



Challenger
Financial Services

Challenger Financial Services Group Limited

Full-year results to 30 June 2004

Michael Tilley, Chief Executive Officer
Tim Foster, Chief Financial Officer

30 August 2004

Key messages

- Statutory 'MoS' net profit after tax and before goodwill \$97 million
- Write down of goodwill \$280 million
- Underlying business performance sound in a year of change and restructuring
- Challenger is a high growth low capital intensity business
- Revenue growth in 2005 from strong annuity sales pre 20 September, growth in FUM & FUA, and strong growth in wholesale finance

Summary financials

	6 months to Dec 2003 \$m	6 months to June 2004 \$m	12 months to June 2004 \$m
Profit before interest, tax and goodwill amortisation:			
• Statutory "MoS" basis	69	91	160
• Modified "Historic cost" basis	26	65	91
Profit after tax before goodwill:			
• Statutory "MoS" basis	42	55	97
• Modified "Historic cost" basis	11	36	47
Goodwill write-off	-	(280)	(280)
Profit/(loss) after tax:			
• Statutory "MoS" basis	33	(236)	(203)
• Modified "Historic cost" basis	2	(255)	(253)
Basic earnings per share:			
• Statutory	1.37 cents	(9.19) cents	(7.82) cents
• Statutory before goodwill	1.73 cents	2.01 cents	3.74 cents
• Modified before goodwill	0.45 cents	1.38 cents	1.83 cents

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Business overview

Challenger Financial Services Group

Challenger Life, Chief Executive, Rob Woods

Challenger Life invests in a wide range of investment products including property, fixed income, mezzanine debt, mortgages and infrastructure.

Challenger finances these investments using a combination of debt, annuitant obligations and equity.

Challenger Wholesale Finance, Chief Executive, Brian Benari

Challenger is one of Australia's largest managers of wholesale and retail mortgage funds in Australia investing in prime residential, non-conforming and commercial property mortgages. These funds are invested by global institutions in residential mortgage backed securities (RMBS) and retail investors in Howard Mortgage Trust.

These funds are distributed through over 540 preferred lenders and brokers in Australia and New Zealand. The business distributes via three arms including Interstar, The Mortgage Alternative and Challenger Commercial Lending.

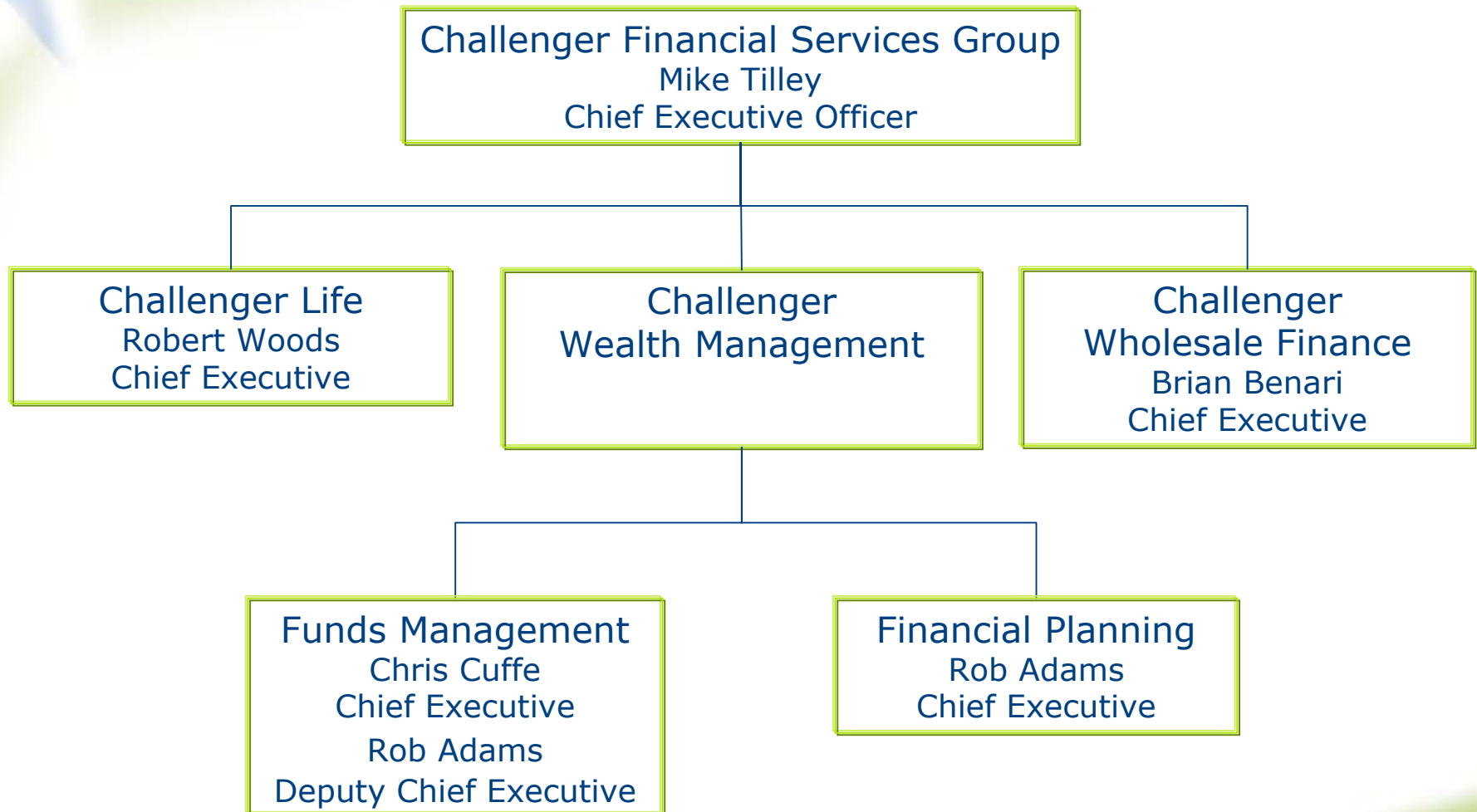
Challenger Wealth Management, Funds Management, Chief Executive, Chris Cuffe

Challenger manufactures investment products for both institutional and retail clients utilising our in-house investment management capability in Australian equities and fixed interest; alliances with other investment managers to other specialist providers; and combining multiple investment managers into a single portfolio.

Challenger Wealth Management, Financial Planning, Chief Executive, Rob Adams

With the recent acquisition of Associate Planners and its merger with our existing financial planning business, Garrisons, we aim to build Australia's pre-eminent financial planning brand in Australia. With over 450 planners nationally, we envisage the combined group will become the preferred choice for discerning financial planners and their clients.

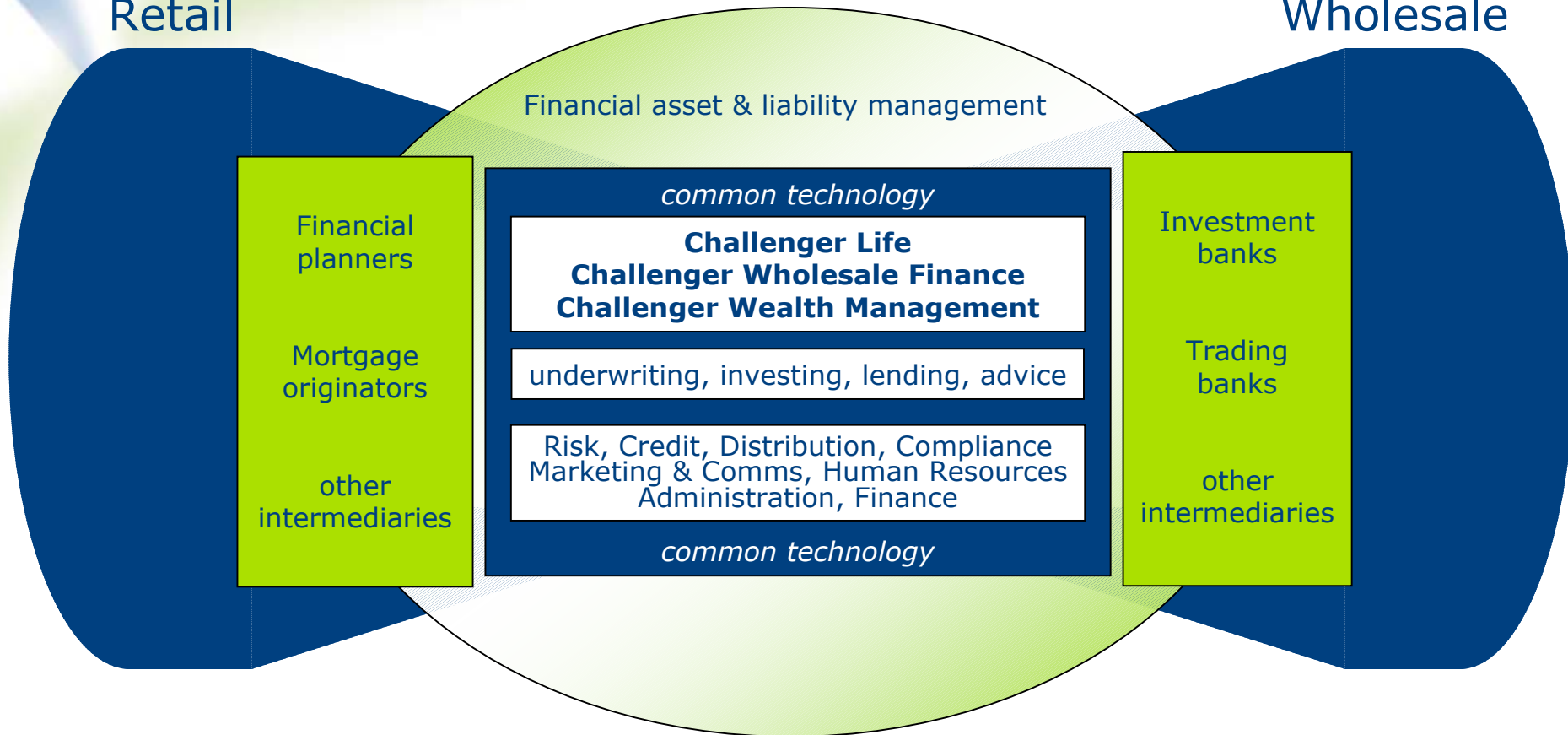
Our structure



The Challenger model

Retail

Wholesale



Highlights

Cleaning up the past

May	Challenger offers foreign properties for sale and merges Challenger Life companies
May	Challenger outsources endowment warrants to Westpac
April	Challenger exits Biotech Capital
Mar	Challenger divests 11 non-core property assets
Jan	Challenger completes sale of Coronet (NZ) to Equitable
Jan	Challenger exits corporate superannuation administration
Dec 03	Challenger exits Howard Finance

Building the Future

August	Challenger wins S&P award for Australian Small Caps Fund of the year
August	Challenger settles AP acquisition for \$91m
July	Interstar launches Australia's largest ever non-bank RMBS issue
June	Peter Polson appointed Chairman & Michael Tilley appointed CEO
April	Challenger named Annuity Provider of the Year
March	Challenger sells forestry assets for \$71m
Sept 03	Challenger purchases Interstar

Summary of earnings

12 months to 30 June 2004

	Consolidated using Life 'MoS' statutory basis \$m	Consolidated using Life "Historic cost" modified basis \$m
Profit pre-tax & corporate charges	160	91
Corporate charges:		
• Goodwill - amortisation	(20)	(20)
- write-off at 30 June 2004	(280)	(280)
• Other	(23)	(23)
Loss before tax	(163)	(232)
Income tax expense	(40)	(21)
Loss after tax	(203)	(253)

Goodwill

- The Board of Challenger has determined to write down the carrying value of goodwill as at 30 June 2004 by \$280m (after goodwill amortisation in 2003/04 of \$20m) given:
 - the high standard of corroborative evidence associated with the impairment test under the pending International Financial Reporting Standards
 - a conservative approach to the outlook for annuity sales post September 2004 following changes in the Federal Government's retirement income policy
 - a more conservative perspective of the Group's broad business plans even though more favourable outcomes may eventually result

Earnings by segment

12 months to 30 June 2004

	Statutory basis \$m	Modified basis \$m
Challenger Life	124	55
Challenger Wholesale Finance	33	33
Challenger Wealth Management	(9)	(9)
Non-core businesses / assets	12	12
Profit before tax & corporate charges	160	91
Corporate charges	(43)	(43)
Goodwill write-off	(280)	(280)
Loss before tax	(163)	(232)

Financial results

Assets under management & administration

	30 June 2003 \$m	31 Dec 2003 \$m	30 June 2004 \$m
Net Life assets backing annuity obligations ¹	2,353	2,351	2,651
Wholesale Finance ²	2,061	14,738	16,229
Investment FUM ³	4,027	5,496	6,144
Funds under administration	1,467	1,603	1,668

Group assets under management / administration	7,847	21,985	24,285
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¹Total annuity investment assets less debt

²Double counts part Howard Mortgage Trust

³Excludes investments managed for Challenger Life

Challenger Life

Statutory result

	6 months to Dec 2003 \$m	6 months to June 2004 \$m	12 months to June 2004 \$m
Margins emerging:			
• Planned profit margins released	3	2	5
• Net experience items	1	22	23
• Return from rent less interest used to repay annuitant principal	14	7	21
• Earnings on excess assets	2	8	10
Total margins emerging	20	39	59
Profit on sale of properties	-	23	23
Market related movements net of associated movement in policy liabilities	40	2	42
Statutory profit before tax	60	64	124

Refinement to Modified Accounting

“Historic Cost” basis

- Modified accounting introduced to help the market better understand the underlying profit in the Life company
- Refined at 30 June 2004 to fully eliminate marked to market impacts on the modified results
- Half year methodology applied a combination of:
 - Accruals accounting – rent and expenses; and
 - Market rates at 1 July 2003 – fixed interest securities, annuity interest, core debt interest
- Historic cost methodology comprises:
 - Cash and accruals profit on operating activities including annuity interest at fixed rate
 - Realised cash profit or loss on disposal of assets

Challenger Life

"Historic Cost" Modified earnings

	6 months to Dec 2003 \$m	6 months to June 2004 \$m	12 months to June 2004 \$m
Net rental income	108	107	215
Investment income	39	45	84
Profit on disposal of assets	5	24	29
Total net revenue	152	176	328
Annuitant interest	47	48	95
Debt interest	66	65	131
Expenses	24	23	47
Total expenses	137	136	273
Profit before tax	15	40	55

Challenger Wholesale Finance

Profit before tax

	6 months to Dec 2003 \$m	6 months to June 2004 \$m	12 months June 2004 \$m
Commercial Lending ¹	7	7	14
Interstar	6	15	21
The Mortgage Alternative	-	(2)	(2)
Total	13	20	33

¹ Lending activities of the Howard Mortgage Trust

Challenger Wealth Management

Profit/(loss) before Tax

	6 months to Dec 2003 \$m	6 months to June 2004 \$m	12 months to June 2004 \$m
Funds Management and Administration ¹	(3)	(1)	(4)
Financial Planning	(3)	(2)	(5)
Total	(6)	(3)	(9)

¹ Includes investing activities of the Howard Mortgage Trust

Non-core business/assets

Profit/(loss) before tax

	6 months to Dec 2003 \$m	6 months to June 2004 \$m	12 months to June 2004 \$m
Equity accounted profits from private equity investments	3	1	4
Net profit on disposal of non-core investments	4	11	15
Losses on non-core businesses ¹	(3)	(4)	(7)
Total	4	8	12

- ¹ Howard Finance – sold Dec 2003
 Biotech Capital Limited – sold April 2004
 Endowment warrants – outsourced April 2004
 Corporate super administration – sold June 2004

Corporate charges

	6 months to Dec 2003 \$m	6 months to June 2004 \$m	12 months to June 2004 \$m
Non-recurring (including CPHIC management fee)	(7)	(1)	(8)
Net corporate interest payable	(3)	(8)	(11)
Long term incentive plan	-	(4)	(4)
Goodwill amortisation	(9)	(11)	(20)
Corporate charges before goodwill write-off	(19)	(24)	(43)
Goodwill write-off at 30 June 2004	-	(280)	(280)
Total corporate charges	(19)	(304)	(323)

All other costs are fully allocated to individual segments

Group balance sheet

	30 June 2003 \$m	30 June 2004 \$m
Cash	660	626
Property investments	2,614	2,535
Other Life investments	965	1,331
Goodwill / EMVONA	654	480
Other assets	473	704
Total assets	5,366	5,676
Debt	2,023	2,164
Policy liabilities	1,806	2,052
Other liabilities	332	375
Total liabilities	4,161	4,591
Net assets	1,205	1,085

Debt comprises

	30 June 2003 \$m	30 June 2004 \$m
Within property trusts	1,725	1,689
Margin lending loans	159	139
Group corporate debt facilities	85	235
Other product related debt	54	101
Total debt	2,023	2,164

Summary of cash flow

	6 months to Dec 2003 \$m	6 months to June 2004 \$m	12 months to June 2004 \$m
Opening cash balance	660	351	660
Operating	73	90	163
Investing activities	(400)	129	(271)
Financing activities	(2)	54	52
Prior period reclassification / FX changes	20	2	22
Closing cash balance	351	626	626

Dividend

- No dividend from 2004 results
- Management desire to commence dividend payment from 2005 profits

The year ahead

- ➔ Management team in place and highly incentivised
- ➔ Corporate strategy clear and implementation is on target
- ➔ Expanding asset management footprint and focus
 - Introduction of new investment funds
 - Garrisons/Associated Planners FUA now \$7.5 billion
 - Alternative asset classes offer growth in the earning rate in Life and new funds management opportunities for Wealth Management
- ➔ Commitment to maximise eps
- ➔ Relentless focus on costs to reduce the cost to revenue ratio and deliver 18% RONA in each business

Summary

- Challenger's result proves the strength of the new business model
- Challenger has largely completed the clean-up phase and is focussed on growth across its three core businesses
- Underlying business performance sound in a year of change and restructuring
- Challenger is a high growth, low capital intensity business
- Revenue growth in 2005 from strong annuity sales pre 20 September, growth in FUM & FUA, and strong growth in wholesale finance