

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".

ENDS

Challenger Financial Services Group Limited

2009 Full Year Financial Results

Financial Highlights*

For year ended 30 June 2009		FY08 – FY09
Assets Under Management	\$35.3bn	↓ 19%
Assets Under Administration	\$75.0bn	↑ Large
Net income	\$579m	↑ 2%
Expenses	\$259m	↑ 1%
Normalised EBIT	\$320m	↑ 3%
NPAT (Normalised)	\$219m	↔
NPAT (Statutory Reported)	(\$91m)	↓ Large
EPS	39.2cps	↑ 6%
DPS (Full Year) Unfranked	12.5c	↔
DPS (Final) Unfranked	7.5c	↔

*Normalised cash operating earnings basis; excluding investment experience

Strengthening financial performance

- Normalised NPAT flat on pcp, due largely to stringent cost focus during the period delivering significant underlying cost reductions across all businesses
- Transfer of AXA's \$1.3bn annuity portfolio backed by cash and investment grade fixed income, adding 17,000 new clients in November 2008 and expanded earnings from Life in 2H09
- Two new boutiques Wavestone and Ardea added 1H09, diversifying Challenger's boutique funds relationships. Boutique flow has been strong with over \$1.2bn in Assets under management and a strengthening pipeline

Total Assets Under Management (AUM) and Administration (AUA)

- AUM and AUA \$110bn – up 58% on pcp
- Assets under management fell as a result of downward market linked movements and outflows during the year, offset by the boost from the transfer of assets backing the AXA portfolio and new mandates won
- Assets under administration significantly boosted by the acquisition of the remaining stake in PLAN in Sept 08, delivering \$42bn new mortgages under administration

Net Income/Normalised EBIT

- Normalised EBIT up 3% boosted by strong performance in both Life and Mortgage Management, offset by a lower contribution from Funds Management
- Earnings quality remains strong, with predictable cash spread earnings growing and recurring management fee accounting for ~85% of net income

For year ended 30 June 2009*		FY08 – FY09
Normalised EBIT		
Life	\$228m	↑ 23%
Funds Management	\$18m	↓ 74%
Mortgage Management	\$136m	↑ 36%
Corporate	(\$62m)	↑ 44%
Total*	\$320m	↑ 3%

*Pcp comparatives exclude Financial Planning business sold on 30 June 2008

Expenses

- \$3m higher – primarily reflecting one-off personnel/restructure charges and surplus lease provisions taken during the year of \$22m
- Normalised cost to income ratio improved 50 bps from 45.2% in 2008 to 44.7% in 2009; excluding one-off costs underlying ratio improved to 41%

Outlook

- Early actions in this cycle have positioned us well
- Strong organic generation of capital and earnings therefore no requirement to raise new capital
- Proven and experienced Executive Team in place since 2003 focused on:
 - Continuing to drive cost savings and efficiencies
 - Development of products to capture demand for capital guaranteed investments to counter market volatility
 - Organic growth and M & A acquisitions for both core businesses Life and Funds Management

Capital Management

Financial flexibility

- Net debt of \$179m; available cash of \$157m at 30 June
- Strong capital position - CLC surplus capital over minimum regulatory requirements circa \$530m at 30 June 09
- Financially flexible with cash and cash equivalents of ~\$900m in CLC
- Solid underlying operating cash flow generation of \$287m up 33% from pcp
- Post completion of Mortgage Management sale¹; all debt will be repaid and available cash ~\$350m

On-market share buy-back

- In July 2009 Challenger extended its on-market share buyback to continue the purchase of up to 10% of issued capital, increasing accretion for shareholders. Approximately 31 million shares have been bought back as at 30 June 09, ~60% complete

Dividend

- Final dividend of 7.5 cents per share (unfranked)
Ex Dividend Date: 17 September 2009
Record Date: 23 September 2009
Payment Date: 16 October 2009
- Full year dividend 12.5 cents per share (unfranked) consistent with prior period

Ratings

- Challenger Group and CLC are rated by Standard and Poor's (S&P) for credit and financial strength respectively. Ratings were reaffirmed in December 2008
 - Challenger Life Company Limited: A
 - Challenger Group: BBB+

Life

Business description

Integral to the group is the APRA-regulated life business, Challenger Life Company Limited (CLC), which provides term annuities to retirees and other investors seeking the security and certainty of guaranteed income streams. CLC is the largest provider of retail annuities in Australia with approximately \$5.8bn in assets under management and 60,000 policy holders.

Financial Highlights*

For year ended 30 June 2009		FY08 – FY09
AUM – Balance Sheet	\$5.8bn	↑ 10%
Net income (COE)	\$251m	↑ 21%
Expenses	\$23m	↔
Normalised EBIT	\$228m	↑ 23%
Return on Net Assets (RONA)	25%	-

*Normalised cash operating earnings basis – excluding investment experience

AUM: Total AUM up 10% driven by AXA annuity book transfer in November 2008, solid organic sales of annuity and allocated pension flows of \$514m during the year

Normalised Net Income: \$251m up 21% on pcp – driven by improved investment yield on assets. Investment yield has also increased due to the increased size of the portfolio following the AXA transfer and reflecting an increased asset allocation to high grade fixed income securities which offer an optimal risk adjusted return

Investment Experience: Negative experience of (\$310m) post tax, up from (\$192m) in pcp. The majority of asset classes underperformed normalised capital growth rates during the year. Key contributors to movements across the year included investments in Challenger listed funds which are trading at significant discounts to their NAV / NTA's, widening credit spreads on our fixed income portfolio associated with the dislocation of the global credit markets and a fall in the value of direct assets. 2H09 saw a tightening of credit spreads delivering a positive contribution to investment experience

Expenses: \$23m, flat on pcp, reflecting prudent cost focus

Performance Highlights

Increased balance sheet scale

- \$1.3bn AXA annuity book transfer in November 2008, providing long term fixed cost funding around bank bill swap rate, increased customer base and a widening franchise. Continued focus on overweight high quality fixed income allocation – offers optimal risk adjusted return in the near to medium term

¹ Pro-forma June 09 post completion of NAB and CLC transactions. NAB transaction subject to regulatory approvals, expected to settle on 30 October 2009. CLC transaction settled

Outlook

Strong underlying fundamentals

- Strong balance sheet, significant and growing surplus capital and operating in conservative APRA regulated framework
- Significant liquidity ensuring financial flexibility
- Increasing demand for our capital guaranteed products (annuities)
- Recent performance of equity markets increasing the attractiveness of guaranteed fixed rate, fixed term, annuities to retirees

Funds Management

Business description

With funds under management of \$16 billion, Challenger's Funds Management business develops and distributes listed and unlisted investment products and services to retail and institutional clients across a wide range of asset classes and investment styles. Challenger also acts as a gateway to other investment managers and a growing stable of quality boutique fund managers in which the group has an equity stake.

Financial Highlights

For year ended 30 June 2009		FY08 – FY09
FUM (Unlisted)	\$13.6bn	↓ 29%
FUM (Listed)	\$2.5bn	↓ 14%
Net income	\$114m	↓ 39%
Expenses	\$96m	↓ 19%
EBIT	\$18m	↓ large
Return on Net Assets (RONA)	15%	-

FUM (Unlisted): \$13.6bn, down 29% on pcp. Adverse market conditions during most of 2008/2009 strongly impacted market linked products combined with an outflow of index funds, leading to a reduction in total funds under management. Recent strength in equity markets and increased flows towards the end of the period saw a lift in FUM during the 4th quarter

FUM (Listed): \$2.5bn, down 14% on pcp. Listed Funds FUM was been negatively impacted by the fall in the adjusted equity value of CIF, offset by the positive impact of the increase in the gross asset value of CKT

Net Income: \$114m, down 39% on pcp, driven by lower management fees on reduced FUM balance and a lower performance/ transaction fees

Expenses: \$96m, down significantly on pcp, as a result of continued cost focus

Performance Highlights

Investment Performance

- Consultant Buy ratings increased for the Boutiques by 40% over 12 months
- Received 12 upgrades by the retail researchers on our Boutiques
- Won 7 new Institutional clients into our Boutiques
- Value creation initiatives in listed vehicles, including CIF's sale of a third of its Southern Water asset at NAV in December 08 well above the listed unit price
- Strong uptake in the entitlement offer for CDI post 30 June, reducing gearing and creating increased financial flexibility

Outlook

Diversified portfolios and business mix

- Sharp decreases in global markets during the year impacting earnings however the long term macro environment in Australia remains attractive – supported by compulsory super contributions, population growth and focus on contemporary products
- Challenger is well positioned to take advantage of investor demand as markets recover, continued expansion of its product suite into new areas such as inflation linked investments and equity income strategies via internal and new boutique fund managers
- Continued growth in the boutique funds market provides greater diversification of revenue while leveraging Challenger's existing infrastructure

Mortgage Management

Challenger announced the sale of its Mortgage division on the 18th of August. The residual income streams from all term financed mortgages were sold to Challenger Life for a consideration of \$575m while the mortgage distribution business, warehouses, originators and HOM position sold to NAB for \$385m.



Financial Highlights

For year ended 30 June 2009		FY08 – FY09
Mortgages Under Management	\$17.9bn	↓ 18%
Mortgages Under Administration	\$75.0bn	↑ Large
Net income	\$209m	↑ 27%
Expenses	\$73m	↑ 12%
EBIT	\$136m	↑ 36%
Return on Net Assets (RONA)	24%	-

MUM: \$17.9bn, down 18% on pcp, reflecting conservative lending policy as profitability was balanced with growth against higher cost of term funding

MUA: \$75.0bn, up more than 100%, as a result of the consolidation of PLAN in Sept 08.

Net Income: \$209m, up 27% on pcp, driven by higher margins and fees received from the new broker aggregation platforms. Commercial Lending business contribution down following changes to Challenger's Howard Mortgage fund

Expenses: Up 12% on pcp, primarily due to the PLAN acquisition – expenses are largely unchanged once the costs for PLAN are removed. Combining of the back office functions for all three broker platforms is delivering both personnel and infrastructure savings.

Corporate Financial Highlights

For year ended 30 June 2009		FY08 – FY09
Net income	\$5m	↓ 28%
Expenses	\$67m	↑ 35%
EBIT	(\$62m)	↑ 44%

Net Income: Corporate income represents interest on surplus cash deposits, including cash held for regulatory license purposes and other income.

Expenses: Operating expenses represent the cost of performing functions not associated with any of the operating divisions, primarily head office personnel costs, together with all long term incentive costs.

During the year an additional one-off charge of \$18m of restructure charges comprising \$11m for surplus lease provision and \$7m of one-off personnel costs. In addition there was a \$3m incremental non-cash charge relating to long term incentive plans.



