Challenger Limited

and its controlled entities

2012 Appendix 4D and Results Announcement

Challenger Limited ACN 106 842 371

Appendix 4D

Half year report under ASX listing rule 4.2A.3
for the six months ended 31 December 2011

Results for Announcement to the Market	**2011 $M**	2010 $M	**Change %**
Revenue from ordinary activities	666.2	770.8	(13.6)
Profit from ordinary activities after tax attributable to members	20.0	117.9	(83.0)
Net profit for the period attributable to members	20.0	117.9	(83.0)

Normalised profit after tax, management's preferred measure of profit, for the six months ended 31 December 2011 increased by 5.3% to $126.7 million (31 December 2010 - $120.3 million). Refer to Note 2. *Segment Information* in the half year financial report for a definition of normalised profit after tax and a reconciliation to the statutory profit for the period.

Dividends per security	**2011 Cents**	2010 Cents	**Change %**
Interim – unfranked (2010: unfranked)	**7.5**	7.0	7.1

Record date for determining entitlements to the interim dividend	**9 March 2012**
Payment date of the interim dividend	**30 March 2012**

Refer to Appendix 1 – ASX Appendix 4D (rule 4.2A.3) on page 33 for further disclosures required under ASX Listing Rule 4.2A.3.

Basis of preparation

This half year report under ASX listing rule 4.2A.3 covers Challenger Limited and its controlled entities, and is based on the attached half year financial report.

Except where stated otherwise, all figures relate to the six months ended 31 December 2011, and the previous corresponding period to the six months ended 31 December 2010.

Results Announcement for the six months ended 31 December 2011

Contents

Directors' Report

The Directors of Challenger Limited (the Company) submit their report, together with the financial report of the Company and its controlled entities (the Group), for the six months ended 31 December 2011.

1. Directors

The names and details of the Directors of the Company holding office during the six months to 31 December 2011 and up to the date of this report are listed below. Directors were in office for this entire period unless otherwise stated.

Name	Position
Peter L Polson	Independent Chairman
Brian R Benari	Chief Executive Officer and Managing Director (appointed 17 February 2012)
Dominic J Stevens	Chief Executive Officer and Managing Director (resigned 17 February 2012)
Graham A Cubbin	Non-Executive Director, Independent
Jonathan Grunzweig	Non-Executive Director, Independent
Russell R Hooper	Non-Executive Director, Independent
Brenda M Shanahan	Non-Executive Director, Independent
Leon Zwier	Non-Executive Director, Independent

Change of Chief Executive Officer and Managing Director
On 17 February 2012, Brian Benari was appointed Chief Executive Officer and Managing Director, succeeding Dominic Stevens. Mr Stevens will remain an employee of the Group until July 2012 to ensure an orderly transition of responsibilities. The transition was announced to the market on 10 November 2011.

Mr Polson and the other Non-Executive Directors would like to take this opportunity to thank Mr Stevens for his contribution to the Group, especially during his last three and a half years as Chief Executive Officer. Mr Stevens' foresight in recognising the retirement income opportunity and the pivotal role of annuities has underpinned Challenger's ongoing success. His actions to streamline and focus the business enabled its transformation into one of the best performing financial services companies in Australia.

2. Operating and financial review

Strong retail sales of annuities and growing funds under management in the first half of financial year 2012 have continued to build on the solid retirement income platform that was established during the year ended 30 June 2011.

Key performance indicators for the six months to 31 December 2011 include:

- Statutory profit for the period attributable to equity holders of $20.0 million was down 83.0% compared to the prior corresponding period
- Normalised net profit after tax increased 5.3% to $126.7 million compared to the prior corresponding period
- Normalised earnings per share increased 0.1 cent to 25.3 cents per share compared to the prior corresponding period
- The normalised cost to income ratio remained steady at 37% due to ongoing business investment
- Interim dividend of 7.5 cents per share
- Total Life sales of $1.3 billion
- Total Funds Management net inflows of $1.7 billion
- Total assets under management of $29.6 billion

The Group's statutory profit attributable to equity holders of $20.0 million for the six months ended 31 December 2011 represents a $97.9 million, or an 83.0%, decline compared to $117.9 million for the six months to 31 December 2010. Whilst the Group continued to see an increase in its asset base, due to strong annuity inflows in the period, continued global debt and equity market volatility, and their impact on asset values at 31 December 2011, contributed to the decline in statutory profit.

Normalised profit and investment experience

The Group is required by accounting standards to value all assets and liabilities supporting the life insurance business at fair value. This can give rise to fluctuating valuation movements being recognised in the Income Statement. As the Group is fundamentally a long term holder of assets, due to them being held to match the term of the Group's life contract obligations, a large proportion of the gains and losses recognised in the Income Statement in any one period are unrealised and are expected to reverse over time.

Investment experience is a mechanism employed to remove the volatility arising from asset and liability valuation from the results so as to reflect more accurately the underlying performance of the Group. The difference between the actual investment gains/losses (both realised and unrealised) and the normalised gains/losses (being the Group's expected long term return) plus any actuarial assumption changes for the period is referred to as 'investment experience'. The investment experience is reported separately from normalised profit in order to provide a better understanding of the Group's normalised financial results for the period.

A reconciliation between statutory 'revenue' and the management normalised view of revenue 'net income' is included in the half year financial report as part of the *Segment Information* note on page 17. This note also includes a reconciliation of statutory profit before tax and normalised net profit before tax. The application of the normalised profit framework has been reviewed by the Group's independent auditor to ensure that the reported results are in accordance with the methodology described in Note 2 to the half year financial report.

The normalised net profit after tax of $126.7 million for the six months ended 31 December 2011 represents a $6.4 million, or a 5.3%, increase on the $120.3 million for the six months to 31 December 2010. The $6.4 million increase in normalised profit after tax was supported by an increase in net income of $15.3 million (6.4%) primarily due to the Life business unit's increasing asset base arising from the continuing strong annuity sales described above. The funds under management (FUM) at 31 December 2011 for the Funds Management business is significantly higher compared to 31 December 2010, rising $5.8 billion to $27.7 billion.

The management view of operating expenses of $95.1 million for the period was higher than in the prior period with increased spend on distribution, product development and marketing during the period. The resulting cost to income ratio of 37% is consistent with the prior period.

The investment experience after tax loss of $106.7 million for the period compares to a loss of $2.4 million for the six months ended 31 December 2010. Global debt and equity markets have remained volatile and asset values still reflect a repricing of risk. The following tables provide an overview of the Group's normalised results and components of investment experience:

***Management analysis*[1]**	**31 Dec 2011 $M**	**31 Dec 2010 $M**	**Change %**
Normalised cash operating earnings	210.8	192.1	9.7
Net fee income	39.7	44.5	(10.8)
Other income	4.5	3.1	45.2
Net income	255.0	239.7	6.4
Operating expenses	(95.1)	(87.5)	8.7
Normalised EBIT	**159.9**	**152.2**	5.1
Interest and borrowing costs	(1.0)	(0.4)	150.0
Normalised net profit before tax	**158.9**	**151.8**	4.7
Tax on normalised net profit	(32.2)	(31.5)	2.2
Normalised net profit after tax	**126.7**	**120.3**	5.3
Investment experience after tax	(106.7)	(2.4)	Large
Statutory profit attributable to equity holders	**20.0**	**117.9**	**(83.0)**

Notes

1. 'Net income' and 'operating expenses' are internal classifications and are defined in Note 2 *Segment Information* in the half year financial report. These differ from the statutory 'revenue' and 'expenses' classifications as certain direct costs (including commissions and management fees) are netted off against gross revenues and Special Purpose Vehicle revenues, expenses and finance costs are netted and included in aggregate for net income, or management view of revenue.

   These classifications have been made in the Directors' Report, and the segment information note, as they reflect metrics used by management to measure the business performance of the Group. Whilst the allocation of amounts to the above items and investment experience differs to the statutory view, both approaches result in the same net after tax profit due to shareholders of the Company.

Components of investment experience

	31 Dec 2011 $M	31 Dec 2010 $M
Normalised capital growth[1]		
Cash, fixed interest and debt	(11.0)	(9.3)
Infrastructure	10.5	9.9
Property (net of debt)	15.5	16.2
Equity and other investments	7.1	7.4
Total Normalised Capital Growth	22.1	24.2
Actual capital growth[2]		
Cash, fixed interest and debt	(102.5)	18.8
Infrastructure	11.7	(20.3)
Property (net of debt)	-	29.3
Equity and other investments	(15.7)	4.9
Total Actual Capital Growth	(106.5)	32.7
Investment experience		
Cash, fixed interest and debt	(91.5)	28.1
Infrastructure	1.2	(30.2)
Property (net of debt)	(15.5)	13.1
Equity and other investments	(22.8)	(2.5)
	(128.6)	8.5
Actuarial assumption changes[3]	(16.1)	(11.9)
Investment experience before tax	(144.7)	(3.4)
Tax benefit	38.0	1.0
Investment experience after tax	**(106.7)**	**(2.4)**

Notes

1. Normalised capital growth is determined by multiplying the normalised capital growth rate for each asset class by the average investment assets for the period. The normalised growth rates represent the Group's long term capital growth expectations for each asset class over the investment cycle. The normalised growth rate for each asset class is 6.0% for Equity and other investments, 4.0% for Infrastructure, 2.0% for Property and (0.35%) for Cash, fixed interest and debt. The rates have been set with reference to market growth rates and are reviewed to ensure consistency with prevailing market conditions.

   For example, the normalised growth assumption for property was amended in January 2010 from 2.5% to 2.0%. This was as a result of the privatisation of CKT increasing the Group's exposure to Japanese property assets which have a lower expected long term capital growth rate than the rest of the property portfolio. No other changes have been made to the normalised capital growth rates since they were first introduced in June 2008.
2. Actual capital growth represents net realised and unrealised capital gains or losses and includes the attribution of interest rate and foreign exchange derivatives that are used to hedge volatility.
3. Actuarial assumption changes represents the impact of changes in macro-economic variables, including bond yields and inflation factors, expense assumptions, losses on new business and other factors applied in the valuation of life contract liabilities. It also includes the attribution of interest rate derivatives used to hedge interest rate volatility on policy liabilities.

Earnings per share

As shown in the table below, the statutory basic and diluted earnings per share (EPS) experienced large decreases compared to the prior period as a result of the combination of both a lower profit and a higher number of shares. The higher number of shares used in the basic EPS calculation was as a result of the issue of 60 million shares in October 2011 to settle the *CPH Option* (see *Key events* on page 6). The repurchase and cancellation of 5.4 million shares during the period as part of the Company's on-market buy-back programme partially offset the impacts of the share issue.

The normalised basic and diluted EPS figures were also impacted by the new share issue but the 5.3% increase in normalised net profit after tax contributed to an increase of 0.1 cent to 25.3 cents per share compared to the 25.2 cents per share for the prior period.

For the period ended	31 Dec 2011 Cents	31 Dec 2010 Cents	Change %
Basic – normalised	25.3	25.2	0.4
Diluted – normalised	24.1	23.6	2.0
Basic – statutory	4.0	24.7	(83.8)
Diluted – statutory	3.8	23.1	(83.5)

Key events during the period

Life

The Life division recorded total sales of $1.3 billion for the period. Retail annuity sales were $983.3 million for the period, representing a 37.9% increase compared to total sales of $713.1 million in the period to 31 December 2010. In addition, there were institutional sales of $288 million compared to $19 million in the prior corresponding period. The increase in average investment assets of the Life division, from $8.1 billion at 30 June 2011 to $8.6 billion at 31 December 2011, was driven by the annuity sales noted above. The Group has continued to invest in product development, marketing and increased distribution capability during the period to support continued sales growth.

Funds Management

The Funds Management division experienced positive funds flow during the period of $1.7 billion. Boutique Partnerships now have $16.2 billion FUM at 31 December 2011, up from $14.8 billion at 30 June 2011. Aligned and Other FUM has also grown to $11.5 billion at 31 December 2011 compared to $8.8 billion at 30 June 2011, largely driven by the increase in fixed income and mortgage mandates of $2.7 billion that are managed on behalf of Challenger Life Limited. Total FUM of $27.7 billion at 31 December 2011 is up from $23.6 billion at 30 June 2011, representing growth of $4.1 billion (17.4%) over the period.

Corporate – Exercise of the CPH Option

CPH Investments Management Pty Limited exercised its option to acquire Challenger Limited shares (the *CPH Option*) in October 2011. Under the terms of the CPH Option the Company issued 60 million ordinary shares upon receipt of the exercise proceeds of $195 million. The arrangement has enhanced the Company's financial flexibility and will allow the Group to take advantage of investment opportunities and support ongoing growth initiatives given the strong demand for retirement income products.

Corporate – Changes to Key Management Personnel

The Group Chief Financial Officer/Chief Operational Officer Brian Benari was formally appointed Chief Executive Officer and Managing Director, succeeding Dominic Stevens, on 17 February 2012. Andrew Tobin, previously the Deputy Group Chief Financial Officer, was also appointed Group Chief Financial Officer on this date. On 20 December 2011, Challenger Limited released a notice of an extraordinary general meeting to be held on 28 February 2012, at which approval for Mr Benari's retirement benefits will be sought.

Capital position

The Group's capital position is managed at both the Group and the prudentially regulated Challenger Life Company Limited (CLC) level with the objective of maintaining the financial stability of the Group and CLC whilst ensuring the shareholders earn an appropriate risk adjusted return. The Group's corporate debt facilities are undrawn at 31 December 2011 (30 June 2011: undrawn) and there was $208.7 million of Group available cash (30 June 2011: $93.0 million). Capital reserves above the regulatory minimum in CLC declined from in excess of $675 million at 30 June 2011 to in excess of $600 million at 31 December 2011, reflecting the negative investment experience during the period being only partially offset by the increase in the Life business unit's normalised cash operating earnings.

The Company continued its on-market share buy-back activity during the period. In total, the Company has bought back 5.4 million shares during the period at an average price of $4.57 per share. From the commencement of the programme in July 2008 to the date of this report, a total of 128.2 million shares have been repurchased at an average price of $3.28 per share.

3. Likely developments and expected results

The investment management market in which the Group operates has seen significant structural change and development in the last two years. In the retirement income segment our targeted demographic of 65 years and over is growing significantly faster than pre-retirement, and in the pre-retirement sector the government has announced its intention to lift superannuation contributions from 9% to 12% over the next 10 years via the superannuation guarantee charge. *The Superannuation Guarantee (Administration) Bill 2011* enacting this change was passed by the House of Representatives on 22 November 2011 and has proceeded to the Senate.

When these changes are combined with an increased focus on risk and return, both at a consumer level and by regulatory review committees and government, we see growth opportunities for our business to take advantage of these positive tailwinds. The Group is well placed to participate in the growing Australian retirement income market and the fast developing boutique funds management business. We continue to direct our focus towards lifting product sales via expanded distribution and the introduction of new guaranteed income products. Subject to stability in global markets, we are confident that we can increase value for shareholders over the coming years.

The Australian Prudential Regulation Authority (APRA) issues Prudential Standards that impose minimum statutory capital requirements on registered life insurance companies. APRA has released a number of draft new standards dealing with the determination of this required capital. In addition, APRA is due to release proposals in respect of the treatment of illiquidity premiums. These proposals are subject to further consultation with the industry.

4. Dividends

On 19 August 2011 the Directors of the Company declared a final dividend on ordinary shares in respect of the year ended 30 June 2011 of 9.5 cents per share. The final dividend of $45.8 million, unfranked, was paid on 29 September 2011.

On 17 February 2012, the Directors of the Company declared an interim unfranked dividend of 7.5 cents per share in respect of the half year ended 31 December 2011 (31 December 2010: 7.0 cents per share, unfranked). The interim dividend of approximately $40.2 million has not been provided for in the 31 December 2011 half year financial report and is payable on 30 March 2012.

5. Significant events after the balance date

At the date of this report and other than as disclosed in this report or the financial report, no other matter or circumstance has arisen that has affected, or may significantly affect, the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

6. Rounding

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

7. Auditor's independence declaration

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

ERNST & YOUNG

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

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

Auditor's Independence Declaration to the Directors of Challenger Limited

In relation to our review of the half year financial report of Challenger Limited for the six months ended 31 December 2011, 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
17 February 2012

8. Authorisation

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

G A Cubbin
Director
Sydney
17 February 2012

R R Hooper
Director
Sydney
17 February 2012

Half Year Financial Report

Contents

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

Income Statement

For the six months ended 31 December

	Note	2011 $M	2010 $M
Revenue	3	666.2	770.8
Expenses	4	(360.1)	(322.3)
Finance costs	5	(288.1)	(286.2)
Share of profits of associates		3.7	3.6
Profit before income tax		**21.7**	165.9
Income tax benefit/(expense)	6	7.4	(28.6)
Profit for the period		**29.1**	**137.3**
Profit attributable to non-controlling interests		9.1	19.4
Profit attributable to equity holders		**20.0**	**117.9**
Earnings per share:			
Basic earnings per share	8	4.0	24.7
Diluted earnings per share	8	3.8	23.1

The Income Statement should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income

For the six months ended 31 December

	Note	2011 $M	2010 $M
Profit for the period		**29.1**	**137.3**
Other comprehensive income/(expense) net of tax from			
- translation of foreign entities	17	22.3	(31.6)
- hedge of net investment in foreign entities	17	(16.0)	18.6
- cash flow hedges	17	0.8	(3.3)
- available-for-sale assets	17	0.3	(0.5)
Other comprehensive income/(expense) net of tax for the period		7.4	(16.8)
Total comprehensive income for the period		**36.5**	**120.5**
Comprehensive income attributable to non-controlling interests		9.1	19.4
Comprehensive income attributable to equity holders		**27.4**	**101.1**

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Balance Sheet

	Note	31 Dec 2011 $M	30 June 2011 $M	31 Dec 2010 $M
Assets				
Cash and cash equivalents		891.0	788.6	701.0
Cash and cash equivalents - SPV[1]	13	401.6	386.4	448.5
Receivables		176.0	118.3	127.6
Mortgage assets – SPV	13	6,074.7	6,889.8	7,565.3
Current tax assets		-	-	1.8
Derivative assets		428.5	360.2	365.7
Other financial assets – fair value through profit and loss	9	6,188.0	6,012.7	5,062.6
Other financial assets – available-for-sale	9	6.0	9.5	11.1
Investment property held for sale	10	48.1	22.0	22.0
Investment and development property	10	2,591.5	2,551.9	2,490.9
Plant and equipment		106.1	85.7	70.5
Investments in associates		40.9	40.9	25.6
Other assets		55.0	51.4	59.0
Goodwill	11	505.6	505.4	507.4
Other intangible assets		13.5	13.4	14.2
Total assets		**17,526.5**	**17,836.2**	**17,473.2**
Liabilities				
Payables		297.8	354.0	315.2
Derivative liabilities		109.7	114.8	116.1
Interest bearing financial liabilities	12	1,607.4	1,568.5	1,284.7
Interest bearing financial liabilities - SPV	13	6,014.7	6,968.7	7,719.4
External unit holders' liabilities	14	1,446.8	1,316.7	1,307.5
Provisions		33.3	30.3	37.2
Current tax liability		2.8	3.7	-
Deferred tax liabilities		32.7	51.1	70.5
Life contract liabilities	15	6,065.0	5,629.0	4,877.9
Total liabilities		**15,610.2**	**16,036.8**	**15,728.5**
Net assets		**1,916.3**	**1,799.4**	**1,744.7**
Equity				
Contributed equity	16	1,339.3	1,101.1	1,147.4
Reserves	17	96.8	179.8	169.6
Retained earnings	18	181.6	207.4	98.0
Total equity attributable to equity holders		**1,617.7**	**1,488.3**	**1,415.0**
Non-controlling interests		298.6	311.1	329.7
Total equity		**1,916.3**	**1,799.4**	**1,744.7**

The Balance Sheet should be read in conjunction with the accompanying notes.

1 SPV = Special Purpose Vehicles

Statement of Changes in Equity

Equity	Note	Attributable to equity holders: Contributed equity $M	Reserves $M	Retained earnings $M	Total $M	Non-controlling interests $M	Total $M
At 1 July 2011		1,101.1	179.8	207.4	1,488.3	311.1	1,799.4
Profit for the period		-	-	20.0	20.0	9.1	29.1
Other comprehensive income		-	7.4	-	7.4	-	7.4
Total comprehensive income		**-**	**7.4**	**20.0**	**27.4**	**9.1**	**36.5**
Other equity movements							
Transfer from equity option reserve on exercise of share options	16/17	60.4	(60.4)	-	-	-	-
Additional proceeds on the exercise of share options	16	187.0	-	-	187.0	-	187.0
Shares purchased and cancelled under share buy-back	16	(24.7)	-	-	(24.7)	-	(24.7)
Treasury shares purchased and held in trust, net of forfeitures	16	(61.7)	-	-	(61.7)	-	(61.7)
Vested shares released from the CPP Trust	16	75.3	-	-	75.3	-	75.3
Vested shares released from the Long Term Incentive Plan	16	1.9	-	-	1.9	-	1.9
Share based payment expense less releases	17	-	(32.1)	-	(32.1)	-	(32.1)
Change in holding in adjusted controlling interest reserve	17	-	2.1	-	2.1	-	2.1
Dividends paid	18	-	-	(45.8)	(45.8)	-	(45.8)
Other non-controlling interest movements		-	-	-	-	(21.6)	(21.6)
At 31 December 2011		**1,339.3**	**96.8**	**181.6**	**1,617.7**	**298.6**	**1,916.3**
At 1 July 2010		1,106.6	211.1	21.9	1,339.6	380.1	1,719.7
Profit for the period		-	-	117.9	117.9	19.4	137.3
Other comprehensive income		-	(16.8)	-	(16.8)	-	(16.8)
Total comprehensive income		**-**	**(16.8)**	**117.9**	**101.1**	**19.4**	**120.5**
Other equity movements							
Shares purchased and cancelled under share buy-back	16	(3.7)	-	-	(3.7)	-	(3.7)
Treasury shares purchased and held in trust, net of forfeitures	16	(26.8)	-	-	(26.8)	-	(26.8)
Vested shares released from the CPP Trust	16	67.6	-	-	67.6	-	67.6
Vested shares released from the Long Term Incentive Plan	16	3.7	-	-	3.7	-	3.7
Share based payment expense less releases	17	-	(24.4)	-	(24.4)	-	(24.4)
Change in holding in adjusted controlling interest reserve	17	-	(0.4)	-	(0.4)	-	(0.4)
Change in equity premium option reserve	17	-	0.1	-	0.1	-	0.1
Dividends paid	18	-	-	(41.8)	(41.8)	-	(41.8)
Deconsolidation of controlled entities		-	-	-	-	(77.9)	(77.9)
Other non-controlling interest movements		-	-	-	-	8.1	8.1
At 31 December 2010		**1,147.4**	**169.6**	**98.0**	**1,415.0**	**329.7**	**1,744.7**

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the six months ended 31 December

	Notes	2011 $M	2010 $M
Operating activities			
Receipts from customers		457.3	522.8
Annuity receipts	15	983.4	713.1
Annuity payments	15	(871.1)	(626.9)
Receipts from external unit holders		288.3	18.7
Payments to external unit holders		(288.3)	(18.7)
Payments to vendors and employees		(389.8)	(426.9)
Dividends received		19.0	17.4
Interest received		236.0	172.3
Interest paid		(33.4)	(32.6)
Income tax (paid)/refunded		(0.8)	3.0
Net cash inflow from operating activities	19	**400.6**	**342.2**
Investing activities			
Net payments on sale/purchase of investments		(403.6)	(216.3)
Mortgage loans – advanced and purchased		(1.2)	(24.3)
Mortgage loans – repaid and sold		838.3	910.2
Payments for purchase of plant and equipment		(16.4)	(17.0)
Net cash inflow from investing activities		**417.1**	**652.6**
Financing activities			
Proceeds from issue of interest bearing liabilities		112.9	6.1
Repayment of interest bearing liabilities		(879.1)	(926.7)
Receipts from shares issued less payments for share repurchases		132.0	(4.7)
Payments to non-controlling interests for redemption of units		(11.3)	-
Dividends paid		(45.6)	(41.8)
Distributions paid to non-controlling interests		(9.0)	(10.7)
Net cash outflow from financing activities		**(700.1)**	**(977.8)**
Net increase in cash and cash equivalents		117.6	17.0
Cash and cash equivalents at the start of period		1,175.0	1,132.5
Cash and cash equivalents at the end of period		**1,292.6**	**1,149.5**
Cash		891.0	701.0
Cash - SPV		401.6	448.5
Cash and cash equivalents at the end of period		**1,292.6**	**1,149.5**

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. Basis of preparation and accounting policies

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

This half year financial report of Challenger Limited and its controlled entities (the Group) for the six months ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors of the Company on 17 February 2012.

(i) Basis of preparation

This general purpose half year financial report for the six months ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*, and the *Corporations Act 2001*.

The half year financial report does not include all the notes normally included in an annual financial report. It is recommended that this half year financial report be read in conjunction with the financial report for the year ended 30 June 2011 and any public announcements made by the Group in accordance with the continuous disclosure obligations of the ASX listing rules.

Unless stated otherwise, the half year financial report is presented in Australian dollars and amounts are rounded to the nearest one hundred thousand dollars.

The accounting policies and methods of computation applied in this half year financial report are the same as those adopted in the most recent annual financial report with the exception of the methodology used to determine the discount rate assumptions in the valuation or life contract liabilities, see Note 15 for more details. Where applicable, comparative figures have been updated to reflect the disclosure format applied in the most recent annual financial report and to reflect any changes applied in the current period.

(ii) New accounting standards and interpretations

Changes in accounting policy or disclosure
There were no changes in accounting policy applied during the period. Amendments to the disclosure requirements of AASB 101 *Presentation of Financial Statements* applicable for the first time during the period have resulted in a change in the format of the Statement of Changes in Equity so as to show the impact of other comprehensive income on each component of equity.

Accounting standards and interpretations issued but not yet effective
There are a number of amendments to Australian Accounting Standards, in addition to those described in the most recent annual financial report, that are available for early adoption but that have not been applied in this half year financial report. The amendments would have resulted in only minor disclosure impacts if they had been early adopted.

2. Segment Information

Business segments

The reporting segments of the Group are as follows:

	Life		Funds management		Total reporting segments		Corporate and other[2]		Total	
For the six months ended 31 December	**31 Dec 2011 $M**	**31 Dec 2010 $M**	**31 Dec 2011 $M**	**31 Dec 2010 $M**	**31 Dec 2011 $M**	**31 Dec 2010 $M**	**31 Dec 2011 $M**	**31 Dec 2010 $M**	**31 Dec 2011 $M**	**31 Dec 2010 $M**
Net income[1]	210.8	192.1	39.7	44.5	250.5	236.6	4.5	3.1	255.0	239.7
Operating expenses[1]	(34.2)	(21.3)	(30.2)	(35.2)	(64.4)	(56.5)	(30.7)	(31.0)	(95.1)	(87.5)
Normalised EBIT[1]	176.6	170.8	9.5	9.3	186.1	180.1	(26.2)	(27.9)	159.9	152.2
Interest and borrowing costs[1]	-	-	-	-	-	-	(1.0)	(0.4)	(1.0)	(0.4)
Normalised net profit/(loss) before tax/segment profit	**176.6**	**170.8**	**9.5**	**9.3**	**186.1**	**180.1**	**(27.2)**	**(28.3)**	**158.9**	**151.8**
Tax on normalised profit									(32.2)	(31.5)
Normalised net profit/(loss) after tax									126.7	120.3
Investment experience after tax[1]									(106.7)	(2.4)
Profit/(loss) attributable to equity holders									**20.0**	**117.9**
As at 31 December										
Segment assets	9,607.1	8,324.6	152.7	158.0	9,759.8	8,482.6	7,766.7	8,990.6	17,526.5	17,473.2
Segment liabilities	(8,128.4)	(6,873.1)	(14.8)	(24.5)	(8,143.2)	(6,897.6)	(7,467.0)	(8,830.9)	(15,610.2)	(15,728.5)
Net assets	**1,478.7**	**1,451.5**	**137.9**	**133.5**	**1,616.6**	**1,585.0**	**299.7**	**159.7**	**1,916.3**	**1,744.7**

1 See below for definitions of the terms used in the management view of segments.
2 'Corporate and other' includes corporate companies, corporate SPV, non-controlling interests and group eliminations.

Definitions

Net income and *operating expenses* differ from *revenue* and *expenses* as disclosed in the Income Statement as certain direct costs (including commissions, property expenses and management fees) included in *expenses* are netted off against gross revenues in deriving the management view of *net income* above. In addition, the revenues, expenses and finance costs from special purpose vehicles (SPV) are separately disclosed in the statutory view but are netted off in net income. Revenue also includes investment gains and losses but these are excluded from the management view as they form part of investment experience (see below). Net income consists of the sub categories of *normalised cash operating earnings*, being the management view of revenue for the Life segment, *net fee income*, being the management view of revenue from the Funds Management segment, and *other income,* being the management view of revenue from Corporate and other.

Normalised cash operating earnings is calculated as normalised capital growth (see below) plus cash earnings. Cash earnings represents the sum of investment yield (being the management view of revenue from investment assets such as net rental income, dividends, interest and the straight line amortisation of discounts/premiums on debt securities), interest expense, commission and fees.

Normalised EBIT

Normalised earnings before interest and tax (EBIT) is the sum of net income and operating expenses, as defined above. It excludes investment experience, interest and borrowing costs, tax and significant items.

Interest and borrowing costs differ from *finance costs* as disclosed in the Income Statement for similar reasons to revenue and expenses, with the major difference arising from the netting of SPV finance costs against SPV revenue in net income in the management view.

Tax on normalised profit represents the consolidated statutory tax expense or benefit for the period, less tax attributable to non-controlling interests, less the tax applied to investment experience.

Investment experience after tax

The Group is required by accounting standards to value all assets and liabilities supporting the life insurance business at fair value. This can give rise to fluctuating valuation movements being recognised in the Income Statement, particularly during periods of market volatility. As the Group is generally a long-term holder of assets, due to them being held to match to the term of life contract liabilities, the Group takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term volatility. Investment experience is a mechanism employed to remove the volatility arising from asset and liability valuation from the results so as to more accurately reflect the underlying performance of the Group.

Investment experience is calculated as the difference between the actual investment gains/losses (both realised and unrealised) and the normalised capital growth plus actuarial assumption changes. Investment experience after tax is investment experience net of tax at the prevailing income tax rate.

Normalised capital growth is determined by multiplying the normalised capital growth rate for each asset class by the average investment assets for the period. The normalised growth rates represent the Group's long term capital growth expectations for each asset class over the investment cycle. The normalised growth rates are 6.0% for Equity and Other, 4.0% for Infrastructure, 2.0% for Property and (0.35%) for Cash, Fixed Interest and Debt. The rates have been set with reference to market growth rates and are reviewed to ensure consistency with prevailing market conditions.

Actuarial assumption changes represents the impact of changes in macro-economic variables, including bond yields and inflation factors, expense assumptions, losses on new business and other factors applied in the valuation of life contract liabilities. It also includes the attribution of interest rate derivatives used to hedge interest rate volatility.

Operating segments

The format of the segment information is the same as that provided to the Chief Executive Office (the chief operating decision maker) of the Group. The Group operates in the following 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 customers.

Funds Management – earns fees from its Boutique and Aligned funds management operations, providing an end-to-end funds management business as well as managing two listed funds and a number of unlisted fund mandates.

Corporate and other

Corporate and other consists of other income and costs that fall outside the day-to-day operations of the reportable segments. These include the costs of the Group CEO and CFO, shared services across the Group, long-term incentive costs, Directors' fees, corporate borrowings and associated borrowing costs and shareholder registry services.

To reconcile to Group results, Corporate and other also includes eliminations and non-core activities of the Group.

Major customers
The Group does not rely on any large individual customers and so there is no concentration risk.

Products and services
The Group's divisional segment split represents the products that the Group supplies.

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

Funds Management – has equity investments in a number of boutique fund managers and, through the aligned business, offers a range of managed investments across the major asset classes.

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

Reconciliation of management view of revenue to statutory revenue	**31 Dec 2011 $M**	**31 Dec 2010 $M**
Reporting segments	250.5	236.6
Corporate and other	4.5	3.1
Net income – management view of revenue	**255.0**	**239.7**
Expenses and finance costs offset against management revenue		
SPV expenses and finance costs offset against SPV income	181.2	226.7
Commission expenses offset against commission income	28.3	28.7
Amortisation of deferred portfolio and origination costs offset against mortgage income	1.5	7.9
Change in life contract liabilities recognised in expenses offset against revenue	166.0	126.0
Property expenses offset against property income	31.5	31.3
Interest and loan amortisation costs	107.5	61.8
Management fees	25.1	28.3
Adjustment for non-controlling interests and other items	14.8	23.8
Difference between management view of investment experience and statutory recognition		
Total actual capital growth	(106.5)	32.7
Normalised capital growth	(22.1)	(24.2)
Actuarial assumption changes	(16.1)	(11.9)
Statutory view – revenue	**666.2**	**770.8**
Reconciliation of management to statutory view of pre-tax profit		
Reportable segment normalised net profit before tax	186.1	180.1
Corporate and other normalised net loss before tax	(27.2)	(28.3)
Normalised net profit before tax – management view of pre-tax profit	**158.9**	**151.8**
Investment experience before tax	(144.7)	(3.4)
Profit attributable to non-controlling interests excluded from management view	9.1	19.4
Other	(1.6)	(1.9)
Statutory view – profit before tax	**21.7**	**165.9**

3. Revenue

	31 Dec 2011 $M	31 Dec 2010 $M
Fee revenue		
Management fee revenue	43.2	43.6
Fee revenue – SPV	3.4	9.7
Other fee revenue	-	4.7
Investment revenue		
Equity and infrastructure investments		
Dividend revenue	13.7	15.8
Net realised loss on equity investments	(1.2)	(0.7)
Net unrealised (loss)/gain on equity investments	(25.7)	9.6
Net unrealised gain/(loss) on infrastructure investments	38.2	(35.4)
Debt securities and cash		
Interest revenue	258.5	183.3
Net realised gain on debt securities	18.2	13.6
Net unrealised gain/(loss) on debt securities	28.5	(2.6)
Investment property and property securities		
Dividend revenue	2.4	-
Property rental revenue	121.0	115.2
Net realised loss on investment property and property securities	-	(0.3)
Net unrealised gain on investment property and property securities	9.5	7.0
Other		
Interest revenue – SPV	270.7	319.7
Impairment loss on available-for-sale financial assets	(3.2)	-
Net realised (loss)/gain on foreign exchange translation and hedges	(27.9)	88.3
Net unrealised gain/(loss) on foreign exchange translation and hedges	36.2	(39.8)
Net realised loss on interest rate derivatives	(4.8)	(4.5)
Net unrealised gain/(loss) on interest rate derivatives	43.2	(36.4)
Other revenue		
Change in life contract liabilities[1]	(163.0)	89.3
Change in reinsurance contract liabilities	5.3	(9.3)
	666.2	**770.8**

1. Changes in life contract liabilities arising from discount rates, inflation rates and other assumptions are recognised as revenue, with other movements being included in Note 4 *Expenses*.

4. Expenses

	31 Dec 2011 $M	31 Dec 2010 $M
Commission expenses	28.3	28.7
Amortisation of deferred portfolio and origination costs	1.5	7.9
Cost of life contract liabilities[1]	166.0	126.0
Property related expenses	31.5	31.3
Management fees	25.1	28.3
Fee expenses – SPV	1.9	3.4
Intangibles amortisation expense	0.6	0.7
Employee expenses	51.1	51.8
Employee share based payments	10.6	13.0
Superannuation	2.3	2.2
Occupancy expense – operating lease	5.9	3.0
Depreciation expense	3.0	3.3
Communications and advertising	8.2	4.0
IT maintenance	2.3	2.2
Professional fees	4.1	6.0
Other expenses	17.7	10.5
Total	**360.1**	**322.3**

1. Cost of life contract liabilities recognised as an expense consists of the interest expense on the liability, any loss on the initial recognition of new business less the release of expenses incurred over the period. The interest expense on the liability represents the unwind of the discount on the opening liability over the period, whereas the impacts of changes in the discount rate applied for the current valuation are included in the change in life contract liabilities disclosed in Note 3 *Revenue*.

5. Finance costs

	31 Dec 2011 $M	31 Dec 2010 $M
Interest and loan amortisation expenses incurred by:		
- SPV	179.3	223.3
- Property trusts	14.1	12.6
- Other entities	93.4	49.2
Other finance costs	1.3	1.1
	288.1	**286.2**

6. Income tax

Analysis of income tax benefit/(expense)	31 Dec 2011 $M	31 Dec 2010 $M
Current income tax benefit/(expense) for the period	33.0	(60.7)
Current income tax expense prior period adjustment	(1.0)	-
Deferred income tax (expense)/benefit	(24.6)	32.1
Income tax benefit/(expense)	**7.4**	**(28.6)**
Income tax (expense)/benefit on translation of foreign entities	(9.6)	13.5
Income tax benefit/(expense) on hedge of net investment in foreign entity	6.9	(8.0)
Income tax (expense)/benefit on changes in available-for-sale asset revaluations reserve	(0.1)	0.2
Income tax (expense)/benefit on other comprehensive income	**(2.8)**	**5.7**
Reconciliation of income tax benefit/(expense):		
Profit before income tax	**21.7**	**165.9**
Prima facie income tax based on the Australian company tax rate of 30%	(6.5)	(49.8)
Tax effect of amounts not deductible/assessable in calculating taxable income:		
Non-assessable and non-deductible items	14.2	12.6
Rate differential on offshore income	(0.4)	2.0
Other items	0.1	6.6
Income tax benefit/(expense)	**7.4**	**(28.6)**

Unused capital losses – The Group has $139.5 million (30 June 2011: $131.3 million) of gross unused capital losses for which no deferred tax asset has been recognised. All available revenue losses have been recognised.

7. Dividends paid and proposed

Dividends declared and paid during the period	31 Dec 2011 $M	31 Dec 2010 $M
Final 30 June 2011 unfranked dividend: 9.5 cents (2010: 8.5 cents unfranked)	45.8	41.8
Dividend proposed (not recognised as a liability at 31 December)		
Interim 30 June 2012 unfranked dividend: 7.5 cents (2010: 7.0 cents unfranked)	40.2	34.1

8. Earnings per share

	31 Dec 2011 Cents	31 Dec 2010 Cents
Basic earnings per share	4.0	24.7
Diluted earnings per share	3.8	23.1
Profit used in the calculation of earnings per share	**$M**	**$M**
Profit attributable to equity holders	**20.0**	**117.9**
Number of shares	**Number**	**Number**
Weighted average ordinary shares for basic earnings per share	500,525,567	477,743,164
Effect of dilution	26,243,309	31,971,527
Weighted average ordinary shares for diluted earnings per share	**526,768,876**	**509,714,691**

In determining the weighted average number of ordinary shares used in the calculation of earnings per share, a reduction is made for the average number of treasury shares held. The weighted average number of treasury shares for the period was 18,655,128 (31 December 2010: 29,093,370). There have been no material transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the half year financial report.

9. Other financial assets

Financial assets at fair value through profit and loss[1] *Debt securities*	**31 Dec 2011 $M**	**30 June 2011 $M**	**31 Dec 2010 $M**
Domestic sovereign bonds	148.2	277.8	270.9
Corporate bonds	3,516.9	3,247.4	2,639.6
Residential mortgage and asset backed securities	1,186.1	1,111.1	1,055.2
Non-SPV mortgage assets	224.1	253.8	264.1
	5,075.3	**4,890.1**	**4,229.8**
Equity securities			
Shares in listed and unlisted corporations	102.1	120.6	24.0
Unit trusts and managed funds	111.4	131.0	205.4
Shares in listed corporations held in relation to endowment warrants[2]	35.1	41.5	40.2
	248.6	**293.1**	**269.6**
Infrastructure investments			
Units in listed and unlisted infrastructure trusts	422.0	416.2	418.9
Other infrastructure investments	272.7	239.9	-
	694.7	**656.1**	**418.9**
Property securities			
Indirect property investments in listed and unlisted trusts	169.4	173.4	144.3
Total financial assets at fair value through profit and loss	**6,188.0**	**6,012.7**	**5,062.6**
Available for sale equity securities	6.0	9.5	11.1
Total other financial assets	**6,194.0**	**6,022.2**	**5,073.7**

1. All financial assets at fair value through profit and loss are designated as such on initial recognition.
2. On 30 April 2004, the Group entered into a Deed of Assignment with Westpac Banking Corporation (WBC) whereby all legal and beneficial rights, title and interests in respect of these assets were assigned to WBC.

10. Investment and development property

	31 Dec 2011 $M	**30 June 2011 $M**	**31 Dec 2010 $M**
Investment property held for sale	48.1	22.0	22.0
Investment property in use	2,473.3	2,444.9	2,377.4
Investment property under development	34.6	27.0	26.4
Total investment property	**2,556.0**	**2,493.9**	**2,425.8**
Development property	83.6	80.0	87.1
Total investment and development property	**2,639.6**	**2,573.9**	**2,512.9**
Held for sale	48.1	22.0	22.0
In use/under development	2,591.5	2,551.9	2,490.9

11. Goodwill

	31 Dec 2011 $M	**30 June 2011 $M**	**31 Dec 2010 $M**
Opening balance	**505.4**	509.7	509.7
Acquisition purchase price adjustment	-	(2.1)	-
Foreign exchange gains/(losses)	0.2	(2.2)	(2.3)
Closing balance	**505.6**	**505.4**	**507.4**

12. Interest bearing liabilities

	31 December 2011		30 June 2011		31 December 2010	
Bank loans	Outstanding $M	Facility $M	Outstanding $M	Facility $M	Outstanding $M	Facility $M
Recourse – Corporate	-	100.0	-	100.0	-	100.0
Non-recourse – property trusts	864.2	939.7	812.1	865.5	747.2	888.9
Non-recourse – infrastructure trusts	207.4	213.0	206.1	211.0	-	-
Total bank loans	**1,071.6**	**1,252.7**	**1,018.2**	**1,176.5**	**747.2**	**989.9**
Non-recourse non-bank loans						
Subordinated debt issuance	457.1	457.1	477.8	477.8	470.7	470.7
Loan note finance	69.0	69.0	63.1	63.1	59.8	59.8
Property trusts	9.7	9.9	9.4	9.4	7.0	7.0
Total non-bank loans	**535.8**	**536.0**	**550.3**	**550.3**	**537.5**	**537.5**
Total interest bearing liabilities	**1,607.4**	**1,788.7**	**1,568.5**	**1,726.8**	**1,284.7**	**1,526.4**

Bank loans
Corporate – The facility of $100 million is secured by guarantees in place between members of the Group. A floating interest rate is applied to this facility.

Controlled property trusts – The 31 December 2011 balance includes $440.4 million (30 June 2011: $401.4 million) of Yen denominated loans in the Japanese property trusts (31 December 2011: ¥34.8 billion; 30 June 2011: ¥34.8 billion). These loans have a mix of fixed and variable terms, are secured by way of first ranking mortgages over the investment properties and they mature in 2012. Negotiations to replace these loans are underway and are progressing well with strong interest from existing banking relationships.

Also included is a multi-option syndicated finance facility held by Challenger Diversified Property Trust (CDI) with Westpac Banking Corporation Limited (WBC) and Commonwealth Bank of Australia Limited (CBA). The total outstanding at 31 December 2011 is $235.8 million (30 June 2011: $226.6 million). CDI arranged an amended facility agreement with WBC and CBA during the period with the new limit being $280.0 million, consisting of three tranches of $90.0 million, $100.0 million and $90.0 million maturing in 2013, 2014 and 2015 respectively. All tranches are able to be drawn in either Euros or Australian dollars and interest is calculated at floating rates plus a margin.

Bank loans in the other unlisted property trusts of $188.0 million (30 June 2011: $184.1 million) are secured solely by fixed and floating first mortgages over investment properties.

Controlled infrastructure trusts – The $207.4 million loan is an amortising facility with an expiry date of June 2016. This facility has variable terms and is secured by the way of a first ranking mortgage over the infrastructure asset.

Non-bank loans
Subordinated debt issuance – The Group issued subordinated notes into the US private placement market of US$150 million in December 2006 and A$400 million in November 2007. The notes were issued under an APRA approved Instrument of Issue and count as Approved Subordinated Debt for regulatory capital purposes.

The December 2006 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. The November 2007 issuance was unsecured and matures at 30 years with a non-call period of 10 years.

The proceeds of both issuances were made available to Statutory Fund No.2 of Challenger Life Company Limited (SF2) and rank in right of payment either pari passu with, or senior to, all other unsecured and subordinated indebtedness of SF2, except for such indebtedness preferred by operation of bankruptcy laws or similar laws of general application. Subordinated debt is measured at fair value through profit and loss and adjusted for movements in interest rates, credit spreads and foreign exchange.

Loan note finance – The Group has entered into a restricted recourse £25 million loan that is secured against properties. The fixed rate interest applied has been capitalised and is expected to be repaid together with the principal in 2012 (but no later than 2015).

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

13. Special Purpose Vehicles

Special purpose vehicles (SPV) are entities that fund pools of residential mortgage loans via the issuance of residential mortgage backed securities. All borrowings of these SPV are limited in recourse to the assets of the SPV. The Group is not originating any significant new mortgage assets or securitised liabilities but is managing the run-off of the portfolio.

The Group is deemed to control these entities as a consequence of holding the beneficial interest to the residual income stream but the major risks and rewards, notably credit risk, lie with the mortgage backed security holder. The assets and liabilities of the SPV have been separately disclosed in the financial report as this presentation is considered to provide a more transparent view of the Group's financial position. Transactions between the SPV and other entities within the Group are eliminated on consolidation. The amounts in respect of the SPV included in the consolidated Group are as follows.

	31 Dec 2011 $M	30 June 2011 $M	31 Dec 2010 $M
Cash and cash equivalents	401.6	386.4	448.5
Mortgage assets	6,074.7	6,889.8	7,565.3
Other assets	0.2	0.7	2.6
Total assets	**6,476.5**	**7,276.9**	**8,016.4**
Payables	461.8	308.2	297.0
Derivative liability	4.6	5.4	10.2
Interest bearing liabilities	6,014.7	6,968.7	7,719.4
Total liabilities	**6,481.1**	**7,282.3**	**8,026.6**
Net liabilities	**(4.6)**	**(5.4)**	**(10.2)**
Cash flow hedge reserve	(4.6)	(5.4)	(10.2)
Total equity attributable to residual income unit holders	**(4.6)**	**(5.4)**	**(10.2)**

14. External unit holders' liabilities

	31 Dec 2011 $M	30 June 2011 $M	31 Dec 2010 $M
External unit holders' liabilities	**1,446.8**	**1,316.7**	**1,307.5**

The Group controls a number of guaranteed index return trusts that invest funds relating to fixed term wholesale mandates. The external unit holders' liabilities represent the balance owing to third parties on these mandates.

$239.7 million of the liabilities disclosed as current at 30 June 2011 had a maturity date of December 2011. On maturity, these funds were reinvested in the guaranteed index return trusts with a portion being transferred to the new Crown Domestic Sovereign Bond Trust that was established during the period.

15. Life contract liabilities

	31 Dec 2011 $M	30 June 2011 $M	31 Dec 2010 $M
Life investment contract liabilities – at fair value	5,377.9	4,998.2	4,252.7
Life insurance contract liabilities – at Margin on Services valuation	678.7	614.8	605.2
Reinsurance contract liabilities – at Margin on Services valuation	8.4	16.0	20.0
Total life contract liabilities	**6,065.0**	**5,629.0**	**4,877.9**

	Life investment contract liabilities		Life insurance contract liabilities		Reinsurance contract liabilities		Total life contract liabilities	
	31 Dec 2011 $M	31 Dec 2010 $M	31 Dec 2011 $M	31 Dec 2010 $M	31 Dec 2011 $M	31 Dec 2010 $M	31 Dec 2011 $M	31 Dec 2010 $M
Opening balance	4,998.2	4,096.0	614.8	637.0	16.0	12.7	5,629.0	4,745.7
Annuity receipts	967.0	712.3	16.4	0.8	-	-	983.4	713.1
Annuity payments	(842.3)	(598.8)	(26.5)	(26.1)	(2.3)	(2.0)	(871.1)	(626.9)
Revenue per Note 3	106.2	(67.2)	56.8	(22.1)	(5.3)	9.3	157.7	(80.0)
Expense per Note 4	148.8	110.4	17.2	15.6	-	-	166.0	126.0
Closing balance	**5,377.9**	**4,252.7**	**678.7**	**605.2**	**8.4**	**20.0**	**6,065.0**	**4,877.9**

Methodology applied in the valuation of life contract liabilities
Life investment contracts are policies regulated by the *Life Insurance Act 1995* (the *Life Act*) that do not meet the definition of an insurance contract (under AASB 4 *Insurance Contracts*) and are measured at fair value through profit and loss. *Life insurance contracts* are policies regulated by the *Life Act* that meet the definition of an insurance contract and are measured using the Margin on Services (MoS) methodology.

The MoS valuation, calculated in accordance with Prudential Standards, results in the systematic release of planned margins over the life of the policy via a 'profit carrier'. The Group maintains only one type of life insurance contract, being individual lifetime annuities. Annuity payments are used as the profit carrier when determining the life insurance contract liability and the resulting profit recognition.

Key assumptions applied in the valuation of life contract liabilities
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. These rates are set at the Commonwealth government bond curve plus an illiquidity premium. The illiquidity premium is determined by reference to observable market rates including government guaranteed bank debt, credit-risk adjusted corporate bonds and the spread between the Commonwealth government bond curve and the swap curve. This is a modification of the approach at 30 June 2011, when rates were set at a margin to the swap curve. Discount rates applied at 31 December 2011 were between 4.25% and 5.63% (30 June 2011 between 5.04% and 6.15%).

Impact of changes in assumptions on life insurance contracts
Under MoS, changes in assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Changes in profit margins are released over future periods unless the relevant product group is in an expected net loss position (loss recognition), in which case the impact of assumption changes are recognised in the Income Statement in the period in which they occur. The valuation impact of changes to discount rate assumptions arising from market and economic conditions, such as changes in benchmark market yields, are recognised in the Income Statement in the period in which they occur.

Restrictions on assets
The *Life Insurance Act 1995* requires the Group to hold investments to back life contract liabilities in separate statutory funds. The assets in a statutory 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.

Actuarial information
Mr A Bofinger FIAA, as the Appointed Actuary of Challenger Life Company Limited, is satisfied as to the accuracy of the data used in the valuation of life contract liabilities in this half year financial report and that the valuation is in accordance with the *Life Insurance Act 1995*.

16. Contributed equity

	6 months to 31 Dec 2011 Number M	$M	Year to 30 June 2011 Number M	$M	6 months to 31 Dec 2010 Number M	$M
Ordinary shares issued	552.2	1,413.8	497.6	1,191.1	506.3	1,231.9
LTIP shares treated as treasury shares	-	-	(1.4)	(5.1)	(5.0)	(18.1)
CPP Trust shares treated as treasury shares	(16.2)	(74.5)	(19.3)	(84.9)	(16.8)	(66.4)
Total contributed equity	**536.0**	**1,339.3**	**476.9**	**1,101.1**	**484.5**	**1,147.4**
Ordinary shares						
Opening balance	497.6	1,191.1	507.1	1,235.6	507.1	1,235.6
Cancelled under share buy-back	(5.4)	(24.7)	(9.5)	(44.5)	(0.8)	(3.7)
New shares issued[1]	60.0	247.4	-	-	-	-
Closing balance	**552.2**	**1,413.8**	**497.6**	**1,191.1**	**506.3**	**1,231.9**
LTIP						
Opening balance	1.4	5.1	10.0	35.1	10.0	35.1
Shares transferred to CPP Trust	(0.9)	(3.2)	(7.1)	(25.9)	(3.7)	(13.3)
Vested shares released from LTIP plan	(0.5)	(1.9)	(1.5)	(4.1)	(1.3)	(3.7)
Closing balance	**-**	**-**	**1.4**	**5.1**	**5.0**	**18.1**
CPP Trust						
Opening balance	19.3	84.9	25.4	93.9	25.4	93.9
Shares purchased	12.9	60.7	11.1	51.2	5.8	24.7
Shares transferred from LTIP	0.9	4.2	7.1	32.1	3.7	15.4
Vested shares released to employees	(16.9)	(75.3)	(24.3)	(92.3)	(18.1)	(67.6)
Closing balance	**16.2**	**74.5**	**19.3**	**84.9**	**16.8**	**66.4**
Analysis of ordinary shares issued						
Listed on the ASX	552.2		496.7		502.0	
Unvested LTIP shares not listed on the ASX	-		0.9		4.3	
Total ordinary shares issued	**552.2**		**497.6**		**506.3**	

1. Exercise of the CPH Option. Consists of $60 million received at grant plus $195 million on exercise less issue costs.

17. Reserves

	31 Dec 2011 $M	30 June 2011 $M	31 Dec 2010 $M
Equity option premium reserve			
Opening balance	125.4	125.3	125.3
Exercise of equity option	(60.0)	-	-
Option issue costs	(0.4)	0.1	0.1
Closing balance	**65.0**	**125.4**	**125.4**
Share based payments reserve			
Opening balance	62.7	80.2	80.2
Share based payments for the period	10.6	26.1	13.0
Releases from share based payment premium reserve	(42.7)	(43.6)	(37.4)
Closing balance	**30.6**	**62.7**	**55.8**
Available-for-sale asset revaluation reserve			
Opening balance	(1.6)	(0.2)	(0.2)
Revaluation loss net of tax	(1.9)	(1.4)	(0.5)
Impairment loss taken to the Income Statement[1]	2.2	-	-
Closing balance	**(1.3)**	**(1.6)**	**(0.7)**
Cash flow hedge reserve – SPV			
Opening balance	(5.4)	(6.9)	(6.9)
Charged to equity	0.8	1.5	(3.3)
Closing balance	**(4.6)**	**(5.4)**	**(10.2)**

Foreign currency translation reserve	31 Dec 2011 $M	30 June 2011 $M	31 Dec 2010 $M
Opening balance	(13.1)	4.4	4.4
Gain/(loss) on translation of foreign entities	22.3	(41.3)	(31.6)
(Loss)/gain on hedge of net investment in foreign entities	(16.0)	23.8	18.6
Closing balance	**(6.8)**	**(13.1)**	**(8.6)**
Adjusted controlling interest reserve			
Opening balance	11.8	8.3	8.3
Discount on increase in holding in controlled entity	2.1	3.5	(0.4)
Closing balance	**13.9**	**11.8**	**7.9**
Total reserves	**96.8**	**179.8**	**169.6**

1. The amount removed is net of tax, the $3.2 million recognised in the Note 3. *Revenue* is gross of tax with the tax effect being recognised in the income tax expense for the period.

Nature and purpose of reserves

Equity option premium reserve
This reserve represents the fair value at grant of options issued to Colony Marlin-Holdings LLC (Colony) and, in prior periods, Consolidated Press Holdings Limited (CPH). The Colony option, granted on 7 November 2007, is for the purchase of 57,142,857 Challenger shares at $7.00 and has an expiry date of 7 November 2012. The CPH Option, granted on 22 December 2003, to purchase 60,000,000 Challenger shares at $3.25 was exercised during the period and so the $60.0 million option proceeds previously received has been transferred to contributed equity.

Share based payments reserve
An expense is recognised over the vesting period of share options and 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 directly in equity. The total of this reserve is net of any gain or loss realised on the disposal of forfeited shares held within the schemes.

Available-for-sale asset revaluation reserve
This reserve includes the cumulative net change in the fair value of financial assets classified as available-for-sale until the investment is derecognised or sold. The balance is net of any impairment losses recognised in the Income Statement.

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.

Foreign currency translation reserve
The foreign currency translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of the foreign subsidiaries. It also includes the effective portion of fair value changes on foreign exchange derivative contracts designated as hedges of a net investment in a foreign entity.

Adjusted controlling interest reserve
This reserve relates to changes arising from movements in the ownership interests in entities already controlled by the Group. The difference between the fair value of the consideration paid/received for the change in holding and the change in the Group's share of the net assets of the entity is recorded in this reserve.

18. Retained earnings

	31 Dec 2011 $M	30 June 2011 $M	31 Dec 2010 $M
Opening balance	207.4	21.9	21.9
Profit attributable to equity holders	20.0	261.4	117.9
Dividends paid	(45.8)	(75.9)	(41.8)
Closing retained earnings	**181.6**	**207.4**	**98.0**

19. Reconciliation of profit to operating cash flow

	31 Dec 2011 $M	31 Dec 2010 $M
Profit for the period	**29.1**	**137.3**
Non-cash and investing adjustments:		
Net realised loss/(gain) on disposal of financial assets	15.7	(96.4)
Net unrealised (gain)/loss on revaluation of financial assets	(126.7)	97.6
Share of associates' net profit	(3.7)	(3.6)
Amortisation and depreciation	5.1	11.9
Share based payments	10.6	13.0
Operating cash flow not recognised in revenue		
Dividends from associates	5.8	2.5
Change in operating assets and liabilities, net of disposal/acquisition of controlled entities		
(Increase) in receivables	(25.3)	(43.0)
(Increase)/decrease in other assets	(3.6)	18.0
(Decrease) in payables	(56.2)	(2.0)
Increase/(decrease) in provisions	3.0	(5.3)
Increase in life contract liabilities	436.0	132.1
Increase in external unit holders' liabilities	130.1	48.5
(Decrease)/increase in net tax liabilities	(19.3)	31.6
Net cash inflow from operating income	**400.6**	**342.2**

20. Subsequent events

At the date of this financial report and, other than as disclosed in this financial report, no other matter or circumstance has arisen that has affected, or may significantly affect, the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

21. Contingent liabilities, contingent assets and credit commitments

Warranties

Over the course of its corporate activity the Group has given, as a seller of companies and as a vendor of real estate properties, warranties to purchasers on several agreements that are still outstanding at 31 December 2011. Other than noted below, at the date of this report no material claims against these warranties have been received by the Group.

The Victorian State Revenue Office (SRO) raised an assessment for stamp duty in respect of the transfer of certain interests in Challenger Diversified Property Group. This assessment has been disputed by the relevant Group entities. Judgment in favour of the relevant Group entities was granted at first instance and subsequently in the Court of Appeal. The SRO is now seeking leave to appeal the matter to the High Court of Australia, which the relevant Group entities will be opposing. It is not yet known whether leave to appeal will be granted. The Group does not expect to incur any material liability in relation to this matter.

Parent entity guarantees and undertakings

Challenger Limited has extended the following guarantees and undertakings to entities in the Group:

(i) A guarantee supporting the corporate banking facility;

(ii) Letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise Challenger Limited has a responsibility to ensure that those subsidiaries continue to meet their obligations; and

(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.

Contingent future commitments

Challenger Life Company Limited has made capital commitments to external counterparties for future investment opportunities such as development or investment purchases. As at 31 December 2011 there are potential future commitments totalling $157.5 million (30 June 2011: $175.2 million) in relation to these opportunities.

Contingent tax assets and liabilities
From time to time the Group has interactions with the Australian Tax Office in relation to the taxation treatments of various matters. Any potential tax liability resulting from these interactions is only provided for when it is probable that an outflow will occur and reliable estimate of the amount can be made. Tax assets are only recognised on the balance sheet when agreement over the amount and timing of any inflow or deduction has been reached with the ATO.

As a result of a retrospective amendment to the tax legislation in 2010, the Group has lodged a series of claims in relation to the Tax Consolidation treatment of rights to future income arising from the Group's entry into the tax consolidation regime in 2003. The amended legislation allows for deductions to be spread over 10 years from 2003. On 25 November 2011 the Australian Government announced significant retrospective changes to this law that have not, as yet, been legislated. The effect of this announcement has delayed the processing of the Group's claims until these retrospective changes are legislated. If successful, the Group's tax claim, including prior year and future deductions, would be approximately $45 million. No tax benefit or asset has been recognised in respect of this amount.

Other information
In the normal course of business, the Group enters into various contracts that could give rise to contingent liabilities in relation to performance obligations under those contracts. The information usually required by Australian accounting standards is not disclosed for a number of such contracts 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 Limited, we declare that, in the opinion of the Directors:

a) the financial statements and notes of Challenger Limited and its controlled entities (the Group) are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the six month period ended on that date; and

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

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

On behalf of the Board

G A Cubbin	R R Hooper
Director	Director
Sydney	Sydney
17 February 2012	17 February 2012

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

Independent Auditor's Review Report

To the members of Challenger Limited.

Report on the half year financial report

We have reviewed the accompanying half year financial report of Challenger Limited, which comprises the Balance Sheet as at 31 December 2011, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the six months ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year.

Directors' responsibility for the half year financial report

The directors of the company are responsible for the preparation of a half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of a half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Challenger Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(i) **giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half year ended on that date; and**

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

Ernst & Young

Ernst & Young

S J Ferguson
Partner
Sydney
17 February 2012

Investor Information

ASX listing
Challenger 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.

Key dates
Shareholders may like to note the following key dates:

Ex-dividend date for the 2012 interim dividend	05 March 2012
Record date for the 2012 interim dividend	09 March 2012
Dividend payment date	30 March 2012

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

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

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

Appendix 1 – ASX Appendix 4D (rule 4.2A.3)

Appendix 4D item	Cross reference
Reporting and previous corresponding period (4D item 1)	Page 1
Results for announcement to the market (4D item 2)	Page 1
Net tangible assets per security (4D item 3)	See below
Details of entities over which control was gained or lost (4D item 4)	No changes in the period
Dividends (4D item 5)	Page 1
Dividend reinvestment plan (4D item 6)	Challenger Limited does not currently operate a dividend reinvestment plan
Details of associates and joint ventures (4D item 7)	See below
Foreign entities (4D item 8)	Not applicable
Audit dispute or qualification (4D item 9)	There are no audit disputes or qualifications in respect of the half year financial report

Net tangible assets per security (4D item 3)	**31 Dec 2011 $M**	**31 Dec 2010 $M**
Net assets	1,916.3	1,744.7
Less:		
Goodwill	505.6	507.4
Other intangible assets	13.5	14.2
Non-controlling interests	298.6	329.7
Net tangible assets	**1,098.6**	**893.4**
Ordinary shares (number - M)	536.0	484.5
Net tangible assets per security	**2.05**	**1.84**

Details of associates and joint ventures	**Ownership interest**	
	31 Dec 2011	**31 Dec 2010**
Alphinity Investment Management Pty Ltd	30%	30%
Ardea Investment Management Pty Ltd	30%	30%
Bentham Asset Management Pty Ltd	49%	49%
Challenger MBK Fund Management Pte Limited	50%	50%
Five Oceans Asset Management Pty Limited	34%	25%
Greencape Capital Pty Limited	35%	25%
Homeloans Limited	23%	23%
Kapstream Capital Pty Limited	25%	25%
Kinetic Investment Partners Limited	20%	20%
Merlon Capital Partners Pty Ltd	30%	30%
Novaport Capital Pty Ltd	49%	-
Wavestone Capital Pty Limited	30%	28%

Authorisation

Michael Vardanega
Company Secretary
17 February 2012

Directory

Principal Place of Business and Registered Office in Australia	Level 15 255 Pitt Street SYDNEY NSW 2000 Tel (02) 9994 7000 Fax (02) 9994 7777
Directors	Peter Polson (Chairman) Brian Benari (Chief Executive Officer) Graham Cubbin Jonathan Grunzweig Russell Hooper Brenda Shanahan Leon Zwier
Company Secretaries	Michael Vardanega 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