challenger

Annual Report
2023

Providing financial security for a better retirement drives everything we do. It is our purpose.

To deliver this and create lasting value for our shareholders, we're building a more customer-centric business – one that leverages our leading retirement franchise to meet our customers' needs in more ways each and every day.

DUNCAN WEST
Independent Non-Executive Director and Chair

NICK HAMILTON
Managing Director & Chief Executive Officer

Read more about how we're growing our business and delivering for our customers, shareholders, staff and the community

MESSAGE FROM THE CEO > P5

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.

About this report

The 2023 Annual Report brings together key information on our consolidated financial, operational and sustainability performance for the financial year ended 30 June 2023.

Reflecting continued commitment to sustainability, Challenger's Annual Report incorporates the Sustainability Report in addition to the Operating and Financial Review, Directors' Report and Financial Statements. The report provides our stakeholders with a holistic overview of Challenger's governance and performance for the year.

In this report, unless otherwise stated, references to 'Challenger', 'the Group', 'CGF', 'we', 'us' and 'our' refer to Challenger comprising the ASX-listed entity and the Life, Funds Management and Bank businesses.

Challenger is regulated by the Australian Prudential Regulation Authority (APRA), the Australian banking, superannuation and insurance regulator. Challenger's activities are also subject to supervision by other regulatory agencies both in Australia and the offshore markets in which it operates.

Contents

About

3 Key dates
4 Message from the Chair
5 Message from the CEO
6 Highlights
8 About Challenger

Operating and Financial Review (OFR)

10 Life business
12 Funds Management business
15 Strategic progress
19 Key performance indicators (KPIs)
22 Normalised profit and investment experience
24 Five-year history

Governance and Sustainability

26 Corporate governance
29 Tax transparency
30 Risk management
32 Sustainability

Directors' Report

62 Directors' experience and responsibilities
64 Remuneration report

Financial Report

90 Financial statements
95 Notes to the financial statements
162 Directors' declaration
163 Independent auditor's report

Further information

170 Investor information
173 Additional information

Key dates

20 September 2023
Final dividend payment date

26 October 2023
2023 Annual General Meeting

13 February 2024
Half year financial results

19 March 2024
Interim dividend payment date

13 August 2024
Full year financial results

18 September 2024
Final dividend payment date

24 October 2024
2024 Annual General Meeting

Full listing of key dates available at:

challenger.com.au/shareholder/shareholder-information/key-dates

Annual General Meeting

Date
26 October 2023

Time
9.30am (Sydney time)

Location
The 2023 AGM will be held as a 'hybrid' meeting which will enable shareholders to attend either physically or virtually.

Venue: Wesley Conference Centre, 220 Pitt Street, Sydney NSW.

Full details of the meeting will be included in your Notice of Annual General Meeting, which will be sent to shareholders in September 2023.

Dates may be subject to change. Any change in dates will be advised to the Australian Securities Exchange.

Board nominations

The closing date for receipt of nominations for the Challenger Limited Board is 23 August 2023.

Reporting suite

About this report

The 2023 Annual Report, including the financial report for the year ended 30 June 2023, can be viewed at Challenger's online Shareholder Centre at:

challenger.com.au/shareholder

2023 Corporate Governance Statement

The 2023 Corporate Governance Statement can be viewed online at:

challenger.com.au/corporategovernance2023

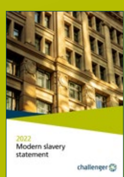
2023 Sustainability Report

The 2023 Sustainability Report can be viewed online at:

challenger.com.au/sustainabilityreport2023

2022 Modern Slavery Statement

Challenger's Modern Slavery Statement can be viewed online at:



challenger.com.au/modernslaverystatement2022

Challenger Limited
ACN 106 842 371

Message from the Chair

DUNCAN WEST
Independent Non-Executive Director and Chair

Reflecting on my first year as Chair of Challenger, I feel very proud of the important role that our company plays in helping Australian retirees achieve financial security.

2023 was a pivotal year for our industry as demographic, economic and policy shifts highlighted the urgent need to improve our retirement system. Whilst Australia has a first-class accumulation savings system, we are only just beginning to focus on the importance of providing income in retirement.

As Australia's leading retirement income brand, Challenger is uniquely positioned to play a significant role in the development of the retirement income market and provide customers with financial confidence in retirement, now and into the future.

Stronger shareholder outcomes

Challenger has delivered a strong financial outcome this year. Normalised net profit before tax was $521 million and in the top half of our guidance range, with the business achieving record annuity sales as it meets the growing demand for guaranteed income.

This result underscores the strength of our business and speaks to the significant opportunity in Australia's growing retirement income market as more Australians seek financial security in retirement.

Given Challenger's strong financial performance and our confidence in the business, the Board has determined a full-year dividend of 24.0 cents per share, up 4.3% on last year.

Corporate governance

Challenger has a highly talented and diverse team who are committed to going above and beyond for our employees, shareholders and customers. I am proud to work with such capable and driven teams at both the Board and Leadership level.

We continue to consider the skills and expertise required to guide the implementation of our strategy at the Board level.

Reflecting our strong commitment to diversity, our Leadership team now comprises 40% women as we strive to achieve gender balance on our executive team by 2030 and expect to continue the process of Board renewal over time.

Ensuring fair and appropriate remuneration outcomes remains a key focus, with our reward framework closely aligned with shareholder interests. Executive short-term incentives reflect our business performance this year, as detailed on the balanced scorecard in the Remuneration Report. Long term incentives will not vest this year, as they are tied directly to achieving total shareholder return targets, which demonstrates our ongoing commitment to ensuring remuneration is aligned to long-term shareholder outcomes.

Sustainability

Challenger is committed to creating a sustainable future for our customers, people, shareholders and wider stakeholders.

Our 2023 Sustainability Report outlines the comprehensive review we have undertaken to better understand our environmental, social and governance (ESG) performance against our purpose and core business activities. Importantly, the report also details focus areas that Challenger will progress over the coming years.

We recognise the important role we must play in helping communities across the country and have continued to support Australians through our retirement policy advocacy as well as expanding our community charity program.

On behalf of the Challenger Board, I would like to thank our customers and shareholders for their ongoing support this year.

Our business remains strong, and I am confident in our ability to deliver strong outcomes for customers at the same time as delivering sustainable long-term growth for shareholders.

Message from the CEO

NICK HAMILTON
Managing Director &
Chief Executive Officer

Challenger is uniquely positioned to play a leading role in Australia's developing retirement income market. Leveraging our expertise across retirement income and funds management, we are committed to delivering on our purpose and providing customers with financial security for a better retirement.

In 2023, Challenger focused on improving the experience for our customers, enhancing our product offering and addressing a wider range of customer needs – all in service of providing retirees with financial confidence.

I am very pleased with the progress we have made, as we seize the opportunity to take a broader stance in retirement and continue to drive growth across our business.

Responding to more customer needs

A key tenet of building a more customer-centric business is making it easier for financial advisors, institutions and customers to integrate with our term and lifetime income solutions.

This includes using technology to materially improve the customer experience. The launch of our new guaranteed direct fixed term annuity allows customers access to our fixed term products online in a matter of minutes. We have also expanded our range of retirement income products, which support our customers to meet their retirement and savings goals through different stages of life.

In our Life business, we have focused on deepening our relationships with institutional clients, leveraging our retirement expertise to support superannuation funds with retirement solutions. New partnerships with Aware Super and TelstraSuper highlight the breadth of our capability and the significant opportunity ahead as funds seek to deliver better outcomes for their members in retirement.

Our Funds Management business has performed well in more challenging market conditions, demonstrating the strength of our diversified, multi-affiliate platform and investment capabilities. We have expanded our offering to meet the growing demand for alternative investments, including strategic investments into Cultiv8 and Elanor Investors Group, as well as expanding our affiliate relationships with Proterra and Resonance.

We have also made some important strategic decisions as we seek to focus on our core competitive strengths in Life and Funds Management. This includes the sale of Challenger Bank and our Australian real estate business. This last year we have invested to expand our fixed income platform and our spin-out investment operations business, Artega. Our strategic partnership with Apollo is progressing well, allowing us to leverage their investment and retirement services capability. And we continue our successful relationship with the MS&AD Group in Japan that we have built over many years.

Looking ahead

In FY24, we will focus on growing our core retirement and investment businesses, accelerating growth through Life sales, while continuing to grow our Funds Management business.

Given demographic and regulatory changes underway, the Australian savings market is increasingly focused on retirement – the very purpose of our superannuation system.

As Australia's leading retirement income franchise, we are well positioned to help superannuation funds develop innovative retirement solutions to help meet their members' needs, and we have an exciting pipeline of opportunities.

Underpinning all our efforts are our talented and motivated team, who I thank for their dedication and energy this year. Our impressive achievements are the result of teamwork, innovation and commitment to constantly raise the bar.

I look forward to our continued success in delivering stronger outcomes for both our customers and shareholders next year and beyond.

Highlights

Overview

Challenger has delivered a strong performance this year as we focus on expanding our customer reach and driving growth initiatives. The result reflects the strength of our franchise and our ability to meet the growing demand for guaranteed income as an increasing number of customers seek financial security in retirement.

For further details on this year's performance, refer to the Key performance indicators section > **P19**

STATUTORY NET PROFIT AFTER TAX
▲13.3% on FY22

$287.5m

NORMALISED NET PROFIT BEFORE TAX

$520.7m

GROUP ASSETS UNDER MANAGEMENT

$105.0bn

NORMALISED GROUP ROE (PRE-TAX)
▲80bps on FY22

12.7%

FULL YEAR DIVIDEND

24.0cps

LIFE SALES

$9.7bn

CAPITAL POSITION

1.59x

Challenger Life Company PCA ratio

Customers

~$6 billion

PAYMENTS MADE TO CUSTOMERS[1]

Top 25

OF THE LARGEST SUPERANNUATION FUNDS CLIENTS OF CHALLENGER[2]

93%

BRAND LEADER IN RETIREMENT INCOME[3]

Employees

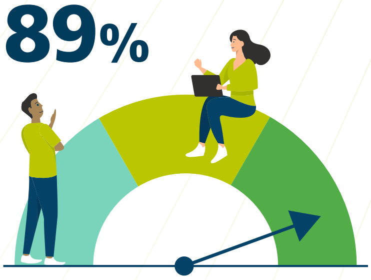
LAUNCH OF OUR

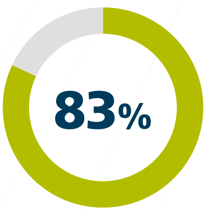
Employee Value Proposition

IN MARCH 2023

DIVERSITY & INCLUSION SCORE[4]

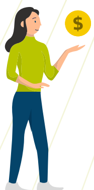
89%





EMPLOYEES RECOMMEND CHALLENGER AS A GREAT PLACE TO WORK[4]

Communities



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INVESTMENT MANAGERS WITH SUSTAINABLE OFFERINGS[5]

Partnership with the Australian Academy of Technological Sciences and Engineering (ATSE)

TO SUPPORT INDIGENOUS LEADERSHIP IN STEM

ADVOCATE FOR REFORMS THAT

improve financial security for retirees

1. FY23 annuity interest and capital payments.
2. Based on total assets held by trustee, quarterly My Super statistics as at 31 March 2023, APRA.
3. Marketing Pulse Study June 2023.
4. 2023 Your Voice employee survey, March 2023.
5. Alphinity, Resonance, Proterra, Cultiv8, Impax Asset Management.

About Challenger

Challenger Limited (Challenger) was founded in 1985 and is Australia's leading retirement income brand[1] as well as one of its largest fund managers[2].

817
FULL-TIME EMPLOYEES

ASX 100
LISTED

ESTABLISHED
1985

APRA
REGULATED LIFE COMPANY

Building on its core Life and Funds Management businesses, Challenger has developed relationships with strategic partners that bring capabilities that can significantly enhance the value for Challenger. This includes MSAD Insurance Group Holdings Inc., Apollo (NYSE:APO) and SimCorp (CSE:SIM).

Our purpose

To provide customers with financial security for a better retirement.

Our strategic pillars

Challenger has four strategic priorities to ensure that it achieves its purpose of providing customers with financial security for a better retirement.

- Broaden customer access across multiple channels
- Leverage the combined capabilities of the group
- Expand the range of financial products and services for a better retirement
- Strengthen resilience and sustainability of Challenger

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

1. Plan For Life – March 2023 – based on annuities under administration.
2. Consolidated FUM for Australian Fund Managers – Rainmaker Roundup, March 2023.

Life business

Life focuses on the retirement income phase of superannuation, with products helping customers convert retirement savings into safe, secure and reliable retirement income.

Life's annuity products appeal to retirees as they provide security and certainty of guaranteed[1] income while protecting against the risks of investment market downturns and rising inflation. By providing certainty of income, Challenger ensures customers have more confidence in retirement.

NET BOOK GROWTH
in line with FY22

5.2%

LIFE SALES
▲53% increase on retail annuity sales

$9.7bn

LIFE ASSET ALLOCATION

76% Fixed income and cash (net)
13% Property
10% Alternatives
1% Equity and Infrastructure

Lifetime annuities protect retirees from the risk of outliving their savings by paying an income for life. Depending on the payment option selected, payments will either be fixed, indexed to inflation, linked to changes in the RBA cash rate or indexed to investment markets to provide retirees with greater income security.

The retirement incomes that Life pays to its customers are backed by a high-quality investment portfolio, predominantly invested in high-grade fixed income. These investments generate reliable investment income, which is used to fund the retirement incomes paid to customers.

Life is Australia's leading retirement income brand[2] and has won the Association of Financial Advisers 'Annuity Provider of the Year' for the last 15 years, and won Plan for Life's Overall Longevity Cover Excellence Award in 2022.

Life is expected to continue to benefit from the long-term growth in Australia's superannuation system and regulatory reforms designed to enhance the retirement phase of superannuation.

As Australia's superannuation system grows, the retirement phase of superannuation is expected to increase significantly.

The number of Australians over the age of 65 is expected to increase by nearly 50% over the next 20 years[3]. Reflecting these demographic changes, and growth in the superannuation system, the annual transfer from the savings phase of superannuation to the retirement phase was estimated to be approximately $87 billion[4] in 2022.

The purpose of superannuation is to provide income in retirement to substitute or supplement the Government-funded age pension.

As the superannuation system grows 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, which helps provide financial security and confidence to spend in retirement.

The Australian Government is progressing a range of retirement income regulatory reforms designed to enhance the retirement phase and better align it with the objective of the superannuation system. The Retirement Income Covenant took effect from 1 July 2022 as part of the *Superannuation Industry Supervision Act 1993* (SIS Act) and requires all APRA-regulated superannuation funds to have a documented retirement income strategy that outlines how they plan to assist their members in retirement.

These reforms provide an opportunity to increase the proportion of savings invested in products that deliver retirees 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 both independent financial advisers and financial adviser administrative platforms. Life's products are included on all major advice hubs' Approved Product Lists (APLs) and are available on leading independent investment and administration platforms.

Life is also building institutional partnerships with superannuation funds that are increasingly focused on supporting their members in retirement by providing more comprehensive retirement income solutions. A number of funds also have defined benefit pension liabilities and are looking to de-risk. This provides a significant growth opportunity for Challenger as funds look to engage trusted partners to deliver de-risking and retirement proposition solutions.

In Japan, Life has an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) to provide Australian dollar and US dollar annuities. MS Primary is a leading provider of annuity products in Japan and is part of MS&AD Insurance Group Holdings Inc. (MS&AD).

Under the reinsurance arrangement, MS Primary reinsures at least ¥50 billion (equivalent to ~A$520 million)[5] of its Australian and US dollar annuities with Challenger Life each year[6]. This is subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

1. The word 'guaranteed' means payments are guaranteed by Challenger Life Company Limited (CLC) from assets of either its relevant statutory fund or shareholders' funds.
2. Plan For Life – March 2023 – based on annuities under administration.
3. 2022–2042 comparison based on Australian Bureau of Statistics, Population Projections Series B, cat no. 3222.0.
4. Based on Taxation Statistics 2020–21 from Australian Taxation Office.
5. Based on exchange rate as at 30 June 2023.
6. Reinsurance across both Australian and US dollar annuities, of at least ¥50 billion per year for a minimum of five years, commencing 1 July 2019.

MS&AD also hold ~15% equity interest in Challenger Limited and an MS&AD representative has been appointed to the Board.

Performance

Life's normalised EBIT was $541m in FY23 and increased by $68m (14.4%) on FY22. The increase in EBIT reflects a $70m (12.0%) increase in Normalised Cash Operating Earnings (COE) and a $2.0m (1.8%) increase in expenses.

Life's normalised ROE (pre-tax) was 15.1% in FY23 and increased by 200 bps on FY22, driven by an increase in Normalised COE.

FY23 Normalised COE was $653m and increased by $70m (12.0%) on FY22. Normalised COE increased as a result of:

- higher COE margin, which increased by 22 bps on FY22 to 2.82%; and
- higher average investment assets, which increased by 3.2% on FY22.

Challenger is building more resilient sales by diversifying across a range of retail and institutional products and clients.

Total Life sales were $9.7b and stable on FY22, driven by record retail sales and strong Japanese annuity sales, largely offset by lower institutional sales.

In FY23, Challenger Life achieved record annuity sales of $5.5b, up $0.4b or 7.7% on FY22.

FY23 annuity net flows of $385m represents annuity book growth of 2.8% for the year and is calculated as FY23 annuity total net flows divided by the opening period (FY23) annuity liability of $13,595m.

FY23 annuity net flows benefited from an increase in sales (up 7.7% on FY22), partially offset by a higher maturity rate of 37.7% (up from 29.6% in FY22).

Other Life sales represents Challenger's Index Plus product. Other Life net flows for the period were $550.8 million, decreasing by $846.9 million compared to the prior corresponding period (pcp).

Total Life net flows were $935.9 million, representing total Life net book growth of 5.2% (30 June 2022: $2,471.9 million or 14.3% book growth).

"Challenger Life delivered a strong performance in FY23 with record annuity sales. The result reflects the strength of our franchise and our ability to meet the growing demand for guaranteed income as an increasing number of customers seek financial security in retirement."

ANTON KAPEL
Chief Executive, Life and Solutions

LIFE NORMALISED RESULTS	2023 ($m)	2022 ($m)	CHANGE ($m)	CHANGE (%)
Normalised COE	653.0	582.8	70.2	12.0
Cash earnings	627.0	534.0	93.0	17.4
Normalised capital growth	26.0	48.8	(22.8)	(46.7)
Operating expenses	(112.5)	(110.5)	(2.0)	(1.8)
Normalised EBIT	**540.5**	**472.3**	**68.2**	**14.4**

LIFE SALES	2023 ($m)	2022 ($m)	CHANGE ($m)	CHANGE (%)
Fixed-term annuities	4,794.6	4,636.1	158.5	3.4
Lifetime annuities	722.7	486.6	236.1	48.5
Total Life annuity sales	5,517.3	5,122.7	394.6	7.7
Other Life sales	4,229.3	4,583.4	(354.1)	(7.7)
Total Life sales	**9,746.6**	**9,706.1**	**40.5**	**0.4**
Annuity net flows	385.1	1,074.2	(689.1)	(64.2)
Other Life net flows	550.7	1,397.7	(846.9)	(60.6)
Total Life net flows	**935.8**	**2,471.9**	**(1,536.1)**	**(62.1)**

Funds Management business

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

FUNDS UNDER MANAGEMENT
▲5.4% on FY22

$98.4 bn

Funds Management is one of Australia's largest active fund managers[1] with funds under management (FUM) of $98 billion, which has more than doubled over the last 10 years (up from $41 billion in 2013).

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 Asia.

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, over 70% of Australia's top 50 superannuation funds are clients.

Fidante's business model involves taking minority equity interests in separately branded affiliate funds management firms, with Challenger providing distribution services and business support, and Artega Investment Administration (Artega) providing investment administration services, leaving investment managers to focus entirely on managing investment portfolios.

Fidante has been successful in attracting and building active equity, active fixed income and alternative investment managers, while also maintaining strong investment performance.

Over the last five years, long-term performance of Fidante's Australian affiliates was strong with 99% of investments outperforming their respective benchmarks.[1,2]

Fidante is focused on broadening its product and investment offering, which includes partnering with best-in-class managers, and accessing new distribution channels.

CIM principally originates and manages fixed income and commercial real estate for leading global and Australian institutions, including Challenger Life. Challenger Life accounts for approximately 80% of CIM's FUM.

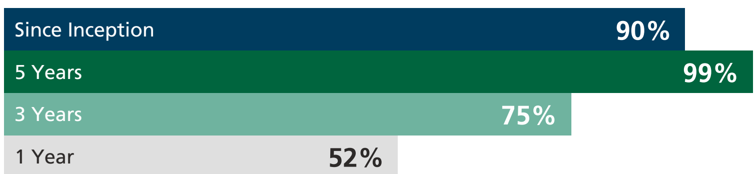
Funds Management remains well positioned to benefit from ongoing growth in both Australia's superannuation system and global pension markets.

Performance

Funds Management normalised EBIT decreased by 25.6% for the year, with net income lower primarily due to a decrease in average FUM, which was down 8.9% on pcp, and higher operating expenses (increase of 7.5%).

Fidante's net fee income includes FUM-based distribution and administration fees, transaction fees, performance fees and a share in the equity-accounted profits of affiliate investment managers.

FUNDS MANAGEMENT INVESTMENT PERFORMANCE
(% of FUM outperforming benchmark)[4]



1. Calculated from Rainmaker Roundup, March 2023 data.
2. As at 30 June 2023. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.
3. Fidante income includes equity-accounted profits, distribution fees, administration fees and Fidante Europe transaction fees.
4. As at 30 June 2023. Percentage of Fidante's Australian affiliates meeting or exceeding the performance benchmark, with performance weighted by FUM.

Fidante's net income was down $9.7 million for the year primarily as a result of a decrease in Fidante income[3] (down $10.4 million), which was driven by lower average FUM, partially offset by higher performance fees (up $0.7 million).

Challenger Investment Management's (CIM) net income decreased by $3.3 million primarily due to lower net management fees (down $0.2 million) and lower transaction fees (down $3.1 million) following the transfer of the Solutions Group from CIM to the Life business.

Funds Management's normalised ROE (pre-tax) for the year was 21.7%, down by 9.5 percentage points from the pcp. ROE was impacted by the decrease in normalised EBIT and an increase in average net assets.

Funds Management's FUM increased by $5.0 billion (or 5.4%) compared to the pcp. During the year, net outflows were $0.5 billion compared to net outflows of $8.5 billion in the pcp (which included $5.2 billion de-recognition following the sale of Whitehelm).

FM NORMALISED RESULTS	2023 ($m)	2022 ($m)	CHANGE ($m)	CHANGE (%)
Net income	178.8	191.8	(13.0)	(6.8)
Fidante	115.7	125.4	(9.7)	(7.7)
CIM	63.1	66.4	(3.3)	(5.0)
Operating expenses	(117.2)	(109.0)	(8.2)	(7.5)
Normalised EBIT	**61.6**	**82.8**	**(21.2)**	**(25.6)**

FM FUM AND FLOWS	2023 ($bn)	2022 ($bn)	CHANGE ($bn)	CHANGE (%)
Total FUM	98.4	93.4	5.0	5.4
Fidante	78.0	72.4	5.6	7.7
CIM	20.4	21.0	(0.6)	(2.9)
Net flows	(0.5)	(8.5)	8.0	(94.1)
Fidante	0.4	(8.9)	9.3	(large)
CIM	(0.9)	0.4	(1.3)	(large)

"The Funds Management business delivered another solid performance notwithstanding tougher industry conditions. We have consistently outperformed peers over many years and are widely recognised for our investment capability."

VICTOR RODRIGUEZ
Chief Executive, Funds Management

Corporate segment and other information

Corporate segment

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

Corporate normalised EBIT was a loss of $69 million in FY23, up $1 million (1%) from FY22. EBIT loss was similar year on year, with higher other expenses (up $2 million), offset by lower long-term incentive costs (down $2 million). Personnel expenses were broadly in line with FY22.

Interest and borrowing costs were broadly in line year on year.

Guidance for the 2024 financial year

Challenger's FY24 normalised net profit before tax guidance is a range of between $555m and $605m, which assumes:

- ~$5m investment in Artega's operating platform to migrate to the cloud and support onboarding new external clients;
- ~$5m in additional costs including initiatives focused on branding, risk and cybersecurity; and
- Given the pending sale of the Bank, it has been excluded from FY24 guidance, with the sale expected to complete in 1H24 subject to regulatory approval in Australia and New Zealand.

The mid-point of the FY24 normalised net profit before tax guidance ($580m) is 11% above FY23 normalised net profit before tax of $521 million.

In FY24, Challenger will target a cost to income ratio of 35% to 37% which is below FY23 normalised cost to income ratio of 37.7%.

Commencing from FY24, Challenger will 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.

The target dividend payout range has been extended from 45% to 50% (prior to FY24) to support Challenger's growth profile and provide flexibility, especially in periods of higher growth and attractive market conditions.

However, the actual dividend payout ratio will depend on prevailing market conditions and capital allocation priorities at the time.

Principal activities

During the period Challenger announced the sale of Challenger Bank to Heartland. There have been no other significant changes in the nature of the principal activities of the Group during the year.

CORPORATE AND OTHER NORMALISED RESULTS	2023 ($m)	2022 ($m)	CHANGE ($m)	CHANGE (%)
Net income	1.6	–	1.6	n/a
Operating expenses	(70.2)	(67.6)	(2.6)	(3.8)
Normalised EBIT	**(68.6)**	**(67.6)**	**(1.0)**	**(1.5)**
Interest and borrowing costs	(4.0)	(4.1)	0.1	2.4
Normalised loss before tax	**(72.6)**	**(71.7)**	**(0.9)**	**(1.3)**

Strategic progress

Progress over 2023 has been measured against Challenger's four strategic priorities.

1. Broaden customer access across multiple channels

FY23 PROGRESS:

Diversification strategy delivering strong Life sales

Challenger is delivering higher quality Life sales through focusing on longer duration business across both retail and institutional products and clients.

In FY23, the Life business achieved sales of $9.7 billion, driven by record annuity sales of $5.5 billion (up 8%).

Annuity sales benefitted from very strong domestic retail sales of $3.6 billion (up 53%) that included retail term annuity sales of $2.9 billion (up 53%) and lifetime[1] sales of $0.7 billion (up 49%).

Annuity sales are benefitting from a supportive market environment, rising demand for guaranteed lifetime income and a growing number of Australians entering retirement.

In March 2023, Challenger launched a targeted marketing campaign for lifetime annuities. Centering around longevity protection, the campaign highlighted how a lifetime annuity can benefit retirees by providing them with confidence to spend in retirement, while protecting against the risks of rising inflation and outliving their savings.

In FY23, demand for longer-dated annuities improved with 74% of new business annuity sales greater than 2 years[2] compared with 50% in FY22. The tenor on new business annuity sales also increased to 5.8 years, up from 4.9 years in FY22. The contribution of longer-dated annuity sales is helping to reduce the maturity rate, which is expected to fall to 26% in FY24, down from 33% in FY23.

Retail sales continue to benefit from stronger demand and are supported by an increase in adviser quoting levels, which increased 59% on the prior corresponding period (pcp).

Building a more customer-centric business and playing a more meaningful role in customer lives

Throughout FY23, Challenger took steps to reorganise itself around customers and focus on their needs, leveraging its core capabilities in much more meaningful ways.

The newly formed Customer division oversees all customer functions for the Group, including customer strategy, product development, sales and marketing, and customer service, delivering a clearer operating model and prioritising customers' needs.

In 1H23, an experienced sales, marketing and distribution executive, Ms Mandy Mannix, was appointed Chief Executive, Customer. The appointment follows the creation of a range of new leadership roles, as Challenger focuses on building a more customer-centric business. New leadership roles include the Chief Commercial Officer and expanding responsibilities of the Chief Executive, Life to include oversight for Life's Institutional Solutions Group.

Modernising the customer experience

As part of creating a more customer-centric business, Challenger is investing in its customer experience and customer journeys. These innovations are designed to make it easier and quicker for customers to do business with Challenger and expand customer reach and improve engagement.

In 1H23, Fidante launched a new registry service and a range of new digital tools. Fidante's new registry service now provides online transacting and registry services to over 60 funds managed by Challenger and support the expansion of Fidante's suite of Exchange Traded Funds (ETFs). Investors have access to a new online investor portal and can self-service, allowing investors and advisers to manage portfolios directly and provide easy access to a wide range of services.

The Life business is also working on a range of initiatives to improve its customer experience. In May 2023, Challenger launched a new direct online channel that allows customers to buy simple fixed term annuities online in under ten minutes. This new digital direct channel will allow Challenger to capture targeted growth by meeting the needs of customers who prefer to invest directly while providing greater process efficiencies.

In FY23, online digital branding across the Funds Management and Life businesses was refreshed to provide a more contemporary look and feel. This included the rebrand of Fidante and launch of its new website (Fidante.com).

The rebrand reflects Fidante's diverse, contemporary offering, which includes 19 affiliate partners and covers most major asset classes. The new website is more personalised and user friendly, offering greater content, comparison tools and interactive charts that will provide a more sophisticated and contemporary customer experience.

1. Includes CarePlus annuity sales.
2. FY23 new business annuity sales by tenor excluding reinvestment sales and Japanese sales.

Strategic progress continued

1. Broaden customer access across multiple channels continued

Deepening relationships with institutions	A key focus for FY23 for Challenger has been to build on institutional customer relationships, particularly with the leading superannuation funds. Challenger's offering for institutional customers extends from simple, short-term yield products, through to longer-duration lifetime income and institutional longevity solutions. As Australia's leading provider of longevity protection with decades of experience, Challenger via the Solutions Group is well placed to help superannuation funds simplify their business and de-risk their defined benefit liabilities. There are opportunities to support them to develop more comprehensive retirement income propositions to meet their members' needs. Currently, Challenger has a business relationship with the 25 largest Australian superannuation funds.[1] Challenger sees partnerships with super funds as a key growth opportunity and has been engaging with funds to help support them as they develop their retirement income propositions, as required under the Retirement Income Covenant. In May 2023, Challenger announced a strategic partnership with profit-to-member fund TelstraSuper to provide its members lifetime annuities, which provide them with longevity and inflation protection. The partnership is expected to commence in 1H24 and generate ongoing lifetime annuity sales for Challenger. In July 2023, Challenger announced it had been selected as Aware Super Pty Ltd's (Aware Super) defined benefit fund partner. Commencing in July 2023, Challenger will provide a group lifetime annuity policy to the value of $619 million that will cover approximately 3,000 members and de-risk the fund's lifetime pension liabilities. 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 benefit pension liabilities.
International Funds Management expansion	Funds Management is well positioned for growth opportunities in Australia and is diversifying its operations globally. Funds Management has expanded its distribution business into Europe through its UK office and has established a presence in Japan. To support offshore clients and provide access to its investment products, Fidante is establishing Undertakings for Collective Investment in Transferable Securities (UCITS) funds. Fidante is continuing to seek opportunities to bring new product to the offshore market through targeting institutional and wholesale UK, European and Asian investors. In November 2023, Fidante's emerging markets affiliate, Ox Capital Management, launched the Ox Capital Dynamic Asia UCITS Fund investing in Asian equities, excluding Japan. The fund holds a concentrated portfolio of 30 to 50 stocks, focused on technology, healthcare, financials and consumer discretionary sectors.
Award-winning investment strategies and products	Challenger is a market leader in Australian retirement incomes. In March 2023, Challenger Life won the Association of Financial Advisers 'Annuity Provider of the Year' for the 15th consecutive year, along with the 'Long Term Income Stream' award. 93% of financial advisers regard Challenger as a leader in retirement income – more than 35 percentage points ahead of its closest peer.[2] Challenger was also the winner of Plan For Life's 'Overall Longevity Cover Excellence Award' for 2022, which recognises Australian life companies and fund managers who design products to assist retirees in meeting the challenges of longevity. Challenger also won the Plan For Life 'Longevity Product Award' for its Liquid Lifetime annuity and the 'Client & Adviser Technical Support Award', for its in-depth, ongoing support provided to advisers. Fidante's investment managers continue to be externally recognised. During FY23, the following affiliates won investment manager awards: – Ardea Real Outcome Fund – Lonsec – Active Global Fixed Income Fund; – Ardea Real Outcome Fund – Money Magazine – Best Australian Fixed Interest Fund (Diversified) and Financial Standard – Best Credit/Absolute Return Fund; – Alphinity Investment Management – Zenith Investment Partners – Australian Equities, Large Cap; and – Bentham Global Income Fund – Money Management – Global Fixed Income Fund of the Year. Fidante was recognised as Australia's leading retail funds management distributor, winning Zenith Investment Partners (Zenith) Distributor of the Year in October 2022 for a third consecutive year. This award recognises the quality of Zenith's ratings across Fidante's product suite, access to Fidante affiliate investment professionals and the quality of its adviser support and sales team. Fidante's products are continually recognised externally as high quality, with 21 of the 30 strategies rated Highly Recommended by research houses.[3]

1. By total assets, quarterly My Super statistics as at 31 March 2023, APRA.
2. Marketing Pulse Adviser Study June 2023 based on (% agree/strongly agree).
3. As at 13 June 2023.

2. Expand the range of financial products and services for a better retirement

FY23 PROGRESS:

Innovative retirement income solutions

With a 'One Challenger' approach, Challenger brings the best of the business to more customers.

Challenger does this by capitalising on the expertise across the Group and is expanding the Challenger brand from a leader in retirement incomes, to a brand synonymous with high-quality income products with a wider retirement offering. Challenger is also focused on improving the way it delivers its retirement products, longevity solutions and investment capability to customers and partners.

In July 2022, the Challenger Solutions Group launched the Challenger Solutions Liquid Alternatives Balanced Fund. The Fund seeks to deliver positive absolute returns in excess of the cash rate regardless of the market environment and is the first in a series of solutions being developed by Challenger's Solutions Group. The Fund delivered a gross annual return of 15.2% in the 12 months to 30 June 2023.

In September 2022, Challenger Life introduced a new accelerated payments option for its Market-Linked Annuity offering. This option allows customers to increase the starting lifetime annuity payment in exchange for lower future indexation.

In April 2023, Fidante's affiliate, Cultiv8, made three initial investments in early-stage agricultural and food technology companies as part of its Agriculture and Food Technology Fund. The fund focuses on capital growth and sustainability with a portfolio comprised of 20 to 30 seed to series B investments in Australian and global Agri-Food Technology companies. The fund targets a gross return of 20% per annum over the recommended nine-year timeframe.

Expanding distribution channels through active ETF market

There continues to be strong demand from investors for simple and easy-to-access liquid investment products. Exchange Traded Funds (ETFs) have experienced strong growth in a number of markets as they provide the ability to deliver diversified investment strategies in a liquid and easy-to-execute format.

In January 2023, Fidante launched two new ETFs to deliver diversified investment strategies in a liquid and easy-to-execute format: the Alphinity Global Equity Fund (Managed Fund) (ASX: XALG) and Alphinity Global Sustainable Equity Fund (Managed Fund) (ASX: XASG). The funds sit alongside Fidante's existing ETFs, which include the Ardea Real Outcome Bond Fund (Managed Fund) (ASX: XARO) and the Kapstream Absolute Return Income Fund (Managed Fund) (CBOE: XKAP).

The Alphinity Global Equity Fund (Managed Fund) seeks to build a portfolio of high-quality global companies that are identified as undervalued and within an earnings upgrade cycle. The Alphinity Global Sustainable Equity Fund (Managed Fund) aims to build a portfolio of high-quality companies that can have a net positive alignment with one or more of the 17 United Nations' Sustainable Development Goals (SDGs), exceed Alphinity's minimum environmental, social and governance (ESG) criteria, and which are also identified as undervalued and within an earnings upgrade cycle.

Fidante is committed to growing its series of ETFs and expects to launch more. Total Fidante FUM invested in ETF strategies at 30 June 2023 was $817 million, across approximately 11,000 investors.[1]

New Fidante affiliates

Fidante is focused on growing its alternatives platform in response to increasing demand from investors for high-quality alternative investment capabilities.

In July 2023, Challenger formed a strategic real estate partnership with Elanor Investors Group (ASX:ENN), which will include an exclusive distribution arrangement whereby Fidante will distribute Elanor's existing and new funds and Elanor will become Challenger's commercial real estate partner in Australia and New Zealand.

As part of the agreement, Challenger sold its Australian real estate business (CRE) to Elanor for total consideration of $38 million[2] which was received in new securities issued by Elanor. Challenger's holding in Elanor represents approximately 14% of issued capital and Elanor will become a new Fidante affiliate manager offering a very compelling proposition for retail, high-net-worth and institutional customers.

In June 2023, Fidante expanded its existing distribution arrangement with Proterra Investment Partners Asia (Proterra Asia), a leading private equity investor focused on the Asian food and agribusiness sectors. Under an expanded relationship, Fidante has a 12.5% revenue share in the business. This strategic partnership builds on the existing well-established distribution agreement between Fidante and Proterra Asia in the UK and Europe, with the new arrangement including Australia, Japan, and other agreed jurisdictions.

In July 2023, Fidante completed commercial agreements to acquire an equity stake in Resonance Asset Management (Resonance) and now has 35% ownership of the company. Fidante is also the exclusive distributor in covered regions for future strategies.

3. Leverage the combined capabilities of the Group

FY23 PROGRESS:

Sale of Challenger Bank

In October 2022, Challenger announced it had entered into a share sale agreement with Heartland Group Holdings Limited (NZX/ASX:HGH) (Heartland) to sell the Bank for cash consideration of approximately $36 million.[3]

The sale is expected to generate a pre-tax gain on sale of approximately $11 million, which will be reported as a significant item once completed.[4] The sale is subject to regulatory approvals in both Australia and New Zealand and is expected to complete in 1H24.

In April 2023, Challenger received approval from APRA to release $50 million of excess Bank capital, which was injected into Challenger Life. The remaining excess capital of approximately $40 million is expected, subject to regulatory approvals in Australia and New Zealand, to be returned to Challenger prior to or on completion of the sale providing additional financial flexibility to support growth in the Life business.

Capital notes and Tier 2 subordinated debt finance

In September 2022, Challenger Life Company Limited (CLC) issued $400 million of fixed-to-floating rate, unlisted, unsecured subordinated notes. The proceeds from the issuance were used to repay $400 million of subordinated notes that had a call date in November 2022.

In April 2023, Challenger issued $350 million of Challenger Capital Notes 4 (ASX:CGFPD) to help fully repay $460 million Challenger Capital Notes 2 (ASX:CGFPB) that had an Optional Exchange Date in May 2023.

These refinancing initiatives reflect Challenger's long-standing approach to proactively managing the Group's capital position, ensuring it remains well capitalised and ensuring there is no shareholder dilution with existing subordinated notes converting into Challenger shareholder equity.

1. Includes listed FUM and holders only.
2. Before tax, transaction costs and other adjustments and subject to certain milestones being met.
3. Price subject to completion adjustments and based on a net asset value of approximately $25 million.
4. Any difference between purchase price and net assets of ~$25 million will be reduced by transaction costs and other costs associated with the sale.

Strategic progress continued

4. Strengthen resilience and sustainability of Challenger

FY23 PROGRESS:

Apollo strategic relationship	Apollo (NYSE:APO) and Athene are Challenger strategic partners and hold a minority interest of approximately 20% of issued share capital. Challenger and Apollo share a common purpose, with strong complementary skills and capabilities. Both parties are working together on a range of opportunities to help Challenger's customers achieve financial security in retirement and deliver meaningful value for shareholders, including balance sheet investment, capital, product development and distribution opportunities. Challenger and Apollo have agreed to form a distribution partnership, under which Fidante will bring the Apollo Aligned Alternatives (AAA) capability to the Australian market in 1H24. Under the agreement, Challenger will build an Australian AAA feeder fund and is expected to launch in 1H24. AAA is positioned as an equity replacement product and will provide clients with access to invest alongside Apollo, across a full cross-section of alternative investments.
Artega Investment Administration operational	In November 2022, Artega Investment Administration (Artega), an independently branded joint venture between Challenger and SimCorp (CSE:SIM), was launched. Artega will provide market-leading investment administration services to investment managers and asset owners across Australia. Artega leverages the capabilities of both Challenger and SimCorp to provide Australia's first fully technology-led, integrated front-to-back cloud-based investment operations platform to service Challenger, Fidante and third-party investment managers and asset owners. In 1H23, Artega became operational and commenced providing investment administration services to its existing clients, Challenger and Fidante affiliates. In 2H23, investment operations staff from Challenger Life and Funds Management transferred and became full-time employees of Artega to support its business activities. To date, a number of clients have chosen Artega as their administration provider.
Diversity and inclusion	Challenger believes that a diverse and inclusive workplace delivers better outcomes for employees, the business and the community. Challenger continued to make progress implementing its diversity and inclusion strategy and achieved a diversity and inclusion score of 89% in its latest employee engagement survey (conducted March 2023). Results of the survey included: – 95% of employees believe that gender-based harassment and sexual harassment is not tolerated; and – 91% of employees believe Challenger has a working environment that genuinely supports equality between women and men. In FY23, Challenger continued to be recognised as an employer of choice for women and was included as an Employer of Choice for Gender Equality by the Workplace Gender Equity Agency (WGEA) for the sixth year in a row.
Embedding ESG across the business	Challenger recognises its growth and success should be sustainable to benefit customers, partners and communities. This means factoring ESG considerations into all decision making. In FY23, Challenger took significant steps to better understand current ESG performance against Challenger's purpose, operating model and core business activities. This included the completion of a comprehensive ESG review covering technology systems, data maturity, governance practices, risk identification and ESG related decision-making processes. The review benchmarked current ESG practices against a range of stakeholder perspectives. This provided a comprehensive understanding of areas Challenger could improve over time and opportunities to strengthen Challenger's approach to ESG governance. Following this review, Challenger commenced a range of initiatives which are outlined in the 2023 Sustainability Report. Challenger recognises the importance of incorporating ESG considerations into its investment process. Challenger has been a signatory to the Principles for Responsible Investment (PRI) since 2015. Investment managers follow a formal responsible investment policy, report on ESG risks across their portfolios and incorporate ESG considerations into internal strategies. Sustainability affiliate investment managers include: – Cultiv8 Funds Management, a sustainability-aligned fund focused on investments in innovative agricultural and food technologies; – 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. Challenger believes climate change will impact every part of the economy. In 2023, Challenger undertook preliminary work to understand Scope 3 financed emissions across its investment portfolio, initially focusing on listed equities and corporate bonds. In FY23, Challenger overhauled its Modern Slavery Statement, including implementing an improved structure for addressing and assessing modern slavery risks. Supporting this work, Challenger rolled out training for key teams to help them understand modern slavery risks and how to identify them, with over 90% of teams completing the training. 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. As a leading retirement income provider, Challenger also recognises the important role it plays in contributing to a more sustainable and equitable future for all Australians and is committed to supporting communities across the country. In June 2023, Challenger established a new partnership with the Australian Academy of Technological Sciences and Engineering (ATSE) to support Indigenous leadership in STEM and technological innovation. This partnership reflects Challenger's commitment to investing in knowledge and embracing innovation.

Key performance indicators (KPIs)

NORMALISED NPBT ($M)

FY23	$520.7m	▲10.2%
FY22	$472.3m	

NORMALISED NPAT ($M)

FY23	$364.0m	▲13.2%
FY22	$321.5m	

NORMALISED ROE PRE-TAX (%)

FY23	12.7%	▲0.8%
FY22	11.9%	

Profitability and growth

Certain financial measures detailed in this report are not accounting measures within the scope of International Financial Reporting Standards (IFRS). Management use these financial metrics to measure the Group's overall financial performance and position and believe the presentation of the financial measure provide useful information to analysts and investors regarding the results of the Group's operations.

Challenger's statutory profit attributable to equity holders for the year ended 30 June 2023 was higher than the statutory profit reported in the previous year. The difference was primarily due to higher Life normalised cash operating earnings from stronger performance in Life's investment portfolio, partly offset by lower Funds Management net fee income earned on lower average FUM. In addition, expenses across the Group are higher driven by investment in strategic, technology and customer initiatives.

Normalised NPAT increased by 13.2%, and normalised EPS increased by 12.0% compared to 2022.

Investment experience after tax was a loss of $67.8 million, compared to a loss of $81.2 million in the pcp. The loss this year is primarily driven by a reduction in commercial property valuations and losses in alternatives investments partially offset by gains in fixed income investments.

A final dividend of 12.0 cents was declared, franked at 100%. The total dividend for 2023 was 24.0 cents, which is 1.0 cent higher (4.3%) than the prior year.

KPIs for the year ended 30 June 2023 include:

	30 JUN 2023	30 JUN 2022	CHANGE (%)
Profitability			
Statutory profit attributable to equity holders ($m)	287.5	253.7	13.3
Normalised NPBT ($m)	520.7	472.3	10.2
Normalised NPAT ($m)	364.0	321.5	13.2
Statutory EPS (cents)	42.1	37.5	12.3
Normalised EPS (cents)	53.3	47.6	12.0
Total dividend (cents)	24.0	23.0	4.3
Total dividend franking	100%	100%	–
Normalised cost to income ratio	37.7%	38.7%	1.0
Statutory ROE after tax	7.0%	6.4%	0.6
Normalised ROE pre-tax	12.7%	11.9%	0.8
Normalised ROE after tax	8.9%	8.1%	0.8
Sales, Flows, AUM			
Total Life sales ($m)	9,746.6	9,706.1	0.4
Total Life net flows ($m)	935.8	2,471.9	(62.1)
Total Life net book growth (%)	5.2%	14.3%	(9.1)
Total FM net flows ($bn)	(0.5)	(8.5)	(large)
Total AUM ($bn)	105.0	98.6	6.5

Challenger's normalised cost to income ratio of 37.7% was lower than 2022 (38.7%). Higher normalised cash operating earnings for Life was the main driver of the lower cost to income ratio.

The normalised pre-tax return on equity (ROE) was 12.7% in 2023 compared to 11.9% in the prior year.

Statutory ROE after tax of 7.0% has increased compared to the prior year (2022: 6.4%) which is primarily as a result of higher statutory NPAT. Normalised ROE after tax increased from 8.1% in the prior period to 8.9%, primarily reflecting higher normalised NPAT.

Key performance indicators (KPIs) continued

Capital management

Challenger holds capital to ensure that it can meet its regulatory requirements and contractual obligations to customers.

Challenger's Australian based companies are regulated by APRA and/or the Australian Securities and Investments Commission (ASIC). Challenger's Funds Management business also has international operations which are subject to regulation in each jurisdiction.

The main minimum regulatory capital requirements for Challenger's regulated businesses are determined as follows:

- CLC: capital requirements as specified under APRA life insurance prudential capital standards; and
- Bank: capital requirements as specified under APRA authorised deposit-taking institutions (ADI) prudential capital standards.

Challenger's capital position is managed with the objective of maintaining the financial stability of the Group, CLC and the Bank while ensuring that shareholders earn an appropriate risk-adjusted return.

Challenger reports a consolidated (or level 3 equivalent) capital position across the entire business. At 30 June 2023, the Challenger Group was holding $1.8 billion in excess regulatory capital, which equates to a Group Minimum Regulatory Requirement ratio (times) of 1.66 times (31 December 2022:1.67 times). This ratio represents Challenger holding 66.0% more regulatory capital than required by its regulators.

The following table highlights the key capital metrics for CLC, Challenger Bank Limited (CBL) and the Group.

CAPITAL AS AT 30 JUNE 2023	CLC ($m)	CBL ($m)	GROUP ($m)
Regulatory capital base			
Common Equity Tier 1 (CET1) regulatory capital	3,110.5	60.5	3,171.0
Additional Tier 1 capital	735.0	–	735.0
Total Tier 1 regulatory capital	**3,845.5**	**60.5**	**3,906.0**
Tier 2 capital[1]	411.3	–	411.3
Other non regulatory capital[2]	**–**	**–**	**218.8**
Total capital base	**4,256.8**	**60.5**	**4,536.1**
Minimum Regulatory Requirement[3,4]	2,681.9	13.1	2,734.9
Excess over Minimum Regulatory Requirement	**1,574.9**	**47.4**	**1,801.2**
CET1 capital ratio (times)[5]	1.16	4.62	–
Tier 1 capital ratio (times)[6]	1.43	4.62	–
Minimum Regulatory Requirement ratio (times)[7]	1.59	4.62	1.66

1. CLC represents subordinated debt.
2. Includes CLC, CBL, Funds Management, Corporate and other Life/Bank entities. Refer to Note 12 for detailed split.
3. Minimum Regulatory Requirement is equivalent to PCA for CLC.
4. Minimum Regulatory Requirement for Challenger Bank Limited represents total capital requirements of 8% (of risk weighted assets) plus the capital conservation buffer of 2.5% (of risk weighted assets) plus the counter cyclical buffer of 1% (of risk weighted assets), as stipulated under APS 110 *Capital Adequacy* as at 30 June 2023.
5. CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
6. Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
7. Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

CLC regulatory capital base

CLC is regulated by APRA and is required to hold a minimum level of regulatory capital. CLC's regulatory capital base and PCA have been calculated based on the prudential standards issued by APRA.

CLC maintains a target level of capital representing APRA's PCA plus a target surplus. The target surplus is a management guide to the level of excess capital that CLC seeks to hold over and above APRA's minimum requirements. CLC's target surplus is set to ensure that it provides a buffer against adverse market conditions and having regard to CLC's credit rating. CLC uses internal capital models to determine its target surplus, which are risk-based and are responsive to changes in CLC's asset allocation and market conditions.

CLC's internal capital models result in a target PCA ratio range under current circumstances of 1.3 to 1.7 times. This range can change over time and is dependent on numerous factors.

The PCA ratio at 30 June 2023 was 1.59 times (30 June 2022: 1.60 times), within this range of 1.3 to 1.7 times. The CET1 ratio was 1.16 times at 30 June 2023, an increase from 1.11 times at 30 June 2022.

Bank regulatory capital

The Bank is an ADI regulated by APRA under the authority of the *Banking Act 1959*. The Bank's regulatory capital base and minimum regulatory capital requirement is specified under APRA's ADI prudential standards.

The Bank's regulatory capital base at 30 June 2023 was $60.5m and represents CET1 regulatory capital. The CET1 regulatory capital base is similar to the Bank's 30 June 2023 net assets. The minimum regulatory capital requirement for the Bank relates to a total capital requirement of 8% of risk weighted assets, plus a capital conservation buffer of 2.5% as stipulated under Prudential Standard APS 110 *Capital Adequacy* (APS 110).

The Bank's excess over the minimum regulatory capital requirement at 30 June 2023 was $47.4m and the Bank capital ratios were as follows:

- Minimum Regulatory Requirement ratio 4.62 times;
- Common Equity Tier 1 (CET1) capital ratio 4.62 times; and
- Capital adequacy risk-weighted asset ratio 53.2%.

A significant portion of the Bank financing and lending assets are invested in cash and cash equivalents and lending activity has slowed during the period given the sale of the bank.

Funds Management and Other

In addition to CLC's and CBL's excess over minimum regulatory capital, Challenger maintains cash and tangible assets within entities outside CLC and CBL. These assets can be used to meet regulatory capital requirements.

Dividends and Dividend Reinvestment Plan

The dividend payout ratio for the year ended 30 June 2023 was 45.0% (30 June 2022: 48.3%) and is within Challenger's targeted range.

The final dividend of 12.0 cents will be fully franked.

In recognition of Challenger's growth profile and to provide capital flexibility to fund this growth, commencing from FY24 Challenger will target a dividend payout ratio of between 30% and 50% of normalised profit after tax. The target payout range has been extended from 45% to 50% (prior to FY24) to allow the dividend to help support Challenger's growth requirements, especially in periods of higher growth. However, the actual dividend payout ratio will depend on prevailing market conditions and capital allocation priorities at the time.

Challenger will continue to seek to frank the dividend to the maximum extent possible.

DIVIDENDS	30 JUN 2023	30 JUN 2022	CHANGE
Interim dividend (cents)[1]	12.0	11.5	0.5
Final dividend (cents)[2]	12.0	11.5	0.5
Total dividend (cents)	24.0	23.0	1.0
Interim dividend franking	100%	100%	–
Final dividend franking	100%	100%	–

1. Interim dividend announced on 17 February 2023 and paid on 22 March 2023 in respect of the half year ended 31 December 2023.
2. Final dividend announced on 15 August 2023 and payable on 20 September 2023 in respect of the half year ended 30 June 2023.

The Company continued to operate its Dividend Reinvestment Plan (DRP) during the period. The participation rate for the 2023 interim dividend was 33.0% and 3,695,743 ordinary shares were issued to satisfy DRP requirements on 21 March 2023.

The DRP will continue in operation for the 2023 final dividend, and the Board has determined that new shares will be issued to fulfil DRP requirements in respect of the final dividend. The new shares will not be issued at a discount to the prevailing Challenger share price.

Credit ratings

Challenger Limited and CLC are rated by Standard & Poor's (S&P). In December 2022, S&P reaffirmed both CLC and Challenger Limited's credit ratings.

Ratings were confirmed as:

CLC	CHALLENGER LIMITED
A with a stable outlook	**BBB+** with a stable outlook

Normalised profit and investment experience

Normalised framework (non-IFRS)

CLC and its consolidated entities are required by AASB 1038 *Life Insurance Contracts* to value all assets and liabilities at fair value where permitted by other accounting standards.

This gives rise to fluctuating valuation movements on assets and liabilities being recognised in the profit and loss in CLC and on consolidation in Challenger Limited. CLC is generally a long-term holder of assets, due to holding assets to best maturity match the term of life contract liabilities. As a result, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements. Investment experience represents the difference between actual investment gains/losses (both realised and unrealised) and expected gains/losses based on CLC's medium to long-term expected returns together with the new business strain[1] from writing new annuity business. Investment experience also includes any impact from changes in economic and other actuarial assumptions.

A reconciliation between statutory revenue and the management view of revenue and net income is included in the financial report as part of Note 3 Segment information.

This note also includes a reconciliation of statutory NPAT and normalised NPAT (*management's preferred view of post-tax profit*). The application of the normalised profit framework has been reviewed by Challenger's independent auditor to ensure that the reported results are consistently applied in accordance with the methodology described in Note 3 Segment information in the financial report.

1. New business strain is a non-cash accounting adjustment recognised when annuity rates on new business are higher than the risk-free rate used to fair value annuities. The new business strain unwinds over the life of the annuity contract.

Management analysis – normalised results

Life normalised cash operating earnings (COE) and earnings before interest and tax (EBIT) increased as a result of higher sales and reallocation of assets paying higher investment yield.

Life's average assets under management (AUM) increased by 3.2% as a result of growth in investment assets and index plus fund liabilities.

	2023 ($m)	2022 ($m)	CHANGE ($m)	CHANGE (%)
Net income[2]	842.2	776.9	65.3	8.4
Comprising:				
Life normalised COE	653.0	582.8	70.2	12.0
FM net income	178.8	191.8	(13.0)	(6.8)
Bank net income	8.8	2.3	6.5	large
Corporate and other income	1.6	–	1.6	n/a
Operating expenses[2]	(317.5)	(300.5)	(17.0)	(5.7)
Normalised EBIT	**524.7**	**476.4**	**48.3**	**10.1**
Comprising:				
Life normalised EBIT	540.5	472.3	68.2	14.4
FM normalised EBIT	61.6	82.8	(21.2)	(25.6)
Bank normalised EBIT	(8.8)	(11.1)	2.3	(20.7)
Corporate and other normalised EBIT	(68.6)	(67.6)	(1.0)	(1.5)
Interest and borrowing costs	(4.0)	(4.1)	0.1	2.4
Normalised NPBT	**520.7**	**472.3**	**48.4**	**10.2**
Tax on normalised profit	(156.7)	(150.8)	(5.9)	(3.9)
Normalised NPAT	**364.0**	**321.5**	**42.5**	**13.2**
Investment experience after tax	(67.8)	(81.2)	13.4	(16.5)
Bank impairments after tax[2]	(1.4)	(0.9)	(0.5)	n/a
Significant items after tax	(7.3)	14.3	(21.6)	large
Statutory net profit after tax attributable to equity holders	**287.5**	**253.7**	**33.8**	**13.3**

2. 'Net income' and 'Operating expenses' are internal classifications and are defined in Note 3 Segment information in the financial report. These differ from the statutory revenue and expenses classifications, as certain costs (including distribution expenses, property expenses, management fees, Special Purpose Vehicle expenses and finance costs) are netted off against gross revenues. These classifications have been made in the Directors' Report and in Note 3 Segment information to reflect how management measures business performance. While the allocation of amounts to the above items and investment experience differ to the statutory view, both approaches result in the same total net profit after tax attributable to equity holders.

Funds Management net income decreased (down $13.0 million) due to lower average FUM. Funds Management average FUM decreased by 8.9%.

Operating expenses increased by $17.0 million (or 5.7%) for the year due to increased spend on technology, customer and strategic initiatives.

Challenger's full-time equivalent employee numbers increased by 47 (or 6.1%) to 817 primarily due to Artega and Customer to support increased activity.

The normalised effective tax rate was lower than the prior year. The decrease in the effective tax rate reflects a tax benefit in relation to tax rate differentials. The rate is broadly in line with the statutory rate of 30%.

Significant items were $7.3 million (after tax) and represent the costs related to the sale of the Real Estate business to Elanor (ASX: ENN), costs related to the implementation of AASB 17 and costs related to the sale of the Bank to Heartland.

Management analysis – investment experience

Investment experience after tax relates to changes in the fair value of Life's assets and liabilities. Investment experience is a mechanism employed to remove the volatility arising from asset and liability valuation movements and new business strain from Life business earnings so as to more accurately reflect the underlying performance of the Life business.

Pre-tax investment experience in 2023 comprised an experience loss of $99.4 million comprising a $13 million asset and policy liability loss and a $87 million loss in relation to new business strain.

	2023 ($m)	2022 ($m)
Actual capital growth[1]		
Cash and fixed income	171.6	(442.5)
Equity and infrastructure	(13.8)	(81.5)
Property (net of debt)	(158.4)	222.8
Alternatives	(105.5)	89.4
Total actual capital growth	**(106.1)**	**(211.8)**
Normalised capital growth[2]		
Cash and fixed income	(60.7)	(58.7)
Equity and infrastructure	22.5	37.7
Property (net of debt)	64.2	69.8
Total normalised capital growth	**26.0**	**48.8**
Investment experience		
Cash and fixed income	232.3	(383.8)
Equity and infrastructure	(36.3)	(119.2)
Property (net of debt)	(222.6)	153.0
Alternatives	(105.5)	89.4
Policyholder liability experience[3]	119.6	187.7
Asset and policy liability experience	**(12.5)**	**(72.9)**
New business strain[4]	(86.9)	(42.4)
Investment experience before tax	**(99.4)**	**(115.3)**
Tax benefit	31.6	34.1
Investment experience after tax	**(67.8)**	**(81.2)**

1. Actual capital growth represents net realised and unrealised capital gains or losses and includes the attribution of interest rate, inflation and foreign exchange derivatives that are used to hedge exposures.
2. Normalised capital growth is determined by multiplying the normalised capital growth rate for each asset class by the average investment assets for the period. The normalised capital growth rates represent Challenger's expectations for each asset class over the investment cycle. The annual normalised growth rate is +4.0% for equity and infrastructure, +2.0% for property, 0.0% for alternatives, and -0.35% for cash and fixed income in order to allow for credit defaults. The rates have been set with reference to medium to long-term market growth rates and are reviewed to ensure consistency with prevailing market experience.
3. Policyholder liability experience represents the impact of changes in macroeconomic variables, including bond yields and inflation factors, expense assumptions and other factors applied in the valuation of life contract liabilities.
4. New business strain is a non-cash accounting adjustment recognised when annuity rates on new business are higher than the discount rate, being a risk-free rate plus an illiquidity premium used to fair value annuities. The new business strain unwinds over the annuity contract.

Five-year history

	2023	2022	2021	2020	2019
Earnings ($m)					
Normalised cash operating earnings (COE)	653.0	582.8	512.8	638.9	670.1
Net fee income	178.8	191.8	169.3	158.1	149.9
Bank net interest income	8.8	2.3	–	–	–
Other income	1.6	–	–	0.4	1.0
Total net income	**842.2**	**776.9**	**682.1**	**797.4**	**821.0**
Personnel expenses	(201.9)	(204.5)	(179.9)	(174.0)	(185.3)
Other expenses	(115.6)	(96.0)	(101.4)	(110.4)	(82.1)
Total expenses	**(317.5)**	**(300.5)**	**(281.3)**	**(284.4)**	**(267.4)**
Normalised EBIT	**524.7**	**476.4**	**400.8**	**513.0**	**553.6**
Interest and borrowing costs	(4.0)	(4.1)	(5.0)	(6.5)	(5.3)
Normalised profit before tax	**520.7**	**472.3**	**395.8**	**506.5**	**548.3**
Normalised tax	(156.7)	(150.8)	(117.3)	(162.8)	(152.2)
Normalised profit after tax	**364.0**	**321.5**	**278.5**	**343.7**	**396.1**
Investment experience after tax	(67.8)	(81.2)	318.6	(750.3)	(88.3)
Bank impairments after tax	(1.4)	(0.9)	–	–	–
Significant items after tax	(7.3)	14.3	(4.8)	(9.4)	–
Profit/(loss) attributable to equity holders	**287.5**	**253.7**	**592.3**	**(416.0)**	**307.8**
Normalised cost to income ratio (%)	37.7%	38.7%	41.2%	35.7%	32.6%
Normalised effective tax rate (%)	30.1%	31.9%	29.6%	32.1%	27.8%
Statutory effective tax rate (%)	27.6%	29.0%	28.7%	28.9%	29.2%
Earnings per share (EPS) (cents)					
Basic EPS – normalised profit	53.3	47.6	41.5	56.5	65.5
Basic EPS – statutory profit	42.1	37.5	88.2	(68.4)	50.9
Diluted EPS – normalised profit	46.3	40.9	33.8	46.9	56.0
Diluted EPS – statutory profit	37.9	33.1	68.0	(68.4)	44.8
Capital management (%)					
Normalised return on equity – pre-tax	12.7%	11.9%	11.2%	14.8%	15.8%
Normalised return on equity – post-tax	8.9%	8.1%	7.9%	10.0%	11.4%
Statutory return on equity – post-tax	7.0%	6.4%	16.8%	(12.1%)	8.9%

	2023	2022	2021	2020	2019
Statement of financial position ($m)					
Total assets	30,938.0	29,725.2	29,917.9	28,461.6	27,457.5
Total liabilities	26,773.6	25,736.9	26,092.1	25,212.0	23,834.7
Net assets[1]	4,164.4	3,988.3	3,825.8	3,249.6	3,622.8
Net assets[2]	4,160.4	3,988.3	3,825.8	3,249.6	3,600.3
Net assets[2] – average[3]	4,091.0	3,970.0	3,518.9	3,424.4	3,462.1
Net tangible assets[4]	3,552.7	3,372.1	3,202.0	2,619.2	3,019.1
Net assets per basic share ($)	6.09	5.86	5.69	4.90	5.94
Net tangible assets per basic share ($)	5.20	4.96	4.76	3.95	4.98
Underlying operating cash flow ($m)	**323.7**	**(101.3)**	**194.7**	**194.7**	**236.9**
Dividends per share (cents)					
Interim dividend (cents)	12.0	11.5	9.5	17.5	17.5
Final dividend (cents)	12.0	11.5	10.5	–	18.0
Total dividend (cents)	**24.0**	**23.0**	**20.0**	**17.5**	**35.5**
Normalised dividend payout ratio (%)	45.0%	48.3%	48.2%	31.0%	54.2%
Statutory dividend payout ratio (%)	57.0%	61.3%	22.7%	N/A	69.7%
Sales and annuity book net flows ($m)					
Annuity sales ($m)	5,517.3	5,122.7	4,566.0	3,127.4	3,543.1
Other Life sales ($m)	4,229.3	4,583.4	2,362.1	2,024.0	1,006.9
Total Life sales	**9,746.6**	**9,706.1**	**6,928.1**	**5,151.4**	**4,550.0**
Life annuity net flows ($m)	385.1	1,074.2	1,079.8	(251.1)	685.8
Life annuity book ($m)	13,930.0	13,595.0	13,669.9	12,581.2	12,870.2
Life annuity net book growth (%)	2.8%	7.9%	8.6%	(2.0%)	5.8%
Total Life flows ($m)	935.8	2,471.9	2,163.8	315.8	474.8
Total Life book ($m)	19,199.0	17,981.8	17,302.1	14,997.0	14,836.4
Total Life net book growth (%)	5.25%	14.3%	14.4%	2.1%	3.4%
Funds Management – net flows ($m)	(472.3)	(8,524.8)	16,111.5	2,540.9	(2,438.4)
Assets under management ($m)					
Life	23,538.0	22,224.0	21,563.0	18,303.0	19,010.0
Funds Management	98,467.0	93,448.0	105,824.0	81,435.0	79,029.0
Bank	225.4	390.5	–	–	–
Elimination of cross-holdings[5]	(17,278.0)	(17,492.6)	(17,427.0)	(14,501.0)	(16,269.0)
Total assets under management	**104,966.0**	**98,569.9**	**109,960.0**	**85,237.0**	**81,770.0**
Other					
Headcount – closing FTE	817	770	738	735	687
Weighted average number of ASX-listed basic shares on issue (m)	682.1	675.7	671.6	608.3	605.8
Number of shares on issue – closing (m)	683.8	680.0	672.6	663.1	605.8
Share price – closing ($)	6.48	6.84	5.41	4.41	6.64
Market capitalisation ($m)[6]	4,431.0	4,651.2	3,638.8	2,924.3	4,022.5

1. Including non-controlling interests.
2. Excluding non-controlling interests.
3. Calculated on a monthly basis.
4. Excludes right-of-use lease asset, goodwill and other intangible assets.
5. Life assets managed by Funds Management.
6. Calculated as share price multiplied by ordinary share capital.

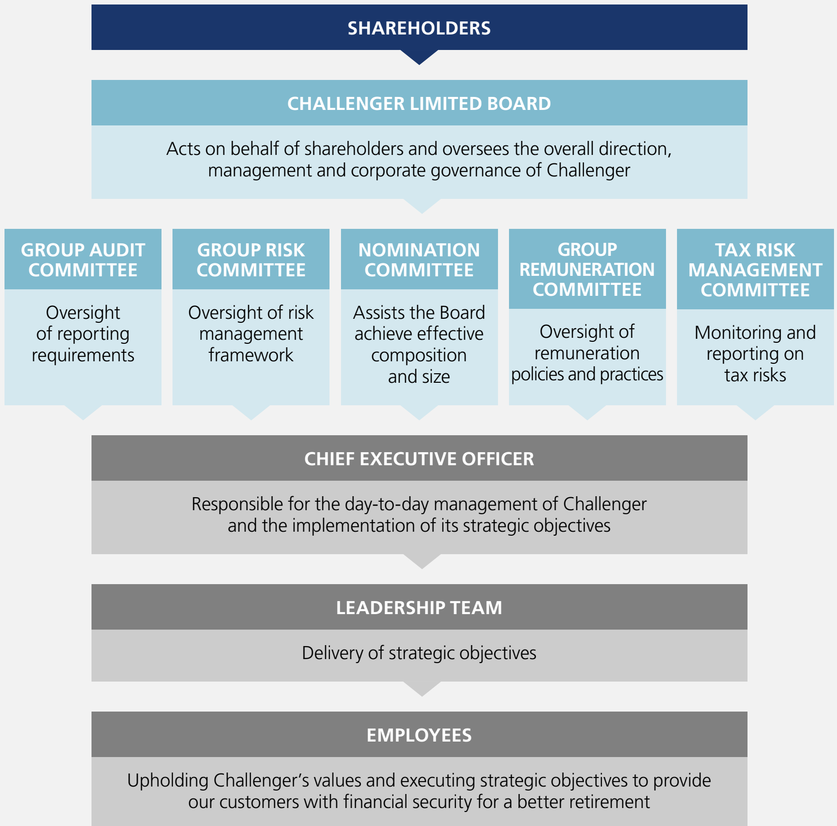
Corporate governance

At Challenger, we have a strong governance and risk management framework.

We believe that corporate governance enhances stakeholder confidence and enhances business outcomes.

The way we work is informed by our strong corporate governance and risk culture, which is embedded throughout our business. At Challenger, good corporate governance comes from the top. The Board has oversight of the risks and opportunities for the business and acts on behalf of all of Challenger's stakeholders. Our Board guides our strategic direction and establishes key policies and frameworks to assist management in delivering results for our stakeholders. The Board ensures appropriate governance and oversight in the management of our business. The Chief Executive Officer (CEO) has delegated authority from the Board to, together with the Leadership Team, implement key strategies and policies, have oversight of the risks and opportunities for the business and act on behalf of our stakeholders.

Our approach to corporate governance



Roles and responsibilities of Board and management

THE ROLE OF THE BOARD AND DELEGATIONS

The Board is accountable to shareholders for the activities and performance of Challenger by overseeing the creation of sustainable shareholder value within an appropriate risk framework and having regard for stakeholder interests and community expectations.

The Board is responsible for setting, approving and regularly monitoring Challenger's corporate strategy and strategic priorities and holding management accountable for progress. Challenger's purpose is to provide our customers with financial security for a better retirement. This is a long-term purpose and the Board sets strategic priorities each year to work towards fulfilling this purpose.

This includes annual Board strategy off sites, regular Board reporting and meetings, and discussion and review with management. Similarly, the Board ensures rigorous governance processes operate effectively to guide decision-making across the business.

The Board's responsibilities are set out in the Board Charter, which is available at:

challenger.com.au/about-us

In addition to strategy, the Board's role and responsibilities include:

- approving business plans, budgets and financial policies;
- considering management recommendations on strategic business matters;
- establishing, promoting and maintaining proper processes and controls to maintain the integrity of accounting and financial records and reporting;
- fairly and responsibly rewarding executives, having regard to the performance of the executives, Challenger's risk management framework and culture, the interests of shareholders, market conditions and Challenger's overall performance;
- adopting and overseeing implementation of corporate governance practices;
- overseeing the establishment, promotion and maintenance of effective risk management policies and processes;
- determining and adopting Challenger's dividend policy;
- reviewing Board composition and performance;
- appointing, evaluating and remunerating the CEO and approving the appointment of the Chief Financial Officer (CFO), Chief Risk Officer (CRO), General Counsel and Company Secretary; and
- determining the CEO's delegated authority.

The Board has established committees to assist in carrying out its responsibilities and to consider certain issues and functions in detail. The Board committees are discussed on page 28.

Management responsibility

The Board has delegated to the CEO the authority and powers necessary to implement the strategies approved by the Board and to manage the business affairs of Challenger within the policies and delegation limits specified by the Board from time to time. The CEO may delegate authority to management, but remains accountable for all authorities delegated to management.

Board skills matrix

The Board has determined that its members have an appropriate collective mix of skills, experience and expertise to:

- exercise independent judgement;
- have a proper understanding of, and competence to deal with, current and emerging issues of the business;
- encourage enhanced Challenger performance; and
- effectively review and challenge the performance of management.

The Board's competencies are assessed annually and the results of the most recent assessment are shown below.

The Board skills matrix shows that Board members have a high level of competency across the areas of expertise relevant to Challenger's business.

Board skills matrix 2023

LEADERSHIP

Leadership, effective communication and influencing skills

▶ 100% Expert

INDUSTRY EXPERIENCE

Experience in life insurance, funds management or financial sector, and management of complex investment portfolios

▶ 50% Expert ▶ 38% Advanced ▶ 12% Capable

RISK, LEGAL AND GOVERNANCE

Financial services and fiduciary regulatory awareness.

Relevant compliance and risk experience including legal and tax risk management. Public company corporate governance

▶ 75% Expert ▶ 25% Advanced

IT AND DIGITAL

Understanding of IT strategy, the application of technology in large organisations, IT and digital innovation and cyber risks

▶ 12% Expert ▶ 63% Advanced ▶ 25% Capable

SUSTAINABILITY

Understanding community expectations, relevant regulatory developments and disclosure requirements on sustainability issues

▶ 38% Expert ▶ 62% Advanced

STRATEGY

Strategic thinking capability and transactional expertise

▶ 100% Expert

PEOPLE AND CULTURE

Experience in building capable and highly engaged teams, managing effective workplace culture and understanding remuneration structures

▶ 62% Expert ▶ 38% Advanced

FINANCE AND ACCOUNTING

Financial reporting literacy including exposure to Accounting Standards

▶ 87.5% Expert ▶ 12.5% Advanced

STAKEHOLDERS

Experience in understanding key stakeholders needs, relevant regulatory relationships and shareholder engagement

▶ 50% Expert ▶ 50% Advanced

Corporate governance continued

Board committees

To assist it in undertaking its duties, the Board has established the following standing committees:

- Group Risk Committee – Oversight of Challenger's risk management framework;
- Group Audit Committee – Oversight of regulatory reporting requirements;
- Group Remuneration Committee – Oversight of remuneration policies and practices;
- Nomination Committee – Assists the Board to ensure it maintains an effective composition and size; and
- Tax Risk Management Committee – Monitor and report on Tax risks.

Each committee has its own charter, copies of which are available at:

challenger.com.au

The charters specify the composition, responsibilities, duties, reporting obligations, meeting arrangements, authority and resources available to the committees and the provisions for review of the charter.

Details of Directors' membership of each committee and those eligible members' attendance at meetings throughout the year from 1 July 2022 to 30 June 2023 are set out below.

Management committees and groups that are responsible for progressing our strategic agenda include:

- Executive Risk Management Committee;
- Group Environmental Social and Governance Steering Committee;
- Work Health and Safety Committee;
- Diversity and Inclusion Committee;
- Our Community Committee; and
- Sustainability Action Group.

Our ESG Steering Committee was established in 2021 in response to the increasing relevance of environmental, social and governance topics throughout our business. A quarterly sustainability update is submitted to the Group Risk Committee.

Directors' meetings

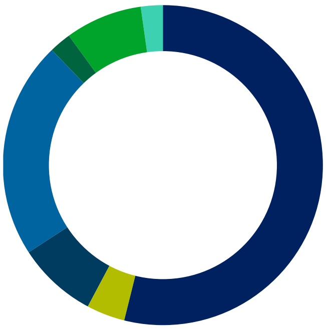
	BOARD		GROUP RISK COMMITTEE		GROUP AUDIT COMMITTEE		GROUP REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
DIRECTOR	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED
D West[1,2]	9	9	5	4	4	4	3	3	4	4
N Hamilton[3]	9	9	–	–	–	–	–	–	–	–
J M Green	9	9	5	5	4	3	7	6	4	4
S Gregg	9	9	5	5	4	4	7	7	4	4
M Kobayashi	9	9	–	–	–	–	–	–	4	4
H Smith[4]	9	9	5	5	4	4	–	–	4	4
J Stephenson	9	9	5	5	4	4	7	7	4	4
M Willis	9	9	5	5	4	4	–	–	4	4
P Polson[5]	4	4	2	1	1	1	4	3	1	1

1. Mr West replaced Mr Polson as Chair of the Board and member of the Group Remuneration Committee on 27 October 2022.
2. Mr West was a member of the Tax Risk Management Committee (TRMC) until 25 November 2022 and attended 1 meeting (being eligible to attend 1 meeting).
3. The Managing Director and CEO attends the Group Risk Committee, the Group Audit Committee, the Group Remuneration Committee and the Nomination Committee at the invitation of these Committees.
4. Ms Smith was appointed a member of the TRMC on 25 November 2022 with no meetings held in the 2023 financial year following her appointment.
5. Mr Polson ceased to be a Director on 27 October 2022.

Tax transparency

Challenger is committed to paying our fair share of taxes and we take our obligation to comply with prevailing taxation laws, practices and reporting requirements seriously.

2023 TOTAL TAX CONTRIBUTION



54% Corporate income tax
4% Employer payroll taxes
8% GST
22% Employee payroll taxes
2% Customer withholding taxes
8% Stamp duty and other local and council taxes
2% Levies

We maintain an open relationship with key regulators, including the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO).

Challenger's tax disclosures meet the requirements of the Australian Board of Taxation's voluntary Tax Transparency Code (TTC) of which Challenger is a signatory. The tax transparency disclosures in this report and in the tax note conform with the TTC. Challenger's total tax contribution (paid and collected) to and on behalf of the Australian Government (state and federal) for FY23 was $234.8 million (FY22: $415.4 million).

Our tax strategy and governance framework

Since 2007, Challenger's tax charter governs how tax is managed within the organisation. Our charter states that Challenger will manage its tax obligations in a sustainable way, considering the commercial and social imperatives of the business and our stakeholders. It determines that Challenger will comply with prevailing laws while maintaining professional relationships with the regulatory and tax authorities where we operate. We maintain transparent and collaborative relationships with key regulators, including APRA, ASIC and the ATO.

Challenger's tax charter and tax risk governance is embedded in the broader Challenger risk governance frameworks and is reviewed and approved by the Challenger Board on a bi-annual basis. Challenger does not knowingly participate in the avoidance of tax or facilitate and/or promote the avoidance or evasion of tax by a third party.

Most of the tax paid by the Group is to the ATO. The Group seeks to maintain a "high assurance Justified Trust" over income tax and GST with the ATO. Under the ATO Justified Trust framework, the Group reports all significant transactions, risks and other issues to the ATO on a regular basis, and issues are resolved with the ATO in a constructive manner.

Offshore operations

We invest offshore to secure a diversified balanced portfolio and to match our policy liabilities. As at 30 June 2023, 40.0% of Challenger Life Company Limited's (CLC) investment assets were offshore. CLC is also a party to a number of global reinsurance agreements.

Our Funds Management business originates and manages offshore assets on behalf of CLC and third-party institutional investors, such as profit-for-member superannuation funds.

Due to offshore investments and operations, a number of overseas foreign structures are used to provide certainty over commercial, legal and tax aspects of the various transactions we enter into. Using entities in jurisdictions with similar laws to Australia or those that have substantially complied with the Organisation for Economic Co-operation and Development (OECD) guidelines on tax transparency, including information exchange with global tax authorities, enhances certainty.

The investment returns Challenger makes are taxable in the source country of the investment and are also taxed in Australia. This results in an effective tax rate for the group of 27.6% (2022: 29.0%) with no material tax rate difference recognised between the Australian and offshore operations.

Risk management

The management of risk is fundamental to Challenger's business and to building long-term shareholder value.

The Board's Risk Appetite Statement outlines the level of risk that is acceptable and is combined with an effective risk management framework which monitors, mitigates and manages the risks to which Challenger is exposed.

The Board recognises the broad range of risks that Challenger faces as a participant in the financial services industry. These include:

- funding and liquidity risk;
- investment and pricing risk;
- counterparty risk;
- strategic, business and reputation risk;
- operational risk;
- climate change risk;
- conduct risk; and
- licence and regulatory risk.

An integral part of risk management for Challenger is the maintenance of a strong risk culture amongst its employees. Challenger's expectations of its employees are encapsulated in its Code of Conduct and the 'Challenger I ACT' values of:

- Act with integrity;
- Aim high;
- Collaborate; and
- Think customer.

All employees are assessed against the Challenger I ACT values as part of the annual performance review process, and this outcome contributes to their overall performance rating and individual remuneration outcomes.

Risk management framework

Challenger's Board is responsible, in conjunction with senior management, 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 the 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 that there is 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 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 the 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 CLC and the ADI bank CBL, which Challenger purchased in July 2021.

Challenger regularly assesses its risk culture through internal staff surveys and other metrics to ensure that the management of risk and day-to-day compliance remains entrenched within the way in which Challenger operates. Challenger's risk appetite statement provides that, subject to earning acceptable economic returns, it can retain exposure to credit risk, property risk, equity risk and life insurance 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;
- **property risk** – is the potential impact of movements in the market value of property investments on Challenger's income and includes leasing and tenant default risk which may impact the cash flows from these investments;
- **equity risk** – is the potential impact of movements in the market value of listed equity investments, unlisted equity investments and investments in alternative and relative value strategies. Alternative and absolute return strategies are generally uncorrelated to listed equity market returns. Challenger holds equities as part of its investment portfolio in order to provide diversification across the investment portfolio; and
- **life insurance risk** – represents both longevity risk and mortality risk. Through selling lifetime annuities and assuming wholesale reinsurance agreements, CLC takes longevity risk, which is the risk that 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 risk on its wholesale mortality reinsurance business.

Challenger seeks to minimise the risks for which it does not consider an appropriate return can be generated. These risks include:

- **foreign exchange risk** – is the risk of a change in asset values as a result of movements in foreign exchange rates. Challenger may take foreign exchange risk as part of an overlay strategy to reduce risk given the procyclicality of the AUD;
- **interest rate risk** – is the risk of fluctuations in Challenger's earnings arising from movements in interest rates;
- **inflation risk** – is the risk of fluctuations in Challenger's earnings from movements in inflation rates;
- **operational risk** – is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events; and
- **regulatory and compliance risk** – is the risk of legal or regulatory sanctions or loss as a result of Challenger's failure to comply with laws, regulations or regulatory policy applying to its business.

Further details on Challenger's approach to risk management are included in Section 5 of this report.

Sustainability

Driven by our purpose of providing customers with financial security for a better retirement, Challenger is committed to creating a sustainable future for our customers, people, shareholders and wider stakeholders.

Challenger is a unique business with an opportunity to improve the financial outcomes of Australians in retirement. Our Life business is Australia's leading provider of guaranteed income, and our Funds Management business is one of the country's largest active funds managers, offering a diverse range of products and managers. We manage approximately $100 billion[1] on behalf of our clients across a range of asset classes, including fixed income, equities, commercial real estate, private assets and alternatives.

Key points

Significant improvement to Challenger's ESG approach

Enhanced ESG governance and Board oversight

Commitment to evolving ESG practices in line with stakeholder expectations

Over the last year, Challenger has undertaken a comprehensive review of our sustainability approach and ESG performance to ensure we remain aligned to current and future international and domestic standards, regulation and legislation.

This year's Sustainability Report has been restructured to align with the Task Force on Climate-Related Financial Disclosures' (TCFD) four thematic areas. These represent the core elements of how organisations such as Challenger operate, and includes a focus on risk management, strategy, governance, and metrics and targets. We recognise that the TCFD focuses on climate; however, this report covers a wider range of sustainability initiatives and our ESG performance.

Challenger's sustainability strategy reflects our most material environmental, social and governance opportunities. Activity across our four pillars – responsible investment, financially resilient customers and communities, doing things right and constructive policy settings – is outlined in the Strategy section of the report.

Progressing our ESG journey

Over the last year, Challenger has taken significant steps to better understand our current ESG performance against our purpose, operating model and core business activities.

This included the completion of a comprehensive ESG review (the review) covering technology systems, data maturity, governance practices, risk identification and ESG-related decision-making processes. The review benchmarked our current state against a range of stakeholder perspectives, including institutional clients, regulators, the Australian Government and proxy advisers. This provided a comprehensive understanding of areas where Challenger could improve its ESG practices over time. Following this review, we commenced a range of initiatives which are outlined in this year's Sustainability Report.

1. As at 30 June 2023.

The road ahead

The review has informed focus areas that Challenger will progress, including:

- **Carbon neutrality** – we will develop a plan to reduce Scope 1 and 2 emissions in FY24, with a view to becoming carbon neutral certified.
- **Data and insights** – We will continue to improve the quality and expand the coverage of ESG data, particularly relating to climate and financed greenhouse gas emissions across our asset portfolio. This will enable a stronger understanding of Challenger's ESG risks and opportunities to improve investment processes and enhance better decision-making across the business.
- **Reporting and disclosure** – We will evolve our ESG reporting and align it with international frameworks such as the International Sustainability Standards Board (ISSB), Task Force on Climate-Related Financial Disclosures (TCFD), Sustainability Accounting Standards Board (SASB) and Partnership for Carbon Accounting Financials (PCAF). This will also provide a more comprehensive view of our progress.
- **Scenario testing** – We aim to develop a range of future climate scenarios and assess and quantify the impact of those scenarios on the investment portfolios and wider business operations. The insights gained will ensure Challenger can proactively manage ESG risks and opportunities that arise from these scenarios.
- **Integration into strategy and operations** – We will continue to embed ESG considerations into our strategy, decision-making and risk management approach. Uplifting our investment management systems will play a critical role in integrating ESG considerations into the day-to-day decision-making of our investment teams.

Our sustainability strategy

Challenger's sustainability strategy reflects our most material social, environmental and governance opportunities.

Activity across our four pillars is outlined in the Strategy section of the report.

Risk management and material topics

In this report, we have assessed and disclosed the risks associated with material ESG topics and described the measures taken to manage and mitigate these risks.

Key points

Clearer ESG material topics that better reflect stakeholder views and business requirements

Material ESG topics and risks linked

Expanded governance topic in this year's report

Challenger's approach to materiality

Challenger undertakes a process to identify and prioritise the most significant ESG issues for our business. A broad range of stakeholders are considered throughout the materiality process, including customers, shareholders and investors, government, regulators, industry groups, financial advisers, media, community groups and employees.

As our material issues are not expected to significantly change year to year, a full materiality assessment is conducted every three years. The full materiality assessment includes interviews and surveys with external stakeholders and quantitative and qualitative analysis of material topics. A full materiality assessment will next be undertaken in 2024. In the interim periods, including this year, we focus on qualitative analysis and engagement with key internal stakeholders such as Challenger's Leadership Team and Board Group Risk Committee.

In the 2023 materiality review we undertook the following steps:

- **Identify and define** – Our list of material topics was drawn from the nine material topics identified in the 2021 full materiality assessment. Those topics were ranked across a materiality matrix (as previously disclosed in the 2021 Sustainability Report) according to their 'importance to our business' and 'importance to our stakeholders'. This year, analysis was supplemented with inputs from the Sustainability Accounting Standards Board (SASB) material topics framework and the MSCI materiality matrix (for asset management).
- **Prioritise** – We reviewed the ranking of our material topics and assessed whether the topics were still relevant or if new topics should be included. Our analysis was informed by insights from customer and adviser surveys, proxy advisory firm guidance notes and peer group analysis.
- **Validate and disclose** – Topics were validated through forums, including the Group ESG Steering Committee, Leadership Team and individual sessions with key stakeholders including investor and client-facing teams. The final assessment was approved by the Challenger Board.

What's changed

We have taken the opportunity to make our material topics clearer, more specific and relevant to Challenger's business, and created stronger alignment to international frameworks.

The substance of Challenger's material topics has not changed significantly; however, two topics from the 2022 materiality assessment have been removed – operating environment and social equality, and community resilience. These were assessed as overlapping with other materiality topics (including business ethics and sustainable retirement income system and adequacy) and have been incorporated elsewhere in the 2023 material topic definitions.

The material topics outlined in this report will inform our ESG work program and initiatives in FY24.

Challenger's FY23 material topics

FY22 MATERIAL TOPICS	FY23 MATERIAL TOPICS	DESCRIPTION	RATIONALE
BETTER CUSTOMER OUTCOMES	**SUSTAINABLE RETIREMENT INCOME SYSTEM AND ADEQUACY**	Includes designing products with the wellbeing of individuals in mind and contributing to discussions and debates that improve the sustainability of Australia's retirement income system.	– Reflects Challenger's commitment to building a customer-centric business – Stronger alignment to Challenger's purpose – More specific to the impact of Challenger's products on its customers – Better aligns with Challenger's client objectives – Alignment to SASB
	REPRESENTATION OF PRODUCTS AND INVESTMENT STRATEGIES	Addresses issues including the transparency, accuracy, and comprehensibility of marketing statements, advertising, and labelling of products and investment strategies.	– Clearer alignment to Challenger's commitment to acting in customers' best interests – Incorporates regulator feedback and focus on product transparency – Alignment to SASB
GREAT PLACE TO WORK	**EMPLOYEE WELLBEING, DIVERSITY AND INCLUSION**	Addresses hiring and promotion practices, inclusion, diversity on the basis of race, gender, ethnicity, religion, sexual orientation, and other factors. Also includes the safety and wellbeing of our workforce and expectation that our people act in line with our IACT values.	– Specific to the people outcomes that Challenger is striving to achieve – More measurable – SASB alignment
PRIVACY AND SECURITY	**DATA PRIVACY AND CYBER SECURITY**	Addresses the management of risks related to the collection, retention, and use of sensitive, confidential and/or proprietary customer or user data. It includes social issues that may arise from incidents such as data breaches in which personally identifiable information and other user or customer data may be exposed.	– Reflects Challenger's focus on strengthening its cyber security capabilities – Addresses feedback provided by proxy advisors – More specific to changes in the cyber security landscape – Alignment to SASB
TRUST AND CONFIDENCE	**BUSINESS ETHICS**	Addresses the company's approach to managing risks surrounding ethical conduct of business, including fraud, corruption, bribery and facilitation payments, fiduciary responsibilities, conflicts of interest and misrepresentation.	– Stronger connection to business practices and regulatory settings – Alignment to SASB
	GOOD CORPORATE GOVERNANCE AND COMPLIANCE	Describes the way we act in the best interests of stakeholders through the provision of accurate and timely information, ensuring individuals are accountable for their actions, the appropriate composition and focus of the Board, preservation of shareholder rights and contemporary remuneration policies. This also describes the way we oversee and comply with regulations relevant to our business.	– Highly relevant to Challenger's business – Key focus area for stakeholders
CLIMATE CHANGE	**CLIMATE CHANGE**	Describes Challenger's commitment to supporting progress in transitioning to a low-carbon economy. This includes working with stakeholders to find ways to reduce risks and create a more resilient economy. Also covers the business' recognition that the physical and transition risks related to climate change, if not considered, will have financial impacts on our business and the wider economy.	– Climate change is incorporated into our investment decisions and overall risk management frameworks – remains a material topic
PARTNERSHIPS AND COLLABORATION	**PARTNERSHIPS AND COLLABORATION**	Describes Challenger's ability to work with governments, strategic partners, not for profits and academia to address complex ESG challenges and build consensus on important ESG issues for our business and stakeholders. It also concerns Challenger's relationships with its investors, proxy advisory firms and ability to engage with them in the interest of enhancing ESG performance.	– Highlights that collaboration and successful partnerships support our business to deliver high quality outcomes for our stakeholders – remains a material topic
INVESTING RESPONSIBLY	**INVESTING RESPONSIBLY**	Addresses the integration of ESG considerations in the management of Challenger's assets and assets managed on behalf of others, alongside pure financial considerations. This includes incorporating ESG criteria into investment analysis and actively engaging with companies to improve their ESG performance where we can make a difference.	– Highlights the importance of incorporating environmental, social and governance considerations into our investment process – remains a material topic

Risk management and material topics (continued)

Better understanding our ESG risks

By leveraging Challenger's existing risk framework and profile, we have assessed the associated risks for each of our material topics. This included reviewing our top 10 risks from the annual Board risk workshop which are reviewed throughout the year.

We also analysed more than 200 individual risks within Challenger's risk register, tagged the relevant risks against our material topics and identified mitigating actions.

This process provided a more comprehensive understanding of areas where there were gaps between our material topics and risk profile, or where further analysis was required. This is particularly relevant to risks relating to climate change, which will become a greater focus for Challenger in the years ahead.

Linking material ESG topics to our risks and mitigants

MATERIAL ESG TOPICS	ASSOCIATED RISKS	MITIGATING ACTIONS
INVESTING RESPONSIBLY	– Poor investment decisions due to lack of ESG considerations	– Responsible Investment Policy
SUSTAINABLE RETIREMENT INCOME SYSTEM AND ADEQUACY	– Failure to understand customers and their needs – Product misaligned to customer needs – Poor recognition and accommodation of vulnerable customer needs – Systems and processes inadequate in servicing customers	– Product Lifecyle Policy – Centralised Customer division focused on end-to-end customer needs – Product roadmap – Market intelligence and analysis – Review and improvement of customer journeys – Financial abuse of elders and vulnerable customers framework – Complaints management process – Customer feedback quarterly forums
BUSINESS ETHICS	– Conduct misaligned to community expectations and regulatory environment – Fraudulent activities by third party managed investments – Fraudulent activities within key operational or financial teams – Fraud, bribery or corruption with respect to major transactions – Conflicts of interest – Insider trading – Handling confidential information	– Conflicts of Interest Policy – Information Barriers Policy – Related Party Transactions Policy – Staff Trading Policy – Delegated Authorities Policy – Conduct Risk and Consequence Management Framework – Risk culture assessments and action planning – Ongoing review of Conflicts of Interest Register – Ongoing review of Gifts and Entertainment Register – Regulatory and compliance training – Consequence Management Committee
REPRESENTATION OF PRODUCTS AND INVESTMENT STRATEGIES	– False or misleading information or marketing – Incorrect or misleading corporate messaging	– All marketing material subject to approval process – Product disclosure review and approvals – Compliance reporting for distribution activities – Marketing Compliance Policy and training
DATA PRIVACY AND CYBER SECURITY	– Unauthorised access, disclosure or use of data and personal information – Risk of successful cyber security incident	– Information security controls to monitor and maintain a secure technology platform – Phishing and education campaigns – Information Security Policy – Information Retention and Storage Policy – IT Acceptable Use Policy – Privacy Policy
EMPLOYEE WELLBEING, DIVERSITY AND INCLUSION	– Inadequate support for employee health, safety and wellbeing – Inability to attract and retain the right people	– Implementation of new Employee Value Proposition – Remuneration practices approved by management and the Board – Ongoing analysis of employee engagement and feedback to action and improve employee experience – Gender targets at Group, management, leadership and Board level, which are disclosed in the Annual Report and are considered in determining variable remuneration outcomes – Employee-led Diversity and Inclusion networks – Range of employee events to support diversity – Employee Assistance Program – Mental health first aiders

Identifying and assessing climate-related risks

Climate risk refers to potential consequences that arise from climate change including physical and transition risks. As we progress our approach to assessing climate-related risks, we will focus on:

- **Data capture** – We will continue to assess the quality and coverage of our data of the asset classes we invest in. Using the Partnership for Carbon Accounting Financials (PCAF) methodology, we have commenced assessing the datasets currently available for various asset classes that comprise Challenger's total funds under management (FUM). As we begin assessing Scope 3 Financed Emissions profile, we will initially focus on the listed equities and corporate bonds asset classes.
- **Baselining financed emissions** – This will form a starting point for measuring and tracking greenhouse gas emissions associated with Challenger's investment and financing activities across the asset classes we invest in (Scope 3 Financed Emissions). With an initial focus on listed equities and corporate bonds, we will expand our analysis to additional asset classes over the next 12 to 24 months. Understanding our financed emissions will assist in target setting and informed key strategic decisions relating to climate risks and opportunities.

  The 2023 Sustainability Report includes reporting of Challenger's investment and financing activities for listed equities and corporate bonds.
- **Scenario analysis** – This will be based on a range of global climate scenarios developed by bodies such as the International Energy Agency and the Intergovernmental Panel on Climate Change, and will provide a range of potential future climate states. Scenarios will be used to evaluate the potential resiliency of our strategic plans, investment strategies and operational policies and ensure that we continue to meet legislative and regulatory requirements.

Our sustainability strategy

Responsible investment

Challenger is cognisant of the world that current and future customers will retire into, and the opportunity we have to make a positive difference through our investment activities. We believe ESG factors have an impact on the long-term performance of investment markets and company performance, and ESG integration should improve risk-adjusted returns over time.

Key points

Challenger manages approximately

~$100 billion[1]

in FUM across asset classes, including fixed income, equities, commercial real estate, private assets and alternatives

We actively consider ESG factors in our investment processes and engage with companies to improve their ESG performance and reduce investment risk

Our Responsible Investment Policy integrates ESG considerations into our investment processes

Our approach to ESG integration

Challenger takes ESG risks into consideration in our investment decision-making and ownership practices, portfolio construction and appointment of managers acting on our behalf. This approach helps Challenger build a more resilient organisation and protects the business and our customers from financial and non-financial risks.

The ESG risks and opportunities are considered across different asset classes as outlined below:

CONSIDERATIONS & EXAMPLES

Environmental

Climate change (e.g. greenhouse gas emissions, emissions trading, physical risks and opportunities, transition risks, adaptation, mitigation), biodiversity loss, building energy performance, energy consumption, pollution, natural resource use and degradation (e.g. water scarcity), land use, waste, clean technology products and services, environmental management practices and product lifecycle management.

Social

Human capital, workplace health and safety, labour relations and standards, human rights, modern slavery, demographic changes, supply chain, responsible lending, data privacy, Indigenous cultural heritage, animal welfare and community impacts.

Governance

Board composition and independence, executive remuneration and incentive plans, corporate accountability structures, compliance, negligence, bribery and corruption, conflicts of interest and related-party transactions, shareholder rights, board oversight of ESG risks, accounting and audit quality.

1. As at 30 June 2023.

Challenger's Responsible Investment Policy

Challenger's Responsible Investment Policy is reviewed annually and requires the Challenger Limited Board, ESG Steering Committee, Challenger Leadership Team and investment teams to have responsibility for integrating ESG considerations into the investment process. Senior investment leaders across Challenger also have key performance indicators (KPIs) that are linked to responsible investment and ESG integration. Performance against these KPIs is assessed as part of the annual remuneration cycle and determining investment leaders' variable remuneration outcomes.

We undertake investment activity across Challenger Life and Funds Management. Within the Funds Management business, Challenger Investment Management (CIM) and Fidante affiliates manage money on behalf of Challenger Life and third-party external clients.

The consideration of ESG factors for the Challenger investment teams is governed by the Responsible Investment Statements specific to their investment team. However, they are all governed by our overarching Responsible Investment Policy. Detailed asset class approaches to ESG integration can be found on the Challenger website. Fidante affiliates are governed by their own ESG policies and frameworks.

Challenger Life Company

The Challenger Life Company (CLC) holds $24 billion in assets under management[1]. The majority of Life's investment portfolio is either outsourced to Challenger Investment Management (CIM) or managed by external third-party managers.

CLC direct investment

Where Challenger Life makes a direct investment and is exposed to a company directly (either by way of an equity or debt investment), it will identify material ESG issues and engage with the company to discuss their ESG risk management policies, strategies, performance, disclosure and management capabilities, with the purpose of reducing the risk of the underlying investment.

ESG governance

CHALLENGER LIMITED BOARD/GRC

CHALLENGER LEADERSHIP TEAM

ESG STEERING COMMITEE

RESPONSIBLE INVESTMENT POLICY

CLC RI STATEMENT | CIM FI RI STATEMENT | CIM RE RI STATEMENT

CLC may elect not to proceed with investments where ESG risks are deemed to be high. CLC also engages with companies on its existing investments to discuss changes in ESG-related risks and may choose to divest some investments where it deems ESG risk falls outside of its risk appetite. CLC does not undertake any ESG screening on passive (index) exposures.

ESG due diligence

CLC undertakes an extensive ESG due diligence process for any third-party investment manager that it considers appointing as an external investment manager. This process is conducted by Challenger's Senior ESG Specialist and considers:

- ESG philosophy, approach and capability;
- Responsible Investment Policy and Stewardship Policy; and
- Confirmation of the Manager being or intending to be a signatory to the Principles for Responsible Investment (PRI).

Challenger expects any third-party investment manager will demonstrate:

- An acceptable level of commitment to the management of key ESG risks and opportunities, including following the PRI Principles and effectively assessing, measuring and monitoring climate risks and opportunities;
- Modern slavery risks are considered as part of the ESG integration process; and
- The application of principles of active ownership and investment stewardship, particularly in relation to proxy advisory voting and engagement.

Challenger Investment Management (CIM)

Fixed income

CIM has a systematic approach to incorporating ESG considerations into its investment process, and its specialty in private lending markets provides a greater opportunity for active engagement. CIM determines materiality by considering which ESG risks and opportunities the industry is most exposed to as well as any ESG risks and opportunities specific to the issuer itself.

CIM has developed a proprietary framework to assign a rating for ESG risk factors on each potential investment. This assessment forms a key part of the investment process. Further detail on the ratings process can be found in the CIM Responsible Investment Statement.

Strategy

Responsible investment (continued)

Real Estate

CIM Real Estate is committed to the integration of ESG considerations into its property investment decision-making and asset management. Integration of ESG practices is a part of the Real Estate team's day-to-day business operations. The climate change section of this report provides additional information on the NABERS rating outcomes achieved for the CIM Real Estate commercial office portfolio.

In April 2023, Challenger entered into an agreement with Elanor Investors Group, an Australian listed real estate investment and funds management business, to form a strategic real estate partnership. As part of the agreement, Challenger sold its Australian Real Estate business (within Challenger Investment Management) to Elanor. The transaction completed in July 2023, with the Real Estate portfolio now covered by Elanor's ESG framework.

Fidante

Fidante is a multi-affiliate platform that takes a minority equity interest in independent branded and operated funds management businesses and provides investment administration and distribution services to those businesses. Fidante affiliates offer strategies across equities, fixed income, private investments and alternative assets.

Fidante affiliate managers value responsible investment practices and integrate ESG factors into their investment processes. ESG is a core part of the due diligence process when Fidante considers partnering with a new affiliate manager, with its investment managers expected to align to Challenger's ESG values and principles, as outlined in our Responsible Investment Policy.

As part of this commitment, Fidante works with all affiliate investment teams on ESG integration. Every Fidante affiliate is a signatory of the PRI and implements their own ESG framework including ESG and Stewardship policies. Affiliates also work with the Fidante ESG team to continually enhance and upgrade their ESG practices and frameworks.

Fidante sustainable offering

Fidante has partnered with a range of affiliates that have a sustainability objective as a core part of their investment philosophy, including:

Alphinity Investment management has two sustainable funds with a focus on investments with a net positive alignment to the UN Sustainable Development Goals.

Proterra Investment Partners Asia has a strategy focused on food technologies that contribute to safe, high-quality and sustainable food products.

Cultiv8 Funds Management invests in early-stage sustainable agricultural and food technologies.

Resonance Asset Management invests in sustainable, circular and industrial infrastructure that produces renewable energy, cleans contaminated water and recovers valuable resources.

Impax Asset Management invests in opportunities arising from the transition to a sustainable economy.

Alphinity Workplace Culture Report

Following cultural issues in the resources sector, Alphinity undertook a research and engagement project to explore the related risks across the industry and deepen their understanding of the factors that drive, or mitigate, harmful behaviour within a company. Industry reports and one-on-one interviews with 10 S&P/ASX 200 companies in the mining and industrial sectors formed the basis of the investigation.

Alphinity subsequently developed a framework for investors to assess workplace culture characterised by three overarching pillars:

- **Strong governance**: A holistic safety culture driven from the top down, with Board oversight and remuneration linked to People and Culture;
- **Safe and inclusive operating environment**: A speak-up culture and strong diversity, equity and inclusion strategy integrated through the operating environment, together with effective training and awareness programs; and
- **Engaged employees**: An engaged workforce (that includes contractors under the same policies), supported by a strong engagement survey approach and transparent reporting of turnover and absenteeism data.

The Alphinity Workplace Culture Report can be reviewed here.

Strategic partnership with Proterra Asia

In FY23, Fidante formed a strategic partnership with Proterra Investment Partners Asia, a leading private equity investor focused on the Asian food and agribusiness sectors. This partnership capitalises on the growing consumer demand for safe, high-quality food products that prioritise health, nutrition, convenience, social impact and sustainability.

Cultiv8 – From the Ground Up: reimagining the food and farming system

In October 2022, Fidante partnered with Cultiv8 Funds Management, a global agricultural and food technology investment team based in Orange, regional New South Wales. The team launched the Cultiv8 Agriculture and Food Technology Fund targeting seed to series B investments in Australian and global agri-food tech companies.

Cultiv8 focuses on sustainability, investing in agricultural and food technologies, enhancing adoption to create opportunities that reimagine the food and farming system. Cultiv8 has also established relationships with Australia's leading research and development providers and industry bodies including NSW Department of Primary Industries, Meat and Livestock Australia and Grains Research and Development Corporation.

Zetifi

Zetifi has created technology to deliver last-mile connectivity solutions via long-range Wi-Fi to improve rural connectivity. Zetifi offers low-cost, easily installed and scalable wireless technology to users with poor coverage.

Zetifi's products help to transform the way regional communities live and work, enabling farmers, agribusiness and essential service providers to unlock the power of connected digital technology.

zetifi

FutureFeed

FutureFeed has created the IP behind an innovative livestock feed supplement derived from red seaweed species Asparagopsis. The active ingredient bromoform, found naturally in the seaweed, is concentrated and added to feed. Used in small quantities, the feed additive can reduce livestock methane emissions by 80% and improve feed conversion.

FutureFeed manages the IP and provides licences to seaweed producers.

FutureFeed
Nature. Science. You.

Collaborating for change

At Challenger, we engage collaboratively across the industry to effect change and advocate for our Investment Managers through our ESG, Sustainability and Distribution teams.

The ESG team actively engages with the Principles for Responsible Investment (PRI), Financial Services Council ESG Working Group, Responsible Investment Association of Australasia (RIAA) and the Investors Against Slavery and Trafficking Initiative (IAST).

Responsible Investment Association of Australasia (RIAA) – Investor Toolkit on Human Rights and Armed Conflict

Armed conflict impacts communities and investors across the world. The Russia-Ukraine conflict, with its severe economic and humanitarian consequences, highlighted the need to manage the complex financial and moral dilemmas of armed conflict in real time.

In response, Challenger engaged with the RIAA Human Rights Working Group and international experts to develop a comprehensive toolkit to empower investors and companies in safeguarding human rights and mitigating risks associated with armed conflict.

The toolkit provides detailed guidance for investors to identify where portfolio companies may be operating in a conflict-affected context, and how to identify actual and potential adverse human rights and international humanitarian law impacts. The toolkit also provides detailed guidance on how investors can engage with companies on these issues.

Our sustainability strategy

Financially resilient customers and communities

Challenger's purpose reflects our commitment to customers – to provide them with financial security for a better retirement – and is more relevant than ever given the economic and demographic shifts of the last year.

Key points

95%
Customer service satisfaction rate

Embedded new **Customer division**

Launched guaranteed fixed term annuity to direct customers

Cost of living concerns, combined with market and economic instability, mean today's retirees face far greater uncertainty. Our research and experience highlight retiree confidence is directly impacted by their sense of financial security – two-thirds of retirees expect to outlive their savings. Of those, 85% are worried about having a materially lower standard of living during retirement.

Through an improved customer experience, expanded product offering and relationships with advisers and strategic partners, Challenger is focused on providing that certainty and addressing a wider range of customer needs.

As a leading retirement income provider, Challenger also recognises the important role it plays in contributing to a more sustainable and equitable future for all Australians and is committed to supporting communities across the country.

Improving the customer experience

This year, Challenger focused on improving the customer experience as we continue to build a more customer-centric business.

Challenger established a Customer division, bringing together skills and capability from across the group. This division is now embedded with the needs of the customer at the centre of our business. The teams are focused on simplifying our operations and enhancing the way our products and solutions are delivered to customers.

In 2023, we've used digital technology to introduce new ways to materially improve the customer experience. This includes the launch of our guaranteed annuity fixed term direct, where customers or their adviser can purchase a fixed term annuity online in as little as five minutes. This initiative greatly improves the accessibility of our fixed term product, providing customers greater access to guaranteed income products.

Meeting a wider range of customer needs

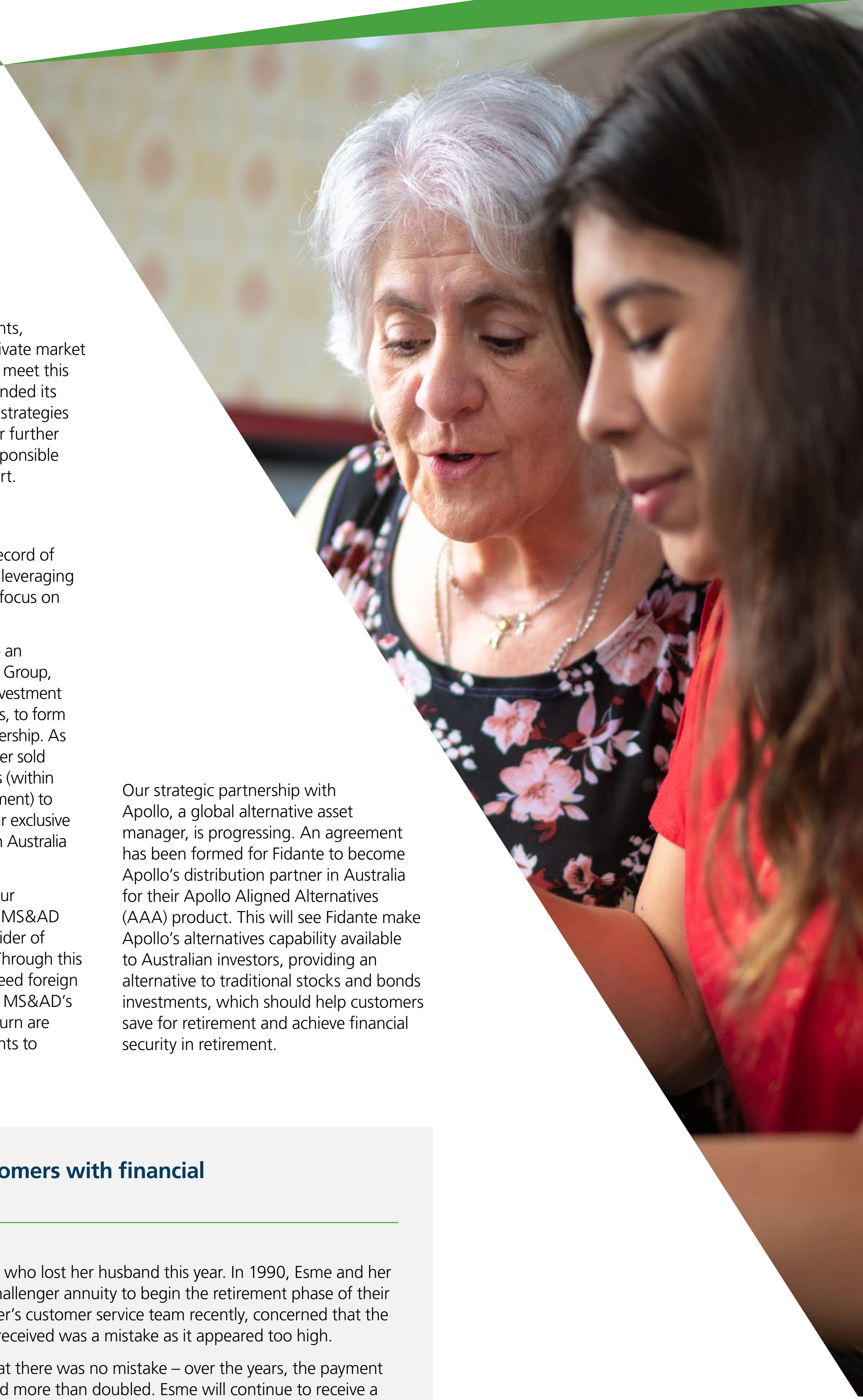
Challenger is Australia's leading provider of guaranteed lifetime annuities, offering a comprehensive suite of options from immediate to deferred payments to suit a wide range of income needs in retirement. This includes a new accelerated payment option for retirees who seek more income earlier in retirement. Our customers can also now purchase annuities that align income to the Reserve Bank of Australia cash rate, CPI or to a range of investment market indices, while also choosing the timing of when to receive those income payments.

In a changing market environment, annuities provide certainty to our customers. Challenger's annuity rates reached 10-year highs in 2023, supported by rising interest rates, with Challenger passing on higher interest rates to our customers.

In June 2023, we launched the House of Income Solutions campaign. This promoted our wide range of products suitable for different life stages and needs. This was the first time the Challenger and Fidante brands were promoted together, positioning the business as an industry leader across both savings and income categories.

Challenger is also focused on building a unique retirement solutions capability, partnering with superannuation funds to deliver lifetime income to their members. In 2023, Challenger announced a partnership with TelstraSuper to provide the lifetime income component of its retirement offering to its members, ensuring TelstraSuper members will have more options to help them achieve financial security in retirement.

Fidante continued to drive innovation to address the needs of customers in a changing market environment. Several new funds were launched throughout the year, including two new active ETFs for Alphinity – the Global Equity Funds and the Alphinity Global Sustainable Fund, highlighting our ability to respond to customers who want to transact using different vehicles.



Advisers, on behalf of their clients, are increasingly interested in private market and alternative investments. To meet this growing demand, Fidante expanded its range of alternatives, including strategies with strong ESG credentials. For further information, please see the Responsible Investment section of our Report.

Strategic partnerships

Challenger has a strong track record of building strategic partnerships, leveraging their scale and expertise as we focus on our competitive advantages.

In FY23, Challenger entered into an agreement with Elanor Investors Group, an Australian listed real estate investment and funds management business, to form a new strategic real estate partnership. As part of the agreement, Challenger sold its Australian real estate business (within Challenger Investment Management) to Elanor who has now become our exclusive commercial real estate partner in Australia and New Zealand.

Challenger continued to build our long-term relationship with the MS&AD Group, a leading Japanese provider of foreign currency life products. Through this partnership, we deliver guaranteed foreign currency returns to MS Primary, MS&AD's Japanese Life insurer, which in turn are used to support income payments to their clients.

Our strategic partnership with Apollo, a global alternative asset manager, is progressing. An agreement has been formed for Fidante to become Apollo's distribution partner in Australia for their Apollo Aligned Alternatives (AAA) product. This will see Fidante make Apollo's alternatives capability available to Australian investors, providing an alternative to traditional stocks and bonds investments, which should help customers save for retirement and achieve financial security in retirement.

Esme – providing customers with financial security in retirement

Esme is a 95-year-old customer who lost her husband this year. In 1990, Esme and her husband paid $40,000 for a Challenger annuity to begin the retirement phase of their lives. Esme contacted Challenger's customer service team recently, concerned that the $6,000 annual payment she'd received was a mistake as it appeared too high.

Esme was delighted to learn that there was no mistake – over the years, the payment had kept pace with inflation and more than doubled. Esme will continue to receive a guaranteed and increasing income for the remainder of her life.

Our sustainability strategy

Financially resilient customers and communities (continued)

Challenger partnership with the Australian Academy of Technological Sciences and Engineering

In June 2023, Challenger established a new partnership with the Australian Academy of Technological Sciences and Engineering (ATSE) to support Indigenous leadership in STEM and technological innovation.

The partnership includes sponsorship of ATSE's inaugural Traditional Knowledge Innovation Award, which recognises STEM leaders who are applying Traditional Knowledge to solve modern problems. Award winners will receive funding to support development of their innovation and mentoring from Challenger executives.

This partnership reflects Challenger's commitment to investing in knowledge and embracing innovation. Challenger also hopes to provide opportunities for Aboriginal and Torres Strait Islander people who are using Traditional Knowledge to solve some of today's many challenges for the benefit of all Australians.

Working with advisers

Challenger has built longstanding relationships with Australian advisers, working with approximately 8,000 advisers who support both our Life and Funds Management businesses.

Throughout 2023, we also continued to grow our affiliate presence on external Approved Product Lists and platforms, making our strategies more accessible to more advisers and their clients.

Advisers continued to recognise the strength of our annuities offering, with a 36% increase in the number of Australian advisers writing lifetime annuities and a 72% increase in those writing multiple policies.

We are committed to supporting adviser education, and throughout the year we held 70 retirement workshops across the country, helping financial advisers understand the financial risks and considerations their clients face in retirement and when entering aged care.

Customer feedback and taking action to improve

Challenger uses a range of tools to track, measure and report how we deliver for our customers and, importantly, what actions we can take to improve.

Overall, feedback shows customers feel heard and are highly valued. In FY23, Challenger maintained a high customer service satisfaction rate of 95% and our Net Promoter Score was 75.

Improving the customer experience and how feedback is addressed is an ongoing priority. In 2023, in response to customer feedback we launched the online application process for term annuities and laid the foundations for continuous improvement of our customer experience. We also introduced a Voice of the Customer (VOCA) forum, which meets quarterly to share customer feedback and identify and prioritise opportunities for improvement, and which is attended by senior executives including Challenger's Chief Executive, Customer.

Vulnerable customers

Challenger recognises the implications that elder financial abuse can have on customers. Our ability to effectively identify and manage the risk of financial abuse of elders and other vulnerable customers is central to our purpose.

Challenger's Financial Abuse of Elders and Vulnerable Customers Framework sets out the internal measures in place to manage these risks and how customers can protect themselves during their retirement. Supporting information has also been published on Challenger's website.

Education

Challenger is committed to helping educate older Australians on how to generate better retirement incomes and provide financial security in retirement. We undertake research and work closely with the government, community and media to drive debate on a range of issues affecting retirees.

This includes working with National Seniors Australia (NSA) to provide their members with practical guidance on financial issues in retirement. We also engage with media and retirement specific groups on how retirees can plan for and enjoy a more financially secure retirement.

Managing the impact of inflation on retirement portfolios is now rated as the top priority for investors and financial advisers. This year, Challenger's Retirement Income Research team published several research papers aimed at educating advisers on the impact of inflation in retirement, and approaches to managing it.

Community giving

Challenger supports payroll giving through the Good2Give platform. Through this platform, employees can donate to their charity of choice and Challenger will match donations up to $500 per employee each year.

Throughout FY23, total donations via the Good2Give platform were over $78,000 across 80 charities. Challenger also continues to support employees to volunteer, providing one day of leave for volunteering every year.

Foodlab Sydney – a meaningful partnership with the Challenger Real Estate team

Food entrepreneurs with high-barrier backgrounds have been given the chance to rent affordable kitchen space and grow their food business from Foodlab's shared kitchen space in Challenger's industrial estate, 'The Junction', at Enfield, Sydney.

Foodlab Sydney is a not-for-profit and self-funded social enterprise. It has evolved into a thriving mentorship program and culinary business incubator, offering a safe and professional workspace for refugee, migrant, Aboriginal Australian and low-income food entrepreneurs.

Challenger is delighted to provide Foodlab with a social value-based $1 per annum nominal rent, with a three-year lease term which commenced in June 2023.

Women up North (WUN)

In 2022, Challenger and its employees donated $30,000 to Women Up North, following the devastating floods in northern New South Wales.

WUN is a charity that provides vital services for women, children and young people who have experienced domestic violence or abuse, including servicing a number of Indigenous communities.

In 2023, Challenger continued to strengthen this partnership. Members of the team, including Challenger's CEO Nick Hamilton, visited WUN to discuss how Challenger's capabilities could help support their work and further their mission.

During the year, Challenger established a team of volunteers to support WUN, with an initial focus on activities such as refreshing their website, marketing as well as strategic planning. Additional support included sending furniture and other equipment to help re-establish the charity's premises.

Our sustainability strategy

Doing things right

Our People

Employee engagement

Our people are key to the long-term success and sustainability of our business. Building a highly motivated workforce, with a growth and commercial mindset and culture of innovation and collaboration, is a priority.

Key points

Focus on building a **collaborative, innovative, growth culture**

Commenced assessing Scope 3 Financed Emissions

Uplifted practices to **reduce modern slavery risks**

Strong commitment to **cyber security processes and governance**

One of the ways Challenger measures employee engagement is through the annual Your Voice survey – an important checkpoint after a period of organisational change where we positioned the business for the future.

In 2023, Challenger's employee engagement score was 68%, two percentage points below the Australian median. Whilst the results show that our people are engaged in Challenger's strategy and objectives, feedback highlighted opportunities to improve legacy processes and systems. Challenger has now agreed to a program of investment to improve the customer experience, which will not only improve the customer experience but will also make it easier for our people to do their jobs.

Diversity and inclusion remained strong at 89%, while 89% also believed that their manager acts in a way that is consistent with the IACT values, setting an important cultural tone for our business. 82% would also recommend Challenger as a great place to work.

OUR VALUES

Our values are the bedrock of what we do every day at Challenger – Act with Integrity, Aim High, Collaborate and Think Customer (IACT).

We recognise that to help achieve these values, our people need to feel valued, recognised and contributing to meaningful work.

EMPLOYEE VALUE PROPOSITION

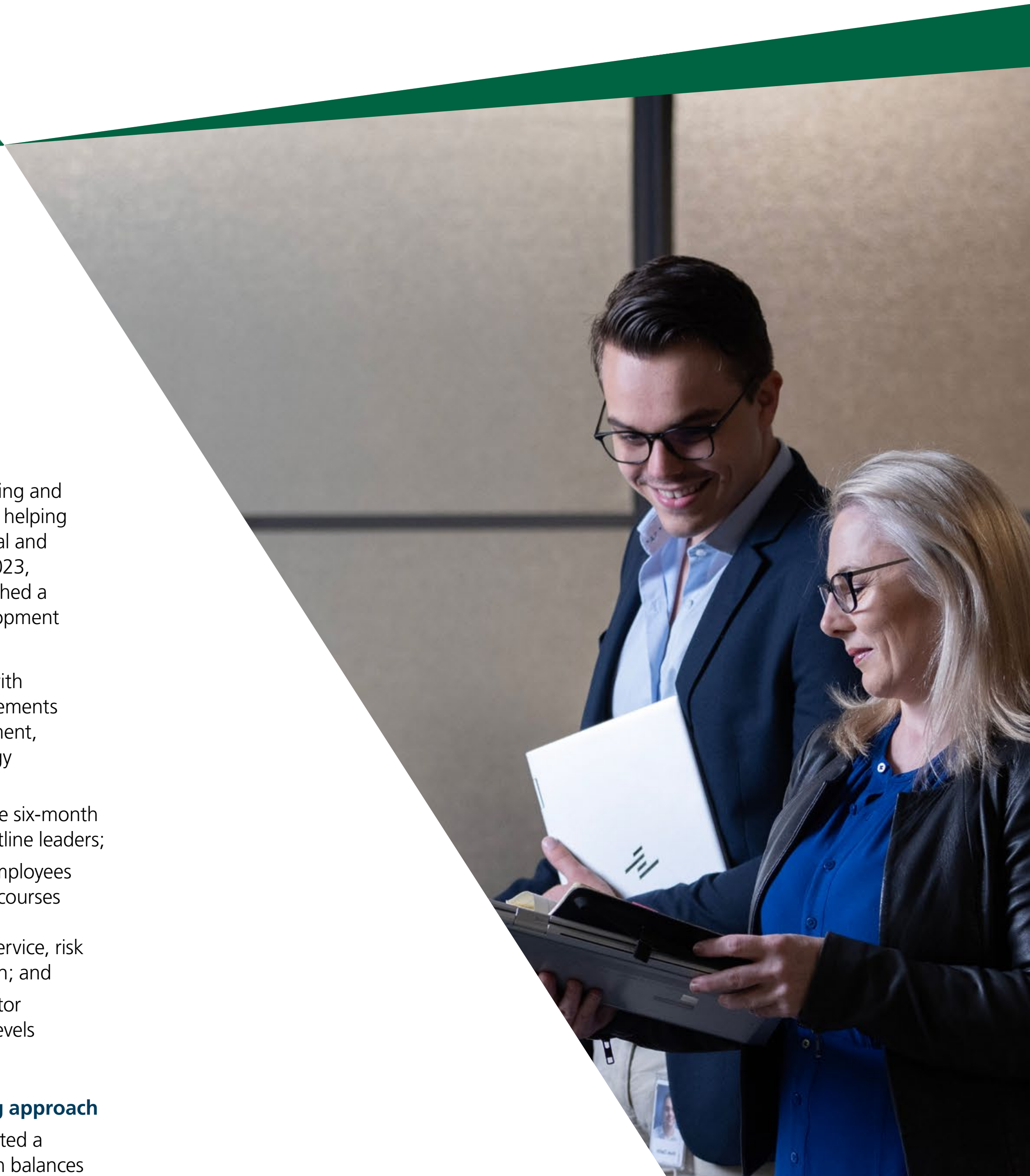
In 2023, Challenger launched its new employee value proposition (EVP) following consultation with over 120 employees from across the business. The new EVP reflects Challenger's commitment to putting its people first and is based on three pillars – grow and realise your potential; stronger together, supporting each other; and make things happen.

IMAGINATE23

In 2023, Challenger hosted Imaginate, its annual ideas forum, driven by our people with ideas to help improve outcomes for our customers and make Challenger a better place to work. This year Imaginate23 involved over 20% of our people. Ideas were themed around Unlock, Create and Simplify, with ideas focused on delivering better customer outcomes, simplifying processes and enhancing efficiency for clients and advisers. Of the 21 semi-finalist ideas pitched, 17 will progress to delivery, highlighting the calibre of pitches across the business.

Imaginate23

At this year's Imaginate, there was no shortage of innovative and creative ideas across the three themes of Unlock, Create and Simplify. This year's winning idea focused on developing a central register. Employees can provide details and resource commitments of what they perceive to be inefficient processes, which will be referred to an internal governance forum to determine whether the processes can be improved.



Learning and development

Offering a comprehensive training and development program is key to helping our people realise their potential and achieve their career goals. In 2023, Challenger launched and refreshed a program of learning and development opportunities, including:

- a new graduate program, with graduates undertaking placements across investment management, actuarial, finance, technology and marketing;
- Lead@Challenger, a bespoke six-month leadership program for frontline leaders;
- LinkedIn Learning, where employees have access to over 16,000 courses covering topics that include leadership skills, customer service, risk management and innovation; and
- a structured 12-month mentor program offered across all levels of the organisation.

Challenger's hybrid working approach

This year, Challenger implemented a hybrid working approach which balances the flexibility of hybrid working with the importance of teams coming together to implement strategy, collaborate and build engagement.

Under this approach, employees work from the office for at least three days a week, which includes a Challenger-wide day, a divisional day and an additional in-office team day. For the remaining two days of the week, employees can work remotely. This model has been informed by employee feedback, reviewing work habits and learning from best practice both in Australia and internationally.

Our values are the bedrock of what we do every day at Challenger – Act with Integrity, Aim High, Collaborate and Think Customer (IACT). We recognise that to help achieve these values, our people need to feel valued, recognised and contributing to meaningful work.

Our sustainability strategy
Doing things right (continued)

Female representation FY23

	FY23	FY23 TARGET	FY25 TARGET	FY30 TARGET
Women in all roles	**43.1%**	40–60%	40–60 %	40–60%
Women in management	**38.7%**	40–60%	40–60%	40–60%
Women in leadership team	**40%**	37.5%	40–60%	40–60%
Board	**37.5%**	33.3%	40–60%	40–60%

Focus on gender equality

Challenger is committed to achieving gender equality and the many benefits this delivers. Initiatives to help achieve this include implementation of talent management programs for high-potential females.

We recognise business outcomes can be improved through gender balance, and gender composition targets are reported to the Board monthly. In FY23, Challenger met its targets for women in all roles, women in the Leadership Team and at Board level.

Challenger's female representation across the business, management, leadership and Board level in FY23 is noted to the left.

Challenger continues to be a Workplace Gender Equality Agency (WGEA) Employer of Choice citation holder. This recognises our work to improve gender equality across areas such as leadership and strategy; developing a gender-balanced workforce, preventing gender-based harassment and discrimination, sexual harassment and bullying; and driving change beyond the workforce.

Challenger also remains a signatory to HESTA's 40:40 vision that seeks to achieve gender balance in executive leadership across all ASX 300 companies by 2030.

Challenger is a one of eight signatories to the Financial Services Council (FSC) Women in Investment Management Charter that focuses on improving gender balance in investment management teams. As a signatory, Challenger has agreed to adopt the Charter's four principles, including appointing a senior executive within the investment management team who is responsible for gender diversity and setting and reporting on internal targets.

Fidante UK is also a signatory to the UK-led Diversity Project. The Diversity Project champions a more inclusive culture within the savings and investment profession. The project aims to champion diversity in its broadest sense spanning gender, ethnicity, socioeconomic background, degree discipline, LGBTQIA+, neurodiversity, mental health, military veterans and disability.

Launch of CEO awards

This year, Challenger launched its biannual CEO employee awards program, which builds on our existing Making a Difference program, to provide additional recognition of those who go above and beyond and live our IACT values.

The calibre of nominations across the two categories – an individual CEO award and CEO One Challenger Team award – highlighted the talent across our business.

Charlotte O'Meara, Senior ESG Specialist, was the winner of the Individual CEO award. Recognised for the high quality of her work in managing ESG and sustainability initiatives, Charlotte's achievements include supporting Challenger's affiliates navigate evolving legislation, playing a crucial role in addressing client demands and progressing the ESG Steering Committee. She has also gained external recognition as one of Australia's 50 most influential corporate ESG leaders.

Diversity and Inclusion Networks

Challenger has five employee-led diversity and inclusion networks, which contribute to our diversity agenda, and recognise and celebrate the different perspectives and backgrounds of people across the business. This includes our newest diversity employee network Tessellate, focused on raising awareness, understanding and support about disability and chronic illness in the workplace.

We have also been a participant to the Australian Workplace Equality Index since 2019.

Age Inclusion	EngAGE
Gender Inclusion	Equal aGender
Cultural Inclusion	kaleidoscope
LGBTQIA+ Inclusion	together @Challenger
Disability Inclusion	tessellate

Superstars of STEM program

In 2023, Program Manager Neelima Kadiyala was selected as one of 60 women across Australia to take part in Superstars of STEM program, supported by the Federal Government's Science and Technology Association. Superstars of STEM is an innovative initiative to address gender assumptions about who can work in science, technology, engineering and maths.

As part of the program, Neelima has taken part in a wide range of initiatives including engaging with politicians at the Federal Parliament to discuss bridging the skills gap through gender equality and diversity.

Together @ Challenger LGBTQIA+ Awareness and Inclusion Training

The Together @ Challenger network highlights how the business' diversity and inclusion groups promote positive change in our workplace. In response to employee feedback, Challenger held training to provide a deeper understanding of LGBTQIA+, the challenges communities and individuals face and how to support them. The training was attended by our CEO, members of the Leadership Team and employees from across the business, and reinforces our commitment to a diverse and inclusive workplace.

Our sustainability strategy
Doing things right (continued)

Employee health, safety and wellbeing

Challenger's Work Health and Safety Policy outlines our commitment to creating a workplace that meets work health and safety obligations and protects the health, safety and wellbeing of our employees.

Whistleblowing policy

Challenger's Whistleblower Policy sets out the process for raising concerns as well as the systems in place to protect the confidentiality of individuals. We provide an independent whistleblower service to enable people to raise concerns anonymously via a range of channels. We actively encourage employees, contractors, former employees, suppliers, service providers and relatives to speak up and report any concerns of wrongdoing.

Code of Conduct

Challenger's Code of Conduct describes the expectations for how we act, solve problems and make fair and balanced decisions. It brings together our IACT values and Group policies and applies to everyone who works at Challenger, including permanent and fixed-term employees, contractors, consultants and directors, irrespective of their seniority or any other factor. The Code details expectations in the way we conduct business in a professional and honest way and how we should measure ourselves against the highest possible standards.

Modern slavery

Challenger is committed to upholding the highest possible standards of ethics in all aspects of our business.

This involves decisions about who we partner with in our supply chain or where we invest funds we manage on behalf of our clients.

We do not tolerate modern slavery in any aspect of our business operations and have worked to understand the risks we need to address and implement appropriate measures to minimise those risks.

In 2023, Challenger engaged an external human rights consultant to undertake a review of our initiatives to date, as well as provide recommendations for the future. The review concluded that whilst Challenger had laid solid foundations, a number of initiatives could be implemented to strengthen the business' approach to addressing risks related to modern slavery.

Following the review, Challenger overhauled its 2022 Modern Slavery Statement, including implementing an improved structure for addressing and assessing modern slavery risks.

Supporting this work, Challenger rolled out training for key teams to help them understand modern slavery risks and how to identify them, with over 90% of teams completing the training.

Challenger's Modern Slavery Working Group will oversee the implementation of a range of initiatives based on the review's recommendations as we continue to improve our practices and strengthen our processes, systems and controls.

Investors Against Slavery and Trafficking (IAST APAC) – Anti-Slavery Australia Collaboration Award

IAST APAC Investors Against Slavery and Trafficking Asia Pacific

In 2023, the IAST APAC initiative was honoured with the Collaboration Award at the Anti-Slavery Australia Freedom Awards. The IAST APAC initiative consists of 37 investors with a combined AUM of $8.2 trillion, and Challenger is an active participant.

IAST APAC has distributed an investor statement to ASX 200 companies on the impacts of modern slavery, including measures to mitigate modern slavery risks. IAST APAC has advocated for the funds management industry with the Government on the Modern Slavery Act review. The group also collectively engaged with companies across a wide range of sectors to push for actions to identify, address and prevent modern slavery in business practices and supply chains.

Customer complaints and disputes

Challenger's ongoing responsibility to customers requires us to be responsive to their needs, especially when things don't go to plan.

In these cases, we are focused on resolving issues as quickly as possible as well as learning from the experience. Challenger's Customer Resolution team is responsible for responding to and resolving complaints.

Our policy is to acknowledge any complaint within 24 hours or as soon as practicable. We investigate, properly consider and decide how we intend to resolve a complaint and communicate our decision to customers within 30 days (45 days if customers invested with superannuation monies). In many instances, we resolve the complaint to the customer's satisfaction within 24 hours.

Our number of customer complaints continued to decrease. We recorded 195 complaints in 2023, an improvement from 225 complaints in 2022, that's approximately 18 complaints per month; less than one every working day, and approximately 60% of complaints are closed in one day.

Customer complaint trends also contain important insights into the root causes of customer pain points. These insights are shared in a range of customer management forums and have delivered initiatives that strengthen our processes and the overall customer experience, including improvements to the ways we communicate with customers.

Cyber security

In 2023, Challenger continued to strengthen its cyber security capabilities. We ensure every possible effort is made to protect the security of our customer's information via a range of mechanisms.

Governance

Challenger's Board has ultimate responsibility and oversight of our information security controls and practices. The Board's Group Risk Committee formally discusses information security every quarter, reviewing the health of our security controls, including their overall effectiveness, external factors such as emerging threats and the impact of strategy decisions on information security. The Board endorses Challenger's information security strategy and approves ongoing funding in response to changes to the threat landscape.

The Board is supported by a management-led security risk and governance committee whose membership includes the Chief Risk Officer, Chief Executive Technology, the Chief Information Security Officer and other senior members of the risk and technology functions. Cyber security subject matter experts provide day-to-day oversight of our security environment and controls, and the Risk and Internal Audit functions independently assure the security-related processes.

Risk management

Our cyber security team are responsible for designing and implementing a range of security processes and controls. They drive a strong cyber security culture, including preparing our employees for cyber security attacks, simulated phishing exercises as well as regular testing of risk controls. All employees undertake mandatory cyber security training each year and awareness programs are regularly included in employee communications. Our processes also include technical reviews of projects and technology solutions, and due diligence of third parties, to ensure robust security practices and controls exist and present acceptable risk to Challenger.

Continuous improvement

Challenger adopts a continuous improvement approach to information security management. We use a range of technologies and security activities to minimise the likelihood and impact of a cyber incident. Technologies include advanced endpoint threat detection and response software, and activities such as regular penetration testing to test our ability to resist and attack. Challenger also conducts routine simulations with the Board, Leadership Team and Crisis Management Team to test our preparedness to respond to a cyber security incident and identify areas for improvement.

No material cyber security breaches were experienced during FY23. Our protection mechanisms ensured almost six million emails containing malware and phishing threats were filtered out of Challenger's systems over a 90-day period alone, highlighting the robustness of our security settings.

Fraud and corruption

Challenger is committed to the highest ethical standards.

We have zero tolerance for fraud and corruption in any form both within the organisation and in relation to our external partners.

Our fraud and corruption policy and controls are overseen by the Board Group Risk Committee and all employees have a role to play in fraud and corruption control. Our fraud and corruption policy prohibits our people from inducing, receiving, facilitating or making payments which can be constituted as a bribe.

Our sustainability strategy
Doing things right (continued)

Tax transparency

Challenger is committed to paying its fair share of taxes and we take our obligation to comply with prevailing taxation laws, practices and reporting requirements seriously.

Our tax charter governs how tax is managed within the organisation and outlines Challenger will manage its tax obligations in a sustainable way, considering the commercial and social imperatives of the business and our stakeholders.

Challenger's tax charter and tax risk governance is embedded in the broader Challenger risk governance frameworks and is reviewed and approved by the Challenger Board on a biannual basis. Challenger does not knowingly participate in the avoidance of tax or facilitate and/or promote the avoidance or evasion of tax by a third party.

Most of the tax paid by the Group is to the Australian Taxation Office (ATO). The Group seeks to maintain a 'high assurance Justified Trust' over income tax and GST with the ATO. Under the ATO Justified Trust framework, the Group reports all significant transactions, risks and other issues to the ATO on a regular basis, and issues are resolved with the ATO in a constructive manner.

More detailed information is available in the Tax Transparency section of the 2023 Challenger Annual Report.

Climate

Challenger believes climate change will impact every part of the economy. We recognise the importance of supporting the transition to a low-carbon economy and are working with peers, clients, industry and the regulators to reduce risks and create a more sustainable economy.

Climate change presents a range of physical and transition risks to our business, the investments we manage and the wider community. Such risks are incorporated into our investment decisions and overall risk management frameworks.

Climate is also a key consideration in our investment due diligence processes for the Life, Fixed Income and Real Estate portfolios, as outlined in their Responsible Investment statements.

Operational greenhouse gas emissions

At Challenger, we're committed to measuring, monitoring and reducing our operational greenhouse gas emissions. We have partnered with NDevr Environmental to calculate our emissions to ensure the calculation aligns with industry practice.

Overall, Challenger's emissions have increased by 4% over the past year, reflecting employees continued return to the office under our hybrid working approach and corporate travel resuming following pandemic lockdowns in recent years.

Reflecting this, emissions relating to flights and accommodation increased in FY23; however, they were down 48% and 45% respectively on pre-pandemic levels (FY20).

Emissions from electricity, postage and brand promotion also reduced further in FY23.

Scope 3 Financed Emissions

Challenger recognises measuring financed emissions is an important consideration in managing climate related risks and opportunities. In 2023, we undertook preliminary work to understand the Scope 3 Financed Emissions across our portfolio, initially focusing on listed equities and corporate bonds.

ASSET CLASS	PORTFOLIO WACI (tCO_2e/\$A'm) SCOPES 1 AND 2	BENCHMARK WACI (tCO_2e/\$A'm) SCOPES 1 AND 2	PCAF RATING
Corporate bonds	27.94	27.30 iBoxx $ Liquid Investment Grade Index	3.50
Listed equities	52.00	60.72 S&P/ASX 300 Accumulation Index	3.50

1. Fidante holds a minority stake in the large majority of its affiliates and acts as Responsible Entity for the majority of products. On investment management, this function is outsourced to the affiliates.
2. The calculations for listed equities exclude Funds Management mandates.
3. Portfolio and Benchmark WACI refers to weighted average carbon intensity in tCO_2e/\$A'm invested as calculated using Emmi Solutions Pty Ltd proprietary forecasting methodology.

SCOPE 3 FINANCED EMISSIONS METHODOLOGY

Challenger's normalised financed emissions measurement covers Scope 1 and 2 emissions for the investments that sit within the asset classes noted above.

Our attributed emissions for listed equities and corporate bonds are calculated in accordance with the Partnership for Carbon Accounting Financials (PCAF) methodology and apportions the percentage of carbon emissions to the financial institution based on the level of ownership of equity or debt of the investment.

Working with our financed emissions partner, Emmi, we have constructed data based on portfolio holdings as at 31 May 2023, using machine learning models trained on historical reported and verified emissions.

Machine learning estimates provide data for the specified reporting period across all covered holdings. This provides a comprehensive and up-to-date picture of financed emissions for Challenger's listed equities and corporate bond portfolios.

As Challenger undertakes initial work to understand its Scope 3 Financed Emissions, we have focused on data with a better PCAF quality rating to ensure our reporting reflects usable and accurate information, noting that 1 reflects the highest rating and 5 is the lowest. The overall PCAF rating for the asset classes selected is 3.50.

Challenger is committed to extending the coverage of its portfolio emissions measurement as new emissions methodologies are developed and as data availability, methodologies and data quality continue to improve.

Real Estate office portfolio – NABERS ratings uplift

Challenger Investment Management has undertaken capital expenditure works across a number of properties in the office portfolio, demonstrating the team's commitment to address the ESG risks and opportunities arising from climate change. This work has also positively impacted both the NABERS energy and water ratings of individual buildings.

In 2018, the commercial office portfolio achieved an average NABERS energy rating of 3.95 stars and over the past five years this has improved to an average of 4.9 in 2022. In 2018, the average NABERS water rating achieved was 3.3 stars, improving to an average of 4.45 stars in 2022.

Our sustainability strategy

Constructive public policy settings

Policy advocacy

Challenger plays an active role in advocating for public policy and reforms that are in the best interests of our customers, shareholders and wider stakeholders. This year, we have been at the forefront of discussions relating to Australia's superannuation and retirement income system.

Key points

Challenger has advocated for reforms to improve affordability and access to financial advice

Supported Federal Government's move to **place retirement income at the centre of its proposed Objective for Superannuation**

Participated in a range of consultations focused on **improving the quality of climate risk disclosures**

We undertake direct advocacy with members of parliament, relevant Federal Government departments such as the Treasury, and regulatory agencies, such as the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC), on matters of policy that impact our business and customers.

Financial advice policy

Challenger supported the Federal Government's proposals to reform financial advice regulations under the Quality of Advice Review. We strongly agree that simplifying the financial advice regulatory framework will better enable the provision of high-quality, accessible and affordable financial advice.

In its submission, Challenger also explained that low financial literacy and a misunderstanding of the intent of superannuation have meant Australians are not adequately planning for their retirement and are limiting the value they can generate from their assets during retirement.

Superannuation policy

Challenger has been a strong advocate of retirement income reforms that will enhance the lives of older Australians.

We supported the Federal Government's plan to legislate an objective for superannuation that will give guidance to policy makers to prioritise the provision of retirement income. We also believe the objective should contribute to the financial wellbeing and sustainability of retirement incomes for the growing number of Australian retirees, creating significant economic and social policy benefits.

Climate disclosure policy

Treasury consultation – Climate-related financial disclosures

Challenger, through its active membership of the Financial Services Council, plays a key role in Treasury's consultations on the proposed climate-related financial disclosure regime.

The proposed climate risk disclosure regime aims to help Australian companies and investors mitigate the risks and maximise the opportunities arising from climate change. The proposed approach includes mandatory reporting on a range of climate-related areas including emissions (Scopes 1 to 3), risks and scenarios.

Challenger will be included in the first phase of mandatory reporting, and meeting these proposed obligations will form a core part of our future ESG work program.

International Sustainability Standards Board (ISSB)

The ISSB's final standards aim to provide a comprehensive global baseline of sustainability disclosures for investors and financial markets. International Financial Reporting Standards (IFRS) Foundation S1 General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2 Climate-related Disclosures were released in June 2023.

IFRS S1 aims to help companies communicate the sustainability-related risks and opportunities they face over the short, medium and long term. IFRS S2 sets out specific climate-related disclosures and is designed to be used with IFRS S1.

Australian Government's sustainable finance agenda

Challenger intends to play an active role in the development of the Federal Government's Sustainable Finance Strategy. The strategy will examine options and priorities for addressing key data challenges relating to ESG and provide clearer guidance in these areas.

Political donations

Challenger seeks to strike the right balance between our commitment to a robust ESG framework, our constructive involvement in the Australian Government's policy-making agenda, and protection of our employees' freedom of political communication.

Challenger does not make political donations to any political party, member of parliament, elected official or candidate for political office. Employees, directors and contractors are not permitted to attend political fundraising events as a representative of Challenger.

Challenger is committed to engaging with political parties and members of parliament in a bipartisan way to progress its advocacy efforts both directly and indirectly through industry associations.

Industry groups

Challenger participates in a range of finance and sustainability-focused industry groups. We are committed to working with these stakeholders through our membership, and participation in policy committees and consultations.

Governance

Challenger understands that our customers place their trust in us to help provide long-term security during retirement. We take this responsibility seriously and believe good governance plays a key role in achieving our purpose.

Key points

Improvements to governance and oversight of ESG across Challenger

Reinvigorated Challenger's ESG Steering Committee to **improve decision-making and focus**

Recognising the increased importance of ESG issues to Challenger and our stakeholders, we have enhanced our framework for ESG governance to ensure efforts are co-ordinated across the business.

Board oversight

Challenger's Board plays a vital role in ESG governance. It provides oversight, strategic guidance and accountability to ensure the company's ESG practices align with overall business strategy and stakeholder expectations.

The Board skills matrix shows Board members have a high level of competency across areas of expertise relevant to ESG and Challenger's business, including customer, corporate governance, public policy, risk, strategy and people.

At a minimum, ESG is discussed and considered at each Board Group Risk Committee meeting. The Board receives regular reports from management through the Group ESG Steering Committee. Both the GRC and Board consider and oversee specific ESG issues, which have included cyber security, modern slavery, diversity and inclusion.

The Board also considered the internal review of Challenger's ESG approach and endorsed changes proposed to the way ESG is overseen and operationalised in the business.

Leadership team oversight

The Leadership Team's commitment to ESG governance focuses on driving sustainable practices, promoting responsible business behaviour and enhancing long-term value creation for both the company and its stakeholders.

ESG issues are discussed as part of the Leadership Team's engagement with a range of stakeholders and feedback is incorporated into Challenger's ESG materiality assessments and associated responses.

Group ESG Steering Committee

In 2023, Challenger initiated a review of its Group ESG Steering Committee to orientate its focus more strongly towards Challenger's core business activities and their impact on ESG issues.

Chaired by Challenger's General Manager Corporate Affairs and Sustainability, the Group ESG Steering Committee meets monthly and includes senior executives such as Challenger Life's Chief investment Officer, the Group Chief Risk Officer and representatives from Funds Management and Finance. Its revised remit involves assisting Challenger's Leadership Team and Board to develop the Group's ESG strategy, initiatives to implement the strategy, reporting on ESG risks and associated controls, and external assessment of the Group's ESG performance.

First line of defence – role in enhancing ESG approach

The role of the first line of defence is to incorporate and oversee ESG considerations into Challenger's day-to-day operations and business activities. The first line of defence plays a crucial role in implementing and managing Challenger's ESG practices and initiatives include:

Integration of ESG factors

Responsible for integrating ESG factors into operational and investment processes, systems and decision-making. Challenger Life Company, Challenger Investment Management and Fidante consider ESG factors and apply ESG risk ratings to all material transactions. ESG reviews are conducted by Challenger's Senior ESG Specialist whose findings are considered by the CEO of the relevant business division. For further information, please see the Responsible Investment section of this report.

Risk identification and management

Identifies ESG risks relevant to their operations and assesses their impact. They develop and implement risk management strategies and controls to mitigate those risks.

Compliance and regulatory adherence

Ensures compliance with ESG regulations, laws and standards and establishes processes and practices. This has included a business review of all market-facing documentation to ensure ESG representations contained in Challenger's products are accurate.

Performance assessment and reporting

Collects and analyses data on the company's ESG performance such as energy consumption, employee diversity, health and safety. The data is incorporated into reporting at business unit, group, leadership and Board level and is used to measure and track progress, initiate improvement opportunities and fulfil external reporting requirements.

ESG training and awareness

Initiates and participates in ESG training and awareness programs to promote a culture of ESG awareness and encourage employees to contribute to ESG objectives. This includes monthly ESG podcasts, lunch and learn sessions, external presentations and specific training in targeted areas such as modern slavery.

Remuneration

We recognise the importance of culture to the long-term sustainability of our business.

This has become increasingly prevalent as the business prepares for the implementation of APRA's new prudential standard on remuneration, CPS 511, which will ensure entities maintain remuneration arrangements that appropriately incentivise individuals to manage risk and apply consequences for poor risk outcomes.

Challenger has undertaken extensive planning for the standard, which became effective from 1 July 2023 for our business. In particular, the Board has reviewed a range of non-financial measures to meet our CPS 511 obligations and determined that including a culture measure as part of the long-term incentive (LTI) plan will focus our leaders on protecting and strengthening our culture and support the long-term sustainability of our business. This measure will be assessed using a suite of key metrics (including risk culture, employee engagement scores and specific culture-related questions from the engagement surveys).

These metrics have been measured internally for a number of years, are quantifiable and can be benchmarked externally to other Australian financial services organisations. The Board will also review these metrics in conjunction with relevant operational metrics at the end of the performance period, ensuring no unintended or adverse outcomes are rewarded.

Group policies

Challenger has a suite of policies that guide our business practices. These are reviewed regularly and enhanced to ensure regulatory changes, current issues and trends are captured and considered.

These include:

Anti-Money Laundering and Counter Terrorism Financial policy
Code of Conduct
Conflicts of Interest policy
Continuous Disclosure policy
Discrimination and Harassment policy
Financial Abuse of Elders and Vulnerable Customers framework
Fraud and Corruption policy
Gifts, Benefits and Entertainment policy
Group Compliance policy
Group Information Security policy
Human Rights statement
Inside Information policy and Practice Note
IT Acceptable Use policy
Political Donations policy
Privacy policy
Regulated Persons policy
Risk Appetite statement
Social Media policy
Staff Trading policy
Whistleblower policy
Work Health and Safety policy
Workplace Bullying policy

Metrics and targets

Environment

2023 greenhouse gas emissions

EMISSIONS	UNITS	SOURCE DATA	2023 tCO_2-e	2022 tCO_2-e
Scope 1				
Natural gas	GJ	676.74	34.87	40.67[1]
Total Scope 1	**GJ**	**676.74**	**34.87**	**40.67**
Scope 2				
Electricity	MWh	948.81	670.91	660.03
Total Scope 2	**MWh**	**948.81**	**670.91**	**660.03**
Scope 3				
Utilities				
Natural gas	GJ	676.74	8.87	10.34
Electricity	MWh	948.81	56.39	75.30
Electricity (base building)	MWh	716.44	614.47	714.87
Water	ML	0.09	13.87	2.28
Equipment & services				
Paper	tonnes	3.59	9.16	4.60
Printing	$0 (000)	337.42	87.01	321.47
IT equipment	$0 (000)	12,259.51	1,700.58	1,817.48
Postage & couriers	$0 (000)	223.41	52.85	80.04
Brand promotion	$0 (000)	491.59	59.04	306.42
Travel & commuting				
Accommodation	occupancy nights	1,218	40.24	27.87
Flights	(000) km	6,442.42	882.13	352.19
Employee commuting	(000) km	2,946.89	505.52	142.48
Taxis and hire cars	(000) km	125.28	25.05	9.96
Food & beverage				
Food and catering (from major events)	$0 (000)	407.87	81.10	81.83
Waste				
Landfill	tonnes	3.57	4.13	3.17
Working from home				
Working from home	tCO_2-e	210.61	151.71	148.85
Total Scope 3			**4,292.12**	**4,099.14**
Overall total			**4,997.90**	**4,799.85**

1. Note FY22 natural gas emissions and corresponding calculations have been restated:
– FY22 Scope 1 natural gas, 789.22GJ, 40.67 tCO_2-e;
– Total Scope 3 4,099.14 tCO_2-e; and
– Overall total emissions, 4,799.85 tCO_2-e.

People

Employee profile

Number of employees

	FTE	HEADCOUNT
Overall total	817.71	**837**

Employees by contract type and gender

CONTRACT TYPE	FEMALE	MALE	NOT SPECIFIED	TOTAL
Permanent				
Full time	268	463	3	734
Part time	55	8	0	63
Fixed term				
Full time	16	19	0	35
Part time	3	2	0	5
Total	**342**	**492**	**3**	**837**

Contingent workers by type

CONTRACT TYPE	TOTAL
Agency contractor	171
Independent contractor	25
Intern – contingent worker	2
Total	**198**

Parental leave return rate

	FEMALE	MALE
Employees who took parental leave during the period[1]	27	44
Employees who returned to work during the period, after parental leave during the prior 12-month period	14	26
Employees who returned to work after parental leave in the prior 12-month period[2]	93%	100%
Parental leave attachment rate (%)[3]	57%	94%

1. Commenced leave between 1 July 22 and 30 June 23.
2. Commenced leave between 1 July 21 and 30 June 22, and returned from leave before 30 June 23.
3. Returned from leave between 1 July 21 and 30 June 22, and remained employed on 30 June 23.

Metrics and targets (continued)

Employees by region and gender

REGION	FEMALE	MALE	NOT SPECIFIED	TOTAL
Adelaide	1	2	0	3
Brisbane	8	10	0	18
Hobart	0	1	0	1
Melbourne	20	36	0	56
Perth	2	3	0	5
Sydney	303	414	3	720
London	3	15	0	18
Tokyo	3	9	0	12
Other	2	2	0	4
Total	**342**	**492**	**3**	**837**

Employees by age group

AGE GROUP	TOTAL
Under 30	133
30–39	256
40–49	317
50–59	105
60 and over	26
Total	**837**

New hires by age group

AGE GROUP	TOTAL
Under 30	65
30–39	60
40–49	42
50–59	15
60 and over	3
Total	**185**

New hires by region and gender

REGION	FEMALE	MALE	NOT SPECIFIED	TOTAL
Adelaide	0	1	0	1
Brisbane	2	2	0	4
Melbourne	7	4	0	11
Sydney	83	76	1	160
London	2	5	0	7
Tokyo	0	2	0	2
Total	**94**	**90**	**1**	**185**

Voluntary turnover by age group

AGE GROUP	TOTAL
Under 30	20
30–39	29
40–49	21
50–59	7
60 and over	1
Total	**78**

Voluntary turnover by region and gender

REGION	FEMALE	MALE	TOTAL
Adelaide	1	0	1
Brisbane	0	1	1
Hobart	2	0	2
Melbourne	2	3	5
Sydney	24	42	66
London	1	0	1
Tokyo	0	1	1
Other	0	1	1
Total	**30**	**48**	**78**

Internal employee movement by gender

	FEMALE	MALE	NOT SPECIFIED	TOTAL
Transfer	21	26		47
Secondment	14	11		25
Promotion	51	73	1	125
Total	**86**	**110**	**1**	**197**

Employee safety and wellbeing

WORK HEALTH AND SAFETY	2022	2023
Lost time injury frequency rate (days)	0.67	0
Workers compensation claims	2	1
Absenteeism days per FTE	2.06	3.23
Fatalities	0	0
Work health and safety training	423	487

Directors' Report

Directors' experience and responsibilities

The names and details of the Directors of the Company holding office during the financial year ended 30 June 2023 and as at the date of this report are listed below. Directors were in office for the entire period, unless otherwise stated.

Duncan West

Independent Chair

Appointed 10 September 2018

Chair of Nomination Committee.

Member of the Group Audit Committee, Group Risk Committee and Group Remuneration Committee.

Experience and qualifications:

Bachelor of Science in Economics (University of Hull, Hull, United Kingdom), Fellow of the Chartered Insurance Institute, member of the Australian Institute of Company Directors and a Senior Associate of the Australian and New Zealand Institute of Insurance and Finance.

Mr West has over 30 years experience in financial services in the UK and Australia. He has held a series of senior executive positions including as CEO of Vero Insurance and CGU Insurance, and as EGM of Insurance at MLC.

Directorships of other listed companies:

Non-Executive Director of Helia Group Limited (formerly Genworth Mortgage Insurance Australia Limited) (appointed 1 September 2018) and Suncorp Group Limited (appointed 23 September 2021).

Nicolas Hamilton

Managing Director and Chief Executive Officer

Appointed 1 January 2022

Experience and qualifications:

Masters of Business Administration (Henley Business School, Reading, United Kingdom) and Bachelor of Economics (University of Sydney).

Mr Hamilton has previously held a number of senior executive roles at Challenger since joining in 2015, including Chief Executive, Funds Management.

Mr Hamilton has over 26 years financial services experience. Prior to joining Challenger, he held senior roles at Invesco in Europe and Colonial First State where his primary responsibilities included leading and expanding global fund teams and building out their global equities and multi-asset capability.

Directorships of other listed companies:

Not applicable.

John M Green

Independent Non-Executive Director

Appointed 6 December 2017

Member of the Group Audit Committee, Group Risk Committee, Group Remuneration Committee and Nomination Committee. Chair of Challenger Bank Limited.

Experience and qualifications:

Bachelor of Laws and Bachelor of Jurisprudence (UNSW), Fellow of the Australian Institute of Company Directors and Life Member and Senior Fellow of FINSIA.

Mr Green was previously an executive director at Macquarie Group, Deputy Chair of QBE Insurance Group and has also been a partner at two major law firms. He is a Director of Cyber Security Cooperative Research Centre and UOW Global Enterprises and also a novelist and co-founder of book publisher Pantera Press.

Directorships of other listed companies:

Non-Executive Director of QBE Insurance Group Limited (appointed 1 March 2010, appointed Deputy Chair 1 January 2015 and retired 5 May 2022).

Steven Gregg

Independent Non-Executive Director

Appointed 8 October 2012

Member of the Group Audit Committee, Group Risk Committee, Group Remuneration Committee and Nomination Committee.

Experience and qualifications:

Bachelor of Commerce (University of New South Wales).

Mr Gregg has held a number of executive roles in management consulting and investment banking. His more recent senior executive roles included Partner and Senior Adviser at McKinsey & Company and Global Head of Investment Banking at ABN AMRO. His experience has spanned both domestic and international arenas, because of his work in both the US and the UK.

Directorships of other listed companies:

Non-Executive Director of Tabcorp Holdings Limited (appointed 18 July 2012, appointed Chair 1 January 2021 and resigned 31 May 2022), Ampol Limited (formerly Caltex Australia Limited) (appointed 9 October 2015 and appointed Chair 18 August 2017) and The Lottery Corporation Limited (appointed Director and Chair 20 May 2022).

Masahiko Kobayashi

Non-Executive Director

Appointed 26 August 2019

Experience and qualifications:

Master of Business Administration (Questrom School of Business, Boston University, Boston, United States), Bachelor of Law (Kyoto University, Kyoto, Japan) and is a Certified Internal Auditor.

Mr Kobayashi has over 30 years expertise in general and life insurance and is currently Director and Senior Executive Officer (Enterprise Risk Management and Investment Risk & Operations Management) of MS Primary, a subsidiary of MS&AD Insurance Group Holdings Inc. Prior to joining MS Primary, he held a number of executive and director roles within the MS&AD Group, including in Singapore and the United Kingdom.

Directorships of other listed companies:

Not applicable.

Heather Smith

Independent Non-Executive Director

Appointed 20 January 2021

Chair of the Group Audit Committee. Member of Group Risk Committee and Nomination Committee.

Experience and qualifications:

Bachelor of Economics (Hons 1) (University of Queensland), PhD in Economics (Australian National University).

Dr Smith has over 20 years experience in government, including as Secretary of the Australian departments of Industry, Innovation and Science, and Communications and the Arts, and as Deputy Secretary of the Department of Prime Minister and Cabinet and Foreign Affairs and Trade. She is a Professor at ANU National Security College, National President of the Australian Institute of International Affairs and a recipient of the Public Service Medal.

Directorships of other listed companies:

Non-Executive Director of ASX Limited (appointed 29 June 2022).

JoAnne Stephenson

Independent Non-Executive Director

Appointed 8 October 2012

Chair of the Group Remuneration Committee.

Member of the Group Audit Committee, Group Risk Committee and Nomination Committee.

Experience and qualifications:

Bachelor of Commerce and Bachelor of Laws (Honours) (University of Queensland), member of Chartered Accountants Australia and New Zealand and member of the Australian Institute of Company Directors.

Ms Stephenson has extensive experience in financial services both in Australia and in the United Kingdom. Ms Stephenson was previously a partner with KPMG and has significant experience in internal audit, risk management and consulting.

Directorships of other listed companies:

Non-Executive Director of Asaleo Care Limited (appointed 30 May 2014 and ceased 1 July 2021), Japara Healthcare Ltd (appointed 1 September 2015 and resigned 5 November 2021), Myer Holdings Limited (appointed 28 November 2016 and appointed Chair 16 September 2021) and Qualitas Limited (appointed 4 November 2021).

Melanie Willis

Independent Non-Executive Director

Appointed 6 December 2017

Chair of the Group Risk Committee.

Member of the Group Audit Committee and Nomination Committee.

Experience and qualifications:

Bachelor of Economics (University of Western Australia), Master of Law, Tax (University of Melbourne) and a Fellow of the Australian Institute of Company Directors.

Ms Willis has significant senior executive experience in corporate finance, strategy and innovation and funds management. Ms Willis previously held the position of Chief Executive Officer of NRMA Investments and senior executive roles at Deutsche Bank and Bankers Trust. She is also a Non-Executive Director of PayPal Australia Pty Limited and QBE Australia Pacific Limited.

Directorships of other listed companies:

Non-Executive Director of Southern Cross Media Group Limited (appointed 26 May 2016 and resigned 31 August 2022) and PEXA Group Limited (appointed 11 June 2021).

Peter Polson

Former Independent Chair

Resigned on 27 October 2022

Former Chair of Nomination Committee and former Member of the Group Audit Committee, Group Risk Committee, and Group Remuneration Committee.

Experience and qualifications:

Bachelor of Commerce (Witwatersrand University, Johannesburg, South Africa), Master of Business Leadership (University of South Africa, Pretoria, South Africa), Management Development Program (Harvard Graduate School of Education, Boston, United States).

Mr Polson's experience spans international and domestic markets in banking, insurance and funds management. Mr Polson previously held the positions of Group Executive, Investment and Insurance Services at Commonwealth Bank and Chief Executive of Colonial First State Limited.

Directorships of other listed companies:

Chair of IDP Education Limited (appointed 21 March 2007).

Hiroyuki Iioka

Non-Executive Director (alternate for Masahiko Kobayashi)

Appointed 13 December 2019

Experience and qualifications:

Master of Business Administration (Duke University, Durham, United States) and Bachelor of Economics (Kobe University, Kobe, Japan).

Mr Iioka is currently Senior General Manager (International Business Planning Department) at MS&AD Insurance Group Holdings, Inc. in Japan.

Directorships of other listed companies:

Non-Executive Director of Phoenix Group Holdings plc, listed on the London Stock Exchange (appointed 23 July 2020).

Company Secretary

Linda Matthews (Bachelor of Laws, University of Technology, Sydney) is the Head of Company Secretariat. She is a qualified solicitor and was appointed as Company Secretary on 1 January 2021. Ms Matthews' responsibilities at Challenger involve the oversight of all company secretarial functions. Ms Matthews joined Challenger in 2013 as a Senior Legal Counsel in the Challenger Corporate and Investments Legal team from commercial law firm Norton Rose Fulbright, where she was a senior associate in the Banking and Finance practice. Ms Matthews has over 20 years experience as a solicitor and is admitted to practise in New South Wales and New York. Ms Matthews is an affiliated member of the Governance Institute of Australia.

Remuneration report

Letter from the Chair of the Remuneration Committee

Dear Shareholders

I am pleased to present Challenger's remuneration report for the 2023 financial year. Challenger has delivered a strong performance with our full year normalised profit before tax at the top half of our guidance range at $521 million, representing an increase of 10%. Higher earnings were driven by record annuity sales with the result highlighting the significant progress we have made executing our growth strategy. With the teams' achievements this year, the Board is confident in Challenger's ability to drive future growth by building a more customer-centric business that is uniquely positioned to meet the growing demand for guaranteed income.

Changes in Key Management Personnel (KMP)

There were a number of KMP changes during the year:

- In August 2022, Michael Clarke stepped down as Acting Chief Executive, Funds Management and Victor Rodriguez was appointed Chief Executive, Funds Management.
- In September 2022, Chris Plater transitioned from his role as Deputy Chief Executive Officer following his appointment as CEO of the Challenger and Apollo Joint Venture.
- In December 2022, Alexandra Bell was appointed as Chief Financial Officer following Rachel Grimes' departure.

2023 reward outcomes

Reflecting Challenger's business performance, STI outcomes for 2023 include:

- the CEO's STI at 105% of target and 70% of maximum; and
- STIs for other KMP ranged between 84% and 100% of target (56% to 67% of maximum).

Long-term incentives (LTIs) will not vest in September 2023 for the fifth consecutive year, demonstrating strong alignment between executives' realised reward and shareholder outcomes over the longer term.

Preparing for regulatory change in 2024

No changes have been made to the executive reward framework in 2023 with our primary focus ensuring compliance with APRA's new prudential standard CPS 511 Remuneration, which came into effect from 1 July 2023 for Challenger. This has involved a comprehensive review of our LTI plan, with changes made to performance hurdles to ensure a material weighting to non-financial measures is included.

The Board considered a range of non-financial measures and has determined a culture measure would be the most appropriate to ensure the long-term sustainability of our business. This measure will be introduced into the LTI plan from FY24 with a 25% weighting and will be assessed using a suite of key metrics, including risk culture, engagement and specific culture-related questions from the engagement survey. These metrics have been measured internally for a number of years, are quantifiable and can be benchmarked to other Australian financial services organisations. The Board will also review these metrics in conjunction with relevant operational metrics at the end of the performance period, ensuring no unintended or adverse outcomes are rewarded.

Looking ahead

With the introduction of the non-financial measure to the LTI plan, the Board will transition from using a percentage range of normalised net profit before variable reward and tax (NPBVRT) to determine the variable reward (VR) pool. The inclusion of equity into the VR pool calculation is no longer reflective of best market practice and will also be impacted by the accounting assumption used for non-financial measures. The Board will continue to consider a range of factors in assessing the appropriateness of the pool, including overall business results and progress against short and long-term strategic objectives.

In reviewing measures for the LTI plan, we also reflected on shareholder feedback in relation to the use of absolute total shareholder return (TSR) as a single financial measure and the five-year cumulative test. Whilst the Board continues to view absolute TSR as an effective measure of shareholder outcomes for our business, we are also exploring a second financial measure.

We have also reviewed a range of associated governance frameworks and processes, such as enhancing our approach to consequence management with the introduction of post-vesting disposal restrictions and clawbacks as a further tool to adjust remuneration in the event of conduct matters. This is in addition to the malus we already have incorporated into our incentive plans.

Finally, in light of the changes to our LTI plan to meet CPS 511 requirements, the Board will be adjusting the FY24 STI scorecard measures and intends to reduce the FY24 STI deferral arrangements for executives, from four to two years. to ensure alignment with evolving market practice and to maintain the overall intent of our reward framework.

We look forward to continuing to engage with our shareholders during 2024 as we make these important changes to our reward framework.

Yours sincerely

JoAnne Stephenson

JoAnne Stephenson
Remuneration Committee Chair

Contents

Section	Page
Key Management Personnel	65
2023 at a glance	66
Remuneration strategy and structure	67
Short-term incentives	68
Long-term incentives	72
2023 awarded Key Management Personnel remuneration	74
Remuneration governance	75
Risk and reward	77
Key Management Personnel remuneration arrangements	78
Non-Executive Director disclosures	84
Summary of key terms and abbreviations used in the remuneration report	87

Key Management Personnel

Challenger's executive Key Management Personnel (KMP) for 2023 are detailed in the table below:

Name	Role	Term in 2023	Term in 2022	Detail
Current KMP				
Nicolas Hamilton	Managing Director and Chief Executive Officer	Full year	Full year	Chief Executive, Funds Management until 31 December 2021
Alexandra Bell	Chief Financial Officer	From 1 December 2022	—	
Anton Kapel	Chief Executive, Life & Solutions	Full year	From 1 June 2022	
Victor Rodriguez	Chief Executive, Funds Management	From 1 August 2022	—	
Former KMP				
Michael Clarke	Acting Chief Executive, Funds Management	Until 31 July 2022	From 1 January 2022	Interim appointment
Rachel Grimes AM[1]	Chief Financial Officer	Until 30 November 2022	Full year	Ceased employment 1 July 2023
Christopher Plater	Deputy Chief Executive Officer	Until 14 September 2022	Full year	Appointed Chief Executive Officer, Challenger and Apollo Joint Venture from 15 September 2022

1. Member of the Order of Australia.

Challenger's Non-Executive Directors for 2023 are detailed in the table below:

Name	Term in 2023	Term in 2022
Duncan West (Chair)	Full year; Chair from 27 October 2022	Full year
John M Green	Full year	Full year
Steven Gregg	Full year	Full year
Masahiko Kobayashi[1]	Full year	Full year
Heather Smith	Full year	Full year
JoAnne Stephenson	Full year	Full year
Melanie Willis	Full year	Full year
Former Director		
Peter Polson	Until 27 October 2022	Full year

1. Hiroyuki Iioka is an alternate director to Masahiko Kobayashi.

The term KMP is used throughout the Remuneration Report to refer to executive KMP only.

Remuneration report (continued)

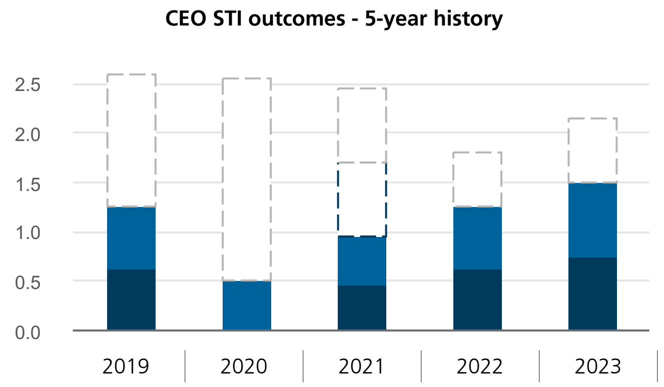
2023 at a glance

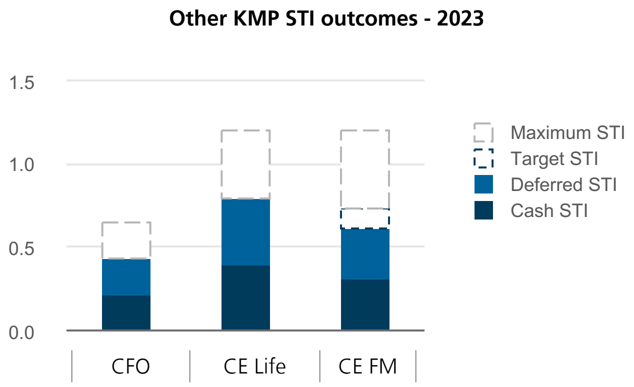
Summary of 2023 reward outcomes

STI outcomes	• The CEO's 2023 STI reflects 105% of target and 70% of maximum. • STIs for other KMP range between 84% and 100% of target, and 56% and 67% of maximum.
CEO remuneration arrangements	• CEO remuneration arrangements were unchanged for 2023 and no increase is planned for the financial year 2024.
Executive KMP remuneration arrangements	• There were no fixed pay increases awarded to executive KMP in the financial year 2023. • No changes in fixed pay or variable remuneration arrangements are planned for the financial year 2024.
No vesting of LTIs	• LTIs will not vest in September 2023 for the fifth consecutive year. The non-vesting of LTIs demonstrates the strong alignment between executives' realised reward and shareholder outcomes over the longer term.
Non-Executive Director fees	• With the retirement of the outgoing Chair in October 2022, the Board reset the Chair fee at 14.4% lower for the incoming Chair. • No other changes were made to the fees payable for other NEDs in the financial year 2023.

Short-term incentive outcomes

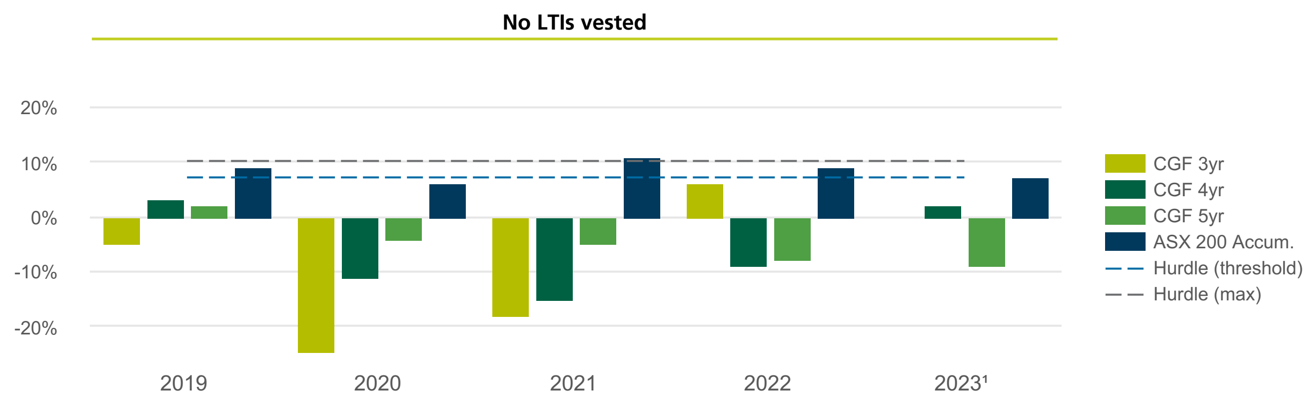
The charts below set out 2023 STI outcomes ($m) together with target and maximum opportunities (on an annualised basis) by role if the role had a target in place. The first chart includes historic STI outcomes for the incumbent CEO as at 30 June each year.





Long-term incentive vesting outcomes

The chart below illustrates Challenger's compound annual TSR performance over time versus the S&P/ASX 200 Accumulation Index five-year compound annual growth rate (CAGR).



1. Indicative outcomes based on Challenger's share price as at 30 June 2023. LTIs prior to September 2019 are tested after three or four years and subject to a final cumulative test after five years. LTIs granted after this date are tested after four years and subject to a final cumulative test after five years.

Remuneration strategy and structure

Our purpose	To provide our customers with financial security for a better retirement			
Our strategic priorities	Broaden customer access across multiple channels	Expand the range of financial products and services for a better retirement	Leverage the combined capabilities of the group	Strengthen resilience and sustainability of Challenger
Our values	**Act with integrity**	**Aim high**	**Collaborate**	**Think customer**
Remuneration strategy – guiding principles	Market-competitive	Performance-based and equitable	Aligned with shareholders	Underpinned by sound risk management

Remuneration structure for KMP

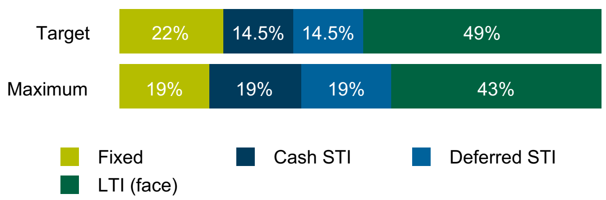
Fixed remuneration	**Variable remuneration**	
	Short-term incentives	**Long-term incentives**
Base salary, salary-sacrificed benefits and applicable fringe benefits tax. Employer superannuation contributions. Positioned around the market median using appropriate benchmarks, reflecting size and complexity of role, responsibilities, experience and skills.	Annual 'at risk' remuneration, rewarding Challenger performance and individual performance and behaviours. 50% is deferred into equity vesting over four years, subject to forfeiture provisions.	Longer-term 'at risk' remuneration awarded as hurdled share rights. Awards are subject to a cumulative absolute TSR hurdle tested after four or five years and subject to forfeiture provisions.

Pay mix

Remuneration arrangements for KMP are set with reference to the pay mix framework below. Where arrangements are outside this framework, they will be transitioned over time.

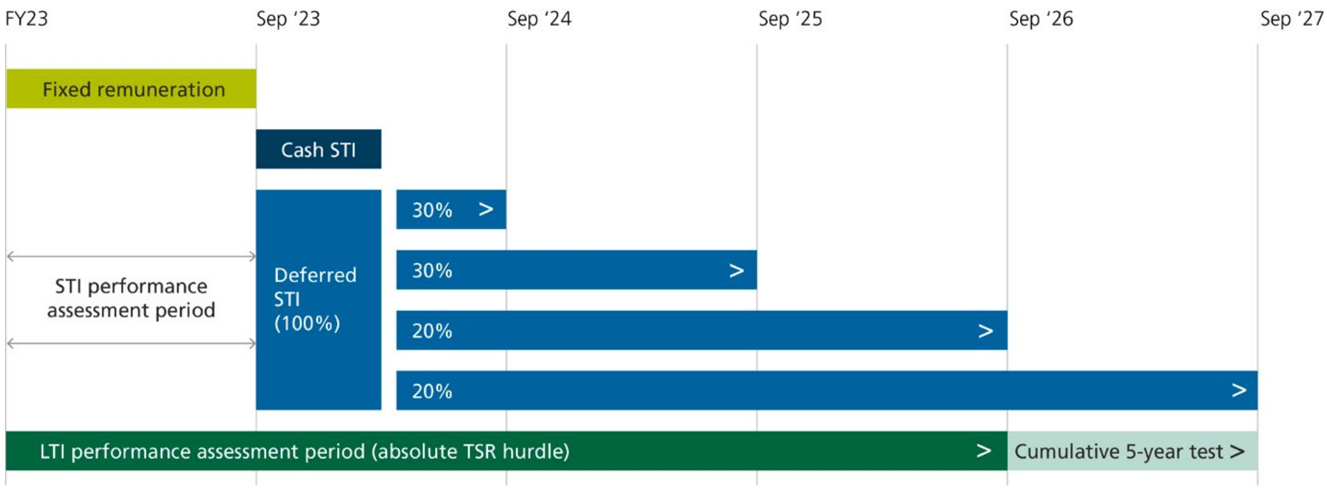
% of fixed	STI target	STI max	LTI face value
CEO & business lines	133%	200%	up to 225%
CFO	100%	150%	125%

The CEO's pay mix (with each component expressed as a percentage of total reward) is set out below.



Delivery of remuneration for 2023

Reward is realised over an extended period with a significant weighting to variable reward supporting a focus on strong risk management and ensuring alignment with shareholders over the longer term.



Remuneration report (continued)

Short-term incentives

Structure of short-term incentives

STIs provide annual 'at risk' remuneration which rewards Challenger and individual performance and behaviours.
A significant portion is deferred into equity to provide strong alignment with shareholder interests and support retention.

Performance period	Annual in line with Challenger's financial year.
Award determination	STIs are determined with reference to the performance of Challenger, and individual performance and behaviours. Individual performance is assessed based on: • a balanced scorecard comprising financial, people and culture, customer and strategic KPIs, and application of, and adherence to, the risk management framework; and • behaviour in line with the Challenger values which is a gate-opener and a modifier. The Board may apply an STI modifier to adjust STI outcomes to reflect a broad range of factors.
STI opportunity	Target STI opportunity is set in accordance with the pay mix framework, being 133% of fixed remuneration for the CEO and business line roles and 100% of fixed remuneration for control function roles. Maximum STI opportunity is 150% of target STI.
Delivery	50% of the STI award is delivered as cash and 50% is deferred into equity. Deferred STI awards are delivered as Restricted Shares. Prior to 1 July 2021, deferred STI awards were delivered as Deferred Performance Share Rights (DPSRs) which represent the right to receive a fully paid ordinary Challenger share for nil consideration subject to continued employment at the time of vesting.
Allocation methodology	Face value with the number of Restricted Shares or DPSRs granted based on the five-day VWAP of shares prior to grant date.
Vesting period	Deferred STI awards vest over a four-year period in accordance with the schedule below: **At the end of year** — **% of grant vesting** 1 — 30% 2 — 30% 3 — 20% 4 — 20%
Vesting conditions	Vesting is subject to continued service.
Termination treatment	Termination for poor performance, misconduct or resignation without the prior approval of the Board constitutes bad leaver termination and will result in the forfeiture of all unvested equity awards. In circumstances that do not constitute a bad leaver termination, all unvested awards will remain 'on foot', except in the case of resignation where awards will remain 'on foot' only if two years have elapsed from the grant date. Where awards remain 'on foot', they will vest on the original vesting date.
Forfeiture (malus)	The Board has the ability to adjust unvested equity (including to zero) in a range of circumstances, including to protect financial soundness or respond to unexpected or unintended consequences that were significant and unforeseen by the Board (such as material risk management breaches, unexpected financial losses, reputational damage or regulatory non-compliance).

Summary of 2023 financial performance

This section provides performance information including five-year trends and key financial and operational outcomes for the year. Further commentary on performance is provided in the CEO's balanced scorecard on the following page.

For the year ended	30 June 2023	30 June 2022	30 June 2021	30 June 2020	30 June 2019
Normalised NPAT[1] ($m)	364.0	321.5	278.5	343.7	396.1
Normalised EPS (cents)	53.3	47.6	41.5	56.5	65.5
Closing share price ($)	6.48	6.84	5.41	4.41	6.64
Dividends per share (cents)	24.0	23.0	20.0	17.5	35.5

1. Normalised NPAT excludes asset or liability valuation movements that are above or below expected long-term trends and significant items that may positively or negatively impact financial results. Refer to the Operating and financial review section for further information.

2023 balanced scorecard outcome for the CEO

KPIs are reviewed and approved each year by the Board, ensuring they are aligned to Challenger's purpose and strategy and underpinned by strong risk management practices that inform how we deliver on our commitments to customers and shareholders. The CEO's 2023 balanced scorecard is provided below.

Measures	Performance
Financial (40%)	**Met**
Profitability growth Not met Met Exceeded	**Group normalised NPBT** $521m – up 10% on last year and top half of the guidance range (target: $485m - $535m). **Statutory NPAT** $287.5m – below normalised NPAT ($364.0 million) as includes unrealised impact of investment markets and revaluation impact of property portfolio (no target). **Normalised ROE** 12.7% – up 80 bps on last year; however, below through cycle target of RBA cash rate plus 12% (target: 14.9%). Below through cycle target largely due to lag between the timing of changes in the RBA cash rate and lower contribution from Funds Management. Strong increase in Life ROE, up 200 bps on last year to 15.1%. **Normalised cost to income** 37.7% - improved by 100 bps on last year and ahead of target (target: 38.2%).
Strong capital position Not met Met Exceeded	**Challenger Life** 1.59 times regulatory capital requirement – top half of target range (1.30 to 1.70 times). **Tier 2 subordinated debt refinance** – refinanced $400 million of unsecured subordinated notes, with the proceeds used to repay $400 million of subordinated notes in November 2022. **Challenger Capital Notes 4 (ASX: CGFPD)** – issued Challenger Capital Notes 4 to the value of $350 million, with the proceeds used to partially redeem Challenger Capital Notes 2.
Asset growth Not met Met Exceeded	**Group AUM** $105.0bn (target $108.7bn) – below target due to lower Funds Management net flows. **Life sales** $9.7bn (target $9.5bn) with record annuity sales. **Annuity sales** $5.5bn (target $5.2bn) – 8% above last year and 6% above target, driven by record retail annuity sales increasing by a very strong 53% on last year. **Extend tenor of book** – longer tenor new business annuity sales driven by strong retail sales, with 73% of new business annuity sales greater than two years. Defined Benefit partnership with Aware Super, resulting in $0.6bn long-term lifetime annuity sales. **Life book growth** 5.2% (target: 0.3%) driven by strong retail book growth. **Funds Management** net outflows $0.5bn (target $7.9bn net flows) – below target due to investment market environment.
Risk (15%)	**Met**
Strong risk culture Not met Met Exceeded	**Risk appetite compliance** – risk appetite is considered as part of decision-making and risk tolerances are generally positive. **Entrenched risk culture** – 83% risk culture score (target: 85%); 84% believe risk management is regularly considered and reflected in core decision-making and 89% believe that people in their part of the business behave in a way that is consistent with Challenger IACT values.[1]
People (15%)	**Met**
An engaged and high-performing diverse team Not met Met Exceeded	**Engagement** – 68% engagement score, two percentage points below the Australian median; 79% believe strongly in the goals and objectives of Challenger; 82% feel proud to work for Challenger and 83% would recommend Challenger as a good place to work[2]. **Flexible hybrid working** – 75% have flexibility to manage work and other commitments and 89% believe their manager behaves in a way that is consistent with our IACT values[2]. **Employer of Choice for gender equality** – continue to be recognised by Workplace Gender Equality Agency. **Diversity and inclusion** – 89% of people believe Challenger values diversity; 95% believe gender-based harassment and sexual harassment is not tolerated; 91% feel that their manager genuinely supports equality between women and men[2]. **Female representation** in all roles 43.1% (target: 40-60%); in management roles 38.7% (target:40-60%); on Board 37.5% (target: 33.3%).

Remuneration report (continued)

Short-term incentives (continued)

Customer (20%)	Met
Great customer experience Not met Met Exceeded	**Customer division** – appointment of Chief Executive, Customer to focus on building a more customer-centric business. **Customer focus** – 77% of employees believe Challenger has a strong customer focus and 92% believe Challenger constantly looks for better ways to serve customers. **Award-winning capability** – Challenger Life Association of Financial Advisers — Annuity Provider of the Year Award and Long Term Income Stream Award and winner of Plan for Life Longevity Cover Excellence Award and Client & Adviser Technical Support Award; Funds Management - Fidante Zenith Distributor of the Year, Ardea Real Outcome Fund winner of Lonsec Active Global Fixed Income Fund of the Year, Alphinity winner of Australian Equities – Large Cap category at Zenith Investment Partners Awards. **Expanded strong institutional relationships** – delivering on strategy to deepen relationships with largest investors – top 25 Australian superannuation funds are Challenger clients. **Leading origination and investment capability** – no. 1 Australian fixed income house and strong investment performance with 90% of FUM outperforming benchmark since inception[3]. **New direct to customer channels** – Challenger Life - new fixed term annuity allowing annuities to be bought by customers online in under 10 minutes; Fidante - new website (Fidante.com) and registry service providing online transaction and registry services to over 60 funds managed by Challenger and Fidante. **Brand refresh in both Life and Funds Management** – refreshed digital content and branding and content to be more relevant and contemporary and support engagement levels across Australian financial advisers.
Growth initiatives Not met Met Exceeded	**New products** – Life: Lifetime Annuity Market Linked (Accelerated Payments), Challenger Solutions Liquid Alternatives Balanced Fund; Funds Management: Cultiv8 Agri-Food Tech Fund, Ox Capital Dynamic Asia UCITS Fund, Alphinity Global Equity ETF and Alphinity Global Sustainable Equity ETF. **New Fidante affiliates** – Proterra Investment Partners Asia and Elanor Investors Group (ASX:ENN).
Partnerships (10%)	**Met**
Strengthen and grow strategic partnerships Not met Met Exceeded	**Institutional retirement partnerships** – announced strategic retirement income partnership with TelstraSuper to bring lifetime income products to their members. **Apollo** – Distribution agreement with Fidante becoming exclusive distributor of Apollo Aligned Alternatives fund (AAA), launching in September 2024. **Artega Investment Administration** – joint venture between Challenger and SimCorp (CSE:SIM) to provide investment administration services to investment managers and owners across Australia and Asia, with a number of new external clients won. **Real Estate strategic partnership** – sale of Challenger's Australian commercial real estate business and formation of a strategic real estate partnership with Elanor, who will become Challenger's commercial real estate partner in Australia and New Zealand, and Challenger to become Elanor's exclusive distribution partner. **Sale of Challenger Bank** – to simplify the business and allow focus on Challenger's core Life and Funds Management businesses.
Overall outcome	**Met**

1. CultureAmp, May 2023.
2. CultureAmp, March 2023.
3. As at 30 June 2023. Percentage of Fidante Affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

Short-term incentive outcomes

2023 STI outcome for the CEO: **105% of target**

The Board determined an STI outcome of 105% of target (70% of maximum, which reflects the overall performance outcome of 'met' as set out in the balanced scorecard above together with an assessment of Mr Hamilton's behaviours as strongly in line with the Challenger values and risk management outcomes. The Board has determined not to apply a modifier as discussed below.

Short-term incentive modifier

The Board recognises that the balanced scorecard outcome does not always capture the full range of factors that are relevant to making reward decisions and that the ability to make discretionary adjustments is an important governance mechanism.

The STI modifier makes explicit the magnitude of, and the rationale for, discretionary adjustments. In applying the modifier, the Board considers a broad range of factors, including the quality of financial results, risk and conduct matters with a Group-wide impact, and any other matter which it considers is not fully reflected in the scorecard.

STI outcomes for KMP (excluding the CEO) are calculated by applying the modifier to pre-adjustment STI outcomes, as recommended to the Board by the CEO. Pre-adjustment STI outcomes reflect performance outcomes which are informed by individual, business unit and Group performance and an assessment of behaviours.

Pre-adjustment STI outcome (0-150% of target)	x	Modifier (0-100%)	=	Final STI outcome (0-150% of target)

The modifier can vary between zero and 100% thereby acting as a gateway and a downwards adjustment mechanism. The modifier cannot adjust STI outcomes upwards as individual behaviours (including risk behaviours) can modify individual performance outcomes.

A consistent modifier generally applies for all KMP to reflect shared accountability for Group performance and other significant factors, for example where a risk or conduct matter has a group-wide impact.

2023 STI modifier: **100%**

The Board has determined not to apply a modifier to 2023 STI outcomes for KMP.

The Chief Risk Officer has confirmed that no risk or conduct matters have been identified which would warrant the application of the modifier.

2023 short-term incentive outcomes for KMP

The table below sets out the 2023 STI outcomes for current and former KMP as a percentage of target and maximum, including the impact of the modifier.

STI outcomes for KMP range between 84% and 100% of target (56% and 67% of maximum).

	2023 STI outcomes	
	% of target	% of max
Current KMP		
N Hamilton	105%	70%
A Bell	100%	67%
A Kapel	100%	67%
V Rodriguez	84%	56%

Remuneration report (continued)

Long-term incentives

Long-term incentive structure

LTIs are awarded annually to support a continued focus on long-term performance and strong shareholder alignment. The meaningful weighting ensures a significant proportion of total reward is 'at risk' and directly linked to shareholder outcomes. LTI terms are set out in the table below.

The Board considers that TSR is an effective measure of shareholder outcomes and that an absolute rather than a relative TSR performance measure is appropriate because:

- there are no other listed companies in the Australian market with a retirement income business that are directly comparable to Challenger;
- a broader index is not considered an appropriate peer group as there is risk of misalignment between remuneration and shareholder value creation; and
- if the absolute TSR threshold performance target is set at a level above average market returns over the long term, vesting will be directly linked to the delivery of superior returns to shareholders.

The Board determined to retain the thresholds of 7% to 10% (compounded annually) for 2023 on the basis they continue to be challenging in the current environment and represent a relatively strong return for shareholders. Over four years, 7% annual compound return represents TSR of 31%, and 10% represents TSR of 46%.

Where the hurdle is not satisfied at four years, a higher test is applied in year five (requiring TSRs above 40% for any vesting to occur and TSRs above 61% for full vesting to occur). As a higher hurdle applies in year five, Challenger's approach differs from traditional 're-tests' and reflects our commitment to driving focus on long-term performance and strong risk management. Any unvested awards lapse after five years.

Changes planned for 2024

The Board has conducted a comprehensive review of the LTI plan to ensure it appropriately reflects Challenger's strategic priorities, continues to align strongly with shareholder outcomes and complies with regulatory requirements. An additional performance measure of culture will be introduced in the 2024 financial year that will comprise 25% of the LTI award value. The culture measure will be assessed using a suite of eleven key metrics (including risk culture, engagement scores and specific culture-related questions from the engagement surveys) to assess how well our leaders have protected and strengthened our culture over the four-year period of the plan. These metrics have been measured internally for a number of years, are quantifiable, and can be benchmarked against other Australian financial services organisations. Each metric will have a target and stretch performance range set at the start of each performance period and progress will be measured throughout the performance period, with a final assessment after four years. To ensure the results are reflective of the employee experience, these metrics will be reviewed against relevant operational metrics including, but not limited to, employee turnover and incidents reported to the Consequence Management Committee, and the Board will determine an appropriate vesting outcome once all inputs have been considered.

In consideration of this change for LTIs, the Board will also make changes to the STI balanced scorecard of the CEO and other KMP to ensure that measures remain appropriate and minimise unnecessary overlaps across STIs and LTIs. Specifically, the Board will increase the weighting of Financial measures to 50%, introduce Sustainability as a measure into the scorecard, and reduce the weighting of measures for Risk and People.

Post-vesting disposal restrictions and clawbacks will be introduced as a further tool to adjust remuneration in the event of conduct matters. This is in addition to the malus we already have incorporated into our incentive plans.

<table>
<tr><td>Quantum for KMP</td><td>Set in accordance with the pay mix framework, being up to 225% of fixed remuneration for CEO and business lines and 125% for control and support functions (at face value).</td></tr>
<tr><td>Delivery</td><td>Hurdled Performance Share Rights (HPSRs), which represent the right to receive a fully paid ordinary Challenger share for nil consideration subject to satisfaction of an employment condition and a performance hurdle.</td></tr>
<tr><td>Allocation methodology</td><td>Face value with the number of HPSRs granted based on the five-day VWAP of shares prior to grant date. HPSRs for the CEO are granted following the shareholder vote at the Annual General Meeting using the same allocation price as other KMP.</td></tr>
<tr><td>Vesting period and conditions</td><td>LTI awards vest after four or five years subject to satisfaction of an employment condition and Challenger satisfying the absolute TSR performance hurdle. Awards are tested after four years with any unvested HPSRs subject to a final cumulative test after five years.
Awards made prior to September 2019 will continue to be tested after three or four years and subject to a final cumulative test after five years. Two-thirds of an award is eligible to commence vesting after three years and the final third after four years.</td></tr>
<tr><td>Performance hurdle</td><td>Vesting is subject to an absolute TSR performance hurdle set out in the table below:
<table>
<tr><th>Absolute TSR hurdle</th><th>% of HPSRs that vest</th></tr>
<tr><td>Less than 7% p.a.</td><td>0%</td></tr>
<tr><td>7% to 10% p.a.</td><td>Straight-line vesting between 50% and 100%</td></tr>
<tr><td>10% p.a. and above</td><td>100%</td></tr>
</table>
The start and end price for absolute TSR performance testing is calculated using a 90-day VWAP leading up to the relevant performance start or end date. A 90-day VWAP eliminates the potential for short-term price volatility to impact vesting outcomes.</td></tr>
<tr><td>Termination treatment</td><td>Termination for poor performance, misconduct or resignation without the prior approval of the Board constitutes bad leaver termination and will result in the forfeiture of all unvested equity awards.
In circumstances that do not constitute a bad leaver termination, all unvested awards will remain 'on foot' on a pro-rata basis based on the proportion of the performance period which has elapsed. Awards which remain 'on foot' will vest on the original vesting date, subject to satisfaction of the performance hurdle. Board discretion applies in relation to unvested awards issued prior to 30 June 2019.</td></tr>
<tr><td>Forfeiture (malus)</td><td>As detailed in the STI table in section 'Short-term incentives' above.</td></tr>
</table>

Long-term incentive vesting outcomes

No LTIs will vest in September 2023 for the fifth consecutive year. In September 2022, LTIs awarded in 2017 and 2018 were tested with annual compound TSR results of -7.83% and -8.48% respectively. As illustrated in the chart on page 67, the non-vesting of LTIs reflects strong alignment of executives' realised reward with shareholder outcomes over the longer term.

Remuneration report (continued)

2023 awarded Key Management Personnel remuneration

Awarded remuneration represents the value of remuneration that has been awarded in respect of the financial year, as determined by the Board, and includes fixed remuneration, STIs (cash and deferred) and LTIs. The value of deferred STIs realised will depend on share price performance and LTIs will only deliver value to executives in the future if shareholder return hurdles are achieved. This ensures strong alignment between realised executive reward and shareholder outcomes over the longer term.

Remuneration for KMP has been decreasing over time driven by the rebasing of remuneration arrangements as incumbents have been replaced, in line with broader market trends. Realised reward for KMP has also been significantly impacted by the non-vesting of LTIs for five consecutive years.

The presentation of awarded remuneration for 2023 provides:

- STI outcomes shown as a percentage of target opportunity;
- LTI awards included in the financial year in which they are granted to reflect the focus on driving future performance, and that quantum is no longer linked to performance over the previous financial year. As such, in the table below the 2022 LTI includes the awards made in September 2021, and the 2023 LTI includes the awards made in September 2022;
- the fair value of LTI awards is no longer included, reflecting the face value allocation methodology used since 2019; and
- total awarded remuneration at face value is included to provide greater transparency.

The CEO's LTI for the 2024 financial year will be granted following shareholder approval, which will be sought at Challenger's Annual General Meeting. Further details will be set out in the Notice of Meeting.

			Short-term incentive					
KMP[4]	Year	Fixed[1] $	% of target	Total $	Cash $	Deferred[2] $	Long-term incentive (Face value)[3] $	Total awarded remuneration $
Current KMP								
N Hamilton	**2023**	**1,075,000**	**105%**	**1,505,000**	**752,500**	**752,500**	**2,417,702**	**4,997,702**
	2022	862,500	107%	1,250,000	625,000	625,000	1,518,750	3,631,250
A Bell	**2023**	**437,500**	**100%**	**435,000**	**217,500**	**217,500**	**937,093**	**1,809,593**
	2022	—	—	—	—	—	—	—
A Kapel	**2023**	**600,000**	**100%**	**800,000**	**400,000**	**400,000**	**1,199,481**	**2,599,481**
	2022	50,000	N/A	29,168	14,584	14,584	37,622	116,790
V Rodriguez	**2023**	**550,000**	**84%**	**618,750**	**309,375**	**309,375**	**1,199,481**	**2,368,231**
	2022	—	—	—	—	—	—	—
Former KMP								
M Clarke[5]	**2023**	**41,667**	**N/A**	**6,250**	**6,250**	**—**	**—**	**47,917**
	2022	250,750	N/A	175,000	112,500	62,500	225,734	651,484
R Grimes AM	**2023**	**302,083**	**—**	**—**	**—**	**—**	**905,857**	**1,207,940**
	2022	725,000	90%	735,000	367,500	367,500	906,250	2,366,250
C Plater	**2023**	**156,250**	**N/A**	**72,900**	**36,450**	**36,450**	**1,499,349**	**1,728,499**
	2022	750,000	75%	900,000	450,000	450,000	1,687,500	3,337,500
R Howes	**2023**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	2022	637,500	39%	333,334	166,667	166,667	—	970,834
A Murphy	**2023**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	2022	618,750	111%	916,668	458,334	458,334	1,392,188	2,927,606
Total	**2023**	**3,162,500**		**3,437,900**	**1,722,075**	**1,715,825**	**8,158,963**	**14,759,363**
	2022	3,894,500		4,339,170	2,194,585	2,144,585	5,768,044	14,001,714

1. Includes base salary and superannuation.
2. Deferred STIs will be allocated based on the five-day volume weighted average price (VWAP) prior to the grant date in September 2023.
3. The LTIs granted during the financial year were allocated based on the five-day VWAP prior to grant in September 2022.
4. Where an individual held a KMP role for part of either the current or prior reporting period, disclosure is pro rata for the period in which they were KMP. Refer to Section 'Key Management Personnel' for further details.
5. Given Mr Clarke's acting role in the prior year, his deferred STI is based on the policy that applies to non-LT members, being deferral of 50% of the STI in excess of $100k. This deferral is for two years vesting in equal tranches 50% after 1 year and 50% after 2 years. Mr Clarke's 2023 remuneration is calculated on a pro-rata basis for the period he was KMP during the year.

Remuneration governance

Challenger's remuneration governance structures, outlined in the table below, provide strong oversight of remuneration practices and policies. Detailed information concerning the scope of the Board and the Remuneration Committee's responsibilities can be found under the corporate governance section of Challenger's website.

Remuneration governance arrangements promote compliance with the provisions of the ASX Listing Rules, the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the ***Corporations Act 2001*** and, in respect of CBL, CLC and Challenger Retirement and Investment Services Limited, the principles contained in the relevant Australian Prudential Regulation Authority standards.

Board	• The Board is responsible for ensuring effective remuneration governance and related risk management practices. • The Board approves remuneration principles and structures and ensures that they are competitive and equitable and that they support the long-term interests of Challenger. • The Board receives recommendations from the Remuneration Committee and approves these remuneration recommendations, where appropriate.
Remuneration Committee	• The Board convenes a Remuneration Committee comprising at least three Independent Directors to assist the Board in discharging its responsibilities. • The Remuneration Committee meets at least five times during the year, with additional meetings scheduled as required. For the year ended 30 June 2023, seven meetings were held. • The Remuneration Committee determines and recommends to the Board various principles and policies (including remuneration, recruitment, retention, termination and diversity), Managing Director & CEO and KMP remuneration, incentives, superannuation and life insurance arrangements, and the Directors' remuneration framework.
Independent remuneration advisers	• The Board, independent of management, appoints an adviser to the Remuneration Committee. • In 2023, the Board continued its engagement of KPMG. This engagement is based on a defined set of protocols. The Board is satisfied with KPMG's remuneration structure and quantum-related advice and that such advice is free from undue influence. • During 2023, KPMG attended all the Remuneration Committee meetings and provided advice with respect to KMP remuneration arrangements, updates on regulatory developments, tax advice and a review of incentive plans. No 'remuneration recommendations', as defined by the ***Corporations Act 2001***, were provided by KPMG. • Mercer was retained in 2023 to independently value equity awards and test HPSR vesting outcomes.

Remuneration benchmarking

Challenger's remuneration strategy is supported by a strong focus on benchmarking remuneration against the external market to roles with comparable financial services, banking, insurance and capital markets skills.

Annually, the Board approves the peer groups to be used when benchmarking KMP remuneration, and in 2023 approved the following peer groups:

1. **Financial Industry Remuneration Group survey:** This peer group supports consideration of roles with comparable financial services, banking, insurance and capital markets skills to Challenger's KMP.
2. **Financial services publicly disclosed data:** Data is comprised of publicly disclosed KMP remuneration data for select financial services companies. This peer group supports consideration of roles with comparable skills to Challenger's KMP.

During the year, the Board considered remuneration benchmark data as an input when setting remuneration arrangements for new appointments and determining annual remuneration outcomes for KMP. The Board is confident that awarded remuneration reflects performance and is positioned and structured at a market-competitive level reflective of the markets in which Challenger competes for talent, and the specialist nature of the skills and experience of Challenger's KMP.

Variable remuneration governance

The Board approves a pool for total variable remuneration (cash STI and share-based) annually.

The Group pool is built on a bottom-up basis with individual allocations informed by internal and external market remuneration levels and individual contribution. Divisional pools for business lines are adjusted by the CEO to reflect contribution to Group financial results with pools for control and support functions informed by the quality and integrity of support provided. Divisional pools may also be adjusted for other factors, including risk management outcomes.

A number of top-down lenses are applied in determining the Group pool, which is an aggregation of individual and divisional pools. The Board considers a range of factors in assessing the appropriateness of the pool, including:

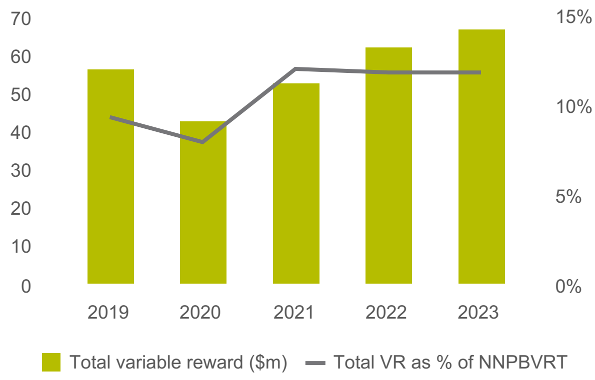
- overall business results against plan (financial and non-financial performance measures);
- progress against short and long-term strategic objectives;
- external remuneration levels and movements;
- the retention of key talent;
- the cost and amount of capital employed;
- factors beyond management's control; and
- the management of risk, including adjustments for any risk and conduct matters with a group-wide impact.

Remuneration report (continued)

Remuneration governance (continued)

Variable remuneration governance (continued)

The Board approved a variable remuneration pool for 2023 which represents 11.8% of normalised NPBVRT. The Board considers that the pool reflects a reasonable and equitable distribution between shareholders and employees and provides a clear line of sight to, and a strong relationship between, performance and remuneration outcomes. This outcome is consistent with last year and includes the impact of the LTI fair value assumption on LTI awards from 1 July 2023 with the introduction of a non-financial measure.



Minimum shareholding guidelines

The Board reviews KMP and Non-Executive Director minimum shareholding guidelines annually in order to ensure alignment with shareholders and market practice. The 2023 review determined that no changes were required to the guidelines at this time. Challenger's minimum shareholding guidelines do not count unvested deferred equity towards minimum holdings; however, for completeness, the shareholding disclosures in Section 'Key Management Personnel remuneration arrangements' also show unvested deferred STIs.

Minimum shareholding requirements are detailed in the following table:

Group	Requirement	Implied value[1]
Non-Executive Directors (NEDs)	One times base fees	Chair: $450,000 NEDs: $179,000
Managing Director & CEO	Two times fixed remuneration	$2,150,000
Other KMP	One times fixed remuneration	$600,000 to $750,000

1. Based on fees and remuneration as at 30 June 2023.

A five-year transitional period in which to acquire the required shareholding applies for Non-Executive Directors and KMP. The Board retains discretion to allow Non-Executive Directors and KMP to vary from this guideline. Where fees are paid to the employer of the Non-Executive Director, the guidelines do not apply.

The shareholdings of Non-Executive Directors and KMP at 30 June 2023 are set out in Sections 'Key Management Personnel remuneration arrangements' and 'Non-Executive Director disclosures'.

Employee share trading policy

Employees, Directors and KMP must comply with Challenger's employee share trading policy, including being required to obtain pre-approval from the Company if they wish to trade in Challenger shares.

Employees are prohibited from trading during specified periods, including prior to the release of Challenger's financial results.

Employees are prohibited from hedging their unvested equity awards, as this would not be consistent with Challenger's remuneration strategy or appropriate governance outcomes and is contrary to the intention of equity-based remuneration arrangements. Any breach of this requirement would be regarded as serious misconduct and may result in dismissal.

Challenger prohibits KMP and employees from taking out margin loans on Challenger shares, with any exceptions to this rule requiring Board approval. There have been no requests for exceptions to this policy for the year ended 30 June 2023 (no requests in 2022).

Employee share ownership

The Board believes that greater employee share ownership increases alignment with shareholders.

The Tax Exempt Share Plan provides permanent Australian employees a means to acquire Challenger shares at no cost, and to participate in the future growth and performance of Challenger. Eligible employees are offered $1,000 worth of fully paid Challenger ordinary shares on an annual basis, subject to a three-year minimum holding period.

Challenger Performance Plan (CPP) Trust

The CPP Trust is an employee share trust established to satisfy Challenger's employee equity obligations arising from DPSRs, Restricted Shares and HPSRs.

Challenger shares held by the CPP Trust generate dividend income. The CPP Trust does not receive dividends from forward share purchase agreements.

The Trustee of the CPP Trust has absolute discretion to determine whether any net income earned from shares held by the CPP Trust is distributed to beneficiaries. The practice of paying distributions to employees and KMP ceased in 2021.

CPP Trust is now managed to minimise the amount of unallocated dividends. Any undistributed income at the end of the year is taxed at the maximum marginal tax rate (which exceeds the Company tax rate) and carries no franking credits.

Risk and reward

The Board seeks to align remuneration with effective risk management, the generation of appropriate risk-based returns and Challenger's risk appetite.

The Board has agreed a risk management framework which sets out the Board's tolerance to risk exposures and the management of risk. Challenger's risk profile is continuously monitored and managed against its risk appetite, and any divergence is resolved within Challenger through a series of escalations and delegated authorities culminating with the Board. All business activities are carried out in accordance with this risk management framework, regardless of potential remuneration outcomes.

During the year, the Risk Committee provides reports to the Remuneration Committee and the Board summarising risk management and risk outcomes, including any breaches of the risk management framework or other compliance policies. In addition, the Consequence Management Committee, which comprises representatives from Risk and Human Resources, was established to support the management of conduct risk matters and to oversee the application of consequences for conduct matters. The Consequence Management Committee meets on a monthly basis and reports to the Remuneration Committee bi-annually on matters referred to it. Where applicable, consequences range from written warnings, remedial training and coaching, through to more serious outcomes that may include remuneration consequences, termination/dismissal and matters being reported to regulatory or law enforcement bodies. The Remuneration Committee and the Board consider these reports when finalising remuneration pools and individual allocations.

All employees are required to comply with Challenger's policies and other risk management and regulatory requirements as they apply to their role and business area. Breaches of compliance with these policies and other requirements are taken seriously and may result in a range of potential consequences including disciplinary action and termination of employment.

All employees are assessed against the Challenger values, which includes risk behaviours, as part of the annual performance review process. The values rating contributes to the overall performance rating and remuneration outcomes. Satisfactory assessment of behaviours against the Challenger values is treated as a gate-opener for variable reward, and behaviours can either increase or decrease reward outcomes.

During 2023, the Conduct Risk and Consequence Management framework (approved by the Board in 2020) has been further embedded with a focus on enabling a higher bar to be applied in assessing conduct matters and considering appropriate consequences. This has included:

- raising awareness of risk management and regulatory requirements;
- transparency in relation to potential consequences for conduct matters;
- updating policies to improve clarity;
- enhancing reporting and monitoring capabilities; and
- embedding risk and consequence management in the annual performance and remuneration review.

The Remuneration Committee and the Board consider potential risk implications of performance targets when setting performance measures for variable reward plans.

The Board also places significant focus on risk culture and monitors and assesses Challenger's risk culture. In 2023, this included:

- risk culture questions included within the Your Voice employee engagement survey;
- risk culture pulse check surveys sent to employees throughout the year; and
- a range of key risk indicator metrics being monitored and assessed throughout the year.

Variable reward forfeiture provisions

Under the terms of the CPP, DPSRs, Restricted Shares and HPSRs may be reduced or forfeited should the Board determine that a KMP or employee:

- has committed an act of dishonesty;
- is ineligible to hold their office for the purposes of Part 2D.6 Disqualification from managing corporations of the *Corporations Act 2001*; or
- is found to have acted in a manner that the Board considers to be gross misconduct or is dismissed with cause.

In addition, the Board may resolve that an award of DPSRs, Restricted Shares or HPSRs should be reduced or forfeited in order to:

- protect financial soundness;
- respond to unexpected or unintended consequences that were significant and unforeseen by the Board (such as material risk management breaches, unexpected financial losses, reputational damage or regulatory non-compliance); and
- respond to any examples of misconduct, risk events, acts or omissions or breaches of law or regulation.

Prior to any awards vesting, the Chief Risk Officer confirms whether there are any matters that should be considered by the Board, including any ongoing investigations into potential matters.

Remuneration report (continued)

Key Management Personnel remuneration arrangements

This audited remuneration report describes Challenger's KMP and Non-Executive Director remuneration arrangements as required by the *Corporations Act 2001.*

Statutory remuneration

Statutory remuneration represents the accounting expense of remuneration in the financial year. It includes fixed remuneration, cash STI awards, the fair value amortisation expense of deferred share awards granted, long service leave entitlements and insurance.

		Short-term employee benefits			Long-term employee benefits	
KMP[3]	Year	Salary[1] $	Super-annuation $	Cash STIs $	Share-based payments and other[2] $	Total
Current KMP						
N Hamilton	**2023**	**1,052,062**	**25,292**	**752,500**	**1,335,732**	**3,165,586**
	2022	841,038	23,568	625,000	952,559	2,442,165
A Bell	**2023**	**423,180**	**14,754**	**217,500**	**419,170**	**1,074,604**
	2022	—	—	—	—	—
A Kapel	**2023**	**578,593**	**25,292**	**400,000**	**380,221**	**1,384,106**
	2022	48,325	1,964	14,583	20,508	85,380
V Rodriguez	**2023**	**529,558**	**23,185**	**309,375**	**257,371**	**1,119,489**
	2022	—	—	—	—	—
Former KMP						
M Clarke	**2023**	**31,226**	**2,108**	**6,250**	**20,869**	**60,453**
	2022	238,966	11,784	112,500	130,503	493,753
R Grimes AM	**2023**	**293,033**	**10,539**	**—**	**165,375**	**468,947**
	2022	704,683	23,568	367,500	189,419	1,285,170
C Plater	**2023**	**151,534**	**5,269**	**36,450**	**260,138**	**453,391**
	2022	728,781	23,568	450,000	1,090,487	2,292,836
R Howes	**2023**	**—**	**—**	**—**	**—**	**—**
	2022	627,045	11,784	166,667	816,851	1,622,347
A Murphy	**2023**	**—**	**—**	**—**	**—**	**—**
	2022	587,922	21,604	458,333	744,650	1,812,509
Total	**2023**	**3,059,186**	**106,439**	**1,722,075**	**2,838,876**	**7,726,576**
	2022	3,776,760	117,840	2,194,583	3,944,977	10,034,160

1. Includes the cost of death, total permanent disability and salary continuance insurances.
2. Calculated on the basis outlined in Note 29 Employee entitlements and reflects the fair value of the benefit derived at the date at which they were granted. Fair value is determined using an option pricing model and is undertaken by an independent third party. The HPSRs included in share-based payments are subject to market-based performance conditions; consequently, no adjustment to the fair value following grant date is permitted to be made for the likelihood of performance conditions not being met. As a result, the value of the share-based payments included in the table may not necessarily have vested during the financial year. Other long-term employee benefits include long service leave entitlements.
3. Where an individual held a KMP role for part of either the current or prior reporting period, disclosure is pro rata for the period in which they were KMP. Refer to Section 'Key Management Personnel' for further details.

Split of statutory remuneration components

The splits of KMP statutory remuneration are set out below:

KMP[1]	Year	Fixed remuneration	Cash STI	Share-based payments and other	Total
Current KMP					
N Hamilton	**2023**	**34%**	**24%**	**42%**	**100%**
	2022	35%	26%	39%	100%
A Bell	**2023**	**41%**	**20%**	**39%**	**100%**
	2022	—%	—%	—%	—%
A Kapel	**2023**	**44%**	**29%**	**27%**	**100%**
	2022	58%	17%	25%	100%
V Rodriguez	**2023**	**49%**	**28%**	**23%**	**100%**
	2022	—%	—%	—%	—%
Former KMP					
M Clarke	**2023**	**55%**	**10%**	**35%**	**100%**
	2022	51%	23%	26%	100%
R Grimes AM	**2023**	**65%**	**—%**	**35%**	**100%**
	2022	56%	29%	15%	100%
C Plater	**2023**	**36%**	**8%**	**56%**	**100%**
	2022	32%	20%	48%	100%
R Howes	**2023**	**—%**	**—%**	**—%**	**—%**
	2022	40%	10%	50%	100%
A Murphy	**2023**	**—%**	**—%**	**—%**	**—%**
	2022	34%	25%	41%	100%

1. Where an individual held a KMP role for part of either the current or prior reporting period, disclosure is pro rata for the period in which they were KMP. Refer to Section 'Key Management Personnel' for further details.

Shares and Share Rights granted

The following tables show the short and long-term incentives that were granted during the year ended 30 June 2023 for all KMP who were considered KMP at the date of grant.

Restricted Shares

Deferred short-term incentives are delivered in the form of Restricted Shares which vest in tranches up to four years. Restricted Shares granted to KMP during the year ended 30 June 2023 are detailed below:

KMP	Grant date	Awarded value from 2022 $	Face value allocation price $	Total number of shares granted[1]	Vesting (number of shares by tranche)[2] Tranche 1 1 June 2023	Tranche 1 1 September 2023	Tranche 2 1 December 2023	Tranche 2 1 September 2024	Tranche 3 1 September 2025	Tranche 4 1 September 2026
Current KMP										
N Hamilton	9/9/22	625,000	6.26	99,840	—	29,952	—	29,952	19,968	19,968
A Bell	9/12/22	400,000	7.13	56,100	28,050	—	28,050	—	—	—
A Kapel	9/9/22	175,000	6.26	27,954	—	8,386	—	8,386	5,591	5,591
V Rodriguez[3]	9/9/22	175,000	6.26	27,954	—	13,977	—	13,977	—	—
Former KMP										
R Grimes	9/9/22	367,000	6.26	58,704	—	17,611	—	17,611	11,741	11,741
C Plater	9/9/22	450,000	6.26	71,882	—	21,565	—	21,565	14,376	14,376

1. The number of shares granted is determined by dividing the awarded value by the VWAP in the five days prior to grant (face value allocation price).
2. The fair value is independently calculated and used to determine the accounting value which is amortised over the vesting period. The fair value differs to the face value to reflect the deferred nature of the award.
3. Mr Rodriguez held a KMP role from 1 August 2022 and the vesting dates are based on awards prior to his KMP role on a policy that applies to non-LT members.

Remuneration report (continued)

Key Management Personnel remuneration arrangements (continued)

Hurdled Performance Share Rights

Long-term incentives are delivered in the form of HPSRs which vest after four years subject to achievement of absolute TSR performance hurdles. HPSRs granted to KMP during the year ended 30 June 2023 are detailed below:

KMP	Grant date	Vesting date	Awarded HPSR face value	Face value allocation price $	Total number of HPSRs granted[1]	TSR start price[2] $	Fair value at grant date[3]	Awarded HPSR fair value
Current KMP								
N Hamilton	10/11/22	1/9/26	2,417,702	6.2573	386,381	6.7178	4.39	1,696,213
A Bell	9/12/22	1/9/26	937,093	6.2573	149,760	6.7178	4.45	666,432
A Kapel	9/9/22	1/9/26	1,199,481	6.2573	191,693	6.7178	3.59	688,178
V Rodriguez	9/9/22	1/9/26	1,199,481	6.2573	191,693	6.7178	3.59	688,178
Former KMP								
R Grimes	9/9/22	1/9/26	905,857	6.2573	144,768	6.7178	3.59	519,717
C Plater	10/11/22	1/9/26	1,499,349	6.2573	239,616	6.7178	4.39	1,051,914

1. The number of rights granted is determined by dividing the awarded value by the VWAP in the five days prior to 9 September 2022 (face value allocation price).
2. The TSR start price is the VWAP in the 90 calendar days prior to 9 September 2022.
3. The fair value is independently calculated and used to determine the accounting value which is amortised over the vesting period. The fair value differs to the face value to reflect the likelihood of performance hurdles being achieved, the deferred nature of the award and that HPSRs do not carry a dividend entitlement.

Shares and Share Rights vested

The following tables show the short and long-term incentives that vested during the year ended 30 June 2023 for all KMP who were considered KMP at the vesting date.

Deferred Performance Share Rights

DPSRs which vested to KMP during the year ended 30 June 2023 are detailed below:

KMP	Grant date	Number	Face value at grant $	Vesting date	Vested value[1] $
Current KMP					
N Hamilton	7/9/20	35,495	142,335	1/9/22	223,867
	9/9/19	3,768	24,994	1/9/22	23,765
A Kapel	7/9/20	3,923	15,731	1/9/22	24,742
	9/9/19	1,356	8,995	1/9/22	8,552
V Rodriguez	7/9/20	10,274	41,199	1/9/22	64,798
	9/9/19	5,276	34,997	1/9/22	33,276
Former KMP					
C Plater	7/9/20	39,231	157,316	1/9/22	247,430
	9/9/19	14,894	98,795	1/9/22	93,936

1. The vested value is based on the VWAP in the five days prior to the vesting date.

Restricted Shares

Restricted Shares (RS) which vested to KMP during the year ended 30 June 2023 are detailed below:

KMP	Grant date	Number	Face value at grant $	Vesting date	Vested value[1] $
Current KMP					
N Hamilton	8/9/21	18,260	117,594	1/9/22	115,166
A Bell	9/12/22	28,050	199,997	1/6/23	172,003
A Kapel	8/9/21	1,164	7,496	1/9/22	7,341
V Rodriguez	8/9/21	6,987	44,996	1/9/22	44,067
Former KMP					
R Grimes	8/9/21	2,142	13,794	1/9/22	13,510
C Plater	8/9/21	15,652	100,799	1/9/22	98,717

1. The vested value is based on the VWAP in the five days prior to the vesting date.

Hurdled Performance Share Rights

No HPSR awards vested to KMP during the year ended 30 June 2023 as the absolute TSR performance hurdles were not achieved and no HPSRs will vest in September 2023.

	Grant details			Vesting details				
KMP	Grant date	Number	Fair value at grant[1] $	Vesting date	Compound annual TSR outcome	Number vested	Number forfeited[2]	Number yet to vest or lapse
Current KMP								
N Hamilton	11/9/17	20,899	122,495	1/9/22	(7.83)%	—	(20,899)	—
	11/9/18	40,390	174,999	1/9/23	(8.48)%	—	—	40,390
A Kapel	11/9/17	39,240	153,330	1/9/22	(7.83)%	—	(39,240)	—
	11/9/18	8,078	99,995	1/9/23	(8.48)%	—	—	8,078
V Rodriguez	11/9/17	59,713	349,994	1/9/22	(7.83)%	—	(59,713)	—
	11/9/18	56,546	244,998	1/9/23	(8.48)%	—	—	56,546
Former KMP								
C Plater	11/9/17	119,427	699,994	1/9/22	(7.83)%	—	(119,427)	—
	11/9/18	161,560	699,997	1/9/23	(8.48)%	—	—	161,560

1. The fair value is independently calculated and has been determined by the Board as the best estimate of the awarded financial value at the grant date.
2. HPSRs awarded in 2017 lapsed during the year as a result of the higher hurdle test applied in year 5 not being met.

Shares and Share Rights held

Details of KMP DPSRs, Restricted Shares and HPSRs held as at 30 June 2023 are set out below:

KMP	Instrument	Number held at 1 July 2022[1]	Number granted as remuneration	Number forfeited	Number vested	Number held at 30 June 2023
Current KMP						
N Hamilton	DPSRs	90,357	—	—	(39,263)	51,094
	RS	60,866	99,840	—	(18,260)	142,446
	HPSRs	836,912	386,381	(20,899)	—	1,202,394
A Bell	DPSRs	2,260	—	—	(1,130)	1,130
	RS	—	56,100	—	(28,050)	28,050
	HPSRs	167,448	149,760	(122,678)	—	194,530
A Kapel	DPSRs	11,865	—	—	(5,279)	6,586
	RS	3,880	27,954	—	(1,164)	30,670
	HPSRs	258,366	191,693	(39,240)	—	410,819
V Rodriguez	DPSRs	34,524	—	—	(15,550)	18,974
	RS	23,290	27,954	—	(6,987)	44,257
	HPSRs	539,456	191,693	(59,713)	—	671,436

1.Opening balances include awards granted to the individual prior to becoming a KMP.

Remuneration report (continued)

Key Management Personnel and their affiliates' shareholdings in Challenger Limited

Details of KMP and their affiliates' shareholdings in Challenger Limited as at 30 June 2023 are detailed below, along with the number of unvested DPSRs and Restricted Shares. The CEO and other KMP are required to have a minimum shareholding equal to two times and one times their fixed remuneration respectively. From the date of appointment, KMP have a five-year transition period to reach the minimum shareholding.

							Shareholding as a multiple of fixed remuneration[1]	
KMP[2]	Year	Opening balance	Number of vested Share Rights	Number of shares (sold)/ acquired	Closing balance of shares	Number of unvested DPSRs & RS	Fully owned shares	Shares, RS and DPSRs
Current KMP								
N Hamilton[3]	**2023**	**36,150**	**57,523**	**—**	**93,673**	**193,540**	**0.6**	**1.7**
	2022	17,769	48,381	(30,000)	36,150	151,223	0.3	1.5
A Bell[3]	**2023**	**—**	**29,180**	**—**	**29,180**	**29,180**	**0.4**	**0.9**
	2022	—	—	—	—	—	—	—
A Kapel[3]	**2023**	**2,000**	**6,443**	**—**	**8,443**	**37,256**	**0.1**	**0.5**
	2022	—	—	—	2,000	15,745	—	—
V Rodriguez[3]	**2023**	**45,874**	**22,537**	**—**	**68,411**	**63,231**	**0.8**	**1.6**
	2022	—	—	—	45,874	—	—	—
Total	**2023**	**84,024**	**115,683**	**—**	**199,707**	**323,207**		
	2022	17,769	48,381	(30,000)	84,024	166,968		

1. Shareholding multiple based on 30 June 2023 closing share price of $6.48 (30 June 2022: $6.84).
2. Where an individual held a KMP role for part of either the current or prior reporting period, disclosure is pro rata for the period in which they were KMP. Refer to Section 'Key Management Personnel' for further details.
3. Mr Hamilton (KMP from 23 September 2019 and CEO from 1 January 2022), Ms Bell (KMP from 1 December 2022), Mr Kapel (KMP from 1 June 2022) and Mr Rodriguez (KMP from 1 August 2022) are within their transition period.

Nicolas Hamilton – Managing Director & CEO

All equity awards for the Managing Director & CEO are satisfied by the purchase of shares on market. The following table summarises the notice periods and payments which apply to Mr Hamilton upon termination.

	Notice period	Payment in lieu of notice	Eligibility for STI	Treatment of unvested shares and share rights[4]
Bad leaver termination[1]	Employee initiated: 12 months Employer initiated (poor performance): 12 months Employer initiated (Misconduct): None	The Board may elect to make a payment of salary package in lieu of notice None	No	Lapse
Good leaver termination[2]	Employee initiated: 12 months Employee initiated (Material change[3]): 3 months Employer initiated: 12 months	The Board may elect to make a payment of salary package in lieu of notice	Eligible for a pro-rata STI payable at the usual payment date	Deferred STIs remain 'on foot' if termination is at least two years after grant date. LTIs remain 'on foot' pro-rata based on proportion of vesting period served.

1. Includes where employment is terminated by Challenger for poor performance, misconduct or resignation without the prior approval of the Board.
2. Any circumstances that do not constitute a bad leaver termination.
3. Material change means where there is a substantial diminution of Mr Hamilton's duties, status, responsibilities and/or authority arising without his agreement. In the case of a material change, Mr Hamilton is entitled to receive a payment equal to nine months fixed remuneration in addition to any payment in lieu in respect of the applicable three-month notice period.
4. Awards which do not lapse remain subject to the specified time-based vesting conditions and/or performance hurdles and to the rules of the CPP.

Key Management Personnel (excluding Managing Director & CEO) employment agreements and notice periods

KMP do not have fixed terms of employment. The notice period for Challenger and the KMP is 26 weeks unless terminated for cause.

Upon termination, if the KMP is considered a bad leaver (i.e. terminated by Challenger for poor performance, misconduct or resignation without the prior approval of the Board), all unvested awards will be forfeited. In all other circumstances, the KMP is considered a good leaver and entitled to a pro-rata STI award and any awards issued under CPP from 1 July 2019 onwards are subject to specific good leaver conditions specified at the time of grant. Board discretion applies in relation to unvested awards issued under the CPP prior to 30 June 2019.

Loans and other transactions

There were no loans made to Directors or key executives as at 30 June 2023 (30 June 2022: nil). From time to time, Directors of the Company or their Director-related entities may purchase products from the Company. These purchases are on the same arm's length terms and conditions as those offered to other employees or customers.

Remuneration report (continued)

Non-Executive Director disclosures

Fee pool

The maximum aggregate amount of annual fees is approved by shareholders in accordance with the requirements of the *Corporations Act 2001.*

The current fee pool of $2,500,000 was approved by shareholders in 2016.

Fee framework and review

Challenger aims to attract and retain suitably skilled and experienced Non-Executive Directors to serve on the Board and to reward them appropriately for their time and expertise.

Non-Executive Directors are remunerated by way of fees paid in recognition of membership of the Board and its committees.

Additional fees are paid to the Chair of the Board and sub-committee chairs and members to reflect added responsibilities.

Fees are benchmarked annually to align with the market and to attract, retain and appropriately reward quality independent directors.

On recommendation from the Group Remuneration Committee, the Board approves the fee structure within the bounds of the overall maximum fee pool.

Following the review undertaken in July 2022:

- no changes were made to Board or Committee Chair and Member fees; and
- no change was made to the maximum fee pool.

With the retirement of Mr Polson in October 2022, the Board took the opportunity to reset the Board Chair fee, which is inclusive of all committee and subsidiary board fees, for the incoming Chair.

The following table summarises the chair and member fees applicable to the Board for the year ended 30 June 2023. All amounts are inclusive of superannuation, where applicable.

	2023 fee structure		2022 fee structure	
Board/Committee	Chair fee[3] $	Member fee $	Chair fee $	Member fee $
Board[1,2]	450,000	179,000	525,500	179,000
Group Risk Committee	47,000	23,500	47,000	23,500
Group Audit Committee	47,000	23,500	47,000	23,500
Group Remuneration Committee	47,000	23,500	47,000	23,500
Bank Board[4]	50,000	25,000	50,000	25,000

1. Board Chair fees are inclusive of all services provided at the committee and subsidiary board level.
2. Board member fees are inclusive of Nomination Committee fees and fees for services provided at the subsidiary board level (except in respect of the Bank Board).
3. The Chair fee for 2023 was reset in October 2022.
4. The Bank Board fee includes membership of any Bank Board committees.

Non-Executive Director fees for the year ended 30 June 2023

The following table summarises Non-Executive Director fees for the year ended 30 June 2023.

Non-Executive Director	Year	Director fees $	Superannuation $	Total $
D West[1]	**2023**	**383,167**	**—**	**383,167**
	2022	251,559	—	251,559
J M Green	**2023**	**274,208**	**25,292**	**299,500**
	2022	264,531	23,468	287,999
S Gregg	**2023**	**244,208**	**25,292**	**269,500**
	2022	242,818	23,521	266,339
M Kobayashi[2]	**2023**	**—**	**—**	**—**
	2022	—	—	—
H Smith	**2023**	**241,928**	**25,292**	**267,220**
	2022	216,005	21,600	237,605
J Stephenson	**2023**	**287,708**	**25,292**	**313,000**
	2022	282,099	23,568	305,667
M Willis	**2023**	**264,208**	**25,292**	**289,500**
	2022	257,873	23,544	281,417
Former Non-Executive Director				
P Polson[3]	**2023**	**170,996**	**—**	**170,996**
	2022	525,500	—	525,500
Total	**2023**	**1,866,423**	**126,460**	**1,992,883**
	2022	2,040,385	115,701	2,156,086

1. Mr West was appointed as Chair on 27 October 2022. He provides a service through a company; fees exclude GST.
2. Mr Kobayashi as a shareholder representative, does not receive fees. Similarly his alternate Director, Mr Iioka, does not receive fees.
3. Mr Polson retired from the Board on 27 October 2022.

Superannuation

Non-Executive Directors receive superannuation contributions where required by Superannuation Guarantee legislation.

Equity participation

Non-Executive Directors do not receive equity as part of their remuneration and do not participate in any incentive arrangements.

Remuneration report (continued)

Non-Executive Director disclosures (continued)

Non-Executive Director shareholdings in Challenger Limited at 30 June 2023

Details of the Non-Executive Directors' and their affiliates' shareholdings in Challenger Limited are set out below:

Non-Executive Director	Year	Opening balance	Movements	Closing balance
D West[1]	**2023**	**25,901**	**16,000**	**41,901**
	2022	25,901	—	25,901
J M Green	**2023**	**22,784**	**—**	**22,784**
	2022	16,944	5,840	22,784
S Gregg[2]	**2023**	**14,000**	**—**	**14,000**
	2022	14,000	—	14,000
M Kobayashi[3]	**2023**	**—**	**—**	**—**
	2022	—	—	—
H Smith[1]	**2023**	**18,705**	**—**	**18,705**
	2022	10,000	8,705	18,705
J Stephenson	**2023**	**26,629**	**—**	**26,629**
	2022	21,629	5,000	26,629
M Willis	**2023**	**156,836**	**—**	**156,836**
	2022	156,836	—	156,836
Former Non-Executive Director				
P Polson	**2023**	**128,944**	**—**	**128,944**
	2022	128,944	—	128,944
Total	**2023**	**393,799**	**16,000**	**409,799**
	2022	374,254	19,545	393,799

1. Mr West and Ms Smith are within the five-year transitional period in which to acquire the required shareholding.
2. Due to significant share price movement in recent years, Mr Gregg's shareholdings as at 30 June 2023 did not satisfy the minimum shareholding requirements.
3. Mr Kobayashi is exempt from the minimum shareholding requirements. His alternate director, Mr Iioka, is also exempt.

Total remuneration of KMP and Non-Executive Directors[1]

KMP and Non-Executive Directors	Short-term benefits $	Post-employment benefits $	Share-based payments $	Other benefits $	Total $
Non-Executive Directors					
2023	**1,866,423**	**126,460**	**—**	**—**	**1,992,883**
2022	2,040,385	115,701	—	—	2,156,086
KMP					
2023	**4,781,261**	**106,439**	**2,825,481**	**13,395**	**7,726,576**
2022	5,971,343	117,840	3,807,179	137,798	10,034,160
All KMP and Non-Executive Directors					
2023	**6,647,684**	**232,899**	**2,825,481**	**13,395**	**9,719,459**
2022	8,011,728	233,541	3,807,179	137,798	12,190,246

1. No termination payments were made to KMPs or NEDs during the period.

Summary of key terms and abbreviations used in the Remuneration Report

Key term	Description
Awarded remuneration	Represents the value of remuneration that has been awarded for the financial year. This includes fixed remuneration, STI (cash and deferred) and LTI (face value).
Board	The Board of Directors of Challenger Limited is the main body responsible for the implementation of effective remuneration governance and related risk management practices at Challenger.
CPP	*Challenger Performance Plan.* Deferred equity awards are issued under the CPP.
CPP Trust	*Challenger Performance Plan Trust.* The CPP Trust was established in 2006 for the purpose of acquiring, holding and transferring shares to employees upon the vesting of their equity awards.
DPSR	*Deferred Performance Share Right.* Prior to 1 July 2021, deferred STI awards were delivered as DPSRs under the CPP. DPSRs represent the right to receive a fully paid ordinary Challenger share for zero consideration subject to continued employment at the time of vesting. DPSRs do not provide an entitlement to vote or a right to dividends; however, employees with unvested DPSRs may receive a distribution of income from the CPP Trust. The Board has discretion to amend or withdraw DPSRs at any point.
Face value	The number of DPSRs, Restricted Shares and/or HPSRs granted to KMP is determined based on the face value of the shares using a five-day volume weighted average price (VWAP) prior to the grant date.
Fair value	The number of HPSRs awarded to KMP prior to 1 July 2019 was calculated by reference to the fair value. The fair value for HPSRs is calculated on the basis outlined in Note 29 Employee entitlements and reflects the fair value of the benefit derived at the date at which they were granted. An independent third party determines the fair value using an option pricing model and discounted cash flow methodology, as appropriate.
HPSR	*Hurdled Performance Share Right.* LTI awards are delivered as HPSRs under the CPP. HPSRs represent the right to receive a fully-paid ordinary Challenger share for zero consideration subject to satisfying an employment condition and Challenger satisfying the absolute TSR performance hurdle. HPSRs do not provide an entitlement to vote or a right to dividends. The Board has discretion to amend or withdraw HPSRs at any point.
KMP	*Key Management Personnel.* Persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any Director (whether executive or otherwise) as defined in AASB 124 ***Related Party Disclosures.***
LTI	*Long-term incentive.* LTIs are awarded annually to KMP to support a continued focus on long-term performance outcomes. Executives will only realise value from LTIs if total shareholder returns exceed the hurdles set, ensuring a direct link between executive reward and shareholder outcomes.
Normalised NPAT	*Normalised net profit after tax.* Excludes asset or liability valuation movements that are above or below expected long-term trends and significant items that may positively or negatively impact financial results. Refer to the Operating and financial review section for further information.
Normalised ROE (pre-tax)	*Normalised return on equity (pre-tax).* Normalised profit before tax divided by average net assets.
Normalised NPBVRT	*Normalised net profit before variable reward and tax.* Excludes any asset or liability valuation movements that are above or below expected long-term trends and any significant items that may positively or negatively impact the financial results, and excludes STI expense, employee share award expense and tax.
Remuneration Committee	The Board convenes a Remuneration Committee comprising Independent Non-Executive Directors and which is a delegated committee of the Board to assist the Board in discharging its responsibilities.
Restricted Share	Deferred STI awards are delivered as Restricted Shares under the CPP. A Restricted Share is a beneficial interest in a fully-paid ordinary Challenger share acquired for zero consideration. Restricted Shares are subject to disposal restrictions and vest subject to satisfaction of an employment condition. Restricted Shares provide an entitlement to vote and a right to dividends.
Statutory remuneration	Represents the accounting expense of remuneration for the financial year. This includes fixed remuneration, cash STI awards, the fair value amortisation expense of share-based awards granted up to Statement of financial position date, long service leave entitlements and insurance.
STI	*Short-term incentive.* STIs are used to reward KMP and employees for significant contributions to Challenger's results over the course of the financial year. Individual STI awards are allocated on the basis of annual contribution and with reference to STI targets and market benchmarks. The Board has discretion to amend or withdraw the STI at any point. STIs may be awarded in the form of cash and/or equity.
TSR	*Total shareholder return.* TSR represents the change in share price plus dividends received over a given timeframe. Challenger uses absolute TSR as the measure of performance for HPSRs.
Variable remuneration	Consists of cash STI and share-based awards. Share-based awards comprise Restricted Shares (DPSRs prior to 1 July 2021) and HPSRs.
VWAP	*Volume weighted average price.* Ratio of the value of shares traded to total volume traded over a time horizon. A five-day VWAP is used to calculate the number of DPSRs per dollar of deferred STIs. A five-day VWAP is used to calculate the number of HPSRs per dollar of LTIs. A 90-day VWAP is also used for absolute TSR performance testing (start and end price) for HPSR awards.

Indemnification and insurance of Directors and officers

In accordance with its Constitution, and where permitted under relevant legislation or regulation, the Company indemnifies the Directors and officers against all liabilities to another person that may arise from their position as Directors or officers of the Company and its subsidiaries, except where the liability arises out of conduct that is fraudulent, dishonest, criminal, malicious or a reckless act, error or omission.

In accordance with the provisions of the ***Corporations Act 2001***, the Company has insured the Directors and officers against liabilities incurred in their role as Directors and officers of the Company. The terms of the insurance policy, including the premium, are subject to confidentiality clauses and therefore the Company is prohibited from disclosing the nature of the liabilities covered and the premium paid.

Indemnification of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement agreement. The primary purpose of the indemnity is to indemnify Ernst & Young for any loss that it may suffer as a result of a false representation given by Challenger management where a claim is made against Ernst & Young by a third party.

There is a caveat if Ernst & Young's loss results from its own negligence or wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

Environmental regulation and performance

Some members of the Group act as a trustee or responsible entity for a number of trusts that own assets both in Australia and overseas. Some of these assets are subject to environmental regulations under Commonwealth, state and offshore legislation. The Directors are satisfied that adequate systems are in place for the management of the Group's environmental responsibilities and compliance with various legislative, regulatory and licence requirements. Further, the Directors are not aware of any breaches of these requirements, and to the best of their knowledge all activities have been undertaken in compliance with environmental requirements.

Significant events after the balance date

Elanor strategic partnership and sale of Australian Real Estate business

On 7 July 2023, Challenger completed the sale of its Australian real estate business to Elanor Investors Group (ASX:ENN; Elanor).

Consideration of $38 million was received in new securities issued by Elanor, which was calculated using an issue price based on Elanor's one-month volume weighted average price on 5 April 2023, on an ex-entitlement basis. Elanor has issued 24.8 million new securities representing approximately 17% of Elanor securities on issue on a non-diluted basis and subject to claw-back provisions over a three-year period linked to achieving performance hurdles. Up to half of the securities issued can be clawed back by Elanor.

As part of the transfer of the ADIC mandate, Challenger agreed to transfer 4.5 million of the 24.8 million new securities in Elanor to ADIC resulting in Challenger's and ADIC's holding in Elanor representing approximately 14% and 3% of total Elanor securities on issue respectively.

At the date of this financial report, no other matter or circumstance has arisen that has, or may significantly affect, the Group's operations, the results of those operations or the Group's state of affairs in future financial years which has not already been reflected in this report.

Challenger announced as Aware Super's partner to provide defined benefit solution

Challenger was selected to provide a group lifetime annuity policy to the value of $619 million that will de-risk the fund's lifetime pension liabilities from investment, inflation and longevity risk. The policy commenced from 31 July 2023.

Rounding

The amounts contained in this report and the financial report have been rounded to the nearest $100,000, unless otherwise stated, under the option available to the Group under Australian Securities and Investments Commission (ASIC) ***Corporations Instrument 2016/191.***

Non-audit services

The Group Audit Committee has reviewed details of the amounts paid or payable for non-audit services provided to Challenger during the year ended 30 June 2023 by the Company's auditor, Ernst & Young.

The Directors are satisfied that the provision of those non-audit services by the auditor is compatible with the general standard of independence for auditors imposed by the ***Corporations Act 2001*** and did not compromise the auditor independence requirements of the ***Corporations Act 2001*** for the following reasons:

- all non-audit services were approved in accordance with the Auditor Independence Policy, which outlines the approval process that must occur for all non-audit services and which involves the Challenger CEO, CFO or delegate, depending on size and circumstances; and
- no non-audit services were carried out that were specifically excluded by the Auditor Independence Policy.

For details of fees for non-audit services paid to the auditors, refer to Note 30 Remuneration of auditor in the financial report.

Authorisation

Signed in accordance with a resolution of the Directors of Challenger Limited:

D West
Independent Chair

14 August 2023

N Hamilton
Managing Director and Chief Executive Officer

14 August 2023

Auditor's independence declaration

The Directors received the following declaration from the auditor of Challenger Limited:

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of Challenger Limited

As lead auditor for the audit of the financial report of Challenger Limited for the financial year ended 30 June 2023, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Challenger Limited and the entities it controlled during the financial year.

Ernst & Young

Graeme McKenzie
Partner
14 August 2023

Financial report

Financial statements

Statement of comprehensive income 91
Statement of financial position 92
Statement of changes in equity 93
Statement of cash flows 94

Notes to the financial statements

Section 1: Basis of preparation and overarching significant accounting policies 95

Section 2: Key numbers 99
- Note 1 Revenue 99
- Note 2 Expenses 101
- Note 3 Segment information 102
- Note 4 Income tax 106

Section 3: Operating assets and liabilities 108
- Note 5 Investment assets 108
- Note 6 Investment property 110
- Note 7 Loan assets 113
- Note 8 Life contract liabilities 114
- Note 9 External unit holders' liabilities 119
- Note 10 Derivative financial instruments 120
- Note 11 Notes to Statement of cash flows 123

Section 4: Capital structure and financing costs 124
- Note 12 Contributed equity 124
- Note 13 Interest bearing financial liabilities 127
- Note 14 Reserves and retained earnings 131
- Note 15 Finance costs 132
- Note 16 Dividends paid and proposed 132
- Note 17 Earnings per share 133

Section 5: Risk management 134
- Note 18 Financial risk management 134
- Note 19 Fair values of investment assets and liabilities 141
- Note 20 Collateral arrangements 144

Section 6: Group structure 145
- Note 21 Parent entity 145
- Note 22 Controlled entities 146
- Note 23 Discontinued operation and business held for sale 147
- Note 24 Investment in associates and joint ventures 149
- Note 25 Related parties 150

Section 7: Other items 152
- Note 26 Goodwill and other intangible assets 152
- Note 27 Lease assets and liabilities 155
- Note 28 Contingent liabilities, contingent assets and credit commitments 156
- Note 29 Employee entitlements 158
- Note 30 Remuneration of auditor 161
- Note 31 Subsequent events 161

Signed reports

Directors' declaration 162
Independent auditor's report 163

Investor information 170

Additional information 173

This financial report covers Challenger Limited (the Company) and its controlled entities (the Group or Challenger).

Statement of comprehensive income

For the year ended 30 June	Note	2023 $m	2022[1] $m
Revenue	1	2,459.3	1,212.7
Expenses	2	(1,527.3)	(1,209.8)
Finance costs	15	(549.3)	331.5
Share of profits of associates and joint ventures	24	25.3	38.0
Profit before income tax		**408.0**	**372.4**
Income tax expense	4	(112.5)	(108.1)
Profit for the year after income tax from continuing operations		**295.5**	**264.3**
Loss for the year after income tax from discontinued operations	23	(8.0)	(10.6)
Total profit for the year after income tax[2]		**287.5**	**253.7**
Other comprehensive income			
Items that may be reclassified to profit and loss, net of tax			
Translation of foreign entities	14	(6.3)	(20.6)
Hedge of net investment in foreign entities	14	(4.2)	20.8
Net gain on cash flow hedges	14	0.2	0.4
Other comprehensive (loss) / income for the year		(10.3)	0.6
Total comprehensive income for the year after tax[2]		**277.2**	**254.3**
Earnings per share attributable to ordinary shareholders of Challenger Limited on continuing operations		**Cents**	**Cents**
Basic	16	42.1	37.5
Diluted	16	37.9	33.1

1. Comparative information has been restated to reflect the sale of the Challenger Bank as detailed in Note 23.
2. Profit from non-controlling interests for the year ended 30 June 2023 was less than $0.1 million (30 June 2022: nil).

The Statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June	Note	2023 $m	2022 $m
Assets			
Cash and cash equivalents		593.4	733.1
Receivables		697.1	647.5
Current tax assets	4	6.1	—
Derivative assets	10	601.1	577.2
Investment assets	5	24,317.3	22,805.9
Bank assets held for sale[1]	23	206.7	—
Investment property	6	3,269.2	3,483.3
Loan assets	7	374.9	551.7
Finance leases		24.9	19.7
Property, plant and equipment		23.5	24.8
Investment in associates	24	81.9	74.9
Other assets		43.9	53.8
Right-of-use lease assets	27	24.3	29.0
Deferred tax assets	4	86.3	137.1
Goodwill	26	579.9	579.9
Other intangible assets	26	7.5	7.3
Total assets of shareholders of Challenger Limited and non-controlling interests		**30,938.0**	**29,725.2**
Liabilities			
Payables		854.6	726.2
Current tax liability	4	—	66.5
Derivative liabilities	10	611.3	839.6
Bank liabilities held for sale	23	182.0	—
Deposits from customers		—	227.7
Interest bearing financial liabilities	13	5,836.6	5,783.0
External unit holders' liabilities	9	5,268.8	4,386.4
Provisions		28.2	44.3
Lease liabilities	27	54.7	62.5
Deferred tax liabilities	4	7.4	5.3
Life contract liabilities	8	13,930.0	13,595.4
Total liabilities of shareholders of Challenger Limited and non-controlling interests		**26,773.6**	**25,736.9**
Net assets of shareholders of Challenger Limited and non-controlling interests		**4,164.4**	**3,988.3**
Equity			
Contributed equity	12	2,513.1	2,481.5
Reserves	14	(35.8)	(49.3)
Retained earnings	14	1,683.1	1,556.1
Total equity of shareholders of Challenger Limited		**4,160.4**	**3,988.3**
Non-controlling interest		4.0	—
Total equity of shareholders of Challenger Limited and non-controlling interests		**4,164.4**	**3,988.3**

1. Current year balances have been impacted by Challenger Bank being held for sale. For details refer to Note 23.

The Statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

		Attributable to shareholders of Challenger Limited								
For the year ended 30 June 2022	Note	Contributed equity $m	Share-based payment reserve $m	Cash flow hedge reserve $m	Foreign currency translation reserve $m	Controlling interest reserve $m	Retained earnings $m	Total shareholder equity $m	Non-controlling interests[1] $m	Total equity $m
Balance at 1 July 2021		**2,425.5**	**(52.8)**	**(0.4)**	**(3.4)**	**5.7**	**1,451.2**	**3,825.8**	**—**	**3,825.8**
Profit for the year from continuing operations		—	—	—	—	—	264.3	264.3	—	264.3
Loss for the year from discontinued operations		—	—	—	—	—	(10.6)	(10.6)	—	(10.6)
Other comprehensive income		—	—	0.4	0.2	—	—	0.6	—	0.6
Total comprehensive income for the year		**—**	**—**	**0.4**	**0.2**	**—**	**253.7**	**254.3**	**—**	**254.3**
Other equity movements										
Ordinary shares issued	12	15.1	—	—	—	—	—	15.1	—	15.1
Treasury shares purchased	12	(7.9)	—	—	—	—	—	(7.9)	—	(7.9)
Treasury shares vested	12	12.9	—	—	—	—	—	12.9	—	12.9
Settled forward purchases of Treasury shares	12	7.9	—	—	—	—	—	7.9	—	7.9
Share-based payment expense net of tax less releases		—	1.0	—	—	—	—	1.0	—	1.0
Shares issued under Capital Notes 1 conversion		28.0	—	—	—	—	—	28.0	—	28.0
Dividends paid	16	—	—	—	—	—	(148.8)	(148.8)	—	(148.8)
Balance at 30 June 2022		**2,481.5**	**(51.8)**	**—**	**(3.2)**	**5.7**	**1,556.1**	**3,988.3**	**—**	**3,988.3**
For the year ended 30 June 2023										
Profit for the year from continuing operations		—	—	—	—	—	295.5	295.5	—	295.5
Loss for the year from discontinued operations		—	—	—	—	—	(8.0)	(8.0)		(8.0)
Other comprehensive income		—	—	0.2	(10.5)	—	—	(10.3)	—	(10.3)
Total comprehensive income for the year		**—**	**—**	**0.2**	**(10.5)**	**—**	**287.5**	**277.2**	**—**	**277.2**
Other equity movements										
Ordinary shares issued	12	38.0	—	—	—	—	—	38.0	—	38.0
Treasury shares purchased	12	(30.4)	—	—	—	—	—	(30.4)	—	(30.4)
Treasury shares vested	12	9.6	—	—	—	—	—	9.6	—	9.6
Settled forward purchases of Treasury shares	12	14.4	—	—	—	—	—	14.4	—	14.4
Share-based payment expense net of tax less releases		—	12.8	—	—	—	—	12.8	—	12.8
Dividends paid	16	—	—	—	—	—	(160.5)	(160.5)	—	(160.5)
Other movements		—	—	—	—	11.0	—	11.0	4.0	15.0
Balance at 30 June 2023		**2,513.1**	**(39.0)**	**0.2**	**(13.7)**	**16.7**	**1,683.1**	**4,160.4**	**4.0**	**4,164.4**

[1] Profit from non-controlling interests for the year ended 30 June 2023 was less than $0.1 million (30 June 2022: nil).

The Statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June	Note	2023 $m	2022 $m
Operating activities			
Receipts from customers		707.6	680.1
Annuity and premium receipts	8	5,546.4	5,150.6
Annuity and claim payments	8	(5,529.8)	(4,339.1)
Bank deposit receipts[1]		—	219.3
Bank deposit payments[1]		—	(125.8)
Receipts from external unit holders		4,229.3	4,583.5
Payments to external unit holders		(3,687.4)	(3,436.4)
Payments to vendors and employees		(651.0)	(633.3)
Dividends received		66.9	73.3
Interest received		894.3	633.3
Interest paid		(180.1)	(53.8)
Income tax paid		(122.6)	(264.9)
Net cash inflows from operating activities	11	**1,273.6**	**2,486.8**
Investing activities			
Payments for net purchases of investments		(1,492.1)	(2,310.3)
Proceeds from sale of controlled entity, net of disposal costs and cash disposed		—	8.7
Payments for purchase of controlled entity, net of cash acquired		—	(28.9)
Proceeds from sale of associate		—	51.1
Loan repayments		163.7	159.9
Payments for purchases of property, plant and equipment and other intangibles		(7.9)	(2.9)
Payments for purchase of associate interest		(1.2)	(0.9)
Net cash outflows from investing activities		**(1,337.5)**	**(2,123.3)**
Financing activities			
Costs associated with issue of ordinary shares		—	(0.1)
Net proceeds from borrowings – interest bearing financial liabilities	13	215.9	(476.5)
Payments for lease liabilities		(7.8)	(7.8)
Payments for Treasury shares		(19.0)	(1.7)
Dividends paid		(122.5)	(133.7)
Proceeds from issue of ordinary shares in subsidiaries		15.0	—
Proceeds from the issue of Challenger Capital Notes 4	13	350.0	—
Costs associated with the issue of Challenger Capital Notes 4	13	(6.6)	—
Repayment of Challenger Capital Notes 2	13	(460.0)	—
Net cash outflows from financing activities		**(35.0)**	**(619.8)**
Net decrease in cash and cash equivalents from continuing operations		**(98.9)**	**(256.3)**
Cash and cash equivalents at the beginning of the year		733.1	989.4
Cash and cash equivalents prior to transfers		**634.2**	**733.1**
Net increase in cash and cash equivalents from discontinued operations	23	17.3	—
Cash and cash equivalents transferred to assets held for sale	23	(58.1)	—
Cash and cash equivalents at the end of the year		**593.4**	**733.1**

1. Current year cash flows have been impacted by Challenger Bank being held for sale. For details refer to Note 23.

The Statement of cash flows should be read in conjunction with the accompanying notes.

Section 1: Basis of preparation and overarching significant accounting policies

Challenger Limited (the Company or the parent entity) is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange (ASX).

The financial report for Challenger Limited and its controlled entities (the Group or Challenger) for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the Directors of the Company on 14 August 2023.

(i) Basis of preparation and statement of compliance

This is a general purpose financial report that has been prepared in accordance, and complies, with the requirements of the ***Corporations Act 2001***, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Challenger Limited is a for-profit entity for the purposes of preparing financial statements.

The Group has prepared the financial statements on the basis that it will continue to operate as a going concern. The Directors consider that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

Where necessary, comparative information has been restated to conform to presentation as required in the current period. Discontinued operations are excluded from the results of the continuing operations and are presented as a single line item 'loss for the year after income tax from discontinued operations' in the Statement of comprehensive income. Assets and liabilities of discontinued operations have been presented separately as held for sale on the Statement of financial position.

Unless otherwise stated, amounts in this financial report are presented in Australian dollars and have been prepared on an historical cost basis. The assets and liabilities disclosed in the Statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity. In the disclosure, the current/non-current split is between items expected to be settled within 12 months (current) and those expected to be settled in greater than 12 months (non-current).

(ii) Significant accounting judgements, estimates and assumptions

The carrying values of amounts recognised on the Statement of financial position are often based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the recognised amounts within the next annual reporting period are disclosed individually within each of the relevant notes to the financial statements.

(iii) New and revised accounting standards and policies

The accounting policies and methods of computation are the same as those adopted in the annual report for the prior comparative period, unless otherwise stated.

Interest rate benchmark reform

Interbank Offered Rates (IBORs), including the LIBOR and Euribor, are interest rate benchmarks which are commonly used to determine interest rates and payment obligations for a wide range of financial arrangements such as loans, bonds and derivatives.

One of the reforms mandated by the Financial Stability Board following the financial crisis was to advocate for benchmark IBORs, such as LIBOR, to be replaced by new official benchmark rates, known as Alternative Reference Rates (ARRs). USD LIBOR settings including the overnight, one, three, six and twelve-month settings, ceased publication on 30 June 2023.

The Group was exposed to interest rate benchmark reform through various financial instruments including derivatives and investment assets. As at 30 June 2023, the Group had no exposure to instruments referencing rates which had ceased publication. Contracts held by the Group that referenced LIBOR or other IBORs that have ceased publication were transitioned to ARRs or closed out.

New accounting standards and amendments that are effective in the current financial year

The Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2022.

New and revised Standards and amendments thereof and interpretations effective for the current year that are relevant to the Group include:

- AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date*; and
- AASB 2021-7 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* (insofar as the Standard relates to editorial corrections that are effective in the current year.)

Accounting standards and interpretations issued but not yet effective

AASB 17 *Insurance Contracts*

AASB 17 *Insurance Contracts* replaces AASB 4 *Insurance Contracts*, AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts,* and is effective for Challenger from 1 July 2023.

(iii) New and revised accounting standards and policies (continued)

Accounting standards and interpretations issued but not yet effective (continued)

The first full year financial statements presented under AASB 17 will be for the year ended 30 June 2024 with restated comparatives for the year to 30 June 2023 and restated opening balance sheet as at 1 July 2022. The first half year financial statements under AASB 17 will be for the period ended 31 December 2023, with restated comparatives for the period to 31 December 2022.

AASB 17 ***Insurance Contracts*** establishes globally consistent principles for the recognition, measurement, presentation and disclosure of life insurance contracts issued. Life investment contracts are currently measured under AASB 9 ***Financial Instruments*** and will continue to be measured in the same way.

On 27 September 2022, APRA finalised changes to the capital and reporting frameworks for insurance in response to the introduction of AASB 17. The revised prudential and reporting standards will come into effect from 1 July 2023 and the impact on capital requirements is not expected to be material.

The impact on income tax is uncertain, pending responses from Treasury and the Australian Taxation Office (ATO).

Key changes for the Group under AASB 17 are set out below:

- Insurance contract portfolios will be disaggregated to more granular levels and will be required to be evaluated by risk type, issue year and profitability.
- Although conceptually similar, the Contractual Service Margin (CSM) recognises profit on a different basis to the current Margin on Services (MoS) approach and therefore the profit signature will change for portfolios with positive profit margins.
- A new risk adjustment for non-financial risk will be introduced which reflects the compensation that the Group requires for bearing the uncertainty in relation to the amount and timing of cash flows. The confidence level used to determine the risk adjustment will need to be disclosed.
- Additional disclosures will be more extensive, requiring increased granularity and more analysis of movements.

The Group has materially completed its implementation program, including finalising material judgements and accounting policies and upgrading data and systems that will produce valuation and key disclosures required under AASB 17. Key considerations for the Group during implementation of AASB 17 were:

- Measurement model – The Group is adopting the General Measurement Model (GMM). In principle, the GMM is similar to the current MoS methodology as prescribed under AASB 1038. The GMM is a detailed methodology that requires enhanced data capture and storage for additional modelling and processes.
- Separating components – The Group has assessed the requirements to unbundle features and components under AASB 17 and is satisfied no unbundling is required.
- Level of aggregation – AASB 17 requires insurance contracts that are subject to similar risks and managed together, to be allocated to a portfolio. AASB 17 requires that each portfolio be divided into a minimum of:

1. a group that is onerous (loss-making) at initial recognition;
2. a group that at initial recognition has no significant possibility of becoming onerous subsequently; and
3. a group of any remaining contracts in the portfolio.

Due to the nature of the insurance products that Challenger offers its customers, most of the portfolios will be designated as onerous. If a portfolio is designated as onerous, a CSM calculation will not be required; however, tracking the loss component will be required under AASB 17.

- Risk adjustment – The Group is expecting to adopt a risk adjustment methodology that aligns with the cost of capital approach.
- Discount rates – The Group is expecting to apply a 'bottom-up approach', which uses risk-free rates adjusted to reflect the illiquidity characteristics of the insurance contracts. The impact of unwinding the discount and changes in discount rates (referred to as insurance finance income/ expense) will be fully recognised in profit and loss, as opposed to disaggregating it between profit and loss and comprehensive income as allowed by the standard.
- Disclosure – AASB 17 introduces a new way of viewing life insurance revenue and expenses and accompanying financial disclosures. Under AASB 17, insurance contract revenue will be allocated to each period in proportion to the reduction in liability over the remaining coverage period.
- Transition balance sheet – Insurance contracts will need to be restated at 1 July 2022 (being the transition date). The Group intends to apply the full retrospective approach to derive the transition adjustment; however, the Group notes it may be impracticable in some cases, especially for older cohorts where assumptions cannot be determined without the use of hindsight, in which case a fair value approach will be applied.

Financial impact on AASB 17 transition

Based on the assessment performed to date, the expected impact of adopting AASB 17 on the Group's net assets as at 1 July 2022 is a reduction of between $190 million and $290 million (pre-tax), with a corresponding impact on retained earnings. The impact is primarily driven by the requirement to apply current discount rates for measuring the fulfilment cash flows, and locked in discount rates for measuring the CSM on non-onerous contracts, disaggregating non-onerous portfolios from onerous portfolios whereby profits will now be progressively released rather than released immediately, as well as the introduction of a risk adjustment.

Prior period reclassifications

As part of the AASB 17 implementation project, the Group completed a review of insurance risk across the liability portfolio and determined that several contract types previously classified as life insurance do not carry significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Significant insurance risk is required to meet the definition of an insurance contract under AASB 1038 ***Life Insurance Contracts*** and AASB 17 ***Insurance Contracts***. While the impacted contracts carry features that may result in the Group paying additional benefits, these additional benefits are not expected to be significant and they arise primarily due to

Prior period reclassifications (continued)

discounting factors. Accordingly, those identified contracts have been retrospectively reclassified as investment contracts. The reclassification is immaterial on both net asset and reported earnings, but the following financial statement disclosures have been impacted:

- Statement of comprehensive income;
- Note 1 Revenue;
- Note 2 Expenses;
- Note 3 Segment information;
- Note 8 Life contract liabilities;
- Note 18 Financial risk management; and
- Note 19 Fair values of investment assets and liabilities.

For more information on the accounting policy for life contract liabilities, refer to Note 8 in the financial statements.

(iv) Comparatives

Where necessary, comparative figures have been reclassified to conform to any changes in presentation made in this financial report.

(v) Rounding of amounts

Unless otherwise stated, amounts contained in this report and the financial report have been rounded to the nearest $100,000 under the option available to the Group under ASIC Corporations Instrument 2016/191.

(vi) Foreign currency

Both the presentation currency and the functional currency of the Company and its controlled Australian entities are Australian dollars. A number of foreign controlled entities have a functional currency other than Australian dollars.

Transactions in foreign currency are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Australian dollars at the foreign exchange rate at the Statement of financial position date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

Non-monetary items measured at fair value in a foreign currency are translated to the functional currency using the exchange rates at the date when the fair value was determined. Derivatives are used to hedge the foreign exchange risk relating to certain transactions. Refer to Note 10 Derivative financial instruments.

Foreign controlled entities

On consolidation, the assets and liabilities of foreign subsidiaries whose functional currency differs from the presentation currency are translated into Australian dollars at the rate of exchange at the Statement of financial position date. Exchange differences arising on the retranslation are taken directly to the foreign currency translation reserve in equity.

The change in fair value of derivative financial instruments designated as a hedge of the net investment in a foreign controlled entity is also recognised in the foreign currency translation reserve.

On disposal of a foreign controlled entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Statement of comprehensive income.

(vii) Finance leases

Where Challenger acts as a lessor, leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. Contracts to lease assets and hire purchase agreements are classified as finance leases for accounting purposes if they transfer substantially all the risks and rewards of ownership of the asset to the customer or an unrelated third party. Assets held under a finance lease are recognised at the beginning of the lease term at an amount equal to the net investment in the lease which comprises the gross investment in the lease discounted at the interest rate implicit in the lease.

The collectability of lease receivables is assessed on an ongoing basis and a provision for expected credit loss is made using inputs such as historical rates of arrears and the current delinquency position of the portfolio. Bad debts are written off as incurred.

(viii) Property, plant and equipment

Items of property, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis to realise the net cost of each class of these assets over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful life of property, plant and equipment is three to five years.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Impairment losses are recognised in the Statement of comprehensive income.

Any impairment losses recognised in prior periods are reversed through the Statement of comprehensive income if there has been observable indications that the asset's value has increased significantly during the period as a result of favourable changes in the technological, market, economic or legal environment that determined the asset's recoverable amount since the last impairment loss was recognised.

The increased carrying amount of an asset attributable to a reversal of an impairment loss would not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

(ix) Other assets

Other assets are mainly comprised of prepayments and rental bond deposits. Prepayments are recognised in the Statement of financial position at the value of the prepayment. These are amortised in the Statement of comprehensive income when the related expense is incurred, generally within the subsequent 12 months.

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the Statement of financial position date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs

(xi) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the applicable amount of GST, except where the amount of the GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated with the applicable amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of financial position.

Cash flows are included in the Statement of cash flows on a gross (GST-inclusive) basis. The GST components of cash flows arising from investing and financing activities that are recoverable from, or payable to, the ATO are classified as operating cash flows.

(xii) Receivables

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. The entity has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue. The modelling methodology applied in estimating expected credit losses in these financial statements is consistent with that applied in the financial statements for the year ended 30 June 2022.

(xiii) Payables

Payables represent unsecured non-derivative, non-interest bearing financial liabilities in respect of goods and services provided to the Group prior to the end of the financial year. They include accruals, trade and other creditors and are recognised at amortised cost, which approximates fair value.

Section 2: Key numbers

This section presents the results and performance of the Group for the year and provides additional information about those line items on the Statement of comprehensive income that the Directors consider most relevant in the context of understanding the financial components of the Group's operations.

Note 1 Revenue

	30 June 2023 $m	30 June 2022 $m
Investment revenue		
Fixed income securities, loan assets and cash		
Interest revenue[1]	982.9	631.0
Net realised and unrealised gains/(losses) on fixed income securities	31.9	(1,384.7)
Investment property and property securities		
Property rental revenue	238.1	269.8
Dividend and distribution revenue	2.4	2.5
Net realised and unrealised (losses)/gains on investment property and property securities	(165.7)	149.1
Equity and infrastructure investments		
Dividend and distribution revenue	40.2	27.5
Net realised and unrealised gains on equity investments	51.7	131.2
Net realised and unrealised losses on infrastructure investments	(8.7)	(40.9)
Other		
Net realised and unrealised gains on foreign exchange translation and hedges	74.3	140.3
Net realised and unrealised gains/(losses) on interest rate derivatives	226.1	(474.0)
Net realised and unrealised gains on equity swap derivatives	43.0	46.2
Net realised and unrealised gains/(losses) on credit default swap derivatives	63.1	(101.4)
Net realised and unrealised gains/(losses) on commodities derivatives	27.6	(2.9)
Net realised and unrealised (losses)/gains on hedged commodities	(1.4)	12.2
Fee revenue		
Management and performance fee revenue	225.7	240.1
Transaction fee revenue	24.2	23.0
Other revenue		
Life insurance contract premiums and related revenue[2]	426.5	290.0
Change in life insurance contract liabilities	34.4	743.0
Change in life investment contract liabilities	142.9	458.2
Change in reinsurance contract liabilities	0.1	(0.8)
Gain on disposal of subsidiary and associate[3]	—	53.3
Total revenue[4,5]	**2,459.3**	**1,212.7**

1. This includes interest revenue earned for items measured at amortised cost using the effective interest method $16.3 million (30 June 2022: $18.2 million) and interest revenue earned for items measured at fair value through profit and loss $966.6 million (30 June 2022: $612.8 million).
2. Changes in life insurance and investment contract liabilities arising from new business, annuity payments, discount rates, inflation rates and other assumptions are recognised as revenue, with other movements being included in Note 2 Expenses.
3. There were no subsidiary or associate disposals during the year. (30 June 2022: Gain on the disposal of Accurium Pty Ltd and Whitehelm Capital Pty Limited.)
4. Comparative information has been restated to reflect the Bank being classified as a discontinued operation. See Note 23.
5. Comparatives have been restated to reflect the reclassification of life contract types that do not carry significant insurance risk from life insurance contracts to life investment contracts. Prior comparative period total revenue was $1,860.7 million.

Note 1 Revenue (continued)

Accounting policy

Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing services to a customer. Revenues and expenses are recognised on an accrual basis. The following specific policies are applied.

- Interest revenue is recognised as it accrues using an effective interest rate method, taking into account the effective yield of the investment asset. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of a financial instrument, or where appropriate, a shorter period. Interest revenue on finance leases is recognised on a basis that reflects a constant periodic return on the net investment in the finance lease.
- Gains or losses arising from changes in the fair value of financial instruments and hedged commodities are classified as fair value through profit and loss and recognised as revenue in the Statement of comprehensive income when the change in value is recognised in the Statement of financial position.
- Property rental revenue is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned.
- Lease incentives granted are recognised as part of the total rental income. Operating lease rental income is recognised on a straight-line basis over the life of the contract.
- Dividend revenue from listed equity shares and listed property securities is recognised as income on the date the share is quoted ex-dividend. Dividend revenue from unlisted equity shares and unlisted property securities is recognised when the dividend is declared.
- Proceeds from the sale of rental assets are recognised upon disposal of the relevant assets.
- Management fees are invoiced quarterly based on a percentage of the funds under management (FUM). The fees relate specifically to the services provided in that quarter, and are distinct from services provided in other quarters.
- Performance fees are based on returns in excess of a specified benchmark market return, over the contract period. Performance fees are typically received at the end of the performance period specified in the contract. The Group recognises revenue from performance fees over the contract period, but only to the extent that it is highly probable that a significant reversal of revenue will not occur in subsequent periods.
- Transaction fee revenue is accrued when the transaction is executed.
- Life insurance contract premiums are recognised as revenue when risk is transferred to the Group.
- Changes in life insurance and investment contract liabilities arising from discount rates, inflation rates and other assumptions are recognised as revenue, with other movements being included in Note 2 Expenses.

Refer to Note 8 Life contract liabilities for more details on the accounting policy of life contract liabilities.

Note 2 Expenses

	30 June 2023 $m	30 June 2022 $m
Life insurance contract claims and expenses	348.9	309.5
Cost of life insurance contract liabilities	164.3	96.6
Cost of life investment contract liabilities	408.7	198.4
Investment property-related expenses[1]	69.3	73.1
Management and performance fee expense	148.4	151.1
Distribution expenses	63.9	52.7
Employee expenses	194.6	194.0
Employee share-based payments	16.8	13.0
Occupancy expense – operating lease	4.8	4.7
Amortisation of right-of-use lease asset	6.0	5.8
Depreciation and amortisation expense	8.5	8.0
Technology and communications	33.4	30.5
Professional fees	48.3	37.6
Other expenses	11.4	34.8
Total expenses[2,3]	**1,527.3**	**1,209.8**

1. Investment property-related expenses relate to rental income generating investment properties.
2. Comparative information has been restated to reflect the Bank being classified as a discontinued operation. See Note 23.
3. Comparatives have been restated to reflect the reclassification of life contract types that do not carry significant insurance risk from life insurance contracts to life investment contracts. Prior comparative period total expenses was $1,872.9 million.

Accounting policy

Expenses are recognised on an accrual basis. The following specific policies are applied.

- Investment property expenditure, including rates, taxes, insurance and other costs associated with the upkeep of a building, are brought to account on an accrual basis. Repair costs are expensed when incurred. Rental expenses incurred under an investment property operating lease are recognised on a straight-line basis over the term of the lease. Other amounts that improve the condition of the investment are capitalised into the carrying value of the asset.
- Life insurance contract claims and expenses are recognised when the liability to the policyholder under the contract has been established.
- Servicing costs incurred on deposits from customers are calculated using the effective interest rate method, which discounts the deposits' estimated future cash payments to their present value and allocates the interest expense over their expected life.
- Cost of life insurance and life investment contract liabilities recognised as an expense consists of the interest expense on the liability and any loss on the initial recognition of new business, less the release of liability in respect of expenses incurred in the current period. The interest expense on the liability represents the unwind of the discount on the opening liability over the period, whereas the impacts of changes in the discount rate applied for the current valuation are included in the change in life contract liabilities disclosed in Note 1 Revenue.

Refer to Note 8 Life contract liabilities for more details on the accounting policy of life contract liabilities.

Note 3 Segment information

Operating segments

The reporting segments[1] of the Group have been identified as follows.

30 June 2023	Life $m	FM $m	Bank $m	Corporate and other[2] $m	Investment experience after tax $m	Significant items after tax[4] $m	Total $m
Net income	653.0	178.8	8.8	1.6			842.2
Operating expenses	(112.5)	(117.2)	(17.6)	(70.2)			(317.5)
Normalised EBIT	**540.5**	**61.6**	**(8.8)**	**(68.6)**			**524.7**
Interest and borrowing costs	—	—	—	(4.0)			(4.0)
Normalised net profit/(loss) before tax	**540.5**	**61.6**	**(8.8)**	**(72.6)**			**520.7**
Tax on normalised profit							(156.7)
Normalised net profit after tax							**364.0**
Other adjustments[3]	—	—	(1.4)	—	(67.8)	(7.3)	(76.5)
Profit attributable to the shareholders of Challenger Ltd							**287.5**

30 June 2022	Life $m	FM $m	Bank $m	Corporate and other[2] $m	Investment experience after tax $m	Significant items after tax[4] $m	Total $m
Net income	582.8	191.8	2.3	—			776.9
Operating expenses	(110.5)	(109.0)	(13.4)	(67.6)			(300.5)
Normalised EBIT	**472.3**	**82.8**	**(11.1)**	**(67.6)**			**476.4**
Interest and borrowing costs	—	—	—	(4.1)			(4.1)
Normalised net profit/(loss) before tax	**472.3**	**82.8**	**(11.1)**	**(71.7)**			**472.3**
Tax on normalised profit							(150.8)
Normalised net profit after tax							**321.5**
Other adjustments[3]	—	—	(0.9)	—	(81.2)	14.3	(67.8)
Profit attributable to the shareholders of Challenger Ltd							**253.7**

1. Refer to following page for definitions of the terms used in the management view of segments.
2. Corporate and other includes corporate companies, SPV, non-controlling interests and Group eliminations.
3. The amount within the Bank segment relates to expected credit loss provision and fair value adjustments.
4. FY23 significant items of $7.3 million (after tax) represents the costs related to the sale of the Real Estate business to Elanor (ASX: ENN), costs related to the implementation of AASB 17 and costs related to the sale of the Bank to Heartland. FY22 significant items of $14.3 million (after tax) largely represent net proceeds associated with the sale of Funds Management affiliates partially offset by costs relating to the integration and goodwill impairment of the Bank.

Note 3 Segment information (continued)

Other statutory information

	Life		FM		Bank[2]		Corporate and other		Total	
	2023 $m	2022 $m	2023 $m	2022 $m	2023 $m	2022 $m	2023 $m	2022 $m	2023 $m	2022 $m
Revenue from external customers[1]	1,241.1	976.7	235.3	249.6	—	—	—	—	1,476.4	1,226.3
Interest revenue	981.1	630.9	0.3	—	—	—	1.5	0.1	982.9	631.0
Interest expense	(525.5)	370.9	(0.6)	(1.3)	—	—	(23.2)	(38.1)	(549.3)	331.5
Intersegment revenue	(46.9)	(41.8)	46.9	41.8	—	—	—	—	—	—
Depreciation and amortisation	(3.8)	(3.9)	(3.6)	(3.4)	—	—	(1.1)	(0.8)	(8.5)	(8.1)
As at 30 June										
Segment assets	24,157.7	22,766.8	332.7	320.0	242.6	391.1	6,205.0	6,247.3	30,938.0	29,725.2
Segment liabilities	(20,426.4)	(19,234.2)	(23.0)	(28.8)	(182.0)	(271.1)	(6,142.2)	(6,202.8)	(26,773.6)	(25,736.9)
Net assets	**3,731.3**	**3,532.6**	**309.7**	**291.2**	**60.6**	**120.0**	**62.8**	**44.5**	**4,164.4**	**3,988.3**

1. Funds Management revenue from external customers is predominantly management fees.
2. The Bank has been classified as held for sale and a discontinued operation in the period. See Note 23.

Definitions

Operating segments

The following segments are identified on the basis of internal reporting to Key Management Personnel, including the Chief Executive Officer of the Group, and comprise component parts of the Group that are regularly reviewed by senior management in order to allocate resources and assess performance.

Life

The Life segment principally includes the annuity and life insurance business carried out by CLC. CLC offers fixed rate and other retirement and superannuation products that are designed for Australian investors who are seeking a low-risk, fixed term or lifetime investment and reliable income. CLC also offers fixed term and lifetime investments to investors in Japan through its reinsurance arrangement with MS&AD. CLC invests in assets providing long-term income streams for customers.

Funds Management

Funds Management earns fees from its Fidante and CIM operations, providing an end-to-end funds management business. Funds Management has equity investments in a number of Fidante's affiliate fund managers and, through the CIM business, offers a range of managed investments across fixed income and property.

Corporate and other

The Corporate and other segment, which is not considered an operating segment of the Group includes its share of profit or loss in Artega and the Apollo Joint Venture. It is also used to reconcile the total segment results back to the consolidated results and consists of other income and costs that fall outside the
day-to-day operations of the reportable segments. These include the costs of the Group CEO and CFO, shared services across the Group, long-term incentive costs, Directors' fees, corporate borrowings and associated borrowing costs and shareholder registry services. To reconcile to Group results, the Corporate and other segment also includes eliminations and non-core activities of the Group.

Operating segments — discontinued operations

Bank

The Bank provides a range of savings and lending products, including government guaranteed term deposits to customers in Australia. On 20 October 2022, Challenger Limited announced that it has entered into a share sale agreement to sell Challenger Bank Limited to Heartland Group Holdings Limited. The Bank is now classified as held for sale and is considered to be a discontinued operation in line with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Transactions between segments

All transactions and transfers between segments are generally determined on an arm's length basis and are included within the relevant categories of income and expense. These transactions eliminate on consolidation.

Note 3 Segment information (continued)

Normalised vs statutory results

Net income and operating expenses differ from revenue and expenses as disclosed in the Statement of comprehensive income as certain direct costs (including distribution expenses, property expenses and management fees) included in expenses are netted off against revenues in deriving the management view of net income. Net income consists of the following sub-categories of management view of revenue:

- normalised cash operating earnings (Life segment);
- net interest margin (Bank segment — this has been included as a discontinued operation);
- net income (Funds Management segment); and
- other income (Corporate and other segment).

Revenue also includes investment gains and losses which are excluded from the management view as they form part of investment experience (refer below).

Normalised cash operating earnings

This is calculated as cash earnings plus normalised capital growth. Cash earnings represent the sum of investment yield (being the management view of revenue from investment assets, such as net rental income, dividends and interest), interest expense, distribution expenses and fees.

Normalised EBIT

Normalised earnings before interest and tax (EBIT) comprises net income less operating expenses, as defined above. It excludes investment experience, corporate interest and borrowing costs, tax and any significant items (refer below).

Tax on normalised profit

This represents the consolidated statutory tax expense or benefit for the period, less tax attributable to investment experience and significant items.

Investment experience after tax

The Group is required by accounting standards to value applicable assets and liabilities supporting the life insurance business at fair value. This can give rise to fluctuating valuation movements being recognised in the Statement of comprehensive income, particularly during periods of market volatility.

As the Group is generally a long-term holder of assets, due to assets being held to match the term of life contract liabilities, the Group takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term volatility. Investment experience is a mechanism employed to isolate the volatility arising from asset and liability valuations within the results so as to more accurately reflect the underlying performance of the Group.

Investment experience is calculated as the difference between the actual investment gains/losses (both realised and unrealised) and the normalised capital growth (refer below) plus life contract valuation changes and new business strain. Investment experience after tax is investment experience net of tax at the prevailing income tax rate.

Normalised capital growth

This is determined by multiplying the normalised capital growth rate for each asset class by the average investment assets for the period. The normalised growth rates represent the Group's medium to long-term capital growth expectations for each asset class over the investment cycle.

The annual normalised growth rates are +4.0% for equity and infrastructure, +2.0% for property, 0.0% for alternatives and -0.35% for cash and fixed income. The rates have been set with reference to the composition of the asset classes and medium to long-term market growth rates, and are reviewed to ensure consistency with prevailing market conditions. The rates for the prior period were unchanged.

Asset and liability experience

Asset and liability experience is calculated as the difference between actual investment gains/losses (both realised and unrealised and based on fair value) and the normalised capital growth in relation to assets plus any economic and actuarial assumption changes in relation to policy liabilities for the period.

New business strain

New business strain is a non-cash valuation adjustment recognised when annuity rates on new business are higher than the risk-free rate used to fair value life contracts. Maintenance expense allowances over the expected future term of the new business are also included in the life contract valuation. New business strain reported in the period represents the valuation loss on new sales generated in the current period net of the reversal of new business strain of prior period sales.

Significant items after tax

The Group presents additional non-IFRS financial information to the market to provide meaningful insights into the financial condition of the business. Due consideration has been given to ensure that disclosure of Challenger's normalised profit framework is explained, reconciled and calculated consistently. Within this framework, Challenger defines significant items as non-recurring or abnormal income or expense items.

Major customers

No individual customer amounted to greater than 10% of the Group's segment as defined above.

Geographical areas

The Group operates predominantly in Australia, hence no geographical split is provided to the chief operating decision maker. Reinsurance of annuities issued by Mitsui Sumitomo Primary Life Insurance Company Limited ("MS Primary") accounted for $740.9 million of the Group's annuity and premium receipts in the 2023 financial year out of the total annuity and premium receipts of $5,546.4 million (2022: $616.6 million out of total of $5,150.5 million) and comprised 17.5% of total policy liabilities outstanding as at 30 June 2023 (2022: 16.1%); while the underlying annuitant resides in Japan, the reinsurance service provided by CLC is considered to be Australian business and is therefore not recognised as a geographically separate segment.

Note 3 Segment information (continued)

	30 June 2023 $m	30 June 2022 $m
Reconciliation of management to statutory view of after-tax profit		
Operating segments normalised net profit before tax	593.3	544.0
Corporate and other normalised net loss before tax	(72.6)	(71.7)
Normalised net profit before tax (management view of pre-tax profit)	**520.7**	**472.3**
Tax on normalised profit	(156.7)	(150.8)
Normalised net profit after tax	**364.0**	**321.5**
Investment experience after tax	(67.8)	(81.2)
Bank — other adjustments	(1.4)	(0.9)
Significant items after tax	(7.3)	14.3
Statutory view of profit after tax	**287.5**	**253.7**
Reconciliation of management view of revenue to statutory revenue		
Operating segments	840.6	776.9
Corporate and other	1.6	—
Net income (management view of revenue)	**842.2**	**776.9**
Expenses and finance costs offset against revenue		
Loan asset expenses and finance costs offset against loan asset income	8.2	2.8
Distribution expenses offset against related income	63.9	52.7
Change in life contract liabilities and reinsurance contracts recognised in expenses[1]	921.9	604.5
Property-related expenses offset against property income	69.3	73.1
Interest and loan amortisation costs	491.2	(373.2)
Management fee expenses	148.4	151.1
Gain on disposal of subsidiary and associate	—	53.3
Net income of discontinued operations[2]	6.5	(2.3)
Adjustment for other items	7.1	(10.8)
Difference between management view of investment experience and statutory recognition		
Actual capital growth	(106.1)	(211.8)
Normalised capital growth	(26.0)	(48.8)
Policyholder liability experience	119.6	187.7
New business strain	(86.9)	(42.4)
Statutory revenue (refer Note 1 Revenue)[1]	**2,459.3**	**1,212.7**

1. Comparative information has been restated to reflect a number of contract types being reclassified to investment contracts following a review of insurance risk across the liability portfolio.
2. The Bank has been included as a segment within management's view but is a discontinued operation for statutory reporting. Therefore, the reconciliation removes the net income of discontinued operations in reconciling to the statutory revenue balance. Prior year balances have been restated accordingly.

Note 4 Income tax

Reconciliation of income tax expense	30 June 2023 $m	30 June 2022 $m
Profit before income tax	408.0	372.4
Prima facie income tax based on the Australian company tax rate of 30%	(122.4)	(111.7)
Tax effect of amounts not assessable/deductible in calculating taxable income:		
- Challenger Capital Notes distributions	(12.8)	(8.6)
- non-assessable and non-deductible items	14.9	4.2
- tax rate differentials	9.8	9.7
- other items	(2.0)	(1.7)
Income tax expense	**(112.5)**	**(108.1)**
Underlying effective tax rate[1]	27.6 %	29.0 %

[1]Comparative information has been restated to reflect the Bank being classified as a discontinued operation. See Note 23.

Analysis of income tax expense	30 June 2023 $m	30 June 2022 $m
Current income tax expense for the year	(47.7)	(297.7)
Current income tax (expense)/benefit prior year adjustment	(16.0)	7.4
Deferred income tax (expense)/benefit for the year	(63.2)	190.4
Deferred income tax benefit/(expense) prior year adjustment	14.4	(8.2)
Income tax expense	**(112.5)**	**(108.1)**
Income tax benefit on translation of foreign entities	0.5	9.1
Income tax benefit/(expense) on hedge of net investment in foreign operations	1.8	(8.9)
Income tax benefit from other comprehensive income[1]	**2.3**	**0.2**

[1] Comparative information has been restated to reflect the Bank being classified as a discontinued operation. See Note 23.

	Statement of financial position		Statement of comprehensive income	
Analysis of deferred tax	30 June 2023 $m	30 June 2022 $m	30 June 2023 $m	30 June 2022 $m
Deferred tax assets				
Accruals and provisions	45.3	40.4	7.0	(8.7)
Employee entitlements	5.6	6.3	(0.6)	0.8
Tax losses	6.9	7.5	(0.5)	(5.4)
Unrealised net losses on investments	54.7	78.1	(23.4)	78.1
Other	13.7	17.8	—	(2.4)
Total deferred tax assets	**126.2**	**150.1**	**(17.5)**	**62.4**
Set-off of deferred tax assets	**(39.9)**	**(13.0)**		
Net deferred tax assets recognised in Statement of financial position	**86.3**	**137.1**		
Deferred tax liabilities				
Unrealised foreign exchange movements	(31.6)	(2.7)	(31.1)	6.7
Unrealised net gains on investments	(9.5)	—	(9.5)	124.0
Other	(6.2)	(15.6)	9.3	(10.9)
Total deferred tax liabilities	**(47.3)**	**(18.3)**	**(31.3)**	**119.8**
Set-off of deferred tax liabilities	**39.9**	**13.0**		
Net deferred tax liabilities recognised in Statement of financial position	**(7.4)**	**(5.3)**		
Deferred income tax (expense)/benefit recognised in Statement of comprehensive income			**(48.8)**	**182.2**

Note 4 Income tax (continued)

Tax Transparency Code disclosures

Australia and overseas tax expense	30 June 2023 $m	30 June 2022 $m	Change $m
Total Australia	(104.8)	(98.7)	(6.1)
Total overseas	(7.7)	(9.4)	1.7
Income tax expense	**(112.5)**	**(108.1)**	**(4.4)**

Analysis of current tax (asset)/liability	30 June 2023 $m	30 June 2022 $m
Opening balance	66.5	48.1
Current income tax expense for the year	47.7	293.1
Current income tax prior year adjustment	16.0	(7.4)
Tax in equity	(9.8)	(0.4)
Income tax paid	(122.6)	(264.9)
Other	(3.9)	(2.0)
Closing balance	**(6.1)**	**66.5**

Unrecognised deferred tax balances	30 June 2023 $m	30 June 2022 $m
Non-tax consolidated group revenue losses — tax effected	12.9	8.9
Tax consolidated group capital losses — tax effected	56.4	56.4

Accounting policy

Income tax expense

Income tax expense for the year comprises current and deferred tax. Income tax is recognised in the Statement of comprehensive income except to the extent that it relates to items recognised directly in equity.

Current tax assets and liabilities

Current tax assets and liabilities for the current and prior periods are the amounts expected to be recovered from or paid to the taxation authorities based on the respective period's taxable income. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted as at the Statement of financial position date. Current tax assets and liabilities have been offset where there is a legally enforceable right to set off.

Deferred income tax assets and liabilities

Deferred income tax is provided on temporary differences at the Statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognised for deductible or taxable temporary differences and are measured at the tax rates that are expected to apply to the year the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantially enacted as at the Statement of financial position date. Deferred income tax assets and liabilities have been offset where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group who have a legal right and an intention to settle on a net basis. Deferred tax assets are recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Tax consolidation

Challenger Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. Challenger Limited is the head entity of the tax consolidated group.

Tax effect accounting by members of the tax group

Members of the tax consolidated group have applied tax funding principles under which Challenger Limited and each of the members of the tax consolidated group agree to pay or receive tax equivalent amounts to or from the head entity, based on the current tax liability or current tax asset of the member. Such amounts are reflected in the amounts receivable from or payable to each member and the head entity. The group allocation approach is applied in determining the appropriate amount of current tax liability or current tax asset to allocate to members of the tax consolidated group.

Key estimates and assumptions

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Section 3: Operating assets and liabilities

This section discloses information relating to the assets and liabilities underpinning the Group's financial performance and the key sources of funding for those assets. It further presents the derivative financial instruments employed to hedge the Group's financial risk exposures, and consolidated information relating to the cash flows of the Group.

Note 5 Investment assets

	30 June 2023 $m	30 June 2022 $m
Investment assets held at fair value through profit and loss	24,317.3	22,561.9
Investment assets held at amortised cost	—	244.0
Total investment assets	**24,317.3**	**22,805.9**

Held at fair value through profit and loss	30 June 2023 $m	30 June 2022 $m
Domestic sovereign bonds and semi-government bonds	4,632.7	4,540.1
Floating rate notes and corporate bonds	6,317.6	6,079.3
Residential mortgage and asset-backed securities	9,229.4	9,342.0
Non-Special Purpose Vehicle (SPV)/ADI mortgage assets	272.1	96.7
Fixed income securities	**20,451.8**	**20,058.1**
Shares in listed and unlisted corporations	21.2	30.8
Unit trusts, managed funds and other	2,623.0	1,537.5
Equity securities	**2,644.2**	**1,568.3**
Simple Agreement for Future Equity	20.0	—
Debt securities	**20.0**	**—**
Units in listed and unlisted infrastructure trusts	51.9	49.7
Other infrastructure investments	232.2	251.1
Infrastructure investments	**284.1**	**300.8**
Indirect property investments in listed and unlisted trusts	89.3	90.2
Property securities	**89.3**	**90.2**
Hedged commodities[1]	827.9	544.5
Other investment assets	**827.9**	**544.5**
Total investment assets – fair value through profit and loss	**24,317.3**	**22,561.9**
Current	15,981.6	14,368.3
Non-current	8,335.7	8,193.6
	24,317.3	**22,561.9**

1. The precious metals commodities strategy provides Challenger an opportunity to earn a spread between the price of physical commodities and the price of short futures contracts, resulting in an immaterial exposure to the underlying commodities price.
2. ADI = Authorised deposit-taking institution.

Note 5 Investment assets (continued)

Accounting policy

The Group categorises its investment assets as investment assets — fair value through profit and loss (being initially designated as such) and investment assets at amortised cost. Assets designated as fair value through profit and loss consist of fixed income, equity, infrastructure, property securities and hedged commodities. They are carried at fair value, with unrealised gains and losses being recognised through the Statement of comprehensive income.
Purchases and sales of investment assets are recognised on the date on which the Group commits to purchase or sell the asset and when all risks and rewards of ownership have been substantially transferred. Investment assets are then derecognised when the right to receive cash flows from the asset has expired.

The fair value of investment assets that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the Statement of financial position date. Assets backing life contract liabilities of the statutory funds are required to be designated as fair value through profit and loss in accordance with AASB 1038 ***Life Insurance Contracts*** when permitted by other Australian Accounting Standards.

Key estimates and assumptions

Unlisted investment valuations

Investments held at fair value through profit and loss for which there is no active market or external valuation available are valued making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum, either by:

- reference to the current market value of another instrument that is substantially the same;
- using recent arm's length market transactions;
- option pricing models refined to reflect the issuer's specific circumstances;
- discounted cash flow analysis; or
- other methods consistent with market best practice.

Refer to Note 18 Financial risk management for further disclosure.

Note 6 Investment property

	30 June 2023 $m	30 June 2022 $m
Investment property in use	3,269.2	3,483.3
Total investment property	**3,269.2**	**3,483.3**

	Investment property held for sale		Investment property in use		Development property held for sale	
Reconciliation of carrying amounts	**30 June 2023 $m**	**30 June 2022 $m**	**30 June 2023 $m**	**30 June 2022 $m**	**30 June 2023 $m**	**30 June 2022 $m**
Balance at the beginning of the year	—	388.0	3,483.3	3,389.7	—	8.0
Movements for the year						
– acquisitions[1]	—	—	10.4	—	—	—
– disposals[2]	(78.2)	(388.7)	—	—	—	(8.0)
– net transfers to/(from) investment property held for sale	79.1	—	(79.1)	—	—	—
– capital expenditure	0.1	0.7	33.8	19.4	—	—
– net revaluation (loss)/gain	(1.0)	—	(160.7)	155.2	—	—
– foreign exchange loss	—	—	(18.5)	(81.0)	—	—
Balance at the end of the year	**—**	**—**	**3,269.2**	**3,483.3**	**—**	**—**

1. Investment property acquisitions: Helicon Drive, SA $10.4m (30 June 2022: Nil).
2. Investment and development property disposals: Bunbury Forum, WA $78.2m (30 June 2022: County Court, VIC $388.7m and Maitland, NSW $8.0m).

Accounting policy

Investment and development property

Investment and development property is initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment and development property is recognised at fair value.

Investment and development property is classified as held for sale if its carrying value will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when management is committed to the sale, and the sale is highly probable to occur in the next 12 months. Investment and development property held for sale is carried at fair value, being the latest valuation available, or agreed sale price.

Gains or losses arising from changes in the fair values of investment properties are included in the Statement of comprehensive income in the period in which they arise.

Investment and development properties are derecognised when they have either been disposed of or when the investment and development property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment or development property is recognised in the Statement of comprehensive income in the year of retirement or disposal.

Where properties are debt financed, that finance is provided either by secured mortgages or by funding that contains a number of negative undertakings (including undertakings not to create or allow encumbrances, and undertakings not to incur financial indebtedness which ranks in priority to existing debt).

Note 6 Investment property (continued)

Accounting policy (continued)

Key estimates and assumptions

Independent valuations for all investment properties are conducted at least annually by suitably qualified valuers, and the Directors make reference to these independent valuations when determining fair value. For the year ended 30 June 2023, all investment properties were valued by external valuers.

Each independent valuer is appointed in line with the valuation policy, which requires that valuers are authorised to practise under the law of the relevant jurisdiction where the valuation takes place and have at least five years of continuous experience in the valuation of property of a similar type to the property being valued, and on the basis that they are engaged for no longer than two consecutive years on an individual property.

The valuer must have no pecuniary interest that could conflict with the valuation of the property, must be suitably indemnified and must comply with the Australian Property Institute (API) Code of Ethics and Rules of Conduct (or foreign equivalent).

Fair value for the purposes of the valuation is market value as defined by the International Assets Valuation Standards Committee. In determining market value, valuers examine available market evidence and apply this analysis to both the traditional market capitalisation approach and the discounted cash flow approach (using market-determined risk-adjusted discount rates).

Valuers are required to provide valuation methodology and calculations for fair value including reference to annual net market income, comparable capitalisation rates and property-specific adjustments. The values of investment property do not reflect anticipated enhancement from future capital expenditure.

Analysis of investment property as at 30 June	Acquisition date[1]	Total cost[2] $m	Carrying value 2023 $m	Cap rate 2023[3] %	Last external valuation date	Carrying value 2022 $m	Cap rate 2022[3] %
Investment property in use and held for sale							
Australia							
6 Chan Street (formerly DIBP Building), ACT	01-Dec-01	128.6	265.0	4.88	30-Jun-23	281.0	4.63
14 Childers Street, ACT	01-Dec-17	101.3	81.5	6.50	30-Jun-23	85.0	6.25
21 O'Sullivan Circuit, NT	27-Jan-16	47.9	28.9	7.25	30-Jun-23	29.5	7.25
31 O'Sullivan Circuit, NT	27-Jan-16	34.2	35.2	7.00	30-Jun-23	32.7	6.75
35 Clarence Street, NSW	15-Jan-15	163.3	229.0	5.50	30-Jun-23	241.0	5.00
45 Benjamin Way (formerly ABS Building), ACT	01-Jan-00	152.9	247.0	5.25	30-Jun-23	259.0	5.13
82 Northbourne Avenue, ACT	01-Jun-17	62.9	45.5	6.13	30-Jun-23	51.0	5.63
215 Adelaide Street, QLD	31-Jul-15	266.6	209.5	6.88	30-Jun-23	227.0	5.88
565 Bourke Street, VIC	28-Jan-15	113.2	134.2	5.75	30-Jun-23	155.0	4.88
839 Collins Street, VIC	22-Dec-16	212.0	232.0	5.13	30-Jun-23	254.0	4.63
Bunbury Forum, WA[4]	03-Oct-13	—	—	—	N/A	79.1	7.00
Channel Court, TAS	21-Aug-15	89.1	86.5	7.00	30-Jun-23	89.0	6.75
Cosgrave Industrial Park, Enfield, NSW	31-Dec-08	93.1	185.9	4.25	30-Jun-23	181.3	3.75
Discovery House, ACT	28-Apr-98	105.7	166.0	5.00	30-Jun-23	173.0	4.88
Executive Building, TAS	30-Mar-01	35.8	47.2	6.25	30-Jun-23	49.0	5.50
Gateway, NT	01-Jul-15	123.6	108.7	6.61	30-Jun-23	110.0	6.34
Golden Grove, SA	31-Jul-14	162.3	153.0	6.25	30-Jun-23	155.5	6.00
Helicon Drive, SA	05-Oct-22	10.8	10.0	5.75	30-Jun-23	—	—
Karratha, WA	28-Jun-13	58.5	49.5	7.50	30-Jun-23	51.0	6.88
Kings Langley, NSW	29-Jul-01	16.6	28.0	5.50	30-Jun-23	28.9	5.00
Lennox, NSW	27-Jul-13	68.7	75.0	6.25	30-Jun-23	79.0	6.00
North Rocks, NSW	18-Sep-15	190.0	187.0	5.75	30-Jun-23	195.0	5.50
Total Australia		**2,237.1**	**2,604.6**			**2,806.0**	

1 Acquisition date represents the date of initial acquisition or consolidation of the investment vehicle holding the asset.
2 Total cost represents the original acquisition cost plus additions less full and partial disposals since acquisition date.
3 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.
4 Sold in November 2022.

Note 6 Investment property (continued)

Analysis of investment property as at 30 June (continued)	Acquisition date[1]	Total cost[2] $m	Carrying value 2023 $m	Cap rate 2023[3] %	Last external valuation date	Carrying value 2022 $m	Cap rate 2022[3] %
Europe							
Avenue de Savigny, Aulnay sous Bois	31-Dec-08	20.3	10.0	7.75	30/6/2023	10.0	7.00
Japan							
Aeon Kushiro	31-Jan-10	30.5	30.5	5.40	30-Jun-23	30.9	5.40
Aeon Matsusaka XD	26-Sep-19	14.7	12.2	5.20	30-Jun-23	12.2	5.60
Carino Chitosedai	31-Jan-10	119.2	110.1	4.40	30-Jun-23	113.9	4.50
Carino Tokiwadai	31-Jan-10	77.9	68.1	4.50	30-Jun-23	67.3	4.60
DeoDeo Kure	31-Jan-10	32.2	27.0	5.50	30-Jun-23	27.8	5.50
Fitta Natalie Hatsukaichi	28-Aug-15	12.0	11.8	5.80	30-Jun-23	12.1	5.80
Izumiya Hakubaicho	31-Jan-10	69.9	61.7	4.80	30-Jun-23	63.6	4.80
Kansai Super Saigo	31-Jan-10	13.3	11.6	5.40	30-Jun-23	11.8	5.50
Kojima Nishiarai	31-Jan-10	12.2	13.0	4.30	30-Jun-23	13.1	4.10
Kotesashi Towers	28-Nov-19	25.2	18.7	5.00	30-Jun-23	19.3	5.07
Life Asakusa	31-Jan-10	28.0	30.5	4.10	30-Jun-23	31.0	4.20
Life Higashi Nakano	31-Jan-10	33.2	32.0	4.20	30-Jun-23	33.0	4.30
Life Nagata	31-Jan-10	25.2	24.2	4.20	30-Jun-23	24.7	4.90
MaxValu Tarumi	28-Aug-15	17.0	15.9	5.70	30-Jun-23	16.3	5.70
Seiyu Miyagino	31-Jan-10	9.8	9.1	5.10	30-Jun-23	9.3	5.20
TR Mall Ryugasaki	30-Mar-18	86.7	79.7	5.40	30-Jun-23	80.7	5.50
Valor Takinomizu	31-Jan-10	28.0	21.0	5.70	30-Jun-23	21.3	5.80
Valor Toda	31-Jan-10	42.5	36.3	5.20	30-Jun-23	37.3	5.20
Yaoko Sakado Chiyoda	31-Jan-10	19.9	18.5	4.60	30-Jun-23	18.6	4.70
Yorktown Toride	05-Mar-20	32.2	22.7	5.20	30-Jun-23	23.1	5.10
Total international		**749.9**	**664.6**			**677.3**	
Total investment property in use[4]		**2,987.0**	**3,269.2**			**3,483.3**	

1. Acquisition date represents the date of initial acquisition or consolidation of the investment vehicle holding the asset.
2. Total cost represents the original acquisition cost plus additions less full and partial disposals since acquisition date.
3. 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.
4. At 30 June 2023, the investment property portfolio occupancy rate for Australia was 91.8% (30 June 2022: 90.3%) with a weighted average lease expiry of 5.7 years (30 June 2022: 5.3 years); Europe 100.0% (30 June 2022: 100.0%) with a weighted average lease expiry of 5.3 years (30 June 2022: 0.1 years); and Japan 99.5% (30 June 2022: 99.6%) with a weighted average lease expiry of 7.7 years (30 June 2022: 8.6 years).

Note 7 Loan assets

Loan assets	30 June 2023 $m	30 June 2022 $m
Residential mortgages[1]	254.0	407.0
Investment loans[2]	108.5	133.8
Reverse mortgages	—	4.3
Personal loans	—	0.5
Chattel mortgages[3]	21.5	0.2
Commercial loans	—	16.5
Less: provision for impairment	(9.1)	(10.6)
Total loan assets[4]	**374.9**	**551.7**

1. Residential mortgages are held both by the Bank and CLC in the prior comparative year. The CLC book is held within Special Purpose Vehicle (SPV) trusts that hold residential mortgage-backed assets and issue securitised financial liabilities. The trusts are entities that funded pools of residential mortgage-backed securities (RMBS). All borrowings of these SPVs are limited in recourse to the assets of the SPV. Bank's mortgages are core investment assets that are funded by term deposits of the business and include owner occupied loans.
2. Investment loans are loans to resident households for the purpose of housing, where the funds are used for a residential property that is not owner occupied.
3. Chattel mortgages are loans used to purchase motor vehicles or other major business equipment, where the lender retains ownership of the asset until the loan is repaid.
4. The loan assets of Challenger Bank are currently held for sale. See Note 23 for further detail.

Accounting policy

Loans and advances are non-derivative financial loan assets with fixed or determinable payments that are not quoted in an active market. They are recognised net of any credit loss provision. These are held at amortised cost.

Key estimates and assumptions

The Group continues to primarily apply the historical provisioning methodology, which is considered to be materially consistent with the provision estimated under the expected credit loss (ECL) impairment model. In estimating ECL for individual mortgage loans, the Group makes judgements and assumptions in relation to expected repayments, the realisable value of the secured property, the prospects of the customer, the value of any mortgage insurance and the likely cost and duration of a workout process.

The Group has considered historical probabilities of default, the relative age of the mortgage loan portfolio and the loan to valuation ratios applicable to the mortgage loans, and has determined that the current provision estimated by the ECL impairment model is adequate.

Analysis of loan assets impairment provision	30 June 2023 $m	30 June 2022 $m
Balance at the beginning of the year	10.6	11.8
Increase in provision	1.5	0.2
Utilisation of provision against incurred losses and other adjustments	(3.0)	(1.4)
Balance at the end of the year[1]	**9.1**	**10.6**

1. Balance includes provision of $0.1m (30 June 2022: $0.2m) related to Challenger Bank loan assets.

Note 8 Life contract liabilities

Fair value of life contract liabilities	30 June 2023 $m	30 June 2022 $m
Life investment contract liabilities – at fair value	9,855.5	9,650.7
Life insurance contract liabilities – at margin on services value	4,074.8	3,944.9
Outwards reinsurance contract liabilities – at margin on services value	(0.3)	(0.2)
Total life contract liabilities[1]	**13,930.0**	**13,595.4**

	Life investment contract liabilities		Life insurance contract liabilities		Outwards reinsurance contract liabilities		Total life contract liabilities	
Movement in life contract liabilities	30 June 2023 $m	30 June 2022 $m	30 June 2023 $m	30 June 2022 $m	30 June 2023 $m	30 June 2022 $m	30 June 2023 $m	30 June 2022 $m
Balance at the beginning of the year	9,650.7	9,079.6	3,944.9	4,591.3	(0.2)	(1.0)	13,595.4	13,669.9
Deposits and premium receipts	5,119.9	4,860.5	426.5	290.0	—	—	5,546.4	5,150.5
Payments and withdrawals	(5,180.9)	(4,029.6)	(348.9)	(309.5)	—	—	(5,529.8)	(4,339.1)
Revenue per Note 1	(142.9)	(458.2)	(460.9)	(1,033.0)	(0.1)	0.8	(603.9)	(1,490.4)
Expense per Note 2	408.7	198.4	513.2	406.1	—	—	921.9	604.5
Balance at the end of the year[1]	**9,855.5**	**9,650.7**	**4,074.8**	**3,944.9**	**(0.3)**	**(0.2)**	**13,930.0**	**13,595.4**

1. Comparatives have been restated to reflect the reclassification of life contract types that do not carry significant insurance risk from life insurance contracts to life investment contracts. Prior comparative period: Life investment contract liabilities $6,748.4 million, Life insurance contract liabilities $6,847.2 million.

Note 8 Life contract liabilities (continued)

Analysis of life insurance and reinsurance contract liability and expenses	30 June 2023 $m	30 June 2022 $m
Best estimate liability		
Value of future life insurance contract benefits	3,813.2	3,662.3
Value of future expenses	138.4	148.7
Value of future acquisition expenses	8.5	9.1
Value of future premiums	(564.7)	(673.4)
Total best estimate liability	**3,395.4**	**3,146.7**
Value of future profit margins	679.2	798.0
Net life insurance and reinsurance contract liability	**4,074.6**	**3,944.7**
Life insurance and reinsurance contract operating expenses		
Maintenance expenses	18.0	18.5
Total life insurance and reinsurance contract operating expenses	**18.0**	**18.5**
Analysis of life contract profit		
Profit margin release on life insurance contracts	29.8	31.4
Loss recognition in respect of life insurance contracts[1]	(19.2)	(19.3)
Loss recognition in respect of life investment contracts	(80.2)	(74.6)
Difference in actual and assumed investment experience in respect of life insurance contracts	52.9	76.1
Difference in actual and assumed investment experience in respect of life investment contracts	156.3	197.4
Difference in actual and assumed other experience in respect of life insurance contracts	13.5	11.8
Difference in actual and assumed other experience in respect of life investment contracts	(0.8)	4.5
Profit/(loss) arising from assumption changes on life insurance contracts	9.1	(5.3)
(Loss)/profit arising from assumption changes on life investment contracts	(1.4)	3.9
Profit arising from difference between actual and assumed experience	**160.0**	**225.9**
Investment earnings on assets in excess of life contract liabilities	184.4	38.4
Life contract profit after tax[2,3]	**344.4**	**264.3**

1. Under margin on services (MoS), any profits expected over the life of a contract are recognised over the life of the contract; however, if on the liability valuation basis the contract is expected to be loss making, the capitalised value of these future losses is recognised at the point of sale. Retail insurance contracts are in loss recognition because the liability valuation basis uses a risk-free discount rate but the rates offered to customers are higher.
2. Comparatives have been restated to reflect the reclassification of life contract types that do not carry significant insurance risk from life insurance contracts to life investment contracts. Prior comparative period amounts were total best estimate liability $6,049.0 million, net life insurance and reinsurance contract liability $6,847.0 million and total life insurance and reinsurance contract operating expenses $68.2 million.
3. Equivalent to the statutory profit for Challenger Life Company.

Note 8 Life contract liabilities (continued)

Accounting policy

The operations of the Group include the selling and administration of life contracts through CLC. These contracts are governed under the Life Insurance Act 1995 (the Life Act) and are classified as either life insurance contracts or life investment contracts. Life insurance and life investment contract liabilities are collectively referred to as life contract liabilities or policy liabilities.

Life investment contract liabilities

Life investment contracts are contracts regulated under the Life Act but which do not meet the definition of life insurance contracts under AASB 1038 Life Insurance Contracts,and similar contracts issued by entities operating outside of Australia.

For life investment contracts (excluding cash business), the liability is based on the fair value of the income payments and associated expenses, being the net present value of the payments and expenses using an appropriate discount rate curve as determined by the Appointed Actuary.

Life insurance contract liabilities

Life insurance contracts are contracts regulated under the Life Act that involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS). Under MoS, the excess of premiums received over payments to customers and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service) unless future margins are negative, in which case the future losses are recognised in the Statement of comprehensive income immediately. The planned release of this margin is recognised in the Statement of comprehensive income as part of the movement in life insurance contract liabilities.

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, benefit payments and expenses) are projected into the future. The liability is calculated as the net present value of these projected cash flows using an appropriate discount rate curve.

The key areas of judgement in the determination of the actuarial assumptions are the mortality, surrenders, acquisition and maintenance expense levels, and economic assumptions for discount and inflation rates.

Life insurance premium revenue

Life insurance premiums are recognised as revenue when risk is transferred to the Group.

Life insurance claims expense

Life insurance claims expense is recognised in expenses when the liability to the policyholder under the contract has been established.

Inwards reinsurance

The Group has maintained inwards reinsurance arrangements during the period that meet the definition of a life insurance contract. The MoS methodology requires the present value of future cash flows arising from reinsurance contracts to be included in the calculation of life insurance contract liabilities.

Valuation

The MoS valuation, calculated in accordance with APRA Prudential Standards and AASB 1038 ***Life Insurance Contracts***, results in the systematic release of planned margins over the life of the policy via a 'profit carrier'. The Group maintains life insurance contracts including individual lifetime annuities, wholesale mortality, wholesale morbidity, longevity reinsurance and wholesale lifetime annuities. Annuity payments are used as the profit carrier for lifetime annuities and premium receipts or best estimate claim payments are used as the profit carrier for wholesale mortality, wholesale morbidity and longevity reinsurance.

Key assumptions applied in the valuation of life contract liabilities

Tax rates

The bases of taxation (including deductibility of expenses) are assumed to continue in accordance with legislation current at the reporting date.

Discount rates

Under APRA Prudential Standards and AASB 1038 ***Life Insurance Contracts***, life insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, set at the Commonwealth Government Bond curve plus an illiquidity premium where applicable, or for foreign-denominated liabilities, a curve derived from the yields of highly liquid AAA-rated sovereign risk securities in the currency of the policy liabilities plus an illiquidity premium where applicable. The illiquidity premium is determined by reference to observable market rates including Australian sovereign debt, corporate, securitised and collateralised debt publicly placed in the domestic market, and market swap rates.

Life investment contract liabilities are calculated under the fair value through profit and loss provisions of AASB 9 ***Financial Instruments.*** The discount rates are determined based on current observable, objective rates that relate to the nature, structure and term of the future liability cash flows.

For both insurance and investment contracts the, approach is the same as adopted at June 2022. Discount rates applied for Australian liabilities were between 4.7% and 5.1% per annum (30 June 2022: 1.8% and 4.5%).

Note 8 Life contract liabilities (continued)

Valuation (continued)

Key assumptions applied in the valuation of life contract liabilities (continued)

Expenses

Forecasted expenses for the next year are allocated between acquisition, maintenance and investment based on the nature of the expense. Forecasted maintenance and investment expenses are then converted to a per-contract unit cost or percentage of account balance, depending on the nature of the expense.

Inflation

Inflation estimates are based on long-term expectations and reviewed at least annually for changes in the market environment based on a comparison of real and nominal yields of instruments of equivalent term and credit risk. The current assumption for Australia is 2.7% per annum for short-term inflation and 2.8% per annum for long-term inflation (30 June 2022: 3.2% short-term, 2.2% long-term).

Surrenders

For life investment contracts, no surrenders or voluntary discontinuances are assumed. For Australian life insurance contracts where a surrender value is payable on withdrawal, a rate of surrenders is assumed in line with Challenger's own experience on these products, currently between 0.0% and 2.1% per annum (30 June 2022: 0.0% and 2.1%).

Where policyholders have the option to commute a life insurance contract, the value of this option is included within the life contract liabilities. We also assume surrender rates based on past experience for this business which vary by product types and duration in-force for the contract.

Mortality

Base mortality rates for individual lifetime annuities are determined as a multiple of annuitant experience based on LML08 and LFL08 tables, adjusted for Challenger's own recent experience. LML08 and LFL08 are mortality tables developed by the Continuous Mortality Investigation (CMI) based on United Kingdom annuitant lives experience from 2007–2010. The tables refer to male and female lives respectively. Rates are adjusted for expected future mortality improvements based on observed and expected improvements. For the age ranges and cash flow projection periods that contribute the majority of CLC's exposure, rates of future mortality improvement applied are between 0.4% and 2.6% per annum (30 June 2022: 0.4% and 2.6%).

Base mortality rates for wholesale mortality and longevity reinsurance are determined as a multiple of pensioner mortality rates (based on the self-administered pension schemes or SAPS3 tables mortality investigation developed by the Institute and Faculty of Actuaries (UK) using United Kingdom data collected between 2009 and 2016). Rates are adjusted for expected future mortality improvements based on observed and expected improvements.

For the age ranges and cash flow projection periods that contribute the majority of CLC's exposure, rates of future mortality improvement applied are between 0.2% and 2.3% per annum (30 June 2022: 0.2% and 2.3%). Base mortality rates for the inwards reinsurance of Japanese business are determined as a multiple of Japanese population mortality rates.

Impact of changes in assumptions on life insurance contracts

Under MoS, changes in actuarial assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Changes in future profit margins are released over future periods unless that product group is in an expected net loss position (loss recognition), in which case changes in assumptions are recognised in the Statement of comprehensive income in the period in which they occur. The valuation impact of changes to discount rate assumptions as a result of market and economic conditions, such as changes in benchmark market yields, are recognised in the Statement of comprehensive income in the period in which the changes occur.

Restrictions on assets

Investment assets held in the Group can only be used within the restrictions imposed under the ***Life Insurance Act 1995*** (the Life Act). The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that statutory fund, to acquire investments to further the business of the statutory fund or as distributions when capital adequacy requirements are met.

Statutory fund information

The life contract operations of CLC are conducted within four separate statutory funds. Both the shareholders' and policyholders' interests in these statutory funds are reported in aggregate in the financial report of the Group. Fund 1 is a non-investment-linked fund and Fund 3 is investment-linked. Both of these are closed to new business. Funds 2 and 4 are the principal operating funds of the Group. Fund 2 contains non-investment-linked contracts, including the Group's term annuity business, lifetime annuity policies and the related outwards reinsurance, plus the wholesale mortality, wholesale morbidity and longevity inwards reinsurance. Fund 4 is a non-investment-linked fund and contains inwards reinsurance of annuity business written in Japan.

Life contract liabilities for Funds 1, 2, 3 and 4 are set out below.

Life contract liabilities	30 June 2023 $m	30 June 2022 $m
Statutory Fund 1	0.9	1.4
Statutory Fund 2	11,488.7	11,402.1
Statutory Fund 3	2.8	2.5
Statutory Fund 4	2,437.6	2,189.4
Total life contract liabilities	**13,930.0**	**13,595.4**

Note 8 Life contract liabilities (continued)

Current/non-current split for total life contracts

There is a fixed settlement date for the majority of life contract liabilities. Approximately $3,149.6 million on a discounted basis (30 June 2022: $4,109.4 million) of life contract liabilities have a contractual maturity within 12 months of the reporting date. Based on assumptions applied for the 30 June 2023 valuation of life contract liabilities, $4,167.7 million of principal payments on fixed term and lifetime business are expected in the year to 30 June 2024 (expected in the year to 30 June 2023: $4,938.4 million).

Life insurance risk

The Group is exposed to longevity risk on its individual lifetime annuities (both direct and reinsured) and wholesale longevity reinsurance. Longevity risk is the risk that policyholders may live longer than expectations. The Group is exposed to mortality risk on the wholesale mortality reinsurance and reinsurance of fixed term business written in Japan. This is the risk that death rates in the reference portfolios exceed expectations. The Group is also exposed to morbidity risk on the wholesale morbidity reinsurance. That is the risk that morbidity rates in the reference portfolios exceed expectations.

The Group manages the longevity risk by regular reviews of the portfolio to confirm continued survivorship of policyholders receiving income plus regular review of longevity experience to ensure that longevity assumptions remain appropriate.

In addition, the Group maintains a reinsurance arrangement to manage longevity risk in respect of part of the closed book of individual lifetime annuities.

The Group manages the mortality and morbidity risk by regular reviews of the portfolio to ensure that mortality and morbidity assumptions remain appropriate. The Company's insurance risk policy is approved by the Board and sets out the relevant risk limits for insurance exposures, to ensure the insurance risk portfolio is appropriately diversified and contains no significant concentrations of insurance risk

Insurance risk sensitivity analysis

The following table discloses the sensitivity of life insurance contract liabilities, profit after income tax and equity to changes in the key assumptions relating to insurance risk, both gross and net of reinsurance.

	Increase in life insurance contract liabilities				Loss after tax and equity impact			
	Gross		Net		Gross		Net	
Insurance risk sensitivity analysis	30 June 2023 $m	30 June 2022 $m	30 June 2023 $m	30 June 2022 $m	30 June 2023 $m	30 June 2022 $m	30 June 2023 $m	30 June 2022 $m
50% increase in the rate of mortality improvement	36.6	30.5	36.3	29.1	25.6	21.3	25.4	20.3
10% increase in maintenance expenses[1]	13.0	13.8	13.0	13.8	9.1	9.7	9.1	9.7

1. Comparatives have been restated to reflect the reclassification of life contract types that do not carry significant insurance risk from life insurance contracts to life investment contracts. Prior period comparative sensitivity was gross and net increase in life insurance contract liabilities $16.2 million, gross and net loss after tax and equity impact $11.4 million.

Liquidity risk for insurance contracts

The following table summarises the undiscounted maturity profile of the Group's life insurance contract liabilities. The analysis is based on undiscounted estimated cash outflows, including interest and principal payments. The undiscounted maturity profile of life investment contracts is disclosed in Note 18 Financial risk management.

Undiscounted life insurance contract liabilities	1 year or less $m	1-3 years $m	3-5 years $m	>5 years $m	Total $m
2023	**338.0**	**663.5**	**711.9**	**3,957.2**	**5,670.6**
2022	312.1	603.8	599.9	3,735.4	5,251.2

Actuarial information

Mr M Considine FIAA, as the Appointed Actuary of CLC, is satisfied as to the accuracy of the data used in the valuations of life contract liabilities in the financial report and the tables in this note.

The life contract liabilities have been determined at the reporting date in accordance with the Life Act, APRA Prudential Standards, AASB 1038 ***Life Insurance Contracts*** and AASB 9 ***Financial Instruments.***

Note 9 External unit holders' liabilities

	30 June 2023 $m	30 June 2022 $m
Current	4,100.9	4,072.8
Non-current	1,167.9	313.6
Total liabilities to external unit holders	**5,268.8**	**4,386.4**

Accounting policy

The Group controls a number of guaranteed index return trusts that contain contributed funds in respect of fixed term and daily liquid wholesale mandates. The fixed term and guaranteed nature of the mandates effectively places the balance of the risks related to the performance of the trusts with the Group. As a result, the Group is deemed to control these trusts.

The contributed funds for these trusts are classed as external unit holders' liabilities on the Statement of financial position and represent the funds owing to third parties on these mandates. The liability is recognised at fair value.

Note 10 Derivative financial instruments

Analysis of derivative financial instruments	30 June 2023 Notional value $m	30 June 2023 Net fair value assets $m	30 June 2023 Net fair value liabilities $m	30 June 2022 Notional value $m	30 June 2022 Net fair value assets $m	30 June 2022 Net fair value liabilities $m
Non-SPV						
Interest rate swaps						
Less than one year	46,490.6	1.9	(12.2)	19,806.1	1.4	(16.5)
One to three years	21,014.4	26.6	(28.4)	20,550.6	17.6	(68.9)
Three to five years	15,213.1	53.5	(22.8)	13,777.0	21.7	(50.6)
Greater than five years	34,190.1	308.3	(436.3)	47,648.5	314.8	(402.9)
Total interest rate swaps	**116,908.2**	**390.3**	**(499.7)**	**101,782.2**	**355.5**	**(538.9)**
Collateral securities[1]	**—**	**—**	**119.5**	**—**	**—**	**210.1**
Inflation-linked swaps						
Less than one year	—	—	—	243.0	—	(7.7)
One to three years	493.0	1.3	(33.3)	72.0	0.1	(0.1)
Three to five years	611.0	1.0	(62.7)	735.0	—	(57.2)
Greater than five years	481.0	17.7	(2.7)	722.0	25.3	(13.8)
Total inflation-linked swaps	**1,585.0**	**20.0**	**(98.7)**	**1,772.0**	**25.4**	**(78.8)**
Future contracts						
Less than one year	14,930.1	—	(2.0)	14,676.0	—	(2.4)
One to three years	38.5	—	—	327.8	0.1	—
Total futures contracts	**14,968.6**	**—**	**(2.0)**	**15,003.8**	**0.1**	**(2.4)**
Commodities futures contracts						
Less than one year	1,627.6	—	—	546.3	—	—
Total commodities futures contracts	**1,627.6**	**—**	**—**	**546.3**	**—**	**—**
Forward currency contracts						
Less than one year	5,857.6	46.9	(37.3)	3,535.0	28.4	(37.8)
Total forward currency contracts	**5,857.6**	**46.9**	**(37.3)**	**3,535.0**	**28.4**	**(37.8)**
Cross-currency swaps						
Less than one year	2,823.7	18.8	(13.5)	3,253.3	62.3	(52.6)
One to three years	4,455.6	34.4	(37.5)	3,204.8	61.8	(73.2)
Three to five years	4,703.5	19.8	(40.8)	4,222.3	36.2	(164.4)
Greater than five years	104.7	0.1	(0.6)	362.6	1.6	(10.6)
Total cross-currency swaps	**12,087.5**	**73.1**	**(92.4)**	**11,043.0**	**161.9**	**(300.8)**
Equity swaps						
Less than one year	1,694.9	42.7	(0.6)	1,363.2	5.9	(43.6)
One to three years	—	—	—	731.0	—	(24.8)
Total equity swaps	**1,694.9**	**42.7**	**(0.6)**	**2,094.2**	**5.9**	**(68.4)**

Note 10 Derivative financial instruments (continued)

Analysis of derivative financial instruments (continued)	30 June 2023 Notional value $m	30 June 2023 Net fair value assets $m	30 June 2023 Net fair value liabilities $m	30 June 2022 Notional value $m	30 June 2022 Net fair value assets $m	30 June 2022 Net fair value liabilities $m
Credit default swaps						
Three to five years	1,014.0	27.9	—	770.2	—	(22.4)
Total credit default swaps	**1,014.0**	**27.9**	**—**	**770.2**	**—**	**(22.4)**
Total Non-SPV	**155,743.4**	**600.9**	**(611.2)**	**136,546.7**	**577.2**	**(839.4)**
SPV						
Interest rate swaps – SPVs						
Less than one year	0.1	—	—	0.6	—	(0.1)
One to three years	0.6	—	—	0.5	—	—
Three to five years	—	—	—	0.2	—	—
Total interest rate swaps – SPV	**0.7**	**—**	**—**	**1.3**	**—**	**(0.1)**
Cross-currency swaps – SPVs						
Greater than five years	130.0	0.2	(0.1)	165.5	—	(0.1)
Total cross-currency swaps – SPV	**130.0**	**0.2**	**(0.1)**	**165.5**	**—**	**(0.1)**
Total SPV	**130.7**	**0.2**	**(0.1)**	**166.8**	**—**	**(0.2)**
Total derivative financial instruments[2,3]	**155,874.1**	**601.1**	**(611.3)**	**136,713.5**	**577.2**	**(839.6)**

1. Collateral securities relates to centrally cleared interest rate swaps.
2. The Group's derivative financial instruments are subject to enforceable netting arrangements under International Swaps and Derivatives Association (ISDA) Master Agreements with derivative counterparties, allowing for net settlement as a single arrangement of multiple instruments with a counterparty in the event of default or other specified circumstances. If applied to the derivative portfolio, the derivative assets would decrease by $287.0 million (30 June 2022: $315.0 million) and the derivative liabilities would decrease by $287.0 million (30 June 2022: $315.0 million).
3. The Group actively manages its bond holdings for hedging purposes which requires the rebalancing of duration risk using interest rate swaps, increasing the reported gross notional value. Compression trades are implemented periodically to net down offsetting pay and receive positions to reduce gross notional amounts.

Accounting policy

The Group uses derivative financial instruments predominantly to hedge its risks associated with interest rate, inflation and foreign currency fluctuations and to gain exposure to different markets. All derivative financial instruments are stated at fair value. Gains or losses arising from fair value changes on derivatives that do not qualify for hedge accounting are recognised in the Statement of comprehensive income. For the purpose of hedge accounting, hedges are classified as:

- cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- hedges of net investments in foreign operations when they hedge the exposure to changes in the value of the assets and liabilities of a foreign controlled entity when they are translated from their functional currency to the presentation currency.

At the inception of a hedge relationship to which the Group wishes to apply hedge accounting, the Group formally designates and documents the hedge relationship and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of the instrument in offsetting the exposure to changes in the hedged item.

Such hedges are expected to be highly effective in achieving offsetting changes in cash flows or foreign exchange difference and are assessed on an ongoing basis to determine that they actually have been highly effective over the period that they were designated.

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction, and that could affect the Statement of comprehensive income. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the Statement of comprehensive income.

Amounts recognised in equity are transferred to the Statement of comprehensive income when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-investment asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-investment asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the Statement of comprehensive income.

Note 10 Derivative financial instruments (continued)

Cash flow hedges (continued)

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Hedges of net investments in foreign operations

The gain or loss on the effective portion of the hedging instrument is recognised directly in equity and the gain or loss on the ineffective portion is recognised immediately in the Statement of comprehensive income. The cumulative gain or loss previously recognised in equity is recognised in the Statement of comprehensive income on disposal or partial disposal of the foreign operation.

Derivatives designated as hedges of net investment in foreign currency operations

The Group hedges its exposure to accounting gains and losses arising from translation of foreign controlled entities from their functional currency into the Group's presentation currency on consolidation. At 30 June 2023, a post-tax loss of $4.2 million (30 June 2022: post-tax gain of $20.8 million) was recognised in Other comprehensive income (OCI) for the hedging of exposure to the net investment in foreign currency operations.

Derivatives designated as cash flow hedges

The Group applies hedge accounting when it can demonstrate that all, or a portion of, the value movements of a derivative financial instrument effectively hedges the variability in cash flows attributable to a specific risk associated with a recognised asset or liability or probable future transaction. As described in Note 18 Financial risk management, SPVs enter into interest rate swap agreements to hedge the interest rate risk between variable rate loans, which generally reprice with changes in official interest rates, and issued RMBS that reprice with changes in the 30-day and 90-day bank bill swap rates. Cross-currency swaps are also entered into to hedge currency movements on foreign-denominated RMBS. The SPVs apply hedge accounting to both types of transaction, with the fair value change on the effective portion of the derivative being recognised in OCI.

For the year ended 30 June 2023, a post-tax gain of $0.2 million (30 June 2022: post-tax gain $0.4 million) was recognised in equity for cash flow hedges with no Statement of comprehensive income impact of any ineffective portions during either the current or prior comparative period.

Note 11 Notes to Statement of cash flows

Reconciliation of profit to operating cash flow	30 June 2023 $m	30 June 2022 $m
Profit for the year after income tax[1]	**295.5**	**253.7**
Adjusted for		
Net realised and unrealised losses/(gains) on investment assets	(341.9)	1,524.9
Share of associates' net profit	(25.3)	(38.0)
Change in life contract liabilities[2]	318.0	(886.0)
Depreciation and amortisation expense	14.5	14.0
Impairment of associate and bank assets	—	19.2
Share-based payments	16.8	13.0
Dividends from associates	23.5	42.5
Change in operating assets and liabilities		
Decrease in receivables	62.3	12.9
(Decrease)/increase in other assets	(1.2)	21.4
Increase in payables	47.4	11.5
(Decrease)/increase in provisions	(16.1)	8.6
Increase in deposits from customers	—	93.5
Increase in life contract liabilities	16.6	811.5
Increase in external unit holders' liabilities	882.4	754.2
Decrease in net tax liabilities	(18.9)	(170.1)
Net cash flows from operating activities	**1,273.6**	**2,486.8**

1. Profit for year after income tax excludes discontinued operations for 30 June 2023 (30 June 2022: includes continued operations).
2. Changes relate to movements through the Statement of comprehensive income.

Accounting policy

Cash and cash equivalents are financial assets and comprise cash at bank and on hand plus short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The carrying amount of cash and cash equivalents is materially equal to fair value due to the assets being highly liquid. For the purposes of the Statement of cash flows, cash and cash equivalents are stated net of bank overdrafts.

Section 4: Capital structure and financing costs

This section outlines how the Group manages its capital structure and related financing costs, as well as capital adequacy and reserves. It also provides details on the dividends and earnings per share of the Company.

Note 12 Contributed equity

	30 June 2023		30 June 2022	
	No. of shares m	Value of shares $m	No. of shares m	Value of shares $m
Analysis of contributed equity				
Ordinary shares issued and fully-paid	687.6	2,543.5	682.2	2,505.5
Employee shares treated as Treasury shares	(3.8)	(30.4)	(1.0)	(9.6)
CPP deferred share purchases treated as Treasury shares	—	—	(1.2)	(14.4)
Total contributed equity	**683.8**	**2,513.1**	**680.0**	**2,481.5**
Movements in contributed equity				
Ordinary shares				
Balance at the beginning of the year	682.2	2,505.5	676.0	2,462.4
Issued under Dividend Reinvestment Plan	5.4	38.0	2.4	15.1
Issued under Capital Notes 1 conversion	—	—	3.8	28.0
Balance at the end of the year	**687.6**	**2,543.5**	**682.2**	**2,505.5**
CPP Trust				
Balance at the beginning of the year	1.0	9.6	1.4	14.6
Shares purchased (including settled forwards)	3.7	30.4	0.8	7.9
Vested shares released to employees	(0.9)	(9.6)	(1.2)	(12.9)
Balance at the end of the year	**3.8**	**30.4**	**1.0**	**9.6**
CPP deferred share purchases				
Balance at the beginning of the year	1.2	14.4	2.0	22.3
Settled forward purchases[1]	(1.2)	(14.4)	(0.8)	(7.9)
Balance at the end of the year	**—**	**—**	**1.2**	**14.4**

1. On 25 August 2022, Challenger settled the final remaining share forwards with National Australia Bank (NAB).

Accounting policy

Ordinary shares are classified as equity and have no par value. Issued capital in respect of ordinary shares is recognised as the fair value of the consideration received by the parent entity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares are ordinary shares in the Company held by the Challenger Performance Plan Trust in respect of equity incentive plan awards to employees. Refer to Note 29 Employee entitlements for further details.

Components of contributed equity

Ordinary shares

A holder of an ordinary share is entitled to receive dividends and to one vote on a show of hands and on a poll.

Employee shares treated as Treasury shares

Restricted Shares (RS)

A Restricted Share is a beneficial interest in a fully paid ordinary share. RS provide an entitlement to vote and a right to dividends; however, legal ownership of these shares still resides with Challenger, therefore RS are treated as Treasury shares for the basic EPS calculation. After the vesting period, legal ownership transfers to the employee and RS cease to be considered Treasury shares and are included in the dilutive EPS calculation. At 30 June 2023, 1.9 million RS are on issue to employees.

Challenger Performance Plan (CPP) Trust

The CPP Trust is a controlled entity and holds shares in the Company. As a result, the CPP Trust's shareholding in the Company is disclosed as Treasury shares and deducted from equity. Dividends paid from the Company to the CPP Trust are eliminated on consolidation.

From 24 March 2023 to 31 March 2023, Challenger acquired 1.8 million shares on market to place in the CPP Trust. These shares have been acquired to satisfy Deferred Performance Share Rights, which are expected to vest in September 2023, and any restricted units that are expected to be awarded.

CPP deferred share purchases treated as Treasury shares

The shares purchased under forward agreements are treated as Treasury shares from the date of the agreement. Shares are transferred to the CPP Trust on the future settlement date.

Note 12 Contributed equity (continued)

Capital management

A company is generally limited in the risk-taking activities that it can engage in by the amount of capital it holds, with capital acting as a buffer against risk, ensuring that there are sufficient resources to enable the company to continue normal business in the event of an unexpected loss.

There were no material changes to the Group's capital management process during the period.

All of the Group's regulated entities have at all times during the current and prior financial period complied with the externally imposed capital requirements to which they are subject.

CLC's regulatory capital

The prudentially regulated Challenger Life Company Limited (CLC) manages capital via an Internal Capital Adequacy Assessment Process (ICAAP). Under the prudential standards, a life company must have in place an ICAAP, documented in an ICAAP Summary Statement. CLC complied with these requirements at all times during the period.

The objective of the ICAAP is to ensure that CLC maintains adequate capital in respect of the risks to which it is exposed so that it can fulfil its obligations to policy owners (in particular, the duty to give priority to the interests of owners and prospective owners of policies referable to a fund). The ICAAP also enables CLC to invest both strategically and tactically in opportunities that deliver a return on equity above the cost of capital for shareholders.

Prescribed Capital Amount (PCA)

PCA refers specifically to CLC's regulatory capital requirements.

CLC is regulated by APRA and is required to hold a minimum level of regulatory capital. CLC's regulatory capital base and PCA have been calculated based on the prudential standards issued by APRA.

Regulatory capital is divided into Common Equity Tier 1 (CET1), Additional Tier 1 and Tier 2.

CLC's target surplus

CLC maintains a target level of capital representing APRA's PCA plus a target surplus. The target surplus is a management guide to the level of excess capital that CLC seeks to hold over and above APRA's minimum requirements. CLC's target surplus is set to ensure that it provides a buffer against adverse market conditions and having regard to CLC's credit rating. CLC uses internal capital models to determine its target surplus, which are risk based and are responsive to changes in CLC's asset allocation and market conditions.

CLC's internal capital models result in a target PCA ratio range under current circumstances of 1.3 to 1.7 times. This range can change over time and is dependent on numerous factors.

The PCA ratio at 30 June 2023 was 1.59 times (30 June 2022: 1.60 times), within this range of 1.3 to 1.7 times. The CET1 ratio was 1.16 times at 30 June 2023, an increase from 1.11 times at 30 June 2022.

Bank regulatory capital

The Bank is an authorised deposit-taking institution regulated by APRA under the authority of the ***Banking Act 1959***. APRA sets minimum regulatory capital requirements for banks based on the Basel Committee on Banking Supervision guidelines.

For the purposes of meeting capital adequacy as prescribed by APRA, certain items such as intangibles and deferred tax assets do not qualify as capital and are excluded from the calculation.

Regulatory capital is divided into Common Equity Tier 1 (CET1), Additional Tier 1 and Tier 2. The Bank's regulatory capital base at 30 June 2023 was $60.5m and represents CET1 regulatory capital and an immaterial amount of Tier 2 regulatory capital. The capital adequacy ratio of 53.2% reflects this capital as a percentage of total risk-weighted assets.

To manage its capital, management reviews its adequacy continuously and reports its capital position to the Executive Leadership Team and Asset and Liability Committee on a monthly basis.

Funds Management and other capital

In addition to CLC's and the Bank's excess regulatory capital, Challenger maintains cash and tangible assets within the Funds Management and Corporate legal entities. These assets can be used to meet regulatory capital requirements. Challenger also has a Corporate debt facility of $400.0 million in place, which provides additional financial flexibility. The facility was undrawn as at 30 June 2023 (30 June 2022: undrawn).

Note 12 Contributed equity (continued)

Capital as at 30 June 2023	CLC $m	CBL $m	Other[1] $m	Group $m
Regulatory capital base				
Shareholder equity[2]	3,395.2	61.9	707.3	4,164.4
Goodwill and other intangibles	(70.0)	—	(517.4)	(587.4)
Other adjustments[3]	(214.7)	(1.4)	28.9	(187.2)
Eligible regulatory debt	1,146.3	—	—	1,146.3
Total capital base	**4,256.8**	**60.5**	**218.8**	**4,536.1**
Minimum Regulatory Requirement[4,5]	2,681.9	13.1	39.9	2,734.9
Excess over Minimum Regulatory Requirement	**1,574.9**	**47.4**	**178.9**	**1,801.2**
Common Equity Tier 1 (CET1) regulatory capital	3,110.5	60.5	—	3,171.0
Additional Tier 1 regulatory capital	735.0	—	—	735.0
Total Tier 1 regulatory capital	**3,845.5**	**60.5**	**—**	**3,906.0**
Tier 2 regulatory capital[6]	411.3	—	—	411.3
Other non regulatory capital	—	—	218.8	218.8
Total capital base	**4,256.8**	**60.5**	**218.8**	**4,536.1**
CET1 capital ratio (times)[7]	1.16	4.62	—	—
Tier 1 capital ratio (times)[8]	1.43	4.62	—	—
Minimum Regulatory Requirement ratio (times)[9]	1.59	4.62	5.48	1.66

1. Includes Funds Management, Corporate and other Life/Bank entities. Funds Management Minimum Regulatory Requirement (MRR) for capital is based on requirements set by ASIC and regulators in other foreign jurisdictions. Challenger Retirement and Investment Services Limited MRR is based on APRA and ASIC requirements.
2. Balances differ to Note 3 Segment information as regulatory requirements are applicable to individual legal entities.
3. Other adjustments predominantly related to deferred tax asset and intercompany items.
4. Minimum Regulatory Requirement is equivalent to PCA for CLC.
5. Minimum Regulatory Requirement for Challenger Bank Limited represents total capital requirements of 8% (of risk weighted assets) plus the capital conservation buffer of 2.5% (of risk weighted assets) plus the counter cyclical buffer of 1% (of risk weighted assets), as stipulated under APS 110 ***Capital Adequacy*** as at 30 June 2023.
6. Refers to subordinated debt for CLC.
7. CET1 capital ratio is Common Equity Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
8. Tier 1 capital ratio is Total Tier 1 regulatory capital divided by Minimum Regulatory Requirement.
9. Minimum Regulatory Requirement ratio is total capital base divided by Minimum Regulatory Requirement.

Credit ratings

Standard & Poor's long-term credit ratings for the Company and CLC at the Statement of financial position date are 'BBB+' (stable) and 'A' (stable) respectively (30 June 2022: 'BBB+' (stable) and 'A' (stable) respectively).

Dividends

The Group has historically targeted a dividend payout ratio of between 45% and 50% of normalised profit after tax over the medium term, subject to prevailing market conditions and alternate uses of capital.

The dividend payout ratio for the year ended 30 June 2023 was 45.0% of normalised profit after tax (30 June 2022: 48.3%).

Dividend Reinvestment Plan (DRP)

The Company continued the DRP for the 2022 final dividend, and on 21 September 2022 issued 1,672,557 ordinary shares to satisfy the plan. The DRP issue price per share for the 2022 final dividend was $6.3456 and represented the volume weighted average share price over the 10 trading days from 1 September 2022 to 14 September 2022. The final DRP participation rate was 13.0% of all issued shares.

The Group continued the DRP for the 2023 interim dividend, and on 21 March 2023 issued 3,695,743 ordinary shares to satisfy the plan. The DRP issue price per share for the interim 2023 dividend was $7.3995 and represented the volume weighted average share price over the 10 trading days from 1 March 2022 to 14 March 2022. The interim DRP participation rate was 33.0% of all issued shares.

Note 13 Interest bearing financial liabilities

	30 June 2022		Cash flows	Non-cash movements			30 June 2023	
	Facility $m	Opening balance $m	proceeds/ (repayments) $m	Foreign exchange $m	Fair value changes $m	Other $m	Closing balance $m	Facility $m
Bank loans								
Corporate[1]	400.0	—	—	—	—	—	—	400.0
Controlled property trusts[2,3]	334.0	335.9	(45.4)	(7.7)	—	0.8	283.6	281.9
Controlled infrastructure trusts[3]	172.3	172.3	(8.1)	—	—	0.2	164.4	164.4
Term funding[5]	5.4	5.4	—	—	—	(5.4)	—	—
Repurchase agreements[5]	3,769.9	3,769.9	334.6	—	—	(34.8)	4,069.7	4,069.7
Total bank loans	**4,681.6**	**4,283.5**	**281.1**	**(7.7)**	**—**	**(39.2)**	**4,517.7**	**4,916.0**
Non-bank loans								
Subordinated debt[3]	400.0	398.4	—	—	4.6	—	403.0	400.0
Challenger Capital Notes 2[4]	460.0	458.2	(460.0)	—	—	1.8	—	—
Challenger Capital Notes 3[4]	385.0	380.2	—	—	—	1.2	381.4	385.0
Challenger Capital Notes 4[4]	—	—	350.0	—	—	(6.4)	343.6	350.0
Loan notes – SPV	262.7	262.7	(71.8)	—	—	—	190.9	190.9
Total non-bank loans	**1,507.7**	**1,499.5**	**(181.8)**	**—**	**4.6**	**(3.4)**	**1,318.9**	**1,325.9**
Total interest bearing financial liabilities	**6,189.3**	**5,783.0**	**99.3**	**(7.7)**	**4.6**	**(42.6)**	**5,836.6**	**6,241.9**
Current		4,191.6					4,483.2	
Non-current		1,591.4					1,353.4	
		5,783.0					**5,836.6**	

1. No amounts were drawn from the facility in the period.
2. Total facility limit consists of non-redraw loan facilities limits totalling $281.9 million (30 June 2022: $334.0 million).
3. In September 2022, CLC issued $400.0m of new subordinated debt. Subsequently, CLC repaid its existing $400.0m subordinated debt on its optional redemption date in November 2022.
4. Held at amortised cost. The fair value of these are Challenger Capital Notes 2 nil (30 June 2022: $460.7 million), Challenger Capital Notes 3 $401.7 million (30 June 2022: $392.3 million), Challenger Capital Notes 4 $352.3 million (30 June 2022: nil); controlled property trusts $295.4 million (30 June 2022: $345.9 million); and controlled infrastructure trusts $167.4 million (30 June 2022: $175.5 million).
5. The Reserve Bank of Australia (RBA) term funding facility ($5.4 million) and the repurchase agreements ($58.8 million) of Challenger Bank were reclassified to held for sale in 1H23. The repurchase agreements were repaid in 2H23. Prior to sale completion, the Bank intends to cash settle the term funding facility. See Note 23 for further detail.

Note 13 Interest bearing financial liabilities (continued)

	30 June 2021		Cash flows	Non-cash movements			30 June 2022	
	Facility $m	Opening balance $m	proceeds/ (repayments) $m	Foreign exchange $m	Fair value changes $m	Other $m	Closing balance $m	Facility $m
Bank loans								
Corporate[1]	400.0	—	—	—	—	—	—	400.0
Controlled property trusts[2,3]	394.9	392.3	(17.5)	(40.7)	0.8	1.0	335.9	334.0
Controlled infrastructure trusts[3]	179.3	179.3	(7.2)	—	—	0.2	172.3	172.3
Term funding[4]	—	—	—	—	—	5.4	5.4	5.4
Repurchase agreements	4,111.1	4,111.1	(341.2)	—	—	—	3,769.9	3,769.9
Total bank loans	**5,085.3**	**4,682.7**	**(365.9)**	**(40.7)**	**0.8**	**6.6**	**4,283.5**	**4,681.6**
Non-bank loans								
Subordinated debt	400.0	404.5	—	—	(6.1)	—	398.4	400.0
Challenger Capital Notes 1[3]	27.7	27.7	—	—	—	(27.7)	—	—
Challenger Capital Notes 2[3]	460.0	456.3	—	—	—	1.9	458.2	460.0
Challenger Capital Notes 3	385.0	379.0	—	—	—	1.2	380.2	385.0
Loan notes – SPV	373.3	373.3	(110.6)	—	—	—	262.7	262.7
Total non-bank loans	**1,646.0**	**1,640.8**	**(110.6)**	**—**	**(6.1)**	**(24.6)**	**1,499.5**	**1,507.7**
Total interest bearing financial liabilities	**6,731.3**	**6,323.5**	**(476.5)**	**(40.7)**	**(5.3)**	**(18.0)**	**5,783.0**	**6,189.3**
Current		4,683.3					4,191.6	
Non-current		1,640.2					1,591.4	
		6,323.5					**5,783.0**	

1. No amounts were drawn from the facility in the period.
2. Total facility limit consists of non-redraw loan facilities limits totalling $334.0 million (30 June 2021: $394.9 million).
3. Held at amortised cost. The fair value of these are Challenger Capital Notes 1 nil (30 June 2021 $27.8 million), Challenger Capital Notes 2 $460.7 million (30 June 2021: $480.8 million), Challenger Capital Notes 3 $392.3 million (30 June 2021: $407.9 million); controlled property trusts $345.9 million (30 June 2021: $396.3 million); and controlled infrastructure trusts $175.5 million (30 June 2021: $182.3 million).
4. The Reserve Bank of Australia (RBA) term funding facility ($5.4 million) and the repurchase agreements ($58.8 million) of Challenger Bank were reclassified to held for sale in 1H23. The repurchase agreements were repaid in 2H23. Prior to sale completion, the Bank intends to cash settle the term funding facility. See Note 23 for further detail.

Accounting policy

All borrowings and subordinated debt are financial liabilities and are initially recognised at fair value. For those financial liabilities which require subsequent measurement at fair value through profit or loss, directly attributable transaction costs are expensed with movements on fair value recognised in the Statement of comprehensive income.

Financial liabilities, other than those held by CLC's statutory funds or their controlled entities, are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of comprehensive income over the period of the contract using the effective interest rate method.

Repurchase agreements are all short term in nature, and are therefore valued at amortised cost which approximates fair value.

Note 13 Interest bearing financial liabilities (continued)

Details of liabilities

Bank loans	Type	Maturity	Rate type	Ranking/security
Corporate	Facility	Tranche 1: $150m expiring on 31 December 2024 Tranche 2: $250m expiring on 31 December 2026	Variable	Security by guarantees between members of the Group
Controlled property trusts[1]	Loan	April 2024 to October 2024	Variable	First ranking mortgages over Japanese investment properties: $281.8 million (30 June 2022: $333.9 million) First ranking mortgage over Gateway, NT $0.1 million (30 June 2022: $0.1 million)
Controlled infrastructure trusts[2]	Facility	December 2035	Variable	First ranking mortgages over infrastructure assets
Term funding	Facility	Tranche 1: $3.1m expiring September 2023 Tranche 2: $2.3m expiring June 2024	Fixed	Security by sufficient repo-eligible high-quality liquid assets

1. Controlled property trusts consists of multiple loans with maturity dates from April 2024 to October 2024. At 30 June 2023, $281.9 million (30 June 2022: $378.5 million) of these loans are held at amortised cost. The fair value of these liabilities at 30 June 2023 was $295.4 million (30 June 2022: $345.9 million).
2. Controlled infrastructure trusts relates to a loan facility for Oaklands Wind Farm. This loan is held at amortised cost. The fair value of this liability at 30 June 2023 is $167.4 million (30 June 2022: $175.5 million).

Repurchase agreements

CLC has entered into repurchase agreements with certain counterparties 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. These agreements finance bonds held for hedging purposes and are interest bearing, with interest factored into the price at which the bonds are repurchased and paid on repurchase. All agreements as at 30 June 2023 are current and all mature by July 2023. They will continue to be rolled into new agreements in the future.

CLC uses Australian Government and Semi-Government Bonds with repurchase agreements, interest rate swaps and bond futures to hedge movements in interest rates on its asset portfolio, annuity policy liabilities, Guaranteed Index Return mandates and the Challenger Index Plus Fund.

The Bank entered into repurchase agreements with the RBA 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. These repurchase agreements were all repaid in the period.

Non-bank loans

Subordinated debt

In September 2022, CLC issued $400.0 million of fixed-to-floating rate, unlisted, unsecured subordinated notes. The subordinated notes 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 approval.

Expenses incurred of $2.8 million were recognised in the Statement of comprehensive income in relation to the issuance.

Subsequently, on 24 November 2022, CLC redeemed $400.0 million of floating rate unsubordinated notes which were issued on 24 November 2017, in accordance with the note's terms of issue.

Challenger Capital Notes – 2, 3 and 4 (Notes 2, Notes 3 and Notes 4)

On 5 April 2023, the Group completed its fourth capital notes issue, Challenger Capital Notes 4 (Notes 4), raising $350.0 million of new debt funding. Proceeds were used to partially redeem Challenger Capital Notes 2 (Notes 2) for $224.0 million, with the remaining balance of Notes 2 ($236.0 million) redeemed on 22 May 2023, using a combination of $126.0 million of remaining proceeds from Notes 4 and $110.0 million of cash from CLC.

The remaining Notes 3 and 4 have similar structural characteristics including:

- quarterly, floating, discretionary, non-cumulative distributions based on a margin over 3 month BBSW;
- optional exchange whereby notes may be redeemed or resold for cash or converted to ordinary shares in the Company, at the Company's option, on the relevant Optional Exchange Date (or on an earlier date in certain circumstances), subject to APRA's prior written approval; and
- mandatory conversion to ordinary shares in the Company on the relevant Mandatory Conversion Date, subject to certain conditions being satisfied. If the conditions to mandatory conversion are not met on the relevant Mandatory Conversion Date, conversion will be deferred to a later date when the conditions are retested.

Consistent with Notes 1, 2 and 3, the costs associated with the issue of Notes 4 have been capitalised against the relevant liability and are being recognised in the Statement of comprehensive income over the life of the notes.

Note 13 Interest bearing financial liabilities (continued)

	Notes 2	Notes 3	Notes 4
Issue date	7 April 2017	25 November 2020	5 April 2023
Issue amount	$460.0 million	$385.0 million	$350.0 million
Outstanding amount	Nil	$385.0 million	$350.0 million
Optional Exchange Date	22 May 2023	25 May 2026	25 May 2029 25 Aug 2029 25 Nov 2029 25 Feb 2030
Mandatory Conversion[1,2]	22 May 2025	25 May 2028	25 Feb 2032

1. Conversion to a variable number of shares.
2. Notes 2 will not be converted on 22 May 2025. These notes were redeemed in full on 22 May 2023.

Loan notes — SPV

SPV interest bearing liabilities are initially recognised at fair value calculated net of directly attributable transaction costs, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of comprehensive income over the period of the contract using the effective interest rate method.

Key estimates and assumptions

Subordinated debt valuation

Subordinated debt is recognised at fair value and is valued by reference to market observable inputs at balance date.

The change recognised in the Statement of comprehensive income in respect of valuation changes for the year ended 30 June 2023 was a gain of $4.6 million (30 June 2022: gain of $6.1 million).

Note 14 Reserves and retained earnings

	30 June 2023 $m	30 June 2022 $m
Share-based payments reserve		
Balance at the beginning of the year	(51.8)	(52.8)
Share-based payments for the year	16.8	13.0
Releases from share-based payments reserve	(9.6)	(12.9)
Tax in equity	5.6	0.9
Balance at the end of the year	**(39.0)**	**(51.8)**
Cash flow hedge reserve – loan assets[1]		
Balance at the beginning of the year	—	(0.4)
Gain on cash flow hedges	0.2	0.4
Balance at the end of the year	**0.2**	**—**
Foreign currency translation reserve[1]		
Balance at the beginning of the year	(3.2)	(3.4)
Loss on translation of foreign entities[2]	(6.3)	(20.6)
Gain on hedge of net investment in foreign entities[2]	(4.2)	20.8
Balance at the end of the year	**(13.7)**	**(3.2)**
Adjusted controlling interests reserve[1]		
Balance at the beginning of the year	5.7	5.7
Change in holdings in controlled entities[3]	11.0	—
Balance at the end of the year	**16.7**	**5.7**
Total reserves	**(35.8)**	**(49.3)**
Retained earnings		
Balance at the beginning of the year	1,556.1	1,451.2
Profit attributable to equity holders	287.5	253.7
Dividends paid	(160.5)	(148.8)
Total retained earnings	**1,683.1**	**1,556.1**

1. These items may eventually be recognised in the profit and loss section of the Statement of comprehensive income.
2. Net of tax.
3. Represents equity in subsidiaries that is not attributable, directly or indirectly to the parent company.

Accounting policy

Share-based payments reserve
An expense is recognised over the vesting period of share-based payments granted to employees. This expense is based on the valuation of the equity benefits conferred at the grant date. When an instrument is granted, and an expense incurred, there is a corresponding increase in the share-based payments reserve directly in equity.

The total of this reserve is net of any gain or loss realised on the disposal of forfeited shares held within the schemes. On vesting of the award and delivery of shares to employees, they are subsequently recognised as an increase in contributed equity and a reduction in the share-based payment reserve at an average acquisition price, which may be higher or lower than the initial recognised valuation price.

Foreign currency translation reserve
This reserve is used to record foreign exchange differences arising from the translation of the foreign subsidiaries. It also includes the effective portion of fair value changes on foreign exchange derivative contracts designated as hedges of a net investment in a foreign entity.

Adjusted controlling interests reserve
This reserve relates to changes arising from movements in the ownership interests in entities already controlled by the Group. The difference between the fair value of the consideration paid/received for the change in holding and the change in the Group's share of the net assets of the entity is recorded in this reserve.

Cash flow hedge reserve – loan assets
This comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

Note 15 Finance costs

	30 June 2023 $m	30 June 2022 $m
Interest expense[1]	487.4	(377.5)
Interest expense – lease liabilities	1.3	2.8
Interest expense – loan notes - SPV	8.2	2.8
Interest expense – property trusts	3.8	4.3
Interest expense – Challenger Capital Notes 1, 2, 3 and 4	44.6	31.3
Other finance costs	4.0	4.8
Total finance costs	**549.3**	**(331.5)**

1. In the prior year, interest expense includes ($393.6 million) external unit holders' liabilities finance costs, representing the return to the external unit holders on assets held in the consolidated external unit holder liability investment trusts. The amount is a function of the performance of the underlying guaranteed index plus the agreed margin. The amount is an expense/(income) when the performance of the underlying guaranteed index plus the agreed margin is positive/(negative).

Accounting policy

Finance costs represent interest incurred on interest bearing financial liabilities (primarily external unit holders' liabilities return, repurchase agreements, the securitised residential mortgage-backed securities (RMBS) issued by the consolidated Special Purpose Vehicles (SPVs), subordinated debt, bank loans and other borrowings) and are recognised as an expense in the period in which they are incurred.

Finance costs that are directly attributable to the acquisition, construction or production of qualifying property assets (being assets that take a substantial period of time to develop for their intended use or sale) are capitalised as part of the cost of those assets. Revenue earned on the investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that the Group allocates general borrowed funds for the purpose of obtaining a qualifying property asset, the borrowing costs eligible for capitalisation are determined by applying a weighted average capitalisation rate to the expenditure on that asset.

Note 16 Dividends paid and proposed

Dividends paid	Amount per share Cents	Total amount $m
For the year ended 30 June 2023		
Final dividend determined in respect of the year ended 30 June 2022	11.5	78.4
Interim dividend determined in respect of the year ended 30 June 2023	12.0	82.1
Total dividends paid by the Group		**160.5**
For the year ended 30 June 2022		
Final dividend determined in respect of the year ended 30 June 2021	10.5	70.8
Interim dividend determined in respect of the year ended 30 June 2022	11.5	78.0
Total dividends paid by the Group		**148.8**
Final dividend determined in respect of the year ended 30 June 2023	**12.0**	**82.3**

1. Refer to Note 12 Contributed equity for details of the dividend policy.

Dividend franking credits

Franking credits available to shareholders are $287.7 million (30 June 2022: $323.8 million), based on a tax rate of 30%. The amount is calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking debits that will arise after the end of the reporting period from the refund of current assets for income tax and franking debits in respect of accrued interest on Challenger Capital Notes 3 and 4.

The impact of the proposed dividend will be to reduce the balance of the franking account by $35.3 million. All dividends are franked at a tax rate of 30%.

Note 17 Earnings per share

	30 June 2023 cents	30 June 2022 cents
Basic earnings per share	42.1	37.5
Diluted earnings per share	37.9	33.1
	$m	**$m**
Profit attributable to ordinary shareholders	287.5	253.7
Add back interest expense on Challenger Capital Notes 1, 2, 3 and 4[1]	42.6	28.3
Add back interest expense net of tax on CLC Subordinated Notes	15.9	6.3
Total earnings used in the calculation of diluted earnings per share	**346.0**	**288.3**
Number of shares	**Number**	**Number**
Weighted average of ordinary shares issued	684,575,248	678,145,134
Weighted average of Treasury shares	(2,514,397)	(2,362,878)
Weighted average ordinary shares for basic earnings per share	**682,060,851**	**675,782,256**
Adjusted for potential ordinary shares:		
Weighted average effect of Challenger Performance Plan	15,039,064	10,702,190
Weighted average effect of Challenger Capital Notes 1, 2, 3 and 4[1]	140,713,509	126,293,826
Weighted average effect of CLC Subordinated Notes	74,299,212	58,337,603
Weighted average ordinary shares for diluted earnings per share	**912,112,636**	**871,115,875**

1. On 5 April 2023, the Group completed its fourth capital notes issue, Challenger Capital Notes 4, to replace Challenger Capital Notes 2, which were fully redeemed on 22 May 2023.

Accounting policy

Basic earnings per share is calculated by dividing the total profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. The number of ordinary shares outstanding is net of Treasury shares.

The weighted average number of Treasury shares for the period was 2,514,397 (30 June 2022: 2,362,878).

Accounting treatment of Capital Notes and subordinated debt

Challenger Capital Notes 3 and 4 and subordinated debt are an effective source of funding for Challenger.

Each of the Capital Notes 3 and 4 and subordinated debt have convertibility features which would result in these instruments converting to ordinary shares under certain circumstances, including APRA determining CLC 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.

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 for the period. As such, a test is required at each reporting period to determine if they are included in the dilutive share count.

Diluted earnings per share is calculated by dividing the total adjusted profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of dilutive shares that may be converted under the terms of Challenger Capital Notes 3 and 4 (Notes), CLC Subordinated Notes and shares granted under the Challenger Performance Plan (CPP).

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

$$\frac{\text{Face value of debt}}{\text{Conversion factor x Challenger's 20-day VWAP share price}}$$

The conversion factor on all Challenger's convertible debt is 99% of the weighted average Challenger share price over the last 20 days of trading (subject to a minimum VWAP floor) in each reporting period.

An assessment of the dilutive impact of convertible securities is usually done by reference to the determination as to whether the interest received would be more or less than the earnings per share and whether it would be rational for a holder to receive coupon from the convertible security or dividends from holding the shares.

The profit attributable to ordinary shareholders is adjusted by $58.5 million interest on Notes and CLC Subordinated Notes (30 June 2022: $34.6 million) for the diluted calculation when the Notes and CLC Subordinated Notes were considered dilutive.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

Section 5: Risk management

This section outlines how financial risk is managed within the Group and provides additional information about how the overall risk management program seeks to minimise potentially adverse financial effects associated with key financial risks. This section also provides disclosures on the fair values of assets and liabilities of the Group, the valuation techniques used in determining the fair value of those assets and liabilities, and the sensitivities of assets categorised as Level 3 instruments to reasonably possible changes in valuation assumptions.

Note 18 Financial risk management

Governance and risk management framework

The Group's activities expose it to a variety of financial risks, such as market risk (including currency risk, interest rate risk, inflation risk, equity price risk and credit spread risk), credit default risk and liquidity risk. The management of these risks is fundamental to the Group's business and to building shareholder value. The Board is responsible, in conjunction with senior management, for understanding the risks associated with the activities of the Group and implementing structures and policies to adequately monitor and manage those risks.

The Board has established the Group Risk Committee (GRC), the Life Risk Committee (LRC), the Bank Risk Committee (BRC), the Group Audit Committee (GAC), the Life Audit Committee (LAC) and the Bank Audit Committee (BAC) to assist in the discharge of certain responsibilities. In particular, the GRC assists the Board in setting the risk appetite and ensuring the Group has an effective risk management framework incorporating management, operational and financial controls.

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

The Group's Risk division has day-to-day responsibility for monitoring the implementation of the framework with oversight, analysis, monitoring and reporting of risks. The CRO provides regular reporting to the GRC and the Board.

The Group's principal financial instruments consist of cash and cash equivalents, receivables, investment assets at fair value through profit and loss and at amortised cost, payables, life contract liabilities, derivatives, loan assets, deposits from customers and other interest bearing financial liabilities.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instruments, are disclosed in Section 1: Basis of preparation and overarching significant accounting policies and are included in the relevant notes to the financial statements.

Market risk

Market risk is the risk that the fair value and/or future cash flows from a financial instrument will fluctuate as a result of changes in market factors. Market risk comprises (amongst others) interest rate risk (due to fluctuations in market interest rates), price risk (due to fluctuations in the fair value of equities and other alternatives or credit spreads) and currency risk (due to fluctuations in foreign currency exchange rates).

Interest rate risk

Interest rate risk is the risk of fluctuations in the Group's earnings and equity 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.

It is the Group's policy to minimise the impact of interest rate movements on debt servicing capacity, Group profitability, business requirements and company valuation. The amount of drawn net recourse corporate interest bearing liabilities, and their duration is determined with reference to the annual budget and the most current forecasts. The Group's strategy is to have no interest rate hedges with a duration of greater than five years and targets average hedge duration of three years.

CLC's market risk policy is approved by the CLC Board and sets out the relevant risk limits for interest rate exposure. It is CLC's policy to minimise the impact of interest rate movements on its projected future cash flows. The management of the risks associated with life investment and life insurance contracts, including interest rate risk, is subject to the prudential requirements of the Life Act and APRA. This includes satisfying capital adequacy requirements, which in turn include consideration of how the interest rate sensitivity of assets and liabilities are matched.

For the SPV entities, the impact of a rising/falling bank bill swap rate (BBSW) results in an increase/decrease in the cost of funding and therefore on the profit of the trusts. This interest rate risk is mitigated by actively adjusting the interest rates charged to borrowers if a sustained adverse differential to the benchmark is evidenced. SPV entities are also exposed to the risks arising from borrowers fixing the rates on their mortgage. This interest rate risk is managed by using cash flow hedges to swap the fixed rate to a floating rate exposure at an amount equal to the notional value of the mortgages being fixed.

The Bank is exposed to interest rate risk in the banking book, that is, the exposure to risk as a result of interest rate changes on its assets and liabilities The interest rate risks are monitored by the Bank's Asset and Liability Committee (ALCO) and reported to the Board. . The Bank does not currently undertake derivatives; rather, organic tools are employed to minimise interest rate risk between assets and liabilities, which is considered adequate in addressing its interest rate exposure given the Bank's size and complexity.

Note 18 Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity

The Group's sensitivity to movements in interest rates in relation to the value of investment assets and liabilities is shown in the table below. It is assumed that the change happens at the Statement of financial position date and that there are concurrent movements in interest rates and parallel moves in the yield curve. All material underlying exposures and related hedges are included in the analysis.

The impact on profit and equity is post-tax at a rate of 30%. The risks faced and methods used in the sensitivity analysis are the same as those applied in the comparative period.

As shown below, 100 basis point (1%) movements in interest rates would have a minimal impact on the Group's financial position.

	Change in variable	Profit/(loss) 30 June 2023 $m	Change in equity 30 June 2023 $m	Profit/(loss) 30 June 2022 $m	Change in equity 30 June 2022 $m
Non-loan exposure	+100bps	0.7	0.7	(3.6)	(3.6)
	-100bps	(0.7)	(0.7)	3.6	3.6
Loan exposure	+100bps	(0.1)	(0.1)	0.8	0.8
	-100bps	0.1	0.1	(0.8)	(0.8)
Total	**+100bps**	**0.6**	**0.6**	**(2.8)**	**(2.8)**
	-100bps	**(0.6)**	**(0.6)**	**2.8**	**2.8**

Interest rate benchmark reform

Interbank Offered Rates (IBORs), including LIBOR and Euribor, are interest rate benchmarks which are commonly used to determine interest rates and payment obligations for a wide range of financial arrangements such as loans, bonds and derivatives.

During 2020 and 2021 a project team led by the Head of Derivatives was established to manage impacts of the interest rate benchmark reform, including overseeing the transition from IBORs to Alternative Reference Rates (ARRs). Contracts held by the Group that referenced LIBOR and other IBORs that have ceased publication transitioned to ARRs or closed out.

The interest rate benchmark reform including transition from LIBOR to ARRs has not resulted in changes to the Group's risk management strategy and these risks are managed within the existing risk management framework.

Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments. The Group is exposed to equity price risk on its holdings in equity securities, which include a range of investments in primarily low beta and alternative and relative value strategies, where returns are generally considered to have low or no correlation to listed equity market returns, and credit spread risk on its fixed income securities.

The Group is required to fair value all equities and fixed income securities held to back life contract liabilities.

Equity risks will arise as a natural result of CLC's Asset Allocation Plan. Equity prices can be driven by a range of risk factors specific to an individual exposure, including broad macroeconomic and instrument-specific factors that may be uncorrelated with broader equity markets. The Group's primary tools for managing investment price risks are CLC's Internal Capital Adequacy Assessment Process (ICAAP) and the Asset Allocation Plan.

Equity price risk sensitivity

The potential impact of movements in the market value of listed and unlisted equities on the Group's Statement of comprehensive income and Statement of financial position is shown in the below sensitivity analysis.

The impact on profit and equity is post-tax at a rate of 30%. The risks faced and methods used in the sensitivity analysis are the same as those applied in the comparative period.

As shown below, a 10% movement in equity prices would have a material impact on the consolidated Group's financial position. It is assumed that the relevant change occurs as at the reporting date.

Note 18 Financial risk management (continued)

Price risk (continued)

Equity price risk sensitivity (continued)

Equities and other alternatives	Change in variable	Profit/(loss) 30 June 2023 $m	Change in equity 30 June 2023 $m	Profit/(loss) 30 June 2022 $m	Change in equity 30 June 2022 $m
Property securities	+10%	6.3	6.3	6.3	6.3
	-10%	(6.3)	(6.3)	(6.3)	(6.3)
Infrastructure investments	+10%	7.5	7.5	7.6	7.6
	-10%	(7.5)	(7.5)	(7.6)	(7.6)
Other equities and alternative assets	+10%	179.3	172.9	153.7	153.7
	-10%	(179.3)	(172.9)	(153.7)	(153.7)
Total assets	**+10%**	**193.1**	**186.7**	**167.6**	**167.6**
	-10%	**(193.1)**	**(186.7)**	**(167.6)**	**(167.6)**

Credit spread risk sensitivity

The Group is exposed to price movements resulting from credit spread fluctuations through its fixed income securities (net of subordinated debt) and policy liabilities. As at 30 June 2023, a 50 basis point increase/decrease in credit spreads would result in a post-tax (at 30%) unrealised loss/gain in the Statement of comprehensive income and equity of $124.9 million in respect of fixed income securities partially offset by an unrealised gain/loss of $65.5 million in respect of policy liabilities (30 June 2022: $131.5 million fixed income securities, $66.3 million policy liabilities).

Currency risk

It is the Group's policy to seek to minimise the impact of movements in foreign exchange rates on statement of financial position items contributing to CLC's regulatory capital base, with the exception of exposures arising from currency overlay positions. Currency exposure arises primarily as a result of investments in Europe (including the United Kingdom), Japan and the United States, and US dollar 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, the Group has entered into foreign currency derivatives.

In addition, the Group has exposure to foreign exchange risk upon consolidation of its foreign currency denominated controlled entities and materially mitigates this by designating foreign currency derivatives as hedges of net investments in foreign entities in equity to match its foreign currency translation reserve exposure. Effectiveness is monitored on a regular basis to ensure that the hedge remains effective and any ineffective portion of the hedge is recognised directly in the Statement of comprehensive income.

The SPV entities hedge exposure to foreign currency risk arising from issuing mortgage-backed securities in foreign currencies. The currencies impacted are primarily the British pound, euro and US dollar.

All derivatives in the SPV entities are designated as cash flow hedges. These hedges are effective and there is no material impact on the profit and loss.

The analysis in the currency risk table shows the impact on the Statement of comprehensive income and equity of a movement in the Group's major foreign currency exposure exchange rates against the Australian dollar using the net exposure at the balance date. All underlying exposures and related hedges are included in the analysis.

A sensitivity of 10% has continued to have been applied as it still reflects a reasonable measurement given the current level of exchange rates and the volatility observed. The impact on profit and equity is post-tax at a rate of 30%.

The risks faced and methods used in the sensitivity analysis are the same as those applied in the comparative period. As shown in the table on the following page, a 10% movement in foreign currency exchange rates would have minimal impact on the Group's financial position.

The following table details the Group's net exposure to foreign currency as at the reporting date in Australian dollar equivalent amounts.

Note 18 Financial risk management (continued)

Currency risk (continued)

	GBP $m	USD $m	Euro $m	JPY $m	Other $m
30 June 2023					
Investment assets	542.4	3,885.8	1,500.5	388.9	4.5
Investment liabilities	(1.7)	(1,898.0)	(0.8)	(0.1)	—
Foreign currency contracts and cross-currency swaps	(536.9)	(1,972.8)	(1,499.4)	(379.5)	(1.5)
Net exposure in Australian dollars	**3.8**	**15.0**	**0.3**	**9.3**	**3.0**
30 June 2022					
Investment assets	558.7	3,496.8	896.7	349.0	2.1
Investment liabilities	(2.9)	(1,544.0)	(6.5)	(0.1)	—
Foreign currency contracts and cross currency swaps	(557.1)	(1,965.2)	(900.1)	(345.6)	(1.6)
Net exposure in Australian dollars	**(1.3)**	**(12.4)**	**(9.9)**	**3.3**	**0.5**

	Movement in variable against $	Profit/(loss) 30 June 2023 $m	Change in equity 30 June 2023 $m	Profit/(loss) 30 June 2022 $m	Change in equity 30 June 2022 $m
British pound (GBP)	+10%	0.3	0.3	—	—
	-10%	(0.3)	(0.3)	—	—
US dollar (USD)	+10%	1.0	1.0	(0.8)	(0.8)
	-10%	(1.0)	(1.0)	0.8	0.8
Euro (EUR)	+10%	—	—	(0.7)	(0.7)
	-10%	—	—	0.7	0.7
Japanese yen (JPY)	+10%	0.3	0.7	0.2	0.3
	-10%	(0.3)	(0.7)	(0.2)	(0.3)
Other	+10%	0.3	0.3	—	—
	-10%	(0.3)	(0.3)	—	—
Total	**+10%**	**1.9**	**2.3**	**(1.3)**	**(1.2)**
	-10%	**(1.9)**	**(2.3)**	**1.3**	**1.2**

Credit default risk

The Group makes use of external ratings agencies (Standard & Poor's, Fitch, Moody's or other reputable credit rating agencies) to determine credit ratings. Where a counterparty or debt obligation is rated by multiple external rating agencies, the Group will use Standard & Poor's ratings where available. All credit exposures with an external rating are also rated 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 risk originators.

Each business unit is responsible for managing credit risks that arise with oversight from a centralised credit risk management team.

Credit exposure by credit rating

The table below provides information regarding the maximum credit risk exposure of the Group in respect of the major classes of investment assets by equivalent credit rating. The maximum credit exposure is deemed to be the carrying value of the asset, not including any collateral or other credit protection in place. The analysis classifies the assets according to internal or external credit ratings. Assets rated investment grade are those rated by Standard & Poor's at BBB– or above, with non-investment grade therefore being below BBB–.

Note 18 Financial risk management (continued)

Credit default risk (continued)

	Investment grade				Non-inv.		
30 June 2023	**AAA $m**	**AA $m**	**A $m**	**BBB $m**	**grade $m**	**Other $m**	**Total $m**
Cash and cash equivalents	593.4	—	—	—	—	—	593.4
Receivables	77.3	185.8	276.3	26.3	77.8	53.6	697.1
Loan assets	112.2	69.0	81.8	89.4	—	22.5	374.9
Fixed income securities (held at fair value)	7,831.0	4,820.1	1,732.4	2,561.0	3,354.7	152.6	20,451.8
Derivative assets	—	487.2	113.9	—	—	—	601.1
Financial leases	—	0.1	2.0	1.4	7.0	14.4	24.9
Bank assets held for sale[1]	3.2	48.2	27.4	51.5	—	74.8	205.1
Total assets with credit exposures	**8,617.1**	**5,610.4**	**2,233.8**	**2,729.6**	**3,439.5**	**317.9**	**22,948.3**
30 June 2022							
Cash and cash equivalents	733.1	—	—	—	—	—	733.1
Receivables	33.3	483.8	5.2	18.2	52.8	54.2	647.5
Loan assets	180.8	54.7	139.2	71.5	16.5	89.0	551.7
Fixed income securities (held at fair value)	8,399.3	4,022.1	2,037.5	2,567.3	3,095.4	180.5	20,302.1
Derivative assets	—	556.4	20.8	—	—	—	577.2
Financial leases	—	—	4.1	4.8	10.8	—	19.7
Total assets with credit exposures	**9,346.5**	**5,117.0**	**2,206.8**	**2,661.8**	**3,175.5**	**323.7**	**22,831.3**

1. Bank assets held for sale excludes non-financial assets in the Bank and therefore have no credit default risk.

Loan assets

Mortgage assets – SPV are funded via securitised residential mortgage-backed securities (RMBS). As a result, the Group is not exposed to significant credit risk on these assets as this is borne by the RMBS holder.

The credit risk on the Bank's loan assets is determined by the risk appetite of the Bank Board and responsibility for overseeing it is delegated to the Loans Committee. Credit risk provisioning is determined through the application of AASB 9 *Financial Instruments* and its requirements using the expected credit loss model. Refer to Note 7 Loan assets for further details on the recognition of expected credit losses.

Collateral held over assets

In the event of a default against any of the mortgages in any SPV, the trustee has the legal right to take possession of the secured property and sell it as a recovery action against settlement of the outstanding account mortgage balance. At all times of possession, the risks and rewards associated with ownership of the property are held by the trustee on behalf of the RMBS holder.

Concentration risk

The credit risk framework includes an assessment of the counterparty credit risk in each business unit and at a total Group level. The Group has no significant concentrations of credit risk at the Statement of financial position date.

APRA prescribes prudential limits on exposure to an individual counterparty (or group of related parties) as a proportion of an ADI's Tier 1 regulatory capital — currently 10%. In the event that this is exceeded, a large exposure is considered to exist and APRA requires that the ADI must inform the regulator of these exposures through prudential reporting. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable. The Bank is not materially exposed to groupings of individual loans which concentrate risk and create exposure to particular segments.

Ageing of amortised cost investment assets

The table below gives information regarding the carrying value of the Group's investment assets measured at amortised cost. The analysis splits these assets by those that are not past due and those that are past due (including an ageing analysis at the Statement of financial position date).

Note 18 Financial risk management (continued)

Credit default risk (continued)

Amortised cost investment assets	Not past due $m	Past due 0-1 months $m	1-3 months $m	3-6 months $m	6+ months $m	Total $m
30 June 2023						
Receivables	694.7	0.4	0.2	0.1	1.7	697.1
Loan assets[1]	313.9	23.0	15.0	4.2	18.8	374.9
Finance leases	24.9	—	—	—	—	24.9
Total amortised cost investment assets	**1,033.5**	**23.4**	**15.2**	**4.3**	**20.5**	**1,096.9**
30 June 2022						
Receivables	640.2	0.9	0.7	0.5	5.2	647.5
Fixed income	244.0	—	—	—	—	244.0
Loan assets[1]	487.6	20.1	14.1	3.3	26.6	551.7
Finance leases	19.7	—	—	—	—	19.7
Total amortised cost investment assets	**1,391.5**	**21.0**	**14.8**	**3.8**	**31.8**	**1,462.9**

1. Past due balances where the Group considers that principal and interest plus any associated costs will be recovered in full.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. This may result from the inability to sell investment assets at their fair values; a counterparty failing on repayment of a contractual obligation; the inability to generate cash inflows as anticipated; or an unexpected increase in cash outflows.

The Group 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 sufficient liquidity, the Group considers new business activities in addition to current contracted obligations. It considers minimum cash requirements; collateral and margin call buffers; APRA and Australian Financial Services Licence (AFSL) requirements; cash flow forecasts; associated reporting requirements; other liquidity risks; and contingency plans.

The basis of the approach to liquidity management is to target sufficient liquidity to meet all cash requirements of the Group over an ensuing 12-month period which ensures that the regulatory guidelines set out in ASIC Regulatory Guide 166 *Licensing: Financial requirements for holders of an AFSL* are met.

Life

The Life liquidity management policy is approved by the CLC Board and sets out liquidity targets and mandated actions depending on actual liquidity levels relative to those targets. Detailed forecast cash positions are reported regularly to the Financial Risk Committee (FRC). The Investment Committee is a committee of investment professionals from within CLC and represents the first line of defence. The FRC is a committee of professionals mainly from the Risk division that is separate from the investment team of CLC. The FRC represents the second line of defence for CLC and CBL. At the reporting date, all requirements of the CLC Board-approved liquidity management policy were satisfied.

Maturity profile of undiscounted financial liabilities

The table on the following page summarises the maturity profile of the Group's undiscounted financial liabilities. This is based on contractual undiscounted repayment obligations. Totals differ to the amounts in the Statement of financial position by the amount of time value of money discounting reflected in the Statement of financial position values.

Bank

The Bank has separate policies and processes to manage liquidity risks. The policy is approved by the Bank Risk Committee and is subject to APRA's review for compliance with prudential standards. The Bank's policy is to maintain adequate cash reserves, liquidity support facilities and reserve borrowing facilities in order to meet customer withdrawal demands when requested. Prudential liquidity ratios are monitored regularly, daily cash flows and longer-term cash flow forecasts are reviewed continuously, and contingency funding plans are in place to address liquidity shortfalls.

Note 18 Financial risk management (continued)

Maturity profile of undiscounted financial liabilities (continued)

Maturing profile of undiscounted financial liabilities	1 year or less $m	1-3 years $m	3-5 years $m	>5 years $m	Total $m
30 June 2023					
Payables	833.8	5.2	15.6	—	854.6
Interest bearing financial liabilities	4,266.0	1,025.5	606.4	552.1	6,450.0
External unit holders' liabilities	4,100.9	1,167.9	—	—	5,268.8
Life investment contract liabilities	4,315.5	3,889.0	1,391.3	1,382.5	10,978.3
Life insurance contract liabilities[1]	338.0	663.5	711.9	3,957.2	5,670.6
Derivative liabilities	220.2	88.2	113.7	189.2	611.3
Total undiscounted financial liabilities[1]	**14,074.4**	**6,839.3**	**2,838.9**	**6,081.0**	**29,833.6**
30 June 2022					
Payables	699.9	5.1	21.2	—	726.2
Interest bearing financial liabilities	4,522.8	1,016.6	526.8	221.4	6,287.6
Deposits from customers	216.0	11.7	—	—	227.7
External unit holders' liabilities	4,072.8	313.6	—	—	4,386.4
Life investment contract liabilities	4,973.6	3,103.4	1,013.1	1,096.4	10,186.5
Life insurance contract liabilities[1]	312.1	603.8	599.9	3,735.4	5,251.2
Derivative liabilities	160.8	152.8	205.6	320.4	839.6
Total undiscounted financial liabilities[1,2]	**14,958.0**	**5,207.0**	**2,366.6**	**5,373.6**	**27,905.2**

1. Disclosure of life insurance contract liabilities is not required under AASB 7 ***Financial Risk Management;*** however, for reference purposes these have been included. Refer to Note 8 Life contract liabilities for further details.
2. Comparatives have been restated to reflect the reclassification of life contract types that do not carry significant insurance risk from life insurance contracts to life investment contracts. Prior to restatement, total Life investment contract liabilities and total Life insurance contract liabilities in the prior comparative period were $6,930.1 million and $8,507.6 million respectively.

Note 19 Fair values of investment assets and liabilities

Fair value determination and classification

Fair value reflects the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The majority of the Group's financial instruments are held in the life insurance statutory funds of CLC and, as a result, are required by AASB 1038 ***Life Insurance Contracts*** to be designated at fair value through profit and loss where this is permitted under AASB 9 ***Financial Instruments.***

Financial instruments measured at fair value are categorised under a three-level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level that is significant to the fair value measurement. The three levels are set out below.

Level 1 Unadjusted quoted prices in active markets are the valuation inputs for identical assets or liabilities (i.e. listed securities).

Level 2 Valuation inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) are used.

Level 3 There are valuation inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The unobservable inputs into the valuation of the Group's Level 3 assets and liabilities are determined based on the best information available, including the Group's own assessment of the assumptions that market participants would use in pricing the asset or liability. Examples of unobservable inputs are estimates about the timing and amount of cash flows, discount rates, earnings multiples and internal credit ratings.

Valuation techniques

The majority of the Group's listed and unlisted fixed income securities, over-the-counter derivative financial instruments and interest bearing liabilities including the subordinated debt issuance are classified as Level 2. This recognises the availability of a quoted price but not from an active market as defined by the accounting standard.

Fixed income securities where market observable inputs are not available are classified as Level 3. The Group's derivative financial instruments are traded over the counter so, while they are not exchange traded, there is a market observable price. Most of the fixed income securities and all of the government/semi-government securities have market observable prices.

Externally rated unlisted fixed income securities are valued by applying market observable credit spreads on similar assets with an equivalent credit rating and are classified as Level 2. Internally rated fixed income securities are classified as Level 3 as the determination of an equivalent credit rating is a significant non-observable input.

Equity, infrastructure and property securities that are exchange traded are generally classified as Level 1. Where quoted prices are available, but are not from an active market, they are classified as Level 2. If market observable inputs are not available, they are classified as Level 3. Valuations can make use of cash flow forecasts discounted using the applicable yield curve, earnings multiple valuations or, for managed funds, the net assets of the trust per the most recent financial report.

External unit holders' liabilities are valued at the face value of the amounts payable, being an approximation of fair value, and classified as Level 2. The portion of life investment contract liabilities classified as Level 2 represents products or product options for which the liability is determined based on an account balance, rather than a discounted cash flow as applied to the rest of the portfolio.

Cash and cash equivalents are carried at amortised cost. To determine a fair value where the asset is liquid or maturing within three months, the fair value is approximated to the carrying amounts. This assumption is applied to liquid assets and other short-term investment assets and liabilities.

The mortgage SPVs have total equity attributable to residual income unitholders (RIU) at amortised cost of nil (2022: nil), being net of $0.1m assets and $0.1m liabilities, relates to interest rate swaps and cross-currency swaps. The fair value of this RIU holders' asset is $11.8 million (2022: $21.2 million) and would be classified as Level 3 in the fair value hierarchy.

Challenger Capital Notes 3 and 4 have carrying values (inclusive of unamortised issue costs) of $381.4 million and $343.6 million respectively. The fair value of these notes is $401.7 million and $352.3 million respectively and they are classified as Level 1 in the fair value hierarchy.

Valuation process

For financial instruments and investment properties categorised within Level 3 of the fair value hierarchy, the valuation process applied in valuing such instruments is governed by the CLC Practice Note on Investment Asset and Financial Liability Valuation. The Practice Note outlines the Valuation Committee's responsibilities in the governance of the valuation of investment assets and financial liabilities for the purposes of financial reporting. All significant Level 3 financial instruments are referred to the Valuation Committee, which generally meets monthly, or more frequently if required.

All financial instruments and investment properties carried at fair value are measured on a recurring basis. Refer Note 5 Investment assets and Note 6 Investment property for further details on the valuation process applied to unlisted financial instruments and investment properties.

The table on the following page summarises the financial instruments and investment properties measured at fair value at each level of the fair value hierarchy as at the Statement of financial position date.

Note 19 Fair values of investment assets and liabilities (continued)

Valuation process (continued)

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
30 June 2023				
Derivative assets	—	601.1	—	601.1
Fixed income securities[1]	—	18,562.8	1,889.0	20,451.8
Equity and debt securities	1.0	2,457.3	205.9	2,664.2
Infrastructure investments[1]	—	—	284.1	284.1
Hedged commodities	827.9	—	—	827.9
Property securities	—	—	89.3	89.3
Investment property[2]	—	—	3,269.2	3,269.2
Total assets	**828.9**	**21,621.2**	**5,737.5**	**28,187.6**
Derivative liabilities	1.9	609.4	—	611.3
Interest bearing financial liabilities[3]	754.0	403.0	—	1,157.0
External unit holders' liabilities	—	5,268.8	—	5,268.8
Life investment contract liabilities	—	37.7	9,817.8	9,855.5
Total liabilities	**755.9**	**6,318.9**	**9,817.8**	**16,892.6**
30 June 2022				
Derivative assets	—	577.2	—	577.2
Fixed income securities[1]	—	18,147.4	1,910.7	20,058.1
Equity and other alternatives	0.9	1,401.8	165.6	1,568.3
Infrastructure investments[1]	—	0.1	300.7	300.8
Hedged commodities	544.5	—	—	544.5
Property securities	—	—	90.2	90.2
Investment property[2]	—	—	3,483.3	3,483.3
Total assets	**545.4**	**20,126.5**	**5,950.5**	**26,622.7**
Derivative liabilities	2.3	837.4	—	839.7
Interest bearing financial liabilities[3]	853.0	398.4	—	1,251.4
External unit holders' liabilities	—	4,386.4	—	4,386.4
Life investment contract liabilities[4]	—	40.6	9,610.0	9,650.6
Total liabilities	**855.3**	**5,662.8**	**9,610.0**	**16,128.1**

1. The Group has exposures to structured entities (entities designed so that voting or similar rights are not the dominant factor in determining who controls the entity, for example when any voting rights relate purely to administrative tasks) via investments in asset-backed finance vehicles (where it may act as a lender or purchaser of notes and/or residual income units) and securitisations (such as mortgages, finance leases and other types of collateralised vehicles). The Company assesses, at inception and at each reporting date, whether a structured entity should be consolidated based on the accounting policy. The maximum exposure to loss is limited to the reported fair value of the underlying securities plus any guaranteed undrawn commitments to the counterparties. At 30 June 2023, the carrying value of asset-backed financing assets was $18.4 million (30 June 2022: $37.1 million) with no undrawn commitments (30 June 2022: nil) and securitisations was $9,105.3 million (30 June 2022: $9,260.3 million) plus $28.3 million undrawn commitments (30 June 2022: $59.1 million).
2. Refer to Note 6 Investment property for valuation techniques and key unobservable inputs.
3. Not all the interest bearing liabilities are included within the fair value determination and classification table as a number of interest bearing liabilities are valued at amortised cost.
4. Comparatives have been restated to reflect the reclassification of life contract types that do not carry significant insurance risk from life insurance contracts to life investment contracts. Prior to the change, Level 3 Life investment contract liabilities in the comparative period was $6,707.8 million.

Note 19 Fair values of investment assets and liabilities (continued)

Level 3 reconciliation

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within Level 3 of the fair value hierarchy during the year:

	30 June 2023		30 June 2022	
	Assets $m	Liabilities $m	Assets $m	Liabilities $m
Balance at the beginning of the year	5,971.8	9,610.0	5,884.2	9,085.4
Fair value movements	(133.3)	264.8	(37.7)	(127.3)
Acquisitions	3,255.2	5,112.6	2,391.5	4,016.5
Maturities and disposals	(3,262.8)	(5,169.6)	(2,218.8)	(3,364.6)
Transfers to other categories[1,2]	(79.1)	—	(47.4)	—
Balance at the end of the year[3]	**5,751.8**	**9,817.8**	**5,971.8**	**9,610.0**
Unrealised (losses)/gains included in the Statement of comprehensive income for assets and liabilities held at the Statement of financial position date	(133.3)	(264.8)	(37.7)	(127.3)

1. The Group transfers between levels of the fair value hierarchy when there is a change in the observability of the pricing inputs or a change to the valuation methodology and are deemed to have occurred at the end of the reporting period.
2. Transfers to/from other categories are due to changes in the market observability of inputs used in the valuation of financial instruments. There were no transfers between Level 1 and Level 2 during the reporting period. There was $4.5 million (30 June 2022: $49.1 million) of transfers into Level 3 from Level 2 and $83.6 million of transfers out of Level 3 into Level 2 during the reporting period (30 June 2022: $47.4 million of transfers out of Level 3 and into Level 2).
3. Comparatives have been restated to reflect the reclassification of life contract types that do not carry significant insurance risk from life insurance contracts to life investment contracts. Prior to the change, Level 3 liabilities balance in the comparative period was $6,707.8 million.

Level 3 sensitivities

The following table shows the sensitivity of Level 3 financial instruments to a reasonably possible change in alternative assumptions in respect of the non-observable inputs into the fair value calculation:

	Level 3 value[1] $m	Positive impact $m	Negative impact $m	Valuation technique	Reasonably possible change in non-observable input[2,3,4]
30 June 2023					
Fixed income securities	1,889.0	12.3	(31.7)	Discounted cash flow	Primarily credit spreads
Equity and other alternatives	205.9	12.9	(13.5)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	284.1	4.1	(4.0)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	89.3	4.5	(4.5)	External financial report	5% change in valuation
Investment contract liabilities	(9,817.8)	7.7	(7.7)	Discounted cash flow	Primarily expense assumptions
Investment property	3,269.2	157.2	(111.8)	Market capitalisation, Discounted cash flow	Primarily capitalisation rate
Total Level 3	**(4,080.3)**				
30 June 2022					
Fixed income securities	1,910.8	12.5	(14.3)	Discounted cash flow	Primarily credit spreads
Equity and other alternatives	165.6	12.2	(13.5)	Discounted cash flow, external financial report	Mortality rate, 5% change in valuation
Infrastructure investments	300.7	4.3	(4.2)	Discounted cash flow, external financial report	Primarily discount rate on cash flow models
Property securities	90.2	4.5	(4.5)	External financial report	5% change in valuation
Investment contract liabilities	(9,610.0)	5.5	(5.5)	Discounted cash flow	Primarily expense assumptions
Investment property	3,483.3	164.8	(129.4)	Market capitalisation, Discounted cash flow	Primarily capitalisation rate
Total Level 3	**(3,659.4)**				

1. The fair value of the asset or liability would increase/decrease if the credit spread or discount rate decreases/increases or if expense assumptions and the other inputs increase/decrease.
2. Specific asset valuations will vary from asset to asset as each individual industry profile will determine appropriate valuation inputs to be utilised.
3. The effect of a change to reflect a reasonably possible alternative assumption was calculated by moving the credit band by one tier, adjusting the discount rates by between 50 bps and 100 bps, adjusting property capitalisation rates by 25 bps (Australia) or 10 bps (Japan), adjusting credit spreads by 50 bps, changing the valuation of the unlisted schemes by 5% and adjusting the expense assumption allocation splits by 10%.
4. The sensitivity inputs to a reasonably possible change in a non-observable input are consistent with the year ended 30 June 2023.

Note 20 Collateral arrangements

Accounting policy

CLC receives collateral, where it is considered necessary, when entering into certain financial arrangements.
The amount of collateral required is subject to management's credit evaluation of the counterparty which is performed on a case-by-case basis. As at 30 June 2023, $103.0 million (30 June 2022: $85.9 million cash received from third parties - derivative credit support payables) cash received from third parties as collateral is recorded in payables and $106.9 million (30 June 2022: $115.4 million rehypothecated securities — collateral assets repledged) of collateral assets received from counterparties was repledged by the Company to third parties.

Except in the event of default, collateral received can be called back by the counterparty in accordance with the financial arrangement. CLC is required to pledge collateral, as part of the standard terms of transactions, when entering into certain financial arrangements. Cash paid to third parties as collateral is recorded in receivables. Other investment assets transferred as collateral are not derecognised from the Statement of financial position as the risks and rewards of ownership remain with CLC. As at the reporting date, the fair value of cash and investment assets pledged are as follows:

Collateral pledged as security	30 June 2023 $m	30 June 2022 $m
Cash	391.2	483.8
Other investment assets	7,165.7	6,309.2
Total collateral pledged	**7,556.9**	**6,793.0**

Section 6: Group structure

This section provides details and disclosures relating to the parent entity of the Group, controlled entities, investments in associates and any acquisitions and/or disposals of businesses in the year. Disclosure for related parties is also provided in this section.

Refer to Note 28 Contingent liabilities, contingent assets and credit commitments for details of any contingent liabilities applicable to the parent entity.

Note 21 Parent entity

Company	30 June 2023 $m	30 June 2022 $m
Statement of comprehensive income		
Dividends and interest from controlled entities	214.3	288.7
Finance costs	(45.6)	(31.6)
Profit before income tax	168.7	257.1
Income tax benefit	0.9	0.9
Total comprehensive income for the year	**169.6**	**258.0**
Statement of financial position		
Assets		
Cash and cash equivalents	2.3	2.9
Receivables	1,922.8	1,749.8
Investment asset – fixed income securities[1]	735.0	845.0
Current tax asset	8.8	—
Deferred tax assets	3.8	4.8
Investment in controlled entities	2,474.1	2,457.2
Total assets	**5,146.8**	**5,059.7**
Liabilities		
Payables	779.9	567.6
Current tax liabilities	—	65.8
Interest bearing financial liabilities	725.0	838.6
Total liabilities	**1,504.9**	**1,472.0**
Net assets	**3,641.9**	**3,587.7**
Equity		
Contributed equity	2,543.6	2,505.6
Share-based payments reserve	(101.6)	(108.8)
Retained earnings	1,199.9	1,190.9
Total equity	**3,641.9**	**3,587.7**

1. Investment asset – fixed income securities relates to the subscription by the Company of notes issued by CLC that qualify as Additional Tier 1 capital of CLC.

Note 22 Controlled entities

The table below presents the hierarchical structure of Challenger Limited showing its controlled entities that form the main composition of the Group as at 30 June 2023:

Entity name[1]	Principal activity
Challenger Limited	
Challenger Group Holdings Limited	Corporate
Challenger Group Services Pty Ltd	Corporate
Challenger Treasury Limited	Corporate
Challenger Japan Holdings Pty Limited	Corporate
Artega Investment Administration Pty Limited	Corporate
Challenger Funds Management Holdings Pty Limited	Funds Management
Fidante Partners Holdings Pty Limited	Funds Management
Fidante Partners Holdings Europe Limited (incorporated in the UK)	Funds Management
Challenger Investment Partners Limited	Funds Management
Challenger Life Company Holdings Limited	Life
Challenger Life Company Limited	Life

1. Challenger's percentage holding of the above entities is 100% with the exception of Artega (80% holding) and all are incorporated in Australia unless otherwise stated.

Accounting policy

Controlled entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The acquisition method of accounting is applied on acquisition or initial consolidation. This method ascribes fair values to the identifiable assets and liabilities acquired. The difference between the net fair value acquired and the fair value of the consideration paid (including the fair value of any pre-existing investment in the entity) is recognised as either goodwill on the Statement of financial position or a discount on acquisition through the Statement of comprehensive income.

Principles of consolidation

The financial statements consolidate the financial information of controlled entities. An entity is controlled when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Statement of financial position date and the accounting policies of controlled entities are consistent with those of the Company. The Company assesses, at inception and at each reporting date, whether an entity should be consolidated based on the accounting policy.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full. Non-controlling interests, where they exist, represent the share in the net assets of subsidiaries attributable to equity interests not owned directly or indirectly by the Group.

Note 23 Discontinued operation and business held for sale

Sale of Challenger Bank

On 20 October 2022, Challenger Limited announced that it entered into a share sale agreement to sell Challenger Bank Limited to Heartland Group Holdings Limited.

The Bank has been classified as held for sale and a discontinued operation in line with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations.*

The Group is expected to receive approximately $33.0 million, subject to completion of adjustments, for the sale of the Bank. This is based on expected net assets of approximately $22.0 million. The Group acquired Challenger Bank (previously MyLifeFinance Limited) for total consideration of $37.0 million.

Goodwill of $19.1 million was initially recognised upon acquisition of the Bank on 30 July 2021. This was fully impaired in the year ended 30 June 2022.

The completion of the sale to Heartland Group Holdings Limited is expected to occur by Q2 2024. Completion of the transaction is subject to various regulatory approvals in Australia and New Zealand.

Income statement

For the year ended	30 June 2023 $m	30 June 2022 $m
Revenue	15.3	3.4
Expenses	(21.0)	(17.4)
Finance costs	(5.4)	(1.1)
Loss before income tax	**(11.1)**	**(15.1)**
Income tax benefit	3.1	4.5
Loss after income tax on discontinued operations[1]	**(8.0)**	**(10.6)**

1. Differs from note 3 due to the segment note representing a business unit view.

Cash flow statement

For the year ended	30 June 2023 $m	30 June 2022 $m
Net cash from operating activities	(65.0)	6.4
Net cash from investing activities	167.1	(40.5)
Net cash from financing activities	(84.8)	65.6
Net cash inflows from discontinued operations	**17.3**	**31.5**

Note 23 Discontinued operation and business held for sale (continued)

Statement of financial position

The Statement of financial position of Challenger Bank is set out in the table below (none of the Bank's assets and liabilities were present as held for sale in the prior year).

	30 June 2023
Assets held for sale	**$m**
Cash and cash equivalents	58.1
Investment securities	75.0
Loan assets	70.5
Receivables	1.5
Deferred tax asset	1.2
Other assets	0.4
Total assets[1]	**206.7**
Liabilities held for sale	
Payables	2.6
Provisions	2.3
Deposits from customers	171.7
Interest bearing liabilities	5.4
Total liabilities	**182.0**
Net assets held for sale	**24.7**

[1] The total assets of the Bank segment were $242.6 million as at 30 June 2023. As 30 June 2023, $21.5 million of loan assets and financial leases $14.4 million have not been classified as held for sale because they will be transferred within the Group prior to sale completion. This transfer will result in an increased cash balance, which the Bank intends to use towards a capital distribution to the Group. The net assets at the date of the sale are expected to be approximately $22.0 million.

Accounting policy

A disposal group is classified as held for sale if the Group will recover its carrying amount principally through the sale rather than through continuing use. The criteria for held for sale classification is considered to be met only when the sale is highly probable, and the disposal group is available for immediate sale in its present condition and the sale is expected to be completed within 12 months from the date of the classification.

Assets and liabilities of the disposal groups are separately presented on the balance sheet. Comparatives in the Statement of financial position are not restated.

Disposal groups held for sale are measured in accordance with AASB 5 ***Non-current Assets Held for Sale and Discontinued Operations.***

Discontinued operations represent components of the Group that have either been disposed of or are classified as held for sale and constitute a separate major line of the business. The post-tax results of discontinued operations are presented as a single amount in the Statement of comprehensive income and are therefore excluded from the results of continuing operations. Comparatives in the Statement of comprehensive income are restated.

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell with the exception of the following balances:

- Deferred tax assets (AASB 112 ***Income Taxes***);
- Employee benefit balances (AASB 119 ***Employee Benefits***); and
- Financial assets within the scope of AASB 9 ***Financial Instruments.***

Key estimates and judgements

Management has exercised judgement in determining the classification of assets and liabilities of the Bank that are held for sale. Assets held for sale are considered to be held for sale on the basis that it is highly probable they will be sold, as management is committed to selling those assets and there is a suitable buyer. All assets are available for immediate sale in their present condition.

Note 24 Investment in associates and joint ventures

Associates

Name of company	Principal activity	Country of domicile	30 June 2023 %[1]	30 June 2022 %[1]	30 June 2023 $m	30 June 2022 $m
Alphinity Investment Management Pty Ltd	Funds Management	Australia	30	30	1.6	1.9
Ardea Investment Management Pty Ltd	Funds Management	Australia	30	30	27.1	24.6
Ares Australia Management Pty Ltd	Funds Management	Australia	35	35	0.5	0.3
Bentham Asset Management Pty Ltd	Funds Management	Australia	49	49	0.7	0.9
Cultiv8 Funds Management Pty Ltd	Funds Management	Australia	36	36	1.5	—
Eiger Capital Pty Ltd	Funds Management	Australia	40	40	1.0	1.0
Greencape Capital Pty Ltd	Funds Management	Australia	45	45	38.1	37.3
Lennox Capital Partners Pty Ltd	Funds Management	Australia	40	40	1.8	1.9
Merlon Capital Partners Pty Ltd	Funds Management	Australia	30	30	1.9	2.1
Novaport Capital Pty Ltd	Funds Management	Australia	49	49	0.4	0.2
Ox Capital Management Pty Ltd	Funds Management	Australia	40	40	3.2	1.8
Resonance Asset Management Limited[2]	Funds Management	UK	—	—	0.7	0.7
Wavestone Capital Pty Ltd	Funds Management	Australia	33	33	2.2	2.2
Total investment in associates[3]					**80.7**	**74.9**
Lending JV Holdco Pty Ltd[4]	Lending	Australia	50	—	1.2	—
Total investment in joint ventures					**1.2**	**—**
Total investment in associates and joint ventures[3]					**81.9**	**74.9**

1. Represents voting rights percentages.
2. Challenger is deemed to have significant influence, due to its ownership of non-voting shares with optionality of conversion to voting shares, as well as its Directorship on the Board.
3. Investment in associates and joint ventures is all considered non-current.
4. The Lending JV is equally owned by Challenger and Apollo (NYSE:APO).

	30 June 2023 $m	30 June 2022 $m
Movements in carrying amount of investment in associates and joint ventures		
Opening balance	74.9	83.2
Acquisition of investment in joint venture	1.2	—
Share of joint venture net profit	(0.1)	—
Share of associates' net profit	25.3	38.0
Dividends and net capital redemptions	(19.5)	(46.2)
Impairment of investment in associates	—	(0.1)
Carrying amount at the end of the year	**81.8**	**74.9**
Share of associates' and joint ventures' profit or loss		
Profit after tax for the year	**25.3**	**38.0**
Share of the associates' and joint ventures' Statement of financial position		
Current assets	39.8	43.6
Non-current assets	6.0	5.4
Total assets	**45.8**	**49.0**
Current liabilities	20.6	25.5
Non-current liabilities	2.7	2.5
Total liabilities	**23.3**	**28.0**
Net assets	**22.5**	**21.0**

Note 24 Investment in associates and joint ventures (continued)

Accounting policy

Associates are entities over which the Group has significant influence of the entities' financial and operating policies but not control. Investments in associates, other than those backing life contracts, are accounted for under the equity method whereby investments are carried at cost adjusted for post-acquisition changes in the Group's economic share of the net assets of the entity.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associates' financial reports are used to apply the equity method and both the financial year end date and accounting policies of associate and joint venture entities are consistent with those of the Group. The consolidated Statement of comprehensive income reflects the economic share of the results of operations of associates.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes in the Statement of changes in equity.

Key estimates and assumptions

An assessment is performed at each Statement of financial position date to determine whether there is any indication of impairment and whether it is necessary to recognise any impairment loss against the carrying value of the net investment in associates.

The Group determines the dates of obtaining or losing significant influence of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence the financial and operating policies of that entity.

Note 25 Related parties

Key Management Personnel

The Directors and key executives of Challenger Limited during the reporting period were as follows:

Directors[1]	
Current Directors	
Duncan West (appointed Chair on 27 October 2022)	Independent Chair
Nicolas Hamilton	Managing Director and Chief Executive Officer
John M Green	Independent Non-Executive Director
Steven Gregg	Independent Non-Executive Director
Masahiko Kobayashi[2]	Non-Independent Non-Executive Director
Heather Smith	Independent Non-Executive Director
JoAnne Stephenson	Independent Non-Executive Director
Melanie Willis	Independent Non-Executive Director
Former Directors	
Peter Polson (resigned 27 October 2022)	Former Independent Chair

1. Where an individual held a KMP role for part of either the current or prior reporting period, refer to the Key Management Personnel section of the Remuneration report for further details.
2. Hiroyuki Iioka is an Alternate Director to Masahiko Kobayashi.

Key executives[1]	
Current KMP	
Nicolas Hamilton	Managing Director and Chief Executive Officer
Anton Kapel	Chief Executive, Life & Solutions
Victor Rodriguez	Chief Executive, Funds Management
Alexandra Bell	Chief Financial Officer
Former KMP	
Rachel Grimes AM	Chief Financial Officer
Michael Clarke	Acting Chief Executive, Funds Management
Chris Plater	Deputy Chief Executive Officer

1. Where an individual held a KMP role for part of either the current or prior reporting period, refer to the Key Management Personnel section of the Remuneration report for further details.

Note 25 Related parties (continued)

Controlled entities and associates

Unless an exception applies under relevant legislation, transactions between commonly controlled entities within the Group (except where otherwise disclosed) are conducted on an arm's length basis under normal commercial terms and conditions. The Group's interests in controlled entities are disclosed in Note 22 Controlled entities.

Other related parties

During the year, there were transactions between the Group and Challenger-sponsored managed funds for the provision of investment management, transaction advisory and other professional services.

Transactions were also entered into between the Group and associated entities (refer to Note 24 Investment in associates and joint ventures) for the provision of distribution and administration services.

The Group earned fee income during the year of $72.5 million (2022: $67.7 million) from transactions entered into with non-controlled funds and associates. Transactions are conducted on an arm's length basis under normal commercial terms and conditions.

Loans to Directors and key executives

There were no loans made to Directors or key executives as at 30 June 2023 (30 June 2022: nil).

Group products

From time to time, Directors or key executives of the Company or their related entities may purchase products from the Group. These purchases are on the same arm's length terms and conditions as those offered to other employees or customers.

Total remuneration of Key Management Personnel and Non-Executive Directors[1]

KMP and Non-Executive Directors	Short-term benefits $	Post-employment benefits $	Share-based payments $	Other benefits $	Total $
Non-Executive Directors					
2023	**1,866,423**	**126,460**	**—**	**—**	**1,992,883**
2022	2,040,385	115,701	—	—	2,156,086
KMP					
2023	**4,781,261**	**106,439**	**2,825,481**	**13,395**	**7,726,576**
2022	5,971,343	117,840	3,807,179	137,798	10,034,160
All KMP and Non-Executive Directors					
2023	**6,647,684**	**232,899**	**2,825,481**	**13,395**	**9,719,459**
2022	8,011,728	233,541	3,807,179	137,798	12,190,246

1. No termination payments were made to KMPs or NEDs, while in their capacity, during the year.

Section 7: Other items

This section provides information that is less significant in understanding the financial performance and position of the Group perhaps due to lack of movement in the amount or the overall size of the balance. Nevertheless, these items assist in understanding the Group or are required under the Australian or International Accounting Standards, the *Corporations Act 2001* and/or the *Corporations Regulations 2001*.

Note 26 Goodwill and other intangible assets

	30 June 2023 $m	30 June 2022 $m
Goodwill	**579.9**	**579.9**
Other intangible assets		
Software at cost	22.4	22.2
Less: accumulated amortisation	(18.3)	(15.6)
	4.1	**6.6**
Commercial agreement	3.9	0.9
Less: accumulated amortisation	(0.5)	(0.2)
	3.4	**0.7**
Total other intangible assets	**7.5**	**7.3**

	Goodwill		Software		Commercial agreement	
	30 June 2023 $m	30 June 2022 $m	30 June 2023 $m	30 June 2022 $m	30 June 2023 $m	30 June 2022 $m
Balance at the beginning of the year	579.9	579.9	6.6	8.3	0.7	0.9
Additions[1]	—	19.1	0.2	1.0	3.0	—
Impairment	—	(19.1)	—	—	—	—
Amortisation expense	—	—	(2.7)	(2.7)	(0.3)	(0.2)
Balance at the end of the year	**579.9**	**579.9**	**4.1**	**6.6**	**3.4**	**0.7**

1. During the year Fidante Partners entered into a commercial agreement with Proterra Investment Partners Asia.

Note 26 Goodwill and other intangible assets (continued)

Accounting policy

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the fair value of the consideration for the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit, or group of units, to which the goodwill is allocated, represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates.

When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised and allocated first to reduce the carrying amount of any goodwill allocated to that CGU, then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. Impairment losses recognised for goodwill are not subsequently reversed.

CGUs within the Group are predominantly business operations.

When goodwill forms part of a CGU (or group of CGUs) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Other intangible assets

Other intangible assets acquired are recorded at cost less accumulated amortisation and impairment losses. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition.

Amortisation is calculated based on the timing of projected cash flows over the estimated useful lives.

Certain internal and external costs directly incurred in acquiring and developing on-premise software have been capitalised and are amortised on a straight-line basis over their useful lives.

Software-as-a-Service (SaaS)

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. As such the Group does not receive a software intangible asset at the contract commencement date. The Group does not have control over the software nor can it restrict others' access to the benefits of the software.

The following outlines the accounting treatment of costs incurred in relation to SaaS arrangements:

Accounting treatment	Costs
Recognise as an operating expense over the term of the service contract	• Fee for use of application software
Recognise as an operating expense as the service is received	• Configuration costs • Customisation costs • Data conversion and migration costs • Testing costs • Training costs

Key estimates and assumptions

Goodwill recoverable amounts

The Group assesses whether goodwill is impaired at least annually in accordance with the accounting policy. The recoverable amount of each CGU is determined based on value in use calculations that utilise cash flow projections based on financial forecasts approved by senior management which cover an appropriate time horizon. In determining these cash flow projections, management considers:

- current and expected performance of each CGU;
- Board and management-approved budgets and strategic plans; and
- changes in Australian and international economic and market environments.

Note 26 Goodwill and other intangible assets (continued)

Key estimates and assumptions (continued)

The cash flow projections determined by management are discounted using an appropriate discount rate. The determination of the discount rate is a matter of judgement and is based on a number of factors including a theoretical calculation, observation of third party reports and discount rates used by comparable financial services companies.

The relevant assumptions in deriving the value of the CGU are as follows:

- the budgeted net profit after tax for each CGU for each year within the cash flow projection period;
- the discount rate; and
- growth rates, which are consistent with long-term trends in the industry segments in which the CGUs operate.

The derived values in use for each CGU are in excess of the carrying values of goodwill.

The following CGUs represent the carrying amounts of goodwill:

			Discount rate		
CGU	30 June 2023 $m	30 June 2022 $m	30 June 2023 %	30 June 2022 %	Cash flow horizon (years)
Life	452.3	452.3	10.0	10.0	3
Funds Management	127.6	127.6	9.7	9.4	3
Total	**579.9**	**579.9**			

Sensitivity to change in assumptions

Management is of the view that reasonable changes in the key assumptions, such as an increase in the discount rate by 1% or a change in projected cash flows of 5%, would not cause the respective recoverable amounts for each CGU to fall short of the carrying amounts as at 30 June 2023. All goodwill is non-current.

Other intangible assets amortisation

Useful lives of intangible assets used in the calculation of the amortisation expense are examined on an annual basis and where applicable, adjustments are made on a prospective basis.

Intangible	Life	Depreciation method
Goodwill	Indefinite	Not applicable
Software	3-10 years	Straight-line basis over its useful life, usually a period of five years
Commercial agreement	5-10 years	Straight-line basis over the life of the intangible, based on the terms of the agreement

Note 27 Lease assets and liabilities

Right-of-use lease asset

	30 June 2023 $m	30 June 2022 $m
Cost	46.8	45.5
Less: accumulated depreciation	(22.5)	(16.5)
Right-of-use lease asset	**24.3**	**29.0**

	Office premises[1]		Property, plant and equipment[2]	
	30 June 2023 $m	30 June 2022 $m	30 June 2023 $m	30 June 2022 $m
Balance at the beginning of the year	28.8	34.4	0.2	0.3
Additions	1.3	0.1	—	—
Depreciation expense	(5.9)	(5.7)	(0.1)	(0.1)
Balance at the end of the year	**24.2**	**28.8**	**0.1**	**0.2**

1. The Group has entered into commercial leases for the rental of properties where it is not in the best interests of the Group to purchase these properties. These leases have terms ranging between one (1) and 12 years with remaining lease terms of between 9 months and 5 years at 30 June 2023. Renewal terms are included in the contracts. Renewals are at the specific option of the entity that holds the lease.
2. Property, plant and equipment relates to leases for photocopying equipment.

Lease liabilities

Maturity analysis of contractual discounted cash flows	30 June 2023 $m	30 June 2022 $m
Amounts due in less than one year	8.9	8.1
Amounts due between one and two years	8.8	8.9
Amounts due between two and five years	31.0	28.2
Amounts due in greater than five years	6.0	17.3
Total lease liabilities	**54.7**	**62.5**

	30 June 2023 $m	30 June 2022 $m
Current	8.9	8.1
Non-current	45.8	54.4
Total lease liabilities[1]	**54.7**	**62.5**

1. Refer to Note 15 for interest expense on lease liabilities and the Statement of cash flows for total cash outflow for leases.

Accounting policy

Right-of-use-lease assets

The Group recognises right-of-use lease assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use lease assets are measured at cost, less any accumulated depreciation and impairment losses, and less any adjustments for any remeasurement of lease liabilities. The cost of right-of-use lease assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased assets at the end of the lease term, the recognised right-of-use lease assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use lease assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Note 27 Lease assets and liabilities (continued)

Accounting policy (continued)

The lease payments include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not exercise) the option to renew.

Note 28 Contingent liabilities, contingent assets and credit commitments

Warranties

Over the course of its corporate activity, the Group has given, as a seller of companies, including the sale of Challenger Bank Limited to Heartland, and as a vendor of assets, including real estate properties, warranties to purchasers on several agreements that are still outstanding as at 30 June 2023. At the date of this report, no material claims against these warranties have been received by the Group.

Parent entity guarantees and undertakings

The Company has extended the following guarantees and undertakings to entities that form part of the Group:

1. a guarantee supporting the corporate banking facility and certain other financial commitments, such as hedging arrangements;
2. letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise the Company's intention to provide support to those subsidiaries so that they can continue to meet their obligations;
3. Australian Financial Services Licence deeds of undertaking as an eligible provider; and
4. guarantees to support contractual commitments on warranties to certain third parties.

Third party guarantees

Bank guarantees have been issued by third party financial institutions on behalf of the Group and its subsidiaries for items in the normal course of business, such as rental contracts. The amounts involved are not considered to be material to the Group.

Contingent future commitments

CLC has made capital commitments to external counterparties for future investment opportunities such as development or investment purchases. As at 30 June 2023, there are potential future commitments totalling $957.1 million (30 June 2022: $496.6 million) in relation to these opportunities.

The Group has made capital commitments to associates to subscribe for up to $9.1 million (30 June 2022: $12.3 million) of non-redeemable preference shares to enable them to meet their working capital requirements. Contractual obligations for future property repairs and maintenance are in place but cannot be quantified until required.

In the normal course of the Bank's business, the Company made commitments to extend credit to its customers of $10.4 million.

Subsidiary guarantees

CLC has provided a guarantee to a third party regarding the performance of its subsidiary in respect of certain reinsurance arrangements.

Note 28 Contingent liabilities, contingent assets and credit commitments (continued)

Contingent tax assets and liabilities

From time to time the Group has interactions and matters under review, audit or dispute with the Australian Taxation Office in relation to the taxation treatments of various matters including reportable tax positions.

Any potential tax liability resulting from these interactions is only provided for when it is probable that an outflow will occur and a reliable estimate of the amount can be made.

Analysis of credit commitments	30 June 2023 $m	30 June 2022 $m
Contracted capital expenditure		
Amounts due in less than one year	8.9	4.2
Amounts due between one and two years	0.9	0.8
Amounts due between two and five years	0.9	2.9
Amounts due in greater than five years	12.6	7.3
Total capital expenditure commitments	**23.3**	**15.2**
Non-cancellable operating leases – Group as lessor		
Amounts due in less than one year	(184.5)	(187.8)
Amounts due between one and two years	(158.6)	(173.2)
Amounts due between two and five years	(354.5)	(374.9)
Amounts due in greater than five years	(614.0)	(683.5)
Total operating leases – Group as lessor	**(1,311.6)**	**(1,419.4)**
Net commitments owed to Group	**(1,288.3)**	**(1,404.2)**

Other information

In the normal course of business, the Group enters into various contracts that could give rise to contingent liabilities in relation to performance obligations under those contracts. At the date of this report, the possibility of any outflow in settlement is remote.

Operating leases

Group as lessor

Investment properties owned by the Group are leased to third parties under operating leases. Lease terms vary between tenants and some leases include percentage rental payments based on sales volumes.

Contracted capital expenditure commitments

These represent amounts payable in relation to capital expenditure commitments contracted for at the Statement of financial position date but not recognised as liabilities. They primarily relate to the investment property portfolio and property, plant and equipment.

Other contracted commitments

This represents amounts payable in relation to fitout commitments and acquisition of investment properties that have exchanged prior to the balance date and will settle subsequent to the balance date.

Note 29 Employee entitlements

	30 June 2023 $m	30 June 2022 $m
Annual leave	9.5	9.6
Long service leave	10.7	11.4
Employee[1] entitlements provision	**20.2**	**21.0**

1. The total number of employees of the Group at 30 June 2023 was 817 (30 June 2022: 770) on a full-time equivalent (FTE) basis.

Accounting policy

Superannuation funds

Obligations for contributions to superannuation funds are recognised as an expense in the Statement of comprehensive income as they are incurred. The Group does not hold or pay into any defined benefit superannuation schemes on behalf of employees.

Wages, salaries, annual leave and non-monetary benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled wholly within 12 months of the Statement of financial position date, are recognised in respect of employees' services up to the Statement of financial position date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for accumulated sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

A liability for long service leave is recognised as the present value of estimated future cash outflows to be made in respect of services provided by employees up to the Statement of financial position date. The estimated future cash outflows are discounted using yields from Australian corporate bonds which have durations to match, as closely as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows, such as expected future salary increases, experience of employee departures and period of service, are included in the measurement.

Share-based payment transactions

Long-term equity-based incentive plan
The Group has an employee share incentive plan for the granting of non-transferable share rights to executives and senior employees. Shares in the Company held by the employee share trust are classified as Treasury shares and presented in the Statement of financial position as a deduction from equity.

Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an option pricing model.

In accordance with Australian Accounting Standards, the cost of equity-settled transactions is recognised in the Statement of comprehensive income, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

When an employee's employment is terminated during the vesting period, their share rights are treated as vesting at the date of termination of employment except to the extent that there is an explicit or implied service condition that extends to the end of the performance period.

At the Company level, the cost of Treasury shares is recognised as a reduction in equity. On vesting of the award, they are subsequently recognised as an increase in equity and a reduction in share-based payment reserve at an average acquisition price.

The cumulative expense or investment recognised for equity-settled transactions at each Statement of financial position date reflects the extent to which the vesting period has expired and the best estimate of the number of awards that will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. This results in the share-based payment expense being recognised in the Statement of comprehensive income and an increase in equity being recognised even if the market performance conditions are not met at the vesting date and the share rights ultimately lapse.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled during the vesting period (other than an award cancelled when the vesting conditions are not satisfied), it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Note 29 Employee entitlements (continued)

Employee share acquisition plan

Share-based compensation benefits are provided to employees via the Challenger Performance Plan (CPP). The Group has formed a trust to administer the Group's employee share acquisition plan (CPP Trust).

The CPP Trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Through contributions to the CPP Trust, the Group typically purchases shares in the Company on market. Shares acquired are held by the CPP Trust are disclosed as Treasury shares and are deducted from contributed equity.

In such deferred contracts, changes in the fair value arising from variations in market rates do not affect the amount of cash to be paid or the number of Challenger shares to be received, and these contracts are classified as equity instruments. Changes in the fair value of an equity instrument are not recognised in the financial statements. The liability to the third party is recorded on the balance sheet at present value and the discount is unwound through the Statement of comprehensive income over the duration of the contract.

Deferred Performance Share Rights (DPSRs)

This instrument is a performance right which gives a right to a fully paid share in the Company at the end of the vesting period. The vesting period is typically between one and four years on existing awards.

The table below sets out the details of the DPSRs granted under the CPP during 2023 and movements on previous issues

The DPSR instruments was replaced with Restricted Shares instruments (refer below) in 2021, and since then, no new DPSRs have been issued.

Grant date	Latest date for vesting[1]	Reference price $	Fair value at grant $	Outstanding at 1 July 2022	Granted during the year	Vested during the year	Forfeited during the year	Outstanding at 30 June 2023
7 Sep 2020	1 Sep 2024	4.010	3.35	323,658	—	—	(4,483)	319,175
7 Sep 2020	1 Sep 2023	4.010	3.50	323,658	—	—	(4,483)	319,175
7 Sep 2020	1 Sep 2022	4.010	3.67	510,415	—	(498,632)	(11,783)	—
11 Nov 2019	1 Sep 2023	6.633	6.94	15,377	—	—	—	15,377
11 Nov 2019	1 Sep 2022	6.633	7.23	15,377	—	—	(15,377)	—
9 Sep 2019	1 Sep 2023	6.633	5.93	199,174	—	—	(1,080)	198,094
9 Sep 2019	1 Sep 2022	6.633	6.19	199,174	—	(198,094)	(1,080)	—
Total				**1,586,833**	**—**	**(696,726)**	**(38,286)**	**851,821**

1. At the date of vesting, fully paid shares are transferred to the individual and released from the CPP Trust.

Restricted Shares (RS)

A Restricted Share is a beneficial interest in a fully paid ordinary Challenger share acquired for zero consideration. RS are subject to disposal restrictions and vest subject to satisfaction of an employment condition.

RS provide an entitlement to vote and a right to dividends.The table below sets out the details of the RS granted in current and prior periods and movements on those awards in the current period.

Grant date	Expected date for vesting	Reference price $	Fair value at grant $	Outstanding at 1 July 2022	Granted during the year	Vested during the year	Forfeited during the year	Outstanding at 30 June 2023
9 Dec 2022	1 Dec 2023	7.130	7.20	—	28,050	—	—	28,050
9 Dec 2022	1 Jun 2023	7.130	7.20	—	28,050	(28,050)	—	—
9 Sep 2022	1 Sep 2026	6.260	6.33	—	91,930	—	—	91,930
9 Sep 2022	1 Sep 2025	6.260	6.33	—	91,930	—	—	91,930
9 Sep 2022	1 Sep 2024	6.260	6.33	—	137,894	—	—	137,894
9 Sep 2022	1 Sep 2023	6.260	6.33	—	137,894	—	—	137,894
9 Sep 2022	1 Sep 2026	6.260	6.33	—	16,338	—	—	16,338
9 Sep 2022	1 Sep 2025	6.260	6.33	—	54,298	—	(3,194)	51,104
9 Sep 2022	1 Sep 2024	6.260	6.33	—	409,783	—	(24,805)	384,978
9 Sep 2022	1 Sep 2023	6.260	6.33	—	409,783	—	(24,805)	384,978
8 Sep 2021	1 Sep 2025	6.440	6.36	164,882	—	—	(7,638)	157,244
8 Sep 2021	1 Sep 2024	6.440	6.36	164,882	—	—	(7,638)	157,244
8 Sep 2021	1 Sep 2023	6.440	6.36	247,354	—	—	(11,459)	235,895
8 Sep 2021	1 Sep 2022	6.440	6.36	247,354	—	(243,051)	(4,303)	—
Total				**824,472**	**1,405,950**	**(271,101)**	**(83,842)**	**1,875,479**

Note 29 Employee entitlements (continued)

Accounting policy (continued)

Hurdled Performance Share Rights (HPSRs)

This instrument is a performance share right that gives a right to a fully-paid share in the Company at certain vesting dates, subject to the achievement of performance conditions based on total shareholder returns (TSR). The HPSRs are awarded based on a range of criteria reflecting, in addition to current year performance, the longer-term ability of an employee to add significant value to Challenger and for retention purposes. The award of HPSRs ensures longer-term alignment of interests between Challenger and its employees.

For grants made between 1 July 2015 and 30 June 2019, subject to continued employment and meeting the absolute TSR performance target, two-thirds of a HPSR award will be eligible to commence vesting on the third anniversary and the final third on the fourth anniversary following grant.
For grants from 1 July 2019, subject to continued employment and meeting the absolute TSR performance target, a HPSR award is eligible to commence vesting on the fourth anniversary and is subject to a final cumulative test based on a higher absolute TSR reflective of another year of compound growth based on a higher absolute TSR reflective of another year of compound growth on the fifth anniversary.
This change has the effect of increasing the vesting period. Furthermore, as the absolute TSR performance target is a market-based vesting condition, the related share based payment expense is recognised over the vesting period even if the target is ultimately not met and the HPSR does not vest.

The table below sets out details of the HPSRs granted under the CPP during 2023 and movements on previous issues:

Grant date	Expected date for vesting[1]	Reference price $	Fair value at grant $	Outstanding at 1 July 2022	Granted during the year	Vested during the year	Forfeited during the year	Outstanding at 30 June 2023
9 Dec 2022	1 Sep 2026	7.130	4.45	—	149,760	—	—	149,760
10 Nov 2022	1 Sep 2026	7.120	4.39	—	814,015	—	—	814,015
9 Sep 2022	1 Sep 2026	6.260	3.59	—	2,970,353	—	(124,961)	2,845,392
23 Mar 2022	1 Sep 2025	5.901	4.37	27,949	—	—	—	27,949
8 Sep 2021	1 Sep 2025	6.440	3.59	3,385,444	—	—	(525,001)	2,860,443
10 May 2021	1 Sep 2024	4.880	2.64	132,848	—	—	(28,495)	104,353
2 Nov 2020	1 Sep 2024	4.752	2.58	848,268	—	—	—	848,268
7 Sep 2020	1 Sep 2024	4.010	1.87	5,623,216	—	—	(549,940)	5,073,276
9 Dec 2019	1 Sep 2023	6.729	4.22	432,483	—	—	—	432,483
11 Nov 2019	1 Sep 2023	6.729	4.42	90,618	—	—	—	90,618
9 Sep 2019	1 Sep 2023	6.633	3.10	2,722,990	—	—	(91,443)	2,631,547
11 Sep 2018	1 Sep 2021	10.368	4.56	534,191	—	—	(55,079)	479,112
11 Sep 2018	1 Sep 2022	10.368	3.94	923,074	—	—	(104,055)	819,019
11 Sep 2017	1 Sep 2021	12.264	5.42	392,560	—	—	(392,560)	—
11 Sep 2017	1 Sep 2020	12.264	6.11	696,433	—	—	(696,433)	—
Total				**15,810,074**	**3,934,128**	**—**	**(2,567,967)**	**17,176,235**

1. At the date of vesting, fully-paid shares are transferred to the individual and released from the CPP Trust.

Key estimates and assumptions

Share-based payments

The Group measures the cost of equity-settled transactions with employees granted during the year by reference to the fair value of the share rights at the date at which they are granted. The fair values are determined by independent external valuers using a Black-Scholes model for DPSRs and a Monte Carlo simulation model for HPSRs which utilises the TSR share price hurdles. A discounted cashflow methodology is used to determine the fair value of RS. Key inputs into the valuation models for equity awards granted during the year are as follows:

Input[2]	09 Sept 2022 RS RS	09 Sept 2022 HPSR HPSR[1]	10 Nov 2022 HPSR HPSR[1]	09 Dec 2022 RS RS	09 Dec 2022 HPSR HPSR[1]
Dividend yield (%)	3.4	3.4	3.4	3.4	3.4
Risk-free rate (%)	3.02 - 3.27	3.02 - 3.27	3.16 - 3.42	3.04 - 3.11	3.04 - 3.11
Volatility[2] (%)	N/A	45	46	N/A	46
Valuation ($)	6.33	3.59	4.39	7.20	4.45

1. Staggered deferred vesting applies to these grants.
2. Prior to 1 July 2021, deferred STI awards were delivered as DPSRs.
3. Forecast volatility rate implied from historic trend. Volatility is only applicable to HPSRs.

Note 30 Remuneration of auditor

Amounts received or due and receivable by Ernst & Young (Australia) relating to:	30 June 2023 $	30 June 2022 $
Full year audit and half year review of the Group financial report	2,235,464	2,042,255
Other audit services – audit and review of trusts and funds	721,815	680,300
Other assurance services	1,618,085	735,446
Other services in relation to the Group		
– taxation services	45,000	49,500
– other services	—	77,000
	4,620,364	**3,584,501**
Amounts received or due and receivable by other overseas member firms of Ernst & Young (Australia) for:		
Fees for auditing the financial report of any controlled entities	407,403	433,494
Other services in relation to the Group		
– taxation services	91,500	62,500
	498,903	495,994
Total auditor remuneration[1]	**5,119,267**	**4,080,495**

1. Auditor's remuneration for the Group is paid by Challenger Group Services Limited, a wholly owned entity within the Group.

Note 31 Subsequent events

Elanor strategic partnership and sale of Australian Real Estate business

On 7 July 2023 Challenger completed the sale of its Australian Real Estate business to Elanor Investors Group (ASX:ENN; Elanor).

Consideration of $38 million was received in new securities issued by Elanor, which was calculated using an issue price based on Elanor's one-month volume weighted average price on 5 April 2023, on an ex-entitlement basis. Elanor has issued 24.8 million new securities representing approximately 17% of Elanor securities on issue on a non-diluted basis and subject to claw-back provisions over a three-year period linked to achieving performance hurdles. Up to half of the securities issued can be clawed back by Elanor.

As part of the transfer of the ADIC mandate, Challenger agreed to transfer 4.5 million of the 24.8 million new securities in Elanor to ADIC resulting in Challenger's and ADIC's holding in Elanor representing approximately 14% and 3% of total Elanor securities on issue respectively.

At the date of this financial report, no other matter or circumstance has arisen that has, or may, significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years which has not already been reflected in this report.

Challenger announced as Aware Super's partner to provide defined benefit solution

Challenger was selected to provide a group lifetime annuity policy to the value of $619 million that will de-risk the fund's lifetime pension liabilities from investment, inflation and longevity risk. The policy commenced from 31 July 2023.

Directors' declaration

In accordance with a resolution of the Directors of Challenger Limited, we declare that, in the opinion of the Directors:

a) the financial statements and notes of Challenger Limited and its controlled entities (the Group) are in accordance with the ***Corporations Act 2001*** (Cth), including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the ***Corporations Regulations 2001*** (Cth);

b) the financial statements and notes of the Group also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board, which is disclosed in Section 1(i) Basis of preparation and statement of compliance;

c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

d) this declaration has been made after receiving the declarations required to be made to the Directors from the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the ***Corporations Act 2001*** (Cth) for the financial year ended 30 June 2023.

On behalf of the Board

D West
Independent Chair

14 August 2023

N Hamilton
Managing Director and Chief Executive Officer

14 August 2023

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Building a better working world

Independent Auditor's Report to the Shareholders of Challenger Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Challenger Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2023 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Building a better working world

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Valuation of Life Contract Liabilities
Financial report reference: Note 8

Why significant to the audit	How our audit addressed the key audit matter
The Group recognised a provision for future claims associated with life insurance policies. The valuation methodology to estimate the provision adopted by the Group involves complex and subjective judgments about future events. Key assumptions used in the Group's model to determine the value of the life contract liabilities include: ‣ Discount rates ‣ Inflation ‣ Future claims administration expenses ‣ Mortality rates and redemptions These assumptions, along with policy information, are used as inputs to the Group's model to calculate the Life Contract Liabilities. This was a key audit matter due to the value of the balance (30 June 2023: $13,930 million), relative to total liabilities and the degree of judgment and estimation uncertainty associated with the valuation.	Our audit procedures involved an assessment of the effectiveness of relevant controls over assumptions and policy information used as inputs into the Group's model. Our audit procedures included the following in the evaluation of the assumptions used by the Group: ‣ Considered the Group's governance process and controls to determine the methodology and assumptions. ‣ Assessed the results of the experience investigations carried out by the Group to determine whether they supported the assumptions used by the Group. ‣ Assessed the movements in modelled profit margins and best estimate liabilities for insurance risk transactions. For a sample of life insurance and investment contract policies, we performed an independent recalculation of the life contract liability valuations. In conjunction with our IT specialists, we assessed whether policy information was extracted accurately from the Group's underlying administration system into the valuation process. Where appropriate, we involved our life insurance actuarial specialists in the above procedures and overall assessment of the valuation methodology, key assumptions and models deriving the valuation of the life contract liabilities. We assessed the adequacy of the related financial report disclosures.

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2. Valuation of Level 3 Investment and Property Assets
Financial report reference: Note 19

Why significant to the audit	How our audit addressed the key audit matter
The Group holds a portfolio of assets carried at fair value, for which an observable market value is not readily available. These assets are classified as Level 3 assets within the fair value hierarchy of the financial report, which include fixed income securities, equity and other alternatives, infrastructure investments, property securities, and investment property. Level 3 assets require judgment to be applied in determining their fair value, as the valuation inputs for these assets are not based on observable market transactions or other readily available market data. The Group exercised judgment to arrive at their best estimates of fair value of these assets. There is complexity in this process, as well as uncertainty associated with the valuation and modelling methodologies and the assumptions adopted. This was a key audit matter due to the value of the balance relative to total assets (30 June 2023: $5,737.5 million), and the degree of judgment and estimation uncertainty associated with the valuations.	The valuation of Level 3 assets is inherently subjective given that there are alternative assumptions and valuation methods that may result in a range of values. Our audit procedures included the following, using sampling techniques: ▸ Considered the Group's controls over the valuation of Level 3 assets. ▸ Tested the mathematical accuracy of the valuation models and considered consistency with the Group's documented methodology and assumptions. ▸ Assessed the Group's valuation and modelling methodologies and assessed the key judgmental inputs used in the year-end valuations, including the discount rate and the terminal value. ▸ Evaluated the key assumptions associated with property valuations and agreed key inputs to tenancy schedules. We assessed the effectiveness of relevant controls over the leasing process and associated tenancy reports which are used as source data in the property valuations. ▸ Evaluated the suitability of the property valuation methodology across the portfolio based on the type of asset. We considered the reports of the independent valuers to gain an understanding of the assumptions and estimates used and the valuation methodology applied. ▸ Obtained valuation statements provided by external investments managers in respect of unit trusts and alternate funds. We assessed the valuations of investments as provided by external investment managers, including an assessment of the reliability of the information received and the appropriateness of the underlying valuation method. Where appropriate, we involved our securities and real estate valuation specialists in the above procedures. We assessed the adequacy and appropriateness of the related financial report disclosures.

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3. Recoverability of Goodwill

Financial report reference: Note 26

Why significant to the audit	How our audit addressed the key audit matter
Goodwill has been recognised as a result of the Group's historical acquisitions, representing the excess of the purchase consideration over the fair value of assets and liabilities acquired. On acquisition date, the goodwill has been allocated to the applicable Cash Generating Units (CGUs). An impairment assessment is performed at each reporting period, comparing the carrying amount of each CGU containing goodwill with its recoverable amount. The recoverable amount of each CGU is determined on a value in use basis. This calculation incorporates a range of assumptions, including future cash flows, discount rate and terminal growth rate. This was a key audit matter due to the value of Goodwill relative to total assets (30 June 2023: $579.9 million), and the degree of judgment and estimation uncertainty associated with the impairment assessment.	Our audit procedures included the following: ▸ Assessed the valuation methodology used to calculate the recoverable amount of each CGU. ▸ Agreed the projected cash flows used in the impairment models to the Board approved plan of the Group. ▸ Compared the Group's implied growth rate assumption to comparable companies. ▸ Considered the accuracy of historical cash flow forecasts. ▸ Assessed the methodology and assumptions used in the calculation of the discount rate, including comparison of the rate to market benchmarks. ▸ Tested the mathematical accuracy of the impairment model for each CGU. ▸ Considered the carrying amount of the net assets of the Group against its market capitalisation at 30 June 2023. ▸ Considered the Group's sensitivity analysis and evaluated whether any reasonably foreseeable change in assumptions could lead to a material impairment. Our valuation specialists were involved in the above procedures where appropriate. We assessed the Group's determination of the CGUs to which goodwill is allocated and considered the adequacy of the related financial report disclosures.

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Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2023 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 65 to 87 of the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Challenger Limited for the year ended 30 June 2023, complies with section 300A of the *Corporations Act 2001*.

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Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Graeme McKenzie
Partner
Sydney
14 August 2023

Investor information

Substantial shareholders

The number of shares held by substantial shareholders and their associates, based on the latest substantial shareholder notifications, and the 20 largest individual shareholders are as follows:

Substantial shareholders as at 31 July 2023	Number of shares	% of issued capital
Apollo Global Management, Inc. / Athene Life Reinsurance Ltd[1]	136,482,520	19.85
MS&AD Insurance Group Holdings Inc[1]	104,353,125	15.18
20 largest individual shareholders as at 31 July 2023		
1. HSBC Custody Nominees (Australia) Limited	195,815,238	28.48
2. Citicorp Nominees Pty Limited	155,731,466	22.65
3. J P Morgan Nominees Australia Pty Limited	96,679,376	14.06
4. HSBC Custody Nominees (Australia) Limited <Euroclear Bank Sa Nv A/C>	55,418,307	8.06
5. National Nominees Limited	26,222,956	3.81
6. BNP Paribas Noms Pty Ltd <DRP>	9,576,826	1.39
7. BNP Paribas Nominees Pty Ltd <Agency Lending Collateral>	6,021,400	0.88
8. Argo Investments Limited	5,440,311	0.79
9. HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	5,149,752	0.75
10. Mutual Trust Pty Ltd	3,016,724	0.44
11. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	2,648,218	0.39
12. CPU Share Plans Pty Ltd <CGF RSU Control A/C>	2,024,044	0.29
13. CPU Share Plans Pty Ltd <CGF Performance Plan A/C>	1,800,000	0.26
14. BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	1,768,110	0.26
15. HSBC Custody Nominees (Australia) Limited	1,564,788	0.23
16. BNP Paribas Noms Pty Ltd <Global Markets DRP>	1,127,512	0.16
17. Charles & Cornelia Goode Foundation Pty Ltd <CCG Foundation A/C>	923,485	0.13
18. Neweconomy Com Au Nominees Pty Limited <900 Account>	844,958	0.12
19. CPU Share Plans Pty Limited <CGF VPR Control A/C>	792,910	0.12
20. BNP Paribas Noms (Nz) Ltd <DRP>	746,356	0.11
Total 20 largest individual shareholders – issued capital	**573,312,737**	**83.38**
Total remaining shareholders balance	**114,301,224**	**16.62**

1. Number of shares for substantial shareholders as at 31 July 2023 available at the time of releasing this report.

Distribution of shares (as at 31 July 2023)

Range	Number of shareholders	Number of shares	% of issued capital
1 – 1,000	14,957	6,783,655	0.99
1,001 – 5,000	13,796	33,390,780	4.86
5,001 – 10,000	3,056	21,857,405	3.18
10,001 – 100,000	1,927	39,204,586	5.70
100,001 and over	78	586,377,535	85.27
Total	**33,814**	**687,613,961**	**100.00**

Unmarketable parcels	Minimum parcel size	Holders	Units
Minimum $500.00 parcel at $7.17 per unit	70	1,141	23,567

ASX listing

Challenger Limited shares are listed on the ASX under code CGF. Share price details and company information can be accessed via either the Company website:

› **challenger.com.au**

or the ASX website:

› **asx.com.au**

Voting rights

On a show of hands, every member present at the meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Investor information (continued)

Buy-back

There is currently no market buy-back.

On market acquisitions for employee incentive schemes during the financial year ended 30 June 2023

During the year, 2.5 million Challenger Limited ordinary shares were purchased on market to satisfy entitlements under Challenger's employee incentive schemes.

Top 20 noteholders of Challenger Capital Notes 3 as at 31 July 2023

	20 largest individual noteholders as at 31 July 2023	Number of notes	% of issued notes
1.	HSBC Custody Nominees (Australia) Limited	311,228	8.08
2.	J P Morgan Nominees Australia Pty Limited	168,490	4.38
3.	BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	139,949	3.64
4.	Citicorp Nominees Pty Limited	130,304	3.38
5.	BNP Paribas Nominees Pty Ltd <Pitcher Partners DRP>	118,712	3.08
6.	Diocese Development Fund -Catholic Diocese Of Parramatta	112,177	2.91
7.	Mutual Trust Pty Ltd	84,857	2.20
8.	IOOF Investment Services Limited <IPS Superfund A/C>	49,986	1.30
9.	Netwealth Investments Limited <Wrap Services A/C>	41,904	1.09
10.	Eastcote Pty Ltd <Van Lieshout Family A/C>	41,600	1.08
11.	National Nominees Limited	39,467	1.03
12.	Vision Australia Foundation <Vision Australia Credit A/C>	35,500	0.92
13.	Navigator Australia Ltd <MLC Investment Sett A/C>	32,170	0.84
14.	BNP Paribas Nominees Pty Ltd <LB Au Noms Retailclient Drp>	28,193	0.73
15.	NULIS Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	26,044	0.68
16.	Berne No 132 Nominees Pty Ltd <2853115 A/C>	22,500	0.58
17.	Sandhurst Trustees Ltd <Endeavor Asset Mgmt MDA A/C>	22,499	0.58
18.	MF Investments No 1 Pty Ltd	21,493	0.56
19.	GCF Investments Pty Ltd	20,000	0.52
20.	Mr David Fox <Thomas J Beresford Wi A/C>	17,600	0.46
Total 20 largest individual noteholders – issued notes		**1,464,673**	**38.04**
Total remaining noteholders balance		**2,385,327**	**61.96**

Distribution of notes (as at 31 July 2023)

Range	Number of holders	Number of notes	% of notes
1 – 1,000	3,872	1,324,044	34.39
1,001 – 5,000	388	777,934	20.21
5,001 – 10,000	29	212,098	5.51
10,001 – 100,000	19	555,064	14.42
100,001 and over	6	980,860	25.47
Total	**4,314**	**3,850,000**	**100.00**
Unmarketable parcels	**Minimum parcel size**	**Holders**	**Units**
Minimum $ 500.00 parcel at $ 105.07 per unit	5	—	—

Investor information (continued)

Top 20 noteholders of Challenger Capital Notes 4 as at 31 July 2023

20 largest individual noteholders as at 31 July 2023		Number of notes	% of issued notes
1.	HSBC Custody Nominees (Australia) Limited	293,351	8.38
2.	BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	191,219	5.46
3.	Citicorp Nominees Pty Limited	134,467	3.84
4.	Netwealth Investments Limited <Wrap Services A/C>	73,294	2.09
5.	BNP Paribas Nominees Pty Ltd <Pitcher Partners DRP>	61,908	1.77
6.	J P Morgan Nominees Australia Pty Limited	48,637	1.39
7.	Navigator Australia Ltd <JB Were List Fix Int SMA A/C>	47,887	1.37
8.	National Nominees Limited	38,604	1.10
9.	BNP Paribas Nominees Pty Ltd <IB Au Noms Retailclient DRP>	33,104	0.95
10.	Trustees Of Church Property For The Diocese Of Newcastle <Savings & Development	29,270	0.84
11.	Berne No 132 Nominees Pty Ltd <684168 A/C>	28,280	0.81
12.	G C F Investments Pty Ltd	20,000	0.57
13.	Netwealth Investments Limited <Super Services A/C>	19,442	0.56
14.	Bowen Family Super Co Pty Ltd <Bowen Family Super Fund A/C>	15,150	0.43
15.	Skyplaza Investments Pty Ltd	15,000	0.43
16.	NULIS Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	14,852	0.42
17.	Invia Custodian Pty Limited <A/M Unit A/C>	14,400	0.41
18.	Navigator Australia Ltd <MLC Investment Sett A/C>	13,533	0.39
19.	Mrs Lynette Maree Rex	12,900	0.37
20.	Pupgall Pty Ltd	11,640	0.33
Total 20 largest individual noteholders – issued notes		**1,116,938**	**31.91**
Total remaining noteholders balance		**2,383,062**	**68.09**

Distribution of notes (as at 31 July 2023)

Range	Number of holders	Number of notes	% of notes
1 – 1,000	3,995	1,171,201	33.46
1,001 – 5,000	462	935,132	26.72
5,001 – 10,000	32	244,577	6.99
10,001 – 100,000	20	530,053	15.14
100,001 and over	3	619,037	17.69
Total	**4,512**	**3,500,000**	**100.00**
Unmarketable parcels	**Minimum parcel size**	**Holders**	**Units**
Minimum $500.00 parcel at $103.10 per unit	5	—	—

ASX listing

Challenger Capital Notes 3 are listed on the ASX under the trade symbol CGFPC. Challenger Capital Notes 4 are listed on the ASX under the trade symbol CGFPD. Note price details can be accessed via the ASX website:

› **asx.com.au**

Voting rights

Challenger Capital Notes 3 do not confer any voting rights in the Company but if they are exchanged or converted for ordinary shares in accordance with their terms of issue, then the voting rights of the ordinary shares will be the same as for ordinary shares.

Shareholder queries

For any administrative matters in respect of your Challenger Limited shareholding or noteholding, please contact the Company's share registrar, Computershare:

Computershare Investor Services Pty Limited

Level 3, 60 Carrington Street, Sydney NSW 2000

Telephone: 1800 780 782

Website: › **computershare.com.au**

To assist with all enquiries, please quote your unique Security Reference Number (SRN) and your current address when dealing with Computershare.

Additional information

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE IN AUSTRALIA

Level 2
5 Martin Place
Sydney NSW 2000

Telephone: 02 9994 7000

Investor services: 13 35 66

DIRECTORS

Duncan West (Chair)

Nicolas Hamilton (Managing Director and Chief Executive Officer)

John M Green

Steven Gregg

Masahiko Kobayashi

Heather Smith

JoAnne Stephenson

Melanie Willis

COMPANY SECRETARY

Linda Matthews

WEBSITE

challenger.com.au

MANAGE YOUR SHAREHOLDING AT COMPUTERSHARE INVESTOR SERVICES

Computershare Investor Services Pty Limited

Level 3
60 Carrington Street
Sydney NSW 2000

Telephone: 02 8234 5000

computershare.com.au

AUDITOR

Ernst & Young

200 George Street
Sydney NSW 2000

GO ELECTRONIC

Challenger can deliver all of your shareholder communications electronically, by updating your details via Computershare Investor Services.

ONLINE DIGITAL VERSION OF THIS REPORT

The 2023 Annual Report is available at:

challenger.com.au/annualreport2023

challenger