



Challenger Financial Services Group Limited

Full-year results to 30 June 2006

Michael Tilley, CEO
Paul Rogan, CFO

28 August 2006

challenger 

Headlines

CGF invests to deliver double digit EPS growth

- * 49% increase in NPAT¹
- * Strong performance across the Group:
 - Quality products & services delivered 16%↑ in Assets & Loans under Management
 - Scaleable business model delivered 30%↑ in income, 12%↑ in costs ¹ and 58%↑ in EBIT
 - Low cost model focused on third party distribution delivering excess RONA
 - Businesses operating in markets that are growing strongly
- * Achieved 36%↑ in EPS² growth and >18% RONA in MM, FM & AM
- * Continued focus on capital management:
 - 5 cent dividend declared, 7.5 cents for FY06
 - Board approved Dividend Policy - minimum of 30 per cent of the statutory profits after tax
 - DRP suspended
- * Strategy will continue to deliver double digit EPS² growth and >18% RONA at business level

¹ Historic cost before significant items

² Historic cost - basic after significant items FY06 36% increase to 21.6 cps

Financial Headlines

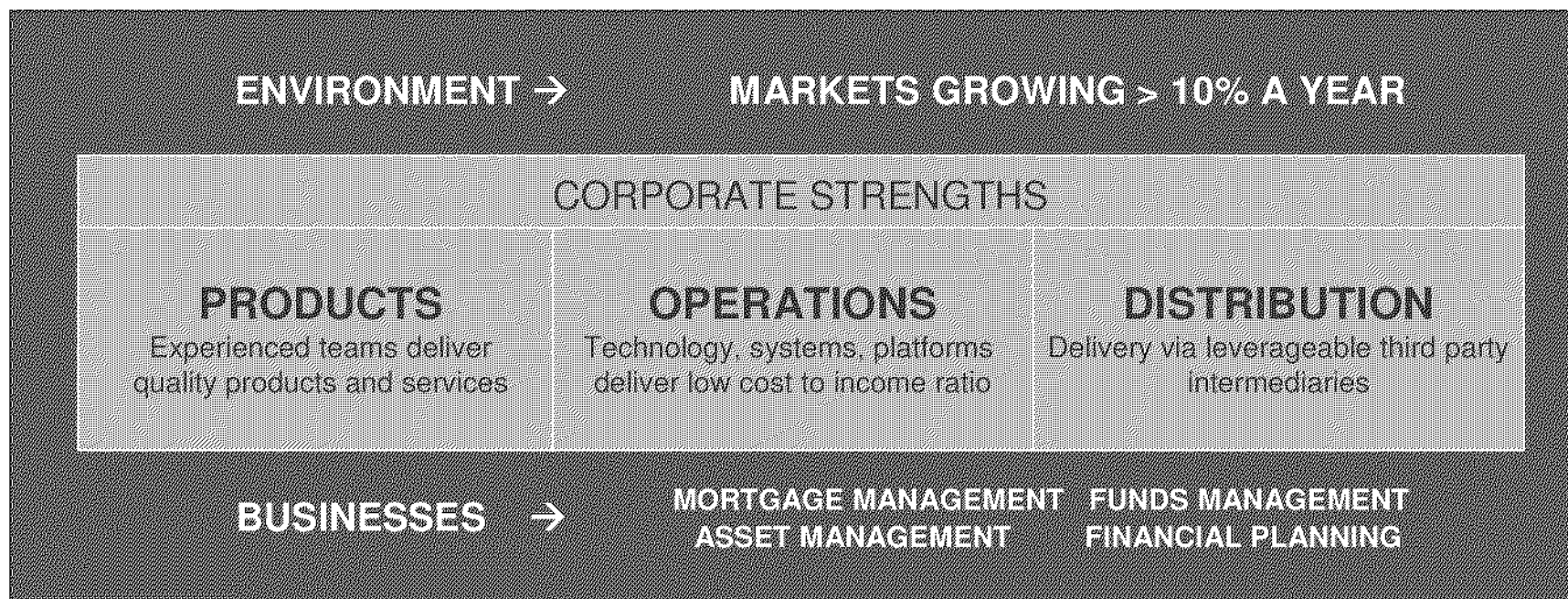
Historic cost

Portfolio volume <small>(Total assets & loans under management/admin)</small>	\$36.5bn	↑ 15.7%
Net Income	\$446m	↑ 30.4%
Expenses ¹	\$236m	↑ 12.4%
EBIT	\$209m	↑ 58.3%
NPAT ¹	\$125m	↑ 48.8%

Our model

Focused on delivering returns

INVESTMENT OBJECTIVES: RONA > 18% DOUBLE DIGIT EPS GROWTH¹



INVESTMENT OUTCOMES: RONA > 18% DOUBLE DIGIT EPS GROWTH¹

¹ Historic cost

Performance Highlights

Focused in core markets exhibiting strong environmental growth

ENVIRONMENT →

Mortgages: System growth was 11%, third party origination ~ 45% and growing

Managed Funds: Total managed funds market up 21% to \$1,019bn

Superannuation: Superannuation funds under management up 22% to >\$740bn

CORPORATE STRENGTHS

PRODUCTS

- Total Group Assets & Loans: ↑16%
- Funds Management: ↑22% in FUM to \$13bn - funds highly rated by gatekeepers
- Mortgage Management: Diversified across residential & commercial for prime and non-conforming borrowers
- Asset Management: Launch of listed and unlisted infrastructure and property funds

OPERATIONS

- Income/Costs: Net income ↑ 30% to \$446m, Costs ↑12%
- Efficiency Ratios:
 - EBIT margin ↑ from 39% to 47%
 - Funds Management Cost/Income ratio ↓ to 73%
 - Mortgage Management Cost/Income ratio ↓ to 42%
- Expanding spread and fee income

DISTRIBUTION

- Mortgage Managers: Australia's largest diversified group of mortgage managers and brokers
- Financial Planners: >10,000 planners and >2,000 gatekeepers recommending Challenger
- Platforms: Fund and Asset Management products on over 30 platforms



Financial Results

28 August 2006



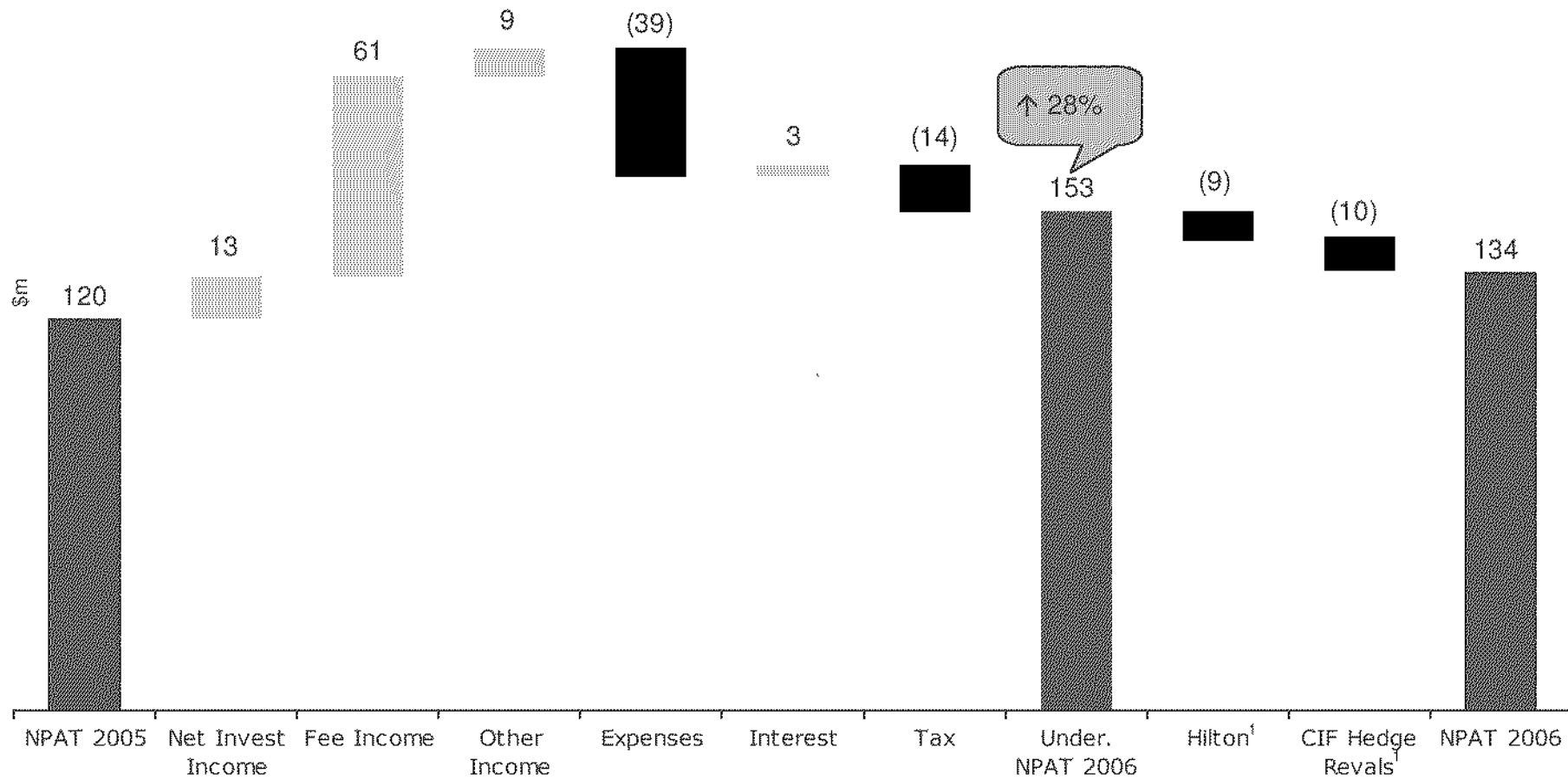
Financial Highlights

Statutory

NPAT underlying ¹	\$153m	↑ 27.8%
NPAT	\$134m	↑ 12.3%
EPS basic cps – underlying	28.4	↑ 25.1%
EPS diluted cps – underlying	27.3	↑ 20.2%
DPS	7.5c	↑ 50.0%

Financial Summary

Underlying statutory profits up 28%



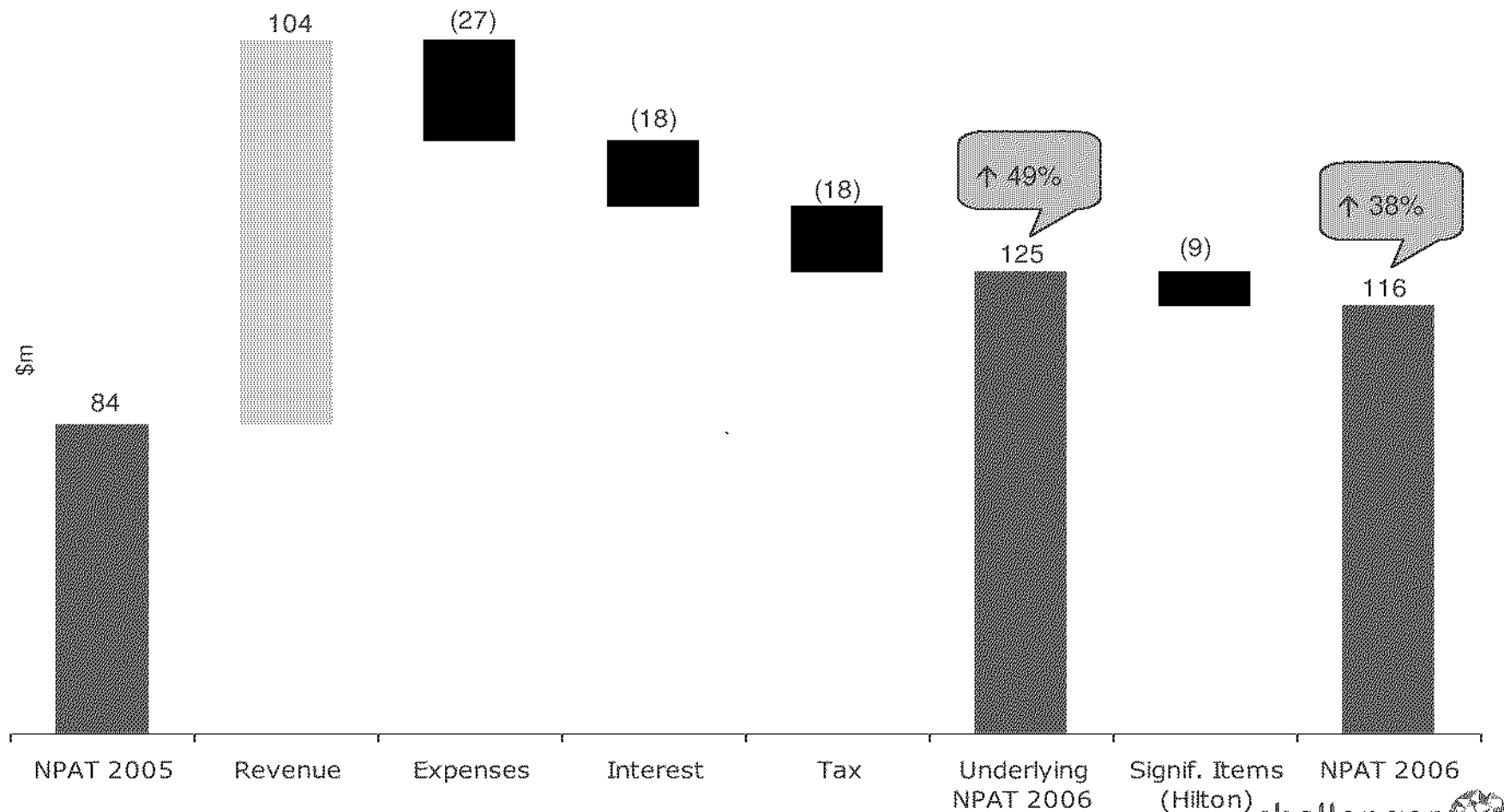
Financial Highlights

Historic cost

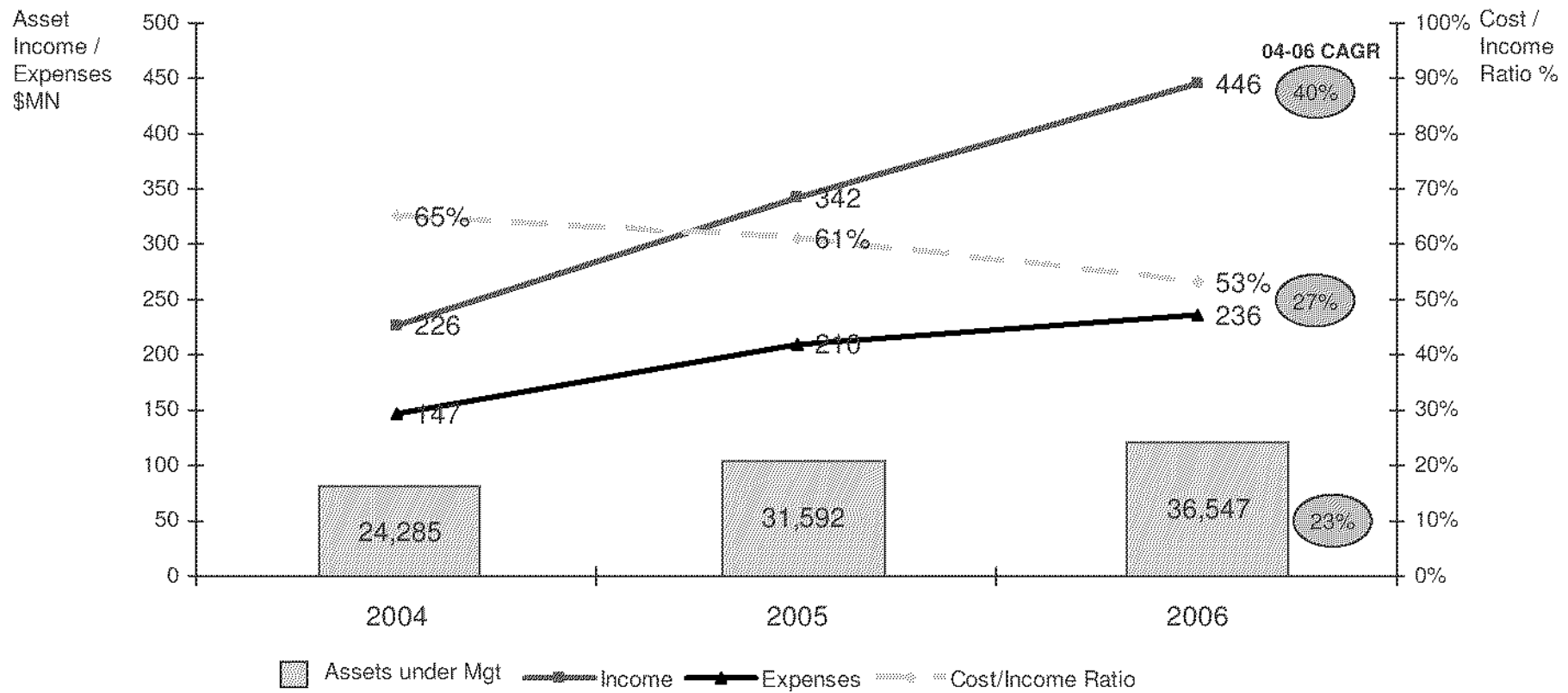
Portfolio volume <small>(Total assets & loans under management/admin)</small>	\$36.5bn	↑ 15.7%
Net Income	\$446m	↑ 30.4%
Expenses¹	\$236m	↑ 12.4%
EBIT	\$209m	↑ 58.3%
NPAT <small>underlying¹</small>	\$125m	↑ 48.8%
NPAT	\$116m	↑ 38.1%
EPS <small>basic cps</small>	21.6	↑ 35.8%
EPS <small>diluted cps</small>	20.9	↑ 29.7%

Financial summary

Historic cost underlying result up 49%



Key performance trends



EPS basic cps	9.1*	15.9	21.6
DPS cps	Nil	5.0	7.5

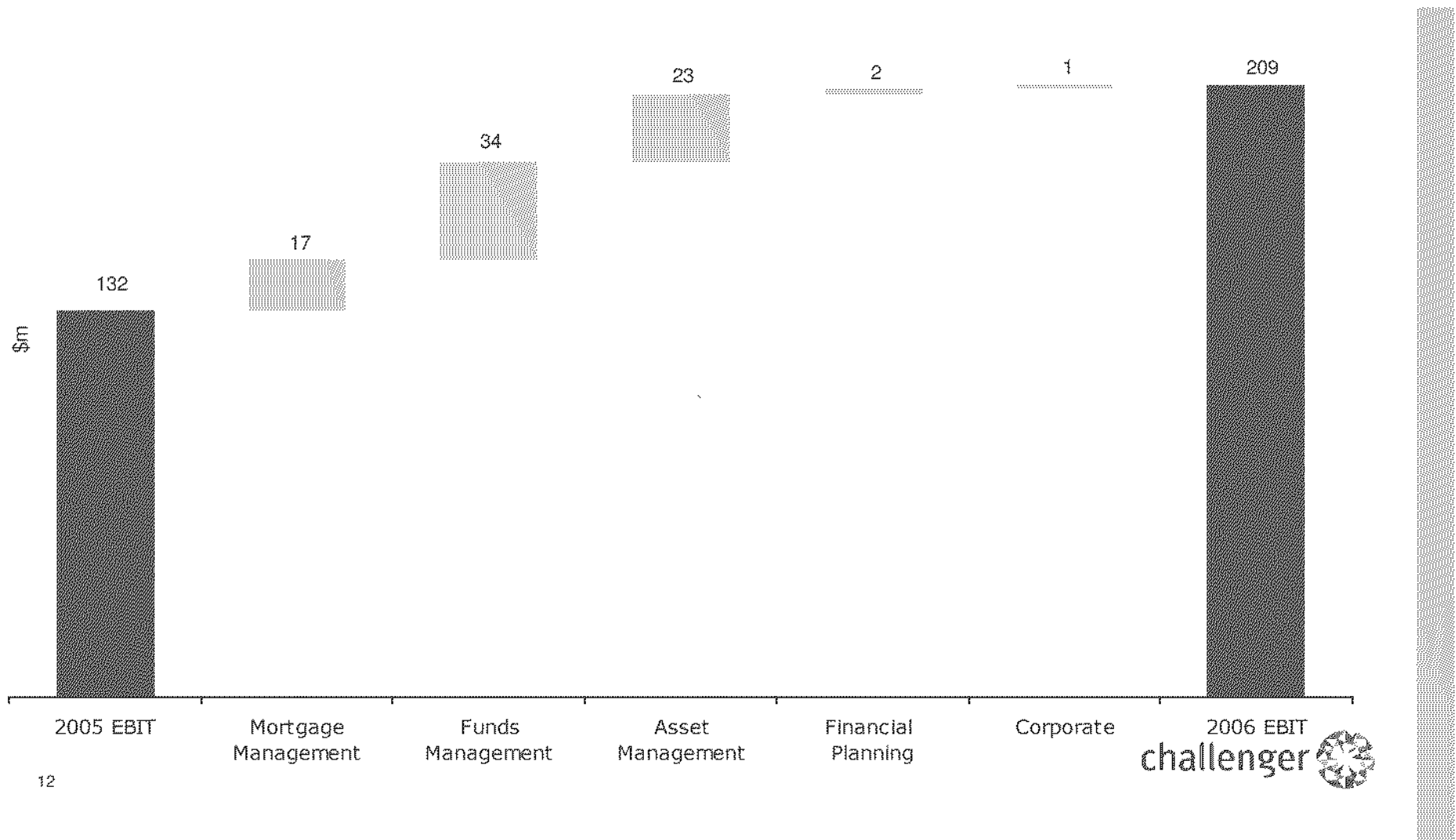
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*Pre goodwill write off

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Segment contribution

EBIT up 58%



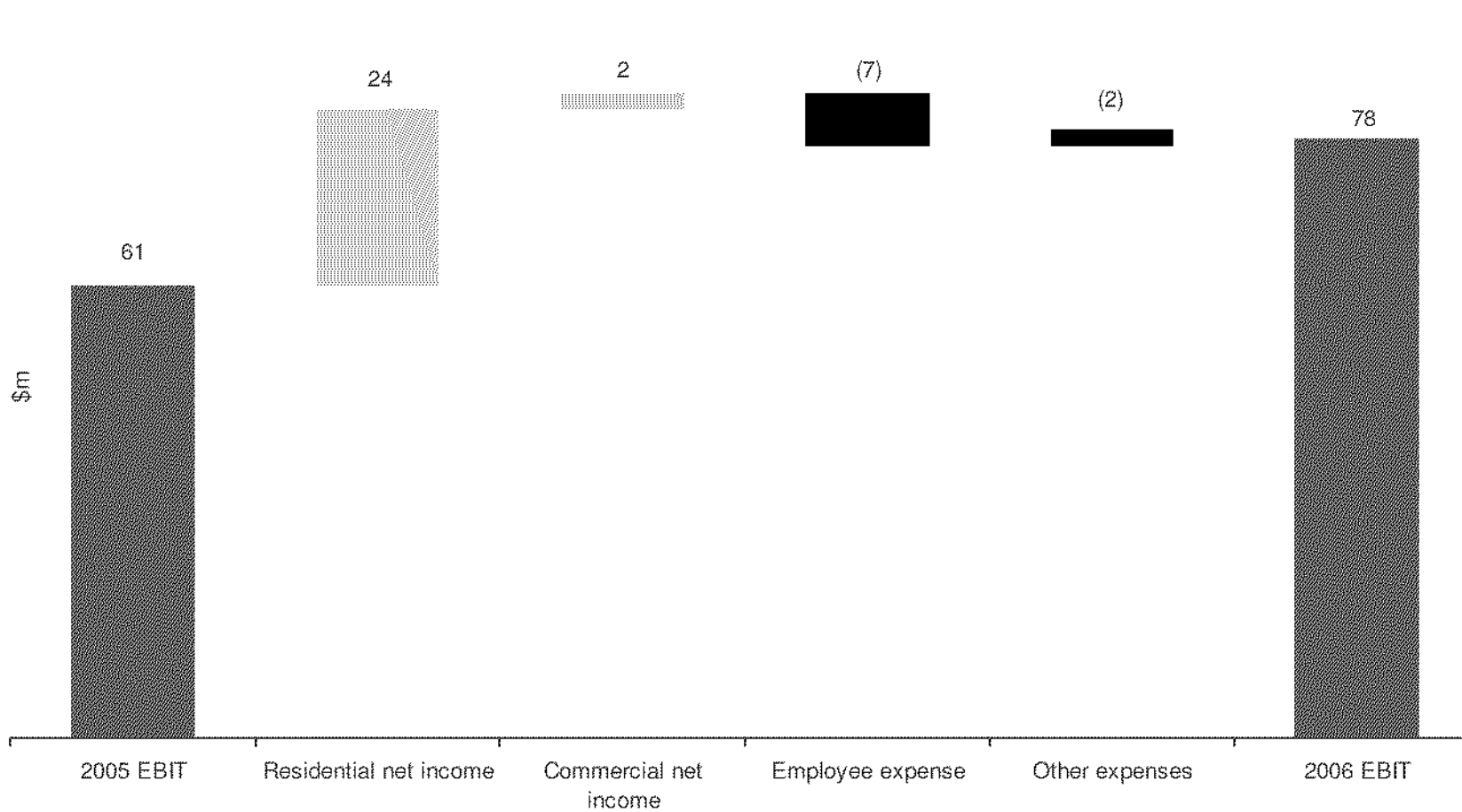
Mortgage Management

Delivering profitable growth in competitive market

Portfolio volume		
(Residential mortgages under management)	\$18.3bn	↑ 14.0%
Net Income		
	\$134m	↑ 24.1%
Expenses		
	\$56m	↑ 19.1%
EBIT		
	\$78m	↑ 27.9%
RONA		
	21.7%	↑ 15.4%
Net Assets 1 July 2005		
	\$360m	FY06
Net Assets 30 June 2006		
	\$412m	FY07

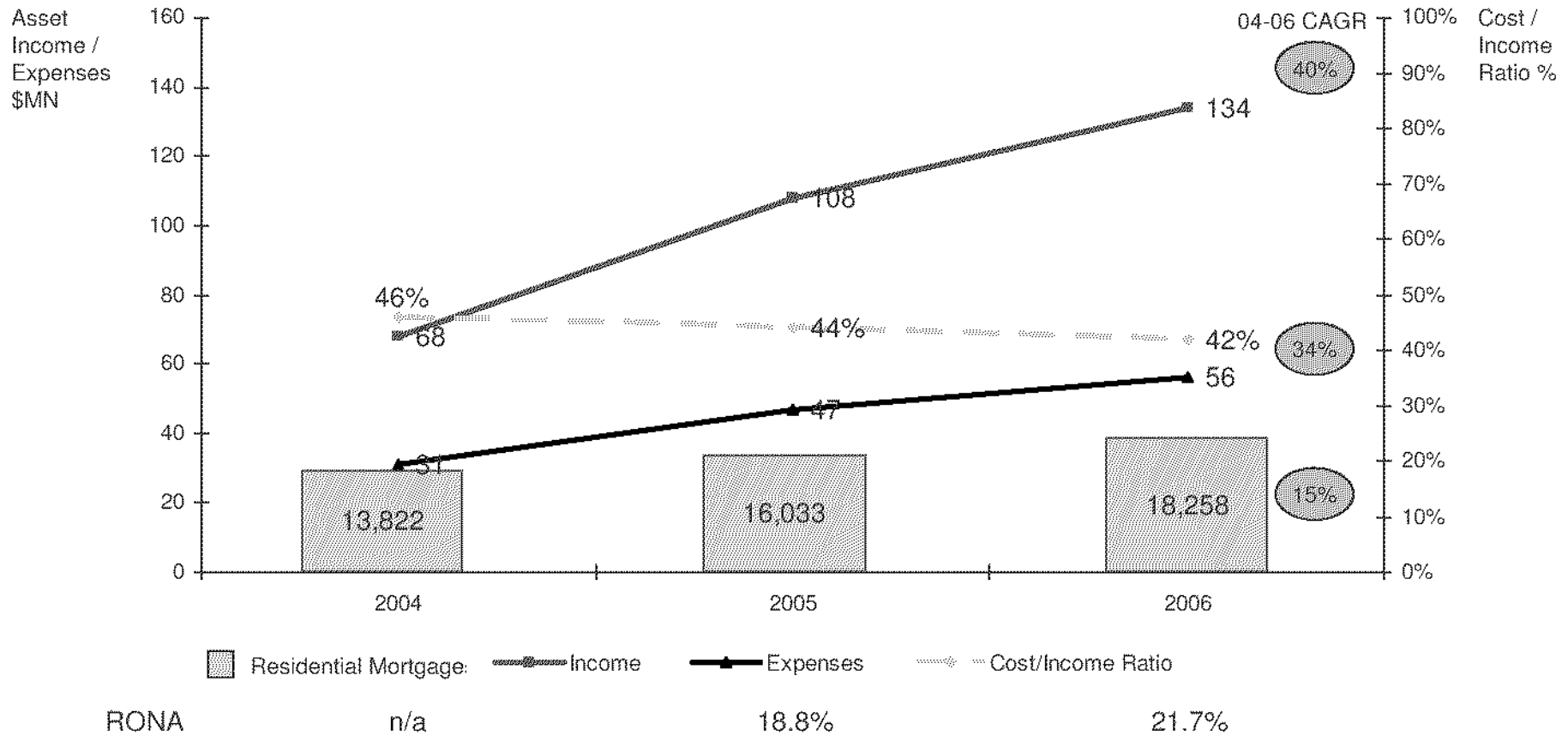
Mortgage Management

EBIT up 28%



Mortgage Management

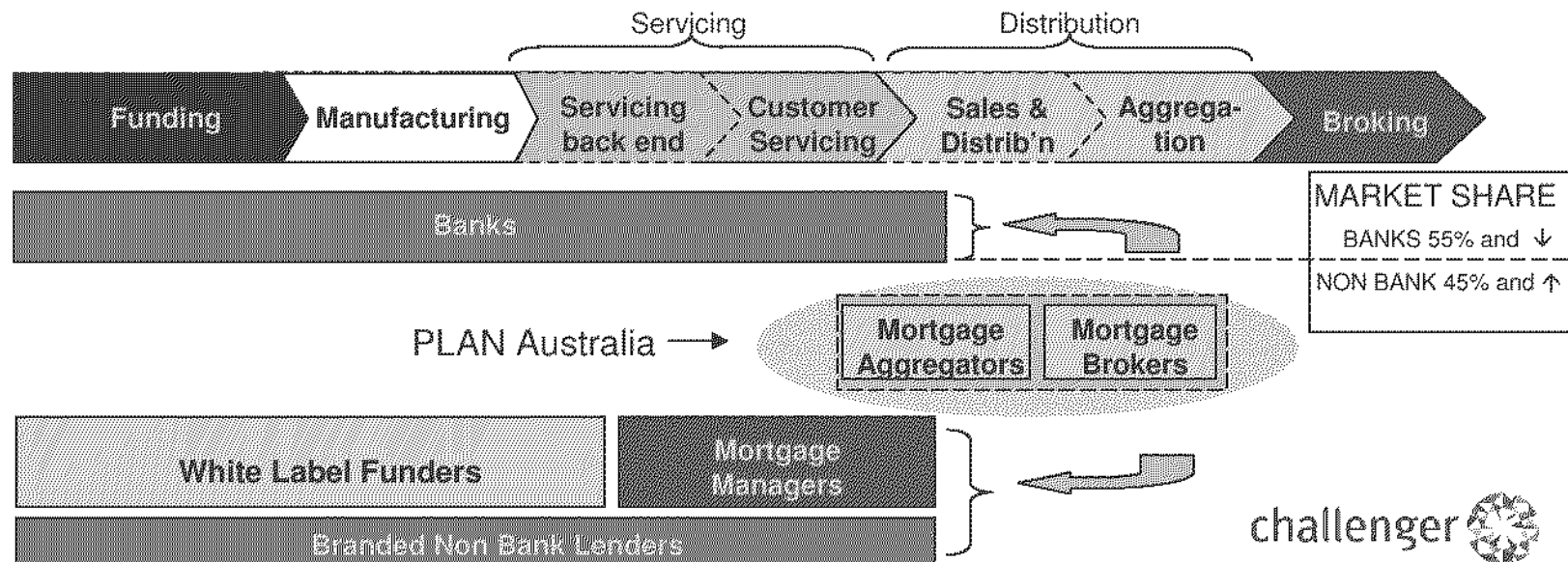
Key performance trends



Mortgage Management

Delivering profitable growth in competitive market

- Net loan growth in Residential market driven by:
 - new product initiatives
 - systems integration - B2B connectivity to originators
 - superior service delivery
- Outperforming the market while growing margin – focus remains on profitable growth



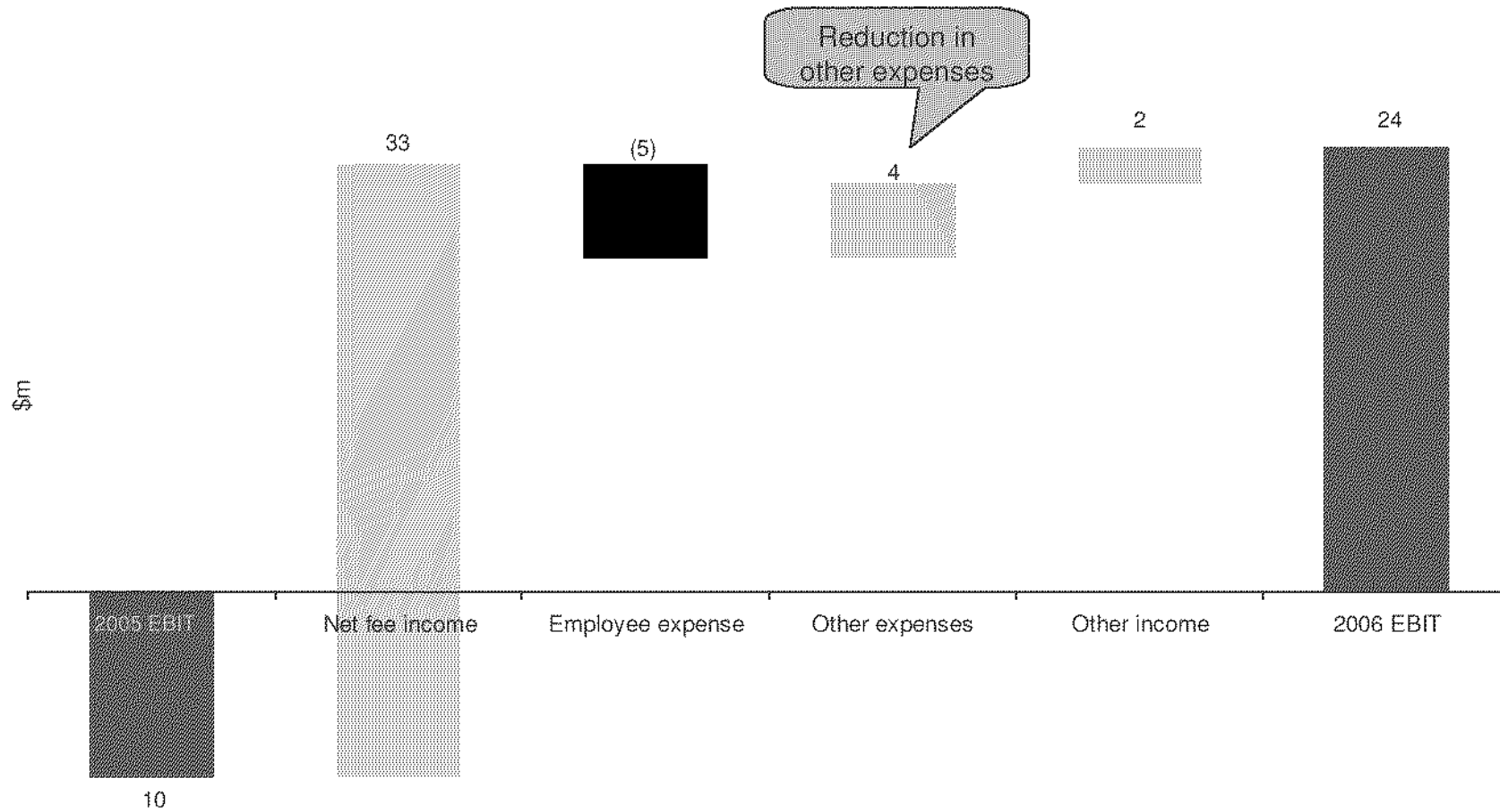
Funds Management

Delivering performance, FUM growth and profits

Portfolio volume <small>(Funds under management)</small>	\$12.9bn	↑ 21.6%
Net Income	\$92m	↑ 61.4%
Expenses	\$68m	↑ 1.5%
EBIT	\$24m	↑ large
RONA	18.6%	↑ large
Net Assets <small>1 July 2005</small>	\$131m	FY06
Net Assets <small>30 June 2006</small>	\$135m	FY07

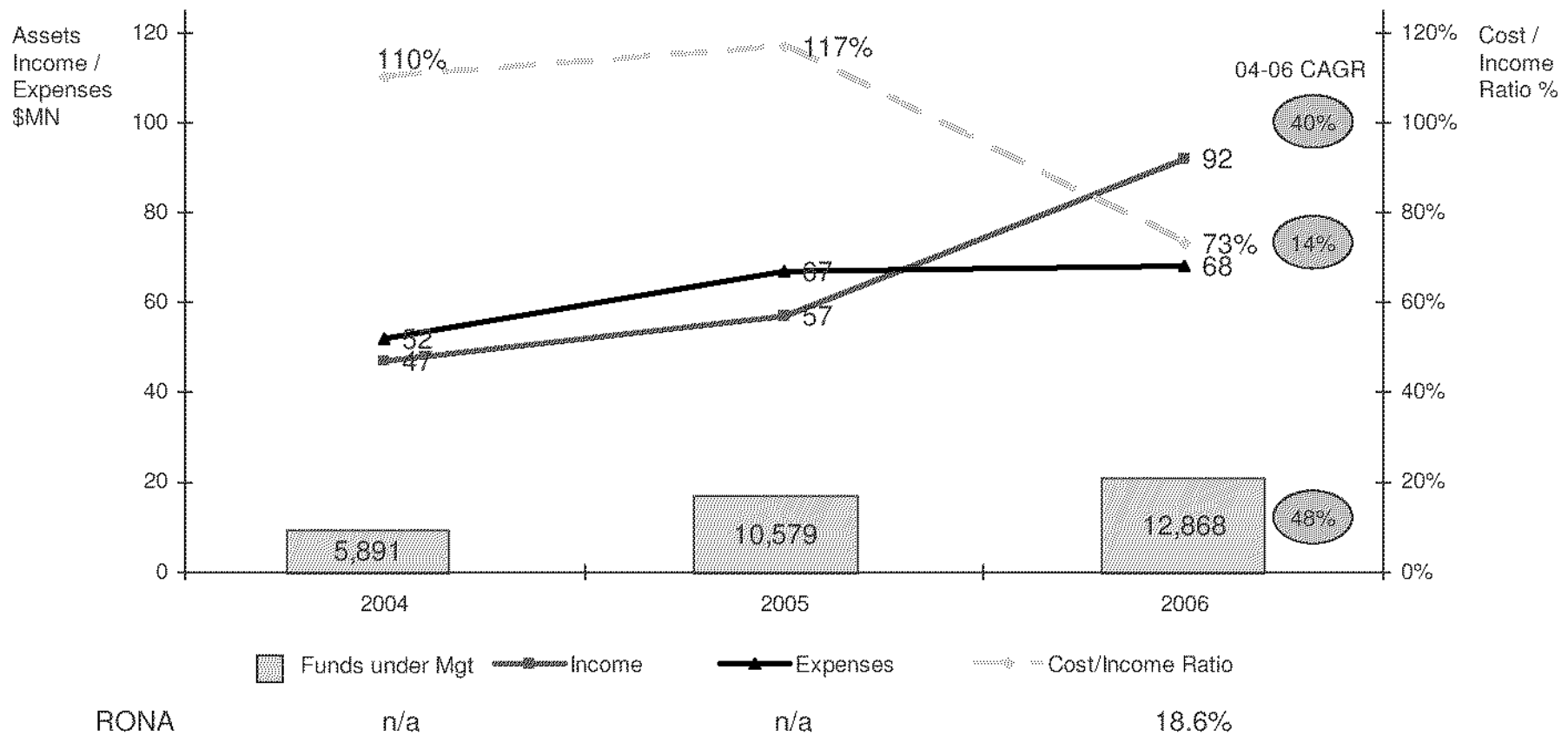
Funds Management

EBIT strongly into profit



Funds Management

Key performance trends



Funds Management

Delivering performance, FUM growth and profits

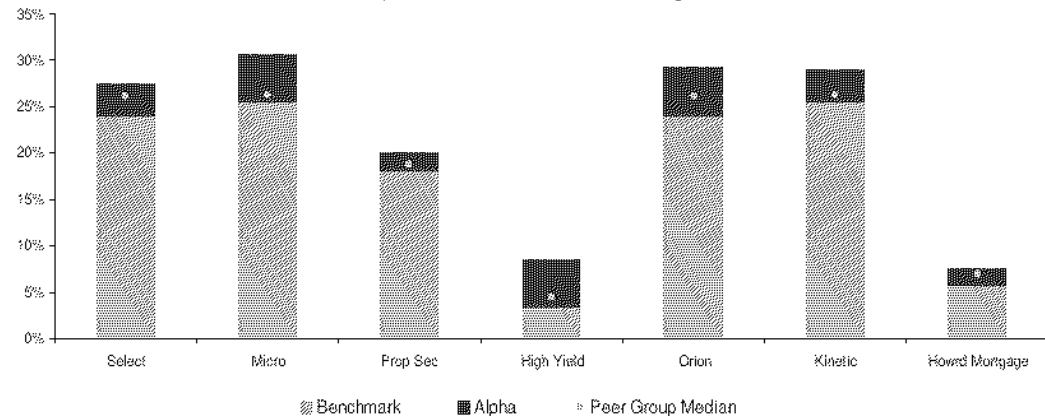
- Solid alpha generation:
 - across asset sectors
 - across strategies

- Increasingly diversified, high quality FUM

- No capacity issues

- Distribution footprint continuing to broaden

Alpha Generation Across Sectors / Strategies



Researcher/Asset Consultant Recommendations for "core" Challenger products	
S&P	8 funds ★ ★ ★ ★ or better
Lonsec	8 funds RECOMMENDED or better
Morningstar	7 funds ★ ★ ★ ★ or better
Research houses	69 active recommendations
Dealer group approvals	1,919 across 366 dealer groups
Consultant ratings	26 across 6 sectors
Platform approvals	220 products on 30 platforms

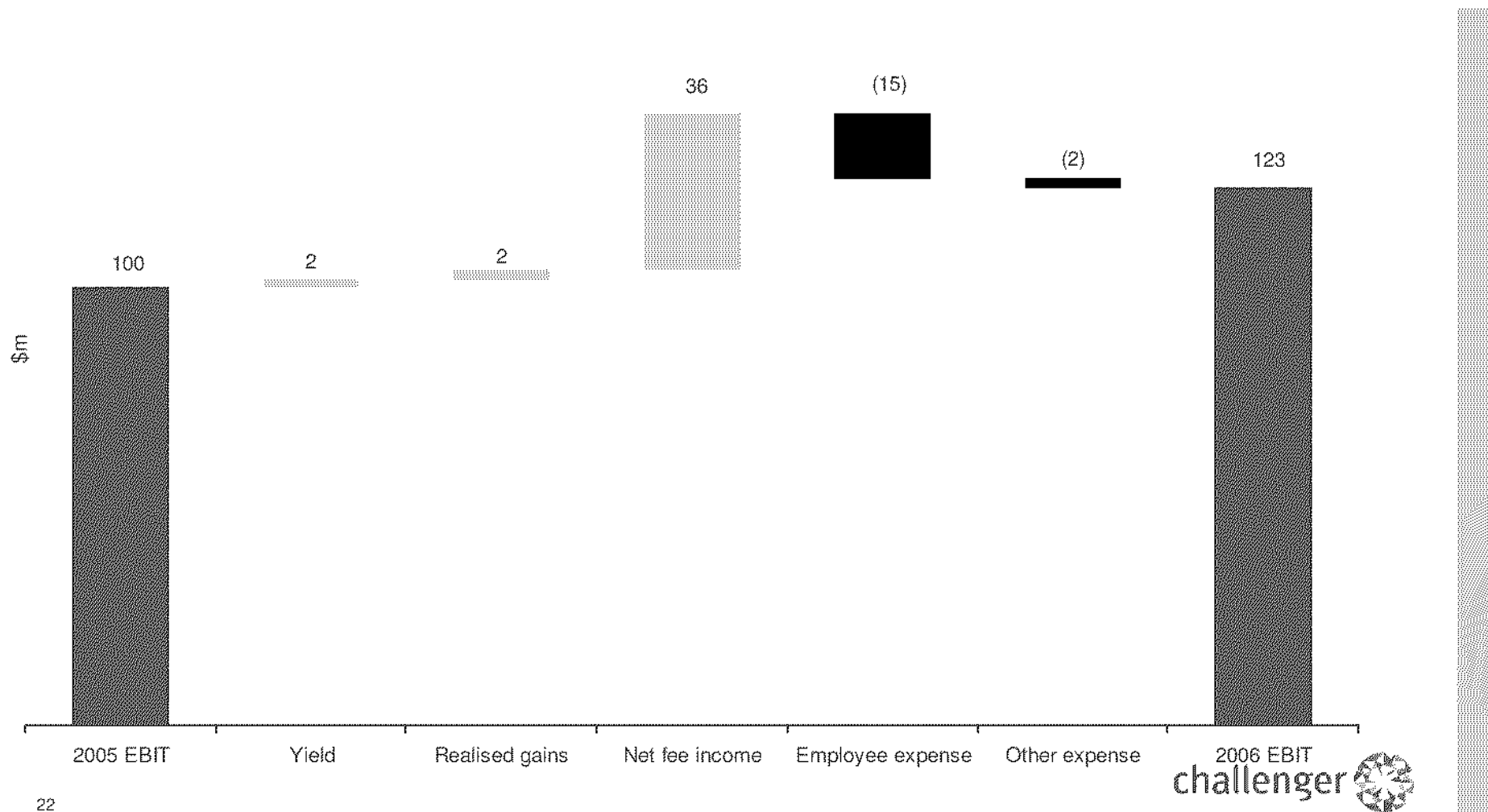
Asset Management

Steady growth as new business lines build

Portfolio volume <small>(Total assets under management)</small>	\$3.7bn	↑ 13.2%
Net Income		
— Spread	\$126m	↑ 3.1%
— Fees	<u>\$51m</u>	↑ large
— Total	\$177m	↑ 29.2%
Expenses	\$54m	↑ 45.9%
EBIT	\$123m	↑ 23.0%
RONA	21.9%	↑ 5.8%
Net Assets closing 30 June	\$561m ¹	FY06
Net Assets opening 1 July	\$707m	FY07

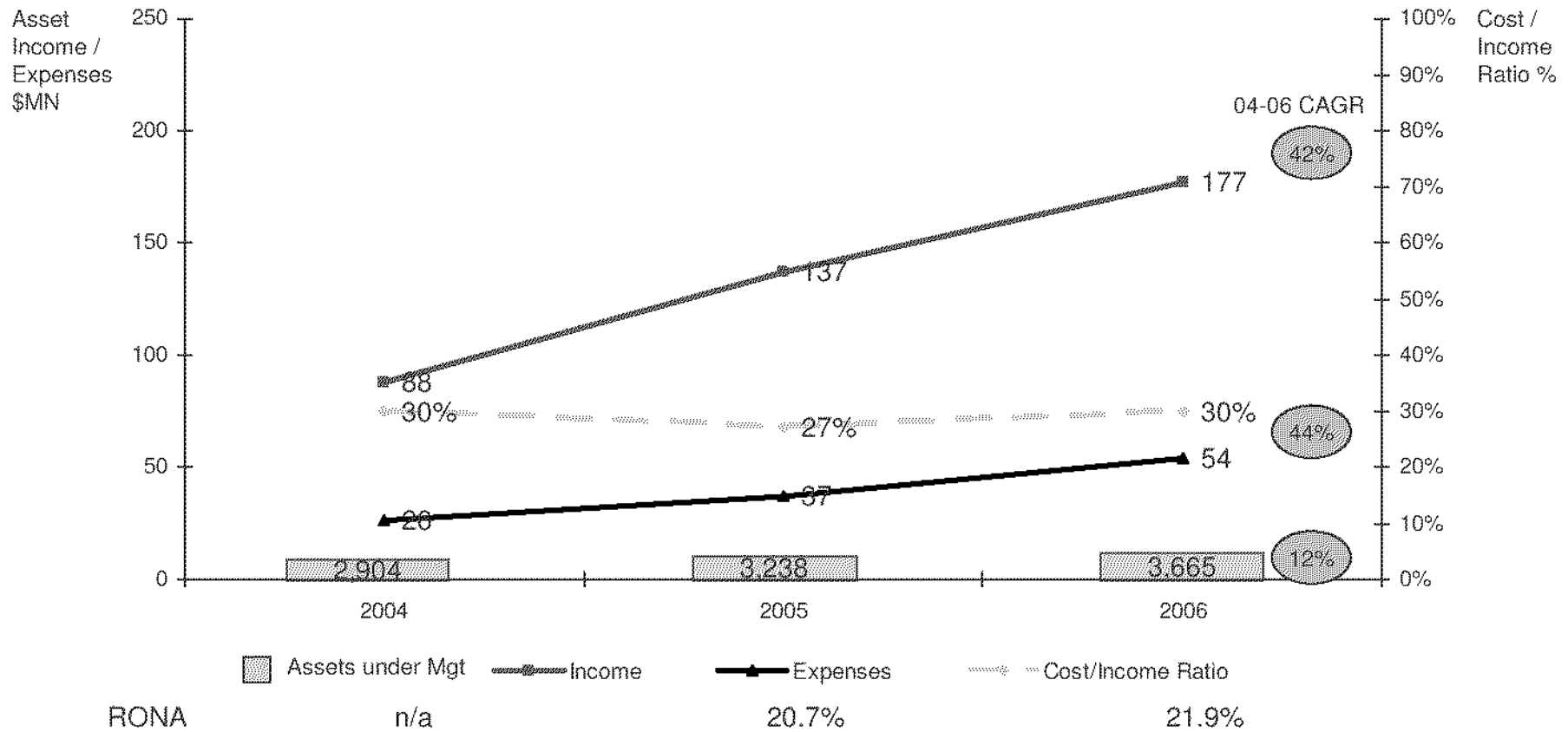
Asset Management

EBIT up 23%



Asset Management

Key performance trends

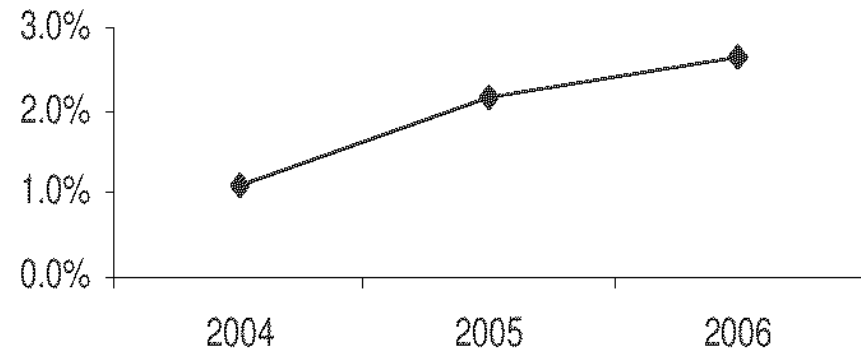


Asset Management

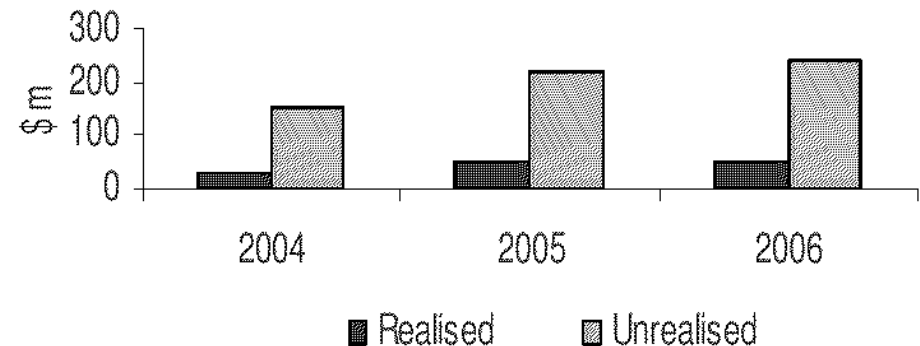
Spread business continues to perform

- Investment strategy:
 - Long term predictable income streams
 - Target asset allocation
 - Property 30%
 - Infrastructure 30%
 - Fixed Income 30%
 - Other 10%
 - Active investor with total return focus
 - Yield + Capital gains
 - Increasing growth component in portfolio
 - Movement to asset allocation
 - Turnover of portfolio, recycling of capital

Spread¹



Realised gains being replenished



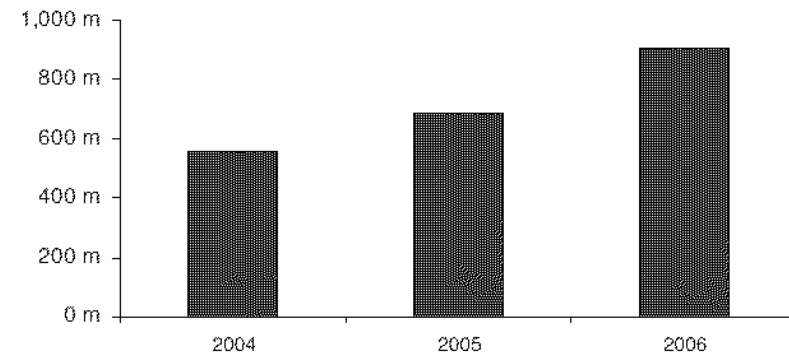
²⁴ 1 "Spread" defined here as the gross return on investment assets (expressed as a % of average gross investment assets) less the cost of funds of annuity and property debt liabilities (expressed as a % of the average interest bearing liabilities)

Asset Management

Spread business continues to perform

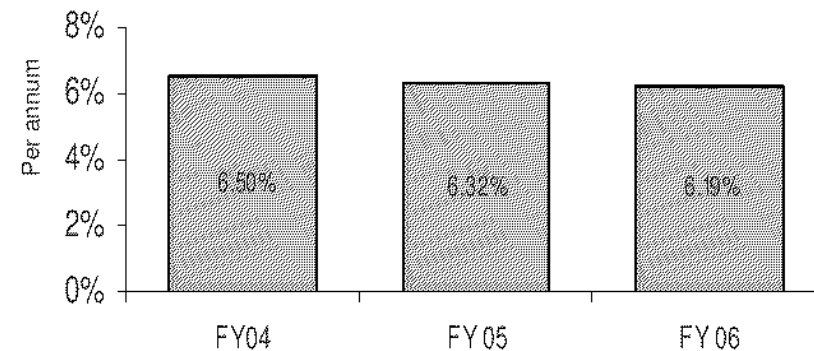
- Capital
 - S&P rating 'A'
 - Provides significant benefits
 - Disciplines and systems to maintain in place
- Funding
 - Retail annuities
 - Wholesale annuity provides flexibility
 - Alternative long term financing sources available

Asset Management Statutory Net Assets



*Policy liability at June 2004 valued at market value consistent with FY05 and FY06

Total cost of annuity funds

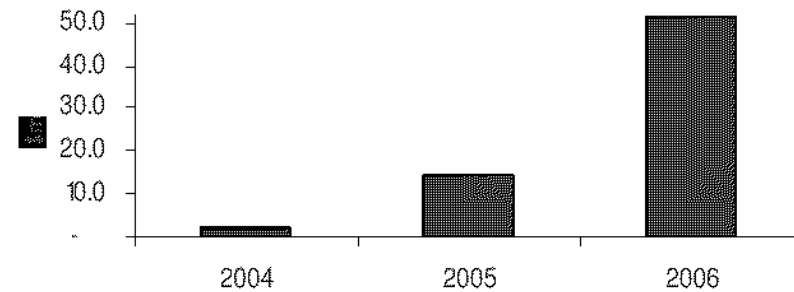


Asset Management

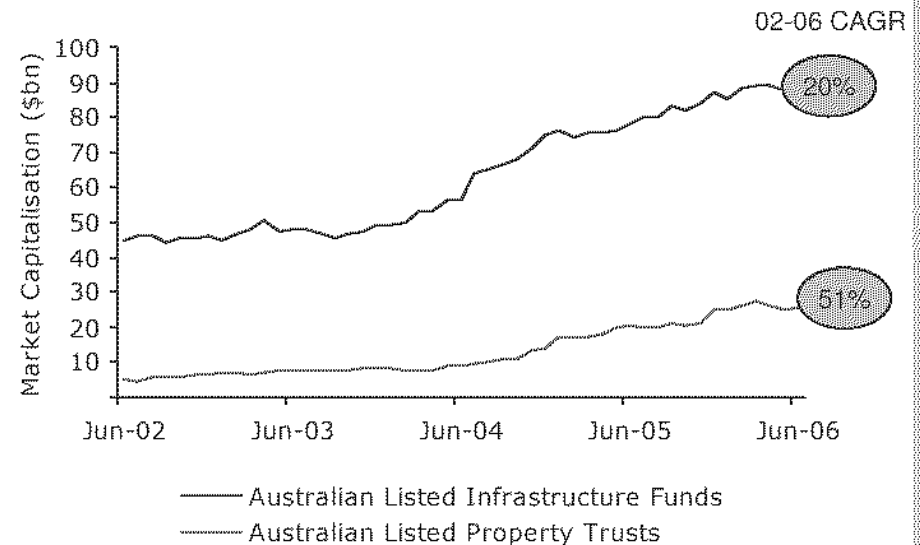
Fee income – the emerging new business

- Investment in revenue producers
 - Senior hires across investment classes
- Future growth
 - High growth environment
 - Listed and unlisted property trusts
 - Extension of infrastructure trusts
 - Management fees
 - Performance fees
 - Transaction fees

Fee income



Asset Management – environment growth



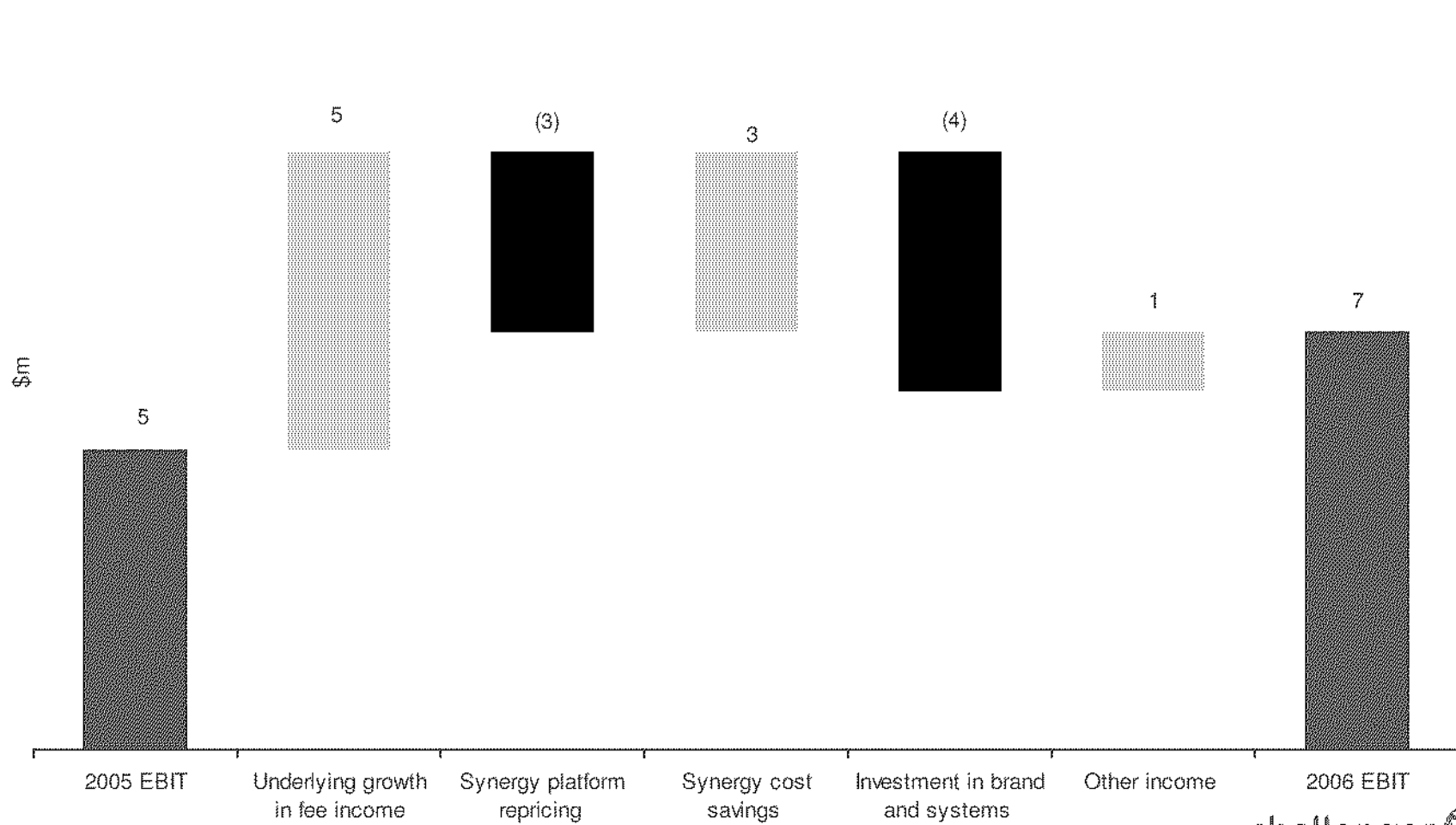
Financial Planning

Fundamentals improving

Net Income	\$43m	↑ 10.3%
Expenses	\$36m	↑ 5.9%
EBIT	\$7m	↑ 40.0%
RONA	4.9%	↑ 22.5%
Net assets 1 July 2005	\$144m	FY06
Net assets closing 30 June 2006	\$146m	FY07

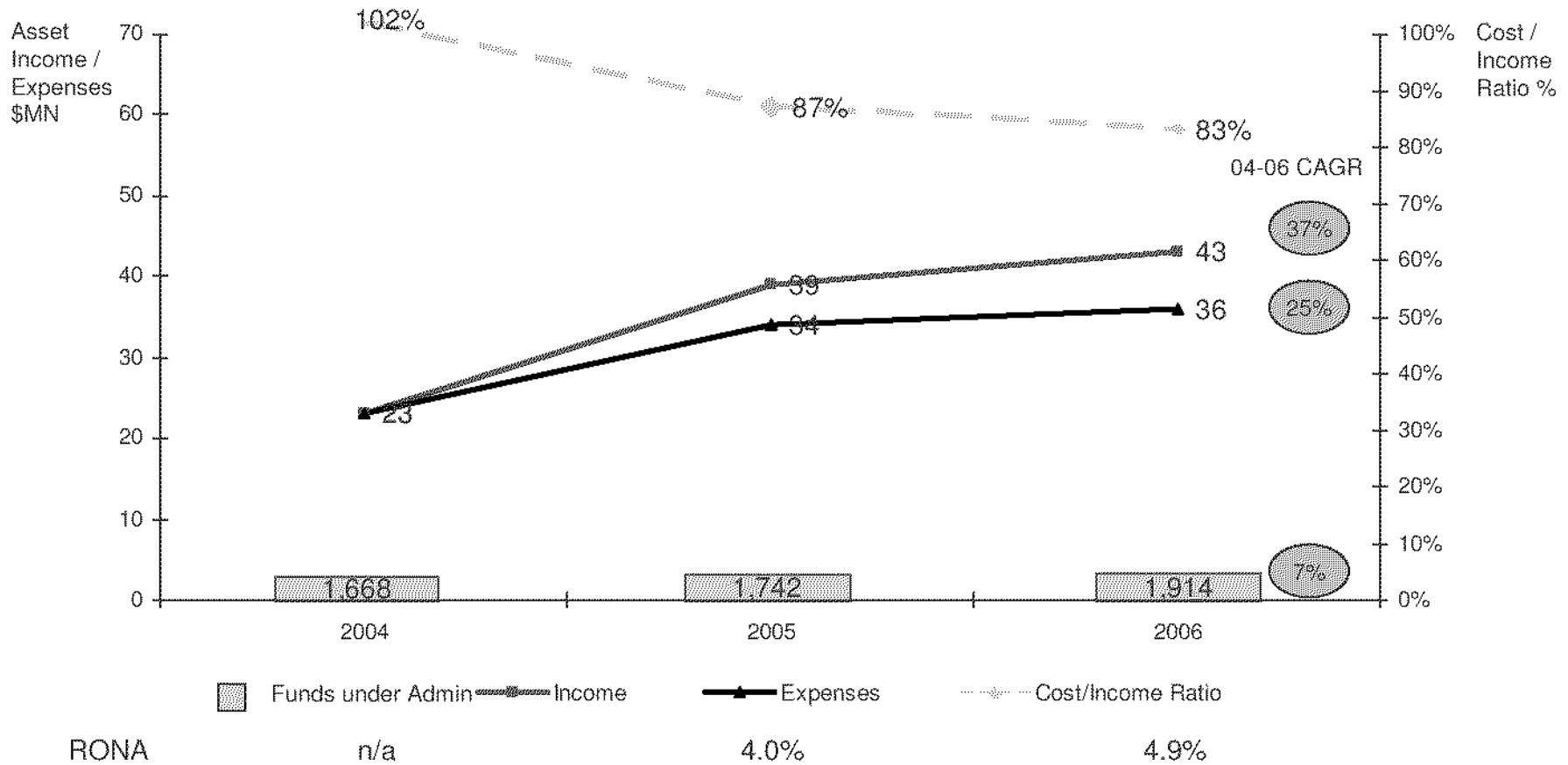
Financial Planning

EBIT up 40.0%



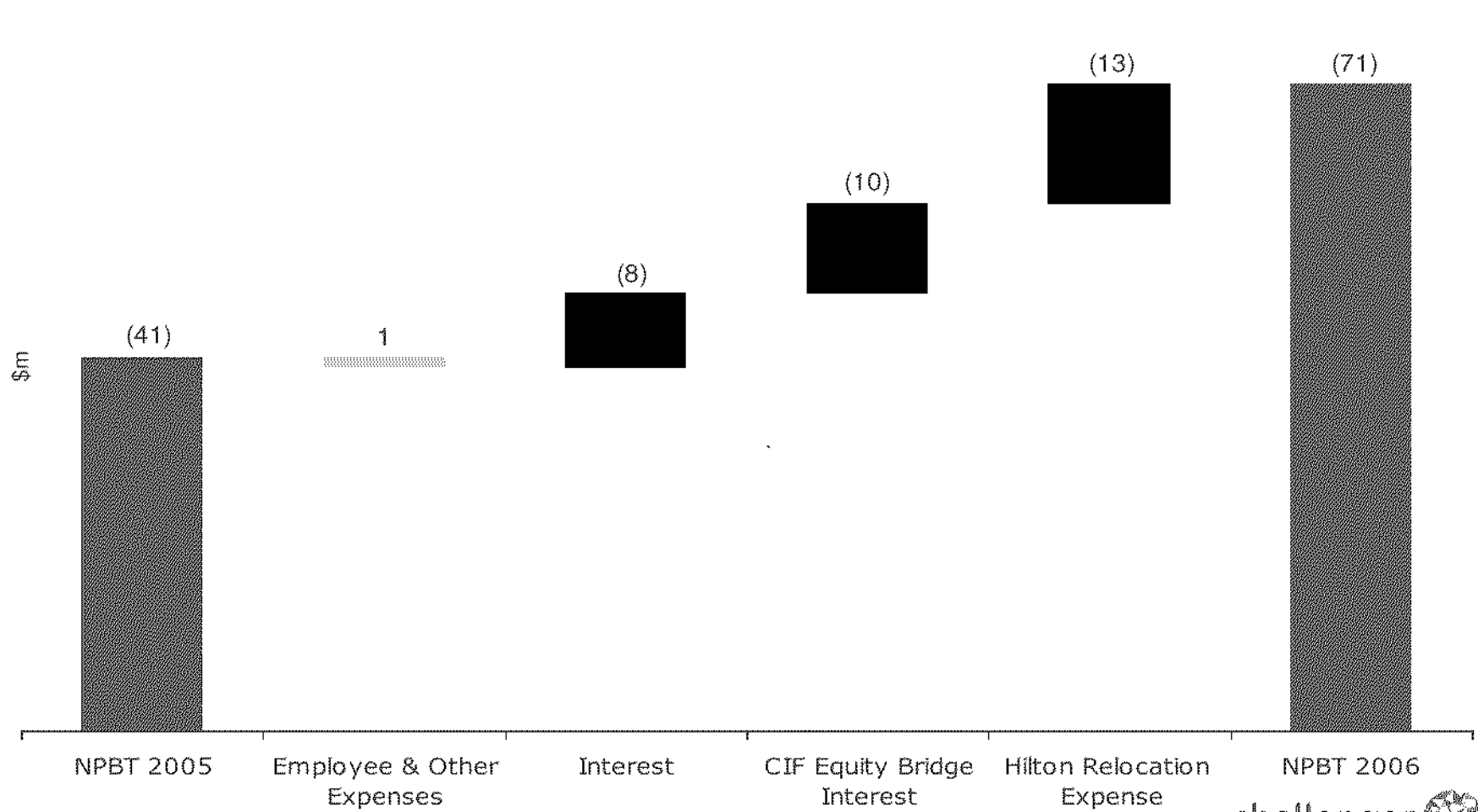
Financial Planning

Key performance trends



Financial Summary

Corporate costs



Balance Sheet

Post deconsolidation of CIF

\$m	FY 06	FY 05 ¹	△
Assets			
Cash	389	491	↓20.8%
Investments	3,417	3,041	↑12.4%
Goodwill	554	562	↓1.4%
Other assets	564	361	↑56.2%
Securitised assets	19,668	16,937	↑16.1%
Total Assets	24,592	21,392	↑15.0%
Liabilities			
Debt	636	601	↑5.8%
Policy liabilities	2,138	2,271	↓5.9%
Other liabilities	877	426	↑large
Securitised liabilities	19,680	16,937	↑16.2%
Total Liabilities	23,331	20,235	↑15.3%
Net assets	1,261	1,157	↑8.9%
Net assets attributable to CGF shareholders	1,247	1,157	↑7.8%

Cashflow

Post deconsolidation of CIF

\$m	FY 06	FY 05 ¹	△
Opening cash balance	491	626	↓ 21.7%
Operating cashflows ²	229	162	↑ 42.0%
Investing activities	252	1,113	↓ 77.4%
Financing activities	(593)	(1,410)	↓ 58.0%
Cash acquired on acquisition	10	-	-
Closing cash balance	389	491	↓ 20.7%
Available cash balance ³	62	79	↓ 21.9%

¹ Restated under AIFRS, relates to Securitisation SPVs cashflow reserves

² Operating cash flows presented excludes movements in annuitant receipts and claims as these are more appropriately disclosed as financing activities given Challenger Asset Management's spread business

³ Excludes cash balances within the Life company statutory funds and CIF

Debt & Gearing

\$m	FY 06	FY 05	△
Debt			
Financial debt ¹			
Corporate facilities	120	70	↑71%
Other	-	2	↓ large
Total Financial Debt	120	72	
Operating leverage ² within:			
MM – securitisation trusts	19,680	16,945	↑16 %
MM – NIM facility	230	180	↑27 %
AM – property trusts	286	349	↓18 %
AM – CIF	1,135	-	
Total Operating Leverage	21,331	17,474	↑22 %
Gearing³			
Net Debt ⁴ / Book Equity	4.7%	-	
Net Debt / (Net Debt + Book Equity)	4.3%	-	

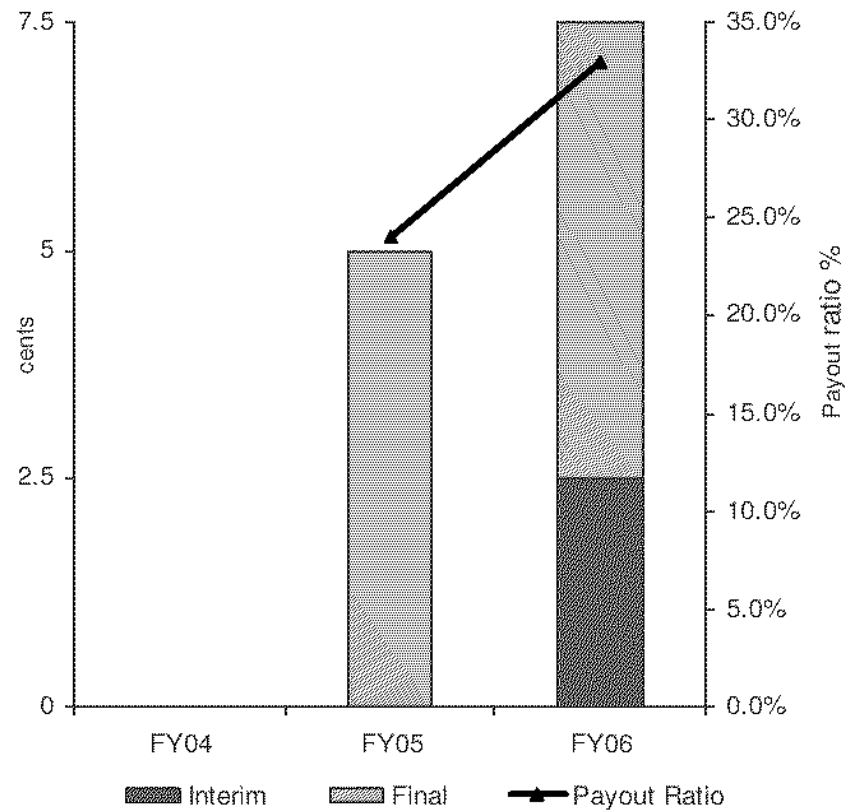
33 ¹ Recourse to Challenger Financial Services Group
³ Gearing ratios are based on Financial (recourse) debt

² Non recourse to Challenger Financial Services Group
⁴ Net debt is after available cash is deducted

Dividend

Board approved policy

- Pay out a minimum of 30% of statutory profits after tax
- Final dividend declared
 - 5 cents per share
 - fully franked
- Full year dividend 7.5 cents
 - payout ratio 33%
 - 50% increase on FY05
- Dividend reinvestment plan
 - suspended



Outlook 2006/2007

- Continuing to build on core themes across all business lines
 - Mortgage Management:
Continued focus on profitable growth through leading product, technology, and service offering; while maintaining cost to book size
 - Funds Management:
Continued focus on delivering sustainable alpha generation across diverse product set. Scale benefits expected to continue
 - Asset Management:
Continued expansion of fee based model through targeted product expansion. Maintenance of spread based margins
 - Financial Planning:
Continued productivity improvement focus will generate increase in revenue per planner

Summary

CGF invests to deliver double digit EPS growth

- * 49% increase in NPAT¹
- * Strong performance across the Group:
 - Quality products & services delivered 16%↑ in Assets & Loans under Management
 - Scaleable business model delivered 30%↑ in income, 12%↑ in costs ¹ and 58%↑ in EBIT
 - Low cost model focused on third party distribution delivering excess RONA
 - Businesses operating in markets that are growing strongly
- * Achieved 36%↑ in EPS² growth and >18% RONA in MM, FM & AM
- * Continued focus on capital management:
 - 5 cent dividend declared, 7.5 cents for FY06
 - Board approved Dividend Policy - minimum of 30 per cent of the statutory profits after tax
 - DRP suspended
- * Strategy will continue to deliver double digit EPS² growth and >18% RONA at business level

¹ Historic cost before significant items

36 ² Historic cost - basic after significant items FY06 36% increase to 21.6 cps

Key dates

2006

27 September

Dividend record date

20 October

Dividend payment date

25 October

Educational briefing for analysts

23 November

Annual General Meeting

2007

26 February

Half-year results to 31 December 2006

Appendix



Consolidated Profit and Loss Statutory

Appendix – 1

\$m	AIFRS		AGAAP	AIFRS			
	FY 06	FY 05	FY 04	2H 06	1H 06	2H 05	1H 05
Income							
Net rental income	95	63	96	46	49	33	30
Investment income	99	139	84	50	49	68	71
Net realised and unrealised gains/(losses)	97	136	166	60	37	29	107
Annuitant funding and policy liability movements	(102)	(162)	(186)	(53)	(49)	(55)	(107)
Net investment income	189	176	160	103	86	75	101
Fee income	289	228	154	143	146	137	91
Other income	21	14	38	5	16	7	7
Underlying net income	499	418	352	251	248	219	199
Interest and fee income in SPV's	1,368	1,171	–	700	668	614	558
Net income	1,867	1,589	352	951	916	833	757
Expense							
Employee expenses	(173)	(132)	(104)	(90)	(83)	(73)	(59)
Depreciation	(17)	(7)	(3)	(10)	(7)	(5)	(2)
Occupancy costs	(8)	(8)	(11)	(4)	(4)	(4)	(4)
Other expenses	(61)	(73)	(69)	(20)	(41)	(35)	(39)
Underlying expenses	(259)	(220)	(187)	(124)	(135)	(116)	(104)
Interest expense and distributions relating to SPV's	(1,368)	(1,171)	–	(700)	(668)	(614)	(558)
Total operating expenses	(1,627)	(1,391)	(187)	(824)	(803)	(730)	(662)
EBIT	240	198	165	127	113	103	95
Interest and borrowing costs	(32)	(35)	(28)	(17)	(15)	(20)	(15)
Share of net profits/(losses) of associates	–	2	–	–	–	–	2
Significant items	(27)	–	(280)	(12)	(15)	–	–
Net profit before tax	181	165	(143)	98	83	83	82
Tax	(51)	(45)	(40)	(21)	(30)	(18)	(27)
Losses attributable to minority interests	4	–	–	(3)	7	–	–
Net profit after tax	134	120	(183)	74	60	65	55
Underlying Expenses/Underlying net income	51.9%	52.7%	53.2%	49.3%	54.6%	53.2%	52.4%
EBIT Margin (EBIT/Underlying net income)	48.1%	47.3%	46.8%	50.7%	45.4%	47.1%	47.6%
Effective tax rate – after minorities	27.6%	27.3%	(28.1%)	21.9%	35.9%	21.7%	33.0%

Consolidated Profit and Loss

Reconciliation of Statutory to Historic Cost

Appendix – 2

\$m	FY 06	FY 05	2H 06	1H 06	2H 05	1H 05
Statutory net profit after tax	134	120	74	60	65	55
Recurring items						
i) Subtract excess of movement in fair value of investment assets over accrued investment income under historic cost	(43)	(86)	(24)	(19)	(15)	(71)
ii) Add excess of movement in fair value of policyholder/annuity liabilities over accrued annuity interest under historic cost	(20)	40	(8)	(12)	(5)	45
iii) Other	11	4	16	(5)	(5)	9
Non recurring items						
iv) Subtract borrowing and financing costs of investment properties which are amortised under historic cost		(8)	–	–	(6)	(2)
v) Asset management fees not reported in statutory result	14	–	–	14	–	–
vi) Change in fair value of CIF swap excluded from historic cost	14	–	(1)	15	–	–
vii) Reverse minorities	5	–	(2)	7	–	–
	(19)	(50)	(19)	–	(31)	(19)
Tax effect of items above	1	14	4	(2)	5	9
Historic cost net profit after tax	116	84	58	58	39	45

Consolidated Profit and Loss Historic cost¹

Appendix – 3

\$m	FY06	FY05	FY04 ²	2H 06	1H 06	2H 05	1H 05	2H 04 ²	1H 04 ²
Income									
Net rental income	95	55	84	46	49	27	28	42	42
Investment income	100	138	82	50	50	67	71	44	38
Realised gains	53	51	29	36	17	15	36	24	5
Interest paid and selling costs	(122)	(122)	(109)	(61)	(61)	(60)	(62)	(55)	(54)
Net investment income	126	122	86	71	55	49	73	55	31
Fees received	604	458	287	310	294	249	209	169	118
Fees and commissions paid	(215)	(178)	(109)	(111)	(104)	(92)	(87)	(61)	(48)
Acquisition cost amortisation	(74)	(62)	(38)	(37)	(37)	(32)	(30)	(26)	(12)
Net fee income	315	218	140	162	152	126	92	81	59
Other income	5	2	-	-	5	2	-	-	-
Net income	446	342	226	233	213	176	165	136	90
Expense									
Employee expenses	(163)	(132)	(95)	(85)	(78)	(73)	(59)	(50)	(45)
Purchased services	(17)	(11)	(6)	(7)	(11)	(6)	(5)	(4)	(2)
Occupancy expense	(14)	(12)	(8)	(8)	(6)	(7)	(5)	(4)	(4)
IT	(11)	(9)	(8)	(6)	(5)	(5)	(4)	(4)	(4)
Other expenses	(31)	(45)	(30)	(14)	(17)	(25)	(20)	(14)	(16)
Total operating expenses	(236)	(210)	(147)	(120)	(117)	(116)	(93)	(76)	(71)
EBIT	209	132	79	113	96	60	72	60	19
Interest and borrowing costs	(35)	(17)	(11)	(22)	(13)	(8)	(9)	(8)	(3)
Significant items	(13)	-	(280)	(13)	-	-	-	(280)	-
Net profit before tax	161	115	(212)	78	83	52	63	(228)	16
Tax	(45)	(31)	(21)	(20)	(25)	(13)	(18)	(15)	(6)
Net profit after tax	116	84	(233)	58	58	39	45	(243)	10
Expense to income	53.0%	61.3%	65.1%	51.4%	54.8%	65.9%	56.5%	55.9%	79.2%
EBIT margin	47.0%	38.7%	34.9%	48.6%	45.2%	34.1%	43.5%	44.1%	20.8%
Net investment income/Net income	28.3%	35.7%	38.1%	30.4%	25.9%	27.8%	44.2%	40.3%	34.6%
Net fee income/Net income	70.6%	63.7%	61.9%	69.5%	71.7%	71.2%	55.8%	59.7%	65.4%
Other income/Net income	1.2%	0.5%	0.0%	0.0%	2.4%	1.0%	0.1%	0.0%	0.0%
Effective tax rate	27.9%	27.0%	31.0%	25.5%	30.1%	24.9%	28.6%	28.7%	38.5%

¹ Challenger adopts modified historic cost accounting basis for reporting the operations of the Life company within the Asset Management division.

All other aspects of Challenger's financial reporting are per AIFRS.

² Excludes goodwill amortisation for comparative purposes with AIFRS.

Consolidated Balance Sheet

AIFRS reconciliation

Appendix – 4

	AIFRS		AIFRS		AGAAP
	\$m 1 July 2005	Movement	\$m 30 June 2005	Movement	\$m 30 June 2005
Assets					
Cash and cash equivalents	490.7	-	490.7	(6)	496.4
Receivables	156.5	(2)	158.3	(131)	288.9
Debt securities	-	-	-	(754)	753.9
Investment assets	1,069.8	54	1,015.9	1,016	-
Other financial assets	(0.1)	-	0.3	-	0.3
Equity securities	-	-	-	(270)	270.1
Available for sale securities	302.4	302	-	-	-
Infrastructure assets	-	(344)	344.4	-	344.4
Securitised assets	16,944.8	8	16,937.1	16,937	-
Investment properties	1,683.3	-	1,683.3	5	1,678.2
Fixed assets	11.0	-	10.9	(18)	29.2
Deferred tax assets	24.4	13	10.9	3	7.7
Investment accounted for under the equity method	2.8	-	2.8	-	2.8
Goodwill	562.2	-	562.2	(9)	571.4
Other intangible assets	18.3	-	18.2	18	-
Other assets	158.2	1	156.9	-	157.1
Total assets	21,424.3	32	21,391.9	16,791	4,600.6
Liabilities					
Payables	238.5	(22)	260.1	(16)	276.6
Current tax payable	44.9	42	2.8	3	-
Derivative liabilities	0.5	(1)	1.3	1	-
Interest bearing liabilities	600.7	-	600.7	-	600.7
Securitized liabilities	16,955.5	18	16,937.1	16,937	-
Provisions	67.0	-	67.0	9	58.0
Deferred tax liabilities	94.1	-	94.1	2	92.5
Life insurance policy liabilities	2,311.0	39	2,271.9	-	2,271.9
Total liabilities	20,312.3	77	20,235.0	16,935	3,299.7
Net assets	1,112.0	(45)	1,156.9	(144)	1,300.8
Shareholder equity					
Contributed equity	1,234.9	-	1,235.1	(129)	1,364.0
Reserves	70.9	-	71.1	9	61.7
Retained losses	(183.0)	(34)	(149.3)	(24)	(124.8)
Total equity attributable to shareholders	1,122.7	(34)	1,156.9	(144)	1,300.8
Cashflow hedge reserve – SPV's	(10.7)	(11)	-	-	-
Total equity	1,112.0	(45)	1,156.9	(144)	1,300.8

Issued Share Capital

EPS and DPS

Appendix – 5

	2H06	1H06	2H05	1H05	2H04	1H04
Ordinary Shares: Quoted (CGF)						
Opening	537,917,717	534,269,048	528,441,048	2,866,703,735	2,439,035,735	-
Additions (+)						
i) <i>DRP</i>	371,823	530,669	-	-	-	-
ii) <i>LTIP</i>	6,478,000	3,548,000	5,828,000	-	427,668,000	-
iii) <i>LTIP shares bought back and cancelled</i>	-	(430,000)	-	-	-	-
Reconstruction (5:1)	-	-	-	(2,338,262,687)	-	-
Closing	544,767,540	537,917,717	534,269,048	528,441,048	2,866,703,735	2,439,035,735
Weighted average number of ordinary shares	541,127,757	537,017,864	526,406,178	518,946,096		
	FY 06	FY 05				
Weighted average number of ordinary shares	538,890,140	525,026,595				
	2H06	1H06	2H05	1H05	2H04	1H04
Long Term Incentive Plan						
Opening	49,114,000	43,962,000	45,880,000	44,880,000	-	-
Additions (+)	4,900,000	8,700,000	3,910,000	1,000,000	44,880,000	-
Subtractions (-)	(6,478,000)	(3,548,000)	(5,828,000)	-	-	-
Closing	47,536,000	49,114,000	43,962,000	45,880,000	44,880,000	-
Options						
Opening	60,000,000	60,000,000	60,000,000	60,000,000	-	-
Additions (+)	-	-	-	-	60,000,000	-
Subtractions (-)	-	-	-	-	-	-
Closing	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	-
Weighted average number of shares for dilutive purposes	552,489,467	537,017,864	528,297,999	518,946,096		
	FY 06	FY 05				
Weighted average number of shares for dilutive purposes	550,251,850	526,918,416				

(continued)

Earnings per share

	FY 06	FY 05	2H06	1H06	2H05	1H05
Basic – reported statutory	24.9	22.7	13.7	11.2	12.4	10.6
Basic – underlying statutory	28.4	22.7	15.2	11.2	12.4	10.6
Basic – historic cost	21.6	15.9	10.8	10.8	7.4	8.6
Diluted – reported statutory	23.9	22.7	13.0	11.2	12.3	8.6
Diluted – underlying statutory	27.3	22.7	15.0	11.2	12.3	10.6
Diluted – historic cost	20.9	15.9	10.1	10.8	7.4	8.6

Dividends per share

Cents per share	7.5	5.0	5.0	2.5	5.0	0
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Payout ratio

Statutory	33%	24%				
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Divisional Performance – Mortgage Management

Appendix – 6

\$m	FY06	FY05	FY04	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04 ¹
Income									
Net Investment Income	–	–	–	–	–	–	–	–	–
Fees received	282	235	149	145	137	122	113	97	52
Fees and commissions paid	(74)	(65)	(43)	(37)	(37)	(33)	(32)	(29)	(14)
Acquisition cost amortisation	(74)	(62)	(38)	(37)	(37)	(32)	(30)	(26)	(12)
Net fee income	134	108	68	71	63	57	51	42	26
Other income	–	–	–	–	–	–	–	–	–
Net income	134	108	68	71	63	57	51	42	26
Expenses									
Employee expenses	(40)	(33)	(20)	(21)	(19)	(16)	(17)	(14)	(6)
Other	(16)	(14)	(11)	(8)	(8)	(7)	(7)	(6)	(5)
Total expenses	(56)	(47)	(31)	(29)	(27)	(23)	(24)	(20)	(11)
EBIT	78	61	37	42	36	34	27	22	15
Expense to income	41.8%	43.5%	45.6%	40.8%	42.9%	40.4%	47.1%	47.6%	42.3%
EBIT margin	58.2%	56.5%	54.4%	59.2%	57.1%	59.6%	52.9%	52.4%	57.7%
Net fee income/Net income	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net assets (\$m) (opening balance)	360	324	n/a						
RONA	21.7%	18.8%	n/a						
Average loan portfolio (\$bn)	19.6	17.4	15.0	20.2	19.0	17.9	16.8	15.5	14.0
Expressed as ratio of average portfolio (bps analysis)¹									
Fees received	144	135	129	144	144	136	135	125	133
Fees and commissions paid	(38)	(37)	(39)	(37)	(39)	(37)	(38)	(37)	(40)
Acquisition costs	(38)	(36)	(34)	(37)	(39)	(36)	(36)	(34)	(34)
Net margin	68	62	56	70	66	64	61	54	58
Expenses	(29)	(27)	(26)	(29)	(28)	(26)	(29)	(26)	(26)
EBIT	40	35	31	42	38	38	32	28	33

¹ Half on Half data annualised and 1H 04 data weighted

² The acquisition of Interstar occurred in Sept 2003.

Divisional Performance – Mortgage Management Residential

Appendix – 6.1

\$m	FY06	FY05	FY04	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04 ²
Income									
Net Investment Income									
Fees received	259	214	127	133	126	112	102	86	41
Fees and commissions paid	(74)	(65)	(43)	(37)	(37)	(33)	(32)	(29)	(14)
Acquisition costs amortisation	(74)	(62)	(38)	(37)	(37)	(32)	(30)	(26)	(12)
Net fee income	111	87	46	59	52	47	40	31	15
Other income									
Net income	111	87	46	59	52	47	40	31	15
Expenses									
Employee expenses	(34)	(28)	(15)	(18)	(16)	(14)	(14)	(11)	(4)
Other	(14)	(12)	(9)	(7)	(7)	(6)	(6)	(6)	(3)
Total expenses	(48)	(40)	(24)	(25)	(23)	(20)	(20)	(17)	(7)
EBIT	63	47	22	34	29	27	20	14	8
Expense to income	43.2%	46.0%	52.2%	42.4%	44.2%	42.6%	50.0%	54.8%	46.7%
EBIT margin	56.8%	54.0%	47.8%	57.6%	55.8%	57.4%	50.0%	45.2%	53.3%
Net fee income/Net income	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average loan portfolio (\$bn)	17.1	14.9	12.7	17.7	16.5	15.5	14.4	13.2	11.9
Expressed as ratio of average portfolio (bps analysis)¹									
Fees received	151	143	133	150	153	144	142	130	138
Fees and commissions paid	(43)	(44)	(45)	(42)	(45)	(43)	(45)	(44)	(47)
Acquisition costs	(43)	(41)	(40)	(42)	(45)	(41)	(42)	(39)	(40)
Net margin	65	58	48	67	63	61	56	47	50
Expenses	(28)	(27)	(25)	(28)	(28)	(26)	(28)	(26)	(24)
EBIT	37	31	23	38	35	35	28	21	27

¹ Half on Half data annualised

² The acquisition of Interstar occurred in Sept 2003

Divisional Performance – Mortgage Management Commercial

Appendix – 6.2

\$m	FY06	FY05	FY04	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04
Income									
Net Investment Income									
Fees received	23	21	22	12	11	10	11	11	11
Fees and commissions paid	-	-	-	-	-	-	-	-	-
Acquisition cost amortisation	-	-	-	-	-	-	-	-	-
Net fee income	23	21	22	12	11	10	11	11	11
Other income	-	-	-	-	-	-	-	-	-
Net income	23	21	22	12	11	10	11	11	11
Expenses									
Employee expenses	(6)	(5)	(5)	(3)	(3)	(2)	(3)	(3)	(2)
Other	(2)	(2)	(2)	(1)	(1)	(1)	(1)	-	(2)
Total expenses	(8)	(7)	(7)	(4)	(4)	(3)	(4)	(3)	(4)
EBIT	15	14	15	8	7	7	7	8	7
Expense to income	34.8%	33.3%	31.8%	33.3%	36.4%	30.0%	36.4%	27.3%	36.4%
EBIT margin	65.2%	66.7%	68.2%	66.7%	63.6%	70.0%	63.6%	72.7%	63.6%
Net fee income/Net income	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average loan portfolio (\$bn)	2.5	2.4	2.2	2.5	2.4	2.4	2.4	2.3	2.1
Expressed as ratio of average portfolio (bps analysis)¹									
Fees received	92	87	100	96	90	82	92	97	103
Expenses	(32)	(29)	(32)	(32)	(33)	(25)	(33)	(27)	(38)
EBIT	60	58	68	64	57	58	58	71	66

¹ Half on Half data annualised

Divisional Performance

Funds Management

Appendix – 7

\$m	FY06	FY05	FY04	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04
Income									
Net Investment Income	-	-	-	-	-	-	-	-	-
Fees received	116	76	75	65	52	44	32	40	35
Fees and commissions paid	(27)	(20)	(28)	(15)	(12)	(10)	(11)	(14)	(14)
Acquisition cost amortisation	-	-	-	-	-	-	-	-	-
Net fee income	89	56	47	50	39	35	21	26	21
Other income	3	1	-	1	3	1	-	-	-
Net income	92	57	47	50	42	36	22	26	21
Expenses									
Employee expenses	(44)	(39)	(29)	(21)	(22)	(24)	(15)	(16)	(14)
Other	(24)	(28)	(22)	(12)	(13)	(19)	(9)	(12)	(11)
Total expenses	(68)	(67)	(52)	(33)	(35)	(43)	(24)	(27)	(25)
EBIT	24	(10)	(5)	18	7	(7)	(3)	(1)	(4)
Expense to income	73.5%	117.1%	110.0%	64.9%	83.9%	119.3%	113.5%	103.8%	117.7%
EBIT margin	26.5%	(17.1%)	(10.0%)	35.1%	16.1%	(19.3%)	(13.5%)	(3.8%)	(17.7%)
Net fee income/Net income	96.4%	98.1%	100.0%	98.4%	94.0%	97.2%	99.5%	100.0%	100.0%
Other income/Net income	3.6%	1.9%	0.0%	1.6%	6.0%	2.8%	0.5%	0.0%	0.0%
Net assets (\$m) (opening balance)	131	77	n/a	131	131	131	131	131	131
RONA	18.6%	n/a	n/a	18.6%	18.6%	18.6%	18.6%	18.6%	18.6%

¹ The acquisition of HSBC Asset Management business occurred in March 2005.

Divisional Performance

Asset Management

Appendix – 8

Historic cost ¹ \$m	FY06	FY05	FY04	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04
Income									
Net rental income	95	55	84	46	49	27	28	42	42
Investment income	100	138	82	50	50	67	71	44	38
Realised gains	53	51	29	36	17	15	36	24	5
Interest paid and selling costs	(122)	(122)	(109)	(61)	(61)	(60)	(62)	(55)	(54)
Net investment income	126	122	86	71	55	49	73	55	31
Fees received	51	15	2	21	30	14	1	1	1
Fees and commissions paid	-	-	-	-	-	-	-	-	-
Acquisition cost amortisation	-	-	-	-	-	-	-	-	-
Net fee income	51	15	2	21	30	14	1	1	1
Other income	-	-	-	-	-	-	-	-	-
Net income	177	137	88	92	85	63	74	56	32
Expenses									
Employee expenses	(40)	(25)	(18)	(22)	(18)	(16)	(9)	(9)	(9)
Other	(14)	(12)	(8)	(7)	(7)	(7)	(5)	(3)	(5)
Total expenses	(54)	(37)	(26)	(29)	(25)	(23)	(14)	(12)	(14)
EBIT	123	100	62	63	60	40	60	44	18
Expense to income	30.5%	27.0%	29.5%	31.5%	29.4%	36.5%	18.9%	21.4%	43.8%
EBIT margin	69.5%	73.0%	70.5%	68.5%	70.6%	63.5%	81.1%	78.6%	56.3%
Net investment income/Net income	71.2%	89.1%	97.7%	77.2%	64.7%	77.8%	98.6%	98.2%	96.9%
Net fee income/Net income	28.8%	10.9%	2.3%	22.8%	35.3%	22.2%	1.4%	1.8%	3.1%
Net assets (\$m) (opening balance)	561	483	n/a						
RONA	21.9%	20.7%	n/a						
Average investment assets (\$m)	2,818	2,745	n/a	2,857	2,865	2,918	2,836	n/a	n/a
Net investment income/Average investment assets	4.5%	4.4%	n/a	5.0%	3.8%	3.4%	5.1%	n/a	n/a
(excluding realised gains)	2.6%	2.6%	n/a	2.5%	2.7%	2.3%	2.6%	n/a	n/a

¹ Challenger adopts modified historic cost accounting basis for reporting the operations of the Life company within the Asset Management division.

Asset Management

Balance Sheet

Appendix – 8.1

Sm	FY06			1H 06			FY 05		
	Stat	HC	▲	Stat	HC	▲	Star	HC	▲
Cash	349	349	–	396	396	–	424	424	–
Debt investments	728	726	2	900	892	8	751	745	6
Equity and other investments	50	53	(3)	104	82	22	176	170	6
Infrastructure investments	409	391	18	301	299	2	344	314	30
Net property investments ¹	1,515	1,290	225	1,422	1,235	187	1,334	1,173	161
Investment assets	3,051	2,809	242	3,123	2,904	219	3,029	2,826	203
Goodwill	88	88	–	88	88	–	88	88	–
Total assets	3,139	2,897	242	3,211	2,992	219	3,117	2,914	203
Policy liabilities	(2,138)	(2,072)	(66)	(2,239)	(2,176)	(63)	(2,311)	(2,230)	(81)
Other liabilities	(118)	(118)	–	(144)	(135)	(9)	(120)	(118)	(2)
Total liabilities	(2,256)	(2,190)	(66)	(2,383)	(2,311)	(72)	(2,431)	(2,348)	(83)
Net assets	883	707	176	828	681	147	686	566	120
Debt included in net property investments ¹	(287)	(261)	(26)	(358)	(335)	(23)	(349)	(331)	(18)
Reconciliation to prior period disclosures:									
AGAAP net assets							708	561	
AIFRS adjustments ²							(22)	5	
AIFRS net assets							686	566	

¹ Excludes the impact of consolidating the Challenger Infrastructure Fund (CIF)

² Historic cost AIFRS adjustment relates to the restatement of goodwill under AIFRS

Divisional Performance

Financial Planning

Appendix – 9

\$m	FY06	FY05	FY04	2H 06	1H 06	2H 05	1H 05 ¹	2H 04	1H 04
Income									
Net Total Investment Income	–	–	–	–	–	–	–	–	–
Fees received	155	132	61	80	75	69	63	31	30
Fees and commissions paid	(114)	(93)	(38)	(59)	(55)	(49)	(44)	(18)	(20)
Acquisition cost amortisation	–	–	–	–	–	–	–	–	–
Net fee income	41	39	23	21	20	20	19	12	11
Other income ²	2	1	–	(1)	3	1	–	–	–
Net income	43	39	23	20	23	21	19	12	11
Expenses									
Employee expenses	(20)	(19)	(12)	(10)	(10)	(10)	(10)	(6)	(6)
Other	(16)	(15)	(11)	(8)	(7)	(6)	(9)	(6)	(5)
Total expenses	(36)	(34)	(23)	(18)	(17)	(15)	(19)	(12)	(11)
EBIT	7	5	(1)	2	5	5	–	–	(1)
Expense to income	83.4%	86.8%	102.2%	91.5%	76.3%	73.7%	101.1%	98.4%	106.6%
EBIT margin	16.6%	13.2%	(2.2%)	8.5%	23.7%	26.3%	(1.1%)	1.6%	(6.6%)
Net fee income/Net income	95.6%	98.2%	100.0%	103.6%	88.6%	96.6%	100.0%	100.0%	100.0%
Other income/Net income	4.4%	1.8%	0.0%	(3.6%)	11.4%	3.4%	0.0%	0.0%	0.0%
Net assets (\$m) (opening balance)	144	130	n/a	–	–	–	–	–	–
RONA	4.9%	4.0%	n/a	–	–	–	–	–	–

¹ The acquisition of Associated Planners occurred in August 2004.

² Other income for Financial Planning includes non-recurring income such as gains/(losses) from sale or re-appraisal of values of investments.

Corporate

Appendix – 10

\$m	FY06	FY05	FY04	2H 06	1H 06	2H 05	1H 05 ¹	2H 04	1H 04
Income									
Net Income									
Expenses									
Employee expenses ¹	(20)	(17)	(15)	(11)	(9)	(8)	(8)	(5)	(10)
Other expenses	(3)	(8)	–	–	(3)	(4)	(4)	–	–
Total expenses	(23)	(24)	(15)	(11)	(12)	(12)	(12)	(5)	(10)
EBIT	(23)	(24)	(15)	(11)	(12)	(12)	(12)	(5)	(10)
Interest and borrowing costs	(35)	(17)	(11)	(22)	(13)	(8)	(9)	(8)	(3)
Significant items	(13)	–	–	(13)	–	–	–	–	–
Net Profit/(Loss) Before Tax	(71)	(41)	(26)	(46)	(25)	(20)	(21)	(13)	(13)
Tax²	(45)	(31)	(21)	(20)	(25)	(13)	(18)	(15)	(6)
Net Profit/(Loss) After Tax	(116)	(72)	(47)	(66)	(50)	(33)	(39)	(28)	(19)
Headcount – FTE	958	901	1,030	958	926	901	870	1,030	902

¹ LTIP amortisation under AIFRS commenced 1H 05

² Tax is reported at Group level

Group Assets and Loans under Management

Appendix – 11

Sm	2H06	1H06	2H05	1H05	2H04	1H04
Asset Management						
Assets managed for the Life company						
Property ¹	1,515	1,422	1,329	969	823	875
Debt investments (including hybrids) and cash	1,055	1,284	1,124	1,667	1,756	1,307
Infrastructure assets ²	409	301	344	271	--	--
Equity and other	97	108	153	104	72	169
Sub total	3,076	3,115	2,950	3,011	2,651	2,351
Funds						
CWT	295	298	288	273	253	242
CIF (adjusted equity value)	294	378	--	--	--	--
Sub total funds	589	676	288	273	253	242
Total – Assets under Management	3,665	3,791	3,238	3,284	2,904	2,593
Mortgage Management						
Residential	18,258	17,190	16,033	15,081	13,822	12,535
Commercial	2,643	2,516	2,438	2,466	2,407	2,203
Total Mortgages under Management	20,901	19,706	18,471	17,547	16,229	14,738
Funds Management						
Funds under Management	12,868	11,943	10,579	6,916	5,891	5,254
Financial Planning						
Funds under Administration ³	1,914	1,833	1,742	1,744	1,668	3,264
Adjustments⁴	(2,801)	(2,719)	(2,438)	(2,466)	(2,407)	(2,203)
Total assets and loans under management/admin.	36,547	34,554	31,592	27,025	24,285	23,646

Refer Quarterly Asset and Funds Under Management reports for greater detail

¹ Net senior debt (refer appendix 8.1 for details)

² Including investment in CIF

³ Funds under Administration for 1H 04 includes \$1,660 Corporate Superannuation Business which was subsequently sold

⁴ Adjustments reflect the prevention of double counting of cross holdings of Commercial Lending and Life Company investment in CIF (adjusted equity value)

Reconciliation of Wealth Management segment reporting to Funds Management and Financial Planning

Appendix – 12

\$m	FY 05	FY 04	1H 06	2H 05	1H 05	2H 04	1H 04
Wealth Management EBIT reported under AGAAP¹	0	(5)	n/a	5	1	(1)	(4)
Less: Acquisition restructure adjustments under AIFRS							
• HSBC Asset Management acquisition (FM)	(7)	–	n/a	(7)	–	–	–
• Associated Planners acquisition (FP)	(4)	–	n/a	–	(4)	–	–
Wealth Management EBIT reported under AIFRS²	(5)	(5)	12	(2)	(3)	(1)	(4)
Attribution to new corporate structure:							
Funds Management ³	(10)	(5)	7	(7)	(3)	(1)	(4)
Financial Planning ³	5	(1)	5	5	–	–	(1)
Rounding	–	–	–	–	–	–	1
	(5)	(6)	12	(2)	(3)	(1)	(4)

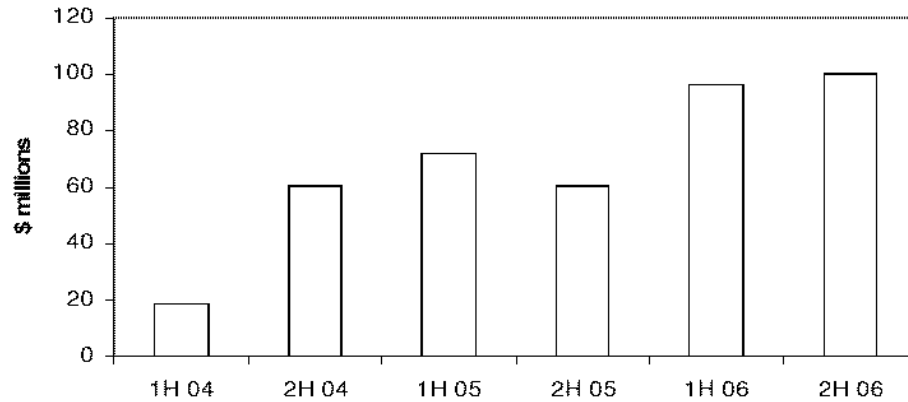
¹ As reported 16 September 05 Educational Briefing

² As reported Dec 05 Half Year Results

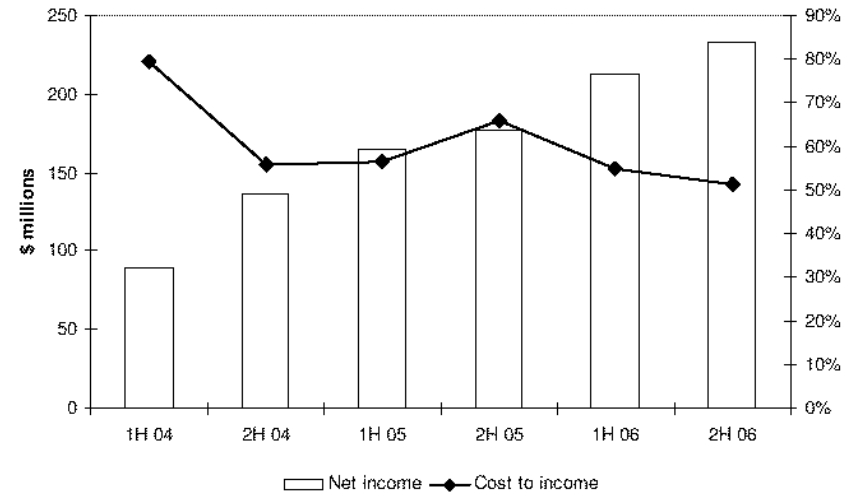
³ Financial Planning division now incorporates Synergy. In previous reporting packages certain supplementary information reported Synergy within the 'Funds Management' sub segment of Wealth Management.

Group EBIT & Operating Efficiency

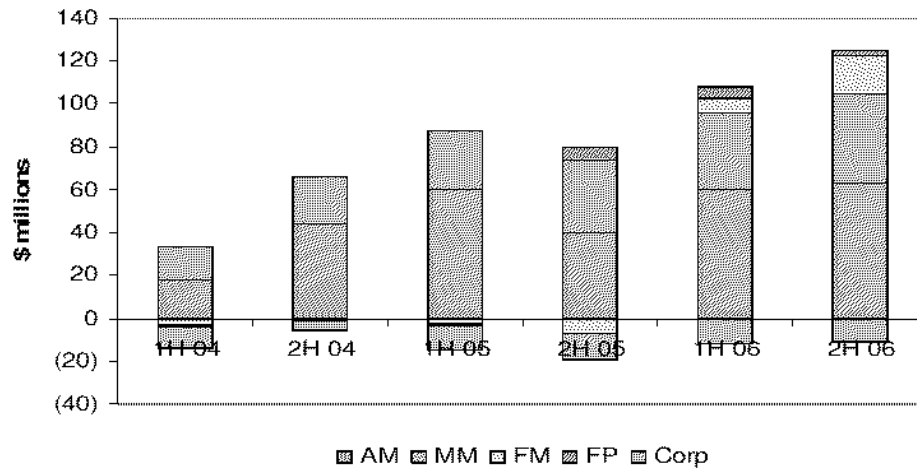
Group EBIT (Historic cost)



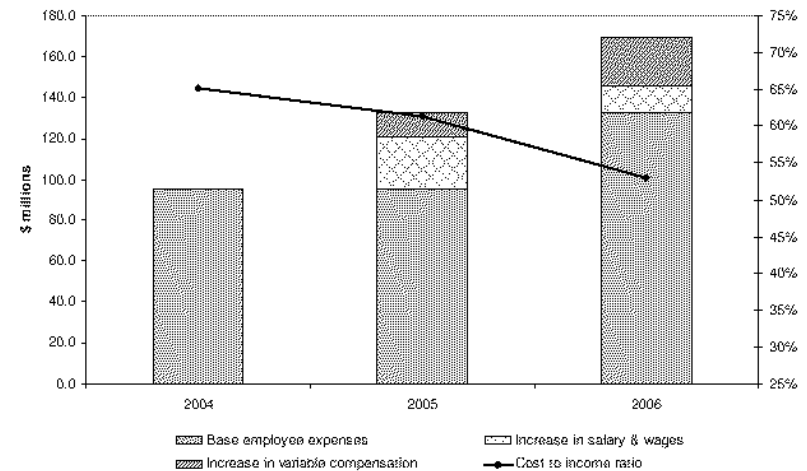
Operating efficiency



EBIT contribution by division

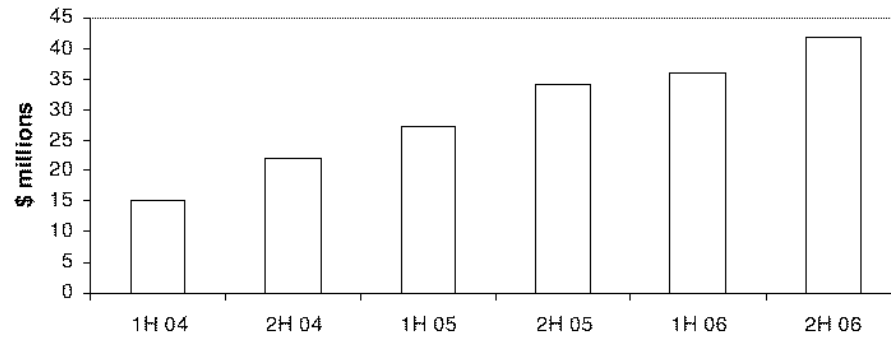


Employee Costs vs Efficiency

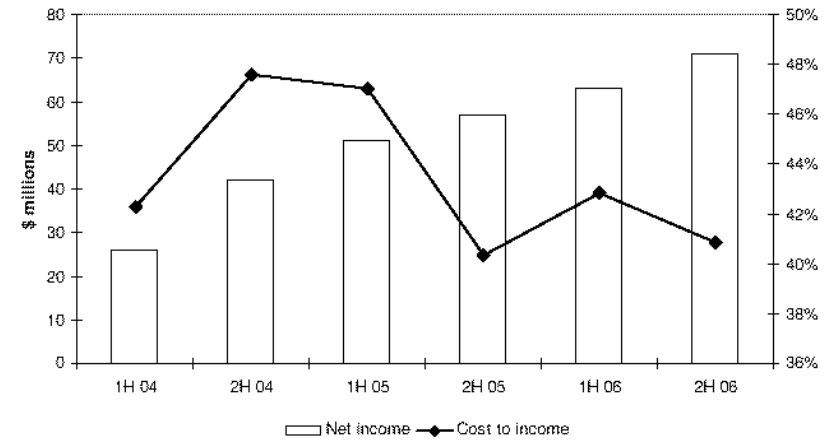


Divisional EBIT & Operating Efficiency

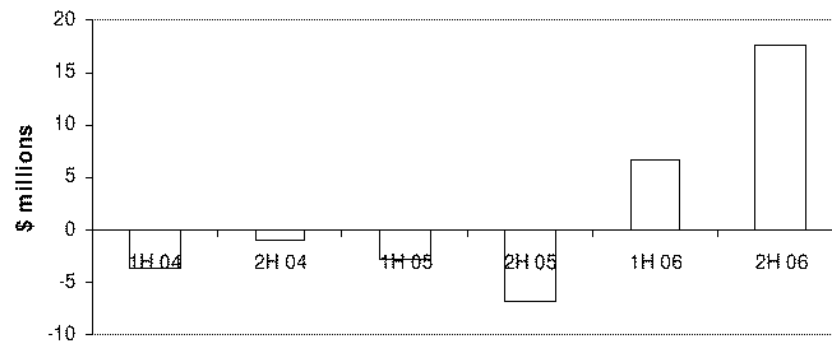
Mortgage Management EBIT



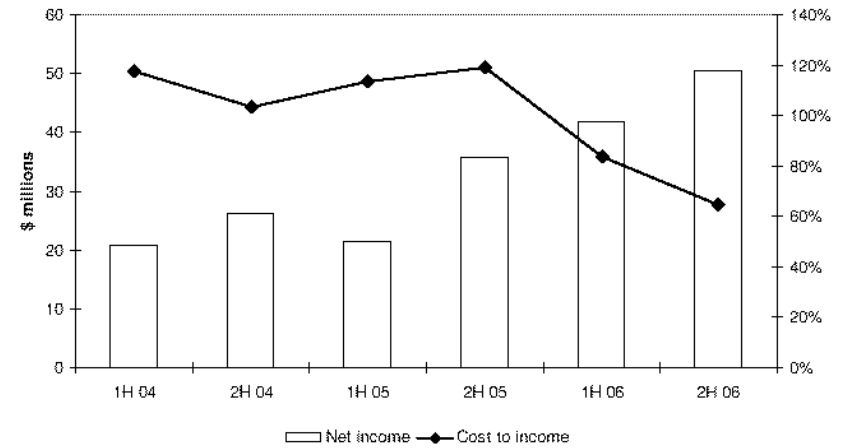
Operating efficiency - MM



Funds Management EBIT

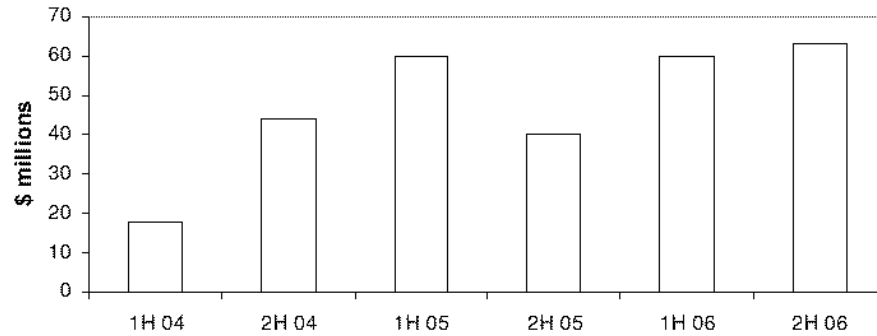


Operating efficiency - FM

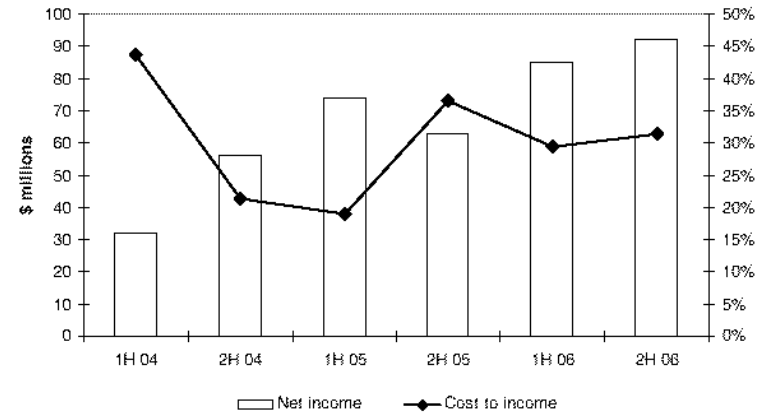


Divisional EBIT & Operating Efficiency

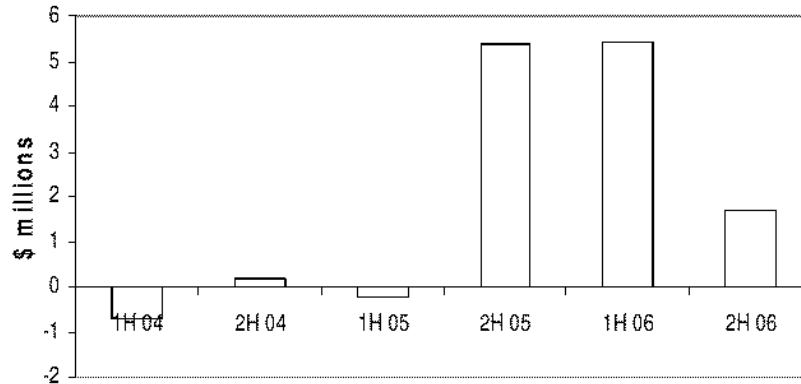
Asset Management EBIT (Historic cost)



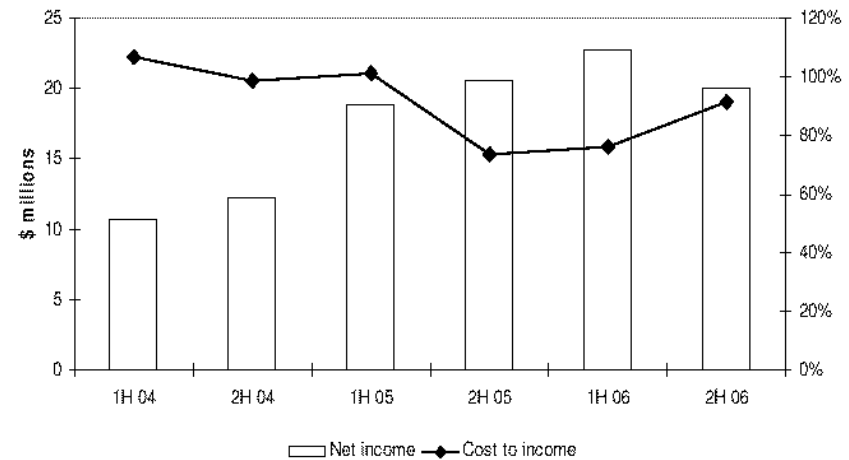
Operating efficiency - AM



Financial Planning EBIT



Operating efficiency - FP

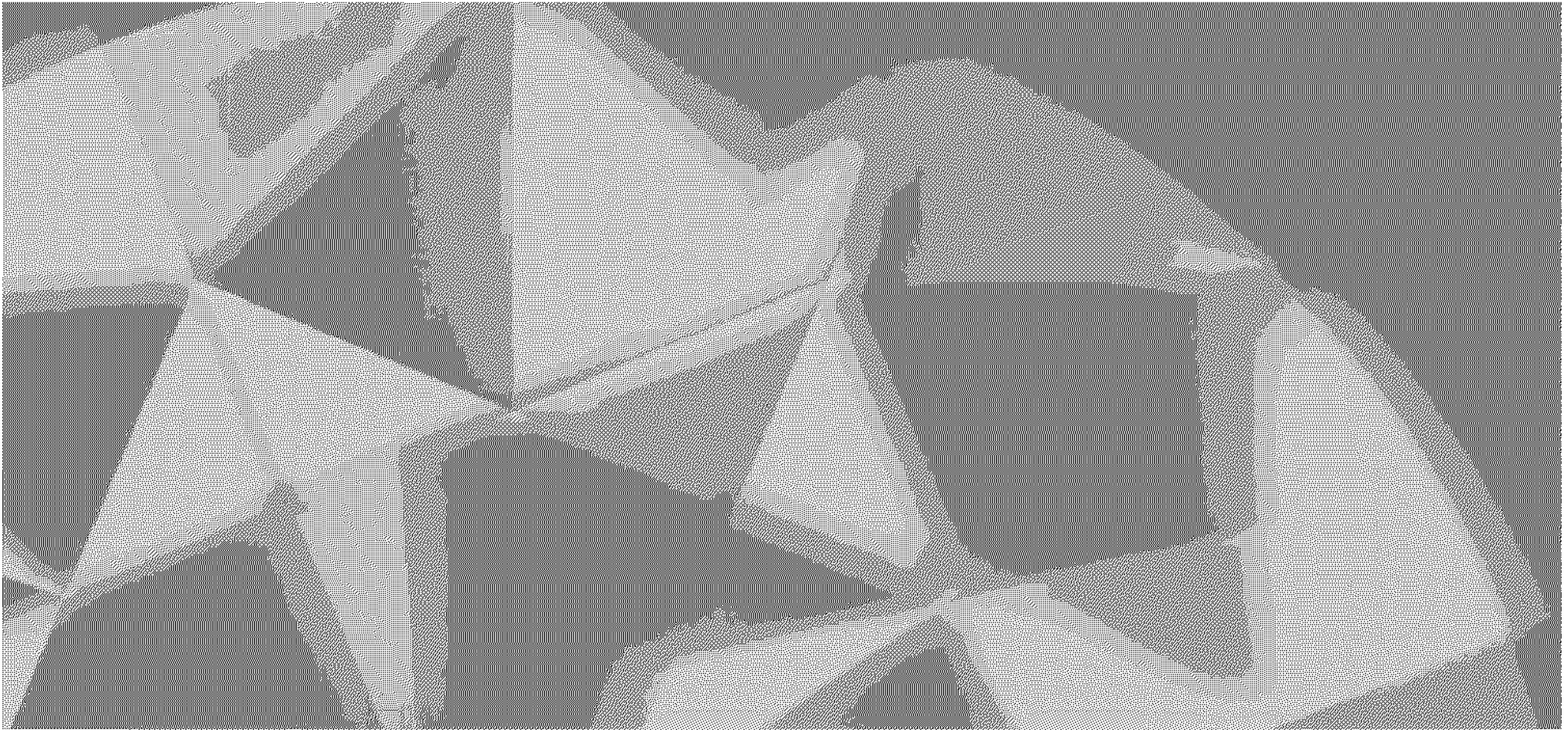


Glossary

MM	Mortgage Management division
FM	Funds Management division
AM	Asset Management division
FP	Financial Planning division
Corporate	All other non cash generating unit activity
Net rental income (AM only)	Gross rental income less trust expenses, financing costs directly associated with property, less management fees and performance fees
Investment income (AM only)	Income earned on investment portfolios (i.e. fixed interest and cash, infrastructure, equities and other) + profits / losses on fixed interest portfolios
Realised gains (AM only)	The net profit/(loss) on disposal of investment portfolio assets less fees
Interest paid and selling expenses (AM only)	Interest paid to annuitants + commissions and other costs paid to third parties to raise annuities
Net investment income (AM only)	Net rental income + investment income + realised gains less interest paid and selling costs
Fees received	AM – management fees, performance fees & advisory fees (net of asset origination costs) MM – management fees and excess spread fees earned on securitisation vehicles FM – management & performance fees FP – gross brokerage and platform income (Genesys) and administration fee income (Synergy)
Fees & commissions paid	MM – trailing expenses paid to mortgage originators. Accounted for on an accruals basis with cash flow closely aligned to accounting treatment. FM – upfront and trailing expenses paid to financial planners and advisers FP – commission represents Financial planners share of gross brokerage (Genesys) and commissions (Synergy) AM – note: included in interest paid and selling costs

Glossary

Acquisition cost amortisation (MM only)	Amortisation of upfront payments to mortgage originators (deferred acquisition costs) spread over expected average life of loans plus upfront capitalised bond issuance and securitisation costs (deferred portfolio costs) spread over the expected life of each securitisation pool so as to achieve an “effective yield” comparison. Amortisation rates are reviewed periodically.
Net fee income	Fees received less fees and commissions paid less acquisition cost amortisation
Other income	Includes non recurring income such as gains on sale or exit of non core businesses or assets
Net income	Net investment income + Net fee income + Other income
Employee expense	Includes fixed and variable incentive components of remuneration structures. Also includes the amortisation of employee share schemes as required under AIFRS (not required under AGAAP prior to FY05). The amortisation of LTIP is only reported within the Corporate section as Challenger’s practise is not to allocate these charges to each division.
Other expense	Unless disclosed otherwise, all non employee expenses.
Significant items	Non recurring or abnormal income or expense items within each reporting period. Purpose being to assist analysis of the normalised or underlying profit performance of Challenger.
Net Assets	An approximation of the net capital utilisation in each division. Net Assets (and RONA targets) are reset as at 1 July in each financial year.
Return on Net Assets (RONA)	EBIT divided by Net Assets expressed as a %. RONA concept was introduced from 1 July 2004 for FY05. Each division has a RONA target which is reset on 1 July each year.



Disclaimer: The material in this presentation is general background information about Challenger Financial Services Group activities and is current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with or without professional advice when deciding if an investment is appropriate.

