challenger

Interim Financial Report **2024**

CHALLENGER LIMITED
ACN 106 842 371

Providing our customers with financial security for a better retirement

Contents

Key dates

19 March 2024
Interim dividend payment date

18 April 2024
Third quarter performance update

13 August 2024
Full year financial results

18 September 2024
Final dividend payment date

24 October 2024
2024 Annual General Meeting

Full listing of key dates available at:

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

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

About this Interim Financial Report

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

The 2024 Interim Financial Report can be downloaded from Challenger's online Shareholder Centre at:

> challenger.com.au/shareholder

1H24 Highlights

FINANCIAL PERFORMANCE

STATUTORY NET PROFIT AFTER TAX

$56m ▲ 80%[1]

NORMALISED NET PROFIT BEFORE TAX

$290m ▲ 16%

1H24	
2H23	$270m
1H23	$250m

GROUP ASSETS UNDER MANAGEMENT

$117bn ▲ 18%

1H24	
2H23	$105bn
1H23	$99bn

LIFE SALES

$5.3bn

▲ Lifetime sales **+190%**

▲ New business tenor **8.9 years**

NORMALISED GROUP ROE (PRE-TAX)

15.0%

▲ **270bps**

INTERIM DIVIDEND

13.0cps

▲ **8%** on 1H23

CAPITAL POSITION

1.50x

CLC PCA RATIO[2]

FY23 **1.59x**

1 1H23 statutory net profit after tax has been restated to reflect the application impact of AASB 17 *Insurance Contracts*.
2 Challenger Life Company (CLC) PCA ratio represents CLC total Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA).

About Challenger

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

Challenger is listed on the Australian Securities Exchange (ASX) and has offices in Australia, London and Tokyo. At 31 December 2023, Challenger employed 758 people on a full-time equivalent (FTE) basis.

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

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

OUR STRATEGIC PRIORITIES

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

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

OUR VALUES

Act with integrity

We do things the right way

Aim high

We deliver outstanding results

Collaborate

We work together to achieve shared goals

Think customer

We make decisions with our end customers front of mind

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

Life

Australia's leading provider of annuities

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

Funds Management

One of Australia's largest active fund managers

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

Operating and financial review

Life business

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

Life's annuity products appeal to retirees as they provide security and certainty of guaranteed[1] income, while protecting against the risks of investment markets and inflation. By providing certainty of income, Challenger ensures customers have more confidence to spend in retirement.

Lifetime annuities also protect retirees from the risk of outliving their savings, given they pay an income for life. Depending on the payment option selected, payments can be either fixed, indexed to inflation, linked to changes in the RBA cash rate or indexed to investment markets.

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

Challenger is Australia's leading retirement income brand[2] and has won the Association of Financial Advisers 'Annuity Provider of the Year' for the last 15 years, and won Plan for Life's 'Overall Longevity Cover Excellence Award' in 2023 for a fourth consecutive year.

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

As Australia's superannuation system matures, the retirement phase of superannuation is expected to increase significantly. The number of Australians over the age of 65 is expected to increase by nearly 56% over the next 20 years[3]. Reflecting these demographic changes, and growth in the superannuation system, the annual transfer from the savings phase of superannuation to the retirement phase was estimated to be approximately $87 billion[4] in 2022.

The purpose of superannuation is to provide income in retirement to substitute or supplement the Government-funded age pension. As the superannuation system matures 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, helping 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 (Cth) (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 December 2023, the Australian Government released its final response to the Quality of Advice Review (QAR), which is focused on improving the accessibility and affordability of quality financial advice in Australia. The Australian Government's final response to the QAR was provided as part of its 'Delivering Better Financial Outcomes' package of reforms and proposes that, in addition to reforms already progressed, the Government will enact the majority of the remaining recommendations made in the QAR, which was delivered to the Government in December 2022.

The Australian Government is also consulting on how to best enhance the retirement phase of superannuation. The Government is gathering views on how Australians can make the most out of their superannuation in retirement, including through better availability of assistance, information, and well-rounded retirement products.

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 independent financial advisers, financial adviser administrative platforms, superannuation funds and directly. Life's products are included on all major advice hubs' Approved Product Lists (APLs) and are available on leading independent investment and administration platforms.

Consistent with Life's strategy to broaden customer access across multiple channels, Life recently launched a new online direct channel for retail customers to invest directly and has also launched annuities 'in' the Netwealth platform.

Life is also making significant progress building new institutional partnerships with superannuation funds, as they focus on supporting their members' needs through more comprehensive retirement income solutions. In addition, a number of funds have defined benefit pension liabilities and are looking to de-risk these liabilities. This provides a significant growth opportunity for Challenger as trustees and funds seek trusted partners to deliver a range of de-risking solutions.

In Japan, Life has an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) to reinsure Australian dollar, US dollar and Japanese yen denominated annuities. MS Primary is a leading provider of annuity products in Japan and is part of MS&AD Insurance Group Holdings Inc. (MS&AD).

Under the reinsurance arrangement, MS Primary is expected to reinsure at least ¥50 billion (equivalent to ~A$520 million)[5] of its Australian dollar, US dollar and Japanese yen annuities with Life in FY24. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

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

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

2 Plan For Life – September 2023 – based on annuities under administration.

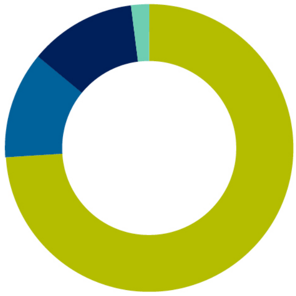
3 2023–2043 comparison based on Australian Bureau of Statistics, Population Projections Series B medium.

4 Based on Taxation Statistics 2020-21 from Australian Taxation Office.

5 Based on exchange rate as at 30 June 2023.

Life business (continued)

LIFE ASSET ALLOCATION



- **74%** Cash & fixed income
- **12%** Property
- **12%** Alternatives
- **2%** Equity & infrastructure

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 liabilities as Life maintains a cash flow matched portfolio. Accordingly, Life's investment asset allocation may vary from time to time.

Performance

Life's normalised earnings before interest and tax (EBIT) was $302 million in the period and increased by $38 million (14.5%) on the prior corresponding period (pcp). The increase in EBIT reflects a $42 million (13.4%) increase in normalised cash operating earnings (COE) and a $4 million (7.8%) increase in expenses.

Life's normalised return on equity (ROE) (pre-tax) was 18.1% in the period and increased by 330 bps on pcp, driven by an increase in normalised COE.

Normalised COE increased as a result of:

- higher average investment assets, which increased by 3.4% on pcp; and
- higher COE margin, which increased by 28 bps on pcp to 3.04%.

Total life sales were $5,253.6 million and decreased by 4.1% on pcp, driven by lower fixed-term annuity sales partly offset by higher lifetime sales.

Life annuity net flows (i.e. annuity sales less capital repayments) was $508.0 million; down from $802.0 million in pcp. Net flows reflects lower Life annuity sales of $3,295.3 million (down 7.0%), and higher maturities of $2,787.3 million (up 1.7%).

Based on the opening Life annuity book liability of $14,292.3 million[6] in the period, annuity book growth was 3.6%.

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

Other Life net flows was an outflow of $180.0 million, down from an inflow of $182.9 million in pcp.

Life's average investment assets was $23.6 billion and increased by 3.4% ($0.8 billion) on pcp.

Life normalised results	31 Dec 2023 $m	31 Dec 2022 $m	Change $m	Change %
Normalised COE	359.7	317.3	42.4	13.4
– Cash earnings	353.3	297.6	55.7	18.7
– Normalised capital growth	6.4	19.7	(13.3)	(67.5)
Operating expenses	(58.2)	(54.0)	(4.2)	(7.8)
Normalised EBIT	**301.5**	**263.3**	**38.2**	**14.5**

NEW BUSINESS TENOR

8.9 years

▲**5.4 years** in 1H23

Life sales	31 Dec 2023 $m	31 Dec 2022 $m	Change $m	Change %
Fixed-term annuities[1]	2,207.0	3,168.7	(961.7)	(30.3)
Lifetime annuities	1,088.3	375.2	713.1	large
Total Life annuity sales	3,295.3	3,543.9	(248.6)	(7.0)
Other Life sales	1,958.3	1,935.1	23.2	1.2
Total Life sales	**5,253.6**	**5,479.0**	**(225.4)**	**(4.1)**
Annuity net flows	508.0	802.0	(294.0)	(36.7)
Other Life net flows	(180.0)	182.9	(362.9)	(large)
Total Life net flows	**328.0**	**984.9**	**(656.9)**	**(66.7)**

[1] Includes Japan sales.

[6] Restated for the application impact of AASB 17 *Insurance Contracts*.

Funds Management business

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

Funds Management is one of Australia's largest active fund managers[7] with funds under management (FUM) of $108 billion, which has more than doubled over the last 10 years (up from $45 billion in 2014).

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, Australian and global equities and alternative investments.

Funds Management has extensive client relationships. For example, over 70% 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 99% of investments outperforming their respective benchmarks[8].

Fidante is focused on broadening its product and investment offering, which includes partnering with best-in-class managers, and accessing new distribution channels.

CIM principally originates and manages fixed income and commercial real estate 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 global pension markets.

Financial results

Funds Management EBIT was $29 million and decreased by $2 million (7%) on 1H23. The decrease was due to lower FUM-based fee income (down $3 million or 4%) and higher expenses (up $2 million or 3%), partially offset by higher performance and transaction fees (up $3 million)

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

Fidante's net income increased by $10 million for the period, primarily as a result of higher FUM-based income (up $5 million), higher transaction fees (increase of $3 million), and higher performance fees (up $2 million).

CIM's net income decreased by $10 million resulting from lower net management fees (down $8 million) and lower transaction fees (down $2 million), which were largely driven by the sale of Challenger's Real Estate business to Elanor Investors Group during the period.

Funds Management ROE was 18.1% and decreased from 21.1% in 1H23. ROE was materially impacted by the 7% decrease in EBIT and an 8% increase in average net assets.

Funds Management's FUM increased by $14.2 billion (or 15.2%). During the period, net inflows were $5.6 billion (pcp net outflows $1.8 billion) reflecting $6.5b of net institutional inflows and $0.9b of net retail outflows.

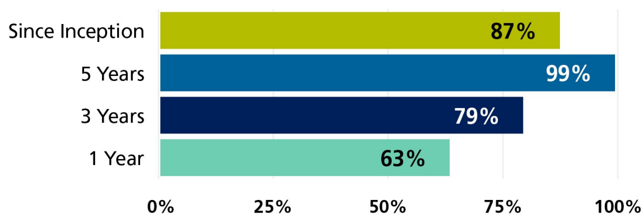
FM normalised results	31 Dec 2023 $m	31 Dec 2022 $m	Change $m	Change %
Net income	87.4	87.9	(0.5)	(0.6)
– Fidante	66.7	57.1	9.6	16.8
– CIM	20.7	30.8	(10.1)	(32.8)
Operating expenses	(58.9)	(57.2)	(1.7)	(3.0)
Normalised EBIT	**28.5**	**30.7**	**(2.2)**	**(7.2)**

FM FUM and flows	31 Dec 2023 $bn	31 Dec 2022 $bn	Change $bn	Change %
Total FUM	107.6	93.4	14.2	15.2
– Fidante	90.9	72.4	18.5	25.6
– CIM	16.7	21.0	(4.3)	(20.5)
Net flows	5.6	(1.8)	7.4	large
– Fidante	9.5	(1.7)	11.2	large
– CIM	(3.9)	(0.1)	(3.8)	(large)

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 99% and 87% of investments outperforming benchmark over five years and since inception respectively

FUNDS MANAGEMENT INVESTMENT PERFORMANCE (% OF FUM OUTPERFORMING BENCHMARK)



As at 31 December 2023. Percentage of Fidante's affiliates meeting or exceeding the performance benchmark, with performance weighted by FUM.

[7] Calculated from Rainmaker Roundup, September 2023 data.

[8] As at 31 December 2023. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

Corporate segment and other information

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

Corporate and other normalised results	31 Dec 2023 $m	31 Dec 2022 $m	Change $m	Change %
Net income	0.1	0.6	(0.5)	(83.3)
Operating expenses	(37.5)	(37.9)	0.4	1.1
Normalised EBIT	**(37.4)**	**(37.3)**	**(0.1)**	**(0.3)**
Interest and borrowing costs	(2.3)	(2.0)	(0.3)	(15.0)
Normalised loss before tax	**(39.7)**	**(39.3)**	**(0.4)**	**(1.0)**

The Corporate segment's normalised loss before tax was $39.7 million; consistent with the pcp. Corporate expenses include:

- Personnel costs of $23m, broadly in line with 1H23;
- Other expenses of $8m, decreased by $2m (17%) due to lower project-related costs associated with strategic initiatives; and
- Long-term incentive costs of $7m, increased by $1m (20%) following the grant of hurdled performance share rights in 1H24.

Guidance for the 2024 financial year

Challenger's FY24 normalised net profit before tax guidance is a range of between $555m and $605m, which assumes

- ~$10m investment across a range of initiatives, including Artega's operating platform, branding, risk and cybersecurity; and
- the Bank is excluded from FY24 guidance.

Given the pending sale of the Bank to Heartland, it has been classified as a discontinued operation.
The Bank sale is expected to complete in 2H24 and is subject to regulatory approvals in Australia and New Zealand. The Bank is strongly capitalised and remaining excess capital is expected to be returned to Challenger on or prior to completion of the sale. From November 2023, Heartland is responsible for operating losses incurred by the Bank.

Challenger is on track to achieve a FY24 normalised net profit before tax in the top half of the guidance range with 1H24 normalised net profit before tax of $290m representing 50% of the mid-point of the guidance range.

Principal activities

There have been no significant changes in the nature of the principal activities of the Group during the period.

Risk management

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

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

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

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

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

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

1H24 strategic progress

Progress over 1H24 has been measured against Challenger's four strategic priorities.

1. Broaden customer access across multiple channels

1H24 progress:

Delivering higher quality Life sales

Challenger is executing a range of strategic initiatives to improve the quality of the Life book through growing longer duration and more profitable business.

In 1H24, the Life business achieved total Life book growth of 1.7% and annuity book growth of 3.6%, with total Life sales of $5.3 billion comprising annuity sales of $3.3 billion and Challenger Index Plus sales of $2.0 billion.

Annuity sales were supported by rising demand for guaranteed income that drove record sales of lifetime annuities of $1.1 billion (up 190%), which included a group lifetime annuity policy to the value of $0.6 billion to Aware Super Pty Ltd (Aware Super). The Aware Super win highlights the depth of Challenger's capability and strength of Challenger's investment and longevity risk solutions (refer below for more information).

Excluding the Aware Super group lifetime annuity, retail lifetime annuity sales were $0.5 billion (up 25%) and included CarePlus sales of $263 million (up 45%). CarePlus achieved its highest volume of sales in 1H24 since launching in 2015, reflecting the growing opportunity in aged care.

Challenger's focus on driving higher quality, longer duration sales is reflected through 90% of new business annuity sales having a tenor of 2-years or more[1] compared with 72% in 1H23. The tenor on new business sales also increased to 8.9 years, up from 5.4 years in 1H23.

Challenger Index Plus is an institutional product providing institutional clients guaranteed excess return above a chosen index. With the focus on growing longer duration business, Challenger has been seeking to extend the tenor of Index Plus business being written. In October 2023, Challenger secured a five-year Index Plus mandate to the value of $500 million from a prominent insurance client. This investment demonstrates Challenger's ability to attract longer-term investments from institutional clients.

Delivering retirement partnerships

Challenger is making significant progress in establishing retirement partnerships with superannuation funds.

There are opportunities for Challenger to engage and support funds to develop their retirement income propositions, as required under the Retirement Income Covenant.

Currently, Challenger's clients include Australia's top superannuation funds.

In October 2023, profit-to-member fund TelstraSuper announced the launch of its RetireAccess Lifetime Pension, a retirement income product designed in partnership with Challenger that is indexed for inflation or market-linked, and able to be blended with a member's existing account-based pension. The RetireAccess Lifetime Pension is designed to give retirees confidence to spend their income in retirement and is the first profit-to-member guaranteed lifetime income stream since the Retirement Income Covenant commenced.

In November 2023, Challenger announced a strategic partnership with Commonwealth Superannuation Corporation (CSC) to provide a longevity solution to help meet its customers' needs in retirement. Challenger's lifetime income solution will form part of CSC's broader Retirement Income Strategy (RIS) and can be blended with its existing account-based pension, providing its members confidence to draw down their savings. The CSC partnership is expected to commence in 2H24 and generate ongoing lifetime annuity sales for Challenger.

As Australia's leading provider of longevity protection with decades of experience, Challenger is well placed to lead the pension risk transfer opportunity in Australia, helping retirement plans de-risk their defined benefit liabilities. In July 2023, Challenger was selected as Aware Super's defined benefit fund partner to provide a group lifetime annuity policy to the value of $619 million that covers approximately 3,000 members and de-risks the fund's lifetime pension liabilities. This partnership is the largest defined benefit buy-in in Australia to date and underscores the strength of Challenger's investment and longevity risk solutions.

Improving access to Challenger annuities in platform

In September 2023, Challenger launched fixed-term annuities 'in' the Netwealth platform, which provides advisers and their clients a seamless and contemporary experience to access Challenger fixed term annuities directly and to invest both superannuation and non-superannuation monies.

Enhancing Challenger's brand

In 1H24, Challenger launched its new sponsorship strategy that is designed to enhance the Challenger brand, showcase Challenger's retirement credentials and ensure Challenger continues to be the 'go to' brand for retirement.

In October 2023, Challenger announced its first partnership in Australian sport with the Professional Golfers Association of Australia (PGA), including Golf Australia, the Women's PGA, PGA Legends Tour and Golf Management Australia. As part of the three-year partnership with the PGA, Challenger will be the exclusive naming rights partner. With over seven million viewers across the year, and a sport of choice for those aged 45 and over, the partnership represents an exciting opportunity to showcase Challenger's brand and retirement credentials as it focuses on taking a broader stance in retirement.

[1] 1H24 new business annuity sales exclude reinvestments and Japanese sales.

1H24 strategic progress (continued)

Award-winning investment strategies and products

Challenger is the market leader in Australian retirement incomes according to 92% of financial advisers – 35 percentage points ahead of its closest peer[2].

In December 2023, Challenger won Plan For Life's 'Best Overall Longevity Cover' award for a fourth consecutive year, which recognised Australian life companies and fund managers that have products designed to assist retirees in meeting the challenges of longevity. Challenger also won the Plan For Life 'Best Longevity Product' award for its Liquid Lifetime annuity product suites and received Money Magazine Australia's 'Best of the Best 2024' award for 'Innovation – Leadership in Retirement Strategies' that recognised our innovative approaches to helping build resilient retirement income portfolios.

Fidante's investment managers continue to be externally recognised. Fidante is a leading Australian funds management distributor and won Zenith Investment Partners' 'Distributor of the Year' award in October 2023 for a fourth consecutive year. The award recognises the quality of Fidante's affiliate managers and their ratings across the product suite, including excellent adviser support and transparency of key information.

During 1H24, the following affiliates won investment manager awards:

- WaveStone Dynamic Australian Equity Fund – 2023 SQM & Financial Newswire Awards – Fund Manager of the Year in the Long/Short Equities category;
- Eiger Capital – 2023 Zenith Fund Awards – Australian Equities – Small Cap;
- Ardea Real Outcome Fund – Money Magazine Best of the Best 2024 – Best Australian Fixed Interest Fund (Diversified); and
- Ardea Investment Management – Insurance Asset Management Awards 2023 – Fixed Income Manager of the Year (up to €100bn AUM).

Fidante's products are continually recognised externally as high quality, with 85% of strategies (58 out of the 68) rated either Recommended or Highly Recommended by research houses[3].

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

1H24 progress:

Innovative income solutions

Challenger is continuously focused on improving the way it delivers its retirement income solutions and investment capability to customers and partners.

In November 2023, Challenger Investment Management (CIM) launched its fourth fund in the CIM range, the Global Asset Backed Securities (ABS) Fund, a long-only fund focusing predominantly on investment grade publicly rated assets across global developed securitised markets. The fund builds on CIM's existing range of products and targets a return between 3% and 4% plus the Euro Short Term Rate per annum through the cycle[4].

Expanding alternatives offering

Fidante has a strategy to grow its alternatives products and distributions capability in response to increasing demand from investors for high-quality alternative investment capabilities.

In July 2023, Challenger formed a strategic real estate partnership with Elanor Investors Group (ASX:ENN) (Elanor), which includes an exclusive distribution arrangement whereby Fidante will distribute Elanor's existing and new funds and Elanor became a new Fidante affiliate manager.

Fidante successfully completed a capital raising in partnership with Elanor in December 2023 to acquire 55 Elizabeth Street, Brisbane, for $109 million. The acquisition of 55 Elizabeth Street is well positioned to benefit from long-term growth in the Brisbane office market.

In July 2023, Fidante completed an agreement to acquire an equity stake in Resonance Asset Management (Resonance) and now has 35% ownership of the UK-based specialist infrastructure company. Fidante has been a partner to Resonance since its formation.

In September 2023, Fidante commenced distributing the Apollo Aligned Alternatives (AAA) strategy to the Australian market. AAA is positioned as an equity replacement product and will provide clients with access to a diversified portfolio of private market opportunities, investing side-by-side with more than US$10 billion of Apollo's own balance sheet capital.

In October 2023, UK-based Impax Asset Management (Impax), a specialist asset manager focused on the transition to a more sustainable economy, launched its Global Opportunities Fund in Australia. The launch follows rising demand from Australian investors for global sustainable investment options. The Fund seeks to achieve long-term capital growth by investing in companies with competitive advantages and strong alignment with a more sustainable global economy.

In June 2023, Fidante expanded its existing distribution arrangement with Proterra Investment Partners Asia (Proterra Asia), a leading private equity investor focused on the Asian food and agribusiness sectors. Under an expanded relationship, Fidante has a 12.5% revenue share in the business. Concurrently, Fidante signed an exclusive distribution agreement with Proterra Asia and will commence raising capital for Proterra Asia's next vintage fund, Food Fund 4, in 2024.

[2] Marketing Pulse Adviser Study December 2023 based on (% agree / strongly agree).

[3] As at 31 December 2023.

[4] Gross return before fees.

1H24 strategic progress (continued)

3. Leverage the combined capabilities of the Group

1H24 progress:

Sale of Challenger Bank

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) (Heartland). The sale price will be calculated based on net assets at the time of the sale including any completion adjustments.

The Bank sale continues to progress and is subject to regulatory approvals in Australia and New Zealand. The Bank is strongly capitalised and remaining excess capital is expected to be returned to Challenger on or prior to completion.

Recognising the time from announcement of the sale, and demonstrating confidence that settlement will occur in 2H24, Heartland will be responsible for the operating losses of the Bank from late-November 2023, with Challenger reimbursed through an increase in the sale price.

4. Strengthen resilience and sustainability of Challenger

1H24 progress:

MS&AD relationship extended

MS&AD and Challenger have developed a mutually beneficial relationship over many years, which began as an annuity relationship with MS Primary and has expanded to a range of other initiatives, including real estate and fixed income asset management mandates.

In November 2023, Challenger extended its highly successful reinsurance agreement with MS Primary and commenced reinsuring Japanese yen denominated annuities alongside Australian dollar and US dollar annuities issued in the Japanese market by MS Primary. The evergreen relationship will further diversify the range of products Challenger reinsures and allow Challenger to continue to support MS Primary to provide financial security to its customers.

Apollo strategic relationship expanded

Apollo (NYSE:APO) and Athene are Challenger strategic partners and hold a minority interest of approximately 20% of issued share capital.

Challenger and Apollo share a common purpose, with strong complementary skills and capabilities.

Both parties are working together on a range of opportunities to help Challenger's customers achieve financial security in retirement and deliver meaningful value for shareholders, which includes an agreement to distribute Apollo's AAA strategy to the Australian market and a joint venture to build a non-bank lending platform in Australia and New Zealand.

In November 2023, Challenger announced it had further expanded its strategic relationship with Apollo to support its growth strategy. Under the expanded relationship, Challenger and Apollo have formed an origination partnership and a representative from Apollo was appointed as a Non-Executive Director of Challenger Limited in November 2023. The origination partnership will provide Challenger Life with access to Apollo's high-quality, privately originated global credit and alternative opportunities, which will help support both customer annuity rates and returns for Challenger shareholders.

Embedding ESG across the business

Challenger recognises that sustainability is important to the long-term success of our business and reflects the responsibility we have to shareholders, customers and the community.

Challenger integrates ESG risks into the investment decision-making and ownership practices, portfolio construction and appointment of managers acting on our behalf. We have been a signatory to the Principles for Responsible Investment (PRI) since 2015 and achieved a positive PRI Assessment Outcome in the 2023 reporting cycle.

Managers that offer products with a sustainability theme include:

- Alphinity Investment Management – offers two sustainable products that focus on companies that have a net positive alignment to the United Nations Sustainable Development Goals;
- Cultiv8 Funds Management – a fund focused on investments in agricultural and food technologies with a sustainability objective;
- Proterra Asia – a private equity fund manager focused on the Asian food and agribusiness sectors; and
- Resonance Asset Management, an alternative asset management firm investing in sustainable water, energy, and waste management infrastructure.

In December 2023, the Australian Government released the exposure draft legislation for the introduction of the climate-related financial disclosure regime that aims to help Australian companies and investors mitigate the risks and maximise the opportunities arising from climate change. Meeting these obligations forms a core part of Challenger's ESG work program, which focuses on climate risk.

Challenger also plays an active role in advocating for public policy and reforms that are in the best interests of its customers, shareholders and wider stakeholders, particularly those in relation to retirement.

Through our community engagement program, we support a number of organisations that make a significant contribution to local communities. Challenger has established a new partnership with the Australian Academy of Technological Sciences and Engineering (ATSE) and was the founding partner of ATSE's Traditional Knowledge Innovation award in October 2023 that recognised the next generation of Indigenous leaders in STEM.

In December 2023, Challenger submitted its 2023 Modern Slavery Statement which focused on strengthening our approach to identifying, assessing and mitigating risks relating to modern slavery across our business, operations and supply chains.

Key performance indicators (KPIs)

Profitability and growth

Challenger's statutory profit attributable to equity holders for the period ended 31 December 2023 was $56.3 million; 80.4% higher than the pcp (which has been restated to include the application impact to AASB 17 ***Insurance Contracts).***

The difference was primarily due to higher Life normalised cash operating earnings from higher average investment assets and higher COE margin, partly offset by lower Funds Management income reflecting lower Funds Management FUM based income and higher expenses. Group expenses remained flat on the pcp.

Normalised NPAT increased by 20.0% compared to pcp, and Normalised EPS increased by 19.6%, reflecting higher Life cash operating earnings partially offset by lower FM FUM based income.

Investment experience loss after tax was $145.2 million compared to a $133.9 million loss in the pcp. The Pcp has been restated to include the application impact of AASB 17 of $91.5 million.

An interim dividend of 13.0 cents per share was determined, franked at 100% (31 December 2022: 12.0 cents, 100% franked), up 8.3% on the pcp.

Challenger's normalised cost to income ratio of 34.6% has improved from the pcp (31 December 2022: 38.5%) due to growth in income in Life as well as reduced expenses from lower project spend on strategic initiatives.

1H24 normalised ROE (pre-tax) was 15.0% and increased by 270 bps on the pcp. This was driven by higher Life ROE of 18.1% (up 330 bps), reflecting an increase in normalised COE, partially offset by lower Funds Management ROE of 18.1% (1H23 21.1%).

Challenger's normalised ROE in 1H24 was 15.0% compared to a target of 16.2% which reflects 12.0% plus the average RBA cash rate, which was ~4.2%.

Statutory ROE after tax of 2.9% increased compared to the pcp (31 December 2022: 1.5%) as a result of the higher statutory NPAT.

KPIs for the period ended 31 December 2023 (with the period to 31 December 2022 being the pcp, unless otherwise stated) are set out in the accompanying table.

	31 Dec 2023	31 Dec 2022	Change %
Profitability			
Statutory profit attributable to equity holders ($m)	56.3	31.2	80.4
Normalised NPBT ($m)	290.3	250.4	15.9
Normalised NPAT ($m)	200.7	167.2	20.0
Statutory EPS (cents)	8.2	4.6	78.3
Normalised EPS (cents)	29.3	24.5	19.6
Total dividend (cents)	13.0	12.0	8.3
Total dividend franking	100%	100%	—
Normalised cost to income ratio	34.6%	38.5%	3.9
Statutory RoE after tax	2.9%	1.5%	1.4
Normalised RoE pre-tax	15.0%	12.3%	2.7
Normalised RoE after tax	10.4%	8.2%	2.2
Sales, Flows, AUM			
Total Life sales ($m)	5,253.6	5,479.0	(4.1)
Total Life net flows ($m)	328.0	984.9	(66.7)
Total Life net book growth (%)	1.7%	5.5%	(3.8)
Total AUM ($bn)	117.1	99.4	17.8

Capital Management

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

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

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

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

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

Challenger reports a consolidated or Level 3 equivalent capital position across the entire business. At 31 December 2023, the Challenger Group was holding $1.5 billion in excess regulatory capital, which equates to a Group Minimum Regulatory Requirement ratio of 1.52 times. This ratio represents that Challenger is holding 52.0% more regulatory capital than required by its regulators.

Key performance indicators (KPIs) (continued)

Capital management (continued)

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

Capital as at 31 December 2023	CLC $m	CBL $m	FM and Other[1] $m	Group $m
Regulatory capital base				
Common Equity Tier 1 (CET1) regulatory capital	3,141.0	56.6	—	3,197.6
Additional Tier 1 capital	735.0	—	—	735.0
Total Tier 1 regulatory capital	**3,876.0**	**56.6**	**—**	**3,932.6**
Tier 2 capital[2]	427.5	—	—	427.5
Other non-regulatory capital	—	—	72.8	72.8
Total capital base	**4,303.5**	**56.6**	**72.8**	**4,432.9**
Minimum Regulatory Requirement[3]	2,862.2	17.7	40.1	2,920.0
Excess over Minimum Regulatory Requirement	**1,441.3**	**38.9**	**32.7**	**1,512.9**
CET1 capital ratio (times)[4]	1.10	3.20	—	—
Tier 1 capital ratio (times)[5]	1.35	3.20	—	—
Minimum Regulatory Requirement ratio (times)[6]	1.50	3.20	1.82	1.52

[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] CLC represents subordinated debt.
[3] Minimum Regulatory Requirement is equivalent to PCA for CLC.
[4] CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
[5] Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
[6] Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

CLC regulatory capital

CLC holds capital in order to ensure that under a range of adverse scenarios it can continue to meet its regulatory requirements and obligations to its customers. CLC is regulated by APRA and is required to hold a minimum level of regulatory capital. CLC’s regulatory capital base and PCA (or minimum regulatory requirement) have been calculated based on the prudential standards issued by APRA.

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

The PCA ratio at 31 December 2023 was 1.50 times (30 June 2023: 1.59 times), within the range of 1.3 to 1.7 times. The Common Equity Tier 1 (CET1) ratio was 1.10 times at 31 December 2023 (30 June 2023: 1.16 times).

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

Bank regulatory capital

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

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

Funds Management and Other

In addition to CLC's and CBL’s excess over Minimum Regulatory Capital, Challenger maintains cash and tangible assets within legal entities outside CLC and CBL. These assets can be used to meet regulatory capital requirements. Challenger also has a corporate debt facility of $400.0 million in place, which provides additional financial flexibility. The facility was undrawn as at 31 December 2023.

Key performance indicators (KPIs) (continued)

Dividends and Dividend Reinvestment Plan

Dividends	31 Dec 2023	31 Dec 2022	Change
Interim dividend (cents)	13.0	12.0	1.0
Interim dividend franking	100%	100%	—
Normalised dividend payout ratio	44.4%	49.0%	(4.6)

The Board targets a dividend payout ratio range of 30% to 50% of normalised earnings per share. The dividend payout ratio for the period ended 31 December 2023 was 44.4% (31 December 2022: 49.0%) and is within Challenger's target range.

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

The Company continued to operate its Dividend Reinvestment Plan (DRP) during the period. The participation rate for the 2023 final dividend was 25.4%, and 3,256,014 ordinary shares were issued to satisfy DRP requirements on 20 September 2023.

The DRP will continue in operation for the 2024 interim dividend, and the Board has determined that new shares will be issued to fulfil DRP requirements in respect of the interim dividend. The new shares will not be issued at a discount to the prevailing Challenger share price.

Credit ratings

Challenger Limited and CLC are rated by Standard & Poor's (S&P). In December 2023, S&P reaffirmed both CLC and Challenger Limited's credit ratings.

Ratings were confirmed as:

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

Normalised profit and Life investment experience

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

CLC and its consolidated entities value their assets and liabilities at fair value where permitted by AASB 9 *Financial Instruments* and AASB 17 *Insurance Contracts.*

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

Management analysis – Life investment experience

	31 Dec 2023 $m	31 Dec 2022 $m
Actual capital growth[1]		
– Cash and fixed income	112.0	1.0
– Equity and infrastructure	(5.0)	(3.5)
– Property (net of debt)	(126.0)	(4.6)
– Alternatives	(103.6)	(56.3)
Actual capital growth	**(122.6)**	**(63.4)**
Normalised capital growth[2]		
– Cash and fixed income	30.7	29.9
– Equity and infrastructure	(6.1)	(17.2)
– Property (net of debt)	(30.5)	(32.4)
Total normalised capital growth	**(5.9)**	**(19.7)**
Investment experience		
– Cash and fixed income	142.7	30.9
– Equity and infrastructure	(11.1)	(20.7)
– Property (net of debt)	(156.5)	(37.0)
– Alternatives	(103.6)	(56.3)
– Policyholder liability experience[3]	(15.9)	67.5
Asset and policy liability experience	(144.4)	(15.6)
New business strain[4]	(57.8)	(45.0)
Life investment experience before tax	(202.2)	(60.6)
Tax benefit	57.0	18.2
Life investment experience after tax	**(145.2)**	**(42.4)**
Investment experience AASB 17 impact after tax	**—**	**(91.5)**
Total investment experience after tax	**(145.2)**	**(133.9)**

[1] Actual capital growth represents net realised and unrealised capital gains or losses and includes the attribution of interest rate, inflation and foreign exchange derivatives that are used to hedge exposures.

[2] Normalised capital growth is determined by multiplying the normalised capital growth rate for each asset class by the average investment assets for the period. The normalised capital growth rates represent Challenger's expectations for each asset class over the investment cycle. The annual normalised growth rate is +4.0% for Equity and infrastructure, +2.0% for Property, 0.0% for Alternatives, and -0.35% for Cash and fixed income in order to allow for credit defaults. The rates have been set with reference to medium to long-term market growth rates and are reviewed to ensure consistency with prevailing market experience.

[3] Policyholder liability experience represents the impact of changes in macroeconomic variables, including bond yields and inflation factors, expense assumptions and other factors applied in the valuation of life contract liabilities.

[4] New business strain is a non-cash accounting adjustment recognised when annuity rates on new business are higher than the discount rate, being a risk-free rate plus an illiquidity premium used to fair value annuities. The new business strain unwinds over the annuity contract.

Normalised profit and investment experience (continued)

Management analysis

A reconciliation between statutory revenue and the management view of revenue and net income is included in the financial report as part of Note 4 Segment Information.

This note also includes a reconciliation of statutory NPAT and normalised NPAT (the management view of post-tax profit). The application of the normalised profit framework has been reviewed by Challenger's independent auditor to ensure that the reported results are consistently applied in accordance with the methodology described in Note 4 Segment Information.

	31 Dec 2023 $m	31 Dec 2022 $m	Change $m	Change %
Net income[1]	447.2	410.5	36.7	8.9
Comprising:				
– Life normalised COE	359.7	317.3	42.4	13.4
– FM net income	87.4	87.9	(0.5)	(0.6)
– Bank net interest income	—	4.7	(4.7)	(100.0)
– Corporate and other net income	0.1	0.6	(0.5)	(83.3)
Operating expenses[1]	(154.6)	(158.1)	3.5	2.2
Normalised EBIT	**292.6**	**252.4**	**40.2**	**15.9**
Comprising:				
– Life normalised EBIT	301.5	263.3	38.2	14.5
– FM normalised EBIT	28.5	30.7	(2.2)	(7.2)
– Bank normalised EBIT	—	(4.3)	4.3	n/a
– Corporate and other normalised EBIT	(37.4)	(37.3)	(0.1)	(0.3)
Interest and borrowing costs	(2.3)	(2.0)	(0.3)	(15.0)
Normalised NPBT	**290.3**	**250.4**	**39.9**	**15.9**
Tax on normalised profit	(89.6)	(83.2)	(6.4)	(7.7)
Normalised NPAT	**200.7**	**167.2**	**33.5**	**20.0**
Group investment experience after tax	(145.2)	(133.9)	(11.3)	8.4
Bank impairments after tax	—	(2.1)	2.1	n/a
Significant items after tax	4.3	—	4.3	n/a
Bank NPAT (Discontinued Operation)	(3.5)	—	(3.5)	n/a
Statutory net profit after tax attributable to equity holders	**56.3**	**31.2**	**25.1**	**80.4**

[1] 'Net income' and 'Operating expenses' are internal classifications and are defined in Note 4 Segment information in the financial report. These differ from the statutory revenue and expenses classifications, as certain costs (including distribution expenses, property expenses, management fees, special purpose vehicle expenses and finance costs) are netted off against gross revenues. These classifications have been made in the Directors' report and in Note 4 Segment information to reflect how management measures business performance. While the allocation of amounts to the above items and investment experience differ to the statutory view, both approaches result in the same total net profit after tax attributable to equity holders.

Normalised results

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

Life's average AUM increased by 3.4% as a result of net book growth in annuities as well as increased investment in Alternatives and Fixed income partially offset by unfavourable valuation movements on Property.

Funds Management net income decreased by $0.5 million primarily due to lower FUM-based revenue. Funds Management average FUM increased by $6.9 billion. However FUM-based income margin decreased to 15.8 bps (1H23 17.6 bps) due to a change in business mix with higher Institutional FUM and lower retail FUM.

Operating expenses decreased by $3.5 million (or 2.2%) for the period, reflecting $8.5 million of Bank expenses being excluded as Bank is classified as Discontinued Operations for 1H24 and excluded from the normalised results. In addition, there were reduced CIM Real Estate Australia costs from the sale to Elanor offset by increased Artega costs from higher trading volumes as well as inflationary impacts on other expenses.

Challenger's full-time equivalent employee numbers reduced by 3 to 758 including Discontinued Operations (Bank). The decrease was driven by reduced employees in Bank with the pending sale partially offset by growth in Artega teams to support higher transaction volumes as well the Customer teams to support sales and marketing activity.

The normalised effective tax rate in 1H24 was 30.9%, down from 33.2% in 1H23. The effective tax rate is above Australia's statutory rate of 30% for 1H24 predominantly as a result of interest payments on Challenger Capital Notes that are non-deductible ($6.4 million tax effected).

1H24 significant items were $4 million (after-tax) and represent:

- net gain from the sale of Challenger's Australian real estate business (CRE) to Elanor of $10 million; partially offset by
- one-off project costs relating to the implementation of new accounting standard AASB 17 ***Insurance Contracts*** ($1 million) and the Customer Technology Modernisation Program ($3 million); and
- organisational restructuring costs ($2 million).

Pre-tax investment experience for the period comprised an asset and policyholder liability experience loss of $144.4 million and a loss of $57.8 million from new business strain. The asset and liability experience losses are largely unrealised and were primarily due to losses on alternative and property assets partially offset by gains on Fixed income relative to the normalised growth assumptions.

Directors' report

The information appearing on pages 1 to 13 forms part of the Directors' report for the financial period ended 31 December 2023 and is to be read in conjunction with the following information.

1 Directors

The names and details of the Directors of the Company holding office during the six months to 31 December 2023 and as at the date of this report are listed below. Directors were in office for the entire period, unless otherwise stated.

Directors	
Duncan West	Independent Chair
Nick Hamilton	Managing Director and Chief Executive Officer
Lisa Gray (appointed 9 November 2023)	Independent Non-Executive Director
John M Green	Independent Non-Executive Director
Steven Gregg (resigned 26 October 2023)	Independent Non-Executive Director
Masahiko Kobayashi[1]	Non-Independent Non-Executive Director
Matthew Michelini (appointed 9 November 2023)	Non-Independent Non-Executive Director
Dr Heather Smith	Independent Non-Executive Director
JoAnne Stephenson	Independent Non-Executive Director
Melanie Willis	Independent Non-Executive Director

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

2 Significant events after the balance date

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

3 Rounding

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

4 Authorisation

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

D West
Independent Chair
12 February 2024

N Hamilton
Managing Director and Chief Executive Officer
12 February 2024

5 Auditor's independence declaration

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

Building a better working world

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

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

Auditor's independence declaration to the Directors of Challenger Limited

As lead auditor for the review of the half-year financial report of Challenger Limited for the half-year ended 31 December 2023, I declare to the best of my knowledge and belief, there have been:

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

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

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

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

Ernst & Young

Brett Kallio
Partner
12 February 2024

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

Statement of comprehensive income

For the six months ended 31 December	Note	2023 $m	2022[1] $m
Insurance revenue		285.5	231.1
Insurance service expenses		(298.8)	(202.6)
Insurance service result		**(13.3)**	**28.5**
Net investment income		193.1	105.0
Net insurance finance expenses		(202.2)	(144.9)
Net insurance result	1	**(22.4)**	**(11.4)**
Other revenue	2	996.5	677.2
Total revenue		**974.1**	**665.8**
Other expenses	3	(531.6)	(478.1)
Other finance costs		(374.2)	(143.7)
Share of profits of associates and joint ventures		16.5	13.6
Profit before income tax		**84.8**	**57.6**
Income tax expense	5	(25.5)	(20.9)
Profit for the period after income tax from continuing operations		**59.3**	**36.7**
Loss for the period after income tax from discontinued operations	16	(3.2)	(5.5)
Total profit for the period after income tax		**56.1**	**31.2**
Profit attributable to shareholders of Challenger Limited		56.3	31.2
Loss attributable to non-controlling interests		(0.2)	—
Total profit for the period after income tax[1]		**56.1**	**31.2**
Other comprehensive income			
Items that may be reclassified to profit and loss, net of tax			
Translation of foreign entities		(2.7)	13.6
Hedge of net investment in foreign entities		2.3	(14.9)
Net gain on cash flow hedges		(0.1)	0.1
Other comprehensive loss for the period		(0.5)	(1.2)
Total comprehensive income for the period after tax[1]		**55.6**	**30.0**
Earnings per share attributable to ordinary shareholders of Challenger Limited[1]			
Basic	14	8.2	4.6
Diluted	14	8.1	4.5

[1]The Group adopted AASB 17 ***Insurance Contracts*** from 1 July 2023 and has restated the prior comparative period. The impacts of adoption are detailed in Note 1.

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

Statement of financial position

As at	Note	31 Dec 2023 $m	30 Jun 2023[1] $m	31 Dec 2022[1] $m
Assets				
Cash and cash equivalents		774.4	593.4	693.7
Receivables		704.2	697.1	799.8
Current tax assets		43.0	6.1	68.7
Derivative assets		896.9	601.1	676.5
Investment assets	6	25,942.1	24,317.3	23,364.1
Bank assets held for sale	16	350.7	206.7	358.2
Investment property	7	3,168.9	3,269.2	3,440.1
Loan assets	8	315.1	374.9	452.7
Finance leases		7.7	24.9	15.5
Property, plant and equipment		21.8	23.5	24.0
Investment in associates		81.4	81.9	74.3
Other assets		45.8	43.9	44.7
Right-of-use lease assets		22.6	24.3	27.3
Deferred tax assets	5	176.1	195.1	197.0
Goodwill		579.9	579.9	579.9
Other intangible assets		5.4	7.5	6.9
Total assets of shareholders of Challenger Limited and non-controlling interests		**33,136.0**	**31,046.8**	**30,823.4**
Liabilities				
Payables		970.4	854.7	951.8
Current tax liability		4.3	—	—
Derivative liabilities		719.2	611.3	730.8
Bank liabilities held for sale	16	295.6	182.0	297.0
Interest bearing financial liabilities	12	7,018.3	5,836.6	5,691.4
External unit holders' liabilities		5,107.6	5,268.8	4,620.2
Provisions		24.5	28.2	39.0
Lease liabilities		51.3	54.7	59.2
Deferred tax liabilities	5	6.4	7.4	10.1
Life investment contract liabilities		9,759.6	9,855.5	10,319.6
Life insurance contract liabilities	9	5,274.9	4,436.8	4,285.9
Total liabilities of shareholders of Challenger Limited and non-controlling interests		**29,232.1**	**27,135.9**	**27,005.0**
Net assets of shareholders of Challenger Limited and non-controlling interests		**3,903.9**	**3,910.9**	**3,818.4**
Equity				
Contributed equity	11	2,522.3	2,513.1	2,496.9
Reserves		(25.7)	(35.8)	(49.8)
Retained earnings		1,403.5	1,429.6	1,371.3
Total equity of shareholders of Challenger Limited		**3,900.1**	**3,906.9**	**3,818.4**
Non-controlling interest		**3.8**	**4.0**	**—**
Total equity of shareholders of Challenger Limited and non-controlling interests		**3,903.9**	**3,910.9**	**3,818.4**

[1]The Group adopted AASB 17 ***Insurance Contracts*** from 1 July 2023 and has restated the comparative period. The impacts of adoption are detailed in Note 1.

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

Statement of changes in equity

		Attributable to shareholders of Challenger Limited								
For the period ended 31 December 2022	Note	Contributed equity $m	Share-based payment reserve $m	Cash flow hedge reserve $m	Foreign currency translation reserve $m	Controlling interest reserve $m	Retained earnings $m	Total shareholder equity $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2022		**2,481.5**	**(51.8)**	**—**	**(3.2)**	**5.7**	**1,556.1**	**3,988.3**	**—**	**3,988.3**
Impact of initial application of AASB 17		—	—	—	—	—	(137.6)	(137.6)	—	(137.6)
Restated balance at 1 July 2022		**2,481.5**	**(51.8)**	**—**	**(3.2)**	**5.7**	**1,418.5**	**3,850.7**	**—**	**3,850.7**
Profit for the period from continuing operations		—	—	—	—	—	36.7	36.7	—	36.7
Loss for the period from discontinued operations		—	—	—	—	—	(5.5)	(5.5)	—	(5.5)
Other comprehensive income		—	—	0.1	(1.3)	—	—	(1.2)	—	(1.2)
Total comprehensive income for the period		**—**	**—**	**0.1**	**(1.3)**	**—**	**31.2**	**30.0**	**—**	**30.0**
Other equity movements										
Ordinary shares issued	11	10.6	—	—	—	—	—	10.6	—	10.6
Treasury shares purchased	11	(19.2)	—	—	—	—	—	(19.2)	—	(19.2)
Treasury shares vested	11	9.6	—	—	—	—	—	9.6	—	9.6
Settled deferred Treasury shares	11	14.4	—	—	—	—	—	14.4	—	14.4
Share-based payment expense net of tax less releases		—	0.7	—	—	—	—	0.7	—	0.7
Dividends paid	13	—	—	—	—	—	(78.4)	(78.4)	—	(78.4)
Balance at 31 December 2022		**2,496.9**	**(51.1)**	**0.1**	**(4.5)**	**5.7**	**1,371.3**	**3,818.4**	**—**	**3,818.4**
For the period ended 31 December 2023										
Balance at 1 July 2023		**2,513.1**	**(39.0)**	**0.2**	**(13.7)**	**16.7**	**1,683.1**	**4,160.3**	**4.0**	**4,164.3**
Impact of initial application of AASB 17		—	—	—	—	—	(253.5)	(253.5)	—	(253.5)
Restated balance at 1 July 2023		2,513.1	(39.0)	0.2	(13.7)	16.7	1,429.6	3,906.8	4.0	3,910.8
Profit for the period from continuing operations		—	—	—	—	—	59.5	59.5	(0.2)	59.3
Loss for the period from discontinued operations		—	—	—	—	—	(3.2)	(3.2)	—	(3.2)
Other comprehensive income		—	—	(0.1)	(0.4)	—	—	(0.5)	—	(0.5)
Total comprehensive income for the period		**—**	**—**	**(0.1)**	**(0.4)**	**—**	**56.3**	**55.8**	**(0.2)**	**55.6**
Other equity movements										
Ordinary shares issued	11	21.0	—	—	—	—	—	21.0	—	21.0
Treasury shares vested	11	10.7	—	—	—	—	—	10.7	—	10.7
Deferred Treasury share purchases	11	(22.5)	—	—	—	—	—	(22.5)	—	(22.5)
Share-based payment expense net of tax less releases		—	4.3	—	—	—	—	4.3	—	4.3
Dividends paid	13	—	—	—	—	—	(82.4)	(82.4)	—	(82.4)
Other movements		—	—	—	—	6.4	—	6.4	—	6.4
Balance at 31 December 2023		**2,522.3**	**(34.7)**	**0.1**	**(14.1)**	**23.1**	**1,403.5**	**3,900.1**	**3.8**	**3,903.9**

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

Statement of cash flows

For the period ended 31 December	Note	2023 $m	2022 $m
Operating activities			
Receipts from customers		266.1	334.7
Annuity and premium receipts	9	3,504.8	3,716.5
Annuity and claim payments	9	(3,233.7)	(3,083.0)
Receipts from external unit holders		1,958.3	1,935.2
Payments to external unit holders		(2,347.2)	(1,752.2)
Payments to vendors and employees		(345.1)	(339.1)
Dividends received		45.8	41.8
Interest received		570.8	400.5
Interest paid		(136.5)	(72.2)
Income tax paid		(31.6)	(148.3)
Net cash inflows from operating activities	10	**251.7**	**1,033.9**
Investing activities			
Payments for net purchases of investments		(1,212.8)	(947.5)
Proceeds from sale of associate		0.5	—
Loan repayments		50.2	67.4
Payments for purchase of associate interest		(2.8)	—
Payments for purchases of property, plant and equipment and other intangibles		(1.3)	(3.1)
Net cash outflows from investing activities		**(1,166.2)**	**(883.2)**
Financing activities			
Net proceeds from borrowings – interest bearing financial liabilities	12	1,164.1	(69.3)
Payments for lease liabilities		(4.4)	(4.4)
Payments for Treasury shares		(2.9)	(7.8)
Dividends paid		(61.3)	(67.8)
Net cash outflows from financing activities		**1,095.5**	**(149.3)**
Net increase in cash and cash equivalents from continuing operations		**181.0**	**1.4**
Cash and cash equivalents at the beginning of the period[1]		651.5	733.1
Cash and cash equivalents prior to transfers		**832.5**	**734.5**
Net increase/(decrease) in cash and cash equivalents from discontinued operations		21.3	(4.9)
Cash and cash equivalents transferred to assets held for sale	16	(79.4)	(35.9)
Cash and cash equivalents at the end of the period		**774.4**	**693.7**

[1] Cash and cash equivalents at the beginning of the period includes discontinued operations opening balance ($58.1 million).

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

Section 1: Basis of preparation and overarching material accounting policies

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

The interim financial report for Challenger Limited and its controlled entities (the Group or Challenger) for the six months ended 31 December 2023 was authorised for issue in accordance with a resolution of the Directors of the Company on 12 February 2024.

(i) Basis of preparation and statement of compliance

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

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

The interim financial report does not include all the information and disclosures normally included in an annual financial statements. It is recommended that this interim financial report be read in conjunction with the financial report for the year ended 30 June 2023 and any public announcements made by the Group in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Except as discussed, the accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Company’s annual financial report for the year ended 30 June 2023. The accounting policies are consistent with Australian Accounting Standards and with IFRS standards.

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

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

(ii) Significant accounting judgements, estimates and assumptions

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

(iii) New standards, interpretations and amendments adopted by the Group

Except for the matters referred to below, the accounting policies and methods of computation are the same as those adopted in the annual report for the period ended 30 June 2023.

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

The following new accounting standards has been applied from 1 July 2023:

AASB 17 *Insurance Contracts*

AASB 17 ***Insurance Contracts*** replaces AASB 4 ***Insurance Contracts***, AASB 1038 ***Life Insurance Contracts*** and AASB 1023 ***General Insurance Contracts***. The standard establishes principles for the recognition, measurement, presentation and disclosure of life insurance contracts issued. Life investment contracts are currently measured under AASB 9 ***Financial Instruments*** and will continue to be measured in the same way.

Prior period reclassifications

As part of the AASB 17 implementation project, the Group completed a review of insurance risk across the liability portfolio and determined that several contract types previously classified as life insurance do not carry significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Significant insurance risk is required to meet the definition of an insurance contract under AASB 1038 ***Life Insurance Contracts*** and AASB 17 ***Insurance Contracts***. While the impacted contracts carry features that may result in the Group paying additional benefits, these additional benefits are not expected to be significant and they arise primarily due to discounting factors. Accordingly, those identified contracts have been retrospectively reclassified as investment contracts. The reclassification is immaterial on both net asset and reported earnings, but the following financial statement disclosures have been impacted:

- Statement of financial position;
- Statement of comprehensive income;
- Note 2 Other revenue;
- Note 3 Other expenses;
- Note 9 Life insurance and investment contract liabilities;
- Note 14 Earnings Per Share; and
- Note 15 Fair values of investment assets and liabilities.

For more information on the accounting policy of life investment contract liabilities, refer to Note 9 Life insurance and investment contract liabilities.

Transition

The Group has applied AASB 17 from 1 July 2023 and the comparatives have been restated. The 31 December 2022 and 30 June 2023 comparative figures as presented have been restated for the adoption of AASB 17.

AASB 17 was adopted in accordance with its transition provisions which stipulates that, unless it is impractical to do so, retrospective application and restatement of comparative information as if the standard had always been in effect is required. Where it is impractical, the standard allows the choice of applying either a modified retrospective approach or a fair value approach for each group of insurance contracts.

Based on valuations as at transition date, the Group applied the full retrospective approach to over 99% of the total insurance contracts liabilities. For the remaining groups of contracts where it was impractical to apply the full retrospective approach, the Group elected to apply the fair value approach. These were retail groups of insurance contracts written prior to 2003 with limited data availability. The total valuation under the fair value approach at transition was $35.2 million (<1% of total insurance liabilities).

(iii) New standards, interpretations and amendments adopted by the Group (continued)

Impacts of adoption of AASB 17 and reclassifications

The restated consolidated statements of financial position and statements of comprehensive income are as follows:

	30 Jun 22 (previously reported) $m	Reclassification $m	AASB 17 remeasurement $m	1 Jul 22 Restated $m
Assets				
Deferred tax asset[1]	137.1	—	58.9	196.0
Total assets	**137.1**	**—**	**58.9**	**196.0**
Liabilities				
Life insurance contract liabilities	6,847.0	(2,902.3)	196.5	4,141.2
Life investment contract liabilities	6,748.4	2,902.3	—	9,650.7
Total life contract liabilities	**13,595.4**	**—**	**196.5**	**13,791.9**
Total adjustment on equity of shareholders			**(137.6)**	
Retained earnings	**1,556.1**		**(137.6)**	**1,418.5**

	31 Dec 22 (previously reported) $m	Reclassification $m	AASB 17 remeasurement $m	1 Jan 23 Restated $m
Assets				
Deferred tax asset[1]	98.9	—	98.1	197.0
Total assets	**98.9**	**—**	**98.1**	**197.0**
Liabilities				
Life insurance contract liabilities	6,961.0	(3,002.2)	327.1	4,285.9
Life investment contract liabilities	7,317.4	3,002.2	—	10,319.6
Total life contract liabilities	**14,278.4**	**—**	**327.1**	**14,605.5**
Total adjustment on equity of shareholders			**(229.1)**	
Retained earnings	**1,600.4**		**(229.1)**	**1,371.3**
Profit before income tax	188.4	—	(130.8)	57.6
Income tax expense	(60.2)	—	39.3	(20.9)
Profit for the period after income tax from continuing operations	**128.2**	**—**	**(91.5)**	**36.7**

	30 Jun 23 (previously reported) $m	Reclassification $m	AASB 17 remeasurement $m	1 Jul 23 Restated $m
Assets				
Deferred tax asset[1]	86.3	—	108.8	195.1
Total assets	**86.3**	**—**	**108.8**	**195.1**
Liabilities				
Life insurance contract liabilities	4,074.5	—	362.3	4,436.8
Life investment contract liabilities	9,855.5	—	—	9,855.5
Total life contract liabilities	**13,930.0**	**—**	**362.3**	**14,292.3**
Total adjustment on equity of shareholders			**(253.5)**	
Retained earnings	**1,683.1**		**(253.5)**	**1,429.6**

[1] Upon adoption of AASB 17, the Group recognised a deferred tax asset representing the tax impact of the increase in insurance contract liabilities.

(iii) New standards, interpretations and amendments adopted by the Group (continued)

Impacts of adoption of AASB 17 and reclassifications (continued)

The drivers of remeasurements in the restated opening statements of financial position include the following:

	30 Jun 2023 $m	31 Dec 2022 $m	30 Jun 2022 $m
Derecognition of present value of future profit margins under AASB 1038	(679.2)	(666.8)	(797.9)
Contractual service margin	963.4	894.3	869.3
Risk adjustment for non-financial risk	133.9	147.9	183.3
Difference in valuation of future cash flows	(55.8)	(48.3)	(58.2)
Total change in life contract liabilities	**362.3**	**327.1**	**196.5**

Amendments to existing accounting standards

The following new accounting amendments have been applied from 1 July 2023:

- AASB 2023-2 ***Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules***

The amendments to AASB 112 ***Income Taxes*** have been introduced in response to the OECD's BEPS Pillar Two rules. They include a mandatory exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception - the use of which is required to be disclosed - applies immediately. The remaining disclosure requirements apply for the annual period commencing 1 July 2023.

Other new accounting amendments that have been applied from 1 July 2023 are:

- AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*; and
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates.*

The above amendments had no material impact on the Group's interim consolidated financial statements, and are not expected to materially affect the accounting policy disclosures in the Group's annual consolidated financial statements.

Accounting standards and amendments issued but not yet effective

Existing standards and interpretations not yet effective

The AASB has released an Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* on 23 October 2023. It is available for comment until 1 March 2024.

ED SR1 includes three draft Australian Sustainability Reporting Standards (ASRS):

- ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*;
- ASRS 2 *Climate-related Financial Disclosures*; and
- ASRS 101 *References in Australian Sustainability Reporting Standards.*

ASRS 1 uses the equivalent IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* issued by the International Sustainability Standards Board (ISSB) as a baseline, but its scope is limited to climate-related financial disclosure. ASRS 2 uses the equivalent IFRS S2 *Climate-related Disclosure*s as a baseline. ASRS 101 is a service standard that lists the relevant versions of any non-legislative versions of non-legislative documents published in Australia, as well as any foreign documents referenced in ASRS Standards. This will be updated periodically.

The effective date of these ASRS Standards depends on the Australian Government's final timeline for making climate-related financial disclosures mandatory in Australia. If the Government's proposed roadmap is legislated, the effective date for Challenger, as a Group 1 entity, is the year beginning 1 July 2024.

Meeting the obligations of the standards and broader proposed climate-related financial disclosures regime forms a core part of Challenger's ESG work program which focuses on climate risk.

Section 2: Key numbers

Note 1 Net insurance result

	31 Dec 2023 $m	31 Dec 2022 $m
Insurance revenue		
Expected insurance claims released	265.2	209.9
Expected loss component run off	(18.3)	(17.5)
Expected insurance maintenance expenses released	10.1	9.7
Change in the risk adjustment for non-financial risk	1.5	2.6
Amount of contractual service margin recognised in profit or loss	32.2	28.8
Allocation of premiums for the recovery of insurance acquisition cash flows	1.7	1.5
Other amounts	(6.9)	(3.9)
Total insurance revenue	**285.5**	**231.1**
Insurance service expenses		
Incurred claims	(257.5)	(203.4)
Incurred maintenance expenses	(9.4)	(8.4)
Changes that relate to past service - adjustments to the liabilities for incurred claims (LIC)	1.6	(0.5)
Losses on onerous contracts and reversal of those losses	(31.8)	11.2
Insurance acquisition cash flows amortisation	(1.7)	(1.5)
Total insurance service expenses	**(298.8)**	**(202.6)**
Insurance service result	**(13.3)**	**28.5**
Net investment income		
Interest income	112.0	94.8
Net realised and unrealised gains/(losses) on investments and derivatives	49.6	(21.8)
Net realised and unrealised foreign exchange gains/(losses)	0.9	1.6
Other net investment income	30.6	30.4
Total net investment income	**193.1**	**105.0**
Insurance finance expenses from insurance contracts issued		
Interest accreted to insurance contracts using current financial assumptions	(89.6)	(69.3)
Interest accreted to insurance contracts using locked-in rate	(12.0)	(10.8)
Changes in interest rates and other financial assumptions	(107.9)	(62.5)
Net foreign exchange income/(expenses)	7.3	(2.3)
Total insurance finance expenses	**(202.2)**	**(144.9)**
Net insurance result	**(22.4)**	**(11.4)**

Accounting Policy

Insurance revenue

Insurance revenue is derived from the changes in the liability for remaining coverage each period that relate to services the Group expects to provide and includes the release of risk adjustment (RA) and contractual service margin (CSM). The RA reflects the compensation the Group requires for bearing the uncertainty in relation to the amount and timing of cash flows that arise from non-financial risk and is released as the uncertainty associated with the amount and timing of claims are resolved. The CSM represents the unearned profits of insurance contracts and is released to insurance revenue based on a pattern of coverage units, which reflects the provision of insurance services over the expected coverage period. For groups of contracts that are onerous (loss-making), the loss expected at the time of acquisition is immediately recognised in profit or loss.

Insurance service expenses

Insurance service expenses arising from groups of insurance contracts issued are recognised in profit and loss and includes actual claims, expenses incurred in the period and losses and reversals of losses on onerous contracts.

Insurance finance income/(expenses)

Insurance finance income/(expenses) comprises changes in the carrying amounts of groups of insurance contracts arising from the effects of the time value of money and financial risk, unless any such changes are allocated to a loss component and included in insurance service expenses.

Refer to Note 9 Life insurance and investment contract liabilities for more detail on the accounting policy of life insurance contract liabilities.

Note 2 Other revenue

	31 Dec 2023 $m	31 Dec 2022 $m
Investment revenue		
Fixed income securities and cash	952.4	269.1
Investment property and property securities	9.9	111.6
Equity and infrastructure investments	14.6	26.4
Realised and unrealised gains on hedges and foreign exchange translation	102.9	130.4
Investment income attributable to insurance contracts[1]	(202.5)	(114.7)
Fee revenue	118.3	125.4
Other revenue		
Change in life investment contract liabilities	(33.8)	127.2
Gain on disposal of Real Estate business	30.9	—
Other	3.8	1.8
Total other revenue	**996.5**	**677.2**

[1] This represents the portion of investment revenue attributable to life insurance contracts as per AASB 17 and is disclosed in Note 1. The difference to Note 1 of $9.4 million (31 Dec 2022: $9.7 million) relates to investment property expenses.

Note 3 Other expenses

	31 Dec 2023 $m	31 Dec 2022 $m
Life investment contract claims and expenses	235.0	203.1
Investment property-related expenses[1]	35.6	35.3
Management and other fees	75.3	76.5
Distribution expenses	35.2	31.6
Employee benefits expenses	108.2	102.0
Professional fees	25.3	18.3
Expenses attributable to life insurance contracts[2]	(22.7)	(21.8)
Other expenses[3]	39.7	33.1
Total expenses	**531.6**	**478.1**

[1] Investment property-related expenses relate to rental income-generating investment properties.
[2] This represents the portion of expenses attributable to life insurance contracts as per AASB 17 - $3.9 million acquisition expenses, $9.4 million maintenance expenses and $9.4 million investment property expenses (December 2022: $3.7 million acquisition expenses, $8.4 million maintenance expenses and $9.7 million investment property expenses).
[3] Includes technology and communications expenses ($19.3 million) and depreciation and amortisation of ($7.2 million); (31 December 2022: $15.0 million and $7.2 million).

Note 4 Segment information

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

For the period ended	Life	FM	Corporate and other[2]	Discontinued Operations (Bank NPAT)[3]	Investment experience after tax	Significant items after tax[4]	
31 December 2023	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	
Net income	359.7	87.4	0.1				447.2
Operating expenses	(58.2)	(58.9)	(37.5)				(154.6)
Normalised EBIT	**301.5**	**28.5**	**(37.4)**				**292.6**
Interest and borrowing costs	—	—	(2.3)				(2.3)
Normalised net profit/(loss) before tax	**301.5**	**28.5**	**(39.7)**				**290.3**
Tax on normalised profit							(89.6)
Normalised net profit after tax							**200.7**
Other adjustments[3]	—	—	—	(3.5)	(145.2)	4.3	(144.4)
Profit attributable to the shareholders of Challenger Ltd							**56.3**

For the period ended	Life	FM	Bank[6]	Corporate and other[2]	Investment experience after tax	Significant items after tax	Total
31 December 2022	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Net income	317.3	87.9	4.7	0.6			410.5
Operating expenses	(54.0)	(57.2)	(9.0)	(37.9)			(158.1)
Normalised EBIT	**263.3**	**30.7**	**(4.3)**	**(37.3)**			**252.4**
Interest and borrowing costs	—	—	—	(2.0)			(2.0)
Normalised net profit/(loss) before tax	**263.3**	**30.7**	**(4.3)**	**(39.3)**			**250.4**
Tax on normalised profit							(83.2)
Normalised net profit after tax							**167.2**
Other adjustments[5]	(91.5)	—	(2.1)	—	(42.4)	—	(136.0)
Total profit for the period after income tax							**31.2**

[1] Refer to the following page for definitions of the terms used in the management view of segments.
[2] Corporate and other includes corporate companies and Group eliminations.
[3] The amount within the Bank segment includes $0.3m significant items.
[4] Significant items pertain to the net gain on sale of CRE, partially offset by AASB 17 implementation project costs and organisational restructuring costs.
[5] Other adjustments include prior period adjustment on the application of AASB 17 ***Insurance Contracts*** for Life, and impairment for Bank reflecting the provision for fair value adjustments on Bank lending and financing assets.
[6] In the prior period the normalised result included the Bank, the Bank is not included in the current period.

Note 4 Segment information (continued)

	Life		FM		Bank[2]		Corporate and other			
	31 Dec 2023 $m	31 Dec 2022 $m	31 Dec 2023 $m	31 Dec 2022 $m	31 Dec 2023 $m	31 Dec 2022 $m	31 Dec 2023 $m	31 Dec 2022 $m	31 Dec 2023 $m	31 Dec 2022 $m
Revenue from external customers[1]	261.1	94.6	111.4	118.1	—	—	—	—	372.5	212.7
Interest revenue	597.5	450.1	0.5	0.3	—	—	3.6	4.1	601.6	454.5
Interest expense	(350.2)	(119.9)	(0.4)	(0.6)	—	—	(23.6)	(23.2)	(374.2)	(143.7)
Intersegment revenue	(14.6)	(21.6)	14.6	21.6	—	—	—	—	—	—
Depreciation and amortisation	(2.9)	(3.1)	(2.5)	(3.3)	—	—	(1.5)	(0.8)	(6.9)	(7.2)
As at 31 December 2023										
Segment assets	24,704.5	23,704.6	472.0	308.2	356.7	411.5	7,599.0	6,301.0	33,132.2	30,725.3
Segment liabilities	(21,381.5)	(20,202.3)	(149.8)	(21.8)	(298.6)	(297.0)	(7,405.2)	(6,156.7)	(29,232.1)	(26,677.8)
Net assets[3]	**3,323.0**	**3,502.3**	**322.2**	**286.4**	**58.1**	**114.5**	**193.8**	**144.3**	**3,900.1**	**4,047.5**

[1] Funds Management revenue from external customers is predominantly management fees.
[2] The Bank has been classified as held for sale and a discontinued operation in the period. See Note 16.
[3] Prior year comparatives have not been restated for the impact of AASB 17.

Definitions

Operating segments

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

Life

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

Funds Management

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

Corporate and other

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

Operating segments – discontinued operations

Bank

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

Note 4 Segment information (continued)

Transactions between segments

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

Normalised vs. statutory results

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

- normalised cash operating earnings (Life segment);
- net interest margin (Bank segment – for the period ended 31 December 2023, this has been included as a discontinued operation);
- net income (Funds Management segment); and
- other income (Corporate and other segment).

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

Normalised cash operating earnings

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

Normalised capital growth

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

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

Normalised EBIT

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

Tax on normalised profit

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

Investment experience after tax

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

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

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

Asset and liability experience

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

New business strain

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

Significant items after tax

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

Major customers

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

Geographical areas

The Group operates predominantly in Australia, hence no geographical split is provided to the chief operating decision-maker.

Note 4 Segment information (continued)

	31 Dec 2023 $m	31 Dec 2022 $m
Reconciliation of management to statutory view of after-tax profit		
Operating segments normalised net profit before tax	330.0	289.7
Corporate and other normalised net loss before tax	(39.7)	(39.3)
Normalised net profit before tax (management view of pre-tax profit)	**290.3**	**250.4**
Tax on normalised profit	(89.6)	(83.2)
Normalised net profit after tax	**200.7**	**167.2**
Investment experience after tax	(145.2)	(42.4)
Bank — other adjustments	(3.5)	(2.1)
Significant items after tax	4.3	—
Net profit after tax impact of transition to AASB 17[1]	—	(91.5)
Profit attributable to the shareholders of Challenger Limited	**56.3**	**31.2**
Loss attributable to non-controlling interests excluded from management view	(0.2)	—
Statutory view of profit after tax	**56.1**	**31.2**
Reconciliation of management view of revenue to statutory revenue		
Operating segments	447.1	409.9
Corporate and other	0.1	0.6
Net income (management view of revenue)	**447.2**	**410.5**
Pre-tax impact of transition to AASB 17[1]	—	(130.7)
Expenses and finance costs offset against revenue		
Loan asset expenses and finance costs offset against loan asset income	5.0	3.8
Distribution expenses offset against related income	35.2	31.6
Change in life contract liabilities and reinsurance contracts recognised in expenses	212.3	181.3
Property-related expenses offset against property income	35.6	35.3
Interest and loan amortisation costs	366.8	116.1
Management fee expenses	75.3	76.5
Net income of discontinued operations[2]	—	(4.7)
Adjustment for other items	(1.1)	6.7
Difference between management view of investment experience and statutory recognition		
Actual capital growth	(122.6)	(63.4)
Normalised capital growth	(5.9)	(19.7)
Policyholder liability experience	(15.9)	67.5
New business strain	(57.8)	(45.0)
Statutory revenue	**974.1**	**665.8**

[1] The Group adopted AASB 17 ***Insurance Contracts*** from 1 July 2023 and has restated the prior comparative period. The impacts of adoption are detailed in Note 1.
[2] In the prior period the Bank has been included as a segment within management's view but is a discontinued operation for statutory reporting. Therefore, the reconciliation removes the net income of discontinued operations in reconciling to the statutory revenue balance for 31 December 2022.

Note 5 Income tax

Reconciliation of income tax expense	31 Dec 2023 $m	31 Dec 2022 $m
Profit before income tax	84.8	57.6
Prima facie income tax based on the Australian company tax rate of 30%	(25.4)	(17.3)
Tax effect of amounts not assessable/deductible in calculating taxable income:		
– Challenger Capital Notes distributions	(6.4)	(5.9)
– non-assessable and non-deductible items	5.5	7.1
– other items	0.8	(4.8)
Income tax expense	**(25.5)**	**(20.9)**
Underlying effective tax rate[1]	**30.1%**	**36.3%**

[1] Comparative information has been restated to reflect the Bank being classified as a discontinued operation (see Note 16) and for AASB 17.

Analysis of income tax expense	31 Dec 2023 $m	31 Dec 2022 $m
Current income tax (expense)/benefit for the period	(3.6)	39.0
Current income tax benefit/(expense) prior period adjustment	3.8	(11.3)
Deferred income tax expense	(22.8)	(55.2)
Deferred income tax (expense)/benefit prior period adjustment	(2.9)	6.6
Income tax expense	**(25.5)**	**(20.9)**
Income tax benefit/(expense) on translation of foreign entities	1.0	(5.5)
Income tax (expense)/benefit on hedge of net investment in foreign entities	(1.0)	6.4
Income tax benefit from other comprehensive income[1]	**—**	**0.9**

[1] Comparative information has been restated to reflect the Bank being classified as a discontinued operation (see Note 16) and for AASB 17.

	Statement of financial position		Statement of comprehensive income	
Analysis of deferred tax	**31 December 2023 $m**	**30 June 2023 $m**	**31 December 2023 $m**	**30 June 2023 $m**
Deferred tax assets				
Accruals and provisions	46.0	45.3	0.6	7.0
Employee entitlements	5.4	5.6	(0.2)	(0.6)
Tax losses[1]	105.3	6.9	(12.0)	(0.5)
Unrealised net losses on investments	12.8	54.7	(41.9)	(23.4)
Other[2]	18.4	122.5	(1.5)	—
Total deferred tax assets	**187.9**	**235.0**	**(55.0)**	**(17.5)**
Set-off of deferred tax assets	**(11.8)**	**(39.9)**		
Net deferred tax assets recognised in Statement of financial position	**176.1**	**195.1**		
Deferred tax liabilities				
Unrealised foreign exchange movements	(5.7)	(31.6)	25.9	(31.1)
Unrealised net gains on investments	(7.6)	(9.5)	1.8	(9.5)
Other	(4.9)	(6.2)	1.6	9.3
Total deferred tax liabilities	**(18.2)**	**(47.3)**	**29.3**	**(31.3)**
Set-off of deferred tax liabilities	**11.8**	**39.9**		
Net deferred tax liabilities recognised in Statement of financial position	**(6.4)**	**(7.4)**		
Deferred income tax expense recognised in Statement of comprehensive income			**(25.7)**	**(48.8)**

[1] The $98.4 million increase in Tax losses is largely from tax losses arising from the introduction of AASB 17. This assumes the tax treatment on policy liability movements arising from AASB 17 remains unchanged from the existing treatment. The Australian Tax Office is yet to issue guidance on this position for life insurers.

[2] The $104.1 million decrease in Other is predominantly in respect of 30 June 2023 restatement of certain policy liabilities arising from the introduction of AASB 17.

Note 5 Income tax (continued)

Recognised deferred tax balances	31 Dec 2023 $m	30 Jun 2023 $m
Tax consolidated group losses	104.0	4.8
Non-tax consolidated group losses	1.3	2.1
Deferred tax asset on losses	**105.3**	**6.9**

Unrecognised deferred tax balances	31 Dec 2023 $m	30 Jun 2023 $m
Non-tax consolidated group revenue losses – tax effected	12.8	12.9
Tax consolidated group capital losses – tax effected	56.4	56.4

Analysis of current tax (asset)/liability	31 Dec 2023 $m	30 Jun 2023 $m
Opening current tax (asset)/liability	(6.1)	66.5
Current income tax expense for the period	3.6	47.7
Current income tax (benefit)/expense prior year adjustment[1]	(3.8)	16.0
Tax in equity	(0.2)	(9.8)
Income tax paid[2]	(31.6)	(122.6)
Other	(0.6)	(3.9)
Closing balance - current tax asset	**(38.7)**	**(6.1)**
Presented on the Statement of financial position as:		
Current tax asset	43.0	6.1
Current tax liability	4.3	—

[1] The 1H24 prior year adjustment is predominantly in respect of a adjustments on sales of internal assets within the Challenger tax consolidated group.

[2] Of the $31.6 million tax paid, $37.9 million relates to FY24 PAYG instalments, ($7.4 million) relates to net refunds relating to prior periods and $1.1 million relates to income tax payments for offshore entities

Note 6 Investment assets

	31 Dec 2023 $m	30 Jun 2023 $m	31 Dec 2022 $m
Investment assets held at fair value through profit and loss	25,942.1	24,317.3	23,364.1
Total investment assets	**25,942.1**	**24,317.3**	**23,364.1**

Held at fair value through profit and loss	31 Dec 2023 $m	30 Jun 2023 $m	31 Dec 2022 $m
Domestic sovereign bonds and semi-government bonds	5,408.9	4,632.7	4,081.7
Floating rate notes and corporate bonds	6,564.4	6,317.6	6,438.2
Residential mortgage and asset-backed securities	9,433.1	9,229.4	9,279.2
Non-Special Purpose Vehicle (SPV)/ADI mortgage assets	232.5	272.1	90.5
Fixed income securities	**21,638.9**	**20,451.8**	**19,889.6**
Shares in listed and unlisted corporations	51.5	21.2	28.7
Unit trusts, managed funds and other	3,334.2	2,623.0	2,202.3
Equity securities	**3,385.7**	**2,644.2**	**2,231.0**
Simple Agreement for Future Equity	20.0	20.0	20.0
Debt securities	**20.0**	**20.0**	**20.0**
Units in listed and unlisted infrastructure trusts	46.5	51.9	57.0
Other infrastructure investments	227.7	232.2	238.3
Infrastructure investments	**274.2**	**284.1**	**295.3**
Indirect property investments in listed and unlisted trusts	90.1	89.3	98.8
Property securities	**90.1**	**89.3**	**98.8**
Hedged commodities[1]	533.2	827.9	829.4
Other investment assets	**533.2**	**827.9**	**829.4**
Total investment assets – fair value through profit and loss	**25,942.1**	**24,317.3**	**23,364.1**
Current	17,425.9	15,981.6	15,954.6
Non-current	8,516.2	8,335.7	7,409.5
	25,942.1	**24,317.3**	**23,364.1**

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

Note 7 Investment property

	31 Dec 2023 $m	30 Jun 2023 $m	31 Dec 2022 $m
Investment property in use	3,168.9	3,269.2	3,440.1
Total investment property	**3,168.9**	**3,269.2**	**3,440.1**

	Investment property held for sale			Investment property in use			Total		
Reconciliation of carrying amounts[1]	31 Dec 2023 $m	30 Jun 2023 $m	31 Dec 2022 $m	31 Dec 2023 $m	30 Jun 2023	31 Dec 2022 $m	31 Dec 2023 $m	30 Jun 2023	31 Dec 2022 $m
Balance at the beginning of the period	—	—	—	3,269.2	3,483.3	3,483.3	3,269.2	3,483.3	3,483.3
Movements for the period:									
– acquisitions[2]	—	—	—	—	10.4	10.4	—	10.4	10.4
– disposals[3]	—	(78.2)	(78.2)	—	—	—	—	(78.2)	(78.2)
– net transfers to/(from) investment property held for sale	—	79.1	79.1	—	(79.1)	(79.1)	—	—	—
– capital expenditure	—	0.1	0.1	5.2	33.8	9.4	5.2	33.9	9.5
– net revaluation loss	—	(1.0)	(1.0)	(105.5)	(160.7)	(13.6)	(105.5)	(161.7)	(14.6)
– foreign exchange loss	—	—	—	—	(18.5)	29.7	—	(18.5)	29.7
Balance at the end of the period	**—**	**—**	**—**	**3,168.9**	**3,269.2**	**3,440.1**	**3,168.9**	**3,269.2**	**3,440.1**

[1] Periods cover 12 months to June and 6 months to December.
[2] No investment property acquisitions during the period (31 Dec 2022: Helicon Drive, SA $10.4 million).
[3] No Investment property disposals during the period (31 Dec 2022: Bunbury Forum, WA $78.2 million).

Accounting policy

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

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

Gains or losses arising from changes in the fair values of investment properties are included in the Statement of comprehensive income in the period in which they arise. Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognised in the Statement of comprehensive income in the year of retirement or disposal.

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

Key estimates and assumptions

Independent valuations for all investment properties are conducted at least annually by suitably qualified valuers, and the Directors make reference to these independent valuations when determining fair value. For the period ended 31 December 2023, 74% of properties by value (62% by count) were valued by external valuers. Each independent valuer is appointed in line with the valuation policy, which requires that valuers are authorised to practise under the law of the relevant jurisdiction where the valuation takes place and have at least five years of continuous experience in the valuation of property of a similar type to the property being valued, and on the basis that they are engaged for no longer than two consecutive years on an individual property. The valuer must have no pecuniary interest that could conflict with the valuation of the property, must be suitably indemnified and must comply with the Australian Property Institute (API) Code of Ethics and Rules of Conduct (or foreign equivalent).

Fair value for the purposes of the valuation is market value as defined by the International Assets Valuation Standards Committee. In determining market value, valuers examine available market evidence and apply this analysis to both the traditional market capitalisation approach and the discounted cash flow approach (using market-determined risk-adjusted discount rates). Valuers are required to provide valuation methodology and calculations for fair value, including reference to annual net market income, comparable capitalisation rates and property-specific adjustments. The values of investment property do not reflect anticipated enhancement from future capital expenditure.

Note 8 Loan assets

Loan assets	31 Dec 2023 $m	30 Jun 2023 $m	31 Dec 2022 $m
Residential mortgages[1]	240.3	268.9	301.7
Investment loans[2]	82.0	93.6	108.5
Chattel mortgages[3]	—	21.5	—
Commercial loans	—	—	53.3
Less: provision for impairment	(7.2)	(9.1)	(10.8)
Total loan assets[4]	**315.1**	**374.9**	**452.7**

[1] Residential mortgages are held by CLC. The CLC book is held within Special Purpose Vehicle (SPV) trusts that hold residential mortgage-backed assets and issue securitised financial liabilities. The trusts are entities that fund pools of residential mortgage-backed securities (RMBS). All borrowings of these SPVs are limited in recourse to the assets of the SPV.
[2] Investment loans are loans to resident households for the purpose of housing, where the funds are used for a residential property that is not owner occupied. Prior comparative balance includes reclassification from residential mortgages.
[3] Chattel mortgages are loans used to purchase motor vehicles or other major business equipment, where the lender retains ownership of the asset until the loan is repaid. For the period ended 31 December 2023, Chattel mortgages are part of loan assets held for sale disclosed in Note 16 Discontinued operations and business held for sale.
[4] The loan assets of Challenger Bank are currently held for sale. See Note 16 Discontinued operations and business held for sale for further detail.

Accounting policy

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

Key estimates and assumptions

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

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

Analysis of loan assets impairment provision	31 Dec 2023 $m	30 Jun 2023 $m	31 Dec 2022 $m
Balance at the beginning of the period	9.1	10.6	10.6
(Decrease) / increase in provision	(2.0)	1.5	0.6
Utilisation of provision against incurred losses and other adjustments	0.1	(3.0)	(0.4)
Balance at the end of the period[1]	**7.2**	**9.1**	**10.8**

[1] Periods cover 12 months to June and 6 months to December.

Note 9 Life insurance and investment contract liabilities

	31 Dec 2023 $m	30 Jun 2023 $m	31 Dec 2022 $m
Life investment contract liabilities	9,759.6	9,855.5	10,319.6
Life insurance contract liabilities	5,274.9	4,436.8	4,285.9
Total life contract liabilities	**15,034.5**	**14,292.3**	**14,605.5**

	Life investment contract liabilities		Life insurance contract liabilities		Total life contract liabilities	
Movement in life contract liabilities	31 Dec 2023 $m	31 Dec 2022 $m	31 Dec 2023 $m	31 Dec 2022 $m	31 Dec 2023 $m	31 Dec 2022 $m
Balance at the beginning of the period	9,855.5	9,650.6	4,436.8	4,141.2	14,292.3	13,791.8
Deposits and premium receipts	2,470.2	3,349.1	1,034.6	367.4	3,504.8	3,716.5
Payments and withdrawals	(2,835.0)	(2,756.0)	(398.7)	(327.0)	(3,233.7)	(3,083.0)
Attributable expenses under AASB 17	—	—	(13.3)	(12.1)	(13.3)	(12.1)
Insurance revenue per Note 1	—	—	(285.5)	(231.1)	(285.5)	(231.1)
Insurance service expenses per Note 1	—	—	298.8	202.6	298.8	202.6
Insurance finance expenses per Note 1	—	—	202.2	144.9	202.2	144.9
Other revenue per Note 2	33.8	(127.2)	—	—	33.8	(127.2)
Other expenses per Note 3	235.1	203.1	—	—	235.1	203.1
Balance at the end of the period	**9,759.6**	**10,319.6**	**5,274.9**	**4,285.9**	**15,034.5**	**14,605.5**

Analysis of life insurance contracts by measurement component for the 6 months ended 31 December 2023	Estimates of the present value of future cash flows $m	Risk adjustment $m	Contractual service margin $m	Total $m
Opening insurance contract liabilities as at 1 July 2023	3,339.5	133.9	963.4	4,436.8
Changes that relate to current services				
Contractual service margin recognised for services provided	—	—	(32.2)	(32.2)
Change in risk adjustment for non-financial risk	—	(1.5)	—	(1.5)
Experience adjustments	(1.4)	—	—	(1.4)
Changes that relate to future services				
Contracts recognised in the period	47.3	14.0	4.0	65.3
Changes in estimates that adjust the contractual service margin	(5.5)	3.5	2.0	—
Changes in estimates that result in loss change on onerous contracts	(19.3)	4.0	—	(15.3)
Changes that relate to past services				
Adjustment to liabilities for incurred claims	(1.6)	—	—	(1.6)
Insurance service result	**19.5**	**20.0**	**(26.2)**	**13.3**
Net insurance finance expenses				
Net insurance finance expenses	197.5	—	12.0	209.5
Effect of movements in exchange rates	13.6	(2.0)	(18.9)	(7.3)
Total changes in the statement of profit or loss	**230.6**	**18.0**	**(33.1)**	**215.5**
Cash flows				
Premiums received	1,034.6	—	—	1,034.6
Claims paid	(398.7)	—	—	(398.7)
Other insurance service expenses paid	(9.4)	—	—	(9.4)
Insurance acquisition cash flows	(3.9)	—	—	(3.9)
Total cash flows	**622.6**	**—**	**—**	**622.6**
Closing insurance contract liabilities at 31 December 2023	**4,192.7**	**151.9**	**930.3**	**5,274.9**

Note 9 Life insurance and investment contract liabilities (continued)

Analysis of life insurance contracts by measurement component for the 6 months ended 31 December 2022	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Total
Opening insurance contract liabilities as at 1 July 2022	3,088.6	183.3	869.3	4,141.2
Changes that relate to current services				
Contractual service margin recognised for services provided	—	—	(28.8)	(28.8)
Change in risk adjustment for non-financial risk	—	(2.6)	—	(2.6)
Experience adjustments	(2.6)	—	—	(2.6)
Changes that relate to future services				
Contracts recognised in the period	10.7	5.2	—	15.9
Changes in estimates that adjust the contractual service margin	(2.7)	(36.5)	39.2	—
Changes in estimates that result in loss change on onerous contracts	(9.4)	(1.6)	—	(11.0)
Changes that relate to past services				
Adjustment to liabilities for incurred claims	0.6	—	—	0.6
Insurance service result	**(3.4)**	**(35.5)**	**10.4**	**(28.5)**
Net insurance finance expenses				
Net insurance finance expenses	131.8	—	10.8	142.6
Effect of movements in exchange rates	(1.6)	0.2	3.7	2.3
Total changes in the statement of profit or loss	**126.8**	**(35.3)**	**24.9**	**116.4**
Cash flows				
Premiums received	367.4	—	—	367.4
Claims paid	(327.0)	—	—	(327.0)
Other insurance service expenses paid	(8.4)	—	—	(8.4)
Insurance acquisition cash flows	(3.7)	—	—	(3.7)
Total cash flows	**28.3**	**—**	**—**	**28.3**
Closing insurance contract liabilities at 31 December 2022	**3,243.7**	**148.0**	**894.2**	**4,285.9**

Analysis of life insurance contracts by remaining coverage and incurred claims for the 6 months ended 31 December 2023	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding loss component	Loss component		
	$m	$m	$m	$m
Opening insurance contract liabilities as at 1 July 2023	4,077.8	351.0	8.0	4,436.8
Insurance revenue				
Contracts under fair value approach	(1.9)	—	—	(1.9)
Other contracts	(283.6)	—	—	(283.6)
Total insurance revenue	**(285.5)**	**—**	**—**	**(285.5)**
Insurance service expenses				
Incurred claims and other directly attributable expenses	—	—	266.9	266.9
Losses on onerous contracts and reversal of those losses	—	31.8	—	31.8
Changes that relate to past service - adjustments to LIC	—	—	(1.6)	(1.6)
Insurance acquisition cash flows amortisation	1.7	—	—	1.7
Investment components	(157.2)	—	157.2	—
Total insurance service expenses	**(155.5)**	**31.8**	**422.5**	**298.8**
Insurance service result	**(441.0)**	**31.8**	**422.5**	**13.3**
Net insurance finance expenses				
Net insurance finance expenses	189.2	20.3	—	209.5
Effect of movements in exchange rates	7.3	—	(14.6)	(7.3)
Total insurance finance expenses	**196.5**	**20.3**	**(14.6)**	**202.2**

Note 9 Life insurance and investment contract liabilities (continued)

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
Analysis of life insurance contracts by remaining coverage and incurred claims for the 6 months ended 31 December 2023	Excluding loss component $m	Loss component $m	$m	$m
Cash flows				
Premiums received	1,034.6	—	—	1,034.6
Claims paid	—	—	(398.7)	(398.7)
Other insurance service expenses paid	—	—	(9.4)	(9.4)
Insurance acquisition cash flows	(3.9)	—	—	(3.9)
Total cash flows	**1,030.7**	**—**	**(408.1)**	**622.6**
Closing insurance contract liabilities at 31 December 2023	**4,864.0**	**403.1**	**7.8**	**5,274.9**
Analysis of life insurance contracts by remaining coverage and incurred claims for the 6 months ended 31 December 2022				
Opening insurance contract liabilities as at 1 July 2022	3,754.9	380.9	5.4	4,141.2
Insurance revenue				
Contracts under fair value approach	(2.1)	—	—	(2.1)
Other contracts	(229.0)	—	—	(229.0)
Total insurance revenue	**(231.1)**	**—**	**—**	**(231.1)**
Insurance service expenses				
Incurred claims and other directly attributable expenses	—	—	211.8	211.8
Losses on onerous contracts and reversal of those losses	—	(11.2)	—	(11.2)
Changes that relate to past service - adjustments to LIC	—	—	0.5	0.5
Insurance acquisition cash flows amortisation	1.5	—	—	1.5
Investment components	(139.8)	—	139.8	—
Total insurance service expenses	**(138.3)**	**(11.2)**	**352.1**	**202.6**
Insurance service result	**(369.4)**	**(11.2)**	**352.1**	**(28.5)**
Net insurance finance expenses				
Net insurance finance expenses	141.9	0.7	—	142.6
Effect of movements in exchange rates	18.0	—	(15.7)	2.3
Total insurance finance expenses	**159.9**	**0.7**	**(15.7)**	**144.9**
Cash flows				
Premiums received	367.4	—	—	367.4
Claims paid	—	—	(327.0)	(327.0)
Other insurance service expenses paid	—	—	(8.4)	(8.4)
Insurance acquisition cash flows	(3.7)	—	—	(3.7)
Total cash flows	**363.7**	**—**	**(335.4)**	**28.3**
Closing insurance contract liabilities at 31 December 2022	**3,909.1**	**370.4**	**6.4**	**4,285.9**

Accounting policy

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

Life investment contract liabilities

Life investment contracts are contracts regulated under the Life Act but which do not meet the definition of life insurance contracts under AASB 17 *Insurance Contracts,* and similar contracts issued by entities operating outside of Australia. For fixed term policies, the liability is based on the fair value of the income payments and associated expenses, being the net present value of the payments and expenses using an appropriate discount rate curve as determined by the Appointed Actuary. For cash business, the liability is determined using an accumulation approach.

Life insurance contract liabilities

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

Note 9 Life insurance and investment contract liabilities (continued)

Life insurance contract liabilities (continued)

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as the General Measurement Model (GMM). Under the GMM, groups of insurance contracts are measured as the total of fulfilment cash flows and Contractual Service Margins (CSM). The CSM represents the unearned profit the Group will recognise as it provides insurance contract services under the insurance contracts in the group. For groups of contracts that are onerous (loss-making), the total expected loss is recognised in the Statement of comprehensive income immediately. Fulfilment cash flows comprise of unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, and a risk adjustment (RA), which reflects the compensation that the Group requires for bearing the uncertainty in relation to the amount and timing of cash flows that arise from non-financial risk.

When estimating future cash flows, the Group includes all cash flows that are within the contract boundary, including premiums, benefit payments and expenses that are directly attributable to fulfilling insurance contracts.

The Group maintains life insurance contracts, including individual lifetime annuities, wholesale mortality, wholesale morbidity, longevity reinsurance and wholesale lifetime annuities.

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

Valuation

Key assumptions applied in the valuation of life contract liabilities

Risk adjustment (RA)

The Group has applied a cost of capital (CoC) approach to determine the RA. The RA using the CoC approach is the compensation required by the Group for bearing the uncertainty in the timing and amount of insurance cash flows, which in turn reflects the Group's risk appetite. The components in the determination of the RA include:

– **Capital measure:** projected to determine the level of non-financial risk for the duration of the contracts. This is equal to the undiversified statutory longevity stress, as determined in the calculation of the prescribed capital amount, plus an allowance for diversification between asset and insurance risk where applicable;
– **CoC rate:** reflects the compensation over the risk-free rate sought on insurance risk when pricing insurance contracts; and
– **Discount rate:** used to determine the present value of the projected capital costs. This is equal to the CoC rate plus the RBA cash rate.

The $151.9 million RA corresponds to a 73% confidence level. Changes in the risk adjustment are not disaggregated between the insurance service result and insurance finance income and expenses.

Coverage units

Coverage units determine how the CSM is released into profit and loss in each reporting period. The Group defines coverage units for the current period as the actual incurred benefit payments for the current period, and coverage units for future periods is defined as the expected benefit payment for that period. AASB 17 allows an accounting policy choice on whether to discount future coverage units and the discount rate to apply. The Group has applied discounting to the coverage units at current discount rates.

Discount rates

Under APRA Prudential Standards and AASB 17, life insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, set at the Commonwealth Government Bond curve plus an illiquidity premium where applicable; or for foreign-denominated liabilities, a curve derived from the yields of highly liquid sovereign risk securities in the currency of the policy liabilities plus an illiquidity premium where applicable.

The illiquidity premium is determined by reference to observable market rates, including Australian sovereign debt, corporate, securitised and collateralised debt publicly placed in the domestic market, and market swap rates.

The impact of unwinding the discount and changes in discount rates is recognised in profit and loss and classified as insurance finance income/(expenses).

AASB 17 requires that current discount rates are used to measure fulfilment cash flows and discount rates at initial recognition (locked-in discount rates) are used to measure changes in the CSM.

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

Discount rates applied for Australian liabilities were between 4.2% - 5.4% per annum (30 June 2023: 4.7% - 5.1%).

Expenses

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

For life insurance contracts, only expenses that are directly attributable to those contracts are included for forecasted expenses. Directly attributable expenses are cash flows that directly relate to the fulfilment of insurance contracts.

Inflation

Inflation estimates are based on long-term expectations and reviewed at least annually for changes in the market environment based on a comparison of real and nominal yields of instruments of equivalent term and credit risk. The current assumption for Australia is 2.6% per annum for short-term inflation and 3.1% per annum for long-term inflation (30 June 2023: 2.7% short-term, 2.8% long-term).

For life insurance contracts, AASB 17 requires that current inflation expectations are used to measure fulfilment cash flows and inflation expectations at initial recognition (locked-in inflation rates) are used to measure changes in the CSM.

Note 9 Life insurance and investment contract liabilities (continued)

Valuation (continued)

Surrenders

For life investment contracts, no surrenders or voluntary discontinuances are assumed. For Australian life insurance contracts where a surrender value is payable on withdrawal, a rate of surrenders is assumed in line with Challenger's own experience on these products, currently between 0.0% - 2.1% per annum (30 June 2023: 0.0% - 2.1%).

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

Mortality

Base mortality rates for individual lifetime annuities are determined as a multiple of annuitant experience based on LML08 and LFL08 tables, adjusted for Challenger's own recent experience. LML08 and LFL08 are mortality tables developed by the Continuous Mortality Investigation (CMI) based on United Kingdom annuitant lives experience from 2007–2010.

The tables refer to male and female lives respectively. Rates are adjusted for expected future mortality improvements based on observed and expected improvements. For the age ranges and cash flow projection periods that contribute the majority of CLC's exposure, rates of future mortality improvement applied are between 0.4% - 2.6% per annum (30 June 2023: 0.4% - 2.6%).

Base mortality rates for wholesale mortality and longevity reinsurance are determined as a multiple of pensioner mortality rates (based on the self-administered pension schemes or SAPS3 tables mortality investigation developed by the Institute and Faculty of Actuaries (UK) using United Kingdom data collected between 2009–2016). Rates are adjusted for expected future mortality improvements based on observed and expected improvements. For the age ranges and cash flow projection periods that contribute the majority of CLC's exposure, rates of future mortality improvement applied are between 0.2% - 2.3% per annum (30 June 2023: 0.2% - 2.3%).

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

Restrictions on assets

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

Statutory fund information

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

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

Life contract liabilities	31 Dec 2023 $m	30 Jun 2023 $m
Statutory Fund 1	0.9	0.9
Statutory Fund 2	12,587.9	11,850.9
Statutory Fund 3	2.9	2.8
Statutory Fund 4	2,442.8	2,438.1
Total life contract liabilities	**15,034.5**	**14,292.3**

Current/non-current split for total life contracts

There is a fixed settlement date for the majority of life contract liabilities. Approximately $3,017.0 million on a discounted basis (30 June 2023: $3,149.6 million) of life contract liabilities have a contractual maturity within 12 months of the reporting date. Based on assumptions applied for the 31 December 2023 valuation of life contract liabilities, $4,124.5 million of principal payments on fixed term and lifetime business are expected in the year to 31 December 2024 (expected in the year to 30 June 2024 $4,167.7 million).

Life insurance risk

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

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

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

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

Actuarial information

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

The life contract liabilities have been determined at the reporting date in accordance with the Life Act, APRA Prudential Standards, AASB 17 ***Insurance Contracts***, and AASB 9 ***Financial Instruments***.

Note 10 Notes to Statement of cash flows

Reconciliation of profit to operating cash flow	31 Dec 2023 $m	31 Dec 2022[1] $m
Profit for the period after income tax[2]	**59.3**	**36.7**
Adjusted for		
Net realised and unrealised losses/(gains) on investment assets	(347.7)	64.6
Share of associates' net profit	(16.5)	(13.6)
Change in life contract liabilities[3]	470.8	192.3
Depreciation and amortisation expense	7.0	7.2
Impairment of assets	0.4	—
Share-based payments	10.1	7.5
Dividends from associates	19.9	16.2
Change in operating assets and liabilities		
Decrease /(increase) in receivables	5.7	(31.9)
(Increase) in other assets	(1.1)	(2.6)
(Decrease) in payables	(48.1)	(28.9)
(Decrease) in provisions	(3.7)	(5.3)
Increase in life contract liabilities	271.4	621.4
(Decrease)/Increase in external unit holders' liabilities	(161.2)	233.8
Decrease in net tax liabilities	(14.6)	(63.5)
Net cash flows from operating activities	**251.7**	**1,033.9**

[1] The Group adopted AASB 17 ***Insurance Contracts*** from 1 July 2023 and has restated the comparative period. The impacts of adoption are detailed in Note 1.
[2] Profit for the period after income tax excludes discontinued operations.
[3] Changes relate to movements through the Statement of comprehensive income.

Note 11 Contributed equity

	31 December 2023 No. of shares m	31 December 2023 Value of shares $m	30 June 2023 No. of shares m	30 June 2023 Value of shares $m	31 December 2022 No. of shares m	31 December 2022 Value of shares $m
Analysis of contributed equity						
Ordinary shares issued and fully-paid	690.9	2,564.5	687.6	2,543.5	683.9	2,516.1
Employee shares treated as Treasury shares	(2.5)	(19.7)	(3.8)	(30.4)	(1.9)	(19.2)
CPP deferred share purchases treated as Treasury shares	(3.6)	(22.5)	—	—	—	—
Total contributed equity	**684.8**	**2,522.3**	**683.8**	**2,513.1**	**682.0**	**2,496.9**
Movements in contributed equity						
Ordinary shares						
Balance at the beginning of the year	687.6	2,543.5	682.2	2,505.5	682.2	2,505.5
Issued under Dividend Reinvestment Plan	3.3	21.0	5.4	38.0	1.7	10.6
Balance at the end of the period	**690.9**	**2,564.5**	**687.6**	**2,543.5**	**683.9**	**2,516.1**
CPP Trust						
Balance at the beginning of the year	3.8	30.4	1.0	9.6	1.0	9.6
Shares purchased (including settled forwards)	—	—	3.7	30.4	1.9	19.2
Vested shares released to employees	(1.3)	(10.7)	(0.9)	(9.6)	(1.0)	(9.6)
Balance at the end of the period	**2.5**	**19.7**	**3.8**	**30.4**	**1.9**	**19.2**
CPP deferred share purchases						
Balance at the beginning of the year	—	—	1.2	14.4	1.2	14.4
Deferred treasury shares purchased (including settled forwards)[1]	3.6	22.5	(1.2)	(14.4)	(1.2)	(14.4)
Balance at the end of the period[2]	**3.6**	**22.5**	**—**	**—**	**—**	**—**

[1] On 14 September 2023, Challenger entered into a forward purchase agreement with National Australia Bank (NAB) for the purchase of 3.6 million shares in September 2024.

[2] Periods cover 12 months to June and 6 months to December.

Capital management

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

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

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

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

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

Prescribed capital amount (PCA)

PCA refers specifically to CLC's regulatory capital requirements.

CLC holds capital in order to ensure that under a range of adverse scenarios it can continue to meet its obligations to its customers. CLC is regulated by APRA and is required to hold a minimum level of regulatory capital. CLC's regulatory capital base and PCA have been calculated based on the prudential standards issued by APRA.

CLC's target surplus

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

Note 11 Contributed equity (continued)

Capital management (continued)

CLC's target surplus (continued)

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

The PCA ratio at 31 December 2023 was 1.50 times (30 June 2023: 1.59 times), within the range of 1.3 to 1.7 times. The Common Equity Tier 1 (CET1) ratio was 1.10 times at 31 December 2023 (30 June 2023: 1.16 times).

Bank regulatory capital

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

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

Regulatory capital is divided into CET1, Additional Tier 1 and Tier 2. The Bank's regulatory capital base at 31 December 2023 was $56.6 million and predominantly represents CET1 regulatory capital and an immaterial amount of Tier 2 regulatory capital.

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

Funds Management and Other capital

In addition to CLC's and the Bank's excess regulatory capital, Challenger maintains cash and tangible assets within the Funds Management and Corporate legal entities. These assets can be used to meet regulatory capital requirements. Challenger also has a Corporate debt facility of $400.0 million in place, which provides additional financial flexibility. The facility was undrawn as at 31 December 2023 (30 June 2023: undrawn).

Capital as at 31 December 2023	CLC $m	CBL $m	Other[1] $m	Group $m
Regulatory capital base				
Shareholder equity[2]	3,158.0	58.3	687.6	3,903.9
Goodwill and other intangibles	(69.0)	—	(516.3)	(585.3)
Other adjustments[3]	52.0	(1.7)	(98.5)	(48.2)
Eligible regulatory debt	1,162.5	—	—	1,162.5
Total capital base	**4,303.5**	**56.6**	**72.8**	**4,432.9**
Minimum Regulatory Requirement[4,5]	2,862.2	17.7	40.1	2,920.0
Excess over Minimum Regulatory Requirement	**1,441.3**	**38.9**	**32.7**	**1,512.9**
Common Equity Tier 1 (CET1) regulatory capital	3,141.0	56.6	—	3,197.6
Additional Tier 1 regulatory capital	735.0	—	—	735.0
Total Tier 1 regulatory capital	**3,876.0**	**56.6**	**—**	**3,932.6**
Tier 2 regulatory capital[6]	427.5	—	—	427.5
Other non-regulatory capital[3]	—	—	72.8	72.8
Total capital base	**4,303.5**	**56.6**	**72.8**	**4,432.9**
CET1 capital ratio (times)[7]	1.10	3.20	—	—
Tier 1 capital ratio (times)[8]	1.35	3.20	—	—
Minimum Regulatory Requirement ratio (times)[9]	1.50	3.20	1.82	1.52

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 Balances differ to Note 3 Segment information as regulatory requirements are applicable to individual legal entities.
3 Other adjustments predominantly related to deferred tax asset and intercompany items and differences in measurement of policy liabilities between accounting and regulatory capital bases.
4 Minimum Regulatory Requirement is equivalent to PCA for CLC.
5 The Bank is an ADI regulated by APRA under the authority of the ***Banking Act*** 1959 (Cth). The Bank's regulatory capital base and minimum regulatory capital requirement is specified under APRA's ADI prudential standards.
6 CLC represents subordinated debt.
7 CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
8 Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
9 Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

Note 11 Contributed equity (continued)

Capital as at 30 June 2023[10]	CLC[1] $m	CBL[2] $m	Other[3] $m	Group $m
Regulatory capital base				
Shareholder equity[4]	3,395.2	61.9	707.3	4,164.4
Goodwill and other intangibles	(70.0)	—	(517.4)	(587.4)
Other adjustments[5]	(214.7)	(1.4)	28.9	(187.2)
Eligible regulatory debt	1,146.3	—	—	1,146.3
Total capital base	**4,256.8**	**60.5**	**218.8**	**4,536.1**
Minimum Regulatory Requirement[1,2]	2,681.9	13.1	39.9	2,734.9
Excess over Minimum Regulatory Requirement	**1,547.9**	**47.4**	**178.9**	**1,801.2**
Common Equity Tier 1 (CET1) regulatory capital	3,110.5	0.1	—	3,171.0
Additional Tier 1 capital	735.0	—	—	735.0
Total Tier 1 regulatory capital	**3,845.5**	**60.5**	**—**	**3,906.0**
Tier 2 regulatory capital[6]	411.3	—	—	411.3
Other non-regulatory capital[3]	—	—	218.8	218.8
Total capital base	**4,256.8**	**60.5**	**218.8**	**4,536.1**
CET1 capital ratio (times)[7]	1.16	4.62	—	—
Tier 1 capital ratio (times)[8]	1.43	4.62	—	—
Minimum Regulatory Requirement ratio (times)[9]	1.59	4.62	5.84	1.66

[1] Minimum Regulatory Requirement is equivalent to PCA for CLC.
[2] Minimum Regulatory Requirement for Challenger Bank Limited represents total capital requirements of 8% (of risk-weighted assets) plus the capital conservation buffer of 2.5% (of risk-weighted assets) plus the counter-cyclical buffer of 1% (of risk-weighted assets), as stipulated under APS 110 *Capital Adequacy* as at 31 December 2022.
[3] Includes Funds Management, Corporate and other Life/Bank entities. Funds Management Minimum Regulatory Requirement (MRR) for capital is based on requirements set by ASIC and regulators in other foreign jurisdictions. Challenger Retirement and Investment Services Limited MRR is based on APRA and ASIC requirements.
[4] Balances differ to Note 4 Segment information as regulatory requirements are applicable to individual legal entities.
[5] Other adjustments predominantly related to deferred tax asset and intercompany items.
[6] CLC represents subordinated debt.
[7] CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
[8] Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
[9] Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.
[10] Prior period comparative information has not been restated for AASB 17 adjustments in line with the Analyst Pack.

Dividend Reinvestment Plan (DRP)

The Company resumed the DRP for the 2023 final dividend, and on 20 September 2023 issued 3,256,014 ordinary shares to satisfy the plan.

The DRP issue price per share for the 2023 final dividend was $6.4375 and represented the volume weighted-average share price over the 10 trading days from 31 August 2023 to 13 September 2023. The final DRP participation rate was 25.4% of all issued shares.

Note 12 Interest bearing financial liabilities

	30 June 2023			Non-cash movements			31 December 2023	
	Facility $m	Opening balance $m	Cash flows proceeds/ (repayments) $m	Foreign exchange $m	Fair value changes $m	Other $m	Closing balance $m	Facility $m
Bank loans								
Corporate[1]	400.0	—	—	—	—	—	—	400.0
Controlled property trusts[2]	281.9	283.6	(1.6)	0.1	—	0.1	282.2	282.2
Controlled infrastructure trusts	164.4	164.4	(4.2)	—	—	0.1	160.3	160.3
Repurchase agreements	4,069.7	4,069.7	1,156.3	—	—	—	5,226.0	5,226.0
Total bank loans	**4,916.0**	**4,517.7**	**1,150.5**	**0.1**	**—**	**0.2**	**5,668.5**	**6,068.5**
Non-bank loans								
Subordinated debt	400.0	403.0	—	—	16.1	—	419.1	400.0
Challenger Capital Notes 3[3]	385.0	381.4	—	—	—	0.6	382.0	385.0
Challenger Capital Notes 4[3]	350.0	343.6	—	—	—	0.6	344.2	350.0
Loan notes – SPV	190.9	190.9	13.6	—	—	—	204.5	204.5
Total non-bank loans	**1,325.9**	**1,318.9**	**13.6**	**—**	**16.1**	**1.2**	**1,349.8**	**1,339.5**
Total interest bearing financial liabilities	**6,241.9**	**5,836.6**	**1,164.1**	**0.1**	**16.1**	**1.4**	**7,018.3**	**7,408.0**
Current		4,483.2					5,516.2	
Non-current		1,353.4					1,502.1	
		5,836.6					**7,018.3**	

1 No amounts were drawn from the facility in the period.
2 Total facility limit consists of non-redraw loan facilities limits totalling $282.2 million (30 June 2023: $281.9 million).
3 Held at amortised cost. The fair value of these are: controlled property trusts $294.3 million (30 June 2023: $295.4 million); controlled infrastructure trusts $163.2 million (30 June 2023: $167.4 million; Challenger Capital Notes 3 $402.5 million (30 June 2023: $401.7 million), and Challenger Capital Notes 4 $360.7 million (30 June 2023: $352.3 million).

Repurchase agreements

CLC has entered into repurchase agreements with certain counterparties whereby fixed income securities are sold for cash, while simultaneously agreeing to repurchase the fixed income security at a fixed price and fixed date in the future. These agreements finance bonds held for hedging purposes and are interest bearing, with interest factored into the price at which the bonds are repurchased and paid on repurchase. All agreements as at 31 December 2023 are current and all mature by January 2024. They will continue to be rolled into new agreements in the future.

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

Non-bank loans

Subordinated debt

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

Challenger Capital Notes – 3 and 4 (Notes 3 and Notes 4)

Notes 3 and 4 have similar structural characteristics including:

- quarterly, floating, discretionary, non-cumulative distributions based on a margin over 3 month BBSW;
- optional exchange whereby notes may be redeemed or resold for cash or converted to ordinary shares in the Company, at the Company's option, on the relevant Optional Exchange Dates (or on an earlier date in certain circumstances), subject to APRA's prior written approval; and
- mandatory conversion to ordinary shares in the Company on the relevant Mandatory Conversion Date, subject to certain conditions being satisfied. If the conditions to mandatory conversion are not met on the relevant Mandatory Conversion Date, conversion will be deferred to a later date when the conditions are retested.

The costs associated with the issue of Notes 3 and 4 have been capitalised against the relevant liability and are being recognised in the Statement of comprehensive income over the life of the notes.

Note 13 Dividends paid and proposed

Dividends proposed	Amount per share Cents	Total amount $m
For the period ended 31 December 2023		
Interim dividend determined in respect of the period ended 31 December 2023	13.0	89.8
Dividends declared and paid		
Final dividend determined in respect of the year ended 30 June 2023	12.0	82.3

Dividend franking credits

Franking credits available to shareholders are $248.1 million (30 June 2023: $287.7 million), based on a tax rate of 30%. The amount is calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking debits that will arise from the settlement of accrued interest on Challenger Capital Notes.

The impact of the proposed dividend will be to reduce the balance of the franking account by $38.5 million. All dividends are franked at a tax rate of 30%.

Note 14 Earnings per share

	31 Dec 2023 cents	31 Dec 2022[1] cents
Earnings per share:		
Basic earnings per share	8.2	4.6
Diluted earnings per share	8.1	4.5
	$m	**$m**
Profit attributable to ordinary shareholders	56.3	31.2
Total earnings used in the calculation of diluted earnings per share	**56.3**	**31.2**
Number of shares	**Number**	**Number**
Weighted average of ordinary shares issued	689,436,621	683,172,839
Weighted average of Treasury shares	(5,132,646)	(2,090,432)
Weighted average ordinary shares for basic earnings per share	**684,303,975**	**681,082,407**
Adjusted for potential ordinary shares:		
Weighted average effect of Challenger Performance Plan	13,973,526	14,134,456
Weighted average ordinary shares for diluted earnings per share	**698,277,501**	**695,216,863**

[1] Comparative information has been restated to reflect the impact of transition to AASB 17 ***Insurance Contracts.***

Accounting policy

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

Accounting treatment of Capital Notes and subordinated debt

Challenger Capital Notes 3 and 4 and subordinated debt are an effective source of funding for Challenger.

Each of the Capital Notes 3 and 4 and subordinated debt have convertibility features that would result in these instruments converting to ordinary shares under certain circumstances, including APRA determining CLC to be non-viable.

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

Diluted earnings per share is calculated by dividing the total adjusted profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period adjusted for the effects of dilutive shares that may be converted under the terms of Challenger Capital Notes 3 and 4 (Notes), CLC Subordinated Notes and shares granted under the CPP.

Note 14 Earnings per share (continued)

Accounting policy (continued)

Accounting treatment of Capital Notes and subordinated debt (continued)

The dilutive share count for Challenger's convertible debt (Challenger Capital Notes 3 and 4 and subordinated debt) is based on the following formula:

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

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

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

The profit attributable to ordinary shareholders is adjusted by interest on Notes and CLC Subordinated Notes for the diluted calculation when the Notes and CLC Subordinated Notes are considered dilutive. In the current and prior period, neither are considered dilutive.

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

Note 15 Fair values of investment assets and liabilities

Fair value determination and classification

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

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

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

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

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

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

Note 15 Fair values of investment assets and liabilities (continued)

Valuation techniques

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

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

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

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

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

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

The mortgage SPVs have total equity attributable to residual income unitholders (RIU) at amortised cost of nil (30 June 2023: nil). The fair value of this RIU holders' asset is $5.6 million (30 June 2023: $11.8 million) and would be classified as Level 3 in the fair value hierarchy.

Challenger Capital Notes 3 and 4 have carrying values (inclusive of unamortised issue costs) of $382.0 million and $344.2 million, respectively. The fair value of these notes is $360.7 million and $352.3 million respectively and they are classified as Level 1 in the fair value hierarchy.

Valuation process

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

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

Note 15 Fair values of investment assets and liabilities (continued)

Valuation process (continued)

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
31 December 2023				
Derivative assets	—	896.9	—	896.9
Fixed income securities[1]	—	19,710.0	1,928.9	21,638.9
Equity and alternative assets	31.8	3,064.3	309.6	3,405.7
Infrastructure investments[1]	—	—	274.2	274.2
Property securities	—	—	90.1	90.1
Hedged commodities	533.2	—	—	533.2
Investment property	—	—	3,168.9	3,168.9
Total assets	**565.0**	**23,671.2**	**5,771.7**	**30,007.9**
Derivative liabilities	—	719.2	—	719.2
Interest bearing financial liabilities[3]	763.2	419.1	—	1,182.3
External unit holders' liabilities	—	5,107.6	—	5,107.6
Life investment contract liabilities	—	36.7	9,722.9	9,759.6
Total liabilities	**763.2**	**6,282.6**	**9,722.9**	**16,768.7**
30 June 2023				
Derivative assets	—	601.1	—	601.1
Fixed income securities[1]	—	18,562.8	1,889.0	20,451.8
Equity and alternative assets	1.0	2,457.3	205.9	2,664.2
Infrastructure investments[1]	—	—	284.1	284.1
Hedged commodities	827.9	—	—	827.9
Property securities	—	—	89.3	89.3
Investment property[2]	—	—	3,269.2	3,269.2
Total assets	**828.9**	**21,621.2**	**5,737.5**	**28,187.6**
Derivative liabilities	1.9	609.4	—	611.3
Interest bearing financial liabilities[3]	754.0	403.0	—	1,157.0
External unit holders' liabilities	—	5,268.8	—	5,268.8
Life investment contract liabilities	—	37.7	9,817.8	9,855.5
Total liabilities	**755.9**	**6,318.9**	**9,817.8**	**16,892.6**
31 December 2022				
Derivative assets	—	676.5	—	676.5
Fixed income securities[1]	—	17,963.0	1,926.6	19,889.6
Equity and alternative assets	1.6	2,086.2	163.2	2,251.0
Infrastructure investments[1]	—	0.1	295.2	295.3
Hedged commodities	829.4	—	—	829.4
Property securities	—	—	98.8	98.8
Investment property[2]	—	—	3,440.1	3,440.1
Total assets	**831.0**	**20,725.8**	**5,923.9**	**27,480.7**
Derivative liabilities	1.9	728.8	0.1	730.8
Interest bearing financial liabilities[3]	875.0	399.3	—	1,274.3
External unit holders' liabilities	—	4,620.2	—	4,620.2
Life investment contract liabilities	—	40.4	7,277.0	7,317.4
Total liabilities	**876.9**	**5,788.7**	**7,277.1**	**13,942.7**

[1] The Group has exposures to structured entities (entities designed so that voting or similar rights are not the dominant factor in determining who controls the entity, for example when any voting rights relate purely to administrative tasks) via investments in asset-backed finance vehicles (where it may act as a lender or purchaser of notes and/or residual income units) and securitisations (such as mortgages, finance leases and other types of collateralised vehicles). The Company assesses, at inception and at each reporting date, whether a structured entity should be consolidated based on the accounting policy. The maximum exposure to loss is limited to the reported fair value of the underlying securities plus any guaranteed undrawn commitments to the counterparties. At 31 December 2023, the carrying value of asset-backed financing assets was $13.3 million (30 June 2023: $18.4 million) with no undrawn commitments, and securitisations were $8,174.6 million (30 June 2023: $9,105.3 million) plus $37.8 million undrawn commitments (30 June 2023: $28.3 million).

[2] Refer to Note 7 Investment property for valuation techniques and key unobservable inputs.

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

Note 15 Fair values of investment assets and liabilities (continued)

Level 3 sensitivities

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

	Level 3 value[1] $m	Positive impact $m	Negative impact $m	Valuation technique	Reasonably possible change in non-observable input[2,3,4]
31 December 2023					
Fixed income securities	1,928.9	12.7	(20.0)	Discounted cash flow	Primarily credit spreads
Equity and alternative assets	309.6	17.9	(18.5)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	274.2	3.8	(3.8)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	90.1	4.5	(4.5)	External financial report	5% change in valuation
Investment contract liabilities	(9,722.9)	8.2	(8.2)	Discounted cash flow	Primarily expense assumptions
Investment property	3,168.9	124.7	(73.6)	Market capitalisation, discounted cash flow	Primarily capitalisation rate
Total Level 3	**(3,951.2)**				
30 June 2023					
Fixed income securities	1,889.0	12.3	(31.7)	Discounted cash flow	Primarily credit spreads
Equity and alternative assets	205.9	12.9	(13.5)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	284.1	4.1	(4.0)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	89.3	4.5	(4.5)	External financial report	5% change in valuation
Life investment contract liabilities	(9,817.8)	7.7	(7.7)	Discounted cash flow	Primarily expense assumptions
Investment property	3,269.2	157.2	(111.8)	Market capitalisation, discounted cash flow	Primarily capitalisation rate
Total Level 3	**(4,080.3)**				
31 December 2022					
Fixed income securities	1,926.6	15.8	(24.3)	Discounted cash flow	Primarily credit spreads
Equity and alternative assets	163.2	11.2	(12.2)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	295.2	4.5	(4.4)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	98.8	4.9	(4.9)	External financial report	5% change in valuation
Investment contract liabilities	(7,277.0)	2.9	(2.9)	Discounted cash flow	Primarily expense assumptions
Investment property	3,440.1	162.0	(131.9)	Market capitalisation, discounted cash flow	Primarily capitalisation rate
Total Level 3	**(1,353.1)**				

[1] The fair value of the asset or liability would increase/decrease if the credit spread or discount rate decreases/increases or if expense assumptions and the other inputs increase/decrease.
[2] Specific asset valuations will vary from asset to asset as each individual industry profile will determine appropriate valuation inputs to be utilised.
[3] The effect of a change to reflect a reasonably possible alternative assumption was calculated by moving the credit band by one tier, adjusting the discount rates by between 50 bps and 100 bps, adjusting property capitalisation rates by 25 bps (Australia) or 10 bps (Japan), adjusting credit spreads by 50 bps, changing the valuation of the unlisted schemes by 5% and adjusting the expense assumption allocation splits by 10%.
[4] The sensitivity inputs to a reasonably possible change in a non-observable input are consistent with the year ended 30 June 2023.

Note 15 Fair values of investment assets and liabilities (continued)

Level 3 reconciliation

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

	31 Dec 2023		30 Jun 2023		31 Dec 2022	
	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Balance at the beginning of the period	5,751.8	9,817.8	5,971.8	9,610.0	5,971.8	9,610.0
Fair value gains/(losses)	(144.0)	267.6	(133.3)	264.8	27.0	98.4
Acquisitions	2,006.4	2,467.8	3,255.2	5,112.6	1,397.8	2,780.1
Maturities and disposals	(1,818.8)	(2,830.3)	(3,262.8)	(5,169.6)	(1,389.3)	(2,309.3)
Transfers to other categories[1,2]	—	—	(79.1)	—	(83.9)	—
Balance at the end of the period[3]	**5,795.4**	**9,722.9**	**5,751.8**	**9,817.8**	**5,923.4**	**10,179.2**
Unrealised gains/(losses) included in the Statement of comprehensive income for assets and liabilities held at the Statement of financial position date	(144.0)	(267.6)	(133.3)	264.8	27.0	98.4

[1] The Group transfers between levels of the fair value hierarchy when there is a change in the observability of the pricing inputs or a change to valuation methodology and are deemed to have occurred at the end of the reporting period.

[2] Transfers to/from other categories are due to changes in the market observability of inputs used in the valuation of financial instruments. There were no transfers between Level 1 and Level 2 during the reporting period. There were no transfers into Level 3 (30 June 2023: nil) and there was nil (30 June 2023: $79.1 million) transfers out of Level 3 and into Level 2 during the reporting period.

[3] Comparatives have been restated to reflect the reclassification of life contract types that do not carry significant insurance risk from life insurance contracts to life investment contracts. Prior to the change, Level 3 liabilities balance was $7,277.1 million at 31 December 2022.

Note 16 Discontinued operation and business held for sale

Sale of Challenger Bank

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

On 14 December 2023, Challenger Limited and HGH entered into a term sheet to facilitate completion. The term sheet includes provisions for operating losses to be recovered through a purchase price adjustment.

The completion of the sale to HGH Limited is expected to occur before the end of the 2024 financial year. Completion of the transaction is subject to various regulatory approvals in Australia and New Zealand.

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

The Group acquired Challenger Bank (previously MyLifeMyFinance Limited) for total consideration of $37.0 million in 2021.

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

The sale price will be calculated based on net assets at the time of sale including completion adjustments.

Income statement

For the period ended	31 Dec 2023 $m	31 Dec 2022 $m
Revenue	8.3	7.7
Expenses	(7.4)	(12.3)
Finance costs	(5.5)	(2.7)
Loss before income tax	**(4.6)**	**(7.3)**
Income tax benefit	1.4	1.8
Loss after income tax on discontinued operations	**(3.2)**	**(5.5)**

Cash flow statement

For the period ended	31 Dec 2023 $m	31 Dec 2022 $m
Net cash from operating activities	117.4	(34.3)
Net cash from investing activities	(93.0)	5.4
Net cash from financing activities	(3.1)	24.0
Net cash inflows/(outflows) from discontinued operations	**21.3**	**(4.9)**

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

Statement of financial position

The Statement of financial position of Challenger Bank is set out in the table below.

Assets held for sale	31 Dec 2023 $m	30 Jun 2023 $m
Cash and cash equivalents	79.4	58.1
Investment securities	168.0	75.0
Loan assets	84.5	70.5
Finance lease receivable	14.8	0.0
Receivables	1.9	1.5
Deferred tax asset	1.0	1.2
Other assets	1.1	0.4
Total assets[1]	**350.7**	**206.7**
Liabilities held for sale		
Payables	4.9	2.6
Provisions	1.2	2.3
Deposits from customers	287.2	171.7
Interest bearing liabilities	2.3	5.4
Total liabilities	**295.6**	**182.0**
Net assets held for sale	**55.1**	**24.7**

[1] The entire assets of the Bank segment were classified as held for sale as at 31 December 2023. $21.5 million of loan assets and $14.4m of financial leases as at 30 June 2023 have not been classified as held for sale because they were intended to be transferred within the Group prior to sale completion. In addition, prior to sale completion, Challenger Bank intended to dispose of certain assets and use the proceeds predominantly to repay certain liabilities and make a capital distribution to the Group.

Accounting policy

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

Assets and liabilities of disposal groups are separately presented on the balance sheet.

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

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

Key estimates and judgements

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

Note 17 Contingent liabilities, contingent assets and credit commitments

Warranties

Over the course of its corporate activity, the Group has given, as a seller of companies, including the sale of Challenger Bank Limited to Heartland, and as a vendor of assets, including real estate properties, warranties to purchasers on several agreements that are still outstanding as at 31 December 2023. At the date of this report, no material claims against these warranties have been received by the Group.

Parent entity guarantees and undertakings

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

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

Third party guarantees

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

Contingent future commitments

CLC has made capital commitments to external counterparties for future investment opportunities such as development or investment purchases. As at 31 December 2023, there are potential future commitments totalling $1,029.3 million (30 June 2023: $957.1 million) in relation to these opportunities.

The Group has made capital commitments to associates to subscribe for up to $8.1 million (30 June 2023: $9.1 million) of non-redeemable preference shares to enable them to meet their working capital requirements. Contractual obligations for future property repairs and maintenance are in place but cannot be quantified until required.

Subsidiary guarantees

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

Contingent tax assets and liabilities

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

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

Other information

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

Note 18 Subsequent events

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

Directors' declaration

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

a) the financial statements and notes of Challenger Limited and its controlled entities (the Group) are in accordance with the ***Corporations Act 2001*** (Cth), including:

   (i) giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the period ended on that date; and

   (ii) complying with Australian Accounting Standards and the ***Corporations Regulations 2001*** (Cth);

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

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

d) this declaration has been made after receiving the declarations required to be made to the Directors from the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the ***Corporations Act 2001*** (Cth) for the financial period ended 31 December 2023.

On behalf of the Board

D West
Independent Chair

12 February 2024

N Hamilton
Managing Director and Chief Executive Officer

12 February 2024

Ernst & Young
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Independent Auditor's Review Report to the Members of Challenger Limited

Conclusion

We have reviewed the accompanying half-year financial report of Challenger Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2023, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising material accounting policy information and other explanatory information, and the directors' declaration.
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the ***Corporations Act 2001***, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance for the half-year ended on that date; and
b) complying with Australian Accounting Standar*d* AASB 134 ***Interim Financial Reporting*** and the ***Corporations Regulations 2001***.

Basis for Conclusion

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

Directors' Responsibility for the Half-Year Financial Report

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

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

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the ***Corporations Act 2001*** including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 ***Interim Financial Reporting*** and the ***Corporations Regulations 2001***.

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

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio

Partner
Sydney
12 February 2024

Additional information

Principal place of business and registered office in Australia

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Facsimile: 02 9994 7777

Investor services: 13 35 66

Directors

Duncan West (Chair)
Nick Hamilton (Managing Director and Chief Executive Officer)
Lisa Gray
John M Green
Masahiko Kobayashi
Matthew Michelini
Heather Smith
JoAnne Stephenson
Melanie Willis

Company secretary

Linda Matthews

Website

> **challenger.com.au**

Manage your shareholding at Computershare Investor Services

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Auditor

Ernst & Young
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Sydney NSW 2000

Go electronic

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

Online digital version of this report

The 2024 Interim Report is available at:

> **challenger.com.au/interimreport2024**

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