

Challenger Limited

Analyst Pack

FY14
30 June 2014

Table of contents

Key Performance Indicators	1
Consolidated profit and loss	2
Management balance sheet	5
Capital management, Group cash, CLC debt facilities and Group net assets	8
Life financial results	12
Funds Management financial results	17
Corporate financial results	21
Consolidated operating cash flows	22
Assets and Funds Under Management, net flows and sales	23
Profit and equity sensitivities	26
Issued share capital	28
Normalised profit framework	30
Glossary of terms	32

Investor Relations

Stuart Kingham	Jana Flanagan
Head of Investor Relations	Investor Relations Analyst
+61 2 9994 7125	+61 2 9994 7815
skingham@challenger.com.au	jflanagan@challenger.com.au

Important Note

Information presented in the FY14 Analyst Pack is presented on an operational basis (rather than statutory) to reflect a management view of the business. Challenger also provides statutory reporting as prescribed under the Corporations Act 2001. The audited full year financial report is available from Challenger's website at www.challenger.com.au

The FY14 Analyst Pack is not audited. The statutory net profit after tax as disclosed in the consolidated profit and loss (see page 2) has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Challenger's external auditors, Ernst & Young, have audited the statutory net profit after tax as disclosed in the consolidated profit and loss. Normalised net profit after tax, as disclosed in the consolidated profit and loss (see page 2) has been prepared in accordance with a normalised profit framework. The normalised profit framework has been disclosed in the Directors' Report and Note 2 – segment information, in the Challenger Limited 30 June 2014 financial report. The normalised profit after tax has been subject to a review performed by Ernst & Young.

Any forward looking statements included in this document are by nature subject to significant uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to, Challenger, so that actual results or events may vary from those forward looking statements, and the assumptions on which they are based.

While Challenger has sought to ensure that information is accurate by undertaking a review process, it makes no representation or warranty as to the accuracy or completeness of any information or statement in this document. In particular, information and statements in this document do not constitute investment advice or a recommendation on any matter, and should not be relied upon.

Key Performance Indicators

	FY14	FY13	FY12	2H14	1H14	2H13	1H13	2H12	1H12
Earnings									
Normalised NPAT (\$m)	328.7	308.5	296.8	165.2	163.5	159.8	148.7	170.1	126.7
Statutory NPAT (\$m)	340.6	416.8	148.5	174.3	166.3	194.8	222.0	128.5	20.0
Normalised EBIT (\$m)	387.9	364.8	338.3	195.1	192.8	187.0	177.8	178.4	159.9
Underlying operating cash flow (\$m)	321.0	321.5	282.3	177.6	143.4	170.4	151.1	142.6	139.7
Normalised cost to income ratio	34.6%	34.4%	35.9%	35.2%	34.0%	33.9%	35.0%	34.5%	37.3%
Normalised effective tax rate	14.4%	14.4%	11.4%	14.5%	14.2%	13.6%	15.1%	3.4%	20.3%
Normalised effective tax rate excluding TOFA ¹	22.2%	22.7%	20.4%	22.3%	22.1%	21.8%	23.7%	20.4%	20.3%
Earnings per share (cents)									
Basic – normalised	64.0	58.6	57.5	32.2	31.8	30.7	28.0	32.0	25.3
Basic – normalised excluding TOFA ¹	58.1	52.9	51.7	29.3	28.9	27.8	25.2	26.3	25.3
Basic – statutory	66.3	79.2	28.8	34.0	32.3	37.4	41.8	24.1	4.0
Diluted – normalised	60.6	58.0	55.7	30.4	30.3	30.2	27.8	31.5	24.1
Diluted – normalised excluding TOFA ¹	55.1	52.3	50.0	27.6	27.5	27.4	25.0	26.0	24.1
Diluted – statutory	62.8	78.3	27.8	32.1	30.8	36.8	41.5	23.8	3.8
Return on equity (%)									
Normalised Return on Equity (RoE) – pre-tax	18.8%	19.6%	21.2%	18.6%	18.9%	19.7%	19.6%	21.4%	21.0%
Normalised Return on Equity (RoE) – post-tax	16.1%	16.8%	18.8%	15.9%	16.2%	17.0%	16.6%	20.6%	16.8%
Statutory Return on Equity (RoE) – post-tax	16.7%	22.7%	9.4%	16.8%	16.5%	20.7%	24.9%	15.5%	2.6%
Capital management									
Net assets – average ² (\$m)	2,044	1,836	1,577	2,090	2,000	1,899	1,772	1,658	1,502
Net assets – closing (\$m)	2,153	1,947	1,692	2,153	2,052	1,947	1,827	1,692	1,618
Net assets per basic share (\$)	4.22	3.78	3.20	4.22	3.99	3.78	3.47	3.20	3.02
Net tangible assets (\$m)	1,607	1,426	1,173	1,607	1,530	1,426	1,308	1,173	1,099
Net tangible assets per basic share (\$)	3.15	2.77	2.22	3.15	2.98	2.77	2.48	2.22	2.05
Dividend (cps)	26.0	20.0	18.0	13.5	12.5	10.5	9.5	10.5	7.5
Dividend franking (%)	20.8	–	–	40.0	–	–	–	–	–
Normalised dividend payout ratio	40.6%	34.1%	31.3%	41.9%	39.3%	34.2%	33.9%	32.9%	29.6%
Share buy back (\$m)	–	50.0	53.0	–	–	29.6	20.4	28.3	24.7
Sales and net flows									
Life sales (\$m)									
Retail	2,798.8	2,179.2	1,954.3	1,341.8	1,457.0	1,123.9	1,055.3	971.0	983.3
Institutional	581.6	951.8	703.5	291.5	290.1	30.6	921.2	415.1	288.4
Total Life sales	3,380.4	3,131.0	2,657.8	1,633.3	1,747.1	1,154.5	1,976.5	1,386.1	1,271.7
Life retail net flows ³ (\$m)	887.1	598.1	582.9	347.2	539.9	385.3	212.8	329.7	253.2
Life retail annuity book (\$m)	7,824.3	7,123.3	6,553.0	7,824.3	7,617.2	7,123.3	6,819.6	6,553.0	6,065.0
Life retail net book growth ³	12.5%	9.1%	10.4%	4.6%	7.6%	5.6%	3.2%	5.4%	4.5%
Funds Management – net flows (\$m)	2,147.4	6,978.6	4,226.0	1,033.6	1,113.8	4,754.4	2,224.2	2,505.0	1,721.0
Assets under management (\$m)									
Life	11,087	10,787	9,773	11,087	10,889	10,787	10,170	9,773	8,709
Funds Management	47,126	41,103	31,017	47,126	44,986	41,103	35,335	31,017	27,721
Cross holding elimination	(7,488)	(7,120)	(7,361)	(7,488)	(7,061)	(7,120)	(7,221)	(7,361)	(6,863)
Total assets under management	50,725	44,770	33,429	50,725	48,814	44,770	38,284	33,429	29,567
Other									
Headcount – closing FTEs	539	487	479	539	498	487	482	479	480
Weighted average number of basic shares on issue (m)	513.8	526.1	516.4	513.1	514.5	520.8	531.4	532.5	500.5
Number of basic shares on issue (m)	510.6	515.6	529.0	510.6	514.1	515.6	526.4	529.0	536.0
Share price closing (\$)	7.44	4.01	3.25	7.44	6.20	4.01	3.54	3.25	4.13

1 Normalised tax includes the effect of a private binding tax ruling received from the ATO in February 2012 in relation to the application of Taxation of Financial Arrangements (TOFA). The TOFA private tax ruling reduces normalised tax by \$30m in each period FY12 to FY14.

2 Average net assets calculated on a monthly basis.

3 Excludes \$284m maturity of the High Yield Fund annuity in 2H14 and FY14.

Consolidated profit and loss

\$m	FY14	FY13	FY12	2H14	1H14	2H13	1H13	2H12	1H12
Cash earnings	425.7	416.2	392.0	214.4	211.3	209.7	206.5	203.3	188.7
Normalised capital growth	55.6	36.0	43.7	29.7	25.9	17.4	18.6	21.6	22.1
Normalised Cash Operating Earnings (COE)	481.3	452.2	435.7	244.1	237.2	227.1	225.1	224.9	210.8
Net fee income	110.2	99.4	83.0	56.4	53.8	54.2	45.2	43.3	39.7
Other income	1.8	4.9	8.8	0.6	1.2	1.7	3.2	4.3	4.5
Total net income	593.3	556.5	527.5	301.1	292.2	283.0	273.5	272.5	255.0
Personnel expenses	(144.4)	(130.3)	(128.9)	(74.8)	(69.6)	(64.9)	(65.4)	(65.8)	(63.1)
Other expenses	(61.0)	(61.4)	(60.3)	(31.2)	(29.8)	(31.1)	(30.3)	(28.3)	(32.0)
Total expenses	(205.4)	(191.7)	(189.2)	(106.0)	(99.4)	(96.0)	(95.7)	(94.1)	(95.1)
Normalised EBIT	387.9	364.8	338.3	195.1	192.8	187.0	177.8	178.4	159.9
Interest and borrowing costs	(4.1)	(4.6)	(3.3)	(1.9)	(2.2)	(1.9)	(2.7)	(2.3)	(1.0)
Normalised profit before tax	383.8	360.2	335.0	193.2	190.6	185.1	175.1	176.1	158.9
Normalised tax	(55.1)	(51.7)	(38.2)	(28.0)	(27.1)	(25.3)	(26.4)	(6.0)	(32.2)
Normalised profit after tax	328.7	308.5	296.8	165.2	163.5	159.8	148.7	170.1	126.7
Investment experience after tax	11.9	99.8	(148.3)	9.1	2.8	26.5	73.3	(41.6)	(106.7)
Significant items after tax ¹	–	8.5	–	–	–	8.5	–	–	–
Statutory net profit after tax	340.6	416.8	148.5	174.3	166.3	194.8	222.0	128.5	20.0
Performance analysis									
Normalised earnings per share – basic (cents)	64.0	58.6	57.5	32.2	31.8	30.7	28.0	32.0	25.3
Shares for basic EPS calculation	513.8	526.1	516.4	513.1	514.5	520.8	531.4	532.5	500.5
Normalised cost to income ratio	34.6%	34.4%	35.9%	35.2%	34.0%	33.9%	35.0%	34.5%	37.3%
Normalised effective tax rate	14.4%	14.4%	11.4%	14.5%	14.2%	13.6%	15.1%	3.4%	20.3%
Normalised effective tax rate excluding TOFA ²	22.2%	22.7%	20.4%	22.3%	22.1%	21.8%	23.7%	20.4%	20.3%
Total net income analysis									
Cash earnings (Life)	71.7%	74.7%	74.3%	71.2%	72.3%	74.1%	75.5%	74.6%	74.0%
Normalised capital growth (Life)	9.4%	6.5%	8.3%	9.9%	8.9%	6.1%	6.8%	7.9%	8.7%
Net fee income (Funds Management)	18.6%	17.9%	15.7%	18.7%	18.4%	19.2%	16.5%	15.9%	15.6%
Other income (Corporate)	0.3%	0.9%	1.7%	0.2%	0.4%	0.6%	1.2%	1.6%	1.8%
Normalised EBIT by division									
Life	404.2	381.9	367.7	203.6	200.6	191.8	190.1	191.1	176.6
Funds Management	43.3	34.1	21.0	22.6	20.7	21.2	12.9	11.5	9.5
Corporate	(59.6)	(51.2)	(50.4)	(31.1)	(28.5)	(26.0)	(25.2)	(24.2)	(26.2)
Normalised EBIT	387.9	364.8	338.3	195.1	192.8	187.0	177.8	178.4	159.9

¹ 2H13 significant items after tax primarily represent the gain on sale of Challenger's equity investment in Homeloans Limited.

² Normalised tax includes the effect of a private binding tax ruling received from the ATO in February 2012 in relation to the application of Taxation of Financial Arrangements (TOFA). The TOFA private tax ruling reduces normalised tax by \$30m in each period FY12 to FY14.

Consolidated profit and loss

Normalised profit after tax

Normalised profit after tax was \$329m in FY14, up 7% from \$308m in FY13. Normalised profit after tax increased as a result of higher net income (up \$37m), partly offset by higher expenses (up \$14m) and higher normalised tax (up \$3m).

Normalised EPS increased by 9% from 58.6 cps to 64.0 cps in FY14. The increase in normalised EPS reflects both higher normalised profit after tax (up 7%) and lower weighted average number of shares on issue following the 14m shares bought back during FY13.

Total net income

Total net income increased by \$37m (7%) in FY14 due to:

- higher Life Cash Operating Earnings (up \$29m) as a result of growth in Life investment assets;
- higher Funds Management net fee income (up \$11m) due to higher Funds Under Management (FUM); partly offset by;
- lower other income (down \$3m) following the sale of Challenger's equity investment in Homeloans Limited in 2H13.

Expenses

FY14 total expenses were \$205m, increasing \$14m (7%) on FY13. The increase in expenses is due to an increase in employee numbers to support Challenger's growth and higher non-cash long term incentive amortisation costs.

In FY14 Challenger's employee numbers increased by 52 (or 11%) of which 22 relate to the acquisition of Bendzulla Actuarial. An additional 30 employees were added across distribution, operations and asset origination. Long term incentives increased by \$6m on FY13, and relate to non-cash amortisation of equity grants.

Challenger's business is highly scalable and is one of Australia's most efficient financial services companies. Over the past five years, total expenses have increased by only 10%, while income has increased by 60%, resulting in the cost to income ratio falling by 16 percentage points over this time. Challenger's medium term normalised cost to income ratio target is a range of 32% to 36%. FY14 normalised cost to income ratio was 34.6%, which is relatively unchanged from FY13 (34.4%) and is well within Challenger's targeted range.

Normalised EBIT

FY14 normalised EBIT was \$388m, increasing \$23m (6%) from \$365m in FY13.

Life normalised EBIT increased by \$22m and Funds Management normalised EBIT increased by \$9m in FY14.

The increase in both Life and Funds Management normalised EBIT reflects growth in assets and funds under management in both businesses. Corporate normalised EBIT fell by \$8m, due to higher long term incentive costs and lower other income.

Normalised tax

FY14 normalised tax was \$55m, increasing \$3m (7%) from FY13 due to higher normalised profit before tax, with the effective tax rate remaining at 14.4% (including TOFA – refer below).

FY14 normalised tax includes the effect of a private binding tax ruling received from the Australian Taxation Office in February 2012 in relation to the application of Taxation of Financial Arrangements (TOFA). The TOFA private tax ruling reduced normalised tax by approximately \$30m for each of the three financial years FY12 to FY14.

The TOFA deduction is not available after 30 June 2014 and so the FY15 normalised tax will not benefit from TOFA.

Excluding the TOFA tax deduction, the normalised effective tax rate in FY14 was 22.2%.

Investment experience

Challenger Life is required by accounting standards to value assets and liabilities supporting the Life business at fair value. This gives rise to fluctuating valuation movements on assets and liabilities being recognised in the profit and loss. Challenger is generally a long-term holder of assets, due to them being held to match the term of life contract liabilities. As a result, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements.

Investment experience represents the difference between actual investment gains/losses (both realised and unrealised) and expected gains/losses based on Challenger's long-term expected returns. Refer to page 30 for details on Challenger's assumed long-term expected returns by asset class.

Investment experience also includes any economic and actuarial assumption changes, including the impact of changes in economic variables (refer to page 31 for more detail).

Investment experience relates to the Life business and pre-tax investment experience is disclosed as part of the Life's financial results (refer to page 12).

FY14 after tax investment experience was a profit of \$12m, compared to a profit of \$100m in FY13. FY13 benefited from a significant contraction in fixed income credit spreads. Fixed income credit spreads also contracted in FY14, however gains were partially offset by transaction costs associated with recent property acquisitions.

Statutory net profit after tax

Statutory net profit after tax includes investment experience.

FY14 statutory net profit after tax was \$341m, down \$76m from \$417m in FY13. The reduction in statutory net profit after tax reflects lower investment experience (\$88m), and lower significant items (\$8m) with FY13 including a gain on the sale of Challenger's equity investment in Homeloans Limited, partially offset by higher normalised profit after tax (\$20m).

FY15 guidance

Capital management initiatives

Challenger Life is growing strongly and expects to increase the size of its retail annuity business. Challenger's FY15 guidance is set out below and market opportunities are set out on pages 16 and 20. In order to support Challenger's growth profile, the following capital management initiatives have been approved by the Challenger Limited Board post 30 June 2014:

- Equity placement of Challenger ordinary shares to institutional holders raising \$250 million;
- Share Purchase Plan (SPP) allowing retail investors to participate and is expected to raise \$30 million; and
- The intention to launch Challenger Capital Notes (Notes) targeting to raise \$250 million¹. The Notes will be issued by Challenger Limited with the proceeds used for Additional Tier 1 equity issued by Challenger Life Company (CLC).

The equity placement is underwritten but the SPP and Challenger Capital Notes will not be underwritten.

The majority of the proceeds from the equity placement and SPP are planned to be injected into CLC as Common Equity Tier 1 capital. The capital initiatives will support new business growth and Challenger will continue to target RoE of 18% pre-tax.

Following these capital initiatives, CLC's regulatory capital position will be materially strengthened. On a pro forma basis at 30 June 2014, CLC's PCA ratio would increase to 2.1 times² including the LAGIC transition balance, or 1.8 times² excluding it.

Retail annuity net book growth

FY15 retail annuity net book growth is targeted to grow by a range of between 12% and 14%. Based on the FY14 Life retail annuity book (\$7,824m – refer page 6), this equates to growth of between ~\$950m and ~\$1,100m in FY15.

Life COE

FY15 Life COE guidance is a range of \$535m to \$545m and includes the impact of both the Bendzulla Actuarial acquisition and Life Risk reinsurance transactions undertaken (refer to page 15), as well as the capital management initiatives approved by the Challenger Limited Board post 30 June 2014.

Based on the mid-point of both retail net book growth and COE guidance, the implied FY15 COE margin is expected to be ~4.4%.

Normalised cost to income ratio

Challenger's medium term normalised cost to income ratio target is a range of 32% to 36%.

Challenger's FY15 cost to income ratio is expected to be around 34%, broadly unchanged from FY14. An increase in total expenses is expected in FY15 due to costs associated with supporting the growth in Challenger's business.

¹ Subordinated, unsecured convertible notes issued by Challenger Limited (in Australia) with proceeds used for Additional Tier 1 capital issued by CLC. Targeting \$250m with ability to raise more or less, subject to market conditions.

² CLC pro form PCA ratio assumes an increase in Tier 1 capital (\$250m), Share Purchase Plan (\$30m) and Challenger Capital Notes (\$250m).

Management balance sheet

\$m	FY14	1H14	FY13	1H13	FY12	1H12
Group balance sheet¹						
Assets						
Life investment assets						
Fixed income and cash (net)	7,955.7	7,983.2	8,219.2	7,974.2	7,388.1	6,369.3
Property (net)	2,167.8	1,952.0	1,761.1	1,540.9	1,539.3	1,552.1
Infrastructure (net)	563.2	520.9	488.4	426.9	617.5	568.4
Equity and other investments	400.7	433.1	318.5	227.7	228.4	219.3
Life investment assets	11,087.4	10,889.2	10,787.2	10,169.7	9,773.3	8,709.1
Cash and cash equivalents	141.2	154.8	177.1	135.5	93.8	208.7
Receivables	181.9	281.8	446.3	381.6	332.5	355.3
Derivative assets	326.3	245.2	336.9	438.9	512.9	430.5
Other investment assets	—	3.5	5.4	7.5	7.4	38.0
Investment in associates	39.4	36.4	40.0	49.8	51.2	40.9
Other assets	27.9	46.3	35.2	42.1	39.2	38.9
Fixed assets	12.4	12.3	14.5	16.0	18.2	18.5
Goodwill and intangibles	545.8	522.1	521.1	519.6	519.4	519.1
Less Group/Life eliminations ²	(182.2)	(202.3)	(223.1)	(254.9)	(290.0)	(302.0)
Total assets	12,180.1	11,989.3	12,140.6	11,505.8	11,057.9	10,057.0
Liabilities						
Payables	190.7	191.7	165.4	275.1	239.3	235.2
Tax liabilities	165.7	161.2	133.9	100.5	22.8	14.9
Derivative liabilities	222.1	327.2	393.9	123.9	144.6	114.3
Subordinated debt	525.9	509.5	510.1	472.3	450.1	460.9
Other interest bearing liabilities	3.2	103.8	88.2	79.9	77.3	69.0
Provisions	22.5	26.1	27.0	30.2	27.4	33.3
Life retail annuity book	7,824.3	7,617.2	7,123.3	6,819.6	6,553.0	6,065.0
Guaranteed index return liabilities	1,072.4	1,000.3	1,751.4	1,777.0	1,851.2	1,446.8
Total liabilities	10,026.8	9,937.0	10,193.2	9,678.5	9,365.7	8,439.4
Group net assets	2,153.3	2,052.3	1,947.4	1,827.3	1,692.2	1,617.6
Equity						
Contributed equity	1,237.5	1,263.2	1,271.9	1,313.5	1,313.1	1,339.3
Reserves	69.8	52.1	49.8	33.0	109.0	96.8
Retained earnings	846.0	737.0	625.7	480.8	270.1	181.6
Total equity	2,153.3	2,052.3	1,947.4	1,827.3	1,692.2	1,617.7

¹ Excludes consolidation of Special Purpose Vehicles (SPV's) and non-controlling interests.

² Group/Life eliminations represent the fair value of the SPV residual income notes (i.e. NIM) held by CLC.

Management balance sheet

\$m	FY14	1H14	FY13	1H13	FY12	1H12
Life balance sheet						
Assets						
Life investment assets						
Cash and cash equivalents	1,243.7	1,331.5	1,292.7	441.3	556.9	625.5
Asset backed securities	3,477.2	3,425.4	3,397.3	3,593.4	3,160.8	2,652.9
Corporate credit	3,146.1	3,075.3	3,366.8	3,692.1	3,363.0	2,664.0
Other	88.7	151.0	162.4	247.4	307.4	426.9
Fixed income and cash (net)	7,955.7	7,983.2	8,219.2	7,974.2	7,388.1	6,369.3
Australian – Office	805.5	657.6	656.8	643.9	781.8	771.6
Australian – Retail	480.3	437.4	260.0	131.4	122.1	114.0
Australian – Industrial	165.1	134.6	130.6	123.7	125.6	149.8
Japanese	203.4	233.9	241.4	235.3	247.4	257.5
REITS and other	513.5	488.5	472.3	406.6	262.4	259.2
Property (net)	2,167.8	1,952.0	1,761.1	1,540.9	1,539.3	1,552.1
Infrastructure (net)	563.2	520.9	488.4	426.9	617.5	568.4
Equity and other investments	400.7	433.1	318.5	227.7	228.4	219.3
Life investment assets	11,087.4	10,889.2	10,787.2	10,169.7	9,773.3	8,709.1
Other assets (including intangibles)	659.1	490.4	612.4	847.9	874.4	898.1
Total assets	11,746.5	11,379.6	11,399.6	11,017.6	10,647.7	9,607.2
Life retail annuity book	7,824.3	7,617.2	7,123.3	6,819.6	6,553.0	6,065.0
Guaranteed index return liabilities	1,072.4	1,000.3	1,751.4	1,777.0	1,851.2	1,446.8
Subordinated debt	525.9	509.5	510.1	472.3	450.1	460.9
Other liabilities	144.8	301.2	149.5	183.7	132.7	155.6
Total liabilities	9,567.4	9,428.2	9,534.3	9,252.6	8,987.0	8,128.3
Net assets	2,179.1	1,951.4	1,865.3	1,765.0	1,660.7	1,478.9

Life investment assets

Life investment assets support retail and institutional retirement income products and Life shareholder capital.

FY14 Life investment assets were \$11.1bn, an increase of 3% (\$0.3bn) on FY13. The increase in Life investment assets is due to Life earnings (net of dividends to Group) and retail annuity net flows (\$0.9bn), partially offset by maturity of the High Yield Fund annuity (–\$0.3bn), and institutional Guaranteed Index Return net maturities (–\$0.7bn).

Life manages a cash flow matched portfolio, with liability cash flows (i.e. payments to annuitant customers) matched with cash flows from investment assets. Life has a policy to mitigate interest rate and foreign exchange risks through the use of derivatives.

Life's investment assets at 30 June 2014 comprised:

- Fixed income and cash 72%
- Property 20%
- Infrastructure 5%
- Equities and other investments 3%.

Fixed income and cash

Fixed income and cash of \$8.0bn (net of debt) represents 72% of Life's total investment assets, down from 76% in FY13.

Life's asset allocation reflects both relative value of different asset classes and the tenor of annuity sales as Life runs a cash flow matched portfolio. With the significant increase in lifetime annuity sales (up 139% in FY14), Life has been seeking investments which produce longer dated cash flows, such as property. This has resulted in an increased allocation to property and a reduction to fixed income.

Challenger manages credit risk by maintaining a high quality investment portfolio and applying a rigorous investment process. The fixed income portfolio is diversified across different industries, rating bands, asset classes and geographies. The fixed income portfolio comprises over 1,200 different securities with 80% of the fixed income portfolio investment grade (i.e. BBB– or higher).

A total of 79% of the fixed income portfolio is externally rated (Standard & Poor's, Fitch or Moody's) and 21%

based on internal ratings calibrated to Standard & Poor's or Moody's ratings framework.

The fixed income and cash portfolio is Australian focused, with domestic cash, domestic asset backed securities and domestic corporate credit accounting for 75% of the portfolio.

Details of Life's fixed income and cash portfolio are disclosed in the table below.

Fixed income portfolio by rating

Security rating	Total \$m	Investment grade	Non-investment grade	Duration
Cash and equivalents	1,244	15%		n/a
AAA	1,303	16%		2 years
AA	924	12%		4 years
A	1,270	16%		4 years
BBB	1,648	21%		4 years
BB	828		10%	6 years
B	443		6%	5 years
Unrated	296		4%	5 years
Total	7,956	80%	20%	4 years

Property

Property of \$2.2bn (net of debt) represents 20% of Life's investment assets, up from 16% in FY13. The increase in property reflects the increase in longer tenor annuity sales.

Life's property portfolio increased by \$0.4bn (net of debt) during FY14 as a result of a number of property acquisitions and the takeover by Life of the listed Challenger Diversified Property Group (CDI).

The takeover of CDI increased Life's property investments by \$0.2bn (net of debt). Life was attracted to the CDI portfolio as the assets meet Life's return criteria, were properties well known to Life as it co-owned a number of properties with CDI, and the portfolio provides the required cash flows to back long term lifetime annuities.

Life's property portfolio principally comprises directly held properties and investments in Australian REITs. The property portfolio is invested in a diversified portfolio of predominantly Australian office and retail properties. Australian properties have a weighted average lease expiry of 4.9 years and occupancy rate of 97%. A total of 83% of the Australian portfolio has either fixed or CPI-linked rental increases, giving rise to increasing cash flows over time.

Property includes a net \$203m exposure to Japanese property (9% of the property portfolio), which consists of suburban shopping centres, focused on non-discretionary retailing. During FY14, Life sold four Japanese properties at

4% above book value. The effect of these properties sales reduced the net Japanese property exposure by ~\$20 million. The weighted average lease expiry of the remaining Japanese portfolio is 8.7 years.

Challenger Life has a policy that all properties are independently valued each year with approximately 50% valued in June and 50% valued in December. Internal valuations are also undertaken for properties not independently valued each June and December. An independent valuation is subsequently undertaken if the internal valuation shows a significant variance to the most recent independent valuation.

In FY14 independent valuations were undertaken for all properties in the portfolio. The weighted average capitalisation rate of the Australian property portfolio was 7.8% at 30 June 2014.

Infrastructure

Infrastructure of \$0.6bn (net of debt) represents 5% of Life's investment assets.

Challenger Life seeks infrastructure assets that generate reliable and consistent cash flows, which are preferably inflation linked, giving rise to sustainable income growth. Infrastructure investments comprise directly held infrastructure assets and indirectly held listed and unlisted investments.

The infrastructure portfolio is diversified across a number of geographic regions and sectors. Approximately two thirds of the portfolio is invested in logistics, utility and patronage assets, predominately in Australia and Europe.

Equity and other investments

Equity and other investments of \$0.4bn comprise only 3% of Life's total investment assets and include domestic and international listed and unlisted equity investments. Equity investments provide diversification across the investment portfolio.

Capital management

Challenger Life Company (CLC) regulatory capital

\$m		FY14	1H14	FY13	1H13
CLC's excess capital under LAGIC					
Common equity Tier 1 (CET1) regulatory capital		1,783.1	1,719.0	1,563.5	1,465.8
Tier 2 regulatory capital – subordinated debt ¹		476.8	486.8	488.8	477.3
CLC total regulatory capital base		2,259.9	2,205.8	2,052.3	1,943.1
CLC Prescribed capital amount (PCA)					
Asset risk charge		1,530.5	1,517.0	1,452.4	1,324.1
Insurance risk charge		83.9	68.5	31.6	26.8
Operational risk charge		22.8	20.6	18.5	17.5
Aggregation benefit		(64.7)	(53.2)	(24.8)	(21.2)
CLC Prescribed capital amount – excluding transition relief		1,572.5	1,552.9	1,477.7	1,347.2
Transition relief		(215.2)	(322.8)	(322.8)	(322.8)
CLC prescribed capital amount		1,357.3	1,230.1	1,154.9	1,024.4
CLC excess over prescribed capital amount		902.6	975.7	897.4	918.7
PCA ratio (times)		1.66	1.79	1.78	1.90
CET1 ratio (times)		1.31	1.40	1.35	1.43
Tier 2 regulatory capital – subordinated debt ¹					
First call date after 1 Jan 2013	Maturity date	FY14	1H14	FY13	1H13
7 Jun 2013	7 Dec 2016	77.6	107.2	103.2	109.4
7 Dec 2016	7 Dec 2026	27.5	28.3	28.0	24.2
7 Nov 2017	7 Nov 2037	371.7	351.3	357.6	343.7
		476.8	486.8	488.8	477.3

Group cash, CLC debt facilities and Group net assets

\$m	FY14	1H14	FY13	1H13
Group cash	141.2	154.8	177.1	135.5
CLC debt facilities				
Controlled property debt ²	721.4	823.1	845.6	857.9
Subordinated debt	525.9	509.5	510.1	472.3
Repurchase agreements	978.3	729.2	448.9	235.7
Infrastructure debt	206.1	206.1	206.1	206.1
Loan note finance	3.2	103.8	88.2	79.9
Total CLC debt facilities	2,434.9	2,371.7	2,098.9	1,851.9
Change in Group net assets				
\$m	FY14	1H14	FY13	1H13
Opening net assets	2,052.3	1,947.4	1,827.3	1,692.2
Statutory net profit after tax	174.3	166.3	194.8	222.0
Dividends paid	(65.3)	(55.0)	(49.9)	(55.7)
Share buy-back	–	–	(29.6)	(20.4)
Reserve movements	17.7	2.3	16.8	(31.7)
CPP Trust movements	(25.7)	(8.7)	(12.0)	20.9
Closing net assets	2,153.3	2,052.3	1,947.4	1,827.3

1 FY14 subordinated debt (\$477m) differs to the management balance sheet (\$526m) due to inadmissible sub-debt (\$51m) and accrued interest (\$2m).

2 Includes 100% of Challenger Diversified Property Group.

Capital management

Challenger Life Company Limited (CLC) regulatory capital base

CLC holds capital in order to ensure that under a range of adverse scenarios it can continue to meet its regulatory and contractual obligations to its customers. CLC is regulated by the Australian Prudential Regulation Authority (APRA) and is required to hold a minimum level of regulatory capital.

CLC's regulatory capital base and prescribed capital amount have been calculated based on regulatory capital standards issued by APRA. APRA issued new capital standards in October 2012 (LAGIC standards) which became effective from 1 January 2013. CLC's regulatory capital disclosures have been prepared based on LAGIC capital standards.

CLC's excess capital above the prescribed capital amount at 30 June 2014 (FY14) was \$903m, up \$5m for the year. CLC's PCA ratio at 30 June 2014 was 1.66 times and the CET1 ratio was 1.31 times.

CLC's 30 June 2014 excess capital position includes a LAGIC transition balance of \$215 million (30 June 2013 included \$323m). A further \$108m of the remaining LAGIC transition balance will amortise on 1 January 2015 and 1 January 2016.

Subordinated debt

CLC's total regulatory capital base includes \$477m of admissible subordinated debt. Subordinated debt issued prior to 1 January 2013 will continue to be fully eligible as Tier 2 regulatory capital under LAGIC until each tranche's first call date¹ after 1 January 2013, and will then amortise over four years.

CLC's subordinated debt includes \$129m which had a call date on 7 June 2013. As a result, under APRA's transition arrangements, only \$78m (i.e. 60% of the total amount) is included in Tier 2 regulatory capital on 30 June 2014.

The largest tranche of CLC's existing subordinated debt is a \$372m tranche with a call date in November 2017. As such, this tranche will continue to be fully eligible as Tier 2 regulatory capital until its call date in November 2017 and will continue to be partially eligible until November 2021.

CLC target surplus

CLC maintains a target level of capital representing APRA's prescribed capital amount plus a target surplus. The target surplus is a level of excess capital that CLC seeks to carry over and above APRA's minimum requirement.

CLC's target surplus is set to ensure that it provides a buffer against adverse market conditions and having regard to CLC's credit rating. CLC uses internal capital models to determine its target surplus, which are risk-based and are

responsive to changes in CLC's asset allocation and market conditions.

While CLC does not target a specific PCA ratio, CLC's internal capital models result in a PCA ratio under current circumstances in the range of 1.4 to 1.6 times. This range can change over time and is dependent on numerous factors.

CLC's PCA ratio is currently higher than the targeted range of 1.4 to 1.6 times as CLC's capital position contemplates the amortisation of the LAGIC transition balance over the next eighteen months.

The PCA ratio at 30 June 2014 was 1.66 times down from 1.78 times at 30 June 2013 reflecting amortisation of the first transition balance (\$108m on 1 January 2014), changes in asset allocation, net AUM growth and retained earnings. Excluding the full LAGIC transition balance (\$215m), CLC's PCA ratio at 30 June 2014 was 1.44 times.

Group cash

In addition to CLC's excess regulatory capital, Challenger maintains cash at a Group level which, can be utilised to meet regulatory requirements.

Group cash at 30 June 2014 was \$141m, down \$36m from 30 June 2013.

Challenger has an undrawn Group banking facility of \$350m (up from \$250m in FY13) which is maintained to provide additional financial flexibility. The banking facility was undrawn throughout FY14.

CLC excess regulatory capital and Group cash

CLC's excess regulatory capital plus Group cash at 30 June 2014 was \$1,044m, down \$30m from \$1,074m at 30 June 2013. The reduction in excess regulatory capital and Group cash included amortisation of the first tranche (\$108 million) of the LAGIC transition balance.

Pro forma capital position

Capital management initiatives

Challenger Life is growing strongly and expects to increase the size of its retail annuity business. Challenger's FY15 guidance and market opportunities are set out on pages 4, 16 and 20. In order to support Challenger's growth profile, the following capital management initiatives have been approved by the Challenger Limited Board post 30 June 2014:

- Equity placement of Challenger ordinary shares to institutional holders raising \$250 million;
- Share Purchase Plan (SPP) allowing retail investors to participate and is expected to raise \$30 million; and

¹ For tranches already past their call date, under LAGIC the first coupon date is considered the first call date.

- The intention to launch Challenger Capital Notes (Notes) targeting to raise \$250 million¹. The Notes will be issued by Challenger Limited with the proceeds used for Additional Tier 1 equity issued by CLC.

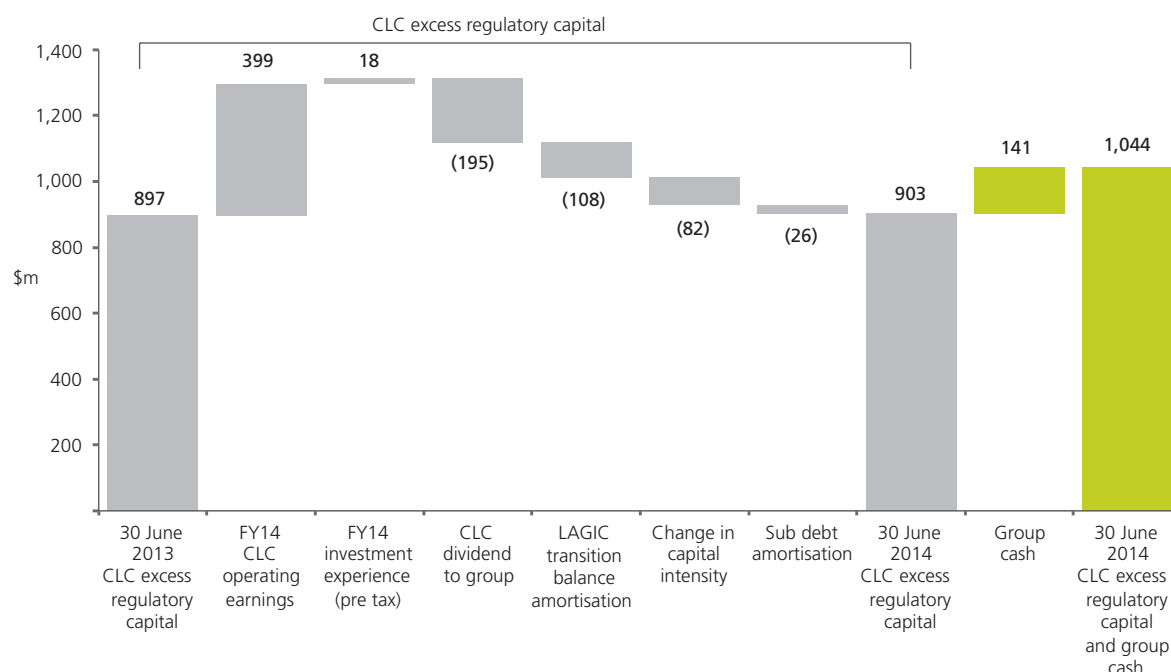
The equity placement is underwritten but the SPP and Challenger Capital Notes will not be underwritten.

The majority of the proceeds from the equity placement and SPP are planned to be injected into CLC as Common Equity

Tier 1 capital. The capital initiatives will support new business growth and Challenger will continue to target RoE of 18% pre-tax.

Following these capital initiatives, CLC's regulatory capital position will be materially strengthened. On a pro forma basis at 30 June 2014, CLC's PCA ratio would increase to 2.1 times² including the LAGIC transition balance, or 1.8 times² excluding it.

Movement in CLC excess regulatory capital and Group cash



APRA's Level 3 (conglomerate) proposals

APRA is currently developing a supervisory framework for Level 3 (conglomerate) groups, which was due to be effective from 1 January 2015. Level 3 are groups of companies that perform material activities across more than one APRA-regulated industry and/or in one or more non-APRA-regulated industries.

Draft Level 3 standards have been issued by APRA. However, APRA is yet to confirm the implementation date. In August 2014 APRA deferred a decision on its final standards and implementation until the Government responses to the recommendations of the Financial System Inquiry.

CLC debt facilities

CLC debt facilities represent debt which is non-recourse to the Challenger Group and is secured against assets of CLC, including direct properties, repurchase agreements and infrastructure investments.

Change in Group net assets

FY14 Group net assets were \$2,153m, up from \$1,947m at FY13. The movement in Group net assets is predominantly due to statutory net profit after tax (including investment experience), partially offset by dividends to shareholders, reserve movements and Challenger Performance Plan (CPP) Trust movements.

The capital initiatives undertaken post 30 June 2014, as outlined on page 9, will have the effect of increasing the Group's net assets by approximately \$280 million (before transaction costs and assuming \$30m raised via the SPP).

¹ Subordinated, unsecured convertible notes issued by Challenger Limited (in Australia) with proceeds used for Additional Tier 1 capital issued by CLC. Targeting \$250m with ability to raise more or less, subject to market conditions.

² CLC pro form PCA ratio assumes an increase in Tier 1 capital (\$250m), Share Purchase Plan (\$30m) and Challenger Capital Notes (\$250m).

Dividends and share buy back

Dividend

A final dividend of 13.5 cents per share (40% franked) has been declared. Total dividends for FY14 were 26.0 cents per share (21% franked), up 30% on FY13.

The increase in dividends reflects both higher normalised profit after tax (up 7%) and a higher dividend payout ratio. The dividend payout ratio for FY14 was 41%, up seven percentage points from FY13 and is at the upper end of Challenger's FY14 dividend payout ratio guidance (annualised range of 37.5% to 42.5%).

Final 2014 dividend dates are as follows:

- Ex-date: 29 August 2014;
- Record date: 2 September 2014; and
- Payment date: 30 September 2014.

There is no dividend reinvestment plan in operation for the final FY14 dividend.

Challenger will commence dividend franking for the final 2014 dividend, which will be franked to 40%. Dividend franking levels are expected to increase as additional franking credits are generated. Challenger's franking account balance at 30 June 2014 was \$24m.

Based on current projections, the interim FY15 dividend is expected to be ~70% franked and the final FY15 dividend ~100% franked. Dividend franking is however subject to market conditions and resultant investment experience.

Dividend and share buy back policy

Challenger has historically targeted a combined dividend and buy back payout ratio of approximately 50% of normalised profit after tax over the medium term, subject to prevailing market conditions and alternative uses of capital.

The Challenger Board regularly reviews the mix between dividends and share buy back as part of the Group's capital management plan. In August 2013, the Board increased the targeted dividend payout ratio, increasing it by five percentage points to a range of 35% to 40% of normalised net profit after tax. In February 2014, the Board increased the targeted dividend payout ratio again by a further five percentage points (to a range of 40% to 45%).

Challenger initiated its buy back program in 2008 and has bought back 150m shares (\$500m) since initiating the program, which has enhanced growth in earnings per share. During FY14, no shares were bought back, instead capital (\$25m) was allocated to the acquisition of Bendzulla Actuarial (refer to page 15 for more detail).

With the forecast increase in dividend franking levels, the Board has determined that the dividend payout ratio will increase again in FY15, to a range of 45% to 50% of normalised net profit after tax. The actual dividend payout ratio will depend on prevailing market conditions and capital allocation priorities. As a result, no share buy backs are anticipated in FY15.

Credit ratings

In November 2013, Standard & Poor's (S&P) affirmed both Challenger Life Company Limited's (CLC) and Challenger Limited's ratings under S&P's revised global insurance ratings criteria.

Ratings were confirmed as:

- CLC: 'A' with a stable outlook; and
- Challenger Limited: 'BBB+' with a stable outlook.

The S&P ratings reflect the financial strength of Challenger Limited and CLC. In particular they demonstrate Challenger's strong business profile, earnings and capital position.

Life financial results

\$m	FY14	FY13	FY12	2H14	1H14	2H13	1H13	2H12	1H12
Investment yield – policyholders' funds	740.2	761.3	758.5	365.7	374.5	375.2	386.1	381.2	377.3
Interest expense	(397.0)	(398.9)	(409.1)	(197.4)	(199.6)	(195.9)	(203.0)	(202.0)	(207.1)
Fees and commissions	(30.2)	(25.0)	(23.2)	(15.0)	(15.2)	(12.2)	(12.8)	(10.7)	(12.5)
Other income ¹	10.7	–	–	9.9	0.8	–	–	–	–
Product cash margin	323.7	337.4	326.2	163.2	160.5	167.1	170.3	168.5	157.7
Investment yield – shareholders' funds	102.0	78.8	65.8	51.2	50.8	42.6	36.2	34.8	31.0
Cash earnings	425.7	416.2	392.0	214.4	211.3	209.7	206.5	203.3	188.7
Normalised capital growth	55.6	36.0	43.7	29.7	25.9	17.4	18.6	21.6	22.1
Normalised Cash Operating Earnings (COE)	481.3	452.2	435.7	244.1	237.2	227.1	225.1	224.9	210.8
Personnel expenses	(45.6)	(39.1)	(37.4)	(24.3)	(21.3)	(19.6)	(19.5)	(18.6)	(18.8)
Other expenses	(31.5)	(31.2)	(30.6)	(16.2)	(15.3)	(15.7)	(15.5)	(15.2)	(15.4)
Total expenses	(77.1)	(70.3)	(68.0)	(40.5)	(36.6)	(35.3)	(35.0)	(33.8)	(34.2)
Normalised EBIT	404.2	381.9	367.7	203.6	200.6	191.8	190.1	191.1	176.6
Investment experience	18.2	138.1	(195.1)	14.1	4.1	37.8	100.3	(50.4)	(144.7)
Net profit after investment experience before tax	422.4	520.0	172.6	217.7	204.7	229.6	290.4	140.7	31.9
Reconciliation of investment experience to capital growth									
Investment experience	18.2	138.1	(195.1)	14.1	4.1	37.8	100.3	(50.4)	(144.7)
Normalised capital growth	55.6	36.0	43.7	29.7	25.9	17.4	18.6	21.6	22.1
Capital growth	73.8	174.1	(151.4)	43.8	30.0	55.2	118.9	(28.8)	(122.6)
Performance analysis									
Cost to income ratio ²	16.0%	15.5%	15.6%	16.6%	15.4%	15.5%	15.5%	15.0%	16.2%
Net assets – average ³	2,022	1,763	1,540	2,065	1,908	1,815	1,707	1,625	1,463
Normalised RoE (pre-tax)	20.0%	21.7%	23.9%	19.9%	20.9%	21.4%	22.1%	23.7%	24.0%

¹ Other income includes Bendzulla revenue and Life Risk (premiums net of claims).

² Cost to income calculated as total expenses divided by Normalised Cash Operating Earnings.

³ Net assets – average is calculated based on period opening and closing balances.

\$m	FY14	FY13	FY12	2H14	1H14	2H13	1H13	2H12	1H12
Sales									
Fixed Term sales	2,185.7	1,922.3	1,908.5	998.9	1,186.8	967.6	954.7	941.0	967.5
Lifetime sales	613.1	256.9	45.8	342.9	270.2	156.3	100.6	30.0	15.8
Life retail sales	2,798.8	2,179.2	1,954.3	1,341.8	1,457.0	1,123.9	1,055.3	971.0	983.3
Maturities and repayments ¹	(1,911.7)	(1,581.1)	(1,371.4)	(994.6)	(917.1)	(738.6)	(842.5)	(641.3)	(730.1)
Life net retail flows¹	887.1	598.1	582.9	347.2	539.9	385.3	212.8	329.7	253.2
Life retail annuity book	7,824.3	7,123.3	6,553.0	7,824.3	7,617.2	7,123.3	6,819.6	6,553.0	6,065.0
Retail annuity net book growth¹	12.5%	9.1%	10.4%	4.6%	7.6%	5.6%	3.2%	5.4%	4.5%
Institutional sales	581.6	951.8	703.5	291.5	290.1	30.6	921.2	415.1	288.4
Maturities and repayments	(1,292.6)	(993.1)	(239.8)	(250.5)	(1,042.1)	(39.4)	(953.7)	–	(239.8)
Life net institutional flows	(711.0)	(41.3)	463.7	41.0	(752.0)	(8.8)	(32.5)	415.1	48.6
Assets									
Closing investment assets	11,087	10,787	9,773	11,087	10,889	10,787	10,170	9,773	8,709
Fixed income and cash ²	7,935	7,890	6,640	7,911	7,964	8,102	7,690	6,967	6,274
Property	1,953	1,563	1,541	2,036	1,870	1,606	1,517	1,543	1,541
Infrastructure	518	489	551	533	504	438	531	585	519
Equity and other investments	394	219	232	423	371	246	194	226	236
Average investment assets³	10,800	10,161	8,963	10,903	10,709	10,392	9,932	9,321	8,569
Liabilities									
Closing liabilities – annuities, GIR and sub debt	9,425	9,385	8,858	9,425	9,127	9,385	9,069	8,858	7,973
Average liabilities – annuities and GIR	8,675	8,563	7,652	8,617	8,623	8,667	8,463	7,981	7,302
Average liabilities – sub debt	518	478	465	525	509	491	465	459	470
Average liabilities³	9,193	9,041	8,116	9,142	9,132	9,158	8,928	8,440	7,773
Margins⁴									
Investment yield – policyholders' funds	6.9%	7.5%	8.5%	6.8%	7.0%	7.3%	7.7%	8.2%	8.7%
Interest expenses	(3.7%)	(3.9%)	(4.6%)	(3.7%)	(3.7%)	(3.8%)	(4.1%)	(4.4%)	(4.8%)
Fees and commissions	(0.3%)	(0.2%)	(0.2%)	(0.3%)	(0.3%)	(0.2%)	(0.2%)	(0.2%)	(0.3%)
Other income	0.1%	–	–	0.2%	–	–	–	–	–
Product cash margin	3.0%	3.3%	3.6%	3.0%	3.0%	3.2%	3.4%	3.6%	3.6%
Investment yield – shareholders' funds	1.0%	0.8%	0.7%	1.0%	0.9%	0.8%	0.7%	0.8%	0.7%
Cash earnings	4.0%	4.1%	4.4%	4.0%	3.9%	4.1%	4.1%	4.4%	4.4%
Normalised capital growth	0.5%	0.4%	0.5%	0.5%	0.5%	0.3%	0.4%	0.5%	0.5%
Normalised Cash Operating Earnings (COE)	4.5%	4.5%	4.9%	4.5%	4.4%	4.4%	4.5%	4.9%	4.9%

1 2H14 and FY14 maturities and repayments, Life net retail flows and retail annuity net book growth excludes maturity of the High Yield Fund annuity (\$284m).

2 Includes NIM (FY14: \$202m, FY13: \$258m, FY12: \$316m).

3 Average investment assets and average liabilities are calculated on a monthly basis.

4 Ratio of Normalised Cash Operating Earnings components divided by average investment assets.

Life financial results

CLC is Australia's leading provider of annuities and guaranteed retirement income products. Products appeal to investors seeking the security and certainty of guaranteed cash flows with protection against market, inflation and longevity risks. Products are distributed via financial advisers, both independent and part of the major hubs. Being an independent manufacturer, CLC has representation on all major hubs.

CLC has won the Association of Financial Advisers/Plan for Life annuity provider of the year for the past six years and has won the income stream innovation award for the past four years. In addition, CLC won the 2014 Association of Financial Advisers/Plan for Life retirement income innovation award for its work with the University of NSW in establishing retirement income courses for financial advisers.

CLC is an APRA regulated entity and its financial strength is rated by Standard & Poor's with an 'A' rating and stable outlook.

The Life business also includes Bendzulla Actuarial, the leading provider in Self Managed Superannuation Fund (SMSF) actuarial certificates which was acquired for \$25m in February 2014 (refer to page 15).

CLC is diversifying its capital and earnings base by participating in wholesale reinsurance longevity and mortality transactions (refer to page 15). Life is experienced in managing, pricing and reinsuring longevity risk. Undertaking wholesale longevity and mortality reinsurance transactions is a natural business extension for Life.

Normalised EBIT and RoE

FY14 normalised EBIT increased by \$22m (6%) to \$404m due to higher normalised cash operating earnings (up \$29m), partly offset by higher expenses (up \$7m).

FY14 Life RoE (pre-tax) was 20.0% down from 21.7% in FY13 due to higher capital requirements following the increase in Life property investments. Challenger is committed to its 18% (pre-tax) RoE target, with Life's FY14 RoE well above this target.

Normalised Cash Operating Earnings (COE) and COE margin

FY14 normalised COE increased by 6% to \$481m. The increase in normalised COE is a result of higher investment assets with FY14 average investment assets increasing by 6%.

FY14 normalised COE includes Bendzulla Actuarial revenue of \$4m (for the five months to 30 June 2014) and net income on Life Risk reinsurance transactions of \$6m. Life Risk net income represents premiums net of expected claims.

The FY14 COE margin was 4.5%, which is unchanged from FY13, and includes the following:

- Product cash margin of 3.0%, down 0.3% on FY13. The product cash margin reduced due to lower fixed income returns (including NIM), partially offset by higher property yields, and a reduction in annuity funding costs. Product margin also includes a contribution from Bendzulla Actuarial and Life Risk of 0.1% (refer to page 15).
- Return on shareholder funds of 1.0%, up 0.2% on FY13. The increase in return of shareholder funds reflects higher average Life shareholder capital.
- Normalised capital growth of 0.5%, up 0.1% on FY13. The increase reflects a higher proportion of Life's investment portfolio invested in property. Property, as a portion of average FY14 investment assets, was 18% in FY14, up from 15% in FY13.

Expenses

FY14 total expenses were \$77m, up \$7m (10%) on FY13. Expenses increased as a result of an increase in employee numbers and the inclusion of Bendzulla Actuarial expenses following its acquisition in February 2014. Life employee numbers increased due to growth in the business, including the continued build out of Life's asset origination capability. Life expenses include \$2m in relation to Bendzulla Actuarial (for the five months to 30 June 2014).

Investment experience

FY14 capital growth of \$74m exceeded normalised growth of \$56m, resulting in positive investment experience of \$18m (before tax). Key contributors were movements in fixed income (positive \$69m), infrastructure (positive \$11m), equities (positive \$9m), partially offset by property (negative \$48m of which \$23m relates to transaction costs) and economic and actuarial assumptions (negative \$23m).

Fixed income benefited from stability in debt markets and the tightening of corporate credit spreads.

Default rates on the fixed income portfolio were minimal during FY14, consistent with FY13 and well below the normalised growth assumption of a 35bps loss.

Property was impacted by commercial property valuations not achieving the normalised growth assumption (2% p.a.) and the impact of property transaction costs of \$23m, which includes stamp duty. Under Australian accounting standards, property acquisition transaction costs such as stamp duty are required to be capitalised and are unwound in subsequent periods as part of the property valuation process.

Economic and actuarial assumption changes (negative \$23m) represent the impact of mark-to-market on new business, including expense reserves, and changes in macroeconomic variables, including interest rates and inflation, and other factors applied to the valuation of life contract liabilities. The negative 2H14 actuarial assumptions (\$37m) predominately relate to marking policy liabilities to market. The discount rate reduced by approximately 50 bps in 2H14.

Sales and AUM

FY14 Life retail annuity sales were \$2.8bn, representing a 28% increase on FY13.

FY14 retail annuity sales were a record result for Challenger, with sales continuing to benefit from favourable macroeconomic trends, including an aging population and retirees taking a more conservative approach to investing in retirement. These favourable macroeconomic trends are being leveraged by Challenger's product innovation and extensive distribution footprint.

Lifetime annuity sales (Liquid Lifetime and Care Annuity) continue to grow strongly and were \$613m in FY14, up from \$257m in FY13. Lifetime annuity sales represented 22% of total FY14 retail annuity sales, up from 12% in FY13 and only 2% in FY12.

Retail annuity sales are benefiting from consistently high reinvestment rates, with around 80% of FY14 maturities (with a residual capital value of 50% or more) reinvested into a new Challenger annuity.

FY14 retail annuity net flows (i.e. annuity sales less capital repayments) was \$887m, up from \$598m in FY13. Retail annuity net flows exclude the maturity of the High Yield Fund annuity (\$284m).

Based on the closing FY13 Life retail annuity book (\$7,123m), the retail annuity net book growth in FY14 was 12.5%, up from 9.1% in FY13.

FY14 institutional sales represent Challenger's Guaranteed Index Return (GIR) product. FY14 sales were \$582m and mainly represent the reinvestment of GIR maturities.

Life's FY14 investment assets (AUM) were \$11.1bn, up 3% (\$0.3bn) on FY13. The increase in investment assets is due to Life earnings (net of dividends to Group) and retail annuity net flows (\$0.9bn), partially offset by maturity of the High Yield Fund annuity (-\$0.3bn), and net maturities associated with the institutional Guaranteed Index Return product (-\$0.7bn).

For additional Life sales and AUM commentary, refer to the Assets Under Management and sales disclosures commencing on page 23.

Capital management

Refer to page 8 for details on CLC's regulatory capital base and excess capital above prescribed capital amount.

Bendzulla Actuarial acquisition

In December 2013 Challenger announced the \$25m acquisition of Bendzulla Actuarial, Australia's leading provider of Self Managed Superannuation Fund (SMSF) actuarial certificates. An actuarial certificate is required by an SMSF when one (or more) member is in the retirement phase and one (or more) is in the superannuation savings phase.

In FY14 Bendzulla Actuarial produced approximately 64,000 actuarial certificates and has relationships with over 5,500 Australian accounting firms. Rice Warner estimate the Australian actuarial market is between 75,000 to 100,000 certificates per annum, with the market expected to increase by over 10% per annum for the next ten years as Baby Boomers retire.

The Bendzulla Actuarial acquisition is a strategic investment for Challenger in terms of SMSF retiree research, product, service development and education. Bendzulla Actuarial is being repositioned as a broad-based SMSF retirement specialist, to ensure it leverages its relationships with Australian accounting firms.

The Bendzulla Actuarial acquisition was EPS accretive in the first year and meets Challenger's 18% pre-tax RoE target.

The acquisition completed in February 2014, with Life's FY14 financial results including Bendzulla Actuarial for the five months to June 2014. Bendzulla Actuarial revenue (\$4m) is reported as part of the Life's COE framework, with expenses (\$2m) included in Life's total expenses.

Life Risk

Challenger's lifetime annuity sales are growing strongly, increasing by 139% in FY14. Lifetime annuities provide guaranteed payments to customers for life. Through selling lifetime annuities, CLC is assuming longevity risk, which is the risk that annuitant customers live longer, in aggregate, than expected.

Life insurance risk adds valuable business and risk diversification. Historically the capital standards rendered retaining these risks uneconomic, however the LAGIC capital standards include an aggregation benefit which rewards diversification of risk across asset and life insurance risks. As a result, longevity risk provides CLC with earnings diversification in a highly RoE accretive way. For additional details on CLC's regulatory capital requirements and prescribed capital amount for insurance and asset risks, refer to the capital management disclosures on page 8.

In addition to the organic growth in longevity risk, CLC has participated in a number of wholesale longevity and mortality risk transactions (Life Risk). Mortality is the risk that people die earlier than expected and is a natural hedge to longevity risk (the risk that people live longer than expected).

During FY14, CLC participated in four Life Risk reinsurance transactions. CLC has exposure to UK/European longevity and mortality, North American mortality, and Australian mortality. All transactions have been executed via reinsurance transactions.

FY14 Life COE includes \$6m as a result of Life Risk transactions. FY15 Life COE guidance includes approximately \$10m in relation to Life Risk transactions.

Undertaking wholesale longevity and mortality transactions is a natural business extension for Life. Life is experienced in pricing, managing and reinsuring longevity risk and is participating in these transactions alongside global reinsurers and investment banks.

Life Risk transactions provide Life with earnings diversification in a highly accretive way.

Outlook

Challenger's Life business has been growing strongly. The growth is supported by favourable macroeconomic trends, including more baby boomers (born 1943–1960) retiring each year and retirees becoming more financially risk averse as they spend longer in retirement.

The Australian retirement incomes market is expected to grow strongly over the next 20 years as baby boomers move from the retirement 'savings' to the retirement 'spending' phase. Over this period, the number of over 65 year old Australians, which is Life's target demographic, will increase by 75%.

Life is well positioned to benefit from changes in retiree risk preferences. Many retirees are financially risk averse and demanding long term protection from the risks they face in retirement, including longevity, inflation and market risks. Annuities address these concerns. As a result, Challenger is experiencing an increase in demand for its products, particularly lifetime annuities.

Life is leveraging this demand through:

- strong retirement incomes brand recognition;
- leading product innovation and development;
- thought leadership in retirement incomes research and strategies; and
- a highly regarded distribution team.

Funds Management financial results

\$m	FY14	FY13	FY12	2H14	1H14	2H13	1H13	2H12	1H12
Fidante Partners									
Fidante Partners income ¹	33.7	31.8	23.2	18.7	15.0	17.9	13.9	11.8	11.4
Equity accounted profits ²	31.2	16.1	9.2	15.1	16.1	11.2	4.9	5.8	3.4
Net income	64.9	47.9	32.4	33.8	31.1	29.1	18.8	17.6	14.8
Challenger Investment Partners									
Net management fees	39.5	41.0	42.9	20.4	19.1	19.4	21.6	21.6	21.3
Performance and transaction fees	5.8	10.5	7.7	2.2	3.6	5.7	4.8	4.1	3.6
Net income	45.3	51.5	50.6	22.6	22.7	25.1	26.4	25.7	24.9
Total net fee income	110.2	99.4	83.0	56.4	53.8	54.2	45.2	43.3	39.7
Personnel expenses	(47.8)	(45.8)	(43.1)	(24.4)	(23.4)	(23.0)	(22.8)	(22.3)	(20.8)
Other expenses	(19.1)	(19.5)	(18.9)	(9.4)	(9.7)	(10.0)	(9.5)	(9.5)	(9.4)
Total expenses	(66.9)	(65.3)	(62.0)	(33.8)	(33.1)	(33.0)	(32.3)	(31.8)	(30.2)
EBIT	43.3	34.1	21.0	22.6	20.7	21.2	12.9	11.5	9.5
Performance analysis									
Fidante Partners – income margin (bps) ³	20	20	20	20	20	21	18	20	19
Challenger Investment Partners – income margin (bps) ³	40	45	45	41	40	44	45	45	45
Cost to income ratio	60.7%	65.7%	74.7%	59.9%	61.5%	60.9%	71.5%	73.4%	76.1%
Net assets – average ⁴	132.2	129.2	123.2	134.3	131.0	127.4	130.5	125.9	120.4
RoE (pre-tax)	32.8%	26.4%	17.0%	33.9%	31.3%	33.6%	19.6%	18.3%	15.7%
Fidante Partners	35,879.4	29,757.0	19,251.3	35,879.4	33,670.8	29,757.0	23,984.3	19,251.3	16,244.0
Challenger Investment Partners	11,247.1	11,346.4	11,765.8	11,247.1	11,315.0	11,346.4	11,351.0	11,765.8	11,476.7
Closing FUM – total	47,126.5	41,103.4	31,017.1	47,126.5	44,985.8	41,103.4	35,335.3	31,017.1	27,720.7
Fidante Partners	33,164.3	24,330.1	16,435.9	34,850.7	31,550.2	27,359.9	21,250.9	17,719.9	15,107.4
Challenger Investment Partners	11,273.8	11,556.6	11,294.7	11,153.7	11,399.8	11,456.2	11,627.7	11,594.3	11,021.0
Average FUM – total⁵	44,438.1	35,886.7	27,730.6	46,004.4	42,950.0	38,816.1	32,878.6	29,314.2	26,128.4
FUM and net flows analysis									
Fidante Partners	2,411.7	7,544.7	4,458.0	1,148.1	1,263.6	4,801.9	2,742.8	2,472.1	1,985.9
Challenger Investment Partners	(264.3)	(566.1)	(232.0)	(114.5)	(149.8)	(47.5)	(518.6)	32.9	(264.9)
Net flows	2,147.4	6,978.6	4,226.0	1,033.6	1,113.8	4,754.4	2,224.2	2,505.0	1,721.0
Distributions	(234.9)	(315.4)	(197.4)	(105.9)	(129.0)	(245.4)	(70.0)	(77.0)	(120.4)
Market linked movement	4,110.6	3,423.1	658.9	1,213.0	2,897.6	1,259.1	2,164.0	868.4	(209.5)
Total FUM movement	6,023.1	10,086.3	4,687.5	2,140.7	3,882.4	5,768.1	4,318.2	3,296.4	1,391.1

1 Fidante Partners income includes distribution and administration fees.

2 Equity accounted profits represent Challenger's share of boutiques' pre-tax earnings.

3 Income margin represents net income divided by average FUM.

4 Net assets – average calculated on a monthly basis.

5 Average FUM calculated on a monthly basis.

Funds Management financial results

Challenger's Funds Management business is Australia's seventh¹ largest investment manager and one of Australia's fastest growing. Over three years Funds Under Management (FUM) has doubled, driven by a clear business strategy, which is focused on investor alignment.

Fidante Partners' multi boutique platform comprises fifteen separately branded, investment management businesses. The model aligns the interests of investors, boutique investment managers and Fidante Partners.

The Fidante Partners model is delivering superior investment performance, with 95% of all funds and mandates outperforming their benchmark since inception. On a one year basis, 92% of funds and mandates have outperformed their benchmark.

The Fidante Partners platform continues to attract talent, adding five new boutique investment managers to the platform in FY14. The new boutiques include international equities manager River and Mercantile, Tempo Asset Management, fixed income specialist Wyetree Asset Management, Australian equity manager Arete Investment Partners, and global infrastructure manager Whitehelm Capital, which was formed on 1 July 2014. In 2H14 it was announced that one of Fidante Partners boutiques, Five Oceans Asset Management would close.

Fidante Partners provides a gateway to leading investment managers, covering domestic and international equities, fixed income and infrastructure.

During FY14, Aligned Investments was rebranded Challenger Investment Partners. Challenger Investment Partners manages a range of assets under Challenger's brand for the Life Company and third party institutional investors. Following the formation of Whitehelm Capital on 1 July 2014, Challenger Investment Partners became a dedicated property and fixed income manager.

EBIT and RoE

Funds Management EBIT increased by \$9m (27%) to \$43m in FY14. The increase in EBIT reflects higher total net fee income (up \$11m), partially offset by higher expenses (up \$2m).

FY14 Funds Management RoE was 32.8%, up 6 percentage points for the year. RoE is benefiting from strong FUM growth and capturing the benefits of scale.

Total net fee income

FY14 total net fee income increased by \$11m (11%) due to higher Fidante Partners net income (up \$17m), partially offset by lower Challenger Investment Partners fee income (down \$6m).

Fidante Partners net fee income includes distribution fees, administration fees and a share in the equity accounted profits of most boutique investment managers. Fidante Partners net income also includes performance fees earned by the boutiques.

FY14 Fidante Partners net income increased by 35% and FY14 average FUM increased by 36%.

Fidante Partners income margin (net income to average FUM) was 20 bps, which is unchanged from FY13. FY14 net income includes \$19m of performance fees, up from \$12m in FY13.

The impact of higher performance fees was offset by lower average margins across boutiques due to a change in asset mix. Over FY14, the portion of fixed income FUM increased from 49% to 54%.

Challenger Investment Partners net income decreased by \$6m (12%) in FY14, due to both lower net performance and transaction fees (down \$5m) and lower management fees (down \$1m). FY14 Challenger Investment Partners income margin (net income to average FUM) was 40 bps, which was down 5 bps from FY13.

Challenger Investment Partners performance and transaction fees were lower as FY13 included performance fees in relation to the sale of Challenger Infrastructure Fund (CIF) and the outperformance of the Challenger Diversified Property Group relative to industry benchmarks. Lower performance fees impacted the net income margin by ~5 bps.

Challenger Investment Partners net management fees reduced as a result of the Howard Mortgage Fund run-off, partially offset by higher margins on property mandates. The Howard Mortgage Fund run-off impacted net income margins by ~2 bps.

Expenses

FY14 total expenses were \$67m, representing an increase of \$2m (2%) on FY13.

The increase in total expenses was due to higher personnel expenses (up \$2m) due to higher employee numbers to support business growth.

The Funds Management business is highly scalable with significant operating leverage. The FY14 cost to income ratio was 60.7%, which is down five percentage points from FY13.

FUM

Total Funds Under Management (FUM) at 30 June 2014 was \$47.1bn, up 15% for the year.

¹ Consolidated FUM for Australian fund managers – Rainmaker Roundup March 2014.

Fidante Partners FUM

Fidante Partners FY14 FUM was \$35.9bn, up \$6.1bn or 21% for the year. FUM growth was driven by strong net inflows and positive market movements.

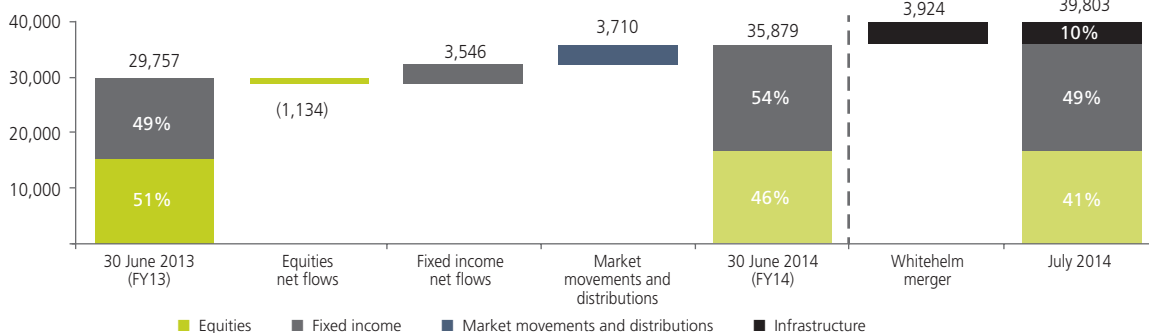
Fidante Partners FY14 net inflows were \$2.4bn, with net flows benefiting from the boutique investment managers strong investment performance and Fidante Partners' extensive distribution capability.

On 1 July 2014 Whitehelm Capital was formed by merging Access Capital Advisers and Challenger Investment Partners infrastructure businesses. Whitehelm Capital

has approximately \$4 billion of FUM and is focused on managing core infrastructure assets such as regulated utilities and airports. Following the formation of Whitehelm Capital, on 1 July 2014 Fidante Partners FUM increased by \$4 billion. Fidante Partners net income margin for Whitehelm Capital is initially expected to be approximately 10 bps, reflecting Fidante Partners 30% ownership.

Whitehelm Capital is Fidante Partners' fifteenth boutique and first infrastructure investment manager. Following the merger, approximately 41% of Fidante Partners FUM will be invested in equities, 49% in fixed income and 10% in infrastructure.

Fidante Partners – FUM movements (\$m)



Challenger Investment Partners FUM

Challenger Investment Partners FY14 FUM was \$11.2bn, which was down \$0.1bn or 1% for the year. The reduction in FUM is a result of the run-off of the Howard Mortgage Fund (\$0.2bn), and reduction in CLC fixed income (\$0.2bn), partially offset by new institutional mandates in property (\$0.1bn).

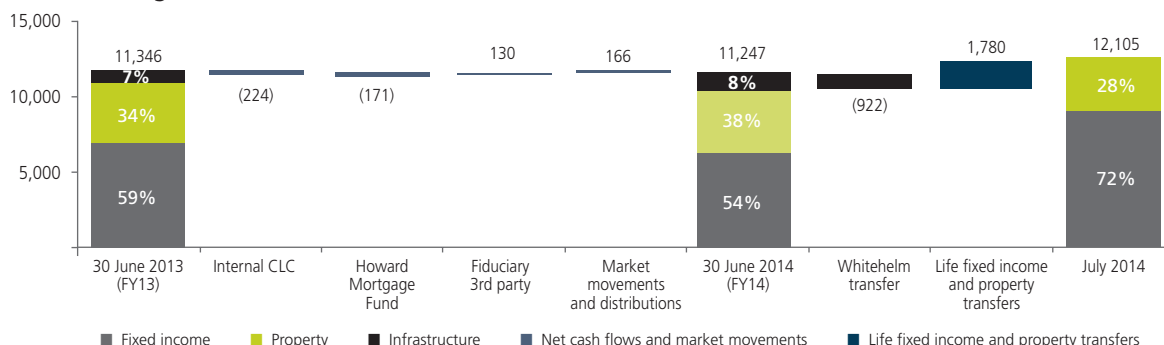
The Howard Mortgage Fund portfolio of loans was sold in June 2014 and the Fund is in the process of being wound up. At 30 June 2014, Challenger Investment Partners FUM included \$0.2bn in relation to the Howard Mortgage Fund, which is expected to be returned to investors in the first quarter of FY15.

On 1 July 2014 there were a number of changes to Challenger Investment Partners FUM, including:

- Formation of Whitehelm Capital, which resulted in \$0.9bn of Challenger Investment Partners infrastructure FUM being transferred to Whitehelm Capital, a new Fidante Partners boutique.
- Fixed income and property transfers from Life. Primarily the consolidation of Challenger's fixed income teams, resulting in Life's fixed income team being transferred from Life to Challenger Investment Partners. The fixed income teams have been merged to consolidate capability and increase efficiencies.

The combined impact of these FUM movements in early July 2014 will reduce Challenger Investment Partners net income margin by approximately 5 bps.

Challenger Investment Partners – FUM movements (\$m)



For additional Funds Management FUM and net flows commentary, refer to the Funds Under Management and net flows disclosures commencing on page 23.

Outlook

The Australian funds management market remains an attractive market underpinned by compulsory superannuation contributions. Contributions increased to 9.5% of gross salaries on 1 July 2014 and are scheduled to increase to 12% by 2021. The mandated nature of Australia's superannuation system is expected to significantly grow the size of Australia's superannuation assets, forecasted to grow from \$1.8 trillion today to over \$7 trillion¹ in the next 20 years.

Fidante Partners continues to attract new investment manager talent and added five new managers for the year, including Whitehelm Capital. The platform has fifteen managers across Australian equities, international equities, fixed income and infrastructure. In addition to adding new managers, additional capacity has been added during FY14 to existing managers. This capacity should underwrite future Funds Management business growth.

Challenger Investment Partners continues to build out its client base and product offering. Challenger Investment Partners remains focused on growing its third party fiduciary business, and there are significant opportunities to add new mandates from domestic and international institutions, superannuation funds and sovereign wealth funds.

The Funds Management business is well positioned to benefit from Australia's mandated superannuation system. The platform has multiple brands, strategies and significant manager capacity. Coupled with our distribution capability, strong support of the business by asset consultants, and investment performance track record, Funds Management is well positioned to continue growing strongly.

¹ Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2013 – 2033 – September 2013.

Corporate financial results

\$m	FY14	FY13	FY12	2H14	1H14	2H13	1H13	2H12	1H12
Other income	1.8	4.9	8.8	0.6	1.2	1.7	3.2	4.3	4.5
Personnel expenses	(34.3)	(34.6)	(32.5)	(17.7)	(16.6)	(17.0)	(17.6)	(16.4)	(16.1)
Other expenses	(10.4)	(10.7)	(10.8)	(5.6)	(4.8)	(5.4)	(5.3)	(3.6)	(7.2)
Total expenses (excluding LTI)	(44.7)	(45.3)	(43.3)	(23.3)	(21.4)	(22.4)	(22.9)	(20.0)	(23.3)
Long term incentives (LTI) ¹	(16.7)	(10.8)	(15.9)	(8.4)	(8.3)	(5.3)	(5.5)	(8.5)	(7.4)
Total expenses	(61.4)	(56.1)	(59.2)	(31.7)	(29.7)	(27.7)	(28.4)	(28.5)	(30.7)
Normalised EBIT	(59.6)	(51.2)	(50.4)	(31.1)	(28.5)	(26.0)	(25.2)	(24.2)	(26.2)
Interest and borrowing costs	(4.1)	(4.6)	(3.3)	(1.9)	(2.2)	(1.9)	(2.7)	(2.3)	(1.0)
Normalised profit/(loss) before tax	(63.7)	(55.8)	(53.7)	(33.0)	(30.7)	(27.9)	(27.9)	(26.5)	(27.2)

Corporate financial results

The Corporate division comprises central functions such as group executives, finance, treasury, legal, human resources, risk management and strategy.

Corporate also includes interest received on Group cash balances and any interest and borrowing costs associated with Group debt facilities.

Normalised profit/(loss) before tax

The FY14 Corporate normalised loss was \$64m, up \$8m from FY13. The increase in Corporate normalised loss was due to lower net income (down \$3m) and higher expenses (up \$5m).

Net income

Net income includes interest received on Group cash balances.

FY14 net income decreased by \$3m as a result of lower earnings from Homeloans Limited and lower average cash balances. In 2H13 Challenger sold its equity investment in Homeloans Limited, resulting in a \$9m (post tax) gain, which was reported separately in FY13 significant items.

Total expenses

FY14 total expenses were \$61m, up \$5m on FY13. The increase in expenses is mainly due to higher non-cash amortisation of equity grants (up \$6m) associated with the Group's long term incentive plan.

Interest and borrowing costs

FY14 interest and borrowing costs were \$4m, down from \$5m in FY13. The facility was undrawn in FY14 with interest and borrowing costs mainly reflecting debt facility fees. The Group maintains a banking facility to provide additional financial flexibility.

¹ Corporate financial results include all of the Group's long term incentives provided under the Challenger Performance Plan and Long Term Incentive Plan. Short term incentives under the Employee Incentive Plan are accounted for within each operating division's personnel expenses.

Consolidated operating cash flows

\$m	FY14	FY13	FY12	2H14	1H14	2H13	1H13	2H12	1H12
Receipts from customers	508.5	456.8	454.8	259.5	249.0	224.9	231.9	231.8	223.0
Dividends received	61.2	44.2	39.5	34.3	26.9	22.5	21.7	20.5	19.0
Interest received	549.3	542.7	486.7	279.1	270.2	272.8	269.9	250.9	235.8
Interest paid	(406.5)	(373.3)	(361.3)	(203.1)	(203.4)	(187.5)	(185.8)	(189.9)	(171.4)
Payments to suppliers and employees	(377.3)	(344.2)	(335.7)	(180.2)	(197.1)	(159.0)	(185.2)	(169.8)	(165.9)
Income tax paid	(14.2)	(4.7)	(1.7)	(12.0)	(2.2)	(3.3)	(1.4)	(0.9)	(0.8)
Underlying operating cash flow	321.0	321.5	282.3	177.6	143.4	170.4	151.1	142.6	139.7
Adjust for:									
Net retail annuity policy capital receipts	603.4	598.1	582.9	63.5	539.9	385.3	212.8	329.7	253.2
Net institutional capital (payments)/receipts	(745.1)	(150.0)	340.0	25.3	(770.4)	(40.0)	(110.0)	340.0	–
Other ¹	(31.9)	19.6	9.3	(5.5)	(26.4)	12.5	7.1	1.6	7.7
Operating cash flow per financial report	147.4	789.2	1,214.5	260.9	(113.5)	528.2	261.0	813.9	400.6

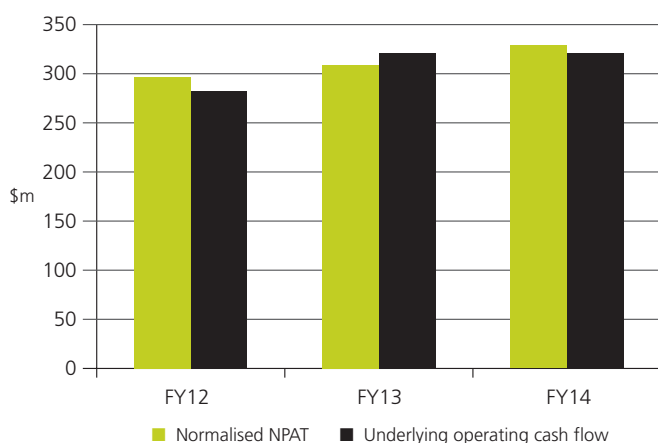
Consolidated operating cash flows

Underlying operating cash flow excludes cash flows that are capital in nature such as annuity sales and annuity capital payments.

FY14 underlying operating cash flow was \$321m, down marginally from \$322m in FY13.

Normalised profit after tax is Challenger's preferred profit and loss measure. Normalised profit after tax excludes Life investment experience (as Life is generally a hold to maturity investor) and is a good proxy for the Group's underlying cash earnings. Challenger's dividend payout ratio is based on normalised net profit after tax.

Normalised profit after tax and underlying operating cash flow



Net retail annuity policy capital receipts

Net retail annuity policy capital receipts of \$603m in FY14 comprise:

- retail annuity sales of \$2,799m; less
- retail annuity capital payments (excluding the High Yield Fund) of \$1,912m
- High Yield Fund retail annuity capital payment of \$284m.

Retail annuity capital payments are capital payments to annuitants and exclude interest payments.

FY14 retail annuity net flows were \$887m and exclude the maturity of the High Yield Fund annuity. FY14 retail annuity net flows were 48% higher than the \$598m achieved in FY13.

Retail annuity net book growth can be calculated as retail annuity net flows (\$887m) divided by the opening period Life retail annuity book (\$7,123m for FY14 refer to page 6). FY14 retail annuity net book growth was 12.5%, up from 9.1% in FY13.

FY15 retail net book growth is targeted to grow between a range of 12% (~\$900m) to 14% (~\$1,050m). Refer to FY15 guidance on page 4 for more detail.

Net institutional capital payments

FY14 net institutional capital payments of \$745m comprise:

- Institutional capital payments \$1,327m; less
- Institutional sales of \$582m.

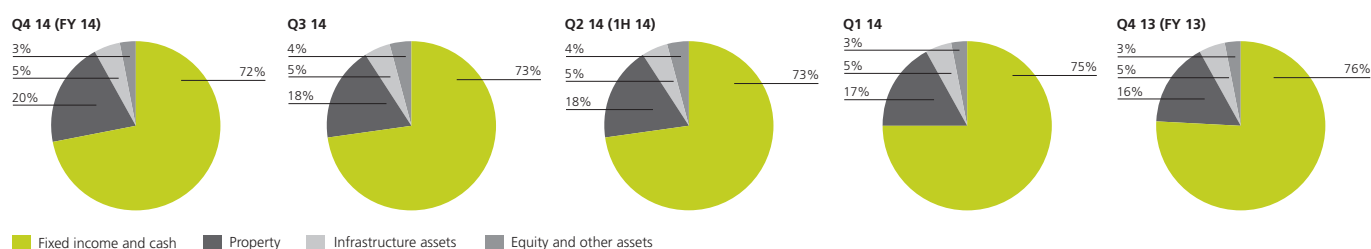
FY14 institutional capital payments includes a ~\$790m institutional Guaranteed Index Return (GIR) maturity, which was not reinvested. Remaining GIR maturities and distributions were reinvested.

¹ Other includes net SPV operating cash flow and adjustments for classification differences between statutory operating cash flow and normalised cash operating earnings.

Assets and Funds Under Management, net flows and sales

\$m	Q4 14	Q3 14	Q2 14	Q1 14	Q4 13
Total Assets and Funds Under Management	50,725	49,502	48,814	46,062	44,770
Represented by:					
Funds Management					
Fidante Partners¹					
Equities	16,541	16,570	16,384	15,678	15,132
Fixed income	19,338	18,104	17,287	15,397	14,625
Total Fidante Partners	35,879	34,674	33,671	31,075	29,757
Challenger Investment Partners²					
Fixed income ³	6,036	6,057	6,358	6,861	6,699
Infrastructure	922	896	912	862	838
Property					
Institutional mandates	3,418	3,160	3,157	3,048	2,921
Challenger Diversified Property Group (ASX:CDI) (gross assets)	871	888	888	894	888
Total Challenger Investment Partners	11,247	11,001	11,315	11,665	11,346
Total funds under management	47,126	45,675	44,986	42,740	41,103
Average Fidante Partners	35,634	34,024	32,306	30,675	29,023
Average Challenger Investment Partners	11,066	11,203	11,449	11,426	11,417
Average total funds under management⁴	46,700	45,227	43,755	42,101	40,440
Life					
Fixed income and cash ⁵	7,955	7,746	7,983	7,886	8,219
Property ⁵	2,168	1,955	1,952	1,821	1,761
Infrastructure ⁵	563	518	521	508	488
Equity and other	401	431	433	368	319
Total Life investment assets	11,087	10,650	10,889	10,583	10,787
Average Life investment assets⁴	10,872	10,939	10,655	10,732	10,503

Life asset allocation



1 Fidante Partners comprise a number of co-owned, separately branded active boutique investment managers from which Fidante receives distribution and administration fees. Fidante Partners also shares in the pre-tax profits from most boutiques through its equity ownership.

2 Challenger Investment Partners develops and manages products for the Life business and third party institutional investors.

3 Fixed income (including asset backed securities).

4 Average total funds under management and Life investments calculated on a monthly basis.

5 Fixed income, property and infrastructure are reported net of debt.

Assets and Funds Under Management, net flows and sales (continued)

Analysis of flows	Q4 14	Q3 14	Q2 14	Q1 14	Q4 13
Funds Management net flows					
Equities	(210)	(46)	76	(955)	2,061
Fixed Income	841	562	1,556	587	1,565
Total Fidante Partners	631	516	1,632	(368)	3,626
Challenger Investment Partners	149	(262)	(325)	175	(104)
Net flows	780	254	1,307	(193)	3,522
Life sales					
Fixed Term	664	335	592	595	678
Lifetime	200	143	151	119	92
Total Retail	864	478	743	714	770
Institutional	273	18	273	18	–
Sales	1,137	496	1,016	732	770
Reconciliation of Total Group Assets and Funds Under Management					
Funds Management (FUM)	47,126	45,675	44,986	42,740	41,103
Life investment assets	11,087	10,650	10,889	10,583	10,787
Adjustments to remove double counting of cross holdings:					
Life Company investment in CDI	(585)	(342)	(341)	(344)	(338)
Life Company investment in fixed income, property and infrastructure	(6,903)	(6,481)	(6,720)	(6,917)	(6,782)
Total Assets and Funds Under Management	50,725	49,502	48,814	46,062	44,770

Total Assets and Funds Under Management

FY14 total Assets and Funds Under Management was \$50.7bn, up 13% on FY13.

Funds Management FUM and net flows

FY14 Funds Management FUM was \$47.1bn, up 15% on FY13.

Funds Management FY14 net flows were \$2.1bn with Fidante Partners achieving net inflows of \$2.4bn and Challenger Investment Partners net outflows of \$0.3bn.

Fidante Partners

At 30 June 2014, approximately 54% of FUM was invested in fixed income products and 46% in equity products.

Fidante Partners net flows are supported by strong investment performance across its boutique investment managers. Since inception of each boutique, 95% of all funds and mandates have outperformed their benchmark. Over one year, 92% of funds and mandates have outperformed their benchmarks.

On 1 July 2014 Whitehelm Capital was formed by merging Access Capital Advisers and Challenger Investment Partners infrastructure businesses. Whitehelm Capital has approximately \$4 billion of FUM and is focused on managing core infrastructure assets such as regulated utilities and airports. Following the formation of Whitehelm Capital, on 1 July 2014 Fidante Partners FUM increased by \$4 billion.

Challenger Investment Partners

Challenger Investment Partners net outflow of \$0.3bn in FY14 reflects the run-off of the Howard Mortgage Fund (net outflow of \$0.2bn), and reduction in CLC fixed income (\$0.2bn), partially offset by new institutional mandates in property (\$0.1bn).

The Howard Mortgage Fund portfolio of loans was sold in June 2014 and the Fund is in the process of being wound up. At 30 June 2014, Challenger Investment Partners FUM included \$0.2bn in relation to the Howard Mortgage Fund, which is expected to be returned to investors in the first quarter of FY15.

On 1 July 2014 there were a number of changes to Challenger Investment Partners FUM, including:

- Formation of Whitehelm Capital, which resulted in \$0.9bn of Challenger Investment Partners infrastructure FUM being transferred to Whitehelm Capital, a new Fidante Partners boutique.

- Fixed income and property transfers from Life. Primarily consolidation of Challenger's fixed income teams, resulting in Life's fixed income team being transferred from Life to Challenger Investment Partners. The fixed income teams have been merged to consolidate capability and efficiencies.

Life AUM and sales

FY14 Life AUM was \$11.1bn, up 3% on FY13.

FY14 Life retail annuity sales were \$2.8bn, representing a 28% increase on FY13 and were a record retail annuity sales result.

Lifetime annuity (Liquid Lifetime and Care Annuity) sales continue to grow strongly and were \$613m in FY14, up from \$257m in FY13. Lifetime annuity sales represented 22% of FY14 total retail annuity sales, up from 12% in FY13.

Retail annuity sales continue to benefit from high reinvestment rates, with around 80% of FY14 maturities (with a residual capital value of 50% or more) reinvested in a new Challenger annuity.

FY14 average tenor for new business sales was 6.4 years. Tenor is lengthening as a result of an increase in demand for longer dated products, including lifetime products. A lengthening of tenor assists the future rate of net book growth, enables investment in longer-dated assets, which earn higher illiquidity premiums and is more efficient in terms of distribution and administration.

FY14 institutional sales were \$582m, mainly representing the reinvestment of maturities in Challenger's Guaranteed Index Return (GIR) product.

Profit and equity sensitivities

\$m	Change in variable	Profit/(loss) after tax FY14	Change in equity FY14	Profit/(loss) after tax FY13	Change in equity FY13	Profit/(loss) after tax FY12	Change in equity FY12
Interest rate							
Non-SPV	+100bps	5.0	5.0	5.5	5.5	6.0	6.0
	-100bps	(5.0)	(5.0)	(5.5)	(5.5)	(6.0)	(6.0)
SPV	+100bps	(2.6)	(2.6)	(3.6)	(3.6)	(4.8)	(4.8)
	-100bps	2.6	2.6	3.6	3.6	4.8	4.8
Total	+100bps	2.4	2.4	1.9	1.9	1.2	1.2
	-100bps	(2.4)	(2.4)	(1.9)	(1.9)	(1.2)	(1.2)
Infrastructure and equity							
Infrastructure investments	+10%	25.2	25.2	21.2	21.2	31.2	31.2
	-10%	(25.2)	(25.2)	(21.2)	(21.2)	(31.2)	(31.2)
Equity investments	+10%	20.6	20.6	16.1	16.1	16.0	16.0
	-10%	(20.6)	(20.6)	(16.1)	(16.1)	(16.0)	(16.0)
Total	+10%	45.8	45.8	37.3	37.3	47.2	47.2
	-10%	(45.8)	(45.8)	(37.3)	(37.3)	(47.2)	(47.2)
Property							
Direct Property	+1%	16.5	16.5	13.3	13.3	13.6	13.6
	-1%	(16.5)	(16.5)	(13.3)	(13.3)	(13.6)	(13.6)
Australian listed property securities	+10%	11.1	11.1	10.3	10.3	-	-
	-10%	(11.1)	(11.1)	(10.3)	(10.3)	-	-
Other property securities	+10%	21.8	21.8	21.1	21.1	12.0	12.0
	-10%	(21.8)	(21.8)	(21.1)	(21.1)	(12.0)	(12.0)
Credit							
Fixed Income assets	+50bps	(78.9)	(78.9)	(91.9)	(91.9)	(75.1)	(75.1)
	-50bps	78.9	78.9	91.9	91.9	75.1	75.1
Currency							
British Pound	+10%	0.7	0.7	(1.0)	(1.0)	0.4	0.4
	-10%	(0.7)	(0.7)	1.0	1.0	(0.4)	(0.4)
US Dollar	+10%	(0.1)	(0.1)	(0.2)	(0.2)	1.1	1.1
	-10%	0.1	0.1	0.2	0.2	(1.1)	(1.1)
Euro	+10%	(0.4)	(0.4)	(2.0)	(2.0)	(2.0)	(2.0)
	-10%	0.4	0.4	2.0	2.0	2.0	2.0
Japanese Yen	+10%	-	-	-	-	-	0.4
	-10%	-	-	-	-	-	(0.4)
Other	+10%	1.7	1.7	-	-	(0.1)	(0.1)
	-10%	(1.7)	(1.7)	-	-	0.1	0.1
Mortality¹							
Life insurance contract liabilities	+50%	(40.1)	(40.1)	(13.7)	(13.7)	(7.5)	(7.5)
	-50%	40.1	40.1	13.7	13.7	7.5	7.5

¹ Mortality life insurance contract liabilities sensitivity is net of any reinsurance with third parties.

Profit and equity sensitivities

Profit and equity sensitivities set out the expected impact from changes in a range of economic and investment market variables on Challenger's earnings. These sensitivities represent the post-tax impact, assuming a tax rate of 30%.

The sensitivities are not forward looking and make no allowance for events occurring after 30 June 2014.

If using these sensitivities as forward looking, an allowance for changes post 30 June 2014, such as sales and asset growth, should be made.

These sensitivities assess the risk of changes in economic and investment markets on the valuation of assets, which in turn impact earnings. The earnings impact is included in investment experience and does not take into consideration the impact of any under or over performance of normalised growth assumptions for each asset category. Refer to page 30 for normalised growth assumptions.

These sensitivities do not include the indirect impact on fees for the Funds Management business.

Interest rate sensitivities

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

It is assumed that the change in variable occurs on 30 June 2014, and is based on assets and liabilities held at that date. It is the Group's policy to minimise the impact of movements in interest rates via the use of interest rate swaps. Interest rate sensitivities are disclosed as either SPV (special purpose vehicle) or non-SPV.

SPV interest rate sensitivities relate to securitisation trusts that hold residual income stream notes (NIM) acquired by Challenger Life Company in FY09. For the SPV, changes in the BBSW benchmark over the RBA's target cash rate, results in a change in the cost of funding and impacts earnings. SPV interest rate risk is mitigated by the use of hedges.

In determining the interest rate sensitivities, it is assumed that changes in interest rates occur at balance date and there are concurrent movements in interest rates and parallel moves in the yield curve. All material underlying exposures and related interest rate hedges are included in the interest rate sensitivity analysis.

Infrastructure and equity sensitivities

The equity sensitivities apply to Challenger's financial assets, as disclosed in Note 11 of the 30 June 2014 full year financial report.

Infrastructure and equity risk sensitivities represent the impact of changes in investment markets on asset valuations on balance date.

Property sensitivities

Direct property sensitivities relate to Challenger's direct property portfolio.

The direct property sensitivities represent the impact from a change in property valuations on balance date and are based on Life's gross direct property investments of \$2,355m (net investments of \$1,634m plus debt of \$721m). They do not include the impact on management fees in Funds Management.

The property securities sensitivities relate to listed and unlisted property securities, such as real estate investment trusts.

Property sensitivities do not include the impact of property acquisition costs (e.g. stamp duty). Under Australian accounting standards, property acquisition and transaction costs are required to be capitalised. When the property is subsequently revalued, there is generally no value ascribed to the acquisition costs which may result in a reduction in the property value and a corresponding negative investment experience impact.

Following the strong growth in lifetime annuity sales, Life is acquiring property assets as they provide the required long term cash flows. Details of all properties acquired during the period are included in Note 12 of Challenger's 30 June 2014 full year financial report.

Credit sensitivities

Credit risk sensitivities set out the expected impact from movements in credit spreads. Challenger is exposed to movements in credit spreads above the interbank swap curve on its fixed income portfolio. The sensitivities apply to fixed income investments held at 30 June 2014.

Currency sensitivities

Currency sensitivities set out the expected impact from changes in currency. It is the Group's policy to hedge the exposure of all balance sheet items to movements in foreign exchange rates. Currency exposure arises primarily as a result of offshore investments. In order to mitigate foreign currency risk, the Group has entered into foreign currency derivatives.

Mortality sensitivities

Challenger is exposed to longevity risk on its life insurance liabilities and wholesale longevity reinsurance transactions. Longevity risk is the risk that annuitants may live longer than expected. Mortality risk is the risk that mortality on the underlying portfolio exceeds expectations. There is a natural hedge between longevity and mortality risk. CLC is required under APRA prudential standards to maintain regulatory capital in relation to the longevity and mortality risk it carries.

Challenger manages some of its longevity risk exposure by using reinsurance for the closed lifetime annuity portfolios (e.g. AXA) as well as regularly reviewing the portfolio and longevity experience to ensure longevity assumptions remain appropriate. Mortality risk is managed by regularly reviewing the portfolio and mortality experience.

Mortality rates are based on industry standards which are adjusted for Challenger's own recent experience, along with expected future rates of mortality improvement.

Challenger assumes that future mortality rates for individual lifetime annuities will improve by between 1% and 4% per annum (depending on different age cohorts). This has the impact of increasing the life expectancy of a male aged 65 from 21 years (per the base mortality rates) to 27 years.

The mortality sensitivities set out the expected impact of an improvement in mortality. This is in addition to the mortality improvements Challenger already assumes. A 50% increase in mortality improvement rates would increase the life expectancy of a male aged 65 from 27 years (above) to 32 years.

Issued share capital

Number of shares (m)	FY14	FY13	FY12	2H14	1H14	2H13	1H13	2H12	1H12
Basic share count	510.6	515.6	529.0	510.6	514.1	515.6	526.4	529.0	536.0
CPP 'treasury' shares	20.3	15.3	15.7	20.3	16.8	15.3	12.3	15.7	16.2
Total issued shares	530.9	530.9	544.7	530.9	530.9	530.9	538.7	544.7	552.2
Movement in basic share count									
Opening	515.6	529.0	476.9	514.1	515.6	526.4	529.0	536.0	476.9
CPP deferred share purchase	(3.0)	(6.6)	–	–	(3.0)	(3.0)	(3.6)	–	–
Net treasury shares (acquired)/released	(2.0)	7.0	5.0	(3.5)	1.5	–	7.0	0.5	4.5
On market buyback during the period	–	(13.8)	(12.9)	–	–	(7.8)	(6.0)	(7.5)	(5.4)
Option exercise	–	–	60.0	–	–	–	–	–	60.0
Closing	510.6	515.6	529.0	510.6	514.1	515.6	526.4	529.0	536.0
Movement in CPP 'treasury' shares									
Opening	15.3	15.7	20.7	16.8	15.3	12.3	15.7	16.2	20.7
Shares vested to participants	(3.7)	(7.0)	(17.9)	(0.4)	(3.3)	–	(7.0)	(0.5)	(17.4)
CPP deferred share purchase	3.0	6.6	–	–	3.0	3.0	3.6	–	–
Shares bought into CPP Trust	5.7	–	12.9	3.9	1.8	–	–	–	12.9
Closing	20.3	15.3	15.7	20.3	16.8	15.3	12.3	15.7	16.2
Share capital for EPS calculations									
Weighted average number of shares (m)	FY14	FY13	FY12	2H14	1H14	2H13	1H13	2H12	1H12
Basic EPS shares									
Total issued shares	530.9	538.8	533.9	530.9	530.9	533.5	544.0	548.4	519.6
Less CPP 'treasury' shares	(17.1)	(12.7)	(17.5)	(17.8)	(16.4)	(12.7)	(12.6)	(15.9)	(19.1)
Shares for basic EPS calculation	513.8	526.1	516.4	513.1	514.5	520.8	531.4	532.5	500.5
Diluted EPS shares									
Shares for basic EPS calculation	513.8	526.1	516.4	513.1	514.5	520.8	531.4	532.5	500.5
Add dilutive impact of equity awards schemes	28.2	6.1	11.7	30.4	25.8	8.6	3.6	7.1	15.9
Add dilutive impact of external options	–	–	5.2	–	–	–	–	–	10.4
Shares for dilutive EPS calculation	542.0	532.2	533.3	543.5	540.3	529.4	535.0	539.6	526.8

Issued share capital

Summary of Share Rights and Options Number (m)

	FY14	FY13	FY12	2H14	1H14	2H13	1H13	2H12	1H12
Hurdled Performance Share Rights									
Opening	21.8	14.4	5.6	27.0	21.8	22.2	14.4	13.1	5.6
New grants	6.6	8.4	8.9	–	6.6	0.2	8.2	1.3	7.6
Vesting/forfeiture	(1.8)	(1.0)	(0.1)	(0.4)	(1.4)	(0.6)	(0.4)	–	(0.1)
Closing	26.6	21.8	14.4	26.6	27.0	21.8	22.2	14.4	13.1
Performance Share Rights									
Opening	3.3	3.2	3.5	3.8	3.3	3.3	3.2	3.2	3.5
New grants	2.5	2.7	2.0	–	2.5	0.1	2.6	–	2.0
Vesting/forfeiture	(2.0)	(2.6)	(2.3)	–	(2.0)	(0.1)	(2.5)	–	(2.3)
Closing	3.8	3.3	3.2	3.8	3.8	3.3	3.3	3.2	3.2
Executive Options									
Opening	–	4.4	23.1	–	–	–	4.4	4.9	23.1
Vesting/forfeiture	–	(4.4)	(18.7)	–	–	–	(4.4)	(0.5)	(18.2)
Closing	–	–	4.4	–	–	–	–	4.4	4.9

Issued share capital and diluted share count

The number of Challenger Limited shares listed on the Australian Stock Exchange at 30 June 2014 was 531m shares, unchanged for the year.

The basic and diluted share counts used to determine Challenger's EPS is based on the requirements set out in Australian accounting standards. Under Australian accounting standards, the basic share count is reduced for Treasury Shares and the dilutive share count is increased for unvested equity awards made to employees under the Challenger Performance Plan. The dilutive number of shares is determined by the probability of the equity awards vesting.

CPP Treasury shares

The Challenger Performance Plan (CPP) Trust was established to satisfy Challenger's employee equity obligations arising from hurdled and non-hurdled equity awards issued under employee remuneration structures. Shares are acquired by the CPP Trust to mitigate shareholder dilution and to provide a mechanism to hedge the cash cost of acquiring shares in the future to satisfy vested equity awards.

The CPP Trust typically acquires physical shares on market or via forward share purchase agreements entered into by Challenger. The use of forward share purchase agreements was implemented in FY13 to support increased capital efficiency. Shares held by the CPP Trust are classified as Treasury Shares.

It is expected that should equity awards vest in future periods, the CPP Trust will satisfy equity requirements via a combination of Treasury shares and settlement of forward purchase agreements. As such, it is not currently anticipated that any additional Challenger shares will be issued to meet future vesting obligations of equity awards.

Hurdled Performance Share Rights (HPSRs)

Challenger's approach to executive remuneration includes providing LTI awards to ensure alignment between key employees and shareholders. LTI awards are delivered as Hurdled Performance Share Rights (HPSRs), which vest over a four year period and are subject to meeting TSR performance hurdles before vesting.

Deferred Performance Share Rights (DPSRs)

A portion of Short Term Incentives (STI) awards are deferred and vest over a three year period. The deferred STI is delivered as Deferred Performance Share Rights (DPSRs) and vesting is subject to continued employment.

External options

There were no external options outstanding over Challenger Limited shares at 30 June 2014.

Normalised profit framework

Life normalised cash operating earnings

Normalised cash operating earnings is Challenger's preferred profitability measure for the Life business, as it aims to reflect the underlying performance trends of the Life business.

The Life normalised cash operating earnings framework was introduced in June 2008 and has been applied consistently since. The framework removes the impact of market and

economic variables, which are generally non-cash and are a result of external market factors. The normalised profit framework is subject to a review performed by Ernst & Young each half year.

Life normalised cash operating earnings includes cash earnings plus normalised capital growth, but excludes investment experience (see below).

Cash earnings	Cash earnings represents investment yield, less interest expenses and fees and commissions paid. Investment yield Represents the investment return on assets held to match annuities and the return on shareholder investment assets. Investment yield includes net rental income, dividends received, infrastructure distributions, accrued interest on fixed income and cash, and discounts/premiums on fixed income assets amortised on a straight line basis. Interest expense Represents interest accrued at contracted rates to annuitants and Life subordinated debt holders. Fees and commissions Represents payments made for the acquisition and management of Life products, including annuities and commissions to third party mortgage brokers on term funded residential mortgage assets (NIM). Other income Other income includes revenue from Bendzulla Actuarial and profits on wholesale longevity and mortality transactions (refer to page 15).
Normalised capital growth	Normalised capital growth represents the expected capital growth for each asset class through the investment cycle and is based on Challenger's long term expected investment returns for each asset class. Normalised capital growth can be determined by multiplying the normalised capital growth assumption (see below) by each asset class average balance for the period (net of debt). Normalised capital growth assumptions: • Fixed income and cash – negative 0.35% representing an allowance for credit defaults; • Property – 2.00%; • Infrastructure – 4.00%; and • Equity and alternative asset classes – 6.00%. Normalised capital growth assumptions have been set with reference to long term market growth rates and are reviewed regularly to ensure consistency with prevailing medium to long term market conditions. Since the normalised profit framework was introduced in 2008, the only change to the normalised capital growth assumptions has been a reduction in property from 2.50% to 2.00% in FY10. The reduction in the property assumption reflected the purchase of a portfolio of Japanese property assets, which have lower expected long term capital growth returns.

Normalised profit framework

Investment experience	Challenger Life is required by accounting standards to value all assets and liabilities supporting the Life business at fair value. This gives rise to fluctuating valuation movements on assets and liabilities being recognised in the profit and loss, particularly during periods of market volatility. As Challenger is generally a long-term holder of assets, due to them being held to match the term of life liabilities, Challenger takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements. Investment experience is a mechanism employed to remove the volatility arising from asset and liability valuation movements from Life business earnings so as to more accurately reflect the underlying performance of the Life business. The asset and liability valuation movements are reported as investment experience. These movements are generally non-cash, and by separating them from the Life business result, Life's reported earnings more closely represent the cash earnings of the business. Impact from economic variables Investment experience also includes the impact of changes in macroeconomic variables on the valuation of Life's assets and liabilities. Economic and actuarial assumption changes include changes to bond yields and inflation factors, expense assumptions, losses on new business and other factors applied in the valuation of life contract liabilities. Investment experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and the normalised capital growth plus any economic and actuarial assumption changes for the period.
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Glossary of terms

Terms	Definitions
Additional Tier 1 regulatory capital	High quality capital that provides a permanent and unrestricted commitment and is freely available to absorb losses.
Cash earnings (Life)	Investment yield and other income less interest expenses and fees and commissions paid.
CET1 ratio	Common Equity Tier 1 regulatory capital divided by prescribed capital amount.
Common equity tier 1 regulatory capital	The highest quality capital comprising items such as paid-up ordinary shares and retained earnings. Common equity tier 1 capital is subject to certain regulatory adjustments including in respect of intangibles and adjusting policy liabilities.
Earnings per share	Net profit after tax divided by weighted average number of shares in the period.
Equity accounted profits (FM)	Challenger's share of Fidante Partners boutique investment manager pre-tax profits.
Fees and commissions paid (Life)	Payments made for the acquisition and management of annuities and other Life products.
Fidante Partners income (FM)	Distribution and administration fees from boutique investment managers.
Funds under management (FUM)	Total value of listed and unlisted funds/mandates managed by the Funds Management business.
Group cash	Cash available to Group excluding cash held by Challenger Life Company.
Interest and borrowing costs (Corporate)	Interest and borrowing costs associated with group debt and group debt facilities.
Interest expenses (Life)	Interest accrued and paid to annuitants, subordinated debt note holders and other debt providers.
Investment experience (Life)	The difference between actual investment gains/losses (both unrealised and realised) and the normalised capital growth plus any economic and actuarial assumption changes for the period.
Investment yield (Life)	Net rental income, dividends received and accrued interest and discounts/premiums on fixed income securities amortised on a straight line basis.
Investment yield – shareholder funds (Life)	Represents the return on shareholder capital held by the Life business.
Life investment assets	Total value of investment assets that are managed by the Life business.
Life net book growth	Life net retail annuity policy capital receipts over the period divided by the opening Life retail annuity book.
Life net retail annuity policy receipts	Life retail annuity sales less retail annuity capital payments.
Net assets – average (Group)	Average net assets over the period (excluding non-controlling interest) calculated on a monthly basis.
Net fee income (FM)	Fidante Partners income, equity accounted profits (FM) and Aligned Investments net management fees and performance and transaction fees.
Net management fees (FM)	Management fees for managing investments.
Net tangible assets	Consolidated net assets less goodwill and intangibles.
Net Interest Margin (NIM)	Net interest margin on term funded prime mortgages and included as part of Life's investment assets.
Normalised capital growth	Long term expected capital growth based on long term return assumptions calculated as long term capital growth assumption multiplied by average investment assets.
Normalised Cash Operating Earnings (NCOE) (Life)	Cash earnings plus normalised capital growth.

Glossary of terms

Terms	Definitions
Normalised cost to income ratio	Total expenses divided by total net income.
Normalised dividend payout ratio	Dividend per share divided by normalised earnings per share (basic).
Normalised EBIT (Life)	Normalised cash operating earnings less total Life expenses.
Normalised EBIT (FM)	Net income less total FM expenses.
Normalised effective tax rate	Normalised tax divided by normalised profit before tax.
Normalised Return on Equity (RoE) – pre-tax	Normalised Life EBIT, FM EBIT or Normalised NPBT (Group) divided by average net assets.
Normalised Return on Equity (RoE) – post-tax	Group's normalised NPAT divided by average net assets.
Other expenses	Non-employee expenses, including external professional services, occupancy costs, marketing and advertising, travel, technology and communications costs.
Other income (Corporate)	Includes equity accounted profits of associates and interest received on Group cash balances.
Other income (Life)	Relates to Bendzulla Actuarial revenue and Life Risk. Refer to page 15 for more detail.
Performance and transaction fees (FM)	Fees earned for outperforming benchmarks and fees earned for the origination, disposal and restructuring of assets.
Personnel expenses	Includes fixed and short term variable incentive components of remuneration structures. The amortisation of long term incentive plans is reported separately within the Corporate results.
PCA ratio	The ratio of the total CLC tier 1 and tier 2 regulatory capital base divided by the prescribed capital amount.
Prescribed capital amount (PCA)	Amount of capital that a life company must hold which is intended to be sufficient to withstand a 1 in 200 year shock and still meet adjusted policy liabilities and other liabilities. For further details refer to APRA's LPS110 Capital Adequacy.
Product cash margin (Life)	Represents the return on assets backing annuities and other income, less interest expenses and fees and commissions paid.
Significant items	Non-recurring or abnormal income or expense items.
Statutory Return on Equity (RoE) – post tax	Statutory NPAT divided by average net assets.
Tier 1 regulatory capital	Tier 1 regulatory capital comprises common equity tier 1 regulatory capital and additional tier 1 regulatory capital.
Tier 2 regulatory capital	Tier 2 Capital is capital that contributes to the overall strength of a life company and its capacity to absorb losses but does not satisfy all the criteria to be included as Tier 1 regulatory capital.
Total expenses	Personnel expenses plus other expenses.
Total net income	Normalised Cash Operating Earnings (Life) plus net fee income (FM) plus other income (Corporate).

Level 15
255 Pitt Street
Sydney NSW 2000
telephone 02 9994 7000
facsimile 02 9994 7777

www.challenger.com.au