challenger

Interim Financial Report 2025

CHALLENGER LIMITED
ACN 106 842 371

Providing our customers with financial security for a better retirement

Contents

Key dates

18 March 2025
Interim dividend payment date

17 April 2025
Third quarter performance update

19 August 2025
Full year financial results

18 September 2025
Final dividend payment date

30 October 2025
2025 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 and Funds Management (FM) businesses.

The 2025 Interim Financial Report can be downloaded from Challenger's online Shareholder Centre at:

> challenger.com.au/shareholder

1H25 Highlights

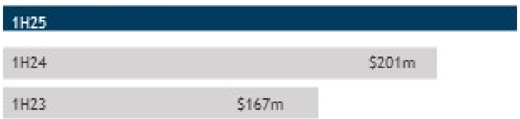
FINANCIAL PERFORMANCE

STATUTORY NET PROFIT AFTER TAX

$72m ▲ 28%

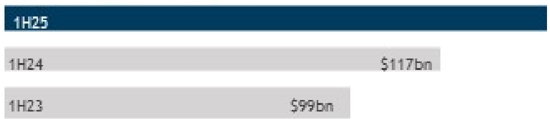
NORMALISED NET PROFIT AFTER TAX

$225m ▲12%



GROUP ASSETS UNDER MANAGEMENT

$131bn ▲12%



LIFE SALES

$4.6bn

▼12%

Remixed sales to long-term annuity products

NORMALISED GROUP ROE (POST-TAX)

11.6%

▲ 120 bps

Above target[1]

1H25 DIVIDEND

14.5cps

▲12%

Payout ratio 44%

CAPITAL POSITION

1.61x ▲0.11x

CLC PCA RATIO[2]

$1.7bn excess capital

1. Normalised ROE (post-tax) target of 11.2% being the RBA cash rate plus a margin of 12% less tax (equivalent to a Normalised ROE pre-tax target of ~16.4%).
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[1] as well as one of its largest active fund managers.[2]

Challenger is listed on the Australian Securities Exchange (ASX) and has offices in Australia, London and Tokyo. At 31 December 2024, Challenger employed 566 people on a full-time equivalent (FTE) basis.[3]

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 offshore markets in which it operates.

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

OUR STRATEGIC PILLARS

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

Retirement leader

Broaden customer access across multiple channels

- Delivering better outcomes for our customers
- Trusted and well known brands
- Leading voice on all things related to retirement income
- Expanding our products and partners to meet more customer needs

Investment excellence

Superior outcomes and financial resilience

- Strongly capitalised so we can always deliver on our promises
- Superior risk adjusted investment performance for our customers and shareholders
- Enabled by a scalable operating and investment platform

Talented team and capability

Outstanding skills and ways of working

- Invest in our people to maximise their potential
- Building a growth focused and inclusive culture
- Leverage technology to make it easy to do business with us
- We make good risk aware commercial decisions

Our values

- Act with integrity
- Aim high
- Collaborate
- Think customer

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.

[1] Plan For Life – September 2024 – based on annuities under administration.
[2] Calculated from Rainmaker Roundup, September 2024 data.
[3] Rounded. Comprised of 547 active employees and 19 employees on extended unpaid leave.

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 is Australia's largest provider of annuities. Its products appeal to retirees as they provide security and certainty of guaranteed[1] income that ensures customers have more confidence to spend in retirement.

Lifetime annuities also protect retirees from the risk of outliving their savings as 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 was awarded Money Magazine's 'Longevity Cover Excellence Award' in 2024[3].

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

As Australia's superannuation system matures, the retirement phase of superannuation is expected to increase significantly, with an estimated 2.5 million Australians set to retire over the next 10 years[4]. Reflecting these demographic changes, and growth in the superannuation system, the annual transfer from the savings phase (or accumulation) of superannuation to the retirement phase was estimated to be approximately $86 billion[5] in 2023.

The objective of superannuation is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way[6].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 throughout retirement.

The Australian Government continues to progress a range of retirement income regulatory reforms, following the Retirement Income Covenant, which are designed to enhance the retirement phase of superannuation and better align it with the objective of the superannuation system.

In November 2024, the Australian Government announced key elements to strengthen retirement outcomes, including better accessibility to information, well-rounded retirement products, and increased transparency.

These reforms provide an opportunity to increase the proportion of savings invested in products that are specifically designed to support retirees through delivering 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 administration platforms, superannuation funds and directly. Life's products are included on all major financial advice hubs' Approved Product Lists (APLs) and are available on leading independent investment and administration platforms.

Life continues to make progress building new institutional partnerships with superannuation funds, as they focus on supporting their members' needs through more comprehensive retirement income solutions. A number of funds and trustees 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.

Challenger has recently established a long-term technology partnership with Accenture that will re-platform Life's core customer registry and technology. This will improve how Challenger integrates its capabilities with advisers, wealth platforms and superannuation funds, and make it much easier for customers to do business with Challenger.

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.

LIFE ASSET ALLOCATION

- **73%** Fixed income & cash
- **14%** Alternatives
- **11%** Property
- **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 return on equity (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.

[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 2024 – based on annuities under administration.
[3] Plan For Life awards have been rolled into the Money Magazine Awards from 2024. In 2023, Challenger won Plan for Life's 'Overall Longevity Cover Excellence Award' for a fifth consecutive year.
[4] Treasury modelling, Retirement phase of superannuation, Discussion Paper, December 2023.
[5] Based on Taxation Statistics 2021-22 from Australian Taxation Office.
[6] *Superannuation (Objective) Act 2024 s5(1).*

Performance

Life's normalised NPAT was $224.6 million in 1H25 and increased by $15.4 million (7.4%) on 1H24. The increase in normalised NPAT reflects a $26.4 million (7.3%) increase in Normalised Cash Operating Earnings (COE), partially offset by a $1.3 million (2.2%) increase in expenses and a $9.7 million (10.5%) increase in normalised tax.

Life's Normalised return on equity (ROE) (post-tax) was 13.0% in 1H25 and increased by 50 bps on 1H24, driven by the increase in normalised NPAT, partially offset by a 2.9% increase in average net assets.

Normalised COE increased as a result of:

- higher average investment assets, which increased by 4.5% on 1H24 to $24.6 billion; and
- higher COE margin, which increased by 7 bps on 1H24 to 3.11%.

Total life sales were $4,625.4 million and decreased by 12.0% on 1H24, driven by relatively lower Lifetime annuity sales. 1H24 included the $619.2 million Aware Super deal. This is partially offset by a $382.8 million increase in retail lifetime and Japanese annuity sales. Index Plus and 2 year+ fixed-term annuity sales also decreased over the period.

Annuity net flows were $149.4 million, down from $508.0 million in 1H24. Net flows reflect lower Life annuity sales of $2,871.1 million (down 12.9%). 1H24 included the Aware Super deal Lifetime reinsurance deal ($619.2 million). 1H25 experienced record retail lifetime annuity sales (up 24.2%) and strong Japanese sales (up 77.7%), offset by lower fixed-term annuity sales.

Life annuity book growth was 1.0% based on the opening liability of $15,278.5 million.

Index Plus net flows was an outflow of $496.1 million, compared to an outflow of $180.0 million in 1H24.

Life normalised results	31 Dec 2024 $m	31 Dec 2023 $m	Change $m	Change %
Normalised COE	386.1	359.7	26.4	7.3
– Cash earnings	381.5	353.3	28.2	8.0
– Normalised capital growth	4.6	6.4	(1.8)	(28.1)
Operating expenses	(59.5)	(58.2)	(1.3)	(2.2)
Normalised profit before tax	**326.6**	**301.5**	**25.1**	**8.3**
Normalised tax	(102.0)	(92.3)	(9.7)	10.5
Normalised profit after tax	**224.6**	**209.2**	**15.4**	**7.4**

Life sales	31 Dec 2024 $m	31 Dec 2023 $m	Change $m	Change %
Fixed-term annuities	2,260.7	2,207.0	53.7	2.4
Lifetime annuities	610.4	1,088.3	(477.9)	(43.9)
Total Life annuity sales	2,871.1	3,295.3	(424.2)	(12.9)
Index Plus sales	1,754.3	1,958.3	(204.0)	(10.4)
Total Life sales	**4,625.4**	**5,253.6**	**(628.2)**	**(12.0)**
Annuity net flows	149.4	508.0	(358.6)	(70.6)
Index Plus net flows	(496.1)	(180.0)	(316.1)	(large)
Total Life net flows	**(346.7)**	**328.0**	**(674.7)**	**(large)**

Funds Management business

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

Funds Management is one of Australia's largest active fund managers[1] with FUM of $121 billion, which has grown six-fold over the last 15 years (up from $19 billion as at 31 December 2009).

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 Japan. 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, around 70% of Australia's top 50 superannuation funds are clients.

Fidante's business model typically involves taking minority equity interests in separately branded affiliate investment managers, with Challenger providing distribution services, business support and investment administration services, leaving investment managers to focus entirely on managing investment portfolios.

Challenger has recently established a long-term partnership with State Street to provide investment administration and custody services.

Fidante has been successful in attracting and building active equity, active fixed income and alternative investment managers, while also maintaining strong investment performance.

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

CIM is one of Australia's largest fixed income originators specialising in public and private credit markets. CIM manages investments on behalf of Challenger Life and other like-minded investors across a range of strategies focused on generating consistent income while managing capital volatility.

Challenger Kabushiki Kaisha (CKK) manages Japanese real estate for Challenger Life, MS Primary and other institutional investors.

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

Financial results

Funds Management NPAT was $27.0 million and increased by $7.3 million (37.1%) on 1H24. The increase was primarily due to higher total net fee income (up $7.7 million or 8.8%) and lower expenses (down $1.8 million or 3.1%).

Fidante's net 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.

[1] Calculated from Rainmaker Roundup, September 2024 data.

Fidante's net income was $71.0 million in 1H25 and increased by $4.3 million (6.4%) on 1H24.

Fidante's net income comprised:

- FUM-based income of $61.4 million, up $2.6 million (4.4%) on 1H24 as a result of a 23.7% increase in average FUM, partially offset by a decrease in FUM-based income margin (refer below for more information);
- Performance fees of $7.0 million, which increased by $1.8 million (34.6%) on 1H24, driven by outperformance across equity and fixed income managers; and
- Transaction fees of $2.6 million, in line with 1H24.

CIM's 1H25 net income was $24.1 million and increased by $3.4 million (16.4%) on 1H24.

CIM's net income included:

- FUM-based income of $22.7 million, up $2.3 million on 1H24 a result of higher average FUM (up 1.0%) and increase in FUM-based income margin; and
- Placement fees of $1.4 million (up $1.1 million) on 1H24 relating to the debt refinancing of the Japanese real estate portfolio managed by CKK.

Funds Management ROE (post-tax) was 17.8% and increased from 12.5% in 1H24. The increase in ROE was driven by a 37.1% increase in Funds Management Normalised NPAT and a 3.6% decrease in average net assets.

FM normalised results	31 Dec 2024 $m	31 Dec 2023 $m	Change $m	Change %
Fidante	71.0	66.7	4.3	6.4
CIM	24.1	20.7	3.4	16.4
Net income	95.1	87.4	7.7	8.8
Operating expenses	(57.1)	(58.9)	1.8	3.1
Normalised profit before tax	**38.0**	**28.5**	**9.5**	**33.3**
Normalised tax	(11.0)	(8.8)	(2.2)	25.0
Normalised profit after tax	**27.0**	**19.7**	**7.3**	**37.1**

FUM and net flows

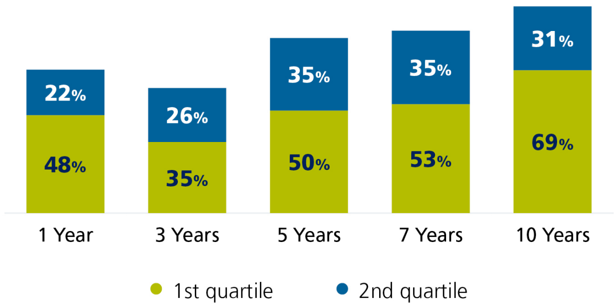
Funds Management's total FUM increased by $13.4 billion (or 12.5%). During the period, net outflows were $3.1 billion (compared to inflows of $5.6 billion in 1H24), with the majority of movement attributable to Fidante. This included $5.5 billion of predominantly institutional outflows in fixed income strategies, partially offset by $2.7 billion of net flows into equity and alternative affiliate managers and net distributions of $0.8 billion.

FM Closing FUM and net flows	31 Dec 2024 $bn	31 Dec 2023 $bn	Change $bn	Change %
– Fidante	103.9	90.9	13.0	14.3
– CIM	17.2	16.7	0.5	3.0
Total FUM	**121.0**	**107.6**	**13.4**	**12.5**
– Fidante	(2.8)	9.5	(12.3)	(large)
– CIM	(0.3)	(3.9)	3.6	large
Total net flows	**(3.1)**	**5.6**	**(8.7)**	**(large)**

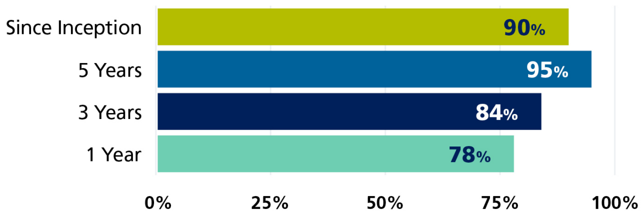
Investment performance

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 95% and 90% of investments outperforming benchmark over five years and since inception respectively[1].

For Fidante affiliates, 85% of funds achieved first or second quartile performance over five years and 88% of funds achieved either first or second quartile investment performance over seven years[2].



FUNDS MANAGEMENT INVESTMENT PERFORMANCE (% OF FUM OUTPERFORMING BENCHMARK)



As at 31 December 2024. Percentage of Fidante's affiliates meeting or exceeding the performance benchmark, with performance weighted by FUM.

[1] As at 31 December 2024. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.
[2] Mercer as at December 2024.

Corporate segment and other information

Corporate segment

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 2024 $m	31 Dec 2023 $m	Change $m	Change %
Other income	0.4	0.1	0.3	Large
Total expenses	(37.6)	(37.5)	(0.1)	(0.3)
Normalised EBIT	**(37.2)**	**(37.4)**	**0.2**	**0.5**
Interest and borrowing costs	(1.3)	(2.3)	1.0	43.5
Normalised loss before tax	**(38.5)**	**(39.7)**	**1.2**	**3.0**
Normalised tax	12.1	11.5	0.6	5.2
Normalised loss after tax	**(26.4)**	**(28.2)**	**1.8**	**(6.4)**

Corporate normalised loss after tax was $26.4 million in 1H25, down $1.8 million from 1H24.

Corporate expenses include:

– personnel costs of $22.2 million, which decreased by $0.5 million on 1H24;
– other expenses of $7.7 million, decreased by $0.5 million due to lower depreciation expense in software and computer equipment;
– long-term incentive costs of $6.4 million, broadly in line with 1H24, following the grant of hurdled performance share rights in 1H25; and
– transition costs related to the Artega Technology team retained by Challenger post the transfer of investment administration and custody services to State Street from November 2024 ($1.3 million).

Interest and borrowing costs relate to debt facility fees on the Group's banking facility. 1H25 interest and borrowing costs were $1.3 million, down $1.0 million from 1H24, due to lower line fees on the Group debt facility after reducing the facility limit from $400 million to $250 million as part of refinancing in July 2024. This facility has remained undrawn throughout 1H25.

Guidance for the 2025 financial year

From FY25, Challenger will primarily reference key metrics, including earnings, on a post-tax basis. Challenger's FY25 normalised net profit after tax guidance is a range of between $440.0 million and $480.0 million.

The mid-point of the FY25 normalised net profit after tax guidance ($460.0 million) is 10.4% higher than the FY24 normalised net profit after tax of $416.6 million.

Principal activities

In September 2024, State Street Australia Limited was appointed to provide investment administration and custody services to Challenger and its affiliates. On 11 November 2024, Artega Operations staff transferred to State Street and services commenced. The initial agreements for services have a ten year term, except for the Transfer and Support Agreement (TSA), which has an initial term of 30 months. The Artega Technology team remain with Challenger to deliver essential technology support during the transition period.

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

Risk management

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

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

– funding and liquidity risk;
– investment and pricing risk;
– counterparty risk;
– strategic, business and reputation risk;
– operational risk including cyber security;
– 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.

1H25 strategic progress

Progress over 1H25 has been measured against Challenger's three strategic pillars.

1. Retirement leader

1H25 progress:

Market leader in Australian retirement income

Challenger is the market leader in Australian retirement incomes according to 93% of financial advisers – 40 percentage points ahead of its closest peer[1]. In 1H25, Challenger was awarded Money Magazine's 'Longevity Cover Excellence Award' for 2024[2].

Maintaining momentum in higher quality Life sales

Challenger continues to maintain momentum, with exceptional sales in longer duration annuity products that have improved the quality of the Life book by lengthening the tenor of liabilities.

The Life business achieved total Life sales of $4.6 billion that included record retail lifetime and Japanese (MS Primary) annuity sales growth. Retail lifetime annuity sales increased 24% to $583 million, reflecting rising demand for guaranteed lifetime income as more Australians approach and enter retirement and the successful delivery of Challenger's strategy to grow longer tenor, more valuable annuity sales. Liquid Lifetime sales were $245 million (up 19%) and CarePlus sales were a record $338 million (up 28%).Japanese annuity sales were very strong, increasing 78% to $616 million.

Retail fixed term annuity sales decreased 11% to $1.2 billion, as the shape of the yield curve discouraged investors from investing in longer terms.

Institutional sales that include institutional fixed term annuity, institutional lifetime annuity and Challenger Index Plus sales decreased 28% to $2.2 billion, reflecting the $619 million Aware Super defined benefit win in 1H24, lower shorter-duration institutional term annuity sales of $417 million (down 13%) and lower Challenger Index Plus sales of $1.8 billion (down 10%).

In 1H25, the tenor on new business sales[3] was 6.4 years, which continues to have a positive effect on the overall Life book composition.

Deepening relationships with institutions

Challenger continues to make progress building its pipeline of retirement income partnerships and defined benefit opportunities with superannuation funds.

As the leading provider of longevity protection with decades of experience, Challenger is well-placed to support superannuation funds develop their retirement income propositions, a requirement under the Retirement Income Covenant, and de-risk their defined pension liabilities. Challenger's clients include Australia's top superannuation funds, who are in various stages of implementing their retirement offers for members.

In May 2024, Challenger was selected as the sole external lifetime annuity provider on UniSuper's Approved Product List (APL) and commenced recommending Challenger's Liquid Lifetime annuity in the half. The relationship highlights the depth of Challenger's capability and strength of its lifetime income solution, with Challenger well-positioned to support superannuation funds in building out its retirement proposition to members.

In December 2024, Challenger was selected to support a defined benefit fund de-risking transaction. To support the lifetime pensions, Challenger Life issued a group lifetime annuity to the value of $23 million, which will provide each member pensioner and any eligible revisionary pensioner with CPI-indexed payments for their lifetime.

This partnership follows Challenger being selected as Aware Super's defined benefit partner to provide a group lifetime annuity policy to the value of $619 million in FY24, and demonstrates Challenger's investment and longevity risk solutions capability.

Building financial confidence among Australian retirees

Challenger undertakes research and works closely with the Government, industry and wider community on thought leadership to help drive public discussion on how best to provide Australians with financial security for a better retirement.

In August 2024, Challenger collaborated with global investment research leader Mercer to launch the white paper "Principles of retirement annuitisation". The research provides insights into how annuities can be integrated as a core element of retirement strategies to enhance retirement outcomes and found lifetime annuities can provide retirees with increased total income, a higher probability of meeting income needs, and greater estate values.

In September 2024, Challenger's latest research, conducted in partnership with National Seniors Australia (NSA), explored how cost of living, market volatility and financial advice impact the lifestyle and finances of older Australians. Findings from the survey underscored the importance of: (i) financial advice in helping Australians maximise their savings and plan for the long term; (ii) guaranteed income options; and (iii) education to empower Australians to retire with financial security.

Challenger also launched its first Adviser Council in September 2024, which aims to provide Challenger a platform to engage with financial advisers nationwide, while driving thought leadership, innovation and the development of products that meet the needs of advisers and their customers. The Council includes 15 advisers from a range of geographies, backgrounds and levels of engagement with Challenger to ensure various perspectives are considered.

Enhancing Challenger's brand and retirement credentials

In FY24, Challenger launched its brand sponsorship strategy, partnering with the Professional Golfers' Association of Australia (PGA) and Melbourne International Flower and Garden Show. These partnerships are designed to enhance Challenger's brand and showcase Challenger's retirement credentials.

The 2024/25 Challenger PGA Tour of Australasia season commenced in 1H25 and provides a significant opportunity to promote Challenger's brand at over 100 golf tournaments and events across Australia. With extensive broadcast reach to over 11 million people, the partnership will allow Challenger to strengthen its brand as the 'go-to' in retirement and connect with golf fans, which is a sport of choice for those aged 45 and over, which is Challenger's target market.

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1 Marketing Pulse Adviser Study December 2024 based on (% agree / strongly agree).

2 Plan For Life awards have been rolled into the Money Magazine Awards from 2024. In 2023, Challenger won Plan for Life's 'Overall Longevity Cover Excellence Award' for a fifth consecutive year.

3 Based on new business annuity sales, including term annuities and lifetime sales, excluding reinvestments.

1. Retirement leader continued

Committed to further enhancing the brand, Challenger unveiled its new television commercial 'Life. Well Lived.' in October 2024, which captures and celebrates the ease and joy that comes from having financial security in retirement. The advertisement is set to be featured at industry conferences, major events and as the opener at Challenger roadshows.

Launch of new Challenger website

In November 2024, Challenger launched its new public website to create a more personalised experience for customers and advisers.

The website has been aligned with Challenger's new contemporary branding and contains many new features, including dedicated personas for key customer segments (personal, adviser and institutional), new 'help and support' functionality to make it easier for customers to self-serve, and a 'learn' section to support Challenger's goal to be the leader in retirement income.

The website has been well received by customers and advisers, and ensures the business is well positioned ahead of the launch of Life's re-platformed customer registry and technology in FY25. Refer to sections below relating to the Accenture technology partnership and customer experience uplift.

2. Investment excellence

1H25 progress:

Whole loan and mortgage servicing platform

Whole loans include mortgages, personal loans and asset finance. The whole loans asset class is a large and significant asset class both in Australia and globally and a key investment class for Life.

Challenger has established a platform that will help originate large scalable pools of whole loans for Challenger Life and institutional investors. CIM has also established a loan servicing business that will service pools of existing mortgages, which will enhance its ability to access private loan investments.

In December 2024, Challenger Life acquired a NZ$560 million book of residential mortgages from Bluestone Group in New Zealand. The acquisition represents a compelling investment opportunity with New Zealand prime and near-prime residential loans offering attractive risk-adjusted returns. CIM has a long track record in whole loan investments in New Zealand dating back to 2017.

Award-winning investment strategies and products

Fidante continues to be externally recognised for the quality of its investment managers and innovative product suite. In 1H25, affiliates won investment manager awards across multiple categories:

- Alphinity Investment Management – 2024 Zenith Fund Awards – Sustainable and Responsible Investments – Growth;
- Lennox Capital Partners – 2024 Zenith Fund Awards – Australian Equities – Small Caps; and
- Ardea Investment Management – 2024 Insurance Investor European Awards – Fixed Income Manager of the Year.

The long-term performance of Fidante's Australian affiliates remains strong with 95% of investments outperforming their respective benchmarks over the last five years[4]. Fidante's products are also continually recognised externally as high quality, with 88% of strategies (63 out of the 72) rated either Recommended or Highly Recommended by research houses[5].

New affiliates

Fidante continues to expand its leading range of investment strategies, and has an active program of seeking and selecting new affiliate managers.

In February 2025, Fidante welcomed global long-short manager System Capital to its stable of affiliate managers. The addition of System Capital is a continuation of Fidante's strategic goal of adding alternative offerings and the fund is well suited to family offices, high-net-worth investors and retail clients looking to leverage the benefits of under and overvalued global stocks.

3. Talented team and capability

1H25 progress:

State Street partnership

In November 2024, Challenger appointed State Street, a global leader in investment services, to provide its investment administration and custody services.

The partnership will support Challenger's strategy to drive growth through its core strengths in retirement, investment management and asset origination.

Challenger, Fidante and its affiliates will benefit from State Street's advanced technology, capability and scale that integrates front, middle and back-office functions with custody services.

As Challenger focuses on meeting more customer and client needs, State Street's global administration platform will support a range of new business initiatives. Challenger will also benefit from State Street's ongoing investment in its administration platform.

Challenger's investment administration operations and team transitioned to State Street in November 2024. The partnership is expected to deliver operating efficiencies once all investment administration and custody services have fully transitioned to State Street, which is expected to occur by the end of FY27.

Accenture technology partnership

In FY24, Challenger formed a technology partnership with professional services firm Accenture. Under the arrangement, Accenture will run Challenger's entire technology platform, re-platform Life's core customer registry and technology, and enhance the customer experience.

Challenger's technology operations were fully transitioned to Accenture in June 2024. The technology partnership is expected to deliver $90 million of operating savings over seven years commencing FY25.

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[4] As at 31 December 2024. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.
[5] As at 31 December 2024.

3. Talented team and capability continued

Customer experience uplift

The Accenture partnership supports Challenger's growth strategy by making it easier for customers to do business with Challenger, broadening its customer base and delivering a more innovative offering. By leveraging automation, the partnership will also generate productivity gains and operating efficiencies.

A key priority of the partnership is to replace Life's core annuity registry system with global insurance system Accenture Life Insurance & Annuity Platform (ALIP) and to provide new customer portals. The new solution will deliver a more intuitive and digital experience allowing customers and advisers to access key documents and interact with Challenger's services online, track their applications and manage their policies.

Importantly, the partnership will enable Challenger to improve how it integrates its offering with superannuation funds and platforms, helping to position the business as the retirement partner of choice.

Challenger has made significant progress to re-platform the core customer registry and technology for the annuity business and is on track to launch ALIP by the end of FY25. Challenger expects to invest approximately $5 million (after tax) in FY25 that will be treated as a one-off significant item (with approximately $20 million incurred in FY24).

Learning and development

Challenger is committed to investing in its people to maximise their potential. In 1H25, Challenger held over 100 learning and development sessions including leadership development, presentation skills, mentoring and development planning. The business also launched 'Amplify', a new learning and development initiative designed to broaden skills and create new career development opportunities that includes an overseas learning tour.

Embedding environmental, social and governance (ESG) practices across the business

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

Challenger integrates ESG risks into its investment decision-making and ownership practices, portfolio construction and appointment of managers acting on its behalf. Challenger has been a signatory to the Principles for Responsible Investment (PRI) since 2015.

Affiliate managers that offer sustainability products 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;
- Impax Asset Management – specialist asset manager investing in opportunities arising from the transition to a more sustainable global economy;
- 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 September 2024, the ***Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*** (Cth), which introduces the framework for Australia's first climate-related financial disclosure regime, was passed by Federal Parliament and received royal assent. The Australian Sustainability Reporting Standards (ASRS) climate reporting standard has also now been finalised and will underpin mandatory climate reporting in Australia.

Meeting the obligations of Australia's climate reporting regime forms a core part of Challenger's ESG program. In 1H25, Challenger began implementing its climate risk work program that will inform the business' longer term ESG priorities and reflects its commitment to strengthening its sustainability disclosures.

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 its community engagement program, Challenger supports a number of organisations that make a significant contribution to local communities. In 1H25, initiatives included hosting a fundraising gala for not-for-profit organisation Women up North, which provided financial support for their work with those experiencing domestic and family violence in northern New South Wales.

Key performance indicators (KPIs)

Profitability and growth

Challenger's statutory profit attributable to equity holders for the period ended 31 December 2024 was $72.2 million; 28.2% higher than 1H24. This is comprised of:

- normalised net profit after tax of $225.2 million; partially offset by
- asset and liability experience loss of $148.8 million; and
- significant items expense of $4.2 million.

1H25 normalised profit after tax increased by $24.5 million (12%) on 1H24. The increase reflects higher normalised profit before tax (up $35.8 million), partially offset by higher normalised tax (up $11.3 million).

Asset and liability investment experience loss after tax was $148.8 million compared to a $145.2 million loss in 1H24.

The asset experience loss after tax of $96.0 million was primarily driven by underperformance on alternatives relative to Challenger's normalised return assumption and a reduction in office property valuations, partially offset by gains on the fixed income portfolio driven by the tightening of credit spreads.

The liability experience loss after tax of $52.8 million was driven by the accounting mistmatch that arises when valuing the Life Risk liabilities that are expected to unwind over time as a result of applying AASB 17 *Insurance Contracts* and new business strain.

An interim dividend of 14.5 cents per share was determined, franked at 100% (31 December 2023: 13.0 cents, 100% franked), up 11.5% on 1H24.

Challenger's normalised cost to income ratio of 32.0% has improved from 1H24 (31 December 2023: 34.6%) due to growth in income in Life and FM coupled with structural cost discipline across the business with savings being reinvested back into the business.

1H25 Group normalised ROE (after tax) was 11.6% and increased by 120 bps on 1H24 and above the Challenger target of 11.2% after tax (12.0% plus the average RBA cash rate less tax). This was achieved by higher Life normalised COE, FM net fee income as well as maintaining a flat expense base through ongoing expense discipline. Life and FM normalised ROE (after tax) were also up compared to 1H24 with Life at 13.0% (up 50 bps on 1H24) and FM at 17.8% (up 530 bps on 1H24).

Statutory ROE after tax of 3.7% increased compared to 1H24 (31 December 2023: 2.9%) as a result of the higher statutory NPAT.

KPIs for the period ended 31 December 2024 (with the period to 31 December 2023 being the prior corresponding period (pcp), unless otherwise stated) are set out in the accompanying table.

	31 Dec 2024	31 Dec 2023	Change %
Profitability			
Statutory profit attributable to equity holders ($m)	72.2	56.3	28.2
Normalised NPBT ($m)	326.1	290.3	12.3
Normalised NPAT ($m)	225.2	200.7	12.2
Statutory EPS (cents)	10.5	8.2	28.0
Normalised EPS (cents)	32.8	29.3	11.9
Total dividend (cents)	14.5	13.0	11.5
Total dividend franking	100%	100%	—
Normalised cost to income ratio	32.0%	34.6%	2.6
Statutory ROE after tax	3.7%	2.9%	0.8
Normalised ROE after tax	11.6%	10.4%	1.2
Sales, Flows, AUM			
Total Life sales ($m)	4,625.4	5,253.6	(12.0)
Total Life net flows ($m)	(346.7)	328.0	(large)
Total Life net book growth (%)	(1.7%)	1.7%	(3.4)
Total AUM ($bn)	131.4	117.1	12.2

Key performance indicators (KPIs) continued

Capital management

Challenger 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.

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 minimum level of regulatory capital for CLC is specified under applicable APRA life insurance prudential capital 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 2024, the Challenger Group was holding $1.8 billion in excess regulatory capital, which equates to a Group Minimum Regulatory Requirement ratio (times) of 1.63 times (31 December 2023:1.52 times). This ratio represents Challenger holding 63.0% more regulatory capital than required by its regulators.

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

31 December 2024	CLC $m	Other $m	Group $m
Regulatory capital base			
Common Equity Tier 1 (CET1) regulatory capital	3,310.4	—	3,310.4
Additional Tier 1 capital	735.0	—	735.0
Total Tier 1 regulatory capital	4,045.4	—	4,045.4
Tier 2 capital[1]	427.0	—	427.0
Other non regulatory capital[2]	—	121.3	121.3
Total capital base	4,472.4	121.3	4,593.7
Minimum Regulatory Requirement[3]	2,776.9	35.4	2,812.3
Excess over Minimum Regulatory Requirement	1,695.5	85.9	1,781.4
CET1 capital ratio (times)[4]	1.19	—	—
Tier 1 capital ratio (times)[5]	1.46	—	—
Minimum Regulatory Requirement ratio (times)[6]	1.61	3.43	1.63

1. CLC represents subordinated debt.
2. Includes Funds Management, Corporate and other Life entities. Refer to Note 11 for detailed split.
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 base

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

CLC's internal capital models currently result in a target PCA ratio range of 1.3 to 1.7 times. This range can change over time and is dependent on numerous factors.The PCA ratio at 31 December 2024 was 1.61 times (30 June 2024: 1.67 times), within the target range. The Common Equity Tier 1 (CET1) ratio was 1.19 times at 31 December 2024 (30 June 2024: 1.23 times).

Funds Management and Other

In addition to CLC's excess over minimum regulatory capital, Challenger maintains cash and tangible assets within entities outside CLC. These assets can be used to meet regulatory capital requirements.

Dividends and Dividend Reinvestment Plan

Dividends	31 Dec 2024	31 Dec 2023	Change
Interim dividend (cents)	14.5	13.0	1.5
Interim dividend franking	100%	100%	—
Normalised dividend payout ratio	44.2%	44.4%	(0.2)

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 2024 was 44.2% (31 December 2023: 44.4%) and is within Challenger's target range.

Challenger will continue to seek to frank the dividend 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.

Challenger continued to operate its Dividend Reinvestment Plan (DRP) during the period. The participation rate for the 2024 final dividend was 1.9%, and 267,406 ordinary shares were issued to satisfy DRP requirements on 18 September 2024.

The DRP will continue operating for the 2025 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 2024, S&P reaffirmed both CLC and Challenger Limited's credit ratings.

Ratings were confirmed as:

CLC

'A'

with a stable outlook

CHALLENGER LIMITED

BBB+

with a stable outlook

Normalised profit and Group asset and liability experience

Normalised framework (non-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.

Management analysis life asset and liability experience (pre-tax)

	31 Dec 2024 $m	31 Dec 2023 $m
Total return		
Fixed income	591.0	662.1
Equity and infrastructure	23.3	10.8
Property	32.9	(45.3)
Alternatives	67.9	18.5
Total return	**715.1**	**646.1**
Investment yield[1]		
Fixed income	560.5	518.9
Equity and infrastructure	25.9	21.8
Property	101.1	111.8
Alternatives	145.9	122.0
Total investment yield	**833.4**	**774.5**
Asset experience	**(118.3)**	**(128.4)**
Policy liabilities	26.0	(42.0)
New business strain	(23.0)	(57.8)
Impact of AASB 17 on Life Risk business	(78.5)	26.0
Liability experience	**(75.5)**	**(73.8)**

1. Includes investment yield on policyholder funds and shareholder funds and normalised capital growth.

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 2024 $m	31 Dec 2023 $m	Change $m	Change %
Net income[1]	481.6	447.2	34.4	7.7
Comprising:				
Life normalised COE	386.1	359.7	26.4	7.3
FM net income	95.1	87.4	7.7	8.8
Corporate and other income	0.4	0.1	0.3	large
Operating expenses[1]	(154.2)	(154.6)	0.4	0.3
Normalised EBIT	**327.4**	**292.6**	**34.8**	**11.9**
Interest and borrowing costs	(1.3)	(2.3)	1.0	43.5
Normalised NPBT	**326.1**	**290.3**	**35.8**	**12.3**
Tax on normalised profit	(100.9)	(89.6)	(11.3)	(12.6)
Normalised NPAT	**225.2**	**200.7**	**24.5**	**12.2**
Comprising:				
Life normalised NPAT	224.6	209.2	15.4	7.4
FM normalised NPAT	27.0	19.7	7.3	37.1
Corporate and other normalised NPAT	(26.4)	(28.2)	1.8	6.4
Group asset experience after tax	(96.0)	(93.2)	(2.8)	3.0
Group liability experience after tax	(52.8)	(52.0)	(0.8)	1.5
Significant items after tax	(4.2)	4.3	(8.5)	(large)
Bank NPAT (Discontinued Operation)	—	(3.5)	3.5	n/a
Statutory net profit after tax attributable to equity holders	**72.2**	**56.3**	**15.9**	**28.2**

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 profit and Life assets liability experience continued

Normalised results

Life normalised COE and normalised NPAT increased as a result of higher Life average investment assets with an increase in margin compared to 1H24.

Life's average investment assets were $24.6 billion in 1H25 and increased by 4.5% ($1.1 billion) on 1H24. The increase in average investment assets primarily reflects book growth in FY24.

Funds Management net income increased by $7.7 million due to higher FUM-based revenue as well as increased performance and placement fees. Funds Management average FUM increased by $19.8 billion. FUM-based income margin decreased to 13.9 bps from 15.8 bps in 1H24 due to changes in business mix including larger lower-margin institutional mandates and redemptions of fixed income mandates.

Group operating expenses decreased by $0.4 million (or 0.3%) against the pcp. The reduction was driven by savings in technology following the transition of Challenger's technology operations to Accenture, lower investment operations costs following the transfer of Challenger's investment administration and custody services to State Street, and lower transaction volumes.

Challenger's full-time equivalent employee (FTE) numbers reduced by 214 to 566. The decrease was driven by reduced employees in Bank with completion of the sale in April 2024, the transition of Challenger's technology operations to Accenture in May 2024, and Artega Operations staff transferring to State Street in November 2024.

The normalised effective tax rate in 1H25 was 30.9%, unchanged from 30.9% in 1H24. 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 ($6.6 million tax effected).

1H25 significant items were an expense of $4.2 million and relate to one-off costs associated with the customer technology build with Accenture and initial project costs associated with the transition to State Street.

Asset and liability experience loss (pre-tax) for the period comprised of an asset experience loss of $118.3 million and policyholder liability loss of $75.5 million. Asset experience was primarily driven by underperformance on alternatives relative to Challenger's normalised return assumption and a reduction in office property valuations, partially offset by gains on the fixed income portfolio driven by the tightening of credit spreads.. The liability experience loss primarily relates to Life Risk valuation accounting mismatch related to AASB 17.

Directors' report

The information appearing on pages 1 to 14 forms part of the Directors' report for the financial period ended 31 December 2024 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 2024 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	Independent Non-Executive Director
John M Green	Independent Non-Executive Director
Masahiko Kobayashi[1]	Non-Independent Non-Executive Director
Matthew Michelini (resigned 19 September 2024)	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
17 February 2025

N Hamilton
Managing Director and Chief Executive Officer
17 February 2025

5 Auditor's independence declaration

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

Shape the future
with confidence

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 2024, 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

Louise Burns
Partner
17 February 2025

Financial report

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	2024 $m	2023 $m
Revenue (excluding insurance contracts)	1	1,234.4	1,199.0
Share of profits from associates		16.5	16.5
Expenses (excluding insurance contracts)	2	(530.1)	(541.0)
Finance costs		(467.4)	(374.2)
Profit before net insurance result and income tax		**253.4**	**300.3**
Insurance revenue		334.9	303.8
Insurance service expense		(287.4)	(326.4)
Insurance service result		**47.5**	**(22.6)**
Net insurance finance expenses		(197.9)	(192.9)
Net insurance result	3	**(150.4)**	**(215.5)**
Profit before income tax		**103.0**	**84.8**
Income tax expense	5	(31.4)	(25.5)
Profit for the period after income tax from continuing operations		**71.6**	**59.3**
Loss for the period after income tax from discontinued operations		—	(3.2)
Total profit for the period after income tax		**71.6**	**56.1**
Profit attributable to shareholders of Challenger Limited		72.2	56.3
Loss attributable to non-controlling interests		(0.6)	(0.2)
Total profit for the period after income tax		**71.6**	**56.1**
Other comprehensive income			
Items that may be reclassified to profit and loss, net of tax			
Translation of foreign entities		33.6	(2.7)
Hedge of net investment in foreign entities		(30.9)	2.3
Net loss on cash flow hedges		—	(0.1)
Other comprehensive income/(loss) for the period		**2.7**	**(0.5)**
Total comprehensive income for the period after tax		**74.3**	**55.6**
Earnings per share attributable to ordinary shareholders of Challenger Limited			
Basic	14	10.5	8.2
Diluted	14	10.3	8.1

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

Statement of financial position

As at	Note	31 Dec 2024 $m	30 Jun 2024 $m	31 Dec 2023 $m
Assets				
Cash and cash equivalents		556.7	573.2	774.4
Receivables		773.4	890.0	704.2
Current tax assets		8.4	1.9	43.0
Derivative assets		674.7	583.1	896.9
Investment assets	6	27,855.0	27,185.4	25,942.1
Bank assets held for sale		—	—	350.7
Investment property - held for sale	7	66.4	136.9	—
Investment property	7	2,772.7	2,789.4	3,168.9
Mortgage assets - SPV	8	273.1	305.1	315.1
Finance leases		—	—	7.7
Property, plant and equipment		14.4	19.4	21.8
Investment in associates		84.8	86.6	81.4
Other assets		41.4	49.4	45.8
Right-of-use lease assets		14.4	19.9	22.6
Deferred tax assets	5	149.5	181.9	176.1
Goodwill		579.9	579.9	579.9
Other intangible assets		4.3	4.8	5.4
Total assets of shareholders of Challenger Limited and non-controlling interests		**33,869.1**	**33,406.9**	**33,136.0**
Liabilities				
Payables		861.7	1,153.8	970.4
Current tax liability		6.0	7.4	4.3
Derivative liabilities		1,018.5	566.8	719.2
Bank liabilities held for sale		—	—	295.6
Interest bearing financial liabilities	12	7,526.8	7,078.8	7,018.3
External unit holders' liabilities		4,812.6	5,356.3	5,107.6
Provisions		21.0	28.6	24.5
Lease liabilities		42.4	46.8	51.3
Deferred tax liabilities	5	4.6	4.7	6.4
Life investment contract liabilities	9	10,145.4	9,893.7	9,759.6
Life insurance contract liabilities	9	5,582.4	5,384.8	5,274.9
Total liabilities of shareholders of Challenger Limited and non-controlling interests		**30,021.4**	**29,521.7**	**29,232.1**
Net assets of shareholders of Challenger Limited and non-controlling interests		**3,847.7**	**3,885.2**	**3,903.9**
Equity				
Contributed equity	11	2,547.2	2,512.4	2,522.3
Reserves		(66.2)	(18.4)	(25.7)
Retained earnings		1,366.7	1,387.4	1,403.5
Total equity of shareholders of Challenger Limited		**3,847.7**	**3,881.4**	**3,900.1**
Non-controlling interest		**—**	**3.8**	**3.8**
Total equity of shareholders of Challenger Limited and non-controlling interests		**3,847.7**	**3,885.2**	**3,903.9**

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

Financial report continued

Statement of changes in equity

For the period ended 31 December 2023	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
		Attributable to shareholders of Challenger Limited								
Balance at 1 July 2023		**2,513.1**	**(39.0)**	**0.2**	**(13.7)**	**16.7**	**1,429.6**	**3,906.9**	**4.0**	**3,910.9**
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 (loss) / income for the period		**—**	**—**	**(0.1)**	**(0.4)**	**—**	**56.3**	**55.8**	**(0.2)**	**55.6**
Ordinary shares issued	11	21.0	—	—	—	—	—	21.0	—	21.0
Treasury shares vested	11	10.7	—	—	—	—	—	10.7	—	10.7
Settled deferred Treasury shares	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		—	—	(0.1)	—	6.4	—	6.3	—	6.3
Balance at 31 December 2023		**2,522.3**	**(34.7)**	**—**	**(14.1)**	**23.1**	**1,403.5**	**3,900.1**	**3.8**	**3,903.9**
For the period ended 31 December 2024										
Balance at 1 July 2024		**2,512.4**	**(26.4)**	**—**	**(15.1)**	**23.1**	**1,387.4**	**3,881.4**	**3.8**	**3,885.2**
Profit for the period from continuing operations		—	—	—	—	—	72.2	72.2	(0.6)	71.6
Other comprehensive income		—	—	—	2.7	—	—	2.7	—	2.7
Total comprehensive income for the period		**—**	**—**	**—**	**2.7**	**—**	**72.2**	**74.9**	**(0.6)**	**74.3**
Ordinary shares issued	11	1.8	—	—	—	—	—	1.8	—	1.8
Treasury shares purchased	11	(42.1)	—	—	—	—	—	(42.1)	—	(42.1)
Treasury shares vested	11	52.6	—	—	—	—	—	52.6	—	52.6
Deferred Treasury share purchases	11	22.5	—	—	—	—	—	22.5	—	22.5
Share-based payment expense net of tax less releases		—	(39.5)	—	—	—	—	(39.5)	—	(39.5)
Dividends paid	13	—	—	—	—	—	(92.9)	(92.9)	—	(92.9)
Change in non-controlling interest[1]		—	—	—	—	(11.0)	—	(11.0)	(3.2)	(14.2)
Balance at 31 December 2024		**2,547.2**	**(65.9)**	**—**	**(12.4)**	**12.1**	**1,366.7**	**3,847.7**	**—**	**3,847.7**

1. In October 2024 Simcorp's minority interest was repurchased by Challenger and the non-controlling interest was derecognised.

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	2024 $m	2023 $m
Operating activities			
Receipts from customers		351.5	266.1
Annuity and premium receipts	9	3,116.1	3,504.8
Annuity and claim payments	9	(3,226.9)	(3,233.7)
Receipts from external unit holders		1,754.3	1,958.3
Payments to external unit holders		(2,577.7)	(2,347.2)
Payments to vendors and employees		(359.5)	(340.1)
Dividends received		63.9	45.8
Interest received		630.0	570.8
Interest paid		(180.1)	(141.5)
Income tax paid		(8.0)	(31.6)
Net cash (outflows) / inflows from operating activities	10	**(436.4)**	**251.7**
Investing activities			
Net proceeds from / (payments for) investments		102.0	(1,212.8)
Proceeds from sale of associate		—	0.5
Net mortgage loan repayments received		33.1	50.2
Payments for purchase of associate interest		—	(2.8)
Payments for purchases of property, plant and equipment and other intangibles		(0.4)	(1.3)
Net cash inflows / (outflows) from investing activities		**134.7**	**(1,166.2)**
Financing activities			
Net proceeds from borrowings – interest bearing financial liabilities	12	419.6	1,164.1
Payments for lease liabilities		(5.2)	(4.4)
Payments for Treasury shares		(38.1)	(2.9)
Dividends paid		(91.1)	(61.3)
Net cash inflows from financing activities		**285.2**	**1,095.5**
Net (decrease) / increase in cash and cash equivalents from continuing operations		**(16.5)**	**181.0**
Cash and cash equivalents at the beginning of the period[1]		573.2	651.5
Cash and cash equivalents prior to transfers		**556.7**	**832.5**
Net increase in cash and cash equivalents from discontinued operations		—	21.3
Cash and cash equivalents transferred to assets held for sale		—	(79.4)
Cash and cash equivalents at the end of the period		**556.7**	**774.4**

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

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

Notes to the financial statements

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 2024 was authorised for issue in accordance with a resolution of the Directors of the Company on 17 February 2025.

(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 report. It is recommended that this interim financial report be read in conjunction with the financial report for the year ended 30 June 2024 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 2024. The accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards (IFRS).

Where necessary, comparative information has been restated to conform to presentation as required in the current period.

Change to presentation of net investment income attributable to insurance contracts

The Group has revised how it presents net investment income attributable to insurance contracts by reclassifying it out of net insurance result and into revenue and expenses. Comparative disclosures have also been revised to reflect this change.

The change has been made to align with stakeholder feedback and industry practice; it does not result in any change to the reported profit for the year after income tax. The impact to the financial statements and notes is included below.

	Note	31 Dec 2023 (Previously reported) $m	Reclassification $m	31 Dec 2023 (Restated) $m
Net insurance result	3	(22.4)	(193.1)	(215.5)
Revenue (excluding insurance contracts)	1	996.5	202.5	1,199.0
Expenses (excluding insurance contracts)	2	(531.6)	(9.4)	(541.0)
Total adjustment to profit before income tax			**—**	
Profit before income tax		84.8	—	84.8
Income tax expense		(25.5)	—	(25.5)
Profit for the year after income tax from continuing operations		**59.3**	**—**	**59.3**

The components of the net insurance result for the prior period have also been reclassified to align with current period classification. This also does not result in a change to reported profit for the year after income tax.

	Note	31 Dec 2023 (Previously reported) $m	Reclassification $m	31 Dec 2023 (Restated) $m
Insurance revenue	3	285.5	18.3	303.8
Insurance service expenses	3	(298.8)	(27.6)	(326.4)
Insurance finance expenses	3	(202.2)	9.3	(192.9)
Net insurance result		(215.5)	—	(215.5)
Total adjustment to profit before income tax			**—**	
Profit before income tax		84.8	—	84.8
Income tax expense		(25.5)	—	(25.5)
Profit for the year after income tax from continuing operations		**59.3**	**—**	**59.3**

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

(ii) Significant accounting judgements, estimates and assumptions

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

(iii) New and revised accounting standards and policies

The accounting policies and methods of computation are the same as those adopted in the annual report for the period ended 30 June 2024.

Accounting standards and interpretations issued but not yet effective

AASB 18 *Presentation and disclosure in financial statements*

AASB 18 *Presentation and disclosure in financial statements* (AASB 18) will be effective for the Group from 1 July 2027 and replaces AASB 101 *Presentation of financial statements*, introducing new requirements that will help to achieve comparability of the financial performance of similar entities and provide more relevant information and transparency to users. Even though AASB 18 will not impact the recognition or measurement of items in the financial statements, it is expected to impact presentation and disclosure as a result of providing management-defined performance measures within the financial statements.

Australian Sustainability Reporting Standards (ASRSs)

The Australian Accounting Standards Board (AASB) issued the final ASRSs on 20 September 2024. They are effective for Challenger for the year ending 30 June 2026.

The final ASRSs are broadly aligned with the IFRS Sustainability Disclosure Standards and are as follows:

- AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is a voluntary Standard covering sustainability-related financial disclosures and aligns with the scope of IFRS S1.
- AASB S2 *Climate-related Disclosures* is a mandatory Standard that includes an Australian-specific appendix. The appendix incorporates paragraphs drawn from AASB S1 but expressed in the context of climate-related financial disclosures, so that AASB S2 can function as the standalone mandatory standard containing all the requirements regarding climate-related financial disclosures.

There are no other new standards or amendments to existing standards that are not yet effective which are expected to have a material impact on the Group's financial statements.

Section 2: Key numbers

Note 1 Revenue (excluding insurance contracts)

	31 Dec 2024 $m	31 Dec 2023[1] $m
Investment revenue		
Fixed income securities and cash	696.3	952.4
Investment property and property securities	86.6	9.9
Equity and infrastructure investments	116.6	14.6
Realised and unrealised gains on hedges and foreign exchange translation	407.8	102.9
Fee revenue	133.1	118.3
Other revenue		
Change in life investment contract liabilities	(209.7)	(33.8)
Gain on disposal of Real Estate business	—	30.9
Other	3.7	3.8
Total	**1,234.4**	**1,199.0**

1. The prior period has been restated for a change in presentation of net attributable investment income, which is now excluded from the net insurance result. Refer to the Basis of preparation and statement of compliance for further information.

Note 2 Expenses (excluding insurance contracts)

	31 Dec 2024 $m	31 Dec 2023[1] $m
Cost of life investment contract liabilities	214.5	235.1
Investment property-related expenses[2]	33.5	35.6
Management and other fees	81.8	75.3
Distribution expenses	33.7	35.2
Employee benefits expenses	98.2	108.2
Professional fees	27.9	25.3
Other expenses	55.0	39.6
Expenses attributable to life insurance contracts[1]	(14.5)	(13.3)
Total	**530.1**	**541.0**

1. The prior period has been restated for a change in presentation of net attributable investment income, which is now excluded from the net insurance result. Refer to the Basis of preparation and statement of compliance for further information.
2. Investment property-related expenses relate to rental income-generating investment properties.

Notes to the financial statements continued

Note 3 Net insurance result

	31 Dec 2024 $m	31 Dec 2023[1] $m
Insurance revenue		
Expected insurance claims released	285.4	265.2
Expected insurance maintenance expenses released	10.1	10.1
Change in the risk adjustment for non-financial risk	2.1	1.5
Amount of contractual service margin recognised in profit or loss	46.3	32.2
Allocation of premiums for the recovery of insurance acquisition cash flows	1.5	1.7
Difference between expected and actual premiums	(10.5)	(6.9)
Total insurance revenue	**334.9**	**303.8**
Insurance service expenses		
Incurred claims	(275.4)	(257.5)
Incurred maintenance expenses	(10.2)	(9.4)
Changes that relate to past service - adjustments to the liabilities for incurred claims	1.1	1.6
Insurance acquisition cash flows amortisation	(1.5)	(1.7)
Losses on onerous contracts and reversal of those losses	(1.4)	(59.4)
Total insurance service expenses	**(287.4)**	**(326.4)**
Insurance service result	**47.5**	**(22.6)**
Insurance finance expenses		
Interest accreted to insurance contracts using current financial assumptions	(89.8)	(89.6)
Interest accreted to insurance contracts using locked-in rate	(13.9)	(12.0)
Changes in domestic interest rates and CPI	(6.9)	(107.6)
Changes in foreign interest rates and CPI	(53.8)	10.1
Changes in other assumptions	1.5	(1.1)
Net foreign exchange (expenses)/income	(35.0)	7.3
Total insurance finance expenses	**(197.9)**	**(192.9)**
Net insurance result[2]	**(150.4)**	**(215.5)**

1. The prior period has been restated for a change in presentation of net attributable investment income, which is now excluded from the net insurance result. Refer to the Basis of preparation and statement of compliance for further information.
2. Net investment income attributable to insurance contracts for the period was $242.5 million (31 Dec 2023: $193.1 million)

Accounting Policy

Insurance revenue

Insurance revenue represents the provision of services arising from groups of insurance contracts at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. Insurance revenue from a group of insurance contracts is therefore the relevant portion for the period of the total consideration for the contracts (i.e. the amount of premiums paid to the Group) adjusted for financing effect and excludes any amounts of investment components. The total consideration for a group of contracts 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 is 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 include actual claims, maintenance expenses incurred in the period and losses and reversals of losses on onerous contracts.

Maintenance expenses incurred comprise expenses which are directly attributable or associated with a portfolio of insurance contracts. These include direct expenses such as distribution costs and an allocation of indirect expenses such as salary costs or system expenses that relate to acquisition or policy administration and maintenance.

Notes to the financial statements continued

Note 3 Net insurance result continued

Insurance finance income/(expenses)

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

Foreign exchange rate effects arise due to life contract liability balances and cash flows being translated at spot rates and life contract liability movements being translated at period to date average rates.

Net investment income attributable to insurance contracts

Net investment income attributable to insurance contracts is determined by allocating items of Revenue and Expenses (excluding maintenance expenses) attributed to policyholders' funds between life insurance and life investment contracts based on the ratio of assets under management by policy liability product.

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

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]	Significant items after tax[3]	Total
31 December 2024	**$m**	**$m**	**$m**	**$m**	**$m**
Net income	386.1	95.1	0.4		481.6
Operating expenses	(59.5)	(57.1)	(37.6)		(154.2)
Normalised EBIT	**326.6**	**38.0**	**(37.2)**		**327.4**
Interest and borrowing costs	—	—	(1.3)		(1.3)
Normalised net profit/(loss) before tax	**326.6**	**38.0**	**(38.5)**		**326.1**
Tax on normalised profit	(102.0)	(11.0)	12.1		(100.9)
Normalised net profit after tax	**224.6**	**27.0**	**(26.4)**		**225.2**
Asset and liability experience after tax	(136.5)	(12.3)			(148.8)
Other adjustments[3]				(4.2)	(4.2)
Profit attributable to the shareholders of Challenger Ltd					**72.2**

For the period ended	Life	FM	Corporate and other[2]	Significant items after tax[3]	Total
31 December 2023	**$m**	**$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	(92.3)	(8.8)	11.5		(89.6)
Normalised net profit after tax	**301.5**	**28.5**	**(39.7)**		**200.7**
Asset and liability experience after tax	(145.2)				(145.2)
Other adjustments[3]			(3.5)	4.3	0.8
Profit attributable to the shareholders of Challenger Ltd					**56.3**

1. Refer to following page for definitions of the terms used in the management view of segments.
2. Corporate and other includes corporate companies, non-controlling interests and Group eliminations. The prior period also includes the Bank discontinued operation ($3.5 million loss).
3. Significant items for the current period relate to spend across the Accenture Partnership and Customer Technology Uplift Program, and Artega's transition to State Street. The prior period significant items pertain to the net gain on the sale of CRE, partially offset by AASB 17 implementation project costs and organisational restructuring costs.

Note 4 Segment information continued

	Life		FM		Corporate and other[1]		Total	
Other statutory segment information	**31 Dec 2024 $m**	**31 Dec 2023 $m**	**31 Dec 2024 $m**	**31 Dec 2023 $m**	**31 Dec 2024 $m**	**31 Dec 2023 $m**	**31 Dec 2024 $m**	**31 Dec 2023 $m**
Revenue from external customers[2]	799.1	789.8	120.1	111.4	—	—	919.2	901.2
Interest revenue	651.9	597.5	0.3	0.5	(2.1)	3.6	650.1	601.6
Interest expense	(442.4)	(350.2)	(0.4)	(0.4)	(24.6)	(23.6)	(467.4)	(374.2)
Intersegment revenue	(14.4)	(14.6)	14.4	14.6	—	—	—	—
Depreciation and amortisation	(1.6)	(2.9)	(1.4)	(2.5)	(3.1)	(1.5)	(6.1)	(6.9)
Balance sheet								
Segment assets	25,221.8	24,704.5	327.6	472.0	8,319.7	7,955.7	33,869.1	33,132.2
Segment liabilities	(21,785.2)	(21,381.5)	(28.3)	(149.8)	(8,207.9)	(7,700.8)	(30,021.4)	(29,232.1)
Net assets	**3,436.6**	**3,323.0**	**299.3**	**322.2**	**111.8**	**254.9**	**3,847.7**	**3,900.1**

1. Funds Management revenue from external customers is predominantly management fees.
2. Corporate and other includes the prior period Bank discontinued operation segment assets ($356.7 million) and segment liabilities ($298.6 million).

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 comprises of 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 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 MS&AD. CLC invests in assets providing long-term income streams for customers.

Funds Management

Funds Management earns fees from its Fidante and 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, is not considered an operating segment of the Group. It 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 CEO and CFO, 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.

Transactions between segments

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

Normalised vs statutory results

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.

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 view of revenue:

– normalised cash operating earnings (Life segment);
– net income (Funds Management segment); and
– other income (Corporate and other segment).

Note 4 Segment information continued

Normalised vs statutory results continued

Revenue also includes investment gains and losses which are excluded from the management view as they form part of asset and liability experience.

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 EBIT

Normalised earnings before interest and tax (EBIT) comprises net income less operating expenses, as defined above. It excludes asset and liability 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 year, less tax attributable to asset and liability experience and significant items.

Asset and liability experience after tax

The Group is required by accounting standards to value applicable assets and liabilities supporting the life 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. Asset and liability experience is a mechanism employed to isolate the volatility arising from asset and liability valuations within the results so as to reflect the underlying performance of the Group.

Asset experience is calculated as the total return (both realised and unrealised) generated on the Group's investment portfolio less the amount recorded in Normalised Cash Operating Earnings (which includes expected normalised capital growth and distributions). Liability experience includes any economic and actuarial assumption changes in relation to policy liabilities for the period, impacts of accounting mismatches within the liability valuation of Life Risk business under AASB 17, and new business strain.

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 for the Life segment 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.

New business strain

New business strain is the requirement to apply the risk-free discount rate plus an illiquidity premium to value annuity liabilities, rather than the actual interest rate paid on annuity liabilities. Life offers annuity rates to customers that are higher than the rates used to value liabilities. As a result, a loss is recognised when issuing a new annuity contract due to using a lower discount rate together with the inclusion of an allowance for future maintenance expenses in the liability. New business strain is a non-cash item and, subsequently, reverses over the future contract period. New business strain reported in the period represents the non-cash 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 as defined above.

Geographical areas

The Group operates predominantly in Australia, hence no geographical split is provided to the chief operating decision maker. Reinsurance of annuities issued by Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) accounted for $615.5 million of the Group's annuity and premium receipts in the period to 31 December 2024 out of the total annuity and premium receipts of $3,116.1 million (31 December 2023: $346.3 million out of total of $3,504.8 million) and comprised 18.9% of total policy liabilities outstanding as at 31 December 2024 (30 June 2024: 16.7%); while the underlying annuitant reside in Japan, the reinsurance service provided by CLC is considered to be Australian business and is therefore not recognised as a geographically separate segment.

Note 4 Segment information continued

	31 Dec 2024 $m	31 Dec 2023 $m
Reconciliation of management to statutory view of after-tax profit		
Operating segments normalised net profit before tax	364.6	330.0
Corporate and other normalised net loss before tax	(38.5)	(39.7)
Normalised net profit before tax (management view of pre-tax profit)	**326.1**	**290.3**
Tax on normalised profit	(100.9)	(89.6)
Normalised net profit after tax	**225.2**	**200.7**
Asset and liability experience after tax	(148.8)	(145.2)
Bank – other adjustments	—	(3.5)
Significant items after tax	(4.2)	4.3
Profit attributable to the shareholders of Challenger Limited	**72.2**	**56.3**
Loss attributable to non-controlling interests excluded from management view	(0.6)	(0.2)
Statutory view of profit after tax	**71.6**	**56.1**

Note 5 Income tax

Reconciliation of income tax expense	31 Dec 2024 $m	31 Dec 2023 $m
Profit before income tax	103.0	84.8
Prima facie income tax based on the Australian company tax rate of 30%	(30.9)	(25.4)
Tax effect of amounts not assessable/deductible in calculating taxable income:		
– Challenger Capital Notes distributions	(6.6)	(6.4)
– non-assessable and non-deductible items	(0.3)	5.5
– tax rate differentials	0.2	—
– other items	6.2	0.8
Income tax expense	(31.4)	(25.5)
Underlying effective tax rate	**30.5%**	**30.1%**

Analysis of income tax expense	31 Dec 2024 $m	31 Dec 2023 $m
Current income tax expense for the period	(5.0)	(3.6)
Current income tax benefit prior period adjustment	4.9	3.8
Deferred income tax expense	(32.7)	(22.8)
Deferred income tax benefit/(expense) prior period adjustment	1.4	(2.9)
Income tax expense	**(31.4)**	**(25.5)**
Income tax (expense)/benefit on translation of foreign entities	(13.8)	1.0
Income tax benefit/(expense) on hedge of net investment in foreign entities	13.3	(1.0)
Income tax expense from other comprehensive income	**(0.5)**	**—**

Note 5 Income tax continued

Analysis of deferred tax	Statement of financial position 31 Dec 2024 $m	Statement of financial position 30 Jun 2024 $m	Statement of comprehensive income 31 Dec 2024 $m	Statement of comprehensive income 30 Jun 2024 $m
Deferred tax assets				
Accruals and provisions	41.1	42.4	(1.4)	(2.9)
Employee entitlements	4.7	5.2	(0.5)	(0.4)
Tax losses	60.4	4.5	56.0	(2.4)
Unrealised net losses on investments	76.8	110.6	(33.8)	55.9
Other	11.7	24.8	(12.7)	10.9
Total deferred tax assets	**194.7**	**187.5**	**7.6**	**61.1**
Set off of deferred tax assets	**(45.2)**	**(5.6)**		
Net deferred tax assets recognised in Statement of financial position	**149.5**	**181.9**		
Deferred tax liabilities				
Unrealised foreign exchange movements	(43.2)	(1.9)	(40.7)	29.4
Unrealised net gains on investments	(4.6)	(4.3)	(0.3)	5.2
Other	(2.0)	(4.1)	2.1	2.3
Total deferred tax liabilities	**(49.8)**	**(10.3)**	**(38.9)**	**36.9**
Set off of deferred tax liabilities	**45.2**	**5.6**		
Net deferred tax liabilities recognised in Statement of financial position	**(4.6)**	**(4.7)**		
Deferred income tax (expense)/benefit recognised in Statement of comprehensive income			**(31.3)**	**98.0**

Recognised deferred tax balances	31 Dec 2024 $m	30 Jun 2024 $m
Tax consolidated group losses	59.8	3.9
Non-tax consolidated group losses	0.6	0.6
Deferred tax asset on group losses	**60.4**	**4.5**

Unrecognised deferred tax balances	31 Dec 2024 $m	30 Jun 2024 $m
Non-tax consolidated group revenue losses – tax effected	13.1	11.9
Tax consolidated group capital losses – tax effected	56.4	56.4

Note 5 Income tax continued

Analysis of current tax asset/(liability)	31 Dec 2024 $m	30 Jun 2024 $m
Opening balance	(5.5)	6.1
Current income tax expense for the year	(5.0)	(158.0)
Current income tax benefit prior year adjustment	4.9	4.8
Tax in equity	—	3.7
Income tax paid	8.0	21.6
Other (AASB 17 transitional deduction)	—	116.3
Closing balance	**2.4**	**(5.5)**
Presented on the Statement of financial position as:		
Current tax asset	8.4	1.9
Current tax liability	(6.0)	(7.4)
Closing balance	**2.4**	**(5.5)**

Note 6 Investment assets

Held at fair value through profit and loss	31 Dec 2024 $m	30 Jun 2024 $m	31 Dec 2023 $m
Domestic sovereign bonds and semi-government bonds	6,103.6	5,502.8	5,408.9
Floating rate notes and corporate bonds	6,879.1	7,086.8	6,564.4
Residential mortgage and asset-backed securities	8,480.0	9,727.2	9,433.1
Non-Special Purpose Vehicle (SPV) mortgage assets	680.5	190.3	232.5
Fixed income securities	**22,143.2**	**22,507.1**	**21,638.9**
Shares in listed and unlisted corporations	54.1	40.4	51.5
Unit trusts, managed funds and other	4,986.3	3,702.5	3,334.2
Equity securities	**5,040.4**	**3,742.9**	**3,385.7**
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	46.4	46.7	46.5
Other infrastructure investments	211.9	217.5	227.7
Infrastructure investments	**258.3**	**264.2**	**274.2**
Indirect property investments in listed and unlisted trusts	135.0	100.3	90.1
Property securities	**135.0**	**100.3**	**90.1**
Hedged commodities[1]	258.1	550.9	533.2
Other investment assets	**258.1**	**550.9**	**533.2**
Total investment assets – fair value through profit and loss	**27,855.0**	**27,185.4**	**25,942.1**
Current	18,284.1	17,326.0	17,425.9
Non-current	9,570.9	9,859.4	8,516.2
	27,855.0	**27,185.4**	**25,942.1**

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.

Notes to the financial statements continued

Note 7 Investment property

	31 Dec 2024 $m	30 Jun 2024 $m	31 Dec 2023 $m
Investment property held for sale[1]	66.4	136.9	—
Investment property in use	2,772.7	2,789.4	3,168.9
Total investment property	**2,839.1**	**2,926.3**	**3,168.9**

1. Investment property held for sale is considered current. All other investment property is considered non-current.

Consolidated	Investment property held for sale		Investment property in use	
Reconciliation of carrying amounts	**31 Dec 2024 $m**	**30 Jun 2024 $m**	**31 Dec 2024 $m**	**30 Jun 2024 $m**
Balance at the beginning of the period	136.9	—	2,789.4	3,269.2
Movements for the period:				
– disposals[1]	(126.4)	—	—	—
– net transfers to/(from) investment property held for sale	58.5	146.0	(58.5)	(146.0)
– capital expenditure	1.8	1.3	—	20.7
– net revaluation loss	(4.8)	(10.1)	(19.4)	(286.3)
– foreign exchange gain/(loss)	0.4	(0.3)	61.2	(68.2)
Balance at the end of the period	**66.4**	**136.9**	**2,772.7**	**2,789.4**

1 Investment property disposals: Channel Court, TAS $81.4 million and Karratha, WA $45.0 million during the period (30 June 2024: Nil).

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 or development 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. At 31 December 2024, 57% of investment properties in use by value (56% by count) were independently 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 Mortgage assets - SPV

Mortgage assets - SPV	31 Dec 2024 $m	30 Jun 2024 $m	31 Dec 2023 $m
Residential mortgages[1]	209.0	232.2	240.3
Investment loans	67.0	76.0	82.0
Less: provision for impairment	(2.9)	(3.1)	(7.2)
Total mortgage assets - SPV	**273.1**	**305.1**	**315.1**

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.

Accounting policy

SPV mortgage assets 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 mortgage assets impairment provision	31 Dec 2024 $m	30 Jun 2024 $m
Balance at the beginning of the period	3.1	9.1
Movement in provision	—	0.5
Utilisation of provision against incurred losses and other adjustments	(0.2)	(6.5)
Balance at the end of the period	**2.9**	**3.1**

Note 9 Life insurance and investment contract liabilities

	31 Dec 2024 $m	30 Jun 2024 $m	31 Dec 2023 $m
Life investment contract liabilities	10,145.4	9,893.7	9,759.6
Life insurance contract liabilities	5,582.4	5,384.8	5,274.9
Total life contract liabilities	**15,727.8**	**15,278.5**	**15,034.5**

	Life investment contract liabilities		Life insurance contract liabilities		Total life contract liabilities	
Movement in life contract liabilities	**31 Dec 2024 $m**	**31 Dec 2023 $m**	**31 Dec 2024 $m**	**31 Dec 2023 $m**	**31 Dec 2024 $m**	**31 Dec 2023 $m**
Balance at the beginning of the period	9,893.7	9,855.5	5,384.8	4,436.8	15,278.5	14,292.3
Deposits and premium receipts	2,598.5	2,470.2	517.6	1,034.6	3,116.1	3,504.8
Payments and withdrawals	(2,771.0)	(2,835.0)	(455.9)	(398.7)	(3,226.9)	(3,233.7)
Payments for attributable expenses	—	—	(14.5)	(13.3)	(14.5)	(13.3)
Insurance revenue per Note 3	—	—	(334.9)	(303.8)	(334.9)	(303.8)
Insurance service expenses per Note 3	—	—	287.4	326.4	287.4	326.4
Insurance finance expenses per Note 3	—	—	197.9	192.9	197.9	192.9
Revenue per Note 1	209.7	33.8	—	—	209.7	33.8
Expenses per Note 2	214.5	235.1	—	—	214.5	235.1
Balance at the end of the period	**10,145.4**	**9,759.6**	**5,582.4**	**5,274.9**	**15,727.8**	**15,034.5**

Components of new business during the period

The following table sets out components of new business for contracts issued during the period. There were no contracts acquired during the period.

	31 Dec 2024			31 Dec 2023		
For the period ended	**Non-onerous $m**	**Onerous $m**	**Total $m**	**Non-onerous $m**	**Onerous $m**	**Total $m**
Estimate of present value of future cash outflows, excluding insurance acquisition cash flows	2,556.5	247.3	**2,803.8**	—	872.9	**872.9**
Insurance acquisition cash flows	1.1	3.2	**4.3**	—	3.9	**3.9**
Estimate of present value of future cash outflows	2,557.6	250.5	**2,808.1**	—	876.8	**876.8**
Estimates of present value of cash inflows	(2,641.9)	(250.3)	**(2,892.2)**	(4.5)	(825.0)	**(829.5)**
Risk adjustment	28.9	4.5	**33.4**	0.5	13.5	**14.0**
CSM	55.4	—	**55.4**	4.0	—	**4.0**
Amounts included in insurance contract liabilities	—	4.7	**4.7**	—	65.3	**65.3**

Note 9 Life insurance and investment contract liabilities continued

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* (AASB 17), 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).

Under AASB 17, the 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 the fulfilment cash flows and Contractual Service Margin (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. The CSM is measured at the interest rates on the date the business was written (locked-in rates). Fulfilment cash flows comprise of unbiased and probability-weighted estimates of future cash flows, discounted at current rates 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 $163.1 million RA corresponds to a 71% 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).

Notes to the financial statements continued

Note 9 Life insurance and investment contract liabilities continued

Discount rates (continued)

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 life contract liabilities were between 4.3% - 5.8% per annum (30 June 2024: 4.7% - 5.4%).

Expenses

Forecasted expenses for the next period 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 1.6% per annum for short-term inflation and 2.6% per annum for long-term inflation (30 June 2024: 2.3% short-term, 2.9% 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.

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 2024: 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. Surrender rates are assumed 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% to +2.5% per annum (30 June 2024: +0.4% to +2.5%).

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 -0.3% to +2.2% per annum (30 June 2024: -0.3% to +2.2%).

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 CLC 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.

Note 9 Life insurance and investment contract liabilities continued

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 2024 $m	30 Jun 2024 $m
Statutory Fund 1	0.8	0.9
Statutory Fund 2	12,754.7	12,728.6
Statutory Fund 3	3.1	3.0
Statutory Fund 4	2,969.2	2,546.0
Total life contract liabilities	**15,727.8**	**15,278.5**

Current/non-current split for total life contracts

There is a fixed settlement date for the majority of life contract liabilities. Approximately $2,916.8 million on a discounted basis (30 June 2024: $3,202.2 million) of life contract liabilities have a contractual maturity within 12 months of the reporting date. Based on assumptions applied for the 31 December 2024 valuation of life contract liabilities, $4,167.4 million of principal payments on fixed term and lifetime business are expected in the year to 31 December 2025 (expected in the year to 30 June 2025: $4,241.9 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.

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 2024 $m	31 Dec 2023 $m
Profit for the period after income tax from continuing operations	71.6	59.3
Adjusted for		
Net realised and unrealised gains on investment assets	(440.0)	(347.7)
Share of associates' net profit	(16.5)	(16.5)
Change in life contract liabilities[1]	560.1	470.8
Depreciation and amortisation expense	12.4	7.0
Impairment of assets	—	0.4
Share-based payments	10.2	10.1
Dividends from associates	19.8	19.9
Change in operating assets and liabilities		
(Increase)/decrease in receivables	(8.0)	5.7
Decrease/(increase) in other assets	6.8	(1.1)
Decrease/(increase) in net tax assets	23.4	(14.6)
Decrease in payables	(14.1)	(48.1)
Decrease in provisions	(7.6)	(3.7)
(Decrease)/increase in life contract liabilities	(110.8)	271.4
Decrease in external unit holders' liabilities	(543.7)	(161.2)
Net cash flows from operating activities	**(436.4)**	**251.7**

1. Changes relate to movements through the Statement of comprehensive income.

Notes to the financial statements continued

Note 11 Contributed equity

	31 Dec 2024		30 Jun 2024		31 Dec 2023	
	No. of shares m	Value of shares $m	No. of shares m	Value of shares $m	No. of shares m	Value of shares $m
Analysis of contributed equity						
Ordinary shares issued and fully paid	691.4	2,568.0	691.1	2,566.2	690.9	2,564.5
Employee shares treated as Treasury shares	(2.9)	(20.8)	(4.2)	(31.4)	(2.5)	(19.7)
CPP deferred share purchases treated as Treasury shares	—	—	(3.6)	(22.5)	(3.6)	(22.5)
Total contributed equity	**688.5**	**2,547.2**	**683.3**	**2,512.3**	**684.8**	**2,522.3**
Movements in contributed equity						
Ordinary shares						
Balance at the beginning of the period	691.1	2,566.2	687.6	2,543.5	687.6	2,543.5
Issued under Dividend Reinvestment Plan	0.3	1.8	3.5	22.7	3.3	21.0
Balance at the end of the period	**691.4**	**2,568.0**	**691.1**	**2,566.2**	**690.9**	**2,564.5**
CPP Trust						
Balance at the beginning of the period	4.2	31.3	3.8	30.4	3.8	30.4
Shares purchased (including settled forwards)	6.1	42.1	1.7	11.7	—	—
Vested shares released to employees	(7.4)	(52.6)	(1.3)	(10.8)	(1.3)	(10.7)
Balance at the end of the period	**2.9**	**20.8**	**4.2**	**31.3**	**2.5**	**19.7**
CPP deferred share purchases						
Balance at the beginning of the period	3.6	22.5	—	—	—	—
Deferred Treasury shares purchased (including settled forwards)	(3.6)	(22.5)	3.6	22.5	3.6	22.5
Balance at the end of the period[1]	**—**	**—**	**3.6**	**22.5**	**3.6**	**22.5**

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

Accounting policy

Ordinary shares are classified as equity. Issued capital in respect of ordinary shares is recognised as the fair value of the consideration received by the parent entity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares are ordinary shares in the Company held by the Challenger Performance Plan Trust in respect of equity incentive plan awards to employees.

Components of contributed equity

Ordinary shares

A holder of an ordinary share is entitled to receive dividends and to one vote on a show of hands and on a poll.

Employee shares treated as Treasury shares

Restricted Shares (RS)

A Restricted Share is a beneficial interest in a fully paid ordinary share. RS provide an entitlement to vote and a right to dividends; however, legal ownership of these shares still resides with Challenger, therefore RS are treated as Treasury shares for the basic EPS calculation. After the vesting period, legal ownership transfers to the employee and RS cease to be considered Treasury shares and are included in the dilutive EPS calculation. At 31 December 2024, 2.8 million RS were on issue to employees.

Challenger Performance Plan (CPP) Trust

The CPP Trust is a controlled entity and holds shares in the Company. As a result, the CPP Trust's shareholding in the Company is disclosed as Treasury shares and deducted from equity. Dividends paid from the Company to the CPP Trust are eliminated on consolidation.

From 13 August 2024 to 16 September 2024, Challenger acquired 2.5 million shares on market to place in the CPP Trust. These shares have been acquired to satisfy Performance Share Rights, which vested in September 2024, and any restricted units that are expected to be awarded.

Note 11 Contributed equity continued

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 year.

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.

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 2024 was 1.61 times (30 June 2024: 1.67 times), within the range of 1.3 to 1.7 times. The Common Equity Tier 1 (CET1) ratio was 1.19 times at 31 December 2024 (30 June 2024: 1.23 times).

Funds Management and Other capital

In addition to CLC'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 $250.0 million in place, which provides additional financial flexibility. The facility was undrawn as at 31 December 2024 (30 June 2024: undrawn).

Note 11 Contributed equity continued

Capital management continued

31 December 2024	CLC $m	Other[1] $m	Group $m
Regulatory capital base			
Shareholder equity[2]	3,197.5	650.2	3,847.7
Goodwill and other intangibles	(69.4)	(514.8)	(584.2)
Other adjustments[3]	182.3	(14.1)	168.2
Eligible regulatory debt	1,162.0	—	1,162.0
Total capital base	**4,472.4**	**121.3**	**4,593.7**
Minimum Regulatory Requirement[4]	2,776.9	35.4	2,812.3
Excess over Minimum Regulatory Requirement	**1,695.5**	**85.9**	**1,781.4**
Common Equity Tier 1 (CET1) regulatory capital	3,310.4	—	3,310.4
Additional Tier 1 regulatory capital	735.0	—	735.0
Total Tier 1 regulatory capital	**4,045.4**	**—**	**4,045.4**
Tier 2 regulatory capital[5]	427.0	—	427.0
Other non-regulatory capital	—	121.3	121.3
Total capital base	**4,472.4**	**121.3**	**4,593.7**
CET1 capital ratio (times)[6]	1.19	—	—
Tier 1 capital ratio (times)[7]	1.46	—	—
Minimum Regulatory Requirement ratio (times)[8]	1.61	3.43	1.63

1. Includes Funds Management, Corporate and Life (Non CLC) entities. Funds Management Minimum Regulatory Requirement (MRR) for capital is based on requirements set by ASIC and regulators in other foreign jurisdictions.
2. Balances differ to Note 4 Segment information as regulatory requirements are applicable to individual legal entities.
3. Other adjustments predominantly related to deferred tax asset and intercompany items.
4. Minimum Regulatory Requirement is equivalent to PCA for CLC.
5. CLC represents subordinated debt.
6. CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
7. Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
8. Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

Dividend Reinvestment Plan (DRP)

The Company continued the DRP for the 2024 final dividend, and on 18 September 2024 issued 267,406 ordinary shares to satisfy the plan.

The DRP issue price for the 2024 final dividend was $6.5668 per share and represented the volume weighted-average share price over the 10 trading days from 29 August 2024 to 11 September 2024. The final DRP participation rate was 1.9% of all issued shares.

Notes to the financial statements continued

Note 12 Interest bearing financial liabilities

	30 Jun 2024		Cash flows	Non-cash movements			31 Dec 2024	
	Facility	Opening balance	proceeds/ (payments)	Foreign exchange	Fair value changes	Other	Closing balance	Facility
	$m	$m	$m	$m	$m	$m	$m	$m
Bank loans								
Corporate[1]	400.0	—	—	—	—	—	—	250.0
Controlled property trusts[2,3]	251.8	251.8	(5.3)	26.1	—	0.4	273.0	276.8
Controlled infrastructure trusts[3]	155.8	155.8	(5.1)	—	—	0.1	150.8	150.8
Repurchase agreements	5,323.3	5,323.3	454.5	—	—	—	5,777.8	5,777.8
Total bank loans	**6,130.9**	**5,730.9**	**444.1**	**26.1**	**—**	**0.5**	**6,201.6**	**6,455.4**
Non-bank loans								
Subordinated debt	400.0	418.0	—	—	0.5	—	418.5	400.0
Challenger Capital Notes 3[3]	385.0	382.6	—	—	—	0.7	383.3	385.0
Challenger Capital Notes 4[3]	350.0	344.3	—	—	—	0.6	344.9	350.0
Loan notes – SPV	203.0	203.0	(24.5)	—	—	—	178.5	178.5
Total non-bank loans	**1,338.0**	**1,347.9**	**(24.5)**	**—**	**0.5**	**1.3**	**1,325.2**	**1,313.5**
Total interest bearing financial liabilities	**7,468.9**	**7,078.8**	**419.60**	**26.1**	**0.5**	**1.8**	**7,526.8**	**7,768.9**
Current		5,584.5					5,843.8	
Non-current		1,494.3					1,683.0	
		7,078.8					**7,526.8**	

1. No amounts were drawn from the facility in the period.
2. Total facility limit consists of non-redraw loan facilities limits totalling $276.8 million (30 June 2024: $251.8 million).
3. Held at amortised cost. The fair value of these are: Controlled property trusts $291.9 million (30 June 2024: $264.9 million), Controlled infrastructure trusts $153.5 million (30 June 2024: $166.7 million), Challenger Capital Notes 3 $403.9 million (30 June 2024: $401.6 million), and Challenger Capital Notes 4 $369.3 million (30 June 2024: $361.1 million).

All borrowings and subordinated debt are classified as financial liabilities upon recognition.

For financial liabilities designated as measured at fair value through profit or loss (FVTPL), directly attributable transaction costs are expensed as incurred. Changes in the fair value of these liabilities are recognised in the statement of comprehensive income.

For financial liabilities not designated at FVTPL, which are all interest bearing liabilities other than CLC's subordinated debt, subsequent measurement is at amortised cost. These liabilities are initially recognised at fair value, adjusted for any directly attributable transaction costs. The difference between the initial proceeds (net of transaction costs) and the redemption amount is amortised over the life of the liability using the effective interest rate method, with the amortisation recognized in the Statement of Comprehensive Income.

Repurchase agreements are all short term in nature, and are therefore valued at amortised cost which approximates fair value.

Bank loans

Bank loans	Type	Maturity	Rate type	Ranking/security
Corporate	Facility	Tranche 1: $100 million expiring on 30 June 2027 Tranche 2: $150 million expiring on 30 June 2029	Variable	Security by guarantees between members of the Group
Controlled property trusts[1]	Loan	31 October 2029	Variable	First ranking mortgages over Japanese investment properties
Controlled infrastructure trusts[2]	Facility	1 December 2035	Variable	First ranking mortgages over infrastructure assets

1. Controlled property trusts consists of a loan facility for Japanese investment properties has been extended for a further five years with a maturity date October 2029. This loan is held at amortised cost. The fair value of these liabilities at 31 December 2024 was $291.9 million (30 June 2024: $264.9 million).
2. Controlled infrastructure trusts relates to a loan facility for Oaklands Hill Wind Farm. This loan is held at amortised cost. The fair value of this liability at 31 December 2024 is $153.5 million (30 June 2024: $166.7 million).

Corporate

Challenger holds a Group corporate debt facility provided by a major Australian bank that aims to enhance the Group's financial flexibility. Effective 23 July 2024, the facility limit was reduced from $400.0 million to $250.0 million.

Note 12 Interest bearing financial liabilities continued

Repurchase agreements

CLC has entered into repurchase agreements with certain counterparties whereby fixed income securities are sold for cash whilst 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 2024 are current and all mature by February 2025. They will continue to be rolled into new agreements in the future.

Non-bank loans

Subordinated debt

In September 2022, CLC issued $400 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.

Subordinated debt is recognised at fair value and is valued by reference to the 'ask' price observable in the market at balance date.

The change recognised in the Statement of comprehensive income in respect of valuation changes for the period ended 31 December 2024 was a loss of $0.5 million (31 December 2023: loss of $16.1 million).

Challenger Capital Notes – 3 and 4

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

	Notes 3	Notes 4
Issue date	25 November 2020	5 April 2023
Issue amount	$385 million	$350 million
Outstanding amount	$385 million	$350 million
Optional Exchange Date	25 May 2026	25 May 2029 25 Aug 2029 25 Nov 2029 25 Feb 2030
Mandatory conversion	25 May 2028	25 Feb 2032

Note 13 Dividends paid and proposed

Dividends proposed	Amount per share Cents	Total amount $m
For the period ended 31 December 2024		
Interim dividend determined in respect of the period ended 31 December 2024	14.5	100.3
Dividends declared and paid		
Final dividend determined in respect of the year ended 30 June 2024	13.5	92.9

Dividend franking credits

Franking credits available to shareholders are $187.6 million (30 June 2024: $233.8 million), based on a tax rate of 30%. The amount is calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking debits that will arise from the refund of FY24 income tax and from the settlement of accrued interest on Challenger Capital Notes 3 and 4.

The impact of the proposed dividend will be to reduce the balance of the franking account by $43.0 million. All dividends are franked at a tax rate of 30%.

Note 14 Earnings per share

	31 Dec 2024 cents	31 Dec 2023 cents
Earnings per share:		
Basic earnings per share	10.5	8.2
Diluted earnings per share	10.3	8.1
	$m	**$m**
Profit attributable to ordinary shareholders	72.2	56.3
Total earnings used in the calculation of basic and diluted earnings per share	**72.2**	**56.3**
Number of shares	**Number**	**Number**
Weighted average of ordinary shares issued	691,280,881	689,436,621
Weighted average of Treasury shares	(4,552,980)	(5,132,646)
Weighted average ordinary shares for basic earnings per share	**686,727,901**	**684,303,975**
Adjusted for potential ordinary shares:		
Weighted average effect of Challenger Performance Plan	16,482,091	13,973,526
Weighted average ordinary shares for diluted earnings per share	**703,209,992**	**698,277,501**

Accounting policy

Basic earnings per share

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.

Convertible debt

Challenger's capital notes and subordinated debt have features that would result in these instruments converting to ordinary shares under certain circumstances, including APRA determining CLC to be non-viable. Further information on the accounting treatment can be found in Note 12.

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

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.

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

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

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

1. Unadjusted quoted prices in active markets are the valuation inputs for identical assets or liabilities (i.e. listed securities).
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.
3. There are valuation inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Valuation techniques

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

Fixed income securities where market observable inputs are not available are classified as Level 3. The Group's derivative financial instruments are traded over the counter so, while they are not exchange traded, there is a market observable price. All of the listed fixed income securities have prices determined by a market.

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 (classified as Level 3).

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.

Challenger Capital Notes 3 and 4 have carrying values (inclusive of unamortised issue costs) of $383.3 million and $344.9 million. The fair value of these notes is $403.9 million and $369.3 million 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 CLC Valuation Committee, which generally meets monthly, or more frequently if required.

All financial instruments and investment properties carried at fair value are measured on a recurring basis. Refer Note 7 Investment property for further details on the valuation process applied to unlisted financial instruments and investment properties.

Note 15 Fair values of investment assets and liabilities continued

Valuation process continued

The table below 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.

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
31 December 2024				
Derivative assets	—	674.7	—	674.7
Fixed income securities[1]	—	19,615.1	2,528.1	22,143.2
Equity and debt securities	918.7	3,696.8	449.0	5,064.4
Infrastructure investments	—	—	258.3	258.3
Hedged commodities	258.1	—	—	258.1
Property securities	—	—	135.0	135.0
Investment property	—	11.1	2,828.0	2,839.1
Total assets	**1,176.8**	**23,997.7**	**6,198.4**	**31,372.8**
Derivative liabilities	—	1,018.5	—	1,018.5
Interest bearing financial liabilities[2]	773.2	418.5	—	1,191.7
External unit holders' liabilities	—	4,812.6	—	4,812.6
Life investment contract liabilities	—	37.9	10,107.5	10,145.4
Total liabilities	**773.2**	**6,287.5**	**10,107.5**	**17,168.2**
30 June 2024				
Derivative assets	—	583.1	—	583.1
Fixed income securities[1]	—	20,527.8	1,979.3	22,507.1
Equity and debt securities	20.7	3,355.1	387.2	3,762.9
Infrastructure investments	—	—	264.2	264.2
Hedged commodities	550.9	—	—	550.9
Property securities	—	—	100.3	100.3
Investment property	—	126.6	2,799.7	2,926.3
Total assets	**571.6**	**24,592.6**	**5,530.7**	**30,694.8**
Derivative liabilities	—	566.8	—	566.8
Interest bearing financial liabilities[2]	762.7	418.0	—	1,180.7
External unit holders' liabilities	—	5,356.3	—	5,356.3
Life investment contract liabilities	—	39.3	9,854.4	9,893.7
Total liabilities	**762.7**	**6,380.4**	**9,854.4**	**16,997.5**
31 December 2023				
Derivative assets	—	896.9	—	896.9
Fixed income securities[1]	—	19,710.0	1,928.9	21,638.9
Equity and debt securities	31.8	3,064.3	309.6	3,405.7
Infrastructure investments	—	—	274.2	274.2
Hedged commodities	533.2	—	—	533.2
Property securities	—	—	90.1	90.1
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[2]	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**

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 2024, the carrying value of asset-backed financing assets was $207.9 million (30 June 2024: $204.2 million) with no undrawn commitments, and securitisations were $8,370.7 million (30 June 2024: $9,744.1 million), with no undrawn commitments.
2. 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 Dec 2024					
Fixed income securities	2,528.1	19.9	(22.3)	Discounted cash flow	Primarily credit spreads
Equity and debt securities	449.0	25.4	(26.2)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	258.3	3.7	(3.8)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	135.0	6.8	(6.8)	External financial report	5% change in valuation
Investment property	2,828.0	99.3	(89.3)	Market capitalisation, discounted cash flow	Primarily capitalisation rate
Life investment contract liabilities	(10,107.5)	7.7	(7.7)	Discounted cash flow	Primarily expense assumptions
Total Level 3	**(3,909.1)**				
30 Jun 2024					
Fixed income securities	1,979.3	13.8	(27.7)	Discounted cash flow	Primarily credit spreads
Equity and debt securities	387.2	19.9	(20.8)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	264.2	3.7	(3.8)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	100.3	5.0	(5.0)	External financial report	5% change in valuation
Investment property	2,799.7	108.4	(92.0)	Market capitalisation, discounted cash flow	Primarily capitalisation rate
Life investment contract liabilities	(9,854.4)	6.9	(6.9)	Discounted cash flow	Primarily expense assumptions
Total Level 3	**(4,323.7)**				
31 Dec 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 property	3,168.9	124.7	(73.6)	Market capitalisation, discounted cash flow	Primarily capitalisation rate
Life investment contract liabilities	(9,722.9)	8.2	(8.2)	Discounted cash flow	Primarily expense assumptions
Total Level 3	**(3,951.2)**				

1. The fair value of the asset or liability would increase/decrease if the credit spread or discount rate decreases/increases or if expense assumptions and the other inputs increase/decrease.
2. Specific asset valuations will vary from asset to asset as each individual industry profile will determine appropriate valuation inputs to be utilised.
3. The effect of a change to reflect a reasonably possible alternative assumption was calculated by moving the credit band by one tier, adjusting the discount rates by between 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 period ended 31 December 2024.

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 2024		30 Jun 2024		31 Dec 2023	
	Assets $m	Liabilities $m	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Balance at the beginning of the period	5,530.7	9,854.4	5,737.5	9,817.8	5,737.5	9,817.8
Fair value movements	(583.7)	421.5	(380.5)	388.3	(144.0)	267.6
Acquisitions	6,368.7	2,594.2	8,256.3	4,155.7	2,020.7	2,467.8
Maturities and disposals	(5,115.3)	(2,762.6)	(7,965.6)	(4,507.4)	(1,818.8)	(2,830.3)
Transfers to other categories[1,2]	(6.1)	—	(117.0)	—	—	—
Balance at the end of the period	**6,194.3**	**10,107.5**	**5,530.7**	**9,854.4**	**5,795.4**	**9,722.9**
Unrealised losses included in the Statement of comprehensive income for assets and liabilities held at the Statement of financial position date	(584.6)	(421.5)	(380.5)	(388.3)	(144.0)	(267.6)

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 $4.1 million of transfers into Level 3 (30 June 2024: $19 million) and there was $10.2 million (30 June 2024: $136 million) transfers out of Level 3 and into Level 2 during the reporting period.

Note 16 Contingent liabilities, contingent assets and credit commitments

Warranties

Over the course of its corporate activity, the Group has given, as a seller of companies, and as a vendor of assets, including real estate properties, warranties to purchasers on several agreements that were still outstanding as at 31 December 2024. 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 2024, there are potential future commitments totalling $1,758.9 million (30 June 2024: $1,359.0 million) in relation to these opportunities.

The Group has made capital commitments to associates to subscribe for up to $6.7 million (30 June 2024: $7.2 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 17 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 2024 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 2024.

On behalf of the Board

D West
Independent Chair

17 February 2025

N Hamilton
Managing Director and Chief Executive Officer

17 February 2025

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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 2024, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, explanatory notes 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 2024 and of its consolidated financial performance for the half-year ended on that date; and
b) complying with Accounting Standard AASB 134 ***Interim Financial Reporting*** and the ***Corporations Regulations 2001***.

Basis for Conclusion

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

Directors' Responsibility for the Half-Year Financial Report

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

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

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2024 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

Louise Burns
Partner
Sydney
17 February 2025

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

Company secretary
Linda Matthews

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Go electronic

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

Online digital version of this report

The 2025 Interim Report is available at:

> challenger.com.au/interimreport2025

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