

MARKET RELEASE

ASSETS & LOANS UNDER MANAGEMENT / ADMINISTRATION 30 SEPTEMBER 2006

27 October 2006, Sydney – Challenger Financial Services Group Limited (ASX:CGF) today announced that at 30 September 2006 its assets and loans under management/administration totalled \$38.0 billion (30 June 2006 \$36.5 billion). This represents growth of \$1.4 billion for the quarter (3.9 per cent) and \$4.8 billion for the 12 months to 30 September 2006 (14.6 per cent).

Funds under management increased during the quarter to \$13.7 billion (30 June 2006 \$12.9 billion), up 6.2 per cent in the quarter, and 20.8 per cent for the twelve months to 30 September 2006.

Challenger's mortgage loan book totalled \$21.3 billion at 30 September 2006 (30 June 2006 \$20.9 billion). Residential mortgages grew by \$328 million (1.8 per cent) for the quarter and by \$2.0 billion in the 12 months to 30 September 2006 (11.9 per cent).

Challenger has seen lower residential volumes on the back of weak property markets particularly in NSW where Challenger has a disproportionately higher share of its distribution. Challenger has also seen major competitors offer significant discounting on low doc products in contrast with increased risk in these markets. Fixed rate loans have temporarily increased as a share of total loans following consumer expectations of rapid increases in interest rates and we have responded by introducing a competitive fixed rate loan product during October.

On the funding side of the Asset Management business, total annuity sales for the quarter ended 30 September 2006 were \$124 million (\$131 million for the June quarter including wholesale annuities). Retail annuity sales were up \$43 million (53 per cent) in the September quarter.

Following the successful public listing of the Challenger Diversified Property Group (ASX:CDI) in October 2006, Asset Management's asset allocation in property is now



35 per cent (down from 48 per cent at the end of September), fixed interest is 42 per cent (up from 28 per cent at the end of September) and infrastructure is at 20 per cent.

Challenger manages its asset allocation to maximise returns on invested equity as determined by opportunity and market cycles. All asset opportunities are assessed against our stated 18 per cent return on net assets (RONA) hurdle. We remain committed to a diversified asset allocation of infrastructure, property, fixed income and equity.

ENDS

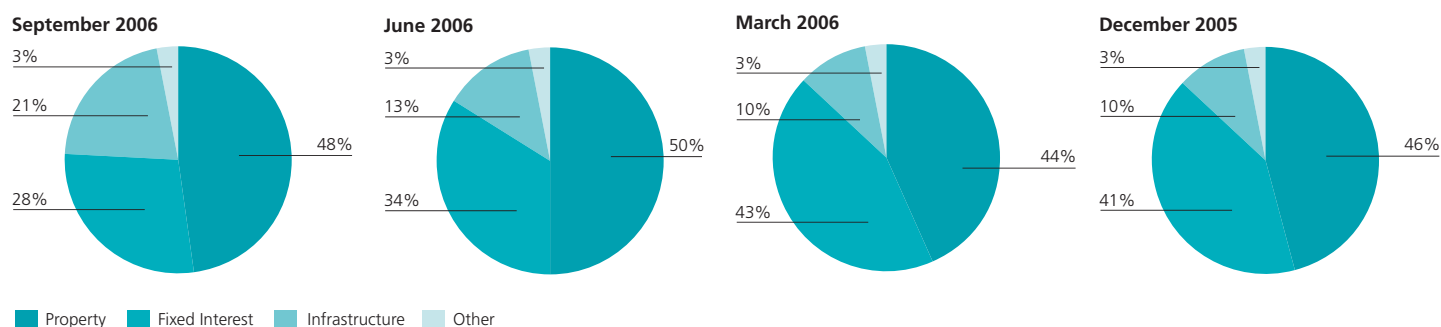
Assets and loans under management or administration as at 30 September 2006

	30 Sep 06 \$m	30 Jun 06 \$m	31 Mar 06 \$m	31 Dec 05 \$m
Total Group Assets under Management or Administration	37,987	36,547	35,662	34,554
Challenger Funds Management				
Managed investments where Challenger acts as Responsible Entity, Approved Trustee or Investment Mandate Manager (includes 5Di funds, Custom Choice funds and market linked life policies – interfunding eliminated)				
Market linked funds				
Australian equities funds/mandates	4,700	4,296	4,055	3,526
International equities funds	283	282	296	273
Direct property (via syndicates)	–	–	61	109
Real estate securities (including hybrid property) funds/mandates	2,635	2,518	2,431	2,417
Fixed interest funds	1,862	1,773	1,626	1,476
Multi sector funds	468	469	515	519
Total market linked funds under management	9,948	9,338	8,984	8,320
Other funds				
Cash funds	57	54	64	155
Mortgage funds	3,516	3,476	3,475	3,468
Boutique partnership mandates ^a	148	–	–	–
Total other funds under management	3,721	3,530	3,539	3,623
Total funds under management	13,669	12,868	12,523	11,943
Comprising:				
Retail funds	8,609	8,338	8,380	8,030
Institutional funds	5,060	4,530	4,143	3,913
	13,669	12,868	12,523	11,943
Challenger Financial Planning				
Funds under administration				
Synergy mastertrust	1,848	1,806	1,829	1,728
Galaxy wrap	104	108	111	105
Total funds under administration	1,952	1,914	1,940	1,833
Challenger Mortgage Management				
Mortgage loan book				
Commercial lending	2,698	2,643	2,475	2,516
Residential lending	18,586	18,258	17,651	17,190
Total loans under management	21,285	20,901	20,126	19,706
Challenger Asset Management				
Assets managed for the Life company				
Property ^b	1,509	1,515	1,377	1,422
Debt investments (including hybrids) & cash	874	1,055	1,324	1,284
Infrastructure assets (including Life's investment in CIF)	645	409	304	301
Equity and other assets	95	97	102	108
Total assets managed for the Life company	3,123	3,076	3,107	3,115
Specialised funds				
Challenger Wine Trust (ASX:CWT) (gross assets)	302	295	301	298
Challenger Infrastructure Fund (ASX:CIF) (adjusted equity value)	765	294	320	378
Challenger Hybrid Property Fund (direct property gross assets)	247	–	–	–
Total specialised fund assets	1,314	589	621	676
Total assets under management	4,437	3,665	3,728	3,791

^a Segregated institutional mandates where the Boutique partner acts as the investment manager.

^b Property is reported net of senior debt of \$291m (June 2006 \$286m). In the June 2006 quarter properties were revalued. Property includes direct and indirect holdings.

Life company asset allocation split



Analysis of Flows

Challenger Funds Management

Funds under management net flows for the quarter comprise:

	30 Sep 06	30 Jun 06	31 Mar 06	31 Dec 05
	\$m	\$m	\$m	\$m
Retail funds	214	37	180	315
Institutional funds	239	424	12	135
Net inflows	453	461	192	450

Challenger Asset Management

Annuity sales for the quarter comprise:

	30 Sep 06	30 Jun 06	31 Mar 06	31 Dec 05
– Retail	124	81	66	78
– Wholesale	–	50	–	–
Total Annuity sales	124	131	66	78

Policyholder liability	–	2,138	–	2,239
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Reconciliation of Total Group Assets under Management or Administration

Funds under management	13,669	12,868	12,523	11,943
Funds under administration	1,952	1,914	1,940	1,833
Loans under management	21,285	20,901	20,126	19,706
Assets under management	4,437	3,665	3,728	3,791
Total assets under management or administration before adjustments	41,344	39,348	38,317	37,273
Adjustments to remove double counting of cross holdings:				
Commercial lending	(2,698)	(2,643)	(2,475)	(2,516)
Life company investment in CIF (adjusted equity value)	(411)	(158)	(180)	(203)
Asset Management Challenger Hybrid Property Fund (direct property gross assets)	(247)	–	–	–
Total Group assets under management and administration	37,987	36,547	35,662	34,554