

## MARKET RELEASE

---

### **ASSETS & LOANS UNDER MANAGEMENT / ADMINISTRATION 31 DECEMBER 2006**

22 January 2007, Sydney – Challenger Financial Services Group Limited (ASX: CGF) today announced that at 31 December 2006 its assets and loans under management/administration and advice totalled \$46.4 billion representing growth of \$3.3 billion (7.6 per cent) for the second quarter of financial year 2007 and \$6.9 billion (17.5 per cent) for the 12 months to 31 December 2006. This disclosure now incorporates the funds under advice within the Financial Planning division (\$5.5 billion as at 31 December 2006).

Funds under management increased during the quarter to \$15.5 billion, up \$1.8 billion (13.3 per cent) over the quarter, and \$3.5 billion (29.7 per cent) for the twelve months to 31 December 2006. Institutional funds flow of \$576 million for the quarter follows on from the strong alpha generation from within the suite of Funds Management products.

Challenger's mortgage loan book totalled \$21.6 billion at 31 December 2006. Residential mortgages grew by \$189 million (1.0 per cent) for the quarter and by \$1.6 billion (9.2 per cent) in the 12 months to 31 December 2006. Residential mortgage settlements for the quarter were marginally below the corresponding period in 2005 but were not impacted to the same extent as the broader residential market.<sup>1</sup> Continued speculation over interest rates during the December Quarter saw higher levels of unscheduled loan repayments and loan discharges associated with refinancing to fixed rate products. Whilst this trend has stabilised since the September 2006 Quarter it shows no signs of abating in early 2007.

Asset Management's assets under management grew to \$4.4 billion, up \$790 million (22 per cent) over the quarter, net of cross holdings in specialised funds. This growth was underpinned by the successful launch of the Challenger Diversified Property Group (ASX: CDI) fund.

Post the launch of CDI, the asset allocation to property is now 28 per cent (48 per cent at September 2006). Infrastructure is now 17 per cent (21 per cent at September) following the reduction in the Life company's holding in the Challenger Infrastructure Fund. Fixed interest is 52 per cent (28 per cent at September) reflecting increased liquidity from the listing of CDI, the sale of CIF units and the issuance of \$190 million of subordinated debt.

Total annuity sales of the Asset Management business were \$84 million for the quarter ended 31 December 2006 (\$124 million for the September quarter).

---

<sup>1</sup> Based on information published by AFG

## Assets and Loans under Management, Administration or Advice as at 31 December 2006

|   | 31 Dec 06     | 30 Sep 06     | 30 Jun 06     | 31 Mar 06     |
|---|---------------|---------------|---------------|---------------|
|   | \$m           | \$m           | \$m           | \$m           |
| <b>Total Group Assets under Management, Administration or Advice</b> <sup>(c) (d)</sup> | <b>46,375</b> | <b>43,086</b> | <b>41,487</b> | <b>40,562</b> |

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)

#### Market linked funds

|   |               |              |              |              |
|---|---------------|--------------|--------------|--------------|
| Australian equities funds/mandates                                | 5,683         | 4,700        | 4,296        | 4,055        |
| International equities funds                                      | 304           | 283          | 282          | 296          |
| Direct property (via syndicates)                                  | –             | –            | –            | 61           |
| Real estate securities (including hybrid property) funds/mandates | 2,995         | 2,635        | 2,518        | 2,431        |
| Fixed interest funds  | 1,966         | 1,862        | 1,773        | 1,626        |
| Multi sector funds  | 456           | 468          | 469          | 515          |
| <b>Total market linked funds under management</b>                 | <b>11,404</b> | <b>9,948</b> | <b>9,338</b> | <b>8,984</b> |

#### Other funds

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Cash funds                                   | 49           | 57           | 54           | 64           |
| Mortgage funds                               | 3,511        | 3,516        | 3,476        | 3,475        |
| Boutique partnership mandates <sup>(a)</sup> | 523          | 148          | –            | –            |
| <b>Total other funds under management</b>    | <b>4,083</b> | <b>3,721</b> | <b>3,530</b> | <b>3,539</b> |

|                                     |               |               |               |               |
|-------------------------------------|---------------|---------------|---------------|---------------|
| <b>Total funds under management</b> | <b>15,487</b> | <b>13,669</b> | <b>12,868</b> | <b>12,523</b> |
| Comprising:                         |               |               |               |               |
| Retail funds                        | 9,237         | 8,609         | 8,338         | 8,380         |
| Institutional funds                 | 6,250         | 5,060         | 4,530         | 4,143         |
|                                     | 15,487        | 13,669        | 12,868        | 12,523        |

<sup>(a)</sup> Boutique partnership mandates represent segregated institutional mandates and do not include the registered schemes.

### Challenger Mortgage Management

#### Mortgage loan book

|                                     |               |               |               |               |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Commercial lending                  | 2,820         | 2,698         | 2,643         | 2,475         |
| Residential lending                 | 18,775        | 18,586        | 18,258        | 17,651        |
| <b>Total loans under management</b> | <b>21,595</b> | <b>21,284</b> | <b>20,901</b> | <b>20,126</b> |

### Challenger Asset Management

#### Assets managed for the Life company

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Property <sup>(b)</sup>                          | 916          | 1,509        | 1,515        | 1,377        |
| Debt investments (including hybrids) and cash    | 1,729        | 874          | 1,055        | 1,324        |
| Infrastructure assets                            | 569          | 645          | 409          | 304          |
| Equity and other assets                          | 100          | 95           | 97           | 102          |
| <b>Total assets managed for the Life company</b> | <b>3,314</b> | <b>3,123</b> | <b>3,076</b> | <b>3,107</b> |

#### Specialised funds

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Challenger Infrastructure Fund (ASX:CIF) (adjusted equity value) <sup>(c)</sup> | 756          | 634          | 294          | 320          |
| Challenger Diversified Property Group (ASX:CDI) (gross assets)                  | 650          | –            | –            | –            |
| Challenger Wine Trust (ASX:CWT) (gross assets)                                  | 306          | 302          | 295          | 301          |
| Unlisted Funds  | 274          | 247          | –            | –            |
| <b>Total assets</b>   | <b>1,986</b> | <b>1,183</b> | <b>589</b>   | <b>621</b>   |
| <b>Total assets under management</b>  | <b>5,300</b> | <b>4,306</b> | <b>3,665</b> | <b>3,728</b> |

<sup>(b)</sup> Property is reported net of senior debt of \$480m (Sep 2006 \$291m). Property includes direct and indirect holdings.

<sup>(c)</sup> The value of CIF at 30 September 2006 has been restated by \$131m to reflect the value of uninvested cash in CIF.

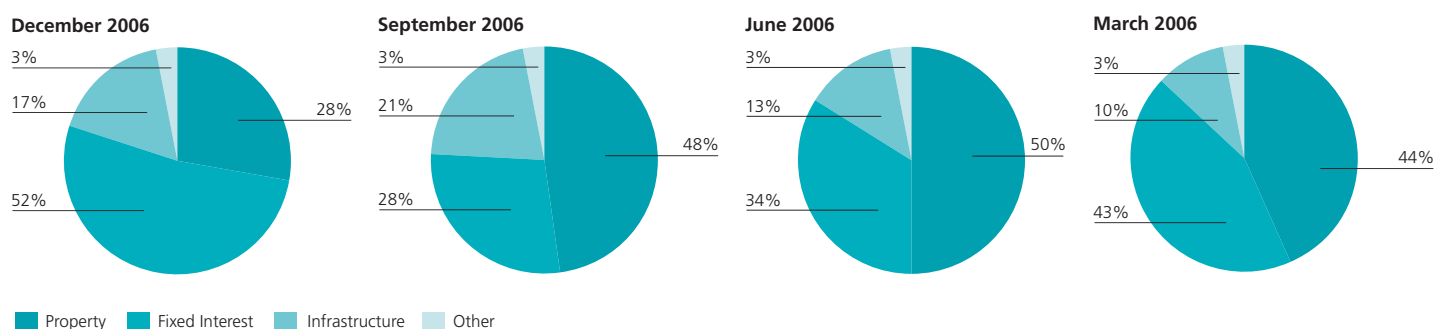
## Challenger Financial Planning

|  | 31 Dec 06    | 30 Sep 06    | 30 Jun 06    | 31 Mar 06    |
|--|--------------|--------------|--------------|--------------|
| Funds under administration                         | 2,093        | 1,952        | 1,914        | 1,940        |
| Funds under advice <sup>(d)</sup>                  | 5,582        | 5,230        | 4,940        | 4,900        |
| <b>Total funds under administration and advice</b> | <b>7,675</b> | <b>7,182</b> | <b>6,854</b> | <b>6,840</b> |

<sup>(d)</sup>This is the initial disclosure of Challenger's Funds Under Advice in platforms that earn an ongoing revenue stream for Challenger Financial Planning.

Data quality issues preclude accurate comparatives prior to 30 June 2006. The March 2006 figure of \$4,900m is a best estimate only and is also assumed for December 2005 for annual growth estimates.

## Life company asset allocation split



## Analysis of Flows

### Challenger Funds Management

| Funds under management net flows for the quarter comprise: | 31 Dec 06 | 30 Sep 06 | 30 Jun 06 | 31 Mar 06 |
|--|-----------|-----------|-----------|-----------|
|  | \$m       | \$m       | \$m       | \$m       |
| Retail funds   | 187       | 214       | 37        | 180       |
| Institutional funds  | 576       | 239       | 424       | 12        |
| Net inflows  | 763       | 453       | 461       | 192       |

### Challenger Asset Management

#### Annuity sales for the quarter comprise:

|                     |    |     |     |    |
|---------------------|----|-----|-----|----|
| – Retail            | 84 | 124 | 81  | 66 |
| – Wholesale         | –  | –   | 50  | –  |
| Total Annuity sales | 84 | 124 | 131 | 66 |

|                                     |       |   |       |   |
|-------------------------------------|-------|---|-------|---|
| Policyholder liability <sup>1</sup> | 2,140 | – | 2,138 | – |
|-------------------------------------|-------|---|-------|---|

<sup>1</sup>Policyholder liability at 31 December 2006 is based on preliminary unaudited accounts.

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

|  |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| Funds under management   | 15,487        | 13,669        | 12,868        | 12,523        |
| Funds under administration and advice                                | 7,675         | 7,182         | 6,854         | 6,840         |
| Loans under management   | 21,595        | 21,285        | 20,901        | 20,126        |
| Assets under management  | 5,300         | 4,306         | 3,665         | 3,728         |
| Total before adjustments   | 50,057        | 46,442        | 44,288        | 43,217        |
| <b>Adjustments to remove double counting of cross holdings:</b>      |               |               |               |               |
| Commercial lending   | (2,820)       | (2,698)       | (2,643)       | (2,475)       |
| Life company investment in Specialised Funds                         | (588)         | (411)         | (158)         | (180)         |
| Asset Management Unlisted Funds                                      | (274)         | (247)         | –             | –             |
| <b>Total Group assets under management, administration or advice</b> | <b>46,375</b> | <b>43,086</b> | <b>41,487</b> | <b>40,562</b> |