

Challenger Financial Services Group Limited

Merrill Lynch Emerging Companies Conference - Sydney

Dominic Stevens – Chief Executive Officer

18 June 2009



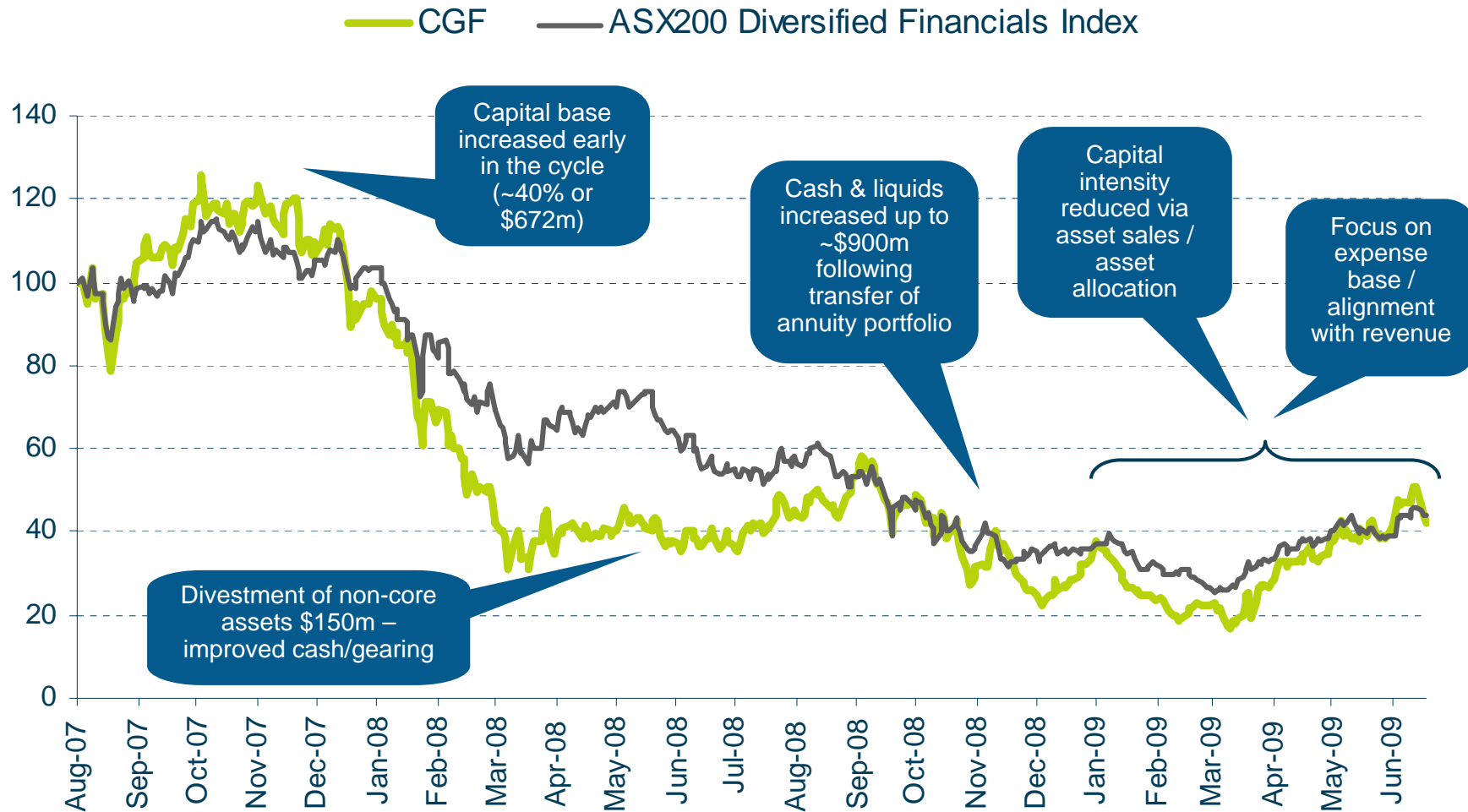
Agenda

- Performance and financial flexibility update
- Business line focus
- Opportunities and challenges
- Outlook

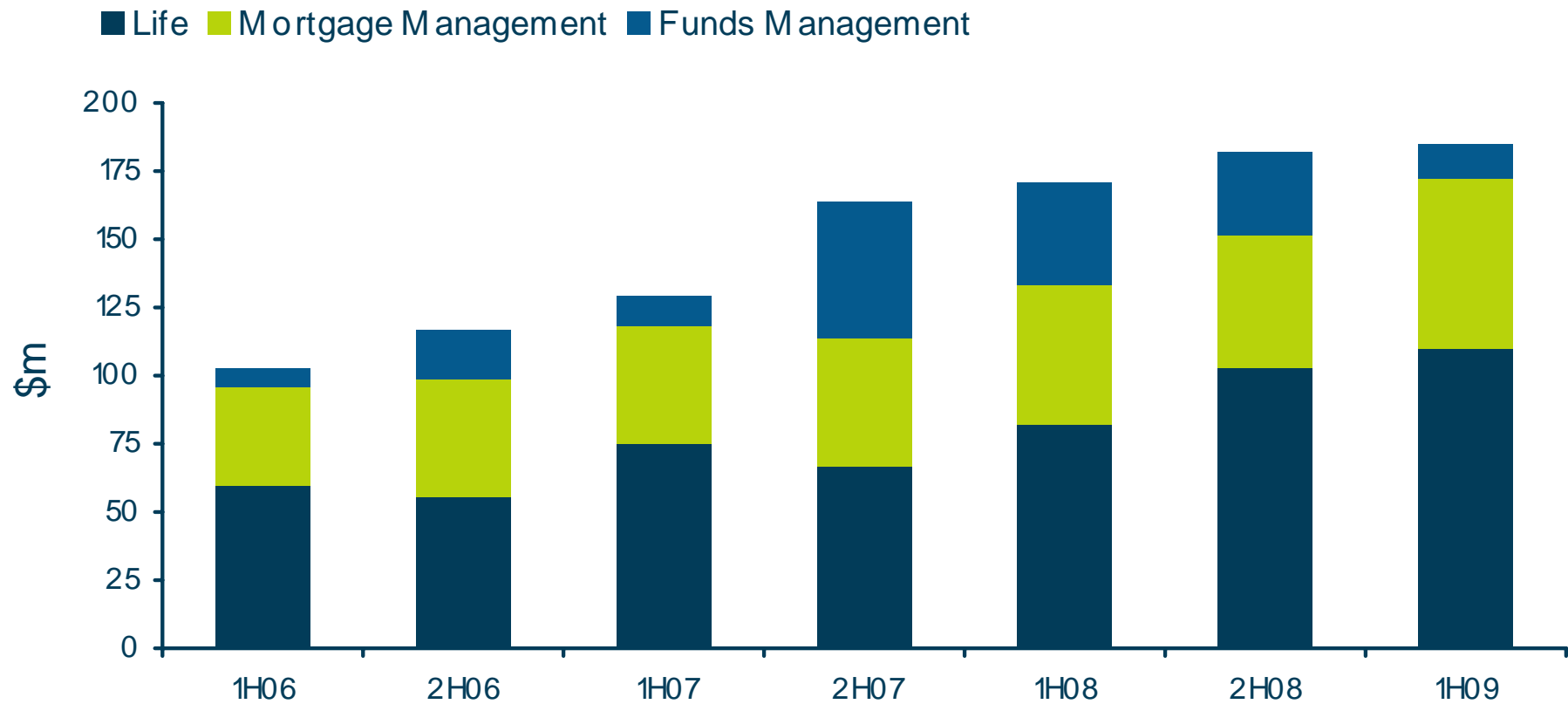
Performance & financial flexibility update

- 1H09 robust financial performance in tough markets
 - Normalised NPAT of \$106m – up 4%
 - Strong operating cash flow of \$89m – up 5%
 - Statutory NPAT of \$(108m) impacted by negative investment experience of \$(214m)
 - Increased guidance for Life Normalised COE for FY09 - \$250m reaffirmed
- Financial flexibility
 - Capital raised early in the cycle – regulatory capital increased 40% in November 2007
 - Current capital excess to minimum regulatory requirements has strengthened since 31 Dec 08 at ~ \$450m
 - Cash and cash equivalents in Life remain high ~\$900m

Early positioning in GFC to weather the storm



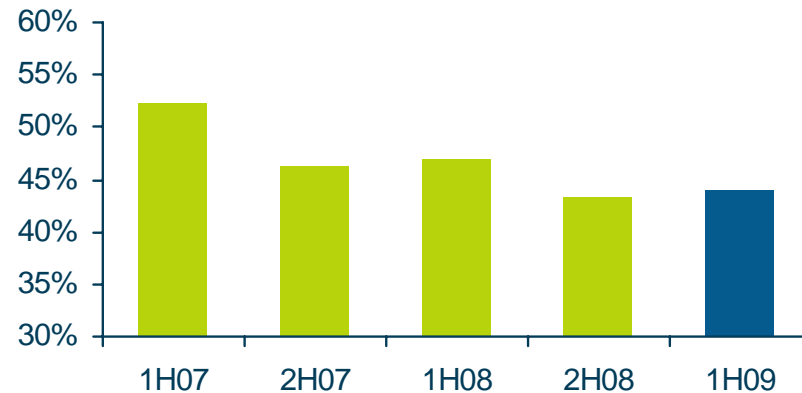
Normalised EBIT continuing to grow



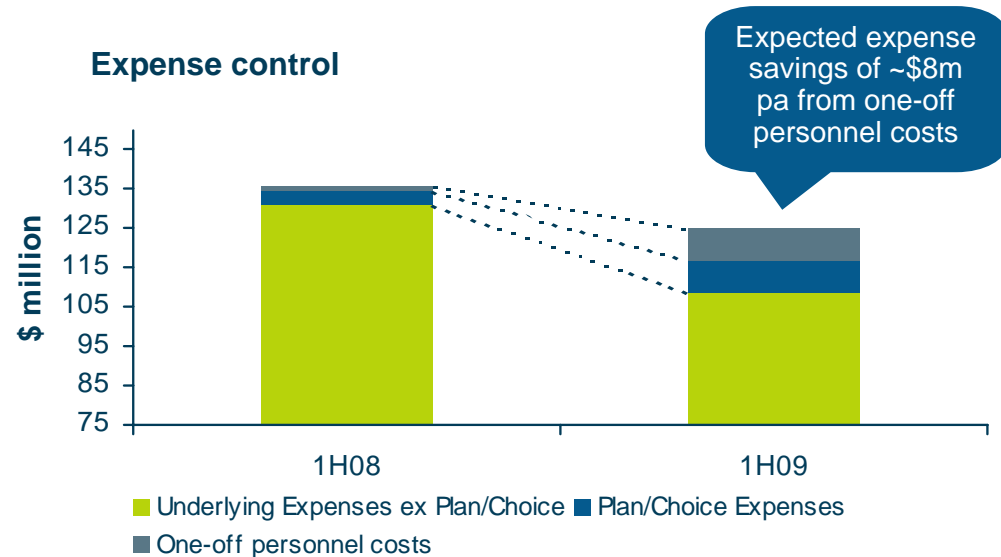
Expense control

- Expense base centralised under single CFO/COO role
- Strong focus on expense control – full run-rate of expense savings not yet evident, benefit expected to increase in 2H09
- Expenses at 1H09 down 8% on pcp despite impact of one-off personnel costs and PLAN / Choice
- Funds Management restructure producing cost savings

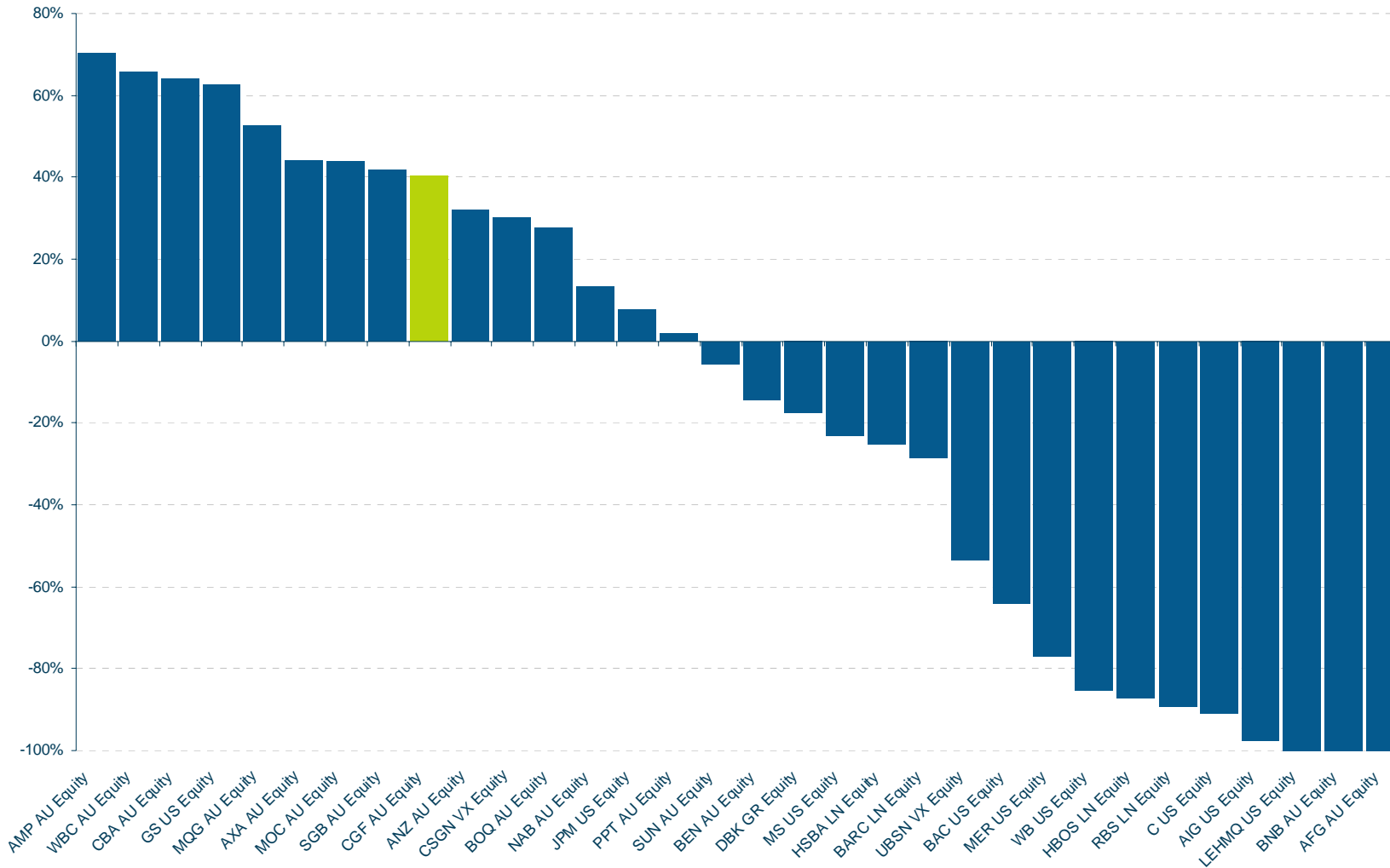
Cost to income ratio



Expense control



Five year total return – selected financials

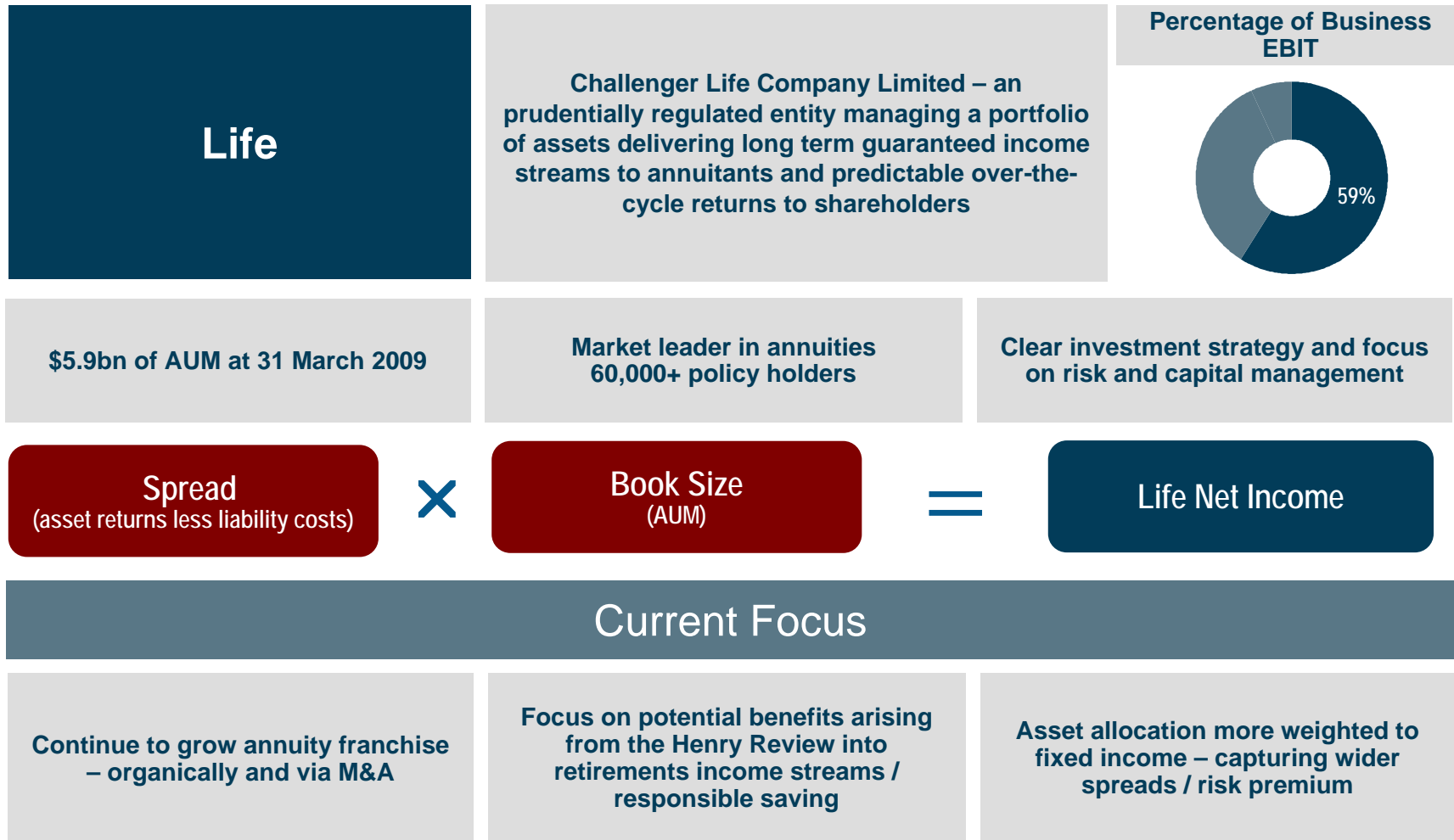


Challenger businesses

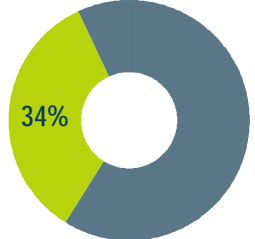
Life	Challenger Life Company Limited – an prudentially regulated entity managing a portfolio of assets delivering long term guaranteed income streams to annuitants and predictable over-the-cycle returns to shareholders	Percentage of Business EBIT 
\$5.9bn of AUM at 31 March 2009	Market leader in annuities 60,000+ policy holders	Clear investment strategy and focus on risk and capital management

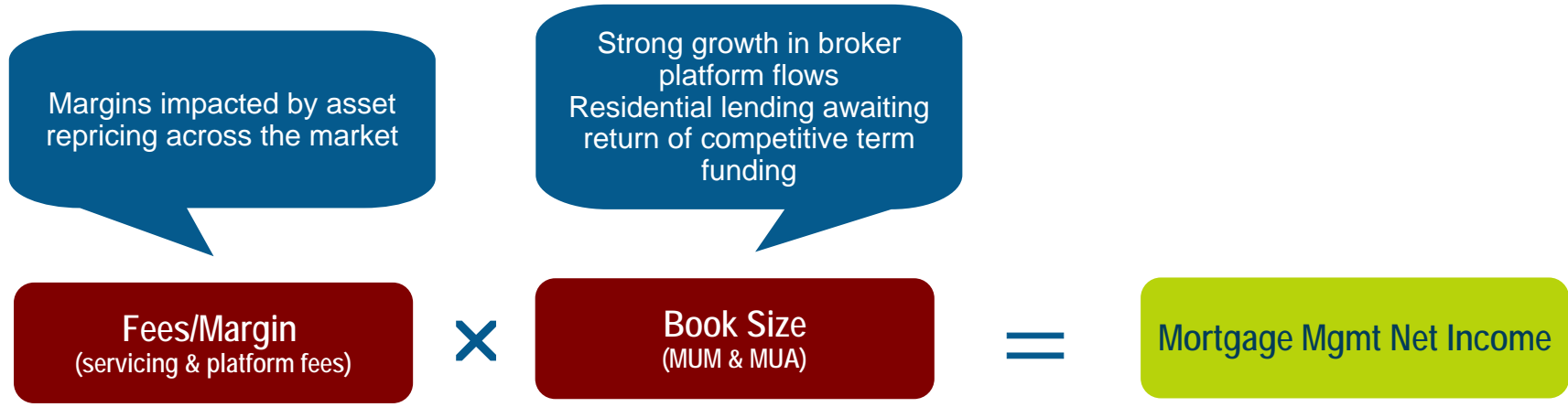


Challenger businesses

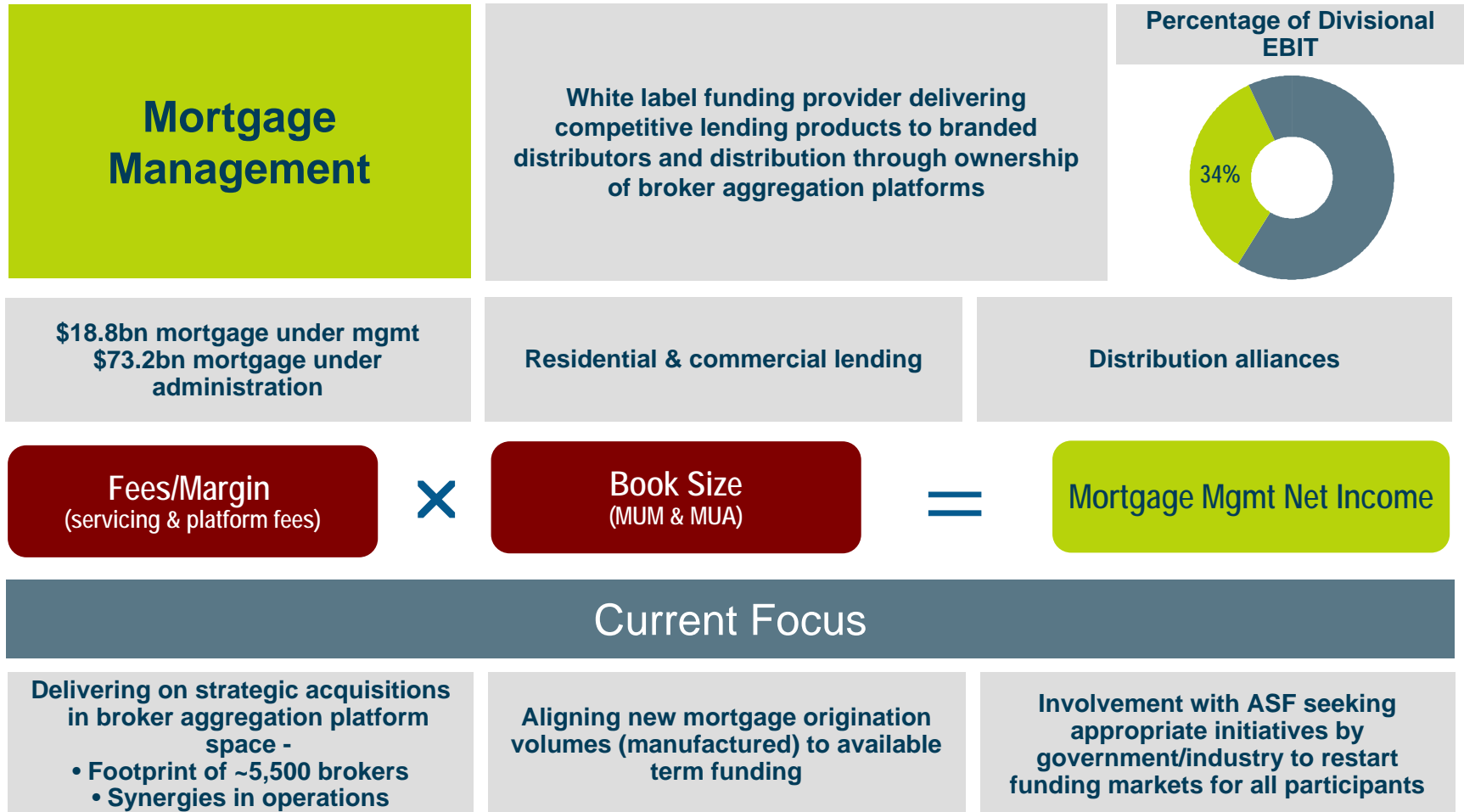


Challenger businesses

<h2>Mortgage Management</h2>	<p>White label funding provider delivering competitive lending products to branded distributors and distribution through ownership of broker aggregation platforms</p>	<p>Percentage of Divisional EBIT</p>  <p>34%</p>
<p>\$18.8bn mortgages under mgmt \$73.2bn mortgages under administration</p>	<p>Broker aggregation/distribution covers >40% of mortgage flows and represents ~5,000 points of presence</p>	<p>Predominately prime insured residential lending</p>

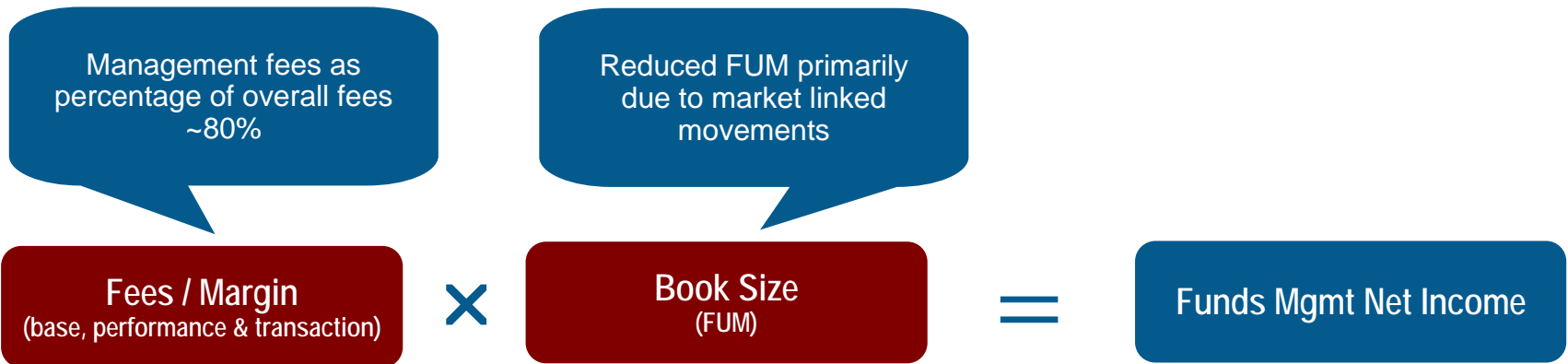


Challenger businesses

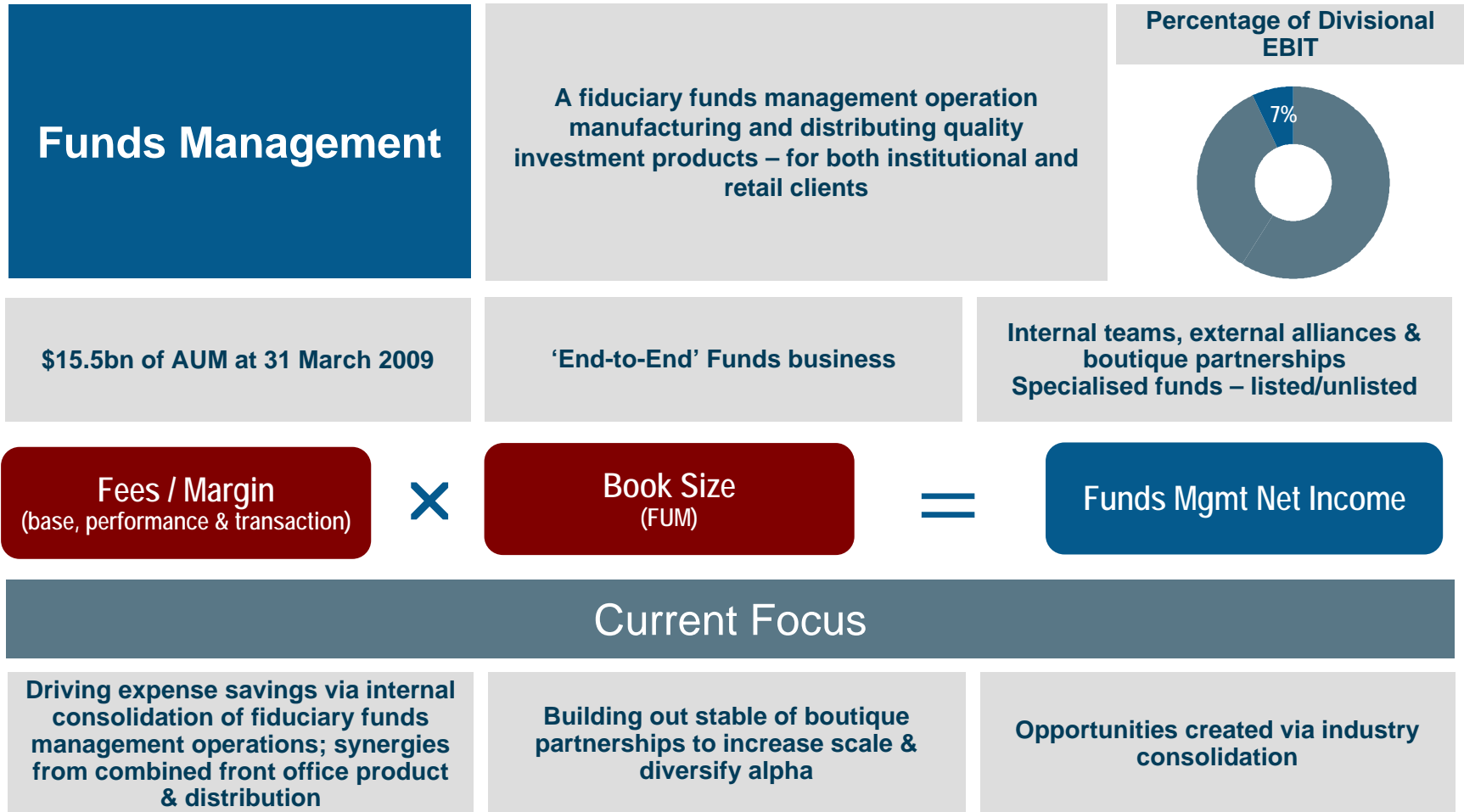


Challenger businesses

<h2>Funds Management</h2>	<p>A fiduciary funds management operation manufacturing and distributing quality investment products – for both institutional and retail clients</p>	<p>Percentage of Divisional EBIT</p> 
	<p>\$15.5bn of AUM at 31 March 2009</p>	<p>'End-to-End' Funds business</p>



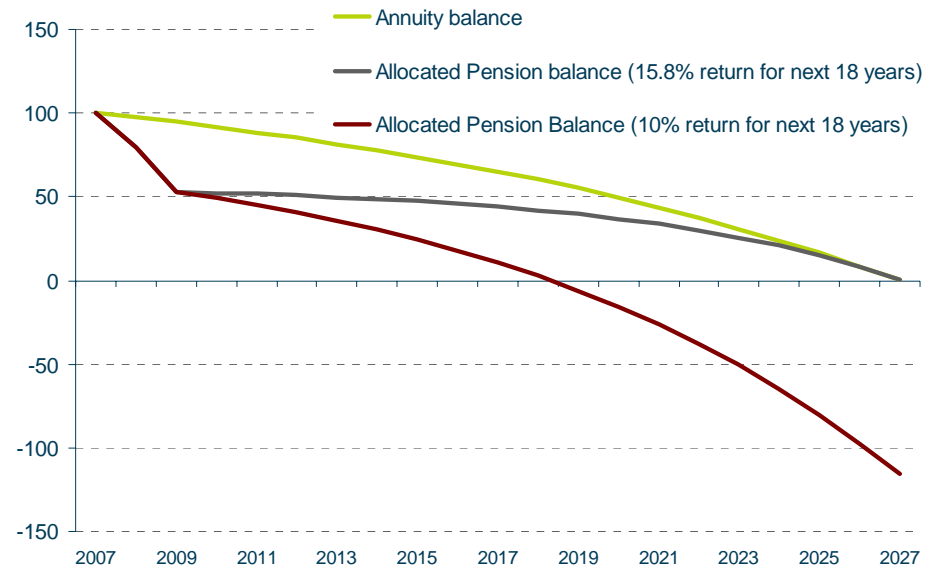
Challenger businesses



Life – annuity franchise

- Henry Review into retirement income streams drawing attention to annuity products
- Not equities versus guaranteed income streams but appropriate asset allocation for 30 year olds versus 65 year olds
- Annuities have a place in retirees' asset allocation:
 - Simple
 - Lower fee structure
 - Capital guaranteed
 - Regular income stream
 - Issued by an prudentially regulated Life Company

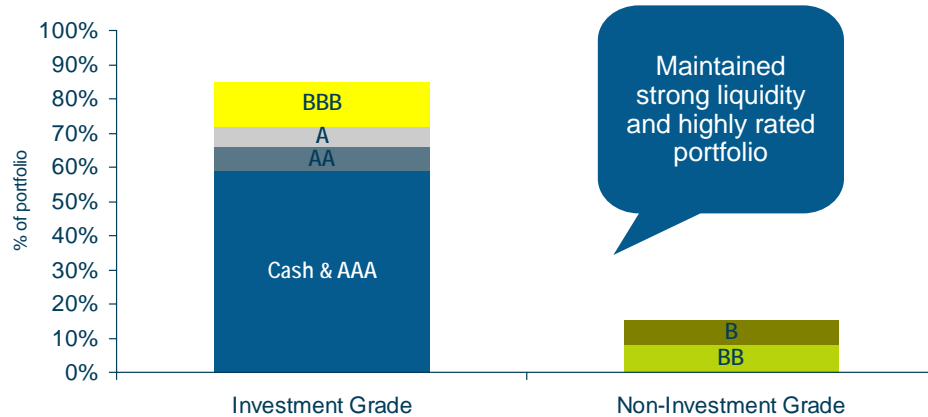
Growth portfolio for retirement?



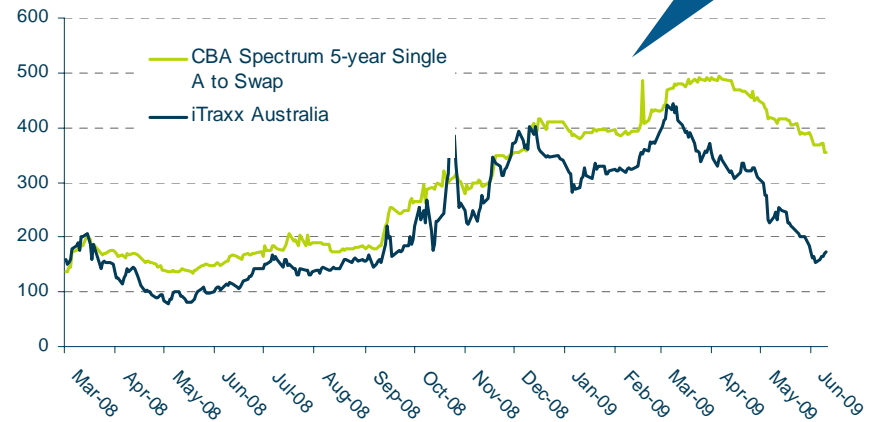
- Early hits to capital are nearly impossible to earn back once in draw down phase

Life – assets performing as expected

Life fixed income portfolio by S&P equivalent rating

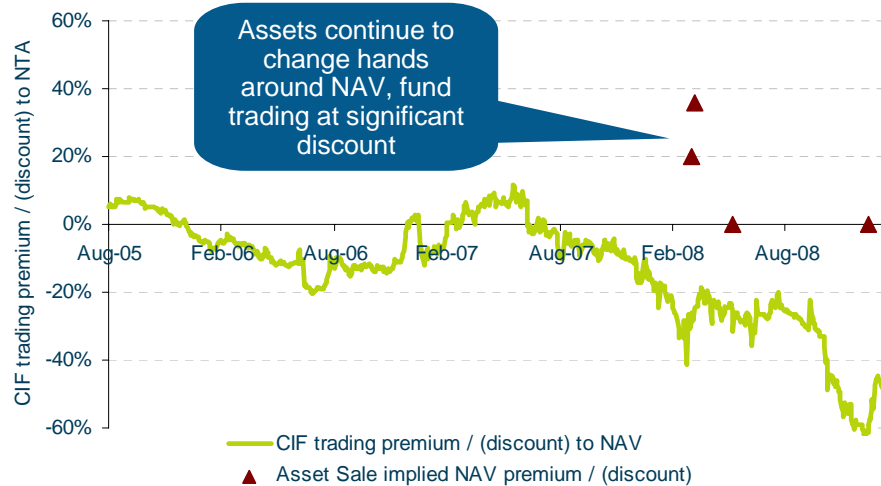


Cash bond spreads beginning to contract

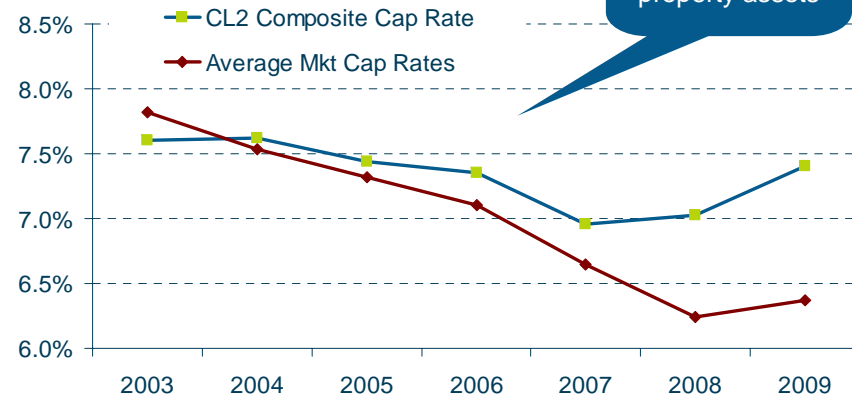


Source: CBA, Bloomberg

CIF trading premium / (discount) to NAV



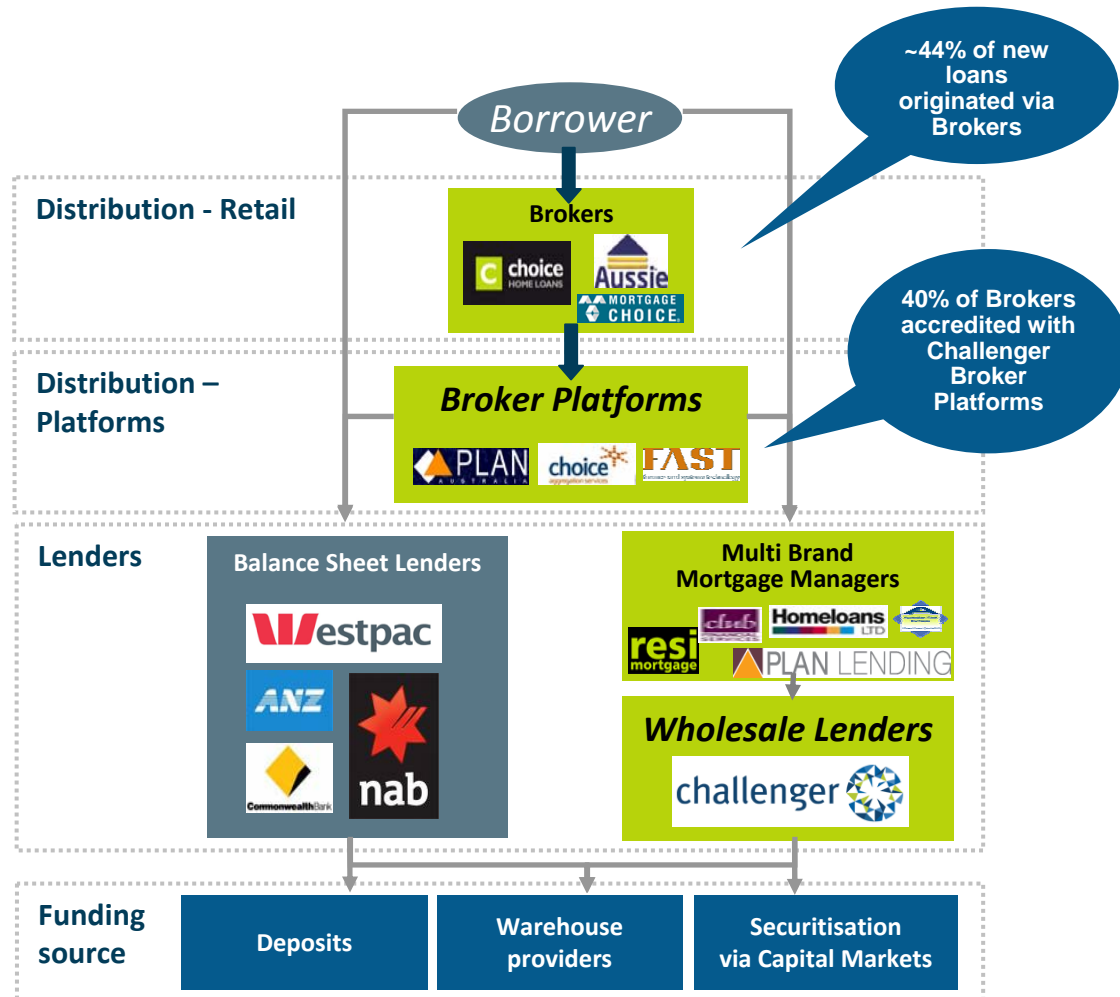
Challenger composite Cap Rate versus Market Financial Year



Source: Challenger, IPD Australian Composite Weighted Average Cap Rates

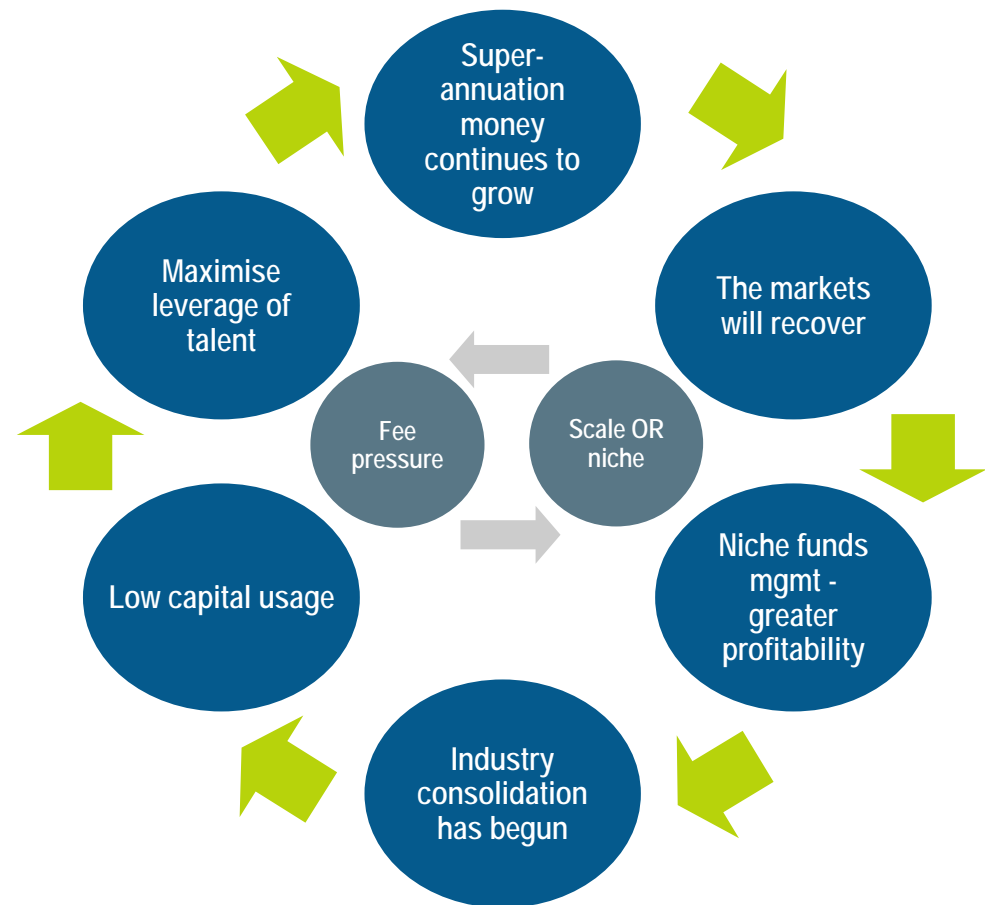
Mortgages – national strategic footprint

- Broker platforms - key strategic distribution business operating across Australia in mortgage sector
- Current funding constraints a function more of liquidity / volume than price
- Involvement with ASF seeking appropriate steps by government to restart funding (i.e. RMBS) for all market participants



Funds Management opportunities

- Australian market an attractive long term opportunity
 - 4th largest asset management market in the world
 - Compulsory superannuation
 - Current flight away from managed funds revert over time
- Boutique model
 - Portfolio approach diversifies risk
 - Boutiques need sponsors with key distribution, strong compliance and capital
- Scale is key
 - Niche player with key expertise
 - Integration close to complete
 - Consolidation opportunities may arise



Outlook

- Last 18 months has changed the financial services landscape
 - Higher risk premiums on assets
 - Value of long term funding or capital has increased
 - Survivors are emerging
 - Policy focus on competition and responsible investing for retirement income streams increasing
- Early actions in the cycle positioned us well
 - Strengthened capital base and sold non-core business
 - Alignment of expenses to revenue
- Capital now re-generating within Life Company, improved excess since Dec 08

Disclaimer: The material in this presentation is general background information about Challenger Financial Services Group activities and is current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with or without professional advice when deciding if an investment is appropriate.

