

Market Release

05 November 2025

APRA's proposed capital standards – market update

Challenger Limited (ASX:CGF) today is holding its analyst and investor briefing on APRA's proposed capital standards, beginning at 9.30am (Sydney time).

The briefing will be held online via a webcast that can be accessed at the following [link](#).

A copy of the presentation that will be delivered today is attached.

ENDS

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

About Challenger

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

Challenger operates a fiduciary Funds Management division and an APRA-regulated Life division. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

For more information contact:

Investor Relations

Mark Chen

General Manager Investor Relations
Mob +61 423 823 209
machen@challenger.com.au

Irene Xu

Senior Manager Investor Relations
Mob +61 451 822 326
ixu@challenger.com.au

Media Relations

Felicity Goodwin

Head of Public Affairs
Mob +61 461 579 782
fgoodwin@challenger.com.au

Mark Roberts

General Manager Corporate Affairs and Sustainability
Mob +61 466 328 581
maroberts@challenger.com.au

APRA's proposed capital standards – market update

Nick Hamilton — Managing Director & Chief Executive Officer

Alex Bell — Chief Financial Officer

Anton Kapel — Chief Executive, Insurance

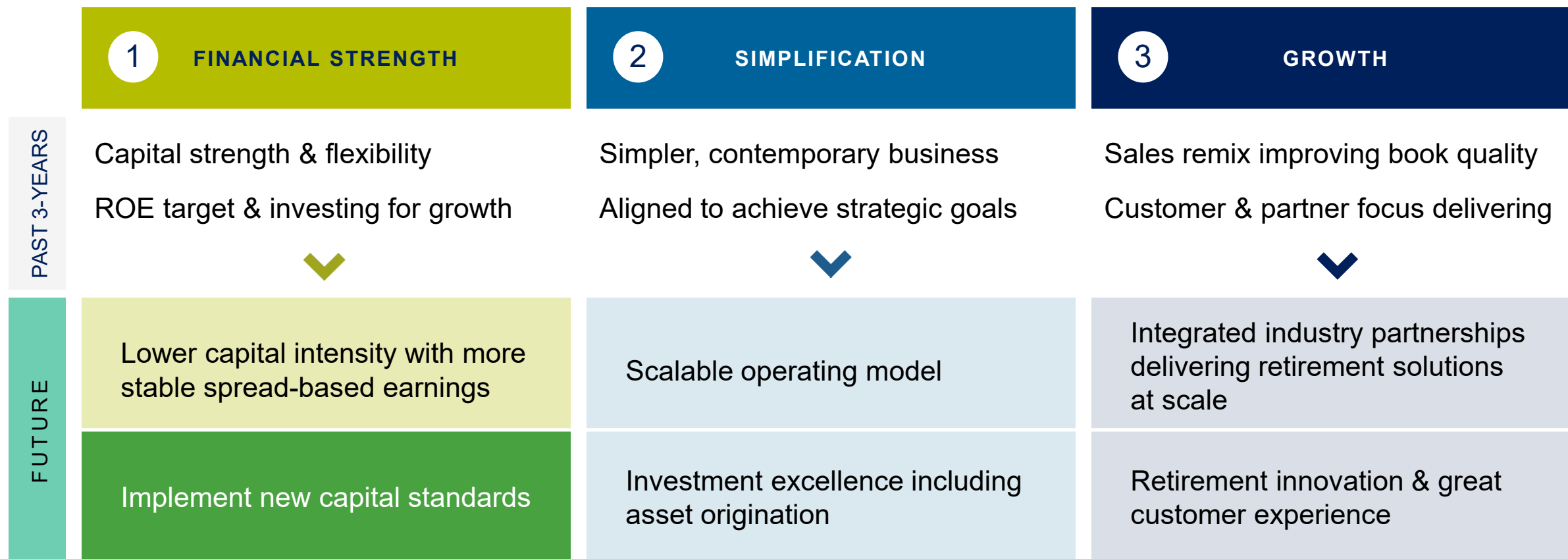
5 NOVEMBER 2025

Acknowledgement of country

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.

Strategy delivering a business ready for the future

Business model supporting sustainable long-term growth



APRA's objectives

Creating the settings for a more innovative and competitive retirement income market
Significant benefit to retirees

APRA OBJECTIVES

- 1 Ensuring capital requirements for life insurers are not a disincentive to the development and competitive pricing of annuity products
- 2 Maintaining the financial resilience of life insurers
- 3 Improving alignment with comparable peer jurisdictions

POTENTIAL BENEFITS



**Improved
customer
outcomes**



**Capital
resilience**



**Excess
capital to
create
strategic
optionality**



**Platform
for growth**



APRA's proposed capital standard changes

Principles-based approach to the illiquidity premium

	CURRENT STANDARDS	PROPOSED STANDARDS
Illiquidity premium (ILP) formula	Standard ILP = 33% x (A-rated yield 3-year – CGS ¹ yield 3-year)	Advanced ILP = Spread on ILP reference portfolio less Risk allowance (greater of either cost of default and downgrades or 45% of long-term average spread)
Benchmark / reference portfolio	3-year Australian A-rated spreads	Single reference index or weighted average of up to 3 indices ²
Long-term rate implementation	10-years	Last point insurer can achieve cashflow matching
Long-term (ultimate) rate	20 bps	Subject to a cap of 50 bps
Cap	150 bps	No cap during cashflow matching period
Asset Risk Charge – Credit Spread Stress (LPS 114 change)	30 bps increase in ILP in first 10 years	Portion of the increase in ILP to flow through to credit spread stress charge in LPS 114
Cashflow matching requirement	Not applicable	Cumulative cashflow test with Appointed Actuary attestation

Capital resilience

Capital position is significantly more resilient to market shocks under proposed standards
Risk of management actions needing to be taken is materially reduced

ILLUSTRATIVE EXAMPLE OF HOW CAPITAL POSITION RESPONDS TO A MARKET STRESS EVENT^{1,2}

	REFERENCE	CURRENT STANDARDS	PROPOSED STANDARDS
30 June 2025			
Regulatory capital base	A	\$4.5b	\$4.5b
Prescribed Capital Amount (PCA)	B	\$2.8b	\$2.6b
PCA ratio³	A / B	1.60x	1.77x
Impact of instantaneous shock (no management actions)			
<i>Change in Capital Base (Asset Impact)</i>	C	-\$1.3b	-\$1.3b
<i>Change in Capital Base (Liability Impact)</i>	D	+\$0.1b	+\$1.0b
<i>Change in PCA</i>	E	-\$0.2b	-\$0.2b
Regulatory capital base	F = A + C + D	\$3.3b	\$4.2b
PCA	G = B + E	\$2.6b	\$2.4b
PCA ratio³	F / G	1.28x	1.74x
Change in PCA ratio		(0.32x)	(0.03x)
Management actions			
De-risking		Required	✓ Not required
Impact of market recovery		Profit foregone	✓ Full benefit

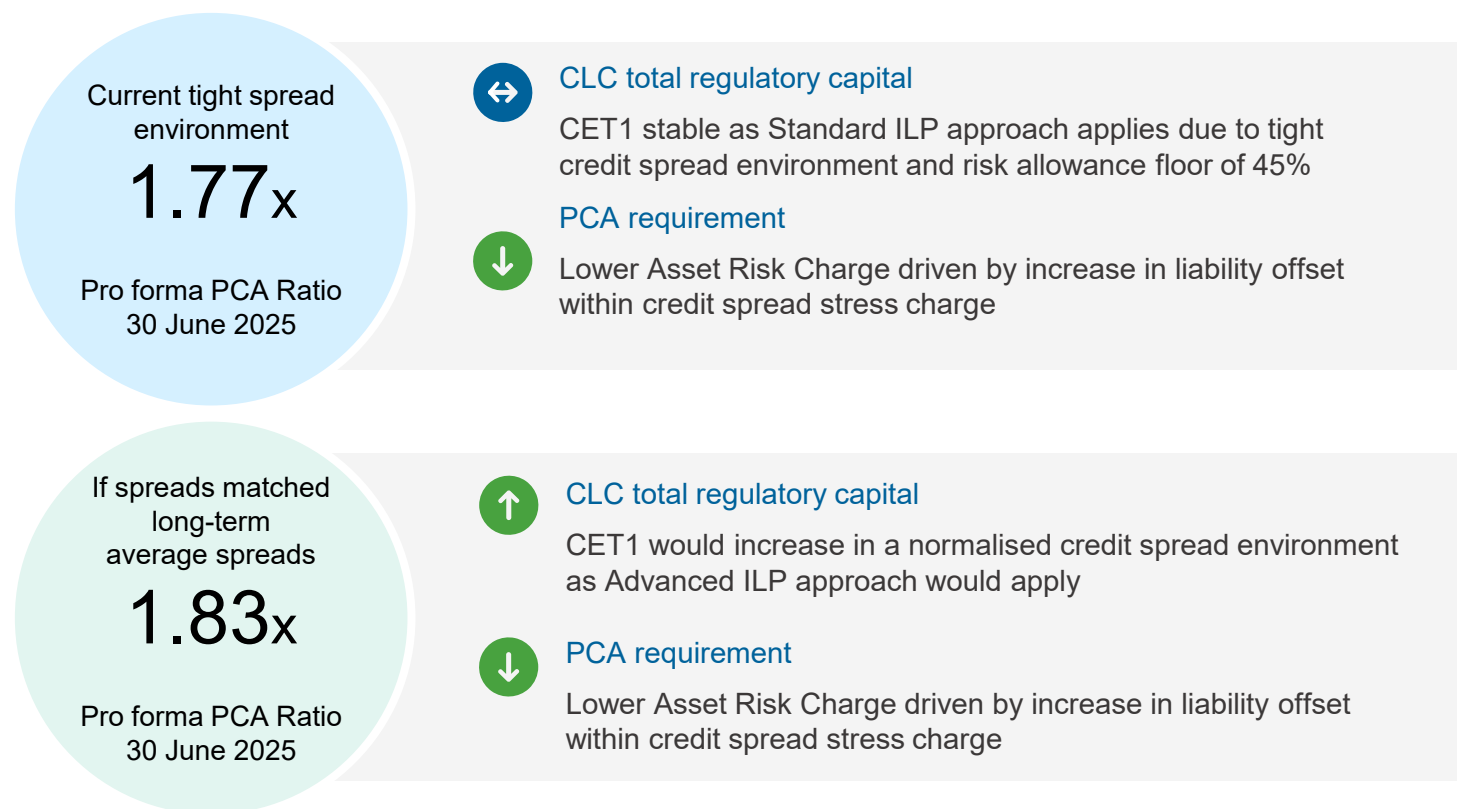
Impact upon implementation of proposed standards

Credit spread environment drives quantum of impact

PCA RATIO – CURRENT STANDARDS



PRO FORMA PCA RATIO – PROPOSED STANDARDS¹



Excess capital to create strategic optionality

Excess capital comprises both CET1 and AT1/T2

ILLUSTRATIVE IMPACTS OF PROPOSED STANDARDS

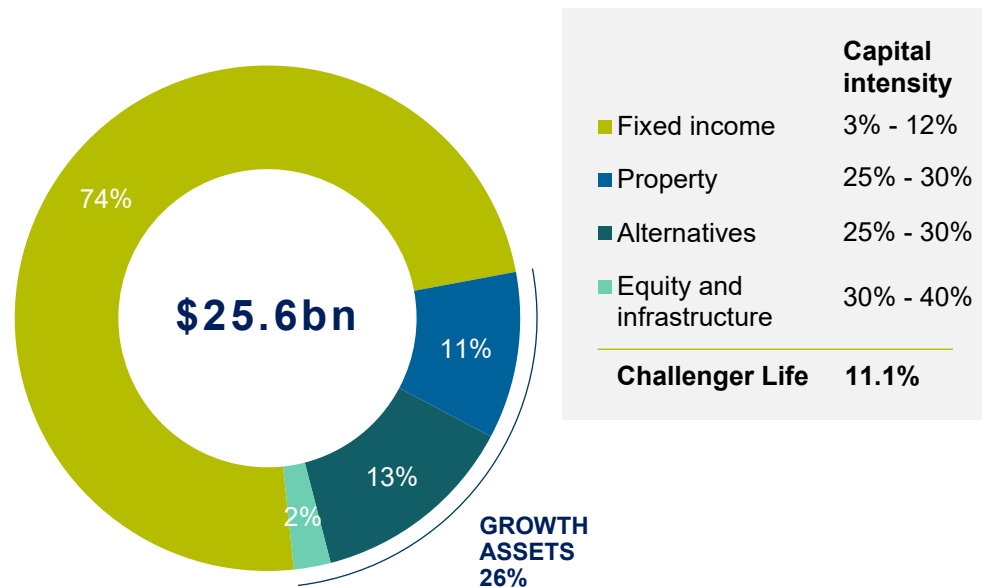
	CURRENT STANDARDS	PROPOSED STANDARDS
30 June 2025		
Regulatory capital base	\$4.5b	\$4.5b
PCA	\$2.8b	\$2.6b
PCA ratio	1.60x	1.77x
Illustrative impact of reverting to 1.60x		
Regulatory capital base		\$4.1b
Potential excess CET1		~\$0.3b
Potential excess AT1/T2		~\$0.1b

- Further work needed to confirm impact of changes on target PCA range
- Assuming no change in target PCA range, ~3/4 of Capital Base benefit would arise as excess CET1 (with the balance being excess AT1/T2)

Platform for growth

Greater investment in fixed income over time to reduce capital intensity
Positioned for growth in longer duration annuity products

LIFE INVESTMENT ASSETS – 30 JUNE 2025

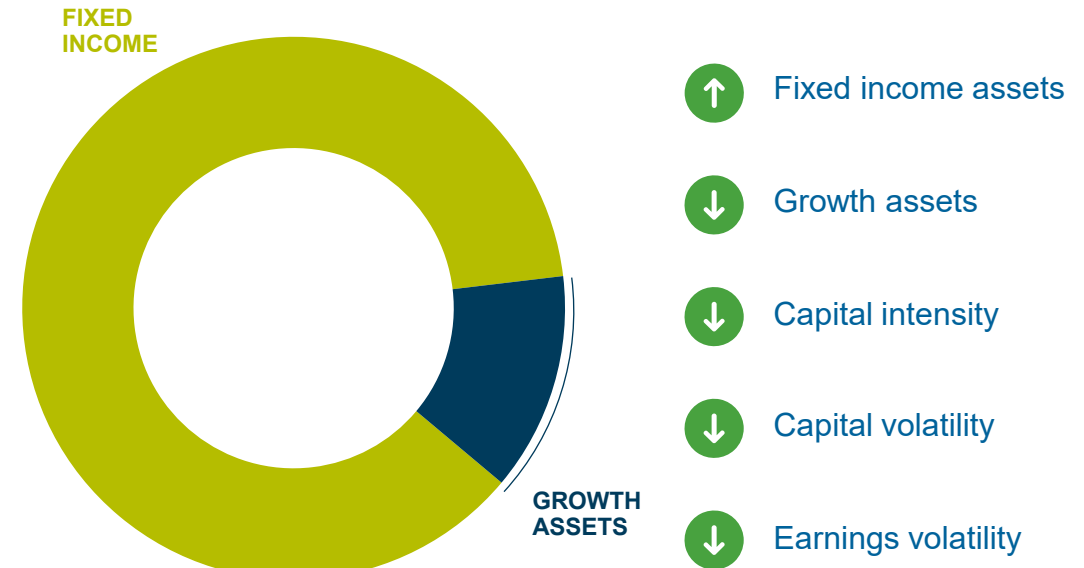


Book growth to be backed by fixed income



Changes to existing portfolio over time

LIFE INVESTMENT ASSETS – 1 JULY 2026 ONWARDS



Next steps

Structured approach to internal planning and implementation



Respond to **APRA's consultation**



Undertake further **detailed strategic assessment of the changes**



Conduct **actuarial governance, risk appetite and capital management review**



Assess **operational readiness and reporting requirements**



Review **investment strategy and forward-looking impacts on asset portfolio**



FY27 scenario modelling and business planning to include a review of the normalised reporting framework and guidance metrics

Appendix

Appendix A - Assumptions

Capital resilience illustrative example

Item	Comment
Asset Portfolio	No changes to actual asset portfolio at 30 June 2025 (including no allowance for any potential return of capital)
Capital Standards	Aligned to Draft Standards Assumed that criteria to apply Advanced Illiquidity Premium are satisfied Note: to satisfy Cash Flow Matching criteria, small modifications to asset portfolio may be required
Choice of Reference Index	Bloomberg US Corporate Statistics Index (LUACSTAT)
Market Shock Parameters	Aligned to 1-month market performance from 24/02/2020 to 23/03/2020
IG spreads (A/BBB)	+250bps
HY spreads	+600bps
Equity	-35%
Property	-7%
Absolute Return Funds	-3%

Appendix B - Assumptions

Assumed application of draft capital standards as at 30 June 2025

Item	Comment
Standard Illiquidity Premium	Illiquidity Premium: 0.29% (Yrs 0-10); 0.20% (Yr 10+)
Advanced Illiquidity Premium	
Reference Index	Bloomberg US Corporate Statistics Index (LUACSTAT) Credit spread = 0.83%
Risk Allowance	Long-term LUACSTAT spread = 1.29% (based on year 1990 onwards) Risk allowance = 45% x 1.29% = 0.58%
Illiquidity Premium	0.83% - 0.58% = 0.25% (subject to a floor of the Standard Illiquidity Premium) <u>Standard Illiquidity Premium dominates over the first 10 years, with Advanced Illiquidity Premium dominating beyond that point</u>
Long-term illiquidity premium implementation period	Maximum cashflow matching term = 30 years Advanced Illiquidity Premium cap of 0.50% after 30 years does not apply at 30 June 2025
Asset Risk Charge (LPS 114)	Calculation based on the credit ratings of index constituents Average credit spread increase of index = 1.37% Credit spread increase with LPS 114 Adjustment Factors = 0.81%
Products included	All illiquid products including lifetime and fixed term annuities

IMPORTANT NOTE

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

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

The 2025 Annual Report is available from Challenger's website at www.challenger.com.au/about-us/shareholder-centre.

This presentation is not audited, and any financial information in this presentation which is not included in the Challenger Limited 2025 Annual Report has not been subject to independent review by Challenger's external auditors, Ernst & Young.

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

Past performance is not an indication of future performance.

While Challenger has sought to ensure that information is accurate by undertaking a review process, it makes no representation or warranty and (to the maximum extent permitted by law) accepts no liability as to the accuracy or completeness of any information or statement in this document.

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