

MARKET RELEASE

CHALLENGER FULL YEAR 2008 RESULTS

Strong normalised earnings growth

Enhanced balance sheet strength and capital flexibility

Statutory result impacted by unrealised mark-to-market investment experience

Well placed to manage through the cycle

Sydney, 25 August 2008: Challenger Financial Services Group Limited (ASX:CGF) today announced a normalised Net Profit After Tax (NPAT) of \$218m for the year ended 30 June 2008, 20% above the previous financial year. Statutory reported NPAT was (\$44m) reflecting negative (mark-to-market) investment experience and significant items.

Stronger cash spread earnings in Asset Management and higher net fee income from both Mortgage Management and Asset Management drove a 12% increase in net income. Normalised Earnings Before Interest and Tax (EBIT) increased by 21% reflecting prudent cost management. Normalised Earnings per Share increased by 12% to 37.1 cents per share.

During the year the Group strengthened its mortgage management activities with the acquisition of interests in broker mortgage aggregation platforms. In the second half, the Group sold its financial planning division to AXA for \$150m cash and reached agreement to assume AXA's approximately \$1.3bn annuity portfolio for \$50m. At year-end, assets under management and administration were \$70bn, an increase of 32%.

The Group closed the year in a strong capital and liquidity position. The Group has access to \$350m of undrawn debt facilities and \$241m of available cash. Challenger Life No. 2 Limited has surplus capital of approximately \$750m over minimum regulatory requirements.

A final dividend of 7.5 cents, 60% franked, has been declared bringing the full year dividend to 12.5 cents, in line with 2007.

Commenting on the results, Chief Executive Officer Mike Tilley said: "This is a very credible result despite the adversity in the market over the last twelve months. That we were able to generate a 21% increase in normalised EBIT in such conditions is a reflection of the strength of our diversified financial services business. Each business line exceeded their hurdle returns, demonstrating the depth and talent of the management team across Challenger.

"We also significantly increased our financial flexibility which saw us close the year with a very robust balance sheet and a strong cash position, an enviable situation in which to be," said Mr. Tilley.

Incoming Chief Executive Officer, Dominic Stevens said: "We believe that the current difficult market conditions will continue to affect the sector for some time to come.

"From Challenger's perspective our business goals remain the same. The strategies we have put in place have put us in a very good position in terms of liquidity and capital, providing some insulation from the difficulties of the current environment.

"All our businesses are on solid footings. Together with an intense focus on risk management, we are very well placed to manage our way through the cycle and take advantage of opportunities created by the current environment.

"We remain confident in our pursuit of generating double digit EPS growth in the long term," Mr. Stevens said.

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