**

1. The total number of employees of the Group at 30 June 2022 was 770 (30 June 2021: 738) on a full-time equivalent (FTE) basis.

Accounting policy

Superannuation funds

Obligations for contributions to superannuation funds are recognised as an expense in the Statement of comprehensive income as they are incurred. The Group does not hold or pay into any defined benefit superannuation schemes on behalf of employees.

Wages, salaries, annual leave and non-monetary benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled wholly within 12 months of the Statement of financial position date, are recognised in respect of employees' services up to the Statement of financial position date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for accumulated sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

A liability for long service leave is recognised as the present value of estimated future cash outflows to be made in respect of services provided by employees up to the Statement of financial position date. The estimated future cash outflows are discounted using yields from Australian corporate bonds which have durations to match, as closely as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows such as expected future salary increases, experience of employee departures and period of service, are included in the measurement.

Share-based payment transactions

Long-term equity-based incentive plan

The Group has an employee share incentive plan for the granting of non-transferable share rights to executives and senior employees. Shares in the Company held by the employee share trust are classified as Treasury shares and presented in the Statement of financial position as a deduction from equity.

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an option pricing model.

In accordance with Australian Accounting Standards, the cost of equity-settled transactions is recognised in the Statement of comprehensive income, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

At the Company level, the cost of Treasury shares is recognised as a reduction in equity. On vesting of the award they are subsequently recognised as an increase in equity and a reduction in share-based payment reserve at an average acquisition price.

The cumulative expense or investment recognised for equity-settled transactions at each Statement of financial position date reflects the extent to which the vesting period has expired and the best estimate of the number of awards that will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. This results in the share-based payment expense being recognised in the Statement of comprehensive income and an increase in equity being recognised even if the market performance conditions are not met at the vesting date and the share rights ultimately lapse.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled during the vesting period (other than an award cancelled when the vesting conditions are not satisfied), it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Employee share acquisition plan

Share-based compensation benefits are provided to employees via the Challenger Performance Plan (CPP). The Group has formed a trust to administer the Group's employee share acquisition plan (CPP Trust).

The CPP Trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Through contributions to the CPP Trust, the Group typically purchases shares in the Company on market. Shares acquired are held by the CPP Trust, are disclosed as Treasury shares and are deducted from contributed equity.

In addition to shares held by the CPP Trust, the Group has entered into forward purchase agreements (CPP deferred share purchases) to hedge unvested performance share rights. The CPP deferred share purchase agreements have exercise dates that broadly match the vesting dates of the performance rights issued by the CPP and they require the delivery of Challenger Limited shares to the CPP Trust, by a third party, for the contracted price. The shares to be purchased under these agreements are treated as Treasury shares from the date of the agreement.

In such deferred contracts, changes in the fair value arising from variations in market rates do not affect the amount of cash to be paid or the number of Challenger shares to be received, and these contracts are classified as equity instruments. Changes in the fair value of an equity instrument are not recognised in the financial statements. The liability to the third party is recorded on the balance sheet at present value and the discount is unwound through the Statement of comprehensive income over the duration of the contract.

Deferred Performance Share Rights (DPSRs)

This instrument is a performance right which gives a right to a fully-paid share in the Company at the end of the vesting period. The vesting period is typically between one and four years on existing awards.

The table below sets out the details of the DPSRs granted under the CPP during 2022 and movements on previous issues.

The DPSRs instruments was replaced with RS instruments (refer below) during the year, consequently no new DPSRs were issued.

Grant date	Latest date for vesting[1]	Reference price $	Fair value at grant $	Outstanding at 1 July 2021	Granted during the year	Vested during the year	Forfeited during the year	Outstanding at 30 June 2022
7 Sep 2020	1 Sep 2024	4.010	3.35	336,831	—	(2,739)	(10,434)	323,658
7 Sep 2020	1 Sep 2023	4.010	3.50	336,831	—	(2,739)	(10,434)	323,658
7 Sep 2020	1 Sep 2022	4.010	3.67	530,179	—	(4,109)	(15,655)	510,415
7 Sep 2020	1 Sep 2021	4.010	3.84	548,860	—	(547,849)	(1,011)	—
11 Nov 2019	1 Sep 2023	6.633	6.94	15,377	—	—	—	15,377
11 Nov 2019	1 Sep 2022	6.633	7.23	15,377	—	—	—	15,377
11 Nov 2019	1 Sep 2021	6.633	7.55	23,065	—	(23,065)	—	—
9 Sep 2019	1 Sep 2023	6.633	5.93	200,681	—	(1,507)	—	199,174
9 Sep 2019	1 Sep 2022	6.633	6.19	200,681	—	(1,507)	—	199,174
9 Sep 2019	1 Sep 2021	6.633	6.45	301,049	—	(301,049)	—	—
11 Sep 2018	1 Sep 2021	10.368	9.66	338,805	—	(338,805)	—	—
Total				**2,847,736**	**—**	**(1,223,369)**	**(37,534)**	**1,586,833**

1. At the date of vesting, fully-paid shares are transferred to the individual and released from the CPP Trust.

Restricted Shares (RS)

A Restricted Share is a beneficial interest in a fully-paid ordinary Challenger share acquired for zero consideration. RS are subject to disposal restrictions and vest subject to satisfaction of an employment condition.

RS provide an entitlement to vote and a right to dividends. RS granted to KMP during the year ended 30 June 2022 are detailed below:

Grant date	Expected date for vesting	Reference price $	Fair value at grant $	Outstanding at 1 July 2021	Granted during the year	Vested during the year	Forfeited during the year	Outstanding at 30 June 2022
8 Sep 2021	1 Sep 2025	6.440	6.36	—	168,865	—	(3,983)	164,882
8 Sep 2021	1 Sep 2024	6.440	6.36	—	168,865	—	(3,983)	164,882
8 Sep 2021	1 Sep 2023	6.440	6.36	—	253,330	—	(5,976)	247,354
8 Sep 2021	1 Sep 2022	6.440	6.36	—	253,330	—	(5,976)	247,354
Total				**—**	**844,390**	**—**	**(19,918)**	**824,472**

Note 30 Employee entitlements (continued)

Accounting policy (continued)

Hurdled Performance Share Rights (HPSRs)

This instrument is a performance share right that gives a right to a fully-paid share in the Company at certain vesting dates, subject to the achievement of performance conditions based on total shareholder returns (TSR). The HPSRs are awarded based on a range of criteria reflecting, in addition to current year performance, the longer-term ability for an employee to add significant value to Challenger and for retention purposes. The award of HPSRs ensures longer-term alignment of interests between Challenger and its employees.

For grants made between 1 July 2015 and 30 June 2019, subject to continued employment and meeting the absolute TSR performance target, two-thirds of a HPSR award will be eligible to commence vesting on the third anniversary and the final third on the fourth anniversary following grant. For grants from 1 July 2019, subject to continued employment and meeting the absolute TSR performance target, a HPSR award is eligible to commence vesting on the fourth anniversary and is subject to a final cumulative test on the fifth anniversary. This change has the effect of increasing the vesting period.

To the extent that the absolute TSR performance targets are not satisfied for a particular tranche of award, unvested HPSRs have the opportunity to vest at the end of the following tranche's vesting period, subject to the higher absolute TSR performance requirements which reflect another year of compound growth. Unvested awards have the opportunity to vest on the fifth anniversary following grant. Any unvested awards lapse at the end of the fifth anniversary following grant. This approach is applied to ensure that Key Management Personnel and employees are motivated to deliver strong long-term performance. HPSRs are converted to ordinary fully-paid shares upon vesting.

The table below sets out details of the HPSRs granted under the CPP during 2022 and movements on previous issues:

Grant date	Expected date for vesting[1]	Reference price $	Fair value at grant $	Outstanding at 1 July 2021	Granted during the year	Vested during the year	Forfeited during the year	Outstanding at 30 June 2022
23 Mar 2022	1 Sep 2025	5.901	4.37	—	27,949	—	—	27,949
8 Sep 2021	1 Sep 2025	6.440	3.59	—	3,640,608	—	(255,164)	3,385,444
10 May 2021	1 Sep 2024	4.880	2.64	132,848	—	—	—	132,848
2 Nov 2020	1 Sep 2024	4.752	2.58	848,268	—	—	—	848,268
7 Sep 2020	1 Sep 2024	4.010	1.87	5,921,438	—	—	(298,222)	5,623,216
9 Dec 2019	1 Sep 2023	6.729	4.22	432,483	—	—	—	432,483
11 Nov 2019	1 Sep 2023	6.729	4.42	90,618	—	—	—	90,618
9 Sep 2019	1 Sep 2023	6.633	3.10	2,800,292	—	—	(77,302)	2,722,990
11 Sep 2018	1 Sep 2022	10.368	3.94	572,686	—	—	(38,495)	534,191
11 Sep 2018	1 Sep 2021	10.368	4.56	989,593	—	—	(66,519)	923,074
11 Sep 2017	1 Sep 2021	12.264	5.42	476,508	—	—	(83,948)	392,560
11 Sep 2017	1 Sep 2020	12.264	6.11	845,367	—	—	(148,934)	696,433
12 Sep 2016	1 Sep 2020	9.156	3.80	599,653	—	—	(599,653)	—
12 Sep 2016	1 Sep 2019	9.156	4.33	1,052,525	—	—	(1,052,525)	—
Total				**14,762,279**	**3,668,557**	**—**	**(2,620,762)**	**15,810,074**

1 . At the date of vesting, fully-paid shares are transferred to the individual and released from the CPP Trust.

Key estimates and assumptions

Share-based payments

The Group measures the cost of equity-settled transactions with employees granted during the year by reference to the fair value of the share rights at the date at which they are granted. The fair values are determined by independent external valuers using a Black-Scholes model for DPSRs and a Monte Carlo simulation model for HPSRs which utilises the TSR share price hurdles. A discounted cashflow methodology is used to determine the fair value of RS. Key inputs into the valuation models for equity awards granted during the year are as follows:

Input	8 Sep 2021 RS RS[1]	8 Sep 2021 HPSR HPSR[1]	23 Mar 2022 HPSR HPSR[1]
Dividend yield (%)	3.6	3.6	3.6
Risk-free rate (%)	0.01-0.67	0.01-0.67	1.51-2.47
Volatility[2] (%)	N/A	44	45
Valuation ($)	6.36	3.59	4.37

1. Staggered deferred vesting applies to these grants.
2. Forecast volatility rate implied from historic trend. Volatility is only applicable to HPSRs.

Note 31 Remuneration of auditor

Amounts received or due and receivable by Ernst & Young (Australia) relating to:	30 June 2022 $	30 June 2021 $
Full year audit and half year review of the Group financial report	2,042,255	1,896,553
Other audit services – audit and review of trusts and funds	680,300	574,733
Other assurance services	735,446	843,358
Other services in relation to the Group		
– taxation services	49,500	74,000
– other assurance services	77,000	—
	3,584,501	**3,388,644**
Amounts received or due and receivable by other overseas member firms of Ernst & Young (Australia) for:		
Fees for auditing the financial report of any controlled entities	410,874	416,795
Other services in relation to the Group		
– taxation services	62,500	68,000
	473,374	**484,795**
Total auditor remuneration[1]	**4,057,875**	**3,873,439**

1. Auditor's remuneration for the Group is paid by Challenger Group Services Limited, a wholly owned entity within the Group.

Note 32 Subsequent events

On 26 July 2022, Challenger announced the appointment of Mr Victor Rodriguez to the role of Chief Executive, Funds Management, effective 1 August 2022.

On 16 August 2022 Challenger announced the election of Mr Duncan West as Challenger's new Chair. Mr West will replace the current Chair Mr Peter Polson, who will retire at the conclusion of the Annual General Meeting (AGM) on 27 October 2022.

On 16 August 2022, Challenger announced a strategic review of its banking business.

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

Challenger is considering all options in relation to the Bank and has appointed an external advisor to assist.

At the date of this financial report no other matter or circumstance has arisen that has, or may, significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years which has not already been reflected in this report.

Directors' declaration

In accordance with a resolution of the Directors of Challenger Limited, we declare that, in the opinion of the Directors:

a) the financial statements and notes of Challenger Limited and its controlled entities (the Group) are in accordance with the ***Corporations Act 2001*** (Cth), including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the ***Corporations Regulations 2001*** (Cth);

b) the financial statements and notes of the Group also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, which is disclosed in Section 1(i) Basis of preparation and statement of compliance;

c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

d) this declaration has been made after receiving the declarations required to be made to the Directors from the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the ***Corporations Act 2001*** (Cth) for the financial year ended 30 June 2022.

On behalf of the Board

P Polson
Independent Chair

16 August 2022

N Hamilton
Managing Director and Chief Executive Officer

16 August 2022

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Independent auditor's report to the shareholders of Challenger Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Challenger Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the ***Corporations Act 2001***, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2022 and of its consolidated financial performance for the year ended on that date; and
b) complying with Australian Accounting Standards and the ***Corporations Regulations 2001***.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the ***Auditor's Responsibilities for the Audit of the Financial Report*** section of our report. We are independent of the Group in accordance with the auditor independence requirements of the ***Corporations Act 2001*** and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 ***Code of Ethics for Professional Accountants (including Independence Standards)*** (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the ***Auditor's Responsibilities for the Audit of the Financial Report*** section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1 Valuation of Life Contract Liabilities

Financial report reference: **Note 8**

Why significant to the audit	How our audit addressed the key audit matter
The Group recognised a provision for future claims associated with life insurance policies. The valuation methodology to estimate the provision adopted by the Group involves complex and subjective judgments about future events. Key assumptions used in the Group's model to determine the value of the life contract liabilities include: • Discount rates • Inflation • Future claims administration expenses • Mortality rates and redemptions These assumptions, along with policy information, are used as inputs to the Group's model to calculate the Life Contract Liabilities. This was a key audit matter due to the value of the balance (30 June 2022: $13,595.4 million), relative to total liabilities and the degree of judgment and estimation uncertainty associated with the valuation.	Our audit procedures involved an assessment of the effectiveness of relevant controls over assumptions and policy information used as inputs into the Group's model. Our audit procedures included the following in the evaluation of the assumptions used by the Group: • Considered the Group's governance process and controls to determine the methodology and assumptions. • Assessed the results of the experience investigations carried out by the Group to determine whether they supported the assumptions used by the Group. • Assessed the movements in modelled profit margins and best estimate liabilities for insurance risk transactions. We performed a recalculation for a sample of the life contract liability valuations. In conjunction with our IT specialists, we assessed whether policy information was extracted accurately from the Group's underlying administration system into the valuation process. Where appropriate, we involved our life insurance actuarial specialists in the above procedures and overall assessment of the valuation methodology, key assumptions and models deriving the valuation of the life contract liabilities. We assessed the adequacy of the related financial report disclosures.

2 Valuation of Level 3 Investment and Property Assets

Financial report reference: **Note 20**

Why significant to the audit	How our audit addressed the key audit matter
The Group holds a portfolio of assets carried at fair value, for which an observable market value is not readily available. These assets are classified as Level 3 assets within the fair value hierarchy of the financial report, which include some fixed income securities, equity and other alternatives, infrastructure investments, property securities, and investment property. Level 3 assets require judgment to be applied in determining their fair value, as the valuation inputs for these assets are not based on observable market transactions or other readily available market data. The Group exercised judgment to arrive at their best estimates of fair value of these assets. There is complexity in this process, as well as uncertainty associated with the valuation and modelling methodologies and the assumptions adopted. This was a key audit matter due to the value of the balance relative to total assets (30 June 2022: $5,950.6 million), and the degree of judgment and estimation uncertainty associated with the valuations.	The valuation of Level 3 assets is inherently subjective given that there are alternative assumptions and valuation methods that may result in a range of values. Our audit procedures included the following, using sampling techniques: • Considered the Group's controls over the valuation of Level 3 assets. • Tested the mathematical accuracy of the valuation models and considered consistency with the Group's documented methodology and assumptions. • Assessed the Group's valuation and modelling methodologies and assessed the key judgmental inputs used in the year-end valuations, including the discount rate and the terminal value. • Evaluated the key assumptions associated with property valuations and agreed key inputs to tenancy schedules. We assessed the effectiveness of relevant controls over the leasing process and associated tenancy reports which are used as source data in the property valuations. • Evaluated the suitability of the property valuation methodology across the portfolio based on the type of asset. We considered the reports of the independent valuers to gain an understanding of the assumptions and estimates used and the valuation methodology applied. • Obtained valuation statements provided by external investments managers in respect of unit trusts and alternate funds. We assessed the valuations of investments as provided by external investment managers, including an assessment of the reliability of the information received and the appropriateness of the underlying valuation method. Where appropriate, we involved our valuation specialists in the above procedures. We assessed the adequacy and appropriateness of the related financial report disclosures.

3 Recoverability of Goodwill

Financial report reference: **Note 27**

Why significant to the audit	How our audit addressed the key audit matter
Goodwill has been recognised as a result of the Group's historical acquisitions, representing the excess of the purchase consideration over the fair value of assets and liabilities acquired. On acquisition date, the goodwill has been allocated to the applicable Cash Generating Units (CGUs). An impairment assessment is performed at each reporting period, comparing the carrying amount of each CGU containing goodwill with its recoverable amount. The recoverable amount of each CGU is determined on a value in use basis. This calculation incorporates a range of assumptions, including future cash flows, discount rate and terminal growth rate. This was a key audit matter due to the value of Goodwill relative to total assets (30 June 2022: $579.9 million), and the degree of judgment and estimation uncertainty associated with the impairment assessment.	Our audit procedures included the following: • Assessed the valuation methodology used to calculate the recoverable amount of each CGU. • Agreed the projected cash flows used in the impairment models to the Board approved plan of the Group. • Compared the Group's implied growth rate assumption to comparable companies. • Considered the accuracy of historical cash flow forecasts. • Assessed the methodology and assumptions used in the calculation of the discount rate, including comparison of the rate to market benchmarks. • Tested the mathematical accuracy of the impairment model for each CGU. • Considered the carrying amount of the net assets of the Group against its market capitalisation at 30 June 2022. • Considered the Group's sensitivity analysis and evaluated whether any reasonably foreseeable change in assumptions could lead to a material impairment. Our valuation specialists were involved in the above procedures where appropriate. We assessed the Group's determination of the CGUs to which goodwill is allocated and considered the adequacy of the related financial report disclosures.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2022 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the ***Corporations Act 2001*** and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 55 to 76 of the Directors' Report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Challenger Limited for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

G McKenzie
Partner

Sydney
16 August 2022

Investor information

Substantial shareholders

The number of shares held by substantial shareholders and their associates, based on the latest substantial shareholder notifications, and the 20 largest individual shareholders are as follows:

Substantial shareholders as at 30 June 2022	**Number of shares**	**% of issued capital**
Apollo Global Management, Inc. / Athene Life Reinsurance Ltd [1]	128,907,226	18.89
MS&AD Insurance Group Holdings Inc [1]	102,687,805	15.05
20 largest individual shareholders as at 31 July 2022		
1. HSBC Custody Nominees (Australia) Limited	201,243,170	29.50
2. Citicorp Nominees Pty Limited	148,604,463	21.78
3. J P Morgan Nominees Australia Pty Limited	95,879,892	14.05
4. HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	53,956,792	7.91
5. National Nominees Limited	23,093,135	3.38
6. BNP Paribas Noms Pty Limited <DRP>	12,639,157	1.85
7. Argo Investments Limited	5,440,311	0.80
8. HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	3,570,603	0.52
9. Mutual Trust Pty Ltd	3,020,136	0.44
10. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,400,411	0.35
11. BNP Paribas Nominees Pty Limited Hub24 Custodial Serv Limited <DRP A/C>	1,532,197	0.22
12. CPU Share Plans Pty Ltd <CGF RSU Control A/C>	824,472	0.12
13. Sandhurst Trustees Limited <Endeavor Asset Mgmt MDA A/C>	763,918	0.11
14. UBS Nominees Pty Ltd	747,228	0.11
15. Netwealth Investments Limited <Wrap Services A/C>	724,004	0.11
16. CPU Share Plans Pty Limited <CGF VPR Control A/C>	651,987	0.10
17. HSBC Custody Nominees (Australia) Limited - A/C 2	620,129	0.09
18. Roche Group Pty Limited	600,000	0.09
19. Australian Executor Trustees Limited <IPS IOOF Employer Super A/C>	594,656	0.09
20. Navigator Australia Ltd <MLC Investment Sett A/C>	594,508	0.09
Total 20 largest individual shareholders – issued capital	**557,501,169**	**81.72**
Total remaining shareholders balance	**124,744,492**	**18.28**

1. Number of shares for substantial shareholders as at 31 July 2022 not available at the time of releasing this report.

Distribution of shares (as at 31 July 2022)

Range	**Number of shareholders**	**Number of shares**	**% of issued capital**
1 – 1,000	15,877	7,213,259	1.06
1,001 – 5,000	15,005	36,519,246	5.35
5,001 – 10,000	3,373	24,326,826	3.57
10,001 – 100,000	2,117	43,448,219	6.37
100,001 and over	82	570,738,111	83.65
Total	**36,454**	**682,245,661**	**100.00**

Unmarketable parcels	**Minimum parcel size**	**Holders**	**Units**
Minimum $500.00 parcel at $6.84 per unit	72	1,216	29,020

ASX listing

Challenger Limited shares are listed on the ASX under code CGF. Share price details and company information can be accessed via either the Company website:

› **challenger.com.au**

or the ASX website:

› **asx.com.au**

Voting rights

On a show of hands, every member present at the meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Investor information (continued)

Buy-back

There is currently no market buy-back.

On market acquisitions for employee incentive schemes during the financial year ended 30 June 2022

No Challenger Limited ordinary shares were purchased on market to satisfy entitlements under Challenger's employee incentive schemes.

Top 20 noteholders of Challenger Capital Notes 2 as at 31 July 2022

20 largest individual noteholders as at 31 July 2022		Number of notes	% of issued notes
1.	HSBC Custody Nominees (Australia) Limited	278,162	6.05
2.	Citicorp Nominees Pty Limited	184,181	4.00
3.	BNP Paribas Nominees Pty Limited Hub24 Custodial Serv Limited <DRP A/C>	180,863	3.93
4.	J P Morgan Nominees Australia Pty Limited	159,348	3.46
5.	Australian Executor Trustees Limited <IPS IOOF Employer Super A/C>	96,777	2.10
6.	Mutual Trust Pty Ltd	87,529	1.90
7.	Netwealth Investments Limited <Wrap Services A/C>	83,939	1.82
8.	Taverners No 11 Pty Limited <Brencorp No 11 Unit A/C>	54,689	1.19
9.	BNP Paribas Nominees Pty Ltd <Pitcher Partners Drp>	53,478	1.16
10.	Navigator Australia Limited <JB Were List Fix Int Sma A/C>	53,354	1.16
11.	National Nominees Limited	49,519	1.08
12.	Navigator Australia Limited <MLC Investment Sett A/C>	40,972	0.89
13.	HSBC Custody Nominees (Australia) Limited - A/C 2	36,600	0.80
14.	Australian Executor Trustees Limited <IDPS A/C>	33,872	0.74
15.	Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	31,071	0.68
16.	Trustees Of Church Property For The Diocese Of Newcastle <Savings & Development	29,270	0.64
17.	Berne No 132 Nominees Pty Ltd <684168 A/C>	25,291	0.55
18.	Certane Ct Pty Limited <Charitable Foundation>	23,129	0.50
19.	G C F Investments Pty Ltd	20,000	0.43
20.	Australian Executor Trustees Limited <No 1 Account>	17,691	0.38
Total 20 largest individual noteholders – issued notes		**1,539,735**	**33.47**
Total remaining noteholders balance		**3,060,265**	**66.53**

Distribution of notes (as at 31 July 2022)

Range	Number of holders	Number of notes	% of notes
1 – 1,000	4,896	1,542,514	33.53
1,001 – 5,000	522	1,107,775	24.08
5,001 – 10,000	30	229,532	4.99
10,001 – 100,000	30	917,625	19.95
100,001 and over	4	802,554	17.45
Total	**5,482**	**4,600,000**	**100.00**

Unmarketable parcels	Minimum parcel size	Holders	Units
Minimum $500.00 parcel at $100.16 per unit	5	4	5

Top 20 noteholders of Challenger Capital Notes 3 as at 31 July 2022

20 largest individual noteholders as at 31 July 2022		Number of notes	% of issued notes
1.	J P Morgan Nominees Australia Pty Limited	357,354	9.28
2.	HSBC Custody Nominees (Australia) Limited	292,942	7.61
3.	Citicorp Nominees Pty Limited	244,798	6.36
4.	BNP Paribas Nominees Pty Ltd <Pitcher Partners Drp>	122,316	3.18
5.	BNP Paribas Nominees Pty Limited Hub24 Custodial Serv Limited <DRP A/C>	119,351	3.10
6.	Diocese Development Fund -Catholic Diocese Of Parramatta	76,177	1.98
7.	Mutual Trust Pty Limited	73,471	1.91
8.	Australian Executor Trustees Limited <IPS IOOF Employer Super A/C>	44,703	1.16
9.	Eastcote Pty Ltd <Van Lieshout Family A/C>	41,600	1.08
10.	National Nominees Limited	41,556	1.08
11.	Berne No 132 Nominees Pty Ltd <684168 A/C>	38,489	1.00
12.	Netwealth Investments Limited <Wrap Services A/C>	30,102	0.78
13.	BNP Paribas Nominees Pty Limited <IB AU Noms Retailclient DRP>	27,507	0.71
14.	Sandhurst Trustees Limited <Endeavor Asset Mgmt MDA A/C>	26,068	0.68
15.	Vision Australia Foundation <Vision Australia Credit A/C>	25,500	0.66
16.	Berne No 132 Nominees Pty Ltd <2853115 A/C>	22,500	0.58
17.	MF Investments No 1 Pty Ltd	21,493	0.56
18.	GCF Investments Pty Ltd	20,000	0.52
19.	Navigator Australia Ltd <MLC Investment Sett A/C>	18,440	0.48
20.	270 King Street Pty Ltd	17,600	0.46
Total 20 largest individual noteholders – issued notes		**1,661,967**	**43.17**
Total remaining noteholders balance		**2,188,033**	**56.83**

Distribution of notes (as at 31 July 2022)

Range	Number of holders	Number of notes	% of notes
1 – 1,000	3,486	1,180,927	30.67
1,001 – 5,000	349	704,816	18.31
5,001 – 10,000	29	205,301	5.33
10,001 – 100,000	22	622,195	16.16
100,001 and over	5	1,136,761	29.53
Total	**3,891**	**3,850,000**	**100.00**
Unmarketable parcels	**Minimum parcel size**	**Holders**	**Units**
Minimum $500.00 parcel at $100.16 per unit	5	—	—

ASX listing

Challenger Capital Notes 2 are listed on the ASX under the trade symbol CGFPB. Challenger Capital Notes 3 are listed on the ASX under the trade symbol CGFPC. Note price details can be accessed via the ASX website:

› **asx.com.au**

Voting rights

Challenger Capital Notes 2 and 3 do not confer any voting rights in the Company but if they are exchanged or converted for ordinary shares in accordance with their terms of issue, then the voting rights of the ordinary shares will be the same as for ordinary shares.

Shareholder queries

For any administrative matters in respect of your Challenger Limited shareholding or noteholding, please contact the Company's share registrar, Computershare:

Computershare Investor Services Pty Limited

Level 3, 60 Carrington Street, Sydney NSW 2000

Telephone: 1800 780 782

Website: › **computershare.com.au**

To assist with all enquiries, please quote your unique Security Reference Number (SRN) and your current address when dealing with Computershare.

Additional information

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE IN AUSTRALIA

Level 2
5 Martin Place
Sydney NSW 2000

Telephone: 02 9994 7000

Investor services: 13 35 66

DIRECTORS

Peter Polson (Chair)

Nicolas Hamilton (Managing Director and Chief Executive Officer)

John M Green

Steven Gregg

Masahiko Kobayashi

Heather Smith

JoAnne Stephenson

Duncan West

Melanie Willis

COMPANY SECRETARY

Linda Matthews

WEBSITE

challenger.com.au

MANAGE YOUR SHAREHOLDING AT COMPUTERSHARE INVESTOR SERVICES

Computershare Investor Services
Pty Limited

Level 3
60 Carrington Street
Sydney NSW 2000

Telephone: 02 8234 5000

computershare.com.au

AUDITOR

Ernst & Young

200 George Street
Sydney NSW 2000

GO ELECTRONIC

Challenger can deliver all of your shareholder communications electronically, by updating your details via Computershare Investor Services.

ONLINE DIGITAL VERSION OF THIS REPORT

The 2022 Annual Report is available at:

challenger.com.au/annualreport2022

challenger