

challenger 

Analyst Pack  
**1H25**



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## 2025 Interim Financial Report

can be downloaded from  
Challenger's online  
Shareholder Centre

> [challenger.com.au/about-us/  
shareholder-centre](https://challenger.com.au/about-us/shareholder-centre)

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Challenger Limited ACN 106 842 371

**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.**

### Important note

Information presented in the 1H25 Analyst Pack is presented on an operational (rather than statutory) basis to reflect a management view of the business.

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

The 2025 Interim Financial Report is available from Challenger's shareholder centre at: [www.challenger.com.au/about-us/shareholder-centre](https://www.challenger.com.au/about-us/shareholder-centre).

The 1H25 Analyst Pack is not audited. The statutory net profit after tax as disclosed in the consolidated profit and loss (page 9) has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*.

Normalised net profit after tax, as disclosed in the consolidated profit and loss (page 9), has been prepared in accordance with a normalised profit framework, which is disclosed in Note 4 Segment Information of the 2025 Interim Financial Report, and subject to a review performed by Ernst & Young.

The 2025 Interim Financial Report has been subject to a review performed by Ernst & Young.

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

Past performance is not an indicator of future performance.

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

# 1H25 financial highlights<sup>1</sup>

## Group

Normalised net profit after tax \$225m, up 12%

Statutory net profit after tax \$72m, up 28%

Normalised earnings per share 32.8 cents per share, up 12%

Statutory earnings per share 10.5 cents per share, up 28%

Normalised Return On Equity (post-tax) 11.6%, up 120 bps

Statutory Return On Equity (post-tax) 3.7%, up 80 bps

Normalised cost to income ratio 32.0%, down 260 bps

Group assets under management \$131.4b, up 3%<sup>2</sup>

Interim dividend 14.5 cents per share (fully franked), up 12%

Normalised dividend payout ratio 44.2%

## Life

Normalised net profit after tax \$225m, up 7%

Normalised Return On Equity (post-tax) 13.0%, up 50 bps

Normalised Cash Operating Earnings (COE) \$386m, up 7%

COE margin 3.11%, up 7 bps

Total Life sales \$4.6b, down 12%

Annuity sales \$2.9b, down 13%

Annuity net book growth \$149m, or 1.0% growth on opening liabilities

Total Life net book growth -\$347m, or 1.7% reduction on opening liabilities

Average investment assets \$24.6b, unchanged<sup>2</sup>

Investment assets \$24.6b, unchanged<sup>2</sup>

Prescribed Capital Amount (PCA) ratio 1.61 times, down from 1.67 times<sup>2</sup>

Common Equity Tier 1 (CET1) ratio 1.19 times, down from 1.23 times<sup>2</sup>

Capital intensity 11.3%, up from 10.8%<sup>2</sup>

## Funds Management

Normalised net profit after tax \$27m, up 37%

Return On Equity (post-tax) 17.8%, up 530 bps

Net outflows of \$3.1b, down from net flows of \$4.5b<sup>2</sup>

Average Funds Under Management (FUM) \$119.8b, up 7%<sup>2</sup>

Closing FUM \$121.0b, up 3%<sup>2</sup>

<sup>1</sup> All percentage movements compare 1H25 to the prior corresponding period 31 December 2023 (1H24) unless otherwise stated.

<sup>2</sup> Comparison period refers to 30 June 2024 (2H24).

## Business and market overview

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

Challenger's Life and Funds Management businesses will benefit from long-term growth in Australia's superannuation system and demand for retirement income.

Australia's compulsory superannuation system commenced in 1992 and is now the fourth largest pension system globally<sup>1</sup> and one of the fastest growing, with assets increasing by an average of 10% per annum over the past 20 years<sup>2</sup>.

Australia's superannuation system is forecast to grow from \$4.0 trillion today<sup>3</sup> to over \$11 trillion<sup>4</sup> in the next 20 years, making it one of the world's fastest growing pension markets.

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

Growth in the retirement phase is also supported by ageing demographics and the Government's focus on enhancing the retirement phase of superannuation. Australian life expectancy is the fourth highest in the OECD<sup>5</sup>, with the average time spent in retirement approximately 24 years<sup>6</sup>.

### Life

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<sup>7</sup> 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<sup>8</sup> and was awarded Money Magazine's 'Longevity Cover Excellence Award'<sup>9</sup> in 2024<sup>9</sup>.

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<sup>10</sup>. 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<sup>11</sup> 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<sup>12</sup>. 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. Refer to page 31 for more detail on retirement income regulatory reforms.

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 administrative 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

<sup>1</sup> Thinking Ahead Institute Global Pension Assets Study 2024, as a percentage of GDP.

<sup>2</sup> APRA Annual Superannuation Bulletin.

<sup>3</sup> The Australian Prudential Regulation Authority (APRA), as at September 2024.

<sup>4</sup> Deloitte Superannuation Market Projections Report 2023.

<sup>5</sup> OECD, Life expectancy at birth 2022.

<sup>6</sup> Challenger Retirement Income Research 2022, based on ABS data age at death.

<sup>7</sup> The word 'guaranteed' means payments are guaranteed by Challenger Life Company Limited (CLC) from assets of either its relevant statutory fund or shareholder fund.

<sup>8</sup> Plan For Life – September 2024 – based on annuities under administration.

<sup>9</sup> 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.

<sup>10</sup> Treasury modelling, Retirement phase of superannuation, Discussion Paper, December 2023.

<sup>11</sup> Based on Taxation Statistics 2021-22 from Australian Taxation Office.

<sup>12</sup> *Superannuation (Objective) Act 2024* s5(1).

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.

Refer to page 30 for more detail on the MS Primary and MS&AD relationship.

## Funds Management

Funds Management focuses on wealth accumulation, predominantly in the pre-retirement phase of superannuation, through supporting customers 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<sup>13</sup> 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.

<sup>13</sup> Calculated from Rainmaker Roundup, September 2024 data.

# Purpose, corporate strategy and values

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



### Investment excellence

Superior outcomes and financial resilience



### Talented team and capability

Outstanding skills and ways of working



- ▶ 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

- ▶ 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

- ▶ 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

We do things the right way

### Aim high

We deliver outstanding results

### Collaborate

We work together to achieve shared goals

### Think customer

We make decisions with our end customers front of mind



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

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# 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<sup>1</sup>.

In 1H25, Challenger was awarded Money Magazine's 'Longevity Cover Excellence Award' for 2024<sup>2</sup>.

### 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 duration 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<sup>3</sup> 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. Refer to page 31 for more information on retirement income regulatory reforms.

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.

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

<sup>2</sup> 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.

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

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, a sport of choice for those aged 45 and over, which is Challenger's target market.

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<sup>4</sup>. 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<sup>5</sup>.

#### 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.

<sup>4</sup> As at 31 December 2024. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

<sup>5</sup> As at 31 December 2024.

### 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

	1H25	2H24	1H24	2H23	1H23	2H22	1H22
<b>Earnings</b>							
Normalised NPBT <sup>1</sup> (\$m)	326.1	317.8	290.3	270.3	250.4	234.8	237.5
Normalised NPAT <sup>1</sup> (\$m)	225.2	215.9	200.7	196.8	167.2	155.9	165.6
Statutory NPAT <sup>2</sup> (\$m)	72.2	73.6	56.3	140.2	31.2	(28.4)	282.1
Underlying operating cash flow (\$m)	231.2	278.1	120.6	295.2	37.3	36.5	108.8
Normalised cost to income ratio <sup>1</sup> (%)	32.0%	33.1%	34.6%	36.9%	38.5%	39.3%	38.1%
Normalised effective tax rate <sup>1</sup> (%)	30.9%	32.1%	30.9%	27.2%	33.2%	33.6%	30.3%
<b>Earnings per share (cents)</b>							
Basic – normalised <sup>1</sup>	32.8	31.6	29.3	28.8	24.5	23.1	24.5
Basic – statutory <sup>2</sup>	10.5	10.8	8.2	20.4	4.6	(4.2)	41.8
Diluted – normalised <sup>1</sup>	29.3	28.9	26.7	25.2	22.3	19.9	20.7
Diluted – statutory <sup>2</sup>	10.3	10.4	8.1	20.1	4.5	(4.2)	33.9
<b>Return On Equity (%)</b>							
Normalised ROE – pre-tax <sup>1</sup>	16.8%	16.1%	15.0%	13.1%	12.3%	11.7%	12.1%
Normalised ROE – post-tax <sup>1</sup>	11.6%	10.8%	10.4%	9.6%	8.2%	7.8%	8.4%
Statutory ROE – post-tax <sup>2</sup>	3.7%	3.7%	2.9%	6.8%	1.5%	(1.4%)	14.3%
<b>Capital management</b>							
Net assets – average <sup>3</sup> (\$m)	3,849	4,009	3,904	4,151	4,025	4,048	3,904
Net assets – closing (\$m)	3,848	3,885	3,904	4,164	4,048	3,988	4,059
Net assets per basic share (\$)	5.59	5.69	5.70	6.09	5.94	5.86	6.00
Net tangible assets (\$m)	3,249	3,281	3,296	3,553	3,433	3,372	3,420
Net tangible assets per basic share (\$)	4.72	4.80	4.81	5.20	5.03	4.96	5.06
Dividend – fully franked (cps)	14.5	13.5	13.0	12.0	12.0	11.5	11.5
Normalised dividend payout ratio <sup>1</sup> (%)	44.2%	42.7%	44.4%	41.7%	49.0%	49.8%	46.9%
PCA Capital ratio (times)	1.61	1.67	1.50	1.59	1.59	1.60	1.69
CET1 Capital ratio (times)	1.19	1.23	1.10	1.16	1.12	1.11	1.20
<b>Sales, net flows and assets under management</b>							
Life annuity sales (\$m)	2,871.1	1,890.2	3,295.3	1,973.4	3,543.9	2,606.4	2,516.3
Index Plus sales (\$m)	1,754.3	1,990.8	1,958.3	2,294.2	1,935.1	2,156.6	2,426.8
Total Life sales (\$m)	4,625.4	3,881.0	5,253.6	4,267.6	5,479.0	4,763.0	4,943.1
Life annuity net flows (\$m)	149.4	270.9	508.0	(416.9)	802.0	466.5	607.7
Life annuity book (\$m)	15,728	15,279	15,035	13,930	14,278	13,595	14,093
Life annuity book growth (%)	1.0%	1.9%	3.6%	(3.1%)	5.9%	3.5%	4.4%
Total Life net flows (\$m)	(346.7)	378.5	328.0	(49.1)	984.9	1,025.9	1,446.0
Total Life book (\$m) <sup>4</sup>	20,540	20,635	20,142	19,199	18,899	17,982	18,474
Total Life book growth (%) <sup>4</sup>	(1.7%)	1.9%	1.7%	(0.3%)	5.5%	5.9%	8.4%
Funds Management – net flows (\$m)	(3,108.4)	4,477.3	5,602.5	1,353.9	(1,826.2)	(9,429.2)	904.4
Total Group AUM (\$m)	131,436	127,122	117,125	104,952	99,393	98,570	114,907
<b>Other</b>							
Closing Total Full Time Equivalents (FTEs) <sup>5</sup>	566	693	780	841	786	787	750
Weighted average number of basic shares on issue <sup>6</sup> (m)	686.7	684.9	684.3	683.1	681.1	676.9	674.6
Number of basic shares on issue <sup>6</sup> (m)	688.5	683.3	684.8	683.8	682.0	680.0	676.0
Share price closing (\$)	6.01	7.01	6.49	6.48	7.62	6.84	6.53

<sup>1</sup> Normalised metrics exclude Discontinued Operations (Bank) from 1H24, including Normalised profit before tax, Normalised profit after tax, Normalised EPS, Normalised cost to income ratio, Normalised tax rate, Normalised ROE and Total Group AUM. Prior periods are not restated to exclude Discontinued Operations (Bank)

<sup>2</sup> Statutory metrics for Profit and Loss and the Balance Sheet includes the application impact of AASB 17 from 1H24.

<sup>3</sup> Net assets – average calculated on a monthly basis.

<sup>4</sup> Total Life book includes the Life annuity book and Challenger Index Plus liabilities.

<sup>5</sup> Full Time Equivalents includes employees on extended leave. 19 employees were on extended leave in 1H25. Prior periods also include employees on extended leave.

<sup>6</sup> Excludes Challenger Performance Plan (CPP) Trust Treasury shares.

Consolidated profit and loss<sup>1</sup>

\$m	1H25	2H24	1H24	2H23	1H23	2H22	1H22
Life Normalised Cash Operating Earnings	386.1	390.7	359.7	335.7	317.3	295.4	287.4
Funds Management net fee income	95.1	86.5	87.4	90.9	87.9	93.6	98.2
Bank net interest income	—	—	—	4.1	4.7	1.4	0.9
Other income	0.4	2.2	0.1	1.0	0.6	—	—
<b>Total net income</b>	<b>481.6</b>	<b>479.4</b>	<b>447.2</b>	<b>431.7</b>	<b>410.5</b>	<b>390.4</b>	<b>386.5</b>
Personnel expenses	(86.1)	(90.9)	(91.8)	(94.9)	(107.0)	(103.4)	(101.1)
Other expenses	(66.8)	(68.0)	(62.8)	(64.5)	(51.1)	(50.0)	(46.0)
Transition expenses <sup>2</sup>	(1.3)	—	—	—	—	—	—
<b>Total expenses</b>	<b>(154.2)</b>	<b>(158.9)</b>	<b>(154.6)</b>	<b>(159.4)</b>	<b>(158.1)</b>	<b>(153.4)</b>	<b>(147.1)</b>
<b>Normalised EBIT</b>	<b>327.4</b>	<b>320.5</b>	<b>292.6</b>	<b>272.3</b>	<b>252.4</b>	<b>237.0</b>	<b>239.4</b>
Interest and borrowing costs	(1.3)	(2.7)	(2.3)	(2.0)	(2.0)	(2.2)	(1.9)
<b>Normalised net profit before tax</b>	<b>326.1</b>	<b>317.8</b>	<b>290.3</b>	<b>270.3</b>	<b>250.4</b>	<b>234.8</b>	<b>237.5</b>
Normalised tax	(100.9)	(101.9)	(89.6)	(73.5)	(83.2)	(78.9)	(71.9)
<b>Normalised net profit after tax</b>	<b>225.2</b>	<b>215.9</b>	<b>200.7</b>	<b>196.8</b>	<b>167.2</b>	<b>155.9</b>	<b>165.6</b>
Asset experience after tax	(96.0)	4.0	(93.2)	(32.4)	(57.7)	(258.5)	75.0
Liability experience after tax	(52.8)	(142.4)	(52.0)	7.0	15.3	68.2	34.1
Application impact of AASB 17 after tax	—	—	—	(24.6)	(91.5)	—	—
Significant items after tax <sup>3</sup>	(4.2)	(3.8)	4.3	(7.3)	—	6.9	7.4
Bank impairments after tax	—	—	—	0.7	(2.1)	(0.9)	—
Discontinued operations (Bank) after tax	—	(0.1)	(3.5)	—	—	—	—
<b>Statutory net profit after tax</b>	<b>72.2</b>	<b>73.6</b>	<b>56.3</b>	<b>140.2</b>	<b>31.2</b>	<b>(28.4)</b>	<b>282.1</b>
<b>Performance analysis</b>							
Normalised EPS – basic (cents)	32.8	31.6	29.3	28.8	24.5	23.1	24.5
Shares for basic EPS calculation (m)	686.7	684.9	684.3	683.1	681.1	676.9	674.6
Normalised cost to income ratio (%)	32.0%	33.1%	34.6%	36.9%	38.5%	39.3%	38.1%
Normalised tax rate (%)	30.9%	32.1%	30.9%	27.2%	33.2%	33.6%	30.3%
<b>Total net income analysis (%)</b>							
Cash earnings (Life)	79.2%	80.3%	79.0%	76.3%	72.5%	69.0%	68.5%
Normalised capital growth (Life)	1.0%	1.2%	1.4%	1.5%	4.8%	6.7%	5.9%
Net fee income (Funds Management)	19.7%	18.0%	19.6%	21.1%	21.4%	24.0%	25.4%
Other income (Corporate)	0.1%	0.5%	— %	0.2%	0.2%	— %	— %
<b>Normalised net profit after tax by division (\$m)</b>							
Life	224.6	226.2	209.2	196.1	177.2	166.4	169.0
Funds Management	27.0	17.8	19.7	20.9	20.9	26.5	30.1
Bank	—	—	—	(3.2)	(3.2)	(5.5)	(2.3)
Corporate	(26.4)	(28.1)	(28.2)	(17.0)	(27.7)	(31.5)	(31.2)
<b>Normalised net profit after tax</b>	<b>225.2</b>	<b>215.9</b>	<b>200.7</b>	<b>196.8</b>	<b>167.2</b>	<b>155.9</b>	<b>165.6</b>

<sup>1</sup> Normalised metrics excluded Discontinued Operations (Bank) from 1H24, including Normalised EBIT, Normalised profit before tax, Normalised profit after tax, Normalised EPS, Normalised cost to income ratio and Normalised tax rate. Periods prior to 1H24 were not restated to exclude Discontinued Operations (Bank).

<sup>2</sup> Transition expenses in 1H25 relate to the Artega technology team retained by Challenger post the transfer of the investment administration and custody services to State Street.

<sup>3</sup> Significant items (after-tax) in 1H25 relate to one-off costs associated with Challenger's partnership with Accenture to re-platform Life's core customer registry and technology, and initial project costs associated with the transition to State Street.

## Consolidated profit and loss (continued)

### AASB 17 Insurance Contracts

Challenger adopted new accounting standard AASB 17 *Insurance Contracts* (AASB 17) effective from 1 July 2023.

AASB 17 *Insurance Contracts* replaces AASB 4 *Insurance Contracts*, AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts*.

The new standard establishes globally consistent principles for the recognition, measurement, presentation and disclosure of life insurance contracts. It does not change the economics of the underlying business, normalised profit, cash generation or dividend policy. However, it will affect the timing of insurance earnings recognition, not the overall quantum.

Life investment contracts, including Challenger's term annuities, are currently measured under AASB 9 *Financial Instruments* and will continue to be measured in the same way.

There are no material changes to Challenger's normalised profit framework (refer to page 57 for more information), with any movement in policy liabilities continuing to be reflected in Liability Experience.

In the 1H25 Analyst Pack, the first half year financial statements under AASB 17 will be for the period ended 31 December 2023, with the following comparative figures restated for the adoption of AASB 17 in 31 December 2022 (1H23) and 30 June 2023 (2H23):

- Investment experience after tax;
- Statutory net profit after tax;
- Statutory ROE;
- Earnings per share (Basic - statutory); and
- Earnings per shares (Diluted - statutory).

The comparative balance sheet (or associated KPI's) in the 1H25 Analyst Pack have not been restated for the adoption of AASB 17, however a restated balance sheet can be found in the Challenger 2024 Annual Report.

### Normalised profit after tax (NPAT)

1H25 NPAT was \$225m and increased by \$25m (12%) on 1H24. The increase reflects higher net income (up \$34m) and lower interest costs (down \$1m), partially offset by higher normalised tax (up \$11m).

On a divisional basis, 1H25 NPAT was driven by higher Life NPAT (up \$15m), Funds Management NPAT (up \$7m), and a lower Corporate net loss after tax (down \$2m).

### Normalised earnings per share (EPS)

Normalised EPS increased by 12% to 32.8 cps on 1H24. The increase reflects higher normalised profit after tax (up 12%) partially offset by a higher average number of basic shares on issue (up 0.4%).

The weighted average number of basic shares on issue in 1H25 was 687m shares, up 2m shares on 1H24 as a result of the weighted impact of new shares issued under Challenger's Dividend Reinvestment Plan in September 2024 and the net release of Treasury shares held by the CPP Trust to satisfy long term incentives that vested in September 2024.

### Net income

1H25 net income was \$482m and increased by \$34m (8%) on 1H24, with:

- Life Normalised Cash Operating Earnings (COE) of \$386m was up \$26m (7%), driven by higher cash earnings, which benefited from a higher COE margin (up 7 bps) and growth in average investment assets (up 5%); and
- Funds Management fee income of \$95m was up \$8m (9%), driven by higher FUM-based revenue (up \$5m) from growth in average FUM (up 20%) with a greater share of lower-margin business, higher transaction fees (up \$1m) and higher performance fees (up \$2m).

### Expenses

1H25 total expenses were \$154m and stable on 1H24, reflecting structural changes to the expense base, with savings achieved in technology and investment operations reinvested in strategic growth initiatives. The specific drivers of 1H25 expenses included:

- net savings from lower information technology expenses driven by the technology partnership with Accenture (\$3m); and
- lower investment operations expenses following the transfer of Challenger's investment administration and custody services to State Street and lower transaction volumes, partially offset by transition expenses relating to the Artega technology team retained by Challenger (\$1m); offset by
- investment in Challenger brand and other projects (\$2m); and
- higher staff costs (\$1m).

The 1H25 normalised cost to income ratio was 32.0% and decreased by 260 bps on 1H24. The decrease in the ratio was driven by higher net income (up 8%) and flat expenses.

## Normalised Return On Equity (ROE)

1H25 Normalised ROE (post-tax) was 11.6% and increased by 120 bps on 1H24. This was driven by higher Life ROE (post-tax) of 13.0% (up 50 bps) reflecting an increase in Normalised COE, higher Funds Management ROE of 17.8% (up 530 bps) reflecting higher FUM-based income and performance fees, and lower corporate losses.

Challenger's Normalised ROE (post-tax) target is 11.2% and represents the RBA cash rate of ~4.4% plus a margin of 12% less tax. In 1H25, Challenger's Normalised ROE (post-tax) was 11.6% and above target. Refer to page 13 for more detail.

## Normalised tax

Normalised tax was \$101m and increased by \$11m (13%) on 1H24. The normalised effective tax rate in 1H25 was 30.9%, unchanged from 1H24.

The effective tax rate in 1H25 is higher than Australia's statutory rate of 30.0% due to interest payments on Challenger's Capital Notes being non-deductible (\$7m).

## Asset and liability experience after tax

Challenger Life Company Limited (CLC) is required by Australian Accounting Standards to value assets at fair value, while liabilities are valued in accordance with relevant accounting standards. This gives rise to fluctuating valuation movements on assets and policy liabilities being recognised in the statutory profit and loss.

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

Asset experience is calculated as the difference between the total return (both realised and unrealised) generated on Life's investment portfolio less the amount recorded in Life's Normalised Cash Operating Earnings (which includes expected normalised capital growth).

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.

In accordance with the Prudential Standards and Australian Accounting Standards, Challenger Life values its annuities using a risk-free discount rate plus an illiquidity premium, rather than the actual interest rate paid on annuity liabilities, which generates a loss at issue or new business strain (refer to page 58 for more detail).

1H25 asset experience after tax was a loss of \$96m and liability experience after tax was a loss of \$53m.

The asset experience loss after tax of \$96m was primarily driven by underperformance on alternatives relative to Challenger's 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. Refer to page 25 for more detail, including asset experience by asset class.

The liability experience loss after tax of \$53m was driven by the accounting mismatch that arises when valuing the Life Risk liabilities that are expected to unwind over time as a result of applying AASB 17 and new business strain. Refer to page 26 for more detail on AASB 17 and new business strain.

## Significant items after tax

1H25 significant items were -\$4m (after-tax) and reflects one-off project costs associated with the build of Life's new customer technology by Accenture and initial project costs related to the transition of investment administration and custody services to State Street.

## Statutory net profit after tax

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

1H25 statutory profit after tax was \$72m and increased by \$16m (28%) on 1H24, and includes:

- Normalised net profit after tax of \$225m;
- Asset and liability experience of -\$149m (refer to page 25 for more detail); and
- Significant items of -\$4m.

## Dividends

### Dividend policy

Challenger targets a dividend payout ratio in the range of between 30% and 50% of normalised profit after tax and aims to frank the dividend to the maximum extent possible.

### 1H25 dividend

The Challenger Board has determined to pay a fully franked interim dividend (which relates to the period of 1H25) of 14.5 cps (fully franked), compared to 13.0 cps (fully franked) in 1H24.

Dates for the final 1H25 dividend are as follows:

- ex-date: 25 February 2025;
- record date: 26 February 2025;
- Dividend Reinvestment Plan (DRP) election date: 27 February 2025; and
- payment date: 18 March 2025.

The 1H25 dividend payout ratio was 44.2%, which is within Challenger's normalised dividend payout ratio target of between 30% and 50% of normalised profit after tax.

Challenger's franking account balance at 31 December 2024 was \$188m. This amount is calculated from the balance of the franking account as at the end of the period, adjusted for income tax receivable on the balance sheet and for franking debits that will arise from the settlement of accrued interest on Challenger Capital Notes.

The interim dividend of 14.5 cps will result in a total dividend of approximately \$100m, which will reduce the franking account by \$43m.

### Dividend Reinvestment Plan (DRP)

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

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

For the final FY24 dividend paid in September 2024, the DRP participation rate was 2% of issued capital.

## Credit ratings

In December 2024, Standard & Poor's Global Ratings (S&P) completed its annual ratings review and affirmed the credit rating and outlook for CLC and Challenger Limited.

Challenger's S&P ratings are as follows:

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

## FY25 outlook

### Normalised net profit after tax guidance

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 \$440m and \$480m.

The mid-point of the FY25 normalised net profit after tax guidance (\$460m) is 10% higher than the FY24 normalised net profit after tax of \$417m.

### Normalised Return on Equity (ROE) target

Challenger's Normalised ROE pre-tax target is the RBA cash rate plus a margin of 12%. This is currently equivalent to a Normalised ROE post-tax target of ~11.2% based on a pre-tax target of 16.4% and an expected effective tax rate of ~31.3%.

In 1H25, Challenger's Normalised ROE (post-tax) of 11.6% was above the target. More broadly, Challenger is well-positioned to achieve its FY25 Normalised ROE target.

### Normalised cost to income ratio

Managing the business to a cost to income ratio ensures that any expense growth is appropriately positioned to support revenue growth.

In FY25, Challenger continues to target a cost to income ratio of 32% to 34%.

### CLC excess capital position

CLC does not target a specific PCA or CET1 ratio. CLC's targeted PCA and CET1 ratio range is a reflection of internal capital models, and is not an input to them, and reflects asset allocation, business mix, capital composition and economic environment. The target PCA ratio range is 1.3 times to 1.7 times. This range may change over time. Refer to page 46 for more detail.

### Dividend

Challenger continues to target a dividend payout ratio of between 30% and 50% of normalised profit after tax and seeks to frank the dividend to the maximum extent possible. However, the actual dividend payout ratio will depend on prevailing market conditions and capital allocation priorities at the time.

Group balance sheet<sup>1</sup>

\$m	1H25	FY24	1H24	FY23	1H23	FY22	1H22
<b>Assets</b>							
<b>Life investment assets</b>							
Fixed income and cash <sup>2</sup>	17,963.2	18,333.5	17,877.1	17,799.6	17,621.0	16,659.4	17,031.1
Alternatives	3,460.7	3,167.1	2,888.1	2,384.7	2,026.6	1,366.3	1,226.4
Property <sup>2</sup>	2,687.6	2,761.6	2,963.7	3,062.4	3,178.3	3,227.0	3,583.3
Equity and infrastructure <sup>2</sup>	535.0	448.3	365.2	291.3	259.0	971.1	1,096.1
<b>Life investment assets</b>	<b>24,646.5</b>	<b>24,710.5</b>	<b>24,094.1</b>	<b>23,538.0</b>	<b>23,084.9</b>	<b>22,223.8</b>	<b>22,936.9</b>
Bank lending and financing assets	—	—	346.8	225.4	406.6	390.5	230.1
Cash and cash equivalents (Group cash)	86.7	137.0	101.5	128.9	145.8	183.1	94.5
Receivables	65.1	182.4	179.1	174.6	164.4	355.1	153.7
Derivative assets	644.9	574.5	802.7	665.5	690.7	599.5	822.0
Investment in associates	84.8	86.6	81.4	81.9	74.3	74.9	79.7
Other assets	41.5	49.3	46.9	43.9	45.8	53.8	58.1
Fixed assets	14.4	19.4	21.8	23.5	24.0	24.8	26.4
Right-of-use lease assets	14.4	19.9	22.6	24.3	27.3	29.0	31.5
Tax assets	147.3	169.8	209.5	86.2	158.9	65.3	—
Goodwill and intangibles	584.2	584.7	585.3	587.4	586.8	587.2	607.4
Less Group/Life eliminations <sup>3</sup>	(4.6)	(5.5)	(5.7)	(6.1)	(13.9)	(21.5)	(25.1)
<b>Total assets</b>	<b>26,325.2</b>	<b>26,528.6</b>	<b>26,486.0</b>	<b>25,573.5</b>	<b>25,395.6</b>	<b>24,565.5</b>	<b>25,015.2</b>
<b>Liabilities</b>							
Payables	178.1	221.5	192.9	216.3	156.9	184.3	173.2
Tax liabilities	—	—	—	—	—	—	107.0
Derivative liabilities	549.0	566.8	738.0	611.3	730.8	839.6	676.8
Subordinated debt	418.5	418.0	419.1	403.0	399.3	398.4	401.6
Challenger Capital Notes	728.2	727.0	725.8	725.1	840.2	838.6	864.8
Lease liabilities	42.4	46.8	51.3	54.7	59.2	62.5	66.3
Provisions	20.9	28.5	25.6	28.2	39.0	44.3	39.3
Life annuity liabilities	15,727.8	15,278.5	15,034.6	13,930.0	14,278.4	13,595.4	14,092.5
Challenger Index Plus liabilities	4,812.6	5,356.3	5,107.6	5,268.8	4,620.2	4,386.4	4,381.8
Bank deposit liabilities	—	—	287.2	171.7	224.1	227.7	152.6
<b>Total liabilities</b>	<b>22,477.5</b>	<b>22,643.4</b>	<b>22,582.1</b>	<b>21,409.1</b>	<b>21,348.1</b>	<b>20,577.2</b>	<b>20,955.9</b>
<b>Group net assets</b>	<b>3,847.7</b>	<b>3,885.2</b>	<b>3,903.9</b>	<b>4,164.4</b>	<b>4,047.5</b>	<b>3,988.3</b>	<b>4,059.3</b>
<b>Equity</b>							
Contributed equity	2,547.2	2,512.4	2,522.3	2,513.1	2,496.9	2,481.5	2,451.8
Reserves	(66.2)	(18.4)	(25.7)	(35.8)	(49.8)	(49.3)	(55.0)
Retained earnings	1,366.7	1,387.4	1,345.3	1,683.1	1,600.4	1,556.1	1,662.5
Non-controlling interest <sup>4</sup>	—	3.8	3.8	4.0	—	—	—
<b>Total equity excl. Discontinued Operations (Bank)</b>	<b>3,847.7</b>	<b>3,885.2</b>	<b>3,845.7</b>	<b>4,164.4</b>	<b>4,047.5</b>	<b>3,988.3</b>	<b>4,059.3</b>
Discontinued Operations (Bank)	—	—	58.2	—	—	—	—
<b>Total equity</b>	<b>3,847.7</b>	<b>3,885.2</b>	<b>3,903.9</b>	<b>4,164.4</b>	<b>4,047.5</b>	<b>3,988.3</b>	<b>4,059.3</b>

<sup>1</sup> Excludes consolidation of Special Purpose Vehicles (SPVs).

<sup>2</sup> Fixed income, property and infrastructure are reported net of debt.

<sup>3</sup> Group/Life eliminations represent the fair value of the SPV residual income notes (i.e. NIM) held by Challenger Life Company Limited.

<sup>4</sup> In October 2024, SimCorp's minority interest in Artega was repurchased by Challenger and the non-controlling interest was derecognised.

## Change in Group net assets<sup>1</sup>

\$m	1H25	2H24	1H24	2H23	1H23	2H22	1H22
<b>Opening net assets</b>	<b>3,885.2</b>	<b>3,903.9</b>	<b>4,164.4</b>	<b>4,047.5</b>	<b>3,988.3</b>	<b>4,059.3</b>	<b>3,825.8</b>
Impact of initial application of AASB 17	—	—	(253.5)	—	—	—	—
<b>Restated opening balance</b>	<b>3,885.2</b>	<b>3,903.9</b>	<b>3,910.9</b>	<b>4,047.5</b>	<b>3,988.3</b>	<b>4,059.3</b>	<b>3,825.8</b>
Statutory net profit after tax	72.2	73.6	56.3	164.8	122.7	(28.4)	282.1
Dividends paid	(92.9)	(89.7)	(82.4)	(82.1)	(78.4)	(78.1)	(70.7)
New share issue	34.8	13.5	9.2	27.4	10.6	1.7	13.4
Reserve movements <sup>2</sup>	(11.5)	(1.0)	5.8	1.2	(0.5)	5.8	(4.2)
CPP Trust movements	(39.5)	(15.1)	4.3	1.6	4.8	—	12.9
Issued under Capital Notes conversion	—	—	—	—	—	28.0	—
Non-controlling interest <sup>3</sup>	(0.6)	—	(0.2)	4.0	—	—	—
<b>Closing net assets</b>	<b>3,847.7</b>	<b>3,885.2</b>	<b>3,903.9</b>	<b>4,164.4</b>	<b>4,047.5</b>	<b>3,988.3</b>	<b>4,059.3</b>

<sup>1</sup> Periods prior to 1H24 have not been restated for the application impact of AASB 17.

<sup>2</sup> In relation to SimCorp's minority stake in Artega Investment Administration that was discontinued on 31 October 2024. SimCorp's minority stake was purchased by Challenger and derecognised.

<sup>3</sup> Profit/(Loss) in relation to SimCorp's minority stake in Artega Investment Administration up until 31 October 2024.

## Issued share capital, dilutive share count and earnings per share

	1H25	2H24	1H24	2H23	1H23	2H22	1H22
<b>Earnings per share (cents)</b>							
Basic – normalised <sup>1</sup>	32.8	31.6	29.3	28.8	24.5	23.1	24.5
Basic – statutory <sup>2</sup>	10.5	10.8	8.2	20.4	4.6	(4.2)	41.8
Diluted – normalised <sup>1</sup>	29.3	28.9	26.7	25.2	22.3	19.9	20.7
Diluted – statutory <sup>2</sup>	10.3	10.4	8.1	20.1	4.5	(4.2)	33.9
<b>Number of shares (m)</b>							
Basic share count	688.5	683.3	684.8	683.8	682.0	680.0	676.0
CPP Trust Treasury shares	2.9	7.8	6.1	3.8	1.9	2.2	2.1
Total issued shares	691.4	691.1	690.9	687.6	683.9	682.2	678.1
<b>Movement in basic share count</b>							
Opening	683.3	684.8	683.8	682.0	680.0	676.0	672.6
CPP Trust deferred share purchase	3.6	—	(3.6)	—	—	—	—
Net Treasury shares (acquired)/released	1.4	(1.7)	1.3	(1.8)	0.3	(0.1)	1.3
New share issues	0.2	0.2	3.3	3.6	1.7	4.1	2.1
Closing	688.5	683.3	684.8	683.8	682.0	680.0	676.0
<b>Movement in CPP Trust Treasury shares</b>							
Opening	7.8	6.1	3.8	1.9	2.2	2.1	3.4
Shares vested to participants	(7.4)	—	(1.3)	(0.6)	(0.3)	0.1	(1.3)
Shares purchased (including settled forwards)	2.5	1.7	3.6	2.5	—	—	—
Closing	2.9	7.8	6.1	3.8	1.9	2.2	2.1
<b>Weighted average number of shares (m)</b>							
<b>Basic EPS shares</b>							
Total issued shares	691.3	691.0	689.4	686.0	683.2	679.1	677.2
Less CPP Treasury shares	(4.6)	(6.1)	(5.1)	(2.9)	(2.1)	(2.2)	(2.6)
Shares for basic EPS calculation	686.7	684.9	684.3	683.1	681.1	676.9	674.6
<b>Diluted shares for normalised EPS</b>							
Shares for basic EPS calculation	686.7	684.9	684.3	683.1	681.1	676.9	674.6
Add dilutive impact of unvested equity awards	14.0	13.7	11.7	13.2	12.6	9.8	13.3
Add dilutive impact of Capital Notes	122.7	110.8	121.1	132.7	115.0	126.3	133.4
Add dilutive impact of subordinated notes	66.8	60.3	65.9	64.0	75.1	58.3	59.1
Add dilutive impact of restricted shares	2.6	2.4	2.3	2.0	1.5	0.7	—
Shares for diluted normalised EPS calculation	892.8	872.1	885.3	895.0	885.3	872.0	880.4
<b>Diluted shares for statutory EPS</b>							
Shares for basic EPS calculation	686.7	684.9	684.3	683.1	681.1	676.9	674.6
Add dilutive impact of unvested equity awards	13.9	13.7	11.7	13.2	12.6	—	13.3
Add dilutive impact of Capital Notes <sup>3</sup>	—	—	—	132.7	—	—	133.4
Add dilutive impact of subordinated notes <sup>3</sup>	—	—	—	64.0	—	—	59.1
Add dilutive impact of restricted shares	2.6	2.4	2.3	2.0	1.5	—	—
Shares for diluted statutory EPS calculation	703.2	701.0	698.3	895.0	695.2	676.9	880.4
<b>Summary of share rights (m)</b>							
<b>Hurdled Performance Share Rights</b>							
Opening	18.9	19.1	17.1	16.9	15.8	16.4	14.7
New grants	3.7	—	3.9	0.9	3.0	0.1	3.6
Vesting/forfeiture	(9.5)	(0.2)	(1.9)	(0.7)	(1.9)	(0.7)	(1.9)
Closing	13.1	18.9	19.1	17.1	16.9	15.8	16.4
<b>Deferred Performance Share Rights</b>							
Opening	0.3	0.3	0.9	0.9	1.6	1.7	2.9
Vesting/forfeiture	(0.3)	—	(0.6)	—	(0.7)	(0.1)	(1.2)
Closing	—	0.3	0.3	0.9	0.9	1.6	1.7
<b>Restricted Share Rights</b>							
Opening	2.4	2.4	1.9	1.9	0.8	—	—
New grants	1.6	—	1.3	0.1	1.3	0.8	—
Vesting/forfeiture	(1.2)	—	(0.8)	(0.1)	(0.2)	—	—
Closing	2.8	2.4	2.4	1.9	1.9	0.8	—

<sup>1</sup> Normalised EPS (basic) and Normalised EPS (diluted) from 1H24 excludes Discontinued Operations (Bank). <sup>2</sup> Statutory EPS (basic) and Statutory EPS (diluted) in 1H23 and 2H23 is restated to reflect the application impact of AASB17. <sup>3</sup> Dilutive impact of Capital Notes and Subordinated Notes for 1H23 is revised based on the updated Statutory net profit. 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 (statutory) for the period. Due to the restatement of prior period profit and loss on the application of AASB 17, statutory profit reduced which resulted in basic EPS (statutory) becoming lower than the interest per potential ordinary share and hence convertible debt becoming non-dilutive.

## Issued share capital

### Issued share capital and diluted share count

The number of Challenger Limited shares listed on the ASX at 31 December 2024 was 691m shares. The number of shares on issue increased by 267,406 shares in 1H25, with new shares issued under Challenger's DRP in September 2024.

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

- the basic share count is reduced for Treasury shares;
- the dilutive share count includes unvested equity awards made to employees under the Challenger Performance Plan (CPP); and
- the dilutive share count considers convertible instruments (e.g. Challenger Capital Notes 3, Challenger Capital Notes 4 and subordinated debt) as determined by a probability of vesting test (refer to page 18 for more detail on the accounting treatment).

### Treasury shares

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

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

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

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

### Weighted average share count

The basic weighted average number of shares used to determine both the normalised and statutory basic EPS increased by 2m shares in 1H25 to 687m shares.

The increase reflects the weighted impact of new shares issued under Challenger's Dividend Reinvestment Plan in September 2024 and the net release of Treasury shares held by the CPP Trust to satisfy long term incentives that vested in September 2024.

The weighted average number of shares used to determine normalised diluted EPS increased by 21m shares (up 2%) in 1H25 to 893m shares. The increase primarily reflects:

- higher dilutive impact on debt instruments, including Challenger Capital Notes 3 and 4 and subordinated notes, and decrease in the Challenger share price that is used to calculate potential dilution (collectively increasing the diluted share count by 18m shares – refer to page 18);
- higher basic weighted average number of shares on issue (increasing diluted share count by 2m shares – refer above); and
- higher unvested equity awards and restricted shares to employees under the CPP (increasing diluted share count by 1m shares).

The weighted average number of shares used to determine statutory diluted EPS increased by 2m shares in 1H25 to 703m shares. This is because Challenger Capital Notes and subordinated notes are not considered dilutive as the interest per potential ordinary share for each of these instruments is less than Challenger's statutory basic EPS in 1H25.

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

# Dilutive share count and earnings per share

## Dilutive share count

### Dilutive impact of unvested equity awards

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

Hurdled Performance Share Rights (HPSRs) vest over a period of up to five years subject to meeting certain performance hurdles<sup>1</sup> and continued employment.

A portion of variable remuneration is awarded in Restricted Shares, which vest over a period of up to four years, subject to continued employment<sup>2</sup>.

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

### Accounting treatment of Capital Notes and subordinated debt

Challenger Capital Notes 3, Challenger Capital Notes 4 and subordinated debt are effective sources of funding for Challenger. Refer to page 45 for more detail.

Capital Notes 3, Capital Notes 4 and subordinated debt have convertibility features that would result in these instruments converting to ordinary shares under certain circumstances, including APRA determining Challenger Life to be non-viable. Challenger may choose to redeem or resell (rather than convert) all or some of the notes for their face value at a future date, subject to APRA approval and market conditions.

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

### Dilutive impact of Capital Notes and subordinated debt

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

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

The conversion factor for all of Challenger's convertible debt is 99%. The simple average of Challenger's 20-day volume weighted average share price (VWAP) in each reporting period, subject to a minimum VWAP floor, is used to determine the dilutive impact. The simple average of Challenger's 20-day VWAP leading up to 31 December 2024 was \$6.05 (30 June 2024 \$6.70).

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

Issue	Issue date	Face value	VWAP floor price
Challenger Capital Notes 3	25 Nov 2020	\$385m	\$2.57
Challenger Capital Notes 4	5 Apr 2023	\$350m	\$3.26
Subordinated debt	16 Sep 2022	\$400m	\$3.23
<b>Total</b>		<b>\$1,135m</b>	

## Earnings per share

### Normalised diluted EPS

The normalised basic EPS for 1H25 of 32.8 cps is greater than the interest cost per potential ordinary share for each of the Challenger Capital Notes 3, Challenger Capital Notes 4 and subordinated debt. As a result, all debt instruments were considered to be dilutive in 1H25.

The weighted average number of shares used to determine the normalised diluted EPS increased by 21m shares in 1H25 to 893m shares.

The increase is due to:

- an increase in the dilutive impact of the Challenger Capital Notes 3 and 4 as a result of a decrease in Challenger's weighted average share price over the last 20 days of 1H25, increasing the diluted share count by 12m shares. The lower Challenger share price results in a higher number of potential shares being issued should the debt convert to shareholder equity;
- an increase in the dilutive impact of subordinated notes due to a decrease in Challenger's weighted average share price over the last 20 days of 1H25, increasing the diluted share count by 6m shares;
- an increase in the weighted average number of basic shares on issue, which reflects new shares issued under Challenger's Dividend Reinvestment Plan in September 2024 and the net release of Treasury shares held by the CPP Trust to satisfy long term incentives that vested in September 2024, increasing the basic share count by 2m shares; and
- higher unvested equity awards and restricted shares to employees under the CPP, increasing the diluted share count by 1m shares.

To determine the normalised diluted EPS, the normalised profit after tax is increased by \$37m in relation to Challenger Capital Notes 3, Challenger Capital Notes 4 and subordinated debt interest costs.

<sup>1</sup> For HPSRs granted before 2023, performance is measured against total shareholder return. For HPSRs granted from 2023, an additional performance measure of Culture will also need to be met for vesting of HPSRs to occur.

<sup>2</sup> Prior to 1 July 2021, Deferred Performance Share Rights (DPSRs) were awarded instead of Restricted Shares. DPSRs represent the right to receive a fully-paid ordinary Challenger share for nil consideration subject to continued employment at the time of vesting.

## Consolidated operating cash flow

\$m	1H25	2H24	1H24	2H23	1H23	2H22	1H22
Receipts from customers	255.4	197.5	243.0	416.6	350.4	366.0	342.0
Dividends received	63.9	72.1	45.8	25.1	41.8	33.6	39.7
Interest received	624.7	645.4	559.6	494.3	405.9	297.7	307.3
Interest paid	(345.1)	(327.2)	(350.3)	(325.7)	(257.0)	(183.8)	(159.9)
Payments to suppliers and employees	(359.7)	(319.7)	(345.9)	(340.8)	(355.5)	(311.0)	(321.4)
Income tax (paid) / refunded	(8.0)	10.0	(31.6)	25.7	(148.3)	(166.0)	(98.9)
<b>Underlying operating cash flow</b>	<b>231.2</b>	<b>278.1</b>	<b>120.6</b>	<b>295.2</b>	<b>37.3</b>	<b>36.5</b>	<b>108.8</b>
Adjusted for:							
Net annuity policy capital receipts/(payments)	149.4	270.9	508.0	(416.9)	802.0	466.5	607.7
Net Challenger Index Plus receipts/(payments) <sup>1</sup>	(823.4)	20.7	(388.9)	359.0	182.9	546.5	604.6
Other <sup>1</sup>	6.4	22.3	12.0	2.4	11.7	82.8	33.4
<b>Operating cash flow per financial report</b>	<b>(436.4)</b>	<b>592.0</b>	<b>251.7</b>	<b>239.7</b>	<b>1,033.9</b>	<b>1,132.3</b>	<b>1,354.5</b>

<sup>1</sup> Other includes net SPV operating cash flow adjustments for differences between statutory operating cash flow and normalised cash operating earnings.

<sup>1</sup>H22 and 2H22 includes net customer deposits receipts/(payments) related to Challenger Bank.

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

1H25 underlying operating cash inflow was \$231m, up \$111m on 1H24, and was \$6m higher than normalised net profit after tax of \$225m mainly due to:

- non-cash normalised capital growth (\$5m); and
- non-cash items, including depreciation and amortisation (\$1m).

### Net annuity policy capital receipts

1H25 net annuity policy capital receipts were \$149m and comprised:

- annuity sales of \$2,871m; less
- annuity capital payments of \$2,722m.

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

1H25 net annuity policy capital receipts of \$149m represent annuity book growth of 1.0% for the half and is calculated as 1H25 net annuity policy capital receipts divided by the opening Life annuity liability of \$15,279m.

1H25 net annuity policy capital receipts benefited from strong longer duration retail lifetime and Japanese annuity sales and lower maturities (capital payments), partially offset by lower fixed term annuity sales. The maturity rate in 1H25 was 15% (down from 17% in 1H24).

### Net Challenger Index Plus payments

Net Challenger Index Plus Life payments includes the return of capital to clients and cash flows relating to the underlying hedging instrument backing the index cash payment to the client.

1H25 net Challenger Index Plus payments were \$823m and comprised:

- Challenger Index Plus sales of \$1,754m;
- Challenger Index Plus maturities and repayments of \$2,250m; and
- Challenger Index Plus distributions to clients of \$327m.

1H25 total Life book growth was -1.7% for the half (1H24 1.7%) and can be calculated as total 1H25 net outflows of \$347m divided by the sum of the opening period liabilities of \$20,635m (Life annuity liabilities and Challenger Index Plus liabilities – refer to page 29 for more detail).

## Life financial results

\$m	1H25	2H24	1H24	2H23	1H23	2H22	1H22
Investment yield – policyholders' funds	712.3	711.4	663.0	601.5	521.1	417.4	388.6
Interest expense	(477.0)	(468.3)	(437.9)	(387.7)	(317.8)	(221.9)	(190.5)
Distribution expense	(4.3)	(3.8)	(3.8)	(3.2)	(4.9)	(3.4)	(8.9)
Other income <sup>1</sup>	34.1	31.4	26.8	25.5	23.9	21.8	23.8
<b>Product cash margin</b>	<b>265.1</b>	<b>270.7</b>	<b>248.1</b>	<b>236.1</b>	<b>222.3</b>	<b>213.9</b>	<b>213.0</b>
Investment yield – shareholders' funds	116.4	114.2	105.2	93.3	75.3	55.5	51.6
<b>Cash earnings</b>	<b>381.5</b>	<b>384.9</b>	<b>353.3</b>	<b>329.4</b>	<b>297.6</b>	<b>269.4</b>	<b>264.6</b>
Normalised capital growth	4.6	5.8	6.4	6.3	19.7	26.0	22.8
<b>Normalised Cash Operating Earnings</b>	<b>386.1</b>	<b>390.7</b>	<b>359.7</b>	<b>335.7</b>	<b>317.3</b>	<b>295.4</b>	<b>287.4</b>
Personnel expenses	(33.2)	(34.6)	(36.9)	(34.8)	(37.0)	(38.0)	(35.5)
Other expenses	(26.3)	(23.4)	(21.3)	(23.7)	(17.0)	(18.1)	(18.9)
<b>Total expenses</b>	<b>(59.5)</b>	<b>(58.0)</b>	<b>(58.2)</b>	<b>(58.5)</b>	<b>(54.0)</b>	<b>(56.1)</b>	<b>(54.4)</b>
<b>Normalised net profit before tax</b>	<b>326.6</b>	<b>332.7</b>	<b>301.5</b>	<b>277.2</b>	<b>263.3</b>	<b>239.3</b>	<b>233.0</b>
Normalised tax	(102.0)	(106.5)	(92.3)	(81.1)	(86.1)	(72.9)	(64.0)
<b>Normalised net profit after tax</b>	<b>224.6</b>	<b>226.2</b>	<b>209.2</b>	<b>196.1</b>	<b>177.2</b>	<b>166.4</b>	<b>169.0</b>
Asset experience after tax	(83.7)	6.6	(91.9)	(32.5)	(58.2)	(258.1)	75.2
Liability experience after tax <sup>2</sup>	(52.8)	(141.4)	(51.7)	7.1	15.7	67.8	33.9
Application impact of AASB 17 after tax	—	—	—	(24.6)	(91.5)	—	—
<b>Statutory net profit after tax</b>	<b>88.1</b>	<b>91.4</b>	<b>65.6</b>	<b>146.1</b>	<b>43.2</b>	<b>(23.9)</b>	<b>278.1</b>
<b>Reconciliation of asset experience to capital growth</b>							
Asset experience before tax	(118.2)	9.2	(128.4)	(49.0)	(83.1)	(368.1)	107.5
Normalised capital growth	4.6	5.8	6.4	6.3	19.7	26.0	22.8
<b>Asset capital growth</b>	<b>(113.6)</b>	<b>15.0</b>	<b>(122.0)</b>	<b>(42.7)</b>	<b>(63.4)</b>	<b>(342.1)</b>	<b>130.3</b>
<b>Performance analysis</b>							
Cost to income ratio <sup>3</sup>	15.4%	14.8%	16.2%	17.4%	17.0%	19.0%	18.9%
Net assets – average <sup>4</sup> (\$m)	3,416	3,515	3,321	3,610	3,522	3,680	3,517
Normalised ROE (post-tax)	13.0%	12.9%	12.5%	11.0%	10.0%	9.1%	9.5%
<b>Margins<sup>5</sup></b>							
Investment yield – policyholders' funds	5.74%	5.82%	5.60%	5.17%	4.54%	3.72%	3.46%
Interest expense	(3.84%)	(3.83%)	(3.70%)	(3.33%)	(2.77%)	(1.98%)	(1.70%)
Distribution expense	(0.03%)	(0.03%)	(0.03%)	(0.03%)	(0.04%)	(0.03%)	(0.08%)
Other income	0.27%	0.26%	0.23%	0.22%	0.20%	0.20%	0.22%
<b>Product cash margin</b>	<b>2.14%</b>	<b>2.22%</b>	<b>2.10%</b>	<b>2.03%</b>	<b>1.93%</b>	<b>1.91%</b>	<b>1.90%</b>
Investment yield – shareholders' funds	0.93%	0.93%	0.89%	0.80%	0.66%	0.49%	0.46%
<b>Cash earnings</b>	<b>3.07%</b>	<b>3.15%</b>	<b>2.99%</b>	<b>2.83%</b>	<b>2.59%</b>	<b>2.40%</b>	<b>2.36%</b>
Normalised capital growth	0.04%	0.05%	0.05%	0.05%	0.17%	0.23%	0.20%
<b>Normalised Cash Operating Earnings (COE)</b>	<b>3.11%</b>	<b>3.20%</b>	<b>3.04%</b>	<b>2.88%</b>	<b>2.76%</b>	<b>2.63%</b>	<b>2.56%</b>

<sup>1</sup> Other income includes Life Risk revenue (premiums net of expected claims) and Solutions revenue.

<sup>2</sup> Liability experience comprises economic and actuarial assumption changes in relation to policy liabilities, net new business strain, and impact of AASB 17 accounting mismatches (including the effects of the UK mortality assumption change).

<sup>3</sup> Cost to income ratio calculated as total expenses divided by Normalised Cash Operating Earnings (COE).

<sup>4</sup> Net assets – average calculated on a monthly basis.

<sup>5</sup> Ratio of COE components divided by average investment assets.

## Life flows

\$m	1H25	2H24	1H24	2H23	1H23	2H22	1H22
<b>Life sales</b>							
Fixed term sales – 1-year	561.3	281.9	506.7	422.7	733.7	411.4	490.0
Fixed term sales – 2-years or more	666.5	590.1	873.0	721.8	1,032.8	583.6	419.8
Lifetime sales <sup>1</sup>	582.7	432.0	469.1	333.5	375.2	242.1	220.8
<b>Total retail annuity sales</b>	<b>1,810.5</b>	<b>1,304.0</b>	<b>1,848.8</b>	<b>1,478.0</b>	<b>2,141.7</b>	<b>1,237.1</b>	<b>1,130.6</b>
Fixed term sales – 1-year	402.4	159.4	419.0	59.7	842.6	954.1	824.0
Fixed term sales – 2-years or more	15.0	64.3	62.0	92.9	147.5	197.6	139.0
Lifetime sales	27.7	—	619.2	14.0	—	23.7	—
<b>Total institutional annuity sales</b>	<b>445.1</b>	<b>223.7</b>	<b>1,100.2</b>	<b>166.6</b>	<b>990.1</b>	<b>1,175.4</b>	<b>963.0</b>
<b>Total domestic annuity sales</b>	<b>2,255.6</b>	<b>1,527.7</b>	<b>2,949.0</b>	<b>1,644.6</b>	<b>3,131.8</b>	<b>2,412.5</b>	<b>2,093.6</b>
Japan sales	615.5	362.5	346.3	328.8	412.1	193.9	422.7
<b>Total Life annuity sales</b>	<b>2,871.1</b>	<b>1,890.2</b>	<b>3,295.3</b>	<b>1,973.4</b>	<b>3,543.9</b>	<b>2,606.4</b>	<b>2,516.3</b>
Maturities and repayments	(2,721.7)	(1,619.3)	(2,787.3)	(2,390.3)	(2,741.9)	(2,139.9)	(1,908.6)
<b>Total Life annuity net flows</b>	<b>149.4</b>	<b>270.9</b>	<b>508.0</b>	<b>(416.9)</b>	<b>802.0</b>	<b>466.5</b>	<b>607.7</b>
Closing Life annuity book <sup>2</sup>	15,727.8	15,278.5	15,034.6	13,930.0	14,278.4	13,595.4	14,092.5
<b>Annuity book growth<sup>3</sup></b>	<b>1.0%</b>	<b>1.9%</b>	<b>3.6%</b>	<b>(3.1%)</b>	<b>5.9%</b>	<b>3.5%</b>	<b>4.4%</b>
Index Plus sales	1,754.3	1,990.8	1,958.3	2,294.2	1,935.1	2,156.6	2,426.8
Index Plus maturities and repayments	(2,250.4)	(1,883.2)	(2,138.3)	(1,926.4)	(1,752.2)	(1,597.2)	(1,588.5)
<b>Index Plus net flows</b>	<b>(496.1)</b>	<b>107.6</b>	<b>(180.0)</b>	<b>367.8</b>	<b>182.9</b>	<b>559.4</b>	<b>838.3</b>
Closing Index Plus liabilities	4,812.6	5,356.3	5,107.6	5,268.8	4,620.2	4,386.4	4,381.8
<b>Index Plus book growth<sup>3</sup></b>	<b>(9.3%)</b>	<b>2.0%</b>	<b>(3.4%)</b>	<b>8.4%</b>	<b>4.2%</b>	<b>15.4%</b>	<b>23.1%</b>
Total Life sales	4,625.4	3,881.0	5,253.6	4,267.6	5,479.0	4,763.0	4,943.1
Total maturities and repayments	(4,972.1)	(3,502.5)	(4,925.6)	(4,316.7)	(4,494.1)	(3,737.1)	(3,497.1)
<b>Total Life net flows</b>	<b>(346.7)</b>	<b>378.5</b>	<b>328.0</b>	<b>(49.1)</b>	<b>984.9</b>	<b>1,025.9</b>	<b>1,446.0</b>
Closing total Life book <sup>2</sup>	20,540.4	20,634.8	20,142.2	19,198.8	18,898.6	17,981.8	18,474.3
<b>Total Life book growth<sup>3</sup></b>	<b>(1.7%)</b>	<b>1.9%</b>	<b>1.7%</b>	<b>(0.3%)</b>	<b>5.5%</b>	<b>5.9%</b>	<b>8.4%</b>
<b>Assets</b>							
<b>Closing Life investment assets</b>	<b>24,647</b>	<b>24,711</b>	<b>24,094</b>	<b>23,538</b>	<b>23,085</b>	<b>22,224</b>	<b>22,937</b>
Fixed income and cash <sup>4</sup>	18,242	18,149	17,448	17,721	17,046	16,842	16,715
Alternatives	3,185	3,108	2,748	2,283	1,746	1,285	1,167
Property <sup>4</sup>	2,717	2,927	3,048	3,183	3,211	3,466	3,491
Equity and infrastructure <sup>4</sup>	477	408	314	271	770	1,026	884
<b>Average Life investment assets<sup>5</sup></b>	<b>24,621</b>	<b>24,592</b>	<b>23,558</b>	<b>23,458</b>	<b>22,773</b>	<b>22,619</b>	<b>22,257</b>
<b>Liabilities</b>							
<b>Closing liabilities (excluding Other liabilities)<sup>2</sup></b>	<b>21,702</b>	<b>21,796</b>	<b>21,305</b>	<b>20,345</b>	<b>20,151</b>	<b>19,227</b>	<b>19,749</b>
Annuities and Index Plus liabilities	20,562	20,434	19,646	19,107	18,470	18,231	17,961
Capital Notes	735	735	735	832	845	865	873
Subordinated debt	427	426	418	414	518	401	404
<b>Average liabilities<sup>2,5</sup></b>	<b>21,724</b>	<b>21,595</b>	<b>20,799</b>	<b>20,353</b>	<b>19,833</b>	<b>19,497</b>	<b>19,238</b>

<sup>1</sup> Lifetime sales include CarePlus, a product that pays income for life and is specifically designed for the aged care market.

<sup>2</sup> On adoption of AASB 17 on 1 July 2023, policy liabilities increased by \$362.2 million. Closing Life annuity book, closing total Life book, closing liabilities (excluding other liabilities) and average liabilities from 1H24 are reported on an AASB 17 basis. Periods prior to 1H24 have not been restated for the impact of adopting AASB 17.

<sup>3</sup> Book growth percentage represents net flows for the period divided by opening book value for the financial year.

<sup>4</sup> Fixed income, property and infrastructure are reported net of debt.

<sup>5</sup> Average investment assets and average liabilities calculated on a monthly basis.

## Life quarterly flows

### Life quarterly sales and investment assets

\$m	Q2 25	Q1 25	Q4 24	Q3 24	Q2 24
<b>Life sales</b>					
Fixed term sales – 1-year	357	204	161	121	247
Fixed term sales – 2-years or more	307	360	319	271	406
Lifetime sales <sup>1</sup>	308	275	230	202	251
<b>Total retail annuity sales</b>	<b>972</b>	<b>839</b>	<b>710</b>	<b>594</b>	<b>904</b>
Fixed term sales – 1-year	127	275	153	6	12
Fixed term sales – 2-years or more	15	—	22	43	28
Lifetime sales	28	—	—	—	—
<b>Total institutional annuity sales</b>	<b>170</b>	<b>275</b>	<b>175</b>	<b>49</b>	<b>40</b>
<b>Total domestic annuity sales</b>	<b>1,142</b>	<b>1,114</b>	<b>885</b>	<b>643</b>	<b>944</b>
Japan sales	371	244	183	180	206
<b>Total Life annuity sales</b>	<b>1,513</b>	<b>1,358</b>	<b>1,068</b>	<b>823</b>	<b>1,150</b>
Maturities and repayments	(1,183)	(1,538)	(884)	(736)	(1,239)
<b>Total Life annuity net flows</b>	<b>330</b>	<b>(180)</b>	<b>184</b>	<b>87</b>	<b>(89)</b>
<b>Annuity book growth<sup>2</sup></b>	<b>2.2%</b>	<b>(1.2%)</b>	<b>1.3%</b>	<b>0.6%</b>	<b>(0.6%)</b>
Index Plus Sales	682	1,072	1,065	925	1,267
Index Plus maturities and repayments	(1,193)	(1,057)	(1,042)	(841)	(811)
<b>Index Plus net flows</b>	<b>(511)</b>	<b>15</b>	<b>23</b>	<b>84</b>	<b>456</b>
<b>Index Plus book growth<sup>2</sup></b>	<b>(9.6%)</b>	<b>0.3%</b>	<b>0.4%</b>	<b>1.6%</b>	<b>8.7%</b>
Total Life sales	2,195	2,430	2,133	1,748	2,417
Total maturities and repayments	(2,377)	(2,595)	(1,926)	(1,577)	(2,050)
<b>Total Life net flows</b>	<b>(182)</b>	<b>(165)</b>	<b>207</b>	<b>171</b>	<b>367</b>
<b>Total Life book growth<sup>2</sup></b>	<b>(0.9%)</b>	<b>(0.8%)</b>	<b>1.0%</b>	<b>0.9%</b>	<b>1.9%</b>
<b>Life investment assets</b>					
Fixed income and cash <sup>3</sup>	17,963	18,293	18,334	18,356	17,877
Alternatives	3,461	3,084	3,167	3,121	2,888
Property <sup>3</sup>	2,688	2,669	2,762	2,955	2,964
Equity and infrastructure <sup>3</sup>	535	470	448	422	365
<b>Total Life investment assets</b>	<b>24,647</b>	<b>24,516</b>	<b>24,711</b>	<b>24,854</b>	<b>24,094</b>
<b>Average Life investment assets<sup>4</sup></b>	<b>24,462</b>	<b>24,754</b>	<b>24,776</b>	<b>24,473</b>	<b>23,593</b>

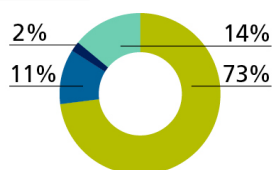
<sup>1</sup> Lifetime sales include CarePlus, a product that pays income for life and is specifically designed for the aged care market.

<sup>2</sup> Book growth percentage represents net flows for the period divided by opening book value for the financial year.

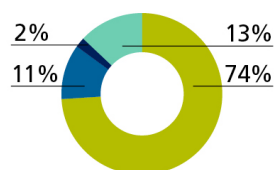
<sup>3</sup> Fixed income, property and infrastructure are reported net of debt.

<sup>4</sup> Average Life investment assets is calculated on a monthly basis.

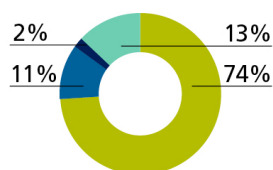
Q2 25 (1H25)



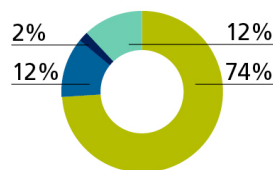
Q1 25



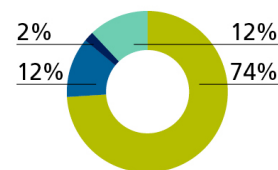
Q4 24 (FY24)



Q3 24



Q2 24 (1H24)



■ Fixed income and cash

■ Alternatives

■ Property

■ Equity and infrastructure

## Life financial results

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<sup>1</sup> 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<sup>2</sup> and was awarded Money Magazine’s ‘Longevity Cover Excellence Award’ in 2024<sup>3</sup>.

Life’s products are distributed in Australia via independent financial advisers, financial adviser administrative platforms, superannuation funds and directly. Life’s products are included on all major financial advice hubs’ 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.

In addition, 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.

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. Refer to page 30 for more detail.

Life also participates in wholesale reinsurance longevity and mortality transactions (refer to page 25 for more detail).

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

### Normalised NPAT and ROE (post-tax)

Life’s normalised NPAT was \$225m in 1H25 and increased by \$15m (7%) on 1H24. The increase in normalised NPAT reflects a \$26m (7%) increase in Normalised Cash Operating Earnings (COE), partially offset by a \$1m (2%) increase in expenses and a \$10m (11%) increase in normalised tax.

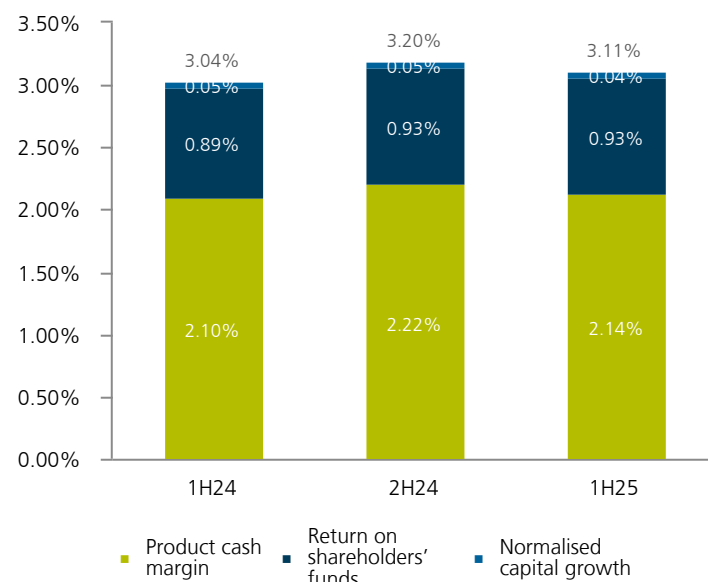
Life’s Normalised ROE (post-tax) was 13.0% in 1H25 and increased by 50 bps on 1H24, driven by the increase in normalised NPAT, partially offset by a 3% increase in average net assets.

### Normalised Cash Operating Earnings (COE) and COE margin

1H25 Normalised COE was \$386m and increased by \$26m (7%) on 1H24. Normalised COE increased as a result of:

- higher average investment assets, which increased by 5% on 1H24 to \$25b; and
- higher COE margin, which increased by 7 bps on 1H24 to 3.11%.

### Life COE margin composition



<sup>1</sup> The word ‘guaranteed’ means payments are guaranteed by CLC from assets of either its relevant statutory fund or shareholder fund.

<sup>2</sup> Plan for Life - September 2024 - based on annuities under administration.

<sup>3</sup> 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.

### 1H24 to 1H25 COE margin

Life's 1H25 COE margin was 3.11% and increased by 7 bps on 1H24 as a result of the following:

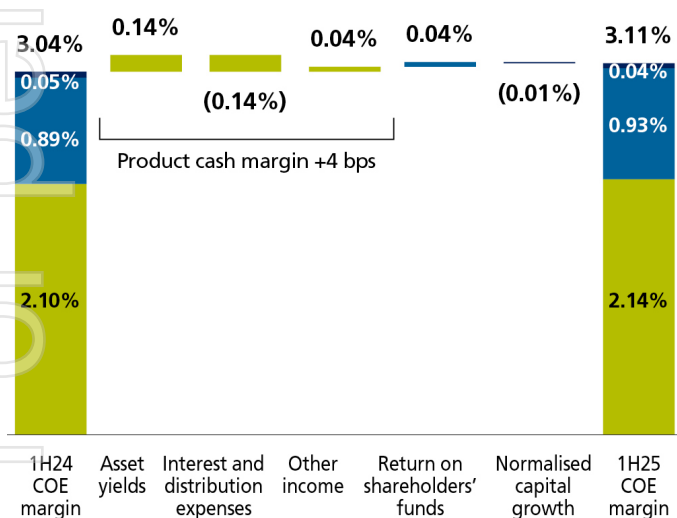
- Higher product cash margin (+4 bps): The product cash margin represents the investment return on annuities and institutional products, less associated interest and direct distribution expenses. The product cash margin also includes other income, including Life Risk and Solutions revenue (refer to page 25). The product cash margin drivers included:
  - Higher investment yield on policyholder funds (+14 bps): Reflects higher yields on fixed income securities and a greater allocation to alternative investments;
  - Higher interest expense (-14 bps): Reflects the impact of higher interest rates on the reported cost of annuity and institutional business over 1H25;
  - Stable distribution expenses: Distribution expenses relate to payments made for the acquisition and management of annuities; and
  - Higher other income (+4 bps): Predominantly reflects higher Life Risk income (refer to page 25 for more detail).
- Higher return on shareholders' funds (+4 bps): This reflects the impact of higher interest rates and higher average shareholder funds. For example, the average 3-month Bank Bill Swap rate increased from 428 bps in 1H24 to 443 bps in 1H25 resulting in an increase in investment earnings on shareholder capital.
- Lower normalised capital growth (-1 bp): This primarily reflects a lower allocation to property and higher allocation to alternatives over 1H25 (noting that alternatives has a zero normalised growth assumption).

### 2H24 to 1H25 COE margin

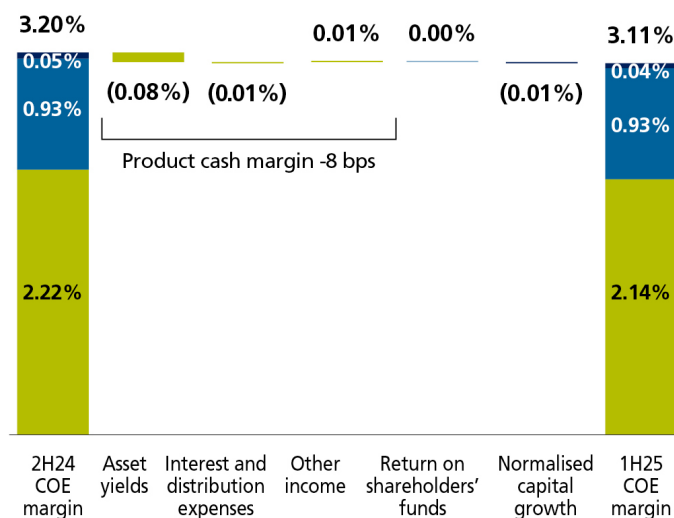
Life's 1H25 COE margin was 3.11% and decreased by 9 bps on 2H24 as a result of the following:

- Lower product cash margin (-8 bps): The product cash margin drivers included:
  - Lower investment yield on policyholder funds (-8 bps): Relates to timing of distributions from catastrophe bonds received in 2H24, lower yields on fixed income securities from contraction in spreads and lower yields on property due to a vacancy in one office building;
  - Higher interest expense (-1 bp): Reflects the impact of higher interest rates on the reported cost of annuity business;
  - Stable distribution expenses: Distribution expenses relate to payments made for the acquisition and management of annuities; and
  - Higher other income (+1 bp): Reflects higher Life Risk income (refer to page 25 for more detail).
- Stable return on shareholders' funds.
- Lower normalised capital growth (-1 bp): This reflects a lower proportion of property and higher proportion of alternatives over 1H25 (noting that alternatives has a zero normalised growth assumption).

1H24 to 1H25 COE margin



2H24 to 1H25 COE margin



■ Product cash margin    ■ Return on shareholders' funds    ■ Normalised capital growth

## Life Risk

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

Wholesale longevity and mortality transactions are an investment strategy undertaken by the Life business. Life is participating in established markets, has specialised expertise, and is taking a disciplined approach to the wholesale Life Risk opportunity.

The present value of future management profits arising from the Life Risk portfolio was \$938m at 31 December 2024, up 12% from \$842m at 30 June 2024. The increase was driven by the completion of a reinsurance transaction with a UK insurer in December 2024, which increased the expected future profit of this business. This was partially offset by the release of profits recognised in Normalised COE in 1H25.

The Life Risk portfolio has an average duration of 11 years.

1H25 Life Normalised COE includes \$31m of income from Life Risk transactions, which represents the release of profit and expense margins, and was up \$6m from \$25m in 1H24. The increase was largely driven by FX impacts and a decline in UK mortality improvements in 2H24, which results in an increase in expected future net inflows.

## Solutions Group

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

Revenue from the Solutions Group is included in Other income within Life's Normalised COE. The Solutions Group 1H25 revenue was \$3m (1H24 \$2m).

## Expenses

1H25 Life expenses were \$60m and increased by \$1m (2%) on 1H24. This includes savings from the transition of Challenger's technology operations to Accenture used to fund additional strategic investment to re-platform Life's core customer registry and technology, and migrate its data warehouses to the cloud.

With Normalised COE up 7%, Life's cost to income ratio decreased 80 bps to 15.4% demonstrating expense discipline and operating leverage.

## Asset and liability experience overview

Challenger Life is required by Australian Accounting Standards to value assets at fair value, while liabilities are valued in accordance with relevant accounting standards. This gives rise to fluctuating valuation movements on assets and policy liabilities being recognised in the statutory profit and loss, particularly during periods of increased market volatility.

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

Policy liabilities are valued using the risk-free discount rate plus an illiquidity premium, generating a loss at issue (new business strain). In addition, AASB 17 has introduced accounting mismatches in the liability valuation after issue (refer to page 26 for more detail).

Asset and liability experience removes the volatility arising from valuation movements to more accurately reflect the underlying performance of the Life business. Changes in macroeconomic variables and actuarial assumptions impact the value of Life's assets and liabilities. This includes changes to bond yields, inflation factors, expense assumptions, mortality rate assumptions and other factors applied in the valuation of life contract liabilities.

1H25 asset experience was a loss of \$118m (pre-tax), representing the total return generated across the investment portfolio (\$715m) less the amount recorded in Normalised Cash Operating Earnings (\$833m). The amount recorded in Normalised Cash Operating Earnings includes investment yield and normalised capital growth of \$5m (refer to page 20).

1H25 liability experience loss of \$76m (pre-tax) includes a loss of \$79m in relation to the AASB 17 impact on the Life Risk business.

(\$m)	Total return	Investment yield <sup>1</sup>	Asset experience
Fixed Income	591	561	30
Alternatives	68	145	(77)
Property	33	101	(68)
Equity and infrastructure	23	26	(3)
<b>Total Asset experience</b>	<b>715</b>	<b>833</b>	<b>(118)</b>

(\$m)	Liability experience	
Policy liabilities	—	26
New business strain	—	(23)
Impact of AASB 17 on Life Risk business	—	(79)
<b>Total Liability experience</b>	<b>—</b>	<b>(76)</b>

<sup>1</sup>Includes investment yield on policyholder funds and shareholder funds and normalised capital growth.

## Asset experience (pre-tax)

Asset experience is calculated as the difference between the total return (both realised and unrealised) generated on Life's investment portfolio less the amount recorded in Life's Normalised Cash Operating Earnings (which includes expected normalised capital growth).

Additional detail has been provided in relation to the total return generated on each asset class (refer to page 25).

Asset experience in 1H25 was a loss of \$118m, primarily driven by Property (-\$68m) and Alternatives (-\$77m). The Property asset experience relates to the revaluation of Australian commercial properties and Alternatives relates to the total return being less than the long-term total return assumption.

Experience by asset class comprised the following:

### Fixed income (+\$30m):

- The impact of tighter credit spreads resulting in a valuation gain of \$32m. Credit spreads tightened with investment-grade credit spreads decreasing by ~1 bp and sub-investment-grade credit spreads narrowing by ~32 bps.
- The net impact of credit defaults -\$2m, representing credit defaults of \$34m being \$2m higher than the normalised capital growth of \$32m, which reflects an allowance for expected credit expected defaults. Credit defaults in 1H25 of \$34m (or -19 bps) predominantly reflected 3 investments that were downgraded, per Life's policy to treat all investments rated below B- as being in default.

### Alternatives (-\$77m):

- Reflects Challenger's absolute return fund portfolio, general insurance portfolio and life insurance portfolio.
- The asset experience on the alternatives portfolio was a loss of \$77m, with a total return gain of \$68m, however was less than the return assumption recorded in NCOE of \$145m.

### Property (-\$68m):

- Reflects the revaluation of Life's property portfolio, with a revaluation loss of \$41m, compared to assumed normalised capital growth at 2% per year (\$27m) which is recorded in NCOE.
- All properties were revalued in 1H25, with 57% of direct properties independently valued. The revaluation loss predominantly relates to cap rate expansion in domestic office. Refer to page 40 for more information.

### Equity and infrastructure (-\$3m):

- Reflects a revaluation gain of \$6m, compared to assumed normalised capital growth (\$9m), which is recorded in NCOE. In 1H25, the MSCI Daily Total Return Net World Index (Bloomberg NDDLWI) returned ~7% over the six months to 31 December 2024.

## Liability experience (pre-tax)

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.

Liability experience was a loss of \$76m in 1H25, comprising the following:

- AASB 17 impact on Life Risk business (-\$79m): Largely driven by an accounting mismatch that arises under AASB 17 (refer below for more information);
- New business strain (-\$23m): Refer below for more information; and
- Policy Liabilities (+\$26m): Reflects \$69m of other valuation gains, which reflect the impacts of relative movements of instruments used for hedging purposes, including foreign currency overlay strategies, inflation-linked and fixed-rate government and semi-government securities. This is partially offset by an illiquidity premium loss of \$43m.

### Illiquidity premium

In accordance with the Prudential Standards and Australian Accounting Standards, Challenger Life values its annuities using a risk-free discount rate, which is based on the Australian Government Bond curve plus an illiquidity premium.

Movements in credit spreads impact the illiquidity premium.

The illiquidity premium loss in 1H25 was \$43m and reflects the impact of tighter credit spreads used to value policy liabilities.

### 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. The new business strain reported in the period represents the non-cash loss on new sales, net of reversal of the new business strain of prior period sales.

The 1H25 new business strain was a loss of \$23m, down from a loss of \$58m in 1H24, as a result of lower institutional lifetime annuity sales that included a \$619m group lifetime annuity policy win.

### AASB 17 impact on Life Risk business

Accounting Standard AASB 17 *Insurance Contracts* (AASB 17) came into effect for Challenger on 1 July 2023, introducing a number of accounting mismatches that can create volatility in statutory profit. In particular, this impacts the Life Risk business where the liability includes the present value of future cash flows (PVFCF), which is measured at current interest rates, and a contractual service margin (CSM), which is measured at the interest rates on the date the business was written (locked-in rates).

This means that the policy liability for the Life Risk business is sensitive to changes in interest rates in the UK, the value of the British pound against the Australian dollar, and UK mortality rate assumptions, which creates ongoing profit volatility.

In 1H25, the liability experience from the impact of AASB 17 on the Life Risk business was a loss of \$79m predominantly driven by the increased yield in the UK Gilt curve. Given the CSM (a positive liability component) is valued at locked-in rates while the PVFCF (a negative liability component) is valued at current rates, the increase in rates reduced the PVFCF, increasing the policy liability and thereby resulting in a non-cash statutory loss for 1H25. Appreciation of the British pound relative to the Australian dollar over 1H25 increases both the CSM and PVFCF, causing a further non-cash statutory loss for the period.

Under APRA Prudential Standards for capital, a more economic approach to valuing the liabilities is applied, rather than the accounting treatment (although there are secondary tax impacts on capital that arise related to the AASB 17 accounting liability).

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## Life sales and AUM

### Total Life sales

Challenger has focused on improving the quality of the Life book through its focus on growing sales across longer duration annuity products.

In 1H25, total Life sales were \$4.6b that included record retail lifetime annuity sales and Japanese annuity sales, offset by lower shorter duration fixed term annuity sales.

### Annuity and Challenger Index Plus sales

In 1H25, Challenger Life achieved annuity sales of \$2.9b, down \$0.4b or 13% on 1H24 that included a \$619m group lifetime annuity policy win.

Annuity sales comprised:

- Domestic retail term and lifetime annuity sales of \$1.8b, down \$38m or 2% on 1H24;
- Domestic institutional term and lifetime annuity sales of \$445m, down \$0.7b or 60% on 1H24; and
- Japanese sales of \$616m, up \$269m or 78% on 1H24.

### Domestic retail annuity sales

Domestic retail annuity sales were \$1,811m and comprised:

- term annuity sales of \$1,228m, which decreased by \$152m or 11% on 1H24; and
- lifetime annuity sales of \$583m, which increased by \$114m or 24% on 1H24.

Term annuities are cash, term and fixed income replacement products with flexibility around tenor and returns to suit a broad range of customer needs. In 1H25, term annuity sales were impacted by an inverted yield curve that discouraged customers from investing in longer terms and competition in short term fixed income products.

Domestic retail lifetime annuity sales of \$583m were a record for this half year, supported by rising demand for guaranteed lifetime income and a growing number of Australians entering retirement and aged care. Liquid Lifetime sales were \$245m (1H24 \$206m) and CarePlus sales were \$338m (1H24 \$263m).

Domestic retail annuity sales growth is supported through solid reinvestment by customers, with approximately 62% of term maturities reinvested in 1H25.

### Domestic institutional sales

Domestic institutional sales were \$2,199m, down \$859m or 28% on 1H24 and comprised:

- Institutional term annuity sales of \$417m, down \$64m or 13%;
- Institutional lifetime annuity sales of \$28m, down \$592m; and
- Challenger Index Plus sales of \$1,754m, down \$204m or 10%.

**Institutional term annuity** sales of \$417m predominantly reflects lower reinvestment rates due to increased competition for short duration fixed income as well as some clients rotating away from short-term secure fixed income to other investments.

Challenger maintained a disciplined approach to institutional term annuity pricing that resulted in lower institutional term annuities reinvested.

A key focus for Challenger has been growing longer duration business by deepening its relationships with institutional customers, particularly leading superannuation funds, and supporting them through the provision of innovative guaranteed income solutions. Refer to page 5 for more information on how Challenger is supporting institutional customers.

**Institutional lifetime sales** of \$28m predominantly reflects a group lifetime annuity policy to the value of \$23m that was issued to support a defined benefit fund de-risking transaction.

The defined benefit pension market presents a significant growth opportunity for Challenger as an increasing number of corporate pension plans and superannuation funds look to de-risk their defined pension liabilities.

**Challenger Index Plus sales** represent the sales made on Index Plus products. The Challenger Index Plus range provides clients contractual alpha above a pre-agreed benchmark with flexibility in relation to the term and underlying index return, with the security of an A-rated<sup>1</sup>, prudentially regulated counterparty and zero fees.

Superannuation funds have had intense focus and pressure on their fees and performance, which will aid Challenger Index Plus sales, as it delivers contractual alpha in a zero fee product.

Challenger Index Plus sales were \$1,754m in 1H25, with \$408m of new inflows and \$1,346m of maturities reinvested. Reinvestment rates from clients were approximately 60% of Index Plus maturities in 1H25 (1H24 55%).

<sup>1</sup> Standard & Poor's Global Ratings (S&P) Challenger Life Company Limited 'A' rating with a stable outlook.

## Japanese annuity sales

Since November 2016, Challenger has had an annuity reinsurance partnership with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary), a leading provider of both Japanese yen and foreign currency annuity and life insurance products in Japan (refer to page 30 for more information). This reinsurance partnership provides Challenger access to the Japanese annuities market and is helping to diversify its distribution channels and product offering.

In May 2024, the reinsurance partnership between Challenger and MS Primary was extended for a further five years. Under the new agreement, Challenger will receive a quota share of reinsurance across Australian dollar, US dollar and Japanese yen denominated annuities issued in Japan by MS Primary. MS Primary will provide to Challenger an annual amount of reinsurance of at least ¥50 billion per year (currently ~A\$490m<sup>2</sup>) for the next five years, subject to review in the event of a material adverse change for either MS Primary or Challenger.

Japanese (MS Primary) annuity sales are included in Life's annuity sales and were \$616m, up 78% from \$346m in 1H24.

MS Primary annuity sales represented ~21% of Challenger's 1H25 total annuity sales and exceeded the FY25 annual minimum target by ~26%. Japanese yen denominated annuity sales were very strong and represented approximately 80% of total sales provided by MS Primary to Challenger in 1H25.

## New business tenor

The tenor of new business annuity sales<sup>3</sup> was 6.4 years in 1H25, which continues to have a positive effect on the overall book composition.

## Life book liability maturity profile

Maturities represent annuity maturities and repayments (excluding interest payments) in the year. Total annuity maturities in 1H25 were \$2.7b and represented 15% of opening period annuity liability (undiscounted liability of \$18.2b).

The FY25 maturity rate is expected to be 24% (2H25 9%).

## Net book growth

Across both annuity and institutional Challenger Index Plus business, 1H25 total Life net outflows were \$347m and represented total book growth of -1.7%.

### Life annuity book growth

1H25 Life annuity net flows (annuity sales less capital repayments) were \$149m, down from \$508m in 1H24. Net flows reflect Life annuity sales of \$2,871m (down 13%) and lower maturities of \$2,722m (down 2%).

Based on the opening Life annuity book liability (\$15,279m), 1H25 annuity book growth was 1.0%.

### Challenger Index Plus book growth

Challenger Index Plus net flows (i.e. Challenger Index Plus sales less capital repayments) represent net flows on the Challenger Index Plus products.

In 1H25, Challenger Index Plus net outflows were \$496m, up from net outflows of \$180m in 1H24. Based on the opening Challenger Index Plus liabilities (\$5,356m), 1H25 Challenger Index Plus book growth was -9.3%.

### Average AUM

Life's average investment assets were \$24.6b in 1H25 and increased by 5% (\$1.1b) on 1H24.

The increase in average investment assets primarily reflects book growth in FY24.

<sup>2</sup> Based on 3-month average exchange rate at 30 June 2024.

<sup>3</sup> Based on new business annuity sales, including term annuities and Lifetime sales, excluding reinvestments.

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

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

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

Japan has one of the world's most rapidly ageing populations, which is looking for income from longer-dated annuity income products. This has driven significant demand for foreign currency annuities in addition to Japanese yen annuities.

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

In March 2019, Challenger and MS&AD announced an expansion to their strategic relationship. Under the expanded strategic relationship, from 1 July 2019, Challenger commenced a quota share reinsurance of US dollar denominated annuities and in November 2023, the relationship expanded again as Challenger commenced quota share reinsurance of MS Primary's Japanese yen denominated annuities.

In May 2024, the reinsurance partnership between Challenger and MS Primary was extended for a further five years. Under the new agreement, Challenger will receive a quota share of reinsurance across Australian dollar, US dollar and Japanese yen denominated annuities issued in Japan by MS Primary, commencing from 1 July 2024. MS Primary will provide to Challenger an annual amount of reinsurance of at least ¥50 billion per year (currently ~A\$490m<sup>1</sup>) for the next five years, subject to review in the event of a material adverse change for either MS Primary or Challenger Life. Challenger will also support MS Primary with any new reinsurance requirements that MS Primary may have.

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

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

In 1H25, MS Primary sales were \$616m, up 78% on 1H24 and represented ~21% of Challenger Life's 1H25 total annuity sales (~11% in 1H24).

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

Reflecting on the strength and breadth of the strategic partnership, in April 2021 Challenger entered an Investment Management Agreement with MS Primary to assist in developing and executing its direct Japanese real estate strategy.

MS&AD is a significant investor in Challenger and as at 31 December 2024, held ~15% of Challenger's issued capital.

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

<sup>1</sup> Based on 3-month average exchange rate at 30 June 2024.

# Retirement income regulatory reforms

## Objective of superannuation

In 2023, the Australian Government proposed that legislating the objective of superannuation would provide stability and confidence to policymakers, regulators, industry and the community, and that changes to superannuation policy would be aligned to the purpose of the superannuation system. It was also proposed that legislation would ensure that superannuation members and funds have a shared understanding of the purpose of superannuation throughout both accumulation and retirement phases.

The *Superannuation (Objective) Act 2024* (Cth) commenced on 7 January 2025 to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.

Challenger has been a strong advocate of retirement income reforms that enhance the lives of older Australians and supports the legislation of the objective of superannuation, which will give guidance to policymakers to prioritise the provision of retirement income, creating significant economic and social policy benefits.

## Retirement Income Covenant

The Retirement Income Covenant (RIC) came into effect on 1 July 2022 as part of the *Superannuation Industry Supervision Act 1993* (Cth) (SIS Act) and requires trustees of all APRA-regulated superannuation funds to formulate, review regularly and give effect to a retirement income strategy that outlines how they plan to assist their members in, and approaching, retirement. The trustee's strategy will assist members to achieve and balance the key objectives of the covenant to:

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

Superannuation funds are working on their retirement propositions and are looking to engage with trusted partners to deliver components of their comprehensive retirement offering.

In 2023, a joint review by APRA and ASIC found that there was variability in the quality of approach undertaken among superannuation funds and an insufficient urgency in embracing the RIC to improve members' retirement outcomes. In July 2024, APRA and ASIC issued a joint update urging superannuation funds to strengthen the oversight of their retirement strategy to improve members' retirement outcomes.

In November 2024, the Australian Government tasked APRA and ASIC with undertaking a Pulse Check report by the end of 2025 to monitor the progress of superannuation funds in implementing their strategies under the RIC. The Pulse Check will inform the design of a new Retirement Reporting Framework that will commence in 2027 to monitor outcomes delivered to members with greater transparency.

Challenger is supporting superannuation funds to develop and deliver comprehensive solutions for their members that address the risks members face in the retirement phase, providing them with confidence to spend in retirement.

## Delivering Better Financial Outcomes (DBFO) reform

In 2023, as part of its final response to the Quality of Advice Review (QAR) chaired by Michelle Levy, the Australian Government progressed its 'Delivering Better Financial Outcomes' (DBFO) package of reforms, which focused on improving the accessibility and affordability of quality financial advice in Australia.

In July 2024, the first tranche of the DBFO package was passed with 11 out of the 22 QAR recommendations being implemented. In December 2024, the Government provided an update on the second tranche of the DBFO package, whereby it is developing draft legislation for public consultation aiming to:

- expand advice services by creating a new class of advisers that is able to provide safe and simple advice to more Australians;
- reduce unnecessary compliance for advisers by modernising the best interests duty, removing safe harbour steps and reforming statements of advice;
- clarify the rules on what advice topics can be paid for through superannuation, including through collectively charged arrangements; and
- allow superannuation funds to provide helpful 'nudges' to drive greater member engagement.

Challenger supports the Government's DBFO package of reforms, which will make quality and affordable financial advice more accessible to more Australians as they prepare for retirement.

## Retirement phase of superannuation

The Australian Government is continuing with measures to enhance the retirement phase of superannuation and how it can best provide the security and income Australians need as they live longer and healthier lives in retirement.

In November 2024, the Government issued its response to the Treasury consultation on the retirement phase of superannuation, which included reforms focused on increasing education and awareness around superannuation and retirement options, improving the income stream regulations to support innovation in retirement products, the development of best-practice principles to guide the superannuation industry in designing retirement income products, and increased transparency through a new Retirement Reporting Framework from 2027.

Challenger strongly supports the Government's work to enhance Australia's superannuation system. There is a need for Australians to have better access to information, advice and well-rounded retirement income products, which can be best provided by a competitive lifetime income market.

## Life balance sheet

\$m	1H25	FY24	1H24	FY23	1H23	FY22	1H22
<b>Assets</b>							
<b>Life investment assets</b>							
Cash and equivalents	2,604.2	2,960.6	2,614.1	2,363.2	2,344.2	1,585.0	2,092.1
Asset-backed securities	10,428.0	10,990.0	10,382.0	10,133.8	9,920.3	9,994.6	9,300.6
Corporate credit	4,931.0	4,383.0	4,881.0	5,302.6	5,356.5	5,079.8	5,638.4
Fixed income and cash <sup>1</sup>	17,963.2	18,333.5	17,877.1	17,799.6	17,621.0	16,659.4	17,031.1
Alternatives	3,460.7	3,167.1	2,888.1	2,384.7	2,026.6	1,366.3	1,226.4
Property <sup>1</sup>	2,687.6	2,761.6	2,963.7	3,062.4	3,178.3	3,227.0	3,583.3
Equity and infrastructure <sup>1</sup>	535.0	448.3	365.2	291.3	259.0	971.1	1,096.1
<b>Life investment assets</b>	<b>24,646.5</b>	<b>24,710.5</b>	<b>24,094.1</b>	<b>23,538.0</b>	<b>23,084.9</b>	<b>22,223.8</b>	<b>22,936.9</b>
Other assets (including intangibles)	575.3	637.3	610.4	619.7	619.7	543.0	696.1
<b>Total assets</b>	<b>25,221.8</b>	<b>25,347.8</b>	<b>24,704.5</b>	<b>24,157.7</b>	<b>23,704.6</b>	<b>22,766.8</b>	<b>23,633.0</b>
<b>Liabilities</b>							
Life annuity book <sup>2</sup>	15,727.8	15,278.5	15,034.6	13,930.0	14,278.4	13,595.4	14,092.5
Index Plus liabilities	4,812.6	5,356.3	5,107.6	5,268.8	4,620.2	4,386.4	4,381.8
Subordinated debt <sup>3</sup>	427.0	426.3	427.5	411.3	407.8	399.7	401.6
Challenger Capital Notes	735.0	735.0	735.0	735.0	845.0	845.0	872.7
Other liabilities	82.8	99.2	76.8	81.3	50.9	7.7	224.5
<b>Total liabilities</b>	<b>21,785.2</b>	<b>21,895.3</b>	<b>21,381.5</b>	<b>20,426.4</b>	<b>20,202.3</b>	<b>19,234.2</b>	<b>19,973.1</b>
<b>Net assets</b>	<b>3,436.6</b>	<b>3,452.5</b>	<b>3,323.0</b>	<b>3,731.3</b>	<b>3,502.3</b>	<b>3,532.6</b>	<b>3,659.9</b>

<sup>1</sup> Fixed income, property and infrastructure are reported net of debt.

<sup>2</sup> Policy liabilities increased by \$362.2 million on 1 July 2023 upon adoption of AASB 17. Life annuity book from 1H24 is reported on a AASB 17 basis. Periods prior to 1H24 have not been restated for the impact of AASB 17.

<sup>3</sup> 1H25 Tier 2 regulatory capital – subordinated debt (\$427.0 million) differs to the Group balance sheet (\$418.5 million) due to accrued interest.

## Life investment portfolio overview

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

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

Life's investment assets are as follows:

\$m	31 December 2024	30 June 2024
Fixed income and cash	73%	74%
Alternatives	14%	13%
Property	11%	11%
Equity and infrastructure	2%	2%

### Fixed income portfolio overview

Life's fixed income and cash portfolio was \$18.0b at 31 December 2024 and decreased by 2% (\$0.4b) from \$18.3b at 30 June 2024. The decrease primarily reflects 1H25 negative net book growth.

The fixed income and cash portfolio represented 73% of Life's investment assets at 31 December 2024, down from 74% at 30 June 2024. The fixed income portfolio comprises approximately 2,000 different securities.

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

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

Life targets to hold at least 75% of its fixed income portfolio as investment grade (i.e. BBB or higher). At 31 December 2024, 75% of the fixed income portfolio was investment grade, down 5% from 80% at 30 June 2024, which largely reflects the timing of investment decisions within the portfolio. The weighted average credit rating at 31 December 2024 was 'A', unchanged from 30 June 2024.

A total of 79% of the fixed income portfolio is externally rated (by Standard & Poor's, Fitch or Moody's) with the remainder internally rated based on methodologies calibrated to either Standard & Poor's or Moody's ratings framework.

The fixed income and cash portfolio is predominantly Australian focused, with approximately 54% of the fixed income portfolio invested in Australian-based securities.

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

### Fixed income credit default experience

Challenger's normalised growth assumption for fixed income is -35 bps, representing an allowance for credit default losses. In 1H25, the credit default loss recognised in asset experience was -19 bps (\$34m) or -37 bps annualised, which is broadly in-line with Challenger's -35 bps per annum assumption. Credit defaults predominantly represented 3 investments that were downgraded per Life's policy to consider all investments rated below B- as being in default.

Over the past five financial years, the average credit default loss experience recognised in asset experience has been -16 bps per annum.

Detailed disclosure of Life's fixed income portfolio is included on pages 34 to 37. The fixed income disclosures include the following tables:

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

**Table 1: Fixed income portfolio overview**

31 December 2024		\$m	% portfolio	
<b>Liquids</b>		2,604	14%	Includes cash and equivalents and Government Bonds (net of repurchase agreements) and strategies earning a spread with limited credit risk
	Senior Secured Loans	3,431	19%	Senior debt secured by collateral and typically originated by Challenger
	Residential Mortgage-Backed Securities (RMBS)	3,182	18%	Financing secured against a pool of underlying residential mortgages
<b>Asset-Backed Securities (ABS)</b>	Other ABS	3,433	20%	Financing secured against underlying assets, where asset security includes motor vehicle, equipment and consumer finance
	Commercial Mortgage-Backed Securities (CMBS)	317	2%	Securitisations of underlying commercial property mortgages
	Aviation Finance	65	—	Secured commercial aircraft financing
	Non-Financial Corporates	2,212	12%	Traded commercial loans to non-financial corporates (includes exposures to retail, hotels, media, mining and health care)
	Banks and Financials	982	5%	Corporate loans to banks, insurance companies and fund managers
<b>Corporate Credit</b>	Infrastructure	662	4%	Long-dated inflation-linked bonds issued by Public Private Partnership projects and loans to infrastructure companies
	Commercial Real Estate	554	3%	Loans secured against commercial real estate assets and typically originated by Challenger
	Senior Secured Loans	521	3%	Senior debt secured by collateral
<b>Total</b>		<b>17,963</b>	<b>100%</b>	

Table 2: Fixed income portfolio by credit rating

31 December 2024 (\$m)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	\$m
<b>Liquids</b>										
Government bonds <sup>1</sup>	1,174	—	—	—	—	1,174	—	—	—	1,174
Cash & Equivalents <sup>2</sup>	1,215	—	—	—	—	1,215	—	—	—	1,215
Covered bonds	215	—	—	—	—	215	—	—	—	215
<b>Asset-Backed Securities</b>										
Senior Secured Loans	—	959	678	367	586	2,590	831	10	841	3,431
RMBS	—	1,180	1,092	493	261	3,026	111	45	156	3,182
Other ABS	—	903	862	536	482	2,783	475	175	650	3,433
CMBS	—	67	82	84	40	273	34	10	44	317
Aviation Finance	—	—	—	10	22	32	—	33	33	65
<b>Corporate Credit</b>										
Non-Financial Corporates	—	6	22	2	555	585	806	821	1,627	2,212
Banks and Financials	—	1	5	239	543	788	163	31	194	982
Infrastructure	—	2	82	164	269	517	99	46	145	662
Commercial Real Estate	—	—	—	119	209	328	171	55	226	554
Senior Secured Loans	—	—	—	—	12	12	94	415	509	521
<b>Total</b>	<b>2,604</b>	<b>3,118</b>	<b>2,823</b>	<b>2,014</b>	<b>2,979</b>	<b>13,538</b>	<b>2,784</b>	<b>1,641</b>	<b>4,425</b>	<b>17,963</b>
Fixed income portfolio (%)	14%	17%	16%	11%	17%	75%	16%	9%	25%	100%
Average duration (years)	—	1.9	2.6	3.5	4.0	3.0	3.1	2.8	3.0	3.0

31 December 2024 (%)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
<b>Liquids</b>										
Government bonds <sup>1</sup>	100%	—	—	—	—	100%	—	—	—	100%
Cash & Equivalents <sup>2</sup>	100%	—	—	—	—	100%	—	—	—	100%
Covered bonds	100%	—	—	—	—	100%	—	—	—	100%
<b>Asset-Backed Securities</b>										
Senior Secured Loans	—	28%	19%	11%	17%	75%	25%	—	25%	100%
RMBS	—	37%	35%	15%	8%	95%	4%	1%	5%	100%
Other ABS	—	26%	25%	16%	14%	81%	14%	5%	19%	100%
CMBS	—	21%	26%	26%	13%	86%	11%	3%	14%	100%
Aviation Finance	—	—	—	15%	34%	49%	—	51%	51%	100%
<b>Corporate Credit</b>										
Non-Financial Corporates	—	—	1%	—	25%	26%	36%	38%	74%	100%
Banks and Financials	—	—	1%	24%	55%	80%	17%	3%	20%	100%
Infrastructure	—	—	12%	25%	41%	78%	15%	7%	22%	100%
Commercial Real Estate	—	—	—	21%	38%	59%	31%	10%	41%	100%
Senior Secured Loans	—	—	—	—	2%	2%	18%	80%	98%	100%
<b>Total</b>	<b>14%</b>	<b>17%</b>	<b>16%</b>	<b>11%</b>	<b>17%</b>	<b>75%</b>	<b>16%</b>	<b>9%</b>	<b>25%</b>	<b>100%</b>

<sup>1</sup> Government Bonds are shown net of \$4,123 million of Australian Government Bonds and \$1,667 million of Australian Semi-Government Bonds, which are held via repurchase agreements. Government Bonds refinanced with repurchase agreements are used to hedge movements in interest rates. Refer to page 45 for more detail.

<sup>2</sup> Includes strategies earning a spread with limited credit risk.

**Table 3: Fixed income portfolio by rating type**

31 December 2024 (\$m)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	Less BB than BB	Total	\$m	
<b>Liquids</b>										
Externally rated	2,604	—	—	—	—	<b>2,604</b>	—	—	<b>2,604</b>	
Internally rated	—	—	—	—	—	—	—	—	—	
<b>Asset-Backed Securities</b>										
Externally rated	—	3,104	2,221	1,220	774	<b>7,319</b>	542	144	<b>686</b>	
Internally rated	—	5	493	270	617	<b>1,385</b>	909	129	<b>1,038</b>	
<b>Corporate Credit</b>										
Externally rated	—	7	82	504	1,571	<b>2,164</b>	636	779	<b>1,415</b>	
Internally rated	—	2	27	20	17	<b>66</b>	697	589	<b>1,286</b>	
<b>Total</b>	<b>2,604</b>	<b>3,118</b>	<b>2,823</b>	<b>2,014</b>	<b>2,979</b>	<b>13,538</b>	<b>2,784</b>	<b>1,641</b>	<b>4,425</b>	
Externally rated	100%	100%	82%	86%	79%	<b>89%</b>	42%	56%	<b>47%</b>	
Internally rated	—	—	18%	14%	21%	<b>11%</b>	58%	44%	<b>53%</b>	

31 December 2024 (%)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	Less BB than BB	Total	%	
<b>Liquids</b>										
Externally rated	100%	—	—	—	—	<b>100%</b>	—	—	<b>100%</b>	
Internally rated	—	—	—	—	—	—	—	—	—	
<b>Asset-Backed Securities</b>										
Externally rated	—	39%	28%	14%	10%	<b>91%</b>	7%	2%	<b>9%</b>	
Internally rated	—	—	20%	12%	25%	<b>57%</b>	38%	5%	<b>43%</b>	
<b>Corporate Credit</b>										
Externally rated	—	—	2%	14%	44%	<b>60%</b>	18%	22%	<b>40%</b>	
Internally rated	—	—	2%	1%	2%	<b>5%</b>	52%	43%	<b>95%</b>	
<b>Total</b>	<b>14%</b>	<b>17%</b>	<b>16%</b>	<b>11%</b>	<b>17%</b>	<b>75%</b>	<b>16%</b>	<b>9%</b>	<b>25%</b>	

Table 4: Fixed income portfolio by industry sector

31 December 2024 (\$m)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	\$m
Industrials and consumers	—	1,843	1,570	950	1,590	5,953	2,085	1,396	3,481	9,434
Residential property	—	1,178	1,048	432	238	2,896	184	44	228	3,124
Banks, financials & insurance	1,429	7	33	264	606	2,339	256	66	322	2,661
Government	1,175	—	—	—	—	1,175	—	—	—	1,175
Commercial property	—	88	90	204	270	652	143	68	211	863
Infrastructure and utilities	—	2	82	164	275	523	116	61	177	700
Other	—	—	—	—	—	—	—	6	6	6
<b>Total</b>	<b>2,604</b>	<b>3,118</b>	<b>2,823</b>	<b>2,014</b>	<b>2,979</b>	<b>13,538</b>	<b>2,784</b>	<b>1,641</b>	<b>4,425</b>	<b>17,963</b>

31 December 2024 (%)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Industrials and consumers	—	20%	16%	10%	17%	63%	22%	15%	37%	100%
Residential property	—	38%	33%	14%	8%	93%	6%	1%	7%	100%
Banks, financials & insurance	54%	—	1%	10%	23%	88%	10%	2%	12%	100%
Government	100%	—	—	—	—	100%	—	—	—	100%
Commercial property	—	10%	10%	25%	31%	76%	16%	8%	24%	100%
Infrastructure and utilities	—	—	12%	24%	39%	75%	16%	9%	25%	100%
Other	—	—	—	—	—	—	—	100%	100%	100%
<b>Total</b>	<b>14%</b>	<b>17%</b>	<b>16%</b>	<b>11%</b>	<b>17%</b>	<b>75%</b>	<b>16%</b>	<b>9%</b>	<b>25%</b>	<b>100%</b>

Table 5: Fixed income portfolio by geography and credit rating

31 December 2024 (\$m)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	\$m
Australia	1,216	1,980	1,454	1,109	1,563	7,322	1,498	871	2,369	9,691
United States	1,229	556	247	242	646	2,920	1,062	614	1,676	4,596
Europe	25	362	649	401	479	1,916	86	25	111	2,027
New Zealand	57	155	347	168	97	824	100	107	207	1,031
United Kingdom	—	—	126	94	178	398	17	11	28	426
Rest of world	77	65	—	—	16	158	21	13	34	192
<b>Total</b>	<b>2,604</b>	<b>3,118</b>	<b>2,823</b>	<b>2,014</b>	<b>2,979</b>	<b>13,538</b>	<b>2,784</b>	<b>1,641</b>	<b>4,425</b>	<b>17,963</b>

31 December 2024 (%)	Investment grade						Non-investment grade			Total
	Cash & Equivalents	AAA	AA	A	BBB	Total	BB	Less than BB	Total	%
Australia	13%	21%	15%	11%	16%	76%	15%	9%	24%	100%
United States	27%	12%	5%	5%	15%	64%	23%	13%	36%	100%
Europe	1%	18%	32%	20%	24%	95%	4%	1%	5%	100%
New Zealand	6%	15%	34%	16%	9%	80%	10%	10%	20%	100%
United Kingdom	—	—	30%	22%	41%	93%	4%	3%	7%	100%
Rest of the world	40%	34%	—	—	8%	82%	11%	7%	18%	100%
<b>Total</b>	<b>14%</b>	<b>17%</b>	<b>16%</b>	<b>11%</b>	<b>17%</b>	<b>75%</b>	<b>16%</b>	<b>9%</b>	<b>25%</b>	<b>100%</b>

## Alternatives portfolio overview

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

Funds in the absolute return portfolio take long and short positions in securities across different asset classes, which results in performance that is expected to be uncorrelated to capital markets.

Life utilises 21 external managers across systematic and discretionary global macro funds and market-neutral long/short funds. When these strategies are combined with traditional asset classes, they tend to provide diversification leading to improved risk-adjusted returns for the portfolio.

Over the long term, within Life's absolute return portfolio, the total return on global macro funds is expected to be broadly correlated to the Société Générale CTA Index, while the total return on equity market neutral funds is expected to be broadly correlated to the Barclays Equity Market Neutral Index (Bloomberg BGHSNEUT).

The general insurance-related investments include catastrophe bonds. Life utilises 4 external managers within the general insurance portfolio. Over the long term, the total return on Life's general insurance portfolio is expected to be broadly correlated to the Swiss Re Cat Bond Index (Bloomberg SRCATTRR).

In 1H25, Challenger's absolute return portfolio outperformed relevant benchmark indices and the general insurance portfolio performed broadly in-line, with the total return for each benchmark indices as follows:

- Société Générale CTA Index -4.59%;
- Barclays Equity Market Neutral Index +4.93%; and
- Swiss Re Cat Bond Index +11.21%.

In 1H25, the alternatives portfolio delivered a total annualised return of +4.2%.

Life's alternatives portfolio was \$3.5b at 31 December 2024 and increased by 9% (\$0.3b) from 30 June 2024. The increase was primarily driven by the depreciation of the Australian dollar against the US dollar given the majority of the alternatives portfolio are offshore investments.

<b>31 December 2024 (\$m)</b>	<b>Domestic</b>	<b>Offshore</b>	<b>Total</b>
Absolute return funds	25	2,566	<b>2,591</b>
General insurance	—	775	<b>775</b>
Life insurance	—	95	<b>95</b>
<b>Total alternatives</b>	<b>25</b>	<b>3,436</b>	<b>3,461</b>

<b>30 June 2024 (\$m)</b>	<b>Domestic</b>	<b>Offshore</b>	<b>Total</b>
Absolute return funds	24	2,316	<b>2,340</b>
General insurance	—	735	<b>735</b>
Life insurance	—	92	<b>92</b>
<b>Total alternatives</b>	<b>24</b>	<b>3,143</b>	<b>3,167</b>

## Alternatives portfolio overview

31 December 2024

\$m % portfolio

		\$m	% portfolio	
<b>Absolute Return</b>	Global Macro Funds	1,576	46%	Externally managed funds which deploy systematic or discretionary strategies that seek exposure to multiple factors such as trend, mean-reversion, value, carry, macro-economic relationships, statistical relationship, short term futures and market flows. These funds may also have a minority allocation to equity long/short or market neutral strategies.
	Equity Market Neutral funds	1,015	29%	Externally managed funds that invest in equity market neutral or equity long/short strategies. Systematic equity market neutral strategies quantitatively screen stocks to take exposure to risk premia and the behavioural biases of market participants through long and short positions in a large number of stocks. Equity long/short strategies are more concentrated and have a net equity exposure that can vary within tight bands, whereas equity market neutral target zero net equity exposure.
<b>General Insurance</b>	Catastrophe bonds	761	22%	Externally managed funds that predominantly take exposure to residual property and casualty insurance risks.
	Insurance sidecars	14	—	Externally managed special purpose vehicles that predominantly take exposure to first-loss property and casualty insurance risks.
<b>Life Insurance</b>	Life settlements	95	3%	Beneficial interests in portfolios of life insurance policies over individual lives in the US.
<b>Total</b>		<b>3,461</b>	<b>100%</b>	

## Property portfolio overview

For over 20 years, Life has invested in commercial property that generates reliable cash flows to meet future annuity obligations. Life's property portfolio principally comprises directly held properties and is diversified across office, retail and industrial properties.

Life's property portfolio was \$2.7b (net of debt) at 31 December 2024 and decreased by 3% from 30 June 2024, reflecting the disposal of two retail property assets for approximately \$127m and the reduction in carrying values on the Australian office portfolio of \$54m, partially offset by revaluation gains in industrial and Japanese properties.

The property allocation represented 11% of Life's total investment portfolio at 31 December 2024, unchanged from 30 June 2024.

Life's property portfolio is mainly focused on domestic properties providing long-term income streams. Australian properties accounted for 86% of the property portfolio.

Challenger Life has a policy that all directly owned properties are independently valued each year with approximately 50% valued in June and 50% valued in December. Internal valuations are undertaken for properties not independently valued each June and December. An independent valuation is subsequently undertaken if the internal valuation shows a significant variance to the most recent independent valuation.

In 1H25, independent valuations were obtained for 57% of the direct property portfolio.

For 1H25, the movement in the carrying value of properties was as follows:

- Australian office -3.8%;
- Australian retail +0.6%;
- Australian industrial +12.9%<sup>2</sup>; and
- Japanese portfolio +11.9% (mainly driven by the appreciation of the Yen; actual Japanese portfolio increased +1.3% in 1H25).

Australian office accounts for 51% of the portfolio, with the Federal and State governments being major tenants, accounting for 53% of 1H25 gross office rental income<sup>1</sup>.

Australian direct retail assets account for 21% of the direct portfolio and comprise six grocery-anchored convenience-based shopping centres. Over half of the rental income is derived from major supermarket chains, major Australian banks or essential services.

The weighted average capitalisation rate on Life's Australian direct portfolio was 6.79% at 31 December 2024, up 23 bps from 30 June 2024<sup>2</sup>.

Property includes a net \$373m exposure to Japanese property (14% of the portfolio), consisting primarily of suburban shopping centres focused on non-discretionary retailing. Half of the Japanese rental income is derived from supermarkets or pharmacies. The valuation of the Japanese portfolio was up 12% in 1H25 mainly driven by the appreciation of the Yen.

The property portfolio generates long-term cash flows to match long-term liabilities, with a weighted average lease expiry of 5.6 years and 59% of leasing area having contracted leases expiring in FY29 and beyond. The portfolio had an occupancy rate of 91% at 31 December 2024, in line with 30 June 2024.

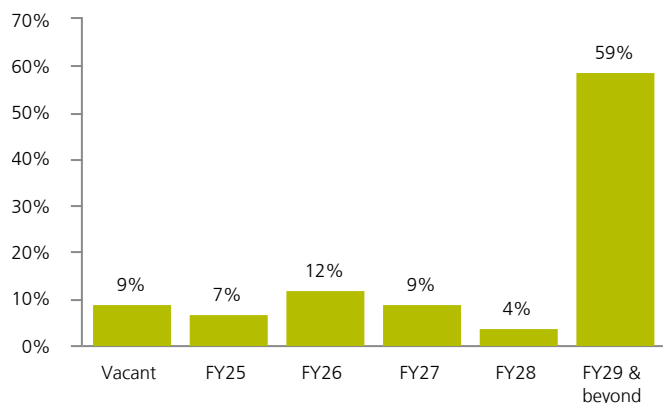
Approximately 71% of contracted leases have either annual fixed increases or inbuilt increases based on inflation or market outcomes (e.g. CPI).

Full details of Life's property portfolio are listed on pages 41 to 43.

### Property portfolio summary

% of total portfolio	1H25	FY24
Australian office	51%	51%
Australian retail	21%	25%
Australian industrial	9%	8%
Other	5%	4%
<b>Australian total</b>	<b>86%</b>	<b>88%</b>
Japanese retail	14%	12%
<b>Total</b>	<b>100%</b>	<b>100%</b>

### Portfolio lease expiry overview<sup>3</sup>



<sup>1</sup> Represents total gross passing Government income relative to direct office portfolio.

<sup>2</sup> Excluding properties held for sale.

<sup>3</sup> Direct property portfolio and jointly held assets only.

## Direct property portfolio overview<sup>1</sup>

31 December 2024	Office	Retail	Industrial	Total	
Total rent (%) <sup>2</sup>	56%	37%	7%	100%	
WALE <sup>3</sup> (years)	5.6	5.8	4.6	5.6	
<b>Tenant credit ratings</b>					
	AAA	—	—	22%	
	AA	—	—	8%	
	A	3%	1%	5%	
	BBB	7%	1%	10%	
	BB	17%	2%	30%	
	B or below	3%	3%	10%	
	Not rated	6%	—	6%	
	Vacant	1%	—	9%	
	<b>Total</b>	<b>56%</b>	<b>37%</b>	<b>7%</b>	<b>100%</b>
<b>% of total gross net</b>					
	Investment grade	10%	3%	45%	
	Non-investment grade	26%	4%	46%	
	Vacant	1%	—	9%	

<sup>1</sup> Direct property portfolio assets only.

<sup>2</sup> Excludes vacant floors/suites available for lease.

<sup>3</sup> Weighted Average Lease Expiry (WALE) assumes tenants do not terminate leases prior to expiry of specified lease term.

## Direct property investments

31 December 2024		Acquisition date <sup>1</sup>	Total cost (\$m) <sup>2</sup>	Carrying value (\$m)	Cap rate 1H25 (%) <sup>3</sup>	Last external valuation date
<b>Australia</b>						
Office						
	6 Chan Street (formerly DIBP Building), ACT	01 Dec 01	128.8	221.0	6.75	31 Dec 24
	14 Childers Street, ACT	01 Dec 17	105.1	69.0	8.38	31 Dec 24
	35 Clarence Street, NSW	15 Jan 15	163.2	192.0	6.88	30 Jun 24
	45 Benjamin Way (formerly ABS Building), ACT	01 Jan 00	152.8	197.0	7.13	30 Jun 24
	82 Northbourne Avenue, ACT	01 Jun 17	64.0	25.0	7.63	31 Dec 24
	215 Adelaide Street, QLD	31 Jul 15	273.3	189.0	8.13	30 Jun 24
	565 Bourke Street, VIC	28 Jan 15	114.4	114.0	6.75	31 Dec 24
	839 Collins Street, VIC	22 Dec 16	213.6	175.5	6.75	31 Dec 24
	Discovery House, ACT	28 Apr 98	106.1	134.0	6.88	30 Jun 24
	Executive Building, TAS	30 Mar 01	36.4	40.0	7.38	30 Jun 24
Retail						
	Gateway, NT	01 Jul 15	125.2	109.8	7.00	30 Jun 24
	Golden Grove, SA	31 Jul 14	163.3	150.0	6.75	31 Dec 24
	Helicon Drive, SA	05 Oct 22	10.8	9.5	6.00	31 Dec 24
	Kings Langley, NSW	29 Jul 01	16.8	28.0	5.63	31 Dec 24
	Lennox, NSW	27 Jul 13	70.6	80.0	6.25	30 Jun 24
	North Rocks, NSW	18 Sep 15	192.3	181.0	6.25	31 Dec 24
Industrial						
	Cosgrave Industrial Park, Enfield, NSW	31 Dec 08	96.6	198.0	5.25	31 Dec 24
<b>Total Australia</b>			<b>2,033.3</b>	<b>2,112.8</b>	<b>6.79</b>	

<sup>1</sup> Acquisition date represents the date of CLC's initial acquisition or consolidation of the investment vehicle holding the asset.

<sup>2</sup> Total cost represents the original acquisition cost plus additions less partial disposals since acquisition date.

<sup>3</sup> The capitalisation rate is the rate at which net market income is capitalised to determine the value of the property. The rate is determined with regard to market evidence.

## Direct property investments (continued)

31 December 2024	Acquisition date <sup>1</sup>	Total cost (\$m) <sup>2</sup>	Carrying value (\$m)	Cap rate 1H25 (%) <sup>3</sup>	Last external valuation date
<b>Japan</b>					
Retail					
Aeon Kushiro	31 Jan 10	30.5	30.9	5.30	31 Dec 24
Carino Chitosedai	31 Jan 10	119.2	113.1	4.30	31 Dec 24
Carino Tokiwadai	31 Jan 10	78.4	67.0	4.50	30 Jun 24
DeoDeo Kure	31 Jan 10	32.8	27.9	5.40	30 Jun 24
Fitta Natalie Hatsukaichi	28 Aug 15	12.1	11.6	5.80	31 Dec 24
Izumiya Hakubaicho	31 Jan 10	70.2	60.8	4.80	31 Dec 24
Kansai Super Saigo	31 Jan 10	13.4	11.8	5.00	31 Dec 24
Kojima Nishiarai	31 Jan 10	12.2	12.9	4.20	30 Jun 24
Kotesashi Towers	28 Nov 19	25.3	19.2	4.96	31 Dec 24
Life Asakusa	31 Jan 10	28.4	31.2	4.00	30 Jun 24
Life Higashi Nakano	31 Jan 10	33.3	32.4	4.00	30 Jun 24
Life Nagata	31 Jan 10	25.2	25.6	4.20 <sup>4</sup>	30 Jun 24
MaxValu Tarumi	28 Aug 15	17.4	15.9	5.50	31 Dec 24
Seiyu Miyagino	31 Jan 10	9.8	8.9	5.00	30 Jun 24
TR Mall Ryugasaki	30 Mar 18	87.0	79.1	5.30	31 Dec 24
Valor Takinomizu	31 Jan 10	28.0	21.3	5.40	31 Dec 24
Valor Toda	31 Jan 10	42.9	37.5	5.00	30 Jun 24
Yaoko Sakado Chiyoda	31 Jan 10	19.9	18.2	4.50	31 Dec 24
Yorktown Toride	05 Mar 20	32.2	22.5	5.20	30 Jun 24
Industrial					
Aeon Matsusaka XD	26 Sep 19	14.9	12.1	5.10	30 Jun 24
<b>Total Japan</b>		<b>733.1</b>	<b>659.9</b>	<b>4.79</b>	
<b>Total investment properties held for sale<sup>5</sup></b>		<b>103.3</b>	<b>66.4</b>	<b>n/a</b>	
<b>Total direct portfolio investments</b>		<b>2,869.7</b>	<b>2,839.1</b>	<b>6.33</b>	

<sup>1</sup> Acquisition date represents the date of CLC's initial acquisition or consolidation of the investment vehicle holding the asset.

<sup>2</sup> Total cost represents the original acquisition cost plus additions less partial disposals since acquisition date.

<sup>3</sup> The capitalisation rate is the rate at which net market income is capitalised to determine the value of the property. The rate is determined with regard to market evidence.

<sup>4</sup> Based on the discount rate. Weighted average capitalisation rate on the Japan portfolio excludes Nagata due to difference in valuation methodology.

<sup>5</sup> Includes 21 O'Sullivan Circuit, NT; 31 O'Sullivan Circuit, NT; and Aulnay sous Bois, Avenue de Savigny, France.

## Equity and infrastructure portfolio overview

Life's equity and infrastructure portfolio was \$0.5b at 31 December 2024 and increased by 19% (\$0.1b) from 30 June 2024.

The increase in equities and infrastructure in 1H25 primarily reflects private equity investments.

Since FY20, Life's investment portfolio has been repositioned, which has seen the equities and infrastructure portfolio reduce from \$1.2bn in 30 June 2020.

Equity and infrastructure represented 2% of Life's total investment assets at 31 December 2024, unchanged from 30 June 2024.

Challenger's equity investments primarily comprise private equity investments and beta investments. The total returns on beta investments are expected to be broadly correlated to the MSCI Daily Total Return Net World Index (Bloomberg NDDLWI).

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

The infrastructure portfolio is held entirely in unlisted investments, predominantly utility and renewable energy assets. Australian infrastructure accounted for ~60% of infrastructure investments with the remainder diversified across geographic regions and sectors.

### Equity and infrastructure portfolio

31 December 2024			
(\$m)	Domestic	Offshore	Total
Equity beta	78	37	115
Private equity	—	313	313
Infrastructure	61	46	107
<b>Total equity &amp; infrastructure</b>	<b>139</b>	<b>396</b>	<b>535</b>

30 June 2024 (\$m)			
Domestic	Offshore	Total	
Equity beta	26	106	
Private equity	233	233	
Infrastructure	47	109	
<b>Total equity &amp; infrastructure</b>	<b>142</b>	<b>306</b>	<b>448</b>

## Challenger Life Company Limited (CLC) debt facilities

\$m	1H25	FY24	1H24	FY23	1H23	FY22	1H22
Repurchase agreements	5,777.8	5,323.3	5,226.0	4,069.7	3,716.7	3,735.1	3,542.5
Controlled property debt	276.8	250.8	280.9	281.9	347.8	334.0	382.2
Subordinated debt	418.5	418.0	419.1	403.0	399.3	398.4	400.0
Challenger Capital Notes	735.0	735.0	735.0	735.0	845.0	845.0	872.7
Infrastructure debt	150.8	155.8	160.3	164.4	168.4	172.3	175.7
Other finance	—	—	0.7	0.7	0.7	0.7	0.7
<b>Total CLC debt facilities</b>	<b>7,358.9</b>	<b>6,882.9</b>	<b>6,822.0</b>	<b>5,654.7</b>	<b>5,477.9</b>	<b>5,485.5</b>	<b>5,373.8</b>

### Life debt facilities

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

Life debt facilities at 31 December 2024 were \$7.4b and increased by \$0.5b on 30 June 2024 due to an increase in repurchase agreements used to support hedging of interest rate movements.

### Repurchase agreements

Repurchase agreements at 31 December 2024 were \$5.8b, up \$0.5b from \$5.3b at 30 June 2024.

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

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

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

### Subordinated debt

In September 2022, CLC issued \$400m of fixed-to-floating rate, unlisted, unsecured subordinated notes, paying a semi-annual fixed rate of 7.186% per annum for the first 5 years, before reverting to paying floating rate interest at a margin of 3.55% per annum above the 3-month Bank Bill Swap rate. The subordinated notes fully qualify as Tier 2 regulatory capital under APRA's Prudential Standards and have a term of 15 years, with a maturity date in September 2037. The subordinated notes include an option for CLC to redeem the subordinated notes in September 2027 subject to APRA's prior written approval (which may or may not be given).

### Capital Notes

Over the past 10 years, Challenger has issued four separate tranches of subordinated, unsecured convertible notes (Challenger Capital Notes, Challenger Capital Notes 2, Challenger Capital Notes 3 and Challenger Capital Notes 4), with proceeds used to fund qualifying CLC Additional Tier 1 regulatory capital. Challenger Capital Notes and Challenger Capital Notes 2 no longer remain outstanding and have been

fully redeemed and/or converted to Challenger ordinary shares.

For Challenger Capital Notes 3 and Challenger Capital Notes 4, Challenger may choose to redeem or resell (rather than convert) all or some of the capital notes for their face value at a future date, subject to APRA's prior written approval (which may or may not be given).

### Challenger Capital Notes 3 (ASX code: CGFPC)

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

Challenger Capital Notes 3 are convertible to Challenger ordinary shares at any time before 25 May 2028 on the occurrence of certain events, and mandatorily convert to Challenger ordinary shares thereafter, in both cases subject to meeting certain conditions.

Challenger may choose to redeem or resell (rather than convert) Challenger Capital Notes 3 on the occurrence of some of the events referred to above, including on the Optional Exchange Date of 25 May 2026 (subject to certain conditions being met, including prior written approval from APRA, which may or may not be given). If Challenger exercises its option to redeem or resell, there will be no conversion of Challenger Capital Notes 3 to Challenger ordinary shares and no subsequent shareholder dilution.

### Challenger Capital Notes 4 (ASX code: CGFPD)

On 5 April 2023, Challenger issued Challenger Capital Notes 4 to the value of \$350m. Challenger Capital Notes 4 pay a margin of 3.60% above the 3-month Bank Bill Swap rate, with the total distribution reduced by available franking credits.

Challenger Capital Notes 4 are convertible to Challenger ordinary shares at any time before 25 February 2032 on the occurrence of certain events, and mandatorily convert to Challenger ordinary shares thereafter, in both cases subject to meeting certain conditions.

Challenger may choose to redeem or resell (rather than convert) Challenger Capital Notes 4 on the occurrence of some of the events referred to above, including on any Optional Exchange Date on or about 25 May 2029, 25 August 2029, 25 November 2029 and 25 February 2030 (subject to certain conditions being met, including prior written approval from APRA, which may or may not be given). If Challenger exercises its option to redeem or resell, there will be no conversion of Challenger Capital Notes 4 to Challenger ordinary shares and no subsequent shareholder dilution.

## Challenger Life Company Limited (CLC) regulatory capital

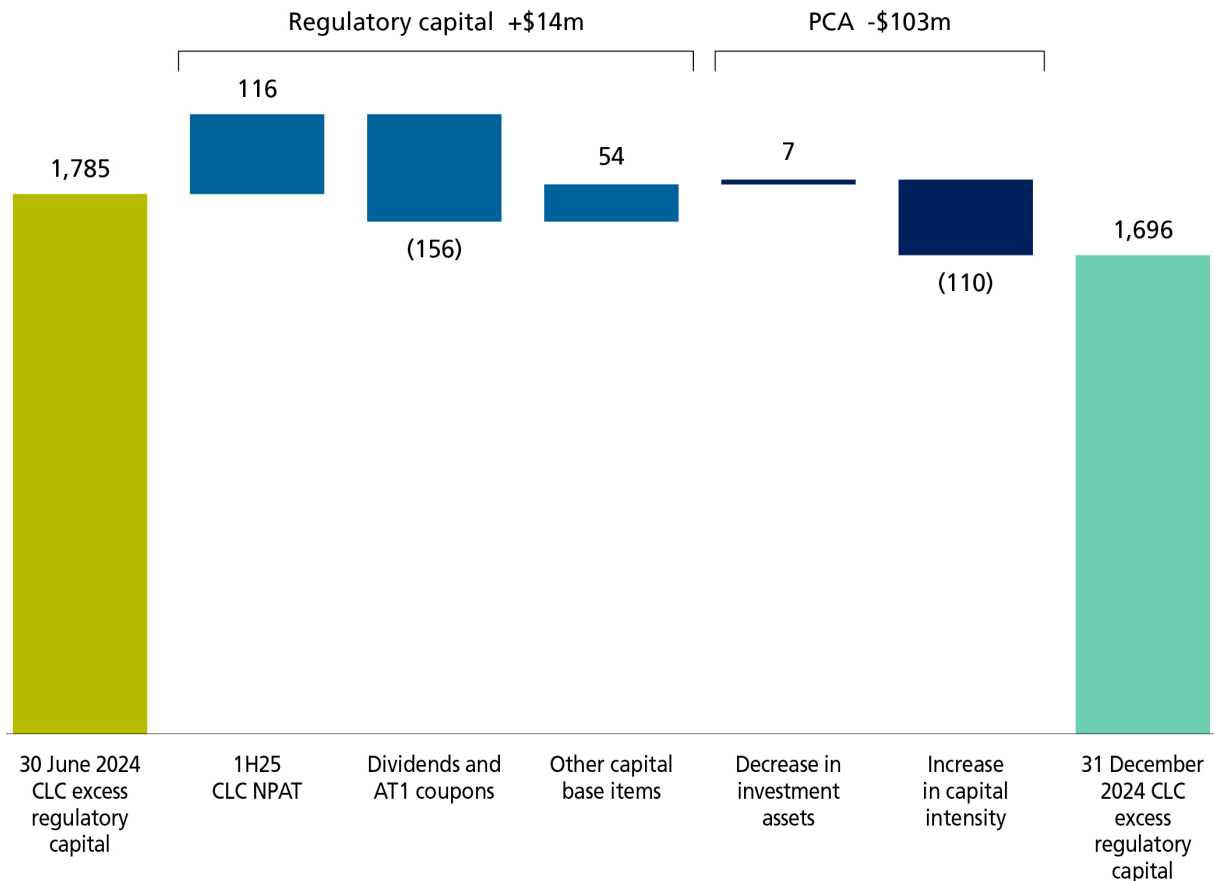
\$m	1H25	FY24	1H24	FY23	1H23	FY22	1H22
<b>CLC regulatory capital</b>							
Common Equity Tier 1 (CET1) regulatory capital	3,310.4	3,297.4	3,141.0	3,110.5	2,947.9	2,858.0	3,120.3
Additional Tier 1 regulatory capital	735.0	735.0	735.0	735.0	845.0	845.0	872.7
Tier 2 regulatory capital – subordinated debt <sup>1</sup>	427.0	426.3	427.5	411.3	407.8	399.7	402.4
<b>CLC total regulatory capital base</b>	<b>4,472.4</b>	<b>4,458.7</b>	<b>4,303.5</b>	<b>4,256.8</b>	<b>4,200.7</b>	<b>4,102.7</b>	<b>4,395.4</b>
<b>CLC Prescribed Capital Amount (PCA)</b>							
Asset risk charge	2,158.9	1,964.9	1,966.9	1,804.7	1,774.8	1,726.1	1,812.6
Combined Stress	474.9	589.9	770.8	777.3	766.9	741.4	658.0
Insurance risk charge	200.0	136.1	174.6	125.0	127.6	151.5	233.5
Operational risk charge	94.0	87.3	81.9	70.7	65.4	58.6	60.7
Aggregation benefit	(150.9)	(104.2)	(132.0)	(95.8)	(97.6)	(114.3)	(171.0)
<b>CLC PCA</b>	<b>2,776.9</b>	<b>2,674.0</b>	<b>2,862.2</b>	<b>2,681.9</b>	<b>2,637.1</b>	<b>2,563.3</b>	<b>2,593.8</b>
<b>CLC excess over PCA</b>	<b>1,695.5</b>	<b>1,784.7</b>	<b>1,441.3</b>	<b>1,574.9</b>	<b>1,563.6</b>	<b>1,539.4</b>	<b>1,801.6</b>
PCA ratio (times) <sup>2</sup>	1.61	1.67	1.50	1.59	1.59	1.60	1.69
Tier 1 ratio (times)	1.46	1.51	1.35	1.43	1.44	1.44	1.54
CET1 capital ratio (times)	1.19	1.23	1.10	1.16	1.12	1.11	1.20
Capital intensity ratio (%) <sup>3</sup>	11.3%	10.8%	11.9%	11.4%	11.4%	11.5%	11.3%

<sup>1</sup> 1H25 Tier 2 regulatory capital – subordinated debt (\$427.0 million) differs to the Group balance sheet (\$418.5 million) due to accrued interest.

<sup>2</sup> The impact of applying AASB 17 is reflected in the CLC PCA ratio from 1H24. Periods prior to 1H24 have not been restated for the impact of AASB 17.

<sup>3</sup> Capital intensity ratio is calculated as CLC PCA divided by Life closing investment assets.

## Movement in CLC excess regulatory capital (\$m)



# Challenger Life Company Limited (CLC) regulatory capital

## Capital management

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

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

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

### CLC's regulatory capital base

CLC's regulatory capital base at 31 December 2024 was \$4.5b and increased by \$14m in 1H25. The increase reflects:

- CLC's statutory profit after tax for the half year (+\$116m);
- other capital items (+\$54m) that relates primarily to the impact of AASB 17 on the valuation of policy liabilities. In 1H25, the increased yield in the UK Gilt curve and a higher British pound relative to the Australian dollar led to an increase in policy liabilities for the Life Risk business and an accounting loss, which is reversed in the calculation of the capital base; partially offset by
- dividend and coupon payments on Additional Tier 1 instruments (-\$156m).

### CLC's Prescribed Capital Amount (PCA)

CLC's PCA at 31 December 2024 was \$2.8b and increased by \$103m in 1H25 reflecting:

- an increase in capital intensity (+\$110m) (refer below); partially offset by
- decrease in investment assets (-\$7m).

### Increase in capital intensity

CLC's capital intensity ratio, which is calculated as CLC's PCA divided by Life's closing investment assets, increased from 10.8% at 30 June 2024 to 11.3% at 31 December 2024.

The increase in capital intensity was driven by:

- a depreciation of the Australian dollar predominantly against the US dollar that increased exposures to US denominated assets that carry a higher asset risk charge +\$70m; and
- a change in investment mix towards assets that carry a higher asset risk charge, including alternatives and high yield fixed income, which in combination with the reduction in deferred tax assets increased the PCA by +\$40m.

Given the strength of CLC's capital position, there was no need to rebalance asset exposures in response to the effects of the depreciation of the Australian dollar.

### CLC's excess capital position

CLC's excess capital above PCA at 31 December 2024 was \$1.7b and decreased by \$89m in 1H25. CLC's capital ratios at 31 December 2024 were as follows:

- PCA ratio 1.61 times – down 0.06 times from 1.67 times at 30 June 2024;
- Total Tier 1 capital ratio 1.46 times – down 0.05 times from 1.51 times at 30 June 2024; and

- Common Equity Tier 1 (CET1) capital ratio 1.19 times – down 0.04 times from 1.23 times at 30 June 2024.

APRA's Prudential Standards require the capital base to be at least the PCA, Total Tier 1 capital to be at least 80% of the PCA and CET1 capital to be at least 60% of the PCA.

Challenger's PCA ratio (1.61 times), Total Tier 1 capital ratio (1.46 times) and CET1 capital ratio (1.19 times) are well in excess of APRA's minimum requirements.

### Target surplus level of excess capital

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

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

CLC does not target a specific PCA ratio. CLC's target PCA ratio range is a reflection of internal capital models, not an input to them, and reflects asset allocation, business mix, composition of capital base and economic circumstances. The target surplus produced by these internal capital models for 1H25 corresponded to a PCA ratio of between 1.3 times and 1.7 times. This range may change over time.

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

The metric that generates the worst outcome relative to target forms CLC's constraining target. Given CLC's current mix of capital at 31 December 2024, CLC's constraining target was CET1. The target surplus produced by the internal capital models for 1H25 corresponded to a CET1 ratio of between 0.8 times and 1.2 times. This ratio may change over time.

### Additional Tier 1 regulatory capital and subordinated debt

Challenger Limited has on issue two separate subordinated, unsecured convertible notes (Challenger Capital Notes 3 and Challenger Capital Notes 4), with proceeds used to fund qualifying Additional Tier 1 regulatory capital for CLC. CLC has on issue one series of Tier 2 notes, issued in September 2022, with a face value of \$400m, which fully qualify as Tier 2 regulatory capital under APRA's Prudential Standards. Further details on Challenger's convertible debt instruments are included on page 45.

## Profit and equity sensitivities

\$m	Change in variable	Profit/(loss) after tax 1H25	Profit/(loss) after tax FY24
<b>Credit risk</b>			
Fixed income assets (change in credit spreads) <sup>1</sup>	+/- 50 bps	-/+ 130.1	-/+ 126.1
Policy liabilities (illiquidity premium change in credit spreads)	+/- 50 bps	+/- 67.7	+/- 63.8
<b>Alternatives risk</b>			
Alternatives investments	+/- 10%	+/- 242.2	+/- 221.7
<b>Property risk</b>			
Direct and indirect properties	+/- 1%	+/- 20.7	+/- 21.1
<b>Equity and infrastructure risk</b>			
Equity and infrastructure investments	+/- 10%	+/- 37.5	+/- 31.4
<b>Life Insurance risk</b>			
<b>Mortality, morbidity and longevity<sup>2</sup></b>			
Retail and institutional lifetime annuities	+/- 50%	-/+ 38.2	-/+ 36.4
Life Risk <sup>3</sup>	+/- 50%	+/- 91.4	+/- 73.4
Total Life insurance contract liabilities	+/- 50%	+/- 53.2	+/- 37.0
<b>Interest rate risk</b>			
Retail and institutional annuities and asset portfolio	+/- 100 bps	-/+ 7.3	-/+ 3.8
Life Risk <sup>3,4</sup>	+/- 100 bps	-/+ 90.1	-/+ 84.4
Total change in interest rates	+/- 100 bps	-/+ 97.4	-/+ 88.2
<b>Foreign exchange risk</b>			
Asset portfolio	+/- 10%	+/- 1.4	+/- 1.5
Life Risk <sup>3</sup>	+/- 10%	-/+ 38.9	-/+ 35.3
Total British pound exposure	+/- 10%	-/+ 37.5	-/+ 33.8
US dollar	+/- 10%	+/- 20.4	+/- 18.8
Euro	+/- 10%	+/- 2.5	+/- 2.3
Japanese yen	+/- 10%	+/- 3.5	+/- 3.3
NZ dollar (NZD)	+/- 10%	+/- 1.4	+/- 1.3

<sup>1</sup> Credit risk sensitivities excludes Australian Government Bonds, Australian Semi-Government Bonds and exposures with an Australian Government guarantee.

<sup>2</sup> Mortality, morbidity and longevity life insurance contract liabilities sensitivity is net of any reinsurance with third parties and measures the impact of an increase in the rate of mortality improvement.

<sup>3</sup> Sensitivity on Life Risk reflects the application of accounting standard AASB 17, which came into effect 1 July 2023.

<sup>4</sup> Policy liability for Life Risk business is sensitive to changes in the UK Gilt curve.

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

The sensitivities are not forward looking and make no allowance for events occurring after 31 December 2024. If using these sensitivities as forward looking, allowances for changes post-31 December 2024, such as sales, asset growth changes in asset allocation and changes in market conditions, should be made. These sensitivities assess changes in

economic, insurance and investment markets on the valuation of assets and liabilities, which, in turn, impact earnings. The earnings impact is included in asset and liability experience and does not take into consideration the impact of any under- or over-performance of normalised growth assumptions for each asset category (refer to page 57 for normalised growth assumptions). These sensitivities do not include the indirect impact on fees for the Funds Management business. Refer to the risk management framework for additional detail on how to apply the profit and equity sensitivities.

## Risk management framework

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

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

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

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

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

CLC is required under APRA Prudential Standards to maintain capital buffers in order to ensure that under a range of adverse scenarios it can continue to meet not only its contractual obligations to customers but also its regulatory capital requirements.

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

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

### Risk appetite

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

#### Accept exposure<sup>1</sup>

- Credit risk
- Property risk
- Equity and infrastructure risk
- Alternatives risk
- Life insurance risk
- Other active trading strategy risk

#### Minimise exposure

- Asset and liability mismatch risk
- Foreign exchange risk<sup>2</sup>
- Interest rate risk
- Inflation risk
- Liquidity risk
- Regulatory and compliance risk
- Operational risk

### Asset and liability mismatch risk

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

### Credit risk

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

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

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

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

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

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

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

<sup>1</sup> Subject to appropriate returns.

<sup>2</sup> It is Challenger's policy to seek to minimise the impact of movements in foreign exchange rates on balance sheet items contributing to CLC's regulatory capital base, with the exception of exposures arising from currency overlay positions.

### Credit spread risk sensitivity

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

As at 31 December 2024, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised loss/gain of \$130m (after-tax) on fixed income investments (net of debt).

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

As at 31 December 2024, a 50 bps increase/decrease in credit spreads would have resulted in an unrealised gain/loss of \$68m (after-tax) on the value of annuity liabilities.

### Property risk

Property risk is the risk of loss from movements in the market value of property investments and includes leasing and tenant default risk, which may impact the cash flows from these investments.

### Property risk sensitivity

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

The property sensitivities included on page 48 show the impact of a change in property valuations at 31 December 2024 and are based on Life's gross property investments of \$3.0b (net investments of \$2.7b plus debt of \$0.3b).

A 1% move in the direct and indirect property portfolio at 31 December 2024 would result in a \$21m (after-tax) movement in property valuations.

### Equity and infrastructure risk

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

### Equity and infrastructure risk sensitivity

The equity and infrastructure risk sensitivities included on page 48 show a 10% move in the equity portfolio at 31 December 2024 would have resulted in a \$38m (after-tax) movement in the valuation of equity investments.

### Alternatives risk

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

Challenger holds alternative investments as part of its investment portfolio in order to provide diversification across the investment portfolio and as a source of liquid capital.

### Alternatives risk sensitivity

The alternatives risk sensitivity on page 48 shows a 10% market move in the alternatives portfolio at 31 December 2024 would have an impact of \$242m (after-tax) in the valuation of alternatives investments.

### Liquidity risk

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

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

In determining the required levels of liquidity, Challenger considers:

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

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

### Life insurance risk

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

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

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

CLC assumes future mortality rates for individual lifetime annuities will improve by between 0.4% and 2.5% per annum, depending on different age cohorts and sex. This has the impact of increasing the life expectancy of a male aged 65 from 24 years (per the base mortality rates) to 26 years.

### Mortality and longevity sensitivities

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

A 50% increase in the annual mortality improvement rates already assumed would improve the life expectancy of an Australian male aged 65 from 26 years to 27 years.

For retail annuities, increased mortality improvements cause an increase in policy liability, leading to a loss (after-tax) of \$38m.

However, for Life Risk wholesale reinsurance longevity transactions, there are two opposing effects which under AASB 17 are not equal in financial impact. The primary effect, in line with the impact on the retail annuity portfolio, is that higher mortality improvements increase the policy-related cash outflows, thereby increasing the present value of future cashflows (PVFCF) component of the policy liability. For the Life Risk business which has a positive contractual service margin (CSM), this is offset (in a projected cash flow sense) by a reduction in CSM. However, AASB 17 requires that the PVFCF is measured at current discount rates whereas the CSM is measured at the rates on the date the business was written (locked-in rates). At 31 December 2024, current UK rates were on average higher than locked-in rates, so the impact of higher mortality improvements is a profit (after tax) of \$91m.

In aggregate across the portfolio, despite increased mortality improvements being an economically negative impact, the application of AASB 17 (given UK interest rates as at 31 December 2024) means that the financial impact of this change is a reduction in policy liability valuation leading to a net positive \$53m (after-tax) impact.

### Life Risk business

Accounting Standard AASB 17 *Insurance Contracts* came into effect for Challenger on 1 July 2023, introducing a number of accounting mismatches that can create volatility in statutory profit. In particular, this impacts the Life Risk business where the liability includes the PVFCF, which is measured at current interest rates, and a CSM, which is measured at the interest rates on the date the business was written (locked-in rates).

This means that the policy liability for the Life Risk business is sensitive to changes in interest rates in the UK, the value of the British pound against the Australian dollar, and UK mortality rate assumptions, which creates ongoing profit volatility.

The interest rate mismatch effect falls away under APRA capital standards, hence this volatility has no impact on CLC's capital position (other than second order impacts driven by tax).

### Interest rate risk

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

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

The sensitivities assume the change in variable occurs on 31 December 2024 and are based on assets and liabilities held at that date.

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

However, as discussed above, AASB 17 introduces certain accounting mismatches, particularly in the Life Risk portfolio, and so the interest rate sensitivities show an exposure to changes in base rates.

The sensitivities do not include the impact of changes in interest rates on earnings from CLC's shareholder capital as investment earnings are earned over the period, whereas the sensitivities assume a change in interest rates occurred on 31 December 2024.

### Foreign exchange risk

Foreign exchange risk is the risk of fluctuations in Challenger's earnings arising from movements in foreign exchange rates.

It is Challenger's policy to seek to minimise the impact of movements in foreign exchange rates on balance sheet items contributing to CLC's regulatory capital base, with the exception of exposures arising from currency overlay positions.

CLC has a currency overlay strategy covering a range of foreign currencies, which aims to improve portfolio resilience in times of stress by taking advantage of the Australian dollar's tendency to devalue during major risk-off events. Under the currency overlay strategy, CLC takes long positions in currencies that are expected to perform strongly in times of economic stress.

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

In order to manage foreign currency exchange rate risk, Challenger enters into foreign currency derivatives.

### Foreign exchange risk sensitivity

The impact of movements in foreign currencies on Challenger's profit and loss and balance sheet is set out on page 48. As a result of foreign currency derivatives in place, Challenger's profit and loss is not materially sensitive to movements in foreign currency rates apart from exposures arising from currency overlay positions and the effects of translation of the unhedged Life Risk business.

Challenger invests with a range of third-party managers, for example absolute return fund managers. Some foreign exchange exposure can be embedded in those third-party managed portfolios.

## Funds Management financial results

\$m	1H25	2H24	1H24	2H23	1H23	2H22	1H22
<b>Fidante</b>							
Fidante income <sup>1</sup>	64.0	61.9	61.5	57.0	54.0	58.3	63.1
Performance fees	7.0	1.6	5.2	1.6	3.1	1.6	2.4
<b>Net income</b>	<b>71.0</b>	<b>63.5</b>	<b>66.7</b>	<b>58.6</b>	<b>57.1</b>	<b>59.9</b>	<b>65.5</b>
<b>Challenger Investment Management (CIM)</b>							
CIM income <sup>2</sup>	24.1	23.0	20.7	32.3	30.8	33.7	32.7
<b>Total net fee income</b>	<b>95.1</b>	<b>86.5</b>	<b>87.4</b>	<b>90.9</b>	<b>87.9</b>	<b>93.6</b>	<b>98.2</b>
Personnel expenses	(24.3)	(25.0)	(25.6)	(27.0)	(36.0)	(35.4)	(34.9)
Other expenses	(32.8)	(35.4)	(33.3)	(33.0)	(21.2)	(20.5)	(18.2)
<b>Total expenses</b>	<b>(57.1)</b>	<b>(60.4)</b>	<b>(58.9)</b>	<b>(60.0)</b>	<b>(57.2)</b>	<b>(55.9)</b>	<b>(53.1)</b>
<b>Normalised net profit before tax</b>	<b>38.0</b>	<b>26.1</b>	<b>28.5</b>	<b>30.9</b>	<b>30.7</b>	<b>37.7</b>	<b>45.1</b>
Normalised tax	(11.0)	(8.3)	(8.8)	(10.0)	(9.8)	(11.2)	(15.0)
<b>Normalised net profit after tax</b>	<b>27.0</b>	<b>17.8</b>	<b>19.7</b>	<b>20.9</b>	<b>20.9</b>	<b>26.5</b>	<b>30.1</b>
Asset experience after tax	(12.3)	(3.2)	(1.3)	—	—	—	—
<b>Statutory net profit after tax</b>	<b>14.7</b>	<b>14.6</b>	<b>18.4</b>	<b>20.9</b>	<b>20.9</b>	<b>26.5</b>	<b>30.1</b>
<b>Performance analysis</b>							
Fidante – income margin (bps) <sup>3</sup>	13.8	13.4	16.0	15.6	15.7	15.0	14.9
CIM – income margin (bps) <sup>3</sup>	27.5	26.8	23.9	31.1	29.2	33.0	31.1
Funds Management (FM) – income margin (bps) <sup>3</sup>	15.7	15.5	17.4	19.0	18.7	18.7	18.0
FM – FUM-based income margin (bps) <sup>4</sup>	13.9	14.7	15.8	17.8	17.6	17.3	16.7
Cost to income ratio	60.0%	69.8%	67.4%	66.0%	65.1%	59.7%	54.1%
Net assets – average <sup>5</sup>	301.7	302.7	313.0	279.7	289.0	267.6	264.3
Normalised ROE (pre-tax)	25.0%	17.3%	18.1%	22.3%	21.1%	28.4%	33.8%
Normalised ROE (post-tax)	17.8%	11.8%	12.5%	15.1%	14.3%	20.0%	22.6%
Fidante	103,859	100,081	90,879	78,075	72,390	72,438	88,512
CIM	17,164	17,327	16,715	20,392	20,985	21,010	20,778
<b>Closing FUM – total</b>	<b>121,023</b>	<b>117,408</b>	<b>107,594</b>	<b>98,467</b>	<b>93,375</b>	<b>93,448</b>	<b>109,290</b>
Fidante	102,416	95,082	82,773	75,606	72,211	80,426	87,371
CIM	17,414	17,277	17,250	20,926	20,936	20,591	20,869
<b>Average FUM – total<sup>5</sup></b>	<b>119,830</b>	<b>112,359</b>	<b>100,023</b>	<b>96,532</b>	<b>93,147</b>	<b>101,017</b>	<b>108,240</b>
<b>FUM and net flows analysis</b>							
Fidante <sup>6</sup>	(2,808.7)	3,915.0	9,491.9	2,045.9	(1,666.3)	(9,984.0)	1,088.8
CIM <sup>7</sup>	(299.7)	562.3	(3,889.4)	(692.0)	(159.9)	554.8	(184.4)
Net flows	(3,108.4)	4,477.3	5,602.5	1,353.9	(1,826.2)	(9,429.2)	904.4
Distributions	(873.2)	(528.8)	(592.2)	(412.1)	(1,361.3)	(404.3)	(736.9)
Market-linked movement	7,596.3	5,865.4	4,116.6	4,150.2	3,114.5	(6,009.0)	3,299.0
<b>Total FUM movement</b>	<b>3,614.7</b>	<b>9,813.9</b>	<b>9,126.9</b>	<b>5,092.0</b>	<b>(73.0)</b>	<b>(15,842.5)</b>	<b>3,466.5</b>

<sup>1</sup> Fidante income includes equity-accounted profits, distribution fees, administration fees and transaction fees, which includes placement fees and dividend income.

<sup>2</sup> Challenger Investment Management income includes asset-based management fees and other income. Other income includes leasing fees, asset acquisition and disposal fees, development and placement fees.

<sup>3</sup> Income margin represents net income divided by average FUM.

<sup>4</sup> FUM-based income margin represents FUM-based income (net income excluding performance, transaction and placement fees and dividend income) divided by average FUM.

<sup>5</sup> Calculated on a monthly basis.

<sup>6</sup> 2H22 included the \$5,162m FUM derecognition following the sale of Whitehelm Capital.

<sup>7</sup> 1H24 included \$3,253m FUM derecognition following the sale of Challenger's Australian real estate business to Elanor Investors Group (ASX: ENN).

## Funds Under Management and net flows

\$m	Q2 25	Q1 25	Q4 24	Q3 24	Q2 24
<b>Funds Under Management</b>					
Equities	72,599	67,546	63,988	58,887	52,853
Fixed Income	45,534	48,414	50,815	52,896	52,375
Property <sup>1</sup>	816	792	735	768	787
Alternatives	2,074	1,936	1,870	1,932	1,579
<b>Total Funds Under Management</b>	<b>121,023</b>	<b>118,688</b>	<b>117,408</b>	<b>114,483</b>	<b>107,594</b>
Fidante	103,859	101,128	100,081	96,778	90,879
Challenger Investment Management <sup>1</sup>	17,164	17,560	17,327	17,705	16,715
<b>Total Funds Under Management</b>	<b>121,023</b>	<b>118,688</b>	<b>117,408</b>	<b>114,483</b>	<b>107,594</b>
Institutional <sup>1</sup>	102,775	100,529	99,396	95,997	89,505
Retail	18,248	18,159	18,012	18,486	18,089
<b>Total Funds Under Management</b>	<b>121,023</b>	<b>118,688</b>	<b>117,408</b>	<b>114,483</b>	<b>107,594</b>
Average Fidante	102,640	101,869	96,419	94,168	85,036
Average Challenger Investment Management	17,259	17,605	17,592	17,070	16,739
<b>Total average Funds Under Management<sup>2</sup></b>	<b>119,899</b>	<b>119,474</b>	<b>114,011</b>	<b>111,238</b>	<b>101,775</b>

### Analysis of flows

Equities	1,483	1,148	5,029	515	5,733
Fixed Income	(3,138)	(2,711)	(1,564)	200	(441)
Property	—	—	29	—	—
Alternatives	70	39	(35)	303	(130)
<b>Total net flows</b>	<b>(1,585)</b>	<b>(1,524)</b>	<b>3,459</b>	<b>1,018</b>	<b>5,162</b>
Fidante	(955)	(1,854)	3,594	321	5,227
Challenger Investment Management <sup>1</sup>	(630)	330	(135)	697	(65)
<b>Total net flows</b>	<b>(1,585)</b>	<b>(1,524)</b>	<b>3,459</b>	<b>1,018</b>	<b>5,162</b>
Institutional <sup>1</sup>	(1,694)	(1,412)	3,787	1,028	5,625
Retail	109	(112)	(328)	(10)	(463)
<b>Total net flows</b>	<b>(1,585)</b>	<b>(1,524)</b>	<b>3,459</b>	<b>1,018</b>	<b>5,162</b>

<sup>1</sup> Includes ~\$0.8bn of FUM relating to Japanese real estate holdings managed by Challenger Kabushiki Kaisha (CKK) in periods Q2 24 to Q2 25.

<sup>2</sup> Calculated on a monthly basis.

## Reconciliation of total Group assets and Funds Under Management

\$m	Q2 25	Q1 25	Q4 24	Q3 24	Q2 24
Funds Management Funds Under Management	121,023	118,688	117,408	114,483	107,594
Life investment assets	24,647	24,516	24,711	24,854	24,094
Adjustments to remove double counting of cross-holdings	(14,234)	(14,805)	(14,997)	(15,572)	(14,563)
<b>Total Assets Under Management<sup>1</sup></b>	<b>131,436</b>	<b>128,399</b>	<b>127,122</b>	<b>123,765</b>	<b>117,125</b>

<sup>1</sup> Total Assets Under Management excludes Bank lending and financing assets, which was sold in April 2024. Q3 24 - \$972 million, Q2 24 - \$346 million.

## Funds Management financial results

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

Funds Management is one of Australia's largest active fund managers<sup>1</sup> 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.

### Normalised NPAT and ROE (post-tax)

Funds Management NPAT was \$27m and increased by \$7m (37%) on 1H24. The increase was primarily due to higher total net fee income (up \$8m or 9%) and lower expenses (down \$2m or 3%).

Funds Management ROE (post-tax) was 17.8% and increased from 12.5% in 1H24. The increase in ROE was driven by a 37% increase in Funds Management Normalised NPAT and a 4% decrease in average net assets.

### Total net fee income

1H25 total net fee income was \$95m (up \$8m or 9%) and comprised higher FUM-based fees of \$84m (up \$5m or 6%), higher performance fees of \$7m (up \$2m or 35%), and higher transaction fees of \$4m (up \$1m or 33%).

1H25 FUM-based fees increased 6% due to a 20% increase in average FUM, partially offset by a decrease in FUM-based income margin of 13.9 bps (down 1.9 bps) reflecting changes in business mix including large lower-margin institutional inflows and redemptions of fixed income mandates.

1H25 performance and transaction fees were \$3m higher than in 1H24.

### Expenses

1H25 Funds Management expenses were \$57m and decreased by \$2m (3%) on 1H24 due to lower personnel expenses (down \$1m or 5%) and other expenses (down \$1m or 2%).

The reduction in expenses in 1H25 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.

The 1H25 cost to income ratio was 60.0% and decreased from 67.4% in 1H24 due to higher net fee income (up 9%) and lower expenses (down 3%).

### Fidante net income

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.

Fidante's net income was \$71m in 1H25 and increased by \$4m (6%) on 1H24.

Fidante's net income comprised:

- FUM-based income of \$61m, up \$3m (4%) on 1H24 as a result of a 24% increase in average FUM, partially offset by a decrease in FUM-based income margin (refer below for more information);
- Performance fees of \$7m, which increased by \$2m (35%) on 1H24, driven by outperformance across equity and fixed income managers; and
- Transaction fees of \$3m, in line with 1H24.

Fidante income margin (net income to average FUM) was 13.8 bps, down 2.2 bps from 1H24. FUM-based income accounted for 11.9 bps and decreased by 2.2 bps primarily due to a change in business mix from net flows from lower-margin institutional mandates and redemptions of fixed income mandates.

<sup>1</sup> Calculated from Rainmaker Roundup, September 2024 data.

### Fidante FUM and net flows

Fidante’s FUM at 31 December 2024 was \$103.9b and increased by \$3.8b (4%) for the half year.

The increase was a result of:

- positive impact from investment market movements of \$7.4b; offset by
- net outflows of \$2.8b that includes \$5.5b of predominantly institutional outflows in fixed income strategies, partially offset by \$2.7b of net flows into equity and alternative affiliate managers; and
- net distributions of \$0.8b.

Fidante’s FUM at 31 December 2024 was invested in the following asset classes:

- 70% in equities (FY24 64%);
- 28% in fixed income (FY24 34%); and
- 2% in alternatives (FY24 2%).

### Challenger Investment Management (CIM)

CIM’s 1H25 net income was \$24m and increased by \$3m (16%) on 1H24.

CIM’s net income included:

- FUM-based income of \$23m, up \$2m (11%) on 1H24 as a result of higher average FUM (up 1%) and increase in FUM-based income margin (refer below for more information); and
- Placement fees of \$1m, up \$1m on 1H24 relating to the debt refinancing of the Japanese real estate portfolio managed by CKK.

CIM’s 1H25 income margin (net income to average FUM) was 27.5 bps, up 3.6 bps from 1H24 due to higher FUM-based income and transaction fees.

The FUM-based contribution was 25.9 bps, up 2.4 bps reflecting a favourable shift towards higher-margin business, including whole loans and mortgage servicing.

### CIM FUM and net flows

CIM’s FUM at 31 December 2024 was \$17.2b and decreased by \$0.2b (1%) for the half year.

The movements included:

- net outflows and distributions of \$0.4b predominantly from Challenger Life (\$1b), partially offset by \$0.6b net flows from third-party clients; partially offset by
- positive market movement of \$0.2b.

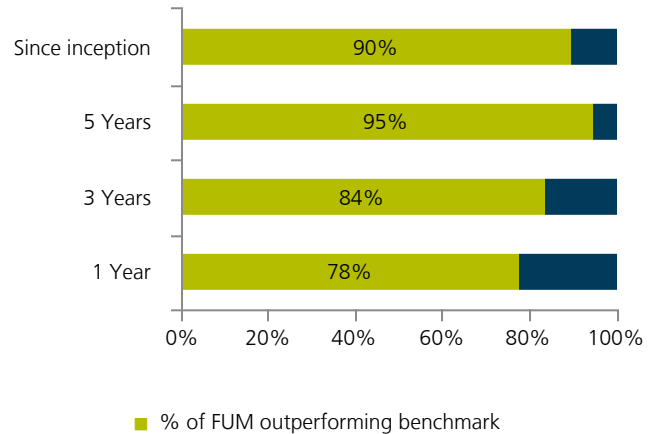
CIM’s FUM at 31 December 2024 is invested in the following asset classes:

- 95% in fixed income (FY24 96%); and
- 5% in property (FY24 4%).

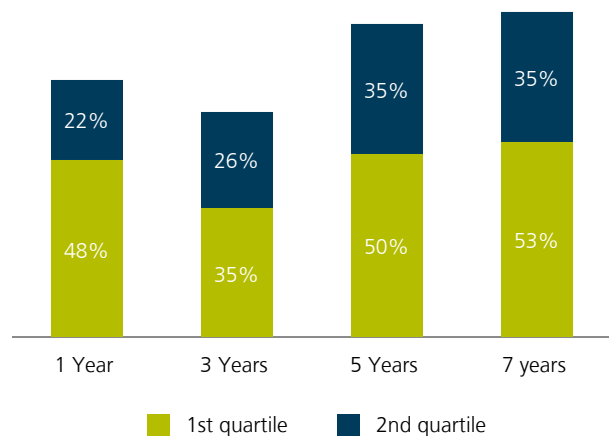
Approximately 20% of CIM’s average FUM is from third-party clients with the balance managed on behalf of Challenger Life.

### Funds Management investment performance

Investment performance represents the percentage of FUM meeting or exceeding performance benchmarks, with performance weighted by FUM. Long-term performance for Fidante’s affiliates remains strong with 95% and 90% of investments outperforming benchmark over five years and since inception respectively<sup>2</sup>.



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<sup>3</sup>.



<sup>2</sup> As at 31 December 2024. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

<sup>3</sup> Mercer as at December 2024.

## Corporate financial results

\$m	1H25	2H24	1H24	2H23	1H23	2H22	1H22
<b>Other income</b>	<b>0.4</b>	<b>2.2</b>	<b>0.1</b>	<b>1.0</b>	<b>0.6</b>	<b>0.0</b>	<b>0.0</b>
Personnel expenses	(22.2)	(22.9)	(22.7)	(21.0)	(22.5)	(18.4)	(22.1)
Other expenses	(7.7)	(9.3)	(8.2)	(4.4)	(9.9)	(9.3)	(7.3)
Transition expenses <sup>1</sup>	(1.3)	—	—	—	—	—	—
<b>Total expenses (excluding LTI)</b>	<b>(31.2)</b>	<b>(32.2)</b>	<b>(30.9)</b>	<b>(25.4)</b>	<b>(32.4)</b>	<b>(27.7)</b>	<b>(29.4)</b>
Long-term incentives (LTI)	(6.4)	(8.3)	(6.6)	(6.9)	(5.5)	(4.5)	(6.0)
<b>Total expenses</b>	<b>(37.6)</b>	<b>(40.5)</b>	<b>(37.5)</b>	<b>(32.3)</b>	<b>(37.9)</b>	<b>(32.2)</b>	<b>(35.4)</b>
<b>Normalised EBIT</b>	<b>(37.2)</b>	<b>(38.3)</b>	<b>(37.4)</b>	<b>(31.3)</b>	<b>(37.3)</b>	<b>(32.2)</b>	<b>(35.4)</b>
Interest and borrowing costs	(1.3)	(2.7)	(2.3)	(2.0)	(2.0)	(2.2)	(1.9)
<b>Normalised loss before tax</b>	<b>(38.5)</b>	<b>(41.0)</b>	<b>(39.7)</b>	<b>(33.3)</b>	<b>(39.3)</b>	<b>(34.4)</b>	<b>(37.3)</b>
Normalised tax	12.1	12.9	11.5	16.3	11.6	2.9	6.1
<b>Normalised loss after tax</b>	<b>(26.4)</b>	<b>(28.1)</b>	<b>(28.2)</b>	<b>(17.0)</b>	<b>(27.7)</b>	<b>(31.5)</b>	<b>(31.2)</b>

<sup>1</sup> Transition expenses in 1H25 relate to the Artega technology team retained by Challenger post the transfer of the investment administration and custody services to State Street.

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

Corporate includes interest received on Group cash balances and equity accounted profits on joint ventures with strategic partners. Transition expenses relating to the Artega Investment Administration's (Artega) technology team retained by Challenger following the transferral of Challenger's investment administration and custody services to State Street, and any interest and borrowing costs associated with Group debt facilities are also included in Corporate. All long-term incentive costs are allocated to the Corporate division.

### Normalised loss after tax

Corporate normalised loss after tax was \$26m in 1H25, down \$2m (6%) from 1H24. The decrease in normalised loss after tax was due to lower interest and borrowing costs (down \$1m) and lower normalised tax (down \$1m).

### Other income

Other income represents interest received on Group cash balances and equity accounted losses associated with Artega.

1H25 other income was \$0.4m, up from \$0.1m in 1H24, due to lower equity accounted losses from Artega, offset by lower interest received on Group cash balances.

### Total expenses

1H25 Corporate expenses were \$38m and in line with 1H24. Lower personnel expenses (down \$0.5m) and other expenses (down \$0.5m) relating to lower facility, IT and Risk costs, were offset by transition expenses related to the Artega Investment Administration technology team supporting the legacy Dimension platform (\$1m).

### Interest and borrowing costs

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

1H25 interest and borrowing costs were \$1m, down \$1m from 1H24, due to lower line fees on the Group debt facility after reducing the facility limit from \$400m to \$250m as part of a refinancing in July 2024.

This facility has remained undrawn throughout 1H25.

## Normalised Cash Operating Earnings framework

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

The Life Normalised COE framework was introduced in June 2008 and the principles have been applied consistently since.

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

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



### Cash earnings

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

#### Investment yield

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

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

#### Interest expense

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

#### Distribution expense

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

#### Other income

Other income includes revenue from the Solutions Group (refer to page 25) and profits on Life Risk wholesale longevity and mortality transactions (refer to page 25).



### Normalised capital growth

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

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

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

Normalised capital growth assumptions for 1H25 are as follows:

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



### Asset and liability experience

Challenger Life is required by Australian Accounting Standards to value assets at fair value, while liabilities are valued in accordance with relevant accounting standards. This gives rise to fluctuating valuation movements on assets and policy liabilities being recognised in the statutory profit and loss, particularly during periods of market volatility.

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

Policy liabilities are valued using the risk-free discount rate plus an illiquidity premium, generating a loss at issue (new business strain). In addition, AASB 17 has introduced accounting mismatches in the liability valuation after issue.

Asset and liability experience removes the volatility arising from valuation movements to more accurately reflect the underlying performance of the Life business. Changes in macroeconomic variables and actuarial assumptions impact the value of Life's assets and liabilities. This includes changes to bond yields, inflation factors, expense assumptions, mortality rate assumptions and other factors applied in the valuation of life contract liabilities.

#### Asset and liability experience

Asset experience is calculated as the difference between the total return (both realised and unrealised) generated on Life's investment portfolio less the amount recorded in Life's Normalised Cash Operating Earnings (which includes expected normalised capital growth).

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.

#### New business strain

In accordance with the Prudential Standards and Australian Accounting Standards, Challenger Life values its annuities using a risk-free discount rate, which is based on the Australian Government Bond curve plus an illiquidity premium.

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

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

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## Glossary of terms

Terms	Definitions
<b>AASB 17</b>	The Australian Accounting Standards Board's new insurance contracts standard which is based on the equivalent International Financial Reporting Standard (IFRS 17) and establishes globally consistent principles for the recognition, measurement, presentation and disclosure of life insurance contracts.
<b>Additional Tier 1 regulatory capital</b>	High-quality capital that provides a permanent and unrestricted commitment and is freely available to absorb losses; however, it does not satisfy all the criteria to be included in Common Equity Tier 1 regulatory capital.
<b>Asset experience (Life)</b>	Represents fair value movements on Life's assets. Refer to page 58 for more detail.
<b>Capital intensity ratio</b>	CLC Prescribed Capital Amount (PCA) divided by Life investment assets.
<b>Cash earnings (Life)</b>	Investment yield and other income less interest and distribution expenses.
<b>CET1 capital ratio</b>	Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
<b>Challenger Index Plus</b>	Institutional product providing guaranteed excess return above a chosen index. Index Plus is available on traditional indices and customised indices.
<b>Challenger Investment Management income</b>	Challenger Investment Management income includes asset-based management fees, and other income such as leasing fees, acquisition and disposal fees, development and placement fees.
<b>Common Equity Tier 1 regulatory capital</b>	The highest quality capital comprising items such as paid-up ordinary shares and retained earnings. Common Equity Tier 1 capital is subject to certain regulatory adjustments in respect of intangibles and adjusting policy liabilities.
<b>Cost to income ratio</b>	Total expenses divided by Normalised Cash Operating Earnings (Life) or Total net fee income (FM).
<b>Discontinued Operations (Bank)</b>	A definition under the Australian Accounting Standards for a part of the business that has been divested, shut down or held for sale.
<b>Distribution expenses (Life)</b>	Payments made for the acquisition and management of annuities and Challenger Index Plus products.
<b>Earnings per share (EPS)</b>	Net profit after tax divided by weighted average number of shares in the period.
<b>ESG</b>	Environmental, Social, and Governance
<b>Fidante income</b>	Distribution and administration fees; Fidante's share of affiliate manager profits; and transaction fees which includes placement fees and dividend income.
<b>Funds Under Management (FUM)</b>	Total value of listed and unlisted funds/mandates managed by the Funds Management business.
<b>Group assets under management (AUM)</b>	Total value of Life's investment assets and Funds Management FUM after adjustments to remove double counting of cross-holdings.
<b>Group cash</b>	Cash available to Group, excluding cash held by Challenger Life Company Limited.
<b>Interest and borrowing costs (Corporate)</b>	Interest and borrowing costs associated with Group debt and Group debt facilities.
<b>Interest expenses (Life)</b>	Interest accrued and paid to annuitants, subordinated debt and other debt providers (including Challenger Capital Notes).
<b>Investment yield (Life)</b>	Net rental income, dividends received, accrued alternative investment income, and accrued interest and discounts/premiums on fixed income securities amortised on a straight-line basis.
<b>Investment yield – shareholders' funds (Life)</b>	Represents the return on shareholder capital held by the Life business.
<b>Liability experience (Life)</b>	Represents value movements on Life's policy liabilities, impacts of accounting mismatches within the liability valuation of Life Risk business under AASB 17, and net new business strain. Refer to page 58 for more detail.
<b>Life annuity book growth</b>	Net annuity policy capital receipts over the period divided by opening policy liabilities (Life annuity book).
<b>Life book growth</b>	Net annuity and other policy capital receipts over the period divided by the opening policy liabilities (Life annuity book and Challenger Index Plus liabilities).
<b>Life investment assets</b>	Total value of investment assets that are managed by the Life business.
<b>Net annuity policy receipts</b>	Life retail annuity sales less annuity capital payments.

## Glossary of terms

Terms	Definitions
<b>Net assets – average</b>	Average net assets over the period (excluding non-controlling interests) calculated on a monthly basis.
<b>Net fee income (FM)</b>	Fidante income and Challenger Investment Management income.
<b>Net management fees (FM)</b>	Management fees for managing investments.
<b>Net tangible assets</b>	Consolidated net assets less goodwill and intangibles.
<b>New business tenor</b>	Represents the maximum product maturity of new business sales. These products may amortise over this period.
<b>Normalised capital growth</b>	Long-term expected capital growth based on long-term return assumptions. It is calculated as long-term capital growth assumption multiplied by average investment assets.
<b>Normalised Cash Operating Earnings (COE) (Life)</b>	Cash earnings plus normalised capital growth.
<b>Normalised cost to income ratio</b>	Total expenses divided by total net income.
<b>Normalised dividend payout ratio</b>	Dividend per share divided by normalised earnings per share (basic).
<b>Normalised EBIT</b>	Total net income less total expenses.
<b>Normalised EBIT (Corporate)</b>	Other income (Corporate) less total expenses.
<b>Normalised net profit after tax (NPAT)</b>	Statutory net profit after tax, excluding asset and liability experience and net new business strain; and significant items (refer to page 58 for more detail on asset and liability experience).
<b>Normalised net profit before tax (NPBT)</b>	Statutory net profit after tax, excluding normalised tax; asset and liability experience and net new business strain; and significant items (refer to page 58 for more detail on asset and liability experience).
<b>Normalised Return On Equity (ROE) – pre-tax</b>	Normalised NPBT divided by average net assets.
<b>Normalised Return On Equity (ROE) – post-tax</b>	Normalised NPAT divided by average net assets.
<b>Normalised tax rate</b>	Normalised tax divided by normalised profit before tax.
<b>Other expenses</b>	Non-employee expenses, including external professional services, occupancy costs, marketing and advertising, travel, technology, communications and investment management costs.
<b>Other income (Corporate)</b>	Includes interest received on Group cash balances and equity accounted profits or losses associated with Artega Investment Administration.
<b>Other income (Life)</b>	Relates to revenue from the Solutions Group and Life Risk. Refer to page 25 for more detail.
<b>PCA ratio</b>	The ratio of the total CLC Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount.
<b>Performance fees (FM)</b>	Fees earned for outperforming benchmarks.
<b>Personnel expenses</b>	Includes fixed and short-term variable incentive components of remuneration structures. The amortisation of long-term incentive plans is reported separately within the Corporate results.
<b>Prescribed Capital Amount (PCA)</b>	Amount of capital that a life company must hold, which is intended to be sufficient to withstand a 1-in-200-year shock and still meet adjusted policy liabilities and other liabilities. For further details, refer to APRA's LPS110 <i>Capital Adequacy</i> .
<b>Product cash margin (Life)</b>	Represents the return on assets backing annuities and other income, less interest and distribution expenses.
<b>Significant items</b>	Non-recurring or abnormal income or expense items.
<b>Statutory Return On Equity (ROE) – post-tax</b>	Statutory NPAT divided by average net assets.
<b>Tier 1 regulatory capital</b>	Tier 1 regulatory capital comprises Common Equity Tier 1 regulatory capital and Additional Tier 1 regulatory capital.
<b>Tier 2 regulatory capital</b>	Tier 2 regulatory capital contributes to the overall strength of the Life Company and its capacity to absorb losses; however, it does not satisfy all the criteria to be included as Tier 1 regulatory capital.
<b>Total expenses</b>	Personnel expenses plus other expenses.
<b>Total net income</b>	Normalised Cash Operating Earnings (Life) plus net fee income (FM) plus other income (Corporate).

## Key dates

**Challenger Limited (ASX:CGF)**

<b>Q3 2025 AUM, annuity sales and net flows</b>	17 April 2025
<b>2025 Investor Day</b>	27 May 2025
<b>2025 Full year financial results</b>	19 August 2025
<b>2025 Annual General Meeting</b>	30 October 2025

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