# Market Release

05 November 2025

# APRA's proposed capital standards – market update

**Challenger Limited (ASX:CGF)** today is holding its analyst and investor briefing on APRA's proposed capital standards, beginning at 9.30am (Sydney time).

The briefing will be held online via a webcast that can be accessed at the following link.

A copy of the presentation that will be delivered today is attached.

ENDS

This release has been authorised by Challenger's Continuous Disclosure Committee.

## About Challenger

Challenger Limited (Challenger) is an investment management firm focused on providing customers with financial security for a better retirement.

Challenger operates a fiduciary Funds Management division and an APRA-regulated Life division. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

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# APRA’s proposed capital standards – market update

Nick Hamilton – Managing Director & Chief Executive Officer

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Anton Kapel – Chief Executive, Insurance

5 NOVEMBER 2025

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# Acknowledgement of country

Challenger acknowledges the Traditional Owners of Country throughout Australia and we pay our respects to Elders past and present. We recognise the continuing connection that Aboriginal and Torres Strait Islander peoples have to this land and acknowledge their unique and rich contribution to society.

# Strategy delivering a business ready for the future

## Business model supporting sustainable long-term growth

| | 1 FINANCIAL STRENGTH | 2 SIMPLIFICATION | 3 GROWTH |
|---|---|---|---|
| PAST 3-YEARS | Capital strength & flexibility<br>ROE target & investing for growth | Simpler, contemporary business<br>Aligned to achieve strategic goals | Sales remix improving book quality<br>Customer & partner focus delivering |
| FUTURE | Lower capital intensity with more stable spread-based earnings | Scalable operating model | Integrated industry partnerships delivering retirement solutions at scale |
| FUTURE | Implement new capital standards | Investment excellence including asset origination | Retirement innovation & great customer experience |

# APRA's objectives

## Creating the settings for a more innovative and competitive retirement income market
## Significant benefit to retirees

### APRA OBJECTIVES

1 Ensuring capital requirements for life insurers are not a disincentive to the development and competitive pricing of annuity products

2 Maintaining the financial resilience of life insurers

3 Improving alignment with comparable peer jurisdictions

### POTENTIAL BENEFITS

**Improved customer outcomes**

**Capital resilience**

**Excess capital to create strategic optionality**

**Platform for growth**

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# APRA's proposed capital standard changes

## Principles-based approach to the illiquidity premium

| | CURRENT STANDARDS | PROPOSED STANDARDS |
|---|---|---|
| **Illiquidity premium (ILP) formula** | Standard ILP = 33% x (A-rated yield 3-year – CGS[1] yield 3-year) | Advanced ILP = Spread on ILP reference portfolio less Risk allowance (greater of either cost of default and downgrades or 45% of long-term average spread) |
| **Benchmark / reference portfolio** | 3-year Australian A-rated spreads | Single reference index or weighted average of up to 3 indices[2] |
| **Long-term rate implementation** | 10-years | Last point insurer can achieve cashflow matching |
| **Long-term (ultimate) rate** | 20 bps | Subject to a cap of 50 bps |
| **Cap** | 150 bps | No cap during cashflow matching period |
| **Asset Risk Charge – Credit Spread Stress (LPS 114 change)** | 30 bps increase in ILP in first 10 years | Portion of the increase in ILP to flow through to credit spread stress charge in LPS 114 |
| **Cashflow matching requirement** | Not applicable | Cumulative cashflow test with Appointed Actuary attestation |

1. Commonwealth Government Securities.
2. Can include international indices. Must be corporate or government bond index rated by APRA-recognised rating agencies, calculated by independent provider, published daily.



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# Capital resilience

## Capital position is significantly more resilient to market shocks under proposed standards
## Risk of management actions needing to be taken is materially reduced

### ILLUSTRATIVE EXAMPLE OF HOW CAPITAL POSITION RESPONDS TO A MARKET STRESS EVENT[1,2]

| | REFERENCE | CURRENT STANDARDS | PROPOSED STANDARDS |
|---|---|---|---|
| **30 June 2025** | | | |
| Regulatory capital base | *A* | $4.5b | $4.5b |
| Prescribed Capital Amount (PCA) | *B* | $2.8b | $2.6b |
| **PCA ratio[3]** | ***A / B*** | **1.60x** | **1.77x** |
| **Impact of instantaneous shock (no management actions)** | | | |
| *Change in Capital Base (Asset Impact)* | *C* | *-$1.3b* | *-$1.3b* |
| *Change in Capital Base (Liability Impact)* | *D* | *+$0.1b* | *+$1.0b* |
| *Change in PCA* | *E* | *-$0.2b* | *-$0.2b* |
| Regulatory capital base | *F = A + C + D* | $3.3b | $4.2b |
| PCA | *G = B + E* | $2.6b | $2.4b |
| **PCA ratio[3]** | ***F / G*** | **1.28x** | **1.74x** |
| **Change in PCA ratio** | | **(0.32x)** | **(0.03x)** |
| **Management actions** | | | |
| De-risking | | Required | ✓ Not required |
| Impact of market recovery | | Profit foregone | ✓ Full benefit |

1. Refer to Appendix A for assumptions.
2. Stress event is assumed to occur before any asset allocation changes are made in response to the proposed capital standard changes.
3. The PCA ratio represents total Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount.

# Impact upon implementation of proposed standards

## Credit spread environment drives quantum of impact

### PCA RATIO – CURRENT STANDARDS

1.60x

PCA Ratio
30 June 2025

### PRO FORMA PCA RATIO – PROPOSED STANDARDS[1]

Current tight spread environment

1.77x

Pro forma PCA Ratio
30 June 2025

**CLC total regulatory capital**

CET1 stable as Standard ILP approach applies due to tight credit spread environment and risk allowance floor of 45%

**PCA requirement**

Lower Asset Risk Charge driven by increase in liability offset within credit spread stress charge

If spreads matched long-term average spreads

1.83x

Pro forma PCA Ratio
30 June 2025

**CLC total regulatory capital**

CET1 would increase in a normalised credit spread environment as Advanced ILP approach would apply

**PCA requirement**

Lower Asset Risk Charge driven by increase in liability offset within credit spread stress charge



1. Refer to Appendix B for modelling assumptions used.

# Excess capital to create strategic optionality

## Excess capital comprises both CET1 and AT1/T2

### ILLUSTRATIVE IMPACTS OF PROPOSED STANDARDS

| | CURRENT STANDARDS | PROPOSED STANDARDS |
|---|---|---|
| **30 June 2025** | | |
| Regulatory capital base | $4.5b | $4.5b |
| PCA | $2.8b | $2.6b |
| PCA ratio | 1.60x | 1.77x |
| **Illustrative impact of reverting to 1.60x** | | |
| Regulatory capital base | | $4.1b |
| Potential excess CET1 | | ~$0.3b |
| Potential excess AT1/T2 | | ~$0.1b |

- Further work needed to confirm impact of changes on target PCA range
- Assuming no change in target PCA range, ~3/4 of Capital Base benefit would arise as excess CET1 (with the balance being excess AT1/T2)



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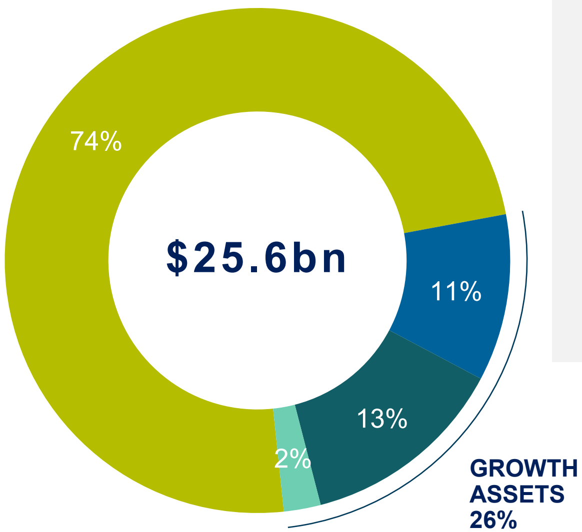
# Platform for growth

## Greater investment in fixed income over time to reduce capital intensity
## Positioned for growth in longer duration annuity products

### LIFE INVESTMENT ASSETS – 30 JUNE 2025

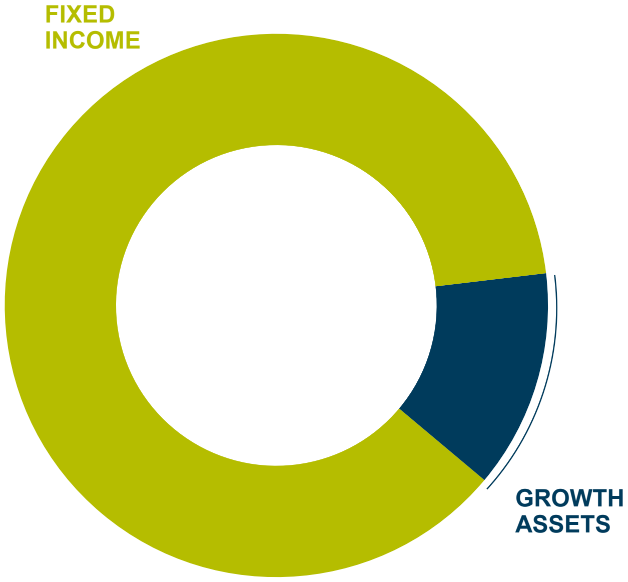



| | Capital intensity |
|---|---|
| Fixed income | 3% - 12% |
| Property | 25% - 30% |
| Alternatives | 25% - 30% |
| Equity and infrastructure | 30% - 40% |
| **Challenger Life** | **11.1%** |

**Book growth to be backed by fixed income**

**Changes to existing portfolio over time**

### LIFE INVESTMENT ASSETS –1 JULY 2026 ONWARDS




- ↑ Fixed income assets
- ↓ Growth assets
- ↓ Capital intensity
- ↓ Capital volatility
- ↓ Earnings volatility

# Next steps

## Structured approach to internal planning and implementation

- Respond to **APRA's consultation**
- Undertake further **detailed strategic assessment of the changes**
- Conduct **actuarial governance, risk appetite and capital management review**
- Assess **operational readiness and reporting requirements**
- Review **investment strategy and forward-looking impacts on asset portfolio**
- **FY27 scenario modelling and business planning** to include a review of the normalised reporting framework and guidance metrics

# Appendix

# Appendix A - Assumptions

## Capital resilience illustrative example

| Item | Comment |
|---|---|
| **Asset Portfolio** | No changes to actual asset portfolio at 30 June 2025 (including no allowance for any potential return of capital) |
| **Capital Standards** | Aligned to Draft Standards<br>Assumed that criteria to apply Advanced Illiquidity Premium are satisfied<br>***Note:*** to satisfy Cash Flow Matching criteria, small modifications to asset portfolio may be required |
| **Choice of Reference Index** | Bloomberg US Corporate Statistics Index (LUACSTAT) |
| **Market Shock Parameters** | Aligned to 1-month market performance from 24/02/2020 to 23/03/2020 |
| IG spreads (A/BBB) | +250bps |
| HY spreads | +600bps |
| Equity | -35% |
| Property | -7% |
| Absolute Return Funds | -3% |



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# Appendix B - Assumptions

## Assumed application of draft capital standards as at 30 June 2025

| Item | Comment |
|---|---|
| **Standard Illiquidity Premium** | Illiquidity Premium: 0.29% (Yrs 0-10); 0.20% (Yr 10+) |
| **Advanced Illiquidity Premium** | |
| Reference Index | Bloomberg US Corporate Statistics Index (LUACSTAT)<br>Credit spread = 0.83% |
| Risk Allowance | Long-term LUACSTAT spread = 1.29% (based on year 1990 onwards)<br>Risk allowance = 45% x 1.29% = 0.58% |
| Illiquidity Premium | 0.83% - 0.58% = 0.25% (subject to a floor of the Standard Illiquidity Premium)<br>Standard Illiquidity Premium dominates over the first 10 years, with Advanced Illiquidity Premium dominating beyond that point |
| **Long-term illiquidity premium implementation period** | Maximum cashflow matching term = 30 years<br>Advanced Illiquidity Premium cap of 0.50% after 30 years does not apply at 30 June 2025 |
| **Asset Risk Charge (LPS 114)** | Calculation based on the credit ratings of index constituents<br>Average credit spread increase of index = 1.37%<br>Credit spread increase with LPS 114 Adjustment Factors = 0.81% |
| **Products included** | All illiquid products including lifetime and fixed term annuities |

# IMPORTANT NOTE

The material in this presentation is general background information about Challenger Limited group's activities and is current at the date of this presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Challenger also provides statutory reporting as prescribed under the Corporations Act 2001.

The 2025 Annual Report is available from Challenger's website at www.challenger.com.au/about-us/shareholder-centre.

This presentation is not audited, and any financial information in this presentation which is not included in the Challenger Limited 2025 Annual Report has not been subject to independent review by Challenger's external auditors, Ernst & Young.

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