



challenger 

## Financial Results **1H24**

13 February 2024



# ACKNOWLEDGEMENT OF COUNTRY

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**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.**

# Overview

**1 Business and strategy update**  
Nick Hamilton – Managing Director and Chief Executive Officer

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**2 Financial results and outlook**  
Alex Bell – Chief Financial Officer

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**3 Key priorities**  
Nick Hamilton – Managing Director and Chief Executive Officer

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# Business and strategy update

Nick Hamilton





# Key points

## Significant progress executing our strategy Benefits of longer duration sales emerging

### Financial performance

- Record new business annuity sales<sup>1</sup> and Lifetime sales
- Longer duration sales improving Life book quality and returns
- COE margin and ROE expansion
- Cost to income ratio outperforming target
- Expect FY24 earnings in top half of guidance range

### Expanding partnerships

- Retirement – Aware Super, TelstraSuper and CSC
- Strategic – Apollo origination and MS Primary reinsurance expansion

### Transformation program

- Accenture technology partnership – improving customer experience, supporting growth and delivering efficiencies
- \$90m operating savings expected over 7 years<sup>2</sup>

1. Based on domestic new business annuity sales, including term annuities and Lifetime annuities, excluding reinvestments and Japanese sales.

2. Commencing FY25.

# Financial performance

Strong performance with benefits of longer duration sales emerging  
Expect FY24 earnings in top half of guidance range



## Normalised NPBT<sup>1</sup>

**\$290m**

▲ 16%

Life EBIT +15%

FM EBIT -7%

## Group AUM

**\$117bn**

▲ 18%

▲ Life AUM +4%

▲ FM FUM +15%

## Group ROE (pre-tax)<sup>1,2</sup>

**15.0%**

▲ 270 bps

▲ Life +330bps

▼ FM -300bps

## Dividend

**13.0cps**

▲ 8%

Payout ratio 44%

## Statutory NPAT

**\$56m**

▲ 80%<sup>3</sup>

Includes investment  
experience -\$145m

## Life sales

**\$5.3bn**

▼ 4%

▲ New business tenor 8.9 years<sup>4</sup>

▲ 90% new business annuity  
sales greater than 2 years<sup>5</sup>

## CLC PCA ratio<sup>4</sup>

**1.50x**

▼ 0.09x<sup>6</sup>

1. Normalised profit before tax and Group ROE (pre-tax) exclude Discontinued Operations (Bank) in 1H24.

Prior periods are not restated to exclude Discontinued Operations (Bank).

2. Net assets includes the transition impact of AASB 17 in 1H24.

3. 1H23 statutory net profit after tax has been restated to reflect the application impact of AASB 17.

4. New business annuity sales by tenor include Japanese sales.

5. Based on new business annuity sales, including term annuities and Lifetime annuities, excluding reinvestments and Japanese sales.

6. 1H24 PCA down 0.09x (FY23 1.59x).

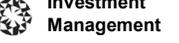
# Executing our strategy

## Providing customers with financial security for a better retirement

	 <b>Customer channel</b> <i>Deepen and broaden our reach with a solutions approach</i>	 <b>Customer solutions</b> <i>Grow through innovative offerings leveraging our core capability</i>	 <b>Capability</b> <i>Investment excellence, financial resilience and scalability</i>
 <b>Life – Retirement income</b>	<b>Retail</b> <ul style="list-style-type: none"> <li>• Broaden adviser usage, simplify experience</li> </ul> <b>Institutional</b> <ul style="list-style-type: none"> <li>• Defined Benefit, Retirement income partnerships &amp; balance sheet solutions</li> </ul> <b>International</b> <ul style="list-style-type: none"> <li>• MSP partnership, expand reinsurance opportunities</li> </ul>	<b>Great customer solutions</b> <ul style="list-style-type: none"> <li>• Aligned to meet customer needs and partnership opportunities</li> <li>• Contemporary digital experience</li> </ul> <b>Innovative lifetime income</b> <ul style="list-style-type: none"> <li>• Lead in secure innovative retirement income solutions</li> </ul>	<b>Investment excellence</b> <ul style="list-style-type: none"> <li>• Asset origination and investment management excellence</li> </ul> <b>Financial strength</b> <ul style="list-style-type: none"> <li>• Well-capitalised diversified balance sheet</li> </ul> <b>Capability and sustainability</b> <ul style="list-style-type: none"> <li>• Highly engaged and capable team</li> </ul>
  <b>Funds Management</b>	<b>Retail</b> <ul style="list-style-type: none"> <li>• Affluent and HNW</li> </ul> <b>Institutional</b> <ul style="list-style-type: none"> <li>• Broader and deeper partnerships</li> </ul> <b>International</b> <ul style="list-style-type: none"> <li>• Targeted growth opportunities</li> </ul>	<b>Extend active management excellence</b> <ul style="list-style-type: none"> <li>• Alternatives and Private Markets</li> <li>• Meet growing demand with innovative product structures</li> </ul>	<ul style="list-style-type: none"> <li>• Strong risk management culture</li> <li>• Scalable platform, driving great customer experience</li> <li>• Trusted voice for financial security in retirement</li> </ul>

# Operating highlights

**Broadening customer access and offerings**  
**Leveraging strategic partnerships**

	 <b>Customer channel</b> <i>Deepen and broaden our reach with a solutions approach</i>	 <b>Customer solutions</b> <i>Grow through innovative offerings leveraging our core capability</i>	 <b>Capability</b> <i>Investment excellence, financial resilience and scalability</i>
 <b>challenger</b>  <b>Life – Retirement income</b>	 'In' platform annuities <hr/>  DB partnership   Commonwealth Superannuation Corporation Retirement income partnerships <hr/>  Reinsurance arrangement extended to include Yen denominated annuities	<b>#1</b> 'Best Overall Longevity Cover' Award <sup>1</sup> <hr/> <b>\$3bn</b> Payments made to customers <sup>2</sup> <hr/> <b>63</b> Advisor roadshows, workshops and webinars attended by ~2,700 advisers	<b>\$3bn</b> CIM purchases in the half – \$0.7bn directly originated <hr/> <b>APOLLO</b> Origination strategic partnership <hr/>  Exclusive naming rights partner <hr/>  New external client wins <hr/>  Technology partnership and modernisation of customer technology
 <b>fidante</b>   <b>Funds Management</b>	 Established Capital Markets Team – Successful capital raise for Elanor <sup>3</sup> <hr/>  Fidante – Distributor of the year <sup>4</sup>	 New alternative offerings <hr/>  Launch of Global ABS Fund	

1. Plan For Life Annual Longevity Cover Awards 2023.

2. 1H24 annuity interest and capital payments to retail and institutional customers across Lifetime, CarePlus and Term products (excl. IndexPlus).

3. Fidante successfully completed a \$109 million capital raising for Elanor in December 2023 as part the establishment of the 55 Elizabeth Street (Brisbane) Fund to acquire the property 55 Elizabeth Street, Brisbane.

4. Fidante awarded 2023 Zenith Investment Partners 'Distributor of the year'.

# Transformation partnership

Improving customer experience

Unlocks additional growth opportunities

- Accenture will become Challenger's long-term technology partner – initial 7-year agreement
- Accenture will run Challenger's technology platform and modernise Life's customer technology
- Modernisation program to replace Life's core annuity registry system with Accenture's global insurance system ALIP<sup>1</sup> and to provide new customer portals



## Strategic rationale

- Making it easy for our customers to do business with us
- Supports innovation and speed to market
- Accessing world-class automation and AI
- Significant operating efficiencies



## Financials

**\$90m**

Operating savings expected  
over 7 years commencing FY25

1. Accenture Life Insurance and Annuity Platform.

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# Financial results and outlook

Alex Bell



# Group snapshot

## Strong profit growth from Life margin expansion and disciplined expense focus

	1H24 <sup>1</sup>	Change
Net income	\$447m	9%
Expenses	(\$155m)	(2%)
<b>EBIT</b>	<b>\$293m</b>	<b>16%</b>
Interest & borrowing	(\$2m)	15%
<b>Normalised NPBT</b>	<b>\$290m</b>	<b>16%</b>
Normalised tax	(\$90m)	8%
<b>Normalised NPAT</b>	<b>\$201m</b>	<b>20%</b>
Investment experience after tax	(\$145m)	8% <sup>2</sup>
Significant items after tax	\$4m	n.a
Other items after tax <sup>3</sup>	(\$4m)	n.a
<b>Statutory NPAT<sup>4</sup></b>	<b>\$56m</b>	<b>80%<sup>2</sup></b>
Group AUM	\$117bn	18%
Normalised EPS	29.3cps	20%
Normalised ROE (pre-tax)	15.0%	270bps
Dividend	13.0cps	8%

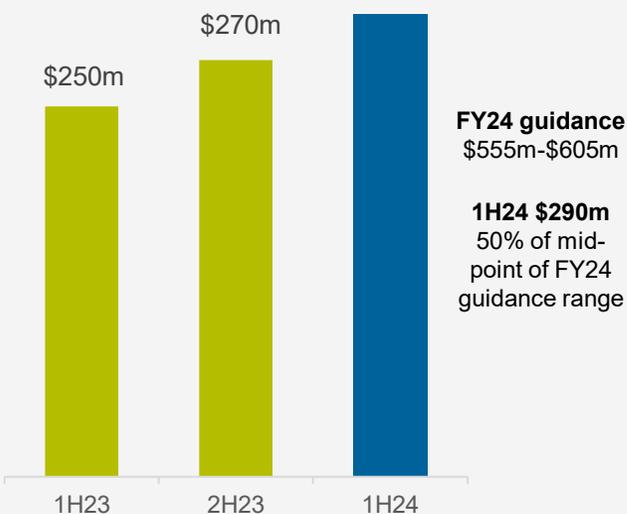
### Normalised NPBT<sup>1</sup>

**\$290m +16%**

Life \$302m +15%

FM \$29m -7%

Corporate -\$40m

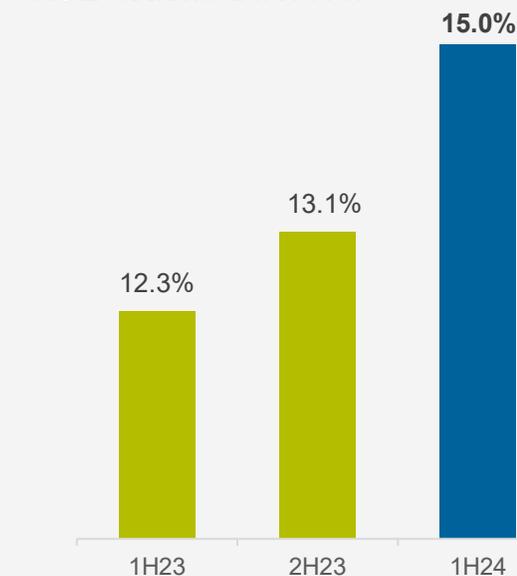


### Normalised ROE<sup>1</sup>

**15.0% +270bps**

ROE tailwind from Life

ROE headwind from FM



1. 1H24 normalised metrics exclude Discontinued Operations (Bank). Prior periods have not been restated to exclude Discontinued Operations (Bank).

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

3. Includes Bank discontinued operations.

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

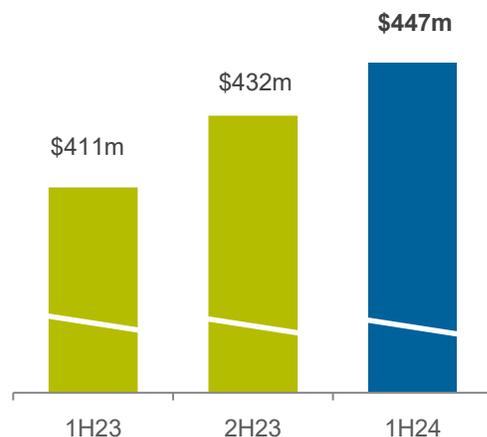
# Earnings drivers<sup>1</sup>

Life margin driving income growth

Remaining disciplined on costs

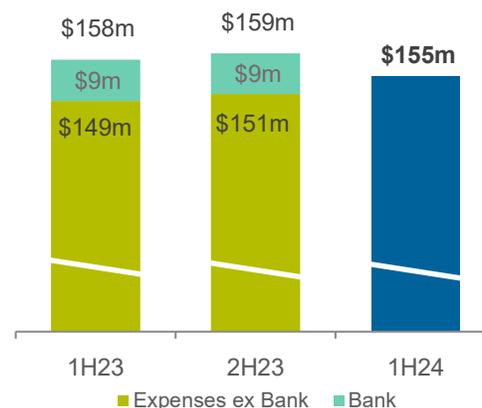
## Income benefitting from Life margin

\$447m +9%



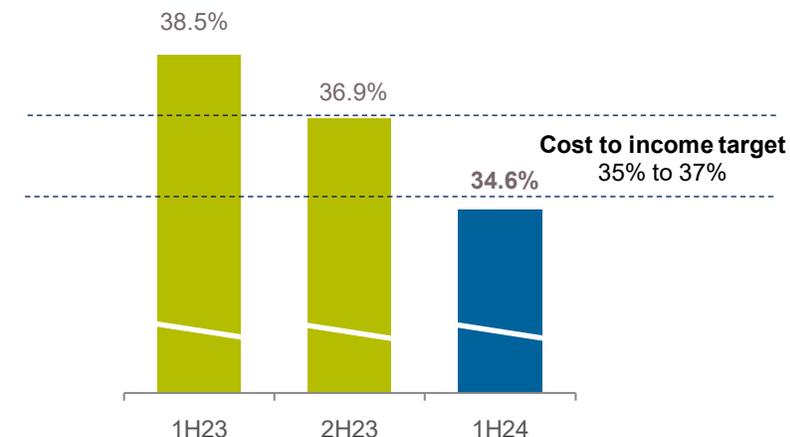
## Disciplined cost management

\$155m -2% (+4% ex Bank)



## Outperforming cost to income target

34.6% -390bps



### Life

Average AUM +3%  
COE<sup>2</sup> \$360m +13%  
COE margin +28 bps

### Funds Management

Average FUM +7%  
Net income \$87m -1%

**Life (+\$4m)** – driven by inflationary impacts

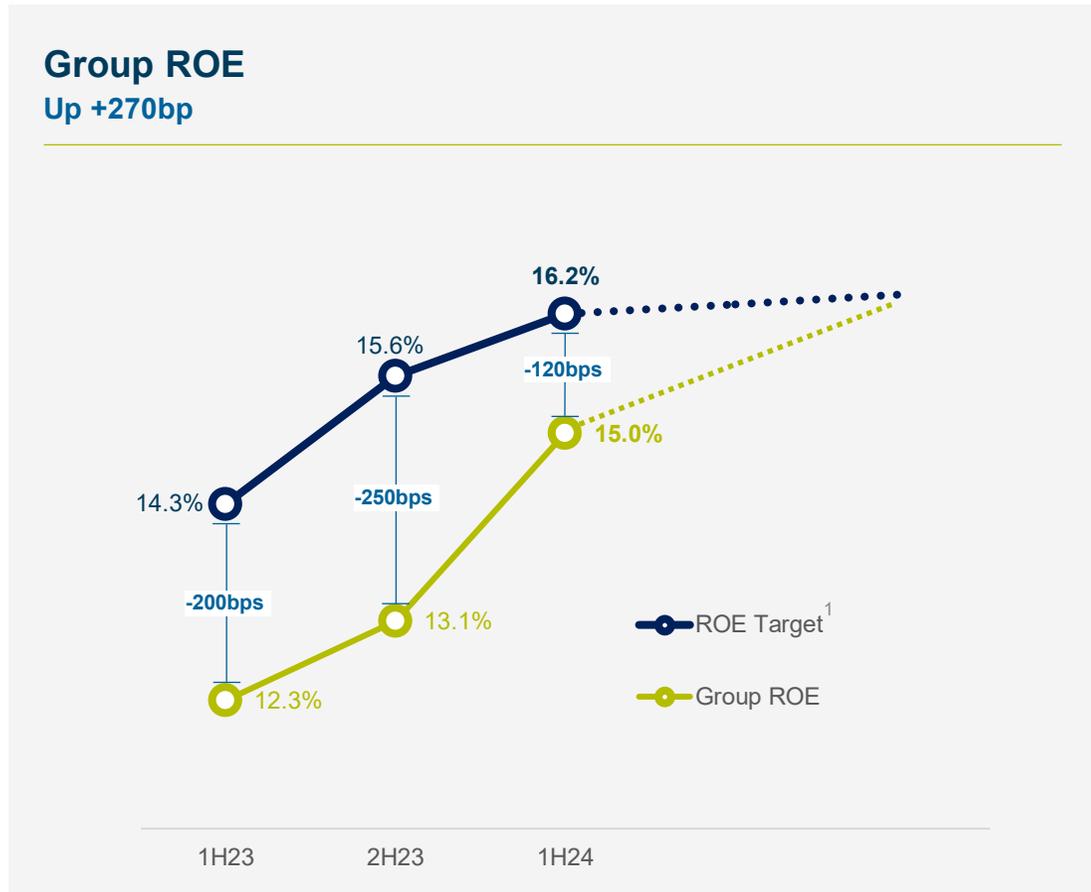
**FM (+\$2m)** – increase administration costs, partially offset by savings from sale of commercial real estate business

**Bank (-\$9m)** – derecognition of the Bank

**FY24 Cost to income ratio** – expected to be at bottom end of target range

# Delivering higher sustainable ROE

Clear progress with Group ROE benefitting from Life margin expansion  
Narrowing gap to ROE target in 1H24



## HIGHER ROE DRIVERS

- Continued Life momentum
- Higher Funds Management earnings contribution
- Artega efficiencies
- Transformation partnership benefits from FY25

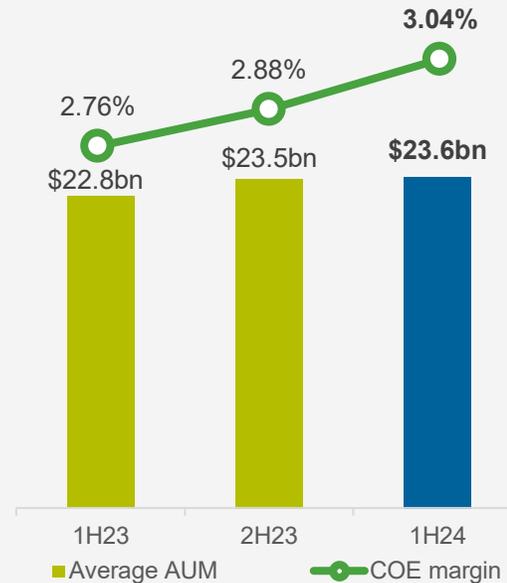
# Life performance

Earnings benefitting from AUM and margin growth  
Strong growth in ROE

	1H24	Change
COE <sup>1</sup>	\$360m	13%
Expenses	(\$58m)	8%
<b>EBIT</b>	<b>\$302m</b>	<b>15%</b>
COE <sup>1</sup> margin	3.04%	28bps
ROE pre-tax	18.1%	330bps
PCA <sup>2</sup> ratio	1.50x	(0.09x)
Lifetime sales	\$1.1bn	190%
New business annuity sales tenor (years) <sup>3</sup>	8.9	3.5
Maturity rate	17%	(1pp)

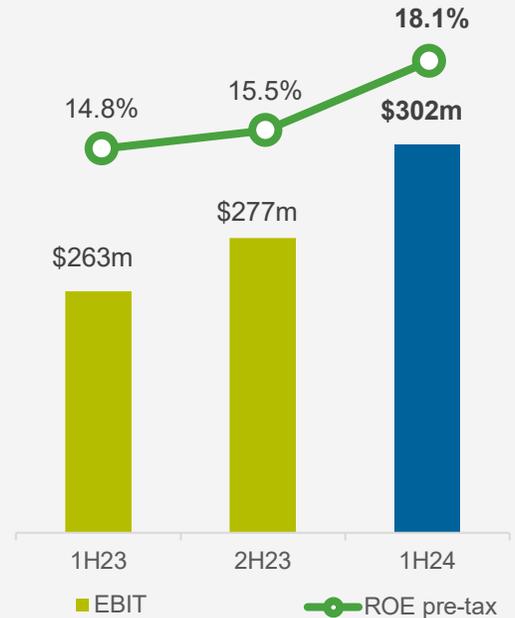
Average AUM +3%  
COE margin +28bps

Average investment assets (\$bn)  
Cash Operating Earnings margin (%)



Life EBIT +15%  
ROE +330bps

EBIT (\$m)  
Normalised ROE (pre-tax) (%)

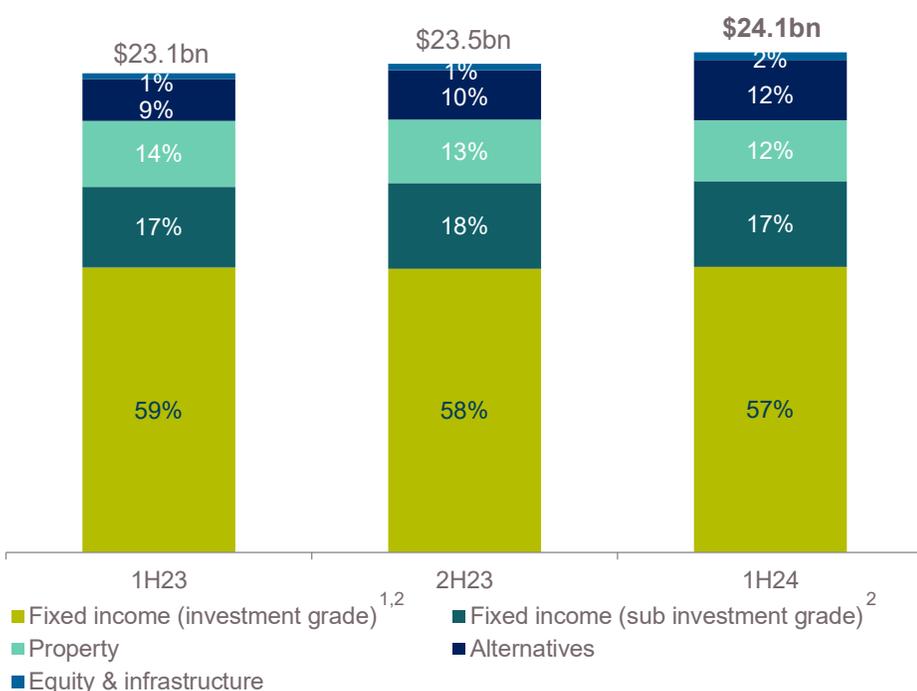


# Life investment portfolio

Continuing to diversify balance sheet

Investment experience reflective of market conditions

## Life AUM (\$bn)



## Investment experience (pre-tax)

Category	Value	Details
ASSET	Fixed income	\$143m Narrowing credit spread in 1H24 <sup>3</sup> (positive impact) Credit defaults <sup>4</sup> -\$26m (-15bps) including 1 default and 1 downgrade
	Property	-\$157m All properties valued in December 2023 (62% independent) 3% write-down reflects cap rate expansion 92% occupancy rate at 31 December 2023 54% Leases expiring in FY28 and beyond
	Equities & Infrastructure	-\$11m Equities now largely represent beta investments
	Alternatives	-\$104m Returns broadly consistent with indices
LIABILITY	New business strain	-\$58m Includes Aware Super group lifetime policy
	Policy	-\$15m Illiquidity premium -\$47m Life Risk impact from AASB 17 +\$26m Other movements +\$6m
<b>Total</b>	<b>-\$202m</b>	<b>-\$145m after tax</b>

1. Includes Cash & equivalents.

2. Investment grade represents BBB or higher.

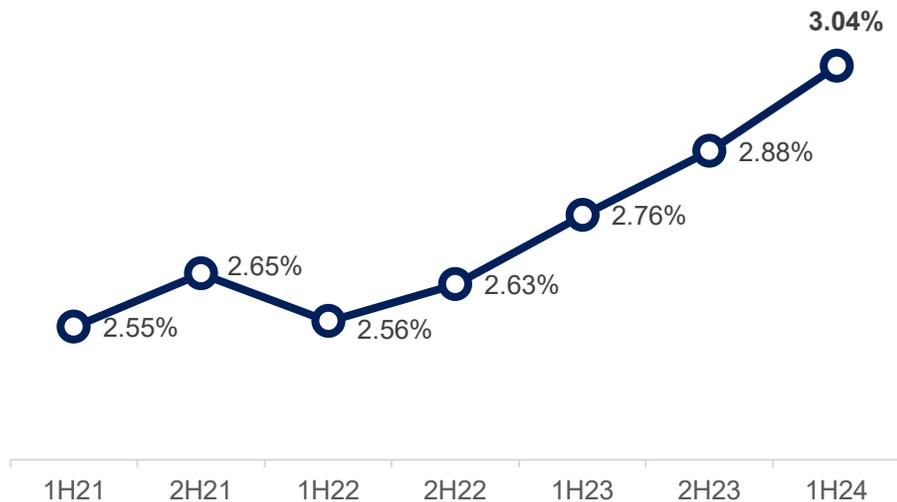
3. Investment grade iTraxx Australia decreased by ~11bps and sub-investment grade CDX North America High Yield index decreased by ~73bps from 30 June 2023 to 31 December 2023.

4. Credit default experience of -\$26m (-15bps) recognised in 1H24 investment experience. It is Life's policy to consider all investments rated below B- in default.

# Life COE margin

Longer duration sales supporting margin

## COE<sup>1</sup> margin (%)



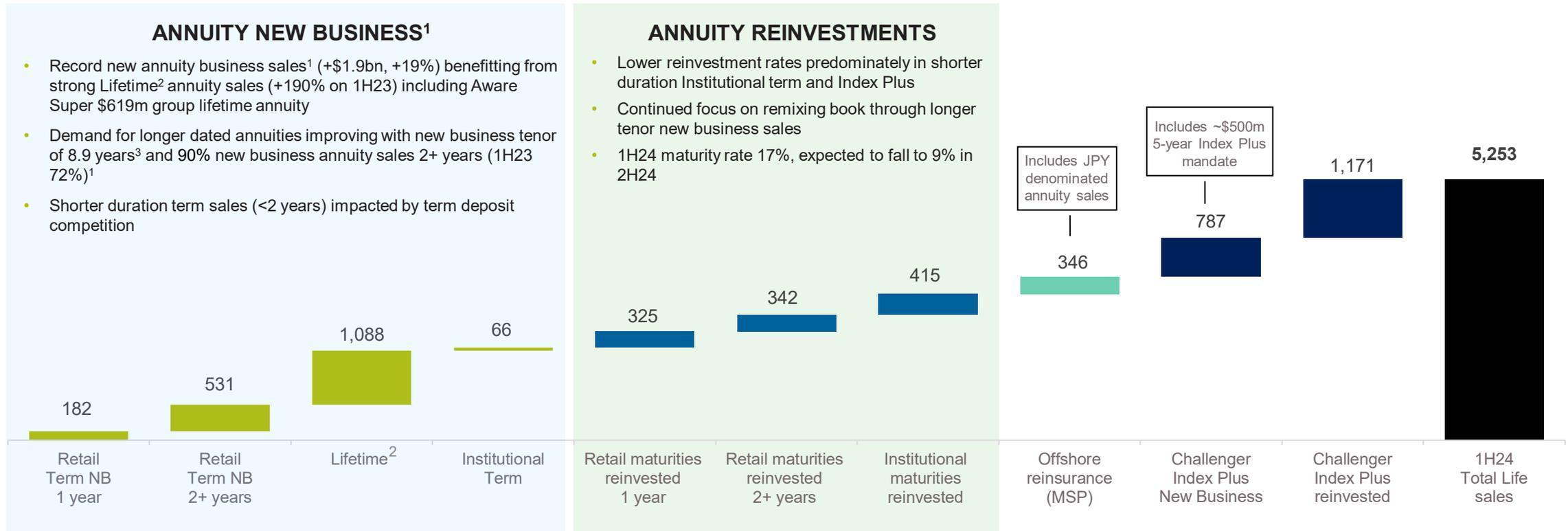
## 1H24 COE<sup>1</sup> margin (%) up 16bps



# Life sales

## Improving Life book quality and returns through longer duration sales

### Life sales (\$m)



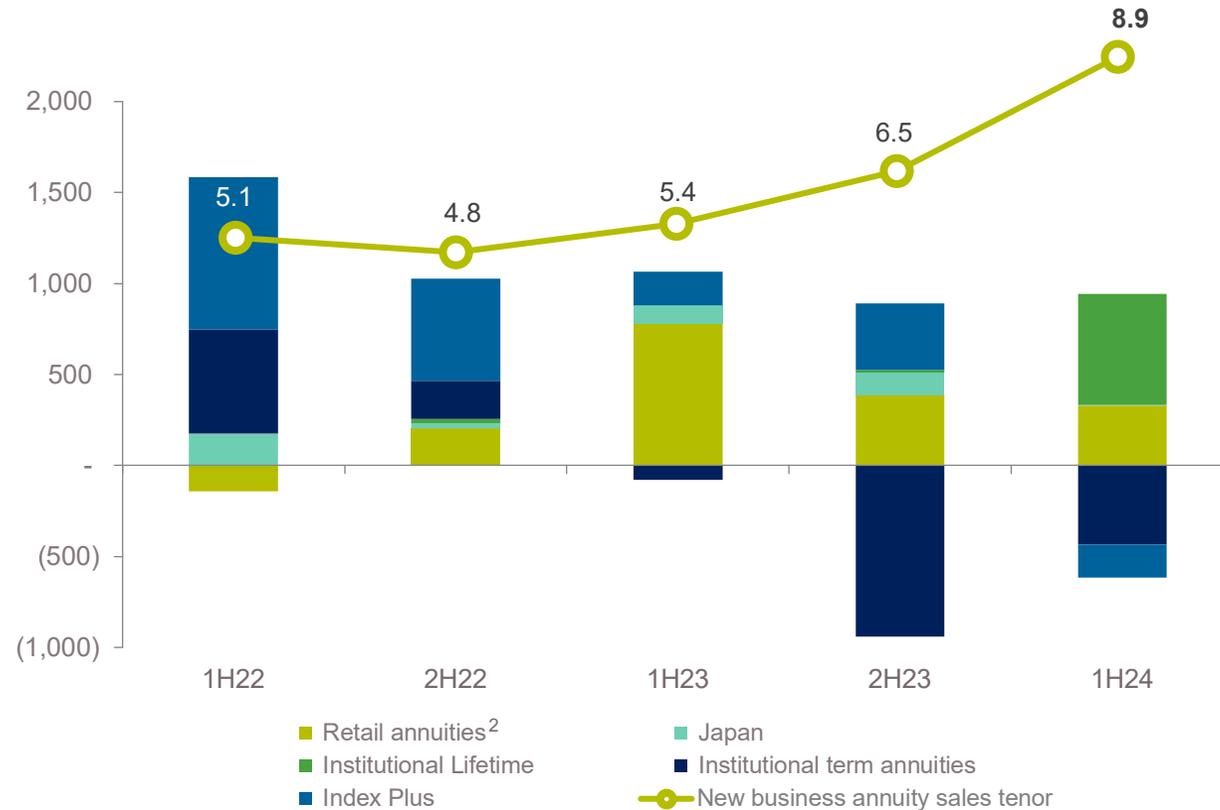
1. Based on domestic new business annuity sales, including term annuities and Lifetime annuities, excluding reinvestments and Japanese sales.  
 2. Includes CarePlus annuity sales.  
 3. Based on new business annuity sales, including term annuities and Lifetime sales, excluding reinvestments.

# Life book growth

## Delivering higher quality book growth through longer duration sales

- Annuity net flows of \$0.5bn or +3.6% book growth
- Annuity net flows excluding institutional term annuities \$0.9bn or +6.8% book growth
- Strategic focus on longer dated sales driving new business annuity tenor to 8.9 years (from 5.4 years in 1H23)

### Net flows by channel (\$m) and New Business Tenor (years)<sup>1</sup>



1. Based on new business annuity sales, including term annuities and Lifetime annuities, excluding reinvestments.  
 2. Includes Lifetime and CarePlus annuity sales.

# Funds Management performance

Resilient franchise with strong growth potential

Earnings reflect business mix and higher administrative costs

	1H24	Change
FUM-based income	\$79m	(4%)
Performance & transaction fees	\$8m	49%
Net income	\$87m	(1%)
Expenses	(\$59m)	3%
<b>EBIT</b>	<b>\$29m</b>	<b>(7%)</b>
Income margin	17.4bps	(1.3bps)
FUM-based margin	15.8bps	(1.8bps)
ROE pre-tax	18.1%	(300bps)
Average FUM	\$100bn	7%

**Average FUM**  
\$100.0bn +7%

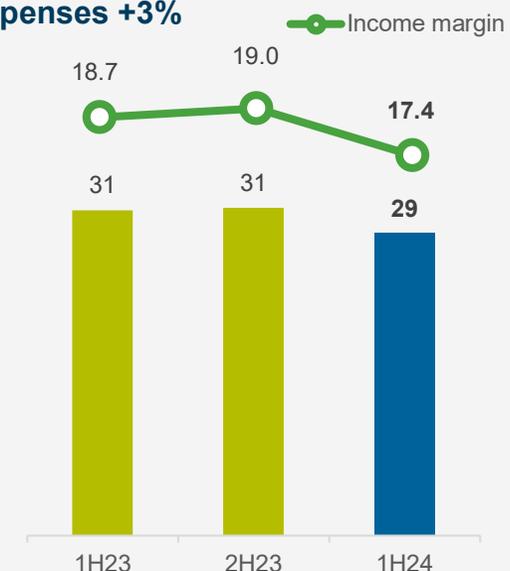
**Fidante \$83bn +15%**  
**CIM \$17bn -18%<sup>1</sup>**

Includes impact from  
~\$3.3bn FUM  
derecognition following  
CRE sale to Elanor



**FM EBIT**  
\$29m -7%

**Net income -1%**  
**Expenses +3%**



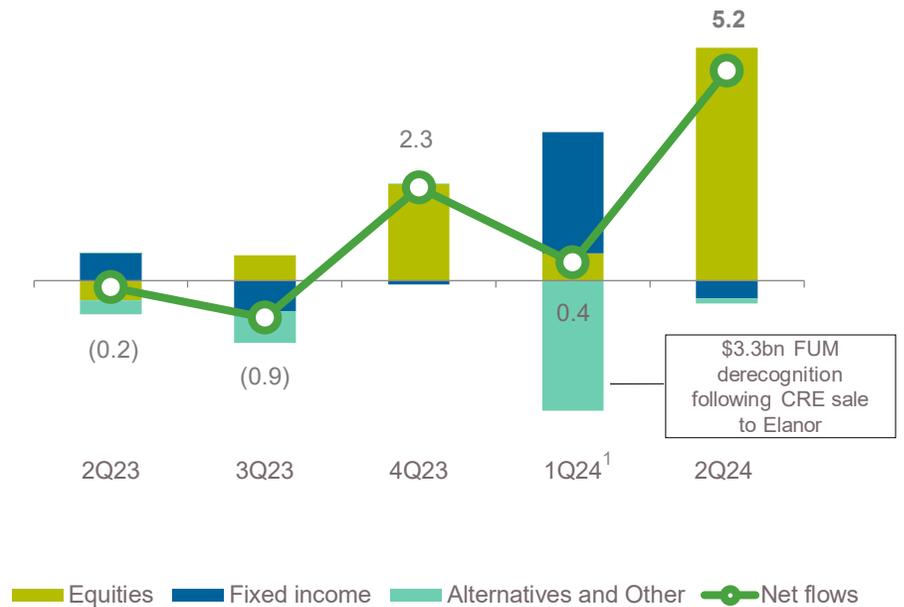
# Funds Management

**FUM benefitting from strong institutional flows and market movements**  
**Very strong second quarter with \$5.2bn of net flows**

## Funds Under Management (\$bn)



## Net flows – Quarterly (\$bn)



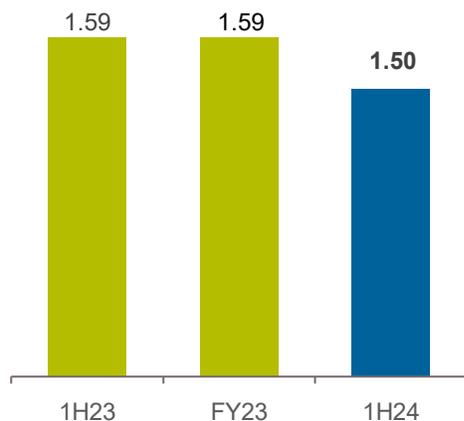
# Capital management

Remain well capitalised

Dividend benefitting from strong earnings growth

## Challenger Life PCA ratio<sup>1</sup>

Operating within the target range  
1.30x to 1.70x<sup>2</sup>



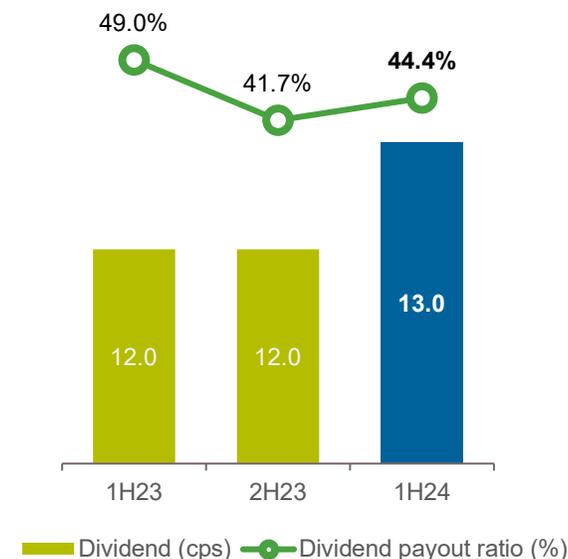
## Continued to be rated highly

**S&P credit rating**  
**Challenger Life 'A'**  
 stable outlook  
**Challenger Limited 'BBB+'**  
 stable outlook

**Group debt facility**  
**Undrawn**  
 \$400m committed facility

## Dividend

Dividend payout ratio<sup>3</sup> 44%  
within payout ratio target range<sup>4</sup>



1. The PCA ratio represents total Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount.

2. Challenger does not target a specific PCA ratio and the target PCA ratio range is a reflection of internal capital models, not an input to them and reflects asset allocation, business mix, capital composition and economic circumstances. The target surplus produced by these internal capital models currently corresponds to a PCA ratio of between 1.30 times to 1.70 times. This range may change over time and different constraints can apply including CET1 requirements.

3. Normalised dividend payout ratio represents dividend per share divided by normalised earnings per share (basic).

4. From 1H24, Challenger targets a dividend payout ratio of between 30% and 50% of normalised profit after tax.

# FY24 guidance and targets

Earnings expected to be in top half of guidance range



**Normalised net profit before tax**



## Considerations

- **~\$10m investment** across a range of initiatives, including Artega's operating platform<sup>1</sup>, branding, risk and cybersecurity

## Excludes

- **Bank** – Heartland accountable for operating losses from November 2023. Gain on sale to be treated as significant item
- **Transformation Partnership** – ~\$25m investment across FY24/FY25 treated as a one-off significant item (\$4m incurred in 1H24)



**Through the cycle targets**

### Normalised ROE target

- RBA cash rate plus margin of 12% (pre-tax)
- Expected to be below target in FY24 due to lower contribution from FM
- Focused on improving ROE

### Cost to income ratio

- 35% - 37% cost to income ratio
- FY24 expected to be at bottom end of range

### Dividend payout ratio

- Dividend payout ratio to target 30% to 50%<sup>2,3</sup>

### Capital

- Expect to operate within CLC PCA target range 1.30x to 1.70x<sup>4</sup>
- Target surplus framework and risk appetite unchanged

1. Reflected in Artega equity accounted profits (Other Income in Corporate financial results).

2. Normalised dividend payout ratio represents dividend per share divided by normalised earnings per share (basic).

3. Dividend subject to market conditions and capital management priorities.

4. Challenger does not target a specific PCA ratio and the target PCA ratio range is a reflection of internal capital models, not an input to them and reflects asset allocation, business mix, capital composition and economic circumstances. The target surplus produced by these internal capital models currently corresponds to a PCA ratio of between 1.30 times to 1.70 times. This range may change over time and different constraints can apply including CET1 requirements.

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# Key priorities

Nick Hamilton



# Retirement phase

## Challenger positioned to meet the retirement challenge

### Structural drivers

**\$3.5tn**

#### Significant retirement savings

Australian super assets expected to increase to \$9.0tn+ in next 20 years<sup>1</sup>

#### Evolving retirement market



Government focus

Superfunds developing retirement products

Financial advice reforms

### Customer drivers

**\$145bn**

#### Demand for guaranteed lifetime income

Superannuation that should be allocated to a guaranteed lifetime income to provide income certainty<sup>2</sup>

**66%**

#### Need for inflation protection

Australian retirees concerned with rising cost of living<sup>3</sup>

**2.5m**

#### Ageing population

Australians moving to retirement phase over next 10 years<sup>4</sup>

challenger  |  fidante

**~30**  
years

Track record providing lifetime income



Trusted and recognised brand



Innovative retirement income partnerships



Leading multi-affiliate platform



Customer-centric model



Leading origination capability



Exceptional distribution footprint

# Key priorities

Maintain momentum in core businesses

Deliver shareholder value



Continue to advocate for better retirement outcomes



New **retirement income partnerships**



Continue strong momentum in FM sales



Deliver **transformation program** and capture efficiencies



Finalise **Bank sale**



Continue progress towards **ROE target**

# IMPORTANT NOTE

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

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

The 2024 Interim Financial Report is available from Challenger's website at [www.challenger.com.au/shareholder](http://www.challenger.com.au/shareholder).

This presentation is not audited. The statutory net profit after tax has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Challenger's external auditors, Ernst & Young, have reviewed the statutory net profit after tax. Normalised net profit after tax has been prepared in accordance with a normalised profit framework. The normalised profit framework is disclosed in Note 4 Segment Information of Challenger Limited 2024 Interim Financial Report. The normalised profit after tax has been subject to a review performed by Ernst & Young. Any additional financial information in this presentation which is not included in Challenger Limited 2024 Interim Financial Report was not subject to independent review by Ernst & Young.

This document may contain certain 'forward-looking statements'. The words 'forecast', 'expect', 'guidance', 'intend', 'will' and other similar expressions are intended to identify forward-looking statements. Forecasts or indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. You are cautioned not to place undue reliance on forward looking statements. While due care and attention has been used in the preparation of forward-looking statements, forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance and may involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Challenger. Actual results, performance or achievements may vary materially from any forward-looking statements and the assumptions on which statements are based. Challenger disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

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Unless otherwise indicated, all numerical comparisons are to the prior corresponding period.