

Market Release

CHALLENGER FINANCIAL SERVICES GROUP 1H10 RESULTS

Normalised NPAT rose 9% to \$116 million

EPS up 17% to 22 cents

Interim dividend up 20% to 6.0 cents

FY10 Life cash earnings guidance increased to \$325 million, up 30% on FY09

22 February 2010, Sydney – Challenger Financial Services Group (ASX:CGF) today announced a normalised net profit after tax (NPAT) of \$116 million for the six months to 31 December 2009, representing a 9% increase on the previous corresponding period (pcp).

Statutory NPAT rose substantially to \$177 million due to positive investment experience (after tax) of \$61 million derived by Challenger's life company (Challenger Life Company Limited). At 31 December 2009, the life company held approximately \$850 million in surplus capital over its regulatory minimum. In addition, the Group holds \$152 million of available cash.

Chief Executive Officer Dominic Stevens said the half year was marked by a strong financial performance and expansion of the firm's product offering into the institutional marketplace.

"We continue to produce high levels of cash and capital and are obviously pleased to upgrade full year Life cash operating earnings guidance to \$325 million.

"During the half, our strength as a provider of simple, low-cost, secure products was recognised in the institutional superannuation marketplace, with the issuance of two customised Guaranteed Index Return (GIR) contracts netting in excess of \$500 million and helping Life sales reach \$996 million for the period.

"At a retail level we saw rapid platform placement of our new Guaranteed Income Fund (GIF), permitting financial planning clients widespread and convenient access to our award-winning, no-fee term annuities.

"Together these initiatives illustrate the attractiveness of Challenger's investment capabilities to the \$1.2 trillion superannuation and retirement marketplace".

Group expenses were reduced by 9% on pcp, contributing to a further fall in the normalised cost to income ratio to 41.8%.

Challenger's declared interim dividend is 6.0 cents per share. As previously noted, franking will remain unavailable in the short to medium term.

Ongoing capital management initiatives resulted in 45.5 million shares being bought back over the period, bringing the total number purchased pursuant to the buyback programme to 90.5 million at an average price of \$2.95.

Mr Stevens concluded: "Challenger remains in a very strong financial position during a time of further change and opportunity in the financial services sector. Whether seeking alpha or beta, the future of superannuation is in efficient, reliable products that are easy to understand and reflect the philosophy that asset allocation is the key driver of returns. We have demonstrated our ability to provide low-cost but innovative solutions for both retail and wholesale investors and look forward to further establishing our leadership in this regard".