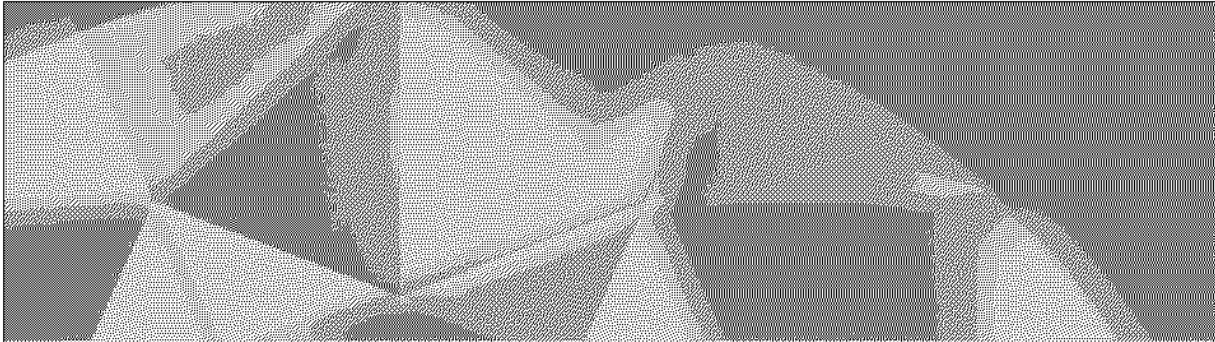




Challenger Financial Services Group Limited

Half-year results to 31 December 2006

Mike Tilley – Chief Executive Officer

26 February 2007



1

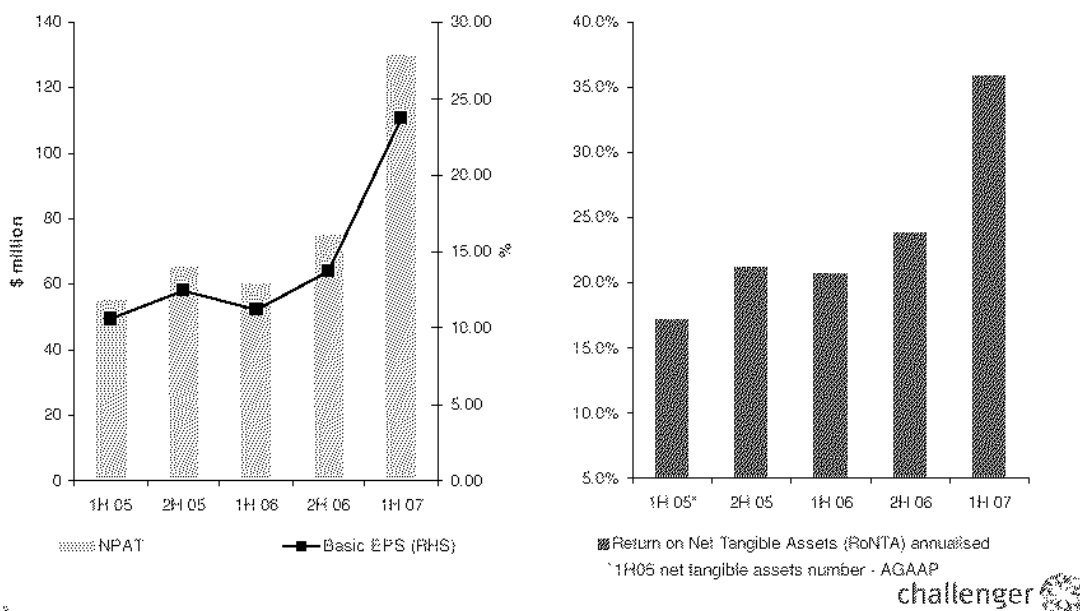
Challenger Group
31 December 2006

Record 1H07 statutory performance¹

- Strong but disciplined headline revenue growth across divisions
- Group NPAT of \$130m up 117%
- Assets under management of \$46.4bn up 18%
- Basic EPS of 23.7 cps up 112%
- Interim dividend of 5.0 cps fully franked
- Announced equity stake in Homeloans

² ¹ all comparatives against prior corresponding period (1H06) - 6 months ended 31 December 2005

Creating value for shareholders



3

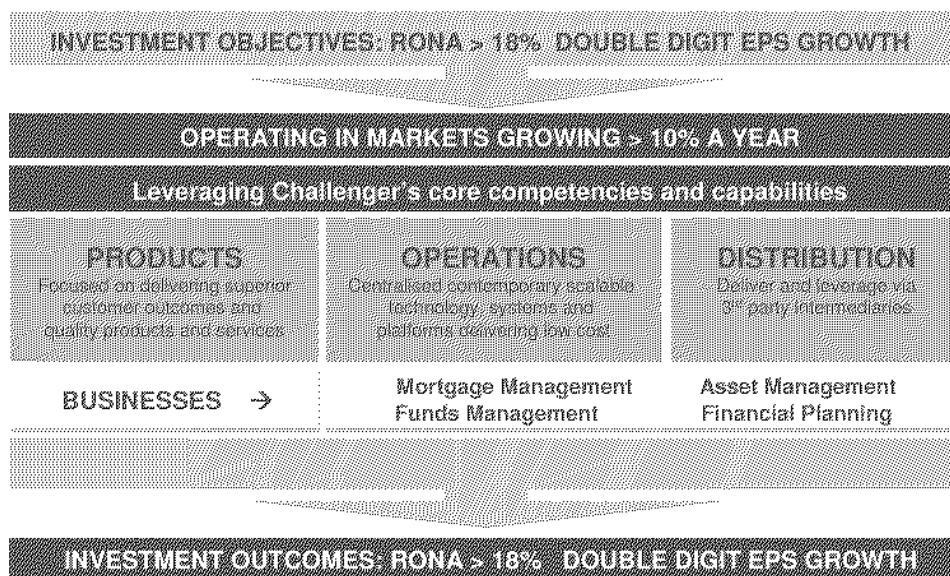
Challenger strategy

- To be an innovative and contemporary financial services organisation
- Based around:

Growing fee based income streams	✓
Operating where we have a comparative advantage	✓
Targeting growth markets	✓

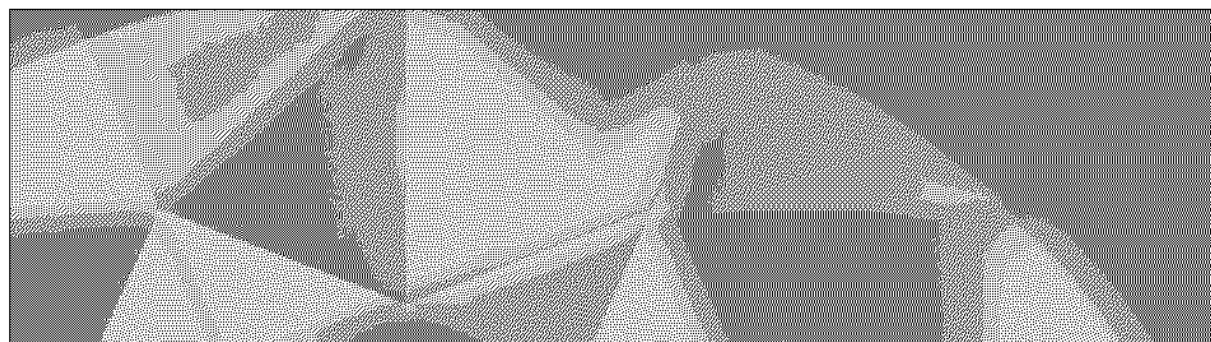
4

Contemporary business delivering value



5

challenger 



Challenger Financial Services Group Limited

Half-year results to 31 December 2006

Paul Rogan, Group Chief Financial Officer

26 February 2007

challenger 

6

Financial Results

challenger 

7

Challenger Group
31 December 2006

Financial highlights

Statutory

Financials	1H 07	2H 06	1H 06	% Δ 1H 07- 1H 06	Trend	% Δ 1H 07- 2H 06	Trend
Assets under Management	\$46.4bn	\$41.5bn	\$39.5bn	17.5%	↑	11.8%	↑
Net Income	\$324m	\$257m	\$220m	47.3%	↑	26.1%	↑
Expenses	\$145m	\$139m	\$117m	23.6%	↑	4.3%	↑
EBIT	\$179m	\$118m	\$103m	73.8%	↑	51.7%	↑
NPAT ¹	\$130m	\$75m	\$60m	116.7%	↑	73.3%	↑
Return on net tangible assets (RoNTA) ²	35.9%	23.8%	20.7%	73.4%	↑	50.8%	↑
EPS basic cps	23.7	13.7	11.2	111.6%	↑	73.0%	↑
EPS diluted cps	22.9	13.1	10.5	118.1%	↑	74.8%	↑

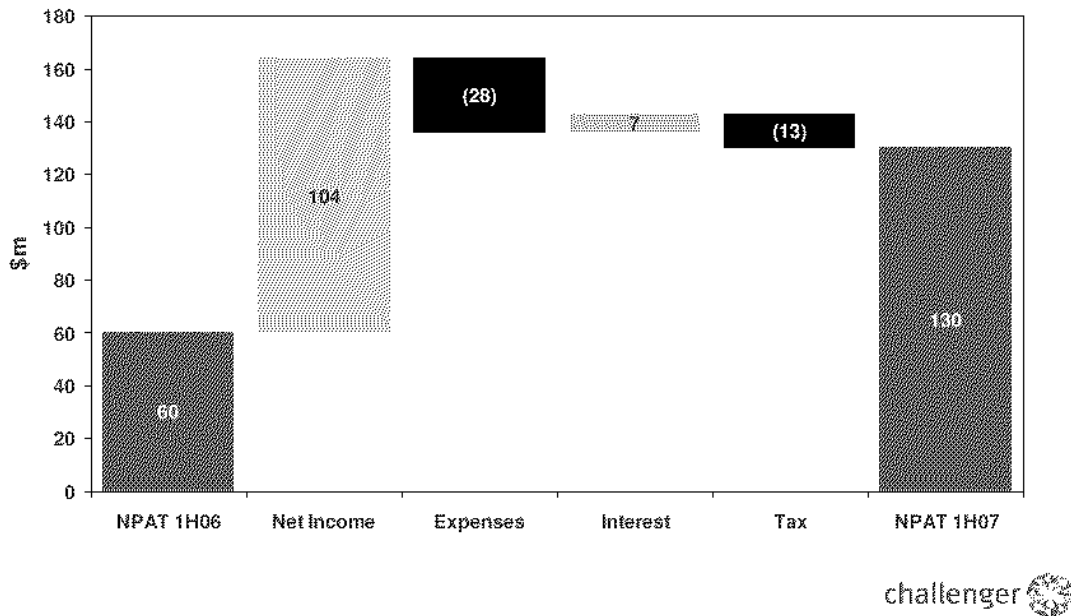
¹ ... refer appendix 2 for analysis of the profit result allowing for CIF impacts and other adjustments in each of the respective periods

² ... adjusted to remove CIF minorities in 1H06 and 2H06

challenger 

Financial summary

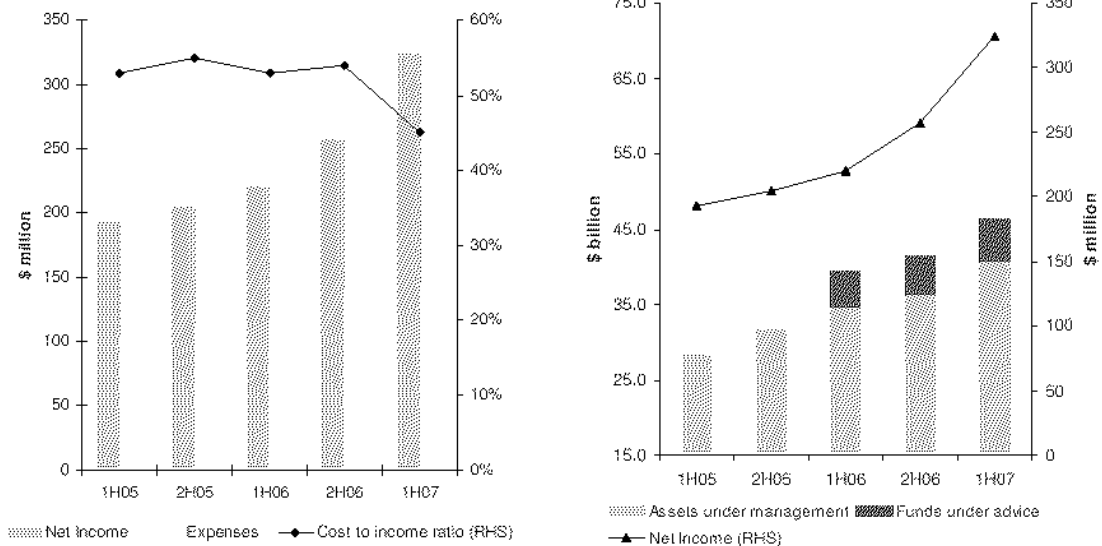
Statutory



9

Key performance trends

Statutory



10

Financial highlights

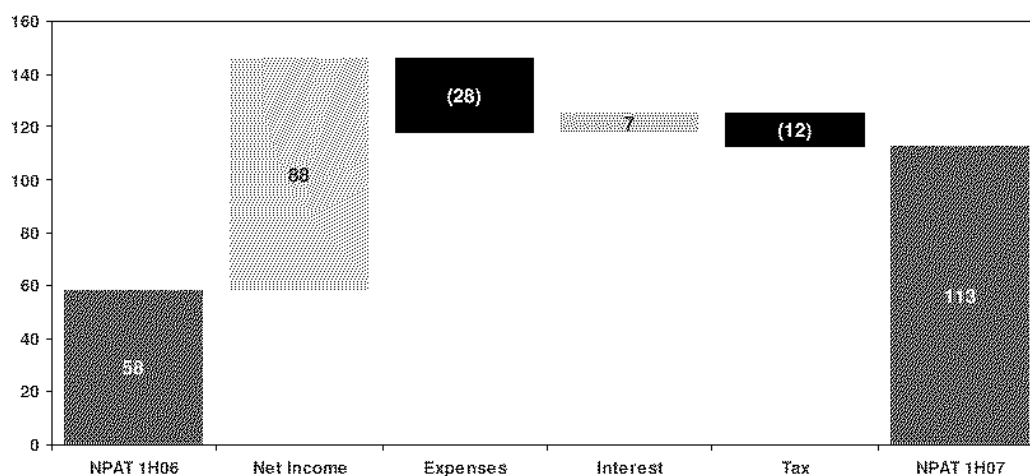
Historic cost

Financials	1H 07	2H 06	1H 06	% Δ 1H 07- 1H 06	Trend	% Δ 1H 07- 2H 06	Trend
Net Income	\$301m	\$235m	\$213m	41.3%	↑	28.1%	↑
Expenses	\$145m	\$135m	\$117m	23.9%	↑	7.4%	↑
EBIT	\$156m	\$100m	\$96m	62.5%	↑	56.0%	↑
NPAT ¹	\$113m	\$58m	\$58m	94.8%	↑	94.8%	↑

¹ - refer appendix 5 for analysis of the profit result allowing for CIF impacts and other adjustments in each of the respective periods

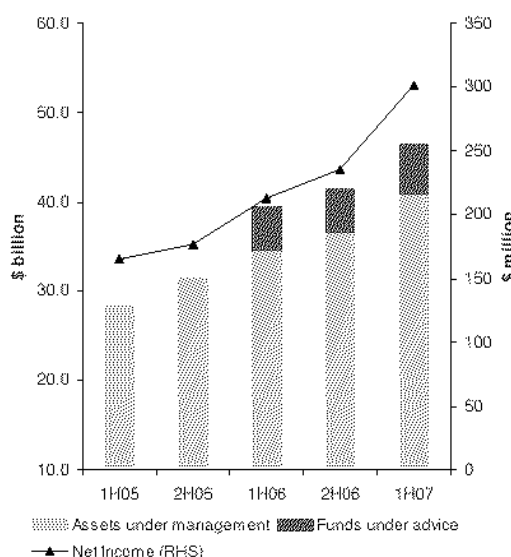
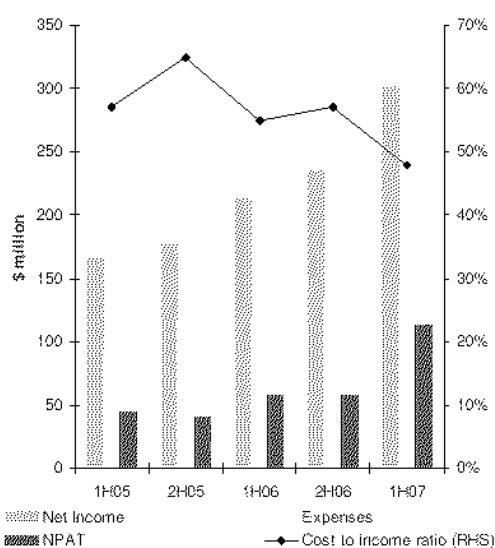
Financial summary

Historic cost



Key performance trends

Historic Cost

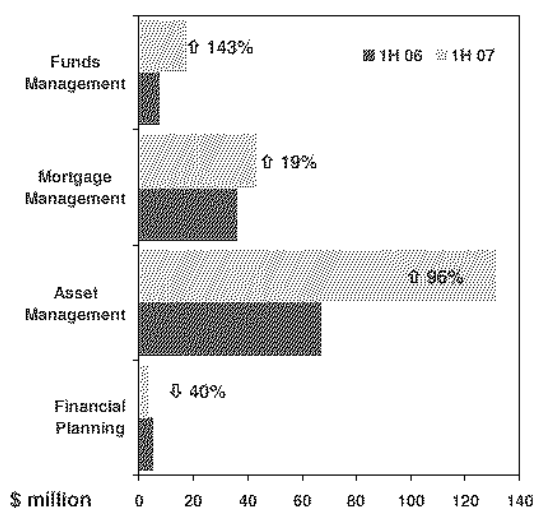


13

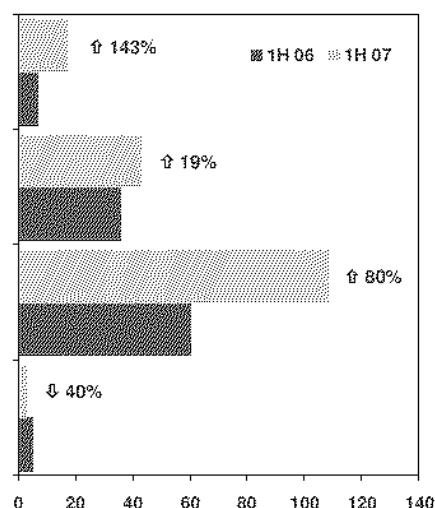
Growth in divisional contribution to EBIT

Statutory/Historic Cost

EBIT Statutory



EBIT Historic Cost



14

Divisional performance

challenger 

15

Funds Management

31 December 2006

Strong FUM flow underpins result

Financials	1H 07	2H 06	1H 06	% Δ 1H 07- 1H 06	Trend	% Δ 1H 07- 2H 06	Trend
Funds under Management ¹	\$15.5bn	\$12.9bn	\$11.9bn	30.3%	↑	20.2%	↑
Net Income	\$55m	\$50m	\$42m	31.0%	↑	10.0%	↑
Expenses	\$38m	\$33m	\$35m	8.6%	↑	15.2%	↑
EBIT	\$17m	\$18m	\$7m	142.9%	↑	-5.6%	↓
RONA ²	25.0%	27.0%	10.2%	145.1%	↑	-7.4%	↓
Net Assets ³	\$135m	\$131m	\$131m				

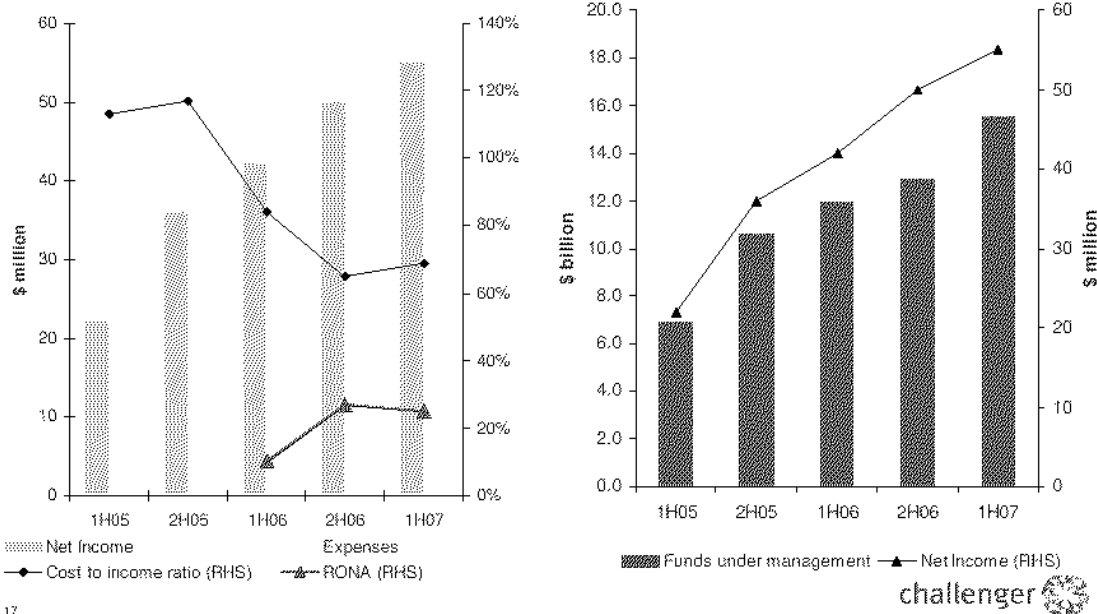
¹ ... includes boutique partnerships segregated mandates of \$523m

² ... annualised

³ ... as at 1 July 2006

challenger 

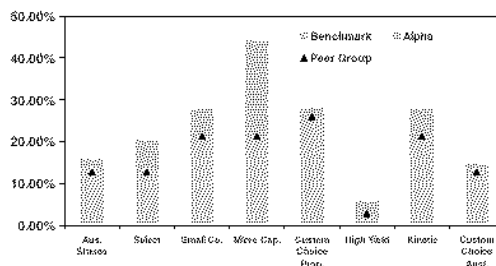
Key performance trends



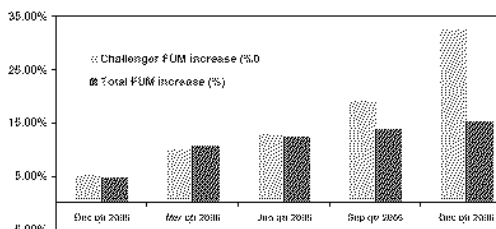
Alpha performance building momentum

- Continued solid alpha generation:
 - across asset sectors
 - across strategies
- Strong growth against industry FUM illustrating distribution footprint continuing to broaden
- Continued growth in "Buy" ratings and platform presence

Alpha generation across sectors / strategies



Challenger FUM increase compared to industry total FUM increase (%) cumulative

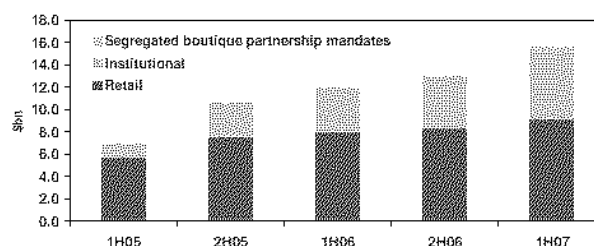


Source: ABS Managed Funds Quarterly Surveys and Challenger (Dec ABS data unavailable. Sep utilized as proxy)

Significant progress in diversification of growing FUM

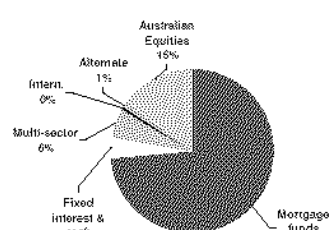
- FUM building well
 - 43% CAGR since 2004
 - 1H07 growth of \$3.6bn (30%) to \$15.5bn

Funds under management

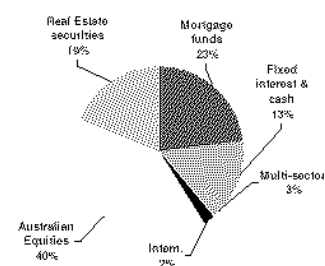


- Diversification
 - By asset sector
 - By business strategy
 - Retail
 - Institutional
 - Boutique Partnerships¹

FUM by asset class ~ Jun 2003



FUM by asset class ~ Dec 2006

challenger 

19

¹ -- currently includes Five Oceans, Kinetic, Greencap and Kapsteam Capital (to be launched in 2H07)

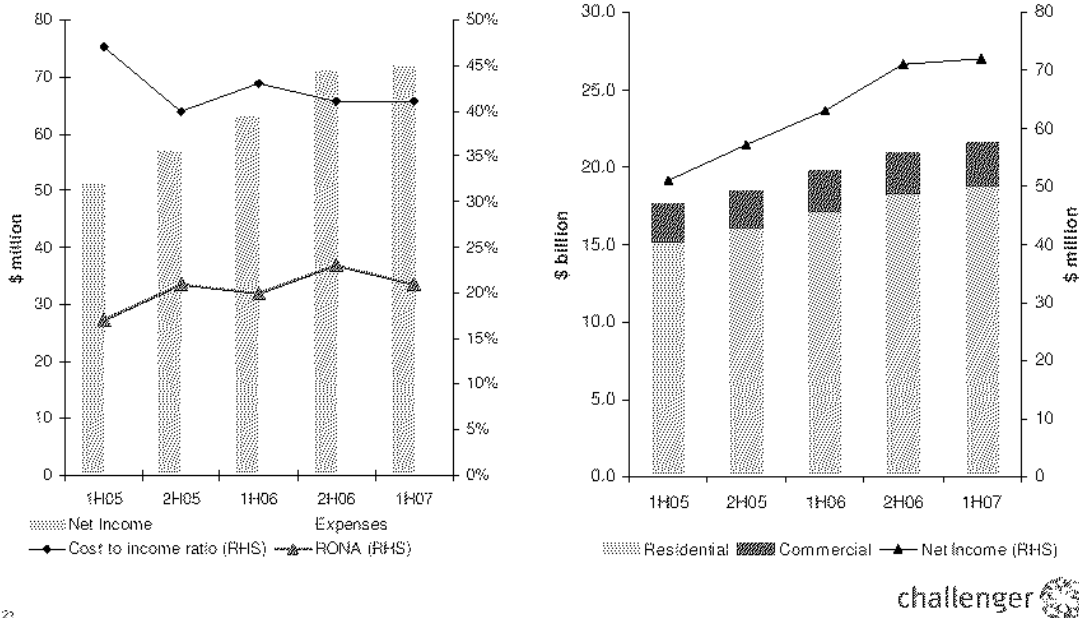
Established and resilient portfolio

Financials	1H 07	2H 06	1H 06	% Δ 1H 07- 1H 06	Trend	% Δ 1H 07- 2H 06	Trend
Residential mortgages under management	\$18.8bn	\$18.3bn	\$17.2bn	8.3%	↑	2.7%	↑
Commercial mortgages under management	\$2.8bn	\$2.6bn	\$2.5bn	12.0%	↑	7.7%	↑
Net Income	\$72m	\$71m	\$63m	14.3%	↑	1.4%	↔
Expenses	\$29m	\$29m	\$27m	7.4%	↑	0.0%	↔
EBIT	\$43m	\$42m	\$36m	18.4%	↑	2.4%	↑
RONA ¹	20.8%	23.3%	20.0%	4.0%	↑	-10.7%	↓
Net Assets ²	\$412m	\$360m	\$360m				

¹ - annualised² -- as at 1 July 2006challenger 

20

Key performance trends

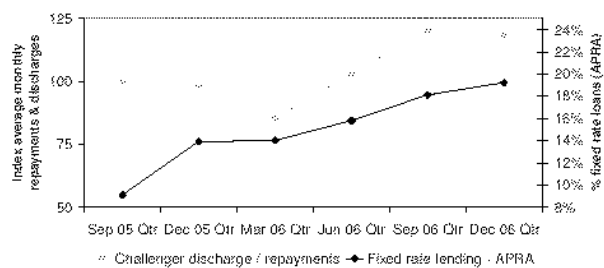


23

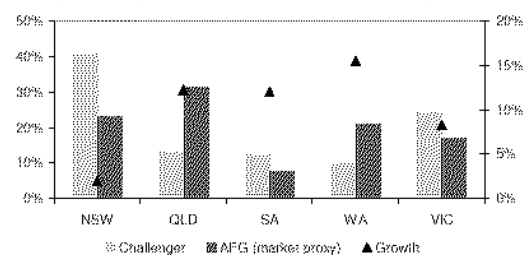
Cyclical macro environment

- Slowing growth driven by:
 - Fear of rising interest rates driving shift into fixed rate products
 - Concern over household debt levels leading to higher levels of unscheduled repayments
 - Underweight the market of Western Australia

Repayments & discharges versus fixed rate lending



Challenger flow by state ~ versus AFG (market proxy)



challenger

22

Equity stake in Homeloans

- Challenger has agreed to invest \$44.7m to subscribe for new shares in Homeloans¹
 - Initial tranche of 8.3m shares at 80 cents per share
 - Subsequent tranche of 31.7m shares at \$1.20 per share subject to Homeloan shareholder approval
- Following the issue of shares, Challenger will have approximately a 40% interest in Homeloans
- Homeloans is a Perth based ASX listed mortgage originator with strong mortgage flows of approximately \$120m per month
- Challenger believes there is a significant opportunity to increase scale through growth and consolidation in non-bank distribution
- Transaction is funded from internal capital resources and is EPS accretive in FY2008

23 ¹ - ASX code 'HOM'

challenger 

Focused on quality assets

Statutory

Financials	1H 07	2H 06	1H 06	% Δ 1H 07- 1H 06	Trend	% Δ 1H 07- 2H 06	Trend
Assets under Management	\$5.3bn	\$3.7bn	\$3.8bn	39.5%	↑	43.2%	↑
Net Income	\$170m	\$116m	\$92m	84.8%	↑	46.6%	↑
Expenses	\$39m	\$29m	\$25m	56.0%	↑	34.5%	↑
EBIT	\$131m	\$87m	\$67m	95.5%	↑	50.6%	↑
RONA ¹	29.6%	25.4%	19.5%	51.8%	↑	16.5%	↑
Net Assets ²	\$883m	\$686m	\$686m				

¹ -- annualised

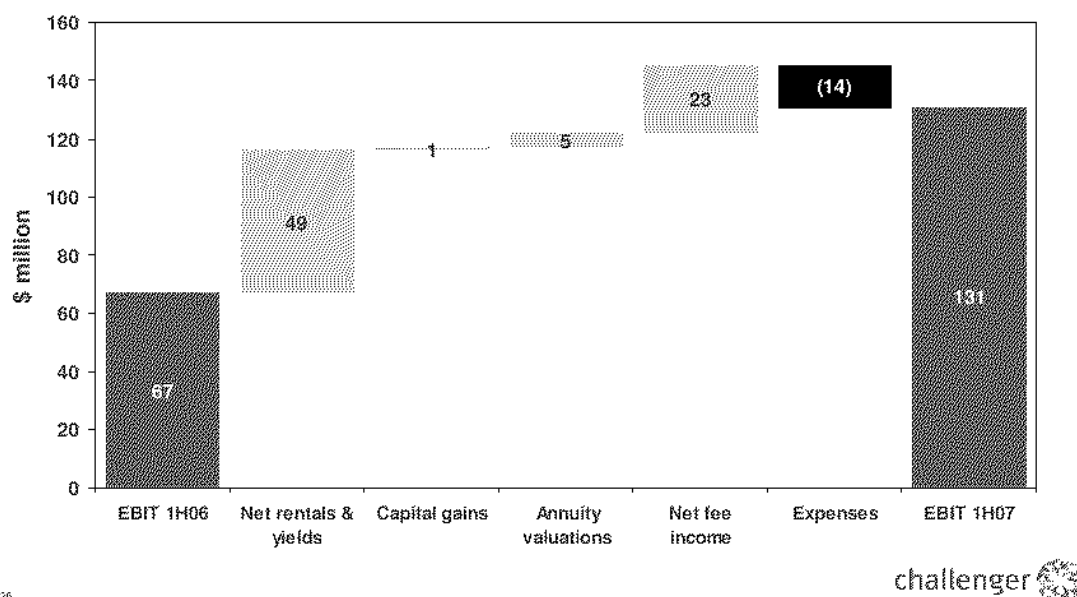
² -- as at 1 July 2006

24

challenger 

EBIT Contribution

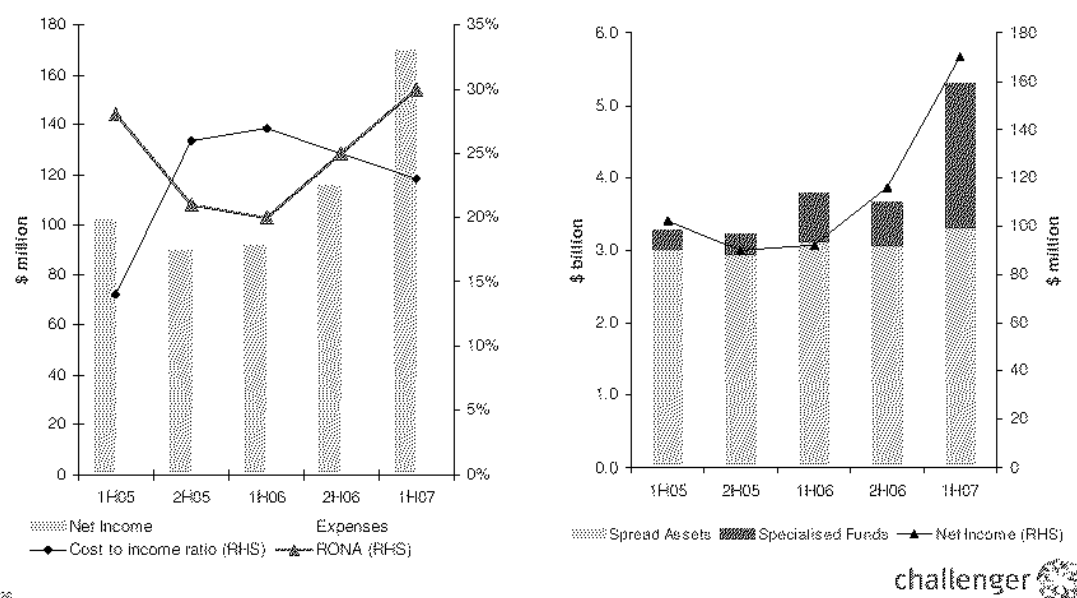
Statutory



26

Key Performance Trends

Statutory



26

Asset Management

Historic Cost

Financials	1H 07	2H 06	1H 06	% Δ 1H 07- 1H 06	Trend	% Δ 1H 07- 2H 06	Trend
Net Income	\$147m	\$92m	\$85m	72.9%	↑	59.8%	↑
Expenses	\$39m	\$29m	\$25m	56.0%	↑	34.5%	↑
EBIT	\$108m	\$63m	\$60m	80.0%	↑	71.4%	↑
RONA ¹	30.5%	22.5%	21.4%	42.5%	↑	35.6%	↑
Net assets ²	\$707m	\$561m	\$561m				

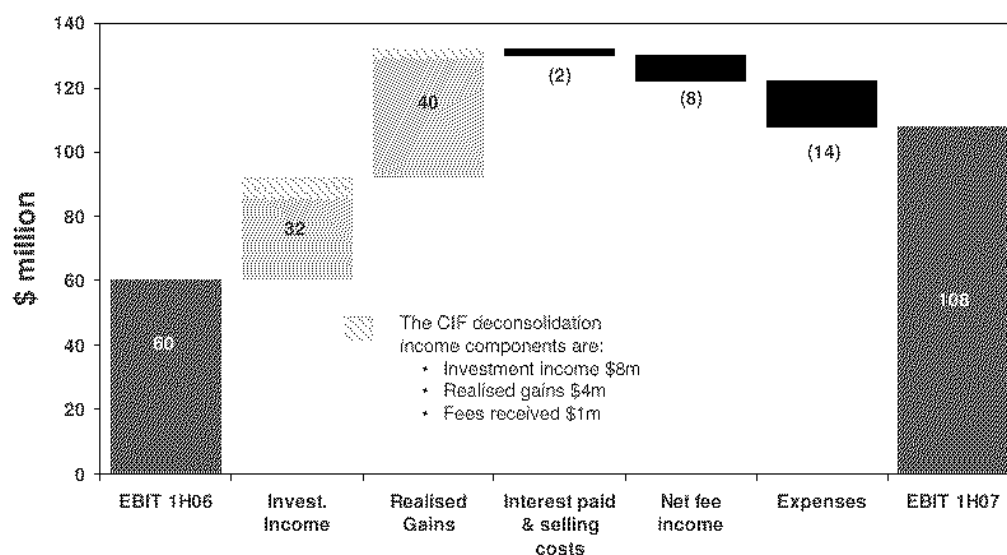
¹ -- annualised
² -- as at 1 July 2006

27

challenger 

Asset Management

Historic Cost

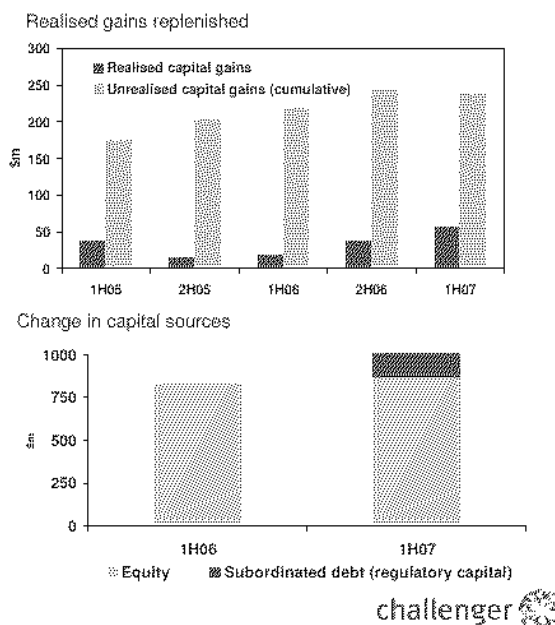


28

challenger 

Spread business securing opportunities for continued growth

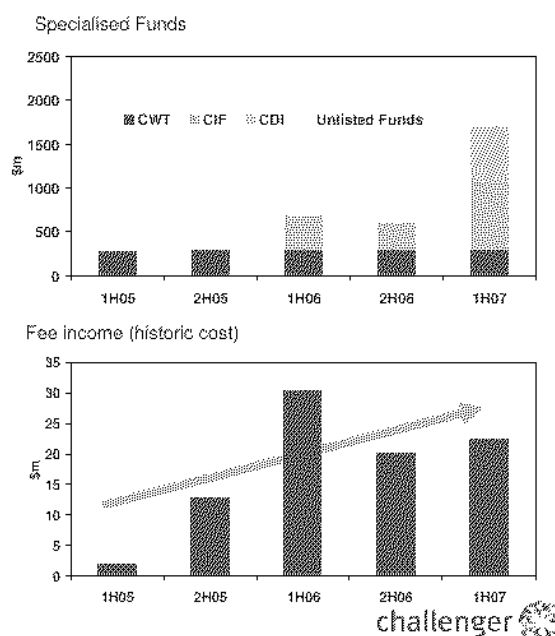
- Active investment strategy focused on total return
- Continued capital growth
- Realising opportunities to source alternative capital to secure continued growth and lower weighted average cost of capital
 - \$200m property leverage
 - US\$150m sub-debt



29

Fee business gains momentum

- Creating key platforms for growth with continued product roll out & re-rating
 - CDI
 - CIF second installment
 - Unlisted property
- Growth in fee income



30

Re-focused on value drivers

Financials	1H 07	2H 06	1H 06	% Δ 1H 07- 1H 06	Trend	% Δ 1H 07- 2H 06	Trend
Funds under administration & advice ¹	\$7.7bn	\$6.8bn	-	-	↑	13.2%	↑
Net Income	\$24m	\$20m	\$23m	4.3%	↑	20.0%	↑
Expenses	\$21m	\$18m	\$17m	23.5%	↑	16.7%	↑
EBIT	\$3m	\$2m	\$5m	-40.0%	↓	50.0%	↑
RONA ²	4.5%	2.4%	7.5%	-40.0%	↓	87.5%	↑
Net Assets ³	\$146m	\$144m	\$144m				

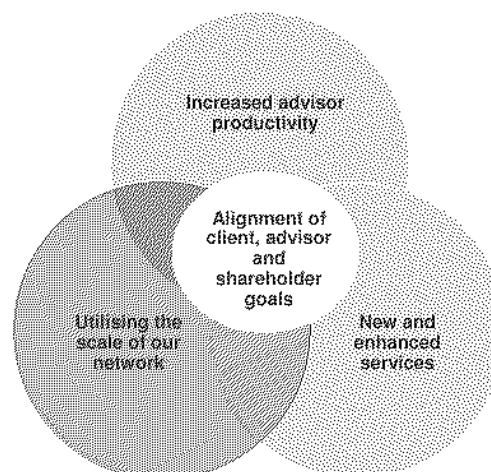
¹ ... includes revenue generating funds under advice in 1H07/2H06 ... pre-2H06 data is not available

² ... annualised

³ ... as at 1 July 2006

Initial steps towards 2009

- Strategic review for Financial Planning completed during 1H07 and endorsed by the Board
- Key findings from review noted an opportunity to 'industrialize' the business and that better alignment on value drivers was required
- Roll-out of review changes to reposition the business - commencing 1 July 2007
- Remain committed to reaching 18% RONA target by 2009



Investing today to develop contemporary, scalable platforms for tomorrow

- ◊ Investment in support services lifting expenses \$5m relating to:
 - management reporting tools
 - automated reconciliations
 - new HR system
 - process re-engineering
- ◊ As well as:
 - clearing tax backlogs
 - capital management initiatives

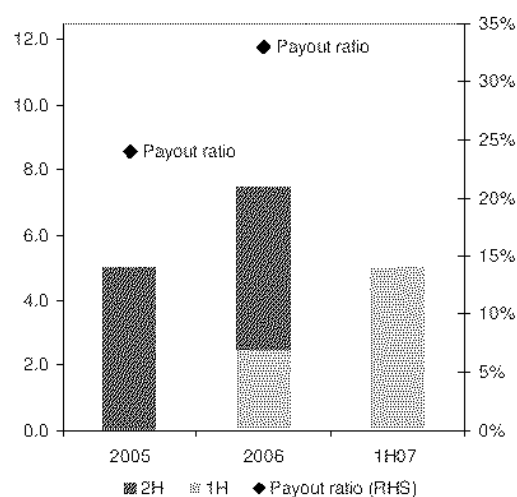
Capital management disciplines

- ◊ Disciplined approach to deployment of capital
- ◊ Priority for usage of surplus continues to be investment in businesses generating RONA of 18% or greater
- ◊ Minimum 30% annualised dividend payout ratio policy
- ◊ Conservative gearing to ensure financial flexibility

1H07 Dividend

- * 2007 Interim dividend declared
 - 5 cents per share
 - fully franked
 - paid out of profits for the period ended 31 December 2006
- * Key dates
 - record date 28 March 2007
 - ex date 22 March 2007
 - payment date 20 April 2007

Dividends – cents per share (cps)



Introduction of contemporary long term incentive scheme

- * Suspended further awards under LTIP, existing awards to be grandfathered
- * Contemporary long term incentive and retention scheme introduced
 - Performance share rights
 - Hurdled executive share options
 - * TSR – upper quartile performance; or
 - * EPS¹ – 10% growth or better
- * Flexibility to acquire shares on market to avoid dilution

¹ – Basic EPS

Challenger Financial Services Group Limited

Half-year results to 31 December 2006

Mike Tilley – Chief Executive Officer

26 February 2007



37

Challenger Group
31 December 2006

Outlook

- Our contemporary platforms continue to build fee based income streams and our assets and funds under management will continue to grow
- We are committed to the success of our customers and are working to build stronger relationships and provide better service
- Continued investments in people, processes and systems
- We are committed to maintain strong discipline in all our activities
- We are bringing these disciplines to our Financial Planning business and the results of this will be seen in 2H08
- We remain committed to delivering > 18% RONA from our businesses and double digit EPS growth in the long term



38

Appendices



Consolidated profit and loss

Statutory – Management presentation

APPENDIX 1
Challenger Group
31 December 2006

Challenger Group					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05
Income					
Net rental income	40.7	46	49	33	30
Investment income	110.0	46	53	69	71
Capital gains/(losses) ¹	23.8	56	23	29	107
Movement in policy liabilities	(43.6)	(53)	(49)	(55)	(107)
Net investment income	130.9	95	76	76	101
Fees received	347.4	310	280	249	209
Fees & commissions paid	(115.3)	(111)	(104)	(92)	(87)
Acquisition cost amortisation	(41.9)	(37)	(37)	(32)	(30)
Net fee income	190.2	162	138	126	92
Other income	2.4	0	5	2	0
Net income	323.5	257	220	204	193
Expense					
Employee expenses	(99.7)	(85)	(78)	(73)	(59)
Purchased services	(9.1)	(7)	(11)	(6)	(5)
Occupancy expense ²	(6.5)	(21)	(6)	(7)	(5)
IT	(6.7)	(6)	(5)	(5)	(4)
Other expenses	(22.8)	(20)	(17)	(22)	(29)
Total operating expenses	(144.8)	(139)	(117)	(113)	(102)
EBIT	178.7	118	103	91	91
Interest & borrowing costs	(5.9)	(22)	(13)	(8)	(9)
Net profit before tax	172.8	96	90	83	82
Tax	(42.9)	(21)	(30)	(18)	(27)
Net profit after tax	129.9	75	60	65	55
Performance					
Cost to income	44.8%	54.0%	53.1%	55.3%	53.0%
EBIT margin	55.2%	46.0%	46.9%	44.7%	47.0%
Net investment income/Net income	40.5%	36.9%	34.6%	37.3%	52.3%
Net fee income/Net income	58.8%	63.1%	63.1%	61.6%	47.7%
Other income/Net income	0.7%	0.0%	2.3%	1.0%	0.1%
Effective tax rate	24.8%	21.9%	35.9%	21.7%	33.0%
Average net tangible assets	721	630	579	622	636
Return on net tangible assets	35.9%	23.8%	20.7%	21.2%	17.2%

¹ Includes realised and revaluation movements on investment portfolios. Includes impact of significant items (2H 06 \$1m and 1H 06 \$(15m)) and minority interests (1H 07 \$21m, 2H 06 \$(3m) and 1H 06 \$(7m)).

² 2H 06 includes significant item of \$13m of Hilton rent costs.

Adjusted result

Statutory – post tax

APPENDIX 2
Challenger Group
31 December 2006

Adjusted Statutory						
\$m	1H 07	FY 06	2H 06	1H 06	% Δ 1H 07 - 1H 06	% Δ 1H 07 - 2H 06
Challenger Group						
NPAT	130	136	75	60	115%	72%
Adjustments						
Other (non recurring) income	-	(5)	-	(5)		
Hilton	-	13	13	-		
CIF deconsolidation ¹	(39)	48	16	32		
Variable incentives	5	(5)	(2)	(3)		
Tax effect	8	(15)	(6)	(9)		
Total adjustments	(26)	36	21	15		
Adjusted NPAT	104	172	97	76	38%	8%
Divisional Allocation						
Funds Management	-	(3)	-	(3)		
Mortgage Management	-	-	-	-		
Asset Management	(24)	32	9	23		
Financial Planning	-	(3)	-	(3)		
Corporate	(10)	24	18	6		
Tax effect	8	(15)	(6)	(9)		
Total adjustment	(26)	36	21	15		

¹ Final profit on deconsolidation of CIF post audit review. 1H 07 result of \$39m is lower than \$43m indicated in November 2006 disclosure due to underestimation of tax effects.

CIF deconsolidation reconciliation

Statutory

APPENDIX 3
Challenger Group
31 December 2006

CIF Statutory Reconciliation \$millions	1H 07			FY 06			2H 06			1H 06		
	Stat	CIF	Net	Stat	CIF	Net	Stat	CIF	Net	Stat	CIF	Net
Asset Management												
Net rental income	41	-	41	95	-	95	46	-	46	49	-	49
Investment income ^{1*}	110	(12)	98	99	20	119	46	9	55	53	11	64
Realised gains ²	24	-	24	79	-	79	56	-	56	23	-	23
Interest paid and selling costs	(44)	-	(44)	(102)	-	(102)	(53)	-	(53)	(49)	-	(49)
Net investment income	131	(12)	119	171	20	191	95	9	104	76	11	87
Net fee income ³	39	(17)	22	37	17	54	21	2	23	16	15	31
Net income	170	(29)	141	208	37	245	116	11	127	92	26	118
Total operating expenses	(39)	-	(39)	(54)	-	(54)	(29)	-	(29)	(25)	-	(25)
EBIT	131	(29)	102	154	37	191	87	11	98	67	26	93
Corporate												
Interest expense ⁴	(6)	(10)	(16)	(35)	11	(24)	(22)	5	(17)	(13)	6	(7)
Total CIF Impact Before Tax and Variable Incentives		(39)	86		48	167		16	81		32	86

* Incorporates significant items and minorities adjustment

Footnotes \$millions	1H 07	FY 06	2H 06	1H 06
1. Challenger share of CIF (profit)/ loss before CIF equity				
Bridge facility costs	(3)	2	(1)	3
CIF distribution received	18	18	10	8
Transaction costs	(3)	-	-	-
	12	20	9	11
2. Deferred net gain on seed assets	-	-	-	-
3a. CIF management fees eliminated	3	3	2	1
3b. CMSL advisory fee	14	14	-	14
	17	17	2	15
4. Challenger share of CIF equity bridge facilities	9	10	5	5
Bridge interest income eliminated	1	1	-	1
	10	11	5	6

Consolidated profit and loss

Historic Cost¹

APPENDIX 4
Challenger Group
31 December 2006

Challenger Group					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05
Income					
Net rental income	46.8	46	49	27	28
Investment income	83.7	50	50	67	71
Net realised gains/(losses)	56.7	36	17	15	36
Interest paid & selling costs	(62.5)	(61)	(61)	(60)	(62)
Net investment income	124.7	71	55	49	73
Fees received	330.7	310	294	249	209
Fees & commissions paid	(115.3)	(111)	(104)	(92)	(87)
Acquisition cost amortisation	(41.9)	(37)	(37)	(32)	(30)
Net fee income	173.5	162	152	126	92
Other income	2.4	2	5	2	0
Net income	300.6	235	213	177	165
Expense					
Employee expenses	(99.7)	(85)	(78)	(73)	(59)
Purchased services	(9.1)	(7)	(11)	(6)	(5)
Occupancy expense ²	(6.5)	(21)	(6)	(7)	(5)
IT	(6.7)	(6)	(5)	(5)	(4)
Other expenses	(22.7)	(16)	(17)	(25)	(20)
Total operating expenses	(144.7)	(135)	(117)	(116)	(93)
EBIT	155.9	100	96	61	72
Interest & borrowing costs	(5.9)	(22)	(13)	(8)	(9)
Net profit before tax	150.0	78	83	53	63
Tax	(37.2)	(20)	(25)	(13)	(18)
Net profit after tax	112.9	58	58	40	45
Performance					
Cost to income	48.1%	57.3%	54.8%	65.5%	56.5%
EBIT margin	51.9%	42.7%	45.2%	34.5%	43.5%
Net investment income/Net income	41.5%	30.2%	25.9%	27.7%	44.2%
Net fee income/Net income	57.7%	68.9%	71.7%	71.1%	55.8%
Other income/Net income	0.8%	0.9%	2.4%	1.2%	0.1%
Effective tax rate	24.8%	25.5%	30.1%	24.5%	28.6%

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 2H 06 includes significant item of \$13m of Hilton rent costs.

Adjusted result

Historic Cost – pre tax

APPENDIX 5
Challenger Group
31 December 2006

Adjusted Historic Cost						
\$m	1H 07	FY 06	2H 06	1H 06	% Δ 1H 07 - 1H 06	% Δ 1H 07 - 2H 06
Challenger Group						
NPBT	150	161	78	83	81%	91%
Adjustments						
Other (non recurring) income	-	(5)	-	(5)		
Hilton	-	13	13	-		
CIF/Inexus	(23)	27	13	14		
Variable incentives	5	(5)	(2)	(3)		
	(18)	30	24	6		
Average realised gains ¹	(24)	-	(7)	7		
Total adjustments	(42)	30	17	13		
Adjusted NPBT	108	191	95	96	13%	13%
Divisional Allocation						
Funds Management	-	(3)	-	(3)		
Mortgage Management	-	-	-	-		
Asset Management	(32)	11	(1)	12		
Financial Planning	-	(3)	-	(3)		
Corporate	(10)	24	18	6		
Total adjustment	(42)	30	17	13		

¹ Actual annual realised gains split 50/50.

CIF deconsolidation reconciliation

Historic Cost

APPENDIX 6
Challenger Group
31 December 2006

CIF Historic Cost Reconciliation	1H 07			FY 06			2H 06			1H 06		
\$millions	HC	CIF	Net	HC	CIF	Net	HC	CIF	Net	HC	CIF	Net
Asset Management												
Net rental income	47	-	47	95	-	95	46	-	46	49	-	49
Investment income**	84	(8)	76	100	11	111	50	8	58	50	3	53
Realised gains ²	57	(4)	53	53	4	57	36	-	36	17	4	21
Interest paid and selling costs	(63)	-	(63)	(122)	-	(122)	(61)	-	(61)	(61)	-	(61)
Net investment income	125	(12)	113	126	15	141	71	8	79	55	7	62
Net fee income ³	22	(1)	21	51	1	52	21	-	21	30	1	31
Net income	147	(13)	134	177	16	193	92	8	100	85	8	93
Total operating expenses	(39)	-	(39)	(54)	-	(54)	(29)	-	(29)	(25)	-	(25)
EBIT	108	(13)	95	123	16	139	63	8	71	60	8	68
Corporate												
Interest expense ⁴	(6)	(10)	(16)	(35)	11	(24)	(22)	5	(17)	(13)	6	(7)
Total CIF Impact Before Tax and Variable Incentives		(23)	79		27	115		13	54		14	61

* Incorporates significant items and minorities adjustment

Footnotes	1H 07	FY 06	2H 06	1H 06
\$millions				
1. Challenger share of CIF (profit)/ loss before CIF equity				
Bridge facility costs	(7)	(7)	(2)	(5)
CIF distribution received	18	18	10	8
Transaction costs	(3)	-	-	-
	8	11	8	3
2. Deferred net gain on seed assets	4	4	-	4
3. CIF management fees eliminated	1	1	-	1
4. Challenger share of CIF equity bridge facilities	9	10	5	5
Bridge interest income eliminated	1	1	-	1
	10	11	5	6

Consolidated profit and loss

Reconciliation of Statutory to Historic Cost

APPENDIX 7
Challenger Group
31 December 2006

Challenger Group					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05
Statutory net profit after tax	130	75	60	65	55
Recurring items					
i) Subtract excess of movement in fair value of investment portfolio assets over accrued investment income under historic cost	16	(24)	(19)	(15)	(71)
ii) Add excess of movement in fair value of policyholder/annuity liabilities over accrued annuity interest under historic cost	(19)	(8)	(12)	(5)	45
iii) Other	(4)	15	(5)	(4)	9
Non recurring items					
iv) Subtract borrowing and financing costs of investment properties which are amortised under historic cost	-	-	-	(6)	(2)
v) Asset Management fees not reported in statutory result	-	-	14	-	-
vi) Change in fair value of CIF hedges excluded from historic cost	-	(1)	15	-	-
vii) CIF deconsolidation	(16)	-	-	-	-
	(23)	(18)	(7)	(30)	(19)
Tax effect of items above	6	1	5	5	9
Historic cost net profit after tax	113	58	58	40	45

Consolidated balance sheet

CIF deconsolidated

APPENDIX 8
Challenger Group
31 December 2006

Challenger Group \$millions	31 Dec 2006	30 Jun 2006	31 Dec 2005
Assets			
Cash & cash equivalents	1,029.2	388.9	465.9
Receivables	296.3	363.6	258.2
Derivative Assets	10.1	6.7	-
Financial assets fair valued through income statement	1,215.0	903.6	810.8
Infrastructure Investments	564.9	635.3	676.2
Other financial assets	12.0	10.9	11.8
Investment properties	1,452.2	1,800.7	1,779.4
Fixed assets	7.0	8.5	14.8
Securitised assets	20,043.8	19,667.9	18,270.9
Deferred tax assets	15.2	7.3	5.7
Investment accounted for under the equity method	7.3	6.3	6.3
Goodwill	557.0	552.8	564.0
Other intangible assets	15.4	17.1	18.2
Other assets	182.7	221.2	193.9
Total assets	25,408.1	24,590.8	23,076.1
Liabilities			
Payables	390.2	582.0	508.0
Derivative liabilities	10.3	74.9	-
Financial liabilities fair valued through income statement	70.6	18.4	-
Interest bearing liabilities	1,247.4	635.7	791.1
Securitised liabilities	20,053.7	19,680.2	18,189.9
Provisions	47.1	64.3	-
Deferred tax liabilities	155.6	136.6	73.8
Life insurance contract liabilities	88.2	91.1	95.1
Life investment contract liabilities	2,012.4	2,047.3	-
Life insurance policy liabilities	-	-	2,239.3
Total liabilities	24,075.5	23,330.5	21,897.2
Net assets	1,332.6	1,260.3	1,178.9
Shareholder equity			
Contributed equity	1,250.4	1,244.0	1,237.7
Reserves	81.9	76.6	80.6
Retained profits/(losses)	1.7	(61.8)	(142.6)
Total equity attributable to shareholders	1,334.0	1,258.8	1,175.7
Cashflow hedge reserve - SPV's	(9.9)	(12.3)	(8.1)
Minority interests	8.5	13.8	11.3
Total equity	1,332.6	1,260.3	1,178.9

challenger 

Cashflow

Excluding SPV cashflows

APPENDIX 9
Challenger Group
31 December 2006

Challenger Group			
\$millions	1H 07	2H 06	1H 06
Opening cash balance	426	533	496
Operating cashflows	60	63	(49)
Investing activities	(1)	139	(1,365)
Financing activities	502	(320)	1,456
Reclassification	23	-	(6)
Exchange rate fluctuations	-	(1)	1
Cash acquired on acquisition	-	12	-
Closing cash balance	1,009	426	533
Available cash balance ¹	88	62	79

¹ Excludes cash balances within the Life company statutory funds.

Issued share capital

APPENDIX 10
Challenger Group
31 December 2006

Shares					
Number of shares	1H 07	2H 06	1H 06	2H 05	1H 05
Ordinary Shares: Quoted (CGF)					
Opening	544,767,540	537,917,717	534,269,048	528,441,048	2,866,703,735
Additions (+)					
<i>i) DRP</i>	0	371,823	530,669	0	0
<i>ii) LTIP</i>	5,336,000	6,478,000	3,548,000	5,828,000	0
<i>iii) LTIP shares bought back & cancelled</i>	0	0	(430,000)	0	0
Reconstruction (5:1)	0	0	0	0	(2,338,262,687)
Closing	550,103,540	544,767,540	537,917,717	534,269,048	528,441,048
Weighted average number of ordinary shares¹	548,042,529	540,092,865	536,671,560	526,406,178	518,946,096
Long Term Incentive Plan					
Opening	47,536,000	49,114,000	43,962,000	45,880,000	44,880,000
Additions (+)	5,550,000	4,900,000	8,700,000	3,910,000	1,000,000
Subtractions (-)	(5,336,000)	(6,478,000)	(3,548,000)	(5,828,000)	0
Closing	47,750,000	47,536,000	49,114,000	43,962,000	45,880,000
Options					
Opening	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Additions (+)	0	0	0	0	0
Subtractions (-)	0	0	0	0	0
Closing	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Weighted average number of shares for dilutive purposes¹	558,670,750	551,558,029	554,403,823	528,297,999	518,946,096

¹ Weighted average number of shares for 2006 have been restated to reflect annual statutory financial report.

Contemporary long term incentive scheme

APPENDIX 11
Challenger Group
31 December 2006

- * Introduction of a contemporary long term incentive scheme introduced with ability to acquire shares on-market to avoid dilution
- * *Class of securities:* Options
- * *Initial number of options to issued:* 7.6 million
- * *Principle terms:*
 - Options over Challenger shares with an exercise price of \$4.00. There is no consideration payable for the grant of the options
 - Options vest after a four year vesting period subject to achievement of the performance condition(s) and continued employment with Challenger
 - Options only fully vest where either compound annual Basic EPS growth over the performance period is 10% or greater, or the TSR for Challenger is greater than or equal to the 75th percentile of the S&P ASX 100 comparator group of companies at the end of the 4 year vesting period. If neither of those measures is satisfied, half of the awards vest where TSR for Challenger is greater than or equal to the median of the S&P ASX 100 comparator group of companies at the end of the 4 year vesting period. If this is not satisfied all options lapse
 - Where options vest, they must be exercised within 60 days, otherwise they will also lapse
 - Options generally lapse on termination of employment other than under special circumstances such as redundancy
- * *Purpose:*
 - Satisfaction of awards made under the Challenger Performance Plan to certain key value generators of Challenger
- * We will seek approval of the scheme from shareholders at our Annual General Meeting

Earnings and dividends per share

APPENDIX 12
Challenger Group
31 December 2006

Earnings Per Share					
Half Year	1H07	2H 06	1H 06	2H 05	1H 05
Basic - reported statutory	23.7	13.7	11.2	12.4	10.6
Basic - historic cost	20.6	10.8	10.8	7.6	8.6
Diluted - reported statutory	22.9	13.1	10.5	12.3	10.6
Diluted - historic cost	20.2	10.6	10.5	7.6	8.6

Dividends Per Share					
Half Year	1H07	2H 06	1H 06	2H 05	1H 05
Cents per share	5.0	5.0	2.5	5.0	0

Payout Ratio			
Rate	FY 07	FY 06	FY 05
Statutory	**	33%	24%

** Board approved dividend policy is for an annual payout ratio of a minimum of 30% of statutory profits.

Debt and gearing

APPENDIX 13
Challenger Group
31 December 2006

\$m	1H 07	2H 06	1H 06	% Δ 1H 07 - 1H 06
Financial Debt¹				
Corporate facilities and other	160	120	262	-38.9%
Total Financial Debt	160	120	262	-38.9%
Operating Leverage²				
MM - NIM Facility	230	230	180	27.8%
AM - Senior property debt	480	287	358	34.1%
AM - US Subordinated debt	187	0	0	N/A
AM - Wholesale annuity	50	50	0	100.0%
Total Operating Leverage	947	567	538	76.0%
Gearing³				
Available cash (31 December)	88	62	79	11.4%
Net debt ⁴	72	58	183	-60.7%
Book equity	1,339	1,247	1,147	16.7%
Net debt / Book equity	5.4%	4.7%	16.0%	-66.3%
Net debt / (Net debt + Book equity)	5.1%	4.4%	13.8%	-62.9%

¹ Recourse to Challenger Financial Services Group.

² Non recourse to Challenger Financial Services Group.

³ Gearing ratios are based on financial (recourse) debt.

⁴ Net debt is after available cash is deducted.



Funds Management

APPENDIX 14
Funds Management
31 December 2006

Funds Management Results					
Smillions	1H 07	2H 06	1H 06	2H 05 ¹	1H 05
Income					
Net investment income	0.0	0	0	0	0
Fees received	70.1	65	52	44	32
Fees & commissions paid	(15.0)	(15)	(12)	(10)	(11)
Acquisition cost amortisation	0.0	0	0	0	0
Net fee income	55.1	50	39	35	21
Other income	0.0	1	3	1	0
Net income	55.1	50	42	36	22
Expenses					
Employee expenses	(23.9)	(21)	(22)	(24)	(15)
Other	(14.3)	(12)	(13)	(19)	(9)
Total expenses	(38.2)	(33)	(35)	(42)	(24)
EBIT	16.9	18	7	(6)	(3)
Performance					
Cost to income	69.4%	64.9%	83.9%	116.9%	113.5%
EBIT margin	30.6%	35.1%	16.1%	(16.9%)	(13.5%)
Net fee income/Net income	100.0%	98.4%	94.0%	96.1%	99.5%
Other income/Net income	0.0%	1.6%	6.0%	3.9%	0.5%
Net assets (\$m)	135	131	131	77	77
RONA (annualised)	25.0%	27.0%	10.2%	-15.8%	-7.5%
Average funds under management (\$bn)	14.2	12.4	11.3	-	-
Expressed as ratio of average FUM (bps analysis)²					
Fees received	49	52	46	-	-
Fees & commissions paid	(11)	(12)	(11)	-	-
Other income	-	1	2	-	-
Net income	39	41	37	-	-
Expenses	(27)	(26)	(31)	-	-
EBIT	12	15	6	-	-

53 ¹ - The acquisition of HSBC Asset Management business occurred in April 2005.

² - Half on half data annualised. 2005 figures not comparable due to impact of HSBC acquisition.

Mortgage Management

Mortgage Management Results					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05
Income					
Net investment income	0.0	0	0	0	0
Fees received	151.3	145	137	122	113
Fees & commissions paid	(37.0)	(37)	(37)	(33)	(32)
Acquisition cost amortisation	(41.9)	(37)	(37)	(32)	(30)
Net fee income	72.4	71	63	57	51
Other income	0.0	0	0	0	0
Net income	72.4	71	63	57	51
Expenses					
Employee expenses	(20.9)	(21)	(19)	(16)	(17)
Other	(8.5)	(8)	(8)	(7)	(7)
Total expenses	(29.4)	(29)	(27)	(23)	(24)
EBIT	43.0	42	36	34	27
Performance					
Cost to income	40.6%	40.8%	42.9%	40.4%	47.1%
EBIT margin	59.4%	59.2%	57.1%	59.6%	52.9%
Net fee income/Net income	100.0%	100.0%	100.0%	100.0%	100.0%
Net assets (\$m)	412	360	360	324	324
RONA (annualised)	20.8%	23.3%	20.0%	21.0%	16.7%
Average loan portfolio (\$bn)	21.3	20.2	19.0	17.9	16.8
Expressed as ratio of average portfolio (bps analysis)¹					
Fees received	142	144	144	136	135
Fees & commissions paid	(35)	(37)	(39)	(37)	(38)
Acquisition costs	(39)	(37)	(39)	(36)	(36)
Net margin	68	70	66	64	61
Expenses	(28)	(29)	(28)	(26)	(29)
EBIT	40	42	38	38	32

Mortgage Management

APPENDIX 16
Mortgage Management
31 December 2006

Mortgage Management Residential Business Results					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05
Income					
Net investment income	0.0	0	0	0	0
Fees received	140.4	133	126	112	102
Fees & commissions paid	(37.0)	(37)	(37)	(33)	(32)
Acquisition cost amortisation	(41.9)	(37)	(37)	(32)	(30)
Net fee income	61.5	59	52	47	40
Other income	0.0	0	0	0	0
Net income	61.5	59	52	47	40
Expenses					
Employee expenses	(18.4)	(18)	(16)	(14)	(14)
Other	(7.0)	(7)	(7)	(6)	(6)
Total expenses	(25.4)	(25)	(23)	(20)	(20)
EBIT	36.1	34	29	27	20
Performance					
Cost to income	41.3%	42.4%	44.2%	42.6%	50.0%
EBIT margin	58.7%	57.6%	55.8%	57.4%	50.0%
Net fee income/Net income	100.0%	100.0%	100.0%	100.0%	100.0%
Average loan portfolio (\$bn)	18.6	17.7	16.5	15.5	14.4
Expressed as ratio of average portfolio (bps analysis)¹					
Fees received	151	150	153	144	142
Fees & commissions paid	(40)	(42)	(45)	(43)	(45)
Acquisition costs	(45)	(42)	(45)	(41)	(42)
Net margin	66	67	63	61	56
Expenses	(27)	(28)	(28)	(26)	(28)
EBIT	39	38	35	35	28

Mortgage Management

APPENDIX 17
Mortgage Management
31 December 2006

Mortgage Management Commercial Business Results					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05
Income					
Net Investment Income	0.0	0	0	0	0
Fees received	10.9	12	11	10	11
Fees & commissions paid	0.0	0	0	0	0
Acquisition cost amortisation	0.0	0	0	0	0
Net fee income	10.9	12	11	10	11
Other income	0.0	0	0	0	0
Net income	10.9	12	11	10	11
Expenses					
Employee expenses	(2.5)	(3)	(3)	(2)	(3)
Other	(1.5)	(1)	(1)	(1)	(1)
Total expenses	(4.0)	(4)	(4)	(3)	(4)
EBIT	6.9	8	7	7	7
Performance					
Cost to income	36.7%	33.3%	36.4%	30.0%	36.4%
EBIT margin	63.3%	66.7%	63.6%	70.0%	63.6%
Net fee income/Net income	100.0%	100.0%	100.0%	100.0%	100.0%
Average loan portfolio (\$bn)	2.7	2.5	2.4	2.4	2.4
Expressed as ratio of average portfolio (bps analysis)¹					
Fees received	81	96	90	82	92
Expenses	(30)	(32)	(33)	(25)	(33)
EBIT	51	64	57	58	58

challenger 

Asset Management

APPENDIX 18
Asset Management
31 December 2006

Asset Management Statutory Results					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05
Income					
Net rental income	40.7	46	49	33	30
Investment income	110.0	46	53	69	71
Capital gains/(losses) ¹	23.8	56	23	29	107
Movement in policy liabilities	(43.6)	(53)	(49)	(55)	(107)
Net investment income	130.9	95	76	76	101
Fees received	39.0	21	16	14	1
Fees & commissions paid	0.0	0	0	0	0
Acquisition cost amortisation	0.0	0	0	0	0
Net fee income	39.0	21	16	14	1
Other income	0.0	0	0	0	0
Net income	169.9	116	92	90	102
Expenses					
Employee expenses	(31.5)	(22)	(18)	(16)	(9)
Other	(7.5)	(7)	(7)	(7)	(5)
Total expenses	(39.0)	(29)	(25)	(23)	(14)
EBIT	130.9	87	67	67	88
Performance					
Cost to income	23.0%	25.0%	27.2%	25.6%	13.7%
EBIT margin	77.0%	75.0%	72.8%	74.4%	86.3%
Net investment income/Net income	77.0%	81.9%	82.6%	84.4%	99.0%
Net fee income/Net income	23.0%	18.1%	17.4%	15.6%	1.0%
Net assets (\$m)	883	686	686	626	626
RONA (annualised)	29.6%	25.4%	19.5%	21.4%	28.1%
Average investment assets (\$m)	3,210	3,087	3,076	3,106	3,000
Net investment income/Average investment assets	8.2%	6.2%	4.9%	4.9%	6.7%

¹ Includes realised gains and revaluation movements on investment portfolios.

Asset Management

Asset Management Historic Cost Results					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05
Income					
Net rental income	46.8	46	49	27	28
Investment income	83.7	50	50	67	71
Net realised gains/(losses)	56.7	36	17	15	36
Interest paid & selling costs	(62.5)	(61)	(61)	(60)	(62)
Net investment income	124.7	71	55	49	73
Fees received	22.3	21	30	14	1
Fees & commissions paid	0.0	0	0	0	0
Acquisition cost amortisation	0.0	0	0	0	0
Net fee income	22.3	21	30	14	1
Other income	0.0	0	0	0	0
Net income	147.0	92	85	63	74
Expenses					
Employee expenses	(31.5)	(22)	(18)	(16)	(9)
Other	(7.5)	(7)	(7)	(7)	(5)
Total expenses	(39.0)	(29)	(25)	(23)	(14)
EBIT	108.0	63	60	40	60
Performance					
Cost to income	26.5%	31.5%	29.4%	36.5%	18.9%
EBIT margin	73.5%	68.5%	70.6%	63.5%	81.1%
Net investment income/Net income	84.8%	77.2%	64.7%	77.8%	98.6%
Net fee income/Net income	15.2%	22.8%	35.3%	22.2%	1.4%
Net assets (\$m)	707	561	561	483	483
RONA (annualised)	30.5%	22.5%	21.4%	16.6%	24.8%
Average investment assets (\$m)	2,970	2,857	2,865	2,918	2,836
Net investment income/Average investment assets	8.4%	5.0%	3.8%	3.4%	5.1%
- (excluding realised gains)	4.6%	2.5%	2.7%	2.3%	2.6%

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.

Asset Management

APPENDIX 20
Asset Management
31 December 2006

Asset Management Balance Sheet	31 Dec 2006			30 Jun 2006			31 Dec 2005		
\$millions	Stat	HC	Δ	Stat	HC	Δ	Stat	HC	Δ
Cash	862	862	-	349	349	-	396	396	-
Debt investments	955	959	(4)	728	726	2	900	892	8
Equity and other investments	73	68	5	50	53	(3)	104	82	22
Infrastructure investments	565	509	56	409	391	18	301	299	2
Net property investments	913	733	180	1,515	1,290	225	1,422	1,235	187
Investment assets	3,368	3,131	237	3,051	2,809	242	3,123	2,904	219
Goodwill	88	88	-	88	88	-	88	88	-
Total assets	3,456	3,219	237	3,139	2,897	242	3,211	2,992	219
Policy liabilities	(2,101)	(2,057)	(44)	(2,138)	(2,072)	(66)	(2,239)	(2,176)	(63)
Other liabilities	(480)	(458)	(22)	(118)	(118)	-	(144)	(135)	(9)
Total liabilities	(2,581)	(2,515)	(66)	(2,256)	(2,190)	(66)	(2,383)	(2,311)	(72)
Net assets	875	704	171	883	707	176	828	681	147
Debt included in net property investments*	(539)	(518)	(21)	(287)	(261)	(26)	(358)	(335)	(23)

*31 Dec 06 figures includes \$480m of senior property debt.

Financial Planning

Financial Planning Results					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05¹
Income					
Net Total Investment Income	0.0	0	0	0	0
Fees received	87.1	80	75	69	63
Fees & commissions paid	(63.3)	(59)	(55)	(49)	(44)
Acquisition cost amortisation	0.0	0	0	0	0
Net fee income	23.8	21	20	20	19
Other income	0.4	(1)	3	1	0
Net income	24.2	20	23	21	19
Expenses					
Employee expenses	(10.1)	(10)	(10)	(10)	(10)
Other	(10.8)	(8)	(7)	(6)	(9)
Total expenses	(20.9)	(18)	(17)	(15)	(19)
EBIT	3.3	2	5	5	(0)
Performance					
Cost to income	86.4%	91.5%	76.3%	73.7%	101.1%
EBIT margin	13.6%	8.5%	23.7%	26.3%	-1.1%
Net fee income/Net income	98.3%	103.6%	88.6%	96.6%	100.0%
Other income/Net income	1.7%	-3.6%	11.4%	3.4%	0.0%
Net assets (\$m)	146	144	144	130	130
RONA (annualised)	4.5%	2.4%	7.5%	8.3%	-0.3%

¹ - The acquisition of Associated Planners occurred in August 2004.

Corporate

APPENDIX 22
Corporate
31 December 2006

Corporate Statutory Results					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05
Income					
Net income	2.0	0	0	0	0
Expenses					
Employee expenses	(13.3)	(11)	(9)	(8)	(8)
Other expenses ¹	(4.0)	(19)	(3)	(1)	(13)
Total expenses	(17.3)	(30)	(12)	(9)	(21)
EBIT	(15.3)	(30)	(12)	(9)	(21)
Interest & borrowing costs²	(5.9)	(22)	(13)	(8)	(9)
Net Profit / (Loss) Before Tax³	(21.2)	(52)	(25)	(17)	(30)
Headcount - FTE⁴	996	958	926	901	870

¹ 2H 06 has been restated to:

- include the \$13m Hilton relocation provision; and
- exclude the release of a general provision under Historic Cost booked in Corporate, as it was not attributable to Asset Management.

² Interest includes \$9.3m on CIF gain.

³ FY 05 has been shown post IFRS adjustments. The impact on Corporate in 2005 was \$6m.

⁴ FTE numbers include permanent and part time employees, contractors, temps and sole traders.

Group assets, Loans & Funds under Management

APPENDIX 23
Challenger Group
31 December 2006

Group Assets, Loans and Funds Under Management					
\$millions	1H 07	2H 06	1H 06	2H 05	1H 05
Asset Management					
Assets managed for the Life company					
Property ¹	916	1,515	1,422	1,329	969
Debt investments (including hybrids) & cash	1,729	1,055	1,284	1,124	1,667
Infrastructure assets ²	569	409	301	344	271
Equity & other	100	97	108	153	104
Sub total	3,314	3,076	3,115	2,950	3,011
Funds					
CWT	306	295	298	288	273
CDI	650	-	-	-	-
Unlisted Funds	274	-	-	-	-
CIF (adjusted eq value)	756	294	378	-	-
Sub total funds	1,986	589	676	288	273
Total - Assets under Management	5,300	3,665	3,791	3,238	3,284
Mortgage Management					
Residential	18,775	18,258	17,190	16,033	15,081
Commercial	2,820	2,643	2,516	2,438	2,466
Total Mortgages under Management	21,595	20,901	19,706	18,471	17,547
Funds Management					
Funds under management ³	15,487	12,868	11,943	10,579	6,916
Financial Planning					
Funds under administration	2,093	1,914	1,833	1,742	1,744
Funds under advice ⁵	5,582	4,940	-	-	-
Total funds under Administration and Advice	7,675	6,854	1,833	1,742	1,744
<i>Adjustments⁴</i>	<i>(3,682)</i>	<i>(2,801)</i>	<i>(2,719)</i>	<i>(2,438)</i>	<i>(2,466)</i>
Total assets & loans under management/admin.	46,375	41,487	34,554	31,592	27,025

1: Net senior debt

2: Including Life investment in CIF

3: Includes \$523m for Segregated Boutique Mandates

4: Adjustments reflect the prevention of double counting of cross holdings of Commercial Lending (\$2,820) and Life Company

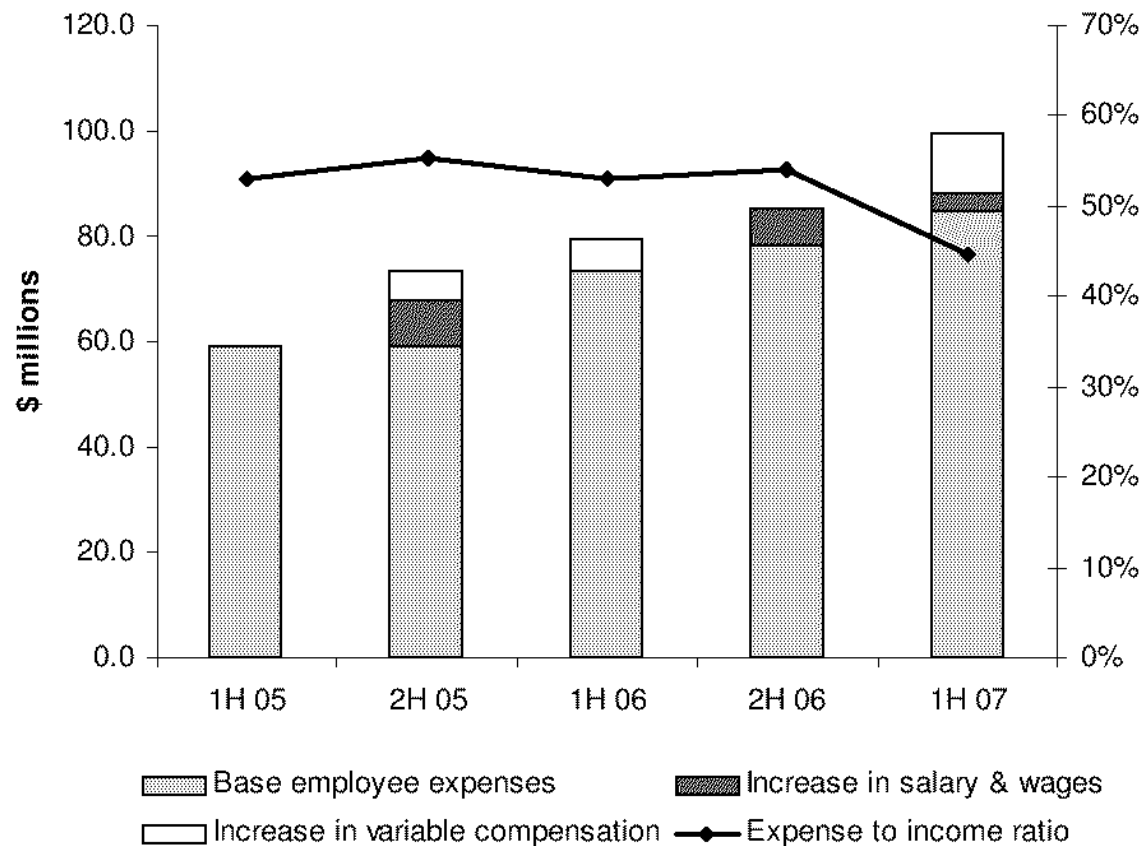
- Specialised Funds \$588m

- Unlisted Funds \$274m

5: Funds under advice that earn on-going revenue



Operating efficiency



Glossary

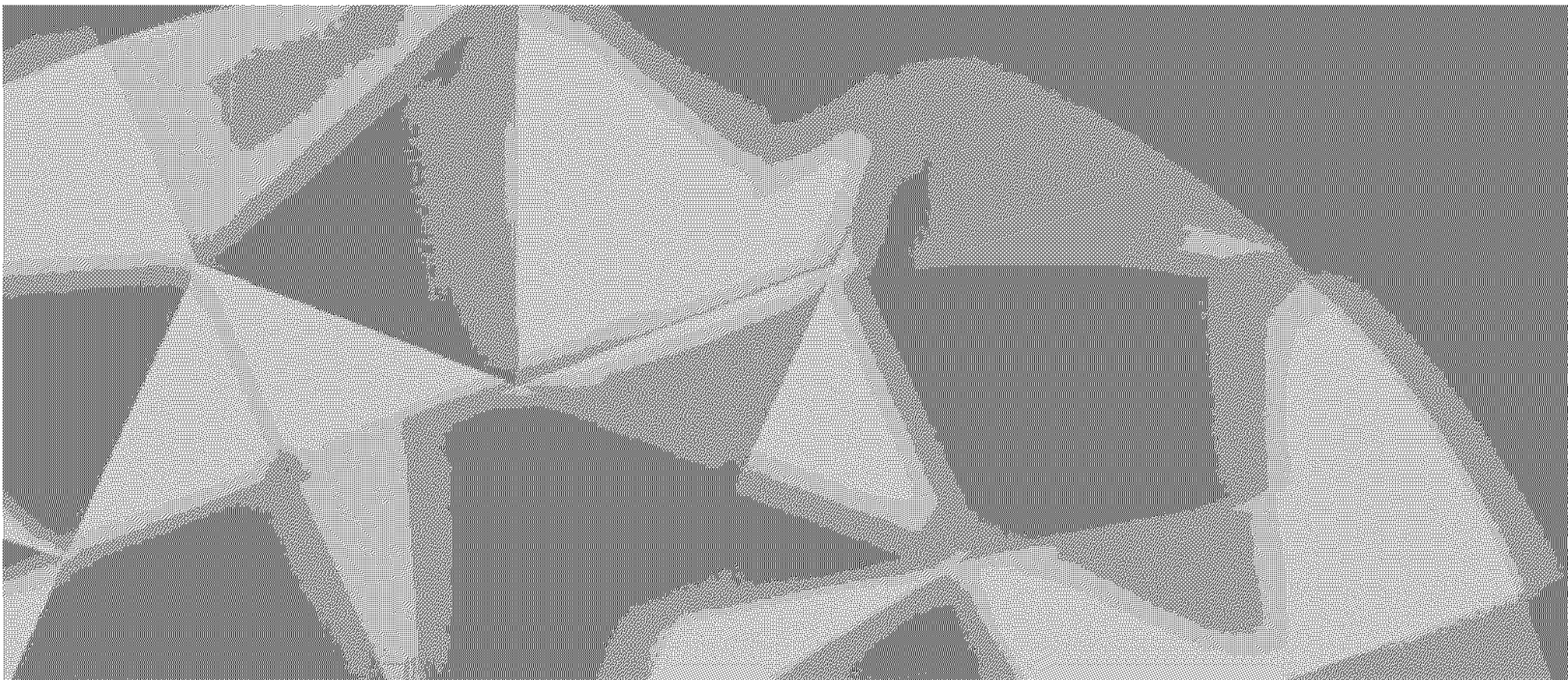
MM	Mortgage Management division
FM	Funds Management division
AM	Asset Management division
FP	Financial Planning division
Corporate	All other non cash generating unit activity
Net rental income (AM only)	Gross rental income less trust expenses, financing costs directly associated with property, less management 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

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
Acquisition cost amortisation (MM and AM)	<i>Mortgage Management</i> 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. <i>Asset Management</i> Acquisition costs on annuities are written off for statutory purposes but amortised for historic cost reporting.
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.

Glossary

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.
Policy liabilities	Policy liabilities are the liabilities held in respect of future obligations to owners of life investment contracts issued by CL2, calculated in accordance with Actuarial Standard 1.04 Valuation of Policy Liabilities.
Revaluation gain/loss	Unrealised gains or losses derived from the revaluation of assets in statutory reporting.
Assets Under Management	Total value of revenue generating assets that are managed by the Asset Management business.
Funds Under Administration	Total value of revenue generating funds in respect of which the Financial Planning business provides administration services.
Funds Under Advice	Total value of revenue generating funds in respect of which the Financial Planning business provides investment advice.
Funds Under Management	Total value of revenue generating funds that are managed by the Funds Management business.



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.

