

FIRST QUARTER AUM ANNUITY SALES & NET FLOWS¹

Higher interest rate environment supportive for annuity sales growth

- Total Life sales \$2.8 billion, up 33%
 - Annuity sales \$1.8 billion, up 50%
 - Other Life sales \$929 million, up 9%
- Life book growth 2.3%² for the quarter
 - Annuity book growth 2.5% for the quarter with both strong new business sales and reinvestments³
- Group assets under management (AUM) \$96 billion, down 2% for the quarter
- Funds Management FUM \$91 billion, down 3% for the quarter
- Challenger Life remains strongly capitalised
- Announced sale of Challenger Bank for approximately \$36 million⁴

Challenger Limited (ASX:CGF) today reported first quarter annuity sales and AUM, with total Life sales up 33% driven by strong retail annuity sales and institutional sales. Group AUM was down 2% for the quarter reflecting Funds Management net outflows and distributions.

Managing Director and Chief Executive Officer Nick Hamilton said:

“Challenger has started FY23 strongly, with annuity sales momentum continuing following the strong finish to last financial year.

“The Life business experienced very strong annuity sales growth, up 50%, benefiting from both strong new business sales and higher reinvestments. Retail annuity sales were even stronger, more than doubling.

“Annuity sales are benefiting from the interest rate environment, which has improved the customer proposition. Our 3-year annuity rate reached 4.85% in October, the highest level in the last ten years. We are seeing a significant pick up in quote levels from advisers and we are attracting new customers.

“Pleasingly, the higher interest rate environment is providing us the opportunity to remix our sales. Annuity sales greater than two years, including lifetime sales, are increasing, reflecting our focus on growing longer duration business.

“Life’s institutional business continues to remain appealing for clients, with sales up 17% demonstrating our ability to roll this business.

“The Funds Management business delivered another quarter of solid performance in more challenging markets. The business remains in a strong position, supported by long-term investment outperformance and a pipeline of future flows.

“Challenger has completed the strategic review of the Bank, which concluded a sale was the best option for Challenger, allowing us to focus on our Life and Funds Management businesses and leverage the scale we can achieve through strategic partnerships.

“We are well placed to continue our growth trajectory, with the interest rate environment supportive for the business and achieving our purpose of helping customers achieve financial security for retirement,” said Mr Hamilton.

Life

Total Life net flows were \$411 million for the quarter, including annuity net inflows of \$343 million and Other Life net inflows of \$68 million. Life’s book growth was 2.3%² and annuity book growth was 2.5%³ for the first quarter.

Total Life sales increased 33% to \$2.8 billion, driven by record quarterly annuity sales and higher Other Life sales.

Demand for longer dated annuities also improved with 75% of new business annuity sales greater than 2-years⁵, compared to 50% on the prior comparable period (pcp).

Annuity sales increased by 50% to \$1.8 billion, with very strong domestic retail sales and institutional sales growth, partially offset by lower Japanese sales.

Domestic retail sales grew 105% to \$989 million, reflecting higher retail fixed term annuity sales of \$809 million (up 112%) and higher lifetime sales of \$180 million (up 78%).

Retail fixed term annuity sales are benefiting from the higher interest rate environment, which has improved the client proposition. Stronger demand for term products is driving an increase in adviser quoting and attracting new advisers and customers. Annuity sales growth is also being supported by strong reinvestment rates, with approximately 80% of term maturities reinvested during the quarter.

Lifetime annuity sales were \$180 million, comprising Liquid Lifetime of \$90 million (up 44%) and CarePlus of \$90 million (up 134%), both benefiting from the post pandemic environment.

Institutional sales grew by 17% to \$1.6 billion, driven by both institutional term annuity sales of \$665 million (up 32%) and Challenger Index Plus sales of \$929 million (up 9%). Institutional sales benefited from reinvestments of over 80% during the quarter.

Japanese (MS Primary) annuity sales were \$187 million, with Challenger on track to achieve the minimum annual sales target of ¥50 billion per year (equivalent to ~A\$530 million)⁶. Japanese sales were lower than the prior period primarily due to the depreciation in the Japanese Yen⁷.

Challenger Life Company Limited's (CLC or Challenger Life) investment assets at 30 September 2022 were \$22.8 billion, up 3% for the quarter. The movement in investment assets reflects first quarter net book growth, CLC earnings and asset investment experience, tax and dividend payments, and proceeds from the Tier 2 Capital issued in September 2022.

Challenger Life remains strongly capitalised with a PCA ratio⁸ of 1.68 times. In September 2022, Challenger Life successfully issued \$400 million of subordinated notes that qualify as Tier 2

Capital under APRA Prudential Standards. CLC intends to use the proceeds to fully repay \$400 million of Tier 2 Capital eligible for repayment in November 2022, subject to APRA approval.

Excluding the additional \$400 million of Tier 2 Capital, CLC's PCA ratio at 30 September 2022 would have been 1.53 times, above the mid-point of CLC's target range of 1.3 to 1.7 times the minimum amount set by APRA. The movement in the PCA ratio reflects statutory profit for the quarter, the payment of dividends and Additional Tier 1 instrument coupons, and higher capital intensity, which increased due to depreciation of the Australian dollar and a higher allocation to alternatives.

Funds Management

Funds Management funds under management (FUM) was \$91 billion, a decrease of \$2.4 billion or 3% for the quarter, primarily driven by Fidante.

Fidante's FUM was \$70 billion, a decrease of \$2.5 billion or 3% for the quarter. FUM growth was driven by net outflows of \$1.7 billion for the quarter, distributions of \$1.1 billion, partially offset by positive investment market movements of \$0.3 billion.

Fidante net outflows primarily reflect redemptions across fixed income managers (\$2.3 billion), partially offset by net inflows across equity and alternatives strategies (\$0.6 billion). Flows across the funds management sector continue to be impacted by market volatility and a risk off environment.

In October 2022, Fidante refreshed its brand, unveiling a new website and full upgrade of the online digital tools to support customers and their advisers.

Fidante and its investment managers also continued to be externally recognised. Fidante won Distributor of the Year 2022⁹ and Alphinity Investment Management won the Australian Equities – Large Cap category at the 2022 Zenith Investment Partners Awards.

Challenger Investment Management FUM was \$21.1 billion, up \$60 million for the quarter.

Bank

Challenger completed the strategic review of the Bank announced in August 2022, which concluded a sale was the best option.

In a separate ASX release today, Challenger announced it has signed a share sale agreement with Heartland Group Holdings Limited (NZX/ASX:HGH) to sell the Bank for consideration of approximately \$36 million⁴. Refer to the separate ASX release for additional details on the sale.

Guidance

Challenger reaffirms its FY23 normalised net profit before tax guidance range of between \$485 million to \$535 million.

ENDS

This release has been authorised by Challenger's Continuous Disclosure Committee.

About Challenger

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

Challenger operates a fiduciary Funds Management division, an APRA-regulated Life division and an APRA regulated authorised deposit-taking institution. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

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¹ All commentary compares the September 2022 quarter against the September 2021 quarter (the prior corresponding period or pcp), unless otherwise stated.

² Life book growth of 2.3% for the quarter represents Life net flows divided by opening FY23 annuity and Challenger Index Plus liabilities.

³ Life annuity book growth of 2.5% for the quarter represents Life annuity net flows divided by opening FY23 annuity liabilities.

⁴ Price subject to completion adjustments and based on a net asset value of approximately \$25m.

⁵ Quarterly new business annuity sales by tenor excluding reinvestments.

⁶ Reinsurance across both Australian and US dollar annuities, of at least ¥50 billion (~A\$530m based on the exchange rate as at 30 June 2022) per year for a minimum of five years, commencing 1 July 2019. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

⁷ 1Q23 average AUD:JPY of 94.50, down 17% compared to pcp (1Q22 average AUD:JPY 80.90).

⁸ PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 30 September 2022.

⁹ Fidante was awarded the 2022 Zenith Investment Partners Distributor of the Year for the third consecutive year.

Challenger Limited

Assets and Funds Under Management, net flows and sales

Life quarterly sales and investment assets

\$m	Q1 23	Q4 22	Q3 22	Q2 22	Q1 22
Life sales					
Retail fixed term sales	809	605	390	529	381
Institutional fixed term sales	665	145	1,006	459	504
Japan sales	187	131	63	178	245
Fixed term sales	1,661	881	1,459	1,166	1,130
Lifetime sales ¹	180	159	108	119	101
Life annuity sales	1,841	1,040	1,567	1,285	1,231
Maturities and repayments	(1,498)	(860)	(1,281)	(969)	(939)
Life annuity flows	343	180	286	316	292
Annuity book growth²	2.5%	1.4%	2.1%	2.3%	2.1%
Other Life sales	929	1,053	1,104	1,571	856
Other maturities and repayments	(861)	(698)	(899)	(1,035)	(554)
Other Life flows	68	355	205	536	302
Other Life net book growth	1.6%	9.9%	5.6%	14.8%	8.3%
Total Life sales	2,770	2,093	2,671	2,856	2,087
Total maturities and repayments	(2,359)	(1,558)	(2,180)	(2,004)	(1,493)
Total Life net flows	411	535	491	852	594
Total Life book growth²	2.3%	3.2%	2.8%	4.9%	3.4%
Life					
Fixed income and cash ³	16,816	16,659	16,614	17,031	16,230
Property ³	3,228	3,227	3,551	3,583	3,481
Equity and Infrastructure ³	961	971	1,004	1,096	1,067
Alternatives	1,812	1,367	1,265	1,227	1,234
Total Life investment assets	22,817	22,224	22,434	22,937	22,012
Average Life investment assets⁴	22,525	22,415	22,826	22,508	21,944

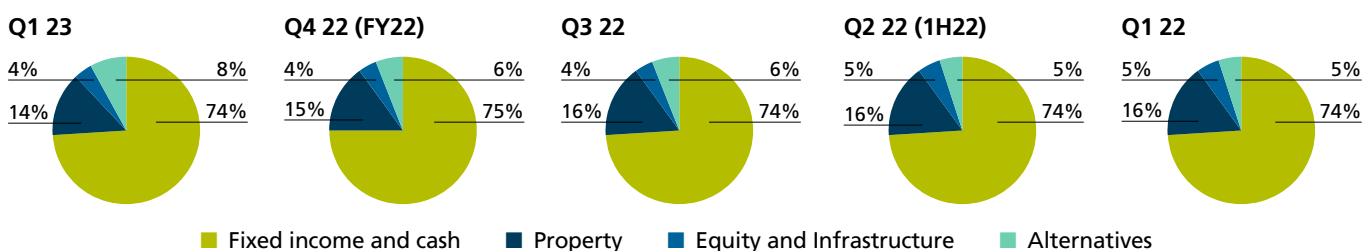
1 Lifetime sales includes CarePlus, a product that pays income for life and specifically designed for the aged care market.

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 are reported net of debt.

4 Average Life investment assets calculated on a monthly basis.

Life Asset Allocation



Challenger Limited

Assets and Funds Under Management, net flows and sales

Bank quarterly sales and lending and financing assets

\$m	Q1 23	Q4 22	Q3 22	Q2 22	Q1 22
Deposit sales					
Bank deposit sales ¹	106	87	59	43	30
Maturities and withdrawals	(68)	(42)	(29)	(28)	(27)
Bank net flows	38	45	30	15	3
Closing Bank deposits	265	228	182	153	137
Bank net book growth (%)²	16.6%	33.6%	22.4%	11.8%	1.9%
Bank lending and financing assets					
Fixed income, cash and cash equivalents	277	285	226	133	111
SME Lending	6	-	-	-	-
Residential Lending	85	89	94	97	102
Corporate Lending	47	17	-	-	-
Total Bank lending and financing assets	415	391	320	230	213
Average Bank lending and financing assets³	421	361	273	222	212

1 Deposits includes At Call accounts and Term Deposits.

2 Q1 23 Bank book growth percentage represents net flows for the period divided by opening book value for the financial year.

3 Average Bank lending and financing assets calculated on a monthly basis.

Funds Under Management and net flows

\$m	Q1 23	Q4 22	Q3 22	Q2 22	Q1 22
Funds Under Management					
Fidante					
Equities	36,101	35,661	41,516	42,960	38,935
Fixed income	31,205	34,274	36,602	38,510	41,445
Alternatives ¹	2,665	2,503	1,944	7,042	7,166
Total Fidante	69,971	72,438	80,062	88,512	87,546
Challenger Investment Management					
Fixed income	16,796	16,658	15,938	16,065	16,273
Property	4,274	4,352	4,497	4,714	4,614
Total Challenger Investment Management	21,070	21,010	20,435	20,779	20,887
Total Funds Under Management	91,041	93,448	100,497	109,291	108,433
Average Fidante Partners	72,102	76,807	83,954	87,810	86,977
Average Challenger Investment Management	20,891	20,587	20,556	20,811	20,932
Total average Funds Under Management²	92,993	97,394	104,510	108,621	107,909
Analysis of flows					
Equities	415	(1,200)	(591)	2,582	514
Fixed income	(2,296)	(2,088)	(1,152)	(2,835)	943
Alternatives ¹	175	213	(5,166)	(147)	32
Total Fidante	(1,706)	(3,075)	(6,909)	(400)	1,489
Challenger Investment Management	56	552	3	(111)	(74)
Net flows	(1,650)	(2,523)	(6,906)	(511)	1,415

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.

Challenger Limited

Assets and Funds Under Management, net flows and sales

Reconciliation of total group assets and Funds Under Management

\$m	Q1 23	Q4 22	Q3 22	Q2 22	Q1 22
Funds Management Funds Under Management	91,041	93,448	100,497	109,291	108,433
Life investment assets	22,817	22,224	22,434	22,937	22,012
Bank lending and financing assets	415	391	320	230	213
Adjustments to remove double counting of cross-holdings	(17,821)	(17,493)	(17,176)	(17,551)	(17,457)
Total Assets Under Management	96,452	98,570	106,075	114,907	113,201