Challenger Financial Services Group Limited

and its controlled entities

2009 ANNUAL FINANCIAL REPORT AND APPENDIX 4E

Challenger Financial Services Group Limited ACN 106 842 371

Appendix 4E

Financial Report for the year ended 30 June 2009

Results for announcement made to market [1]	**2009 $M**	**2008 $M**	**Change %**
Revenue from ordinary activities	**1,973.0**	2,465.0	(20.0)
Net loss from ordinary activities after tax attributable to members	**(90.7)**	(44.2)	(105.0)
Net loss for the period attributable to members	**(90.7)**	(44.2)	(105.0)

Normalised profit after tax and before investment experience and significant items for the year ended 30 June 2009 increased by 0.5% to $218.9 million (2008 - $217.9 million).

Dividends

	2009 Cents	**2008 Cents**	**Change %**
Interim dividend - unfranked (2008: 100% franked) (cents per share)	**5.0**	5.0	-
Final dividend - unfranked (2008: 60% franked) (cents per share)	**7.5**	7.5	-
Total dividend (cents per share)	**12.5**	12.5	-

Record date for determining entitlements to be paid	**23 September 2009**
Payment date for dividend	**16 October 2009**

(1) Rule 4.2.C.3

Refer Appendix 1 ASX Appendix 4E on page 146 for disclosures required under ASX Listing Rules.

This report is based on the Annual Financial Report which has been audited. The report covers Challenger Financial Services Group Limited (the Company) and its controlled entities (the Group).

This report should be read in conjunction with the 30 June 2009 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.

Except where otherwise stated, all figures relate to the full year ended 30 June 2009 and comparatives to the full year ended 30 June 2008.

For the year ended 30 June 2009

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Directors' report

The Directors of Challenger Financial Services Group Limited ('the Company') submit their report together with the financial report of the Company and its controlled entities ('the Group'), for the year ended 30 June 2009.

1. Directors

The names and details of the Company's directors holding office during the financial year and until the date of this report are as listed below. Directors were in office for this entire period unless otherwise stated.

Peter L Polson

Independent Chairman

Experience/qualifications
Mr Polson holds a Bachelor of Commerce degree from the Witwatersrand University in South Africa, a Master of Business Leadership from the University of South Africa and has completed the Harvard Management Development program.

Mr Polson retired from the Commonwealth Bank in October 2002, where he held the position of Group Executive, Investment and Insurance Services. Mr Polson joined the Colonial group in 1994 prior to its acquisition by the Commonwealth Bank. Previously, Mr Polson was Managing Director of National Mutual Funds Management (International) Limited. Mr Polson was a director of the previously listed company Australian Leisure and Hospitality Group Limited. Mr Polson has been a director of the Company since 6 November 2003.

Special responsibilities
Mr Polson is Chairman of the Remuneration Committee, Chairman of the Nomination Committee and is a member of the Group Audit and Compliance Committee.

Directorships of other listed companies
Mr Polson is Chairman of AWB Limited (appointed as a director on 31 March 2003).

Dominic J Stevens

Chief Executive Officer and Managing Director

Appointed 1 September 2008.

Experience/qualifications
Prior to accepting the role of Chief Executive Officer in September 2008, Dominic Stevens was Deputy Managing Director of Challenger.

Mr Stevens joined Challenger in September 2003 during which time he primarily held responsibility for overseeing Challenger's capital, risk management and strategy group.

Prior to joining Challenger, Mr Stevens led the foundation and was the Senior Managing Director of Zurich Capital Markets in the Asian region. Zurich Capital Markets Asia, specialised in the areas of structured finance, derivative solutions and provision of risk management products to investors in alternative assets.

From 1987 to 1999 Mr Stevens held a number of senior roles at Bankers Trust. Mr Stevens was a Partner of Bankers Trust Company, where he headed the Bankers Trust commodity businesses globally (ex energy). In addition Mr Stevens was responsible for the derivatives risk management business at Bankers Trust Australia.

Mr. Stevens was awarded a Bachelor of Commerce (Hons) Finance in 1986 from the University of New South Wales, Sydney Australia.

Directorships of other listed companies
Mr Stevens was a director of Homeloans Limited from 3 May 2007 until 28 October 2008.

Thomas Barrack Jr.

Non-Executive Director
Independent

Experience/qualifications
Mr Barrack received a Juris Doctor in Law from the University of San Diego and also holds a Bachelor of Arts degree from the University of Southern California.

Mr Barrack is the Founder, Chairman and Chief Executive Officer of Colony Capital, LLC and Colony Advisors, LLC. Prior to forming Colony, Mr Barrack was a principal with the Robert M. Bass Group, Inc. Mr Barrack also served in the Reagan Administration as Deputy Under Secretary of the Department of the Interior. Previously, Mr Barrack was a Senior Vice President at EF Hutton in New York City and President of Oxford Development Ventures, Inc. Mr Barrack was appointed as a director on 22 November 2007.

Special responsibilities
Mr Barrack is a member of the Nomination Committee.

Graham A Cubbin

Non-Executive Director
Independent

Experience/qualifications
Mr Cubbin holds a Bachelor of Economics (Hons) from Monash University and is a Fellow of the Australian Institute of Company Directors.

Mr Cubbin was a Senior Executive with Consolidated Press Holdings Limited (CPH) from 1990 until September 2005, including Chief Financial Officer for 13 years. Prior to joining CPH, Mr Cubbin held senior finance positions with a number of major companies including Capita Financial Group and Ford Motor Company. Mr Cubbin has been a director of the Company since 6 January 2004.

Special responsibilities
Mr Cubbin is a member of the Group Audit and Compliance Committee and the Nomination Committee.

Directorships of other listed companies
Mr Cubbin is a non-executive director of STW Communications Limited (appointed 20 May 2008) and a non-executive director of Bell Financial Group Limited (appointed 12 September 2007).

Russell R Hooper

Non-Executive Director
Independent

Experience/qualifications
Mr Hooper is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Society of Practicing Accountants, a Fellow of the Financial Services Institute of Australasia and has completed the Advanced Management Program, Harvard Business School.

He has experience at chief executive level in life insurance, wealth management and listed investment trusts. Mr Hooper has been a director of the Company since 6 November 2003.

Special responsibilities
Mr Hooper is the Chair of the Group Audit and Compliance Committee, a member of the Remuneration Committee and the Nomination Committee.

Directorships of other listed companies
Mr Hooper is a director of Century Australia Investments Limited (appointed 12 September 2006).

Ashok P Jacob

Non-Executive Director

Experience/qualifications
Mr Jacob is Chief Executive Officer of Consolidated Press Holdings Limited (CPH). Prior to joining CPH in 1998, Mr Jacob was the Managing Director of the investment arm of the Pratt group of companies. Mr Jacob has been a director of the Company since 6 November 2003.

Mr Jacob holds a Master of Business Administration from the Wharton School and a Bachelor of Science from the University of Pennsylvania.

Special responsibilities
Mr Jacob is a member of the Nomination Committee.

Directorships of other listed companies
Mr Jacob is a director of Consolidated Media Holdings Limited (appointed 9 November 1998), Crown Limited (appointed 6 July 2007) and Ellerston Capital Limited (appointed 6 August 2004).

James D Packer

Non-Executive Director

Experience
Mr Packer is Executive Chairman of Consolidated Press Holdings Limited. Mr Packer has been a director of the Company since 6 November 2003.

Special responsibilities
Mr Packer is a member of the Remuneration Committee and the Nomination Committee.

Directorships of other listed companies
Mr Packer is Executive Chairman of Crown Limited (appointed 6 July 2007) and Executive Deputy Chairman of Consolidated Media Holdings Limited (appointed 28 April 1992). Mr Packer is also the Chairman of SEEK Limited (appointed 31 October 2003).

Mr Packer is also a director Ellerston Capital Limited (appointed 6 August 2004). Mr Packer was a director of Qantas Airways Limited from 1 March 2004 until 31 August 2007 and of the Sunland Group Limited from 20 July 2006 to 13 August 2009.

Tetsuya Wada

Non-Executive Director

Mr Wada was appointed to office on 21 May 2009

Experience/qualifications

Mr Wada is Managing Executive Officer, Chief Executive Officer for Asia and Oceania of the Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU), the largest commercial bank in Japan and a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc. (MUFG). Prior to this, Mr Wada held senior executive positions in BTMU and MUFG. Those positions include Managing Director, Chief Executive Officer for the retail business of BTMU and Managing Executive Officer, Chief Executive Officer for the retail business of MUFG.

Mr Wada holds an MBA from Ann Arbor, University of Michigan and a Bachelor of Law from Kyoto University.

Special responsibilities

Mr Wada is a member of the Nomination Committee.

Leon Zwier

Non-Executive Director
Independent

Experience/qualifications

Mr Zwier is a partner in the law firm Arnold Bloch Leibler. Mr Zwier holds a Bachelor of Laws from The University of Melbourne. Mr Zwier is a member of the External Advisory Committee of the Department of Business Law and Taxation (Monash University) and is an Honorary Fellow of the same department. Mr Zwier has been a director of the Company since 15 September 2006.

Special responsibilities

Mr Zwier is a member of the Nomination Committee.

Michael Tilley

Chief Executive Officer - retired

Mr Tilley retired from office on 31 August 2008.

Experience/qualifications

Mr Tilley holds a Post Graduate Diploma in Business Administration from the Swinburne University in Victoria, Australia.

Mr Tilley was previously Vice-Chairman, Investment Banking Group, JP Morgan, a position he resigned from upon his appointment as Chief Executive Officer (CEO) of the Company in June 2004. Until 31 March 2003, Mr Tilley was a director of Incitec Limited.

Prior to this, up until February 2002, Mr Tilley was employed with investment bank Merrill Lynch where he held the positions of Executive Chairman, Merrill Lynch (Australasia), Head of Mergers and Acquisitions in the Asia Pacific region, and was a member of the Merrill Lynch Asia Executive Committee. Prior to joining Merrill Lynch in 1997, Mr Tilley was principal and a Managing Partner of Centaurus Corporate Finance Pty Limited and before that a partner at Deloitte Touche Tohmatsu. Mr Tilley is a past member of the Australian Takeovers Panel. Mr Tilley was a director of the company from 6 November 2003.

Directorships of other listed companies

Mr Tilley is a director of Orica Limited (appointed 10 November 2003).

Tatsuo Tanaka

Non-Executive Director

Mr Tanaka resigned from office on 21 May 2009.

Experience/qualifications

Mr Tanaka holds a Bachelor of Arts in Law from Keio University, Japan.

Mr Tanaka is Deputy President and Chief Executive of the Global Business Unit for The Bank of Tokyo-Mitsubishi UFJ, Limited (BTMU), where he has held this position since June 2008. Prior to this, Mr Tanaka held senior executive positions in BTMU. Mr Tanaka was appointed as a director of the Company on 22 November 2007.

Special responsibilities

Mr Tanaka was a member of the Nomination Committee.

2. Company Secretary

Christopher Robson was appointed to the position of Company Secretary in March 2005. Mr Robson is also the Group General Counsel. He has been qualified as a solicitor for over 20 years, with 16 years experience in the financial services industry.

Suzanne Koeppenkastrop was appointed to the position of Company Secretary in October 2006. Ms Koeppenkastrop is a qualified solicitor and head of the company secretariat team at Challenger. She has over 15 years experience in legal and company secretarial roles in the financial services industry.

3. Company information

The Company was incorporated in Victoria on 6 November 2003 and its shares were admitted to the official list for quotation on the Australian Stock Exchange on 23 December 2003. The registered office of the Company is Level 15, 255 Pitt Street, Sydney NSW 2000.

4. Principal activities

The principal activities of the Group during the year were the provision of financial services.

The Group's principal activities during the reporting period have remained unchanged, however as a result of an organisational restructure the principal activities undertaken by the divisional units has changed. These changes are summarised below.

Revised organisational structure
In November 2008, the Group revised its organisational structure in preparation for the next stage of strategic development. The key changes resulted in:

- the specialised funds component of the Asset Management division merging with the broader Funds Management division, consolidating the Groups funds management activities, and
- the APRA regulated Life Company component of the Asset Management division forming its own dedicated division referred to as Life.

As a result of these changes the Asset Management division ceased to exist.

At balance date, the following restructured divisional units were responsible for delivering the Group's principal activities.

Life
Manages a portfolio of assets delivering long term guaranteed income streams to annuitants and predictable over-the-cycle returns to shareholders.

Mortgage management
White label funding provider delivering competitive lending products to branded distributors and distribution through ownership of broker aggregation platforms.

Funds management
Manufactures and distributes quality investment products for both institutional and retail clients.

The principal activity of the Company is to act as a holding company for the Challenger Financial Services Group.

There have been no other significant changes in the nature of these activities during the year.

5. Operating and financial review

Challenger introduced an enhanced format for reporting its statutory earnings referred to as Normalised Cash Operating Earnings (COE) which is management's view of the underlying performance of Challenger Life Company Limited (CLC) and of the Group.

COE reports the underlying cash spread earned, that is, the cash yield on investment assets over the costs of funding on the investment assets within CLC together with the normalised or expected growth in the capital value of those investment assets.

In any given reporting period, the actual investment gains (both realised and unrealised revaluation movements) will vary to the normalised gains. The resulting investment experience net of the expected normalised gains is reported separately, in the COE format below.

As shown in the analysis provided below, the Group reported a normalised profit after tax result for the year of $218.9 million, up 0.5% ($1.0 million) on the prior year. This result was supported by growth in normalised EBIT of 3.0%. Interest and borrowing costs were $36.9 million (down 10.7%) due to a combination of lower average cost of debt and lower debt levels.

Group financial summary Management analysis	2009 $M	2008 $M	Change %
Income[1]			
Normalised cash operating earnings	250.8	207.9	20.6
Net fee income	318.8	348.1	(8.4)
Other income	9.2	10.7	(14.0)
Net income	578.8	566.7	2.1
Expenses[1]			
Total operating expenses	(259.0)	(256.2)	1.1
Normalised EBIT	319.8	310.5	3.0
Interest and borrowing costs	(36.9)	(41.3)	(10.7)
Discontinued operations	-	10.1	(100.0)
Normalised profit before tax	282.9	279.3	1.3
Tax	(64.0)	(61.4)	4.1
Normalised profit after tax	**218.9**	**217.9**	**0.5**
Investment experience after tax	(309.6)	(192.3)	(61.1)
Significant items after tax	-	(69.8)	(100.0)
Statutory (loss)/profit after tax	(90.7)	(44.2)	(105.2)
Normalised EBIT represented by:			
Life	227.5	184.8	23.1
Mortgage Management	136.1	100.1	36.0
Funds Management	18.0	68.4	(73.7)
Corporate	(61.8)	(42.9)	44.1
Normalised EBIT	319.8	310.4	3.0

[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 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 changes in normalised profit after tax were improvements in the cash spread earnings generated by the Life division as a result of the addition of the AXA portfolio in November 2008 (which drove the uplift in normalised cash operating earnings).

Higher profits were seen from Mortgage Management following the addition of Plan Group Holdings (PLAN) during the current period.

Funds Management's earnings declined for the period as a result of lower fees resulting from lower assets under management.

Corporate expenses increased during the year mainly as a result of non-recurring restructure expenses.

After allowing for the investment experience losses of $309.6 million after tax (2008: $192.3 million) arising from the extreme volatility in global debt and equity markets during the period, the Group's statutory loss after tax for the year ended 30 June 2009 was $90.7 million (2008: loss after tax of $44.2 million).

As shown in the table below on a normalised basis, basic earnings per share (eps) increased 5.7% to 39.2 cents and diluted eps increased 8.5% to 38.4 cents compared to 2008. Both basic and diluted eps were impacted by the on market share buy back undertaken during the year.

Earnings per share	2009 cents	2008 cents
Basic – normalised	39.2	37.1
Diluted – normalised	38.4	35.4
Basic – statutory	(16.2)	(7.5)
Diluted – statutory	(15.9)	(8.1)

Key events during the 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 30 June 2009 4.9% 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, Challenger Life Company Limited (CLC), formerly Challenger Life No.2 Ltd, received federal court approval for the transfer of the $1.29 billion AXA annuity portfolio. The transfer of this annuity portfolio has contributed to Challenger's annuity book increasing to $4.6 billion at 30 June 2009, reaffirming the Group's leadership position in this sector.

CLC 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 at 31 December 2008.

The Funds Management Division continued it's expansion into the boutique area and signed up two new boutique fund managers: Wavestone Capital Pty Limited, an established Australian Equities absolute return manager and Ardea Investment Management Pty Limited, a new fixed income manager.

6. Likely developments and expected results

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Other than as disclosed in Note 11 of this Directors' Report, as at the date of this report no other matter or circumstances have arisen that has affected or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

7. Significant changes in the state of affairs

There were no significant changes to the state of affairs of the Group during the year ended 30 June 2009, other than as outlined in Note 4 above.

8. Environmental regulation and performance

The Group acts as a trustee or responsible entity for a number of trusts, which own assets both in Australia and overseas. These assets are subject to environmental regulations under both Commonwealth and State legislation. The Directors are satisfied that adequate systems are in place for the management of its 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.

9. Dividends

On 21 August 2009, the Directors of the Company declared a final dividend on ordinary shares in respect of the year ended 30 June 2009. The amount of the final dividend is $44.7 million which represents a dividend of 7.5 cents per share (2008: 7.5 cents per share) from current year profits and will be unfranked (2008: 60% franked).

The dividend has not been provided for in the 30 June 2009 financial statements. The final dividend is payable on 16 October 2009.

On 13 February 2009, the Directors of the Company declared an interim dividend on ordinary shares. The amount of the dividend was $29.6 million which represented an unfranked

dividend of 5.0 cents per share. This dividend was paid on 17 April 2009.

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

10. Indemnification and insurance of officers and Directors

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 involving lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud.

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 and its subsidiaries. The terms of the insurance policy, including the premium are subject to confidentiality clauses and as such the Company is prohibited from disclosing the nature of the liabilities covered and the premium. The Company has not given or agreed to give any indemnity to an auditor of the Group and has not paid any premium for insurance against that auditor's liabilities for legal costs.

11. Significant events after the balance date

The Group announced the sale of its Mortgage Management division on 18 August 2009 to National Australia Bank Limited (NAB). Under the terms of the sale, NAB will acquire the Mortgage Distribution and Multi Brand Lending Businesses, along with approximately $4 billion of residential mortgages held in warehouses for a consideration of $385 million. The transaction is subject to regulatory approvals and is not expected to close before 31 October 2009.

The sale to NAB includes the mortgage aggregation businesses of Plan, Fast and Choice, the multi branded mortgage origination business, approximately $4 billion of residential mortgages held in warehouses and the Group's 41% stake in the listed mortgage origination company, Homeloans Limited, (subject to Homeloans Limited shareholder approval).

The entitlement to the residual income units (RIUs) of the remaining residential mortgage loan special purpose vehicles (SPVs) not sold to NAB (backed by approximately $11 billion of mortgages) were transferred from the Mortgage Management division to Challenger Life Company Limited (CLC) within the Life division on 1 August 2009. The transfer was completed on arm's length, commercial terms for $575 million. The consideration paid reflects a value excluding any obligation for future trail commissions and amortisation of prior year acquisition costs pertaining to the loan portfolio. Although no change to the net asset position of the Group has arisen, the transfer was cash settled and so has increased the Group's financial flexibility since balance date.

The proceeds from the sale of the Mortgage Management division and from the cash settlement of the RIUs transferred to CLC will be used to retire the Group's major debt facilities/borrowings consisting of the Medium Term Note, Corporate Net Interest Margin Bond and Corporate bank facility as outlined in Note 19 to the Financial Statements.

The Group's controlled entity, Challenger Diversified Property Group (CDI), announced a $130 million capital raising on 6 August 2009 with a 4 for 7 pro-rata entitlement offer to eligible unitholders of CDI. As a major shareholder, CLC has subscribed for its entitlement under the offer and the Group has also agreed to sub-underwrite the offer. The Group owned approximately 44.3% of the CDI units on issue prior to the offer being announced.

Following these transactions, Challenger will be focusing purely on the significant opportunities that exist within the investment management activities of its Life and Funds Management businesses.

Other than the matters reported above no other matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years; or

(b) the results of those operations in future financial years; or

(c) the Group's state of affairs in future financial years.

12. Remuneration Report

This remuneration report describes the director and executive remuneration arrangements of the Company and the Group as required by the

Corporations Act 2001 and its Regulations. For the purposes of this report, Key Management personnel (Directors and Key Executives) of the Group are defined as the five highest remunerated executives in the parent and the Group who have authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

This remuneration report also includes a substantial body of information in addition to these statutory requirements which the Board believes will assist stakeholders in better understanding the Company's remuneration arrangements and in particular how individual reward outcomes are linked to the delivery of sustainable shareholder wealth creation.
The sections of the report are:

Section 1:
The Company's executive remuneration policy and framework and specific arrangements applicable to the Key Executives of the Group. The company's financial performance is incorporated to provide context to the remuneration approach.

Section 2:
Key executives' contractual arrangements and remuneration disclosure tables, including information on actual cash and short term incentives as well as long term incentives vested throughout the period.

Section 3:
Non-Executive director's remuneration
This report has been prepared and audited in accordance with the requirements under Section 300A of the Corporations Act 2001.

Significant Items of Note

CEO and Key Executives
On 1 September 2008, Dominic Stevens (formerly Deputy Managing Director) was appointed CEO. Following his appointment, Mr Stevens consolidated his management team to ensure the most suitable key executives were in roles to drive the business forward. Full details of these roles and remuneration details can be found in Section 2 of this remuneration report.

No Salary Package Increases for Key Executives
In view of the severe economic downturn and its impact on current and near term financial performance, the company has taken steps to restrain expenses. Consistent with this action, no Salary Package increases for the CEO and key executives will be paid arising from the September 2009 remuneration review.

No Cash Bonuses for Key Executives in 2009
No cash bonuses will be paid to key executives in respect of the 2009 year. Despite the strong normalised performance produced by the Company, in recognition of adverse market conditions and to align key executives with shareholders, bonuses earned in respect of 2009 will be fully deferred into performance rights that will only vest after the satisfaction of future employment conditions. Shareholder alignment is achieved as the value of the deferred performance rights has exposure to the future Challenger share price.

Capped Performance Rights
To supplement the long term incentive component of key executives' remuneration, in December 2008 Challenger issued capped performance rights to a select number of executives. In line with emerging regulatory guidelines, this new grant was introduced as a means of moderating executive risk-taking associated with incentive reward programs.

Board Changes
On 21 May 2009 Mr Tatsuo Tanaka resigned from the Challenger Board. Mr Tanaka was replaced by Mr Tetsuya Wada.

Non-Executive Director Fee Pool
No increase to the non-executive director fee pool will be sought for 2009. Full details of the remuneration arrangements paid to the non-executive directors are in Section 3.

1. Executive Remuneration

The CEO and key executives whose remuneration is detailed in this report are:

Name	Current Role	Date effective role change	Former Role
Dominic Stevens	CEO and Managing Director	1 September 2008	Deputy Managing Director
Rob Adams	Joint Chief Executive, Funds Management	11 November 2008	Chief Executive, Funds Management
Brian Benari	Group Chief Financial Officer / Chief Operating Officer	11 November 2008	Chief Executive, Mortgage Management
Drew Hall	Chief Executive, Mortgage Management	11 November 2008	Chief Financial Officer, Mortgage Management
Richard Howes	Chief Executive, Life	11 November 2008	Principal Executive Officer, Challenger Life Company
Paul Rogan	Executive General Manager, Capital Risk & Strategy	11 November 2008	Group Chief Financial Officer
Robert Woods	Joint Chief Executive, Funds Management	11 November 2008	Chief Executive, Asset Management

With the exception of Mr Hall who became a Key Executive when he became Chief Executive, Mortgage Management all other individuals have been Key Executives from the beginning of the reporting period.

Remuneration Policy

Our remuneration policy for executives aims to deliver superior levels of performance. We aim to retain those key executives critical to the delivery of sustainable growth in our results and align their remuneration with shareholder value delivered. To allow appropriate consideration of the financial markets in which we operate, it is also critical we have reasonable remuneration policy flexibility. This means that in years such as the one just past, the Board is able to determine executive reward, balancing the view of the markets in which we operate with the prospective value of the individual.

The Board takes its responsibility around remuneration policy seriously and has engaged PricewaterhouseCoopers on specific remuneration projects throughout fiscal year 2009. We have also recently engaged Guerdon Associates to review our current remuneration structure and to advise on the development of policies and practices that encourages appropriate risk management, support the business strategy and respond to the regulatory and governance initiatives emerging from global remuneration reform.

Our ongoing policy will be to:

- Attract and retain suitably qualified individuals to our executive roles, sourced either internally or externally;
- Align executive remuneration outcomes with the company's capacity to pay and the returns delivered to shareholders;
- Differentiate remuneration on the basis of performance (considering both short- term and long-term business/financial outcomes in line with Challenger's principles);
- Ensure there is an equitable distribution of the reward between investors who risk capital and executives who put capital to work;
- Ensure our remuneration structures are commensurate with competitors and sufficiently flexible to maintain parity in a constantly changing environment; and
- Provide all employees with the opportunity to acquire shares to support Challenger's "commercial ownership" principle.

Relationship of Incentives to Group's Financial Performance

Normalised profit is our key measure of performance because it removes the volatility of investment market movements. Additionally, normalised results more accurately reflect the underlying performance and cash generation within Challenger.

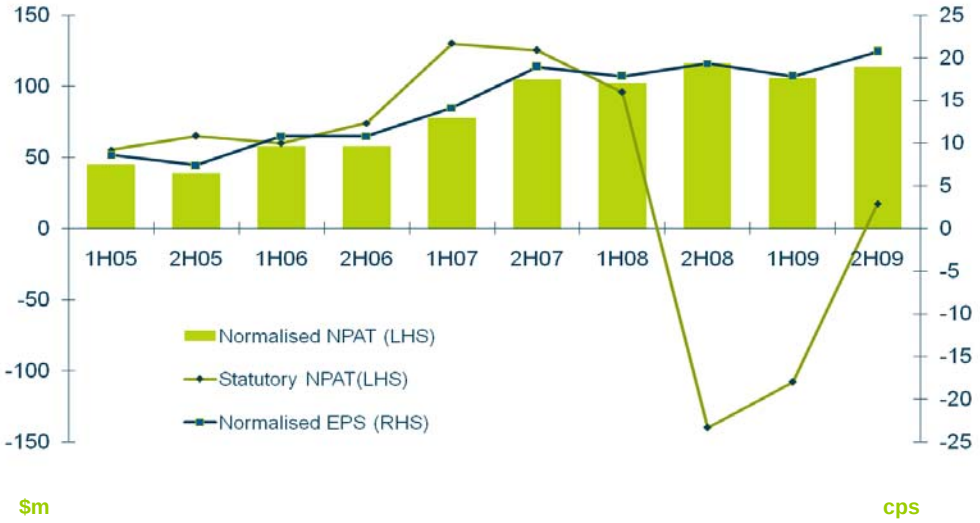
In assessing the company's capacity to pay and the establishment of a short-term incentive pool, the Board references underlying financial measures such as normalised net profit after tax ("NPAT") and return on net assets ("RONA") in deriving the overall pool. However, the Board also considers it relevant to take into consideration statutory NPAT along with related market conditions at play throughout the year. Refer to the table and graph below for a summary of the growth trend in normalised and statutory NPAT.

	30 June 2005	30 June 2006	30 June 2007	30 June 2008	30 June 2009
Normalised net profit after tax ($m) [1,2]	85.0	117.5	182.0	217.9	218.9
Normalised basic earnings per share (cents) [1,2]	15.9	20.0	33.0	37.1	39.2
Statutory net profit/(loss) after tax ($m)	119.6	134.3	255.0	(44.2)	(90.7)
Closing share price ($)	3.12	3.16	5.83	1.89	2.24
Dividends per share (cents)	5.0	7.5	12.5	12.5	12.5
3 Year TSR (%)	n/a	18%	141%	(38)%	(39)%

[1]Normalised net profit is defined in section 5 of the Directors Report
[2]Normalised numbers for 2005 and 2006 numbers are on a historic cost basis

In making long term incentive grants the Board looks to incorporate performance measures which are within the control of executives but which are also sufficiently challenging to ensure alignment with the generation of shareholder value. Measures used over time have included relative and absolute total shareholder return ("TSR"), earnings per share ("EPS") and normalised net profit after tax.

Growing Normalised NPAT:



1H05 – 2H06 Normalised NPAT & EPS – historic cost basis

Remuneration Framework

The remuneration framework underpinning our Remuneration Policy has three major components:

1) Salary package, comprising fixed cash salary and compulsory superannuation;
2) Short Term Incentives which are delivered via the Employee Incentive Plan ("EIP"), incorporating a deferral component that provides for a portion of the reward to be delivered in the form of performance rights that vest over a further period (typically over two years), subject to continued employment; and
3) Long Term Incentives (LTI) utilising the Challenger Performance Plan ("CPP") that provides for the award of either options or performance rights.

Salary Package

Salary packages are reviewed annually, although not necessarily increased each year. Salary package is determined by the scope of the executive's role, their level of knowledge, skills and experience, having regard to performance and market benchmarking against a peer group of companies comprising banking and financial services companies. The company aims to position the salary package around the median of the external market for comparable roles.

Executives have the opportunity to salary sacrifice amounts from their salary package towards the cost of certain benefits inclusive of any associated fringe benefits tax.

At the time of the CEO appointment in September 2008 and then as a part of the management team consolidation in late 2008, salary packages of all key executives were reviewed and amended to reflect market relevant levels having regard to role responsibilities.

Short Term Incentives

The EIP pool comprises:

- Cash payments: Payments are made to reward employees and executives who have made a significant contribution over the course of the year;
- Performance rights: Compulsory deferral into performance rights (granted under the Challenger Performance Plan) are to support retention and ensure alignment with shareholders. Refer Long Term Incentives section for further details on performance rights; and
- Challenger shares: Challenger offers $1,000 of tax exempt shares to employees with two years of service as at 1 July each year. Whilst remaining employed with Challenger, employees must hold these shares for a minimum of 3 years therefore ensuring all employees in Challenger have the opportunity to acquire Challenger shares.

(i) Eligibility

All executives, full time and permanent part time employees who commenced employment prior to 1 April in the financial year are eligible to participate in the EIP. The eligibility criteria ensure we capture all employees who are in a position to make a contribution to the performance of the Company.

Challenger has a robust performance management system, and in line with the performance focus of the plan employees, who do not attain a minimum rating are not eligible for a bonus.

Consistent with good governance requirements no Board members (apart from the CEO) are eligible to receive an EIP bonus. EIP is provided entirely at the discretion of the Board and may be subject to amendment or withdrawal in respect of any future financial year. Participation is not a contractual right.

(ii) Pool calculation

The Board calculates the EIP pool for the company based on total profitability of the group (normalised NPAT and RONA) considering factors such as:

- Overall Company performance relative to peers (including financial and strategic non-financial measures);
- Quality of financial results as shown by composition and consistency and future growth implications;
- Organisational capacity to pay; and
- The impact of external factors beyond management control.

(iii) Performance measure

Individual allocations from the EIP pool are determined by reference to an individual's contribution and achievement against objectives, as well as their behaviours in line with the Challenger principles as assessed in the Company's annual Performance Review.

Challenger's principles are Creative Customer Solutions, Compliance, Working Together, Integrity, and Commercial Ownership.

(iv) Market comparison

EIP awards are discretionary and are made having regard to company performance, business line performance as well as individuals' performances as measured and reflected in outcomes and behaviours. In addition, market data of relevant competitor organisations is sought so as to ensure total remuneration and the mix of component parts is appropriate. The Company aims to position total cash (salary package plus EIP) at the median of the market for individuals who meet their annual objectives through to the upper quartile for those that significantly exceed their objectives.

(v) Performance period and Compulsory Deferral

The performance period is 1 year and is aligned to the financial year of the Company. However as part of the reward strategy introduced in 2007, 50% of EIP amounts greater than $100,000 are compulsorily deferred into performance rights, with the balance in cash. For 2008 and 2009 EIP amounts, the deferral period was up to 2 years. Deferring EIP awards over this period provides a link between the short and long term incentives.

(vi) Calibration

The Company undertakes a formal ranking process as part of its performance management cycle to ensure those who have out-performed against their agreed objectives are recognised with the appropriate performance rating and subsequently rewarded through their EIP award.

(vii) Payment

EIP payments and notifications are generally made in September of each year. Payments are forfeited if an employee ceases employment or provides notice of termination on or before the date of payment.

No cash bonuses will be paid to key executives in September 2009. In recognition of adverse market conditions and to further strengthen alignment of executives with shareholders, any EIP payments awarded for 2009 will be 100% deferred into performance rights. The number of performance rights is determined by dividing the compulsorily deferred EIP amount by the allocation price. The allocation price is the volume weighted average price (VWAP) of Challenger shares on the Australian Stock Exchange over the five days up to and including the date they were offered.

Long Term Incentives

The LTI awards are typically delivered in the form of options with performance rights utilised for the deferral of short term bonuses and other retention arrangements. Key features of the CPP are outlined in the table below.

Key Features of the Challenger Performance Plan (CPP)

	Options	Performance Rights
Instrument	Options over shares with the exercise price set at the prevailing market price of shares at the time of the grant	Performance rights, providing fully paid shares after the satisfaction of an employment vesting condition (and in the case of capped performance rights, a share price performance condition)
	The two-tiered approach provides optimal flexibility and allows the selection of the equity-based reward instrument suited to the particular needs of the circumstances and the individual.	
Eligibility	Options are granted to executives whose responsibilities provide them with the opportunity to significantly influence long term shareholder value.	Performance rights may be used as retention awards for employees who are in positions that are "business critical", those who have unique specialised skills that are difficult to source in the market, or to consistently high performing employees. They may also be used as a negotiated 'sign-on' for new employees to replace equity forfeited with their former employers.
Performance Hurdle	Options have either an EPS, TSR or normalised NPAT performance hurdle. The Board considers the appropriateness of the performance hurdle at each issuance (with a view to ongoing consistency but also market conditions and relevance of the measure at the time). The use of options that vest subject to achieving a performance hurdle directly aligns the interests of key executives with shareholders. The CPP provides the Board with flexibility around the form of the performance hurdle it attaches to particular grants of options to ensure that there is appropriate alignment with shareholders and Executives in the Board's assessment at the time of grant.	Only an employment based hurdle applies given its intended purpose of: (i) retention (ii) sign-on in limited circumstances and sustained performance over time should be reflected in share price movement.
Performance Period	The CPP provides the Board with flexibility when determining the vesting period to ensure the timeframe is appropriate in the context of: 1) the performance hurdle that also attaches to the award; 2) the strategic activities/direction of the organisation; and 3) the markets in which we operate. With options the performance period is typically over three years.	Performance rights issued as retention grants vary in vesting periods.

	Options	Performance Rights
Vesting	Options must generally be exercised within 90 days of vesting.	Performance rights are converted to ordinary shares upon vesting and may remain in the CPP until the 10th anniversary of the date of grant,(may be subject to change once government legislation is finalised) or until an earlier request for release of the shares or the employee's separation from employment.
Forfeiture/Lapse	Options will lapse where a participant ceases employment before the options vest due to resignation or dismissal, unless the Board determines otherwise. Options (whether vested or unvested) will lapse where an executive acts fraudulently or dishonestly or where a participant is in material breach of their obligations under the CPP or to the Company, unless the Board determines otherwise. If a participant's role becomes redundant, Board discretion will apply. Options lapse immediately at the end of the vesting period if the performance hurdle has not been achieved.	Generally performance rights will lapse where a participant ceases employment before the vesting date due to resignation or dismissal, unless the Board determines otherwise. Performance rights (whether vested or unvested) will lapse where a participant acts fraudulently or dishonestly or where a participant is in material breach of their obligations under the CPP or to the Company, unless the Board determines otherwise. If a participant's role becomes redundant, Board discretion will apply.
	These redundancy practices are consistent with accepted market standards, the performance basis of the CPP, and the need for fair and reasonable treatment of CPP participants who do not remain in employment for the duration of the performance period through circumstances beyond their control.	
Acquisition of Shares	The LTI scheme is administered by the CPP Trust. The Trust may buy shares on market to meet obligations arising from the vesting of options or performance rights under the CPP.	
Change in Control provisions	In the event of a change in control, the Board has sole and absolute discretion to determine the manner in which options and performance rights will be dealt with. Consistent with common market practice and governance expectations. Flexibility and discretion are necessary to deal with varied circumstances.	
Hedging	The current Challenger policy prohibits any staff member from trading in derivatives in respect of unvested Challenger shares. This ensures that the value of unvested securities cannot be protected and that the delivery of reward from incentives remains linked to performance.	
Margin Loans	Challenger prohibits margin lending over Challenger shares. The use of margin loans by executivesand directors to acquire Challenger shares places them in a position of potential vulnerability to margin calls that can present risks of insider trading and perceptions of company instability.	

New LTI Initiative during the 2009 year: Capped Performance Rights

In December 2008 Challenger issued capped performance rights to a select number of executives.

This scheme was introduced as a retention mechanism, with a cap put into place to moderate the risk-taking behaviour that might otherwise be encouraged by incentive plans that offer "all or nothing" outcomes. This is reflective of the approaches advocated within emerging governance and regulatory initiatives. In addition the design of the scheme minimised dilution of shareholders by not having unlimited upside for participants.

The capped performance rights vest subject to the achievement of certain service and performance conditions. The conditions are employment with Challenger at the time of vesting and a share price performance condition.

If the 5 day VWAP of Challenger at the testing date of 15 September 2010 is less than $1.50 there is no benefit to the employees. If the 5 day VWAP is $3.50 or greater the employee receives 100% of the benefit. There is pro-rata award of the benefit between $1.50 and $3.50. The benefit is a dollar amount called Maximum Value. The share price performance condition is used to determine the percentage of the Maximum Value employees will receive. The employees ultimately receive shares in Challenger to the value of the percentage of Maximum Value achieved.

For example, assuming an executive was awarded a maximum value of $100,000 worth of capped performance rights on 22 December 2008. If the 5 day VWAP of Challenger shares up to and including 15 September 2010 was equal to say $3.50 and the executive was employed with Challenger on this date, they would be allocated their maximum value of $100,000 worth of Challenger shares, this being 28,571 Challenger shares, ($100,000 divided by $3.50).

Other Incentive Arrangements:

Deferred Loan Plan

A small number of executives had outstanding future commitments under the Long Term Incentive Plan (LTIP) at the time it was suspended in December 2006 (refer "Former Plans" below).

To replace those commitments, an arrangement was entered into with a third party investment bank to provide the individuals with a loan over a similar number of Challenger shares as their prior LTIP commitment. This arrangement is known as the Deferred Loan Plan.

Challenger is responsible for meeting the interest payable on the loan over its term, net of any dividends paid on the shares. Shares vest progressively over four years, commencing at the end of year two, subject to continued employment with Challenger. Shares are forfeited and the arrangement unwound in the event that the employment condition is not satisfied. In certain special circumstances (such as death, total and permanent disablement and redundancy) individuals may be entitled to retain their unvested shares if they fully discharge the outstanding loan amount.

The loans are limited in their recourse to Challenger and the Challenger Performance Plan Trust has the option of taking ownership of the shares and using them to satisfy other share awards in the event of forfeiture by the executive.

Other Short Term Employee Benefits: Third Party Loan Facilities

Challenger has agreed to pay interest on loans taken out by certain key executives to acquire Challenger shares on market. The loans are fully secured against the underlying shares and are not margin loans. Challenger has no exposure in relation to the loan principal advanced to the key executives by the third party. In the Board's view, this arrangement, when considered with the key executive's other LTI arrangements, provides significant alignment with shareholders' interests.

Former Plans:

a) Long Term Incentive Plan

With the introduction of the new reward strategy in 2007, the former Long Term Incentive Plan ("LTIP") was suspended in December 2006.

The LTIP was a share scheme provided by way of a limited recourse loan with shares vesting and being released over a 5 year period, subject to the achievement of a 15% compound Total Shareholder Return ("TSR") performance hurdle. Participants paid an amount of interest on their loan equal to any dividends payable on their LTIP shares.

The performance hurdle on unvested components of awards is retested after each year from the date of grant. The Plan allows for re-testing because the impacts of long-term decision making may not be reflected within the prior period and relative performance in the subsequent years would need to be significant to make up for any underperformance over the prior test periods.

Except as modified by the Board in its discretion, shares that remain unvested as at the 6th anniversary of the date of grant lapse and will either be sold by the Custodian to reduce any outstanding loan, bought back under the LTIP or cancelled, subject to compliance with the Law. The LTIP was approved by Shareholders at the Annual General Meeting on 22 December 2003 and a more detailed description can be found in the 2006 and 2007 Annual Reports.

b) Cash LTIP

Prior to corporatisation, certain employees were entitled to incentive payments under a cash-based shadow scheme whereby they receive cash payments capped between 3 cents and 13 cents per (pre consolidation) share granted.

The vesting schedule mirrors that of the LTIP with unpaid entitlements forfeited upon resignation.

Changes to the LTIP and Cash LTIP

As disclosed in last year's annual report, following substantial decline in the Challenger share price in the quarter following November 2007, which in the Board's view was not a reflection of the underlying performance of the Group, on 3 April 2008 the Directors extended the final test date for the 2003 LTIP and Cash LTIP awards.

The extension was for key continuing employees with reference dates of 10 April 2003 (and hence a final test date of 10 April 2008). In July 2008 this was extended to two other groups of key continuing employees, who were on a short time lag to the original group, with reference dates of 1 August 2003 (with a final test date of 1 August 2008) and 1 December 2003 (with a final test date of 1 December 2008).

The one-off extension for all of these related groups was to 30 November 2009.

This extended test date only applies to the final tranche (5.72 million shares) of the awards as previous tranches had vested. The cost of this extension was 32 cents per share for the August 2008 group and 6 cents per share for the December 2008 group. The total cost of $1.5 million is being expensed over the revised time to maturity. At the time of the final change on 1 December 2008 the Challenger share price was $1.30.

The original performance conditions remain in place and therefore a substantial recovery in Challenger's share price before 30 November 2009 will be required for the performance condition to be satisfied and the final tranches to vest. Challenger will not be extending the vesting period of any other LTIP awards.

The Board believes that the exceptional conditions influencing the Challenger share price warranted the above change. These elements of remuneration will be finalised by 30 November 2009, being the final performance test date.

2. Key Executives

CEO remuneration

The Remuneration Committee is responsible for reviewing the remuneration of the CEO, which must be approved by the full Board.

Under the terms of his appointment as CEO, Mr Stevens is entitled to:

- a salary package (base salary and superannuation) of $1,000,000 per annum; and
- an annual short term incentive subject to achieving qualitative and quantitative hurdles set by the Board.

At the Annual General Meeting held on 20 November 2008, shareholders approved an award of options to Mr Stevens under the Challenger Performance Plan. Mr Stevens was awarded 5,500,000 options with an exercise price of $2.36.

Where Challenger terminates Mr Stevens' Service Agreement (other than for cause) Mr Stevens will be entitled to a payment of $1,500,000 ('Termination Payment'). The Termination Payment is in addition to accrued statutory entitlements.

Where Mr Stevens' employment is terminated for cause all unvested performance rights and all unvested options will lapse at the termination date.

If his employment terminates for any other reason (including resignation with Board approval):

- unvested performance rights will vest in full at the termination date ('Accelerated Vesting Entitlement');and
- unvested options will continue to be held by Mr Stevens in accordance with, and subject to, the terms relating to the original issue ('Retained Option Arrangement').

Mr Stevens may terminate his service agreement by giving 26 weeks notice, in which event he will receive accrued statutory and contractual entitlements, but he will not be entitled to any termination payment (unless Challenger makes a payment in lieu of notice).

Mr Stevens will not be entitled to any short term incentive payment in these circumstances (unless his resignation is with Board approval).

Key Executives (excluding CEO)

Notice period by the Company and the Key Executive is 26 weeks (unless terminated for cause).

Upon termination, if the Key Executive is considered a Good Leaver (such as cessation of employment due to redundancy) the Key Executive will be entitled to:

- retain vested LTIP from awards made to them other than as Initial Participants;
- a pro rata short-term incentive payment; and
- any deferred short-term incentive amounts (subject to Board discretion).

Board discretion will also apply in relation to awards under the CPP.

Remuneration of the CEO and other key executives for the years ended 30 June 2009 and 30 June 2008

The following table (Table 1A) provides a breakdown of the CEO and other key executives' remuneration. The Board is aware that these disclosures are quite complex, particularly in terms of the accounting requirements of LTI schemes. We have therefore provided an additional table (Table 1B) which depicts:

- salary package received during the year to 30 June;
- other cash received during the year; and
- net value of share based payments vested during the period (including LTIP and performance rights).

Table 1A : Statutory Reporting Table: Remuneration of the CEO and other key executives for the years ended 30 June 2009 and 30 June 2008.

Executive	Year	Short term benefits		Post employment benefits	Other long term benefits	Termination payment	**Subtotal**	Share based payments $				**Total**
		Salary[1] $	STI[2] $	Superannuation $	$	$	$	Equity settled shares and units[3]	Equity settled options and rights[3]	Cash settled shares and units[4]	Other[5] $	$
Dominic Stevens	2009	919,588	-	13,745	-	-	**933,333**	499,209	2,027,704	(330,000)	848,102	**3,978,348**
	2008	586,871	1,000,000	13,129	-	-	**1,600,000**	191,118	943,562	165,000	625,000	**3,524,680**
Rob Adams	2009	636,255	-	13,745	-	-	**650,000**	327,731	673,717	(650,000)	-	**1,001,448**
	2008	586,871	300,000	13,129	-	-	**900,000**	180,132	384,215	325,000	-	**1,789,347**
Brian Benari	2009	636,255	-	13,745	-	-	**650,000**	138,664	2,012,254	(650,000)	848,102	**2,999,020**
	2008	586,871	1,000,000	13,129	-	-	**1,600,000**	157,475	868,009	-	625,000	**3,250,484**
Richard Howes	2009	552,922	-	13,745	-	-	**566,667**	270,603	1,796,362	(120,000)	848,102	**3,361,734**
	2008	386,871	525,000	13,129	-	-	**925,000**	204,402	1,094,660	60,000	625,000	**2,909,062**
Paul Rogan[6]	2009	636,255	-	13,745	-	-	**650,000**	1,219,916	771,905		324,741	**2,966,562**
	2008	586,871	400,000	13,129	-	-	**1,000,000**	1,062,001	276,845	-	308,747	**2,647,593**
Robert Woods	2009	636,255	-	13,745	-	-	**650,000**	120,872	1,863,458	-	848,102	**3,482,432**
	2008	586,871	525,000	13,129	-	-	**1,125,000**	181,170	1,189,096	-	625,000	**3,120,266**
Drew Hall[7]	2009	371,149	-	8,018	-	-	**379,167**	15,153	329,387	-	-	**723,707**
Mike Tilley[8,9]	2009	247,912	-	2,291	-	1,750,000	**2,000,203**	74,133	(1,121,380)	-	387,366	**1,340,322**
	2008	1,486,871	2,000,000	13,129	250,000	-	**3,750,000**	567,078	1,979,778	-	1,811,936	**8,108,792**

1 Salary increases as a result of promotion, increased responsibility.
2 No STI in the form of cash has been awarded to the CEO and Key Executives for 2009.
3 The value of the equity settled shares and units and equity settled options and rights is calculated on the basis outlined in Note 1 (xxix) and reflects the fair value of the benefit derived at the date at which they were granted. The fair value is determined using an option pricing model. As the majority of Challenger's equity settled share-based payment rewards are subject to share-price based performance hurdles (eg TSR of Challenger), no adjustment to the fair value after grant date is allowed to be made under the Accounting Standards for the likelihood of the market performance conditions not being met. Therefore the value of the reward included in the table may not necessarily have been vested to the key executives during the year.
4 Performance hurdles for the cash settled shares and rights are not expected to be achieved and therefore the shares and units are not expected to vest. The related expense previously recognised for these grants has been reversed in the current financial year.
5 Relates to the interest amounts accrued in the year on the loan taken out by individuals to acquire Challenger shares.
6 For Mr Rogan the Other amount relates to the interest amounts accrued in relation to his participation in the Deferred Loan Plan.
7 Mr Hall became a Key Executive on 11 November 2008 when he became Chief Executive, Mortgage Management. Disclosures are therefore from that date. Prior to that date he was the Chief Financial Officer for Mortgage Management.
8 Mr Tilley ceased to be Group CEO on 31 August 2008. Remuneration disclosed is for the period from 1 July 2008 to that date.
9 Mr Tilley's Share Based Payments represent a reversal of the accruals for his options that were forfeited upon termination.

Table 1B : Remuneration of the CEO and other key executives for the years ended 30 June 2009 and 30 June 2008 - cash accounting basis.

Executive	Year	Short term benefits			Post employment benefits			**Total Cash[1]**	Share based payments	**Total Compensation[3]**
		Salary	STI	Cash settled shares and units	Superannuation	Other long term benefits	Termination payment		Realised or intrinsic value at 30 June [2]	
		$	$	$	$	$	$	$	$	$
Dominic Stevens	2009	919,588	-	-	13,745	-	-	**933,333**	185,147	**1,118,481**
	2008	586,871	1,000,000	165,000	13,129	-	-	**1,765,000**	-	**1,765,000**
Rob Adams	2009	636,255	-	-	13,745	-	-	**650,000**	67,081	**717,081**
	2008	586,871	300,000	325,000	13,129	-	-	**1,225,000**	924,000	**2,149,000**
Brian Benari	2009	636,255	-	-	13,745	-	-	**650,000**	163,679	**813,676**
	2008	586,871	1,000,000	-	13,129	-	-	**1,600,000**	-	**1,600,000**
Richard Howes	2009	552,922	-	-	13,745	-	-	**566,667**	228,079	**794,745**
	2008	386,871	525,000	60,000	13,129	-	-	**985,000**	600,000	**1,585,000**
Paul Rogan	2009	636,255	-	-	13,745	-	-	**650,000**	75,132	**725,132**
	2008	586,871	400,000	-	13,129	-	-	**1,000,000**	-	**1,000,000**
Robert Woods	2009	636,255	-	-	13,745	-	-	**650,000**	254,912	**904,912**
	2008	586,871	525,000	-	13,129	-	-	**1,125,000**	-	**1,125,000**
Drew Hall[4]	2009	371,149	-	-	8,018	-	-	**379,167**	13,415	**392,582**
Mike Tilley[5]	2009	247,912	-	-	2,291	-	1,750,000	**2,000,203**	201,246	**2,201,449**
	2008	1,486,871	2,000,000	-	13,129	250,000	-	**3,750,000**	-	**3,750,000**

1 Refers to actual cash and superannuation received by a Key Executive in a financial year.
2 Represents the net value of share based payments vested during the period (including LTIP and performance rights). The value is either the realised proceeds net of the exercise price, or if not sold during the period, the 30 June value net of the exercise price. If net value is negative, nil is disclosed.
3 Total Compensation includes equity that was vested but not necessarily exercised by an executive.
4 Mr Hall became a Key Executive on 11 November 2008 when he became Chief Executive, Mortgage Management. Disclosures are therefore from that date. Prior to that date he was the Chief Financial Officer for Mortgage Management.
5 Mr Tilley ceased to be Group CEO on 31 August 2008. Remuneration disclosed is for the period from 1 July 2008 to that date.

Terms and conditions of equity allocations for the year ended 30 June 2009

Challenger granted a mix of performance rights and options to key executives during 2009. The mix of performance rights and options ensures key executives make sound decisions driving shareholder value and company performance. As options have an in-built share price hurdle, they are designed to motivate sustainable share price growth. Whilst performance rights don't have a performance hurdle, participants realise the same growth as shareholders, therefore sustainability of share price growth remains a key driver.

Terms and conditions of performance rights

Performance rights have employment based vesting only. There is no other performance condition, because grants of performance rights have been either for compulsory deferred EIP representing reward for past performance and/or as a retention mechanism. The alignment of employer and shareholder/company interests is strong however as the future sustainable growth of Challenger's share price remains relevant given participants realise the actual share price at the time of vesting, not the price at grant.

The following tables detail performance rights awards made under the Challenger Performance Plan (CPP).

(i) Performance rights granted for the year ended 30 June 2009:

Executive	Compulsory deferral from 2008 EIP	Allocation price	CPP rights granted	Grant date	Vesting 15 Sep 2009		Vesting 15 Sep 2010	
					No.	Fair value at grant	No.	Fair value at grant
	$	$	No.			$		$
D Stevens	1,600,000	2.819	567,555	15 Sep 2008	283,778	2.52	283,777	2.39
R Adams	300,000	2.819	106,416	15 Sep 2008	53,208	2.52	53,208	2.39
B Benari	1,600,000	2.819	567,555	15 Sep 2008	283,778	2.52	283,777	2.39
D Hall	200,000	2.819	70,944	15 Sep 2008	35,472	2.52	35,472	2.39
R Howes	875,000	2.819	310,382	15 Sep 2008	155,191	2.52	155,191	2.39
P Rogan	600,000	2.819	212,832	15 Sep 2008	106,416	2.52	106,416	2.39
R Woods	875,000	2.819	310,382	15 Sep 2008	155,191	2.52	155,191	2.39

(ii) Capped performance rights granted during the 2009 financial year:

Executive	CPP max rights granted	Allocation price	Grant date	Vesting 15 Sep 2010
				Fair value at grant
	No.	$		$
R Adams	285,714	1.50-3.50	22 Dec 2008	0.532
B Benari	571,428	1.50-3.50	22 Dec 2008	0.532
D Hall	285,714	1.50-3.50	22 Dec 2008	0.532
R Howes	571,428	1.50-3.50	22 Dec 2008	0.532
P Rogan	285,714	1.50-3.50	22 Dec 2008	0.532
R Woods	571,428	1.50-3.50	22 Dec 2008	0.532

These capped rights were issued on the 22 December 2008. The Rights vest subject to the achievement of certain performance conditions. The performance conditions are employment with Challenger at the time of vesting and a share price performance condition as outlined on page 16.

Terms and conditions of option grants

The following tables detail share option offers and grants made during the 2009 financial year to key executives.

Options granted during 2009 to the Group CEO

Executive	CPP Options granted No.	Grant date	Exercise price $	Fair value at grant $	Aggregate value $	Vesting period
D Stevens	5,500,000	1 Dec 2008	2.36	0.235 – 0.270	1,292,500	24 Aug 2011 – 29 Feb 2012

Challenger granted Options to the CEO as approved at the Annual General Meeting of 20 November 2008. The Options vest subject to the achievement of certain performance conditions.

The performance conditions are:

- Compound EPS growth of 10% or more annually over the period from 1 July 2008 to 30 June 2011; or
- If compound annual TSR growth is greater than 15%, 100% of the Options will vest. If compound TSR growth is less than 10% per annum, no Options will vest. There is pro-rata vesting between the two TSR hurdle rates. The initial performance period for the TSR measure is 25 August 2008 to 24 August 2011. The share price used to calculate TSR is the 30 day volume weighted average price.

Any Options that have not vested as at 24 August 2011 will vest if at any time up to and including 29 February 2012, Challenger achieves the TSR growth or EPS growth that would have enabled them to vest as at 25 August 2011.

Options granted during 2009 to Key Executives

Executive	CPP options granted[1] No.	Exercise price $	Vesting 22 Dec 2009		Vesting 22 Dec 2010		Vesting 22 Dec 2011		Aggregate fair value $
			No.	Fair value at grant $[1]	No.	Fair value at grant $	No.	Fair value at grant $	
R Adams	600,000	1.34	200,000	0.482	200,000	0.520	200,000	0.497	299,800
B Benari	1,500,000	1.34	500,000	0.482	500,000	0.520	500,000	0.497	749,500
D Hall	600,000	1.34	200,000	0.482	200,000	0.520	200,000	0.497	299,800
R Howes	1,500,000	1.34	500,000	0.482	500,000	0.520	500,000	0.497	749,500
P Rogan	600,000	1.34	200,000	0.482	200,000	0.520	200,000	0.497	299,800
R Woods	1,500,000	1.34	500,000	0.482	500,000	0.520	500,000	0.497	749,500

[1] Fair value and aggregate shown as the higher EPS fair value for this table (see Note 31 for detail).

The performance conditions are:

- Compound EPS growth of 10% or more annually over the period from 1 July 2008 to 30 June 2011; or
- If compound annual TSR growth is greater than 15%, 100% of the Options will vest. If compound TSR growth is less than 10% per annum, no Options will vest. There is pro-rata vesting between the two TSR hurdle rates. The initial performance period for the TSR measure is 16 December 2008 to 15 December 2011. The share price used to calculate TSR is the 5 day volume weighted average price.

The Company's auditors, Ernst & Young, will independently test whether the performance conditions attaching to each tranche has been satisfied.

Given the ongoing dislocation of global financial and equity markets, the Board was of the view that performance measures needed to be within the control of executives but sufficiently challenging to be responsibly balanced against the expectations of shareholders. This alignment is considered to have been achieved through the use of the internal compound EPS growth hurdle and the compound annual TSR growth requirement, together with an option exercise price set at a premium to the share price at the time of offer.

No options issued under the CPP were exercised or lapsed in the year ended 30 June 2009. Under the terms of the Plan options were forfeited when employees left the Company.

No amounts were paid by the participants upon the grant of options.

For full details of all new issues from the Challenger Performance Plan during the period see Note 31 Employee Entitlements.

Remuneration components as a % of total remuneration

Executive	Year	Fixed	STI	LTI		Total
				Options	Other	
Dominic Stevens	**2009**	**23%**	**21%**	**17%**	**38%**	**100%**
	2008	17%	46%	7%	30%	100%
Rob Adams	**2009**	**65%**	**0%**	**30%**	**5%**	**100%**
	2008	34%	17%	7%	43%	100%
Brian Benari	**2009**	**22%**	**28%**	**21%**	**29%**	**100%**
	2008	18%	50%	7%	24%	100%
Drew Hall [1]	**2009**	**52%**	**0%**	**26%**	**22%**	**100%**
	2008	n/a	n/a	n/a	n/a	n/a
Richard Howes	**2009**	**17%**	**25%**	**18%**	**40%**	**100%**
	2008	14%	40%	8%	38%	100%
Paul Rogan	**2009**	**22%**	**11%**	**7%**	**60%**	**100%**
	2008	23%	27%	-%	51%	100%
Robert Woods	**2009**	**19%**	**24%**	**18%**	**39%**	**100%**
	2008	19%	37%	8%	36%	100%
Mike Tilley	**2009**	**19%**	**159%**	**(95)%**	**17%**	**100%**
	2008	18%	47%	16%	19%	100%

[1]. Mr Hall became a key executive on 11 November 2008 when he became Chief Executive Mortgage Management. Relevant disclosures are therefore for 2009 only.

Maximum value* of remuneration that vests in future years

Executive		2010	2011	2012
		$	$	$
D Stevens	Cash	-	-	-
	Other[1]	2,738,103	1,034,309	80,258
R Adams	Cash	-	-	-
	Other[1]	722,624	232,114	26,030
B Benari	Cash	-	-	-
	Other[1]	2,675,818	759,989	50,917
D Hall	Cash	-	-	-
	Other[1]	478,468	250,305	50,403
R Howes	Cash	-	-	-
	Other[1]	2,497,405	742,517	50,917
P Rogan	Cash	-	-	-
	Other[1]	1,721,151	892,602	176,740
R Woods	Cash	-	-	-
	Other[1]	2,440,183	722,659	50,917

* The minimum value of remuneration that vests in future years for all disclosed Executives is $0.
[1]Other includes all accounting costs of equity that may vest in future years.

The maximum value of remuneration that may vest in future years comprises the accounting value of unvested equity grants under EIP, and the CPP / LTIP assuming 100% vesting.

3. Non-Executive Director Remuneration

The Non-Executive Directors holding office in the year ending 30 June 2009 were:

Peter L. Polson (Chairman)
Thomas Barrack Jr
Graham A. Cubbin
Russell R. Hooper
Ashok P. Jacob
James D. Packer
Tatsuo Tanaka (Resigned 21 May 2009)
Tetsuya Wada (Appointed 21 May 2009)
Leon Zwier

Policy

The remuneration policy for Non-Executive Directors aims to ensure that the company can attract and retain suitably skilled and experienced people to serve on the Board and to reward them appropriately for their time and expertise. The Board's focus is on strategic direction and the delivery of sustained long-term corporate performance.

Fee Pool

Non-Executive Director fees are determined within an aggregate fee pool limit which is required to be approved by shareholders.

The current fee pool limit of $2,000,000 was approved by shareholders in 2007. No increase to the Non-Executive Director fee pool will be sought for 2010.

Fee Framework

The Board periodically reviews the fee framework. The most recent review was conducted in April 2007. Under the current fee framework, the Non-Executive Directors receive a base fee for main Board duties and additional fees for membership or chairmanship of Board Committees other than the Nomination Committee. The Chairman also receives an additional fee for chairing the main Board. The fees detailed in the table over page also cover service provided on subsidiary company boards.

Superannuation

The Non-Executive Directors receive superannuation contributions in accordance with Superannuation Guarantee legislation.

Equity Participation

The Non-Executive Directors do not receive shares, options or share rights as part of their remuneration and do not participate in any equity-based incentive plans.

The following table details the current base fee policy levels:

Board / Committee	Role	Annual Fee
Board[1]	Chairman[1,2]	$180,000
	Member	$120,000
Group Audit and Compliance	Chairman[2]	$15,000
	Member	$20,000
Remuneration	Chairman[2]	$10,000
	Member	$15,000

[1] Board fees include Nomination Committee fees
[2] Chairman fees are in addition to Member fees

Details of Non-Executive Director Remuneration for 2009

Details of the nature and amount of each element of the emoluments of each Non-Executive Director of the Company and of the Group for the year ended 30 June 2009 are set out in the table below:

		Short Term Salary Benefits	Post-Employment	Total
	Year	Director Fees	Superannuation	$
		$	$	
P Polson	2009	311,255	13,745	325,000
	2008	311,871	13,129	325,000
T Barrack Jr[1].	2009	-	-	-
	2008	-	-	-
G Cubbin	2009	155,000	-	155,000
	2008	165,000	-	165,000
R Hooper[2]	2009	219,996	-	219,996
	2008	344,050	-	344,050
A Jacob[3]	2009	-	-	-
	2008	-	-	-
J Packer[3]	2009	-	-	-
	2008	-	-	-
T Tanaka[4]	2009	110,000	-	110,000
	2008	73,200	-	73,200
T Wada[4]	2009	10,000	-	10,000
	2008	-	-	-
L Zwier[5]	2009	120,000	-	120,000
	2008	120,000	-	120,000

[1] Acts as a director in discharging his duties as an executive of Colony Capital, LLC and consequently does not take fees for his services.
[2] Includes Challenger Listed Investments Limited CLIL fees (2009: $29,996 2008: $112,185 plus $20,955 for CLIL Due Diligence committee).
[3] Acts as a director in connection with discharging his duties as an executive of Consolidated Press Holdings (CPH) and consequently does not take fees for his services.
[4] Mr Wada replaced Mr Tanaka on 21 May 2009 and the annual fee was allocated accordingly.
[5] In the 2008 annual report this amount was erroneously shown as $130,000. The 2008 comparative has been restated accordingly

13. Rounding

The amounts contained in the annual financial report have been rounded off to the nearest $100,000 under the option available to the Company under Australian Securities & Investments Commission (ASIC) Class Order 98/0100. The Company is an entity to which the class order applies.

14. Auditor's independence and non-audit services

The Directors received the following declaration from the auditor of Challenger Financial Services Group Limited.

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 audit of the financial report of Challenger Financial Services Group Limited for the financial year ended 30 June 2009, 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

S J Ferguson
Partner
21 August 2009

Liability limited by a scheme approved under Professional Standards Legislation

Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or is due to receive the following amounts for the provision of non-audit services:

	$'000s
Tax compliance services	236
Due diligence services	34
Other assurance services	504

See Note 33 for details.

Signed in accordance with a resolution of the Directors of Challenger.

G A Cubbin
Director
Sydney
21 August 2009

D J Stevens
Director
Sydney
21 August 2009

Corporate governance statement

The Company's approach to corporate governance

The Board and management of Challenger Financial Services Group Limited ('the Company') recognise their duties and obligations to stakeholders to implement and maintain a robust system of corporate governance. The Company believes that the adoption of good corporate governance adds real value to stakeholders and enhances investor confidence.

The Board determines the most appropriate corporate governance arrangements for the Challenger Group, taking into consideration Australian and international standards and the prudential requirements of regulators such as APRA and ASIC. This statement reflects the Company's corporate governance system as at the date of signing this report.

This statement reports against the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" released in August 2007.

As required by the ASX Listing Rules, this statement sets out the extent to which Challenger has followed the Principles or, where appropriate, indicates a departure from them with an explanation.

This report applies to the Company and its subsidiaries; however, some subsidiaries have adopted their own policies and procedures to deal with specific issues relevant to their business, for instance Australian Financial Services Licence compliance. Where such policies and procedures have been adopted they have been developed in line with the standards referred to throughout this report.

Principle 1 – Lay solid foundations for management and oversight

The role of the Board and delegations
The Board is accountable to shareholders for the activities and performance of the Company by overseeing the development of sustainable shareholder value within an appropriate framework of risk and regard for all stakeholder interests.

The Board has identified the key functions which it has reserved for itself. These duties are outlined below and set out in the Board Charter, a copy of which is available on the Company's website.

- establishment, promotion and maintenance of the strategic direction of the Company;
- approval of business plans, budgets and financial policies;
- consideration of management recommendations on strategic business matters;
- establishment, promotion and maintenance of proper processes and controls to maintain the integrity of accounting and financial records and reporting;
- fairly and responsibly rewarding executives, having regard to the interests of shareholders, the performance of executives, market conditions and the Company's performance;
- adoption and oversight of implementation of appropriate corporate governance practices;
- oversight of the establishment, promotion and maintenance of effective risk management policies and processes;
- determination and adoption of the Company's dividend policy;
- review of the Board's composition and performance;
- appointment, duration, evaluation and remuneration of the Chief Financial Officer (CEO) and approval of the appointment of the Chief Financial Officer (CFO), the General Counsel and the Company Secretary; and
- determination of the extent of 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 in Principle 2 below.

Non-Executive Directors are issued with formal letters of appointment governing their role and responsibilities. The responsibilities of the Chairman and the Directors are also set out in the Board Charter.

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 the Company within the policies and specific delegation limits specified by the Board from time to time. The CEO may further delegate within those specific policies and delegation limits, but remains accountable for all authority delegated to management.

Executive performance assessment
The performance of senior executives is reviewed at least annually against appropriately agreed and documented performance objectives and measures, consistent with the Performance Management framework that applies to all Challenger employees. All employees at Challenger are also assessed against the Challenger Principles (refer Principle 3 below).

The Remuneration Committee is responsible for reviewing the performance of the Group CEO at least annually, including setting the Group CEO goals for the coming year and reviewing progress in achieving those goals and making recommendations to the Board. The Group CEO is responsible for setting performance objectives and reviewing the performance of his direct reports.

Performance evaluations for the Group CEO and senior executives have taken place in respect of the 2009 reporting period in accordance with the above process.

Principle 2 – Structure the Board to add value

Membership of the Board
The Board comprises Directors who possess an appropriate range of skills, experience and expertise to:

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

The Company's constitution provides for a minimum of three Directors and a maximum of 12 Directors. The table below summarises the current composition of the Board. Background details of each Director are set out in the Directors' Report.

Name	Position	Independent	First appointed
Peter Polson	Chairman	Yes	2003
Dominic Stevens	Executive Director	No	2008
Thomas Barrack Jr.	Non- Executive Director	Yes	2007
Graham Cubbin	Non- Executive Director	Yes	2004
Russell Hooper	Non- Executive Director	Yes	2003
Ashok Jacob	Non- Executive Director	No	2003
James Packer	Non- Executive Director	No	2003
Tetsuya Wada	Non- Executive Director	No	2009
Leon Zwier	Non- Executive Director	Yes	2006

The Chairman is selected by Non-Executive Directors of the Board. The roles of Chairman and CEO are not exercised by the same person.

Nominations and appointment of new Directors
Recommendations for nominations of new Directors are made by the Nomination Committee and considered by the Board as a whole. If a new Director is appointed during the year, that person will stand for election by shareholders at the next annual general meeting. Shareholders are provided with appropriate information to judge the adequacy of candidates. All new Directors are provided with an appropriate induction into Challenger's business. A copy of the Nominations Committee Charter can be found on the Company's website at www.challenger.com.au.

Retirement and re-election of Directors
The Company's constitution requires that, excluding the CEO, one third of the remaining Directors must retire each year. In addition, any Director who is appointed during the year must retire at the next annual general meeting.

Mr Wada was appointed to the Board on 21 May 2009, and accordingly will retire and submit himself for re-election at the 2009 annual general meeting.

Succession planning
In conjunction with the Nomination Committee, the Board considers the succession of its members, the CEO, the CFO, the Chief Executives of each of the business divisions, as required.

Review of Board performance
The Board Charter sets out the requirement for a formal review of the Board's performance at least every two years. A review of the Board's performance was conducted in May 2009.

The review of the Board's performance is conducted by the Chairman with all Board members. The review involves consideration of the effectiveness of the Board and its committees having regard to the knowledge, skills and experience of the Directors. The review involves considering the weighting of attributes, culture and capabilities of the Board.

Director independence
The Board has adopted an Independence Policy that states that an Independent Director should be independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

The Board regularly considers and assesses the independence of each Director in light of the interests and information which Directors disclose. In accordance with the Corporations Act, Directors are required to advise the Company of any material personal interests they have in a matter.

In assessing independence, the Board will have regard to whether the Director has any of the following relationships with Challenger or any Challenger Group company:

1. is a substantial shareholder (as defined by section 9 of the Corporations Act) of Challenger, or is a Director or officer of, or otherwise associated directly with, a substantial shareholder of Challenger;
2. is employed, or has previously been employed in an executive capacity by Challenger or another Group company, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
3. has within the last three years been a principal of a material professional adviser or a material consultant to Challenger or another Group company, or an employee materially associated with the service provided;
4. is a material supplier or customer of Challenger or another Group company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
5. has a material contractual relationship with Challenger or another Group company other than as a Director.

The Board will state its reasons if it considers a Director to be independent notwithstanding the existence of a relationship of the kind referred to in paragraphs 1 – 5 above.

From the commencement of the year the Board has had a majority of Non-Independent Directors. The Board has since evaluated the independence status of each of the Directors. In making that evaluation the Board determined that Mr Cubbin is an Independent Director.

In evaluating Mr Cubbin's independence, the Board considered (i) a period of over 3 years had passed since Mr Cubbin was a senior executive with Consolidated Press Holdings (CPH) (ii) Mr Cubbin had not held executive office with CPH since September 2005; and (iii) Mr Cubbin's role as a director of Teys Bros. (Holdings) Pty Limited, his post retirement benefits and his personal circumstances.

The Board considers that Mr Cubbin has no continuing association with CPH that would interfere with his independent exercise of free judgement.

Determination of materiality in assessing independence
The materiality of a relationship is assessed on a case-by-case basis after having regard to each Director's individual circumstances. In line with the Company's Independence Policy, Messrs Jacob, Packer, and Wada are not considered independent due to their association with a substantial shareholder.

Conflicts of interest
In accordance with the Board Charter and the Corporations Act 2001 (Cth), any Director with a material personal interest in a matter being considered by the Board must declare such an interest and may only be present when the matter is being considered at the Board's discretion. Directors with a material interest may not vote on any matter in which they have declared a personal interest.

Meetings of the Board
During the year, the Board generally meets formally approximately every six weeks. In addition, the Board may meet whenever necessary to deal with specific matters needing attention between scheduled meetings.

The CEO, in consultation with the Chairman, establishes the meeting agendas to ensure adequate coverage of strategic, financial and material risk areas throughout the year. Senior executives are invited to attend Board meetings and are available for contact by Non-Executive Directors between meetings. The Non-Executive Directors often hold a private session without any executive involvement as part of Board meetings.

Board access to information and advice
All Directors have unrestricted access to the Company records and information. The Company Secretary provides Directors with guidance on corporate governance issues and developments and on all other matters reasonably requested by the Directors and monitors compliance with the Board Charter.

The Board or each individual Director has the right to seek independent professional advice at the Company's expense to assist them to discharge their duties. Whilst the Chairman's prior approval is required, it may not be unreasonably withheld or delayed.

Board committees

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

- the Audit and Compliance Committee;
- the Nomination Committee; and
- the Remuneration Committee.

Each Committee has its own Charter, copies of which are available on the Company's website.

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 their attendance at meetings throughout the period are set out below.

Directors' meetings

Director	Board		Audit and Compliance Committee		Remuneration Committee		Nominations Committee**	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
P Polson	8	8	6	5	3	3	-	-
M Tilley	2	2	-	-	-	-	-	-
D Stevens	6	6	-	-	-	-	-	-
T Barrack Jr.*	8	4	-	-	-	-	-	-
G Cubbin	8	8	6	6	-	-	-	-
R Hooper	8	8	6	6	3	3	-	-
A Jacob*	8	8	-	-	-	-	-	-
J Packer*	8	8	-	-	3	2	-	-
T Tanaka*	7	7	-	-	-	-	-	-
T Wada*	1	1	-	-	-	-	-	-
L Zwier	8	7	-	-	-	-	-	-

* Directors attended by personal attendance and through the attendance of their appointed alternate Directors.

** The Nominations Committee did not meet in the period. The appointment of the new Director was considered by the Board in connection with the strategic alliance with The Bank of Tokyo-Mitsubishi UFJ, Limited.

Principle 3 – Promote ethical and responsible decision-making

The Board and the Company's commitment to ethical and responsible decision making is reflected in the internal policies and procedures, underpinned by the Challenger Principles of:

- Commercial ownership;
- Compliance;
- Creative customer solutions;
- Working together; and
- Integrity.

Code of Conduct
The Board has adopted a Code of Conduct which applies to all Directors, executives, management and employees of the Company and its subsidiaries. The Code articulates the standards of honest, ethical and law-abiding behaviour expected by the Company. Employees are actively encouraged to bring any problems to the attention of management or the Board, including activities or behaviour which may not comply with the Code of Conduct, other policies and procedures in place, or other regulatory requirements or laws. A copy of the Code can be found on the Company's website.

Political donations policy
The Board has adopted a policy of not making political donations in any country or jurisdiction in which it operates. Representatives of the Company may on occasion attend political functions. This attendance is strictly for commercial reasons and is predicated on the price charged not being in excess of commercial value (in terms of access) of the function.

Directors' and staff trading policy
Directors and staff are subject to restrictions under the law relating to dealing in securities, including the securities issued by the Company, if they are in possession of insider information. The Board has approved the Group's Staff Trading Policy which prescribes the manner in which staff can trade in the Company's shares. A summary of the policy is available on the Company's website.

The policy applies to all Directors and staff and places restrictions and reporting requirements on staff, including the imposition of blackout periods for trading in the securities of the Company (or other listed entities within the Group) and requiring pre-trade approval.

Challenger prohibits any Director or staff member from trading in derivatives in respect of remuneration related unvested Challenger shares or options. Challenger prohibits Directors and staff members margin lending over Challenger shares.

Those staff designated as potentially having access to insider information are required to seek prior approval to trade in other securities. The policy applies to listed funds offered by Challenger Group companies.

Principle 4 – Safeguard integrity in financial reporting

Integrity of Challenger financial reporting
The Board has the responsibility to ensure truthful and factual presentation of the Company's financial position. The Board has established an Audit and Compliance Committee to assist the Board to focus on issues relevant to the integrity of the Group's financial reporting. In accordance with its Charter, the Audit and Compliance Committee must have at least three members and is comprised of all Non-Executive Directors and a majority of independent members. The Committee is chaired by an Independent Director, who is not Chair of the Board.

The background details of the Audit and Compliance Committee members are set out in the Directors' Report. The Committee typically meets 4 times a year and additional meetings are scheduled as required. The members' names and attendance at meetings is set out on page 31 of this report.

The Committee makes recommendations to the Board in relation to the appointment, review and removal of an external auditor, assessment of the external auditor's independence and the appropriateness of non-audit services that the external auditor may provide. A copy of the Audit and Compliance Committee Charter is available on the Company's website.

Declaration by the Chief Executive Officer and the Chief Financial Officer
The CEO and CFO periodically provide formal assurance statements to the Board that:

- the Company's financial statements present a true and fair view of the Company's financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

Independent external audit
The Company requires its independent external auditor to:

- provide stakeholders with assurance over the true and fair view of the financial reports; and
- ensure accounting practices comply with applicable accounting rules and policies.

The Company's independent external auditor is Ernst & Young (E&Y). E&Y was appointed upon constitution of the Company in November 2003, and this appointment was ratified by members at the annual general meeting held in November 2004.
External auditors are required to rotate the engagement partner assigned to the Company on a five year basis. Under this policy the lead audit engagement partner assigned to the Company rotated at the conclusion of the 2007 financial reporting period.

The Board has requested that E&Y attend the Company's annual general meeting, and that E&Y be available to answer questions arising in relation to the conduct of it's audit.

Principle 5 – Make timely and balanced disclosure

Continuous Disclosure Policy
The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company and that Company announcements are factual and presented in a clear and objective manner.

The Board has approved and implemented a Continuous Disclosure Policy. The policy is designed to ensure compliance with the Corporations Act and ASX Listing Rules continuous disclosure requirements. The Company has a Continuous Disclosure Committee which is responsible for:

- making decisions on what should be disclosed publicly under the Continuous Disclosure Policy;
- maintaining a watching brief on information; and
- ensuring disclosure is made in a timely and efficient manner.

Principle 6 – Respect the rights of shareholders

The Company recognises the importance of enhancing its relationship with investors by:

- communicating effectively;
- providing ready access to clear and balanced information about the Company; and
- encouraging participation at general meetings.

As set out in principle 5, it is Company policy that material information concerning the Company will be announced to the market in a timely and objective manner. Following release to the market, the Company publishes annual and half yearly reports, announcements, media releases and other relevant information on its website at www.challenger.com.au.

Internet web-casting and teleconferencing facilities are provided for market briefings to encourage participation from all stakeholders, regardless of their location. The Company also encourages greater use of electronic media by providing shareholders with greater access to the electronic receipt of reports and meeting notices. The Company also provides a facility to ask questions about the Company and have them answered directly via electronic means.

All major and price sensitive announcements by Challenger are lodged with the ASX and made publicly available via its website before being discussed or disseminated with members of the investment community.

Principle 7 – Recognise and manage risk

Risk management and compliance
The management of risks is fundamental to the Company's business and to building shareholder value. The Board recognises the broad range of risks which apply to Challenger as a participant in the financial services industry, including, but not limited to, market risk, funding and liquidity risk, credit risk, investment, strategic and business risk, reputation, licence (compliance) and operational risk. The Board is responsible for determining the Group's risk management strategy. Management is responsible for implementing the Board's strategy and for developing policies and procedures to identify, manage and mitigate risks across the whole of the Group's operations.

The key design component of Challenger's approach to risk management is that the heads of the business units have accountability for the risks within their divisions with oversight, analysis, monitoring and reporting of these risks by executives who are independent of the business units and are responsible to the CEO and the Board or its Committees.

The Board has delegated certain authorities to management to manage risk. The Group Risk Management Framework is underpinned by a robust set of policies, procedures and delivery plans that are regularly reviewed.

The framework and policies are developed and approved by management, reviewed and approved by the Group Audit and Compliance Committee, and then made available to all staff of the Company and its subsidiaries. The Group's Risk Management functions have day to day responsibility for monitoring the implementation of the framework and policy with regular reporting provided to the Group Audit and Compliance Committee on the adequacy and effectiveness of management controls for material business risk.

The Committee provides reporting to the Board on compliance with the framework and policies. A summary of the Group Risk Management

Framework can be found on the Company's website.

The Board and Audit Committee review the effectiveness of the risk management and internal control system on an annual basis.

Internal audit
Internal audit services for the Challenger Group were provided by PricewaterhouseCoopers during the period.

The Group Audit and Compliance Committee has appointed KPMG to provide Internal Audit Services to the Challenger Group effective 1 July 2009. The Group Audit and Compliance Committee oversee the scope of internal audit and monitor the progress of the internal audit work programme. The Committee receives reports from internal audit at each meeting and monitors management's responsiveness to internal audit findings and recommendations. The internal audit function is independent of the external auditor. The internal audit function reports directly to the Group Audit and Compliance Committee.

Assurance
During the period, the Board has received formal assurance from the CEO and CFO that:

- the Company's financial statements present a true and fair view of the Company's financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

This assurance forms part of the process by which the Board determines the effectiveness of its risk management and internal control systems in relation to financial reporting risks.

Principle 8 – Remunerate fairly and responsibly

The Board Remuneration Committee
The Board has established a Remuneration Committee comprised of a majority of Independent Directors, having at least 3 members and is chaired by an Independent Director.

The background details of the Remuneration Committee members are set out in the Directors' Report. The Committee usually meets at least twice during the year, and additional meetings are scheduled as required. The members' names and attendance at meetings is set out in Principle 2 of the corporate governance statement.

The Remuneration Committee is responsible for reviewing and recommending to the Board on:

- the Company's remuneration, recruitment, retention and termination policies and procedures for senior executives;
- senior executives' remuneration and incentives;
- superannuation arrangements; and
- the remuneration framework for Directors.

Remuneration
The remuneration details for Key Executives and Non-Executive Directors are reported in the Remuneration Report. Non-Executive Directors are not entitled to participate in incentive schemes.

There are no termination payments to Non-Executive Directors on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration.

Challenger policy, contained in the staff trading policy, prohibits any executive or staff member from entering into a transaction that is designed or intended to hedge that component of their unvested remuneration which is constituted by Challenger shares or options.

It is also Company policy to prohibit margin lending over Challenger shares by Directors, senior executives and staff members.

Financial Report

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

Income statements

For the year ended 30 June 2009

	Notes	Consolidated 2009 $M	Consolidated 2008 $M	Parent 2009 $M	Parent 2008 $M
Derived from operating activities					
Revenue	3	1,973.0	2,465.0	128.6	117.1
Expenses	4	(917.5)	(847.2)	(2.6)	(0.1)
Finance costs	5	(1,214.9)	(1,682.0)	-	-
		(159.4)	(64.2)	126.0	117.0
Share of profits of associates	37	3.1	2.1	-	-
(Loss)/profit from continuing operations before income tax		**(156.3)**	**(62.1)**	**126.0**	**117.0**
Income tax benefit/(expense) from continuing operations	6	68.7	31.3	(0.5)	0.2
(Loss)/profit from continuing operations after income tax		**(87.6)**	**(30.8)**	**125.5**	**117.2**
(Loss)/profit from discontinued operations after income tax	35	**-**	**(8.4)**	**-**	**-**
(Loss)/profit after income tax		**(87.6)**	**(39.2)**	**125.5**	**117.2**
Profit attributable to non controlling interests	26	(3.1)	(5.0)	-	-
(Loss)/profit attributable to equity holders of the parent		**(90.7)**	**(44.2)**	**125.5**	**117.2**
Earnings per share from continuing operations:					
Basic earnings per share	8	(16.2)	(6.1)		
Diluted earnings per share	8	(15.9)	(6.7)		
Earnings per share from all operations:					
Basic earnings per share	8	(16.2)	(7.5)		
Diluted earnings per share	8	(15.9)	(8.1)		

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

Balance sheets

As at 30 June 2009

	Notes	Consolidated 2009 $M	Consolidated 2008 $M	Parent 2009 $M	Parent 2008 $M
Assets					
Cash and cash equivalents	9	1,071.7	804.1	0.9	2.8
Cash and cash equivalents - SPV[1]	9	737.0	956.0	-	-
Receivables	10	582.4	381.3	735.2	526.6
Receivables - SPV	10	15,644.1	18,760.4	-	-
Current tax assets		2.7	-	7.8	-
Derivative assets	28	191.7	83.3	-	-
Financial assets fair valued through income statement	11	4,009.0	4,000.2	-	-
Available for sale assets	11	24.3	33.5	-	-
Investment property	12	2,020.5	1,239.7	-	-
Plant and equipment	13	56.8	61.7	-	-
Deferred tax assets	6	52.2	-	124.9	70.6
Investment in controlled entities	36	-	-	1,131.9	1,087.6
Investments in associates	37	43.2	35.0	-	-
Other assets	14	92.4	149.2	-	-
Goodwill	15	688.7	624.0	-	-
Other intangible assets	15	21.1	28.9	-	-
Total assets		25,237.8	27,157.3	2,000.7	1,687.6
Liabilities					
Payables	17	614.5	492.8	447.0	162.3
Current tax liabilities		-	3.6	-	-
Derivative liabilities	28	164.5	75.7	-	-
Financial liabilities fair valued through income statement	18	-	43.6	-	-
Interest bearing liabilities	19	1,818.2	1,494.0	-	-
Interest bearing liabilities - SPV	19	16,310.2	19,523.7	-	-
Provisions	20	52.9	53.3	5.1	7.5
Deferred tax liabilities	6	14.3	97.5	-	-
Life contract liabilities	21	4,573.8	3,743.1	-	-
Total liabilities		23,548.4	25,527.3	452.1	169.8
Net assets		**1,689.4**	**1,630.0**	**1,548.6**	**1,517.8**
Equity					
Contributed equity	23	1,401.4	1,462.4	1,445.5	1,486.9
Reserves	24	167.9	170.2	183.0	159.3
Accumulated losses	25	(187.4)	(19.7)	(79.9)	(128.4)
Total equity attributable to equity holders of the parent		**1,381.9**	**1,612.9**	**1,548.6**	**1,517.8**
Non controlling interests	26	307.5	17.1	-	-
Total equity		**1,689.4**	**1,630.0**	**1,548.6**	**1,517.8**

The balance sheets should be read in conjunction with the accompanying notes.

1 Special purpose vehicles ("SPV")

Statements of changes in equity

For year ended 30 June 2009

		Consolidated		Parent	
		2009	2008	2009	2008
Issued capital	Notes	$M	$M	$M	$M
Opening balance at the beginning of financial year		1,622.1	1,427.1	1,622.1	1,427.1
New shares issued		-	207.5	-	207.5
Movements due to share based remuneration schemes		(17.3)	(12.5)	(17.3)	(12.5)
Cost of share buy back		(41.8)	-	(41.8)	-
Closing balance at the end of financial year		1,563.0	1,622.1	1,563.0	1,622.1
Treasury shares					
Opening balance at the beginning of financial year		(159.7)	(167.2)	(135.2)	(167.2)
Shares issued/purchased		(26.2)	(25.8)	-	-
Shares redeemed		23.9	13.8	17.3	12.5
Shares issued under share based remuneration net of shares cancelled on forfeiture in these schemes		0.4	19.5	0.4	19.5
Closing balance at the end of financial year		(161.6)	(159.7)	(117.5)	(135.2)
Total contributed equity	**23**	**1,401.4**	**1,462.4**	**1,445.5**	**1,486.9**
Reserves					
Opening balance at the beginning of financial year		170.2	82.9	159.3	85.3
Increase in equity option premium reserve		0.1	63.4	0.1	63.4
Foreign currency translation differences		(0.6)	-	-	-
Changes in cash flow hedges, net of tax		(28.3)	15.7	-	-
Changes in available-for-sale assets, net of tax		2.9	(2.4)	-	-
Cost of share based payments		23.6	10.6	23.6	10.6
Closing balance at the end of financial year	**24**	**167.9**	**170.2**	**183.0**	**159.3**
Accumulated losses					
Opening balance at the beginning of financial year		(19.7)	102.1	(128.4)	(168.0)
(Loss)/profit for the year		(90.7)	(44.2)	125.5	117.2
Equity dividends/distributions		(77.0)	(77.6)	(77.0)	(77.6)
Closing balance at the end of financial year	**25**	**(187.4)**	**(19.7)**	**(79.9)**	**(128.4)**
Total equity attributable to equity holders		**1,381.9**	**1,612.9**	**1,548.6**	**1,517.8**
Non controlling interests					
Opening balance at the beginning of financial year		17.1	3.7	-	-
Other non controlling interest movements/distributions		12.3	8.4	-	-
Profit for the year		3.1	5.0	-	-
Consolidation of new controlled entities		275.0	-	-	-
Closing balance at the end of financial year		**307.5**	**17.1**	**-**	**-**
Total equity		**1,689.4**	**1,630.0**	**1,548.6**	**1,517.8**
Total recognised income and expense for the year					
Items recognised directly in equity		(26.0)	13.3	-	-
(Loss)/profit for the year recognised in the income statement		(87.6)	(39.2)	125.5	117.2
		(113.6)	**(25.9)**	**125.5**	**117.2**
Total income and expense for the year attributable to:					
Equity holders of the parent		(116.7)	(30.9)	125.5	117.2
Non controlling interests		3.1	5.0	-	-
		(113.6)	**(25.9)**	**125.5**	**117.2**

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

Statements of cash flows

For the year ended 30 June 2009

	Notes	Consolidated 2009 $M	Consolidated 2008 $M	Parent 2009 $M	Parent 2008 $M
Operating activities					
Receipts from customers[1]		2,054.6	2,557.7	-	0.3
Annuities received		514.0	768.5	-	-
Annuities paid		(1,171.8)	(1,005.8)	-	-
Payments to vendors and employees[1]		(1,905.6)	(2,456.9)	-	(2.2)
Dividends received		104.2	111.8	123.4	110.3
Interest received		318.6	322.0	5.2	6.5
Interest paid		(126.7)	(119.5)	-	-
Income tax paid		(6.3)	(5.5)	(5.2)	(0.8)
Net cash (outflow)/inflow from operating activities	32	**(219.0)**	**172.3**	**123.4**	**114.1**
Investing activities					
Net (payments)/proceeds on sale/purchase of investments		(176.4)	(1,542.8)	-	-
Proceeds on disposal of subsidiary		-	136.9	-	-
Mortgages loans - advanced and purchased		(7,011.6)	(10,723.7)	-	-
Mortgages loans - repaid and sold		10,116.8	11,755.6	-	-
Net proceeds for purchase of controlled entities/significant transactions		610.4	898.3	-	-
Payments for purchase of plant and equipment		(3.2)	(14.1)	-	-
Net cash inflow from investing activities		**3,536.0**	**510.2**	**-**	**-**
Financing activities					
Proceeds from interest bearing liabilities		8,324.7	11,480.7	-	-
Repayment of interest bearing liabilities		(11,435.9)	(12,406.6)	-	-
Proceeds from issue of units		-	292.2	-	292.2
Payments on buy back of shares/treasury shares		(67.0)	(25.7)	(67.0)	(25.7)
Dividend paid		(76.8)	(76.5)	(76.8)	(76.5)
Distributions paid to non controlling interests		(13.4)	(7.5)	-	-
Advances from/(to) controlled entities		-	-	18.5	(303.5)
Net cash outflow from financing activities		**(3,268.4)**	**(743.4)**	**(125.3)**	**(113.5)**
Net increase / (decrease) in cash and cash equivalents		48.6	(60.9)	(1.9)	0.6
Cash and cash equivalents at the start of year		1,760.1	1,821.0	2.8	2.2
Cash and cash equivalents at the end of year	9	**1,808.7**	**1,760.1**	**0.9**	**2.8**
Cash		1,071.7	804.1	0.9	2.8
Cash - SPV		737.0	956.0	-	-
Cash and cash equivalents at the end of year		**1,808.7**	**1,760.1**	**0.9**	**2.8**

[1] Inclusive of GST.

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

Notes to the financial statements

1. *Summary of significant accounting policies*

The financial report of Challenger Financial Services Group Limited ('the Company') for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the Directors on 21 August 2009.

The consolidated financial report of the Company for the financial year ended 30 June 2009 comprises the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in associates.

(i) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. Since 1 July 2008, the Group has adopted a number of Australian Accounting Standards and Interpretations which were mandatory for accounting periods beginning on or after 1 July 2008. Adoption of AASB3 has led to a gain being recognised on consolidation of CDI, refer Note 1(iii) and Note 34.

The financial report has been prepared on a historical cost basis, except for investment properties, derivative financial instruments, sub debt, policy liabilities, available for sale financial assets and assets supporting the life insurance business which have been measured at fair value.

The financial report is in Australian dollars except where noted otherwise.

(ii) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

A summary of the significant accounting policies of the Group are disclosed below.

(iii) New reporting standards issued 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 the amended 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.
- *AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvement Project.* This is applicable for annual reporting periods beginning on or after 1 January 2009. The amendment to AASB 140: Investment Property requires development property to be managed at fair value rather than at cost. The impact on initial application of this amendment has not been assessed as relevant information cannot be reliably estimated.
- *AASB 2009-2: Amendments to Australian Accounting Standards – Improving Disclosures about financial instruments.* This is applicable for annual reporting periods beginning on or after 1 January 2009. The main amendment requires fair value measurements to be disclosed by the source of the inputs. This standard is disclosure only and will not have a financial impact on the results of the Group.

1. *Summary of significant accounting policies (continued)*

(iv) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and certain special purpose entities as at 30 June 2009.

The financial statements of subsidiaries and special purpose entities are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries and special purpose vehicles are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company.

Where there is a loss of control of a subsidiary or special purpose entity, the consolidated financial statements include the results for the part of the reporting year during which the Company had control.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements. Refer to Note 34 Significant transactions and Note 35 Discontinued operations for details of acquisitions and disposals during the year ended 30 June 2009.

Non controlling interests in the results and equity of controlled entities where the Group owns less than 100% of the issued capital are shown separately in the consolidated income statement and balance sheet.

Both the shareholders' and policy owners' interests in the life insurance funds of Challenger Life Company Limited are consolidated.

Where controlled entities other than Challenger Life Company Limited are consolidated, the excess of the purchase price over the fair value of net assets of controlled entities is treated as goodwill and is subject to impairment testing as described in Note 1 (xxii).

Investment in associates

The Group's investments in associates are accounted for under the equity method of accounting in the consolidated financial statements. These are entities which the Group has significant influence but not control over the financial and operating policies.

The financial statements of the associates are used by the Group to apply the equity method. The reporting dates of the associates and the Group are consistent and both use consistent accounting policies. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associates.

The investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this in the consolidated statement of changes in equity.

Securitisation vehicles

The Mortgage Management division originates and manages residential mortgage loans to securitisation vehicles (all referred to as special purpose vehicles) through its loan securitisation program. These vehicles are deemed by accounting standards to be controlled by the Group and are therefore consolidated.

Funds under management

Within the economic entity, certain controlled entities act as the single responsible entity / manager for a number of registered schemes and property syndicates. Registered schemes and property syndicates have not been consolidated in the financial statements as individual entities within the economic entity do not have control of the schemes and syndicates.

Classification of assets and liabilities

The Group operates predominantly in the financial services industry. As such, the assets and liabilities disclosed in the consolidated balance sheet are grouped by nature and listed in an order that reflects their relative liquidity.

1. *Summary of significant accounting policies (continued)*

(v) Segment Reporting

Operating segments are identified on the basis of internal reports to senior management about component parts of the Group that are regularly reviewed by senior management in order to allocate resources to the segment and to assess its performance. Information reported to senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising three reportable segments as disclosed in Note 2 Segment information.

(vi) Life business financial reporting

The Life business includes the selling and administration of contracts through Challenger Life Company Limited (renamed during the year from Challenger Life No.2 Limited). These contracts are governed under the Life Insurance Act 1995 (Life Act). For purposes of the financial statements these are classified as either life insurance contracts or life investment contracts.

The Life business is conducted within separate statutory funds as required by the Life Insurance Act 1995 and are reported in aggregate in the income statement and balance sheet of the Group. The activities of the statutory funds are reported in aggregate with the shareholders fund in the financial report of the Group.

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 fixed income policies the liability is based on the fair value of the fixed income payments and associated expenses, being the net present value using an appropriate discount rate curve as determined by the Appointed Actuary.

Life insurance contract liabilities
The Challenger Life Company Limited (CLC) has a closed book of life insurance contract business. However, CLC has participated in the acquisition or transfer in of life insurance contract (and investment contract) liability books.

The Company has not generated any new business premium for the current and prior reporting period as disclosed in this financial report.

Life insurance contracts 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 fair value of life insurance contract liabilities is referred to as Margin on Services (MoS). Under MoS, the excess of premium 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. The movement in life insurance contract liabilities recognised in the income statement reflects the planned release of this margin.

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (annuity payments, expenses etc) are projected into the future. The liability is calculated as the net present value of these projected cash flows using a risk-free discount rate curve.

(vii) Revenue recognition

Revenue is recognised and measured as the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenues and expenses are generally recognised on an accrual basis. The following specific recognition criteria must be met before revenue is recognised:

(a) Revenue from fee income is derived from the provision of investment management services to the Group's managed investment products and fee and distribution income from managed loan securitisation trusts. Revenue is recognised when the services are deemed to have been earned using an effective interest rate method over the life of the contract.

(b) Revenue from life contract premiums are separated into their revenue and deposit components. Insurance contract premium amounts earned by bearing insurance risks are recognised as revenue. There is no premium revenue in respect of investment contracts, amounts received are recognised as deposits and credited directly to investment contract liabilities.

1. Summary of significant accounting policies (continued)

Premium revenue on insurance contracts and revenue on investment contracts is recognised in the income statement as part of the fair value movement in life contract liabilities. Fair value movements arise from changes in interest rates, inflation rates and other valuation assumptions.

(c) Interest income is recognised as it accrues using an effective interest rate, taking into account the effective yield of the financial asset.

(d) Dividends are recognised as income on the date the share is quoted ex-dividend. Dividends from unlisted companies are recognised when the dividend is received.

(e) Rental revenue from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

(f) Operating lease rental income is earned on a straight line basis over the life of the contract.

(viii) Recognition of mortgage business trailing revenues and receivables

On initial recognition, trailing revenues and receivables are recognised at fair value, being the expected future trailing commission receivable less an estimated cost of servicing, discounted to their present value. In addition, an associated payable and expense to the member brokers is also recognised, initially measured at the fair value being the future trailing commission payable to member brokers discounted to their present value.

Subsequent to initial recognition and measurement, both the trailing commission on the asset and commission payable are measured at amortised cost. The carrying amount of the trail commission asset and trailing commission payable are adjusted to reflect the actual and revised cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the profit and loss account.

(ix) Expense Recognition

Expenses are brought to account on an accrual basis.

(a) Expenses incurred under an investment property operating lease are recognised on a straight line basis over the term of the lease

(b) 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. Other amounts that improve the condition of the investment are capitalised.

(c) Recovery of outgoings as specified in lease agreements are accrued on an estimated basis and adjusted at period end.

(d) Claims from life contracts are separated into their expense and withdrawal components. The component that relates to the bearing of risks is treated as an expense. There is no claims expense in respect of investment contracts, amounts paid are recognised as withdrawals.

(e) Claims expenses on insurance contracts and expenses on investment contracts are recognised in the income statement as part of the fair value movement in life contract liabilities. Fair value movements arise from changes in acquisition and maintenance expenses and related valuation assumptions.

(x) Finance costs

Finance establishment costs in respect of debt that is not fair valued are deferred and amortised over the life of the underlying facility.

Finance costs that are directly attributable to the acquisition, construction or production of qualifying property assets, which are assets that necessarily take a substantial period of time to develop for its intended use or sale, are capitalised as part of the cost of that asset. Investment income earned on the investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

1. Summary of significant accounting policies (continued)

(xi) Foreign currency

Transactions

Transactions in foreign currencies are translated into presentation currency, Australian dollars, 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 ruling at the balance sheet date.

With the exception of foreign exchange differences relating to CDI property assets, foreign exchange differences arising on translation are recognised in the income statement. 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 shall be translated to Australian dollars using the exchange rates ruling at the date when the fair value was determined.

Foreign controlled entities
As at the reporting date, 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 ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.

Foreign exchange differences arising on the retranslation are taken directly to the foreign currency translation reserve in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(xii) Income tax

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss in the income statement; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss in the income statement; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

1. Summary of significant accounting policies (continued)

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss in the income statement.

Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation
Challenger Financial Services Group Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. Challenger Financial Services Group 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 Financial Services Group Limited and each of the members of the tax consolidated group agree to pay tax equivalent payments 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. Deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112.

Income Tax – Challenger Diversified Property Group (CDI)

CDI was formed by stapling the units of Challenger Diversified Property Trust 1 (CDPT1) and Challenger Diversified Property Trust 2 (CDPT2).

Under current income tax legislation, CDPT1 will not be subject to income tax as unit holders are presently entitled to the income of CDPT1 each year. Any taxable income of CDPT1, including any taxable capital gains derived from the sale of an asset, is fully distributed to unit holders.

CDPT2 is a public trading trust under Division 6C of Part III of the 1936 Tax Act. CDPT2 owns all the shares in Challenger Diversified Property Development Pty Ltd (CDPD), which carries on development and other business activities. Both CDPT2 & CDPD are subject to tax at the corporate tax rate on their taxable income.

(xiii) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and 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.

Cash and cash equivalents are brought to account at the face value of the outstanding balance. Interest is recognised in the income statement when earned. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(xiv) Receivables

Trade and other receivables are stated at their amortised cost less impairment losses. Trade and other receivables are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Bills of exchange have been purchased in the market at a discount to face value. The bills are carried at an amount representing cost and a portion of the discount recognised as income on an effective yield basis. The discount brought to account each period is accounted for as interest income.

1. Summary of significant accounting policies (continued)

(xv) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. The Group does not hold derivative financial instruments for trading purposes. However, for derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement for the year.

All derivative financial instruments are stated at fair value. The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

All derivative financial instruments held within Challenger Life Company Limited are stated at fair value with any gains or losses arising from changes in fair value being taken directly to the income statement for the year.

For all entities, for the purpose of hedge accounting, hedges are classified as;

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- 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.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting 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 hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair value hedges
Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to profit or loss in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss in the income statement. The changes in the fair value of the hedging instrument are also recognised in profit or loss in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss in the income statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges
Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss in the income statement. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss in the income statement.

Amounts taken to equity are transferred to the income statement 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.

1. Summary of significant accounting policies (continued)

When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. 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. If the related transaction is not expected to occur, the amount is taken to the income statement.

(xvi) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss held for the purposes or trading or initially designated through profit and loss, receivables or available-for-sale investments. The classification depends on the definition and the purpose for which the investments were acquired. The classification of investments is determined at initial recognition and evaluated at each reporting date.

Purchases and sales of investments are recognised on the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Financial assets at fair value through the income statement
Financial assets classified in this category are assets held for the purposes of trading or designated as fair value through the income statement. Assets held for trading are classified as debt or equity investments. They are carried at fair value and unrealised gains and losses are recognised through the income statement. Assets designated as fair value through the income statement are classified as infrastructure investments or similar. Assets backing life insurance contracts are required to be fair valued in accordance with *AASB 1038: Life Insurance Contracts.*

Loans and receivables
Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the two preceding categories. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the income statement.

(xvii) Investment property

Investment properties are measured initially at cost including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflect market conditions at the balance sheet date. Independent valuations for all investment properties are conducted at least annually, from suitably qualified valuers, and the Directors make reference to these independent valuations when determining fair value. Gains or losses arising from changes in the fair values of

1. Summary of significant accounting policies (continued)

investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Where the Group has categorised property as development property it applies:

i) Development properties
Where a property is undergoing investment development, the cost of redevelopment is added to its previously stated fair value.

The carrying amounts of development properties are reviewed to determine whether they are in excess of their recoverable amount at each reporting date. If the carrying amount of a development property exceeds its recoverable amount, the property is written down to the lower amount. Development properties are revalued to their fair value.

ii) Development property held for resale
Development properties held as inventory are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs.

Cost includes cost of acquisition, development costs, holding costs and directly attributable interest on borrowed funds where the development is a qualifying asset. Capitalisation of borrowing costs ceases during extended periods in which active development is interrupted. When a development is completed and ceases to be a qualifying asset, borrowing costs and other costs are expensed as incurred.

(xviii) Plant and equipment and infrastructure fixed assets

Plant and equipment
Items of 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 write off the net cost of each class of fixed 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 plant and equipment is three to five years.

Infrastructure fixed assets
Infrastructure fixed assets are stated at cost and amortised on a straight line basis over their estimated useful life of 40 years. This is done on an asset by asset basis with amortisation commencing when the Company starts receiving income from the asset.

The carrying values of plant and equipment and infrastructure fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Impairment losses are recognised in the income statement.

(xix) Lease assets

Leases are classified as either operating leases or finance leases at the date of inception of the lease.

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all of the risks and benefits incident to ownership of leased assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the Group will obtain ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over periods ranging from three to 10 years.

Incentives received on entering into operating leases are recognised as liabilities and are amortised over the life of the lease.

Where the Group acquires, as part of a business combination, an operating lease over land, the fair value of the operating lease over land is recognised separately from goodwill. This intangible is recorded at fair value less accumulated amortisation. Amortisation is calculated using the straight-line method over the effective life of the lease being 25 years.

1. Summary of significant accounting policies (continued)

Other operating lease payments are charged to the income statement in the periods in which they are incurred.

Surplus lease space
The present value of future payments for surplus lease space under non-cancellable operating leases is recognised as a liability, net of sub-leasing revenue, in the period in which it is determined that the lease space will be of no future benefit to the Group.

(xx) Deferred portfolio and origination costs

Deferred portfolio costs
Portfolio costs represent the costs associated with establishing securitised mortgage backed pools of funds which are funded via the issue of Residential Mortgage Backed Securities (RMBS) to investors. When incurred these costs are recognised as an asset and subsequently amortised over the life of the future economic benefits expected to be received.

The amortisation policy is to match the portfolio costs with the expected repayment profile of each securitised pool so that the amortisation charge as a proportion of the outstanding securitisation pool is consistent over the life of the securitisation, creating an effective yield.

The amortisation rate is determined based on the forecast prepayment rate of the loans underlying the RMBS. This is calculated on a trust by trust basis, thereby matching each pool of relevant costs with the forecast prepayment rate of the 'issue' they relate to.

Deferred origination costs
Deferred origination costs are costs associated with origination of loans including commissions paid to mortgage originators and Lenders Mortgage Insurance (LMI) premiums. Deferred origination costs incurred are recognised as an asset and subsequently amortised over the life of the future economic benefits expected to be received.The amortisation policy is to match the amortisation of the origination costs with the average repayment profile of a loan so that the amortisation charge as a proportion of the outstanding loan balance is consistent over the life of a loan, creating an effective yield.

The basis of amortisation is determined by the amortisation of the loan book or Cumulative Prepayment Rates (CPR) curve (excluding discharges). Any origination costs (remaining written down value) associated with a loan which has discharged during the period is written off immediately.

This policy ensures that total deferred origination costs are not carried at an amount above their recoverable amount.

(xxi) Goodwill and other intangible assets

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of 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, or groups of cash-generating units, 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 so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with *AASB 8 Segment Reporting.*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash generating units) is less than the carrying amount, an impairment loss is recognised.
When goodwill forms part of a cash-generating unit (group of cash-generating units) 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

1. Summary of significant accounting policies (continued)

values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses recognised for goodwill are not subsequently reversed.

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.

Certain internal and external software costs directly incurred in acquiring and developing certain software have been capitalised and are being amortised on a straight line basis over their useful life, usually for a period of five years. Useful lives are examined on an annual basis and where applicable, adjustments are made on a prospective basis. Costs incurred on software maintenance are expensed as incurred.

(xxii) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes a formal estimation of the asset's recoverable amount.

An asset's recoverable amount is the greater of the fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash flows that are largely independent of those from other assets or groups of assets. In such cases, the asset is tested for impairment as part of the cash generating unit to which it belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units, then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A reversal of the impairment loss may only increase the asset's value up to its carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case it is treated as a revaluation increase.

For equity instruments classified as available for sale, impairment losses recognised in the income statement shall not be reversed through the income statement until the asset is disposed.

(xxiii) Payables

These amounts represent unsecured liabilities for goods and services provided to the Group prior to the end of the financial year and short term financing of deferred origination costs by managed warehouse trusts. Payables are stated at amortised costs.

(xxiv) Interest bearing liabilities

All loans and borrowings, with the exception of those held in the life company, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Interest bearing liabilities in the life company are carried at fair value and unrealised gains and losses are recognised through the income statement.

Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings. Interest bearing liabilities in the life company are considered at fair value.

1. Summary of significant accounting policies (continued)

(xxv) Employee benefits

Defined contribution superannuation funds
Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

Wages, salaries, annual leave and non monetary benefits
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for accumulating 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 reporting date. The estimated future cash outflows are discounted using bond yields from Australian Commonwealth government 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.

(xxvi) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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 income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet 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.

(xxvii) Contributed equity

Ordinary shares are classified as equity. 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 employee share trust. These shares are issued in respect of the LTIP. Refer Note 1(xxix) for further details.

(xxviii) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the financial period. The number of ordinary shares outstanding includes any shares granted under the employee share incentive plan which have vested and settled.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options and shares granted under the Challenger Performance Plan).

(xxix) Share based payment transactions

Long term equity based incentive plan
The Group has an employee share incentive plan and an employee share trust for the granting of non-transferable options to executives and senior employees. Shares in the Company held by the employee share trust are classified as treasury shares and presented in the balance sheet as a deduction from equity
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1. Summary of significant accounting policies (continued)

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 valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (market conditions).

In accordance with AIFRS, the cost of equity-settled transactions is recognised in the consolidated accounts, 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). At the parent entity level, the cost of the equity shares are recognised as an equity distribution, whereby the investment in subsidiary is increased with a corresponding increase in the share based equity reserve.

The cumulative expense or investment recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments 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.

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 a grant cancelled forfeiture 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, as described in the previous paragraph.

(xxx) 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. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Through contributions to the trust the consolidated entity purchases shares in the company on market. Shares acquired are held by the Challenger Performance Plan Trust and are disclosed as “Treasury Shares” and deducted from contributed equity. The cost of the shares acquired by the CPP is recognised as an employee benefit expense with a corresponding increase in equity, being a share based payments reserve.

The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares.

(xxxi) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount 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 amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as an asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1. Summary of significant accounting policies (continued)

(xxxii) Restrictions on assets

Investments held in Challenger Life Company Limited can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that the assets in a statutory Fund ("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. Participating policyholders can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements is met.

(xxxiii) 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:

Share based payments
The Group measures the cost of equity-settled transactions with employees by reference to 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, as discussed in Note 31. The fair value calculation is performed by an external valuer.

Policy liabilities
Life insurance policyholder liabilities are accounted for under *AASB 1038: Life Insurance Business.*

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 and expenses in the financial year in which the changes occur.

A significant area of judgement is in the determination of policyholder liabilities, which involve actuarial assumptions.

The areas of judgement where key actuarial assumptions are made in the determination of policyholder liabilities are:

- business assumptions including:
  - duration of claims/policy payments;
  - acquisition and maintenance expense levels;
- economic assumptions for discount and inflation rates.

The determination of assumptions relies on making judgements on variances from forecast assumptions. Where experience difference from forecast assumptions:

- Recent results may be a statistical aberration; or
- There may be a commencement of a new paradigm requiring a change in forecast assumptions.

The Group's actuaries arrive at conclusions regarding the statistical analysis using their experience and judgement.

Additional information on the policyholder liabilities is set out in Note 21 Life Contract Liabilities.

Property valuations
Investment properties in Note 12 are stated at fair value, which has been determined based on valuations performed by independent valuers during the year ended 30 June 2009.

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.

1. Summary of significant accounting policies (continued)

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
Subordinated debt is initially recognised at fair value and in subsequent periods is remeasured at fair value through the income statement. The determination of fair value includes the assessment of movements in interest rates, credit spreads and foreign exchange. These movements are reviewed at each reporting date to take into account market conditions.

Deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Factors considered include the ability to offset tax losses against taxable profits between members of the tax consolidated group within an appropriate future timeframe and whether the level of future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

Unlisted investment valuations
Investments for which there is no active market or an external valuation available were valued with reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and other methods consistent with market best practice. Refer Note 27 for further disclosure.

Impairment of goodwill
The Group assesses whether goodwill is impaired at least annually in accordance with the accounting policy in Note 16. These calculations involve an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated.

(xxxiv) Comparatives

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

Cash equivalents that were categorised in financial assets fair valued through the income statement in prior periods have been reclassified into cash and cash equivalents category. This change as resulted in a restatement of cash to $804.1 million at 30 June 2008, an increase of $146.3 million.

An internal organisational restructure was undertaken during the year resulting in a change to the composition of the Funds Management and Life (formerly Asset Management) divisions. The restructure has changed the financial disclosure by division for management reporting only, and in particular is relevant to Note 2: Segment information.

The change in the composition of the two divisions resulted in the prior year comparative for operating loss before tax and non controlling interests, increasing for Life by $38 million with an equal and offsetting increase in profit for Funds Management. The prior year comparative for the net assets of two divisions also changed with the net assets for Life decreasing by $10 million offset by a corresponding increase in Funds Management net assets.

Whilst divisions have changed to align with the management view of the operating result the total consolidated profit or loss after tax and net assets of the Group remain unchanged from the prior period.

During the period the Group reassessed the application of AASB: 112 Income Taxes for the 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 restating 2008 tax balances by reducing deferred tax assets by $198.0 million, reducing current tax liabilities by $63.3 million and reducing deferred tax liabilities by $134.7 million.

In addition, for the prior year comparative period the income tax credit relating to current year operating losses has been reclassified between deferred income tax and current income tax. Note 6: Income Tax has changed by a $33.3 million decrease in the deferred income tax benefit offset in full by a corresponding increase in the current income tax benefit. At a parent entity level the same change has resulted in a $25.3 million reclassification.

(xxxv) Rounding of amounts

The financial report is presented in Australian dollars and all amounts are rounded to the nearest hundred thousand dollars ($0.0M) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100.

2. *Segment information*

Business segments

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

	Reporting Segments											
	Life		Mortgage Management		Funds Management		Total Reporting segments		Corporate and Other [3]		Total consolidated management view	
$M	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Management view[1]												
Total segment revenue	250.8	207.9	208.9	164.9	114.4	187.3	574.1	560.1	4.7	6.4	578.8	566.5
Operating expenses	(23.4)	(23.1)	(72.8)	(64.8)	(96.3)	(118.9)	(192.5)	(206.8)	(66.6)	(49.3)	(259.1)	(256.1)
Normalised EBIT	**227.4**	**184.8**	**136.1**	**100.1**	**18.1**	**68.4**	**381.6**	**353.3**	**(61.9)**	**(42.9)**	**319.7**	**310.4**
Interest and borrowing costs	-	-	-	-	-	-	-	-	(36.9)	(41.3)	(36.9)	(41.3)
Discontinued operations[2]	-	-	-	-	-	-	-	-	-	10.1	-	10.1
Normalised net profit/(loss) before tax, impairment, significant items and investment experience	**227.4**	**184.8**	**136.1**	**100.1**	**18.1**	**68.4**	**381.6**	**353.3**	**(98.8)**	**(74.1)**	**282.8**	**279.2**
Investment experience	(442.3)	(270.7)	-	-	-	-	(442.3)	(270.7)	-	-	(442.3)	(270.7)
Significant items	-	(45.8)	-	(22.0)	-	-	-	(67.8)	-	(18.6)	-	(86.4)
Net profit/(loss) before tax	**(214.9)**	**(131.7)**	**136.1**	**78.1**	**18.1**	**68.4**	**(60.7)**	**14.8**	**(98.8)**	**(92.7)**	**(159.5)**	**(77.9)**
Income tax benefit											68.8	33.5
Net loss after tax from all operations											**(90.7)**	**(44.2)**
Segment assets	6,119.7	5,645.0	1,121.9	847.7	108.2	161.0	7,349.8	6,653.7	17,888.0	20,503.6	25,237.8	27,157.3
Segment liabilities	(5,413.4)	(4,736.0)	(608.9)	(276.6)	(14.9)	(43.5)	(5,837.2)	(5,056.1)	(17,711.2)	(20,471.2)	(23,548.4)	(25,527.3)
Net assets from all operations	**906.3**	**909.0**	**513.0**	**571.1**	**93.3**	**117.5**	**1,512.6**	**1,597.6**	**176.8**	**32.4**	**1,689.4**	**1,630.0**
Statutory view:												
Revenue from external customers	(77.2)	68.4	241.0	169.9	128.3	247.2	292.1	485.5	(41.7)	4.9	250.4	490.4
Interest income	276.4	220.6	1,432.3	1,803.8	0.6	4.9	1,709.3	2,029.3	14.5	9.1	1,723.8	2,038.4
Interest expense	(85.8)	(86.6)	(1,098.3)	(1,566.0)	(0.2)	(0.2)	(1,184.3)	(1,652.8)	(30.6)	(29.2)	(1,214.9)	(1,682.0)
Intersegment revenue[4]	(2.5)	(9.0)	5.6	14.0	(3.1)	(5.0)	-	-	-	-	-	-
Impairment	(1.2)	(41.8)	-	(22.0)	-	-	(1.2)	(63.8)	-	-	(1.2)	(63.8)
Depreciation and amortisation	(2.8)	(3.3)	(78.2)	(90.0)	(0.4)	-	(81.4)	(93.3)	(14.0)	(9.6)	(95.4)	(102.9)

[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] 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.
[3] Corporate and Other includes expenses and revenue relating to Corporate and CDI reported to management.
[4] Intersegment transactions are at arms length.

2. *Segment information (continued)*

i) Operating segments
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.

Life includes annuity and life insurance business carried out by Challenger Life Company Limited (CLC). CLC invests in assets providing long term income streams for policy holders.

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.

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 fund mandates.

Corporate and other in the segment note includes the income and expenses incurred by the corporate division. Corporate and other also 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.

ii) Products and services
The Groups divisional segment split represents the products that the Group supplies.

Life
Challenger offers a fixed rate superannuation product and fixed rate retirement product that are both designed for investors who are seeking a low-risk investment for a known period of time and want to protect their capital.

Mortgage management
Challenger specialises in funding residential and commercial loans to borrowers in Australia and New Zealand. These loans are delivered through a vast network of accredited Preferred Lenders. The Preferred Lenders include mortgage originators, mortgage managers and other professionals who offer loans under their own branding to their clients.

Funds management
Funds management offers a range of management investments across the major asset classes with funds in:

- Fixed interest and mortgage funds
- Australian shares
- Property funds
- International share funds

iii) Geographical areas
The Group operates predominantly in Australia and so no geographical split is provided to the chief operating decision maker.

iv) Major customers
The Group does not rely on any major customer and so there is no concentration risk.

v) Non reportable segment reconciling items

Reconciling items in corporate and other revenue includes interest income received by corporate entities:

Reconciling items in corporate and other includes expenses incurred by the corporate divisions not recharged such as corporate division wages and salaries and depreciation costs.

The assets of the corporate and other segment are made up of corporate assets of $226.7 million (2008 $594.1 million), SPV assets of $16.2 billion (2008: $19.9 billion), and CDI assets of $630.5 million (2008 nil)

The liabilities of the corporate and other segment are made up corporate liabilities of $307.7 million (2008 $575 million), SPV liabilities of $16.3 billion (2008: $19.8 billion), and CDI liabilities of $359.1 million (2008 nil).

2. Segment information (continued)

	Total	
	2009 $M	2008 $M
vi) Reconciliation of segment revenue to statutory revenue		
Reportable segment revenue	574.1	560.1
Other revenue relating to CDI and Corporate function reported to management	4.7	6.4
Management view of revenue [1]	**578.8**	**566.5**
SPV interest costs and fees offset against SPV income	1,059.9	1,551.7
Commission expenses offset against commission income	316.6	197.6
Amortisation of deferred portfolio and origination costs offset against mortgage fee income	78.2	90.6
Property related expenses offset against property income	35.1	20.8
Policy holder liabilities maintenance and expense offset against policy holder income	190.7	194.5
Realised and unrealised gains and (losses) recognised as investment experience	(314.1)	(141.4)
Normalised capital growth management assumptions	(64.1)	(64.6)
Interest expense on controlled property trusts offset against income for management reporting	38.9	38.2
Other expenses, other interest and impact of non controlling interests offset against income for management reporting	53.0	11.1
Statutory revenue	**1,973.0**	**2,465.0**
vii) Reconciliation of segment profit to statutory loss		
Reportable segment profit before tax	381.6	353.3
Other profit relating to CDI and loss relating to Corporate function reported to management	(98.8)	(74.1)
Management view of profit	**282.8**	**279.2**
Investment experience[2]	(442.3)	(270.7)
Significant items[3]	-	(86.4)
Treatment of discontinued operations	-	10.1
Other	3.2	5.7
Statutory loss before tax	**(156.3)**	**(62.1)**

viii) Intersegment transactions.
All intersegment transactions are at arm's length.

[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 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

[2] Investment experience is the realised and unrealised mark to market gains and losses on assets and liabilities. Investment experience is net of normalised capital growth.

[3] Management view in 2008 included significant items relating to impairment of assets and disposal of the Financial Planning division.

3. Revenue

Derived from operating activities:	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
Fees and other income				
Management fee income	319.3	338.0	-	-
Fee income - SPV	45.6	51.2	-	-
Other income	12.2	21.4	-	0.3
Investment revenue				
Equity and infrastructure[1] investments				
Dividend income	72.8	103.4	-	-
Dividend income from controlled entities	-	-	123.4	110.3
Net realised losses on equity investments	(21.0)	(10.1)	-	-
Net unrealised losses on equity investments	(69.2)	(35.0)	-	-
Net realised gains on infrastructure investments	17.5	0.9	-	-
Net unrealised losses on infrastructure investments	(229.6)	(123.1)	-	-
Debt securities and cash				
Interest income	335.5	250.6	5.2	6.5
Net realised losses on debt securities	(89.9)	(0.8)	-	-
Net unrealised losses on debt securities[2]	(17.9)	(70.7)	-	-
Real estate investments				
Dividend income	12.1	22.9	-	-
Property rental income	150.2	101.7	-	-
Net realised(losses)/gains	(1.0)	30.0	-	-
Net unrealised losses	(148.9)	(52.5)	-	-
Discount on acquisition of controlled entities	66.4	-	-	-
Other investments				
Interest income - SPV	1,388.3	1,787.8	-	-
Impairment loss on equity accounted associates	-	(22.0)	-	-
Impairment loss on financial assets available for sale	(1.2)	(41.8)	-	-
Net realised exchange (losses)/gains on foreign exchange translation and foreign currency hedges	(147.9)	117.1	-	-
Net unrealised gains/(losses) on foreign exchange translation and foreign currency hedges	57.5	(64.0)	-	-
Net realised gains on interest rate derivative assets and liabilities	95.0	7.6	-	-
Net unrealised gains/(losses) on interest rate derivative assets and liabilities	106.0	(71.6)	-	-
Other Revenue				
Gain on annuity book transfer	30.8	-	-	-
Policyholder liability adjustment (losses)/gains[3]	(9.6)	124.0	-	-
	1,973.0	**2,465.0**	**128.6**	**117.1**

[1] Infrastructure investments are designated as fair value through the income statement. Refer to Note 1(xvi) for further information.
[2] Includes fair value movement in subordinated debt (Note 27).
[3] Policyholder liability movements from changes in interest rates, inflation rates, and valuation assumptions. Total change in policy liabilities is equal to the policyholder liability adjustment (above) plus the cost of policyholder liabilities (Note 4).

4. *Expenses*

Derived from operating activities:	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
Commission expenses	316.6	197.6	-	-
Amortisation of deferred portfolio and origination costs	78.2	90.0	-	-
Intangibles amortisation expense	8.8	6.0	-	-
Depreciation expense	8.0	6.9	-	-
Employee expenses	154.7	168.8	-	-
Employee share based payments	26.9	22.4	-	-
Superannuation	6.9	6.9	-	-
Communications	9.7	9.4	-	-
IT maintenance	5.0	2.9	-	-
Occupancy expense - operating lease	15.8	8.9	-	-
Property related expenses	35.1	20.8	-	-
Management fees	12.9	14.7	-	-
Professional fees	6.6	22.2	-	-
Fee expenses – SPV	6.7	7.0	-	-
Policyholder liabilities and maintenance expenses[1]	190.7	194.5	-	-
Other expenses	34.9	68.2	2.6	0.1
Total	**917.5**	**847.2**	**2.6**	**0.1**

[1] Cost of policy liabilities is made up of interest expense on policy liabilities plus fair value adjustments to policy liabilities at policy acquisition, less release of liability in respect of expenses incurred in the current year. Interest expense on policy liabilities is calculated at rates that applied during the current year. Movement in policy liabilities due to changes in absolute value of interest rates is captured in Note 3 policy liabilities adjustment.

5. *Finance costs*

	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
Derived from operating activities:				
Interest and loan amortisation expenses incurred by:				
Mortgage Management SPVs	1,053.3	1,544.7	-	-
Other entities	118.4	96.5	-	-
Property trusts	38.9	38.2	-	-
Other finance costs	4.3	2.6	-	-
	1,214.9	**1,682.0**	**-**	**-**

6. *Income tax*

Major components of income tax expense are:

	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
(a) Income tax benefit/(expense) analysis:				
Current income tax benefit/(expense)	58.6	28.4	(0.1)	(0.2)
Current income tax benefit - prior year adjustment	0.6	4.1	0.3	-
Deferred income tax benefit/(expense)	9.5	(1.1)	(0.8)	-
Net benefit/(expense)	68.7	31.3	(0.5)	(0.2)
Deferred income tax benefit included in income tax expense comprises:				
Increase in deferred tax assets	(81.8)	(6.7)	-	-
Increase in deferred tax liabilities	91.3	5.6	0.8	-
	9.5	(1.1)	0.8	-
(b) Reconciliation of income tax benefit/(expense):				
Net (loss)/profit from operations before non controlling interests and income tax benefit/(expense)	(156.3)	(70.6)	126.0	117.0
Add loss relating to non controlling interests	(3.1)	(5.0)	-	-
Net accounting (loss)/profit before tax	(159.4)	(75.6)	126.0	117.0
Prima facie income tax based on the Australian company tax rate of 30%	47.8	22.7	(37.8)	(35.1)
Tax effect of amounts which are not deductible/assessable in calculating taxable income:				
Previously unrecognised tax losses	-	2.2	-	2.2
Non deductible expenses	(3.7)	(1.8)	-	-
Rate differential on offshore income	0.7	5.2		-
Non assessable items	0.7	-	37.0	33.1
Other items	23.2	3.0	0.3	-
	20.9	8.6	37.3	35.3
Net benefit/(expense)	**68.7**	**31.3**	**(0.5)**	**0.2**
Tax losses				
Gross unused losses for which no deferred tax asset has been recognised	(82.5)	(68.8)	(82.5)	(68.8)

All available revenue losses have been recognised in the balance sheet at 30 June 2009 and 30 June 2008.

6. *Income tax (continued)*

Deferred income tax
Deferred income tax at 30 June relates to the following:

	Balance sheet		Income statement	
	2009	2008	2009	2008
Consolidated	$M	$M	$M	$M
Deferred income tax liabilities				
Deferred acquisition and origination costs	(25.4)	(41.4)	15.9	2.4
Fixed asset temporary differences	(16.0)	(18.4)	2.4	(16.4)
Future assessable trail commission	(51.7)	(15.7)	(102.9)	(17.1)
Tax balances recognised on acquisitions	(35.9)	(48.3)	-	15.2
Unrealised FX movements	(9.3)	(12.3)	2.9	(12.3)
Unrealised gains on investment property	(129.6)	(123.3)	(6.3)	29.6
Unrealised gains on external debt	(49.0)	-	(49.0)	-
Other	(34.9)	(36.1)	(21.1)	(10.6)
	(351.8)	(295.5)		
Deferred income tax assets				
Accruals and provisions	54.6	10.8	43.8	(7.7)
Employee entitlements	3.2	2.7	0.5	2.9
Future deductible trail commission	99.6	37.6	62.0	4.8
Investment write down	79.4	11.1	67.5	4.3
Losses	138.3	74.6	17.7	-
Restructure provision	-	-	-	(1.4)
Surplus lease space	6.2	4.6	1.6	(1.2)
Other	8.4	56.6	(44.5)	8.6
	389.7	198.0		
Deferred tax asset/(liability)[1]	**37.9**	**(97.5)**		
Deferred tax benefit/(expense)			**(9.5)**	**1.1**
Parent				
Deferred income tax assets				
Losses	124.9	70.6	(0.8)	-
Deferred tax asset	**124.9**	**70.6**		
Deferred tax benefit/(expense)			**(0.8)**	**-**

[1] Netted by tax jurisdiction:

Deferred income tax asset	52.2	-
Deferred income tax liability	(14.3)	(97.5)
	37.9	(97.5)

6. *Income tax (continued)*

Tax consolidation
Challenger Financial Services Group Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. Challenger Financial Services Group 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 Financial Services Group Limited and each of the members of the tax consolidated group agree to pay tax equivalent payments 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.

Deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112.

7. *Dividends and distributions paid and proposed*

	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
a) Declared and paid during the year				
Final 60% franked dividend for the financial year 30 June 2008: 7.5 cents (2007: 7.5 cents fully franked)	47.4	45.8	47.4	45.8
Interim franked dividend for the financial year 30 June 2009: 5.0 cents unfranked (2008: 5.0 cents fully franked)	29.6	31.8	29.6	31.8
	77.0	**77.6**	**77.0**	**77.6**
b) Proposed (not recognised as a liability as at 30 June)				
Final unfranked dividend for the financial year 30 June 2009: [7.5] cents (2008: 7.5 cents 60% franked)	44.7	47.4	[44.7]	47.4
c) Franking				
Franking credit balance				
The amount of franking credits available for the subsequent financial year are:				
- franking account balance as at the end of the financial year at 30%			3.1	4.4
- franking credits that will arise from the payment of income tax payable during the next financial year			-	7.8
			3.1	12.2
- impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period			-	(12.0)
			3.1	**0.2**

The 2008 final dividend paid has been franked at 60% resulting in an effective tax rate of 18%. The interim dividend and dividend proposed are unfranked resulting in a 0% effective tax rate.

7. *Dividends and distributions paid and proposed (continued)*

d) Distributions paid or provided

Distributions paid or provided represents amounts paid or payable to non controlling interests of entities controlled by the Group.

	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
Distributions paid during the period to non controlling interests	13.4	7.5	-	-
Distributions provided during the period to non controlling interests	11.9	-	-	-
	25.3	**7.5**	**-**	**-**

8. *Earnings per share*

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

	Consolidated	
	2009 Cents	2008 Cents
From continuing operations		
Basic earnings per share	(16.2)	(6.1)
Diluted earnings per share	(15.9)	(6.7)
Total from all operations		
Basic earnings per share	(16.2)	(7.5)
Diluted earnings per share	(15.9)	(8.1)
Earnings used in calculating earnings per share	**$M**	**$M**
For basic earnings per share:		
Loss from continuing operations	(90.7)	(35.8)
Loss from discontinued operations	-	(8.4)
Net loss attributable to ordinary shareholders for basic earnings per share	(90.7)	(44.2)
For diluted earnings per share:		
Net loss from continuing operations	(90.7)	(35.8)
Interest received on LTIP loans	-	(4.4)
Net loss from continuing operations attributable to ordinary shareholders for diluted earnings per share adjusted for the impact of interest received on LTIP loans	(90.7)	(40.2)
Loss from discontinued operations	-	(8.4)
Net loss attributable to ordinary shareholders for diluted earnings per share	**(90.7)**	**(48.6)**
Number of shares	**Number**	**Number**
Weighted average number of ordinary shares for basic earnings per share	558,725,530	586,651,463
Effect of dilution:		
- Share options	10,734,605	16,932,072
Adjusted weighted average number of ordinary shares for diluted earnings per share	**569,460,135**	**603,583,535**

Treasury shares of 53.4 million and options of 141.5 million were not dilutive during the period.

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.

9. *Cash and cash equivalents*

	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
Cash at bank and on hand	296.0	537.7	0.9	2.8
Cash equivalents	652.7	146.3	-	-
Deposits at call	123.0	120.1	-	-
	1,071.7	804.1	0.9	2.8
SPV cash[1]	737.0	956.0	-	-
	1,808.7	**1,760.1**	**0.9**	**2.8**

[1] See Note 22 for full details of the SPV.

10. *Receivables*

	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
Trade debtors	434.6	189.8		-
Amount receivable from controlled entities	-	-	735.2	524.2
Amounts recoverable from managed trusts	6.4	11.4	-	-
Dividends receivable	17.0	36.3	-	-
Interest receivable	40.3	23.4	-	-
Secured loans	37.7	67.0	-	-
Tax refunds receivable	-	-	-	2.4
Other debtors	46.4	53.4	-	-
	582.4	**381.3**	**735.2**	**526.6**
Current	202.0	193.1	-	2.4
Non current	380.4	188.2	735.2	524.2
	582.4	**381.3**	**735.2**	**526.6**
Receivables - SPV	15,644.1	18,760.4	-	-
	15,644.1	**18,760.4**	**-**	**-**
Current	-	-	-	-
Non current	15,644.1	18,760.4	-	-
	15,644.1	**18,760.4**	**-**	**-**
Provision for impairment of SPV receivables:				
Opening balance	40.1	33.5	-	-
New and increased impairment charges	62.6	27.9	-	-
Write downs taken to provision	(19.6)	(21.3)	-	-
Closing balance[1]	**83.1**	**40.1**	**-**	**-**

[1]Shown netted against Receivables – SPV.

For further detail on the Special Purpose Vehicles (SPVs) operated by Mortgage Management refer to Note 22.

Provisions for impairment are maintained against mortgage loan receivables within the respective SPVs.

The provision for impairment loss is measured as the difference between the carrying amount of the loan and the present values of the future cash flows discounted at the loan's original effective interest rate, adjusted for insurance coverage.

The vast majority of the provision at reporting date relates to the provisioning by the SPVs against accrued high rate interest and fees related to loans in arrears which are generally not covered by lenders mortgage insurance. The rest of the provision relates to operational risks.

Importantly, whilst the SPVs are required to be consolidated into the Group's accounts, the effective credit risk exposure in relation to the mortgage loans within the SPVs is held by the residential mortgage backed security note holders (where term securitisation has occurred) or the bank warehouse facility providers (where term securitisation has not yet occurred).

11. *Financial assets*

	Consolidated	
	2009 $M	2008 $M
(i) Financial assets fair valued through income statement		
Debt investments held for trading		
Bonds	1,039.3	299.2
Fixed interest notes	153.5	282.4
Floating rate notes	1,690.0	1,856.1
Preference shares	-	9.7
	2,882.8	**2,447.4**
Equity investments held for trading		
Unlisted unit trusts, managed funds and equities	86.8	58.1
Shares in listed and unlisted corporations	154.5	104.0
Shares in listed corporations held in relation to endowment warrants	45.2	83.3
	286.5	**245.4**
Infrastructure investments[1]		
Shares in listed and unlisted trusts	653.8	914.0
	653.8	**914.0**
Property investments		
Indirect property investments in listed and unlisted trusts[2]	185.9	335.7
	185.9	**335.7**
Securities designated to be fair valued through income statement		
Seeding investments in funds of boutique partners	-	57.7
	-	**57.7**
Total financial assets fair valued through the income statement	**4,009.0**	**4,000.2**
Current	570.7	539.2
Non Current	3,438.3	3,461.0
	4,009.0	**4,000.2**
(ii) Available-for-sale assets		
Other financial assets[3]	24.3	33.5
	24.3	**33.5**
Current	-	-
Non current	24.3	33.5
	24.3	**33.5**

There are no financial assets held in the parent entity.

[1] Infrastructure investments are designated as fair value through the income statement. Refer to Note 1(xvi) for further information.
[2] Indirect property investments include units held in listed and unlisted trusts and interest in joint ventures.
[3] Impairment losses on available for sale assets were $1.2M for 2009 (2008: $41.8M loss).

12. *Investment property*

	Consolidated	
	2009 $M	2008 $M
Investment property		
Investment property at fair value	1,892.4	1,163.9
Investment property under development at cost	26.4	-
Development property at cost	101.7	75.8
Total investment property	**2,020.5**	**1,239.7**
Reconciliation of carrying amount Investment property at fair value		
Carrying amount at beginning of period	1,163.9	1,164.8
Acquisition – CDI[1]	824.2	-
Sale of properties at cost	-	(37.8)
Sale of properties - reversal of unrealised gains[2]	-	(13.1)
Transfer from investment property under development	0.2	-
Capital expenditure	8.4	27.4
Foreign currency exchange gain	(5.3)	2.1
Net revaluation (loss) / gain	(99.0)	20.5
Carrying amount at end of period	**1,892.4**	**1,163.9**
Investment property under development at cost		
Carrying amount at beginning of period	-	-
Acquisition – CDI[1]	25.2	-
Transfer to investment property at fair value	(0.2)	-
Capital expenditure	1.4	-
Carrying amount at end of period	**26.4**	**-**
Development property at cost[3]		
Carrying amount at beginning of period	75.8	74.2
Acquisition – CDI[1]	14.3	-
Transfer to indirect property	-	(6.8)
Development expenditure	17.4	8.4
Net revaluation loss	(5.8)	-
Carrying amount at end of period	**101.7**	**75.8**

There are no investment properties held in the parent entity.

All investment property is considered to be non current.

[1] At 31 December 2008, the Company acquired a controlling interest in the Challenger Diversified Property Group ("CDI"), refer to Note 34 for further information
[2]Consideration received on disposal of properties less historical cost.
[3]Development properties are valued at the lower of cost and net realisable value, being fair value less estimated selling costs.

12. *Investment property (continued)*

Consolidated entity	Notes	Acquisition date	Total cost including additions $M	Carrying value 2009 $M	Cap rate 2009 %	Date of Latest valuation	Carrying value 2008 $M	Cap rate 2008 %
A. Investment property								
Australian properties								
Cinema/Retail								
Century City Walk, VIC	[a][d]	16-Oct-06 & 30-Jun-08	26.7	27.4	8.50%	30/06/09	-	-
Innaloo Cinema Centre, WA	[b][e]	17-Dec-01	28.3	35.8	7.75%	31/12/08	14.2	7.50%
Jam Factory, VIC	[b][e]	4-Jul-00	102.3	110.1	8.00%	31/12/08	44.0	7.75%
George Street Cinemas, NSW	[e]	4-Jul-00	75.0	84.0	8.25%	30/06/09	88.0	7.5%
Sub-sector cinema/retail total			**232.3**	**257.3**			**146.2**	
Retail								
Kings Langley, NSW	[b][d]	29-Jul-01	**16.5**	**16.0**	8.25%	30/06/08	**6.8**	7.25%
Social infrastructure								
County Court, VIC	[e]	30-Jun-00	**200.9**	**273.0**	6.75%	31/12/08	**275.5**	6.50%
Industrial hi-tech								
CSIRO, NSW	[i]	27-Jun-01	150.7	159.0	8.20%	30/06/09	173.0	6.75%
Pacific Brands, Port Melbourne, VIC (formerly Globe)	[b][e]	13-Nov-02	20.1	19.7	9.00%	30/06/09	9.0	7.75%
Goodman Fielder, North Ryde, NSW	[b][f]	23-Feb-01	42.2	43.5	7.75%	31/12/08	18.7	7.25%
Heidelberg, Waterloo, NSW	[b][f]	7-Jan-00	15.4	13.7	8.00%	31/12/08	6.6	7.25%
Kraft, Port Melbourne, VIC	[b][e]	28-Jun-02	26.9	26.0	9.25%	30/06/09	11.4	8.00%
Rexel, North Ryde, NSW	[a][f]	30-Nov-06 &30-Jun-08	17.7	17.5	8.25%	30/06/09	-	-
Sub-sector industrial hi-tech total			**273.0**	**279.4**			**218.7**	
Office								
ABS Building, ACT	[b][d]	1-Jan-00	115.2	140.0	8.00%	30/06/09	60.2	7.25%
DIAC Building, ACT	[b][d]	1-Dec-01	99.8	104.0	7.75%	30/06/09	44.5	7.50%
Discovery House, ACT	[b][f]	28-Apr-98	84.4	97.5	7.50%	31/12/08	40.4	7.00%
Elders House, SA	[b][d]	21-Jun-02	48.1	47.0	8.75%	30/06/09	20.8	7.75%
Executive Building, Hobart, TAS	[b][i]	30-Mar-01	26.2	31.4	9.00%	30/06/09	12.4	8.25%
Makerston, QLD	[b][d]	14-Dec-00	52.8	75.0	7.50%	31/12/08	31.2	7.25%
417 St Kilda Rd, Melbourne, VIC	[i]	27-Jun-02	86.6	79.6	8.50%	30/06/09	82.0	7.50%
Taylors Institute, Waterloo, NSW	[b][f]	16-May-01	41.0	43.4	8.25%	31/12/08	18.4	8.00%
The Forum, Cisco, NSW	[b][c]	5-Jan-01	114.9	110.5	7.75%	31/12/08	47.2	7.15%
The Forum, UUNet, NSW	[b][c]	5-Jan-01	72.2	68.0	8.10%	31/12/08	28.5	7.50%
Sub-sector office total			**741.2**	**796.4**			**385.6**	

12. *Investment property (continued)*

Consolidated entity	Notes	Acquisition date	Total cost including additions $M	Carrying value 2009 $M	Cap rate 2009 %	Date of Latest valuation	Carrying value 2008 $M	Cap rate 2008 %
Distribution centres								
Cosgrove Industrial Park, Enfield, NSW	[a][f]	31-Mar-07	21.3	21.9	7.50%	31/12/08	-	-
6 Foray St (formerly Tetra Pak), Fairfield, NSW	[a][d]	23-Oct-06	21.1	16.9	10.00%	30/06/09	-	-
Spotlight, Laverton North, VIC	[a][c]	16-Oct-06	15.8	16.4	8.25%	31/12/08	-	-
API Richlands, Richlands, QLD	[a][f]	24-Oct-06	13.2	11.2	9.00%	30/06/09	-	-
12-30 Toll Drive, Altona North, VIC	[a][c]	16-Oct-06	13.5	13.9	8.25%	31/12/08	-	-
2-10 Toll Drive, Altona North, VIC	[a][c]	16-Oct-06	6.3	6.4	8.25%	31/12/08	-	-
1-9 Toll Drive, Altona North, VIC	[a][e]	16-Oct-06	3.3	3.3	9.50%	30/06/09	-	-
Sub-sector distribution total			**94.5**	**90.0**			**-**	**-**
Hotel								
Rendezvous Hotels	[f]	8-Dec-05	**56.0**	**56.5**	8.50%	30/06/09	**60.0**	8.00%
Total Australia			**1,614.4**	**1,768.6**			**1,092.8**	
Europe-								
Hungary Industrial	[d]	12-Apr-07	87.4	50.8	9.15%	30/06/09	71.1	8.24%
Rue Charles Nicolle, Villeneuve les Beziers	[a][g]	06-Jun-07	17.9	14.0	8.35%	30/06/09	-	-
Avenue de Savigny, Aulnay sous Bois	[a][g]	06-Jun-07	21.5	16.7	6.10%	30/06/09	-	-
105 Route d'Orleans, Sully sur Loire	[a][g]	06-Jun-07	27.4	21.0	7.65%	30/06/09	-	-
140 Rue Marcel Paul, Gennevilliers	[a][g]	06-Jun-07	13.7	11.0	8.20%	30/06/09	-	-
Zl du Papillon, Parcay-Meslay	[a][g]	06-Jun-07	11.1	8.0	8.40%	30/06/09	-	-
Zl de Thibaud 8 Rue Doulaclouew, Toulouse	[a][g]	06-Jun-07	3.3	2.3	8.60%	30/06/09	-	-
Sub-sector Europe			**182.3**	**123.8**			**71.1**	
Total overseas			**182.3**	**123.8**			**71.1**	
Total investment property			**1,796.7**	**1,892.4**			**1,163.9**	

12. *Investment property (continued)*

Consolidated entity	Notes	Acquisition date	Total cost including additions $M	Carrying value 2009 $M	Cap rate 2009 %	Date of latest valuation	Carrying value 2008 $M	Cap rate 2008 %
B. Development property								
Maitland	[h]	6-Dec-06	78.4	78.4	n/a	30/06/09	67.8	n/a
Mavis Court	[h]	30-Apr-07	14.4	10.1	n/a	30/06/09	8.0	n/a
Enfield	[a]	31-Mar-07	26.4	26.4	n/a	30/06/09	-	-
Smithfield	[a][f]	3-Aug-07	20.1	13.2	n/a	30/06/09	-	-
Total development property at cost			**139.3**	**128.1**			**75.8**	
Total investment and development property			**1,936.0**	**2,020.5**			**1,239.7**	

NOTES:

Total cost - Total cost represents the original acquisition cost plus additions less full and partial disposals since acquisition date. In October 2006 CLC seeded Challenger Diversified Property Group. This involved the full sale of 5 industrial distributions centre properties and the partial (60%) sale of 18 other directly held properties.

Cap Rate - the capitalisation rate is derived by dividing the net property income over the carrying value of an investment property.

Acquisition date shown for CDI properties is the date CDI acquired the properties not the date that CDI was consolidated into CLC. CDI was acquired by CLC on 31 December 2008.

(a) Property is 100% owned by CDI

(b) Property is 60% owned by CDI and 40% owned by CLC. In 2009 the value shown is 100% as a result of the consolidation of CDI.

(c) Valued by CBRE

(d) Valued by JLL

(e) Valued by Savills

(f) Valued by Colliers

(g) Valued by Cushman & Wakeman

(h) Valued at Cost

(i) Valued by M3 Property

(j) Property was transferred from development property to indirect property during the 2008 year

(NVR) Property held at the lower of cost or net realisable value

(k) Property was classified as an investment property under development at 30 June 2008.

The carrying values have been determined with reference to independent valuations using the market capitalisation and discounted cash flow methods.

As at 30 June 2009 the investment property portfolio occupancy rate was 95.95% (CLC) and 98.92% (CDI) with a weighted average lease expiry of 8.1 years (CLC) and 5.7 years (CDI).

The properties listed above (other than the properties separately identified below) are partially debt financed with funding that contains a number of negative undertakings (including an undertaking not to create or allow encumbrances, and an undertaking not to incur financial indebtedness which ranks in priority to existing debt). This debt funding is in place via a note issuance under a security trust structure.

CSIRO and County Court are each financed via separate capital markets bond issuances. Security has been granted over these properties under the bond issuances, which includes a mortgage over the properties.

The development properties listed above (Maitland, Mavis Court) are partially funded by external debt. Security has been granted over each development in relation to that funding, which includes a mortgage over each property.

The Hungarian investments were not funded by debt as at 30 June 2009, and so were not subject to any security or charge at that time.

13. *Plant and equipment and infrastructure assets*

	Consolidated	
	2009 $M	2008 $M
Leasehold improvements (CDI) - at cost [1,2]	2.0	-
Less: Accumulated depreciation	-	-
	2.0	-
Plant & equipment – at cost	47.2	45.6
Less: Accumulated depreciation	(21.4)	(14.9)
	25.8	30.7
Infrastructure assets and plant and equipment - at cost	33.2	33.7
Less: Accumulated depreciation	(4.2)	(2.7)
	29.0	31.0
Total plant and equipment	**56.8**	**61.7**

There is no plant and equipment or depreciation held in the parent company.

Reconciliations	Leasehold improvements	Plant & equipment	Infrastructure and plant & equipment	Total
2009	$M	$M	$M	$M
Consolidated				
Opening balance (net of accumulated depreciation) 1 July 2008	-	30.7	31.0	61.7
Acquisition of subsidiaries	0.6	-	-	0.6
Additions	1.4	1.6	0.2	3.2
Disposals	-	-	(0.2)	(0.2)
Depreciation expense	-	(6.5)	(1.5)	(8.0)
Exchange gains/(losses) arising on the translation of foreign PPE	-	-	(0.5)	(0.5)
Closing balance (net of accumulated depreciation) 30 June 2009	2.0	25.8	29.0	56.8

2008	Leasehold improvements $M	Plant & equipment $M	Infrastructure and plant & equipment $M	Total $M
Consolidated				
Opening balance (net of accumulated depreciation) 1 July 2007	-	28.4	36.5	64.9
Acquisition of subsidiaries	-	-	1.4	1.4
Additions	-	10.2	-	10.2
Disposals	-	(3.1)	-	(3.1)
Depreciation expense	-	(4.7)	(2.2)	(6.9)
Exchange losses arising on the translation of foreign PPE	-	(0.1)	(4.7)	(4.8)
Closing balance (net of accumulated depreciation) 30 June 2008	-	30.7	31.0	61.7

All plant and equipment and infrastructure assets are considered to be non current.

[1] At 31 December 2008, the Company acquired a controlling interest in the Challenger Diversified Property Group ("CDI"), refer to Note 34 for further information.
[2] In 2008 CDI entered into a lease to manage and upgrade the Domain car park located in the Sydney, CBD.

14. *Other assets*

	Consolidated	
	2009	2008
	$M	$M
Deferred portfolio and origination costs	85.7	138.0
Other	6.3	9.9
Other SPV	0.4	1.3
	92.4	**149.2**
Current	30.1	39.4
Non current	62.3	109.8
	92.4	**149.2**

There are no other assets held in the parent.

15. *Goodwill and other intangible assets*

	Consolidated	
Reconciliation of carrying amounts at the beginning and end of the year	2009	2008
	$M	$M
Goodwill		
Cost	968.7	904.0
Less: Accumulated impairment	(280.0)	(280.0)
Total goodwill	**688.7**	**624.0**
Other intangible assets		
Software - at cost	26.7	26.7
Less: Accumulated amortisation	(23.7)	(17.2)
	3.0	9.5
Operating lease intangible - Infrastructure Terminal - at cost	22.8	24.8
Less: Accumulated amortisation	(2.0)	(1.2)
Less: Decrease in intangibles translation to closing rate	(2.7)	(4.2)
	18.1	19.4
Total other intangible assets	**21.1**	**28.9**

There are no goodwill or intangible assets held in the parent.

15. *Goodwill and other intangible assets (continued)*

Consolidated

	Goodwill		Software		Operating lease	
	2009	2008	2009	2008	2009	2008
	$M	$M	$M	$M	$M	$M
Opening balance (net of accumulated amortisation and impairment)	624.0	577.3	9.5	12.3	19.4	24.8
Acquisitions through business combinations	57.6	175.4		-	-	-
Additions	-	-	1.4	4.4	-	-
Disposals	-	(133.6)	-	(2.5)	-	-
Reappraisal of fair value of net assets acquired	(0.5)	3.0	-	-	-	-
Increase or decrease in goodwill translation to closing rate [1]	(0.5)	(0.8)	-	-	(0.5)	(4.2)
Amortisation expense	-	-	(7.9)[2]	(4.7)	(0.8)	(1.2)
Deferred acquisition costs	8.1	2.7	-	-	-	-
Closing balance (net of accumulated amortisation and impairment)	**688.7**	**624.0**	**3.0**	**9.5**	**18.1**	**19.4**

[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 shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated into the presentation currency of the acquirer at the closing rate, with a resultant movement in goodwill reflected in the income statement.

[2] Amortisation of software includes $3.1 million of accelerated depreciation on software after a review of useful life.

(a) Description of the Group's goodwill and intangible assets

i) Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

ii) Software

Software development costs are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over not more than five years. The amortisation has been recognised in the income statement in the line depreciation. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying value.

iii) Operating lease

Clashfern Investments (UK) Limited, a subsidiary of the Group, holds a 99 year lease for the rental of a site. The lease expires in 2032.

16. *Impairment testing of goodwill*

Goodwill acquired through business combinations has been allocated to the following cash generating units for impairment testing as follows:

- Mortgage Management
- Funds Management
- Life

The recoverable amount of goodwill for each cash generating unit has been determined based on a value in use calculation.

To calculate this, cash flow projections are based on financial budgets approved by senior management covering an appropriate horizon for each cash generating unit.

The discount rates applied to cash flow projections are set out below and are based on the Group's weighted average cost of capital.

Cash generating unit	2009 Discount rate %	2008 Discount rate %	Cash flow horizon
Mortgage Management	12.0	12.5	10[1]
Funds Management	12.0	12.5	5
Life	12.0	12.5	5

[1] The 10 year period has been used because this business has a proven history of mortgage market growth which allows easier determination of longer term cash flow assumptions. Further, the business' financial budgets and forecasts are modelled from 10 year forecasts.

Carrying amount of goodwill

	Mortgage Management		Funds Management		Life		Total	
$M	2009	2008	2009	2008	2009	2008	2009	2008
Consolidated	460.0	394.3	78.0	78.0	150.7	151.7	688.7	624.0

The following describes each key assumption used on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year ended immediately before the budgeted year, adjusted for expected impact of competitive pressure on margins and any expected efficiency improvements.

- Bond rates – the yield on a government bond rate at the beginning of the budgeted year is utilised and the value assigned to the key assumption is consistent with external information sources. Values assigned to key assumptions reflect past experiences, except for efficiency improvements.

- Growth rates – the growth rates used are consistent with long term trends in the industry segments in which the businesses operate.

The cash flow projections derived values for the cash generating units (CGU) that were in excess of the carrying value of goodwill.

Sensitivity to changes in assumptions
Management are of the view that reasonably possible changes in the key assumptions, such as a change in the discount rate of 1% or a change in cash flow of 5%, would not cause the respective recoverable amounts for each CGU to fall short of the carrying amounts as at 30 June 2009.

All goodwill is considered to be non current.

There is no goodwill held in the parent

17. *Payables*

	Consolidated		Parent	
	2009	2008	2009	2008
	$M	$M	$M	$M
Trade creditors and accruals	126.2	161.6	-	-
Present value of trail liabilities	376.2	128.9	-	-
Warrant liability[1]	46.3	83.7	-	-
Other creditors	45.2	63.9	-	-
Unsettled trades payable	13.9	42.3	-	-
Amounts payable to controlled entities	-	-	447.0	162.3
Payables - SPV[2]	6.7	12.4	-	-
	614.5	**492.8**	**447.0**	**162.3**
Current	289.0	311.0	-	-
Non current	325.5	181.8	447.0	162.3
	614.5	**492.8**	**447.0**	**162.3**

[1] Does not represent an in substance liability of Challenger as the company has a Deed of Assignment - refer Note 36 (b) for additional information.
[2] See Note 22 for details of SPV.

18. *Financial liabilities*

	Consolidated	
	2009	2008
	$M	$M
Fair valued through the income statement:		
Equity securities held for trading	-	43.6
	-	**43.6**
Current	-	43.6
Non current	-	-
	-	**43.6**

There are no financial liabilities held in the parent.

19. *Interest bearing liabilities*

Consolidated	2009 Outstanding $M	2009 Facility $M	2008 Outstanding $M	2008 Facility $M
Bank loans				
Recourse				
Corporate	130.0	300.0	-	350.0
Non recourse				
Controlled property trusts	470.3	490.8	497.6	505.7
Controlled property trusts – CDI[1,2]	333.8	500.0	-	-
Repurchase arrangements	59.8	59.8	-	-
Total bank loans	**993.9**	**1,350.6**	**497.6**	**855.7**
Non-bank loans				
Recourse				
Medium term note	206.0	206.0	250.0	250.0
Non recourse				
Controlled property trusts	7.0	7.0	6.6	6.6
Corporate	130.0	130.0	130.0	130.0
Loan note finance	62.5	62.5	54.8	54.8
Subordinated debt issuance	418.8	418.8	554.7	554.7
Other interest bearing liabilities	-	-	0.3	0.3
Total non-bank loans	**824.3**	**824.3**	**996.4**	**996.4**
Total interest bearing liabilities	**1,818.2**	**2,174.9**	**1,494.0**	**1,852.1**
Current[3]	890.7		56.1	
Non current[3]	927.5		1,437.9	
	1,818.2		**1,494.0**	
Interest bearing liabilities-SPV	16,310.2	17,485.1	19,523.7	21,217.2
Total interest bearing liabilities-SPV	**16,310.2**	**17,485.1**	**19,523.7**	**21,217.2**
Current[4]	5,092.0		6,958.2	
Non current	11,218.2		12,565.5	
	16,310.2		**19,523.7**	

There are no interest bearing liabilities held in the parent.

As at 30 June 2009, the weighted average interest rate for interest bearing liabilities was 5.57% (2008: 8.1%).

[1]At 31 December 2008, the Company acquired a controlling interest in the Challenger Diversified Property Group ("CDI"), refer to Note 34 for further information.
[2]CDI bank loans are net of $0.4 m of unamortised finance costs.
[3]The current balance includes CDI bank loans of $128.9m. The non current balance includes CDI bank loans of $204.9m.
[4]Of this current balance $5,004 million (2008: $6,940.6 million) is held in warehouse lines, which, in the event they are not rolled over, repayment of the debt is limited in recourse to the value of loans in the warehouse SPV.

19. *Interest bearing liabilities (continued)*

Bank loans

Corporate
The corporate bank facility amounting to $300 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 wholly owned unlisted property trusts are secured solely by fixed and floating first mortgages over investment properties.

Controlled property trust – 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 comprises a non recourse secured and unsecured component.

In relation to the unsecured component, CDI 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.

The secured component relates to the funding of property acquisitions in France. 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.

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 million 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.

During the year $44 million of the medium term note was bought back at a $2.5 million (5.4%) discount to face value.

Controlled property trusts
Non-bank loans in the wholly owned unlisted 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. Interest is fixed and is payable monthly.

Loan note finance
CLC 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).

Subordinated debt – Challenger Life Company Limited (CLC)
CLC, issued AUD $400 million 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.

CLC also issued US$150 million 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$125 million at 10 years with a non-call period of five years; and US$25 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.

19. *Interest bearing liabilities (continued)*

The proceeds from the issuance of both the November 2007 and the December 2006 notes were made available to Statutory Fund No. 2 of CLC. The repayment obligations and other liabilities of CLC 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 CLC 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.

Interest bearing liabilities - 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

20. *Provisions*

	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
Employee entitlements (Note 31)	13.5	19.1	-	-
Surplus lease provision	21.0	15.4	-	-
Relocation provision	2.8	2.4	-	-
Restructuring provision	-	1.1	-	-
Deferred acquisition consideration	-	1.1	-	-
Other provisions	15.6	14.2	5.1	7.5
	52.9	**53.3**	**5.1**	**7.5**

	Consolidated			
	Employee Entitlements $M	Surplus lease provision $M	Relocation provision $M	Restructuring provision $M
Opening balance at 1 July 2008	19.1	15.4	2.4	1.1
Arising during the year	42.6	13.0	0.4	-
Amounts utilised	(48.2)	(7.4)	-	(1.1)
Closing balance at 30 June 2009	**13.5**	**21.0**	**2.8**	**-**

	Consolidated		Parent
	Deferred Acquisition costs $M	Other $M	Other $M
Opening balance at 1 July 2008	1.1	14.2	7.5
Arising during the year	-	14.5	-
Amounts utilised	(1.1)	(13.1)	(2.4)
Closing balance at 30 June 2009	**-**	**15.6**	**5.1**

Surplus lease provision represents the Group's net rental expense obligation on floors in leased buildings in Sydney and Melbourne. The Group's lease obligation on these leases expires in 2015 and 2016 respectively.

Relocation provision represents the Group's net make-good obligations on building leases.

Restructuring provision includes provisions for corporate entity restructuring and employee termination benefits. Employee entitlements exclude termination benefits. The restructuring provision was fully utilised during the year.

Provision for deferred acquisition consideration was in respect of the acquisition of Interstar Securities Holdings Pty Limited and its controlled entities (Interstar) which was acquired as part of the acquisition of Zed Capital Markets Australia Structured Finance Pty Limited and its controlled entities on 29 September 2003. Final settlement of the provision was made during 2009.

Other provisions includes distribution provision for CDI representing the final distribution payable to the non controlling interest for the period ended 30 June 2009.

21. *Life contract liabilities*

Life contract liabilities[1]	Consolidated	
	2009 $M	2008 $M
Life investment contract liabilities - at fair value	3,964.4	3,663.4
Life insurance contract liabilities – at MoS[2] value	609.4	79.7
Total	**4,573.8**	**3,743.1**

[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.

Reconciliation of movements in life contract liabilities	Life investment contract liabilities		Life insurance contract liabilities		Total contract liabilities	
	2009 $M	2008 $M	2009 $M	2008 $M	2009 $M	2008 $M
Total life contract liabilities at beginning of period	**3,663.4**	**2,027.1**	**79.7**	**83.0**	**3,743.1**	**2,110.1**
Key movements in Statutory Funds:						
New business deposit & premiums recognised as an increase in policy liabilities	514.0	766.6	0.0	-	514.0	766.6
Policy withdrawals, payments and claims recognised as a decrease in policy liabilities	(1,137.6)	(998.9)	(33.0)	(6.9)	(1,170.6)	(1,005.8)
Transfer under court approved Part 9 scheme of arrangement[1]	636.5	1,802.1	651.7	-	1,288.2	1,802.1
Policyholder liability adjustments (Note 3)	117.6	(123.6)	(108.0)	(0.3)	9.6	(123.9)
Cost of policyholder liabilities (Note 4)	171.5	190.4	19.2	4.0	190.7	194.4
Other movements	(1.0)	(0.3)	(0.2)	(0.1)	(1.2)	(0.4)
Total life contract liabilities at end of period	**3,964.4**	**3,663.4**	**609.4**	**79.7**	**4,573.8**	**3,743.1**

[1] Policy liabilities transferred to CLC on the acquisition of annuity portfolios from other insurance companies. In the current reporting period, CLC acquired a $1.29 billion portfolio of business from the National Mutual Life Insurance Association of Australia Limited (AXA). In the prior year, CLC acquired a $1.8 billion portfolio of business from Metlife Insurance Limited.

There are no life contract liabilities held in the parent entity.

21. *Life contract liabilities (continued)*

Life insurance contract liabilities

	Consolidated	
	2009 $M	2008 $M
Analysis of life insurance contract liabilities		
(a) Analysis of life insurance contract premium and related revenue		
Total life insurance contract premium and related revenue	-	-
(b) Analysis of life insurance contract claims and related expenses		
Total life insurance contract claims paid and payable	33.2	6.8
Inwards reinsurance claims	0.1	0.1
Life insurance contract claims expense	33.3	6.9
Less: component recognised as a change in life insurance contract liabilities	(33.3)	(6.9)
Total life insurance contract claims and related expenses	**-**	**-**
(c) Analysis of life insurance contract operating expenses		
Life insurance contract maintenance expenses		
- Commission	0.5	0.2
- Other	2.2	0.5
	2.7	**0.7**
(d) Life insurance contract liabilities		
Best estimate liability		
- Value of future life insurance contract benefits	579.8	71.6
- Value of future expenses	28.1	8.1
Total best estimate liability	**607.9**	**79.7**
- Value of future profit margins	1.5	-
Total policy liability	**609.4**	**79.7**

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

Life insurance contract liabilities, and hence the net profit from life insurance contracts have been calculated using the Margin on Services (MoS) method in accordance with the requirements of Life Prudential Standard 1.04 "Valuation of Policy Liabilities" under section 114 of the Life Insurance Act 1995. The Prudential Standard requires the value of life insurance contracts to be calculated in a manner that allows for the systematic release of planned margins on services as services are provided to policyholders and premiums are received.

Challenger maintains one policy type being individual annuities and utilises annuity payments as the profit carrier when calculating the value of life insurance contracts under the projection method.

Key assumptions used in the calculation of life insurance liabilities are:

(i) Discount rate

Discount rates are determined based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows.

(ii) Maintenance expenses

The assumption is based on budgeted maintenance expenses for the year ending 30 June 2010. These expenses are converted to a per policy unit cost or percentage of Account Balance, depending on their nature, based on an expense analysis for the funds.

21. *Life contract liabilities (continued)*

(iii) Inflation
The assumption is based on long term expectations of inflation and is reviewed annually for changes in the market environment. The current assumption is 1.03% for short-term inflation, and 2.47% for long-term (at June 2008 it was 3.65% for short-term inflation, and 4.02% for long-term).

(iv) Shareholder tax
The corporate tax rate of 30% has been used.

(v) Voluntary discontinuances
No voluntary discontinuances are assumed.

(vi) Surrender values
Not applicable as no voluntary discontinuances are assumed.

(vii) Mortality – annuity products
The assumption is based on a review of recent mortality experience for the portfolio. This is adjusted for expected mortality improvements both before the valuation date and after. Expected mortality improvements have been estimated based on observed historic levels of improvement in Australian mortality.

(f) Impact of changes in assumptions

Under MoS, for life insurance contracts valuations using the projection method, changes in actuarial assumptions are generally recognised by adjusting the value of future profit margins in life insurance contract liabilities. Future profit margins are generally released over future periods.
.

Changes in actuarial assumptions do not include market related changes in discount rates such as changes in benchmark market yields caused by changes in investment markets and economic conditions. These are reflected in both life insurance contract liabilities and asset values at the balance date.

(g) Life insurance risk

The Group is exposed to longevity risk on its insurance liabilities, the risk that annuitants may live longer than expectations implicit in liability calculations. The Group manages this risk in part by using reinsurance (ceding) in addition to the regular review of the portfolio to confirm continued survivorship of annuitants receiving income; and regular review of mortality experience for the CLC portfolio to ensure that mortality assumptions remain appropriate.

(h) Insurance risk sensitivity analysis – life insurance contracts

For life insurance contracts which are accounted for under MoS, amounts of liabilities and associated income or expense recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins.

The table below reports the sensitivity of life insurance contract liabilities, current shareholder period profit after income tax, and equity, to changes in assumptions relating to insurance risk.

Variable		Change in life insurance contract liabilities		Changes in shareholder profit after income tax, and equity	
		Gross of reinsurance $M	Net of reinsurance $M	Gross of reinsurance $M	Net of reinsurance $M
Annuitant mortality	50% increase in the rate of mortality improvement	(43.4)	(42.5)	(30.4)	(29.7)
Maintenance expenses	10% increase in maintenance expenses	(0.9)	(0.9)	(0.6)	(0.6)

21. *Life contract liabilities (continued)*

Other life insurance and investment contracts disclosure

	Consolidated	
	2009 $M	**2008 $M**
(a) Analysis of life insurance and investment contract profit		
Losses arising from difference between actual and assumed experience	**(170.0)**	**(52.5)**
Losses related to life insurance and investment contract liabilities		
Attributable to:		
- Life insurance contracts	5.9	(1.1)
- Investment contracts	(175.9)	(51.4)
Losses arising from difference between actual and assumed experience	**(170.0)**	**(52.5)**
Investment earnings/(losses) on assets in excess of life insurance and investment contract liabilities	**7.8**	**(89.0)**
Total loss	**(162.2)**	**(141.5)**

(b) Restrictions on assets

Investments held in the CLC 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.

Investment assets of the life statutory funds comprising cash, equity securities, debt securities, property securities, other financial assets and investment property are held to back investment contract liabilities amounting to $3,964.4 million (2008: $3,663.4 million) and life insurance contract liabilities amounting to $609.4 million (2008: $79.7 million). Investment assets are traded on a regular basis taking into account the movements in liabilities as well as incoming cash flows.

(c) Actuarial information

Mr A Bofinger FIAA, as the Appointed Actuary of CLC, is satisfied as to the accuracy of the data used in the valuations of policy liabilities and solvency reserves in the Financial Report and in the tables in this note. The policy liabilities and solvency reserves have been determined at the reporting date in accordance with the Life Insurance Act 1995.

For the majority of life investment contract liabilities, there is a fixed settlement date. Based on CLC assumptions as to likely withdrawal patterns in the various product groups, it is estimated that approximately $636.4 million (2008: $628.0 million) may be settled within 12 months of the reporting date.

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

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

Mortgage Management retains a nominal beneficial interest in each SPV which entitles it to an income stream from the SPVs 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 note holders being paid and is entitled to the residual income after all other obligations of the trust have been met. Payments to note holders are made according to the terms of the notes but are generally monthly or quarterly.

Mortgage Management's residual income may be impacted in the event of an impairment in the mortgage loans within the SPVs in excess of the security held and any lenders mortgage insurance cover. Mortgage Management maintains a prudent level of provisioning within its SPVs for impairment against the outstanding SPVs 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 note holders bear the credit risk in accordance with the priority of their respective note holdings.

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 SPVs 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 Group's 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 affects the income statement. Ineffective hedges are recognised in the income statement immediately.

The SPVs exposures to interest rate and exchange rate risk are hedged using derivative financial instruments. All derivatives in the SPVs are designated as cash flow hedges, thereby protecting the Group's income statement from significant volatility. The consolidated balance sheet and cash flow statement for the securitised SPVs before intersegment eliminations with Mortgage Management is contained over page.

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

Balance sheet

	Consolidated Special Purpose Vehicles	
	2009 $M	2008 $M
Assets - securitised		
Cash and cash equivalents	737.0	956.0
Receivables	15,772.0	18,888.3
Derivative assets	-	19.0
Other assets	-	6.0
Total assets	16,509.0	19,869.3
Liabilities - securitised		
Payables	65.1	90.7
Derivative liability	13.7	-
Interest bearing liabilities	16,443.9	19,765.3
Total liabilities	16,522.7	19,856.0
Net assets	**(13.7)**	**13.3**
Net assets attributable to unit holders		
Cash flow hedge reserve	(13.7)	13.3
Total net assets attributable to unit holders	**(13.7)**	**13.3**

Statement of cash flows

	Consolidated Special Purpose Vehicles	
	2009 $M	2008 $M
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	1,441.9	1,849.4
Payments to suppliers and employees (inclusive of GST)	(1,207.9)	(1,627.2)
Net cash inflow from operating activities	234.0	222.2
Cash flows from investing activities		
Mortgage loans - advanced and purchased	(7,011.6)	(10,723.7)
Mortgage loans repaid and sold	10,116.7	11,755.6
Net cash inflows from investing activities	3,105.1	1,031.9
Cash flows from financing activities		
Proceeds from borrowings	8,177.8	10,890.5
Repayment of borrowings	(11,735.9)	(12,302.7)
Net cash outflows from financing activities	(3,558.1)	(1,412.2)
Net outflow in cash and cash equivalents held	(219.0)	(158.1)
Cash and cash equivalents at the beginning of the year	956.0	1,114.1
Cash and cash equivalents at the end of the year	**737.0**	**956.0**

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

Reconciliation of reserves

	Consolidated Special Purpose Vehicles	
	2009 $M	**2008 $M**
SPV reserves		
Cash flow hedge reserve	(13.7)	13.3
	(13.7)	**13.3**
Movements in reserves		
Cash flow hedge reserve		
Opening balance	13.3	(4.1)
Net (losses)/gains from changes in fair value	(27.0)	17.4
Closing balance	**(13.7)**	**13.3**

23. *Contributed equity*

	Consolidated			
	2009		2008	
	No. of shares M	$M	No. of shares M	$M
Shares on issue				
Ordinary shares issued	596.0	1,563.0	632.4	1,622.1
LTIP shares treated as treasury shares	(40.7)	(117.5)	(46.2)	(135.2)
CPP shares held in trust and treated as treasury shares	(12.7)	(44.1)	(4.5)	(24.5)
Contributed equity consolidated	**542.6**	**1,401.4**	**581.7**	1,462.4
Movement in shares on issue				
Opening balance	632.4	1,622.1	596.3	1,427.1
Issue of new shares	-	-	40.0	207.5
Net shares cancelled under share based payment plan	(5.3)	(17.3)	(3.9)	(12.5)
Shares purchased and cancelled under share buy-back	(31.1)	(41.8)	-	-
Closing balance	**596.0**	**1,563.0**	**632.4**	**1,622.1**
LTIP				
Opening balance	46.2	135.2	57.5	167.2
Shares forfeited	(5.3)	(17.3)	(3.9)	(12.5)
Vested shares released from LTIP plan	(0.2)	(0.4)	(7.4)	(19.5)
Closing balance[1]	**40.7**	**117.5**	**46.2**	**135.2**
CPP Trust				
Opening balance	4.5	24.5	-	-
Shares purchased held in trust and treated as treasury shares	9.9	26.2	4.7	25.8
Shares released to employees	(1.7)	(6.6)	(0.2)	(1.3)
Closing balance	**12.7**	**44.1**	**4.5**	**24.5**

The parent entity has $1,455.5 million shares on issue. The difference to the consolidated number is due to the treatment of $44.1 million shares in the Challenger Performance Plan Trust as treasury shares on consolidation.

[1]The shares listed on the ASX exclude unvested shares under the executive share based payments scheme (LTIP). This can be represented as follows:

	2009 No. of shares M	2008 No. of shares M
Ordinary shares		
Listed on ASX	569.3	600.4
Unvested LTIP shares not listed on the ASX	26.7	32.0
Total ordinary shares issued	596.0	632.4

23. *Contributed equity (continued)*

(a) Terms and conditions of shares

Ordinary shares
A holder of a share is entitled to certain rights, including rights:

- to receive dividends as declared;
- to be provided with copies of annual reports and other information in respect of the Company;
- to receive notice of, and vote at, meetings of holders of shares, either in person or by proxy;
- after liquidation of the Company, to receive the distribution of the net proceeds of Company assets according to the number of shares registered at termination; and
- to transfer shares and on death, to pass the shares to a surviving joint holder, or by will or otherwise to the holder's estate.

A holder of a share is entitled to one vote on a show of hands and on a poll; each shareholder will have one vote for each fully paid share, determined from the sale of such shares on the ASX on the trading day immediately before the day on which the poll is taken.

Shares issued under LTIP
The terms and conditions of shares issued under the LTIP are disclosed in Note 31 of the financial report. The shares held under the LTIP are treated as treasury shares and deducted from equity.

Challenger Performance Plan Trust
On 24 August 2007, the Challenger Performance Plan Trust was established to hold shares in the Company for allocations made under the Challenger Performance Plan. The trust is treated as a special purpose entity and consolidated. The Trust's shareholding in the Company is disclosed as treasury shares and deducted from equity.

(b) Capital risk management

A company is generally limited in the risk-taking activities that it can engage in by the amount of capital it holds (with reference to different stakeholder expectations). The amount of capital that a company holds therefore acts as a buffer against risk, to ensure that the company is able to continue normal business in the event of an unexpected loss.

Capital risk management involves the management of this risk. The Group manages capital risk management via Capital Management Plans at both the Group level and at the prudentially regulated Challenger Life Company Limited (CLC) level. Broadly, the Capital Management Plans have an objective of maintaining the financial stability of the Group and CLC whilst ensuring the shareholders earn an appropriate risk adjusted return through the optimisation of the capital structures. The Capital Management Plans are approved by the respective boards and are reviewed at least annually.

Capital Management Plan - Group
At the Group level, the Capital Management Plan aims to maintain an investment grade credit rating and robust capital ratios in order to support its business objectives and maximise shareholder wealth. The Group believes that maintaining an investment grade rating is the most appropriate target from a capital structure perspective in order to secure access to capital at a reasonable cost.

Long term credit ratings for the Group and CLC as at the balance date is shown below. There were no changes to these ratings throughout the financial year. The outlook for both entities has been revised to negative from stable, reflecting the impact of ongoing difficult global financial conditions.

Entity	Ratings agency	Long term credit rating	Outlook
Group	Standard & Poor's	BBB+	Negative
CLC	Standard & Poor's	A	Negative

The capital structure of the Group primarily consists of Net Recourse Debt and Common Equity.

The Group monitors its capital structure on the basis of the gearing ratio which is calculated as Net Recourse Debt *divided by* Net Recourse Debt *plus* Common Equity. Net Recourse Debt is calculated as Recourse Debt *less* cash and cash equivalents that are available to the Group (which excludes amongst other things cash and cash equivalents within the CLC statutory funds). Common Equity is calculated as the aggregate of Contributed Equity, Reserves, and Retained Profits, and excludes equity entitlements of Non Controlling Interests.

23. *Contributed equity (continued)*

To maintain the preferred investment grade rating the Capital Management Plan targets a 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.

	Consolidated	
	2009 $M	2008 $M
Recourse debt		
Corporate banking facility	130.0	-
Medium term notes	206.0	250.0
	336.0	250.0
Less: Cash and cash equivalents (available to Group)	157.1	240.8
Net recourse debt	178.9	9.2
Total parent equity	1,381.9	1,612.9
Total capital	1,560.8	1,622.1
Net gearing ratio (%)	11.5%	0.6%

The details of the recourse debt are provided at Note 19.

The Group's current distribution target is a payout ratio of approximately 30% of profit after tax.

There were no material changes to the Group's Capital Management Plan during the financial year.

Capital Management Plan – CLC

CLC 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 financial year CLC complied with these requirements.

Separate and distinct from the Group's Capital Management Plan, CLC's Capital Management Plan integrates the statutory capital and solvency requirements, insurer financial strength rating as assessed by Standard & Poor's, and economic capital requirements. There were no material changes to CLC's Capital Management Plan during the financial year.

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

Capital resources	2009 $M	2008 $M
Shareholder equity	793.4	924.6
Subordinated debt	418.9	554.6
Total regulatory capital	1,212.3	1,479.2
Solvency reserve		
Solvency reserve %	34.9	31.6
Coverage of solvency reserve (times)	1.5	1.8

24. Reserves

	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
Equity option premium reserve				
Opening balance	125.1	61.7	125.1	61.7
Options issued to Colony Marlin-Holdings, LLC	-	63.4	-	63.4
Amortisation of issue costs	0.1	-	0.1	-
Closing balance	125.2	125.1	125.2	125.1
Share based payments premium reserve				
Opening balance	34.2	23.6	34.2	23.6
Share based payments for the year	23.6	10.6	23.6	10.6
Closing balance	57.8	34.2	57.8	34.2
Available-for-sale investment revaluation reserve				
Opening balance	(2.4)	-	-	-
Revaluation loss net of tax taken to reserve	1.7	(44.2)	-	-
Impairment loss taken to income statement	1.2	41.8	-	-
Closing balance	0.5	(2.4)	-	-
Cash flow hedge reserve				
Opening balance	-	1.7	-	-
Transfer of gain to income statement	-	(1.7)	-	-
Charged to equity	(1.3)	-	-	-
Closing balance	(1.3)	-	-	-
Cash flow hedge reserve from SPV				
Opening balance	13.3	(4.1)	-	-
Charged to equity	(27.0)	17.4	-	-
Closing balance	(13.7)	13.3	-	-
Foreign currency translation reserve - CDI[1]				
Opening balance	-	-	-	-
Loss on translation of foreign operation	(0.6)	-	-	-
Closing balance	(0.6)	-	-	-
Total reserves	**167.9**	**170.2**	**183.0**	**159.3**

[1] At 31 December 2008, the Company acquired a controlling interest in the Challenger Diversified Property Group ("CDI"); refer to Note 34 for further information.

24. *Reserves (continued)*

Nature and purpose of reserves

Equity option premium reserve
This reserve represents the valuation assigned to options issued to Consolidated Press Holdings and to Colony Marlin-Holdings LLC.

Shares under option

	Grant date	Expiry date	Exercise price	Number
Consolidated Press Holdings Limited[2]	22 Dec 2003	22 Dec 2013	$3.25	60,000,000
Colony Marlin-Holdings LLC[3]	07 Nov 2007	07 Nov 2012	$7.00	57,142,857

[2] Options issued to Consolidated Press Holdings Limited are non-transferable call options and may be exercised at any time within 10 years from their grant date (22 December 2003).
[3] Options issued to Colony Marlin-Holdings, LLC are non-transferable call options and may be exercised at any time within five years from their grant date (7 November 2007).

Share based payments premium reserve
Under AASB 2 Share Based Payments, an expense is recognised over the vesting period of share options, performance rights and capped performance rights granted to employees as part of the Challenger Performance Plan and the Long Term Incentive Plan. This expense is based on the valuation of the equity benefits granted at the grant date. When an instrument is granted, and an expense incurred, there is a corresponding increase in the share based payments reserve recognised as a separate component of equity. The total of this reserve is net of any gain or loss realised on the disposal of forfeited shares held within the schemes.

Available-for-sale investment revaluation reserve
This reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or sold.

Cash flow hedge reserve
The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Cash flow hedge reserve from SPV
Refer Note 22.

Foreign currency translation reserve - CDI
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the foreign subsidiaries.

25. *Accumulated losses*

	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
Opening balance	(19.7)	102.1	(128.4)	(168.0)
Net (loss)/profit for the period	(90.7)	(44.2)	125.5	117.2
Dividends paid	(77.0)	(77.6)	(77.0)	(77.6)
Balance at end of year	**(187.4)**	**(19.7)**	**(79.9)**	**(128.4)**

26. *Non controlling interests*

	Consolidated	
	2009 $M	2008 $M
Interest in:		
Share capital	349.3	20.6
Reserves	4.2	-
Prior year retained earnings (includes distributions paid)	(49.1)	(8.5)
Profit after tax for the period attributable to non controlling interests	3.1	5.0
	307.5	**17.1**

There are no non controlling interests in the parent company.

27. *Financial risk management*

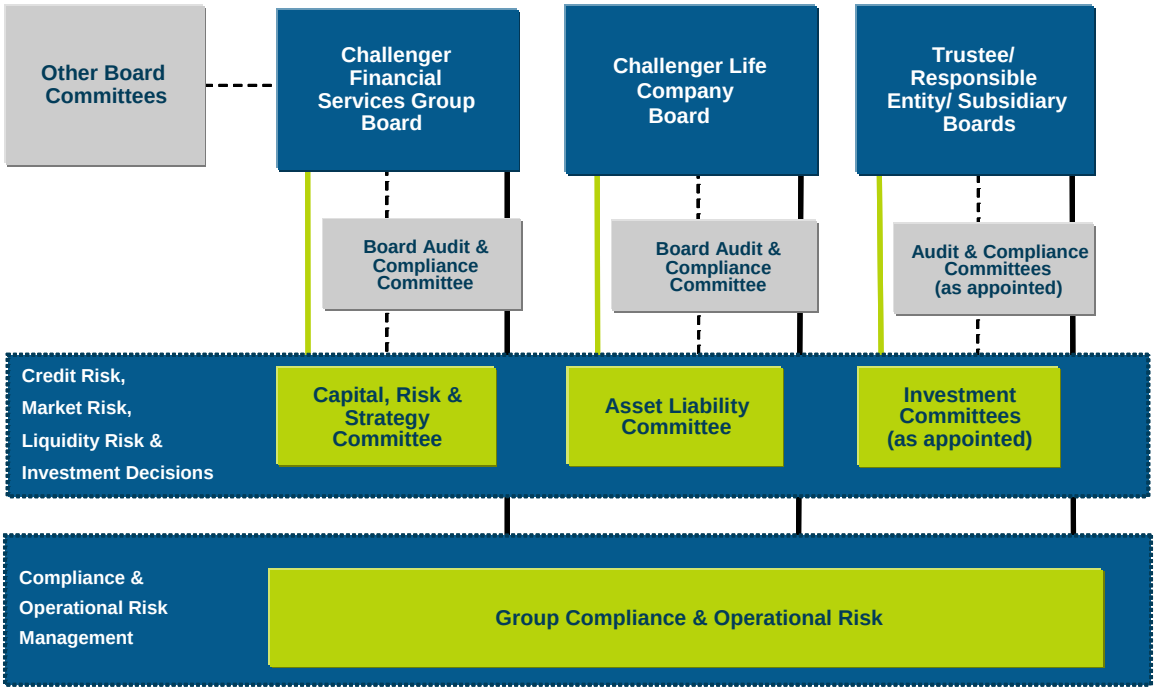
Governance and risk management framework

The Group's activities expose it to a variety of financial risks, these are:

- market risk (including currency risk, interest rate risk, equity price risk and credit spread risk);
- credit default risk; and
- liquidity risk.

The Board has ultimate responsibility for the approval of the Group's financial risk management policies. The Group Capital Risk and Strategy Committee is responsible for monitoring and reporting to the Board on the financial risks that impact the Group. The management of these risks is supported by a comprehensive range of policies.

Governance and risk management framework



Risks and mitigation

In the normal course of the Group's business there is exposure to market, credit and liquidity risks. Derivative financial instruments are used to hedge exposures to fluctuations in foreign exchange rates and interest rates. Instruments used include interest rate futures contracts, forward foreign exchange contracts, cross currency swaps and interest rate swap contracts. Via the utilisation of these instruments the Group aims to reduce these risks to a minimal level.

Within the consolidated Group, hedges are accounted for in different ways within the different divisions. All derivative financial instruments held within Challenger Life Company Limited legal entity (CLC) are stated at fair value with any gains or losses arising from changes in fair value being taken directly to the income statement for the year. CLC legal entity has not elected to undertake the cashflow hedge accounting treatment available under AASB 139.

For all other entities within the Group, for the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction. For those that do not qualify for hedge accounting under the requirements of AASB 139, the derivative instruments are stated. The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, receivables, payables, interest

27. *Financial risk management (continued)*

bearing liabilities, available-for-sale assets and financial assets and liabilities fair valued through the income statement.

The main purpose of using financial instruments is to raise finance for the Group's operations. The use of derivative financial instruments minimises financial risk from movements in interest rates and foreign exchange rates. 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 Note 1.

Fair value of financial instruments
Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on reporting date.

As at 30 June 2009, the Consolidated Entity held $551.6 million (2008: $591.0 million) of investments for which there is no active market and no external valuation available for the specific asset or similar assets. These investments were valued using discounted cash flow analysis and other methods consistent with market best practice, using market observable inputs. Of this, $266.1 million (48%) (2008: $390.0 million (66%)) relates to the Challenger Infrastructure Fund Redeemable Preference Shares and Commercial loans secured by a first lien over commercial and residential property. The total net change in fair value recognised during the period for assets not traded in an active market or where no external valuation is available was a net unrealised loss of $33.1 million (2008: loss $13.0 million). As at 30 June 2009 the estimated impact for +/- 1% change in the assumed price would result in a fair value movement of $5.5 million (2008: $5.9 million). In addition, the Consolidated Entity holds $555.7 million (2008:$457.0 million) of investments for which there is no external valuation available for the specific asset, but an external valuation is available for similar assets. These have been valued using market observable inputs including the prices of similar assets.

Market values from active liquid markets have been used to determine the fair value of listed held for trading and available-for-sale assets. The fair values of interest bearing liabilities have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of receivables and payables with a remaining life of less than one year is deemed to be the notional amount. The fair values of derivative financial instruments are calculated using quoted prices. Discounted cash flow analysis using the applicable yield curves is used where quoted prices are not available. Investments in unlisted managed funds are primarily valued based on financial reports produced by the relevant fund.

As at 30 June 2009, $4.0 billion (2008: $3.7 billion) of life investment contract liabilities and $0.6 billion of insurance contracts were valued in accordance to prudential standard LPS 1.04. Life investment contract liabilities are determined as the present value future benefit payments, investment expenses and maintenance expenses. The fair value discount rate is based on the zero-coupon inter-bank swap curve with an adjustment for fair value based observable market returns appropriate for the term of the liabilities. This calculation basis can result in the liability established at the sale of a contract being different from the premium received, and therefore a profit or loss being recognised, where the implied yield in the policy (allowing for commissions and expenses) is different from the discount rate curve. For the year ending 30 June 2009, a loss of $5.0 million was recognised (2008: loss of $19.6 million).

The maintenance expense assumption is based on budgeted maintenance expenses for the year ending 30 June 2010, and projected future business volumes. Future business volumes and future expenses cannot be forecast with certainty, so there is a range of possible assumptions which could reasonably be used. The total net change in fair value recognised during the period for life investment contract liabilities was an increase of $283.0 million (2008: $67 million). As at 30 June 2009, the estimated impact of a 10% change in the maintenance expense assumption results in an increase or decrease in the fair value of the life investment contract liability of $10.0 million (2008: $14.0 million).

27. Financial risk management (continued)

Financial risks impact the financial assets and liabilities of the Group. Details of the carrying values of the assets and their corresponding fair values are outlined in the below table:

	Notes	Carrying Value 2009 $M	Fair Value 2009 $M	Carrying Value 2008 $M	Fair Value 2008 $M
Financial assets					
Cash and cash equivalents	9	1,071.9	1,071.9	804.1	804.1
Cash and cash equivalents – SPV	9	737.0	737.0	956.0	956.0
Other assets	14	92.4	92.4	149.2	149.2
Financial assets at fair value through income statement					
Financial assets held for trading	11	3,169.3	3,169.3	3,086.2	3,086.2
Financial assets initially designated	11	653.8	653.8	914.0	914.0
Derivative assets	28	191.7	191.7	83.3	83.3
Indirect property investments	11	185.9	185.9	335.7	335.7
Loans and receivables					
Receivables	10	582.4	532.5	381.3	381.3
Receivables – SPV	10	15,644.1	16,145.9	18,760.4	18,760.4
Available-for-sale assets					
Other financial assets	11	24.3	24.3	33.5	33.5
Total financial assets		**22,352.8**	**22,804.7**	**25,503.6**	**25,503.6**
Financial liabilities					
Financial liabilities held for trading	18	-	-	43.6	43.6
Derivative liabilities	28	164.5	164.5	75.7	75.7
Payables	17	607.8	705.9	480.4	480.4
Payables – SPV	17	6.7	6.7	12.4	12.4
Interest bearing liabilities	19	1,818.2	1,817.2	1,494.0	1,493.0
Interest bearing liabilities – SPV	19	16,310.2	16,310.2	19,523.7	19,523.7
Life contract liabilities	21	4,573.8	4,573.8	3,743.1	3,743.1
Total financial liabilities		**23,481.2**	**23,578.3**	**25,372.9**	**25,371.9**

For the parent the Directors consider that the carrying amounts of financial assets and liabilities at the reporting date approximate their fair value.

27. *Financial risk management (continued)*

(a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises (amongst others) four types of risk: currency risk (due to fluctuations in foreign exchange rates), interest rate risk (due to fluctuations in interest rates), equity price risk (due to fluctuations in market prices) and credit spread risk (due to changes in credit spreads).

Each of the divisions is responsible for managing market risks that arise in their own businesses with oversight from a centralised treasury team. It is the policy of the Group to monitor the policies adopted by all divisions to ensure that the overall risk to the Group is monitored and hedged (if required).

A summary of each of the divisions and the way they are managed is shown below:

1. Life business (including Challenger Life Company Limited (CLC)): Viewed as a total return investor which hedges all relevant interest rate and currency within the business line. The Life division consolidates Challenger Diversified Property Group (CDI). CDI run their own hedging strategy and are considered separately to the rest of the Life division.
2. Funds Management (FM): Viewed as a fee income business with equity cash flows that are unhedged at a business line level.
3. Mortgage Management (MM): Viewed as a fee income business with equity cash flows that are unhedged at a business line level.
4. Corporate (Corp): Provides services and funding for Group activities.

As a result, the market risks detailed below refer specifically to the risks faced at a Group level from operating these businesses.

(i) Currency risk

The consolidated entity is exposed to currency risk in respect of its net foreign currency exposures. It is the Group's policy to hedge the exposure of all balance sheet items to movements in foreign exchange rates.

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Life

It is CLC's policy to hedge, as close to neutral, the economic exposure of financial assets and liabilities against movements in foreign exchange rates. Financial assets and liabilities include both investments directly held on CLC's balance sheet and those investments indirectly held through various funds. CLC primarily holds investments in United Kingdom, Europe and the United States in addition to immaterial holdings in other countries. The currencies impacted are primarily British Pounds, Euro and US Dollars. In order to protect against exchange rate movements the business has entered into forward currency and cross currency derivatives.

CDI was acquired on 31 December 2008. CDI's exposure to foreign currency risk relates primarily to revenue, expenses, investment properties, borrowings, other assets and other liabilities that are denominated in Euros. CDI manages these exposures by borrowing in foreign currency to implement a 100% natural capital hedge. CDI has a policy to undertake economic income hedges through foreign exchange hedging (using financial instruments) of the expected distributions from the European portfolio to insulate against movements in exchange rates, both favourable and unfavourable. The policy is to arrange foreign exchange hedges on a rolling basis equivalent to 80-100% of CDI's estimated distributions for five years and up to 90% for years six to ten. The Responsible Entity within the Challenger Group has hedged 100% of estimated distributions for the first five years and 90% of estimated distributions for years six and seven. CDI has not entered into any income hedges for years eight to ten.

Mortgage Management

The Mortgage Management SPV entities hedge exposure to foreign currency risk arising from issuing mortgage backed securities in foreign currency using cross currency swaps. The currencies impacted are primarily British Pounds, Euro and US Dollars. All derivatives in these special purpose vehicles are designated as cash flow hedges. These hedges are effective and there is no material impact on the results.

27. Financial risk management (continued)

Corporate

Within the corporate division, the Group hedges its exposure to potential movements in foreign exchange. Corporate has entered into forward currency derivatives and future contracts to hedge international investment exposure. The currencies impacted are primarily British Pounds, Euro and US Dollars.

All contracts are held at fair value with movements in fair value being recognised in the income statement

The following table details the consolidated entity's net exposure to foreign currency as at the reporting date (Australian dollar equivalent amounts). These figures are shown net of any hedges in place.

Consolidated	2009				2008			
	GBP $M	USD $M	Euro $M	Other $M	GBP $M	USD $M	Euro $M	Other $M
Financial assets	343.3	721.1	573.8	44.2	915.2	940.8	786.7	29.3
Financial liabilities	-	(162.9)	(0.1)	-	(57.7)	(158.3)	(0.6)	-
Foreign currency forward contracts and cross currency swaps	(334.3)	(552.5)	(564.1)	(42.6)	(862.0)	(761.7)	(768.0)	(19.2)
Net FX exposure in AUD[1]	**9.0**	**5.7**	**9.6**	**1.6**	**(4.5)**	**20.8**	**18.1**	**10.1**

[1]Net FX exposure at 30 June 2009 includes the consolidated result of Challenger Diversified Properties Group (CDI).

The analysis below shows the impact on profit after income tax and equity of a movement in foreign currency exchange rates against the Australian dollar on our major currency exposures using residual exposure at the balance date.

All underlying exposures and related hedges are included in the analysis. A sensitivity of 10% has been chosen as this is a reasonable measurement with the current level of exchange rates and the volatility observed on an historic basis.

		Financial Impact			
	Movement in variable against A$	Net profit/(loss) 2009 $M	Equity 2009 $M	Net profit/(loss) 2008 $M	Equity 2008 $M
British Pounds (GBP)	+ 10%	(0.6)	(0.6)	0.3	0.3
	- 10%	0.6	0.6	(0.3)	(0.3)
US Dollar (USD)	+ 10%	(0.4)	(0.4)	(1.7)	(1.5)
	- 10%	0.4	0.4	1.7	1.5
Euro (EUR)[1]	+ 10%	(0.6)	(0.6)	(1.3)	(1.3)
	- 10%	0.6	0.6	1.3	1.3
Other	+ 10%	(0.1)	(0.1)	(0.7)	(0.7)
	- 10%	0.1	0.1	0.7	0.7

[1] 2009 financial impact includes the consolidated result of Challenger Diversified Properties Group (CDI)

Calculation of NPAT is based on 30% tax rate.

The risks faced and methods used in the sensitivity analysis did not change from the previous period.

As shown above a 10% movement in exchange rates would have minimal impact on the consolidated Group's financial position.

Parent

The parent company does not have any financial assets or liabilities with currency risk.

27. Financial risk management (continued)

(ii) Interest rate risk

Interest rate risk is the risk to the Group's earnings and equity arising from movements in the 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 the interest rates.

It is the Group's policy to minimise the impact of interest rate movements on our debt servicing capacity, Group profitability, business requirements and company valuation.

The Group targets to hedge between 30% and 70% of corporate interest bearing liabilities. The amount of corporate interest bearing liabilities and their duration are determined with reference to the annual budget and the most current forecasts.

The Group's strategy is to have no interest rate hedges with duration greater than five years.

Life

CLC's Market Risk Policy is approved by the 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 ability to service policyholders. Net interest rate exposures are reported regularly to the Asset Liability Committee. The management of the risk associated with life investment and insurance contracts including the interest rate risk are subject to the prudential requirements of the Life Act. This includes satisfying solvency requirements, which in turn include consideration of how the interest rate sensitivity of assets and liabilities are matched.

It is CDI's policy to manage the impact of interest rate movements on its debt servicing capacity, profitability and business requirements by entering into interest rate derivatives. CDI's exposure to interest rate risk arises predominantly from liabilities bearing variable interest rates. CDI's policy is to enter into interest rate derivatives to effectively hedge a minimum of 60% of its borrowings over the life of the underlying lease from exposure to movements in interest rates. Hedging activity is performed using interest rate swaps.

:

These derivative instruments are fair valued with changes recognised in the income statement.

Mortgage Management

Mortgage Management is impacted by two elements of interest rate risk:

- The impact of a rising/falling BBSW benchmark over the Reserve Bank of Australia's target cash rate can have a significant increase/decrease in the cost of funding and therefore on the net spread earned on the mortgages funded in the respective Special Purpose Vehicle.

  The business manages this risk by actively adjusting the interest rate charged to borrowers if a sustained adverse differential to the benchmark is evidenced.

- The impact of borrowers fixing the rates on their mortgage.

Interest rate risk is managed by using a cash flow hedge whereby the fixed rate is swapped for a floating rate for an amount of notes equal to notional value of the mortgage that is fixed.

Corporate

The corporate division is impacted by interest rate risk on its floating rate interest bearing liabilities. This exposure is immaterial to the consolidated Group and is effectively hedged.

None of the other divisions has any significant exposure to interest rate risk.

Consolidated Group

The consolidated Group's sensitivity to movements of interest rates in relation to the value of interest bearing financial assets and liabilities is shown in the table below. It is assumed that the change happens at the balance 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

27. Financial risk management (continued)

	Movement in variable	Financial Impact			
		Net profit/(loss) 2009 $M	Equity 2009 $M	Net profit/(loss) 2008 $M	Equity 2008 $M
Life[1]	+ 100bps	9.0	9.0	0.2	0.2
Life	- 100bps	(9.3)	(9.3)	(0.2)	(0.2)
MM	+ 100bps	(9.7)	(9.7)	(11.5)	(11.5)
MM	- 100bps	9.7	9.7	11.5	11.5

[1]In line with the CLC Asset and Liability Committee-approved practice note, it is assumed that all underlying exposures, including related hedges are included in the sensitivity analysis. 2009 financial impact includes the consolidated result of Challenger Diversified Properties Group (CDI) + 100bps $10.3m and -100bps ($10.7m).

Calculation of NPAT is based on 30% tax rate.

The risks faced and methods used in the sensitivity analysis did not change from the previous period. As shown above, 100 bps movement in interest rate risk would have minimal impact on the consolidated Group's financial position apart from any potential effect on Mortgage Management's cost of funds that is limited to approximately one month's exposure as the business has the opportunity to reprice the mortgage portfolio.

Parent

The parent company does not have any financial assets or liabilities with interest rate risk.

(iii) Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because 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 traded on the market.

The consolidated Group is exposed to price risk on its investments in equities and uses derivative financial instruments to manage this risk.

It is the Group's policy to hedge the exposure resulting from movements in the value of listed equity portfolio investments except for investments regarded as "operational" or "strategic".

Life

As a life insurance company, CLC is required to fair value all equities held against policyholder liabilities.

CLC is a major investor in several listed specialised funds and is exposed to the equity price risk on these and other investments in its portfolio of assets. CLC also has international and domestic exposure to price risk on equity investments in 5Oceans World Fund and Greencape High Conviction Fund which were acquired and consolidated through controlling interests during the year.

None of the other divisions have any material direct exposure to equity price risk.

Consolidated Group

The potential impact of movements in the market value of listed and unlisted equities on the consolidated Group's income statement and balance sheet is shown in the below sensitivity analysis. This sensitivity analysis has been performed to assess the direct risk of holding equity instruments; therefore any potential indirect impact on fees from the Group's investment linked business has been excluded. It is assumed that the relevant change occurs as at the reporting date.

The analysis below shows the impact on profit after income tax and equity of a 10% movement in equity prices. It is assumed that the change happens at the balance date.

27. Financial risk management (continued)

Asset class	Movement in variable	Financial impact			
		Net profit/(loss) 2009 $M	Equity 2009 $M	Net profit/(loss) 2008 $M	Equity 2008 $M
Indirect property investment	+ 10%	12.2	12.2	22.7	22.7
	- 10%	(12.2)	(12.2)	(22.7)	(22.7)
Infrastructure investment	+ 10%	41.0	41.0	45.4	45.4
	- 10%	(41.0)	(41.0)	(45.4)	(45.4)
Available-for-sale assets	+ 10%	-	1.0	-	2.3
	- 10%	(1.0)	(1.0)	(2.3)	(2.3)
Other assets	+ 10%	19.6	19.6	11.7	11.7
	- 10%	(19.6)	(19.6)	(11.7)	(11.7)

Calculation of NPAT is based on 30% tax rate.

The risks faced and methods used in the sensitivity analysis did not change from the previous period. As shown above a 10% movement in equity prices may have a material impact on the consolidated Group's financial position.

As at 30 June 2009, a $1.2 million (June 2008: $42 million) impairment charge was recognised due to the impairment of an available-for-sale asset (equity holding in FBR Capital Markets).

Parent
The parent company does not have any financial assets or liabilities with equity price risk.

(iv) Credit spread risk

The consolidated Group is exposed to movements in credit spreads above the interbank swap curve through its Debt Security investments. As at 30 June 2009, a fifty basis point increase/decrease in credit spreads would have resulted in a $65.0 unrealised loss/gain in the income statement (2008: a fifty basis point increase/decrease resulted in a $45.0 million unrealised loss/gain in the income statement).

(b) Credit default risk

Credit default risk is the risk of loss in value of an asset due to a counterparty failing to discharge an obligation and/or a change in the value of the asset due to a widening of credit spreads.

The Group's approach to credit management utilises a credit risk framework to ensure that the following principles are adhered to:

- independence from risk originators;
- recognition of the different risks in the various Group businesses;
- credit exposures are systematically controlled and monitored;
- credit exposures are regularly reviewed in accordance with existing credit procedures; and
- credit exposures include such exposures arising from derivative transactions.

Each of the divisions is responsible for managing credit risks that arise in their own businesses with oversight from a centralised credit risk management team. It is the policy of the Group to monitor the policies of all divisions to ensure that the risk to the Group is monitored and if necessary hedged.

Credit exposure by credit rating consolidated Group

The Group makes use of external ratings (Standard & Poor's, Moody's or another reputable credit rating agency) and will ordinarily adopt a rating no greater than the lowest external rating assigned. Where an external rating is not available, an internal or implied rating will be used. Internal ratings are expressed on the basis of Standard & Poor's rating definitions. All credit exposures are additionally rated internally and this rating is cross referenced to the external ratings in place. Internal credit ratings are assigned by appropriately qualified and experienced credit personnel who are independent from risk originators.

27. Financial risk management (continued)

Life

CLC's Credit Policy is approved by the CLC Board and sets out the relevant limits for interest rate exposure to individual counterparties and credit rating band. Exposures are reported regularly to the CLC Asset and Liability Committee.

Mortgage Management

Credit risk exposure of the SPV loan portfolio
Mortgage Management is a leading provider of 'white label' residential lending solutions which are funded via a combination of wholesale term securitisation markets and warehouse facilities provided via a panel of international and domestic banks through Special Purpose Vehicles (SPVs – refer Note 22).

Importantly, the credit risk of the loans within the SPVs is that of the residential mortgage backed security bondholders (where term securitisation has occurred) or the bank warehouse facility providers (where term securitisation has not yet occurred). As a result, Challenger does not bear the credit risks on the loans originated for the SPVs. MM's exposure is limited to investments in the SPVs and residual income receivable from the SPVs totalling $176.7 million (2008: $187.0 million).

Funds Management

Within the FM division, Challenger Managed Investments Ltd (CMIL) is the responsible entity for various managed schemes. CMIL aims to ensure that at all times it has appropriate credit risk management in place and that the Board and senior management are appropriately informed of the entity's credit risks.

The following table provides information regarding the maximum credit risk exposure of the consolidated entity and the parent at the balance date in respect of the major classes of financial assets. The analysis classifies the assets according to the internal credit ratings.

Assets rated investment grade are assets rated BBB- or above (based on Standard & Poor's methodology). Assets rated non investment grade are assets rated below BBB-.

27. Financial risk management (continued)

Consolidated 2009	Equivalent credit rating: Investment grade AAA $M	AA $M	A $M	BBB $M	Non investment grade: Non-investment grade $M	Other $M	Total $M
Cash and cash equivalents	1,071.7	-	-	-	-	-	**1,071.7**
Cash and cash equivalents – SPV	737.0	-	-	-	-	-	**737.0**
Receivables[1]	0.3	0.3	0.1	39.2	31.3	511.2	**582.4**
Receivables – SPV	9,338.8	5,839.0	344.2	63.1	59.0	-	**15,644.1**
Financial assets fair valued through income statement[2]	1,281.9	274.6	232.8	436.1	657.4	-	**2,882.8**
Derivative assets	-	88.7	101.7	-	-	1.3	**191.7**
Total	**12,429.7**	**6,202.6**	**678.8**	**538.4**	**747.7**	**512.5**	**21,109.7**

Consolidated 2008	Equivalent credit rating: Investment grade AAA $M	AA $M	A $M	BBB $M	Non investment grade: Non-investment grade $M	Other $M	Total $M
Cash and cash equivalents	657.8	-	-	-	-	-	**657.8**
Cash and cash equivalents – SPV	956.0	-	-	-	-	-	**956.0**
Receivables[1]	-	2.9	-	23.6	-	354.8	**381.3**
Receivables – SPV	10,977.8	7,214.6	371.3	63.1	133.6	-	**18,760.4**
Financial assets fair valued through income statement	761.2	245.4	328.9	464.2	794.0	-	**2,593.7**
Derivative assets	-	72.7	4.0	-	-	6.6	**83.3**
Total	**13,352.8**	**7,535.6**	**704.2**	**550.9**	**927.6**	**361.4**	**23,432.5**

[1] Receivables are primarily related to trade debtors and for 2009 includes the consolidated result of Challenger Diversified Properties Group (CDI). Refer to Note 10 for further details.
[2] The credit duration of Debt Security investments at 30 June 2008 is approximately three years.

Parent

At reporting date the parent company had cash and cash equivalents of $0.9 million (2008: $2.8 million) rated AAA. Receivables of $642.1 million (2008: $526.6 million) are not rated by the company as they are amounts due from controlled entities.

Management of credit default risk concentration

At reporting date, the Group has no significant concentrations of credit risk. The credit quality of all financial instruments is consistently monitored in order to identify any adverse changes in the credit quality.

The below tables give information regarding the carrying value of the consolidated Group's financial assets that are neither past due nor impaired, an ageing analysis is of those assets that are past due but not impaired and financial assets that are past due and impaired at the balance sheet date.

27. Financial risk management (continued)

Consolidated	Past due but not impaired					Past due and impaired	Total
	Neither past due nor impaired $M	0-1 months $M	1-3 months $M	3-6 months $M	Greater than 6 months $M	$M	$M
As at 30 June 2009							
Receivables[2]	558.4	-	7.2	6.4	7.7	-	**579.7**
Receivables SPV[1]	14,706.6	547.3	291.4	39.3	-	59.5	**15,644.1**
Mortgages	-	-	-	0.7	2.0	-	**2.7**
Total loans and receivables	**15,265.0**	**547.3**	**298.6**	**46.4**	**9.7**	**59.5**	**16,226.5**
As at 30 June 2008							
Receivables	372.0	-	6.3	0.2	2.3	0.3	**381.1**
Receivables - SPV[1]	17,665.0	619.6	268.5	171.1	-	36.2	**18,760.4**
Mortgages	-	-	0.1	0.1	-	-	**0.2**
Total loans and receivables	**18,037.0**	**619.6**	**275.0**	**171.5**	**2.3**	**36.5**	**19,141.7**

[1] Receivables – SPVs is represented by the weighted average loan to valuation ratio (LVR) of property value at original settlement. As at reporting date the fair value of collateral held for SPV receivables was $26,714.5 million (2008:$26,314.9 million).
[2] Receivables for 2009 includes the consolidated result of Challenger Diversified Properties Group (CDI).

CDI minimises concentration of credit risk in relation to trade receivables by providing leases to a number of different tenants who are considered creditworthy third parties. It is CDI's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, rent receivable balances are monitored on an ongoing basis to ensure the Group's exposure to bad debts is managed through normal payment terms and review of any rental in arrears.

Parent

The parent company has amounts due from controlled entities of $642.1 million (2008: $526.6 million) which are neither past due nor impaired.

Life

Included in financial assets are debt securities that are not quoted in an active market. The net change in the fair value of these assets due to credit risk was $26.3 million negative (2008: $6.0 million negative).

CLC has issued subordinated notes of A$400,000,000 (November 2007) and US$150,000,000 (December 2006). These notes are designated as financial liabilities through profit and loss. The change in fair value recognised in the income statement is $135.9 million, of which $176.0 million was due to credit risk (2008: nil). The carrying amount is $163.0 million below the amount CLC is contractually required to pay at maturity.

CLC has estimated the change in fair value due to credit risk by comparing the carrying value of the instruments to the estimated value using benchmark interest rates at balance date, but assuming credit risk had not been changed.

Mortgage Management

The Mortgage Management SPVs hold a provision to protect against impaired assets (see Note 10 for details).

None of the other divisions has any material credit risk exposure.

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27. Financial risk management (continued)

Repossessed collateral

In the event of a default in any of the SPV's, in compliance with the Mortgage deed, the Lender, Perpetual Trustees Victoria Limited (PVTL) may exercise the power vested under the applicable law and take possession of the secured property. It may exercise any power of sale conferred by applicable law as a recovery action against settlement of the outstanding mortgage balance. At all times of possession, the risks and rewards associated with ownership of the property are held by PVTL as the lender and not the Challenger Group.

(c) 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 either the inability to sell financial assets at their face values; a counterparty failing on repayment of a contractual obligation; or the inability to generate cash inflows as anticipated.

The Group aims to ensure that it has sufficient liquidity to meet its obligations on a short term and medium term basis. In setting the level of sufficient liquidity, the Group considers new business activities in addition to current contracted obligations. In summary it considers: minimum cash requirements; collateral and margin call buffers; AFS Licence requirements; cash flow forecasts; associated reporting requirements; other liquidity risks; and contingency plans.

The basis of the approach to liquidity management is on targeting sufficient liquidity to meet the regulatory guidelines set out in ASIC Policy Statement 166 for holders of an AFS Licence and a Working Capital Reserve.

ASIC Policy Statement 166 currently requires AFS Licence holders to maintain cash flow projections over at least the next three months, based on a reasonable estimate of what is likely to happen and demonstrate that a Liquidity Buffer will exceed 20% of the greater of:

- cash outflows for the forecast three month average (equivalent to 18 days' outgoings); or
- cash outflow for the most recent financial year, adjusted to produce a three month average.

A Working Capital Reserve is to be used as a reserve to pay unexpected cash calls. To determine this figure, generally a review of the last 18 months' cash flows is undertaken. In addition, a number of financial market stresses on the business are undertaken quarterly.

Life

Life aims to ensure that it has sufficient liquidity to meet its obligations on a short term, medium term and long term basis. The 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 CLC Asset and Liability Committee. At the reporting date, all requirements of the CLC Board approved liquidity management policy were satisfied.

The table below summarises the maturity profile of the Group's and the parent's undiscounted financial liabilities. This is based on contractual undiscounted repayment obligations, except for life investment contract liabilities.

27. Financial risk management (continued)

Undiscounted maturity profile Consolidated	1 year or less $M	1-3 years $M	3-5 years $M	> 5 years $M	Total contractual amount $M
2009					
Financial liabilities					
Payables	327.1	213.3	125.8	75.5	**741.7**
Payables - SPV	6.7	0.0	0.0	0.0	**6.7**
Interest bearing liabilities	844.2	324.4	141.6	1,774.8	**3,085.0**
Interest bearing liabilities - SPV	5,331.9	-	-	13,454.3	**18,786.2**
Life investment contract liabilities	1,119.9	1,383.0	965.1	2,722.4	**6,190.4**
Equity securities held for trading	-	-	-	-	**-**
Derivative financial liabilities	24.8	14.3	8.3	80.0	**127.4**
Total financial liabilities[1]	7,654.6	1,935.0	1,240.8	18,107.0	**28,937.4**
2008					
Financial liabilities					
Non derivative financial liabilities					
Payables[2]	314.1	81.8	111.4	17.3	**524.6**
Payables - SPV	12.4	-	-	-	**12.4**
Interest bearing liabilities	141.4	731.8	224.2	1,766.6	**2,864.0**
Interest bearing liabilities - SPV	7,410.3	138.4	-	18,574.9	**26,123.6**
Life investment contract liabilities	1,079.6	1,202.7	804.5	2,022.4	**5,109.2**
Equity securities held for trading	43.6	-	-	-	**43.6**
Derivative financial liabilities[3]	99.9	41.2	35.7	84.6	**261.4**
Total financial liabilities	9,101.3	2,195.9	1,175.8	22,465.8	**34,938.8**

[1] Financial liabilities for 2009 includes the consolidated result of Challenger Diversified Properties Group (CDI).
[2] Payables, interest bearing liabilities and interest bearing liabilities for SPV Trusts have been restated for 30 June 2008 in order to achieve consistency of comparative with the current period.
[3] To protect against movements in foreign exchange rates and foreign interest rates, the SPV Trusts enter into interest rate basis swaps which exactly match the repayment terms to the underlying notes. Repayment of the face value of the notes is based on periodic repayment of the principal balance of the underlying mortgage assets/liabilities that can occur at any time. The notional value of the interest rate swap basis swaps reduces in line with the pay down of the notes. On this basis, the amounts payable as well as maturity bands for the cross currency swap are unable to be determined, and therefore not included in the 2008 table above. At 30 June 2008 the total cross currency swaps were positive net $3.6 million.

28. *Derivative Financial Instruments*

Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. The Group does not hold derivative financial instruments for trading purposes.

All derivative financial instruments are stated at fair value. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Challenger Life Company Limited (CLC) has elected not to undertake the hedge accounting treatment available under AASB 139 *Financial Instruments: Recognition and Measurement* for its derivative financial instruments as the business' underlying assets and liabilities are predominantly fair valued through the income statement.

With the exception of CLC, all entities within the Group have elected for the purpose of hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement* to classify derivative financial instruments as either fair value hedges or cash flow hedges. Fair value hedges relate to hedging the exposure to changes in the fair value of a recognised asset or liability. Cash flow hedges relate to exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction. For those that do not qualify for hedge accounting under the requirements of AASB 139, the derivative instruments are stated at fair value with any gains or losses arising from changes in fair value being taken directly to the income statement.

Hedging instruments fair valued through the income statement

(i) Interest rate swaps and futures fair valued through the income statement

Hedging activity is performed using interest rate swaps and futures. A swap transaction obliges the two parties to the contract to exchange a series of cash flows at specified intervals known as payment or settlement dates. A futures contract obliges its owner to buy a specific underlying commodity or financial instrument at a specified price on the contract maturity date (or to settle the value for cash). Futures contracts are exchange traded.

The Group hedges a portion of its variable interest rate exposures arising from corporate interest bearing liabilities using an interest rate swap. The change in fair value of the interest rate swap is taken directly to the income statement

28. *Derivative Financial Instruments (continued)*

As at reporting date the Group had the following interest rate swaps:

Consolidated Interest Rate Swaps	Notional/ Principal contract value $M	Net fair value assets $M	Net fair value liabilities $M
2009			
Less than 1 year	403.0	4.3	(0.7)
1-3 years	895.3	23.3	(6.6)
3-5 years	732.4	29.2	(2.9)
Greater than 5 years	2,155.7	85.8	(31.3)
	4,186.4	**142.6**	**(41.5)**
2008			
Less than 1 year	115.7	7.0	-
1-3 years	510.0	-	(7.7)
3-5 years	390.0	-	(8.7)
Greater than 5 years	1,495.9	0.2	(51.8)
Total	**2,511.6**	**7.2**	**(68.2)**

As at reporting date the Group had the following interest rate futures:

Consolidated Future Contracts	Notional/ Principal contract value $M	Net fair value assets $M	Net fair value liabilities $M
2009			
Less than 1 year	1,006.3	-	(1.0)
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	-	-	-
	1,006.3	**-**	**(1.0)**
2008			
Less than 1 year			
1-3 years	26.6	1.4	-
3-5 years	-	-	-
Greater than 5 years	-	-	-
Total	**26.6**	**1.4**	**-**

Life holds the majority of contracts per interest rate swaps and interest rate futures. Movements during the year are in line with its adopted investment strategy.

(ii) Forward currency contracts held for trading

The Group uses forward currency contracts to hedge net foreign currency exposures. Life and Corporate businesses treat forward currency contracts at fair value with movements in fair value taken to the income statement.

Details of outstanding foreign currency contracts, cross currency swaps, fair values and maturities as at reporting date are as follows:

28. *Derivative Financial Instruments (continued)*

Consolidated

	Notional/Principal contract value $M	Net fair value assets $M	Net fair value liabilities $M
2009			
FX forwards	2,713.3	19.5	(17.9)
Cross currency swaps	173.7	-	(59.4)
	2,887.0	**19.5**	**(77.3)**
2008			
FX forwards	2,572.4	50.0	(3.7)
Cross currency swaps	159.3	1.6	-
	2,731.7	**51.6**	**(3.7)**

The maturity profile table below illustrates the AUD equivalent of the foreign currency buy and sell contracts.

2009	**Maturity Profile**			
Outstanding contracts	**<1 year**	**1-3 years**	**3-5 years**	**>5 years**
	$M	**$M**	**$M**	**$M**
Buy				
USD Dollars	(669.8)	-	-	-
GBP Sterling	(8.1)	-	-	-
EUR Euro	(236.8)	-	-	-
NZD Dollars	(1.2)	-	-	-
Sell				
USD Dollars	933.0	-	11.3	-
EUR Euro	436.1	3.0	3.5	4.8
GBP Sterling	312.9	-	-	-
SEK Krona	26.2	-	-	-
NZD Dollars	17.5	-	-	-
JPY Yen	6.1	-	-	-
	815.9	**3.0**	**14.8**	**4.8**
2008				
Buy				
USD Dollars	(143.9)	-	-	-
GBP Sterling	(13.1)	-	-	-
EUR Euro	(10.4)	-	-	-
NZD Dollars	(1.4)	-	-	-
CAD Dollars	(1.0)	-	-	-
JPY Yen	(8.1)	-	-	-
Sell				
USD Dollars	829.6	-	-	8.5
EUR Euro	658.6	-	-	-
GBP Sterling	515.3	184.5	-	-
SEK Krona	14.6	-	-	-
NZD Dollars	15.8	-	-	-
	1,856.0	**184.5**	**-**	**8.5**

Hedging instruments designated as cash flow hedges

Mortgage Management hedges the SPV trusts using interest rate swaps, interest rate futures and cross currency swaps to reduce any potential exposures in interest rate fluctuations and adverse foreign currency movements. In accordance with AASB 139 Financial Instruments: Recognition and

28. *Derivative Financial Instruments (continued)*

Measurement these instruments have been designated as cash flow hedges and movements in the fair value of the hedges have been taken through the cash flow hedge reserve.

These hedge relationships have been structured ensuring all the principal terms of the hedged item and hedging instrument are perfect and as a result a qualitative method for assessing hedge effectiveness is considered appropriate.

The hedges are highly effective from inception because the cash flows of the hedging instrument fully offset the cash flows of the hedged item due to:

- The derivative notional value automatically tracking the principal value of the hedged item throughout the life of the trust.
- The hedging instrument and hedged item have identical terms to maturity.
- The hedging instrument and hedged item have identical reset dates based on the applicable foreign cash rate.
- Interest and principal payment dates are identical for the hedging instrument and hedged item.
- The swap counterparty has a high investment grade credit rating ensuring minimal counterparty risk.

At each financial reporting date an examination is carried out to ensure the hedge is still effective (i.e. the critical terms still match), combined with a review of the credit rating of the counterparty.

All hedges in place are with high grade credit counterparties and there has been no impact to the income statement for ineffective portions during the period.

Mortgage Management SPVs
As at reporting date a loss of $27.0 million (2008: $17.4 million) was recognised in equity for the below financial instruments designated as cash flow hedges.

Consolidated Group
As at reporting date a gain of $nil (2008: $1.7 million) was removed from equity and included in the income statement. This was included in unrealised gain/(loss) on interest rate derivative assets in Note 3.

(i) Interest rate swaps and futures designated as cash flow hedges

Mortgage Management hedges exposure to interest rates arising from funding fixed rate loans with floating rate mortgage backed securities using interest rate swaps.

Mortgage Management uses futures contracts to hedge the interest rate basis risk between variable rate loans, which generally reprice with changes in official interest rates, and issued mortgage backed securities which reprice with changes in 30 day and 90 day BBSW.

28. *Derivative Financial Instruments (continued)*

As at reporting date the Group had the following cash flow hedge interest rate swaps in place:

Consolidated

Interest rate swaps	Notional/ principal contract value $M	Net fair value assets $M	Net fair value liabilities $M
2009			
Less than 1 year	450.8	1.1	(6.5)
1-3 years	848.1	-	(21.4)
3-5 years	355.0	-	(15.5)
Greater than 5 years	-	-	-
	1,653.9	**1.1**	**(43.4)**
2008			
Less than 1 year	124.0	2.1	-
1-3 years	836.4	14.0	-
3-5 years	376.8	6.3	-
Greater than 5 years	22.7	0.4	-
Total	**1,359.9**	**22.8**	**-**

As at reporting date the Group had the following cash flow hedge interest rate futures in place:

Consolidated

Future contracts	Notional/ principal contract value $M	Net fair value assets $M	Net fair value liabilities $M
2009			
Less than 1 year	12,246.0	-	(1.3)
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	-	-	-
	12,246.0	**-**	**(1.3)**
2008			
Less than 1 year	9,517.4	0.3	(0.2)
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	-	-	-
Total	**9,517.4**	**0.3**	**(0.2)**

28. *Derivative Financial Instruments (continued)*

(ii) Cross currency swap contracts designated as cash flow hedges
Mortgage Management SPV trusts use cross currency swaps to hedge foreign denominated securities and any potential impact of adverse changes in the foreign exchange rate on RMBS.

As at reporting date the Group had the following cash flow hedge cross currency swaps in place:

Consolidated

Cross currency swaps	Notional/ principal contract value $M	Net fair value assets $M	Net fair value liabilities $M
2009			
Less than 1 year	-	-	-
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	3,286.5	28.5	-
	3,286.5	**28.5**	**-**
2008			
Less than 1 year	-	-	-
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	7,749.4	-	(3.6)
Total	**7,749.4**	**-**	**(3.6)**

Mortgage Management has varied its holdings in interest rate swaps, future contracts and cross currency swaps in line with its strategic outlook for the business.

29. *Commitments*

Operating leases
Group as lessee
The Group has entered into commercial operating leases for the rental of properties where it is not in the best interests of the Group to purchase these properties. These leases have an average life of between one and 10 years with renewal terms included in the contracts. Renewals are at the specific option of the entity that holds the lease.

Surplus lease space under non-cancellable operating leases has been subleased, and the revenue from these leases calculated on a straight line basis. The leases have a life of up to 7 years with renewal terms included in the contract. Renewals are at the specific option of the entity that holds the lease.

A surplus lease provision has been created representing the Group's net rental expense obligation – refer to Note 20.

In 2006, the Group entered into operating leases for the rental of new premises in Sydney. The Group relocated Sydney staff to the new premises in the Hilton in March 2007.

During the year ended 30 June 2008, CDI entered into 4 year operating lease over the Domain Car Park with Botanical Gardens Trust. A further 21 year lease over the Domain Car Park is available to CDI conditional on completion of commitments under the Development Deed.

Group as lessor
All investment properties owned by the Group are leased to third parties under operating leases at 30 June 2009 and measured at fair value as the properties are held to earn rentals. Lease terms vary between tenants and some leases include percentage rental payments based on sales volume.

Capital expenditure commitments
Amounts payable in relation to capital expenditure commitments contracted for at the reporting date but not recognised as liabilities. This includes amounts in relation to the investment property portfolio.

Remuneration commitments
Amounts disclosed as remuneration commitments include commitments arising from contracts (retention bonus, termination payment, interest) of key management personnel referred to in the Remuneration Report that are not recognised as liabilities at balance date.

	Consolidated	
	2009 $M	**2008 $M**
Commitments		
Non-cancellable operating leases – Group as lessee	118.6	140.5
Capital expenditure	50.7	28.3
Remuneration	8.2	15.4
Non-cancellable operating leases – Group as lessor	(879.9)	(494.3)
Operating leases – Group as lessee		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Not later than 1 year	20.5	18.0
Later than 1 year but not later than 2 years	20.9	19.6
Later than 2 years but not later than 5 years	51.1	53.1
Later than 5 years	26.1	49.8
	118.6	**140.5**

[1] At 31 December 2008, the Company acquired a controlling interest in the Challenger Diversified Property Group ("CDI"), refer to Note 34 for further information.

29. *Commitments (continued)*

	Consolidated	
	2009	2008
	$M	$M
Capital expenditure commitments		
Commitments payable in relation to capital expenditure commitments contracted for at the reporting date but not recognised as liabilities:		
Not later than 1 year	16.4	1.3
Later than 1 year but not later than 5 years	17.0	9.9
Later than 5 years	17.3	17.1
	50.7	**28.3**
Remuneration commitments		
Commitments payable for salaries and other remuneration under long term employment contracts in existence at the reporting date but not recognised as liabilities:		
Not later than 1 year	4.7	6.0
Later than 1 year but not later than 5 years	3.5	9.4
	8.2	**15.4**
Operating leases – Group as lessor		
Commitments for minimum lease rentals in relation to non-cancellable operating leases are receivable as follows:		
Not later than 1 year	(138.5)	(63.5)
Later than 1 year but not later than 2 years	(122.3)	(68.3)
Later than 2 years but not later than 5 years	(304.3)	(150.5)
Later than 5 years	(314.8)	(212.0)
Total minimum lease payments	**(879.9)**	**(494.3)**

There are no commitments for expenditure held in the parent entity.

[1] At 31 December 2008, the Company acquired a controlling interest in the Challenger Diversified Property Group ("CDI"), refer to Note 34 for further information.

30. *Related parties*

(a) Subsidiaries

Transactions with related parties in the wholly owned group

Transactions with related parties (except otherwise disclosed) are conducted on an arm's length basis under normal commercial terms and conditions. Amounts receivable and payable in respect of transactions between entities in the Group are disclosed in Notes 10 and 17.

Ultimate parent entity

Challenger Financial Services Group Limited is the ultimate parent entity.

(b) Other related parties

During the year there were transactions between the Group and Challenger specialised funds (Challenger Infrastructure Fund, Challenger Kenedix Japan Trust Fund, Challenger Wine Trust and Challenger Diversified Property Group) for the provision of investment management, transaction advisory and other professional services. From 31 December 2008, the Group held a controlling interest in the Challenger Diversified Property Group (CDI). Any transactions between the Group and CDI that occurred after the date of control are eliminated on consolidation. Transactions were also entered into between the Group and associate entities (refer to Note 37) for the provision of distribution and administration services.

The Group earned fee income during the year of $47.5 million (2008: $90.4 million) from transactions entered into with specialised funds and associates. Transactions are conducted on an arm's length basis under normal commercial terms and conditions.

(c) Directors and key executives

The Directors and key executives of Challenger Financial Services Group Limited at any time during the financial year are as follows:

Directors

Current

Peter Polson	Chairman
Thomas Barrack Jr.	Non-Executive Director
Graham Cubbin	Non-Executive Director
Russell Hooper	Non-Executive Director
Ashok Jacob	Non-Executive Director
James Packer	Non-Executive Director
Tetsuya Wada (appointed 21 May 2009)	Non-Executive Director
Leon Zwier	Non-Executive Director

Past

Tatsuo Tanaka (resigned 21 May 2009)	Non-Executive Director

Executive Directors

Current

Dominic Stevens	Chief Executive Officer and Managing Director (appointed 1 September 2008)

Past

Michael Tilley	Chief Executive Officer and Managing Director (retired 31 August 2008)

Executives

Current

Mr Rob Adams	Joint Chief Executive, Funds Management
Mr Brian Benari	Group Chief Financial Officer / Group Chief Operating Officer
Mr Drew Hall	Chief Executive, Mortgage Management [1]
Mr Richard Howes	Chief Executive, Life
Mr Paul Rogan	Executive General Manager, Capital Risk & Strategy
Mr Robert Woods	Joint Chief Executive, Funds Management

[1] Mr Hall became Chief Executive, Mortgage Management in November 2008. Prior to this appointment he was Chief Financial Officer, Mortgage Management.

30. Related parties (continued)

Loans to Directors and Executives
There were no loans made to Directors and specified Executives as at 30 June 2009 (2008: nil).

Directors and key executives compensation for the year ended 30 June 2009

	Year	Short term employee benefits	Post employment	Share based payments	Other long term benefits	Total
		$	$	$	$	$
Directors	**2009**	926,251	13,745	-	-	939,996
	2008	1,357,135	36,876	-	-	1,394,011
Executive Directors	**2009**	1,167,500	16,036	1,149,666	2,985,468	5,318,670
	2008	5,298,807	13,129	2,546,856	250,000	8,108,792
Executives	**2009**	3,469,091	76,743	8,120,144	2,869,047	14,535,025
	2008	13,341,842	91,904	6,879,564	550,000	20,863,310
Total	**2009**	5,562,842	106,524	9,269,810	5,854,515	20,793,691
	2008	19,997,784	141,909	9,426,420	800,000	30,366,113

The Company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in the Remuneration Report at Section 12 of the Directors' Report.

Shareholdings in Challenger Financial Services Group Limited of Directors and Executives
Shareholdings of Directors at 30 June 2009 were acquired at arm's length prices. Details of the Directors' and Executives' shareholdings in the Company as at 30 June 2009 and their affiliates are set out below:

For the year ended 30 June 2009		Movement during the year				
Shares held in Challenger Financial Services Group Limited	**Held at 1 July 2008**	**Granted as remuneration during 2009**	**Forfeited during 2009**	**Net Change Other during 2009**	**Held at 30 June 2009 (vested and unvested)**	**Vested / exercisable during 2009**
Directors	**Number**	**Number**	**Number**	**Number**	**Number**	**Number**
P Polson	99,500	-	-	-	99,500	-
T Barrack Jr.	-	-	-	-	-	-
G Cubbin	177,702	-	-	-	177,702	-
R Hooper	160,000	-	-	-	160,000	-
A Jacob	20,000	-	-	-	20,000	-
J Packer	122,788,278	-	-	-	122,788,278	-
T Tanaka[3]	-	-	-	-	-	-
T Wada[4]	-	-	-	-	-	-
L Zwier	-	-	-	-	-	-
Executive Directors						
D Stevens[1]	7,500,000	82,655	-	200,000	7,782,655	82,655
M Tilley[2]	11,072,999	-	-	(11,072,999)	-	-
Executives						
R Adams	2,000,000	29,947	-	-	2,029,947	29,947
B Benari	5,118,491	73,071	-	40,000	5,231,562	73,071
D Hall[5]	-	5,989	-	560,000	565,989	5,989
R Howes	4,000,000	101,821	-	-	4,101,821	101,821
P Rogan	3,520,000	33,541	-	-	3,553,541	33,541
R Woods	4,900,000	113,800	-	-	5,013,800	113,800
Total	**161,356,970**	**440,824**	**-**	**(10,272,999)**	**151,524,795**	**440,824**

[1] Mr Stevens was formerly an executive and became an executive director during the year.
[2] Mr Tilley retired as an executive director during the year so his holding disclosure is removed under "Net Change Other" column.
[3] Mr Tanaka resigned as a director during the year.
[4] Mr Wada was appointed as a director during the year.
[5] Mr Hall became an executive during the period. Previously held shares are reported under "Net Change Other" column.

30. *Related parties (continued)*

For the year ended 30 June 2008		Movement during the year				
Shares held in Challenger Financial Services Group Limited	**Held at 1 July 2007**	**Granted as remuneration during 2008**	**Forfeited during 2008**	**Net Change Other during 2008**	**Held at 30 June 2008 (vested and unvested)**	**Vested / exercisable during 2008**
Directors	**Number**	**Number**	**Number**	**Number**	**Number**	**Number**
P Polson	97,000	-	-	2,500	99,500	-
T Barrack Jr.[3]	-	-	-	-	-	-
G Cubbin	177,702	-	-	-	177,702	-
R Hooper	125,000	-	-	35,000	160,000	-
A Jacob	20,000	-	-	-	20,000	-
J Packer	122,788,278	-	-	-	122,788,278	-
S Russo[1]	-	-	-	-	-	-
J Service[2]	50,001	-	-	(50,001)	-	-
B Shanahan[2]	1,150,854	-	-	(1,150,854)	-	-
T Tanaka[3]	-	-	-	-	-	-
L Zwier	-	-	-	-	-	-
Executive Director						
M Tilley	7,022,999	-	-	4,050,000	11,072,999	800,000
Executives						
R Adams	3,500,000	-	-	(1,500,000)	2,000,000	600,000
B Benari	5,500,000	-	-	(381,509)	5,118,491	100,000
R Howes	5,000,000	-	-	(1,000,000)	4,000,000	400,000
G Kirk	2,500,000	-	(2,500,000)	-	-	-
P Rogan	1,500,000	2,000,000	-	20,000	3,520,000	-
D Stevens	7,500,000	-	-	-	7,500,000	1,100,000
R Woods	5,585,000	-	-	(685,000)	4,900,000	700,000
Total	**162,516,834**	**2,000,000**	**(2,500,000)**	**(659,864)**	**161,356,970**	**3,700,000**

[1] Ms Russo resigned as a director during 2008.
[2] Mr Service and Ms Shanahan retired as directors during 2008.
[3] Mr Barrack Jr. and Mr Tanaka were appointed as directors during 2008.

30. *Related parties (continued)*

Options for shares in Challenger Financial Services Group Limited held by Directors and Executives

Details of Executives' options over shares in the Company as at 30 June 2009 and their affiliates are set out below:

For the year ended 30 June 2009	Movement during the year					
Options held in Challenger Financial Services Group Limited	**Held at 1 July 2008**	**Granted as remuneration during 2009**	**Forfeited during 2009**	**Net Change Other during 2009**	**Held at 30 June 2009 (vested and unvested)**	**Vested/ exercisable during 2009**
	Number	**Number**	**Number**	**Number**	**Number**	**Number**
Executive Director						
D Stevens	1,900,000	5,500,000	-	-	7,400,000	-
M Tilley	4,000,000	-	(4,000,000)	-	-	-
Executives						
R Adams	1,100,000	600,000	-	-	1,700,000	-
B Benari	1,900,000	1,500,000	-	-	3,400,000	-
D Hall[1]	-	600,000	-	750,000	1,350,000	-
R Howes	1,900,000	1,500,000	-	-	3,400,000	-
P Rogan	900,000	600,000	-	-	1,500,000	-
R Woods	1,900,000	1,500,000	-	-	3,400,000	-
Total	**13,600,000**	**11,800,000**	**(4,000,000)**	**750,000**	**22,150,000**	**-**

[1] Mr Hall became an executive during the period. Previously held options are reported under the "Net Change Other" column.

Terms & conditions of option allocations for the year ended 30 June 2009

	Granted number	**Grant date**	**Exercise Price** $	**Fair value at grant** $	**Start vesting date**	**Last vesting date**
Executive Director						
D Stevens	5,500,000	1 Dec 2008	2.36	0.23/0.24[1]	24 Aug 2011	24 Aug 2011
Executives						
R Adams	200,000	22 Dec 2008	1.34	0.482	22 Dec 2008	22 Dec 2009
	200,000	22 Dec 2008	1.34	0.520	22 Dec 2009	22 Dec 2010
	200,000	22 Dec 2008	1.34	0.497	22 Dec 2010	22 Dec 2011
B Benari	500,000	22 Dec 2008	1.34	0.482	22 Dec 2008	22 Dec 2009
	500,000	22 Dec 2008	1.34	0.520	22 Dec 2009	22 Dec 2010
	500,000	22 Dec 2008	1.34	0.497	22 Dec 2010	22 Dec 2011
D Hall	200,000	22 Dec 2008	1.34	0.482	22 Dec 2008	22 Dec 2009
	200,000	22 Dec 2008	1.34	0.520	22 Dec 2009	22 Dec 2010
	200,000	22 Dec 2008	1.34	0.497	22 Dec 2010	22 Dec 2011
R Howes	500,000	22 Dec 2008	1.34	0.482	22 Dec 2008	22 Dec 2009
	500,000	22 Dec 2008	1.34	0.520	22 Dec 2009	22 Dec 2010
	500,000	22 Dec 2008	1.34	0.497	22 Dec 2010	22 Dec 2011
P Rogan	200,000	22 Dec 2008	1.34	0.482	22 Dec 2008	22 Dec 2009
	200,000	22 Dec 2008	1.34	0.520	22 Dec 2009	22 Dec 2010
	200,000	22 Dec 2008	1.34	0.497	22 Dec 2010	22 Dec 2011
R Woods	500,000	22 Dec 2008	1.34	0.482	22 Dec 2008	22 Dec 2009
	500,000	22 Dec 2008	1.34	0.520	22 Dec 2009	22 Dec 2010
	500,000	22 Dec 2008	1.34	0.497	22 Dec 2010	22 Dec 2011

[1] Value per option if the EPS hurdle is achieved is 0.24c. Value per option if the TSR hurdle is achieved in 0.23c

30. *Related parties (continued)*

Performance rights held for shares in Challenger Financial Services Group Limited of Executive Directors' and Executives

Details of the Executives' performance rights for shares in the Company as at 30 June 2009 and their affiliates are set out below:

For the year ended 30 June 2009		Movement during the year				
Performance Rights held in Challenger Financial Services Group Limited	**Held at 1 July 2008**	**Granted during 2009**	**Forfeited during 2009**	**Net Change Other during 2009**	**Vested during 2009**	**Held at 30 June 2009 (unvested)**
	Number	**Number**	**Number**	**Number**		**Number**
Executive Director						
D Stevens	283,901	567,555	-	-	(82,655)	768,801
M Tilley[2]	269,527	-	-	(269,527)	-	-
Executive						
R Adams	89,842	106,416	-	-	(29,947)	166,311
B Benari	255,151	567,555	-	-	(73,071)	749,635
D Hall[1]	-	70,944	-	17,968	(5,989)	82,923
R Howes	341,400	310,382	-	-	(101,821)	549,961
P Rogan	109,607	212,832	-	-	(33,541)	288,898
R Woods	377,337	310,382	-	-	(113,800)	573,919
Total	**1,726,765**	**2,146,066**	**-**	**(251,559)**	**(440,824)**	**3,180,448**

1 Mr Hall became an executive during the period. Previously held options are reported under the "Net Change Other" column.
2 Mr Tilley ceased to be Executive Director on 31 August 2008.

Performance rights are exercised on vesting and shares are transferred out of the plan to the individual.

Vested shares are transferred into the name of the executive but remain subject to trading restrictions.

Terms & conditions of performance rights allocations for the year ended 30 June 2009.

	Granted number	**Grant date**	**Share price at grant** $	**Fair value at grant** $	**Start testing vesting date**	**Last vesting date**
Executive Director						
D Stevens	283,777	15 Sep 2008	2.82	2.52	15 Sep 2008	15 Sep 2009
	283,778	15 Sep 2008	2.82	2.39	15 Sep 2008	15 Sep 2010
Executives						
R Adams	53,208	15 Sep 2008	2.82	2.52	15 Sep 2008	15 Sep 2009
	53,208	15 Sep 2008	2.82	2.39	15 Sep 2008	15 Sep 2010
B Benari	283,777	15 Sep 2008	2.82	2.52	15 Sep 2008	15 Sep 2009
	283,778	15 Sep 2008	2.82	2.39	15 Sep 2008	15 Sep 2010
D Hall	35,472	15 Sep 2008	2.82	2.52	15 Sep 2008	15 Sep 2009
	35,472	15 Sep 2008	2.82	2.39	15 Sep 2008	15 Sep 2010
R Howes	155,191	15 Sep 2008	2.82	2.52	15 Sep 2008	15 Sep 2009
	155,191	15 Sep 2008	2.82	2.39	15 Sep 2008	15 Sep 2010
P Rogan	106,416	15 Sep 2008	2.82	2.52	15 Sep 2008	15 Sep 2009
	106,416	15 Sep 2008	2.82	2.39	15 Sep 2008	15 Sep 2010
R Woods	155,191	15 Sep 2008	2.82	2.52	15 Sep 2008	15 Sep 2009
	155,191	15 Sep 2008	2.82	2.39	15 Sep 2008	15 Sep 2010

30. *Related parties (continued)*

Capped Performance Rights for shares in Challenger Financial Services Group Limited held by Executives

Details of the Executives' capped performance rights for shares in the Company as at 30 June 2009 and their affiliates are set out below:

For the year ended 30 June 2009		Movement during the year				
Capped Performance Rights held in Challenger Financial Services Group Limited	Held at 1 July 2008	Max Granted as remuneration during 2009	Forfeited during 2009	Net Change Other during 2009	Vested during 2009	Held at 30 June 2009 (unvested)
	Number	Number	Number	Number		Number
Executives						
R Adams	-	285,714	-	-	-	285,714
B Benari	-	571,428	-	-	-	571,428
D Hall	-	285,714	-	-	-	285,714
R Howes	-	571,428	-	-	-	571,428
P Rogan	-	285,714	-	-	-	285,714
R Woods	-	571,428	-	-	-	571,428
Total	**-**	**2,571,426**	**-**	**-**	**-**	**2,571,426**

Terms & conditions of capped performance rights allocations for the year ended 30 June 2009

	Max Granted number	Grant date	Grant price $	Fair value at grant $	Start vesting date	Last vesting date
Executives						
R Adams	285,714	22 Dec 2008	1.50 - 3.50	0.532	22 Dec 2008	15 Sep 2010
B Benari	571,428	22 Dec 2008	1.50 - 3.50	0.532	22 Dec 2008	15 Sep 2010
D Hall	285,714	22 Dec 2008	1.50 - 3.50	0.532	22 Dec 2008	15 Sep 2010
R Howes	571,428	22 Dec 2008	1.50 - 3.50	0.532	22 Dec 2008	15 Sep 2010
P Rogan	285,714	22 Dec 2008	1.50 - 3.50	0.532	22 Dec 2008	15 Sep 2010
R Woods	571,428	22 Dec 2008	1.50 - 3.50	0.532	22 Dec 2008	15 Sep 2010

Final number of capped rights granted under the Challenger Performance Plan is dependent on the share price at the final vesting date. The maximum number of rights is achieved at a share price of $3.50 and above. Below $1.50 no rights will vest. For full details of this scheme see Note 31.

Participation in deferred loan scheme for shares in Challenger Financial Services Group Limited held by Executives

Details of the Executives' participation in the deferred loan scheme for shares in the Company as at 30 June 2009 and their affiliates are set out below:

For the year ended 30 June 2009		Movement during the year				
Shares held in Challenger Financial Services Group Limited	Held at 1 July 2008	Granted as remuneration during 2009	Forfeited during 2009	Net Change Other during 2009	Held at 30 June 2009 (vested and unvested)	Vested/ exercisable during 2009
	Number	Number	Number	Number	Number	Number
Executives						
P Rogan	2,000,000	-	-	-	2,000,000	-
Total	**2,000,000**	**-**	**-**	**-**	**2,000,000**	**-**

31. *Employee entitlements*

	Consolidated	
	2009 $M	2008 $M
Employee entitlements	13.5	19.1

There are no employee entitlements held in the parent.

Employees of the Group at balance date totalled 837 (2008: 911).

Challenger Performance Plan
The Challenger Performance Plan is a flexible plan that provides for the award of either options or performance rights (with awards being satisfied from the issue of new shares or shares acquired on market). A two tiered approach provides optimal flexibility and ensures the equity-based reward instrument being applied addresses the particular needs of the individual.

Directors other than Executive Directors are not eligible to participate in the plan.

The key features of the plan are as follows:

Performance share rights

- The instrument is a performance right which converts into a fully paid Challenger Share at the end of the vesting period.
- The core purpose of the plan is the retention of key resources and a vehicle to align compulsorily deferred bonuses which have already been earned, with the longer term interests of shareholders.
- Allocations of performance rights will generally be made to participants in the following circumstances:
  - To key resources as retention awards;
  - Granted to those employees with existing compulsory short term incentive deferral;
  - As sign-on bonuses for new employees in lieu of equity forgone with former employer.
- The vesting period will be typically over two years.
- Once performance rights are converted to ordinary fully paid shares upon vesting, the shares may remain in the plan for a period up to the 10th anniversary of the date of the grant (may be subject to change once government legislation is finalised), unless the employee submits a withdrawal notice to the Board.
- Performance rights (whether vested or unvested) will lapse where a participant acts fraudulently or dishonestly or where a participant is in material breach of their obligations (either under the plan or to Challenger), unless the Board determines otherwise.
- Generally, performance rights will lapse where a participant leaves Challenger before the vesting date due to resignation or dismissal, unless the Board determines otherwise.
- If a participant's role becomes redundant, Board discretion will apply.

Options

- These are options over Challenger shares with an exercise price set at the prevailing market price at the time of the grant. The option becomes exercisable at the end of a vesting period, subject to the achievement of performance conditions.
- The core purpose of the plan is to directly align key senior executives, whose responsibilities provide them with the opportunity to significantly influence long term shareholder value, with shareholders through the provision of share options which vest subject to a performance hurdle.
- The vesting period is flexible but typically vesting over three years from date of grant.
- The structure of option allocations under the plan provides a critical linkage between remuneration, Challenger's performance and shareholder value, by linking an executive's reward to the achievement of specified performance targets.
- The Challenger Performance Plan provides the Board with flexibility round the form of the performance hurdle it attaches to particular grants of options to ensure that there is appropriate alignment with shareholders and executives in the Board's assessment at the time of grant.

31. Employee entitlements

- Options must generally be exercised within 90 days of them vesting.
- Options will lapse where a participant leaves Challenger before the options vest due to resignation or dismissal, unless the Board determines otherwise.
- Options (whether vested or unvested) will lapse where an executive acts fraudulently or dishonestly or where a participant is in material breach of their obligations (under the plan or to Challenger), unless the Board determines otherwise.
- If a participant's role becomes redundant, Board discretion will apply.
- Options lapse immediately at the end of the vesting period if the performance hurdle has not been achieved.

Capped Performance Rights
A restricted issue of capped performance rights were issued on the 22 December 2008. The Rights, which convert into fully paid Challenger shares, vest on 15 September 2010 subject to the achievement of certain performance conditions. The performance conditions are employment with Challenger at the time of vesting and a share price performance condition. If the 5 day volume-weighted average price (VWAP) of Challenger is less than $1.50 at the vesting date there is no benefit to the employees. If the 5 day VWAP is $3.50 or greater at the vesting date the employee receives 100% of the benefit. There is pro-rata grant of the benefit if the 5 day VWAP is between $1.50 and $3.50. There is no exercise price payable by the participants.

Performance rights
The following table sets out the details of the share rights granted under the Challenger Performance Plan during 2009 and movements on previous issues:

Grant date	Latest date for exercise	Reference price	Fair value at grant	Outstanding at 1 July 2008	Granted during the year	Vested during the year	Expired during the year	Total outstanding at 30 June 2009[1]
06 Mar 07	01 Oct 09	4.67	4.40	75,000	-	-	-	75,000
28 Mar 07	15 Mar 09	4.69	4.54	8,192	-	(8,192)	-	-
14 Sep 07	15 Sep 08	5.57	5.52	1,052,351	-	(1,048,606)	(3,745)	-
14 Sep 07	15 Sep 09	5.57	5.38	1,052,349	-	(69,475)	(11,120)	971,754
14 Sep 07	15 Sep 10	5.57	5.24	1,052,424	-	(68,733)	(11,124)	972,567
14 Sep 07	15 Sep 10	5.57	5.24	1,108,386	-	(75,777)	(211,376)	821,233
11 Jan 08	15 Sep 09	4.42	4.29	228,002	-	(228,002)	-	-
31 Mar 08	15 Nov 08	1.82	1.76	15,912	-	(15,912)	-	-
15 Sep 08	15 Sep 09	2.82	2.52	-	2,780,545	(68,910)	(69,421)	2,642,214
15 Sep 08	15 Sep 10	2.82	2.39	-	2,780,612	(62,387)	(75,956)	2,642,269
1 Oct 2008	15 Sep 09	2.39	2.25	-	14,185	-	-	14,185
1 Oct 2008	15 Sep 10	2.39	2.12	-	14,190	-	-	14,190
Total				**4,592,616**	**5,589,532**	**(1,645,994)**	**(382,742)**	**8,153,412**

[1] At the date of vesting performance rights are transferred to the individual and released from the Challenger Performance Plan Trust.

31. *Employee entitlements (continued)*

Options

The following table sets out the details of the performance share options granted under the Challenger Performance Plan during 2009 and movements on previous issues:

Grant date	Latest date for Vesting	Exercise price $	Fair value taken at grant $	Outstanding at 1 July 2008	Granted during the year	Exercised during the year	Expired during the year	Total outstanding at 30 June 2009
27 Feb 07	1 Feb 11	4.00	1.06[1]	7,150,000	-	-	(600,000)	6,550,000
14 Sep 07	14 Sep 11	5.57	1.28[1]	4,600,000	-	-	(900,000)	3,700,000
28 Sep 07	28 Sep 09	5.57	1.04[1]	666,666	-	-	-	666,666
28 Sep 07	28 Sep 10	5.57	1.30[1]	666,666	-	-	-	666,666
28 Sep 07	28 Sep 11	5.57	1.56[1]	666,668	-	-	-	666,668
31 Mar 08	31 Mar 12	2.14	0.33[1]	1,750,000	-	-	(1,500,000)	250,000
30 Jun 08	30 Aug 09	2.20	0.19	2,400,000	-	-	(100,000)	2,300,000
30 Jun 08	30 Aug 10	2.20	0.27	2,400,000	-	-	(100,000)	2,300,000
30 Jun 08	30 Aug 11	2.20	0.32	2,400,000	-	-	(100,000)	2,300,000
22 Dec 08	22 Dec 09	1.34	0.46	-	4,366,667	-	(166,667)	4,200,000
22 Dec 08	22 Dec 10	1.34	0.52	-	4,366,667	-	(166,667)	4,200,000
22 Dec 08	22 Dec 11	1.34	0.57	-	4,366,666	-	(166,666)	4,200,000
09 Mar 09	22 Dec 09	1.13	0.18	-	66,667	-	-	66,667
09 Mar 09	22 Dec 10	1.13	0.22	-	66,667	-	-	66,667
09 Mar 09	22 Dec 11	1.13	0.22	-	66,666	-	-	66,666
30 Jun 09	30 Aug 10	2.29	0.56	-	116,667	-	-	116,667
30 Jun 09	30 Aug 11	2.29	0.65	-	116,667	-	-	116,667
30 Jun 09	30 Aug 12	2.29	0.68	-	116,666	-	-	116,666
CEO options								
27 Nov 08	24 Aug 11	2.36	0.24	-	5,500,000	-	-	5,500,000
Former CEO options								
19 Oct 07	19 Oct 11	5.20	1.82[1]	4,000,000	-	-	(4,000,000)	-
Total				**26,700,000**	**19,150,000**	**-**	**(7,800,000)**	38,050,000

[1] The valuation method has changed from EPS to TSR.

Capped Rights

The following table sets out the details of the capped performance rights issued under the Challenger Performance Plan during 2009:

Grant date	Latest date for Vesting	Vesting price $	Fair value taken at grant $	Outstanding at 1 July 2008	Maximum granted during the year	Exercised during the year	Expired during the year	Total outstanding at 30 June 2009
22 Dec 08	15 Sep 10	1.50-3.50	0.532	-	3,857,137	-	-	3,857,137

31. *Employee entitlements (continued)*

All Challenger options have been externally valued and the valuer has used a Monte Carlo simulation model to value the Options with the TSR share price hurdles and a binomial option pricing model to value the Option with the EPS hurdle, and a Black Scholes model to value the Rights.

We have used the below inputs in the Challenger Performance Plan valuation model and in the LTIP modification:

Grant date **Plan**	**15 Sep 08** **Rights**[1]	**1 Oct 08** **Rights**[1]	**27 Nov 08** **CEO Options**	**22 Dec 08** **Options**[1]	**09 Mar 09** **Options**[1]
Dividend yield (%)	5.4	6.1	5.5	5.5	5.5
Risk free rate (%)	5.64-5.88	5.1	3.83	2.86-3.42	2.9-3.4
Volatility (%)[2]	-	50	55	55-75	55-75
Valuation ($)	2.455	2.185	-	-	-
TSR valuation ($)	n/a	n/a	0.23	0.41	0.17
EPS valuation ($)	n/a	n/a	0.24	0.50	0.20

Grant date **Plan**	**30 Jun 09** **Options**[1]	**22 Dec 08** **Capped** **Rights**	**01 Aug 08** **LTIP** **modification**	**04 Dec 08** **LTIP** **modification**
Dividend yield (%)	5.85	5.5	5.5	5.5
Risk free rate (%)	3.45-4.56	2.83	6.21	3.04
Volatility (%)[2]	55-65	70	45	70
TSR valuation ($)	0.51	n/a	n/a	n/a
EPS valuation ($)	0.63	n/a	n/a	n/a
Valuation ($)	n/a	0.532	n/a	n/a
LTIP modification ($)	n/a	n/a	0.26	0.05

[1] Staggered vesting applies to this grant, valuation given is average value.
[2] Forecast volatility rate implied from historic trend.

31. *Employee entitlements (continued)*

Deferred Loan Plan
A small number of executives had outstanding future commitments under the LTIP at the time it was suspended.

In lieu of a number of those commitments an arrangement was entered into with Deutsche Bank AG to provide the individual with a loan over a similar number of Challenger shares as their prior LTIP commitment, known as the Deferred Loan Plan.

Challenger is responsible for meeting the interest payable on the loan over its term, net of any dividends paid on the shares. Shares vest progressively over four years, commencing at the end of year 2, subject to continued employment with Challenger.

Shares are forfeited and the arrangement unwound in the event that the employment condition is not satisfied. In certain special circumstances (such as death, total and permanent disablement and redundancy) individuals may be entitled to retain their unvested shares if they fully discharge the outstanding loan amount.

The loans are limited in their recourse to Challenger and the Challenger Performance Plan Trust has the option of taking ownership of the shares and using them to satisfy other share awards in the event of forfeiture by the executive.

Long Term Equity Based Incentive Plan (LTIP) – Loan Funded Share Plan (suspended in December 2006)
The former Long Term Incentive Plan (LTIP) was a share scheme provided by way of a limited recourse loan. Under this Plan, shares vest over a five year period, subject to the achievement of a 15% compound Total Shareholder Return (TSR) performance hurdle. If the hurdle is not satisfied at a relevant anniversary test date no awards vest.

Loans over vested shares must be repaid before shares are released and the maximum term of the loan is six years.

For the majority of participants (including those participants who received grants in FY07), subject to the hurdle being met, 20% of the shares vest at the end of years 2, 3 and 4, with the remaining 40% of shares vesting at the end of year 5.

The performance hurdles in respect of Participants are summarised as follows:

- subject to performance hurdles being met, 20% of the participating shares issued to participants will be released on each of the second, third and fourth anniversaries of the date the shares are issued with the remaining 40% balance released on the fifth anniversary;
- the performance hurdle is 15% per annum compounded annually, based on total shareholder return (TSR). The TSR is determined by reference to the 20 day volume weighted average share price (VWAP) for Challenger shares adjusted for capital restructures and distributions (dividends, capital returns and other distributions excluding franking credits);
- if the TSR for a period equals or exceeds the performance hurdle for that period, the relevant proportion of participating shares will be immediately released. This may include participating shares that have not been released in an earlier period because the TSR for that earlier period was not achieved;
- unreleased participating shares are forfeited upon the resignation of participants; and
- on the release of participating shares (once vesting and performance hurdles have been met) participants may, but are not obliged to sell the shares.

The Challenger Board resolved to suspend the LTIP in December 2006. As such, the final award under the LTIP was made on 15 September 2006.

The Directors have extended the final test date for LTIP and cash LTIP awards with a grant date 1 August and 4 December 2004 (reference date 1 August 2003 and 4 December 2003 and hence a final test date of 1 August 2008 and 4 December 2008) to 30 November 2009. The cost of the modification is 0.26 cents per unit (total cost $1.4 million) and 0.05 cents per units (total cost $0.1 million) and these amounts will be expensed over the revised time to maturity.

Dividends received on shares that have been issued under the LTIP must be paid to the Company as interest on the associated non-recourse loans. All grants of shares during the period were issued and placed on trust on behalf of the employee.

31. *Employee entitlements (continued)*

Details of the movement and fair value of employee shares under the LTIP are detailed in the following table:

Grant date	Opening balance at 1 Jul 08	Granted	Issue price [1]	FV at grant date[2]	Vested	Forfeited	Balance at 30 Jun 09
	Number	Number	$	$	Number	Number	Number
Initial Participants							
22-Jan-04	-	-	2.65	0.43	-	-	-
23-Feb-04	9,420,000	-	2.65	0.41	-	(1,300,000)	8,120,000
01-Apr-04	80,000	-	2.65	0.38	-	(40,000)	40,000
15-Mar-05	-	-	3.19	0.42	-	-	-
Participants							
03-Mar-04	2,460,000	-	2.50	0.33	-	(2,460,000)	-
01-Apr-04	330,000	-	2.50	0.32	-	(330,000)	-
15-Sep-04	2,370,000	-	2.24	0.28	-	(180,000)	2,190,000
15-Mar-05	780,000	-	3.19	0.42	-	(200,000)	580,000
26-Apr-05	1,440,000	-	3.20	0.41	-	-	1,440,000
15-Sep-05	3,580,000	-	3.77	0.51	-	(260,000)	3,320,000
15-Mar-06	3,700,000	-	3.67	0.50	-	(550,000)	3,150,000
15-Sep-06	2,400,000	-	3.55	0.54	-	(900,000)	1,500,000
Former CEO Participant							
23-Dec-04	600,000	-	2.65	0.19	-	-	600,000
19-Dec-05	1,800,000	-	2.65	1.32	-	-	1,800,000
Total	**28,960,000**	**-**			**-**	**(6,220,000)**	**22,740,000**

[1] The issue price of grants in respect of Participating shares is the VWAP of the shares over the five trading days up to and including the effective date of issue of that Participating share.

[2] Grant fair value represents the fair value of the shares issued at grant date calculated after taking into account all relevant factors including vesting timeframes, performance hurdles, share price volatility, dividend rates and interest rates.

Cash LTIP

Prior to corporatisation, certain executives were entitled to incentive payments under a cash based shadow scheme. All cash LTIP was forfeit in 2009 as the target share price is not likely to be achieved.

Other short term employee benefits

Challenger pays interest on loans taken out by certain Key Executives to acquire Challenger shares on market. The loans are fully secured against the underlying shares and are not margin loans.

Challenger has no exposure in relation to the loan principal advanced to the Key Executives by the third party for the purposes of acquiring the shares.

In the Board's view, this arrangement when considered with the Key Executive's other long term incentive arrangements provides significant alignment with shareholders' interests.

CEO remuneration

Mr Stevens was granted 5,500,000 options during the period following shareholder approval at the Company Extraordinary General meeting on 20 November 2008.

Challenger also pays interest on a loan taken out by Mr Stevens to acquire Challenger shares on market. The loan is fully secured against the underlying shares and is not a margin loan.

32. *Statement of cash flows*

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

	Consolidated		Parent	
	2009 $M	2008 $M	2009 $M	2008 $M
(Loss) / Profit after tax	**(90.7)**	**(44.2)**	**125.5**	**117.2**
Adjustments for:				
(Profit)/loss on sale of investments	147.2	(127.0)	-	-
Net unrealised losses on investments	235.9	399.2	-	-
Profit from non controlling interests	3.1	5.0	-	-
Share of associates' net profit	(3.1)	(2.1)	-	-
Amortisation and depreciation	95.4	102.9	-	-
Impairment loss on financial assets available for sale	1.2	41.8	-	-
Impairment loss on equity accounted associates	-	22.0	-	-
Interest rate differential on FX forward contracts	-	24.1	-	-
Policy liabilities fair value (gain)/loss	9.6	(124.0)	-	-
Policy liabilities acquisitions and maintenance expenses	190.6	194.5	-	-
Gain on annuity book transfer	(30.8)	-	-	-
Share based payments	26.9	22.4	-	-
Change in assets and liabilities, net of effects from purchase of controlled entity:				
Increase in receivables	(238.6)	(27.6)	-	-
Decrease/(increase) in other assets	17.2	22.3	-	(1.2)
Increase /(decrease) in payables	165.0	(134.5)	4.9	(0.9)
(Decrease)/increase in provisions and employee benefits	(15.2)	9.7	(2.3)	-
Decrease in policy liabilities	(657.8)	(237.3)	-	-
Increase in deferred tax assets/liabilities	(74.9)	(48.8)	(4.7)	(1.0)
Net cash inflow from operating income	**(219.0)**	**172.3**	**123.4**	**114.1**

33. Remuneration of auditors

	Consolidated		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Amounts received or due and receivable by Ernst & Young for:				
Audit of full year and half year review of the financial report of the entity and any other entities in the consolidated entity.	1,687.0	1,566.0	-	-
Other audit services - audit and review of trusts and funds	932.0	1,796.0	-	-
Other services in relation to the entity and any other entity in the consolidated entity				
Taxation services	236.0	470.0	-	-
Due diligence services	34.0	442.0	-	-
Other assurance services	504.0	967.0	-	-
	3,393.0	**5,241.0**	**-**	**-**

Auditor's remuneration for the Group is paid by Challenger Group Services Limited, a wholly owned subsidiary of the Company.

34. 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 $174.7 million and net profit after tax of $9.6 million to the group from 1 October 2008 to 30 June 2009. If the transfer had occurred on 1 July 2008, consolidated revenue and consolidated profit after tax for the year ended 30 June 2009 would have been $224.5 million and $9.0 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 42.53% 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. Since 31 December 2008 a further 0.18% of CDI has been acquired bringing the total holding to 42.71%. All subsequent acquisition movements have been taken to reserves.

Given the acquisition date of 31 December 2008, there was 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. For the six months since 1 January 2009, a profit of $11.2 million and revenue of $35.2 million has been consolidated.

34. *Significant transactions (continued)*

(b) 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	(31.1)	(478.5)
Goodwill/(discount on acquisition)	**57.6**	**(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

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	-	1.3	3.0	3.0
Receivables	2.2	252.6	4.8	4.8
Investment Properties	-	-	865.4	865.4
Deferred tax asset	0.6	-	0.3	0.3
Intangible assets/goodwill	126.5	68.6	-	-
Investments	4.4	-	-	-
Other assets	-	-	0.7	0.7
Payables	(64.7)	-	(29.6)	(29.6)
Provisions	-	(291.4)	(0.7)	(0.7)
Derivative liabilities	-	-	(21.9)	(21.9)
Interest bearing liabilities	-	-	(343.5)	(343.5)
Net assets	**69.0**	**31.1**	**478.5**	**478.5**

34. *Significant transactions (continued)*

(c) AXA transfer

On 25 November 2008 the Federal Court of Australia approved the transfer of the AXA annuity liabilities to Challenger Life Company Limited (CLC). 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 CLC. 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 CLC 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	607.4
Receivables	0.4
Debt securities	711.2
	1,319.0
Liabilities	
Policy liabilities	1,288.2
	1,288.2
Net value release on transfer	**30.8**

35. *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 year ended 30 June 2008 are presented below:

	2008 $M
Revenue	169.8
Expenses	(160.1)
Share of net profits associates	0.4
Gross profit	10.1
Loss on disposal	(18.6)
Loss before tax on discontinued operations	(8.5)
Tax benefit	0.1
Loss from discontinued operations	**(8.4)**

Earnings per share – cents per share	2008 cents
- Basic from discontinued operations	(1.4)
- Diluted from discontinued operations	(1.4)

The net cash flows of the Financial Planning Division for the year prior to disposal are as follows:

	2008 $M
Operating cash flows	9.4
Investing cash flows	(6.9)
Financing cash flows	(1.8)
Net cash inflow	**0.7**

Consideration received:	
Cash	150.0
Associated costs	(10.3)
Total disposal consideration	139.7
Less: Net assets disposed of	(158.3)
Loss on disposal before income tax	(18.6)
Income tax benefit	2.9
Loss on disposal after income tax	**(15.7)**
Net cash inflow on disposal:	
Consideration	150.0
Less: Cash and cash equivalents disposed of	(13.1)
Reflected in the consolidated cash flow statement	**136.9**

36. *Investments in controlled entities*

(a) Controlled entities

Name of entity	Country of incorporation	Class of shares	Equity holding 2009 %	Equity holding 2008 %
Directly controlled by Challenger Financial Services Group Limited:				
Challenger Financial Services Group	Australia	Ordinary	100	100
CFSG Holdings No.2 Victoria Pty Limited	Australia	Ordinary	100	100
Directly controlled by CFSG Holdings No.2 Victoria Pty Limited:				
Challenger Group Holdings Limited	Australia	Ordinary	100	100
FXF Holdings Pty Limited	Australia	Ordinary	100	100
Directly controlled by Challenger Group Holdings Limited:				
Challenger Group Services Pty Limited	Australia	Ordinary	100	100
Challenger Superannuation Pty Limited	Australia	Ordinary	100	100
Challenger Treasury Limited	Australia	Ordinary	100	100
Challenger Commercial Lending Limited	Australia	Ordinary	100	100
Challenger Group Pty Limited[(i)]	Australia	Ordinary	100	100
Endowment Warrants Limited	Australia	Ordinary	100	100
Challenger Mortgage Management Holdings Pty Limited	Australia	Ordinary	100	100
Challenger Strategic Capital Pty Limited	Australia	Ordinary	100	100
Challenger Life Holdings Pty Limited	Australia	Ordinary	100	100
Challenger Funds Management Holdings Pty Limited *(formerly Challenger Wealth Management Pty Limited)*	Australia	Ordinary	100	100
Directly controlled by Challenger Group Pty Limited:				
Challenger Limited *(formerly Challenger Hedging Limited)*	Australia	Ordinary	100	100
Directly controlled by Challenger Mortgage Management Holdings Pty Limited:				
ZCM Australia Asset Holdings Limited	Bermuda	Ordinary	100	100
Interstar Non-Conforming Finance Management Pty Limited	Australia	Ordinary	100	100
Challenger Non-Conforming Finance Pty Limited	Australia	Ordinary	100	100
Challenger Special Servicing Pty Limited	Australia	Ordinary	100	100
Challenger Inventory Finance Servicing Pty Limited	Australia	Ordinary	100	100
Pennley Pty Limited	Australia	Ordinary	100	100
Mortgage Support Services Pty Limited	Australia	Ordinary	100	100
Challenger Broker Support Services	Australia	Ordinary	100	100
Choice Lend Pty Limited	Australia	Ordinary	100	-
Plan Group Holdings Pty Limited	Australia	Ordinary	100	-
Directly controlled by Pennley Pty Limited:				
Fintrack Members Pty Limited	Australia	Ordinary	100	100
Directly controlled by Mortgage Support Services Pty Limited:				
MSS MF Pty Limited	Australia	Ordinary	100	100
MSS MFA Pty Limited	Australia	Ordinary	100	100
Directly controlled by Challenger Inventory Finance Servicing Pty Limited:				
TMA C Warehouse C Trust	Australia	Ordinary	100	100
Directly controlled by Challenger Non-Conforming Finance Pty Limited:				
INC C Warehouse C Trust	Australia	Ordinary	100	100
Challenger Titanium Series 2004-1 Trust	Australia	Ordinary	100	100
Challenger Titanium Series 2005-1 Trust	Australia	Ordinary	100	100
Challenger Titanium Series 2006-1 Trust	Australia	Ordinary	100	100
Directly controlled by ZCM Australia Asset Holdings Limited:				
Interstar Wholesale Finance Holdings Pty Ltd	Australia	Ordinary	100	100

36. *Investments in controlled entities continued)*

Directly controlled by Plan Group Holdings Pty Limited:				
Plan Connect Pty Limited	Australia	Ordinary	100	-
Plan Lending Pty Limited	Australia	Ordinary	100	-
Women in Mortgage Business Network Pty Limited	Australia	Ordinary	100	-
Plan Australia Financial Services Pty Limited	Australia	Ordinary	100	-
Plan NZ Limited	New Zealand	Ordinary	100	-
Professional Lenders Association Network of New Zealand Limited	New Zealand	Ordinary	100	-
Plan Group Nominees Pty Limited	Australia	Ordinary	100	-
Plan Technologies Pty Limited	Australia	Ordinary	100	-
Professional Lenders Association Network of Australia Pty Limited	Australia	Ordinary	100	-
Plan Australia Operations Pty Limited	Australia	Ordinary	100	-
Plan Australia Pty Limited	Australia	Ordinary	100	-
Directly controlled by Professional Lenders Association Network of Australia Pty Limited:				
Plan Australia Pty Limited	Australia	Ordinary	100	-
Plan Australia Operations Pty Limited	Australia	Ordinary	100	-
Directly controlled by Interstar Wholesale Finance Holdings Pty Ltd:				
Challenger Mortgage Management Pty Limited	Australia	Ordinary	100	100
Interstar Securities (International) Pty Limited	Australia	Ordinary	100	100
Challenger Securities (NZ) Pty Limited	Australia	Ordinary	100	100
Directly controlled by Challenger Mortgage Management Pty Limited:				
Interstar Home Loan Corporation Pty Limited	Australia	Ordinary	100	100
Challenger Securitisation Management Pty Limited	Australia	Ordinary	100	100
Challenger Millennium Series 2001-1C Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2001-1E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2001-2 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2001-3 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2002-1G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2002-2 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2003-1G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2003-2 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2003-3G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2003-4 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2003-5G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2004-1E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2004-2G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2004-3P Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2004-4E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2004-5 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2005-1G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2005-2L Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2005-3E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2006-1 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2006-2G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2006-3L Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2006-4H Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2007-1E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2007-2L Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2008-1 Trust	Australia	Ordinary	100	-
Challenger Millennium Series 2008-2 Trust	Australia	Ordinary	100	-
Challenger Millennium Series 2009-1 Trust	Australia	Ordinary	100	-
Challenger Millennium NPL Trust	Australia	Ordinary	100	100
NIM Master Trust Series	Australia	Ordinary	100	100
Challenger Millennium Warehouse A Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse B Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse B1 Trust	Australia	Ordinary	100	-
Challenger Millennium Warehouse B2R Trust	Australia	Ordinary	100	-

36. *Investments in controlled entities continued)*

Challenger Millennium Warehouse C Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse F Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse G Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse H Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse J Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse JP Trust	Australia	Ordinary	100	-
Challenger Millennium Warehouse N Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse R Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse S Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse U Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse V Trust	Australia	Ordinary	100	100
Challenger NZ Millennium Series 2004-A Trust	New Zealand	Ordinary	100	100
Challenger NZ Millennium Series 2007-AP Trust	New Zealand	Ordinary	100	100
Challenger NZ Millennium Warehouse W Trust	New Zealand	Ordinary	100	100
Directly controlled by Challenger Securities (NZ) Pty Limited:				
Challenger Mortgage Management NZ Limited	New Zealand	Ordinary	100	100
Interstar Mortgage Management Pty Limited	Australia	Ordinary	100	100
Directly controlled by Challenger Life Holdings Pty Limited:				
Challenger Group Services (UK) Pty Ltd	UK	Ordinary	100	100
Challenger Life Company Holdings Pty Limited *(formerly Challenger Life Pty Limited)*	Australia	Ordinary	100	100
Challenger Listed Investments Limited	Australia	Ordinary	100	100
Challenger Life Nominees No. 2 Pty Limited *(formerly Challenger Property Funds Management Limited)*	Australia	Ordinary	100	100
Challenger Property Asset Management Pty Limited	Australia	Ordinary	100	100
Challenger Life Nominees Pty Limited *(formerly Challenger Property Nominees Pty Ltd)*	Australia	Ordinary	100	100
Wyetree Asset Management Limited (UK) *(formerly Challenger Structured Credit Management Limited (UK))*	UK	Ordinary	85	85
Encap Funds Management Pty Limited	Australia	Ordinary	100	100
EMIF Holdings Pty Limited	Australia	Ordinary	100	100
Challenger Skybridge (Hastings) Holdings Company Pty Limited	Australia	Ordinary	100	100
Challenger Management Services Limited	Australia	Ordinary	100	100
Challenger Management Services (UK) Limited	UK	Ordinary	100	100
Challenger Retirement Services Pty Limited	Australia	Ordinary	100	100
Challenger Life (UK) Limited *(now deregistered)*	UK	Ordinary	100	100
Directly controlled by Challenger Life Company Holdings Pty Limited *(formerly Challenger Life Pty Limited)*:				
Challenger Life Company Limited *(formerly Challenger Life No.2 Limited)*[iv]	Australia	Ordinary	100	100
Challenger Capital Markets Limited	Australia	Ordinary	100	100
CPHIC Investments Pty Limited	Australia	Ordinary	100	100
Challenger Originator Finance Pty Limited	Australia	Ordinary	100	100
Challenger US Infrastructure Holdings Pty Limited	Australia	Ordinary	100	100
Allfine Holdings Pty Limited	Australia	Ordinary	100	100
Bluezen Pty Limited	Australia	Ordinary	100	100
Challenger Skybridge (Fund) Holding Company Pty Limited	Australia	Ordinary	100	100
Challenger Skybridge (Group) Holding Company Pty Limited	Australia	Ordinary	100	100
Directly Controlled by Challenger Life Company Limited				
Challenger Diversified Property Group	Australia	Ordinary	43	-
Directly controlled by Challenger Listed Investments Limited:				
Inexus Australian Holding Company Pty Limited	Australia	Ordinary	100	100
CSPP1 Investment Company 1 Pty Limited [iii]	Australia	Ordinary	-	100
CSPP1 Broadbeach Pty Limited [iii]	Australia	Ordinary	-	100
CSPP1 Mavis Court Pty Limited [iii]	Australia	Ordinary	-	100
CSPP1 Maitland Pty Limited [iii]	Australia	Ordinary	-	100
CDPG Australia Pty Limited	Australia	Ordinary	100	100
Challenger LBC Terminals Australia Pty Limited	Australia	Ordinary	100	100
Challenger Diversified Property Development Pty Limited	Australia	Ordinary	100	100

36. *Investments in controlled entities continued)*

Directly Controlled by Challenger Management Services Limited:				
CMS (UK) Pty Limited	UK	Ordinary	100	100
Directly controlled by Challenger Funds Management Holdings Pty Limited *(formerly Challenger Wealth Management Pty Limited)*:				
Challenger Boutique Holdings Pty Ltd	Australia	Ordinary	100	100
Challenger Managed Investments Limited	Australia	Ordinary	100	100
Challenger Managed Investments (International) Pty Limited	Australia	Ordinary	100	100
Challenger Margin Lending Pty Limited	Australia	Ordinary	100	100
Challenger FM Nominees Pty Limited *(formerly Custom Choice Managed Investments Limited)*	Australia	Ordinary	100	100
Directly controlled by Challenger Boutique Holdings Pty Limited:				
Challenger Boutique (GFI) Holdings Pty Limited	Australia	Ordinary	100	100
Challenger Boutique Ardea Holdings Pty Limited	Australia	Ordinary	100	-
Challenger Boutique Wavestone Holdings Pty Limited	Australia	Ordinary	100	-
Directly controlled by Challenger Life Nominees Pty Limited *(formerly Challenger Property Nominees Pty Limited)*:				
Sabrand Limited	Cyprus	Ordinary	100	100
Mawbury Pty Limited	Australia	Ordinary	100	100
TLG Services Pty Limited	Australia	Ordinary	100	100
TLGH Pty Limited	Australia	Ordinary	100	100
Talaverra Herring Pty Limited	Australia	Ordinary	100	100
CSPP1 Investment Company 1 Pty Limited [iii]	Australia	Ordinary	100	-
CSPP1 Broadbeach Pty Limited [iii]	Australia	Ordinary	100	-
CSPP1 Mavis Court Pty Limited [iii]	Australia	Ordinary	100	-
CSPP1 Maitland Pty Limited [iii]	Australia	Ordinary	100	-
Directly controlled by TLGH Pty Limited:				
The Liberty Group Consortium Pty Limited	Australia	Ordinary	100	100
Directly controlled by Mawbury Pty Limited:				
Cescade Pty Limited	Australia	Ordinary	100	100
Directly controlled by Sabrand Limited:				
Challenger Hungary International Capital Investment & Management Limited	Hungary	Ordinary	100	100
Directly controlled by Challenger Hungary International Capital Investment & Management Limited :				
Challenger South Monaco LLC (US)	USA	Ordinary	100	100

[i] These controlled entities have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities & investment Commission. For further information see Note 38.

[ii] On 30 June 2008, this entity and all subsidiaries of this entity were sold to a third party.

[iii] Due to an internal restructure taking place during the reporting period the ownership of these controlled entities was transferred to another Group entity.

(b) Assignment of warrants business

In an agreement dated 30 April 2004, Challenger entered into a Deed of Assignment with Westpac Banking Corporation (WBC) whereby, all legal and beneficial rights, title and interests in respect of the following assets and liabilities were assigned to WBC.

	Consolidated	
	2009 $M	**2008 $M**
Shares in listed corporations held in relation to endowment warrants	44.8	83.3
Dividends receivable	0.3	0.4
Warrant liability	(45.1)	(83.7)
	-	-

37. *Investment in associates*

Name of company	Principal activity	Country of incorporation	Ownership interest 2009 %	Ownership interest 2008 %	Consolidated 2009 $M	Consolidated 2008 $M
Challenger MBK Fund Management Pte Limited	Funds Management	Singapore	50	-	1.6	-
Homeloans Pty Limited	Mortgage Origination	Australia	40	40	46.1	46.1
Ardea Investment Management Pty Limited	Funds Management	Australia	30	-	2.8	-
Five Oceans Asset Management Limited	Funds Management	Australia	25	25	3.4	3.7
Greencape Capital Pty Limited	Funds Management	Australia	25	25	2.0	2.0
Kapstream Capital Pty Limited	Funds Management	Australia	25	25	4.6	4.9
Kinetic Investments Partners Limited	Funds Management	Australia	20	20	0.2	0.3
Wavestone Capital Pty Limited	Funds Management	Australia	28	-	1.9	-
Less: Provision for diminution in value[1]					(19.4)	(22.0)
					43.2	**35.0**

[1] This provision for diminution in value relates to Homeloans Pty Limited.

Movements in carrying amount of investments in associates	
Carrying amount at the beginning of the financial year	35.0	58.1
Investment in associates acquired in current year	6.0	0.1
Sale of interest in associates	-	(2.4)
Investment in associates - write downs	-	(22.0)
Share of associates' net profit	3.1	2.1
Dividend received	(0.9)	(0.9)
Carrying amount at the end of the financial year	43.2	35.0
Share of the associates' profit or loss:		
Profits before related income tax	4.4	2.9
Income tax expense	(1.3)	(0.8)
Profits after related income tax expense	3.1	2.1
Retained profits attributable to associates at the beginning of the financial year	2.4	0.3
Retained profits attributable to associates at the end of the financial year	5.5	2.4
Share of the associates' balance sheet:		
Assets	53.8	47.1
Liabilities	(14.6)	(18.2)
Net assets	39.2	28.9

There are no material commitments or contingent liabilities relating to the associates.

38. *Deed of Cross Guarantee*

The following wholly owned companies are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. By entering in the deed, the wholly owned companies have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Order 98/2017 and 00/0321) issued by the Australian Securities & Investment Commission.

- Challenger Group Pty Limited
- Endowment Warrants Limited

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by the Company, they also represent the 'Extended Closed Group'.

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2009 of the Closed Group.

	2009 $M	2008 $M
Income statement		
Other income	-	-
Other expenses	-	-
Profit before income tax	-	-
Income tax benefit	-	0.5
Profit for the year	**-**	**0.5**
Summary of movements in consolidated retained losses		
Retained (losses) at the beginning of the financial year	(0.2)	(0.7)
Profit from ordinary activities after income tax expense	-	0.5
Retained losses at the end of the financial year	**(0.2)**	**(0.2)**

Set out below is a consolidated balance sheet of the Closed Group as at 30 June 2008.

	2009 $M	2008 $M
Assets		
Receivables	4.0	4.2
Equity securities	45.2	83.3
Total assets	**49.2**	**87.5**
Liabilities		
Payables	23.7	52.0
Interest bearing liabilities	22.7	31.6
Total liabilities	**46.4**	**83.6**
Net assets	**2.8**	**3.9**
Equity		
Contributed equity	4.1	4.1
Retained losses	(1.3)	(0.2)
Total equity	**2.8**	**3.9**

39. *Subsequent events*

The Group announced the sale of its Mortgage Management division on 18 August 2009 to National Australia Bank Limited (NAB). Under the terms of the sale, NAB will acquire the Mortgage Distribution and Multi Brand Lending Businesses, along with approximately $4 billion of residential mortgages held in warehouses for a consideration of $385 million. The transaction is subject to regulatory approvals and is not expected to close before 31 October 2009.

The sale to NAB includes the mortgage aggregation businesses of Plan, Fast and Choice, the multi branded mortgage origination business, approximately $4 billion of residential mortgages held in warehouses and the Group's 41% stake in the listed mortgage origination company, Homeloans Limited, (subject to Homeloans Limited shareholder approval).

The entitlement to the residual income units (RIUs) of the remaining residential mortgage loan special purpose vehicles (SPVs) not sold to NAB (backed by approximately $11 billion of mortgages) were transferred from the Mortgage Management division to Challenger Life Company Limited (CLC) within the Life division on 1 August 2009. The transfer was completed on arm's length, commercial terms for $375 million. The consideration paid reflects a value excluding any obligation for future trail commissions and amortisation of prior period acquisition costs pertaining to the loan portfolio. Although no change to the net asset position of the Group has arisen, the transfer was cash settled and so has increased the Group's financial flexibility since balance date.

The proceeds from the sale of the Mortgage Management division and from the cash settlement of the RIUs transferred to CLC will be used to retire the Group's major debt facilities/borrowings consisting of the Medium Term Note, Corporate Net Interest Margin Bond and Corporate bank facility as outlined in Note 19 to the Financial Statements.

The Group's controlled entity, Challenger Diversified Property Group (CDI), announced a $130 million capital raising on 6 August 2009 with a 4 for 7 pro-rata entitlement offer to eligible unitholders of CDI. As a major shareholder, CLC has subscribed for its entitlement under the offer and the Group has also agreed to sub-underwrite the offer. The Group owned approximately 44.3% of the CDI units on issue prior to the offer being announced.

Following these transactions, Challenger will be focusing purely on the significant opportunities that exist within the investment management activities of its Life and Funds Management businesses.

As at the date of this report, other than the areas noted above, 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.

40. *Contingent liabilities, contingent assets and credit commitments*

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 30 June 2009. 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 is disputing the assessment.

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 Company 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 $152.6 million (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:

1. In the opinion of the Directors of Challenger Financial Services Group Limited (the Company):

   a) the financial statements and notes of the Company and Group are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Company and the Group as at 30 June 2009 and of its performance for the year ended on that date; and

      (ii) complying with Australian Accounting Standards 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.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2009.

3. In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 38 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

G A Cubbin
Director

Sydney 21 August 2009

D J Stevens
Director

Sydney 21 August 2009

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Independent auditor's report to the members of Challenger Financial Services Group Limited

Report on the Financial Report

We have audited the accompanying financial report of Challenger Financial Services Group Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the 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 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. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Liability limited by a scheme approved
under Professional Standards Legislation

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. the financial report of Challenger Financial Services Group Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of Challenger Financial Services Group Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 26 of the directors' report for the year ended 30 June 2009. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Challenger Financial Services Group Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

S J Ferguson
Partner
Sydney
21 August 2009

Four year history

	2009 $M	2008 $M	2007 $M	2006 $M
Income statement – cash operating earnings				
Income				
Normalised cash operating earnings	250.8	207.9	163.8	132.7
Net fee income	318.8	348.1	331.7	259.7
Other income	9.2	10.7	6.8	3.2
Total income	578.8	566.7	502.3	395.6
Expenses				
Total operating expenses	(259.0)	(256.2)	(246.5)	(206.6)
Normalised EBIT	319.8	310.5	255.8	189.0
Interest and borrowing costs	(36.9)	(41.3)	(33.7)	(34.9)
Discontinued operations	-	10.1	8.3	7.0
Normalised profit before tax	**282.9**	**279.3**	**230.4**	**161.1**
Tax	(64.0)	(61.4)	(48.4)	(43.5)
Normalised profit after tax	218.9	217.9	182.0	117.6
Investment experience after tax	(309.6)	(192.3)	49.6	35.7
Significant items after tax	-	(69.8)	23.4	(19.0)
Statutory profit after tax	**(90.7)**	**(44.2)**	**255.0**	**134.3**
Balance sheet				
Total assets	25,237.8	27,157.3	27,015.2	24,305.3
Total liabilities	23,548.4	25,527.3	25,566.6	23,045.0
Net assets	1,689.4	1,630.0	1,448.6	1,260.3
Total average equity attributable to equity holders of the parent	1,381.9	1,612.9	1,339.6	1,181.0
Assets under management and administration				
- Life	5,767	5,245	3,476	3,676[1]
- Mortgage Management	93,295	48,068	23,013	20,901
- Funds Management	16,041	21,921	22,996	12,868[1]
- Crossholdings	(4,769)	(5,524)	(5,472)	(2,801)
	110,334	69,710	44,013	34,644
- Financial Planning	-	-	8,796	6,854
Total assets under management and administration	110,334	69,710	52,809	41,498

Four year history (continued)

Share information	2009	2008	2007	2006
Basic earnings per share – statutory profit/(loss) (cents)	(16.2)	(7.5)	46.3	24.9
Diluted earnings per share – statutory profit/(loss) (cents)	(15.9)	(8.1)	43.2	23.9
Basic earnings per share – normalised profit (cents)	39.2	37.1	33.0	21.8
Diluted earnings per share – normalised profit (cents)	38.4	35.4	30.7	20.8
Dividends per share (cents)				
Interim	5.0	5.0	5.0	2.5
Final	7.5	7.5	7.5	5.0
Total	12.5	12.5	12.5	7.5
Dividend payout ratio – statutory profit/(loss) (%)[1]	n/a	n/a	27.0%	30.1%
Dividend payout ratio – normalised profit/(loss) (%)[1]	31.9%	33.7%	37.9%	34.4%
Ratios				
Net gearing (%)[2]	11.5%	0.6%	5.6%	5.2%
Gearing (%)[3]	19.6%	13.3%	16.9%	8.7%
Return on shareholders' funds – statutory profit after tax [4]	(5.4)%	(2.7%)	19.0%	11.4%
Return on shareholders' funds – normalised profit after tax [5]	13.0%	13.6%	13.6%	10.0%
Staff numbers[6]	837	911	1,063	958
Share price at 30 June ($)	2.24	1.89	5.83	3.16
Ordinary share capital (million shares) [7]	569.3	600.4	554.6	544.8
Market capitalisation at 30 June ($ million) [8]	1,275.3	1,134.8	3,233.3	1,721.5

[1] Dividends per share / EPS (basic).
[2] Calculated as Net Debt / (Net Debt + Equity).
[3] Calculated as Debt / (Debt + Equity).
[4] Calculated as statutory profit after tax / total average equity attributable to equity holders of the parent.
[5] Calculated as normalised profit after tax / total average equity attributable to equity holders of the parent.
[6] 2008 staff numbers exclude 189 employees associated with the Financial Planning sale completed on 30 June.
[7] Represents issued shares on the ASX.
[8] Calculated as share price x number of ordinary shares excluding LTIP vested but not settled.

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Investor Information

a) Distribution of shares

Range	Number of shareholders	Number of shares	% of issued capital
1-1,000	9,890	5,024,420	0.88
1,001-5,000	11,307	27,678,913	4.88
5,000 – 10,000	2,505	18,617,784	3.28
10,001 – 100,000	1,641	39,322,776	6.93
100,001 and over	128	477,114,31	84.03
	25,471	567,758,204	100.00

Number of unmarketable parcels: 1,156
Number of unmarketable shares: 115,379

b) Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number	Percentage[1]
1. Consolidated Press Holdings Limited	121,988,278	20.6
2. The Bank of Tokyo-Mitsubishi UFJ, Ltd (BTMU)	40,869,739	6.4

1 Based on shares on issue at date of last substantial shareholder notification.

c) Twenty largest shareholders as at 31 July 2009

	Shareholder	Shares held at end of period	% of issued capital
1.	HSBC Custody Nominees (Australia) Limited	82,356,096	13.82
2.	National Nominees Limited	66,285,005	11.12
3.	Cavalane Holdings Pty Limited	64,848,539	10.88
4.	J P Morgan Nominees Australia Limited	55,752,178	9.35
5.	Conpress Holdings Pty Limited	54,340,394	9.12
6.	CPU Share Plans Pty Limited	36,313,491	6.09
7.	Citicorp Nominees Pty Limited	21,462,825	3.60
8.	ANZ Nominees Limited	19,000,885	3.19
9.	CPU Share Plans Pty Limited - Challenger Performance Plan	12,749,256	2.14
10.	AMP Life Limited	7,831,053	1.31
11.	Bainpro Nominees Pty Limited	7,277,743	1.22
12.	Cogent Nominees Pty Limited	6,543,150	1.10
13.	Citicorp Nominees Pty Limited: CFS future leaders fund A/C	4,961,324	0.83
14.	CPU Share Plans Pty Limited	4,360,000	0.73
15.	Bell Securities Pty Limited	4,300,001	0.72
16.	Cogent Nominees Pty Limited	4,284,891	0.72
17.	UBS Nominees Pty Limited	3,760,652	0.63
18.	WIN Television NSW Pty Limited	3,046,601	0.51
19.	Consolidated Press Holdings Limited	2,799,345	0.47
20.	Queensland Investment Corporation	2,787,650	0.47
		465,061,079	**78.03**

d) Shares subject to restrictions

There are no shares subject to restrictions.

e) 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.

f) 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.

g) Key dates

Shareholders may like to note the following key dates:

Ex-dividend date for 2009 final dividend	17 September 2009
Record date for the 2009 final dividend	23 September 2009
Dividend payment date	16 October 2009

h) Shareholder queries

Please contact Computershare Investor Services 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 4E (rule 4.2A)

Reporting period and previous corresponding period details
Reporting period: 30 June 2009
Previous corresponding reporting period: 30 June 2008

Cross reference index	Page
Results for announcement to the market (4D item 2)	1
Dividends (4E item 6)	1
Dividend dates (4E item 6)	1
Dividend reinvestment plan (4E item 7)	Challenger Financial Services Group Limited has suspended its Dividend Re investment Plan.
Net tangible assets per security (4E item 9)	See below
Commentary on results	3

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

Details of entities over which control was gained during the year
Refer to 30 June 2009 Financial Report: Note 34: Significant transactions.

Details of associates and joint ventures (4E item 11)

As at 30 June 2009	Ownership interest held
Ardea Investment Management Pty Limited	30%
Challenger MBK Fund Management Pte Limited	50%
Five Oceans Asset Management Pty Ltd	25%
Greencape Capital Pty Limited	25%
Homeloans Pty Ltd	40%
Kapstream Capital Pty Ltd	25%
Kinetic Investment Partners Ltd	20%
Wavestone Capital Pty Limited	28%

Any other significant information
There is no other significant information other than as disclosed in Note 40.

Post balance date events
There have been no significant events occurring since the balance sheet date other than as disclosed in Note 39.

Foreign Entities (4E item 13)
Not applicable.

Net tangible assets per security (4E item 9)

Description	30 June 2009	30 June 2008
Net assets ($ millions)	1,689.6	1,630.0
Net tangible assets ($ millions)	979.8	977.1
Ordinary shares (number - millions)	542.6	581.7
Net assets per security ($)	3.11	2.80
Net tangible assets per security ($)	1.81	1.68

Christopher Robson
Company Secretary
21 August 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 (Chairman) Dominic Stevens (Chief Executive Officer) Graham Cubbin Thomas Barrack Jr. Russell Hooper Ashok Jacob James Packer Tetsuya Wada 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