Challenger Financial Services Group Limited

Half-year results to 31 December 2006

Investor Roadshow Presentation

March 2007

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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 ✓

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Contemporary business delivering value

INVESTMENT OBJECTIVES: RONA > 18% DOUBLE DIGIT EPS GROWTH

OPERATING IN MARKETS GROWING > 10% A YEAR

Leveraging Challenger's core competencies and capabilities

PRODUCTS	OPERATIONS	DISTRIBUTION
Focused on delivering superior customer outcomes and quality products and services	Centralised contemporary scalable technology, systems and platforms delivering low cost	Deliver and leverage via 3rd party intermediaries
BUSINESSES →	Mortgage Management Funds Management	Asset Management Financial Planning

INVESTMENT OUTCOMES: RONA > 18% DOUBLE DIGIT EPS GROWTH

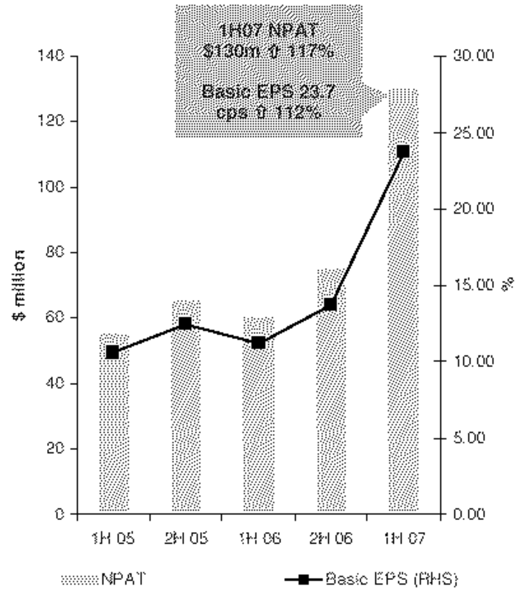
Record 1H07 statutory performance[1]

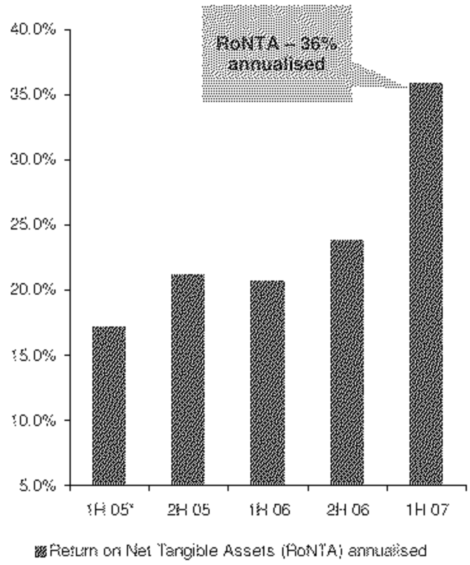
- Strong but disciplined headline revenue growth across divisions
- Group NPAT of $130m up 117%
- Assets under management of $46.4bn up 18%
- Basic EPS of 23.7 cps up 112%
- Interim dividend of 5.0 cps fully franked
- ~40% equity stake in Homeloans
- Transfer of $2bn MetLife Annuities Portfolio

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

Challenger Group
31 December 2006

Creating value for shareholders





*1H05 net tangible assets number - AGAAP

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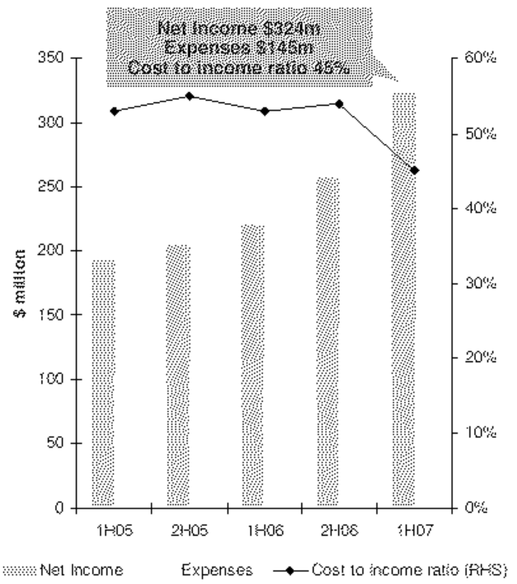
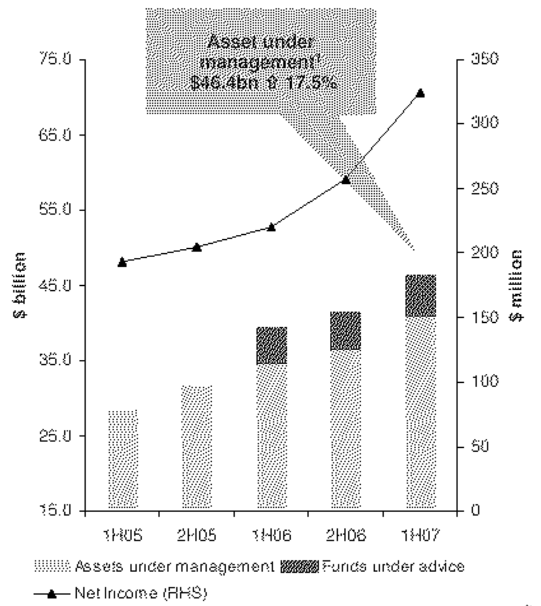
Challenger Group
31 December 2006

Key performance trends

Statutory





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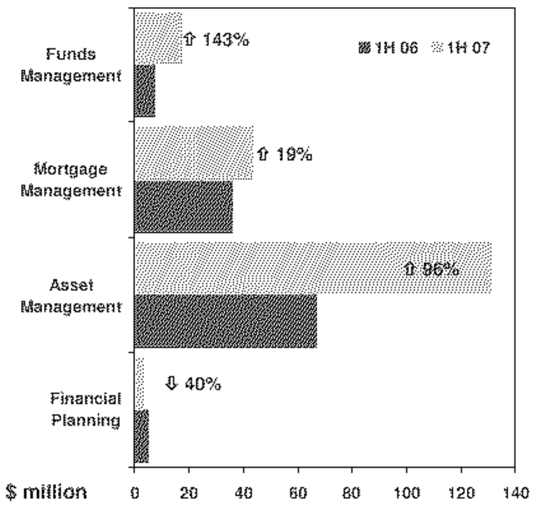
[1] AUM – assets and loans under administration and advice as at 31 December 2006

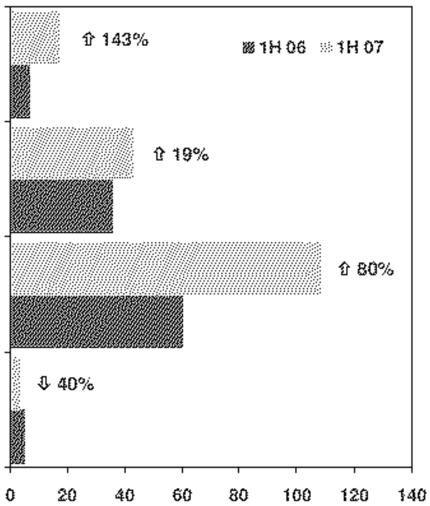
Growth in divisional contribution to EBIT

Statutory/Historic Cost

EBIT Statutory



EBIT Historic Cost



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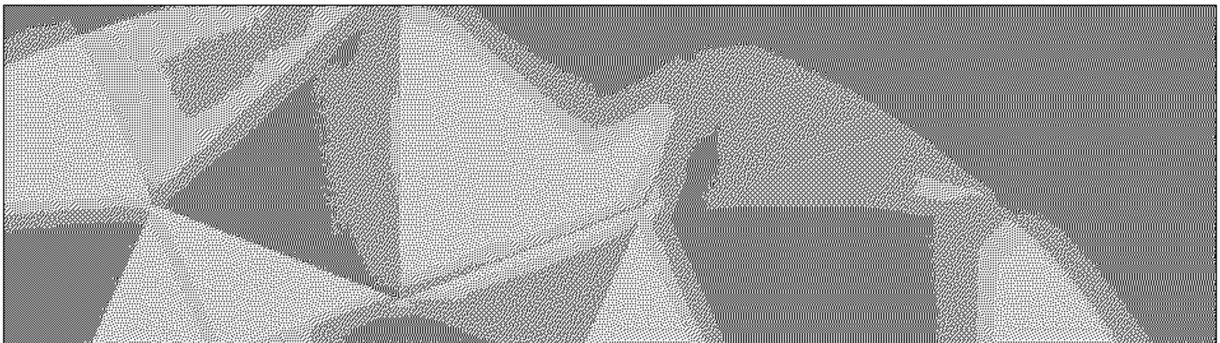

Divisional performance

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Divisional contribution

Financials (EBIT)	1H 07	2H 06	1H 06	% Δ 1H 07-1H 06	Trend	% Δ 1H 07-2H 06	Trend
Funds Management	$17m	$18m	$7m	142.9%	⇧	-5.6%	⇩
Mortgage Management	$43m	$42m	$36m	19.4%	⇧	2.4%	⇧
Asset Management	$131m	$87m	$67m	95.5%	⇧	50.6%	⇧
Financial Planning	$3m	$2m	$5m	-40.0%	⇩	50.0%	⇧
Corporate	($15m)	($30m)	($12m)	27.5%	⇧	51.0%	⇧
Group EBIT	$179m	$118m	$103m	73.8%	⇧	51.7%	⇧
NPAT	$130m	$75m	$60m	116.7%	⇧	73.3%	⇧

1 - annualised
2 - as at 1 July 2006

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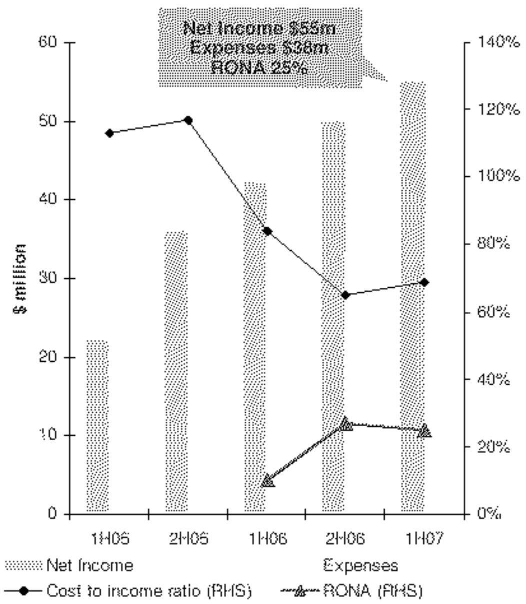
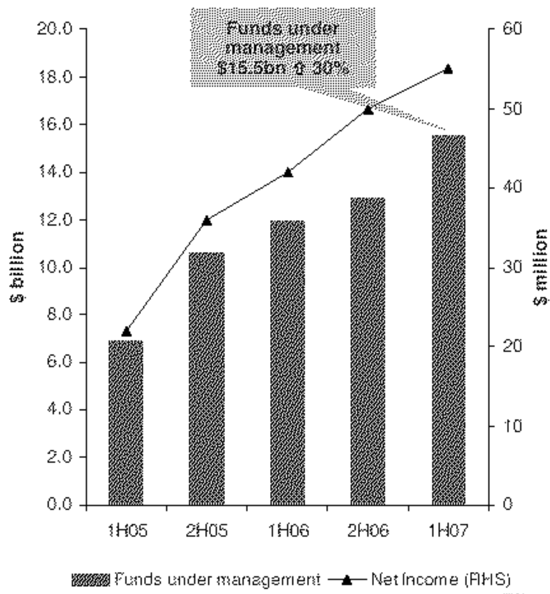
Key performance trends





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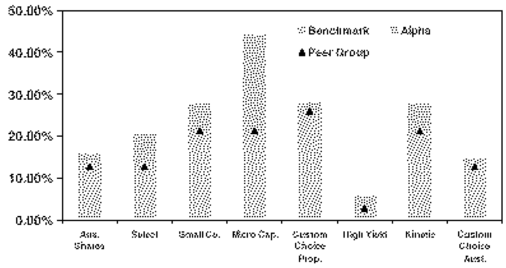
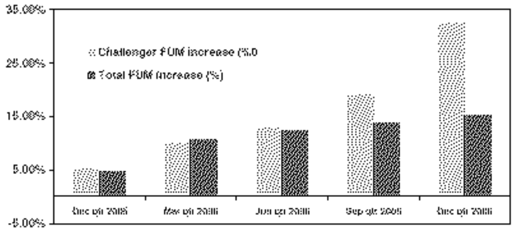
Alpha performance building momentum

- 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

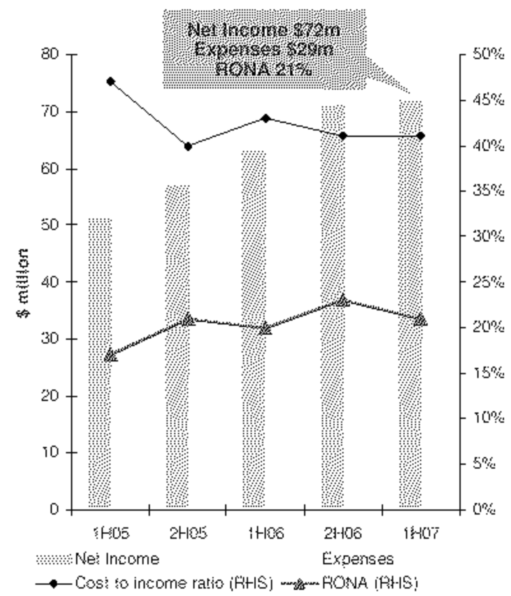


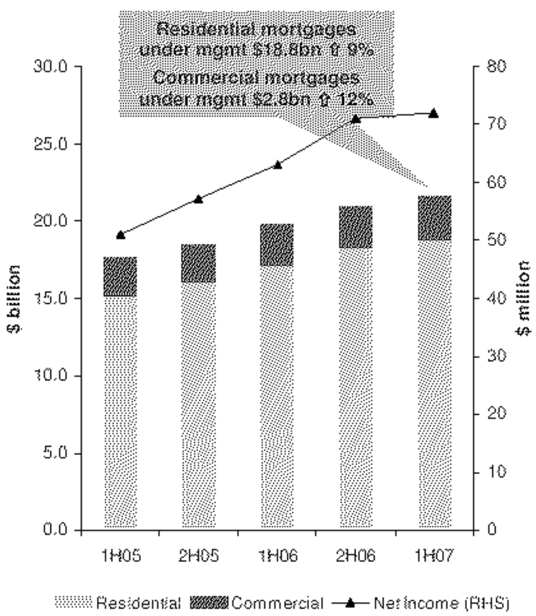
Challenger FUM increase compared to industry total FUM increase (%) cumulative



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

Key performance trends

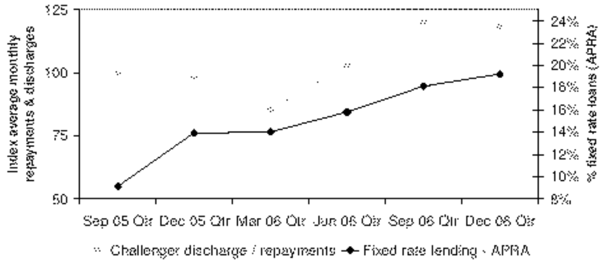




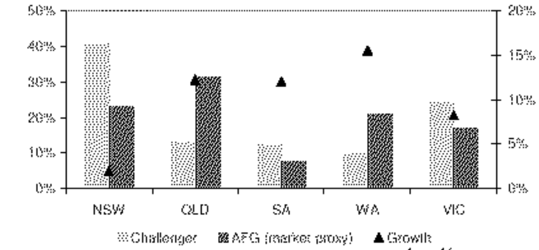
Cyclical macro environment

- 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)



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Equity stake in Homeloans

- Challenger has agreed to invest $44.7m to subscribe for new shares in Homeloans[1]
  - 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

[1] - ASX code 'HOM'

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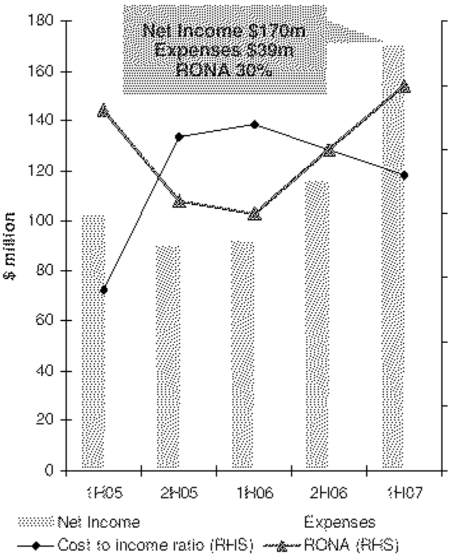
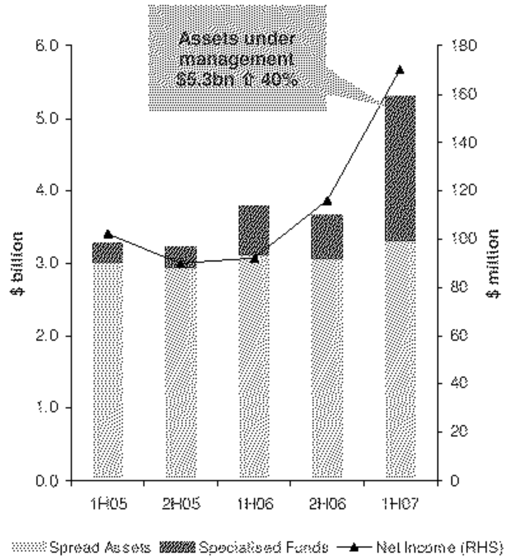
Key Performance Trends

Statutory





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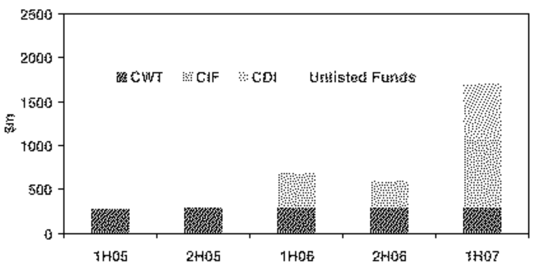
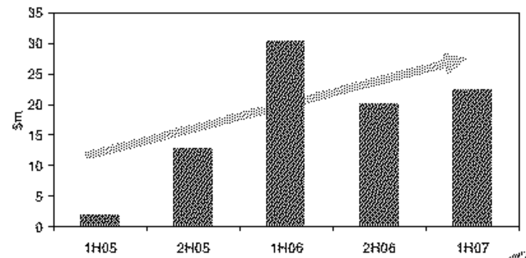
Fee business gains momentum

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

Specialised Funds



Fee income (historic cost)



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Transfer of MetLife Portfolio

- MetLife Insurance Limited ('MetLife') will transfer its Australian annuity, allocated pension and personal superannuation portfolio to Challenger
- The portfolio is almost $2 billion
- Supporting assets include:
  - Approximately $1 billion investment grade fixed income assets; and
  - Nearly $1 billion cash
- 24,000 policies in force
- Extends Challenger's distribution MetLife's 1,000 planners
- On transfer of assets and liabilities to Challenger Life No. 2 ('CL2') will record for accounting purposes approx. $46m of goodwill and incur a one-off restructuring charge of up to $10m on completion

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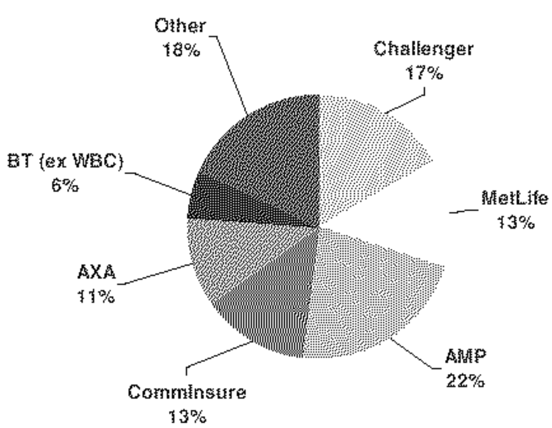
Committed participant in the annuity market

Total size of annuity funds 31 December 2006[1]



- Transfer will strengthen Challenger's position in the capital guaranteed pension sector
- Challenger a committed owner of the portfolio
  - Provides an attractive investment portfolio that complements existing book with no mortality risk
- Cost-effective funding – below bank bill rate
- Additional funding for pipeline of investments

[1] Plan for Life 31 December 2006

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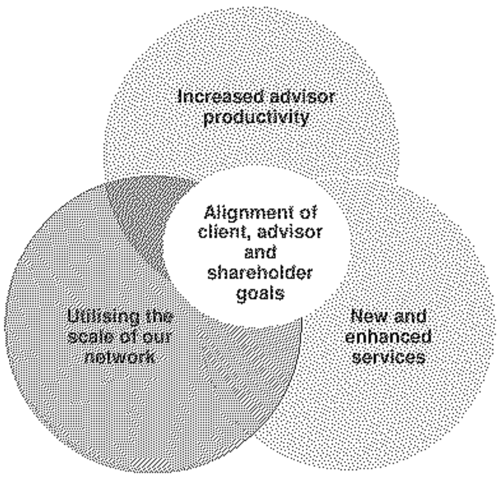
Enhanced financial strength leverages capabilities

- Asset Management has capabilities to optimise yield from assets
- Increased balance sheet scale leverages Asset Management's skills and capabilities
  - Origination
  - Structuring
  - Transacting / Managing Assets
- Asset Management's acquisition capability doubled
- Increased capacity to build opportunities with Challenger's specialised funds business
- Core capabilities to optimise the investment yield from these assets - proven track record - demonstrated by return generated with CL2 over the past 3 years

Repositioning financial planning - initial steps towards 2009

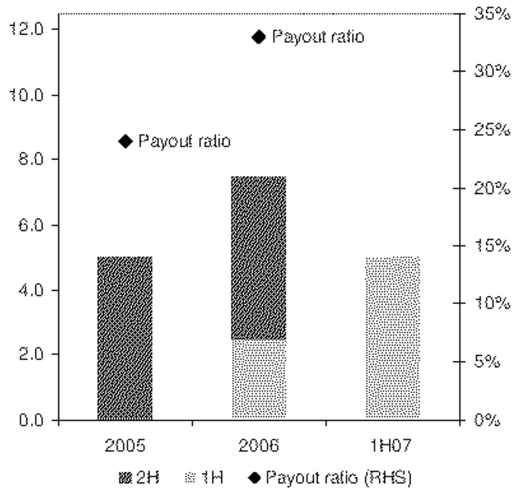
- Strategic review for Financial Planning completed during 1H07 and endorsed by the Board
- Key findings from review noted an opportunity to 'industrialize' the business and that better alignment on value drivers was required
- Roll-out of review changes to reposition the business - commencing 1 July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



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
- 2007 Interim dividend declared
  - 5 cents per share
  - fully franked
  - paid out of profits for the period ended 31 December 2006

Dividends – cents per share (cps)



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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

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Supplementary slides

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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

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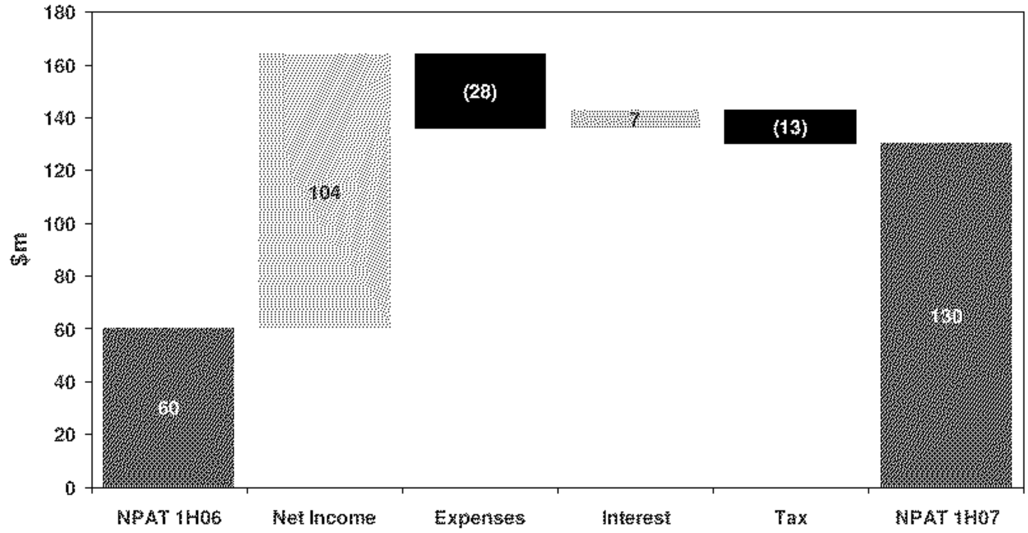
Financial summary
Statutory



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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

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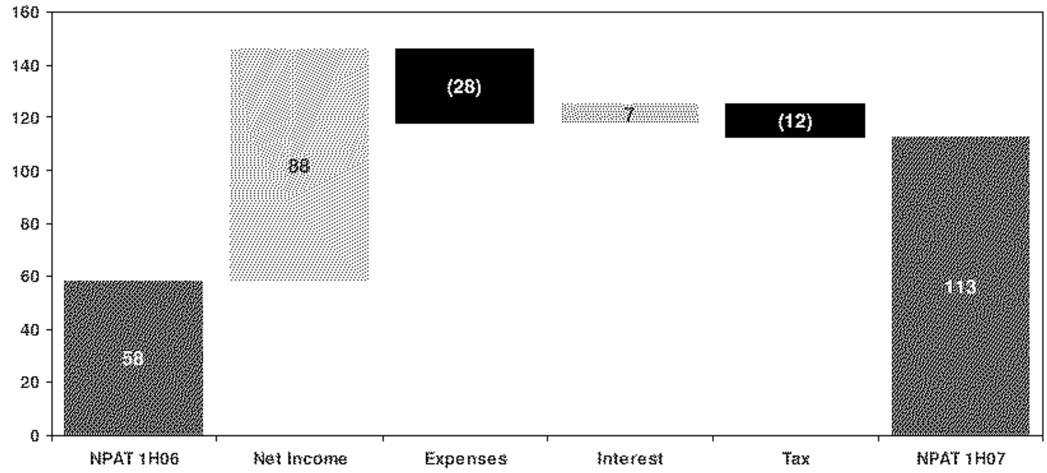
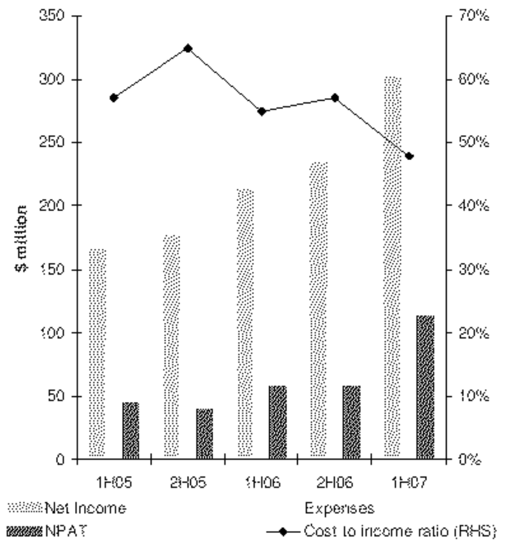
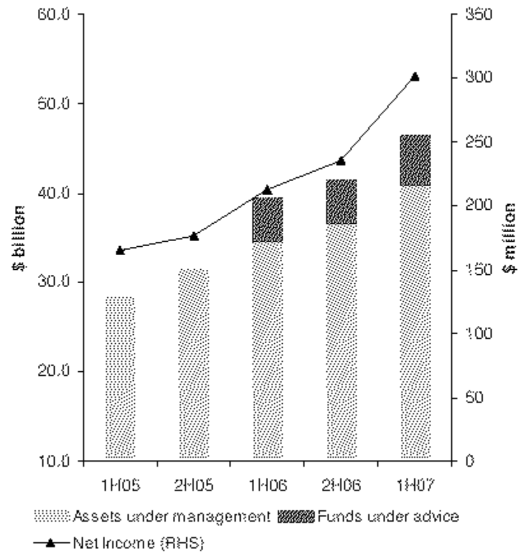
Financial summary
Historic cost



Challenger Group
31 December 2006

Key performance trends
Historic Cost





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

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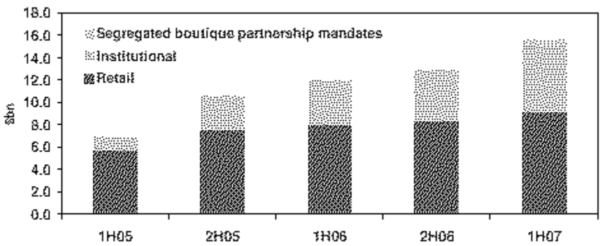
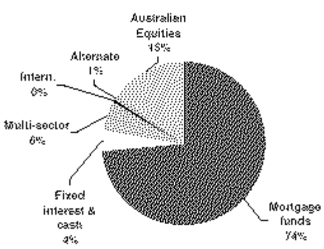
Significant progress in diversification of growing FUM

- FUM building well
  - 43% CAGR since 2004
  - 1H07 growth of $3.6bn (30%) to $15.5bn
- Diversification
  - By asset sector
  - By business strategy
    - Retail
    - Institutional
    - Boutique Partnerships[1]

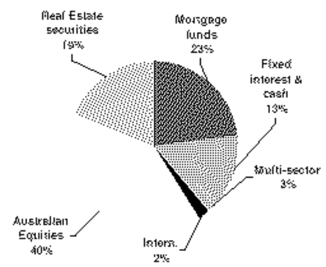
Funds under management



FUM by asset class – Jun 2003



FUM by asset class – Dec 2006



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[1] – currently includes Five Oceans, Kinetic, Greencape 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	9.3%	⇧	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	19.4%	⇧	2.4%	⇧
RONA[1]	20.8%	23.3%	20.0%	4.0%	⇧	-10.7%	⇩
Net Assets[2]	$412m	$360m	$360m				

[1] - annualised

[2] – as at 1 July 2006

Focused on quality assets

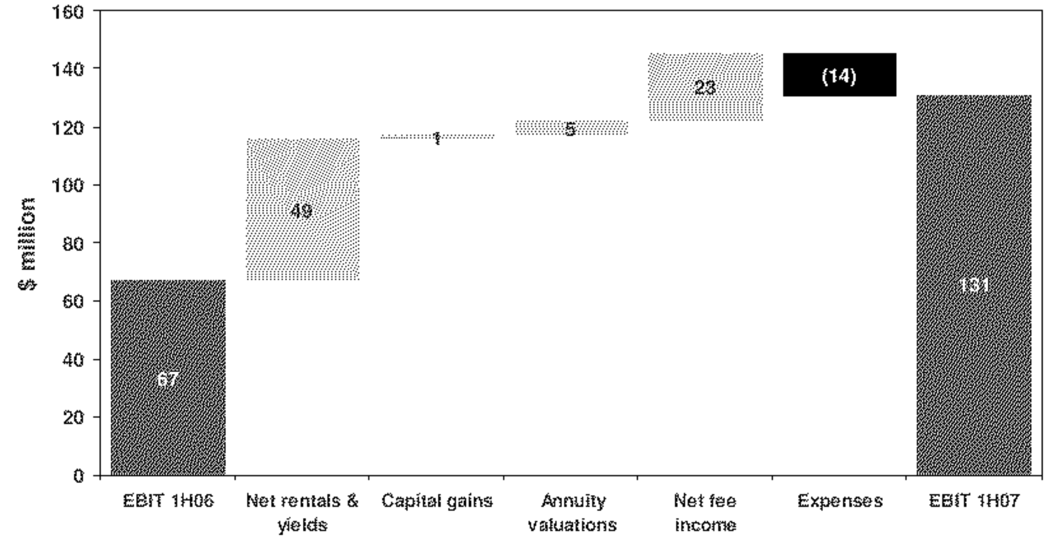
Statutory

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

EBIT Contribution
Statutory

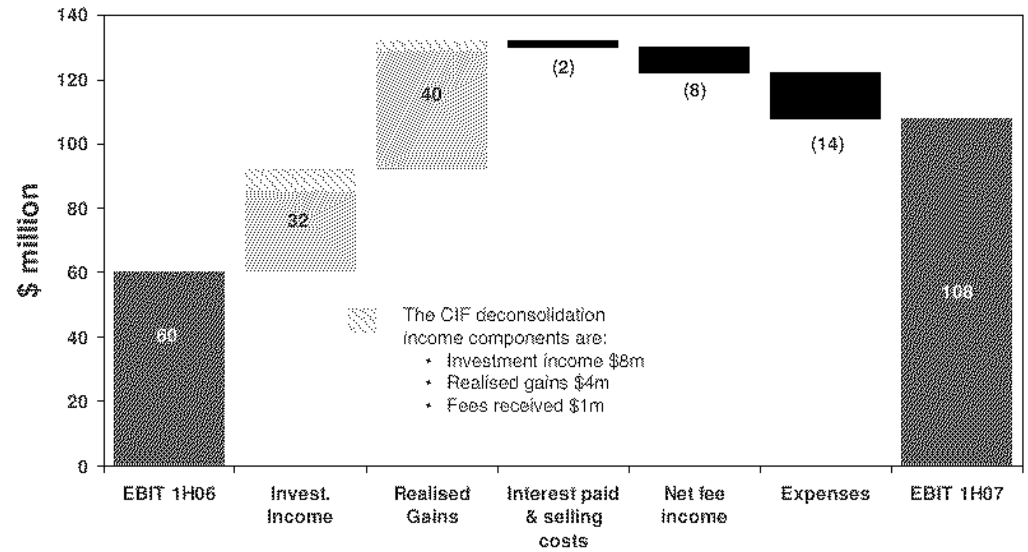


Asset Management
Historic Cost

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

Asset Management
Historic Cost



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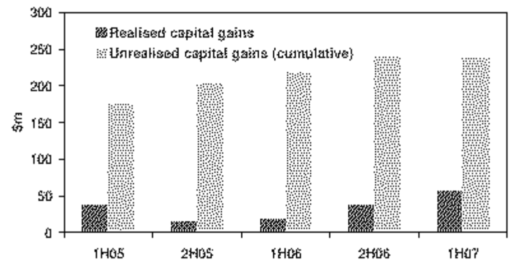
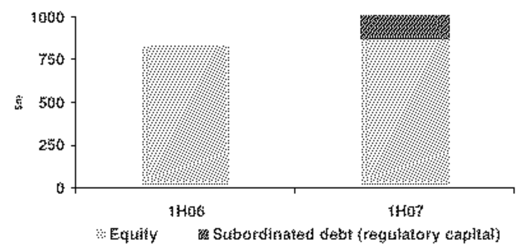
Spread business securing opportunities for continued growth

- 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

Realised gains replenished



Change in capital sources



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MetLife transaction overview

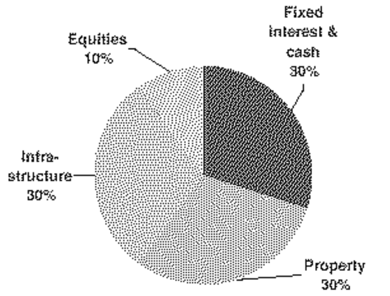
- Assets and liabilities will be transferred under Part 9 of the Life Insurance Act
- Targeted to complete on to 30 June 2007
- The transfer also involves Challenger taking over all the shares of MetLife Trustee Pty limited (the MetLife Superannuation Trustee)
- Economic exposure to the assets and policies will not be transferred to CL2 until completion
- Agreements in place to govern transition until completion
- Challenger will offer employment to sixteen MetLife employees and acquire Portfolio administration system

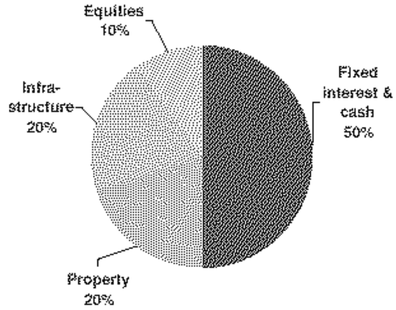
MetLife – liabilities to be transferred

	Guaranteed Income Plan – Immediate Annuities	Allocated Pension Plan	Personal Superannuation	Deferred Annuity
Product Overview	A term certain immediate annuity providing a regular income for a selected term in exchange for an initial investment amount	Allocated pension plan – provides a regular income in retirement	Superannuation savings and accumulation product. Also accommodates those who wish to roll over monies already accumulated	A long-term multi phase personal retirement account, no longer open to new investments
Investment Term	1 to 20 years for RCV100 1 to 25 years for Residual Capital Value 0 (RCV0)	1 to 5 years (fixed term option only)	1 to 5 years (fixed term option only)	1 to 5 years (fixed term option only)
% of portfolio by funds under management	72.7%	15.5%	10.2%	1.6%
Policies	+17,300	+3,600	+2,600	+1,100

MetLife asset allocation plan

- CL2 works within the bounds of a target Asset Allocation Plan:
  - 30/30/30/10
- Following transfer there will be an initial shift in the allocations:
  - 50/20/20/10
- Future asset allocation will be reviewed against our current target mix
  - Any changes will need to optimise our return on capital





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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

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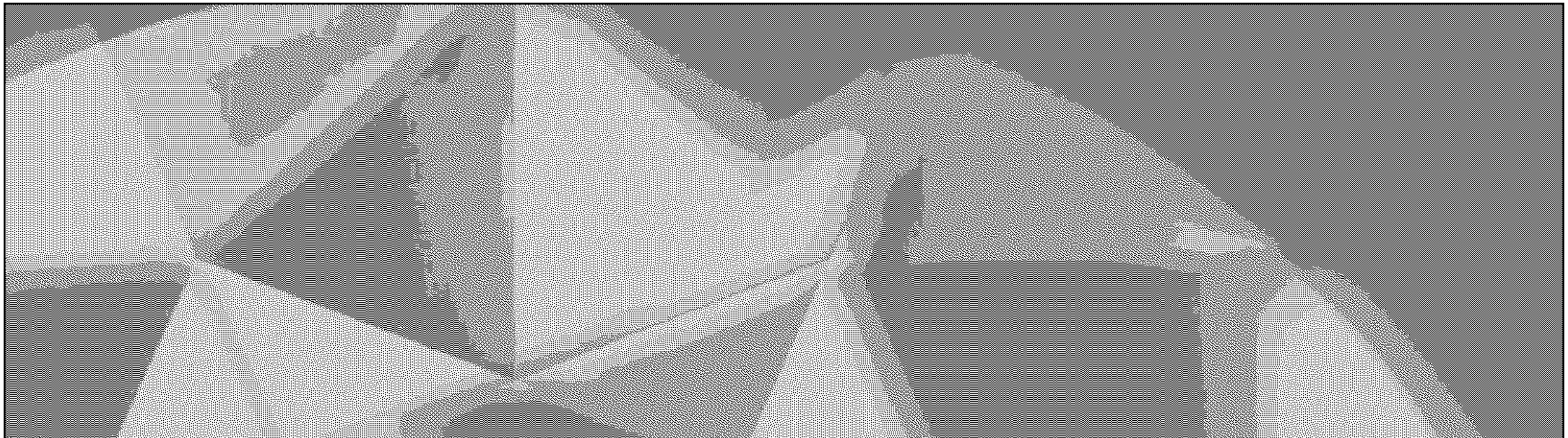
Investing today to develop contemporary, scalable platforms for tomorrow

- 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

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
    - EPS[1] – 10% growth or better
- Flexibility to acquire shares on market to avoid dilution

[1] – Basic EPS



Appendices

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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.

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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

	1H 07	FY 06	2H 06	1H 06
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.

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CIF deconsolidation reconciliation
Statutory

CIF Statutory Reconciliation	1H 07			FY 06			2H 06			1H 06		
$millions	**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

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Consolidated profit and loss

Historic Cost[1]

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.

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Adjusted result
Historic Cost – pre tax

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.

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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[1*]	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				
$millions	**1H 07**	**FY 06**	**2H 06**	**1H 06**
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

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Consolidated profit and loss

Reconciliation of Statutory to Historic Cost

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

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Consolidated balance sheet
CIF deconsolidated

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**

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Cashflow
Excluding SPV cashflows

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) DRP	0	371,823	530,669	0	0
ii) LTIP	5,336,000	6,478,000	3,548,000	5,828,000	0
iii) LTIP shares bought back & cancelled	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 shares[1]	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 purposes[1]	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.

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Contemporary long term incentive scheme

- 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 with 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

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Earnings and dividends per share

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.

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Debt and gearing

$m	1H 07	2H 06	1H 06	% Δ 1H 07 - 1H 06
Financial Debt[1]				
Corporate facilities and other	160	120	262	-38.9%
Total Financial Debt	160	120	262	-38.9%
Operating Leverage[2]				
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%
Gearing[3]				
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.

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Funds Management

Funds Management Results					
$millions	**1H 07**	**2H 06**	**1H 06**	**2H 05[1]**	**1H 05**
Income					
Net Investment Income	0.0	0	0	0	0
Fees received	70.1	65	52	44	32
Fees & commissions paid	(15.0)	(15)	(12)	(10)	(11)
Acquisition cost amortisation	0.0	0	0	0	0
Net fee income	55.1	50	39	35	21
Other income	0.0	1	3	1	0
Net income	55.1	50	42	36	22
Expenses					
Employee expenses	(23.9)	(21)	(22)	(24)	(15)
Other	(14.3)	(12)	(13)	(19)	(9)
Total expenses	(38.2)	(33)	(35)	(42)	(24)
EBIT	16.9	18	7	(6)	(3)
Performance					
Cost to income	69.4%	64.9%	83.9%	116.9%	113.5%
EBIT margin	30.6%	35.1%	16.1%	(16.9%)	(13.5%)
Net fee income/Net income	100.0%	98.4%	94.0%	96.1%	99.5%
Other income/Net income	0.0%	1.6%	6.0%	3.9%	0.5%
Net assets ($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	-	-

[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.

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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

[1] - Half on Half data annualised.

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Mortgage Management

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

[1] - Half on Half data annualised

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Mortgage Management

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

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[1] - Half on Half data annualised

Asset Management

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

	1H 07	2H 06	1H 06	2H 05	1H 05
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.

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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

	1H 07	2H 06	1H 06	2H 05	1H 05
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.

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Asset Management

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.

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Financial Planning

Financial Planning Results					
$millions	**1H 07**	**2H 06**	**1H 06**	**2H 05**	**1H 05[1]**
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.

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Corporate

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 costs[2]	(5.9)	(22)	(13)	(8)	(9)
Net Profit / (Loss) Before Tax[3]	(21.2)	(52)	(25)	(17)	(30)
Headcount - FTE[4]	*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.

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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**
Adjustments[4]	*(3,682)*	*(2,801)*	*(2,719)*	*(2,438)*	*(2,466)*
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 Segragated Boutique Mandates

4: Adjustments reflect the prevention of double counting of cross holdings of Commercial Lending ($2,820) and Life Company investments in:
- Specialised Funds $588m
- Unlisted Funds $274m

5: Funds under advice that earn on-going revenue

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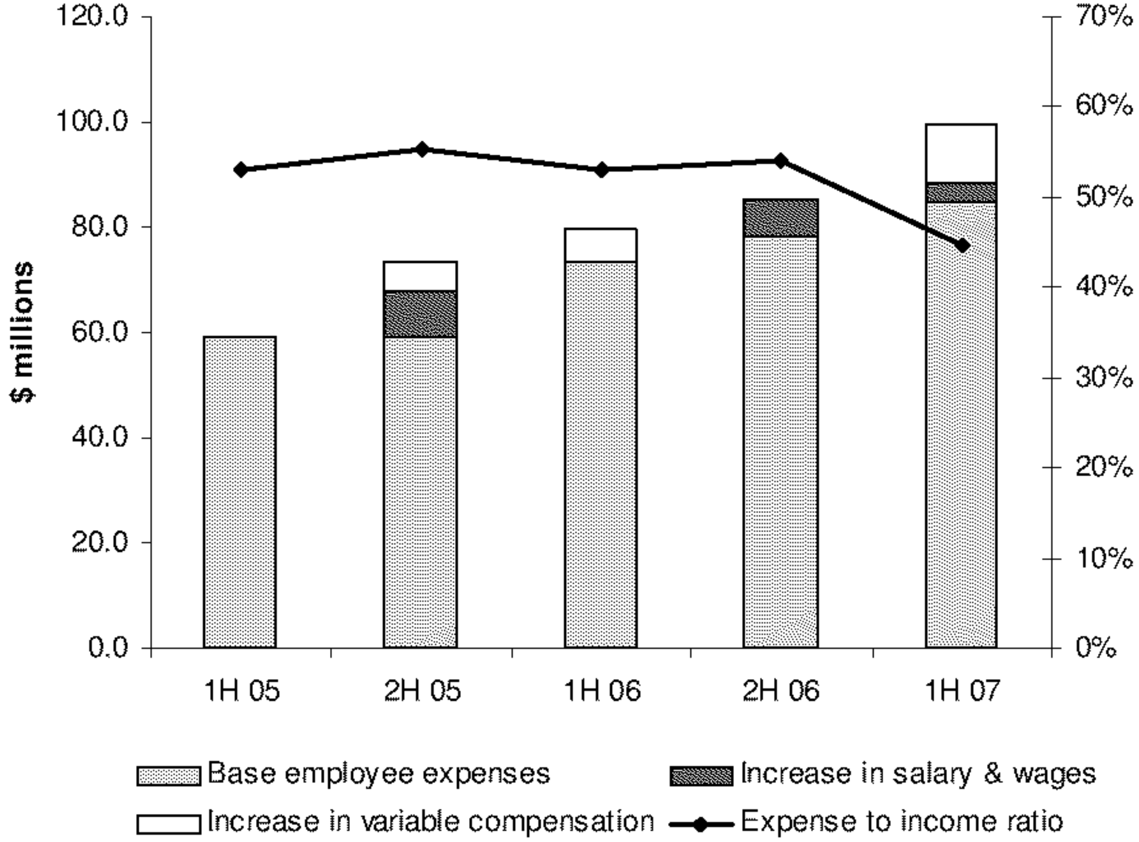
Operating efficiency



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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)	*Mortgage Management* 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. *Asset Management* 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.

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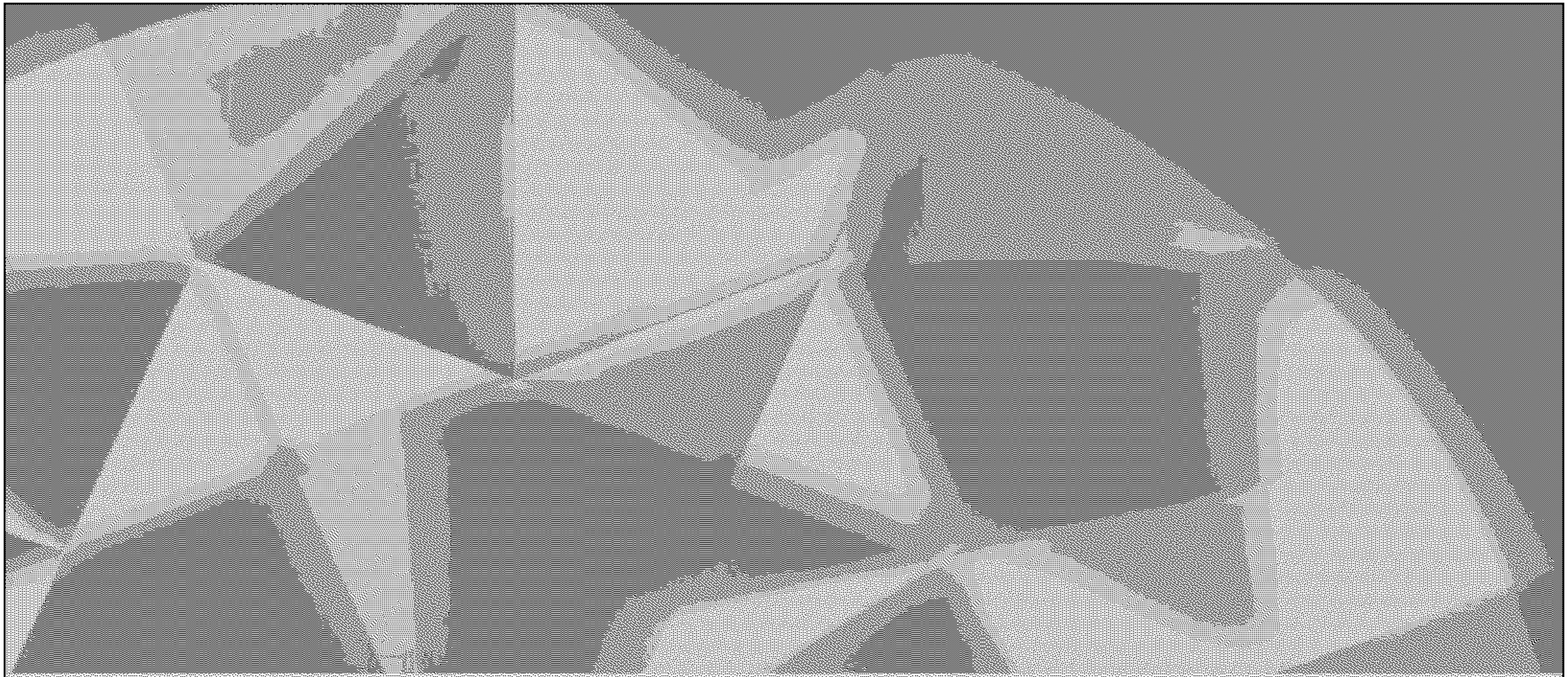
Glossary

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.



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