challenger

MARKET RELEASE

CHALLENGER FINANCIAL SERVICES GROUP LIMITED

FULL YEAR STATUTORY RESULTS TO 30 JUNE 2006

28 August 2006, Sydney – Challenger Financial Services Group Limited (ASX: CGF) today announced a statutory net profit after tax and before significant items of $153 million for the year ended 30 June 2006, 28 per cent above the previous corresponding period. After significant items net profit after tax was $134m, up 12.3 per cent.

A final dividend of 5 cents fully franked, has been declared bringing the full year dividend to 7.5 cents, a 50 per cent increase on 2005. The Board has introduced a dividend policy; its intention is to pay not less than 30 per cent of statutory profits per annum to shareholders by way of dividends.

The FY06 result was achieved through strong growth in net income. Expenses before significant items grew at a slower rate. The company's cost-to-income ratio fell after significant investment in new revenue generating people while the EBIT margin grew. Assets and Loans under Management grew by 16 per cent to $36.5 billion.

Challenger Chief Executive Officer Mike Tilley said: "These results show that our strategy and scaleable business model are delivering. We continue to see benefits from scale economies. The growth in revenues achieved this year was driven by our commitment to quality products and customer focussed service; we believe these scale benefits are sustainable. Investment in revenue generating people will continue in the year ahead."

ENDS

Note to editors: as previously announced, Challenger has renamed its core business divisions: Challenger Life has been renamed Asset Management; Challenger Wholesale Finance has been renamed Mortgage Management; and Challenger Wealth Management has been renamed Funds Management. In addition, Financial Planning has been broken out from Wealth Management to create a fourth line of business.

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Challenger Financial Services Group Limited Historic Cost Results to 30 June 2006

Underlying net profit after tax $125m, a 49% increase on FY05.

Financial Highlights

EBIT Contribution

Portfolio volume **(Total assets and loans under management/admin)**	$36.5b	↑ 15.7%
Net income	$446m	↑ 30.4%
Expenses (pre-Hilton)	$236m	↑ 12.4%
EBIT	$209m	↑ 58.3%
NPAT (Underlying-pre significant items)	$125m	↑ 48.8%
NPAT	$116m	↑38.1%
EPS – Basic (Underlying)	21.6¢	↑ 35.8%
– Diluted (Underlying)	20.9¢	↑ 29.7%
DPS	7.5¢	↑ 50.0%

Net income: $446m, up 30.4%, driven by uplift in fee income of $97m, up 44.5%
Expenses: $236m, an increase of 12.4% (pre Hilton) reflecting an investment in people for future growth.

EBIT: $209m, up $58.3%

- EBIT margin 47.0% up from 38.7% in FY05

Group assets and loans under managment: $36.5b, up 15.7%

EPS: 21.6 cents per share, up 35.8%, (pre significant) items

Return on Net Assets (RONA)

- Mortgage Management 21.7% (up 15.4%)
- Funds Management 18.6%
- Asset Management 21.9% (up 5.8%)
- Financial Planning 4.9% (up 22.5%)

Capital Management

Dividend: 5 cent final dividend fully franked declared, 7.5 cents for the full year, up 50%

Dividend Policy: Not less than 30% of statutory net profit after tax

DRP: Suspended

Sources of Increased EBIT (by division)

Total EBIT Uplift	$77m	100%
Mortgage Management	$17m	22.1%
Funds Management	$34m	44.1%
Asset Management	$23m	29.9%
Financial Planning	$2m	2.6%

Performance Highlights

All businesses contributing to fundamental growth.

Mortgage Management: Primary focus on residential for prime and non-conforming borrowers. Largest white label residential loan book in Australia; $18.3b, up 14%.

Funds Management: FUM increased to $12.9b, up 22%. Driven by above benchmark performance and higher ratings from a number of gatekeepers.

Asset Management: Launch of listed and unlisted funds. Strong growth in fee income.

Financial Planning: Fundamentals improving.

Strategy

Challenger manages quality assets and offers competitive financial products and services via intermediaries.

Financial Objective

To produce double digit historic costs EPS growth while exceeding 18% RONA in each business.

Outlook

- Continued focus on core activities
- Continued investment in revenue generating teams
- New boutique fund management opportunities
- Launch of new listed and unlisted funds in property and infrastructure sectors
- Expanded product set
- Stronger and deeper relationships with financial planners and mortgage managers
- Development of disciplines and scalable systems in Financial Planning

Financial Summary

Net Income

$446m up 30.4%:

- Predictable net fee income up $97m, or 44.5%
- Net investment revenue (spread) up $4m to $126m. Realised gains on asset sales marginally above FY05

Expenses

$236m up 12.4%:

- Employee costs were up $31m (23.5%), of which $18m (58%) was growth in variable incentive payments and $13m was in fixed remuneration
- Direct people costs account for approximately ~70% of Challengers expense base
- Other costs were almost flat year on year
- Cost-to-income ratio improved to 53.0% (pre significant items), from 61.3%

Interest Expense

$35m up $18m:

- $10m attributable to the CIF equity bridge facility which will be repaid in August 2006

Underlying Historic Cost Profit

$125m up 48.8% after tax:

- Driven by the improvement in EBIT margin to 47% from 38.7%
- Effective tax rate of 27.9%

Significant Items

$13.1m provision before tax:

- As previously announced, this relates to Challenger's relocation to the Hilton, with an additional $1.9m required to be charged against opening retained earnings under AIFRS

Mortgage Management

Strong result in a very competitive market and subdued housing environment.

Financial Highlights

Portfolio volume **(Residential mortgages under management)**	$18.3b	↑ 14.0%
Net income	$134m	↑ 24.1%
Expenses	$56m	↑ 19.1%
EBIT	$78m	↑ 27.9%
RONA	21.7%	↑ 15.4%
Net assets 1 July 2005	$360m	FY06
Net assets 30 June 2006	$412m	FY07

Net income: $134m up 24.1%.

Mortgage loan book: residential up 14.0%; ahead of the market

Expenses: Grew at 19.1%

- Cost-to-income ratio improved to 41.8%
- Costs before variable remuneration grew at 11%

EBIT: $78m up 27.9%

RONA: 21.7%. Net assets 1 July 2006 $412m

Business Highlights

- Significant improvements in product offering and front end technology
- 15% stake in PLAN Australia, Australia's leading broker aggregator

Outlook

- Focus on continued growth in the residential loan book
- Margin improvement achieved in very competitive markets, but as signalled, some decline is expected over time in-line with increasing competition

Funds Management

Diverse strategy delivering profit and benefits of investments into systems, product and investment capability and growing reach of distribution being realised.

Financial Highlights

Portfolio volume **(Funds under management)**	$12.9b	↑ 21.6%
Net income	$92m	↑ 61.4%
Expenses	$68m	↑ 1.5%
EBIT	$24m	↑ large
RONA	18.6%	↑ large
Net assets 1 July 2005	$131m	FY06
Net assets 30 June 2006	$135m	FY07

Net income: $92m, up 61.4%.

FUM: $12.9b, up 21.6%

Expenses: almost flat, up 1.5%

- Cost-to-income ratio improved to 73%

EBIT: $24m, a significant turnaround from $10m loss in FY05

RONA: 18.6% (achieved for the first time)

Net assets 1 July 2006 $135m

Business Highlights

- Above benchmark investment performance in most funds
- Successfully leveraged distribution and product offering
- Expansion of boutique strategy - Five Oceans Asset Management and GreenCape Capital
- Continued diversity of revenue sources through funds – retail and institutional

Outlook

- Focus on growing high alpha FUM capability
- Distribution focused on further strengthening third party distribution relationships and product recommendations across retail, institutional and platform channels

Asset Management

Solid growth in earnings while developing new capability and expertise to drive strategy.

Financial Highlights

Portfolio volume **(Total assets under management)**	$3.7b	↑ 13.2%
Net income – Spread based – Fee based – Total	 $126m $51m $177m	 ↑ 3.1% ↑ large ↑ 29.2%
Expenses	$54m	↑ 45.9%
EBIT	$123m	↑ 23.0%
RONA	21.9%	↑ 5.8%
Net assets 1 July 2005	$561m*	FY06
Net assets 30 June 2006	$707m	FY07

*Pre IFRS

Net Income: $177m up 29.2%

- Fee income $51m up 240%

AUM: $3.7b, up 13.2%

Expenses: up to $54m from $37m reflecting investment for future growth

- Cost-to-income ratio low at 30.5% (from 27.0%)
- Variable compensation accounts for a signficant and growing element of emloyee costs

EBIT: $123m, up 23%

RONA: 21.9%. Net assets 1 July 2006 $707m

Business Highlights

- Launch of listed and unlisted infrastructure and property funds
- Strong growth in fee income

Outlook

- Ongoing growth of fee income as a proportion of revenue from the ongoing execution of the Asset Management strategy

Financial Planning

Strong fundamentals with focus on creating scalable services' platform for growth to realise potential.

Financial Highlights

Net Income	$43m	↑ 10.3%
Expenses	$36m	↑ 5.9%
EBIT	$7m	↑ 40.0%
RONA	4.9%	↑ 22.5%
Net assets opening 1 July	$144m	FY06
Net assets opening 1 July	$146m	FY06

Net Income: $43m, up 10.3%(Genesys net income up 24%)

Expenses: contained to 5.9% growth despite extensive brand campaign launch

EBIT: $7m, up 40.0%

RONA: 4.9%. Expected to achieve 18% target in 2008/2009

Business Highlights

- Merger and integration completed
- Genesys brand gaining significant recognition and high recall
- Some improvements in operating efficiency with further gains expected in 2H07 and FY08

Outlook

- Focus on building a services delivery model which is efficient and scaleable
- Further investments into systems, people and capability of member firms

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