Challenger Financial Services Group Limited

Full-year results to 30 June 2007

Mike Tilley – Chief Executive Officer

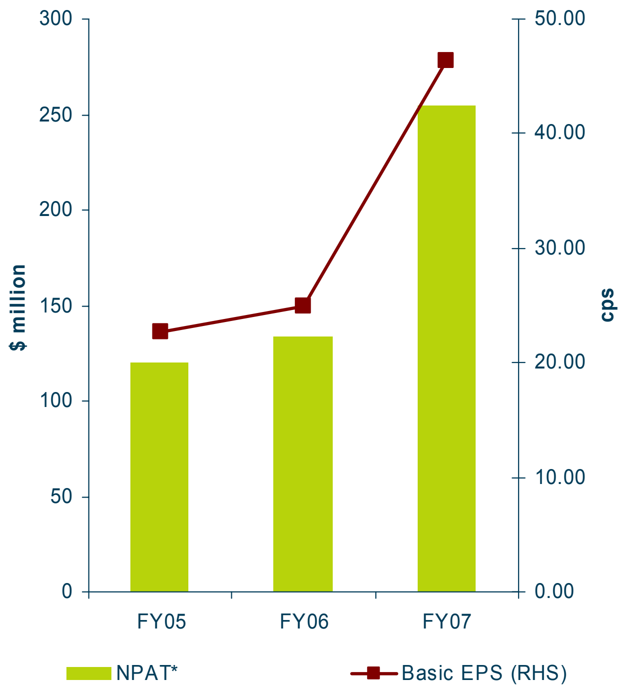
27 August 2007

FY07 statutory performance[1]

- Record result driven by growth in top line revenue
- NPAT of $255m up 90%
- Assets under management of $52.8bn up 27%
- Basic EPS of 46.3 cps up 86%
- Final dividend of 7.5 cps fully franked -12.5 cps for the full year – up 67%

[1] All comparatives against prior corresponding period (FY06 Statutory Results) – 12 months ended 30 June 2006

Consistently creating value for shareholders

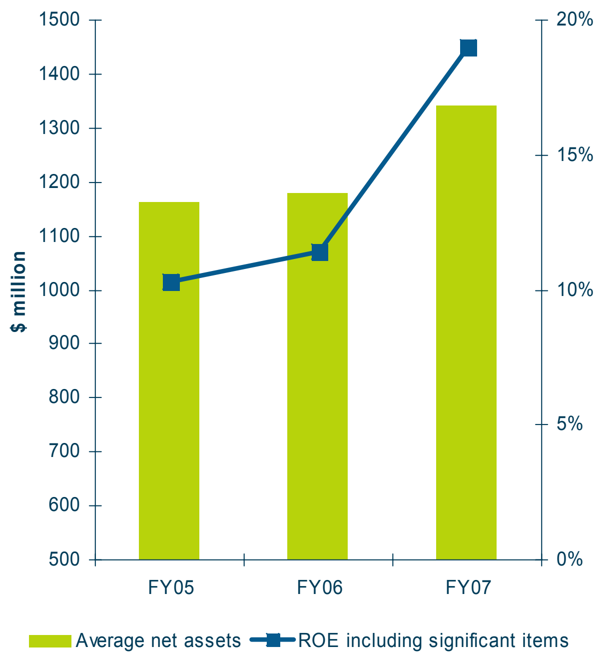


* NPAT including significant items

- NPAT and basic EPS more than doubled over a two year period
- Growth driven by strong performance across the divisions
- Significant momentum to propel the business forward

Consistently creating value for shareholders

- Return on equity up 67% over the last 12 months
- Revenue momentum out pacing growth in average net assets

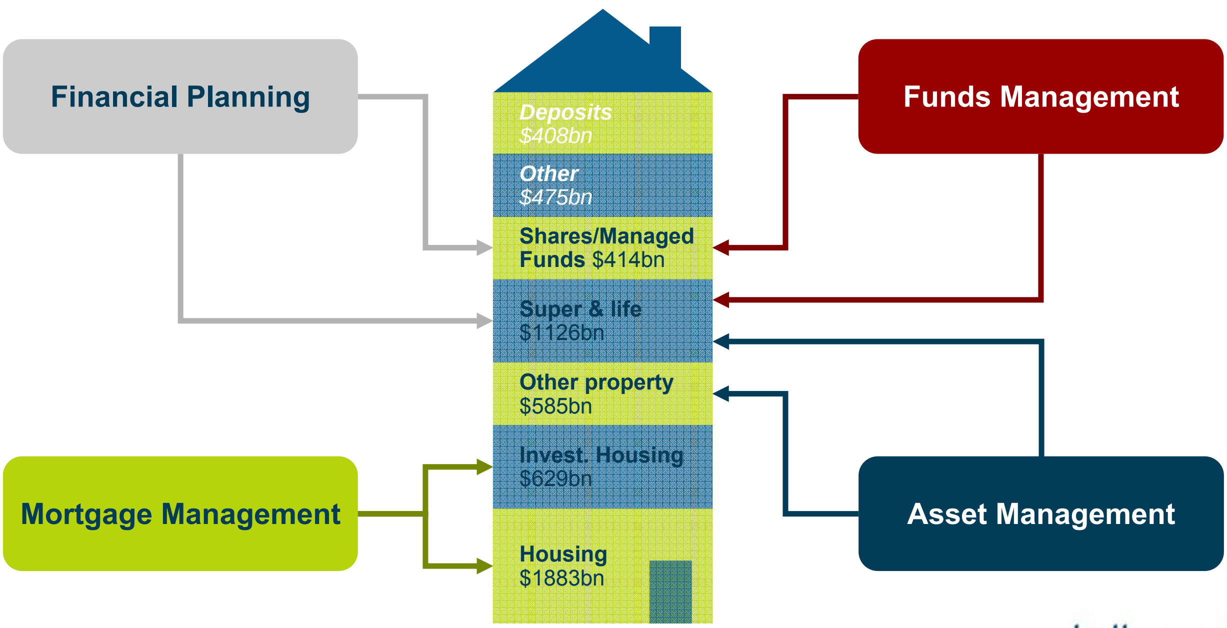


Significant financial flexibility

- Base financial position provides substantial liquidity - further enhanced by transfer of MetLife annuity portfolio on 31 August 2007
- Strong existing capital levels
- Significant un-drawn facilities
- Strategic relationships with The Bank of Tokyo-Mitsubishi UFJ, Ltd. / Mitsubishi UFJ Securities Co., Ltd. and Colony Capital, LLC – platforms for future business opportunities
- Proposed new capital allows for significant financial flexibility to expedite the reinvestment of assets following the MetLife transfer

Spanning the breadth of financial services

Australian household assets[1]
$5520 bn ($676,500 per household)



[1] Source: Reserve Bank Australia statistical table B20; IBIS World – balance up from $1913 bn in 1997

Challenger Financial Services Group Limited

Full-year results to 30 June 2007

Paul Rogan, Group Chief Financial Officer

27 August 2007

challenger

Financial highlights

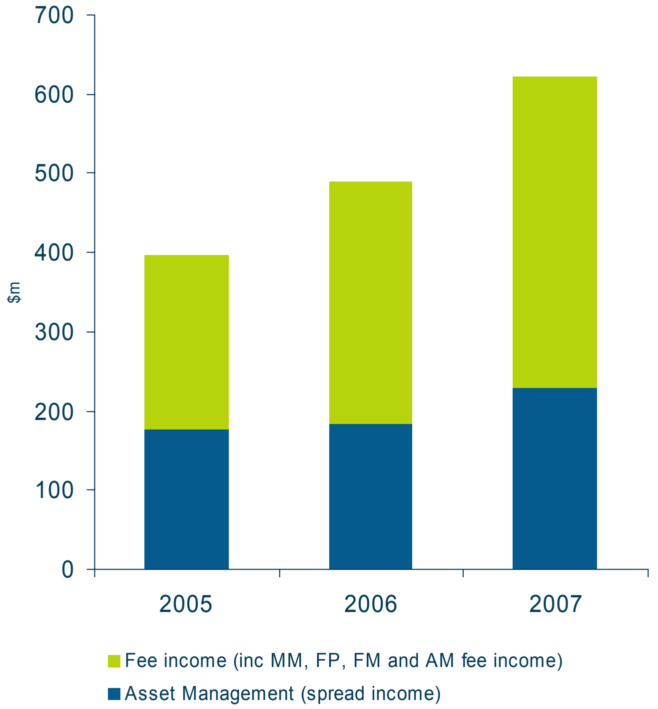
Statutory

Financials	FY07	FY06	% Δ	Trend
Assets under Management	**$52.8bn**	$41.5bn	**27.2%**	⇧
Net Income	**$622m**	$489m	**27.2%**	⇧
Expenses	**$287m**	$242m	**18.6%**	⇧
EBIT	**$335m**	$247m	**35.6%**	⇧
NPAT[1]	**$255m**	$134m	**90.3%**	⇧
ROE[1]	**19.0%**	11.4%	**66.7%**	⇧
EPS basic cps	**46.3**	24.9	**85.9%**	⇧
EPS diluted cps	**43.2**	23.9	**80.8%**	⇧

1 – Including significant items; ROE calculated on average net assets

challenger

Growing and diversified income streams

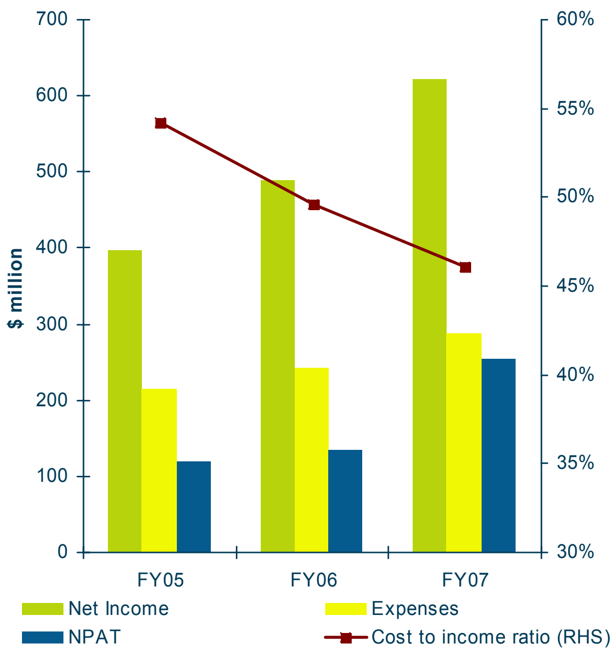


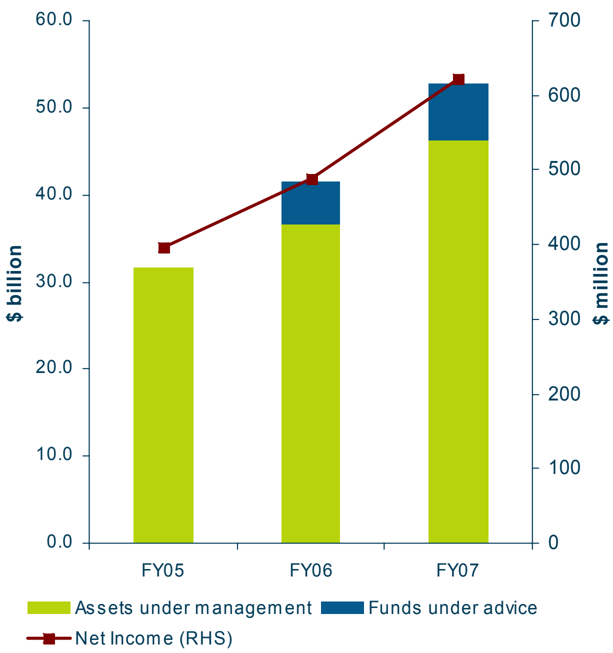
- Revenue increase driven by double-digit growth in contributions from each division
- Fee based income now contributes 62% of overall income
- Transaction / performance fees ~10% of total income

challenger

Key performance trends

Statutory

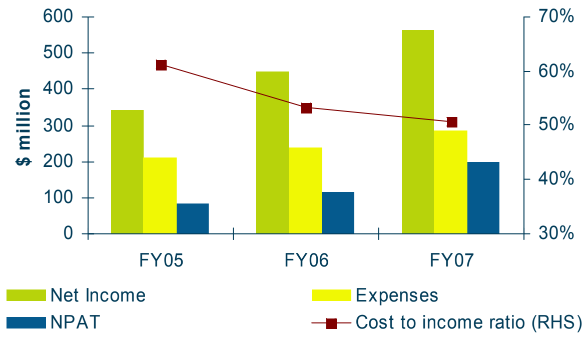


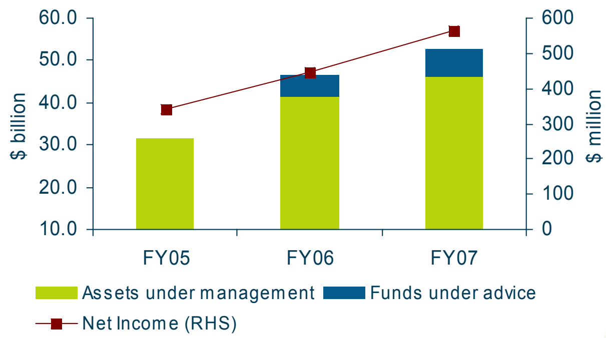


challenger

Financial highlights
Historic cost

Financials	FY07	FY06	% Δ	Trend
Net Income	$566m	$448m	26.3%	⇧
Expenses	$287m	$238m	20.6%	⇧
EBIT	$279m	$209m	33.5%	⇧
NPAT	$200m	$116m	72.4%	⇧





challenger

Divisional performance - Funds Management

challenger

Strong momentum

Financials	FY 2007	FY 2006	% Δ	Trend
Funds under Management[1]	**$18.4bn**	$12.9bn	**42.6%**	⇧
Net Income	**$108m**	$92m	**17.4%**	⇧
Expenses	**$68m**	$68m	**0.0%**	⇔
EBIT	**$40m**	$24m	**66.7%**	⇧
RONA[2]	**29.3%**	18.6%	**57.5%**	⇧
Net Assets[3]	**$135m**	$131m		

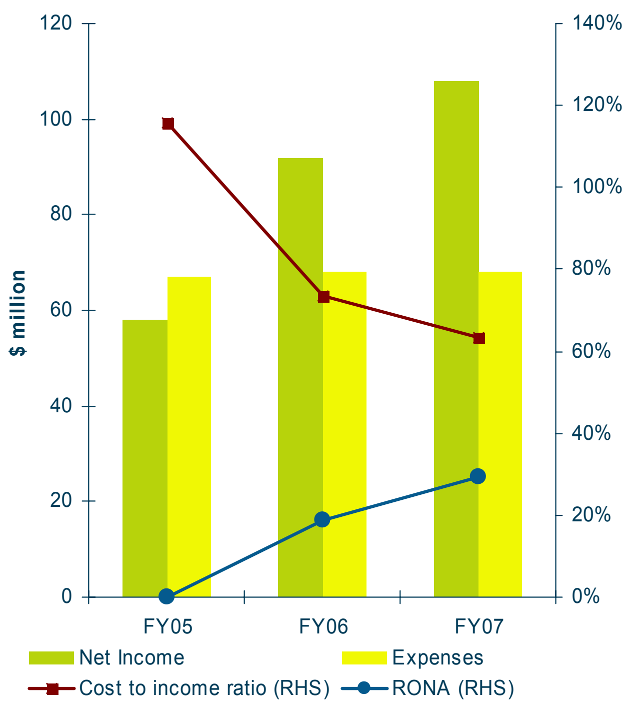
[1] – Includes $0.7bn of segregated boutique partnerships mandates (2006: $nil)

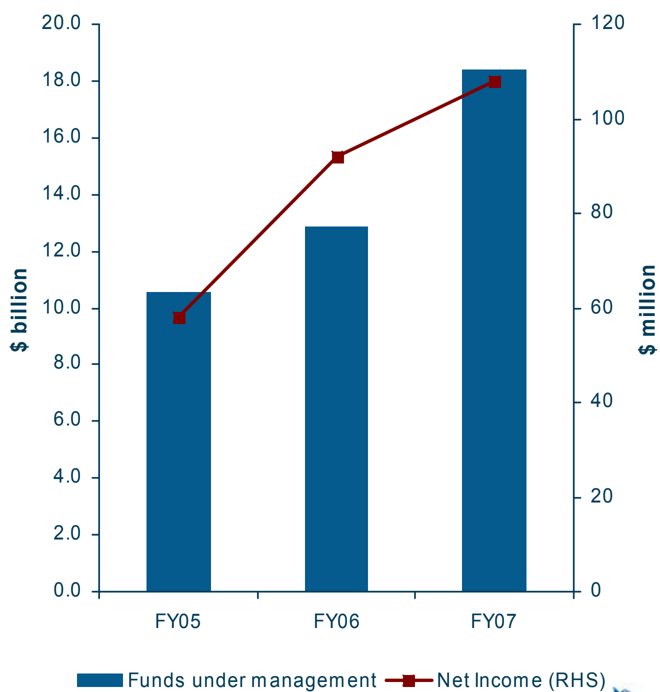
[2] – Calculated on opening net assets

[3] – Net Assets at 30 June 2007 were $124m

challenger

Key performance trends



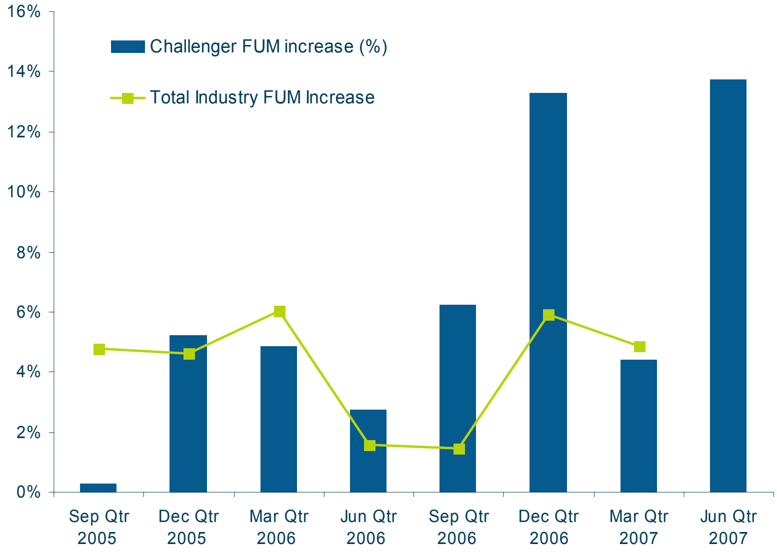


challenger

Key value drivers of the result

- FUM growth of 43% for the year
- Brand increasingly recognised for investment excellence
- Strong momentum across all distribution channels
- Funding of institutional mandates resulting in timing differences between FUM increase and revenue impact

Challenger FUM increase compared to Total Industry FUM[1] increase



1 Source: ABS Managed Funds Quarterly Surveys

Divisional performance - Mortgage Management

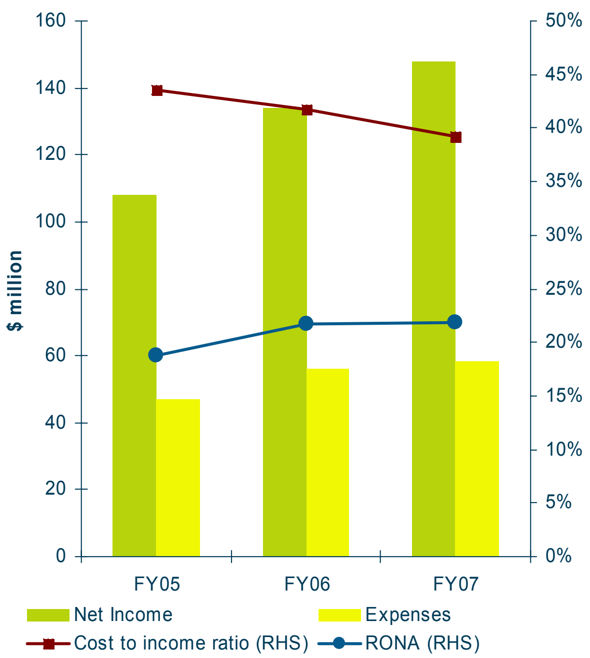
Established and resilient portfolio

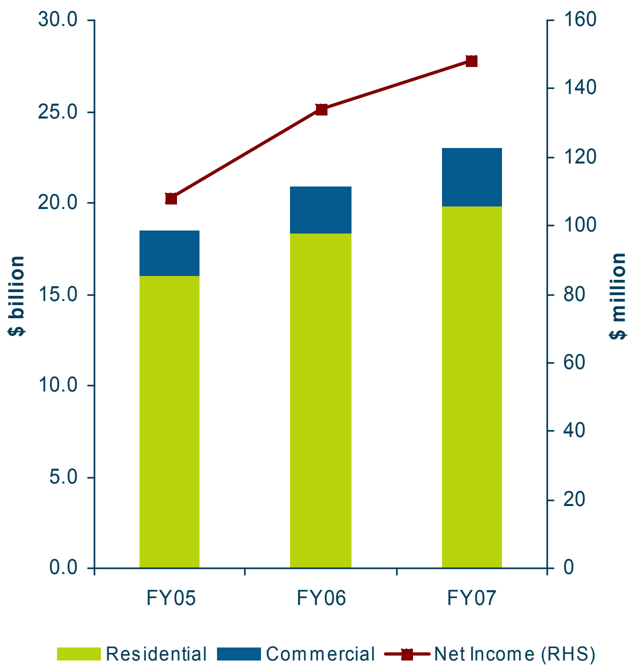
Financials	FY 2007	FY 2006	% Δ	Trend
Residential mortgages under management	**$19.8n**	$18.3bn	**8.2%**	⇧
Commercial mortgages under management	**$3.2bn**	$2.6bn	**23.1%**	⇧
Net Income	**$148m**	$134m	**10.4%**	⇧
Expenses	**$58m**	$56m	**3.6%**	⇧
EBIT	**$90m**	$78m	**15.4%**	⇧
RONA[1]	**21.8%**	21.7%	**0.5%**	⇧
Net Assets[2]	**$412m**	$360m		

[1] – Calculated on opening Net Assets

[2] – Net Assets at 30 June 2007 were $474m

Key performance trends

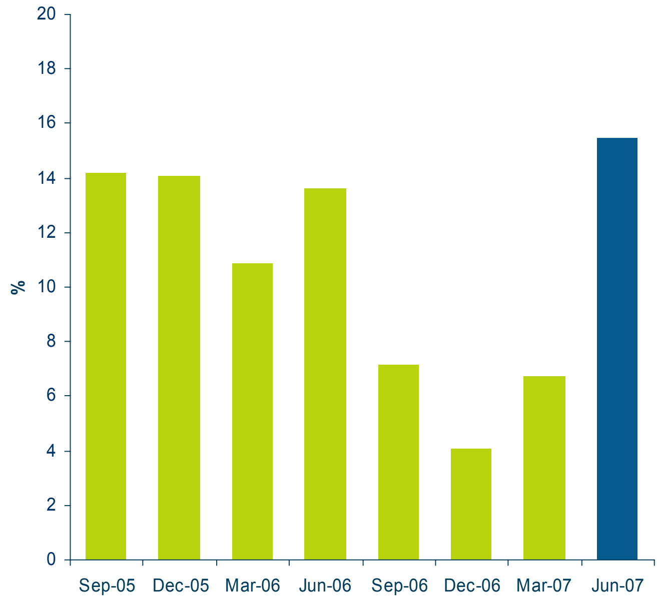




Key value drivers of the result

- Significant momentum in residential portfolio – last quarter delivering 15.5% growth annualised
- High quality mortgage book
- Challenger RMBS programmes access term securitisation markets
- 8 warehouse providers with $8.2bn in capacity

Residential prime lending – book growth



challenger

Divisional performance - Asset Management

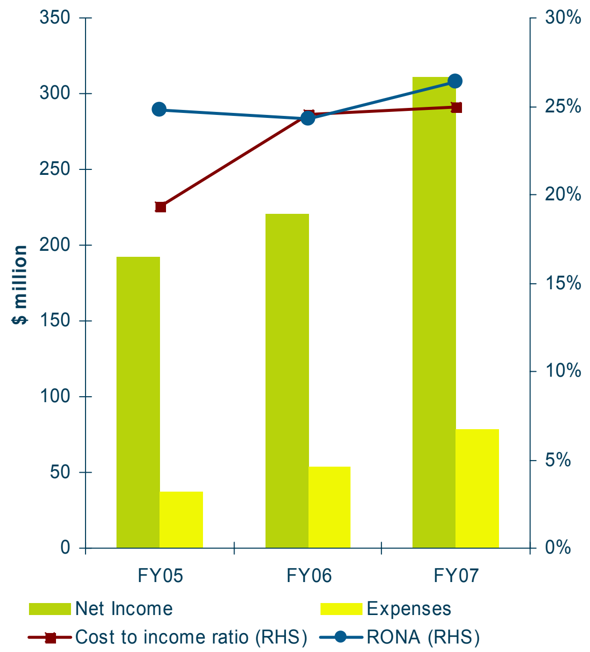
challenger

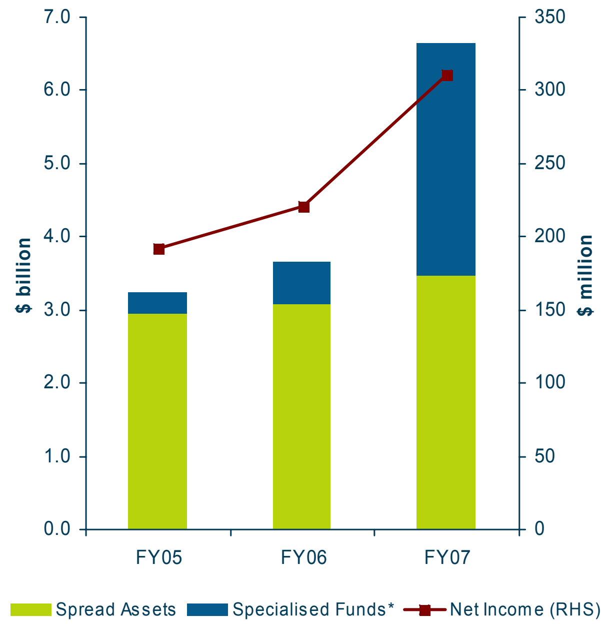
Focused on quality assets
Statutory

Financials	FY07	FY06	% Δ FY07 – FY06	Trend
Assets under Management – CL2[1]	**$3.5bn**	$3.1bn	**12.9%**	⇧
Assets under Management – Specialised Funds[2]	**$3.2bn**	$0.6bn	**large**	⇧
Net Income	**$311m**	$221m	**40.7%**	⇧
Expenses	**$78m**	$54m	**44.4%**	⇧
EBIT[3]	**$233m**	$167m	**39.5%**	⇧
RONA[4]	**26.4%**	24.3%	**8.6%**	⇧
Net Assets[5]	**$883m**	$686m		

[1] – Excludes the assumption of the MetLife annuity portfolio
[2] – Excludes CIF entitlement issue which occurred post 30 June 2007
[3] – EBIT is pre-significant items
[4] – Calculated on opening Net Assets
[5] – Net Assets at 30 June 2007 were $1,014m

Key Performance Trends
Statutory





* – Excludes CIF entitlement issue which occurred post 30 June 2007

Asset Management
Historic Cost

Financials	FY07	FY06	% Δ FY07 – FY06	Trend
Net Income	**$255m**	$177m	**44.1%**	⇧
Expenses	**$78m**	$54m	**44.4%**	⇧
EBIT[1]	**$177m**	$123m	**43.9%**	⇧
RONA[2]	**25.0%**	21.7%	**15.2%**	⇧
Net Assets[3]	**$707m**	$566m		

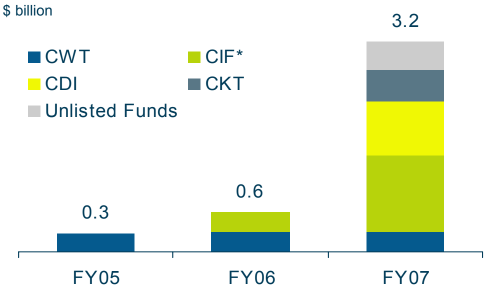
[1] – EBIT is pre-significant items
[2] – Calculated on opening Net Assets
[3] – Net Assets at 30 June 2007 were $835m

challenger

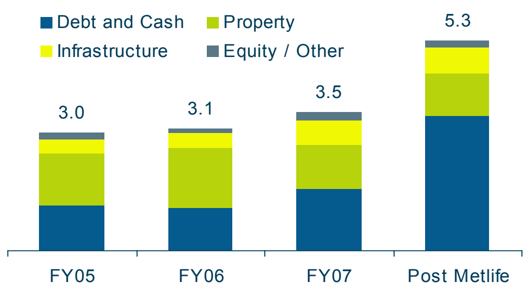
Established platforms to secure future growth

- Growth in our specialised funds AUM by $2.6bn during FY07
  - Recurring base management fees
  - Platform for transaction and performance fees
- Transfer of the MetLife annuity book on 31 August 2007 delivers scale to the balance sheet
  - Growth in balance sheet investment capacity from $3.5bn to $5.3bn (51%)
  - Cost efficient source of funding

Challenger Specialised Funds AUM
$ billion



Impact of transfer of MetLife portfolio
Investment Assets $ billion



challenger

* – Excludes CIF entitlement issue which occurred post 30 June 2007

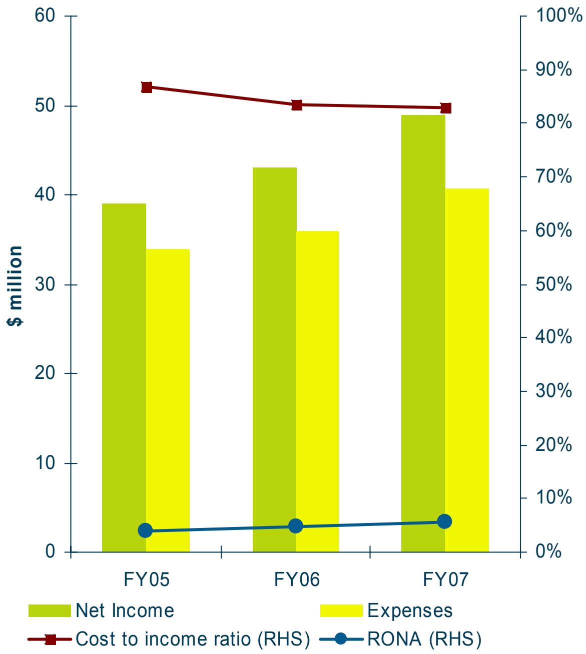
Divisional performance – Financial Planning

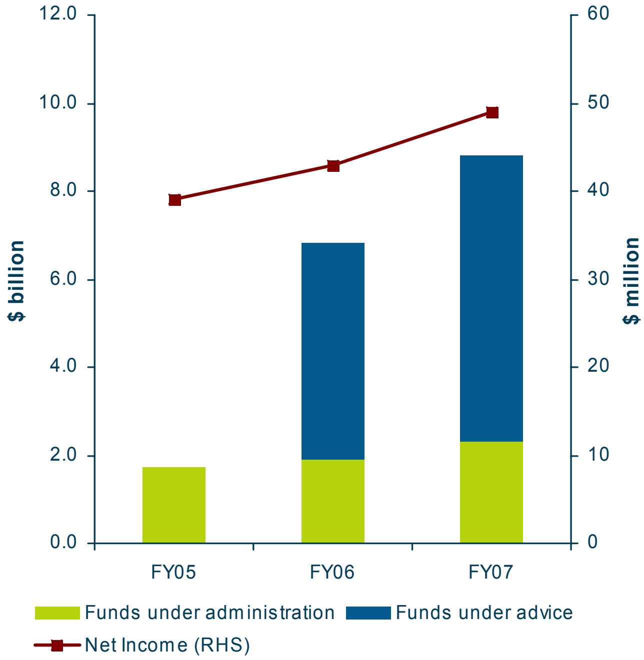
Established basis for future growth

Financials	FY 2007	FY 2006	% Δ	Trend
Funds under administration	**$2.3bn**	$1.9bn	**21.1%**	⇧
Funds under advice	**$6.5bn**	$4.9bn	**32.7%**	⇧
Net Income[1]	**$49m**	$43m	**14.0%**	⇧
Expenses[2]	**$41m**	$36m	**13.9%**	⇧
EBIT	**$8m**	$7m	**14.3%**	⇧
RONA[3]	**5.5%**	4.9%	**12.2%**	⇧
Net Assets[4]	**$146m**	$144m		

[1] – Income from sale of non-core assets of $1.1m (FY 2006 $2.4m)
[2] – Includes $2m of restructuring costs (FY 2006 $nil)
[3] – Calculated on opening net assets
[4] – Net Assets at 30 June 2007 were $151m

Key performance trends



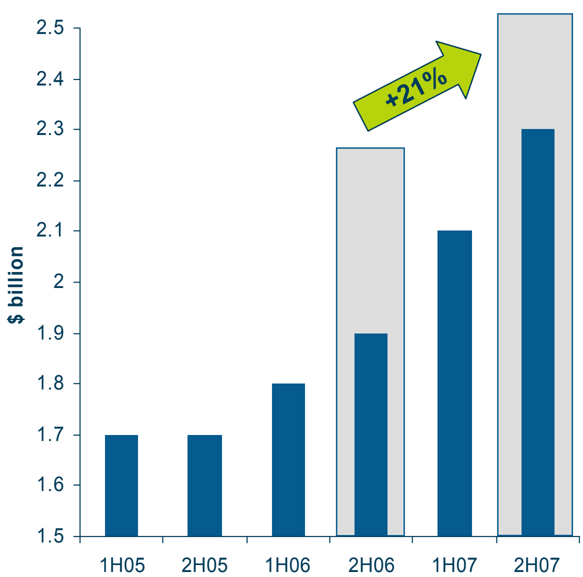


challenger

Key value drivers of the result

- Committed to delivering on 18% RONA target by 2009
- New executive team in place
- Early signs from strategic review are positive
  - More than 95% of planners by value have accepted new terms
  - Strategy aligned to growth drivers
    - 33% growth in funds under advice
    - 21% in funds under administration

Funds under Administration (Synergy)
$ billion

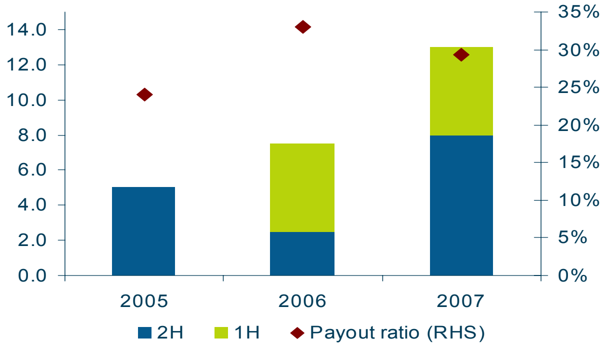


challenger

Capital management disciplines

- Priority for usage of available capital continues to be investment in businesses generating RONA of 18% or greater
- Conservative gearing maintained to ensure financial flexibility
- 2007 final dividend declared
  - 7.5 cents per share
  - fully franked
- Total 12.5 cents per share - up 67%

Dividends – cents per share (cps)



Key dates	
Ex-dividend date	20 September 2007
Record date	26 September 2007
Payment date	19 October 2007

Outlook

- Foundations across all businesses are strong
  - MetLife portfolio transfer delivers upside potential over the next 3 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
- Strategic relationships bring significant financial flexibility and platforms for future business opportunities
- Positive outlook across all Challenger businesses
- Revenue momentum, liquidity and capital underpins confidence in meeting our investment hurdle >18% RONA and delivering double digit EPS growth in the long term

Supplementary Slides

30 June 2007

challenger

Contemporary business delivering value

INVESTMENT OBJECTIVES: RONA > 18% DOUBLE DIGIT EPS GROWTH

OPERATING IN MARKETS GROWING > 10% A YEAR

Leveraging Challenger's core competencies and capabilities

PRODUCTS	**OPERATIONS**	**DISTRIBUTION**
Focused on delivering superior customer outcomes and quality products and services	Centralised contemporary scalable technology, systems and platforms delivering low cost	Deliver and leverage via 3rd party intermediaries
BUSINESSES →	**Mortgage Management** **Funds Management**	**Asset Management** **Financial Planning**

INVESTMENT OUTCOMES: RONA > 18% DOUBLE DIGIT EPS GROWTH

challenger

Challenger Group

Funds Management	Financial Planning	Asset Management	Mortgage Management
Manufactures and distributes quality investment products for both institutional and retail clients.	**Provides dealer and platform services to authorised representatives, who then provide financial planning services to individuals and corporates**	**Structures and manages global assets generating long term predictable income streams for policyholders, investors and shareholders**	**Provides competitive lending products to branded distributors via white-label funding options**
• A$18.4 billion FUM • FY07 EBIT - $40m • Full 'end-to-end' funds management business; internal teams and external alliances • Multi-manager range • Partial ownership of a growing number of boutique fund managers	• A$8.8 billion FUA • FY07 EBIT - $8m • Genesys Wealth Advisers • Synergy Capital Management	• A$6.6 billion AUM • FY07 EBIT* - $233m • Invests in assets providing long term income streams • Specialist funds business includes four listed and three unlisted funds thus far	• A$23 billion MUM • FY07 EBIT - $90m • Prime residential lending • Commercial lending • Distribution alliances

challenger

* – Statutory EBIT pre-significant items

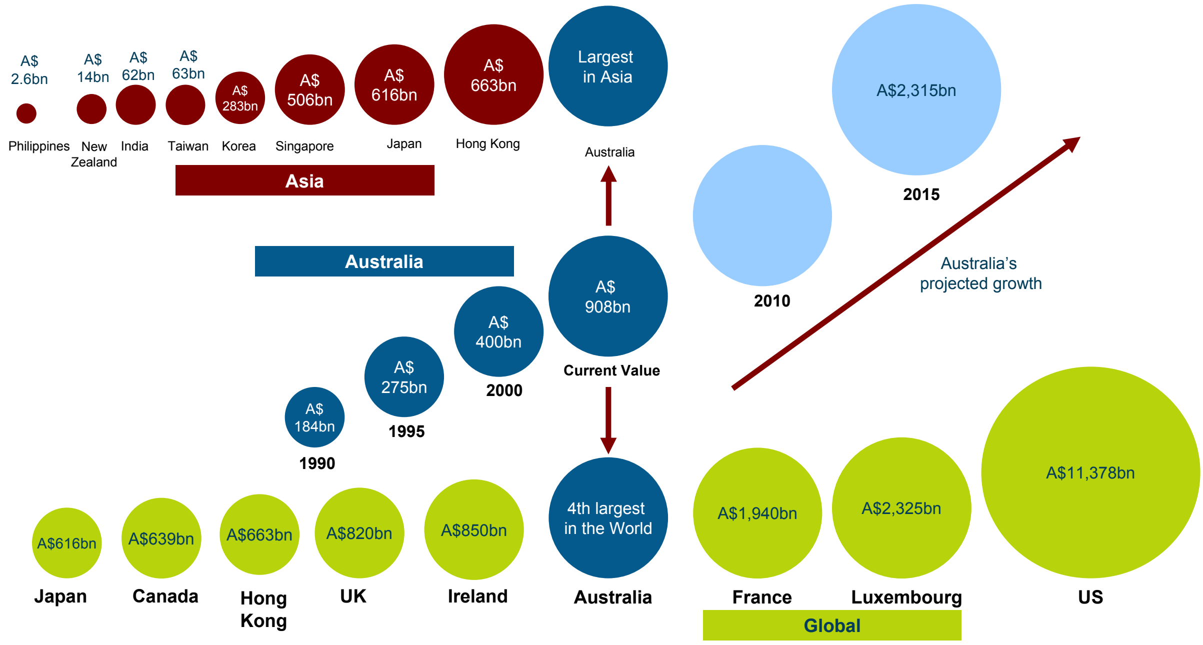
Funds Management

30 June 2007

challenger

Attractive macro environment

Investment fund assets[1], A$billion, September Quarter 2006



Notes: Circles not to scale
1. Refers to home-domiciled funds, except Hong Kong, Korea and New Zealand, which include home and foreign-domiciled funds. Fund-of funds are not included
   Based on exchange rate of Australian dollar against US dollar of US$0.8549

Source: Axiss Australia – April 2007

challenger

Funds Management - our strategy

Funds Management

Internal management

"Challenger" brand

Creation of investment funds managed by Challenger investment teams across multiple asset classes including Australian shares, fixed interest securities, mortgages and real estate securities, distributed via intermediaries

Multi-manager

"Custom Choice" brand

The provision of investment funds that mix a range of investment managers – a 'multi-manager' approach. Through a strategic alliance with Challenger, Queensland Investment Corporation (QIC) advise on manager selection

Investment alliances

Brand indifferent

Challenger has formed several exclusive relationships with high quality investment management firms to create investment products that Challenger distributes through intermediaries

Boutique partnerships

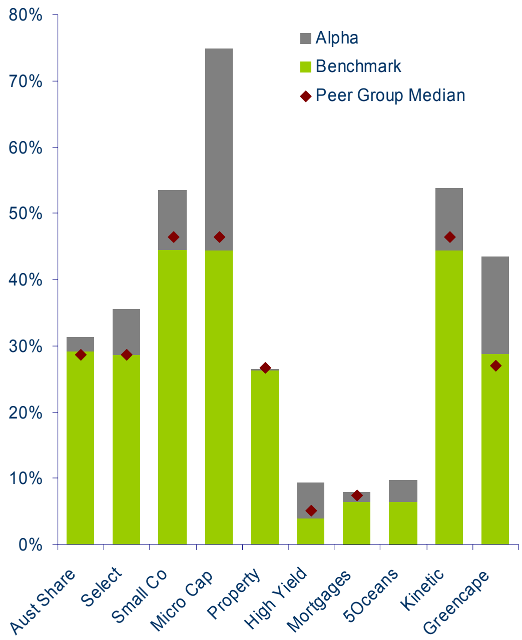
Boutique brand

Where Challenger has partial ownership in high quality boutique investment managers. Challenger will typically provide back office administration support, marketing and distribution services

challenger

Momentum driving an expanded footprint

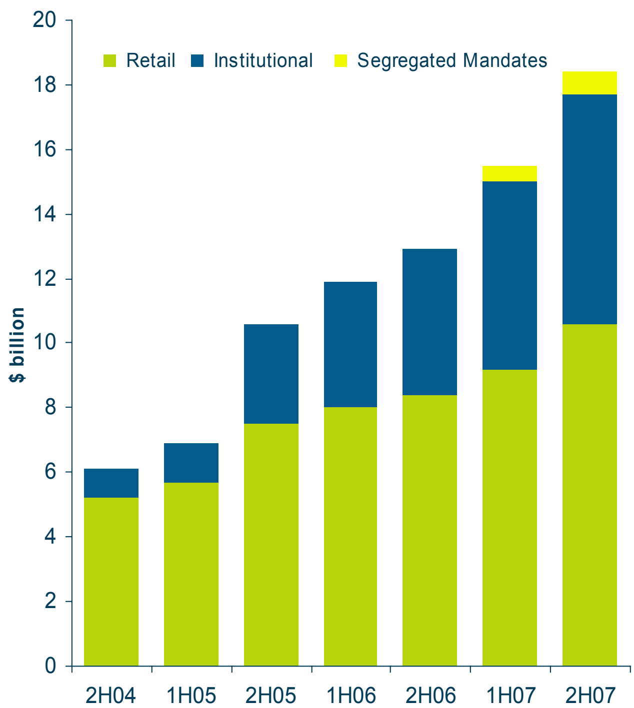
Alpha generation across sectors / strategies



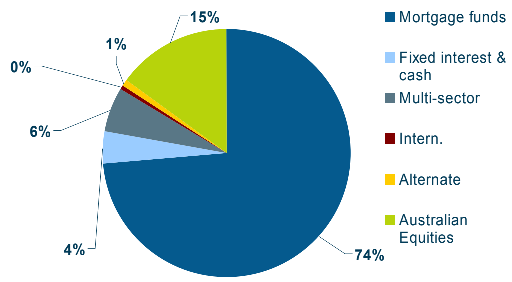
- Continued solid alpha generation:
  - across asset sectors
  - across strategies
- Continued growth in “Buy” ratings and platform presence
- Strong growth compared to industry illustrating distribution reach continuing to broaden

Researcher/Asset Consultant Recommendations for “core” Challenger products		
S&P	8 funds ★ ★ ★ ★ or better	⇔
Lonsec	9 funds RECOMMENDED or better	⇧
Morningstar	6 funds ★ ★ ★ ★ or better	⇩
Research houses	74 active recommendations	⇧
Dealer group approvals	2,113 across 394 dealer groups	⇧
Consultant ratings	83 across 6 sectors	⇧
Platform approvals	245 products on 32 platforms	⇧

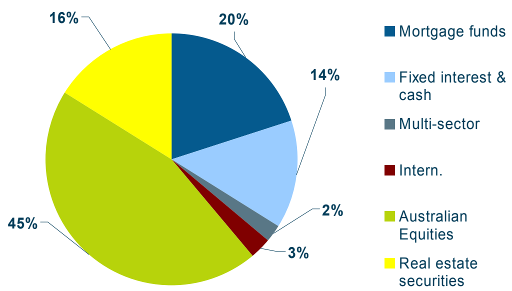
Growth in funds under management



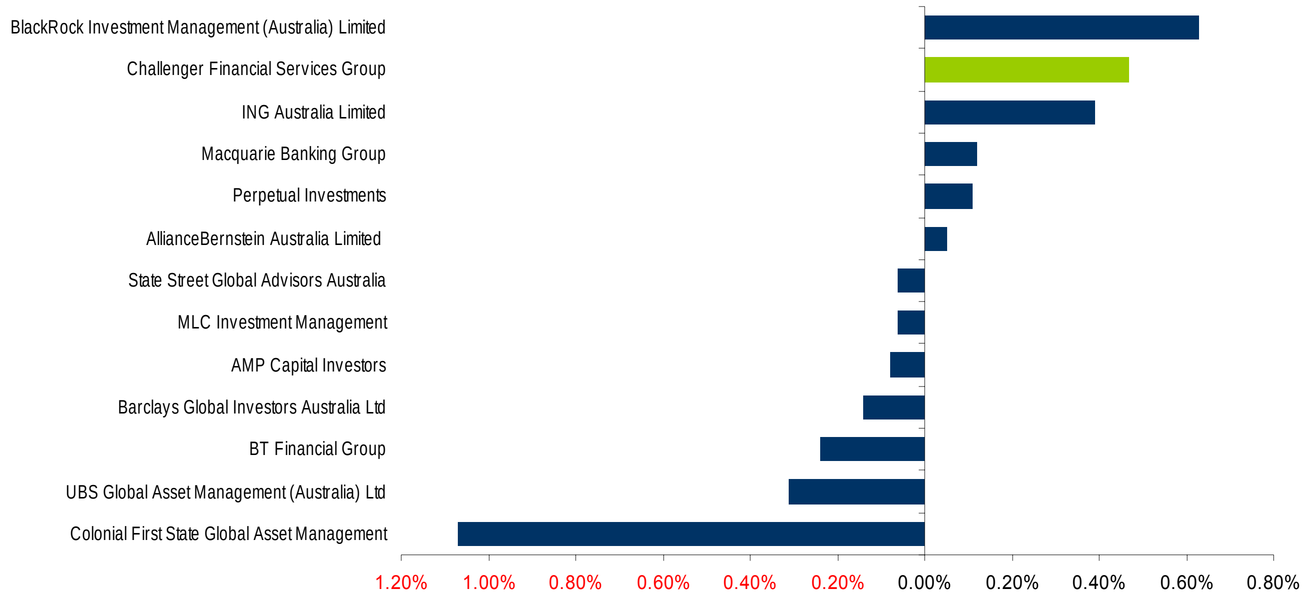
FUM by asset class – June 2003



FUM by asset class – June 2007



Change in market share



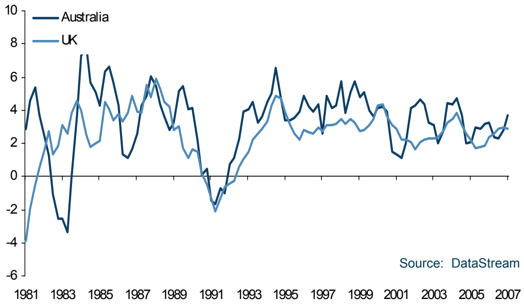
source: Rainmaker March 2007 - Table 17 comprehensive investment managers in Australia, Challenger

Mortgage Management

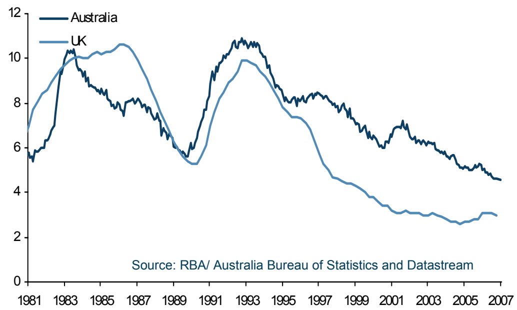
30 June 2007

Supportive macro economic environment

% Change in GDP Levels



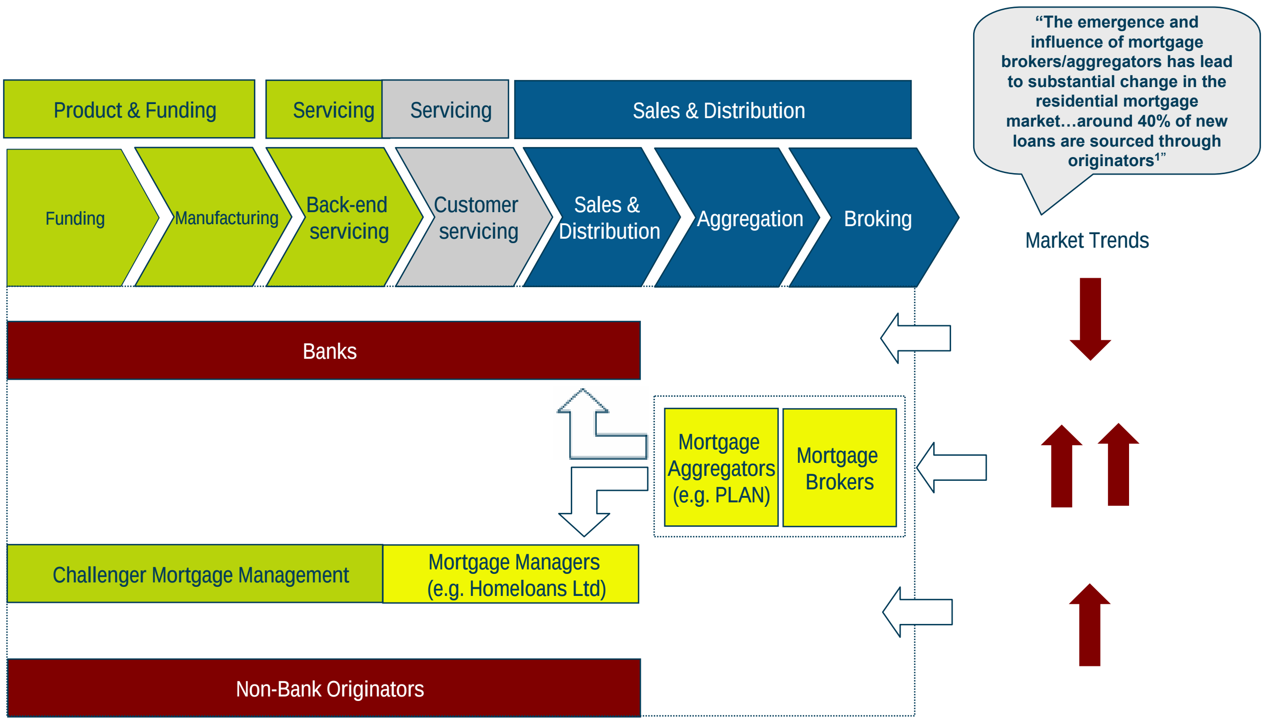
Unemployment Rate (%)



- Australia continues to experience steady GDP growth
- Unemployment remains at "full employment" levels supported by the resilience of the Australian economy
- The strong house price growth experienced in Australia over the last decade stabilised over 2004 and 2005 before moving upward again in mid 2006

challenger

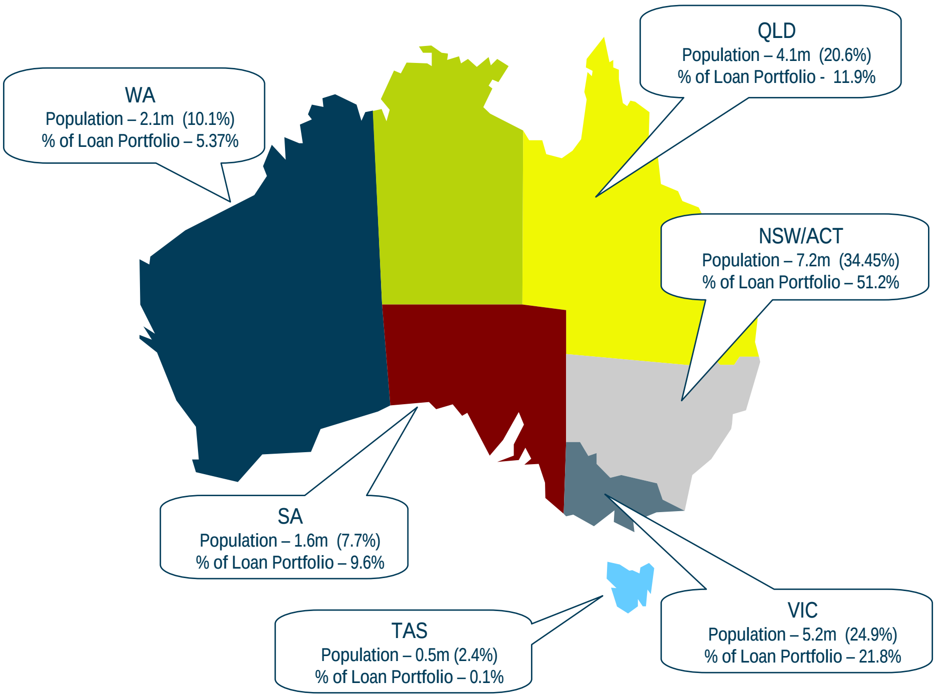
Expanding in the growth sector of the market



[1] Standard & Poor's – An Investor Guide to Australia's Housing Market and Residential Mortgage-Backed Securities

challenger

Footprint and portfolio distribution

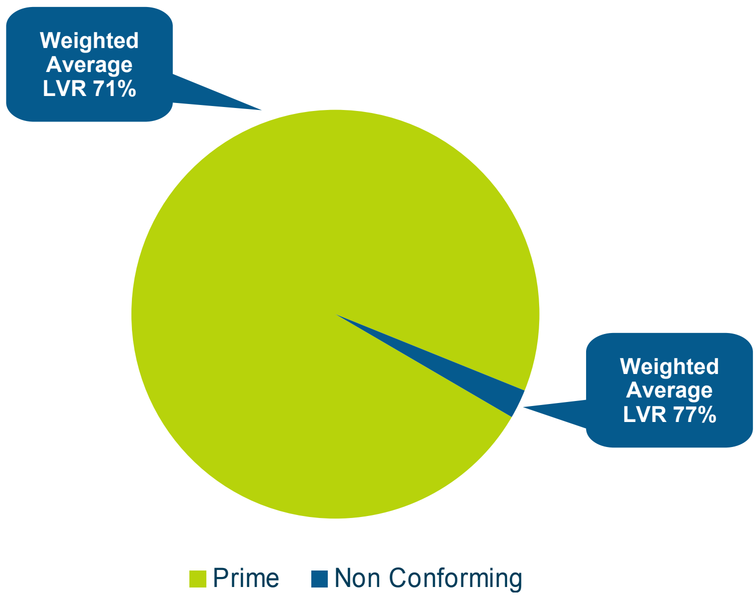


- Challenger Mortgage Management – leading white label funding provider
- Relationships with more than 500 mortgage managers across Australia

Source: population - ABS 2006 Census; all other data Challenger Mortgage Management

Residential loan portfolio and funding

- Portfolio 98% prime mortgages
- Weighted average LVR or portfolio less than 75%
- Portfolio term funded providing no need to raise rates for existing borrowers



Asset Management

30 June 2007

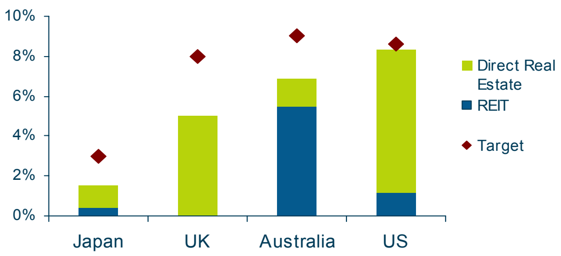
challenger

Continuing demand for alternative assets

Challenger's expertise and specialised funds are well placed to cater to growing demand for infrastructure and property assets

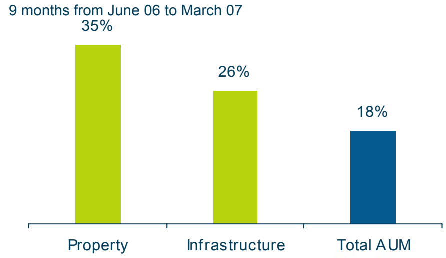
- Continuing strong global demand for real estate investments
- US and European pension funds including infrastructure in asset allocation targets
- Substantial growth in Australian property and infrastructure AUM during FY07
- Australian investors increasing their asset allocation to property and infrastructure

Pension Fund Real Estate Asset Allocation[1]



Growth in Australian AUM by Asset Class[2]

9 months from June 06 to March 07



Notes:

1. Source: Global Real Estate Investment and Performance 2006 and 2007, RREEF Research, March 2007
2. 9 month growth in total Australian sourced AUM by asset class, on an unconsolidated basis, from June 06 to March 07
   Source: March 2007 Roundup, Rainmaker, July 2007

challenger

Strategy - matching assets and capital

Property/Real Estate | **Infrastructure** | **Debt & Structured Credit**

Assets

Capital

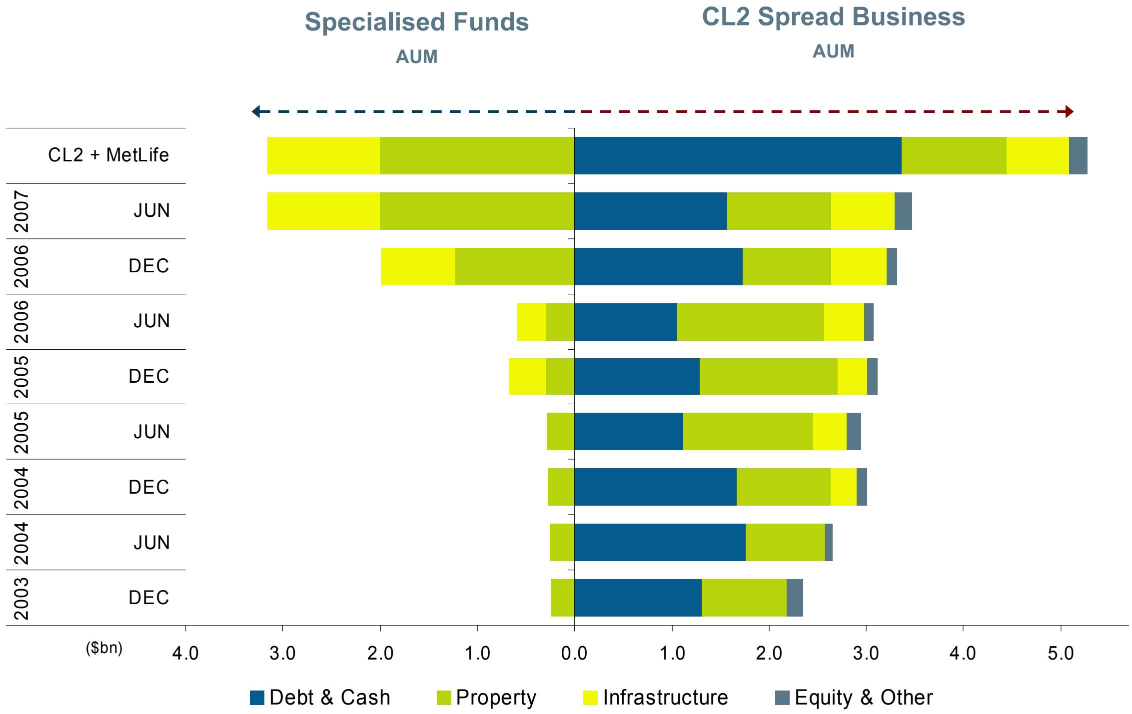
Balance Sheet
- **CL2 & other**
- **Maximise Capital Efficiency and Total Return**

Specialised Funds (Listed and Unlisted)
- **CIF / CDI / CWT / CKT / UNLISTED / CO-INVESTORS**
- **Maximise Performance, AUM, Fee Income & Profitability**

Common Platform
- Finance
- Legal
- HR
- Tax
- Compliance
- IT
- Operations

challenger

Developing fee and spread business



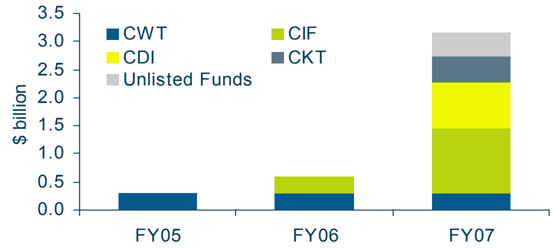
challenger

* CL2 Property net of property debt

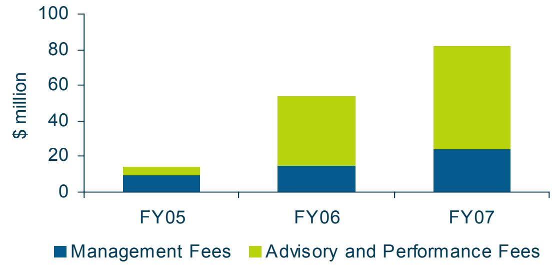
Accelerating growth in fee generating AUM

- Growth in our specialised funds AUM by $2.6bn during FY07
  - Recurring base management fees
  - Platform for transaction and performance fees
- Seek to expand wholesale/ unlisted offerings in both domestic and offshore markets
- Leveraging our strategic property alliances

Challenger Specialised Funds AUM
$ billion



Fee Income[1]
$ million

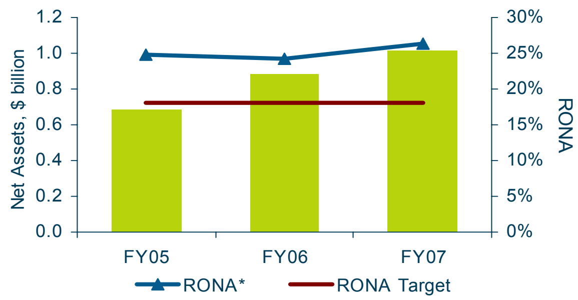


Notes:
1. FY06 reports statutory normalised for CIF deconsolidation impact

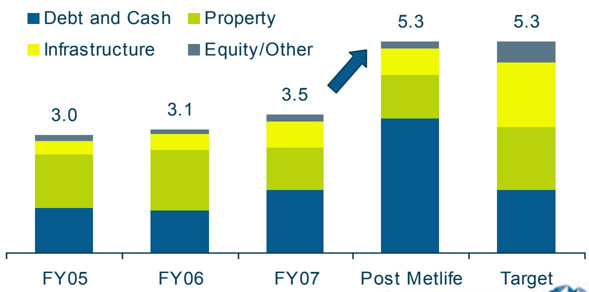
Focus on maximising total return

- Asset Management continues to exceed RONA target with an increasing net asset base
- Global investment portfolio delivering long term income streams with capital growth characteristics
- Cornerstone long term investor in CDI & CIF
- Transfer of the MetLife annuity book on 31 August 2007 delivers scale to the balance sheet
  - Growth in balance sheet investment capacity from $3.5bn to $5.3bn (51%)
  - Cost efficient source of funding

Net Assets and RONA*



Impact of transfer of MetLife portfolio
Investment Assets, $ billion

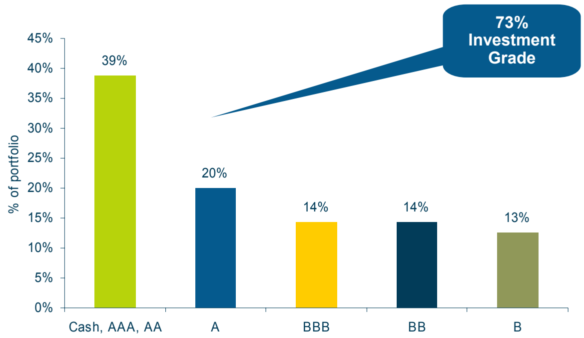


Notes:
* RONA calculated off opening net assets for the respective year

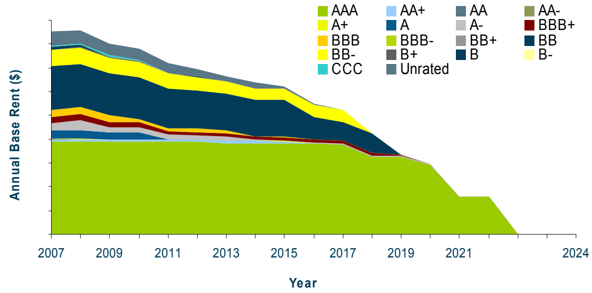
Asset portfolio

- High quality fixed income portfolio
  - Percentage of Cash, AAA & AA to almost double following MetLife transfer
  - Less than 0.5% of CL2 assets invested in CDOs – acquired during recent market correction
- Predictable rental income
  - 47% of leases having fixed percentage rental increases and 31% CPI-indexed
- Infrastructure returns
  - long term predictable cash-flows, returns
  - not substantially dependent on price or volume

Fixed Income Portfolio by S&P Rating



Lease Tenant Quality



challenger

Financial Planning

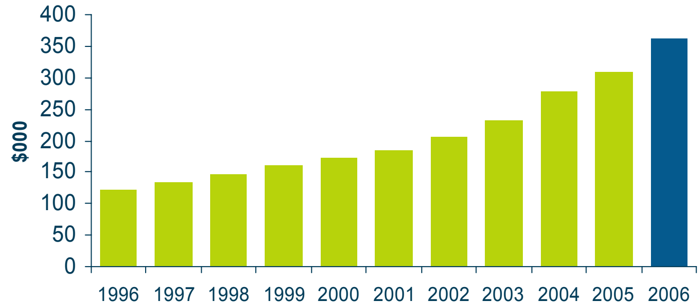
30 June 2007

challenger

Wealth creation driving demand for financial advice

- Growth in personal wealth and superannuation
- Australia has the third largest number of high net worth individuals in Asia-Pac region
- One in five Australians currently use a financial planner[1] and one in three have used a financial planner[1]

Private Wealth Per Person (A$'000)[2]



Number of HNW individuals in leading markets[2]

	2003 ('000)	2004 ('000)	2005 ('000)	Growth rate % 2003-2005
Australia	117	134	146	24.8%
United States	2,272	2,498	2,669	17.5%
United Kingdom	383	418	448	17.0%
Canada	200	217	232	16.0%
Japan	1,312	1,343	1,406	7.1%

Source: [1] Galaxy Research May 2007
[2] Merrill Lynch Capgemini, World Wealth Report, 2006, Axiss Australia

challenger

Business transformation – progress so far

- Strategic review under-taken by external consulting firm
- Key findings from review include
  - Opportunity to industralize the business
  - Better alignment of value drivers

- Roll-out of review changes to reposition the business
- 95% of financial planning firms by value accepted new remuneration structure
- Costs associated with restructure in 2006/2007

- Momentum increasing – FUA for advice earning platforms up 33%

- Increased sales for loans and insurance products

- FUA currently only reported for recurring margins, significant other FUA earning dealer fees

challenger

Priorities to drive future growth

- Priorities
  - Cultivate the optimum member firm profile
  - Drive productivity in member firms, with a focus on mutual value creation
  - Execute platform strategy to drive significant growth in rebate paying platform flows
  - Create the B2B proposition, maximising operational scalability

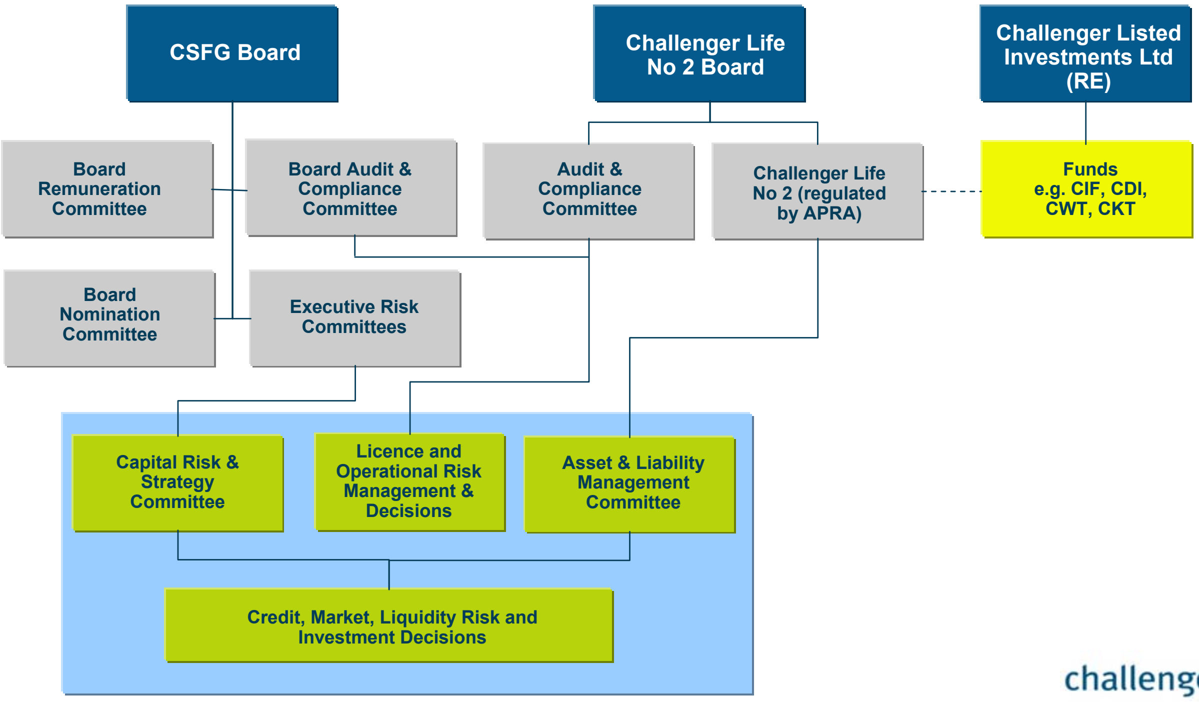
challenger

Challenger – Governance

30 June 2007

challenger

Governance and risk management framework



challenger

Appendices

30 June 2007

challenger

Appendices

challenger

Consolidated profit and loss
Statutory

Challenger Group	Full Year			Half Year					
$millions	**2007**	**2006**	**2005**	**2H 07**	**1H 07**	**2H 06**	**1H 06**	**2H 05**	**1H 05**
Income									
Net rental income	55.3	95	63	14.6	40.7	46	49	33	30
Investment income	163.2	99	140	92.1	71.1	46	53	69	71
Capital gains/(losses)[1]	103.9	92	136	53.5	50.4	54	38	29	107
Movement in policy liabilities	(93.7)	(102)	(162)	(50.1)	(43.6)	(53)	(49)	(55)	(107)
Net investment income	228.7	184	177	110.1	118.6	93	91	76	101
Fees received	705.5	590	458	374.8	330.7	310	280	249	209
Fees & commissions paid	(235.3)	(215)	(178)	(120.0)	(115.3)	(111)	(104)	(92)	(87)
Acquisition cost amortisation	(84.8)	(74)	(62)	(42.9)	(41.9)	(37)	(37)	(32)	(30)
Net fee income	385.4	301	218	211.9	173.5	162	138	126	92
Other income	7.9	5	2	5.5	2.4	-	5	2	0
Net income	622.0	489	397	327.5	294.5	255	235	204	193
Expense									
Employee expenses	(194.1)	(163)	(132)	(94.4)	(99.7)	(85)	(78)	(73)	(59)
Purchased services	(27.0)	(17)	(11)	(17.9)	(9.1)	(7)	(11)	(6)	(5)
Occupancy expense	(11.5)	(14)	(12)	(5.0)	(6.5)	(8)	(6)	(7)	(5)
IT	(16.0)	(11)	(9)	(9.3)	(6.7)	(6)	(5)	(5)	(4)
Other expenses	(38.5)	(37)	(51)	(15.7)	(22.8)	(20)	(17)	(22)	(29)
Total operating expenses	(287.1)	(242)	(215)	(142.3)	(144.8)	(126)	(117)	(113)	(102)
EBIT	334.9	247	182	185.2	149.7	129	118	91	91
Interest & borrowing costs	(33.7)	(35)	(17)	(17.8)	(15.9)	(22)	(13)	(8)	(9)
Net profit before tax	301.2	212	165	167.4	133.8	107	105	83	82
Tax	(69.6)	(59)	(45)	(36.4)	(33.2)	(24)	(35)	(18)	(27)
Net profit after tax pre significant items	231.6	153	120	131.0	100.6	83	70	65	55
Significant items[2]	23.4	(19)	-	(5.9)	29.3	(9)	(10)	-	-
Net profit after tax including significant items	255.0	134	120	125.1	129.9	74	60	65	55
Performance									
Cost to income	46.2%	49.6%	54.2%	43.5%	49.2%	49.4%	49.7%	55.4%	53.0%
Net investment income/Net income	36.8%	37.5%	44.6%	33.6%	40.3%	36.3%	38.8%	37.3%	52.3%
Net fee income/Net income	62.0%	61.5%	54.9%	64.7%	58.9%	63.7%	59.0%	61.7%	47.7%
Other income/Net income	1.3%	1.0%	0.5%	1.7%	0.8%	0.0%	2.2%	1.0%	0.1%
Effective tax rate	23.1%	27.6%	27.3%	21.7%	24.8%	21.9%	35.9%	21.7%	33.0%
Average net assets[3]	1,339.6	1,181.0	1,162.0	1,392.0	1,286.9	1,192.1	1,154.1	1,200.6	1,163.6
Return on equity	19.0%	11.4%	10.3%	18.0%	20.2%	12.4%	10.4%	10.8%	9.4%

[1] Includes realised and revaluation movements on investment portfolios.
Includes impact of minority interests [1H 07 $21m, 2H 06 $(3m) and 1H 06 $7m].
[2] Refer to Appendix 2 for details of significant items.
[3] Calculated on a three point average (excludes CIF and SPV).

challenger

APPENDIX 2
Challenger Group
30 June 2007

Significant items
Statutory

Significant items - Statutory	Full Year		Half Year			
$m	2007	2006	2H 07	1H 07	2H 06	1H 06
Challenger Group						
NPAT pre significant items	232	153	131	101	83	70
Significant items						
Hilton	-	(13)	-	-	(13)	-
CIF	39	(14)	-	39	1	(15)
MetLife transition costs	(9)	-	(9)	-	-	-
	31	(27)	(9)	39	(12)	(15)
Tax effect	(7)	8	3	(10)	3	5
Total adjustments	23	(19)	(6)	29	(9)	(10)
NPAT and significant items	255	134	125	130	74	60
Divisional Allocation						
Asset Management	21	(14)	(9)	29	1	(15)
Corporate	10	(13)	-	10	(13)	-
Total adjustment pre tax	31	(27)	(9)	39	(12)	(15)

challenger

APPENDIX 3
Challenger Group
30 June 2007

Consolidated profit and loss
Historic Cost[1]

Challenger Group	Full Year			Half Year					
$millions	2007	2006	2005	2H 07	1H 07	2H 06	1H 06	2H 05	1H 05
Income									
Net rental income	74.7	95	55	27.9	46.8	46	49	27	28
Investment income	172.5	100	138	96.8	75.7	50	50	67	71
Net realised gains/(losses)	57.3	53	51	4.6	52.7	36	17	15	36
Interest paid & selling costs	(131.8)	(122)	(122)	(69.3)	(62.5)	(61)	(61)	(60)	(62)
Net investment income	172.7	126	122	60.0	112.7	71	55	49	73
Fees received	705.5	604	458	376.1	329.4	310	294	249	209
Fees & commissions paid	(235.3)	(215)	(178)	(120.0)	(115.3)	(111)	(104)	(92)	(87)
Acquisition cost amortisation	(84.8)	(74)	(62)	(42.9)	(41.9)	(37)	(37)	(32)	(30)
Net fee income	385.4	315	218	213.2	172.2	162	152	126	92
Other income	7.9	7	2	5.5	2.4	2	5	2	0
Net income	566.0	448	342	278.7	287.3	235	213	177	165
Expense									
Employee expenses	(194.1)	(163)	(132)	(94.4)	(99.7)	(85)	(78)	(73)	(59)
Purchased services	(27.0)	(17)	(11)	(17.9)	(9.1)	(7)	(11)	(6)	(5)
Occupancy expense	(11.5)	(14)	(12)	(5.0)	(6.5)	(8)	(6)	(7)	(5)
IT	(16.0)	(11)	(9)	(9.3)	(6.7)	(6)	(5)	(5)	(4)
Other expenses	(38.4)	(33)	(45)	(15.7)	(22.7)	(16)	(17)	(25)	(20)
Total operating expenses	(287.0)	(238)	(209)	(142.3)	(144.7)	(122)	(117)	(116)	(93)
EBIT	279.0	209	133	136.4	142.6	113	96	61	72
Interest & borrowing costs	(33.7)	(35)	(17)	(17.8)	(15.9)	(22)	(13)	(8)	(9)
Net profit before tax	245.3	174	116	118.6	126.7	91	83	53	63
Tax	(56.7)	(48)	(31)	(25.3)	(31.4)	(23)	(25)	(13)	(18)
Net profit after tax pre significant items	188.6	126	85	93.3	95.3	68	58	40	45
Significant items[2]	11.6	(10)	-	(5.9)	17.5	(10)	-	-	-
Net profit after tax including significant items	200.3	116	85	87.4	112.9	58	58	40	45
Performance									
Cost to income	50.7%	53.2%	61.2%	51.1%	50.4%	51.8%	54.8%	65.5%	56.5%
Net investment income/Net income	30.5%	28.1%	35.7%	21.5%	39.2%	30.2%	25.9%	27.7%	44.2%
Net fee income/Net income	68.1%	70.3%	63.7%	76.5%	59.9%	68.9%	71.7%	71.1%	55.8%
Other income/Net income	1.4%	1.6%	0.6%	2.0%	0.8%	0.9%	2.4%	1.1%	0.1%
Effective tax rate	23.1%	27.9%	27.0%	21.3%	24.8%	25.5%	30.1%	24.5%	28.6%

[1] 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.
[2] Refer to Appendix 4 for details of significant items.

challenger

Significant items
Historic Cost

Significant items - Historic Cost	Full Year		Half Year			
$m	**2007**	**2006**	**2H 07**	**1H 07**	**2H 06**	**1H 06**
Challenger Group						
NPAT pre significant items	189	126	93	95	68	58
Significant items						
Hilton	-	(13)	-	-	(13)	-
CIF[1]	23	-	-	23	-	-
MetLife transition costs	(9)	-	(9)	-	-	-
	15	(13)	(9)	23	(13)	-
Tax effect	(3)	3	3	(6)	3	-
Total adjustments	11	(10)	(6)	17	(10)	-
NPAT and significant items	200	116	87	113	58	58
Divisional Allocation						
Asset Management	5	-	(9)	13	-	-
Corporate	10	(13)		10	(13)	-
Total adjustment	15	(13)	(9)	23	(13)	-

[1] Includes $4m of realised gains from seed assets.

Consolidated profit and loss
Reconciliation of Statutory to Historic Cost

Challenger Group		Full Year			Half Year					
$millions		**2007**	**2006**	**2005**	**2H 07**	**1H 07**	**2H 06**	**1H 06**	**2H 05**	**1H 05**
Statutory net profit after tax		255	134	120	125	130	74	60	65	55
Recurring items										
i)	Subtract excess of movement in fair value of investment portfolio assets over accrued investment income under historic cost	(15)	(43)	(86)	(31)	16	(24)	(19)	(15)	(71)
ii)	Add excess of movement in fair value of policyholder/annuity liabilities over accrued annuity interest under historic cost	(38)	(20)	40	(19)	(19)	(8)	(12)	(5)	45
iii)	Other	(3)	11	5	1	(4)	16	(5)	(4)	9
Non recurring items										
iv)	Subtract borrowing and financing costs of investment properties which are amortised under historic cost	-	-	(8)	-	-	-	-	(6)	(2)
v)	Asset Management fees not reported in statutory result	-	14	-	-	-	-	14	-	-
vi)	Change in fair value of CIF hedges excluded from historic cost (significant item)	-	14	-	-	-	(1)	15	-	-
vii)	CIF deconsolidation (significant items)	(16)	-	-	-	(16)	-	-	-	-
		(72)	(24)	(49)	(49)	(23)	(17)	(7)	(30)	(19)
Tax effect of items above		17	6	14	11	6	1	5	5	9
Historic cost net profit after tax		200	116	85	87	113	58	58	40	45

Consolidated balance sheet

Challenger Group[1] $millions	30 Jun 2007	30 Jun 2006	30 Jun 2005
Assets			
Investment assets - Asset Management			
Cash, fixed interest and debt	1,634.0	1,077.0	1,175.0
Infrastructure	618.4	409.0	344.4
Property (net)	1,086.0	1,515.0	1,334.3
Equity and other investments	197.0	50.0	175.7
	3,535.4	3,051.0	3,029.4
Other investment assets	254.0	174.5	96.2
Cash & cash equivalents	106.9	39.9	66.7
Receivables	288.8	552.1	148.9
Derivative Assets	49.7	6.7	2.7
Fixed assets	64.9	8.5	10.9
Deferred tax assets	128.9	7.3	10.9
Investment in associates	58.1	6.3	2.8
Goodwill and intangibles[2]	614.8	569.9	580.4
Other assets	169.5	221.2	156.9
Total assets	**5,271.0**	**4,637.4**	**4,105.8**
Liabilities			
Life investment liabilities[3]	2,027.1	2,047.3	2,271.9
Life insurance liabilities	83.0	91.1	-
Derivative liabilities	34.9	74.9	1.3
Recourse debt	294.7	120.0	70.0
Non recourse debt	230.0	230.0	-
Other interest bearing liabilities	242.7	-	181.7
Provisions	43.2	64.3	67.0
Tax liabilities	318.4	136.6	96.9
Payables	452.2	582.0	260.1
Other liabilities	93.2	18.4	-
Net SPV equity[4]	3.0	12.5	-
Total liabilities	**3,822.4**	**3,377.1**	**2,948.9**
Net assets	**1,448.6**	**1,260.3**	**1,156.9**

[1] Figures are CIF deconsolidated.
[2] Includes internally generated goodwill of $248m.
[3] 2005 Life liability split is unavailable.
[4] SPVs are shown net rather than consolidated into various asset classes.

challenger

Cashflow
Excluding SPV cashflows

Challenger Group[1] $millions	2007	2006
NPAT	255	134
Adjust for non cash items:		
Profit/(loss) on sale of investments	(41)	(42)
Net unrealised losses on investments	(33)	(52)
Profit from minority interest	(21)	(4)
Amortisation and depreciation	97	92
Change in assets and liabilities:		
Increase/(decrease) in current tax liability	67	(54)
Increase/(decrease) in deferred tax liability	(10)	50
Decrease/(increase) in receivables	(76)	(86)
Other	(9)	(24)
Net cash inflows from operating activities	229	14
Dividends paid	(60)	(43)
Movement in recourse debt	175	50
Closing group cash	707	426
Available cash balance[2]	209	62

[1] Cashflow excludes SPVs and CIF.
[2] Excludes cash balances within the Life company statutory funds.

challenger

Debt and gearing

$m	2007	2006	% Δ
Financial Debt[1]			
Medium term notes	250	-	N/A
Corporate facilities and other	45	120	(62.8%)
Total Financial Debt	295	120	145.6%
Net debt[2]	86	69	24.6%
Gearing			
Debt/(Debt + Equity)	20.4%	9.7%	109.9%
Net Debt/(Net Debt + Equity)	5.6%	5.3%	6.1%
Book equity (closing)	1,445	1,235	17.0%
Operating Leverage[3]			
NIM Facility	230	230	N/A
Senior property debt	537	287	87.1%
US Subordinated debt	190	-	N/A
Wholesale annuity	-	50	N/A
CIF	-	1,090	N/A
Total Operating Leverage	957	1,657	(42.2%)

1 Recourse to Challenger Financial Services Group.

2 Net debt is after available cash is deducted from recourse debt.

3 Non recourse to Challenger Financial Services Group (excludes SPVs).

Issued share capital

Shares				
Number of shares		**2007**	**2006**	**2005**
Ordinary Shares: Quoted (CGF)				
	Opening	544,767,540	534,269,048	2,866,703,735
	Additions (+)			
	i) DRP	-	902,492	-
	ii) LTIP	11,421,000	10,026,000	5,828,000
	iii) LTIP shares bought back & cancelled	(1,580,000)	(430,000)	-
	Reconstruction (5:1)	-	-	(2,338,262,687)
	Closing	554,608,540	544,767,540	534,269,048
Weighted average number of ordinary shares		551,011,072	538,890,140	525,026,595
Long Term Incentive Plan				
	Opening	47,536,000	43,962,000	224,400,000
	Additions (+)	5,550,000	13,600,000	4,910,000
	Subtractions (-)	(11,421,000)	(10,026,000)	(185,348,000)
	Closing	41,665,000	47,536,000	43,962,000
Performance Share Rights				
	Opening	-	-	-
	Additions (+)	91,384	-	-
	Subtractions (-)	-	-	-
	Closing	91,384	-	-
Options				
CPH	Opening	60,000,000	60,000,000	60,000,000
	Additions (+)	-	-	-
	Subtractions (-)	-	-	-
	Closing	60,000,000	60,000,000	60,000,000
Executive	Opening	-	-	-
	Additions (+)	7,800,000	-	-
	Subtractions (-)	-	-	-
	Closing	7,800,000	-	-
Weighted average number of shares for dilutive purposes		582,021,477	550,848,000	526,529,924

Earnings and Dividends Per Share

Earnings Per Share			
Cents	**2007**	**2006**	**2005**
Basic - reported statutory	46.3	24.9	22.7
Diluted - reported statutory	43.2	23.9	22.7
Basic - historic cost	36.3	21.6	15.9
Diluted - historic cost	33.8	20.9	15.9

Dividends Per Share			
Cents	**2007**	**2006**	**2005**
Interim	5.0	2.5	-
Final	7.5	5.0	5.0
Total	12.5	7.5	5.0

Payout Ratio			
Rate	**2007**	**2006**	**2005**
Statutory - pre significant items	32%	29%	-
Statutory - post significant items	29%	33%	24%

challenger

Asset Management
Statutory

Asset Management Statutory	**Full Year**			**Half Year**					
$millions	**2007**	**2006**	**2005**	**2H 07**	**1H 07**	**2H 06**	**1H 06**	**2H 05**	**1H 05**
Income									
Net rental income	55.3	95	63	14.6	40.7	46	49	33	30
Investment income	163.2	99	140	92.1	71.1	46	53	69	71
Capital gains/(losses)[1]	103.9	92	136	53.5	50.4	54	38	29	107
Movement in policy liabilities	(93.7)	(102)	(162)	(50.1)	(43.6)	(53)	(49)	(55)	(107)
Net investment income	228.7	184	177	110.1	118.6	93	91	76	101
Fees received	81.8	37	15	59.5	22.3	21	16	14	1
Fees & commissions paid	-	-	-	-	-	-	-	-	-
Acquisition cost amortisation	-	-	-	-	-	-	-	-	-
Net fee income	81.8	37	15	59.5	22.3	21	16	14	1
Other income	-	-	-	-	-	-	-	-	-
Net income	310.5	221	192	169.6	140.9	114	107	90	102
Expenses									
Employee expenses	(60.2)	(40)	(25)	(28.7)	(31.5)	(22)	(18)	(16)	(9)
Other	(17.3)	(14)	(12)	(9.8)	(7.5)	(7)	(7)	(7)	(5)
Total expenses	(77.5)	(54)	(37)	(38.5)	(39.0)	(29)	(25)	(23)	(14)
EBIT	233.0	167	155	131.1	101.9	85	82	67	88
Significant items	20.5	(14)	-	(8.5)	29.0	1	(15)	-	-
NPBT	253.5	153	155	122.6	130.9	86	67	67	88
Performance									
Cost to income	25.0%	24.5%	19.3%	22.7%	27.7%	25.6%	23.4%	25.6%	13.7%
Net investment income/Net income	73.6%	83.2%	92.2%	64.9%	84.2%	81.5%	85.0%	84.4%	99.0%
Net fee income/Net income	26.4%	16.8%	7.8%	35.1%	15.8%	18.5%	15.0%	15.6%	1.0%
Net Assets ($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 Net Assets ($m)[2]	924.1	784.4	-	944.6	879.1	-	-	-	-
RONA (annualised)	25.2%	21.2%	-	27.8%	23.2%	-	-	-	-
Average investment assets ($bn)[3]	3.318	3.068	3.009	3.451	3.210	3.087	3.076	3.106	3.000
Net investment income/Average investment assets	6.9%	6.0%	5.9%	6.4%	7.4%	6.0%	5.9%	4.9%	6.7%
- adjusted for CIF normalisation	6.9%	6.2%	5.9%	6.4%	7.4%	6.6%	5.7%	4.9%	6.7%

[1] Includes realised gains and revaluation movements on investment portfolios.
[2] 2007 calculated on three point average. 2006 calculated on two point average. Half years calculated on two point average.
[3] Full year values calculated on a three point average.

challenger

Asset Management
Historic Cost[1]

Asset Management Historic Cost	Full Year			Half Year					
$millions	**2007**	**2006**	**2005**	**2H 07**	**1H 07**	**2H 06**	**1H 06**	**2H 05**	**1H 05**
Income									
Net rental income	74.7	95	55	27.9	46.8	46	49	27	28
Investment income	172.5	100	138	96.8	75.7	50	50	67	71
Net realised gains/(losses)	57.3	53	51	4.6	52.7	36	17	15	36
Interest paid & selling costs	(131.8)	(122)	(122)	(69.3)	(62.5)	(61)	(61)	(60)	(62)
Net investment income	172.7	126	122	60.0	112.7	71	55	49	73
Fees received	81.8	51	15	60.8	21.0	21	30	14	1
Fees & commissions paid	-	-	-	-	-	-	-	-	-
Acquisition cost amortisation	-	-	-	-	-	-	-	-	-
Net fee income	81.8	51	15	60.8	21.0	21	30	14	1
Other income	-	-	-	-	-	-	-	-	-
Net income	254.5	177	137	120.8	133.7	92	85	63	74
Expenses									
Employee expenses	(60.2)	(40)	(25)	(28.7)	(31.5)	(22)	(18)	(16)	(9)
Other	(17.3)	(14)	(12)	(9.8)	(7.5)	(7)	(7)	(7)	(5)
Total expenses	(77.5)	(54)	(37)	(38.5)	(39.0)	(29)	(25)	(23)	(14)
EBIT	177.0	123	100	82.3	94.7	63	60	40	60
Significant items	4.8	-	-	(8.5)	13.3	-	-	-	-
NPBT	181.8	123	100	73.8	108.0	63	60	40	60
Performance									
Cost to income	30.5%	30.5%	27.0%	31.9%	29.2%	31.5%	29.4%	36.5%	18.9%
Net investment income/Net income	67.9%	71.2%	89.1%	49.7%	84.3%	77.2%	64.7%	77.8%	98.6%
Net fee income/Net income	32.1%	28.8%	10.9%	50.3%	15.7%	22.8%	35.3%	22.2%	1.4%
Net Assets ($m)[2]	707	566	483	707	707	566	566	483	483
RONA (annualised)	25.0%	21.7%	20.7%	23.3%	26.8%	22.3%	21.2%	16.6%	24.8%
Average Net Assets ($m)[3]	748.7	636.5	-	769.5	705.5	-	-	-	-
RONA (annualised)	23.6%	19.3%	-	21.4%	26.8%	-	-	-	-
Average investment assets ($bn)[4]	3.075	2.846	2.833	3.209	2.970	2.857	2.865	2.918	2.836
Net investment income/Average investment assets	5.6%	4.4%	4.3%	3.7%	7.6%	5.0%	3.8%	3.4%	5.1%
- excluding realised gains	3.8%	2.6%	2.5%	3.5%	4.0%	2.5%	2.7%	2.3%	2.6%
- adjusted for CIF normalisation	5.6%	5.0%	4.3%	3.7%	7.6%	5.5%	4.3%	3.4%	5.1%

1 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.
2 2006 opening net assets adjusted to reflect IFRS requirements at $566m (previously stated as $561m AGAAP).
3 2007 calculated on three point average. 2006 calculated on two point average. Half years calculated on two point average.
4 Full year values calculated on a three point average.

challenger

Asset Management
Balance Sheet

Asset Management Balance Sheet	30 Jun 2007			30 Jun 2006		
$millions	**Stat**	**HC**	**Δ**	**Stat**	**HC**	**Δ**
Cash	600	600	-	349	349	-
Debt investments	1,034	1,045	(11)	728	726	2
Equity and other investments	197	203	(6)	50	53	(3)
Infrastructure investments	618	545	73	409	391	18
Net property investments	1,086	893	193	1,515	1,290	225
Investment assets	3,535	3,286	249	3,051	2,809	242
Goodwill	130	130	-	88	88	-
Total assets	3,665	3,416	249	3,139	2,897	242
Policy liabilities	(2,110)	(2,088)	(22)	(2,138)	(2,072)	(66)
Other liabilities	(541)	(493)	(48)	(118)	(118)	-
Total liabilities	(2,651)	(2,581)	(70)	(2,256)	(2,190)	(66)
Net assets	1,014	835	179	883	707	176
Debt included in net property investments	(537)	(524)	(13)	(287)	(261)	(26)

Asset Management Balance Sheet excludes the consolidation of structured credit Special Purpose Vehicles.

challenger

Mortgage Management

Mortgage Management	Full Year			Half Year					
$millions	**2007**	**2006**	**2005**	**2H 07**	**1H 07**	**2H 06**	**1H 06**	**2H 05**	**1H 05**
Income									
Net Investment Income	-	-	-	-	-	-	-	-	-
Fees received	305.1	282	235	153.8	151.3	145	137	122	113
Fees & commissions paid	(72.2)	(74)	(65)	(35.2)	(37.0)	(37)	(37)	(33)	(32)
Acquisition cost amortisation	(84.8)	(74)	(62)	(42.9)	(41.9)	(37)	(37)	(32)	(30)
Net fee income	148.1	134	108	75.7	72.4	71	63	57	51
Other income	-	-	-	-	-	-	-	-	-
Net income	148.1	134	108	75.7	72.4	71	63	57	51
Expenses									
Employee expenses	(40.7)	(40)	(33)	(19.8)	(20.9)	(21)	(19)	(16)	(17)
Other	(17.4)	(16)	(14)	(8.9)	(8.5)	(8)	(8)	(7)	(7)
Total expenses	(58.1)	(56)	(47)	(28.7)	(29.4)	(29)	(27)	(23)	(24)
EBIT	90.0	78	61	47.0	43.0	42	36	34	27
Performance									
Cost to income	39.2%	41.8%	43.5%	37.9%	40.6%	40.8%	42.9%	40.4%	47.1%
Net fee income/Net income	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Opening Net Assets ($m)	412	360	324	412	412	360	360	324	324
RONA (annualised)	21.8%	21.7%	18.8%	22.8%	20.8%	23.3%	20.0%	21.0%	16.7%
Average Net Assets ($m)[1]	445	386	-	462	431	-	-	-	-
RONA (annualised)	20.2%	20.2%	-	20.4%	19.9%	-	-	-	-
Average loan portfolio ($bn)[2]	21.7	19.6	17.4	22.2	21.3	20.2	19.0	17.9	16.8
Expressed as ratio of average portfolio (bps analysis)[3]									
Fees received	141	144	135	139	142	144	144	136	135
Fees & commissions paid	(34)	(38)	(37)	(32)	(35)	(37)	(39)	(36)	(38)
Acquisition costs	(39)	(37)	(36)	(39)	(39)	(37)	(39)	(36)	(36)
Net margin	68	69	62	68	68	70	66	64	61
Expenses	(27)	(29)	(27)	(26)	(28)	(29)	(28)	(26)	(29)
EBIT	41	40	35	42	40	42	38	38	32

[1] 2007 calculated on three point average. 2006 calculated on tw o point average. Half years calculated on tw o point average.
[2] Average loan portfolio calculated on a monthly basis.
[3] Half on Half data annualised.

challenger

Mortgage Management

MM Residential Business	Full Year			Half Year					
$millions	**2007**	**2006**	**2005**	**2H 07**	**1H 07**	**2H 06**	**1H 06**	**2H 05**	**1H 05**
Income									
Net Investment Income	-	-	-	-	-	-	-	-	-
Fees received	282.4	259	214	142.0	140.4	133	126	112	102
Fees & commissions paid	(72.2)	(74)	(65)	(35.2)	(37.0)	(37)	(37)	(33)	(32)
Acquisition cost amortisation	(84.8)	(74)	(62)	(42.9)	(41.9)	(37)	(37)	(32)	(30)
Net fee income	125.4	111	87	63.9	61.5	59	52	47	40
Other income	-	-	-	-	-	-	-	-	-
Net income	125.4	111	87	63.9	61.5	59	52	47	40
Expenses									
Employee expenses	(35.7)	(34)	(28)	(17.3)	(18.4)	(18)	(16)	(14)	(14)
Other	(14.9)	(14)	(12)	(7.9)	(7.0)	(7)	(7)	(6)	(6)
Total expenses	(50.6)	(48)	(40)	(25.2)	(25.4)	(25)	(23)	(20)	(20)
EBIT	74.8	63	47	38.7	36.1	34	29	27	20
Performance									
Cost to income	40.4%	43.2%	46.0%	39.4%	41.3%	42.4%	44.2%	42.6%	50.0%
Net fee income/Net income	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average loan portfolio ($bn)[1]	18.9	17.1	14.9	19.2	18.6	17.7	16.5	15.5	14.4
Expressed as ratio of average portfolio (bps analysis)[2]									
Fees received	149	151	143	148	151	150	153	144	142
Fees & commissions paid	(38)	(43)	(44)	(37)	(40)	(42)	(45)	(43)	(45)
Acquisition costs	(45)	(43)	(41)	(45)	(45)	(42)	(45)	(41)	(42)
Net margin	66	65	58	66	66	67	63	61	56
Expenses	(27)	(28)	(27)	(26)	(27)	(28)	(28)	(26)	(28)
EBIT	40	37	31	40	39	38	35	35	28

[1] Average loan portfolio calculated on a monthly basis.
[2] Half on Half data annualised.

challenger

Mortgage Management

MM Commercial Business	Full Year			Half Year					
$millions	**2007**	**2006**	**2005**	**2H 07**	**1H 07**	**2H 06**	**1H 06**	**2H 05**	**1H 05**
Income									
Net Investment Income	-	-	-	-	-	-	-	-	-
Fees received	22.7	23	21	11.8	10.9	12	11	10	11
Fees & commissions paid	-	-	-	-	-	-	-	-	-
Acquisition cost amortisation	-	-	-	-	-	-	-	-	-
Net fee income	22.7	23	21	11.8	10.9	12	11	10	11
Other income	-	-	-	-	-	-	-	-	-
Net income	22.7	23	21	11.8	10.9	12	11	10	11
Expenses									
Employee expenses	(5.0)	(6)	(5)	(2.5)	(2.5)	(3)	(3)	(2)	(3)
Other	(2.5)	(2)	(2)	(1.0)	(1.5)	(1)	(1)	(1)	(1)
Total expenses	(7.5)	(8)	(7)	(3.5)	(4.0)	(4)	(4)	(3)	(4)
EBIT	15.2	15	14	8.3	6.9	8	7	7	7
Performance									
Cost to income	33.0%	34.8%	33.3%	29.7%	36.7%	33.3%	36.4%	30.0%	36.4%
Net fee income/Net income	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average loan portfolio ($bn)[1]	2.8	2.5	2.4	3.0	2.7	2.5	2.4	2.4	2.4
Expressed as ratio of average portfolio (bps analysis)[2]									
Fees received	81	92	87	79	81	96	90	83	92
Expenses	(27)	(32)	(29)	(23)	(30)	(32)	(33)	(25)	(33)
EBIT	54	60	58	56	51	64	57	58	58

[1] Average loan portfolio calculated on a monthly basis.
[2] Half on Half data annualised.

challenger

Funds Management

Funds Management	Full Year			Half Year					
$millions	**2007**	**2006**	**2005**	**2H 07**	**1H 07**	**2H 06**	**1H 06**	**2H 05**[1]	**1H 05**
Income									
Net Investment Income	-	-	-	-	-	-	-	-	-
Fees received	139.4	116	76	69.3	70.1	65	52	44	32
Fees & commissions paid	(31.6)	(27)	(20)	(16.6)	(15.0)	(15)	(12)	(10)	(11)
Acquisition cost amortisation	0.0	0	-	-	-	-	-	-	-
Net fee income	107.8	89	56	52.7	55.1	50	39	35	21
Other income	-	3	1	-	-	1	3	1	0
Net income	107.8	92	57	52.7	55.1	50	42	36	22
Expenses									
Employee expenses	(41.4)	(44)	(39)	(17.5)	(23.9)	(21)	(22)	(24)	(15)
Other	(26.8)	(24)	(28)	(12.5)	(14.3)	(12)	(13)	(19)	(9)
Total expenses	(68.2)	(68)	(67)	(30.0)	(38.2)	(33)	(35)	(42)	(24)
EBIT	39.6	24	(9)	22.7	16.9	18	7	(6)	(3)
Performance									
Cost to income	63.3%	73.5%	115.9%	56.9%	69.4%	64.9%	83.9%	116.9%	113.5%
Net fee income/Net income	100.0%	96.4%	97.7%	100.0%	100.0%	98.4%	94.0%	96.4%	99.5%
Other income/Net income	-	3.6%	2.4%	-	-	1.6%	6.0%	3.6%	0.5%
Opening Net Assets ($m)	135	131	77	135	135	131	131	77	77
RONA (annualised)	29.3%	18.6%	-	33.6%	25.0%	27.0%	10.2%	-	-
Average Net Assets ($m)[2]	133.3	132.9	-	132.5	138.1	-	-	-	-
RONA (annualised)	29.7%	18.4%	-	34.3%	24.4%	-	-	-	-
Average funds under management ($bn)[3]	15.5	11.8	-	16.9	14.2	12.4	11.3	-	-
Expressed as ratio of average FUM (bps analysis)[4]									
Fees received	90	98	-	82	99	104	91	-	-
Fees & commissions paid	(20)	(23)	-	(20)	(21)	(24)	(22)	-	-
Other income	-	3	-	-	-	1	4	-	-
Net income	69	78	-	62	78	81	74	-	-
Expenses	(44)	(57)	-	(36)	(54)	(53)	(62)	-	-
EBIT	26	21	-	27	24	29	12	-	-

[1] The acquisition of HSBC Asset Management business occurred in April 2005.
[2] 2007 calculated on three point average. 2006 calculated on two point average. Half years calculated on two point average.
[3] Average FUM calculated on a monthly basis.
[4] Half on Half data annualised. 2005 figures not comparable due to impact of HSBC acquisition.

challenger

Financial Planning

Financial Planning	Full Year			Half Year					
$millions	**2007**	**2006**	**2005**	**2H 07**	**1H 07**	**2H 06**	**1H 06**	**2H 05**	**1H 05[1]**
Income									
Net Investment Income	-	-	-	-	-	-	-	-	-
Fees received	179.3	155	132	92.2	87.1	80	75	69	63
Fees & commissions paid	(131.5)	(114)	(93)	(68.2)	(63.3)	(59)	(55)	(49)	(44)
Acquisition cost amortisation	-	-	-	-	-	-	-	-	-
Net fee income	47.8	41	39	24.0	23.8	21	20	20	19
Other income	1.1	2	1	0.7	0.4	(1)	3	1	-
Net income	48.9	43	39	24.7	24.2	20	23	21	19
Expenses									
Employee expenses	(19.9)	(20)	(19)	(9.8)	(10.1)	(10)	(10)	(10)	(10)
Other	(20.7)	(16)	(15)	(9.9)	(10.8)	(8)	(7)	(6)	(9)
Total expenses	(40.6)	(36)	(34)	(19.7)	(20.9)	(18)	(17)	(15)	(19)
EBIT	8.3	7	5	5.0	3.3	2	5	5	(0)
Performance									
Cost to income	83.0%	83.4%	86.8%	79.8%	86.4%	91.5%	76.3%	73.7%	101.1%
Net fee income/Net income	97.8%	95.6%	98.2%	97.2%	98.3%	103.6%	88.6%	96.6%	100.0%
Other income/Net income	2.2%	4.4%	1.8%	2.8%	1.7%	(3.6%)	11.4%	3.4%	-
Opening Net Assets ($m)	146	144	130	146	146	144	144	130	130
RONA (annualised)	5.7%	4.9%	4.0%	6.9%	4.5%	2.4%	7.5%	8.3%	(0.3%)
Average Net Assets ($m)[2]	148.4	145.0	-	149.7	147.2	-	-	-	-
RONA (annualised)	5.6%	4.9%	-	6.7%	4.5%	-	-	-	-

[1] The acquisition of Associated Planners occurred in August 2004.

[2] 2007 calculated on three point average. 2006 calculated on two point average. Half years calculated on two point average.

Corporate

Corporate	Full Year			Half Year					
$millions	**2007**	**2006**	**2005**	**2H 07**	**1H 07**	**2H 06**	**1H 06**	**2H 05**	**1H 05**
Income									
Net income	6.8	-	-	4.8	2.0	-	-	-	-
Expenses									
Employee expenses	(31.9)	(20)	(17)	(18.6)	(13.3)	(11)	(9)	(8)	(8)
Other expenses	(10.8)	(9)	(14)	(6.8)	(4.0)	(6)	(3)	(1)	(13)
Total expenses	(42.7)	(29)	(30)	(25.4)	(17.3)	(17)	(12)	(9)	(21)
EBIT	(35.9)	(29)	(30)	(20.6)	(15.3)	(17)	(12)	(9)	(21)
Interest & borrowing costs	(33.7)	(35)	(17)	(17.8)	(15.9)	(22)	(13)	(8)	(9)
Net profit before tax	(69.6)	(64)	(47)	(38.4)	(31.2)	(39)	(25)	(17)	(30)
Significant items[1]	10.0	(13)	-	-	10.0	(13)	-	-	-
Headcount - FTE[2]	*1,063*	*958*	*901*	*1,063*	*996*	*958*	*926*	*901*	*870*

[1] Refer to Appendix 2 for details of significant items.

[2] FTE numbers include permanent and part time employees, contractors, temps and sole traders.

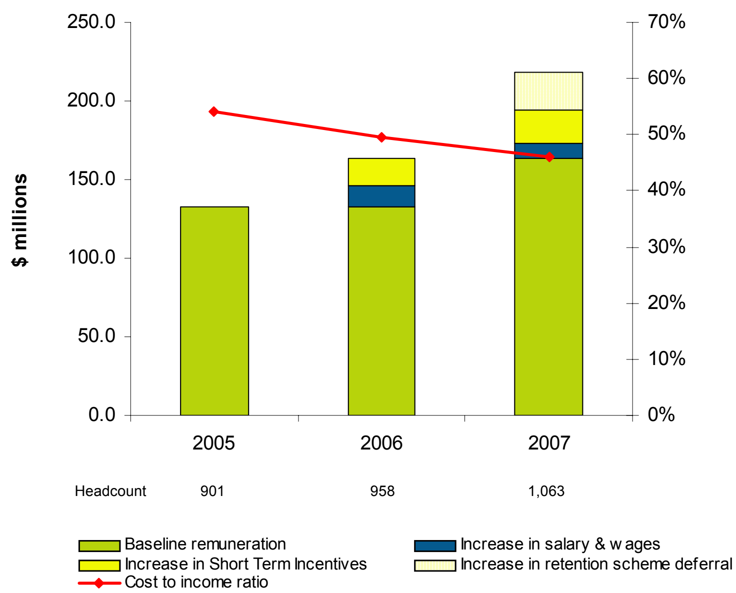
Group Assets, Loans and Funds Under Management

Group Assets, Loans and Funds Under Management	Full Year			% Δ	
$millions	2007	2006	2005	2006-2007	2005-2006
Asset Management					
Assets managed for the Life company					
Property	1,077	1,515	1,329	(28.9%)	14.0%
Debt investments (including hybrids) & cash	1,567	1,055	1,124	48.5%	(6.1%)
Infrastructure assets	648	409	344	58.4%	18.9%
Equity & other	184	97	153	89.7%	(36.6%)
Sub total	3,476	3,076	2,950	13.0%	4.3%
Specialised Funds					
CWT	298	295	288	1.0%	2.4%
CDI	807	-	-	-	-
CKT	468	-	-	-	-
Unlisted Funds	436	-	-	-	-
CIF (adjusted eq value)	1,154	294	0	292.5%	-
Sub total specialised funds	3,163	589	288	437.0%	104.5%
Assets under Management	**6,639**	**3,665**	**3,238**	**81.1%**	**13.2%**
Mortgage Management					
Residential	19,828	18,258	16,033	8.6%	13.9%
Commercial	3,185	2,643	2,438	20.5%	8.4%
Mortgages under Management	**23,013**	**20,901**	**18,471**	**10.1%**	**13.2%**
Funds Management					
Funds under Management	**18,393**	**12,868**	**10,579**	**42.9%**	**21.6%**
Financial Planning					
Funds under administration	2,295	1,914	1,742	19.9%	9.9%
Funds under advice	6,501	4,940	-	31.6%	-
Funds Under Administration and Advice	**8,796**	**6,854**	**1,742**	**28.3%**	**N/A**
Adjustments	*(4,091)*	*(2,801)*	*(2,438)*	46.1%	14.9%
Total assets & loans under management/administration	**52,750**	**41,487**	**31,592**	**27.1%**	**31.3%**

Refer Quarterly Asset & Funds Under Management reports for greater detail.

challenger

Operating efficiency



challenger

Glossary

MM	Mortgage Management division
FM	Funds Management division
AM	Asset Management division
FP	Financial Planning division
Corporate	All other non cash generating unit activity
Net rental income (AM only)	Gross rental income less trust expenses, financing costs directly associated with property, less management fees and performance fees
Investment income (AM only)	Income earned on investment portfolios (i.e. fixed interest and cash, infrastructure, equities and other) + profits / losses on fixed interest portfolios
Realised gains (AM only – Historic Cost)	The net profit/(loss) on disposal of investment portfolio assets less fees
Capital (AM only – Statutory)	Movement in the value of investment portfolio and related hedge positions – both realised and fair value movements
Spread (AM only)	Net investment income of the CL2 balance sheet investments divided by the average investment value expressed as a percentage
Interest paid and selling expenses (AM only)	Interest paid to annuitants + commissions and other costs paid to third parties to raise annuities
Net investment income (AM only)	Net rental income + investment income + realised gains less interest paid and selling costs
Fees received	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, as well as dividends from Boutique investments FP – gross brokerage and platform income (Genesys) and administration fee income (Synergy)

challenger

Glossary

Fees & commissions paid	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
Acquisition cost amortisation (MM and AM)	*Mortgage Management* 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. *Asset Management* Acquisition costs on annuities are written off for statutory purposes but amortised for historic cost reporting.
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 and executive option schemes are only reported within the Corporate section as Challenger’s practise is not to allocate these charges to each division.

challenger

Glossary

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 Equity (ROE)	NPAT divided by Average Net Assets attributable to equity holders of the parent.
Return on Net Assets (RONA)	EBIT divided by opening Net Assets expressed as a percentage. Each division has a RONA target which is reset on 1 July each year.
Policy liabilities	Policy liabilities are the liabilities held in respect of future obligations to owners of life investment contracts issued by CL2, calculated in accordance with Actuarial Standard 1.04 Valuation of Policy Liabilities.
Revaluation gain/loss	Unrealised gains or losses derived from the revaluation of assets in statutory reporting.
Assets Under Management	Total value of revenue generating assets that are managed by the Asset Management business.
Funds Under Administration	Total value of revenue generating funds (excluding Dealer fees) in respect of which the Financial Planning business provides administration services.
Funds Under Advice	Total value of revenue generating funds in respect of which the Financial Planning business provides investment advice.
Funds Under Management	Total value of revenue generating funds that are managed by the Funds Management business.

challenger

Disclaimer: The material in this presentation is general background information about Challenger Financial Services Group activities and is current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with or without professional advice when deciding if an investment is appropriate.

challenger