

Challenger Financial Services Group Limited

**UBS 8th Annual Australian Financial Services Conference -
Sydney**

Dominic Stevens – Chief Executive Officer

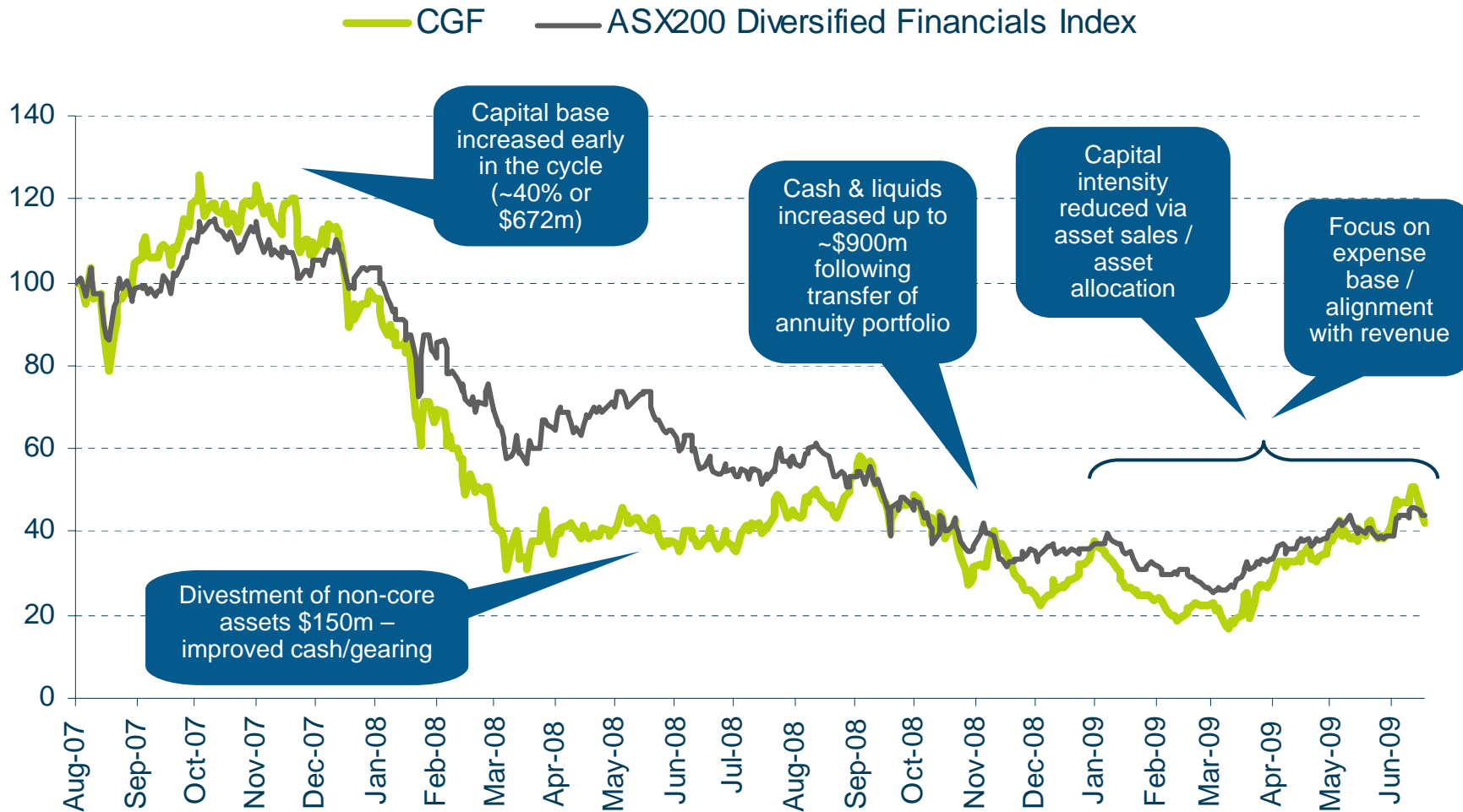
24 June 2009



Agenda

1. Managing through the GFC
2. Focussed on the longer term
3. Long term strategic challenges and opportunities
4. Outlook

Reacting early to manage through the GFC



Focussed on the longer term

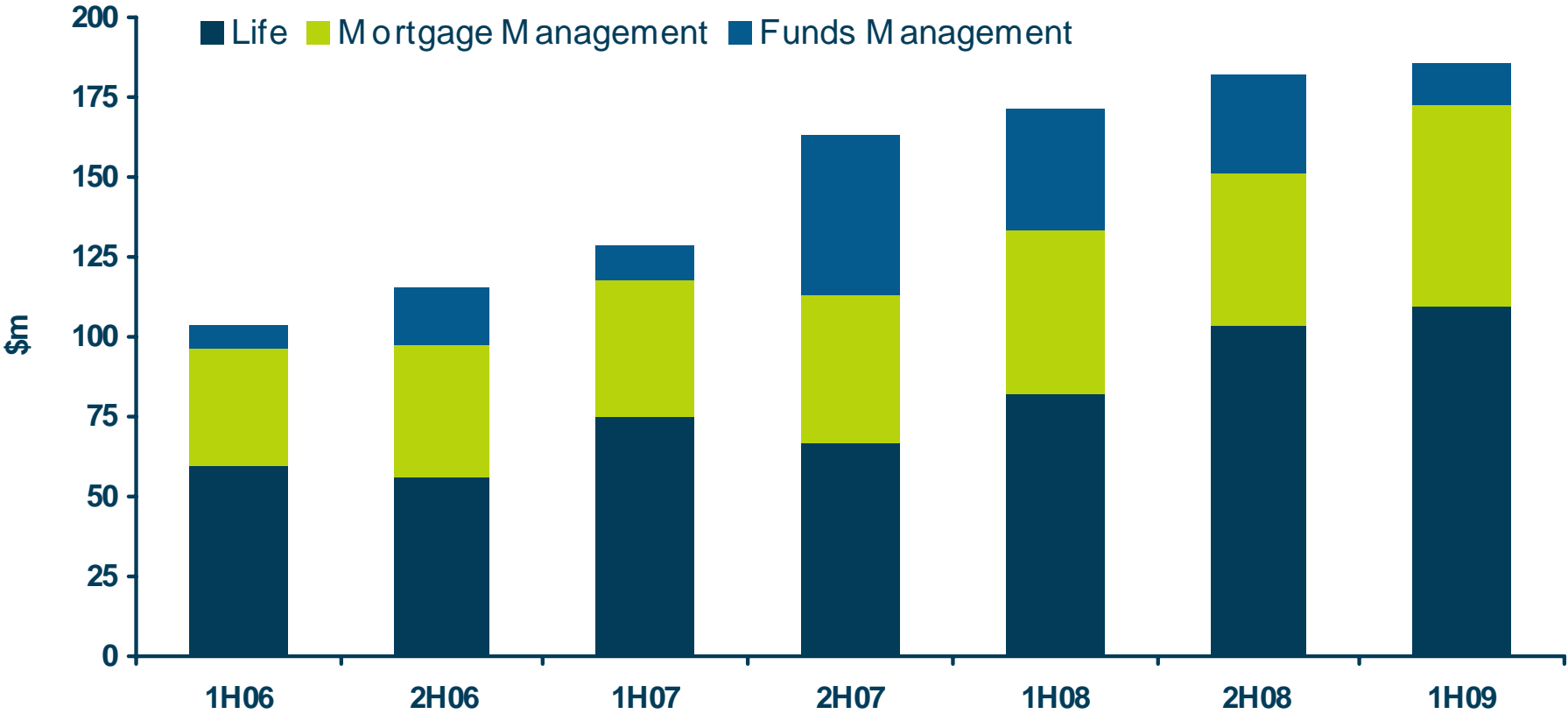
- Core executive team in place since 2003
- Established leadership team
 - worked together for ~15 years
 - have seen significant adversity previously
- Understand times are difficult
- Believe opportunities lie at bottom of cycles

Markets – “up by the stairs...down by the elevator”



Focussed on the longer term

Normalised EBIT continuing to grow

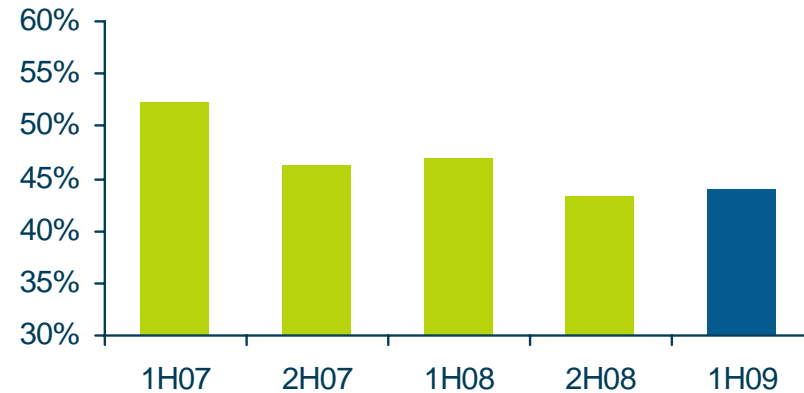


Focussed on the longer term

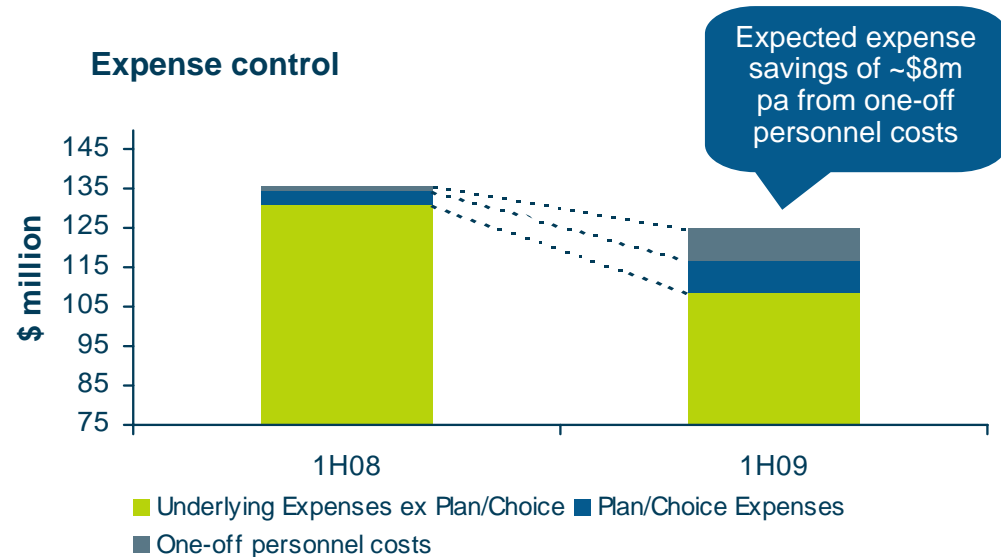
Strong focus on operating costs

- 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

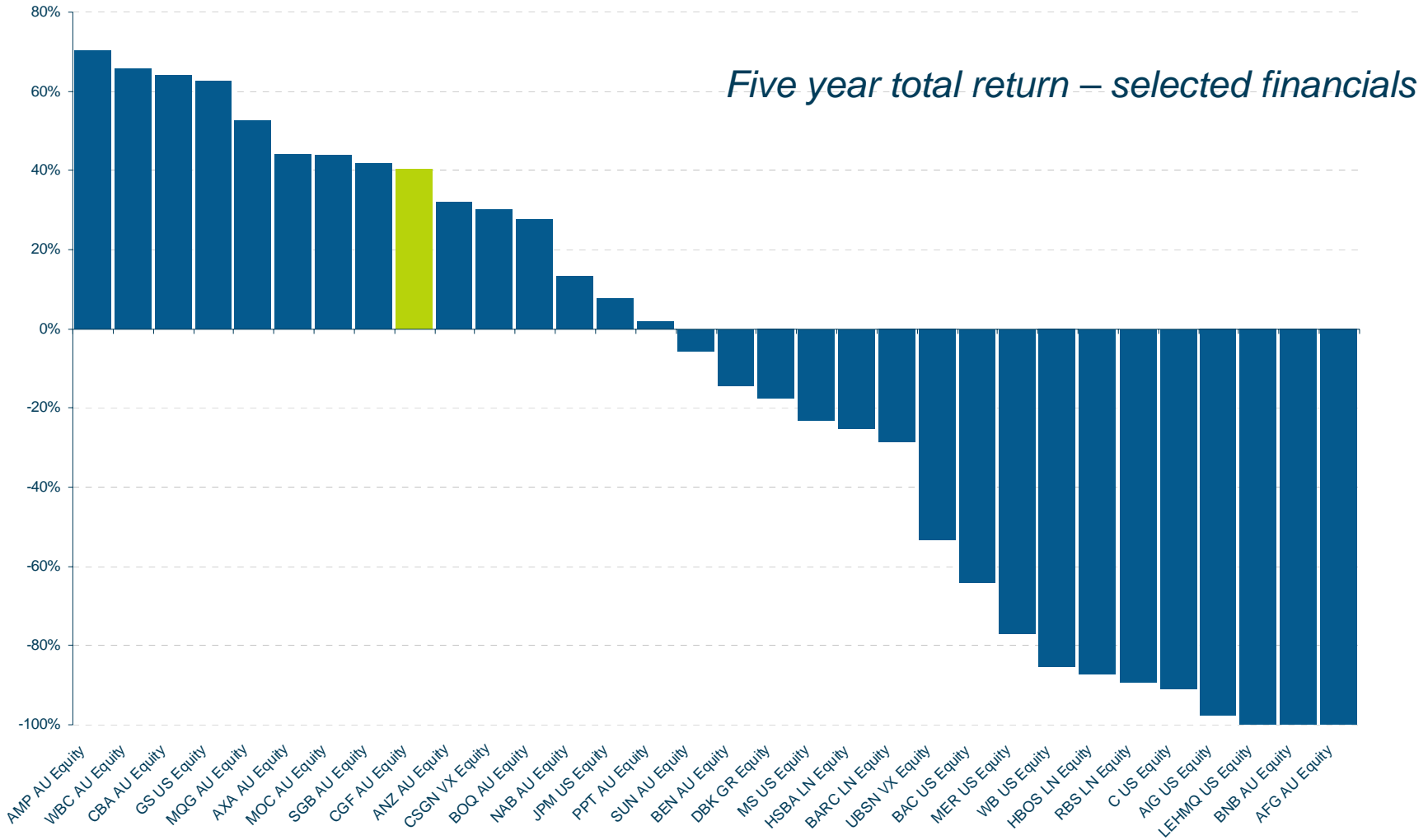
Cost to income ratio



Expense control



Focussed on the longer term



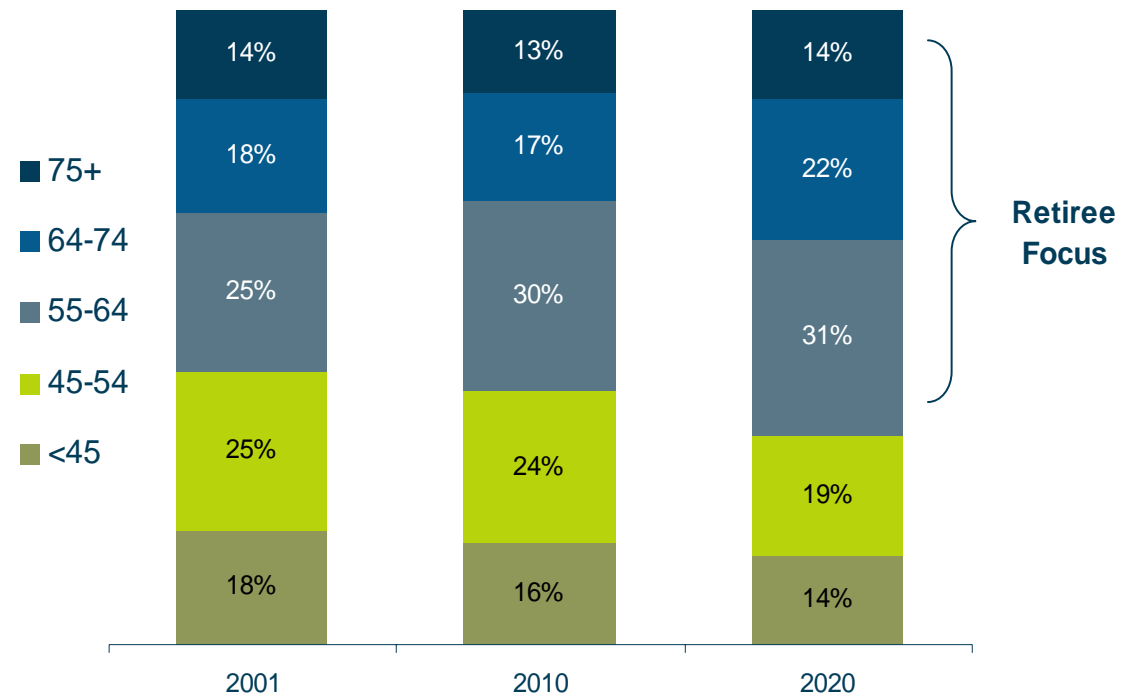
Long term strategic challenges and opportunities



Life – the retirement income opportunity

- Demographic - growth sector
- Global shift - in the next ten years it's estimated that two thirds of investable assets will be in the income protection / preservation mode
- In Australia, Rainmaker expect the post retirement sector to grow to 36% from 24% over the next 10 years¹

Investable Assets by Age Group



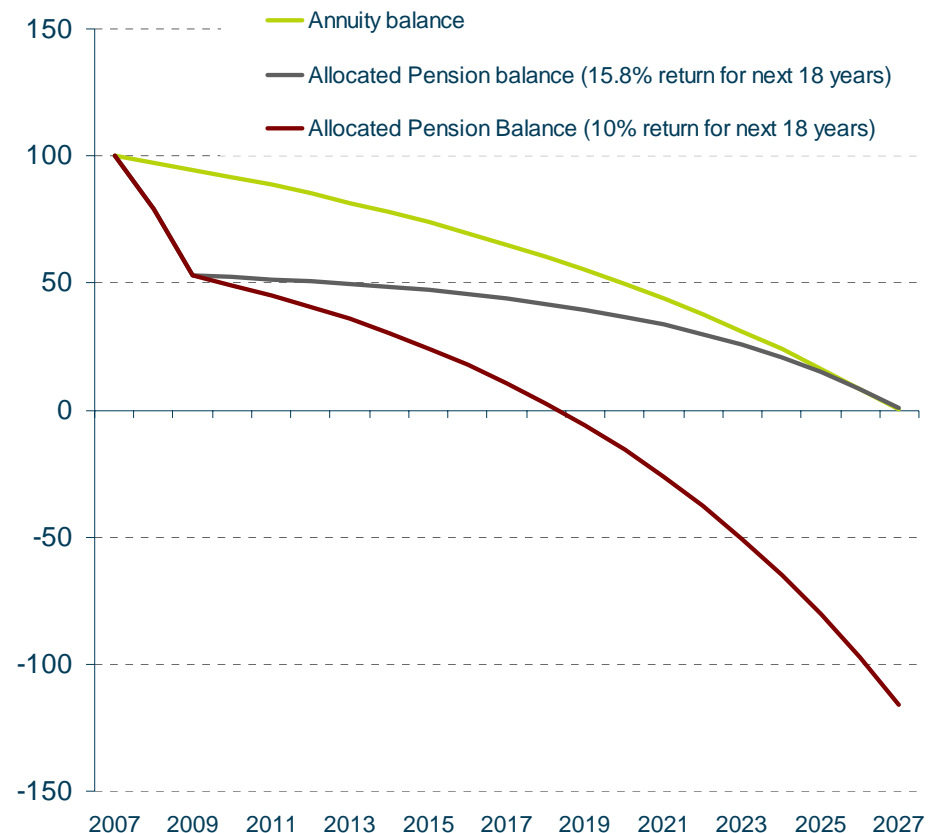
Investable assets include financial assets held in pension accounts such as 401(k) and IRAs;
 Source: Survey of Consumer Finances 1989, 1995, 2001; US Census Bureau; McKinsey Analysis



Life - the retirement income opportunity

- Draw down phase fundamentally different to accumulation phase
- The demise of the “cult of equity”?
 - Pendulum has swung
 - Not about equities versus guaranteed income streams but appropriate asset allocation for 30 year olds versus 65 year olds
- Early hits to capital are nearly impossible to earn back once in draw down phase
- In fact 2007-2009 text book case of this

Growth portfolio for retirement?



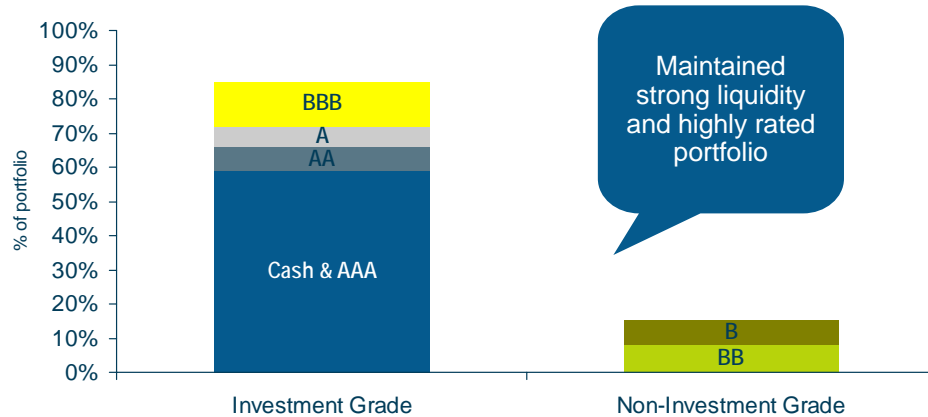
Life - the retirement income opportunity

- The goal – stable reliable income stream
- Regulatory / government focus increasing. Henry Review of retirement income:
 - “products that give people comfort that they will always have an income above the Age Pension would advance the financial security offered by the system”
- Implies reinvigoration of the annuity market:
 - Regular income stream
 - Capital guaranteed
 - Issued by an APRA regulated Life Company
 - Low fee structure
 - Simple

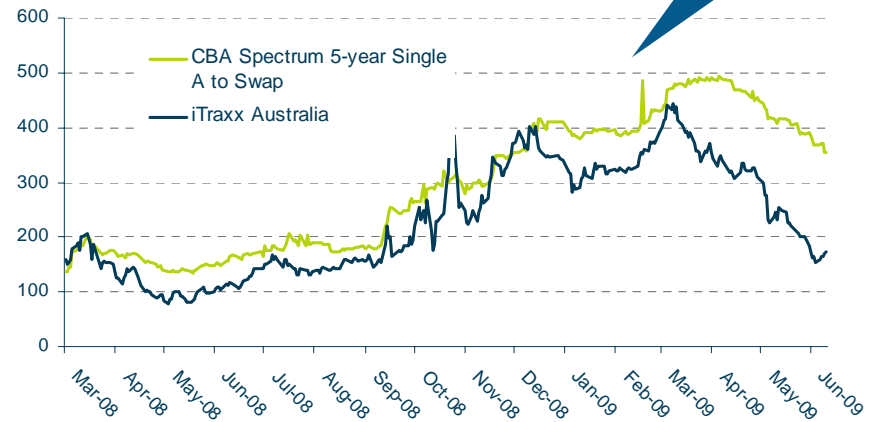
	Buy from a regulated Life Company	Replicate a Life Company and create your own income stream
	Annuity	Equity Based Pension
Certainty of expected returns	Yes (Bond Rate + Swap Spread)	No (Bond Rate + Equity Risk Premium)
Capital Guaranteed	Yes	No
Prudentially regulated investment strategy	Yes	No
Longevity protection	Yes	No
Fees Paid	Financial Advice Fee	Financial Advice Fee + Platform Fee + Management Fee
Simplicity	Yes	Possibly
Range of outcomes	Limited	Wide

Life – assets performing as expected

Life fixed income portfolio by S&P equivalent rating

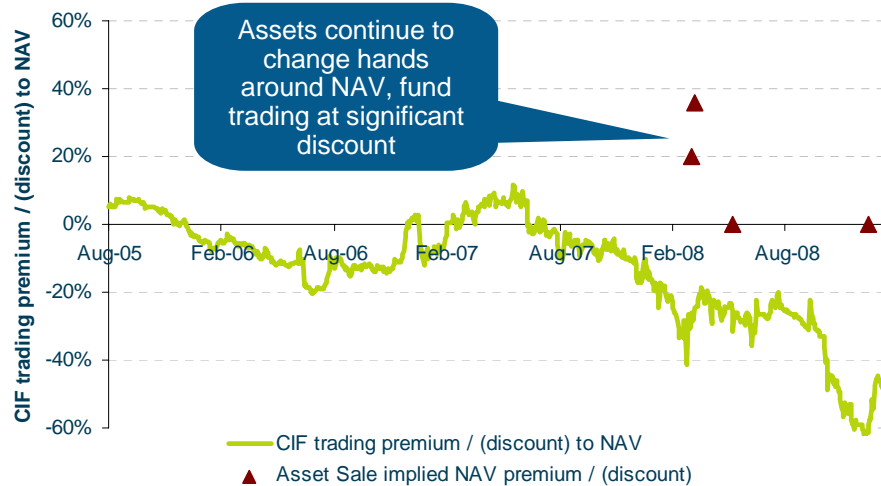


Cash bond spreads beginning to contract

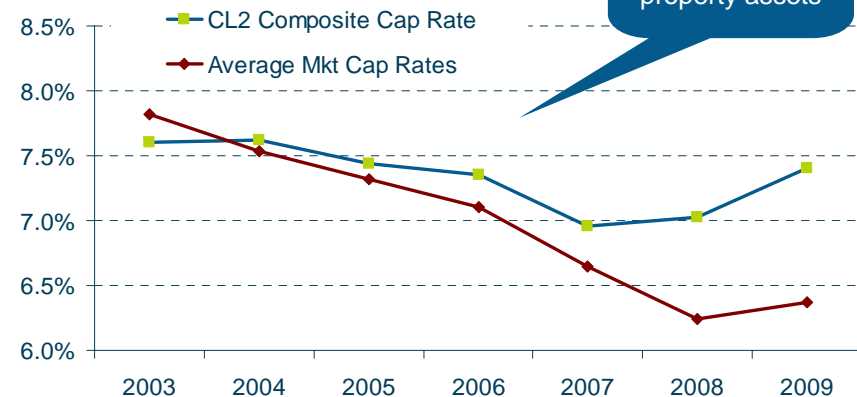


Source: CBA, Bloomberg

CIF trading premium / (discount) to NAV



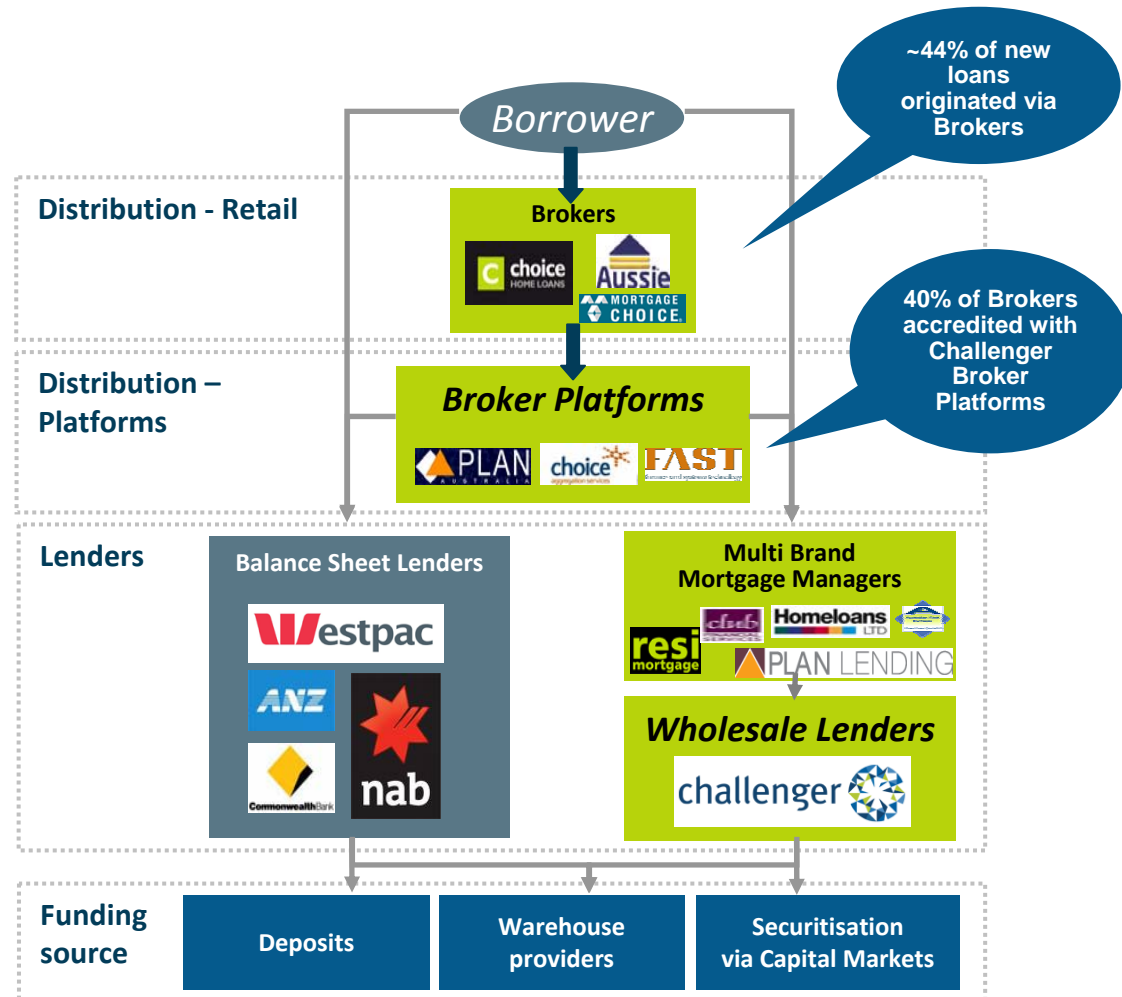
Challenger composite Cap Rate versus Market Financial Year



Source: Challenger, IPD Australian Composite Weighted Average Cap Rates

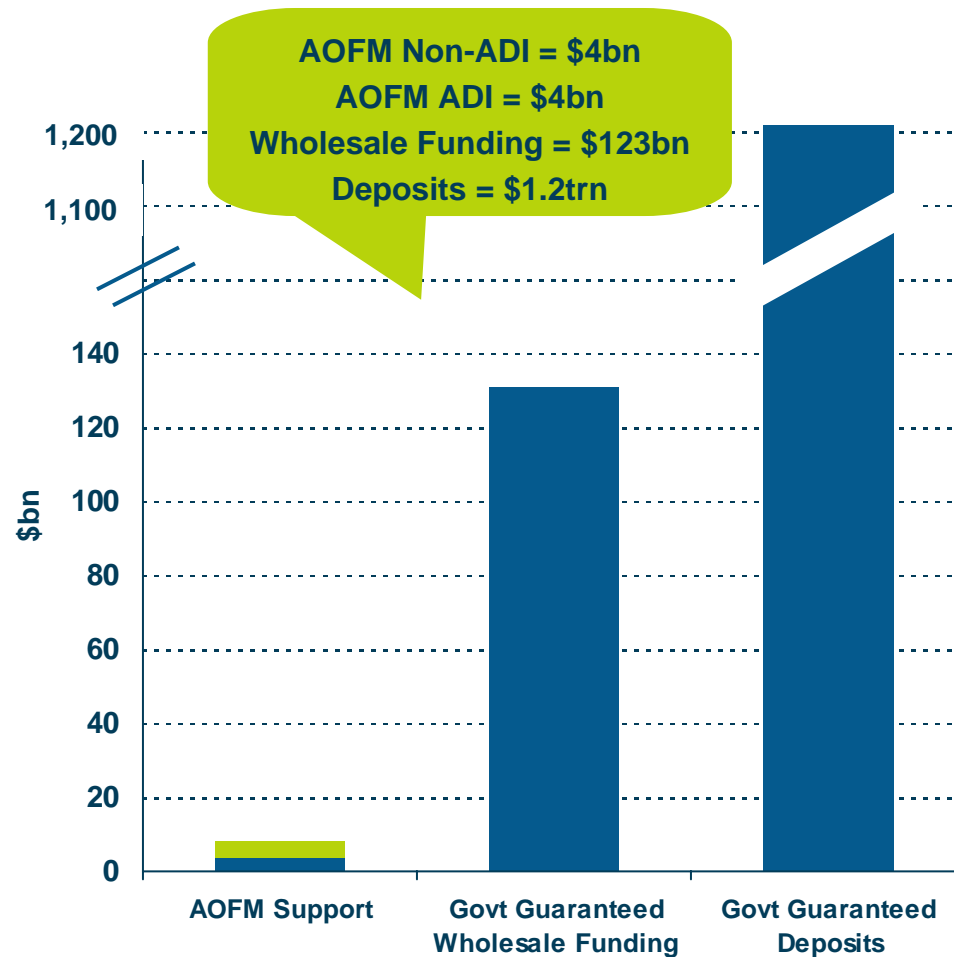
Mortgages – national strategic footprint

- Mortgage business – over 5 years we have built a national strategic footprint
- Broker platforms – growing use of brokers by consumers but new flow heavily weighted to four major banks
- Funding markets have remained constrained with AOFM programme providing support to non-ADIs but not sufficient to grow or compete effectively



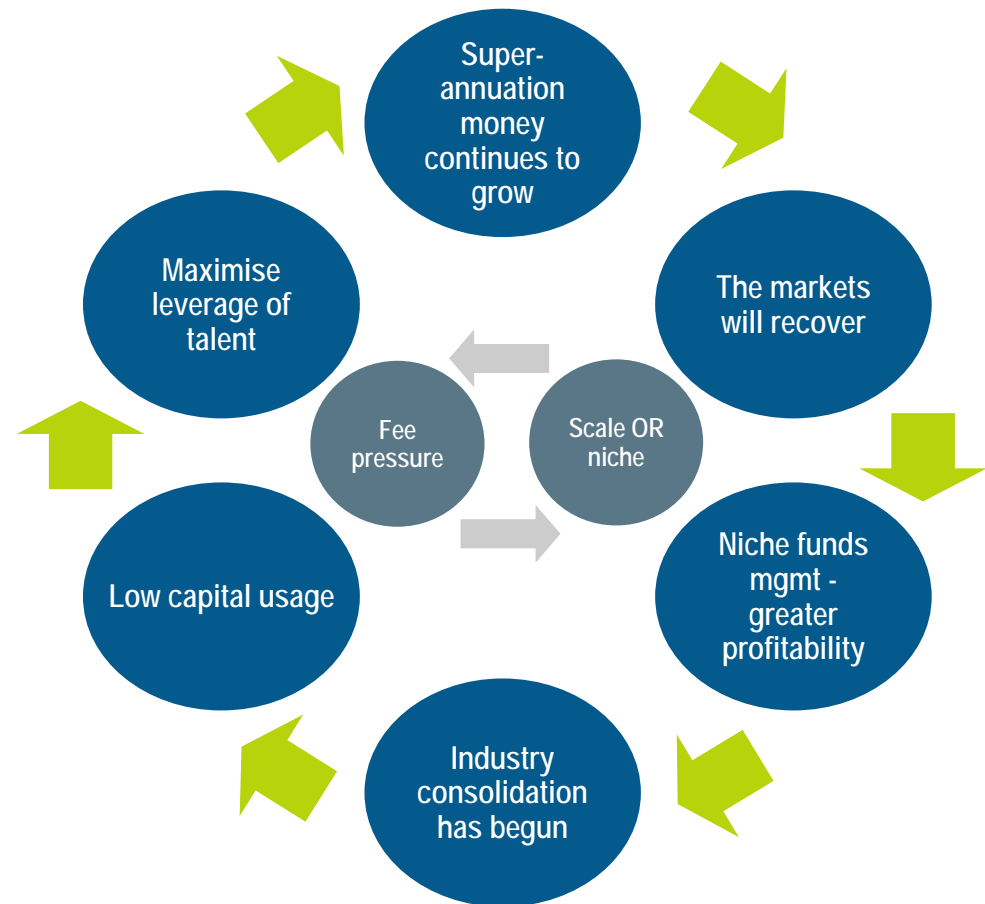
The case for a competitive Mortgage and RMBS market

- Government success in creating stability and re-opening the wholesale term funding markets for ADIs
- Next phase – focus on competitive landscape
- 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
- Increased guidance for Life normalised COE for FY09 of \$250m reaffirmed
- Capital now re-generating within Life Company, current excess to minimum regulatory requirements strengthened since 31 Dec 08 at ~\$450m

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