

MARKET RELEASE

CHALLENGER: IMPACT OF PROPOSED BUDGET CHANGES

10 May 2006, Sydney – Challenger Financial Services Group Limited (ASX:CGF) announced today that proposed changes outlined in the Federal Budget would have a positive impact on Challenger's funds management and specialist funds businesses and for the reasons set out below a neutral impact on its annuities business as a result of proposed changes to superannuation and the assets test exemption on complying annuities.

Prior to September 2004¹, Challenger's annuities flows were weighted heavily towards complying annuities. Since then Challenger has embarked on a number of initiatives to increase market share in non-complying annuities. Today approximately 50 per cent of annuity flows are non-complying annuities. Challenger does not foresee any significant change in the demand for non-complying annuity products as a result of the Budget announcement.

Challenger expects the impact of the proposed changes to the abolition of the 50 per cent assets test exemption for complying annuities is likely to result in a medium term increase in sales ahead of the change in September 2007. Challenger believes there will continue to be demand for a capital guaranteed income style product as part of diverse investment portfolios post September 2007.

Challenger is also well advanced with plans for alternative funding arrangements. One of these has advanced to the point where Challenger has appointed two banks as arrangers. The launch of this product is subject only to APRA approval and finalisation of the transaction documentation. While alternative funding will require a somewhat higher coupon than non-complying annuities, these costs will be netted off with a lower cost of issuance in administration and commission costs resulting in a neutral impact on Challenger Life earnings.

Challenger has forecast annuity sales of at least \$300m for the current financial year. Annuity sales at the end of March were \$220m and sales in April were on budget.

Challenger is also likely to be a significant beneficiary of proposed changes to superannuation in both its specialist funds business and funds management business with investors increasingly looking for diversification. Challenger does not foresee any negative impact to its financial planning business, Genesys Wealth Advisors as a result of the proposed changes outlined in the Federal Budget.

ENDS

¹ In September 2004 the assets test exemption on complying annuities was reduced from 100 per cent to 50 per cent.