MARKET RELEASE

## Challenger Financial Services Group Limited – Full Year 2007 Financial Results

27 August 2007, Sydney – Challenger Financial Services Group Limited (ASX:CGF) today announced a profit after tax of $255m for the year ended 30 June 2007, 90 per cent above the prior corresponding period.

The result was underpinned by strong top-line revenue growth up 27 per cent. All divisions contributed to the results, each returning double-digit growth in revenue and earnings over the year. Earnings per share, at 46 cents per share, increased 86% over the year.

Both net profit after tax and earnings per share have more than doubled over the past two years.

Expenses were up over the prior corresponding period, reflecting ongoing investment in people, products, technology and brand. However the cost to income ratio fell 340 basis points as revenue growth outstripped growth in expenses and continued productivity benefits flowed through from Challenger's scalable and contemporary business model.

A final dividend of 7.5 cents fully franked has been declared bringing the full year dividend to 12.5 cents, 67 per cent increase on 2006.

Assets and loans under management, administration or advice broke through the $50 billion mark for the first time to close at $52.8bn, up 27 per cent on the prior year's close. Key drivers included a quadrupling in specialised funds to $3.2 billion and 43% growth in FUM in the Funds Management business.

Challenger Chief Executive Officer Mike Tilley said "This is another record result for Challenger, driven by strong performance across each of our four divisions. The diversity of our revenue stream is improving each year, demonstrating the benefits of a business model that spans the breadth of financial services.

"The foundations of each of our businesses are strong and we are moving forward with significant momentum. As we enter the new financial year, we are well positioned to continue to achieve our objective of delivering above 18% return on net assets and double digit earnings per share growth in the long term."

*Ends*

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# Challenger Financial Services Group Limited

## 2007 full year results

### Financial Highlights

| For year ending 30 June 2007 | | FY06-FY07 |
|---|---|---|
| **Assets Under Management** (Total assets & loans under management/admin) | $52.8bn | ▲ 27.2% |
| **Net income** | $622m | ▲ 27.2% |
| **Expenses** | $287m | ▲ 18.6% |
| **EBIT** | $335m | ▲ 35.6% |
| **NPAT*** | $255m | ▲ 90.3% |
| **ROE*^** | 19.0% | ▲ 66.7% |
| **EPS – Basic** | 46.3c | ▲ 85.9% |
| **EPS – Diluted** | 43.2c | ▲ 80.8% |
| **DPS – Final** | 7.5c | – |
| **DPS – Full Year** | 12.5c | ▲ 67.0% |

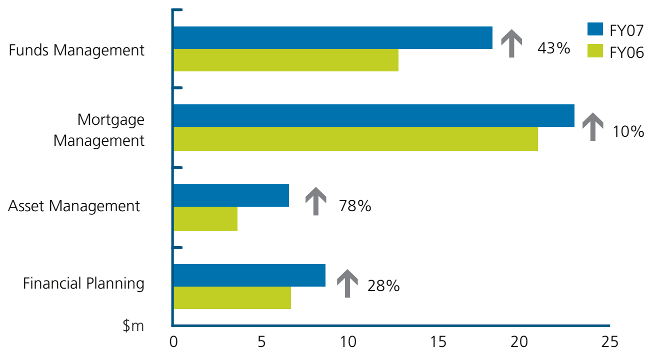
* Including significant items
^ Calculated on Average Net Assets

- **NPAT and EPS more than doubled over past 2 years**
- **Double digit revenue and earnings growth from each division**
- **Significant momentum to propel the business forward**

**Assets and loans under management, administration or advice:** $52.8bn up 27% on prior corresponding period (pcp) predominantly reflecting;

- Funds Management up 43% on pcp reflecting retail momentum and strong growth in institutional funds from key mandate wins and FUM growth from Boutiques
- Asset Management up 78% reflecting a quadrupling in specialised funds to $3.2bn

### Assets Under Management



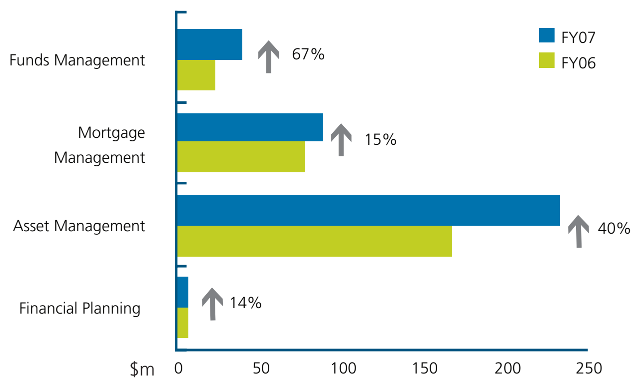

**Net income:** $622m up 27% on pcp reflecting

- Fee based income now 62% of total income

**Expenses:** $287m up 19% on pcp reflecting

- Ongoing investment in people, products, technology and brand
- Cost to income ratio falling to 46.2% from 49.6% in FY06

### Earnings before interest & tax (EBIT)^




^ Pre significant items

### Return on Net Assets (RONA)*

| For year ended 30 June 2007 | | FY06-FY07 |
|---|---|---|
| Funds Management | 29.3% | ▲ 57.5% |
| Mortgage Management | 21.8% | ▲ 0.5% |
| Asset Management | 26.4% | ▲ 8.6% |
| Financial Planning | 5.5% | ▲ 12.2% |

* Calculated on opening Net Assets

# Funds Management

## Financial highlights

| For year ending 30 June 2007 | | FY06-FY07 |
|---|---|---|
| Funds under Management | $18.4bn | ↑ 42.6% |
| Net income | $108m | ↑ 17.4% |
| Expenses | $68m | ↔ 0.0% |
| EBIT | $40m | ↑ 66.7% |
| RONA | 29.3% | ↑ 57.5% |

**FUM:** $18.4bn up 43% on pcp reflecting

- Increasing recognition for investment excellence
- Strong momentum across all distribution channels supported by continued growth in 'Buy ratings' and platform presence

**Net income:** $108m up 17% on pcp reflecting

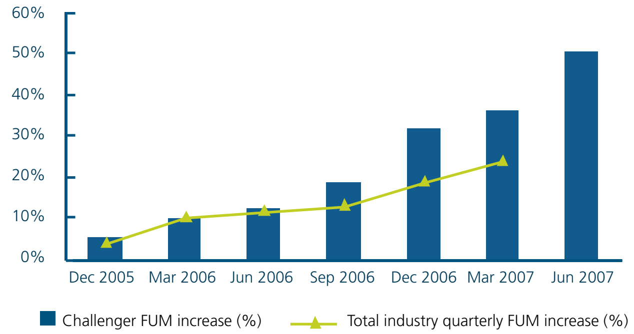
- Strong FUM growth
- Funding of institutional mandates resulting in timing differences between FUM increase and revenue impact

**Expenses:** $68m flat on pcp reflecting

- Increased Fund Manager remuneration offset by increased productivity delivered via technology investment in the middle and back offices systems
- Advertising campaign launched in 2H07 delivered a significant increase in brand awareness

**RONA:** 29% up 58% on pcp

### Challenger FUM increase compared to Total Industry FUM increase (%) (cumulative) – quarterly




Source: ABS Managed Funds Quarterly Survey

## Performance highlights

**Fund performance underpins momentum in FUM growth**

Challenger's above industry FUM growth reflects

- Continued solid alpha generation across asset classes and strategies
- Expanding distribution reach
  - The ongoing momentum in the build out of Funds Management's four pronged strategy (by internal managers, multi managers, boutique partnerships and investment alliances) continues to expand its distribution reach
- Increased brand recognition
  - Brand campaign launched in 2H07 delivered a significant increase in brand awareness levels
- Boutique partnerships expanding
  - Greencape Capital awarded Money Management 'Rising Star' award in its first year of operation
  - Kapstream Capital launched in May 2007, with two mandates funding within their first month of operation
  - Segregated mandates grew to over $700m in the past 12 months

## Outlook

**Momentum to deliver continued FUM growth**

- Experienced and talented investment teams underlie strong investment performance
- Contemporary scalable systems will support future FUM growth
- Look for opportunities in international arena and additional boutique partnerships

# Mortgage Management

## Financial highlights

| For year ending 30 June 2007 | | FY06-FY07 |
|---|---|---|
| Residential mortgages under management | $19.8bn | ▲ 8.2% |
| Commercial mortgages under management | $3.2bn | ▲ 23.1% |
| Net income | $148m | ▲ 10.4% |
| Expenses | $58m | ▲ 3.6% |
| EBIT | $90m | ▲ 15.4% |
| RONA | 21.8% | ▲ 0.5% |

**MUM:** Residential mortgages $19.8bn up 8% on pcp and Commercial mortgages $3.2bn up 23% on pcp reflecting

- Strong June 07 quarter with residential prime lending delivering 15.5% annualised growth in line with broader market

**Net income:** $148m up 10% on pcp

**Expenses:** $58m up 4% on pcp reflecting

- Continued investment in technology has driven scale and efficiency gains
- Cost to income ratio fell below 40%

**EBIT:** $90m up 15% on pcp reflecting

- Efficiency of operations and scalability of business model
- EBIT margin improved to 41bps from 40bps. Margin pressure in commercial lending offset by backbook funding benefits in residential programme and scale benefits/productivity enhancements

**RONA:** 21.8% up 1% on pcp

## Performance highlights

**Established and resilient portfolio**

**High quality mortgage book**

- Residential portfolio 98% prime mortgages with weighted average LVR of portfolio less than 75%
- Challenger RMBS programmes only access term securitisation markets
- Challenger capacity
  - Eight established warehouses with $8.2bn in capacity
  - No need to raise rates for existing borrowers

**Drivers of the June quarter rebound expected to continue into FY08**

- Roll out of 50:50 fixed/variable loan addressed demand for fixed rate product. Blended margin on 50:50 product more attractive than fixed rate product
- Supportive macro economic environment
  - Modest rebound in NSW and Victoria where Challenger has strong distribution
  - Macro economic environment looks supportive as GDP growth remains steady and unemployment remains at ‘full’ levels
- Super changes driving credit growth in June quarter

## Outlook

**Continued momentum in expanding footprint and distribution**

- With more than 500 mortgage managers across Australia, Challenger will continue to be a leading white label funding provider
- Continued focus on operational efficiency and leverage of scaleable platform
- Maintain high quality of mortgage book

# Asset Management

## Financial highlights

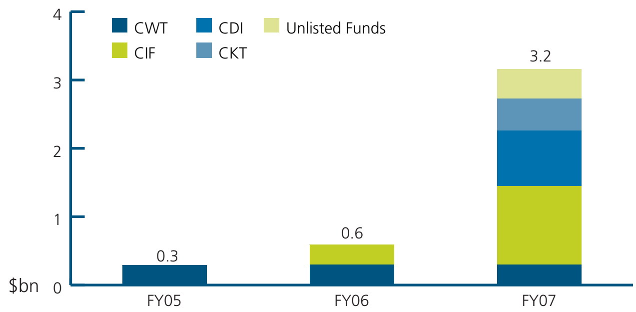
| For year ending 30 June 2007 | | FY06-FY07 |
|---|---|---|
| Assets under Management | $6.6bn | ▲ 78.4% |
| Net income | $311m | ▲ 40.7% |
| Expenses | $78m | ▲ 44.4% |
| EBIT^ | $233m | ▲ 39.5% |
| RONA | 26.4% | ▲ 8.6% |

^ Pre significant items of $20m profit before tax

**AUM:** $6.6bn up 78% on pcp reflecting

- AUM has grown by $2.6bn reflecting launch of Challenger Diversified Property Group (CDI), Challenger Kenedix Japanese Trust (CKT) as well as Challenger Infrastructure Fund (CIF) receiving its second instalment and raising equity via an institutional placement

### Challenger Specialised Funds – AUM




**Net income:** $311m up 41% on pcp reflecting

- Net fee income up $45m due to increased management fees and transaction fees
- Net fee income to net income 26.4% increased from 16.8% in FY06 reflecting growth in specialist funds business
- Continued improvement in spread returns

**Expenses:** $78m up 44% on pcp reflecting

- Growth in expenses reflects the ongoing investment in the growing origination and structuring capabilities
- Cost to income ratio of 25% remains low versus industry peers and expected to rise

**EBIT:** $233m up 40% on pcp reflecting

**RONA:** 26.4% up 9% on pcp

## Performance highlights

**Ongoing build out of fee business and upside from Metlife**

**MetLife annuity book delivers balance sheet scale**

- ~ $1.8bn Metlife annuity book will be transferred on 31 August 2007
- Balance sheet scale increased by 51% to $5.3bn from $3.5bn
- Fixed price, cost effective funding

**Momentum in growing fee income streams**

- Focus on growing existing specialist funds and expanding wholesale/unlisted offerings in both domestic and offshore markets
- Maintain price discipline in asset acquisitions
- Cornerstone investor in specialist funds

**Infrastructure**

- Challenger originated LBC Group (LBC) through exclusive negotiation for a CIF led consortium (enterprise value of €674m)
  - LBC is the 2nd largest independent chemical bulk storage terminal operator globally
- CIF settled its second instalment, completed an overnight 15% institutional placement and raised $262m via an 1:4 Entitlement Offer, settled July 07

**Property**

- CDI successfully listed in October 2006 with gross assets of $650m. In April 2007 CDI acquired a €55m French industrial and retail property portfolio
- CKT a joint venture between Challenger and Kenedix Inc., listed in April 2007 with gross assets of $468m

## Outlook

- Challenger remains a committed market leader in the annuity market
- Metlife portfolio provides opportunity to develop spread income over next three years
- Momentum in growth of specialised funds

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# Financial Planning

## Financial highlights

| For year ending 30 June 2007 | | FY06-FY07 |
|---|---|---|
| Funds under administration | $2.3bn | ▲ 21.1% |
| Funds under advice | $6.5bn | ▲ 32.7% |
| Net income | $49m | ▲ 14.0% |
| Expenses | $41m | ▲ 13.9% |
| EBIT | $8m | ▲ 14.3% |
| RONA | 5.5% | ▲ 12.2% |

**AUM:** $8.8bn up 28% on pcp reflecting

- Funds under advice on margin earning platforms grew by 33%
- Funds under administration grew by 21%

**Net income:** $49m up 14% on pcp reflecting

- Net fee income growth of 17% from FY06 to FY07 up from 5% (FY05 to FY06) demonstrating underlying potential in this business

**Expenses:** $41m up 14% on pcp reflecting

- A restructure charge of $2m associated with completing the organisational restructure
- Costs associated with the Strategic Review and the rollout of new management teams

**EBIT:** $8m up 14% on pcp reflecting

- EBIT growth reflecting growth in Funds under administration and advice

**RONA:** 5.5% up 12% on pcp

- Challenger remains committed to Financial Planning reaching its 18% RONA target by 2009

## Performance highlights

**Steps taken towards achieving 18% RONA in 2009**

- November 2006: Board approves strategic review undertaken by external consulting firm. Key findings from review include the opportunity to
  - Industrialise the business
  - Better align value drivers
- March 2007: Roll out of review changes to reposition the business
  - more than 95% of financial planning firms by value accepted new remuneration structure
- June 2007: Growth in funds under advice and administration demonstrating strategic review initiatives gaining traction
  - Underlying EBIT (excluding non core asset sales and restructure costs) was up 80% on pcp

## Outlook

Priorities to further progress division towards 18% RONA in 2009

- Cultivate the optimum member profile
  - Seeking to develop deeper relationships with existing planning firms rather than broadening the number of planner groups
- Drive productivity in member firms with a focus on mutual value creation
- Execute platform strategy to drive significant growth in rebate paying platform flows
- Expand products offered through planners to include loans and insurance products
- Create a B2B proposition, maximising operational scalability

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## Capital Management

### Existing financial flexibility

- Attractive base financial position at 30 June 2007
  - Existing liquidity
  - Strong capital position
  - Conservative gearing levels

### Enhanced financial flexibility

- MetLife annuity portfolio will be transferred on 31 August 2007
  - Asset portfolio consists of approximately $1.8bn of cash and investment grade fixed income
- Existing capital levels combined with retained earnings supports the reinvestment of the MetLife portfolio to Challenger's optimal asset allocation over the next three years

### Dividend

- Declared final 7.5 cent fully franked
- Full year dividend 12.5 cents fully franked, up 67% on pcp

| | |
|---|---|
| Ex Dividend date: | 20 September 2007 |
| Record Date: | 26 September 2007 |
| Payment Date: | 19 October 2007 |

## Strategic relationships bring significant financial flexibility

### Challenger has entered into long term strategic relationship with both

### The Bank of Tokyo Mitsubishi (BTMU) and Mitsubishi UFJ Securities Co. Ltd (MUS)

- To pursue opportunities for mutual co operations in the Asian region in particular the distribution of funds management retirement and other investment products
- BTMU and MUS will subscribe for 40m Challenger shares at $5.20 per share

### Colony Capital, LLC and its sponsored investment funds (Colony)

- To pursue opportunities in the United States, Europe and Asia across shared core capabilities, including real-estate and infrastructure
- Colony will acquire an option (for $64m) over 57.1m Challenger ordinary shares, exercisable over a 5 year period at $7.00

### Strategic relationships will bring further business opportunities

- Both companies have strong strategic alignment and cultural fit with Challenger
- Additional capital allows for significant financial flexibility to expedite the reinvestment of assets following the MetLife transfer

## Outlook

### Momentum across the business

- MetLife portfolio transfer delivers upside potential over the next three years
- Specialised Funds growth trajectory building out fee income streams
- Mortgage origination back at system growth levels
- Funds management momentum to deliver continued FUM growth
- Early positive signs from Financial Planning division

### The outlook for Challenger is positive

- Strong liquid position
- Strategic relationships will bring further business opportunities
- Continued investment to deliver top line revenue growth
- Committed to asset price discipline

### Remain focused on meeting out investment hurdles and maintaining strong shareholder returns

- Greater than 18% RONA
- Double digit EPS growth in the long term

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# Assets and Loans under Management, Administration or Advice
## as at 30 June 2007

| | 30 June 07 | 31 Mar 07 | 31 Dec 06 | 30 Sep 06 |
|---|---|---|---|---|
| | $m | $m | $m | $m |
| **Total Group Assets under Management, Administration or Advice** | **52,750** | **47,835** | **46,375** | **43,086** |

**Represented by:**

### 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)

| | 30 June 07 | 31 Mar 07 | 31 Dec 06 | 30 Sep 06 |
|---|---|---|---|---|
| **Market linked funds** | | | | |
| Australian equities funds/mandates | 8,184 | 6,284 | 5,683 | 4,700 |
| International equities funds | 348 | 318 | 304 | 283 |
| Real estate securities (including hybrid property) funds/mandates | 3,009 | 2,902 | 2,995 | 2,635 |
| Fixed interest funds | 2,277 | 2,139 | 1,966 | 1,862 |
| Multi sector funds | 405 | 398 | 456 | 468 |
| Total market linked funds under management | 14,223 | 12,041 | 11,404 | 9,948 |
| **Other funds** | | | | |
| Cash funds | 25 | 51 | 49 | 57 |
| Mortgage funds | 3,435 | 3,506 | 3,511 | 3,516 |
| Boutique partnership mandates[a] | 710 | 574 | 523 | 148 |
| Total other funds under management | 4,170 | 4,131 | 4,083 | 3,721 |
| **Total funds under management** | **18,393** | **16,172** | **15,487** | **13,669** |
| Comprising: | | | | |
| Retail funds | 10,554 | 9,827 | 9,237 | 8,609 |
| Institutional funds | 7,839 | 6,345 | 6,250 | 5,060 |
| Total funds under management | 18,393 | 16,172 | 15,487 | 13,669 |

[a] Boutique partnership mandates represent segregated institutional mandates and do not include the registered schemes.

### Challenger Mortgage Management

| | 30 June 07 | 31 Mar 07 | 31 Dec 06 | 30 Sep 06 |
|---|---|---|---|---|
| **Mortgage loan book** | | | | |
| Commercial lending | 3,185 | 2,879 | 2,820 | 2,698 |
| Residential lending | 19,828 | 19,085 | 18,775 | 18,586 |
| **Total loans under management** | **23,013** | **21,964** | **21,595** | **21,285** |

### Challenger Asset Management

| | 30 June 07 | 31 Mar 07 | 31 Dec 06 | 30 Sep 06 |
|---|---|---|---|---|
| **Assets managed for the Life company** | | | | |
| Property[b] | 1,077 | 925 | 916 | 1,509 |
| Debt investments, cash and receivables | 1,567 | 1,687 | 1,729 | 874 |
| Infrastructure assets | 648 | 637 | 569 | 645 |
| Equity and other assets | 184 | 82 | 100 | 95 |
| **Total assets managed for the Life company** | **3,476** | **3,331** | **3,314** | **3,123** |
| **Specialised funds** | | | | |
| Challenger Infrastructure Fund (ASX:CIF) (adjusted equity value) | 1,154 | 849 | 756 | 634 |
| Challenger Diversified Property Group (ASX:CDI) (gross assets) | 807 | 671 | 650 | – |
| Challenger Wine Trust (ASX:CWT) (gross assets) | 298 | 307 | 306 | 302 |
| Challenger Kenedix Property Trust (ASX:CKT) (gross assets) | 468 | – | – | – |
| Unlisted company investment funds | 436 | 279 | 274 | 247 |
| **Total assets** | **3,163** | **2,106** | **1,986** | **1,183** |
| **Total assets under management** | **6,639** | **5,437** | **5,300** | **4,306** |

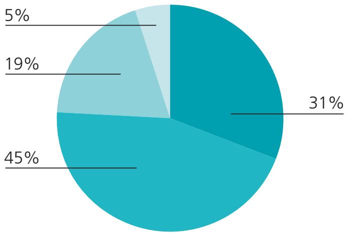
[b] Property is reported net of senior debt of $468m (Mar 2007 $476m). Property includes direct and indirect holdings.

## Challenger Financial Planning

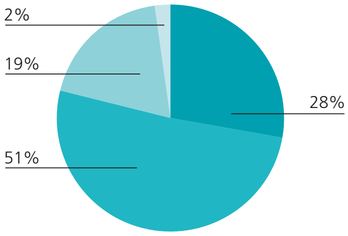
| | 30 June 07 $m | 31 Mar 07 $m | 31 Dec 06 $m | 30 Sep 06 $m |
|---|---|---|---|---|
| Funds under administration | 2,295 | 2,151 | 2,093 | 1,952 |
| Funds under advice | 6,501 | 5,884 | 5,582 | 5,230 |
| **Total funds under administration and advice** | **8,796** | **8,035** | **7,675** | **7,182** |

## Life company asset allocation split

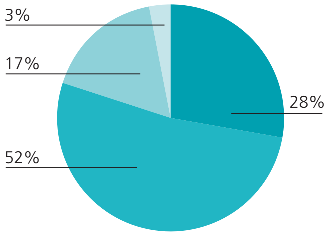
**June 2007**



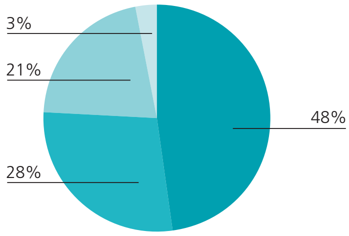

**March 2007**




**December 2006**




**September 2006**




Property  Fixed Interest  Infrastructure  Other

## Analysis of Flows

### Challenger Funds Management

| **Funds under management net flows for the quarter comprise:** | 30 June 07 $m | 31 Mar 07 $m | 31 Dec 06 $m | 30 Sep 06 $m |
|---|---|---|---|---|
| Retail funds | 520 | 274 | 187 | 214 |
| Institutional funds | 1,223 | 36 | 576 | 239 |
| Net inflows | 1,743 | 310 | 763 | 453 |

### Challenger Asset Management

| **Annuity sales for the quarter comprise:** | | | | |
|---|---|---|---|---|
| Retail | 108 | 77 | 84 | 124 |
| Policyholder liability | 2,110 | – | 2,150 | – |

## Reconciliation of Total Group Assets under Management, Administration or Advice

| | 30 Jun 07 $m | 31 Mar 07 $m | 31 Dec 06 $m | 30 Sep 06 $m |
|---|---|---|---|---|
| Funds under management | 18,393 | 16,172 | 15,487 | 13,669 |
| Funds under administration and advice | 8,796 | 8,035 | 7,675 | 7,182 |
| Loans under management | 23,013 | 21,964 | 21,595 | 21,285 |
| Assets under management | 6,639 | 5,437 | 5,300 | 4,306 |
| Total before adjustments | 56,841 | 51,608 | 50,057 | 46,442 |
| **Adjustments to remove double counting of cross holdings:** | | | | |
| Commercial lending | (3,185) | (2,879) | (2,820) | (2,698) |
| Life company investment in Specialised Funds | (621) | (615) | (588) | (411) |
| Asset Management unlisted funds | (285) | (279) | (274) | (247) |
| **Total Group Assets Under Management, Administration or Advice** | **52,750** | **47,835** | **46,375** | **43,086** |

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