Challenger Limited

2012 Half Year Financial Results

Financial Highlights

For the half year ended 31 Dec 2011		1H11 – 1H12
Assets Under Management	$29.6bn	↑15%
Net income	$255m	↑ 6%
Expenses	$95m	↑ 9%
Normalised EBIT	$160m	↑ 5%
NPAT (Normalised)	$127m	↑ 5%
NPAT (Statutory Reported)	$20m	↓ 83%
EPS (Normalised Basic)	25.3 cents	↔
DPS (Interim) unfranked	7.5 cents	↑ 7%

For the half year ended 31 Dec 2011		1H11 – 1H12
Normalised EBIT		
Life	$177m	↑ 3%
Funds Management	$10m	↑ 2%
Corporate	$(26)m	↓ 6%
Total	$160m	↑ 5%

Financial performance

- Normalised NPAT up 5% on pcp
- Normalised EPS flat at 25.3cps – impact of growth in underlying earnings tempered by early exercise of CPH option (60m shares) in October 2011
- Statutory NPAT of $20.0m, down 83% on pcp, lower than normalised NPAT, reflecting negative investment experience primarily from dislocation in credit markets
- Interim dividend of 7.5 cents per share unfranked up 7% on pcp

Total Assets Under Management (AUM)

- Total AUM up 15% on pcp to $29.6bn
- Total Funds Management FUM rose 27% on pcp, reflecting continued strong net inflows into boutique partnerships of ~$2.0bn in the last 6 months (Boutique FUM now $16.2bn)
- Life AUM rose 14% on pcp following record retail annuity sales of $983m in 1H12 and a further $288m of institutional sales (up from $19m in 1H11)

Net Income/Normalised EBIT

- Net Income was up 6% and Normalised EBIT was up 5%.
- Life EBIT was up 3% on pcp and Funds Management EBIT was up 2% on pcp

Expenses

- Normalised cost to income ratio remained within our target range of 35-40% at 37% (flat on pcp)
- Overall expenses steady and the creation of the Distribution Product & Marketing division has led to more granular allocation of expenses incurred by both Life or Funds Management activities

Outlook

- Focus on retirement income sector unchanged
- Macro environment remains supportive of the key drivers of long term operating profitability for our business
- Supportive structural and demographic trends will continue to play out over the next 20 years
- Advertising and marketing activities to lift brand awareness
- Strong Boutique Partnerships FUM pipeline
- Upgraded FY12 retail Life sales targeted to grow ~30%
- FY12 Life COE guidance upgraded to $435m, up 9% on FY11

Capital Management
Financial flexibility

- No recourse group debt; cash of $209m (includes proceeds from early exercise of CPH Option in Oct 2011)
- Solid capital position maintained despite impact of market volatility – Challenger Life (CLC) surplus capital over minimum regulatory requirements in excess of $600m at 31 December 2011
- Operating cash-flow up 10% to $140m – further enhancing organic capital generation
- On-market share buy-back maintained as additional capital management tool – 5.4m shares purchased in the last six months

Dividend

- Interim dividend of 7.5 cps (unfranked) increased by 7% on pcp
  Interim Ex-Dividend Date: 5 March 2012
  Interim Record Date: 9 March 2012
  Interim Payment Date: 30 March 2012

Ratings

- Challenger Limited and CLC are rated for wholesale investors by Standard and Poor's (S&P) for credit and financial strength respectively. Ratings were reaffirmed in December 2011 with a stable outlook
  - Challenger Life Company Limited: A
  - Challenger Limited: BBB+

Life

Business description

Challenger Life (CLC) is the leading issuer of annuities in Australia and provider of alternate retirement income solutions. CLC offers attractive guaranteed returns and capital protection for long term retirement planning. CLC differentiates itself by focusing on the provision of annuities and associated low cost, simple products to retirees and other investors seeking the security and certainty of guaranteed income streams, inflation and longevity protection. CLC has won the AFA/Plan for Life annuity provider of the year, for the past six years, further reinforcing our strength in the annuity space. CLC has approximately $8.7bn assets under management backing more than 66,000 customers' policies.

Financial Highlights*

For the half year ended 31 Dec 2011		1H11 – 1H12
Average AUM	$8.6bn	↑13%
Normalised Cash Operating Earnings (COE)	$211m	↑ 10%
Expenses	$34m	↑ 61%
Normalised EBIT	$177m	↑3%
Return on Net Assets (RONA)	23%	

*Normalised cash operating earnings basis – excluding investment experience

AUM: Average AUM up 13% primarily driven by increased sales of retail annuities and allocated pensions of $983m during the period with record sales in the first quarter of FY12 of $509m. This ongoing increase is underpinned by structural market drivers including changing investor risk preferences given increasing market volatility and the changing age demographics in Australia.

Normalised COE: $211m, up 10% on pcp, driven by a stable investment yield on increased AUM.

Investment Experience: Investment experience was negative for the half of $(107)m post tax. The key contributor to the negative movement was from fixed income due to domestic credit market volatility driven by the European debt crisis and mark to market impacts on equities/alternate.

Expenses: $34m up 61% on pcp due to full run-rate of increased distribution headcount including annuity specialists and business development managers. Other factors include the costs associated with the expansion and development of the product range, associated advertising and marketing costs, as well as more granular allocation of support functions between business units, following the creation of the Distribution, Product and Marketing division.

Performance Highlights

Increased balance sheet scale/broader product range

- Record retail annuity sales of $983m and institutional sales of $288m from continued momentum in sales within the retirement income sector
- Continued net book growth for fourth consecutive half
- Sustainable investment yield on asset portfolio, resulting in a stable bottom line margin
- New products now account for 57% of flows in the last six months

Outlook

Strong underlying fundamentals

- Continued increase in demand for Life's products as investor risk preferences change and underlying customer base increases from demographic shifts
- Positive traction with both sides of government on changes required to open up the Deferred Lifetime Annuity market
- Solid surplus capital and further organic generation of capital to support future book growth
- FY12 retail Life sales targeted to grow ~30%; expected retail net book growth ~10% in FY12
- Upgraded FY12 Cash Operating Earnings guidance for Life of $435m

Funds Management
Business description

With funds under management of $27.7bn, Funds Management offers a wide range of fiduciary investment choices across a variety of asset classes and investment styles. This includes boutique partnerships providing a gateway to ten investment managers across various asset classes. Alongside this, the Aligned Investment teams develop and distribute numerous investment products to third party investors and CLC. Investments are across the same core asset classes of fixed income, property and infrastructure as CLC.

Financial Highlights

For the half year ended 31 Dec 2011		1H11 – 1H12
Average FUM	$26.1bn	↑24%
Net income	$40m	↓(11)%
Expenses	$30m	↓(14)%
EBIT	$10m	↑2%
Return on Net Assets (RONA)	15%	

FUM: Average FUM of $26.1bn, up 24% on pcp. Net flows for boutiques for the second quarter of FY12 were very strong and the pipeline is growing solidly reflecting the strength and performance of Challenger's ten boutique partnerships. Total FUM for boutique partnerships was $16.2bn as at 31 December 2011.

Net Income: $40m, down 11% on pcp, reflecting a reduced contribution of performance and transaction fees for the period from Boutique Partnerships. Other contributors included reduction in management fees as a result of the loss of historic retail FUM in Aligned & Other (particularly the Howard Mortgage Trust and the High Yield Fund) partially offset by increased net flows in Boutique Partnerships.

Expenses: $30m, down 14% on pcp due to netting down of expenses as the funds business moved to a boutique partnership model and more granular allocation of support functions between business units following the creation of the Distribution, Product and Marketing division.

Performance Highlights
Investment Performance

- Net funds flow across our boutique partnerships was ~$2.0bn in the last six months
- Boutiques have seen stellar FUM growth during the period, evenly spread across fixed income and equity strategies.
- Boutique partnership investment out-performance continued with all funds since inception performing above their respective benchmarks

Outlook
Diversified portfolios and business mix

- Australia remains an attractive investment environment supported by compulsory super contributions, population growth and focus on contemporary products
- Clear customer aligned business model
- Substantial growth in boutique FUM providing greater diversification of revenue, whilst leveraging Challenger's existing infrastructure

Corporate
Financial Highlights

For the half year ended 31 Dec 2011		1H11 – 1H12
Net income	$5m	↑ 45%
Expenses	$31m	←→
EBIT	$(26)m	↓(6)%

Net Income: Corporate income has increased on pcp reflecting higher average surplus cash balance held in corporate primarily as a result of the proceeds from the early exercise of the CPH options. Net income in corporate represents interest on surplus cash deposits including cash held for regulatory license purposes and other income.

Expenses: Operating expenses represent the cost of performing functions not directly associated with the operating divisions, primarily head office personnel costs, together with all long-term incentive costs. Long term incentive expense amortisation fell on pcp but was offset by an increase of similar quantum in direct expenses (personnel and other).

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Key Performance Indicators

	1H 12	2H 11	1H 11	2H 10	1H 10
Normalised NPAT ($m)	126.7	127.7	120.3	116.6	115.9
Statutory NPAT ($m)	20.0	143.5	117.9	105.8	176.7
Normalised EBIT (continuing operations) ($m)	159.9	161.6	152.2	146.7	119.1
Normalised EBIT ($m)	159.9	161.6	152.2	146.7	158.2
Normalised cost to income ratio	37.3%	36.5%	36.5%	39.2%	42.3%
Effective normalised tax rate	20.3%	19.8%	20.8%	19.3%	20.8%
Dividend (cents)	7.5	9.5	7.0	8.5	6.0
Total dividend franking	0%	0%	0%	0%	0%
Normalised dividend payout ratio	29.6%	35.8%	27.8%	35.7%	27.5%
Earnings per share (cents)					
– Basic – normalised	25.3	26.5	25.2	23.8	21.8
– Basic – statutory	4.0	29.8	24.7	21.6	33.3
– Diluted – normalised	24.1	24.5	23.6	22.2	20.8
– Diluted – statutory	3.8	27.5	23.1	20.1	31.7
Operating cashflow ($m) [1]	139.7	149.8	126.6	107.5	114.2
Opening net assets ($m) [2]	1,488	1,340	1,340	1,382	1,382
Normalised return on net assets – pre-tax	21.2%	24.0%	22.7%	20.9%	21.2%
Group net gearing [3]	0.0%	0.0%	0.0%	0.0%	0.0%
Group gearing [4]	0.0%	0.0%	0.0%	0.0%	2.2%
Life sales ($m)					
– Retail	983.3	1,190.3	713.1	478.3	454.8
– Institutional	288.4	40.6	18.7	712.1	540.8
Total Life sales	1,271.7	1,230.9	731.8	1,190.4	995.6
Funds Management – net flows ($m)	1,721.0	1,324.0	1,073.0	2,006.0	1,825.0
Assets under management ($m)					
– Life	8,709	8,387	7,630	7,578	6,651
– Funds Management	27,721	23,608	21,864	20,221	19,224
– Cross holding elimination	(6,863)	(4,086)	(3,723)	(3,851)	(2,988)
Total Assets under management	29,567	27,909	25,771	23,948	22,887
Closing Group headcount (No. of FTEs) [5]	480	455	458	460	446
Basic share count – closing (shares – m)	536.0	476.9	484.5	471.7	505.8
Basic share count – weighted average (shares – m)	500.5	481.1	477.7	490.2	530.9
ASX listed shares – closing (shares – m)	552.2	496.7	502.0	499.6	531.5
Share price ($)	4.13	4.89	4.70	3.52	4.23

[1] Operating cashflow is on an underlying basis and excludes adjustments for net annuity policy capital receipts/payments, SPV operating cashflows and CDI non-controlling interest.
[2] Opening net assets excludes non-controlling interest.
[3] Calculated as Net Debt/(Net Debt + Equity).
[4] Calculated as Debt/(Debt + Equity).
[5] Headcount excludes discontinued operations reflecting the sale of Mortgage Management in October 2009. Mortgage Management included 392 FTE at 30 June 2009.

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Consolidated Profit and Loss

$m	1H 12	2H 11	1H 11	2H 10	1H 10
Cash earnings	188.7	187.4	167.9	157.6	125.8
Normalised capital growth	22.1	21.3	24.2	26.2	28.3
Normalised cash operating earnings	**210.8**	**208.7**	**192.1**	**183.8**	**154.1**
Net fee income	39.7	43.9	44.5	53.5	48.5
Other income	4.5	1.7	3.1	3.8	3.8
Total Net Income	**255.0**	**254.3**	**239.7**	**241.1**	**206.5**
Personnel expenses	(63.1)	(61.5)	(62.4)	(70.8)	(64.2)
Other expenses	(32.0)	(31.2)	(25.1)	(23.7)	(23.1)
Total Expenses	**(95.1)**	**(92.7)**	**(87.5)**	**(94.4)**	**(87.3)**
Normalised EBIT (continuing operations)	**159.9**	**161.6**	**152.2**	**146.7**	**119.1**
Discontinued operations [1]	–	–	–	–	39.1
Normalised EBIT	**159.9**	**161.6**	**152.2**	**146.7**	**158.2**
Interest and borrowing costs	(1.0)	(2.3)	(0.4)	(2.2)	(11.9)
Normalised profit before tax	**158.9**	**159.3**	**151.8**	**144.5**	**146.3**
Normalised Tax	(32.2)	(31.6)	(31.5)	(27.8)	(30.5)
Normalised profit after tax	**126.7**	**127.7**	**120.3**	**116.6**	**115.9**
Investment experience after tax	(106.7)	(26.3)	(2.4)	(10.0)	61.3
Significant items after tax	–	42.1	–	(0.8)	(0.5)
Net profit after tax	**20.0**	**143.5**	**117.9**	**105.8**	**176.7**
Performance Analysis					
Normalised earnings per share (basic)	25.3	26.5	25.2	23.8	21.8
Shares for basic EPS calculation	500.5	481.1	477.7	490.2	530.9
Dividends (cents)	7.5	9.5	7.0	8.5	6.0
Normalised dividend payout ratio	29.6%	35.8%	27.8%	35.7%	27.5%
Normalised cost to income ratio	37.3%	36.5%	36.5%	39.2%	42.3%
Effective normalised tax rate	20.3%	19.8%	20.8%	19.3%	20.8%
Opening net assets ($m) [2]	1,488	1,340	1,340	1,382	1,382
Normalised RONA (pre tax)	21.2%	24.0%	22.7%	20.9%	21.2%
Closing group headcount (No. of FTE) [3]	480	455	458	460	446

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[1] Discontinued operations represents Mortgage Management (sold on 30 October 2009).
[2] Opening net assets excludes non-controlling interests.
[3] Headcount excludes discontinued operations reflecting the sale of Mortgage Management in October 2009. Mortgage Management included 392 FTE at 30 June 2009.

Normalised EBIT by Division

$m	1H 12	2H 11	1H 11	2H 10	1H 10
Life	176.6	178.0	170.8	163.7	140.4
Funds Management	9.5	10.8	9.3	9.2	8.2
Corporate	(26.2)	(27.2)	(27.9)	(26.2)	(29.4)
Normalised EBIT (continuing operations)	**159.9**	**161.6**	**152.2**	**146.7**	**119.1**
Discontinued operations [1]	–	–	–	–	39.1
Normalised EBIT	**159.9**	**161.6**	**152.2**	**146.7**	**158.2**

Income Analysis[2]

	1H 12	2H 11	1H 11	2H 10	1H 10
Total net income	**255.0**	**254.3**	**239.7**	**241.1**	**206.5**
% Total net income					
Cash earnings	74.0%	73.7%	70.0%	65.4%	60.9%
Normalised capital growth	8.7%	8.4%	10.1%	10.9%	13.7%
Net fee income	15.6%	17.3%	18.6%	22.2%	23.5%
Other income	1.8%	0.7%	1.3%	1.6%	1.9%
% Net fee income					
Management fees	90.9%	82.7%	94.5%	79.8%	79.3%
Performance and transaction fees	9.1%	17.3%	5.5%	20.2%	20.7%

Consolidated Operating Cash Flows[3]

$m	1H 12	2H 11	1H 11	2H 10	1H 10
Receipts from customers	223.0	243.1	249.2	250.1	426.7
Dividends received	19.0	18.3	17.4	9.9	26.2
Interest received	235.8	231.8	172.1	183.1	154.9
Interest paid	(171.4)	(174.0)	(153.6)	(154.0)	(155.7)
Payments to suppliers and employees	(165.9)	(168.2)	(161.7)	(187.8)	(338.0)
Income tax refund/(paid)	(0.8)	(1.2)	3.2	6.3	–
Underlying operating cashflows	**139.7**	**149.8**	**126.6**	**107.5**	**114.2**
Adjust for:					
Net SPV operating cashflows [4]	(2.6)	3.5	(5.0)	(5.7)	(9.4)
Net annuity policy capital receipts/(payments) [5]	253.2	713.1	208.9	58.4	(60.0)
CDI non controlling interest	10.3	11.3	11.7	12.1	11.9
Operating cashflows per Financial Report	**400.6**	**877.7**	**342.2**	**172.3**	**56.8**

[1] Discontinued operations represents Mortgage Management (sold on 30 October 2009).
[2] Excludes discontinued operations.
[3] Includes discontinued operations.
[4] Underlying operating cashflows excludes SPV operating cashflows as Challenger corporate entities have no present or legal entitlement to the cashflow of the trusts until distribution date.
[5] Underlying operating cashflow excludes capital flow element of policyholder receipts and payments to provide a more meaningful analysis of performance.

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Management Balance Sheet

$m	1H 12	2011	1H 11	2010	1H 10
Consolidated Balance Sheet [1]					
Assets					
Investment assets – Life					
Fixed Income and Cash	6,369.3	6,114.2	5,431.2	5,207.3	4,464.2
Infrastructure	568.4	478.6	464.6	526.9	692.6
Property (net)	1,552.1	1,535.1	1,497.0	1,577.7	1,238.0
Equity and other investments	219.3	258.9	237.0	266.5	256.4
Total Investments assets managed for Challenger Life Company	**8,709.1**	**8,386.8**	**7,629.8**	**7,578.4**	**6,651.1**
Cash and cash equivalents	208.7	93.0	66.2	76.1	151.6
Receivables	355.3	310.5	271.9	191.3	212.7
Derivative assets	430.5	355.7	363.6	285.5	226.5
Fixed assets	18.5	19.4	21.0	21.6	21.9
Tax assets	–	–	1.8	4.8	2.1
Other investment assets	38.0	43.9	48.4	67.4	70.4
Investment in associates	40.9	40.9	25.6	33.0	30.4
Other assets	38.9	34.4	43.2	60.8	54.8
Goodwill and intangibles	519.1	518.8	521.6	526.5	516.4
Less Group/Life eliminations [2]	(302.0)	(363.0)	(403.5)	(431.0)	(507.0)
Total assets	**10,057.0**	**9,440.4**	**8,589.6**	**8,414.3**	**7,431.2**
Liabilities					
Payables	235.2	276.6	240.4	231.5	211.1
Tax liabilities	14.9	41.9	70.5	43.9	28.2
Derivative liabilities	109.7	107.6	105.9	216.3	144.5
Recourse debt	–	–	–	–	30.1
Subordinated debt	460.9	481.9	474.9	479.4	437.2
Other interest bearing liabilities	69.0	62.7	59.8	59.9	59.7
Net SPV equity	4.6	5.4	10.2	6.9	18.9
Provisions	33.3	30.3	27.5	32.0	33.2
Life contract liabilities	6,065.0	5,629.0	4,877.9	4,745.8	4,564.8
Guaranteed index return liabilities	1,446.8	1,316.7	1,307.5	1,259.0	541.2
Total liabilities	**8,439.4**	**7,952.1**	**7,174.6**	**7,074.7**	**6,069.0**
Consolidated Net assets	**1,617.6**	**1,488.3**	**1,415.0**	**1,339.6**	**1,362.2**

Life Balance Sheet

Total investment assets managed for Challenger Life Company	8,709.1	8,386.8	7,629.8	7,578.4	6,651.1
Other assets (including intangibles)	898.1	790.9	694.8	697.1	612.5
Total assets	**9,607.2**	**9,177.7**	**8,324.6**	**8,275.5**	**7,263.6**
Policy liabilities	6,065.0	5,629.0	4,877.9	4,745.8	4,564.8
Guaranteed index return liabilities	1,446.8	1,316.7	1,307.5	1,259.0	541.2
Subordinated debt	460.9	481.9	474.9	479.4	437.2
Other liabilities	155.6	200.2	212.8	338.9	176.3
Total liabilities	**8,128.3**	**7,627.8**	**6,873.1**	**6,823.0**	**5,719.5**
Life Net assets	**1,478.9**	**1,549.8**	**1,451.5**	**1,452.5**	**1,544.1**

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[1] Excludes consolidation of Special Purpose Vehicles (SPV's), CDI and non-controlling interests.
[2] Group/Life eliminations relate to the fair value of the SPV residual income units held by CLC.

Debt and Gearing

$m	1H 12	2H 11	1H 11	2H 10	1H 10
Available Cash	208.7	93.0	66.2	76.1	151.6
Less: Financial Debt (Recourse)					
Medium term notes	–	–	–	–	(30.1)
Corporate facilities	–	–	–	–	–
Total Financial Debt	**–**	**–**	**–**	**–**	**(30.1)**
Net Cash/(Debt)	**208.7**	**93.0**	**66.2**	**76.1**	**121.5**
Gearing [1]					
Debt/(Debt + Equity)	0.0%	0.0%	0.0%	0.0%	2.2%
Net Debt/(Net Debt + Equity)	0.0%	0.0%	0.0%	0.0%	0.0%
Net equity (closing)	1,617.6	1,488.3	1,415.0	1,339.6	1,362.2
Operating Leverage (Non recourse)					
Controlled property debt	705.0	659.6	683.6	683.8	275.1
CDI controlled property debt	235.8	226.6	136.9	165.5	183.8
Infrastructure debt	207.4	206.1	–	–	–
Subordinated debt – CLC	460.9	481.8	474.9	479.4	437.2
Loan note finance	69.0	62.7	59.8	65.8	59.7
Total operating leverage	**1,678.1**	**1,636.8**	**1,355.2**	**1,394.5**	**955.8**

Earnings and Dividends Per Share

cents	1H 12	2H 11	1H 11	2H 10	1H 10
Earnings Per Share					
Normalised					
Basic	25.3	26.5	25.2	23.8	21.8
Diluted	24.1	24.5	23.6	22.2	20.8
Statutory					
Basic	4.0	29.8	24.7	21.6	33.3
Diluted	3.8	27.5	23.1	20.1	31.7
Dividends Per Share					
Dividend	7.5	9.5	7.0	8.5	6.0
Franking	0%	0%	0%	0%	0%
Normalised dividend payout ratio [2]	29.6%	35.8%	27.8%	35.7%	27.5%

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[1] Gearing ratios are based on financial (recourse) debt. Net equity excludes non-controlling interests.
[2] Dividends per share/Normalised EPS (basic).

Issued Share Capital

Number of shares (m)	1H 12	2H 11	1H 11	2H 10	1H 10
Basic share count (a)	536.0	476.9	484.5	471.7	505.8
LTIP and CPP Trust 'treasury' shares (b)	16.2	20.7	21.8	35.5	38.0
Total issued shares	552.2	497.6	506.3	507.1	543.8
Less unquoted LTIP shares	–	(0.9)	(4.3)	(7.5)	(12.3)
Total ASX listed shares	**552.2**	**496.7**	**502.0**	**499.6**	**531.5**
(a) **Movement in Basic share count**					
Opening	476.9	484.5	471.7	505.8	542.6
On market buyback during the period	(5.4)	(8.7)	(0.8)	(36.7)	(45.5)
CPH Option exercise	60.0	–	–	–	–
Net Treasury shares released/(acquired)	4.5	1.1	13.6	2.6	8.7
Closing	536.0	476.9	484.5	471.7	505.8
(b) **Movement in LTIP and CPP Trust treasury shares**					
Opening	20.7	21.8	35.4	38.0	53.4
Shares vested to participants	(18.4)	(9.8)	(23.1)	(7.3)	(29.9)
Shares bought into CPP Trust	13.9	8.7	9.5	4.7	21.2
Shares forfeited – bought back and cancelled	–	–	–	–	(6.7)
Closing	16.2	20.7	21.8	35.5	38.0

Share Capital for Earnings per Share Calculations

Weighted average number of shares (m)	1H 12	2H 11	1H 11	2H 10	1H 10
Basic EPS shares					
Total issued shares	519.6	499.9	506.8	526.8	577.8
Less LTIP and CPP Trust 'treasury' shares	(19.1)	(18.8)	(29.1)	(36.6)	(46.9)
Shares for basic EPS calculation	500.5	481.1	477.7	490.2	530.9
Diluted EPS shares					
Shares for basic EPS calculation	500.5	481.1	477.7	490.2	530.9
Add dilutive impact of LTI schemes	15.9	21.1	19.0	25.8	22.3
Add dilutive impact of external options	10.4	19.4	12.9	10.6	4.9
Shares for dilutive EPS calculation	526.8	521.6	509.6	526.5	558.1

Summary of LTIP, Share Rights and Options

Number of shares/options (m)	1H 12	2H 11	1H 11	2H 10	1H 10
Hurdled Performance Share Rights					
Opening	5.6	6.0	–	–	–
New grants	7.6	–	6.0	–	–
Vesting/forfeiture	(0.1)	(0.4)	–	–	–
Closing	13.1	5.6	6.0	–	–
Performance Share Rights					
Opening	3.5	3.7	9.7	10.3	12.0
New grants	2.0	0.1	2.5	–	3.2
Vesting/forfeiture	(2.3)	(0.3)	(8.5)	(0.6)	(4.9)
Closing	3.2	3.5	3.7	9.7	10.3
Executive Options					
Opening	23.1	30.3	41.7	43.1	38.1
New grants	–	–	–	–	14.6
Vesting/forfeiture	(18.2)	(7.2)	(11.4)	(1.3)	(9.6)
Closing	4.9	23.1	30.3	41.7	43.1
Long Term Incentive Plan					
Opening	1.4	5.0	10.0	16.4	40.7
Vesting/forfeiture	(1.4)	(3.6)	(5.0)	(6.4)	(24.3)
Closing	–	1.4	5.0	10.0	16.4

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In addition to the Executive Options noted above there were also 57.1 million external options on issue at 31 December 2011.

Life – Detailed Management Financials

$m	1H12	2H11	1H11	2H10	1H10
Investment yield	408.3	395.3	356.8	314.7	276.5
Interest expenses	(207.1)	(196.1)	(175.0)	(144.8)	(135.9)
Fees and commissions paid	(12.5)	(11.8)	(13.9)	(12.3)	(14.7)
Cash earnings	188.7	187.4	167.9	157.6	125.8
Normalised capital growth	22.1	21.3	24.2	26.2	28.3
Normalised cash operating earnings	**210.8**	**208.7**	**192.1**	**183.8**	**154.1**
Personnel expenses	(18.8)	(14.9)	(13.5)	(13.8)	(7.9)
Other expenses	(15.4)	(15.8)	(7.8)	(6.3)	(5.9)
Total Expenses	**(34.2)**	**(30.7)**	**(21.3)**	**(20.1)**	**(13.8)**
Normalised EBIT	**176.6**	**178.0**	**170.8**	**163.7**	**140.4**
Investment experience	(144.7)	(37.6)	(3.4)	(32.0)	87.5
Net profit/(loss) after IE before tax	**31.9**	**140.4**	**167.4**	**131.7**	**227.9**
Performance Analysis					
Cost to income ratio [1]	16.2%	14.7%	11.1%	10.9%	8.9%
Opening Net Assets ($m)	1,549	1,453	1,453	906	906
Average Net Assets ($m) [2]	1,463	1,587	1,383	1,395	1,318
Normalised RONA (pre-tax)	22.7%	24.7%	23.5%	36.1%	31.0%
Average Investment Assets – Life ($m) [2]	8,569.3	8,131.8	7,552.3	6,670.2	6,036.7
Cash, fixed interest and debt	6,273.5	5,886.4	5,286.5	4,366.8	3,956.8
Infrastructure	518.5	484.0	487.2	569.9	684.8
Property (net)	1,540.9	1,519.4	1,532.2	1,475.6	1,167.5
Equity and other investments	236.4	242.0	246.4	257.9	227.7
Average Funding – annuities and GIR ($m) [2]	7,302.2	6,602.5	6,118.9	5,208.3	4,577.0
Average Funding – sub debt ($m) [2]	470.3	478.8	471.0	463.8	427.8
Average Funding ($m) [2]	7,772.5	7,081.3	6,589.9	5,672.1	5,004.8
Margins [3]					
Investment yield	9.5%	9.8%	9.4%	9.4%	9.2%
Interest expenses	(4.8%)	(4.9%)	(4.6%)	(4.3%)	(4.5%)
Fees and commissions paid	(0.3%)	(0.3%)	(0.4%)	(0.4%)	(0.5%)
Cash earnings	**4.4%**	**4.6%**	**4.4%**	**4.7%**	**4.2%**
Normalised capital growth	0.5%	0.5%	0.7%	0.8%	0.9%
Normalised cash operating earnings	**4.9%**	**5.1%**	**5.1%**	**5.5%**	**5.1%**

Life – Reconciliation of Investment Experience to Capital Growth

$m	1H12	2H11	1H11	2H10	1H10
Investment experience	(144.7)	(37.6)	(3.4)	(32.0)	87.5
Normalised capital growth	22.1	21.3	24.2	26.2	28.3
Capital growth	**(122.6)**	**(16.3)**	**20.8**	**(5.8)**	**115.8**

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[1] Calculated as Total Expenses/Normalised cash operating earnings.
[2] Calculated on a monthly basis.
[3] Ratio to average Investment Assets.

Funds Management – Detailed Management Financials

$m	1H 12	2H 11	1H 11	2H 10	1H 10
Boutiques					
Boutique Income [1]	11.4	11.9	10.1	4.1	2.5
Equity Accounted Profits [2]	3.4	5.2	2.3	0.7	0.1
Total Net Income	**14.8**	**17.1**	**12.4**	**4.8**	**2.6**
Aligned and Other					
Net management fees	21.3	19.3	29.6	37.9	35.8
Transaction and Performance fees	3.6	7.5	2.5	10.8	10.1
Total Net Income	**24.9**	**26.8**	**32.1**	**48.7**	**45.9**
Total Net Income	**39.7**	**43.9**	**44.5**	**53.5**	**48.5**
Personnel	(20.8)	(22.5)	(23.6)	(30.9)	(29.3)
Other expenses	(9.4)	(10.6)	(11.6)	(13.4)	(11.0)
Total Expenses	**(30.2)**	**(33.1)**	**(35.2)**	**(44.3)**	**(40.3)**
Normalised NPBT	**9.5**	**10.8**	**9.3**	**9.2**	**8.2**
Performance Analysis					
Cost to income ratio	76.1%	75.4%	79.2%	82.9%	83.2%
Opening Net Assets ($m)	123.0	111.0	111.0	93.2	93.2
Normalised RONA (pre-tax)	15.3%	19.6%	16.7%	19.6%	17.5%
Spot FUM – Boutique Partnerships ($m)	16,244.0	14,848.1	12,697.8	6,976.7	4,033.4
Spot FUM – Aligned and Other ($m)	11,476.7	8,759.5	9,166.3	13,244.0	15,190.5
Spot FUM – Total ($bn)	**27,720.7**	**23,607.6**	**21,864.1**	**20,220.7**	**19,223.9**
Average FUM – Boutique Partnerships ($m) [3]	15,107.4	13,795.5	10,808.2	4,889.8	2,827.6
Average FUM – Aligned and Other ($m) [3]	11,021.0	8,841.8	10,317.4	14,197.8	14,739.5
Average FUM – Total ($m)	**26,128.4**	**22,637.3**	**21,125.6**	**19,087.6**	**17,567.1**
Margins (bps) [4]					
Boutique Partnerships	19	25	23	20	18
Aligned and Other	45	61	62	69	62
Net margin – Funds Management	**30**	**39**	**42**	**57**	**55**
FUM Analysis – Unlisted Funds/Mandates ($m)					
Net flows	**1,721.0**	**1,324.0**	**1,073.0**	**2,006.0**	**1,825.0**
Distributions	(120.4)	(164.3)	(103.2)	(109.0)	(79.3)
Market linked movement	(209.5)	372.5	868.5	(900.9)	1,433.9
Total FUM movement	**1,391.1**	**1,532.2**	**1,838.3**	**996.1**	**3,179.7**

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[1] Boutique income includes distribution, administration and trustee fees.
[2] Equity Accounted Profits represents Challenger's share of pre tax earnings.
[3] Average Funds Under Management calculated on a monthly basis.
[4] Margin (bps) represents Total Net Income/average FUM.

Corporate – Detailed Management Financials

$m	1H 12	2H 11	1H 11	2H 10	1H 10
Total Net Income	**4.5**	**1.7**	**3.1**	**3.8**	**3.8**
Personnel expenses	(16.1)	(16.6)	(13.7)	(12.9)	(14.4)
Other expenses	(7.2)	(4.8)	(5.7)	(3.9)	(6.2)
Total Expenses (excluding LTIP)	**(23.3)**	**(21.4)**	**(19.4)**	**(16.8)**	**(20.6)**
Long term incentive plans [1]	(7.4)	(7.5)	(11.6)	(13.2)	(12.7)
Total Expenses	**(30.7)**	**(28.9)**	**(31.0)**	**(30.0)**	**(33.2)**
Normalised EBIT	**(26.2)**	**(27.2)**	**(27.9)**	**(26.2)**	**(29.4)**
Interest and borrowing costs	(1.0)	(2.3)	(0.4)	(2.2)	(11.9)
Normalised profit/(loss) before tax	**(27.2)**	**(29.5)**	**(28.3)**	**(28.4)**	**(41.3)**

Significant Items After Tax

$m	1H 12	2H 11	1H 11	2H 10	1H 10
Tax Provision release [2]	–	42.1	–	–	–
Loss on sale of Mortgage Management	–	–	–	(0.8)	(0.5)
Significant items after tax	**–**	**42.1**	**–**	**(0.8)**	**(0.5)**

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[1] Corporate expenses include all of the Group's long term incentives provided under the Challenger Performance Plan and Long Term Incentive Plan. Short term incentives under the Employee Incentive Plan are accounted for within each division.
[2] Tax Provision release represents confirmation from the Australian Tax Office of Challenger's tax treatment of specific matters identified in a tax audit of prior years.

Glossary of terms

Division	
FM	Boutique Partnerships and Aligned and Other Investments. – Boutique Partnerships are co-owned, separately branded and licensed businesses from which Challenger receives dividends, distribution fees and administration fees. – Aligned and Other Investments includes asset classes where Challenger Life may be a significant investor and that are typically Challenger branded.
Life	Life Company including its controlled entities and managed investments.
Corporate	Corporate cost centre plus revenue on Corporate cash balances.
Discontinued operations	Represents Mortgage Management sold on 30 October 2009.
Income	
Group	
Cash spread earnings	Investment yield, less interest expenses and less fees and commissions paid (Life only).
Normalised capital growth	Long term growth expectations multiplied by investment asset allocation (Life only).
Normalised cash operating earnings	Cash Spread Earnings plus Normalised capital growth (Life only).
Net fee income	Boutique income, equity accounted profits of Boutiques, net management fees and performance and transaction fees. (FM only).
Other income	Includes equity accounted profits of associates and other miscellaneous income (Corp only).
Total Net Income	Normalised cash operating earnings plus net fee income plus other income.
Investment experience	Realised and unrealised mark to market gains/losses on assets and liabilities. Investment experience is net of normalised capital growth, COE adjustments and actuarial assumptions (Life only).
Life	
Investment yield	Net rental income, dividends received and accrued interest and discounts/premiums on fixed income securities amortised on a straight line basis.
Interest expenses	Interest accrued at contracted rates paid to annuitants and subordinated-debt note holders.
Fees and Commissions paid	Payments made for the acquisition and management of annuities.
Cash spread earnings	Investment yield, less interest expenses and less fees and commissions paid.
Normalised capital growth	Long term growth expectations multiplied by investment asset allocation.
Normalised cash operating earnings	Cash spread earnings plus Normalised capital growth.
Normalised EBIT	Normalised cash operating earnings less expenses
Investment experience	Realised and unrealised mark to market gains/losses on assets and liabilities. Investment experience is net of normalised capital growth, COE adjustments and inclusive of actuarial assumptions.
FM Boutique Partnerships	
Boutique Income	Distribution, administration fees and trustee fees.
Equity Accounted Profits	Challenger's share of Boutique Partnerships pre-tax earnings.
Total Net Income	Boutique Income plus Equity Accounted Profits.

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Glossary of terms

FM Aligned and Other	
Net management fees	Management fees for managing investments.
Performance and Transaction fees	Fees earned for outperforming benchmarks and fees earned for the origination, disposal and structuring of assets.
Total Net Income	Net management fees plus Performance/Transactions fees.
Expenses	
Personnel expenses	Includes fixed and variable incentive components of remuneration structures.
	The amortisation of LTIP and executive option schemes is only reported within the Corporate section.
Other expenses	Non-employee expenses, including external professional services, occupancy costs, marketing and advertising, travel as well as technology and communications costs.
Total expenses	Personnel expenses plus other expenses.
Interest and borrowing costs	Interest and borrowing costs associated with Group debt.
Significant items	Non-recurring or abnormal income or expense items.
Terms from Quarterly Release	
Life Investment Assets	Total value of investment assets that are managed by the Life business.
Funds Under Management	Total value of listed and unlisted funds/mandates that are managed by the Funds Management business.
Other	
Opening Net Assets	Opening net assets of each division at prior period full year balance date (excluding minority interest).
Normalised Return on Net Assets (RONA)	Divisional Normalised EBIT divided by opening Net Assets expressed as a percentage.
Gearing	Group debt/(Group debt plus Equity) (%).
Net Gearing	Net debt/(Net debt plus Equity) (%).
Normalised Cost/Income ratio	Total expenses/Total Net income.
Group debt	Interest bearing liabilities as reported in the balance sheet.
Available cash	Cash available to Group.
Net Debt	Group debt less available cash.
Equity	Closing net assets excluding minority interest.
Margin (Life)	Ratio to Average Investment Assets.
Margin (FM)	Ratio to Average FUM.

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Assets and Funds Under Management

as at 31 December 2011

	31 Dec 11 $m	30 Sep 11 $m	30 Jun 11 $m	31 Mar 11 $m
Total Assets and Funds Under Management	**29,567**	**27,579**	**27,909**	**27,025**

Represented by:

Funds Management

	31 Dec 11 $m	30 Sep 11 $m	30 Jun 11 $m	31 Mar 11 $m
Boutique Partnerships [a]				
Equities	7,549	6,700	7,211	6,919
Fixed income	8,695	7,596	7,637	6,857
Total Boutique funds	16,244	14,296	14,848	13,776
Aligned and Other [b]				
Infrastructure				
Institutional mandates	1,100	1,101	1,001	875
Challenger Infrastructure Fund (ASX:CIF) (adjusted equity value)	352	327	311	368
Property				
Institutional mandates	1,757	1,751	1,721	1,742
Challenger Diversified Property Group (ASX:CDI) (gross assets)	871	873	874	871
Fixed income [c]	7,397	7,425	4,853	4,894
Total Aligned and Other funds	11,477	11,477	8,760	8,750
Total funds under management	**27,721**	**25,773**	**23,608**	**22,526**
Average Boutique funds [d]	15,399	14,614	14,311	13,276
Average Aligned and Other funds [d]	11,443	10,714	8,718	8,943
Average total funds under management	**26,842**	**25,328**	**23,029**	**22,219**

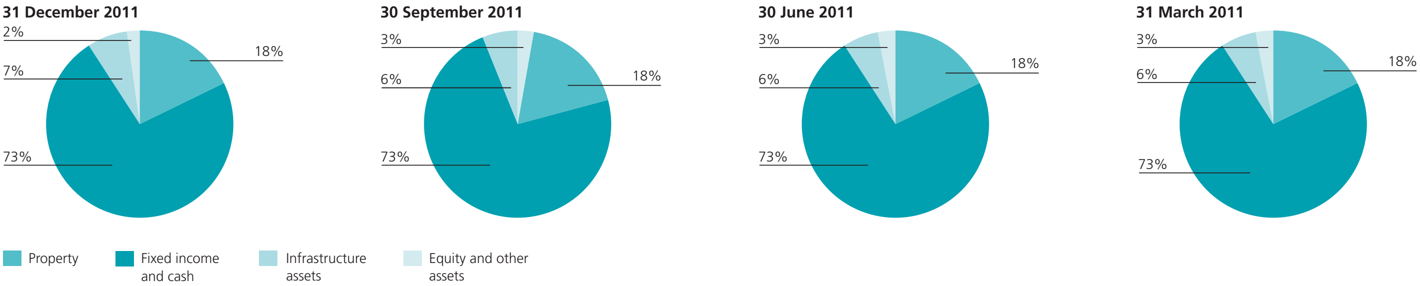
[a] Boutique Partnerships are co-owned, separately branded and licensed businesses from which Challenger receives dividends, distribution fees and administration fees.
[b] Aligned and Other includes asset classes where Challenger Life may be a significant investor and that are typically Challenger branded.
[c] Fixed income includes mortgages.
[d] Average assets and funds under management are calculated on a monthly basis.

Life

	31 Dec 11 $m	30 Sep 11 $m	30 Jun 11 $m	31 Mar 11 $m
Fixed income and cash	6,369	6,430	6,114	6,025
Property [e]	1,552	1,565	1,535	1,519
Infrastructure	569	509	479	480
Equity and other	219	243	259	237
Total Life investment assets	**8,709**	**8,747**	**8,387**	**8,261**
Average Life investment assets [d]	**8,670**	**8,513**	**8,350**	**7,946**

[e] Property is reported net of senior debt of $705m (September 2011 $724m). Property includes direct and indirect holdings.

Life Company asset allocation split



Analysis of Flows

Funds Management

Net flows for the quarter:	31 Dec 11 $m	30 Sep 11 $m	30 Jun 11 $m	31 Mar 11 $m
Boutique Partnerships	1,650	336	1,309	585
Aligned and Other	11	(276)	(70)	(500)
Net flows	1,661	60	1,239	85

Life

Sales for the quarter:	31 Dec 11 $m	30 Sep 11 $m	30 Jun 11 $m	31 Mar 11 $m
Retail	475	509	450	740
Institutional	239	49	10	31
Net sales	714	558	460	771

Reconciliation of Total Group Assets and Funds Under Management

	31 Dec 11 $m	30 Sep 11 $m	30 Jun 11 $m	31 Mar 11 $m
Funds under management	27,721	25,773	23,608	22,526
Life investment assets	8,709	8,747	8,387	8,261
Adjustments to remove double counting of cross holdings:				
Life Company investment in CDI and CIF	(451)	(439)	(435)	(441)
Life Company investment in infrastructure, property and fixed income mandates [f]	(6,412)	(6,502)	(3,651)	(3,321)
Total Assets and Funds Under Management	**29,567**	**27,579**	**27,909**	**27,025**

[f] The change in cross holdings from 30 June 2011 was due to an increase in fixed income mandates managed by the aligned team on behalf of the Life company.

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