Analyst Pack
2022

challenger

Contents

2022 Annual Report

can be downloaded from Challenger's online Shareholder Centre

› **challenger.com.au/shareholder**

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Challenger Limited ACN 106 842 371

Important note

Information presented in the FY22 Analyst Pack is presented on an operational (rather than statutory) basis to reflect a management view of the business.

Challenger Limited (ACN 106 842 371) also provides statutory reporting as prescribed under the ***Corporations Act 2001*** (Cth).

The 2022 Annual Report is available from Challenger's shareholder centre at: **www.challenger.com.au/shareholder**

The FY22 Analyst Pack is not audited. The statutory net profit after tax as disclosed in the consolidated profit and loss (page 11) has been prepared in accordance with Australian Accounting Standards and the ***Corporations Act 2001***. Normalised net profit after tax, as disclosed in the consolidated profit and loss (page 11), has been prepared in accordance with a normalised profit framework, which is disclosed as part of the Operating and Financial Review in the Directors' Report in the 2022 Annual Report.

The 2022 Annual Report and normalised profit framework have both been subject to a review performed by Ernst & Young.

Any forward-looking statements included in this document are, by nature, subject to significant uncertainties, risks and contingencies, of which many are outside the control of, and unknown to, Challenger, so that actual results or events may vary from those forward-looking statements, and the assumptions on which they are based.

Past performance is not an indicator of future performance.

While Challenger has sought to ensure that information is accurate by undertaking a review process, it makes no representation or warranty as to the accuracy or completeness of any information or statement in this document. In particular, information and statements in this document do not constitute investment advice or a recommendation on any matter and should not be relied upon.

FY22 financial highlights[1]

Group	Normalised net profit before tax $472m, up 19%
	Normalised net profit after tax $322m, up 15%
	Statutory net profit after tax $254m, down 57%
	Normalised EPS[2] 47.6 cents per share, up 15%
	Statutory EPS[2] 37.5 cents per share, down 57%
	Net income $777m, up 14%
	Expenses $301m, up 7%
	Normalised cost to income ratio 38.7%, down 250 bps
	Group assets under management $98.6b, down 10%
	Normalised Return On Equity (pre-tax) 11.9%, up 70 bps
	Statutory Return On Equity (post-tax) 6.4%, down 1,040 bps
	Full-year dividend 23.0 cents per share (fully franked), up 15%
	Normalised dividend payout ratio 48.3%
Life	Normalised Cash Operating Earnings (COE) $583m, up 14%
	COE margin 2.60%, unchanged
	Expenses $111m, down 3%
	Normalised EBIT[3] $472m, up 18%
	Total Life sales $9.7b, up 40%
	Annuity sales $5.1b, up 12%
	Total Life book growth $2.5b, or 14.3% growth in opening liabilities
	Annuity net book growth $1.1b, or 7.9% growth in opening liabilities
	Average investment assets $22.4b, up 14%
	Investment assets $22.2b, up 3%
	Normalised Return On Equity (pre-tax) 13.1%, up 70 bps
	Prescribed Capital Amount (PCA) ratio 1.60 times, down from 1.63 times
	Common Equity Tier 1 (CET1) ratio 1.11 times, down from 1.14 times
	Capital intensity 11.5%, down from 12.1%
Funds Management	Net income $192m, up 13%
	Expenses $109m, up 11%
	EBIT[3] $83m, up 17%
	Net flows -$8.5b, down from $16.1b
	Funds Under Management (FUM) $93b, down 12%
	Return On Equity (pre-tax) 31.2%, up 350 bps
Bank	Net interest income $2m
	Net interest margin 0.93%
	Expenses $13m
	Normalised loss before interest and tax $11m
	Deposit sales $219m
	Net deposit book growth $94m, or 70% of opening deposits
	Average lending and financing assets $275m
	Capital adequacy ratio 52%
	CET1 capital ratio 4.91 times

1 All percentage movements compare FY22 to the prior corresponding period (FY21) unless otherwise stated.
2 Earnings per share (EPS).
3 Earnings before interest and tax (EBIT).

Business and market overview

Challenger's purpose is to provide customers with financial security for a better retirement. To fulfil this purpose, Challenger leverages capabilities across its Life, Funds Management and recently acquired Bank businesses.

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

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

Critical features driving the growth of Australia's superannuation system include government-mandated and increasing contributions, tax incentives to encourage retirement savings and an efficient and competitive institutional model.

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

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

Life

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

As Australia's superannuation system grows, the retirement phase of superannuation is expected to increase significantly. The number of Australians over the age of 65, which is Life's target market, is expected to increase by nearly 50% over the next 20 years[4]. Reflecting these demographic changes, and growth in the superannuation system, the annual transfer from the savings phase of superannuation to the retirement phase was estimated to be approximately $76 billion[5] 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. Refer to page 33 for more detail.

These reforms provide an opportunity to increase the proportion of savings invested in products that deliver stable, regular and reliable retirement income. Annuities currently represent only a small part of the retirement phase.

As Australia's leading provider of annuities[6], Challenger Life is expected to continue to benefit from the long-term growth in Australia's superannuation system and 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[7]) per year[8]. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

At 30 June 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.

Refer to page 32 for more detail on the MS Primary and MS&AD relationship.

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

[1] Willis Towers Watson Global Pension Study 2022.
[2] The Australian Prudential Regulation Authority (APRA), as at March 2022.
[3] Deloitte Dynamics of the Australian Superannuation System: The Next 20 Years to 2041.
[4] 2022 – 2042 comparison based on Australian Bureau of Statistics, Population Projections Series B, cat no. 3222.0.
[5] Based on Taxation Statistics 2019-20 from Australian Taxation Office.
[6] Plan for Life – March 2022 – based on annuities under administration.
[7] Based on exchange rate as at 30 June 2022.
[8] Reinsurance across both Australian and US dollar annuities, of at least ¥50b per year for a minimum of five years, commencing 1 July 2019.

Funds Management

Funds Management focuses on 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[9] 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[10].

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.

Bank

In December 2020, Challenger announced it had entered into an agreement to acquire the Bank (formerly MyLifeMyFinance Limited), an Australian-based authorised deposit-taking institution (ADI) and digital bank.

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[11], which are familiar banking products and represent a significant portion of retiree and pre-retiree wealth.

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.

[9] Calculated from Rainmaker Roundup, March 2022 data.
[10] As at 30 June 2022. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with performance weighted by FUM.
[11] Bank term deposits are guaranteed under the Financial Claims Scheme up to $250,000 per account-holder per authorised deposit-taking institution (ADI).

COVID-19 pandemic

The 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.

Risks

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

- investment market volatility;
- ongoing impact of COVID-19 pandemic on the global economy and the ability of individuals, businesses and governments to operate;
- general uncertainty around the global economy and its impact on markets in which Challenger operates and invests;
- regulatory and political changes impacting financial services markets participants;
- demand for and competition with Challenger products, including annuities, term deposits and managed funds;
- inflation risk; and
- operational risk.

Purpose and corporate strategy

Challenger's purpose is to provide customers with financial security for a better retirement.

Challenger has four strategic priorities to ensure it achieves its purpose:

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

Our **purpose** is to provide our 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**

I ACT values

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

FY22 strategic progress

Progress over FY22 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.

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

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.

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

	FY22	FY21	FY20	2H22	1H22	2H21	1H21	2H20	1H20
Earnings									
Normalised NPBT ($m)	472.3	395.8	506.5	234.8	237.5	199.6	196.2	227.9	278.6
Normalised NPAT ($m)	321.5	278.5	343.7	155.9	165.6	141.7	136.8	152.3	191.4
Statutory NPAT ($m)	253.7	592.3	(416.0)	(28.4)	282.1	369.5	222.8	(636.4)	220.4
Underlying operating cash flow ($m)	(101.3)	156.8	194.7	23.6	(124.9)	37.3	119.5	54.7	140.0
EBIT margin (%)	61.3%	58.8%	64.3%	60.7%	61.9%	56.7%	61.0%	61.9%	66.5%
Normalised cost to income ratio (%)	38.7%	41.2%	35.7%	39.3%	38.1%	43.3%	39.0%	38.1%	33.5%
Normalised effective tax rate (%)	31.9%	29.6%	32.1%	33.6%	30.3%	29.0%	30.3%	33.2%	31.3%
Earnings per share (cents)									
Basic – normalised	47.6	41.5	56.5	23.1	24.5	21.1	20.4	25.0	31.5
Basic – statutory	37.5	88.2	(68.4)	(4.2)	41.8	54.9	33.2	(104.4)	36.3
Diluted – normalised	40.9	33.8	46.9	19.9	20.7	17.8	17.5	21.1	27.7
Diluted – statutory	33.1	68.0	(68.4)	(4.2)	33.9	43.4	27.3	(104.4)	31.5
Return On Equity (%)									
Normalised ROE – pre-tax	11.9%	11.2%	14.8%	11.5%	12.1%	11.1%	11.5%	14.0%	15.2%
Normalised ROE – post-tax	8.1%	7.9%	10.0%	7.6%	8.4%	7.8%	8.0%	9.4%	10.4%
Statutory ROE – post-tax	6.4%	16.8%	(12.1%)	(1.4%)	14.3%	20.5%	13.0%	(39.2%)	12.0%
Capital management									
Net assets – average[1] ($m)	3,970	3,519	3,424	4,048	3,904	3,641	3,396	3,257	3,634
Net assets – closing ($m)	3,988	3,826	3,250	3,988	4,059	3,826	3,513	3,250	3,716
Net assets per basic share ($)	5.86	5.69	4.90	5.86	6.00	5.69	5.23	4.90	6.12
Net tangible assets ($m)	3,372	3,202	2,619	3,372	3,420	3,202	2,877	2,619	3,079
Net tangible assets per basic share ($)	4.96	4.76	3.95	4.96	5.06	4.76	4.28	3.95	5.07
Dividend (cps)	23.0	20.0	17.5	11.5	11.5	10.5	9.5	—	17.5
Dividend franking (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	—	100.0
Normalised dividend payout ratio (%)	48.3%	48.2%	31.0%	49.8%	46.9%	49.8%	46.6%	—	55.5%
Group Minimum Regulatory Requirement ratio (times)	1.68	1.63	1.81	1.68	1.75	1.63	1.63	1.81	1.54
CET1 Capital ratio (times)	1.11	1.14	1.20	1.11	1.20	1.14	1.09	1.20	1.07
Sales, net flows and assets under management									
Life annuity sales ($m)	5,122.7	4,566.0	3,127.4	2,606.4	2,516.3	2,375.0	2,191.0	1,170.5	1,956.9
Other Life sales ($m)	4,583.4	2,362.1	2,024.0	2,156.6	2,426.8	1,115.6	1,246.5	841.8	1,182.2
Total Life sales ($m)	9,706.1	6,928.1	5,151.4	4,763.0	4,943.1	3,490.6	3,437.5	2,012.3	3,139.1
Life annuity net flows ($m)	1,074.2	1,079.8	(251.1)	466.5	607.7	922.2	157.6	(344.7)	93.6
Life annuity book ($m)	13,595	13,670	12,581	13,595	14,093	13,670	12,770	12,581	12,845
Life annuity book growth (%)	7.9%	8.6%	(2.0%)	3.5%	4.4%	7.3%	1.3%	(2.7%)	0.7%
Total Life net flows ($m)	2,471.9	2,163.8	315.8	1,025.9	1,446.0	1,455.1	708.7	(607.8)	923.6
Total Life book[2] ($m)	17,982	17,302	14,997	17,982	18,474	17,302	15,801	14,997	15,551
Total Life book growth (%)	14.3%	14.4%	2.1%	5.9%	8.4%	9.7%	4.7%	(4.1%)	6.2%
Bank deposit sales ($m)[3]	219.3	—	—	146.7	72.6	—	—	—	—
Bank net deposit flows ($m)	93.6	—	—	75.2	18.4	—	—	—	—
Bank deposit book ($m)	227.7	—	—	227.7	152.6	—	—	—	—
Bank deposit book growth (%)	69.7%	—	—	56.0%	13.7%	—	—	—	—
Funds Management – net flows ($m)	(8,524.8)	16,111.5	2,540.9	(9,429.2)	904.4	9,688.1	6,423.4	661.3	1,879.6
Total Group AUM ($m)	98,570	109,960	85,237	98,570	114,907	109,960	96,087	85,237	86,339
Other									
Headcount – closing FTEs[4]	770	738	735	770	735	738	709	735	717
Weighted average number of basic shares on issue (m)	675.7	671.6	608.3	676.9	674.6	672.3	670.8	609.6	607.1
Number of basic shares on issue[5] (m)	680.0	672.6	663.1	680.0	676.0	672.6	672.2	663.1	607.6
Share price closing ($)	6.84	5.41	4.41	6.84	6.53	5.41	6.44	4.41	8.09

1 Net assets – average calculated on a monthly basis.
2 Total Life book includes the Life annuity book and Challenger Index Plus Fund liabilities.
3 Deposits includes At Call accounts and Term Deposits.
4 Full-time equivalent employees.
5 Excludes CPP Trust treasury shares.

Consolidated profit and loss

$m	FY22	FY21	FY20	2H22	1H22	2H21	1H21	2H20	1H20
Life Normalised Cash Operating Earnings	582.8	512.8	638.9	295.4	287.4	268.8	244.0	294.1	344.8
Funds Management net fee income	191.8	169.3	158.1	93.6	98.2	88.0	81.3	80.4	77.7
Bank net interest income	2.3	—	—	1.4	0.9	—	—	—	—
Other income	—	—	0.4	—	—	—	—	0.2	0.2
Total net income	**776.9**	**682.1**	**797.4**	**390.4**	**386.5**	**356.8**	**325.3**	**374.7**	**422.7**
Personnel expenses	(204.5)	(179.9)	(174.0)	(103.4)	(101.1)	(93.7)	(86.2)	(82.7)	(91.3)
Other expenses	(96.0)	(101.4)	(110.4)	(50.0)	(46.0)	(60.8)	(40.6)	(60.1)	(50.3)
Total expenses	**(300.5)**	**(281.3)**	**(284.4)**	**(153.4)**	**(147.1)**	**(154.5)**	**(126.8)**	**(142.8)**	**(141.6)**
Normalised EBIT	**476.4**	**400.8**	**513.0**	**237.0**	**239.4**	**202.3**	**198.5**	**231.9**	**281.1**
Interest and borrowing costs	(4.1)	(5.0)	(6.5)	(2.2)	(1.9)	(2.7)	(2.3)	(4.0)	(2.5)
Normalised profit before tax	**472.3**	**395.8**	**506.5**	**234.8**	**237.5**	**199.6**	**196.2**	**227.9**	**278.6**
Normalised tax	(150.8)	(117.3)	(162.8)	(78.9)	(71.9)	(57.9)	(59.4)	(75.6)	(87.2)
Normalised profit after tax	**321.5**	**278.5**	**343.7**	**155.9**	**165.6**	**141.7**	**136.8**	**152.3**	**191.4**
Life investment experience after tax	(81.2)	318.6	(750.3)	(190.3)	109.1	231.5	87.1	(788.7)	38.4
Bank impairments[1]	(0.9)	—	—	(0.9)	—	—	—	—	—
Significant items after tax[2]	14.3	(4.8)	(9.4)	6.9	7.4	(3.7)	(1.1)	—	(9.4)
Statutory net profit after tax	**253.7**	**592.3**	**(416.0)**	**(28.4)**	**282.1**	**369.5**	**222.8**	**(636.4)**	**220.4**
Performance analysis									
Normalised EPS – basic (cents)	47.6	41.5	56.5	23.1	24.5	21.1	20.4	25.0	31.5
Shares for basic EPS calculation (m)	675.7	671.6	608.3	676.9	674.6	672.3	670.8	609.6	607.1
Normalised cost to income ratio (%)	38.7%	41.2%	35.7%	39.3 %	38.1%	43.3%	39.0%	38.1%	33.5%
Normalised tax rate (%)	31.9%	29.6%	32.1%	33.6 %	30.3%	29.0%	30.3%	33.2%	31.3%
Total net income analysis (%)									
Cash earnings (Life)	68.7%	70.2%	65.0%	69.0%	68.5%	70.3%	70.0%	65.2%	64.9%
Normalised capital growth (Life)	6.3%	5.0%	15.1%	6.7%	5.9%	5.0%	5.0%	13.2%	16.7%
Net fee income (Funds Management)	24.7%	24.8%	19.8%	24.0%	25.4%	24.7%	25.0%	21.5%	18.4%
Net interest income (Bank)	0.3%	—	—	0.3%	0.2%	—	—	—	—
Other income (Corporate)	—%	—	0.1%	—%	—	—	—	0.1%	—
Normalised EBIT by division ($m)									
Life	472.3	398.9	524.7	239.3	233.0	206.1	192.8	238.9	285.8
Funds Management	82.8	71.0	57.7	37.7	45.1	35.7	35.3	29.8	27.9
Bank	(11.1)	—	—	(7.8)	(3.3)	—	—	—	—
Corporate	(67.6)	(69.1)	(69.4)	(32.2)	(35.4)	(39.5)	(29.6)	(36.8)	(32.6)
Normalised EBIT	**476.4**	**400.8**	**513.0**	**237.0**	**239.4**	**202.3**	**198.5**	**231.9**	**281.1**

1 Represents provision for expected credit losses.

2 FY22 significant items (after-tax) relates to gains on the sale of Whitehelm and Accurium, partly offset by an impairment of goodwill on acquisition of the Bank, restructuring costs and other costs, and bank integration costs. FY21 significant items (after-tax) of $5m represents the write-off of Challenger's investment in Avenir Capital, an affiliate investment manager, following its closure and transaction costs associated with the MyLife MyFinance bank acquisition (refer to page 3 for more detail).

Consolidated profit and loss (continued)

Normalised profit after tax

FY22 normalised profit after tax was $322m and increased by $43m (15%) from $279m in FY21. The increase reflects higher normalised profit before tax (up $77m), partially offset by higher normalised tax (up $34m).

Normalised earnings per share (EPS)

Normalised EPS increased by 15% on FY21 to 47.6cps. The increase reflects higher normalised profit after tax (up 15%), partially offset by a higher average number of basic shares on issue (up 1%). The weighted average number of basic shares on issue in FY22 was 676m shares, up 4m shares on FY21 as a result of new shares issued as part of Challenger's dividend reinvestment plan and the mandatory conversion of Challenger Capital Notes 1 (ASX: CGFPA). Refer to page 45 for additional detail on the mandatory conversion of Challenger Capital Notes 1 into Challenger ordinary shares.

Net income

FY22 net income was $777m and increased by $95m (up 14%) on FY21, with:

- Life Normalised Cash Operating Earnings (COE) of $583m was up $70m (14%) driven by higher cash earnings and normalised capital growth, which benefited from growth in average investment assets (up 14%) and a stable COE margin;
- Funds Management fee income of $192m was up $23m (13%), from higher FUM-based revenue (up $27m) and transaction fees (up $2m), partially offset by lower performance fees (down $6m); and
- Bank net interest income was $2m, following the Bank acquisition, which completed on 30 July 2021.

Expenses

FY22 total expenses were $301m and increased by $19m on FY21 (7%). The expense increase of $19m includes $13m in relation to the Bank which was acquired in July 2021. Excluding the Bank, expenses increased by $6m or 2% on FY21.

Personnel expenses increased by $25m as a result of an increase in full-time equivalent employees (up 4%), higher annual leave balances due to COVID-19, higher variable reward costs and higher recruitment costs.

Other expenses decreased by $5m due to lower non-recurring software impairment expenses ($9m) in 2H21, partially offset by higher professional services costs to support business growth.

The FY22 normalised cost to income ratio was 38.7% and decreased by 2.5 percentage points on FY21. The decrease in the ratio was driven by higher net income (up 14%), partially offset by higher expenses (up 7%).

Normalised EBIT

FY22 normalised EBIT was $476m, up $76m (19%) on FY21. Higher Life EBIT (up $73m), higher Funds Management EBIT (up $12m) and lower Corporate EBIT loss (down $2m) were offset by the Bank EBIT loss of $11m.

Life EBIT increased by $73m (up 18%) to $472m and reflected higher normalised COE (up $70m) and lower expenses (down $3m).

Funds Management EBIT increased by $12m (up 17%) to $83m, from higher FUM-based management fees (up $27m) due to higher average FUM (up $12b), partially offset by lower performance fees (down $6m) and higher expenses (up $11m).

Normalised Return On Equity (ROE)

FY22 normalised ROE (pre-tax) was 11.9% and increased by 70 bps on FY21. Higher normalised ROE reflects higher normalised profit before tax (up 19%), partially offset by higher average Group net assets (up 13%). Average group net assets were 13% higher than FY21, reflecting an increase in retained earnings (up 7%) and contributed equity (up 2%).

Challenger's Normalised ROE (pre-tax) target remains at the Reserve Bank of Australia (RBA) cash rate plus a margin of 12%. Refer to page 14 for more detail.

In FY22, the average RBA cash rate was ~20 bps, resulting in Challenger's Normalised ROE target being 12.2%. Challenger's Normalised ROE in FY22 was 11.9% and below the FY22 target due to the impact of the Bank. Excluding the Bank, Normalised ROE would have been 12.5% and above the FY22 target.

Normalised tax

Normalised tax was $151m in FY22 and increased by $34m (29%) on FY21. Higher normalised tax reflects a higher effective tax rate, which was 31.9%, up from 29.6% in FY21. The increase in the effective tax rate above the statutory rate of 30% reflects non-deductible interest payments on Challenger Capital Notes and derecognition of a deferred tax asset in relation to an offshore entity.

Investment experience after tax

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

Challenger is generally a long-term holder of assets due to them being held to match the term of life contract liabilities. As a result, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements.

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

Investment experience also includes new business strain, being the requirement to apply the risk-free discount rate plus an illiquidity premium to value annuity liabilities, rather than the actual interest rate paid on annuity liabilities (refer to page 65).

FY22 investment experience was a loss of $81m (after-tax) and driven by lower investment markets and wider fixed income credit spreads in 2H22.

Refer to page 28 for more detail, including investment experience by asset class.

Significant items

FY22 significant items were positive $14m (after-tax) and predominantly represents:

- gain on sale of Whitehelm Capital of $31m (refer to page 7 for more detail);
- Accurium gain on sale of $13m (refer to page 28 for more detail); partially offset by
- Bank impairment of goodwill of $19m;
- restructuring costs, write-off of Challenger's investment in Fidante affiliates and other expenses of $7m; and
- Bank integration costs of $4m.

Statutory net profit after tax

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

FY22 statutory profit after tax was $254m, and decreased by $339m (or 57%) on FY21, and includes:

- Normalised net profit after tax of +$322m;
- Life investment experience of -$81m (refer to page 28 for more detail);
- Bank impairments of -$1m; and
- Significant items of +$14m.

Dividends

Dividend policy

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

FY22 dividend

The Challenger Board has declared a fully franked final FY22 dividend of 11.5 cps, bringing the full year dividend to 23.0 cps (fully franked), compared to 20.0 cps (fully franked) in FY21.

Dates for the final FY22 dividend are as follows:

- ex-date: 29 August 2022;
- record date: 30 August 2022;
- Dividend Reinvestment Plan (DRP) election date: 31 August 2022; and
- payment date: 21 September 2022.

The FY22 dividend payout ratio was 48.3%, which is within Challenger's normalised dividend payout ratio target of between 45% and 50% of normalised profit after tax.

Challenger operates a DRP, which has the effect of reducing the cash dividend paid.

Challenger's franking account balance at 30 June 2022 was $324m. This amount is calculated from the balance of the franking account as at the end of the period, adjusted for franking credits that will arise from the settlement of current income tax liabilities and interest on Challenger Capital Notes.

The final dividend of 11.5 cps will result in a total dividend of $79m, which will reduce the franking account by $34m.

Dividend Reinvestment Plan (DRP)

Challenger operates a DRP, providing an effective way for shareholders to reinvest their dividends and increase their shareholding without incurring transaction costs.

Under the terms of the DRP, new Challenger shares will be issued based on a 10-day Challenger volume-weighted average price (VWAP), with no share price discount applied.

For the interim FY22 dividend, the DRP participation rate was 2% of issued capital.

Credit ratings

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

Challenger's S&P ratings are as follows:

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

Challenger Bank Limited is currently not rated by S&P. The Bank is very strongly capitalised and Challenger expects to scale and grow the business over time.

FY23 outlook

Normalised net profit before tax guidance

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%.

Challenger announced a strategic review of the Bank and is considering all options in relation to the banking business. Refer to page 3 for more detail.

Normalised Return On Equity (ROE) target

Challenger's Normalised ROE (pre-tax) target remains as the Reserve Bank of Australia (RBA) cash rate plus a margin of 12%.

In FY22, the average RBA cash rate was ~20 bps, resulting in Challenger's Normalised ROE in FY22 was 11.9% and below the FY22 target due to the impact of the Bank. Excluding the Bank, Normalised ROE would have been 12.5% and above the FY22 target.

In FY23, Challenger does not expect to achieve the ROE target, predominantly due to the Bank (expected EBIT loss of $10m and ~$120m of capital). The Bank will not contribute to the Group ROE until it scales and develops its lending capability.

CLC excess capital position

CLC does not target a specific PCA ratio. CLC's target PCA ratio range is a reflection of internal capital models, not an input to them, and reflects asset allocation, business mix and economic circumstances. The target surplus produced by these internal capital models for FY23 corresponded to a PCA ratio of between 1.3 times to 1.7 times. This range may change over time. Refer to page 48 for more detail.

Dividend

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

Group balance sheet[1]

$m	FY22	1H22	FY21	1H21	FY20	1H20
Assets						
Life investment assets						
Fixed income and cash[2]	16,659.4	17,031.1	16,418.2	14,821.1	13,970.6	12,956.7
Property[2]	3,227.0	3,583.3	3,467.5	3,316.2	3,292.1	3,337.8
Equity and infrastructure[2,3]	971.1	1,096.1	623.2	604.2	393.4	2,035.9
Alternatives[3]	1,366.3	1,226.4	1,054.3	892.5	647.2	1,338.8
Life investment assets	**22,223.8**	**22,936.9**	**21,563.2**	**19,634.0**	**18,303.3**	**19,669.3**
Bank lending and financing assets						
Fixed income, cash and cash equivalents	285.2	132.8	—	—	—	—
Retail lending and non-retail lending	105.3	97.3	—	—	—	—
Bank lending and financing assets	**390.5**	**230.1**	**—**	**—**	**—**	**—**
Cash and cash equivalents (Group cash)	183.1	94.5	223.0	136.6	146.1	141.2
Receivables	355.1	153.7	115.9	127.7	163.0	121.2
Derivative assets	599.5	822.0	641.9	450.1	522.9	403.3
Investment in associates	74.9	79.7	83.2	63.3	63.0	56.1
Other assets	53.8	58.1	63.1	61.4	65.8	60.3
Fixed assets	24.8	26.4	28.2	25.1	25.9	27.3
Right-of-use lease assets[4]	29.0	31.5	34.7	37.9	32.4	34.4
Tax assets	65.3	—	—	—	43.1	—
Goodwill and intangibles	587.2	607.4	589.1	597.5	598.0	602.0
Less Group/Life eliminations[5]	(21.5)	(25.1)	(31.3)	(36.3)	(41.0)	(44.8)
Total assets	**24,565.5**	**25,015.2**	**23,311.0**	**21,097.3**	**19,922.5**	**21,070.3**
Liabilities						
Payables	184.3	173.2	196.9	162.4	191.4	189.6
Tax liabilities	—	107.0	104.8	39.7	—	204.8
Derivative liabilities	839.6	676.8	507.6	143.7	136.2	118.8
Subordinated debt	398.4	401.6	404.5	401.7	395.7	404.9
Challenger Capital Notes	838.6	864.8	863.3	881.6	799.5	798.3
Group debt	—	—	—	50.0	50.0	—
Lease liabilities[4]	62.5	66.3	70.3	72.4	67.6	70.2
Provisions	44.3	39.3	35.7	31.8	35.5	17.0
Life annuity liabilities	13,595.4	14,092.5	13,669.9	12,769.7	12,581.2	12,845.3
Challenger Index Plus Fund liabilities	4,386.4	4,381.8	3,632.2	3,031.5	2,415.8	2,705.6
Bank deposit liabilities	227.7	152.6	—	—	—	—
Total liabilities	**20,577.2**	**20,955.9**	**19,485.2**	**17,584.5**	**16,672.9**	**17,354.5**
Group net assets	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**
Equity						
Contributed equity	2,481.5	2,451.8	2,425.5	2,422.6	2,377.6	2,110.8
Reserves	(49.3)	(55.0)	(50.9)	(55.5)	(50.9)	(61.0)
Retained earnings	1,556.1	1,662.5	1,451.2	1,145.7	922.9	1,666.0
Total equity	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**

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

Change in Group net assets

$m	FY22	1H22	FY21	1H21	FY20	1H20
Opening net assets	**4,059.4**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**	**3,600.3**
Statutory net profit after tax	(28.4)	282.1	369.5	222.8	(636.4)	220.4
Dividends paid	(78.1)	(70.7)	(64.0)	—	(106.7)	(109.7)
New share issue	1.7	13.4	2.9	34.8	266.8	2.6
Reserve movements	5.7	(4.1)	4.6	(4.6)	10.1	(8.6)
CPP[1] Trust movements	—	12.9	—	10.2	—	14.5
Issued under Capital Notes 1 conversion	28.0	—	—	—	—	—
Transition of new leasing standard[2]	—	—	—	—	—	(3.7)
Closing net assets	**3,988.3**	**4,059.4**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**

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

Issued share capital, dilutive share count and earnings per share

	FY22	FY21	FY20	2H22	1H22	2H21	1H21	2H20	1H20
Earnings per share (cents)									
Basic – normalised	47.6	41.5	56.5	23.1	24.5	21.1	20.4	25.0	31.5
Basic – statutory	37.5	88.2	(68.4)	(4.2)	41.8	54.9	33.2	(104.4)	36.3
Diluted – normalised	40.9	33.8	46.9	19.9	20.7	17.8	17.5	21.1	27.7
Diluted – statutory	33.1	68.0	(68.4)	(4.2)	33.9	43.4	27.3	(104.4)	31.5
Number of shares (m)									
Basic share count	680.0	672.6	663.1	680.0	676.0	672.6	672.2	663.1	607.6
CPP[1] Trust treasury shares	2.2	3.4	4.4	2.2	2.1	3.4	3.4	4.4	4.4
Total issued shares	682.2	676.0	667.5	682.2	678.1	676.0	675.6	667.5	612.0
Movement in basic share count									
Opening	672.6	663.1	605.8	676.0	672.6	672.2	663.1	607.6	605.8
CPP[1] Trust deferred share purchase	—	—	—	—	—	—	—	—	—
Net Treasury shares (acquired)/released	1.2	1.0	1.4	(0.1)	1.3	—	1.0	—	1.4
New share issues	6.2	8.5	55.9	4.1	2.1	0.4	8.1	55.5	0.4
Closing	680.0	672.6	663.1	680.0	676.0	672.6	672.2	663.1	607.6
Movement in CPP Trust Treasury shares									
Opening	3.4	4.4	5.8	2.1	3.4	3.4	4.4	4.4	5.8
Shares vested to participants	(1.2)	(1.0)	(1.4)	0.1	(1.3)	—	(1.0)	—	(1.4)
CPP[1] Trust deferred share purchase	—	—	—	—	—	—	—	—	—
Shares bought into CPP Trust	—	—	—	—	—	—	—	—	—
Closing	2.2	3.4	4.4	2.2	2.1	3.4	3.4	4.4	4.4
Weighted average number of shares (m)									
Basic EPS shares									
Total issued shares	678.1	675.2	612.8	679.1	677.2	675.9	674.6	614.0	611.8
Less CPP[1] Trust Treasury shares	(2.4)	(3.6)	(4.5)	(2.2)	(2.6)	(3.6)	(3.8)	(4.4)	(4.7)
Shares for basic EPS calculation	675.7	671.6	608.3	676.9	674.6	672.3	670.8	609.6	607.1
Diluted shares for normalised EPS									
Shares for basic EPS calculation	675.7	671.6	608.3	676.9	674.6	672.3	670.8	609.6	607.1
Add dilutive impact of unvested equity awards	10.0	8.7	4.2	9.8	13.3	2.4	5.9	4.2	4.3
Add dilutive impact of Capital Notes	126.3	178.3	145.5	126.3	133.4	155.0	136.3	145.5	99.5
Add dilutive impact of subordinated notes	58.3	59.1	59.1	58.3	59.1	59.1	59.1	59.1	49.5
Add dilutive impact of restricted shares	0.7	—	—	0.7	—	—	—	—	—
Shares for diluted normalised EPS calculation	871.0	917.7	817.1	872.0	880.4	888.8	872.1	818.4	760.4
Diluted shares for statutory EPS									
Shares for basic EPS calculation	675.7	671.6	608.3	676.9	674.6	672.3	670.8	609.6	607.1
Add dilutive impact of unvested equity awards	10.0	8.7	—	—	13.3	2.4	5.9	—	4.3
Add dilutive impact of Capital Notes	126.3	178.3	—	—	133.4	155.0	136.3	—	99.5
Add dilutive impact of subordinated notes	58.3	59.1	—	—	59.1	59.1	59.1	—	49.5
Add dilutive impact of restricted shares	0.7	—	—	—	—	—	—	—	—
Shares for diluted statutory EPS calculation	871.0	917.7	608.3	676.9	880.4	888.8	872.1	609.6	760.4
Summary of share rights (m)									
Hurdled Performance Share Rights									
Opening	14.7	9.8	7.2	16.4	14.7	16.1	9.8	10.2	7.2
New grants	3.7	7.5	3.9	0.1	3.6	0.1	7.4	—	3.9
Vesting/forfeiture	(2.6)	(2.6)	(1.3)	(0.7)	(1.9)	(1.5)	(1.1)	(0.4)	(0.9)
Closing	15.8	14.7	9.8	15.8	16.4	14.7	16.1	9.8	10.2
Deferred Performance Share Rights									
Opening	2.9	2.1	2.5	1.7	2.9	2.9	2.1	2.1	2.5
New grants	—	1.8	1.1	—	—	—	1.8	—	1.1
Vesting/forfeiture	(1.3)	(1.0)	(1.5)	(0.1)	(1.2)	—	(1.0)	—	(1.5)
Closing	1.6	2.9	2.1	1.6	1.7	2.9	2.9	2.1	2.1

[1] Challenger Performance Plan (CPP) Trust.

Issued share capital

Issued share capital and diluted share count

The number of Challenger Limited shares listed on the ASX at 30 June 2022 was 682m shares. The number of shares on issue increased by 6m shares in FY22, with new shares issued under Challenger's dividend reinvestment plans in September 2021 and March 2022 and the mandatory conversion of Challenger Capital Notes 1 (ASX: CGFPA). Refer to page 45 for additional detail on the mandatory conversion of Challenger Capital Notes.

The basic number of shares used to determine Challenger's normalised and statutory EPS is based on requirements set out in Australian Accounting Standards, as follows:

- the basic share count is reduced for Treasury shares;
- the dilutive share count includes unvested equity awards made to employees under the Challenger Performance Plan (CPP); and
- the dilutive share count considers convertible instruments (e.g. Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt) as determined by a probability of vesting test (refer to page 19 for more detail on the accounting treatment).

Treasury shares

The CPP Trust was established to purchase shares to satisfy Challenger's employee equity obligations arising from hurdled and deferred performance share rights issued under employee remuneration structures.

Shares are acquired by the CPP Trust to mitigate shareholder dilution and provide a mechanism to hedge the cash cost of acquiring shares in the future to satisfy vested equity awards.

The CPP Trust typically acquires physical shares on-market or via forward share purchase agreements. The use of forward share purchase agreements was implemented to increase capital efficiency. Shares held by the CPP Trust and share forward purchase agreements are classified as Treasury shares.

It is expected that should equity awards vest in the future, the CPP Trust will satisfy equity requirements via a combination of Treasury shares and settlement of forward purchase agreements. As such, it is not anticipated new Challenger shares will be issued to meet future vesting obligations of equity awards.

Weighted average share count

The basic weighted average number of shares used to determine both the normalised and statutory basic EPS increased by 4m shares (up 1%) in FY22 to 676m shares.

The increase reflects the weighted impact of new shares issued under Challenger's dividend reinvestment plan in September 2021 and March 2022 and the mandatory conversion of Challenger Capital Notes 1 in May 2022.

The weighted average number of shares used to determine normalised diluted EPS decreased by 47m shares (down 5%) in FY22 to 871m shares. The decrease primarily reflects the mandatory conversion of Challenger Capital Notes 1 in May 2022, partially offset by a higher basic weighted average number of shares on issue (4m shares - refer above), the issue of unvested equity awards to employees under the CPP (1m) and a lower dilutive impact on debt instruments as a result of the increase in the Challenger share price, which is used to calculate potential dilution (refer to page 19).

The weighted average number of shares used to determine statutory diluted EPS decreased by 47m shares (down 5%) in FY22 to 871m shares and is also used to determine normalised diluted EPS.

Dilutive share count and earnings per share

Dilutive share count

Dilutive impact of unvested equity awards

Challenger's approach to executive remuneration includes providing equity awards to ensure alignment between key employees and shareholders.

Hurdled Performance Share Rights (HPSRs) vest over a period of up to five years, with vesting subject to meeting total shareholder return performance hurdles and continued employment.

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

The dilutive impact of these awards in any given period is based on the probability of future vesting.

Accounting treatment of Capital Notes and subordinated debt

Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt are effective sources of funding for Challenger. Refer to page 45 for more detail.

Capital Notes 2, Capital Notes 3 and subordinated debt have convertibility features that would result in these instruments converting to ordinary shares under certain circumstances, including APRA determining Challenger Life to be non-viable. Challenger may choose to redeem or resell (rather than convert) all or some of the notes for their face value at a future date, subject to APRA approval and market conditions.

However, under Australian Accounting Standards, convertible debt is considered dilutive whenever the interest per potential ordinary share for each of these instruments is less than Challenger's basic EPS for the period. As such, a test is required to be undertaken each reporting period to determine if they are included in the dilutive share count.

Dilutive impact of Capital Notes and subordinated debt

The dilutive share count for Challenger's convertible debt (Challenger Capital Notes 2 and 3, and subordinated debt) is based on the following formula:

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

The conversion factor for all of Challenger's convertible debt is 99%. The simple average of Challenger's 20-day volume weighted average share price (VWAP) in each reporting period, subject to a minimum VWAP floor, is used to determine the dilutive impact. The simple average of Challenger's 20-day VWAP leading up to 30 June 2022 was $6.93.

Mandatory conversion of Challenger's convertible debt is subject to a VWAP floor, being 50% of the issue date VWAP. As a result, under mandatory conversion, the VWAP floor for mandatory conversion is as follows:

Issue	Issue date	Face value	VWAP floor price
Challenger Capital Notes 2	7 Apr 2017	$460m	$6.1500
Challenger Capital Notes 3	25 Nov 2020	$385m	$2.5700
Subordinated debt	24 Nov 2017	$400m	$6.8400
Total		**$1,245m**	

Earnings per share

Normalised diluted EPS

The normalised basic EPS for FY22 of 47.6 cps is greater than the interest cost per potential ordinary share for each of the Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt. As a result, all debt instruments were considered to be dilutive in FY22.

The weighted average number of shares used to determine the normalised diluted EPS decreased by 47m shares in FY22.

The decrease is due to:

- a reduction in the dilutive impact of the remaining Challenger Capital Notes as a result of an increase in Challenger's weighted average share price over the last 20 days of FY22 (reduced the basic share count by 52m shares). The VWAP was $6.93, up from $5.41 at 30 June 2021. The higher Challenger share price results in a lower number of potential shares being issued should the debt ever convert to shareholder equity; partially offset by
- an increase in weighted average number of basic shares on issue that reflects the impact of new shares issued under Challenger's dividend reinvestment plans in September 2021 and March 2022 and the mandatory conversion of Challenger Capital Notes 1 in May 2022 (collectively increased the basic share count by 4m shares); and
- an increase in shares following the issue of unvested equity awards (increased the basic share count by 1m shares).

To determine the normalised diluted EPS, the normalised profit after tax is increased by $35m of interest expense in relation to Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt.

Group Regulatory Capital

30 June 2022, $m	CLC	Challenger Bank Limited	Other (including Funds Management)[1]	Group
Regulatory capital base				
Shareholder equity	3,270.7	119.3	598.3	3,988.3
Goodwill and other intangibles	(70.4)	—	(516.8)	(587.2)
Other adjustments[2]	(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[3,4]	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[5]	399.7	—	—	399.7
Total capital base	**4,102.7**	**119.3**	**177.5**	**4,399.5**
CET1 capital ratio (times)[6]	1.11	4.91	—	—
Tier 1 capital ratio (times)[7]	1.44	4.91	—	—
Minimum Regulatory Requirement ratio (times)[8]	1.60	4.91	4.66	1.68

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

1 Includes Funds Management, Corporate and other Life/Bank entities. Funds Management Minimum Regulatory Requirement (MRR) for capital based on requirements set by ASIC and regulators in other foreign jurisdictions. Challenger Retirement and Investment Services Limited MRR based on APRA and ASIC requirements.
2 Other adjustments predominantly related to deferred tax asset and intercompany items.
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 CLC represents subordinated debt and Challenger Bank Limited represents general credit reserve.
6 CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
7 Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
8 Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

Capital management

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

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

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

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

Commencing in 1H22, Challenger reports a consolidated or Level 3 equivalent capital position for the entire business.

Regulatory capital base

Challenger Group's total regulatory capital base at 30 June 2022 was $4.4b, and is based on the Group's shareholder equity adjusted for items such as goodwill, intangibles and investments in associates and other items.

Minimum Regulatory Requirement

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

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

Challenger Group's Minimum Regulatory Requirement at 30 June 2022 was $2.6b, and includes:

- CLC of $2.6b - refer to page 47 for more detail;
- Bank of $24.3m - refer to page 61 for more detail; and
- Other, which includes Challenger's Funds Management business of $38.1m.

Group excess capital position

Challenger Group's excess regulatory capital above the Minimum Regulatory Requirement at 30 June 2022 was $1.8b.

The Group's Minimum Regulatory Requirement ratio was 1.68 times, which is equivalent to Challenger holding 68% more regulatory capital than minimum requirements.

Consolidated operating cash flow

$m	FY22	FY21	FY20	2H22	1H22	2H21	1H21	2H20	1H20
Receipts from customers	708.0	675.2	683.3	366.0	342.0	351.4	323.8	348.8	334.5
Dividends received	73.3	65.0	66.0	33.6	39.7	31.4	33.6	20.3	45.7
Interest received	605.0	604.7	711.9	297.7	307.3	294.4	310.3	327.0	384.9
Interest paid	(590.3)	(492.0)	(686.2)	(196.7)	(393.6)	(257.7)	(234.3)	(415.6)	(270.6)
Payments to suppliers and employees	(632.4)	(605.2)	(564.5)	(311.0)	(321.4)	(300.3)	(304.9)	(258.9)	(305.6)
Income tax (paid) / refunded	(264.9)	(90.9)	(15.8)	(166.0)	(98.9)	(81.9)	(9.0)	33.1	(48.9)
Underlying operating cash flow	**(101.3)**	**156.8**	**194.7**	**23.6**	**(124.9)**	**37.3**	**119.5**	**54.7**	**140.0**
Net annuity policy capital receipts/(payments)	1,074.2	1,079.8	(251.1)	466.5	607.7	922.2	157.6	(344.7)	93.6
Net other Life capital receipts/(payments)	1,397.7	1,084.0	566.9	559.4	838.3	532.9	551.1	(263.1)	830.0
Net Bank deposit receipts/(payments)	93.5	—	—	75.1	18.4	—	—	—	—
(Purchase)/Proceeds of investments	(2,078.1)	(596.8)	(1,467.7)	(1,389.0)	(689.1)	(238.2)	(358.6)	(568.5)	(899.2)
Capital expenditures	(2.9)	(12.9)	(9.3)	(1.1)	(1.8)	(9.5)	(3.4)	(3.3)	(6.0)
Net equity placement proceeds	43.2	34.6	264.1	29.8	13.4	(0.2)	34.8	264.1	—
Net (repayments)/proceeds from borrowings	(524.0)	(1,355.7)	820.0	134.3	(658.3)	(967.8)	(387.9)	825.7	(5.7)
Receipts/(Payments) for Treasury shares	(1.7)	0.7	(8.3)	(0.1)	(1.6)	(1.7)	2.4	(4.5)	(3.8)
Net dividends paid	(148.8)	(61.1)	(211.0)	(78.1)	(70.7)	(61.1)	—	(103.9)	(107.1)
Net non-operating cash flows SPV's	(8.1)	(1.9)	(28.3)	(1.2)	(6.9)	1.6	(3.5)	(19.8)	(8.5)
Other cash flow	**(155.0)**	**170.7**	**(324.7)**	**(204.4)**	**49.4**	**178.2**	**(7.5)**	**(218.0)**	**(106.7)**
Net increase/(decrease) in cash and cash equivalents	**(256.3)**	**327.5**	**(130.0)**	**(180.8)**	**(75.5)**	**215.5**	**112.0**	**(163.3)**	**33.3**

Underlying operating cash flow

Underlying operating cash flow excludes cash flows that are capital in nature, such as annuity sales and annuity capital payments, and investing and financing-related cash flows.

FY22 underlying operating cash flow was -$101m, down $258m on FY21.

FY22 underlying operating cash flow was $423m lower than normalised net profit after tax ($322m) mainly due to:

- Challenger Index Plus distributions (-$205m), which are capital in nature and not operating cash flows (refer below);
- non-cash normalised capital growth (-$49m);
- tax payments due to timing impacts, including the disposal of property and the sale of Whitehelm Capital (-$114m); and
- accruals for inflation-linked and other fixed income investments (-$50m).

Challenger Index Plus distributions

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

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

Challenger Index Plus distributions in FY22 were $205m.

Net annuity policy capital receipts

FY22 net annuity policy capital receipts were +$1,074m and comprised:

- annuity sales of $5,123m; less
- annuity capital payments of $4,049m.

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

FY22 annuity net flows (+$1,074m) represents annuity book growth of +7.9% for the full year and is calculated as FY22 annuity total net flows divided by the opening period annuity liability of $13,670m.

FY22 annuity net flows benefited from an increase in sales (up 12% on FY21), partially offset by a higher maturity rate. The maturity rate in FY22 was 29.6% (up from 27.7% in FY21).

Net other Life capital receipts

Other Life sales represent Institutional Guaranteed Index Plus.

FY22 net other Life capital receipts was +$1,398m and comprised:

- other Life sales of $4,583m; less
- other Life capital payments of $3,186m.

FY22 other Life net flows benefited from higher sales (up 94% on FY21), partially offset by higher maturities and repayments (up 149%).

A significant proportion of the maturities were reinvested and included in other Life sales. Of the $3,186m in FY22, 87% were reinvested and included in Other Life sales.

FY22 total Life book growth was +14.3% (FY21 +14.4%) and can be calculated as total FY22 net flows (+$2,472m) divided by the sum of the opening period liabilities of $17,302m (Life annuity liabilities and Challenger Index Plus Fund liabilities – refer to page 34 for more detail).

Life financial results

$m	FY22	FY21	FY20	2H22	1H22	2H21	1H21	2H20	1H20
Investment yield - policyholders' funds	806.0	752.4	840.5	417.4	388.6	377.1	375.3	398.4	442.1
Interest expense	(412.4)	(396.3)	(473.6)	(221.9)	(190.5)	(192.1)	(204.2)	(227.8)	(245.8)
Distribution expense	(12.3)	(9.4)	(10.5)	(3.4)	(8.9)	(4.6)	(4.8)	(4.8)	(5.7)
Other income[1]	45.6	40.0	47.2	21.8	23.8	20.6	19.4	31.2	16.0
Product cash margin	**426.9**	**386.7**	**403.6**	**213.9**	**213.0**	**201.0**	**185.7**	**197.0**	**206.6**
Investment yield – shareholders' funds	107.1	92.0	115.1	55.5	51.6	50.0	42.0	47.5	67.6
Cash earnings	**534.0**	**478.7**	**518.7**	**269.4**	**264.6**	**251.0**	**227.7**	**244.5**	**274.2**
Normalised capital growth	48.8	34.1	120.2	26.0	22.8	17.8	16.3	49.6	70.6
Normalised Cash Operating Earnings	**582.8**	**512.8**	**638.9**	**295.4**	**287.4**	**268.8**	**244.0**	**294.1**	**344.8**
Personnel expenses	(73.5)	(72.7)	(68.6)	(38.0)	(35.5)	(38.3)	(34.4)	(32.0)	(36.6)
Other expenses	(37.0)	(41.2)	(45.6)	(18.1)	(18.9)	(24.4)	(16.8)	(23.2)	(22.4)
Total expenses	**(110.5)**	**(113.9)**	**(114.2)**	**(56.1)**	**(54.4)**	**(62.7)**	**(51.2)**	**(55.2)**	**(59.0)**
Normalised EBIT	**472.3**	**398.9**	**524.7**	**239.3**	**233.0**	**206.1**	**192.8**	**238.9**	**285.8**
Asset and liability experience[2]	(72.9)	466.0	(1,102.4)	(264.8)	191.9	345.4	120.6	(1,157.3)	54.9
New business strain[2]	(42.4)	(10.9)	31.9	(6.4)	(36.0)	(14.8)	3.9	30.9	1.0
Total investment experience	**(115.3)**	**455.1**	**(1,070.5)**	**(271.2)**	**155.9**	**330.6**	**124.5**	**(1,126.4)**	**55.9**
Net profit after investment experience before tax	**357.0**	**854.0**	**(545.8)**	**(31.9)**	**388.9**	**536.7**	**317.3**	**(887.5)**	**341.7**
Reconciliation of investment experience to capital growth									
Asset and liability experience	(72.9)	466.0	(1,102.4)	(264.8)	191.9	345.4	120.6	(1,157.3)	54.9
Normalised capital growth	48.8	34.1	120.2	26.0	22.8	17.8	16.3	49.6	70.6
Asset and liability capital growth	**(24.1)**	**500.1**	**(982.2)**	**(238.8)**	**214.7**	**363.2**	**136.9**	**(1,107.7)**	**125.5**
Performance analysis									
Cost to income ratio[3] (%)	19.0%	22.2%	17.9%	19.0%	18.9%	23.3%	21.0%	18.8%	17.1%
Net assets – average[4] ($m)	3,594	3,220	3,163	3,680	3,518	3,365	3,065	2,982	3,388
Normalised ROE (pre-tax) (%)	13.1%	12.4%	16.6%	13.1%	13.1%	12.4%	12.5%	16.1%	16.8%
Margins[5]									
Investment yield – policyholders' funds	3.60%	3.82%	4.37%	3.72%	3.46%	3.72%	3.92%	4.20%	4.52%
Interest expense	(1.84%)	(2.01%)	(2.46%)	(1.98%)	(1.70%)	(1.89%)	(2.13%)	(2.40%)	(2.51%)
Distribution expense	(0.05%)	(0.05%)	(0.06%)	(0.03%)	(0.08%)	(0.05%)	(0.05%)	(0.05%)	(0.06%)
Other income	0.20%	0.20%	0.25%	0.20%	0.22%	0.20%	0.20%	0.33%	0.16%
Product cash margin	**1.91%**	**1.96%**	**2.10%**	**1.91%**	**1.90%**	**1.98%**	**1.94%**	**2.08%**	**2.11%**
Investment yield – shareholders' funds	0.48%	0.47%	0.60%	0.49%	0.46%	0.49%	0.44%	0.50%	0.70%
Cash earnings	**2.39%**	**2.43%**	**2.70%**	**2.40%**	**2.36%**	**2.47%**	**2.38%**	**2.58%**	**2.81%**
Normalised capital growth	0.21%	0.17%	0.62%	0.23%	0.20%	0.18%	0.17%	0.52%	0.72%
Normalised Cash Operating Earnings (COE)	**2.60%**	**2.60%**	**3.32%**	**2.63%**	**2.56%**	**2.65%**	**2.55%**	**3.10%**	**3.53%**

1 Other income includes Accurium revenue and Life Risk revenue (premiums net of claims).
2 Investment experience comprises asset and liability experience and net new business strain. Refer to page 65 for more detail.
3 Cost to income ratio calculated as total expenses divided by normalised COE.
4 Net assets – average calculated on a monthly basis.
5 Ratio of normalised COE components divided by average investment assets.

Life financial results

$m	FY22	FY21	FY20	2H22	1H22	2H21	1H21	2H20	1H20
Sales									
Retail fixed term sales	1,904.9	1,689.1	1,369.3	995.1	909.8	778.9	910.2	594.0	775.3
Institutional fixed term sales	2,114.6	1,510.9	600.0	1,151.6	963.0	1,120.1	390.8	100.0	500.0
Japan sales	616.6	790.4	743.4	193.9	422.7	247.0	543.4	272.8	470.7
Fixed term sales	4,636.1	3,990.4	2,712.8	2,340.6	2,295.5	2,146.0	1,844.4	966.8	1,746.0
Lifetime sales	486.6	575.6	414.6	265.8	220.8	229.0	346.6	203.7	210.9
Life annuity sales	**5,122.7**	**4,566.0**	**3,127.4**	**2,606.4**	**2,516.3**	**2,375.0**	**2,191.0**	**1,170.5**	**1,956.9**
Maturities and repayments	(4,048.5)	(3,486.2)	(3,378.5)	(2,139.9)	(1,908.6)	(1,452.8)	(2,033.4)	(1,515.2)	(1,863.3)
Life annuity flows	**1,074.2**	**1,079.8**	**(251.1)**	**466.5**	**607.7**	**922.2**	**157.6**	**(344.7)**	**93.6**
Closing Life annuity book	13,595.4	13,669.9	12,581.2	13,595.4	14,092.5	13,669.9	12,769.7	12,581.2	12,845.3
Annuity book growth[1]	**7.9%**	**8.6%**	**(2.0%)**	**3.5%**	**4.4%**	**7.3%**	**1.3%**	**(2.7%)**	**0.7%**
Other Life sales	4,583.4	2,362.1	2,024.0	2,156.6	2,426.8	1,115.6	1,246.5	841.8	1,182.2
Other maturities and repayments	(3,185.7)	(1,278.1)	(1,457.1)	(1,597.2)	(1,588.5)	(582.7)	(695.4)	(1,104.9)	(352.2)
Other Life flows	**1,397.7**	**1,084.0**	**566.9**	**559.4**	**838.3**	**532.9**	**551.1**	**(263.1)**	**830.0**
Closing Challenger Index Plus Fund liabilities	4,386.4	3,632.2	2,415.8	4,386.4	4,381.8	3,632.2	3,031.5	2,415.8	2,705.6
Other Life net book growth	**38.5%**	**44.9%**	**28.8%**	**15.4%**	**23.1%**	**22.1%**	**22.8%**	**(13.4%)**	**42.2%**
Total Life sales	9,706.1	6,928.1	5,151.4	4,763.0	4,943.1	3,490.6	3,437.5	2,012.3	3,139.1
Total maturities and repayments	(7,234.2)	(4,764.3)	(4,835.6)	(3,737.1)	(3,497.1)	(2,035.5)	(2,728.8)	(2,620.1)	(2,215.5)
Total Life net flows	**2,471.9**	**2,163.8**	**315.8**	**1,025.9**	**1,446.0**	**1,455.1**	**708.7**	**(607.8)**	**923.6**
Closing total Life book[2]	17,981.8	17,302.1	14,997.0	17,981.8	18,474.3	17,302.1	15,801.2	14,997.0	15,550.9
Total Life book growth[1]	**14.3%**	**14.4%**	**2.1%**	**5.9%**	**8.4%**	**9.7%**	**4.7%**	**(4.1%)**	**6.2%**
Assets									
Closing investment assets	**22,224**	**21,563**	**18,303**	**22,224**	**22,937**	**21,563**	**19,634**	**18,303**	**19,669**
Fixed income and cash	16,759	14,961	13,287	16,842	16,715	15,574	14,328	13,691	12,836
Property	3,470	3,316	3,321	3,466	3,491	3,333	3,299	3,308	3,336
Equity and infrastructure[3]	945	509	1,521	1,026	884	595	437	1,089	2,027
Alternatives[3]	1,226	933	1,093	1,285	1,167	947	914	977	1,244
Average investment assets[4]	**22,400**	**19,719**	**19,222**	**22,619**	**22,257**	**20,449**	**18,978**	**19,065**	**19,443**
Liabilities									
Closing liabilities	**19,227**	**18,579**	**16,198**	**19,227**	**19,749**	**18,579**	**17,095**	**16,198**	**16,761**
Annuities and Challenger Index Plus Fund	18,067	15,885	15,410	18,231	17,961	16,433	15,324	15,499	15,341
Capital Notes	868	856	805	865	873	887	830	805	805
Subordinated debt	403	402	402	401	404	404	401	400	406
Average liabilities[4]	**19,338**	**17,143**	**16,617**	**19,497**	**19,238**	**17,724**	**16,555**	**16,704**	**16,552**

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

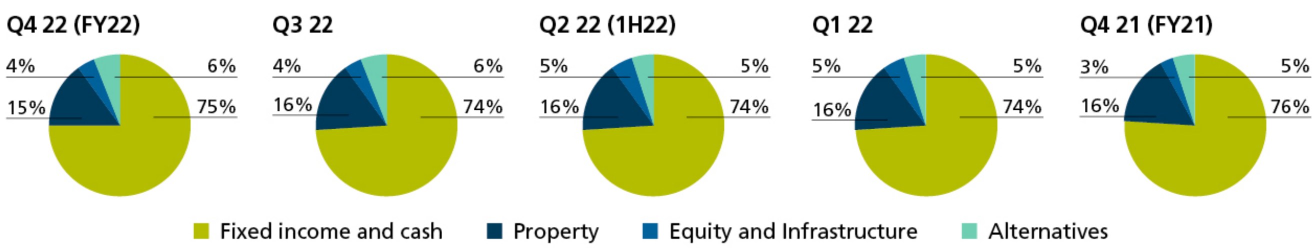
Life financial results

Life quarterly sales and investment assets

$m	Q4 22	Q3 22	Q2 22	Q1 22	Q4 21
Life sales					
Retail fixed term sales	605	390	529	381	463
Institutional fixed term sales	145	1,006	459	504	50
Japan sales	131	63	178	245	168
Fixed term sales	881	1,459	1,166	1,130	681
Lifetime sales[1]	159	108	119	101	122
Life annuity sales	**1,040**	**1,567**	**1,285**	**1,231**	**803**
Maturities and repayments	(860)	(1,281)	(969)	(939)	(760)
Life annuity flows	**180**	**286**	**316**	**292**	**43**
Annuity book growth[2]	**1.4%**	**2.1%**	**2.3%**	**2.1%**	**0.3%**
Other Life sales	1,053	1,104	1,571	856	268
Other maturities and repayments	(698)	(899)	(1,035)	(554)	(233)
Other Life flows	**355**	**205**	**536**	**302**	**35**
Other Life net book growth	**9.9%**	**5.6%**	**14.8%**	**8.3%**	**1.5%**
Total Life sales	2,093	2,671	2,856	2,087	1,071
Total maturities and repayments	(1,558)	(2,180)	(2,004)	(1,493)	(993)
Total Life net flows	**535**	**491**	**852**	**594**	**78**
Total Life book growth[2]	**3.2%**	**2.8%**	**4.9%**	**3.4%**	**0.5%**
Life					
Fixed income and cash[3]	16,659	16,614	17,031	16,230	16,418
Property[3]	3,227	3,551	3,583	3,481	3,468
Equity and infrastructure[3]	971	1,004	1,096	1,067	623
Alternatives	1,367	1,265	1,227	1,234	1,054
Total Life investment assets	**22,224**	**22,434**	**22,937**	**22,012**	**21,563**
Average Life investment assets[4]	**22,415**	**22,826**	**22,508**	**21,944**	**21,062**

1 Lifetime sales includes CarePlus, a product that pays income for life and is specifically designed for the aged care market.
2 Book growth percentage represents net flows for the period divided by opening book value for the financial year.
3 Fixed income, property and infrastructure reported net of debt.
4 Average Life investment assets calculated on a monthly basis

Life asset allocation



Life financial results

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

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

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

Life is a market leader in Australian retirement incomes, with an 84%[2] annuity market share, and has won the Association of Financial Advisers 'Annuity Provider of the Year' for the last 14 years and was recognised at the Plan For Life Excellence Awards as the winner of the Overall Longevity Cover Excellence Award for 2021.

Challenger is the dominant Australian retirement income brand and is recognised by 93%[3] of advisers as a leader in retirement incomes.

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

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

In Japan, Life has an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) to provide Australian dollar and US dollar annuities. MS Primary is a leading provider of annuity products in Japan and is part of the MS&AD Insurance Group Holdings Inc. (MS&AD Group). Refer to page 32 for more detail.

Life participates in wholesale reinsurance longevity and mortality transactions (refer to page 28 for more detail).

Challenger Life Company (CLC) undertakes Challenger's guaranteed annuity business and is an APRA-regulated entity. CLC's financial strength is rated by Standard & Poor's with an 'A' rating and stable outlook. CLC's capital strength is outlined on page 47.

Normalised EBIT and ROE

Life's normalised EBIT was $472m in FY22 and increased by $73m (18%) on FY21. The increase in EBIT reflects a $70m (14%) increase in Normalised Cash Operating Earnings (COE) and a $3m (3%) decrease in expenses.

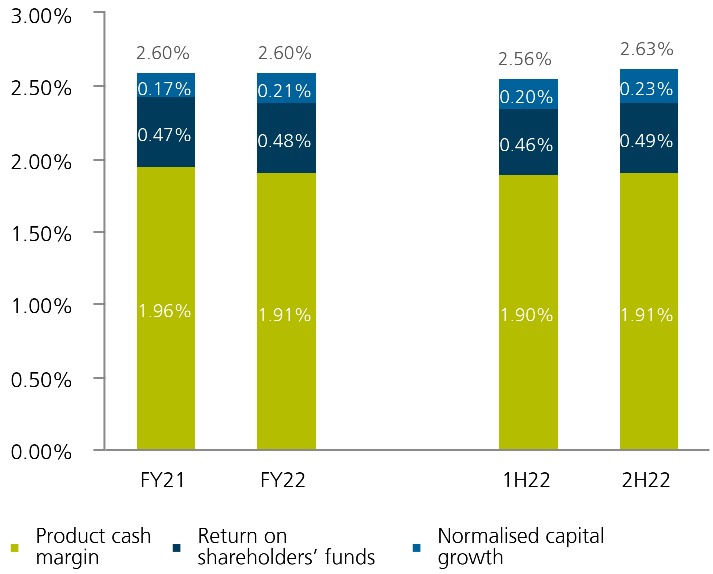
Life's normalised ROE (pre-tax) was 13.1% in FY22 and increased by 70 bps on FY21, driven by an increase in Normalised COE.

Normalised Cash Operating Earnings (COE) and COE margin

FY22 Normalised COE was $583m and increased by $70m (14%) on FY21. Normalised COE increased as a result of:

- higher average investment assets, which increased by 14% on FY21; and
- stable COE margin of 2.60%.

Life COE margin composition



[1] The word 'guaranteed' means payments are guaranteed by Challenger Life Company Limited (CLC) from assets of its relevant statutory fund.
[2] Plan for Life – March 2022 – based on annuities under administration.
[3] Market Pulse Adviser Study, June 2022.

FY21 to FY22 COE margin

Life's FY22 COE margin was 2.60% and was stable on FY21 as a result of the following:

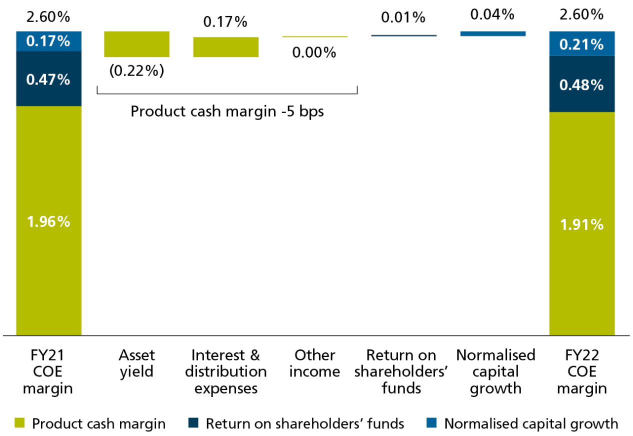
- Higher normalised capital growth (+4bps): Increased as a result of a higher allocation to equities and infrastructure in FY22.
- Higher return on shareholder capital (+1bp): Reflects higher interest rates and average shareholder net assets. For example, the average 3-month bank bill rate increased from 5bps in FY21 to 34bps in FY22.
- Lower product cash margin (-5bps): The product cash margin represents the investment return on annuities and institutional products, less associated interest and direct distribution costs. The product cash margin also includes other income, including Life Risk revenue (refer to page 28). The product cash margin decreased 5bps from FY21 due to the following reasons:
  - FY21 including -6bps ($12m) in relation to the early repayment of an asset backed security.
  - Lower investment yield on policyholder funds (-16 bps): Relates to lower investment returns on the portfolio primarily due to lower yields on fixed income securities and lower property yields, with the lower returns fully offset via annuity pricing.
  - Lower interest expense (+17bps): Reflects lower annuity and institutional rates paid to customers as a result of the lower interest rate environment and annuity pricing initiatives implemented throughout FY22.
  - Stable other income: This reflects higher Life Risk income due to an increase in projected future profits following a revision of mortality rates in FY21 (+3 bps), offset by the sale of Accurium (-3 bps) (refer to page 28 for more detail).

1H22 to 2H22 COE margin

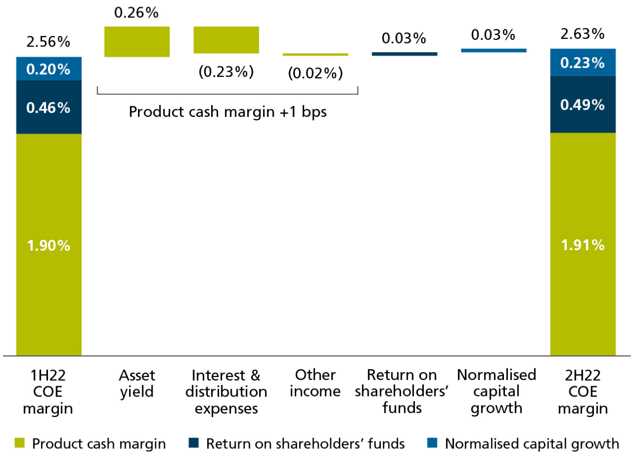
Life's 2H22 COE margin was 2.63% and increased by 7bps on 1H22 as a result of the following:

- Higher product cash margin (+1bp): The product cash margin increased 1 bps from 1H22 due to:
  - Higher investment yield on policyholder funds (+26bps): Reflects higher returns on fixed income investments from higher interest rates and wider fixed income credit spreads.
  - Higher interest expense (-28bps): Reflects higher annuity and institutional rates paid to customers as a result of the rising interest rate environment.
  - Lower distribution expenses (+5bps): Distribution expenses relate to payments made for the acquisition and management of annuities. 1H22 distribution expenses included an additional $5m (or -4bps), representing the prepayment of future trail commissions, which were redirected to customers and will reduce future period distribution expenses.
  - Lower other income (-2bps): Reflects the sale of Accurium (refer to page 28 for more detail).
- Normalised capital growth (+3bps): Reflects higher allocation to equities and infrastructure in FY22.
- Higher return on shareholder capital (+3bps): Reflects higher interest rates and average shareholder net assets. For example, the average 3-month bank bill rate increased from 4bps in 1H22 to 59bps in 2H22.

FY21 to FY22 COE margin



1H22 to 2H22 COE margin



Life Risk

Life Risk revenue represents premiums net of expected claims on wholesale reinsurance longevity and mortality transactions.

Undertaking wholesale longevity and mortality transactions is a natural business extension for the Life business. Life is participating in established markets, has specialised expertise and is taking a disciplined approach to the wholesale Life Risk opportunity.

FY22 Life normalised COE includes $44m of income from Life Risk transactions, which represents the release of profit and expense margins, up from $33m in FY21. The increase was driven by a higher profit margin following the revision of mortality rates at the end of FY21.

The present value of future profits arising from the Life Risk portfolio was $798m at 30 June 2022, down 23% from $1,041m at 30 June 2021, driven by higher interest rates which increased the discount rate.

There was one small wholesale longevity transaction written during the year.

The Life Risk portfolio has an average duration of 14 years.

Accurium

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

Revenue from Accurium is included in other income within Life's normalised COE. Accurium's FY22 revenue was $2m, down $5m on FY21 following its sale during the year.

In FY22, Challenger accepted an offer from CountPlus Limited (ASX:CUP) to acquire Accurium, with the sale being effective from 1 November 2021.

As a result of the sale of Accurium, a gain on sale of $13.0m (after-tax) has been recognised as a significant item in FY22.

Expenses

FY22 Life expenses were $111m and decreased by $3m (3%) on FY21.

Personnel expenses in FY22 were $74m and increased by $1m (1%), reflecting higher variable reward payments.

Other expenses were $37m in FY22 and decreased by $4m (10.2%), as a result of lower marketing costs and reduced travel due to the COVID-19 pandemic.

With the Normalised Cash Operating Earnings up 14% and expenses down $3m, Life's cost to income ratio decreased 320bps to 19.0%.

Investment experience overview

Challenger Life is required by accounting standards and prudential standards to value all assets and liabilities supporting the Life business at fair value. This gives rise to fluctuating valuation movements on assets and policy liabilities being recognised in the statutory profit and loss, particularly during periods of increased market volatility.

As Challenger is generally a long-term holder of assets, due to them being held to match the term of liabilities, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements.

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

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

FY22 investment experience was a loss of $115m (pre-tax), comprising a $73m asset and policy liability loss and a $42m loss in relation to new business strain.

($m)	Actual capital growth	Normalised capital growth	Investment experience
Fixed income	(443)	59	**(384)**
Property	223	(70)	**153**
Equity and infrastructure	(81)	(38)	**(119)**
Alternatives	89	—	**89**
Policy liability	188	—	**188**
Assets and policy liability experience	**(24)**	**(49)**	**(73)**
New business strain	(42)	—	**(42)**
Total investment experience (pre-tax)	**(66)**	**(49)**	**(115)**

Assets and policy liability experience

Assets and policy liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and normalised capital growth in relation to assets, plus any economic and actuarial assumption changes in relation to policy liabilities for the period.

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

Assets and policy liability experience was a loss of $73m in FY22, comprising the following:

- Fixed income (-$384m): This comprises a valuation loss of $443m and normalised capital growth of $59m. The fixed income valuation loss reflects a significant widening in credit spreads across the fixed income portfolio in 2H22. From December 2021, investment-grade credit spreads increased by ~80bps and sub-investment-grade fixed income spreads increased by ~210bps. The fixed income valuation loss is unrealised.

Fixed income normalised capital growth of $59m represents an allowance for credit defaults of -35bps per annum. Actual credit defaults were -5bps in FY22.

- Property (+$153m): Reflects the revaluation of Life's property portfolio, with revaluation gains of $223m partially offset by normalised capital growth ($70m).

  All direct properties were independently valued in FY22. Revaluation gains include domestic office (+3.1%), domestic retail (+8.1%), domestic industrial (+21.5%), and Japan (+0.0%).

- Equity and infrastructure (-$119m): Reflects revaluation loss of $81m driven by lower domestic and international equity markets, compared to normalised capital growth of ($38m). The normalised capital growth assumption for equities and infrastructure is 4% per annum.
- Alternatives (+$89m): Relates to Challenger's absolute return portfolio, which outperformed Challenger's normalised growth assumption of 0% per annum for alternatives.
- Policy liability (+$188m): Includes $165m in relation to the illiquidity premium gain (refer below) and $23m of other gains on policy liabilities. The policy liability includes changes in economic and actuarial assumptions, including changes to bond yields and interest rates used to hedge policy liabilities, expected inflation rates and expense assumptions on policy liabilities. FY22 other policy liability gain reflects the impacts of relative movements of instruments used for hedging purposes, including inflation-linked and fixed-rate government and semi-government securities.

Illiquidity premium

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

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

Movements in credit spreads impact the illiquidity premium.

The illiquidity premium gain for FY22 was +$165m and reflects wider credit spreads used to value policy liabilities.

New business strain

Life offers annuity rates to customers that are higher than the rates used to value liabilities. As a result, a loss is recognised when issuing a new annuity contract due to using lower discount rates together with the inclusion of an allowance for future maintenance expenses in the liability.

New business strain is a non-cash item and, subsequently, reverses over the future contract period. The new business strain reported in the period represents the non-cash loss on new sales, net of reversal of the new business strain of prior period sales.

The FY22 net new business strain was a loss of $42m.

Life sales and AUM

Total Life sales

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

Total Life sales were $9.7b and increased by 40% on FY21, driven by strong annuity sales and institutional sales. Sales continue to benefit from Challenger's diversification strategy that focuses on:

- increasing institutional sales (refer to page 6 for more detail);
- working with a wider range of retail independent financial advice networks following structural change in the domestic financial advice market; and
- leveraging its annuity relationship with MS Primary in Japan which includes reinsurance of Australian and US dollar denominated annuities (refer to page 32 for more detail).

Annuity sales

Total annuity sales were $5.1b in FY22, and increased by $0.6b or 12% on FY21.

Annuity sales comprised:

- Domestic retail term and lifetime annuity sales of $2.4b, up $240m or 11% on FY21;
- Domestic institutional term and lifetime annuity sales of $2.1b, up $490m or 30% on FY21; and
- Japan sales of $617m, down $174m or 22% on FY21.

Domestic retail annuity sales

Domestic retail annuity sales were $2,368m and comprised:

- term annuity sales of $1,905m, which increased by $216m or 13% on FY21; and
- lifetime annuity sales of $463m, which increased by $25m or 6%.

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

Lifetime annuity sales comprise Liquid Lifetime sales of $238m (FY21 $279m) and CarePlus sales of $225m (FY21 $159m).

CarePlus is a lifetime annuity specifically designed for aged care.

Domestic institutional sales

Domestic institutional sales were $6,722m, up $2,711m or up 68% and comprised:

- Institutional term annuity sales of $2,115m, up $604m or 40%;
- Institutional lifetime annuity sales of $24m; and
- Institutional Guaranteed Index Plus sales of $4,583m, up $2,221m or 94%.

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

Term annuities are a viable alternative to bank-issued term deposits and other short-term fixed income instruments. These investments are usually shorter duration, particularly for an initial investment; however, clients typically roll the investment a number of times which extends the effective duration. The average duration of FY22 institutional term annuity sales was 1.3 years (FY21 1.5 years).

Institutional lifetime annuity sales were $24m and represent the buy-out of a closed defined benefit fund ($24m). This success reflects recent efforts to target Australia's large closed defined benefit pension and closed lifetime annuity markets, noting that the nature of the market results in irregular flows from year to year.

Institutional Guaranteed Index Plus range provides clients contractual alpha above a pre-agreed benchmark with flexibility in relation to the term and underlying index return, with the security of an A-rated[1] counterparty and zero fees.

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

Institutional Guaranteed Index Plus sales were $4,583m in FY22, with $610m of inflows from new clients, $1,199m of inflows from existing clients, and $2,774m of maturities reinvested. Profit-for-member funds accounted for all new clients in FY22. The maturities reinvested represent 87% of total FY22 Index Plus maturities.

Japanese annuity sales

In November 2016, Challenger formed an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary), a leading provider of foreign dollar annuity and life insurance products in Japan (refer to page 32 for more information). The MS Primary annuity relationship provides access to the Japanese foreign currency annuities market and is helping to diversify Challenger's distribution channels and product offering.
Under the reinsurance arrangements, MS Primary will provide Challenger an amount of reinsurance, across both Australian and US dollar denominated annuities, of at least ¥50b (currently ~A$530m[2]) per year for a minimum of five years from 2019. This is subject to review in the event of a material adverse change for either MS Primary or Challenger.

MS Primary annuity sales are included in term annuity sales and were $617m in FY22, down 22% from $790m in FY21 (or down 19% in Yen).

Despite FY22 MS Primary annuity sales being lower than the prior period, FY22 sales exceeded the minimum agreed amount by 5%.

MS Primary annuity sales represented 12% of Challenger's FY22 total annuity sales.

[1] Standard & Poor's Global Ratings (S&P) Challenger Life Company 'A' rating with a stable outlook.
[2] Based on the exchange rate as at 30 June 2022.

New business tenor

New business annuity sales represented 58% of FY22 total annuity sales. The tenor on new business annuity sales was 4.9 years in FY22, down from 5.9 years in FY21. The reduction in Life's new business tenor, relative to FY21, is a result of:

- an increased proportion of institutional term annuity new business sales, which tend to have shorter durations; and
- a change in mix of retail annuity sales, including a lower contribution from Lifetime sales and Japanese sales.

Life book liability maturity profile

Maturities represents annuity maturities and repayments (excluding interest payments) in the year. Total annuity maturities in FY22 was $4.0b and represented 28% of opening period annuity liability (undiscounted liability of $14.7b).

FY23 maturities are expected to be $5.2b, up $1.2b on FY22. The increase in FY23 maturities reflects higher 1-year institutional term annuity sales in FY22, which were $1.8b and will mature in FY23. The average duration of FY22 institutional term annuity sales was 1.3 years, however the effective duration is longer given strong reinvestment rates. In FY22, all institutional term annuity maturities were reinvested. As a result, these maturities had no impact on annuity book growth.

Given the higher 1-year institutional term annuity sales in FY22 , the FY23 maturity rate is expected to be 34%. Excluding the institutional term annuity maturities, the retail maturity rate is expected to be 24% (FY22 23%) reflecting Challenger's focus on longer duration retail business.

Net book growth

Life annuity book growth

FY22 Life annuity net flows (i.e. annuity sales less capital repayments) were +$1,074m, down from $1,080m in FY21. This was driven by higher Life annuity sales of $5,123m (up 12%), partially offset by higher maturities of $4,049m (up 16%).

Based on the opening Life annuity book liability ($13,670m), FY22 annuity book growth was +7.9%.

Other Life book growth

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

In FY22, Other Life net flows were +$1,398m, up from $1,084m in FY21.

Across both annuity and institutional Index Plus business, FY22 net flows were +$2,472m for the year and represented total book growth of +14.3%[3] for FY22.

Average AUM

Life's average investment assets were $22.4b in FY22 and increased by 14% ($2.7b) on FY21.

The increase in average investment assets reflects the effect of positive Life net flows.

[3] Based on total Life net flows of +$2,472m divided by Life book of $17,302m (being opening period annuity book of $13,670m and opening period Challenger Index Plus book of $3,632m).

Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) and MS&AD relationship

Consistent with Challenger's strategy to diversify its range of products and expand its distribution relationships, in November 2016 Challenger commenced an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary).

MS Primary provides annuity and life insurance products to Japanese customers and is part of MS&AD Insurance Group Holdings Inc. (MS&AD), a Nikkei 225 company.

Japan has one of the world's most rapidly ageing populations, which is looking for income from longer dated products due to the low Japanese interest rate environment. This has driven significant demand for foreign currency annuities.

From 1 November 2016, Challenger commenced issuing Australian dollar fixed rate annuities with a 20-year term to support the reinsurance agreement with MS Primary. Challenger provides a guaranteed interest rate and assumes the investment risk on a portion of each new policy issued by MS Primary.

In March 2019, Challenger and MS&AD announced an expansion to their strategic relationship. Under the expanded strategic relationship, from 1 July 2019, Challenger commenced a quota share reinsurance of US dollar denominated annuities issued in the Japanese market by MS Primary.

MS Primary will provide to Challenger an amount of reinsurance, across both Australian and US dollar annuities, of at least ¥50 billion (~A$530 million[1]) per year for a minimum of five years from 2019.

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

The MS Primary annuity portfolio is invested in broadly similar key asset classes that Challenger currently invests in and is accounted for under Australian Generally Accepted Accounting Principles and Challenger's normalised profit framework, consistent with Challenger's Life business.

MS Primary is responsible for marketing and providing the products in Japan, including making payments to policyholders. Challenger guarantees a rate to MS Primary, which effectively includes Challenger's contribution toward marketing, distribution and administration costs in Japan. As such, for these products Challenger incurs limited distribution and operational costs as part of its direct expense base.

Under the reinsurance agreement, the guaranteed interest rate on new business can be revised and there are mechanisms to regulate volumes between MS Primary and Challenger. The agreement also includes the usual termination rights for both parties, including material breach, failure to make payments and events that may be triggered by changes in MS Primary's regulatory environment.

MS Primary sales were $617m, down 22% on FY21 (or down 19% in Yen) and represented ~12% of Challenger Life's FY22 total annuity sales (~17% in FY21).

MS Primary is a key Challenger strategic partner and the two businesses engage extensively across a range of topics, including product development and partnering opportunities.

Reflecting on the strength and breadth of the strategic partnership, in April 2021 Challenger entered an Investment Management Agreement with MS Primary to assist in developing and executing its direct domestic real estate strategy. This presents a significant growth opportunity for both Challenger and MS Primary.

MS&AD is a significant investor in Challenger and as at 30 June 2022, held ~15% of Challenger's issued capital.

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

[1] Based on exchange rate as at 30 June 2022.

Retirement income regulatory reforms

Retirement Income Covenant

The Retirement Income Covenant came into effect on 1 July 2022. It requires the trustees of APRA-regulated funds to formulate, review regularly and give effect to a retirement income strategy for their members in, and approaching, retirement. The trustee's strategy will assist members to achieve and balance the key objectives of the covenant, to:

- maximise their expected retirement income;
- manage the expected risks to the sustainability and stability of their expected retirement income; and
- have flexible access to expected funds during retirement.

Challenger has long supported and advocated for this important reform. Australia has a world-class pensions system that is broadly adequate, sustainable and well governed[1]. However, the retirement phase of superannuation remains under-developed. There are limited products to choose from, and the products that are available encourage an inadequate drawdown strategy and leave the unique risks faced by retirees unmitigated.

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

Corporate Collective Investment Vehicle

The Government has legislated a Corporate Collective Investment Vehicle framework (CCIV).

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

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

Challenger is in a strong position to play a greater role in the Asia region. Challenger has established an office in Singapore, in addition to its presence in Japan, to further expand international reach of its Funds Management business. Challenger has high-quality investment capability across all asset classes, and in line with its growth strategy, Challenger expects to leverage the CCIV to expand distribution capabilities.

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

Life balance sheet

$m	FY22	1H22	FY21	1H21	FY20	1H20
Assets						
Life investment assets						
Cash and equivalents	1,585.0	2,092.1	1,396.6	2,083.3	3,002.7	760.0
Asset-backed securities	9,994.0	9,300.6	8,246.2	6,964.8	6,385.1	6,289.3
Corporate credit	5,080.0	5,638.4	6,775.4	5,773.0	4,582.8	5,907.4
Fixed income and cash (net)	**16,659.4**	**17,031.1**	**16,418.2**	**14,821.1**	**13,970.6**	**12,956.7**
Australian – Office	1,775.0	2,139.6	2,081.8	1,947.9	1,912.7	1,919.4
Australian – Retail	787.4	756.5	722.9	709.1	709.3	751.2
Australian – Industrial	243.5	225.8	199.3	189.5	187.5	193.3
Japanese	320.9	358.4	357.7	366.8	390.1	359.5
Other	100.2	103.0	105.8	102.9	92.5	114.4
Property (net)	**3,227.0**	**3,583.3**	**3,467.5**	**3,316.2**	**3,292.1**	**3,337.8**
Equity and infrastructure[1]	971.1	1,096.1	623.2	604.2	393.4	2,035.9
Alternatives[1]	1,366.3	1,226.4	1,054.3	892.5	647.2	1,338.8
Life investment assets	**22,223.8**	**22,936.9**	**21,563.2**	**19,634.0**	**18,303.3**	**19,669.3**
Other assets (including intangibles)	543.0	696.1	773.9	896.0	1,178.4	915.9
Total assets	**22,766.8**	**23,633.0**	**22,337.1**	**20,530.0**	**19,481.7**	**20,585.2**
Liabilities						
Life annuity book	13,595.4	14,092.5	13,669.9	12,769.7	12,581.2	12,845.3
Challenger Index Plus Fund liabilities	4,386.4	4,381.8	3,632.2	3,031.5	2,415.8	2,705.6
Subordinated debt	399.7	401.6	404.5	401.7	395.7	404.9
Challenger Capital Notes	845.0	872.7	872.7	892.5	805.0	805.0
Other liabilities	7.8	224.5	210.7	269.8	345.6	350.6
Total liabilities	**19,234.3**	**19,973.1**	**18,790.0**	**17,365.2**	**16,543.3**	**17,111.4**
Net assets	**3,532.5**	**3,659.9**	**3,547.1**	**3,164.8**	**2,938.4**	**3,473.8**

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

Life investment portfolio overview

Life maintains a high-quality investment portfolio in order to generate cash flows to meet future annuity obligations.

Life reviews its investment asset allocation based on the relative value of different asset classes, expected ROE and tenor of annuity sales as Life maintains a cash flow matched portfolio. Accordingly, Life's investment asset allocation may vary from time to time.

Life's investment assets are as follows:

$m	30 June 2022	30 June 2021	30 June 2020
Fixed income and cash	75%	76%	76%
Property	15%	16%	18%
Equity and infrastructure	4%	3%	2%
Alternatives	6%	5%	4%

Life investment portfolio repositioned

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

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

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

In FY22, the only changes to the portfolio have been a 1% decrease each in the allocation to fixed income and property, with a corresponding 1% increase each in the allocation to equities and infrastructure and alternatives.

Fixed income portfolio overview

Life's fixed income and cash portfolio was $16.7b at 30 June 2022 and increased by 2% from $16.4b at 30 June 2021. The increase reflects growth in Life's investment assets, partially offset by the reallocation to equities and infrastructure and alternatives during the year.

The fixed income and cash portfolio represented 75% of Life's investment assets at 30 June 2022, down from 76% at 30 June 2021. The fixed income portfolio comprises approximately 1,600 different securities.

Challenger manages credit risk by maintaining a high-quality investment portfolio and applying a rigorous investment process. The fixed income portfolio is diversified across industries, rating bands, asset classes and geographies.

Life's policy liability cash flows provide the opportunity to invest in longer-term and less liquid fixed income investments, which generate an illiquidity premium.

Life targets to hold at least 75% of its fixed income portfolio as investment grade (i.e. BBB or higher). At 30 June 2022, 78% of the fixed income portfolio was investment grade, down 1% from 79% at 30 June 2021 reflecting relative value decisions within the portfolio. However, within investment grade, the quality of the portfolio improved with BBB reducing (from 22% of the portfolio at 30 June 2021 to 17%), with increased holdings in cash and equivalents, AAA and AA rated securities.

A total of 85% of the fixed income portfolio is externally rated (Standard & Poor's, Fitch or Moody's) with the remainder internally rated based on methodologies calibrated to Standard & Poor's or Moody's ratings framework.

The fixed income and cash portfolio is predominantly Australian focused, with approximately 66% of the fixed income portfolio invested in Australian-based securities.

The average direct fixed income illiquidity premium generated over the last five years has been between 1% and 2%.

Fixed income credit default experience

Challenger's normalised growth assumption for fixed income is -35bps, representing an allowance for credit default losses. In FY22, the credit default loss recognised in investment experience was -5bps (-$9m), which is well below Challenger's -35bps per annum assumption.

Over the past five financial years, the average credit default loss experience recognised in investment experience has been -16bps per annum.

Detailed disclosure of Life's fixed income portfolio is included on pages 36 to 39. The fixed income disclosures include the following tables:

- Table 1 – Fixed income portfolio overview;
- Table 2 – Fixed income portfolio by credit rating;
- Table 3 – Fixed income portfolio by rating type;
- Table 4 – Fixed income portfolio by industry sector; and
- Table 5 – Fixed income portfolio by geography and credit rating.

Table 1: Fixed income portfolio overview

30 June 2022		$m	% portfolio	
Liquids		1,585	10%	Government Bonds (net of repurchase agreements) and strategies earning a spread with limited credit risk
Asset-Backed Securities (ABS)	Residential Mortgage-Backed Securities (RMBS)	5,066	30%	RMBS expertise developed when Challenger was Australia's largest non-bank securitiser of RMBS (via Mortgage Management business sold in 2009)
	Other ABS	3,264	20%	Financing secured against underlying assets, where asset security includes motor vehicle, equipment and consumer finance
	Senior Secured Loans	1,513	9%	Senior debt secured by collateral and typically originated by Challenger
	Aviation Finance	88	1%	Secured commercial aircraft financing
	Commercial Mortgage-Backed Securities (CMBS)	63	—	Securitisations of underlying commercial property mortgages
Corporate Credit	Banks and Financials	1,052	6%	Corporate loans to banks, insurance companies and fund managers
	Infrastructure	1,002	6%	Long-dated inflation-linked bonds issued by Public Private Partnership projects and loans to infrastructure companies
	Senior Secured Loans	427	3%	Senior debt secured by collateral
	Non-Financial Corporates	1,985	11%	Traded commercial loans to non-financial corporates (includes exposures to retail, construction, hotels, media, mining and health care)
	Commercial Real Estate	614	4%	Loans secured against commercial real estate assets and typically originated by Challenger
Total		**16,659**	**100%**	

Table 2: Fixed income portfolio by credit rating

	Investment grade						Non-investment grade			Total
30 June 2022 ($m)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	$m
Liquids										
Government bonds[1]	1,049	—	—	—	—	**1,049**	—	—	**—**	**1,049**
Covered bonds	43	—	—	—	—	**43**	—	—	**—**	**43**
Cash & Equivalents[2]	493	—	—	—	—	**493**	—	—	**—**	**493**
Asset-Backed Securities										
RMBS	—	2,751	946	747	397	**4,841**	131	94	**225**	**5,066**
Other ABS	—	1,229	592	371	370	**2,562**	495	207	**702**	**3,264**
Senior Secured Bank Loans	—	638	197	94	311	**1,240**	260	13	**273**	**1,513**
Aviation Finance	—	—	—	27	12	**39**	23	26	**49**	**88**
CMBS	—	—	1	15	36	**52**	10	1	**11**	**63**
Corporate Credit										
Banks and Financials	—	—	7	244	633	**884**	136	32	**168**	**1,052**
Infrastructure	—	—	107	285	354	**746**	149	107	**256**	**1,002**
Senior Secured Loans	—	—	—	—	11	**11**	47	369	**416**	**427**
Non-Financial Corporates	—	—	6	31	457	**494**	613	878	**1,491**	**1,985**
Commercial Real Estate	—	53	—	209	263	**525**	23	66	**89**	**614**
Total	**1,585**	**4,671**	**1,856**	**2,023**	**2,844**	**12,979**	**1,887**	**1,793**	**3,680**	**16,659**
Fixed income portfolio (%)	10%	28%	11%	12%	17%	**78%**	11%	11%	**22%**	**100%**
Average duration (years)	—	1.7	2.4	3.3	3.6	**2.6**	3.4	3.6	**3.5**	**2.8**

	Investment grade						Non-investment grade			Total
30 June 2022 (%)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Liquids										
Government bonds[1]	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Covered bonds	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Cash & Equivalents[2]	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Asset-Backed Securities										
RMBS	—	54%	19%	15%	8%	**96%**	3%	1%	4%	**100%**
Other ABS	—	39%	18%	11%	11%	**79%**	15%	6%	21%	**100%**
Senior Secured Bank Loans	—	42%	13%	6%	21%	**82%**	17%	1%	18%	**100%**
Aviation Finance	—	—	—	30%	14%	**44%**	26%	30%	56%	**100%**
CMBS	—	—	—	24%	56%	**82%**	16%	2%	18%	**100%**
Corporate Credit										
Banks and Financials	—	—	1%	23%	60%	**84%**	13%	3%	16%	**100%**
Infrastructure	—	—	11%	28%	35%	**74%**	15%	11%	26%	**100%**
Senior Secured Loans	—	—	—	—	4%	**4%**	11%	85%	96%	**100%**
Non-Financial Corporates	—	—	—	—	—	**—**	31%	44%	75%	**100%**
Commercial Real Estate	—	—	—%	34%	42%	**85%**	4%	11%	15%	**100%**
Total	**10%**	**28%**	**11%**	**12%**	**17%**	78%	**11%**	**11%**	**22%**	**100%**

[1] Government Bonds are shown net of $2,024m of Australian Government Bonds and $1,712m of Australian Semi-Government Bonds, that are held via repurchase agreements. Government Bonds refinanced with repurchase agreements are used to hedge movements in interest rates. Refer to page 45 for more detail.

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

Table 3: Fixed income portfolio by rating type

	Investment grade						Non-investment grade			Total
30 June 2022 ($m)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	$m
Liquids										
Externally rated	1,585	—	—	—	—	**1,585**	—	—	—	**1,585**
Internally rated	—	—	—	—	—	**—**	—	—	—	**—**
Asset-Backed Securities										
Externally rated	—	4,466	1,697	1,036	566	**7,765**	439	155	594	**8,359**
Internally rated	—	152	38	219	560	**969**	480	186	666	**1,635**
Corporate Credit										
Externally rated	—	53	120	760	1,648	**2,581**	668	1,018	1,686	**4,267**
Internally rated	—	—	1	8	70	**79**	300	434	734	**813**
Total	**1,585**	**4,671**	**1,856**	**2,023**	**2,844**	**12,979**	**1,887**	**1,793**	**3,680**	**16,659**
Externally rated	100%	97%	98%	89%	78%	**92%**	59%	65%	**62%**	**85%**
Internally rated	—	3%	2%	11%	22%	**8%**	41%	35%	**38%**	**15%**

	Investment grade						Non-investment grade			Total
30 June 2022 (%)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Liquids										
Externally rated	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Internally rated	—	—	—	—	—	**—**	—	—	**—**	**—**
Asset-Backed Securities										
Externally rated	—	54%	20%	12%	7%	**93%**	5%	2%	**7%**	**100%**
Internally rated	—	9%	2%	13%	35%	**59%**	30%	11%	**41%**	**100%**
Corporate Credit										
Externally rated	—	1%	3%	18%	38%	**60%**	16%	24%	**40%**	**100%**
Internally rated	—	—	—	1%	9%	**10%**	37%	53%	**90%**	**100%**
Total	10%	28%	11%	12%	17%	**78%**	11%	11%	**22%**	**100%**

Table 4: Fixed income portfolio by industry sector

	Investment grade						Non-investment grade			Total
30 June 2022 ($m)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	$m
Industrials and consumers	—	1,956	776	513	1,062	**4,307**	1,297	1,359	**2,656**	**6,963**
Residential property	—	2,649	877	681	415	**4,622**	135	95	**230**	**4,852**
Banks, financials & insurance	536	—	20	281	728	**1,565**	165	69	**234**	**1,799**
Government	1,049	—	—	—	—	**1,049**	—	—	**—**	**1,049**
Commercial property	—	66	40	254	255	**615**	39	70	**109**	**724**
Infrastructure and utilities	—	—	107	285	355	**747**	150	110	**260**	**1,007**
Other	—	—	36	9	29	**74**	100	91	**191**	**265**
Total	1,585	4,671	1,856	2,023	2,844	**12,979**	1,886	1,794	**3,680**	**16,659**

30 June 2022 (%)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total %
Industrials and consumers	—	28%	11%	7%	15%	**61%**	19%	20%	**39%**	**100%**
Residential property	—	54%	18%	14%	9%	**95%**	3%	2%	**5%**	**100%**
Banks, financials & insurance	30%	—	1%	16%	40%	**87%**	9%	4%	**13%**	**100%**
Government	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Commercial property	—	9%	—	35%	35%	**85%**	5%	10%	**15%**	**100%**
Infrastructure and utilities	—	—	11%	28%	35%	**74%**	15%	11%	**26%**	**100%**
Other	—	—	14%	—	11%	**28%**	38%	34%	**72%**	**100%**
Total	**10%**	**28%**	**11%**	**12%**	**17%**	**78%**	**11%**	**11%**	**22%**	**100%**

Table 5: Fixed income portfolio by geography and credit rating

30 June 2022 ($m)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total $m
Australia	962	3,614	1,193	1,345	1,814	**8,928**	1,025	990	**2,015**	**10,943**
United States	556	559	117	275	477	**1,984**	725	729	**1,454**	**3,438**
United Kingdom	1	138	208	129	160	**636**	22	3	**25**	**661**
Europe	26	92	274	171	286	**849**	51	21	**72**	**921**
New Zealand	—	268	64	104	70	**506**	51	41	**92**	**598**
Rest of world	40	—	—	—	36	**76**	13	9	**22**	**98**
Total	**1,585**	**4,671**	**1,856**	**2,024**	**2,843**	**12,979**	**1,887**	**1,793**	**3,680**	**16,659**

30 June 2022 (%)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total %
Australia	9%	33%	11%	12%	17%	**82%**	9%	9%	**18%**	**100%**
United States	16%	17%	3%	8%	14%	**58%**	21%	21%	**42%**	**100%**
United Kingdom	—	22%	31%	20%	24%	**97%**	3%	—	**3%**	**100%**
Europe	—	9%	30%	19%	31%	**92%**	6%	2%	**8%**	**100%**
New Zealand	—	44%	11%	17%	12%	**84%**	9%	7%	**16%**	**100%**
Rest of the world	41%	—	—	—	37%	**78%**	13%	9%	**22%**	**100%**
Total	**10%**	**28%**	**11%**	**12%**	**17%**	**78%**	**11%**	**11%**	**22%**	**100%**

Property portfolio overview

Life's property portfolio principally comprises directly held properties and is diversified across office, retail and industrial properties.

Life's property portfolio was $3.2b (net of debt) at 30 June 2022 and decreased by 7% from 30 June 2021, reflecting the disposal of one property for approximately ~$0.4 billion, partially offset by property revaluation gains. The sale proceeds from the disposal were reinvested across other investment classes, including fixed income, equity and alternatives. There were no direct property purchases during the year.

As a result of the property sale, the property allocation reduced from 16% of Life's investment portfolio at 30 June 2021 to 15% at 30 June 2022.

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

Challenger Life has a policy that all directly owned properties are independently valued each year with approximately 50% valued in June and 50% valued in December. Internal valuations are undertaken for properties not independently valued each June and December. An independent valuation is subsequently undertaken if the internal valuation shows a significant variance to the most recent independent valuation. In FY22, independent valuations were obtained for all of the direct property portfolio.

For FY22, the valuation of properties increased as follows:

- Australian office +3.1%;
- Australian retail +8.1%;
- Australian industrial +21.5%; and
- Japanese portfolio 0.0%.

Life maintains a more defensive property portfolio than the broader listed real estate trust market, with a focus on long-term income streams. Australian office accounts for 55% of the portfolio, with the Federal and State governments a major tenant, accounting for ~54% of FY22 gross office rental income[1].

Australian direct retail assets account for 24% of the direct portfolio and comprise eight grocery-anchored convenience-based shopping centres. Approximately half of the rental income is derived from major supermarket chains or major Australian banks or essential services.

The weighted average capitalisation rate on Life's Australian direct portfolio was 5.33% at 30 June 2022, down 31 bps for the year.

Property includes a net $321m exposure to Japanese property (10% of the portfolio), consisting of suburban shopping centres focused on non-discretionary retailing. Over half of the Japanese rental income comes from supermarkets or pharmacies. The valuation of the Japanese portfolio was stable in FY22.

The property portfolio generates long-term cash flows to match long-term liabilities, with a weighted average lease expiry of 5.7 years and 48% of leasing area having contracted leases expiring in FY26 and beyond. The portfolio had an occupancy rate of 92% at 30 June 2022, which was stable on the prior year.

Approximately 72% of contracted leases have either annual fixed increases or inbuilt increases based on inflation or market outcomes (e.g. CPI).

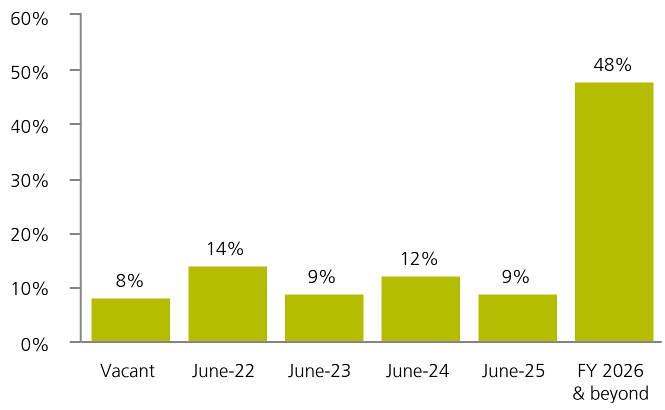
Consistent with the previous year, Life continued to support its commercial property tenants in FY22, providing rental abatements and deferrals in line with the regulated framework in each State and Territory. Whilst COVID-19 rent relief legislation has come to an end across all States and Territories in Australia, with the ongoing nature of the pandemic and its evolving economic impact, Life continues to work with tenants in the post-pandemic period.

Full details of Life's property portfolio are listed on pages 41 to 43.

Property portfolio summary

% of total portfolio	FY22	FY21
Australian office	55%	60%
Australian retail	24%	21%
Australian industrial	8%	6%
Other	3%	3%
Australian total	**90%**	**90%**
Japanese retail	10%	10%
Other	0%	0%
Total	**100%**	**100%**

Portfolio lease expiry overview[2]



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

Direct property portfolio overview[1]

30 June 2022		**Office**	**Retail**	**Industrial**	**Total**
Total rent (%)[2]		47%	46%	7%	100%
WALE[3] (years)		6.2	5.7	3.2	5.7
Tenant credit ratings					
	AAA	21%	—	—	21%
	AA	6%	1%	—	7%
	A	1%	2%	—	3%
	BBB	2%	11%	3%	16%
	BB	9%	13%	4%	26%
	B or below	2%	8%	—	10%
	Not rated	1%	8%	—	9%
	Vacant	5%	3%	—	8%
	Total	**47%**	**46%**	**7%**	**100%**
% of total gross net	Investment grade	30%	14%	3%	47%
	Non-investment grade	12%	29%	4%	45%
	Vacant	5%	3%	—	8%

1 Direct property portfolio and jointly held assets only and excludes Australian REITs and development assets.
2 Includes vacant floors/suites available for lease.
3 Weighted Average Lease Expiry (WALE) assumes tenants do not terminate leases prior to expiry of specified lease term.

Direct property investments

30 June 2022		Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate FY22 (%)[3]	Last external valuation date
Australia						
Office						
	6 Chan Street (formerly DIBP Building), ACT	01 Dec 01	127.7	281.0	4.63	31 Dec 21
	14 Childers Street, ACT	01 Dec 17	100.8	85.0	6.25	31 Dec 21
	35 Clarence Street, NSW	15 Jan 15	157.5	241.0	5.00	30 Jun 22
	45 Benjamin Way (formerly ABS Building), ACT	01 Jan 00	151.4	259.0	5.13	31 Dec 21
	82 Northbourne Avenue, ACT	01 Jun 17	62.7	51.0	5.63	30 Jun 22
	215 Adelaide Street, QLD	31 Jul 15	260.5	227.0	5.88	31 Dec 21
	565 Bourke Street, VIC	28 Jan 15	111.7	155.0	4.88	31 Dec 21
	839 Collins Street, VIC	22 Dec 16	212.0	254.0	4.63	30 Jun 22
	Discovery House, ACT	28 Apr 98	104.8	173.0	4.88	30 Jun 22
	Executive Building, TAS	30 Mar 01	35.4	49.0	5.50	30 Jun 22
Retail						
	Bunbury Forum, WA	03 Oct 13	158.7	79.1	7.00	31 Dec 21
	Channel Court, TAS	21 Aug 15	88.5	89.0	6.75	30 Jun 22
	Gateway, NT	01 Jul 15	123.3	110.0	6.34	31 Dec 21
	Golden Grove, SA	31 Jul 14	160.8	155.5	6.00	30 Jun 22
	Karratha, WA	28 Jun 13	57.9	51.0	6.88	31 Dec 21
	Kings Langley, NSW	29 Jul 01	16.6	28.9	5.00	31 Dec 21
	Lennox, NSW	27 Jul 13	67.9	79.0	6.00	30 Jun 22
	North Rocks, NSW	18 Sep 15	187.6	195.0	5.50	31 Dec 21
Industrial						
	21 O'Sullivan Circuit, NT	27 Jan 16	47.8	29.5	7.25	30 Jun 22
	31 O'Sullivan Circuit, NT	27 Jan 16	29.5	32.7	6.75	30 Jun 22
	Cosgrave Industrial Park, Enfield, NSW	31 Dec 08	91.4	181.3	3.75	30 Jun 22
Total Australia			**2,354.5**	**2,806.0**	**5.33**	

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

Direct property investments

30 June 2022		Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate FY22 (%)[3]	Last external valuation date
Japan						
Retail						
	Aeon Kushiro	31 Jan 10	30.5	30.9	5.40	31 Dec 21
	Carino Chitosedai	31 Jan 10	118.8	113.9	4.50	31 Dec 21
	Carino Tokiwadai	31 Jan 10	77.7	67.3	4.60	30 Jun 22
	DeoDeo Kure	31 Jan 10	32.2	27.8	5.50	30 Jun 22
	Fitta Natalie Hatsukaichi	28 Aug 15	11.7	12.1	5.80	31 Dec 21
	Izumiya Hakubaicho	31 Jan 10	69.7	63.6	4.80	31 Dec 21
	Kansai Super Saigo	31 Jan 10	13.3	11.8	5.50	31 Dec 21
	Kojima Nishiarai	31 Jan 10	12.2	13.1	4.10	30 Jun 22
	Kotesashi Towers	28 Nov 19	25.2	19.3	5.07	31 Dec 21
	Life Asakusa	31 Jan 10	27.9	31.0	4.20	30 Jun 22
	Life Higashi Nakano	31 Jan 10	33.0	33.0	4.30	30 Jun 22
	Life Nagata	31 Jan 10	25.2	24.7	4.90	30 Jun 22
	MaxValu Tarumi	28 Aug 15	17.0	16.3	5.70	31 Dec 21
	Seiyu Miyagino	31 Jan 10	9.8	9.3	5.20	30 Jun 22
	TR Mall Ryugasaki	30 Mar 18	86.7	80.7	5.50	31 Dec 21
	Valor Takinomizu	31 Jan 10	27.7	21.3	5.80	31 Dec 21
	Valor Toda	31 Jan 10	42.5	37.3	5.20	30 Jun 22
	Yaoko Sakado Chiyoda	31 Jan 10	19.9	18.6	4.70	31 Dec 21
	Yorktown Toride	05 Mar 20	32.2	23.1	5.10	30 Jun 22
Industrial						
	Aeon Matsusaka XD	26 Sep 19	14.7	12.2	5.60	30 Jun 22
Total Japan			**727.9**	**667.3**	**4.95**	
Europe						
Retail						
	Aulnay sous Bois, Avenue de Savigny, France	31 Dec 08	20.3	10.0	7.00	30 Jun 22
Total Europe			**20.3**	**10.0**	**7.00**	
Total Overseas			**748.2**	**677.3**	**4.98**	
Total direct portfolio investments			**3,102.7**	**3,483.3**	**5.27**	

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

Equity and infrastructure portfolio overview

Life's equity and infrastructure portfolio was $1.0b at 30 June 2022 and increased by 56% ($348m) from 30 June 2021.

The increase in equities and infrastructure in FY22 predominantly reflects equities purchased, particularly in low-beta equity investments (+$424m).

Equity and infrastructure represented 4% of Life's total investment assets at 30 June 2022, up from 3% at 30 June 2021.

Challenger's equity investments comprise beta and low beta investments. For beta investments, total returns are expected to be correlated to the MSCI Daily Total Return Net World Index (Bloomberg NDDLWI). For low-beta investments, total returns are expected to have lower volatility than beta investments, with a beta over the long term of approximately 0.5 times the MSCI Daily Total Return Net World Index (Bloomberg NDDLWI) .

Challenger seeks infrastructure assets that generate reliable and consistent cash flows, which are preferably inflation linked, giving rise to sustainable income growth over time.

The infrastructure portfolio is held entirely in unlisted investments, predominantly utility and renewable energy assets. Australian infrastructure accounted for 61% of infrastructure investments with the remainder diversified across geographic regions and sectors.

Equity and infrastructure portfolio

30 Jun 2022	Domestic	Offshore	Total
Equity beta	50	52	**102**
Low Beta	126	615	**741**
Infrastructure	78	50	**128**
Total equity & infrastructure	**254**	**717**	**971**

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

Alternatives portfolio overview

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

The absolute return portfolio includes systematic global macro funds and market-neutral long/short equity funds. Over the long term, the total return on Life's absolute return portfolio is expected to be broadly correlated to the Société Générale CTA Index.

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

Life's alternatives portfolio was $1.4b at 30 June 2022 and increased by 30% ($312m) from 30 June 2021. The increase was driven by an increase in absolute return fund and general insurance-related investments and valuation gains.

Alternatives portfolio

30 Jun 2022	Domestic	Offshore	Total
Absolute return funds	—	1,042	**1,042**
General Insurance	—	212	**212**
Life Insurance	—	112	**112**
Total alternatives	**—**	**1,366**	**1,366**

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

Challenger Life Company Limited (CLC) debt facilities

$m	FY22	1H22	FY21	1H21	FY20	1H20
Repurchase agreements	3,735.1	3,542.5	4,111.1	4,966.3	5,393.4	4,460.0
Controlled property debt	334.0	382.2	394.5	420.4	458.0	455.0
Subordinated debt	398.4	400.0	404.5	401.7	395.7	404.9
Challenger Capital Notes	845.0	872.7	872.7	892.5	805.0	805.0
Infrastructure debt	172.3	175.7	179.3	182.6	185.8	189.0
Other finance	0.7	0.7	0.7	0.7	0.7	0.7
Total CLC debt facilities	**5,485.5**	**5,373.8**	**5,962.8**	**6,864.2**	**7,238.6**	**6,314.6**

Life debt facilities

Life debt facilities include debt which is non-recourse to the broader Challenger Group and secured against assets held in Challenger Life investment vehicles, including direct properties and infrastructure investments.

Life debt facilities decreased by $0.5b during FY22 due to decreases in repurchase agreements used to hedge interest rate movements (down $0.4b), debt secured by property investments (down $61m) and Challenger Capital Notes following the mandatory conversion of Challenger Capital Notes 1 (ASX: CGFPA) (down $28m).

Repurchase agreements

Repurchase agreements at 30 June 2022 were $3.7b, down from $4.1b at 30 June 2021.

Life enters into repurchase agreements whereby fixed income securities are sold for cash while simultaneously agreeing to repurchase the fixed income security at a fixed price and fixed date in the future. The use of repurchase agreements is part of Challenger's strategy to hedge interest rate movements.

Life uses Australian Government and Semi-Government Bonds with repurchase agreements, interest rate swaps and bond futures to hedge movements in interest rates and inflation on its asset portfolio, annuity policy liabilities and Challenger Index Plus liabilities.

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

Subordinated debt

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

The subordinated notes mature in November 2042, with CLC having the option to redeem the notes in November 2022, subject to APRA approval. Challenger may seek to issue a replacement security by the call date in November 2022, which would be subject to APRA approval and market conditions.

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

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

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

Capital Notes

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

For Challenger Capital Notes 2 and 3, Challenger may choose to redeem or resell (rather than convert) all or some of the notes for their face value at a future date, subject to APRA approval.

Challenger Capital Notes 1 (ASX code: CGFPA)

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

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

Given the unprecedented market conditions, APRA confirmed Challenger could repurchase all or some of the Challenger Capital Notes 1 on any future quarterly distribution date up to (but not including) 25 May 2022.

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

In November 2020, Challenger announced the successful completion of the Challenger Capital Notes 3 Offer, which raised $385m, of which $298m was used to partially repurchase Challenger Capital Notes 1.

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

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

In May 2022, Challenger mandatorily converted the remaining balance of Challenger Capital Notes 1 into Challenger ordinary shares in accordance with the Challenger Capital Notes 1 Terms and issued 3,822,281 fully paid ordinary shares.

Challenger Capital Notes 2 (ASX code: CGFPB)

In April 2017, Challenger issued Challenger Capital Notes 2 to the value of $460m. Challenger Capital Notes 2 pay a margin of 4.40% above the 90-day bank bill rate, with the total distribution reduced by available franking credits.

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

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

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

Challenger Capital Notes 3 (ASX code: CGFPC)

In November 2020, Challenger issued Challenger Capital Notes 3 to the value of $385m. Challenger Capital Notes 3 pay a margin of 4.60% above the 90-day bank bill rate, with the total distribution reduced by available franking credits.

Challenger Capital Notes 3 are convertible to ordinary shares at any time before May 2028 on the occurrence of certain events, and mandatorily convert to ordinary shares thereafter, in both cases subject to meeting certain conditions.

Challenger may choose to redeem or resell (rather than convert) Challenger Capital Notes 3 on the occurrence of some of the events referred to above, including on the Optional Exchange Date of 25 May 2026 (subject to certain conditions being met, including approval from APRA).

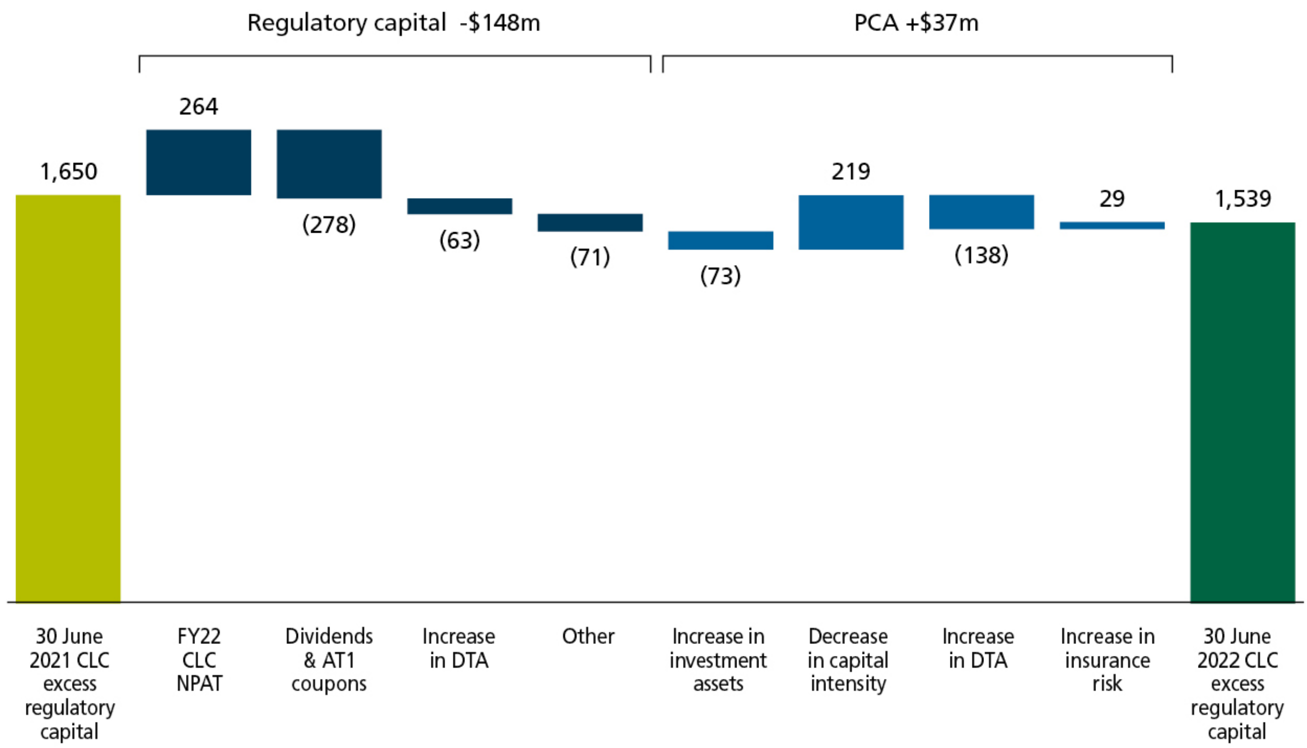
If Challenger exercises its option to redeem or resell, there will be no conversion of Challenger Capital Notes 3 to Challenger ordinary shares and no subsequent shareholder dilution.

Challenger Life Company Limited (CLC) regulatory capital

$m	FY22	1H22	FY21	1H21	FY20	1H20
CLC regulatory capital						
Common Equity Tier 1 (CET1) regulatory capital	2,858.0	3,120.3	2,971.2	2,622.9	2,337.0	2,811.3
Additional Tier 1 regulatory capital	845.0	872.7	872.7	892.5	805.0	805.0
Tier 2 regulatory capital – subordinated debt[1]	399.7	402.4	405.4	402.7	396.7	406.2
CLC total regulatory capital base	**4,102.7**	**4,395.4**	**4,249.3**	**3,918.1**	**3,538.7**	**4,022.5**
CLC Prescribed Capital Amount (PCA)						
Asset risk charge	2,467.5	2,470.6	2,481.8	2,290.2	1,842.8	2,523.6
Insurance risk charge	151.5	233.5	227.0	213.8	199.5	164.6
Operational risk charge	58.6	60.7	57.9	54.4	56.5	53.4
Aggregation benefit	(114.3)	(171.0)	(167.4)	(156.7)	(144.8)	(125.4)
CLC PCA	**2,563.3**	**2,593.8**	**2,599.3**	**2,401.7**	**1,954.0**	**2,616.2**
CLC excess over PCA	**1,539.4**	**1,801.6**	**1,650.0**	**1,516.4**	**1,584.7**	**1,406.3**
PCA ratio (times)	1.60	1.69	1.63	1.63	1.81	1.54
Tier 1 ratio (times)	1.44	1.54	1.48	1.46	1.61	1.38
CET1 capital ratio (times)	1.11	1.20	1.14	1.09	1.20	1.07
Capital intensity ratio (%)[2]	11.5%	11.3%	12.1%	12.2%	10.7%	13.3%

1 FY22 Tier 2 regulatory capital - subordinated debt ($399.7m) differs to the Group balance sheet ($398.4m) due to accrued interest and amortised costs.
2 Capital intensity ratio is calculated as CLC PCA divided by Life closing investment assets.

Movement in CLC excess regulatory capital ($m)



Challenger Life Company Limited (CLC) regulatory capital

Capital management

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

CLC is regulated by APRA and is required to hold a minimum level of regulatory capital.

CLC's regulatory capital base and PCA (equivalent to its regulatory capital requirement) have been calculated based on the prudential standards issued by APRA.

CLC's regulatory capital base

CLC's regulatory capital base at 30 June 2022 was $4.1b and decreased by $0.1b in FY22. The decrease reflects:

- CLC's statutory profit for the year ($264m) which included investment experience, which was more than offset by
- dividend and coupon payments on Additional Tier 1 instruments (-$278m), an increase in deferred tax assets (-$63m) and other adjustments (-$71m).

CLC's Prescribed Capital Amount (PCA)

CLC's PCA at 30 June 2022 was $2.6b and was stable on FY21, reflecting:

- growth in investment assets (+$73m) and an increase in deferred tax assets (+$138m); which was offset by
- a reduction in capital intensity (-$219m) (refer below) and a lower insurance risk charge (-$29m).

Reduction in capital intensity

CLC's capital intensity ratio, which is calculated as CLC PCA divided by Life's closing investment assets, decreased from 12.1% at 30 June 2021 to 11.5% at 30 June 2022.

The reduction in capital intensity relates to a reduction in the capital intensity for equities and fixed income assets. The asset risk charge for equities is based on shocking the trailing S&P/ASX 200 dividend yield. Following an increase in the S&P/ASX 200 dividend yield in FY22, the asset risk charge for equities reduced. Similarly, the asset risk charge for fixed income reduced following an increase in interest rates, which reduces the sensitivity of fixed income assets to credit shocks.

CLC's excess capital position

CLC's excess capital above PCA at 30 June 2022 was $1.5b and decreased by $111m in FY22 as a result of the decrease in CLC's regulatory capital base.

CLC's capital ratios at 30 June 2022 were as follows:

- PCA ratio 1.60 times – down 0.03 times from 1.63 times at 30 June 2021;
- Total Tier 1 capital ratio 1.44 times – down 0.04 times from 1.48 times at 30 June 2021; and
- Common Equity Tier 1 (CET1) capital ratio 1.11 times – down 0.03 times from 1.14 times at 30 June 2021.

APRA's prudential standards require the capital base to be at least the PCA, Total Tier 1 capital to be at least 80% of the PCA and CET1 capital to be at least 60% of the PCA. Challenger's PCA ratio (1.60 times), Total Tier 1 capital ratio (1.44 times) and CET1 capital ratio (1.11 times) are well in excess of APRA's minimum requirements.

Target surplus level of excess capital

CLC maintains a target level of capital representing APRA's PCA plus a target surplus. The target surplus is a level of excess capital CLC seeks to carry over and above APRA's minimum requirement to ensure it provides a buffer for adverse market or insurance risk experience.

CLC uses internal capital models to determine its target surplus, which are risk based and responsive to changes in CLC's asset allocation and market conditions.

CLC does not target a specific PCA ratio. CLC's target PCA ratio range is a reflection of internal capital models, not an input to them, and reflects asset allocation, business mix and economic circumstances. The target surplus produced by these internal capital models for FY22 corresponded to a PCA ratio of between 1.3 times to 1.7 times. This range may change over time.

In assessing CLC's capital targets, the internal capital models consider various constraints, including statutory capital minimums set by APRA, a measure of economic capital, and ratings agency capital. As noted above, there are three levels at which APRA statutory capital minimums are assessed: total capital base (which is assessed by the PCA ratio), Tier 1 capital and CET1 minimum requirements. Based on risk appetite relative to each of the five measures (the three statutory capital measures, economic capital and ratings agency capital), CLC determines its target capital position.

The metric that generates the worst outcome relative to target forms CLC's constraining target. Given CLC's current mix of capital at 30 June 2022, CLC's constraining target was CET1. The target surplus produced by the internal capital models currently corresponds to a CET1 ratio of between 0.8 times to 1.2 times. This ratio may change over time.

Additional Tier 1 regulatory capital and subordinated debt

Challenger Limited has issued two separate subordinated, unsecured convertible notes (Challenger Capital Notes 2 and Challenger Capital Notes 3), with proceeds used to fund qualifying Additional Tier 1 regulatory capital for CLC.

In May 2022, Challenger converted the remaining balance of Challenger Capital Notes 1 into Challenger ordinary shares in accordance with the mandatory conversion conditions under the Challenger Capital Notes 1 Terms. Refer to page 45 for more detail.

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

Further details on Challenger's convertible debt instruments are included from page 45.

Profit and equity sensitivities

$m	Change in variable	Profit/(loss) after tax FY22	Change in equity FY22	Profit/(loss) after tax FY21	Change in equity FY21
Credit risk					
Fixed income assets (change in credit spreads)[1]	+50bps	(131.5)	(131.5)	(146.9)	(146.9)
	-50bps	131.5	131.5	146.9	146.9
Policy liabilities (illiquidity premium change in credit spreads)	+50bps	66.3	66.3	78.9	78.9
	-50bps	(66.3)	(66.3)	(78.9)	(78.9)
Property risk					
Direct and indirect properties	+1%	22.6	22.6	24.3	24.3
	-1%	(22.6)	(22.6)	(24.3)	(24.3)
Equity and infrastructure risk					
Equity and infrastructure investments	+10%	68.0	68.0	43.6	43.6
	-10%	(68.0)	(68.0)	(43.6)	(43.6)
Alternatives risk					
Alternatives investments	+10%	95.6	95.6	73.8	73.8
	-10%	(95.6)	(95.6)	(73.8)	(73.8)
Life Insurance risk					
Mortality, morbidity and longevity[2]					
Life insurance contract liabilities	+50%	(20.3)	(20.3)	(29.9)	(29.9)
	-50%	20.3	20.3	29.9	29.9
Interest rate risk					
Change in interest rates	+100bps	(2.8)	(2.8)	1.5	1.5
	-100bps	2.8	2.8	(1.5)	(1.5)
Foreign exchange risk					
British pound	+10%	—	—	—	—
	-10%	—	—	—	—
US dollar	+10%	(0.8)	(0.8)	0.4	0.4
	-10%	0.8	0.8	(0.4)	(0.4)
Euro	+10%	(0.7)	(0.7)	—	—
	-10%	0.7	0.7	—	—
Japanese yen	+10%	0.3	0.4	0.2	0.8
	-10%	(0.3)	(0.4)	(0.2)	(0.8)

1 Credit risk sensitivities excludes Australian Government Bonds, Australian Semi-Government Bonds and exposures with an Australian Government guarantee.
2 Mortality, morbidity and longevity life insurance contract liabilities sensitivity is net of any reinsurance with third parties.

Profit and equity sensitivities set out the expected impact from changes in a range of economic and investment market variables on Challenger's statutory earnings and balance sheet. These sensitivities represent the after-tax impact on statutory profit, assuming a tax rate of 30%.

The sensitivities are not forward looking and make no allowance for events occurring after 30 June 2022. If using these sensitivities as forward looking, allowances for changes post-30 June 2022, such as sales, asset growth changes in asset allocation and changes in market conditions, should be made.

These sensitivities assess changes in economic, insurance and investment markets on the valuation of assets and liabilities, which, in turn, impact earnings. The earnings impact is included in investment experience and does not take into consideration the impact of any under- or over-performance of normalised growth assumptions for each asset category. Refer to page 64 for normalised growth assumptions.

These sensitivities do not include the indirect impact on fees for the Funds Management business.

Refer to the risk management framework for additional detail on how to apply the profit and equity sensitivities.

Risk management framework

Challenger's Board is responsible, in conjunction with senior management, for the management of risks associated with the business and implementing structures and policies to adequately monitor and manage these risks.

The Board has established the Group Risk Committee (GRC) and Group Audit Committee (GAC) to assist in discharging its risk management responsibilities. In particular, these committees assist the Board in setting the appropriate risk appetite and for ensuring Challenger has an effective risk management framework that is able to manage, monitor and control the various risks to which the business is exposed.

The Executive Risk Management Committee (ERMC) is an executive committee, chaired by the Chief Risk Officer (CRO), which assists the GRC, GAC and Board in discharging their risk management obligations by implementing the Board-approved risk management framework.

On a day-to-day basis, the Risk division, which is separate from the operating segments of the business, has responsibility for monitoring the implementation of the risk framework, including the monitoring, reporting and analysis of the various risks faced by the business, and providing effective challenge to activities and decisions that may materially affect Challenger's risk profile.

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

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

Challenger is exposed to variety of financial risks, including market risk (including foreign exchange risk, interest rate risk, inflation risk, equity risk, and credit spread risk), credit default risk, life insurance risk, liquidity risk and operational risk.

The management of these risks is fundamental to Challenger's business and building shareholder value.

Risk appetite

Challenger's risk appetite statement provides that, subject to acceptable economic returns and limits, it can retain exposure to credit risk, property risk, equity and infrastructure risk, other active trading strategy risk and life insurance risk.

Accept exposure[3]	Minimise exposure
• Credit risk • Property risk • Equity and infrastructure risk • Life insurance risk • Other active trading strategy risk	• Asset and liability mismatch risk • Foreign exchange risk • Interest rate risk • Inflation risk • Liquidity risk • Regulatory and compliance risk • Operational risk

Asset and liability mismatch risk

Challenger's asset allocation strategy is based on running a cash flow-matched portfolio of assets and liabilities and minimising the risk of cash flow mismatch. Annuity cash payments are generally met from contracted investment cash flows together with assets held in Challenger's liquidity pool, which are continually rebalanced through time.

Credit risk

Credit risk is the risk of loss due to a counterparty failing to discharge its contractual obligations when they fall due, a change in credit rating, movements in credit spreads, or movements in the basis between different valuation discount curves.

Challenger's approach to credit management utilises a credit risk framework to ensure that the following principles are adhered to:

- credit risk management team separation from risk originators;
- recognition of the different risks in the various businesses;
- credit exposures being systematically controlled and monitored;
- credit exposures being regularly reviewed in accordance with existing credit procedures; and
- ensuring credit exposures include the impact from derivative transactions.

Challenger makes use of external ratings agencies (Standard & Poor's, Fitch, Moody's) to determine credit ratings.

Where a counterparty or debt obligation is rated by multiple external ratings agencies, Challenger will use Standard & Poor's ratings where available.

All credit exposures with an external rating are also reviewed internally and cross-referenced to the external rating, if applicable.

Where external credit ratings are not available, internal credit ratings are assigned by appropriately qualified and experienced credit personnel who operate separately from the asset originators.

[3] Subject to appropriate returns.

Credit spread risk sensitivity

Challenger is exposed to price movements resulting from credit spread fluctuations through its fixed income securities (net of subordinated debt) and the fair value of annuity and other liabilities.

As at 30 June 2022, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised loss/gain of $132m (after-tax) on fixed income investments (net of debt).

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

As at 30 June 2022, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised gain/loss of $66m (after-tax) on the fair value of annuity liabilities.

Property risk

Property risk is the potential impact of movements in the market value of property investments on Challenger's income and includes leasing and tenant default risk, which may impact the cash flows from these investments.

Property risk sensitivity

Challenger is exposed to movements in the market value of property investments, through both directly held investment properties and property securities.

The property sensitivities included on page 49 show the impact of a change in property valuations at balance date and are based on Life's gross property investments of $3.5b (net investments of $3.2b plus debt of $0.3b).

A 1% move in the direct and indirect property portfolio at 30 June 2022 would result in a $23m (after-tax) movement in property valuations.

Equity and infrastructure risk

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

Equity risk sensitivity

The equity and infrastructure risk sensitivities included on page 49 show a 10% move in the equity portfolio at 30 June 2022 would have resulted in a $68m (after-tax) movement in the valuation of equity investments.

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

Alternatives risk

Alternatives risk is the potential impact of movements in the market value of alternative investments. Alternative investments include exposure to equity markets through absolute return strategies and insurance-related investments, with both expected to have a low correlation to listed equity market returns.

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

Alternatives sensitivity

The alternatives risk sensitivity on page 49 assumes a 10% market move in the alternatives portfolio at 30 June 2022 would have an impact of $96m (after-tax).

Liquidity risk

Liquidity risk is the risk that Challenger will encounter difficulty in raising funds to meet cash commitments associated with financial instruments and contracted payment obligations to annuitants. This may result from either the inability to sell financial assets at fair value, a counterparty failing to repay contractual obligations, or the inability to generate cash inflows as anticipated.

Challenger's Liquidity Management Policy aims to ensure that it has sufficient liquidity to meet its obligations on a short, medium and long-term basis. In setting the level of liquidity, Challenger considers new business activities in addition to current contracted obligations.

In determining the required levels of liquidity, Challenger considers:

- minimum cash requirements;
- collateral and margin call buffers;
- Australian Financial Services Licence requirements;
- cash flow forecasts;
- associated reporting requirements;
- other liquidity risks; and
- contingency plans.

Required annuity cash outflows are met from contracted investment cash flows together with assets in Challenger's liquidity pool. Cash flows are well matched and the liquidity profile continues to be rebalanced through time.

Life insurance risk

Lifetime annuities provide guaranteed payments to customers for life. Through selling lifetime annuities and assuming wholesale reinsurance agreements, CLC takes longevity risk, which is the risk customers live longer, in aggregate, than expected. This is in contrast to mortality risk, which is the risk that people die earlier than expected. CLC is exposed to mortality risks on its wholesale mortality reinsurance business.

CLC is required under APRA prudential standards to maintain regulatory capital in relation to life insurance risks. CLC regularly reviews the portfolio for longevity experience to ensure longevity assumptions remain appropriate.

Mortality rates are based on industry standards, which are adjusted for CLC's own recent experience and include an allowance for future mortality improvements.

CLC assumes future mortality rates for individual lifetime annuities will improve by between 0.4% and 2.6% per annum, depending on different age cohorts and sex. This has the impact of increasing the life expectancy of a male aged 65 from 22 years (per the base mortality rates) to 25 years.

Mortality and longevity sensitivities

The mortality sensitivities on page 49 set out the expected impact of an improvement in mortality. This is in addition to the mortality improvements Challenger already assumes.

A 50% increase in the annual mortality improvement rates already assumed would increase the life expectancy of a male aged 65 from 25 years to 26 years and increase the policy liability valuation leading to a $20m (after-tax) impact.

Interest rate sensitivity

Interest rate risk is the risk of fluctuations in Challenger's earnings arising from movements in market interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between the different yield curves and the volatility of interest rates.

The impact of movements in interest rates on Challenger's profit and loss and balance sheet is set out on page 49.

The sensitivities assume the change in variable occurs on 30 June 2022 and are based on assets and liabilities held at that date.

The impact of movements in interest rates is minimised through the use of interest rate swaps, Australian Government Bonds, Semi-Government Bonds and bond futures. As a result, the interest rate sensitivities show Challenger's profit is not materially sensitive to changes in base interest rates.

The sensitivities do not include the impact of changes in interest rates on earnings from CLC's shareholder capital as investment earnings are earned over the period, whereas the sensitivities assume a change in interest rates occurred on 30 June 2022.

Foreign exchange risk

Foreign exchange risk is the risk of a change in asset values as a result of movements in foreign exchange rates.

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

Currency exposure arises primarily in relation to Life's investments in Europe (including the United Kingdom), Japan and the United States. As a result, currency risk arises primarily from fluctuations in the value of the Euro, British pound, Japanese yen and US dollar against the Australian dollar.

In order to minimise foreign currency exchange rate risk, Challenger enters into foreign currency derivatives to limit Challenger's exposure to currency movements.

Foreign exchange sensitivity

The impact of movements in foreign currencies on Challenger's profit and loss and balance sheet is set out on page 49. As a result of foreign currency derivatives in place, Challenger's profit and loss is not materially sensitive to movements in foreign currency rates.

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

Funds Management financial results

$m	FY22	FY21	FY20	2H22	1H22	2H21	1H21	2H20	1H20
Fidante									
Fidante income[1]	121.4	97.4	81.4	58.3	63.1	52.3	45.1	39.4	42.0
Performance fees	4.0	10.1	14.9	1.6	2.4	5.5	4.6	11.4	3.5
Net income	**125.4**	**107.5**	**96.3**	**59.9**	**65.5**	**57.8**	**49.7**	**50.8**	**45.5**
Challenger Investment Management									
Challenger Investment Management income[2]	66.4	61.8	61.8	33.7	32.7	30.2	31.6	29.6	32.2
Total net fee income	**191.8**	**169.3**	**158.1**	**93.6**	**98.2**	**88.0**	**81.3**	**80.4**	**77.7**
Personnel expenses	(70.3)	(63.2)	(63.9)	(35.4)	(34.9)	(34.0)	(29.2)	(32.2)	(31.7)
Other expenses	(38.7)	(35.1)	(36.5)	(20.5)	(18.2)	(18.3)	(16.8)	(18.4)	(18.1)
Total expenses	**(109.0)**	**(98.3)**	**(100.4)**	**(55.9)**	**(53.1)**	**(52.3)**	**(46.0)**	**(50.6)**	**(49.8)**
EBIT	**82.8**	**71.0**	**57.7**	**37.7**	**45.1**	**35.7**	**35.3**	**29.8**	**27.9**
Performance analysis									
Fidante – income margin (bps)[3]	15.0	14.8	15.9	15.0	14.9	14.8	14.9	16.8	14.8
Challenger Investment Management – income margin (bps)[3]	32.0	30.6	31.2	33.0	31.1	29.8	31.7	30.0	31.7
Funds Management – income margin (bps)[3]	18.4	18.3	19.6	18.7	18.0	17.9	18.8	20.2	19.0
Funds Management – FUM-based income margin (bps)[4]	17.1	16.3	16.1	17.3	16.7	16.2	16.6	16.6	15.5
Cost to income ratio	56.8%	58.1%	63.5%	59.7%	54.1%	59.4%	56.6%	62.9%	64.1%
Net assets – average[5]	265.7	256.0	237.8	267.6	264.3	260.3	251.4	242.9	232.5
ROE (pre-tax)	31.2%	27.7%	24.3%	28.4%	33.8 %	27.7%	27.8%	24.7%	23.8%
Fidante	72,438	84,943	62,393	72,438	88,512	84,943	71,826	62,393	62,693
Challenger Investment Management	21,010	20,881	19,042	21,010	20,778	20,881	19,416	19,042	20,153
Closing FUM – total	**93,448**	**105,824**	**81,435**	**93,448**	**109,290**	**105,824**	**91,242**	**81,435**	**82,846**
Fidante	83,544	72,488	60,737	80,426	87,371	78,754	66,127	60,866	60,887
Challenger Investment Management	20,726	20,176	19,837	20,591	20,869	20,481	19,763	19,550	20,170
Average FUM – total[5]	**104,270**	**92,664**	**80,574**	**101,017**	**108,240**	**99,235**	**85,890**	**80,416**	**81,057**
FUM and net flows analysis									
Fidante	(8,895.2)	14,346.5	3,797.8	(9,984.0)	1,088.8	8,582.2	5,764.3	1,854.4	1,943.4
Challenger Investment Management	370.4	1,765.0	(1,256.9)	554.8	(184.4)	1,105.9	659.1	(1,193.1)	(63.8)
Net flows	(8,524.8)	16,111.5	2,540.9	(9,429.2)	904.4	9,688.1	6,423.4	661.3	1,879.6
Distributions	(1,141.2)	(1,332.2)	(762.2)	(404.3)	(736.9)	(474.8)	(857.4)	(297.5)	(464.7)
Market-linked movement	(2,710.0)	9,609.9	627.6	(6,009.0)	3,299.0	5,368.9	4,241.0	(1,774.3)	2,401.9
Total FUM movement	**(12,376.0)**	**24,389.2**	**2,406.3**	**(15,842.5)**	**3,466.5**	**14,582.2**	**9,807.0**	**(1,410.5)**	**3,816.8**

1 Fidante income includes equity-accounted profits, distribution fees, administration fees, and Fidante Europe transaction fees.
2 Challenger Investment Management income includes asset-based management fees and other income. Other income includes leasing fees, asset acquisition and disposal fees, development and placement fees.
3 Income margin represents net income divided by average FUM.
4 FUM-based income margin represents FUM-based income (net income excluding performance and transaction fees) divided by average FUM.
5 Calculated on a monthly basis.

Funds Management financial results

Funds Under Management and net flows

$m	Q4 22	Q3 22	Q2 22	Q1 22	Q4 21
Funds Under Management					
Fidante					
Equities	35,661	41,516	42,960	38,935	37,428
Fixed income	34,274	36,602	38,510	41,445	40,609
Alternatives[1]	2,503	1,944	7,042	7,166	6,906
Total Fidante	72,438	80,062	88,512	87,546	84,943
Challenger Investment Management					
Fixed income	16,658	15,938	16,065	16,273	16,278
Property	4,352	4,497	4,714	4,614	4,603
Total Challenger Investment Management	21,010	20,435	20,779	20,887	20,881
Total Funds Under Management	**93,448**	**100,497**	**109,291**	**108,433**	**105,824**
Average Fidante	76,807	83,954	87,810	86,977	82,206
Average Challenger Investment Management	20,587	20,556	20,811	20,932	21,042
Total average Funds Under Management[2]	**97,394**	**104,510**	**108,621**	**107,909**	**103,248**
Analysis of flows					
Equities	(1,200)	(591)	2,582	514	641
Fixed income	(2,088)	(1,152)	(2,835)	943	2,147
Alternatives[1]	213	(5,166)	(147)	32	254
Total Fidante	**(3,075)**	**(6,909)**	**(400)**	**1,489**	**3,042**
Challenger Investment Management	552	3	(111)	(74)	(383)
Net flows	**(2,523)**	**(6,906)**	**(511)**	**1,415**	**2,659**

1 Alternatives Q3 22 outflows includes $5,162m FUM derecognition following the sale of Whitehelm.
2 Average total Funds Under Management calculated on a monthly basis.

Reconciliation of total Group assets and Funds Under Management

$m	Q4 22	Q3 22	Q2 22	Q1 22	Q4 21
Funds Management Funds Under Management	93,448	100,497	109,291	108,433	105,824
Life investment assets	22,224	22,434	22,937	22,012	21,563
Bank lending and financing assets	391	320	230	213	—
Adjustments to remove double counting of cross-holdings	(17,493)	(17,176)	(17,551)	(17,457)	(17,427)
Total Assets Under Management	**98,570**	**106,075**	**114,907**	**113,201**	**109,960**

Funds Management financial results

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] with funds under management (FUM) $93 billion, up from $31 billion ten years ago.

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

Funds Management comprises Fidante and Challenger Investment Management (CIM) and has operations in Australia, the United Kingdom, Europe, Japan and Singapore.

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

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

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.

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

EBIT and ROE

Funds Management EBIT was $83m and increased by $12m (17%) on FY21. The increase in EBIT was due to higher FUM-based fee income (up $27m), with average FUM up $12b (up 13%) and higher transaction fees (up $2m), partially offset by lower performance fees (down $6m) and higher expenses (up $11m).

Funds Management ROE was 31.2% and increased by 350 bps from 27.7% in FY21. ROE benefited from the 17% increase in EBIT, partially offset by higher average net assets (up 4%).

Total net fee income

FY22 total net income was $192m (FY21 $169m) and comprised FUM-based fees of $178m (FY21 $151m), transaction fees of $10m (FY21 $8m) and performance fees of $4m (FY21 $10m).

FY22 FUM-based fees increased as a result of higher average FUM (up $12b) and a higher FUM-based margin of 17.1bps (FY21 16.3bps).

FY22 performance and transaction fees were $4m lower than FY21.

Expenses

FY22 Funds Management expenses were $109m and increased by $11m (11%) on FY21.

Personnel costs increased by $7m (11%), driven by an increase in full-time equivalent employees (up 3%) and higher annual leave balances due to COVID-19.

Other expenses increased by $4m as result of higher software costs to support business growth, professional fees, occupancy costs due to opening of London office in FY21, and increased marketing and travel costs in 2H22 as the economy reopens post-COVID-19 pandemic.

The FY22 cost to income ratio was 56.8% and improved by 130bps due to higher net fee income (up 13%), which exceeded the increase in expenses (up 11%).

Fidante net income

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

Fidante net income was $125m in FY22 and increased by $18m (17%) on FY21.

Fidante net income comprised:

- FUM-based income of $120m, up $23m (24%) on FY21 as a result of a 15% increase in average FUM and an expansion in FUM-based margin (refer to below for more information);
- Performance fees of $4m, decreased by $6m on FY21; and
- Transactions fees of $1m, increased by $1m on FY21.

Fidante income margin (net income to average FUM) was 15bps and was up 0.2bps from FY21.

Fidante FY22 FUM-based margin increased 1bp to 14.4bps, supported by higher margin retail business and equity business, higher administration fees and change in business mix following the sale of Whitehelm Capital and reduction in fixed income.

[1] Calculated from Rainmaker Roundup, March 2022 data.

Fidante FUM and net flows

Fidante's FUM at 30 June 2022 was $72.4b and decreased by $12.5b (15%) for the full year.

The decrease was a result of:

- net outflows of -$8.9b reflecting -$5.2b FUM derecognition following the sale of Whitehelm Capital (refer to page 7 for more detail) and -$6b of institutional outflows, partially offset by $2.3b of retail inflows. Institutional outflows included a $5.6b low-margin fixed income mandate redemption by a single institutional investor;
- negative impact from investment markets of -$2.5b; and
- net distributions of -$1.1b.

Fidante's FUM at 30 June 2022 was invested in the following asset classes:

- 49% in equities (FY21 44%);
- 47% in fixed income (FY21 48%); and
- 4% in alternatives (FY21 8%).

Challenger Investment Management (CIM)

CIM's FY22 net income was $66m and increased by $5m (7%) on FY21.

CIM's net income included:

- FUM-based income of $58m, up $4m (up 7%) on FY21, reflecting a 3% increase in average FUM and an expansion in the FUM-based margin to 27.8bps (refer below for more information); and
- transaction fees of $9m, up $1m on FY21 driven by property sale and development fees.

CIM's FY22 income margin (net income to average FUM) was 32.0bps, up 1.4bps from FY21 primarily due to higher FUM-based income (up 7%).

CIM's FY22 FUM-based margin was 27.8bps, up 1.1bps following a change in product mix and a move towards higher margin products.

Challenger Investment Management's FUM and net flows

CIM's FUM at 30 June 2022 was $21.0b and increased by $0.1b for the year.

The increase was a result of:

- net flows of $0.4b, predominantly from Challenger Life; and
- negative market movement of -$0.3b.

CIM's 30 June 2022 FUM is invested in the following asset classes:

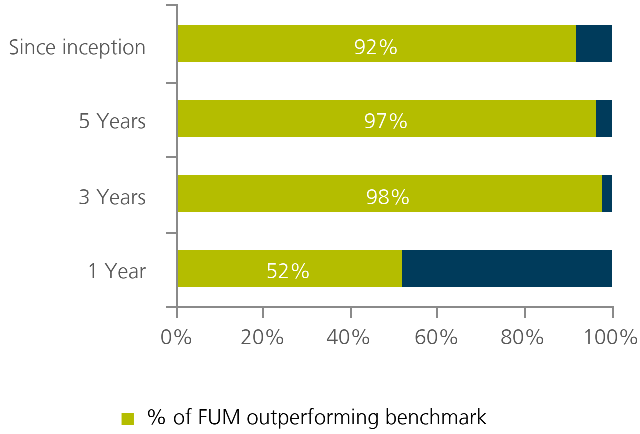
- 79% in fixed income (FY21 78%); and
- 21% in property (FY21 22%).

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

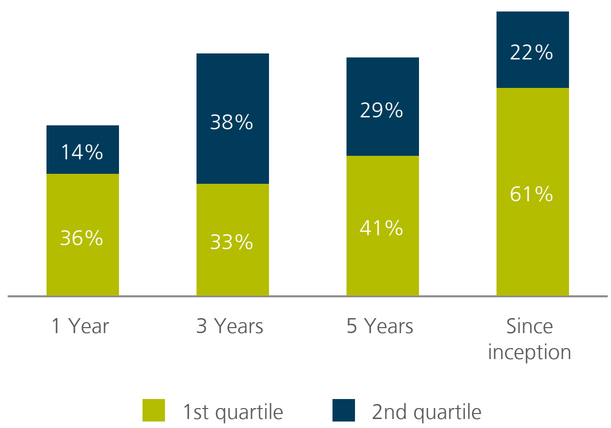
Funds Management investment performance

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

Long-term performance for Fidante's Australian affiliates remains strong with 98% and 97% of FUM outperforming the benchmark over three and five years respectively[1].



For Fidante Australian affiliates, 71% of funds achieved first or second quartile performance over three years and 83% of funds achieved either first or second quartile investment performance since inception[2].



[1]As at 30 June 2022. Percentage of Fidante Australian affiliates meeting or exceeding the performance benchmark, with performance weighted by FUM.
[2] Mercer as at June 2022.

Bank financial results

$m	FY22	FY21	FY20	2H22	1H22	2H21	1H21	2H20	1H20
Interest income	3.4	—	—	2.1	1.3	—	—	—	—
Interest expense	(1.1)	—	—	(0.7)	(0.4)	—	—	—	—
Net interest income	**2.3**	**—**	**—**	**1.4**	**0.9**	**—**	**—**	**—**	**—**
Personnel expenses	(9.7)	—	—	(7.1)	(2.6)	—	—	—	—
Other expenses	(3.7)	—	—	(2.1)	(1.6)	—	—	—	—
Total expenses	**(13.4)**	**—**	**—**	**(9.2)**	**(4.2)**	**—**	**—**	**—**	**—**
Normalised EBIT	**(11.1)**	**—**	**—**	**(7.8)**	**(3.3)**	**—**	**—**	**—**	**—**
Bank impairments[1]	(0.9)	—	—	(0.9)	—	—	—	—	—
Net profit after impairments before tax	**(12.0)**	**—**	**—**	**(8.7)**	**(3.3)**	**—**	**—**	**—**	**—**
Performance analysis									
Net interest margin (%)	0.93%	—	—	0.91%	0.99%	—	—	—	—
Cost to income ratio (%)	574.0%	—	—	648.5%	464.7%	—	—	—	—
Net assets – average[2] ($m)	95.8	—	—	109.8	76.2	—	—	—	—

[1] Represents provision for expected credit losses.

[2] Calculated on a monthly basis.

In December 2020, Challenger announced it had entered into an agreement to acquire Challenger Bank (formerly MyLifeMyFinance Bank Limited), an Australian-based authorised deposit-taking institution (ADI) and digital bank.

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 incomes.

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

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.

Normalised EBIT and ROE

Bank's normalised EBIT was a loss of $11m in FY22 and represents approximately 11 months of losses since the acquisition completed in late July 2021.

Net interest income for the period was $2m and represents interest earned on the Bank's lending and financing assets ($3m), less interest costs associated with the Bank's deposit products ($1m).

Net interest margin

The Bank's net interest margin (NIM) for FY22 was 0.93% and has been calculated as annualised net interest income divided by FY22 average lending and financing assets.

The NIM reflects a large proportion (~70%) of the financing and lending asset base ($391m as at 30 June 2022) invested in cash and equivalents, which will be gradually redeployed into lending activities that generate higher returns and therefore support NIM expansion.

Expenses

Bank expenses for the period were $13m and predominantly relate to personnel expenses ($10m). Other expenses primarily relate to software associated with operating the Bank, professional services and marketing costs.

Bank impairments

Bank maintains a high-quality financing and lending portfolio, with ~30% exposure to retail and non-retail lending. Retail lending assets were $89m and non-retail lending assets were $17m at 30 June 2022. Both of these lending portfolios are held at amortised cost and are subject to an impairment test each reporting period.

The expected loss provision as at 30 June 2022 was $0.9m and mortgages in arrears (90+ days) represented 0% of the retail lending assets.

Bank financial results

$m	FY22	FY21	FY20	2H22	1H22	2H21	1H21	2H20	1H20
Sales ($m)									
Bank deposit sales[1]	219.3	—	—	146.7	72.6	—	—	—	—
Maturities and withdrawals	(125.7)	—	—	(71.5)	(54.2)	—	—	—	—
Bank net flows	**93.6**	**—**	**—**	**75.2**	**18.4**	**—**	**—**	**—**	**—**
Closing Bank deposits[1]	227.7	—	—	227.7	152.6	—	—	—	—
Bank book growth[2]	**69.7%**	**—**	**—**	**56.0%**	**13.7%**	**—**	**—**	**—**	**—**
Lending and financing assets ($m)									
Closing lending and financing assets ($m)	**391**	**—**	**—**	**391**	**230**	**—**	**—**	**—**	**—**
Fixed income, cash and cash equivalents	285	—	—	285	133	—	—	—	—
SME Lending	—	—	—	—	—	—	—	—	—
Retail Lending	89	—	—	89	97	—	—	—	—
Corporate Lending	17	—	—	17	—	—	—	—	—
Commercial Real Estate Lending	—	—	—	—	—	—	—	—	—
Average lending and financing assets ($m)[3]	**275**	**—**	**—**	**317**	**218**	**—**	**—**	**—**	**—**
Deposit liabilities ($m)									
Closing Bank deposits[1]	228	—	—	228	153	—	—	—	—
Average deposits[3]	**166**	**—**	**—**	**185**	**141**	**—**	**—**	**—**	**—**

1 Deposits includes At Call accounts and Term Deposits.
2 Bank book growth percentage represents Bank net flows over the period divided by opening book value as at 30 July 2021 of $134.2m.
3 Calculated on a monthly basis.

Deposit sales and book growth

FY22 Bank deposit sales were $219m and maturities and withdrawals were $126m, resulting in net flows of $94m.

Based on the deposit book on acquisition of $134m, Bank net flows of $94m represents Bank deposit book growth of 70% since acquisition.

Deposit sales are benefiting from an expansion of distribution channels. Term deposits are available to direct customers via bank-specific comparator sites and the broker channel.

Lending and financing assets

Bank lending and financing assets at 30 June 2022 were $391m, with approximately ~70% invested in cash and equivalents and only ~30% deployed to retail and corporate lending.

Subject to the results of the strategic review of the Bank (refer to page 57), Challenger expects to redeploy cash and equivalents to other lending activities, including asset financing, commercial real estate and corporate lending.

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

Deposit liabilities

Bank deposit liabilities at 30 June 2022 were $228m, with approximately ~28% in at call accounts, ~67% in term deposit products with a maturity less than 12 months, and 5% in term deposit products with a maturity greater than 12 months.

Bank quarterly sales and lending and financing assets

$m	Q4 22	Q3 22	Q2 22	Q1 22	Q4 21	Q3 21
Deposit sales						
Bank deposit sales[1]	87	59	43	30	—	—
Maturities and repayments	(42)	(29)	(28)	(27)	—	—
Bank net flows	**45**	**30**	**15**	**3**	**—**	**—**
Closing Bank deposits	228	182	153	137	—	—
Bank net book growth (%)[2]	**33.6%**	**22.4%**	**11.8%**	**1.9%**	**—**	**—**
Bank lending and financing assets						
Fixed income, cash and cash equivalents	285	226	133	111	—	—
SME Lending	—	—	—	—	—	—
Retail Lending	89	94	97	102	—	—
Corporate Lending	17	—	—	—	—	—
Commercial Real Estate Lending	—	—	—	—	—	—
Total Bank lending and financing assets	**391**	**320**	**230**	**213**	**—**	**—**
Average Bank lending and financing assets[3]	**361**	**273**	**222**	**212**	**—**	**—**

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

Bank balance sheet

$m	2H22	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Assets								
Cash and cash equivalents	40.8	55.9	—	—	—	—	—	—
Fixed income securities	244.4	76.9	—	—	—	—	—	—
SME Lending	0.2	—	—	—	—	—	—	—
Retail Lending	88.6	97.3	—	—	—	—	—	—
Corporate Lending	16.5	—	—	—	—	—	—	—
Commercial Real Estate Lending	—	—	—	—	—	—	—	—
Lending and financing assets	**390.5**	**230.1**	**—**	**—**	**—**	**—**	**—**	**—**
Trade and Other Receivables	11.5	8.3	—	—	—	—	—	—
Prepayments and other assets	0.4	1.0	—	—	—	—	—	—
Other assets	0.8	(0.1)	—	—	—	—	—	—
Total assets	**403.2**	**239.3**	**—**	**—**	**—**	**—**	**—**	**—**
Liabilities			—	—	—	—	—	—
Deposits	227.7	152.6	—	—	—	—	—	—
Long term borrowings	5.4	5.4	—	—	—	—	—	—
Repurchase Agreements	34.8	—	—	—	—	—	—	—
Provisions	0.9	—	—	—	—	—	—	—
Trade and other payables	14.4	4.8	—	—	—	—	—	—
Total liabilities	**283.2**	**162.8**	**—**	**—**	**—**	**—**	**—**	**—**
Net assets	**120.0**	**76.5**	**—**	**—**	**—**	**—**	**—**	**—**

1. Excludes goodwill of $19m.

Bank regulatory capital

$m	2H22	1H22	2H21	1H21	2H20	1H20	2H19	1H19
Regulatory capital base								
Common Equity Tier 1 (CET1) regulatory capital	119.3	76.0	—	—	—	—	—	—
Additional Tier 1 capital	—	—	—	—	—	—	—	—
Total Tier 1 regulatory capital base	**119.3**	**76.0**	**—**	**—**	**—**	**—**	**—**	**—**
Tier 2 capital	—	0.5	—	—	—	—	—	—
Total regulatory capital base	**119.3**	**76.5**	**—**	**—**	**—**	**—**	**—**	**—**
Minimum Regulatory Requirement[1]	24.3	11.0	—	—	—	—	—	—
Excess over Minimum Regulatory Requirement	**95.0**	**65.5**	**—**	**—**	**—**	**—**	**—**	**—**
Minimum Regulatory Requirement Ratio (times)	4.91	6.95	—	—	—	—	—	—
CET1 capital ratio (times)	4.91	6.90	—	—	—	—	—	—
Risk weighted assets ($m)	231.4	104.9	—	—	—	—	—	—
Capital Adequacy ratio (%)	51.5%	72.9%	—	—	—	—	—	—
Average RWA intensity ratio (%)	57.4%	43.8%	—	—	—	—	—	—

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

Capital management

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

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

Regulatory capital base

Bank's regulatory capital base at 30 June 2022 was $119m and represents CET1 regulatory capital, which is similar to the Bank's 30 June 2022 net assets.

Excess over Minimum Regulatory Requirement and capital ratios

Bank's excess over Minimum Regulatory Requirement at 30 June 2022 was $95.0m and its capital ratios were as follows:

- Minimum Regulatory Requirement ratio 4.91 times;
- Common Equity Tier 1 capital ratio (CET1) 4.91 times; and
- Capital adequacy ratio 51.5%.

The Bank has commenced certain types of non-retail lending activities. Currently, a significant portion of the Bank's financing and lending assets are still invested in cash and cash equivalents. Over time, it is expected that the Bank's capital ratios will reduce as excess capital is redeployed into more capital-intensive lending activities.

Risk management framework

Challenger's Board is responsible, in conjunction with senior management, for the management of risks associated with the business and implementing structures and policies to adequately monitor and manage these risks.

The Board has established the Group Risk Committee (GRC) and Group Audit Committee (GAC) to assist in discharging its risk management responsibilities. In particular, these committees assist the Board in setting the appropriate risk appetite and for ensuring Challenger has an effective risk management framework that is able to manage, monitor and control the various risks to which the business is exposed.

The Executive Risk Management Committee (ERMC) is an executive committee, chaired by the Chief Risk Officer (CRO), which assists the GRC, GAC and Board in discharging their risk management obligations by implementing the Board-approved risk management framework.

On a day-to-day basis, the Risk division, which is separate from the operating segments of the business, has responsibility for monitoring the implementation of the risk framework, including monitoring, reporting and analysis of the various risks faced by the business, and providing effective challenge to activities and decisions that may materially affect Challenger's risk profile.

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

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

CBL is exposed to variety of financial risks, including interest rate risk, credit risk and liquidity risk.

The management of these risks is fundamental to Challenger's business and building shareholder value.

Interest rate risk

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 Bank Risk Management Committee and the Board.

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.

Credit risk

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 of the 2022 Annual Report for further details on the recognition of expected credit losses.

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. 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. The Bank currently has no reportable large exposures.

Liquidity risk

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.

Corporate financial results

$m	FY22	FY21	FY20	2H22	1H22	2H21	1H21	2H20	1H20
Other income	**0.0**	**0.0**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**0.2**
Personnel expenses	(40.5)	(35.5)	(32.5)	(18.4)	(22.1)	(18.7)	(16.8)	(14.4)	(18.1)
Other expenses	(16.6)	(25.1)	(28.3)	(9.3)	(7.3)	(18.1)	(7.0)	(18.5)	(9.8)
Total expenses (excluding LTI)	**(57.1)**	**(60.6)**	**(60.8)**	**(27.7)**	**(29.4)**	**(36.8)**	**(23.8)**	**(32.9)**	**(27.9)**
Long-term incentives (LTI)	(10.5)	(8.5)	(9.0)	(4.5)	(6.0)	(2.7)	(5.8)	(4.1)	(4.9)
Total expenses	**(67.6)**	**(69.1)**	**(69.8)**	**(32.2)**	**(35.4)**	**(39.5)**	**(29.6)**	**(37.0)**	**(32.8)**
Normalised EBIT	**(67.6)**	**(69.1)**	**(69.4)**	**(32.2)**	**(35.4)**	**(39.5)**	**(29.6)**	**(36.8)**	**(32.6)**
Interest and borrowing costs	(4.1)	(5.0)	(6.5)	(2.2)	(1.9)	(2.7)	(2.3)	(4.0)	(2.5)
Normalised loss before tax	**(71.7)**	**(74.1)**	**(75.9)**	**(34.4)**	**(37.3)**	**(42.2)**	**(31.9)**	**(40.8)**	**(35.1)**

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

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

Normalised EBIT

Corporate normalised EBIT was a loss of $68m in FY22, down $2m from FY21. The decreased EBIT loss was a result of lower other expenses (down $9m), offset by higher personnel expenses (up $5m) and LTI (up $2m).

Other income

Other income represents interest received on Group cash and was nil in FY22 due to the low interest rate environment. The Group cash balance as at 30 June 2022 was $183m.

Total expenses

FY22 Corporate expenses were $68m and decreased by $2m on FY21.

Corporate expenses include:

- Personnel costs of $41m, increased by $5m as a result of higher variable reward costs and reduced annual leave as a result of the COVID-19 pandemic;
- Other expenses of $17m, decreased by $9m due to lower non-recurring software impairment expenses taken in 2H21 and not repeated; and
- Long-term incentive costs of $11m, increased by $2m following the award of hurdled performance share rights.

Interest and borrowing costs

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

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

At the start of FY21, $50m remained drawn; however, it was fully repaid during the period. FY22 interest and borrowing costs were $4m, reflecting line fees on the Group debt facility.

The $400m facility remained undrawn throughout FY22.

Normalised Cash Operating Earnings framework

Life normalised Cash Operating Earnings (COE) is Challenger's preferred profitability measure for the Life business, as it aims to reflect the underlying performance trends of the Life business.

The Life normalised COE framework was introduced in June 2008 and has been applied consistently since.

The framework removes the impact of market and economic variables, which are generally non-cash and the result of external market factors. The normalised profit framework is subject to a review performed by Ernst & Young each half year.

Life normalised COE includes cash earnings plus normalised capital growth and excludes investment experience (refer below).

Cash earnings

Cash earnings represents investment yield and other income, less interest expenses and distribution expenses.

Investment yield

Represents the investment return on assets held to match annuities and the return on shareholder investment assets.

Investment yield includes net rental income, dividend income, infrastructure distributions, accrued interest on fixed income and cash, and discounts/premiums on fixed income assets amortised on a straight-line basis.

Interest expense

Represents interest accrued at contracted rates to annuitants and Life subordinated debt holders and other debt holders.

Distribution expense

Represents payments made for the acquisition and management of Life's products, including annuities.

Other income

Other income includes revenue from Accurium (refer to page 28) and profits on Life Risk wholesale longevity and mortality transactions (refer to page 28).

Normalised capital growth

Normalised capital growth represents the expected capital growth for each asset class through the investment cycle and is based on Challenger's long-term expected investment returns for each asset class.

Normalised capital growth assumptions have been set with reference to long-term market growth rates and are reviewed regularly to ensure consistency with prevailing medium to long-term market returns.

Normalised capital growth can be determined by multiplying the normalised capital growth assumption (see below) by the average investment assets for the period.

Normalised capital growth assumptions for FY22 are as follows:

Fixed income and cash (representing allowance for credit defaults)	-35 bps
Property	2.0%
Equity and infrastructure	4.0%
Alternatives	0.0%

Investment experience

Challenger Life is required by accounting standards and prudential standards to value all assets and liabilities supporting the Life business at fair value. This gives rise to fluctuating valuation movements on assets and policy liabilities being recognised in the profit and loss, particularly during periods of market volatility.

As Challenger is generally a long-term holder of assets, due to them being held to match the term of life liabilities, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements.

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

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

Asset and liability experience

Challenger Life is required by accounting standards and prudential standards to value all assets and liabilities supporting the Life business at fair value. Asset and liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised and based on fair value) and the normalised capital growth in relation to assets plus any economic and actuarial assumption changes in relation to policy liabilities for the period.

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

New business strain

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

Life tends to offer annuity rates that are higher than these rates. As a result, on writing new annuity business, a non-cash loss is recognised when issuing the annuity contract due to a lower discount rate used to value the liability. In addition, maintenance expense allowances over the expected future term of new business are also included in the policy liability valuation.

New business strain is a non-cash item and subsequently reverses over the future period of the contract. The new business strain reported in the period represents the non-cash loss on new sales net of the reversal of the new business strain of prior period sales.

Glossary of terms

Terms	Definitions
Additional Tier 1 regulatory capital	High-quality capital that provides a permanent and unrestricted commitment and is freely available to absorb losses; however, it does not satisfy all the criteria to be included in Common Equity Tier 1 regulatory capital.
Authorised Deposit-taking Institution (ADI)	A financial institution licensed by the Australian Prudential Regulatory Authority (APRA) to carry on banking business, including accepting deposits from the public. This includes banks, building societies and credit unions.
Bank book growth	Net deposits over the period divided by the opening deposit book.
Bank average RWA intensity ratio (%)	Risk Weighted Assets divided by Bank total assets.
Bank Capital adequacy ratio (%)	Total regulatory capital divided by Risk Weighted Assets.
Bank impairments	Impairments relate to Bank lending and financing assets and represents provision for losses, realised losses or recoveries on the assets which are held at amortised cost.
Bank Net Interest Margin (%)	Net interest income over average interest earning assets.
Bank Minimum Regulatory Requirement ratio (times)	Total regulatory capital dividend by Minimum Regulatory Requirement.
Bank Risk Weighted Assets	Risk weighted assets are used to determine the minimum amount of capital that must be held by banks and is a measure of the Banks assets weighted according to risk.
Capital intensity ratio	CLC Prescribed Capital Amount (PCA) divided by Life investment assets.
Cash earnings (Life)	Investment yield and other income less interest and distribution expenses.
CET1 capital ratio	Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
Challenger Index Plus	Institutional product providing guaranteed excess return above a chosen index. Index Plus is available on traditional indices and customised indices.
Challenger Investment Management income	Challenger Investment Management income includes asset-based management fees, and other income such as leasing fees, acquisition and disposal fees, development and placement fees.
Common Equity Tier 1 regulatory capital	The highest quality capital comprising items such as paid-up ordinary shares and retained earnings. Common Equity Tier 1 capital is subject to certain regulatory adjustments in respect of intangibles and adjusting policy liabilities.
Cost to income ratio	Total expenses divided by Normalised Cash Operating Earnings (Life) or Total net fee income (FM).
Distribution expenses (Life)	Payments made for the acquisition and management of annuities and other Life products.
Earnings per share (EPS)	Net profit after tax divided by weighted average number of shares in the period.
ESG	Environmental, Social, and Governance
Fidante Income	Distribution and administration fees; Fidante's share of affiliate manager profits; performance fees and transactions fees.
Funds Under Management (FUM)	Total value of listed and unlisted funds/mandates managed by the Funds Management business.
Group assets under management (AUM)	Total value of Life's investment assets, Funds Management FUM and Bank lending and financing assets.
Group cash	Cash available to Group, excluding cash held by Challenger Life Company Limited.
Interest and borrowing costs (Corporate)	Interest and borrowing costs associated with Group debt and Group debt facilities.
Interest expenses (Life)	Interest accrued and paid to annuitants, subordinated debt and other debt providers (including Challenger Capital Notes and Challenger Capital Notes 2).
Investment experience (Life)	Represents fair value movements on Life's assets and policy liabilities and net new business strain. Refer to page 65 for more detail.
Investment yield (Life)	Net rental income, dividends received and accrued interest and discounts/premiums on fixed income securities amortised on a straight-line basis.

Glossary of terms

Terms	Definitions
Investment yield – shareholders' funds (Life)	Represents the return on shareholder capital held by the Life business.
Life annuity book growth	Net annuity policy capital receipts over the period divided by opening policy liabilities (Life annuity book).
Life book growth	Net annuity and other policy capital receipts over the period divided by the opening policy liabilities (Life annuity book and Challenger Index Plus liabilities).
Life investment assets	Total value of investment assets that are managed by the Life business.
Minimum Regulatory Requirement (MRR)	Represents the minimum capital requirement as required by regulators, including APRA, ASIC and other foreign jurisdictions.
MyLife MyFinance	MyLifeMyFinance Limited ABN 54 087 651 750.
Net annuity policy receipts	Life retail annuity sales less annuity capital payments.
Net assets – average	Average net assets over the period (excluding non-controlling interests) calculated on a monthly basis.
Net fee income (FM)	Fidante income and Challenger Investment Management income.
Net management fees (FM)	Management fees for managing investments.
Net tangible assets	Consolidated net assets less goodwill and intangibles.
New business tenor	Represents the maximum product maturity of new business sales. These products may amortise over this period.
Normalised capital growth	Long-term expected capital growth based on long-term return assumptions calculated as long-term capital growth assumption multiplied by average investment assets.
Normalised Cash Operating Earnings (NCOE) (Life)	Cash earnings plus normalised capital growth.
Normalised cost to income ratio	Total expenses divided by total net income.
Normalised dividend payout ratio	Dividend per share divided by normalised earnings per share (basic).
Normalised EBIT (FM)	Net income less total expenses.
Normalised EBIT (Life)	Normalised Cash Operating Earnings less total Life expenses.
Normalised net profit after tax (NPAT)	Statutory net profit after tax, excluding investment experience and net new business strain; and significant items (refer to page 65 for more detail on investment experience).
Normalised net profit before tax (NPBT)	Statutory net profit after tax, excluding normalised tax; investment experience and net new business strain; and significant items (refer to page 65 for more detail on investment experience).
Normalised Return On Equity (ROE) – pre-tax	Normalised Life EBIT, FM EBIT, and/or Normalised NPBT (Group) divided by average net assets.
Normalised Return On Equity (ROE) – post-tax	Group's normalised NPAT divided by average net assets.
Normalised tax rate	Normalised tax divided by normalised profit before tax.
Other expenses	Non-employee expenses, including external professional services, occupancy costs, marketing and advertising, travel, technology and communications costs.
Other income (Corporate)	Includes interest received on Group cash balances.
Other income (Life)	Relates to Accurium revenue and Life Risk. Refer to page 28 for more detail.
PCA ratio	The ratio of the total CLC Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount.
Performance fees (FM)	Fees earned for outperforming benchmarks.
Personnel expenses	Includes fixed and short-term variable incentive components of remuneration structures. The amortisation of long-term incentive plans is reported separately within the Corporate results.
Prescribed Capital Amount (PCA)	Amount of capital that a life company must hold, which is intended to be sufficient to withstand a 1-in-200-year shock and still meet adjusted policy liabilities and other liabilities. For further details, refer to APRA's LPS110 *Capital Adequacy.*

Glossary of terms

Terms	Definitions
Product cash margin (Life)	Represents the return on assets backing annuities and other income, less interest and distribution expenses.
Significant items	Non-recurring or abnormal income or expense items.
Statutory Return On Equity (ROE) – post-tax	Statutory NPAT divided by average net assets.
Tier 1 regulatory capital	Tier 1 regulatory capital comprises Common Equity Tier 1 regulatory capital and Additional Tier 1 regulatory capital.
Tier 2 regulatory capital	Tier 2 regulatory capital contributes to the overall strength of the Life Company and its capacity to absorb losses; however, it does not satisfy all the criteria to be included as Tier 1 regulatory capital.
Total expenses	Personnel expenses plus other expenses.
Total net income	Normalised Cash Operating Earnings (Life) plus net fee income (FM) plus Bank net interest income plus other income (Corporate).

Key dates

Challenger Limited (ASX:CGF)	
Q1 2023 Sales and AUM	20 October 2022
2022 Annual General Meeting	27 October 2022
2023 Half-year financial results	14 February 2023
Q3 2023 Sales and AUM	20 April 2023
2023 Full-year financial results	15 August 2023
2023 Annual General Meeting	26 October 2023