

MARKET RELEASE

Reporting Template Update – Key Value Drivers (Asset Management Statutory Reporting)

17 December 2007, Sydney – Challenger Financial Services Group Limited (ASX:CGF) today released a template in preparation for its interim results announcement providing additional disclosure on the key value drivers of the statutory earnings for the Asset Management division, with prior year comparatives.

A copy of the template can also be downloaded from the Challenger website in excel format at:

<http://www.challenger.com.au/content/2007.asp>

Ends

Reporting Template Update

Key Value Drivers of Asset Management Statutory Earnings

17 December 2007



Changes to management reporting of statutory earnings of the Asset Management division

- In response to feedback from the investment community Challenger is providing new management disclosure for statutory accounting for its Asset Management division, accompanied by prior year comparatives back to 2005 on a full and half year basis
- The disclosure aligns with the internal management of the business which is focussed on total investment return, whilst maintaining prudent capital, solvency and liquidity within Asset Management, including its Life business
- Following these changes, Challenger will no longer report on a historic cost earnings basis for the Asset Management division, aligning it with the three other divisions of Challenger

Template changes

Asset Management

Statutory Result

Asset Management		Full Year			Half Year					
\$millions		2007	2006	2005	2H 07	1H 07	2H 06	1H 06	2H 05 ⁴	1H 05 ⁴
Income										
Total investment income		\$362.5	\$303.2	\$286.7	\$180.3	\$182.2	\$154.4	\$148.8	\$125.6	\$161.1
Costs of funding ¹		(\$133.8)	(\$118.5)	(\$109.7)	(\$70.2)	(\$63.6)	(\$61.3)	(\$58.2)	(\$49.6)	(\$60.1)
Net investment income		\$228.7	\$183.7	\$177.0	\$110.1	\$118.6	\$93.1	\$90.6	\$76.0	\$101.0
Net fee income		\$81.8	\$37.0	\$15.0	\$59.5	\$22.3	\$21.0	\$16.0	\$14.0	\$1.0
Other income		-	-	-	-	-	-	-	-	-
Net income		\$310.5	\$220.7	\$192.0	\$169.6	\$140.9	\$114.1	\$106.6	\$90.0	\$102.0
Expenses										
Employee expenses		(\$60.2)	(\$40.0)	(\$25.0)	(\$28.7)	(\$31.5)	(\$22.0)	(\$18.0)	(\$16.0)	(\$9.0)
Other		(\$17.3)	(\$14.0)	(\$12.0)	(\$9.8)	(\$7.5)	(\$7.0)	(\$7.0)	(\$7.0)	(\$5.0)
Total expenses		(\$77.5)	(\$54.0)	(\$37.0)	(\$38.5)	(\$39.0)	(\$29.0)	(\$25.0)	(\$23.0)	(\$14.0)
EBIT		\$233.0	\$166.7	\$155.0	\$131.1	\$101.9	\$85.1	\$81.6	\$67.0	\$88.0
Significant items		\$20.5	(\$14.0)	-	(\$8.5)	\$29.0	\$1.0	(\$15.0)	-	-
NPBT		\$253.5	\$152.7	\$155.0	\$122.6	\$130.9	\$86.1	\$66.6	\$67.0	\$88.0
Performance										
EBIT margin		75.0%	75.5%	80.7%	77.3%	72.3%	74.6%	76.5%	74.4%	86.3%
Net investment income/Net income		73.6%	83.2%	92.2%	64.9%	84.2%	81.5%	85.0%	84.4%	99.0%
Net fee income/Net income		26.4%	16.8%	7.8%	35.1%	15.8%	18.5%	15.0%	15.6%	1.0%
Net Assets at beginning of financial year (\$m)		883	686	626	883	883	686	686	626	626
RONA (annualised)		26.4%	24.3%	24.8%	29.7%	23.1%	24.6%	23.9%	21.4%	28.1%
Average investment portfolios (\$bn) ²		3.318	3.068	3.009	3.451	3.210	3.087	3.076	3.106	3.000
Average funding portfolios (\$bn)		2.254	2.270	2.226	2.312	2.238	2.269	2.335	2.310	2.203
Expressed as a ratio of average portfolio										
Total investment income ³ (on average investment portfolios)		10.9%	9.9%	9.5%	10.5%	11.3%	10.1%	9.6%	8.2%	10.7%
Costs of funding (on average funding portfolios)		(5.9%)	(5.2%)	(4.9%)	(6.1%)	(5.6%)	(5.4%)	(4.9%)	(4.3%)	(5.4%)
Net investment income³ (on average investment portfolios)		6.9%	6.0%	5.9%	6.4%	7.4%	6.0%	5.9%	4.9%	6.7%
Net Assets (\$m) - average ²		924.1	799.0	663.3	944.6	879.1	855.5	757.0	682.0	652.0
RONA (annualised on average Net Assets)		25.2%	20.9%	23.4%	27.8%	23.2%	19.9%	21.6%	19.6%	27.0%

New format is broadly consistent with prior disclosure, the key changes are to the components of the Net investment income line item which are restated to reflect the Asset Management divisional focus on deriving “*Total Investment Return*”

Net fee income, Net income, Expenses, EBIT, Significant items and NPBT are unchanged

¹ Includes the release of discount on annuities through time, cost of writing new business, distribution costs, administration costs and expense release in relation to annuities plus the costs of subordinated debt origination/servicing

² Full year values calculated on a three point average and half year values calculated on a two point average

³ 2006 does not include CIF distributions eliminated on consolidation (on a normalised basis the Total investment income in 2006 would have been 10.1% and Net investment income would have been 6.2%).

⁴ 2005 comparative data shown on a proforma basis adopting consistent AIFRS treatment.

Template changes

Asset Management Statutory Result

Asset Management \$millions	Full Year			Half Year					
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Total investment income - included in this line item:

- running yield on investment portfolios
- realised gains or losses on investments over most recent valuation along with associated instruments used to hedge income and/or capital
- revaluation of both investment and funding portfolios along with associated hedging instruments

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Costs of funding - included in this line item:

- release of the discount rate on annuities through time
- coupons on subordinated debt (regulatory capital)
- costs associated with raising funding
- cost to write new annuity business (mark to market on origination) and commissions paid
- annuity portfolio service fee

¹ Includes the release of discount on annuities through time, cost of writing new business, distribution costs, administration costs and expense release in relation to annuities plus the costs of subordinated debt origination/servicing

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Net investment income - included in this line item:

- sum of Total investment income and Costs of funding

- this line is unchanged from prior statutory disclosure

¹ Includes the release of discount on annuities through time, cost of writing new business, distribution costs, administration costs and expense release in relation to annuities plus the costs of subordinated debt origination/servicing

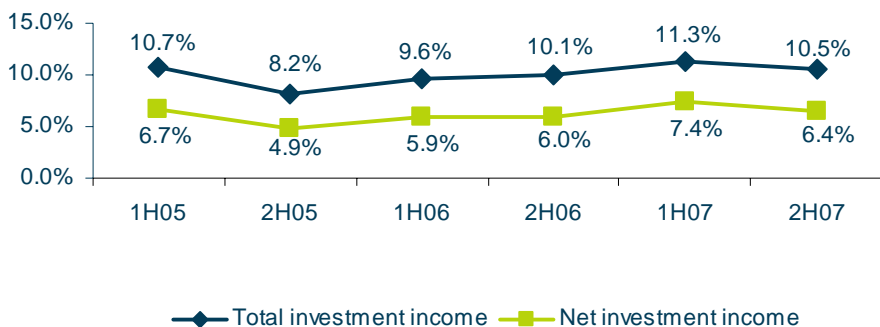
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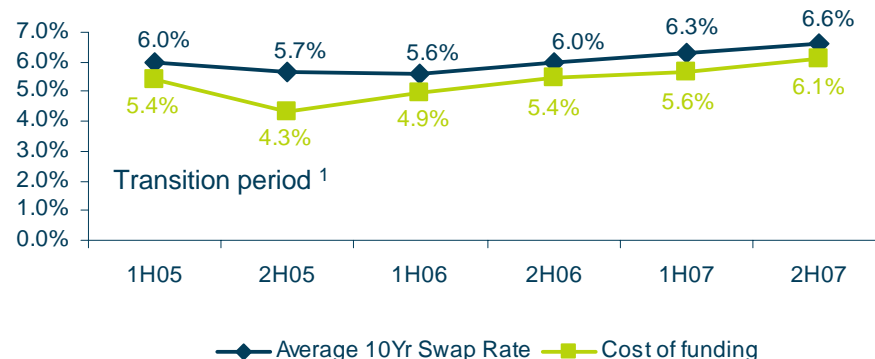
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Key value drivers of AM 'spread' business

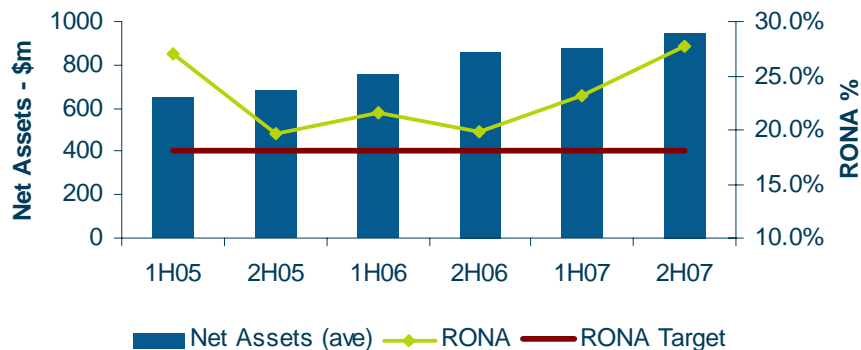
Investment Returns
(as % of ave. investment portfolios)



Cost of Funding



Asset Management - Capital Efficiency



Key messages:

- Medium term trends show consistency between Total investment income and Net investment income
- This is attributable to both portfolio performance and predictable cost of funding
- Generating returns on capital employed (Net Assets) in excess of RONA target - off a growing capital base

1. In 2H05 the Life company transitioned to new management structure arrangements.



challenger 