

MARKET RELEASE

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CHALLENGER FINANCIAL SERVICES GROUP FY09 RESULTS

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**Normalised NPAT of \$219 million**

***FY2010 Life cash earnings guidance of \$300 million***

***Surplus capital increased to \$530 million***

***Final dividend of 7.5c, stable profile for third consecutive year***

***Net debt reduced to zero, post-balance date/settlement of recent transactions***

**24 August 2009, Sydney** – Challenger Financial Services Group (ASX:CGF) today announced a normalised net profit after tax (NPAT) of \$219 million and underlying operating cash flow of \$287 million for the year ended 30 June 2009.

For the six months to 30 June 2009, normalised NPAT was \$113 million while statutory NPAT was \$17 million. Full year statutory NPAT was (\$91) million due to mark- to-market movements on the balance sheet of Challenger's life company (Life).

At 30 June 2009, Life held in excess of \$530 million in surplus capital over its regulatory minimum and approximately \$900 million in cash and cash-equivalents.

Chief Executive Officer Dominic Stevens said: "Despite testing market conditions, we finished the year with an increase in normalised profits and enviable cash and capital balances to fund future growth.

"This position was further strengthened by last week's sale of our mortgage operations and the retention of 80% of its earnings in the Life company.

"We are continuing to regenerate capital, intend to repay all debt facilities and in July extended our share buy-back programme to deliver further value to shareholders.

"The group is very well-capitalised and capable of moving quickly on opportunities expected to arise for Life and Funds Management".

In the year to 30 June 2009, the expected lower contribution from Funds Management due to market-linked movements was offset by growth in the steadfast Life and Mortgage divisions of 23% and 36%.

Normalised EBIT rose 3% to \$320 million, while expenses were flat over the PCP despite the addition of the remaining 85% of PLAN and the inclusion of \$22 million in one-off costs. After adjusting for these one-offs, the underlying cost to income ratio was 41.0% compared with 45.2% for the PCP.

The declared final dividend will be 7.5c unfranked, bringing the full year dividend to 12.5c.

### Life

Spread contribution from the acquisition of AXA's annuity book together with full reinvestment of the Metlife acquisition helped drive normalised COE 23% higher to \$251 million, slightly above the revised guidance of \$250 million. Normalised EBIT rose 23% to \$228 million.

While the mark-to-market investment experience in the second half was negative, tightening credit spreads in the second half of 2009 portend well for a positive contribution in 2010.

### Mortgage Management

The mortgage management business was a major contributor to the cash profitability of the group, with the acquisition of the PLAN mortgage aggregation business boosting Mortgages under Administration to \$75.3 billion. Overall EBIT increased by 36% to \$136 million for the year

While the operations and warehoused loans of this business have now been divested to the National Australia Bank, Life will continue to benefit from the high cash-flows of the financial asset comprising the term-funded back book of residential mortgages.

### Funds Management

A significant reduction in funds under management (FUM) across the full year has been partially addressed through aggressive cost reductions of 19%, giving the business operating leverage to a sustained equity market recovery. Strong performances above benchmark were delivered by several of the boutique funds and a number of Challenger's in-house funds managers.

### Outlook

The post-balance date acquisition of the Mortgage business's back-book provides a residual income stream that will contribute to Life's forecast FY2010 normalised COE of \$300 million.

Mr Stevens concluded: "This year we proved our ability to generate strong operating cash-flows and re-generate capital throughout the most difficult of market conditions. We're well-funded and poised to add to our investment management capabilities".

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