

Normalised cash operating earnings and accounting impacts of Financial Planning sale and transfer of AXA annuity portfolio

4 June 2008

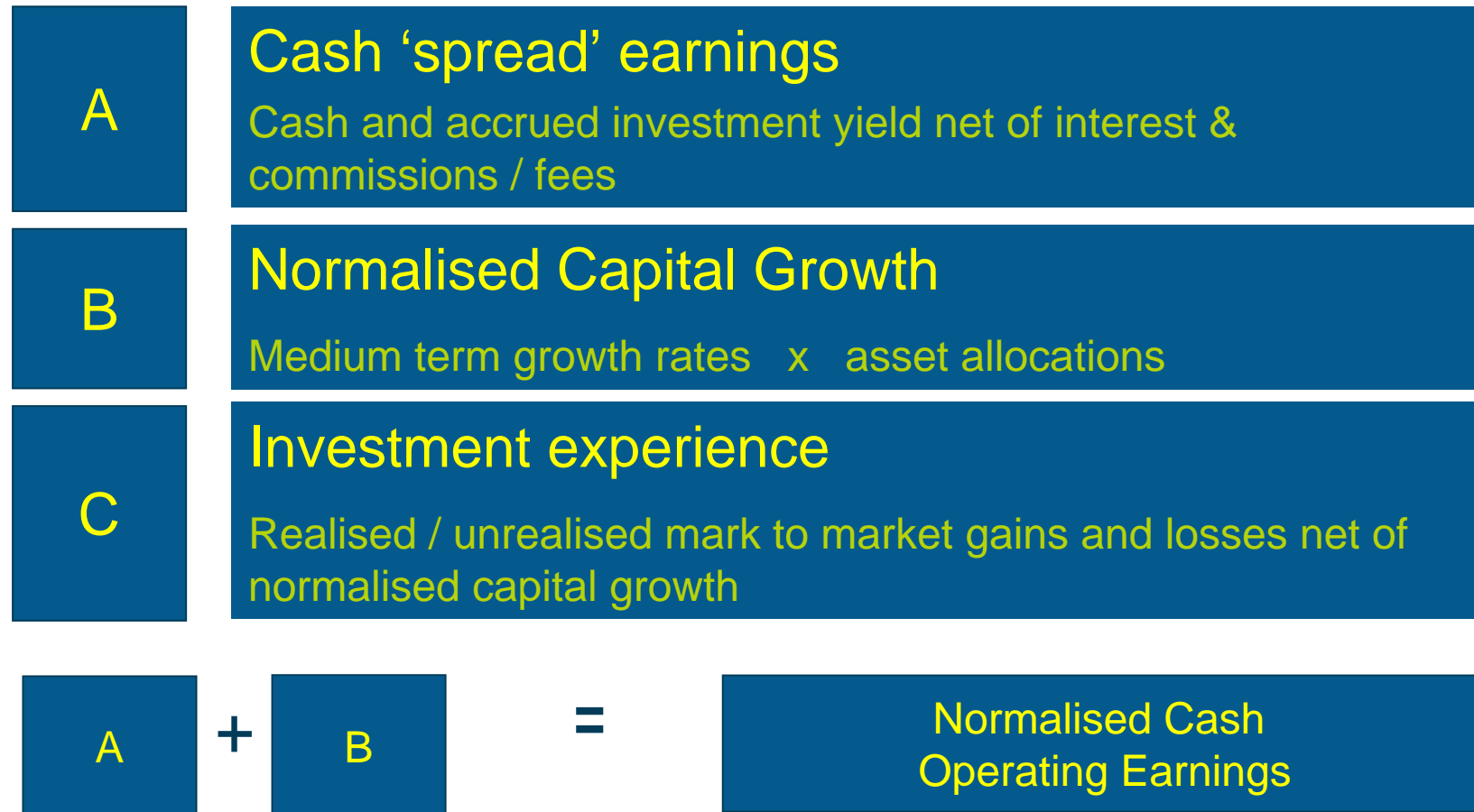


Normalised cash operating earnings – Asset Management

- Normalised cash operating earnings ('COE') – supplementary disclosure to existing statutory reporting framework
- New disclosure will provide clarity on the separation between the predictable underlying cash spread, normalised capital growth each year and the more volatile non-cash unrealised mark to market movements
- Additional disclosure will enhance transparency around operating spread within the prudentially regulated Challenger Life No. 2 balance sheet
- This will enable forecasting of normalised COE and better reflect the underlying performance
- Guidance for normalised COE excluding the impact of the transfer of the AXA annuity and life portfolio for 2009¹ - \$210m

¹ – 2009 guidance is based on similar spread generation to FY08 and \$5.0bn of average assets with comparable asset allocation as at 31 March 2008

COE – Asset Management



COE – Asset Management

A

Cash 'spread' earnings

Cash and accrued investment yield net of interest & commissions / fees

Spread earnings will be accounted on a cash and accruals basis

- Investment yield will account for net rental income, dividends received and accrued, interest as it is earned and discounts/premiums on fixed income securities amortised on a straight line basis
- Interest expense accrued at contracted rates paid to annuitants and subordinated-debt note holders
- Commission and fees accounted for when paid or accrued

COE – Asset Management

B

Normalised Capital Growth

Medium term growth rates x asset allocations

- Challenger's medium term capital growth expectations of the portfolio
 - Property 2.5%
 - Infrastructure 4.0%
 - Equity and Alternative 6.0%
 - Debt and Fixed Interest (0.35%)
- Growth expectations multiplied by investment asset allocation derives *Normalised Capital Growth*
- Existing Quarterly AUM disclosure provides update on asset allocation and annuity sales, allowing for inter-period modelling
- Debt and fixed interest is assumed to have an expected loss rate through the credit cycle of 35bps

COE – Asset Management

C

Investment experience

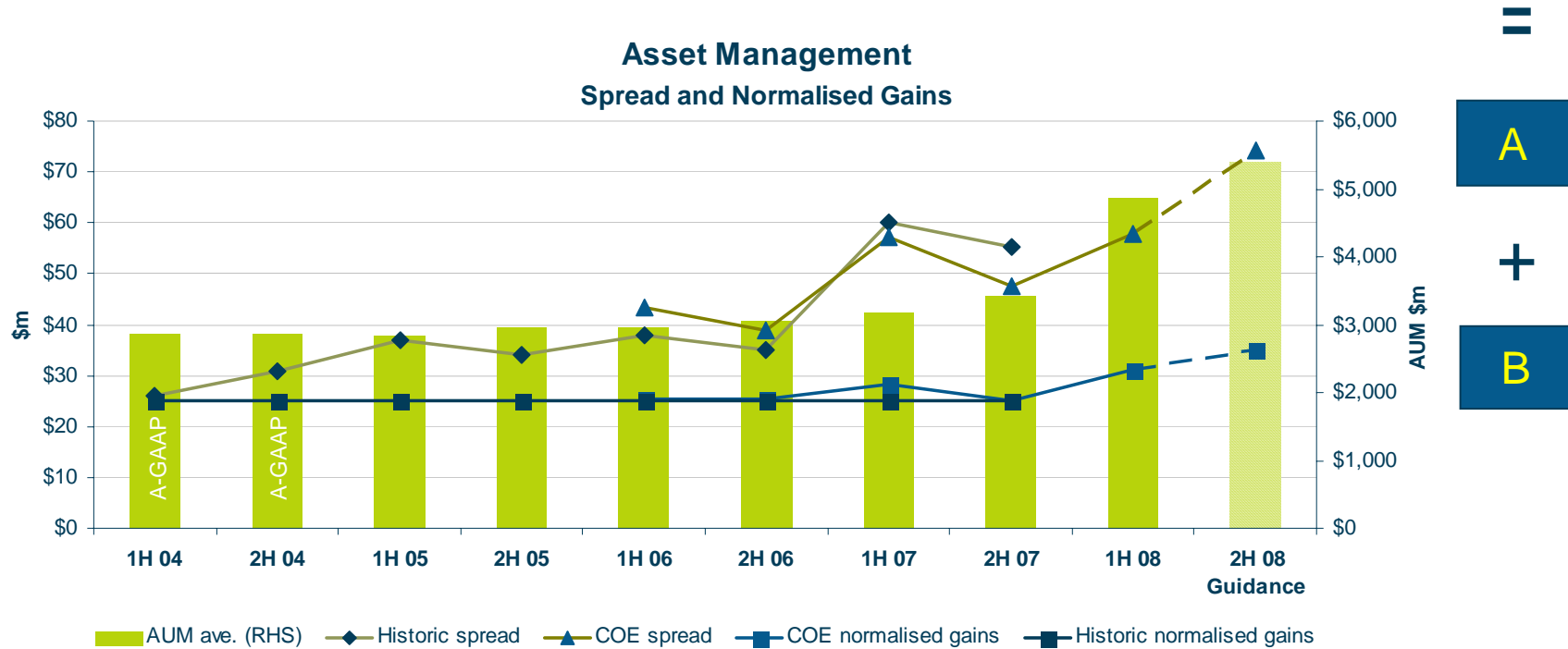
Actual capital gains / (loss) over normalised capital growth

- *Investment experience* accounts for all realised and unrealised gains and losses. Investment experience is net of the normalised capital growth.
- This provides a reconciliation to audited statutory financial profits
- Also includes all actuarial valuation assumption adjustments

Reporting template - AM COE presentation

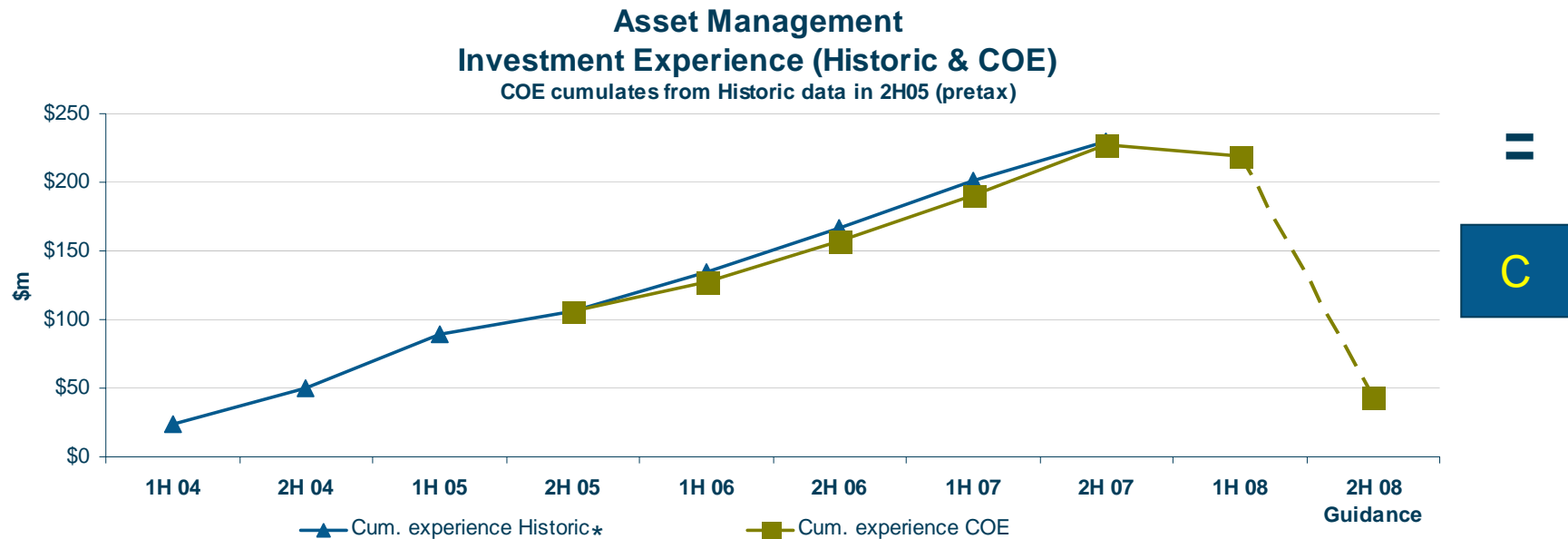
Asset Management		Full Year			Half Year					
\$millions		2008	2007	2006	2H 08	1H 08	2H 07	1H 07	2H 06	1H 06
		Guidance			Guidance					
Income										
	Investment yield	380	230.0	197	208	171.6	114.0	116.0	94	103
	Less: Interest expenses	(224)	(109.5)	(100)	(126)	(97.5)	(58.3)	(51.2)	(50)	(50)
	Less: Fees & Commissions paid	(24)	(16.0)	(15)	(8)	(16.3)	(8.3)	(7.7)	(6)	(9)
	Cash Spread Earnings	132	104.5	82	74	57.8	47.4	57.1	38	44
	Normalised Capital Growth	66	53.4	51	35	31.1	25.1	28.3	26	25
	Normalised Cash Operating Earnings	198	157.9	133	109	88.9	72.5	85.4	64	69
	Fees		81.8	37		52.9	59.5	22.3	21	16
	Total Income		239.7	170		141.8	132.0	107.7	85	85
Expenses			(77.5)	(54)		(42.1)	(38.5)	(39.0)	(29)	(25)
	Normalised EBIT		162.2	116		99.7	93.5	68.7	56	60
Investment Experience		(183)	70.8	51	(174)	(8.8)	37.6	33.2	29	22
Significant items		(48)	20.5	(14)	(48)	0.0	(8.5)	29.0	1	(15)
Net Profit Before Tax			253.5	153		90.9	122.6	130.9	86	67
Guidance is based on assumptions that are subject to change										
Average Investment Assets - Life Company		4,956	3,264.0	3,047	5,348	4,804.0	3,373.7	3,171.0	3,099	3,017
Average Funding Book - annuities		3,603	2,176.4	2,270	3,806	3,428.5	2,128.9	2,213.5	2,269	2,335
Average Funding Book - sub debt		417	98.6	0	561	293.9	183.1	24.5	0	0
Average Funding Book - total		4,020	2,275.0	2,270	4,367	3,722.4	2,312.0	2,238.0	2,269	2,335
Analysis - expressed as a ratio of average investment assets (bps)										
Investment yield		7.7%	7.0%	6.5%	7.8%	7.1%	6.8%	7.3%	6.1%	6.8%
Interest expenses		(4.5%)	(3.4%)	(3.3%)	(4.7%)	(4.1%)	(3.5%)	(3.2%)	(3.2%)	(3.3%)
Commissions & Fees		(0.5%)	(0.5%)	(0.5%)	(0.3%)	(0.7%)	(0.5%)	(0.5%)	(0.4%)	(0.6%)
Cash spread earnings		2.7%	3.2%	2.7%	2.8%	2.4%	2.8%	3.6%	2.5%	2.9%
Normalised capital growth		1.3%	1.6%	1.7%	1.3%	1.3%	1.5%	1.8%	1.7%	1.7%
Normalised Cash Operating Earnings		4.0%	4.8%	4.4%	4.1%	3.7%	4.3%	5.4%	4.1%	4.6%
Interest expenses / Average funding books		(5.6%)	(4.8%)	(4.4%)	(5.8%)	(5.2%)	(5.0%)	(4.6%)	(4.4%)	(4.3%)

Historical comparatives normalised COE



- COE – supplements existing robust statutory reporting whilst maintaining consistency with prior management presentations
- Spread income has grown through time in alignment with growth in AUM
- Guidance for 2009 excludes any growth impact from the transfer of the AXA portfolio

Investment experience history



- Positive investment experience for 8 halves until 1H08
- Guidance on negative experience primarily 2H08 – fixed income portfolio and listed investments are the key drivers
- Whilst credit default swap spreads have recovered in recent weeks, cash bond prices continue to reflect widened liquidity premiums
- Cumulative positive experience since 2004
- Guidance on 2008 investment experience is primarily non-cash and expect the majority to unwind over time



* Historic experience is the statutory earnings less historic spread and historic realised capital gains

Key statutory earnings sensitivities – AM holding in listed vehicles

Listed vehicle	% Holding / No units	31 Dec 07 NAV per unit	Market Price 30/06/07	Market Price 31/12/07	Market Price 22/02/08	Market Price FY08 Guidance Assumption
CIF	33% 116m units	\$4.05	\$4.06	\$3.50	\$2.85	\$3.00
CDI	39% 212m units	\$1.08	\$1.035	\$0.95	\$0.81	\$0.80
CWT	27% 46m units	\$0.95	\$0.835	\$0.72	\$0.71	\$0.70
CKT	5% 7.5m units	\$1.93	\$1.485	\$1.07	\$1.38	\$1.10

Revenue sensitivities

- +/- \$0.01 move in CIF unit price = +/- \$1.1m
- +/- \$0.01 move in CDI unit price = +/- \$2.1m
- +/- \$0.01 move in CWT unit price = +/- \$0.5m
- +/- \$0.01 move in CKT unit price = immaterial

Guidance assumptions are indicative and subject to variation

Key statutory earnings sensitivities – AM fixed income portfolio

Security Rating	Current valuation \$m	% of portfolio	Average Life of Securities
Cash & cash equivalents	462	16%	N/A
AAA	632	22%	3.0 years
AA	261	9%	2.5 years
A	396	14%	2.1 years
BBB	390	14%	1.9 years
BB	335	12%	2.0 years
B	355	13%	3.2 years
Total	2,831	100%	2.5 years

Group earnings

FY08 earnings guidance including impact of significant items



FY08 earnings guidance

\$m	FY07 Actual	FY08 Guidance
Normalised net profit before tax	\$230m	\$270m
Tax	(\$48m)	(\$57m)
Net profit after tax – before investment experience and significant items	\$182m	\$213m
Investment experience after tax	\$50m	(\$124m)
Significant items after tax	\$23m	(\$69m)
Net profit after tax	\$255m	\$20m
Dividend	12.5 cents	12.5 cents

Guidance assumptions are indicative and subject to variation

Impact of significant items – FY08 guidance

	\$m	\$m
1. Accounting impact of divestment of Financial Planning		
Proceeds of sale	\$150m	
Less: Net tangible assets	(\$24m)	
Less: Goodwill and other intangibles	(\$135m)	
Sale Impact		(\$9m)
2. Transaction and integration costs		(\$13m)
3. Impairment of strategic investments in listed entities to current market value*		
Impairment in stake in Homeloans Limited (ASX: HOM)	(\$22m)	
Impairment in stake in FBR Capital Markets (NASDAQ: FBCM)	(\$42m)	
Total		(\$64m)
Total significant items before tax		(\$86m)
Estimated tax		(\$17m)
Significant items after tax		(\$69m)

* All amounts subject to financial position at completion date and subject to variation based on 30 June 08 mark to market price

Reporting template - Group COE

Challenger Group \$millions	Full Year			Half Year					
	2008	2007	2006	2H 08	1H 08	2H 07	1H 07	2H 06	1H 06
	Guidance								
Income									
Cash spread earnings		104.6	82		65.3	47.5	57.1	39	43
Normalised capital growth		53.3	51		31.1	25.1	28.3	25	25
Normalised investment income		157.9	133		96.4	72.5	85.4	64	69
Net fee income		385.4	301		216.1	211.9	173.5	162	138
Other income		7.9	5		2.9	5.5	2.4	0	5
Net income		551.2	439		315.5	289.9	261.3	227	212
Expense									
Total operating expenses		(287.1)	(242)		(157.0)	(142.3)	(144.8)	(126)	(117)
Normalised EBIT		264.1	196		158.4	147.6	116.5	101	96
Interest & borrowing costs		(33.7)	(35)		(25.7)	(17.8)	(15.9)	(22)	(13)
Normalised Net profit before tax		270	230.4	161	132.7	129.8	100.6	79	83
Tax		(57)	(48.4)	(44)	(30.9)	(25.1)	(23.2)	(15)	(28)
Normalised net profit after tax		213	182.1	118	101.9	104.7	77.4	64	54
Investment experience after tax		(124)	49.5	35.6	(6.2)	26.3	23.2	20.2	15.4
Significant items after tax		(69)	23.4	(19)	-	(5.9)	29.3	(9)	(10)
NPAT post investment experience and significant items		20	255.0	134	95.7	125.1	129.9	74	60
Performance									
Cost to income		52.1%	55.3%		49.8%	49.1%	55.4%	55.6%	54.9%
Normalised investment income/Net income		28.6%	30.3%		30.6%	25.0%	32.7%	28.4%	32.4%
Net fee income/Net income		69.9%	68.5%		68.5%	73.1%	66.4%	71.6%	65.2%
Effective tax rate on normalised NPBT		21.0%	27.6%		23.2%	19.4%	23.1%	19.1%	34.5%
Average net assets		1,336.3	1,181		1,595.0	1,387.0	1,282.0	1,192.1	1,154
Annualised Return on equity		13.6%	10.0%		12.8%	15.1%	12.1%	10.7%	9.4%

Challenger Life No. 2

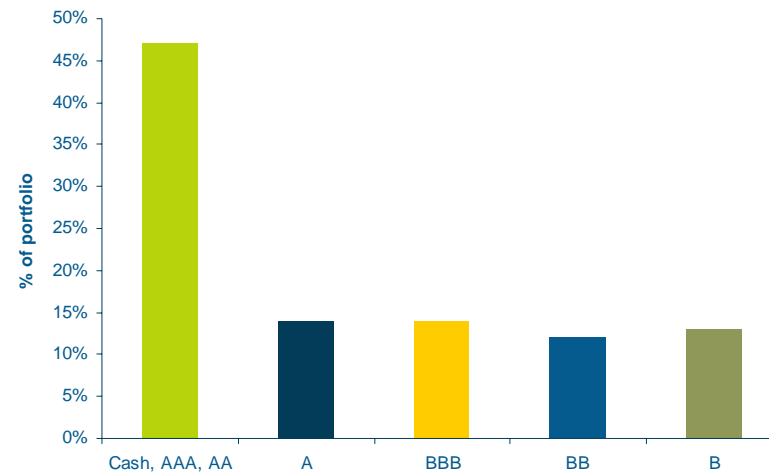
Asset quality / capital



Quality assets – fixed income

- ~\$2.8bn portfolio
 - 16% cash and cash equivalents
 - 22% AAA rated securities
 - 75% rated BBB or higher
- More than 400 securities with no assets in default
- Average life of 2.5 years
- Expect the majority of negative mark to market to unwind as investments are held to maturity
- No requirement to sell assets
- Significant purchases of AAA and high investment grade assets in the last quarter
- Managed by experienced fixed income fund managers within Asset Management

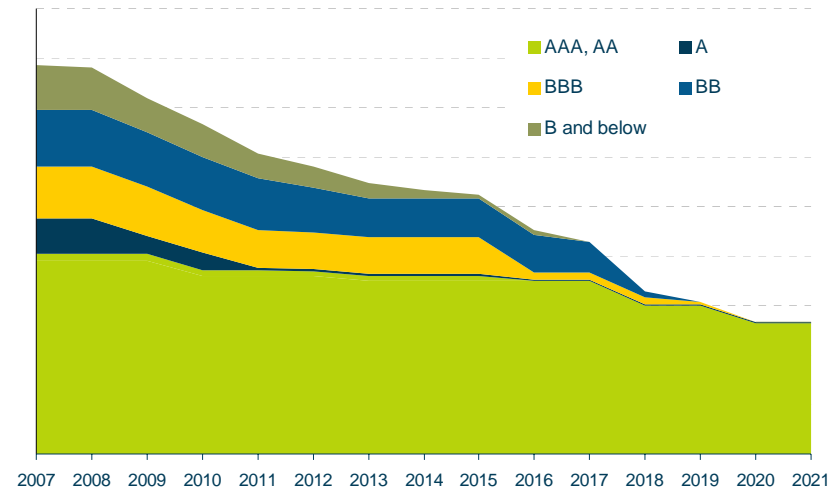
Fixed Income Portfolio by S&P Equivalent Rating



Quality assets – property

- Direct property exposure – 65%
- Indirect property exposure – 35%
- Holdings in listed vehicles CDI, CWT and CKT are held at market unit price and are trading at significant discounts to their Net Asset Values / Net Tangible Assets
- Overall property portfolio at the more conservative end of the spectrum
 - More than 50% of tenants are AAA rated
 - 91% of leases have fixed increases or CPI adjustments
 - Weighted average life of ~9 years

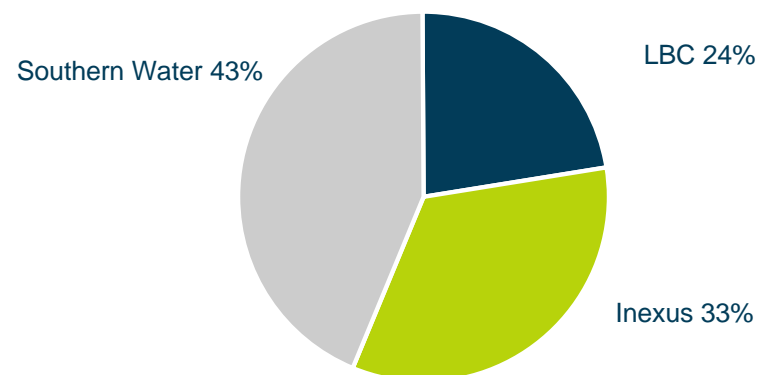
Direct Lease Tenant Quality – 30 April 2008



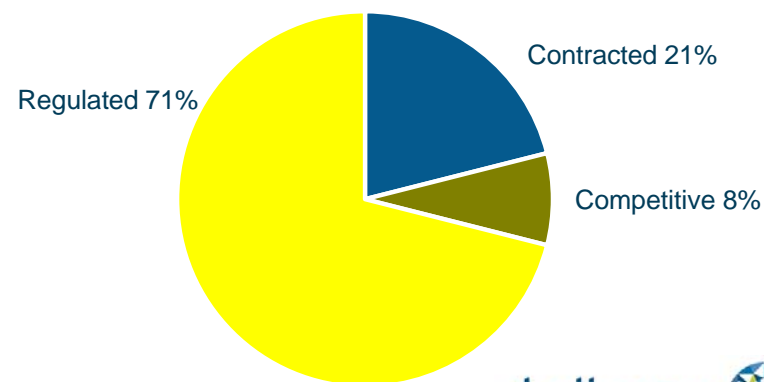
Quality assets – infrastructure

- Indirect – 88%
 - Primary exposure via the Challenger Infrastructure Fund – units and Redeemable Preference Shares
 - CIF valuation based on market unit price which is significantly below the Fund NAV
 - CIF recently re-affirmed guidance of FY09 5% growth in distributions
 - Investments in a third party wholesale infrastructure funds
- Direct exposure – 12%
 - Direct holdings are un-gearred
- Recent asset sales by CIF at significant premiums to NAV have reduced capital intensity of the holding

CIF Diversification by asset – pro-forma post recent asset sales

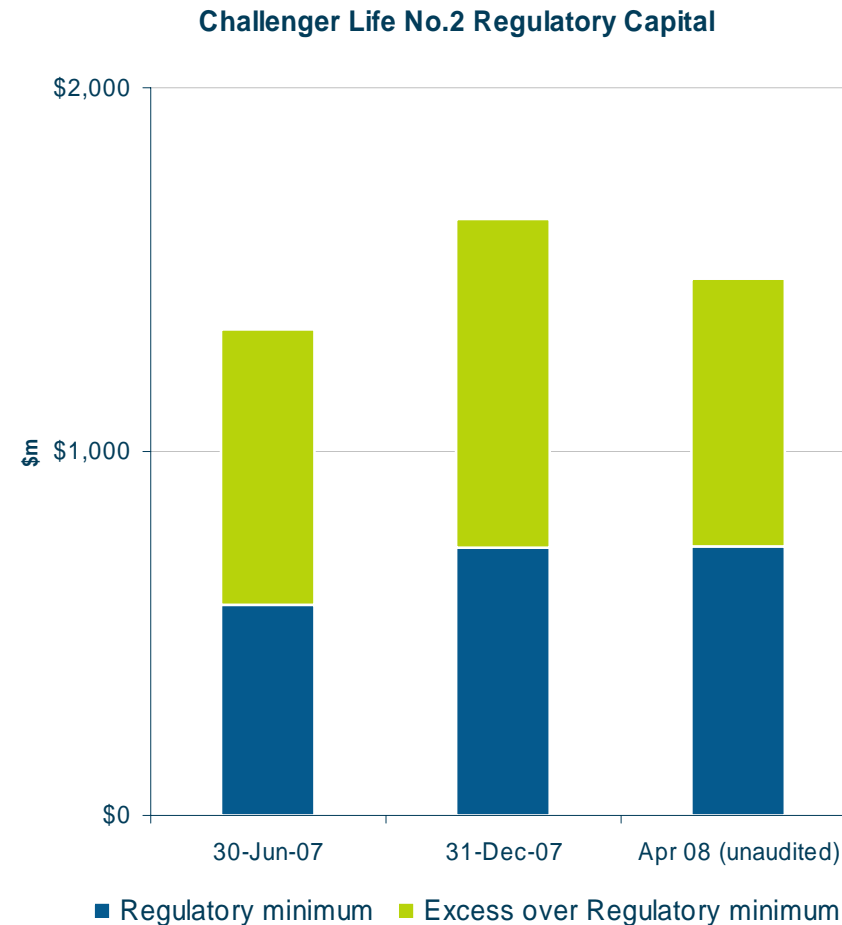


CIF Diversification by revenue – pro-forma post recent asset sales



Strongly capitalised

- APRA regulated Life Company – subject to capital and liquidity requirements
- Strongly capitalised with more than \$700m capital surplus to regulatory minimum post:
 - unrealised mark to market in fixed income
 - unrealised mark to market in CDI/CWT/CIF
- Challenger Life Co. rated 'A' by S&P – re-affirmed December 07
- Challenger Group rated 'BBB+' by S&P – re-affirmed January 08



Normalised capital growth

Challenger Asset Management Balance Sheet Normalised Capital Growth - CL2 Investment Assets

Normalised Capital Growth Targets	
Fixed Interest, Debt & Cash	(0.35%)
Property (net)	2.50%
Infrastructure	4.00%
Equity & Alternates	6.00%

Assets Under Management - Quarterly AuM disclosures

	Jun-04 Q404	Sep-04 Q105	Dec-04 Q205	Mar-05 Q305	Jun-05 Q405	Sep-05 Q106	Dec-05 Q206	Mar-06 Q306	Jun-06 Q406
Investments (AuM)									
Fixed Interest, Debt & Cash	1,756	2,139	1,667	1,546	1,124	1,231	1,284	1,324	1,055
Property (net)	823	606	969	999	1,329	1,340	1,422	1,377	1,515
Infrastructure	-	51	271	271	344	229	301	304	409
Equity & Alternates	72	103	104	144	153	185	108	102	97
Total AuM	2,651	2,899	3,011	2,960	2,950	2,985	3,115	3,107	3,076
<i>Reconciliation to quarterly AUM announcements</i>									
Non CL2 investments*									
Total AuM	2,651	2,899	3,011	2,960	2,950	2,985	3,115	3,107	3,076

Average Investments (HoH)

using a 3 point average unless stated otherwise

	1H05	2H05	1H06	2H06
Fixed Interest, Debt & Cash	1,854	1,446	1,213	1,221
Property (net)	799	1,099	1,364	1,438
Infrastructure	107	295	291	338
Equity & Alternates	93	134	149	102
	2,854	2,974	3,017	3,099

Normalised Capital Growth - \$m

	1H05	2H05	1H06	2H06
Fixed Interest, Debt & Cash	(3)	(3)	(2)	(2)
Property (net)	10	14	17	18
Infrastructure	2	6	6	7
Equity & Alternates	3	4	4	3
Total Normalised Capital Growth	12	21	25	26

* non-CL2 investment assets, held at cost

Normalised capital growth

Challenger Asset Management Balance Sheet Normalised Capital Growth - CL2 Investment Assets

Normalised Capital Growth Targets	
Fixed Interest, Debt & Cash	(0.35%)
Property (net)	2.50%
Infrastructure	4.00%
Equity & Alternates	6.00%

Assets Under Management - Quarterly AuM disclosures

	Sep-06 Q107	Dec-06 Q207	Mar-07 Q307	Jun-07 Q407	Sep-07 Q108	Dec-07 Q208	Mar-08 Q308
Investments (AuM)							
Fixed Interest, Debt & Cash	874	1,729	1,687	1,567	3,283	3,195	3,036
Property (net)	1,509	916	925	1,077	1,036	1,094	1,060
Infrastructure	645	569	637	648	719	992	1,003
Equity & Alternates	95	100	82	184	221	247	205
Total AuM	3,123	3,314	3,331	3,476	5,259	5,528	5,304
<i>Reconciliation to quarterly AUM announcements</i>							
Non CL2 investments*				59		59	
Total AuM	3,123	3,314	3,331	3,535	5,259	5,587	5,304

Average Investments (HoH)

using a 3 point average unless stated otherwise

	1H07	2H07	1H08 (monthly)
Fixed Interest, Debt & Cash	1,219	1,661	2,710
Property (net)	1,313	973	1,067
Infrastructure	541	618	820
Equity & Alternates	97	122	207
	3,171	3,374	4,804

Normalised Capital Growth - \$m

Fixed Interest, Debt & Cash	(2)	(3)	(5)
Property (net)	16	12	13
Infrastructure	11	12	16
Equity & Alternates	3	4	6
Total Normalised Capital Growth	28	25	31

* non-CL2 investment assets, held at cost

Supplementary Information



Strategic Relationships

Challenger has been building its origination and distribution capabilities in UK and Europe, both directly through its office in London where a number of significant revenue earning transactions have been closed and via strategic partners. In Tokyo, our relationships with The Bank of Tokyo- Mitsubishi UFJ Limited and Mitsubishi UFJ Securities Co., Limited and Kenedix have given us access and expertise to the Asian markets and are already leading to transaction opportunities. Across the United States, our relationships with Colony Capital and FBR Capital Markets provide us with origination and distribution possibilities that would not be available to a company our size working out of Australia. In addition we have strategic stakes in three companies in the mortgage sector being Homeloans, PLAN and FAST.

The Bank of Tokyo-Mitsubishi UFJ, Ltd. (<http://www.bk.mufig.jp/english>)

The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("BTMU") was created by the January 2006 merger of The Bank of Tokyo-Mitsubishi, Ltd. and UFJ Bank Limited. As the core commercial bank of the Mitsubishi UFJ Financial Group ("MUFG"), BTMU is pursuing customer focused service and quality enhancement and is committed to providing high value added services.

Mitsubishi UFJ Securities Co., Ltd. (<http://www.sc.mufig.jp/english>)

Mitsubishi UFJ Securities Co., Ltd. ("MUS") is the core securities company of Mitsubishi UFJ Financial Group ("MUFG") and offers a broad range of domestic and foreign securities and investment banking products and services, including brokerage, trading, underwriting, merger and acquisitions, securitisation and advisory services to corporate customer in Japan and around the world.

Colony Inc – (<http://www.colonyinc.com>)

Founded in 1991 by Chairman and Chief Executive Officer Thomas J. Barrack Jr., Colony Capital, LLC is a private, international investment firm focusing primarily on real estate-related assets, securities and operating companies with a strategic dependence on such assets across the globe.

The firm has invested approximately \$28 billion in over 8,400 assets through various corporate, portfolio and complex property transactions. Colony has a staff of more than 160 and is headquartered in Los Angeles, with offices in New York, Boston, Hawaii, London, Madrid, Paris, Rome, Beirut, Hong Kong, Seoul, Shanghai, Taipei, and Tokyo.

FBR Capital Markets – (NASDAQ: FMCB) / (<http://www.fbrcapitalmarkets.com>)

In June 2007, Challenger acquired a strategic stake of 5% in FBR Capital Markets Corporation (FBR Capital Markets; NASDAQ:FBCM). FBR Capital Markets is a US based Investment Bank that specializes in Investment Banking, Institutional Brokerage, Research and Asset Management. It is the largest underwriter of 144a equity raisings in the United States. More recently both firms have been working on utilizing Challengers product capability across the specialised funds space and FBR Capital Markets US distribution capability to bring Challenger product to the US investor market.

Strategic Relationships

Homeloans – (ASX: HOM) / (<http://www.homeloans.com.au>)

In April 2007 Challenger acquired a strategic stake of 40% in HomeLoans, a Western Australian based entity that originates and manages a comprehensive range of loans for home owners and investors. Homeloans Limited has a customer base of approximately 40,000.

PLAN Australia (Professional Lenders Association Network of Australia) - (<http://www.planaustralia.com.au>)

PLAN Australia and New Zealand's largest mortgage aggregation group, servicing around 2,000 mortgage broker members. PLAN (Professional Lenders Association Network) was founded in 1999, PLAN provides a full service aggregation proposition to its members. Challenger acquired a 15% stake in PLAN in 2005, and advised the market that it intends to acquire the remaining 85% by September 2008.

FAST – (<http://www.fastgroup.com.au>)

FAST (Finance and Systems Technology) was established in 2000

FAST offers a streamlined and cost effective mortgage aggregation proposition to its members and has approximately 2,200 mortgage brokers members. In September 2007 Challenger acquired a 19% stake in FAST.



challenger 

The logo for Challenger, featuring the word "challenger" in a lowercase, sans-serif font. To the right of the text is a circular icon composed of many small, overlapping triangles in shades of blue and yellow, forming a starburst or snowflake-like pattern.