

# Challenger Financial Services Group Limited

Transfer of MetLife Annuity Portfolio

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28 February 2007



# Transfer of MetLife Portfolio

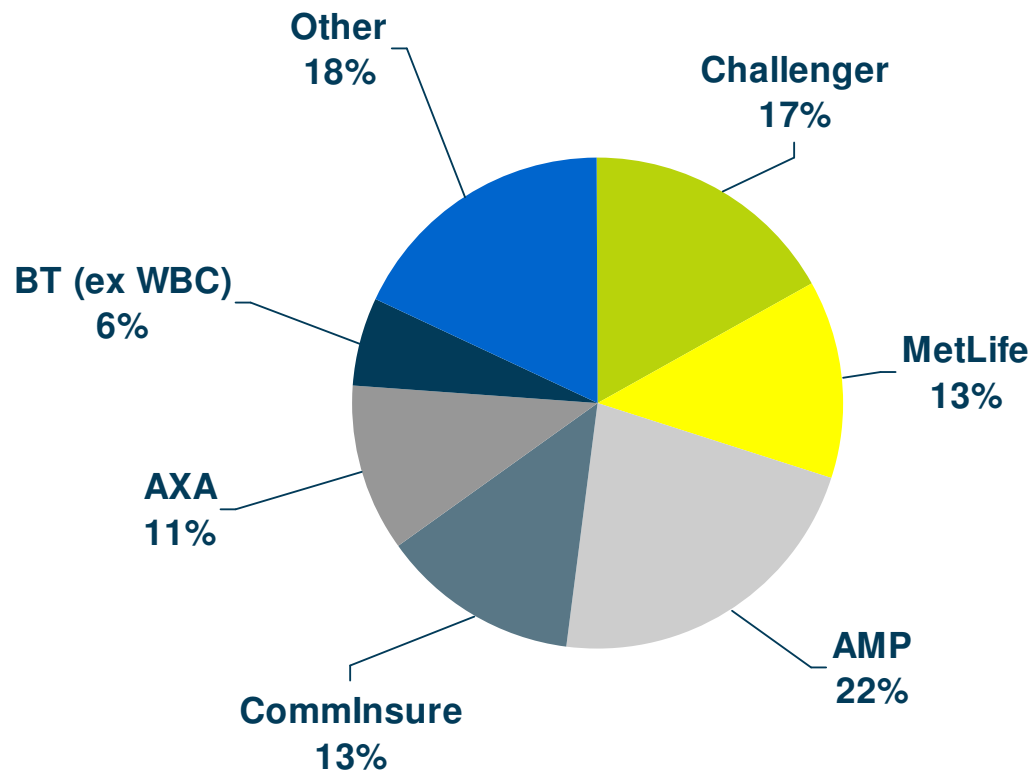
- MetLife Insurance Limited ('MetLife') will transfer its Australian annuity, allocated pension and personal superannuation portfolio to Challenger
- The portfolio is almost \$2 billion
- Supporting assets include:
  - Approximately \$1 billion investment grade fixed income assets; and
  - Nearly \$1 billion cash
- 24,000 policies in force
- Extends Challenger's distribution MetLife's 1,000 planners
- On transfer of assets and liabilities to Challenger Life No. 2 ('CL2') will record for accounting purposes approx. \$46m of goodwill and incur a one-off restructuring charge of up to \$10m on completion

# Transaction overview

- Assets and liabilities will be transferred under Part 9 of the Life Insurance Act
- Targeted to complete on to 30 June 2007
- The transfer also involves Challenger taking over all the shares of MetLife Trustee Pty limited (the MetLife Superannuation Trustee)
- Economic exposure to the assets and policies will not be transferred to CL2 until completion
- Agreements in place to govern transition until completion
- Challenger will offer employment to sixteen MetLife employees and acquire Portfolio administration system

# Committed participant in the annuity market

Total size of annuity funds 31 December 2006<sup>1</sup>



- Transfer will strengthen Challenger's position in the capital guaranteed pension sector
- Challenger a committed owner of the portfolio
  - Provides an attractive investment portfolio that complements existing book with no mortality risk

# Enhanced financial strength leverages capabilities

- Asset Management has capabilities to optimise yield from assets
- Increased balance sheet scale leverages Asset Management's skills and capabilities
  - Origination
  - Structuring
  - Transacting / Managing Assets
- Asset Management's acquisition capability doubled
- Increased capacity to build opportunities with Challenger's specialised funds business
- Core capabilities to optimise the investment yield from these assets - proven track record - demonstrated by return generated with CL2 over the past 3 years

# Cost effective funding

- Cost-effective funding – below bank bill rate
- Additional funding for pipeline of investments
- Significantly raises investment level before capital constraints arise
- Portfolio has similar characteristics to existing CL2 portfolio
- Positive impact on liquidity

# MetLife – liabilities to be transferred

|  | Guaranteed Income Plan – Immediate Annuities   | Allocated Pension Plan   | Personal Superannuation   | Deferred Annuity   |
|--|--|--|---|--|
| Product Overview                         | A term certain immediate annuity providing a regular income for a selected term in exchange for an initial investment amount | Allocated pension plan – provides a regular income in retirement | Superannuation savings and accumulation product. Also accommodates those who wish to roll over monies already accumulated | A long-term multi phase personal retirement account, no longer open to new investments |
| Investment Term                          | 1 to 20 years for RCV100<br>1 to 25 years for Residual Capital Value 0 (RCV0)  | 1 to 5 years (fixed term option only)                            | 1 to 5 years (fixed term option only)   | 1 to 5 years (fixed term option only)  |
| % of portfolio by funds under management | 72.7%  | 15.5%  | 10.2%   | 1.6%   |
| Policies                                 | +17,300  | +3,600   | +2,600  | +1,100   |

# Asset Allocation Plan

- CL2 works within the bounds of a target Asset Allocation Plan:
  - 30/30/30/10
- Following transfer there will be an initial shift in the allocations:
  - 50/20/20/10
- Future asset allocation will be reviewed against our current target mix
  - Any changes will need to optimise our return on capital

