



Challenger Limited – Annual Report 2012



Contents

Challenger today	1
Results at a glance	2
Chairman's report	4
CEO's report	6
Life and Funds Management	8
Distribution, Product and Marketing	10
Corporate	12
Risk and Human Resources	14
Corporate governance	17
Sustainability	24
Directors' report	28
Financial report	60
Independent auditor's report	130
Five-year history	132
Investor information	134
Directory	inside back cover



Award-winning annuities

In 2012, Challenger Life was again named the winner of the AFA/Plan for Life 'Annuity Provider of the Year', further reinforcing our strength in the annuity market.

Challenger today

Challenger Limited is an ASX-listed investment management company established in 1985.

We are the leading provider of annuities and guaranteed retirement income streams in Australia. Through our boutique Funds Management business, Fidante Partners and Aligned Investments, we are the tenth largest Australian fund manager.

Life

Challenger is the leading provider of annuities and guaranteed retirement income streams in Australia. The Life business is regulated by the Australian Prudential Regulation Authority (APRA) and provides products aimed at investors seeking the security and certainty of guaranteed cash flows with protection against market, inflation and longevity risks. Annuity premiums, along with shareholder capital, are invested in a diversified and high quality portfolio of assets to deliver predictable, long-term cash flows to meet commitments to our annuitants while providing attractive returns for shareholders.

Funds Management

Challenger's Funds Management business comprises Fidante Partners and Aligned Investments, and is one of Australia's fastest growing fund managers.

Fidante Partners comprises 11 co-owned, separately branded, boutique active investment managers. Challenger provides administration, distribution and business management support to the boutiques and shares in the profits of the boutique partnerships through its equity ownership.

Aligned Investments develops and manages assets under Challenger's brand for the Life business and third party investors. Aligned Investments invests in fixed income, property and infrastructure assets.

Results at a glance

Record retail Life sales and growing funds under management with prudent cost control have delivered strong financial performance

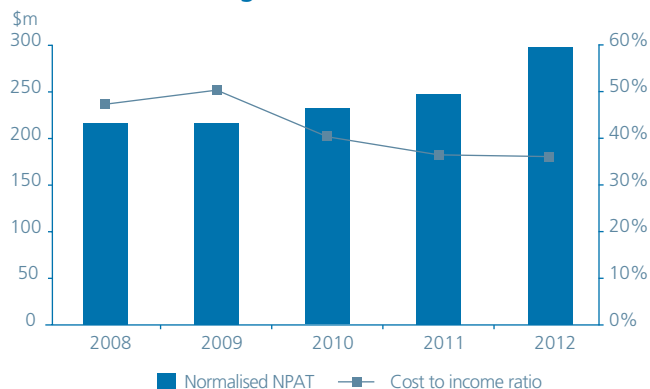
Key financial highlights during the year:

- Normalised net profit after tax¹ (NPAT) up 20% to \$297 million
- Normalised earnings per share (EPS) up 11% to 57.5 cents per share
- Net income increased 7% to \$528 million, underpinned by growth in Life normalised cash operating earnings
- Expenses increased 5% to \$189 million following investment in growth initiatives. The cost to income ratio fell 60 bps to 35.9%
- Statutory net profit after tax (NPAT) decreased to \$149 million as a result of largely unrealised investment experience on fixed income and property
- Record sales of retail Life products, up 34% to \$1.95 billion
- Total funds under management of \$33.4 billion, up 20%
- Final dividend of 10.5 cents per share (unfranked), bringing full year dividend to 18.0 cents per share (unfranked), up 9%.

Financial performance	2012	2011
Net income	\$528m	\$494m
Expenses	\$189m	\$180m
Normalised NPAT ¹	\$297m	\$248m
Statutory NPAT	\$149m	\$261m
Normalised earnings per share – basic (cps)	57.5	51.7
Statutory earnings per share – basic (cps)	28.8	54.5
Dividend (cps)	18.0	16.5

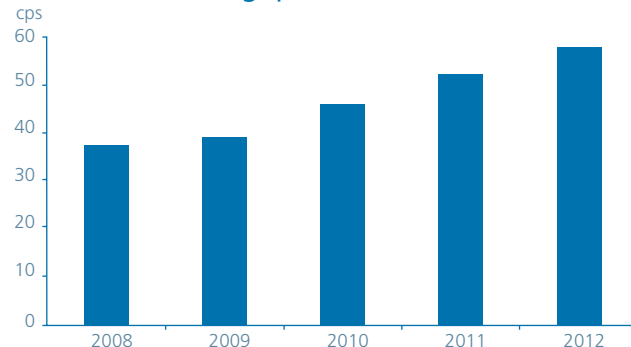
¹ Challenger's normalised profit framework and a reconciliation to statutory profit is disclosed on page 31 in the Directors' report.

Normalised earnings and cost to income ratio



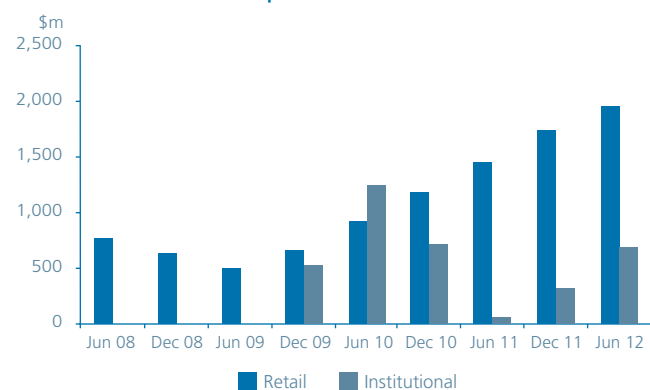
Normalised NPAT has continued trending up, increasing 36% since 2008. We have successfully grown net income whilst keeping expenses flat, resulting in our cost to income ratio falling to 35.9%. We have lowered our targeted cost to income ratio to a range of 34% to 38%.

Normalised earnings per share



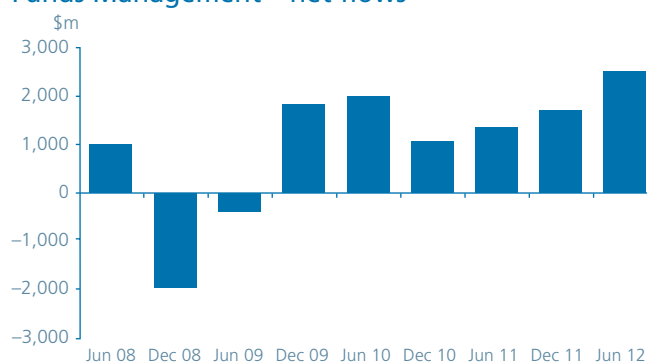
We have continued our growth profile, with normalised earnings per share increasing by 55% since 2008. Normalised EPS has been aided by Challenger's on-market share buy-back program, which commenced in 2008.

Retirement incomes products – annual sales



The strong growth in retirement incomes sales continued into 2012. Retail life sales have increased by a compound annual growth rate of 26% since 2008.

Funds Management – net flows



Funds Management achieved \$4.2 billion of net flows in 2012, up from \$2.4 billion in 2011. Our Funds Management business has seen positive net flows for the past six halves, in what have been difficult investment markets.

Chairman's report

The 2012 financial year has been another successful year for our company. Performance has remained strong across a broad range of financial metrics, our strategy is clear and focused and we are, on balance, benefiting from structural changes in the markets in which we operate.

In relation to retirement incomes, the market is particularly attractive with Australia's baby boomer population entering a 20 year growth phase. In 2012 alone, the growing population of retirees saw a transfer of over \$53 billion from the accumulation to the retirement phase of their superannuation savings. While guaranteed income products currently represent a small percentage of this market, we are confident that, given the need for dependable and stable income in retirement, this nascent market will grow to a size comparable with other developed nations.

Just as we believe retirees will prioritise capital protection and predictable income, we also believe that investors will require a degree of exposure to growth assets. Our newly rebranded contemporary funds management business, Fidante Partners, now manages our interests in 11 boutique firms and has, in contrast to much of the funds management industry, recorded strong fund inflows over the past three years. While legislatively mandated superannuation contributions undoubtedly provide long-term support to the industry, we are determined to grow market share by creating profitable boutiques with management teams tightly aligned with investors' economic interests and supported by institutional grade processes and services.

Full year result to 30 June 2012

For the sixth consecutive year, Challenger has increased its normalised net profit after tax. During the past year, an increase of 20% to \$297 million was achieved, with almost 95% of net profit after tax represented by underlying operating cash flow of \$282 million. Normalised earnings of 57.5 cents per share represented an 11% increase on 2011, with stronger earnings partly offset by an increased number of shares on issue following the exercise by CPH Investments Management Pty Limited of its options in October 2011.

In keeping with our targeted dividend payout ratio of around 30% of normalised earnings, the total dividend

for the year rose by 9% to 18.0 cents per share, unfranked, following the declaration of a final dividend of 10.5 cents per share, unfranked. Dividends remain a core component of shareholder returns and your Board is focused on increasing them over time. Since 2008, dividends have increased by over 40%, in line with our growth in normalised net profit after tax.

Statutory net profit after tax for the year of \$149 million was less than normalised net profit and was lower than last year's statutory profit of \$261 million. Accounting standards require Challenger Life to record its financial assets, including Australian government and investment grade corporate bonds, at market value despite our intention to hold them to maturity. When markets are volatile, changes in short-term value are reflected in our statutory profit and loss. In some years such as 2010, these movements meant that statutory profit was higher than normalised profit; in other years such as the current year it meant that statutory profit was less than normalised profit.

New capital standards

In May 2009, the Australian Prudential Regulation Authority (APRA) announced a review of the capital standards that apply to all Australian life and general insurers. The review has resulted in new capital standards which will be effective from 1 January 2013. The new standards are intended to ensure that all insurers can absorb the effect of a one in 200 year adverse shock, a risk significantly more remote than the Global Financial Crisis, which was considered a one in 70 year event.

While the standards won't be finalised until the end of 2012, in August we received greater clarity with regard to a number of important issues, including APRA's planned implementation timetable. Management have worked closely with APRA on these new standards, and it was pleasing we could provide shareholders with some certainty around their impact and timing.

The new standards are expected to increase the amount of capital Challenger Life is required to hold. Our regulatory capital requirement will increase over three years. However, we expect to meet this requirement by generating organic capital via earnings, ensuring we can maintain our existing dividend policy and continue to grow the business.

Change in Chief Executive Officer

Following Dominic Stevens' resignation as Chief Executive Officer during the year, the Board instigated its succession plan and appointed Brian Benari to the role of Chief Executive Officer. Brian first joined Challenger in 2003 and has held a number of positions including Chief Executive of the Mortgage Management business and most recently Group Chief Financial Officer/Group Chief Operating Officer.

The opportunity for a Chairman and Board to publicly recognise the achievements of a departed Chief Executive Officer are surprisingly few. Consequently, I would once again like to thank Dominic for the significant contribution he made in his various senior roles at Challenger over the past nine years.

Corporate governance

Your Board and management recognise their duties and obligations to maintain a robust corporate governance system. Risk management is central to our governance approach and is fundamental to building long-term shareholder value. We have a strong risk management framework and culture and continue to ensure governance structures are in place to manage a broad range of risks. It is also important for me to remind shareholders that our remuneration policies are closely linked to Challenger's risk management framework.

Outlook

The financial services industry is constantly changing as a result of shifting demographics, new regulations, financial market volatility, evolving consumer preferences, and competition. The industry is one of the most challenging and exciting in which to operate. Your company's senior management team and Board have never been more dedicated to pursuing Challenger's vision to 'provide Australians with financial security in retirement' and emerge as one of Australia's financial services success stories.

Thank you for your commitment to Challenger and I look forward to seeing you at the Annual General Meeting in November.



Peter Polson

Chairman

CEO's report

Business and financial performance

Our Life and Funds Management businesses operate in attractive markets and we have distinct competitive advantages in these markets. Our Life business is supported by favourable demographics, changing retiree investment risk preferences and a growing understanding of the financial impacts of living longer. We are an independent investment manager with retirement incomes our core focus. Our Funds Management business model is contemporary, with growth underpinned by mandated superannuation contributions.

From a global standpoint, Australia possesses an enviable superannuation savings system for the accumulation phase; however, the retirement phase has been dominated by products which expose retirees to a series of risks including market, inflation and longevity risk. Retirees are now seeking solutions like annuities to address these risks. Ongoing equity market volatility has further highlighted the need for more secure retirement incomes and has prompted a rethink with regard to asset allocation in retirement.

Annuities are currently a small but growing part of the larger wealth management industry and we have the task of educating the broader market of their benefits and the financial risks in retirement. For this reason we continued to invest in industry leadership initiatives. In 2012, we established a new retirement incomes research team to develop insightful and leading retirement incomes strategies and research. We also continued to invest in annuity product development, launching the award-winning, platform-based Challenger Guaranteed Pension Fund, and released new tools and methodologies to assist advisers grappling with the challenge of how to make their clients' money last as long as they will.

The Australian retiring baby boomer demographic, who represent the majority of the \$1.4 trillion superannuation savings pool, coupled with the growing awareness of the financial risks in retirement, will continue to propel our retirement incomes business for many years to come.

Whilst building out our retirement incomes business, we have also grown our Funds Management operations. Over the past few years we have adopted a unique boutique funds management model which delivers greater alignment of interests with investors, whilst providing institutional grade support to our

boutique partners. As a result, we had industry-leading net flows of \$4.2 billion in 2012 and have now recorded six consecutive halves of significant positive net flows into this business in what can only be described as difficult investment markets. Our Funds Management business is now the tenth largest Australian fund manager.

The growing importance of our Funds Management division has been underscored by the rebranding of the boutique partnership business to Fidante Partners. This year also saw the acquisition of our eleventh boutique fund manager, emerging markets specialist MIR Investment Management, which has been renamed Metisq Capital.

Overall 2012 financial performance broke a number of company records, including achieving our highest ever retail annuity sales, normalised net profit after tax and normalised earnings per share. The increase in normalised net profit after tax represents the sixth consecutive year of earnings growth and translated into a 9% increase in the full year dividend.

Further details on the 2012 financial performance are included in the Chief Financial Officer's report on page 12.

New capital standards

Challenger Life is the leading provider of annuities and guaranteed retirement income streams in Australia. Challenger Life is prudentially regulated by APRA and is very well capitalised, with capital surplus to our regulatory requirements increasing to \$719 million, up from \$678 million in 2011.

As mentioned in the Chairman's report, APRA's new capital standards apply to all Australian life and general insurers and will be effective from 1 January 2013. In August 2012, we were able to clarify both the likely impact of the new standards and APRA's proposed transition arrangements. Challenger Life's regulatory capital requirement is expected to increase by between \$110 million and \$125 million per annum for three years, with the first increase effective 1 January 2014.

Based on our current surplus capital position and future organic capital generation capability, we anticipate that we will meet this higher capital requirement, continue to grow the business and maintain our current dividend payout ratio without the need to raise additional capital. The dividend payout ratio is sustainable over the long term.

The new capital standards are expected to be finalised in late calendar 2012. As a result of the new standards, annuities issued by Australian regulated providers, such as Challenger Life, will be arguably among the most secure in the world, with these standards viewed as more stringent than those in Europe, the US and Canada.

Strategy and outlook

Our vision is clear. It is to provide Australians with financial security in retirement. To achieve this vision we are focused on the following three core strategic objectives:

1. To be recognised as the leader in retirement income solutions in Australia;
2. To increase the portion of the Australian retirement savings pool allocated to secure and lifetime income products; and
3. Within our Funds Management business, to provide superior returns through active investment management.

Meeting our first two objectives requires ongoing investment in education, thought leadership and the development and rollout of cost-effective solutions for retirees. Challenger has a key role to play in informing and educating the market of the benefits of guaranteed retirement income solutions such as annuities, which provide dependable, secure income in retirement.

The Australian funds management industry is undergoing significant change. We believe that the contemporary Fidante Partners boutique fund manager model which is backed by an institutional partner is the right model and plan to grow both the size of the existing boutiques and introduce new ones over the coming years. Fidante Partners is expected to continue to grow at a faster rate than the overall Australian funds management industry.

We are committed to Challenger's vision and believe that the right strategies and team are in place to achieve this vision. Our business is well positioned to continue to grow strongly and increase shareholder value. We are confident that the best years for Challenger lie ahead.



Brian Benari

Chief Executive Officer

Life and Funds Management

Richard Howes

Chief Executive, Life

Challenger Life is the leading provider of annuities and guaranteed retirement income streams in Australia. Life's products are aimed at investors seeking the security and certainty of guaranteed cash flows with protection against market, inflation and longevity risks. Products are distributed by financial institutions, financial adviser groups, and independent financial advisers. Being an independent provider, Challenger has distribution representation across all major hubs and platforms. Challenger Life has won the Association of Financial Advisers/Plan for Life 'Annuity Provider of the Year' award for the past four years and has won the 'Income Stream – Innovation' award for the past two years.

Challenger Life is an APRA regulated entity and its financial strength is rated for wholesale investors by Standard & Poor's, who reaffirmed an 'A' credit rating in December 2011.

Changes in demographics and consumer risk preferences are leading to an increase in demand for Life's products. The increase in demand is being amplified by:

- strong Challenger retirement incomes brand recognition amongst financial advisers and consumers;
- leading product development;
- thought leadership in retirement incomes; and
- increased focus on making Challenger an easy organisation to deal with.

The favourable market dynamics and a range of business initiatives undertaken have resulted in strong organic sales growth. Retail annuity sales increased by 34% in 2012 and have increased by a compound annual growth rate of 26% per annum since 2008.

Life investment assets increased 17% in 2012 to \$9.8 billion due to net book growth in both retail and institutional guaranteed income products. Investment assets support these products by delivering sufficient returns to meet the promises made to investors. Seventy six percent of total assets are invested in fixed income, with 86% of the fixed income portfolio

investment grade (up from 83% in 2011). A high quality portfolio of commercial real estate represents a further 16% of total assets. The Australian portfolio, which represents over 80% of the property portfolio, has a weighted average lease life of 6.7 years and is leased to high quality tenants (62% of tenants are AAA rated).

Life generated normalised cash operating earnings of \$436 million in 2012, up 9% on 2011. The increase in normalised cash operating earnings was due to the growth in assets as a result of ongoing strong sales.

Our capital position continued to strengthen over the year, ending the year with surplus capital to regulatory requirements of \$719 million, up from a surplus position of \$678 million at the start of the year.

The outlook for our Life business remains very positive. The retirement incomes market is being propelled by favourable demographic tail winds and an increased awareness of financial risks in retirement by retirees. Challenger continues to launch new business initiatives to grow our retirement incomes market share and increase returns for shareholders.

Rob Woods

Chief Executive, Funds Management

Challenger's Funds Management business is one of the fastest growing Australian fund managers and is ranked the tenth largest, with \$31 billion in Funds Under Management (FUM). Funds Management earnings before interest and taxes increased to \$21 million in 2012. The Funds Management business comprises Fidante Partners and Aligned Investments.

Fidante Partners comprises 11 co-owned, separately branded boutique investment managers, with Challenger providing administration, distribution and business management support. The boutique funds management model has widespread support from investors and asset consultants and aligns the interests of boutique principals, investors and Challenger. The success of the model is evident when comparing Fidante Partners' net flows and growth in FUM against the broader funds management market.

In 2012, the boutique partnership business was rebranded Fidante Partners. As Challenger's brand has progressively become more synonymous with

retirement incomes and annuities, it was appropriate to distinguish and separately promote the alpha-generating capability within our boutique partnership funds management business.

Fidante Partners secured its eleventh boutique fund manager in 2012, acquiring a majority interest in MIR Investment Management (MIR). As part of the repositioning of this business, MIR has rebranded itself Metisq Capital. Metisq Capital has \$1 billion of funds under management and specialises in the wholesale funds management of Asia-Pacific (ex Japan) and Greater China equities strategies. The Metisq Capital acquisition is the first boutique added since 2010 and adds a specialised emerging markets capability.

Aligned Investments develops and manages products under the Challenger brand for third party investors as well as for Challenger's Life business. This includes ASX-listed funds Challenger Diversified Property Group (CDI) and Challenger Infrastructure Fund (CIF), as well as a number of large unlisted mandates for institutional investors. In 2012, Aligned Investments was successful in attracting a number of new mandates from a broad range of institutional investors.

A key focus for CIF over the past year has been the strategic review announced in August 2011. The strategic review completed in June 2012 with the announcement of the sale of CIF's assets and unitholders voting to wind up CIF and return capital. The outcome was a very pleasing one, with the return to unitholders being in excess of 40% since the announcement of the strategic review.

The Funds Management business is well placed to benefit from the Federal Government's decision to increase compulsory superannuation contributions from 9% to 12% over the next seven years. We expect Fidante Partners to continue to grow at a faster rate than the broader funds management market, with the strategy to continue enhancing our 11 boutique partnerships through broader distribution capabilities and new product development. We will look to add new boutique partners as opportunities arise. The Aligned Investments business provides significant operating leverage with new bespoke solutions being offered to our institutional customers, providing opportunities for continued revenue growth.



Rob Woods and Richard Howes

Chief Executive, Funds Management and
Chief Executive, Life

Distribution, Product and Marketing

Paul Rogan

Chief Executive, Distribution, Product and Marketing

Challenger's Distribution, Product and Marketing team is responsible for leading retirement incomes and funds management sales outcomes, coordinating the marketing programs, enhancing customer and adviser experiences, and expanding Challenger's product range.

Distribution

Sales have benefited from the creation of specialist distribution teams for Life and Funds Management, focused on retirement incomes sales, Fidante Partners or Aligned Investments. We have also significantly increased the number of Business Development Managers to support the growth and demand in our Life and Funds Management offerings.

In 2012, we have seen continued strong growth in retail life sales, with sales in the June quarter our strongest ever. Retail life sales were \$1.95 billion in 2012, an increase of 34% on 2011. Retail life sales have increased by a compound annual growth rate of 26% since 2008.

In 2012, Funds Management generated \$4.2 billion of net flows, up from \$2.4 billion in 2011. Our Funds Management business has seen positive net flows for the past six halves, a very pleasing result given the difficult investment markets during this period.

The major distribution initiatives launched in 2011 have continued into 2012. We are focused on increasing the productivity of our distribution teams and broadening retail annuity sales into more financial planner groups. Both initiatives are aimed at increasing retail annuity sales.

Providing advisers with online tools, electronic interfaces and ongoing product education continues to be a priority. In 2012, we:

- refined our market leading retirement income calculator, which focuses on client retirement cash flows over time and how they behave in different market conditions with different asset allocations. This calculator brings to life the point that retirement and retirees' portfolios need to manage market, inflation and longevity risks;

- rolled out an e-quote application for advisers, making it easier and quicker to price and apply for annuities;
- integrated Challenger's systems with Xplan, a market leading financial adviser software, to streamline adviser efficiency when dealing with Challenger;
- continued the bi-annual adviser roadshows, with approximately 2,000 advisers attending. The roadshows focus on educating advisers on retirement incomes strategies and portfolio construction; and
- launched AdviserOnline, a dedicated web based support service to advisers offering new tools, client reporting and functionality.

A key strategic initiative is to continue building on Challenger's position as a market leader in retirement incomes. To help achieve this, we have continued to invest in our retirement incomes research capability. The Challenger retirement incomes research team produces research focusing on relevant issues in retirement investing, and examines the appropriateness of current retirement strategies. The team's research contributes to a consistent corporate message on key retirement issues.

Product

Following demand from financial advisers, in 2012 we launched a new product, the Challenger Guaranteed Pension Fund (GPF). GPF provides guaranteed monthly payments over a set period with the ability for principal to be paid out over the life of the investment. GPF is a platform based product with the required flexibility to meet account based pension minimum drawdown requirements. GPF won the 2011 Association of Financial Advisers/Plan for Life 'Income Stream – Innovation' award.

We continue to advocate for regulatory change that will enable greater innovation in the retirement incomes market, including changes to allow a market for deferred lifetime annuities.

Marketing

In early 2011, Challenger launched a major consumer advertising campaign on national television, cinema, radio, print and online. This 'Real Stories' campaign continued to run throughout 2012.

'Real Stories' depicts how the retirement plans for four individuals have been impacted by the Global Financial Crisis. Challenger's intent is to bring balance to a discussion that for too long has focused on the benefits of share market investing whilst rarely mentioning the risks.

The campaign targets the over 55 age demographic, an estimated target audience of two million Australians. It also runs in various trade media, and has significantly increased consumer and financial adviser recognition of Challenger as the pre-eminent retirement incomes provider.

As a result of the campaign, financial advisers are now almost three times more likely to think of Challenger first as a retirement incomes provider. The campaign has been recognised by three industry advertising and marketing awards, most recently winning the Money Management/Lonsec Advertising Campaign of the Year Award.

A key priority in 2012 was to differentiate our annuities and boutique partnership funds management businesses. With the Challenger brand progressively becoming more synonymous with secure retirement incomes and annuities, it became appropriate to distinguish and separately promote the alpha-generating capability within our boutique partnership funds management business. As such, in 2012 we formally launched our new boutique partnership funds management brand, Fidante Partners.



Paul Rogan

Chief Executive, Distribution,
Product and Marketing

Andrew Tobin

Chief Financial Officer

Consistent with the last few years, 2012 saw our business experience significant growth, which in turn has driven record financial results.

Normalised net profit after tax rose 20% to \$297 million and normalised earnings before interest and tax increased in both our Life and Funds Management businesses.

Normalised earnings per share increased 11% to 57.5 cents per share. The increase was less than the increase in normalised net profit after tax due to an increase in the number of shares on issue following the exercise of 60 million CPH options in late 2011. In 2012, we bought back 13 million shares via our on-market share buy-back.

The strong growth in retail annuity sales continued into 2012, with a record \$1.95 billion of retail sales (up 34% on the prior year) and delivered \$583 million, or 10%, net retail annuity book growth. This outcome is a direct result of our key focus on distribution, product and marketing and capitalising on the structural market change that is underway in the retirement incomes market.

Our business has significant operating leverage, as measured by our cost to income ratio. This ratio has fallen by 12 percentage points over the past five years to 35.9% and over this period our expenses have remained in the range of \$180 million to \$190 million. We have also reduced our targeted cost to income ratio down to a range of 34% to 38% (down from 35% to 40%). This highlights that our platform is, and remains highly scalable to support future business growth. Expenses increased by \$9 million in 2012 as a direct result of investing in growth initiatives such as increasing our distribution capacity, bolstering our marketing and advertising campaign and establishing a research capability.

Statutory net profit after tax was \$149 million, down from \$261 million in 2011 as a result of negative investment experience. Negative investment experience for the year was a result of the volatility in credit and equity markets. As we are required to value all assets and liabilities supporting the life business at fair value despite being a hold to maturity investor, volatility can result in significant positive and negative investment experience.

In some years, such as 2010, these movements meant that statutory profit was higher than normalised profit; in other years such as the current year it meant that statutory profit was less than normalised profit. The financial assets we hold are of a high quality and we expect 2012 net investment experience to largely reverse over time as we hold these assets to maturity.

Challenger Life had a \$719 million capital surplus above regulatory requirements at the end of 2012, up from \$678 million in 2011 and is well positioned to transition to APRA's new capital standards as outlined in the CEO's report on page 6. We also had no group recourse debt outstanding and a net cash balance of \$94 million.

Dividends have been steadily increasing since 2008. The final dividend for 2012 was 10.5 cents per share, bringing the total 2012 dividend to 18.0 cents per share, a 9% increase on 2011. The normalised dividend payout ratio was 31%, which is in line with our targeted dividend payout ratio of around 30% of normalised earnings.

Challenger aims to minimise our impact on the environment by raising awareness with our people, employing technologies that minimise our use of resources and occupying sustainable places of work.

In 2012, Challenger was recognised as a member of the FTSE4Good Index. The FTSE4Good Index has been designed to measure the performance of environmental, social and governance (ESG) practices of companies. The FTSE4Good Index includes companies that have met or exceeded globally recognised ESG standards. It is a valuable tool for fund managers, investment banks, stock exchanges and brokers when assessing or creating responsible investment products.

Challenger has also committed, through a partnership with Climate Friendly, to further reduce our carbon footprint by offsetting 100% of our power usage from our head office in Sydney. Challenger will invest in environmental projects with total carbon emission reductions equal to the annual carbon produced through our energy consumption. This will lead to a reduction of approximately 1,100 tonnes of carbon annually.



FTSE4Good

Blair Beaton

Head of Strategy and Mergers and Acquisitions

The Head of Strategy and Mergers and Acquisitions (M&A) reports directly to the Chief Executive Officer, reflecting the fundamentally important role that strategy plays in our decision making.

The team works closely with the Chief Executive Officer and the Board in establishing the strategic direction for our business over the medium and long term, including our retirement incomes strategy and Challenger's long-term vision to provide Australians with financial security in retirement.

The Strategy and M&A team has also been responsible for some of the key transactions to position Challenger as a leader in retirement incomes, including the acquisition of annuity books from MetLife and AXA, the sale of Mortgage Management and Financial Planning operations, and the establishment of Fidante Partners. In 2012, the Strategy and M&A team played a key role in the acquisition of our eleventh boutique fund manager, MIR Investment Management.



Andrew Tobin and Blair Beaton

Chief Financial Officer and Head of Strategy and M&A

Risk and Human Resources

Richard Willis

Chief Risk Officer

The Chief Risk Officer is accountable for the implementation of Challenger's Risk Management Framework, which covers all categories of risks. Individual businesses are well versed and responsible for understanding and managing their risks. The Risk Management Framework ensures all risks are managed and reported across the organisation and remain within the Board's risk appetite. The Board's Risk Appetite Statement outlines the level of risk that is acceptable in seeking to achieve Challenger's strategic goals and financial objectives. This has a direct impact on culture within the organisation and provides clearly articulated boundaries on acceptable risk-taking activities across the Company.

The Chief Risk Officer role was created in 2011 and reports directly to the Chief Executive Officer and has independent interaction with the Board. The creation of the Chief Risk Officer role is a reflection of the importance placed on risk management by Challenger as we have a strong risk management culture with compliance obligations a key focus for all employees. Challenger has continued to evolve its Risk Management Framework in 2012 and has reviewed and benchmarked its framework to ensure it remains best practice.

The Chief Risk Officer is also responsible for oversight of regulatory engagement, including APRA and ASIC. There has been a high level of engagement with APRA during its Life and General Insurance Capital (LAGIC) project. The LAGIC project is well progressed and we expect new prudential capital standards for life and general insurers to be issued toward the end of 2012 and become effective from 1 January 2013.

As part of LAGIC, APRA will require life insurers to develop and maintain a rigorous and well documented Internal Capital Adequacy Assessment Process (ICAAP), with the Board of Directors required to have oversight of the ICAAP. Challenger's risk management framework will incorporate APRA's ICAAP requirements.

Angela Murphy

Executive General Manager, Human Resources

During 2012, the Executive General Manager, Human Resources, Jennifer Wheatley, took parental leave and Angela Murphy assumed the role of Executive General Manager, Human Resources for the period of Jennifer's leave.

During the year, Challenger undertook an employee engagement survey to gain a better understanding of what employees value most about working at Challenger. The 'Your Voice' survey was administered by Aon Hewitt and allowed employees to provide honest and confidential feedback on how they feel about their work, the work environment and their experiences at Challenger. Challenger's employee engagement was above the financial services benchmark and within Aon Hewitt's high performance range. Based on Aon Hewitt research, companies with employee engagement in this range consistently deliver better business outcomes.

Given the importance Challenger places on our Principles, one of the highlights of the survey outcomes was that 82% of employees indicated their personal values match the Challenger Principles. Challenger Principles are listed on page 24 of this report. The survey outcomes informed human resource planning and areas of focus.

During the year, a number of people programs and initiatives were implemented, including:

- Diversity@Challenger – an initiative to raise awareness of and provide external perspectives on challenges and potential solutions related to workplace diversity;
- Mentoring@Challenger – in its third year, the mentoring program has been extended and provides selected employees with the opportunity to learn from senior managers within Challenger; and
- Managing@Challenger – focusing on manager skills such as recruitment, performance management and developing, motivating and leading teams.

Challenger continues to invest in the development of senior leaders through our Leadership Perspectives Program, which was developed in conjunction with the Australian Graduate School of Management (AGSM). The broad theme of 'applying leadership perspectives for better business outcomes' is central to this program. Based on the program's success, an abridged version will be rolled out to the next level of leaders in the 2013 financial year.

Internal communication is another area of ongoing focus to ensure employees feel connected to what is happening across the business and understand their role in achieving our business imperatives.

Challenger is committed to making a positive and meaningful contribution to the community. Challenger operates a Community Giving Program allowing employees to make regular or one-time pre-tax salary donations to one of our community partners, with contributions matched by Challenger up to \$500 per employee per year. Challenger's community partners include Alzheimer's Australia, Barnardos, Bear Cottage, Beyondblue, National Seniors Foundation Trust and Meals on Wheels. During the year, Challenger shareholders were also invited to support our community partners by donating some or all of their dividends through our dividend donation program.



Angela Murphy and Richard Willis

Executive General Manager, Human Resources
and Chief Risk Officer



Directors' report

Corporate governance	17
Sustainability	24
Directors' report	28
1. Directors	28
2. Company secretary	30
3. Principal activities and changes in the state of affairs	30
4. Operating and financial review	30
5. Dividends	34
6. Likely developments and expected results	34
7. Significant events after the balance date	35
8. Indemnification and insurance of officers and Directors	35
9. Environmental regulation and performance	35
10. Remuneration report	36
10.1 Overview	37
10.2 Remuneration governance structure	40
10.3 Remuneration strategy	41
10.4 2012 remuneration snapshot	42
10.5 Key Management Personnel (KMP)	44
10.6 KMP remuneration principles	44
10.7 Other remuneration arrangements	48
10.8 2012 performance outcomes	50
10.9 2012 remuneration tables	51
10.10 2012 STI and LTI awards	54
10.11 Contractual arrangements – CEO	55
10.12 Legacy award plans	56
10.13 Non-Executive Directors (NED) disclosures	56
10.14 Shareholder questions and answers	57
11. Rounding	58
12. Auditor's independence declaration	59
13. Authorisation	59

Corporate governance

The Company's approach to corporate governance

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

The Board of Directors of the Company (the Board) determines the most appropriate corporate governance arrangements for the Company and its controlled entities (the Group or Challenger), taking into consideration Australian and international standards and the prudential requirements of regulators such as the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC). This statement reflects the Company's corporate governance arrangements as at the date of signing this report.

This statement reports against the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations' as amended in 2010.

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

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

Principle 1 – Lay solid foundations for management and oversight

The role of the Board and delegations

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

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

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

The Board has established Committees to assist in carrying out its responsibilities and to consider certain issues and functions in detail. The Board Committees are discussed in Principle 2 below.

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

Management responsibility

The Board has delegated to the CEO the authority and powers necessary to implement the strategies approved by the Board and to manage the business affairs of the Company within the policies and specific delegation limits specified by the Board from time to time. The CEO may further delegate within those specific policies and delegation limits, but remains accountable for all authority delegated to management.

Corporate governance

Executive performance assessment

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

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

Performance evaluations for the CEO and senior executives have taken place in respect of the 2012 reporting period in accordance with the above process.

Principle 2 – Structure the Board to add value

Membership of the Board

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

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

The Company's constitution provides for a minimum of three Directors and a maximum of 12 Directors. The table below summarises the composition of the Board as at 30 June 2012. Background details of each Director are set out on page 28.

Name	Position	Independent	Appointed
Peter Polson	Chairman	Yes	2003
Brian Benari	Managing Director and CEO	No	2012
Graham Cubbin	Non-Executive Director	Yes	2004
Jonathan Grunzweig	Non-Executive Director	Yes	2010
Russell Hooper	Non-Executive Director	Yes	2003
Brenda Shanahan	Non-Executive Director	Yes	2011
Leon Zwier	Non-Executive Director	Yes	2006

The Chairman is selected by Non-Executive Directors of the Board. The roles of Chairman and Chief Executive Officer (CEO) are not held by the same person.

Brian Benari replaced Dominic Stevens as Managing Director and Chief Executive Officer on 17 February 2012.

Nominations and appointment of new Directors

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

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

The Nomination Committee conducts periodic assessments of the Board's competencies. This assists the Nomination Committee in determining the appropriate composition of the Board and to consider the desirable depth and range of skills and diversity required for any new Board members. The Nomination Committee will draw on industry contacts and, where appropriate, will engage external consultants to assist with the identification and selection of a diverse range of candidates which meet the Nomination Committee's desired competencies. The Nomination Committee will also have regard to such criteria as independence, outstanding commercial capability, cultural fit and time availability to meet the commitment required.

The Nomination Committee makes an assessment of potential new Directors on the above criteria and makes recommendations to the Board for consideration and approval.

Retirement and re-election of Directors

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

Succession planning

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

Review of Board performance

The Board Charter sets out the requirement for a formal review of the Board's performance at least annually. A review of the Board's performance was conducted in June 2012.

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

Director independence

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

The Board regularly considers and assesses the independence of each Director in light of the interests and information that Directors disclose. In accordance with the *Corporations Act 2001*, Directors are required to advise the Company of any material personal interests they have in a matter.

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

1. Is a substantial shareholder (as defined by section 9 of the *Corporations Act 2001*) of the Company, or is a Director or officer of, or otherwise associated directly with, a substantial shareholder of the Company;
2. Is employed, or has previously been employed, in an executive capacity by the Company or the Group, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
3. Has, within the last three years, been a principal of a material professional adviser or a material consultant to the Company or the Group, or an employee materially associated with the service provided;
4. Is a material supplier or customer of the Company or the Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
5. Has a material contractual relationship with the Company or the Group other than as a Director.

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

Determination of materiality in assessing independence

The materiality of a relationship is assessed on a case-by-case basis after having regard to each Director's individual circumstances. The Board has a majority of independent Directors.

Conflicts of interest

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

Meetings of the Board

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

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

Corporate governance

Board access to information and advice

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

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

Board Committees

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

- the Group Risk and Audit Committee (GRAC);
- the Remuneration Committee (RemCo); and
- the Nomination Committee (NomCo).

Each Committee has its own Charter, copies of which are available on the Company's website. The Charters specify the composition, responsibilities, duties, reporting obligations, meeting arrangements, authority and resources available to the Committees and the provisions for review of the Charter. Details of Directors' membership of each Committee and their attendance at meetings throughout the period from 1 July 2011 to 30 June 2012 are set out below.

Directors' meetings

Director	Board		Group Risk and Audit Committee		Remuneration Committee		Nomination Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
P Polson	10	10	4	4	8	8	2	2
B Benari ¹	3	3	–	–	–	–	–	–
D Stevens ¹	6	6	–	–	–	–	–	–
G Cubbin	10	10	4	4	8	8	2	1
J Grunzweig	10	10	–	–	–	–	2	2
R Hooper	10	10	4	4	8	8	2	2
B Shanahan	10	10	2	2	–	–	2	2
L Zwier	10	8	–	–	–	–	2	2

¹ Mr Benari replaced Mr Stevens as Managing Director and CEO on 17 February 2012.

Principle 3 – Promote ethical and responsible decision-making

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

- Commercial Ownership;
- Compliance;
- Creative Customer Solutions;
- Working Together; and
- Integrity.

Code of Conduct

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

Political donations policy

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

Directors' and staff trading policy

The Board has approved Challenger's Staff Trading Policy which prescribes the manner in which Directors and staff can trade in the Company's shares. A copy of the policy is available on the Company's website.

Objectives for achieving gender diversity

The Board is committed to promoting a corporate culture that embraces diversity across the organisation. The Board has adopted a Diversity Policy, available on the Company's website, that has measurable objectives for achieving gender diversity. The Nomination Committee is responsible for the regular review of and reporting on the relative proportion of women employed at all levels of the Company and the regular review of and reporting on the measurable objectives set on an annual basis pursuant to the Diversity Policy. The current objectives and progress towards achieving them, and the details of the proportion of women employed at all levels of the organisation are discussed in detail in the Sustainability section on page 24.

Principle 4 – Safeguard integrity in financial reporting

Integrity of financial reporting

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

The background details of the Group Risk and Audit Committee members are described in the Directors' report. The Committee typically meets four times a year, and additional meetings are scheduled as required. The members' names and attendance at meetings are set out on page 20 of this report.

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

Declaration by the Chief Executive Officer and the Chief Financial Officer

The CEO and CFO periodically provide formal assurance statements to the Board that:

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

Independent external audit

The Company requires its independent external auditor to:

- provide stakeholders with assurance as to whether the Group's financial reports are true and fair; and
- ensure Group accounting policies comply with applicable accounting standards and guidance.

The Company's independent external auditor is Ernst & Young (E&Y). E&Y was appointed upon constitution of the Company in November 2003, and this appointment was ratified by members at the annual general meeting held in November 2004.

External auditors are required to rotate the engagement partner assigned to the Company on a five-year basis. Under this policy, the lead audit engagement partner assigned to the Company will be rotated at the conclusion of the 2012 financial reporting period.

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

Principle 5 – Make timely and balanced disclosure

Continuous Disclosure Policy

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

Corporate governance

The Board has approved and implemented a Continuous Disclosure Policy. A copy of the policy can be found on the Company's website. The policy is designed to ensure compliance with the *Corporations Act 2001* and **ASX Listing Rules** continuous disclosure requirements. The Company has a Continuous Disclosure Committee which is responsible for:

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

Principle 6 – Respect the rights of shareholders

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

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

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

Internet web-casting and teleconferencing facilities are provided for market briefings to encourage participation from all stakeholders, regardless of their location. The Company also encourages greater use of electronic media by providing shareholders with greater access to the electronic receipt of reports and meeting notices.

The Company also provides a facility to ask questions about the Company and have them answered directly via electronic means.

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

Principle 7 – Recognise and manage risk

Risk management and compliance

The management of risks is fundamental to the Group's business and to building shareholder value. The Board recognises the broad range of risks that apply to the Group as a participant in the financial services industry, including, but not limited to, funding and liquidity risk, investment and pricing risk, counterparty risk, strategic, business and reputational risk, operational risk, licence and regulatory risk. The Board is responsible for determining the Group's risk management strategy and appetite. Management is responsible for implementing the Board's strategy and for developing policies and procedures to identify, manage and mitigate risks across the whole of the Group's operations in line with risk appetite.

The key design component of the Group's approach to risk management is that the heads of the business units have accountability for the risks within their divisions, with oversight, analysis, monitoring and reporting of these risks by the Executive Risk Management Committee (ERMC) chaired by the Chief Risk Officer (CRO). The CRO is independent of the business units and responsible to the CEO and the Board and its Committees.

The framework and policies are developed by the CRO, reviewed and approved by the Group Risk and Audit Committee (GRAC), and then made available to all staff of the Group. The Group's risk management function has day-to-day responsibility for monitoring the implementation of the framework and policy, with regular reporting provided to the GRAC, via the ERMC, on the adequacy and effectiveness of management controls for material business risk.

The GRAC reports to the Board on the effectiveness of the framework, internal controls and policies, with a detailed review undertaken on an annual basis. A summary of Challenger's risk management framework can be found on the Company's website.

Internal audit

Internal audit services for the Group were provided by KPMG during the period. The GRAC oversees the scope of internal audit and monitors the progress of the internal audit work program. The GRAC receives reports from internal audit at each meeting and monitors management's responsiveness to internal audit findings and recommendations. The internal audit function is independent of the external auditor. The internal audit function reports directly to the GRAC.

Assurance

In respect of the financial report for the year ended 30 June 2012, the Board has received formal assurance from the CEO and the CFO that:

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

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

Principle 8 – Remunerate fairly and responsibly

The Board Remuneration Committee (RemCo)

The Board has established a RemCo comprised of a majority of independent Directors, having at least three members and chaired by an independent Director.

The background details of the RemCo members are set out in the Directors' report. RemCo usually meets at least four times during the year, and additional meetings are scheduled as required. The members' names and attendance at meetings are set out in Principle 2 of the corporate governance statement.

RemCo is responsible for reviewing and recommending to the Board on:

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

Remuneration

The remuneration details for key executives and Non-Executive Directors are reported in the remuneration report. Non-Executive Directors are not entitled to participate in incentive plans.

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

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

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

Sustainability

Sustainability commitment

Challenger fosters a strong culture of compliance, with a focus on ethics and corporate governance. Our people are critical to our success and it is therefore incumbent on us to foster and promote a work environment where diversity is embraced, people are recruited and promoted on their merits irrespective of gender, and treat each other with mutual respect and dignity.

Our technology and practices enable us to proactively minimise our carbon footprint, and we regard environmental, corporate governance and social issues as important considerations when making investment decisions.

Employee engagement

In the second half of 2011, Challenger conducted an employee survey to gain a better understanding of what employees value most about working at Challenger. The **Your Voice** survey provided all employees with the opportunity to give honest and confidential feedback on how they feel about their role, Challenger's work environment and their experiences working at Challenger. The survey was administered by Aon Hewitt and was designed to help us understand our strengths as an organisation, as well as ways in which we can enhance our culture and working environment.

Challenger's engagement score fell within Aon Hewitt's High Performance range and significantly ahead of the Australian Financial Services benchmark. Aon Hewitt's research indicates that organisations with engagement scores in the High Performance range consistently deliver better business results.

Based on the survey outcomes, Challenger's strengths include:

- the sense of accomplishment our people derive from their work, including the degree of challenge, sense of progress and level of autonomy they have in their roles; and
- the level of collaboration resulting from the very effective teamwork that occurs across different business units.

The survey also provided direction on the areas in which we should focus to enhance employee engagement, including:

- building career development opportunities;
- upskilling and supporting managers to grow the capability of their teams; and
- enhancing our internal communications.

Initiatives are already underway to achieve these objectives, and we are planning to complete another survey in financial year 2013 to provide us with information on our progress in these important areas.

Challenger Principles

We recognise that our people, and what they do on a daily basis, set the culture at Challenger. We have five core principles that are linked to everything we do. These principles are:

- Commercial Ownership – achieving the best for the client, the business and employees;
- Compliance – being responsible for how and what we do;
- Creative Customer Solutions – superior customer service and providing innovative solutions to clients;
- Working Together – true collaboration and embracing diversity; and
- Integrity – being authentic and being accountable for what we say and do.

These core principles are emphasised on commencement at Challenger to ensure our people understand them and how they guide the way in which we work. Through a behavioural assessment, the principles also form part of employee performance and reward reviews. In this way we promote the importance of not just achieving our goals, but the way in which we achieve them.

In the 2011 **Your Voice** engagement survey, 82% of Challenger employees indicated their personal values matched the Challenger principles.

Whistleblower policy

We strongly encourage Challenger employees to act on any concerns. Integrity is a key Challenger principle and we actively foster an open culture where issues can be raised and addressed. All policies at Challenger include a whistleblower provision and clear instructions on how staff can raise concerns in a confidential and non-threatening manner.

Diversity

Challenger values the skills and values that a wide variety of people bring to the organisation. Having a range of diverse employees better enables us to deliver quality products and services to our clients and strengthens organisational capability through increased morale, motivation and engagement. Challenger is committed to ensuring not only compliance with equal

opportunity legislation and practice, but also a deeper commitment to the principles of diversity. In that way, we will best be able to provide an environment that allows our people to maximise their potential.

The Challenger executive team is accountable for promoting and fostering an environment where there is equal access to opportunities and growth. It is also the responsibility of all employees to treat people with fairness and respect. These expectations are captured in Challenger's Principles of 'Working Together' and 'Integrity' and are reinforced through the annual performance assessment process.

In August 2011, the Board endorsed a formal diversity policy, providing Board oversight of Challenger's commitment that employees at all levels are treated fairly, equally and with respect when employment and career decisions are made. At the same time, the Board confirmed a prior commitment to measurable objectives for achieving diversity at all levels of Challenger. For the 2012 financial year, these included:

- establish a networking or education series to raise awareness of diversity related workplace issues and provide opportunities for diverse participants to network with and learn from each other;
- introduce an initiative to 'keep in touch' with employees on extended leave (particularly women on parental leave) with the aim of improving the return to work experience;
- continue to identify, and promote the development of, talented women; and
- increase the visibility of gender diversity across the organisation through increased reporting.

In satisfaction of these objectives, the following initiatives were implemented and/or outcomes achieved across the year:

- diversity awareness: An internal networking group, entitled Diversity@Challenger, was established to offer participants exposure to external and internal speakers, predominantly from within the finance sector. Speakers are asked to present on relevant business and personal development topics and, in particular, how they have experienced and responded to diversity at work.
- keep in touch: A survey was conducted of female employees returning from parental leave to understand any challenges these women face. The survey was introduced to better inform a planned repatriation program for employees returning from extended leave.
- promoting development of talented women: A number of women were identified as having the potential to become senior leaders. Development for these women was monitored and sponsored by a senior executive.
- measuring and reporting diversity: For the major people related processes of performance management, remuneration, employee engagement and talent and succession management, outcomes were reviewed for different employee groups. Category analysis included gender, work pattern (full time versus part time), employment tenure and age. The executive team and the Board also review progress monthly of the representation of women in the organisation and management.

Board diversity

The Board has a policy on Board Renewal as detailed earlier in the corporate governance report.

Gender diversity outcomes

Based on numerous research findings, both within Australia and across the world, the Challenger Board and leadership team acknowledge that progress on gender diversity will require continued effort over a sustained period. Considerable effort and focus is being given to a range of diversity initiatives, and gender diversity outcomes are monitored, in terms of proportional representation of women across the organisation and in management, by the Board on a monthly basis.

In 2012, we successfully increased the proportion of female employees occupying management and leadership positions at Challenger. However, our efforts are focused on ensuring the broader environment, and our people related processes, support diversity, rather than achieving set quotas or targets.

Role	2012		2011		Net movement	
	By number	By percentage	By number	By percentage	By number	By percentage
Board	1	14%	1	14%	0	0%
Senior management	14	29%	10	26%	4	3%
Management	30	29%	21	22%	9	7%
Non-management	148	45%	148	46%	0	(1%)

Figures provided are as at the end of the reporting period.

Sustainability

Leadership

We have continued to invest in the development of our senior leaders through our **Leadership Perspectives Program**, which was developed in conjunction with the Australian Graduate School of Management. All senior members have now completed this program, which focuses on the core leadership capabilities reflected in our leadership framework:

- THINK – both strategically and analytically;
- BUILD – through innovation and execution; and
- BOND – through people engagement and collaboration.

The program has been successful in supporting individual leadership development as well as building Challenger's leadership bench strength. In recognition of the important role our new and aspiring leaders play, we also launched a ten part Managing@Challenger education series in early 2012, which focuses on manager skills such as recruitment, performance management and developing, motivating and leading teams.

The average employee engagement score for employees who had participated in the **Leadership Perspectives Program** was significantly higher than the score of non-participants.

Mentoring

The **Challenger Mentoring Program**, now in its third year, provides selected employees with the opportunity to learn from senior managers within Challenger, and thereby assist them to develop new skills and knowledge to apply to their role or career and support them in their professional development. The program also provides a development opportunity for mentors, by building on the capability of senior managers.

Feedback from both mentees and mentors has been extremely positive, and the program will continue as a core element of our ongoing investment in people development.

The average employee engagement score for employees who had participated in the **Mentoring Program** (either as a mentor or as a mentee) was also significantly higher than the score of non-participants.

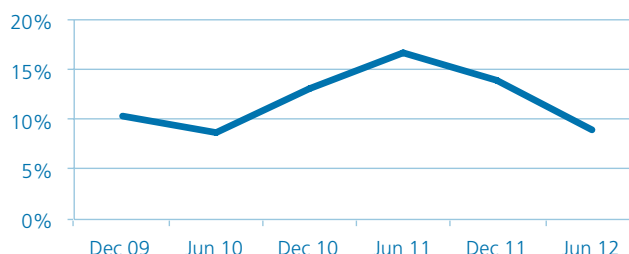
Absenteeism and turnover

Challenger is committed to supporting a highly engaged workplace and monitors employee turnover and absenteeism on a monthly basis.

Voluntary turnover has decreased from 16% to 8.9% based on a twelve month rolling average.

Absenteeism has increased slightly to 3 days per person, with sick leave at 2.5 days per person annually.

**Challenger voluntary turnover
(rolling yearly average)**



Supporting family and other personal commitments

Challenger recognises that there are times when a balance is needed between work and external responsibilities. To support our people with these commitments, Challenger offers a range of flexible work opportunities including changes in hours of work, work patterns and work location. Those employees who are new parents are also supported through our parental leave policy, with primary care givers receiving the benefit of 12 weeks' pay during a period of parental leave. The policy also provides for two weeks of paid leave for secondary care givers.

Community giving

We contribute to the growth and sustainability of the communities in which we operate. Our community partners include a range of charities which cover a broad demographic of Australians, namely Alzheimer's Australia, Barnardos, Bear Cottage, beyondblue and National Seniors Foundation Trust.

Through Challenger's Community Giving Program, employees can make regular donations to one of our community partners through their pre-tax salary. These contributions are then matched by the Company, up to \$500 per employee per year. However, supporting these very worthwhile organisations requires more than just a financial contribution. Challenger also provides paid volunteer leave and actively encourages employees to give their time and skills to help our community partners or another charity of their choice.

Challenger's shareholders are also invited to support our community partners by donating some or all of their dividends through its dividend donation program.

Environment

Property environmental performance

Challenger aims to minimise our impact on the environment by raising awareness with our people, employing technologies that minimise our use of resources and occupying sustainable places of work. When leasing premises, we seek accommodation in buildings which are National Australian Built Environment Rating System (NABERS) energy-accredited to a rating of 3.5 stars or higher. We also seek to maximise the NABERS energy accreditation of our tenancies.

Our workspace at 255 Pitt Street, Sydney has an occupancy NABERS rating of 3.5 stars and was designed for sustainable business practices and includes technology such as:

- energy-efficient and computer-controlled lighting;
- time-controlled room heating, ventilation and air-conditioning;
- recycling facilities;
- multi-function devices utilising destination print; and
- LCD monitors.

Waste management

Recent changes to our waste management system have seen a significant reduction in the volume of waste sent to landfill. On an annualised basis, the reduction is equivalent to 2,800 tonnes of greenhouse gas emissions. The new waste system includes separated recyclable, non-recyclable and compostable green waste at desks, common kitchens and the on-site commercial café.

Our carbon impact

For the 2013 financial year, Challenger has committed, through partnership with Climate Friendly, to further reducing our carbon footprint by offsetting 100% of our power usage. Challenger will invest in environmental projects with total carbon emission reductions equal to the annual carbon produced through our energy consumption. This will lead to a reduction of approximately 1,100 tonnes of carbon.

Market recognition of sustainability achievements

In 2012 Challenger was recognised as a member of the FTSE4Good Index. The FTSE4Good Index has been designed to measure the performance of environmental, social and governance (ESG) practices of companies. The FTSE4Good Index includes companies that have met or exceed globally recognised ESG standards. It is a valuable tool for fund managers, investment banks, stock exchanges and brokers when assessing or creating responsible investment products.

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 or Challenger), for the year ended 30 June 2012.

1. Directors

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

Peter L Polson

Independent Chairman

Experience/qualifications

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

Mr Polson retired from the Commonwealth Bank in October 2002, where he had held the position of Group Executive, Investment and Insurance Services. Mr Polson joined the Colonial group in 1994, where he became Chief Executive of Colonial First State Limited, which was subsequently acquired by the Commonwealth Bank. Previously, Mr Polson was Managing Director of National Mutual Funds Management (International) Limited. Mr Polson has been a Director of the Company since 6 November 2003.

Special responsibilities

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

Directorships of other listed companies

Mr Polson was Chairman of Customers Limited (appointed as a director on 23 November 2010) and ceased to be Chairman and director on 4 July 2012 when the company was acquired by DirectCash Payments Inc. Mr Polson was previously the Chairman of AWB Limited (appointed 31 March 2003) and ceased to be Chairman and director on 3 December 2010 following the acquisition of AWB Limited by Agrium Inc.

Brian R Benari

Managing Director and Chief Executive Officer (appointed 17 February 2012)

Experience/qualifications

Mr Benari commenced in the role of Managing Director and Chief Executive Officer on 17 February 2012, having previously been Challenger's Group CFO/Group COO for over three years. Mr Benari joined Challenger in March 2003, he established and was founding Chief Executive of Challenger's Mortgage Management (CMM) division. In this role he oversaw the development of the business to include residential and commercial mortgage lending arms, as well as acquiring three of the four largest mortgage distribution broker platform businesses in Australia. Over a period of five years, CMM grew its mortgage lending assets to in excess of \$23 billion and was Australia's largest independent mortgage lender. Through its platforms, the business managed over \$110 billion of mortgages under administration. The business was sold in 2009 to the National Australia Bank.

Having originally qualified as a chartered accountant, Mr Benari joined Challenger with many years of finance industry experience, both offshore and onshore. He has held senior executive roles with institutions including JP Morgan, Bankers Trust, Macquarie Bank and Zurich Capital Markets.

Directorships of other listed companies

Mr Benari was a director of Homeloans Limited from 3 May 2007 until 17 February 2012.

Graham A Cubbin

Non-Executive Director

Independent

Experience/qualifications

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

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

Special responsibilities

Mr Cubbin is Chairman of the Remuneration Committee, and a member of the Group Risk and Audit Committee and the Nomination Committee.

Directorships of other listed companies

Mr Cubbin is a non-executive director of Bell Financial Group Limited (appointed 12 September 2007), STW Communications Group Limited (appointed 20 May 2008), White Energy Company Limited (appointed 17 February 2010) and McPherson's Limited (appointed 28 September 2010).

Jonathan Grunzweig

Non-Executive Director

Independent

Experience/qualifications

Jonathan Grunzweig was appointed as a Director of the Company on 6 October 2010. Mr Grunzweig holds a Bachelor of Arts Degree from Cornell University, USA and a Juris Doctor in Law from Harvard University. Mr Grunzweig is Principal and Chief Investment Officer (CIO) of Colony Capital, LLC. As CIO, Mr Grunzweig oversees the sourcing, structuring, execution and management of all investments and divestments on a global basis. Prior to joining Colony in 1999, Mr Grunzweig was a partner with the law firm of Skadden, Arps, Slate, Meagher & Flom LLP, where he specialised in corporate finance and mergers and acquisitions.

Special responsibilities

Mr Grunzweig is a member of the Nomination Committee.

Russell R Hooper

Non-Executive Director

Independent

Experience/qualifications

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

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

Special responsibilities

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

Directorships of other listed companies

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

Brenda M Shanahan

Non-Executive Director

Independent

Experience/qualifications

Ms Shanahan is a Graduate of Melbourne University in Economics and Commerce and a Fellow of the Australian Institute of Company Directors. Ms Shanahan has a research and institutional background in finance in Australia and overseas economies and equity markets. She has held executive positions in stock broking, investment management and an actuarial firm. Ms Shanahan was appointed as a Director of the Company on 1 April 2011.

Special responsibilities

Ms Shanahan is a member of the Group Risk and Audit Committee and the Nomination Committee.

Directorships of other listed companies

Ms Shanahan is a non-executive director of Clinuvet Pharmaceuticals Limited (appointed 6 February 2007) and of Bell Financial Group Limited (appointed 5 June 2012).

Leon Zwier

Non-Executive Director

Independent

Experience/qualifications

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

Special responsibilities

Mr Zwier is a member of the Nomination Committee.

Directors' report

Dominic J Stevens

Managing Director and Chief Executive Officer (resigned 17 February 2012)

Experience/qualifications

Mr Stevens resigned from the role of Managing Director and Chief Executive Officer on 17 February 2012, a position he had held since September 2008. Mr Stevens joined the Group in September 2003, since which time he primarily held responsibility for overseeing Challenger's capital, risk management and strategy group and was Deputy Managing Director before taking on the role of Managing Director and Chief Executive Officer.

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

From 1987 to 1999 Mr Stevens held a number of senior roles at Bankers Trust. Mr Stevens was a partner of Bankers Trust Company, where he headed the Bankers Trust commodity businesses globally (ex energy). In addition, Mr Stevens was responsible for the derivatives risk management business at Bankers Trust Australia. Mr Stevens was awarded a Bachelor of Commerce (Hons) Finance in 1986 from the University of New South Wales, Sydney, Australia.

Directorships of other listed companies

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

2. Company secretary

Mr Michael Vardanega, B Comm LL.B, is a qualified solicitor and was appointed to the position of General Counsel and Group Company Secretary on 11 March 2011. In this role, he is responsible for the legal and company secretariat teams within Challenger. Since joining Challenger in 2006, he has been extensively involved in the general management of corporate actions, public entity compliance and governance matters for Challenger and its subsidiaries. Prior to joining Challenger, Mr Vardanega was a member of the corporate advisory practice at commercial law firm, Ashurst (formerly Blake Dawson).

Suzanne Koeppenkastrup, B Comm LL.M, was appointed to the position of Company Secretary in October 2006.

Ms Koeppenkastrup is a qualified solicitor and head of the company secretariat team at Challenger. Ms Koeppenkastrup has over 15 years of experience in legal and company secretarial roles in the financial services industry.

3. Principal activities and changes in the state of affairs

The principal activities of Challenger during the year were the provision of financial services. The following operating segments are responsible for delivering Challenger's principal activities:

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.

There have been no significant changes in the nature of these principal activities or state of affairs of Challenger during the year.

4. Operating and financial review

Strong retail sales of annuities and growing funds under management in financial year 2012 have continued to build on the leading retirement income platform that Challenger has developed over the past few years.

Key performance indicators for the year ended 30 June 2012 include:

- Normalised net profit after tax increased 19.7% to \$296.8 million compared to the prior corresponding period.
- Statutory profit after tax for the period attributable to equity holders of \$148.5 million was down 43.2% compared to the prior corresponding period, reflecting fair value impacts on asset values.
- Normalised earnings per share increased 5.8 cents (11.2%) to 57.5 cents per share compared to the prior corresponding period.
- The normalised cost to income ratio is slightly lower at 35.9% reflecting Challenger's scalable business model benefit being partially offset by ongoing business investment.
- Final dividend was 10.5 cents per share, taking the total 2012 dividend to 18.0 cents, up from 16.5 cents in 2011.
- Total Life retail sales were \$1,954 million, representing growth of 34% for the year (excluding the High Yield Fund conversion in 2011).
- Total Funds Management net inflows were \$4,226.0 million, up from \$2,397.0 million in 2011.
- Total assets under management increased by \$5.5 billion to \$33.4 billion.

Challenger's statutory profit attributable to equity holders of \$148.5 million for the year ended 30 June 2012 represents a \$112.9 million, or a 43.2%, decrease compared to \$261.4 million for the year ended 30 June 2011. Whilst Challenger reported strong growth in normalised profit after tax and continued to see an increase in its asset base due to strong annuity inflows in the period, continued global debt and equity market volatility resulted in adverse mark to market impacts on asset values at 30 June 2012, which contributed to the decline in statutory profit.

Normalised profit and investment experience

Challenger 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 Challenger is fundamentally a long-term holder of assets, due to them being held to match the term of Challenger'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 Challenger. The difference between the actual investment gains/losses (both realised and unrealised) and the normalised gains/losses (being Challenger'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 Challenger'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 financial report as part of the **Segment information** note on page 78. 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 Challenger's independent auditor to ensure that the reported results are in accordance with the methodology described in Note 2 to the financial report.

The normalised net profit after tax of \$296.8 million for the year ended 30 June 2012 represents a \$48.8 million, or 19.7%, increase on the \$248.0 million for the year to 30 June 2011. The \$48.8 million increase in normalised profit after tax was supported by an increase in net income of \$33.5 million (6.8%), 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 30 June 2012 for the Funds Management business is significantly higher compared to 30 June 2011, rising \$7.4 billion to \$31.0 billion.

The management view of operating expenses of \$189.2 million for 2012 was 5.0% higher than 2011, with increased spend on distribution, product development and marketing during the period. Income growth, in excess of expense growth, resulted in the cost to income ratio falling to 35.9% in 2012 from 36.5% in 2011.

The investment experience after tax loss of \$148.3 million for the period compares to a loss of \$28.7 million for the year ended 30 June 2011. Global debt and equity markets have been volatile in the period, and falling interest rates have impacted some asset values.

Directors' report

The following tables provide an overview of Challenger's normalised results and components of investment experience:

Management analysis¹

	30 June 2012 \$M	30 June 2011 \$M	30 June Change %
Cash earnings	392.0	355.3	10.3
Normalised capital growth	43.7	45.5	(4.0)
Normalised cash operating earnings	435.7	400.8	8.7
Net fee income	83.0	88.4	(6.1)
Other income	8.8	4.8	83.3
Net income	527.5	494.0	6.8
Operating expenses	(189.2)	(180.2)	5.0
Normalised EBIT	338.3	313.8	7.8
Interest and borrowing costs	(3.3)	(2.7)	22.2
Normalised net profit before tax	335.0	311.1	7.7
Tax on normalised net profit ²	(38.2)	(63.1)	(39.5)
Normalised net profit after tax	296.8	248.0	19.7
Investment experience after tax	(148.3)	(28.7)	416.7
Significant items after tax ³	–	42.1	n/a
Statutory profit attributable to equity holders	148.5	261.4	(43.2)

¹ 'Net income' and 'operating expenses' are internal classifications and are defined in Note 2 **Segment information** in the 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 Challenger. 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 the shareholders of the Company.

² In February 2012, a private binding ruling was received from the Australian Taxation Office (ATO) confirming the application of the Taxation of Financial Arrangements (TOFA) on certain historical transaction elections. This results in a net reduction of tax expense of circa \$30 million for each of the three financial years 2012 to 2014.

³ In May 2011 confirmation was received from the ATO that there were no further matters arising from Challenger's tax treatment of specific items identified in a tax audit of prior years. As a result, a legacy tax provision was released.

Components of investment experience

	30 June 2012 \$M	30 June 2011 \$M
Normalised capital growth¹		
Cash, fixed interest and debt	(23.2)	(19.6)
Infrastructure	22.1	19.7
Property (net of debt)	30.9	30.8
Equity and other investments	13.9	14.6
Total normalised capital growth	43.7	45.5
Actual capital growth²		
Cash, fixed interest and debt	(82.2)	20.4
Infrastructure	31.2	(52.9)
Property (net of debt)	(25.6)	18.8
Equity and other investments	(15.2)	14.8
Total actual capital growth	(91.8)	1.1
Investment experience		
Cash, fixed interest and debt	(59.0)	40.0
Infrastructure	9.1	(72.6)
Property (net of debt)	(56.5)	(12.0)
Equity and other investments	(29.1)	0.2
	(135.5)	(44.4)
Actuarial assumption changes ³	(59.6)	3.4
Investment experience before tax	(195.1)	(41.0)
Tax benefit	46.8	12.3
Investment experience after tax	(148.3)	(28.7)

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 Challenger'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 medium to long-term market growth rates and are reviewed to ensure consistency with prevailing medium to long-term 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 Challenger'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 macroeconomic 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.

Earnings per share (EPS)

As shown in the table below, the normalised basic and diluted EPS figures rose from 2011. Basic EPS increased by 5.8 cents (11.2%) to 57.5 cents per share compared to 51.7 cents per share for the prior period. The 19.7% increase in normalised net profit after tax was offset by 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 34). The repurchase and cancellation of 12.9 million shares during the period as part of the Company's on-market buy-back program partially offset the impacts of the share issue.

The statutory basic and diluted EPS experienced large decreases compared to the prior period as a result of the combination of both a lower statutory profit and the higher number of shares.

	30 June 2012 cents	30 June 2011 cents	Change %
For the year ended			
Basic – normalised	57.5	51.7	11.2
Diluted – normalised	55.7	48.1	15.8
Basic – statutory	28.8	54.5	(47.2)
Diluted – statutory	27.8	50.7	(45.2)

Directors' report

Key events during the period

Life

The Life division achieved record total sales of \$2,658 million for the year compared to \$1,963 million in the year to 30 June 2011. Retail annuity sales were \$1,954 million for the year, representing a 2.7% increase compared to \$1,904 million in the prior year (or \$1,460 million (up 34%) excluding the 2011 High Yield Fund transaction). In addition, there were institutional sales of \$703.5 million compared to \$59 million in the prior corresponding period. The increase in average investment assets of the Life division, from \$7,863 million in 2011 to \$8,963 million in 2012, was driven by the annuity sales noted above. Challenger has continued to invest in product development, marketing and increased distribution capability during the year.

Funds management

The Funds Management division, particularly through Fidante Partners, experienced positive funds flow during the period. Fidante Partners now has \$19.3 billion funds under management (FUM) at 30 June 2012, up from \$14.8 billion at 30 June 2011. Total FUM of the Funds Management division totals \$31.0 billion at 30 June 2012, up from \$23.6 billion at 30 June 2011, representing growth of \$7.4 billion (31.4%) over the year.

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 Challenger to support the ongoing growth of the business given the strong demand for retirement income products.

Corporate – Changes to Key Management Personnel

Brian Benari was formally appointed Managing Director and Chief Executive Officer, succeeding Dominic Stevens, on 17 February 2012. Mr Benari previously held the position of Group Chief Financial Officer/Chief Operating Officer. Andrew Tobin, previously the Deputy Group Chief Financial Officer, was appointed Chief Financial Officer on 17 February 2012.

Capital position

Challenger'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 that shareholders earn an appropriate risk adjusted return. There is \$93.8 million of Group available cash (30 June 2011: \$93.0 million) and the Group corporate debt facilities are undrawn at 30 June 2012 (30 June 2011: undrawn).

Capital reserves above the regulatory minimum in CLC grew from in excess of \$675 million at 30 June 2011 to \$719 million at 30 June 2012, supported by CLC's increased underlying earnings during the period. The Company continued its on-market share buy-back activity during the period. The Company repurchased 12.9 million shares during the year at an average price of \$4.06 per share. From the commencement of the program in July 2008 to the date of this report, a total of 135.8 million shares have been repurchased at an average price of \$3.31 per share.

5. 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 \$40.0 million, unfranked, was paid on 30 March 2012.

On 17 August 2012, the Directors of the Company declared a final dividend on ordinary shares in respect of the year ended 30 June 2012 of 10.5 cents per share. The final dividend is estimated to be \$55.5 million, will be unfranked, is payable on 28 September 2012 and has not been provided for in the 30 June 2012 financial report.

The final unfranked dividend brings the total dividend per security for the 2012 financial year to 18.0 cents (2011: 16.5 cents – unfranked), an increase of 9.1% on the prior year.

6. Likely developments and expected results

The investment management market in which Challenger operates has seen significant structural change and development in the last two years. The retirement income segment, which represents the demographic of 65 years and over, is growing significantly faster than pre-retirement, whilst in the pre-retirement sector the Government has enacted legislation to lift superannuation contributions from 9% to 12% over the next 10 years via the Superannuation Guarantee Charge.

When these changes are combined with an increased focus on risk and return, both at a consumer level and by regulators and government, we see material growth opportunities for our business. Challenger is well placed to participate in the growing Australian retirement income market and the fast developing boutique funds management sector. 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.

7. Significant events after the balance date

On 16 August 2012, Challenger Limited announced that the Australian Prudential Regulation Authority (APRA) advised Challenger Life Company Limited (CLC) transition arrangements for regulatory capital requirements under the Life and General Insurance Capital (LAGIC) review. The new standards are expected to be effective from 1 January 2013. Under transitional arrangements proposed by APRA, it is estimated that the capital impact on CLC's regulatory capital will be between \$110 million and \$125 million per annum for three years, with the first increase effective 1 January 2014.

APRA has advised the following LAGIC transition arrangements with respect to CLC's subordinated debt:

- Existing subordinated debt tranches will continue to be fully eligible as regulatory capital until each instrument's first call date after 1 January 2013 and will then amortise over a minimum five-year period. The largest tranche of CLC's existing subordinated debt will be fully eligible as Tier 2 capital until 2017 and thereafter continue, as a minimum, to be partially eligible until December 2021, noting that this tranche can remain outstanding until its legal maturity in 2037.
- Challenger will also have three years to transition to the minimum requirement that Tier 1 capital represents 80% of regulatory capital with the mechanics of the transition to be finalised.

Final arrangements are subject to continued discussions and confirmation from APRA, which is expected to be received in the fourth quarter of calendar year 2012.

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

8. Indemnification and insurance of officers and Directors

In accordance with its Constitution, and where permitted under relevant legislation or regulation, the Company indemnifies the Directors and officers against all liabilities to another person that may arise from their position as Directors or officers of the Company and its subsidiaries, except where the liability arises out of conduct involving lack of good faith, wilful misconduct, gross negligence, reckless misbehaviour or fraud.

In accordance with the provisions of the *Corporations Act 2001*, the Company has insured the Directors and officers against liabilities incurred in their role as Directors and officers of the Company and its subsidiaries. The terms of the insurance policy, including the premium, are subject to confidentiality clauses and as such the Company is prohibited from disclosing the nature of the liabilities covered and the premium. The Company has not given, nor agreed to give, any indemnity to an auditor of the Group and has not paid any premium for insurance against that auditor's liabilities for legal costs.

9. Environmental regulation and performance

Challenger acts as a trustee or responsible entity for a number of trusts that own assets both in Australia and overseas. These assets are subject to environmental regulations under both Commonwealth and State legislation. The Directors are satisfied that adequate systems are in place for the management of its environmental responsibilities and compliance with various legislative, regulatory and licence requirements. Further, the Directors are not aware of any breaches of these requirements, and to the best of their knowledge all activities have been undertaken in compliance with environmental requirements.

Directors' report – Remuneration report

10. Remuneration report

Letter from the Chairman

Dear Shareholders,

On behalf of your Board, I am very pleased to present Challenger's 2012 remuneration report.

Our underlying business performance remains strong, as demonstrated in our results outlined over the following pages. All key business metrics have been achieved in 2012, including an 11% increase in normalised earnings per share. Statutory profit was \$148.5 million. Statutory profit was impacted by continued global debt and equity volatility resulting in adverse mark to market impacts on asset values during the year. These movements are largely unrealised and are expected to reverse over time.

Business performance has been strong across a broad array of metrics; however, Challenger's share price has recently been negatively impacted by uncertainty surrounding the proposed new Australian Prudential Regulation Authority (APRA) capital standards which are due to be implemented on 1 January 2013.

During 2012, we saw a seamless transition in the role of Managing Director and Chief Executive Officer, with Brian Benari, formerly Group Chief Financial Officer/Chief Operating Officer, stepping into the role following Dominic Stevens' resignation, effective from 17 February 2012.

Your Board recognises that an important and necessary step in formulating our remuneration strategy is to proactively engage with our key shareholders and external stakeholders. Between April and June this year, I consulted extensively with our institutional shareholders, retail shareholder representatives and proxy advisory firms to seek feedback on Challenger's remuneration practices. I personally attended 17 meetings during this period, which provided valuable insights into the various views regarding Challenger's remuneration practices. This engagement process provided an important opportunity to discuss our business performance and Challenger's priorities.

The engagement process, both last year and this year, emphasised the need for consistency of approach and endorsed our practices. Consequently, key components of our 2012 remuneration approach remain unchanged. We have, in addition, extended our remuneration disclosures further, including more detail on performance against non-financial measures.

It is important to note that the quantum of remuneration has fallen for Key Management Personnel (KMP) during the period and in particular realised remuneration, reflecting alignment of outcomes with shareholders.

Your Board will continue to:

- drive appropriate alignment between shareholder and employee value creation;
- demonstrate a clear link between performance and executive remuneration outcomes;
- adopt a rigorous review of executive and employee performance;
- ensure risk management is a key consideration when making remuneration decisions; and
- maintain a focus on the ever changing regulatory environment in which we operate and respond quickly to developments as they emerge.

Thank you for taking the time to review the 2012 remuneration report. Your Board is confident that Challenger's remuneration practices are well designed to best drive outstanding employee and executive performance. It is this performance that is required to execute our business strategy and create sustainable shareholder value.

Yours sincerely



Peter Polson

10.1 Overview

Challenger has adopted a remuneration strategy that aims to attract, retain and motivate employees to ensure delivery of the business strategy. The guiding principles of Challenger's remuneration strategy are to ensure that remuneration is market competitive, performance based and aligned with creating value for shareholders, while taking account of risk.

Executive remuneration includes fixed remuneration, short term incentives (STI) (with 50% typically deferred into Challenger shares) and long term incentives (LTI).

Challenger operates in the Life and Funds Management market and is the leading provider of annuities and alternative retirement income solutions in Australia. Challenger predominately provides long-term guaranteed returns to its customers. In order to manage the risks associated with these guarantees, Challenger has recruited employees with a depth of financial risk management skills typically found in capital markets disciplines.

Challenger performance outcomes

Outlined below is a summary of key Challenger performance metrics.

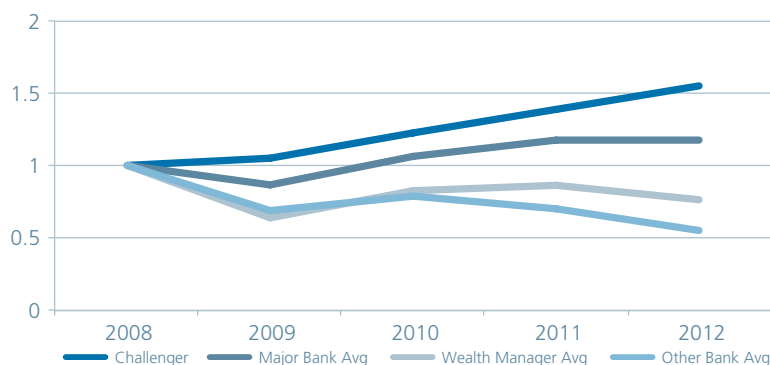
Since 2008, Challenger has increased normalised net profit after tax (NPAT) by 36% from \$218 million to \$297 million in 2012. Normalised EPS has increased by 55% over the same period, from 37.1 cents per share in 2008 to 57.5 cents per share in 2012.

Year ended 30 June	2008	2009	2010	2011	2012
Normalised NPAT (\$m)	218	219	233	248	297
Normalised EPS (cents)	37.1	39.2	45.5	51.7	57.5
Closing share price (\$)	1.89	2.24	3.52	4.89	3.25
Dividends per share (cents)	12.5	12.5	14.5	16.5	18.0

Normalised profit after tax represents the underlying trends in Challenger's business performance. Normalised profit after tax excludes any asset or liability valuation movements that are above or below expected long-term trends and any significant items that may positively or negatively impact the financial results. The principles to determine normalised profit after tax have been consistently applied across both current and prior reporting periods. For more detail on normalised profit after tax, refer to the **Operating and financial review** section of the Directors' report.

Normalised EPS performance versus other financials

(Source: Company data and Bloomberg)



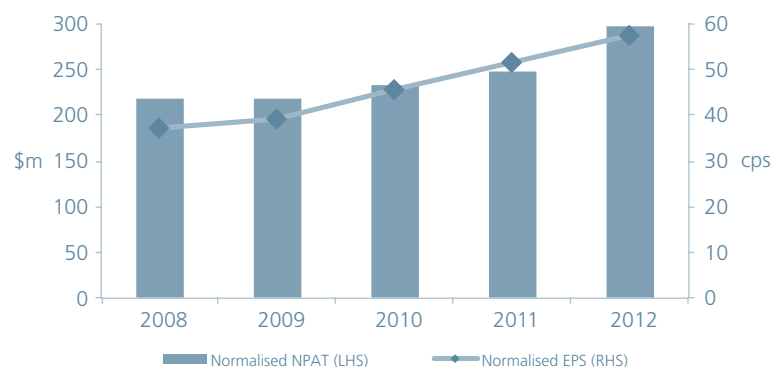
Major Bank Avg – Cash EPS (ANZ, CBA, NAB, WBC); Other Bank Avg – Cash EPS (BEN, BOQ, MQG, SUN)
Wealth Manager Avg – Normalised EPS (AMP, IOOF, PPT)

Significant outperformance in Challenger EPS. Challenger's EPS has increased by 55% since 2008, outperforming the major banks and wealth managers.

Directors' report – Remuneration report

Normalised NPAT and normalised EPS

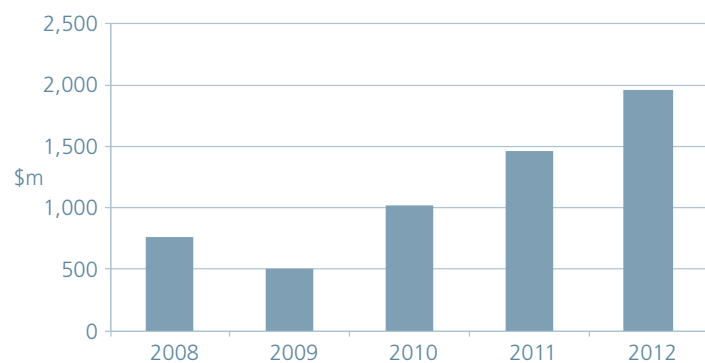
(Source: Company data)



Sustained growth in Challenger normalised NPAT and EPS. Normalised NPAT has increased by 36% and normalised EPS by 55% since 2008.

Growth in Life retail annuity sales

(Source: Company data)

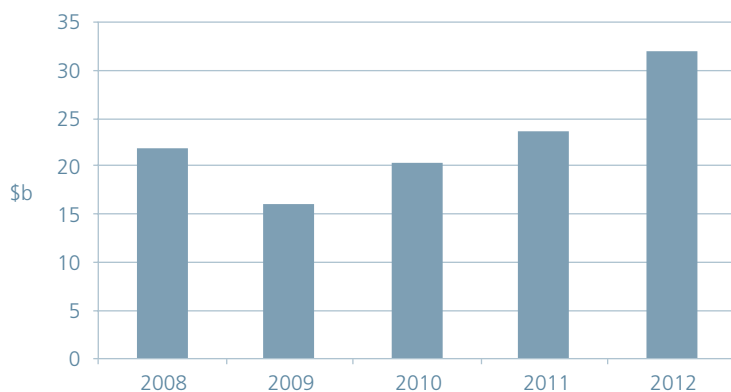


Annuity sales excludes the purchase of the MetLife annuity book (\$1.8b in 2008); the AXA annuity book purchase (\$1.3b in 2009) and the High Yield Fund conversion (\$0.4b in 2011).

Accelerating growth in retail annuity sales. Retail annuity sales have increased by 155% since 2008.

Growth in Funds Management – Funds under Management (FUM)

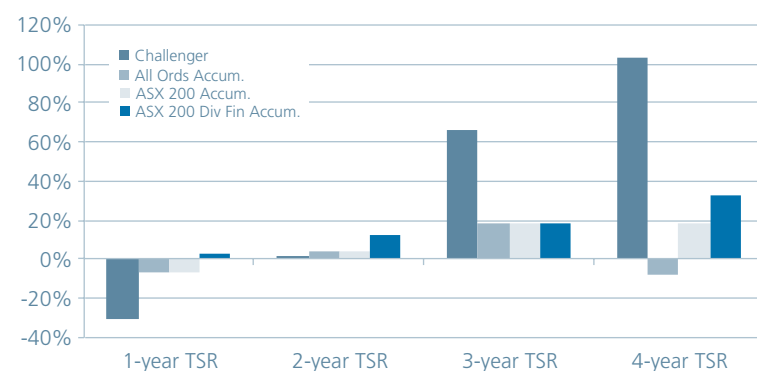
(Source: Company data)



Strong growth in Funds Management FUM. FUM has increased by 41% since 2008.

Total shareholder return (TSR)

(Source: IRESS)



Significant longer-term TSR outperformance. Challenger's TSR increased 66% over three years and 103% over four years.

Challenger remuneration outcomes

To help provide clarity and transparency on remuneration outcomes, Challenger has produced three different remuneration tables (awarded, statutory and realised), which are included on pages 51 to 53 of this report.

The awarded remuneration table for KMP is set out on page 51 and represents the value of remuneration that has been awarded for the annual performance period. This includes fixed remuneration, STI (both cash and deferred) and the awarded value of current year LTI.

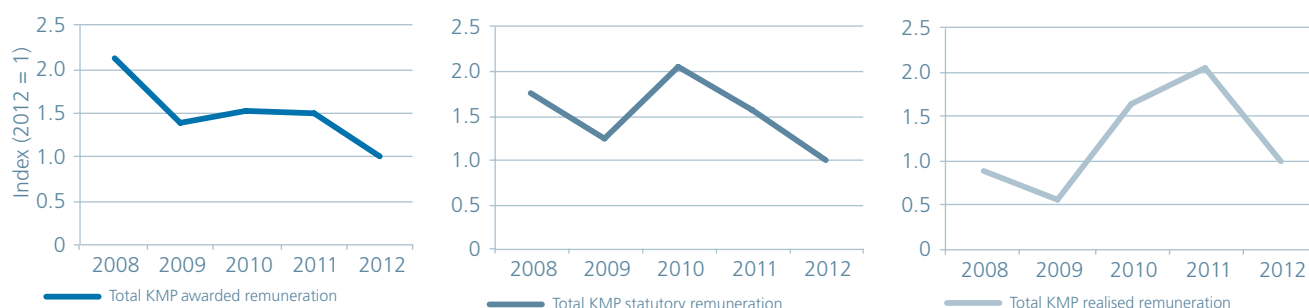
The statutory remuneration table for KMP is set out on page 52 and reflects the accounting expense of KMP remuneration for the financial year. As such, it includes the current period's fixed remuneration and the amortisation expense for prior period STI and LTI remuneration awards. Any change in STI and LTI awarded will give rise to a corresponding change in accounting expense in future periods.

The realised (or cash) remuneration table for KMP is set out on page 53 and reflects the actual benefit realised by KMP during the year. This may be in the form of fixed remuneration, cash STI, and also from vesting of deferred STI and LTI awards issued in prior periods. As a result, realised remuneration may bear little relationship to current year awarded remuneration or current year business performance and is driven by the vesting dates of previous LTI and deferred STI awards and movements in Challenger's share price.

The Board considers remuneration awarded during the year to be the most important of these three metrics.

Challenger has not made any changes to the key components of its remuneration strategy in 2012. As such, 2012 KMP remuneration outcomes have been determined by applying the same remuneration principles as used in 2011.

The 2012 KMP awarded, statutory and realised aggregate remuneration have all decreased from 2011, whilst underlying financial and business performance have continued to strengthen. The charts below are representative of the data contained in the corresponding remuneration tables on pages 51 to 53 of this report.

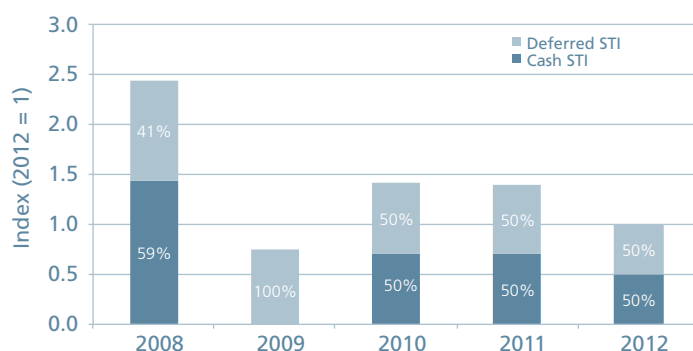


1. Fixed remuneration outcomes

With the exception of changes in role, fixed remuneration for each KMP has not increased since October 2008.

2. STI outcomes awarded

STI awarded to KMP over the past five years are outlined in the chart below.



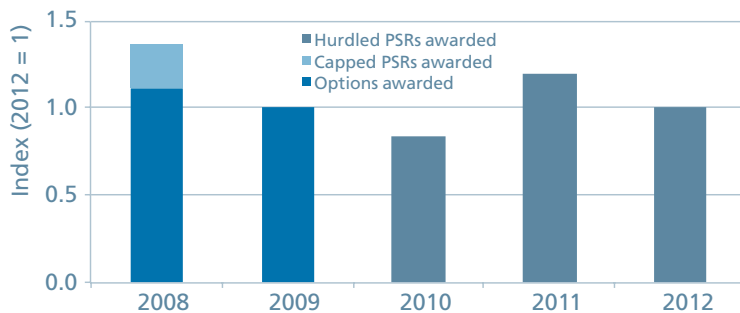
The STI pool has reduced since 2008 following changes in business mix and external market conditions. In setting the STI pool, the Board has continued to use a funding range of between 8% and 12% of normalised profit before bonus and tax (NPBBT).

The Board approved an STI pool of 9% of NPBBT for 2012, with 50% of short term incentives awarded deferred over two years. The Board sets the STI pool on an annual basis, giving consideration to a number of factors, including Challenger's performance across the period and the amount required to meet Challenger's target pay positioning against the external market whilst ensuring an appropriate balance between shareholder returns and KMP and employee rewards.

Directors' report – Remuneration report

3. LTI outcomes awarded

LTI awarded to KMP over the past five years are outlined in the chart below.



The Board has determined an LTI awarded value for the current performance period. The terms and conditions of this LTI award are consistent with the information contained in the table on page 46. Hurdled performance share rights (HPSRs) awarded in 2010 and eligible to commence vesting in September 2012 have not met the required absolute TSR performance hurdle and consequently will not vest in 2012.

10.2 Remuneration governance structure

The Board convenes a Remuneration Committee comprising independent Directors, with at least three members and chaired by an independent Director.

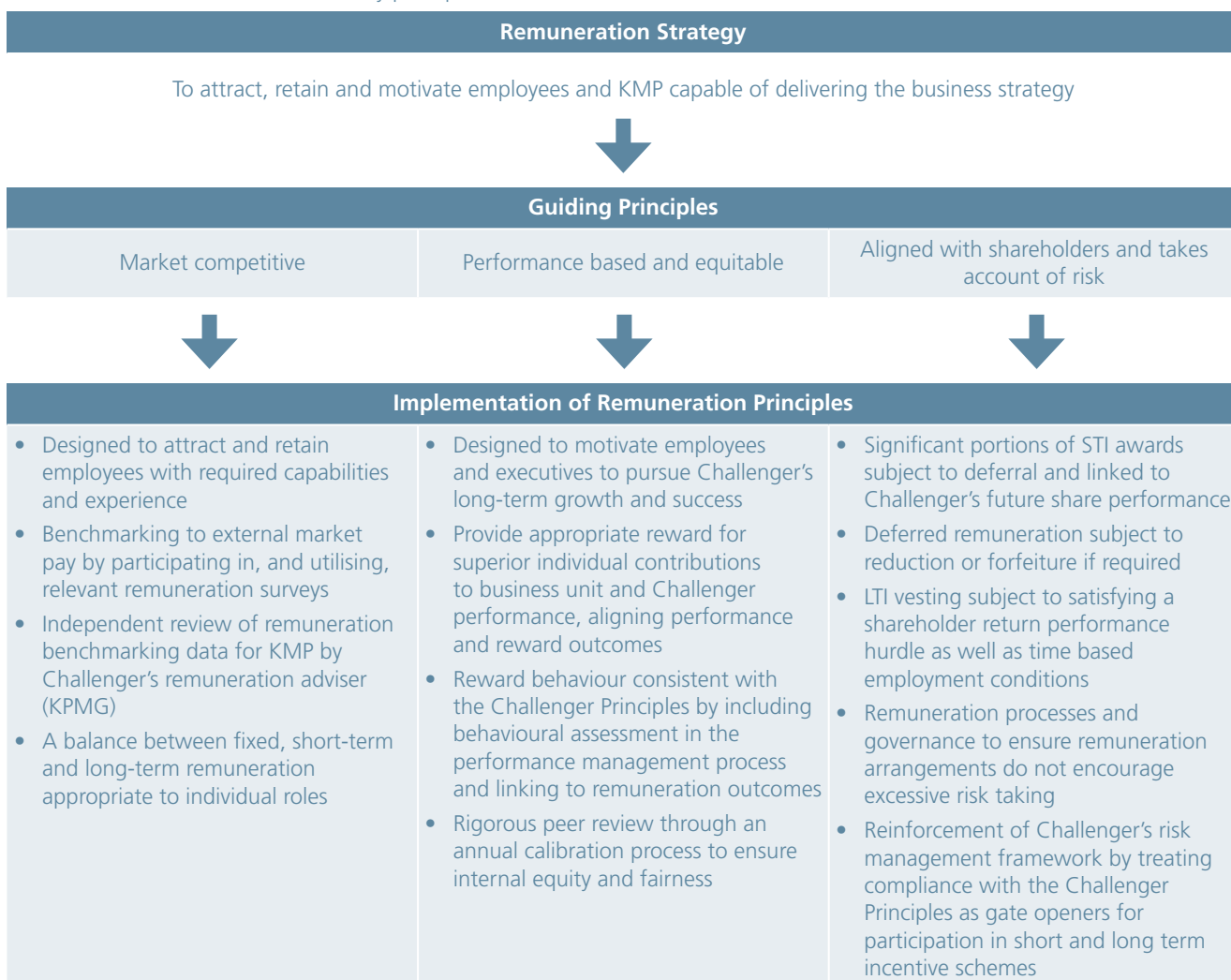
The Committee meets at least four times during the year, with additional meetings scheduled as required. The Committee met eight times during the year ended 30 June 2012.

	Role
Board	- Responsible for approving remuneration principles and structures, ensuring that they are competitive and equitable and that they support the long-term interests of Challenger. - Receives recommendations from the Remuneration Committee and approves these recommendations where appropriate.
Remuneration Committee	To assist the Board in discharging its responsibilities by ensuring that Challenger: - has coherent remuneration policies and practices that attract and retain employees and Directors who will help create value for shareholders; - observes those remuneration policies and practices; - fairly and responsibly rewards employees having regard to the performance of Challenger and employees and the long-term financial soundness to ensure long-term sustainable growth; - complies with the provisions of the ASX Listing Rules, the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, the Corporations Act and, in respect of Challenger Life Company Limited, the principles contained in APRA Prudential Standard CPS 510 (Governance). The Remuneration Committee determines and recommends to the Board for approval: - reward principles and policies including remuneration, recruitment, retention, termination and diversity policies; - CEO and KMP remuneration and incentives; - superannuation and life insurance arrangements; - Directors' remuneration framework.

	Role
Remuneration adviser	During 2012, the Board independently of management renewed its engagement of KPMG to review and advise on Challenger's remuneration arrangements. The engagement of KPMG is based on a set of protocols to be followed by KPMG, the Remuneration Committee and KMP to ensure they could undertake their work independently. The Board is satisfied that KPMG's remuneration recommendations were made free from such undue influence. During 2012, KPMG provided advice regarding the amounts and elements of KMP remuneration and provided recommendations. The consideration payable with respect to the remuneration recommendations was \$78,820 (inclusive of GST). KPMG also provided internal audit, tax, accounting, actuarial and transaction services and general remuneration factual information in addition to the 2012 remuneration advisory arrangements. Fees paid or payable to KPMG of \$1,311,000 (inclusive of GST) for this work are in addition to the above.

10.3 Remuneration strategy

Challenger's Remuneration Committee is responsible for setting Challenger's remuneration policies and strategy. The approach to remuneration is based on several key principles as set out below.



Directors' report – Remuneration report

10.4 2012 remuneration snapshot

The following table provides a summary of the key aspects of Challenger's remuneration arrangements.

	Challenger's approach	More details (page)
Quantum of remuneration	The Board recognises that the 'at risk' components of KMP remuneration are generally higher than those of companies in the ASX 75–125 with similar market capitalisation. This is because the Board looks to draw its executives from the specialist talent pool found in capital markets disciplines which have remuneration structures significantly different to that of the ASX 75-125. The Board's approach and reasons are explained in more detail on page 44. During 2012, the Board reviewed the comparator companies and positions to determine the appropriateness of the remuneration structure for each KMP.	44
Short term incentives (STI)		
Performance measures and how they were assessed	The Board sets objectives for each KMP on the basis of a balanced scorecard. For 2012, objectives were set and agreed with each KMP in July 2011 (see page 46). In August 2012, the Board assessed the performance of each KMP against their scorecard and determined their STI award. Challenger scorecard outcomes are shown in the table on page 50. Each KMP's 2012 STI outcome is shown on page 51.	46, 50, 51
STI pool	The Board continues to use a funding range for the STI pool of between 8% and 12% of NPBBT as outlined on page 45. In determining the size of the STI pool, the Board reviews the Group performance, which includes considering quantitative measures and qualitative factors. The Board approved an STI pool of 9% of NPBBT for the year.	45
Deferral of STI	The Board reserves the right to deliver KMP STI awards as cash, partially deferred or wholly deferred. The deferred proportion is delivered as Performance Share Rights (PSRs) which are subject to forfeiture if the KMP terminates employment. 50% of the STI awarded to KMP in 2012 was paid in cash, and 50% was deferred over two years.	45
Challenger Performance Plan (CPP) Trust distributions	The CPP Trust is an employee share scheme trust established to satisfy Challenger's obligations arising from LTI awards and the deferral of STI. Shares are acquired by the Trust to mitigate dilution and provide a mechanism to hedge the cash cost of acquiring shares in the future to satisfy vested awards. Shares held within the CPP Trust earn income in the form of dividends. Any undistributed income held by the Trust at year end is taxed at the top marginal tax rate (which exceeds the company tax rate) and carries no franking credits. From 2013, the Board will look to hedge by way of a combination of forward purchase agreements and physical shares. This will reduce the number of shares in the Trust, and also reduce distributable income from the Trust. The Trustee may therefore, at its discretion, distribute net income to beneficiaries of the Trust. Any distributions made to participants are taken into account when considering overall remuneration outcomes each year. PSRs received as a result of a deferred STI award receive preference in regard to the distribution of net income from the CPP Trust, on the basis that the incentive has already been earned and is not subject to any hurdle other than remaining an employee of Challenger at the time of vesting. If a distribution is made, each PSR relating to deferred STI receives a maximum amount equal to Challenger dividends paid in the financial year, subject to there being sufficient net income in the Trust. The hedging position of the Trust is monitored to ensure that the number of shares held is closely aligned with the likelihood of unvested equity vesting. Accordingly, the Trust does not hold a share for each unvested PSR, HPSR or option.	48

	Challenger's approach	More details (page)
Long term incentives (LTI)		
Vesting period	In 2011, the Board extended the LTI vesting period from three to four years. Provided the performance hurdle is met, one third of an LTI award may vest on the second, third and fourth anniversary of the award.	47
Performance hurdles	In August 2010, the Board changed the performance hurdle to a single absolute TSR performance hurdle. Whilst the existing absolute TSR hurdle is challenging, the Board has continued to review the appropriateness of this hurdle and believes it is the most appropriate hurdle and provides alignment between shareholders and employees. More detail on the rationale of an absolute TSR hurdle can be found on pages 47 and 48.	47, 48
Valuation methodology	In April 2009, the Board determined that the measurement of future equity performance related remuneration plans would be done via a longer term volume weighted average price (VWAP) calculation. The use of a 90-day VWAP results in less risk of erroneous price movements or price manipulation that could advantage or disadvantage employees, and is therefore considered by the Board to be the most appropriate way to measure equity instruments for these purposes.	48
Equity instrument	Hurdled performance share rights (HPSRs) are considered to be the most appropriate equity instrument to motivate and reward employees.	47
Change of control	In the event of a change of control, treatment of unvested equity is at the Board's discretion.	
Challenger Performance Plan (CPP) Trust distributions	The CPP Trust is an employee share scheme trust established to satisfy Challenger's obligations arising from LTI awards and the deferral of STI. Shares are acquired by the Trust to mitigate dilution and provide a mechanism to hedge the cash cost of acquiring shares in the future to satisfy vested awards. Shares held within the CPP Trust earn income in the form of dividends. Any undistributed income held by the Trust at year end is taxed at the top marginal tax rate (which exceeds the company tax rate) and carries no franking credits. From 2013, the Board will look to hedge by way of a combination of forward purchase agreements and physical shares. This will reduce the number of shares in the Trust, and also reduce distributable income from the Trust. The Trustee may therefore, at its discretion, distribute net income to beneficiaries of the Trust. Any distributions made to participants are taken into account when considering overall remuneration outcomes each year. Should any income remain in the Trust following distributions relating to deferred STI, an allocation to holders of options and HPSRs may be considered, with any distribution based on the likelihood of the LTI award meeting its vesting conditions. The hedging position of the Trust is monitored to ensure that the number of shares held is closely aligned with the likelihood of unvested equity vesting. Accordingly, the Trust does not hold a share for each unvested PSR, HPSR or option.	48
Other		
Employee ownership	The Board encourages executive and employee ownership because it believes greater employee ownership increases alignment with shareholders. In 2012, employee ownership, by way of unvested equity instruments awarded has reduced from 7% in 2011 to 4% of total contributed equity in 2012.	49

Directors' report – Remuneration report

10.5 Key Management Personnel (KMP)

This audited remuneration report describes Challenger's KMP and Non-Executive Director remuneration arrangements as required by the *Corporations Act 2001*. KMP are those personnel who have authority and responsibility for planning, directing and controlling Challenger's major business activities.

On 17 February 2012, Brian Benari (previously the Group Chief Financial Officer/Chief Operating Officer) was appointed Managing Director and Chief Executive Officer, succeeding Dominic Stevens. Andrew Tobin, previously the Deputy Group Chief Financial Officer, was appointed Chief Financial Officer. Challenger's 2012 KMP are detailed in the table below:

Name	Role
Brian Benari	Managing Director and Chief Executive Officer
Dominic Stevens ¹	Managing Director and Chief Executive Officer
Richard Howes	Chief Executive, Life
Paul Rogan	Chief Executive, Distribution Product & Marketing
Andrew Tobin ²	Chief Financial Officer
Robert Woods	Chief Executive, Funds Management

¹ KMP until 17 February 2012.

² Appointed to the position of Chief Financial Officer effective 17 February 2012.

10.6 KMP remuneration principles

Challenger's remuneration strategy is to attract, retain and motivate KMP to ensure delivery of the business strategy.

In implementing this strategy, Challenger aims to provide remuneration which is market competitive, performance based and equitable and aligned with the creation of long-term shareholder value. Remuneration is made up of the following components:

Component	Detail	Link to business strategy
Fixed	Fixed remuneration	Base salary, salary sacrificed benefits and applicable fringe benefits tax Employer superannuation contributions
	Short term incentive (STI)	Annual 'at risk' remuneration Dependent on Challenger, business unit and individual performance Typically 50% is paid in cash, with the remainder deferred into performance share rights (PSRs) vesting over two years
Variable	Long term incentive (LTI)	Awarded annually based on a range of criteria reflecting in addition to current year performance, potential, retention, and the longer-term ability to materially influence long-term performance and strategy Motivates KMP to pursue Challenger's long-term growth and success, and in so doing, ensures alignment of KMP interests with those of shareholders
		Awarded annually based on a range of criteria reflecting in addition to current year performance, potential, retention, and the longer-term ability to materially influence long-term performance and strategy Motivates KMP to pursue Challenger's long-term growth and success, and in so doing, ensures alignment of KMP interests with those of shareholders

LTI awards and the deferred portion of STI awards are subject to clawback provisions under the Challenger Performance Plan – see page 49 for further details.

The Board recognises that the 'at risk' components of executive remuneration at Challenger are generally higher than those of companies in the ASX 75–125 with similar market capitalisation, as Challenger looks to draw executives from the narrow and specialist talent pool found in capital markets disciplines which have remuneration structures significantly different to that of the ASX 75-125. Whilst these organisations may have a different business mix, they compete for the same executives and form part of the relevant peer group for remuneration comparison purposes.

The following principles are applied to each component of remuneration for KMP:

1. Fixed remuneration

How fixed remuneration is determined

Fixed remuneration comprises base salary and employer superannuation. It is aimed at, or around, the market median for similar skills and for those companies against which Challenger competes for talent.

Key to Challenger's business strategy and success has been the attraction, retention and motivation of its executives.

When setting KMP fixed remuneration, Challenger considers the size of the role and its responsibilities, the market for similar skills, as well as Company and individual performance during the year. To support this, Challenger participates in a number of executive remuneration surveys. Challenger's goal is to remain competitive, whilst setting total remuneration at levels appropriate for similar roles and the required skill base.

During 2012, the Board revisited the comparator companies and positions to determine the appropriateness of the remuneration structure for each KMP. Accordingly, remuneration data from companies against which Challenger competes for talent were considered and formed a key input into the remuneration outcomes, along with individual and Challenger performance and assessment of retention risks.

2. Variable remuneration

Short Term Incentives (STI)

How the STI pool is calculated

There is a strong link between STI outcomes and Challenger's financial performance. The STI pool is correlated with performance and has historically been between 8% and 12% of NPBBT. The Board reviews performance at the end of each financial year and for 2012, has approved an STI pool of 9% of NPBBT.

Whilst the funding formula sets a range for the size of the STI pool, the Board also considers qualitative factors when determining the size of the STI pool.

Challenger's 2012 performance outcomes are shown on page 34.

The Board believes that KMP STI must align to Challenger, business unit and individual performance. This means the Board will decrease or increase the amount of STI paid for either underperformance or outperformance versus key performance indicators (KPIs).

To increase alignment with shareholders, 50% of any STI award to KMP is deferred into PSRs over a two-year period and is subject to clawback in certain circumstances, as detailed on page 49.

How the STI plan operates

The table below provides a summary of the STI plan and its key features.

Plan feature	Detail
Determining individual performance objectives	STI performance objectives are managed through a balanced scorecard approach. A selection of financial and non-financial performance objectives are chosen to align performance with business strategy and shareholder returns. These performance objectives are communicated to each KMP at the beginning of the performance year and are designed to focus them on those key areas which will drive successful delivery of Challenger's strategy.
Rewarding performance	STI rewards outstanding performance. The STI awarded at the end of each financial year is determined based on Challenger, business unit and individual performance against KPIs and relative to other Challenger KMP.
Deferral	50% of STI is paid in cash following the end of the financial year. The remaining 50% of STI is deferred over two years and delivered to KMP as PSRs to encourage alignment with shareholder interests. Forfeiture of deferred STI will occur under certain circumstances as outlined on page 49.
Number of PSRs	The plan uses a 90-day VWAP to determine the number of PSRs issued per dollar of deferred STI.

Directors' report – Remuneration report

How a balanced scorecard measures KMP performance

STI is paid to KMP on the achievement of specific objectives including financial outcomes, business growth, risk management, people development and behaviours which support the Challenger Principles and strategy.

KMP STI outcomes are closely linked to the extent to which they achieve objectives set by the Board, and to this end, performance evaluations are conducted at the end of each financial year. For the 2012 financial year, performance evaluations for KMP were conducted in July 2012. In August 2012, the Board assessed the performance of each KMP against their balanced scorecard and determined their STI award. A summary of the Challenger group objectives is detailed below and the balanced scorecard outcomes are shown on page 50.

Objective	Performance measure	Measurement	Link to business strategy
Financial	Normalised NPAT and EPS	Delivery against budget	Growth in normalised NPAT and normalised EPS to increase shareholder value
	Return on net assets (RONA)	Delivery against budget	Return on net assets to meet a hurdle of 18% pre tax
Growth	Implementation of key growth initiatives and increase brand awareness	Net growth in annuity sales and FUM Increased brand recognition and awareness	Higher than underlying system growth in target markets (Life and Funds Management)
Risk	Effective risk management	Compliance with Board Risk Appetite Statement	Ensuring Challenger manages risks within defined parameters and regulatory requirements
People	Employee engagement, talent development and diversity	Employee engagement score, talent development, turnover and diversity metrics	Engaged and developed employees retained

Deferral of STI

The Board reserves the right to deliver KMP STI awards as a cash payment, partially deferred or entirely deferred. Any deferred portion is delivered as performance share rights (PSRs).

Reflecting the emphasis on sustainable returns over the longer term and consistent with 2011, 50% of the STI awarded to KMP in August 2012 was paid in cash and 50% was deferred over two years. Both the cash and deferred components of STI may be forfeited if the KMP ceases employment prior to payment or vesting of PSRs.

Long Term Incentives (LTI)

LTI rewards long term performance

LTI focus KMP on Challenger's performance over the longer term. LTI reflect current year performance, potential, ability to materially influence longer-term performance and strategy and to assist with retention. Performance hurdles for LTI were specifically chosen to support the business strategy, and to drive long-term shareholder value creation. Performance hurdles must be achieved before a KMP can receive any value from LTI.

When setting the LTI pool each year, the Board takes into account a range of factors. Major considerations include Challenger performance, retention risk, and what proportion of total reward should be deferred over a longer period for good governance and alignment with shareholders via long-term performance hurdles. This longer-term focus and shareholder alignment is achieved partly through STI deferral and through the LTI awarded.

LTI vest over a four-year period, with one third commencing vesting on each of the second, third and fourth anniversaries of the original award.

LTI are linked to the long-term performance of Challenger and will only begin to vest once an absolute total shareholder return (TSR) of 8%, compounding annually, is achieved. Full vesting occurs when absolute TSR of 12%, compounding annually, is achieved.

Whilst the hurdle is challenging, the Board has continued to review the appropriateness of the hurdle and has explained in more detail on pages 47 and 48 why it believes LTI should be measured against an absolute TSR hurdle in the range of 8% to 12% compounding annually.

How the LTI plan operates

An overview of the hurdled performance share rights (HPSRs) awarded under the LTI plan in September 2011 following the 2011 remuneration review and relevant features are detailed below.

Plan feature	Detail	
Instrument	HPSRs are the right to receive a fully paid ordinary Challenger share for zero consideration. HPSRs do not provide an entitlement to vote or a right to dividends	
Number of rights	The number of HPSRs awarded to KMP is calculated by reference to the estimated fair value of the LTI award approved by the Board	
Grant date	September 2011	
Maturity	September 2015	
Performance hurdle	Absolute total shareholder return (TSR)	
	Absolute TSR compounding annually	Percentage of HPSRs that vest
	Less than 8% per annum	0%
	8% or greater, but less than 12% per annum	Pro-rata vesting between 33% and 100%
	Above 12% per annum	100%
Vesting schedule	HPSRs will vest in windows if the relevant performance hurdles have been met over the following vesting dates: • One third commences vesting in September 2013 • One third commences vesting in September 2014 • One third commences vesting in September 2015	

Use of an absolute TSR hurdle for LTI

TSR represents the change in share price plus dividends received over a given timeframe.

The Board believes that an absolute TSR is an effective way to both incentivise and measure whether Challenger has created shareholder value.

The Board decided an absolute rather than a relative TSR was appropriate for the following reasons:

- there are no other listed companies in the Australian market with a retirement income business which is directly comparable to Challenger;
- comparing Challenger's TSR to a broader index can provide outcomes that may not be indicative of Challenger's performance given its differentiated position in the retirement income sector;
- key stakeholders, shareholders and proxy advisers have indicated a broader index is generally not considered an appropriate comparator group as the result can result in a misalignment of KMP remuneration from shareholder value creation;
- global regulators such as the Bank of International Settlement (BIS) through Basel Supervision prefer absolute measures for established rather than start-up companies, 'Relative benchmarks may result in sub-optimal absolute performance, if the only standard is that peers perform worse. It is also possible that relative performance measures may encourage 'herd mentality', in which firms and/or employees have an undue tendency to mirror peers' behaviour to stay close to their benchmark. If the same relative measures are widely used, this could have pro-cyclical consequences for the global financial system¹'; and
- if the absolute TSR hurdle is set at a level that is above average market returns over the long term, then KMP remuneration will be directly linked to the superior returns achieved by all shareholders.

The Board has set the absolute TSR hurdle targets as outlined on page 46. These targets reflect expectations of what the Board considers to be appropriate long-term hurdles for LTI to vest. These targets were set following significant research into:

- long-term (10 and 20 years) returns of listed equities;
- long-term (10 and 20 years) returns of listed financial services firms in general, and with reference to insurance companies and diversified financial companies;
- the importance of risk management and the negative consequences of a higher TSR hurdle that over the longer term could encourage imprudent risk taking;
- an objective to move from a cliff vesting hurdle into a hurdle that gradually vested over a range of outcomes;

¹ Basel Report – Range of Methodologies for Risk and Performance Alignment of Remuneration – May 2011.

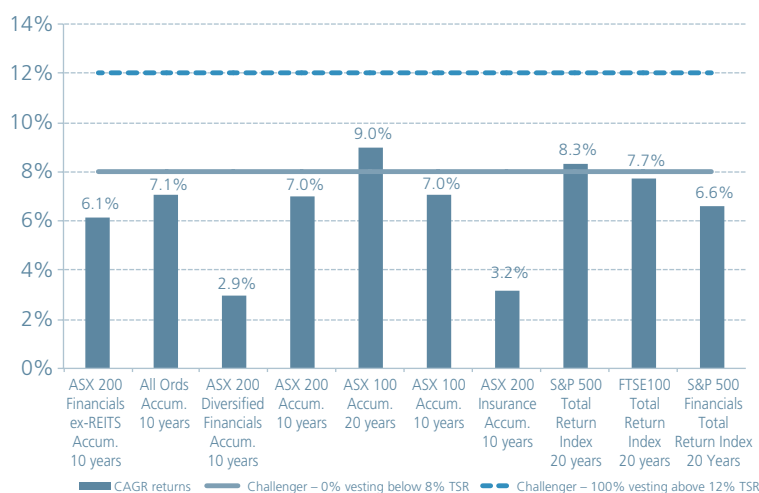
Directors' report – Remuneration report

- an objective to produce long-term sustainable outcomes such that:
 - zero vesting would occur if the return was below a minimum level (8% TSR), an outcome lower than long-term averages of a selection of equities indices (outlined in the chart below);
 - full vesting would occur if the return was above a level (12% TSR), being a significantly higher return than long-term averages of a selection of equities indices (outlined in the chart below); and
 - partial vesting occurs between these two levels.

The Board again gave due consideration to the appropriateness of the use of an absolute TSR performance hurdle in 2012. The LTI performance hurdle will remain under continual review to ensure it is the most appropriate means to incentivise and measure shareholder value creation.

Equity indices TSR – compound annual growth rates over 10 and 20 years

(growth rates measured to 30 June 2012)



As an example, a share worth \$3.25 today and paying a 17.5 cent dividend each year, would need to produce a total return (i.e. share price appreciation and dividends) of \$1.73 per share (a 53% return) over four years to achieve a 12% per annum compound return and for LTI to fully vest.

It is for these reasons that the Board determined the LTI hurdle would be measured against an absolute TSR range of 8% to 12%. Notwithstanding this, the Board each year considers the most appropriate way of linking sustainable shareholder value creation and executive remuneration, and will again undertake a review of the hurdle in 2013.

Volume weighted average price (VWAP) calculation

In April 2009, the Board decided that measurement of equity performance remuneration plans would be undertaken using a 90-day VWAP.

The use of a 90-day VWAP results in less risk of erroneous price movements or price manipulation that could advantage or disadvantage employees. This is in line with APRA guidelines that require Boards to ensure that risk is appropriately mitigated within remuneration plans.

Since 2009, the issuance of equity via options, PSRs or HPSRs has been made with reference to a 90-day VWAP leading up to the award date. To be consistent, the calculation of TSR hurdles is also done using a 90-day VWAP leading up to the final date of the relevant performance period.

10.7 Other remuneration arrangements

Challenger Performance Plan (CPP) Trust distributions

The CPP Trust is an employee share scheme trust which was established to acquire shares in order to meet Challenger's obligations arising from awards of PSRs, HPSRs or options under the Challenger Performance Plan. Shares are held by the CPP Trust and transferred to employees when the respective vesting conditions attached to those awards have been satisfied. Shares are acquired by the Trust to mitigate dilution and provide a mechanism for Challenger to hedge the cash cost of acquiring shares in the future to satisfy vested awards. The hedging position of the Trust is monitored closely to ensure that the level of shares held is closely aligned with the likelihood of unvested equity vesting. Accordingly, the Trust does not hold a share for each unvested PSR, HPSR or option.

To maximise alignment with shareholders, Challenger focuses a substantial portion of remuneration towards performance based short and long term incentives. Challenger shares held within the CPP Trust to satisfy future awards (deferral of STI into PSRs or

LTI in the form of HPSRs or options) earn income in the form of dividends. Any undistributed income held by the Trust at year end is taxed at the top marginal tax rate (which exceeds the company tax rate) and carries no franking credits. The Trustee of the CPP Trust has absolute discretion to determine if any net income earned by the CPP Trust is to be distributed to beneficiaries.

From 2013, the Board will look to hedge by way of a combination of forward purchase agreements and physical shares. This will reduce the number of shares in the Trust, and also reduce distributable income from the Trust.

Challenger believes that distribution of income from the Trust to participants further aligns employee and shareholder interests.

PSRs received as a result of a deferred STI award receive preference in regard to the distribution of net income from the CPP Trust, on the basis that the incentive has already been earned and is not subject to any hurdle other than remaining an employee of Challenger at the time of vesting. If a distribution is made, each PSR relating to deferred STI receives a maximum amount equal to Challenger dividends paid in the financial year. In 2012, holders of unvested PSRs received a distribution equal to Challenger dividends paid in the financial year.

Following the allocation of net income relating to deferred PSRs, should any residual income remain in the CPP Trust, an allocation to holders of HPSRs and options may be considered. Accordingly, a probability of vesting calculation for each issuance is performed to determine the likelihood that an award will meet its vesting conditions, with any allocation made on the basis of a pro-rata distribution linked directly to the likelihood of the award vesting. In 2012, holders of HPSRs and options, on average, received a distribution equal to 59% of Challenger dividends paid in the financial year.

Any income distributed to employees from the CPP Trust is taken into account by the Remuneration Committee when considering STI determinations for the period and total remuneration awarded.

STI and LTI clawback arrangements

Risk management with regard to remuneration decisions is a critical consideration. Accordingly, awards under the Challenger Performance Plan, be they in the form of LTI (HPSRs) or deferred STI (PSRs) may be reduced or forfeited should the Board determine that a KMP:

- has committed an act of dishonesty;
- is ineligible to hold their office for the purposes of Part 2D.6 of the Corporations Act 2001; or
- is found to have acted in a manner that the Board considers to be gross misconduct or is dismissed with cause.

In addition, the Board may resolve that an award of HPSRs or PSRs should be reduced or forfeited in order to:

- protect the financial soundness of Challenger; or
- respond to unexpected or unintended consequences that were significant and unforeseen by the Board (such as material risk management breaches, unexpected financial losses by Challenger, reputational damage or regulatory non-compliance).

Employee ownership

The Board encourages executive and employee ownership because it believes greater ownership increases the alignment of employee interests with shareholders.

As at 30 June 2012, employee ownership, by way of unvested equity instruments awarded has reduced from 7% in 2011 to approximately 4% of total contributed equity. The Board continues to target employee ownership below 10%.

Minimum shareholding for KMP and Non-Executive Directors

Challenger introduced equity holding guidelines which apply to KMP and Non-Executive Directors from 1 July 2010. Under the guidelines, KMP are expected to maintain a minimum holding of Challenger shares equal to 100,000 shares. Non-Executive Directors are expected to maintain a minimum holding of 20,000 shares. Transition arrangements are in place for all KMP and Non-Executive Directors.

The Board will retain the discretion to allow KMP and Non-Executive Directors to vary from this guideline policy.

Employee share trading policy

All employees must comply with Challenger's employee share trading policy and are required to obtain pre-approval from the Company Secretary if they wish to trade in Challenger shares. Employees are prohibited from trading during specified black-out periods, including prior to the release of Challenger's financial results.

Under this policy, employees are also prohibited from hedging their unvested share awards including PSRs, HPSRs or options. In the Board's view, employees hedging unvested awards would not be consistent with the Board's remuneration strategy or appropriate governance outcomes and would be contrary to the intention for which long term incentives are awarded to employees. Where an employee is found to have breached this requirement, it will be regarded as serious misconduct and may be grounds for dismissal.

Challenger prohibits Directors and employees from taking out margin loans on Challenger shares, with any exceptions to this rule requiring formal Board approval. There have been no requests for exceptions to this policy in the year to 30 June 2012.

Directors' report – Remuneration report

10.8 2012 performance outcomes

In setting the STI pool, the Board has continued to use a funding range of between 8% and 12% of NPBBT, and having considered Challenger's performance against the agreed objectives and a number of qualitative factors, for 2012, has approved a pool of 9% of NPBBT. Each KMP's individual and business unit performance was then assessed by the Board with reference to the performance objectives set for them at the beginning of the year.

Challenger's outcome against each performance measure is shown in the table below and KMP remuneration is shown on page 44:

Objective	Performance measure	Actual outcome	Outcome versus budget
Financial	Normalised NPAT	\$297 million	Exceeded budget by > 5%
	Normalised EPS	57.5 cps	Exceeded budget by > 5%
	Return on net assets (RONA) (normalised)	22.5%	Exceeded budget
Growth	Implementation of key growth initiatives and lift brand awareness	Growth in Life retail annuity sales of 34% up from \$1,460 million (excluding High Yield Fund conversion) to \$1,954 million. Growth in Fidante Partners (the boutique funds management business) FUM of 34% up from \$14.8 billion to \$19.9 billion. Brand advertising helped increase prompted awareness of the Challenger brand by 23% and the association of Challenger with retirement products by 31%. That Challenger is considered a leader in retirement products increased by 28%, as well as an increase in consumer likelihood to consider Challenger products of 20%. Among advisers, the familiarity with Challenger and its products increased by 48% and the view that it is a leader in retirement income increased by 33% (and was ranked first ahead of competitors).	
Risk	Effective risk management	The measure for effective risk management involves the Board's assessment of our performance against the Board Risk Appetite Statement. Performance for 2012 includes: • maintenance of an acceptable excess capital position for Challenger Life Company Limited (CLC); • maintenance of Group and CLC credit ratings; • maintenance of Liquidity Policy ratios; • compliance with Market Risk and Credit Policy Limits; • acceptable level of reported incidents and breaches; and • acceptable internal audit, external audit and regulatory review outcomes.	
People	Employee engagement, talent development and diversity	The most recent employee engagement survey results position Challenger in the Aon Hewitt 'Best Employer' range and nine percentage points ahead of the Australian financial services benchmark. A further 22 employees completed the Leadership Perspectives Program and an additional 10 employees participated in Challenger's Mentoring Program. Engagement results for participants in these programs are on average 17 percentage points higher than those of non-participants, demonstrating the importance and value of these programs. The number of women employed in senior roles at Challenger increased across the period by four. Employee turnover has decreased by six percentage points in what remains a competitive employment market.	

10.9 2012 remuneration tables

KMP receive a mix of remuneration, with a portion received during the year and the balance paid over the ensuing four years, depending on the service and performance hurdles attached to deferred STI and LTI awards. This can make it difficult for stakeholders to obtain a clear view of the actual amount of remuneration a KMP earned in the financial year.

Noting the above, the Board continues to provide clarity and transparency of the KMP remuneration outcome by disclosing three different remuneration tables as outlined below:

Table	Details
Table 1 – the awarded view of KMP remuneration (page 51)	This table represents the value of remuneration that has been awarded for the annual performance period. This includes all base salary and superannuation, STI (both cash and the value of deferrals into PSRs) and the awarded value of the current year LTI.
Table 2 – the statutory view of KMP remuneration (page 52)	This table reflects the accounting expense of KMP remuneration incurred in the financial year. As such, it includes the amortisation expense for prior period STI and LTI remuneration awards, some of which were awarded as far back as 2007. This results in an attribution of the accounting cost of equity issuance over the term of the plans and may bear little relationship to the current award or business performance.
Table 3 – the realised view of KMP remuneration (page 53)	This table reflects the actual benefit realised by KMP during the year. This may be in the form of fixed remuneration and cash STI, and also from vesting of deferred STI and LTI awards issued in prior periods. Again, this may bear little relationship to current year awarded remuneration or business performance, and is driven instead by vesting dates of previous STI and LTI awards and Challenger share price movements.

Remuneration rates disclosed in these three tables diverge significantly, particularly given the market turbulence over the last five years. The Board considers the most important remuneration metric as being awarded remuneration, which is in line with suggestions on the presentation of remuneration tables by the Corporations and Markets Advisory Committee (CAMAC).

Remuneration disclosures (awarded, statutory and realised)

Table 1 – Awarded remuneration

Awarded remuneration has fallen from 2011 levels.

This table represents the value of remuneration that has been awarded for the annual performance period. This includes all base salary and superannuation, STI (both cash and the value of deferrals into PSRs) and the awarded value of the current year LTI.

Executive	Year	Short-term employee benefits			Superannuation \$	Share based payments ² (LTI) \$	Other ³ \$	Total awarded \$
		Salary ¹ \$	Cash STI \$	Deferred STI \$				
Brian Benari	2012	859,173	900,000	900,000	15,775	925,000	329,364	3,929,312
	2011	639,405	875,000	875,000	15,199	1,170,000	678,779	4,253,383
Richard Howes	2012	635,534	675,000	675,000	15,775	1,224,000	213,403	3,438,712
	2011	635,887	750,000	750,000	15,199	1,170,000	648,175	3,969,261
Paul Rogan	2012	634,443	612,500	612,500	15,775	1,008,000	224,227	3,107,445
	2011	634,801	550,000	550,000	15,199	975,000	484,885	3,209,885
Andrew Tobin⁴	2012	213,897	128,142	128,142	5,776	576,000	14,775	1,066,732
	2011	–	–	–	–	–	–	–
Robert Woods	2012	638,466	625,000	625,000	15,775	1,224,000	209,330	3,337,571
	2011	638,451	700,000	700,000	15,199	1,170,000	644,013	3,867,663

¹ Salary includes the cost of death, TPD and salary continuance insurances.

² The LTI is delivered in the form of HPSRs. The value of HPSRs awarded to each KMP has been determined by reference to the estimated fair value of the number of HPSRs approved by the Board on 16 August 2012. The HPSRs will be formally granted in September 2012 and so the fair value of the awards is subject to change depending on the Challenger share price at the date of the grant.

³ Represents interest amounts accrued in the year on loans taken out by KMP to acquire Challenger shares and distributions received from the Challenger Performance Plan Trust.

⁴ Mr Tobin became a KMP on 17 February 2012. Salary and STI for 2012 reflects remuneration earned on a pro-rata basis since 17 February 2012. LTI awarded in September 2012 is represented on a full year basis as it is more forward looking.

Directors' report – Remuneration report

Table 2 – Statutory remuneration

Statutory remuneration has fallen from 2011 levels.

This table reflects the accounting expense of KMP remuneration incurred in the financial year. As such, it includes the amortisation expense for prior period STI and LTI remuneration awards, some of which were awarded as far back as 2007. This results in an attribution of the accounting cost of equity issuance over the term of the plans and may bear little relationship to the current award or business performance.

Executive	Year	Short-term employee benefits		Superannuation	Share based payments ²		Other ³	Total
		Salary ¹ \$	Cash STI \$		Equity settled shares and units \$	Equity settled options and rights \$		
Brian Benari	2012	859,173	900,000	15,775	–	2,036,296	329,364	4,140,608
	2011	639,405	875,000	15,199	4,251	3,129,561	678,779	5,342,195
Richard Howes	2012	635,534	675,000	15,775	–	1,751,019	213,403	3,290,731
	2011	635,887	750,000	15,199	28,523	2,618,953	648,175	4,696,737
Paul Rogan	2012	634,443	612,500	15,775	66,378	1,101,048	224,227	2,654,371
	2011	634,801	550,000	15,199	369,751	1,188,739	484,885	3,243,375
Andrew Tobin⁴	2012	213,897	128,142	5,776	–	123,501	14,775	486,091
	2011	–	–	–	–	–	–	–
Robert Woods	2012	638,466	625,000	15,775	–	1,687,898	209,330	3,176,469
	2011	638,451	700,000	15,199	4,251	2,563,840	644,013	4,565,754
Dominic Stevens⁵	2012	629,482	640,000	9,999	–	1,427,289	123,910	2,830,680
	2011	992,606	1,050,000	15,199	–	2,784,683	1,016,904	5,859,392

¹ Salary includes the cost of death, TPD and salary continuance insurances.

² The value of the equity settled shares and units and equity settled options and rights is calculated on the basis outlined in Note 1 (xxxiii) to the financial statements and reflects the fair value of the benefit derived at the date at which they were granted. The fair value is determined using an option pricing model and is undertaken by an independent valuer. As the majority of Challenger's equity settled share based payment rewards are subject to share price performance hurdles (e.g. TSR), no adjustment to the fair value after grant date is allowed to be made for the likelihood of market performance conditions not being met. Therefore, the value of the reward included in the table may not necessarily have been vested to the KMP during the year.

³ Represents interest amounts accrued in the year on loans taken out by KMP to acquire Challenger shares and distributions received from the Challenger Performance Plan Trust.

⁴ Mr Tobin became a KMP on 17 February 2012. 2012 reflects remuneration earned on a pro-rata basis since 17 February 2012.

⁵ Mr Stevens ceased to be a KMP on 17 February 2012. 2012 reflects the period when he was a KMP.

Table 3 – Realised remuneration

Realised remuneration has fallen from 2011 levels.

This table reflects the actual benefit realised by KMP during the year. This may be in the form of fixed remuneration and cash STI, and also from vesting of deferred STI and LTI awards issued in prior periods. Again, this may bear little relationship to current year awarded remuneration or business performance, and is driven instead by vesting date, of previous STI and LTI awards and Challenger share price movements.

Executive	Year	Short-term employee benefits		Superannuation \$	Share based payments		Other ⁴ \$	Total realised remuneration ⁵ \$
		Salary ¹ \$	Cash STI \$		Value of prior year's equity settled options, shares and rights at issue ² \$	Value due to share price appreciation of prior year's equity settled options, shares and rights ³ \$		
Brian Benari	2012	859,173	900,000	15,775	962,498	4,170,382	329,364	7,237,192
	2011	639,405	875,000	15,199	1,906,646	6,773,519	678,799	10,888,568
Richard Howes	2012	635,534	675,000	15,775	524,999	3,792,089	213,403	5,856,800
	2011	635,887	750,000	15,199	1,354,166	6,297,007	648,175	9,700,434
Paul Rogan	2012	634,443	612,500	15,775	485,969	2,154,086	224,227	4,127,000
	2011	634,801	550,000	15,199	1,054,846	2,806,986	484,885	5,546,717
Andrew Tobin⁶	2012	213,897	128,142	5,776	–	–	40,356	388,171
	2011	–	–	–	–	–	–	–
Robert Woods	2012	638,466	625,000	15,775	474,998	3,779,119	209,330	5,742,688
	2011	638,451	700,000	15,199	1,420,832	6,270,387	644,013	9,688,882

¹ Salary includes the cost of death, TPD and salary continuance insurances.

² Represents the value of PSRs, options and HPSRs vesting during the period, at original grant price.

³ Represents the share appreciation on PSRs, options, cash LTIP and other LTI that vested during the year based on the value at vesting date. The value is net of any exercise cost.

⁴ Represents interest amounts accrued in the year on loans taken out by KMP to acquire Challenger shares and distributions received from the Challenger Performance Plan Trust.

⁵ Whilst there are no formal accounting standards that provide guidance as to the disclosure, measurement and classification of remuneration amounts to be included in a realised remuneration table, the 2012 share based payments and other award values have been prepared in consideration of announcements made by the Productivity Commission's inquiry into Executive Remuneration in Australia (released 4 January 2010) and the Corporations and Markets Advisory Committee Executive Remuneration Report (released 25 May 2011).

⁶ Mr Tobin became a KMP on 17 February 2012. 2012 reflects remuneration realised since 17 February 2012.

Directors' report – Remuneration report

10.10 2012 STI and LTI awards

PSRs granted to KMP during year ended 30 June 2012

PSRs granted in September 2011 represent the deferred portion of STI awards for the 2011 financial year and will vest in equal portions over two years, subject to continued employment only. Participants realise the same returns as shareholders on PSRs, ensuring interests are aligned with shareholders.

Executive	Compulsory deferral from 2011 \$	Deferred %	Allocation price \$	Number of rights granted	Date of grant	Vesting 1 September 2012		Vesting 1 September 2013	
						Number	Fair value at grant \$	Number	Fair value at grant \$
B Benari	875,000	50	4.7471	184,323	12 Sep 11	92,161	4.37	92,162	4.20
D Stevens ¹	1,050,000	50	4.7471	222,187	12 Sep 11	111,593	4.37	111,594	4.20
R Howes	750,000	50	4.7471	157,991	12 Sep 11	78,995	4.37	78,996	4.20
P Rogan	550,000	50	4.7471	115,860	12 Sep 11	57,930	4.37	57,930	4.20
R Woods	700,000	50	4.7471	147,458	12 Sep 11	73,729	4.37	73,729	4.20

¹ Mr Stevens ceased to be a KMP on 17 February 2012. Mr Tobin became a KMP on 17 February 2012 and has received no grants between that date and 30 June 2012.

HPSRs granted to KMP during year ended 30 June 2012

Challenger granted LTI to KMP in September 2011 in the form of HPSRs. As HPSRs have an absolute TSR hurdle of between 8% and 12%, they are designed to motivate long-term sustainable shareholder value.

Executive	Grant date	Allocation price \$	Number of rights granted	Tranche 1 1 September 2013		Tranche 2 1 September 2014		Tranche 3 1 September 2015	
				Number vesting	Fair value at grant \$	Number vesting	Fair value at grant \$	Number vesting	Fair value at grant \$
B Benari	12 Sep 11	4.7471	600,000	200,000	1.93	200,000	1.93	200,000	1.93
	16 Mar 12 ¹	4.3609	1,250,000	416,666	0.74	416,667	0.74	416,667	0.74
D Stevens ²	14 Dec 11	4.7471	750,000	250,000	1.56	250,000	1.56	250,000	1.56
R Howes	12 Sep 11	4.7471	600,000	200,000	1.93	200,000	1.93	200,000	1.93
P Rogan	12 Sep 11	4.7471	500,000	166,666	1.93	166,666	1.93	166,668	1.93
R Woods	12 Sep 11	4.7471	600,000	200,000	1.93	200,000	1.93	200,000	1.93

¹ This award of HPSRs, made following Mr Benari's appointment as CEO, will be eligible to commence vesting subject to satisfying performance hurdles in three equal tranches on each of 16 February 2014, 16 February 2015 and 16 February 2016.

² Mr Stevens ceased to be a KMP on 17 February 2012. Mr Tobin became a KMP on 17 February 2012 and has received no grants between that date and 30 June 2012.

For details of all new PSR and HPSR issues and vesting from the Challenger Performance Plan during the year, see Note 31 **Employee entitlements** in the financial report.

10.11 Contractual arrangements – CEO

Brian Benari – Managing Director and Chief Executive Officer (from 17 February 2012)

Mr Benari was appointed Managing Director and Chief Executive Officer effective 17 February 2012. The terms of his appointment and termination arrangements were approved at an Extraordinary General Meeting of shareholders on 28 February 2012.

The following table summarises the notice periods and payments which apply to Mr Benari upon termination:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
Employer initiated termination				
Poor performance	12 months	12 months	Lapse	Lapse
Misconduct or other circumstances justifying summary dismissal	None	None	Lapse	Lapse
Employee initiated termination				
With Board approval	6 months	The Board may elect to make a payment of salary package in lieu of notice	Eligible to a pro-rata bonus (payable at the usual payment date) Full vesting of the deferred portion of any unvested award	Continued vesting ¹
Without Board approval	6 months	The Board may elect to make a payment of salary package in lieu of notice	Lapse	Lapse
Due to material change ²	One month	12 months	Full vesting of the deferred portion of any unvested award	Board discretion ³

¹ Where HPSRs do not vest on termination or retirement, but continue to be held by Mr Benari subject to the original vesting conditions.

² Where there is a substantial diminution of Mr Benari's duties, status, responsibilities and/or authority without his agreement.

³ If a material change occurs or in the opinion of the Board will occur, the Board may in its absolute discretion determine the extent to which Mr Benari's unvested HPSRs will vest in the event of termination.

Dominic Stevens – Managing Director and Chief Executive Officer (until 17 February 2012)

Mr Stevens was appointed Managing Director and Chief Executive Officer on 1 September 2008 and held this position until 17 February 2012.

The terms of his appointment and termination arrangements were approved at the 2008 Annual General Meeting (AGM), subject to an amendment to certain aspects of his termination arrangements at the 2011 AGM which determined that upon Mr Stevens' termination:

- unvested deferred PSRs will vest in full at the termination date ('Accelerated Vesting Arrangements');
- unvested HPSRs will continue to be held subject to the original performance hurdles and time vesting conditions ('Continued Vesting Arrangements').

No termination payments were made to Mr Stevens on his termination from Challenger, other than any required statutory entitlements and those entitlements outlined above.

KMP (excluding Managing Director and Chief Executive Officer) employment agreements and notice periods

KMP do not have fixed terms of employment. Notice period by Challenger and the KMP is 26 weeks (unless terminated for cause).

Upon termination, if the KMP is considered a good leaver (such as cessation of employment due to redundancy) the KMP will be entitled to a pro-rata short term incentive payment. Board discretion will also apply in relation to awards under the Challenger Performance Plan.

Directors' report – Remuneration report

10.12 Legacy award plans

Legacy plans are those which were offered to employees in prior periods but which are no longer in operation. Corporations law regulations require these plans to continue to be disclosed until such time as each tranche relating to these plans has been fully vested or lapse.

Long Term Incentive Plan (LTIP)

The LTIP was approved by shareholders at the AGM on 22 December 2003 and a more detailed description can be found in the 2006 and 2007 Annual Reports. The last commitments were made under the LTIP in September 2006. The scheme was suspended in December 2006 and, subject to participants' continued employment and the performance hurdle being satisfied, the plan will cease in September 2012.

Deferred Loan Plan

A small number of employees had outstanding future commitments under the Long Term Incentive Plan (LTIP) at the time it was suspended in December 2006.

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

The last commitments were made under the Deferred Loan Plan in September 2007 and ceased in September 2011.

10.13 Non-Executive Directors (NED) disclosures

The Non-Executive Directors holding office for the year ending 30 June 2012 were:

- Peter Polson (Chairman)
- Graham Cubbin
- Jonathan Grunzweig
- Russell Hooper
- Brenda Shanahan
- Leon Zwier

Policy

The remuneration policy for Non-Executive Directors aims to ensure that Challenger is able to attract and retain suitably skilled and experienced people to serve on the Board and to reward them appropriately for their time and expertise. The Board's focus is on strategic direction and the delivery of sustained long-term corporate performance. The maximum aggregate of annual Non-Executive Director fees is approved by shareholders in accordance with the requirements of the *Corporations Act 2001*.

Director fee pool

The current director fee pool of \$2,000,000 was approved by shareholders in 2007. No increase to the Non-Executive Director fee pool will be sought for 2013.

Director fee framework

The Board periodically reviews the director fee framework. Under the current fee framework, Non-Executive Directors are remunerated by way of fees paid in recognition of membership of, and work in regard of, Boards and Committees to reflect the position's accountabilities. The fees detailed below also cover service provided on subsidiary company Boards. Director fees applicable to membership and chairmanship of the main Board and Committees that applied for the year ended 30 June 2012 were as follows:

Board/Committee	Role	Annual fee
Board ¹	Chairman ^{1,2}	\$190,000
	Member	\$140,000
Group Risk Audit and Compliance	Chairman ²	\$17,000
	Member	\$23,000
Remuneration	Chairman ²	\$13,000
	Member	\$17,000

¹ Board fees include Nomination Committee fees.

² Chairman fees are in addition to member fees.

Details of Non-Executive Director remuneration for 2012

The remuneration of each Non-Executive Director for the year ended 30 June 2012 is set out in the table below:

	Year	Director fees \$	Superannuation \$	Total \$
P Polson ¹	2012	367,451	15,775	383,226
	2011	377,313	–	377,313
G Cubbin ²	2012	181,083	–	181,083
	2011	180,000	–	180,000
J Grunzweig ³	2012	–	–	–
	2011	–	–	–
R Hooper ²	2012	197,000	–	197,000
	2011	200,000	–	200,000
B Shanahan ⁴	2012	149,541	13,459	163,000
	2011	36,815	3,764	40,579
L Zwier ²	2012	140,000	–	140,000
	2011	130,000	–	130,000
Total	2012	1,035,075	29,234	1,064,309
	2011	924,128	3,764	927,892

¹ Includes the cost of death, TPD and salary continuance insurance.

² These Directors provide their services to Challenger through service companies. Fees are shown exclusive of GST.

³ Acts as a Director in discharging his duties as an executive of Colony Capital LLC and consequently does not accept fees for his service.

⁴ Excludes any amounts in relation to Challenger Listed Investment Limited director fees for 2011.

Superannuation

Non-Executive Directors also receive superannuation contributions where required by Superannuation Guarantee legislation.

Equity participation

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

10.14 Shareholder questions and answers

Why is remuneration presented in three different ways?

Over the last 10 years the complexity and quantum of information required within the remuneration report has increased, but in many instances this has not increased the transparency or made it easier for shareholders to get a clear view of the actual amount of remuneration that was awarded in the year.

In order to improve disclosure, in 2011 the Board decided to introduce an 'awarded' remuneration table, which better reflects the intent of the Board in regard to remuneration. This differs from the statutory accounting expense and amortisation profile (statutory remuneration table) or what the outcome was in any one year (realised remuneration table) which has a greater correlation to vesting dates and Challenger share price movements. Importantly, the Corporations and Markets Advisory Committee (CAMAC) has made recommendations regarding the inclusion of 'awarded' remuneration tables instead of statutory tables to increase transparency for shareholders. All three tables can be found on pages 51–53.

Why use a 90-day VWAP calculation rather than a shorter time period?

The Board made the decision in 2009 to use a longer-term VWAP for determining the LTI award and whether performance hurdles have been met. The Board believes that the use of a 90-day VWAP calculation will result in less risk of erroneous price movements or price manipulation in both setting and measuring long-term performance hurdles.

Why do LTI plans only have a single hurdle (absolute TSR)?

Prior to 2010, long term incentives had a dual hurdle of either 10% compound absolute TSR or 10% compound growth in normalised earnings per share. In 2010 the dual hurdle was removed based on shareholder and external stakeholder feedback and a single hurdle (absolute TSR) was adopted. The hurdle is absolute TSR in the range of 8% to 12%, compounding annually.

Directors' report – Remuneration report

Why use an absolute TSR rather than a relative TSR hurdle?

In 2010 the Board reviewed what the most appropriate hurdle for LTI should be. The Board believes that an absolute TSR is an effective way to both incentivise and measure whether Challenger has delivered an increase in fundamental value to its shareholders. Some of the reasons for the Board's decision include:

- there are no other listed companies in the Australian market with a retirement income business that is directly comparable to Challenger;
- comparing Challenger's TSR to a broader index can provide outcomes that may not be indicative of Challenger's performance given its differentiated position in the retirement income sector; and
- key stakeholders, shareholders and proxy advisers have indicated that a broader index is generally not considered an appropriate comparator group as it may result in a misalignment of executive reward from creating shareholder value.

Further detail regarding the rationale for the Board choosing an absolute TSR hurdle can be found on pages 47 and 48.

How total STI is determined

The STI funding pool is determined based on a percentage of normalised net profit before bonus and tax. The Board reviews performance at the end of each financial year and determines the amount of the STI pool (within a pre-determined range). Details on the range of the 2012 STI pool can be found on page 45.

How is the appropriate level of STI for each KMP determined?

All KMP have a balanced scorecard that sets down their key performance metrics. Metrics for the year are agreed with KMP at the start of the financial year in July. In August of the following year, the Board assesses the performance of each KMP against their scorecard and determines their STI award. The 2012 balanced scorecard and performance against Challenger's balanced scorecard can be found on page 50.

Does Challenger issue new shares to satisfy vesting of PSR and HPSR awards?

Shares that are required to satisfy the vesting of awards of PSRs, HPSRs or options have been sourced by the Challenger Performance Plan (CPP) Trust. The CPP Trust looks to acquire shares around the date of each PSR issuance. As a result of this, the impact of any increase in the Challenger share price is not incurred by Challenger to satisfy vested awards. As such, Challenger has not issued any new equity to satisfy vested awards since the CPP was established in 2007.

Why does Challenger make distributions to employees holding unvested equity?

Challenger established the Challenger Performance Plan Trust (CPP) Trust to satisfy obligations arising from LTI awards and the deferral of STI.

Shares held within the Trust earn income in the form of dividends. Any undistributed net income held by the Trust at year end is taxed at the top marginal tax rate (which exceeds the company tax rate) and carries no franking credits. From 2013, the Board will look to hedge by way of a combination of forward purchase agreements and physical shares. This will reduce the number of shares in the Trust and also reduce distributable income from the Trust.

The Trustee of the CPP Trust has discretion to determine if net income of the Trust is distributed to beneficiaries of the Trust.

Challenger believes that distribution of income from the Trust further aligns employee and shareholder interests and any distributions made to participants are taken into account when considering overall remuneration outcomes each year. Further information can be found on page 48.

11. 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 and Investments Commission (ASIC) Class Order 98/100. The Group is an entity to which the class order applies.

12. Auditor's independence declaration

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



Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

Auditor's independence declaration to the Directors of Challenger Limited

In relation to our audit of the financial report of Challenger Limited for the year ended 30 June 2012, 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

A handwritten signature in blue ink, appearing to read 'S J Ferguson'.

S J Ferguson
Partner
17 August 2012

Liability limited by a scheme approved under Professional Standards Legislation.

13. Authorisation

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

A handwritten signature in blue ink, appearing to read 'R R Hooper'.

R R Hooper
Director
Sydney
17 August 2012

A handwritten signature in blue ink, appearing to read 'B R Benari'.

B R Benari
Director
Sydney
17 August 2012

Financial report

Income statement	61	18. Interest bearing liabilities	93
Statement of comprehensive income	62	19. External unit holders' liabilities	94
Statement of financial position	63	20. Provisions	94
Statement of changes in equity	64	21. Life contract liabilities	95
Statement of cash flows	65	22. Special Purpose Vehicles	97
Notes to the financial statements	66	23. Contributed equity	98
1. Basis of preparation and accounting policies	66	24. Reserves	100
2. Segment information	78	25. Retained earnings	101
3. Revenue	82	26. Non-controlling interests	101
4. Expenses	83	27. Financial risk management	102
5. Finance costs	83	28. Derivative financial instruments	111
6. Income tax	84	29. Commitments	112
7. Dividends paid and proposed	85	30. Related parties	113
8. Earnings per share	85	31. Employee entitlements	118
9. Cash and cash equivalents	85	32. Reconciliation of profit to operating cash flow	120
10. Receivables	85	33. Remuneration of auditor	120
11. Other financial assets	86	34. Controlled entities	121
12. Investment and development property	87	35. Investments in associates	126
13. Plant and equipment	90	36. Parent entity	127
14. Other assets	91	37. Subsequent events	127
15. Goodwill and other intangible assets	91	38. Contingent liabilities, contingent assets and credit commitments	128
16. Impairment testing of goodwill	92	Directors' declaration	129
17. Payables	92	Independent auditor's report	130

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

Income statement

	Notes	2012 \$M	2011 \$M
For the year ended 30 June			
Revenue	3	1,387.7	1,526.5
Expenses	4	(716.8)	(673.2)
Finance costs	5	(524.7)	(563.4)
Share of profits of associates	35	8.3	7.9
Profit before tax		154.5	297.8
Income tax benefit/(expense)	6	12.2	(5.3)
Profit for the year		166.7	292.5
Profit attributable to non-controlling interests	26	18.2	31.1
Profit attributable to equity holders		148.5	261.4
Earnings per share			
		cents	cents
Basic earnings per share	8	28.8	54.5
Diluted earnings per share	8	27.8	50.7

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

Statement of comprehensive income

For the year ended 30 June	Notes	2012 \$M	2011 \$M
Profit for the year		166.7	292.5
Other comprehensive income/(expense) net of tax from			
– translation of foreign entities	24	15.3	(41.3)
– hedge of net investment in foreign entities ¹	24	(10.6)	23.8
– cash flow hedges	24	4.5	1.5
– available-for-sale assets ¹	24	–	(1.4)
Other comprehensive income/(expense), net of tax, for the year		9.2	(17.4)
Total comprehensive income for the year		175.9	275.1
Comprehensive income attributable to non-controlling interests		18.2	31.1
Comprehensive income attributable to equity holders		157.7	244.0

¹ Net of tax.

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

Statement of financial position

	Notes	30 June 2012 \$M	30 June 2011 \$M
Assets			
Cash and cash equivalents	9	795.5	788.6
Cash and cash equivalents – SPV ¹	22	364.1	386.4
Receivables	10	114.5	118.3
Mortgage assets – SPV ¹	22	5,347.7	6,889.8
Derivative assets	28	502.6	360.2
Other financial assets – fair value through profit and loss	11	7,334.6	6,012.7
Other financial assets – available-for-sale	11	–	9.5
Investment property held for sale	12	141.2	22.0
Investment and development property	12	2,427.0	2,551.9
Plant and equipment	13	124.3	85.7
Investments in associates	35	51.2	40.9
Other assets	14	56.5	51.4
Goodwill	15	505.7	505.4
Other intangible assets	15	13.7	13.4
Total assets		17,778.6	17,836.2
Liabilities			
Payables	17	303.4	305.3
Derivative liabilities	28	148.5	114.8
Interest bearing financial liabilities	18	1,567.5	1,568.5
Interest bearing financial liabilities – SPV ¹	22	5,248.2	6,968.7
External unit holders' liabilities	19	1,851.2	1,365.4
Provisions	20	27.4	30.3
Current tax liability	6	2.3	3.7
Deferred tax liabilities	6	32.6	51.1
Life contract liabilities	21	6,553.0	5,629.0
Total liabilities		15,734.1	16,036.8
Net assets		2,044.5	1,799.4
Equity			
Contributed equity	23	1,313.1	1,101.1
Reserves	24	109.0	179.8
Retained earnings	25	270.1	207.4
Total equity attributable to equity holders		1,692.2	1,488.3
Non-controlling interests	26	352.3	311.1
Total equity		2,044.5	1,799.4

¹ SPV = Special Purpose Vehicles.

The statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

Equity	Notes	Attributable to equity holders				Non-controlling interests	Total
		Contributed equity \$M	Reserves \$M	Retained earnings \$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		–	–	148.5	148.5	18.2	166.7
Other comprehensive income		–	9.2	–	9.2	–	9.2
Total comprehensive income		–	9.2	148.5	157.7	18.2	175.9
Other equity movements							
Transfer from equity option reserve on exercise of share options	23/24	60.4	(60.4)	–	–	–	–
Additional proceeds on the exercise of share options	23	187.0	–	–	187.0	–	187.0
Shares purchased and cancelled under share buy-back	23	(53.0)	–	–	(53.0)	–	(53.0)
Treasury shares purchased and held in trust, net of forfeitures	23	(61.7)	–	–	(61.7)	–	(61.7)
Vested shares released from the CPP Trust	23	77.4	–	–	77.4	–	77.4
Vested shares released from the Long Term Incentive Plan	23	1.9	–	–	1.9	–	1.9
Share based payment expense less releases	24	–	(27.1)	–	(27.1)	–	(27.1)
Change in holding in adjusted controlling interest reserve	24	–	5.9	–	5.9	–	5.9
Impairment loss taken to income statement	24	–	1.6	–	1.6	–	1.6
Dividends paid	25	–	–	(85.8)	(85.8)	–	(85.8)
Consolidation of controlled entities		–	–	–	–	78.0	78.0
Other non-controlling interest movements		–	–	–	–	(55.0)	(55.0)
At 30 June 2012		1,313.1	109.0	270.1	1,692.2	352.3	2,044.5
At 1 July 2010		1,106.6	211.1	21.9	1,339.6	380.1	1,719.7
Profit for the period		–	–	261.4	261.4	31.1	292.5
Other comprehensive expense		–	(17.4)	–	(17.4)	–	(17.4)
Total comprehensive income		–	(17.4)	261.4	244.0	31.1	275.1
Other equity movements							
Shares purchased and cancelled under share buy-back	23	(44.5)	–	–	(44.5)	–	(44.5)
Treasury shares purchased and held in trust, net of forfeitures	23	(57.4)	–	–	(57.4)	–	(57.4)
Vested shares released from the CPP Trust	23	92.3	–	–	92.3	–	92.3
Vested shares released from the Long Term Incentive Plan	23	4.1	–	–	4.1	–	4.1
Share based payment expense less releases	24	–	(17.5)	–	(17.5)	–	(17.5)
Change in holding in adjusted controlling interest reserve	24	–	3.5	–	3.5	–	3.5
Change in equity premium option reserve	24	–	0.1	–	0.1	–	0.1
Dividends paid	25	–	–	(75.9)	(75.9)	–	(75.9)
Deconsolidation of controlled entities		–	–	–	–	(77.8)	(77.8)
Other non-controlling interest movements		–	–	–	–	(22.3)	(22.3)
At 30 June 2011		1,101.1	179.8	207.4	1,488.3	311.1	1,799.4

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

Statement of cash flows

For the year ended 30 June	Notes	2012 \$M	2011 \$M
Operating activities			
Receipts from customers		878.8	1,025.5
Annuity receipts		1,954.2	1,903.6
Annuity payments		(1,669.3)	(1,255.6)
Payments to reinsurer		(2.3)	(2.2)
Interest paid – external unit holders		(123.7)	(49.3)
Receipts from external unit holders		703.4	59.3
Payments to external unit holders		(239.8)	–
Payments to vendors and employees		(745.3)	(820.4)
Dividends received		39.6	35.7
Interest received		487.0	387.1
Interest paid		(66.4)	(65.7)
Income tax (paid)/refunded		(1.7)	1.9
Net cash inflow from operating activities	32	1,214.5	1,219.9
Investing activities			
Net payments on (purchase)/sale of investments		(1,158.0)	(1,183.9)
Mortgage loans – advanced and purchased		–	(3.9)
Mortgage loans – repaid and sold		1,594.5	1,633.9
Net proceeds from sale of controlled entities/significant transactions		–	59.5
Payments for purchase of plant and equipment		(45.8)	(36.8)
Net cash inflow from investing activities		390.7	468.8
Financing activities			
Proceeds from issue of interest bearing liabilities		200.1	278.3
Repayment of interest bearing liabilities		(1,789.9)	(1,777.1)
Proceeds from options and (treasury shares/buy-back) of shares		104.4	(51.7)
Payments for redemption of units		(31.8)	–
Dividends paid		(85.6)	(75.4)
Distributions paid		(17.8)	(20.3)
Net cash outflow from financing activities		(1,620.6)	(1,646.2)
Net (decrease)/increase in cash and cash equivalents		(15.4)	42.5
Cash and cash equivalents at the start of period		1,175.0	1,132.5
Cash and cash equivalents at the end of period		1,159.6	1,175.0
Cash	9	795.5	788.6
Cash – SPV	22	364.1	386.4
Cash and cash equivalents at the end of period		1,159.6	1,175.0

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). The financial report for Challenger Limited and its controlled entities (the Group or Challenger) for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors of the Company on 17 August 2012.

(i) Basis of preparation

This is a general purpose financial report that has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. Unless stated otherwise, the financial report is presented in Australian dollars, has been prepared on the historical cost basis and amounts are rounded to the nearest one hundred thousand dollars. The assets and liabilities disclosed in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity.

(ii) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(iii) 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

In addition to the changes specifically referred to below, there are a number of amendments to Australian Accounting Standards that are available for early adoption but that have not been applied in this financial report. The amendments would have resulted in only minor disclosure impacts if they had been early adopted.

AASB 9 Financial Instruments

AASB 9 **Financial Instruments** (AASB 9) was issued in December 2009 and is currently mandatory for annual reporting periods beginning on or after 1 January 2013. It provides revised guidance on the classification and measurement of financial instruments and permits more limited criteria for a financial instrument to be measured at amortised cost, with all other financial instruments being measured at fair value. The new standard also limits the ability to recognise fair value movements on financial assets directly in equity.

The Group is currently assessing the impact of this new standard. The classification of a financial instrument will be assessed on the facts at the date of initial application and it is possible that the classification of some financial assets may change upon adoption of the new standard.

AASB 10, 11 and 12

AASB 10 **Consolidated Financial Statements**, AASB 11 **Joint Arrangements** and AASB 12 **Disclosure of Interests in Other Entities** were issued in August 2011 and are mandatory for annual reporting periods beginning on or after 1 January 2013. AASB 10 provides further clarity on the concept of control, AASB 11 updates accounting for joint ventures and AASB 12 enhances disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. Application of AASB 10 is likely to result in some changes to those entities deemed to be controlled by the Group; however, the amounts involved would not be material to the statement of financial position, AASB 11 is not expected to have any impact on the Group and AASB 12 will result in increased disclosure in the 30 June 2014 financial report.

AASB 13

AASB 13 **Fair Value Measurement** was issued in September 2011 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. The Group is currently assessing the impact of this new standard and, while it may result in some differences to the fair values determined, it is not expected to have a material impact on profit or equity upon adoption.

(iv) Basis of consolidation

Controlled entities are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The statement of financial position date and the accounting policies of controlled entities are consistent with those of the Company.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. For controlled entities where the Group owns less than 100% of the issued capital or units, the share of the results and equity attributable to non-controlling interests are shown separately.

The life contract operations of Challenger Life Company Limited are conducted within separate statutory funds as required by the **Life Insurance Act 1995**. Both the shareholders' and policyholders' interests in these statutory funds are reported in aggregate in the financial report of the Group (see Note 1(xxx) **Life contract liabilities**).

Controlled entities are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. The acquisition method of accounting is applied on acquisition or initial consolidation. This method ascribes fair values to the identifiable assets and liabilities acquired. The difference between the net fair value acquired and the fair value of the consideration paid (including the fair value of any pre-existing investment in the entity) is recognised as either goodwill, on the statement of financial position, or a discount on acquisition, through the income statement.

Goodwill is subject to impairment testing as described in Note 1(xxiii).

Investment in associates

Associates are entities over which the Group has significant influence over the financial and operating policies but not control. Investments in associates, other than those backing life contracts, are accounted for under the equity method whereby investments are carried at cost adjusted for post-acquisition changes in the Group's share of the net assets of the entity. Investments in associates that back life contracts are designated as financial assets at fair value through profit and loss.

Associates' financial reports are used to apply the equity method and both the financial year end and accounting policies of associated entities are consistent with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss in the carrying value of the net investment in associates.

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

Special Purpose Vehicles (SPV)

The Group manages and services trusts that hold residential mortgage assets and securitised financial liabilities. As the Group retains the right to the residual income of these trusts, it is deemed to control them and, as a result, they are consolidated.

(v) Comparatives

Where necessary, comparative figures have been reclassified to conform to the changes in presentation made in this financial report.

(vi) Rounding of amounts

Amounts in this financial report are rounded to the nearest hundred thousand dollars (\$0.0M), unless otherwise stated, under the option available to the Company under ASIC Class Order 98/100.

(vii) Segment reporting

Operating segments are identified on the basis of internal reports to senior management and comprise component parts of the Group that are regularly reviewed by senior management in order to allocate resources and assess performance.

(viii) Revenue

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

- Management fee revenue is derived from the provision of investment management services to the Group's managed investment products and residential mortgage assets. Revenue is recognised when the services are deemed to have been earned using an effective interest rate method over the life of the contract.
- Interest revenue is recognised as it accrues using an effective interest rate, taking into account the effective yield of the financial asset.
- Dividends on listed equity shares are recognised as income on the date the share is quoted ex-dividend. Dividends from unlisted companies are recognised when the dividend is declared.
- Gains or losses arising from changes in the fair value of financial instruments classified as fair value through profit and loss are recognised as revenue in the income statement when the change in value is recognised in the statement of financial position.
- Rental revenue from investment properties is accounted for on a straight line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

1. Basis of preparation and accounting policies (continued)

(viii) Revenue (continued)

- Operating lease rental income is earned on a straight line basis over the life of the contract.
- The portion of the change in life contract liabilities recognised in the income statement that relates to changes in discount rates, inflation rates and other assumption changes is classified as revenue. The remaining change is classified as an expense. See Note 1(xxx) for more detail on the recognition and measurement of life contract liabilities.

(ix) Expenses

Expenses are generally recognised on an accrual basis. The following specific policies are applied:

- See Note 1(xxi) for details of how the costs incurred in the establishment of special purpose vehicles and the origination of interest bearing liabilities are recognised in the income statement.
- Expenses incurred under an investment property operating lease are recognised on a straight line basis over the term of the lease.
- Investment property expenditure, including rates, taxes, insurance and other costs associated with the upkeep of a building, are brought to account on an accrual basis. Repair costs are expensed when incurred. Other amounts that improve the condition of the investment are capitalised into the carrying value of the asset.
- Changes in life contract liabilities recognised as an expense consist of the interest expense on the liability, any loss on the initial recognition of new business less the release of expenses over the period. The interest on the liability represents the unwind of the discount on the opening liability over the period, whereas the impacts of the changes in discount rate applied for the current valuation are included in the change in the life contract liabilities disclosed in Revenue. See Note 1(xxx) for more detail on the recognition and measurement of life contract liabilities.

(x) Finance costs

Finance costs represent interest on interest bearing financial liabilities (primarily the securitised residential mortgage backed securities issued by the special purpose vehicles, bank loans and other borrowings) and are recognised as an expense in the period in which they are incurred.

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

To the extent that the Group allocates general borrowed funds for the purpose of obtaining a qualifying property asset, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period, other than borrowing made specifically for the purpose of obtaining the qualifying asset.

(xi) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as an asset or liability in the statement of financial position.

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

(xii) Income tax

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

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

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

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

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

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

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss in the income statement. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation

Challenger Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. Challenger Limited is the head entity of the tax consolidated group.

Tax effect accounting by members of the tax group

Members of the tax consolidated group have applied tax funding principles under which Challenger Limited and each of the members of the tax consolidated group agree to pay tax equivalent payments to or from the head entity, based on the current tax liability or current tax asset of the member. Such amounts are reflected in the amounts receivable from or payable to each member and the head entity. The group allocation approach is applied in determining the appropriate amount of current tax liability or current tax asset to allocate to members of the tax consolidated group.

(xiii) Foreign currency

Both the presentation currency and the functional currency of the Company and its controlled Australian entities are Australian dollars. A number of foreign controlled entities have a functional currency other than Australian dollars.

Transactions

Transactions in foreign currency are translated into presentation currency, Australian dollars, at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Australian dollars at the foreign exchange rate ruling at the statement of financial position date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated to the functional currency using the exchange rates ruling at the date when the fair value was determined.

Derivatives are used to hedge the foreign exchange risk relating to certain transactions. Refer to Note 1(xvi).

1. Basis of preparation and accounting policies (continued)

(xiii) Foreign currency (continued)

Foreign controlled entities

On consolidation, the assets and liabilities of foreign subsidiaries whose functional currency differs from the presentation currency are translated into Australian dollars at the rate of exchange ruling at the statement of financial position date. Exchange differences arising on the retranslation are taken directly to the foreign currency translation reserve in equity. The change in fair value of derivative financial instruments designated as a hedge of the net investment in a foreign controlled entity is also recognised in the foreign currency translation reserve.

On disposal of a foreign controlled entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

(xiv) Cash and cash equivalents

Cash and cash equivalents are financial assets and comprise cash at bank and in hand plus short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are recognised at the fair value. For the purposes of the statement of cash flows, cash and cash equivalents are stated net of bank overdrafts.

(xv) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include mortgage assets, trade and other receivables and are recognised at their amortised cost less impairment losses.

Receivables are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

(xvi) Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its risks associated with interest rate and foreign currency fluctuations but does not hold derivative financial instruments for trading purposes. All derivative financial instruments are stated at fair value. Gains or losses arising from fair value changes on derivatives that do not qualify for hedge accounting are recognised in the income statement.

For the purpose of hedge accounting, hedges are classified as:

- **fair value hedges** when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- **cash flow hedges** when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- **hedges of net investments in foreign operations** when they hedge the exposure to changes in the value of the assets and liabilities of foreign controlled entity when they are translated from their functional currency to the presentation currency.

At the inception of a hedge relationship to which the Group wishes to apply hedge accounting, the Group formally designates and documents the hedge relationship and the risk management objectives and strategies for undertaking the hedge. The documentation includes: identification of the hedging instrument; the hedged item or transaction; the nature of the risk being hedged; and how the entity will assess the effectiveness of the instrument in offsetting the exposure to changes in the hedged item.

Such hedges are expected to be highly effective in achieving offsetting changes in fair values, cash flows or foreign exchange difference and are assessed on an ongoing basis to determine that they actually have been highly effective over the period that they were designated.

Fair value hedges

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

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

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

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

Cash flow hedges

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

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Hedges of net investments in foreign operations

The gain or loss on the effective portion of the hedging instrument is recognised directly in equity and the gain or loss on the ineffective portion is recognised immediately in the income statement. The cumulative gain or loss previously recognised in equity is recognised in other comprehensive income on disposal or partial disposal of the foreign operation.

(xvii) Other financial assets

The Group classifies its other financial assets into the following categories: **financial assets at fair value through profit or loss** (being either held for the purposes of trading or initially designated as such); or **available-for-sale**. The classification depends on the definition and the purpose for which the investments were acquired. The classification of investments is determined at initial recognition and evaluated at each reporting date.

Purchases and sales of other financial assets are recognised on the date on which the Group commits to purchase or sell the asset. Other financial assets are initially recognised at fair value (plus transaction costs for available-for-sale assets). Other financial assets are derecognised when the right to receive cash flows from the asset has expired or when the risks and rewards of ownership have been substantially transferred.

The fair value of other financial assets that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the statement of financial position date.

For assets for which no active market exists, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Financial assets at fair value through profit and loss

Financial assets classified in this category are assets either held for the purposes of trading or designated as fair value through profit and loss on initial recognition. Held for trading assets consist of debt or equity securities. They are carried at fair value with unrealised gains and losses being recognised through the income statement. Assets designated as fair value through profit and loss consist of infrastructure and property securities. Assets backing life contract liabilities of the statutory fund are required to be designated as fair value through profit and loss in accordance with AASB 1038 **Life Insurance Contracts**.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are either designated into this category or are not classified as either receivables or financial assets through profit and loss.

After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity. When the asset is derecognised, or is determined to be impaired, the cumulative gain or loss previously reported in equity is recognised in the income statement.

1. Basis of preparation and accounting policies (continued)

(xviii) Investment property

Investment property is initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment property is recognised at fair value. Independent valuations for all investment properties are conducted at least annually, from suitably qualified valuers, and the Directors make reference to these independent valuations when determining fair value. When a sale price for a property has been agreed prior to the period end for a sale subsequent to the period end, the agreed sale price is taken as the fair value and the property is classified as **investment property held for sale**.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

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

Investment property under development

When redevelopment of an existing investment property commences, it continues to be classified and measured as investment property when the asset is being redeveloped for continued future use as an investment property.

Investment property under construction is held at cost until an estimate of the fair value can be reliably determined.

Development property held for resale

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

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

(xix) Plant and equipment

Items of plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis to write off the net cost of each class of fixed assets over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful life of plant and equipment is three to five years.

Infrastructure fixed assets

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

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

(xx) Operating leases

Leases where the lessor retains substantially all the risk and benefits of ownership are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the term of the lease on the same basis as the lease income.

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

Where the Group acquires, as part of a business combination, an operating lease over land, the fair value of the operating lease over land is recognised separately from goodwill. See Note 1(xxii) below. Other operating lease payments are charged to the income statement in the periods in which they are incurred.

Surplus lease space

The present value of future payments for surplus lease space under non-cancellable operating leases, net of sub-leasing revenue, is recognised as a provision in the period in which it is determined that the lease space will be of no future benefit to the Group. See Note 1(xxviii) below.

(xxi) Prepayments

Deferred portfolio costs

Portfolio costs represent the expenses incurred in establishing mortgage trusts. They are recognised as an asset when incurred and subsequently amortised in the income statement as the future economic benefits from the mortgage assets are expected to be received.

Deferred origination costs

Origination costs are expenses incurred as a direct result of the origination of mortgage loans to customers. These costs are recognised as an asset and subsequently amortised through the income statement in line with the pattern of expected future economic benefits arising from the related mortgage asset.

(xxii) Goodwill and other intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the fair value of the consideration for the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit, or group of units, to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit (or group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses recognised for goodwill are not subsequently reversed.

Other intangible assets

Other intangible assets acquired are recorded at cost less accumulated amortisation and impairment losses. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition.

As stated in Note 1(xx) above, where the Group acquires, as part of a business combination, an operating lease over land, the fair value of this lease is recognised separately from goodwill. This intangible asset is recorded at fair value less accumulated amortisation. Amortisation is calculated using the straight line method over the effective life of the lease, being 25 years.

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

(xxiii) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset not carried at fair value may be impaired. If any such indication exists, the Group makes a formal estimation of the asset's recoverable amount.

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

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal of that previous revaluation with any excess recognised through the income statement.

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

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

1. Basis of preparation and accounting policies (continued)

(xxiv) Payables

Payables represent unsecured non-derivative, non-interest bearing financial liabilities in respect of goods and services provided to the Group prior to the end of the financial year. They include accruals, trade and other creditors and are recognised at amortised costs.

(xxv) Interest bearing financial liabilities

Capital market issuances of interest bearing liabilities, including property debt issued by controlled property trusts and the subordinated debt issued by the Company, are recognised at fair value with unrealised gains and losses recognised through the income statement.

Other interest bearing financial liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, other interest bearing financial liabilities are subsequently measured at amortised cost using the effective interest method.

(xxvi) Employee benefits

Superannuation funds

Obligations for contributions to superannuation funds are recognised as an expense in the income statement as incurred. The Group does not hold or pay into any defined benefit superannuation schemes on behalf of employees.

Wages, salaries, annual leave and non-monetary benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date, are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for accumulated sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

A liability for long service leave is recognised as the present value of estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The estimated future cash outflows are discounted using bond yields from Australian Commonwealth government bonds which have durations to match, as closely as possible, the estimated future cash outflows.

Factors which affect the estimated future cash outflows such as expected future salary increases, experience of employee departures and period of service, are included in the measurement.

(xxvii) External unit holders' liabilities

The Group controls a number of guaranteed index return trusts that contain funds pertaining to fixed term wholesale mandates. The fixed term and guaranteed nature of the mandates effectively places the balance of the risks related to the performance of the trusts with the Group. As a result, the Group is deemed to control these trusts. The contributed funds for these trusts are classed as a liability and **external unit holders' liabilities** on the statement of financial position represents the funds owing to third parties on these mandates. The liability is recognised at fair value.

(xxviii) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(xxix) Restrictions on assets

Financial assets held in Challenger Life Company Limited can only be used within the restrictions imposed under the **Life Insurance Act 1995**. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that statutory fund, to acquire investments to further the business of the statutory fund or as distributions when solvency and capital adequacy requirements are met.

(xxx) Life contract liabilities

The operations of the Group include the selling and administration of contracts through Challenger Life Company Limited. These contracts are governed under the **Life Insurance Act 1995** (the Life Act) and are classified as either life insurance contracts or life investment contracts. Life insurance and life investment contract liabilities are collectively referred to as life contract liabilities or policy liabilities.

Life investment contract liabilities

Life investment contracts are contracts regulated under the Life Act but which do not meet the definition of life insurance contracts under AASB 1038 **Life Insurance Contracts** and similar contracts issued by entities operating outside of Australia.

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

Life insurance contract liabilities

Life insurance contracts are contracts regulated under the Life Act that involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS). Under MoS, the excess of premium received over payments to customers and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service) unless future margins are negative, in which case the future losses are recognised. Any planned release of this margin is recognised in the income statement as part of the movement in life contract liabilities.

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

Reinsurance

The Margin on Services (MoS) methodology requires the present value of future cash flows arising from reinsurance contracts to be included in the calculation of life insurance contract liabilities. The statement of financial position therefore shows life insurance contract liabilities net of reinsurance and the change recognised in the income statement is also shown net of reinsurance.

(xxxii) Contributed equity

Ordinary shares are classified as equity. Issued capital in respect of ordinary shares is recognised as the fair value of the consideration received by the parent entity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares are ordinary shares in the Company held by the employee share trust and those issued in respect of long term incentive plan awards to employees. Refer to Note 1(xxxiii) for further details.

(xxxiii) Earnings per share

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

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

(xxxiv) Share based payment transactions

Long-term equity based incentive plan

The Group has an employee share incentive plan and an employee share trust for the granting of non-transferable options to executives and senior employees. Shares in the Company held by the employee share trust are classified as treasury shares and presented in the statement of financial position as a deduction from equity.

Employees of the Group receive remuneration in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (market conditions).

1. Basis of preparation and accounting policies (continued)

(xxxiii) Share based payment transactions (continued)

Long-term equity based incentive plan (continued)

In accordance with Australian Accounting Standards, the cost of equity-settled transactions is recognised in the income statement, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). At the Company level, the cost of the equity shares is recognised as an equity distribution, whereby the investment in subsidiary is increased with a corresponding increase in the share based equity reserve.

The cumulative expense or investment recognised for equity-settled transactions at each reporting date reflects the extent to which the vesting period has expired and the best estimate of the number of awards that will ultimately vest.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled during the vesting period (other than a grant cancelled forfeiture when the vesting conditions are not satisfied), it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

(xxxiv) Employee Share Acquisition Plan

Share based compensation benefits are provided to employees via the Challenger Performance Plan (CPP). The Group has formed a trust to administer the Group's employee share acquisition plan. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

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

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

(xxxv) Significant accounting judgements, estimates and assumptions

The carrying values of amounts recognised on the statement of financial position are often based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the recognised amounts within the next annual reporting period are:

Share based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the ordinary shares at the date at which they are granted. The fair value is determined using the Black-Scholes formula, taking into account the terms and conditions upon which the equity instruments were granted, as discussed in Note 31. The fair value calculation is performed by an external valuer.

Life insurance contract liabilities

Life insurance contract liabilities are recognised under the MoS methodology described in Note 1(xxx). Significant judgement is applied in the MoS liability valuation as it involves the application of actuarial assumptions.

The key areas of judgement in the determination of the actuarial assumptions are: the duration of claims/policy payments; acquisition and maintenance expense levels; and economic assumptions for discount and inflation rates. Additional information on the life insurance contract liabilities is set out in Note 21 **Life Contract Liabilities**.

Property valuations

Investment properties are stated at fair value based on valuations performed by independent valuers.

The independent valuer is authorised to practise under the law of the relevant jurisdiction where the valuation takes place and has at least five years of continuous experience in the valuation of property of a similar type to the property being valued. The valuer has no pecuniary interest that could conflict with the valuation of the property and complies with the Australian Property Institute (API) Code of Ethics and Rules of Conduct.

Fair value for the purposes of the valuation is **market value** as defined by The International Assets Valuation Standards Committee. In determining market value, valuers examine available market evidence and apply this analysis to both the traditional capitalisation and discounted cash flow approach.

Interest bearing financial liabilities

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

Deferred tax assets

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

Unlisted investment valuations

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

Impairment of goodwill

The Group assesses whether goodwill is impaired at least annually in accordance with the accounting policy in Note 1(xxiii). These calculations involve an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated.

2. Segment information

Business segments

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

For the year ended 30 June	Life	
	2012 \$M	2011 \$M
Net income ¹	435.7	400.8
Operating expenses ¹	(68.0)	(52.0)
Normalised EBIT¹	367.7	348.8
Interest and borrowing costs ¹	–	–
Normalised net profit before tax/segment profit	367.7	348.8
Tax on normalised profit		
Normalised net profit after tax		
Investment experience after tax ¹		
Significant items after tax		
Profit attributable to equity holders		
As at 30 June		
Segment assets	10,647.7	9,177.7
Segment liabilities	(8,987.0)	(7,627.8)
Net assets	1,660.7	1,549.9

¹ See page 80 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.

	Funds Management		Total reporting segments		Corporate and other ²		Total	
	2012 \$M	2011 \$M	2012 \$M	2011 \$M	2012 \$M	2011 \$M	2012 \$M	2011 \$M
	83.0	88.4	518.7	489.2	8.8	4.8	527.5	494.0
	(62.0)	(68.3)	(130.0)	(120.3)	(59.2)	(59.9)	(189.2)	(180.2)
	21.0	20.1	388.7	368.9	(50.4)	(55.1)	338.3	313.8
	–	–	–	–	(3.3)	(2.7)	(3.3)	(2.7)
	21.0	20.1	388.7	368.9	(53.7)	(57.8)	335.0	311.1
							(38.2)	(63.1)
							296.8	248.0
							(148.3)	(28.7)
							–	42.1
							148.5	261.4
	140.4	151.8	10,788.1	9,329.5	6,990.5	8,506.7	17,778.6	17,836.2
	(13.1)	(15.9)	(9,000.1)	(7,643.7)	(6,734.0)	(8,393.1)	(15,734.1)	(16,036.8)
	127.3	135.9	1,788.0	1,685.8	256.5	113.6	2,044.5	1,799.4

2. Segment information (continued)

Business segments (continued)

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, and interest), 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, corporate 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 medium to 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 medium to long-term 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 Officer (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 Fidante Partners and Aligned Investments 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 significant 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 Investments 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.

	30 June 2012 \$M	30 June 2011 \$M
Reconciliation of management view of revenue to statutory revenue		
Reporting segments	518.7	489.2
Corporate and other	8.8	4.8
Net income – management view of revenue	527.5	494.0
Expenses and finance costs offset against management revenue		
SPV expenses and finance costs offset against SPV income	320.7	426.7
Commission expenses offset against commission income	53.8	56.9
Amortisation of deferred portfolio and origination costs offset against mortgage income	2.8	14.8
Change in life contract liabilities recognised in expenses offset against revenue	330.3	275.0
Property expenses offset against property income	65.0	63.2
Interest and loan amortisation costs	202.5	143.6
Management fees	49.4	53.6
Adjustment for non-controlling interests and other items	30.8	39.7
Difference between management view of investment experience and statutory recognition		
Total actual capital growth	(91.8)	1.1
Normalised capital growth	(43.7)	(45.5)
Actuarial assumption changes	(59.6)	3.4
Statutory view – revenue	1,387.7	1,526.5
Reconciliation of management to statutory view of pre-tax profit		
Reportable segment normalised net profit before tax	388.6	368.9
Corporate and other normalised net loss before tax	(53.6)	(57.8)
Normalised net profit before tax – management view of pre-tax profit	335.0	311.1
Investment experience before tax	(195.1)	(41.0)
Profit attributable to non-controlling interests excluded from management view	18.2	31.1
Other	(3.6)	(3.4)
Statutory view – profit before tax	154.5	297.8

Notes to the financial statements

3. Revenue

	30 June 2012 \$M	30 June 2011 \$M
Fee revenue		
Management fee revenue	87.6	91.8
Fee revenue – SPV	5.6	10.4
Other fee revenue	0.8	4.4
Investment revenue		
Equity and infrastructure investments		
Dividend revenue	26.0	31.8
Net realised loss on equity investments	(3.3)	(1.2)
Net unrealised (loss)/gain on equity investments	(21.9)	25.1
Net realised loss on infrastructure investments	–	(0.2)
Net unrealised gain/(loss) on infrastructure investments	76.7	(61.9)
Debt securities and cash		
Interest revenue	492.2	411.0
Net realised gain on debt securities	67.5	32.5
Net unrealised gain on debt securities ¹	105.0	17.7
Investment property and property securities		
Dividend revenue	4.5	2.0
Property rental revenue	238.9	231.9
Net realised loss on investment property and property securities	(1.4)	(0.1)
Net unrealised gain on investment property and property securities	10.6	5.4
Other		
Interest revenue – SPV	494.4	622.1
Net realised gain on foreign exchange translation and hedges	15.5	157.2
Net unrealised gain/(loss) on foreign exchange translation and hedges	29.1	(67.0)
Net realised loss on interest rate derivatives	(25.4)	(4.5)
Net unrealised gain/(loss) on interest rate derivatives	96.6	(19.5)
Other revenue		
Change in life contract liabilities ²	(263.6)	51.8
Change in reinsurance contract liabilities	(47.7)	(14.2)
Total revenue	1,387.7	1,526.5

¹ Includes fair value movements in subordinated debt (Note 27).

² 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

	30 June 2012 \$M	30 June 2011 \$M
Cost of life contract liabilities ¹	330.3	275.0
Property related expenses	65.0	63.2
Management fees	49.4	53.6
Commission expenses	53.8	56.9
Amortisation of deferred portfolio and origination costs	2.8	14.8
Fee expenses – SPV	3.0	9.6
Intangibles amortisation expense	1.3	1.3
Employee expenses	104.2	103.0
Employee share based payments	22.5	25.7
Superannuation	4.7	4.3
Occupancy expense – operating lease	6.9	4.5
Depreciation expense	6.9	6.4
Communications	16.4	12.8
IT maintenance	4.4	4.9
Professional fees	13.1	11.0
Other expenses	32.1	26.2
Total expenses	716.8	673.2

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

	30 June 2012 \$M	30 June 2011 \$M
Interest and loan amortisation expenses incurred by:		
– SPV	317.7	417.1
– Property trusts	21.4	24.9
– Other entities	181.1	118.7
Other finance costs	4.5	2.7
Total finance costs	524.7	563.4

Notes to the financial statements

6. Income tax

	30 June 2012 \$M	30 June 2011 \$M
Analysis of income tax benefit/(expense)		
Current income tax benefit for the period	64.6	21.3
Current income tax benefit/(expense) prior period adjustment	10.3	(2.3)
Deferred income tax expense	(62.7)	(24.3)
Total income tax benefit/(expense)	12.2	(5.3)
Income tax benefit/(expense) on hedge of net investment in foreign entity	4.5	(10.2)
Income tax benefit on available-for-sale asset revaluations taken to equity	–	0.6
Income tax benefit/(expense) from other comprehensive income	4.5	(9.6)
Reconciliation of income tax expense:		
Profit before income tax	154.5	297.8
Prima facie income tax based on the Australian company tax rate of 30%	(46.3)	(89.3)
Tax effect of amounts not deductible/assessable in calculating taxable income:		
Non-assessable and non-deductible items ¹	63.5	31.8
Rate differential on offshore income	0.1	0.7
Tax provision release ²	–	42.1
Other items	(5.1)	9.4
Income tax benefit/(expense)	12.2	(5.3)

¹ The 30 June 2012 amount includes \$30 million in respect of the application of the Taxation of Financial Arrangements laws for which an ATO private binding ruling was received in February 2012. This will also result in a circa \$30 million net reduction of the tax expense for the following two financial years 2013 to 2014.

² In May 2011, confirmation was received from the ATO that there were no further matters arising from the Group's tax treatment of specific items identified in a tax audit of prior years. As a result, a legacy tax provision was released.

	Statement of financial position		Income statement	
	30 June 2012 \$M	30 June 2011 \$M	30 June 2012 \$M	30 June 2011 \$M
Analysis of deferred tax				
Deferred tax assets				
Accruals and provisions	33.3	32.5	3.1	4.5
Employee entitlements	2.3	2.1	0.2	(0.3)
Losses	143.1	80.2	(14.8)	(73.7)
Other	6.7	13.5	(3.2)	3.4
	185.4	128.3		
Deferred tax liabilities				
Deferred acquisition and origination costs	(3.1)	(3.7)	0.7	4.2
Fixed asset temporary differences	0.1	(0.7)	0.8	0.9
Unrealised foreign exchange movements	(1.7)	(0.7)	(1.0)	(7.1)
Unrealised gains on investment property	(170.5)	(146.9)	(35.1)	15.6
Other	(42.8)	(27.4)	(13.4)	28.2
	(218.0)	(179.4)		
Net deferred tax liability	(32.6)	(51.1)		
Deferred income tax expense			(62.7)	(24.3)

Unused capital losses – Unused gross capital losses have reduced from \$131.3 million at 30 June 2011 to \$99.7 million at 30 June 2012 due to current year capital gains that arose during the year. No deferred tax asset has been recognised in respect of these capital losses.

7. Dividends paid and proposed

	30 June 2012 \$M	30 June 2011 \$M
Dividends declared and paid during the year		
Final 30 June 2011 unfranked dividend: 9.5 cents (2010: 8.5 cents unfranked)	45.8	41.8
Interim 30 June 2012 unfranked dividend: 7.5 cents (2011: 7.0 cents unfranked)	40.0	34.1
Total dividends declared and paid during the year	85.8	75.9
Dividend proposed (not recognised as a liability at 30 June)		
Final 30 June 2012 unfranked dividend: 10.5 cents (2011: 9.5 cents unfranked)	55.5	45.8

8. Earnings per share

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

	30 June 2012 Cents	30 June 2011 Cents
Basic earnings per share	28.8	54.5
Diluted earnings per share	27.8	50.7
Profit used in the calculation of earnings per share	\$M	\$M
Profit attributable to equity holders	148.5	261.4
Number of shares	Number	Number
Weighted average ordinary shares for basic earnings per share	516,419,219	479,394,450
Effect of dilution	16,876,774	36,485,082
Weighted average ordinary shares for diluted earnings per share	533,295,993	515,879,532

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 17,503,214 (2011: 25,152,356). There have been no material transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of the financial report.

9. Cash and cash equivalents

	30 June 2012 \$M	30 June 2011 \$M
Cash at bank and on hand	402.3	286.8
Deposits at call	81.0	36.5
Other cash equivalents	312.2	465.3
Total cash and cash equivalents	795.5	788.6

10. Receivables

	30 June 2012 \$M	30 June 2011 \$M
Interest receivable	69.2	62.3
Trade debtors	14.4	23.9
Amounts recoverable from managed trusts	6.7	6.1
Dividends and distributions receivable	9.9	9.8
Other debtors	14.3	16.2
Total receivables¹	114.5	118.3

¹ All receivables are current.

11. Other financial assets

	30 June 2012 \$M	30 June 2011 \$M
Financial assets at fair value through profit and loss¹		
Debt securities		
Domestic sovereign bonds	69.0	277.8
Corporate bonds	4,237.0	3,247.4
Residential mortgage and asset backed securities	1,705.5	1,111.1
Non-SPV mortgage assets	190.9	253.8
	6,202.4	4,890.1
Equity securities		
Shares in listed and unlisted corporations	129.6	141.9
Unit trusts and managed funds	98.6	109.7
Shares in listed corporations held in relation to endowment warrants ²	4.2	41.5
	232.4	293.1
Infrastructure investments		
Units in listed and unlisted infrastructure trusts	446.3	416.2
Other infrastructure investments	281.3	239.9
	727.6	656.1
Property securities		
Indirect property investments in listed and unlisted trusts	172.2	173.4
Total financial assets at fair value through profit and loss	7,334.6	6,012.7
Available for sale equity securities ³	–	9.5
Total other financial assets	7,334.6	6,022.2
Current	4,374.1	3,139.8
Non-current	2,960.5	2,882.4
	7,334.6	6,022.2

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. See Note 17 for the corresponding liability.

³ All available-for-sale financial assets were non-current.

12. Investment and development property

	30 June 2012 \$M	30 June 2011 \$M
Investment property held for sale ¹	141.2	22.0
Investment property in use	2,327.4	2,444.9
Investment property under development ²	17.8	27.0
Total investment property	2,486.4	2,493.9
Development property ³	81.8	80.0
Total investment and development property⁴	2,568.2	2,573.9
Held for sale	141.2	22.0
In use/under development	2,427.0	2,551.9
Reconciliation of carrying amounts		
Investment property in use		
Opening balance	2,444.9	2,487.0
Transfer from investment property under development	32.0	–
Acquisitions ⁵	–	85.7
Sale of properties at cost ⁶	(68.2)	(14.6)
Transfer to investment property held for sale ¹	(141.2)	(22.0)
Capital expenditure	31.5	10.4
Foreign currency exchange gain/(loss)	27.8	(106.6)
Net revaluation gain/(loss)	0.6	5.0
Closing balance	2,327.4	2,444.9
Investment property under development²		
Opening balance	27.0	25.0
Transfer to investment property at fair value	(32.0)	–
Capital expenditure	24.3	5.4
Net revaluation loss	(1.5)	(3.4)
Closing balance	17.8	27.0
Development property³		
Opening balance	80.0	98.1
Sale of properties at cost	(8.0)	(30.5)
Development expenditure	9.8	12.4
Closing balance	81.8	80.0

¹ CLC properties held for sale as at 30 June 2012 are 417 St Kilda Rd, Victoria and Rendezvous Hotels, Victoria. On 11 July 2012, contracts were exchanged for the sale of Rendezvous Hotels for \$61.0 million being the book value at 30 June 2012. Settlement is expected to occur 60 days after date of exchange. June 2011 balance relates to Pacific Brands, Port Melbourne which has subsequently been settled in July 2011.

² Investment properties under development are shown at fair value.

³ Development property is held at the lower of cost or net realisable value, being fair value on completion less costs to complete and estimated selling costs.

⁴ Other than the amount described in 1 above, all investment and development property is considered to be non-current.

⁵ June 2011 balance relates to acquisition of 31 Queen Street, Melbourne.

⁶ During the year, the Group sold Life Kema, Japan (at cost value of \$26.9 million) and Goodman Fielder, NSW (at cost value of \$41.3 million). June 2011 balance relates to sale of API Richlands, Queensland and 6 Rue Doudadoure, France.

12. Investment and development property (continued)

Analysis of investment property

	Acquisition date	Total cost ¹⁶ \$M	Carrying value 2012 \$M	Cap rate ¹⁷ 2012 %	Latest external valuation	Carrying value 2011 \$M	Cap rate ¹⁷ 2011 %
Investment property in use							
Australia							
Century City Walk, VIC ^{1,5}	16-Oct-06 & 30-June-08	27.9	30.0	8.5	30-Jun-12	30.0	8.50
Innaloo Cinema, WA ^{2,4}	17-Dec-01	28.9	42.5	8.00	30-Jun-12	41.0	8.00
Jam Factory, VIC ^{2,4}	4-Jul-00	116.6	118.9	7.75	30-Jun-12	104.0	8.25
Kings Langley, NSW ^{2,5}	29-Jul-01	16.6	15.6	8.75	30-Jun-12	15.7	8.75
County Court, VIC ⁸	30-Jun-00	204.9	276.6	7.25	31-Dec-11	276.1	7.25
CSIRO, NSW ⁶	27-Jun-01	150.7	159.0	8.00	30-Jun-12	159.1	8.00
Pacific Brands, Port Melbourne, VIC ^{2,19}	13-Nov-02	—	—	n/a	n/a	22.0	n/a
Goodman Fielder, North Ryde, NSW ^{2,18}	23-Feb-01	—	—	9.50	n/a	39.2	8.50
Kraft, Port Melbourne, VIC ^{2,8}	28-Jun-02	28.7	22.6	9.50	31-Dec-11	23.2	8.50
Rexel, North Ryde, NSW ^{1,6}	30-Nov-06 & 30-Jun-08	18.1	9.9	8.25	30-Jun-12	13.4	8.75
ABS Building, ACT ^{2,8}	1-Jan-00	116.4	146.0	8.25	30-Jun-12	148.0	7.75
DIAC Building, ACT ^{2,8}	1-Dec-01	101.2	115.0	8.00	30-Jun-12	113.2	7.75
Discovery House, ACT ^{2,5}	28-Apr-98	85.2	102.4	7.75	31-Dec-11	101.5	7.50
Elders House, SA ^{2,8}	21-Jun-02	48.1	46.5	9.00	30-Jun-12	47.5	8.75
Executive Building, Hobart, TAS ^{2,5}	30-Mar-01	26.4	34.0	8.75	30-Jun-12	34.0	8.75
Makerston, QLD ^{2,8}	14-Dec-00	57.8	75.2	8.50	31-Dec-11	70.6	8.63
31 Queen Street, VIC ^{1,8}	31-Mar-11	88.4	91.0	8.00	30-Jun-12	86.5	8.00
417 St Kilda Rd, Melbourne, VIC ^{5,14}	27-Jun-02	88.4	80.2	8.50	30-Jun-12	79.5	8.50
Taylor's Institute, Waterloo, NSW ^{2,5}	16-May-01	42.2	44.8	8.25	31-Dec-11	44.8	8.25
The Forum, Cisco, NSW ^{2,5}	5-Jan-01	113.6	105.1	8.25	31-Dec-11	103.2	8.35
The Forum, Verizon, NSW ^{2,5}	5-Jan-01	78.6	69.7	8.50	31-Dec-11	62.1	8.50
6 Foray St, Fairfield, NSW ^{1,6}	23-Oct-06	21.4	15.2	10.00	30-Jun-12	16.5	10.25
Cosgrove Industrial Park, Enfield, NSW ^{1,6}	31-Mar-07	57.1	54.4	7.75	30-Jun-12	20.7	8.25
Spotlight, Laverton North, VIC ^{1,5}	16-Oct-06	16.7	17.4	8.25	31-Dec-11	14.8	8.75
12-30 Toll Drive, Altona North, VIC ^{1,6}	16-Oct-06	13.6	14.0	8.75	30-Jun-12	13.4	8.75
2-10 Toll Drive, Altona North, VIC ^{1,5}	16-Oct-06	6.3	6.4	8.75	31-Dec-11	6.2	8.65
1-9 Toll Drive, Altona North, VIC ^{1,6}	16-Oct-06	3.3	3.9	8.50	30-Jun-12	3.6	8.50
Rendezvous Hotels ^{4,14,15}	8-Dec-05	56.9	61.0	8.25	30-Jun-12	61.1	8.50
Total Australia		1,614.0	1,757.3			1,750.9	
Hungary¹¹							
Mangro Kft	12-Apr-07	27.0	9.5	11.49	30-Jun-12	11.3	11.39
Namoc Kft	12-Apr-07	10.2	3.2	11.49	30-Jun-12	3.9	11.39
Rozalia Kft	12-Apr-07	11.1	3.6	11.49	30-Jun-12	4.4	11.39
Rozal Kft	12-Apr-07	6.4	2.1	11.49	30-Jun-12	2.5	11.39
Lazor Kft	12-Apr-07	6.5	2.1	11.49	30-Jun-12	2.5	11.39
Surplus Land	12-Apr-07	0.9	0.4	11.49	30-Jun-12	0.7	11.39
France^{1,7}							
Rue Charles Nicolle, Villeneuve les Beziers	06-Jun-07	12.9	10.2	8.25	30-Jun-12	12.1	7.98
Avenue de Savigny, Aulnay sous Bois	06-Jun-07	15.3	11.5	6.25	30-Jun-12	11.9	6.50
105 Route d'Orleans, Sully sur Loire	06-Jun-07	19.6	11.1	9.20	30-Jun-12	14.4	8.50
140 Rue Marcel Paul, Gennevilliers	06-Jun-07	10.0	9.0	7.10	30-Jun-12	9.9	7.21
ZAC Papillon, Parçay-Meslay	06-Jun-07	7.9	5.4	8.65	30-Jun-12	6.6	8.00

	Acquisition date	Total cost ¹⁶ \$M	Carrying value 2012 \$M	Cap rate ¹⁷ 2012 %	Latest external valuation	Carrying value 2011 \$M	Cap rate ¹⁷ 2011 %
Investment property in use							
Japan							
Carino Chitosedai ^{3,9}	30-Jun-07	117.9	114.1	5.20	31-Dec-11	107.6	5.00
Carino Tokiwadai ^{3,10}	30-Apr-07	76.9	69.7	5.20	30-Jun-12	66.3	5.20
Izumiya Hakubaicho ^{3,9}	30-Apr-07	68.0	65.2	5.30	31-Dec-11	61.3	5.30
Unicus Ina ^{3,9}	30-Apr-07	56.3	52.1	5.30	30-Jun-12	49.2	5.30
Valor Toda ^{3,9}	30-Apr-07	42.2	40.1	5.90	30-Jun-12	38.2	5.70
Life Higashinakano ^{3,10}	30-Apr-07	32.6	30.3	5.10	31-Dec-11	28.6	5.10
Life Asakusa ^{3,10}	30-Apr-07	27.4	27.4	5.10	30-Jun-12	25.2	5.10
Osada Nagasaki ^{3,10}	30-Apr-07	21.1	20.7	6.50	31-Dec-11	19.4	6.50
Yaoko Sakato Chiyoda ^{3,10}	30-Apr-07	18.1	15.9	5.40	31-Dec-11	14.9	5.40
Sunny Noma ^{3,10}	30-Apr-07	16.4	15.9	5.60	30-Jun-12	15.3	5.60
Kansai Super Saigo ^{3,10}	30-Apr-07	13.0	12.3	5.70	30-Jun-12	11.7	5.70
Kojima Nishiarai ^{3,9}	30-Apr-07	10.8	10.1	5.90	31-Dec-11	9.6	5.70
DeoDeo Kure ^{3,10}	31-Aug-07	31.4	28.9	5.80	30-Jun-12	28.5	5.80
Seiyu Miyagino ^{3,10}	30-Sep-07	9.6	9.1	6.00	30-Jun-12	8.6	6.00
Aeon Kushiro ^{3,9}	31-Dec-07	27.8	29.0	5.90	30-Jun-12	27.4	5.90
Valor Ichinomiya ^{3,9}	31-Dec-07	27.9	24.2	5.70	30-Jun-12	23.2	5.60
Life Nagata ^{3,10}	29-Feb-08	25.2	24.9	5.20	30-Jun-12	23.6	5.30
Renaissance Fujimidai ^{3,10}	29-Feb-08	28.3	28.1	5.60	30-Jun-12	26.5	5.30
Valor Takinomizu ^{3,9}	31-Mar-08	26.8	25.2	5.90	30-Jun-12	23.8	5.60
Life Kema ^{3,18}	31-Mar-08	–	–	–	–	26.9	5.30
Total overseas		805.5	711.3			716.0	
Investment property in use		2,419.5	2,468.6			2,466.9	
TRE Data Centre ¹²	14-Apr-10	11.0	11.0	–	–	8.5	–
Enfield ^{1,12}	31-Mar-07	5.7	6.8	–	–	18.5	8.25
Investment property under development		16.7	17.8			27.0	
Maitland ¹³	6-Dec-06	81.8	81.8	–	–	80.0	–
Development property held for resale		81.8	81.8			80.0	

Except where noted below all property is owned by CLC or a wholly owned subsidiary.

¹ Property is 100% owned by CDI.

² Property is 60% owned by CDI and 40% owned by CLC.

³ Property is 100% owned by Japanese property trust.

⁴ Valued by JLL.

⁵ Valued by Savills.

⁶ Valued by Colliers.

⁷ Valued by Knight Frank.

⁸ Valued by M3 Property.

⁹ Valued by TOEI Real Estate.

¹⁰ Valued by Japan Valuers.

¹¹ Valued by CBRE.

¹² Valued at cost.

¹³ Valued at lower of cost or net realisable value.

¹⁴ Property is currently Held for Sale.

¹⁵ On 11 July 2012, contracts were exchanged for the sale of the Rendezvous Hotels. The carrying value at 30 June 2012 is based on the agreed sale price also being last valuation amount. Settlement is due to occur 60 days from date of exchange.

¹⁶ Total cost represents the original acquisition cost plus additions less full and partial disposals since acquisition date.

¹⁷ The capitalisation rate is derived by dividing the net property income over the carrying value of an investment property.

¹⁸ Property was sold in FY12.

¹⁹ Property was sold in FY11.

12. Investment and development property (continued)

Analysis of investment property (continued)

The carrying values for investment properties in use have been determined with reference to independent valuations using market capitalisation and discounted cash flow methods.

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

CSIRO and County Court are each financed via separate capital markets bond issuances. Security has been granted over these properties under the bond issuances, which includes a mortgage over the properties. Maitland is partially funded by external debt. Security has been granted over each development in relation to that funding, which includes a mortgage over each property. As at 30 June 2012 the Hungarian properties are not funded by debt and so are not subject to any security or charge.

As at 30 June 2012 the investment property portfolio occupancy rate was 95.2% (CLC (excl. Japan)), 94.0% (CDI) and 100% (Japan) with a weighted average lease expiry of 6.7 years (CLC (excl. Japan)), 5.1 years (CDI) and 12.2 years (Japan).

13. Plant and equipment

	30 June 2012 \$M	30 June 2011 \$M
Office plant and equipment at cost	60.6	47.7
Less accumulated depreciation	(30.2)	(25.4)
	30.4	22.3
Infrastructure plant and equipment at cost	101.5	69.0
Less accumulated depreciation	(7.6)	(5.6)
	93.9	63.4
Total plant and equipment	124.3	85.7

	Office \$M	Infra- structure \$M	Total \$M
Reconciliations			
30 June 2012			
Opening balance	22.3	63.4	85.7
Additions ¹	12.9	31.8	44.7
Depreciation expense	(4.8)	(2.1)	(6.9)
FX gain	–	0.8	0.8
Closing balance	30.4	93.9	124.3
30 June 2011			
Opening balance	24.2	38.9	63.1
Additions ¹	3.0	33.8	36.8
Depreciation expense	(4.9)	(1.5)	(6.4)
FX loss	–	(7.8)	(7.8)
Closing balance	22.3	63.4	85.7

All plant and equipment is non-current.

¹ Includes \$3.7 million of capitalised interest at 6.2% interest rate (30 June 2011: \$0.8 million at 6.2%) on Oikos Infrastructure.

14. Other assets

	30 June 2012 \$M	30 June 2011 \$M
Rental bond deposits	29.7	28.3
Prepayments – deferred portfolio and origination costs	10.0	12.5
Other	16.2	9.9
Other SPV	0.6	0.7
Total other assets	56.5	51.4
Current	19.0	15.0
Non-current	37.5	36.4
	56.5	51.4

15. Goodwill and other intangible assets

	30 June 2012 \$M	30 June 2011 \$M
Goodwill	505.7	505.4
Other intangible assets		
Software at cost	25.2	23.9
Less accumulated amortisation	(23.2)	(22.6)
Total software	2.0	1.3
Operating lease intangible at cost	22.8	22.8
Less accumulated amortisation	(4.0)	(3.4)
Foreign exchange losses	(7.1)	(7.3)
Total operating lease	11.7	12.1
Total other intangible assets	13.7	13.4

	Goodwill		Software		Operating lease	
	30 June 2012 \$M	30 June 2011 \$M	30 June 2012 \$M	30 June 2011 \$M	30 June 2012 \$M	30 June 2011 \$M
Opening balance	505.4	509.7	1.3	1.8	12.1	15.0
Additions	–	–	1.3	0.2	–	–
Acquisition purchase price adjustment	–	(2.1)	–	–	–	–
Foreign exchange gain/(loss)	0.3	(2.2)	–	–	0.3	(2.2)
Amortisation expense	–	–	(0.6)	(0.7)	(0.7)	(0.7)
Closing balance	505.7	505.4	2.0	1.3	11.7	12.1

16. Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the Life and Funds Management cash-generating units (CGU) for impairment testing. The recoverable amount of goodwill for each CGU is determined via a value in use calculation that utilises cash flow projections based on financial budgets, approved by senior management, covering an appropriate time horizon. The discount rates, based on the Group's cost of capital, and key assumptions are as follows.

	30 June 2012	30 June 2011	30 June 2012 Discount rate %	30 June 2011 Discount rate %	Cash flow horizon (years)
	\$M	\$M			
CGU					
Life	418.7	418.4	10.5	11.5	5
Funds Management	87.0	87.0	10.5	11.5	5
Total	505.7	505.4			

Budgeted gross margins – is the average gross margins achieved in the year ended immediately before the budgeted year, adjusted for the expected impact of competitive pressure on margins and expected efficiency improvements.

Bond rate – this is taken as the yield on a government bond rate at the beginning of the budgeted year.

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

The derived values for the CGU are in excess of the carrying value of goodwill. Management are of the view that reasonably possible changes in the key assumptions, such as a change in the discount rate of 1% or a change in cash flow of 5%, would not cause the respective recoverable amounts for each CGU to fall short of the carrying amounts as at 30 June 2012. All goodwill is non-current.

17. Payables

	30 June 2012 \$M	30 June 2011 \$M
Trade creditors and accruals	192.8	112.6
Distributions payable	9.6	10.1
Warrant liability ¹	4.0	42.5
Unsettled trades payable	15.0	49.1
Other creditors	46.6	42.6
Payables – SPV	35.4	48.4
Total payables	303.4	305.3
Current	267.9	222.1
Non-current	35.5	83.2
	303.4	305.3

¹ 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 a portfolio of financial assets were assigned to WBC, see Note 11 for details. The difference between the equity assets and warrant liability equals dividends receivable which are only assigned when paid.

18. Interest bearing liabilities

	30 June 2012		30 June 2011	
	Outstanding \$M	Facility \$M	Outstanding \$M	Facility \$M
Bank loans				
Recourse – Corporate	–	250.0	–	100.0
Non-recourse – Controlled property trusts	827.3	912.6	812.1	865.5
Non-recourse – Controlled infrastructure trusts	206.1	211.0	206.1	211.0
Total bank loans	1,033.4	1,373.6	1,018.2	1,176.5
Non-recourse non-bank loans				
Subordinated debt issuance	450.1	450.1	477.8	477.8
Loan note finance	74.0	74.0	63.1	63.1
Controlled property trusts	10.0	10.2	9.4	9.4
Total non-bank loans	534.1	534.3	550.3	550.3
Total interest bearing liabilities	1,567.5	1,907.9	1,568.5	1,726.8
Current	128.0		455.4	
Non-current	1,439.5		1,113.1	
	1,567.5		1,568.5	

Bank loans

Corporate – the facility of \$250 million is secured by guarantees in place between members of the Group. A floating interest rate was applied to this facility during the period.

Controlled property trusts – 30 June 2012 balance includes \$395.7 million (30 June 2011: \$401.4 million) of Yen denominated loans in the Japanese property trusts (30 June 2012: ¥32.4 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. The fixed term loan portion is due to expire in September 2012 and the variable term loan, which was renegotiated in 2012, will expire in March 2017. Management are continuing negotiations with the existing lenders on the expiring tranche of debt (¥8.3 billion, A\$101.0 million).

During August 2011, CDI negotiated a new \$280.0 million multi-option syndicated finance facility with Westpac Banking Corporation Limited (WBC) and Commonwealth Bank of Australia Limited (CBA). An additional \$20 million was negotiated in January 2012. The facility comprises three tranches with limits of \$110 million, \$100 million and \$90 million maturing on 20 July 2013, 2014 and 2015 respectively. The total outstanding at 30 June 2012 is \$243.7 million (30 June 2011: \$226.6 million). For Australian denominated loans, interest on the facility is calculated at the bank bill swap rate, plus a margin. For Euro denominated loans, interest on the facility is calculated at EURIBOR, plus a margin.

The loan facility comprises a secured component and an unsecured component. In relation to the unsecured component, CDI has not granted security over its properties but provided a number of negative undertakings, including an undertaking not to create or allow encumbrance over its properties. The secured component relates to the funding of property acquisitions in France. Security was granted by way of mortgages of shares in, and of debts between, entities established to acquire the French properties.

Bank loans in the other unlisted property trusts of \$187.9 million (June 2011: \$184.1 million) are secured solely by fixed and floating first mortgages over investment properties.

Controlled infrastructure trusts – this is an amortising facility with an expiry date of June 2016. This facility has variable terms and is secured by the way of first ranking mortgages 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.

18. Interest bearing liabilities (continued)

Non-bank loans (continued)

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 on maturity in 2015.

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

19. External unit holders' liabilities

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

	30 June 2012 \$M	30 June 2011 \$M
Current	1,241.2	538.7
Non-current	610.0	826.7
Total liabilities to external unit holders	1,851.2	1,365.4

20. Provisions

	30 June 2012 \$M	30 June 2011 \$M
Surplus lease provision	12.9	14.1
Employee entitlements	8.1	6.9
Relocation provision	3.9	4.4
Other provisions	2.5	4.9
Total provisions	27.4	30.3

	Surplus lease provision \$M	Employee entitlements \$M	Make-good provision \$M	Other \$M
30 June 2012				
Opening balance	14.1	6.9	4.4	4.9
Arising during the year	2.8	7.5	–	0.4
Amounts utilised	(4.0)	(6.3)	(0.5)	(2.8)
Closing balance	12.9	8.1	3.9	2.5
30 June 2011				
Opening balance	16.8	8.2	3.6	13.9
Arising during the year	1.3	9.3	0.8	4.5
Amounts utilised	(4.0)	(10.6)	–	(13.5)
Closing balance	14.1	6.9	4.4	4.9

Surplus lease provision represents the Group's net rental expense obligation on surplus space in leased buildings in Sydney and London and the obligation on these leases expires in 2016. The make-good provision represents the Group's net obligations on building leases.

21. Life contract liabilities

	30 June 2012 \$M	30 June 2011 \$M
Life investment contract liabilities – at fair value	5,806.2	4,998.2
Life insurance contract liabilities – at Margin on Services valuation	685.4	614.8
Reinsurance contract liabilities – at Margin on Services valuation	61.4	16.0
Total life contract liabilities	6,553.0	5,629.0

	Life investment contract liabilities		Life insurance contract liabilities		Reinsurance contract liabilities		Total life contract liabilities	
	30 June 2012 \$M	30 June 2011 \$M	30 June 2012 \$M	30 June 2011 \$M	30 June 2012 \$M	30 June 2011 \$M	30 June 2012 \$M	30 June 2011 \$M
Reconciliation								
Opening balance	4,998.2	4,096.0	614.8	645.9	16.0	3.8	5,629.0	4,745.7
Deposits and premium receipts	1,907.4	1,898.0	46.8	5.6	–	–	1,954.2	1,903.6
Payments and withdrawals	(1,616.0)	(1,203.3)	(53.3)	(52.5)	(2.3)	(2.0)	(1,671.6)	(1,257.8)
Revenue per Note 3	220.6	(36.5)	43.0	(15.3)	47.7	14.2	311.3	(37.6)
Expense per Note 4	296.2	243.9	34.1	31.1	–	–	330.3	275.0
Other movements per Note 3	(0.2)	0.1	–	–	–	–	(0.2)	0.1
Closing balance	5,806.2	4,998.2	685.4	614.8	61.4	16.0	6,553.0	5,629.0

	30 June 2012 \$M	30 June 2011 \$M
Analysis of life insurance contract liability and expenses		
Best estimate liability		
Value of future life insurance contract benefits	652.8	581.6
Value of future expenses	32.6	33.2
Total best estimate liability	685.4	614.8
Value of future profit margins	–	–
Gross life insurance contract liability	685.4	614.8
Life insurance contract operating expenses		
Maintenance expenses – commission	0.4	0.4
Maintenance expenses – other	3.1	2.9
Total life insurance contract operating expenses	3.5	3.3
Analysis of life contract profit		
Profit attributable to life insurance contracts	21.1	33.1
Profit attributable to life investment contracts	95.0	266.0
Profit arising from difference between actual and assumed experience	116.1	299.1
Investment earnings on assets in excess of life contract liabilities	39.2	61.3
Life contract profit¹	155.3	360.4

¹ This profit represents that made by the statutory funds of Challenger Life Company Limited only and includes the investment return on assets backing the life contract liabilities.

21. Life contract liabilities (continued)

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 30 June 2012 were between 3.69% and 4.83% (30 June 2011 between 5.04% and 6.15%).

Maintenance expenses – are based on budgets for the financial year. The expenses are converted to a per-contract unit cost or percentage of account balance, depending on their nature, based on an expense analysis.

Inflation – based on long-term expectations and reviewed annually for changes in the market environment based on a comparison of real and nominal yields of instruments of equivalent term and credit risk. The current assumption is 2.17% for short-term inflation and 2.49% for long-term (2011: 2.64% short-term, 2.94% long-term).

Voluntary discontinuances/surrenders – no surrenders or voluntary discontinuances are assumed.

Mortality – base mortality rates are determined as a multiple of United Kingdom annuitant lives experience from 1999 to 2002 (IML00 and IFL00 tables), adjusted for expected future mortality improvements based on observed improvements in Australia. Rates of future mortality improvement applied at 30 June 2012 are between 1.0% and 4.0% (2011: 1.0% – 4.0%).

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.

Statutory fund information

The Group has three statutory funds. Fund 1 is a non-investment-linked fund and Fund 3 is investment-linked. Both are closed to new business. Fund 2 contains non-investment-linked contracts, including the Group's term annuity core business plus the lifetime annuity policies and the related reinsurance. Life contract liabilities for funds 1, 2 and 3 are \$5.6 million, \$6,543.9 million and \$3.5 million respectively (2011: \$6.9 million, \$5,618.2 million, \$3.9 million).

Current/non-current split for total life contracts

There is a fixed settlement date for the majority of life contract liabilities. Approximately \$1,065.7 million (2011: \$837.0 million) of life contract liabilities have a contractual maturity within 12 months of the reporting date. Based on assumptions applied for the 30 June 2012 valuation of life contract liabilities, \$1,271.0 million of principal payments on fixed term and lifetime business are expected in the year to 30 June 2013 (2012: \$1,029.0 million).

Life insurance risk

The Group is exposed to longevity risk on its life insurance liabilities, being the risk that annuitants may live longer than expectations. The Group manages this risk by using reinsurance as well as the regular review of the portfolio to confirm continued survivorship of annuitants receiving income plus regular review of mortality experience to ensure that mortality assumptions remain appropriate.

Insurance risk sensitivity analysis

The table following discloses the sensitivity of life insurance contract liabilities, shareholder profit after income tax and equity to changes in the key assumptions relating to insurance risk, both gross and net of reinsurance.

	Increase in life insurance contract liabilities				Profit and equity impact			
	Gross		Net		Gross		Net	
	30 June 2012 \$M	30 June 2011 \$M	30 June 2012 \$M	30 June 2011 \$M	30 June 2012 \$M	30 June 2011 \$M	30 June 2012 \$M	30 June 2011 \$M
50% increase in the rate of mortality improvement	61.0	49.9	10.8	2.9	(42.7)	(34.9)	(7.5)	(2.0)
10% increase in maintenance expenses	2.8	2.9	2.8	2.9	(1.9)	(2.0)	(1.9)	(2.0)

Liquidity risk for insurance contracts

The following table summarises the undiscounted maturity profile of the Group's life insurance contracts. The analysis is based on undiscounted estimated cash outflows, including interest and principal payments. The undiscounted maturity profile of life investment contracts is disclosed in Note 27.

	1 year or less \$M	1-3 years \$M	3-5 years \$M	>5 years \$M	Total undiscounted amount \$M
Life insurance contract liabilities					
2012	57.4	111.6	106.4	760.0	1,035.4
2011	54.4	107.6	104.8	837.6	1,104.4

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 valuations of life contract liabilities in the financial report, the tables in this note and the solvency ratio in Note 23. The life contract liabilities and solvency ratios have been determined at the reporting date in accordance with the **Life Insurance Act 1995**.

22. 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, subject to the footnote on Payables below, are as follows.

	30 June 2012 \$M	30 June 2011 \$M
Cash and cash equivalents	364.1	386.4
Receivables	5,347.7	6,889.8
Other assets	0.6	0.7
Total assets	5,712.4	7,276.9
Payables ¹	464.2	308.2
Derivative liability	0.9	5.4
Interest bearing liabilities	5,248.2	6,968.7
Total liabilities	5,713.3	7,282.3
Net assets	(0.9)	(5.4)
Cash flow hedge reserve	(0.9)	(5.4)
Total equity attributable to residual income unit holders	(0.9)	(5.4)

¹ Payables differs from the SPV Payables per Note 17 by the value of the cumulative eliminations between the SPV and other members of the Group.

22. Special Purpose Vehicles (continued)

SPV receivables is stated net of impairment measured as any shortfall between the carrying amount of the loan and the present value of expected future cash flows, discounted at the loan's original effective interest rate and adjusted for lenders mortgage insurance coverage. A reconciliation of the provision is as follows:

	30 June 2012 \$M	30 June 2011 \$M
Opening balance	54.5	58.6
Additional accruals and adjustments to estimates	12.4	2.0
Utilisation of provision against incurred losses	(9.3)	(6.1)
Closing balance	57.6	54.5

23. Contributed equity

	30 June 2012		30 June 2011	
	No. of shares M	\$M	No. of shares M	\$M
Ordinary shares issued	544.7	1,385.5	497.6	1,191.1
LTIP shares treated as treasury shares	–	–	(1.4)	(5.1)
CPP Trust shares treated as treasury shares	(15.7)	(72.4)	(19.3)	(84.9)
Total contributed equity	529.0	1,313.1	476.9	1,101.1
Movement in contributed equity:				
Ordinary shares				
Opening balance	497.6	1,191.1	507.1	1,235.6
New shares issued ¹	60.0	247.4	–	–
Cancelled under share buy-back	(12.9)	(53.0)	(9.5)	(44.5)
Closing balance	544.7	1,385.5	497.6	1,191.1
LTIP				
Opening balance	1.4	5.1	10.0	35.1
Shares transferred to CPP Trust	(0.9)	(3.2)	(7.1)	(25.9)
Vested shares released from LTIP plan	(0.5)	(1.9)	(1.5)	(4.1)
Closing balance	–	–	1.4	5.1
CPP Trust				
Opening balance	19.3	84.9	25.4	93.9
Shares purchased	12.9	60.7	11.1	51.2
Shares transferred from LTIP	0.9	4.2	7.1	32.1
Vested shares released to employees	(17.4)	(77.4)	(24.3)	(92.3)
Closing balance	15.7	72.4	19.3	84.9
	No. of shares M		No. of shares M	
Analysis of ordinary shares issued				
Listed on the ASX	544.7		496.7	
Unvested LTIP shares not listed on the ASX	–		0.9	
Total ordinary shares issued	544.7		497.6	

¹ Exercise of 60 million options at \$3.25 per share that were issued to CPH Investments Management Pty Limited in 2003. Consists of \$60 million received at grant plus \$195 million on exercise less issue costs.

Terms and conditions of contributed equity

Ordinary shares – a holder of an ordinary share is entitled to receive dividends and to one vote on a show of hands and on a poll.

Shares issued under the Long Term Incentive Plan (LTIP) – the terms and conditions of shares issued under the LTIP are disclosed in Note 31 of the financial report. The shares held under the LTIP are treated as treasury shares and deducted from equity.

Challenger Performance Plan Trust (CPP Trust) – the CPP Trust is a controlled entity and holds shares in the Company. As a result, the CPP Trust's shareholding in the Company is disclosed as treasury shares and deducted from equity and dividends paid from the Company to the CPP Trust are eliminated on consolidation.

Capital risk management

A company is generally limited in the risk-taking activities that it can engage in by the amount of capital it holds, with capital acting as a buffer against risk, ensuring that there are sufficient resources to enable the company to continue normal business in the event of an unexpected loss.

The Group manages capital risk via Capital Management Plans at both the Group and the prudentially regulated Challenger Life Company Limited (CLC) levels. The objective of these plans is to maintain financial stability of the Group and CLC whilst ensuring the shareholders earn an appropriate risk adjusted return through optimisation of the capital structures. The Capital Management Plans are approved by the respective boards and are reviewed at least annually.

Capital Management Plan – Group

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

Standard & Poor's long-term credit ratings for the Group and CLC as at the balance date are BBB+ (Stable) and A (Stable) respectively. There were no changes to either the Group or CLC ratings during the period.

The capital structure of the Group is monitored by reference to the gearing ratio, calculated as follows:

Gearing ratio = net recourse debt divided by (net recourse debt + common equity).

Net recourse debt is calculated as recourse debt less cash and cash equivalents and **common equity** equates to **equity attributable to equity holders** per the statement of financial position, that is, the aggregate of contributed equity, reserves, and retained profits less equity attributable to non-controlling interests.

To maintain the preferred investment grade rating, the Capital Management Plan targets a gearing ratio of no more than 30% and this ratio was not exceeded during the year. The year-end gearing ratio is as follows:

	30 June 2012 \$M	30 June 2011 \$M
Net recourse debt	–	–
Total common equity	1,692.2	1,488.3
Gearing ratio (%)	0%	0%

The Group's current dividend payout ratio target is 30% of normalised net profit after tax (as defined in Note 2). There were no material changes to the Group's Capital Management Plan during the year.

Capital Management Plan – CLC

CLC is a life insurance company regulated under the Life Act. The Life Act, via Prudential Standards issued by APRA, imposes minimum statutory capital requirements on all life insurance companies. CLC complied with these requirements at all times during the year.

23. Contributed equity (continued)

Separate and distinct from the Group, CLC's Capital Management Plan integrates the statutory capital and solvency requirements, insurer financial strength rating as assessed by Standard & Poor's, and economic capital requirements. There were no material changes to CLC's Capital Management Plan during the financial year. CLC's resources available to meet statutory capital requirements at balance date are set out in the table below:

	30 June 2012 \$M	30 June 2011 \$M
Shareholder equity	1,358.0	1,267.8
Subordinated debt	450.1	477.8
Total regulatory capital	1,808.1	1,745.6
Solvency reserve		
Solvency reserve %	28.9	34.1
Coverage of solvency reserve (times) ¹	1.6	1.5

¹ APRA Prudential Standards establish a two-tier capital requirement for Life companies. These figures relate to the first tier (the solvency reserve) that is intended to ensure the solvency of the company, i.e. the ability to meet its obligations to life contract holders as and when they fall due. It is calculated as the assets available for solvency divided by the solvency reserve as defined by the APRA Prudential Standards.

24. Reserves

	30 June 2012 \$M	30 June 2011 \$M
Equity option premium reserve		
Opening balance	125.4	125.3
Exercise of equity options	(60.0)	–
Amortisation of issue costs	(0.4)	0.1
Closing balance	65.0	125.4
Share based payments reserve		
Opening balance	62.7	80.2
Share based payments for the period	22.5	26.1
Releases from share based payments reserve	(49.6)	(43.6)
Closing balance	35.6	62.7
Available-for-sale asset revaluation reserve		
Opening balance	(1.6)	(0.2)
Revaluation loss ¹	–	(1.4)
Loss taken to income statement ¹	1.6	–
Closing balance	–	(1.6)
Cash flow hedge reserve – SPV		
Opening balance	(5.4)	(6.9)
Charged to equity	4.5	1.5
Closing balance	(0.9)	(5.4)
Foreign currency translation reserve		
Opening balance	(13.1)	4.4
Gain/(loss) on translation of foreign entities	15.3	(41.3)
(Loss)/gain on hedge of net investment in foreign entities	(10.6)	23.8
Closing balance	(8.4)	(13.1)
Adjusted controlling interest reserve		
Opening balance	11.8	8.3
Discount on change in holding in controlled entity	5.9	3.5
Closing balance	17.7	11.8
Total reserves	109.0	179.8

¹ Net of tax.

Nature and purpose of reserves

Equity option premium reserve – the 30 June 2012 balance represents the valuation assigned to options issued to Colony Marlin-Holdings LLC. These options to purchase 57,142,857 ordinary shares at \$7.00 were issued on 7 November 2007 and expire on 7 November 2012. The movement in the year relates to the exercise of 60 million options at \$3.25 per share that were issued to CPH Investments Management Pty Limited in 2003.

Share based payments reserve – an expense is recognised over the vesting period of share based payments granted to employees. 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 – includes the cumulative net change in the fair value of financial assets classified as available-for-sale until the investment is derecognised or sold. This asset was sold in the year.

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 – used to record foreign exchange differences arising from the translation 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 – 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.

25. Retained earnings

	30 June 2012 \$M	30 June 2011 \$M
Opening balance	207.4	21.9
Profit attributable to equity holders	148.5	261.4
Dividends paid	(85.8)	(75.9)
Total retained earnings	270.1	207.4

26. Non-controlling interests

	30 June 2012 \$M	30 June 2011 \$M
Representing the following share of equity in the applicable entity:		
Contributed equity	385.5	357.8
Reserves	(6.0)	(7.8)
Opening retained losses	(45.4)	(70.0)
Profit for the year	18.2	31.1
Total non-controlling interests	352.3	311.1

27. Financial risk management

Governance and risk management framework

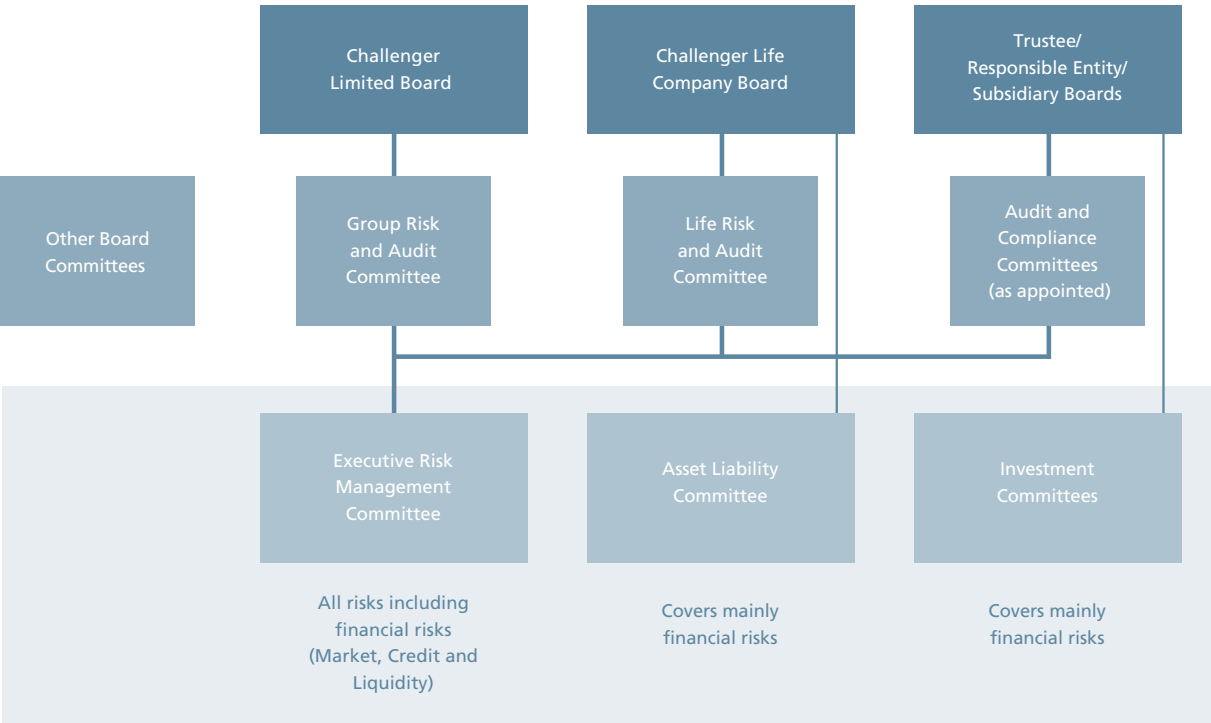
The Group’s activities expose it to a variety of financial risks, such as market risk (including currency risk, interest rate risk, equity price risk and credit spread risk); credit default risk; and liquidity risk. The management of risks is fundamental to the Group’s business and to building shareholder value. The Board is responsible, in conjunction with senior management, for understanding the risks associated with the activities of the Group and putting in place structures and policies to adequately monitor and manage those risks.

The Board has established the Group Risk and Audit Committee (GRAC) as a board sub-committee to assist in the discharge of its responsibilities. In particular, setting risk appetite and ensuring the Company has an effective risk management framework incorporating management, operational and financial controls.

The Executive Risk Management Committee (ERMC) is an executive committee, chaired by the Chief Risk Officer (CRO), which assists the GRAC and Board in the discharge of their risk management obligations by implementing the Board approved Risk Management Framework.

The Group’s Risk Management division has day to day responsibility for monitoring the implementation of the framework with oversight, analysis, monitoring and reporting of risks. The CRO provides regular reporting to the GRAC and the Board. See below for a diagrammatic overview of the risk management framework of the Group.

Governance and risk management



The Group’s principal financial instruments consist of derivatives, cash and cash equivalents, receivables, available-for-sale assets, financial assets at fair value through profit and loss, payables, life investment contract liabilities and other interest bearing financial liabilities.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instruments, are disclosed in Note 1.

Market risk

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

Interest rate risk

Interest rate risk is the risk to the Group's earnings and equity arising from movements in interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between the different yield curves and the volatility of the interest rates.

It is the Group's policy to minimise the impact of interest rate movements on debt servicing capacity, Group profitability, business requirements and company valuation. The Group targets hedging of between 30% and 70% of drawn net recourse interest bearing liabilities of the corporate segment. The amount of drawn net recourse corporate interest bearing liabilities, and their duration, is determined with reference to the annual budget and the most current forecasts. The Group's strategy is to have no interest rate hedges with duration greater than five years and targets average hedge duration of three years.

Challenger Life Company Limited's (CLC's) Market Risk Policy is approved by the CLC Board and sets out the relevant risk limits for interest rate exposure. It is CLC's policy to minimise the impact of interest rate movements on its ability to service life contract holders. The management of the risks associated with life investment and life insurance contracts, including interest rate risk, are subject to the prudential requirements of the Life Act. This includes satisfying solvency requirements, which in turn include consideration of how the interest rate sensitivity of assets and liabilities are matched.

Challenger Diversified Property Group (CDI) is also exposed to interest rate risk arising from liabilities bearing variable interest rates. Interest rate swaps are taken out to effectively hedge interest rates on a minimum of 60% of expected borrowings over the next 2 to 10 years.

For the Special Purpose Vehicles (SPV) the impact of a rising/falling BBSW benchmark over the Reserve Bank of Australia's target cash rate results in an increase/decrease in the cost of funding and therefore on the profit of the trusts. This interest rate risk is mitigated by actively adjusting the interest rate charged to borrowers if a sustained adverse differential to the benchmark is evidenced. SPV are also exposed to the risks arising from borrowers fixing the rates on their mortgage. This interest rate risk is managed by using cash flow hedges to swap the fixed rate for a floating rate on an amount equal to the notional value of the mortgages being fixed.

Interest rate sensitivity

The Group's sensitivity to movements in interest rates in relation to the value of financial assets and liabilities is shown in the table below. It is assumed that the change happens at the balance date and that there are concurrent movements in interest rates and parallel moves in the yield curve. All material underlying exposures and related hedges are included in the analysis; this includes underlying exposures and related hedges for investment properties with leases, where the future income stream is duration hedged for interest rate movements.

		Profit/ (loss) 30 June 2012 \$M	Change in equity 30 June 2012 \$M	Profit/ (loss) 30 June 2011 \$M	Change in equity 30 June 2011 \$M
Non-SPV ¹	+100bps	10.1	10.1	6.4	6.4
	-100bps	(10.2)	(10.2)	(6.5)	(6.5)
SPV	+100bps	(4.8)	(4.8)	(6.1)	(6.1)
	-100bps	4.8	4.8	6.1	6.1
Total	+100bps	5.3	5.3	0.3	0.3
	-100bps	(5.4)	(5.4)	(0.4)	(0.4)

¹ The financial impact includes the consolidated post tax result of Challenger Diversified Properties Group (CDI) +100bp \$4.1 million (2011: \$3.7 million) and -100bp \$(4.2 million) (2011: \$(3.8 million)).

The impact on profit and equity is post tax at a rate of 30%. The risks faced and methods used in the sensitivity analysis are the same as those applied in the comparative period. As shown above, 100 basis points (1%) movements in interest rates would have only a small net impact on the Group's financial position as upside risks in CLC and the property trusts largely offset downside risk in the SPV, and vice versa.

27. Financial risk management (continued)

Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market. The Group is exposed to equity price risk on its holdings in equity securities and credit spread risk on its debt securities.

It is the Group's policy to hedge the exposure resulting from movements in the value of listed equity portfolio investments. Equity investments regarded as 'operational' or 'strategic' will not be hedged. CLC is required to fair value all equities held to back life contract liabilities. No other entities within the Group have any significant exposure to equity price risk.

Equity price risk sensitivity

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

Asset class	Change in variable	Profit/ (loss) 30 June 2012 \$M	Change in equity 30 June 2012 \$M	Profit/ (loss) 30 June 2011 \$M	Change in equity 30 June 2011 \$M
Property securities	+10%	12.0	12.0	11.8	11.8
	-10%	(12.0)	(12.0)	(11.8)	(11.8)
Infrastructure investment	+10%	31.2	31.2	24.8	24.8
	-10%	(31.2)	(31.2)	(24.8)	(24.8)
Available-for-sale assets	+10%	—	—	—	0.7
	-10%	—	—	(0.7)	(0.7)
Other assets	+10%	16.0	16.0	20.4	20.4
	-10%	(16.0)	(16.0)	(20.4)	(20.4)

The impact on profit and equity is post tax at a rate of 30%. The risks faced and methods used in the sensitivity analysis are the same as those applied in the comparative period. As shown above a 10% movement in equity prices would have a material impact on the consolidated Group's financial position.

Credit spread risk sensitivity

The Group is exposed to movements in credit spreads above the interbank swap curve through its debt securities. As at 30 June 2012, a fifty basis point increase/decrease in credit spreads would result in a post-tax (at 30%) unrealised loss/gain in the income statement and equity of \$75.1 million (2011: \$62.5 million), the increase on the 2011 number reflect the increase in debt assets.

Currency risk

It is the Group's policy to hedge the exposure of all statement of financial position items to movements in foreign exchange rates. Currency exposure arises primarily as a result of investments in the Eurozone, Japan, the United Kingdom and the United States, so currency risk therefore arises from fluctuations in the value of the Euro, British Pound, Japanese Yen and US Dollar against the Australian Dollar. In order to protect against exchange rate movements, the Group has entered into foreign currency derivatives.

In addition, the Group has exposure to foreign exchange risk upon consolidation of its Japanese controlled property trust and mitigates this by designating foreign currency derivatives as hedges of net investments in foreign entities in equity to match its foreign currency translation reserve exposure. The policy is to monitor the hedges closely and rebalance for maturities and underlying changes to the net assets. Effectiveness is monitored on a regular basis to ensure that the hedge remains within 80% to 125% effective and any ineffective portion of the hedge is recognised directly in the income statement.

The SPV entities hedge exposure to foreign currency risk arising from issuing mortgage backed securities in foreign currency. The currencies impacted are primarily the British Pound, Euro and US Dollar. All derivatives in the SPV are designated as cash flow hedges. These hedges are effective and there is no material impact on the results.

The following table details the Group's net exposure to foreign currency as at the reporting date in Australian dollar equivalent amounts.

	GBP \$M	USD \$M	Euro \$M	JPY \$M	Other \$M
30 June 2012					
Financial assets	526.0	1,492.0	759.8	265.5	64.3
Financial liabilities	–	(128.5)	(47.5)	–	–
Foreign currency contracts and cross currency swaps	(519.2)	(1,347.5)	(758.5)	(260.3)	(65.0)
Net exposure in Australian dollars	6.8	16.0	(46.2)	5.2	(0.7)
30 June 2011					
Financial assets	509.8	1,053.0	795.6	243.4	92.8
Financial liabilities	–	(131.7)	(52.7)	(4.4)	–
Foreign currency contracts and cross currency swaps	(489.4)	(921.1)	(783.6)	(244.9)	(88.4)
Net exposure in Australian dollars	20.4	0.2	(40.7)	(5.9)	4.4

The analysis below shows the impact on the income statement and equity of a movement in foreign currency exchange rates against the Australian dollar on the Group's major currency exposures using the net exposure at the balance date. All underlying exposures and related hedges are included in the analysis. A sensitivity of 10% has been chosen as this is a reasonable measurement given the current level of exchange rates and the volatility observed on an historic basis.

	Movement in variable against A\$	Profit/(loss) 30 June 2012 \$M	Change in equity 30 June 2012 \$M	Profit/(loss) 30 June 2011 \$M	Change in equity 30 June 2011 \$M
British Pound (GBP)	+ 10%	0.4	0.4	1.4	1.4
	– 10%	(0.4)	(0.4)	(1.4)	(1.4)
US Dollar (USD)	+ 10%	1.1	1.1	–	–
	– 10%	(1.1)	(1.1)	–	–
Euro (EUR)	+ 10%	(3.2)	(3.2)	(2.8)	(2.8)
	– 10%	3.2	3.2	2.8	2.8
Japanese Yen (JPY)	+ 10%	–	(0.4)	–	0.4
	– 10%	–	0.4	–	(0.4)
Other	+ 10%	(0.1)	(0.1)	0.3	0.3
	– 10%	0.1	0.1	(0.3)	(0.3)

The impact on profit and equity is post tax at a rate of 30%. The risks faced and methods used in the sensitivity analysis are the same as those applied in the comparative period. As shown above a 10% movement in exchange rates would have minimal impact on the Group's financial position.

Credit default risk

Credit default risk is the risk of loss in value of an asset due to a counterparty failing to discharge an obligation. The Group's credit risk framework is based on the following core principles: independence from risk originators; recognition of the different risks in the various Group businesses; credit exposures are systematically controlled and monitored; credit exposures are regularly reviewed in accordance with existing credit procedures; and credit exposures include such exposures arising from derivative transactions.

Each business unit is responsible for managing credit risks that arise with oversight from a centralised credit risk management team.

27. Financial risk management (continued)

Credit exposure by credit rating

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

The following table provides information regarding the maximum credit risk exposure of the Group in respect of the major classes of financial assets by equivalent credit rating. The maximum credit exposure is deemed to be the carrying value of the asset. The analysis classifies the assets according to internal or external credit ratings. Assets rated investment grade are those rated S&P BBB- or above, with non-investment grade therefore being below BBB-.

	Investment grade				Non-investment grade	Other	Total
	AAA \$M	AA \$M	A \$M	BBB \$M	grade \$M	\$M	\$M
30 June 2012							
Cash and cash equivalents	795.5	–	–	–	–	–	795.5
Cash and cash equivalents – SPV	364.1	–	–	–	–	–	364.1
Receivables	8.7	6.1	19.8	8.5	3.1	68.3	114.5
Receivables – SPV	3,177.7	2,123.8	32.8	–	12.6	0.8	5,347.7
Debt securities	1,254.0	1,248.6	1,715.5	1,058.4	713.7	212.2	6,202.4
Derivative assets	–	118.7	355.3	28.6	–	–	502.6
Total	5,600.0	3,497.2	2,123.4	1,095.5	729.4	281.3	13,326.8

30 June 2011							
Cash and cash equivalents	788.6	–	–	–	–	–	788.6
Cash and cash equivalents – SPV	386.4	–	–	–	–	–	386.4
Receivables	8.3	4.5	8.5	8.2	2.0	86.8	118.3
Receivables – SPV	4,029.4	2,818.1	23.6	–	18.7	–	6,889.8
Debt securities	1,311.3	895.5	1,071.8	661.7	837.6	112.2	4,890.1
Derivative assets	2.4	62.5	256.3	–	39.0	–	360.2
Total	6,526.4	3,780.6	1,360.2	669.9	897.3	199.0	13,433.4

SPV receivables, or mortgage assets, are funded via securitised residential mortgage backed securities (RMBS). As a result, the Group is not exposed to significant credit risk on these assets as this is borne by the RMBS holder. The credit risk of the mortgage loans within the SPV is therefore taken as being equivalent to that of the residential mortgage backed security.

Ageing and impairment of amortised cost financial assets

The below tables give information regarding the carrying value of the Group's financial assets measured at amortised cost. The analysis splits these assets by those that are neither past due nor impaired; those that are past due and not impaired (including an ageing analysis); and those past due and impaired at the statement of financial position date.

		Past due but not impaired				Past due and impaired	Total
	Not past due/not impaired \$M	0-1 months \$M	1-3 months \$M	3-6 months \$M	Greater than 6 months \$M	\$M	\$M
As at 30 June 2012							
Receivables	109.4	2.0	0.2	0.1	2.8	–	114.5
Receivables SPV	4,890.6	246.0	94.9	76.5	–	39.7	5,347.7
Total receivables	5,000.0	248.0	95.1	76.6	2.8	39.7	5,462.2
As at 30 June 2011							
Receivables	108.5	1.0	2.0	1.7	5.1	–	118.3
Receivables – SPV	6,293.9	345.4	185.5	26.7	–	38.3	6,889.8
Total receivables	6,402.4	346.4	187.5	28.4	5.1	38.3	7,008.1

Collateral held over assets

In the event of a default against any of the mortgages in the SPV, the Trustee has the legal right to take possession of the secured property and sell it as a recovery action against settlement of the outstanding mortgage balance. At all times of possession, the risks and rewards associated with ownership of the property are held by the Trustee on behalf of the RMBS holder.

Concentration risk

The credit risk framework includes an assessment of the counterparty credit risk in each business unit and at a total Group level. The Group has no significant concentrations of credit risk at the statement of financial position date.

Subordinated debt

CLC has subordinated debt liabilities with nominal value of A\$400 million and US\$150 million that are required to be classified as financial liabilities through profit and loss. The change recognised in the income statement in respect of valuation changes (excluding foreign exchange) for the year ended 30 June 2012 was a gain of \$34.3 million (2011: loss \$39.7 million). The liability is valued with regard to a basket of similar instruments.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. This may result from either the inability to sell financial assets at their face values; a counterparty failing on repayment of a contractual obligation; or the inability to generate cash inflows as anticipated.

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

The basis of the approach to liquidity management is on targeting sufficient liquidity to meet the regulatory guidelines set out in ASIC Policy Statement 166 for holders of an AFS Licence. AFS Licence holders make a reasonable estimate of cash flows over at least the next three months to demonstrate whether surplus capital will exceed either:

- 20% of the greater of cash outflows for the forecast three month average (equivalent to 18 days' outgoings); or
- cash outflow for the most recent financial year, adjusted to produce a three month average.

CLC aims to ensure that it has sufficient liquidity to meet its obligations on a short-term, medium-term and long-term basis. The Life Liquidity Management Policy is approved by the CLC Board and sets out liquidity targets and mandated actions depending on actual liquidity levels relative to those targets. Detailed forecast cash positions are reported regularly to the CLC Asset Liability Committee. At the reporting date, all requirements of the CLC Board approved liquidity management policy were satisfied.

27. Financial risk management (continued)

Maturity profile of undiscounted liabilities

The table below summarises the maturity profile of the Group's undiscounted financial liabilities. This is based on contractual undiscounted repayment obligations. Totals differ to the amounts on the statement of financial position by the amount of discounting recognised in the statement of financial position values.

	1 year or less \$M	1-3 years \$M	3-5 years \$M	> 5 years \$M	Total \$M
30 June 2012					
Payables	267.9	35.5	–	–	303.4
Interest bearing liabilities	196.3	322.5	644.3	1,129.3	2,292.4
Interest bearing liabilities – SPV	90.7	–	–	6,168.7	6,259.4
External unit holders' liabilities	1,241.2	610.0	–	–	1,851.2
Life investment contract liabilities	1,618.2	2,346.8	1,343.8	1,193.3	6,502.1
Derivative financial liabilities	18.9	19.8	28.8	149.9	217.4
Total financial liabilities	3,433.2	3,334.6	2,016.9	8,641.3	17,426.0
30 June 2011					
Payables	270.8	83.2	–	–	354.0
Interest bearing liabilities	527.6	321.3	194.6	1,435.5	2,479.0
Interest bearing liabilities – SPV	128.9	–	–	8,850.9	8,979.8
External unit holders' liabilities	538.7	826.7	–	–	1,365.4
Life investment contract liabilities	1,384.6	2,215.5	1,027.8	1,413.2	6,041.1
Derivative financial liabilities	368.9	22.1	35.4	(107.1) ¹	319.3
Total financial liabilities	3,253.9	3,434.4	1,257.8	11,592.5	19,538.6

¹ The Group was due to receive future cash inflows from interest rate swaps currently in a fair value liability position.

Fair value determination and classification

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The majority of the Group's financial instruments are held in the life insurance statutory funds of CLC and, as a result, are required by Australian accounting standards to be designated at fair value through profit and loss wherever possible.

All other financial instruments in the Group, with the exception of the SPV balances carried at amortised cost listed below, are either designated at fair value through profit and loss at initial recognition, or the carrying value materially approximates fair value.

	30 June 2012		30 June 2011	
Difference between amortised cost and fair value	Carrying value \$M	Fair value \$M	Carrying value \$M	Fair value \$M
Receivables – SPV	5,347.7	5,388.3	6,889.8	7,000.6
Interest bearing liabilities – SPV	5,248.2	4,998.8	6,968.7	6,716.9

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on each reporting date. Where no such market exists, valuation models that utilise both internal and external inputs are used to determine fair value. Financial instruments are split into the following categories depending on the level of observable inputs into the models used to determine fair value:

Level 1 unadjusted quoted prices in active markets.

Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3 there are inputs for the asset or liability valuation that are not based on observable market data (unobservable inputs).

The 'unobservable' inputs into the valuation of the Group's Level 3 assets and liabilities are determined based on the best information available, including the Group's own assessment of the assumptions that market participants would use in pricing the asset or liability. Examples of unobservable inputs are estimates about the timing of cash flows, discount rates, earnings multiples and internal credit ratings. Where different levels of the hierarchy are used in a valuation, the instrument is classified according to the lowest level that is significant to the input. The table below summarises those financial instruments for which a fair value has been determined and the level of observable inputs into the valuation methodology.

30 June 2012	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Derivative assets	–	502.6	–	502.6
Debt securities	–	4,906.5	1,295.9	6,202.4
Equity securities	22.1	50.4	159.9	232.4
Infrastructure investments	190.4	–	537.2	727.6
Property securities	–	–	172.2	172.2
Available-for-sale assets	–	–	–	–
Fair value financial assets	212.5	5,459.5	2,165.2	7,837.2
Derivative liabilities	–	148.5	–	148.5
Interest bearing liabilities	–	160.8	524.1	684.9
External unit holders' liabilities	–	1,851.2	–	1,851.2
Investment contract liabilities	–	113.8	5,692.4	5,806.2
Fair value financial liabilities	–	2,274.3	6,216.5	8,490.8
30 June 2011				
Derivative assets	–	360.2	–	360.2
Debt securities	129.2	3,637.4	1,123.5	4,890.1
Equity securities	51.2	19.2	222.7	293.1
Infrastructure investments	145.1	0.2	510.8	656.1
Property securities	–	–	173.4	173.4
Available-for-sale assets	9.5	–	–	9.5
Fair value financial assets	335.0	4,017.0	2,030.4	6,382.4
Derivative liabilities	–	114.8	–	114.8
Interest bearing liabilities	–	157.8	477.8	635.6
External unit holders' liabilities	–	1,365.4	–	1,365.4
Investment contract liabilities	–	110.3	4,887.9	4,998.2
Fair value financial liabilities	–	1,748.3	5,365.7	7,114.2

The Group derivative financial instruments are 'over the counter' so, whilst they are not exchange traded, there is a market observable price. All of the listed debt and government/semi-government securities have prices determined by a market but are not actively traded. Externally rated unlisted debt is valued by applying market observable credit spreads on similar assets with an equivalent credit rating. Both are therefore Level 2. Internally rated debt is Level 3 as the determination of an equivalent credit rating is a significant non-observable input.

Unlisted equity, infrastructure and property securities are valued using either cash flow forecasts discounted using the applicable yield curve, earning-multiple valuations or, for managed funds, the net assets of the trust per the most recent financial report.

The interest bearing liabilities classified as Level 3 are the subordinated debt notes issued by CLC. These are valued using a benchmark credit spread based on a pool of similar assets and, as a result, are Level 3. External unit holder liabilities are valued at the face value of the amounts payable. The portion of life investment contract liabilities classified as Level 2 represents products or product options for which the liability is determined based on an unmodified account balance, rather than a discounted cash flow as applied to the rest of the portfolio.

27. Financial risk management (continued)

Level 3 reconciliation

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within Level 3 over the year:

	30 June 2012		30 June 2011	
	Assets \$M	Liabilities \$M	Assets \$M	Liabilities \$M
Opening balance	2,030.4	5,365.7	1,753.5	4,454.1
Total gains and losses	(28.9)	442.0	(132.0)	202.5
Additions	1,031.1	1,821.1	825.4	1,816.5
Disposals	(822.2)	(1,486.3)	(465.2)	(1,107.4)
Transfers from Level 1 or 2	(45.2)	74.0	48.7	–
Closing Level 3 balance	2,165.2	6,216.5	2,030.4	5,365.7
Total gains/(losses) included in the income statement for the year for assets and liabilities still held at the statement of financial position date	38.0	(442.0)	(105.3)	(202.5)

Level 3 sensitivity

The following table shows the sensitivity of Level 3 financial instruments to a reasonable change in alternative assumptions in respect of the non-observable inputs into the fair value calculation.

	Level 3 value \$M	Positive impact \$M	Negative impact \$M	Reasonable change in non-observable input
30 June 2012				
Debt securities	1,291.3	38.7	(35.9)	Primarily credit spreads
Interest bearing liabilities	(450.1)	(23.8)	21.5	Primarily credit spreads
Net debt	841.2	14.9	(14.4)	
Equity, infrastructure, property assets	869.3	34.4	(34.0)	Primarily discount rate on cash flow models
Investment contract liabilities	(5,692.4)	3.5	–	Primarily expense assumptions
Total Level 3	(3,981.9)	52.8	(48.4)	
	Level 3 value \$M	Positive impact \$M	Negative impact \$M	Reasonable change in non-observable input
30 June 2011				
Debt securities	1,123.5	53.3	(29.7)	Primarily credit spreads
Interest bearing liabilities	(477.8)	(23.9)	21.5	Primarily credit spreads
Net debt	645.7	29.4	(8.2)	
Equity, infrastructure, property assets	906.9	30.0	(29.6)	Primarily discount rate on cash flow models
Investment contract liabilities	(4,887.9)	5.8	(1.2)	Primarily expense assumptions
Total Level 3	(3,335.3)	65.2	(39.0)	

28. Derivative financial instruments

The table below shows the notional value, fair value and duration of the Group's derivative financial instruments:

	30 June 2012			30 June 2011		
	Notional/ Principal value \$M	Net fair value assets \$M	Net fair value liabilities \$M	Notional/ Principal value \$M	Net fair value assets \$M	Net fair liabilities liabilities \$M
Interest rate swaps						
Less than 1 year	1,269.8	6.9	(0.2)	2,421.2	2.0	(3.4)
1-3 years	1,610.2	61.8	(2.7)	1,789.9	19.1	(1.1)
3-5 years	1,179.2	71.4	(9.9)	876.6	34.4	(2.9)
Greater than 5 years	2,774.6	175.0	(82.9)	2,188.0	78.3	(49.8)
	6,833.8	315.1	(95.7)	7,275.7	133.8	(57.2)
Interest rate swaps – SPV						
Less than 1 year	168.2	0.5	(2.0)	115.3	0.1	(0.9)
1-3 years	81.7	1.3	(2.0)	246.4	0.3	(2.7)
3-5 years	2.0	–	(0.2)	3.4	–	(0.1)
Greater than 5 years	0.2	–	–	0.9	–	(0.1)
	252.1	1.8	(4.2)	366.0	0.4	(3.8)
Inflation-linked swaps						
Less than 1 year	400.0	4.5	(0.1)	570.0	4.7	(2.3)
1-3 years	–	–	–	1,200.0	13.7	(6.9)
Greater than 5 years	11.6	1.0	(1.0)	–	–	–
	411.6	5.5	(1.1)	1,770.0	18.4	(9.2)
Futures contracts						
Less than 1 year	392.8	0.4	(0.1)	1,020.2	0.2	(0.1)
Forward currency contracts						
Less than 1 year	2,686.0	54.0	(13.2)	3,534.2	42.0	(19.1)
1-3 years	75.5	11.0	(0.5)	188.8	16.0	(6.6)
3-5 years	–	–	–	86.2	4.0	(2.0)
	2,761.5	65.0	(13.7)	3,809.2	62.0	(27.7)
Cross currency swaps						
Less than 1 year	330.7	38.3	(3.1)	286.5	33.0	(5.3)
1-3 years	829.9	61.8	(9.7)	573.6	54.4	(2.8)
3-5 years	356.8	6.8	(9.6)	445.8	47.3	(2.8)
Greater than 5 years	279.9	5.9	(10.8)	147.4	9.4	(2.6)
	1,797.3	112.8	(33.2)	1,453.3	144.1	(13.5)
Cross currency swaps – SPV						
Greater than 5 years	2,441.8	2.0	(0.5)	3,193.9	1.3	(3.3)
Total derivative financial instruments		502.6	(148.5)		360.2	(114.8)

Derivatives designated as hedges of net investment in foreign currency operations

As described in Note 1(xvi), the Group hedges its exposure to accounting gains and losses arising from translation of foreign controlled entities from their functional currency into the Group's presentation currency on consolidation. At 30 June 2012, a post-tax loss of \$10.6 million (2011: gain \$23.8 million) was recognised in equity for the hedging of exposure to the net investment in foreign operations arising.

Derivatives designated as cash flow hedges

As described in Note 1(xvi), the Group applies hedge accounting when it can demonstrate that all, or a portion of, the value movements of a derivative financial instrument effectively hedges the known outcome of a future transaction. As described in Note 27, SPV purchase interest rate swaps to hedge the interest rate risk between variable rate loans, which generally reprice with changes in official interest rates, and issued residual mortgage backed securities (RMBS) that reprice with changes in the 30 day and 90 day BBSW. Cross currency swaps are also purchased to hedge currency movements on foreign denominated RMBS. The SPV applies hedge accounting to both types of transaction, with the fair value change on the effective portion of the derivative being recognised in equity.

At 30 June 2012 a post-tax gain of \$4.5 million (2011: gain \$1.5 million) was recognised in equity for cash flow hedges with no income statement impact of any ineffective portions during either the current or prior period.

29. Commitments

Operating leases

Group as lessee

The Group has entered into commercial operating leases for the rental of properties where it is not in the best interests of the Group to purchase these properties. These leases have an average life of between one and 10 years with renewal terms included in the contracts. Renewals are at the specific option of the entity that holds the lease.

Surplus lease space under non-cancellable operating leases has been subleased with the revenue arising from the sublease being recognised on a straight-line basis. The leases have a remaining life of up to six years with renewal terms included in the contract. Renewals are at the specific option of the entity that holds the lease. A surplus lease provision has been created representing the Group's net rental expense obligation and, as such, does not form part of the commitment listed below. Refer to Note 20 for details.

Group as lessor

Investment properties owned by the Group are leased to third parties under operating leases. Lease terms vary between tenants and some leases include percentage rental payments based on sales volume.

Contracted capital expenditure commitments

These represent amounts payable in relation to capital expenditure commitments contracted for at the reporting date but not recognised as liabilities. They primarily relate to the investment property portfolio.

Remuneration commitments

These represent commitments arising from employment contracts with key management personnel (retention bonuses, termination payments, interest etc.) referred to in the remuneration report but that have not been recognised as liabilities at the balance date.

	30 June 2012 \$M	30 June 2011 \$M
Commitments		
Non-cancellable operating leases – Group as lessee	164.7	69.1
Capital expenditure	41.3	81.5
Remuneration	–	0.5
Non-cancellable operating leases – Group as lessor	(1,591.5)	(1,642.5)
Operating leases – Group as lessee		
Amount due in less than 1 year	18.2	17.4
Amount due later than 1 year but not later than 2 years	18.6	14.4
Amount due later than 2 years but not later than 5 years	34.7	33.3
Amount due in more than 5 years	93.2	4.0
	164.7	69.1
Capital expenditure commitments		
Amount due in less than 1 year	19.5	48.5
Amount due later than 1 year but not later than 5 years	14.2	22.0
Amount due in more than 5 years	7.6	11.0
Total capital expenditure commitments	41.3	81.5
Remuneration commitments		
Amount due in less than 1 year	–	0.5
Total remuneration commitments	–	0.5
Operating leases – Group as lessor		
Amount due in less than 1 year	(199.3)	(196.0)
Amount due later than 1 year but not later than 2 years	(188.3)	(175.5)
Amount due later than 2 years but not later than 5 years	(491.0)	(471.4)
Amount due in more than 5 years	(712.9)	(799.6)
Total operation leases – Group as lessor	(1,591.5)	(1,642.5)

30. Related parties

Controlled entities

Unless an exception applies under relevant legislation, transactions between commonly controlled entities within the Group (except where otherwise disclosed) are conducted on an arm's length basis under normal commercial terms and conditions.

Other related parties

During the year, there were transactions between the Group and Challenger specialised funds for the provision of investment management, transaction advisory and other professional services. Transactions were also entered into between the Group and associated entities (refer to Note 35) for the provision of distribution and administration services. The Group earned fee income during the year of \$24.5 million (2011: \$17.1 million) from transactions entered into with non-controlled funds and associates. Transactions are conducted on an arm's length basis under normal commercial terms and conditions.

Directors and Key Executives

The Directors and Key Executives of Challenger Limited at any time during the financial year were as follows:

Directors

Peter Polson, Chairman

Graham Cubbin

Jonathon Grunzweig

Russell Hooper

Brenda Shanahan

Leon Zwier

Executive Director – Managing Director and Chief Executive Officer

Brian Benari (appointed 17 February 2012) previously a Key Executive

Dominic Stevens (resigned 17 February 2012)

Key Executives

Richard Howes, Chief Executive, Life

Paul Rogan, Chief Executive, Distribution, Product & Marketing

Andrew Tobin, Chief Financial Officer (appointed 17 February 2012)

Robert Woods, Chief Executive, Funds Management

Loans to Directors and Key Executives

There were no loans made to Directors and specified Key Executives as at 30 June 2012 (2011: nil).

Director and Key Executive compensation

	Year ended 30 June	Short-term employee benefits \$	Post employment \$	Share based payments \$	Other long-term benefits \$	Total \$
Directors	2012	1,035,075	29,234	–	–	1,064,309
	2011	924,128	3,764	–	–	927,892
Executive Director	2012	1,759,173	15,775	2,036,296	329,364	4,140,608
	2011	2,042,606	15,199	2,784,683	1,016,904	5,859,392
Key Executives	2012	4,162,982	53,101	4,729,844	661,735	9,607,662
	2011	6,340,360	75,995	10,733,563	2,805,689	19,955,607
Total	2012	6,957,230	98,110	6,766,140	991,099	14,812,579
	2011	9,307,094	94,958	13,518,246	3,822,593	26,742,891

30. Related parties (continued)

Split of statutory compensation components for the CEO and Key Executives

Executive	Year ended 30 June	Fixed	Cash STI	Share based payments	Other	Total
Brian Benari	2012	21%	22%	49%	8%	100%
	2011	12%	16%	59%	13%	100%
Dominic Stevens	2012	23%	23%	50%	4%	100%
	2011	17%	18%	48%	17%	100%
Richard Howes	2012	20%	21%	53%	6%	100%
	2011	14%	16%	56%	14%	100%
Paul Rogan	2012	25%	23%	44%	8%	100%
	2011	20%	17%	48%	15%	100%
Andrew Tobin	2012	45%	26%	26%	3%	100%
	2011	n/a	n/a	n/a	n/a	n/a
Robert Woods	2012	21%	20%	53%	6%	100%
	2011	14%	15%	57%	14%	100%

Director and Key Executive shareholdings in Challenger Limited

Details of the Directors' and Key Executives' and their affiliates' shareholdings in Challenger Limited as at 30 June 2012 are set out below. All shareholdings were acquired at arm's length prices.

2012 Number of shares	Held at 1 July 2011	Vesting of long term incentives	Other changes	Held at 30 June 2012
Directors				
P Polson	112,000	–	–	112,000
G Cubbin	177,702	–	–	177,702
J Grunzweig	250	–	–	250
R Hooper	160,000	–	–	160,000
B Shanahan	250,000	–	–	250,000
L Zwier	2,360	–	–	2,360
Executive Director				
B Benari	2,166,306	1,722,451	(2,511,093)	1,377,664
D Stevens ¹	867,555	6,205,599	(7,073,154)	–
Key Executives				
R Howes	1,937,722	1,548,508	(2,186,230)	1,300,000
P Rogan	3,390,206	876,364	(3,766,570)	500,000
A Tobin ²	–	–	218,767	218,767
R Woods	2,037,722	1,535,081	(2,272,803)	1,300,000
Total	11,101,823	11,888,003	(17,591,083)	5,398,743

¹ Dominic Stevens ceased to be a Key Executive during the period so his holding disclosure is removed under 'Other changes'.

² Andrew Tobin became a Key Executive during the year. Any prior holdings are included in 'Other changes'.

2011 Number of shares	Held at 1 July 2010	Vesting of long term incentives	Other changes	Held at 30 June 2011
Directors				
P Polson	112,000	–	–	112,000
G Cubbin	177,702	–	–	177,702
J Grunzweig ¹	–	–	250	250
R Hooper	160,000	–	–	160,000
B Shanahan ¹	–	–	250,000	250,000
L Zwier	2,360	–	–	2,360
Executive Director				
D Stevens	2,649,087	1,960,278	(3,741,810)	867,555
Executives				
R Adams ²	529,947	1,806,276	(2,336,223)	–
B Benari	3,000,000	3,473,575	(4,307,269)	2,166,306
R Howes	3,500,000	3,223,291	(4,785,569)	1,937,722
P Rogan	3,720,000	1,209,509	(1,539,303)	3,390,206
R Woods	3,100,000	3,235,270	(4,297,548)	2,037,722
Total	16,951,096	14,908,199	(20,757,472)	11,101,823

¹ J Grunzweig and B Shanahan were appointed as Directors during the 2011 year. Prior holdings included in 'Other changes'.

² R Adams ceased to be a Key Executive during the period. Previously held shares are reported in 'Other changes'.

Director and Key Executive performance share rights

Details of Directors' and Key Executives' and their affiliates' performance share rights in the Company as at 30 June 2012 are set out below.

2012 Number of performance share rights	Held at 1 July 2011	Granted as remuneration	Vested	Other changes	Held at 30 June 2012
Executive Director					
B Benari	463,312	184,323	(339,118)	–	308,517
D Stevens ¹	553,290	221,187	(405,599)	(368,878)	–
Key Executive					
R Howes	265,873	157,991	(165,175)	–	258,689
P Rogan	200,094	115,860	(143,031)	–	172,923
A Tobin ²	–	–	–	45,077	45,077
R Woods	239,020	147,458	(151,748)	–	234,730
Total	1,721,589	826,819	(1,204,671)	(323,801)	1,019,936

¹ Dominic Stevens ceased to be a Key Executive during the period so his holding disclosure is removed under 'Other changes'.

² Andrew Tobin became a Key Executive during the period. Previously held performance share rights are reported in 'Other changes'.

Performance share rights are exercised on vesting and shares are transferred out of the plan to the individual. Vested shares are transferred into the name of the Key Executive but remain subject to trading restrictions.

30. Related parties (continued)

Terms and conditions of performance share rights allocations for the year ended 30 June 2012

2012	Granted number	Grant date	Allocation price \$	Fair value at grant \$	Start vesting date	Last vesting date
Executive Director						
B Benari	92,161	12/9/2011	4.7471	4.37	12/9/2011	1/9/2012
	92,162	12/9/2011	4.7471	4.20	12/9/2011	1/9/2013
D Stevens	110,593	12/9/2011	4.7471	4.37	12/9/2011	1/9/2012
	110,594	12/9/2011	4.7471	4.20	12/9/2011	1/9/2013
Key Executives						
R Howes	78,995	12/9/2011	4.7471	4.37	12/9/2011	1/9/2012
	78,996	12/9/2011	4.7471	4.20	12/9/2011	1/9/2013
P Rogan	57,930	12/9/2011	4.7471	4.37	12/9/2011	1/9/2012
	57,930	12/9/2011	4.7471	4.20	12/9/2011	1/9/2013
R Woods	73,729	12/9/2011	4.7471	4.37	12/9/2011	1/9/2012
	73,729	12/9/2011	4.7471	4.20	12/9/2011	1/9/2013

Director and Key Executive hurdled performance share rights

Details of Directors' and Key Executives' and their affiliates' hurdled performance share rights for shares in the Company as at 30 June 2012 are set out below.

2012	Held at 1 July 2011	Granted as remuneration	Vested	Other changes	Held at 30 June 2012
Number of hurdled performance share rights					
Executive Director					
B Benari	350,000	1,850,000	–	–	2,200,000
D Stevens ¹	750,000	750,000	–	(1,500,000)	–
Key Executive					
R Howes	350,000	600,000	–	–	950,000
P Rogan	200,000	500,000	–	–	700,000
A Tobin ²	–	–	–	234,500	234,500
R Woods	350,000	600,000	–	–	950,000
Total	2,000,000	4,300,000	–	(1,265,500)	5,034,500

¹ Dominic Stevens ceased to be a Key Executive during the period so his holding disclosure is removed under 'Other changes'.

² Andrew Tobin became a Key Executive during the period. Previously held hurdled performance share rights are reported in 'Other changes'.

Terms and conditions of hurdled performance share rights allocations for the year ended 30 June 2012

2012	Granted number	Grant date	Reference price \$	Fair value at grant \$	Start vesting date	Last vesting date
Executive Director						
B Benari	600,000	12/9/2011	4.7471	1.93	12/9/2011	1/9/2015
	1,250,000	16/3/2012	4.3609	0.74	16/3/2012	16/2/2016
D Stevens	750,000	14/12/2011	4.7471	1.56	14/12/2011	1/9/2015
Key Executives						
R Howes	600,000	12/9/2011	4.7471	1.93	12/9/2011	1/9/2015
P Rogan	500,000	12/9/2011	4.7471	1.93	12/9/2011	1/9/2015
R Woods	600,000	12/9/2011	4.7471	1.93	12/9/2011	1/9/2015

The hurdled performance share rights above vest in three tranches. For further details of this scheme see Note 31.

Director and Key Executive options

Details of Directors' and Key Executives' and their affiliates' options over shares in the Company as at 30 June 2012 are set out below.

2012 Number of options	Held at 1 July 2011	Granted as remuneration	Exercised	Other changes	Held at 30 June 2011
Executive Director					
B Benari	1,966,666	–	(1,383,333)	–	583,333
D Stevens	5,800,000	–	(5,800,000)	–	–
Key Executives					
R Howes	1,966,666	–	(1,383,333)	–	583,333
P Rogan	966,666	–	(733,333)	–	233,333
A Tobin ¹	–	–	–	83,333	83,333
R Woods	1,966,666	–	(1,383,333)	–	583,333
Total	12,666,664	–	(10,683,332)	83,333	2,066,665

¹ Andrew Tobin became a Key Executive during the period. Previously held options rights are reported in 'Other changes'.

Terms and conditions of option allocations for the year ended 30 June 2012

There were no option allocations during the year.

Director and Key Executive participation in deferred loan scheme

Details of Directors' and Key Executives' and their affiliates' participation in the deferred loan scheme for shares in the Company as at 30 June 2012 are set out below.

2012 Shares held under deferred loan scheme	Held at 1 July 2011	Other changes	Held at 30 June 2012
Key Executives			
P Rogan ¹	2,000,000	(2,000,000)	–
Total	2,000,000	(2,000,000)	–

¹ Share held under deferred loan scheme lapsed in 2012.

Terms and conditions of deferred loan allocations for the year ended 30 June 2012

There were no allocations during the year.

31. Employee entitlements

	30 June 2012 \$M	30 June 2011 \$M
Employee entitlements provision (see Note 20)	8.1	6.9

The total number of employees of the Group at balance date totalled 479 (30 June 2011: 455).

Challenger Performance Plan

The Challenger Performance Plan is a flexible plan that provides for the award of either options or performance rights with awards being satisfied from either the issue of new shares or on-market acquisition. Non-Executive Directors are not eligible to participate in the plan. The key features of the plan are as follows:

Performance share rights

This instrument is a performance right which converts into a fully paid share in the Company at the end of the vesting period. The core purpose of performance share rights is to reward individuals for performance over the past 12 months.

The vesting period is typically two years. Performance share rights are converted to ordinary fully paid shares upon vesting.

Hurdled performance share rights

Hurdled performance share rights were issued during the year ended 30 June 2011 as a replacement for options. This instrument is a performance share right which converts into a fully paid share in the Company at the end of a vesting period, subject to the achievement of performance conditions based on shareholder returns. The hurdled performance share rights are awarded based on a range of criteria reflecting, in addition to current year performance, the longer term ability for an employee to add significant value to Challenger and for retention purposes. The award of hurdled performance share rights ensures longer-term alignment of interests between Challenger and its employees.

The vesting period is typically over four years with three vesting parcels at the end of years 2, 3 and 4. Hurdled performance rights are converted to ordinary fully paid shares upon vesting.

Options and capped performance rights

No new options or capped performance rights were issued in the year ended 30 June 2012.

Performance share rights

The following table sets out the details of the performance share rights granted under the Challenger Performance Plan during 2012 and movements on previous issues:

Grant date	Latest date for exercise ¹	Reference price \$	Fair value at grant \$	Out-standing at 1 July 2011	Granted during the year	Vested during the year	Expired during the year	Out-standing at 30 June 2012
23 Oct 09	15 Sep 11	2.330	3.56	1,105,649	–	1,105,434	215	–
15 Sep 10	15 Sep 11	3.720	3.79	1,173,087	–	1,170,599	2,488	–
15 Sep 10	15 Sep 12	3.720	3.65	1,173,080	–	11,804	18,887	1,142,389
12 Sep 11	1 Sep 12	4.747	4.37	–	1,051,122	–	9,140	1,041,982
12 Sep 11	1 Sep 13	4.747	4.20	–	1,026,185	–	9,144	1,017,041
2 Nov 11	1 Sep 12	4.612	4.25	–	2,000	–	–	2,000
2 Nov 11	1 Sep 13	4.612	4.10	–	2,000	–	–	2,000
Total				3,451,816	2,081,307	2,287,837	39,874	3,205,412

¹ At the date of vesting performance share rights are transferred to the individual and released from the CPP Trust.

Hurdled performance share rights

The following table sets out details of the hurdled performance share rights granted under the Challenger Performance Plan during 2012 and movements on previous issues.

Grant date	Latest date for vesting ¹	Reference price \$	Fair value at grant \$	Out-standing at 1 July 2011	Granted during the year	Vested during the year	Expired during the year	Out-standing at 30 June 2012
08 Sep 10	15 Sep 14	3.724	2.02	5,425,500	–	–	134,500	5,291,000
14 Dec 10	1 Dec 14	4.166	2.38	216,450	–	–	–	216,450
12 Sep 11	1 Sep 15	4.747	1.93	–	6,869,000	–	21,000	6,848,000
14 Dec 11	1 Sep 15	4.747	1.56	–	750,000	–	–	750,000
16 Mar 12	16 Feb 16	4.361	0.74	–	1,250,000	–	–	1,250,000
Total				5,641,950	8,869,000	–	155,500	14,355,450

¹ At the date of vesting hurdled performance share rights are transferred to the individual and released from the CPP Trust.

Options

The following table sets out the details of the movement in share options during the year. No new grants were made during the year.

Grant date	Latest date for exercise	Exercise price \$	Fair value at grant \$	Out-standing at 1 July 2011	Granted during the year	Exercised during the year	Expired during the year	Out-standing at 30 June 2012
14 Sep 07	14 Sep 11	5.57	1.28	2,375,000	–	–	2,375,000	–
28 Sep 07	28 Sep 10	5.57	1.30	333,333	–	–	333,333	–
28 Sep 07	28 Sep 11	5.57	1.56	666,668	–	–	666,668	–
30 Jun 08	30 Aug 11	2.20	0.32	1,900,000	–	1,900,000	–	–
22 Dec 08	22 Dec 11	1.34	0.57	3,215,000	–	3,157,000	58,000	–
09 Mar 09	22 Dec 11	1.13	0.22	66,666	–	66,666	–	–
30 Jun 09	30 Aug 11	2.29	0.65	50,000	–	50,000	–	–
30 Jun 09	30 Aug 12	2.29	0.68	50,000	–	–	–	50,000
23 Oct 09	30 Sep 11	2.33	1.62	4,464,993	–	4,464,993	–	–
23 Oct 09	30 Sep 12	2.33	1.58	4,464,989	–	–	58,332	4,406,657
27 Nov 08	29 Feb 12	2.36	0.24	5,500,000	–	5,500,000	–	–
Total				23,086,649	–	15,138,659	3,491,333	4,456,657

All performance share rights and hurdled performance share rights granted during the year have been externally valued. The hurdled performance rights are valued by a Monte Carlo simulation model using the TSR share price hurdles. A Black Scholes model is used to value the performance share rights. Key inputs into the valuation models are as follows:

Input	12 Sep 11 ¹ Rights	12 Sep 11 Hurdled Rights	14 Dec 11 Hurdled Rights	16 Mar 12 Hurdled Rights
Dividend yield (%)	4.05	4.05	4.21	4.80
Risk free rate (%)	3.51 – 3.82	3.54	3.14	3.85
Volatility ² (%)	25	25	25	25
Valuation (\$)	4.20 – 4.37	1.93	1.56	0.74

¹ Staggered vesting applies to this grant.

² Forecast volatility rate implied from historic trend.

31. Employee entitlements (continued)

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) was a share scheme provided by way of a limited recourse loan. LTIP was suspended in 2006 with the final award being made on 15 September 2006. The last tranche of this scheme reached maturity in September 2011. Details of the movement in the LTIP during the year are detailed in the following table:

Grant date	Out-standing at 1 July 2011	Issue price \$	Fair value at grant \$	Vested	Forfeited	Out-standing at 30 June 2012
15-Sep-06	900,000	3.55	0.54	–	900,000	–
Total	900,000			–	900,000	–

32. Reconciliation of profit to operating cash flow

	30 June 2012 \$M	30 June 2011 \$M
Profit for the year	166.7	292.5
Non-cash and investing adjustments:		
Net realised gain on disposal of financial assets	(57.5)	(183.7)
Net unrealised (gain)/loss on revaluation of financial assets	(292.9)	100.2
Share of associates' net profit	(8.3)	(7.9)
Amortisation and depreciation	11.0	22.5
Share based payments	22.5	25.7
Operating cash flow not recognised in revenue		
Dividends from associates	7.7	4.0
Change in operating assets and liabilities, net of disposal/acquisition of controlled entities		
Increase in receivables	(14.7)	(53.0)
(Increase)/decrease in other assets	(5.1)	25.6
(Decrease)/increase in payables	(1.9)	0.4
Decrease in provisions	(2.9)	(12.2)
Increase in life contract liabilities	924.0	883.2
Increase in external unit holders' liabilities	485.8	115.4
(Decrease)/increase in net tax liabilities	(19.9)	7.2
Net cash inflow from operating income	1,214.5	1,219.9

33. Remuneration of auditor

	30 June 2012 \$000	30 June 2011 \$000
Amounts received or due and receivable by Ernst & Young for:		
Full year audit and half year review of the Group financial report	1,312.8	1,302.5
Other audit services – audit and review of trusts and funds	868.9	807.4
Other services in relation to the Group		
Taxation services	493.1	207.0
Other assurance services	448.0	427.7
Total remuneration of auditor	3,122.8	2,744.6

Auditor's remuneration for the Group is paid by Challenger Group Services Limited, an entity within the Group.

34. Controlled entities

Name of entity	Country of domicile	Class of shares/ units	% owned 30 June 2012	% owned 30 June 2011
417 St Kilda Road Melbourne Trust B	Australia	Ordinary	100	100
417 St. Kilda Road Holding Trust A	Australia	Ordinary	100	100
417 St. Kilda Road Trust	Australia	Ordinary	50	50
Allfine Holdings Pty Limited	Australia	Ordinary	100	100
Allfine Property Trust No.1	Australia	Ordinary	100	100
Balloon Inflation Linked Bond Trust ³	Australia	Ordinary	–	–
Belconnen Property Trust	Australia	Ordinary	100	100
Belvino Investments No.2 Pty Limited	Australia	Ordinary	100	100
Bluezen Property Trust No.1 ¹	Australia	Ordinary	–	100
Bluezen Pty Limited	Australia	Ordinary	100	100
CDPG Australia Pty Limited	Australia	Ordinary	100	100
Cascade Pty Limited	Australia	Ordinary	100	100
CFSG Holdings No.2 Victoria Pty Limited	Australia	Ordinary	100	100
Challenger Alpha Prop Pty Ltd	Australia	Ordinary	100	100
Challenger Australian Listed Property Holding Trust	Australia	Ordinary	100	100
Challenger Axminster Mortgages Trust	Australia	Ordinary	100	100
Challenger CKT Holding Trust	Australia	Ordinary	100	100
Challenger Direct Pty Ltd	Australia	Ordinary	100	100
Challenger Diversified Property Development Pty Limited	Australia	Ordinary	100	100
Challenger European Property Holding Trust	Australia	Ordinary	100	100
Challenger European Property Trust	Australia	Ordinary	100	100
Challenger Ferndale Trust	Australia	Ordinary	100	100
Challenger Financial Services Group	Australia	Ordinary	100	100
Challenger Financial Services Limited	Australia	Ordinary	100	100
Challenger FM 2 Holdings Pty Ltd				
(formerly Challenger Life Holdings Pty Limited)	Australia	Ordinary	100	100
Challenger FM Nominees Pty Limited	Australia	Ordinary	100	100
Challenger Funds Management Holdings Pty Limited	Australia	Ordinary	100	100
Challenger Gas Valpo Trust	Australia	Ordinary	100	100
Challenger German Property Trust	Australia	Ordinary	100	100
Challenger GIF Trust	Australia	Ordinary	100	100
Challenger Group Holdings Limited	Australia	Ordinary	100	100
Challenger Group Pty Limited	Australia	Ordinary	100	100
Challenger Group Services (UK) Limited	Australia	Ordinary	100	100
Challenger Group Services Pty Limited	Australia	Ordinary	100	100
Challenger Guernsey Trust	Australia	Ordinary	100	100
Challenger High Yield Fund	Australia	Ordinary	100	100
Challenger Holding (Vagyonkezelő) KFT	Hungary	Ordinary	100	100
Challenger Home Loan Corporation Pty Limited	Australia	Ordinary	100	100
Challenger Howard Property Trust for 417 St. Kilda Road, Melbourne	Australia	Ordinary	100	100
Challenger Hungary International Capital Investment & Management Limited ¹	Hungary	Ordinary	–	100
Challenger Infrastructure Unit Holding Trust	Australia	Ordinary	100	100
Challenger Infrastructure Unit Trust	Australia	Ordinary	100	100
Challenger Inventory Finance Servicing Pty Limited	Australia	Ordinary	100	100
Challenger Jersey i3 Limited	Jersey	Ordinary	100	100
Challenger Kenedix Japan Trust	Australia	Ordinary	100	100
Challenger LBC Terminals Australia Pty Limited	Australia	Ordinary	100	100
Challenger Life Company Holdings Pty Limited	Australia	Ordinary	100	100
Challenger Life Company Limited	Australia	Ordinary	100	100
Challenger Life Nominees No. 2 Limited	Australia	Ordinary	100	100
Challenger Life Nominees No.3 Pty Limited	Australia	Ordinary	100	100
Challenger Life Nominees Pty Limited	Australia	Ordinary	100	100
Challenger Life Offshore Investments Limited	Jersey	Ordinary	100	100
Challenger Life Subsidiary Holdings Ltd	Australia	Ordinary	100	100
Challenger Listed Investments Limited	Australia	Ordinary	100	100

34. Controlled entities (continued)

Name of entity	Country of domicile	Class of shares/ units	% owned 30 June 2012	% owned 30 June 2011
Challenger Luxembourg Holding No.1A S.a.r.l.	Luxembourg	Ordinary	100	100
Challenger Luxembourg Holding No.1B S.a.r.l.	Luxembourg	Ordinary	100	100
Challenger Luxembourg Holding No.2 S.a.r.l.	Luxembourg	Ordinary	100	100
Challenger Managed Investments (International) Pty Limited	Australia	Ordinary	100	100
Challenger Management Services (UK) Limited	UK	Ordinary	100	100
Challenger Management Services Limited	Australia	Ordinary	100	100
Challenger Margin Lending Pty Limited	Australia	Ordinary	100	100
Challenger MEIF Holding Trust	Australia	Ordinary	100	100
Challenger MEIF Trust	Australia	Ordinary	100	100
Challenger Millennium NPF Trust	Australia	Ordinary	100	100
Challenger Millennium NPL Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2001-1C Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2001-1E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2001-2 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2001-3 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2002-1G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2002-2 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2003-1G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2003-2 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2003-3G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2003-4 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2003-5G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2004-1E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2004-2G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2004-3P Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2004-4E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2004-5 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2005-1G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2005-2L Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2005-3E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2006-1 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2006-2G Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2006-3L Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2006-4H Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2007-1E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2007-2L Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2008-1 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2008-2 Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2009-1 Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse C Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse F Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse JP Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse Non – Performing Trust	Australia	Ordinary	100	100
Challenger Mortgage Management Pty Limited	Australia	Ordinary	100	100
Challenger Non-Conforming Finance Pty Limited	Australia	Ordinary	100	100
Challenger North of England Gas Holding Trust	Australia	Ordinary	100	100
Challenger NZ Millennium Series 2007-AP Trust	NZ	Ordinary	100	100
Challenger NZ Millennium Warehouse W Trust	NZ	Ordinary	100	100
Challenger Originator Finance Pty Limited	Australia	Ordinary	100	100
Challenger Property Asset Management Pty Limited	Australia	Ordinary	100	100
Challenger Property Income Trust	Australia	Ordinary	100	100
Challenger Property Trust No. 18	Australia	Ordinary	100	100
Challenger Property Trust No. 19	Australia	Ordinary	100	100
Challenger Property Trust No. 25	Australia	Ordinary	100	100
Challenger Property Trust No. 27	Australia	Ordinary	100	100
Challenger Property Trust No. 28	Australia	Ordinary	100	100

Name of entity	Country of domicile	Class of shares/ units	% owned 30 June 2012	% owned 30 June 2011
Challenger Property Trust No. 29	Australia	Ordinary	100	100
Challenger Property Trust No. 30	Australia	Ordinary	100	100
Challenger Property Trust No. 31	Australia	Ordinary	100	100
Challenger Property Trust No. 32	Australia	Ordinary	100	100
Challenger Property Trust No. 33	Australia	Ordinary	100	100
Challenger Property Trust No. 34	Australia	Ordinary	100	100
Challenger Property Trust No. 35	Australia	Ordinary	100	100
Challenger Property Trust No. 36	Australia	Ordinary	100	100
Challenger Reit AFSL Pty Limited	Australia	Ordinary	100	100
Challenger Retirement and Investment Services Pty Limited (formerly Challenger Retirement Services Pty Limited)	Australia	Ordinary	100	100
Challenger SCR LLP Member Limited	Australia	Ordinary	100	100
Challenger Seattle Trust	Australia	Ordinary	100	100
Challenger Securitisation Management Pty Limited	Australia	Ordinary	100	100
Challenger SkyBridge (Capital II) Investment LLP	Jersey	Ordinary	100	100
Challenger SkyBridge (Fund LP) Jersey Limited	Jersey	Ordinary	100	100
Challenger SkyBridge (Fund) Holding Company Pty Limited	Australia	Ordinary	100	100
Challenger SkyBridge (GP Holdings) Investment LLP	Jersey	Ordinary	100	100
Challenger SkyBridge (Group) Holding Company Pty Limited	Australia	Ordinary	100	100
Challenger SkyBridge (Hastings) Holdings Company Pty Limited	Australia	Ordinary	100	100
Challenger SkyBridge (Hastings) Investment LLP	Jersey	Ordinary	100	100
Challenger SkyBridge Fund (SLP) Limited	Jersey	Ordinary	100	100
Challenger Special Servicing Pty Limited	Australia	Ordinary	100	100
Challenger Strategic Property Partners 1	Australia	Ordinary	100	100
Challenger Structured Credit UK Trust	Australia	Ordinary	100	100
Challenger Titanium Series 2004-1 Trust	Australia	Ordinary	100	100
Challenger Titanium Series 2005-1 Trust	Australia	Ordinary	100	100
Challenger Titanium Series 2006-1 Trust	Australia	Ordinary	100	100
Challenger Titanium Warehouse C Trust	Australia	Ordinary	100	100
Challenger Towers Holding Trust	Australia	Ordinary	100	100
Challenger Towers Trust	Australia	Ordinary	100	100
Challenger Treasury Limited	Australia	Ordinary	100	100
Challenger UK Tank Storage Holding Trust	Australia	Ordinary	100	100
Challenger UK Tank Storage Limited	UK	Ordinary	100	100
Challenger UK Terminals Limited	Jersey	Ordinary	100	100
Challenger USPF II Trust	Australia	Ordinary	100	100
Challenger Wales and the West Gas Holding Trust ¹	Australia	Ordinary	–	100
Challenger Welcome Break Limited	Jersey	Ordinary	100	100
Challenger Welcome Break Trust	Australia	Ordinary	100	100
Challenger Wholesale Finance Holdings Pty Ltd	Australia	Ordinary	100	100
Challenger Wind Holdings Pty Limited	Australia	Ordinary	100	100
Challenger Wind Trust	Australia	Ordinary	100	100
Clashfern Investments (UK) Limited	UK	Ordinary	100	100
CLC Commercial Mortgages Trust	Australia	Ordinary	100	100
CLC Leveraged Loan Trust	Australia	Ordinary	100	100
CLC Liquidity Trust	Australia	Ordinary	100	100
CMM NIM Trust No 1	Australia	Ordinary	100	100
CMM NIM Trust No 2	Australia	Ordinary	100	100
CMM NIM Trust No 3	Australia	Ordinary	100	100
CMM NIM Trust No 4	Australia	Ordinary	100	100
CMM NIM Trust No 5	Australia	Ordinary	100	100
CMM NIM Trust No 6	Australia	Ordinary	100	100
CMM NIM Trust No 7	Australia	Ordinary	100	100
CMM NIM Trust No 8	Australia	Ordinary	100	100
CMM NIM Trust No 9	Australia	Ordinary	100	100
CMS (UK) Limited	UK	Ordinary	100	100
County Court Property Trust	Australia	Ordinary	100	100
CPHIC Investments Pty Limited	Australia	Ordinary	100	100

Notes to the financial statements

34. Controlled entities (continued)

Name of entity	Country of domicile	Class of shares/ units	% owned 30 June 2012	% owned 30 June 2011
Crown Domestic Sovereign Bond Trust ³	Australia	Ordinary	–	–
CSPP1 Broadbeach Pty Limited	Australia	Ordinary	100	100
CSPP1 Investment Company 1 Pty Limited	Australia	Ordinary	100	100
CSPP1 Maitland Pty Limited	Australia	Ordinary	100	100
CSPP1 Mavis Court Pty Limited	Australia	Ordinary	100	100
Discovery House Trust	Australia	Ordinary	100	100
EMIF Holdings Pty Ltd	Australia	Ordinary	100	100
Endowment Warrants Limited	Australia	Ordinary	100	100
Epping No. 2 Trust	Australia	Ordinary	100	100
Epping No.1 Trust	Australia	Ordinary	100	100
Fidante Partners Alphinity Holdings Pty Limited (formerly Challenger Boutique Alphinity Holdings Pty Limited)	Australia	Ordinary	100	100
Fidante Partners Ardea Holdings Pty Limited (formerly Challenger Boutique Ardea Holdings Pty Limited)	Australia	Ordinary	100	100
Fidante Partners Bentham Holdings Pty Ltd (formerly Challenger Boutique Bentham Holdings Pty Ltd)	Australia	Ordinary	100	100
Fidante Partners Five Oceans Holdings Pty Limited (formerly Challenger Alpha Prop Holdings Pty Ltd)	Australia	Ordinary	100	100
Fidante Partners Holdings Pty Limited (formerly Challenger Boutique Holdings Pty Ltd)	Australia	Ordinary	100	100
Fidante Partners Kapstream Holdings Pty Limited (formerly Challenger Boutique (GFI) Holdings Pty Limited)	Australia	Ordinary	100	100
Fidante Partners Kinetic Holdings Pty Limited (formerly Challenger Boutique Holdings Pty Ltd)	Australia	Ordinary	100	100
Fidante Partners Limited (formerly Challenger Managed Investments Limited)	Australia	Ordinary	100	100
Fidante Partners Merlon Holdings Pty Ltd (formerly Challenger Boutique Merlon Holdings Pty Ltd)	Australia	Ordinary	100	100
Fidante Partners MIR Holdings Pty Limited (formerly Challenger REIT Holdings Pty Limited)	Australia	Ordinary	100	100
Fidante Partners Novaport Holdings Pty Limited (formerly Challenger Boutique Novaport Holdings Pty Limited)	Australia	Ordinary	100	100
Fidante Partners Services Limited (formerly Challenger Investment Services Limited)	Australia	Ordinary	100	100
Fidante Partners Wavestone Holdings Pty Limited (formerly Challenger Boutique Wavestone Holdings Pty Limited)	Australia	Ordinary	100	100
Five Oceans Global Equity Extension Fund	Australia	Ordinary	95	95
Five Oceans World Fund	Australia	Ordinary	26	26
FXF Holdings Pty Limited ¹	Australia	Ordinary	–	100
Godo Kaisha Kenedix Master Tokumei Kumiai	Japan	Ordinary	100	100
Godo Kaisha Sub Tokumei Kumiai One	Japan	Ordinary	100	100
Godo Kaisha Sub Tokumei Kumiai Two	Japan	Ordinary	100	100
Goodman Fielder – North Ryde Property Trust	Australia	Ordinary	100	100
Harris Global Sovereign Bond Trust	Australia	Ordinary	–	–
Hayes Park Group Consolidated	Australia	Ordinary	100	100
Hayes Park Property Trust	Australia	Ordinary	100	100
Heathrow World Business Centre Ltd	Australia	Ordinary	100	100
Hotel Investments Trust	Australia	Ordinary	100	100
Howard Commercial Lending Limited (formerly Challenger Commercial Lending Limited)	Australia	Ordinary	100	100
Inexus Australian Holding Company Pty Limited	Australia	Ordinary	100	100
Interstar NZ Millennium Series 2004-A	NZ	Ordinary	100	100
Interstar NZ Millennium Series 2004-A Trust (formerly Challenger NZ Millennium Series 2004-A Trust)	NZ	Ordinary	100	100
Interstar Titanium Series 2006-1 Trust	Australia	Ordinary	–	100
LANV Pty Ltd	Australia	Ordinary	100	100

Name of entity	Country of domicile	Class of shares/ units	% owned 30 June 2012	% owned 30 June 2011
Maitland Unit Trust	Australia	Ordinary	67	100
Mavis Court Development Co Pty Ltd	Australia	Ordinary	80	80
Mawbury Pty Limited	Australia	Ordinary	100	100
Mercury Term Managed Trust ³	Australia	Ordinary	–	–
Oaklands Hill Pty Limited	Australia	Ordinary	100	100
Quarantine Trust ²	Australia	Ordinary	100	–
Rendezvous Hotels Flinders Street Trust	Australia	Ordinary	100	100
Riverside Trust No.1	Australia	Ordinary	100	100
Riverside Trust No.2	Australia	Ordinary	100	100
RRETRO Fund Ltd ²	Australia	Ordinary	51	–
RRETRO Master Fund Ltd ²	Australia	Ordinary	100	–
Sabrand Limited ¹	Cyprus	Ordinary	–	100
Senator House Holdings Ltd	Australia	Ordinary	100	100
Senator House Property Trust	Australia	Ordinary	100	100
Talavera Herring Unit Trust ¹	Australia	Ordinary	–	50
Talavera Herring Pty Limited	Australia	Ordinary	100	100
The Liberty Group Consortium Pty Limited	Australia	Ordinary	100	100
TLG Holding Unit Trust	Australia	Ordinary	100	100
TLG Services Pty Limited	Australia	Ordinary	100	100
TLG Unit Trust	Australia	Ordinary	100	100
TLGH Pty Limited	Australia	Ordinary	100	100
TMA C Warehouse C Trust	Australia	Ordinary	100	100
TRE Data Centre Trust	Australia	Ordinary	100	100
TRE Data Centres Canberra Pty Ltd	Australia	Ordinary	100	100
Village Property Trust	Australia	Ordinary	100	100
Waterford County Pty Limited	Australia	Ordinary	67	67
Wavestone Australian Equity Long/Short Fund ¹	Australia	Ordinary	–	22
Westwind Finance Plc ¹	Ireland	Equity	–	100
Wetherill Park Property Trust	Australia	Ordinary	100	100
World Business Centre Heathrow Property Trust	Australia	Ordinary	100	100
Wyetree Asset Management Limited (UK)	UK	Ordinary	100	85

¹ Deconsolidated in 2012.

² Consolidated in 2012.

³ Consolidated due to control rather than % holding.

35. Investments in associates

Name of company	Principal activity	Country of domicile	30 June 2012 %	30 June 2011 %	30 June 2012 \$M	30 June 2011 \$M
Alphinity Investment Management Pty Ltd ¹	Funds Management	Australia	30	30	0.8	0.2
Ardea Investment Management Pty Limited	Funds Management	Australia	30	30	2.6	2.6
Bentham Asset Management Pty Ltd ¹	Funds Management	Australia	49	49	0.5	1.1
Challenger MBK Fund Management Pte Ltd	Funds Management	Singapore	50	50	3.1	3.1
Five Oceans Asset Management Limited	Funds Management	Australia	34	25	5.2	3.4
Greencape Capital Pty Limited	Funds Management	Australia	35	35	13.8	13.7
Homeloans Limited	Mortgage Lending	Australia	22	23	20.1	19.7
Kapstream Capital Pty Limited	Funds Management	Australia	25	25	5	4.8
Kinetic Investments Partners Limited	Funds Management	Australia	20	20	0.6	0.4
Merlon Capital Partners Ltd ¹	Funds Management	Australia	30	30	0.8	0.9
MIR Holdings Pty Ltd	Funds Management	Australia	49	–	7.4	–
NovaPort Capital Pty Ltd ¹	Funds Management	Australia	49	49	0.5	0.2
WaveStone Capital Pty Limited	Funds Management	Australia	30	30	2.0	2.0
Impairment ²					(11.2)	(11.2)
Total investments in associates					51.2	40.9
Movements in carrying amount of investments in associates						
Opening balance					40.9	33.0
Investment in associates in current year					9.7	12.0
Share of associates' net profit					8.3	7.9
Dividend/capital return received					(7.7)	(12.0)
Carrying amount at the end of the financial year					51.2	40.9
Share of the associates' profit or loss:						
Profit before tax					8.3	7.9
Profit for the year					8.3	7.9
Retained profits attributable to associates at the beginning of the financial year					17.1	9.2
Retained profits attributable to associates at the end of the financial year					25.4	17.1
Share of the associates' statement of financial position:						
Assets					109.8	129.9
Liabilities					(91.6)	(113.1)
Net assets					18.2	16.8

¹ Voting rights attached to the Group's holding.

² This impairment relates to Homeloans Limited.

36. Parent entity

The statement of comprehensive income and statement of financial position for the Company for the year ended and as at 30 June are as follows:

	30 June 2012 \$M	30 June 2011 \$M
Statement of comprehensive income		
Revenue	120.7	258.8
Profit before income tax	120.7	258.8
Income tax benefit/(expense)	0.8	(1.8)
Profit and total comprehensive income for the year	121.5	257.0
Statement of financial position		
Assets		
Cash and cash equivalents	1.3	1.2
Receivables	814.8	1,279.6
Deferred tax assets	139.5	62.5
Investment in controlled entities	1,169.9	1,147.5
Total assets	2,125.5	2,490.8
Liabilities		
Payables	411.2	927.6
Current tax liability	1.6	0.9
Provisions	—	0.1
Total liabilities	412.8	928.6
Net assets	1,712.7	1,562.2
Equity		
Contributed equity	1,385.4	1,185.8
Equity option premium reserve	65.0	125.4
Share based payment reserve	27.4	49.5
Retained profits	234.9	201.5
Total equity	1,712.7	1,562.2

See Note 38 for details of any contingent liabilities applicable to the parent entity.

37. Subsequent events

On 16 August 2012 Challenger Limited announced that the Australian Prudential Regulation Authority (APRA) advised Challenger Life Company Limited (CLC) transition arrangements for regulatory capital requirements under the Life and General Insurance Capital (LAGIC) review. The new standards are expected to be effective from 1 January 2013. Under transitional arrangements proposed by APRA it is estimated that the capital impact on CLC's regulatory capital will be between \$110 million and \$125 million per annum for three years, with the first increase effective 1 January 2014.

APRA has advised the following LAGIC transition arrangements with respect to CLC's subordinated debt:

- Existing subordinated debt tranches will continue to be fully eligible as regulatory capital until each instrument's first call date after 1 January 2013 and will then amortise over a minimum five year period. The largest tranche of CLC's existing subordinated debt will be fully eligible as Tier 2 capital until 2017 and thereafter continue, as a minimum, to be partially eligible until December 2021, noting that this tranche can remain outstanding until its legal maturity in 2037.
- Challenger will also have three years to transition to the minimum requirement that Tier 1 capital represents 80% of regulatory capital with the mechanics of the transition to be finalised.

Final arrangements are subject to continued discussions and confirmation from APRA which is expected to be received in the fourth quarter of calendar 2012.

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

38. 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 30 June 2012. 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) AFS Licence 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 30 June 2012 there are potential future commitments totalling \$141.6 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 Taxation Office (ATO) 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 statement of financial position when agreement over the amount and timing of any inflow or deduction has been reached with the ATO.

As a result of changes to the tax legislation in 2010, the Group 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 allowed for deductions to be spread over 10 years from 2003. However, on 29 June 2012 the Tax Laws Amendment (2012 Measures No. 2) Bill 2012 received Royal Assent that operates retrospectively to overturn these changes and denies Challenger's rights to future income claims. No tax benefit or asset has been recognised in respect to these claims.

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 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) the financial statements and notes of the Group also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in Note 1(ii) to the financial statements;
- c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
- d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2012.

On behalf of the Board



R R Hooper
Director

Sydney
17 August 2012



B R Benari
Director

Sydney
17 August 2012

Independent auditor's report



Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

Independent auditor's report to the members of Challenger Limited

Report on the Financial Report

We have audited the accompanying financial report of Challenger Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have 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.

In our opinion:

- a. the financial report of Challenger Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the remuneration report

We have audited the remuneration report included in pages 36 to 58 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the remuneration report of Challenger for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



S J Ferguson
Partner
Sydney

17 August 2012

Five-year history

	30 June 2008 \$M	30 June 2009 \$M	30 June 2010 \$M	30 June 2011 \$M	30 June 2012 \$M
Income statement					
Normalised cash operating earnings	207.9	250.8	338.0	400.8	435.7
Net fee income	187.3	114.4	102.0	88.4	83.0
Other income	6.5	4.7	7.6	4.8	8.8
Total management view of revenue	401.7	369.9	447.6	494.0	527.5
Operating expenses	(191.3)	(186.2)	(181.8)	(180.2)	(189.2)
Normalised EBIT	210.4	183.7	265.8	313.8	338.3
Interest and borrowing costs	(41.3)	(36.9)	(14.1)	(2.7)	(3.3)
Discontinued operations	110.2	136.1	39.1	–	–
Normalised profit before tax	279.3	282.9	290.8	311.1	335.0
Tax on normalised profit	(61.4)	(64.0)	(58.3)	(63.1)	(38.2)
Normalised profit after tax	217.9	218.9	232.5	248.0	296.8
Investment experience after tax	(192.3)	(309.6)	51.3	(28.7)	(148.3)
Significant items after tax	(69.8)	–	(1.3)	42.1	–
Statutory profit for the year	(44.2)	(90.7)	282.5	261.4	148.5
Statement of financial position					
Total assets	27,157.3	25,237.8	18,375.9	17,836.2	17,778.6
Total liabilities	25,527.3	23,548.4	16,656.2	16,036.8	15,734.1
Net assets	1,630.0	1,689.4	1,719.7	1,799.4	2,044.5
Total equity attributable to equity holders of the parent	1,612.9	1,381.9	1,339.6	1,488.3	1,692.2
Assets under management and administration					
Life	5,245.0	5,767.0	7,578.0	8,387.0	9,773.0
Funds Management	21,921.0	16,041.0	20,221.0	23,608.0	31,017.0
Crossholdings	(1,478.0)	(2,164.0)	(3,851.0)	(4,086.0)	(7,346.0)
	25,688.0	19,644.0	23,948.0	27,909.0	33,444.0
Discontinued operations					
Mortgage Management	48,068.0	93,295.0	–	–	–
Crossholdings (discontinued operations)	(3,044.0)	(2,604.0)	–	–	–
Total assets under management and administration	70,712.0	110,335.0	23,948.0	27,909.0	33,444.0

	30 June 2008 \$M	30 June 2009 \$M	30 June 2010 \$M	30 June 2011 \$M	30 June 2012 \$M
Earnings per share (cents)					
Basic – statutory profit/(loss)	(7.5)	(16.2)	55.3	54.5	28.8
Diluted – statutory profit/(loss)	(8.1)	(15.9)	51.9	50.7	27.8
Basic earnings per share – normalised profit	37.1	39.2	45.5	51.7	57.5
Diluted earnings per share – normalised profit	35.4	38.4	42.7	48.1	55.7
Dividends per share (cents)					
Interim	5.0	5.0	6.0	7.0	7.5
Final	7.5	7.5	8.5	9.5	10.5
Total	12.5	12.5	14.5	16.5	18.0
Dividend payout ratio – statutory profit/(loss) (%) ¹	N/A	N/A	26.2%	30.3%	62.5%
Dividend payout ratio – normalised profit/(loss) (%) ¹	33.7%	31.9%	31.9%	31.9%	31.3%
Ratios					
Net gearing (%) ²	0.6%	11.5%	0.0%	0.0%	0.0%
Gearing (%) ³	13.4%	19.6%	0.0%	0.0%	0.0%
Return on shareholders' funds – statutory profit ⁴	(21.8%)	(6.3%)	20.1%	18.7%	9.4%
Return on shareholders' funds – normalised ⁵	13.6%	15.1%	16.5%	17.7%	18.8%
Staff numbers ⁶	911	837	460	455	479
Share price at 30 June (\$)	1.89	2.24	3.52	4.89	3.25
Ordinary share capital (million shares) ⁷	600.4	569.3	499.6	496.7	544.7
Market capitalisation at 30 June (\$ million) ⁸	1,134.8	1,275.3	1,758.6	2,428.8	1,770.3

¹ Dividends per share/EPS (basic).

² Calculated as net debt/(net debt + equity).

³ Calculated as debt/(debt + equity).

⁴ Calculated as statutory profit/total average equity attributable to equity holders.

⁵ Calculated as normalised profit after tax/total average equity attributable to equity holders.

⁶ 2008 numbers exclude Financial Planning employees transferred on the sale of the business on 30 June 2008. 2009 excludes Mortgage Management employees transferred on completion of the sale of the business on 30 October 2009.

⁷ Represents issued ASX shares.

⁸ Calculated as share price x ordinary share capital.

Investor information

Distribution of shares (as at 1 October 2012)

Range	Number of shareholders	Number of shares	% of issued capital
1–1,000	8,625	4,234,629	0.78
1,001–5,000	9,131	22,351,939	4.10
5,000–10,000	2,051	15,183,541	2.79
10,001–100,000	1,391	34,090,444	6.26
100,001 and over	126	468,792,157	86.07
	21,324	544,652,710	100.00

The number of unmarketable parcels is 800 and number of unmarketable shares is 51,990.

Substantial shareholders

The number of shares held by substantial shareholders and their associates, based on the latest substantial shareholder notifications, and the 20 largest individual shareholders are as follows:

	Number of shares	% of issued capital
Substantial shareholders as at 1 October 2012		
National Australia Bank Limited	41,096,251	7.55
Caledonia (Private) Investments Pty Ltd and Associates	29,131,589	5.33
Paradise Investment Management Pty Ltd	27,885,690	5.05
AMP Limited	27,485,820	5.05

Twenty largest shareholders as at 1 October 2012

1.	JP Morgan Nominees Australia Limited	101,012,429	18.55
2.	National Nominees Limited	93,443,028	17.16
3.	HSBC Custody Nominees (Australia) Limited	92,177,367	16.93
4.	JP Morgan Nominees Australia Limited	30,648,945	5.63
5.	UBS Nominees Pty Ltd	21,727,866	3.99
6.	Citicorp Nominees Pty Limited	15,130,533	2.78
7.	AMP Life Limited	11,892,478	2.18
8.	BNP Paribas Noms Pty Ltd	10,514,415	1.93
9.	CPU Share Plans Pty Ltd	9,370,941	1.72
10.	BNP Paribas Noms Pty Ltd	6,867,000	1.26
11.	UBS Nominees Pty Ltd	5,219,505	0.96
12.	Bainpro Nominees Pty Limited	4,957,000	0.91
13.	BNP Paribas Noms Pty Ltd	4,014,680	0.74
14.	HSBC Custody Nominees (Australia) Limited	3,244,299	0.60
15.	Citicorp Nominees Pty Limited	3,096,470	0.57
16.	Merrill Lynch (Australia) Nominees Pty Limited	2,644,132	0.49
17.	WIN Television NSW Pty Limited	2,609,598	0.48
18.	QIC Limited	2,574,036	0.47
19.	HSBC Custody Nominees (Australia) Limited	2,559,035	0.47
20.	BNP Paribas Noms Pty Ltd	2,501,066	0.46
	426,204,823	78.28	

Voting rights

On a show of hands, every member present at the meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

ASX listing

Challenger Limited shares are listed on the ASX under code CGF. Share price details and company information can be accessed via either the company website www.challenger.com.au or the ASX website www.asx.com.au.

Shareholder queries

For any administrative matters in respect of your Challenger Limited shareholding, please contact the Company's share registrar, Computershare.

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street, Sydney NSW 2000.
Investor queries 1300 850 505
www.computershare.com.au

To assist with all enquiries, please quote your unique Security Reference Number (SRN) and your current address when dealing with Computershare.

This page has been left blank intentionally.

This page has been left blank intentionally.

Directory

Principal place of business and registered office in Australia

Level 15
255 Pitt Street
Sydney NSW 2000
Telephone: 02 9994 7000
Facsimile: 02 9994 7777

Directors

Peter Polson (Chairman)
Brian Benari (Managing Director and 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
Telephone: 02 8234 5000
Website: www.computershare.com.au

Auditor

Ernst & Young
680 George Street
Sydney NSW 2000

Website

www.challenger.com.au



Sydney

Level 15, 255 Pitt Street
Sydney NSW 2000
Telephone 02 9994 7000
Facsimile 02 9994 7777

Melbourne

Level 19, 31 Queen Street
Melbourne VIC 3000
Telephone 02 9994 7000
Facsimile 02 9994 7777

Brisbane

Level 7, 320 Adelaide Street
Brisbane QLD 4000
Telephone 07 3136 5400
Facsimile 07 3136 5407

Adelaide

Level 7, 147 Pirie Street
Adelaide SA 5000
Telephone 08 7071 7042
Facsimile 08 8227 0395

Perth

Level 2, 168 St Georges Terrace
Perth WA 6000
Telephone 08 9261 7412
Facsimile 08 9321 5277

London

Heron Tower
Level 19, 110 Bishopsgate
London EC2N 4AY
Telephone +44 20 7976 3300
Facsimile +44 20 7976 3301

www.challenger.com.au