

CHALLENGER INVESTOR DAY 2023

Challenger Limited (ASX:CGF) is today holding its 2023 Investor Day, beginning at 1:00pm (Sydney time).

The investor day will be held as a hybrid meeting, held physically at the Amora Hotel Jamison Sydney and online via a webcast at <https://2023investorday.challenger.com.au>

A copy of the presentation Challenger's leadership team will deliver today is attached.

ENDS

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

About Challenger

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

Challenger operates a fiduciary Funds Management division, an APRA-regulated Life division and an APRA regulated authorised deposit-taking institution. Challenger Life Company Limited is Australia's largest provider of annuities.

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30 May 2023

Investor Day

Building a more
diversified business

Meeting more
customer needs

challenger 

Agenda

Building a more diversified business to meet more customer needs

01

13:00

Strategy and growth

Nick Hamilton – Managing Director and Chief Executive Officer

02

13:25

Customer-centric business

Mandy Mannix – Chief Executive, Customer

03

13:50

Institutional solutions

Anton Kapel – Chief Executive, Life and Solutions

04

14:05

Life investment portfolio

Peter Schliebs – Chief Investment Officer, Life

05

14:20

Break

06

14:30

Funds Management growth platform

Victor Rodriguez – Chief Executive, Funds Management

07

14:45

AASB 17 and outlook

Alex Bell – Chief Financial Officer

08

14:55

Wrap up and Q&A session

Nick Hamilton – Managing Director and Chief Executive Officer



01

Strategy and growth



Nick Hamilton

Managing Director & Chief Executive Officer

Key points

Building a more diversified business to meet more customer needs



Uniquely positioned to play a leading role in retirement



Operating environment supportive and underpinned by structural trends



Focusing business on core capabilities



Customer focused business responding to meet more needs



Leveraging our core capabilities to drive growth



Purpose and strategy

Building a more diversified business to meet more customer needs

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



Broaden customer access across multiple channels



Leverage the combined capabilities of the group



Expand range of financial products and services for a better retirement



Strengthen resilience and sustainability of Challenger

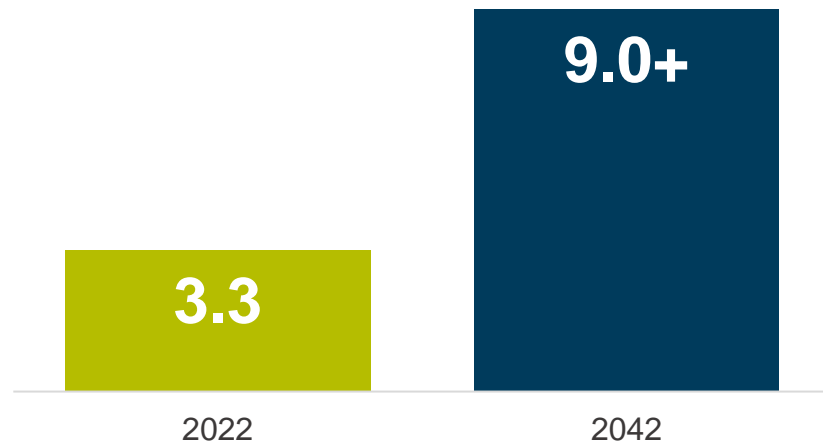
Positioned to benefit from structural tailwinds

World class accumulation system with significant retirement savings

Focus moving to retirement phase, underpinned by longevity and public policy settings

Growing super system

Australian superannuation assets^{1,2} (\$tn)



Increasing longevity

24 years

Average time in retirement in Australia³



Australian life expectancy one of the highest globally⁴

Regulatory support



Retirement Income Covenant



Quality of Advice Review



Purpose of superannuation

1. APRA Quarterly Superannuation Performance as at September 2022.

2. Deloitte Dynamics of the Australian Superannuation System: The Next 20 Years to 2041.

3. Challenger Retirement Income Research 2022, based on ABS data age at death.

4. Source: Australian Bureau of Statistics <https://www.abs.gov.au/media-centre/media-releases/australian-life-expectancy-increases-during-covid-19-pandemic>.

Retirement income ecosystem

Challenger uniquely positioned to play a leading retirement income role

Structural drivers

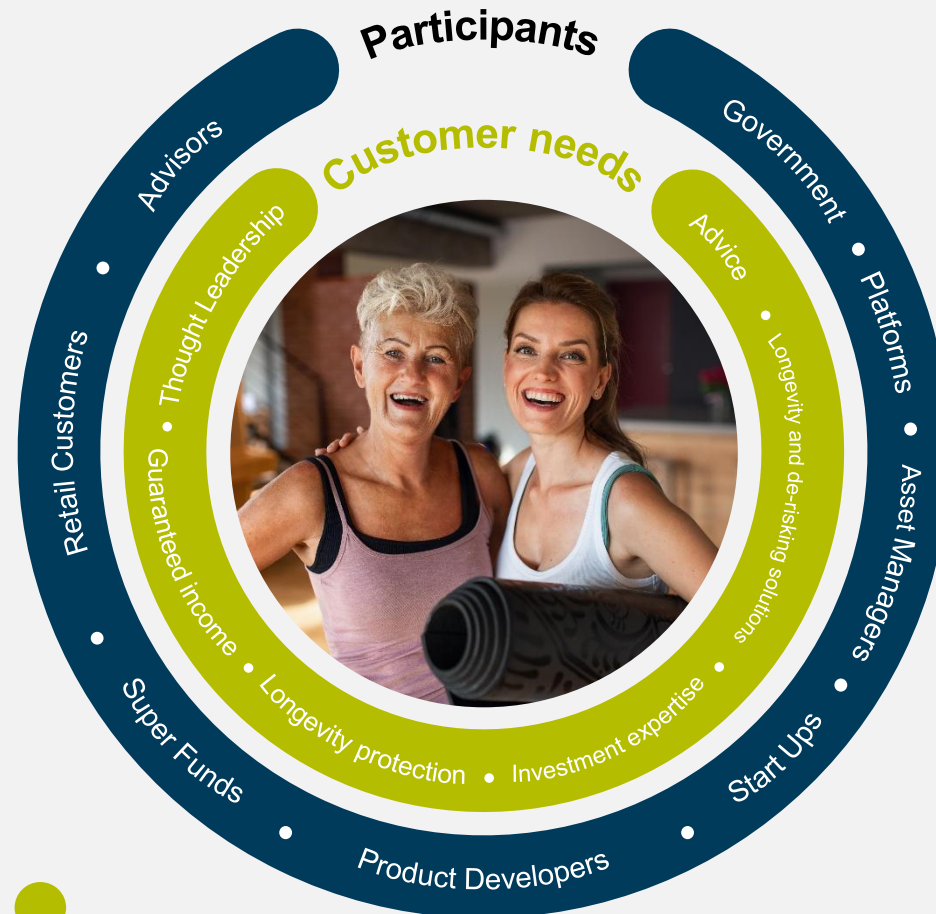


- Ageing population
- Increasing longevity
- Significant retirement savings
- Rising rate environment
- Policy settings supportive

Customer drivers



- Demand for financial advice
- Demand for income certainty
- Need for inflation protection
- Seamless digital interactions



challenger  fidante

- Leading brands
- Leader in retirement income
- Leading multi-affiliate platform
- Customer centric model
- Leading origination capability
- Exceptional distribution footprint
- Experts in retirement
- Balance sheet solutions

Operating environment

Supportive

THEN

Lower annuity rates
Life sales shorter duration
FM flows slowing


Customer

Normalisation of annuity rates
Life sales longer duration
FM flows stable

Supporting investment returns
and providing alpha


Institutions

Starting to focus on retirement and decumulation
Seeking retirement partnerships
Opportunities in defined benefit market

Limited competition


Competition

Term Deposit competition for short duration
New Lifetime options coming to market

Strongly capitalised


Capital

Strongly capitalised

Higher equity exposures


Balance Sheet

Allocation to fixed income increasing
Alternatives exposures higher

NOW

Focusing business on core capabilities

Customer focus and simplifying the business

Reorganised business around customer



✓ Embedded new Customer division and leadership

✓ Digitising annuity and FM customer experience

✓ Institutional partnerships

SIMPLIFYING BUSINESS



DIVERSIFYING REVENUE



challenger 

Bank exit

- Sale to Heartland ~\$36m^{1,2}
- Expected to complete 1H24
- \$50m excess capital returned. Another ~\$40m to be returned prior to completion

ARTEGA
INVESTMENT ADMINISTRATION

Investment administration

- New external clients wins
- Target market:
 - Asset managers <\$50bn FUM
 - Asset owners <\$25bn

Elanor 

Real estate

- Strategic real estate partnership with Elanor Investors Group (ASX:ENN)³
- Enhanced asset management platform

MS&AD
INSURANCE GROUP

Japanese distribution

- Annuity reinsurance – progressing renewal of 5 year agreement
- Investment management – real estate and fixed income mandates

APOLLO

Global alternative asset management

- Non-bank lending JV – provide debt opportunities to CLC and Apollo
- Product and distribution opportunities

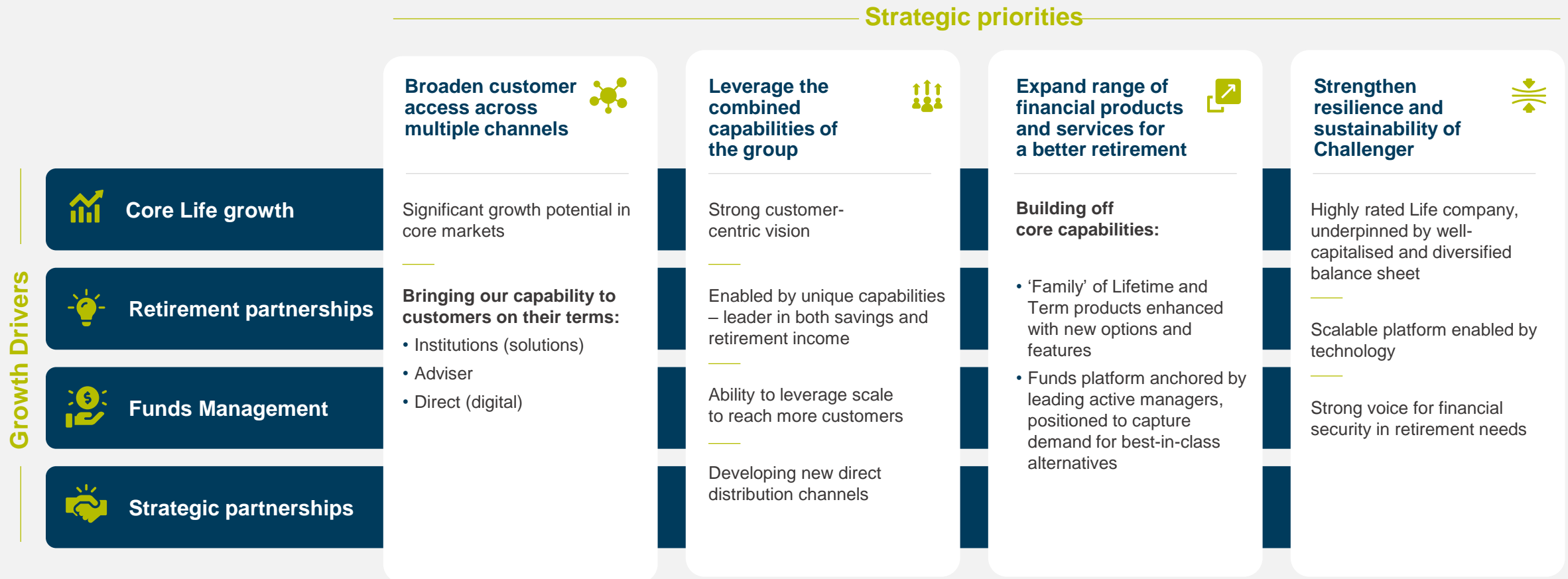
1. Share sale agreement with Heartland Group Holdings Limited (NZX/ASX:HGH) announced on 20 October 2022.

2. Price subject to completion adjustments and based on a net asset value of ~\$25m.

3. Strategic partnership with Elanor Investors Group (ASX:ENN) announced 6 April 2023.

Leveraging core capabilities for growth

Customer channel and customer strategy to drive growth and diversification





02

Customer-centric business



Mandy Mannix
Chief Executive, Customer

Key points

Customer-centric business



Customers at the centre of everything we do



Customer preferences driven by changing conditions



Annuities play a core part in portfolio construction



Challenger uniquely positioned as clear retirement leader



Modernising the customer experience



Customers at the centre of everything we do

Enabling customers to accumulate and spend their wealth



Customer

Customers are at the heart of everything we do



Customer goals

Our customers are saving for and spending in retirement

They are accumulating wealth and looking for ways to optimise that wealth according to their goals



Customer segments

Mass customers (<\$300k of investable assets)

- Predominantly served by their super fund
- Challenger meets their needs through its large institutional relationships

Affluent / HNW (\$300k+ of investable assets) / 45yrs+

- Largest share of investable wealth
- Whilst largely served by advisers, they are showing an increased propensity to invest directly
- Essential to be 'easy to do business with'



Customer channels

Advised



Institutional



Direct



Customer preferences driven by changing conditions

Need for solutions that provide retirees with confidence to spend in retirement

	Then	Today	Challenger response
Advised	<ul style="list-style-type: none">• Reposition offering to service higher value segments• Comfortable with asset allocation given bull markets• Sales process relied on age pension benefits	<ul style="list-style-type: none">• Investment options that solve for income, market volatility and inflation• Demand for uncorrelated and alternative investments• Sales process focused on portfolio construction	<ul style="list-style-type: none">• Deeper integration of annuities in client portfolios• Increase alternative product range
Institutional	<ul style="list-style-type: none">• Super fund consolidation• Focus on performance and fees• Seeking partners that stay true to label and provide capability not easily internalised	<ul style="list-style-type: none">• Public policy geared towards retirement – Purpose of Super, Quality of Advice Review and Retirement Income Covenant• Continue to seek fewer and deeper partnerships	<ul style="list-style-type: none">• Retaining partnership position as funds consolidate• Partnering to provide longevity and retirement solutions
Direct	<ul style="list-style-type: none">• Low rate environment• Customers moving up risk curve	<ul style="list-style-type: none">• Interest rates normalising – making guaranteed income more attractive• Seamless digital interactions	<ul style="list-style-type: none">• Focused on longer duration products• Investing in digital capability – creating new direct channel

Risks in retirement

Emotional risk

Behavioural biases getting in the way of good decision making



Longevity risk

We are approaching the point where 30 years is a conservative planning horizon



Sequency risk

A simple run of bad luck early in retirement can turn a cusotmer's financial life upside down



Market risk

Market performance can fluctuate, making it hard to predict whether income will last



Inflation risk

With inflation eroding purchasing power, a retirement portfolio needs to keep up with spending requirements for retirees



How annuities protect retirees

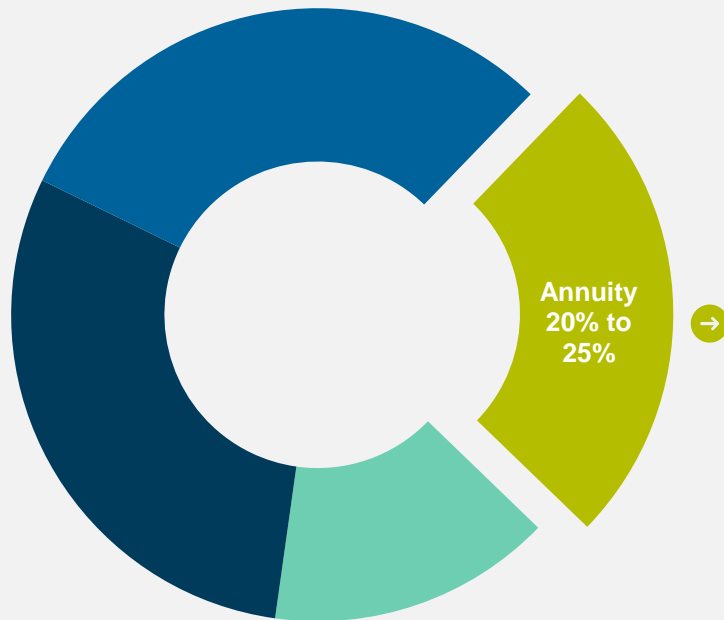
Annuities provide confidence and regular income in retirement

Annuities can play a core part in portfolio construction

Illustrative example retirement portfolio

75%
Retirement
growth assets
+
25%
Annuity¹

*Combined portfolio
meets expectations for
income/capital longevity*











Term annuities

- Guaranteed regular income for a fixed term of retiree's choice
- Flexible capital return options
- Attractive market leading rates

Lifetime annuities

- Regular income for life
- Options to link payments to investment markets
- Payments that can keep pace with inflation
- Options to accelerate payments with lifestyle

Annuities can help you spend with confidence

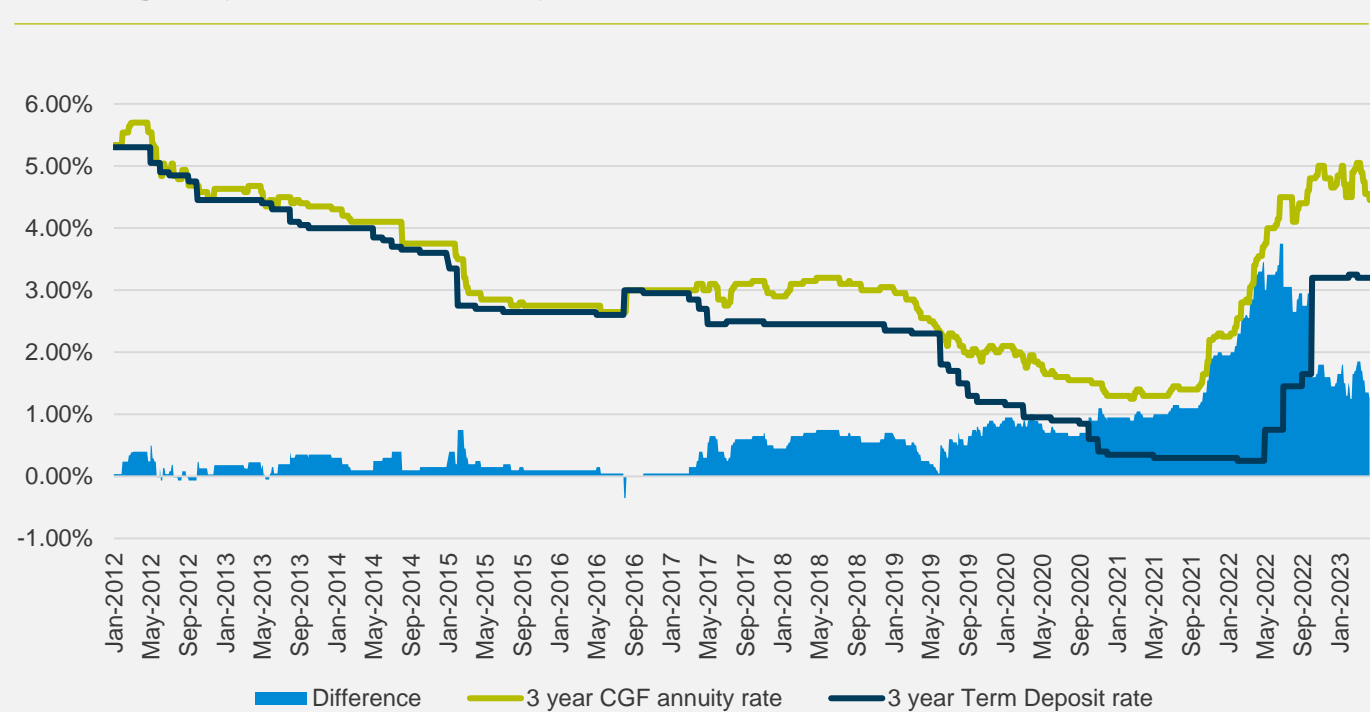
-  Guaranteed regular income
-  Inflation protection
-  Payments to beneficiary
-  Access to funds
-  Maximise aged pension entitlements
-  APRA regulated
-  Options to accelerate payments to align with lifestyle
-  Options to link payments to investment markets

Term annuities offer compelling returns

Best customer proposition in last 10 years

- Annuities provide regular income and return of capital
- Annuities continue to be priced attractively – highest annuity rates in last 10 years²
- Leading fixed income originator – passing on higher interest rates to customers
- Challenger focused on longer duration retail sales (2+ years tenor) – improves margin and maturity outlook
- Banks competing for short duration deposits (1-year)

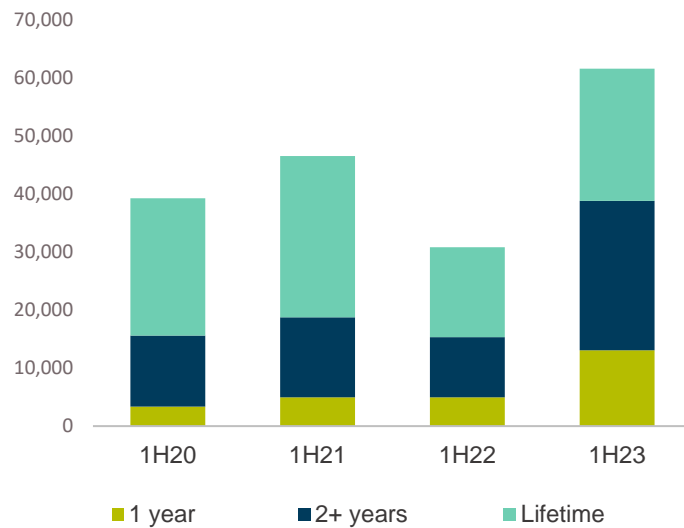
Pricing: 3-year fixed annuity versus Term Deposits¹



Demand for guaranteed income increasing

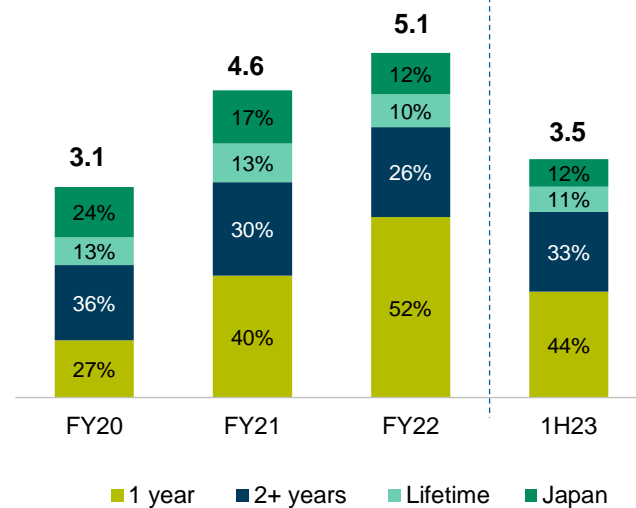
Opportunity to remix book

Adviser quotations



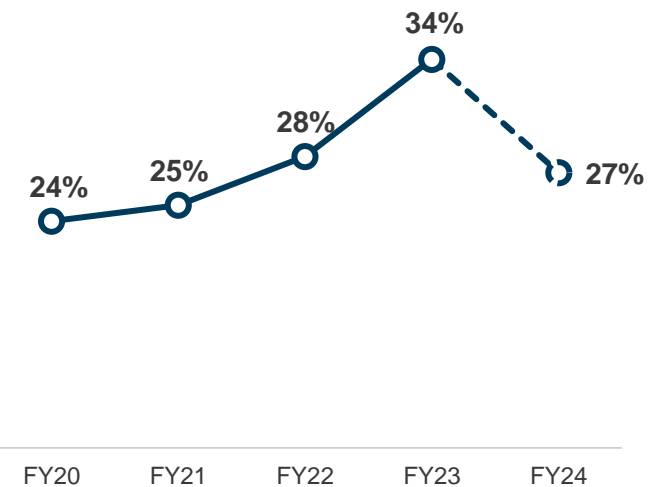
Advisers recommending longer tenor annuities – Advisers quote levels up 100% on pcp in 1H23

Annuity sales mix (\$bn)



Remixing the book through longer tenor new business sales

Maturity rate (%)¹



Longer tenor annuities driving lower expected maturity rate of ~27%

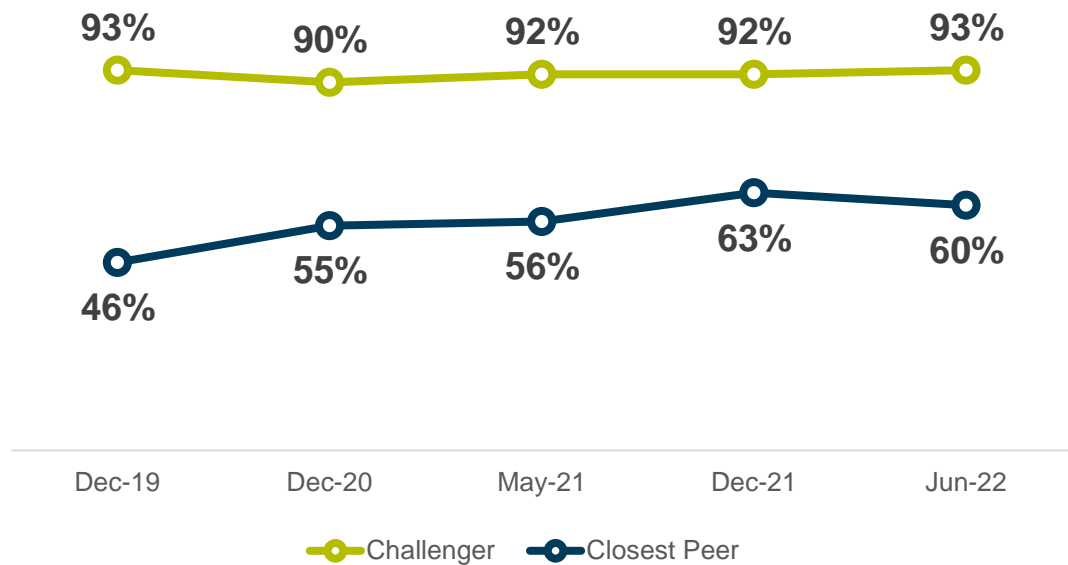
Uniquely positioned as clear retirement leader

Opportunity to extend adviser reach

Brand strength



Leader in Retirement Income¹

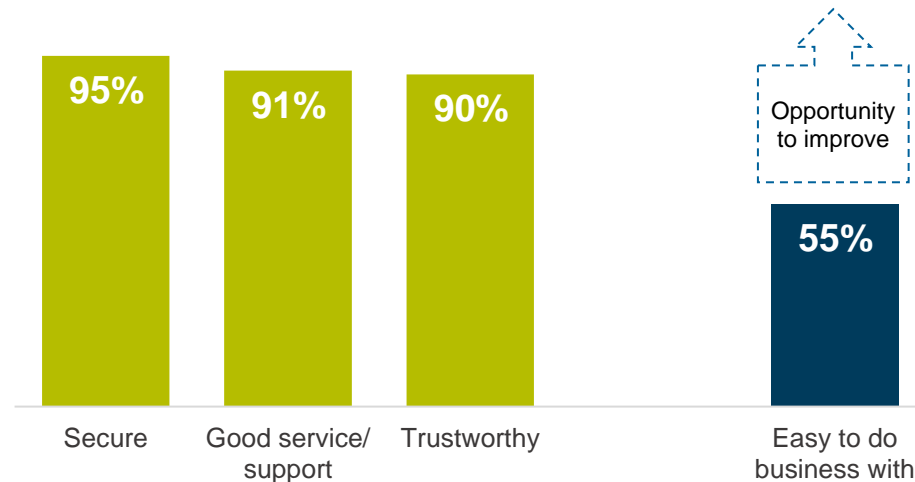


Challenger attributes with advisers¹



Advisers who have recommended annuities

Advisers who have not recommended annuities



Modernising the customer experience

Make it easier to do business, enable sales growth and reduce cost to serve

Current offering

Response

Applications largely paper-based

Launched new Funds Management digital capability

Manual handling and processing

Refreshed digital content and branding

Increased risks for error, cost and time

Launched digital capability for fixed term annuities

Portals don't facilitate transactions

Launching fixed term annuities in platform

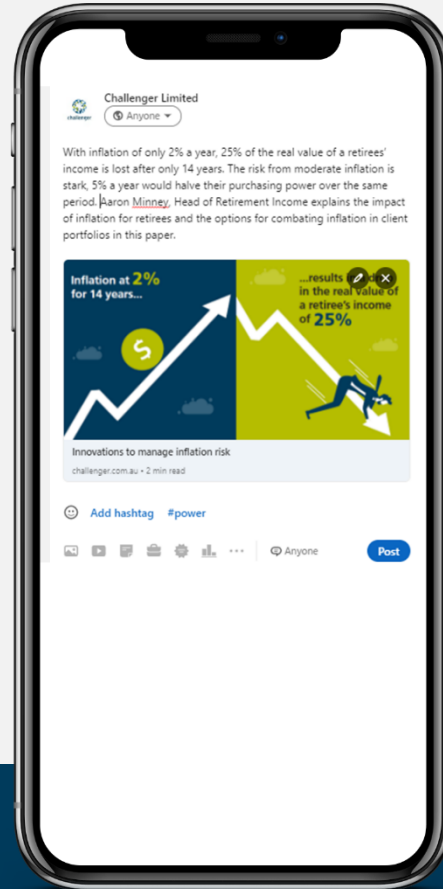
Correspondence paper-based

Modernising customer technology

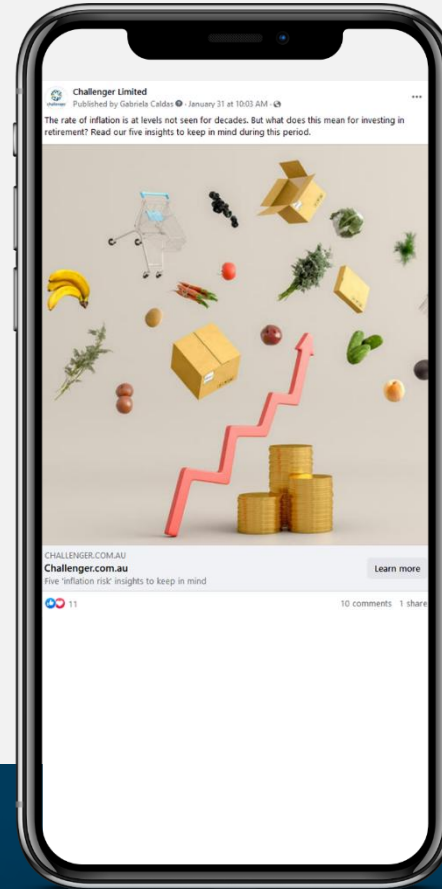


Refreshed digital content and branding

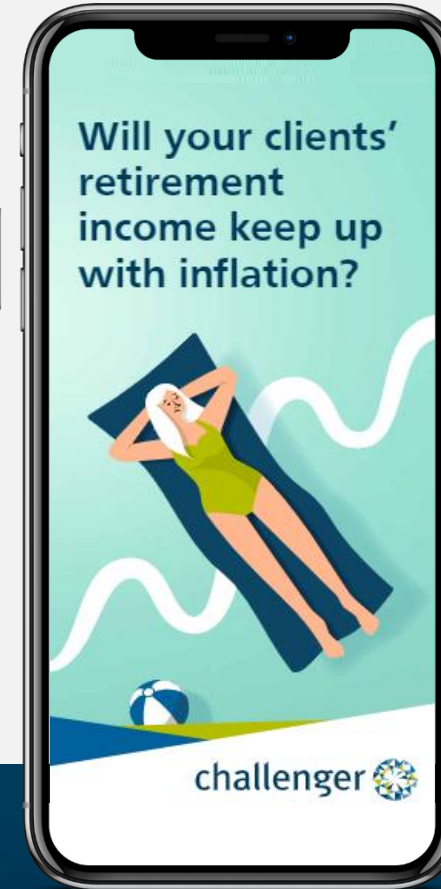
Opportunity to engage with customers



Social media
LinkedIn campaign



Social media
Facebook campaign



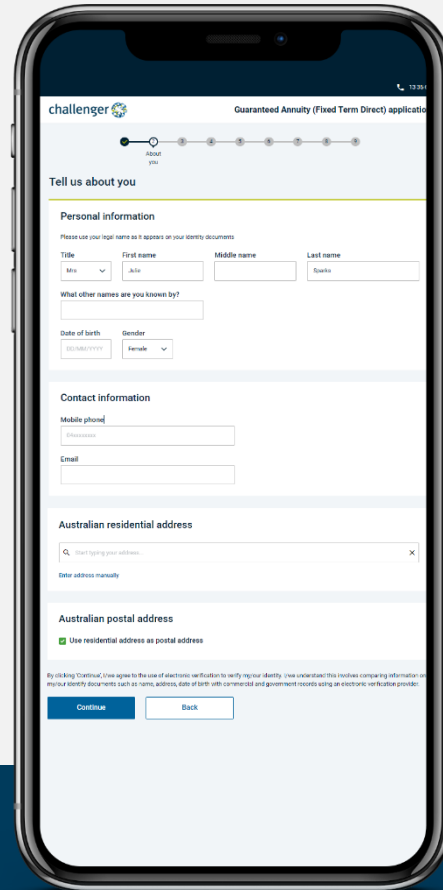
Investor/Adviser
advertising campaign



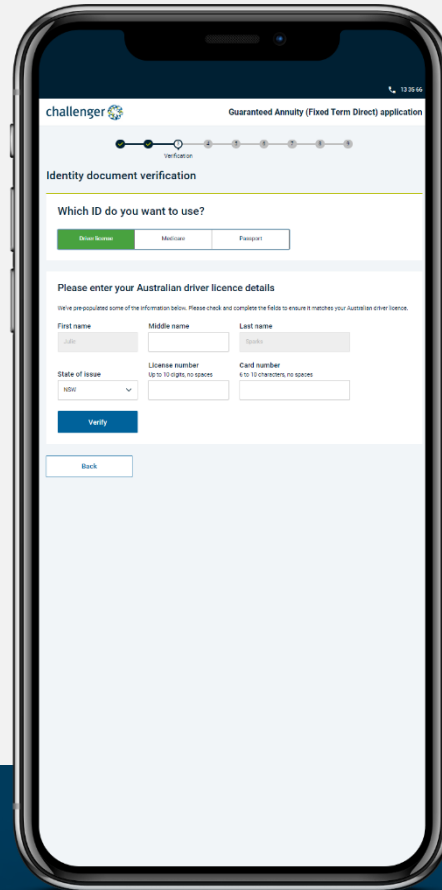
Fidante
rebrand

Fixed Term Direct – Smart Application

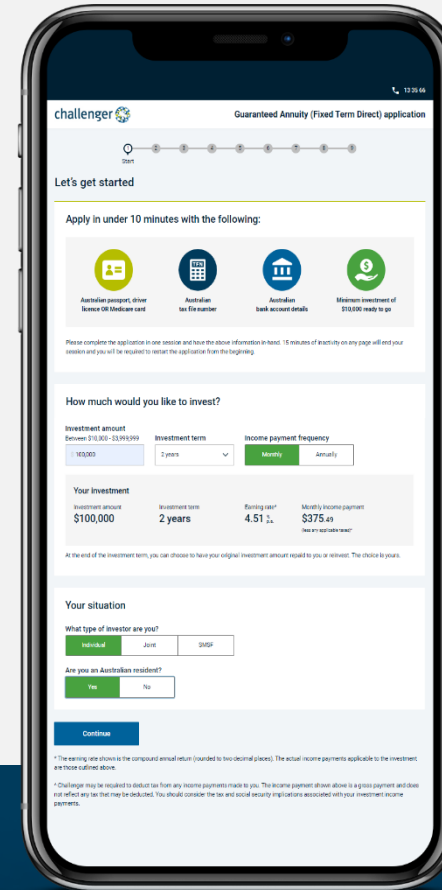
Delivering greater operating efficiencies and better customer experiences



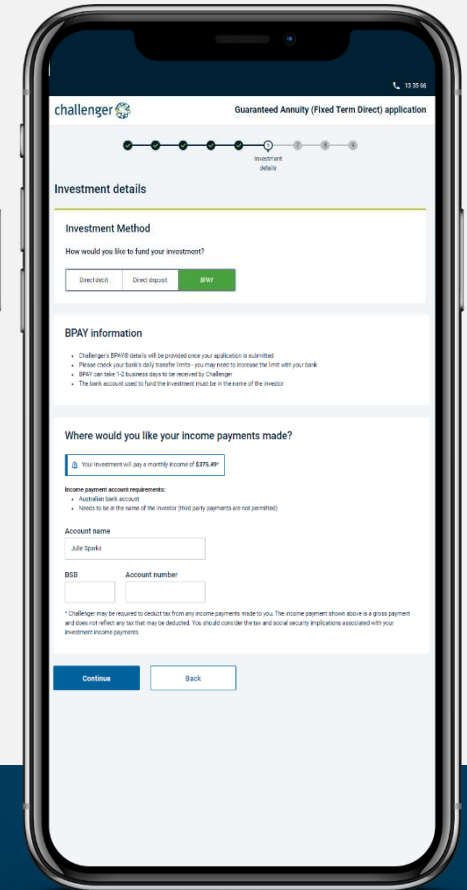
Smart data capture



Immediate online ID verification



Easy to use quoting calculator



Three funding options available



03

Institutional solutions



Anton Kapel
Chief Executive, Life and Solutions

Key points

Institutional solutions



Building deeper relationships with institutional customers



Investment and de-risking propositions that enhance returns



Demographic and regulatory forces increasing focus on retirement



Uniquely positioned to deliver better outcomes for institutional customers



Institutional customers

Track record of delivering better outcomes



Customer need

- Trusted partners to assist with problem solving and meeting investment objectives
- Institutions seeking to de-risk and enhance returns
- Super system approaching maturity – growing importance of drawdown



Current state

- Utilising Challenger's core investment offering (Term annuities/Index Plus)
- Defined Benefit (DB) buy-ins / SFTs¹ / back book reinsurance / flow reinsurance
- Super funds designing comprehensive retirement products for members



Challenger offering

- Support adoption of more comprehensive retirement solutions
- Provide innovative longevity and structured solutions
- Support funds to move beyond offering account-based pensions to members

Deepening relationships with customers

Best in class investment strategies

Retirement solution expertise and collaborative approach



Core investment offering

Supporting investment program of customers

- Term annuities
- Index Plus – evolve offering to broaden interest
- Book size ~\$6bn¹



Bulk deals

De-risking solutions to help improve returns

- Domestic and offshore opportunities
- Block trades and flow deals
- Sponsors looking to de-risk



Retirement partnerships

Trusted partner to assist with solving retirement challenge

- Super funds seeking to develop retirement propositions with longevity protection

SHORT DURATION



MEDIUM DURATION



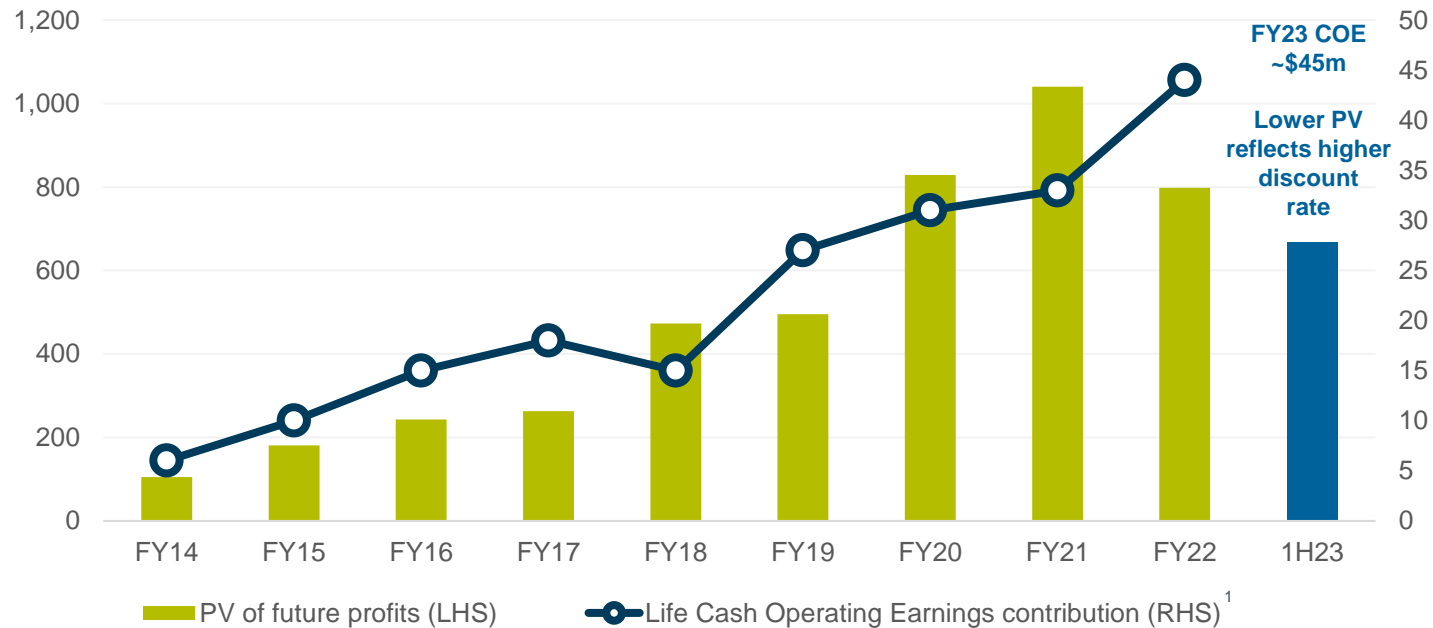
LONG DURATION



Life Risk business

Provides business and capital diversification

Life Risk (\$m)



- Wholesale longevity swaps
- Participating in risk transfer market since 2013
- Core capability and experienced team
- FY23 COE ~\$45m
 - Profit to continue to be released over time
- 1H23 \$667m PV of future profits
 - Not recognised in NTA (~\$1 per share)
 - Average portfolio duration 13 years
- Provides business and capital diversification

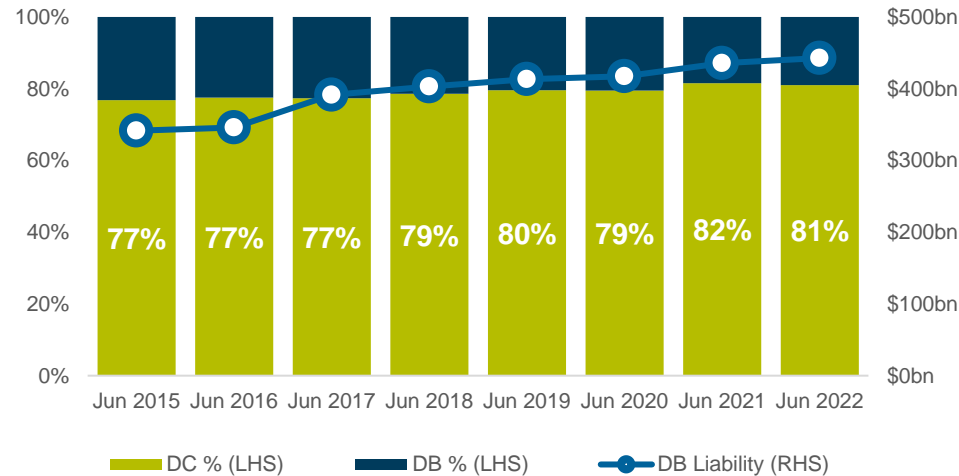
Defined benefit market

Attractive market segment with favourable thematics



Challenger is the market leader in institutional defined benefit pension solutions

Growing defined benefit liabilities¹



Australian DB liabilities ~\$443bn at June 2022²

Pension liabilities account for ~45% of total DB liabilities³

Broad range of **DB sponsors**

Market factors encouraging DB de-risking



- Simplification following fund mergers
- Complex to administer
- Future funding risk
- Favourable market conditions

Pathways and opportunities



- Supports Challenger's strategy to increase tenor of liabilities
- Buy-In, Successor Fund Transfer (SFT)
- Small SFT win in 4Q23

Challenger engaged in active discussions with a range of DB sponsors – economics similar to retail lifetime annuities

1. Source – APRA fund level statistics 2022.

2. Source – APRA Superannuation Bulletin June 2015 to June 2022, table 6, Total Superannuation assets and liabilities.

3. Source – Estimated based on data from the APRA Annual Fund-Level Superannuation Statistics Back Series June 2004 to June 2021 and data from publicly available Actuarial Reports. This estimate includes government pension schemes.



04

Life investment portfolio



Peter Schliebs
Chief Investment Officer, Life

Key points

Life investment portfolio



Well positioned for macro environment



No significant change expected to portfolio allocation



Attractive fixed income and unlisted equities investment opportunities



Cap rate expansion expected across Australian domestic property portfolio



Remains strongly capitalised with significant flexibility



Market themes

Well positioned for macro environment



Financial conditions tightening

- Well positioned to take advantage of funding gaps in the market
- Lender friendly credit terms



Economic growth slowing

- Diversified portfolio, looking at further diversification strategies
- Strongly capitalised



Continued volatility

- Investment portfolio hedged for interest rates and inflation
- Active management extremely important in current climate and will be a key driver of performance
- Strongly capitalised



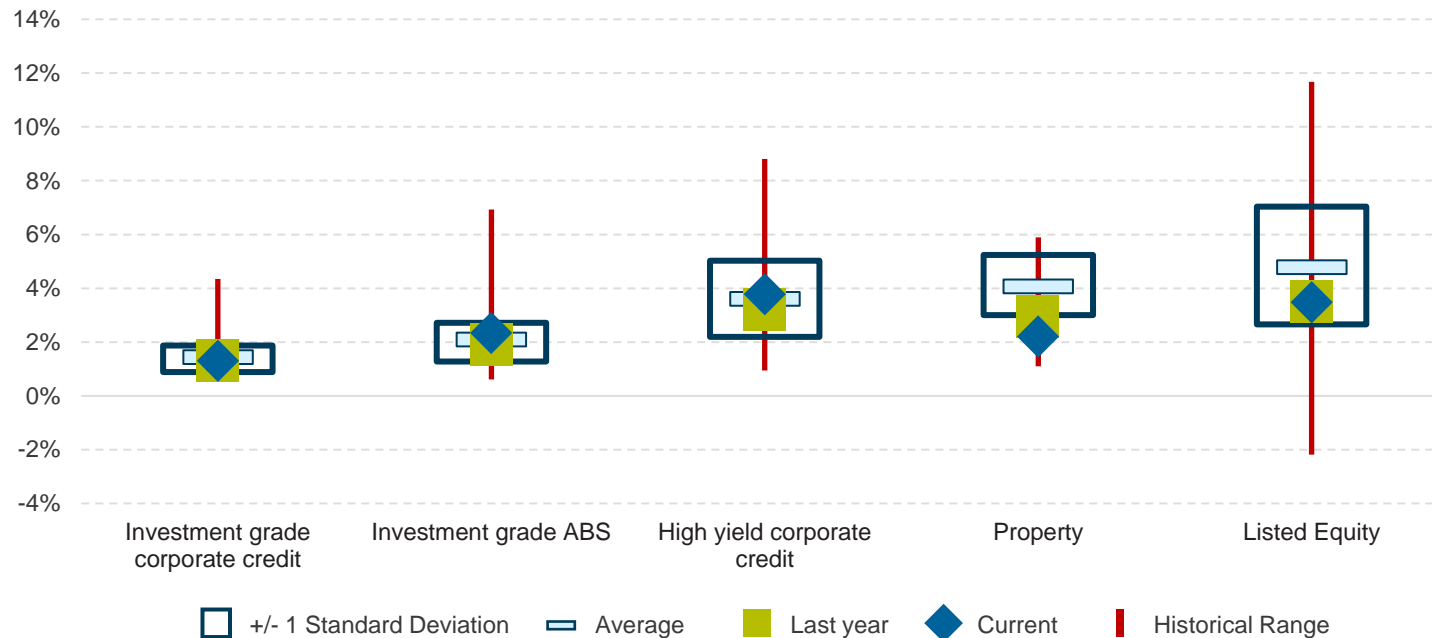
Strong balance sheet positioned to take advantage of investment opportunities and drive further ROE expansion



Asset risk premium update

Attractive fixed income and unlisted equities investment opportunities

Asset risk premiums¹



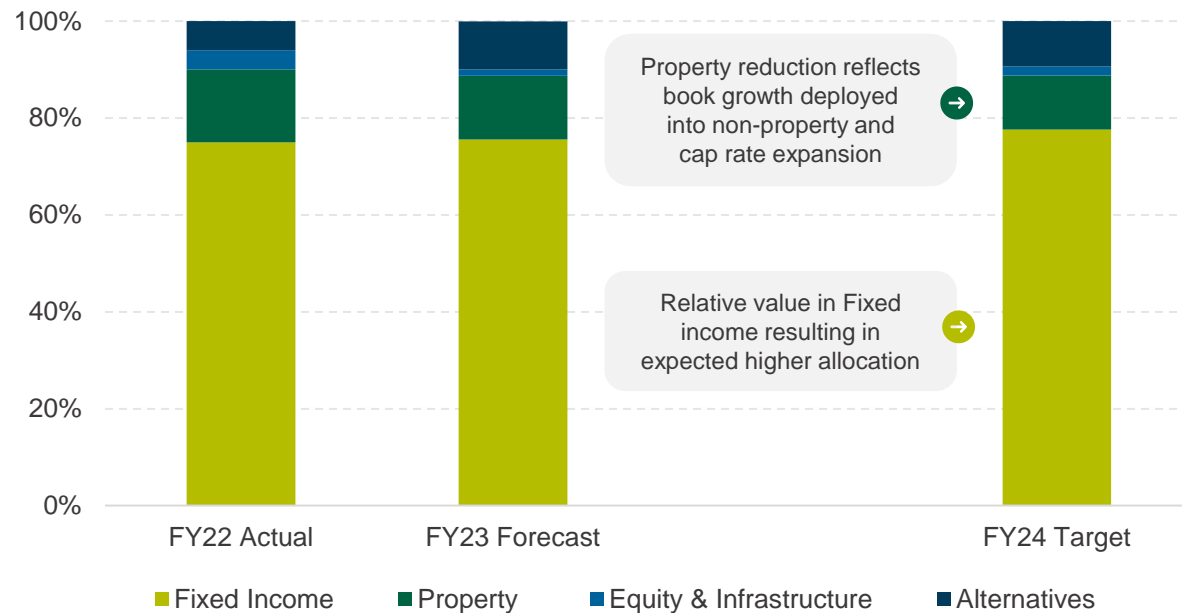
Key observations

- Opportunities persist within fixed income and continue to be supportive for new business profitability
- Whilst equity risk premiums remain compressed, Challenger Life sees opportunity for top quartile managers to add value in unlisted equity strategies

Asset allocation

No significant change expected to portfolio allocation

Asset allocation



Key observations

- Further increase to fixed income given relative value outlook
- Asset backed finance markets and unlisted equity continue to provide compelling investment opportunities
- Looking to target small allocation to USD given procyclical nature of the Australian dollar as part of continued push to increase diversification and reduce portfolio volatility

Assumptions

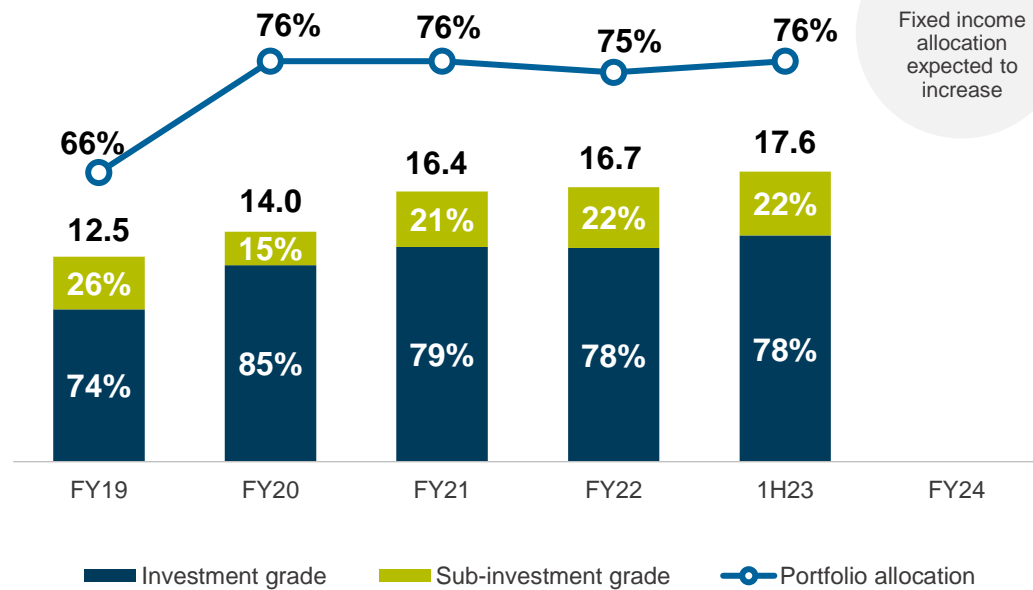
- Flexibility to support growth with capital intensity expected to remain broadly stable
- Continue to target >75% investment grade within the fixed income portfolio
- No change to normalised growth assumptions



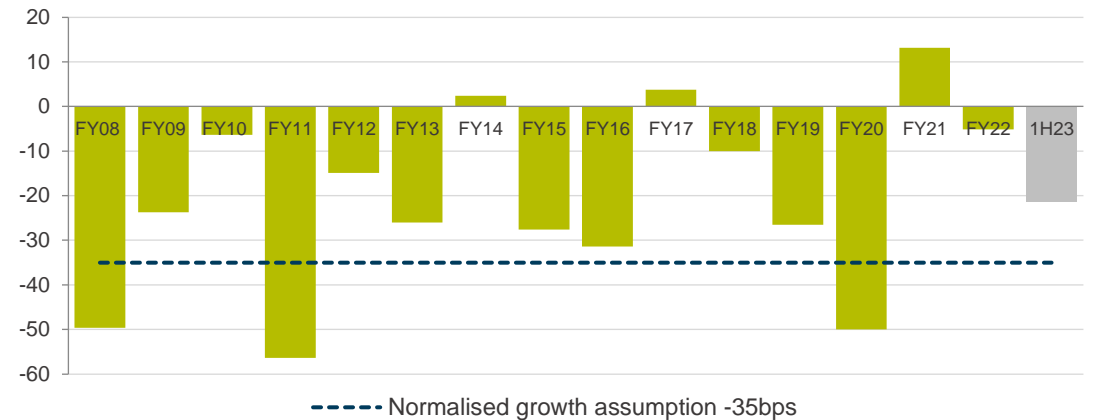
Fixed income

High quality portfolio performing in line with expectations

Fixed income portfolio (\$b)



Credit defaults (bps)



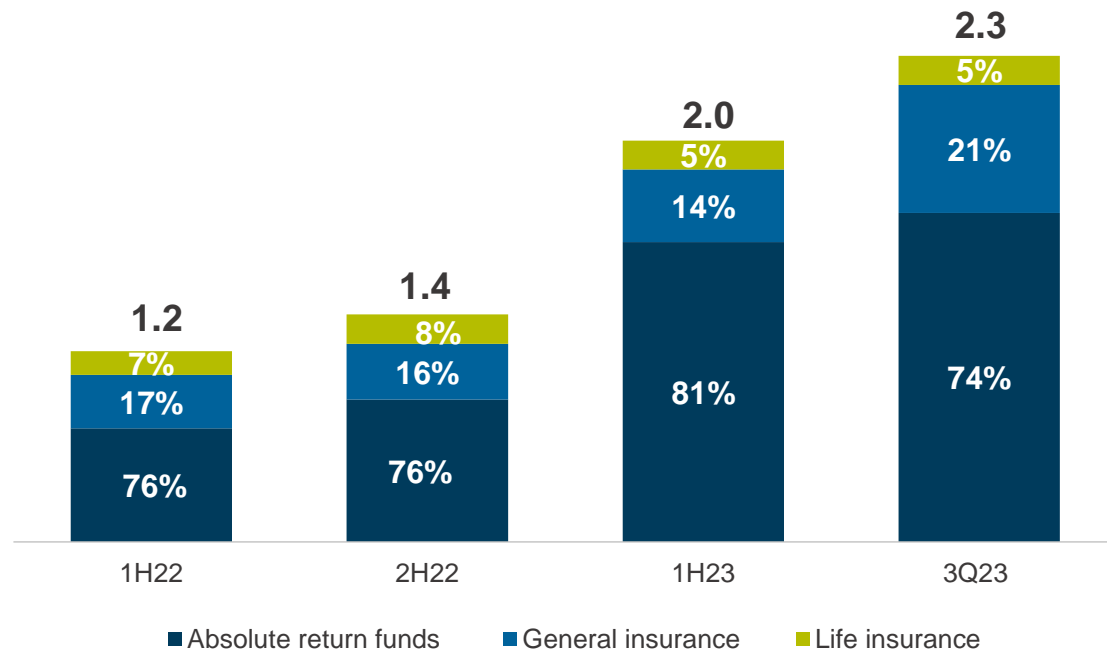
Credit key trends

- Challenger credit portfolio performing in line with expectations
- Households – resilient performance and strong labour market with significant credit enhancements
- Corporates – limited exposure to cyclical names

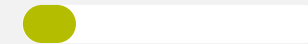
Alternatives

Provides liquid capital and financial flexibility with diversification to credit and equity exposures

Alternatives portfolio (\$bn)



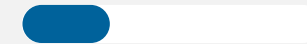
Life insurance



- Exposures linked to life insurance risk
- No appropriate index that can be used to track total returns



General insurance



- Includes insurance-linked securities, with a primary exposure to catastrophe bonds
- Broadly correlated to the Swiss Re Cat Bond Index (Bloomberg SRCATRR)



Absolute return funds



- Includes global macro funds (systematic and discretionary) and market-neutral long/short funds
- Broadly correlated to the Société Générale CTA Index (Bloomberg NEIXCTA)

Property

Defensive property portfolio Higher interest rates driving cap rate expansion

Defensive property portfolio¹

- Actively reduced exposure with over \$0.5bn of sales in last 18 months
- Occupancy rate increased to over 94%
- Rental incomes increasing with positive leasing spreads in FY23
- Lease duration long – 58% beyond FY27

Key metrics	Australian office	Australian retail	Australian industrial	Japan
# properties	10	8	3	20
% of total portfolio ²	55%	23%	8%	11%
WALE ³	6.0 years	5.3 years	6.2 years	8.1 years
Occupancy rate	89.5%	95.6%	99.6%	99.7%
Average cap rate	5.2%	6.0%	4.7%	4.9%
Rental income	~54% from government	>50% from convenience based shopping centres	-	~50% from supermarkets and pharmacies

Life property IMA to transition to Elanor

Leverage off larger platform with access to potential new asset classes

Higher interest rates driving cap rate expansion

2H23 expectations:

- 100% of direct portfolio independently valued
- Australian direct property expected to reduce due to cap rate expansion – preliminary feedback indicates a -5% revaluation⁴
- No valuation impact expected on Japanese portfolio⁴

Australian property sensitivity table

Key metrics	-5% valuation impact
Cap rate	↑
NCOE (\$m)	—
NCOE margin (%)	↑
Normalised ROE (%)	↑
Investment experience post tax (\$m)	~(\$100m)
Capital PCA ratio	-0.03x

1. As at 31 December 2022.

2. 3% of Other Property not included in this table.

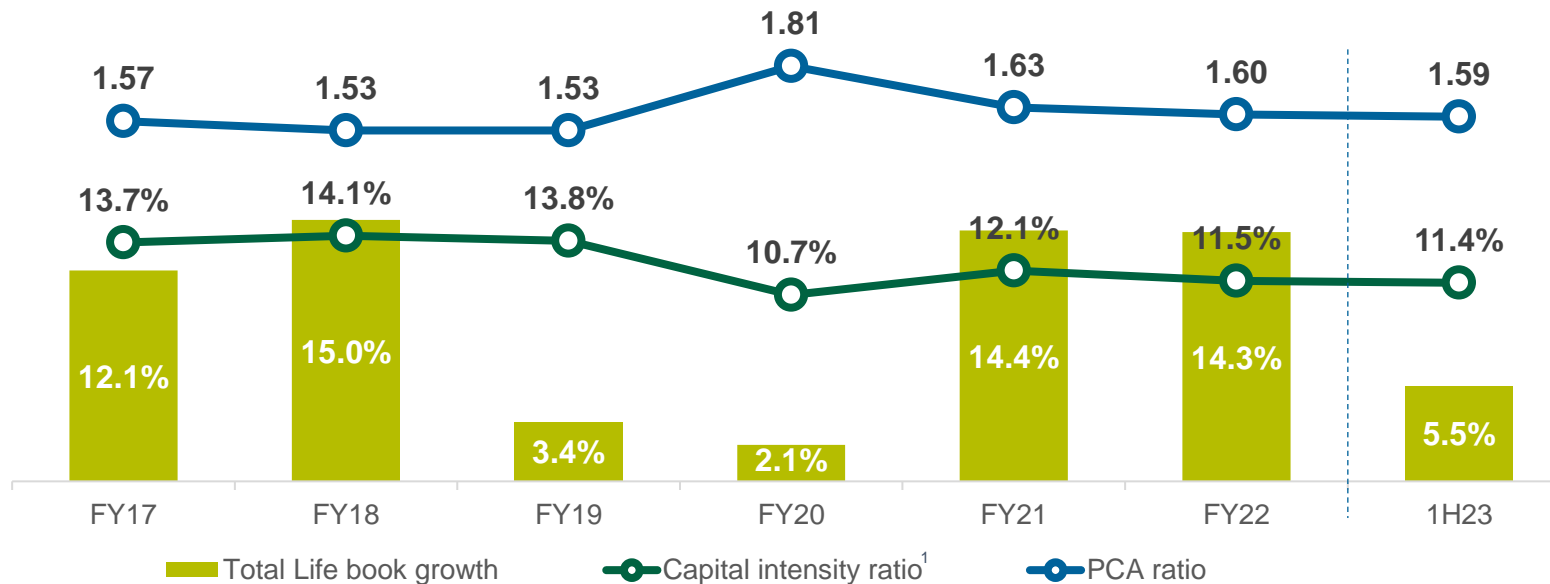
3. Weighted Average Lease Expiry as at 31 December 2022. Assume tenants do not terminate leases prior to expiry of specified lease terms.

4. Subject to finalisation of external valuations.

Capital

Remains strongly capitalised with financial flexibility

Capital and book growth



Strongly capitalised

Challenger Life Company (CLC)
PCA ratio as at 30 April²

1.58x Target range
1.30x to 1.70x³

Additional flexibility

Bank excess capital to be returned⁴
~\$40m

1. Capital intensity ratio is calculated as CLC PCA divided by Life closing investment assets.

2. The PCA ratio represents total Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount. The PCA ratio of 1.58x has been adjusted to reflect the repayment in May of \$236m of Additional Tier 1 (actual reported PCA ratio was 1.66).

3. 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 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.

4. Excess capital of ~\$40m expected to be returned to Challenger prior to completion, subject to APRA approval. \$50m of excess capital was injected into CLC in April 2023.



05

Break



06

Funds management growth platform



Victor Rodriguez
Chief Executive, Funds Management

Key points

Funds Management growth platform



Diversified multi-asset active manager well positioned for macro environment



Consistently outperforming peers



High quality investment and distribution capability



Platform for growth – range of initiatives to grow the business




















Elanor – leveraging Fidante’s distribution strength



Funds Management – multiple brands and strategies

Unique multi-asset platform supporting better customer outcomes

Affiliate brands, strategies and asset classes

Fixed Income \$49bn ¹	challenger 	ARDEA Investment Management 	Kapstream – JANUS HENDERSON – 	BENTHAM ASSET MANAGEMENT 	ARES ARES AUSTRALIA MANAGEMENT TM 
	Australian equities	alphinity INVESTMENT MANAGEMENT 	WaveStone CAPITAL 	MERLON CAPITAL PARTNERS 	LENNOX CAPITAL PARTNERS 
Equities \$41bn ¹	Global, regional & EM equities	alphinity INVESTMENT MANAGEMENT 	OX CAPITAL MANAGEMENT 	NOMURA 	
	Sustainable investments	alphinity INVESTMENT MANAGEMENT 	IMPAX Asset Management 		
Alternatives \$6bn ¹	challenger 	Resonance Asset Management 	PATRIZIA 	PROTERRA INVESTMENT PARTNERS 	cultiv8  Elanor 

Strong market position

#3 Largest active manager²

#1 Fixed income manager³

#4 Domestic equity manager³

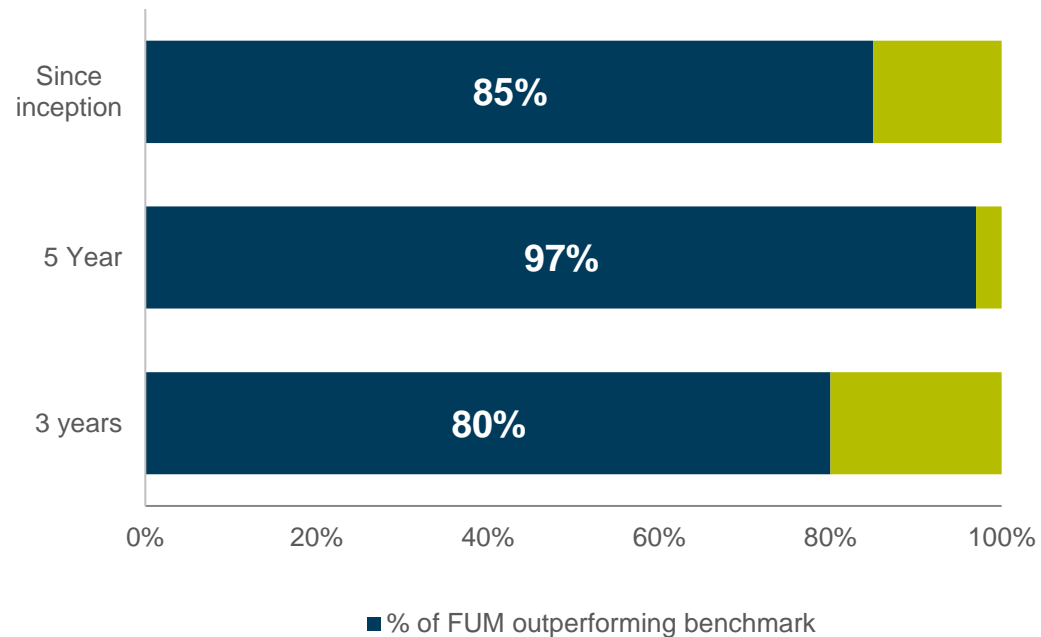


1. Funds Under Management (FUM) as at 31 March 2023. Excluding Elanor FUM of approximately \$3.0 billion as at 5 April 2023.
 2. Calculated from Rainmaker Roundup, December 2022 data.
 3. Plan for Life – December 2022 – based on fund size.

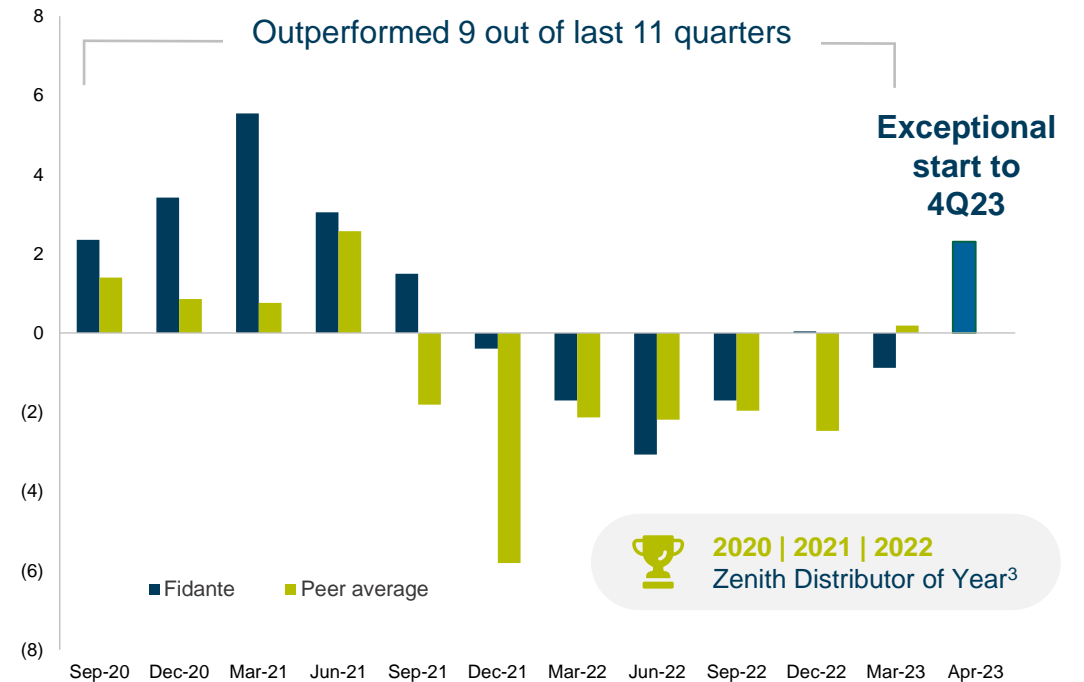
Funds Management outperformance

Benefitting from high quality investment and distribution capability

Fidante performance relative to benchmark¹



Quarterly net flows vs peers² (\$bn)



1. As at 31 December 2022. Percentage of Fidante Affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

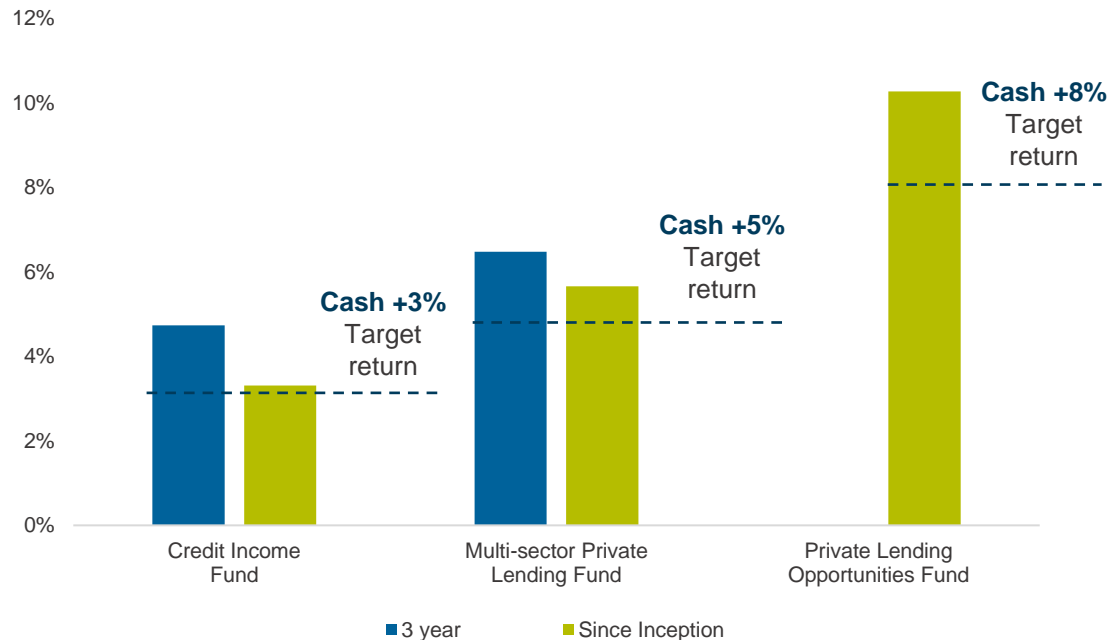
2. Quarterly net flows for peers, include Magellan, PAC, Pental, Pinnacle, Perpetual and Platinum. March 2023 peer net flows includes only those that have reported data prior to 30 May 2023. Fidante 3Q22 (Mar-22) net flows excludes the impact of Fidante's sale of its 30% equity interest in Whitehelm Capital to PATRIZIA AG (\$5.2bn derecognition of FUM).

3. Fidante awarded 2020, 2021 and 2022 Zenith Investment Partners 'Distributor of the year'.

Challenger Investment Management

Long track record of excellence in credit markets
Supporting Life and third-party customer outcomes

CIM funds strategies – performance¹ (\$bn)



Investment Excellence

- 18 years of investing in alternative credit
- Generate consistent income with capital stability



Track Record

- \$17bn in Fixed Income FUM²
- >\$4bn in private credit
- \$6bn in annual purchases, \$1.5bn of which is directly originated



High performing offerings

- 3 fund offerings all outperforming benchmarks
- Fourth to be launched in FY24



Strong Governance

- Clients benefit from a **strong governance** framework – underpinned by independent credit risk and valuation functions

Platform for growth

Range of initiatives to grow the business

Organic growth

Build



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fidante

- Working capital to incubate new managers / strategies
- Lead-times to commercial success

Partner



APOLLO ARES | ARES AUSTRALIA MANAGEMENT
IMPAX Asset Management NOMURA

- Leverages Fidante distribution, product and marketing excellence
- Partnering with global leaders

Inorganic growth

Buy



Resonance Asset Management Elanor

- Different ways to execute
- Immediate uplift in AUM
- Potential scale and synergy benefits

New product and distribution initiatives launching



Global ABS Fund launching



Mortgage servicing platform launching



New Japan Real Estate fund



Expanding Nomura partnership



UCITS range for offshore market



New Resonance private markets funds



Taking Elanor capability to market

Elanor – Case study

Leveraging Fidante's distribution strength

Elanor

Multi-sector real estate platform

- Track record in high quality real estate origination
- Differentiated investment capability
- Highly active asset management
- Unlock value for investors

fidante

Award winning distribution capability

- Market leading retail capital raising platform
- Deep understanding and relationships
- Proven origination track record
- Integrated across multiple platforms



Strategic partnership



New Fidante affiliate up to **17% ownership**¹



Enhanced offering: strong origination and distribution



Compelling proposition for customers



Diversifies and simplifies Challenger's business



07

AASB 17 and outlook



Alex Bell
Chief Financial Officer

Key points

AASB 17 and outlook



AASB 17 Insurance Contracts –
no impact to underlying
economics of the business



FY23 NPBT expected to be
slightly above midpoint of
guidance range



AASB 17 Insurance Contracts

Does not impact normalised profit, cash generation or dividend policy

- AASB 17 Insurance Contracts is a change of accounting standard for insurance contracts effective for financial years beginning on or after 1 January 2023
- The new standard does not change the economics of the underlying business but does affect timing of statutory profit recognition
- Accounting for investment contracts is not impacted by AASB 17
- Accounting of non-insurance businesses (Funds Management, Bank, JVs) not impacted by AASB 17
- No change to Challenger's normalised profit reporting framework



Business Strategy

No change to how business operates



APRA Capital

No material impact to regulatory capital calculations



Cash and Dividend

No impact to dividend policy or cash generation



Profits

No impact on normalised profits, but statutory profit may be more sensitive to interest rate changes¹ driving increased variability

AASB 17 transition impact

KPIs and line items impacted by AASB 17

Impacted by AASB 17



Life insurance liabilities

Increase in CLC's insurance policy liabilities resulting in a reduction in net assets



Statutory NPAT

Impact is to timing of profit/loss recognition and may be more sensitive to interest rate changes¹ driving increased variability



Normalised ROE

Small reduction in net assets from increase in insurance policy liabilities



Investment Experience

Movements in policy liabilities recognised in investment experience



Not impacted by AASB 17

- Life investment liabilities – AASB 17 applies to insurance contracts only
- Life Investment Assets
- Normalised COE

- CLC PCA Ratio – No change to regulatory capital base or PCA ratio
- Normalised NPBT
- Normalised COE Margin

FY23 business performance update

Normalised profit slightly above midpoint of guidance range



Normalised net profit before tax



Guidance considerations

- **Bank:** ~\$10m EBIT full year loss
- **Expenses:** 5% to 6% full year growth

Expect to be **slightly above midpoint** of FY23 guidance range

\$485m

\$535m



Other updates

challenger 

Challenger Life Company PCA

- Expect to remain strongly capitalised
- April 2023 PCA ratio of 1.58x¹
- Target range 1.30x to 1.70x²

challenger 

Bank sale update

- Expect to complete in 1H24
- Costs to be incurred in FY23³
- Sale proceeds recognised in FY24⁴

Elanor 

Elanor transaction update

- Expect to complete in 1H24
- Costs to be incurred in FY23³
- Gain on sale in FY24⁴

1. The PCA ratio represents total Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount. The PCA ratio of 1.58x has been adjusted to reflect the repayment in May of \$236m of Additional Tier 1 (actual reported PCA ratio was 1.66).

2. CLC maintains a target level of capital representing APRA's Prescribed Capital Amount (PCA) plus a target surplus and does not target a fixed PCA ratio.

3. To be reported in FY23 significant items.

4. To be reported in FY24 significant items.



08

Wrap up



Nick Hamilton

Managing Director & Chief Executive Officer

Key points

Building a more diversified business to meet more customer needs



Uniquely positioned to play a leading role in retirement



Operating environment supportive and underpinned by structural trends



Focusing business on core capabilities



Customer focused business responding to meet more needs



Leveraging our core capabilities to drive growth



Thank you

IMPORTANT NOTE

This presentation was prepared for the purpose of a briefing to equity analysts and certain wholesale investors on 30 May 2023.

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