Challenger Financial Services Group Limited

and its controlled entities

2008 ANNUAL FINANCIAL REPORT AND APPENDIX 4E

Challenger Financial Services Group Limited ACN 106 842 371

Appendix 4E

Results for announcement made to market [1] **Financial Report for the year ended 30 June 2008**	**$M**
Revenue from ordinary activities	**Up 5.9% from $2,328.3M to $2,465.0M**
Profit/(loss) from ordinary activities after tax attributable to members	**Down 117.3% from profit of 255.0M to loss $44.2M**
Net profit/(loss) for the period attributable to members	**Down 117.3% from profit of $255.0M to loss $44.2M**
Dividends	
Interim dividend – fully franked (cents per share)	**5.0**
Final dividend – 60% franked (cents per share)	**7.5**
Total dividends per share for the year (cents per share)	**12.5**
Record date for determining entitlements to the dividends to be paid	**24 September 2008**
Payment date for dividend	**17 October 2008**

(1) Rule 4.2.C.3

Refer Appendix 1 ASX Appendix 4E on page 136 for disclosures required under ASX Listing Rules.

This report should be read in conjunction with the 30 June 2008 Annual Financial Report of the Group and any public announcements made in the period by the Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX listing rules.

This report is based on the Annual Financial Report which has been audited. The report covers Challenger Financial Services Group Limited (the Company) and its controlled entities (the Group).

Except where otherwise stated, all figures relate to the full year ended 30 June 2008 and comparatives to the full year ended 30 June 2007.

For the year ended 30 June 2008

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Directors' Report

The Directors of Challenger Financial Services Group Limited ('the Company') submit their report together with the financial report of the Company and its controlled entities ('the Group'), for the year ended 30 June 2008.

1. Directors

The names and details of the Company's Directors holding office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Peter Leith Polson

Independent Chairman

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

Mr Polson retired from the Commonwealth Bank in October 2002, where he held the position of Group Executive, Investment and Insurance Services. Mr Polson joined the Colonial group in 1994 prior to its acquisition by the Commonwealth Bank. Previously, Mr Polson was Managing Director of National Mutual Funds Management (International) Limited. Mr Polson was a director of the previously listed company Australian Leisure and Hospitality Group Limited. Mr Polson has been a director of the company since 6 November 2003.

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

Other Directorships
Mr Polson is also a Director of AWB Limited and AWB International Limited (appointed 31 March 2003).

Michael Tilley

Chief Executive Officer

Experience/ Qualifications
Mr Tilley holds a Post Graduate Diploma in Business Administration from the Swinburne University in Victoria, Australia.

Mr Tilley was previously Vice-Chairman, Investment Banking Group, JP Morgan, a position he resigned from upon his appointment as Chief Executive Officer (CEO) of the Company in June 2004. Until 31 March 2003, Mr Tilley was a Director of Incitec Limited. Prior to this, up until February 2002, Mr Tilley was employed with investment bank Merrill Lynch where he held the positions of Executive Chairman, Merrill Lynch (Australasia), Head of Mergers and Acquisitions in the Asia Pacific region, and was a member of the Merrill Lynch Asia Executive Committee. Prior to joining Merrill Lynch in 1997, Mr Tilley was principal and a Managing Partner of Centaurus Corporate Finance Pty Limited and before that a partner at Deloitte Touche Tohmatsu. Mr Tilley is a past member of the Australian Takeovers Panel. Mr Tilley has been a director of the company since 6 November 2003.

Other Directorships
Mr Tilley is also a Non-Executive Director of Orica Limited (appointed 10 November 2003).

Thomas Barrack Jr.

Non-Executive Director
Independent

Experience/ Qualifications
Mr Barrack received a Juris Doctor in Law from the University of San Diego and also holds a Bachelor of Arts degree from the University of Southern California.

Mr Barrack is the Founder, Chairman and Chief Executive Officer of Colony Capital LLC and Colony Advisors LLC. Prior to forming Colony, Mr Barrack was a principal with the Robert M. Bass Group, Inc. Mr Barrack also served in the Reagan Administration as Deputy Under Secretary of the Department of the Interior. Previously, Mr Barrack was a Senior Vice President at EF Hutton in New York City and President of Oxford Development Ventures, Inc. Mr Barrack was appointed as a director on 22 November 2007.

Special Responsibilities
Mr Barrack is a member of the Nomination Committee.

Graham Allan Cubbin

Non-Executive Director

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

Mr Cubbin was a Senior Executive with Consolidated Press Holdings Limited (CPH) from 1990 until September 2005, including Chief Financial Officer for 13 years. Prior to joining CPH, Mr Cubbin held senior finance positions with a number of major companies including Capita Financial Group and Ford Motor Company. Mr Cubbin has been a director of the company since 6 January 2004.

Special Responsibilities
Mr Cubbin is a member of the Group Audit and Compliance Committee and the Nomination Committee.

Other Directorships
Mr Cubbin is a Non-Executive Director of STW Communications Limited (appointed 20 May 2008) and a Non-Executive Director of Bell Financial Group Limited (appointed 12 September 2007).

Russell Richard Hooper

Non-Executive Director
Independent

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

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

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

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

Ashok Peter Jacob

Non-Executive Director

Experience/ Qualifications
Mr Jacob is Chief Executive Officer of Consolidated Press Holdings Limited ('CPH'). Prior to joining CPH in 1998, Mr Jacob was the Managing Director of the investment arm of the Pratt group of companies. Mr Jacob has been a director of the Company since 6 November 2003.

Mr Jacob holds a Master of Business Administration from the Wharton School and a Bachelor of Science from the University of Pennsylvania.

Special Responsibilities
Mr Jacob is a member of the Board Nomination Committee.

Other Directorships
Mr Jacob is a director of Consolidated Media Holdings Limited (appointed 9 November 1998), Crown Limited (appointed 6 July 2007), Crown Melbourne Limited (appointed 22 July 1999) and Ellerston Capital Limited (appointed 6 August 2004).

James Douglas Packer

Non-Executive Director

Experience
Mr Packer is Executive Chairman of Consolidated Press Holdings Limited. Mr Packer has been a director of the Company since 6 November 2003.

Special Responsibilities
Mr Packer is a member of the Remuneration Committee and the Board Nomination Committee.

Other Directorships
Mr Packer is Executive Chairman of Crown Limited (appointed 6 July 2007) and Executive Deputy Chairman of Consolidated Media Holdings Limited (appointed 28 April 1992). Mr Packer is also the Chairman of SEEK Limited (appointed 31 October 2003).

Mr Packer is also a director of the Sunland Group Limited (appointed 20 July 2006), Crown Melbourne Limited (appointed 22 July 1999) and Ellerston Capital Limited (appointed 6 August 2004).

Mr Packer was previously a director of Qantas Airways Limited until 31 August 2007.

Tatsuo Tanaka

Non-Executive Director

Experience/ Qualifications

Mr Tanaka holds a Bachelor of Arts in Law from Keio University, Japan.

Mr Tanaka is Deputy President and Chief Executive of Global Business Unit for The Bank of Tokyo-Mitsubishi UFJ Limited ("BTMU"), where he has held this position since June 2008. Prior to this, Mr Tanaka held senior executive positions in BTMU before the mergers with UFJ Bank and Mitsubishi Bank. Mr Tanaka was appointed as a director on 22 November 2007.

Special Responsibilities

Mr Tanaka is a member of the Nomination Committee.

Leon Zwier

Non-Executive Director
Independent

Experience/ Qualifications

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

Special responsibilities

Mr Zwier is a member of the Nomination Committee.

James Glen Service

Non-Executive Director
Independent

Mr Service retired from office on 22 November 2007.

Experience/ Qualifications

Mr Service is an Officer in the order of Australia and was Chairman of Advance Bank Limited prior to its merger with St George Bank Limited. Mr Service had been a director of the company since 6 November 2003.

Special Responsibilities

Mr Service was a member of the Nomination Committee.

Other Directorships

Mr Service is Deputy Chairman of Australand Holdings Limited.

Brenda Mary Shanahan

Non Executive Director
Independent

Ms Shanahan retired from office on 22 November 2007.

Experience

Ms Shanahan has held executive positions in stock broking, investment management and an actuarial firm. Ms Shanahan had been a director of the company since 6 November 2003.

Special Responsibilities

Ms Shanahan was Chairman of the Group Audit and Compliance Committee and a member of the Nomination Committee.

Other Directorships

Ms Shanahan is Chair of Challenger Listed Investments Limited (appointed 5 December 2007), and Non-Executive Chairman of Clinuvel Pharmaceuticals Limited (appointed 6 February 2007).

Sarina Russo

Non-Executive Director
Independent

Ms Russo retired from office on 30 April 2008.

Experience

Ms Russo is the Founder, Managing Director and majority controlling shareholder, of the Sarina Russo Group of Companies. Ms Russo had been a director of the company since 15 September 2006.

Special responsibilities

Ms Russo was a member of the Nomination Committee.

2. *Company Secretary*

Christopher Robson was appointed to the position of Company Secretary in March 2005. Mr Robson is also the Group General Counsel. He has been qualified as a solicitor for over 20 years, with 15 years experience in the financial services industry.

Suzanne Koeppenkastrop was appointed to the position of Company Secretary in October 2006. Ms Koeppenkastrop is a qualified solicitor and head of the company secretariat team at Challenger. She has over 14 years experience in legal and company secretarial roles in the financial services industry.

3. Company information

The Company was incorporated in New South Wales on 6 November 2003 and its shares were admitted to the official list for quotation on the Australian Stock Exchange on 23 December 2003. The registered office of the Company is Level 15, 255 Pitt Street, Sydney NSW 2000.

4. Principal activities

The principal activities of the Group during the year were the provision of financial services, in particular:

- Asset Management – structures and manages assets to generate long term income streams backed by a strong annuity franchise;
- Mortgage Management – commercial and residential lending and securitisation business and broker mortgage aggregation services;
- Funds Management – funds management business; and
- Financial Planning – financial planning and funds administration business.

The principal activity of the Company is to act as a holding company for the Challenger Financial Services Group.

On 30 June 2008, the Group sold the Financial Planning division to AXA Asia Pacific Holdings Limited (AXA) and so will not participate in this activity going forward.

There have been no other significant changes in the nature of these activities during the year.

5. Operating and financial review

The impacts of the unprecedented volatility experienced during the financial year in global debt and equity markets have been extensively reported upon by financial commentators, as has the impacts on financial services organisations such a Challenger.

Under AIFRS, Life companies including Challenger Life No.2 Limited (CL2) are required to fair value (also known as *mark to market*) their investment assets and liabilities on a regular basis. This fair value requirement is based on a market environment in which it is assumed willing buyers and willing sellers are operating. The year ended 30 June 2008 was arguably not such a market with a number of sellers of assets under stress. Notwithstanding the environment, the fair value standards applying to Life companies have introduced volatility to Challenger's reported earnings that makes it difficult for readers to determine what management believes to be the underlying performance of the Group. The balance sheet strength of Challenger means that it is not a forced seller of assets in the current market conditions.

On 4 June 2008, Challenger introduced an enhanced format for reporting it's statutory earnings, Normalised Cash Operating Earnings (COE), which is management's view of the underlying performance of CL2 (the *balance sheet* operation of the Asset Management division) as well as that of the Group.

COE reports the underlying cash spread earned that is the cash yield on investments over the costs of funding on the investment assets within CL2 together with the normalised or expected growth in the capital value of those investment assets. In any given reporting period the actual investment gains (including realised gains and losses together with unrealised revaluation movements) will vary to the normalised gains and the resulting *investment experience* outside of the expected normalised gains is reported separately.

As shown in the analysis provided below, the Group reported a normalised profit after tax result for the year of $217.9 million, up 19.7% ($35.9 million) on the prior year. This result was supported by growth in normalised EBIT of 21.4%. Interest and borrowing costs were $41.3 million (up 22.5%) principally due to funding the investments into the mortgage aggregation businesses in advance of receiving funds from the new capital raisings and higher interest rates during the year.

Group Financial Summary Management Analysis – COE	2008 $M	2007 $M	Change %
Income[1]			
Normalised cash operating earnings	200.8	157.9	27.2
Net fee income	402.9	385.4	4.5
Other income	12.8	7.9	60.8
Net income	616.5	551.2	11.8
Expenses[1]			
Total operating expenses	(295.9)	(287.1)	3.1
Normalised EBIT	320.6	264.1	21.4
Interest and borrowing costs	(41.3)	(33.7)	22.5
Normalised profit before tax	279.3	230.4	21.2
Tax	(61.4)	(48.4)	26.9
Normalised profit after tax	**217.9**	**182.0**	**19.7**
Investment experience after tax	(192.3)	49.6	(large)
Significant items after tax	(69.8)	23.4	(large)
Statutory (loss)/profit after tax	(44.2)	255.0	(large)
Normalised EBIT represented by:			
Asset Management	222.8	162.2	37.4
Mortgage Management	100.1	90.0	11.3
Funds Management	30.4	39.6	(23.2)
Financial Planning	10.1	8.3	21.8
Corporate	(42.8)	(36.0)	18.9
Total	320.6	264.1	21.4

[1]"Net income" and "Total operating expenses" differs from "Revenue" and "Expense" as disclosed in the Financial Report as certain direct costs including commissions and management fees are netted off against gross revenues in deriving "Net fee income" above. These direct costs are classified as "Expenses" in the Financial Report. In addition, the Mortgage Management Special Purpose Vehicle revenues, expenses and finance costs disclosed in the Financial Report are netted off in Net Income above. These classifications have been made in the Directors Report disclosure as it is considered that this presentation more closely reflects the key value drivers and core operations of the Challenger group.

The major drivers of the growth in normalised profit after tax were improvements in the cash spread earnings generated by Asset Management post the transfer of the Metlife annuity portfolio (which drove the uplift in normalised cash operating earnings) as well as higher profits from Mortgage Management following the purchase of Choice Aggregation Services (Choice). The underlying performance of the Group is demonstrated with an 11.8% growth in net income whereas cost growth was contained to 3.1% for the year.

After allowing for the *investment experience* losses arising from the volatility in asset prices during the year as well as individually significant items attributable to the impairment of two strategic investments and the loss on disposal of the Financial Planning division, the Group's statutory loss after tax for the year ended 30 June 2008 was $44.2 million (2007: profit after tax of $255.0 million).

As shown in the table below on a normalised basis, basic earnings per share (eps) increased 13.0% to 37.1 cents and diluted eps increased 15.0% to 35.4 cents compared to 2007. Both basic and diluted eps were impacted by the issue of new ordinary shares during the year as approved by shareholders.

Earnings Per Share	2008 cents	2007 cents
Basic – normalised	37.1	33.0
Diluted – normalised	35.4	30.7
Basic – statutory	(7.5)	46.3
Diluted – statutory	(8.1)	43.2

Key events during the year included:

In August 2007 the Group received Federal Court approval for the assumption of MetLife's annuity, allocated pension and personal superannuation liabilities. This resulted in an increase in assets under management of approximately $1.8 billion at the time of acquisition.

Also in August 2007 the Company announced that it would enter into a long term strategic relationship with The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("BTMU") and Mitsubishi UFJ Securities Co. Ltd. ("MUS") to pursue opportunities in Australia, Japan and the Asian region. As part of this relationship, BTMU and MUS subscribed for 40 million new Challenger shares at $5.20 per share.

In addition the Company announced that it had entered into a strategic relationship with Colony Marlin-Holdings, LLC and its sponsored investment funds ("Colony") to develop opportunities in the United States, Europe and Asia across shared core capabilities, including real-estate and infrastructure. As part of this relationship, Colony has acquired an option over 57.1 million Challenger ordinary shares, exercisable over a 5-year period at $7.00 per share.

The Group acquired 100% of Choice, a leading mortgage aggregator in the Australian market, for a total consideration of $168.3 million.

Consistent with its strategy in the mortgage distribution and aggregation market, the Group also acquired a 19% stake in Finance and System Technology (FAST), a national mortgage aggregator for $9.4 million.

The capital position of Challenger Life No.2 Limited (CL2) was enhanced during the year through the raising of long dated regulatory capital of $400 million (2007: $190 million) in order to support the operations and future growth plans of CL2.

On 4 June 2008 the Group announced that it had reached agreement with AXA to transfer to Challenger the $1.3 billion AXA Australian annuity portfolio. This portfolio will be backed by approximately $1.25 billion of highly liquid investment grade assets and cash and will bring Challenger's annuity, allocated pension and personal superannuation portfolio to $5.1 billion. This agreement is subject to part 9 of the Life Insurance Act, and regulatory and court approvals. This transaction is expected to complete within six months.

In a parallel transaction, the Group also announced the sale of its Financial Planning division and related business to AXA for $150 million in cash, with the sale finalising on 30 June 2008.

6. Likely developments and expected results

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Other than as disclosed in Note 11 of this directors' report, as at the date of this report no other matter or circumstances have arisen that has affected or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

7. Significant changes in the state of affairs

Except for the sale of the Financial Planning division to AXA on 30 June 2008, and the agreement to transfer AXA's annuity portfolio noted above, there were no other significant changes to the state of affairs of the Group during the year ended 30 June 2008.

8. Environmental regulation and performance

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

9. Dividends

On 22 August 2008 the Directors of the Company declared a final dividend on ordinary shares in respect of the year ending 30 June 2008. The amount of the final dividend is $47.4 million which represents a dividend of 7.5 cents per share from current year profits.

The dividend has not been provided for in the 30 June 2008 financial statements and will be franked to 60%. The final dividend is payable on 17 October 2008.

On 22 February 2008, the Directors of the Company declared an interim dividend on ordinary shares. The total amount of the dividend was $31.8 million which represented a fully franked dividend of 5 cents per share from current year profits. This dividend was paid on 18 April 2008.

On 24 August 2007, the directors of the Company declared a final dividend on ordinary shares in respect of the year ending 30 June 2007. The amount of the dividend was $44.7 million which represented a fully franked dividend of 7.5 cents per share. This dividend was paid on 19 October 2007.

10. Indemnification and insurance of officers and directors

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

In accordance with the provisions of the Corporations Act 2001, the Company has insured the Directors and officers against liabilities incurred in their role as directors and officers of the Company and its subsidiaries. The terms of the insurance policy, including the premium are subject to confidentiality clauses and as such the Company is prohibited from disclosing the nature of the liabilities covered and the premium. The Company has not given or agreed to give any indemnity to an auditor of the Group and has not paid any premium for insurance against that auditor's liabilities for legal costs.

11. Significant events after the balance date

On 7 July 2008, the company announced an on market share buyback programme. Under this programme Challenger may buy back up to 10% of its share capital over the next 12 months. The number of shares purchased will depend on market conditions. To date a minimal amount of the share capital has been repurchased.

Other than the matters reported above no other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

a) the Company's operations in future financial years; or

b) the results of those operations in future financial years; or

c) the Company's state of affairs in future financial years.

12. Remuneration report

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses Executive Directors, Senior Managers, Secretaries and any other Key Management Personnel ("KMP") excluding Non Executive Directors.

Details of key management personnel (including the five highest executives of the Company and the Group):

(i) Directors

As listed in section 1 of the Directors Report.

(ii) Executives

- Rob Adams, Chief Executive Funds Management
- Brian Benari, Chief Executive Mortgage Management
- Richard Howes, Principal Executive Officer, Challenger Life No.2 Limited
- Paul Rogan, Group Chief Financial Officer
- Dominic Stevens, Deputy Managing Director
- Rob Woods, Chief Executive Asset Management
- Greg Kirk, Chief Executive Financial Planning

Other than the departure of Mr Kirk following the sale of the Financial Planning division, there were no other changes of the CEO or KMP after reporting date and before the date the financial report was authorised for issue.

a. Remuneration Committee

Role of the Remuneration Committee

The Remuneration Committee assists the Board in achieving fairness and transparency in relation to remuneration issues whilst overseeing the remuneration and human resources policies and practices of the Company.

The responsibilities of the Remuneration Committee include:

- ensuring that the remuneration framework is structured to support the achievement of the Company's strategy and to reward performance that enhances shareholder value on a sustainable basis;
- ensuring that the Company has coherent remuneration policies and practices to attract, retain and motivate Executives and employees on the basis of their achievement of personal, business unit and corporate objectives;
- reviewing the terms of remuneration for the Chairman, Chief Executive Officer and other Executives of the Company, including the criteria for assessing performance;
- reviewing and establishing the level of remuneration for Non-Executive Directors; and
- ensuring compliance with the provisions of the:
    - ASX Listing Rules;
    - ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations; and
    - Corporations Act.

Membership of the Remuneration Committee

The members of the Remuneration Committee throughout the year ending 30 June 2008 were:

- Peter Polson (Chairman);
- Russell Hooper; and
- James Packer.

b. Remuneration Philosophy

The remuneration philosophy has been designed to drive superior levels of performance at all levels within the Company.

The Board recognises that the Company operates in a global marketplace and that the ability to attract, motivate, reward and retain talent is essential to the Company's continued success. This requires a contemporary approach to remuneration which is reflective of the markets and geographies in which the Company operates.

The Company's remuneration philosophy focuses on:

- driving performance over and above shareholder and market expectations;
- ensuring a significant component of remuneration is directly linked to Group and business unit performance, and that individuals who contribute to this performance are rewarded;
- ensuring remuneration structures are commensurate with competitors, and sufficient flexibility to maintain parity in a constantly changing environment; and
- providing all employees with the opportunity to acquire shares to support the Company's 'Commercial Ownership' principle.

c. Executive Remuneration Strategy

The remuneration strategy has been designed to drive superior levels of performance and closely align executive and shareholder interests.

The remuneration framework has three major components:

- Salary Package;
- Short term incentives (Employee Incentive Plan); and
- Long term incentives (Challenger Performance Plan)

Target reward mix

As short term incentive allocations are determined after the end of the financial year and are directly dependent on the Company's financial performance, Executives are not advised of a target bonus amount. As such, Chapter 2M.3.03(2)(c) of the Corporations Act 2001 Regulations does not apply to the Company.

Salary Package

Salary package comprises fixed cash salary and compulsory superannuation. Executives have the opportunity to salary sacrifice amounts from their salary package towards the cost of certain benefits and any associated fringe benefits tax.

The salary package is reviewed annually and determined by the scope of the executive's role, their level of knowledge, skills and experience, performance and market benchmarking against similar roles in the external market with similar responsibilities and scale of accountability.

The Company aims to position the salary package, on average, around the median of the external market rate for comparable roles.

This complements the strategy of heavily weighting at-risk remuneration to further drive business performance. This is demonstrable in analysis of the composition of total remuneration split between fixed salary and both short and long term incentives provided on page 19.

Short Term Incentive

i) Overview

The short term incentive plan is called the Employee Incentive Plan ("EIP").

The purpose of the EIP is to reward and retain Executives who have made a significant contribution over the course of the financial year. A significant portion of EIP payments are deferred via Challenger share entitlements known as 'Performance Rights' to support retention and alignment with shareholders (refer to 'Delivery of EIP' below).

The EIP is provided entirely at the discretion of the Board and may be subject to amendment or withdrawal in respect of any future financial year. Participation in the EIP is not a contractual right.

The EIP pool is required to fund short term incentive payments paid in cash, plus the accounting cost of performance rights issued to satisfy compulsorily deferred bonuses and retention awards, as well as any associated payroll tax.

ii) Eligibility

All Executives, full time and permanent part time employees who commenced employment prior to 1 April in the financial year are eligible to participate.

iii) Payment

Payment of EIP generally occurs in mid September. EIP payments are forfeited if an employee ceases employment or provides notice on or before the date of payment.

iv) EIP Pool Calculation

As part of the reward strategy introduced during the year ended 30 June 2007, the Board approved formulae that determines the EIP pool for each business division, with a significant portion of each business division pool retained to be allocated at Board discretion taking into account the following:

External market practice of appropriate peers to each of the respective business units;

- Line of sight and transparency for business divisions through a formulaic based funding approach;
- A need to encourage the efficient use of capital in line with the Company's stated commitment to achieve return on net assets of at least 18% across each of the business divisions; and
- Ease of understanding for employees.

It is not appropriate to disclose these formulae due to their commercially sensitive nature.

When determining whether to pay discretionary amounts, the Board considers factors such as:

- Overall Company performance (including financial and strategic non-financial measures);
- Organisational capacity to pay;
- The impact of external factors beyond management control; and
- Quality of financial results as shown by composition and consistency and future growth implications.

The Board must provide sign-off in relation to the quantum of the EIP Pool. No Board members (apart from the CEO) are eligible to receive an EIP bonus.

The outcome of this approach is a robust linkage between the EIP pool size and the performance of each business unit while allowing the Board to take into account qualitative factors in determining the overall EIP pool.

Individual allocations from the EIP Pool are determined by reference to an individual's contribution and achievement against objectives, as assessed in the Company's annual Performance and Development Review. The Company aims to position Total Cash (salary package plus EIP) at the median of the market for individuals who meet their annual objectives through to the upper quartile for those that significantly exceed their objectives. The extent to which individuals have demonstrated the Challenger Principles also influences final individual EIP outcomes.

v) Delivery of EIP

Consistent with best market practice, a compulsory EIP deferral mechanism was approved by the Board in 2007.

All EIP payments below a threshold are delivered in cash, with employees being able to pre-elect to receive some or all of their cash EIP in superannuation or Challenger shares.

A proportion of EIP above a threshold is compulsorily deferred into performance rights under a scheme known as the Challenger Performance Plan. Details of the Challenger Performance Plan are provided below. The Board considers that this compulsory bonus deferral aids employee retention as well as encouraging Executives to focus on company performance over the long term by directly aligning deferred amounts to the share price.

Performance rights vest progressively over time subject to continued employment, other than in limited special circumstances, such as redundancy, where the Board retains discretion to accelerate vesting.

The number of performance rights is determined by dividing the compulsorily deferred EIP amount by the market value of shares on the date of grant.

In the year ended 30 June 2006, a deferral of EIP applied to a limited number of Executives whereby a portion of total EIP was deferred in cash for up to two years. Executives will forfeit unpaid cash balances upon resignation.

Long Term Incentives

Challenger Performance Plan

The Board believes that equity-based rewards are a key tool in enabling the achievement of superior and sustainable performance for shareholders by providing direct alignment between the interests of Executives, key employees and shareholders.

The Challenger Performance Plan ("CPP") is a flexible scheme that provides for the award of either share options or performance rights. Long term incentive awards are typically delivered in the form of share options, whereas deferred short term bonuses and other retention arrangements are delivered in the form of performance rights. A two tiered approach provides optimal flexibility and ensures the equity-based reward instrument being applied addresses the particular needs of the individual.

Directors other than Executive Directors are not eligible to participate in the Challenger Performance Plan.

The Board believes that the Challenger Performance Plan:

- Aligns the interests of executives, key employees and shareholders;
- Is of a contemporary design and is in line with market best practice;
- Is simple for participants to value as part of their annual remuneration; and
- Acts as an effective retention mechanism for key resources across the business.

Key features of the Challenger Performance Plan

<table>
<tr><th></th><th>Share Options</th><th>Performance Rights</th></tr>
<tr><td rowspan="2">Instrument</td><td>Options over shares with an exercise price set at the prevailing market price at the time of the grant. The option becomes exercisable at the end of a vesting period, subject to the achievement of performance conditions.</td><td>A right which converts into a fully paid share at the end of the vesting period.</td></tr>
<tr><td colspan="2">Upon vesting, each option or performance right will entitle the holder to one ordinary fully paid share.</td></tr>
<tr><td>Core purpose</td><td>Directly align key Executives with shareholders through the provision of share options which vest subject to a performance hurdle.</td><td>Retention of key resources and a vehicle to align compulsorily deferred bonuses, which have already been earned, with the longer term interests of shareholders.</td></tr>
<tr><td>Eligibility</td><td>Executives whose responsibilities provide them with the opportunity to significantly influence long term shareholder value.</td><td>Allocations of performance rights will generally be made to participants in the following circumstances:

1. To key employees as retention awards
• Employees in positions that are "business critical";
• Employees that have unique specialised skills that are difficult to source in the market; and/or
• Consistently high performing employees
2. Granted to those employees with compulsory EIP deferral.
3. As sign-on bonuses for new employees in lieu of equity foregone with their former employers.</td></tr>
<tr><td>Vesting period</td><td>The CPP provides the Board with flexibility when determining the vesting period to ensure the timeframe is appropriate in the context of the performance hurdle that also attaches to the award.</td><td>Flexible depending on purpose, but typically over a period of up to 3 years.</td></tr>
<tr><td>Performance hurdle</td><td>The structure of option allocations under the CPP provides a critical linkage between remuneration, Company performance and shareholder value, by linking an executive's reward to the achievement of specified performance targets.

The CPP provides the Board with flexibility around the form of the performance hurdle it attaches to particular grants of Options to ensure that there is appropriate alignment with shareholders and executives in the Board's assessment at the time of grant.</td><td>Only time based vesting applies to Performance Rights because the purposes for which performance rights will be allocated means that performance conditions are not appropriate.

For example, compulsory deferred EIP represents reward for past performance. To apply further performance conditions, would be to apply a double set of performance requirements.</td></tr>
</table>

	Share Options	Performance Rights
Maximum life	Options must generally be exercised within 60 days of them vesting.	Once performance rights are converted to ordinary fully paid shares upon vesting, the shares may remain in the plan for a period up to the 10th anniversary of the date of grant, unless the employee submits a withdrawal notice to the Board or their employment is terminated.
Forfeiture / lapsing	Options will lapse where a participant ceases employment before the options vest due to resignation or dismissal, unless the Board determines otherwise. Securities (whether vested or unvested) will lapse where an executive acts fraudulently or dishonestly or where a participant is in material breach of their obligations (under the plan or to the Company), unless the Board determines otherwise. If a participant's role becomes redundant, Board discretion will apply. Options lapse immediately at the end of the vesting period if the performance hurdle has not been achieved.	Performance rights (whether vested or unvested) will lapse where a participant acts fraudulently or dishonestly or where a participant is in material breach of their obligations (either under the plan or to the Company), unless the Board determines otherwise. Generally, performance rights will lapse where a participant ceases employment before the vesting date due to resignation or dismissal, unless the Board determines otherwise. If a participant's role becomes redundant, Board discretion will apply.

Shareholders approved the scheme for all purposes under the Corporations Act and ASX Listing Rules at the 2007 Annual General Meeting.

The scheme is administered by the Challenger Performance Plan Trust. The trust may buy shares on market to meet obligations arising from the vesting of Performance Rights under the Challenger Performance Plan.

Deferred Loan Plan

A small number of executives had outstanding future commitments under the Long Term Incentive Plan (LTIP) at the time it was suspended (refer "Former Plans" below).

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

Challenger is responsible for meeting the interest payable on the loan over its term, net of any dividends paid on the shares. Shares vest progressively over 4 years, commencing at the end of year 2, subject to continued employment with Challenger. Shares are forfeited and the arrangement unwound in the event that the employment condition is not satisfied. In certain special circumstances (such as death, total and permanent disablement and redundancy) individuals may be entitled to retain their unvested shares if they fully discharge the outstanding loan amount.

The loans are limited in their recourse to Challenger and the Challenger Performance Plan Trust has the option of taking ownership of the shares and using them to satisfy other share awards in the event of forfeiture by the executive.

Other Short Term Employee Benefits

During the year Challenger also agreed to pay interest on loans taken out by certain Key Executives to acquire Challenger shares on market. The loans are fully secured against the underlying shares and are not margin loans. Challenger has no exposure in relation to the loan principal advanced to the Key Executives by the third party for the purposes of acquiring the shares. In the Board's view, this arrangement, when considered with the Key Executive's other long term incentive arrangements provide, significant alignment with shareholders interests.

Former Plans
Long Term Incentives

With the introduction of the new reward strategy in 2007, the former Long Term Incentive Plan ("LTIP") was suspended in December 2006.

The LTIP was a share scheme provided by way of a limited recourse loan with shares vesting and being released over a 5 year period, subject to the achievement of a 15% compound Total Shareholder Return ("TSR") performance hurdle. Participants paid an amount of interest on their loan equal to any dividends payable on their LTIP shares.

Performance on unvested components of awards is retested after each year from the date of grant. The Plan allows for re-testing because the impacts of long-term decision making may not be reflected within the prior period and relative performance in the subsequent years would need to be significant to make up for any underperformance over the prior test periods.

Except as modified by the Board in its discretion, shares that remain unvested as at the 6th anniversary of the date of grant lapse and will be sold by the Custodian to reduce any outstanding loan, bought back under the LTIP or cancelled, subject to compliance with the Law. The LTIP was approved by Shareholders at the Annual General Meeting on 22 December 2003 and a more detailed description can be found in the 2006 and 2007 Remuneration Reports.

Cash LTIP

Prior to corporatisation, certain employees were entitled to incentive payments under a cash-based shadow scheme whereby they receive cash payments capped between 3 cents and 13 cents per (pre consolidation) share granted.

The vesting schedule mirrors that of the LTIP with unpaid entitlements forfeited upon resignation.

The amount of this remuneration paid in the period has been disclosed as Cash LTIP. The fair value of this remuneration in the period has been disclosed under the heading 'Fair value at grant date'.

Changes to the LTIP and Cash LTIP

Challenger's share price has fallen substantially since November 2007.

In the Board's view, the dramatic fall in Challenger's share price is not a fair reflection of the underlying performance of the Group as demonstrated by the growth in normalised profit after tax under the COE reporting analysis (refer pages 6 and 7) or the performance of its senior management team.

The LTIP and Cash LTIP are intended to be an incentive to encourage senior management to achieve outstanding performance over the long term. They were always intended to constitute a material proportion of the total value of the holder's annual remuneration. Challenger has used share schemes of this nature as remuneration in lieu of large cash bonuses preferred by competitor organisations. However, as a result of the recent material fall in the Challenger share price, the awards have ceased to provide any incentive and employees who were depending upon these shares as a significant part of their remuneration face material disadvantage.

Challenger's most valuable asset is its human capital. Many of the holders of the LTIP and Cash LTIP are 'Key Person Risks', that is, they are individuals who cannot be readily replaced and whose loss may have a significant adverse impact on Challenger's operations and future performance. Challenger believes that it should continue to provide attainable incentives to these key individuals, given their importance to Challenger's business.

To address this and to ensure that relevant individuals continue to have meaningful retention arrangements, on 3 April 2008 the Directors extended the final test date for LTIP and Cash LTIP awards for key continuing employees with a reference date of 10 April 2003 (and hence a final test date of 10 April 2008) to 30 November 2009. This extended test date only applies to the final tranche (9.42 million units) of the awards as previous tranches had vested. The cost of this extension was 14 cents per unit. The total cost of $1.3 million will be expensed over the revised time to maturity. At the time of the change the Challenger share price was $2.05.

The original performance conditions remain in place and therefore a substantial recovery in Challenger's share price between now and 30 November 2009 will be required for the performance condition to be satisfied and the final tranches to vest. This provides significant alignment with the interests of shareholders and important motivation for these key executives to remain with Challenger.

AASB2: Share Based Payments requires Challenger to recognise an accounting expense for these modifications ("LTIP Modification Cost") and for the amortised accounting expense to be disclosed as Share Based Payment remuneration for relevant Executives. The Directors note that this accounting expense does not constitute a cash expense to Challenger and the amounts disclosed as remuneration in the remuneration tables in respect of LTIP Modification Costs do not represent cash or shares received in the hands of the individuals.

The Board believe that the exceptional conditions influencing the Challenger share price warranted the above change.

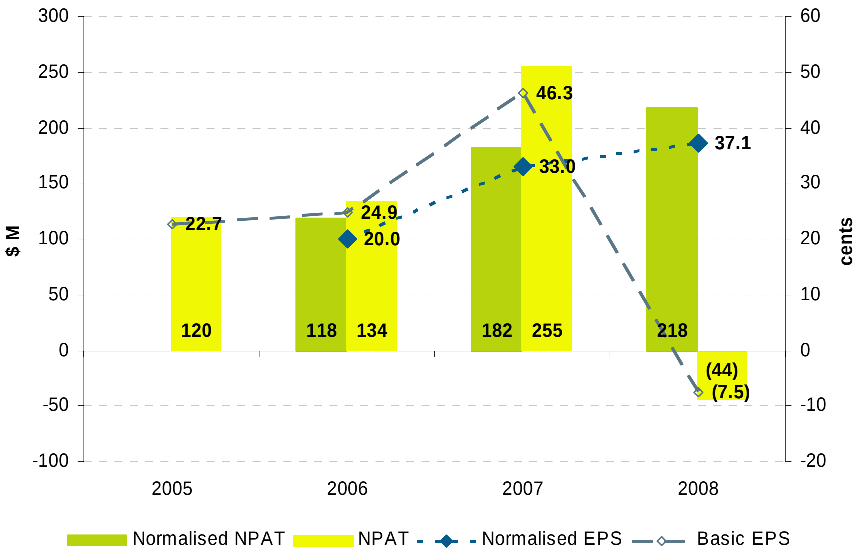
d. Relationship of incentives to Group's financial performance

	30 June 2005	30 June 2006	30 June 2007	30 June 2008
Closing share price ($)	3.12	3.16	5.83	1.89
Dividends paid (cents per share)	5.0	7.5	12.5	12.5
Normalised net profit/(loss) before tax ($M)[1]	n/a	161.1	230.4	279.3
Normalised net profit/(loss) after tax ($M) [1]	n/a	117.5	182.0	217.9
Normalised basic earnings per share (cents) [1]	n/a	20.0	33.0	37.1
Statutory net profit/(loss) before tax ($M)	164.5	181.0	311.0	(62.1)
Statutory net profit/(loss) after tax ($M)	119.6	134.3	255.0	(44.2)
Basic earnings per share (cents)	22.7	24.9	46.3	(7.5)

[1]Normalised net profit is defined in section 5 of the Directors Report

- CGF TSR v ASX 100 TSR

Challenger Basic Earnings per share performance measure:



e. Executive Contracts

Executives (excluding CEO)

Notice period by the Company and the Executive is 26 weeks (unless dismissed with cause).

Upon termination, if the Executive is considered a Good Leaver (such as cessation of employment due to redundancy) he / she will be entitled to:

- retain vested and unvested LTIP awards made to them as Initial Participants (Former Plan);
- retain vested LTIP from awards made to them other than as Initial Participants;
- a pro rata bonus; and
- any deferred STI amounts.

Board discretion will apply in relation to equity awards under the CPP.

If an Executive is considered a Bad Leaver (such as resignation to pursue other opportunities), he / she will forfeit:

- any unvested LTIP / CPP allocations; and
- any deferred STI amounts owing.

CEO Remuneration

The Remuneration Committee is responsible for reviewing the remuneration of the CEO, which must be approved by the full Board.

Under the terms of his appointment as CEO, Mr Tilley is entitled to:

- a base salary of $1,500,000 per annum;
- a short term incentive subject to achieving qualitative and quantitative hurdles set by the board;
- a $500,000 interest free loan for the purpose of investing in Challenger investment products, other than Challenger shares; and
- a retention bonus of $250,000 after five years of employment as CEO.

Mr Tilley may terminate his service agreement by giving 12 months notice, in which event he will receive accrued statutory and contractual entitlements, but he will not be entitled to any termination payment, short term incentive payments, unvested shares or future retention payments.

Mr Tilley was not entitled to participate in the LTIP. However, following shareholder approval at the Company Annual General Meeting on 23 November 2004, Mr Tilley was allocated 1,000,000 restricted post share consolidation Challenger shares, funded via limited recourse loan and issued at $2.65. Following, shareholder approval at the following Annual General Meeting, Mr Tilley was allocated a further 3,000,000 restricted post share consolidation Challenger shares. These shares were issued substantially on the same terms as the Long Term Incentive Plan limited recourse loan and escrow conditions, with a reference date of 2 August 2004, the date Mr Tilley became CEO.

At the Extraordinary General Meeting held on 19 October 2007 shareholders approved an award of Share Options to Mr Tilley under the Challenger Performance Plan. Mr Tilley was awarded 4,000,000 options with an exercise price of $5.20. This was the same price at which shareholders also agreed the issuance of shares to The Bank of Tokyo-Mitsubishi UFJ, Ltd and Mitsubishi UFJ Securities Co., Ltd.

During the year Challenger also agreed to pay interest on a loan taken out by Mr Tilley to acquire up to a further 4,000,000 Challenger shares on market for a period of up to four years or the termination of Mr Tilley's employment for any reason if earlier. The loan taken out by Mr Tilley is fully secured against the underlying shares and is not a margin loan. Challenger has no exposure in relation to the loan principal advanced to Mr Tilley by the third party for the purposes of acquiring the shares. The amount is net of any dividends on the underlying shares which are set off against the interest obligation by the lender. In the Board's view, at the time of grant, this arrangement, when considered with Mr Tilley's other long term incentive arrangements, provided the necessary alignment between Mr Tilley and shareholders interests.

The Company may terminate Mr Tilley's service agreement, in which event (other than in the case of termination for serious misconduct, poor performance or incapacity) Mr Tilley will be entitled to a payment of:

- $1.75 million if termination is during years three to five; or
- $1.5 million if termination is after year five.

Where termination is for serious misconduct or poor performance, Mr Tilley will be entitled to accrued entitlements, but he will not be entitled to a termination payment, except where termination is due to incapacity in which case he will be entitled to a termination payment of $750,000.

f. Remuneration Tables

Details of Remuneration

The nature and amount of each component of remuneration paid and accrued to the CEO and other key management personnel (KMP) who have the greatest authority for managing the operations of the Company and the 5 highest remunerated company executives of the Company in the year ended 30 June 2008 and 30 June 2007 comparative data is set out below:

Name	Year	Short Term Employee Benefits			Post Employment Benefits	Other Long Term Benefits		Share Based Payments		Total
		Salary	STI[5]	Other	Super	Other Long Term Benefits	Cash LTIP	Equity Settled Shares and Units[3]	Equity Settled Options and Rights	
		$	$	$	$	$	$	$	$	$
M Tilley	Group CEO									
	2008	1,486,871	2,000,000	1,811,936[1]	13,129	250,000	-	567,078	1,979,778	8,108,792
	2007	1,487,314	2,500,000	-	12,686	-	-	848,322	-	4,848,322
R Adams	Chief Executive, Funds Management									
	2008	586,871	300,000	-	13,129	-	325,000	180,132	384,215	1,789,347
	2007	587,314	1,000,000	-	12,686	-	325,000	232,418	65,825	2,223,243
B Benari	Chief Executive, Mortgage Management									
	2008	586,871	1,000,000	625,000[1]	13,129	-	-	157,475	868,009	3,250,484
	2007	587,314	2,080,000	-	12,686	-	325,000	221,161	131,651	3,357,812
R Howes	Principal Executive Officer, Challenger Life No.2 Limited									
	2008	386,871	525,000	625,000[1]	13,129	-	60,000	204,402	1,094,660	2,909,062
	2007	387,314	2,800,000	-	12,686	-	60,000	259,472	131,651	3,651,123
P Rogan	Group Chief Financial Officer									
	2008	586,871	400,000	308,747[2]	13,129	-	-	1,062,001	276,845	2,647,593
	2007	587,314	1,090,000	-	12,686	-	-	212,399	-	1,902,399
D Stevens	Deputy Managing Director									
	2008	586,871	1,000,000	625,000[1]	13,129	-	165,000	191,118	943,562	3,524,680
	2007	587,314	2,320,000	-	12,686	-	165,000	306,918	131,651	3,523,569
R Woods	Chief Executive, Asset Management									
	2008	586,871	525,000	625,000[1]	13,129	-	-	181,170	1,189,096	3,120,266
	2007	587,314	3,100,000	-	12,686	-	-	269,834	131,651	4,101,485
G Kirk	Former Chief Executive, Financial Planning									
	2008	461,871	-	3,000,000[6]	13,129	-	-	(297,869)[4]	444,748	3,621,879
	2007	437,314	940,000	-	12,686	-	-	323,619	-	1,713,619

1 Relates to the interest amounts accrued in the year on the loan taken out by individuals to acquire Challenger shares.
2 For Mr Rogan the amount relates to the interest amounts accrued in relation to his participation in the Deferred Loan Plan.
3 Includes the amortised accounting cost of “LTIP Modification Cost” attributable to each individual.
4 Negative figures for Equity Settled Shares and Units for Mr Kirk are due to forfeiture of his awards on cessation of employment following the sale of the Financial Planning Division on 30 June 2008.
5 The comparative disclosures for 2007 STI have been adjusted to reflect the accrued bonus for that year for each Executive rather than the cash paid in the year. The accrued amounts were previously included in the 2007 financial results and as such do not require an adjustment to the 2007 Income Statement or Balance Sheet. Previously disclosed amounts were M Tilley $1.4m, R Adams $0.7m, B Benari $1.4m, R Howes $1.3m, P Rogan $0.535m, D Stevens $1.4m, R Woods $1.4m and G Kirk $0.0m.
6 For Mr Kirk the amount represents the aggregate payment in relation to Mr Kirk’s performance during the 2008 year which included a significant contribution to the sale of the Financial Planning Division.

Remuneration Components as a % of total remuneration for the year ended 30 June 2008

Executive	Fixed Remuneration	Performance based remuneration		Total
		STI	LTI	
M Tilley	18%	48%	34%	100%
R Adams	33%	17%	50%	100%
B Benari	18%	50%	32%	100%
R Howes	14%	39%	47%	100%
P Rogan	22%	27%	51%	100%
D Stevens	17%	46%	37%	100%
R Woods	19%	37%	44%	100%

Remuneration Components as a % of total remuneration for the year ended 30 June 2007

Executive	Fixed Remuneration	Performance based remuneration		Total
		STI	LTI	
M Tilley	31%	52%	17%	100%
R Adams	27%	45%	28%	100%
B Benari	18%	62%	20%	100%
R Howes	11%	77%	12%	100%
P Rogan	32%	57%	11%	100%
D Stevens	17%	66%	17%	100%
R Woods	15%	75%	10%	100%

Maximum value* of Remuneration that vests in future years

Executive		2009 $	2010 $	2011 $	2012 $
M Tilley	Cash	350,000	250,000	-	-
	Other[1]	5,498,332	4,883,044	4,677,299	553,479
R Adams	Cash	800,000	-	-	-
	Other[1]	442,116	289,424	137,149	7,715
B Benari	Cash	1,000,000	-	-	-
	Other[1]	1,907,572	1,553,917	438,229	5,130
R Howes	Cash	470,000	-	-	-
	Other[1]	2,024,774	1,613,007	473,094	5,130
P Rogan	Cash	125,000	-	-	-
	Other[1]	1,951,838	1,360,077	834,071	164,729
D Stevens	Cash	680,000	-	-	-
	Other[1]	1,838,430	1,510,634	437,509	5,130
R Woods	Cash	350,000	-	-	-
	Other[1]	2,076,172	1,605,752	453,236	5,130

** The minimum value of remuneration that vests in future years for all disclosed Executives is $0*
[1]Other includes all accounting costs of equity that may vest in future years.

The maximum value of remuneration that may vest in future years comprises unvested EIP, Cash LTIP payments and the accounting value of equity grants under the CPP / LTIP assuming 100% vesting.

Terms and conditions of equity allocations for the year ended 30 June 2008

Terms and conditions of Performance Rights

The following tables details Performance Rights awards made under the Challenger Performance Plan (CPP).

(i) Performance Rights granted during the 2008 financial year as a result of compulsory deferral of EIP amounts for the year ended 30 June 2007:

Name	Compulsory deferral from 2007 EIP	Allocation Price	CPP Rights granted	Grant date	Vesting 15 Sep 2008		Vesting 15 Sep 2009		Vesting 15 Sep 2010	
	$	$	No.		No.	Fair Value at Grant $	No.	Fair Value at Grant $	No.	Fair Value at Grant $
M Tilley	1,500,000	5.57	269,527	15 Sep 2007	89,842	5.52	89,842	5.38	89,843	5.24
R Adams	500,000	5.57	89,842	15 Sep 2007	29,947	5.52	29,947	5.38	29,948	5.24
B Benari	1,220,000	5.57	219,215	15 Sep 2007	73,071	5.52	73,071	5.38	73,073	5.24
R Howes	1,700,000	5.57	305,464	15 Sep 2007	101,821	5.52	101,821	5.38	101,822	5.24
P Rogan	560,000	5.57	100,623	15 Sep 2007	33,541	5.52	33,541	5.38	33,541	5.24
D Stevens	1,380,000	5.57	247,965	15 Sep 2007	82,655	5.52	82,655	5.38	82,655	5.24
R Woods	1,900,000	5.57	341,401	15 Sep 2007	113,800	5.52	113,800	5.38	113,801	5.24
G Kirk	460,000	5.57	82,655	15 Sep 2007	27,551	5.52	27,551	5.38	27,553	5.24

(ii) Additional Performance Rights granted during the 2008 financial year:

Name	Additional Rights award $	Allocation Price $	Number of Performance Rights granted	Grant date	Vesting 15 Sep 2010	
					Number	Fair value at grant $
B Benari	200,000	5.57	35,936	15 Sep 2007	35,936	5.24
R Howes	200,000	5.57	35,936	15 Sep 2007	35,936	5.24
P Rogan	50,000	5.57	8,984	15 Sep 2007	8,984	5.24
D Stevens	200,000	5.57	35,936	15 Sep 2007	35,936	5.24
R Woods	200,000	5.57	35,936	15 Sep 2007	35,936	5.24

Performance Rights have tenure based vesting only. There is no other performance condition, because compulsory deferred EIP represents reward for past performance, and to apply further performance conditions would be to apply a double set of performance requirements.

Terms and conditions of option grants

The following tables detail share option offers and grants made during the 2008 financial year to key management personnel.

Options granted during 2008 to the Group Chief Executive Officer

Executive	Plan	Options Granted	Grant Date	Exercise Price $	Fair Value at Grant $	Aggregate Value	Vesting date
M Tilley	CPP	4,000,000	19 Oct 2007	5.20	1.82	$7,280,000	19 Oct 2011

The above options expire 180 days post 19 October 2011. The terms of the above options were approved by Shareholders at the extraordinary general meeting held on 19 October 2007.

The Board considered that a blended hurdle, consisting of external Total Shareholder Return ('TSR') and internal Earnings Per Share ('EPS'), is the most appropriate hurdle for this purpose.

In order for 100% of the Options to vest, the Company must have experienced compound growth in the earnings per share of 10% per annum during the financial years from 1 July 2007 to 30 June 2011.

If that target is not satisfied, but the 'total shareholder return' is greater than or equal to the 75th percentile of the total shareholder returns of other S&P ASX 100 companies for that period then 100% of those options will vest.

If neither of these targets are satisfied, but the 'total shareholder return' is greater than the 50th percentile of the total shareholder returns of other S&P ASX 100 companies, then 50% of those options will vest. For each part of a percentile by which 'total shareholder return' exceeds the 50th percentile of the total shareholder returns of other S&P ASX 100 companies, up to the 75th percentile, an additional portion of the options will vest pro rata on a straight line basis. (For example, if 'total shareholder return' is at the 62.5 percentile of other S&P ASX 100 companies, 3 million options will vest).

For these purposes 'total shareholder return' is determined by calculating the amount by which the sum of the 30 day volume weighted average price ('VWAP') for the Company's ordinary shares in the period up to and including 23 August 2011 and the dividends paid on an ordinary share in the Company between 24 August 2007 and 23 August 2011 exceeds the 30 day VWAP for the Company's ordinary shares in the period up to and including 24 August 2007, expressed as a percentage. The 'total shareholder return' for the other S&P ASX 100 companies will be calculated in a similar manner.

If none of those performance targets have been reached at the end of the four year vesting period, the options will lapse. No re-testing is allowed.

Options offered during 2008 to Key Management Personnel

Executive	CPP Options Granted[1]	Exercise Price	Vesting 30 Aug 2009		Vesting 30 Aug 2010		Vesting 30 Aug 2011		Aggregate Fair Value
			No	Fair Value at Grant $	No	Fair Value at Grant $	No	Fair Value at Grant $	
R Adams	600,000	2.20	200,000	0.19	200,000	0.27	200,000	0.32	156,800
B Benari	900,000	2.20	300,000	0.19	300,000	0.27	300,000	0.32	235,200
R Howes	900,000	2.20	300,000	0.19	300,000	0.27	300,000	0.32	235,200
P Rogan	900,000	2.20	300,000	0.19	300,000	0.27	300,000	0.32	235,200
D Stevens	900,000	2.20	300,000	0.19	300,000	0.27	300,000	0.32	235,200
R Woods	900,000	2.20	300,000	0.19	300,000	0.27	300,000	0.32	235,200

[1]Grant date 30 June 2008

The above options were issued on 4 July 2008 following a one week acceptance period. The options will vest one-third on 30 August 2009, one-third on 30 August 2010 and one-third on 30 August 2011 subject to the achievement of a minimum level of normalised net profit after tax target for the financial year preceding the particular vesting date (as measured under the normalised Cash Operating Earnings methodology outlined on pages 6 and 7) and a compounding growth rate of 10% p.a.

Ernst & Young will independently test whether the Performance Condition attaching to each Tranche has been satisfied.

Given the ongoing dislocation of global financial and equity markets the Board were of the view that the combined impact of line of sight to achieve vesting for executives through the inclusion of a challenging internal performance hurdle, as well as issuing the options with a strike price at a significant premium to the share price at the time of offer, provided significant alignment between the relevant executives and Shareholders.

No options issued under the CPP were exercised or lapsed in the year ended 30 June 2008.

No amounts were paid by the participants upon the grant of options.

For full details of all new issues from the Challenger performance plan see Note 31: Employee entitlements.

Deferred Loan Share Purchases for the year ended 30 June 2008 for Key Management Personnel

Executive	Granted Number	Grant Date	Grant Price $	Fair Value at Grant $	First Vesting Date	Final Vesting date
P Rogan	2,000,000	5 Sep 2007	$5.62	1.49	30 Sep 2009	30 Sep 2011

The above table summarises shares acquired under the Deferred Loan Plan during the year ended 30 June 2008. The Deferred Loan Plan was provided to Mr Rogan in lieu of pre-existing entitlements under Challenger's LTIP scheme prior to that scheme being suspended. Under the Deferred Loan Plan, Challenger is responsible for meeting the interest payable on the loan over its term, net of any dividends paid on the shares. Shares vest progressively over 4 years, commencing at the end of year 2, subject to continued employment with Challenger. Shares are forfeited and the arrangement unwound in the event that the employment condition is not satisfied. In certain special circumstances (such as death, total and permanent disablement and redundancy) Mr Rogan may be entitled to retain his unvested shares if he fully discharges the outstanding loan amount.

g. Non-Executive Director Remuneration Policy

The remuneration policy for Non-Executive Directors aims to ensure that the Company can attract and retain suitably skilled, experienced and committed people to serve on the Board. Total remuneration for Non-Executive Directors is required to be approved by shareholders. The current maximum approved by shareholders to be paid to Non-Executive Directors amounts to $2,000,000.

Non-Executive Directors are not entitled to receive performance related remuneration or to receive shares through participation in any incentive plan.

There are no schemes for retirement benefits with the exception of statutory superannuation.

The following persons were Directors of the Company during the financial year and at the date of this report:

Name	Position	Independent	First Appointed
P Polson	Chairman	Yes	2003
T Barrack Jr.	Non Executive Director	Yes	2007
G Cubbin	Non Executive Director	No	2004
R Hooper	Non Executive Director	Yes	2003
A Jacob	Non Executive Director	No	2003
J Packer	Non Executive Director	No	2003
T Tanaka	Non Executive Director	No	2007
L Zwier	Non Executive Director	Yes	2006

The following persons were Directors of the Company during the year but retired during the period:

Name	Position	Independent	First Appointed	Retired
J Service	Non Executive Director	Yes	2003	2007
B Shanahan	Non Executive Director	Yes	2003	2007
S Russo	Non Executive Director	Yes	2006	2008

Fees payable to Non-Executive Directors are set out below:

Board / Committee	Role	Fee (current)
Board[2]	Chairman[1]	$180,000
	Member	$120,000
Group Audit and Compliance	Chairman[1]	$15,000
	Member	$20,000
Remuneration	Chairman[1]	$10,000
	Member	$15,000

[1] Chairman fees are in addition to Member fees
[2] Board fees include Nomination Committee fees

h. Non-Executive Directors Remuneration Tables

Details of the nature and amount of each element of the emoluments of each Non-Executive Director of the Company and of the Group for the year ended 30 June 2008 are set out in the table below:

		Short Term Salary Benefits	Post-Employment	Other	Total
	Year	Director Fees	Superannuation	Other	
		$	$	$	$
P Polson	2008	311,871	13,129	-	325,000
	2007	308,531	12,686	-	321,217
G Cubbin[1]	2008	165,000	-	-	165,000
	2007	146,136	-	-	146,136
T Barrack Jr[4].	2008	-	-	-	-
	2007	-	-	-	-
R Hooper[1,3]	2008	344,050			344,050
	2007	333,600	-	-	333,600
A Jacob[2]	2008	-	-	-	-
	2007	-	-	-	-
J Packer[2]	2008	-	-	-	-
	2007	-	-	-	-
J Service[1]	2008	60,000	-	-	60,000
	2007	110,000	-	-	110,000
B Shanahan[3]	2008	181,271	15,490	-	196,761
	2007	152,464	12,536	-	165,000
S Russo	2008	91,743	8,257		100,000
	2007	78,687	7,082	-	85,769
T Tanaka	2008	73,200	-	-	73,200
	2007	-	-	-	-
L Zwier[1]	2008	130,000	-	-	130,000
	2007	77,051	-	-	77,051

[1] Fees are exclusive of GST
[2] Acts as a director in connection with discharging their duties as an executive of Consolidated Press Holdings (CPH) and consequently do not currently take fees for their services
[3] Includes CLIL fees exclusive of GST (R Hooper, 2008: $112,185 plus $20,955 for CLIL Due Diligence Committee. 2007: $110,000 plus $52,350 for CLIL Due Diligence committee. B Shanahan 2008: $130,617 plus $14,400 for CLIL Due Diligence Committee. 2007: nil.)
[4] Acts as a director in discharging his duties as an executive of Colony Capital, LLC.

Non-Executive Director contracts

Non-Executive Director contracts can be summarised as follows:

- The duration of the contracts is from 6 November 2003 or date of appointment (if later) until terminated. If Non-Executive Directors retire and are reappointed at an Annual General Meeting, the appointment is deemed to be continuous.
- No period of notice by either Non-Executive Director or the Company is required to terminate a Director's service contract.
- No termination payments are stipulated in the service contracts. However, the Company's constitution allows payments to Director's on their retirement subject to the restrictions of the law and the ASX listing rules.

13. Rounding

The amounts contained in the annual financial report have been rounded off to the nearest $100,000 under the option available to the Company under Australian Securities & Investments Commission (ASIC) Class Order 98/0100. The Company is an entity to which the class order applies.

Auditor independence and non-audit services

The directors received the following declaration from the auditor of Challenger Financial Services Group Limited.

ERNST & YOUNG

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

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

Auditor's Independence Declaration to the Directors of Challenger Financial Services Group Limited

In relation to our audit of the financial report of Challenger Financial Services Group Limited for the financial year ended 30 June 2008, 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

S J Ferguson
Partner
22 August 2008

Liability limited by a scheme approved under Professional Standards Legislation

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	$'000s
Tax compliance services	470
Due diligence services	442
Other assurance services	967

See Note 33 for details

Signed in accordance with a resolution of the directors of Challenger

G A Cubbin
Director
Sydney
22 August 2008

R R Hooper
Director
Sydney
22 August 2008

Corporate Governance Statement

The Company's approach to Corporate Governance

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

The Board determines the most appropriate corporate governance arrangements for the Challenger Group, taking into consideration Australian and international standards and the prudential requirements of regulators such as APRA and ASIC. This statement reflects the Company's corporate governance system as at the date of signing this report.

This Statement reports against the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" released in August 2007. As required by the ASX Listing Rules, this statement sets out the extent to which Challenger has followed the Principles or, where appropriate, indicates a departure from them with an explanation.

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

Principle 1 – Lay solid foundations for management and oversight

The role of the Board and delegations

The Board is accountable to shareholders for the activities and performance of the Company by overseeing the development of sustainable shareholder value within an appropriate framework of risk and regard for all stakeholder interests. The Board has identified the key functions which it has reserved for itself. These duties are outlined below and set out in the Board Charter, a copy of which is available on the Company's web site:

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

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

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

Management Responsibility

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

Executive Performance Assessment

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

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

Performance evaluations for the Group Chief Executive Officer and senior executives have taken place in respect of the 2008 reporting period in accordance with the above process.

Principle 2 – Structure the Board to add value

Membership of the Board

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

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

The Company's constitution provides for a minimum of 3 Directors and a maximum of 12 Directors. The table below summarises the current composition of the Board. Background details of each Director are set out in the Director's Report.

Name	Position	Independent	First Appointed
Peter Polson	Chairman	Yes	2003
Michael Tilley	Executive Director	No	2003
Thomas Barrack Jr.	Non- Executive Director	Yes	2007
Graham Cubbin	Non- Executive Director	No	2004
Russell Hooper	Non- Executive Director	Yes	2003
Ashok Jacob	Non- Executive Director	No	2003
James Packer	Non- Executive Director	No	2003
Tatsuo Tanaka	Non- Executive Director	No	2007
Leon Zwier	Non- Executive Director	Yes	2006

The Chairman is selected by Non Executive Directors of the Board. The roles of Chairman and Chief Executive Officer are not exercised by the same person.

Nominations and appointment of new Directors

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

Retirement and re-election of Directors

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

During the year Mr James Service and Ms Brenda Shanahan retired from the Board and did not stand for re-election. Ms Sarina Russo resigned from the Board with effect from 30 April 2008.

Mr Thomas Barrack Jr. and Mr Tatsuo Tanaka were appointed to the Board on 22 November 2007, and accordingly will retire and submit themselves for re-election at the 2008 annual general meeting.

Succession planning

In conjunction with the Nomination Committee, the Board considers the succession of its members, the CEO, the Chief Financial Officer, the Chief Executives of each of the business divisions, and the Deputy Managing Director as required.

Review of Board performance

The Board Charter sets out the requirement for a formal review of the Board's performance at least every two years. A review of the Board's performance was conducted in May 2007.

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

Director independence

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

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

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

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

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

Up until the resignation of Ms Sarina Russo on 30 April 2008, the Board maintained a balance of equal numbers of Independent and Non-Independent Directors, and the Independent Chairman held a casting vote. Since 30 April 2008 the Board has had a majority of Non-Independent Directors. The Board aspires to having a majority of votes in the hands of Independent Directors, subject to having an appropriate balance of skills, experience and competence on the Board.

The Board regards the selection and appointment of new Directors as one of its most important roles. The appointments of Mr Thomas Barrack Jr. of Colony Capital LLC and Mr Tatsao Tanaka of The Bank of Tokyo Mitsubishi UFJ, Limited has resulted in a material lift in the international business experience of the Challenger Board. The Board may make an additional appointment to the Board when it finds an appropriate candidate with the necessary complementary skills and experience to actively participate in the governance of the businesses undertaken by Challenger.

Determination of materiality in assessing independence

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

In line with the Company's Independence Policy, Messrs Packer, Tanaka and Jacob are not considered independent due to their association with a major shareholder. Mr Cubbin is also not considered independent due to his continuing association with a substantial shareholder, and also by reason of the fact that within the last 4 years he has been a Director and executive officer of a substantial shareholder. Mr Tilley is not considered to be independent as he is an executive director of the company.

Conflicts of interest

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

Meetings of the Board

During the year the Board generally meets formally approximately every six weeks. In addition, the Board may meet whenever necessary to deal with specific matters needing attention between scheduled meetings. The CEO, in consultation with the Chairman establishes the meeting agendas to ensure adequate coverage of strategic, financial and material risk areas throughout the year. Senior executives are invited to attend Board meetings and are available for contact by Non-Executive Directors between meetings. The Non-Executive Directors often hold a private session without any executive involvement as part of Board meetings.

Board access to information and advice

All Directors have unrestricted access to the Company records and information. The Company Secretary provides Directors with guidance on corporate governance issues and developments and on all other matters reasonably requested by the Directors and monitors compliance with the Board Charter. The Board or each individual Director has the right to seek independent professional advice at the Company's expense to assist them to discharge their duties. Whilst the Chairman's prior approval is required, it may not be unreasonably withheld or delayed.

Board committees

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

- the Audit and Compliance Committee;
- the Nomination Committee; and
- the Remuneration Committee.

Each Committee has its own Charter, copies of which are available on the Company's website.

The Charters specify the composition, responsibilities, duties, reporting obligations, meeting arrangements, authority and resources available to the Committees and the provisions for review of the Charter. Details of Directors' membership of each Committee and their attendance at meetings throughout the period are set out below.

Directors' meetings

Director	Board		Audit and Compliance Committee		Remuneration Committee		Nominations Committee**	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
P Polson	9	9	5	5	3	3	-	-
M Tilley	9	9	-	-	-	-	-	-
T Barrack Jr*	5	5	-	-	-	-	-	-
G Cubbin	9	9	8	8	-	-	-	-
R Hooper	9	9	8	8	3	3	-	-
A Jacob*	9	8	-	-	-	-	-	-
J Packer*	9	9	-	-	3	3	-	-
S Russo	8	6	-	-	-	-	-	-
J Service	4	3	-	-	-	-	-	-
B Shanahan	4	4	3	3	-	-	-	-
T Tanaka*	5	5	-	-	-	-	-	-
L Zwier	9	8	-	-	-	-	-	-

* Directors attended by personal attendance and through the attendance of their appointed alternate Directors.

** The Nominations Committee did not meet in the period. The appointment of the new Directors was considered by the Board in connection with the strategic alliances with Colony Capital, LLC and The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Principle 3 – Promote ethical and responsible decision-making

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

- Commercial ownership;
- Compliance;
- Creative customer solutions;
- Working together; and
- Integrity.

Code of conduct

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

Political donations policy

The Board has adopted a policy of not making political donations in any country or jurisdiction in which it operates.

Directors and staff trading policy

Directors and staff are subject to restrictions under the law relating to dealing in securities, including the securities issued by the Company, if they are in possession of insider information. The Board has approved the Group's Staff Trading Policy which prescribes the manner in which staff can trade in the Company's shares and the procedures to open and close trading windows. A summary of the policy is available on the Company's website.

The policy applies to all directors and staff and places restrictions and reporting requirements on staff, including limiting trading in the shares of the Company (or other listed entities within the Group) to specific trading windows and in a specified manner.

Challenger prohibits any director or staff member from trading in derivatives in respect of Challenger shares or other listed Challenger financial products. Challenger prohibits directors and staff members margin lending over Challenger shares.

Those staff designated as potentially having access to insider information are required to seek prior approval to trade in other securities. The policy applies to listed funds offered by Challenger Group Companies.

Principle 4 – Safeguard integrity in financial reporting

Integrity of Challenger financial reporting

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

The background details of the Audit and Compliance Committee members are set out in the Director's Report. The Committee typically meets 6 times a year and additional meetings are scheduled as required. The member's names and attendance at meetings is set out on page 30 of the Corporate Governance Statement.

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

Declaration by the Chief Executive Officer and the Chief Financial Officer

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

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

Independent external audit

The Company requires its independent external audit to:

- provide stakeholders with assurance over the true and fair view of the financial reports; and
- ensure accounting practices comply with applicable accounting rules and policies.

The Company's independent external auditor is Ernst & Young (E&Y). E&Y were appointed upon constitution of the Company in November 2003, and this appointment was ratified by members at the annual general meeting held in November 2004. External auditors are required to rotate the engagement partner assigned to the Company on a five year basis. Under this policy the lead audit engagement partner assigned to the Company rotated at the conclusion of the 2007 financial reporting period.

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

Principle 5 – Make timely and balanced disclosure

Continuous disclosure policy

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

The Board has approved and implemented a Continuous Disclosure Policy. The policy is designed to ensure compliance with the Corporations Act and ASX Listing Rules continuous disclosure requirements. The Company has a Continuous Disclosure Committee which is responsible for:

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

Principle 6 – Respect the rights of shareholders

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

- Communicating effectively;
- Providing ready access to clear and balanced information about the Company; and
- Encouraging participation at general meetings.

As set out in principle 5, it is Company policy that material information concerning the Company will be announced to the market in a timely and objective manner. Following release to the market, the Company publishes annual and half yearly reports, announcements, media releases and other relevant information on its web site at www.challenger.com.au. Internet web-casting and teleconferencing facilities are provided for market briefings to encourage participation from all stakeholders, regardless of their location. The Company also encourages greater use of electronic media by providing shareholders with greater access to the electronic receipt of reports and meeting notices. The Company also provides a facility to ask questions about the Company and have them answered directly via electronic means.

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

Principle 7 – Recognise and manage risk

Risk management and compliance

The management of risks is fundamental to the Company's business and to building shareholder value. The Board recognises the broad range of risks which apply to Challenger as a participant in the financial services industry, including, but not limited to, market risk, funding and liquidity risk, credit risk, investment, strategic and business risk, reputation, licence (compliance) and operational risk. The Board is responsible for determining the Group's risk management strategy. Management is responsible for implementing the Board's strategy and for developing policies and procedures to identify, manage and mitigate risks across the whole of the Group's operations.

The key design component of Challenger's approach to risk management is that the heads of the business units have accountability for the risks within their divisions with oversight, analysis, monitoring and reporting of these risks by executives who are independent of the business units and are responsible to the CEO and the Board or it's Committees.

The Board has delegated certain authorities to management to manage risk. The Group Risk Management Framework is underpinned by a robust set of policies, procedures and delivery plans that are regularly reviewed.

The framework and policies are developed and approved by management, reviewed and approved by the Group Audit and Compliance Committee, and then made available to all staff of the Company and its subsidiaries. The Group's Risk Management functions have day to day responsibility for monitoring the implementation of the framework and policy with regular reporting provided to the Group Audit and Compliance Committee on the adequacy and effectiveness of management controls for material business risk.
The Committee provides reporting to the Board on compliance with the framework and policies. A summary of the Group Risk Framework can be found at the Company's website.

The Board and Audit Committee review the effectiveness of the risk management and internal control system on an annual basis.

Internal Audit

The Group Audit & Compliance Committee has appointed PriceWaterhouseCoopers (PwC) to provide internal audit services for the Challenger Group. The Committee oversees the scope of internal audit and monitors the progress of the internal audit work programme. The Committee receives reports from internal audit at each meeting and monitors management's responsiveness to internal audit findings and recommendations. The internal audit function is independent of the external auditor. The internal audit function reports directly to the Group Audit and Compliance Committee.

Assurance

During the period, the Board has received formal assurance from the CEO and CFO that:

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

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

Principle 8 – Remunerate fairly and responsibly

The Board Remuneration Committee

The Board has established a Remuneration Committee comprised of a majority of independent Directors, having at least 3 members and is chaired by an independent Director. The background details of the Remuneration Committee members are set out in the Director's Report. The Committee usually meets at least 2 times during the year, and additional meetings are scheduled as required. The member's names and attendance at meetings is set out on page 30 of the Corporate Governance Statement.

The Remuneration Committee is responsible for reviewing and recommending to the Board on:

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

Remuneration

The remuneration details for senior executives and Non-Executive Directors are reported in the Remuneration Report. Non-Executive Directors are not entitled to participate in incentive schemes. There are no termination payments to Non-Executive Directors on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration.

Challenger policy, contained in the staff trading policy, prohibits any executive or staff member from entering into a transaction that is designed or intended to hedge that component of their unvested remuneration which is constituted by Challenger shares or options. It is also Company policy to prohibit margin lending over Challenger shares by Directors, senior executives and staff members.

Financial Report

Contents **Page**

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

Income Statements

For the year ended 30 June 2008

		Consolidated		Parent	
	Notes	2008 $M	2007 $M	2008 $M	2007 $M
Derived from operating activities					
Revenue	2	2,465.0	2,328.3	117.1	104.6
Expenses	3	(847.2)	(623.9)	(0.1)	-
Finance costs	4	(1,682.0)	(1,401.8)	-	-
		(64.2)	302.6	117.0	104.6
Share of profits of associates		2.1	0.1	-	-
(Loss)/profit from continuing operations before income tax		**(62.1)**	**302.7**	**117.0**	**104.6**
Income tax benefit/(expense) from continuing operations	5	31.3	(75.3)	0.2	6.2
(Loss)/profit from continuing operations after income tax		**(30.8)**	**227.4**	**117.2**	**110.8**
(Loss)/profit from discontinued operations after income tax	35	**(8.4)**	**6.8**	**-**	**-**
(Loss)/profit after income tax		**(39.2)**	**234.2**	**117.2**	**110.8**
(Profit)/losses attributable to minority interest	25	(5.0)	20.8	-	-
(Loss)/profit attributable to equity holders of the parent		**(44.2)**	**255.0**	**117.2**	**110.8**
Earnings per share from continuing operations:					
Basic earnings per share	7	(6.1)	45.0		
Diluted earnings per share	7	(6.7)	42.1		
Earnings per share from all operations:					
Basic earnings per share	7	(7.5)	46.3		
Diluted earnings per share	7	(8.1)	43.2		

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

Balance Sheets

As at 30 June 2008

		Consolidated		Parent	
	Notes	2008 $M	2007 $M	2008 $M	2007 $M
Assets					
Cash and cash equivalents	8	657.8	706.9	2.8	2.2
Cash and cash equivalents - SPV	8	956.0	1,114.1	-	-
Receivables	9	381.3	194.1	526.6	443.0
Receivables - SPV	9	18,760.4	19,820.4	-	-
Derivative assets	28	83.3	49.8	-	-
Financial assets fair valued through income statement	10	3,810.8	2,464.7	-	-
Available for sale assets	10	33.5	16.7	-	-
Investment properties	10, 11	1,575.4	1,623.0	-	-
Plant and equipment	12	61.7	64.9	-	-
Deferred tax assets	5	198.0	119.3	70.6	43.8
Investment in controlled entities	36	-	-	1,087.6	1,043.3
Investments in associates	37	35.0	58.1	-	-
Other assets	15	149.2	168.4	-	1.1
Goodwill	13	624.0	577.3	-	-
Other intangible assets	13	28.9	37.5	-	-
Total assets		27,355.3	27,015.2	1,687.6	1,533.4
Liabilities					
Payables	16	492.8	448.3	162.3	356.2
Current tax liabilities		66.9	80.6	-	-
Derivative liabilities	28	75.7	41.3	-	-
Financial liabilities fair valued through income statement	17	43.6	93.2	-	-
Interest bearing liabilities	18	1,494.0	1,692.4	-	-
Interest bearing liabilities - SPV	18	19,523.7	20,829.3	-	-
Provisions	19	53.3	43.2	7.5	-
Deferred tax liabilities	5	232.2	228.2	-	-
Life contract liabilities	20	3,743.1	2,110.1	-	-
Total liabilities		25,725.3	25,566.6	169.8	356.2
Net assets		**1,630.0**	**1,448.6**	**1,517.8**	**1,177.2**
Equity					
Contributed equity	22	1,462.4	1,259.9	1,486.9	1,259.9
Reserves	23	170.2	82.9	159.3	85.3
Retained (losses)/earnings	24	(19.7)	102.1	(128.4)	(168.0)
Total equity attributable to equity holders of the parent		**1,612.9**	**1,444.9**	**1,517.8**	**1,177.2**
Minority interests	25	17.1	3.7	-	-
Total equity		**1,630.0**	**1,448.6**	**1,517.8**	**1,177.2**

The balance sheets should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

For year ended 30 June 2008		Consolidated		Parent	
		2008	2007	2008	2007
Issued capital	Notes	$M	$M	$M	$M
Opening balance at the beginning of financial year		1,427.1	1,412.4	1,427.1	1,412.4
New shares issued		207.5	-	207.5	-
Cost of share based payments		(12.5)	14.7	(12.5)	14.7
Closing balance at the end of financial year		1,622.1	1,427.1	1,622.1	1,427.1
Treasury shares					
Opening balance at the beginning of financial year		(167.2)	(168.4)	(167.2)	(168.4)
Shares issued/purchased		(25.8)	-	-	-
Shares redeemed		13.8	5.4	12.5	5.4
Shares issued under share based payment plan net of shares cancelled		19.5	(4.2)	19.5	(4.2)
Closing balance at the end of financial year		(159.7)	(167.2)	(135.2)	(167.2)
Total contributed equity	22	1,462.4	1,259.9	1,486.9	1,259.9
Retained earnings / (losses)					
Opening balance at the beginning of financial year		102.1	(93.0)	(168.0)	(218.9)
Profit/(loss) for the year		(44.2)	255.0	117.2	110.8
Equity dividends/distributions		(77.6)	(59.9)	(77.6)	(59.9)
Closing balance at the end of financial year		(19.7)	102.1	(128.4)	(168.0)
Reserves					
Opening balance at the beginning of financial year		82.9	83.8	85.3	78.6
Reversal on deconsolidation of CIF		-	(19.5)	-	-
Increase in equity option premium reserve		63.4	-	63.4	-
Currency translation differences		(6.9)	(0.4)	-	-
Changes in cash flow hedges, net of tax		15.7	12.5	-	-
Changes in available-for-sale assets, net of tax		4.5	(0.2)	-	-
Cost of share based payments		10.6	6.7	10.6	6.7
Closing balance at the end of financial year	23	170.2	82.9	159.3	85.3
Total		1,612.9	1,444.9	1,517.8	1,177.2
Minority interest					
Opening balance at the beginning of financial year		3.7	375.4	-	-
Reversal on deconsolidation of CIF		-	(346.0)	-	-
Other minority movements/distributions		8.4	(4.9)	-	-
Profit/(loss) for the year		5.0	(20.8)	-	-
Closing balance at the end of financial year		17.1	3.7	-	-
Total equity		**1,630.0**	**1,448.6**	**1,517.8**	**1,177.2**
Total recognised income and expense for the year					
Items recognised directly in equity		13.3	(13.2)	-	-
Profit/(loss) for the year		(39.2)	234.2	117.2	110.8
		(25.9)	**221.0**	**117.2**	**110.8**
Total income and expense for the year attributable to:					
Equity holders of the parent		(30.9)	247.4	117.2	110.8
Minority interest		5.0	(26.4)	-	-
		(25.9)	**221.0**	**117.2**	**110.8**

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

Statements of Cash Flows

For the year ended 30 June 2008

		Consolidated		Parent	
	Notes	2008 $M	2007 $M	2008 $M	2007 $M
Operating activities					
Receipts from customers[1]		2,557.7	2,197.3	0.3	-
Annuities received		768.5	439.2	-	-
Annuities paid		(1,005.8)	(432.6)	-	-
Payments to vendors and employees[1]		(2,456.9)	(2,021.2)	(2.2)	-
Dividends received		111.8	45.3	110.3	104.5
Interest received		322.0	122.3	6.5	-
Interest paid		(119.5)	(91.3)	-	-
Income tax (paid)/received		(5.5)	34.9	(0.8)	-
Net cash inflow from operating activities	32	**172.3**	**293.9**	**114.1**	**104.5**
Investing activities					
Proceeds on sale of investments		1,252.5	17.0	-	-
Proceeds on disposal of subsidiary		136.9	-	-	-
Mortgages loans - advanced and purchased		(10,723.7)	(11,902.5)	-	-
Mortgages loans - repaid and sold		11,755.6	10,349.5	-	-
Payments for purchase of investments		(2,967.3)	(782.2)	(25.7)	-
Net proceeds/(payments) for purchase of controlled entities		898.3	(55.4)	-	-
Payments for purchase of plant and equipment		(14.1)	(41.6)	-	-
Restructure costs		-	(3.5)	-	-
Net cash outflow from investing activities		**338.2**	**(2,418.7)**	**(25.7)**	**-**
Financing activities					
Proceeds from interest bearing liabilities		11,480.7	17,741.0	-	-
Repayment of interest bearing liabilities		(12,406.6)	(15,560.0)	-	-
Proceeds from issue of units		292.2	239.2	292.2	-
Dividend paid		(76.5)	(68.8)	(76.5)	(59.9)
Distributions paid to minorities		(7.5)	-	-	-
Advances to controlled entities		-	-	(303.5)	(42.7)
Net cash inflow/(outflow) from financing activities		**(717.7)**	**2,351.4**	**(87.8)**	**(102.6)**
Net (decrease)/increase in cash and cash equivalents		(207.2)	226.6	0.6	1.9
Cash and cash equivalents at the start of year		1,821.0	1,587.8	2.2	0.3
Prior year reclassification of cash		-	6.6	-	-
Cash and cash equivalents at the end of year	8	**1,613.8**	**1,821.0**	**2.8**	**2.2**
Cash		657.8	706.9	2.8	2.2
Cash - SPV		956.0	1,114.1	-	-
Cash and cash equivalents at the end of year		**1,613.8**	**1,821.0**	**2.8**	**2.2**

[1] Inclusive of GST

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

1. *Summary of Significant Accounting Policies*

The financial report of Challenger Financial Services Group Limited (the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 22 August 2008.

The consolidated financial report of the Company for the financial year ended 30 June 2008 comprises the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates.

i) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. Since 1 July 2007, the Group has adopted a number of Australian Accounting Standards and Interpretations which were mandatory for accounting periods beginning on or after 1 July 2007. Adoption of these standards has not had any effect on the financial position or performance of the Group.

The financial report has also been prepared on a historical cost basis, except for investment properties, derivative financial instruments and available-for-sale investments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

ii) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

A summary of the significant accounting policies of the Group under AIFRS are disclosed below.

iii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and certain special purpose entities as at 30 June 2008. The financial statements of subsidiaries and special purpose entities are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries and Special Purpose Vehicles are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. Where there is a loss of control of a subsidiary or special purpose entity, the consolidated financial statements include the results for the part of the reporting year during which the Company had control.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Refer to Note 34 Business combinations and Note 35 Discontinued operations for details of acquisitions and disposals during the year ended 30 June 2008.

Minority interest in the results and equity of controlled entities where the Group owns less than 100% of the issued capital, are shown separately in the consolidated income statement and balance sheet.

Both the shareholders' and policy owners' interests in the life insurance funds of Challenger Life No. 2 Limited are consolidated.

Where controlled entities other than Challenger Life No. 2 Limited are consolidated, the excess of the purchase price over the fair value of net assets of controlled entities is treated as goodwill and is subject to impairment testing as described in Note 1 xx).

Investment in associates

The Group's investments in associates are accounted for under the equity method of accounting in the consolidated financial statements. These are entities which the Group has significant influence but not control over the financial and operating policies. The financial statements of the associates are used by the Group to apply the equity method. The reporting dates of the associates and the Group are consistent and both use consistent accounting policies. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associates.

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

Securitisation vehicles
The Mortgage Management division originates and manages residential mortgage loans to securitisation vehicles (all referred to as special purpose vehicles) through its loan securitisation program. These vehicles are deemed by accounting standards to be controlled by the Group and are therefore consolidated.

Funds under management
Within the economic entity, certain controlled entities act as the single responsible entity / manager for a number of registered schemes and property syndicates. Registered schemes and property syndicates have not been consolidated in the financial statements as individual entities within the economic entity do not have control of the schemes and syndicates.

Classification of assets and liabilities
The Group operates predominantly in the financial services industry. As such, the assets and liabilities disclosed in the consolidated balance sheet are grouped by nature and listed in an order that reflects their relative liquidity.

iv) Life insurance financial reporting

The Asset Management business includes the selling and administration of contracts through Challenger Life No. 2 Limited. These contracts are governed under the Life Insurance Act 1995 (Life Act). For purposes of the financial statements these are classified as either life insurance contracts or life investment contracts.

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

The Asset Management business is conducted within separate statutory funds as required by the Life Insurance Act 1995 and are reported in aggregate in the income statement and balance sheet of the Group. The activities of the statutory funds are reported in aggregate with the shareholders fund in the financial report of the Group.

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

The life insurance operations consist of both investment-linked and non investment-linked business. Investment-linked business is business where the Group issues a contract where the benefit amount is directly linked to the market value of the investments held in the fund. While the underlying assets are registered in the name of a controlled entity and the policy owner has no direct access to the specific assets, the contractual arrangements are such that the policy owner bears the risks and rewards of the fund's investment performance. The Group derives fee income from the administration of the investment-linked funds.

Non investment-linked business is business which issues a contract where the benefit amount is not directly linked to the market value of the investments held in the fund. Policy contracts that include both investment-linked elements and non investment-linked elements are separated into these two elements and reported accordingly.

v) Recognition of trailing revenues and receivables

On initial recognition, trailing revenues and receivables are recognised at fair value, being the expected future trailing commission receivable less an estimated cost of servicing, discounted to their present value. In addition, an associated payable and expense to the member brokers is also recognised, initially measured at the fair value being the future trailing commission payable to member brokers discounted to their present value. Subsequent to initial recognition and measurement, both the trailing commission on the asset and commission payable are measured at amortised cost. The carrying amount of the trail commission asset and trailing commission payable are adjusted to reflect the actual and revised cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the profit and loss account.

vi) Income tax

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

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

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

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

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

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

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

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

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

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

Tax effect accounting by members of the tax group
Members of the tax consolidated group have applied tax funding principles under which Challenger Financial Services Group Limited and each of the members of the tax consolidated group agree to pay tax equivalent payments to or from the head entity, based on the current tax liability or current tax asset of the member. Such amounts are reflected in the amounts receivable from or payable to each member and the head entity.

The group allocation approach is applied in determining the appropriate amount of current tax liability or current tax asset to allocate to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112.

vii) Foreign currency

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

Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction. Non-monetary items measured at fair value in a foreign currency shall be translated to Australian dollars using the exchange rates ruling at the date when the fair value was determined.

Foreign controlled entities
As at the reporting date, the assets and liabilities of foreign subsidiaries, whose functional currency differs from the presentation currency, are translated into Australian dollars at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.

Foreign exchange differences arising on the retranslation are taken directly to the foreign currency translation reserve in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

viii) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenues and expenses are generally recognised on an accrual basis. The following specific recognition criteria must be met before revenue is recognised.

(a) Revenue from fee income is derived from the provision of investment management services to the Company's managed investment products and fee and distribution income from managed loan securitisation trusts. Revenue is recognised when the services are deemed to have been earned using an effective interest rate method over the life of the contract.

(b) Revenue from premiums in the Asset Management business is separated into revenue and liability components. Premium amounts received, which are akin to deposits, are recognised as an increase in policy liabilities. For the investment-linked and annuity business, all premiums are recognised as an increase in policy liabilities.

(c) Interest income is recognised as it accrues using an effective interest rate, taking into account the effective yield of the financial asset.

(d) Revenue received relating to financial planning in the form of brokerage from life companies and fund managers is recognised on an accrual basis using the effective interest method.

Dividends are recognised as income on the date the share is quoted ex-dividend.

Dividends from unlisted companies are recognised when the dividend is received. Operating lease rental income is earned on a straight line basis over the life of the contract.

ix) Finance costs

Finance establishment costs in respect of debt that is not fair valued are deferred and amortised over the life of the underlying facility.

x) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents are bought to account at the face value of the outstanding balance. Interest is recognised in the income statement when earned.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

xi) Receivables

Trade and other receivables are stated at their amortised cost less impairment losses. Trade and other receivables are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Bills of exchange have been purchased in the market at a discount to face value. The bills are carried at an amount representing cost and a portion of the discount recognised as income on an effective yield basis. The discount brought to account each period is accounted for as interest income.

xii) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. The Group does not hold derivative financial instruments for trading purposes. However, for derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement for the year.

All derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

All derivative financial instruments held within Challenger Life No. 2 Limited are stated at fair value with any gains or losses arising from changes in fair value being taken directly to the income statement for the year.

For all entities, for the purpose of hedge accounting, hedges are classified as;

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair value hedges
Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to profit or loss in the income statement.

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

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

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

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

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

xiii) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, receivables or available-for-sale investments. The classification depends on the definition and the purpose for which the investments were acquired. The classification of investments are determined at initial recognition and evaluated at each reporting date.

Purchases and sales of investments are recognised on the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Financial assets at fair value through the income statement
Financial assets classified in this category are assets held for the purposes of trading. Assets in this category are classified as debt or equity securities. They are carried at fair value and unrealised gains and losses are recognised through the income statement.

Loans and receivables
Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the income statement.

xiv) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Independent valuations for all investment properties are conducted annually and the Directors make reference to these independent valuations when determining fair value. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

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

xv) Infrastructure fixed assets

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

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

xvi) Plant and equipment

Items of plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

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

xvii) Leased assets

Leases are classified as either operating leases or finance leases at the date of inception of the lease.

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all of the risks and benefits incident to ownership of leased assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the Group will obtain ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over periods ranging from three to ten years.
Incentives received on entering into operating leases are recognised as liabilities and are amortised over the life of the lease.

Other operating lease payments are charged to the income statement in the periods in which they are incurred.

Surplus lease space
The present value of future payments for surplus leased space under non-cancellable operating leases is recognised as a liability, net of sub-leasing revenue, in the period in which it is determined that the leased space will be of no future benefit to the Group.

xviii) Deferred portfolio and origination costs

Deferred portfolio costs
Portfolio costs represent the costs associated with establishing securitised mortgage backed pools of funds which are funded via the issue of Residential Mortgage Backed Securities (RMBS) to investors. When incurred these costs are recognised as an asset and subsequently amortised over the life of the future economic benefits expected to be received.

The amortisation policy is to match the portfolio costs with the expected repayment profile of each securitised pool so that the amortisation charge as a proportion of the outstanding securitisation pool is consistent over the life of the securitisation, creating an effective yield. The amortisation rate is determined based on the forecast prepayment rate of the loans underlying the RMBS. This is calculated on a trust by trust basis, thereby matching each pool of relevant costs with the forecast prepayment rate of the 'issue' they relate to.

Deferred origination costs
Deferred origination costs are costs associated with origination of loans including commissions paid to mortgage originators and Lenders Mortgage Insurance (LMI) premiums. Deferred origination costs incurred are recognised as an asset and subsequently amortised over the life of the future economic benefits expected to be received.

The amortisation policy is to match the amortisation of the origination costs with the average repayment profile of a loan so that the amortisation charge as a proportion of the outstanding loan balance is consistent over the life of a loan, creating an effective yield. The basis of amortisation is determined by the amortisation of the loan book or Cumulative Prepayment Rates (CPR) curve (excluding discharges). Any origination costs (remaining written down value) associated with a loan which has discharged during the period is written off immediately. This policy ensures that total deferred origination costs are not carried at an amount above their recoverable amount.

xix) Goodwill and other intangible assets

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 Segment Reporting.

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

Other intangible assets

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

Certain internal and external software costs directly incurred in acquiring and developing certain software have been capitalised and are being amortised on a straight line basis over their useful life, usually for a period of 5 years. Useful lives are examined on an annual basis and where applicable, adjustments are made on a prospective basis. Costs incurred on software maintenance are expensed as incurred.

xx) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes a formal estimation of the asset's recoverable amount.

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

When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units, then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

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

xxi) Payables

These amounts represent unsecured liabilities for goods and services provided to the Group prior to the end of the financial year and short term financing of deferred origination costs by managed warehouse trusts. Payables are stated at amortised costs.

xxii) Interest bearing liabilities

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

xxiii) Employee benefits

Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

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

Long service leave
The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

xxiv) Provisions

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

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

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

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

xxv) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares are ordinary shares in the Company held by the employee share trust. These shares are issued in respect of the LTIP. Refer Note 1(xxvii) for further details.

xxvi) Earnings per share

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

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

xxvii) Share based payment transactions

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

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

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

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

The cumulative expense or investment recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

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

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

Where an equity-settled award is cancelled during the vesting period (other than a grant cancelled forfeiture when the investing conditions are not satisfied), it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

xxviii) 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 consolidated entity purchases shares in the company on market. Shares acquired are held by the Challenger Performance Plan Trust and are disclosed as “Treasury Shares” and deducted from contributed equity. The cost of the shares acquired by the CPP is recognised as an employee benefit expense with a corresponding increase in equity, being a share based payments reserve. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares.

xxix) Goods and Services Tax (GST)

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

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

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

xxx) Restrictions on assets

Investments held in Challenger Life No.2 Limited can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that the assets in a 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.

Participating policyholders can receive a distribution when solvency requirements are met, whilst shareholders can only receive a distribution when the higher level of capital adequacy requirements are met.

xxxi) Significant accounting judgements, estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill
The Group assesses whether goodwill is impaired at least annually in accordance with the accounting policy in Note 13. These calculations involve an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated.

Share based payments
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the ordinary shares at the date at which they are granted. The fair value is determined using the Black-Scholes formula, taking into account the terms and conditions upon which the equity instruments were granted, as discussed in Note 30. The fair value calculation is performed by an external valuer.

Policy liabilities
Policy liabilities are measured at net present values of estimated future cash flows or, where the result would not be materially different, as the accumulated benefits available to policyholders. Changes in policy liabilities for non-deposit business are recognised in the income statement as revenues or expenses in the financial year in which the changes occur. Details of this are shown in Note 20.

Property valuations
Investment properties in Note 11 are stated at fair value, which has been determined based on valuations performed by independent valuers during the year ended 30 June 2008.

The Valuer or Valuation Practice are authorised to practice as a Valuer under the law of the relevant jurisdiction where the valuation takes place. The Valuer performing the valuation has at least five years of continuous experience in the valuation of property of a similar type to the property being valued. Neither the Valuer, nor Valuation Practice, has a pecuniary interest that could conflict with the valuation of the property. The Valuer and Valuation Practice comply with the Australian Property Institute (API) Code of Ethics and Rules of Conduct.

Valuations are prepared on the basis of Market Value as defined by The International Assets Valuation Standards Committee (TIAVSC) and endorsed by the API.

Market value is the estimated amount for which an asset could exchange on the date of valuation between a willing buyer and willing seller in an arms length transaction wherein the parties had each acted knowledgeably, prudently and without compulsion.

In determining Market Value, Valuers have examined available market evidence and applied this analysis to both the traditional capitalisation approach and discounted cash-flow approach.

xxxii) Comparatives

Where necessary comparative figures have been reclassified to conform with changes in presentation in these financial statements.

Management fee income and expenses relating to the SPV's were shown gross of intersegment transactions. To better reflect the consolidation standard these amounts are now shown on a net basis at 30 June 2008 and as a result a reduction of $296.2 million has been made to restate revenue, expenses and finance costs for the 30 June 2007 comparative period. There is no impact on the profit or loss.

Corresponding adjustments were made to the balance sheet and cashflow statements to remove the SPV gross up. Operating cashflows for 2007 have been reduced by $191.5 million and investing cashflows have increased to reflect this.

Fair value adjustments on policyholder liabilities have been included in Note 2, these had previously been included within the policy holder liabilities and maintenance expenses (previously called increase/ (decrease) in investment contract liability). They have been restated to improve disclosure. This has led to

$40m being restated as an increase to revenue and expenses for the 30 June 2007 comparative period. There is no impact on the profit or loss.

Income statement balances have been restated for 2007 to move Financial Planning numbers to discontinued operations. For more details refer Note 35.

xxxiii) Rounding of amounts

The financial report is presented in Australian dollars and all amounts are rounded to the nearest million dollars ($M) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100.

xxxiv) New reporting standards issued and/or applied during the year

The following standards, interpretations and amendments were available for early adoption but have not been applied by the Group in these financial statements:

- AASB 8: Operating Segments. This is applicable for annual reporting periods beginning on or after 1 January 2009. The standard requires the Group to adopt the “management approach” to disclosing information about reportable segments. The current Group segment report is not significantly different to management presentations and so no major change is expected from the introduction of this standard in the 30 June 2010 accounts.

- AASB 101: Presentation of Financial Statements and AASB 2007-08 Amendments to Australian Accounting Standards arising from AASB 101. This is applicable for annual reporting periods beginning on or after 1 January 2009. This standard requires the presentation of a statement of comprehensive income which replaces the Income Statement and makes changes to the Statement of Changes in Equity. Any changes made with respect to a prior period adjustment or reclassification in the financial statement will require a third Balance Sheet as at the beginning of the comparative periods to be disclosed. The Group will need to reformat its Income Statement and Statement of Changes in Equity for its 30 June 2010 financial statements.

- AASB 3: Business Combinations and AASB 127: Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting standards arising from AASB 3 and AASB 127 (effective from 1 July 2009). The revisions to the standards apply prospectively to business combinations and will be effective for the 30 June 2010 financial year end. The main changes under the standards are that:

  - acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
  - earn-outs and contingent considerations will be measured at fair value at the acquisition date, however remeasurement in the future will be recognised in the income statement;
  - step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
  - while control is retained, transactions with minority interests would be treated as equity transactions.

2. Revenue

	Consolidated		Parent	
Derived from operating activities:	**2008 $M**	**2007[2] $M**	**2008 $M**	**2007 $M**
Fees and other income				
Management fee income[1]	338.0	186.6	-	-
Fee income - SPV	51.2	43.0	-	-
Other income	21.4	16.2	0.3	-
	410.6	245.8	0.3	-
Investment revenue				
Equity and infrastructure securities				
Dividend income	126.3	67.0	-	-
Dividend income from controlled entities	-	-	110.3	104.5
Net realised gains/(losses) on investments and subsidiaries	(13.3)	78.9	-	-
Net unrealised gains/(losses) on trading securities	(11.5)	13.4	-	-
Net unrealised gains/(losses) on infrastructure investments (net of exchange fluctuations)	(116.0)	42.7	-	-
Debt securities and cash				
Interest income	250.6	113.8	6.5	0.1
Net unrealised gains/(losses) on interest rate derivative assets and liabilities	(53.3)	(7.4)	-	-
Net unrealised gains/(losses) on trading securities	(144.1)	(9.0)	-	-
Property investments				
Property rental	101.7	116.7	-	-
Net unrealised gains/(losses) (net of exchange fluctuations)	(50.6)	54.1	-	-
Net realised gain/(loss)	23.2	-	-	-
Other investments				
Interest income - SPV	1,787.8	1,544.8	-	-
Net realised exchange gain /(loss) on foreign exchange	117.1	(1.9)	-	-
Net unrealised gain on foreign exchange forwards, derivative asset and liabilities	(23.7)	36.2	-	-
Fair value adjustments on policy holder liabilities[3]	124.0	40.0	-	-
Impairment loss on financial assets available for sale	(41.8)	-	-	-
Impairment loss on equity accounted associates	(22.0)	-	-	-
	2,054.4	2,089.3	116.8	104.6
	2,465.0	2,335.1	117.1	104.6
Challenger Infrastructure Fund (CIF) revenue [4]				
Investment revenue	-	10.9	-	-
Transportation revenue	-	28.1	-	-
Unrealised loss on interest rate swaps	-	(45.8)	-	-
	-	(6.8)	-	-
	2,465.0	**2,328.3**	**117.1**	**104.6**

1. Comparative numbers were previously shown gross of SPV segment transactions and have been restated downwards by $296.2 million.
2. Comparatives have been restated to remove amounts related to discontinuing operation - refer to Note 35 for details.
3. Reflects fair value changes in policyholder liabilities derived from changes in interest rates, inflation rates and valuation assumption changes. This change provides increased disclosure and comparatives have been restated by $40.0 million to be on a consistent basis.
4. CIF revenue is for the period up until 29 November 2006 as on that date Challenger Life No.2 Limited sold 39.3 million CIF class A securities and ceased to consolidate CIF.

3. *Expenses*

	Consolidated		Parent	
Derived from operating activities:	**2008**	**2007[2]**	**2008**	**2007**
	$M	**$M**	**$M**	**$M**
Commission expenses	197.6	92.0	-	-
Amortisation of deferred portfolio and origination costs	90.0	84.8	-	-
Fee expenses - SPV[1]	7.0	8.6	-	-
Policyholder liabilities and maintenance expenses[3]	194.5	101.8	-	-
Property management expenses	20.8	20.6	-	-
Management fees	14.7	18.4	-	-
Intangibles amortisation expense	6.0	5.0	-	-
Employee expenses	168.8	171.1	-	-
Employee share based payments	22.4	10.1	-	-
Professional fees	22.2	17.3	-	-
Superannuation	6.9	5.6	-	-
Occupancy expense - operating lease	8.9	7.3	-	-
Depreciation expense	6.9	4.1	-	-
Communications	9.4	9.7	-	-
IT maintenance	2.9	4.5	-	-
Other expenses	68.2	47.4	0.1	-
	847.2	608.3	0.1	-
Challenger Infrastructure Fund (CIF) expenses[4]				
Depreciation and amortisation expense	-	5.2	-	-
Overheads	-	10.4	-	-
	-	15.6	-	-
Total	**847.2**	**623.9**	**0.1**	**-**

1. Comparative numbers were previously shown gross of SPV segment transactions and have been restated downwards by $280.3 million.
2. Comparatives have been restated to remove amounts related to discontinuing operations - refer to Note 35 for details.
3. Reflects all changes in policyholder liabilities that are not related to changes in interest rates, inflation or valuation assumptions. The changes in interest rates, inflation and valuation assumption have been disclosed separately in Note 2 to give increased disclosure. Comparatives have been restated by $40.0 million upwards to reflect this change.
4. CIF expenses are for the period up until 29 November 2006.

4. *Finance Costs*

	Consolidated		Parent	
	2008 $M	**2007[3] $M**	**2008 $M**	**2007 $M**
Derived from Operating Activities:				
Interest expense incurred by:				
Property Trusts Controlled by Asset Management subsidiaries	38.2	27.7	-	-
Interest expense incurred by Mortgage Management SPVs[2]	1,544.7	1,298.9	-	-
Other entities	96.5	46.6	-	-
Other finance costs	2.6	4.9	-	-
	1,682.0	1,378.1	-	-
Challenger Infrastructure Fund (CIF)[1]	-	23.7	-	-
	1,682.0	**1,401.8**	**-**	**-**

[1] CIF expenses are for the period up until 29 November 2006 as on that date Challenger Life No.2 Limited sold 39.3 million CIF class A securities and ceased to consolidate CIF.
[2] Comparative numbers were previously shown gross of SPV segment transactions and have been restated downwards by $15.9 million.
[3] Comparatives have been restated to remove amounts related to discontinuing operations refer to Note 35 for details.

5. *Income Tax*

Major components of income tax expense are:

	Consolidated		Parent	
	2008 $M	2007 $M	2008 $M	2007 $M
a) Income tax benefit/(expense) analysis:				
Current income tax expense[1]	(1.0)	(114.5)	(25.1)	(18.8)
Deferred income tax	32.3	39.2	25.3	25.0
Net benefit/(expense)	31.3	(75.3)	0.2	6.2
Deferred income tax benefit included in income tax expense comprises:				
Increase in deferred tax assets	37.9	69.4	25.3	25.0
Increase in deferred tax liabilities	(5.6)	(30.2)	-	-
	32.3	39.2	25.3	25.0
b) Reconciliation of income tax benefit/(expense):				
Net (loss)/profit from operations before income tax benefit/(expense)	(70.6)	311.0	117.0	104.6
Add (profit)/loss relating to minorities	(5.0)	20.8	-	-
Accounting (loss)/profit before tax	(75.6)	331.8	117.0	104.6
Prima facie income tax based on the Australian company tax rate of 30%	22.7	(99.5)	(35.1)	(31.4)
Tax effect of amounts which are not deductible/assessable in calculating taxable income:				
Previously unrecognised tax losses	2.2	41.8	2.2	4.2
Non deductible expenses	(1.8)	(3.7)	-	-
Rate differential on offshore income	5.2	-	-	-
Non assessable items	-	0.3	33.1	31.4
Prior year adjustment and other items	3.0	(14.2)	-	2.0
	8.6	24.2	35.3	37.6
	31.3	**(75.3)**	**0.2**	**6.2**
Tax losses				
Gross unused losses for which no deferred tax asset has been recognised	(68.8)	(19.0)	(68.8)	(19.0)

[1] Comparative numbers have been restated to remove amounts related to discontinuing operation - refer to Note 35 for details.

Deferred Income Tax

Deferred income tax at 30 June relates to the following:

	Balance Sheet		Income Statement	
	2008	2007	2008	2007
Consolidated	$M	$M	$M	$M
Deferred income tax liabilities				
Unrealised gains on investment property	(123.3)	(152.9)	29.6	(48.5)
Deferred acquisition and origination costs	(41.4)	(43.8)	2.4	2.9
Fixed asset temporary differences	(18.4)	(2.0)	(16.4)	(2.0)
Tax balances recognised on acquisitions	-	(15.2)	15.2	-
Future assessable trail commission	(15.7)	-	(17.1)	-
Unrealised FX movements	(12.3)	-	(12.3)	-
Other	(21.1)	(14.3)	(9.0)	17.4
	(232.2)	(228.2)		
Deferred income tax assets				
Surplus lease space	4.6	5.8	(1.2)	(1.2)
Restructure provision	-	1.4	(1.4)	1.2
Accruals and provisions	10.8	18.5	(7.7)	3.2
Employee entitlements	2.7	2.9	2.9	0.5
Future deductible trail commission	37.6	-	4.8	-
Fixed asset temporary differences	-	-	-	(1.6)
Investment write down	11.1	6.8	4.3	6.8
Losses	74.6	45.3	29.3	26.5
Other	56.6	38.6	8.9	34.0
	198.0	119.3		
Net deferred tax liability	**(34.2)**	**(108.9)**		
Deferred tax benefit/(expense)			**32.3**	**39.2**
Parent				
Deferred income tax assets				
Losses	70.6	43.8	25.3	25.0
	70.6	**43.8**		
Deferred tax benefit/(expense)			**25.3**	**25.0**

All available revenue losses have been recognised in the balance sheet at 30 June 2008.

Tax consolidation
Challenger International Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 28 June 2003 and are therefore taxed as a single entity from that date. After corporatisation Challenger Financial Services Group Limited became the head entity of the tax consolidated group.

Tax effect accounting by members of the tax group
Members of the tax consolidated group have applied tax funding principles under which Challenger Financial Services Group Limited and each of the members of the tax consolidated group agree to pay tax equivalent payments to or from the head entity, based on the current tax liability or current tax asset of the member. Such amounts are reflected in the amounts

receivable from or payable to each member and the head entity.

The group allocation approach is applied in determining the appropriate amount of current tax liability or current tax asset to allocate to members of the tax consolidated group.
Deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112.

6. *Dividends Paid and Proposed*

	Consolidated		Parent	
	2008 $M	2007 $M	2008 $M	2007 $M
a) Declared and paid during the year				
Final fully franked dividend for the financial year 30 June 2007: 7.5 cents (2006: 5 cents)	45.8	30.2	45.8	30.2
Interim fully franked dividend for the financial year 30 June 2008: 5 cents (2007: 5 cents)	31.8	29.7	31.8	29.7
	77.6	**59.9**	**77.6**	**59.9**
b) Proposed (not recognised as a liability as at 30 June)				
Final 60% franked dividend for the financial year 30 June 2008: 7.5 cents (2007: 7.5 cents fully franked)	47.4	44.7	47.4	44.7
Franking credit balance				
The amount of franking credits available for the subsequent financial year are:				
- franking account balance as at the end of the financial year at 30%			4.4	40.1
- franking credits that will arise from the payment of income tax payable during the next financial year			7.8	(7.1)
			12.2	33.0
- impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period			(12.0)	(19.2)
			0.2	**13.8**

The tax rate at which paid dividends have been franked is 30% (2007: 30%). Dividend proposed will be franked at the rate of 18% (2007: 30%).

7. *Earnings per Share*

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

	Consolidated	
	2008 Cents	2007 Cents
From continuing operations		
Basic earnings per share	(6.1)	45.0
Diluted earnings per share	(6.7)	42.1
Total from all operations		
Basic earnings per share	(7.5)	46.3
Diluted earnings per share	(8.1)	43.2
Earnings used in calculating earnings per share	**$M**	**$M**
For basic earnings per share:		
Net (loss)/profit from continuing operations	(35.8)	248.2
(Loss)/profit from discontinued operations	(8.4)	6.8
Net profit attributable to ordinary shareholders for basic earnings per share	(44.2)	**255.0**
For diluted earnings per share:		
Net (loss)/profit from continuing operations	(35.8)	248.2
Interest received on LTIP loans	(4.4)	(3.5)
Net (loss)/profit from continuing operations attributable to ordinary shareholders for diluted earnings per share adjusted for the impact of interest received on LTIP loans	(40.2)	244.7
(Loss)/profit from discontinued operations	(8.4)	6.8
Net (loss)/profit attributable to ordinary shareholders for diluted earnings per share	**(48.6)**	**251.5**
Number of shares	**Number**	**Number**
Weighted average number of ordinary shares for basic earnings per share	586,651,463	551,011,072
Effect of dilution:		
- Share options	16,932,072	31,010,405
Adjusted weighted average number of ordinary shares for diluted earnings per share	**603,583,535**	**582,021,477**

With the exception of the buy back, there have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

8. *Cash and Cash Equivalents*

	Consolidated		Parent	
	2008 $M	2007 $M	2008 $M	2007 $M
Cash at bank and on hand	537.7	524.0	2.8	2.2
Deposits at call	120.1	182.9	-	-
	657.8	706.9	2.8	2.2
SPV cash[1]	956.0	1,114.1	-	-
	1,613.8	**1,821.0**	**2.8**	**2.2**

[1] See Note 21 for full details of the SPV

9. *Receivables*

	Consolidated		Parent	
	2008 $M	2007 $M	2008 $M	2007 $M
Secured loans	67.0	28.2	-	-
Trade debtors	225.5	38.1	-	-
Amounts recoverable from managed trusts	11.4	11.4	-	-
Dividends receivable	0.6	1.8	-	-
Interest receivable	23.4	9.0	-	-
Other debtors	53.4	105.6	-	-
Tax refunds receivable	-	-	2.4	5.6
Amount receivable from controlled entities	-	-	524.2	437.4
	381.3	**194.1**	**526.6**	**443.0**
Current	193.1	112.3	2.4	5.6
Non Current	188.2	81.8	524.2	437.4
	381.3	**194.1**	**526.6**	**443.0**
Receivables - SPV[1]	18,760.4	19,820.4	-	-
	18,760.4	**19,820.4**	**-**	**-**
Current	-	-	-	-
Non Current	18,760.4	19,820.4	-	-
	18,760.4	**19,820.4**	**-**	**-**
Provision for impairment of SPV receivables - opening	33.5	21.1		-
New and increased impairment charges	27.9	27.8		-
Write downs taken to provision	(21.3)	(15.4)		-
Provision for impairment of SPV receivables - closing[2]	**40.1**	**33.5**		**-**

1 See Note 21 for full details of the Special Purpose Vehicles (SPV)
2 Shown netted against Receivables - SPV

For further detail on the Special Purpose Vehicles (SPV's) operated by Mortgage Management refer to Note 21.

Provisions for impairment are maintained against mortgage loan receivables within the respective SPV's. The provision for impairment loss is measured as the difference between the carrying amount of the loan and the present values of the future cash flows discounted at the loan's original effective interest rate, adjusted for insurance coverage.

The vast majority of the provision at reporting date relates to the provisioning by the SPV's against accrued high rate interest and fees related to loans in arrears which are generally not covered by lenders mortgage insurance. The rest of the provision relates to operational risks.

Importantly, whilst the SPV's are required to be consolidated into the Group's accounts, the effective credit risk exposure in relation to the mortgage loans within the SPV's is held by the residential mortgage backed security noteholders (where term securitisation has occurred) or the bank warehouse facility providers (where term securitisation has not yet occurred).

10. *Investment Assets*

	Consolidated		Parent	
	2008 $M	**2007 $M**	**2008 $M**	**2007 $M**
(i) Financial asset fair valued through income statement				
Debt securities held for trading				
Fixed interest notes	282.4	171.9	-	-
Floating rate notes	2,002.4	749.9	-	-
Floating rate notes structured credit vehicle[1]	-	410.7	-	-
Preference shares	9.7	31.8	-	-
Bonds	299.2	51.7	-	-
	2,593.7	**1,416.0**	**-**	**-**
Equity securities held for trading				
Shares in listed and unlisted corporations	104.0	70.3	-	-
Unlisted unit trusts, managed funds and equities	58.1	127.6	-	-
Shares in listed corporations held in relation to endowment warrants	83.3	110.8	-	
	245.4	**308.7**	**-**	**-**
Infrastructure investments held for trading				
Shares in listed and unlisted corporations	914.0	618.4	-	-
	914.0	**618.4**	**-**	**-**
Securities designated to be fair valued through income statement				
Seeding investments in funds of Boutique partners	57.7	121.6	-	-
	57.7	**121.6**	**-**	**-**
Total	**3,810.8**	**2,464.7**	**-**	**-**
Current	685.5	27.1	-	-
Non Current	3,125.3	2,437.6	-	-
	3,810.8	**2,464.7**	**-**	**-**
(ii) Available for sale assets				
Other financial assets	33.5	16.7	-	-
	33.5	**16.7**	**-**	**-**
Non Current	33.5	16.7	**-**	**-**
	33.5	**16.7**	**-**	**-**
Impairment losses on available for sale assets recognised in the period	**(41.8)**	**-**	**-**	**-**
(iii) Real estate Assets				
Investment Property (see Note 11)	1,163.9	1,164.8	**-**	**-**
Development Property (see Note 11)	75.8	74.2	**-**	**-**
	1,239.7	1,239.0	**-**	**-**
Indirect property investments[2]	335.7	384.0	**-**	**-**
	1,575.4	**1,623.0**	**-**	**-**
Non Current	1,575.4	1,623.0	-	-
	1,575.4	**1,623.0**	**-**	**-**

[1] Consolidated entity balances for the year ended 30 June 2007 include $410.7 million floating rate notes of structured credit vehicle. The carrying value of the notes purchased by the Group was $24 million at 30 June 2007. The notes were deconsolidated as at September 2007. Refer Note 34.
[2] Indirect property investments include units held in listed and unlisted trusts and interest in joint ventures.

11. *Investment Properties*

	Consolidated 2008 $M	Consolidated 2007 $M	Parent 2008 $M	Parent 2007 $M
Investment property at fair value	1,163.9	1,164.8	-	-
Development property at cost	75.8	74.2	-	-
Indirect property investment at fair value	335.7	384.0	-	-
	1,575.4	**1,623.0**	**-**	**-**
Reconciliation - Investment property				
Opening balance	1,164.8	1,658.2		
Acquisition	-	79.7		
Sale of properties at cost	(37.8)	(551.0)		
Sale of properties - reversal of unrealised gains[1]	(13.0)	(117.8)		
Capital expenditure	27.4	43.7		
FX gain/(loss)	2.1	-		
Net revaluation gain	20.4	52.0		
Closing balance	1,163.9	1,164.8		
Reconciliation - Development property				
Opening balance	74.2	-		
Acquisition	-	74.2		
Transfer to indirect property	(6.8)	-		
Capital expenditure	8.4	-		
Net revaluation	-	-		
Closing balance	75.8	74.2		
Reconciliation - Indirect property investment				
Opening balance	384.0	142.5		
Purchase	14.3	264.9		
Disposal of interest and indirect property	(9.7)	(25.5)		
Transfer from development property	6.8	-		
Capital expenditure	(0.3)	-		
Fair value movement	(61.0)	10.5		
FX gain/(loss)	1.6	(8.4)		
Closing balance	335.7	384.0		
Total closing balance	**1,575.4**	**1,623.0**		

[1]Consideration received on disposal of properties less historical cost

All investment property is considered to be non current.

All Australian investment property directly held was revalued at 30 June 2008 notwithstanding that some properties were also revalued at 31 December 2007. The directors considered this prudent given changes in market conditions in the period post 31 December 2007 up to balance date.

Consolidated Entity	Notes	Acquisition Date	Acquisition Price $M	Total Cost Including Additions $M	Carrying Value 2008 $M	Date Of Latest Valuation	Carrying Value 2007 $M
A. Investment Property							
Australian Properties							
Cinema/Retail							
Century City Walk, VIC	[a]	4-Jul-00	24.1	-	-	n/a	9.5
Innaloo Cinema Centre, WA	[c]	17-Dec-01	20.3	9.6	14.2	30-Jun-08	12.0
Jam Factory, VIC	[e]	4-Jul-00	74.9	37.3	44.0	30-Jun-08	42.3
George Street Cinemas, NSW	[f]	4-Jul-00	68.5	75.0	88.0	30-Jun-08	83.0
Sub-sector Cinema/Retail Total			**187.8**	**121.9**	**146.2**		**146.8**
Retail							
Kings Langley, NSW	[d]	29-Jul-01	**14.1**	**5.9**	**6.8**	30-Jun-08	**7.2**
Social Infrastructure							
County Court, VIC	[e]	30-Jun-00	**153.7**	**199.8**	**275.5**	30-Jun-08	**250.0**
Industrial Hi-Tech							
CSIRO, NSW	[f]	27-Jun-01	137.0	150.9	173.0	30-Jun-08	170.0
Pacific Brands, Port Melbourne, VIC (formerly Globe)	[c]	13-Nov-02	17.3	7.4	9.0	30-Jun-08	9.0
Goodman Fielder, North Ryde, NSW	[f]	23-Feb-01	35.2	14.2	18.7	30-Jun-08	19.2
Heidelberg, Waterloo, NSW	[f]	7-Jan-00	12.9	5.6	6.6	30-Jun-08	6.5
Kraft, Port Melbourne, VIC	[c]	28-Jun-02	24.1	10.3	11.4	30-Jun-08	11.9
Rexel, North Ryde, NSW	[a]	18-Dec-99	15.1	-	-	n/a	8.2
Sub-sector Industrial Hi-TechTotal			**241.6**	**188.4**	**218.7**		**224.8**
Office							
ABS Building, ACT	[c]	1-Jan-00	35.2	33.2	60.2	30-Jun-08	57.5
DIMIA Building, ACT	[c]	1-Dec-01	43.4	37.2	44.5	30-Jun-08	45.6
Discovery House, ACT	[f]	28-Apr-98	30.6	27.4	40.4	30-Jun-08	51.8
Elders House, SA	[d]	21-Jun-02	40.2	17.1	20.8	30-Jun-08	21.5
Executive Building, Hobart, TAS	[i]	30-Mar-01	20.6	8.9	12.4	30-Jun-08	12.0
Makerston, QLD	[d]	14-Dec-00	38.0	17.1	31.2	30-Jun-08	28.0
417 St Kilda Rd, Melbourne, VIC	[i]	27-Jun-02	73.0	85.2	82.0	30-Jun-08	80.0
Taylors Institute, Waterloo, NSW	[f]	16-May-01	35.0	15.4	18.4	30-Jun-08	18.6
The Forum, Cisco, NSW	[c]	5-Jan-01	96.0	40.7	47.2	30-Jun-08	46.3
The Forum, UUNet, NSW	[c]	5-Jan-01	61.0	26.3	28.5	30-Jun-08	32.0
Sub-sector Office Total			**473.0**	**308.5**	**385.6**		**393.3**

Consolidated Entity	Notes	Acquisition Date	Acquisition Price $M	Total Cost Including Additions $M	Carrying Value 2008 $M	Date of Latest Valuation	Carrying Value 2007 $M
Land							
Duriff Holdings Pty Ltd[1]	[b]	20-Apr-05	**24.0**	**-**	**-**	n/a	**4.0**
Hotel							
Rendezvous Hotels	[c]	8-Dec-05	**52.0**	**55.9**	**60.0**	30-Jun-08	**59.0**
Total Australia			**1,146.2**	**880.4**	**1,092.8**		**1,085.1**
Hungary - Industrial							
Mangro Kft	[g]	12-Apr-07	35.3	36.7	35.1	31-Dec-07	35.3
Namoc Kft	[g]	12-Apr-07	13.3	13.9	10.6	31-Dec-07	13.3
Rozalia Kft	[g]	12-Apr-07	14.3	14.8	12.3	31-Dec-07	14.3
Rozal Kft	[g]	12-Apr-07	8.4	8.7	6.4	31-Dec-07	8.4
Lazor Kft	[g]	12-Apr-07	8.4	8.9	6.7	31-Dec-07	8.4
Sub-Sector Hungary Industrial			**79.7**	**83.0**	**71.1**		**79.7**
Total Overseas			**79.7**	**83.0**	**71.1**		**79.7**
Grand Total Investment Property			**1,225.9**	**963.4**	**1,163.9**		**1,164.8**
B. Development Property							
Development properties at cost							
Maitland	[h]	6-Dec-06	60.3	67.8	67.8	n/a	60.4
Mavis Court	[h]	30-Apr-07	7.0	8.0	8.0	n/a	7.0
Broadbeach [j]		20-Dec-06	-	-	-	n/a	6.8
Grand total development property			**67.3**	**75.8**	**75.8**		**74.2**
C. INDIRECT PROPERTY							
CPI Wetherill Park, NSW (JV)	(f)	29-Dec-99	4.5	4.5	6.3	30-Jun-08	6.5
Broadbeach [j]	(NRV)	20-Dec-06	6.8	4.0	2.5	n/a	-
Property Trust Investments		n/a	388.2	388.2	326.9	n/a	377.5
Grand total indirect Property			**399.5**	**396.7**	**335.7**		**384.0**
Grand total property			**1,692.7**	**1,435.9**	**1,575.4**		**1,623.0**

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

CSIRO and County Court are each financed via separate capital markets bond issuances. Security has been granted over these properties under the bond issuances, which includes a mortgage over the properties.

The development properties listed above (Maitland, Mavis Court and Broadbeach) are partially funded by external debt. Security has been granted over each development in relation to that funding, which includes a mortgage over each property.

The Hungarian investments and Duriff Holdings Pty Ltd were not funded by debt as at 30 June 2008, and so were not subject to any security or charge at that time.

NOTES:

Acquisition costs -	Acquisition cost represents the original purchase price plus acquisition costs.
Total cost -	Total cost represents the original acquisition cost plus additions less full and partial disposals since acquisition date. In October 2006 CL2 seeded Challenger Diversified Property Group. This involved the full sale of 5 industrial distributions centre properties and the partial (60%) sale of 18 other directly held properties.

[1] Total cost represents the historical cost value of properties held at 30 June 2007.

[a] Property was sold to Challenger Diversified Property Group at 30 June 2008

[b] Land was sold during the 2008 year to a third party

[c] Valued by CBRE

[d] Valued by JLL

[e] Valued by Savills

[f] Valued by Colliers

[g] Valued by Cushman & Wakeman

[h] Valued at Cost

[i] Valued by M3 Property

[j] Property was transferred from development property to indirect property during the 2008 year

[NVR] Property held at the lower of cost or net realisable value

12. *Plant and Equipment and Infrastructure Assets*

	Consolidated		Parent	
	2008 $M	2007 $M	2008 $M	2007 $M
Plant & equipment – at cost	45.6	50.8	-	-
Less: Accumulated depreciation	(14.9)	(22.4)	-	-
	30.7	28.4	-	-
Fixed assets under finance lease - at cost	4.0	4.0	-	-
Less: Accumulated depreciation	(4.0)	(4.0)	-	-
	-	-	-	-
Infrastructure assets and plant & equipment - at cost	33.7	53.5	-	-
Less: Accumulated depreciation	(2.7)	(17.0)	-	-
Total infrastructure assets	31.0	36.5	-	-
Total plant and equipment	**61.7**	**64.9**	**-**	**-**

Reconciliations	Plant & equipment	Infrastructure and plant & equipment	Total
2008	$M	$M	$M
Consolidated			
Opening balance (net of accumulated depreciation) 1 July 2007	28.4	36.5	64.9
Acquisition of subsidiaries	-	1.4	1.4
Additions	10.2	-	10.2
Disposals	(3.1)	-	(3.1)
Depreciation expense	(4.7)	(2.2)	(6.9)
Exchange gains/(losses) arising on the translation of foreign PPE	(0.1)	(4.7)	(4.8)
Closing balance (net of accumulated depreciation) 30 June 2008	30.7	31.0	61.7

	Plant & equipment	Infrastructure and plant & equipment	Total
2007	$M	$M	$M
Consolidated			
Opening balance (net of accumulated depreciation) 1 July 2006	8.4	273.1	281.5
Acquisition of subsidiaries	-	39.5	39.5
Additions	25.6	14.1	39.7
Disposals[1]	(0.7)	(282.4)	(283.1)
Depreciation expense	(4.9)	(5.3)	(10.2)
Exchange gains/(losses) arising on the translation of foreign PPE	-	(2.5)	(2.5)
Closing balance (net of accumulated depreciation) 30 June 2007	28.4	36.5	64.9

[1] Relates to the Deconsolidation of CIF

All plant and equipment and infrastructure assets are considered to be non current.

13. *Goodwill and Other Intangible Assets*

(a) Reconciliation of carrying amounts at the beginning and end of the year	Consolidated 2008 $M	Consolidated 2007 $M	Parent 2008 $M	Parent 2007 $M
Goodwill				
Cost	904.0	857.3	-	-
Less: accumulated impairment	(280.0)	(280.0)	-	-
Total Goodwill	**624.0**	**577.3**	**-**	**-**
Other intangible assets				
Trade mark	0.2	0.6	-	-
Less: accumulated amortisation	(0.2)	(0.2)	-	-
	-	0.4	-	-
Software - at cost	26.7	24.8	-	-
Less: accumulated amortisation	(17.2)	(12.5)	-	-
	9.5	12.3	-	-
Operating lease intangible - Infrastructure Terminal - at cost	24.8	24.8	-	-
Less: accumulated amortisation	(1.2)	-	-	-
Less: Increase or decrease in intangibles translation to closing rate	(4.2)	-	-	-
	19.4	24.8	-	-
Total Other Intangible Assets	**28.9**	**37.5**	**-**	**-**

Consolidated	Goodwill		Software		Operating Lease		Trade Mark	
	2008	2007	2008	2007	2008	2007	2008	2007
	$M	$M	$M	$M	$M	$M	$M	$M
Opening balance (net of accumulated amortisation and impairment)	577.3	552.8	12.3	16.7	24.8	-	0.4	0.5
Acquisitions through business combinations	175.4	27.1	-	-	-	-	-	-
Additions	-	-	4.4	1.3	-	24.8	-	-
Disposals	(133.6)	-	(2.5)	(1.1)	-	-	(0.4)	-
Re-appraisal of fair value of net assets acquired	3.0	-	-	-	-	-	-	-
Increase or decrease in goodwill translation to closing rate [1]	(0.8)	(3.2)	-	-	(4.2)	-	-	-
Amortisation expense	-	-	(4.7)	(4.6)	(1.2)	-	-	(0.1)
Deferred acquisition costs	2.7	0.6	-	-	-	-	-	-
Closing balance (net of accumulated amortisation and impairment)	**624.0**	**577.3**	**9.5**	**12.3**	**19.4**	**24.8**	**-**	**0.4**

[1] In accordance with AASB 121, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated into the presentation currency of the acquirer at the closing rate, with a resultant movement in goodwill reflected in a foreign currency translation reserve.

(b) Description of the Group's goodwill and intangible assets

i) Goodwill
After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

ii) Software
Software development costs are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over not more than 5 years. The amortisation has been recognised in the income statement in the line depreciation. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying value.

iii) Operating lease
Clashfern Investments (UK) Limited, a subsidiary of CL2, holds a 99 year lease for the rental of a site. The lease expires in 2032

14. *Impairment Testing Of Goodwill*

Goodwill acquired through business combinations has been allocated to the following cash generating units for impairment testing as follows:

- Mortgage Management
- Funds Management
- Asset Management
- Financial Planning

The recoverable amount of goodwill for each cash generating unit has been determined based on a value in use calculation.

To calculate this, cash flow projections are based on financial budgets approved by senior management covering an appropriate horizon for each cash generating unit.

The discount rates applied to cash flow projections are set out below and are based on the Group's weighted average cost of capital. In 2007 the rate used was the long term average growth rate for the industry in which the unit operates.

The Group sold the Financial Planning division on 30 June 2008 and disposed of goodwill carried in this cash generating unit as part of the disposal.

Cash Generating Unit	2008 Discount rate %	2007 Discount rate %	Cash flow horizon
Mortgage Management	12.5	11	10[1]
Funds Management	12.5	11	5
Asset Management	12.5	11	5
Financial Planning	-	15	5

[1] The ten year period has been used because this business has a proven history of mortgage market growth which allows easier determination of longer term cash flow assumptions. Further, the business' financial budgets and forecasts are modelled from 10 year forecasts.

Carrying amount of goodwill

	Mortgage Management		Funds Management		Asset Management		Financial Planning		Total	
$M	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Consolidated	394.3	260.6	78.0	79.0	151.7	104.8	-	132.9	624.0	577.3
Parent	-	-	-	-	-	-	-	-	-	-

The following describes each key assumption used on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year ended immediately before the budgeted year, adjusted for expected impact of competitive pressure on margins and any expected efficiency improvements.
- Bond rates – the yield on a government bond rate at the beginning of the budgeted year is utilised and the value assigned to the key assumption is consistent with external information sources. Values assigned to key assumptions reflect past experiences, except for efficiency improvements.
- Growth rates – the growth rates used are consistent with long term trends in the industry segments in which the businesses operate.

The cash flow projections derived values for the CGU's that were in excess of the carrying value of goodwill.

Sensitivity to changes in assumptions
Management are of the view that reasonably possible changes in the key assumptions, such as a change in the discount rate of 1%, would not cause the respective recoverable amounts for each CGU to fall short of the carrying amounts as at 30 June 2008.

All goodwill is considered to be non current.

15. *Other Assets*

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$M	**$M**	**$M**	**$M**
Deferred portfolio and origination costs	138.0	145.9	-	-
Other	9.9	22.5	-	1.1
Other SPV	1.3	-	-	-
	149.2	**168.4**	**-**	**1.1**
Current	39.4	12.3	-	1.1
Non current	109.8	156.1	-	-
	149.2	**168.4**	**-**	**1.1**

16. *Payables*

	Consolidated		Parent	
	2008	2007	2008	2007
	$M	$M	$M	$M
			-	
Trade creditors and accruals	161.6	193.3	-	-
Unsettled trades payable	42.3	10.6	-	-
Warrant liability[1]	83.7	111.0	-	-
Funded expenses [2]	-	7.6	-	-
Other creditors	63.9	120.3	-	-
Present value of trail liabilities	128.9	-	-	-
Amounts payable to controlled entities	-	-	162.3	356.2
Special Purpose Vehicle[3]	12.4	5.5	-	-
	492.8	**448.3**	**162.3**	**356.2**
Current	311.0	333.1	-	-
Non current	181.8	115.2	162.3	356.2
	492.8	**448.3**	**162.3**	**356.2**

[1] Does not represent an in substance liability of Challenger as the company has a Deed of Assignment - refer Note 36(b) for additional information.
[2] Funded expenses represent loan origination fees initially funded by residential lending trusts managed by the Company. The liabilities are non interest bearing and are repayable by the Company to the Trusts on terms as agreed between the parties. The expenses are capitalised in the Company and amortised over the life of the loans.
[3] For details of the SPV see Note 21.

17. *Financial Liabilities*

	Consolidated		Parent	
	2008	2007	2008	2007
	$M	$M	$M	$M
Fair valued through the income statement:				
Equity securities held for trading	43.6	93.2	-	-
	43.6	**93.2**	**-**	**-**
Current	43.6	93.2	-	-
Non Current	-	-	-	-
	43.6	**93.2**	**-**	**-**

18. *Interest Bearing Liabilities*

Interest bearing liabilities are measured at amortised cost. For further details refer Note 1.

Consolidated	**2008**		**2007**	
	Outstanding $M	**Facility $M**	**Outstanding $M**	**Facility $M**
Bank loans				
Recourse				
Corporate	-	350.0	-	350.0
Non recourse				
Controlled property trusts	497.6	505.7	530.4	567.2
Total bank loans	**497.6**	**855.7**	**530.4**	**917.2**
Non-bank loans				
Recourse				
Medium Term Note	250.0	250.0	250.0	250.0
Loan from Associates	-	-	44.7	44.7
Non recourse				
Controlled property trusts	6.6	6.6	6.5	7.0
Corporate	130.0	130.0	230.0	230.0
Subordinated debt issuance	554.7	554.7	189.8	189.8
Loan note finance	54.8	54.8	54.0	54.0
Total non-bank loans	**996.1**	**996.1**	**775.0**	**775.5**
Other interest bearing liabilities	0.3	0.3	387.0	387.0
Total interest bearing liabilities	**1,494.0**	**1,852.1**	**1,692.4**	**2,079.7**
Current	56.1		577.5	
Non Current	1,437.9		1,114.9	
	1,494.0		**1,692.4**	
Interest bearing liabilities - SPV	19,523.7	21,217.2	20,829.3	23,275.7
Total interest bearing liabilities- SPV	**19,523.7**	**21,217.2**	**20,829.3**	**23,275.7**
Current[1]	6,958.2		5,159.9	
Non Current	12,565.5		15,669.4	
	19,523.7		**20,829.3**	

[1]Of this current balance $6,940.6 million (2007: $5,145 million) is held in warehouse lines, which, in the event they are not rolled over, repayment of the debt is limited in recourse to the value of loans in the warehouse SPV.

The parent has no interest bearing liabilities.

As at 30 June 2008 the weighted average interest rate for interest bearing liabilities was 8.1% (2007: 7.1%).

Bank loans

Corporate

The corporate bank facility amounting to $350 million is secured by cross guarantees in place between certain Group companies. A floating interest rate was applied to this facility during the year.

Controlled property trusts

Bank loans in the controlled property trusts are secured solely by fixed and floating first mortgages over properties.

Non-bank loans

Medium term notes

Challenger Treasury Limited issued $250,000,000 of Australian dollar fixed rate medium term notes on 23 April 07. The notes are secured by cross guarantees in place between certain Group companies. The notes are fixed at 7% and mature on the 23 April 2010.

Loans from associates

A cash advance facility arrangement was agreed with an associate. This facility was available until 31 December 2007 at a fixed rate and was repaid in early calendar year 2008.

Controlled property trusts

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

Corporate

Working capital was raised via a Net Interest Margin Bond securitisation through the NIM Master Trust Series 2004-A2, 2004-A3 and 2006-A1. The facility is limited in its recourse to the manager to the extent of $1 and holds security over the residual incomes of all Australian securitised trusts. The NIM represents a long term financing alternative. It is anticipated total outstanding principal will be repaid within 4 years from June 2006. Interest is fixed and is payable monthly.

Subordinated debt – Challenger Life No.2 Limited (CL2)

- CL2, issued $400,000,000 of subordinated notes into the US private placement market in November 2007.

The notes were issued under an APRA approved Instrument of Issue and, when issued, count as Approved Subordinated Debt for regulatory capital purposes. The notes are unsecured and will mature in 30 years with a non-call period of 10 years.

- CL2 issued US$150,000,000 of subordinated notes into the US private placement market in December 2006.

These notes were also issued under an APRA approved Instrument of Issue and, when issued, count as Approved Subordinated Debt for regulatory capital purposes. The notes are unsecured and were issued in two maturities (US$25 million at 10 years with a non-call period of 5 years; and US$125m 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 proceeds from the issuance of both the November 2007 and the December 2006 notes were made available to Statutory Fund No. 2 of Challenger Life No. 2 Limited. The repayment obligations and other liabilities of Challenger Life No. 2 Limited in respect of the principal, interest and other amounts owing with respect to the Notes are liabilities of, and referable to, Statutory Fund No. 2.

The notes rank in right of payment either pari passu with or senior to all other unsecured and subordinated indebtedness of Challenger Life No. 2 Limited allocated to Statutory Fund No. 2, except for such indebtedness preferred by operation of bankruptcy laws or similar laws of general application.

Loan note finance

CL2 has entered into a restricted recourse £25m loan that is secured by investment properties. The fixed rate interest applied will be capitalised and is expected to be repaid together with the principal in 2012 (but no later than 2015).

Other interest bearing liabilities

Represents interest bearing liabilities of structured credit vehicle consolidated at 30 June 2007. These liabilities were deconsolidated as at 30 September 2007 (refer Note 34(b)).

Floating interest bearing liabilities in SPV

The Mortgage Management business establishes and services Special Purpose Vehicles which fund pools of residential loans via the issuance of residential mortgage backed securities in its normal course of business. All borrowings are limited in recourse to the assets of the securitised trusts, it is the residual beneficiary of the fund loans via a nominal investment.

19. *Provisions*

	Consolidated		Parent	
	2008 $M	2007 $M	2008 $M	2007 $M
Restructuring provision	1.1	2.9	-	-
Surplus lease provision	15.4	19.4	-	-
Relocation provision	2.4	3.4	-	-
Deferred acquisition consideration	1.1	1.1	-	-
Employee entitlements (Note 31)	19.1	12.4	-	-
Other provisions	14.2	4.0	7.5	-
	53.3	**43.2**	**7.5**	**-**

	Consolidated			
	Restructuring on acquisition $M	Surplus lease provision $M	Relocation provision $M	Deferred acquisition consideration $M
Opening balance at 1 July 2007	2.9	19.4	3.4	1.1
Arising during the year	0.8	1.3	0.4	-
Amounts utilised	(1.0)	(5.3)	(1.4)	-
Discontinued operations	(1.6)	-	-	-
Closing balance at 30 June 2008	**1.1**	**15.4**	**2.4**	**1.1**

	Consolidated		Parent
	Employee entitlements $M	Other $M	Other $M
Opening balance at 1 July 2007	12.4	4.0	-
Arising during the year	21.9	13.2	9.4
Amounts utilised	(13.4)	(3.0)	(1.9)
Discontinued operations	(1.8)	-	-
Closing balance at 30 June 2008	**19.1**	**14.2**	**7.5**

Restructuring provision includes provisions for corporate entity restructuring and employee termination benefits. Employee entitlements exclude termination benefits. The restructuring is expected to be completed within the next year.

Surplus lease provision represents the Group's net rental expense obligation on floors within the Aurora place building in Sydney. The Group's lease obligation on these floors expires in 2015.

Relocation provision represents the Group's net make good obligations on building leases.

Provision for deferred acquisition consideration is in respect of the acquisition of Interstar Securities Holdings Pty Limited and its controlled entities ("Interstar") which was acquired as part of the acquisition of Zed Capital Markets Australia Structured Finance Pty Limited and its controlled entities on 29 September 2003. The consideration paid in 2007 was in respect of the performance of Interstar. Final settlement of the provision will be made upon finalisation of the warranty claims.

20. *Life Business*

Life contract liabilities[1]

	Consolidated		Parent	
	2008 $M	**2007 $M**	**2008 $M**	**2007 $M**
Life investment contract liabilities - at fair value	3,663.4	2,027.1	-	-
Life insurance contract liabilities – at MoS[2] value	79.7	83.0	-	-
Total	**3,743.1**	**2,110.1**	**-**	**-**

[1] In accordance with AASB 1038: Life Insurance Contracts, policy liabilities are required to be classified as Life Insurance contracts or Life Investment contracts.
[2] Margin on Services methodology.

Life investment contracts liabilities

	2008 $M	2007 $M
Total life investment contracts at beginning of year	**2,027.1**	**1,997.3**
Key movements in Statutory Funds		
New business premiums	766.6	392.6
Policy payments and claims	(998.9)	(425.8)
Transfer under court approved Part 9 scheme of arrangement	1,802.1	-
Policyholder liability fair value adjustments (Note 2)	(123.6)	(35.2)
Policyholder acquisition and maintenance expenses (Note 3)	190.4	98.2
Other movements	(0.3)	-
Total life investment contracts at end of year	**3,663.4**	**2,027.1**

Life insurance contract liabilities

	Consolidated	
	2008 $M	**2007 $M**
(a) Analysis of life insurance contract premium and related revenue		
Total life insurance contract premium and related revenue	-	-
(b) Analysis of life insurance contract claims and related expenses		
Total life insurance contract claims paid and payable	6.8	6.8
Inwards reinsurance claims	0.1	0.1
Life insurance contract claims expense	6.9	6.9
Less: component recognised as a change in life insurance contract liabilities	(6.9)	(6.9)
Total life insurance contract claims and related expenses	**-**	**-**

	Consolidated 2008 $M	Consolidated 2007 $M
(c) Analysis of life insurance contract operating expenses		
Life insurance contract maintenance expenses		
- Commission	0.2	0.2
- Other	0.5	0.7
	0.7	**0.9**
(d) Life insurance contract liabilities		
Best estimate liability		
- Value of future life insurance contract benefits	71.6	72.8
- Value of future expenses	8.1	10.2
Total best estimate liability	**79.7**	**83.0**
(e) Reconciliation of changes in life insurance contract liabilities		
Total life insurance contract liabilities at the beginning of the year	83.0	91.1
Changes in life insurance contract liabilities recognised in revenue (Note2)	(0.4)	(4.8)
Changes in life insurance contract liabilities recognised in expenses(Note 3)	4.1	3.6
Claims recognised as a decrease in life insurance contract liabilities	(7.0)	(6.9)
Total life insurance contract liabilities at the end of the year	**79.7**	**83.0**

(f) Assumptions and methodology applied in the valuation of life insurance contract liabilities

Life insurance contract liabilities, and hence the net profit from life insurance contracts have been calculated using the Margin on Services (MoS) method in accordance with the requirements of Actuarial Standard 1.04 "Valuation of Policy Liabilities" under section 114 of the Life Insurance Act 1995. The Actuarial Standard requires the life insurance contracts to be calculated in a manner that allows for the systematic release of planned margins on services as services are provided to policyholders and premiums are received.

Challenger maintains one policy type being individual annuities and utilises annuity payments as the profit carrier when calculating the life contracts under the projection method.

Key assumptions used in the calculation of life insurance liabilities are:

i) **Investment earnings/discount rate**
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.

ii) **Maintenance expenses**
The assumption is based on budgeted maintenance expenses for the year ending 30 June 2009. These expenses are converted to a per policy unit cost or percentage of Account Balance, depending on their nature, based on an expense analysis for the funds.

iii) **Inflation**
The assumption is based on long term expectations of inflation and is reviewed annually for changes in the market environment. The current assumption is 3.65% for short-term inflation, and 4.02% for long-term (at June 2007 it was 2.77% for short-term inflation, and 3.54% for long-term.)

iv) **Shareholder tax**
The corporate tax rate of 30% has been used.

v) **Voluntary discontinuances**
No voluntary discontinuance are assumed.

vi) **Surrender values**
Not applicable as no voluntary discontinuance are assumed.

vii) **Mortality – annuity products**
The mortality assumption is based on IM/IF92 (mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on United Kingdom annuitant lives experience from 1990 to 1992) and adjusted for future mortality improvements.

viii) Impact of changes in assumptions

Under MoS, for life insurance contracts valuations using the projection method, changes in actuarial assumptions are generally recognised by adjusting the value of future profit margins in life insurance contract liabilities. Future profit margins are generally released over future periods. However, given the implied interest rates at which these products were written, they are assumed to be in loss recognition and so any changes in assumptions do have a profit impact.

The impact of the changes in assumptions on future shareholder profits is quantified in Note 20(g). Changes in actuarial assumptions do not include market related changes in discount rates such as changes in benchmark market yields caused by changes in investment markets and economic conditions. These are reflected in both life insurance contract liabilities and asset values at the balance sheet date.

Insurance contract liabilities decreased by $2.4m as at 30 June 2008 as a result of a decrease in assumed future expenses. This led to an increase in profit of $2.4 million for the year ended 30 June 2008.

(g) Insurance risk sensitivity analysis – life insurance contracts

For life insurance contracts which are accounted for under MoS, amounts of liabilities, income or expense recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins.

This table below reports the sensitivity of life insurance contract liabilities, current shareholder period profit after income tax, and equity, to changes in assumptions relating to insurance risk.

		Change in life insurance contract liabilities		Changes in shareholder profit after income tax, and equity	
Variable		**Gross of reinsurance $M**	**Net of reinsurance $M**	**Gross of reinsurance $M**	**Net of reinsurance $M**
Annuitant mortality	50% increase in the rate of mortality improvement	1.0	-	(0.7)	-
Discontinuance rates	10% increase in discontinuance rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	0.8	0.8	(0.6)	(0.6)

(h) Life insurance risk

The sole life insurance risk of CL2 is annuitant mortality rates. CL2 mitigates the majority of any adverse financial impact arising from annuitant mortality rates by reinsuring (ceding) this risk with a specialist reinsurance company.

Other life insurance and investment contracts disclosure

	Consolidated		Parent	
	2008 $M	**2007[1] $M**	**2008 $M**	**2007 $M**
(a) Analysis of life insurance and investment contract profit				
Components of profit related to life insurance and investment contract liabilities:				
- Profits (losses) arising from difference between actual and assumed experience	(52.5)	155.3	-	-
Profit related to life insurance and investment contract liabilities				
Attributable to:				
- Life insurance contracts	(1.1)	6.1	-	-
- Investment contracts	(51.4)	149.2	-	-
Investment earnings/(losses) on assets in excess of life insurance and investment contract liabilities	(89.0)	94.4	-	-

[1] 2007 comparatives have been restated downwards by $145.1 million.

(b) Restrictions on assets

Investments held in the CL2 Funds can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that the assets in a Fund can only be used to meet the liabilities and expenses of that Fund, to acquire investments to further the business of the Fund or as distributions when solvency and capital adequacy requirements are met.

Actuarial information

Mr A Bofinger FIAA, as the Appointed Actuary of CL2, is satisfied as to the accuracy of the data used in the valuations of policy liabilities and solvency reserves in the Financial Report and in the tables in this note. The policy liabilities and solvency reserves have been determined at the reporting date in accordance with the Life Insurance Act 1995.

Investment assets of the life statutory funds comprising cash, equity securities, debt securities, property securities, other financial assets and investment property are held to back investment contract liabilities amounting to $3,663.4 million (2007: $2,027.2 million) and life insurance contract liabilities amounting to $79.7 million (2007: $83.0 million). Investment assets are traded on a regular basis taking into account the movements in liabilities as well as incoming cash flows.

For the majority of investment contract and life insurance contract liabilities, there is a fixed settlement date. Based on CL2 assumptions as to likely withdrawal patterns in the various product groups, it is estimated that approximately $628.0 million (2007: $189.1 million) may be settled within 12 months of the reporting date.

21. *Mortgage Management Special Purpose Vehicles (SPV)*

The Mortgage Management business establishes and services a number of SPV's which fund pools of residential mortgage loans via the issuance of residential mortgage backed securities. All borrowings of the SPV's are limited in recourse to the assets of the SPV's.

Mortgage Management retains a nominal beneficial interest in each SPV which entitles it to an income stream from the SPV's in the form of a net interest margin in addition to the fees it receives as servicer and trust manager. Mortgage Management are generally entitled to its fees for servicing and acting as trust manager in priority to obligations to noteholders being paid and is entitled to the residual income after all other obligations of the trust have been met.

Mortgage Management's residual income may be impacted in the event of an impairment in the mortgage loans within the SPV's in excess of the security held and any lenders mortgage insurance cover. Mortgage Management maintains a prudent level of provisioning within it's SPV's for impairment against the outstanding SPV's mortgage receivables as a consequence of this potential risk. In the event that impairments exceed the residual income due to Mortgage Management then the SPV noteholders bear the credit risk in accordance with the priority of their respective noteholdings.

While the Group has no ownership rights to the underlying mortgages nor any obligation or duty to repay any of the residential mortgage backed securities, the Group is required to consolidate all securitisation SPV's as a consequence of holding the beneficial interest to the residual income streams. This results in a gross up of assets and liabilities, separately disclosed as they are not considered part of the Groups' assets and liabilities from management's perspective. Transactions between the SPV and Challenger Mortgage Management are eliminated on consolidation into Group in accordance with accounting standards. There is no impact on total equity, other than for amounts reflected in a cash flow hedge reserve explained hereunder, which has also been separately disclosed.

AASB 139 "Financial Instruments: Recognition and Measurement" requires all derivatives to be recognised on the balance sheet and measured at fair value. Gains and losses arising from changes in fair value will be recognised in the income statement, unless hedge accounting is applied. Where cash flow hedge accounting requirements are met, the carrying value of the hedged item is not adjusted, and the fair value changes on the related hedging instrument (to the extent that the hedge is effective) are deferred in the cash flow hedge reserve. This amount will then be transferred to the income statement at the time the hedged item effects the income statement. Ineffective hedges are recognised in the income statement immediately.

The SPV's exposures to interest rate and exchange rate risk are hedged using derivative financial instruments. All derivatives in the SPV's are designated as cash-flow hedges, thereby protecting the Group's income statement from significant volatility.

The consolidated balance sheet and cash flow statement for the securitised Special Purpose Vehicles before intersegment eliminations with Mortgage Management is contained below.

Balance Sheet

	Consolidated Special Purpose Vehicles	
	2008 $M	**2007 $M**
Assets - securitised		
Cash and cash equivalents	956.0	1,114.1
Receivables	18,888.3	20,046.5
Derivative assets	19.0	-
Other assets	6.0	4.1
Total assets	19,869.3	21,164.7
Liabilities - securitised		
Payables	90.7	79.2
Derivative liability	-	5.7
Interest bearing liabilities	19,765.3	21,083.9
Total liabilities	19,856.0	21,168.8
Net assets	**13.3**	**(4.1)**
Net assets attributable to unit holders		
Cash flow hedge reserve	13.3	(4.1)
Total net assets attributable to unit holders	**13.3**	**(4.1)**

Statement of Cash Flows for Securitised Special Purpose Vehicles

	Consolidated	
	2008 $M	**2007 $M**
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	1,849.4	1,607.6
Payments to suppliers and employees (inclusive of GST)	(1,627.2)	(1,351.6)
Net cash inflow from operating activities	222.2	256.0
Cash flows from investing activities		
Mortgage loans - advanced and purchased	(10,723.7)	(11,902.5)
Mortgage loans repaid and sold	11,755.6	10,349.6
Net cash outflows from investing activities	1,031.9	(1,552.9)
Cash flows from financing activities		
Proceeds from borrowings	10,890.5	16,539.3
Repayment of borrowings	(12,302.7)	(15,290.7)
Net cash inflow from financing activities	(1,412.2)	1,248.6
Net inflow/(outflow) in cash and cash equivalents held	(158.1)	(48.3)
Cash and cash equivalents at the beginning of the year	1,114.1	1,162.4
Cash and cash equivalents at the end of the financial year	**956.0**	**1,114.1**

Reconciliation of reserves

	Consolidated 2008 $M	Consolidated 2007 $M
SPV reserves		
Cash flow hedge reserve	13.3	(4.1)
	13.3	**(4.1)**
Movements in reserves		
Cash flow hedge reserve		
Opening balance	(4.1)	(12.3)
Net gains/(losses) from changes in fair value	17.4	8.2
Closing balance	**13.3**	**(4.1)**

22. *Contributed Equity*

	Consolidated			
	2008		2007	
	No. of shares	$M	No. of shares	$M
(A) Shares on issue				
Ordinary shares[1]	581,711,370	1,462.4	538,809,540	1,259.9
LTIP shares held in trust and treated as treasury shares	46,183,491	135.2	57,464,000	167.2
CPP shares held in trust and treated as treasury shares	4,473,679	24.5	-	-
	632,368,540	**1,622.1**	**596,273,540**	**1,427.1**
(B) Movement in shares on issue				
Ordinary shares				
Opening balance	538,809,540	1,259.9	532,943,540	1,244.0
Issue of new shares	40,000,000	207.5	-	-
Shares issued under share based payment plan net of shares cancelled	7,375,509	19.5	5,866,000	15.9
Shares purchased for CPP	(4,473,679)	(24.5)	-	-
Closing balance[2]	**581,711,370**	**1,462.4**	**538,809,540**	**1,259.9**
LTIP				
Opening balance	57,464,000	167.2	59,360,000	168.4
Shares issued and held on trust	-	-	5,550,000	19.7
Redeem shares forfeited by leavers	(3,905,000)	(12.5)	(1,748,000)	(5.4)
Vested shares transferred to ordinary shares	(7,375,509)	(19.5)	(5,698,000)	(15.5)
Closing balance [2]	**46,183,491**	**135.2**	**57,464,000**	**167.2**
CPP Trust				
Opening balance	-	-	-	-
Shares purchased held in trust and treated as treasury shares	4,707,060	25.8	-	-
Shares transferred to employees	(233,381)	(1.3)		
Closing balance	**4,473,679**	**24.5**	**-**	**-**

[1]The parent entity has $1,486.9 million shares on issue. The difference is due to the treatment of $24.5 million shares in the Challenger Performance Plan Trust as treasury shares on consolidation.

[2]The shares on issue exclude vested shares under the executive share based payments scheme (LTIP), which have not yet been settled. This can be represented as follows:

	2008 No. of Shares	2007 No. of Shares
Ordinary Shares		
Issued	600,378,540	554,608,540
LTIP vested but not settled	(14,193,491)	(15,799,000)
CPP Shares	(4,473,679)	-
	581,711,370	538,809,540
LTIP		
Unvested	31,990,000	41,665,000
LTIP vested but not settled	14,193,491	15,799,000
	46,183,491	57,464,000

(a) Terms and Conditions of shares

Ordinary shares

A holder of a share is entitled to certain rights, including rights:

- to receive dividends as declared;
- to be provided with copies of annual reports and other information in respect of the Company;
- to receive notice of, and vote at, meetings of holders of shares, either in person or by proxy;
- after liquidation of the Company, to receive the distribution of the net proceeds of Company assets according to the number of shares registered at termination; and
- to transfer shares and on death, to pass the shares to a surviving joint holder, or by will or otherwise to the holder's estate.

A holder of a share is entitled to one vote on a show of hands and on a poll; each shareholder will have one vote for each fully paid share, determined from the sale of such shares on the ASX on the trading day immediately before the day on which the poll is taken.

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital.

Shares issued under LTIP

The terms and conditions of shares issued under the LTIP are disclosed in Note 31 of the financial report.

Challenger Performance Plan Trust

On 24 August 2007 the Challenger Performance Plan Trust was established to hold shares in the Company for allocations made under the Challenger Performance Plan. The trust is treated as a special purpose entity and consolidated. The Trust's shareholding in the Company is disclosed as treasury shares and deducted from equity.

(b) Capital risk management

A company is generally limited in the risk-taking activities that it can engage in by the amount of capital it holds (with reference to different stakeholder expectations). The amount of capital that a company holds therefore acts as a buffer against risk, to ensure that the company is able to continue normal business in the event of an unexpected loss.

Capital risk management involves the management of this risk. The Group manages capital risk management via Capital Management Plans at both the Group level and at the prudentially regulated Challenger Life No. 2 Limited (CL2) level. Broadly, the Capital Management Plans have an objective of maintaining the financial stability of the Group and CL2 whilst ensuring the shareholders earn an appropriate risk adjusted return through the 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

At the Group level, the 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 in order to secure access to capital at a reasonable cost.

Long term credit ratings for the Group and CL2 as at the balance date are shown below. There were no changes to these ratings throughout the financial year.

Entity:	Ratings Agency	Long Term Credit Rating	Outlook
Challenger Financial Services Group Limited	Standard & Poor's	BBB+	Stable
Challenger Life No. 2 Limited	Standard & Poor's	A	Stable

The capital structure of the Group primarily consists of Net Recourse Debt and Common Equity.

The Group monitors its capital structure on the basis of the gearing ratio which is calculated as Net Recourse Debt *divided by* Net Recourse Debt *plus* Common Equity. Net Recourse Debt is calculated as Recourse Debt *less* cash and cash equivalents that are available to the Group (which excludes amongst other things cash and cash equivalents within the CL2 statutory funds). Common Equity is calculated as the aggregate of Contributed Equity, Reserves, Retained Profits and Minority Interests and during the financial year the Company issued new capital – refer Note 8.

To maintain the preferred investment grade rating the Capital Management Plan targets a gearing ratio within a range of 25% - 35%. The gearing ratio at balance date is shown in the table below and throughout the financial year the gearing ratio was maintained consistently below the Capital Management Plan targets.

	Consolidated 2008 $M	Consolidated 2007 $M
Recourse debt		
Corporate banking facility	-	-
Medium term notes	250.0	250.0
Loan from associates	-	45.0
	250.0	295.0
Less: Cash and cash equivalents (available to Group)	240.8	209.0
Net recourse debt	9.2	86.0
Total equity	1,630.0	1,448.6
Total capital	1,639.2	1,534.6
Net gearing ratio (%)	0.6%	5.6%

The details of the recourse debt are provided at Note 18.
The Group's current distribution targets a payout ratio of approximately 30% of profit after tax.

There were no material changes to the Group's Capital Management Plan during the financial year.

Capital Management Plan – CL2

Challenger Life No.2 Limited (CL2) is a life insurance company regulated under the Life Insurance Act 1995 (the Act). The Act imposes minimum statutory capital requirements, as set out in Prudential Standards issued by APRA, on all life insurance companies. At all times during the financial year CL2 complied with these requirements.

Separate and distinct from the Group's Capital Management Plan, CL2's Capital Management Plan integrates the statutory capital and solvency requirements, insurer financial strength rating as assessed by Standard and Poor's, and economic capital requirements. There were no material changes to CL2's Capital Management Plan during the financial year.

CL2's resources available to meet statutory capital requirements at balance date are set out in the table below:

Capital Resources	2008 $M	2007 $M
Shareholder equity	924	1,154
Subordinated debt	555	190
Total regulatory capital	1,479	1,344
Solvency reserve		
Solvency reserve %	31.6	42.8
Coverage of solvency reserve (times)	1.8	1.6

23. *Reserves*

	Consolidated		Parent	
	2008 $M	2007 $M	2007 $M	2007 $M
Equity option premium reserve				
Opening balance	61.7	61.7	61.7	61.7
Options issued to Colony Marlin-Holdings, LLC	63.4	-	63.4	-
Closing balance	125.1	61.7	125.1	61.7
Share based payments premium reserve				
Opening balance	23.6	16.9	23.6	16.9
Share based payments for the year	10.6	6.7	10.6	6.7
Closing balance	34.2	23.6	34.2	23.6
Available for sale investment revaluation reserve				
Opening balance	-	-	-	-
Currency translation difference	(6.9)	-	-	-
Revaluation gain/(loss) net of tax taken to reserve	(37.3)	-	-	-
Impairment loss taken to income statement	41.8	-	-	-
Closing balance	(2.4)	-	-	-
Cash Flow Hedge Reserve				
Opening balance	1.7	(2.0)	-	-
Transfer of gain/(loss) to income statement	(1.7)	3.7	-	-
Closing balance	-	1.7	-	-
Cash Flow Hedge Reserve From SPV				
Opening balance	(4.1)	(12.3)	-	-
Charged to equity	17.4	8.2	-	-
Closing balance	13.3	(4.1)	-	-
Total Reserves	**170.2**	**82.9**	**159.3**	**85.3**

Nature and purpose of reserves

Equity option premium reserve

This reserve represents the valuation assigned to options issued to Consolidated Press Holdings and to Colony Marlin-Holdings LLC.

Shares Under Option

	Grant date	Expiry date	Exercise Price	Number
Consolidated Press Holdings Limited[1]	22 Dec 2003	22 Dec 2013	$3.25	60,000,000
Colony Marlin-Holdings LLC[2]	07 Nov 2007	07 Nov 2012	$7.00	57,142,857

[1] Options issued to Consolidated Press Holdings Limited are non-transferable call options and may be exercised at any time within 10 years from their grant date (22 December 2003).

[2] Options issued to Colony Marlin-Holdings, LLC are non-transferable call options and may be exercised at any time within 5 years from their grant date (7 November 2007).

Share based payments premium reserve
Under AASB 2 Share Based Payments an expense is recognised over the vesting period of share options 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 options 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 recognised as a separate component of 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 investment revaluation reserve
This reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognised or sold.

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.

Cash flow hedge reserve from SPV
Refer Note 21.

24. *Retained Profits / (Losses)*

	Consolidated		Parent	
	2008 $M	**2007 $M**	**2008 $M**	**2007 $M**
Opening balance	102.1	(93.0)	(168.0)	(218.9)
Net (loss)/profit for the period	(44.2)	255.0	117.2	110.8
Dividends paid	(77.6)	(59.9)	(77.6)	(59.9)
Balance at end of year	**(19.7)**	**102.1**	**(128.4)**	**(168.0)**

25. *Total Minority Interests*

	Consolidated	
	2008 $M	**2007 $M**
Interest in:		
Share capital	20.6	30.8
Foreign exchange gains and losses	-	(5.6)
Distributions provided to security holders	(8.5)	(0.7)
Profit/(loss) after tax for the period attributable to minority interest	5.0	(20.8)
	17.1	**3.7**

26. *Segment Information*

Business segments

The primary business units of the Group have been identified as follows:

	Mortgage Management[1]		Funds Management		Asset Management		CIF[2]		Corporate[3]		Total Consolidated	
$M	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Revenue from external customers	1,968.9	1,599.2	128.7	135.5	412.5	593.6	-	(6.8)	18.7	6.8	2,528.8	2,328.3
Impairment charges recognised against revenue	(22.0)	-	-	-	(41.8)	-	-	-	-	-	(63.8)	-
Intersegment revenue	14.0	12.7	(5.0)	10.6	(9.0)	(5.1)	-	-	-	(18.2)	-	-
Total segment revenue	1,960.9	1,611.9	123.7	146.1	361.7	588.5	-	(6.8)	18.7	(11.4)	2,465.0	2,328.3
Expenses												
Depreciation and amortisation	-	(0.1)	-	-	(3.2)	(0.9)	-	(5.2)	(9.7)	(9.2)	(12.9)	(15.4)
Other expenses	(1,884.7)	(1,522.2)	(93.5)	(106.3)	(445.0)	(307.2)	-	(34.1)	(93.1)	(40.5)	(2,516.3)	(2,010.3)
Total segment expenses	(1,884.7)	(1,522.3)	(93.5)	(106.3)	(448.2)	(308.1)	-	(39.3)	(102.8)	(49.7)	(2,529.2)	(2,025.7)
Share of net profits of associates	1.9	0.4	0.2	(0.3)		-	-	-	-	-	2.1	0.1
Net profit/(loss) before tax	78.1	90.0	30.4	39.5	(86.5)	280.4	-	(46.1)	(84.1)	(61.1)	(62.1)	302.7
Income tax (expense)/benefit											31.3	(75.3)
Net profit/(loss) after tax from continuing operations											**(30.8)**	**227.4**
Net profit/(loss) after tax from discontinued operations[4]											(8.4)	6.8
(Profit)/losses attributable to minority interest											(5.0)	20.8
Net profit/(loss) after tax											**(44.2)**	**255.0**
Segment assets	20,549.6	21,436.2	133.7	138.0	6,183.2	4,579.2	-	-	488.8	689.6	27,355.3	26,843.0
Segment liabilities	(19,978.5)	(20,966.8)	(26.2)	(14.4)	(5,264.2)	(3,565.1)	-	-	(456.4)	(999.0)	(25,725.3)	(25,545.3)
Net assets from continuing operations	**571.1**	**469.4**	**107.5**	**123.6**	**919.0**	**1,014.1**	**-**	**-**	**32.4**	**(309.4)**	**1,630.0**	**1,297.7**
Net assets from discontinuing operations											**-**	**150.9**
Total Net Assets (including discontinued operations)											**1,630.0**	**1,448.6**

1 Special Purpose Vehicles form part of the Mortgage Management segment. Numbers are being shown net of intersegment transactions.

2 Represents 100% of CIF's earnings and net assets (including CL2's investment in CIF) up to deconsolidation on 29 November 2006.

3 Corporate and eliminations segment includes eliminations and non-core activities of the Group. Corporate expenses consist of costs that fall outside the day-to-day operations of Asset Management, Mortgage Management, Financial Planning and Funds Management. These costs include the costs of the Group CEO and CFO, shared services across the Company, directors' fees, corporate borrowings and associated borrowing costs and shareholder registry services for the Group.

4 The Financial Planning division was disposed of on 30 June 2008 and so has been removed from segment note. For details on the Financial Planning division see Note 35.

Geographical segments

The following tables present revenue, expenditure and certain asset information regarding geographical segments:

$M	Australia[1] 2008	Australia[1] 2007	United Kingdom[2] 2008	United Kingdom[2] 2007	Total Consolidated 2008	Total Consolidated 2007
Revenue						
Revenue from external customers	2,528.8	2,335.1	-	(6.8)	2,528.8	2,328.3
Impairment charges recognised against revenue	(63.8)	-	-	-	(63.8)	-
Intersegment revenue	-	-	-	-	-	-
Total segment revenue	**2,467.1**	**2,335.1**	**-**	**(6.8)**	**2,467.1**	**2,328.3**
Expenses			-			
Depreciation and amortisation	(12.9)	(10.2)	-	(5.2)	(12.9)	(15.4)
Other expenses	(2,516.3)	(1,976.2)	-	(34.1)	(2,516.3)	(2,026.9)
Total segment expenses	**(2,529.2)**	**(1,986.4)**	**-**	**(39.3)**	**(2,529.2)**	**(2,042.3)**
Share of net profits of associates	2.1	0.1	-	-	2.1	0.1
Net profit/(loss) before tax	**(62.1)**	**348.8**	**-**	**(46.1)**	**(62.1)**	**302.7**
Income tax benefit/(expense)					31.3	(75.3)
Net (loss)/profit after tax on continuing operations					**(30.8)**	**227.4**
Net profit/(loss) after tax from discontinued operations					(8.4)	6.8
(Profit)/losses attributable to minority interest					(5.0)	20.8
Net profit/(loss) after tax					**(44.2)**	**255.0**
Segment assets	27,355.3	26,843.0	-	-	27,355.3	26,843.0
Segment liabilities	(25,725.3)	(25,545.3)	-	-	(25,725.3)	(25,545.3)
Net assets from continuing operations	**1,630.0**	**1,297.7**	**-**	**-**	**1,630.0**	**1,297.7**
Acquisition of non-current assets	**14.6**	**84.3**	**-**	**16.4**	**14.6**	**100.7**

[1] Australia comparatives have been restated to remove the discontinued operations of the Financial Planning division.
[2] Represent 100% of CIF's earnings and net assets.

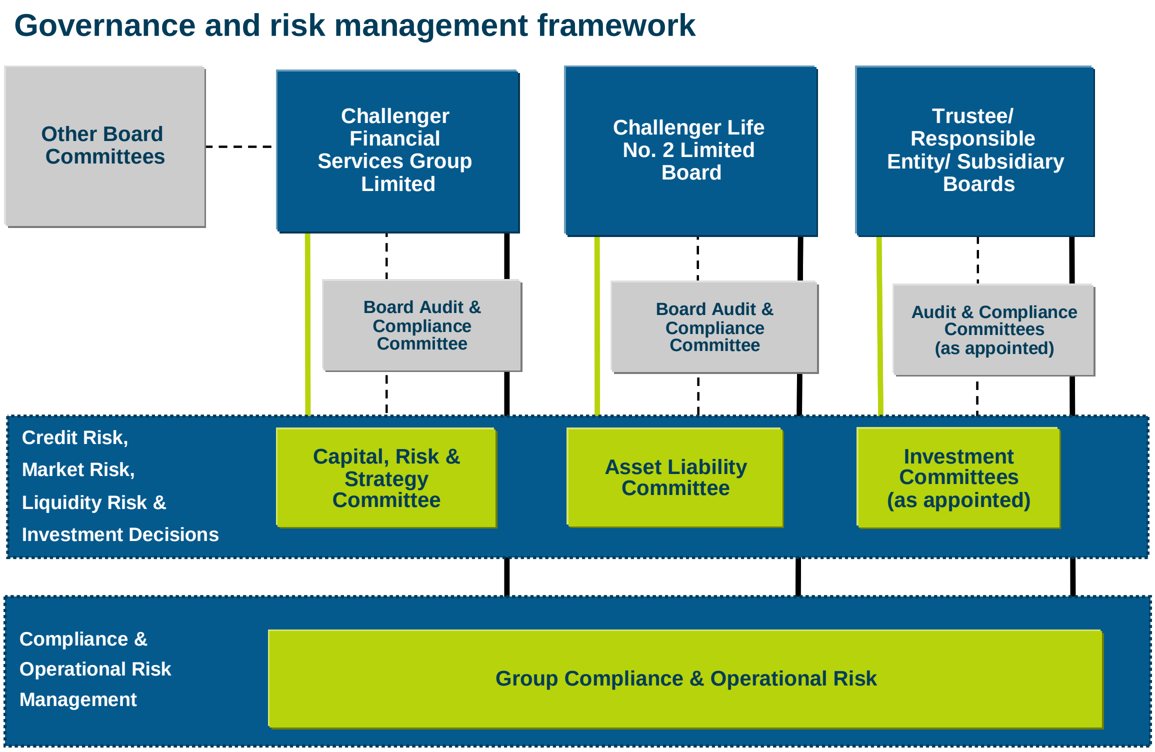
27. *Financial Risk Management*

Governance and risk management framework

The Group's activities expose it to a variety of financial risks, these are:

- Market risk (including currency risk, interest rate risk, equity price risk and credit spread risk);
- Credit default risk; and
- Liquidity risk.

The board has ultimate responsibility for the approval of the Group's financial risk management policies. The Group Capital Risk and Strategy Committee is responsible for monitoring and reporting to the Board on the financial risks that impact the Group. The management of these risks is supported by a comprehensive range of policies.



Risks and mitigation

In the normal course of the Group's business there is exposure to market, credit and liquidity risks. Derivative financial instruments are used to hedge exposures to fluctuations in foreign exchange rates and interest rates. Instruments used include interest rate futures contracts, forward foreign exchange contracts, cross currency swaps and interest rate swap contracts. Via the utilisation of these instruments the Group aims to reduce these risks to a minimal level.

Within the consolidated Group hedges are accounted for in different ways within the different divisions. All derivative financial instruments held within Challenger Life No 2 Limited (CL2) are stated at fair value with any gains or losses arising from changes in fair value being taken directly to the income statement for the year. CL2 has elected not to undertake the hedge accounting treatment available under AASB 139 *Financial Instruments: recognition and measurement* for its derivative financial instruments as the business' underlying assets and liabilities are predominantly fair valued through the income statement.

For all other entities within the Group, for the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction. For those that do not qualify for hedge accounting under the requirements of AASB 139, the derivative instruments are stated at fair value with any gains or losses arising from changes in fair value being taken directly to the income statement. For further hedge details see Note 28.

Financial risks impact the financial assets and liabilities of the Group. The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, receivables, payables, interest bearing liabilities, available for sale assets and financial assets and liabilities fair valued through the income statement.

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

Details of the financial assets and liabilities of the Group and the parent are outlined below:

		Consolidated		Parent	
	Notes	2008 $M	2007 $M	2008 $M	2007 $M
Financial Assets					
Cash and cash equivalents	8	657.8	706.9	2.8	2.2
Cash and cash equivalents – SPV	8	956.0	1,114.1	-	-
Other assets	15	149.2	168.4	-	1.1
Financial assets at fair value through income statement					
Financial assets held for trading	10	3,810.8	2,464.7	-	-
Derivative assets	28	83.3	49.8	-	-
Indirect property investments	10	335.7	384.0	-	-
Loans and receivables					
Receivables designated upon initial recognition	9	381.3	194.1	526.6	443.0
Receivables – SPV	9	18,760.4	19,820.4	-	-
Available for sale assets					
Other financial assets	10	33.5	16.7	-	-
Total Financial Assets		**25,168.0**	**24,919.1**	**529.4**	**446.3**
Financial Liabilities					
Financial liabilities at fair value through income statement					
Financial liabilities held for trading	17	43.6	93.2	-	-
Derivative liabilities	28	75.7	41.3	-	-
Financial liabilities measured at amortised cost					
Payables	16	480.4	442.8	162.3	356.2
Payables – SPV	16	12.4	5.5	-	-
Interest bearing liabilities	18	1,494.0	1,692.4	-	-
Interest bearing liabilities – SPV	18	19,523.7	20,829.3	-	-
Life contract liabilities	20	3,743.1	2,110.1	-	-
Total Financial Liabilities		**25,372.9**	**25,214.6**	**162.3**	**356.2**

a. Market Risk

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

It is important to note that each of the divisions are responsible for managing market risks that arise in their own businesses with oversight from a centralised treasury team. It is the policy of the Group to monitor the policies adopted by all divisions to ensure that the overall risk to the Group is monitored and hedged (if required).

A summary of each of the divisions and the way they are managed is shown below:

1. Asset Management (AM) (Balance Sheet including Challenger Life No. 2 Limited (CL2)): Viewed as a total return investor which hedges all relevant interest rate, currency and equity risks within the business line.
2. Asset Management (AM) (Specialist Funds business): Viewed as a fee income business with equity cash flows that are unhedged at a business line level.
3. Funds Management (FM): Viewed as a fee income business with equity cash flows that are unhedged at a business line level.
4. Mortgage Management (MM): Viewed as a fee income business with equity cash flows that are unhedged at a business line.
5. Corporate (Corp): Provides services and funding for Group activities.
6. Financial Planning (FP): Viewed as a fee income business with equity cash flows that are unhedged at a business line level. This division was sold by Challenger on 30 June 2008 and there are no financial assets or liabilities on the balance sheet as at 30 June 2008.

As a result, the market risks detailed below refer specifically to the risks faced at a Group level from operating these businesses.

i) Currency Risk

The consolidated entity is exposed to currency risk in respect of its net foreign currency exposures. It is the Group's policy to hedge the exposure of all balance sheet items to movements in foreign exchange rates.

Asset Management Division

It is CL2's policy to hedge the economic exposure of financial assets and liabilities against movements in foreign exchange rates. Financial assets and liabilities include both investments directly held on CL2's balance sheet and those investments indirectly held through various funds. CL2 primarily holds investments in United Kingdom, Europe and the United States in addition to immaterial holdings in other countries. The currencies impacted are primarily British Pounds, US Dollars and Euro. In order to protect Asset Management against exchange rate movements the business has entered into forward currency and cross currency derivatives.

Mortgage Management Division

The Mortgage Management SPV entities hedge exposure to foreign currency risk arising from issuing mortgage backed securities in foreign currency using cross currency swaps. The currencies impacted are primarily British Pounds, US Dollars and Euro. All derivatives in these special purpose vehicles are designated as cash flow hedges. This hedge is effective and there is no material impact on the results.

Corporate Division

Within the corporate division, the Group hedges its exposure to potential movements in foreign exchange. Corporate have entered into forward currency derivatives and future contracts to hedge international investment exposure. The currencies impacted are primarily British Pounds, US Dollars and Euro. All contracts are held at fair value with movements in fair value being recognised in the income statement.

The following table details the consolidated entity's net exposure to foreign currency as at the reporting date (Australian dollar equivalent amounts). These figures are shown net of any hedges in place.

Consolidated	2008				2007			
	GBP $M	USD $M	Euro $M	Other $M	GBP $M	USD $M	Euro $M	Other $M
Financial assets	915.2	940.8	786.7	29.3	526.2	346.3	370.2	27.5
Financial liabilities	(57.7)	(158.3)	(0.6)	-	(60.4)	(176.9)	-	(0.6)
Foreign currency forward contracts and cross currency swaps	(862.0)	(761.7)	(768.0)	(19.2)	(462.0)	(166.9)	(373.4)	(19.9)
Net FX exposure in AUD	**(4.5)**	**20.8**	**18.1**	**10.1**	**3.8**	**2.5**	**(3.2)**	**7.0**

The analysis below shows the impact on profit after income tax and equity of a movement in foreign currency exchange rates against the Australian dollar on our major currency exposures using residual exposure at the balance date. All underlying exposures and related hedges are included in the analysis. A sensitivity of 10% has been chosen as this is a reasonable measurement with the current level of exchange rates and the volatility observed on an historic basis.

	Movement in variable against A$	Financial Impact			
		Net Profit/(loss) 2008 $M	Equity 2008 $M	Net Profit/(loss) 2007 $M	Equity 2007 $M
British Pounds (GBP)	+ 10%	0.3	0.3	(0.4)	(0.3)
	- 10%	(0.3)	(0.3)	0.4	0.3
US Dollar (USD)	+ 10%	(1.7)	(1.5)	(0.6)	(0.2)
	- 10%	1.7	1.5	0.6	0.2
Euro (EUR)	+ 10%	(1.3)	(1.3)	-	0.2
	- 10%	1.3	1.3	-	(0.2)
Other	+ 10%	(0.7)	(0.7)	(0.5)	(0.5)
	- 10%	0.7	0.7	0.5	0.5

Calculation of NPAT is based on 30% tax rate.

The risks faced and methods used in the sensitivity analysis did not change from the previous period. As shown above a 10% movement in exchange rates would have minimal impact on the Consolidated Group's financial position.

Parent

The parent company does not have any financial assets or liabilities with currency risk.

ii) Interest Rate Risk

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

It is the Group's policy to minimise the impact of interest rate movements on our debt servicing capacity, Group profitability, business requirements and company valuation. The Group targets to hedge between 30% to 70% of corporate interest bearing liabilities. The amount of corporate interest bearing liabilities and their duration are determined with reference to the annual budget and the most current forecasts.

The Group's strategy is to have no interest rate hedges with duration greater than 5 years.

Asset Management Division

CL2's Market Risk Policy is approved by the Board and sets out the relevant risk limits for interest rate exposure. It is CL2's policy to minimise the impact of interest rate movements on its ability to service policyholders. Net interest rate exposures are reported regularly to the Asset and Liability Committee. The management of the risk associated with life investment and insurance contracts including the interest rate risk are subject to the prudential requirements of the Life Act. This includes satisfying solvency requirements, which in turn include consideration of how the interest rate sensitivity of assets and liabilities are matched.

Mortgage Management Division

Mortgage Management is impacted by three elements of interest rate risk:

- The impact of a rising/falling BBSW benchmark over the Reserve Bank of Australia's target cash rate can have a significant increase/decrease in the cost of funding and therefore on the net spread earned on the mortgages funded in the respective Special Purpose Vehicle.
- The business manages this risk by actively adjusting the interest rate charged to borrowers if a sustained adverse differential to the benchmark is evidenced.
- The impact of borrowers fixing the rates on their mortgage.

Interest rate risk is managed by using a cash flow hedge whereby the fixed rate is swapped for a floating rate for an amount of notes equal to notional value of the mortgage that is fixed.

Corporate Division

The corporate division is impacted by interest rate risk on its floating rate interest bearing liabilities. This exposure is immaterial to the consolidated Group and is effectively hedged.

None of the other divisions have any significant exposure to interest rate risk.

Consolidated Group

The consolidated Group's sensitivity to movements in interest rates in relation to the value of interest bearing financial assets and liabilities is shown in the table below. It is assumed that the change happens at the balance date and that there are concurrent movements in interest rates and parallel moves in the yield curve. All material underlying exposures and related hedges are included in the analysis:

		Financial Impact			
	Movement in variable	**Net Profit/(Loss) 2008 $M**	**Equity 2008 $M**	**Net Profit/(Loss) 2007 $M**	**Equity 2007 $M**
AM[1]	+ 100bps	0.2	0.2	0.8	0.8
AM	- 100bps	(0.2)	(0.2)	(0.8)	(0.8)
MM	+ 100bps	(11.5)	(11.5)	(11.9)	(11.9)
MM	- 100bps	11.5	11.5	11.9	11.9

[1]In line with the CL2 Asset and Liability Committee-approved practice note, it is assumed that all underlying exposures, including contracted property cashflows and infrastructure cashflows where appropriate, and related hedges are included in the sensitivity analysis.

Calculation of NPAT is based on 30% tax rate.

The risks faced and methods used in the sensitivity analysis did not change from the previous period. As shown above 100 bps movement in interest rate risk would have minimal impact on the consolidated Group's financial position apart from any potential effect on Mortgage Management's cost of funds that is limited to approximately one month's exposure as the business has the opportunity to reprice the mortgage portfolio.

Parent

The parent company does not have any financial assets or liabilities with interest rate risk.

iii) Equity Price Risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The Consolidated Group is exposed to price risk on its investments in equities and uses derivative financial instruments to manage this risk.

It is the Group's policy to hedge the exposure resulting from movements in the value of listed equity portfolio investments except for investments regarded as "operational" or "strategic".

Asset Management Division

As a life insurance company CL2 is required to fair value all equities held against policy holder liabilities.

CL2 is a major investor in several listed specialised funds and is exposed to the equity price risk on these and other investments in it's portfolio of assets.

Corporate

Within the corporate division, the Group hedges its exposure to potential movements in equity price risk arising from investments in a range of different equities from Australia and international markets.

None of the other divisions have any material direct exposure to equity price risk.

Consolidated Group

The potential impact of movements in the market value of listed and unlisted equities on the consolidated Group's income statement and balance sheet is shown in the below sensitivity analysis. This sensitivity analysis has been performed to assess the direct risk of holding equity instruments; therefore any potential indirect impact on fees from the Group's investment linked business has been excluded. It is assumed that the relevant change occurs as at the reporting date.

The analysis below shows the impact on profit after income tax and equity of a 10% movement in equity prices. It is assumed that the change happens at the balance date.

Asset Class	Movement in variable	Financial Impact			
		Net Profit/(Loss) 2008 $M	Equity 2008 $M	Net Profit/(Loss) 2007 $M	Equity 2007 $M
Indirect property investment	+ 10%	22.7	22.7	26.3	26.3
	- 10%	(22.7)	(22.7)	(26.3)	(26.3)
Infrastructure investment	+ 10%	45.4	45.4	39.6	39.6
	- 10%	(45.4)	(45.4)	(39.6)	(39.6)
Available for sale assets	+ 10%	-	2.3	-	-
	- 10%	(2.3)	(2.3)	-	-
Other assets	+ 10%	11.7	11.7	16.9	16.9
	- 10%	(11.7)	(11.7)	(16.9)	(16.9)

Calculation of NPAT is based on 30% tax rate.

The risks faced and methods used in the sensitivity analysis did not change from the previous period. As shown above a 10% movement in equity prices may have a material impact on the consolidated Group's financial position.

As at 30 June 2008, a $42 million impairment charge was recognised due to the impairment of an available for sale asset (equity holding in FBR Capital Markets).

Parent

The parent company does not have any financial assets or liabilities with equity price risk.

iv) Credit Spread Risk

The Consolidated Group is exposed to movements in credit spreads above the interbank swap curve through its Debt Security investments. As at 30 June 2008, a one basis point increase/decrease in credit spreads would have resulted in a $0.9 million unrealised loss/gain in the Income Statement (2007: a one basis point increase/decrease would have resulted in a $0.4 million unrealised loss/gain in the Income Statement).

b. Credit Default Risk

Credit default risk is the risk of loss in value of an asset due to a counterparty failing to discharge an obligation and/or a change in the value of the asset due to a widening of credit spreads.

The Group's approach to credit management utilises a credit risk framework to ensure that the following principals are adhered to:

- Independence from risk originators;
- Recognition of the different risks in the various Group businesses;
- Credit exposures are systematically controlled and monitored;

- Credit exposures are regularly reviewed in accordance with existing credit procedures; and
- Credit exposures include such exposures arising from derivative transactions.

Each of the divisions is responsible for managing credit risks that arise in their own businesses with oversight from a centralised credit risk management team. It is the policy of the Group to monitor the policies of all divisions to ensure that the risk to the Group is monitored and if necessary hedged.

Credit exposure by credit rating Consolidated Group

The Group makes use of external ratings (Standard & Poor's, Moody's or another reputable credit rating agency) and will ordinarily adopt a rating no greater than the lowest external rating assigned. Where an external rating is not available, an internal or implied rating will be used. Internal ratings are expressed on the basis of Standard & Poor's rating definitions. All credit exposures are additionally rated internally and this rating is cross referenced to the external ratings in place. Internal credit ratings are assigned by appropriately qualified and experienced credit personnel who are independent from risk originators.

Asset Management

CL2's Credit Policy is approved by the CL2 Board and sets out the relevant limits for interest rate exposure to individual counterparties and credit rating band. Exposures are reported regularly to the CL2 Asset & Liability Committee.

Mortgage Management

Credit Risk Exposure of the SPV loan portfolio
Mortgage Management is a leading provider of 'white label' residential lending solutions which are funded via a combination of wholesale term securitisation markets and warehouse facilities provided via a panel of international and domestic banks through Special Purpose Vehicles (SPV's – refer Note 21).

Importantly, the credit risk of the loans within the SPV's is that of the residential mortgage backed security bondholders (where term securitisation has occurred) or the bank warehouse facility providers (where term securitisation has not yet occurred). As a result Challenger does not bear the credit risks on the loans originated for the SPV's. MM's exposure is limited to investments in the SPV's and residual income receivable from the SPV's totalling $187.0 million (2007: $133.4 million).

Funds Management

Within the FM division, Challenger Managed Investments Ltd (CMIL) is the responsible entity for various managed schemes. CMIL aims to ensure that at all times it has appropriate credit risk management in place and that the Board and senior management are appropriately informed of the entity's credit risks.

The following table provides information regarding the maximum credit risk exposure of the consolidated entity and the parent at the balance date in respect of the major classes of financial assets. The analysis classifies the assets according to the internal credit ratings.

Assets rated investment grade are assets rated above BBB- (based on Standard & Poor's methodology). Assets rated non investment grade are assets rated below BBB-.

Consolidated 2008	Equivalent Credit rating Investment grade AAA $M	AA $M	A $M	BBB $M	Non Investment Grade Non-investment grade $M	Other $M	Total $M
Cash and cash equivalents	657.8	-	-	-	-	-	657.8
Cash and cash equivalents – SPV	956.0	-	-	-	-	-	956.0
Receivables[1]	-	2.9	-	23.6	-	354.8	381.3
Receivables – SPV	10,977.8	7,214.6	371.3	63.1	133.6	-	18,760.4
Financial Assets fair valued through income statement[2]	761.2	245.4	328.9	464.2	794.0	-	2,593.7
Derivative Assets	-	72.7	4.0	-	-	6.6	83.3
	13,352.8	7,535.6	704.2	550.9	927.6	361.4	23,432.5

Consolidated 2007	Equivalent Credit rating Investment grade AAA $M	AA $M	A $M	BBB $M	Non Investment Grade Non-investment grade $M	Other $M	Total $M
Cash and cash equivalents	706.9	-	-	-	-	-	706.9
Cash and cash equivalents – SPV	1,114.1	-	-	-	-	-	1,114.1
Receivables[1]	-	13.7	-	10.1	-	170.3	194.1
Receivables – SPV	13,814.6	5,215.6	204.7	321.2	264.3	-	19,820.4
Financial Assets fair valued through income statement[3]	26.7	5.6	275.1	224.7	473.0	-	1,005.1
Derivative Assets	-	26.3	1.9	-	-	21.6	49.8
	15,662.3	5,261.2	481.7	556.0	737.3	191.9	22,890.4

[1] Receivables is primarily related to trade debtors. Refer to Note 9 for further details.
[2] The credit duration of Debt Security investments at 30 June 2008 is approximately 3 years.
[3] Excluding $411 million floating rate notes of Ischus Structured Credit Vehicle which was deconsolidation of 30 September 2007.

Parent

At reporting date the parent company had cash and cash equivalents of $2.8 million (2007: $2.2 million) rated AAA. Receivables of $526.6 million (2007: $443.0 million) are not rated by the company as they are amounts due from controlled entities.

Management of credit default risk concentration

At reporting date, the Group has no significant concentrations of credit risk. The credit quality of all financial instruments is consistently monitored in order to identify any adverse changes in the credit quality.

The below tables give information regarding the carrying value of the consolidated Group's financial assets that are neither past due nor impaired, an ageing analysis is of those assets that are past due but not impaired and financial assets that are past due and impaired at the balance sheet date.

Consolidated		Past due but not impaired				Past due and Impaired	Total
	Neither past due nor impaired $M	0-1 months $M	1-3 months $M	3-6 months $M	Greater than 6 months $M	$M	$M
As at 30 June 2008							
Loans and receivables							
Receivables	372.0	-	6.4	0.3	2.3	0.3	381.3
Receivables - SPV[1]	17,665.0	619.6	268.5	171.1	-	36.2	18,760.4
Mortgages	-	-	0.1	0.1	-	-	0.2
As at 30 June 2007							
Loans and receivables							
Receivables	178.3	-	7.6	0.5	6.7	1.0	194.1
Receivables - SPV[1]	18,582.2	594.9	348.1	246.5	-	48.7	19,820.4

[1] Receivables – SPV's is represented by the weighted average loan to valuation ratio (LVR) of property value at original settlement. As at reporting date the fair value of collateral held for SPV receivables was $26,314.9 million (2007:$27,833.9 million).

Parent

The parent company has amounts due from controlled entities of $526.6 million (2007: $443.0m) which are neither past due nor impaired.

Included in financial assets fair valued through the income statement are loans and receivables that are not quoted in an active market. The net change in the fair value of the loans and receivable due to credit risk was negative $6 million (2007: nil).

Mortgage Management

The Mortgage Management SPV's hold a provision to protect against impaired assets (see Note 9 for details).

None of the other divisions has any material credit risk exposure.

Repossessed collateral

In the event of a default, in compliance with the Mortgage deed, the Lender, Perpetual Trustees Victoria Limited ('PVTL") may exercise the power vested under the applicable law and take possession of the secured property. It may exercise any power of sale conferred by applicable law as a recovery action against settlement of the outstanding mortgage balance. At all times of possession, the risks and rewards associated with ownership of the property are held by PVTL as the lender and not the Challenger Group.

c. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. This may result from either the inability to sell financial assets at their face values; or a counterparty failing on repayment of a contractual obligation; or the inability to generate cash inflows as anticipated.

The Group aims to ensure that it has sufficient liquidity to meet its obligations on a short term and medium term basis. In setting the level of sufficient liquidity, the Group considers new business activities in addition to current contracted obligations. In summary it considers: minimum cash requirements; collateral and margin call buffers; AFS License requirements; cash flow forecasts; associated reporting requirements; other liquidity risks; and contingency plans.

The basis of the approach to liquidity management is on targeting sufficient liquidity to meet the regulatory guidelines set out in ASIC Policy Statement 166 for holders of an AFS License and a Working Capital Reserve.

ASIC Policy Statement 166 currently requires AFS Licence holders to maintain cash flow projections over at least the next 3 months, based on a reasonable estimate of what is likely to happen and demonstrate that a Liquidity Buffer will exceed 20% of the greater of:

- cash outflows for the forecast 3 month average (equivalent to 18 days' outgoings); or
- cash outflow for the most recent financial year, adjusted to produce a 3 month average.

A Working Capital Reserve is to be used as a reserve to pay unexpected cash calls. To determine this figure, generally a review of the last 18 months' cash flows is undertaken. In addition, a number of financial market stresses on the business are undertaken quarterly.

Asset Management

Asset Management aim to ensure that it has sufficient liquidity to meet its obligations on a short term, medium term and long term basis. The Liquidity Management Policy is approved by the CL2 Board and sets out liquidity targets and mandated actions depending on actual liquidity levels relative to those targets. Detailed forecast cash positions are reported regularly to the CL2 Asset and Liability Committee. At the reporting date, all requirements of the CL2 Board approved liquidity management policy were satisfied.

The table below summarises the maturity profile of the Group's and the parent's undiscounted financial liabilities. This is based on contractual undiscounted repayment obligations, except for life investment contract liabilities.

Undiscounted Maturity Profile

Consolidated	1 year or less $M	1-3 years $M	3-5 years $M	> 5 years $M	Total contractual amount $M
2008					
Financial liabilities					
Payables	298.6	64.6	104.3	12.9	480.4
Payables - SPV	12.4	-	-	-	12.4
Interest bearing liabilities	141.4	723.4	224.2	1,766.6	2,855.6
Interest bearing liabilities - SPV	6,958.2	-	-	12,565.5	19,523.7
Life investment contract liabilities	1,079.6	1,202.7	804.5	2,022.4	5,109.2
Equity securities held for trading	43.6	-	-	-	43.6
Derivative financial liabilities	99.9	41.2	35.7	84.6	261.4
Total financial liabilities	8,633.7	2,031.9	1,168.7	16,452.0	28,286.3
2007					
Financial liabilities					
Non derivative financial liabilities					
Payables	327.6	4.2	111.0	-	442.8
Payables - SPV	5.5	-	-	-	5.5
Interest bearing liabilities	144.7	783.2	273.8	928.6	2,130.3
Interest bearing liabilities - SPV	5,159.9	130.0	-	15,539.4	20,829.3
Life investment contract liabilities	448.8	672.1	473.7	1,299.3	2,893.9
Equity securities held for trading	93.2	-	-	-	93.2
Derivative financial liabilities[1]	38.8	22.3	2.0	1.4	64.5
Total financial liabilities	6,218.5	1,611.8	860.5	17,768.7	26,459.5

[1]To protect against movements in foreign exchange rates and foreign interest rates, the SPV Trusts enter into interest rate basis swaps which exactly match the repayment terms to the underlying notes. Repayment of the face value of the notes is based on periodic repayment of the principal balance of the underlying mortgage assets/liabilities that can occur at any time. The notional value of the interest rate swap basis swaps reduces in line with the pay down of the notes. On this basis, the amount payable as well as maturity bands for the cross currency swap are unable to be determined and therefore not included in the above table. At reporting date the total cross currency swaps was net $3.6 million (2007: $10.8 million).

28. *Financial Instruments*

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, receivables, payables, interest bearing liabilities, available for sale assets and financial assets and liabilities fair valued through the income statement.

The main purpose of using financial instruments is to raise finance for the Group's operations. The use of derivative financial instruments minimise financial risk from movements in interest rates and foreign exchange rates. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instruments are disclosed in Note 1.

Fair value of financial instruments

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on reporting date.

As at 30 June 2008, $591 million (2007: $89 million) investments for which there is no active market or external valuation available were valued with reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and other methods consistent with market best practice . Of this, $390 million (66%) relates to the Challenger Infrastructure Fund Redeemable Preference Shares and Commercial loans secured by a first lien over commercial and residential property. The total net change in fair value recognised during the period for assets not traded in an active market or where no external valuation is available was a net unrealised loss of $13 million (2007:loss of $0.5 million). As at 30 June 2008 the estimated impact for +/- 1% change in the assumed price would result in a fair value movement of $5.9 million (2007:$0.9 million).

In addition, the Consolidated Entity holds $457 million (2007: $252 million) of investments for which there is an active market and which have been valued using market observable inputs including the prices of another instrument that is substantially the same.

As at 30 June 2008, $3.7 billion (2007: $2.1 billion) of life investment contract liabilities were valued in accordance to prudential standard LPS 1.04. Life investment contract liabilities are determined as the present value using a zero coupon inter-bank swap curve of future annuity payments, investment expenses and maintenance expenses. This calculation basis can result in the liability established at the sale of a contract being different from the premium received, and therefore a profit or loss being recognised, where the implied yield in the policy (allowing for commissions and expenses) is different from the zero-coupon inter-bank swap curve. For the year ending 30 June 2008, a loss of $19.6 million was recognised (2007: loss of $7.6 million). The maintenance expense assumption is based on budgeted maintenance expenses for the year ending 30 June 2009, and projected future business volumes. Future business volumes and future expenses cannot be forecast with certainty, so there is a range of possible assumptions which could reasonably be used. The total net change in fair value recognised during the period for life investment contract liabilities was an increase of $67 million (2007: $63 million). As at 30 June 2008 the estimated impact of a 10% change in the maintenance expense assumption, results in an increase or decrease in the fair value of the life investment contract liability of $14.0 million (2007: $9.0 million).

Market values from active liquid markets have been used to determine the fair value of listed held for trading and available for sale assets. The fair values of interest bearing liabilities have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of receivables and payables with a remaining life of less than one year is deemed to be the notional amount. The fair values of derivative financial instruments are calculated using quoted prices. Discounted cash flow analysis using the applicable yield curves is used where quoted prices are not available.

Investments in unlisted managed funds are primarily valued based on financial reports produced by the relevant fund.

The directors consider that the carrying amounts of financial assets and liabilities at the reporting date for the Group and parent approximates their fair values except as detailed in the following table:

Consolidated	Carrying amount	Fair value	Carrying amount	Fair value
	2008	2008	2007	2007
	$M	$M	$M	$M
Financial liabilities				
Non bank loans	996.1	995.1	775.0	774.0
	996.1	**995.1**	**775.0**	**774.0**

Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. The Group does not hold derivative financial instruments for trading purposes.

All derivative financial instruments are stated at fair value. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Challenger Life No.2 Limited (CL2) has elected not to undertake the hedge accounting treatment available under AASB 139 *Financial Instruments: Recognition and Measurement* for its derivative financial instruments as the business' underlying assets and liabilities are predominantly fair valued through the income statement.

With the exception of CL2 all entitles within the Group have elected for the purpose of hedge accounting under AASB139 *Financial Instruments: Recognition and Measurement* to classify derivative financial instruments as either fair value hedges or cashflow hedges. Fair value hedges relate to hedging the exposure to changes in the fair value of a recognised asset or liability. Cash flow hedges relate to exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction. For those that do not qualify for hedge accounting under the requirements of AASB 139, the derivative instruments are stated at fair value with any gains or losses arising from changes in fair value being taken directly to the income statement.

Hedging Instruments fair valued through the income statement

(i) Interest rate swaps and futures fair valued through the income statement

Hedging activity is performed using interest rate swaps and futures. A swap transaction obliges the two parties to the contract to exchange a series of cash flows at specified intervals known as payment or settlement dates. A futures contract obliges its owner to buy a specific underlying commodity or financial instrument at a specified price on the contract maturity date (or to settle the value for cash). Futures contracts are exchange traded.

The Group hedges a portion of its variable interest rate exposures arising from corporate interest bearing liabilities using an interest rate swap. The change in fair value of the interest rate swap is taken directly to the income statement.

As at reporting date the Group had the following interest rate swaps:

Consolidated Interest Rate Swaps	Notional/ Principal contract value $M	Net fair value assets $M	Net fair value liabilities $M
2008			
Less than 1 year	115.7	7.0	-
1-3 years	510.0	-	(7.7)
3-5 years	390.0	-	(8.7)
Greater than 5 years	1,495.9	0.2	(51.8)
	2,511.6	**7.2**	**(68.2)**
2007			
Less than 1 year	-	-	-
1-3 years	60.5	1.2	-
3-5 years	-	-	-
Greater than 5 years	106.4	2.0	(0.3)
Total	**166.9**	**3.2**	**(0.3)**

As at reporting date the Group had the following interest rate futures:

Consolidated Future Contracts	Notional/ Principal contract value $M	Net fair value assets $M	Net fair value liabilities $M
2008			
Less than 1 year	26.6	1.4	-
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	-	-	-
	26.6	**1.4**	**-**
2007			
Less than 1 year	958.0	-	(3.2)
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	-	-	-
Total	**958.0**	**-**	**(3.2)**

Asset Management hold the majority of contracts per interest rate swaps and interest rate futures. Movements during the year are in line with their adopted investment strategy.

(ii) Forward currency contracts held for trading

The Group uses forward currency contracts to hedge net foreign currency exposures. Asset Management and Corporate businesses treat forward currency contracts at fair value with movements in fair value taken to the income statement.

Details of outstanding foreign currency contracts, cross currency swaps, fair values and maturities as at reporting date are as follows:

Consolidated

	Notional/Principal contract value $M	Net fair value assets $M	Net fair value liabilities $M
2008			
FX Forwards	2,572.4	50.0	(3.7)
Cross Currency Swaps	159.3	1.6	-
	2,731.7	51.6	(3.7)
2007			
FX Forwards	1,657.4	45.3	(31.6)
Cross Currency Swaps	-	-	-
	1,657.4	45.3	(31.6)

Increase in forward currency contracts and cross currency swaps is predominantly due to the Metlife acquisition in Asset Management during the year.

Maturity profile table below illustrates the AUD equivalent of the foreign currency buy and sell contracts.

2008	**Maturity Profile**			
Outstanding Contracts	**<1 year $M**	**1-3 years $M**	**3-5 years $M**	**>5 years $M**
Buy				
USD Dollars	(143.9)	-	-	-
GBP Sterling	(13.1)	-	-	-
EUR Euro	(10.4)	-	-	-
NZD Dollars	(1.4)	-	-	-
CAD Dollars	(1.0)	-	-	-
JPY Yen	(8.1)	-	-	-
Sell				
USD Dollars	829.6	-	-	8.5
EUR Euro	658.6	-	-	-
GBP Sterling	515.3	184.5	-	-
SEK Krona	14.6	-	-	-
NZD Dollars	15.8	-	-	-
	1,856.0	**184.5**	**-**	**8.5**
2007				
Buy				
USD Dollars	(100.8)	-	-	-
EUR Euro	(0.8)	-	-	-
GBP Sterling	(77.2)	(126.0)	(13.0)	-
SEK Krona	(0.2)	-	-	-
Sell				
USD Dollars	251.2	-	-	8.5
EUR Euro	372.7	-	-	-
GBP Sterling	437.3	126.0	13.0	-
JPY Yen	12.7	-	-	-
SEK Krona	10.1	-	-	-
NZD Dollars	16.8	-	-	-
HKD Dollars	1.2	-	-	-
	923.0	**0.0**	**0.0**	**8.5**

Hedging Instruments designated as cash flow hedges

Mortgage Management hedges the SPV trusts using interest rate swaps, interest rate futures and cross currency swaps to reduce any potential exposures in interest rate fluctuations and adverse foreign currency movements. In accordance with AASB139 *Financial Instruments: Recognition and Measurement* these instruments have been designated as cash flow hedges and movements in the fair value of the hedges have been taken through the cash flow hedge reserve.

These hedge relationships have been structured ensuring all the principal terms of the hedged item and hedging instrument are perfect and as a result a qualitative method for assessing hedge effectiveness is considered appropriate.

The hedges are highly effective from inception because the cash flows of the hedging instrument fully offset the cash flows of the hedged item due to:

- The derivative notional value automatically tracking the principal value of the hedged item throughout the life of the trust
- The hedging instrument and hedged item have identical term to maturity
- The hedging instrument and hedged item have identical reset dates based on the applicable foreign cash rate
- Interest and principal payment dates are identical for the hedging instrument and hedged item
- The swap counterparty has a high investment grade credit rating ensuring minimal counter party risk

At each financial reporting date an examination is carried out to ensure the hedge is still effective (i.e. the critical terms still match), combined with a review of the credit rating of the counterparty. All hedges in place are with high grade credit counterparty and there has been no impact to the Income Statement for ineffective portions during the period.

Mortgage Management SPV's
As at reporting date a gain of $17.4 million (2007: $8.2 million) was recognised in equity for the below financial instruments designated as cash flow hedges.

Consolidated Group
As at reporting date a gain of $1.7 million (2007: $3.7 million) removed from equity and included in the income statement. This is included in unrealised gain/(loss) on interest rate derivative assets in Note 2.

(i) Interest rate swaps and futures designated as cash flow hedges

Mortgage Management hedge exposure to interest rates arising from funding fixed rate loans with floating rate mortgage backed securities using interest rate swaps.

Mortgage Management use futures contracts to hedge the interest rate basis risk between variable rate loans, which generally reprice with changes in official interest rates, and issued mortgage backed securities issued which reprice with changes in 30 day and 90 day BBSW.

As at reporting date the Group had the following cash flow hedge interest rate swaps in place:

Consolidated

Interest Rate Swaps	**Notional/ Principal contract value $M**	**Net fair value assets $M**	**Net fair value liabilities $M**
2008			
Less than 1 year	124.0	2.1	-
1-3 years	836.4	14.0	-
3-5 years	376.8	6.3	-
Greater than 5 years	22.7	0.4	-
	1,359.9	**22.8**	**-**
2007			
Less than 1 year	451.4	3.1	(2.1)
1-3 years	461.5	1.7	-
3-5 years	159.6	2.4	-
Greater than 5 years	-	-	-
Total	**1,072.5**	**7.2**	**(2.1)**

As at reporting date the Group had the following cash flow hedge interest rate futures in place:

Consolidated

Future Contracts	**Notional/ Principal contract value $M**	**Net fair value assets $M**	**Net fair value liabilities $M**
2008			
Less than 1 year	9,517.4	0.3	(0.2)
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	-	-	-
	9,517.4	**0.3**	**(0.2)**
2007			
Less than 1 year[1]	17,942.0	1.0	-
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	-	-	-
Total	**17,942.0**	**1.0**	**-**

[1] Comparative has been restated for the prior period.

(ii) Cross currency swap contracts designated as cash flow hedges

Mortgage Management SPV trusts use cross currency swaps to hedge foreign dominated securities and any potential impact of adverse changes in the foreign exchange rate on RMBS.

As at reporting date the Group had the following cash flow hedge cross currency swaps in place:

Consolidated

Cross Currency Swaps	**Notional/ Principal contract value $M**	**Net fair value assets $M**	**Net fair value liabilities $M**
2008			
Less than 1 year	-	-	-
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	7,749.4	-	(3.6)
	7,749.4	**-**	**(3.6)**
2007			
Less than 1 year	-	-	-
1-3 years	-	-	-
3-5 years	-	-	-
Greater than 5 years	10,369.7	-	(10.8)
Total	**10,369.7**	**-**	**(10.8)**

Mortgage Management have varied their holdings in interest rate swaps, future contracts and cross currency swaps in line with their strategic outlook for the business.

29. *Commitments for Expenditure*

Operating leases

The Group has entered into commercial operating leases for the rental of properties where it is not in the best interests of the Group to purchase these properties. These leases have an average life of between 1 and 10 years with renewal terms included in the contracts. Renewals are at the specific option of the entity that holds the lease. Surplus lease space under non cancellable operating leases has been subleased, and the revenue from these leases calculated on a straight line basis is offset against operating lease rentals.

In 2006, the Group entered into operating leases for the rental of new premises in Sydney. The Group relocated Sydney staff to the new premises in the Hilton in March 2007.

Details of the relevant commitments are contained below:

	Consolidated		Parent	
	2008 $M	**2007 $M**	**2008 $M**	**2007 $M**
Lease commitments Commitments payable in relation to leases contracted for at the reporting date but not recognised as liabilities:				
Not later than one year	14.9	12.6	-	-
Later than one year but not later than 2 years	16.8	15.9	-	-
Later than 2 years but not later than 5 years	45.3	40.9	-	-
Later than 5 years	40.9	61.0	-	-
	117.9	130.4	-	-
Representing:				
Non-cancellable operating leases	117.9	130.4	-	-
Operating leases Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Not later than one year	18.0	16.0	-	-
Later than one year but not later than 2 years	19.6	18.6	-	-
Later than 2 years but not later than 5 years	53.1	48.8	-	-
Later than 5 years	49.8	69.9	-	-
Less: Liability recognised for surplus lease space and estimate of sub lease liabilities on relocation	(22.6)	(22.9)	-	-
Commitments not recognised in the financial statements	**117.9**	**130.4**	**-**	**-**

	Consolidated		Parent	
	2008	2007	2008	2007
Capital expenditure commitments	**$M**	**$M**	**$M**	**$M**
Commitments payable in relation to capital expenditure commitments contracted for at the reporting date but not recognised as liabilities:				
Not later than one year	1.3	25.6	-	-
Later than one year but not later than 5 years	9.9	5.4	-	-
Later than 5 years	17.1	7.7	-	-
	28.3	**38.7**	-	-
Remuneration commitments				
Commitments payable for the salaries and other remuneration under long term employment contracts in existence at the reporting date but not recognised as liabilities:				
Not later than one year	6.0	0.2	-	-
Later than one year but not later than 5 years[1]	9.4	2.0	-	-
	15.4	**2.2**	-	-

[1] Amounts disclosed as remuneration commitments include commitments arising from contracts (retention bonus, termination payment, interest) of key management personnel referred to in the Remuneration Report that are not recognised as liabilities at balance date.

30. *Related Parties*

The key management personnel of Challenger Financial Services Group Limited at any time during the financial year are as follows:

Directors	
Peter Leith Polson	Chairman
Thomas Barrack Jr.	Non-Executive Director (appointed 22 November 2007)
Graham Allan Cubbin	Non-Executive Director
Russell Richard Hooper	Non-Executive Director
Ashok Peter Jacob	Non-Executive Director
James Douglas Packer	Non-Executive Director
Tatsuo Tanaka	Non-Executive Director (appointed 22 November 2007)
Leon Zwier	Non-Executive Director
James Glen Service	Non-Executive Director (retired 22 November 2007)
Brenda Mary Shanahan	Non-Executive Director (retired 22 November 2007)
Sarina Russo	Non-Executive Director (resigned 30 April 2008)
Executive Director	
Michael Tilley	Chief Executive Officer
Executives	
Current	
Mr Rob Adams	Chief Executive, Funds Management
Mr Brian Benari	Chief Executive, Mortgage Management
Mr Richard Howes	Principal Executive Officer, CL2
Mr Paul Rogan	Chief Financial Officer
Mr Dominic Stevens	Deputy Managing Director
Mr Robert Woods	Chief Executive, Asset Management
Past	
Mr Gregory Kirk	Managing Director, Financial Planning – Mr Kirk was an executive until 30 June 2008 when the Financial Planning division was sold.

Transactions with related parties in the wholly owned group:

Transactions with related parties (except otherwise disclosed) are conducted on an arms length basis under normal commercial terms and conditions. Amounts payable and receivable in respect of transactions between entities in the Group are disclosed in Notes 9 and 16.

Ultimate parent entity

Challenger Financial Services Group Limited is the ultimate parent entity.

Key management personnel compensation for the year ended 30 June 2008

	Year	Short term employee benefits	Post employment	Share based payments	Other long term benefits	Total
		$	$	$	$	$
Directors	**2008**	1,357,135	36,876	-	-	1,394,011
	2007	1,206,469	32,304	-	-	1,238,773
Executive Director	**2008**	5,298,807	13,129	2,546,856	250,000	8,108,792
	2007	3,987,314	12,686	848,322	-	4,848,322
Executives	**2008**	13,341,842	91,904	6,879,564	550,000	20,863,310
	2007	17,091,198	88,802	2,418,249	875,000	20,473,249
Total	**2008**	19,997,784	141,909	9,426,420	800,000	30,366,113
	2007	22,284,981	133,792	3,266,571	875,000	26,560,344

The Company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in the remuneration report at Section 12 of the Directors' Report.

Shareholdings in Challenger Financial Services Group Limited of Directors and Executives

Details of the Directors and Executive's shareholdings in the Company as at 30 June 2008 and their affiliates are set out below:

For the year ended 30 June 2008			**Movement during the year**			
Shares held in Challenger Financial Services Group Limited	**Held at 1 July 2007**	**Granted as remuneration during 2008**	**Forfeited during 2008**	**Net Change Other during 2008**	**Held at 30 June 2008 (vested and unvested)**	**Vested / exercisable during 2008**
Directors	**Number**	**Number**	**Number**	**Number**	**Number**	**Number**
P Polson	97,000	-	-	2,500	99,500	-
T Barrack Jr.[3]	-	-	-	-	-	-
G Cubbin	177,702	-	-	-	177,702	-
R Hooper	125,000	-	-	35,000	160,000	-
A Jacob	20,000	-	-	-	20,000	-
J Packer	122,788,278	-	-	-	122,788,278	-
S Russo[1]	-	-	-	-	n/a	-
J Service[2]	50,001	-	-	(50,001)	n/a	-
B Shanahan[2]	1,150,854	-	-	(1,150,854)	n/a	-
T Tanaka[3]	-	-	-	-	-	-
L Zwier	-	-	-	-	-	-
Executive Director						
M Tilley	7,022,999	-	-	4,050,000	11,072,999	800,000
Executives						
R Adams	3,500,000	-	-	(1,500,000)	2,000,000	600,000
B Benari	5,500,000	-	-	(381,509)	5,118,491	100,000
R Howes	5,000,000	-	-	(1,000,000)	4,000,000	400,000
G Kirk	2,500,000	-	(2,500,000)	-	-	-
P Rogan	1,500,000	2,000,000	-	20,000	3,520,000	-
D Stevens	7,500,000	-	-	-	7,500,000	1,100,000
R Woods	5,585,000	-	-	(685,000)	4,900,000	700,000
Total	**162,516,834**	**2,000,000**	**(2,500,000)**	**(659,864)**	**161,356,970**	**3,700,000**

[1]Ms Russo resigned as a director during the year.
[2]Mr Service and Ms Shanahan retired as directors during the year.
[3] Mr Barrack Jr. and Mr Tanaka were appointed as directors during the year.

Details of the Directors and Executive's shareholdings in the Company as at 30 June 2007 and their affiliates are set out below:

For the year ended 30 June 2007		Movement during the year				
Shares held in Challenger Financial Services Group Limited	Held at 1 July 2006	Granted as remuneration during 2007	Forfeited during 2007	Net Change Other during 2007	Held at 30 June 2007 (vested and unvested)	Vested / exercisable during 2007
Directors	**Number**	**Number**	**Number**	**Number**	**Number**	**Number**
P Polson	82,000	-	-	15,000	97,000	-
G Cubbin	177,702	-	-	-	177,702	-
R Hooper	125,000	-	-	-	125,000	-
A Jacob	20,000	-	-	-	20,000	-
J Packer	122,788,278	-	-	-	122,788,278	-
S Russo	-	-	-	-	-	-
J Service	50,001	-	-	-	50,001	-
B Shanahan	1,150,854	-	-	-	1,150,854	-
L Zwier	-	-	-	-	-	-
Executive Director						
M Tilley	5,022,999	-	-	2,000,000	7,022,999	800,000
Executives						
R Adams	3,000,000	500,000	-	-	3,500,000	600,000
B Benari	3,500,000	-	-	2,000,000	5,500,000	600,000
G Kirk	-	2,500,000	-	-	2,500,000	-
R Howes	3,000,000	-	-	2,000,000	5,000,000	400,000
P Rogan	1,000,000	500,000	-	-	1,500,000	-
D Stevens	5,500,000	-	-	2,000,000	7,500,000	1,100,000
R Woods	3,585,000	-	-	2,000,000	5,585,000	600,000
R Miles	600,000	-	-	(600,000)	-	-
C Cuffe	3,205,000	-	-	(3,205,000)	-	-
Total	**152,806,834**	**3,500,000**	**-**	**6,210,000**	**162,516,834**	**4,100,000**

Shareholdings of Directors at 30 June 2008 were acquired at arms length prices. There were no dividends paid or payable to the Directors and their affiliates.

Options for shares in Challenger Financial Services Group Limited of Directors and Executives

Details of Executive's options for shares in the Company as at 30 June 2008 and their affiliates are set out below:

For the year ended 30 June 2008		Movement during the year				
Options held in Challenger Financial Services Group Limited	Held at 1 July 2007	Granted as remuneration during 2008	Forfeited during 2008	Net Change Other during 2008	Held at 30 June 2008 (vested and unvested)	Vested/ exercisable during 2008
Executive	**Number**	**Number**	**Number**	**Number**	**Number**	**Number**
M Tilley	-	4,000,000	-	-	4,000,000	-
R Adams	500,000	600,000	-	-	1,100,000	-
B Benari	1,000,000	900,000	-	-	1,900,000	-
R Howes	1,000,000	900,000	-	-	1,900,000	-
P Rogan	-	900,000	-	-	900,000	-
D Stevens	1,000,000	900,000	-	-	1,900,000	-
R Woods	1,000,000	900,000	-	-	1,900,000	-
Total	**4,500,000**	**9,100,000**	**-**	**-**	**13,600,000**	**-**

Terms & conditions of option allocations for the year ended 30 June 2008

Executive	Granted Number	Grant Date	Grant Price $	Fair value at Grant $	First Vest Date	Last Vest Date
M Tilley	4,000,000	19/10/2007	5.20	1.82/1.94[1]	19/10/2011[2]	19/10/2011[2]
R Adams	200,000	30/6/2008	2.20	0.19	30/08/2009	30/08/2011
	200,000	30/6/2008	2.20	0.27	30/08/2010	30/08/2011
	200,000	30/6/2008	2.20	0.32	30/08/2011	30/08/2011
B Benari	300,000	30/6/2008	2.20	0.19	30/08/2009	30/08/2011
	300,000	30/6/2008	2.20	0.27	30/08/2010	30/08/2011
	300,000	30/6/2008	2.20	0.32	30/08/2011	30/08/2011
R Howes	300,000	30/6/2008	2.20	0.19	30/08/2009	30/08/2011
	300,000	30/6/2008	2.20	0.27	30/08/2010	30/08/2011
	300,000	30/6/2008	2.20	0.32	30/08/2011	30/08/2011
D Stevens	300,000	30/6/2008	2.20	0.19	30/08/2009	30/08/2011
	300,000	30/6/2008	2.20	0.27	30/08/2010	30/08/2011
	300,000	30/6/2008	2.20	0.32	30/08/2011	30/08/2011
R Woods	300,000	30/6/2008	2.20	0.19	30/08/2009	30/08/2011
	300,000	30/6/2008	2.20	0.27	30/08/2010	30/08/2011
	300,000	30/6/2008	2.20	0.32	30/08/2011	30/08/2011
P Rogan	300,000	30/6/2008	2.20	0.19	30/08/2009	30/08/2011
	300,000	30/6/2008	2.20	0.27	30/08/2010	30/08/2011
	300,000	30/6/2008	2.20	0.32	30/08/2011	30/08/2011

[1] Value per option if the EPS hurdle is achieved $1.94, Value per option if the TSR hurdle is achieved $1.82
[2] 24 August 2007 to 23 August 2011 for the TSR hurdle and the financial years from 1 July 2007 to 30 June 2011 for the EPS hurdle.

Performance rights held for shares in Challenger Financial Services Group Limited of Executives

Details of the Executive's performance rights for shares in the Company as at 30 June 2008 and their affiliates are set out below:

For the year ended 30 June 2008		Movement during the year				
Performance Rights held in Challenger Financial Services Group Limited	Held at 1 July 2007	Granted as remuneration during 2008	Forfeited during 2008	Net Change Other during 2008	Vested during 2008	Held at 30 June 2008 (unvested)
Executive	**Number**	**Number**	**Number**	**Number**		**Number**
M Tilley	-	269,527	-	-	-	269,527
R Adams	-	89,842	-	-	-	89,842
B Benari	-	255,151	-	-	-	255,151
R Howes	-	341,400	-	-	-	341,400
G Kirk	-	82,655	-	-	(82,655)	-
P Rogan	-	109,607	-	-	-	109,607
D Stevens	-	283,901	-	-	-	283,901
R Woods	-	377,337	-	-	-	377,337
Total	**-**	**1,809,420**	**-**	**-**	**(82,655)**	**1,726,765**

Performance rights are exercised on vesting and shares are transferred out of the plan to the individual.
All Executive rights in the scheme at the balance date are unvested.

Terms & conditions of performance rights allocations for the year ended 30 June 2008

	Granted Number	Grant Date	Grant Price $	Fair value at Grant $	First Vesting date	Last vesting date
Executive Director						
M Tilley	269,527	28/9/2007	5.57	5.38	15/9/2008	15/9/2010
Executive						
R Adams	89,842	28/9/2007	5.57	5.38	15/9/2008	15/9/2010
B Benari	219,215	28/9/2007	5.57	5.38	15/9/2008	15/9/2010
	35,936	28/9/2007	5.57	5.24	15/9/2010	15/9/2010
R Howes	305,464	28/9/2007	5.57	5.38	15/9/2008	15/9/2010
	35,936	28/9/2007	5.57	5.24	15/9/2010	15/9/2010
G Kirk	82,655	28/9/2007	5.57	5.38	15/9/2008	15/9/2010
P Rogan	100,623	28/9/2007	5.57	5.38	15/9/2008	15/9/2010
	8,984	28/9/2007	5.57	5.24	15/9/2010	15/9/2010
D Stevens	247,965	28/9/2007	5.57	5.38	15/9/2008	15/9/2010
	35,936	28/9/2007	5.57	5.24	15/9/2010	15/9/2010
R Woods	341,401	28/9/2007	5.57	5.38	15/9/2008	15/9/2010
	35,936	28/9/2007	5.57	5.24	15/9/2010	15/9/2010

Participation in deferred loan Scheme for shares in Challenger Financial Services Group Limited of Executives

Details of the Executive's participation in the deferred loan scheme for shares in the Company as at 30 June 2008 and their affiliates are set out below:

For the year ended 30 June 2008		Movement during the year				
Shares held in Challenger Financial Services Group Limited	Held at 1 July 2007	Granted as remuneration during 2008	Forfeited during 2008	Net Change Other during 2008	Held at 30 June 2008 (vested and unvested)	Vested/ exercisable during 2008
Executive	**Number**	**Number**	**Number**	**Number**	**Number**	**Number**
P Rogan	-	2,000,000	-	-	2,000,000	-
Total	**-**	**2,000,000**	**-**	**-**	**2,000,000**	**-**

Terms & conditions of deferred loan share purchases for the year ended 30 June 2008

Executive	Granted Number	Grant Date	Grant Price $	Fair value at Grant $	First Vest Date	Last Vest Date
P Rogan	2,000,000	5/9/2007	5.62	1.49	30/9/2009	30/9/2011

Loans to Directors and Executives

There were no loans made to Directors and specified Executives as at 30 June 2008 (2007: nil). Non recourse loans to buy shares are treated as options and are not to be included as loans for the purpose of AASB 124.

Mr Tilley is entitled to a $500,000 interest free loan for the purpose of investing in Challenger investment products, other than Challenger shares. To date Mr Tilley has not utilised this facility.

31. *Employee Entitlements*

	Consolidated		Parent	
	2008 $M	2007 $M	2008 $M	2007 $M
Employee entitlements	19.1	12.4	-	-

Employees of the Group at balance date totalled 911 (2007: 1,063).

Challenger Performance Plan

The Challenger Performance Plan is a flexible plan that provides for the award of either share options or performance rights (with awards being satisfied from the issue of new shares or shares acquired on market). A two tiered approach provides optimal flexibility and ensures the equity-based reward instrument being applied addresses the particular needs of the individual.

Directors other than Executive directors are not eligible to participate in the plan.

The key features of the Plan are as follows;

Performance Share Rights

- The instrument is a right which converts into a fully paid Challenger Share at the end of the vesting period
- The core purpose of the Plan is the retention of key resources and a vehicle to align compulsorily deferred bonuses which have already been earned, with the longer term interests of shareholders.

- Allocations of performance rights will generally be made to participants in the following circumstances:
    - To key resources as retention awards
    - Granted to those employees with existing compulsory short term incentive deferral
    - As sign-on bonuses for new employees in lieu of equity foregone with former employer.
- The vesting period will be typically over 3 years.
- Once performance rights are converted to ordinary fully paid shares upon vesting, the shares may remain in the plan for a period up to the 10th anniversary of the date of the grant, unless the employee submits a withdrawal notice to the Board
- Performance Rights (whether vested or unvested) will lapse where a participant acts fraudulently or dishonestly or where a participant is in material breach of their obligations (either under the plan or to Challenger), unless the Board determines otherwise
- Generally, performance rights will lapse where a participant leaves Challenger before the vesting date due to resignation or dismissal, unless the Board determines otherwise.
- If a participant's role becomes redundant, Board discretion will apply.

Performance Share Options

- These are options over Challenger shares with an exercise price set at the prevailing market price at the time of the grant. The option becomes exercisable at the end of a vesting period, subject to the achievement of performance conditions.
- The core purpose of the Plan is to directly align key senior executives of Challenger with shareholders through the provision of share options which vest subject to a performance hurdle.
- Senior executives whose responsibilities provide them with the opportunity to significantly influence long term shareholder value.
- The vesting period is flexible but typically cliff vesting after 4 years from date of grant.
- The structure of option allocations under the plan provides a critical linkage between remuneration, Challenger's performance and shareholder value, by linking executive's reward to the achievement of specified performance targets.
- The Challenger Performance Plan provides the Board with flexibility round the form of the performance hurdle it attaches to particular grants of options to ensure that there is appropriate alignment with shareholders and executives in the Board's assessment at the time of grant.
- Options must generally be exercised within 60 days of them vesting.
- Options will lapse where a participant leaves Challenger before the options vest due to resignation or dismissal, unless the Board determines otherwise.
- Securities (whether vested or unvested) will lapse where an executive acts fraudulently or dishonestly or where a participant is in material breach of their obligations (under the plan or to Challenger), unless the Board determines otherwise.
- If a participant's role becomes redundant, Board discretion will apply.
- Options lapse immediately at the end of the vesting period if the performance hurdle has not been achieved.

The following table sets out the details of the share rights granted under the Challenger Performance Plan during 2008:

Grant Date	Latest Date for Exercise	Reference Price	Fair Value at Grant	Outstanding at 1 July 2007	Granted During The Year	Vested During the Year	Forfeited During the Year	Total Outstanding at 30 June 2008[1]
06 Mar 07	01 Oct 09	4.67	4.40	75,000	-	-	-	75,000
28 Mar 07	15 Mar 09	4.69	4.54	16,384	-	(8,192)	-	8,192
14 Sep 07	15 Sep 08	5.57	5.52	-	5,390	-	-	5,390
14 Sep 07	15 Sep 09	5.57	5.38	-	17,306	-	-	17,306
14 Sep 07	15 Sep 10	5.57	5.24	-	3,421,030	(190,015)	(73,891)	3,157,124
14 Sep 07	15 Sep 10	5.57	5.24	-	1,225,836	(15,255)	(124,891)	1,085,690
11 Jan 08	15 Sep 09	4.42	4.29	-	228,002	-	-	228,002
15 Mar 08	15 Sep 10	1.76	1.58	-	5,718	(5,718)	-	-
15 Mar 08	15 Sep 10	1.76	1.50	-	3,593	(3,593)	-	-
31 Mar 08	15 Nov 08	1.82	1.76	-	26,520	(10,608)	-	15,912
Total				**91,384**	**4,933,395**	**(233,381)**	**(198,782)**	**4,592,616**

[1] At the date of vesting performance rights are transferred to the individual and released from the trust.

The following table sets out the details of the performance share options granted under the Challenger Performance Plan:

Grant Date	Latest Date for Exercise	Exercise Price $	Fair Value taken at Grant $	Outstanding at 1 July 2007	Granted During The Year	Exercised During the Year	Forfeited During the Year	Total Outstanding at 30 June 2008
27 Feb 07	1 Feb 11	4.00	1.06[1]	7,600,000	-	-	(450,000)	7,150,000
21 May 07	14 Mar 11	3.55	2.68	200,000	-	-	(200,000)	-
14 Sep 07	14 Sep 11	5.57	1.28[1]	-	5,775,000	-	(1,175,000)	4,600,000
28 Sep 07	28 Sep 09	5.57	1.04[1]	-	666,666	-	-	666,666
28 Sep 07	28 Sep 10	5.57	1.30[1]	-	666,666	-	-	666,666
28 Sep 07	28 Sep 11	5.57	1.56[1]	-	666,668	-	-	666,668
31 Mar 08	31 Mar 12	2.14	0.33[1]	-	1,750,000	-	-	1,750,000
30 Jun 08	30 Aug 09	2.20	0.19	-	2,400,000	-	-	2,400,000
30 Jun 08	30 Aug 10	2.20	0.27	-	2,400,000	-	-	2,400,000
30 Jun 08	30 Aug 11	2.20	0.32	-	2,400,000	-	-	2,400,000
CEO options								
19 Oct 07	19 Oct 11	5.20	1.82[1]	-	4,000,000	-	-	4,000,000
Total				**7,800,000**	**20,725,000**	**-**	**(1,825,000)**	**26,700,000**

[1] The valuation method has changed from EPS to TSR.

We have used the below inputs in the Challenger Performance Plan valuation model and in the LTIP modification:

Grant date **Plan**	**14 Sep 07** **Rights**	**11 Jan 08** **Rights**	**15 Mar 08** **Rights**	**31 Mar 08** **Rights**	**3 Apr 08** **LTIP**
Dividend yield (%)	2.58	2.60	6.55	6.32	6.10
Risk free rate (%)	6.18	6.48	6.66	6.29	6.28
Volatility (%)[3]	30	35	35	35	37.5
TSR valuation ($)	n/a	n/a	n/a	n/a	n/a
EPS valuation ($)	n/a	n/a	n/a	n/a	n/a
LTIP modification ($)	-	-	-	-	0.14

Grant date **Plan**	**14 Sep 07** **Options**	**28 Sep 07** **Options**[1]	**19 Oct 07** **Options**	**31 Mar 08** **Options**	**30 Jun 08** **Options**[1]
Dividend yield (%)	2.58	2.35	2.42	6.90	6.40
Risk free rate (%)	6.18	6.42	6.47	6.19	6.91
Volatility (%)[3]	30	30	30	40	40
TSR valuation ($)	1.28	1.56	1.82	0.30	-
EPS valuation ($)	1.55	1.95	1.94	0.33	-
NCOEM valuation[2] **($)**	-	-	-	-	0.26

[1] Staggered vesting apply to this grant, valuation given is average value.
[2] Net cash operating earnings model.
[3] Forecast volatility rate implied from historic trend.

The above options granted on 30 June 2008 will vest one-third on 30 August 2009, one-third on 30 August 2010 and one-third on 30 August 2011 subject to the achievement of a minimum level of normalised net profit after tax target for the financial year preceding the particular vesting date (as measured under the normalised Cash Operating Earnings methodology outlined on page 22) and a compounding growth rate of 10% p.a.

Deferred Loan Plan

A small number of executives had outstanding future commitments under the LTIP at the time it was suspended.

In lieu of a number of those commitments an arrangement was entered into with Deutsche Bank AG to provide the individual with a loan over a similar number of Challenger shares as their prior LTIP commitment, known as the Deferred Loan Plan.

Challenger is responsible for meeting the interest payable on the loan over its term, net of any dividends paid on the shares. Shares vest progressively over 4 years, commencing at the end of year 2, subject to continued employment with Challenger. Shares are forfeited and the arrangement unwound in the event that the employment condition is not satisfied. In certain special circumstances (such as death, total and permanent disablement and redundancy) individuals may be entitled to retain their unvested shares if they full discharge the outstanding loan amount.

The loans are limited in their recourse to Challenger and the Challenger Performance Plan Trust has the option of taking ownership of the shares and using them to satisfy other share awards in the event of forfeiture by the executive.

Long Term Equity Based Incentive Plan (LTIP) – Loan Funded Share Plan (suspended in December 2006)

The former Long Term Incentive Plan ("LTIP") was a share scheme provided by way of a limited recourse loan. Under this Plan, shares vest over a 5 year period, subject to the achievement of a 15% compound Total Shareholder Return ("TSR") performance hurdle. If the hurdle is not satisfied at a relevant anniversary test date no awards vest.

Loans over vested shares must be repaid before shares are released and the maximum term of the loan is 6 years.

For the majority of participants (including those participants who received grants in FY07), subject to the hurdle being met, 20% of the shares vest at the end of years 2, 3 and 4, with the remaining 40% of shares vesting at the end of year 5.

The Challenger Board resolved to suspend the LTIP in December 2006. As such, the final award under the LTIP was made on 15 September 2006.

The Directors have extended the final test date for LTIP and cash LTIP awards with a grant date 23 February 2004 (reference date 10 April 2003 and hence a final test date of 10 April 2008) to 30 November 2009. The cost of the modification is 14 cents per unit (total cost $1.3 million) and will be expensed over the revised time to maturity.

The LTIP was approved by unit holders as part of the equity restructures resolutions of Challenger as part of the corporatisation of Challenger. These resolutions were approved at a meeting of unit holders of CFSG on 22 December 2003.

> *"Under the terms of the LTIP, eligible employees may acquire Challenger shares, with the cost being financed by a non-recourse, interest bearing loan from Challenger which is repayable on the earlier of the sixth anniversary of the reference date and the date when the participating shares are sold. The reference date is the date of issue of the participating shares, a date determined by the Board not being earlier than 10 April 2003."*

Dividends received on shares that have been issued under the LTIP must be paid to the Company as interest on the associated non-recourse loans. All grants of shares during the period were issued and placed on Trust on behalf of the employee.

There are two types of participants of Challenger's LTIP:

- Participants; and
- Initial Participants.

The performance hurdles in respect of Participants are summarised as follows:

- Subject to performance hurdles being met, 20% of the participating shares issued to participants will be released on each of the second, third and fourth anniversaries of the date the shares are issued with the remaining 40% balance released on the fifth anniversary;
- The performance hurdle is 15% per annum compounded annually, based on total shareholder return (TSR). The TSR is determined by reference to the 20 day volume weighted average share price (VWAP) for Challenger shares adjusted for capital restructures and distributions

- (dividends, capital returns and other distributions excluding franking credits);
- If the TSR for a period equals or exceeds the performance hurdle for that period, the relevant proportion of participating shares will be immediately released. This may include participating shares that have not been released in an earlier period because the TSR for that earlier period was not achieved; and
- Unreleased participating shares are forfeited upon the resignation of participants;
- On the release of participating shares (once vesting and performance hurdles have been met) participants may, but are not obliged to sell the shares.

The Board has identified a number of Initial Participants for whom special conditions apply, having regard to:

- the improvement in the share price since the relevant senior executives were recruited;
- the significant efforts made to date by the relevant senior executives in re-structuring the Company business to prepare for future growth; and
- the fact that the Company continues to be in a significant development phase for the next few years and the Board wishes to ensure that absolute performance hurdles do not drive short-term behaviour at the expense of long-term planning and decision-making.

The special conditions to apply to Initial Participants are as follows:

- the release dates of shares will be calculated from a reference date which is nominated by the Board (rather than the date of issue of shares), being no earlier than April 2003;
- the issue price for the initial participating shares to be allocated to the initial participants was $2.65 (as adjusted for the share consolidation on 25 November 2004) rather than the market price at the date of issue;
- no performance hurdle was required to be met for the initial 20% of the participating shares which were released after two years from the reference date; and
- a 15% per annum compound TSR performance hurdle will be required to be met for the release of shares after the third, fourth and fifth anniversaries from the reference date, with the starting price for that calculation being $2.65 (post share consolidation) and the starting date for that calculation being the second anniversary of the reference date.

Any unreleased participating LTIP shares will be sold by the Custodian to reduce any outstanding loan, bought back under the LTIP or cancelled by Challenger, subject to compliance with the law.

Under the terms of the LTIP, Participants and Initial Participants are not entitled to voting rights until the shares have vested and the associated loan has been repaid to the Company.

Cash LTIP

Prior to corporatisation, certain executives were entitled to incentive payments under a cash based shadow scheme. Following the approval of the LTIP the executives continue to have an entitlement to receive cash payments capped between 3c and 13c per (per consolidation) share granted.

Other Short Term Employee Benefits

During the year Challenger also agreed to pay interest on loans taken out by certain Key Executives to acquire Challenger shares on market. The loans are fully secured against the underlying shares and are not margin loans. Challenger has no exposure in relation to the loan principal advanced to the Key Executives by the third party for the purposes of acquiring the shares. In the Board’s view, this arrangement when considered with the Key Executive’s other long term incentive arrangements provides significant alignment with shareholders interests.

Details of the movement and fair value of employee shares under the LTIP are detailed in the following table:

Grant Date	Opening Balance at 1-Jul-07	Granted	Issue price [1]	Vested	Forfeited	Balance at 30-Jun-08	FV at grant date[2]
	Number	Number	$	Number	Number	Number	$
Initial participants							
22-Jan-04	605,000	-	2.65	-	(605,000)	-	0.43
23-Feb-04	13,190,000	-	2.65	(3,070,000)	(700,000)	9,420,000	0.41
01-Apr-04	160,000	-	2.65	-	(80,000)	80,000	0.38
15-Mar-05	500,000	-	3.19	-	(500,000)	-	0.42
Participants							
03-Mar-04	2,610,000	-	2.50	-	(150,000)	2,460,000	0.33
01-Apr-04	330,000	-	2.50	-	-	330,000	0.32
15-Sep-04	3,560,000	-	2.24	(890,000)	(300,000)	2,370,000	0.28
15-Mar-05	920,000	-	3.19	-	(140,000)	780,000	0.42
26-Apr-05	1,440,000	-	3.20	-	-	1,440,000	0.41
15-Sep-05	5,100,000	-	3.77	(1,010,000)	(510,000)	3,580,000	0.51
15-Mar-06	4,500,000	-	3.67	-	(800,000)	3,700,000	0.50
15-Sep-06	5,550,000	-	3.55	-	(3,150,000)	2,400,000	0.54
CEO - Initial participant							
23-Dec-04	800,000	-	2.65	(200,000)	-	600,000	0.19
19-Dec-05	2,400,000	-	2.65	(600,000)	-	1,800,000	1.32
Total	**41,665,000**	**-**		**(5,770,000)**	**(6,935,000)**	**28,960,000**	

1 The issue price of grants in respect of Participating shares is the VWAP of the shares over the five trading days up to and including the date of issue of that Participating share.

2 Grant fair value represents the fair value of the shares issued at grant date calculated after taking into account all relevant factors including vesting timeframes, performance hurdles, share price volatility, dividend rates and interest rates.

CEO Remuneration

Mr Tilley is not entitled to participate in the Challenger LTIP. However, following shareholder approval at the Company Annual General meeting on 23 November 2004 Mr Tilley was allocated 1,000,000 restricted post share consolidation Challenger shares, funded via limited recourse loan and issued at $2.65. He was subsequently issued 3,000,000 subject to the same conditions. These shares were issued substantially on the same terms as the long-term incentive plan limited recourse loan and escrow conditions, with a reference date of 2 August 2004, the date Mr Tilley became CEO.

Mr Tilley was granted 4,000,000 options during the period following shareholder approval at the Company Extraordinary General meeting on 19 October 2007.

During the year Challenger also agreed to pay interest on a loan taken out by Mr Tilley to acquire Challenger shares on market. The loan is fully secured against the underlying shares and is not a margin loan. Challenger has no exposure in relation to the loan principal advanced to Mr Tilley by the third party for the purposes of acquiring the shares. The amount of interest payable by Challenger is net of any dividends on the underlying shares which are set off against the interest obligation by the lender. In the Board's view, this arrangement when considered with the CEO's other long term incentive arrangements provides significant alignment with shareholders interests.

32. *Statement of Cash Flows*

Reconciliation of profit after income tax to net cash flows from operating activities

	Consolidated		Parent	
	2008 $M	2007 $M	2008 $M	2007 $M
Profit after tax	**(44.2)**	**255.0**	**117.2**	**110.8**
Adjustments for:				
(Profit)/loss on sale of investments	(127.0)	(77.0)	-	-
Net unrealised (gains)/losses on investments	399.2	(130.0)	-	-
Profit from minority interest	5.0	(20.8)	-	-
Share of associates' net (profit)/loss	(2.1)	0.1	-	-
Amortisation and depreciation	102.9	93.9	-	-
Impairment loss on financial assets available for sale	41.8	-	-	-
Impairment loss on equity accounted associates	22.0	-	-	-
Interest rate differential on FX forward contracts	24.1	8.0	-	-
Policy liabilities fair value gain	124.0	40.0	-	-
Policy liabilities acquisitions and maintenance expenses	(194.5)	(101.8)	-	-
Other[1]	-	(40.1)	-	-
Change in assets and liabilities, net of effects from purchase of controlled entity:				
Decrease/(increase) in receivables	(27.6)	(75.4)	-	-
Decrease/(increase) in other assets	22.3	70.9	(1.2)	(6.3)
(Decrease)/increase in payables	(134.5)	235.9	(0.9)	-
(Decrease)/increase in provisions and employee benefits	9.7	(21.6)	-	-
Decrease/(increase) in deferred tax assets/liabilities	(48.8)	56.8	(1.0)	-
Net cash inflow from operating income	**172.3**	**293.9**	**114.1**	**104.5**

[1] Includes $(39.4) million relating to the CIF deconsolidation in 2007.
[2] Comparatives were previously shown gross of SPV cashflows and have been restated downwards by $191.5 million.

33. *Remuneration of Auditors*

	Consolidated		Parent	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Amounts received or due and receivable by Ernst & Young for: Audit or review of the financial report of the entity and any other entities in the consolidated entity.				
Full year audit	1,076.0	838.1	-	-
Half year review	150.0	115.0	-	-
Other audit services - audit and review of trusts and funds	1,686.0	1,183.9	-	-
Other services in relation to the entity and any other entity in the consolidated entity				
Taxation services	470.0	1,099.0	-	-
Due diligence services	442.0	410.0	-	-
Other assurance services	967.0	773.7	-	-
	4,791.0	**4,419.7**	**-**	**-**

Auditors' remuneration for the Group is paid by Challenger Group Services Limited, a wholly owned subsidiary of the Company.

34. *Business combinations*

(a) Summary of acquisitions

On 10 August 2007 the Federal Court of Australia approved the transfer of the MetLife Insurance Limited (MetLife) annuity, allocated pension and personal superannuation liabilities to Challenger Life No.2 Limited (CL2). The transfer was successfully completed on 31 August 2007.

The transfer resulted in a $1.8 billion increase in cash and debt security assets and a corresponding increase in life investment contract liabilities of CL2. It is impractical to determine the revenues, expenses and net profit for the year ended 30 June 2008 attributable to this transfer as these assets and liabilities have been integrated into CL2's broader balance sheet.

On 31 August 2007 Challenger Mortgage Management Limited acquired 100% of Choice Aggregation Services including Choice Home Loans, a leading mortgage aggregator / broker in the Australian market.

The transferred operations contributed revenues of $113.2 million and net profit after tax of $8.1 million to the Group from 1 September 2007 to 30 June 2008. If the transfer had occurred on 1 July 2007, consolidated revenue and consolidated profit after tax for the half year ended 30 June 2008 would have been $136.6 million and $9.5 million respectively.

Purchase consideration

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	MetLife $M	Choice $M
Purchase consideration		
Cash and other assets	30.5	164.3
Direct costs relating to the acquisition	1.7	4.1
Total purchase consideration	**32.2**	**168.4**
Fair value of net identifiable assets acquired	(15.2)	37.4
Goodwill [1]	**47.4**	**131.0**

[1]Goodwill relates to the future expected earnings arising from the Metlife and Choice assets acquired

Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

$M	MetLife Acquiree's carrying amount	MetLife Fair value	Choice Acquiree's carrying amount	Choice Fair value
Cash	930.5	930.5	2.0	2.0
Receivables	-	-	128.0	128.0
Debt securities	837.8	837.2	-	-
Current tax asset	-	10.3	-	-
Deferred tax asset	-	9.2	0.6	37.4
Intangible assets	-	-	3.6	-
Investments	-	-	5.8	-
Intercompany loans	-	-	2.6	2.6
Payables	(0.1)	(0.1)	(128.4)	(128.5)
Policy liability	(1,768.2)	(1,802.3)	-	-
Deferred tax liability	-	-	(4.0)	(4.1)
Net assets	**-**	**(15.2)**	**10.2**	**37.4**

(b) Deconsolidation of Ischus Structured Credit Vehicle

At 30 June 2007 Challenger Life No.2 Limited (CL2) held an investment in notes of the Ischus Structured Credit Vehicle (SCV). As the majority holder of the subordinated notes CL2 was the primary recipient of the underlying net residual benefits of the SCV and consolidated the assets ($421 million) and liabilities ($409 million) of the SCV entity.

During the year CL2 determined that there was no further potential value that would flow to CL2. As a result, the fair value of the assets and liabilities of the SCV were deconsolidated and the Group recorded a loss in this investment of $16.4 million after tax.

35. *Discontinued Operations*

Disposal of the Financial Planning Division

(a) Details of operations disposed

The sale of the Financial Planning division was completed on 30 June 2008. The results and earnings per share impact of the Financial Planning Division for the year 2008 are presented below:

	Consolidated Financial Planning Division	
	2008 $M	**2007 $M**
Revenue	169.8	168.8
Expenses	(160.1)	(160.7)
Share of net profits of associates	0.4	0.2
Gross profit	10.1	8.3
Loss on disposal	(18.6)	-
Profit /(loss) before tax on discontinued operations	(8.5)	8.3
Tax benefit/(expense)		
- related to pre-tax profit	(2.8)	(1.5)
- related to disposal	2.9	-
(Loss)/profit for the year from discontinued operations	**(8.4)**	**6.8**

Earnings per share – cents per share	**2008**	**2007**
- Basic from discontinued operations	(1.4)	1.2
- Diluted from discontinued operations	(1.4)	1.2

(b) Assets and liabilities and cash flow information of disposed entity

Details of the disposal of the Financial Planning division are as follows:

The major classes of assets and liabilities of the consolidated division are:

	2008 $M
Assets:	
Cash	13.1
Receivables	15.8
Available for sale assets	8.5
Fixed assets	1.5
Deferred tax assets	2.6
Investments in associates	2.0
Goodwill	132.6
Other intangibles	2.7
Other assets	0.7
	179.5
Liabilities:	
Payables	17.8
Provisions	3.3
Deferred tax liabilities	0.1
	21.2
	158.3

The net cash flows of the Financial Planning Division for the year prior to disposal are as follows:

	2008 $M
Operating cash flows	9.4
Investing cash flows	(6.9)
Financing cash flows	(1.8)
Net cash inflow	**0.7**

Consideration received:	
Cash	150.0
Associated costs	(10.3)
Total disposal consideration	139.7
Less: net assets disposed of	(158.3)
Loss on disposal before income tax	(18.6)
Income tax benefit	2.9
Loss on disposal after income tax	**(15.7)**
Net cash inflow on disposal:	
Consideration	150.0
Less cash and cash equivalents disposed of	(13.1)
Reflected in the consolidated cash flow statement	**136.9**

36. *Investments in Controlled Entities*

(a) Controlled entities

Name of entity	Country of incorporation	Class of shares	Equity holding 2008 %	Equity holding 2007 %
Directly controlled by Challenger Financial Services Group Limited:				
Challenger Financial Services Group	Australia	Ordinary	100	100
CFSG Holdings No.2 Victoria Pty Limited	Australia	Ordinary	100	100
Directly controlled by FXF Holdings Pty Limited:				
FXF Investments Pty Limited	Australia	Ordinary	-	33
FXF Finance Pty Limited	Australia	Ordinary	-	100
Directly controlled by FXF Finance Pty Limited:				
FXF Investments Pty Limited	Australia	Ordinary	-	67
Directly controlled by CFSG Holdings No.2 Victoria Pty Limited:				
Challenger Group Holdings Limited	Australia	Ordinary	100	100
FXF Holdings Pty Limited	Australia	Ordinary	100	100
Directly controlled by Challenger Group Holdings Limited:				
Challenger Group Services Pty Limited	Australia	Ordinary	100	100
Challenger Property Capital Limited	Australia	Ordinary	-	100
Challenger International Nominees Limited	Australia	Ordinary	-	100
Challenger Superannuation Pty Limited	Australia	Ordinary	100	100
Challenger Equity Lending Limited	Australia	Ordinary	-	100
Challenger Treasury Limited	Australia	Ordinary	100	100
Challenger Commercial Lending Limited	Australia	Ordinary	100	100
Challenger Group Pty Limited[(i)]	Australia	Ordinary	100	100
Endowment Warrants Limited	Australia	Ordinary	100	100
Challenger Portfolio Management Limited	Australia	Ordinary	-	100
Challenger Mortgage Management Holdings Pty Limited *(formerly Challenger Wholesale Finance Holdings Pty Limited)*	Australia	Ordinary	100	100
Beston Pacific Vineyard Management Limited	Australia	Ordinary	-	100
Challenger Strategic Capital Pty Limited	Australia	Ordinary	100	100
Challenger Life Holdings Pty Limited	Australia	Ordinary	100	100
Challenger Wealth Management Pty Limited	Australia	Ordinary	100	100
Challenger International (New Zealand) Limited	New Zealand	Ordinary	-	100
Challenger Financial Planning Pty Ltd	Australia	Ordinary	-	100
Directly controlled by Challenger Group Pty Limited:				
Challenger Hedging Limited	Australia	Ordinary	100	100
Directly controlled by Challenger Treasury Limited:				
Challenger Property Finance Limited	Australia	Ordinary	-	100
Directly controlled by Challenger Mortgage Management Holdings Pty Limited:				
ZCM Australia Asset Holdings Limited	Bermuda	Ordinary	100	100
Interstar Non-Conforming Finance Management Pty Limited	Australia	Ordinary	100	100
Challenger Non-Conforming Finance Pty Limited	Australia	Ordinary	100	100
Challenger Special Servicing Pty Limited	Australia	Ordinary	100	100
Challenger Inventory Finance Servicing Pty Limited	Australia	Ordinary	100	100
Pennley Pty Limited	Australia	Ordinary	100	-

Mortgage Support Services Pty Limited	Australia	Ordinary	100	-
Challenger Broker Support Services	Australia	Ordinary	100	-
Directly controlled by Pennley Pty Limited:				
Fintrack Members Pty Limited	Australia	Ordinary	100	-
Directly controlled by Mortgage Support Services Pty Limited:				
MSS MF Pty Limited	Australia	Ordinary	100	-
MSS MFA Pty Limited	Australia	Ordinary	100	-
Directly controlled by Challenger Inventory Finance Servicing Pty Limited:				
TMA C Warehouse C Trust	Australia	Ordinary	100	100
Directly controlled by Challenger Non-Conforming Finance Pty Limited:				
INC C Warehouse C Trust	Australia	Ordinary	100	100
Interstar Titanium Series 2004-1 Trust	Australia	Ordinary	100	100
Interstar Titanium Series 2005-1 Trust	Australia	Ordinary	100	100
Interstar Titanium Series 2006-1 Trust	Australia	Ordinary	100	100
Directly controlled by ZCM Australia Asset Holdings Limited:				
Interstar Wholesale Finance Holdings Pty Ltd	Australia	Ordinary	100	100
Directly controlled by Interstar Wholesale Finance Holdings Pty Ltd:				
Challenger Mortgage Management Pty Limited	Australia	Ordinary	100	100
Interstar Securities (International) Pty Limited	Australia	Ordinary	100	100
Challenger Securities (NZ) Pty Limited *(formerly Interstar Securities (NZ) Pty Limited)*	Australia	Ordinary	100	100
Directly controlled by Challenger Mortgage Management Pty Limited:				
Interstar Home Loan Corporation Pty Limited	Australia	Ordinary	100	100
Challenger Securitisation Management Pty Limited	Australia	Ordinary	100	100
Interstar Millennium Series 2001-1C Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2001-1E Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2001-2 Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2001-3 Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2002-1G Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2002-2 Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2003-1G Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2003-2 Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2003-3G Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2003-4 Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2003-5G Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2004-1E Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2004-2G Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2004-3P Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2004-4E Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2004-5 Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2005-1G Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2005-2L Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2005-3E Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2006-1 Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2006-2G Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2006-3L Trust	Australia	Ordinary	100	100
Interstar Millennium Series 2006-4H Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2007-1E Trust	Australia	Ordinary	100	100
Challenger Millennium Series 2007-2L Trust	Australia	Ordinary	100	-
Challenger Millennium NPL Trust	Australia	Ordinary	100	-
NIM Master Trust Series	Australia	Ordinary	100	100
Interstar Millennium Series Ware Mill A Trust	Australia	Ordinary	100	100
Interstar Millennium Series Ware Mill B Trust	Australia	Ordinary	100	100

Interstar Millennium Series Ware Mill D Trust	Australia	Ordinary	100	100
Interstar Millennium Series Ware Mill J Trust	Australia	Ordinary	100	100
Interstar Millennium Series Ware Mill N Trust	Australia	Ordinary	100	100
Interstar Millennium Series Ware Mill R Trust	Australia	Ordinary	100	100
Interstar Millennium Series Ware Mill S Trust	Australia	Ordinary	100	100
Interstar Millennium Series Ware Mill G Trust	Australia	Ordinary	100	100
Interstar Millennium Series Ware Mill U Trust	Australia	Ordinary	100	100
Interstar Millennium Series Ware Mill V Trust	Australia	Ordinary	100	100
Challenger Millennium Warehouse H Trust	Australia	Ordinary	100	-
Challenger Millennium Warehouse C Trust	Australia	Ordinary	100	-
Interstar NZ Millennium Warehouse W Trust	New Zealand	Ordinary	100	100
Interstar NZ Millennium Series 2004-A Trust	New Zealand	Ordinary	100	100
Challenger NZ Millennium Series 2007-AP Trust	New Zealand	Ordinary	100	-
Directly controlled by Challenger Securities (NZ) Pty Limited:				
Challenger Mortgage Management NZ Limited	New Zealand	Ordinary	100	100
Interstar Mortgage Management Pty Limited	Australia	Ordinary	100	100
Directly controlled by Challenger Life Holdings Pty Limited:				
Challenger Group Services (UK) Pty Ltd	UK	Ordinary	100	100
Challenger Life Pty Limited *(formerly Challenger Life Limited)*	Australia	Ordinary	100	100
Challenger Listed Investments Limited *(formerly Challenger Beston Limited)*	Australia	Ordinary	100	100
Challenger Property Funds Management Limited	Australia	Ordinary	100	100
Challenger Property Asset Management Pty Limited	Australia	Ordinary	100	100
Challenger Property Nominees Pty Ltd[(iii)]	Australia	Ordinary	100	100
Challenger Management Services Limited	Australia	Ordinary	100	100
Encap Funds Management Pty Limited	Australia	Ordinary	100	100
Challenger Structured Credit Management Limited (UK)	UK	Ordinary	85	85
EMIF Holdings Pty Limited	Australia	Ordinary	100	n/a
Challenger Skybridge (Hastings) Holdings Company Pty Limited	Australia	Ordinary	100	n/a
Challenger Management Services (UK) Limited	Australia	Ordinary	100	n/a
Challenger Retirement Services Pty Limited	Australia	Ordinary	100	100
Directly controlled by Challenger Life Pty Limited:				
Challenger Life No. 2. Limited	Australia	Ordinary	100	100
Directly controlled by Challenger Life No.2 Limited:				
e-Financial Capital Limited	Australia	Ordinary	-	100
Challenger Capital Markets Limited	Australia	Ordinary	100	100
Challenger Life (UK) Limited	UK	Ordinary	100	100
CPHIC Investments Pty Limited	Australia	Ordinary	100	100
Challenger Originator Finance Pty Limited	Australia	Ordinary	100	100
Challenger US Infrastructure Holdings Pty Limited	Australia	Ordinary	100	100
Allfine Holdings Pty Limited	Australia	Ordinary	100	100
Bluezen Pty Limited	Australia	Ordinary	100	100
Challenger Skybridge (Fund) Holding Company Pty Limited	Australia	Ordinary	100	n/a
Challenger Skybridge (Group) Holding Company Pty Limited	Australia	Ordinary	100	n/a
Directly controlled by Challenger Listed Investments Limited:				
Inexus Australian Holding Company Pty Limited	Australia	Ordinary	100	100
CSPP1 Investment Company 1 Pty Limited	Australia	Ordinary	100	100
CSPP1 Broadbeach Pty Limited	Australia	Ordinary	100	100
CSPP1 Mavis Court Pty Limited	Australia	Ordinary	100	100
CSPP1 Maitland Pty Limited	Australia	Ordinary	100	100
CDPG Australia Pty Limited	Australia	Ordinary	100	100
Challenger LBC Terminals Australia Pty Limited	Australia	Ordinary	100	100
Challenger Diversified Property Development Pty Limited	Australia	Ordinary	100	100
Directly controlled by Challenger International (New Zealand) Limited:				
Challenger Securities (New Zealand) Limited	New Zealand	Ordinary	-	100
Directly Controlled by Challenger Management Services Limited:				
CMS (UK) Pty Limited	UK	Ordinary	100	n/a

Directly controlled by Challenger Wealth Management Pty Limited:				
Challenger Boutique Holdings Pty Ltd	Australia	Ordinary	100	100
Challenger Managed Investments Limited	Australia	Ordinary	100	100
Challenger Managed Investments (International) Pty Limited	Australia	Ordinary	100	100
Challenger Margin Lending Limited	Australia	Ordinary	100	100
Custom Choice Managed Investments Limited	Australia	Ordinary	100	n/a
Directly controlled by Challenger Boutique Holdings Pty Limited:				
Challenger Boutique (GFI) Holdings Pty Limited	Australia	Ordinary	100	100
Directly controlled by Challenger Property Nominees Pty Limited:				
Sabrand Limited	Cyprus	Ordinary	100	100
Mawbury Pty Limited	Australia	Ordinary	100	100
TLG Services Pty Limited	Australia	Ordinary	100	100
TLGH Pty Limited	Australia	Ordinary	100	100
Talaverra Herring Pty Limited	Australia	Ordinary	100	100
Directly controlled by TLGH Pty Limited:				
The Liberty Group Consortium Pty Limited	Australia	Ordinary	100	100
Directly controlled by Mawbury Pty Limited:			100	
Cescade Pty Limited	Australia	Ordinary	100	100
Directly controlled by Sabrand Limited:				
Challenger Hungary International Capital Investment & Management Limited	Hungary	Ordinary	100	100
Directly controlled by Challenger Hungary International Capital Investment & Management Limited :				
Challenger South Monaco LLC (US)	USA	Ordinary	100	100
Directly controlled by Genesys Group Limited:				
Genesys Wealth Advisers Limited	Australia	Ordinary	-	100
Associated Planners Financial Services Pty Limited	Australia	Ordinary	-	100
Genesys Wealth Advisers (WA) Pty Limited	Australia	Ordinary	-	100
Associated Planners Strategic Finance Pty Limited	Australia	Ordinary	-	100
Garrisons Pty Ltd	Australia	Ordinary	-	100
Solar Risk Pty Limited	Australia	Ordinary	-	100
Northstar Lending Pty Limited	Australia	Ordinary	-	100
Foundation Wealth Advisers Pty Limited	Australia	Ordinary	-	100
Directly controlled by Challenger Financial Planning Pty Limited[(iii)]				
Genesys Group Limited	Australia	Ordinary	-	100
Synergy Capital Management Pty Limited	Australia	Ordinary	-	100
Directly controlled by Associated Planners Financial Services Pty Limited				
Wilsanik Pty Ltd	Australia	Ordinary	-	100
Hindmarsh Square Wealth Advisers Pty Limited	Australia	Ordinary	-	100
Hindmarsh Square Financial Services Pty Limited	Australia	Ordinary	-	100
Carter Bax Pty Ltd	Australia	Ordinary	-	100

[(i)] These controlled entities have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australia Securities & investment Commission. For further information see Note 38.
[(ii)] As at 30 June 2007,this entity was 100% controlled by Garrisons Pty Limited
[(iii)] on 30 June 2008 this entity and all subsidiaries of this entity were sold to a third party.

(b) Assignment of Warrants Business

In an agreement dated 30 April 2004, Challenger entered into a Deed of Assignment with Westpac Banking Corporation (WBC) whereby, all legal and beneficial rights, title and interests in respect of the following assets and liabilities were assigned to WBC.

	Consolidated	
	2008 $M	2007 $M
Shares in listed corporations held in relation to endowment warrants	83.3	110.8
Dividends receivable	0.4	0.2
Warrant liability	(83.7)	(111.0)
	-	-

37. *Investment in Associates*

Name of Company	Principal Activity	Country of incorporation	Ownership Interest 2008 %	Ownership Interest 2007[1] %	Consolidated 2008 $M	Consolidated 2007[1] $M
Homeloans Pty Ltd	Mortgage Origination	Australia	40	40	46.1	45.1
Five Oceans Asset Management Limited	Funds Management	Australia	25	25	3.7	3.7
Greencape Capital Pty Limited	Funds Management	Australia	25	25	2.0	1.8
Kapstream Capital Pty Limited	Funds Management	Australia	25	25	4.9	5.2
Kinetic Investments Partners Limited	Funds Management	Australia	20	-	0.3	
DVG Pty Limited	Financial Planning	Australia	-	50	-	1.4
Garrisons (Toowong) Pty Ltd	Financial Planning	Australia	-	40	-	0.3
Its Your Money Pty Limited	Financial Planning	Australia	-	40	-	0.5
Pension Transfers Direct Pty Ltd	Pension transfers business	Australia	-	25	-	0.4
Less: provision for diminution in value					(22.0)[2]	(0.3)
					35.0	**58.1**

Movements in carrying amount of investments in associates	Consolidated 2008 $M	Consolidated 2007[1] $M
Carrying amount at the beginning of the financial year	58.1	6.3
Investment in associates acquired in current year	0.1	51.8
Sale of interest in associates	(2.4)	-
Investment in associates - write downs	(22.0)	-
Share of associates net profit	2.1	0.3
Dividend received	(0.9)	(0.3)
Carrying amount at the end of the financial year	35.0	58.1
Share of the associates' profit or loss:		
Profits before related income tax	2.9	0.4
Income tax expense	(0.8)	(0.1)
Profits after related income tax expense	2.1	0.3
Retained profits attributable to associates at the beginning of the financial year	0.3	-
Retained profits attributable to associates at the end of the financial year	2.4	0.3
Share of the associates' balance sheet:		
Assets	47.1	50.6
Liabilities	(18.2)	(13.8)
Net assets	28.9	36.8

[1] Prior year comparatives have not been adjusted to separate the profit/(loss) from discontinued operations
[2] This provision for diminution in value relates to Homeloans Pty Limited.

There were no material commitments or contingent liabilities relating to the associates.

38. *Deed of Cross Guarantee*

The following wholly owned companies are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. By entering in the deed, the wholly owned companies have been relieved from the requirement to prepare a financial report and director's report under Class Order 98/1418 (as amended by Class Order 98/2017 and 00/0321) issued by the Australian Securities & Investment Commission.

- Challenger Group Pty Limited
- Endowment Warrants Limited

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by the Company, they also represent the 'Extended Closed Group'.

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2008 of the Closed Group.

	2008 $M	2007 $M
Income statement		
Other income	-	-
Other expenses	-	-
Profit before income tax	-	-
Income tax benefit	0.5	-
Profit for the year	**0.5**	**-**
Summary of movements in consolidated retained losses		
Retained (losses) at the beginning of the financial year	(0.7)	(0.7)
Profit from ordinary activities after income tax expense	0.5	-
Retained losses at the end of the financial year	**(0.2)**	**(0.7)**

Set out below is a consolidated balance sheet of the Closed Group as at 30 June 2008.

	2008 $M	2007 $M
Assets		
Receivables	4.2	3.6
Equity securities	83.3	110.9
Total assets	**87.5**	**114.5**
Liabilities		
Payables	52.0	74.1
Interest bearing liabilities	31.6	37.0
Total liabilities	**83.6**	**111.1**
Net assets	**3.9**	**3.4**
Equity		
Contributed equity	4.1	4.1
Retained losses	(0.2)	(0.7)
Total equity	**3.9**	**3.4**

39. *Subsequent Events*

As at the date of this report no other matter or circumstance has arisen that has affected or may significantly affect:

i) the Group's operations in future financial years; or
ii) the results of those operations in future financial years; or
iii) the Group's state of affairs in future financial years.

40. *Contingent Liabilities, Contingent Assets and Credit Commitments*

Litigation

During the 2005 financial year a claim for fees relating to the 13 August 2004 acquisition of Associated Planners was lodged against Challenger Financial Services Limited. The Company has denied liability and commenced proceedings in the NSW Supreme Court seeking a declaration that the claim is invalid. The Court gave judgment in favour of the defendant on 7 August 2008. The Company is considering the judgment.

A class action, on behalf of a minority of the number of investors in the Challenger Howard Property Trust for Penrith Mega Homemaker Centre Sydney (the trust), has been filed in the Supreme Court of New South Wales against Challenger Managed Investments Limited, a controlled subsidiary and responsible entity for the trust. Challenger Managed Investments Limited is defending the proceedings and denies the allegations made against it.

Warranties

The Group over the course of its corporate activity has given, as a seller of companies and as a vendor of real estate properties, warranties to purchasers on several agreements which are still outstanding at 30 June 2008. At the date of this report no material claims against these warranties have been received by the Group.

The Victorian State Revenue Office has raised an assessment for stamp duty in respect of certain properties acquired by the Challenger Diversified Property Group as part of the initial public offering of this entity. Challenger has lodged an objection to the assessment. The Victorian State Revenue Office is considering the matter. The directors are of the view that no material loss will be incurred.

Parent Entity Guarantees and Undertakings
Excluded from the consolidated accounts are the following guarantees and undertakings extended to entities in the Group by Challenger Financial Services Group Limited (the parent):

i) Cross guarantee supporting the Medium Term Note and the corporate banking facility.
ii) Issue of letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise Challenger Financial Services Group Limited has a responsibility to ensure that those subsidiaries continue to meet their obligations.
iii) Australian Financial Services Licence (AFSL) deeds of undertaking as an eligible provider.

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

Acquisitions
On 3 September 2007 Challenger announced that it intends to acquire the remaining 85% of Plan Group Holdings (PLAN) that it does not already own by September 2008. PLAN is the largest Australian mortgage aggregator. The future consideration for this transaction will be based on the performance of the business up until completion and will reflect similar financial metrics to the Choice Aggregation Services acquisition. Challenger acquired 15% of PLAN in December 2005.

On 4 June 2008 the Group announced that it had reached agreement with AXA to transfer to Challenger the $1.3 billion AXA Australian annuity portfolio. This portfolio will be backed by approximately $1.25 billion of highly liquid investment grade assets and cash and will bring Challenger's annuity, allocated pension and personal superannuation portfolio to $5.1 billion. This agreement is subject to Part 9 of the Life Insurance Act thereby requiring regulatory and court approval which are expected to complete within six months.

Other Information
In the normal course of business, the Group enters into various types of business contracts that could give rise to contingent liabilities in relation to performance obligations under those contracts by certain members of the group.

The information usually required by AASB 137 Provisions, Contingent Liabilities and Contingent Assets, is not disclosed 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 Financial Services Group Limited, we declare that:

1. In the opinion of the directors of Challenger Financial Services Group Limited (the Company):

   a) the financial statements and notes of the Company and Group are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Company and the Group as at 30 June 2008 and of its performance for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2008.

3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 38 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

G A Cubbin
Director

Sydney 22 August 2008

R R Hooper
Director

Sydney 22 August 2008

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Independent auditor's report to the members of Challenger Financial Services Group Limited

Report on the Financial Report

We have audited the accompanying financial report of Challenger Financial Services Group Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Liability limited by a scheme approved under Professional Standards Legislation

Auditor's Opinion

In our opinion:

1. the financial report of Challenger Financial Services Group Limited is in accordance with the *Corporations Act 2001*, including:

    i giving a true and fair view of the financial position of Challenger Financial Services Group Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and

    ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 24 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Challenger Financial Services Group Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

S J Ferguson
Partner
Sydney
22 August 2008

Three Year History

	2008 $M	2007 $M	2006 $M
Income Statement – Cash Operating Earnings			
Income			
Normalised cash operating earnings	200.8	157.9	132.7
Net fee income	402.9	385.4	300.7
Other income	12.8	7.9	5.2
Total income	616.5	551.2	438.6
Expenses			
Total operating expenses	(295.9)	(287.1)	(242.6)
Normalised EBIT	320.6	264.1	196.0
Interest and borrowing costs	(41.3)	(33.7)	(34.9)
Normalised profit before tax	279.3	230.4	161.1
Tax	(61.4)	(48.4)	(43.5)
Normalised profit after tax	217.9	182.0	117.6
Investment experience after tax	(192.3)	49.6	35.7
Significant items after tax	(69.8)	23.4	(19.0)
Statutory profit after tax	(44.2)	255.0	134.3
Balance sheet			
Total assets	27,355.3	27,015.2	24,305.3
Total liabilities	25,725.3	25,566.6	23,045.0
Net assets[1]	1,630.0	1,448.6	1,260.3
Total average equity attributable to equity holders of the parent	1,608.0	1,339.6	1,181.0
Assets Under Management			
- Asset Management	10,471	6,698	3,676
- Mortgage Management	48,068	23,013	20,901
- Funds Management	14,931	18,393	12,868
- Crossholdings	(3,760)	(4,091)	(2,801)
	69,710	44,013	34,644
- Financial Planning[2]	-	8,796	6,854
Total Assets under management and administration ($M)	69,710	52,809	41,498

Share information	**2008**	**2007**	**2006**
Basic earnings per share – statutory profit/(loss) (cents)	(7.5)	46.3	24.9
Diluted earnings per share – statutory profit/(loss) (cents)	(8.1)	43.2	23.9
Basic earnings per share – normalised profit (cents)	37.1	33.0	21.8
Diluted earnings per share – normalised profit (cents)	35.4	30.7	20.8
Dividends per share (cents)			
Interim	5.0	5.0	2.5
Final	7.5	7.5	5.0
Total	12.5	12.5	7.5
Dividend payout ratio – statutory profit/(loss) (%)[3]	n/a	27.0%	30.1%
Dividend payout ratio – normalised profit/(loss) (%)[3]	33.7%	37.9%	34.4%
Ratios			
Net Gearing (%)[4]	0.6%	5.6%	5.2%
Gearing (%)[5]	13.3%	16.9%	8.7%
Return on shareholders' funds – statutory profit after tax [6]	(2.7%)	19.0%	11.4%
Return on shareholders' funds – normalised profit after tax [7]	13.6%	13.6%	10.0%
Staff numbers	911	1,063	958
Share price at 30 June ($)	1.89	5.83	3.16
Ordinary share capital (million shares) [9]	600.4	554.6	544.8
Market capitalisation at 30 June ($ million) [10]	1,134.8	3,233.3	1,721.5

[1] 2006 Net assets exclude CIF.
[2] No reported Assets under Management as at 30 June 2008 following sale of the Financial Planning division.
[3] Dividends per share / EPS (basic).
[4] Calculated as Net Debt / (Net Debt + Equity).
[5] Calculated as Debt / (Debt + Equity).
[6] Calculated as statutory profit after tax / total average equity attributable to equity holders of the parent.
[7] Calculated as normalised profit after tax / total average equity attributable to equity holders of the parent.
[8] 2008 staff numbers exclude 189 employees associated with the Financial Planning sale completed on 30 June.
[9] Represents issued shares on the ASX.
[10] Calculated as share price x number of ordinary shares excluding LTIP vested but not settled.

Investor Information

a) Distribution of shares

Range	Number of shareholders	Number of shares	% of issued capital
1-1,000	10,343	5,329,255	0.85
1,001-5,000	13,112	32,810,693	5.21
5,000 – 10,000	3,223	24,110,156	3.83
10,001 – 100,000	2,128	51,713,126	8.22
100,001 and over	185	515,268,721	81.89
	28,991	629,231,951	100.00

Number of unmarketable parcels: 2,645
Number of unmarketable shares: 421,323

b) Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number	Percentage[1]
1. Consolidated Press Holdings Limited	121,988,278	20.6
2. The Bank of Tokyo-Mitsubshi UFJ, Ltd (BTMU)	40,869,739	6.4

1 based on shares on issue at date of last substantial shareholder notification.

c) Twenty largest shareholders as at 1 August 2008

	Shareholder	Shares held at end of period	% of issued capital
1.	National Nominees Limited	85,260,310	13.55
2.	HSBC Custody Nominees (Australia) Limited	79,161,240	12.58
3.	Cavalane Holdings Pty Limited	64,848,539	10.31
4.	Conpress Holdings Pty Limited	54,340,394	8.64
5.	CPU Share Plans Pty Limited	43,168,034	6.86
6.	J P Morgan Nominees Australia Limited	28,797,530	4.58
7.	ANZ Nominees Limited	26,568,449	4.22
8.	Citicorp Nominees Pty Limited	12,239,083	1.95
9.	AMP Life Limited	8,445,335	1.34
10.	Cogent Nominees Pty Limited	7,642,515	1.21
11.	Citicorp Nominees Pty Limited	7,316,323	1.16
12.	Cogent Nominees Pty Limited	7,039,457	1.12
13.	HSBC Custody Nominees (Australia) Limited - GSCO ECA	4,936,154	0.78
14.	CPU Share Plans Pty Limited - Challenger Performance Plan	4,437,742	0.71
15.	Bell Securities Pty Limited	4,300,001	0.68
16.	UBS Wealth Management	4,257,364	0.68
17.	WIN Television NSW Pty Limited	3,046,601	0.48
18.	Consolidated Press Holdings Limited	2,799,345	0.44
19.	HSBC Custody Nominees (Australia) Limited - A/C 2	2,787,732	0.44
20.	Invia Custodian Pty Limited	2,681,927	0.43
		454,074,075	72.16

d) Shares subject to restrictions

The following issued ordinary shares are subject to either restrictions or to voluntary escrow:

- 8,873,927 shares were issued under a Scheme of Arrangement in relation to Associated Planners Group Limited, these restrictions ceased on 13 August 2007.

e) Voting rights

On a show of hands, every member present at the meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

f) ASX listing

Challenger Financial Services Group 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.

g) Key dates

Shareholders may like to note the following key dates:

Ex – dividend date for 2008 final dividend	19 September 2008
Record date for the 2008 final dividend	24 September 2008
Dividend payment date	17 October 2008

h) Shareholder queries

Please contact Computershare Investor Service for information about the Challenger Financial Services Group 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 4E (rule 4.2A)

Reporting period and previous corresponding period details
Reporting period: 30 June 2008
Previous corresponding reporting period: 30 June 2007

Cross reference index	**Page**
Results for announcement to the market (4D item 2)	1
Dividends (4E item 6)	1
Dividend dates (4E item 6)	1
Dividend reinvestment plan (4E item 7)	Challenger Financial Services Group Limited has suspended its Dividend Re-investment Plan.
Net tangible assets per security (4E item 9)	See below
Commentary on results	3

Details of entities over which control was lost during the year
Refer to 30 June 2008 Financial Report: Note 35: Discontinued operations.

Details of entities over which control was gained during the year
Refer to 30 June 2008 Financial Report: Note 34: Business combinations.

Details of associates and joint ventures (4E item 11)

As at 30 June 2008	Ownership interest held
Greencape Capital Pty Limited	25%
Five Oceans Asset Management Pty Ltd	25%
Kapstream Capital Pty Ltd	25%
Homeloans Pty Ltd	40%
Kinetic Investment Partners Ltd	20%

Any other significant information
There is no other significant information other than as disclosed in Note 40.

Post balance date events
There have been no significant events occurring since the balance sheet date other than as disclosed in Note 39.

Foreign Entities (4E item 13)
Not applicable.

Net tangible assets per security (4E item 9)

Description	**30 June 2008 $**	**30 June 2007 $**
Net assets (millions)	1,630.0	1,448.6
Net tangible assets (millions)	977.1	833.8
Ordinary shares (millions)	581.7	538.8
Net assets per security	2.8	2.69
Net tangible assets per security	1.7	1.55

Christopher Robson
Company Secretary
22 August 2008

DIRECTORY

Principal registered office in Australia	Level 15 255 Pitt Street SYDNEY NSW 2000 Tel (02) 9994 7000 Fax (02) 9994 7777
Directors	Peter Polson (Chairman) Michael Tilley (Chief Executive Officer) Graham Cubbin Thomas Barrack Jr. Russell Hooper Ashok Jacob James Packer Tatsuo Tanaka Leon Zwier
Secretaries	Christopher Robson Suzanne Koeppenkastrop
Share Register	Computershare Investor Services Pty Limited Level 3, 60 Carrington Street SYDNEY NSW 2000 Tel (02) 8234 5000 Fax (02) 8234 5050 Website: www.computershare.com.au
Auditor	Ernst & Young 680 George Street SYDNEY NSW 2000
Internet Address	www.challenger.com.au