1H23
Analyst Pack

challenger

Contents

2023 Interim Financial Report

can be downloaded from
Challenger's online
Shareholder Centre

challenger.com.au/shareholder

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Challenger Limited ACN 106 842 371

Important note

Information presented in the 1H23 Analyst Pack is presented on an operational (rather than statutory) basis to reflect a management view of the business.

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

The 2023 Interim Financial Report is available from Challenger's shareholder centre at: **www.challenger.com.au/shareholder**

The 1H23 Analyst Pack is not audited. The statutory net profit after tax as disclosed in the consolidated profit and loss (page 10) has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*.

Normalised net profit after tax, as disclosed in the consolidated profit and loss (page 10), has been prepared in accordance with a normalised profit framework, which is disclosed as part of the Operating and Financial Review in the Directors' Report in the 2023 Interim Financial Report.

The 2023 Interim Financial Report and normalised profit framework have both been subject to a review performed by Ernst & Young.

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

Past performance is not an indicator of future performance.

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

1H23 financial highlights[1]

Group	Normalised net profit before tax $250m, up 5%
	Normalised net profit after tax $167m, up 1%
	Statutory net profit after tax $123m, down 56%
	Normalised EPS[2] 24.5 cents per share, unchanged
	Statutory EPS[2] 18.0 cents per share, down 57%
	Net income $411m, up 6%
	Expenses $158m, up 7%
	Normalised cost to income ratio 38.5%, up 40 bps
	Group assets under management $99.4b, down 14%
	Normalised Return On Equity (pre-tax) 12.3%, up 20 bps
	Statutory Return On Equity (post-tax) 6.0%, down 830 bps
	Interim dividend 12.0 cents per share (fully franked), up 4%
	Normalised dividend payout ratio 49.0%
Life	Normalised Cash Operating Earnings (COE) $317m, up 10%
	COE margin 2.76%, up 20 bps
	Expenses $54m, down 1%
	Normalised EBIT[3] $263m, up 13%
	Total Life sales $5.5b, up 11%
	Annuity sales $3.5b, up 41%
	Total Life book growth $1.0b, or 5.5% growth in opening liabilities
	Annuity net book growth $0.8b, or 5.9% growth in opening liabilities
	Average investment assets $22.8b, up 2%
	Investment assets $23.1b, up 1%
	Normalised Return On Equity (pre-tax) 14.8%, up 170 bps
	Prescribed Capital Amount (PCA) ratio 1.59 times, down from 1.60 times[4]
	Common Equity Tier 1 (CET1) ratio 1.12 times, up from 1.11 times[4]
	Capital intensity 11.4%, down from 11.5%[4]
Funds Management	Net income $88m, down 11%
	Expenses $57m, up 8%
	EBIT[3] $31m, down 32%
	Net outflows $1.8b, down from net inflows of $0.9b
	Average Funds Under Management (FUM) $93.1b, down 14%
	Closing FUM $93.4b, down 15%
Bank	Net interest income $5m, up 422%
	Net interest margin 2.37%, up 138 bps
	Expenses $9m, up 114%
	Normalised loss before interest and tax $4m, up 30%
	Deposit sales $130m, up 79%
	Average lending and financing assets $416m, up 91%
	Capital adequacy ratio 44.1%, down from 51.5%[4]
	CET1 capital ratio 4.20 times, down from 4.91[4]

1 All percentage movements compare 1H23 to the prior corresponding period (1H22) unless otherwise stated.
2 Earnings per share (EPS).
3 Earnings before interest and tax (EBIT).
4 Comparison period refers to 30 June 2022 (FY22).

Business and market overview

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

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

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

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

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

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

Life

Life focuses on the retirement spending phase of superannuation, 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[4] 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[5] 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[6]. 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[7] 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. Refer to page 32 for more detail on retirement income regulatory reforms.

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).

[1] Willis Towers Watson Global Pension Assets Study 2022.
[2] The Australian Prudential Regulation Authority (APRA), as at September 2022.
[3] Deloitte Dynamics of the Australian Superannuation System: The Next 20 Years to 2041.
[4] The word 'guaranteed' means payments are guaranteed by Challenger Life Company Limited (CLC) from assets of its relevant statutory fund.
[5] Plan For Life – September 2022 – based on annuities under administration.
[6] 2022–2042 comparison based on Australian Bureau of Statistics, Population Projections Series B, cat no. 3222.0.
[7] Based on Taxation Statistics 2019-20 from Australian Taxation Office.

Under the reinsurance arrangement, MS Primary reinsures at least ¥50 billion (equivalent to ~A$530 million)[8] of its Australian and US dollar annuities with Challenger Life each year[9]. 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.

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

Funds Management

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[10] with funds under management (FUM) of $93 billion, increasing by more than 2.5 times over the last 10 years (up from $35 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[11].

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.

Bank

In 2020, Challenger announced the acquisition of MyLifeMyFinance Limited, an Australian-based authorised deposit-taking institution (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.

Risks

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

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

[8] Based on exchange rate as at 30 June 2022.
[9] 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.
[10] Calculated from Rainmaker Roundup, September 2022 data.
[11] As at 31 December 2022. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

Purpose, corporate strategy and values

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.

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 $25 million.
[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.

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 first 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

	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Earnings							
Normalised NPBT ($m)	250.4	234.8	237.5	199.6	196.2	227.9	278.6
Normalised NPAT ($m)	167.2	155.9	165.6	141.7	136.8	152.3	191.4
Statutory NPAT ($m)	122.7	(28.4)	282.0	369.5	222.8	(636.4)	220.4
Underlying operating cash flow ($m)	37.3	23.6	(124.9)	37.3	119.5	54.7	140.0
EBIT margin (%)	61.5%	60.7%	61.9%	56.7%	61.0%	61.9%	66.5%
Normalised cost to income ratio (%)	38.5%	39.3%	38.1%	43.3%	39.0%	38.1%	33.5%
Normalised effective tax rate (%)	33.2%	33.6%	30.3%	29.0%	30.3%	33.2%	31.3%
Earnings per share (cents)							
Basic – normalised	24.5	23.1	24.5	21.1	20.4	25.0	31.5
Basic – statutory	18.0	(4.2)	41.8	54.9	33.2	(104.4)	36.3
Diluted – normalised	22.3	19.9	20.7	17.8	17.5	21.1	27.7
Diluted – statutory	17.2	(4.2)	33.9	43.4	27.3	(104.4)	31.5
Return On Equity (%)							
Normalised ROE – pre-tax	12.3%	11.7%	12.1%	11.1%	11.5%	14.0%	15.2%
Normalised ROE – post-tax	8.2%	7.6%	8.4%	7.8%	8.0%	9.4%	10.4%
Statutory ROE – post-tax	6.0%	(1.4%)	14.3%	20.5%	13.0%	(39.2%)	12.0%
Capital management							
Net assets – average[1] ($m)	4,025	4,048	3,904	3,641	3,396	3,257	3,634
Net assets – closing ($m)	4,048	3,988	4,059	3,826	3,513	3,250	3,716
Net assets per basic share ($)	5.94	5.86	6.00	5.69	5.23	4.90	6.12
Net tangible assets ($m)	3,433	3,372	3,420	3,202	2,877	2,619	3,079
Net tangible assets per basic share ($)	5.03	4.96	5.06	4.76	4.28	3.95	5.07
Dividend (cps)	12.0	11.5	11.5	10.5	9.5	—	17.5
Dividend franking (%)	100.0	100.0	100.0	100.0	100.0	—	100.0
Normalised dividend payout ratio (%)	49.0%	49.8%	46.9%	49.8%	46.6%	—	55.5%
Group Minimum Regulatory Requirement ratio (times)	1.67	1.68	1.75	1.63	1.63	1.81	1.54
CET1 Capital ratio (times)	1.12	1.11	1.20	1.14	1.09	1.20	1.07
Sales, net flows and assets under management							
Life annuity sales ($m)	3,543.9	2,606.4	2,516.3	2,375.0	2,191.0	1,170.5	1,956.9
Other Life sales ($m)	1,935.1	2,156.6	2,426.8	1,115.6	1,246.5	841.8	1,182.2
Total Life sales ($m)	5,479.0	4,763.0	4,943.1	3,490.6	3,437.5	2,012.3	3,139.1
Life annuity net flows ($m)	802.0	466.5	607.7	922.2	157.6	(344.7)	93.6
Life annuity book ($m)	14,278	13,595	14,093	13,670	12,770	12,581	12,845
Life annuity book growth (%)	5.9%	3.5%	4.4%	7.3%	1.3%	(2.7%)	0.7%
Total Life net flows ($m)	984.9	1,025.9	1,446.0	1,455.1	708.7	(607.8)	923.6
Total Life book[2] ($m)	18,899	17,982	18,474	17,302	15,801	14,997	15,551
Total Life book growth (%)	5.5%	5.9%	8.4%	9.7%	4.7%	(4.1%)	6.2%
Bank deposit sales ($m)[3]	129.6	146.7	72.6	—	—	—	—
Bank net deposit flows ($m)	(3.7)	75.2	18.4	—	—	—	—
Bank deposit book ($m)	224.1	227.7	152.6	—	—	—	—
Bank deposit book growth (%)	(1.6%)	56.0%	13.7%	—	—	—	—
Funds Management – net flows ($m)	(1,826.2)	(9,429.2)	904.4	9,688.1	6,423.4	661.3	1,879.6
Total Group AUM ($m)	99,393	98,570	114,907	109,960	96,087	85,237	86,339
Other							
Headcount – closing FTEs[4]	761	770	735	738	709	735	717
Weighted average number of basic shares on issue (m)	681.1	676.9	674.6	672.3	670.8	609.6	607.1
Number of basic shares on issue[5] (m)	682.0	680.0	676.0	672.6	672.2	663.1	607.6
Share price closing ($)	7.62	6.84	6.53	5.41	6.44	4.41	8.09

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

Consolidated profit and loss

$m	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Life Normalised Cash Operating Earnings	317.3	295.4	287.4	268.8	244.0	294.1	344.8
Funds Management net fee income	87.9	93.6	98.2	88.0	81.3	80.4	77.7
Bank net interest income	4.7	1.4	0.9	—	—	—	—
Other income	0.6	—	—	—	—	0.2	0.2
Total net income	**410.5**	**390.4**	**386.5**	**356.8**	**325.3**	**374.7**	**422.7**
Personnel expenses	(107.0)	(103.4)	(101.1)	(93.7)	(86.2)	(82.7)	(91.3)
Other expenses	(51.1)	(50.0)	(46.0)	(60.8)	(40.6)	(60.1)	(50.3)
Total expenses	**(158.1)**	**(153.4)**	**(147.1)**	**(154.5)**	**(126.8)**	**(142.8)**	**(141.6)**
Normalised EBIT	**252.4**	**237.0**	**239.4**	**202.3**	**198.5**	**231.9**	**281.1**
Interest and borrowing costs	(2.0)	(2.2)	(1.9)	(2.7)	(2.3)	(4.0)	(2.5)
Normalised profit before tax	**250.4**	**234.8**	**237.5**	**199.6**	**196.2**	**227.9**	**278.6**
Normalised tax	(83.2)	(78.9)	(71.9)	(57.9)	(59.4)	(75.6)	(87.2)
Normalised profit after tax	**167.2**	**155.9**	**165.6**	**141.7**	**136.8**	**152.3**	**191.4**
Life investment experience after tax	(42.4)	(190.3)	109.1	231.5	87.1	(788.7)	38.4
Bank impairments after tax[1]	(2.1)	(0.9)	—	—	—	—	—
Significant items after tax[2]	—	6.9	7.3	(3.7)	(1.1)	—	(9.4)
Statutory net profit after tax	**122.7**	**(28.4)**	**282.0**	**369.5**	**222.8**	**(636.4)**	**220.4**
Performance analysis							
Normalised EPS – basic (cents)	24.5	23.1	24.5	21.1	20.4	25.0	31.5
Shares for basic EPS calculation (m)	681.1	676.9	674.6	672.3	670.8	609.6	607.1
Normalised cost to income ratio (%)	38.5%	39.3%	38.1%	43.3%	39.0%	38.1%	33.5%
Normalised tax rate (%)	33.2%	33.6%	30.3%	29.0%	30.3%	33.2%	31.3%
Total net income analysis (%)							
Cash earnings (Life)	72.5%	69.0%	68.5%	70.3%	70.0%	65.2%	64.9%
Normalised capital growth (Life)	4.8%	6.7%	5.9%	5.0%	5.0%	13.2%	16.7%
Net fee income (Funds Management)	21.4%	24.0%	25.4%	24.7%	25.0%	21.5%	18.4%
Net interest income (Bank)	1.1%	0.3%	0.2%	—	—	—	—
Other income (Corporate)	0.2%	—	—	—	—	0.1%	—
Normalised EBIT by division ($m)							
Life	263.3	239.3	233.0	206.1	192.8	238.9	285.8
Funds Management	30.7	37.7	45.1	35.7	35.3	29.8	27.9
Bank	(4.3)	(7.8)	(3.3)	—	—	—	—
Corporate	(37.3)	(32.2)	(35.4)	(39.5)	(29.6)	(36.8)	(32.6)
Normalised EBIT	**252.4**	**237.0**	**239.4**	**202.3**	**198.5**	**231.9**	**281.1**

1 Represents provision for fair value adjustments on Bank lending and financing assets, a portion of which have been held for sale.
2 1H22 and 2H22 significant items (after-tax) relate to gains on the sale of Whitehelm Capital and Accurium, partly offset by an impairment of goodwill on the acquisition of the Bank, restructuring costs, Bank integration costs, and other costs.

Consolidated profit and loss (continued)

Normalised profit after tax

1H23 normalised profit after tax was $167m and increased by $2m (1%) on 1H22. The increase reflects higher normalised profit before tax (up $13m), partially offset by higher normalised tax (up $11m).

Normalised earnings per share (EPS)

Normalised EPS was 24.5 cps, unchanged on 1H22, with higher normalised profit after tax (up 1%) offset by a higher average number of basic shares on issue (up 1%).

The weighted average number of basic shares on issue in 1H23 was 681m shares, up 7m shares on 1H22 as a result of new shares issued as part of Challenger's dividend reinvestment plan in March and September 2022 and the mandatory conversion of a small remaining parcel of Challenger Capital Notes 1 (ASX: CGFPA). Refer to page 44 for additional detail on the mandatory conversion of Challenger Capital Notes 1 into Challenger ordinary shares.

Net income

1H23 net income was $411m and increased by $24m (up 6%) on 1H22, with:

- Life Normalised Cash Operating Earnings (COE) of $317m was up $30m (10%), driven by higher cash earnings, which benefitted from growth in average investment assets (up 2%) and a higher COE margin (up 20 bps);
- Funds Management fee income of $88m was down $10m (11%), from lower FUM-based revenue (down $9m) and transaction fees (down $2m); and
- Bank net interest income of $5m was up $4m, as a result of higher net interest margin and deposit book growth.

Expenses

1H23 total expenses were $158m and increased by $11m (7%). The expense increase was due to higher costs in the Bank (up $5m), Funds Management (up $4m) and the Corporate division (up $2m), partially offset by Life (down $0.4m).

Personnel expenses increased by $6m (6%) as a result of an increase in full-time equivalent employees (up 4%), higher salaries and higher variable reward costs.

Other expenses increased by $5m (11%) due to project-related costs associated with strategic initiatives, increased technology costs and increased travel costs following easing of COVID-19 restrictions.

The 1H23 normalised cost to income ratio was 38.5% and increased by 0.4 percentage points on 1H22. The increase in the ratio was driven by higher expenses (up 7%), partially offset by higher net income (up 6%).

Normalised EBIT

1H23 normalised EBIT was $252m, up $13m (5%). Higher Life EBIT (up $30m) was offset by lower Funds Management EBIT (down $14m), higher Corporate EBIT loss (up $2m) and higher Bank EBIT loss (up $1m).

Life EBIT increased by $30m (up 13%) to $263m and reflected higher normalised COE (up $30m).

Funds Management EBIT decreased by $14m (down 32%) to $31m, from lower FUM-based revenue (down $9m) due to lower average FUM (down 14%), lower transaction fees (down $2m) and higher expenses (up $4m).

Normalised Return On Equity (ROE)

1H23 normalised ROE (pre-tax) was 12.3% and increased by 20 bps on 1H22. 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%.

Challenger's Normalised ROE (pre-tax) target remains at the RBA cash rate plus a margin of 12%. Refer to page 13 for more detail. There is a lag between the timing of changes in the RBA cash rate and the resultant change in earnings as it takes time to season into both profit and ROE.

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%.

Normalised tax

Normalised tax was $83m and increased by $11m (16%) on 1H22. Higher normalised tax reflects a higher effective tax rate, which was 33.2%, up from 30.3% in 1H22.

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 ($6m) and the inability to utilise foreign tax offsets, relating to FY22 ($5m). Excluding the $5m tax expense relating to foreign tax offsets written off, the effective tax rate would have been 31.2%.

Investment experience after tax

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

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

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

Investment experience also includes new business strain, being the requirement to apply the risk-free discount rate plus an illiquidity premium to value annuity liabilities, rather than the actual interest rate paid on annuity liabilities (refer to page 63).

1H23 investment experience was a loss of $42m (after-tax) primarily driven by new business strain reflecting strong sales in the half.

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

Bank impairments

In 1H23, the Bank recognised a -$3.0m fair value adjustment on its lending and financing assets, a proportion of which have been classified as held for sale, as a result of the sale to Heartland. The Bank division has been classified as a discontinued operation (refer to page 56 for more detail).

Statutory net profit after tax

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

1H23 statutory profit after tax was $123m, and decreased by $159m (or 56%) on 1H22, and includes:

- Normalised net profit after tax of +$167m;
- Life investment experience of -$42m (refer to page 27 for more detail); and
- Bank fair value adjustment to assets classified as held for sale of $(2)m.

There were no one-off significant items in 1H23.

Dividends

Dividend policy

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

1H23 dividend

The Challenger Board has determined to pay a fully franked interim dividend (which relates to the 1H23 period) of 12.0 cps, compared to 11.5 cps (fully franked) in 1H22.

Dates for the final 1H23 dividend are as follows:

- ex-date: 21 February 2023;
- record date: 22 February 2023;
- Dividend Reinvestment Plan (DRP) election date: 23 February 2023; and
- payment date: 21 March 2023.

The 1H23 dividend payout ratio was 49.0%, which is within Challenger's normalised dividend payout ratio target of between 45% and 50% of normalised profit after tax.

Challenger's franking account balance at 31 December 2022 was $368m. This amount is calculated from the balance of the franking account as at the end of the period, adjusted for franking debits that will arise from the settlement of accrued interest on Challenger Capital Notes.

The final dividend of 12.0 cps will result in a total dividend of $82m, which will reduce the franking account by $35m.

Dividend Reinvestment Plan (DRP)

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

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

For the final FY22 dividend paid in September 2022, the DRP participation rate was 13% of issued capital.

Credit ratings

In December 2022, Standard & Poor's Global Ratings (S&P) completed its annual ratings review and affirmed the credit rating and outlook for CLC.

Challenger’s S&P ratings are as follows:

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

FY23 outlook

Normalised net profit before tax guidance

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

- 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.

Normalised Return On Equity (ROE) target

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

In 1H23, the average RBA cash rate was ~230 bps, resulting in a ROE target of 14.3%. Challenger's Normalised ROE in 1H23 was 12.3% and below the target. There is a lag between the timing of changes in the RBA cash rate and the resultant change in earnings as it takes time to season into both profit and ROE. Excluding the Bank, Normalised ROE would have been 12.9%.

CLC excess capital position

CLC does not target a specific PCA ratio. CLC's target PCA ratio range is a reflection of internal capital models, not an input to them, and reflects asset allocation, business mix and economic circumstances. The target surplus produced by these internal capital models for 1H23 corresponded to a PCA ratio of between 1.3 times to 1.7 times. This range may change over time. Refer to page 46 for more detail.

Dividend

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

Group balance sheet[1]

$m	1H23	FY22	1H22	FY21	1H21	FY20	1H20
Assets							
Life investment assets							
Fixed income and cash[2]	17,621.0	16,659.4	17,031.1	16,418.2	14,821.1	13,970.6	12,956.7
Property[2]	3,178.3	3,227.0	3,583.3	3,467.5	3,316.2	3,292.1	3,337.8
Equity and infrastructure[2,3]	259.0	971.1	1,096.1	623.2	604.2	393.4	2,035.9
Alternatives[3]	2,026.6	1,366.3	1,226.4	1,054.3	892.5	647.2	1,338.8
Life investment assets	**23,084.9**	**22,223.8**	**22,936.9**	**21,563.2**	**19,634.0**	**18,303.3**	**19,669.3**
Bank lending and financing assets							
Fixed income, cash and cash equivalents	271.9	285.2	132.8	—	—	—	—
Retail lending and non-retail lending	134.7	105.3	97.3	—	—	—	—
Bank lending and financing assets	**406.6**	**390.5**	**230.1**	**—**	**—**	**—**	**—**
Cash and cash equivalents (Group cash)	145.8	183.1	94.5	223.0	136.6	146.1	141.2
Receivables	164.4	355.1	153.7	115.9	127.7	163.0	121.2
Derivative assets	690.7	599.5	822.0	641.9	450.1	522.9	403.3
Investment in associates	74.3	74.9	79.7	83.2	63.3	63.0	56.1
Other assets	45.8	53.8	58.1	63.1	61.4	65.8	60.3
Fixed assets	24.0	24.8	26.4	28.2	25.1	25.9	27.3
Right-of-use lease assets	27.3	29.0	31.5	34.7	37.9	32.4	34.4
Tax assets	158.9	65.3	—	—	—	43.1	—
Goodwill and intangibles	586.8	587.2	607.4	589.1	597.5	598.0	602.0
Less Group/Life eliminations[4]	(13.9)	(21.5)	(25.1)	(31.3)	(36.3)	(41.0)	(44.8)
Total assets	**25,395.6**	**24,565.5**	**25,015.2**	**23,311.0**	**21,097.3**	**19,922.5**	**21,070.3**
Liabilities							
Payables	156.9	184.3	173.2	196.9	162.4	191.4	189.6
Tax liabilities	—	—	107.0	104.8	39.7	—	204.8
Derivative liabilities	730.8	839.6	676.8	507.6	143.7	136.2	118.8
Subordinated debt	399.3	398.4	401.6	404.5	401.7	395.7	404.9
Challenger Capital Notes	840.2	838.6	864.8	863.3	881.6	799.5	798.3
Group debt	—	—	—	—	50.0	50.0	—
Lease liabilities	59.2	62.5	66.3	70.3	72.4	67.6	70.2
Provisions	39.0	44.3	39.3	35.7	31.8	35.5	17.0
Life annuity liabilities	14,278.4	13,595.4	14,092.5	13,669.9	12,769.7	12,581.2	12,845.3
Challenger Index Plus Fund liabilities	4,620.2	4,386.4	4,381.8	3,632.2	3,031.5	2,415.8	2,705.6
Bank deposit liabilities	224.1	227.7	152.6	—	—	—	—
Total liabilities	**21,348.1**	**20,577.2**	**20,955.9**	**19,485.2**	**17,584.5**	**16,672.9**	**17,354.5**
Group net assets	**4,047.5**	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**
Equity							
Contributed equity	2,496.9	2,481.5	2,451.8	2,425.5	2,422.6	2,377.6	2,110.8
Reserves	(49.8)	(49.3)	(55.0)	(50.9)	(55.5)	(50.9)	(61.0)
Retained earnings	1,600.4	1,556.1	1,662.5	1,451.2	1,145.7	922.9	1,666.0
Total equity	**4,047.5**	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**

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

Change in Group net assets

$m	1H23	FY22	1H22	FY21	1H21	FY20	1H20
Opening net assets	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**	**3,600.3**
Statutory net profit after tax	122.7	(28.4)	282.0	369.5	222.8	(636.4)	220.4
Dividends paid	(78.4)	(78.1)	(70.7)	(64.0)	—	(106.7)	(109.7)
New share issue	10.6	1.7	13.4	2.9	34.8	266.8	2.6
Reserve movements	(0.5)	5.8	(4.1)	4.6	(4.6)	10.1	(8.6)
CPP[1] Trust movements	4.8	—	12.9	—	10.2	—	14.5
Issued under Capital Notes 1 conversion	—	28.0	—	—	—	—	—
Transition of new leasing standard	—	—	—	—	—	—	(3.7)
Closing net assets	**4,047.5**	**3,988.3**	**4,059.3**	**3,825.8**	**3,512.8**	**3,249.6**	**3,715.8**

[1] Challenger Performance Plan (CPP) Trust.

Issued share capital, dilutive share count and earnings per share

	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Earnings per share (cents)							
Basic – normalised	24.5	23.1	24.5	21.1	20.4	25.0	31.5
Basic – statutory	18.0	(4.2)	41.8	54.9	33.2	(104.4)	36.3
Diluted – normalised	22.3	19.9	20.7	17.8	17.5	21.1	27.7
Diluted – statutory	17.2	(4.2)	33.9	43.4	27.3	(104.4)	31.5
Number of shares (m)							
Basic share count	682.0	680.0	676.0	672.6	672.2	663.1	607.6
CPP[1] Trust treasury shares	1.9	2.2	2.1	3.4	3.4	4.4	4.4
Total issued shares	683.9	682.2	678.1	676.0	675.6	667.5	612.0
Movement in basic share count							
Opening	680.0	676.0	672.6	672.2	663.1	607.6	605.8
Net Treasury shares (acquired)/released	0.3	(0.1)	1.3	—	1.0	—	1.4
New share issues	1.7	4.1	2.1	0.4	8.1	55.5	0.4
Closing	682.0	680.0	676.0	672.6	672.2	663.1	607.6
Movement in CPP Trust Treasury shares							
Opening	2.2	2.1	3.4	3.4	4.4	4.4	5.8
Shares vested to participants	(0.3)	0.1	(1.3)	—	(1.0)	—	(1.4)
Closing	1.9	2.2	2.1	3.4	3.4	4.4	4.4
Weighted average number of shares (m)							
Basic EPS shares							
Total issued shares	683.2	679.1	677.2	675.9	674.6	614.0	611.8
Less CPP[1] Trust Treasury shares	(2.1)	(2.2)	(2.6)	(3.6)	(3.8)	(4.4)	(4.7)
Shares for basic EPS calculation	681.1	676.9	674.6	672.3	670.8	609.6	607.1
Diluted shares for normalised EPS							
Shares for basic EPS calculation	681.1	676.9	674.6	672.3	670.8	609.6	607.1
Add dilutive impact of unvested equity awards	12.6	9.8	13.3	2.4	5.9	4.2	4.3
Add dilutive impact of Capital Notes	115.0	126.3	133.4	155.0	136.3	145.5	99.5
Add dilutive impact of subordinated notes	75.1	58.3	59.1	59.1	59.1	59.1	49.5
Add dilutive impact of restricted shares	1.5	0.7	—	—	—	—	—
Shares for diluted normalised EPS calculation	885.3	872.0	880.4	888.8	872.1	818.4	760.4
Diluted shares for statutory EPS							
Shares for basic EPS calculation	681.1	676.9	674.6	672.3	670.8	609.6	607.1
Add dilutive impact of unvested equity awards	12.6	—	13.3	2.4	5.9	—	4.3
Add dilutive impact of Capital Notes	115.0	—	133.4	155.0	136.3	—	99.5
Add dilutive impact of subordinated notes	43.5	—	59.1	59.1	59.1	—	49.5
Add dilutive impact of restricted shares	1.5	—	—	—	—	—	—
Shares for diluted statutory EPS calculation	853.7	676.9	880.4	888.8	872.1	609.6	760.4
Summary of share rights (m)							
Hurdled Performance Share Rights							
Opening	15.8	16.4	14.7	16.1	9.8	10.2	7.2
New grants	3.0	0.1	3.6	0.1	7.4	—	3.9
Vesting/forfeiture	(1.9)	(0.7)	(1.9)	(1.5)	(1.1)	(0.4)	(0.9)
Closing	16.9	15.8	16.4	14.7	16.1	9.8	10.2
Deferred Performance Share Rights							
Opening	1.6	1.7	2.9	2.9	2.1	2.1	2.5
New grants	—	—	—	—	1.8	—	1.1
Vesting/forfeiture	(0.7)	(0.1)	(1.2)	—	(1.0)	—	(1.5)
Closing	0.9	1.6	1.7	2.9	2.9	2.1	2.1
Restricted Share Rights							
Opening	0.8	—	—	—	—	—	—
New grants	1.3	0.8	—	—	—	—	—
Vesting/forfeiture	(0.2)	—	—	—	—	—	—
Closing	1.9	0.8	—	—	—	—	—

[1] Challenger Performance Plan (CPP) Trust.

Issued share capital

Issued share capital and diluted share count

The number of Challenger Limited shares listed on the ASX at 31 December 2022 was 684m shares. The number of shares on issue increased by 6m shares in 1H23, with new shares issued under Challenger's dividend reinvestment plans in March and September 2022, and the mandatory conversion of Challenger Capital Notes 1 (ASX: CGFPA) in May 2022. Refer to page 44 for additional detail on the mandatory conversion of Challenger Capital Notes.

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

- the basic share count is reduced for Treasury shares;
- the dilutive share count includes unvested equity awards made to employees under the Challenger Performance Plan (CPP); and
- the dilutive share count considers convertible instruments (e.g. Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt) as determined by a probability of vesting test (refer to page 18 for more detail on the accounting treatment).

Treasury shares

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

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

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

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

Weighted average share count

The basic weighted average number of shares used to determine both the normalised and statutory basic EPS increased by 7m shares (up 1%) in 1H23 to 681m shares.

The increase reflects the weighted impact of new shares issued under Challenger's dividend reinvestment plans in March and September 2022, and the mandatory conversion of $28m worth of Challenger Capital Notes 1 in May 2022.

The weighted average number of shares used to determine normalised diluted EPS increased by 5m shares (up 1%) in 1H23 to 885m shares. The increase primarily reflects:

- higher basic weighted average number of shares on issue (7m shares – refer above); and
- the issue of $400 million of subordinated notes in September 2022 that was used to repay $400 million of subordinated notes that had a call date in November 2017 (refer to page 44);

partially offset by:

- lower dilutive impact on Challenger Capital Notes as a result of the increase in the Challenger share price, which is used to calculate potential dilution (refer to page 18); and
- lower unvested equity awards to employees under the CPP.

The weighted average number of shares used to determine statutory diluted EPS decreased by 27m shares (down 3%) in 1H23 to 854m shares. The decrease was due to:

- lower dilutive impact on Challenger Capital Notes as a result of the increase in the Challenger share price, which is used to calculate potential dilution (refer to page 18);
- lower dilutive impact on Challenger subordinated notes (decreased diluted share count by 16m shares) with the subordinated notes issued in September 2022 considered non-dilutive as the interest cost per ordinary share for each instrument is less than Challenger's statutory basic EPS of 18.0cps in 1H23; and
- lower unvested equity awards to employees under the CPP;

partially offset by:

- higher basic weighted average number of shares on issue (7m shares – refer above).

Refer to page 18 for more detail on the accounting treatment of Capital Notes and subordinated debt.

Dilutive share count and earnings per share

Dilutive share count

Dilutive impact of unvested equity awards

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

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

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

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

Accounting treatment of Capital Notes and subordinated debt

Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt are effective sources of funding for Challenger. Refer to pages 44 and 45 for more detail.

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

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

Dilutive impact of Capital Notes and subordinated debt

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

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

The conversion factor for all of Challenger's convertible debt is 99%. The simple average of Challenger's 20-day volume weighted average share price (VWAP) in each reporting period, subject to a minimum VWAP floor, is used to determine the dilutive impact. The simple average of Challenger's 20-day VWAP leading up to 31 December 2022 was $7.42, up from $6.61 leading up to 31 December 2021.

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

Issue	Issue date	Face value	VWAP floor price
Challenger Capital Notes 2	7 Apr 2017	$460m	$6.1500
Challenger Capital Notes 3	25 Nov 2020	$385m	$2.5700
Subordinated debt	16 Sep 2022	$400m	$3.2250
Total		**$1,245m**	

Earnings per share

Normalised diluted EPS

The normalised basic EPS for 1H23 of 24.5 cps is greater than the interest cost per potential ordinary share for each of the Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt. As a result, all debt instruments were considered to be dilutive in 1H23.

The weighted average number of shares used to determine the normalised diluted EPS increased by 5m shares in 1H23.

The increase is due to:

- an increase in weighted average number of basic shares on issue, which reflects the impact of new shares issued under Challenger's dividend reinvestment plans in March and September 2022 and the mandatory conversion of Challenger Capital Notes 1 in May 2022 (collectively increasing the basic share count by 7m shares);
- an issue of $400 million of subordinated notes in September 2022 that were used to repay $400 million of subordinated notes issued in November 2017, increasing the diluted share count by 16m shares (refer to page 44 for more detail); partially offset by:
- a reduction in the dilutive impact of the Challenger Capital Notes 2 and 3 as a result of an increase in Challenger's weighted average share price over the last 20 days of 1H23, reducing the diluted share count by 18m shares. The higher Challenger share price results in a lower number of potential shares being issued should the debt convert to shareholder equity; and
- a decrease in unvested equity awards (decreased diluted share count by 1m shares) due to conditions not being satisfied.

To determine the normalised diluted EPS, the normalised profit after tax is increased by $30 million in relation to Challenger Capital Notes 2, Challenger Capital Notes 3 and subordinated debt interest costs.

Group regulatory capital

31 December 2022, $m	CLC	Challenger Bank Limited	Other (including Funds Management)[1]	Group
Regulatory capital base				
Shareholder equity	3,317.4	114.5	615.6	4,047.5
Goodwill and other intangibles	(70.4)	—	(516.4)	(586.8)
Other adjustments[2]	(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[3,4]	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[5]	407.8	—	—	407.8
Other non-regulatory capital[1]	—	—	192.8	192.8
Total capital base	**4,200.7**	**113.1**	**192.8**	**4,506.6**
CET1 capital ratio (times)[6]	1.12	4.20	—	—
Tier 1 capital ratio (times)[7]	1.44	4.20	—	—
Minimum Regulatory Requirement ratio (times)[8]	1.59	4.20	4.84	1.67

30 June 2022, $m	CLC	Challenger Bank Limited	Other (including Funds Management)[1]	Group
Regulatory capital base				
Shareholder equity	3,270.7	119.3	598.3	3,988.3
Goodwill and other intangibles	(70.4)	—	(516.8)	(587.2)
Other adjustments[2]	(342.3)	—	96.0	(246.3)
Eligible regulatory debt	1,244.7	—	—	1,244.7
Total capital base	**4,102.7**	**119.3**	**177.5**	**4,399.5**
Minimum Regulatory Requirement[3,4]	2,563.3	24.3	38.1	2,625.7
Excess over Minimum Regulatory Requirement	**1,539.4**	**95.0**	**139.4**	**1,773.8**
Common Equity Tier 1 (CET1) regulatory capital	2,858.0	119.3	—	2,977.3
Additional Tier 1 capital	845.0	—	—	845.0
Total Tier 1 regulatory capital	3,703.0	119.3	—	3,822.3
Tier 2 capital[5]	399.7	—	—	399.7
Other non-regulatory capital[1]	—	—	177.5	177.5
Total capital base	**4,102.7**	**119.3**	**177.5**	**4,399.5**
CET1 capital ratio (times)[6]	1.11	4.91	—	—
Tier 1 capital ratio (times)[7]	1.44	4.91	—	—
Minimum Regulatory Requirement ratio (times)[8]	1.60	4.91	4.66	1.68

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.
2 Other adjustments predominantly related to deferred tax asset and intercompany items.
3 Minimum Regulatory Requirement is equivalent to PCA for CLC.
4 Minimum Regulatory Requirement for Challenger Bank Limited represents total capital requirements of 8% (of risk weighted assets) plus the capital conservation buffer of 2.5% (of risk weighted assets), as stipulated under APS 110 ***Capital Adequacy***.
5 CLC represents subordinated debt.
6 CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
7 Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
8 Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

Capital management

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

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

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

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

Following completion of the Bank acquisition in 1H22, Challenger commenced reporting a consolidated (or Level 3) equivalent capital position for the entire business.

Regulatory capital base

Challenger Group's total regulatory capital base at 31 December 2022 was $4.5b, and is based on the Group's shareholder equity adjusted for items such as goodwill, intangibles and investments in associates and other items.

Minimum Regulatory Requirement

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

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

Challenger Group's Minimum Regulatory Requirement at 31 December 2022 was $2.7b, and includes:

- CLC of $2.6b – refer to page 46 for more detail;
- Bank of $27m – refer to page 59 for more detail; and
- Other, which includes the Funds Management business, of $40m.

Group excess capital position

Challenger Group's excess regulatory capital above the Minimum Regulatory Requirement at 31 December 2022 was $1.8b.

The Group's Minimum Regulatory Requirement ratio was 1.67 times, which is equivalent to Challenger holding 67% more regulatory capital than minimum requirements.

Consolidated operating cash flow

$m	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Receipts from customers	350.4	366.0	342.0	351.4	323.8	348.8	334.5
Dividends received	41.8	33.6	39.7	31.4	33.6	20.3	45.7
Interest received	405.9	297.7	307.3	294.4	310.3	327.0	384.9
Interest paid	(257.0)	(196.7)	(393.6)	(257.7)	(234.3)	(415.6)	(270.6)
Payments to suppliers and employees	(355.5)	(311.0)	(321.4)	(300.3)	(304.9)	(258.9)	(305.6)
Income tax (paid) / refunded	(148.3)	(166.0)	(98.9)	(81.9)	(9.0)	33.1	(48.9)
Underlying operating cash flow	**37.3**	**23.6**	**(124.9)**	**37.3**	**119.5**	**54.7**	**140.0**
Net annuity policy capital receipts/(payments)	802.0	466.5	607.7	922.2	157.6	(344.7)	93.6
Net other Life capital receipts/(payments)	182.9	559.4	838.3	532.9	551.1	(263.1)	830.0
Net Bank deposit receipts/(payments)	(3.7)	75.1	18.4	—	—	—	—
(Purchase)/Proceeds of investments	(917.6)	(1,389.0)	(689.1)	(238.2)	(358.6)	(568.5)	(899.2)
Capital expenditures	(3.1)	(1.1)	(1.8)	(9.5)	(3.4)	(3.3)	(6.0)
Net equity placement proceeds	10.6	29.8	13.4	(0.2)	34.8	264.1	—
Net (repayments)/proceeds from borrowings	(25.7)	134.3	(658.3)	(967.8)	(387.9)	825.7	(5.7)
Receipts/(Payments) for Treasury shares	(7.8)	(0.1)	(1.6)	(1.7)	2.4	(4.5)	(3.8)
Net dividends paid	(78.4)	(78.1)	(70.7)	(61.1)	—	(103.9)	(107.1)
Net non-operating cash flows SPV's	—	(1.2)	(6.9)	1.6	(3.5)	(19.8)	(8.5)
Other cash flow	**(40.8)**	**(204.4)**	**49.4**	**178.2**	**(7.5)**	**(218.0)**	**(106.7)**
Net increase/(decrease) in cash and cash equivalents	**(3.5)**	**(180.8)**	**(75.5)**	**215.5**	**112.0**	**(163.3)**	**33.3**

Underlying operating cash flow

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

1H23 underlying operating cash flow was $37m, up $162m on 1H22.

1H23 underlying operating cash flow was $130m lower than normalised net profit after tax ($167m) mainly due to:

- tax timing variances (-$65m);
- accrued interest not yet received (-$51m); and
- non-cash normalised capital growth (-$20m).

Net annuity policy capital receipts

1H23 net annuity policy capital receipts were +$802m and comprised:

- annuity sales of $3,544m; less
- annuity capital payments of $2,742m.

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

1H23 annuity net flows (+$802m) represents annuity book growth of +5.9% for the half and is calculated as 1H23 annuity total net flows divided by the opening period (FY22) annuity liability of $13,595m.

1H23 annuity net flows benefitted from an increase in sales (up 41% on 1H22), partially offset by a higher maturity rate. The maturity rate in 1H23 was 18% (up from 13% in 1H22).

Net other Life capital receipts

Other Life sales represent Institutional Guaranteed Index Plus.

1H23 net other Life capital receipts were +$183m and comprised:

- other Life sales of $1,935m; less
- other Life capital payments of $1,752m.

A significant proportion of the maturities were reinvested and included in other Life sales. For Guaranteed Index Plus maturities of $1,752m, 84% were reinvested in a new Guaranteed Index Plus policy and form part of other Life sales.

1H23 total Life book growth was +5.5% for the half year (1H22 +8.4%) and can be calculated as total 1H23 net flows (+$985m) divided by the sum of the opening period (FY22) liabilities of $17,982m (Life annuity liabilities and Challenger Index Plus Fund liabilities – refer to page 30 for more detail).

Life financial results

$m	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Investment yield - policyholders' funds	521.1	417.4	388.6	377.1	375.3	398.4	442.1
Interest expense	(317.8)	(221.9)	(190.5)	(192.1)	(204.2)	(227.8)	(245.8)
Distribution expense	(4.9)	(3.4)	(8.9)	(4.6)	(4.8)	(4.8)	(5.7)
Other income[1]	23.9	21.8	23.8	20.6	19.4	31.2	16.0
Product cash margin	**222.3**	**213.9**	**213.0**	**201.0**	**185.7**	**197.0**	**206.6**
Investment yield – shareholders' funds	75.3	55.5	51.6	50.0	42.0	47.5	67.6
Cash earnings	**297.6**	**269.4**	**264.6**	**251.0**	**227.7**	**244.5**	**274.2**
Normalised capital growth	19.7	26.0	22.8	17.8	16.3	49.6	70.6
Normalised Cash Operating Earnings	**317.3**	**295.4**	**287.4**	**268.8**	**244.0**	**294.1**	**344.8**
Personnel expenses	(37.0)	(38.0)	(35.5)	(38.3)	(34.4)	(32.0)	(36.6)
Other expenses	(17.0)	(18.1)	(18.9)	(24.4)	(16.8)	(23.2)	(22.4)
Total expenses	**(54.0)**	**(56.1)**	**(54.4)**	**(62.7)**	**(51.2)**	**(55.2)**	**(59.0)**
Normalised EBIT	**263.3**	**239.3**	**233.0**	**206.1**	**192.8**	**238.9**	**285.8**
Asset and liability experience[2]	(15.6)	(264.8)	191.9	345.4	120.6	(1,157.3)	54.9
New business strain[2]	(45.0)	(6.4)	(36.0)	(14.8)	3.9	30.9	1.0
Total investment experience	**(60.6)**	**(271.2)**	**155.9**	**330.6**	**124.5**	**(1,126.4)**	**55.9**
Net profit after investment experience before tax	**202.7**	**(31.9)**	**388.9**	**536.7**	**317.3**	**(887.5)**	**341.7**
Reconciliation of investment experience to capital growth							
Asset and liability experience	(15.6)	(264.8)	191.9	345.4	120.6	(1,157.3)	54.9
Normalised capital growth	19.7	26.0	22.8	17.8	16.3	49.6	70.6
Asset and liability capital growth	**4.1**	**(238.8)**	**214.7**	**363.2**	**136.9**	**(1,107.7)**	**125.5**
Performance analysis							
Cost to income ratio[3] (%)	17.0%	19.0%	18.9%	23.3%	21.0%	18.8%	17.1%
Net assets – average[4] ($m)	3,522	3,680	3,517	3,365	3,065	2,982	3,388
Normalised ROE (pre-tax) (%)	14.8%	13.1%	13.1%	12.4%	12.5%	16.1%	16.8%
Margins[5]							
Investment yield – policyholders' funds	4.54%	3.72%	3.46%	3.72%	3.92%	4.20%	4.52%
Interest expense	(2.77%)	(1.98%)	(1.70%)	(1.89%)	(2.13%)	(2.40%)	(2.51%)
Distribution expense	(0.04%)	(0.03%)	(0.08%)	(0.05%)	(0.05%)	(0.05%)	(0.06%)
Other income	0.20%	0.20%	0.22%	0.20%	0.20%	0.33%	0.16%
Product cash margin	**1.93%**	**1.91%**	**1.90%**	**1.98%**	**1.94%**	**2.08%**	**2.11%**
Investment yield – shareholders' funds	0.66%	0.49%	0.46%	0.49%	0.44%	0.50%	0.70%
Cash earnings	**2.59%**	**2.40%**	**2.36%**	**2.47%**	**2.38%**	**2.58%**	**2.81%**
Normalised capital growth	0.17%	0.23%	0.20%	0.18%	0.17%	0.52%	0.72%
Normalised Cash Operating Earnings (COE)	**2.76%**	**2.63%**	**2.56%**	**2.65%**	**2.55%**	**3.10%**	**3.53%**

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

Life financial results

$m	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Sales							
Retail fixed term sales	1,766.5	995.1	909.8	778.9	910.2	594.0	775.3
Institutional fixed term sales	990.1	1,151.6	963.0	1,120.1	390.8	100.0	500.0
Japan sales	412.1	193.9	422.7	247.0	543.4	272.8	470.7
Fixed term sales	3,168.7	2,340.6	2,295.5	2,146.0	1,844.4	966.8	1,746.0
Lifetime sales	375.2	265.8	220.8	229.0	346.6	203.7	210.9
Life annuity sales	**3,543.9**	**2,606.4**	**2,516.3**	**2,375.0**	**2,191.0**	**1,170.5**	**1,956.9**
Maturities and repayments	(2,741.9)	(2,139.9)	(1,908.6)	(1,452.8)	(2,033.4)	(1,515.2)	(1,863.3)
Life annuity flows	**802.0**	**466.5**	**607.7**	**922.2**	**157.6**	**(344.7)**	**93.6**
Closing Life annuity book	14,278.4	13,595.4	14,092.5	13,669.9	12,769.7	12,581.2	12,845.3
Annuity book growth[1]	**5.9%**	**3.5%**	**4.4%**	**7.3%**	**1.3%**	**(2.7%)**	**0.7%**
Other Life sales	1,935.1	2,156.6	2,426.8	1,115.6	1,246.5	841.8	1,182.2
Other maturities and repayments	(1,752.2)	(1,597.2)	(1,588.5)	(582.7)	(695.4)	(1,104.9)	(352.2)
Other Life flows	**182.9**	**559.4**	**838.3**	**532.9**	**551.1**	**(263.1)**	**830.0**
Closing Challenger Index Plus Fund liabilities	4,620.2	4,386.4	4,381.8	3,632.2	3,031.5	2,415.8	2,705.6
Other Life net book growth	**4.2%**	**15.4%**	**23.1%**	**22.1%**	**22.8%**	**(13.4%)**	**42.2%**
Total Life sales	5,479.0	4,763.0	4,943.1	3,490.6	3,437.5	2,012.3	3,139.1
Total maturities and repayments	(4,494.1)	(3,737.1)	(3,497.1)	(2,035.5)	(2,728.8)	(2,620.1)	(2,215.5)
Total Life net flows	**984.9**	**1,025.9**	**1,446.0**	**1,455.1**	**708.7**	**(607.8)**	**923.6**
Closing total Life book[2]	18,898.6	17,981.8	18,474.3	17,302.1	15,801.2	14,997.0	15,550.9
Total Life book growth[1]	**5.5%**	**5.9%**	**8.4%**	**9.7%**	**4.7%**	**(4.1%)**	**6.2%**
Assets							
Closing investment assets (excluding Other)	**23,085**	**22,224**	**22,937**	**21,563**	**19,634**	**18,303**	**19,669**
Fixed income and cash	17,046	16,842	16,715	15,574	14,328	13,691	12,836
Property	3,211	3,466	3,491	3,333	3,299	3,308	3,336
Equity and infrastructure[3]	770	1,026	884	595	437	1,089	2,027
Alternatives[3]	1,746	1,285	1,167	947	914	977	1,244
Average investment assets[4]	**22,773**	**22,619**	**22,257**	**20,449**	**18,978**	**19,065**	**19,443**
Liabilities							
Closing liabilities (excluding Other)	**20,151**	**19,227**	**19,749**	**18,579**	**17,095**	**16,198**	**16,761**
Annuities and Challenger Index Plus Fund	18,470	18,231	17,961	16,433	15,324	15,499	15,341
Capital Notes	845	865	873	887	830	805	805
Subordinated debt[5]	518	401	404	404	401	400	406
Average liabilities[4]	**19,833**	**19,497**	**19,238**	**17,724**	**16,555**	**16,704**	**16,552**

1 Book growth percentage represents net flows for the period divided by opening book value for the financial year.
2 Life annuity liabilities and Challenger Index Plus Fund liabilities.
3 Commencing 1H21, Life's investment portfolio categories have been amended to more accurately reflect Life's portfolio composition. The equities and infrastructure categories were combined, and absolute return funds and insurance-related investments reclassified from equities to alternatives. Comparatives have been restated.
4 Average investment assets and average liabilities calculated on a monthly basis.
5 In September 2022, 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.

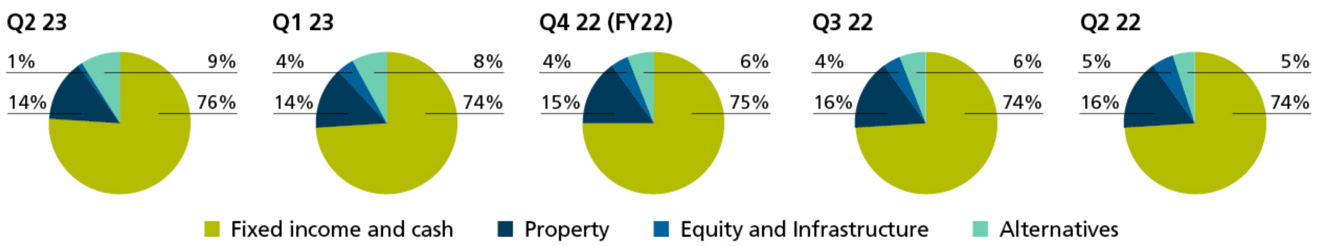
Life financial results

Life quarterly sales and investment assets

$m	Q2 23	Q1 23	Q4 22	Q3 22	Q2 22
Life sales					
Retail fixed term sales	958	809	605	390	529
Institutional fixed term sales	325	665	145	1,006	459
Japan sales	225	187	131	63	178
Fixed term sales	1,508	1,661	881	1,459	1,166
Lifetime sales[1]	195	180	159	108	119
Life annuity sales	**1,703**	**1,841**	**1,040**	**1,567**	**1,285**
Maturities and repayments	(1,244)	(1,498)	(860)	(1,281)	(969)
Life annuity flows	**459**	**343**	**180**	**286**	**316**
Annuity book growth[2]	**3.4%**	**2.5%**	**1.4%**	**2.1%**	**2.3%**
Other Life sales	1,006	929	1,053	1,104	1,571
Other maturities and repayments	(891)	(861)	(698)	(899)	(1,035)
Other Life flows	**115**	**68**	**355**	**205**	**536**
Other Life net book growth	**2.6%**	**1.6%**	**9.9%**	**5.6%**	**14.8%**
Total Life sales	2,709	2,770	2,093	2,671	2,856
Total maturities and repayments	(2,135)	(2,359)	(1,558)	(2,180)	(2,004)
Total Life net flows	**574**	**411**	**535**	**491**	**852**
Total Life book growth[2]	**3.2%**	**2.3%**	**3.2%**	**2.8%**	**4.9%**
Life					
Fixed income and cash[3]	17,621	16,816	16,659	16,614	17,031
Property[3]	3,178	3,228	3,227	3,551	3,583
Equity and infrastructure[3]	259	961	971	1,004	1,096
Alternatives	2,027	1,812	1,367	1,265	1,227
Total Life investment assets	**23,085**	**22,817**	**22,224**	**22,434**	**22,937**
Average Life investment assets[4]	**23,032**	**22,525**	**22,415**	**22,826**	**22,508**

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

Life asset allocation



Life financial results

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 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 recognised by Plan For Life, with Life winning the Overall Longevity Cover Excellence Award for 2022.

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 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 the MS&AD Insurance Group Holdings Inc. (MS&AD Group). Refer to page 31 for more detail.

Life participates in wholesale reinsurance longevity and mortality transactions (refer to page 27 for more detail).

Challenger Life Company Limited (CLC) undertakes Challenger's guaranteed annuity business and is an APRA-regulated entity. CLC's financial strength is rated by Standard & Poor's with an 'A' rating and stable outlook. CLC's capital strength is outlined on page 46.

Normalised EBIT and ROE

Life's normalised EBIT was $263m in 1H23 and increased by $30m (13%) on 1H22. The increase in EBIT reflects a $30m (10%) increase in Normalised Cash Operating Earnings (COE) and a $0.4m (1%) decrease in expenses.

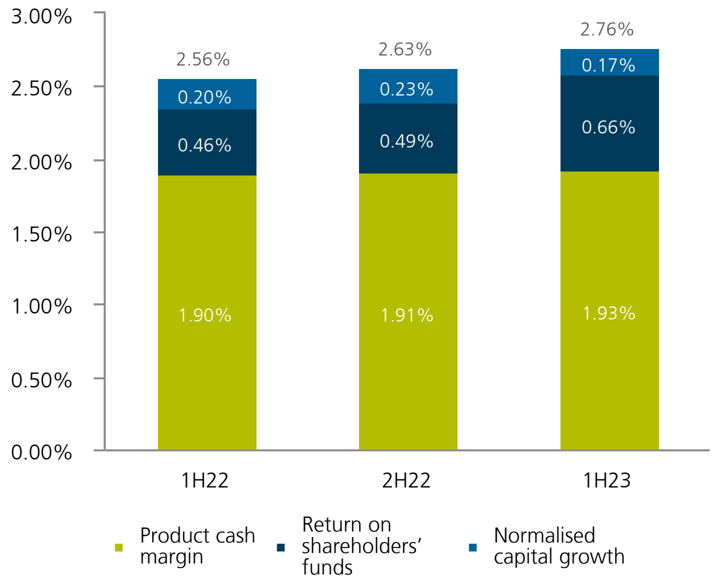
Life's normalised ROE (pre-tax) was 14.8% in 1H23 and increased by 170 bps on 1H22, driven by an increase in Normalised COE.

Normalised Cash Operating Earnings (COE) and COE margin

1H23 Normalised COE was $317m and increased by $30m (10%) on 1H22. Normalised COE increased as a result of:

- higher average investment assets, which increased by 2% on 1H22; and
- higher COE margin, which increased by 20 bps on 1H22 to 2.76%.

Life COE margin composition



1 The word 'guaranteed' means payments are guaranteed by CLC from assets of its relevant statutory fund.
2 Plan for Life - September 2022 - based on annuities under administration.

1H22 to 1H23 COE margin

Life's 1H23 COE margin was 2.76% and increased by 20 bps on 1H22 as a result of the following:

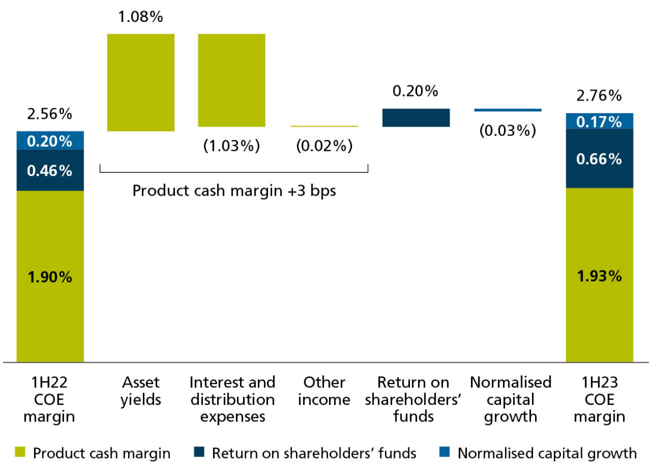
- Higher return on shareholder capital (+20 bps): Reflects higher interest rates and average shareholder net assets. For example, the average 3-month Bank Bill Swap rate increased from 4 bps in 1H22 to 270 bps in 1H23, resulting in a significant increase in investment earnings on Shareholder capital.
- Higher product cash margin (+3 bps): The product cash margin represents the investment return on annuities and institutional products, less associated interest and direct distribution costs. The product cash margin also includes other income, including Life Risk and Solutions revenue (refer to page 27). The product cash margin drivers included:
  - Higher investment yield on policyholder funds (+108 bps): Reflects higher investment returns, predominantly on fixed income investments from higher interest rates and wider fixed income credit spreads;
  - Higher interest expense (-107 bps): Reflects higher annuity and institutional rates paid to customers; higher capital notes and subordinated debt interest costs as a result of higher interest rates; and higher subordinated debt costs as a result of simultaneously holding two subordinated debt instruments for two months (~3 bps) and the higher margin payable on the new subordinated debt issue (~1 bps);
  - Lower distribution expenses (+4 bps): Distribution expenses relate to payments made for the acquisition and management of annuities. 1H22 distribution expenses included an additional $5m (or -4 bps), representing the prepayment of future trail commissions, which were redirected to customers; and
  - Lower other income (-2 bps): Reflects marginally lower Life Risk income (-1 bps) and the sale of Accurium (-2 bps) in November 2021, partially offset by the transfer of the Solutions Group to the Life business in 1H23 (+2 bps) (refer to page 27 for more detail).
- Lower normalised capital growth (-3 bps): Reflects lower allocation to equities and infrastructure and property and higher allocation to alternatives over 1H23. Alternatives has a zero normalised growth assumption.

2H22 to 1H23 COE margin

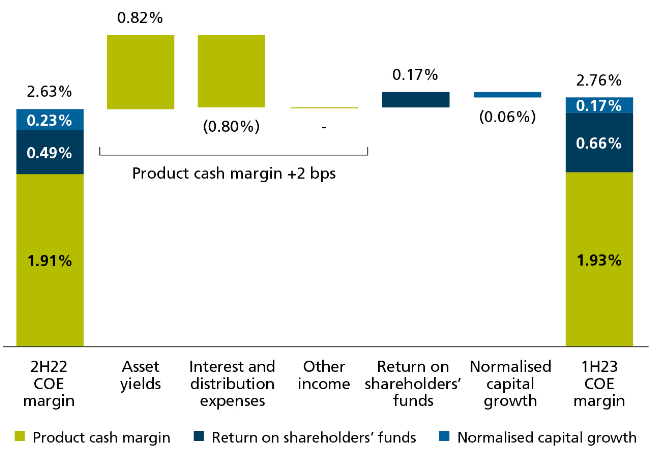
Life's 1H23 COE margin was 2.76% and increased by 13 bps on 2H22 as a result of the following:

- Higher return on shareholder capital (+17 bps): Reflects higher interest rates and average shareholder net assets. For example, the average 3-month Bank Bill Swap rate increased from 59 bps in 2H22 to 270 bps in 1H23.
- Higher product cash margin (+2 bps): The product cash margin drivers included:
  - Higher investment yield on policyholder funds (+82 bps): Reflects higher investment returns, predominantly on fixed income investments from higher interest rates and wider fixed income credit spreads;
  - Higher interest expense (-79 bps): Reflects higher annuity and institutional rates paid to customers; higher capital notes and subordinated debt interest costs as a result of higher interest rates; and higher subordinated debt costs as a result of simultaneously holding two subordinated debt instruments for two months (~3 bps) and the higher margin payable on the new subordinated debt issue (~1 bps);
  - Higher distribution expenses (-1 bps): Reflects an increase in upfront adviser service fees following increased sales in 1H23; and
  - Stable other income: Reflects stable Life Risk income and income from the Solutions Group (refer to page 27 for more detail).
- Normalised capital growth (-6 bps): Reflects the lower allocation to equities and infrastructure and property and higher allocation to alternatives over 1H23. Alternatives has a zero normalised growth assumption.

1H22 to 1H23 COE margin



2H22 to 1H23 COE margin



Life Risk

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

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

1H23 Life normalised COE includes $22m of income from Life Risk transactions, which represents the release of profit and expense margins, and was in line with 1H22.

The present value of future profits arising from the Life Risk portfolio was $667m at 31 December 2022, down 38% from $1,076m at 31 December 2021, driven by higher interest rates which increases the discount rate, which is based on the Australian Government bond rate.

The Life Risk portfolio has an average duration of 13 years.

Solutions Group

Challenger's Solutions Group works with clients to address their evolving investment and retirement needs. Benefitting from the scale of the broader Challenger Group, the Solutions Group provides innovative portfolio management and balance sheet solutions. These include alpha and beta solutions, income solutions, retirement solutions and defined benefit plan solutions.

During 1H23, the Solutions Group transferred from Challenger Investment Management to the Life business. Prior to 1H23, performance of the Solutions Group was reported as part of Funds Management.

Revenue from the Solutions Group is included in other income within Life's normalised COE. Solution's 1H23 revenue was $2m (1H22 $2m, included in Funds Management).

Expenses

1H23 Life expenses were $54m and decreased by $0.4m (1%) on 1H22.

Personnel expenses in 1H23 were $37m and increased by $2m (4%), reflecting higher variable reward payments.

Other expenses were $17m in 1H23 and decreased by $2m (10%), predominantly as a result of lower marketing and technology costs.

With normalised COE up 10% and expenses down 1%, Life's cost to income ratio decreased 190 bps to 17.0%.

Investment experience overview

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

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

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

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

1H23 investment experience was a loss of $61m (pre-tax), comprising a $16m asset and policy liability loss and a $45m loss in relation to new business strain.

($m)	Actual capital growth	Normalised capital growth	Investment experience
Fixed income	1	30	**31**
Property	(5)	(32)	**(37)**
Equity and infrastructure	(4)	(17)	**(21)**
Alternatives	(56)	—	**(56)**
Policy liability	67	—	**67**
Assets and policy liability experience	**3**	**(19)**	**(16)**
New business strain	(45)	—	**(45)**
Total investment experience (pre-tax)	**(42)**	**(19)**	**(61)**

Assets and policy liability experience

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

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

Assets and policy liability experience was a loss of $16m in 1H23, comprising the following:

- Fixed income (+$31m): Comprising a valuation gain of $1m and normalised capital growth of $30m (representing an allowance for credit defaults). The fixed income valuation gain is a result of movements in credit spreads, impacting the valuation of fixed income securities, and provisions for credit defaults. In 1H23, credit spreads tightened in corporate credit and widened in securitisation markets, particularly in RMBS. The net impact was a fixed income valuation gain of $37m.

Credit defaults in 1H23 were -$36m (21 bps) predominantly representing 2 clients that were downgraded to CCC, however have not actually defaulted. It is Life's policy to consider all investments rated below B- in default. Fixed income normalised capital growth of $30m represents an allowance for credit defaults of -35 bps per annum.

- Property (-$37m): Reflects the revaluation of Life's property portfolio, with a revaluation loss of $5m and normalised capital growth of $32m.

  All properties were revalued in 1H23, with 51% of direct properties independently valued. Movements in valuation include domestic office (-0.8%), domestic retail (+0.8%), domestic industrial (-2.2%), and Japan (+0.1%).

- Equity and infrastructure (-$21m): Reflects a revaluation loss of $4m and normalised capital growth of $17m. In 1H23, the MSCI Daily Total Return Net World Index (Bloomberg NDDLWI) returned 2.7% over the six months to 31 December 2022.
- Alternatives (-$56m): Relates to Challenger's absolute return portfolio, which underperformed Challenger's normalised growth assumption of 0% per annum for alternatives. Returns on Challenger's absolute return portfolio broadly correlated to movements in the Société Générale CTA Index in 1H23.
- Policy liability (+$67m): Includes $11m in relation to the illiquidity premium (refer below) and $56m of other gains on policy liabilities. Policy liabilities include changes in economic and actuarial assumptions, including the effects on policy liabilities of changes to bond yields and interest rates, expected inflation rates and expense assumptions. 1H23 other policy liability gains reflect the impacts of relative movements of instruments used for hedging purposes, including inflation-linked and fixed-rate government and semi-government securities.

Illiquidity premium

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

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

Movements in credit spreads impact the illiquidity premium.

The illiquidity premium gain in 1H23 was +$11m.

New business strain

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

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

The 1H23 net new business strain was a loss of $45m.

Life sales and AUM

Total Life sales

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

Total Life sales were $5.5b and increased by 11% on 1H22, driven by record annuity sales and institutional sales.

Annuity sales

In 1H23, Challenger Life achieved record annuity sales of $3.5b, up $1.0b or 41% on 1H22.

Annuity sales comprised:

- Domestic retail term and lifetime annuity sales of $2.1b, up $1.0b or 89% on 1H22;
- Domestic institutional term sales of $1.0b, up $27m or 3% on 1H22; and
- Japanese sales of $412m, down $11m or 3% on 1H22.

Domestic retail annuity sales

Domestic retail annuity sales were $2,142m and comprised:

- term annuity sales of $1,767m, which increased by $857m or 94% on 1H22; and
- lifetime annuity sales of $375m, which increased by $154m or 70% on 1H22.

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

Lifetime annuity sales comprise Liquid Lifetime sales of $194m (1H22 $123m) and CarePlus sales of $181m (1H22 $98m).

CarePlus is a lifetime annuity specifically designed for aged care.

Domestic retail annuity sales growth is being supported by strong reinvestment rates, with approximately 68% of term maturities reinvested during the half (1H22 62%).

Domestic institutional sales

Domestic institutional sales were $2,925m, down $465m (14%) on 1H22 and comprised:

- Institutional term annuity sales of $990m, up $27m or 3%; and
- Institutional Guaranteed Index Plus sales of $1,935m, down $492m or 20%.

Institutional term annuity sales were primarily a function of strong reinvestment rates.

Term annuities are a viable alternative to bank-issued term deposits and other short-term fixed income instruments. These investments are usually shorter duration, particularly for an initial investment; however, clients typically roll the investment a number of times which extends the effective duration.

Institutional term sales are benefitting from strong reinvestment rate for maturities, which was 87% for the half year.

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

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

Institutional Guaranteed Index Plus sales were $1,935m in 1H23, with $467m of inflows from existing clients, and $1,468m of maturities reinvested. The maturities reinvested represent 84% of total 1H23 Guaranteed Index Plus maturities.

Japanese annuity sales

In November 2016, Challenger formed an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary), a leading provider of foreign dollar annuity and life insurance products in Japan (refer to page 31 for more information). The MS Primary annuity relationship provides access to the Japanese foreign currency annuities market and is helping to diversify Challenger's distribution channels and product offering.

Under the reinsurance arrangements, MS Primary will provide Challenger an amount of reinsurance, across both Australian and US dollar denominated annuities, of at least ¥50b (currently ~A$530m[2]) per year for a minimum of five years from 2019. This is subject to review in the event of a material adverse change for either MS Primary or Challenger.

MS Primary annuity sales are included in term annuity sales and were $412m, down 3% from $423m in 1H22, largely due to the depreciation of the Yen (average JPY: AUD down 12%). On a constant currency basis, MS Primary annuity sales were up 12% on 1H22.

Despite 1H23 MS Primary annuity sales being lower than the prior period, they reflect a strong start to the year and represented ~78% of the full year minimum sales target.

MS Primary annuity sales represented 12% of Challenger's 1H23 total annuity sales.

New business tenor

New business annuity sales represented 56% of 1H23 total annuity sales, with the balance representing maturities reinvested. The tenor on new business annuity sales was 5.4 years in 1H23, up from 5.1 years in 1H22 and 4.8 years in 2H22. The increase in Life's new business tenor is a result of longer-dated retail fixed term annuity sales, including a higher contribution from Lifetime sales.

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

Life book liability maturity profile

Maturities represent annuity maturities and repayments (excluding interest payments) in the year. Total annuity maturities in 1H23 were $2.7b and represented 18% of opening period annuity liability (undiscounted liability of $15.4b).

Given higher 1-year institutional term annuity sales in FY22, the FY23 maturity rate is expected to be 34% (2H23 16%).

Excluding the institutional term annuity maturities, the retail maturity rate in 1H23 was 13% with FY23 retail term annuity rate expected to be 24%.

Net book growth

Across both annuity and institutional Guaranteed Index Plus, 1H23 total Life net flows were $985m for the half and represented total book growth of 5.5%.

Life annuity book growth

1H23 Life annuity net flows (i.e. annuity sales less capital repayments) were $802m, up from $608m in 1H22. Net flows reflect higher Life annuity sales of $3,544m (up 41%), partially offset by higher maturities of $2,742m (up 44%).

Based on the opening Life annuity book liability ($13,595m), 1H23 annuity book growth was +5.9%.

Other Life book growth

Other Life net flows (i.e. other Life sales less capital repayments) represent net flows on the Guaranteed Index Plus products.

In 1H23, Other Life net flows were $183m, down from $838m in 1H22.

Average AUM

Life's average investment assets were $22.8b in 1H23 and increased by 2% ($0.5b) on 1H22.

The increase in average investment assets reflects net book growth.

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

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

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

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

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

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

Under a reinsurance agreement with MS Primary, MS Primary provides Challenger an annual amount of reinsurance, across both Australian and US dollar annuities, of at least ¥50 billion (equivalent to ~A$530 million[1]) per year[2].

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

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

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

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

MS Primary sales were $412m, down 3% on 1H22 (or up 12% in Yen) and represented ~12% of Challenger Life's 1H23 total annuity sales (~17% in 1H22).

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

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

MS&AD is a significant investor in Challenger and as at 31 December 2022, held ~15% of Challenger's issued capital.

In August 2019, a representative from MS&AD joined the Challenger Limited Board.

[1] Based on exchange rate as at 30 June 2022.
[2] Reinsurance across both Australian and US dollar annuities, of at least ¥50b per year for a minimum of five years, commencing 1 July 2019.

Retirement income regulatory reforms

Retirement Income Covenant

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

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

Challenger has long supported and advocated for this important reform. Australia has a world-class pensions system that is broadly adequate, sustainable and well governed[1]. However, the retirement phase of superannuation remains underdeveloped. Despite the appearance of a small number of new products in the past couple of years, there remain limited products to choose from, and the products that are most used by retirees encourage an inadequate drawdown strategy and leave the unique risks faced by retirees unmitigated.

Challenger is confident the covenant will, over time, lead to greater take-up of retirement income solutions that address the risks that members face in the retirement phase, giving them the confidence to spend their retirement savings as intended.

Quality of Advice Review (QAR)

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

The final report was released in February 2023 and proposed reforms that will enable more Australians to access the financial advice they need by removing the inefficient compliance requirements inflating the cost of advice. Challenger actively participated in the QAR and will make further submissions to the Federal Government on the need for reform.

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

Life balance sheet

$m	1H23	FY22	1H22	FY21	1H21	FY20	1H20
Assets							
Life investment assets							
Cash and equivalents	2,344.2	1,585.0	2,092.1	1,396.6	2,083.3	3,002.7	760.0
Asset-backed securities	9,920.3	9,994.6	9,300.6	8,246.2	6,964.8	6,385.1	6,289.3
Corporate credit	5,356.5	5,079.8	5,638.4	6,775.4	5,773.0	4,582.8	5,907.4
Fixed income and cash (net)	**17,621.0**	**16,659.4**	**17,031.1**	**16,418.2**	**14,821.1**	**13,970.6**	**12,956.7**
Australian – Office	1,762.5	1,775.0	2,139.6	2,081.8	1,947.9	1,912.7	1,919.4
Australian – Retail	726.5	787.4	756.5	722.9	709.1	709.3	751.2
Australian – Industrial	242.6	243.5	225.8	199.3	189.5	187.5	193.3
Japanese	337.5	320.9	358.4	357.7	366.8	390.1	359.5
Other	109.2	100.2	103.0	105.8	102.9	92.5	114.4
Property (net)	**3,178.3**	**3,227.0**	**3,583.3**	**3,467.5**	**3,316.2**	**3,292.1**	**3,337.8**
Equity and infrastructure[1]	259.0	971.1	1,096.1	623.2	604.2	393.4	2,035.9
Alternatives[1]	2,026.6	1,366.3	1,226.4	1,054.3	892.5	647.2	1,338.8
Life investment assets	**23,084.9**	**22,223.8**	**22,936.9**	**21,563.2**	**19,634.0**	**18,303.3**	**19,669.3**
Other assets (including intangibles)	619.7	543.0	696.1	773.9	896.0	1,178.4	915.9
Total assets	**23,704.6**	**22,766.8**	**23,633.0**	**22,337.1**	**20,530.0**	**19,481.7**	**20,585.2**
Liabilities							
Life annuity book	14,278.4	13,595.4	14,092.5	13,669.9	12,769.7	12,581.2	12,845.3
Challenger Index Plus Fund liabilities	4,620.2	4,386.4	4,381.8	3,632.2	3,031.5	2,415.8	2,705.6
Subordinated debt	407.8	399.7	401.6	404.5	401.7	395.7	404.9
Challenger Capital Notes	845.0	845.0	872.7	872.7	892.5	805.0	805.0
Other liabilities	50.9	7.7	224.5	210.7	269.8	345.6	350.6
Total liabilities	**20,202.3**	**19,234.2**	**19,973.1**	**18,790.0**	**17,365.2**	**16,543.3**	**17,111.4**
Net assets	**3,502.3**	**3,532.6**	**3,659.9**	**3,547.1**	**3,164.8**	**2,938.4**	**3,473.8**

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

Life investment portfolio overview

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

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

Life's investment assets are as follows:

$m	31 December 2022	30 June 2022
Fixed income and cash	76%	75%
Property	14%	15%
Equity and infrastructure	1%	4%
Alternatives	9%	6%

Fixed income portfolio overview

Life's fixed income and cash portfolio was $17.6b at 31 December 2022 and increased by 6% ($0.9b) from $16.7b at 30 June 2022. The increase reflects 1H23 net book growth.

The fixed income and cash portfolio represented 76% of Life's investment assets at 31 December 2022, up from 75% at 30 June 2022. The fixed income portfolio comprises approximately 1,700 different securities.

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

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

Life targets to hold at least 75% of its fixed income portfolio as investment grade (i.e. BBB or higher). At 31 December 2022, 78% of the fixed income portfolio was investment grade, stable from 30 June 2022.

A total of 86% of the fixed income portfolio is externally rated (Standard & Poor's, Fitch or Moody's) with the remainder internally rated based on methodologies calibrated to Standard & Poor's or Moody's ratings framework.

The fixed income and cash portfolio is predominantly Australian focused, with approximately 61% of the fixed income portfolio invested in Australian-based securities.

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

Fixed income credit default experience

Challenger's normalised growth assumption for fixed income is -35 bps, representing an allowance for credit default losses. In 1H23, the credit default loss recognised in investment experience was -21 bps (-$36m), or -42 bps annualised, which is above Challenger's -35 bps per annum assumption. Credit defaults predominantly represented 2 clients that were downgraded to CCC, however have not actually defaulted. It is Life's policy to consider all investments rated below B- in default.

Over the past five financial years, the average credit default loss experience recognised in investment experience has been -20 bps per annum.

Detailed disclosure of Life's fixed income portfolio is included on pages 35 to 38. The fixed income disclosures include the following tables:

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

Table 1: Fixed income portfolio overview

31 December 2022		$m	% portfolio	
Liquids		2,344	13%	Includes cash and equivalents and Government Bonds (net of repurchase agreements) and strategies earning a spread with limited credit risk
Asset-Backed Securities (ABS)	Residential Mortgage-Backed Securities (RMBS)	4,697	27%	Financing secured against a pool of underlying residential mortgages
	Other ABS	3,105	18%	Financing secured against underlying assets, where asset security includes motor vehicle, equipment and consumer finance
	Senior Secured Loans	1,848	10%	Senior debt secured by collateral and typically originated by Challenger
	Aviation Finance	78	—	Secured commercial aircraft financing
	Commercial Mortgage-Backed Securities (CMBS)	192	1%	Securitisations of underlying commercial property mortgages
Corporate Credit	Banks and Financials	1,329	8%	Corporate loans to banks, insurance companies and fund managers
	Infrastructure	978	6%	Long-dated inflation-linked bonds issued by Public Private Partnership projects and loans to infrastructure companies
	Senior Secured Loans	372	2%	Senior debt secured by collateral
	Non-Financial Corporates	2,047	11%	Traded commercial loans to non-financial corporates (includes exposures to retail, hotels, media, mining and health care)
	Commercial Real Estate	631	4%	Loans secured against commercial real estate assets and typically originated by Challenger
Total		**17,621**	**100%**	

Table 2: Fixed income portfolio by credit rating

31 December 2022 ($m)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total $m
Liquids										
Government bonds[1]	647	—	—	—	—	**647**	—	—	**—**	**647**
Covered bonds	65	—	—	—	—	**65**	—	—	**—**	**65**
Cash & Equivalents[2]	1,632	—	—	—	—	**1,632**	—	—	**—**	**1,632**
Asset-Backed Securities										
RMBS	—	2,547	909	700	331	**4,487**	130	80	**210**	**4,697**
Other ABS	—	974	609	389	367	**2,339**	519	247	**766**	**3,105**
Senior Secured Bank Loans	—	804	279	140	332	**1,555**	279	14	**293**	**1,848**
Aviation Finance	—	—	—	8	26	**34**	14	30	**44**	**78**
CMBS	—	16	34	47	56	**153**	33	6	**39**	**192**
Corporate Credit										
Banks and Financials	—	—	92	226	745	**1,063**	231	35	**266**	**1,329**
Infrastructure	—	—	106	236	381	**723**	151	104	**255**	**978**
Senior Secured Loans	—	—	—	—	31	**31**	87	254	**341**	**372**
Non-Financial Corporates	—	1	8	27	441	**477**	713	857	**1,570**	**2,047**
Commercial Real Estate	—	54	—	153	318	**525**	39	67	**106**	**631**
Total	**2,344**	**4,396**	**2,037**	**1,926**	**3,028**	**13,731**	**2,196**	**1,694**	**3,890**	**17,621**
Fixed income portfolio (%)	13%	25%	12%	11%	17%	**78%**	12%	10%	**22%**	**100%**
Average duration (years)	—	1.5	2.6	3.0	3.4	**2.4**	3.4	3.3	**3.4**	**2.7**

31 December 2022 (%)	Investment grade: Cash & Equivalents	AAA	AA	A	BBB	Total	Non-investment grade: BB	Less than BB	Total	Total %
Liquids										
Government bonds[1]	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Covered bonds	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Cash & Equivalents[2]	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Asset-Backed Securities										
RMBS	—	54%	19%	15%	7%	**95%**	3%	2%	**5%**	**100%**
Other ABS	—	30%	20%	13%	12%	**75%**	17%	8%	**25%**	**100%**
Senior Secured Bank Loans	—	43%	15%	8%	18%	**84%**	15%	1%	**16%**	**100%**
Aviation Finance	—	—	—	10%	33%	**43%**	18%	39%	**57%**	**100%**
CMBS	—	—	—	24%	30%	**80%**	17%	3%	**20%**	**100%**
Corporate Credit										
Banks and Financials	—	—	7%	17%	56%	**80%**	17%	3%	**20%**	**100%**
Infrastructure	—	—	11%	24%	39%	**74%**	15%	11%	**26%**	**100%**
Senior Secured Loans	—	—	—	—	8%	**8%**	23%	69%	**92%**	**100%**
Non-Financial Corporates	—	—	—	1%	22%	**23%**	35%	42%	**77%**	**100%**
Commercial Real Estate	—	—	—	24%	50%	**83%**	6%	11%	**17%**	**100%**
Total	**13%**	**25%**	**12%**	**11%**	**17%**	**78%**	**12%**	**10%**	**22%**	**100%**

[1] Government Bonds are shown net of $2,085m of Australian Government Bonds and $1,636m of Australian Semi-Government Bonds, that are held via repurchase agreements. Government Bonds refinanced with repurchase agreements are used to hedge movements in interest rates. Refer to page 44 for more detail.

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

Table 3: Fixed income portfolio by rating type

31 December 2022 ($m)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	$m
Liquids										
Externally rated	2,344	—	—	—	—	**2,344**	—	—	—	**2,344**
Internally rated	—	—	—	—	—	**—**	—	—	—	**—**
Asset-Backed Securities										
Externally rated	—	4,204	1,817	1,087	551	**7,659**	497	183	680	**8,339**
Internally rated	—	137	15	196	561	**909**	478	194	672	**1,581**
Corporate Credit										
Externally rated	—	55	198	636	1,810	**2,699**	801	913	1,714	**4,413**
Internally rated	—	—	7	7	106	**120**	420	404	824	**944**
Total	**2,344**	**4,396**	**2,037**	**1,926**	**3,028**	**13,731**	**2,196**	**1,694**	**3,890**	**17,621**
Externally rated	100%	97%	99%	89%	78%	**93%**	59%	65%	**62%**	**86%**
Internally rated	—	3%	1%	11%	22%	**7%**	41%	35%	**38%**	**14%**

31 December 2022 (%)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Liquids										
Externally rated	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Internally rated	—	—	—	—	—	**—**	—	—	**—**	**—**
Asset-Backed Securities										
Externally rated	—	50%	22%	13%	7%	**92%**	6%	2%	**8%**	**100%**
Internally rated	—	9%	1%	12%	36%	**58%**	30%	12%	**42%**	**100%**
Corporate Credit										
Externally rated	—	1%	4%	14%	42%	**61%**	18%	21%	**39%**	**100%**
Internally rated	—	—	—	1%	11%	**13%**	44%	43%	**87%**	**100%**
Total	**13%**	**25%**	**12%**	**11%**	**17%**	**78%**	**12%**	**10%**	**22%**	**100%**

Table 4: Fixed income portfolio by industry sector

31 December 2022 ($m)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	$m
Industrials and consumers	—	1,844	861	560	1,065	**4,330**	1,470	1,227	**2,697**	**7,027**
Residential property	—	2,471	837	614	375	**4,297**	133	81	**214**	**4,511**
Banks, financials & insurance	1,697	—	151	269	839	**2,956**	273	81	**354**	**3,310**
Government	647	—	—	—	—	**647**	—	—	**—**	**647**
Commercial property	—	81	39	218	324	**662**	65	73	**138**	**800**
Infrastructure and utilities	—	—	106	236	384	**726**	154	110	**264**	**990**
Other	—	—	43	29	41	**113**	101	122	**223**	**336**
Total	**2,344**	**4,396**	**2,037**	**1,926**	**3,028**	**13,731**	**2,196**	**1,694**	**3,890**	**17,621**

	Investment grade						Non-investment grade			Total
31 December 2022 (%)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Industrials and consumers	—	27%	12%	8%	15%	**62%**	21%	17%	**38%**	**100%**
Residential property	—	54%	19%	14%	8%	**95%**	3%	2%	**5%**	**100%**
Banks, financials & insurance	52%	—	5%	8%	25%	**90%**	8%	2%	**10%**	**100%**
Government	100%	—	—	—	—	**100%**	—	—	**—**	**100%**
Commercial property	—	10%	—	27%	41%	**83%**	8%	9%	**17%**	**100%**
Infrastructure and utilities	—	—	11%	24%	38%	**73%**	16%	11%	**27%**	**100%**
Other	—	—	13%	—	12%	**34%**	30%	36%	**66%**	**100%**
Total	**13%**	**25%**	**12%**	**11%**	**17%**	**78%**	**12%**	**10%**	**22%**	**100%**

Table 5: Fixed income portfolio by geography and credit rating

	Investment grade						Non-investment grade			Total
31 December 2022 ($m)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	$m
Australia	1,412	3,221	1,276	1,213	1,859	**8,981**	1,033	782	**1,815**	**10,796**
United States	860	647	118	265	640	**2,530**	959	815	**1,774**	**4,304**
United Kingdom	1	118	206	134	143	**602**	23	4	**27**	**629**
Europe	26	169	392	207	273	**1,067**	87	19	**106**	**1,173**
New Zealand	—	241	45	107	69	**462**	73	65	**138**	**600**
Rest of world	45	—	—	—	44	**89**	21	9	**30**	**119**
Total	**2,344**	**4,396**	**2,037**	**1,926**	**3,028**	**13,731**	**2,196**	**1,694**	**3,890**	**17,621**

	Investment grade						Non-investment grade			Total
31 December 2022 (%)	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Australia	13%	30%	12%	11%	17%	**83%**	10%	7%	**17%**	**100%**
United States	20%	15%	3%	6%	15%	**59%**	22%	19%	**41%**	**100%**
United Kingdom	—	19%	32%	21%	23%	**95%**	4%	—	**5%**	**100%**
Europe	—	14%	34%	18%	23%	**91%**	7%	2%	**9%**	**100%**
New Zealand	—	39%	8%	18%	12%	**77%**	12%	11%	**23%**	**100%**
Rest of the world	37%	—	—	—	37%	**74%**	18%	8%	**26%**	**100%**
Total	**13%**	**25%**	**12%**	**11%**	**17%**	**78%**	**12%**	**10%**	**22%**	**100%**

Property portfolio overview

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

Life's property portfolio was $3.2b (net of debt) at 31 December 2022 and decreased by 2% from 30 June 2022, reflecting the net impact from the disposal of one property at its carrying value of $78 million and property revaluation losses of $5m, partially offset by the acquisition of one property for approximately $10 million. The sale proceeds from the disposal were reinvested across other investment classes, including fixed income and alternatives.

As a result of the property sales, the property allocation reduced from 15% of Life's investment portfolio at 30 June 2022 to 14% at 31 December 2022.

Life's property portfolio is mainly focused on domestic properties providing long-term income streams. Australian properties accounted for 89% of the property portfolio.

Challenger Life has a policy that all directly owned properties are independently valued each year with approximately 50% valued in June and 50% valued in December. Internal valuations are undertaken for properties not independently valued each June and December. An independent valuation is subsequently undertaken if the internal valuation shows a significant variance to the most recent independent valuation. In 1H23, independent valuations were obtained for 51% of the direct property portfolio.

For 1H23, the movement in the valuation of properties was as follows:

- Australian office -0.8%;
- Australian retail +0.8%;
- Australian industrial -2.2%; and
- Japanese portfolio +0.1%.

Life maintains a more defensive property portfolio than the broader listed real estate trust market, with a focus on long-term income streams. Australian office accounts for 55% of the portfolio, with the Federal and State governments a major tenant accounting for 54% of 1H23 gross office rental income[1].

Australian direct retail assets account for 23% of the direct portfolio and comprise eight grocery-anchored convenience-based shopping centres. Approximately half of the rental income is derived from major supermarket chains or major Australian banks or essential services.

The weighted average capitalisation rate on Life's Australian direct portfolio was 5.35% at 31 December 2022, up 2 bps from 2H22.

Property includes a net $338m exposure to Japanese property (11% of the portfolio), consisting of suburban shopping centres focused on non-discretionary retailing. Over half of the Japanese rental income is derived from supermarkets or pharmacies. The valuation of the Japanese portfolio was stable over 1H23.

The property portfolio generates long-term cash flows to match long-term liabilities, with a weighted average lease expiry of 6.2 years and 58% of leasing area having contracted leases expiring in FY27 and beyond. The portfolio had an occupancy rate of 94% at 31 December 2022, which was up 2% since 30 June 2022.

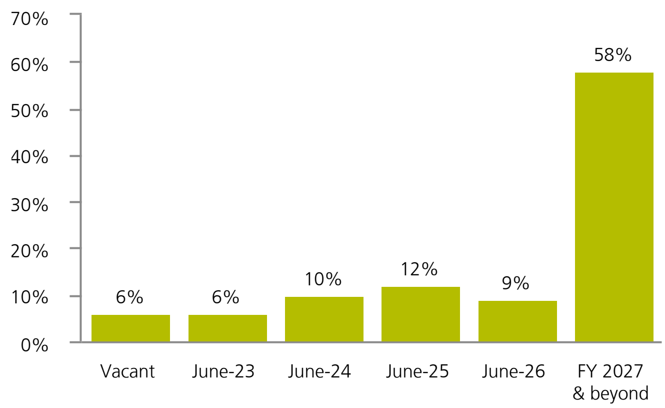
Approximately 76% of contracted leases have either annual fixed increases or inbuilt increases based on inflation or market outcomes (e.g. CPI).

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

Property portfolio summary

% of total portfolio	1H23	1H22
Australian office	55%	60%
Australian retail	23%	21%
Australian industrial	8%	6%
Other	3%	3%
Australian total	**89%**	**90%**
Japanese retail	11%	10%
Total	**100%**	**100%**

Portfolio lease expiry overview[2]



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

Direct property portfolio overview[1]

31 December 2022		Office	Retail	Industrial	Total
Total rent (%)[2]		51%	42%	7%	100%
WALE[3] (years)		6.0	6.4	6.2	6.2
Tenant credit ratings					
	AAA	22%	—	—	22%
	AA	7%	1%	—	8%
	A	1%	3%	—	4%
	BBB	2%	9%	3%	14%
	BB	11%	13%	4%	28%
	B or below	2%	7%	—	9%
	Not rated	1%	8%	—	9%
	Vacant	5%	1%	—	6%
	Total	**51%**	**42%**	**7%**	**100%**
% of total gross net	Investment grade	32%	13%	3%	48%
	Non-investment grade	14%	28%	4%	46%
	Vacant	5%	1%	—	6%

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

Direct property investments

31 December 2022		Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate 1H23 (%)[3]	Last external valuation date
Australia						
Office						
	6 Chan Street (formerly DIBP Building), ACT	01 Dec 01	128.5	281.0	4.63	31 Dec 22
	14 Childers Street, ACT	01 Dec 17	101.2	85.0	6.25	31 Dec 22
	35 Clarence Street, NSW	15 Jan 15	157.9	240.0	5.13	30 Jun 22
	45 Benjamin Way (formerly ABS Building), ACT	01 Jan 00	152.8	259.0	5.00	31 Dec 22
	82 Northbourne Avenue, ACT	01 Jun 17	62.7	49.0	5.75	30 Jun 22
	215 Adelaide Street, QLD	31 Jul 15	259.9	222.5	6.25	31 Dec 22
	565 Bourke Street, VIC	28 Jan 15	111.8	155.5	5.00	31 Dec 22
	839 Collins Street, VIC	22 Dec 16	212.0	247.5	4.75	30 Jun 22
	Discovery House, ACT	28 Apr 98	105.5	174.0	4.88	30 Jun 22
	Executive Building, TAS	30 Mar 01	35.7	49.0	5.50	30 Jun 22
Retail						
	Channel Court, TAS	21 Aug 15	88.8	90.0	6.75	30 Jun 22
	Gateway, NT	01 Jul 15	123.5	112.5	6.34	31 Dec 22
	Golden Grove, SA	31 Jul 14	161.2	155.0	6.00	30 Jun 22
	Helicon Drive, SA	05 Oct 22	10.5	10.3	5.50	05 Oct 22
	Karratha, WA	28 Jun 13	58.1	52.3	6.88	31 Dec 22
	Kings Langley, NSW	29 Jul 01	16.6	29.5	5.00	31 Dec 22
	Lennox, NSW	27 Jul 13	68.5	81.0	6.00	30 Jun 22
	North Rocks, NSW	18 Sep 15	187.6	196.0	5.50	31 Dec 22
Industrial						
	21 O'Sullivan Circuit, NT	27 Jan 16	47.8	28.5	7.25	30 Jun 22
	31 O'Sullivan Circuit, NT	27 Jan 16	34.2	37.1	6.75	30 Jun 22
	Cosgrave Industrial Park, Enfield, NSW	31 Dec 08	91.4	177.0	3.88	30 Jun 22
Total Australia			**2,216.2**	**2,731.7**	**5.35**	

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

Direct property investments

31 December 2022		Acquisition date[1]	Total cost ($m)[2]	Carrying value ($m)	Cap rate 1H23 (%)[3]	Last external valuation date
Japan						
Retail						
	Aeon Kushiro	31 Jan 10	30.5	32.7	5.40	31 Dec 22
	Carino Chitosedai	31 Jan 10	119.2	118.5	4.40	31 Dec 22
	Carino Tokiwadai	31 Jan 10	77.7	70.3	4.60	30 Jun 22
	DeoDeo Kure	31 Jan 10	32.2	29.1	5.50	30 Jun 22
	Fitta Natalie Hatsukaichi	28 Aug 15	11.9	12.6	5.80	31 Dec 22
	Izumiya Hakubaicho	31 Jan 10	69.7	66.4	4.80	31 Dec 22
	Kansai Super Saigo	31 Jan 10	13.3	12.5	5.40	31 Dec 22
	Kojima Nishiarai	31 Jan 10	12.2	13.6	4.10	30 Jun 22
	Kotesashi Towers	28 Nov 19	25.2	20.3	5.00	31 Dec 22
	Life Asakusa	31 Jan 10	27.9	32.4	4.20	30 Jun 22
	Life Higashi Nakano	31 Jan 10	33.0	34.4	4.30	30 Jun 22
	Life Nagata	31 Jan 10	25.2	25.8	4.90	30 Jun 22
	MaxValu Tarumi	28 Aug 15	17.0	17.1	5.70	31 Dec 22
	Seiyu Miyagino	31 Jan 10	9.8	9.8	5.20	30 Jun 22
	TR Mall Ryugasaki	30 Mar 18	86.7	84.3	5.50	31 Dec 22
	Valor Takinomizu	31 Jan 10	27.7	22.4	5.70	31 Dec 22
	Valor Toda	31 Jan 10	42.5	39.6	5.10	30 Jun 22
	Yaoko Sakado Chiyoda	31 Jan 10	19.9	19.4	4.70	31 Dec 22
	Yorktown Toride	05 Mar 20	32.2	24.1	5.10	30 Jun 22
Industrial						
	Aeon Matsusaka XD	26 Sep 19	14.7	12.7	5.60	30 Jun 22
Total Japan			**728.5**	**698.0**	**4.92**	
Europe						
Retail						
	Aulnay sous Bois, Avenue de Savigny, France	31 Dec 08	20.3	10.4	7.00	31 Dec 22
Total Europe			**20.3**	**10.4**	**7.00**	
Total Overseas			**748.8**	**708.4**	**4.95**	
Total direct portfolio investments			**2,965.0**	**3,440.1**	**5.27**	

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

Equity and infrastructure portfolio overview

Life's equity and infrastructure portfolio was $0.3b at 31 December 2022 and decreased by 73% ($0.7b) from 30 June 2022.

The decrease in equities and infrastructure in 1H23 predominantly reflects the sale of $0.7b in low-beta equity investments, which has been redeployed largely into alternatives.

Equity and infrastructure represented 1% of Life's total investment assets at 31 December 2022, down from 4% at 30 June 2022.

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

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

The infrastructure portfolio is held entirely in unlisted investments, predominantly utility and renewable energy assets. Australian infrastructure accounted for 55% of infrastructure investments with the remainder diversified across geographic regions and sectors.

Equity and infrastructure portfolio

31 Dec 2022	Domestic	Offshore	Total
Equity beta	54	43	**97**
Low beta	35	—	**35**
Infrastructure	70	57	**127**
Total equity & infrastructure	**159**	**100**	**259**

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

Alternatives portfolio overview

The alternatives portfolio includes absolute return funds and insurance-related investments. These investments provide liquid capital and financial flexibility as they are expected to have a low correlation to credit and listed equity markets.

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

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

Life's alternatives portfolio was $2.0b at 31 December 2022 and increased by 48% ($0.7b) from 30 June 2022. The increase was driven by an increase in absolute return funds and general insurance-related investments.

Alternatives portfolio

31 Dec 2022	Domestic	Offshore	Total
Absolute return funds	21	1,620	**1,641**
General insurance	—	276	**276**
Life insurance	—	110	**110**
Total alternatives	**21**	**2,006**	**2,027**

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

Challenger Life Company Limited (CLC) debt facilities

$m	1H23	FY22	1H22	FY21	1H21	FY20	1H20
Repurchase agreements	3,716.7	3,735.1	3,542.5	4,111.1	4,966.3	5,393.4	4,460.0
Controlled property debt	347.8	334.0	382.2	394.5	420.4	458.0	455.0
Subordinated debt	399.3	398.4	400.0	404.5	401.7	395.7	404.9
Challenger Capital Notes	845.0	845.0	872.7	872.7	892.5	805.0	805.0
Infrastructure debt	168.4	172.3	175.7	179.3	182.6	185.8	189.0
Other finance	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Total CLC debt facilities	**5,477.9**	**5,485.5**	**5,373.8**	**5,962.8**	**6,864.2**	**7,238.6**	**6,314.6**

Life debt facilities

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

Life debt facilities at 31 December 2022 were $5.5b and were stable on 30 June 2022.

Repurchase agreements

Repurchase agreements at 31 December 2022 were $3.7b, stable on 30 June 2022.

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

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

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

Subordinated debt

In November 2017, CLC issued $400m of Tier 2 subordinated notes. The subordinated notes fully qualified as Tier 2 regulatory capital under APRA's prudential standards and were floating rate notes, paying interest at a margin of 2.10% above the 3-month Bank Bill Swap rate.

Under the Terms and Conditions of the notes, CLC had the option to redeem all (but not some only) of the subordinated notes on 24 November 2022 (the Optional Redemption Date), subject to APRA's prior written approval. If the subordinated notes were not redeemed on the Optional Redemption Date, noteholders had the option to require conversion of the subordinated notes into ordinary shares in Challenger Limited in November 2024.

On 7 November 2022, Challenger announced that the redemption of the subordinated notes was approved by APRA and CLC had elected to redeem all the subordinated notes on the Optional Redemption Date. CLC's redemption of the subordinated notes does not imply or indicate that CLC or Challenger Limited will in the future exercise any right it may have to redeem any other outstanding regulatory capital instruments issued by CLC or Challenger Limited. Any such redemption would also be subject to the prior written approval of APRA (which may or may not be given).

In September 2022, CLC issued $400m of fixed-to-floating rate, unlisted, unsecured subordinated notes, paying a semi-annual fixed rate of 7.186% per annum for the first 5 years, before reverting to paying interest at a margin of 3.55% per annum above the 3-month Bank Bill Swap rate. 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 prior written approval

Capital Notes

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

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

Challenger Capital Notes 1 (ASX code: CGFPA)

In October 2014, Challenger issued Challenger Capital Notes 1 to the value of $345m. Challenger Capital Notes 1 paid a margin of 3.40% above the 3-month Bank Bill Swap rate, with the total distribution reduced by available franking credits.

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

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

It was Challenger's intention to fully repurchase all Challenger Capital Notes 1 with the proceeds of Challenger Capital Notes 3; however, noteholders were not required to participate in the repurchase invitation. As a result, at 25 May 2021, approximately $28m of Challenger Capital Notes 1 remained on issue.

In May 2022, Challenger mandatorily converted the remaining balance of Challenger Capital Notes 1 into Challenger ordinary shares in accordance with the Challenger Capital Notes 1 Terms and issued 3.8m fully paid ordinary shares.

Challenger Capital Notes 2 (ASX code: CGFPB)

In April 2017, Challenger issued Challenger Capital Notes 2 to the value of $460m. Challenger Capital Notes 2 pay a margin of 4.40% above the 3-month Bank Bill Swap rate, with the total distribution reduced by available franking credits.

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

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

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

Challenger Capital Notes 3 (ASX code: CGFPC)

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

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

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

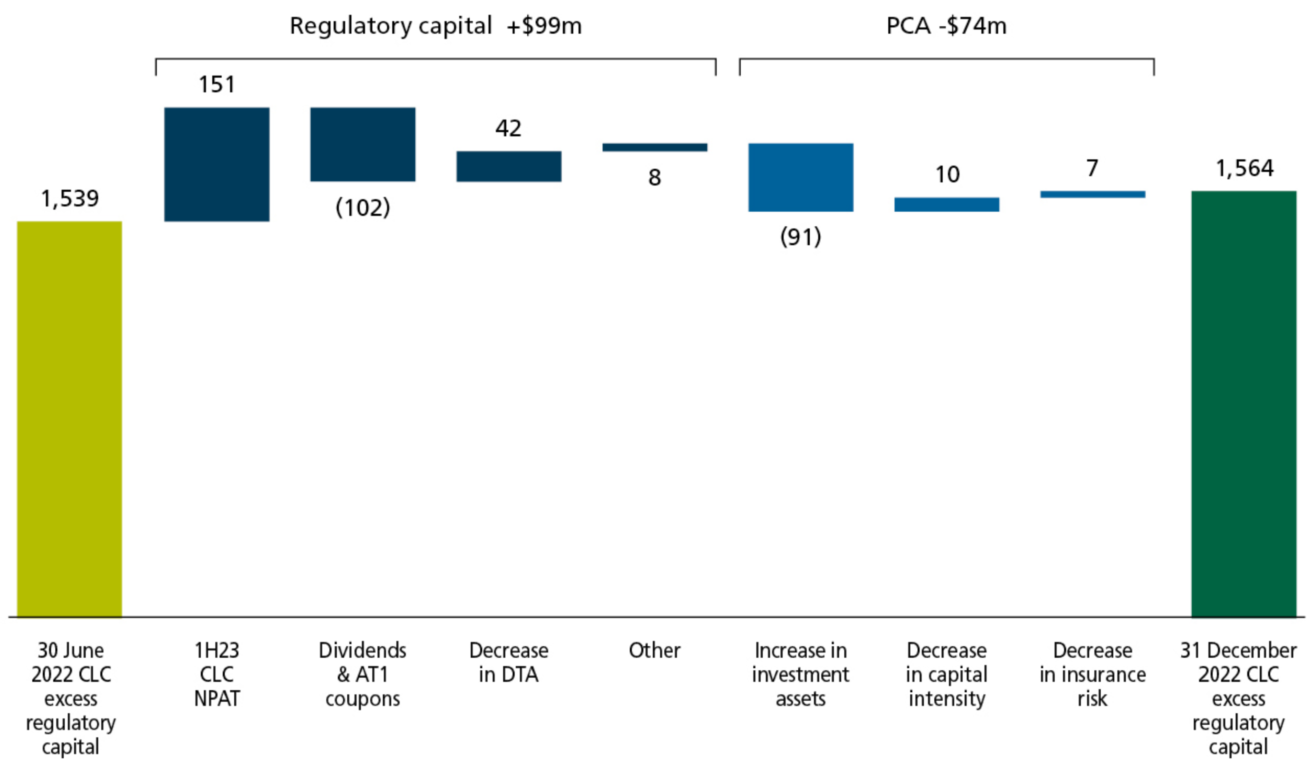
If Challenger exercises its option to redeem or resell, there will be no conversion of Challenger Capital Notes 3 to Challenger ordinary shares and no subsequent shareholder dilution.

Challenger Life Company Limited (CLC) regulatory capital

$m	1H23	FY22	1H22	FY21	1H21	FY20	1H20
CLC regulatory capital							
Common Equity Tier 1 (CET1) regulatory capital	2,947.9	2,858.0	3,120.3	2,971.2	2,622.9	2,337.0	2,811.3
Additional Tier 1 regulatory capital	845.0	845.0	872.7	872.7	892.5	805.0	805.0
Tier 2 regulatory capital – subordinated debt[1]	407.8	399.7	402.4	405.4	402.7	396.7	406.2
CLC total regulatory capital base	**4,200.7**	**4,102.7**	**4,395.4**	**4,249.3**	**3,918.1**	**3,538.7**	**4,022.5**
CLC Prescribed Capital Amount (PCA)							
Asset risk charge	2,541.7	2,467.5	2,470.6	2,481.8	2,290.2	1,842.8	2,523.6
Insurance risk charge	127.6	151.5	233.5	227.0	213.8	199.5	164.6
Operational risk charge	65.4	58.6	60.7	57.9	54.4	56.5	53.4
Aggregation benefit	(97.6)	(114.3)	(171.0)	(167.4)	(156.7)	(144.8)	(125.4)
CLC PCA	**2,637.1**	**2,563.3**	**2,593.8**	**2,599.3**	**2,401.7**	**1,954.0**	**2,616.2**
CLC excess over PCA	**1,563.6**	**1,539.4**	**1,801.6**	**1,650.0**	**1,516.4**	**1,584.7**	**1,406.3**
PCA ratio (times)	1.59	1.60	1.69	1.63	1.63	1.81	1.54
Tier 1 ratio (times)	1.44	1.44	1.54	1.48	1.46	1.61	1.38
CET1 capital ratio (times)	1.12	1.11	1.20	1.14	1.09	1.20	1.07
Capital intensity ratio (%)[2]	11.4%	11.5%	11.3%	12.1%	12.2%	10.7%	13.3%

1 1H23 Tier 2 regulatory capital – subordinated debt ($407.8m) differs to the Group balance sheet ($399.3m) due to accrued interest and amortised costs.
2 Capital intensity ratio is calculated as CLC PCA divided by Life closing investment assets.

Movement in CLC excess regulatory capital ($m)



Challenger Life Company Limited (CLC) regulatory capital

Capital management

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

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

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

CLC's regulatory capital base

CLC's regulatory capital base at 31 December 2022 was $4.2b and increased by $0.1b in 1H23. The increase reflects:

- CLC's statutory profit after tax for the half year (+$151m) and a decrease in deferred tax assets (+$42m) primarily driven by increased unrealised gains on the fixed income portfolio and the disposal of one property at its carrying value; partially offset by
- dividend and coupon payments on Additional Tier 1 instruments (-$102m).

CLC's Prescribed Capital Amount (PCA)

CLC's PCA at 31 December 2022 was $2.6b and increased by $74m in 1H23, reflecting:

- growth in investment assets (+$91m); partially offset by
- a reduction in capital intensity (-$10m) (refer below) and a lower insurance risk charge (-$7m).

Reduction in capital intensity

CLC's capital intensity ratio, which is calculated as CLC PCA divided by Life's closing investment assets, decreased from 11.5% at 30 June 2022 to 11.4% at 31 December 2022.

The reduction in capital intensity from 11.5% to 11.4% relates to a lower capital intensity on fixed income assets, partially offset by a higher asset risk charge for alternatives. The asset risk charge for fixed income reduced following an increase in interest rates, which reduces the sensitivity of fixed income assets to credit shocks.

The impact of changes in asset mix over the period is largely neutral, with the increased allocation to fixed income assets being offset by the net increased allocation to growth assets.

CLC's excess capital position

CLC's excess capital above PCA at 31 December 2022 was $1.6b and increased by $24m in 1H23 as a result of the increase in CLC's regulatory capital base.

CLC's capital ratios at 31 December 2022 were as follows:

- PCA ratio 1.59 times – down 0.01 times from 1.60 times at 30 June 2022;
- Total Tier 1 capital ratio 1.44 times – stable on 30 June 2022; and
- Common Equity Tier 1 (CET1) capital ratio 1.12 times – up 0.01 times from 1.11 times at 30 June 2022.

APRA's prudential standards require the capital base to be at least the PCA, Total Tier 1 capital to be at least 80% of the PCA and CET1 capital to be at least 60% of the PCA. Challenger's PCA ratio (1.59 times), Total Tier 1 capital ratio (1.44 times) and CET1 capital ratio (1.12 times) are well in excess of APRA's minimum requirements.

Target surplus level of excess capital

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

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

CLC does not target a specific PCA ratio. CLC's target PCA ratio range is a reflection of internal capital models, not an input to them, and reflects asset allocation, business mix and economic circumstances. The target surplus produced by these internal capital models for 1H23 corresponded to a PCA ratio of between 1.3 times to 1.7 times. This range may change over time.

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

The metric that generates the worst outcome relative to target forms CLC's constraining target. Given CLC's current mix of capital at 31 December 2022, CLC's constraining target was CET1. The target surplus produced by the internal capital models currently corresponds to a CET1 ratio of between 0.8 times to 1.2 times. This ratio may change over time.

Additional Tier 1 regulatory capital and subordinated debt

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

In May 2022, Challenger converted the remaining balance of Challenger Capital Notes 1 into Challenger ordinary shares in accordance with the mandatory conversion conditions under the Challenger Capital Notes 1 Terms. Refer to page 44 for more detail.

CLC has on issue one series of Tier 2 notes, issued in September 2022, with a face value of $400m, which fully qualify as Tier 2 regulatory capital under APRA's prudential standards.

In November 2017, CLC issued $400m of Tier 2 subordinated notes. On 7 November 2022, Challenger announced that the redemption of the existing subordinated notes was approved by APRA and CLC elected to redeem all the subordinated notes on the Optional Redemption Date of 24 November 2022.

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

Profit and equity sensitivities

$m	Change in variable	Profit/(loss) after tax 1H23	Change in equity 1H23	Profit/(loss) after tax FY22	Change in equity FY22
Credit risk					
Fixed income assets (change in credit spreads)[1]	+50 bps	(127.1)	(127.1)	(131.5)	(131.5)
	-50 bps	127.1	127.1	131.5	131.5
Policy liabilities (illiquidity premium change in credit spreads)	+50 bps	63.4	63.4	66.3	66.3
	-50 bps	(63.4)	(63.4)	(66.3)	(66.3)
Property risk					
Direct and indirect properties	+1%	22.2	22.2	22.6	22.6
	-1%	(22.2)	(22.2)	(22.6)	(22.6)
Equity and infrastructure risk					
Equity and infrastructure investments	+10%	18.1	18.1	68.0	68.0
	-10%	(18.1)	(18.1)	(68.0)	(68.0)
Alternatives risk					
Alternatives investments	+10%	141.9	141.9	95.6	95.6
	-10%	(141.9)	(141.9)	(95.6)	(95.6)
Life Insurance risk					
Mortality, morbidity and longevity[2]					
Life insurance contract liabilities	+50%	(23.9)	(23.9)	(20.3)	(20.3)
	-50%	23.9	23.9	20.3	20.3
Interest rate risk					
Change in interest rates	+100 bps	(1.4)	(1.4)	(2.8)	(2.8)
	-100 bps	1.4	1.4	2.8	2.8
Foreign exchange risk					
British pound	+10%	0.1	0.1	—	—
	-10%	(0.1)	(0.1)	—	—
US dollar	+10%	0.9	0.9	(0.8)	(0.8)
	-10%	(0.9)	(0.9)	0.8	0.8
Euro	+10%	—	—	(0.7)	(0.7)
	-10%	—	—	0.7	0.7
Japanese yen	+10%	0.2	0.4	0.3	0.4
	-10%	(0.2)	(0.4)	(0.3)	(0.4)

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

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

The sensitivities are not forward looking and make no allowance for events occurring after 31 December 2022. If using these sensitivities as forward looking, allowances for changes post-31 December 2022, such as sales, asset growth changes in asset allocation and changes in market conditions, should be made.

These sensitivities assess changes in economic, insurance and investment markets on the valuation of assets and liabilities, which, in turn, impact earnings. The earnings impact is included in investment experience and does not take into consideration the impact of any under- or over-performance of normalised growth assumptions for each asset category. Refer to page 62 for normalised growth assumptions.

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

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

Risk management framework

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

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

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

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

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

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

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

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

Risk appetite

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

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

Asset and liability mismatch risk

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

Credit risk

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

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

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

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

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

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

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

[3] Subject to appropriate returns.

Credit spread risk sensitivity

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

As at 31 December 2022, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised loss/gain of $127m (after-tax) on fixed income investments (net of debt).

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

As at 31 December 2022, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised gain/loss of $63m (after-tax) on the value of annuity liabilities.

Property risk

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

Property risk sensitivity

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

The property sensitivities included on page 48 show the impact of a change in property valuations at 31 December 2022 and are based on Life's gross property investments of $3.5b (net investments of $3.2b plus debt of $0.3b).

A 1% move in the direct and indirect property portfolio at 31 December 2022 would result in a $22m (after-tax) movement in property valuations.

Equity and infrastructure risk

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

Equity risk sensitivity

The equity and infrastructure risk sensitivities included on page 48 show a 10% move in the equity portfolio at 31 December 2022 would have resulted in a $18m (after-tax) movement in the valuation of equity investments.

Alternatives risk

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

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

Alternatives sensitivity

The alternatives risk sensitivity on page 48 show a 10% market move in the alternatives portfolio at 31 December 2022 would have an impact of $142m (after-tax) in the valuation of alternatives investments.

Liquidity risk

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

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

In determining the required levels of liquidity, Challenger considers:

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

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

Life insurance risk

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

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

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

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

Mortality and longevity sensitivities

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

A 50% increase in the annual mortality improvement rates already assumed would increase the life expectancy of a male aged 65 from 25 years to 26 years and increase the policy liability valuation leading to a $24m (after-tax) impact.

Interest rate sensitivity

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

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

The sensitivities assume the change in variable occurs on 31 December 2022 and are based on assets and liabilities held at that date.

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

The sensitivities do not include the impact of changes in interest rates on earnings from CLC's shareholder capital as investment earnings are earned over the period, whereas the sensitivities assume a change in interest rates occurred on 31 December 2022.

Foreign exchange risk

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

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

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

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

Foreign exchange sensitivity

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

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

Funds Management financial results

$m	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Fidante							
Fidante income[1]	54.0	58.3	63.1	52.3	45.1	39.4	42.0
Performance fees	3.1	1.6	2.4	5.5	4.6	11.4	3.5
Net income	**57.1**	**59.9**	**65.5**	**57.8**	**49.7**	**50.8**	**45.5**
Challenger Investment Management							
Challenger Investment Management income[2]	30.8	33.7	32.7	30.2	31.6	29.6	32.2
Total net fee income	**87.9**	**93.6**	**98.2**	**88.0**	**81.3**	**80.4**	**77.7**
Personnel expenses	(36.0)	(35.4)	(34.9)	(34.0)	(29.2)	(32.2)	(31.7)
Other expenses	(21.2)	(20.5)	(18.2)	(18.3)	(16.8)	(18.4)	(18.1)
Total expenses	**(57.2)**	**(55.9)**	**(53.1)**	**(52.3)**	**(46.0)**	**(50.6)**	**(49.8)**
EBIT	**30.7**	**37.7**	**45.1**	**35.7**	**35.3**	**29.8**	**27.9**
Performance analysis							
Fidante – income margin (bps)[3]	15.7	15.0	14.9	14.8	14.9	16.8	14.8
Challenger Investment Management – income margin (bps)[3]	29.2	33.0	31.1	29.8	31.7	30.0	31.7
Funds Management – income margin (bps)[3]	18.7	18.7	18.0	17.9	18.8	20.2	19.0
Funds Management – FUM-based income margin (bps)[4]	17.6	17.3	16.7	16.2	16.6	16.6	15.5
Cost to income ratio	65.1%	59.7%	54.1%	59.4%	56.6%	62.9%	64.1%
Net assets – average[5]	289.0	267.6	264.3	260.3	251.4	242.9	232.5
ROE (pre-tax)	21.1%	28.4%	33.8%	27.7%	27.8%	24.7%	23.8%
Fidante	72,390	72,438	88,512	84,943	71,826	62,393	62,693
Challenger Investment Management	20,985	21,010	20,779	20,881	19,416	19,042	20,153
Closing FUM – total	**93,375**	**93,448**	**109,291**	**105,824**	**91,242**	**81,435**	**82,846**
Fidante	72,211	80,426	87,371	78,754	66,127	60,866	60,887
Challenger Investment Management	20,936	20,591	20,869	20,481	19,763	19,550	20,170
Average FUM – total[5]	**93,147**	**101,017**	**108,240**	**99,235**	**85,890**	**80,416**	**81,057**
FUM and net flows analysis							
Fidante[6]	(1,666.3)	(9,984.0)	1,088.8	8,582.2	5,764.3	1,854.4	1,943.4
Challenger Investment Management	(159.9)	554.8	(184.4)	1,105.9	659.1	(1,193.1)	(63.8)
Net flows	(1,826.2)	(9,429.2)	904.4	9,688.1	6,423.4	661.3	1,879.6
Distributions	(1,361.3)	(404.3)	(736.9)	(474.8)	(857.4)	(297.5)	(464.7)
Market-linked movement	3,114.5	(6,009.0)	3,299.0	5,368.9	4,241.0	(1,774.3)	2,401.9
Total FUM movement	**(73.0)**	**(15,842.5)**	**3,466.5**	**14,582.2**	**9,807.0**	**(1,410.5)**	**3,816.8**

[1] Fidante income includes equity-accounted profits, distribution fees, administration fees, and Fidante Europe transaction fees.
[2] Challenger Investment Management income includes asset-based management fees and other income. Other income includes leasing fees, asset acquisition and disposal fees, development and placement fees.
[3] Income margin represents net income divided by average FUM.
[4] FUM-based income margin represents FUM-based income (net income excluding performance and transaction fees) divided by average FUM.
[5] Calculated on a monthly basis.
[6] 2H22 included the $5,162m FUM derecognition following the sale of Whitehelm Capital.

Funds Management financial results

Funds Under Management and net flows

$m	Q2 23	Q1 23	Q4 22	Q3 22	Q2 22
Funds Under Management					
Fidante					
Equities	37,991	36,101	35,661	41,516	42,960
Fixed income	32,040	31,205	34,274	36,602	38,510
Alternatives[1]	2,359	2,665	2,503	1,944	7,042
Total Fidante	72,390	69,971	72,438	80,062	88,512
Challenger Investment Management					
Fixed income	16,710	16,796	16,658	15,938	16,065
Property	4,275	4,274	4,352	4,497	4,714
Total Challenger Investment Management	20,985	21,070	21,010	20,435	20,779
Total Funds Under Management	**93,375**	**91,041**	**93,448**	**100,497**	**109,291**
Average Fidante	71,760	72,102	76,807	83,954	87,810
Average Challenger Investment Management	21,015	20,891	20,587	20,556	20,811
Total average Funds Under Management[2]	**92,775**	**92,993**	**97,394**	**104,510**	**108,621**
Analysis of flows					
Equities	(491)	415	(1,200)	(591)	2,582
Fixed income	807	(2,296)	(2,088)	(1,152)	(2,835)
Alternatives[1]	(276)	175	213	(5,166)	(147)
Total Fidante	**40**	**(1,706)**	**(3,075)**	**(6,909)**	**(400)**
Challenger Investment Management	(216)	56	552	3	(111)
Net flows	**(176)**	**(1,650)**	**(2,523)**	**(6,906)**	**(511)**

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

Reconciliation of total Group assets and Funds Under Management

$m	Q2 23	Q1 23	Q4 22	Q3 22	Q2 22
Funds Management Funds Under Management	93,375	91,041	93,448	100,497	109,291
Life investment assets	23,085	22,817	22,224	22,434	22,937
Bank lending and financing assets	407	415	391	320	230
Adjustments to remove double counting of cross-holdings	(17,474)	(17,821)	(17,493)	(17,176)	(17,551)
Total Assets Under Management	**99,393**	**96,452**	**98,570**	**106,075**	**114,907**

Funds Management financial results

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[1] with funds under management (FUM) of $93 billion, increasing by more than 2.5 times over the last ten years (up from $35 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.

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.

EBIT and ROE

Funds Management EBIT was $31m and decreased by $14m (32%) on 1H22. The decrease was due to lower FUM-based fee income (down $9m), with average FUM down $15b (14%), lower transaction fees (down $2m) and higher expenses (up $4m), partially offset by higher performance fees (up $1m).

Funds Management ROE was 21.1% and decreased from 33.8% in 1H22. ROE was materially impacted by the 32% decrease in EBIT.

Total net fee income

1H23 total net income was $88m (down 11%) and comprised FUM-based fees of $83m (down 9%), transaction fees of $2m (down 49%) and performance fees of $3m (up 29%).

1H23 FUM-based fees decreased 9% as a result of lower average FUM (down $15b or 14%). However FUM-based income margin increased to 17.6 bps (1H22 16.7 bps) due to changes in business mix following the sale of Whitehelm Capital in 2H22 and low-margin fixed income mandate redemptions.

1H23 performance and transaction fees were $2m lower than 1H22.

Expenses

1H23 Funds Management expenses were $57m and increased by $4m (8%) on 1H22.

Personnel costs increased by $1m (3%), largely driven by an increase in full-time equivalent employees (up 2%).

Other expenses increased by $3m (16%) as a result of increased technology costs, higher affiliate trading and transaction volumes, FX impacts, higher professional fees, and increased travel costs following the easing of COVID-19 restrictions.

The 1H23 cost to income ratio was 65.1% and increased from 54.1% in 1H22 due to lower net fee income (down 11%) and higher expenses (up 8%).

Fidante net income

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 net income was $57m in 1H23 and decreased by $8m (13%) on 1H22.

Fidante net income comprised:

- FUM-based income of $54m, down $8m (13%) on 1H22 as a result of a 17% decrease in average FUM, partially offset by an expansion in FUM-based income margin (refer to below for more information); and
- Performance fees of $3m, increased by $1m (29%) on 1H22.
- Nil transaction fees, decreased by $1m (100%) on 1H22.

Fidante income margin (net income to average FUM) was 15.7 bps, up 0.8 bps from 1H22. FUM-based income accounted for 14.8 bps and increased by 0.7 bps, supported by changes in business mix following the sale of Whitehelm Capital and redemptions of low-margin fixed income mandates.

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

Fidante FUM and net flows

Fidante's FUM at 31 December 2022 was $72.4b and was unchanged for the half year.

The movements in the period included:

- net outflows of $1.7b reflecting $1.0b of institutional outflows and $0.6b of retail outflows predominantly across fixed income affiliate managers;
- distributions of $1.3b; offset by
- positive impact from investment markets of $2.9b, in particular positive equity markets.

Fidante's FUM at 31 December 2022 was invested in the following asset classes:

- 52% in equities (FY22 50%);
- 44% in fixed income (FY22 47%); and
- 4% in alternatives (FY22 3%).

Challenger Investment Management (CIM)

CIM's 1H23 net income was $31m and decreased by $2m (6%) on 1H22.

CIM's net income included:

- FUM-based income of $28m, in line with 1H22, reflecting broadly consistent average FUM; and
- transaction fees of $2m, down $2m on 1H22 following the transfer of the Solutions Group from CIM to the Life business. Refer to page 27 for further details.

CIM's 1H23 income margin (net income to average FUM) was 29.2 bps, down 1.9 bps from 1H22 primarily due to lower transaction fees.

The FUM-based contribution was 26.9 bps, down 0.5 bps following changes in product mix with a higher weighting to fixed income.

CIM FUM and net flows

CIM's FUM at 31 December 2022 was $21.0b and remained unchanged for the half year.

The movements in the period include:

- net outflows of $0.2b predominantly due to the sale of one property, partially offset by net inflows in fixed income; and
- positive market movement of $0.2b.

CIM's 31 December 2022 FUM is invested in the following asset classes:

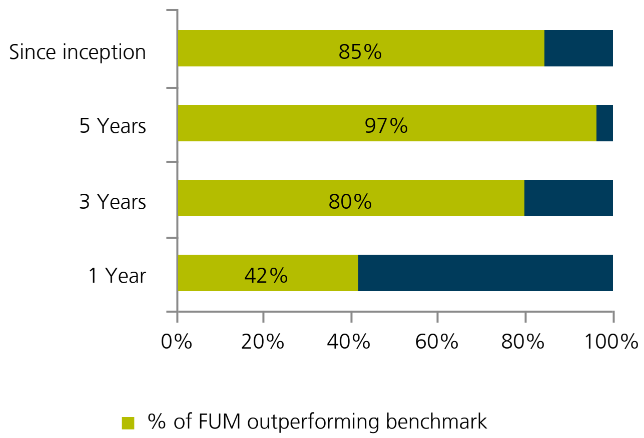
- 80% in fixed income (1H22 79%); and
- 20% in property (1H22 21%).

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

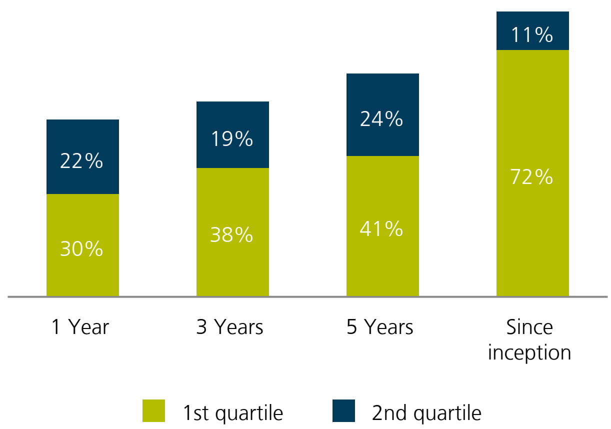
Funds Management investment performance

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

Long-term performance for Fidante's affiliates remains strong with 80% and 97% of FUM outperforming benchmark over three and five years respectively[1].



For Fidante affiliates, 65% of funds achieved first or second quartile performance over five years and 83% of funds achieved either first or second quartile investment performance since inception[2].



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

Bank financial results

$m	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Interest income	7.4	2.1	1.3	—	—	—	—
Interest expense	(2.7)	(0.7)	(0.4)	—	—	—	—
Net interest income	**4.7**	**1.4**	**0.9**	**—**	**—**	**—**	**—**
Personnel expenses	(6.0)	(7.1)	(2.6)	—	—	—	—
Other expenses	(3.0)	(2.1)	(1.6)	—	—	—	—
Total expenses	**(9.0)**	**(9.2)**	**(4.2)**	**—**	**—**	**—**	**—**
Normalised EBIT	**(4.3)**	**(7.8)**	**(3.3)**	**—**	**—**	**—**	**—**
Bank impairments[1]	(3.0)	(0.9)	—	—	—	—	—
Net profit after impairments before tax	**(7.3)**	**(8.7)**	**(3.3)**	**—**	**—**	**—**	**—**
Performance analysis							
Net interest margin (%)	2.37%	0.91%	0.99%	—	—	—	—
Cost to income ratio (%)	182.6%	648.5%	464.7%	—	—	—	—
Net assets – average[2] ($m)	118.1	109.8	76.2	—	—	—	—

[1] Represents provision for expected credit losses and fair value movements for assets classified as held for sale.
[2] Calculated on a monthly basis.

Bank overview

In 2020, Challenger announced the acquisition of MyLifeMyFinance Limited, an Australian-based authorised deposit-taking institution (ADI) and digital bank offering a range of savings and lending products. MyLifeMyFinance Limited was subsequently rebranded 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 that a 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 and growth 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 (Heartland). The Bank sale is subject to regulatory approval in Australia and New Zealand and is expected to settle in 2H23.

Normalised EBIT and ROE

Bank normalised EBIT was a loss of $4m in 1H23 and increased by $1m (30%) on 1H22.

Net interest income for the period was $5m, up by $4m on 1H22 and represents interest earned on lending and financing assets ($7m), less interest costs associated with deposit products ($3m).

Net interest margin

The net interest margin (NIM) for 1H23 was 2.37% (up 138 bps on 1H22), primarily due to increased returns generated on $236m invested in fixed income securities ($77m as at 31 December 2021). The NIM is calculated as annualised net interest income divided by 1H23 average lending and financing assets.

The NIM reflects a large proportion (~70%) of the financing and lending asset base ($407m as at 31 December 2022) invested in cash and equivalents, primarily due to lending activities, including mortgage lending, being paused given the sale of the Bank to Heartland.

Expenses

Bank expenses for the period were $9m, up $5m on 1H22 and predominantly relate to personnel expenses of $6m, up $3m, 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 impairments

Challenger Bank maintains a high-quality financing and lending portfolio, with ~30% exposure to retail and non-retail lending. Retail lending assets were $78m, down $20m, and non-retail lending assets were $57m, representing $44m of corporate lending and $13m of SME lending activities as at 31 December 2022.

The Bank recognised a -$3.0m fair value adjustment on its lending and financing assets, a proportion of which have been classified as held for sale, as a result of the sale to Heartland. The Bank division is classified as a discontinued operation.

Bank financial results

$m	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Sales ($m)							
Bank deposit sales[1]	129.6	146.7	72.6	—	—	—	—
Maturities and withdrawals	(133.3)	(71.5)	(54.2)	—	—	—	—
Bank net flows	**(3.7)**	**75.2**	**18.4**	**—**	**—**	**—**	**—**
Closing Bank deposits[1]	224.1	227.7	152.6	—	—	—	—
Bank book growth[2]	**(1.6%)**	**56.0%**	**13.7%**	**—**	**—**	**—**	**—**
Lending and financing assets ($m)							
Closing lending and financing assets ($m)	**407**	**391**	**230**	**—**	**—**	**—**	**—**
Fixed income, cash and cash equivalents	272	285	133	—	—	—	—
SME Lending	13	—	—	—	—	—	—
Retail Lending	78	89	97	—	—	—	—
Corporate Lending	44	17	—	—	—	—	—
Average lending and financing assets ($m)[3]	**416**	**317**	**218**	**—**	**—**	**—**	**—**
Deposit liabilities ($m)							
Closing Bank deposits[1]	224	228	153	—	—	—	—
Average deposits[3]	**244**	**185**	**141**	**—**	**—**	**—**	**—**

1 Deposits include At Call accounts and Term Deposits.
2 Bank book growth percentage represents Bank net flows over the period divided by opening book value as at 30 June 2022 of $227.7m.
3 Calculated on a monthly basis.

Deposit sales and book growth

1H23 Bank deposit sales were $129.6m and maturities and withdrawals were $133.3m, resulting in net outflows of $3.7m.

Based on a opening deposit book of $227.7m at 30 June 2022, Bank net outflows of $4m represented Bank deposit book growth of -1.6% in 1H23.

With the sale of the Bank to Heartland, deposit sales have been moderated to prioritise liquidity and capital management until transaction completion.

Lending and financing assets

Bank lending and financing assets at 31 December 2022 were $407m, with approximately ~70% invested in cash and equivalents and only ~30% deployed to retail and corporate lending.

With the sale of the Bank to Heartland, lending activities have been slowed with Challenger having preference to maintain a high level of liquid investments.

Deposit liabilities

Bank deposit liabilities at 31 December 2022 were $224m, with approximately ~26% in at call accounts and ~74% in term deposit products.

Bank quarterly sales and lending and financing assets

$m	Q2 23	Q1 23	Q4 22	Q3 22	Q2 22
Deposit sales					
Bank deposit sales[1]	24	106	87	59	43
Maturities and repayments	(65)	(68)	(42)	(29)	(28)
Bank net flows	**(41)**	**38**	**45**	**30**	**15**
Closing Bank deposits	224	266	228	182	153
Bank net book growth (%)[2]	**(18.2%)**	**16.6%**	**33.6%**	**22.4%**	**11.8%**
Bank lending and financing assets					
Fixed income, cash and cash equivalents	272	277	285	226	133
SME Lending	13	6	—	—	—
Retail Lending	77	85	89	94	97
Corporate Lending	44	47	17	—	—
Total Bank lending and financing assets	**407**	**415**	**391**	**320**	**230**
Average Bank lending and financing assets[3]	**410**	**421**	**361**	**273**	**222**

1 Deposits includes At Call accounts and Term Deposits.
2 Bank book growth percentage represents Bank net flows over the period divided by opening book value as at 30 June 2022 of $227.7m.
3 Calculated on a monthly basis.

Bank balance sheet

$m	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Assets							
Cash and cash equivalents	35.9	40.8	55.9	—	—	—	—
Fixed income securities	236.0	244.4	76.9	—	—	—	—
SME Lending	12.8	0.2	—	—	—	—	—
Retail Lending	77.5	88.6	97.3	—	—	—	—
Corporate Lending	44.4	16.5	—	—	—	—	—
Lending and financing assets	**406.6**	**390.5**	**230.1**	**—**	**—**	**—**	**—**
Impairment Provisioning	(0.4)	—	—	—	—	—	—
Trade and Other Receivables	2.7	11.5	8.3	—	—	—	—
Prepayments and other assets	1.0	0.4	1.0	—	—	—	—
Other assets	1.4	0.8	(0.1)	—	—	—	—
Total assets	**411.3**	**403.2**	**239.3**	**—**	**—**	**—**	**—**
Liabilities							
Deposits	224.1	227.7	152.6	—	—	—	—
Long term borrowings	5.4	5.4	5.4	—	—	—	—
Repurchase Agreements	58.8	34.8	—	—	—	—	—
Provisions	—	0.9	—	—	—	—	—
Trade and other payables	8.6	14.4	4.8	—	—	—	—
Total liabilities	**296.9**	**283.2**	**162.8**	**—**	**—**	**—**	**—**
Net assets	**114.4**	**120.0**	**76.5**	**—**	**—**	**—**	**—**

Bank regulatory capital

$m	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Regulatory capital base							
Common Equity Tier 1 (CET1) regulatory capital	113.1	119.3	76.0	—	—	—	—
Additional Tier 1 capital	—	—	—	—	—	—	—
Total Tier 1 regulatory capital base	**113.1**	**119.3**	**76.0**	**—**	**—**	**—**	**—**
Tier 2 capital	—	—	0.5	—	—	—	—
Total regulatory capital base	**113.1**	**119.3**	**76.5**	**—**	**—**	**—**	**—**
Minimum Regulatory Requirement[1]	26.9	24.3	11.0	—	—	—	—
Excess over Minimum Regulatory Requirement	**86.2**	**95.0**	**65.5**	**—**	**—**	**—**	**—**
Minimum Regulatory Requirement Ratio (times)	4.20	4.91	6.95	—	—	—	—
CET1 capital ratio (times)	4.20	4.91	6.90	—	—	—	—
Risk weighted assets ($m)	256.4	231.4	104.9	—	—	—	—
Capital Adequacy ratio (%)	44.1%	51.5%	72.9%	—	—	—	—
Average RWA intensity ratio (%)	62.3%	57.4%	43.8%	—	—	—	—

1 Bank Minimum Regulatory Requirement represents total capital requirements of 8% (of risk weighted assets) plus the capital conservation buffer of 2.5% (of risk weighted assets), as stipulated under APS 110 ***Capital Adequacy*** as at 31 December 2022.

Capital management

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

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

Regulatory capital base

Bank's regulatory capital base at 31 December 2022 was $113m and represents CET1 regulatory capital, and is similar to the Bank's 31 December 2022 net assets.

Excess over Minimum Regulatory Requirement and capital ratios

Bank's excess over Minimum Regulatory Requirement at 31 December 2022 was $86m and its capital ratios were as follows:

- Minimum Regulatory Requirement ratio 4.20 times;
- Common Equity Tier 1 capital ratio (CET1) 4.20 times; and
- Capital adequacy ratio 44.1%.

Currently, a significant portion of Bank financing and lending assets are invested in cash and cash equivalents and lending activity has been slowed during the period given the sale of the Bank.

Risk management framework

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

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

Interest rate risk

The Bank is exposed to interest rate risk in the banking book, that is, the exposure to risk as a result of interest rate changes on its fixed rate assets and liabilities, and the mismatches between repricing dates of these assets and liabilities.

The net interest rate margin risk on the banking book is measured and reported to the Bank Risk Management Committee and the Board.

The Bank does not currently undertake derivatives as this 'on book' hedging strategy is considered adequate in addressing its interest rate exposure given the Bank's size and complexity.

Credit risk

The credit risk on the Bank's loan assets is determined by the risk appetite of the Bank Board and responsibility for overseeing it is delegated to the Loans Committee. Credit risk provisioning is determined through the application of AASB 9 ***Financial Instruments*** and its requirements using the expected credit loss model. Refer to Note 7 Loan assets of the 2023 Interim Report for further details on the recognition of expected credit losses.

APRA prescribes prudential limits on exposure to an individual counterparty (or group of related parties) as a proportion of an ADI's Tier 1 regulatory capital. In the event that this is exceeded, a large exposure is considered to exist and APRA requires that the ADI must inform the regulator of these exposures through prudential reporting. The Bank currently has no reportable large exposures.

Liquidity risk

The Bank has separate policies and processes to manage liquidity risks. The policy is approved by the Bank Risk Committee and is subject to APRA's review for compliance with Prudential standards. The Bank's policy is to maintain adequate cash reserves, liquidity support facilities and reserve borrowing facilities in order to meet customer withdrawal demands when requested. Prudential liquidity ratios are monitored regularly, daily cash flows and longer-term cash flow forecasts are reviewed continuously and contingency funding plans are in place to address liquidity shortfalls.

Corporate financial results

$m	1H23	2H22	1H22	2H21	1H21	2H20	1H20
Other income	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**0.2**
Personnel expenses	(22.5)	(18.4)	(22.1)	(18.7)	(16.8)	(14.4)	(18.1)
Other expenses	(9.9)	(9.3)	(7.3)	(18.1)	(7.0)	(18.5)	(9.8)
Total expenses (excluding LTI)	**(32.4)**	**(27.7)**	**(29.4)**	**(36.8)**	**(23.8)**	**(32.9)**	**(27.9)**
Long-term incentives (LTI)	(5.5)	(4.5)	(6.0)	(2.7)	(5.8)	(4.1)	(4.9)
Total expenses	**(37.9)**	**(32.2)**	**(35.4)**	**(39.5)**	**(29.6)**	**(37.0)**	**(32.8)**
Normalised EBIT	**(37.3)**	**(32.2)**	**(35.4)**	**(39.5)**	**(29.6)**	**(36.8)**	**(32.6)**
Interest and borrowing costs	(2.0)	(2.2)	(1.9)	(2.7)	(2.3)	(4.0)	(2.5)
Normalised loss before tax	**(39.3)**	**(34.4)**	**(37.3)**	**(42.2)**	**(31.9)**	**(40.8)**	**(35.1)**

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

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

Normalised EBIT

Corporate normalised EBIT was a loss of $37m in 1H23, up $2m (5%) from 1H22. The increase in EBIT loss was a result of higher other expenses (up $3m), partially offset by lower LTI expenses (down $1m). Personnel expenses were broadly in line with 1H22.

Other income

Other income represents interest received on Group cash and was $1m in 1H23 (nil in 1H22) due to higher interest rates. The Group cash balance as at 31 December 2022 was $146m.

Total expenses

1H23 Corporate expenses were $38m and increased by $3m (7%) on 1H22.

Corporate expenses include:

- Personnel costs of $23m, broadly in line with 1H22 with higher salaries driven by higher average FTE, offset by lower variable reward costs;
- Other expenses of $10m, increased by $3m (36%) due to project related costs associated with strategic initiatives; and
- Long-term incentive costs of $6m, decreased by $1m (8%) following forfeitures of hurdled performance share rights in 1H23.

Interest and borrowing costs

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

1H23 interest and borrowing costs were $2m, reflecting line fees on the Group debt facility.

The $400m facility remained undrawn throughout 1H23.

Normalised Cash Operating Earnings framework

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

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

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

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

Cash earnings

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

Investment yield

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

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

Interest expense

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

Distribution expense

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

Other income

Other income includes revenue from the Solutions Group (refer to page 27) and profits on Life Risk wholesale longevity and mortality transactions (refer to page 27).

Normalised capital growth

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

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

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

Normalised capital growth assumptions for FY23 are as follows:

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

Investment experience

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

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

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

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

Asset and liability experience

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

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

New business strain

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

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

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

Glossary of terms

Terms	Definitions
Additional Tier 1 regulatory capital	High-quality capital that provides a permanent and unrestricted commitment and is freely available to absorb losses; however, it does not satisfy all the criteria to be included in Common Equity Tier 1 regulatory capital.
Authorised Deposit-taking Institution (ADI)	A financial institution licensed by the Australian Prudential Regulation Authority (APRA) to carry on banking business, including accepting deposits from the public. This includes banks, building societies and credit unions.
Bank book growth	Net deposits over the period divided by the opening deposit book.
Bank average RWA intensity ratio (%)	Risk Weighted Assets divided by Bank total assets.
Bank Capital adequacy ratio (%)	Total regulatory capital divided by Risk Weighted Assets.
Bank impairments	Impairments relate to Bank lending and financing assets and represents provision for losses, realised losses or recoveries on the assets that are held at amortised cost.
Bank Net Interest Margin (%)	Net interest income over average interest earning assets.
Bank Minimum Regulatory Requirement ratio (times)	Total regulatory capital divided by Minimum Regulatory Requirement.
Bank Risk Weighted Assets	Risk weighted assets are used to determine the minimum amount of capital that must be held by banks and is a measure of the Bank's assets weighted according to risk.
Capital intensity ratio	CLC Prescribed Capital Amount (PCA) divided by Life investment assets.
Cash earnings (Life)	Investment yield and other income less interest and distribution expenses.
CET1 capital ratio	Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
Challenger Index Plus	Institutional product providing guaranteed excess return above a chosen index. Index Plus is available on traditional indices and customised indices.
Challenger Investment Management income	Challenger Investment Management income includes asset-based management fees, and other income such as leasing fees, acquisition and disposal fees, development and placement fees.
Common Equity Tier 1 regulatory capital	The highest quality capital comprising items such as paid-up ordinary shares and retained earnings. Common Equity Tier 1 capital is subject to certain regulatory adjustments in respect of intangibles and adjusting policy liabilities.
Cost to income ratio	Total expenses divided by Normalised Cash Operating Earnings (Life) or Total net fee income (FM).
Distribution expenses (Life)	Payments made for the acquisition and management of annuities and other Life products.
Earnings per share (EPS)	Net profit after tax divided by weighted average number of shares in the period.
ESG	Environmental, Social, and Governance
Fidante Income	Distribution and administration fees; Fidante's share of affiliate manager profits; performance fees and transactions fees.
Funds Under Management (FUM)	Total value of listed and unlisted funds/mandates managed by the Funds Management business.
Group assets under management (AUM)	Total value of Life's investment assets, Funds Management FUM and Bank lending and financing assets.
Group cash	Cash available to Group, excluding cash held by Challenger Life Company Limited.
Interest and borrowing costs (Corporate)	Interest and borrowing costs associated with Group debt and Group debt facilities.
Interest expenses (Life)	Interest accrued and paid to annuitants, subordinated debt and other debt providers (including Challenger Capital Notes 1, Challenger Capital Notes 2 and Challenger Capital Notes 3).
Investment experience (Life)	Represents fair value movements on Life's assets and policy liabilities and net new business strain. Refer to page 63 for more detail.
Investment yield (Life)	Net rental income, dividends received and accrued interest and discounts/premiums on fixed income securities amortised on a straight-line basis.

Glossary of terms

Terms	Definitions
Investment yield – shareholders' funds (Life)	Represents the return on shareholder capital held by the Life business.
Life annuity book growth	Net annuity policy capital receipts over the period divided by opening policy liabilities (Life annuity book).
Life book growth	Net annuity and other policy capital receipts over the period divided by the opening policy liabilities (Life annuity book and Challenger Index Plus liabilities).
Life investment assets	Total value of investment assets that are managed by the Life business.
Minimum Regulatory Requirement (MRR)	Represents the minimum capital requirement as required by regulators, including APRA, ASIC and other foreign jurisdictions.
MyLife MyFinance	MyLifeMyFinance Limited ABN 54 087 651 750.
Net annuity policy receipts	Life retail annuity sales less annuity capital payments.
Net assets – average	Average net assets over the period (excluding non-controlling interests) calculated on a monthly basis.
Net fee income (FM)	Fidante income and Challenger Investment Management income.
Net management fees (FM)	Management fees for managing investments.
Net tangible assets	Consolidated net assets less goodwill and intangibles.
New business tenor	Represents the maximum product maturity of new business sales. These products may amortise over this period.
Normalised capital growth	Long-term expected capital growth based on long-term return assumptions calculated as long-term capital growth assumption multiplied by average investment assets.
Normalised Cash Operating Earnings (NCOE) (Life)	Cash earnings plus normalised capital growth.
Normalised cost to income ratio	Total expenses divided by total net income.
Normalised dividend payout ratio	Dividend per share divided by normalised earnings per share (basic).
Normalised EBIT (FM)	Net income less total expenses.
Normalised EBIT (Life)	Normalised Cash Operating Earnings less total Life expenses.
Normalised net profit after tax (NPAT)	Statutory net profit after tax, excluding investment experience and net new business strain; and significant items (refer to page 65 for more detail on investment experience).
Normalised net profit before tax (NPBT)	Statutory net profit after tax, excluding normalised tax; investment experience and net new business strain; and significant items (refer to page 63 for more detail on investment experience).
Normalised Return On Equity (ROE) – pre-tax	Normalised Life EBIT, FM EBIT, and/or Normalised NPBT (Group) divided by average net assets.
Normalised Return On Equity (ROE) – post-tax	Group's normalised NPAT divided by average net assets.
Normalised tax rate	Normalised tax divided by normalised profit before tax.
Other expenses	Non-employee expenses, including external professional services, occupancy costs, marketing and advertising, travel, technology and communications costs.
Other income (Corporate)	Includes interest received on Group cash balances.
Other income (Life)	Relates to revenue from the Solutions Group and Life Risk. Refer to page 27 for more detail.
PCA ratio	The ratio of the total CLC Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount.
Performance fees (FM)	Fees earned for outperforming benchmarks.
Personnel expenses	Includes fixed and short-term variable incentive components of remuneration structures. The amortisation of long-term incentive plans is reported separately within the Corporate results.
Prescribed Capital Amount (PCA)	Amount of capital that a life company must hold, which is intended to be sufficient to withstand a 1-in-200-year shock and still meet adjusted policy liabilities and other liabilities. For further details, refer to APRA's LPS110 ***Capital Adequacy.***

Glossary of terms

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

Key dates

Challenger Limited (ASX:CGF)	
Q3 2023 Sales and AUM	20 April 2023
2023 Investor Day	30 May 2023
2023 Full-year financial results	15 August 2023
Q1 2024 Sales and AUM	17 October 2023
2023 Annual General Meeting	26 October 2023