

Challenger Financial Services Group Limited

2010 Interim Financial Results

Financial Highlights

For half year ended 31 Dec 2009		1H09 – 1H10
Assets Under Management*	\$22.9bn	↑ 12%
Net income	\$272m	↓ 4%
Expenses	\$114m	↓ 9%
Normalised EBIT	\$158m	↔
NPAT (Normalised)	\$116m	↑ 9 %
NPAT (Statutory Reported)	\$177m	↑ Large
EPS	22cps	↑ 17%
DPS (Interim) unfranked	6c	↑ 20%

*AUM adjusted to reflect the sale of the Mortgage distribution operation

Enhanced financial performance

- Normalised NPAT up 9% on pcp
- Normalised EPS up 17% at 22cps - strong earnings enhanced by the continuing on-market share buy-back
- Improved statutory NPAT reflecting positive investment experience (rebound in asset values, primarily fixed income and listed infrastructure)
- Interim dividend lifted 20% to 6 cents

Total Assets Under Management (AUM)

- Total AUM up 12% on pcp after adjusting for the sale of the mortgage distribution business. The sale to NAB, announced in August 2009, also included all assets under administration.
- Funds Management FUM rose 15% on pcp following strong net inflows into boutique partnerships along with a rebound in market linked movements
- Life AUM rose 10% on pcp following stronger annuity sales, introduction of a new guaranteed index returns product (GIR) and strong investment markets

Net Income/normalised EBIT

- Normalised EBIT flat, with a strong performance from Life offset by a lower contribution from Funds Management
- Mortgage Management contribution represents the period up to 30 October 2009, prior to the sale of the business.

For half year ended 31 Dec 2009		1H09 – 1H10
Normalised EBIT		
Life	\$140m	↑ 28%
Funds Management	\$8m	↓ 38%
Mortgage Management	\$39m	N/A
Corporate	(\$29m)	↑ 10%
Total	\$158m	↔

Expenses

- Normalised cost to income ratio improved 230 bps from 44.1% in 1H09 to 41.8% in 1H10
- Corporate expenses higher, primarily due to the non-cash impact of long term remuneration plans (increased expense resulting from delay between grant date / issue date due to uncertainty around tax treatment of ESOPs)

Outlook

- Expect 2010 Financial markets to be variable as markets repair
- Challenger strategy aligned to major structural trends occurring in the retirement income sector, supported by:
 - a simplified business
 - broader distribution base
 - expanded product range
- Capital strength to support organic growth and disciplined expansion of AUM
- Proven and experienced staff focused on:
 - Continuing to drive cost savings and efficiencies
 - Development of products to capture demand for capital guaranteed investments to counter market volatility
- Strong financial performance - upgraded COE guidance for Life FY10 - \$325m

Capital Management

Financial flexibility

- No net debt; net cash of \$121m
- Circa \$830m of debt repaid across the group in the last six months to 31 December 2009

- On-going share buy-back enhancing EPS – in the last six months to 31 December 2009 45.5m shares were repurchased
- Strong capital position - CLC surplus capital over minimum regulatory requirements circa \$850m at 31 Dec 09

Dividend

- Interim dividend of 6 cents per share (unfranked) increased by 20% pcp
Ex Dividend Date: 18 March 2010
Record Date: 24 March 2010
Payment Date: 16 April 2010

Ratings

- Challenger Group and CLC are rated by Standard and Poor's (S&P) for credit and financial strength respectively. Ratings were reaffirmed in December 2009 with a stable outlook
 - Challenger Life Company Limited: A
 - Challenger Group: BBB+

Life

Business description

Integral to the group is the APRA-regulated life business, Challenger Life Company Limited (CLC), which provides term annuities to retirees and other investors seeking the security and certainty of guaranteed income streams. CLC is the largest provider of annuities in Australia with approximately \$6.7bn in assets under management and 60,000 policy holders.

Financial Highlights*

For half year ended 31 Dec 2009		1H09 – 1H10
AUM – Balance Sheet	\$6.7bn	↑10%
Net income (COE)	\$154m	↑27%
Expenses	\$14m	↑16%
Normalised EBIT	\$140m	↑ 28%
Return on Net Assets (RONA)	31%	-

*Normalised cash operating earnings basis – excluding investment experience

AUM: Total AUM up 10% primarily driven by a rebound in asset values and underpinned by increased organic sales of annuity and allocated pension flows of \$455m in the last six months; in addition \$541m flowed into the new Guaranteed Index Return product in the period.

Normalised Net Income: \$154m up 27% on pcp – driven by strong investment yield on assets. Investment yield was enhanced following the acquisition of the residual income streams of the mortgage book. COE guidance has been further increased to \$325m for FY10 – up 30% on full year 2009, reflecting increased yield expectations following CKT acquisition.

Investment

Experience: Positive experience of \$61m post tax. Key contributors to the positive gains include mark to market on fixed income and an increase in CIF's unit price (following asset sales, debt repayment and active capital repayment and active capital management strategies) in the last six months.

Credit spreads on our fixed income portfolio continued to contract in the last six months as the dislocation of the global credit markets abated. These positive impacts were partially offset by a modest decline in direct property values of 2%.

Expenses: \$14m up 16% on pcp. Expenses are expected to rise modestly as Life continues to develop and market new products.

Performance Highlights

Increased balance sheet scale/broader product range

- In the last 2 years Life has increased its customer base and widened its franchise
- In October 2009 a new unitised annuity was launched on investment platforms – Guaranteed Income Fund (GIF). GIF is now available on Asgard, BT Wrap, Colonial First Wrap, IOOF and Macquarie Wrap
- GIR was developed in the last six months to meet demand from industry funds/bodies for guaranteed income products
- Post balance date Challenger Life purchased Challenger Kenedix Trust, a high yielding portfolio of quality Japanese properties

Outlook

Strong underlying fundamentals

- Strong balance sheet and significant surplus capital still to deploy
- Investment opportunities remain to allocate capital
 - Expanded property investment via CKT acquisition in January 2010
 - Continue to invest in accretive fixed income
- Increasing demand for our capital guaranteed products as investor risk preferences change

Funds Management

Business description

With funds under management of \$19.2 billion, Challenger's Funds Management business develops and distributes listed and unlisted investment products and services to retail and institutional clients across a wide range of asset classes and investment styles.

Challenger also acts as a gateway to other investment managers and has a growing stable of quality boutique fund managers in which the Group has an equity stake and provides services for a fee.

Financial Highlights

For half year ended 31 Dec 2009		1H09 – 1H10
FUM	\$19.2bn	↑ 14%
Net income	\$49m	↓ 22%
Expenses	\$40m	↓ 18%
EBIT	\$8m	↓ 36%
Return on Net Assets (RONA)	18%	-

FUM: \$19.2bn, up 14% on pcp. Market rallies through late 2009 lifted the value of market linked products, combined with continued strong institutional flows and abating retail outflows resulted in an increase in FUM.

FUM for boutique partners increased 78% in the last six months – bringing total FUM for boutique funds to \$4bn. Listed Funds FUM increased primarily due to the rise in the adjusted equity value of CIF.

Net Income: \$49m, down 21% on pcp, driven by reduced average FUM balance during 2H09 as equity markets remained volatile. A gradual change in management fees composition (higher weighting to non-equity products and increased boutique FUM flow), along with reduced performance/ transaction fees resulted in FUM increasing ahead of revenue

Expenses: \$40m, down 18% on pcp as cost control remained a key focus

Performance Highlights

Investment Performance

- New funds inflow across our boutique partnerships in excess of \$2 billion
- Boutique investment performance remains strong
- Improved performance across internal teams, more than 80% of internal funds have outperformed their benchmark
- Value creation initiatives in listed vehicles, including CIF's sale of its residual interest in Southern Water at NAV in Dec 09 and continued capital management

Outlook

Diversified portfolios and business mix

- Australia remains an attractive investment environment supported by compulsory super contributions, population growth and focus on contemporary products
- Challenger is well positioned to take advantage of investor demand as markets recover, continued expansion of its product suite into new areas such as inflation linked investments and equity income strategies via internal teams and boutique partners
- Continued growth in the boutique funds market provides greater diversification of growth opportunities and revenue, whilst leveraging Challenger's existing infrastructure

Corporate

Financial Highlights

For half year ended 31 Dec 2009		1H09 – 1H10
Net income	\$4m	↑ <i>large</i>
Expenses	\$33m	↑ 19%
EBIT	(\$29m)	↑ 10%

Net Income: Corporate income represents interest on surplus cash deposits, including cash held for regulatory license purposes and other income. Large increase on pcp reflects higher cash balances following the sale of the Mortgage distribution business.

Expenses: Operating expenses represent the cost of performing functions not associated with any of the operating divisions, primarily head office personnel costs, together with all long term incentive costs.

The majority of the increase in Corporate relates to higher non-cash expense for long term incentive plans (~\$6m). This was due to a delay between grant and issue of options in 2009 while tax uncertainty remained for ESOPs.

Mortgage Management

Financial Highlights

Challenger announced the sale of its Mortgage division on the 18th of August. The residual income streams from all term financed mortgages were sold to Challenger Life for a consideration of \$558m while the mortgage distribution business, warehouses, originators and HOM position were sold to NAB for \$383m. In the 4 months to settlement date the mortgage division delivered \$39.1m EBIT in line with guidance provided at the time of the sale.

Assets, Funds and Mortgages Under Management

as at 31 December 2009

	31 Dec 09 \$m	30 Sep 09 \$m	30 Jun 09 \$m	31 Mar 09 \$m
Total Assets Under Management^(a)	22,887	21,614	19,644	19,222

^(a) Prior quarters' AUM have been restated to remove the Mortgage Management segment sold on 30 October 2009.

Represented by:

Funds Management

Unlisted funds/mandates

Australian equities	3,145	3,150	2,751	2,871
International equities	159	149	140	125
Real estate securities (including hybrid property)	1,494	1,470	1,191	1,071
Property	1,238	1,172	1,085	1,111
Infrastructure	1,094	1,003	1,052	1,121
Fixed interest	4,128	3,717	3,524	3,196
Multi sector funds	8	8	7	7
Cash funds	13	13	13	13
Mortgage funds	2,432	2,507	2,578	2,662
Boutique partnership mandates ^(b)	3,094	2,228	1,234	680
Total Unlisted funds/mandates under management	16,805	15,417	13,575	12,857

Listed funds

Challenger Infrastructure Fund (ASX:CIF) (adjusted equity value)	615	535	513	452
Challenger Diversified Property Group (ASX:CDI) (gross assets)	794	852	848	875
Challenger Wine Trust (ASX:CWT) (gross assets)	261	266	266	312
Challenger Kenedix Property Trust (ASX:CKT) (gross assets)	749	821	843	969
Total assets of listed funds	2,419	2,474	2,470	2,608
Total funds under management	19,224	17,891	16,045	15,465

Comprising:

Retail	6,287	6,311	5,749	5,689
Institutional	10,517	9,106	7,826	7,168
Listed funds	2,420	2,474	2,470	2,608
Total funds under management	19,224	17,891	16,045	15,465

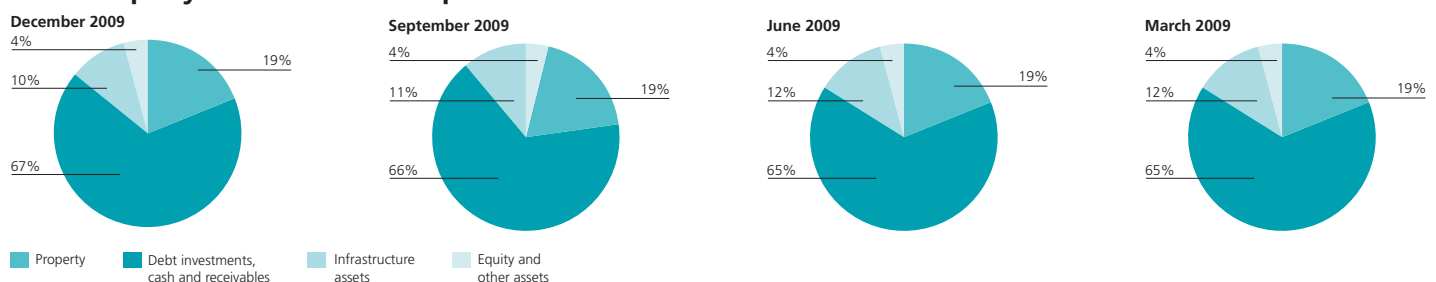
^(b) Boutique partnership mandates represent segregated institutional mandates and do not include the registered schemes.

Life

Property ^(c)	1,238	1,172	1,085	1,111
Debt investments, cash and receivables	4,464	4,004	3,782	3,891
Infrastructure assets	693	663	682	714
Equity and other assets	256	229	218	243
Total Life investment assets	6,651	6,068	5,767	5,959

^(c) Property is reported net of senior debt of \$277m (Sep 2009 \$479m). Property includes direct and indirect holdings.

Life Company asset allocation split



Analysis of Flows

Funds Management

Funds under management net flows for the quarter comprise:	31 Dec 09 \$m	30 Sep 09 \$m	30 Jun 09 \$m	31 Mar 09 \$m
Retail	(52)	(148)	(325)	(336)
Institutional – Managed Funds	1,049	976	607	(325)
Net flows	997	828	282	(661)

Life

Sales for the quarter:	31 Dec 09 \$m	30 Sep 09 \$m	30 Jun 09 \$m	31 Mar 09 \$m
Annuities, allocated pensions, superannuation and guaranteed index returns	751	245	120	91

Reconciliation of Total Group Assets, Funds and Mortgages Under Management

	31 Dec 09 \$m	30 Sep 09 \$m	30 Jun 09 \$m	31 Mar 09 \$m
Funds under management	19,224	17,891	16,045	15,465
Life	6,651	6,068	5,767	5,959
Adjustments to remove double counting of cross holdings:				
Life Company investment in Specialised Funds	(522)	(510)	(401)	(377)
Life Company investment in unlisted funds	(2,466)	(1,835)	(1,767)	(1,825)
Total Assets Under Management	22,887	21,614	19,644	19,222

Mortgage Management

Residential lending	–	14,927	15,681	16,402
Broker Platforms	–	112,638	75,350	73,179
Adjustments to remove double counting of cross holdings:				
Commercial lending	–	(69)	(60)	(60)
Residential lending	–	(317)	(280)	(274)
Sub-total mortgages under management and administration ^(d)	–	127,179	90,691	89,247
Commercial lending ^(e)	–	1,988	2,264	2,460
Adjustments to remove double counting of cross holdings:				
Commercial lending	–	(1,988)	(2,264)	(2,460)
Total mortgages under management and administration	–	127,179	90,691	89,247

^(d) The Mortgage Management business was sold on 30 October 2009.

^(e) Commercial Lending retained within 'Funds Management - Mortgage funds' previously cross-held with Mortgage Management

1H 10 Analyst Pack Financial Appendices

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Key Performance Indicators

	1H 10	2H 09	1H 09	2H 08	1H 08
Normalised NPAT (\$m)	115.9	113.1	105.9	116.0	101.9
Statutory NPAT (\$m)	176.7	17.3	(107.9)	(140.0)	95.7
Normalised EBIT (\$m)	158.2	161.1	158.7	157.0	153.5
Normalised cost to income (%)	41.8%	45.4%	44.1%	43.3%	47.0%
Effective Normalised tax rate (%)	20.8%	20.1%	25.2%	20.8%	23.2%
Dividend (cents)	6.0	7.5	5.0	7.5	5.0
Total dividend franking (%)	0%	0%	0%	60%	100%
Normalised dividend payout ratio (%)	27.5%	36.3%	26.9%	37.6%	27.3%
Earnings per share					
- Basic - normalised (cents)	21.8	20.7	18.6	20.0	18.3
- Basic - statutory (cents)	33.3	3.2	(18.9)	(24.1)	17.2
- Diluted - normalised (cents)	20.8	20.2	18.3	19.8	16.9
- Diluted - statutory (cents)	31.7	3.1	(18.7)	(23.9)	15.8
Operating Cashflow ¹ (\$m)	114.2	160.8	126.4	145.7	69.9
Opening Net Assets ² (\$m)	1,382	1,613	1,613	1,445	1,445
Normalised Return on Net Assets (%)	21.2%	17.5%	17.5%	20.3%	18.4%
Group Net Gearing ³ (%)	0.0%	11.5%	14.6%	0.5%	8.6%
Group Gearing ⁴ (%)	2.2%	19.6%	30.5%	13.4%	16.5%
Assets under management and administration (\$m)					
- Life	6,651	5,767	6,129	5,245	5,528
- Mortgage Management	-	93,295	90,918	48,068	46,479
- Funds Management	19,224	16,045	16,788	21,921	24,264
- Cross holding elimination	(2,988)	(4,772)	(5,302)	(4,521)	(4,806)
Total Assets under management and administration (\$m)	22,887	110,335	108,532	70,712	71,465
Closing Group staff numbers ⁵ (No. of FTEs)	446	837	927	911	985
Basic Share Count (shares – million)	505.7	542.6	554.4	581.7	581.5
ASX Listed Shares (shares – million)	531.5	569.3	581.5	600.4	600.4
Share price (\$)	4.23	2.24	1.95	1.89	4.99

¹ Operating cash flow is on an underlying basis and excludes adjustments for net annuity policy capital receipts / payments, SPV operating cashflows and CDI non-controlling interest.

² Opening net assets excludes non-controlling interest

³ Calculated as Net Debt / (Net Debt + Equity)

⁴ Calculated as Debt / (Debt + Equity)

⁵ Headcount excludes Discontinued Operations. 1H08 includes addition of Choice (55) and 1H09 includes addition of PLAN (101)

Consolidated Profit and Loss

\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Cash spread earnings	125.8	99.3	87.4	79.4	63.9
Normalised capital growth	28.3	30.0	34.1	33.5	31.1
Normalised COE¹	154.1	129.4	121.5	112.9	95.0
Net fee income	113.0	160.2	158.6	162.8	185.2
Other income	4.9	5.6	3.6	1.3	9.4
Net Income	272.0	295.2	283.7	277.0	289.7
Personnel expenses	(82.6)	(90.8)	(88.9)	(85.8)	(92.9)
Other expenses	(31.2)	(43.3)	(36.1)	(34.1)	(43.3)
Total Expenses²	(113.8)	(134.1)	(125.0)	(119.9)	(136.2)
Normalised EBIT	158.2	161.1	158.7	157.0	153.5
Interest and borrowing costs	(11.9)	(19.7)	(17.2)	(15.6)	(25.7)
Discontinued operations ³	-	-	-	5.2	4.9
Normalised profit before tax	146.3	141.5	141.5	146.6	132.7
Tax	(30.5)	(28.4)	(35.6)	(30.5)	(30.9)
Normalised profit after tax	115.9	113.1	105.9	116.0	101.9
Investment experience after tax	61.3	(95.8)	(213.8)	(186.2)	(6.2)
Significant items after tax	(0.5)	-	-	(69.8)	-
Net profit/(loss) after tax	176.7	17.3	(107.9)	(140.0)	95.7
Performance Analysis					
Cost to income ratio	41.8%	45.4%	44.1%	43.3%	47.0%
Effective Normalised tax rate (%)	20.8%	20.1%	25.2%	20.8%	23.2%
Opening Net Assets (\$m) ⁴	1,382	1,613	1,613	1,445	1,445
Normalised RONA	21.2%	17.5%	17.5%	20.3%	18.4%
Group headcount (FTE) ⁵	446	837	927	911	985

¹ COE represents Cash Operating Earnings

² Includes \$8m of one off costs for restructuring in 1H09 and \$14m in 2H09

³ Discontinued Operations represents Financial Planning which was sold on 30 June 2008

⁴ Opening net assets excludes non-controlling interest

⁵ Headcount excludes Discontinued Operations. 1H08 includes addition of Choice (55) and 1H09 includes addition of PLAN (101)

Normalised EBIT by Division

\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Life	140.4	117.9	109.5	103.0	81.8
Funds Management	8.2	5.1	12.9	31.0	37.4
Mortgage Management	39.1	73.1	63.0	48.1	52.0
Corporate	(29.4)	(35.0)	(26.8)	(25.2)	(17.7)
Normalised EBIT (continuing operations)	158.2	161.1	158.7	157.0	153.5
Discontinued operations ¹	-	-	-	5.2	4.9
Normalised EBIT	158.2	161.1	158.7	162.2	158.4

Quality of earnings

	1H 10	2H 09	1H 09	2H 08	1H 08
Net Income	272.0	295.2	283.7	277.0	289.7
% total income					
Cash spread earnings	46.2%	33.7%	30.8%	28.7%	22.1%
Normalised capital growth	10.4%	10.2%	12.0%	12.1%	10.7%
Management fees & margins	37.8%	51.3%	51.4%	50.9%	53.2%
Performance fees & transaction fees	3.7%	3.0%	4.5%	7.9%	10.8%
Other income	1.8%	1.9%	1.3%	0.5%	3.2%
% fee income					
Management fees & margins	91.1%	94.5%	91.9%	86.6%	83.2%
Performance fees & transaction fees	8.9%	5.5%	8.1%	13.4%	16.8%

¹ Discontinued Operations represents Financial Planning which was sold on 30 June 2008

Consolidated Balance Sheet ¹

\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Assets					
Investment assets - Life					
Cash, fixed interest and debt	4,464.2	3,781.2	3,915.6	3,072.0	3,194.6
Infrastructure	692.6	682.4	799.6	944.6	992.2
Property (net)	1,238.0	1,084.9	1,113.0	1,065.2	1,093.9
Equity and other investments	256.4	218.3	301.2	163.2	247.4
Total Investments assets managed for the Life company	6,651.1	5,766.8	6,129.4	5,245.0	5,528.1
Cash & cash equivalents	151.6	157.2	365.6	250.8	112.3
Receivables	212.7	651.8	726.0	563.4	555.4
Derivative assets	226.5	158.2	401.4	25.1	6.4
Fixed assets	21.9	25.8	28.9	29.6	28.9
Tax assets	2.1	50.7	75.5	-	-
Other investment assets	70.4	65.2	83.2	134.0	338.8
Investment in associates	30.4	43.2	38.7	35.0	59.2
Other assets	54.8	96.1	154.3	204.2	175.1
Goodwill and intangibles	516.4	709.7	699.0	652.9	827.7
Less Group/Life eliminations ²	(507.0)	0.0	0.0	0.0	0.0
Total assets	7,431.2	7,724.6	8,701.9	7,140.0	7,631.9
Liabilities					
Payables	211.1	583.6	553.7	492.9	566.7
Tax liabilities	28.2	14.3	66.1	101.1	193.0
Derivative liabilities	144.5	107.4	93.3	75.7	48.1
Recourse debt	30.1	336.0	600.0	250.0	345.0
Non recourse debt	0.0	130.0	130.0	130.0	130.0
Subordinated debt	437.2	422.0	486.7	554.7	566.8
Other interest bearing liabilities	59.7	118.5	119.7	52.3	56.0
Net SPV equity	18.9	13.7	46.2	(13.3)	(3.4)
Provisions	33.2	43.4	48.8	53.3	57.5
Life investment liabilities	4,564.8	4,573.8	5,166.8	3,743.1	3,851.7
Guaranteed index return liabilities	541.2	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	24.6	87.3	75.5
Total liabilities	6,069.0	6,342.7	7,336.0	5,527.1	5,886.9
Net assets	1,362.2	1,381.9	1,365.8	1,612.9	1,745.0

¹ Excludes grossing up effect of consolidation of Special Purpose Vehicles (SPV's), CDI and non-controlling interests

² Group/Life eliminations relate to the fair value of the SPV residual income units held by CLC

Consolidated Operating Cash Flow ¹

\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Receipts from customers	426.7	497.1	454.2	507.2	416.3
Dividends received	26.2	31.0	73.1	45.9	65.9
Interest received	154.9	172.6	146.1	147.8	107.5
Interest paid	(155.7)	(174.8)	(170.0)	(160.2)	(137.7)
Payments to suppliers and employees	(338.0)	(362.0)	(373.7)	(392.9)	(378.7)
Income tax paid	-	(3.0)	(3.3)	(2.1)	(3.4)
Underlying operating cashflows	114.2	160.8	126.4	145.7	69.9
Adjust for:					
Net SPV operating cashflows ²	(9.4)	(48.3)	(37.1)	0.4	15.2
Net annuity policy capital receipts / (payments) ³	(60.0)	(282.1)	(151.6)	(80.0)	21.1
CDI non controlling interest	11.9	13.0	-	-	-
Operating cashflows per Financial Report	56.8	(156.6)	(62.4)	66.1	106.2

¹ Special Purpose Vehicles' (SPV) consolidated cashflows have been excluded from individual line categories

² Underlying operating cashflows excludes SPV operating cashflows as Challenger corporate entities have no present or legal entitlement to the cashflow of the trusts until distribution date

³ Underlying operating cashflow excludes capital flow element of policyholder receipts and payments to provide a more meaningful analysis of performance

Debt and Gearing

\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Financial Debt (Recourse)					
Medium term notes	30.1	206.0	250.0	250.0	250.0
Corporate facilities	-	130.0	350.0	-	95.0
Total Financial Debt	30.1	336.0	600.0	250.0	345.0
Less available cash	151.6	157.2	365.6	241.1	181.0
Net Debt/(Cash)	(121.5)	178.8	234.4	8.9	164.0
Gearing ¹					
Debt / (Debt + Equity)	2.2%	19.6%	30.5%	13.4%	16.5%
Net Debt / (Net Debt + Equity)	0.0%	11.5%	14.6%	0.5%	8.6%
Book equity (closing)	1,362.2	1,381.9	1,365.8	1,612.9	1,745.0
Operating Leverage (Non recourse)					
NIM facility	-	130.0	130.0	130.0	130.0
Controlled property debt	275.1	477.3	486.4	504.2	537.7
CDI controlled property debt	183.8	333.8	343.5	-	-
Subordinated debt – CLC	437.2	422.0	486.7	554.7	566.8
Loan note finance	59.7	62.5	62.1	54.8	56.0
Repurchase agreements	-	59.8	59.8	-	-
Total operating leverage	955.8	1,485.4	1,568.5	1,243.7	1,290.5

¹ Gearing ratios are based on financial (recourse) debt. Book equity excludes non-controlling interests.

Earnings and Dividends Per Share

cents	1H 10	2H 09	1H 09	2H 08	1H 08
Earnings Per Share Normalised					
Basic	21.8	20.7	18.6	20.0	18.3
Diluted	20.8	20.2	18.3	19.8	16.9
Reported Statutory					
Basic	33.3	3.2	(18.9)	(24.1)	17.2
Diluted	31.7	3.1	(18.7)	(23.9)	15.8
Dividends Per Share		2H 09	1H 09	2H 08	1H 08
Dividend (cents)	6.0	7.5	5.0	7.5	5.0
Franking (%)	0%	0%	0%	60%	100%
Dividend payout ratio ² (%)	27.5%	36.3%	26.9%	37.6%	27.3%

² Dividends per share / Normalised EPS (basic)

Issued Share Capital

Number of shares (m)	1H 10	2H 09	1H 09	2H 08	1H 08
Issued shares					
Basic share count (a)	505.7	542.6	554.4	581.7	581.5
LTIP and CPP Trust "treasury" shares (b)	38.0	53.4	53.7	50.7	54.2
Total issued shares	543.8	596.0	608.1	632.4	635.7
Less unquoted LTIP shares	(12.3)	(26.7)	(26.7)	(32.0)	(35.3)
Total ASX listed shares	531.5	569.3	581.5	600.4	600.4

(a) Movement in Basic share count

Opening	542.6	554.4	581.7	581.5	538.8
On market buyback during the period	(45.5)	(12.2)	(18.9)	0.0	0.0
Net Treasury shares released/(acquired)	8.6	0.3	(8.4)	0.2	2.7
New share issues	0.0	0.0	0.0	0.0	40.0
Closing	505.7	542.6	554.4	581.7	581.5

(b) Movement in LTIP and CPP Trust treasury shares

Opening	53.4	53.7	50.7	54.2	57.5
Shares vested to participants	(29.9)	(0.3)	(1.6)	(0.2)	(7.4)
Shares bought into CPP Trust	21.2	0.0	9.9	0.0	4.7
Shares forfeited - bought back and cancelled	(6.7)	0.0	(5.3)	(3.4)	(0.6)
Closing	38.0	53.4	53.7	50.7	54.2

Share Capital for Earnings per Share Calculations

Weighted average number of shares (m)

Basic EPS shares

Total issued shares	577.8	600.2	624.6	634.8	610.5
Less LTIP and CPP Trust "treasury" shares	(46.9)	(53.6)	(54.0)	(53.3)	(55.3)
Shares for basic EPS calculation	530.9	546.7	570.6	581.5	555.2

Diluted EPS shares

Shares for basic EPS calculation	530.9	546.7	570.6	581.5	555.2
Add dilutive impact of LTI schemes	22.3	9.9	7.3	3.6	23.1
Add dilutive impact of external options	4.9	2.5	0.6	0.0	25.5
Shares for dilutive EPS calculation	558.1	559.1	578.5	585.2	603.8

Summary of Options and LTI Plans

Number of shares (m)

Long Term Incentive Plan

Quoted ASX shares	4.1	14.0	14.0	14.2	14.2
Unquoted ASX shares	12.3	26.7	26.7	32.0	35.3
Closing	16.4	40.7	40.7	46.2	49.5

Performance Share Rights

Opening	12.0	8.6	4.6	4.7	0.1
New grants	3.2	3.9	5.1	0.3	4.6
Vesting/forfeiture	(4.9)	(0.5)	(1.1)	(0.4)	-
Closing	10.2	12.0	8.6	4.6	4.7

Options

External Options

Opening	117.1	117.1	117.1	117.1	60.0
New grants	-	-	-	-	57.1
Closing	117.1	117.1	117.1	117.1	117.1

Executive

Opening	38.1	40.7	26.7	19.4	7.8
New grants	14.6	0.6	18.6	9.2	11.6
Vesting/forfeiture	(9.6)	(3.2)	(4.6)	(1.8)	-
Closing	43.1	38.1	40.7	26.7	19.4

Life - detailed management financials

\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Investment yield	276.5	255.4	226.3	214.8	177.7
Interest expenses	(135.9)	(147.1)	(129.0)	(126.5)	(97.5)
Fees & commissions paid	(14.7)	(8.9)	(9.9)	(8.9)	(16.3)
Cash spread earnings	125.8	99.3	87.4	79.4	63.9
Normalised capital growth	28.3	30.0	34.1	33.5	31.1
Normalised Cash Operating Earnings	154.1	129.4	121.5	112.9	95.0
Personnel expenses	(7.9)	(7.6)	(8.1)	(8.0)	(8.4)
Other expenses	(5.9)	(3.9)	(3.9)	(1.9)	(4.9)
Total Expenses	(13.8)	(11.4)	(11.9)	(9.8)	(13.3)
Normalised EBIT	140.4	117.9	109.5	103.0	81.8
Investment experience	87.5	(136.8)	(305.5)	(261.9)	(8.8)
Net profit/(loss) after investment experience before tax	227.9	(18.9)	(195.9)	(158.9)	73.0
Performance Analysis					
Cost to income ratio ¹	8.9%	8.8%	9.8%	8.7%	14.0%
Opening Net Assets (\$m)	906	909	909	981	981
Normalised RONA	31.0%	25.9%	24.1%	21.0%	16.7%
Average Investment Assets – Life (\$bn) ²	6.0	6.0	5.4	5.4	4.8
Average Funding book – annuities (\$bn) ²	4.6	4.9	4.0	3.8	3.4
Average Funding book – sub debt (\$bn) ²	0.4	0.5	0.5	0.6	0.3
Average Funding book (\$bn) ²	5.0	5.4	4.6	4.4	3.7
Margins (bps)³					
Investment yield	9.2%	8.5%	8.3%	8.0%	7.4%
Interest expenses	(4.5%)	(4.9%)	(4.8%)	(4.7%)	(4.1%)
Fees & commissions paid	(0.5%)	(0.3%)	(0.4%)	(0.3%)	(0.7%)
Cash spread earnings	4.2%	3.3%	3.2%	2.9%	2.7%
Normalised capital growth	0.9%	1.0%	1.3%	1.2%	1.3%
Normalised Cash Operating Earnings	5.1%	4.3%	4.5%	4.2%	4.0%

¹ Calculated as Expenses / Net Income

² Average Investment Assets and Funding Book calculated on a monthly basis

³ Ratio to average investment assets

Life – investment experience

\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Average investment assets ¹					
Cash, fixed interest and debt	3,956.8	3,847.3	3,165.6	3,127.8	2,710.7
Infrastructure	684.8	771.3	955.2	970.6	820.1
Property (net) ³	1,167.5	1,110.2	1,066.5	1,074.7	1,065.9
Equity and other investments	227.7	250.9	234.2	209.8	207.4
Total average investment assets	6,036.7	5,979.6	5,421.5	5,382.9	4,804.0
Capital growth					
Investment experience	87.5	(136.8)	(305.5)	(261.9)	(8.8)
Normalised capital growth	28.3	30.0	34.1	33.5	31.1
Actual capital growth	115.8	(106.8)	(271.3)	(228.4)	22.3
Life – balance sheet ²					
\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Cash, fixed interest and debt	4,464.2	3,781.2	3,915.6	3,072.0	3,194.6
Infrastructure	692.6	682.4	799.6	944.6	992.2
Property (net) ³	1,238.0	1,084.9	1,113.0	1,065.2	1,093.9
Equity and other investments	256.4	218.3	301.2	163.2	247.4
Total investment assets managed for the Life Company	6,651.1	5,766.8	6,129.4	5,245.0	5,528.1
Other assets (including intangibles)	692.0	352.9	681.6	400.0	319.8
Total assets	7,343.1	6,119.7	6,811.0	5,645.0	5,847.9
Policy liabilities	(4,564.8)	(4,573.8)	(5,166.9)	(3,743.1)	(3,851.7)
Guaranteed index return liabilities	(541.2)	-	-	-	-
Subordinated debt	(437.2)	(422.0)	(486.7)	(554.7)	(566.8)
Other liabilities	(255.8)	(217.6)	(328.6)	(438.2)	(389.2)
Total liabilities	(5,799.0)	(5,213.4)	(5,982.2)	(4,736.0)	(4,807.6)
Net assets	1,544.1	906.3	828.8	909.0	1,040.3

¹ Calculated on a monthly average.

² Excludes CDI non-controlling interest.

³ Shown net of property debt.

Funds Management – detailed management financials

\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Managed Funds					
Net management fees	30.6	34.4	49.5	62.2	74.9
Performance / Transaction fees	2.0	0.7	0.2	0.5	0.5
Fees & commissions paid	(3.0)	(3.2)	(15.4)	(18.8)	(19.0)
Net Income	29.6	31.9	34.2	43.9	56.4
Specialised Funds					
Net management fees	10.8	12.1	15.3	19.1	16.1
Performance / Transaction fees	8.1	8.1	12.7	21.3	30.7
Net Income	18.9	20.2	28.0	40.3	46.8
Total Net Income	48.5	52.1	62.2	84.2	103.1
Personnel expenses	(29.3)	(33.9)	(35.0)	(36.8)	(43.7)
Other expenses	(11.0)	(13.1)	(14.3)	(16.4)	(22.0)
Total Expenses	(40.3)	(47.0)	(49.3)	(53.2)	(65.7)
Net profit/(loss) before tax	8.2	5.1	12.9	31.0	37.4
Performance Analysis					
Cost to income ratio	83.2%	90.3%	79.2%	63.2%	63.8%
Opening Net Assets (\$m)	93	117	117	157	157
Normalised RONA	17.5%	8.7%	22.1%	39.5%	47.6%
Average FUM - Managed Funds (\$bn) ¹	10.9	8.9	12.5	16.7	19.2
Average FUM - Specialised funds (\$bn) ¹	6.7	7.1	7.0	6.3	5.0
Average FUM - Total (\$bn)	17.6	16.0	19.5	23.0	24.1
Margins (bps)²					
Base margin - Managed Funds	50	70	54	52	58
Base margin - Specialised Funds	32	34	43	61	64
Net margin - Funds Management	44	54	50	55	59
FUM Flow Analysis - unlisted funds/mandates (\$m)					
Net flows					
Retail	(200)	(661)	(1,778)	(604)	987
Institutional	2,025	282	(169)	1,625	460
Net flows	1,825	(378)	(1,947)	1,021	1,447
Distributions	(79)	(120)	(307)	(161)	(456)
Market linked movement	1,485	152	(2,870)	(3,061)	(15)
Total movement unlisted funds/mandates	3,230	(346)	(5,123)	(2,201)	976
Listed funds movement	(51)	(397)	(10)	(143)	293
Total movement Funds Management	3,179	(743)	(5,133)	(2,344)	1,269

¹ Average Funds Under Management calculated on a monthly basis

² Margin (bps) excludes performance and transaction fees

Corporate – detailed management financials

\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Net Income	3.8	3.8	1.0	-	6.5
Personnel expenses	(14.4)	(14.0)	(14.6)	(11.9)	(14.5)
Other expenses	(6.2)	(18.0)	(6.5)	(6.4)	(6.3)
Total Expenses (excl LTIP)	(20.6)	(32.0)	(21.1)	(18.3)	(20.8)
Long term incentive plans ¹	(12.7)	(6.8)	(6.7)	(6.8)	(3.4)
Total Expenses	(33.2)	(38.8)	(27.8)	(25.1)	(24.2)
Normalised EBIT	(29.4)	(35.0)	(26.8)	(25.1)	(17.7)
Interest and borrowing costs	(11.9)	(19.7)	(17.2)	(15.6)	(25.7)
Normalised profit/(loss) before tax ²	(41.3)	(54.7)	(44.1)	(40.7)	(43.4)

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

² Variances to statutory segment reporting in 2008 are due to the accounting of discontinued operations.

Mortgage Management – detailed management financials ¹

\$m	4 months				
	1H 10	2H 09	1H 09	2H 08	1H 08
Lending					
Fees received & receivable	94.8	158.2	155.6	147.6	156.4
Fees & commissions paid ²	(23.1)	(31.9)	(34.2)	(35.4)	(35.7)
Acquisition cost amortisation ²	(19.9)	(38.9)	(39.3)	(44.0)	(45.8)
Net fee income	51.8	87.4	82.2	68.2	74.9
Broker Platforms ³					
Fees received & receivable ⁴	121.2	173.7	122.8	77.4	54.0
Fees & commissions paid ⁴	(108.5)	(152.9)	(108.7)	(67.0)	(46.8)
Net fee income	12.7	20.8	14.2	10.4	7.2
Other income ⁵	1.1	1.8	2.6	1.3	2.9
Net Broker Platforms Income	13.8	22.5	16.8	11.7	10.1
Personnel expenses	(18.4)	(28.5)	(24.5)	(22.4)	(22.9)
Other expenses	(8.1)	(8.3)	(11.5)	(9.4)	(10.1)
Total Expenses	(26.5)	(36.8)	(36.0)	(31.8)	(33.0)
Net profit/(loss) before tax	39.1	73.1	63.0	48.1	52.0
Performance Analysis					
Cost to income ratio	40.4%	33.5%	36.3%	39.8%	38.8%
Opening Net Assets (\$m)	513	571	571	469	469
Normalised RONA	22.9%	25.6%	22.1%	20.5%	22.2%
Average lending portfolio (\$bn) ⁶	17.3	18.9	20.6	22.6	23.3
New business flow - Broker platforms (\$bn)	12.6	11.4	8.1	5.0	3.5
Average trail book portfolio - Broker platforms (\$bn) ⁶	97.8	73.4	45.3	24.6	22.6
Margin (bps)					
Lending					
Fees received & receivable	110	167	151	131	134
Fees & commissions paid	(27)	(34)	(33)	(31)	(31)
Acquisition cost amortisation	(23)	(41)	(38)	(39)	(39)
Lending net fee income	60	92	80	60	64
Broker Platforms					
Fees received & receivable ⁴	96	153	152	155	154
Fees & commissions paid ⁴	(86)	(135)	(134)	(134)	(134)
Broker Platforms net income	10	18	17	21	21

¹ 1H10 represents results for 4 month period up to date of sale on 30 October 2010

² Applicable for Residential Lending only

³ 2008 income includes acquisition of Choice from September 2007 and 2009 income includes acquisition of PLAN from October 2008

⁴ FY08 numbers restated to reflect commission gross up

⁵ Includes Homeloans income

⁶ Calculated on a monthly average

Significant Items After Tax

\$m	1H 10	2H 09	1H 09	2H 08	1H 08
Loss on sale of Mortgage Management	(0.5)	-	-	-	-
Financial planning disposal	-	-	-	(15.7)	-
FBR impairment	-	-	-	(29.3)	-
Homeloans impairment	-	-	-	(22.0)	-
Annuity book transition costs ¹	-	-	-	(2.8)	-
Significant items after tax	(0.5)	-	-	(69.8)	-

¹ 2H08 relates to agreement to transfer AXA annuity book.

Glossary of terms

Division

FM	Managed Funds and Specialised Funds
Life	Challenger Life Company
Corporate	Corporate cost centre plus revenue on Corporate cash balances
MM	Mortgage Management – Distribution and Broker Platform Choice, PLAN and FAST businesses sold on 30 October 2009
Discontinued operations	Represents Financial Planning sold on 30 June 2008

Income

Group

Cash spread earnings	Investment yield, less interest expenses and less fees and commissions paid (Life only)
Normalised capital growth	Long term growth expectations multiplied by investment asset allocation (Life only)
Normalised investment income	Cash Spread Earnings plus Normalised capital growth (Life only)
Net fee income	<p>FM – Management fees, performance & transaction fees (net of fees & commissions paid)</p> <p>MM (to 30 October 2009)– Includes :</p> <ul style="list-style-type: none"> Lending - Management fees and excess spread earned on residential securitisation vehicles, net of fees & commissions paid and acquisition cost amortisation; and Broker Platforms - Fee revenue earned from lenders, for mortgage origination and servicing, net of fees paid to brokers
Other income	Includes equity accounted profits of associates and other miscellaneous income.
Total income	Normalised investment income plus net fee income plus other income
Investment experience	Realised and unrealised mark to market gains/losses on assets and liabilities. Investment experience is net of normalised capital growth and actuarial assumptions.

Life

Investment yield	Net rental income, dividends received and accrued interest and discounts/premiums on fixed income securities amortised on a straight line basis.
Interest expenses	Interest accrued at contracted rates paid to annuitants and subordinated-debt note holders
Fees & Commissions paid	Payments made for the acquisition and management of annuities
Cash spread earnings	Investment yield, less interest expenses and less fees and commissions paid
Normalised capital growth	Long term growth expectations multiplied by investment asset allocation
Normalised cash operating earnings	Cash spread earnings plus normalised capital growth
Net Income	Normalised cash operating earnings plus Fees
Investment experience	Realised and unrealised mark to market gains/losses on assets and liabilities. Investment experience is net of normalised capital growth and actuarial assumptions.

FM Managed Funds

Net management fees	Management fees for managing investments and equity accounted share of NPAT from Boutique managers
Performance / Transaction fees	Fees earned for out performing bench marks
Fees & commissions paid	External managers fees, upfront and trailing commissions paid
Net Income	Fees received plus Performance / Transactions fees less Fees & commissions paid

FM Specialist Funds

Net management fees	Management fees for managing investments
Performance / Transaction fees	Fees earned for out performing bench marks and fees earned for the origination / disposal / structuring assets
Net Income	Net management fees plus Performance / Transactions fees

Expenses

Personnel expenses	Includes fixed and variable incentive components of remuneration structures. The amortisation of LTIP and executive option schemes are only reported within the Corporate section.
Other expenses	Non employee expenses, including licence costs, rents, legal costs and infrastructure costs.
Total expenses	Personnel expenses plus other expenses
Interest and borrowing costs	Interest and borrowing costs associated with group debt

Significant items

Non recurring or abnormal income or expense items

Terms from Quarterly Release

Life Investment Assets	Total value of revenue generating assets that are managed by the Life business.
Funds Under Management	Total value of revenue generating listed & unlisted funds/mandates that are managed by the Funds Management business.

Other

Opening Net Assets	Opening net assets of each division at prior period full year balance date (excluding minority interest).
Normalised Return on Net Assets (RONA)	Divisional Normalised EBIT divided by opening Net Assets expressed as a percentage.
Gearing	Group debt / (Group debt plus Equity) (%)
Net Gearing	Net debt / (Net debt plus Equity) (%)
Normalised Cost/Income ratio	Operating expenses / Net income
Group debt	Interest bearing liabilities as reported in the balance sheet
Available cash	Cash available to Group
Net Debt	Group debt less available cash
Equity	Closing net assets excluding minority interest.