Challenger Financial Services Group Limited

and its controlled entities

2009 INTERIM FINANCIAL REPORT AND APPENDIX 4D

Challenger Financial Services Group Limited ACN 106 842 371

Appendix 4D

Interim Financial Report for the half year ended 31 December	2008 $m	2007 $m	% change
Results for announcement made to market [(1)]			
Revenue from ordinary activities	**1,062.7**	1,361.3	**(21.9)**
(Loss)/profit from ordinary activities after tax attributable to members	**(107.9)**	95.7	**(212.7)**
Net (loss)/profit for the period attributable to members	**(107.9)**	95.7	**(212.7)**
Normalised profit after tax and before investment experience and significant items for the half year ended 31 December 2008 was up 3.9% to $105.9 million (2007 - $101.9 million)			
Dividends			
Interim dividend – 0% franked (2007: 100% franked) (cents per share)	**5.0**	5.0	**-**
Record date for determining entitlements to be paid	**25 March 2009**		
Payment date for dividend	**17 April 2009**		

(1) Rule 4.2.C.3

Refer Appendix 1 ASX Appendix 4D on page 41 for disclosures required under ASX Listing Rules.

This report should be read in conjunction with the 30 June 2008 Annual Financial Report of the Group and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX listing rules.

This half year financial report covers Challenger Financial Services Group Limited (the Company) and its controlled entities (the Group).

For the half year ended 31 December 2008

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Directors' report

The Directors of Challenger Financial Services Group Limited ('the Company') present their report on the consolidated entity consisting of Challenger Financial Services Group Limited and its controlled entities ('the Group') the half year ended 31 December 2008.

1. Directors

The following directors held office during the half year and up to the date of this report. Directors were in office for this entire period unless otherwise stated.

Name	
Peter Leith Polson	Independent Chairman
Dominic John Stevens	Chief Executive Officer and Managing Director (appointed 1 September 2008)
Thomas Barrack Jr.	Non-Executive Director, Independent
Graham Allan Cubbin	Non-Executive Director
Russell Richard Hooper	Non-Executive Director, Independent
Ashok Peter Jacob	Non-Executive Director
James Douglas Packer	Non-Executive Director
Tatsuo Tanaka	Non-Executive Director
Leon Zwier	Non-Executive Director, Independent
Michael Tilley	Former Chief Executive Officer and Managing Director (retired 31 August 2008)

2. Review and results of the Group's operations during the half year

As shown in the analysis provided below, the Group reported a normalised profit after tax result for the half year of $105.9 million, up 3.9**%** ($4.0 million) on the prior comparative period (pcp). This result was supported by growth in normalised EBIT of 3.4%. Interest and borrowing costs were $17.2 million (down 33.1%) reflecting the reduced net debt position of the group during the current period.

Global capital markets remained volatile during the last six months, resulting in difficult operating conditions for all of our businesses. However the Group continues to maintain a prudent level of capital adequacy within Challenger Life No.2 Limited (CL2) and low levels of debt at Group. In addition, the transition in November 2008 of National Mutual Life Association of Australasia's (part of the AXA Group and referred hereafter as AXA) annuity portfolio, backed by cash and fixed income, substantially increased liquidity within CL2. While the Group expects markets to remain constrained for some time, we believe we remain well positioned to operate through this period and to take advantage of future market recovery.

Group Financial Summary Half year ended Management Analysis	31 Dec 2008 $M	31 Dec 2007 $M	Change %
Income[1]			
Normalised cash operating earnings	121.5	95.0	27.9
Net fee income	158.6	185.2	(14.4)
Other income	3.6	9.5	(62.1)
Net income	283.7	289.7	(2.1)
Expenses[1]			
Total operating expenses	(125.0)	(136.2)	(8.2)
Normalised EBIT	158.7	153.5	3.4
Interest and borrowing costs	(17.2)	(25.7)	33.1
Discontinued operations	-	4.9	(100.0)
Normalised profit before tax	141.5	132.7	6.6
Tax on normalised profit	(35.6)	(30.8)	15.6
Normalised profit after tax	**105.9**	**101.9**	**3.9**
Investment experience after tax	(213.8)	(6.2)	Large
Statutory (loss)/profit after tax	(107.9)	95.7	Large
Normalised EBIT represented by:			
Life	109.5	81.8	33.9
Mortgage Management	63.0	52.0	21.2
Funds Management	12.9	37.4	(65.5)
Corporate	(26.7)	(17.7)	50.8
Normalised EBIT (continuing operations)	158.7	153.5	3.4
Discontinued operations	-	4.9	(100.0)
Normalised EBIT	158.7	158.4	0.2

[1]"Net income" and "Total operating expenses" differs from "Revenue" and "Expense" as disclosed in the Financial Report as certain direct costs including commissions and management fees are netted off against gross revenues in deriving "Net fee income" above. These direct costs are classified as "Expenses" in the Financial Report. In addition, the Mortgage Management Special Purpose Vehicle revenues, expenses and finance costs disclosed in the Financial Report are netted off in Net Income above. These classifications have been made in the Directors Report disclosure as it is considered that this presentation more closely reflects the key value drivers and core operations of the Challenger group.

The major drivers of the growth in normalised profit after tax were improvements in the cash spread earnings generated by the Life division as a result of the transfer of the Metlife annuity portfolio which was completed only for part of the pcp and the addition of the AXA portfolio in November 2008 (which drove the uplift in normalised cash operating earnings), as well as higher profits from Mortgage Management following the purchase of Choice Aggregation Services (Choice) in August 2007 and the addition of Plan Group Holdings (PLAN) during the current period.

After allowing for the investment experience losses arising from the extreme volatility in global debt and equity markets during the period as well as individually significant items, the Group's statutory loss after tax for the half year ended 31 December 2008 was $107.9 million (2007: profit after tax of $95.7 million).

As shown in the table below, on a normalised basis, basic earnings per share (eps) for the half remained the same as the pcp at 17.8 cents and diluted eps increased 10.6% to 17.7 cents compared to the pcp.

Earnings Per Share Half year ended	31 Dec 2008 cents	31 Dec 2007 cents
Basic – normalised	17.8	17.8
Diluted – normalised	17.7	16.0
Basic – statutory	(18.1)	16.7
Diluted – statutory	(18.1)	15.0

Key events during the half year included:

In July 2008, the company announced an on-market share buy-back of up to 10% of the Group's issued share capital. As at 31 December 3.4% of the Group's issued share capital had been purchased and the company continues to evaluate opportunities to purchase shares based on market conditions alongside other alternative investment opportunities.

On 25 August 2008, the Group announced that Mr Tilley, the Chief Executive Officer and Managing Director, would step down effective 31 August. Mr Tilley has been succeeded by Mr Stevens. Mr Stevens was previously the Deputy Managing Director and has been a key member of the Challenger leadership team over the past five years.

On 30 September 2008, the Group announced that it had acquired the remaining 85% of PLAN (15% was acquired in December 2005) the largest Australasian mortgage aggregator with Mortgages under Administration of $42 billion as at 31 August 2008. This acquisition confirmed the continuation of the Group's strategy in this area.

On 25 November 2008, CL2 received federal court approval for the transfer of the $1.29 billion AXA annuity portfolio. The transfer of this annuity portfolio brings Challenger's annuity book to $5.2 billion, reaffirming the Groups leadership position in this sector.

CL2 acquired further units in the Challenger Diversified Property Group (CDI) listed fund during the period and it was determined that the Group had achieved control over CDI resulting in the consolidation of CDI into the Group.

3. Dividends

On 22 August 2008, the Directors of the Company declared a final dividend on ordinary shares in respect of the year ending 30 June 2008. The amount of the dividend was $47.4 million, which represents a 60% franked dividend of 7.5 cents per share, and was paid on 17 October 2008.

On 13 February 2009, the Directors of the Company declared an interim dividend on ordinary shares. The amount of the dividend is $30.4 million which represents an unfranked dividend of 5.0 cents per share. This dividend will be paid on 17 April 2009.

4. Significant events after the balance date

Details of subsequent events are given in Note 19. At the date of this report there are no other significant events since 31 December 2008.

5. Rounding

In accordance with the Australian Securities and Investment Commission Class Order 98/100, amounts in this Directors' Report and the accompanying Financial Report have been rounded off to the nearest $100,000, unless stated otherwise.

6. Auditor independence

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out below and forms part of this Directors' report.

ERNST & YOUNG

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

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

Auditor's independence declaration to the Directors of Challenger Financial Services Group Limited

In relation to our review of the financial report of Challenger Financial Services Group Limited for the half-year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

SJ Ferguson
Partner
Sydney
13 February 2009

Liability limited by a scheme approved under Professional Standards Legislation

Signed in accordance with a resolution of the directors of Challenger Financial Services Group Limited.

D J Stevens
Director
Sydney
13 February 2009

G A Cubbin
Director
Sydney
13 February 2009

Financial report

Contents

Consolidated income statement

For the half year ended 31 December 2008

	Notes	Half year ended 31 Dec 2008 $M	Half year ended 31 Dec 2007 $M
Derived from operating activities			
Revenue	2	1,062.7	1,361.3
Expenses	3	(466.4)	(404.5)
Finance costs	4	(764.0)	(832.4)
		(167.7)	124.4
Share of profits of associates		1.5	1.5
(Loss)/profit from continuing operations before income tax		**(166.2)**	**125.9**
Income tax benefit/(expense) from continuing operations	5	56.0	(28.6)
(Loss)/profit from continuing operations after income tax		**(110.2)**	**97.3**
Profit from discontinued operations after income tax	18	**-**	**3.3**
(Loss)/profit after income tax		**(110.2)**	**100.6**
Loss/(profit) attributable to minority interest		2.3	(4.9)
(Loss)/profit attributable to equity holders of the parent		**(107.9)**	**95.7**
Earnings per share from continuing operations:			
Basic earnings per share	7	(18.1)	16.1
Diluted earnings per share	7	(18.1)	14.5
Earnings per share from all operations:			
Basic earnings per share	7	(18.1)	16.7
Diluted earnings per share	7	(18.1)	15.0

The income statement should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at 31 December 2008

	Notes	31 Dec 2008 $M	30 Jun 2008 $M	31 Dec 2007 $M
		As at		
Assets				
Cash and cash equivalents		1,281.8	802.4	967.4
Cash and cash equivalents - SPV		899.9	956.0	1,124.2
Receivables		552.3	381.3	389.9
Receivables - SPV	11	17,199.1	18,760.4	20,161.7
Derivative assets		379.5	83.3	11.3
Financial assets fair valued through income statement	8	4,127.3	3,666.2	3,858.3
Available for sale assets	8	27.7	33.5	56.1
Investment properties	8	2,267.9	1,575.4	1,635.1
Plant and equipment		61.5	61.7	65.9
Current tax assets		2.8	-	-
Deferred tax assets		73.1	-	-
Investments in associates		38.7	35.0	59.2
Other assets		153.6	149.2	177.9
Goodwill	9	696.7	624.0	794.7
Other intangible assets		26.8	28.9	33.0
Total assets		27,788.7	27,157.3	29,334.7
Liabilities				
Payables		590.1	492.8	558.2
Current tax liabilities		-	3.6	23.8
Derivative liabilities		139.5	75.7	48.1
Financial liabilities fair valued through income statement		-	43.6	74.6
Interest bearing liabilities	10	2,164.1	1,494.0	1,635.5
Interest bearing liabilities - SPV	10,11	17,947.1	19,523.7	21,170.2
Provisions		49.4	53.3	57.5
Deferred tax liabilities		66.2	97.5	169.2
Life contract liabilities	12	5,166.8	3,743.1	3,851.7
Total liabilities		26,123.2	25,527.3	27,588.8
Net assets		**1,665.5**	**1,630.0**	**1,745.9**
Equity				
Contributed equity	13	1,414.0	1,462.4	1,461.1
Reserves	14	126.7	170.2	131.9
Accumulated (losses)/retained earnings		(174.9)	(19.7)	152.0
Total equity attributable to equity holders of the parent		**1,365.8**	**1,612.9**	**1,745.0**
Minority interests		299.7	17.1	0.9
Total equity		**1,665.5**	**1,630.0**	**1,745.9**

The balance sheet should be read in conjunction with the accompanying notes

Consolidated statement of changes in equity

For half year ended 31 December 2008		Half year ended	
		31 Dec 2008	31 Dec 2007
Issued capital	Notes	$M	$M
Opening balance at the beginning of financial period		1,622.1	1,427.1
New shares issued		-	207.5
Cost of share based payments		(17.3)	(2.0)
Cost of share buy back		(28.3)	-
Closing balance at the end of period		**1,576.5**	**1,632.6**
Treasury shares			
Opening balance at the beginning of financial period		(159.7)	(167.2)
Shares issued/purchased		(25.2)	(25.8)
Shares redeemed		22.0	2.0
Shares issued under share based payment plan net of shares cancelled		0.4	19.5
Closing balance at the end of period		**(162.5)**	**(171.5)**
Total contributed equity	13	**1,414.0**	**1,461.1**
Retained (losses)/earnings			
Opening balance at the beginning of financial period		(19.7)	102.1
(Loss)/profit for the period		(107.9)	95.7
Equity dividends		(47.3)	(45.8)
Closing balance at the end of period		**(174.9)**	**152.0**
Reserves			
Opening balance at the beginning of financial period		170.2	82.9
Increase in equity option premium reserve		-	63.4
Currency translation differences		5.9	-
Changes in cash flow hedges, net of tax		(57.2)	5.8
Changes in available-for-sale assets, net of tax		(0.5)	(19.5)
Cost of share based payments		8.3	(0.7)
Closing balance at the end of period	14	**126.7**	**131.9**
Total		**1,365.8**	**1,745.0**
Minority interest			
Opening balance at the beginning of financial period		17.1	3.7
Other minority movements/distributions		9.9	(7.7)
(Loss)/profit for the period		(2.3)	4.9
Consolidation of new controlled entities		275.0	-
Closing balance at the end of period		**299.7**	**0.9**
Total equity		**1,665.5**	**1,745.9**
Total recognised income and expense for the period			
Items recognised directly in equity		(51.8)	(14.6)
(Loss)/profit for the period		(110.2)	100.6
		(162.0)	**86.0**
Total income and expense for the period attributable to:			
Equity holders of the parent		(159.7)	82.0
Minority interest		(2.3)	4.0
		(162.0)	**86.0**

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

Consolidated statement of cash flows

For the half year ended 31 December 2008

	Notes	Half year ended 31 Dec 2008 $M	31 Dec 2007 $M
Operating activities			
Receipts from customers[1]		1,159.3	1,225.7
Annuities received		302.7	417.7
Annuities paid		(559.9)	(476.4)
Payments to vendors and employees[1]		(1,115.9)	(1,173.1)
Dividends received		73.1	65.9
Interest received		146.2	107.5
Interest paid		(64.6)	(57.8)
Income tax received/(paid)		(3.3)	(3.4)
Net cash (outflow)/inflow from operating activities	16	**(62.4)**	**106.1**
Investing activities			
Net payments on sale/purchase of investments		(217.3)	(1,117.2)
Mortgages loans - advanced and purchased	11[1]	(4,907.4)	(4,729.0)
Mortgages loans - repaid and sold	11[1]	6,534.9	4,379.7
Net proceeds from purchase of controlled entities/significant transactions		482.0	732.0
Payments for purchase of plant and equipment		(5.2)	(7.6)
Net cash inflow/(outflow) from investing activities		**1,887.0**	**(742.1)**
Financing activities			
Proceeds from interest bearing liabilities		4,526.2	8,299.2
Repayment of interest bearing liabilities		(5,826.7)	(7,632.4)
Proceeds from issue of units		-	293.1
Payments on buy back of units/treasury shares		(53.5)	-
Dividend paid		(47.3)	(45.8)
Distributions paid to minorities		-	(7.5)
Net cash (outflow)/inflow from financing activities		**(1,401.3)**	**906.6**
Net increase in cash and cash equivalents		423.3	270.6
Cash and cash equivalents at the start of the period		1,758.4	1,821.0
Cash and cash equivalents at the end of period		**2,181.7**	**2,091.6**
Cash and cash equivalents		1,281.8	967.4
Cash - SPV	11	899.9	1,124.2
Cash and cash equivalents at the end of period		**2,181.7**	**2,091.6**

[1] Inclusive of GST

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

Notes to the financial statements

1. *Basis of preparation of interim financial report*

The interim financial report for the six months ended 31 December 2008 was authorised for issue in accordance with a resolution of the Directors on 13 February 2009.

This interim financial report of the Company, as at and for the six months ended 31 December 2008, comprises the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in associates.

i) Basis of preparation

This general purpose interim financial report for the half year ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134: *Interim Financial Reporting*, and the *Corporations Act 2001*.

The interim financial report does not include all the notes normally included in an annual financial report. Accordingly, it is recommended that this report be read in conjunction with the annual report for the financial year ended 30 June 2008 and any public announcements made by Challenger Financial Services Group Limited and its controlled entities ('the Group') during the half year in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and the ASX listing rules.

ii) Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are consistent with those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2008 with the exception of new reporting standards issued and/or applied during the year, as outlined below.

iii) New reporting standards issued and/or applied during the year

AASB 8: Operating Segments, AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting standards arising from AASB 3 and AASB 127 (effective from 1 July 2009), have been early adopted for this reporting period.

Under AASB 3, if the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Transaction costs related to the acquisition are expensed. Non controlling interest is valued at share of net assets.

The following standards, interpretations and amendments were available for early adoption and applicable to the Group but have not been applied in these financial statements:

- AASB 101: Presentation of Financial Statements and AASB 2007-08 Amendments to Australian Accounting Standards arising from AASB 101. This is applicable for annual reporting periods beginning on or after 1 January 2009. This standard requires the presentation of a statement of comprehensive income which replaces the Income Statement and makes changes to the Statement of Changes in Equity. Any changes made with respect to a prior period adjustment or reclassification in the financial statement will require a third Balance Sheet as at the beginning of the comparative periods to be disclosed. The Group will need to reformat its Income Statement and Statement of Changes in Equity for its 30 June 2010 financial statements.

iv) Significant accounting judgements, estimates and assumptions

The carrying amount of certain assets and liabilities are often determined 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 carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill
The Group assesses whether goodwill is impaired at least annually in accordance with the accounting policy. These calculations involve an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated.

Share based payments
The Group measures the cost of equity-settled transactions with employees by reference to

1. *Basis of preparation of interim financial report(continued)*

the fair value of the ordinary shares at the date at which they are granted. The fair value is determined using the Black-Scholes formula, taking into account the terms and conditions upon which the equity instruments were granted. The fair value calculation is performed by an external valuer.

Policy liabilities
Policy liabilities are measured at net present values of estimated future cash flows or, where the result would not be materially different, as the accumulated benefits available to policyholders. Changes in policy liabilities for non-deposit business are recognised in the income statement as revenues or expenses in the financial year in which the changes occur. Discount rates on policy liabilities have been updated to reflect current observable rates (see Note 12).

Property valuations
Investment properties in are stated at fair value, which has been determined based on valuations performed at least annually by independent valuers. All properties were independently valued at 30 June 2008. Half of the portfolio has been valued by independent valuers at 31 December 2008 and the balance of the properties have been subject to Directors' valuations. All valuation movements have been taken to the income statement.

The Valuer or Valuation Practice are authorised to practice as a Valuer under the law of the relevant jurisdiction where the valuation takes place. The Valuer performing the valuation has at least five years of continuous experience in the valuation of property of a similar type to the property being valued. Neither the Valuer, nor Valuation Practice, has a pecuniary interest that could conflict with the valuation of the property. The Valuer and Valuation Practice comply with the Australian Property Institute (API) Code of Ethics and Rules of Conduct.

Valuations are prepared on the basis of Market Value as defined by The International Assets Valuation Standards Committee (TIAVSC) and endorsed by the API.

Market value is the estimated amount for which an asset could exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion. In determining Market Value, Valuers have examined available market evidence and applied this analysis to both the traditional capitalisation approach and discounted cash flow approach.

Interest Bearing Liabilities
After initial recognition subordinated debt is measured at fair value through the revenue statement and adjusted for movements in interest rates, credit spreads and foreign exchange. These movements are reviewed at each reporting date to take into account market conditions.

v) Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in these financial statements.

The SPV balance sheet and cash flows at 31 December 2007 were shown gross of intersegment transactions. These amounts are now shown on a net basis at 31 December 2008 and as a result a reduction of $302.8 million has been made to restate assets and liabilities for the 31 December 2007 comparative period. A downward adjustment of $51.6 million has been made to the operating cash flow and investing cashflows have been increased to reflect this.

Income statement balances have been restated to remove the Financial Planning division which is a discontinued operation at 30 June 2008 as noted in Note 18.

Cash equivalents that were previously categorised in financial assets fair valued through the income statement in prior periods have been reclassified into cash and cash equivalents category. The cash flow amounts for December 2007 have been restated upward by $161.0 million and June 2008 by $144.6 million reflecting this.

During the period the Group reassessed the application of AASB: 112 Income Taxes, to presentation of deferred and current income tax balances for the tax-consolidated group and determined that the conditions for set off had been met. This had the effect of reducing deferred tax assets for: 30 June 2008: $198.0 million and 31 December 2007: $167.7 million. Current tax assets for June 2008 were amended by $63.3 million.

vi) Rounding of amounts

The financial report is presented in Australian dollars and all amounts are rounded to the nearest hundred thousand dollars unless otherwise stated under the option available to the Company under ASIC Class Order 98/100.

2. *Revenue*

Derived from operating activities:	Half year ended 31 Dec 2008 $M	31 Dec 2007[1] $M
Fees and other income		
Management fee income	160.8	153.8
Fee income - SPV	21.0	24.3
Other income	3.3	13.1
	185.1	191.2
Investment revenue		
Equity and infrastructure securities		
Dividend income	47.5	49.5
Net realised (loss)/gain on equities and trading securities	(3.3)	2.4
Net unrealised (loss) on equities and trading securities	(78.5)	(9.6)
Net realised gain/(loss) on infrastructure investments	4.6	-
Net unrealised (loss)/gain on infrastructure investments	(122.2)	0.8
Debt securities and cash		
Interest income	152.9	119.0
Net realised (loss) on debt securities and cash	(87.2)	-
Net unrealised (loss) on debt securities and cash	(94.9)	(39.1)
Property investments		
Property rental	51.3	50.6
Dividend income	10.6	11.3
Net unrealised (loss)/gain on properties	(98.4)	13.9
Unrealised gain on acquisition of controlled entities	66.4	-
Net realised (loss)/gain on properties	(0.9)	19.0
Other		
Interest income - SPV	849.7	882.1
Net realised exchange (loss)/gain on foreign exchange, foreign exchange translation and foreign currency hedges	(313.0)	24.4
Net unrealised gain/(loss) on foreign exchange, foreign exchange translation and foreign currency hedges	286.2	(15.1)
Net realised gain/(loss) on interest rate derivative assets and liabilities	9.4	(4.5)
Net unrealised gain/(loss) on interest rate derivative assets and liabilities	444.4	(28.2)
Impairment loss on financial assets available for sale	(0.7)	-
Other Revenue		
Policyholder liability adjustment (losses)/gains	(277.1)	93.6
Gain on annuity book transfer	30.8	-
	1,062.7	**1,361.3**

[1] Comparatives have been restated to remove amounts related to discontinued operations; this has reduced 2007 revenue by $94.7 million

3. *Expenses*

Derived from operating activities:	Half year ended 31 Dec 2008 $M	Half year ended 31 Dec 2007[1] $M
Commission expenses	153.2	82.7
Amortisation of deferred portfolio and origination costs	39.3	45.9
Fee expenses - SPV	3.8	4.9
Policyholder liabilities and maintenance expenses	115.5	91.9
Property management expenses	9.9	10.0
Management fees	7.5	7.1
Intangibles amortisation expense	3.0	2.2
Employee expenses	81.9	92.2
Employee share based payments	11.9	10.3
Professional fees	7.6	7.4
Superannuation	3.6	3.5
Occupancy expense - operating lease	2.9	5.9
Depreciation expense	4.5	3.8
Communications	4.3	5.0
IT maintenance	2.0	2.8
Other expenses	15.5	28.9
Total	**466.4**	**404.5**

[1] Comparatives have been restated to remove amounts related to discontinued operations; this has reduced 2007 expenses by $90.1 million

4. *Finance costs*

	Half year ended 31 Dec 2008 $M	Half year ended 31 Dec 2007 $M
Interest expense incurred by:		
Property Trusts controlled by subsidiaries	18.1	18.9
Interest expense incurred by Mortgage Management SPVs	687.1	758.1
Other entities	52.7	54.2
Other finance costs	6.1	1.2
	764.0	**832.4**

5. *Income tax*

Major components of income tax expense are:

	Half year ended	
	31 Dec 2008 $M	31 Dec 2007[1] $M
a) Income tax benefit/(expense) analysis:		
Current income tax benefit/(expense)[1]	4.5	(2.8)
Deferred income tax benefit/(expense)	51.5	(25.8)
Net benefit/(expense)	56.0	(28.6)
b) Amounts recognised directly in equity	(0.5)	(7.5)
c) Reconciliation of income tax benefit/(expense):		
Net (loss)/profit from operations before income tax benefit/(expense)	(166.2)	125.9
Prima facie income tax based on the Australian company tax rate of 30%	50.0	(37.8)
Tax effect of amounts which are not deductible/assessable in calculating taxable income:		
Previously unrecognised tax losses	-	2.2
Non deductible expenses	(1.7)	(0.4)
Rate differential on offshore income	1.0	1.0
Non assessable items	-	1.0
Prior year adjustment and other items	6.7	5.4
	6.0	9.2
Income tax benefit/(expense)	**56.0**	**(28.6)**
Tax losses		
Gross unused losses for which no deferred tax asset has been recognised	**83.4**	**11.7**

[1] Comparative numbers have been restated to remove amounts related to discontinued operations.

6. *Dividends paid and proposed*

	Half year ended	
	31 Dec 2008	**31 Dec 2007**
	$M	**$M**
a) Declared and paid during the period		
60% franked dividend for the financial year 30 June 2008: 7.5 cents (2007: 7.5 cents fully franked)	**47.3**	**45.8**
b) Proposed (not recognised as a liability as at 31 December)		
Interim dividend for the financial year 30 June 2009: 5.0 cents unfranked (2008: 5.0 cents fully franked)	30.4	31.8

c) Franking

Dividends paid have been franked at 60% with a tax rate of 18% (31 December 2007: Paid dividends were franked at 100% with a tax rate of 30%). The dividend proposed will be franked at the rate of 0% with a corresponding zero tax rate (31 December 2007: 100% with a tax rate of 30%).

7. *Earnings per share*

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Half year ended	
	31 Dec 2008 Cents	**31 Dec 2007 Cents**
From continuing operations		
Basic earnings per share	(18.1)	16.1
Diluted earnings per share	(18.1)	14.5
Total from all operations		
Basic earnings per share	(18.1)	16.7
Diluted earnings per share	(18.1)	15.0
Earnings used in calculating earnings per share	**$M**	**$M**
For basic earnings per share:		
Net (loss)/profit from continuing operations attributable to ordinary shareholders for basic earnings per share	(107.9)	92.4
Profit from discontinued operations	-	3.3
Net (loss)/profit from all operations attributable to ordinary shareholders for basic earnings per share	**(107.9)**	**95.7**
For diluted earnings per share:		
Net (loss)/profit from continuing operations	(107.9)	92.4
Interest received on LTIP loans	-	(2.7)
Net (loss)/profit from continuing operations attributable to ordinary shareholders for diluted earnings per share adjusted for the impact of interest received on LTIP loans	(107.9)	89.7
(Loss)/profit from discontinued operations	-	3.3
Net (loss)/profit from all operations attributable to ordinary shareholders for diluted earnings per share	**(107.9)**	**93.0**
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	595,405,499	573,073,594
Effect of dilution:		
- Share options	135,542	48,570,455
Adjusted weighted average number of ordinary shares for diluted earnings per share	**595,541,041**	**621,644,049**

With the exception of the share buy back, there have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

8. *Investment assets*

	As at		
	31 Dec 2008 $M	30 Jun 2008 $M	31 Dec 2007 $M
(i) Financial assets fair valued through income statement			
Debt securities			
Fixed interest notes	147.3	282.4	270.2
Floating rate notes	2,025.9	1,857.8	1,591.8
Preference shares	-	9.7	28.4
Bonds	852.2	299.2	556.8
	3,025.4	**2,449.1**	**2,447.2**
Equity securities			
Shares in listed and unlisted corporations	63.6	104.0	12.1
Unlisted unit trusts, managed funds and equities	229.8	58.1	237.0
Shares in listed corporations held in relation to endowment warrants	41.0	83.3	110.2
	334.4	**245.4**	**359.3**
Infrastructure investments			
Shares in listed and unlisted corporations	742.4	914.0	957.3
Other infrastructure assets	25.1	-	-
	767.5	**914.0**	**957.3**
Securities designated to be fair valued through income statement			
Seeding investments in Boutique partners	-	57.7	94.5
	-	**57.7**	**94.5**
Total	**4,127.3**	**3,666.2**	**3,858.3**
(ii) Available for sale assets			
Other financial assets	27.7	33.5	56.1
	27.7	**33.5**	**56.1**
Impairment losses on available for sale assets recognised via income statement in the period	**(0.7)**	**(41.8)**	**-**
(iii) Real estate assets			
Investment property at fair value	1,126.5	1,163.9	1,196.3
Development property at cost	82.0	75.8	75.8
Specialised funds properties at fair value (see note 17)	840.9	-	-
Specialised funds development properties at cost (see note 17)	24.5	-	-
	2,073.9	1,239.7	1,272.1
Indirect property investments at fair value[1]	194.0	335.7	363.0
	2,267.9	**1,575.4**	**1,635.1**

[1] Indirect property investments include units held in listed and unlisted trusts and interest in joint ventures.

9. *Goodwill*

	As at		
	31 Dec 2008 $M	30 Jun 2008 $M	31 Dec 2007 $M
Goodwill (net of accumulated impairment)	**696.7**	**624.0**	**794.7**
Reconciliation of carrying amounts at the beginning and end of the period			
Opening balance (net of accumulated impairment)	624.0	577.3	577.3
Acquisitions through business combinations	72.0	175.4	215.0
Disposals	-	(133.6)	-
Re-appraisal of fair value of net assets acquired	-	3.0	-
Increase or decrease in goodwill translation to closing exchange rate [1]	(0.6)	(0.8)	(0.9)
Deferred acquisition costs	1.3	2.7	3.3
Goodwill (net of accumulated impairment)	**696.7**	**624.0**	**794.7**

[1] In accordance with AASB 121, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. The assets and liabilities are therefore expressed in the functional currency of the foreign operation and have been translated into Australian dollars at the closing rate.

The Group has carried out impairment testing in the period for all of the cash generating units and no impairment has been identified. The discount rate used in the impairment testing was 11.5% (June 2008: 12.5%).

10. *Interest bearing liabilities*

	As at					
	31 Dec 2008		30 Jun 2008		31 Dec 2007	
	Outstanding $M	Facility $M	Outstanding $M	Facility $M	Outstanding $M	Facility $M
Bank loans						
Recourse						
Corporate	350.0	350.0	-	350.0	50.0	350.0
Non recourse						
Controlled property trusts	822.8	979.3	497.6	505.7	531.1	571.1
Repurchase arrangements	59.8	59.8	-	-	-	-
Total bank loans	**1,232.6**	**1,389.1**	**497.6**	**855.7**	**581.1**	**921.1**
Non-bank loans						
Recourse						
Medium Term Note	250.0	250.0	250.0	250.0	250.0	250.0
Loan from Associates	-	-	-	-	45.0	45.0
Non recourse						
Controlled property trusts	7.1	7.1	6.6	6.6	6.6	7.0
Corporate	130.0	130.0	130.0	130.0	130.0	130.0
Subordinated debt issuance	482.3	482.3	554.7	554.7	566.8	566.8
Loan note finance	62.1	62.1	54.8	54.8	56.0	56.0
Other interest bearing liabilities	-	-	0.3	0.3	-	-
Total non-bank loans	**931.5**	**931.5**	**996.4**	**996.4**	**1,054.4**	**1,054.8**
Total interest bearing liabilities	**2,164.1**	**2,320.6**	**1,494.0**	**1,852.1**	**1,635.5**	**1,975.9**
Current	410.5		56.1		52.0	
Non Current	1,753.6		1,437.9		1,583.5	
	2,164.1		**1,494.0**		**1,635.5**	
Interest bearing liabilities - SPV	17,947.1	19,521.5	19,523.7	21,217.2	21,170.2	22,360.0
Total interest bearing liabilities- SPV	**17,947.1**	**19,521.5**	**19,523.7**	**21,217.2**	**21,170.2**	**22,360.0**

Bank loans

Corporate

The corporate bank facility amounting to $350 million is secured by cross guarantees in place between certain Group companies. A floating interest rate was applied to this facility during the year.

Controlled property trusts

Bank loans in the controlled property trusts are secured solely by fixed and floating first mortgages over properties.

Within controlled property trust are liabilities of CDI. CDI has entered into a multi-option syndicated finance facility with Westpac Banking Corporation Limited (WBC) and Commonwealth Bank of Australia Limited (CBA).

The loan facility is non recourse and has not granted security over its properties but provided a number of negative undertakings, including undertaking not to create or allow encumbrance over its properties. Part of the funding for that acquisition was provided by WBC to CDI's controlled entities in France and part of the funding was provided by WBC and CBA to Challenger Diversified Property Trust 1 (CDPT1). Security was granted by way of mortgages of shares in, and of debts between, entities established to acquire the French properties.

10. Interest bearing liabilities (continued)

Repurchase arrangements

During the period the Group entered into repurchase agreements with the Reserve Bank of Australia (RBA) whereby a portfolio of debt securities has been sold to the RBA for cash whilst simultaneously agreeing to repurchase the debt securities at a fixed price and fixed date in the future. These arrangements are interest bearing with interest paid on maturity. The maturity date of the repurchased amount outstanding is 15 December 2009.

Non-bank loans

Medium term notes

Challenger Treasury Limited issued $250,000,000 of Australian dollar fixed rate medium term notes on 23 April 07. The notes are secured by cross guarantees in place between certain Group companies. The notes are fixed at 7% and mature on 23 April 2010.

Controlled property trusts

Non-bank loans in the controlled property trusts are secured solely by fixed and floating first mortgages over properties.

Corporate

Working capital was raised via a Net Interest Margin Bond securitisation through the NIM Master Trust Series 2004-A2, 2004-A3 and 2006-A1. The facility is limited in its recourse to the manager to the extent of $1 and holds security over the residual incomes of all Australian securitised trusts. The NIM represents a long term financing alternative. It is anticipated total outstanding principal will be repaid within four years from June 2006. Interest is fixed and is payable monthly.

Subordinated debt – Challenger Life No.2 Limited (CL2)

CL2, issued $400,000,000 of subordinated notes into the US private placement market in November 2007.

The notes were issued under an APRA approved Instrument of Issue and, when issued, count as Approved Subordinated Debt for regulatory capital purposes. The notes are unsecured and will mature in 30 years with a non-call period of 10 years.

CL2 issued US$150,000,000 of subordinated notes into the US private placement market in December 2006.

These notes were also issued under an APRA approved Instrument of Issue and, when issued, count as Approved Subordinated Debt for regulatory capital purposes. The notes are unsecured and were issued in two maturities (US$25 million at 10 years with a non-call period of five years; and US$125 million at 20 years with a non-call period of 10 years). A portion of this subordinated debt has a fixed interest rate with the remaining portion being floating.

The proceeds from the issuance of both the November 2007 and the December 2006 notes were made available to Statutory Fund No. 2 of CL2. The repayment obligations and other liabilities of CL2 in respect of the principal, interest and other amounts owing with respect to the notes are liabilities of, and referable to, Statutory Fund No. 2.

The notes rank in right of payment either pari passu with or senior to all other unsecured and subordinated indebtedness of CL2 allocated to Statutory Fund No. 2, except for such indebtedness preferred by operation of bankruptcy laws or similar laws of general application.

After initial recognition subordinated debt is measured at fair value through the revenue statement and adjusted for movements in interest rates, credit spreads and foreign exchange.

Loan note finance

CL2 has entered into a restricted recourse £25 million loan that is secured by investment properties. The fixed rate interest applied will be capitalised and is expected to be repaid together with the principal in 2012 (but no later than 2015).

Floating interest bearing liabilities in SPV

The Mortgage Management business establishes and services special purpose vehicles which fund pools of residential loans via the issuance of residential mortgage backed securities in its normal course of business. All borrowings are limited in recourse to the assets of the securitised trusts, Mortgage Management is the residual beneficiary of the fund loans via a nominal investment.

11. *Mortgage Management Special Purpose Vehicles (SPV)*

The Mortgage Management business establishes and services a number of SPV's which fund pools of residential mortgage loans via the issuance of residential mortgage backed securities. All borrowings of the SPV's are limited in recourse to the assets of the SPV's.

Mortgage Management retains a nominal beneficial interest in each SPV which entitles it to an income stream from the SPV's in the form of a net interest margin in addition to the fees it receives as servicer and trust manager. Mortgage Management are generally entitled to its fees for servicing and acting as trust manager in priority to obligations to noteholders being paid and is entitled to the residual income after all other obligations of the trust have been met.

Mortgage Management's residual income may be impacted in the event of impairment in the mortgage loans within the SPV's in excess of the security held and any lenders mortgage insurance cover. Mortgage Management maintains a prudent level of provisioning within its SPV's for impairment against the outstanding SPV's mortgage receivables as a consequence of this potential risk. In the event that impairments exceed the residual income due to Mortgage Management then the SPV noteholders bear the credit risk in accordance with the priority of their respective noteholdings.

While the Group has neither ownership rights to the underlying mortgages nor any obligation or duty to repay any of the residential mortgage backed securities, the Group is required to consolidate all securitisation SPV's as a consequence of holding the beneficial interest to the residual income streams. This results in a gross up of assets and liabilities, separately disclosed as they are not considered part of the Groups' assets and liabilities from management's perspective. Transactions between the SPV and Challenger Mortgage Management are eliminated on consolidation into Group in accordance with accounting standards. There is no impact on total equity, other than for amounts reflected in a cash flow hedge reserve explained hereunder, which has also been separately disclosed.

AASB 139 "Financial Instruments: Recognition and Measurement" requires all derivatives to be recognised on the balance sheet and measured at fair value. Gains and losses arising from changes in fair value will be recognised in the income statement, unless hedge accounting is applied. Where cash flow hedge accounting requirements are met, the carrying value of the hedged item is not adjusted, and the fair value changes on the related hedging instrument (to the extent that the hedge is effective) are deferred in the cash flow hedge reserve. This amount will then be transferred to the income statement at the time the hedged item effects the income statement. Ineffective hedges are recognised in the income statement immediately.

The SPV's exposures to interest rate and exchange rate risk are hedged using derivative financial instruments. All derivatives in the SPV's are designated as cash-flow hedges, thereby protecting the Group's income statement from significant volatility.

11. *Mortgage Management Special Purpose Vehicles (SPV) (continued)*

The balance sheet and cash flow statement for the securitised Special Purpose Vehicles before intersegment eliminations with Mortgage Management is contained below. It may vary to the numbers disclosed for the SPV in the consolidated Group balance sheet due to these eliminations.

Balance Sheet	**As at**		
	31 Dec 2008 $M	**30 Jun 2008 $M**	**31 Dec 2007 $M**
Assets - securitised			
Cash and cash equivalents	899.9	956.0	1,124.2
Receivables	17,262.1	18,888.3	20,287.8
Derivative assets	-	19.0	4.9
Other assets	-	6.0	17.1
Total assets	18,162.0	19,869.3	21,434.0
Liabilities - securitised			
Payables	69.8	90.7	95.2
Derivative liabilities	46.2	-	-
Interest bearing liabilities	18,092.2	19,765.3	21,335.4
Total liabilities	18,208.2	19,856.0	21,430.6
Net assets	**(46.2)**	**13.3**	**3.4**
Net assets attributable to unit holders			
Cash flow hedge reserve	(46.2)	13.3	3.4
Total net assets attributable to unit holders	**(46.2)**	**13.3**	**3.4**

Statement of Cash Flows for Securitised Special Purpose Vehicles

	Half year ended	
	Dec 2008 $M	**Dec 2007 $M**
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	880.3	909.2
Payments to suppliers and employees (inclusive of GST)	(772.4)	(797.7)
Net cash inflow from operating activities	107.9	111.5
Cash flows from investing activities		
Mortgage loans - advanced and purchased	(4,907.4)	(4,729.0)
Mortgage loans repaid and sold	6,534.9	4,379.7
Net cash inflows/(outflows) from investing activities	1,627.5	(349.3)
Cash flows from financing activities		
Proceeds from borrowings	4,180.2	7,822.7
Repayment of borrowings	(5,971.7)	(7,574.8)
Net cash (outflow)/ inflow from financing activities	(1,791.5)	247.9
Net (outflow)/inflow in cash and cash equivalents held	(56.1)	10.1
Cash and cash equivalents at the beginning of the period	956.0	1,114.1
Cash and cash equivalents at the end of the period	**899.9**	**1,124.2**

12. *Life business*

Life contract liabilities[1]

	As at		
	31 Dec 2008	**30 Jun 2008**	**31 Dec 2007**
	$M	**$M**	**$M**
Life investment contract liabilities - at fair value	4,424.8	3,663.4	3,770.3
Life insurance contract liabilities – at MoS[2] value	742.0	79.7	81.4
Total	**5,166.8**	**3,743.1**	**3,851.7**

[1] In accordance with AASB 1038: Life Insurance Contracts, policy liabilities are required to be classified as Life Insurance contracts or Life Investment contracts.
[2] Margin on Services methodology.

	6 months to 31 Dec 2008	**12 months 30 Jun 2008**	**6 months to 31 Dec 2007**
	$M	**$M**	**$M**
Life investment contracts liabilities			
Total life investment contracts at beginning of period	**3,663.4**	**2,027.1**	**2,027.1**
Key movements in Statutory Funds:			
New business premiums	302.8	766.6	406.4
Policy payments and claims	(552.9)	(998.9)	(461.7)
Transfer under court approved Part 9 scheme of arrangement	636.5	1,802.1	1,802.1
Policyholder liability adjustments (Note 2)	266.9	(123.6)	(92.0)
Policyholder acquisition and maintenance expenses (Note 3)	110.0	190.4	89.6
Other movements (Note 2)	(1.9)	(0.3)	(1.2)
Total life investment contracts at end of period	**4,424.8**	**3,663.4**	**3,770.3**
Life insurance contract liabilities			
Total life insurance contract liabilities at the beginning of the period	**79.7**	**83.0**	**83.0**
Key movements in statutory funds:			
Policy movements and claims	(7.0)	(6.9)	(3.5)
Transfer under court approved Part 9 scheme of arrangement	651.7	-	-
Policyholder liability adjustments (Note 2)	11.8	(0.3)	(0.3)
Policyholder acquisition and maintenance expenses (Note 3)	5.5	4.0	2.3
Other movements (Note 2)	0.3	(0.1)	(0.1)
Total life insurance contract liabilities at the end of the period	**742.0**	**79.7**	**81.4**

12. Life business (continued)

(a) Assumptions and methodology applied in the valuation of life insurance and investment contract liabilities

Expense assumptions were revised in the period as a result of the increased size of the annuity book with the take on of the National Mutual Life Insurance Association of Australia Limited (AXA) portfolio. Servicing costs were expected to reduce per policy in the larger combined book and this assumption has been included in the valuation model. Discount rates have been determined as a margin to a zero-coupon inter-bank swap curve taking account of observable market rates including federal government guaranteed bank debt and semi-government securities.

For full details of other assumptions please refer to the Annual Report for the year ended 30 June 2008.

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(b) Life insurance risk

The sole life insurance risk of CL2 is annuitant mortality rates. CL2 has historically mitigated the majority of any adverse financial impact on its historical book arising from annuitant mortality rates by reinsuring (ceding) this risk with a specialist reinsurance company. During the period, a portfolio of lifetime annuities was transferred from AXA. The risk from annuity mortality rates on this portfolio is not currently reinsured. The risk is being managed with the existing risk management procedures.

(c) Restrictions on assets

Investments held in the CL2 Funds can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that the assets in a Fund can only be used to meet the liabilities and expenses of that Fund, to acquire investments to further the business of the Fund or as distributions when solvency and capital adequacy requirements are met.

13. *Contributed equity*

	As at					
	31 Dec 2008 No. of shares M	31 Dec 2008 $M	30 June 2008 No. of shares M	30 June 2008 $M	31 Dec 2007 No. of shares M	31 Dec 2007 $M
(A) Shares on issue						
Ordinary shares	554.5	1,414.0	581.7	1,462.4	581.5	1,461.1
LTIP shares held in trust and treated as treasury shares	40.7	117.5	46.2	135.2	49.5	145.7
CPP shares held in trust and treated as treasury shares	13.0	45.0	4.5	24.5	4.7	25.8
	608.2	**1,576.5**	**632.4**	**1,622.1**	**635.7**	**1,632.6**
(B) Movement in shares on issue						
Ordinary shares						
Opening balance	581.7	1,462.4	538.8	1,259.9	538.8	1,259.9
Issue of new shares	-	-	40.0	207.5	40.0	207.5
Shares issued under share based payment plan net of shares cancelled	0.2	0.4	7.4	19.5	7.4	19.5
Shares purchased for CPP	(8.5)	(20.5)	(4.5)	(24.5)	(4.7)	(25.8)
Shares purchased and cancelled under share buy-back	(18.9)	(28.3)	-	-	-	-
Closing balance	**554.5**	**1,414.0**	**581.7**	**1,462.4**	**581.5**	**1,461.1**
LTIP						
Opening balance	46.2	135.2	57.5	167.2	57.5	167.2
Redeemed shares forfeited by leavers	(5.3)	(17.3)	(3.8)	(12.5)	(0.5)	(2.0)
Vested shares transferred to ordinary shares	(0.2)	(0.4)	(7.5)	(19.5)	(7.5)	(19.5)
Closing balance [1]	**40.7**	**117.5**	**46.2**	**135.2**	**49.5**	**145.7**
CPP Trust						
Opening balance	4.5	24.5	-	-	-	-
Shares purchased held in trust and treated as treasury shares	9.9	25.2	4.7	25.8	4.7	25.8
Shares transferred to employees	(1.4)	(4.7)	(0.2)	(1.3)	-	-
Closing balance	**13.0**	**45.0**	**4.5**	**24.5**	**4.7**	**25.8**

1 The shares on issue exclude vested shares under the executive share based payments scheme (LTIP), which have not yet been settled. This can be represented as follows:

	As at		
	31 Dec 2008 No. of Shares M	30 Jun 2008 No. of Shares M	31 Dec 2007 No. of Shares M
Ordinary Shares			
Issued	581.5	600.4	600.4
LTIP vested but not settled	(14.0)	(14.2)	(14.2)
CPP shares hedging CPP rights	(13.0)	(4.5)	(4.7)
	554.5	581.7	581.5
LTIP			
Unvested	26.7	32.0	35.3
LTIP vested but not settled	14.0	14.2	14.2
	40.7	46.2	49.5

13. *Contributed equity (continued)*

(a) Terms and conditions of shares
There have been no changes in the terms and conditions of shares. Please refer to the Financial Report for 30 June 2008 for further details.

(b) Capital risk management
Long term credit ratings for the Group and Challenger Life No.2 Limited (CL2) as at the balance date are shown below. There were no changes to these ratings throughout the financial period. The outlook for both entities has been revised to 'negative' from 'stable', reflecting the impact of ongoing difficult global financial market conditions.

Entity:	Ratings Agency	Long Term Credit Rating	Outlook
Challenger Financial Services Group Limited	Standard & Poor's	BBB+	Negative
Challenger Life No. 2 Limited	Standard & Poor's	A	Negative

To maintain the preferred investment grade rating the Capital Management Plan targets a net gearing ratio within a range of 25% - 35%. The gearing ratio at balance date is shown in the table below and throughout the financial year the gearing ratio was maintained consistently below the Capital Management Plan targets.

	31 Dec 2008 $M	30 Jun 2008 $M	31 Dec 2007 $M
Recourse debt			
Corporate banking facility	350.0	-	50.0
Medium term notes	250.0	250.0	250.0
Loan from associates	-	-	45.0
	600.0	250.0	345.0
Less: Cash and cash equivalents (available to Group)	365.0	240.8	181.0
Net recourse debt	235.0	9.2	164.0
Total equity (excluding minority interest)	1,365.8	1,612.9	1,745.0
Total capital	1,600.8	1,622.1	1,909.0
Net gearing ratio (%)	14.7%	0.6%	8.6%

The details of the recourse debt are provided at Note 10. The Group currently targets a dividend payout ratio of approximately 30% of normalised profit after tax. There were no material changes to the Group's Capital Management Plan during the period.

Capital Management Plan – CL2

Challenger Life No.2 Limited (CL2) is a life insurance company regulated under the Life Insurance Act 1995 (the Act). The Act imposes minimum statutory capital requirements, as set out in Prudential Standards issued by APRA, on all life insurance companies. At all times during the period CL2 complied with these requirements.

CL2's resources available to meet statutory capital requirements at balance date are set out in the table below:

Capital resources	31 Dec 2008 $M	30 Jun 2008 $M	31 Dec 2007 $M
Shareholder equity[1]	863	911	1,089
Subordinated debt	482	555	567
Total regulatory capital	1,345	1,466	1,656
Solvency reserve			
Solvency reserve %	36.6	31.6	32.1
Coverage of solvency reserve (times)	1.4	1.8	1.7

[1] Shareholder equity for CL2 is on a regulatory basis as defined for the APRA solvency calculations

14. *Reserves*

	As at		
	31 Dec 2008 $M	30 Jun 2008 $M	31 Dec 2007 $M
Equity option premium reserve			
Opening balance	125.1	61.7	61.7
Options issued to Colony Marlin-Holdings, LLC	-	63.4	63.4
Closing balance	125.1	125.1	125.1
Share based payments premium reserve			
Opening balance	34.2	23.6	23.6
Share based payments for the period	8.3	10.6	(0.7)
Closing balance	42.5	34.2	22.9
Available for sale investment revaluation reserve			
Opening balance	(2.4)	-	-
Currency translation difference	5.9	(6.9)	-
Revaluation (loss)/gain net of tax taken to reserve	(1.2)	(37.3)	(19.5)
Impairment loss taken to income statement	0.7	41.8	-
Closing balance	3.0	(2.4)	(19.5)
Cash flow hedge reserve			
Opening balance	-	1.7	1.9
Transfer of gain/(loss) to income statement	-	(1.7)	(1.9)
Charged to equity	2.3	-	-
Closing balance	2.3	-	-
Cash flow hedge reserve from SPV			
Opening balance	13.3	(4.1)	(4.1)
Charged to equity	(59.5)	17.4	7.5
Closing balance	(46.2)	13.3	3.4
Total reserves	**126.7**	**170.2**	**131.9**

15. *Segment information*

The presentation of these results is the same as that provided to the chief operating decision maker as required under AASB 8. The Group operates in Mortgage Management, Life, Funds Management and Corporate segments.

The Mortgage Management segment is a white label funding provider for the commercial and residential mortgage lending market. The segment also distributes mortgages through ownership of broker aggregation platforms.

Life includes annuity and life insurance business carried out by Challenger Life No.2 Limited. The company invests in assets providing long term income streams for policy holders.

Funds Management earns fees from its operations in the funds management and specialised funds fields providing an end to end funds management business as well as managing four listed funds and a number of unlisted funds mandates.

Corporate includes eliminations and non-core activities of the Group. Corporate expenses consist of costs that fall outside the day-to-day operations of Life, Mortgage Management and Funds Management. These costs include the costs of the Group CEO and CFO, shared services across the Company, directors' fees, corporate borrowings and associated borrowing costs and shareholder registry service for the Group.

15. *Segment information (continued)*

The reportable segments of the Group have been identified as follows:

$M	Mortgage Management		Funds Management		Life		Corporate and other[2]		Total consolidated	
	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Management view[1]										
Total segment revenue	99.0	85.0	62.2	103.1	121.5	95.1	1.0	6.5	283.7	289.7
Operating expenses	(36.0)	(33.0)	(49.3)	(65.7)	(12.0)	(13.3)	(27.7)	(24.2)	(125.0)	(136.2)
Normalised EBIT	**63.0**	**52.0**	**12.9**	**37.4**	**109.5**	**81.8**	**(26.7)**	**(17.7)**	**158.7**	**153.5**
Interest and borrowing costs	-	-	-	-	-	-	(17.2)	(25.7)	(17.2)	(25.7)
Normalised net profit/(loss) before tax, impairment, significant items and investment experience	**63.0**	**52.0**	**12.9**	**37.4**	**109.5**	**81.8**	**(43.9)**	**(43.4)**	**141.5**	**127.8**
Investment experience	-	-	-	-	(305.4)	(6.8)	-	-	(305.4)	(6.8)
Net profit/(loss) before tax	**63.0**	**52.0**	**12.9**	**37.4**	**(195.9)**	**75.0**	**(43.9)**	**(43.4)**	**(163.9)**	**121.0**
Income tax benefit/(expense)									56.0	(28.6)
Net (loss)/profit) after tax from continuing operations									**(107.9)**	**92.4**
Net (loss)/profit after tax from discontinued operations[3]									-	3.3
Net profit/(loss) after tax from reportable segments									**(107.9)**	**95.7**
Segment assets	1,179.7	836.2	106.0	152.9	7,624.1	6,408.8	18,878.9	22,072.7	27,788.7	29,470.6
Segment liabilities	(522.6)	(291.2)	(19.9)	(18.0)	(6,795.3)	(5,365.4)	(18,785.4)	(22,195.5)	(26,123.2)	(27,870.1)
Net assets from continuing operations	**657.1**	**545.0**	**86.1**	**134.9**	**828.0**	**1,043.4**	**93.5**	**(122.8)**	**1,665.5**	**1,600.5**
Net assets from discontinued operations									**-**	**145.4**
Total net assets									**1,665.5**	**1,745.9**
Statutory view:										
Revenue from external customers	962.8	937.2	73.6	131.8	(123.7)	271.3	(2.9)	(0.6)	909.8	1,242.3
Interest income	12.7	10.6	0.1	2.3	128.5	99.0	11.6	8.7	152.9	119.0
Interest expense	(700.6)	(771.8)	-	(0.1)	(41.8)	(42.3)	(21.6)	(18.2)	(764.0)	(832.4)
Intersegment revenue	6.5	7.0	4.6	12.6	(4.6)	-	(6.5)	(12.1)	-	-
Impairment	-	-	-	-	(0.7)	-	-	-	(0.7)	-
Depreciation and amortisation	(39.3)	(45.8)	-	(0.2)	(1.6)	(2.1)	(2.9)	(2.2)	(43.8)	(49.7)

1 Management view is as described in the Directors' report as this presentation more closely reflects the key value drivers and core operations of the Group.
2 In December Corporate balance sheet also includes the net assets of Challenger Diversified Properties Group and mortgage management SPV's.
3 The Financial Planning division was disposed of on 30 June 2008 and so has been removed from the segment note as it is no longer reported to the chief operating decision maker.

16. *Statement of cash flows*

Reconciliation of profit after income tax to net cash flows from operating activities:

	31 Dec 2008 $M	31 Dec 2007 $M[1]
(Loss)/Profit after tax	**(107.9)**	**95.7**
Adjustments for:		
(Profit)/loss on sale of investments	390.4	(46.1)
Net unrealised (gains)/losses on investments	(403.0)	81.8
Loss attributable to minority interest	(2.3)	4.9
Share of associates' net (profit)/loss	(1.5)	(1.8)
Amortisation and depreciation	7.5	52.3
Policy liabilities loss/(gain)	246.3	(93.6)
Policy liabilities acquisitions and maintenance expenses	115.5	91.9
Other	-	0.5
Change in assets and liabilities, net of effects from purchase of controlled entity:		
(Increase)/decrease in receivables	(261.2)	101.8
(Increase) in other assets	(4.4)	(43.4)
Increase/(decrease) in payables	70.4	(143.9)
(Decrease)/increase in provisions and employee benefits	(1.6)	15.3
(Increase) in deferred tax assets/liabilities	(110.6)	(9.3)
Net cash (outflow)/inflow from operating income	**(62.4)**	**106.1**

[1] Comparatives were previously shown gross of SPV cashflows and have been restated downwards by $51.6 million.

17. *Significant transactions*

(a) Business combinations

On 30 September 2008, the Group announced that it had acquired the remaining 85% of Plan Group Holdings Pty Limited (PLAN) (15% was acquired in December 2005).

The transferred operations contributed revenues of $59.8 million and net profit after tax of $2.9 million to the group from 1 October 2008 to 31 December 2008. If the transfer had occurred on 1 July 2008, consolidated revenue and consolidated profit after tax for the six months ended 31 December 2008 would have been $109.6 million and $2.9 million respectively.

During the period, the Group has purchased a number of units in the Challenger Diversified Property Group (CDI). This is an ASX listed Group comprising Challenger Diversified Property Trust 1 and Challenger Diversified Property Trust 2 resulting in a total unit holding of 43% of CDI at 31 December 2008. At this date it was determined that the Challenger Group had achieved control over CDI and its assets and liabilities have been consolidated into the Group at balance date. A discount on acquisition has arisen after the Group's reassessment of the acquired entities' identifiable assets and liabilities and the cost of acquisition, and has been recognised in the Group's statutory net profit in the current period.

Given the acquisition date of 31 December 2008, there is no operating profit or loss in the income statement from CDI for the period. CDI incurred losses after tax of $58.6m for the six months ended 31 December 2008.

Purchase consideration of PLAN and CDI

Details of the fair value of the assets and liabilities acquired and goodwill/(discount) on acquisition are as follows:

	PLAN[1]	CDI[2,]
	$M	$M
Cash and other assets	78.1	0.6
Total purchase consideration	**78.1**	**0.6**
Non-controlling interest in acquiree	-	275.0
Fair value of previously held equity interest	10.6	136.5
Less: Fair value of net identifiable assets acquired	(16.7)	(478.5)
Goodwill/(discount on acquisition)	**72.0**	**(66.4)**

[1]Goodwill relates to the future expected earnings arising from the PLAN assets acquired. PLAN numbers are provisional.
[2]Uplift on CDI represents difference between market value of the 43% held and that proportion of the fair value of net assets acquired. Fair value of previously held equity interest is calculated using listed unit market price at date of acquisition

17. *Significant transactions (continued)*

Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	PLAN		CDI	
$M	**Acquiree's carrying amount**	**Fair value**	**Acquiree's carrying amount**	**Fair value**
Cash	-	-	5.9	5.9
Receivables	2.2	249.2	1.9	1.9
Investment Properties	-	-	865.4	865.4
Deferred tax asset	0.6	66.7	0.3	0.3
Intangible assets/goodwill	126.5	-	-	-
Investments	4.4	-	-	-
Other assets	-	-	0.7	0.7
Payables	(64.7)	(284.9)	(29.6)	(29.6)
Provisions	-	(14.3)	(0.7)	(0.7)
Derivative liabilities	-	-	(21.9)	(21.9)
Interest bearing liabilities	-	-	(343.5)	(343.5)
Net assets	**69.0**	**16.7**	**478.5**	**478.5**

(b) AXA transfer

On 25 November 2008 the Federal Court of Australia approved the transfer of the AXA annuity liabilities to Challenger Life No.2 Limited (CL2). The transfer was successfully completed on 28 November 2008.

The transfer resulted in a $1.319 billion increase in cash and debt security assets and an increase of $1.288 billion in life investment and insurance contract liabilities of CL2. A gain of $30.8 million was recognised on the transfer. This gain arose as a result of reversing previously recognised losses on life insurance contracts and the application of the CL2 valuation assumptions.

AXA transfer details

Details of the fair value of the assets and liabilities transferred from AXA are as follows:

$M	**Fair value**
Assets	
Cash	554.8
Receivables	53.0
Debt securities	711.2
	1,319.0
Liabilities	
Policy liabilities	
	1,288.2
Net fair value release on transfer	**30.8**

18. Discontinued operations

The disposal of the Financial Planning Division was completed on 30 June 2008. The results and earnings per share impact of the Financial Planning Division for the half year ended 31 December 2007 are presented below:

	Half year ended 31 Dec 2007 $M
Revenue	94.7
Expenses	(90.1)
Profit before tax on discontinued operations	4.6
Tax expense	(1.3)
Profit from discontinued operations	**3.3**

Earnings per share – cents per share	**Half year ended 31 Dec 2007 cents**
- Basic from discontinued operations	0.6
- Diluted from discontinued operations	0.5

The net cash flows of the Financial Planning Division for the half year ended 31 December 2007 are as follows:

	Half year ended 31 Dec 2007 $M
Operating cash flows	4.9
Investing cash flows	1.0
Financing cash flows	(10.3)
Net cash inflow	**(4.4)**

19. Subsequent events

As at the date of this report no other matter or circumstance has arisen that has affected or may significantly affect:

i) the Group's operations in future financial years; or
ii) the results of those operations in future financial years; or
iii) the Group's state of affairs in future financial years.

20. Contingent liabilities, contingent assets and credit commitments

Litigation
A class action, on behalf of a minority of the number of investors in the Challenger Howard Property Trust for Penrith Mega Homemaker Centre Sydney (the trust), has been filed in the Supreme Court of New South Wales against Challenger Managed Investments Limited, a controlled subsidiary and responsible entity for the trust. Challenger Managed Investments Limited is defending the proceedings and denies the allegations made against it.

Warranties
The Group over the course of its corporate activity has given, as a seller of companies and as a vendor of real estate properties, warranties to purchasers on several agreements which are still outstanding at 31 December 2008. At the date of this report no material claims against these warranties have been received by the Group.

The Victorian State Revenue Office has raised an assessment for stamp duty in respect of certain properties acquired by the Challenger Diversified Property Group as part of the initial public offering of this entity. Challenger has lodged an objection to the assessment. The Victorian State Revenue Office is considering the matter. The directors are of the view that no material loss will be incurred.

Parent Entity Guarantees and Undertakings
Excluded from the consolidated accounts are the following guarantees and undertakings extended to entities in the Group by Challenger Financial Services Group Limited (the parent):

i) Cross guarantee supporting the Medium Term Note and the corporate banking facility.

ii) Issue of letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise Challenger Financial Services Group Limited has a responsibility to ensure that those subsidiaries continue to meet their obligations.

iii) Australian Financial Services Licence (AFSL) deeds of undertaking as an eligible provider.

Third Party Guarantees
Bank guarantees have been issued by a third party financial institution 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.

Commitments
Challenger Life No. 2 Limited has capital commitments that it has made to external counterparties for future investment opportunities such as development or investment purchases. At the date of this report there are commitments totalling $173.2 million (June 2008: $93.8 million) in relation to these opportunities.

Other Information
In the normal course of business, the Group enters into various types of business contracts that could give rise to contingent liabilities in relation to performance obligations under those contracts by certain members of the group.

The information usually required by AASB 137 Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the grounds that it may seriously prejudice the outcome of the claims. At the date of this report significant uncertainty exists regarding any potential liability under these claims, however the Directors are of the opinion that no material loss will be incurred.

Directors' Declaration

In accordance with a resolution of the directors of Challenger Financial Services Group Limited, we declare that in the opinion of the directors:

a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, and:

   (i) give a true and fair view of the financial position of the consolidated entity as at 31 December 2008 and the performance for the half year ended on that date; and

   (ii) comply with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board.

D J Stevens
Director

Sydney 13 February 2009

G A Cubbin
Director

Sydney 13 February 2009

Independent interim review report

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

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

To the members of Challenger Financial Services Group Limited

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Challenger Financial Services Group Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the period ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period end or from time to time during the period.

Directors' Responsibility for the Interim Financial Report

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Challenger Financial Services Group Limited and the entities it controlled during the period, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Challenger Financial Services Group Limited is not in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the six months ended on that date; and

ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

S J Ferguson
Partner
Sydney
13 February 2009

Liability limited by a scheme approved under Professional Standards Legislation

Investor Information

a) ASX listing

Challenger Financial Services Group Limited shares are listed on the ASX under code CGF and company information, as well as trading information, can be accessed via the ASX website at www.asx.com.au. Share prices can also be accessed on Challenger's website at www.challenger.com.au.

b) Key dates

Shareholders may like to note the following key dates:

Ex – dividend date for 2009 interim dividend	19 March 2009
Record date for the 2009 interim dividend	25 March 2009
Dividend payment date	17 April 2009

c) Shareholder queries

Please contact Computershare Investor Service for information about the Challenger Financial Services Group Limited share registry if you have any questions about your shareholding.

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street, Sydney NSW 2000.
Investor queries 1800 780 782
Facsimile +61 2 8234 5050

To assist with all enquiries, please quote your current address and Security Reference Number (SRN) when speaking with Computershare's associates.

Appendix 1 – ASX Appendix 4D (rule 4.2A)

Reporting period and previous corresponding period details
Reporting period: 31 December 2008
Previous corresponding reporting period: 31 December 2007

Cross reference index	Page
Results for Announcement to the market (4D item 2)	1
Dividends (4D item 5)	1
Dividend dates (4D item 5)	1
Dividend reinvestment plan (4D item 6)	Challenger Financial Services Group Limited has suspended its Dividend Re-investment Plan.
Net tangible assets per security (4D item 3)	See below
Commentary on results	3

Details of entities over which control was lost during the period
N/A

Details of entities over which control was gained during the period
Refer to 31 December 2008 Interim Financial Report.
Note 17: Significant Transactions.

Details of associates and joint ventures 4D item 7

As at 31 December 2008	Ownership interest held
Greencape Capital Pty Limited	25%
Five Oceans Asset Management Pty Ltd	25%
Kapstream Capital Pty Ltd	25%
Homeloans Pty Ltd	40%
Kinetic Investment Partners Limited	19.9%
Wavestone Capital Pty Limited	27.5%
Ardea Investment Management Pty Limited	30%

Any other significant information
There is no other significant information other than as disclosed in Note 20.

Post balance date events
There have been no significant events occurring since the balance sheet date other than as disclosed in Note 19.

Foreign Entities 4D item 8
Not applicable.

Net tangible assets per security 4D item 3

Description	31 December 2008	31 December 2007
Net assets ($ millions)	1,665.5	1,745.9
Net tangible assets ($ millions)	942.0	918.2
Ordinary shares (millions)	554.5	581.5
Net assets per security ($)	3.00	3.00
Net tangible assets per security ($)	1.70	1.58

C Robson

Christopher Robson
Company Secretary
13 February 2009

DIRECTORY

Principal registered office in Australia	Level 15 255 Pitt Street SYDNEY NSW 2000 Tel (02) 9994 7000 Fax (02) 9994 7777
Directors	Peter Polson (Independent Chairman) Dominic Stevens (Chief Executive Officer and Managing Director) Graham Cubbin Thomas Barrack Jr. Russell Hooper Ashok Jacob James Packer Tatsuo Tanaka Leon Zwier
Secretaries	Christopher Robson Suzanne Koeppenkastrop
Share Register	Computershare Investor Services Pty Limited Level 3, 60 Carrington Street SYDNEY NSW 2000 Tel (02) 8234 5000 Fax (02) 8234 5050 Website: www.computershare.com.au
Auditor	Ernst & Young 680 George Street SYDNEY NSW 2000
Internet Address	www.challenger.com.au