

## MARKET RELEASE

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### **NEW FINANCIAL REPORTING STRUCTURE FOR BUSINESS LINES**

1 August 2006, Sydney – Challenger Financial Services Group Limited (ASX:CGF) today announced that the company's business divisions will now report financial performance along four instead of three separate business lines: Mortgage Management, Funds Management, Asset Management, and Financial Planning.

The change reflects the evolution of four distinct revenue generating businesses within Challenger and will provide the opportunity for more detailed analysis of the key drivers and financial performance of each division. It will also further clarify the contribution of fee-based revenue as it continues to grow in proportion to total revenue.

Key elements of these changes include:

- **The renaming of Challenger Wholesale Finance to Mortgage Management** – this name more accurately describes the core competencies of the division, predominantly residential mortgage backed lending and securitisation.
- **The separation of management and reporting lines for Funds Management and Financial Planning (including Synergy)** – until recently the management reporting line of Funds Management and Financial Planning have been combined and reported under Challenger Wealth Management. The separation of these reporting lines recognises the management changes and the distinct operating environments and underlying performance drivers of these respective businesses.
- **The renaming of Challenger Life to Asset Management** – in recognition of Challenger Life's increased focus on generating origination and management fees from asset management activities. This name better reflects the strategic objectives of this division, with an emphasis on investment performance and associated fee income rather than funding sources.



As part of the process to enhance transparency, Challenger has provided an historic financial summary covering the December 2003, June 2004, December 2004, June 2005 and December 2005 reporting periods restated to reflect the four business lines. The provision of this information provides a data source from which the historical financials can be viewed on a consistent footing. This format will be used for the future financial results released to the market, including the 30 June 2006 annual results which will be announced on August 28.

*ENDS*

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# Financial Results Summary

Restatement of prior periods reflecting new corporate structure

Released – 1 August 2006



# Explanatory notes - restatement

To enhance transparency, Challenger is providing a half on half comparative restatement of financial results to reflect change to four business lines

## The new format

- reflects the new corporate reporting structure announced 1 August 2006
- more appropriately shows the sources of Challenger's earnings as they become increasingly derived from the origination and management of assets and their related activities
- clearly distinguishes between the key drivers and operational performance of Funds Management and Financial Planning
- will be used for future financial results released to the market

## The historical data

- provides a consistent footing from which to view it against the past, and compare it to in the future

# Explanatory notes – restatement (cont.)

## Key differences in format

- Four reporting lines: Mortgage Management, Funds Management, Asset Management and Financial Planning, each with their own P&L
- Greater emphasis is now provided on ‘half on half’ reporting and the development of trends in key financial outputs and ratios
- New terminology has been adopted for a higher degree of consistency across each division with a detailed Glossary provided
- Reconciliations have been provided between
  - the statutory profit and loss and the historic cost profit and loss result
  - AGAAP and AIFRS Balance Sheet
  - the past Wealth Management results and their split into Funds Management and Financial Planning

NOTE: The Statutory Profit and Loss and Balance Sheet data provided within this Financial Results Summary remain subject to audit and may change as a result of the finalisation of the implementation of AIFRS. Any resultant changes arising on audit will be updated when Challenger releases its 2006 Full Year result on 28 August 2006.

# Group - Statutory result

\$m	FY 06	FY 05	△ %	2H 06	2H 05	△ %
Income						
Net investment income		215			103	
Net fee income		190			109	
Other income		1,185			621	
		<u>1,590</u>			<u>833</u>	
Expense						
Employee expenses		(132)			(73)	
Other expenses		(1,260)			(657)	
		<u>(1,392)</u>			<u>(730)</u>	
<b>EBIT</b>		<b>198</b>			<b>103</b>	
Interest expense		(35)			(20)	
Share of profits of associates		2			-	
<b>Net Profit Before Tax &amp; Significant Items</b>		<b>165</b>			<b>83</b>	
Significant items		-			-	
Tax		(45)			(18)	
<b>Net Profit After Tax</b>		<b>120</b>			<b>65</b>	
Expense/income		52.7%			52.8%	
EBIT margin		47.3%			47.2%	
Effective Tax Rate		27.2%			22.2%	

# Reconciliation of Statutory to Underlying Statutory

\$m	FY 06	FY 05	△%	2H 06	2H 05	△%
<b>Statutory net profit before tax</b>		<b>165</b>			<b>83</b>	
<u>Adjustments</u>						
• Provision for costs attributable to decision to relocate to Hilton <sup>1</sup>		-			-	
• Back out net effect of hedging contracts revaluation losses which do meet AIFRS <i>effectiveness</i> standards		-			-	
• Back out impact of CIF consolidated statutory result		-			-	
• Add back CIF distributions		-			-	
• Other minorities		-			-	
<b>Underlying statutory net profit before tax</b>		<b>165</b>			<b>83</b>	

<sup>1</sup> Challenger advised the market on 4 July 2006 that a provision of not more than \$15m before tax will be taken in FY06

# Group – Historic Cost result

\$m	FY 06	FY 05	△ %	2H 06	2H 05	△ %
Income						
Net investment income		122			49	
Net fee income		218			126	
Other income		2			2	
		<u>342</u>			<u>176</u>	
Expense						
Employee expenses		(132)			(73)	
Other expenses		(78)			(43)	
		<u>(210)</u>			<u>(116)</u>	
<b>EBIT</b>		<b>132</b>			<b>60</b>	
Interest expense		(17)			(8)	
<b>Net Profit Before Tax &amp; Significant Items</b>		<b>115</b>			<b>52</b>	
Significant items		-			-	
Tax		(31)			(13)	
<b>Net Profit After Tax</b>		<b>84</b>			<b>39</b>	
Expense/income		61.3%			65.9%	
EBIT margin		38.7%			34.1%	
Effective Tax Rate		26.9%			24.1%	

# Reconciliation of Underlying Statutory to Historic Cost

\$m	FY 06	FY 05	△%	2H 06	2H 05	△%
<b>Underlying Statutory net profit before tax</b>		<b>165</b>			<b>83</b>	
<u>Recurring items</u>						
• Subtract excess of movement in fair value of investment assets over accrued investment income under historic cost		(86)			(15)	
• Add excess / (deficiency) of movement in fair value of policyholder/annuity liabilities over accrued annuity interest costs under historic cost		40			(5)	
• Other		4			(5)	
	<hr/>	<hr/>		<hr/>	<hr/>	
		123			58	
<u>Non recurring items</u>						
• Subtract borrowing and financing costs of investment properties which are amortised under historic cost		(8)			(6)	
	<hr/>	<hr/>		<hr/>	<hr/>	
<b>Historic cost net profit before tax</b>	<hr/>	<hr/>		<hr/>	<hr/>	
		<b>115</b>			<b>52</b>	

Note : all reconciliation adjustments above relate to the impacts of Statutory accounting for the Life company operation within Asset Management

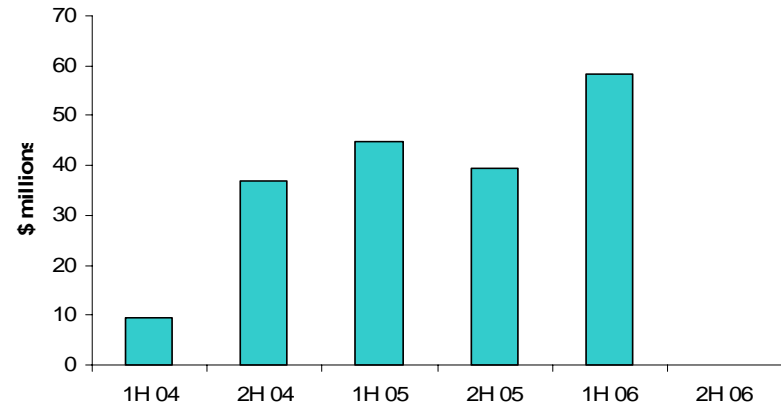
# Group result – by division

\$m	FY 06	FY 05	△%	2H 06	2H 05	△%
<b>Net earnings</b>						
Mortgage Management		61			34	
Funds Management		(10)			(7)	
Asset Management		100			40	
Financial Planning		5			5	
Corporate		(24)			(12)	
	<hr/>	<hr/>		<hr/>	<hr/>	
<b>EBIT</b>		<b>132</b>			<b>60</b>	
Interest expense		(17)			(8)	
	<hr/>	<hr/>		<hr/>	<hr/>	
<b>Net Profit Before Tax &amp; Significant Items</b>		<b>115</b>			<b>52</b>	
Significant items		-			-	
Tax		(31)			(13)	
	<hr/>	<hr/>		<hr/>	<hr/>	
<b>Net Profit After Tax</b>		<b>84</b>			<b>39</b>	
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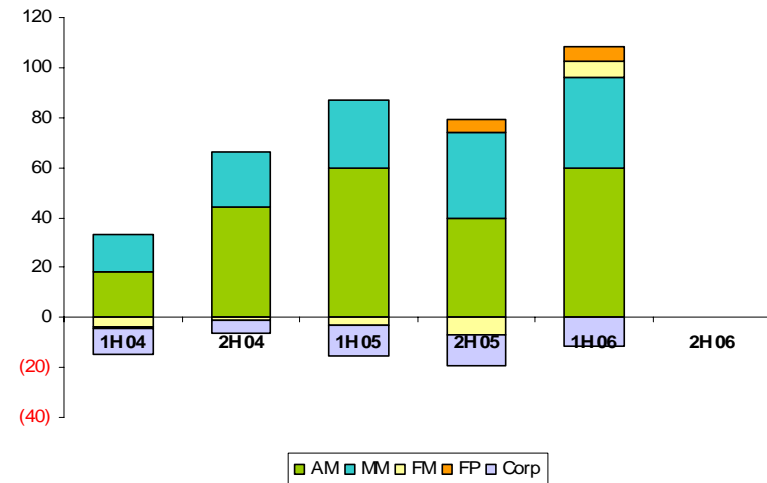
# Group result

- Commentary to be provided with FY06 reporting

Group NPAT (Historic cost)



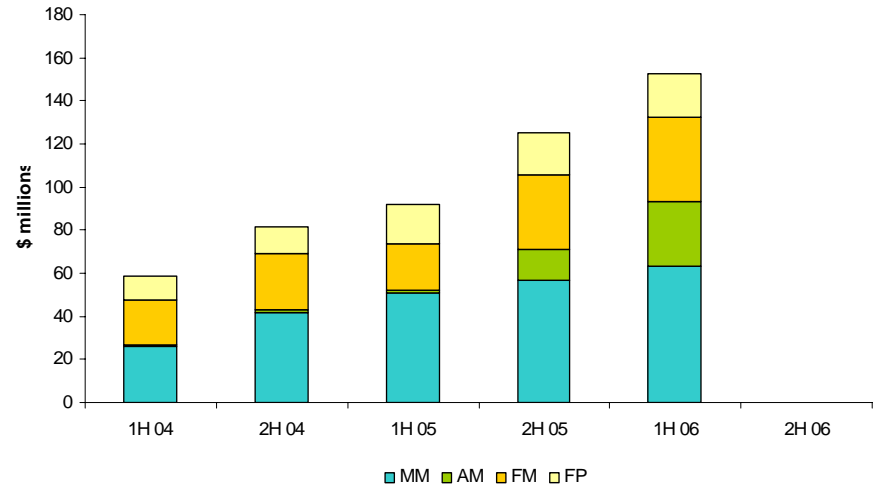
EBIT contribution by division



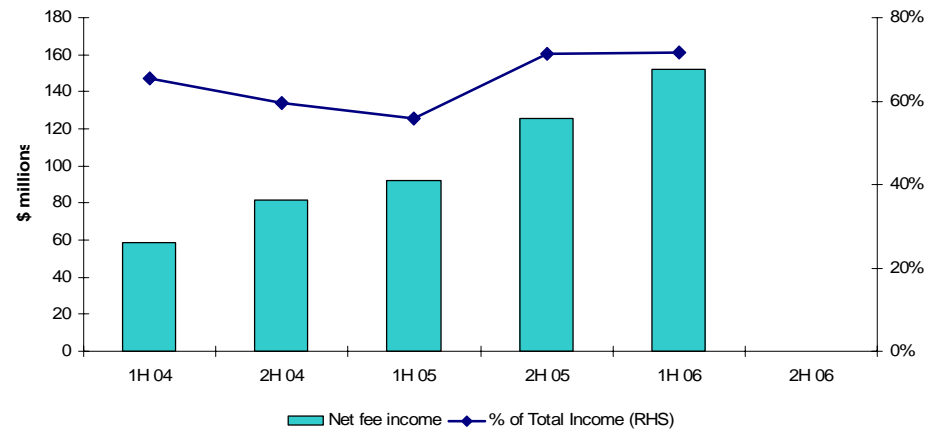
# Group result

- Commentary to be provided with FY06 reporting

Contribution from Fee Income



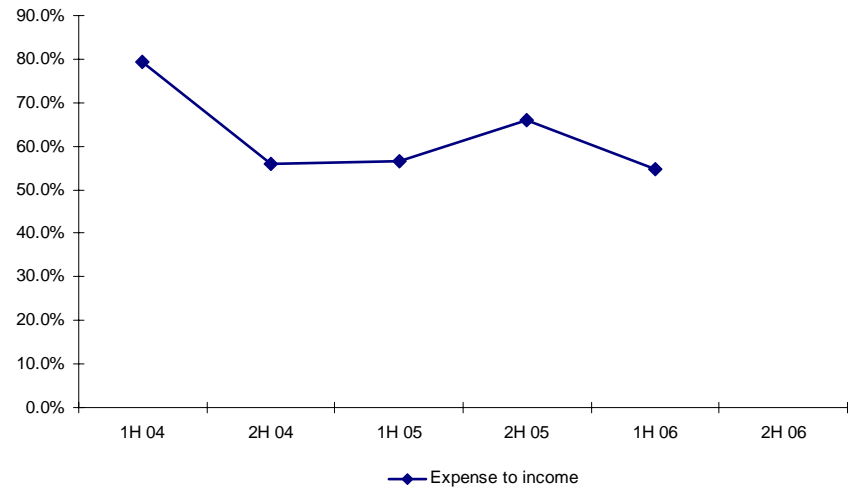
Contribution from Fee Income



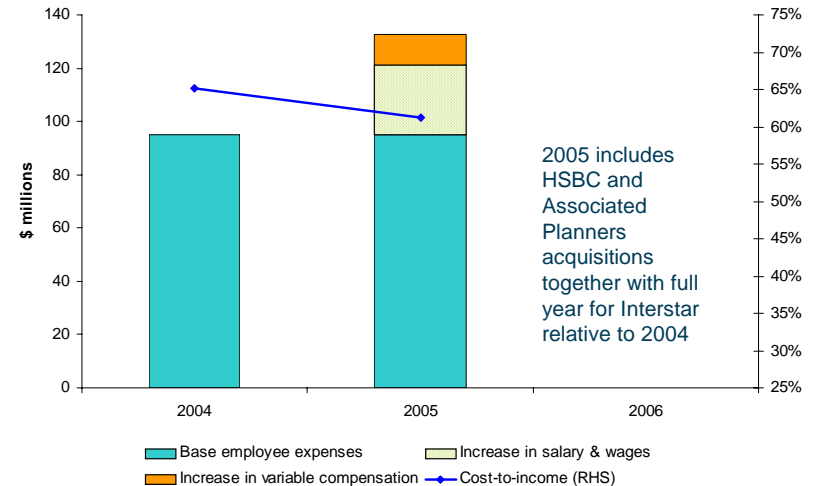
# Group result

- Commentary to be provided with FY06 reporting

Operating efficiency



Employee Costs vs Efficiency



# Mortgage Management

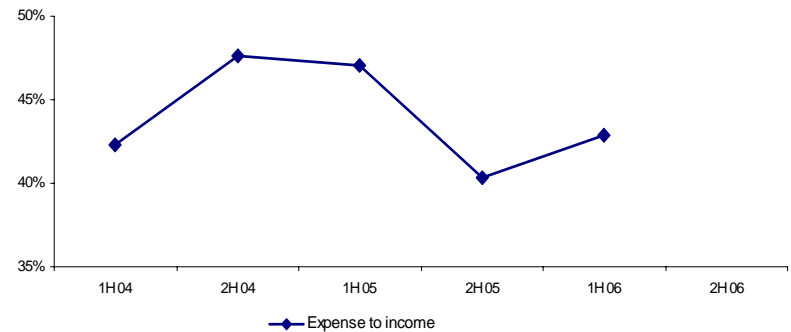
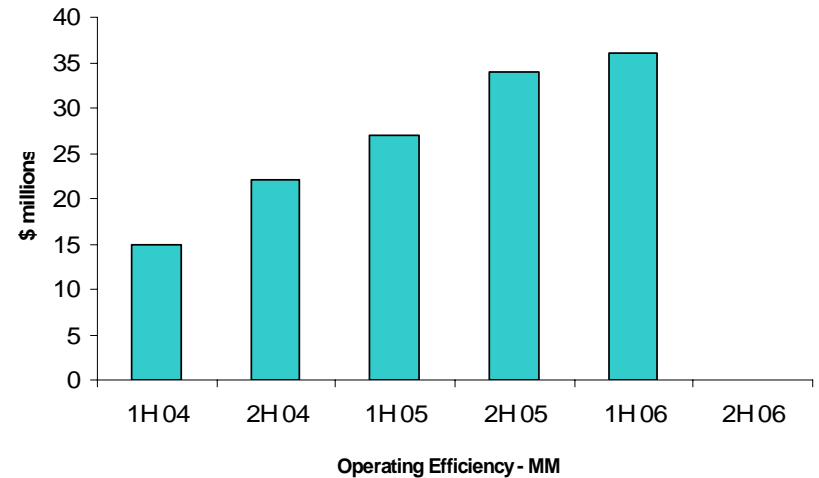
\$m	FY 06	FY 05	△%	2H 06	2H 05	△%
Income						
Net fee income		108			57	
Other income		0			0	
		<b>108</b>			<b>57</b>	
Expense						
Employee expenses		(33)			(17)	
Other expenses		(14)			(6)	
		<b>(47)</b>			<b>(23)</b>	
<b>EBIT</b>		<b>61</b>			<b>34</b>	
Comprising:						
Residential		47			27	
Commercial		14			7	
		<b>61</b>			<b>34</b>	
Expense/income		43.5%			40.4%	
EBIT margin		56.5%			59.6%	
Net Assets		\$324m			-	
Return on Net Assets		18.8%			-	

Refer Appendix 6, 6.1 & 6.2 for more detail

# Mortgage Management

- Commentary to be provided with FY06 reporting

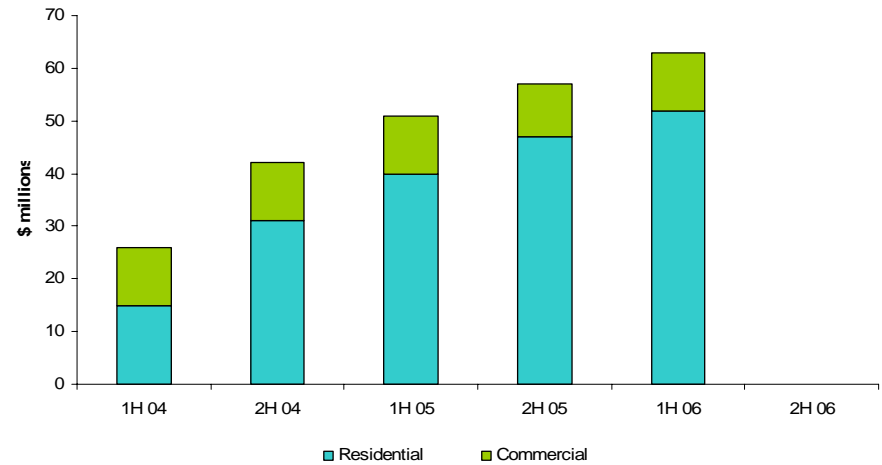
Mortgage Management EBIT



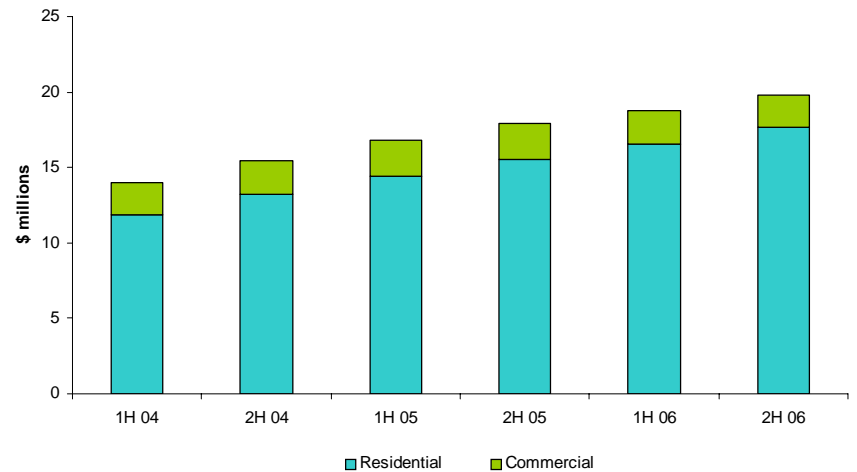
# Mortgage Management

- Commentary to be provided with FY06 reporting

Income sources



Average loan portfolio



# Funds Management

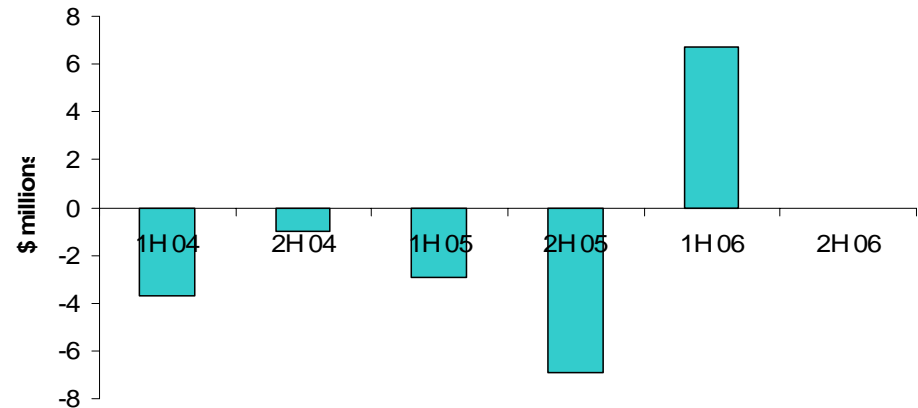
\$m	FY 06	FY 05	△ %	2H 06	2H 05	△ %
Income						
Net fee income		56			35	
Other income		1			1	
		<b>57</b>			<b>36</b>	
Expense						
Employee expenses		(39)			(24)	
Other expenses		(28)			(19)	
		<b>(67)</b>			<b>(43)</b>	
<b>EBIT</b>		<b>(10)</b>			<b>(7)</b>	
Expense/income		117.1%			119.3%	
EBIT margin		(17.1%)			(19.3%)	
Net Assets		\$77m			-	
Return on Net Assets		n/a			-	

Refer Appendix 7 for more detail

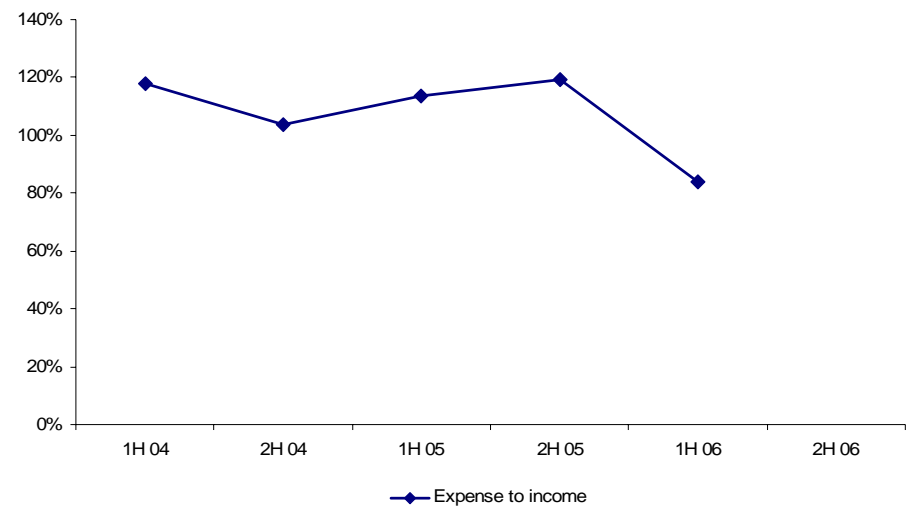
# Funds Management

- Commentary to be provided with FY06 reporting

Funds Management EBIT



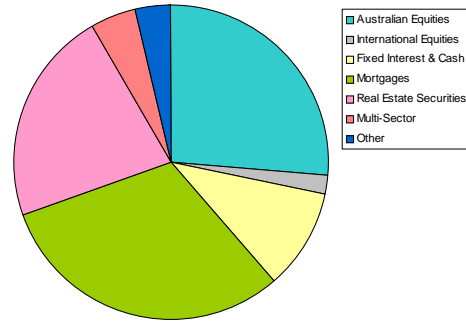
Operating Efficiency - FM



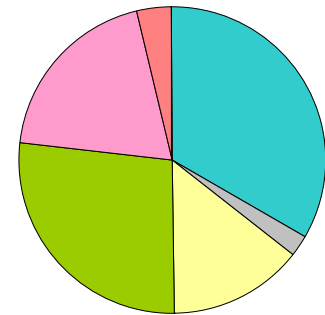
# Funds Management

- Commentary to be provided with FY06 reporting

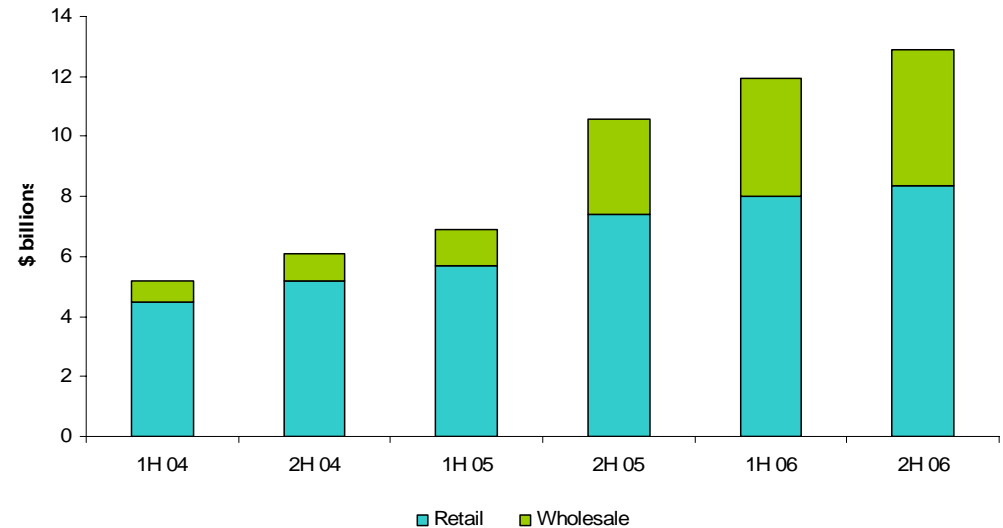
FUM composition - 30 June 2005



FUM composition - 30 June 2006



Funds under management



# Asset Management

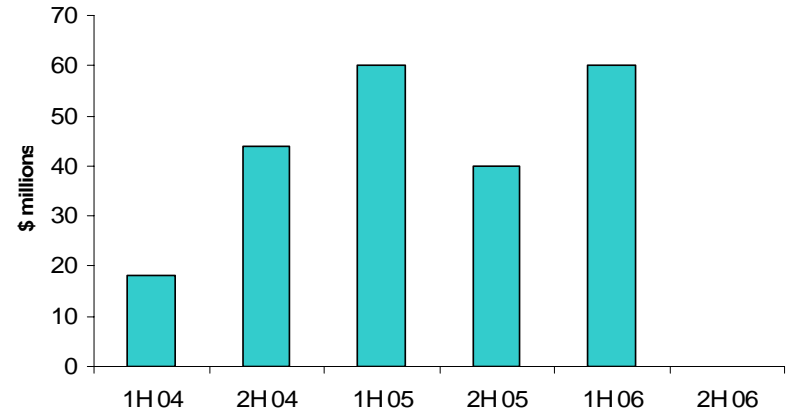
\$m	FY 06	FY 05	△%	2H 06	2H 05	△%
Income						
Net investment income		122			49	
Net fee income		15			14	
Other income		0			0	
		<b>137</b>			<b>63</b>	
Expense						
Employee expenses		(25)			(16)	
Other expenses		(12)			(7)	
		<b>(37)</b>			<b>(23)</b>	
<b>EBIT</b>		<b>100</b>			<b>40</b>	
Expense/income		27.0%			36.5%	
EBIT margin		73.0%			63.5%	
Net Assets		\$483m			-	
Return on Net Assets		20.7%			-	

Refer Appendix 8 for more detail

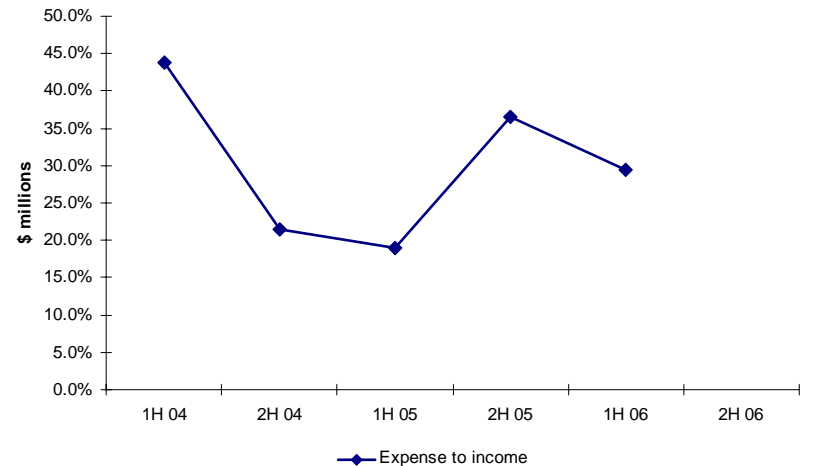
# Asset Management

- Commentary to be provided with FY06 reporting

Asset Management EBIT (Historic cost)



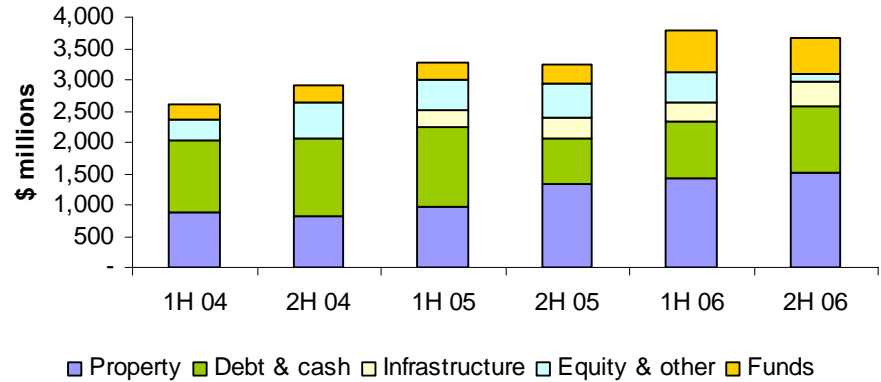
Operating Efficiency - AM



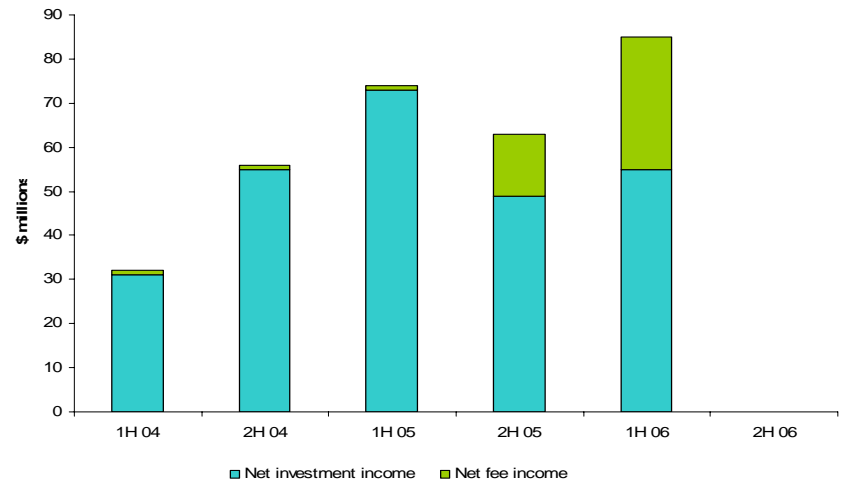
# Asset Management

- Commentary to be provided with FY06 reporting

**Assets under Management**



**Net income sources - AM**



# Financial Planning

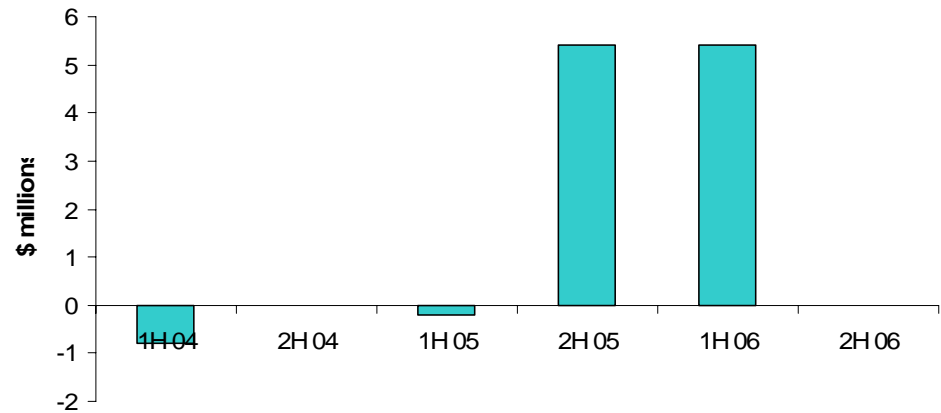
\$m	FY 06	FY 05	△%	2H 06	2H 05	△%
Income						
Net fee income		38			20	
Other income		1			1	
		<b>39</b>			<b>21</b>	
Expense						
Employee expenses		(19)			(9)	
Other expenses		(16)			(6)	
		<b>(34)</b>			<b>(15)</b>	
<b>EBIT</b>		<b>5</b>			<b>5</b>	
Expense/income		86.8%			73.7%	
EBIT margin		13.2%			26.3%	
Net Assets		\$130m			-	
Return on Net Assets		4.0%			-	

Refer Appendix 8 for more detail

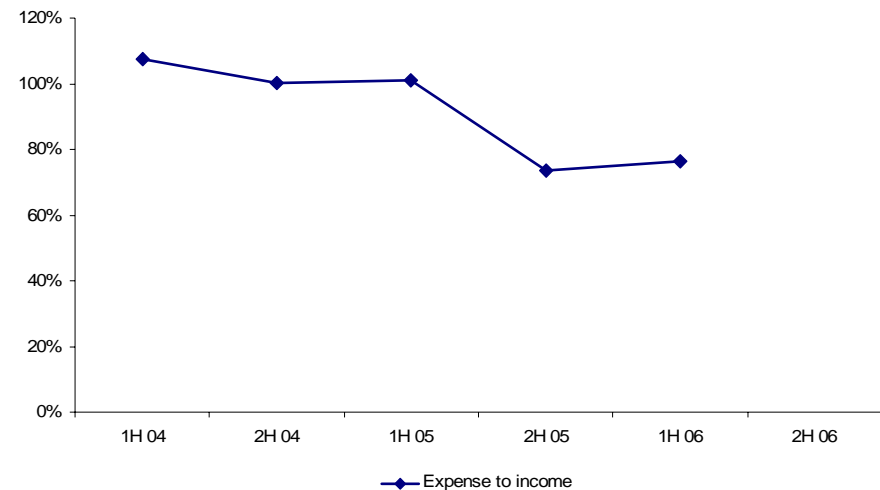
# Financial Planning

- Commentary to be provided with FY06 reporting

Financial Planning EBIT



Operating Efficiency - FP



# Corporate

\$m	FY 06	FY 05	△%	2H 06	2H 05	△%
Expense						
Employee expenses		(15)			(6)	
LTIP <sup>1</sup> charge		(6)			(4)	
Other expenses		(4)			(2)	
Total corporate expenses		<b>(24)</b>			<b>(12)</b>	
<b>EBIT</b>		<b>(24)</b>			<b>(12)</b>	
Interest & borrowing costs <sup>2</sup>		(17)			(8)	
<b>EBT</b>		<b>(41)</b>			<b>(20)</b>	
<b>Consolidated FTE</b>		<b>901</b>			<b>901</b>	

<sup>1</sup> Long Term Incentive Plan is an employee share plan which is amortised in accordance with AIFRS  
– refer remuneration note [ ] in the financial statements for the year ended 30 June 2006 for further details

<sup>2</sup> Interest costs in 2005/6 includes the consolidated interest cost of CIF bridge facility drawn down to fund the Inexus purchase (FY 06 – [\$ m]; FY05 - \$nil).  
The CIF equity bridge facility will be repaid in August 2006 with the proceeds of the CIF second instalment.

# Corporate Debt & Gearing

\$m	FY 06	FY 05	△%	2H 06	2H 05	△%
<b>Debt</b>						
Financial debt <sup>2</sup>						
Corporate facilities		70			70	
Other		2			2	
		<b>72</b>			<b>72</b>	
Operating debt <sup>1</sup> within:						
MM – securitisation trusts		16,945			16,945	
MM – NIM facility		180			180	
AM – property trusts		349			349	
AM – CIF		-			-	
		<b>17,474</b>			<b>17,474</b>	
Total Debt		<b>17,546</b>			<b>17,546</b>	
<b>Gearing<sup>3</sup></b>						
Debt / (Debt + Equity)		5.8%			5.8%	
Net Debt / (Net Debt + Equity)		0.3%			0.3%	

<sup>1</sup> Non recourse to Challenger Financial Services Group

<sup>2</sup> Recourse to Challenger Financial Services Group

<sup>3</sup> Gearing ratios are based on Financial (recourse) debt. Net debt is after available cash is deducted.

# Appendices

	Page
• <b>Glossary</b>	<b>26 - 27</b>
• <b>Detailed Financial Analysis</b> (All data is in \$m unless stated otherwise)	<b>28 - 41</b>
– Consolidated	
1. Statutory Profit & Loss statement	28
2. Reconciliation of Statutory to Historic Cost profit result	29
3. Historic Cost Profit & Loss statement	30
4. Statutory Balance Sheet – reconciliation of AIFRS movements	31
5. Issued Share Capital reconciliation and EPS / DPS analysis	32
– Divisional Performance	
6. Mortgage Management	33
6.1 – Residential	34
6.2 – Commercial	35
7. Funds Management	36
8. Asset Management	37
9. Financial Planning	38
10. Corporate	39
– Other data	
11. Assets and Loans Under Management	40
12. Reconciliation of Wealth Management to Funds Management and Financial Planning	41

# Glossary

<b>MM</b>	Mortgage Management division
<b>FM</b>	Funds Management division
<b>AM</b>	Asset Management division
<b>FP</b>	Financial Planning division
<b>Corporate</b>	All other non cash generating unit activity
<b>Net rental income (AM only)</b>	Gross rental income less trust expenses, financing costs directly associated with property, less management fees and performance fees
<b>Investment income (AM only)</b>	Income earned on investment portfolios (i.e. fixed interest and cash, infrastructure, equities and other) + profits / losses on fixed interest portfolios
<b>Realised gains (AM only)</b>	The net profit/(loss) on disposal of investment portfolio assets less fees
<b>Interest paid and selling expenses (AM only)</b>	Interest paid to annuitants + commissions and other costs paid to third parties to raise annuities
<b>Net investment income (AM only)</b>	Net rental income + investment income + realised gains less interest paid and selling costs
<b>Fees received</b>	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)
<b>Fees &amp; commissions paid</b>	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

**Acquisition cost amortisation (MM only)**

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.

**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.

**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.

## Consolidated Profit & Loss

## Statutory

APPENDIX - 1

	AIFRS			AGAAP			
	FY 06	FY 05	FY 04	2H 06	1H 06	2H 05	1H 05
<b>Income</b>							
Net rental income		63	96	63	33	30	
Investment income		154	121	78	73	81	
Net realised and unrealised gains / (losses)		158	178	36	51	107	
Annuitant funding & policy liability movements		(160)	(186)	(49)	(54)	(106)	
Net investment income		215	209	127	103	111	
Fee income		190	105	119	109	81	
Other income		14	38	17	7	7	
Underlying net income		418	352	262	219	200	
CIF revenue		0	0	21	0	0	
Interest & fee income in SPV's		1,171	0	668	614	558	
<b>Net income</b>		<b>1,590</b>	<b>352</b>	<b>951</b>	<b>832</b>	<b>757</b>	
<b>Expense</b>							
Employee expenses		(132)	(104)	(83)	(73)	(59)	
Depreciation		(7)	(3)	(7)	(5)	(2)	
Occupancy costs		(8)	(11)	(4)	(4)	(4)	
Other expenses		(73)	(69)	(41)	(34)	(39)	
Underlying expenses		(220)	(187)	(135)	(116)	(105)	
Inexus overheads		0	0	(6)	0	0	
Interest expense & distributions relating to SPV's		(1,171)	0	(668)	(614)	(558)	
Goodwill amortisation		0	(20)				
<b>Total operating expenses</b>		<b>(1,392)</b>	<b>(207)</b>	<b>(809)</b>	<b>(729)</b>	<b>(663)</b>	
<b>EBIT</b>		<b>198</b>	<b>145</b>	<b>142</b>	<b>103</b>	<b>95</b>	
Interest & borrowing costs		(35)	(28)	(45)	(20)	(15)	
Share of net profits/(losses) of associates		2	0	0	0	2	
Significant items		0	(280)	(15)	0	0	
<b>Net profit before tax</b>		<b>165</b>	<b>(162)</b>	<b>83</b>	<b>83</b>	<b>82</b>	
Tax		(45)	(40)	(30)	(19)	(26)	
Losses attributable to minority interests		0	0	7			
<b>Net profit after tax</b>		<b>120</b>	<b>(203)</b>	<b>60</b>	<b>65</b>	<b>55</b>	
Underlying Expenses/Net income		52.7%	53.2%	51.6%	52.8%	52.5%	
EBIT Margin (EBIT/Underlying net income)		47.3%	41.2%	54.1%	47.2%	47.5%	
Effective tax rate		27.2%	-24.7%	36.1%	22.2%	32.4%	

## Consolidated Profit & Loss

APPENDIX - 2

### Reconciliation of Statutory to Historic Cost

	FY 06	FY 05	2H 06	1H 06	2H 05	1H 05
<b>Statutory net profit before tax</b>		165		83	83	82
<b>Recurring items</b>						
i) Subtract excess of movement in fair value of investment assets over accrued investment income under historic cost		(86)		(23)	(15)	(71)
ii) Add excess of movement in fair value of policyholder/annuity liabilities over accrued annuity interest under historic cost		40		(12)	(5)	45
iii) Other		4		3	(5)	9
<b>Non recurring items</b>						
iv) Subtract borrowing & financing costs of investment properties which are amortised under historic cost		(8)		0	(6)	(2)
v) Asset management fees not reported in statutory result		0		14	0	0
vi) Change in fair value of CIF swap excluded from historic cost		0		19	0	0
<b>Historic cost net profit before tax</b>		115		83	52	63

Challenger adopts AIFRS reporting for all divisions but provides the market with performance reporting based upon modified historic cost accounting principles for the operations of the Life company within the Asset Management division. With the exception of the Life company, for all other divisions reporting under historic cost is equivalent to that provided under AIFRS.

As a consequence all the adjustments shown above to reconcile the reported historic cost result to the published statutory result are derived from differences in treatment in the Life company results.

These are predominantly :-

1. Recognising the impact of the requirement to account for the movement in the fair value (mark to market ) of the assets of the Life company via P&L under AIFRS whereas in historic cost assets are held at lower of cost or market.
2. Recognising the impact of the requirement to account for the movement in the fair value (mark to market ) of the life investment contracts of the Life company via P&L under AIFRS whereas in historic cost assets are held at cost.

# Consolidated Profit & Loss

# Historic cost<sup>1</sup>

APPENDIX - 3

	2006	2005	2004	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04
<b>Income</b>									
Net rental income		55	84		49	27	28	42	42
Investment income		138	82		50	67	71	44	38
Realised gains		51	29		17	15	36	24	5
Interest paid & selling costs		(122)	(109)		(61)	(60)	(62)	(55)	(54)
<b>Net investment income</b>		122	86		55	49	73	55	31
Fees received		458	287		294	249	209	169	118
Fees & commissions paid		(178)	(109)		(104)	(92)	(87)	(61)	(48)
Acquisition cost amortisation		(62)	(38)		(37)	(32)	(30)	(26)	(12)
<b>Net fee income</b>		218	140		152	126	92	81	59
<b>Other income</b>		2	0		5	2	0	0	0
<b>Net income</b>		342	226		213	176	165	136	90
<b>Expense</b>									
Employee expenses		(132)	(95)		(79)	(73)	(59)	(50)	(45)
Purchased services		(11)	(6)		(11)	(6)	(5)	(4)	(2)
Occupancy expense		(12)	(8)		(6)	(7)	(5)	(4)	(4)
IT		(9)	(8)		(5)	(5)	(4)	(4)	(4)
Other expenses		(45)	(31)		(17)	(25)	(20)	(14)	(16)
<b>Total operating expenses</b>		(209)	(147)		(116)	(116)	(93)	(76)	(71)
<b>EBIT</b>		132	79		96	60	72	60	19
<b>Interest</b>		(17)	(11)		(13)	(8)	(9)	(8)	(3)
<b>Net profit before tax</b>		115	68		83	52	63	52	16
<b>Tax</b>		(31)	(21)		(25)	(13)	(18)	(15)	(6)
<b>Net profit after tax</b>		84	47		58	39	45	37	10
Expense to income		61.3%	65.3%		54.7%	65.8%	56.5%	56.0%	79.3%
EBIT margin		38.7%	34.7%		45.3%	34.2%	43.5%	44.0%	20.7%
Net investment income/Net income		35.7%	38.1%		25.9%	27.8%	44.2%	40.3%	34.6%
Net fee income/Net income		63.7%	61.9%		71.7%	71.2%	55.8%	59.7%	65.4%
Other income/Net income		0.5%	0.0%		2.4%	1.0%	0.1%	0.0%	0.0%
Effective tax rate		26.9%	31.1%		30.0%	24.8%	28.6%	28.8%	38.7%

<sup>1</sup> 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.

# Consolidated Balance Sheet - AIFRS reconciliation

APPENDIX - 4

	AIFRS		AIFRS		AGAAP	
	\$ 000's		\$ 000's		\$ 000's	
	1 July 2005	Movement	30 June 2005	Movement	30 June 2005	
<b>Assets</b>						
Cash & cash equivalents	496,401	0	496,401	0	496,401	
Securitized cash & cash equivalents	0	0	0	0	0	
Receivables	156,516	0	156,516	(132,433)	288,949	
Debt securities	0	0	0	(753,897)	753,897	
Investment assets	1,064,093	(304,550)	1,368,643	1,368,643		
Other financial assets	(91)	(91)	0	(334)	334	
Equity securities	0	0	0	(270,064)	270,064	
Available for sale securities	302,415	302,415	0	0	0	
Infrastructure assets	0	0	0	(344,426)	344,426	
Securitized assets	16,944,804	0	16,944,804	16,944,804	0	
Investment properties	1,683,299	0	1,683,299	5,097	1,678,202	
Fixed assets	10,958	0	10,958	(18,270)	29,228	
Deferred tax assets	24,399	13,502	10,897	3,201	7,696	
Investment accounted for under the equity method	2,812	0	2,812	0	2,812	
Goodwill	562,201	0	562,201	(9,234)	571,435	
Other intangible assets	18,269	0	18,269	18,269	0	
Other assets	157,280	78	157,202	78	157,124	
Securitized other assets	0	0	0	0	0	
<b>Total assets</b>	<b>21,423,356</b>	<b>11,354</b>	<b>21,412,002</b>	<b>16,811,434</b>	<b>4,600,568</b>	
<b>Liabilities</b>						
Payables	238,483	6,876	231,607	(44,944)	276,551	
Current tax payable	44,944	0	44,944	44,944	0	
Derivative liabilities	526	526	0	0	0	
Securitized payables	0	0	0	0	0	
Securitized cash flow derivatives	0	0	0	0	0	
Interest bearing liabilities	600,713	0	600,713	0	600,713	
Securitized liabilities	16,955,534	10,730	16,944,804	16,944,804	0	
Provisions	66,974	0	66,974	8,985	57,989	
Deferred tax liabilities	94,092	36	94,056	1,529	92,527	
Life insurance policy liabilities	2,311,027	39,081	2,271,946	0	2,271,946	
<b>Total liabilities</b>	<b>20,312,293</b>	<b>57,249</b>	<b>20,255,044</b>	<b>16,955,318</b>	<b>3,299,726</b>	
<b>Net assets</b>	<b>1,111,063</b>	<b>(45,895)</b>	<b>1,156,958</b>	<b>(143,884)</b>	<b>1,300,842</b>	
<b>Shareholder equity</b>						
Contributed equity	1,234,858	(256)	1,235,114	(128,839)	1,363,953	
Reserves	70,860	(285)	71,145	9,445	61,700	
Retained losses	(183,925)	(34,624)	(149,301)	(24,490)	(124,811)	
<b>Total equity attributable to shareholders</b>	<b>1,121,793</b>	<b>(35,165)</b>	<b>1,156,958</b>	<b>(143,884)</b>	<b>1,300,842</b>	
Cashflow hedge reserve - SPV's	(10,730)	(10,730)	0	0	0	
<b>Total equity</b>	<b>1,111,063</b>	<b>(45,895)</b>	<b>1,156,958</b>	<b>(143,884)</b>	<b>1,300,842</b>	

## Issued Share Capital - EPS & DPS

APPENDIX - 5

	2H06	1H06	2H05	1H05	2H04	1H04
<b>Ordinary Shares: Quoted (CGF)</b>						
Opening	537,917,717	534,269,048	528,441,048	2,866,703,735	2,439,035,735	
Additions (+)						
i) <i>DRP</i>		530,669				
ii) <i>LTIP</i>		3,548,000	5,828,000		427,668,000	
iii) <i>LTIP shares bought back &amp; cancelled</i>		(430,000)				
Reconstruction (5:1)				(2,338,262,687)	0	
Closing		537,917,717	534,269,048	528,441,048	2,866,703,735	2,439,035,735
Weighted average number of shares		537,017,864	521,671,213	518,946,096		
<b>Long Term Incentive Plan</b>						
Opening	49,114,000	43,962,000	45,880,000	44,880,000	0	0
Additions (+)		8,700,000	3,910,000	1,000,000	0	0
Subtractions (-)		(3,548,000)	(5,828,000)	0	0	0
Closing		49,114,000	43,962,000	45,880,000	44,880,000	0
<b>Options</b>						
Opening	60,000,000	60,000,000	60,000,000	60,000,000	0	0
Additions (+)		0	0	0	60,000,000	0
Subtractions (-)		0	0	0	0	0
Closing		60,000,000	60,000,000	60,000,000	60,000,000	0
<b>Weighted average number of shares for dilutive purposes</b>		<b>640,041,266</b>	<b>626,267,519</b>	<b>624,358,346</b>		

## Earnings per share

Basic - statutory		11.1	12.4	10.6
Basic - historic cost		10.9	7.5	8.6
Diluted - statutory		9.3	10.4	8.8
Diluted - historic cost		9.1	6.3	7.2

## Dividends per share

cents per share		5.0	2.5	0
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# Divisional Performance - Mortgage Management

APPENDIX - 6

	2006	2005	2004	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04 <sup>2</sup>
<b>Income</b>									
<b>Net Investment Income</b>		0	0	0	0	0	0	0	0
Fees received		235	149	145	137	122	113	97	52
Fees & commissions paid		(65)	(43)	(37)	(37)	(33)	(32)	(29)	(14)
Acquisition cost amortisation		(62)	(38)	(37)	(37)	(32)	(30)	(26)	(12)
<b>Net fee income</b>		108	68	71	63	57	51	42	26
<b>Other income</b>		0	0	0	0	0	0	0	0
<b>Net income</b>		108	68	71	63	57	51	42	26
<b>Expenses</b>									
Employee expenses		(33)	(20)	(21)	(19)	(16)	(17)	(14)	(6)
Other		(14)	(11)	(8)	(8)	(7)	(7)	(6)	(5)
<b>Total expenses</b>		(47)	(31)	(29)	(27)	(23)	(24)	(20)	(11)
<b>EBIT</b>		61	37	42	36	34	27	22	15
Expense to income		43.5%	45.6%	40.8%	42.9%	40.4%	47.1%	47.6%	42.3%
EBIT margin		56.5%	54.4%	59.2%	57.1%	59.6%	52.9%	52.4%	57.7%
Net fee income/Net income		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net assets (\$m)		324	n/a						
RONA		18.8%	n/a						
Average loan portfolio (\$bn)		17.4	15.0	20.2	19.0	17.9	16.8	15.5	14.0
<b>Expressed as ratio of average portfolio (bps analysis)<sup>1</sup></b>									
Fees received		135	129	144	144	136	135	125	133
Fees & commissions paid		(37)	(39)	(37)	(39)	(37)	(38)	(37)	(40)
Acquisition costs		(36)	(34)	(37)	(39)	(36)	(36)	(34)	(34)
Net margin		62	56	70	66	64	61	54	58
Expenses		(27)	(26)	(29)	(28)	(26)	(29)	(26)	(26)
EBIT		35	31	42	38	38	32	28	33

<sup>1</sup> - Half on Half data annualised & 1H 04 data weighted

<sup>2</sup> - The acquisition of Interstar occurred in Sept 2003

## Divisional Performance - Mortgage Management

## Residential

APPENDIX - 6.1

	2006	2005	2004	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04 <sup>2</sup>
<b>Income</b>									
<b>Net Investment Income</b>		0	0	0	0	0	0	0	0
Fees received		214	127	133	126	112	102	86	41
Fees & commissions paid		(65)	(43)	(37)	(37)	(33)	(32)	(29)	(14)
Acquisition cost amortisation		(62)	(38)	(37)	(37)	(32)	(30)	(26)	(12)
<b>Net fee income</b>		87	46	59	52	47	40	31	15
<b>Other income</b>		0	0	0	0	0	0	0	0
<b>Net income</b>		87	46	59	52	47	40	31	15
<b>Expenses</b>									
Employee expenses		(28)	(15)	(18)	(16)	(14)	(14)	(11)	(4)
Other		(12)	(9)	(7)	(7)	(6)	(6)	(6)	(3)
<b>Total expenses</b>		(40)	(24)	(25)	(23)	(20)	(20)	(17)	(7)
<b>EBIT</b>		47	22	34	29	27	20	14	8
Expense to income		46.0%	52.2%	42.4%	44.2%	42.6%	50.0%	54.8%	46.7%
EBIT margin		54.0%	47.8%	57.6%	55.8%	57.4%	50.0%	45.2%	53.3%
Net fee income/Net income		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average loan portfolio (\$bn)		14.9	12.7	17.7	16.5	15.5	14.4	13.2	11.9
<b>Expressed as ratio of average portfolio (bps analysis)<sup>1</sup></b>									
Fees received		143	133	150	153	144	142	130	138
Fees & commissions paid		(44)	(45)	(42)	(45)	(43)	(45)	(44)	(47)
Acquisition costs		(41)	(40)	(42)	(45)	(41)	(42)	(39)	(40)
Net margin		58	48	67	63	61	56	47	50
Expenses		(27)	(25)	(28)	(28)	(26)	(28)	(26)	(24)
EBIT		31	23	38	35	35	28	21	27

<sup>1</sup> - Half on Half data annualised

<sup>2</sup> - The acquisition of Interstar occurred in Sept 2003

## Divisional Performance - Mortgage Management

Commercial

APPENDIX - 6.2

	2006	2005	2004	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04
<b>Income</b>									
<b>Net Investment Income</b>		0	0	0	0	0	0	0	0
Fees received		21	22	12	11	10	11	11	11
Fees & commissions paid		0	0	0	0	0	0	0	0
Acquisition cost amortisation		0	0	0	0	0	0	0	0
<b>Net fee income</b>		21	22	12	11	10	11	11	11
<b>Other income</b>		0	0	0	0	0	0	0	0
<b>Net income</b>		21	22	12	11	10	11	11	11
<b>Expenses</b>									
Employee expenses		(5)	(5)	(2)	(4)	(3)	(2)	(3)	(2)
Other		(2)	(2)	(2)	0	0	(2)	0	(2)
<b>Total expenses</b>		(7)	(7)	(4)	(4)	(3)	(4)	(3)	(4)
<b>EBIT</b>		14	15	8	7	7	7	8	7
Expense to income		33.3%	31.8%	33.3%	36.4%	30.0%	36.4%	27.3%	36.4%
EBIT margin		66.7%	68.2%	66.7%	63.6%	70.0%	63.6%	72.7%	63.6%
Net fee income/Net income		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average loan portfolio (\$bn)		2.4	2.2	2.5	2.4	2.4	2.4	2.3	2.1
<b>Expressed as ratio of average portfolio (bps analysis)<sup>1</sup></b>									
Fees received		87	100	95	90	82	92	97	103
Expenses		(29)	(32)	(32)	(33)	(25)	(33)	(27)	(38)
EBIT		58	68	63	57	58	58	71	66

<sup>1</sup> - Half on Half data annualised

## Divisional Performance - Funds Management

APPENDIX - 7

	2006	2005	2004	2H 06	1H 06	2H 05 <sup>1</sup>	1H 05	2H 04	1H 04
<b>Income</b>									
<b>Net Investment Income</b>		0	0		0	0	0	0	0
Fees received		76	75		52	44	32	40	35
Fees & commissions paid		(20)	(28)		(12)	(10)	(11)	(14)	(14)
Acquisition cost amortisation		0	0		0	0	0	0	0
<b>Net fee income</b>		56	47		39	35	21	26	21
<b>Other income</b>		1	0		3	1	0	0	0
<b>Net income</b>		57	47		42	36	22	26	21
<b>Expenses</b>									
Employee expenses		(39)	(29)		(22)	(24)	(15)	(16)	(14)
Other		(28)	(22)		(13)	(19)	(9)	(12)	(11)
<b>Total expenses</b>		(67)	(52)		(35)	(43)	(24)	(27)	(25)
<b>EBIT</b>		(10)	(5)		7	(7)	(3)	(1)	(4)
Expense to income		117.1%	110.0%		83.9%	119.3%	113.5%	103.8%	117.7%
EBIT margin		-17.1%	-10.0%		16.1%	-19.3%	-13.5%	-3.8%	-17.7%
Net fee income/Net income		98.1%	100.0%		94.0%	97.2%	99.5%	100.0%	100.0%
Other income/Net income		1.9%	0.0%		6.0%	2.8%	0.5%	0.0%	0.0%
Net assets (\$m)		77	n/a						
RONA		n/a	n/a						

<sup>1</sup> - The acquisition of HSBC Asset Management business occurred in March 2005 with \$3bn FuM acquired.

Refer appendix 12 for AIFRS impacts due to revised treatment of acquisition restructure costs in 2H05

## Divisional Performance - Asset Management

APPENDIX - 8

### Historic cost<sup>1</sup>

	2006	2005	2004	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04
<b>Income</b>									
Net rental income		55	84		49	27	28	42	42
Investment income		138	82		50	67	71	44	38
Realised gains		51	29		17	15	36	24	5
Interest paid & selling costs		(122)	(109)		(61)	(60)	(62)	(55)	(54)
<b>Net investment income</b>		122	86		55	49	73	55	31
Fees received		15	2		30	14	1	1	1
Fees & commissions paid		0	0		0	0	0	0	0
Acquisition cost amortisation		0	0		0	0	0	0	0
<b>Net fee income</b>		15	2		30	14	1	1	1
<b>Other income</b>		0	0		0	0	0	0	0
<b>Net income</b>		137	88		85	63	74	56	32
<b>Expenses</b>									
Employee expenses		(25)	(18)		(18)	(16)	(9)	(9)	(9)
Other		(12)	(8)		(7)	(7)	(5)	(3)	(5)
<b>Total expenses</b>		(37)	(26)		(25)	(23)	(14)	(12)	(14)
<b>EBIT</b>		100	62		60	40	60	44	18
Expense to income		27.0%	29.5%		29.4%	36.5%	18.9%	21.4%	43.8%
EBIT margin		73.0%	70.5%		70.6%	63.5%	81.1%	78.6%	56.3%
Net investment income/Net income		89.1%	97.7%		64.7%	77.8%	98.6%	98.2%	96.9%
Net fee income/Net income		10.9%	2.3%		35.3%	22.2%	1.4%	1.8%	3.1%
Net assets (\$m)		483	n/a						
RONA		20.7%	n/a						
Average investment assets (\$m)		2,894							
Net investment income/Average investment assets		4.2%							

<sup>1</sup> 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.

## Divisional Performance - Financial Planning

APPENDIX - 9

	2006	2005	2004	2H 06	1H 06	2H 05	1H 05 <sup>1</sup>	2H 04	1H 04
<b>Income</b>									
<b>Net Total Investment Income</b>		0	0		0	0	0	0	0
Fees received		132	61		75	69	63	31	30
Fees & commissions paid		(93)	(38)		(55)	(49)	(44)	(18)	(20)
Acquisition cost amortisation		0	0		0	0	0	0	0
<b>Net fee income</b>		39	23		20	20	19	12	11
<b>Other income</b>		1	0		3	1	0	0	0
<b>Net income</b>		39	23		23	21	19	12	11
<b>Expenses</b>									
Employee expenses		(19)	(12)		(10)	(10)	(10)	(6)	(6)
Other		(15)	(11)		(7)	(6)	(9)	(6)	(5)
<b>Total expenses</b>		(34)	(24)		(17)	(15)	(19)	(12)	(11)
<b>EBIT</b>		5	(1)		5	5	(0)	0	(1)
Expense to income		86.8%	103.5%		76.3%	73.7%	101.1%	100.0%	107.5%
EBIT margin		13.2%	-3.5%		23.7%	26.3%	-1.1%	0.0%	-7.5%
Net fee income/Net income		98.2%	100.0%		88.6%	96.6%	100.0%	100.0%	100.0%
Other income/Net income		1.8%	0.0%		11.4%	3.4%	0.0%	0.0%	0.0%
Net assets (\$m)		130	n/a						
RONA		4.0%	n/a						

<sup>1</sup> - The acquisition of Associated Planners in August 2004 (1H 05) was subsequently merged with Garrisons to form Genesys in March 2005.

Refer appendix 12 for AIFRS impacts due to revised treatment of acquisition restructure costs in 1H05

# Corporate

## APPENDIX - 10

	2006	2005	2004	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04
<b>Income</b>									
<b>Net income</b>		0	0		0	0	0	0	0
<b>Expenses</b>									
Employee expenses <sup>1</sup>		(17)	(15)		(9)	(8)	(8)	(5)	(10)
Purchased services		(2)	0		(2)	(1)	(1)	0	0
Other expenses		(6)	0		(1)	(3)	(3)	0	0
<b>Total expenses</b>		<b>(24)</b>	<b>(15)</b>		<b>(12)</b>	<b>(12)</b>	<b>(12)</b>	<b>(5)</b>	<b>(10)</b>
<b>EBIT</b>		<b>(24)</b>	<b>(15)</b>		<b>(12)</b>	<b>(12)</b>	<b>(12)</b>	<b>(5)</b>	<b>(10)</b>
<b>Interest &amp; borrowing costs</b>		<b>(17)</b>	<b>(11)</b>		<b>(13)</b>	<b>(8)</b>	<b>(9)</b>	<b>(8)</b>	<b>(3)</b>
<b>Net Profit / (Loss) Before Tax</b>		<b>(41)</b>	<b>(26)</b>		<b>(25)</b>	<b>(20)</b>	<b>(21)</b>	<b>(13)</b>	<b>(13)</b>
<b>Tax<sup>2</sup></b>		<b>(31)</b>	<b>(21)</b>		<b>(25)</b>	<b>(13)</b>	<b>(18)</b>	<b>(15)</b>	<b>(6)</b>
<b>Net Profit / (Loss) After Tax</b>		<b>(72)</b>	<b>(47)</b>		<b>(50)</b>	<b>(33)</b>	<b>(39)</b>	<b>(28)</b>	<b>(19)</b>
<b>Headcount - FTE</b>		901	1,030		926	901	870	1,030	902

<sup>1</sup> LTIP amortisation under AIFRS commenced 1H 05

<sup>2</sup> Tax is reported at Group level

## Group Assets & Loans under Management

APPENDIX 11

	2H 06	1H 06	2H 05	1H 05	2H 04	1H 04
<b>Mortgage Management</b>						
Residential	18,258	17,190	16,033	15,081	13,822	12,535
Commercial	2,643	2,516	2,438	2,466	2,407	2,203
<b>Total Mortgages under Management</b>	<b>20,901</b>	<b>19,706</b>	<b>18,471</b>	<b>17,547</b>	<b>16,229</b>	<b>14,738</b>
<b>Funds Management</b>						
Funds under management	12,868	11,943	10,579	6,916	5,891	5,254
<b>Asset Management</b>						
<b>Assets managed for the Life company</b>						
Property <sup>1</sup>	1,515	1,422	1,329	969	823	875
Debt investments (including hybrids) & cash	1,055	1,284	1,124	1,667	1,756	1,307
Infrastructure assets <sup>2</sup>	409	301	344	271	0	0
Equity & other	97	108	153	104	72	169
<b>Sub total</b>	<b>3,076</b>	<b>3,115</b>	<b>2,950</b>	<b>3,011</b>	<b>2,651</b>	<b>2,351</b>
<b>Funds</b>						
CWT	295	298	288	273	253	242
CIFCA (adjusted eq value)	294	378	0	0	0	0
<b>Sub total funds</b>	<b>589</b>	<b>676</b>	<b>288</b>	<b>273</b>	<b>253</b>	<b>242</b>
<b>Total - Assets under Management</b>	<b>3,665</b>	<b>3,791</b>	<b>3,238</b>	<b>3,284</b>	<b>2,904</b>	<b>2,593</b>
<b>Financial Planning</b>						
Funds under administration <sup>3</sup>	1,914	1,833	1,742	1,744	1,668	3,264
<i>Adjustments</i> <sup>4</sup>	<i>(2,801)</i>	<i>(2,719)</i>	<i>(2,438)</i>	<i>(2,466)</i>	<i>(2,407)</i>	<i>(2,203)</i>
<b>Total assets &amp; loans under management/admin.</b>	<b>36,547</b>	<b>34,554</b>	<b>31,592</b>	<b>27,025</b>	<b>24,285</b>	<b>23,646</b>

Refer Quarterly Asset & Funds Under Management reports for greater detail

1: Net senior debt

2: Including Life investment in CIFCA

3: Funds under Administration for 1H 04 includes \$1,660 Corporate Superannuation Business which was subsequently sold

4: Adjustments reflect the prevention of double counting of cross holdings of Commercial Lending and Life Company investment in CIF (adjusted equity value)

## Reconciliation of Wealth Management segment reporting to Funds Management and Financial Planning

APPENDIX 12

\$m	FY05	FY04	1H06	2H05	1H05	2H04	1H04
<b>Wealth Management EBIT</b> reported under <b>AGAAP</b> <sup>(1)</sup>	6	(5)	n/a	5	1	(1)	(4)
Less: Acquisition restructure adjustments under AIFRS							
• HSBC Asset Management acquisition (FM)	(7)	-	n/a	(7)	-	-	-
• Associated Planners acquisition (FP)	(4)	-	n/a	-	(4)	-	-
<b>Wealth Management EBIT</b> reported under <b>AIFRS</b> <sup>(2)</sup>	<u>(5)</u>	<u>(5)</u>	<u>12</u>	<u>(2)</u>	<u>(3)</u>	<u>(1)</u>	<u>(4)</u>
<b>Attribution to new corporate structure:</b>							
<b>Funds Management</b> <sup>(3)</sup>	<b>(10)</b>	<b>(5)</b>	<b>7</b>	<b>(7)</b>	<b>(3)</b>	<b>(1)</b>	<b>(4)</b>
<b>Financial Planning</b> <sup>(3)</sup>	<b>5</b>	<b>(1)</b>	<b>5</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>(1)</b>
Rounding	-	-	-	-	-	-	1
	<u><b>(5)</b></u>	<u><b>(6)</b></u>	<u><b>12</b></u>	<u><b>(2)</b></u>	<u><b>(3)</b></u>	<u><b>(1)</b></u>	<u><b>(4)</b></u>

<sup>1</sup> As reported 16 September 05 Educational Briefing

<sup>2</sup> As reported Dec 05 Half Year Results

<sup>3</sup> Financial Planning division now incorporates Synergy. In previous reporting packages certain supplementary information reported Synergy within the 'Funds Management' sub segment of Wealth Management.