Interim Financial Report

2023

challenger

CHALLENGER LIMITED
ACN 106 842 371

Providing our customers with financial security for a better retirement

Contents

Key dates

21 March 2023
Interim dividend payment date

20 April 2023
Third quarter performance update

30 May 2023
Investor Day

15 August 2023
Full year financial results

20 September 2023
Final dividend payment date

26 October 2023
2023 Annual General Meeting

Full listing of key dates available at:

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

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

About this Interim Financial Report

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

The 2023 Interim Financial Report can be downloaded from Challenger's online Shareholder Centre at:

> challenger.com.au/shareholder

1H23 Highlights

FINANCIAL PERFORMANCE

STATUTORY NET PROFIT AFTER TAX

$122.7m

NORMALISED NET PROFIT BEFORE TAX

$250.4m

1H23	
1H22	$237.5m
1H21	$196.2m

GROUP ASSETS UNDER MANAGEMENT

$99.4bn

1H23	
1H22	$114.9bn
1H21	$96.1bn

LIFE SALES

$5.5bn

1H23	
1H22	$4.9bn
1H21	$3.4bn

NORMALISED GROUP ROE (PRE-TAX)

12.3%

▲ **20bps** on 1H22

CLC PCA RATIO*

1.59x

Stable on FY22

INTERIM DIVIDEND

12.0cps

▲ **4%** on 1H22

* Challenger Life Company (CLC) PCA ratio represents CLC total Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA).

About Challenger

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

Challenger is listed on the Australian Securities Exchange (ASX) and has offices in Australia, London and Tokyo. At 31 December 2022, Challenger employed 761 people on a full-time equivalent (FTE) basis.

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

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

OUR STRATEGIC PRIORITIES

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

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

OUR VALUES

Act with integrity

We do things the right way

Aim high

We deliver outstanding results

Collaborate

We work together to achieve shared goals

Think customer

We make decisions with our end customers front of mind

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

Life

Australia's leading provider of annuities

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

Funds Management

One of Australia's largest active fund managers

Funds Management focuses on wealth accumulation, predominantly in the pre-retirement phase of superannuation, through supporting customers build savings by providing investment strategies and products seeking to deliver superior investment returns.

Operating and financial review

Life business

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

Life's annuity products appeal to retirees as they provide security and certainty of guaranteed[1] income while protecting against the risks of investment market downturns and rising 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 that Life pays to its customers are backed by a high-quality investment portfolio, predominantly invested in high-grade fixed income. These investments generate reliable investment income, which is used to fund the retirement incomes paid to customers.

Life is Australia's leading provider of annuities[2] and has won the Association of Financial Advisers 'Annuity Provider of the Year' for the last 14 years. Life's leading retirement income position was also recognised by Plan For Life, with Life winning the Overall Longevity Cover Excellence Award for 2022.

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

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[3]. 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[4] in 2021.

The purpose of superannuation is to provide income in retirement to substitute or supplement the Government-funded age pension. As the superannuation system grows and individual superannuation savings increase, retirees are transitioning from Government-funded age pensions to private superannuation-funded pensions. Retirees need retirement income products that convert their superannuation savings into safe, secure and reliable income, which helps provide financial security and confidence to spend in retirement.

The Australian Government is progressing a range of retirement income regulatory reforms designed to enhance the retirement phase and better align it with the objective of the superannuation system.The Retirement Income Covenant took effect from 1 July 2022 as part of the ***Superannuation Industry Supervision Act 1993*** (SIS Act) and requires all APRA-regulated superannuation funds to have a documented retirement income strategy that outlines how they plan to assist their members in retirement.

In March 2022, the Australian Government commenced the Quality of Advice Review (QAR), focused on the effectiveness and availability of financial advice in Australia.

Both of these reforms provide an opportunity to increase the proportion of savings invested in products that deliver retirees stable, regular and reliable retirement income. Annuities deliver these benefits yet currently only represent a very small part of the retirement phase of superannuation.

Life's products are distributed in Australia via both independent financial advisers and financial adviser administrative platforms. Life's products are included on all major advice hubs' Approved Product Lists (APLs) and are available on leading independent investment and administration platforms.

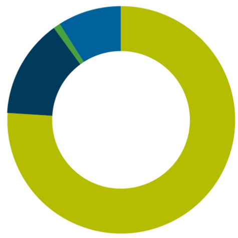
Life is also focused on building institutional partnerships with large superannuation funds. As their members transition to retirement, superannuation funds are increasingly focused on providing more comprehensive retirement income solutions to their members. As the retirement system develops, the institutional (including profit-for-member) 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 MS&AD Insurance Group Holdings Inc. (MS&AD).

Under the reinsurance arrangement, MS Primary reinsures at least ¥50 billion (equivalent to ~A$530 million)[5] of its Australian and US dollar annuities with Challenger Life each year[6].This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

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

LIFE ASSET ALLOCATION



- **76%** Fixed Income & Cash
- **14%** Property
- **9%** Alternatives
- **1%** Equity & Infrastructure

[1] The word 'guaranteed' means payments are guaranteed by Challenger Life Company Limited (CLC) from assets of its relevant statutory fund.

[2] Plan For Life – September 2022 – based on annuities under administration.

[3] 2022–2042 comparison based on Australian Bureau of Statistics, Population Projections Series B, cat no. 3222.0.

[4] Based on Taxation Statistics 2019-20 from Australian Taxation Office.

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

[6] Reinsurance across both Australian and US dollar annuities, of at least ¥50 billion per year for a minimum of five years, commencing 1 July 2019.

Life business (continued)

Performance

Life's normalised earnings before interest and tax (EBIT) was $263.3 million in the period and increased by $30.3 million (13.0%) on pcp. The increase in EBIT reflects a $29.9 million (10.4%) increase in normalised cash operating earnings (COE) and a $0.4 million (0.7%) decrease in expenses.

Life's normalised return on equity (ROE) (pre-tax) was 14.8% in the period and increased by 170bps on pcp, driven by an increase in normalised COE.

Normalised COE increased as a result of:

- higher average investment assets, which increased by 2.3% on pcp; and
- higher COE margin, which increased by 20 bps on pcp to 2.8%.

Total life sales were $5.5 billion and increased by 10.8% on pcp, driven by record annuity sales and institutional sales.

Life annuity net flows (i.e. annuity sales less capital repayments) were $802.0 million up from $607.7 million in pcp. Net flows reflect higher Life annuity sales of $3,543.9 million (up 40.8%), partially offset by higher maturities of $2,741.9 million (up 43.7%).

Based on the opening Life annuity book liability ($13,595.4 million) in the period, annuity book growth was up 5.9%.

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

Other Life net flows were $182.9 million, down from $838.3 million in pcp.

Life's average investment assets were $22.8 billion and increased by 2.3% ($0.5 billion) on pcp.

TOTAL LIFE SALES

$5.5bn

▲ **10.8%** on FY22

Life normalised results	31 Dec 2022 $m	31 Dec 2021 $m	Change $m	Change %
Normalised COE	317.3	287.4	29.9	10.4
– Cash earnings	297.6	264.6	33.0	12.5
– Normalised capital growth	19.7	22.8	(3.1)	(13.6)
Operating expenses	(54.0)	(54.4)	0.4	0.7
Normalised EBIT	**263.3**	**233.0**	**30.3**	**13.0**

Life sales	31 Dec 2022 $m	31 Dec 2021 $m	Change $m	Change %
Fixed-term annuities	3,168.7	2,295.5	873.2	38.0
Lifetime annuities	375.2	220.8	154.4	69.9
Total Life annuity sales	3,543.9	2,516.3	1,027.6	40.8
Other Life sales	1,935.1	2,426.8	(491.7)	(20.3)
Total Life sales	**5,479.0**	**4,943.1**	**535.9**	**10.8**
Annuity net flows	802.0	607.7	194.3	32.0
Other Life net flows	182.9	838.3	(655.4)	(78.2)
Total Life net flows	**984.9**	**1,446.0**	**(461.1)**	**(31.9)**

Funds Management business

Funds Management focuses on wealth accumulation, predominantly in the pre-retirement phase of superannuation, through supporting customers build savings by providing investment strategies and products seeking to deliver superior investment returns.

Funds Management is one of Australia's largest active fund managers[7] with funds under management (FUM) of $93.4 billion, increasing by 2.5 times over the last 10 years (up from $35.2 billion in 2012).

Growth in FUM is supported by Challenger's award-winning retail and institutional distribution teams and business model, which is focused on high-quality managers with strong long-term investment performance and alignment with clients.

Funds Management comprises Fidante and Challenger Investment Management (CIM), with operations in Australia, the United Kingdom, Europe and Asia.

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

Funds Management has extensive client relationships. For example, 78% of Australia's top 50 superannuation funds are clients.

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

Fidante has been successful in attracting and building active equity, active fixed income and alternative investment managers, while also maintaining strong investment performance. Over the last five years, long-term performance of Fidante's Australian affiliates was strong with 97% of funds and mandates outperforming their respective benchmarks[8].

Fidante is focused on broadening its product and investment offering and accessing new distribution channels.

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

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

Performance

Funds Management EBIT was $30.7 million and decreased by $14.4 million (31.9%) on pcp. The decrease was due to lower FUM-based fee income (down $8.6 million), with average FUM down $15.1 billion (13.9%), lower transaction fees (down $2.3 million) and higher expenses (up $4.1 million), partially offset by higher performance fees (up $0.7 million).

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

Fidante's net income decreased by $8.4 million for the period primarily as a result of lower FUM income (down $8.3 million), partially offset by higher performance fees (up $0.7 million).

CIM's net income decreased primarily due to lower net management fees (down $0.4 million) and lower transaction fees (down $1.5 million).

Funds Management's normalised RoE (pre-tax) for the period was 21.1%, down by 12.7 percentage points from the pcp.

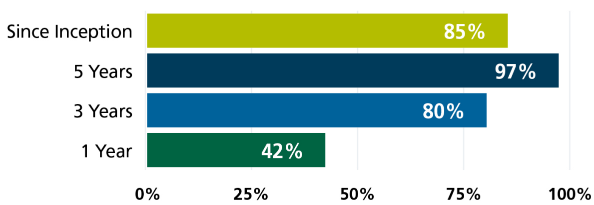
Funds Management's FUM decreased by $15.9 billion (or 14.5%) compared to the pcp driven by net outflows of $11.2 billion (including $5.2 billion de-recognition following the sale of Whitehelm and other outflows predominantly across fixed income affiliate managers), unfavourable market movement of $2.9 billion and distributions of $1.8 billion.

During the period, net outflows were $1.8 billion (pcp net inflows $0.9 billion) reflecting $1.2 billion of institutional outflows and $0.6 billion of retail outflows predominantly across fixed income affiliate managers.

FM normalised results	2022 $m	2021 $m	Change $m	Change %
Net income	87.9	98.2	(10.3)	(10.5)
– Fidante	57.1	65.5	(8.4)	(12.8)
– CIM	30.8	32.7	(1.9)	(5.8)
Operating expenses	(57.2)	(53.1)	(4.1)	(7.7)
Normalised EBIT	**30.7**	**45.1**	**(14.4)**	**(31.9)**

FM FUM and flows	2022 $bn	2021 $bn	Change $bn	Change %
Total FUM	93.4	109.3	(15.9)	(14.5)
– Fidante	72.4	88.5	(16.1)	(18.2)
– CIM	21.0	20.8	0.2	1.0
Net flows	(1.8)	0.9	(2.7)	(large)
– Fidante	(1.7)	1.1	(2.8)	(large)
– CIM	(0.1)	(0.2)	0.1	(50.0)

FUNDS MANAGEMENT INVESTMENT PERFORMANCE (% OF FUM OUTPERFORMING BENCHMARK)



As at 31 December 2022. Percentage of Fidante's affiliates meeting or exceeding the performance benchmark, with performance weighted by FUM.

[7] Calculated from Rainmaker Roundup, September 2022 data.

[8] As at 31 December 2022. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

Bank business (Discontinued Operation)

Challenger Bank Limited (Bank) is an Australian-based authorised deposit-taking institution (ADI) and digital bank which is regulated by APRA.

In 2020, Challenger announced the acquisition of MyLifeMyFinance Limited, an Australian-based ADI and digital bank offering a range of savings and lending products. MyLifeMyFinance was subsequently rebranded to Challenger Bank Limited (Bank).

As a result of changing market conditions and inability to realise expected benefits from the Bank acquisition in the timeframe anticipated, Challenger announced a strategic review of the Bank in August 2022.

Following completion of the strategic review, it was determined the sale of the Bank was the best option for Challenger, allowing it to focus on its core Life and Funds Management businesses and leverage the scale that can be achieved through Challenger's strategic partnerships.

In October 2022, Challenger announced it had entered into a share sale agreement to sell the Bank to Heartland Group Holdings Limited (NZX/ASX:HGH). The Bank sale is subject to regulatory approval in Australia and New Zealand and expected to settle in 2H23.

Performance

The Bank's normalised EBIT was a loss of $4.3 million in 1H23 and increased by $1.0 million (30.3%) on pcp.

Net interest income for the period was $4.7 million, up by $3.8 million on pcp and represents interest earned on the Bank's lending and financing assets ($7.4 million), less interest costs associated with the Bank's deposit products ($2.7 million).

The net interest margin (NIM) for the period was 2.4% (up 138 bps on pcp), primarily due to increased returns generated on $235.8 million invested in fixed income securities ($76.9m as at 31 December 2021). The NIM is calculated as annualised net interest income divided by 1H23 average lending and financing assets.

Bank expenses for the period were $9.0 million, up $4.8 million on pcp and predominantly relate to personnel expenses of $6.0 million, up $3.4 million, driven by an increase in FTE (up by 15 FTEs to 45 FTEs) and the prior comparative period being approximately 5 months due to the acquisition of the Bank settling in late July 2021. Other expenses primarily relate to software, professional services and marketing costs.

Bank normalised results[1]	31 Dec 2022 $m	31 Dec 2021 $m	Change $m	Change %
Net interest income	4.7	0.9	3.8	large
Operating expenses	(9.0)	(4.2)	(4.8)	large
Normalised EBIT	**(4.3)**	**(3.3)**	**(1.0)**	**30.3**
Bank impairments[2]	(3.0)	—	(3.0)	n/a
Normalised loss before tax	**(7.3)**	**(3.3)**	**(4.0)**	**large**

[1] Represents normalised result since the acquisition of the Bank on 30 July 2021.
[2] Represents the provision for expected credit losses and fair value movements due to *AASB 5 Non-Current Assets Held for Sale and Discontinued Operations.*

Corporate segment and other information

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

Corporate and other normalised results	31 Dec 2022 $m	31 Dec 2021 $m	Change $m	Change %
Net income	0.6	—	0.6	n/a
Operating expenses	(37.9)	(35.4)	(2.5)	(7.1)
Normalised EBIT	**(37.3)**	**(35.4)**	**(1.9)**	**(5.4)**
Interest and borrowing costs	(2.0)	(1.9)	(0.1)	(5.3)
Normalised loss before tax	**(39.3)**	**(37.3)**	**(2.0)**	**(5.4)**

The Corporate segment's normalised loss before tax is $39.3 million, up $2.0 million as a result of higher net income (up $0.6m), higher personnel costs (up $0.4 million) and higher other expenses (up $2.1 million).

Interest and borrowing costs are relatively consistent with the prior period.

Guidance for the 2023 financial year

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

- Bank EBIT loss of $10m; and
- Expense growth of 5% to 6% on FY22.

Challenger is on track to achieve full year guidance with 1H23 normalised net profit before tax of $250m representing 49% of the mid-point of the guidance range.

In October 2022, Challenger announced the sale of the Bank to Heartland. Completion of the sale is subject to regulatory approval in Australia and New Zealand. Challenger continues to expect a Bank EBIT loss of $10m in FY23.

Principal activities

During the period, Challenger announced the sale of Challenger Bank to Heartland. There have been no other significant changes in the nature of the principal activities of the Group during the period.

Risk management

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

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

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

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

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

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

1H23 strategic progress

Progress over 1H23 has been measured against Challenger's four strategic priorities.

1. Broaden customer access across multiple channels

1H23 progress:

Building a more customer-centric business and playing a more meaningful role in customer lives

In early 2022, Challenger announced the formation of 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 oversees all customer functions for the Challenger Group, including customer strategy, product development, sales and marketing, and customer service.

In 1H23, an experienced sales, marketing and distribution executive, Ms Mandy Mannix, was appointed Chief Executive, Customer. The appointment follows the creation of a range of new leadership roles, as Challenger focuses on building a more customer-centric business. New leadership roles include the Chief Commercial Officer and expanding responsibilities of the Chief Executive, Life to include oversight for Life's institutional solutions group.

Investing in improving customer experience

As part of creating a more customer-centric business, Challenger is investing in its customer experience and journeys. These innovations are designed to improve the ease of doing business with Challenger and expand customer reach and engagement.

In 1H23, Fidante launched its new registry service and rebranded the business. Fidante's new registry service provider, Boardroom, now provides online transacting and registry services to over 60 funds managed by Challenger and Fidante. Investors have access to a new online investor portal and can now self-service, allowing investors and advisers to manage portfolios directly and provide easy access to a wide range of services.

The Life business is also working on a range of initiatives to improve its customer experience. This includes digitising the annuity customer experience, that will allow Challenger customers to buy simple term annuity products within minutes. A number of initiatives are also underway to scope improving the adviser experience and provide greater efficiencies in rolling over maturing fixed term annuities.

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 1H23, the Life business achieved sales of $5.5 billion (up 11%), driven by record annuity sales of $3.5 billion (up 41%).

Annuity sales benefitted from strong domestic retail sales of $2.1 billion (up 89%) and institutional term sales of $1.0 billion (up 3%).

Domestic retail sales were driven by an increase in retail term annuity sales of $1.8 billion (up 94%) and lifetime sales of $0.4 billion (up 70%).

Annuity sales are benefitting from the higher interest rate environment, which has improved the customer proposition and attracted new advisers and customers.

In September 2022, Challenger launched a rate-led campaign for its 3-year fixed term annuity, which saw a significant pick-up in quote levels from advisers and direct engagement from customers.

The higher interest rate environment also provides the opportunity to remix sales. Retail demand for longer-dated annuities improved with 71% of new business annuity sales greater than 2 years[1] compared with 61% in 1H22.

International Funds Management expansion

Funds Management is well positioned for growth opportunities in Australia and is diversifying its operations globally.

In recent years, Funds Management has expanded its distribution business into Europe through its UK office and established a presence in Japan.

Offshore clients are attracted to Fidante's range of managers and their superior investment performance. To support clients and provide access to its investment products, Fidante is establishing Undertakings for Collective Investment in Transferable Securities (UCITS) funds.

In 1H23, Fidante's emerging markets affiliate, Ox Capital Management, launched the Ox Capital Dynamic Asia UCITS Fund investing in Asian equities, excluding Japan. The fund will hold a concentrated portfolio of 30 to 50 stocks, focused on technology, healthcare, financials and consumer discretionary sector. The launch of the Ox Capital Dynamic Asia UCITS Fund follows the establishment of the Ardea Global Alpha UCITS fund in March 2021.

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, and is in the process of establishing a second Water Fund with a fundraise target of ~US$300 million.

Award-winning investment strategies

Fidante's investment managers continue to be externally recognised.

During 1H23, the following affiliates won investment manager awards:

- Ardea Real Outcome Fund – Lonsec - Active Global Fixed Income Fund; and
- Alphinity Investment Management – Zenith Investment Partners - Australian Equities, Large Cap (2022).

Fidante was recognised as Australia's leading retail funds management distributor, winning Zenith Investment Partners (Zenith) Distributor of the Year in October 2022 for a third consecutive year. This award recognises the quality of Zenith's ratings across Fidante's product suite, access to Fidante affiliate investment professionals and the quality of its adviser support and sales team.

[1] 1H23 new business annuity sales by tenor excluding reinvestment sales and MSP sales.

1H23 strategic progress (continued)

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

1H23 progress:

Innovative retirement income solutions

Last financial year, Challenger launched the innovative Market-Linked Annuity, reflecting Challenger's commitment to expand its range of innovative retirement income solutions to meet the needs of a wider range of customers. The Market-Linked Annuity combines the benefit of a monthly income guaranteed for life with exposure to investment markets.

In 1H23, Challenger introduced a new accelerated payments option for its Market-Linked Annuity offering. This option allows customers to increase the starting lifetime annuity payment in exchange for lower future indexation.

New investment strategies

Fidante and the Challenger Solutions Group continue to expand their product offering through the development of new investment strategies.

Challenger's newly formed Solutions Group works with clients to address their evolving investment and retirement needs.

In October 2022, Fidante's newest affiliate, Cultiv8, launched an Agri-Food Tech Fund that identifies and invests in early-stage agricultural and food technology companies. The fund focuses on capital growth and sustainability with a portfolio comprised of 20 to 30 seed to series B investments in Australian and global Agri-Food Technology companies. The fund targets a gross return of 20% per annum over the recommended nine-year timeframe.

In July 2022, the Challenger Solutions Group launched the Challenger Solutions Liquid Alternatives Balanced Fund. The Fund seeks to deliver positive absolute returns in excess of the cash rate regardless of the market environment and is the first in a series of solutions being developed by Challenger's Solutions Group. The Fund delivered a gross return of 8.11% in the six months to 31 December 2022.

Expanding distribution channels through active ETF market

There continues to be strong demand from investors for simple and easy-to-access liquid investment products. Exchange Traded Funds (ETFs) have experienced strong growth in a number of markets as they provide the ability to deliver diversified investment strategies in a liquid and easy-to-execute format.

In January 2023, Fidante launched two new ETFs: the Alphinity Global Equity Fund (Managed Fund) (ASX: XALG) and Alphinity Global Sustainable Equity Fund (Managed Fund) (ASX: XASG). The funds are the first dual access funds (listed and unlisted) issued by Fidante and sit alongside Fidante's other ETFs that include the Ardea Real Outcome Bond Fund (Managed Fund) (ASX: XARO) and the Kapstream Absolute Return Income Fund (Managed Fund) (CBOE: XKAP).

The Alphinity Global Equity Fund (Managed Fund) seeks to build a portfolio of high-quality global companies that are identified as undervalued and within an earnings upgrade cycle. The Alphinity Global Sustainable Equity Fund (Managed Fund) aims to build a portfolio of high-quality companies that can have a net positive alignment with one or more of the 17 United Nations' Sustainable Development Goals (SDGs), exceed Alphinity's minimum ESG criteria, and which are also identified as undervalued and within an earnings upgrade cycle.

Fidante is committed to growing its series of ETFs and expects to launch more. Total Fidante FUM invested in ETF strategies at 31 December 2022 was $817 million, across approximately 12,000 investors.

3. Leverage the combined capabilities of the Group

1H23 progress:

'One Challenger' approach and mindset

With a 'One Challenger' approach, Challenger intends to bring the best of the business to even more customers. Challenger will do this by 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, CIP Asset Management (CIPAM) transitioned to Challenger Investment Management (CIM) in October 2022, which saw the Fixed Income and Real Estate teams move under the Challenger brand, consistent with the One Challenger approach.

Fidante rebrand and website

In October 2022, Fidante rebranded and launched a new website (Fidante.com).

The rebrand reflects Fidante's diverse, contemporary offering, which includes 17 affiliate partners and covers most major asset classes. The new website is more personalised and user friendly, offering greater content, comparison tools and interactive charts that will provide a more sophisticated and contemporary customer experience.

Sale of Challenger Bank

Following the strategic review of the Bank, it was determined the best option for Challenger was to sell the Bank and focus on its core Life and Funds Management businesses and leverage the scale that can be achieved through Challenger's strategic partnerships.

In October 2022, Challenger announced it had entered into a share sale agreement with Heartland Group Holdings Limited (NZX/ASX:HGH) (Heartland) to sell the Bank for cash consideration of approximately $36 million [2].

The sale is expected to generate a gain on sale of approximately $11 million, which will be reported as a significant item once completed[3]. The sale is subject to regulatory approvals in both Australia and New Zealand and is expected to complete in 2H23.

Prior to settlement, excess capital of approximately $100 million is expected, subject to regulatory approvals in Australia and New Zealand, to be returned to Challenger in order to support its growth.

[2] Price subject to completion adjustments and based on a net asset value of approximately $25m.

[3] Any difference between purchase price and net assets of ~$25 million will be reduced by transaction costs and other costs associated with the sale.

1H23 strategic progress (continued)

Tier 2 subordinated debt finance

In September 2022, Challenger Life Company Limited (CLC) issued $400 million of fixed-to-floating rate, unlisted, unsecured subordinated notes. The proceeds from the issuance were used to repay $400 million of subordinated notes that had a call date in November 2022.

The refinancing reflects Challenger's long-standing approach to proactively managing the Group's capital position, ensuring it remains well capitalised and reducing the impact of shareholder dilution in the event the existing subordinated notes convert into Challenger shareholder equity.

4. Strengthen resilience and sustainability of Challenger

1H23 progress:

Overall Longevity Cover Excellence Award 2022

In October 2022, Challenger won the Plan For Life Overall Longevity Cover Excellence Award for 2022. 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 Plan For Life Longevity Product Award for its Liquid Lifetime annuity and the Client & Adviser Technical Support Award, for its in-depth, ongoing support for advisers.

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 development and distribution opportunities.

During 1H23, Challenger and Apollo commenced collaboration to bring the Apollo Aligned Alternatives fund (AAA) to the Australian market.

AAA is an open-ended fund, which is positioned as an equity replacement product and provides clients access to invest alongside Apollo, across a full cross-section of alternative investments, including flagship funds. The AAA targets investment net returns in the low to mid-teens per annum.

Challenger and Apollo intends to build an Australian unitised version of AAA, to appeal to Australia's retail market and be made available on Australia's leading investment administration platforms.

Through an agreement with Apollo, Challenger will lead AAA distribution in Australia to retail, high-net-worth and smaller institutions.

In August 2022, Challenger and Apollo entered a definitive agreement to establish a joint venture to build an Australian and New Zealand non-bank lending platform.

The joint venture is equally owned by Challenger and Apollo, and is expected to provide a variety of financing solutions across a range of sectors, such as accounts receivable finance, invoice and trade finance, equipment finance, auto finance and agricultural funding.

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, while also providing origination capability to support growth across Challenger's balance sheet.

In September 2022, Challenger announced the appointment of experienced business leader, Mr David Moffat, as the inaugural Chair of the joint venture. In addition, senior Challenger executive, Mr Chris Plater, was appointed Chief Executive Officer of the joint venture.

Artega Investment Administration becomes operational

In November 2022, Artega Investment Administration (Artega), a joint venture between Challenger and SimCorp (CSE:SIM), was launched. Artega will provide market-leading investment administration services to investment managers and owners across Australia and Asia.

Artega leverages 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 investment managers and asset owners.

SimCorp is a global leader in investment administration services. The platform is powered by SimCorp's investment management solution, Dimension, and operated by Challenger's experienced investment operations team.

In 1H23, Artega became operational and commenced providing investment administration services to its existing clients, Challenger and Fidante affiliates. The business was independently branded, with experienced financial services executive, Mr Brian Bissaker, appointed Independent Chair.

Artega's senior leadership team has been appointed, with Challenger's long-serving Chief Operating Officer, Mr David Mackaway, appointed as Artega's Chief Executive Officer.

Artega has been engaging with potential clients and in early 2H23 won its first third-party client, an independent multi-manager with $2 billion under management.

Hybrid working

Challenger believes developing a strong corporate culture is an important component of its human capital management practices and critical to the company's long-term success.

Following the uncertainty created by the COVID-19 pandemic, in 1H23 Challenger began the transition to a more permanent hybrid working policy, welcoming colleagues back into the office on a regular basis, while also balancing the flexibility of working from home. This period saw a number of business-led initiatives focused on re-engaging Challenger's employees.

In December 2022, the EngAGE Committee hosted the first Bring Your Parents to Work Day at Challenger's Sydney head office.

Challenger also celebrated the inaugural CEO Awards, recognising the outstanding contributions to the business by individuals and teams who align to the IACT values and strive to meet Challenger's strategic objectives.

1H23 strategic progress (continued)

Embed ESG across the business

Challenger recognises its growth and success should be sustainable and benefit our customers, partners and communities. This means factoring environmental, social and governance (ESG) considerations into all decisions.

In December 2022, Challenger published its third Modern Slavery Statement, which detailed the actions implemented to mitigate modern slavery risk. In 1H23, Challenger did not identify any instances of modern slavery and continues to monitor high-risk areas across its operations, investments and supply chain.

Challenger acknowledges the importance of incorporating ESG considerations into its investment process. Challenger has been a signatory to the Principles for Responsible Investment (PRI) since 2015. Investment managers follow a formal responsible investment policy, report on ESG risks across their portfolios and incorporate ESG considerations into internal strategies.

Affiliate investment managers include Cultiv8 Funds Management, a sustainability-aligned fund focused on investments in innovative agricultural and food technologies.

The Responsible Investment Association Australasia named Alphinity Investment Management as a 2022 leader and certified Impax Asset Management's Sustainable Leaders Fund. The Certification Program is the leading initiative for distinguishing quality responsible, ethical and impact investment products in Australia and New Zealand. Ardea Investment Management also published their Taskforce for Climate Related Financial Disclosure (TCFD) Report, its first disclosure on how it manages climate risks and opportunities in its portfolios.

Key performance indicators (KPIs)

Profitability and growth

Challenger's statutory profit attributable to equity holders for the period ended 31 December 2022 was $122.7 million, 56.5% lower than the pcp, and includes:

- Normalised net profit after tax of 167.2 million; partially offset by
- Life investment experience ($42.4 million); and
- Bank fair value adjustment to assets classified as held for sale ($2.0 million).

Normalised NPAT increased by 1.0% compared to pcp, and normalised EPS remained constant, reflecting higher Life cash operating earnings partially offset by lower Funds Management net fee income and higher expenses.

Investment experience loss after tax was $42.4 million compared to a $109.1 million profit in the pcp.

An interim dividend of 12.0 cents per share was determined, franked at 100% (31 December 2021: 11.5 cents, 100% franked), up 4.3% on pcp.

Challenger's normalised cost to income ratio of 38.5% is consistent with pcp (31 December 2021: 38.1%).

1H23 normalised ROE (pre-tax) was 12.3% and increased by 20 bps on the pcp. This was driven by higher Life ROE of 14.8% (up 170 bps) reflecting an increase in Normalised COE, partially offset by lower Funds Management ROE of 21.1% (1H22 33.8%) and the Bank ROE of -7.3%.

In 1H23, the average RBA cash rate was ~230 bps, resulting in Challenger's Normalised ROE target being 14.3%. Challenger's Normalised ROE in 1H23 was 12.3% and below target. Excluding the Bank, Normalised ROE would have been 12.9%.

Statutory RoE after tax of 6.0% decreased compared to the pcp (31 December 2021: 14.3%) as a result of the lower statutory NPAT.

KPIs for the period ended 31 December 2022 (with the period to 31 December 2021 being the prior comparative period (pcp), unless otherwise stated) are set out below.

	31 Dec 2022	31 Dec 2021	Change %
Profitability			
Statutory profit attributable to equity holders ($m)	122.7	282.0	(56.5)
Normalised NPBT ($m)	250.4	237.5	5.4
Normalised NPAT ($m)	167.2	165.6	1.0
Statutory EPS (cents)	18.0	41.8	(56.9)
Normalised EPS (cents)	24.5	24.5	—
Total dividend (cents)	12.0	11.5	4.3
Total dividend franking	100%	100%	—
Normalised cost to income ratio	38.5%	38.1%	(0.4)
Statutory RoE after tax	6.0%	14.3%	(8.3)
Normalised RoE pre-tax	12.3%	12.1%	0.2
Normalised RoE after tax	8.2%	8.4%	(0.2)
Sales, Flows, AUM			
Total Life sales ($m)	5,479.0	4,943.1	10.8
Total Life net flows ($m)	984.9	1,446.0	(31.9)
Total Life net book growth (%)	5.5%	8.4%	(2.9)
Bank net deposit flows ($m)	(3.7)	18.4	(large)
Total FM net flows ($bn)	(1.8)	0.9	(large)
Total AUM ($bn)	99.4	114.9	(13.5)

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 also has operations in Japan, the UK and Europe, which are subject to regulation in each jurisdiction. The relevant regulatory body stipulates the required minimum level of regulatory capital to be held in each jurisdiction. The main minimum regulatory capital requirements for Challenger's regulated businesses are determined as follows:

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

Key performance indicators (KPIs) (continued)

Capital management (continued)

Challenger's capital position is managed with the objective of maintaining the financial stability of the Group, CLC and the Bank while ensuring that shareholders earn an appropriate risk-adjusted return. Challenger reports a consolidated or level 3 equivalent capital position across the entire business. At 31 December 2022, the Challenger Group was holding $1.8 billion in excess regulatory capital, which equates to a Group Minimum Regulatory Requirement ratio of 1.67 times. This ratio represents that Challenger is holding 67.0% more regulatory capital than required by its regulators.

The following table highlights the key capital metrics for the Group.

Capital as at 31 December 2022	CLC $m	CBL $m	Group $m
Regulatory capital base			
Common Equity Tier 1 (CET1) regulatory capital	2,947.9	113.1	3,061.0
Additional Tier 1 capital	845.0	—	845.0
Total Tier 1 regulatory capital	**3,792.9**	**113.1**	**3,906.0**
Tier 2 capital[2]	407.8	—	407.8
Other non-regulatory capital[1]	—	—	192.8
Total capital base	**4,200.7**	**113.1**	**4,506.6**
Minimum Regulatory Requirement[3,4]	2,637.1	26.9	2,703.8
Excess over Minimum Regulatory Requirement	**1,563.6**	**86.2**	**1,802.8**
CET1 capital ratio (times)[5]	1.12	4.20	—
Tier 1 capital ratio (times)[6]	1.44	4.20	—
Minimum Regulatory Requirement ratio (times)[7]	1.59	4.20	1.67

[1] Includes Funds Management, Corporate and other Life/Bank entities. Funds Management Minimum Regulatory Requirement (MRR) for capital is based on requirements set by ASIC and regulators in other foreign jurisdictions. Challenger Retirement and Investment Services Limited MRR is based on APRA and ASIC requirements. Refer to Note 12 for detailed split.
[2] CLC represents subordinated debt.
[3] Minimum Regulatory Requirement is equivalent to PCA for CLC.
[4] Minimum Regulatory Requirement for Challenger Bank Limited represents total capital requirements of 8% (of risk weighted assets) plus the capital conservation buffer of 2.5% (of risk weighted assets), as stipulated under APS 110 *Capital Adequacy*.
[5] CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
[6] Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
[7] Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

CLC regulatory capital

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 (or minimum regulatory requirement) have been calculated based on the prudential standards issued by APRA.

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

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

The PCA ratio at 31 December 2022 was 1.59 times (30 June 2022: 1.60 times), within the range of 1.3 to 1.7 times. The CET1 ratio was 1.12 times at 31 December 2022, an increase from 1.11 times at 30 June 2022.

Bank regulatory capital

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

The Bank's regulatory capital base at 31 December 2022 was $113.1 million (31 December 2021: $76.5 million) and predominantly represents CET1 regulatory capital. The CET1 regulatory capital base is similar to the Bank's 31 December 2022 net assets. The minimum regulatory capital requirement for the Bank relates to a total capital requirement of 8% of risk–weighted assets, plus a capital conservation buffer of 2.5% as stipulated under Prudential Standard APS 110 *Capital Adequacy* (APS 110). The Bank's excess over the minimum regulatory capital requirement at 31 December 2022 was $86.2 million (31 December 2021: $65.5 million) and the Bank capital ratios were as follows:

- Minimum Regulatory Requirement ratio 4.20 times (31 December 2021: 6.95 times);
- Common Equity Tier 1 (CET1) capital ratio 4.20 times (31 December 2021: 6.90 times); and
- Capital adequacy risk weighted asset ratio 44.1% (31 December 2021: 72.9%).

In October 2022, Challenger announced that it had signed a share sale agreement with Heartland Group Holdings Limited (NZX/ASX: HGH) (Heartland) to sell Challenger Bank Limited for consideration of approximately $36 million.

It is expected that approximately $100 million of excess capital will be returned to Challenger, subject to APRA approval. Challenger anticipates that the transaction will be completed, subject to regulatory approvals in Australia and New Zealand, within the 2023 financial year.

The Bank has been classified as a disposal group held for sale and a discontinued operation. See Note 16 for further detail.

Funds Management and Other

In addition to CLC's and the Bank's excess over Minimum Regulatory Capital, Challenger maintains cash and tangible assets within legal entities outside CLC. These assets can be used to meet regulatory capital requirements. Challenger also has a corporate debt facility of $400.0 million in place, which provides additional financial flexibility. The facility was undrawn as at 31 December 2022.

Key performance indicators (KPIs) (continued)

Capital management (continued)

Dividends and Dividend Reinvestment Plan

Dividends	31 Dec 2022	31 Dec 2021	Change
Interim dividend (cents)	12.0	11.5	0.5
Interim dividend franking	100%	100%	—
Normalised dividend payout ratio	49.0%	46.9%	2.1

The Board targets a dividend payout ratio range of 45% to 50% of normalised earnings per share. The dividend payout ratio for the period ended 31 December 2022 was 49.0% (31 December 2021: 46.9%) and is within Challenger's targeted range.

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

The Company continued to operate its Dividend Reinvestment Plan (DRP) during the period. The participation rate for the 2022 final dividend was 13.0% , and 1,672,557 ordinary shares were issued to satisfy DRP requirements on 21 September 2022.

The DRP will continue in operation for the 2023 interim dividend, and the Board has determined that new shares will be issued to fulfil DRP requirements in respect of the interim dividend. The new shares will not be issued at a discount to the prevailing Challenger share price.

Credit ratings

Challenger Limited and CLC are rated by Standard & Poor's (S&P). In November 2022, S&P reaffirmed CLC credit ratings.

Ratings were confirmed as:

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

Normalised profit and investment experience

Normalised framework (non-International Financial Reporting Standards [IFRS])

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

This gives rise to fluctuating valuation movements on assets and liabilities being recognised in the profit and loss in CLC and on consolidation in Challenger Limited. CLC is generally a long-term holder of assets, due to holding assets to match the term of life contract liabilities. As a result, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements. Investment experience represents the difference between actual investment gains/losses (both realised and unrealised) and expected gains/losses based on CLC's medium to long-term expected returns together with new business strain that results from writing new annuities. Investment experience also includes any impact from changes in economic and other actuarial assumptions.

A reconciliation between statutory revenue and the management view of revenue and net income is included in the financial report as part of Note 3 Segment information. This note also includes a reconciliation of statutory NPAT and normalised NPAT (the management view of post-tax profit). The application of the normalised profit framework has been reviewed by Challenger's independent auditor to ensure that the reported results are consistently applied in accordance with the methodology described in Note 3 Segment information in the financial report.

Management analysis – normalised results

	31 Dec 2022 $m	31 Dec 2021 $m	Change $m	Change %
Net income[1]	410.5	386.5	24.0	6.2
Comprising:				
– Life normalised COE	317.3	287.4	29.9	10.4
– FM net income	87.9	98.2	(10.3)	(10.5)
– Bank net income	4.7	0.9	3.8	large
– Corporate and other net income	0.6	—	0.6	n/a
Operating expenses[1]	(158.1)	(147.1)	(11.0)	(7.5)
Normalised EBIT	**252.4**	**239.4**	**13.0**	**5.4**
Comprising:				
– Life normalised EBIT	263.3	233.0	30.3	13.0
– FM normalised EBIT	30.7	45.1	(14.4)	(31.9)
– Bank normalised EBIT	(4.3)	(3.3)	(1.0)	30.3
– Corporate and other normalised EBIT	(37.3)	(35.4)	(1.9)	(5.4)
Interest and borrowing costs	(2.0)	(1.9)	(0.1)	(5.3)
Normalised NPBT	**250.4**	**237.5**	**12.9**	**5.4**
Tax on normalised profit	(83.2)	(71.9)	(11.3)	(15.7)
Normalised NPAT	**167.2**	**165.6**	**1.6**	**1.0**
Investment experience after tax	(42.4)	109.1	(151.5)	large
Bank impairments after tax[2]	(2.1)	—	(2.1)	n/a
Significant items after tax	—	7.3	(7.3)	large
Statutory net profit after tax attributable to equity holders	**122.7**	**282.0**	**(159.3)**	**(56.5)**

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

[2] Represents the provision for expected credit losses and fair value movements due to AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations.*

Normalised profit and investment experience (continued)

Management analysis – normalised results (continued)

Life normalised COE and EBIT increased as a result of higher Life average investment assets with an increase in margin.

Life's average AUM increased by 2.3% as a result of the net book growth in annuities and external unit holders' liabilities partially offset by unfavourable valuation movements on Life's investment assets.

Funds Management net income decreased by $10.3 million primarily due to lower FUM-based revenue. Funds Management average FUM decreased by $15.1 billion as a result of lower average FUM. However FUM-based income margin increased to 17.6 bps (1H22 16.7 bps) due to change in business mix following the sale of Whitehelm Capital in 2H22 and low-margin fixed income mandate redemptions.

Normalised EBIT includes a loss of $4.3 million for the Bank.

Operating expenses increased by $11.0 million (or 7.5%) for the period reflecting additional costs associated with operating the Bank, as well as increased technology, personnel and travel costs.

Challenger's full-time equivalent employee numbers increased by 26 (or 3.5%) to 761. The increase was driven primarily by new bank employees in 2H22 and growth in operations and technology teams to support higher transaction volumes.

The normalised effective tax rate was 33.2%, 2.9% higher than the pcp (30.3%). The increase in the effective tax rate above Australia's statutory rate of 30% reflects interest payments on Challenger Capital Notes that are non-deductible ($5.9 million) and the inability to utilise foreign tax offsets ($4.8 million). Excluding the $4.8 million tax expense relating to foreign tax offsets written off, the effective tax rate would have been 31.2%.

There were no significant items in the period.
Investment experience after tax relates primarily to changes in the fair value of Life's assets and liabilities. Investment experience is a mechanism employed to remove the volatility arising from asset and liability valuation movements and new business strain from Life business earnings so as to more accurately reflect the underlying performance of the Life business.

Pre-tax investment experience for the period comprised an asset and policyholder liability experience loss of $15.6 million and a loss of $45.0 million from new business strain. The asset and liability experience losses are largely unrealised and were primarily due to negative experience on alternative and property assets relative to the normalised growth assumptions.

Management analysis – investment experience

	31 Dec 2022 $m	31 Dec 2021 $m
Actual capital growth[1]		
– Cash and fixed income	1.0	(6.8)
– Equity and infrastructure	(3.5)	20.0
– Property (net of debt)	(4.6)	114.8
– Alternatives	(56.3)	2.3
Total actual capital growth	**(63.4)**	**130.3**
Normalised capital growth[2]		
– Cash and fixed income	(29.9)	(29.3)
– Equity and infrastructure	17.2	17.1
– Property (net of debt)	32.4	35.0
– Alternatives	—	—
Total normalised capital growth	**19.7**	**22.8**
Investment experience		
– Cash and fixed income	30.9	22.5
– Equity and infrastructure	(20.7)	2.9
– Property (net of debt)	(37.0)	79.8
– Alternatives	(56.3)	2.3
– Policyholder liability experience[3]	67.5	84.4
Asset and policy liability experience	(15.6)	191.9
New business strain[4]	(45.0)	(36.0)
Investment experience before tax	(60.6)	155.9
Tax benefit/(expense)	18.2	(46.8)
Investment experience after tax	**(42.4)**	**109.1**

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

Directors' report

The information appearing on pages 1 to 14 forms part of the Directors' report for the financial period ended 31 December 2022 and is to be read in conjunction with the following information.

1 Directors

The names and details of the Directors of the Company holding office during the six months to 31 December 2022 and as at the date of this report are listed below. Directors were in office for the entire period, unless otherwise stated.

Directors	
Duncan West (appointed Chair on 27 October 2022)	Independent Chair
Nick Hamilton	Managing Director and Chief Executive Officer
John M Green	Independent Non-Executive Director
Steven Gregg	Independent Non-Executive Director
Masahiko Kobayashi[1]	Non-Independent Non-Executive Director
Heather Smith	Independent Non-Executive Director
JoAnne Stephenson	Independent Non-Executive Director
Melanie Willis	Independent Non-Executive Director
Peter Polson (resigned 27 October 2022)	Former Independent Chair

[1] Hiroyuki Iioka is an Alternate Director to Masahiko Kobayashi.

2 Significant events after the balance date

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

3 Rounding

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

4 Authorisation

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

D West
Independent Chair
13 February 2023

N Hamilton
Managing Director and Chief Executive Officer
13 February 2023

5 Auditor's independence declaration

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

Building a better working world

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

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

Auditor's independence declaration to the Directors of Challenger Limited

As lead auditor for the review of the half-year financial report of Challenger Limited for the half-year ended 31 December 2022, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the ***Corporations Act 2001*** in relation to the review

b) no contraventions of any applicable code of professional conduct in relation to the review; and

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

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

Ernst & Young

Ernst & Young

Graeme McKenzie
Partner
13 February 2023

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

Statement of comprehensive income

For the six months ended 31 December	Note	2022 $m	2021* $m
Revenue	1	1,505.4	1,480.1
Expenses	2	(1,187.0)	(931.1)
Finance costs		(143.7)	(172.7)
Share of profits of associates		13.6	21.0
Profit before income tax		**188.4**	**397.3**
Income tax expense	4	(60.2)	(111.2)
Profit for the period after income tax from continuing operations		**128.2**	**286.1**
Loss for the period after income tax from discontinued operations	16	(5.5)	(4.1)
Total profit for the period after income tax		**122.7**	**282.0**
Other comprehensive income			
Items that may be reclassified to profit and loss, net of tax			
Translation of foreign entities		13.6	6.5
Hedge of net investment in foreign entities		(14.9)	(4.0)
Net gain on cash flow hedges		0.1	0.1
Other comprehensive (loss) / income for the period		(1.2)	2.6
Total comprehensive income for the period after tax		**121.5**	**284.6**
Earnings per share attributable to ordinary shareholders of Challenger Limited			
Basic	13	18.0	41.8
Diluted	13	17.2	34.0

*Comparative information has been restated to reflect the sale of the Challenger Bank as detailed in Note 16.

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

Statement of financial position

As at	Note	31 Dec 2022 $m	30 Jun 2022 $m	31 Dec 2021 $m
Assets				
Cash and cash equivalents		693.7	733.1	913.9
Receivables		799.8	647.5	588.3
Current tax assets		68.7	—	—
Derivative assets		676.5	577.2	620.3
Investment assets	5	23,364.1	22,805.9	22,356.9
Bank assets held for sale[1]	16	358.2	—	—
Investment property - held for sale	6	—	—	388.0
Investment property	6	3,440.1	3,483.3	3,496.2
Loan assets	7	452.7	551.7	600.1
Finance leases		15.5	19.7	22.8
Property, plant and equipment		24.0	24.8	26.4
Investment in associates		74.3	74.9	79.7
Other assets		44.7	53.8	58.1
Right-of-use lease assets		27.3	29.0	31.5
Deferred tax assets	4	98.9	137.1	2.2
Goodwill		579.9	579.9	599.0
Other intangible assets		6.9	7.3	8.4
Total assets of shareholders of Challenger Limited		**30,725.3**	**29,725.2**	**29,791.8**
Liabilities				
Payables		951.7	726.2	814.3
Current tax liability		—	66.5	46.0
Derivative liabilities		730.8	839.6	405.8
Bank liabilities held for sale	16	297.0	—	—
Deposits from customers		—	227.7	152.6
Interest bearing financial liabilities	11	5,691.4	5,783.0	5,670.7
External unit holders' liabilities		4,620.2	4,386.4	4,381.8
Provisions		39.0	44.3	39.3
Lease liabilities		59.2	62.5	66.3
Deferred tax liabilities	4	10.1	5.3	63.2
Life contract liabilities	8	14,278.4	13,595.4	14,092.5
Total liabilities of shareholders of Challenger Limited		**26,677.8**	**25,736.9**	**25,732.5**
Net assets of shareholders of Challenger Limited		**4,047.5**	**3,988.3**	**4,059.3**
Equity				
Contributed equity	10	2,496.9	2,481.5	2,451.8
Reserves		(49.8)	(49.3)	(55.0)
Retained earnings		1,600.4	1,556.1	1,662.5
Total equity of shareholders of Challenger Limited		**4,047.5**	**3,988.3**	**4,059.3**

[1] Current year balances have been impacted by Challenger Bank being held for sale. For details refer to note 16.

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

Statement of changes in equity

		Attributable to shareholders of Challenger Limited						
For the period ended 31 December 2021	Note	Contributed equity $m	Share-based payment reserve $m	Cash flow hedge reserve $m	Foreign currency translation reserve $m	Adjusted controlling interest reserve $m	Retained earnings $m	Total shareholder equity $m
Balance at 1 July 2021		**2,425.5**	**(52.8)**	**(0.4)**	**(3.4)**	**5.7**	**1,451.2**	**3,825.8**
Profit for the period from continuing operations		—	—	—	—	—	286.1	286.1
Loss for the period from discontinued operations		—	—	—	—	—	(4.1)	(4.1)
Other comprehensive income		—	—	0.1	2.5	—	—	2.6
Total comprehensive income for the period		**—**	**—**	**0.1**	**2.5**	**—**	**282.0**	**284.6**
Other equity movements								
Ordinary shares issued	10	13.4	—	—	—	—	—	13.4
Treasury shares purchased	10	(7.9)	—	—	—	—	—	(7.9)
Treasury shares vested	10	12.9	—	—	—	—	—	12.9
Settled forward purchases of Treasury shares	10	7.9	—	—	—	—	—	7.9
Share-based payment expense net of tax less releases		—	(6.7)	—	—	—	—	(6.7)
Dividends paid	12	—	—	—	—	—	(70.7)	(70.7)
Balance at 31 December 2021		**2,451.8**	**(59.5)**	**(0.3)**	**(0.9)**	**5.7**	**1,662.5**	**4,059.3**

For the period ended 31 December 2022								
Balance at 1 July 2022		**2,481.5**	**(51.8)**	**—**	**(3.2)**	**5.7**	**1,556.1**	**3,988.3**
Profit for the period from continuing operations		—	—	—	—	—	128.2	128.2
Loss for the period from discontinued operations		—	—	—	—	—	(5.5)	(5.5)
Other comprehensive income		—	—	0.1	(1.3)	—	—	(1.2)
Total comprehensive income for the period		**—**	**—**	**0.1**	**(1.3)**	**—**	**122.7**	**121.5**
Other equity movements								
Ordinary shares issued	10	10.6	—	—	—	—	—	10.6
Treasury shares purchased	10	(19.2)	—	—	—	—	—	(19.2)
Treasury shares vested	10	9.6	—	—	—	—	—	9.6
Settled forward purchases of Treasury shares	10	14.4	—	—	—	—	—	14.4
Share-based payment expense net of tax less releases		—	0.7	—	—	—	—	0.7
Dividends paid	12	—	—	—	—	—	(78.4)	(78.4)
Balance at 31 December 2022		**2,496.9**	**(51.1)**	**0.1**	**(4.5)**	**5.7**	**1,600.4**	**4,047.5**

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

Statement of cash flows

For the period ended 31 December	Note	2022 $m	2021 $m
Operating activities			
Receipts from customers		334.7	330.0
Annuity and premium receipts	8	3,557.6	2,531.2
Annuity and claim payments	8	(2,924.1)	(2,044.0)
Bank deposit receipts		—	72.6
Bank deposit payments		—	(54.2)
Receipts from external unit holders		1,935.2	2,426.8
Payments to external unit holders		(1,752.2)	(1,821.9)
Payments to vendors and employees		(339.1)	(322.7)
Dividends received		41.8	39.7
Interest received		400.5	320.7
Interest paid		(72.2)	(24.8)
Income tax paid		(148.3)	(98.9)
Net cash inflows from operating activities	9	**1,033.9**	**1,354.5**
Investing activities			
Payments for net purchases of investments		(947.5)	(773.9)
Proceeds from sale of controlled entity, net of disposal costs and cash disposed		—	8.7
Payments for purchase of controlled entity, net of cash acquired		—	(28.9)
Loan repayments		67.4	84.5
Payments for purchases of property, plant and equipment		(3.1)	(1.8)
Net cash outflows from investing activities		**(883.2)**	**(711.4)**
Financing activities			
Net repayments from borrowings – interest bearing financial liabilities	11	(69.3)	(656.0)
Payments for lease liabilities		(4.4)	(3.7)
Payments for Treasury shares		(7.8)	(1.6)
Net dividends paid		(67.8)	(57.3)
Net cash outflows from financing activities		**(149.3)**	**(718.6)**
Net increase/(decrease) in cash and cash equivalents from continuing operations		**1.4**	**(75.5)**
Cash and cash equivalents at the beginning of the period		733.1	989.4
Cash and cash equivalents prior to transfers		**734.5**	**913.9**
Net (decrease)/increase in cash and cash equivalents from discontinued operations	16	(4.9)	—
Cash and cash equivalents transferred to assets held for sale	16	(35.9)	—
Cash and cash equivalents at the end of the period		**693.7**	**913.9**

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

Basis of preparation and overarching significant accounting policies

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

The interim financial report for Challenger Limited and its controlled entities (the Group or Challenger) for the six months ended 31 December 2022 was authorised for issue in accordance with a resolution of the Directors of the Company on 13 February 2023.

(i) Basis of preparation and statement of compliance

This is a general purpose interim financial report that has been prepared in accordance, and complies, with the requirements of the ***Corporations Act 2001*** and AASB 134 ***Interim Financial Reporting***. Challenger Limited is a for-profit entity for the purposes of preparing financial statements.

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

The interim financial report does not include all the notes normally included in an annual financial report. It is recommended that this interim financial report be read in conjunction with the financial report for the year ended 30 June 2022 and any public announcements made by the Group in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Except as discussed below, the accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Company's annual financial report for the year ended 30 June 2022. The accounting policies are consistent with Australian Accounting Standards and with IFRS standards.

Where necessary, comparative information has been restated to conform to presentation as required in the current period. Discontinued operations are excluded from the results of the continuing operations and are presented as a single line item "loss for the period after income tax from discontinued operations" in the Statement of comprehensive income. Assets and liabilities of discontinued operations have been presented separately as held for sale on the Statement of financial position.

Unless otherwise stated, amounts in this interim financial report are presented in Australian dollars and have been prepared on a historical cost basis. The assets and liabilities disclosed in the Statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity.

(ii) Significant accounting judgements, estimates and assumptions

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

(iii) New and revised accounting standards and policies

Except for the matters referred to below, the accounting policies and methods of computation are the same as those adopted in the annual report for the period ended 30 June 2022.

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

There have been no new or revised accounting standards or interpretations that are effective from the period beginning on or after 1 July 2022 that materially impact the financial results. Where applicable, comparative figures have been updated to reflect any changes in the current period.

Accounting standards and interpretations issued but not yet effective

AASB 17 *Insurance Contracts*

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

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

On 27 September 2022, APRA finalised changes to the capital and reporting frameworks for insurance in response to the introduction of AASB 17. The revised prudential and reporting standards will come into effect from 1 July 2023.

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

- Insurance contract portfolios will be disaggregated to more granular levels and will be required to be evaluated by risk type, issue year and profitability.
- Although conceptually similar, the Contractual Service Margin (CSM) recognises profit on a different basis to the current Margin on Services (MoS) approach and therefore the profit signature is likely to change for portfolios with positive profit margins.

Basis of preparation and overarching significant accounting policies (continued)

Accounting standards and interpretations issued but not yet effective (continued)

AASB 17 *Insurance Contracts* (continued)

- A new risk adjustment for non-financial risk will be introduced, which reflects the compensation that the Group requires for bearing the uncertainty in relation to the amount and timing of cash flows. The confidence level associated with the risk adjustment will need to be disclosed.
- Additional disclosures will be more extensive, requiring increased granularity and more analysis of movements.
- The interpretation and implementation of the various components of AASB 17 are extremely complex and this effect can be particularly material for the Group's long–duration longevity reinsurance business, which has significant levels of profit margins under the current AASB 1038 measurement basis, due to the use of different discount rates for the fulfilment cash flows and CSM.

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

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

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

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

The Group has made considerable progress with the implementation of its AASB 17 calculation platform and data solutions in order to produce the results and disclosures required under AASB 17 as well as continued work through remaining material judgements under consideration to finalise its AASB 17–related accounting policies.

While the Group is progressed in its implementation of AASB 17 as noted above, due to the complexities of the requirements and evolving interpretations and views from an accounting, Treasury and ATO perspective, it is not yet practicable to reasonably quantify the financial impact to the Group.

Existing standards and interpretations not yet effective

Other amendments to existing standards or interpretations that are not yet effective are not expected to result in a material impact to the Group's financial statements.

Note 1 Revenue

	31 Dec 2022 $m	31 Dec 2021 $m
Investment revenue		
Fixed income securities and cash	268.8	250.1
Investment property and property securities	111.6	236.1
Equity and infrastructure investments	26.4	33.2
Realised and unrealised gains on hedges and foreign exchange translation	130.4	114.1
Fee revenue	125.4	140.3
Other revenue		
Life insurance contract premiums and related revenue[1]	840.9	697.6
Gain on disposal of subsidiary	—	8.7
Other	1.9	—
Total revenue[2]	**1,505.4**	**1,480.1**

[1] Changes in life insurance and investment contract liabilities arising from new business, annuity payments, discount rates, inflation rates and other assumptions are recognised as revenue, with other movements being included in Note 2.
[2] Comparative information has been restated to reflect the Bank being classified as a discontinued operation. See Note 16.

Note 2 Expenses

	31 Dec 2022 $m	31 Dec 2021 $m
Life insurance contract claims and expenses[1]	890.4	633.0
Investment property-related expenses[2]	35.3	37.9
Management and other fees	76.5	88.5
Distribution expenses	31.6	25.9
Employee benefits expenses	102.0	100.4
Other expenses[3]	51.2	45.4
Total expenses[4]	**1,187.0**	**931.1**

[1] Cost of life insurance and life investment contract liabilities recognised as an expense consists of the interest expense on the liability and any loss on the initial recognition of new business less the release of liability in respect of expenses incurred in the current period. The interest expense on the liability represents the unwind of the discount on the opening liability over the period, whereas the impacts of changes in the discount rate applied for the current valuation are included in the change in life contract liabilities, which is part of life insurance contract premiums and related revenue as disclosed in Note 1.
[2] Investment property-related expenses relate to rental income-generating investment properties.
[3] Includes professional fees ($18.3 million), technology and communications expenses ($15.0 million) and depreciation and amortisation of ($7.2 million) (31 December 2021: $17.8 million, $13.6 million and $7.2 million respectively).
[4] Comparative information has been restated to reflect the Bank being classified as a discontinued operation. See Note 16.

Note 3 Segment information

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

For the period ended	Life	FM	Bank	Corporate and other[2]	Investment experience after tax	Significant items after tax	Total
31 December 2022	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Net income	317.3	87.9	4.7	0.6			410.5
Operating expenses	(54.0)	(57.2)	(9.0)	(37.9)			(158.1)
Normalised EBIT	**263.3**	**30.7**	**(4.3)**	**(37.3)**			**252.4**
Interest and borrowing costs	—	—	—	(2.0)			(2.0)
Normalised net profit/(loss) before tax	**263.3**	**30.7**	**(4.3)**	**(39.3)**			**250.4**
Tax on normalised profit							(83.2)
Normalised net profit after tax							**167.2**
Other adjustments[3]	—	—	(2.1)	—	(42.4)	—	(44.5)
Total profit for the period after income tax							**122.7**
31 December 2021							
Net income	287.4	98.2	0.9	—			386.5
Operating expenses	(54.4)	(53.1)	(4.2)	(35.4)			(147.1)
Normalised EBIT	**233.0**	**45.1**	**(3.3)**	**(35.4)**			**239.4**
Interest and borrowing costs	—	—	—	(1.9)			(1.9)
Normalised net profit/(loss) before tax	**233.0**	**45.1**	**(3.3)**	**(37.3)**			**237.5**
Tax on normalised profit							(71.9)
Normalised net profit after tax							**165.6**
Other adjustments[4]	—	—	—	—	109.1	7.3	116.4
Total profit for the period after income tax							**282.0**

[1] Refer to the following page for definitions of the terms used in the management view of segments.
[2] Corporate and other includes corporate companies and Group eliminations.
[3] The amount within the Bank segment relates to expected credit loss provision and fair value adjustments.
[4] Represents the gain on sale of Accurium Pty Ltd partly offset by costs associated with the acquisition and integration of Challenger Bank (previously MyLifeMyFinance Limited).

Note 3 Segment information (continued)

	Life		FM		Bank[2]		Corporate and other		Total	
	31 Dec 2022 $m	31 Dec 2021 $m	31 Dec 2022 $m	31 Dec 2021 $m	31 Dec 2022 $m	31 Dec 2021 $m	31 Dec 2022 $m	31 Dec 2021 $m	31 Dec 2022 $m	31 Dec 2021 $m
Revenue from external customers[1]	932.8	1,021.3	118.1	135.4	—	—	—	—	1,050.9	1,156.7
Interest revenue	450.1	323.4	0.3	—	—	—	4.1	—	454.5	323.4
Interest expense	(119.9)	(152.2)	(0.6)	(1.3)	—	—	(23.2)	(18.8)	(143.7)	(172.3)
Intersegment revenue	(21.6)	(21.2)	21.6	21.2	—	—	—	—	—	—
Depreciation and amortisation	(3.1)	(3.3)	(3.3)	(3.1)	—	—	(0.8)	(0.9)	(7.2)	(7.3)
As at 31 December 2022										
Segment assets	23,704.6	23,633.0	308.2	297.6	411.5	254.4	6,301.0	5,606.8	30,725.3	29,791.8
Segment liabilities	(20,202.3)	(19,973.1)	(21.8)	(29.4)	(297.0)	(158.9)	(6,156.7)	(5,571.1)	(26,677.8)	(25,732.5)
Net assets attributable to shareholders	**3,502.3**	**3,659.9**	**286.4**	**268.2**	**114.5**	**95.5**	**144.3**	**35.7**	**4,047.5**	**4,059.3**

[1] Funds Management revenue from external customers is predominantly management fees.
[2] The Bank has been classified as held for sale and a discontinued operation in the period. See Note 16.

Definitions

Operating segments

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

Life

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

Funds Management

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

Corporate and other

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

Operating segments – discontinued operations

Bank

The Bank provides a range of savings and lending products, including government–guaranteed term deposits to customers in Australia. On 20 October 2022, Challenger Limited announced that it has entered into a share sale agreement to sell Challenger Bank Limited to Heartland Group Holdings Limited. The Bank is now classified as held for sale and is considered to be a discontinued operation in line with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Note 3 Segment information (continued)

Transactions between segments

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

Normalised vs. statutory results

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

- normalised cash operating earnings (Life segment);
- net interest margin (Bank segment – for the period ended 31 December 2022, this has been included as a discontinued operation);
- net income (Funds Management segment); and
- other income (Corporate and other segment).

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

Normalised cash operating earnings

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

Normalised capital growth

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

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

Normalised EBIT

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

Tax on normalised profit

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

Investment experience after tax

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

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

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

Asset and liability experience

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.

New business strain

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

Note 3 Segment information (continued)

Definitions (continued)

Significant items after tax

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

Major customers

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

Geographical areas

The Group operates predominantly in Australia, hence no geographical split is provided to the chief operating decision–maker. Reinsurance of annuities issued by MS Primary accounted for $383.6 million of the Group's life insurance premium income in the period to 31 December 2022 out of total life insurance premium income of $758.7 million (31 December 2021: $417.9 million out of a total of $638.7 million), and comprised 15.8% of total policy liabilities outstanding as at 31 December 2022 (30 June 2022: 16.1%). While the underlying annuitant resides in Japan, the reinsurance service provided by CLC is considered to be Australian business and is therefore not recognised as a geographically separate segment.

	31 Dec 2022 $m	31 Dec 2021 $m
Reconciliation of management to statutory view of after-tax profit		
Operating segments normalised net profit before tax	289.7	274.8
Corporate and other normalised net loss before tax	(39.3)	(37.3)
Normalised net profit before tax (management view of pre-tax profit)	**250.4**	**237.5**
Tax on normalised profit	(83.2)	(71.9)
Normalised net profit after tax	**167.2**	**165.6**
Investment experience after tax	(42.4)	109.1
Bank - other adjustments	(2.1)	—
Significant items after tax	—	7.3
Statutory view of profit for the period after tax	**122.7**	**282.0**
Reconciliation of management view of revenue to statutory revenue		
Operating segments	409.9	386.5
Corporate and other	0.6	—
Net income (management view of revenue)	**410.5**	**386.5**
Expenses and finance costs offset against revenue		
Loan asset expenses and finance costs offset against loan asset income	3.8	1.4
Distribution expenses offset against related income	31.6	25.9
Change in life contract liabilities and reinsurance contracts recognised in expenses	890.4	633.0
Property-related expenses offset against property income	35.3	37.9
Interest and loan amortisation costs	116.1	153.3
Management fee expenses	76.5	88.5
Net income of discontinued operations[1]	(4.7)	(0.9)
Adjustment for other items	6.5	(1.5)
Difference between management view of investment experience and statutory recognition		
Actual capital growth	(63.4)	130.3
Normalised capital growth	(19.7)	(22.7)
Policyholder liability experience	67.5	84.5
New business strain	(45.0)	(36.1)
Statutory revenue (refer Note 1 Revenue)[1]	**1,505.4**	**1,480.1**

[1] The Bank has been included as a segment within management's view but is a discontinued operation for statutory reporting. Therefore, the reconciliation removes the net income of discontinued operations in reconciling to the statutory revenue balance. Prior period balances have been restated appropriately.

Note 4 Income tax

Reconciliation of income tax expense	31 Dec 2022 $m	31 Dec 2021 $m
Profit before income tax	188.4	397.3
Prima facie income tax based on the Australian company tax rate of 30%	(56.5)	(119.2)
Tax effect of amounts not assessable/deductible in calculating taxable income:		
– Challenger Capital Notes distributions	(5.9)	(4.1)
– non-assessable and non-deductible items	7.0	13.5
– other items	(4.8)	(1.4)
Income tax expense	**(60.2)**	**(111.2)**
Underlying effective tax rate[1]	**32.0%**	**28.0%**

[1] Comparative information has been restated to reflect the Bank being classified as a discontinued operation. See Note 16.

Analysis of income tax expense	31 Dec 2022 $m	31 Dec 2021 $m
Current income tax expense for the period	(0.3)	(108.0)
Current income tax (expense)/benefit prior period adjustment	(11.3)	7.7
Deferred income tax expense	(55.2)	(1.7)
Deferred income tax benefit/(expense) prior period adjustment	6.6	(9.2)
Income tax expense	**(60.2)**	**(111.2)**
Income tax expense on translation of foreign entities	(5.5)	(0.7)
Income tax benefit on hedge of net investment in foreign entities	6.4	1.7
Income tax benefit from other comprehensive income[1]	**0.9**	**1.0**

[1] Comparative information has been restated to reflect the Bank being classified as a discontinued operation. See Note 16.

	Statement of financial position		Statement of comprehensive income	
Analysis of deferred tax	**31 December 2022 $m**	**30 June 2022 $m**	**31 December 2022 $m**	**30 June 2022 $m**
Deferred tax assets				
Accruals and provisions	41.3	40.4	1.7	(8.8)
Employee entitlements	5.4	6.3	(0.9)	0.8
Tax losses	16.4	7.5	(0.5)	(5.4)
Unrealised net losses on investments	39.0	78.1	(39.0)	78.1
Other	14.7	17.8	0.7	(2.4)
Total deferred tax assets	**116.8**	**150.1**	**(38.0)**	**62.3**
Set-off of deferred tax assets	**(17.9)**	**(13.0)**		
Net deferred tax assets recognised in Statement of financial position	**98.9**	**137.1**		
Deferred tax liabilities				
Unrealised foreign exchange movements	(12.8)	(2.7)	(11.0)	6.7
Unrealised net gains on investments	—	—	—	124.0
Other	(15.2)	(15.6)	0.4	(10.9)
Total deferred tax liabilities	**(28.0)**	**(18.3)**	**(10.6)**	**119.8**
Set-off of deferred tax liabilities	**17.9**	**13.0**		
Net deferred tax liabilities recognised in Statement of financial position	**(10.1)**	**(5.3)**		
Deferred income tax (expense)/benefit recognised in Statement of comprehensive income			**(48.6)**	**182.1**

Note 4 Income tax (continued)

Recognised deferred tax balances	31 Dec 2022 $m	30 Jun 2022 $m
Tax consolidated group losses	14.9	5.4
Non-tax consolidated group losses	1.5	2.1
Deferred tax asset on losses	**16.4**	**7.5**

Unrecognised deferred tax balances	31 Dec 2022 $m	30 Jun 2022 $m
Non-tax consolidated group revenue losses – tax effected	12.4	8.9
Tax consolidated group capital losses – tax effected	56.4	56.4

Note 5 Investment assets

	31 Dec 2022 $m	30 Jun 2022 $m	31 Dec 2021 $m
Investment assets held at fair value through profit and loss	23,364.1	22,561.9	22,280.0
Investment assets held at amortised cost	—	244.0	76.9
Total investment assets	**23,364.1**	**22,805.9**	**22,356.9**

Held at fair value through profit and loss	31 Dec 2022 $m	30 Jun 2022 $m	31 Dec 2021 $m
Domestic sovereign bonds and semi-government bonds	4,081.7	4,540.1	5,172.1
Floating rate notes and corporate bonds	6,438.2	6,079.3	5,750.1
Residential mortgage and asset-backed securities	9,279.2	9,342.0	8,633.3
Non-special purpose vehicle (SPV)/ADI mortgage assets	90.5	96.7	106.2
Fixed income securities	**19,889.6**	**20,058.1**	**19,661.7**
Shares in listed and unlisted corporations	28.7	30.8	37.0
Unit trusts, managed funds and other	2,222.3	1,537.5	1,499.4
Equity securities	**2,251.0**	**1,568.3**	**1,536.4**
Units in listed and unlisted infrastructure trusts	57.0	49.7	54.6
Other infrastructure investments	238.3	251.1	275.4
Infrastructure investments	**295.3**	**300.8**	**330.0**
Indirect property investments in listed and unlisted trusts	98.8	90.2	93.3
Property securities	**98.8**	**90.2**	**93.3**
Hedged commodities[1]	829.4	544.5	658.6
Other investment assets	**829.4**	**544.5**	**658.6**
Total investment assets – fair value through profit and loss	**23,364.1**	**22,561.9**	**22,280.0**
Current	15,954.6	14,368.3	13,687.6
Non-current	7,409.5	8,193.6	8,592.4
	23,364.1	**22,561.9**	**22,280.0**

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

Held at amortised cost	31 Dec 2022 $m	30 Jun 2022 $m	31 Dec 2021 $m
Floating rate notes	—	77.3	27.3
Negotiable certificates of deposits	—	67.0	31.0
Term deposits	—	—	11.5
Corporate and government bonds	—	79.7	6.0
Residential mortgage-backed securities	—	19.3	—
Deposits with credit unions/ADIs	—	1.1	1.1
Fixed income securities	—	**244.4**	**76.9**
Less: allowance for expected credit losses	—	(0.4)	—
Total investment assets – amortised cost[1,2]	—	**244.0**	**76.9**
Current	—	115.9	52.5
Non-current	—	128.1	24.4
		244.0	**76.9**

[1] The investment assets held at amortised cost are assets of Challenger Bank and have been reclassified to held for sale. See Note 16 for further details.
[2] The fair values of assets held at amortised cost are materially in line with their amortised cost values due to the short duration of these investments. These assets would be classified as Level 2.

Note 6 Investment property

	31 Dec 2022 $m	30 Jun 2022 $m	31 Dec 2021 $m
Investment property held for sale[1,2]	—	—	388.0
Investment property in use[3]	3,440.1	3,483.3	3,496.2
Total investment property[4]	**3,440.1**	**3,483.3**	**3,884.2**

1 No properties currently held for sale (31 Dec 2021: County Court).
2 On 30th November 2022, settlement occurred for the disposal of Bunbury Forum, WA for $78.2 million excluding transaction costs.
3 On 5th October 2022, settlement occurred for the acquisition of Helicon Drive, SA for $10.3 million excluding acquisition costs.
4 Investment property held for sale is considered current. All other investment property is considered non-current.

Note 7 Loan assets

	31 Dec 2022 $m	30 Jun 2022 $m	31 Dec 2021 $m
Residential mortgages[1]	301.7	407.0	453.8
Investment loans[2]	108.5	133.8	152.4
Reverse mortgages	—	4.3	4.2
Personal loans	—	0.5	0.7
Commercial loans	53.3	16.5	—
Less: provision for impairment	(10.8)	(10.6)	(11.0)
Total loan assets[3]	**452.7**	**551.7**	**600.1**

1 Residential mortgages were held both by the Bank and CLC in the prior comparative period. The CLC book is held within Special Purpose Vehicle (SPV) trusts that hold residential mortgage-backed assets and issue securitised financial liabilities. The trusts are entities that fund pools of residential mortgage-backed securities (RMBS). All borrowings of these SPVs are limited in recourse to the assets of the SPV. The Bank's mortgages are core investment assets that are funded by term deposits of the business and included owner occupied loans.
2 Investment loans are loans to resident households for the purpose of housing, where the funds are used for a residential property that is not owner occupied.
3 The loan assets of Challenger Bank are currently held for sale. See Note 16 for further detail.

Accounting policy

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

Key estimates and assumptions

The Group continues to primarily apply the historical provisioning methodology, which is considered to be materially consistent with the provision estimated under the expected credit loss (ECL) impairment model. In estimating ECL for individual mortgage loans, the Group makes judgements and assumptions in relation to expected repayments, the realisable value of the secured property, the prospects of the customer, the value of any mortgage insurance and the likely cost and duration of a workout process.

The Group has considered historical probabilities of default, the relative age of the mortgage loan portfolio and the loan to valuation ratios applicable to the mortgage loans, and has determined that the current provision estimated by the ECL impairment model is adequate.

Analysis of loan assets impairment provision	31 Dec 2022 $m	30 Jun 2022 $m	31 Dec 2021 $m
Balance at the beginning of the period	10.6	11.8	11.8
Increase in provision	0.6	0.2	0.1
Utilisation of provision against incurred losses and other adjustments	(0.4)	(1.4)	(0.9)
Balance at the end of the period	**10.8**	**10.6**	**11.0**

Note 8 Life contract liabilities

Fair value of life contract liabilities	31 Dec 2022 $m	30 Jun 2022 $m	31 Dec 2021 $m
Life investment contract liabilities – at fair value	7,317.4	6,748.4	6,565.7
Life insurance contract liabilities – at margin on services value	6,961.4	6,847.2	7,527.4
Outwards reinsurance contract liabilities – at margin on services value	(0.4)	(0.2)	(0.6)
Total life contract liabilities	**14,278.4**	**13,595.4**	**14,092.5**

	Life investment contract liabilities		Life insurance contract liabilities		Outwards reinsurance contract liabilities		Total life contract liabilities	
Movement in life contract liabilities	**31 Dec 2022 $m**	**31 Dec 2021 $m**	**31 Dec 2022 $m**	**31 Dec 2021 $m**	**31 Dec 2022 $m**	**31 Dec 2021 $m**	**31 Dec 2022 $m**	**31 Dec 2021 $m**
Balance at the beginning of the period	6,748.4	6,230.4	6,847.2	7,440.5	(0.2)	(1.0)	13,595.4	13,669.9
Deposits and premium receipts	2,785.2	1,877.6	772.4	653.6	—	—	3,557.6	2,531.2
Payments and withdrawals	(2,315.2)	(1,535.9)	(608.9)	(508.1)	—	—	(2,924.1)	(2,044.0)
Revenue per Note 1	(63.9)	(76.4)	(776.8)	(621.6)	(0.2)	0.4	(840.9)	(697.6)
Expense per Note 2	162.9	70.0	727.5	563.0	—	—	890.4	633.0
Balance at the end of the period	**7,317.4**	**6,565.7**	**6,961.4**	**7,527.4**	**(0.4)**	**(0.6)**	**14,278.4**	**14,092.5**

Accounting policy

The operations of the Group include the selling and administration of life contracts through CLC. These contracts are governed under the *Life Insurance Act 1995* (the Life Act) and are classified as either life insurance contracts or life investment contracts. Life insurance and life investment contract liabilities are collectively referred to as life contract liabilities or policy liabilities.

Life investment contract liabilities

Life investment contracts are contracts regulated under the Life Act but which do not meet the definition of life insurance contracts under AASB 1038 *Life Insurance Contracts,* and similar contracts issued by entities operating outside of Australia.

For fixed term policies, the liability is based on the fair value of the income payments and associated expenses, being the net present value of the payments and expenses using an appropriate discount rate curve as determined by the Appointed Actuary.

For cash business, the liability is determined using an accumulation approach.

Life insurance contract liabilities

Life insurance contracts are contracts regulated under the Life Act that involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as margin on services (MoS). Under MoS, the excess of premiums received over payments to customers and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service) unless future margins are negative, in which case the future losses are recognised in the Statement of comprehensive income immediately. The planned release of this margin is recognised in the Statement of comprehensive income as part of the movement in life insurance contract liabilities.

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, payments and expenses) are projected into the future. The liability is calculated as the net present value of these projected cash flows using a risk-free discount rate curve.

The key areas of judgement in the determination of the liabilities are actuarial assumptions for mortality, surrenders, acquisition and maintenance expenses, and economic assumptions for discount and inflation rates.

Life insurance premium revenue

Life insurance premiums are recognised as revenue when risk is transferred to the Group.

Life insurance claims expense

Life insurance claims expense is recognised in expenses when the liability to the policyholder under the contract has been established.

Note 8 Life contract liabilities (continued)

Inwards reinsurance

The Group has maintained inwards reinsurance arrangements during the period that meet the definition of a life insurance contract. The MoS methodology requires the present value of future cash flows arising from reinsurance contracts to be included in the calculation of life insurance contract liabilities.

Valuation

The MoS valuation, calculated in accordance with APRA Prudential Standards and AASB 1038 ***Life Insurance Contracts*** results in the systematic release of planned margins over the life of the policy via a 'profit carrier'. The Group maintains life insurance contracts, including individual lifetime annuities, wholesale mortality, wholesale morbidity, longevity reinsurance and wholesale lifetime annuities. Annuity payments are used as the profit carrier for lifetime annuities and premium receipts or best estimate claim payments are used as the profit carrier for wholesale mortality, wholesale morbidity and longevity reinsurance.

Key assumptions applied in the valuation of life contract liabilities

Tax rates

The bases of taxation (including deductibility of expenses) are assumed to continue in accordance with legislation current at the reporting date.

Discount rates

Under APRA Prudential Standards and AASB 1038 ***Life Insurance Contract***s, life insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, set at the Commonwealth Government Bond curve plus an illiquidity premium where applicable, or for foreign-denominated liabilities, a curve derived from the yields of highly liquid AAA-rated sovereign risk securities in the currency of the policy liabilities plus an illiquidity premium where applicable. The illiquidity premium is determined by reference to observable market rates including Australian sovereign debt, corporate, securitised and collateralised debt publicly placed in the domestic market, and market swap rates.

Life investment contract liabilities are calculated under the fair value through profit and loss provisions of AASB 9 ***Financial Instruments***. The discount rates are determined based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows.

For both insurance and investment contracts, the approach is the same as adopted at June 2022. Discount rates applied for Australian liabilities were between 2.6% - 5.0% per annum (30 June 2022: 1.8% - 4.5%).

Expenses

Forecasted expenses for the next year are allocated between acquisition, maintenance and investment based on the nature of the expense. Forecasted maintenance expenses then are converted to a per-contract unit cost or percentage of account balance, depending on the nature of the expense.

Inflation

Inflation estimates are based on long-term expectations and reviewed at least annually for changes in the market environment based on a comparison of real and nominal yields of instruments of equivalent term and credit risk. The current assumption for Australia is 2.5% per annum for short-term inflation and 2.7% per annum for long-term inflation (30 June 2022: 3.2% short-term, 2.2% long-term).

Surrenders

For life investment contracts, no surrenders or voluntary discontinuances are assumed. For Australian life insurance contracts where a surrender value is payable on withdrawal, a rate of surrenders is assumed in line with Challenger's own experience on these products, currently between 0.0% - 2.1% per annum (30 June 2022: 0.0% - 2.1%). For inwards reinsurance of Japanese business a rate of surrenders is assumed in line with local experience in relation to similar contracts, currently 3.5% per annum (30 June 2022: 3.5%).

Where policyholders have the option to commute a life insurance contract, the value of this option is included within the life contract liabilities. We also assume surrender rates based on past experience for this business which vary by product types and duration in-force for the contract.

Mortality

Base mortality rates for individual lifetime annuities are determined as a multiple of annuitant experience based on LML08 and LFL08 tables, adjusted for Challenger's own recent experience. LML08 and LFL08 are mortality tables developed by the Continuous Mortality Investigation (CMI) based on United Kingdom annuitant lives experience from 2007–2010. The tables refer to male and female lives respectively. Rates are adjusted for expected future mortality improvements based on observed and expected improvements. For the age ranges and cash flow projection periods that contribute the majority of CLC's exposure, rates of future mortality improvement applied are between 0.4% - 2.6% per annum (30 June 2022 0.4% - 2.6%).

Base mortality rates for wholesale mortality and longevity reinsurance are determined as a multiple of pensioner mortality rates (based on the self-administered pension schemes or SAPS3 tables mortality investigation developed by the Institute and Faculty of Actuaries (UK) using United Kingdom data collected between 2009–2016). Rates are adjusted for expected future mortality improvements based on observed and expected improvements. For the age ranges and cash flow projection periods that contribute the majority of CLC's exposure, rates of future mortality improvement applied are between 0.2% - 2.3% per annum (30 June 2022: 0.2% - 2.3%).

Base mortality rates for the inwards reinsurance of Japanese business are determined as a multiple of Japanese population mortality rates.

Mortality assumptions have been reviewed but not adjusted in light of the COVID-19 pandemic.

Note 8 Life contract liabilities (continued)

Valuation (continued)

Impact of changes in assumptions on life insurance contracts

Under MoS, changes in actuarial assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Changes in future profit margins are released over future periods unless that product group is in an expected net loss position (loss recognition), in which case changes in assumptions are recognised in the Statement of comprehensive income in the period in which they occur. The valuation impact of changes to discount rate assumptions as a result of market and economic conditions, such as changes in benchmark market yields, are recognised in the Statement of comprehensive income in the period in which the changes occur.

Restrictions on assets

Investment assets held in the Group can only be used within the restrictions imposed under the Life Insurance Act 1995 (the Life Act). The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that statutory fund, to acquire investments to further the business of the statutory fund or as distributions when capital adequacy requirements are met.

Statutory fund information

The life contract operations of CLC are conducted within four separate statutory funds. Both the shareholders' and policyholders' interests in these statutory funds are reported in aggregate in the financial report of the Group. Fund 1 is a non-investment-linked fund and Fund 3 is investment-linked. Both of these are closed to new business. Funds 2 and 4 are the principal operating funds of the Group. Fund 2 contains non-investment-linked contracts, including the Group's term annuity business, lifetime annuity policies and the related outwards reinsurance, plus the wholesale mortality, wholesale morbidity and longevity inwards reinsurance. Fund 4 is a non-investment-linked fund and contains inwards reinsurance of annuity business written in Japan.

Life contract liabilities for Statutory Funds 1, 2, 3 and 4 are set out below.

Life contract liabilities	31 Dec 2022 $m	30 Jun 2022 $m
Statutory Fund 1	1.2	1.4
Statutory Fund 2	12,017.1	11,401.9
Statutory Fund 3	2.6	2.5
Statutory Fund 4	2,257.5	2,189.6
Total life contract liabilities	**14,278.4**	**13,595.4**

Current/non-current split for total life contracts

There is a fixed settlement date for the majority of life contract liabilities. Approximately $4,121.7 million on a discounted basis (30 June 2022: $4,109.4 million) of life contract liabilities have a contractual maturity within 12 months of the reporting date. Based on assumptions applied for the 31 December 2022 valuation of life contract liabilities, $5,035.1 million of principal payments on fixed term and lifetime business are expected in the year to 31 December 2023 (expected in the year to 30 June 2023 $4,938.4 million).

Life insurance risk

The Group is exposed to longevity risk on its individual lifetime annuities (both direct and reinsured) and wholesale longevity reinsurance. Longevity risk is the risk that policyholders may live longer than expectations. The Group is exposed to mortality risk on the wholesale mortality reinsurance and reinsurance of fixed term business written in Japan. This is the risk that death rates in the reference portfolios exceed expectations. The Group is also exposed to morbidity risk on the wholesale morbidity reinsurance. That is the risk that morbidity rates in the reference portfolios exceed expectations.

The Group manages the longevity risk by regular reviews of the portfolio to confirm continued survivorship of policyholders receiving income plus regular review of longevity experience to ensure that longevity assumptions remain appropriate.

In addition, the Group maintains a reinsurance arrangement to manage longevity risk in respect of part of the closed book of individual lifetime annuities.

The Group manages the mortality and morbidity risk by regular reviews of the portfolio to ensure that mortality and morbidity assumptions remain appropriate. The Company's insurance risk policy is approved by the Board and sets out the relevant risk limits for insurance exposures, to ensure the insurance risk portfolio is appropriately diversified and contains no significant concentrations of insurance risk.

Actuarial information

Mr M Considine FIAA, as the Appointed Actuary of CLC, is satisfied as to the accuracy of the data used in the valuations of life contract liabilities in the financial report and the tables in this note.

The life contract liabilities have been determined at the reporting date in accordance with the Life Act, APRA Prudential Standards, AASB 1038 ***Life Insurance Contracts***, and AASB 9 ***Financial Instruments***.

Note 9 Notes to Statement of cash flows

Reconciliation of profit to operating cash flow	31 Dec 2022 $m	31 Dec 2021 $m
Profit for the period after income tax[1]	**128.2**	**282.0**
Adjusted for		
Net realised and unrealised losses/(gains) on investment assets	64.6	(160.2)
Share of associates' net profit	(13.6)	(21.0)
Change in life contract liabilities[2]	49.5	(64.6)
Depreciation and amortisation expense	7.2	7.4
Impairment of associate and bank assets	—	0.1
Share-based payments	7.5	7.4
Dividends from associates	16.2	26.0
Change in operating assets and liabilities		
(Increase)/decrease in receivables	(31.9)	42.4
(Increase)/decrease in other assets	(2.6)	3.5
Decrease in payables	(28.9)	(11.1)
Decrease/(increase) in provisions	(5.3)	3.6
Increase in life contract liabilities	633.5	487.2
Increase in external unit holders' liabilities	233.8	749.6
(Decrease)/increase in net tax liabilities	(24.3)	2.2
Net cash flows from operating activities	**1,033.9**	**1,354.5**

[1] Profit for the period after income tax excludes discontinued operations for 31 Dec 2022 (31 Dec 2021: includes continued operations).
[2] Changes relate to movements through the Statement of comprehensive income.

Note 10 Contributed equity

	31 December 2022		30 June 2022		31 December 2021	
	No. of shares m	Value of shares $m	No. of shares m	Value of shares $m	No. of shares m	Value of shares $m
Analysis of contributed equity						
Ordinary shares issued and fully paid	683.9	2,516.1	682.2	2,505.5	678.1	2,475.8
Employee shares treated as Treasury shares	(1.9)	(19.2)	(1.0)	(9.6)	(0.9)	(9.6)
CPP deferred share purchases treated as Treasury shares	—	—	(1.2)	(14.4)	(1.2)	(14.4)
Total contributed equity	**682.0**	**2,496.9**	**680.0**	**2,481.5**	**676.0**	**2,451.8**
Movements in contributed equity						
Ordinary shares						
Balance at the beginning of the period	682.2	2,505.5	676.0	2,462.4	676.0	2,462.4
Issued under Dividend Reinvestment Plan	1.7	10.6	2.4	15.1	2.1	13.4
Issued under Capital Notes 1 conversion	—	—	3.8	28.0	—	—
Balance at the end of the period	**683.9**	**2,516.1**	**682.2**	**2,505.5**	**678.1**	**2,475.8**
CPP Trust						
Balance at the beginning of the period	1.0	9.6	1.4	14.6	1.4	14.6
Shares purchased (including settled forwards)	1.9	19.2	0.8	7.9	0.8	7.9
Vested shares released to employees	(1.0)	(9.6)	(1.2)	(12.9)	(1.3)	(12.9)
Balance at the end of the period	**1.9**	**19.2**	**1.0**	**9.6**	**0.9**	**9.6**
CPP share purchases						
Balance at the beginning of the period	1.2	14.4	2.0	22.3	2.0	22.3
Settled forward purchases[1]	(1.2)	(14.4)	(0.8)	(7.9)	(0.8)	(7.9)
Balance at the end of the period	**—**	**—**	**1.2**	**14.4**	**1.2**	**14.4**

[1] On 25 August 2022, Challenger settled the final remaining share forwards with National Australia Bank (NAB).

Capital management

A company is generally limited in the risk-taking activities that it can engage in by the amount of capital it holds, with capital acting as a buffer against risk, ensuring that there are sufficient resources to enable the company to continue normal business in the event of an unexpected loss.

The prudentially-regulated CLC manages capital via an Internal Capital Adequacy Assessment Process (ICAAP). Under the prudential standards, a life company must have in place an ICAAP, documented in an ICAAP Summary Statement. CLC complied with these requirements at all times during the period.

The objective of the ICAAP is to ensure that CLC maintains adequate capital in respect of the risks to which it is exposed so that it can fulfil its obligations to policy owners (in particular, the duty to give priority to the interests of owners and prospective owners of policies referable to a fund). The ICAAP also enables CLC to invest both strategically and tactically in opportunities that deliver a return on equity above the cost of capital for shareholders.

There were no material changes to the Group's capital management process during the period.

All of the Group's regulated entities have at all times during the current and prior financial period complied with the externally imposed capital requirements to which they are subject.

Prescribed capital amount (PCA)

PCA refers specifically to CLC's regulatory capital requirements.

CLC holds capital in order to ensure that under a range of adverse scenarios it can continue to meet its 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 have been calculated based on the prudential standards issued by APRA.

CLC's target surplus

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

Note 10 Contributed equity (continued)

Capital management (continued)

CLC's target surplus (continued)

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

The PCA ratio at 31 December 2022 was 1.59 times (30 June 2022: 1.60 times), within the range of 1.3 to 1.7 times. The CET1 ratio was 1.12 times at 31 December 2022, an increase from 1.11 times at 30 June 2022.

Bank regulatory capital

The Bank is an authorised deposit-taking institution regulated by APRA under the authority of the ***Banking Act 1959***. APRA sets minimum regulatory capital requirements for banks based on the Basel Committee on Banking Supervision guidelines.

For the purposes of meeting capital adequacy as prescribed by APRA, certain items such as intangibles and deferred tax assets do not qualify as capital and are excluded from the calculation.

Regulatory capital is divided into Common Equity Tier 1 (CET1), Additional Tier 1 Capital and Tier 2 Capital. The Bank's regulatory capital base at 31 December 2022 was $113.1 million and predominantly represents CET1 regulatory capital and an immaterial amount of Tier 2 regulatory capital.

To manage its capital, management reviews its adequacy continuously and reports its capital position to the Executive Leadership Team and Asset and Liability Committee on a monthly basis.

Funds Management and Other capital

In addition to CLC's and the Bank's excess regulatory capital, Challenger maintains cash and tangible assets within the Funds Management and Corporate legal entities. These assets can be used to meet regulatory capital requirements. Challenger also has a Corporate debt facility of $400.0 million in place, which provides additional financial flexibility. The facility was undrawn as at 31 December 2022 (30 June 2022: undrawn).

Capital as at 31 December 2022	CLC[1] $m	CBL[2] $m	Other[3] $m	Group $m
Regulatory capital base				
Shareholder equity[4]	3,317.4	114.5	615.6	4,047.5
Goodwill and other intangibles	(70.4)	—	(516.4)	(586.8)
Other adjustments[5]	(299.1)	(1.4)	93.6	(206.9)
Eligible regulatory debt	1,252.8	—	—	1,252.8
Total capital base	**4,200.7**	**113.1**	**192.8**	**4,506.6**
Minimum Regulatory Requirement[1,2]	2,637.1	26.9	39.8	2,703.8
Excess over Minimum Regulatory Requirement	**1,563.6**	**86.2**	**153.0**	**1,802.8**
Common Equity Tier 1 (CET1) regulatory capital	2,947.9	113.1	—	3,061.0
Additional Tier 1 capital	845.0	—	—	845.0
Total Tier 1 regulatory capital	**3,792.9**	**113.1**	**—**	**3,906.0**
Tier 2 capital[6]	407.8	—	—	407.8
Other non-regulatory capital[3]	—	—	192.8	192.8
Total capital base	**4,200.7**	**113.1**	**192.8**	**4,506.6**
CET1 capital ratio (times)[7]	1.12	4.20	—	—
Tier 1 capital ratio (times)[8]	1.44	4.20	—	—
Minimum Regulatory Requirement ratio (times)[9]	1.59	4.20	4.84	1.67

[1] Minimum Regulatory Requirement is equivalent to PCA for CLC.
[2] Minimum Regulatory Requirement for Challenger Bank Limited represents total capital requirements of 8% (of risk weighted assets) plus the capital conservation buffer of 2.5% (of risk weighted assets), as stipulated under APS 110 ***Capital Adequacy***.
[3] Includes Funds Management, Corporate and other Life/Bank entities. Funds Management Minimum Regulatory Requirement (MRR) for capital is based on requirements set by ASIC and regulators in other foreign jurisdictions. Challenger Retirement and Investment Services Limited MRR is based on APRA and ASIC requirements.
[4] Balances differ to Note 3 Segment information as regulatory requirements are applicable to individual legal entities.
[5] Other adjustments predominantly related to deferred tax asset and intercompany items.
[6] CLC represents subordinated debt.
[7] CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
[8] Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
[9] Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

Note 10 Contributed equity (continued)

Capital as at 31 December 2021	CLC[1] $m	CBL[2] $m	Other[3] $m	Group $m
Regulatory capital base				
Shareholder equity[4]	3,419.4	76.5	563.4	4,059.3
Goodwill and other intangibles	(75.6)	—	(531.8)	(607.4)
Other adjustments[5]	(223.6)	(0.5)	127.6	(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[1,2]	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[6]	402.4	0.5	—	402.9
Other non-regulatory capital[3]	—	—	158.9	158.9
Total capital base	**4,395.4**	**76.5**	**158.9**	**4,630.8**
CET1 capital ratio (times)[7]	1.20	6.90	—	—
Tier 1 capital ratio (times)[8]	1.54	6.90	—	—
Minimum Regulatory Requirement ratio (times)[9]	1.69	6.96	4.43	1.75

[1] Minimum Regulatory Requirement is equivalent to PCA for CLC.
[2] Minimum Regulatory Requirement for Challenger Bank Limited represents total capital requirements of 8% (of risk weighted assets) plus the capital conservation buffer of 2.5% (of risk weighted assets), as stipulated under APS 110 ***Capital Adequacy***.
[3] Includes Funds Management, Corporate and other Life/Bank entities. Funds Management Minimum Regulatory Requirement (MRR) for capital is based on requirements set by ASIC and regulators in other foreign jurisdictions. Challenger Retirement and Investment Services Limited MRR is based on APRA and ASIC requirements.
[4] Balances differ to Note 3 Segment information as regulatory requirements are applicable to individual legal entities.
[5] Other adjustments predominantly related to deferred tax asset and intercompany items.
[6] CLC represents subordinated debt
[7] CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
[8] Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
[9] Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

Dividend Reinvestment Plan (DRP)

The Company resumed the DRP for the 2022 final dividend, and on 21 September 2022 issued 1,672,557 ordinary shares to satisfy the plan.

The DRP issue price per share for the 2022 final dividend was $6.3456 and represented the volume weighted average share price over the 10 trading days from 1 September 2022 to 14 September 2022. The final DRP participation rate was 13% of all issued shares.

Note 11 Interest bearing financial liabilities

	30 June 2022			Non-cash movements			31 December 2022	
	Facility $m	Opening balance $m	Cash flows proceeds/ (repayments) $m	Foreign exchange $m	Fair value changes $m	Other $m	Closing balance $m	Facility $m
Bank loans								
Corporate[1]	400.0	—	—	—	—	—	—	400.0
Controlled property trusts[2,3]	334.0	335.9	(1.6)	14.7	—	0.8	349.8	347.8
Controlled infrastructure trusts[3]	172.3	172.3	(4.0)	—	—	0.1	168.4	168.4
Term funding[4]	5.4	5.4	—	—	—	(5.4)	—	—
Repurchase agreements[4]	3,769.9	3,769.9	(18.4)	—	—	(34.8)	3,716.7	3,716.7
Total bank loans	**4,681.6**	**4,283.5**	**(24.0)**	**14.7**	**—**	**(39.3)**	**4,234.9**	**4,632.9**
Non-bank loans								
Subordinated debt	400.0	398.4	—	—	0.9	—	399.3	400.0
Challenger Capital Notes 2[3]	460.0	458.2	—	—	—	0.8	459.0	460.0
Challenger Capital Notes 3[3]	385.0	380.2	—	—	—	0.6	380.8	385.0
Loan notes – SPV	262.7	262.7	(45.3)	—	—	—	217.4	217.4
Total non-bank loans	**1,507.7**	**1,499.5**	**(45.3)**	**—**	**0.9**	**1.4**	**1,456.5**	**1,462.4**
Total interest bearing financial liabilities	**6,189.3**	**5,783.0**	**(69.3)**	**14.7**	**0.9**	**(37.9)**	**5,691.4**	**6,095.3**
Current		4,191.6					4,232.9	
Non-current		1,591.4					1,458.5	
		5,783.0					**5,691.4**	

[1] No amounts were drawn from the facility in the period.
[2] Total facility limit consists of non-redraw loan facilities limits totalling $347.8 million (30 June 2022: $334.0 million).
[3] Held at amortised cost. The fair value of these are: controlled property trusts $361.1 million (30 June 2022: $345.9 million); controlled infrastructure trusts $171.6 million (30 June 2022: $175.5 million); Challenger Capital Notes 2 $470.5 million (30 June 2022: $460.7 million), and Challenger Capital Notes 3 $404.5 million (30 June 2022: $392.3 million).
[4] The Reserve Bank of Australia (RBA) Term Funding Facility ($5.4 million) and the Repurchase Agreements ($58.8 million) of Challenger Bank have been reclassified to held for sale. Prior to sale completion, the Bank intend to cash settle these liabilities. See note 16 for further detail.

Repurchase agreements

CLC has entered into repurchase agreements with certain counterparties whereby fixed income securities are sold for cash, while simultaneously agreeing to repurchase the fixed income security at a fixed price and fixed date in the future. These agreements finance bonds held for hedging purposes and are interest bearing, with interest factored into the price at which the bonds are repurchased and paid on repurchase. All agreements as at 31 December 2022 are current and all mature by January 2023. They will continue to be rolled into new agreements in the future.

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

Non-bank loans

Subordinated debt

In September 2022, CLC issued $400.0 million of fixed-to-floating rate, unlisted, unsecured subordinated notes. The subordinated notes qualify as Tier 2 regulatory capital under APRA's prudential standards and have a term of 15 years, with a maturity date in September 2037. The subordinated notes include an option for CLC to redeem the subordinated notes in September 2027 subject to APRA's approval.

Expenses incurred of $2.8 million were recognised in the statement of comprehensive income in relation to the issuance.

Subsequently, on 24 November 2022, CLC repaid its existing subordinated debt of $400.0 million in accordance with its terms of issue.

Note 12 Dividends paid and proposed

	31 Dec 2022 $m	31 Dec 2021 $m
Dividends declared and paid during the period		
Final 30 June 2022 100% franked dividend: 11.5 cents (30 June 2021: 10.5 cents)	78.4	70.7
Dividend proposed (not recognised as a liability at 30 June 2022)		
2023 interim 100% franked dividend: 12.0 cents (2022 interim: 11.5 cents)[1]	82.1	78.0

[1] A DRP will be in operation for the 2023 interim dividend.

Dividend franking credits

Franking credits available to shareholders are $367.5 million (30 June 2022: $323.8 million), based on a tax rate of 30%. The amount is calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking debits that will arise from the settlement of accrued interest on Challenger Capital Notes. The impact of the proposed dividend will be to reduce the balance of the franking account by $35.2 million. All dividends are franked at a tax rate of 30%.

Note 13 Earnings per share

	31 Dec 2022 cents	31 Dec 2021 cents
Earnings per share:		
Basic earnings per share	18.0	41.8
Diluted earnings per share	17.2	34.0
	$m	**$m**
Profit attributable to ordinary shareholders	122.7	282.0
Add back interest expense on Challenger Capital Notes 2 and 3	19.5	13.8
Add back interest expense net of tax on CLC Subordinated Notes	4.5	3.0
Total earnings used in the calculation of diluted earnings per share	**146.7**	**298.8**
Number of shares	**Number**	**Number**
Weighted average of ordinary shares issued	683,172,839	677,214,590
Weighted average of Treasury shares	(2,090,433)	(2,565,984)
Weighted average ordinary shares for basic earnings per share	**681,082,406**	**674,648,606**
Adjusted for potential ordinary shares:		
Weighted average effect of Challenger Performance Plan	14,134,456	13,337,571
Weighted average effect of Challenger Capital Notes 2 and 3	114,977,484	133,366,647
Weighted average effect of CLC Subordinated Notes[1]	43,482,609	59,070,235
Weighted average ordinary shares for diluted earnings per share	**853,676,955**	**880,423,059**

[1] This balance consists of two (2) subordinated debt issuances that have the option to be converted into ordinary shares upon meeting certain conditions. The first issuance (November 2017) is dilutive, as the interest cost per share is less than the basic EPS. The second issuance (September 2022) is non-dilutive as the interest cost per ordinary share is greater than the basic EPS.

Accounting policy

Basic earnings per share is calculated by dividing the total profit for the period attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial period. The weighted number of ordinary shares outstanding is net of Treasury shares held by the Challenger Performance Plan (CPP) Trust or under CPP deferred share purchase agreements in respect of equity incentive plan awards to employees.

The weighted average number of Treasury shares for the period was 2,090,433 (31 December 2021: 2,565,984).

Note 13 Earnings per share (continued)

Accounting policy (continued)

Accounting treatment of Capital Notes and subordinated debt

Challenger Capital Notes 2 and 3 and subordinated debt are an effective source of funding for Challenger.

Each of the Capital Notes 2 and 3 and subordinated debt have convertibility features that would result in these instruments converting to ordinary shares under certain circumstances, including APRA determining CLC to be non-viable.

However, under AASB 133 ***Earnings per Share***, convertible debt is considered dilutive whenever the interest per potential ordinary share for each of these instruments is less than Challenger's basic EPS for the period. As such, a test is required at each reporting period to determine if they are included in the dilutive share count.

Diluted earnings per share is calculated by dividing the total adjusted profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period adjusted for the effects of dilutive shares that may be converted under the terms of Challenger Capital Notes 2 and 3 (Notes), CLC Subordinated Notes and shares granted under the Challenger Performance Plan (CPP).

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

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

The conversion factor on all Challenger's convertible debt is 99% of the weighted average Challenger share price over the last 20 days of trading (subject to a minimum VWAP floor) in each reporting period.

An assessment of the dilutive impact of convertible securities is usually done by reference to the determination as to whether the interest received would be more or less than the earnings per share and whether it would be rational for a holder to receive coupon from the convertible security or dividends from holding the shares.

The profit attributable to ordinary shareholders is adjusted by interest on Notes and CLC Subordinated Notes for the diluted calculation when the Notes and CLC Subordinated Notes are considered dilutive. In the current period the Notes and the first issuance of Subordinated Notes (November 2017) were considered dilutive and the interest adjustment was $24.0 million (31 December 2021: $16.8 million adjustment) when both Notes and CLC Subordinated Notes were considered dilutive.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

Note 14 Fair values of investment assets and liabilities

Fair value determination and classification

Fair value reflects the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The majority of the Group's financial instruments are held in the life insurance statutory funds of CLC and, as a result, are required by AASB 1038 ***Life Insurance Contracts*** to be designated at fair value through profit and loss where this is permitted under AASB 9 ***Financial Instruments.***

Financial instruments measured at fair value are categorised under a three–level hierarchy, reflecting the availability of market observable inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are set out below.

Level 1 Unadjusted quoted prices in active markets are the valuation inputs for identical assets or liabilities (i.e. listed securities).

Level 2 Valuation inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) are used.

Level 3 There are valuation inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The unobservable inputs into the valuation of the Group's Level 3 assets and liabilities are determined based on the best information available, including the Group's own assessment of the assumptions that market participants would use in pricing the asset or liability. Examples of unobservable inputs are estimates about the timing and amount of cash flows, discount rates, earnings multiples and internal credit ratings.

Valuation techniques

The majority of the Group's listed and unlisted fixed income securities, over-the-counter derivative financial instruments and interest bearing liabilities including the subordinated debt issuance are classified as Level 2. This recognises the availability of a quoted price but not from an active market as defined by the accounting standard.

Fixed income securities where market observable inputs are not available are classified as Level 3. The Group's derivative financial instruments are traded over the counter so, while they are not exchange traded, there is either a market observable price or input. Most of the fixed income securities and all of the government/semi-government securities have market observable prices.

Externally rated unlisted fixed income securities are valued by applying market observable credit spreads on similar assets with an equivalent credit rating and are classified as Level 2. Internally rated fixed income securities are classified as Level 3 as the determination of an equivalent credit rating is a significant non-observable input.

Equity, infrastructure and property securities that are exchange traded are generally classified as Level 1. Where quoted prices are available, but are not from an active market, they are classified as Level 2. If market observable inputs are not available, they are classified as Level 3. Valuations can make use of cash flow forecasts discounted using the applicable yield curve, earnings-multiple valuations or, for managed funds, the net assets of the trust per the most recent investment statements.

External unit holders' liabilities are valued at the face value of the amounts payable, being an approximation of fair value, and classified as Level 2. The portion of life investment contract liabilities classified as Level 2 represents products or product options for which the liability is determined based on an account balance, rather than a discounted cash flow as applied to the rest of the portfolio.

Cash and cash equivalents are carried at amortised cost.

To determine a fair value where the asset is liquid or maturing within three months, the fair value is approximated to the carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other investment assets and liabilities.

The mortgage SPVs have total equity attributable to residual income unitholders (RIU) at amortised cost of $0.1 million (30 June 2022: nil). The fair value of this RIU holders' asset is $14.0 million (30 June 2022: $21.2 million) and would be classified as Level 3 in the fair value hierarchy.

Challenger Capital Notes 2 and 3 have carrying values (inclusive of unamortised issue costs) of $459.0 million and $380.8 million respectively. The fair value of these notes is $470.5 million and $404.5 million respectively and they are classified as Level 1 in the fair value hierarchy.

Valuation process

For financial instruments and investment properties categorised within Level 3 of the fair value hierarchy, the valuation process applied in valuing such instruments is governed by the CLC Practice Note on Investment Asset and Financial Liability Valuation. The Practice Note outlines the Valuation Committee's responsibilities in the governance of the valuation of investment assets and financial liabilities for the purposes of financial reporting. All significant Level 3 financial instruments are referred to the Valuation Committee which generally meets monthly, or more frequently if required.

The table on the following page summarises the financial instruments and investment properties measured at fair value at each level of the fair value hierarchy as at the Statement of financial position date.

Note 14 Fair values of investment assets and liabilities (continued)

Valuation process (continued)

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
31 Dec 2022				
Derivative assets	—	676.5	—	676.5
Fixed income securities[1]	—	17,963.0	1,926.6	19,889.6
Equity and other alternatives	1.6	2,086.2	163.2	2,251.0
Infrastructure investments[1]	—	0.1	295.2	295.3
Property securities	—	—	98.8	98.8
Hedged commodities	829.4	—	—	829.4
Investment property[2]	—	—	3,440.1	3,440.1
Total assets	**831.0**	**20,725.8**	**5,923.9**	**27,480.7**
Derivative liabilities	1.9	728.8	0.1	730.8
Interest bearing financial liabilities[3]	875.0	399.3	—	1,274.3
External unit holders' liabilities	—	4,620.2	—	4,620.2
Life investment contract liabilities	—	40.4	7,277.0	7,317.4
Total liabilities	**876.9**	**5,788.7**	**7,277.1**	**13,942.7**
30 Jun 2022				
Derivative assets	—	577.3	—	577.3
Fixed income securities[1]	—	18,147.4	1,910.8	20,058.2
Equity and other alternatives	0.9	1,401.8	165.6	1,568.3
Infrastructure investments[1]	—	0.1	300.7	300.8
Hedged commodities	544.5	—	—	544.5
Property securities	—	—	90.2	90.2
Investment property[2]	—	—	3,483.3	3,483.3
Total assets	**545.4**	**20,126.6**	**5,950.6**	**26,622.6**
Derivative liabilities	2.3	837.4	—	839.7
Interest bearing financial liabilities[3]	853.0	398.4	—	1,251.4
External unit holders' liabilities	—	4,386.4	—	4,386.4
Life investment contract liabilities	—	40.6	6,707.8	6,748.4
Total liabilities	**855.3**	**5,662.8**	**6,707.8**	**13,225.9**
31 Dec 2021				
Derivative assets	—	620.3	—	620.3
Fixed income securities[1]	—	17,874.2	1,787.5	19,661.7
Equity and other alternatives	1.3	1,383.5	151.6	1,536.4
Infrastructure investments[1]	—	0.1	329.9	330.0
Hedged Commodities	658.6	—	—	658.6
Property securities	—	—	93.3	93.3
Investment property[2]	—	388.0	3,496.2	3,884.2
Total assets	**659.9**	**20,266.1**	**5,858.5**	**26,784.5**
Derivative liabilities	1.6	404.2	—	405.8
Interest bearing financial liabilities[3]	912.8	408.5	—	1,321.3
External unit holders' liabilities	—	4,381.8	—	4,381.8
Life investment contract liabilities	—	43.0	6,522.7	6,565.7
Total liabilities	**914.4**	**5,237.5**	**6,522.7**	**12,674.6**

[1] The Group has exposures to structured entities (entities designed so that voting or similar rights are not the dominant factor in determining who controls the entity, for example when any voting rights relate purely to administrative tasks) via investments in asset-backed finance vehicles (where it may act as a lender or purchaser of notes and/or residual income units) and securitisations (such as mortgages, finance leases and other types of collateralised vehicles). The Company assesses, at inception and at each reporting date, whether a structured entity should be consolidated based on the accounting policy. The maximum exposure to loss is limited to the reported fair value of the underlying securities plus any guaranteed undrawn commitments to the counterparties. At 31 December 2022, the carrying value of asset-backed financing assets was $27.0 million (30 June 2022: $37.1 million) with no undrawn commitments, and securitisations were $9,133.9 million (30 June 2022: $9,260.3 million) plus $76.1 million undrawn commitments (30 June 2022: $59.1 million).

[2] Refer to Note 6 Investment property for valuation techniques and key unobservable inputs.

[3] Not all the interest bearing liabilities are included within the fair value determination and classification table as a number of interest bearing liabilities are valued at amortised cost.

Note 14 Fair values of investment assets and liabilities (continued)

Level 3 sensitivities

The following table shows the sensitivity of Level 3 financial instruments to a reasonably possible change in alternative assumptions in respect of the non-observable inputs into the fair value calculation.

	Level 3 value[1] $m	Positive impact $m	Negative impact $m	Valuation technique	Reasonably possible change in non-observable input[2,3,4]
31 Dec 2022					
Fixed income securities	1,926.6	15.8	(24.3)	Discounted cash flow	Primarily credit spreads
Equity and other alternatives	163.2	11.2	(12.2)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	295.2	4.5	(4.4)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	98.8	4.9	(4.9)	External financial report	5% change in valuation
Investment contract liabilities	(7,277.0)	2.9	(2.9)	Discounted cash flow	Primarily expense assumptions
Investment property	3,440.1	162.0	(131.9)	Market capitalisation, Discounted cash flow	Primarily capitalisation rate
Total Level 3	**(1,353.0)**				
30 Jun 2022					
Fixed income securities	1,910.8	12.5	(14.3)	Discounted cash flow	Primarily credit spreads
Equities and other alternatives	165.6	12.2	(13.5)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	300.7	4.3	(4.2)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	90.2	4.5	(4.5)	External financial report	5% change in valuation
Life investment contract liabilities	(6,707.8)	2.6	(2.6)	Discounted cash flow	Primarily expense assumptions
Investment property	3,483.3	164.8	(129.4)	Market capitalisation, Discounted cash flow	Primarily capitalisation rate
Total Level 3	**(757.2)**				
31 Dec 2021					
Fixed income securities	1,787.5	12.3	(33.0)	Discounted cash flow	Primarily credit spreads
Equity and other alternatives	151.6	11.5	(12.5)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	329.9	4.3	(4.2)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	93.3	4.7	(4.7)	External financial report	5% change in valuation
Investment contract liabilities	(6,522.7)	2.2	(2.2)	Discounted cash flow	Primarily expense assumptions
Investment property	3,496.2	170.5	(125.7)	Market capitalisation, Discounted cash flow	Primarily capitalisation rate
Total Level 3	**(664.2)**				

[1] The fair value of the asset or liability would increase/decrease if the credit spread or discount rate decreases/increases or if expense assumptions and the other inputs increase/decrease.
[2] Specific asset valuations will vary from asset to asset as each individual industry profile will determine appropriate valuation inputs to be utilised.
[3] The effect of a change to reflect a reasonably possible alternative assumption was calculated by moving the credit band by one tier, adjusting the discount rates by between 50bps and 100bps, adjusting property capitalisation rates by 25bps (Australia) or 10bps (Japan), adjusting credit spreads by 50bps, changing the valuation of the unlisted schemes by 5% and adjusting the expense assumption allocation splits by 10%.
[4] The sensitivity inputs to a reasonably possible change in a non-observable input are consistent with the year ended 30 June 2022.

Note 14 Fair values of investment assets and liabilities (continued)

Level 3 reconciliation

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within Level 3 of the fair value hierarchy during the period.

	31 Dec 2022		30 Jun 2022		31 Dec 2021	
	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Balance at the beginning of the period	5,950.6	6,707.8	5,852.9	6,183.2	5,852.9	6,183.2
Fair value gains/(losses)	26.8	98.5	(20.3)	(127.3)	67.5	(6.5)
Acquisitions	1,395.0	2,780.1	2,391.5	4,016.5	1,326.3	1,869.7
Maturities and disposals	(1,364.6)	(2,309.3)	(2,226.1)	(3,364.6)	(1,340.8)	(1,523.7)
Transfers to other categories[1,2]	(83.9)	—	(47.4)	—	(47.4)	—
Balance at the end of the period	**5,923.9**	**7,277.1**	**5,950.6**	**6,707.8**	**5,858.5**	**6,522.7**
Unrealised gains/(losses) included in the Statement of comprehensive income for assets and liabilities held at the Statement of financial position date	26.8	(98.5)	(20.3)	127.3	67.5	(6.5)

[1] The Group transfers between levels of the fair value hierarchy when there is a change in the observability of the pricing inputs or a change to valuation methodology and are deemed to have occurred at the end of the reporting period.
[2] Transfers to/from other categories are due to changes in the market observability of inputs used in the valuation of financial instruments. There were no transfers between Level 1 and Level 2 during the reporting period. There were no transfers into Level 3 (30 June 2022: nil) and there was $83.9 million (30 June 2022: $47.4 million) of transfers out of Level 3 and into Level 2 during the reporting period.

Note 15 Collateral arrangements

Accounting policy

CLC receives collateral, where it is considered necessary, when entering into certain financial arrangements. The amount of collateral required is subject to management's credit evaluation of the counterparty, which is performed on a case-by-case basis. As at 31 December 2022, $114.0 million (30 June 2022: $85.9 million) of cash received from third parties as collateral is recorded in payables and $94.2 million (30 June 2022: $115.4 million) of collateral assets received from counterparties was repledged by the Company to third parties.

Except in the event of default, collateral received can be called back by the counterparty in accordance with the financial arrangement. CLC is required to pledge collateral, as part of the standard terms of transactions, when entering into certain financial arrangements. Cash paid to third parties as collateral is recorded in receivables. Other investment assets transferred as collateral are not derecognised from the Statement of financial position as the risks and rewards of ownership remain with CLC. As at the reporting date, the fair value of cash and investment assets pledged are as follows.

Collateral pledged as security	31 Dec 2022 $m	30 Jun 2022 $m
Cash	461.2	483.8
Other investment assets[1]	6,642.7	6,309.2
Total collateral pledged	**7,103.9**	**6,793.0**

[1] Includes assets sold under repurchase agreements. Refer to Note 11 Interest bearing financial liabilities for more information.

Note 16 Discontinued operation and business held for sale

Sale of Challenger Bank

On 20 October 2022, Challenger Limited announced that it entered into a share sale agreement to sell Challenger Bank Limited to Heartland Group Holdings Limited.

The Bank has been classified as held for sale and a discontinued operation in line with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The Group is expected to receive approximately $36.0 million, subject to completion adjustments, for the sale of the Bank. This is based on expected net assets of approximately $25.0 million. The Group acquired Challenger Bank (previously MyLifeFinance Limited) for total consideration of $37.0 million in 2021.

Goodwill of $19.1 million was initially recognised upon acquisition of the Bank on 30 July 2021. This was fully impaired in the year ended 30 June 2022.

The completion of the sale to Heartland Group Holdings Limited is expected to occur by June 2023. Completion of the transaction is subject to various regulatory approvals in Australia and New Zealand.

Income Statement

For the period ended	31 Dec 2022 $m	31 Dec 2021 $m
Revenue	7.7	1.3
Expenses	(12.3)	(4.2)
Finance costs	(2.7)	(0.4)
Loss before income tax	**(7.3)**	**(3.3)**
Income tax benefit	1.8	1.8
Loss for the period after income tax on discontinued operations	**(5.5)**	**(4.1)**

Cash flow statement

For the period ended	31 Dec 2022 $m	31 Dec 2021 $m
Net cash from operating activities	(34.3)	6.4
Net cash from investing activities	5.4	(40.5)
Net cash from financing activities	24.0	65.6
Net cash (outflows)/inflows from discontinued operations	**(4.9)**	**31.5**

Note 16 Discontinued operation and business held for sale (continued)

Statement of financial position

The Statement of financial position of Challenger Bank is set out in the table below (none of the Bank's assets and liabilities were presented as held for sale in the prior period).

Assets held for sale	31 Dec 2022 $m
Cash and cash equivalents	35.9
Investment securities	235.8
Loan assets	81.4
Receivables	2.7
Deferred tax asset	1.4
Other assets	1.0
Total assets[1]	**358.2**
Liabilities held for sale	
Payables	8.6
Provisions	0.1
Deposits from customers	224.1
Interest bearing liabilities	64.3
Total liabilities	**297.0**
Net assets held for sale[2]	**61.2**

[1] The total assets of the Bank segment were $411.5 million as at 31 December 2022. $53.3 million of loan assets as at 31 December 2022 have not been classified as held for sale because they will be transferred within the Group prior to sale completion. This transfer will result in an increased cash balance in the Bank.

[2] In addition, prior to sale completion, Challenger Bank intends to dispose of certain assets and use the proceeds predominantly to repay certain liabilities and make a capital distribution to the Group. The net assets at the date of sale are expected to be approximately $25.0 million.

Accounting policy

A disposal group is classified as held for sale if the Group will recover its carrying amount principally through sale rather than through continuing use. The criteria for held for sale classification is considered to be met only when the sale is highly probable, and the disposal group is available for immediate sale in its present condition and the sale is expected to be completed within 12 months from the date of classification.

Assets and liabilities of disposal groups are separately presented on the balance sheet. Comparatives in the Statement of financial position are not restated.

Disposal groups held for sale are measured in accordance with AASB 5 ***Non-current Assets Held for Sale and Discontinued Operations***.

Discontinued operations represent components of the Group that have either been disposed of or are classified as held for sale and constitute a separate major line of business. The post-tax results of discontinued operations are presented as a single amount in the Statement of comprehensive income and are therefore excluded from the results of continuing operations. Comparatives in the Statement of comprehensive income are restated.

Key estimates and judgements

Management has exercised judgement in determining the classification of assets and liabilities of the Bank that are held for sale. Assets of the Bank that are intended for disposal to repay certain liabilities and make a capital distribution prior to sale completion are also considered to be held for sale on the basis that it is highly probable they will be sold, as management is committed to selling those assets and a suitable buyer is likely to be found. All assets are available for immediate sale in their present condition. Excess cash repatriation, following settlement of certain liabilities, is a usual and customary part of a sale of such assets, and therefore does not preclude the bank from being classified as held for sale.

Note 17 Contingent liabilities, contingent assets and credit commitments

Warranties

Over the course of its corporate activity, the Group has given, as a seller of companies, including the sale of Challenger Bank Limited to Heartland, and as a vendor of assets, including real estate properties, warranties to purchasers on several agreements that are still outstanding as at 31 December 2022. At the date of this report, no material claims against these warranties have been received by the Group.

Parent entity guarantees and undertakings

The Company has extended the following guarantees and undertakings to entities that form part of the Group:

1. a guarantee supporting the corporate banking facility and certain other financial commitments, such as hedging arrangements;
2. letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise the Company's intention to provide support to those subsidiaries so that they can continue to meet their obligations;
3. Australian Financial Services Licence deeds of undertaking as an eligible provider; and
4. guarantees to support contractual commitments on warranties to certain third parties.

Third party guarantees

Bank guarantees have been issued by third party financial institutions on behalf of the Group and its subsidiaries for items in the normal course of business, such as rental contracts. The amounts involved are not considered to be material to the Group.

Contingent future commitments

CLC has made capital commitments to external counterparties for future investment opportunities such as development or investment purchases. As at 31 December 2022, there are potential future commitments totalling $504.6 million (30 June 2022: $496.6 million) in relation to these opportunities.

The Group has made capital commitments to associates to subscribe for up to $11.2 million (30 June 2022: $12.3 million) of non-redeemable preference shares to enable them to meet their working capital requirements. Contractual obligations for future property repairs and maintenance are in place but cannot be quantified until required.

Subsidiary guarantees

CLC has provided a guarantee to a third party regarding the performance of its subsidiary in respect of certain reinsurance arrangements.

Contingent tax assets and liabilities

From time to time, the Group has interactions and matters under review, audit or dispute with the Australian Taxation Office in relation to the taxation treatments of various matters including reportable tax positions.

Any potential tax liability resulting from these interactions is only provided for when it is probable that an outflow will occur and a reliable estimate of the amount can be made. No specific contingent liability amounts have been disclosed in relation to these matters as it is considered that it would be prejudicial to their conduct and outcome.

Other information

In the normal course of business, the Group enters into various contracts that could give rise to contingent liabilities in relation to performance obligations under those contracts. At the date of this report, the possibility of any outflow in settlement is remote.

Note 18 Subsequent events

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

Directors' declaration

In accordance with a resolution of the Directors of Challenger Limited, we declare that, in the opinion of the Directors:

a) the financial statements and notes of Challenger Limited and its controlled entities (the Group) are in accordance with the ***Corporations Act 2001*** (Cth), including:
   (i) giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the period ended on that date; and
   (ii) complying with Australian Accounting Standards and the ***Corporations Regulations 2001*** (Cth);

b) the financial statements and notes of the Group also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, which is disclosed in Section 1(i) Basis of preparation and statement of compliance;

c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

d) this declaration has been made after receiving the declarations required to be made to the Directors from the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the ***Corporations Act 2001*** (Cth) for the financial period ended 31 December 2022.

On behalf of the Board

D West
Independent Chair

13 February 2023

N Hamilton
Managing Director and Chief Executive Officer

13 February 2023

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Independent auditor's review report to the Members of Challenger Limited

Conclusion

We have reviewed the accompanying half-year financial report of Challenger Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration. Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the ***Corporations Act 2001***, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Australian Accounting Standard AASB 134 ***Interim Financial Reporting*** and the ***Corporations Regulations 2001***.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 ***Review of a Financial Report Performed by the Independent Auditor of the Entity*** (ASRE 2410). Our responsibilities are further described in the ***Auditor's responsibilities for the review of the half-year financial report*** section of our report. We are independent of the Group in accordance with the auditor independence requirements of the ***Corporations Act 2001*** and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 ***Code of Ethics for Professional Accountants (including Independence Standards)*** (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the ***Corporations Act 2001*** and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the ***Corporations Act 2001*** including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 ***Interim Financial Reporting*** and the ***Corporations Regulations 2001***.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Ernst & Young.

Ernst & Young

Graeme McKenzie

Partner

Sydney

13 February 2023

Additional information

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Nick Hamilton (Managing Director and Chief Executive Officer)
John M Green
Steven Gregg
Masahiko Kobayashi
Heather Smith
JoAnne Stephenson
Melanie Willis

Company secretary

Linda Matthews

Website

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Auditor

Ernst & Young
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Go electronic

Challenger can deliver all of your shareholder communications electronically, by updating your details via Computershare Investor Services.

Online digital version of this report

The 2023 Interim Report is available at:

> **challenger.com.au/interimreport2023**

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