

MARKET RELEASE

23 February 2004

CHALLENGER FINANCIAL SERVICES GROUP LIMITED HALF YEAR RESULTS TO 31 DECEMBER 2003

23 February 2004, Sydney - The Board of Directors of Challenger Financial Services Group Limited (Challenger - ASX code:CGF), today announced a net profit after tax of \$33m for the half year ending 31 December 2003.

Overall pre-tax profit on Challenger's annuity business was \$60m on a statutory basis, generating solid operating margins and benefiting from a rise in both interest rates and the A\$ over the period.

Challenger also introduced its annuity results on a modified accounting methodology which applies accrual accounting principals to illustrate the underlying spread earned on the annuity business.

The pre-tax profit for the annuities division using the modified accounting methodology was \$22m for the half year ending 31 December 2003. The modified accounting methodology ignores property revaluations, marked to market of fixed interest investments, and changes to policyholder liability discount rates.

Challenger's CEO, Mr Chris Cuffe said the modified accounting methodology was being introduced to assist the market in understanding the underlying profitability of the annuity business.

"While we are required to report our profits for the annuity business on a statutory basis under life company standards, we believe that the modified accounting methodology is a better reflection of the business fundamentals of the annuity division," Mr Cuffe said.

Mr Cuffe said the modified accounting methodology aimed to provide a more comparable basis with funds management and mortgage finance products.



"Term annuities are fundamentally a spread business with the rent and interest earned on the assets used to pay annuitant interest, senior debt interest, commissions and expenses."

Challenger's mortgage finance division, including Howard Mortgage Trust and Interstar Securities (acquired on 29 September 2003), contributed a pre-tax profit of \$13.5m for the half year ending 31 December 2003.

Challenger's fast growing but immature funds management, administration and financial planning division reported a pre-tax loss of \$9.9m for the half year ending 31 December 2003. During the same period, Challenger's Australian equities under management more than doubled to \$1.15b.

Mr Cuffe said he was pleased with Challenger's result to date and said it was a reflection of the work that had been completed over the last 9 months under the stewardship of the new management team.

"Challenger today is a very different business to that of 9 months ago. Today's results should show very clearly our commitment to building a diverse financial services company and our commitment to transparency. The combination of our annuities business, mortgage lending capabilities, and investment management skills provide strong growth for Challenger going forward."

As indicated by the Challenger Board late last year, an interim dividend will not be paid for the half year to 31 December 2003, as it is the view of Challenger's Board that capital is better deployed internally to support building Challenger's structure and developing and acquiring new business streams.

ENDS