MARKET RELEASE

Challenger Financial Services announces the sale of its Mortgage Management division and preliminary expected results for the full year ended 30 June 2009

18 August 2009, Sydney – Challenger Financial Services Group (ASX:CGF) today announced the sale of its Mortgage Management business.

Under the terms of the sale National Australia Bank (NAB) will acquire the Mortgage Distribution and Multi Brand Lending Businesses, along with ~$4bn of residential mortgages held in warehouses for a consideration of $385m. The transaction is subject to regulatory approvals and is expected to close by 31 October 2009.

At the same time the residual income streams from all term funded mortgages have been sold to Challenger Life Company Limited (CLC) for a consideration of $575m.

The sale to NAB includes the:

- mortgage aggregation businesses of Plan, Fast and Choice;
- multi branded mortgage origination business;
- ~$4bn (face value less approximately 22bps of provisioning) of residential mortgages held in warehouses; and
- 41% stake in the listed mortgage origination company, Homeloans Ltd*.

The sale to CLC includes the:

- residual income stream from all residential mortgages with term funding arrangements (~$11bn of underlying mortgages)

As a result of the above transactions;

- Challenger Group facilities/borrowings (NIM bond, Medium Term Note and Corporate facility) will all be repaid
- Approximately $200m will be injected into the CLC to support both the asset purchase and provide for further growth opportunities in our Life business
- Challenger Group will enjoy a significant positive net cash position ~$350m

Ongoing, Challenger will be focussing purely on the significant opportunities that exist within the investment management activities of its Life and Funds Management businesses.

Challenger CEO Dominic Stevens said, "Challenger is looking forward to taking advantage of significant strategic opportunities that exist in the retirement income and investment management markets. Whilst we are very proud of our history and performance within the mortgage industry, the changing dynamics of that market has meant that the significant capital tied up in the business will be better refocused into growth opportunities within the organisation's other divisions".

Challenger is confident in the significant opportunities that exist in these areas and will update the market in more detail at its full year results on Monday 24 August 2009.

* subject to Homeloans shareholder approval

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Challenger Financial Services Group Limited A.B.N 85 106 842 371

The following financial information regarding Challenger's full year results for the period ended 30 June 2009 are subject to finalisation of the Group's accounts and external audit. Actual results for the full year may differ from those provided in this update.

Group earnings – full year ended 30 June 2009
Normalised profit after tax is expected to be in the range of $215 - $220m; with statutory reported profit (including negative investment experience) expected to be in range of $(88) - $(93)m.

Statutory reported NPAT is impacted by mark- to-market movements on the balance sheet of Challenger's life company (Challenger Life Company Limited).

Group underlying operating cash flow is expected to be $285m. Net debt at 30 June 2009 was $179m.

Business performance – full year ended 30 June 2009
Life normalised cash operating earnings is expected to be in line with the guidance previously provided to the market of $250m, resulting in an expected normalised EBIT of approximately $228m. Investment experience after tax in the six months to 30 June 2009 was approximately $(95m) – principally driven by negative mark to market movement on assets: infrastructure, property and equity offset by positive mark to market on fixed income investments.

As at 30 June 2009 excess capital in the Life Company over regulatory minimum was approximately $530m.

Funds Management EBIT is expected to be approximately $18m reflecting a reduction in the average FUM balance across the year partially offset by strong expense control.

Mortgage Management EBIT is expected to be approximately $135m following a widening in asset margins combined with a higher contribution from mortgage broker platforms.

Corporate EBIT is expected to be approximately $(60m) including $(22m) of one-off expenses relating to redundancy costs and a surplus lease provision taken in 2H09 following consolidation of premises in Sydney and Melbourne during the year.

Dividend/Capital Management
In line with its stated target of a ~30% payout ratio, the final dividend is expected to be 7.5cps, unfranked. As advised on 7 July 2009 the on-market buyback of ordinary shares is continuing.

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