

Challenger Capital Notes

Newsletter
18 February 2025



DUNCAN WEST
Independent Chair

NORMALISED NPAT¹
▲ 12% on last year

\$225m

STATUTORY NPAT¹
▲ 28% on last year

Includes impact of office valuations and accounting valuation changes

\$72m

GROUP ROE²
▲ 120 bps and above target³

11.6%

LIFE SALES
▼ 12% on last year
Remixing sales to longer-term annuity products

\$4.6bn

GROUP AUM
▲ 3% in the half

\$131bn

INTERIM DIVIDEND
▲ 12% on last year

14.5cps



Dear Noteholder,

On behalf of the Board and management team, I'm pleased to provide you with an update on Challenger's performance over the first half of the 2025 financial year.

Challenger reported a strong result this half, as we delivered against our financial targets and executed our growth strategy. At the same time, we have invested in a number of strategic initiatives to enable future growth.

The Life business maintained its momentum and successfully delivered its strategy to grow longer tenor, more valuable annuity sales that will help improve the quality of the Life book. We have also continued to strengthen our relationships across our sales channels, including with institutional clients where we have secured new lifetime annuity and defined benefit opportunities in the half.

The Funds Management business continues to expand its leading range of investment strategies and managers. It has established a platform that will originate and service large pools of mortgage-backed whole loans and broadened its network of affiliate managers.

We have made significant progress in re-platforming our customer and investment technology, which will lay the foundations for the next phase of Challenger's growth strategy.

Modernising the Life businesses' core customer registry and technology will make it easier for customers, advisers, platforms and super funds to access our retirement products, enhance productivity and importantly, support our sales growth strategy.

The transition of our investment administration and custody services to State Street accelerates our path to a highly scalable investment administration platform, at the same time as delivering operating efficiencies.

FINANCIAL UPDATE

Challenger delivered a strong financial performance in the half, supported by higher earnings across both the Life and Funds Management business.

Normalised net profit after tax (NPAT) increased 12% to \$225 million. Normalised ROE² increased 120bps to 11.6%, outperforming the target³.

Statutory net profit after tax (NPAT) increased 28%¹ to \$72 million, which includes an unrealised impact of commercial office revaluations and accounting valuation changes to Life Risk liabilities.

Total Life sales of \$4.6 billion included exceptional sales across longer duration products across retail lifetime and Japanese (MS Primary) annuities. Challenger delivered record retail lifetime annuity sales of \$583 million (up 24%), which was supported by rising demand for guaranteed lifetime income. Japanese annuity sales were up strongly to \$616 million (up 78%).

Challenger continues to make progress in building its pipeline of retirement income partnerships and defined benefit opportunities. Challenger was selected as the sole external lifetime annuity provider on UniSuper's Approved Product List (APL) and issued a group lifetime annuity to the value of \$23 million to support a defined benefit de-risking transaction.

¹ Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Operating and Financial Review in the Challenger 2025 Interim Financial Report.

² Normalised return on equity post-tax (ROE).

³ Normalised ROE post-tax target of 11.2% being the RBA cash rate plus a margin of 12% less tax (equivalent to a Normalised ROE pre-tax target of ~16.4% and assumes tax rate of 31.3% in FY25).

In Funds Management, the business continued to demonstrate the value of active management. Funds Management Funds Under Management (FUM) increased 3% to \$121 billion in the half.

Fidante continued to broaden its leading range of investment products and welcomed global long-short manager System Capital to its network of affiliates. Challenger Investment Management (CIM) expanded its leading credit asset origination capability to include mortgage servicing that will enhance its private loan investment capabilities.

Group assets under management (AUM) increased 3% to \$131 billion in the half.

STRONGLY CAPITALISED

Challenger Life Company Limited (Challenger Life) remained strongly capitalised with a PCA ratio of 1.61 times³ the Australian Prudential Regulation Authority's (APRA) minimum requirement.

Challenger Life has \$1.7 billion of excess capital above PCA, which is well above APRA's minimum requirement and provides financial strength, supporting future growth.

Reflecting confidence in the business, the Challenger Board determined a fully franked interim dividend of 14.5 cents per share (up 12%), representing a normalised dividend payout ratio of 44%, which is within our target of between 30% and 50%.

³ PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 31 December 2024.

STRATEGIC PARTNERSHIPS

In November 2024, Challenger appointed State Street, a global leader in investment services, to provide its investment administration and custody services. The partnership supports Challenger's strategy to drive growth through its core strengths in retirement, investment management and asset origination and accelerates the business' path to a highly scalable platform.

Challenger has continued to execute its program to modernise its core customer registry and technology for the Life business, in partnership with Accenture. This will improve how Challenger integrates its capabilities with advisers, platforms, and superannuation funds, make it easier for customers to do business with Challenger and enhance productivity. Significant progress has been made to date and is on schedule to launch by the end of FY25.

OUTLOOK

In FY25, Challenger is targeting normalised net profit after tax guidance of between \$440 million and \$480 million, with the mid-point of the range representing an 10% increase on FY24.

Challenger enters the second half of FY25 in great shape. As we continue to execute our growth strategy, we are building a business with strong fundamentals that will ultimately create more value for our investors and generate long-term sustainable growth.

On behalf of the Challenger Board, I would like to thank you for your ongoing support and commitment to Challenger.

DUNCAN WEST

Independent Chair
Challenger Limited

Additional information section

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| DISTRIBUTION PAYMENT DATE | CASH DISTRIBUTION | TOTAL RETURN P.A. |
|------------------------------|----------------------|----------------------|
| 25 February 2025 | \$1.59 | 9.02% |
| 25 November 2024 | \$1.56 | 8.95% |
| 26 August 2024 | \$1.56 | 8.94% |
| 27 May 2024 | \$1.56 | 8.94% |

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CHALLENGER CAPITAL NOTES 4 DISTRIBUTION HISTORY

| DISTRIBUTION PAYMENT DATE | CASH DISTRIBUTION | TOTAL RETURN P.A. |
|------------------------------|----------------------|----------------------|
| 25 February 2025 | \$1.41 | 8.02% |
| 25 November 2024 | \$1.39 | 7.95% |
| 26 August 2024 | \$1.38 | 7.94% |
| 27 May 2024 | \$1.38 | 7.94% |