Challenger Limited

and its controlled entities

2013 Appendix 4D and Results Announcement

challenger

Challenger Limited ACN 106 842 371

Appendix 4D

Half year report under ASX listing rule 4.2A.3
for the six months ended 31 December 2012

Results for Announcement to the Market	**2012 $M**	2011 $M	**Change %**
Revenue from ordinary activities	810.9	666.2	21.7
Profit from ordinary activities after tax attributable to members	222.0	20.0	1,010.0
Net profit for the period attributable to members	222.0	20.0	1,010.0

Normalised profit after tax, management's preferred measure of profit, for the six months ended 31 December 2012 increased by 17.4% to $148.7 million (31 December 2011 - $126.7 million). Refer to Note 2 *Segment Information* in the half year financial report for a definition of normalised profit after tax and a reconciliation to the statutory profit for the period.

Dividends per security	**2012 Cents**	2011 Cents	**Change %**
Interim – unfranked (2011: unfranked)	**9.5**	7.5	26.7

Record date for determining entitlements to the interim dividend	13 March 2013
Payment date of the interim dividend	28 March 2013

Refer to Appendix 1 – ASX Appendix 4D (rule 4.2A.3) on page 38 for further disclosures required under ASX Listing Rule 4.2A.3.

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

Except where stated otherwise, all figures relate to the six months ended 31 December 2012, and the previous corresponding period to the six months ended 31 December 2011.

Results announcement for the six months ended 31 December 2012

Contents

Directors' report

The Directors of Challenger Limited (the Company) submit their report, together with the financial report of the Company and its controlled entities (the Group), for the six months ended 31 December 2012.

1. Directors

The names and details of the Directors of the Company holding office during the six months to 31 December 2012 and up to the date of this report are listed below. Directors were in office for this entire period unless otherwise stated.

Name	Position
Peter L Polson	Independent Chairman
Brian R Benari	Chief Executive Officer and Managing Director
Graham A Cubbin	Non-Executive Director, Independent
Steven Gregg	Non-Executive Director, Independent (appointed 8 October 2012)
Jonathan H Grunzweig	Non-Executive Director, Independent
Russell R Hooper	Non-Executive Director, Independent
Brenda M Shanahan	Non-Executive Director, Independent
JoAnne M Stephenson	Non-Executive Director, Independent (appointed 8 October 2012)
Leon Zwier	Non-Executive Director, Independent

2. Operating and financial review

Increasing retail sales of annuities and growing funds under management in the first half of financial year 2013 have continued to build on the solid retirement income platform that Challenger has developed over the past few years.

Key performance indicators for the six months to 31 December 2012 include:

- Statutory profit for the period attributable to equity holders of $222.0 million, up $202.0 million compared to the prior corresponding period
- Normalised net profit after tax increased 17.4% to $148.7 million compared to the prior corresponding period
- Normalised earnings per share increased 2.7 cents (10.7%) to 28.0 cents per share compared to the prior corresponding period
- The normalised cost to income ratio reduced by 2.3 percentage points to 35.0%. Net income increased 7.3% to $273.5 million and expenses remained broadly steady increasing 0.6% to $95.7 million compared to the prior corresponding period
- Interim dividend of 9.5 cents per share
- Total Life sales of $2.0 billion and Life retail net book growth of $212.8 million
- Total Funds Management net flows of $2.2 billion
- Total Assets Under Management (AUM) of $38.3 billion

The Group's statutory profit attributable to equity holders of $222.0 million for the six months ended 31 December 2012 represents a $202.0 million increase on the $20.0 million reported for the six months to 31 December 2011. The increase in statutory profit reflects a significant improvement in investment experience due to improved global sentiment leading to a contraction in credit spreads.

The Group continues to grow the pool of assets it manages, reaching $38.3 billion up 29.5% from December 2011, driven by both the Life and Funds Management Divisions. Life AUM has increased as a result of strong annuity inflows, cash earnings and positive fixed income revaluations. Funds Management Funds under Management (FUM) has been driven by an increase in Fidante Partners FUM with positive net flows and positive market movement offsetting the return of capital from the Challenger Infrastructure Fund.

Normalised profit and investment experience

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

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

A reconciliation between statutory 'revenue' and the management normalised view of revenue, 'net income', is included in the half year financial report as part of the *Segment Information* note on page 19. This note also includes a reconciliation of statutory profit before tax and normalised net profit before tax. To provide comfort that the reported normalised results are determined in accordance with the methodology described in Note 2 to the half year financial report, the application of the normalised profit framework has been reviewed by the Group's independent auditor.

The normalised net profit after tax of $148.7 million for the six months ended 31 December 2012 represents a $22.0 million, or a 17.4%, increase on the $126.7 million for the six months to 31 December 2011. The $22.0 million increase in normalised profit after tax was supported by an increase in net income of $18.5 million (7.3%) primarily due to the Life business unit's increasing average investment assets from $8.6 billion to $9.9 billion with net retail annuity inflows and market movement. The funds under management (FUM) at 31 December 2012 for the Funds Management business is also significantly higher compared to 31 December 2011, rising from $27.7 billion to $35.3 billion driven by positive net flows and market movement.

The management view of operating expenses of $95.7 million for the period was only $0.6 million higher than in the prior corresponding period despite net income growth of 7.3%, with spend on distribution, product development and marketing relatively consistent in both periods. The resulting cost to income ratio of 35.0% is 2.3 percentage points lower than the prior corresponding period.

The investment experience after tax gain of $73.3 million for the period compares to a loss of $106.7 million for the six months ended 31 December 2011. The positive investment experience represents a substantial credit spread contraction on fixed income assets driven largely by global credit markets stabilising. The following tables provide an overview of the Group's normalised results and components of investment experience:

***Management analysis*[1]**	**31 Dec 2012 $M**	**31 Dec 2011 $M**	**Change %**
Normalised cash operating earnings	225.1	210.8	6.8
Net fee income	45.2	39.7	13.9
Other income	3.2	4.5	(28.9)
Net income	273.5	255.0	7.3
Operating expenses	(95.7)	(95.1)	0.6
Normalised EBIT	**177.8**	**159.9**	11.2
Interest and borrowing costs	(2.7)	(1.0)	170.0
Normalised net profit before tax	**175.1**	**158.9**	10.2
Tax on normalised net profit[2]	(26.4)	(32.2)	(18.0)
Normalised net profit after tax	**148.7**	**126.7**	17.4
Investment experience after tax	73.3	(106.7)	Large
Statutory profit attributable to equity holders	**222.0**	**20.0**	**Large**

1. 'Net income' and 'operating expenses' are internal classifications and are defined in Note 2 *Segment Information* in the half year financial report. These differ from the statutory 'revenue' and 'expenses' classifications as certain direct costs (including commissions and management fees) are netted off against gross revenues and Special Purpose Vehicle revenues, expenses and finance costs are netted and included in aggregate for net income, or management view of revenue. These classifications have been made in the Directors' Report and the segment information note as they reflect metrics used by management to measure the business performance of the Group. Whilst the allocation of amounts to the above items and investment experience differs to the statutory view, both approaches result in the same net after tax profit due to shareholders of the Company.
2. In February 2012 a private binding ruling was received from the ATO confirming the application of the Taxation of Financial Arrangements (TOFA) on certain historical transaction elections. This results in a net reduction of tax expense of circa $30 million for each of the three financial years 2012 to 2014. In financial year 2012 the effect of this was all booked in the second half.

Components of investment experience

	31 Dec 2012 $M	31 Dec 2011 $M
Actual capital growth[1]		
Cash, fixed interest and debt	145.4	(102.5)
Infrastructure	6.5	11.7
Property	(5.8)	-
Equity and other investments	(0.2)	(15.7)
Total Actual Capital Growth	145.9	(106.5)
Less Normalised capital growth[2]		
Cash, fixed interest and debt	(13.5)	(11.0)
Infrastructure	11.3	10.5
Property	15.2	15.5
Equity and other investments	5.6	7.1
Total Normalised Capital Growth	18.6	22.1
Investment experience		
Cash, fixed interest and debt	158.9	(91.5)
Infrastructure	(4.8)	1.2
Property	(21.0)	(15.5)
Equity and other investments	(5.8)	(22.8)
	127.3	(128.6)
Actuarial assumption changes[3]	(27.0)	(16.1)
Investment experience before tax	100.3	(144.7)
Tax (expense)/benefit	(27.0)	38.0
Investment experience after tax	**73.3**	**(106.7)**

Notes

1. Actual capital growth represents net realised and unrealised capital gains or losses and includes the attribution of interest rate and foreign exchange derivatives that are used to hedge volatility.
2. Normalised capital growth is determined by multiplying the normalised capital growth rate for each asset class by the average investment assets (net of debt) for the period. The normalised growth rates represent the Group's long term capital growth expectations for each asset class over the investment cycle. The normalised growth rate for each asset class is 6.0% for Equity and other investments, 4.0% for Infrastructure, 2.0% for Property and (0.35%) for Cash, fixed interest and debt. The rates have been set with reference to market growth rates and are reviewed to ensure consistency with prevailing market conditions.

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

Earnings per share

As shown in the table below, on a normalised basis, basic earnings per share (EPS) increased by 10.7% to 28.0 cents and diluted EPS increased by 15.4% to 27.8 cents. Statutory basic and diluted EPS, of 41.8 cents and 41.5 cents respectively, increased significantly compared to the prior corresponding period.

For the period ended	31 Dec 2012 Cents	31 Dec 2011 Cents	Change %
Basic – normalised	28.0	25.3	10.7
Diluted – normalised	27.8	24.1	15.4
Basic – statutory	41.8	4.0	Large
Diluted – statutory	41.5	3.8	Large

Key events during the period

Life

The Life division recorded total sales of $1,976.5 million for the period. Retail annuity sales were $1,055.3 million for the six months, representing a 7.3% increase compared to total sales of $983.3 million for the six months to 31 December 2011. In addition, there were institutional sales of $921.2 million mainly representing reinvested maturities compared to $288.4 million in the prior corresponding period. The increase in average investment assets of the Life division, from $9,320.6 million at 30 June 2012 to $9,932.4 million at 31 December 2012, was driven by positive net annuity flows, cash operating earnings and positive investment experience net of dividends paid. The Group has continued to invest in product development, marketing and increased distribution capability during the period to support ongoing sales growth.

Funds Management

The Funds Management division experienced positive funds flow during the period of $2.2 billion. Fidante Partners FUM was $24.0 billion at 31 December 2012, up from $19.3 billion at 30 June 2012. Aligned and Other FUM was $11.4 billion at 31 December 2012 compared to $11.8 billion at 30 June 2012. New Aligned Investments institutional mandates in fixed income and property were offset by the wind up of the Challenger Infrastructure Fund and lower Howard Mortgage Fund FUM. Total FUM of $35.3 billion at 31 December 2012 is up from $31.0 billion at 30 June 2012, representing growth of $4.3 billion (13.9%) over the six month period.

Life and General Insurance Capital standards (LAGIC)

Challenger Life Company Limited (CLC) holds capital in order to ensure that under a range of adverse scenarios, CLC 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.

Final LAGIC standards were issued by APRA in October 2012, with the new standards effective from 1 January 2013. The LAGIC standards have increased CLC's regulatory capital requirement by $322.8 million from 1 January 2013, however APRA have confirmed that transition arrangements will apply as outlined below. CLC expects to be able to fully meet the LAGIC requirements within the three year transition period.

CLC's 31 December 2012 excess regulatory capital, as calculated under LAGIC, was $918.7 million and includes an allowance of $322.8 million in respect of the initial LAGIC transition balance.

LAGIC transition arrangements

Prescribed capital amount

The introduction of the new LAGIC standards has increased CLC's regulatory capital requirement by $322.8m. However, APRA has confirmed that transition arrangements will apply which results in the increase in prescribed capital occurring over three years.

The initial LAGIC transition balance ($322.8 million) will amortise such that the increase in prescribed capital will be phased in by $107.6 million each year with the first increase being on 1 January 2014. The entire transition balance will be amortised by 1 January 2016.

Subordinated debt

CLC's total regulatory capital base includes $477.3 million of subordinated debt. APRA has advised that existing subordinated debt tranches will continue to be fully eligible as Tier 2 regulatory capital until each tranche's first call date after 1 January 2013, and will then amortise over four years.

As a result, the largest tranche of CLC's existing subordinated debt will 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.

Tier 1 and Tier 2 regulatory capital

Under APRA's transition arrangements, CLC's statutory funds have three years to transition to the minimum requirement of Tier 1 capital representing 80% of the prescribed capital amount. At a CLC consolidated level, APRA has provided an eighteen month transition period to meet the minimum 80% Tier 1 requirement. CLC is currently meeting these requirements at both the statutory fund and consolidated level.

APRA's proposal for supervision of conglomerate groups (Level 3)
APRA is currently developing a supervision framework for conglomerates groups. Conglomerates 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.

APRA's proposed implementation date for conglomerate framework is 1 January 2014. However, draft conglomerate capital standards have not yet been issued by APRA and there is currently insufficient information available to determine if the conglomerate proposals will have any material impact on Challenger's required regulatory capital position.

3. Likely developments and expected results

The investment management market in which Challenger operates continues to experience significant structural change and development. The retirement income segment, which represents the demographic of 65 years and over is growing significantly faster than pre-retirement. In the pre-retirement sector, the government has enacted legislation to lift superannuation contributions from 9% to 12% over the next 7 years via the Superannuation Guarantee Charge, commencing from 1 July 2013.

When these structural changes are combined with an increased focus on risk and stability of returns, both at a consumer level and by regulators and government, we see material growth opportunities for our business. Challenger is well placed to participate in the growing Australian retirement income market and the rapidly growing boutique funds management sector. As noted in previous reports we continue to direct our focus towards lifting product sales via expanded distribution and the introduction of new guaranteed income products. Subject to stability in global markets, we are confident that we can increase value for shareholders over the coming years.

4. Dividends

On 17 August 2012, the Directors of the Company declared a final dividend on ordinary shares in respect of the year ended 30 June 2012 of 10.5 cents per share. The final dividend of $55.7 million unfranked, was paid on 28 September 2012.

The Challenger Board reviews the dividend policy on a regular basis as part of the Group's capital management plan. Challenger will continue to target a dividend payout ratio in the range of 30% to 35% of normalised net profit after tax.

Historically Challenger has had different payout ratios for the interim and final dividends. The interim dividend payout ratio has been less than 30% and the final dividend payout ratio has been more than 30%, with a total dividend for the year within the target payout range.

In order to provide a more even distribution of dividends across the year, beginning with the 2013 interim dividend the payout ratio for both the interim and final dividends will be aligned to the targeted 30% to 35% of normalised profit after tax.

On 27 February 2013, the Directors of the Company declared an interim unfranked dividend of 9.5 cents per share in respect of the half year ended 31 December 2012 (31 December 2011: 7.5 cents per share, unfranked). The interim dividend of approximately $50.0 million, unfranked, has not been provided for in the 31 December 2012 half year financial report and will be paid on 28 March 2013.

5. Significant events after the balance date

As announced to the market on 26 November 2012, Challenger intends to commit $50.0 million to the buy-back program by 30 June 2013. As at 31 December 2012, Challenger had completed $20.4 million of the $50 million commitment. Challenger had purchased a further $15.1 million as at 27 February 2013.

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

6. Rounding

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

7. Auditor's independence declaration

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

ERNST & YOUNG

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Auditor's Independence Declaration to the Directors of Challenger Limited

In relation to our review of the half year financial report of Challenger Limited for the six months ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

David Jewell

D N Jewell
Partner
27 February 2013

Liability limited by a scheme approved under Professional Standards Legislation.

8. Authorisation

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

G A Cubbin
Director
Sydney
27 February 2013

B R Benari
Director
Sydney
27 February 2013

Half year financial report

Contents

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

Income statement

For the six months ended 31 December

	Note	2012 $M	2011 $M
Revenue	3	810.9	666.2
Expenses	4	(356.9)	(360.1)
Finance costs	5	(168.2)	(288.1)
Share of profits of associates		5.0	3.7
Profit before income tax		**290.8**	**21.7**
Income tax (expense)/benefit	6	(51.3)	7.4
Profit for the period		**239.5**	**29.1**
Profit attributable to non-controlling interests		17.5	9.1
Profit attributable to equity holders		**222.0**	**20.0**
Earnings per share:			
Basic earnings per share	8	41.8	4.0
Diluted earnings per share	8	41.5	3.8

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

Statement of comprehensive income

For the six months ended 31 December

	Note	2012 $M	2011 $M
Profit for the period		**239.5**	**29.1**
Other comprehensive income net of tax from			
- translation of foreign entities	17	(16.3)	22.3
- hedge of net investment in foreign entities	17	17.5	(16.0)
- cash flow hedges	17	3.7	0.8
- available-for-sale assets	17	-	0.3
Other comprehensive income net of tax for the period		4.9	7.4
Total comprehensive income for the period		**244.4**	**36.5**
Comprehensive income attributable to non-controlling interests		17.5	9.1
Comprehensive income attributable to equity holders		**226.9**	**27.4**

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

Statement of financial position

	Note	31 Dec 2012 $M	30 June 2012 $M	31 Dec 2011 $M
Assets				
Cash and cash equivalents		648.1	795.5	891.0
Cash and cash equivalents - SPV[1]	13	330.3	364.1	401.6
Receivables		114.9	114.5	176.0
Mortgage assets – SPV	13	4,617.9	5,347.7	6,074.7
Derivative assets		438.9	502.6	428.5
Financial assets – fair value through profit and loss	9	8,279.9	7,334.6	6,188.0
Financial assets – available-for-sale	9	-	-	6.0
Investment property held for sale	10	-	141.2	48.1
Investment and development property	10	2,372.9	2,427.0	2,591.5
Plant and equipment		130.0	124.3	106.1
Investments in associates		49.8	51.2	40.9
Other assets		52.7	56.5	55.0
Goodwill	11	506.0	505.7	505.6
Other intangible assets		13.6	13.7	13.5
Total assets		**17,555.0**	**17,778.6**	**17,526.5**
Liabilities				
Payables		323.4	303.4	297.8
Derivative liabilities		137.8	148.5	109.7
Interest bearing financial liabilities	12	1,784.5	1,567.5	1,607.4
Interest bearing financial liabilities - SPV	13	4,439.2	5,248.2	6,014.7
External unit holders' liabilities	14	1,777.0	1,851.2	1,446.8
Provisions		30.2	27.4	33.3
Current tax liability		0.2	2.3	2.8
Deferred tax liabilities		102.9	32.6	32.7
Life contract liabilities	15	6,819.6	6,553.0	6,065.0
Total liabilities		**15,414.8**	**15,734.1**	**15,610.2**
Net assets		**2,140.2**	**2,044.5**	**1,916.3**
Equity				
Contributed equity	16	1,313.5	1,313.1	1,339.3
Reserves	17	33.0	109.0	96.8
Retained earnings	18	480.8	270.1	181.6
Total equity attributable to equity holders		**1,827.3**	**1,692.2**	**1,617.7**
Non-controlling interests		312.9	352.3	298.6
Total equity		**2,140.2**	**2,044.5**	**1,916.3**

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

1. SPV = Special Purpose Vehicles

Statement of changes in equity

Equity	Note	Attributable to equity holders				Non-controlling interests $M	Total $M
		Contributed equity $M	Reserves $M	Retained earnings $M	Total $M		
At 1 July 2012		1,313.1	109.0	270.1	1,692.2	352.3	2,044.5
Profit for the period		-	-	222.0	222.0	17.5	239.5
Other comprehensive income		-	4.9	-	4.9	-	4.9
Total comprehensive income		**-**	**4.9**	**222.0**	**226.9**	**17.5**	**244.4**
Other equity movements							
Shares purchased and cancelled under share buy-back	16	(20.4)	-	-	(20.4)	-	(20.4)
Vested shares released from the CPP Trust	16	32.3	-	-	32.3	-	32.3
Share based payment expense less releases	17	-	(14.9)	-	(14.9)	-	(14.9)
Change in holding in adjusted controlling interest reserve	17	-	(2.7)	-	(2.7)	-	(2.7)
Dividends paid	18	-	-	(55.7)	(55.7)	-	(55.7)
CPP deferred share purchases	16	(11.5)	-	-	(11.5)	-	(11.5)
Transfer from equity option reserve on expiry of share options, net of tax	17/18	-	(63.3)	44.4	(18.9)	-	(18.9)
Consolidation of new controlled entities		-	-	-	-	(4.9)	(4.9)
Other non-controlling interests movements		-	-	-	-	(52.0)	(52.0)
At 31 December 2012		**1,313.5**	**33.0**	**480.8**	**1,827.3**	**312.9**	**2,140.2**
At 1 July 2011		1,101.1	179.8	207.4	1,488.3	311.1	1,799.4
Profit for the period		-	-	20.0	20.0	9.1	29.1
Other comprehensive income		-	7.4	-	7.4	-	7.4
Total comprehensive income		**-**	**7.4**	**20.0**	**27.4**	**9.1**	**36.5**
Other equity movements							
Transfer from equity option reserve on exercise of share options	16	60.4	(60.4)	-	-	-	-
Additional proceeds on the exercise of share options		187.0	-	-	187.0	-	187.0
Shares purchased and cancelled under share buy-back	16	(24.7)	-	-	(24.7)	-	(24.7)
Treasury shares purchased and held in trust, net of forfeitures	16	(61.7)	-	-	(61.7)	-	(61.7)
Vested shares released from the CPP Trust	16	75.3	-	-	75.3	-	75.3
Vested shares released from the Long Term Incentive Plan	17	1.9	-	-	1.9	-	1.9
Share based payment expense less releases	17	-	(32.1)	-	(32.1)	-	(32.1)
Change in holding adjusted controlling interests reserve	17	-	2.1	-	2.1	-	2.1
Dividends paid	18	-	-	(45.8)	(45.8)	-	(45.8)
Other non-controlling interests movements		-	-	-	-	(21.6)	(21.6)
At 31 December 2011		**1,339.3**	**96.8**	**181.6**	**1,617.7**	**298.6**	**1,916.3**

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

Statement of cash flows

For the six months ended 31 December

	Notes	2012 $M	2011 $M
Operating activities			
Receipts from customers		388.1	457.3
Annuity receipts	15	1,055.3	983.4
Annuity payments	15	(999.4)	(868.8)
Payments to reinsurer	15	(3.9)	(2.3)
Interest paid – external unit holders		(77.5)	(48.6)
Receipts from external unit holders		921.2	288.3
Payments to external unit holders		(953.7)	(239.7)
Payments to vendors and employees		(327.1)	(389.8)
Dividends received		21.7	19.0
Interest received		270.3	236.0
Interest paid		(32.4)	(33.4)
Income tax paid		(1.6)	(0.8)
Net cash inflow from operating activities	19	**261.0**	**400.6**
Investing activities			
Net payments on net purchase of investments		(317.8)	(403.6)
Mortgage loans – advanced		-	(1.2)
Mortgage loans – repaid		744.7	838.3
Payments for purchase of plant and equipment		(14.8)	(16.4)
Net cash inflow from investing activities		**412.1**	**417.1**
Financing activities			
Proceeds from issue of interest bearing liabilities		28.3	112.9
Repayment of interest bearing liabilities		(808.3)	(879.1)
(Payments)/receipts from shares issued/bought back and options proceeds		(8.9)	132.0
Payments to non-controlling interests for redemption of units		(1.3)	(11.3)
Dividends paid		(55.7)	(45.6)
Distributions paid to non-controlling interests		(8.4)	(9.0)
Net cash outflow from financing activities		**(854.3)**	**(700.1)**
Net (decrease)/increase in cash and cash equivalents		(181.2)	117.6
Cash and cash equivalents at the start of period		1,159.6	1,175.0
Cash and cash equivalents at the end of period		**978.4**	**1,292.6**
Cash		648.1	891.0
Cash – SPV		330.3	401.6
Cash and cash equivalents at the end of period		**978.4**	**1,292.6**

The statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. Basis of preparation and accounting policies

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

This half year financial report of Challenger Limited and its controlled entities (the Group) for the six months ended 31 December 2012 was authorised for issue in accordance with a resolution of the Directors of the Company on 27 February 2013.

(i) Basis of preparation

This general purpose half year financial report for the six months ended 31 December 2012 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*, and the *Corporations Act 2001*.

The half year financial report does not include all the notes normally included in an annual financial report. It is recommended that this half year financial report be read in conjunction with the financial report for the year ended 30 June 2012 and any public announcements made by the Group in accordance with the continuous disclosure obligations of the ASX listing rules.

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

Changes in accounting policy or disclosure

The accounting policies and methods of computation applied in this half year financial report are the same as those adopted in the most recent annual financial report with the exception of an amendment to the employee acquisition plan. Where applicable, comparative figures have been updated to reflect the disclosure format applied in the most recent annual financial report and to reflect any changes applied in the current period.

Employee Share Acquisition Plan

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

Through contributions to the trust, the Group purchases shares in the Company on market. Shares acquired are held by the Challenger Performance Plan Trust, are disclosed as Treasury Shares and deducted from contributed equity.

In addition to shares held by the Trust the Group has entered into forward purchase agreements (CPP deferred share purchases) to hedge unvested performance share rights. The CPP deferred share purchase agreements have exercise dates that match to the vesting dates of the performance rights issued by the CPP and they require the delivery of Challenger Limited shares to the Group, by a third party, for the contracted price. The shares to be purchased under these agreements are treated as treasury shares from the date of the agreement.

In such deferred contracts, changes in the fair value arising from variations in market rates do not affect the amount of cash to be paid or the number of Challenger shares to be received, and are classified as equity instruments. Changes in the fair value of an equity instrument are not recognised in the financial statements. The liability to the third party is recorded on the balance sheet at present value and the discount is unwound through the income statement over the duration of the contract.

(ii) New accounting standards and interpretations

Accounting standards and interpretations issued but not yet effective

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

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

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

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

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

2. Segment Information

Business segments

The reporting segments of the Group are as follows:

	Life		Funds Management		Total reporting segments		Corporate and other[2]		Total	
For the six months ended 31 December	**31 Dec 2012 $M**	**31 Dec 2011 $M**	**31 Dec 2012 $M**	**31 Dec 2011 $M**	**31 Dec 2012 $M**	**31 Dec 2011 $M**	**31 Dec 2012 $M**	**31 Dec 2011 $M**	**31 Dec 2012 $M**	**31 Dec 2011 $M**
Net income[1]	225.1	210.8	45.2	39.7	270.3	250.5	3.2	4.5	273.5	255.0
Operating expenses[1]	(35.0)	(34.2)	(32.3)	(30.2)	(67.3)	(64.4)	(28.4)	(30.7)	(95.7)	(95.1)
Normalised EBIT[1]	190.1	176.6	12.9	9.5	203.0	186.1	(25.2)	(26.2)	177.8	159.9
Interest and borrowing costs[1]	-	-	-	-	-	-	(2.7)	(1.0)	(2.7)	(1.0)
Normalised net profit/(loss) before tax/segment profit	**190.1**	**176.6**	**12.9**	**9.5**	**203.0**	**186.1**	**(27.9)**	**(27.2)**	**175.1**	**158.9**
Tax on normalised profit									(26.4)	(32.2)
Normalised net profit after tax									148.7	126.7
Investment experience after tax[1]									73.3	(106.7)
Profit attributable to equity holders									**222.0**	**20.0**
As at 31 December										
Segment assets	11,017.6	9,607.1	143.2	152.7	11,160.8	9,759.8	6,394.2	7,766.7	17,555.0	17,526.5
Segment liabilities	(9,252.7)	(8,128.4)	(16.6)	(14.8)	(9,269.3)	(8,143.2)	(6,145.5)	(7,467.0)	(15,414.8)	(15,610.2)
Net assets	**1,764.9**	**1,478.7**	**126.6**	**137.9**	**1,891.5**	**1,616.6**	**248.7**	**299.7**	**2,140.2**	**1,916.3**

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

2. Segment Information (continued)

Definitions

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

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

Normalised EBIT

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

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

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

Investment experience after tax

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

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

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

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

Operating segments

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

Life – includes annuity and life insurance business carried out by Challenger Life Company Limited (CLC). CLC invests in assets providing long-term income streams for customers.

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

2. Segment Information (continued)

Corporate and other

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

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

Major customers

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

Products and services

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

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

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

Geographical areas

The Group operates predominantly in Australia and so no geographical split is provided to the Chief Executive Officer.

Reconciliation of management view of revenue to statutory revenue	**31 Dec 2012 $M**	**31 Dec 2011 $M**
Reporting segments	270.3	250.5
Corporate and other	3.2	4.5
Net income – management view of revenue	**273.5**	**255.0**
Expenses and finance costs offset against management revenue		
SPV expenses and finance costs offset against SPV income	101.3	181.2
Commission expenses offset against commission income	26.4	28.3
Amortisation of deferred portfolio and origination costs offset against mortgage income	1.1	1.5
Change in life contract liabilities recognised in expenses offset against revenue	157.7	166.0
Property expenses offset against property income	33.1	31.5
Interest and loan amortisation costs	68.2	107.5
Management fees	28.0	25.1
Adjustment for non-controlling interests and other items	21.3	14.8
Difference between management view of investment experience and statutory recognition		
Total actual capital growth	145.9	(106.5)
Normalised capital growth	(18.6)	(22.1)
Actuarial assumption changes	(27.0)	(16.1)
Statutory view – revenue	**810.9**	**666.2**
Reconciliation of management to statutory view of pre-tax profit		
Reportable segment normalised net profit before tax	203.0	186.1
Corporate and other normalised net loss before tax	(27.9)	(27.2)
Normalised net profit before tax – management view of pre-tax profit	**175.1**	**158.9**
Investment experience before tax	100.3	(144.7)
Profit attributable to non-controlling interests excluded from management view	17.5	9.1
Other	(2.1)	(1.6)
Statutory view – profit before tax	**290.8**	**21.7**

3. Revenue

	31 Dec 2012 $M	31 Dec 2011 $M
Fee revenue		
Management fee revenue	51.0	43.2
Fee revenue – SPV	1.5	3.4
Other fee revenue	7.9	-
Investment revenue		
Equity and infrastructure investments		
Dividend revenue	8.3	13.7
Net realised gain/(loss) on equity investments	0.2	(1.2)
Net unrealised loss on equity investments	(0.4)	(25.7)
Net realised gain on infrastructure investments	1.4	-
Net unrealised gain on infrastructure investments	3.3	38.2
Debt securities and cash		
Interest revenue	264.9	258.5
Net realised gain on debt securities	76.1	18.2
Net unrealised gain on debt securities	131.5	28.5
Investment property and property securities		
Dividend revenue	2.5	2.4
Property rental revenue	117.8	121.0
Net realised loss on investment property and property securities	(0.9)	-
Net unrealised gain on investment property and property securities	2.9	9.5
Other		
Interest revenue – SPV	183.0	270.7
Impairment loss on available-for-sale financial assets	-	(3.2)
Net realised gain/(loss) on foreign exchange translation and hedges	11.9	(27.9)
Net unrealised gain on foreign exchange translation and hedges	15.0	36.2
Net realised loss on interest rate derivatives	(16.2)	(4.8)
Net unrealised gain on interest rate derivatives	6.1	43.2
Other revenue		
Change in life contract liabilities[1]	(52.3)	(163.0)
Change in reinsurance contract liabilities	(4.6)	5.3
	810.9	**666.2**

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

4. Expenses

	31 Dec 2012 $M	31 Dec 2011 $M
Cost of life contract liabilities[1]	157.7	166.0
Property related expenses	33.1	31.5
Management fees	28.0	25.1
Commission expenses	26.4	28.3
Amortisation of deferred portfolio and origination costs	1.1	1.5
Fee expenses – SPV	1.3	1.9
Intangibles amortisation expense	1.0	0.6
Employee expenses	53.4	51.1
Employee share based payments	8.9	10.6
Superannuation	2.5	2.3
Occupancy expense – operating lease	3.5	5.9
Depreciation expense	4.8	3.0
Communications	8.2	8.2
IT maintenance	2.4	2.3
Professional fees	7.0	4.1
Other expenses	17.6	17.7
Total	**356.9**	**360.1**

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

5. Finance costs

	31 Dec 2012 $M	31 Dec 2011 $M
Interest and loan amortisation expenses incurred by:		
- SPV	100.0	179.3
- Property trusts	11.7	14.1
- Other entities	55.2	93.4
Other finance costs	1.3	1.3
	168.2	**288.1**

6. Income tax

Analysis of income tax (expense)/benefit	31 Dec 2012 $M	31 Dec 2011 $M
Current income tax (expense)/benefit for the period	(73.2)	33.0
Current income tax benefit/(expense) prior period adjustment	0.2	(1.0)
Deferred income tax benefit/(expense)	21.7	(24.6)
Income tax (expense)/benefit	**(51.3)**	**7.4**
Income tax benefit/(expense) on translation of foreign entities	7.0	(9.6)
Income tax (expense)/benefit on hedge of net investment in foreign entity	(7.5)	6.9
Income tax expense on changes in available-for-sale asset revaluations reserve	-	(0.1)
Income tax expense on other comprehensive income	**(0.5)**	**(2.8)**
Reconciliation of income tax (expense)/benefit:		
Profit before income tax	**290.8**	**21.7**
Prima facie income tax based on the Australian company tax rate of 30%	(87.2)	(6.5)
Tax effect of amounts not deductible/assessable in calculating taxable income:		
Non-assessable and non-deductible items[1]	32.6	14.2
Rate differential on offshore income	(1.5)	(0.4)
Other items	4.8	0.1
Income tax (expense)/benefit	**(51.3)**	**7.4**

1. The 31 December 2012 amount includes a reduction in the tax expense of $15.0 million in respect of the application of the Taxation of Financial Arrangements laws for which an ATO private binding ruling was received in February 2012.

Unused capital losses – The Group has $38.0 million (30 June 2012: $99.7 million) of gross unused capital losses for which no deferred tax asset has been recognised.

Unused revenue loss - All revenue losses of the Challenger tax consolidated group have been recognised as a deferred tax asset. A deferred tax asset in relation to $20.8 million of revenue losses (net) has not been recognised in respect of a non- tax consolidated group entity as it is unlikely sufficient assessable gains will be derived by this entity to utilise these losses.

7. Dividends paid and proposed

Dividends declared and paid during the period	31 Dec 2012 $M	31 Dec 2011 $M
Final 30 June 2012 unfranked dividend: 10.5 cents (2011: 9.5 cents unfranked)	55.7	45.8
Dividend proposed (not recognised as a liability at 31 December)		
Interim 30 June 2013 unfranked dividend: 9.5 cents (2012: 7.5 cents unfranked)	50.0	40.2

8. Earnings per share

	31 Dec 2012 Cents	31 Dec 2011 Cents
Basic earnings per share	41.8	4.0
Diluted earnings per share	41.5	3.8
Profit used in the calculation of earnings per share	**$M**	**$M**
Profit attributable to equity holders	**222.0**	**20.0**
Number of shares	**Number**	**Number**
Weighted average ordinary shares for basic earnings per share	531,378,400	500,525,567
Effect of dilution	3,594,934	26,243,309
Weighted average ordinary shares for diluted earnings per share	**534,973,334**	**526,768,876**

In determining the weighted average number of ordinary shares used in the calculation of earnings per share, a reduction is made for the average number of treasury shares held. The weighted average number of treasury shares for the period was 12,644,196 (31 December 2011: 18,655,128).

As announced to the market on 26 November 2012, Challenger intends to commit $50.0 million to the buy-back program by 30 June 2013. As at 31 December 2012, Challenger had completed $20.4 million of the $50 million commitment. Challenger had purchased a further $15.1 million as at 27 February 2013.

9. Financial assets

Financial assets at fair value through profit and loss[1]	31 Dec 2012 $M	30 June 2012 $M	31 Dec 2011 $M
Debt securities			
Domestic sovereign bonds	-	69.0	148.2
Floating Rate Notes and Corporate bonds	4,946.1	4,237.0	3,516.9
Residential mortgage and asset backed securities	2,081.0	1,705.5	1,186.1
Non-SPV mortgage assets	172.5	190.9	224.1
	7,199.6	**6,202.4**	**5,075.3**
Equity securities			
Shares in listed and unlisted corporations	176.2	129.6	102.1
Unit trusts and managed funds	51.8	98.6	111.4
Shares in listed corporations held in relation to endowment warrants[2]	4.2	4.2	35.1
	232.2	**232.4**	**248.6**
Infrastructure investments			
Units in listed and unlisted infrastructure trusts	240.3	446.3	422.0
Other infrastructure investments	289.0	281.3	272.7
	529.3	**727.6**	**694.7**
Property securities			
Indirect property investments in listed and unlisted trusts	318.8	172.2	169.4
Total financial assets at fair value through profit and loss	**8,279.9**	**7,334.6**	**6,188.0**
Available for sale equity securities	-	-	6.0
Total other financial assets	**8,279.9**	**7,334.6**	**6,194.0**

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

10. Investment and development property

	31 Dec 2012 $M	30 June 2012 $M	31 Dec 2011 $M
Investment property held for sale[1]	-	141.2	48.1
Investment property in use	2,277.7	2,327.4	2,473.3
Investment property under development[2]	18.3	17.8	34.6
Total investment property	**2,296.0**	**2,486.4**	**2,556.0**
Development property[3]	76.9	81.8	83.6
Total investment and development property	**2,372.9**	**2,568.2**	**2,639.6**
Held for sale	-	141.2	48.1
In use/under development	2,372.9	2,427.0	2,591.5

1. No investment properties are held for sale as at 31 December 2012. June 2012 balance relates to the sale of Rendezvous Hotel, Melbourne which settled in September 2012 and 417 St Kilda Rd, Melbourne which settled in December 2012.
2. Investment properties under development are shown at fair value.
3. Development property is held at the lower of cost or net realisable value, being fair value on completion less costs to complete and estimated selling costs.

11. Goodwill

	31 Dec 2012 $M	30 June 2012 $M	31 Dec 2011 $M
Opening balance	**505.7**	505.4	**505.4**
Foreign exchange gain	0.3	0.3	0.2
Closing balance[1]	**506.0**	**505.7**	**505.6**

1. Goodwill was tested and no impairment was required during the period.

12. Interest bearing liabilities

	31 December 2012		30 June 2012		31 December 2011	
	Outstanding $M	Facility $M	Outstanding $M	Facility $M	Outstanding $M	Facility $M
Bank loans						
Corporate	-	250.0	-	250.0	-	100.0
Controlled property trusts	780.1	835.8	827.3	912.6	864.2	939.7
Controlled infrastructure trusts	206.1	206.1	206.1	206.1	207.4	213.0
Repurchase agreements	235.7	235.7	-	-	-	-
Total bank loans	**1,221.9**	**1,527.6**	**1,033.4**	**1,368.7**	**1,071.6**	**1,252.7**
Non-bank loans						
Subordinated debt issuance	472.3	472.3	450.1	450.1	457.1	457.1
Loan note finance	79.9	79.9	74.0	74.0	69.0	69.0
Property trusts	10.4	10.6	10.0	10.2	9.7	9.9
Total non-bank loans	**562.6**	**562.8**	**534.1**	**534.3**	**535.8**	**536.0**
Total interest bearing liabilities	**1,784.5**	**2,090.4**	**1,567.5**	**1,903.0**	**1,607.4**	**1,788.7**

Bank loans

Corporate – the facility of $250.0 million is secured by guarantees in place between members of the Group. A floating interest rate was applied to this facility during the period.

Controlled property trusts- Two Yen denominated loans totalling $351.7m (30 June 2012: $395.7m) held by the Japanese property trusts (31 December 2012: ¥31.6bn, 30 June 2012: ¥32.4bn). These loans have variable rates and are secured by way of first ranking mortgages over the investment properties. The ¥7.4bn loan was refinanced during the period with a maturity date of November 2016, the ¥24.2bn loan matures in March 2017.

Challenger Diversified Property Trust (CDI) has entered into a $300.0 million multi-option syndicated finance facility with Westpac Banking Corporation Limited (WBC) and Commonwealth Bank of Australia Limited (CBA). The facility comprises three tranches with limits of $110.0 million, $100.0 million and $90.0 million maturing on 20 July 2013, 2014 and 2015 respectively. For Australian denominated loans (31 December 2012: $200.6 million, 30 June 2012: $198.9 million), interest on the facility is calculated at the bank bill swap rate, plus a margin. For Euro denominated loans (31 December 2012: €36.9 million or $46.9 million, 30 June 2012: €36.9 million or $45.7 million), interest on the facility is calculated at EURIBOR, plus a margin. Challenger Diversified Property Trust 2

and Challenger Diversified Property Development Pty Limited, entities forming part of the stapled CDI group, are guarantors of the facility.

The loan facility comprises a secured component (31 December 2012: $46.9 million, 30 June 2012: $45.7 million) and an unsecured component (31 December 2012: $200.6 million, 30 June 2012: $198.9 million). In relation to the unsecured component, CDI has not granted security over its properties but provided a number of negative undertakings, including an undertaking not to create or allow encumbrance over its properties.

The secured component relates to the funding of property acquisitions in France. Security was granted by way of mortgages of shares in, and of debts between, entities established to acquire the French properties. On 20 July 2013 a tranche totalling $110.0 million ($110.0 million drawn) will mature. Based on current commitments and forecasts, CDI has sufficient undrawn capacity from existing tranches until July 2013. CDI will seek to refinance the tranche maturing in July 2013 to provide the required financial capacity prior to this date.

Bank loans in the other unlisted property trusts of $181.6 million (June 2012: $187.9 million) are secured solely by fixed and floating first mortgages over investment properties.

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

Repurchase agreements – During the period CLC entered into repurchase agreements with the RBA and Authorised Depository Institutions whereby debt securities (or a portfolio of debt securities) are sold to the counterparty for cash whilst simultaneously agreeing to repurchase the debt securities with interest factored into the repurchase price and paid on repurchase date. CLC has active repurchase agreements for $181.3 million due in January 2013 and $54.4 million due in February 2013.

Non-bank loans

Subordinated debt issuance – the Group issued subordinated notes into the US private placement market of US$150.0 million in December 2006 and A$400.0 million in November 2007. The notes were issued under an APRA approved Instrument of Issue and count as Approved Subordinated Debt for regulatory capital purposes. Under the LAGIC standards from 1 January 2013 APRA has advised that this subordinated debt issuance will continue to be fully eligible as Tier 2 regulatory capital until each tranches first call date after 1 January 2013 and will then amortise over four years.

The December 2006 notes are unsecured and were issued in two maturities (US$125.0 million at 10 years with a non-call period of five years; and US$25.0 million at 20 years with a non-call period of 10 years). A portion of this subordinated debt has a fixed interest rate with the remaining portion being floating. The November 2007 issuance was unsecured and matures at 30 years with a non-call period of 10 years.

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

Loan note finance – the Group has entered into a restricted recourse £25 million loan that is secured against properties. The fixed rate interest applied has been capitalised and is expected to be repaid together with the principal on maturity in 2015.

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

13. Special Purpose Vehicles

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

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

	31 Dec 2012 $M	30 June 2012 $M	31 Dec 2011 $M
Cash and cash equivalents	330.3	364.1	401.6
Mortgage assets	4,617.9	5,347.7	6,074.7
Derivative asset	2.8	-	-
Other assets	2.5	0.6	0.2
Total assets	**4,953.5**	**5,712.4**	**6,476.5**
Payables	511.5	464.2	461.8
Derivative liability	-	0.9	4.6
Interest bearing liabilities	4,439.2	5,248.2	6,014.7
Total liabilities	**4,950.7**	**5,713.3**	**6,481.1**
Net assets/(liabilities)	**2.8**	**(0.9)**	**(4.6)**
Cash flow hedge reserve	2.8	(0.9)	(4.6)
Total equity attributable to residual income unit holders	**2.8**	**(0.9)**	**(4.6)**

14. External unit holders' liabilities

	31 Dec 2012 $M	30 June 2012 $M	31 Dec 2011 $M
External unit holders' liabilities	**1,777.0**	**1,851.2**	**1,446.8**

The Group controls a number of guaranteed index return trusts which contain funds pertaining to mixed term wholesale mandates. The external unit holders' liabilities represent the balance owing to third parties on these mandates.

At 30 June 2012 $1,241.2m of these liabilities were disclosed as current. These liabilities matured in December 2012 and were reinvested by the external unit holders into the guaranteed index return trusts for a duration of up to one year. At 31 December 2012, $1,206.7m of the total external unit holder liability balance has an anticipated maturity term of up to 1 year.

15. Life contract liabilities

	31 Dec 2012 $M	30 June 2012 $M	31 Dec 2011 $M
Life investment contract liabilities – at fair value	5,971.9	5,806.2	5,377.9
Life insurance contract liabilities – at Margin on Services valuation	785.6	685.4	678.7
Reinsurance contract liabilities – at Margin on Services valuation	62.1	61.4	8.4
Total life contract liabilities	**6,819.6**	**6,553.0**	**6,065.0**

	Life investment contract liabilities		Life insurance contract liabilities		Reinsurance contract liabilities		Total life contract liabilities	
	31 Dec 2012 $M	31 Dec 2011 $M	31 Dec 2012 $M	31 Dec 2011 $M	31 Dec 2012 $M	31 Dec 2011 $M	31 Dec 2012 $M	31 Dec 2011 $M
Opening balance	5,806.2	4,998.2	685.4	614.8	61.4	16.0	6,553.0	5,629.0
Deposits and premium receipts	951.5	967.0	103.8	16.4	-	-	1,055.3	983.4
Payments and withdrawals	(968.5)	(842.3)	(30.9)	(26.5)	(3.9)	(2.3)	(1,003.3)	(871.1)
Revenue per Note 3	54.7	106.2	(2.4)	56.8	4.6	(5.3)	56.9	157.7
Expense per Note 4	128.0	148.8	29.7	17.2	-	-	157.7	166.0
Closing balance	**5,971.9**	**5,377.9**	**785.6**	**678.7**	**62.1**	**8.4**	**6,819.6**	**6,065.0**

Methodology applied in the valuation of life contract liabilities

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

The MoS valuation, calculated in accordance with Prudential Standards, results in the systematic release of planned margins over the life of the policy via a 'profit carrier'. The Group issues individual lifetime annuities and wholesale life risk insurance policies. In determining the life insurance contract liability, the profit carriers are annuity payments and premiums respectively.

Key assumptions applied in the valuation of life contract liabilities

Discount rates – are determined based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows. These rates are set at the Commonwealth government bond curve plus an illiquidity premium. The illiquidity premium is determined by reference to observable market rates including government guaranteed bank debt, credit-risk adjusted corporate bonds and the spread between the Commonwealth government bond curve and the swap curve. Discount rates applied at 31 December 2012 were between 3.29% and 4.44% (June 2012: 3.69% - 4.84%, December 2011: 4.25% - 5.63%).

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

Inflation – based on long term expectations and reviewed annually for changes in the market environment based on a comparison of real and nominal yields of instruments of equivalent term and credit risk. The current assumption is 3.06% for short-term inflation and 2.65% for long-term (June 2012: 2.17% short-term, 2.49% long-term).

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

Mortality – Base mortality rates are determined as a multiple of United Kingdom annuitant lives experience from 1999 to 2002 (IML00 and IFL00 tables), adjusted for Challenger's own recent experience. Rates are adjusted for expected future mortality improvements based on observed improvements in Australia. Rates of future mortality improvement applied at 31 December 2012 are between 1.0% and 4.0% p.a., these are consistent with those applied at 30 June 2012 (2011: 1.0% - 4.0%p.a.).

Impact of changes in assumptions on life insurance contracts

Under MoS, changes in actuarial assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Changes in future profit margins are released over future periods unless that product group is in an expected net loss position (loss recognition), in which case changes in assumptions are recognised in the income statement in the period in which they occur. The valuation impact of changes to discount rate assumptions as a result of market and economic conditions, such as changes in benchmark market yields, are recognised in the income statement in the period in which they occur.

Restrictions on assets
The *Life Insurance Act 1995* requires the Group to hold investments to back life contract liabilities in separate statutory funds. The assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distributions when solvency and capital adequacy requirements are met.

Statutory fund information
CLC has three statutory funds. Fund 1 is a non-investment-linked fund and 3 is investment-linked. Both of these are closed to new business. Fund 2 contains non-investment-linked contracts, including the Group's term annuity core business plus the lifetime annuity policies and the related reinsurance. Life contract liabilities for funds 1, 2 and 3 are $5.2 million, $6,810.7 million and $3.7 million respectively (June 2012: $5.6 million, $6,543.9 million and $3.5 million).

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

Actuarial information
Mr A Bofinger FIAA, as the Appointed Actuary of Challenger Life Company Limited, is satisfied as to the accuracy of the data used in the valuations of life contract liabilities in the financial report and the tables in this note. The life contract liabilities have been determined at the reporting date in accordance with the *Life Insurance Act 1995*.

16. Contributed equity

	6 months to 31 Dec 2012		Year to 30 June 2012		6 months to 31 Dec 2011	
	Number M	$M	Number M	$M	Number M	$M
Ordinary shares issued	538.7	1,365.1	544.7	1,385.5	552.2	1,413.8
CPP Trust shares treated as treasury shares	(8.7)	(40.1)	(15.7)	(72.4)	(16.2)	(74.5)
CPP deferred share purchase	(3.6)	(11.5)	-	-	-	-
Total contributed equity	**526.4**	**1,313.5**	**529.0**	**1,313.1**	**536.0**	**1,339.3**
Ordinary shares						
Opening balance	544.7	1,385.5	497.6	1,191.1	497.6	1,191.1
New shares issued[1]	-	-	60.0	247.4	60.0	247.4
Cancelled under share buy-back	(6.0)	(20.4)	(12.9)	(53.0)	(5.4)	(24.7)
Closing balance	**538.7**	**1,365.1**	**544.7**	**1,385.5**	**552.2**	**1,413.8**
LTIP						
Opening balance	-	-	1.4	5.1	1.4	5.1
Shares transferred to CPP Trust	-	-	(0.9)	(3.2)	(0.9)	(3.2)
Vested shares released from LTIP plan	-	-	(0.5)	(1.9)	(0.5)	(1.9)
Closing balance	**-**	**-**	-	-	**-**	**-**
CPP Trust						
Opening balance	15.7	72.4	19.3	84.9	19.3	84.9
Shares purchased	-	-	12.9	60.7	12.9	60.7
Shares transferred from LTIP	-	-	0.9	4.2	0.9	4.2
Vested shares released to employees	(7.0)	(32.3)	(17.4)	(77.4)	(16.9)	(75.3)
Closing balance	**8.7**	**40.1**	**15.7**	**72.4**	**16.2**	**74.5**
CPP deferred share purchases						
Opening balance	-	-	-	-	-	-
CPP deferred share purchases	3.6	11.5	-	-	-	-
Closing balance	**3.6**	**11.5**	**-**	**-**	**-**	**-**

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

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

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

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

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

The Group's current dividend payout ratio target is 30-35% of normalised net profit after tax (as defined in Note 2 of the Directors' report). There were no material changes to the Group's Capital Management Plan during the year.

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

APRA has introduced new Prudential Standards that take effect from 1 January 2013 (the Life and General Insurance Capital or LAGIC standards). Under these new standards a life company must have in place an Internal Capital Adequacy Assessment Process (ICAAP), documented in an ICAAP summary statement. The CLC ICAAP summary statement replaced the CLC Group Capital Management Plan from 1 January 2013.

Final LAGIC standards were issued by APRA in October 2012, with the new standards effective from 1 January 2013. The LAGIC standards have increased CLC's regulatory capital requirement by $322.8 million from 1 January 2013, however APRA have confirmed that transition arrangements will apply as outlined below. CLC expects to be able to fully meet the LAGIC requirements within the three year transition period.

LAGIC transition arrangements

Prescribed capital amount
The introduction of the new LAGIC standards has increased CLC's regulatory capital requirement by $322.8 million. However, APRA has confirmed that transition arrangements will apply which results in the increase in prescribed capital occurring over three years.

The initial LAGIC transition balance ($322.8 million) will amortise such that the increase in prescribed capital will be phased in by $107.6 million each year with the first increase being on 1 January 2014. The entire transition balance will be amortised by 1 January 2016.

Subordinated debt
CLC's total regulatory capital base includes $477.3 million of subordinated debt. APRA has advised that existing subordinated debt tranches will continue to be fully eligible as Tier 2 regulatory capital until each tranche's first call date after 1 January 2013, and will then amortise over four years.

As a result, the largest tranche of CLC's existing subordinated debt will 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.

Tier 1 and Tier 2 regulatory capital
Under APRA's transition arrangements, CLC's statutory funds have three years to transition to the minimum requirement of Tier 1 capital representing 80% of the prescribed capital amount. At a CLC consolidated level, APRA has provided an eighteen month transition period to meet the minimum 80% Tier 1 requirement. CLC is currently meeting these requirements at both the statutory fund and consolidated level.

CLC's excess capital under LAGIC
CLC's excess capital above the prescribed capital amount under LAGIC as at 1 January 2013 was $918.7 million. CLC's excess includes an allowance of $322.8 million in respect of transition.

The table below sets out CLC's capital position based on the new LAGIC standards as at 1 January 2013:

	$M
Common equity tier 1 regulatory capital	1,465.8
Tier 2 regulatory capital – subordinated debt [1]	477.3
CLC total regulatory capital based	1,943.1
CLC prescribed capital amount (PCA) [2]	
Prescribed capital amount – excluding transition relief	1,347.2
Transition relief [3]	(322.8)
CLC prescribed capital amount	1,024.4
CLC excess over prescribed capital amount	**918.7**
Capital adequacy multiple	**1.9**

1. Differs from $472.3 million disclosed in note 12 due to $5.0 million of accrued interest and capitalised borrowing costs.
2. The prescribed capital amount has been calculated under the new LAGIC standards which are effective from 1 January 2013.
3. LAGIC transition relief will reduce by one third ($107.6 million) on 1 January 2014, 1 January 2015, 1 January 2016.

17. Reserves

	31 Dec 2012 $M	30 June 2012 $M	31 Dec 2011 $M
Equity option premium reserve			
Opening balance	65.0	125.4	125.4
Expiry of equity option transferred to retained earnings	(63.3)	-	-
Transfer to share based payments premium reserve	(1.7)	-	-
Exercise of equity option	-	(60.0)	(60.0)
Option issue costs	-	(0.4)	(0.4)
Closing balance	**-**	**65.0**	**65.0**
Share based payments reserve			
Opening balance	35.6	62.7	62.7
Transfer from equity option premium reserve	1.7	-	-
Share based payments for the period	8.9	22.5	10.6
Releases from share based payment premium reserve	(23.8)	(49.6)	(42.7)
Closing balance	**22.4**	**35.6**	**30.6**
Available-for-sale asset revaluation reserve			
Opening balance	-	(1.6)	(1.6)
Revaluation loss[1]	-	-	(1.9)
Loss taken to the Income Statement[1]	-	1.6	2.2
Closing balance	**-**	**-**	**(1.3)**
Cash flow hedge reserve – SPV[2]			
Opening balance	(0.9)	(5.4)	(5.4)
Charged to equity	3.7	4.5	0.8
Closing balance	**2.8**	**(0.9)**	**(4.6)**
Foreign currency translation reserve[2]			
Opening balance	(8.4)	(13.1)	(13.1)
(Loss)/gain on translation of foreign entities[1]	(16.3)	15.3	22.3
Gain/(loss) on hedge of net investment in foreign entities[1]	17.5	(10.6)	(16.0)
Closing balance	**(7.2)**	**(8.4)**	**(6.8)**
Adjusted controlling interests reserve[2]			
Opening balance	17.7	11.8	11.8
Change in holding in controlled entity	(2.7)	5.9	2.1
Closing balance	**15.0**	**17.7**	**13.9**
Total reserves	**33.0**	**109.0**	**96.8**

1. Net of tax.
2. These items may eventually be recycled to the profit and loss section of the income statement.

Nature and purpose of reserves

Equity option premium reserve
The options issued to Colony Marlin-Holdings LLC (Colony) on 7 November 2007 expired on 26 November 2012. On expiry the option premium of $63.3 million was transferred to retained earnings, net of tax.

Share based payments reserve
An expense is recognised over the vesting period of share options and performance rights granted to employees as part of the Challenger Performance Plan and the Long Term Incentive Plan. This expense is based on the valuation of the equity benefits granted at the grant date. When an instrument is granted, and an expense incurred, there is a corresponding increase in the share based payments reserve directly in equity. The total of this reserve is net of any gain or loss realised on the disposal of forfeited shares held within the schemes.

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

Cash flow hedge reserve
The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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

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

18. Retained earnings

	31 Dec 2012 $M	30 June 2012 $M	31 Dec 2011 $M
Opening balance	270.1	207.4	207.4
Profit attributable to equity holders	222.0	148.5	20.0
Expiration of equity option	44.4	-	-
Dividends paid	(55.7)	(85.8)	(45.8)
Closing retained earnings	**480.8**	**270.1**	**181.6**

The options issued to Colony Marlin-Holdings LLC (Colony) on 7 November 2007 expired on 26 November 2012. On expiry the option premium of $63.3 million was transferred to retained earnings, net of tax.

19. Reconciliation of profit to operating cash flow

	31 Dec 2012 $M	31 Dec 2011 $M
Profit for the period	**239.5**	**29.1**
Non-cash and investing adjustments:		
Net realised (gain)/loss on disposal of financial assets	(73.4)	15.7
Net unrealised gain on revaluation of financial assets	(158.4)	(126.7)
Share of associates' net profit	(5.0)	(3.7)
Amortisation and depreciation	6.9	5.1
Share based payments	8.9	10.6
Operating cash flow not recognised in revenue		
Dividends from associates	6.4	5.8
Change in operating assets and liabilities, net of disposal/acquisition of controlled entities		
Increase in receivables	(51.1)	(25.3)
Decrease/(increase) in other assets	3.8	(3.6)
Increase/(decrease) in payables	20.0	(56.2)
Increase in provisions	2.8	3.0
Increase in life contract liabilities	266.6	436.0
(Decrease)/increase in external unit holders' liabilities	(74.2)	130.1
Increase/(decrease) in net tax liabilities	68.2	(19.3)
Net cash inflow from operating income	**261.0**	**400.6**

20. Subsequent events

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

21. Contingent liabilities, contingent assets and credit commitments

Warranties

Over the course of its corporate activity the Group has given, as a seller of companies and as a vendor of real estate properties, warranties to purchasers on several agreements that are still outstanding at 31 December 2012. At the date of this report no material claims against these warranties have been received by the Group.

Parent entity guarantees and undertakings

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

(i) A guarantee supporting the corporate banking facility and certain other financial commitments such as hedging arrangements;

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

(iii) Australian Financial Services Licence (AFSL) deeds of undertaking as an eligible provider.

Third party guarantees

Bank guarantees have been issued by third party financial institutions on behalf of the Group and its subsidiaries for items in the normal course of business, such as rental contracts. The amounts involved are not considered to be material to the Group.

Contingent future commitments

Challenger Life Company Limited has made capital commitments to external counterparties for future investment opportunities such as development or investment purchases. As at 31 December 2012 there are potential future commitments totalling $110.1 million (30 June 2012: $150.0 million) in relation to these opportunities.

Contingent tax assets and liabilities

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

Other information

In the normal course of business, the Group enters into various contracts that could give rise to contingent liabilities in relation to performance obligations under those contracts. The information usually required by Australian accounting standards is not disclosed for a number of such contracts on the grounds that it may seriously prejudice the outcome of the claims. At the date of this report, significant uncertainty exists regarding any potential liability under these claims. However, the Directors are of the opinion that no material loss will be incurred.

Directors' declaration

In accordance with a resolution of the Directors of Challenger Limited, we declare that, in the opinion of the Directors:

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

   (i) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the six month period ended on that date; and

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

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

On behalf of the Board.

G A Cubbin
Director
Sydney
27 February 2013

B R Benari
Director
Sydney
27 February 2013

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Independent Auditor's Review Report

To the members of Challenger Limited.

Report on the half year financial report

We have reviewed the accompanying half year financial report of Challenger Limited, which comprises the Statement of financial position as at 31 December 2012, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the six months ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

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

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

Independence

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

Conclusion

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

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half year ended on that date; and

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

Ernst & Young

Ernst & Young

David Jewell

D N Jewell
Partner
Sydney
27 February 2013

Investor Information

ASX listing
Challenger Limited shares are listed on the ASX under code CGF and company information, as well as trading information, can be accessed via the ASX website at www.asx.com.au. Share prices can also be accessed on Challenger's website at www.challenger.com.au.

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

Ex-dividend date for the 2013 interim dividend	07 March 2013
Record date for the 2013 interim dividend	13 March 2013
Dividend payment date	28 March 2013

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

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

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

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

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

Net tangible assets per security (4D item 3)	**31 Dec 2012 $M**	**31 Dec 2011 $M**
Net assets	2,140.2	1,916.3
Less:		
Goodwill	506.0	505.6
Other intangible assets	13.6	13.5
Non-controlling interests	312.9	298.6
Net tangible assets	**1,307.7**	**1,098.6**
Ordinary shares (number - M)	526.4	536.0
Net tangible assets per security	**2.48**	**2.05**

Details of associates and joint ventures	**Ownership interest**	
	31 Dec 2012	**31 Dec 2011**
Alphinity Investment Management Pty Ltd	30%	30%
Ardea Investment Management Pty Ltd	30%	30%
Bentham Asset Management Pty Ltd	49%	49%
Challenger MBK Fund Management Pte Limited	50%	50%
Five Oceans Asset Management Pty Limited	34%	34%
Greencape Capital Pty Limited	35%	35%
Homeloans Limited	22%	23%
Kapstream Capital Pty Limited	25%	25%
Kinetic Investment Partners Limited	20%	20%
Metisq Capital Pty Ltd	49%	-
Merlon Capital Partners Pty Ltd	30%	30%
Novaport Capital Pty Ltd	49%	49%
Wavestone Capital Pty Limited	30%	30%

Authorisation

Michael Vardanega
Company Secretary
27 February 2013

Directory

Principal Place of Business and Registered Office in Australia	Level 15 255 Pitt Street SYDNEY NSW 2000 Tel (02) 9994 7000 Fax (02) 9994 7777
Directors	Peter Polson (Chairman) Brian Benari (Chief Executive Officer) Graham Cubbin Steven Gregg Jonathan Grunzweig Russell Hooper Brenda Shanahan JoAnne Stephenson Leon Zwier
Company Secretaries	Michael Vardanega Andrew Brown
Share Register	Computershare Investor Services Pty Limited Level 3, 60 Carrington Street SYDNEY NSW 2000 Tel (02) 8234 5000 Fax (02) 8234 5050 Website: www.computershare.com.au
Auditor	Ernst & Young 680 George Street SYDNEY NSW 2000
Internet Address	www.challenger.com.au