

Challenger Capital Notes

Newsletter
13 February 2024



DUNCAN WEST
Independent Chair

NORMALISED NPBT^{1,4}
▲16% on last year

\$290m

STATUTORY NPAT¹
▲80% on last year²
Includes impact of
investment markets

\$56m

LIFE SALES
▼4% on last year
Includes record lifetime
annuity sales

\$5.3bn

GROUP AUM
▲18% on last year

\$117bn

INTERIM DIVIDEND
▲8% on last year

13.0cps

GROUP ROE^{3,4}
▲270 bps from
earnings growth

15.0%

Dear Noteholder,

On behalf of the Board and management team, I'm pleased to provide you with an update on Challenger's performance over the first half of the 2024 financial year.

Challenger delivered a strong performance in the half, demonstrating our focus on executing our strategic priorities including broadening our customer reach, expanding our offering and making it easier to do business with us.

In Life, we have positioned the business to take a broader stance in retirement. We are driving growth across a broader range of customer channels, including deepening our relationships with superannuation funds. Our retirement partnership with Commonwealth Super Corporation and the launch of TelstraSuper's lifetime pension, which has been designed in partnership with Challenger, demonstrates our expertise in developing retirement and longevity solutions that address specific needs of retirees.

We also undertook a range of initiatives to enhance Challenger's brand as the 'go to' for retirement. This included Challenger's first brand sponsorship in Australian sport with the Professional Golfers Association of Australia (PGA). Golf is a sport of choice for those aged over 45 and provides an exciting opportunity for Challenger to engage with those preparing for and in retirement.

In Funds Management, we continue to innovate and expand our offering, adding new investment strategies, particularly in alternative assets, to meet growing demand.

Financial update

Challenger delivered a strong performance in the half supported by growth in the Life business, benefitting from growing longer duration sales that in turn is delivering strong margin and ROE expansion.

Normalised net profit before tax (NPBT) was up 16%⁴ to \$290 million. Normalised ROE increased 270 bps to 15.0%^{3,4}.

Statutory net profit after tax (NPAT) increased 80%² to \$56 million and includes unrealised investment market movements.

Total Life sales of \$5.3 billion included exceptional growth in lifetime annuity sales and strong Index Plus sales. Annuity sales were supported by rising demand for guaranteed income, driving record sales of lifetime annuities of \$1.1 billion (up 190%). Lifetime sales included a group lifetime annuity policy to the value of \$619 million to Aware Super, highlighting the strength of Challenger's investment and longevity risk solutions.

Demand for longer-dated annuities improved, with 90% of new business annuity sales greater than 2 years, up from 72%⁵.

In Funds Management, the business continued to innovate and expand its offering, adding new investment strategies, particularly in alternative assets. Elanor joined Fidante's stable of affiliate managers, an arrangement under which Fidante distributes Elanor's compelling real estate proposition. Fidante successfully completed a capital raising in partnership with Elanor to acquire 55 Elizabeth Street, Brisbane, which is well positioned to benefit from long-term growth in the Brisbane office market.

¹ Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Operating and Financial Review in the Challenger 2024 Interim Financial Report.

² 1H23 statutory net profit after tax has been restated to reflect the application impact of AASB 17.

³ Normalised ROE (pre-tax).

⁴ Normalised metrics including Normalised profit before tax and Normalised ROE exclude Discontinued Operations (Bank) in 1H24. Prior periods have not been restated to exclude Discontinued Operations (Bank).

⁵ New domestic business annuity sales, including term annuities and Lifetime annuities, excluding reinvestments and Japanese sales.

⁶ PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 31 December 2023.

Funds Management FUM increased by 9% to \$108 billion for the half, benefitting from strong institutional net inflows of \$6.5 billion and positive investment markets.

Group assets under management (AUM) increased 18% to \$117 billion, driven by Life book growth and strong Funds Management net flows.

Well capitalised

Challenger Life Company Limited (Challenger Life) remained well capitalised with a PCA ratio of 1.50 times⁶ the Australian Prudential Regulation Authority's (APRA) minimum requirement.

Challenger Life has \$1.4 billion of excess capital, which is well above both APRA's minimum requirement and our own internal capital targets.

Reflecting the strength of the business, the Challenger Board determined a fully franked interim dividend of 13.0 cents per share (up 8%), representing a normalised dividend payout ratio of 44%, which is within our target of between 30% and 50%.

Strategic partnerships

Challenger continues to progress a range of strategic partnerships with best-in-class operators to ensure it can focus on its core franchise – Life and Funds Management – while leveraging the scale and growth of its strategic partners.

In November 2023, Challenger also extended its highly successful and collaborative reinsurance agreement with MS Primary and commenced reinsurance of Japanese yen-denominated annuities, in addition to Australian dollar and US dollar annuities issued in Japan.

Challenger also announced the expansion of its strategic relationship with Apollo to support its broader growth strategy. Under the agreement, an origination partnership has been formed that provides Challenger Life with access to Apollo's high quality, privately originated global credit and alternative opportunities, supporting customer annuity rates and returns for Challenger shareholders.

Transformation program

Challenger is undertaking a technology transformation partnership that will enable its growth strategy - making it easier to do business with us, broadening the customer base and delivering an innovative offering. Professional services firm Accenture, which has a track record in delivering technological transformation programs for international insurance companies, will become Challenger's long-term technology partner.

A key priority of the technology transformation partnership will be to replace Life's core annuity registry system with global insurance system ALIP (Accenture Life Insurance and Annuity Platform) and to provide new customer portals.

The transformation partnership is expected to deliver \$90 million of operating savings over seven years, commencing in FY25.

Outlook

We have an exciting year ahead. Our Life business is performing strongly, our strategic initiatives remain on track and the transformation partnership will support further growth.

In FY24, Challenger is targeting normalised net profit before tax guidance of between \$555 million and \$605 million and is on track to be in the top half of the guidance range.

With Australia now firmly focused on strengthening the retirement phase of superannuation, Challenger is well placed to capture the growth opportunity ahead. We will continue to leverage our retirement and investment expertise to deliver on our purpose of providing customers with financial security for retirement at the same time as delivering sustainable long-term growth for shareholders.

I would like to thank you for your ongoing support and commitment to Challenger.



DUNCAN WEST

Independent Chair
Challenger Limited

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Challenger Capital Notes 3 distribution history

DISTRIBUTION PAYMENT DATE	CASH DISTRIBUTION	TOTAL RETURN P.A.
26 February 2024	\$1.57	8.98%
27 November 2023	\$1.58	8.74%
25 August 2023	\$1.50	8.53%
25 May 2023	\$1.36	8.15%

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Challenger Capital Notes 4 distribution history

DISTRIBUTION PAYMENT DATE	CASH DISTRIBUTION	TOTAL RETURN P.A.
26 February 2024	\$1.39	7.98%
27 November 2023	\$1.39	7.74%
25 August 2023	\$1.97	7.24%