

MARKET RELEASE

CHALLENGER FINANCIAL SERVICES GROUP LIMITED – INTERIM 2008 FINANCIAL RESULTS

25 February 2008, Sydney – Challenger Financial Services Group (ASX:CGF) today announced a net profit after tax (NPAT) of \$96 million for the six months to December 2007.

Earnings before interest and tax at \$150 million, were the same as the prior corresponding period after the absorption of negative mark to market adjustments on assets of approximately \$66 million. Higher interest costs following the acquisition of Choice Aggregation Services led to a decrease in NPAT.

Net income grew by 4% over the prior corresponding period, on growth in assets under management, of 22%.

Challenger's Chief Executive Officer, Mike Tilley said: "We continue to focus on growing our recurring income stream. Our fee income, which comprises 71% of total income, is up 25% compared to the same period last year."

Expenses were up 8% over the prior corresponding period, reflecting expenses associated with the newly acquired mortgage distribution and aggregation business, as well as ongoing investment in revenue generating operations in international markets in Asset Management.

Challenger continues to benefit from a strong capital position and is well positioned to take advantage of the opportunities being created by the current market volatility. To supplement the existing capital position, \$400 million of long term regulatory capital and \$272 million of equity was raised in November 2007. Liquidity was also further enhanced during the first half, with the completion of the Metlife annuity transfer in August.

Earnings per share (EPS) was 16.7 cents for the half year, down 9% on the prior corresponding period. Mr Tilley remained confident Challenger will continue to deliver on its medium term growth targets for shareholders.

"With conservative gearing levels across the group at 9% and a strong capital position, we have the financial flexibility to be opportunistic in our approach. While we remain patient and disciplined investors, our strategic relationships with Bank of Tokyo-Mitsubishi UFJ, Mitsubishi UFJ Securities and Colony Capital, are already providing us opportunities in global markets as we pursue our growth plans," he said.

The Group declared a dividend for the period of 5 cents per share, fully franked.

- ENDS -

Outlook

Positioned for opportunities

- Market turmoil producing a significant number of investment opportunities.
- Conservative gearing and capital position provides platform to take advantage.
- Continue to have a conservative and disciplined approach to investing.
- Strategic relationships provide access to future opportunities. International expertise added to board.

Increased spreads have positive longer term impacts

- MetLife portfolio delivers funds to invest over the next 3 years. Market conditions provide the opportunity to invest this at higher spreads than 6 months ago.

Business unit revenues remain diversified

- Residential mortgage origination will remain slow until term funding markets reopen.
- Mortgage aggregation business continues to grow and provide diversified revenue streams.
- Funds Management continues to deliver profit growth. Net flows outperforming peers in tough markets.
- Financial Planning implementation of new model on plan.

Remain focused on meeting our investment hurdles

- Greater than 18% RONA.
- Double digit EPS growth in the long term.

Funds Management

Financial Highlights

For period ending 31 December 2007		1H07-1H08
Funds Under Management	\$19.0bn	▲ 23%
Net income	\$56m	▲ 2%
Expenses	\$37m	▼ -3%
EBIT	\$20m	▲ 18%
RONA	32%	▲ 28%

FUM: \$19bn up 23% on pcp reflecting strong growth in 2H07. Market conditions dampened growth in 1H08.

Net income: \$56m up 2% on pcp driven by strong FUM growth offset by minimal performance fees earned compared to 1H07.

Expenses: \$37m, a 3% reduction on pcp. Tight cost control and continued productivity benefits delivered via technology continue to deliver cost reductions.

Performance Highlights

Increased market share

- Continue to capture market share.
- Net increase in retail flows of \$986m for 1H08. Continue to attract more retail investors to funds.
- Net positive institutional mandates of \$133m for 1H08.

Long term investment performance

- Long term investment performance remains strong. Mixed performance in 1H08.

Continued diversification

- FUM well diversified across asset class and business channel.
- Provides buffer for performance in tough market conditions.

Outlook

Remain positioned to deliver continued FUM growth

- Market turbulence provides opportunities both in local and international arena.
- Boutique Partnerships well positioned for continued growth.

Mortgage Management

Financial Highlights

For period ending 31 December 2007		1H07-1H08
Residential Mortgages Under Management	\$20.2bn	▲ 8%
Commercial Mortgages Under Management	\$3.1bn	▲ 11%
Mortgages Under Advice	\$22.8bn	N/A
Net income	\$85m	▲ 18%
Expenses	\$33m	▲ 14%
EBIT	\$52m	▲ 21%
RONA	22%	▲ 5%

MUM: \$23.3bn up 8% on pcp reflecting growth in 2H07. Growth slowed due to constrained term funding markets.

MUA: \$22.8bn. Acquired during 1H08. Aggregator flows increased due to move in mortgages to banks via brokers.

Net income: \$85m up 18% on pcp. Income increased because of growth in the mortgage book in 2H07 and acquisition of the aggregation business in 1H08.

Expenses: \$33m up 14% following acquisition of aggregation business. Majority is employee expenses.

Performance Highlights

Margins reduced in current market conditions – but only for new originations

- Credit spread locked in for securitised mortgages.
- Origination volumes currently reduced until term funding markets reopen.

Funding capacity in place

- Challenger has capacity to fund. Eight established warehouse providers with ~\$8bn in capacity.

Aggregation business growth continues

- MUA up for Choice by 25% on pcp.
- Settlements up by 20% on pcp.

Outlook

On-going presence in funding. Diversification into aggregation

- Challenger continues to be a leading white label funding provider. Growth managed in current market conditions to maintain liquidity and profit.
- Aggregation flow and MUA continues. Aggregation flows are independent of bank/non-bank funding mix.

Asset Management

Financial Highlights

For period ending 31 December 2007		1H07-1H08
Assets Under Management – Life Company	\$5.5bn	▲ 67%
Assets Under Management – Specialised Funds	\$3.5bn	▲ 75%
Net income	\$133m	▼ –6%
Expenses	\$42m	▲ 8%
EBIT	\$91m	▼ –11%
RONA	18%	▼ –22%

AUM: \$5.5bn up 67% reflecting the MetLife annuity book transfer on 31 August and continued annuity flows.

Net income: \$133m down 6%. Strong fee income up \$31m, offset by net mark to market movement of ~\$66m on assets.

Expenses: \$42m up 8% reflecting international expansion in FY07.

Performance Highlights

Strong capital and liquidity position

- Over \$600m in surplus capital within Life Company above regulatory requirements.
- Significant liquidity – over \$3bn of cash and fixed income securities.
- Strong operating cashflows.

Increased balance sheet scale

- \$1.8bn annuity book transfer in August 2007. Provides fixed priced low cost, long term funding.
- Overweight cash and fixed income providing future investment opportunity.

Growth in fee income

- Specialist funds continue to grow and generate management fees.

Net mark to market reduction in asset values during tough market conditions.

- ~\$66m of net mark to market movement on assets. Remain committed investor in specialist funds.

Outlook

- Increased future yields in the Balance Sheet. Yields from assets have increased following market reductions in prices.
- High balance sheet weighting to cash provides future investment opportunities.
- Continue to match annuity liability payments to asset returns with remaining interest and exchange rate risk hedged.
- Asset valuations remain volatile in the short term, however no reason to sell at these values.
- Continue cautious approach to asset origination for balance sheet and specialist funds. Remain vigilant for opportunities in the current environment.
- Continued momentum in fees driven by increased specialist funds AUM.

Financial Planning

Financial Highlights

For period ending 31 December 2007		1H07-1H08
Funds Under Administration	\$2.3bn	▲ 10%
Funds Under Advice	\$6.8bn	▲ 21%
Net income	\$26m	▲ 8%
Expenses	\$21m	↔ 0%
EBIT	\$5m	▲ 67%
RONA	7%	▲ 40%

FUM/FUA: Double digit growth.

Net income: \$26m up 8% on pcp reflecting growth in revenues from fees and commission volumes.

Expenses: \$21m flat on pcp. Business model industrialised and scaleable.

Performance Highlights

Strategic review implementation progressing.

- All advisors on one contract. Migration from generalist to specialist advisory model. Small number of planners by value exited in process.
- Preferred partners for risk business selected. Product panel in place.
- Franchise model now covers all major cities within Australia.
- Improved flows between Genesys advisors and platforms.

Outlook

Continue to improve RONA to meet 18% hurdle

- Commence growth in advisor numbers.
- Continue to grow franchise model.
- Grow revenue whilst containing expenses.

Assets, Funds and Mortgages Under Management, Administration or Advice as at 31 December 2007

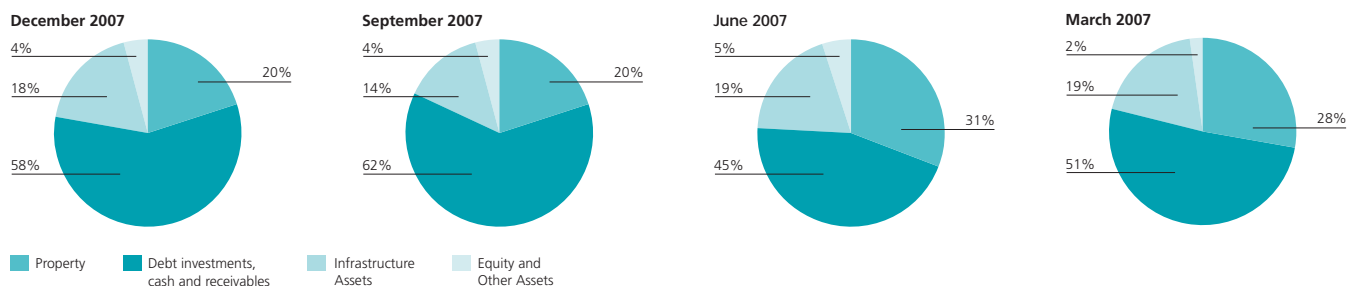
	31 Dec 07 \$m	30 Sep 07 \$m	30 Jun 07 \$m	31 Mar 07 \$m
Total Assets Under Management	47,253	47,642	43,954	39,800
Represented by:				
Challenger Funds Management				
Market linked funds				
Australian equities funds/mandates	9,084	9,256	8,184	6,284
International equities funds	399	399	348	318
Real estate securities (including hybrid property) funds/mandates	2,351	2,709	3,009	2,902
Fixed interest funds	2,228	2,376	2,277	2,139
Multi sector funds	393	408	405	398
Total market linked funds under management	14,455	15,148	14,223	12,041
Other funds				
Cash funds	37	38	25	51
Mortgage funds	3,468	3,470	3,435	3,506
Boutique partnership mandates ^(a)	1,040	874	710	574
Total other funds under management	4,545	4,382	4,170	4,131
Total funds under management	19,000	19,530	18,393	16,172
Comprising:				
Retail funds	11,219	11,247	10,554	9,827
Institutional funds	7,781	8,283	7,839	6,345
Total funds under management	19,000	19,530	18,393	16,172
^(a) Boutique partnership mandates represent segregated institutional mandates and do not include the registered schemes.				
Challenger Mortgage Management				
Mortgages under management				
Commercial lending	3,117	3,111	3,185	2,879
Residential lending	20,181	20,371	19,828	19,085
Total mortgages under management	23,298	23,482	23,013	21,964
Challenger Asset Management				
Investment assets				
Property ^(b)	1,094	1,036	1,077	925
Debt investments, cash and receivables	3,195	3,283	1,567	1,687
Infrastructure assets	992	719	648	637
Equity and other assets	247	221	184	82
Total investment assets managed for the Life Company	5,528	5,259	3,476	3,331
Investment assets managed by other subsidiaries ^(c)	59	–	59	–
Total investment assets managed	5,587	–	3,535	–
Specialised funds				
Challenger Infrastructure Fund (ASX:CIF) (adjusted equity value)	1,205	1,317	1,154	849
Challenger Diversified Property Group (ASX:CDI) (gross assets)	888	855	807	671
Challenger Wine Trust (ASX:CWT) (gross assets)	336	332	298	307
Challenger Kenedix Property Trust (ASX:CKT) (gross assets)	591	505	468	–
Unlisted company investment funds	474	460	436	279
Total assets of specialised funds	3,494	3,469	3,163	2,106
Total assets under management ^(d)	9,022	8,728	6,639	5,437

^(b) Property is reported net of senior debt of \$538m (Sep 2007 \$498m). Property includes direct and indirect holdings.

^(c) Assets managed by Asset Management subsidiaries other than the Life Company are reported for 31 Dec 07 and 30 Jun 07 to provide a reconciliation of the total investment assets of Asset Management.

^(d) Includes investment assets managed for the Life Company and total assets of specialised funds.

Life Company asset allocation split



	31 Dec 07 \$m	30 Sep 07 \$m	30 Jun 07 \$m	31 Mar 07 \$m
Total Assets Under Administration or Advice	31,830	30,584	8,796	8,035

Challenger Mortgage Management

Mortgages under administration	31 Dec 07 \$m	30 Sep 07 \$m	30 Jun 07 \$m	31 Mar 07 \$m
Aggregation	22,779	21,501	-	-
Total mortgages under administration	22,779	21,501	-	-

Challenger Financial Planning

Funds under administration	31 Dec 07 \$m	30 Sep 07 \$m	30 Jun 07 \$m	31 Mar 07 \$m
Funds under advice	2,275	2,337	2,295	2,151
Funds under advice	6,776	6,746	6,501	5,884
Total funds under administration and advice	9,051	9,083	8,796	8,035

Analysis of Flows

Challenger Funds Management

Funds under management net flows for the quarter comprise:	31 Dec 07 \$m	30 Sep 07 \$m	30 Jun 07 \$m	31 Mar 07 \$m
Retail funds	187	799	520	274
Institutional funds	(149)	282	1,223	36
Net inflows	38	1,081	1,743	310

Challenger Mortgage Management

Mortgages under administration net flows:	31 Dec 07 \$m	30 Sep 07 \$m	30 Jun 07 \$m	31 Mar 07 \$m
Net inflows ^(e)	3,498	-	-	-

^(e) 31 Dec 07 includes net flows since acquisition of Choice on 31 August 2007.

Challenger Asset Management

Sales for the quarter:	31 Dec 07 \$m	30 Sep 07 \$m	30 Jun 07 \$m	31 Mar 07 \$m
Sales ^(f)	144	274	108	77
Policyholder liability ^(g)	3,852	-	2,110	-

^(f) Includes sales of annuities, allocated pensions and superannuation.

^(g) Policyholder liability at 31 Dec 2007 has been independently reviewed but not audited.

Reconciliation of Total Group Assets, Funds and Mortgages under Management, Administration or Advice

	31 Dec 07 \$m	30 Sep 07 \$m	30 Jun 07 \$m	31 Mar 07 \$m
Funds under administration and advice	9,051	9,083	8,796	8,035
Loans under administration	22,779	21,501	-	-
Funds under management	19,000	19,530	18,393	16,172
Loans under management	23,298	23,482	23,013	21,964
Assets under management	9,022	8,728	6,639	5,437
Total before adjustments	83,150	82,324	56,841	51,608
Adjustments to remove double counting of cross holdings:				
Commercial lending	(3,117)	(3,111)	(3,185)	(2,879)
Life Company investment in Specialised Funds	(634)	(685)	(621)	(615)
Life Company unlisted funds	(316)	(302)	(285)	(279)
Total Group Assets, Funds and Mortgages Under Management, Administration or Advice	79,083	78,226	52,750	47,835