

Challenger Life

An overview

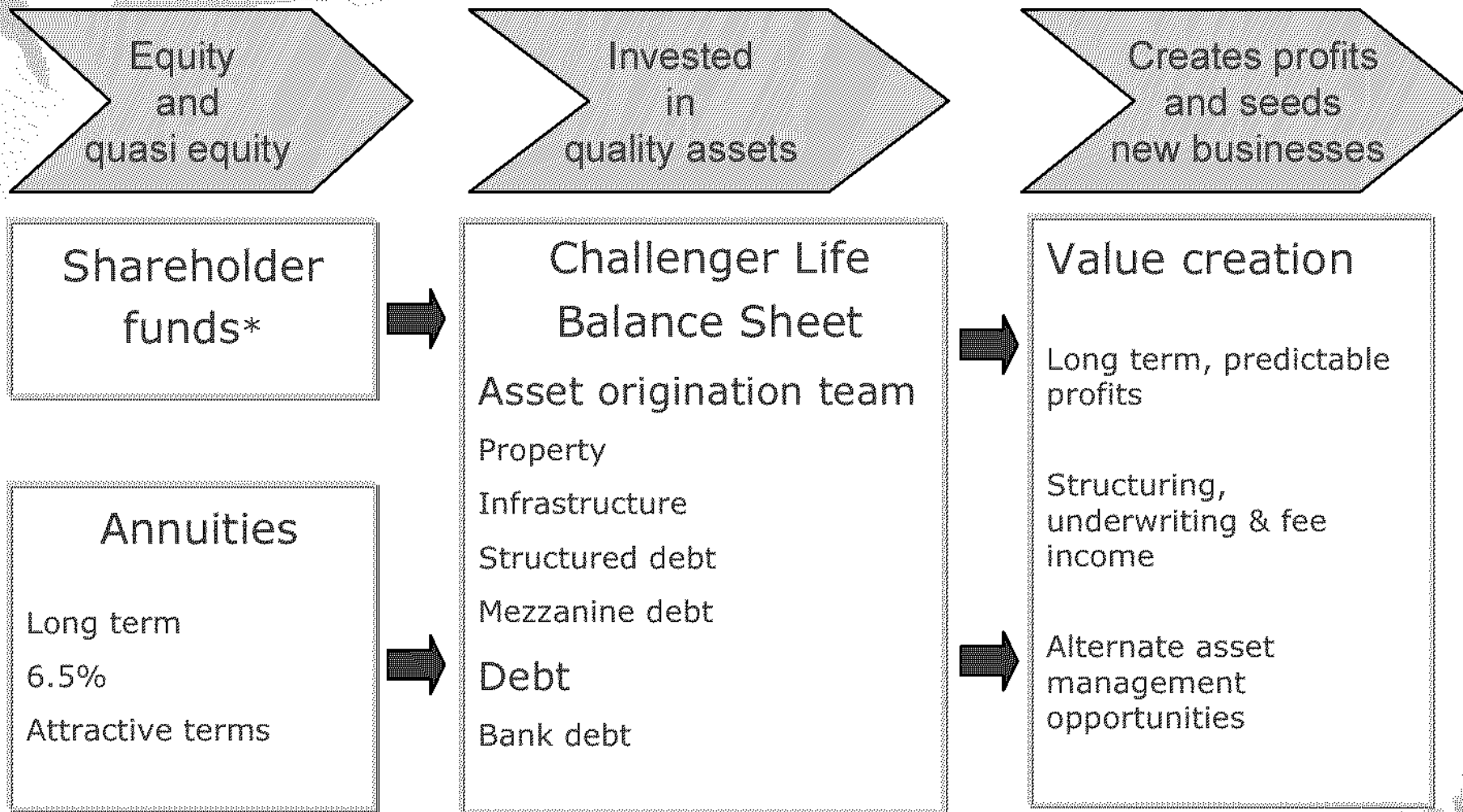
Robert Woods, Chief Executive, Challenger Life
Tony Bofinger, Chief Operating Officer & Appointed Actuary

6 September 2004

Key messages

- ➔ Challenger Life model is very different to other Life insurance companies
- ➔ More akin to Investment Banking model
- ➔ Strategy based upon using the long term annuities market to:
 - Purchase long term predictable income streams
 - Earn long term predictable profits
- ➔ Focus – sourcing low cost annuities and asset origination
- ➔ Multiple sources of income
 - Long term balance sheet 'margin' returns
 - Structuring, underwriting and fee income
 - Ongoing asset management fee income

Challenger Life Strategy



* No increase in capital required

Agenda

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Highlights

Structural

- APRA relationship
 - Strong compliance culture now exists
- Implemented strong credit, market and operational risk management processes
- Merger of Challenger Life Ltd with Challenger Life No. 2 Ltd

Highlights

Strategic

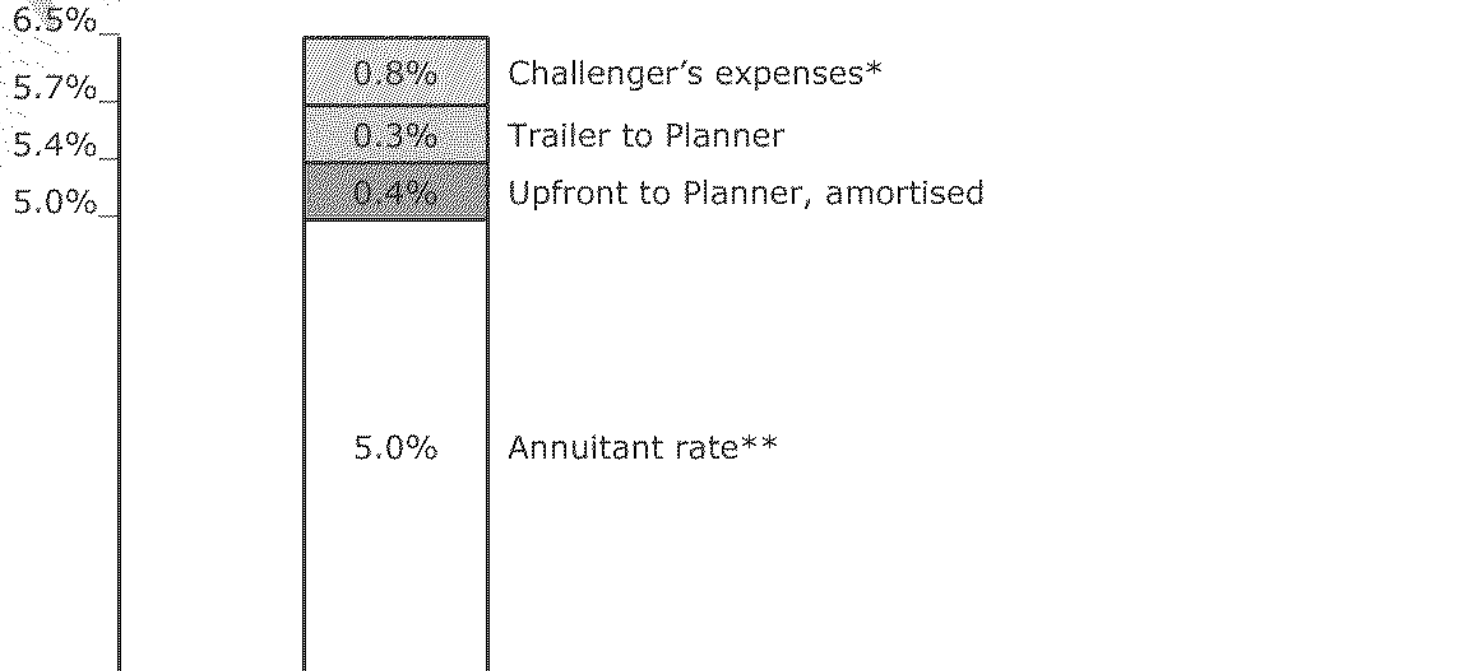
- Disposal of 12 Australian non-core properties for \$160m, realising a historical cost accrual profit of \$27.3m
- Well progressed on disposal of UK and US properties
 - Signed contracts for \$A828m
- Highly skilled team
 - Structured finance (Macquarie, BT, Merrill, PWC, ZCM)
 - Risk management (Macquarie, BT, ZCM)
 - Legal (Baker McKenzie)
 - Credit (Macquarie, BT)

Highlights

Financial

- Historical cost accounting profit for year ended 30 June 04 \$55m
- Statutory accounting profit for year ended 30 June 04 \$124m
- \$351m of long term annuity sales, #1 market share
- \$193m of short term sales
- Well capitalised balance sheet
 - Excess capital over solvency requirements of \$430m (\$189m at 30/6/03)
 - Annuities \$271m
 - Shareholder funds and other \$159m
- Over \$1.6b in cash and short term, liquid securities as at 30 June 2004

Historical cost of current annuity book



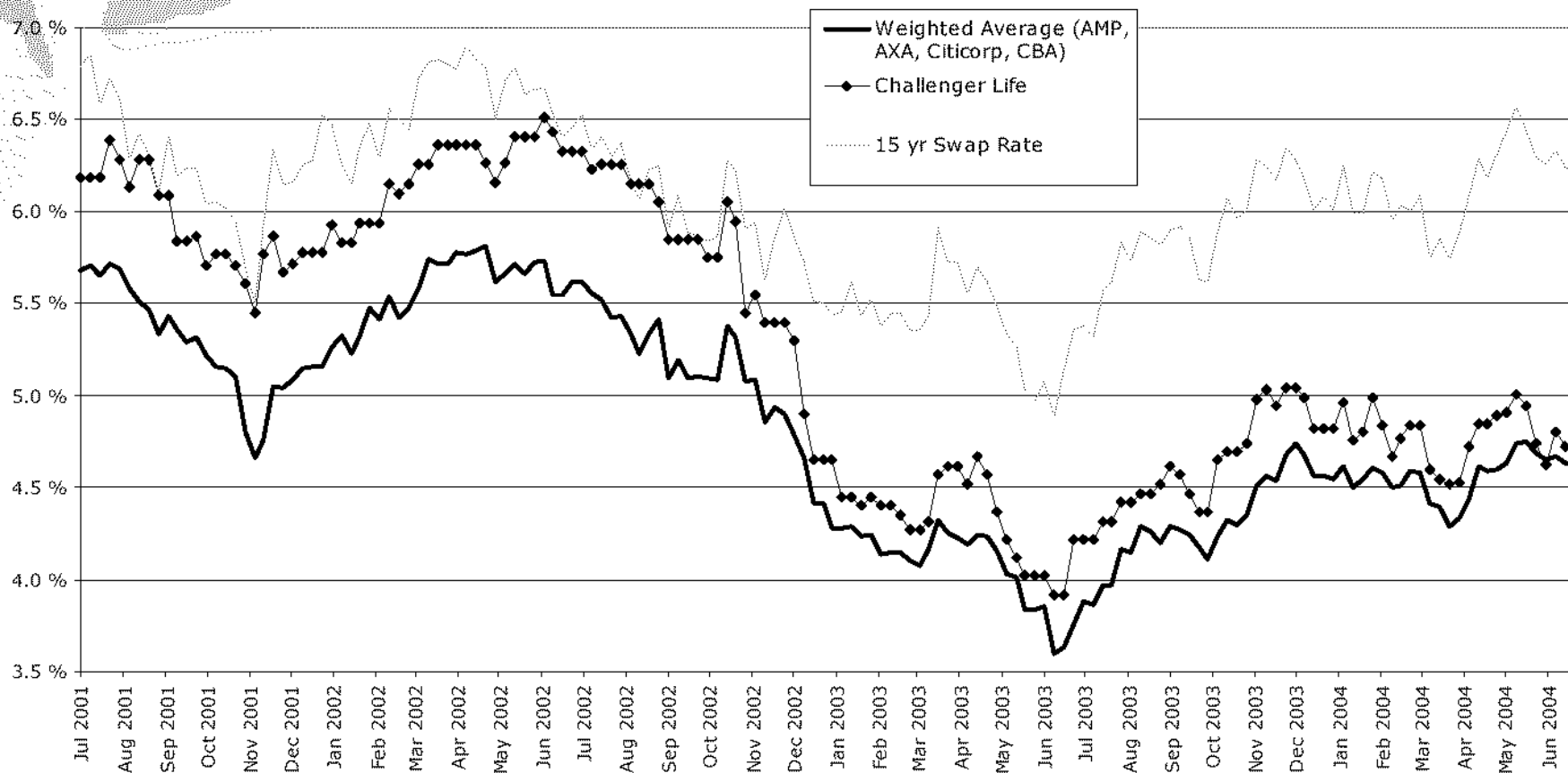
* Challenger expenses in relation to annuity issuance and maintenance function

** Blended long term and short term annuity rate

- We want to get this price down
 - Lower rates on new business written
 - Committed to manage down Challenger's costs

Annuities market

Pricing of long term annuities

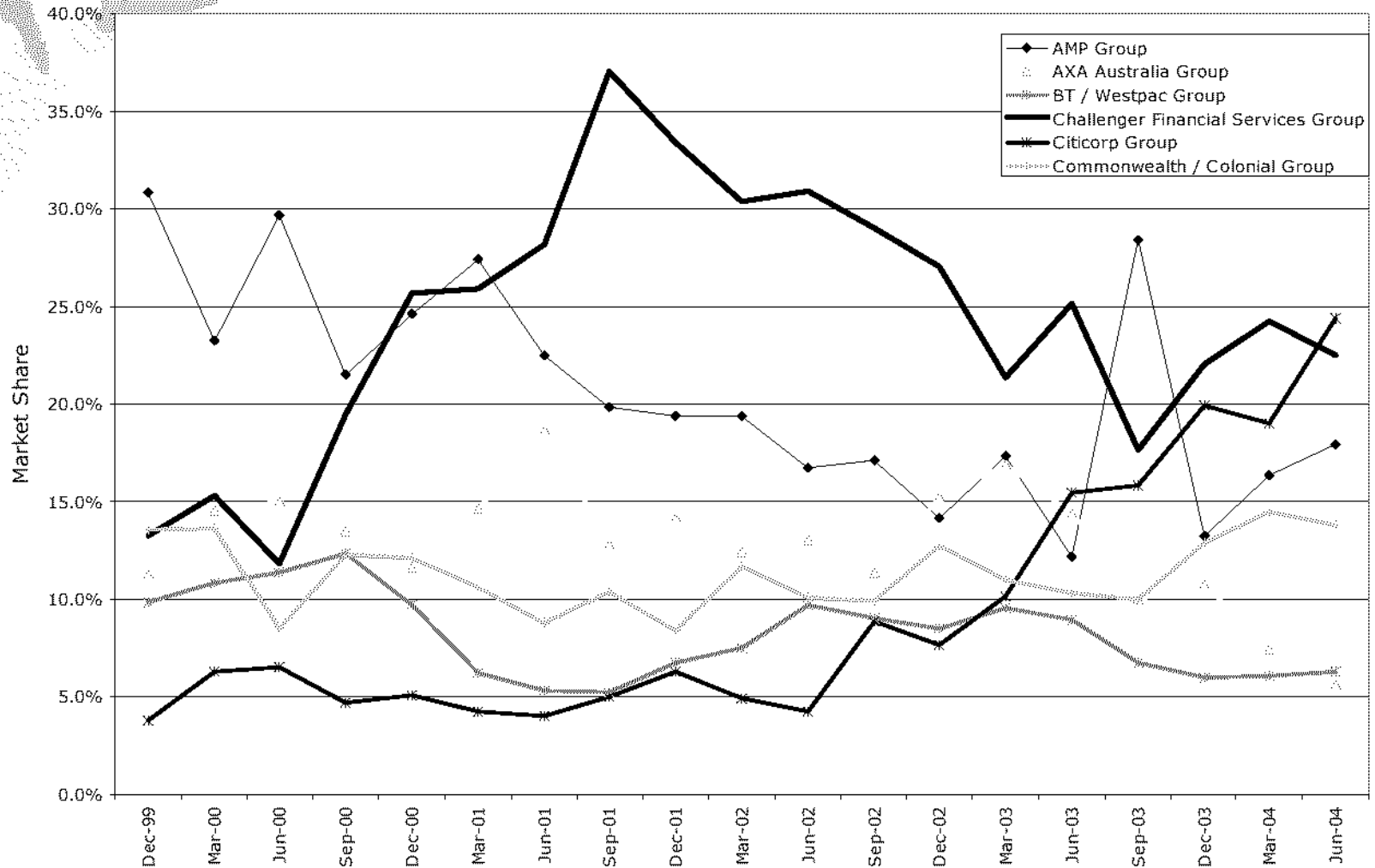


Source: Plan for Life, Actuaries and Researchers

Annuity rates are based on 15 year nil RCV annuities, \$50,000 investment, maximum upfront commission and zero trail commission taken by advisers

Annuities market

Market share - long term annuity providers



Data Source: Plan for Life, Actuaries & Researchers

Asset origination

- Infrastructure
 - Equity
 - Mezzanine debt
- Commercial property
 - Equity
 - Mezzanine debt
- Mortgages
 - Warehouse facilities for Challenger Wholesale Finance
- Corporate mezzanine debt
- Asset backed securities

Asset origination

Infrastructure

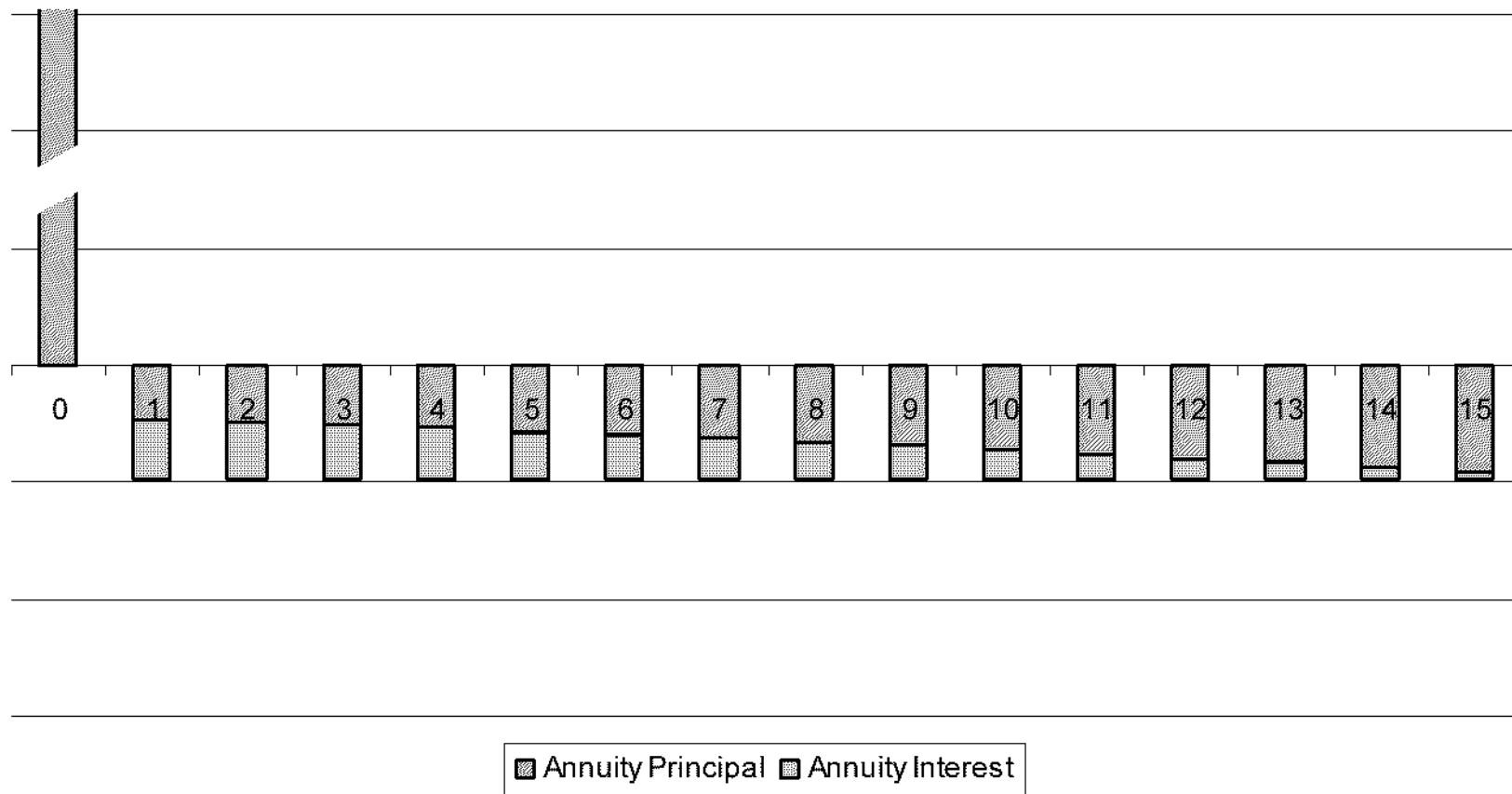
Wales and the West Gas distribution network

- GBP20m investment
- Mature asset
- Operating in a regulated environment
- Significant long term stable cashflows
- Potential for capital growth
- Pricing reset every 5 years (2008 next reset date)
- Exceeds our 18% RONA hurdle

Property

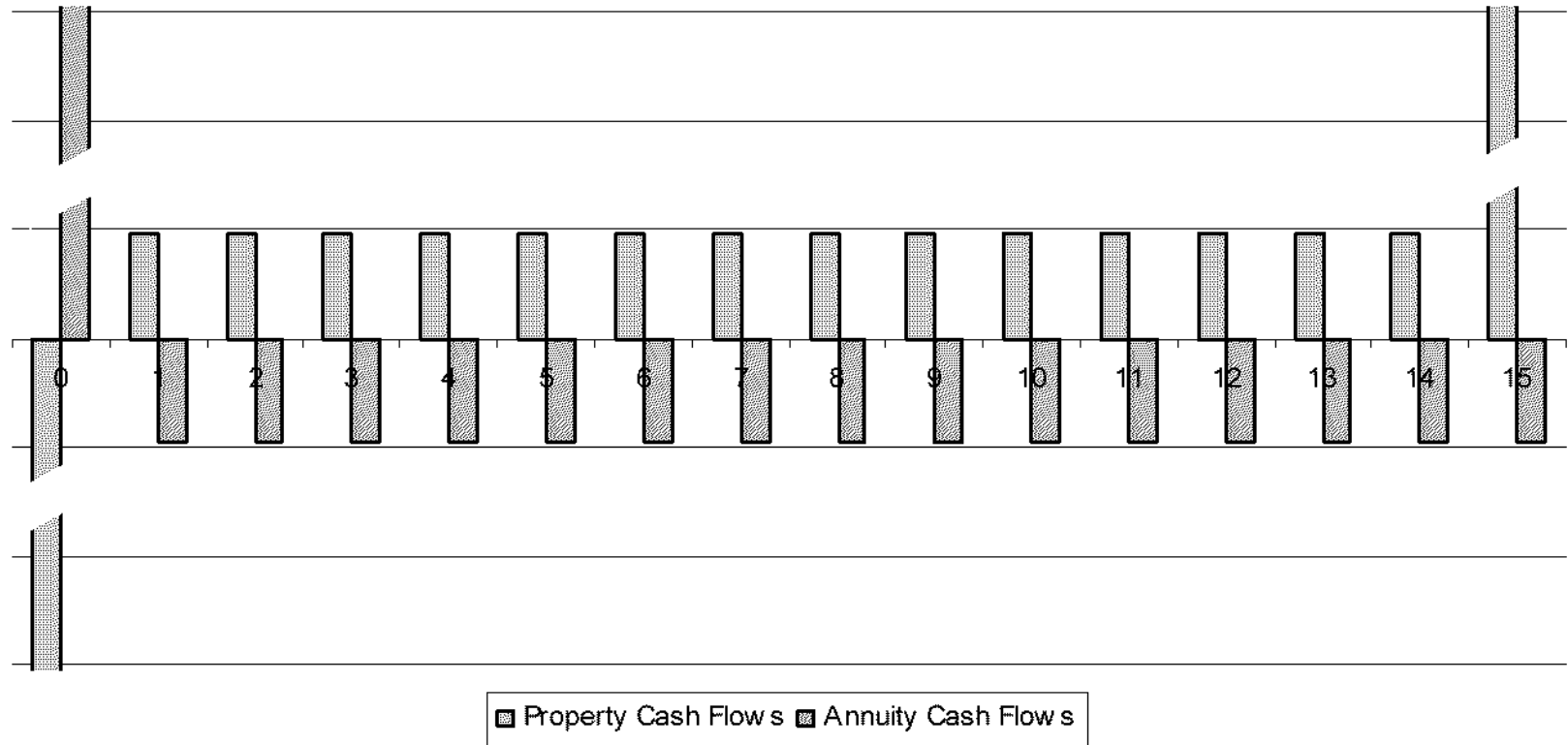
- We like the significant long term contracted cashflows our properties provide us
- Sale of properties (both domestic and foreign)
 - Opportunistic, upgrading the quality of our portfolio
- Remaining portfolio
 - Conservatively valued, given corporate activity in LPT sector
 - Want to maintain exposure to these income streams
 - Actively looking at new acquisitions, however in an environment where we will not over pay
 - Challenger is a patient investor
- Want to further leverage property team to provide additional 3rd party funds management products

Annuity cash flow



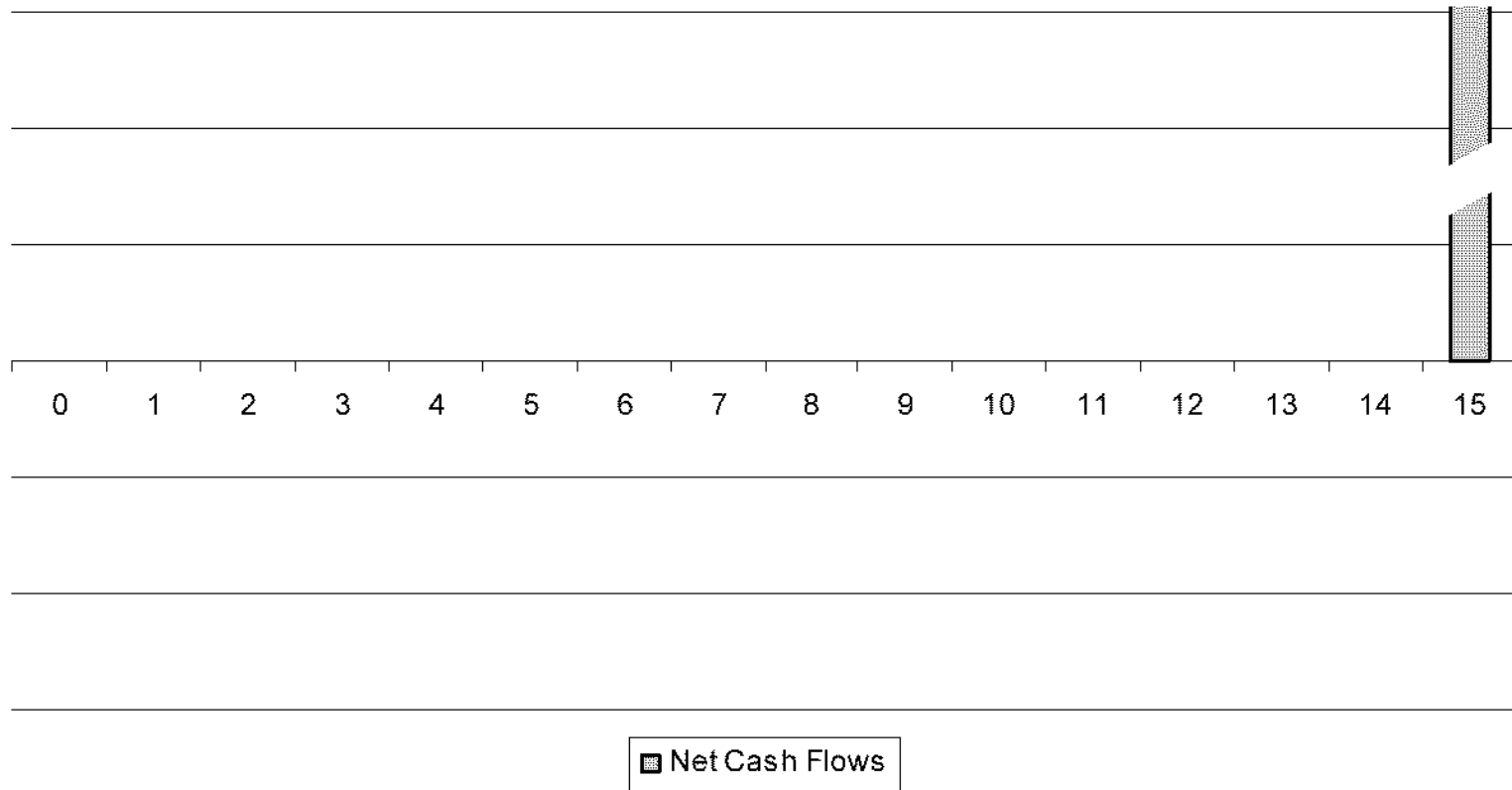
Property model

Gross cash flow



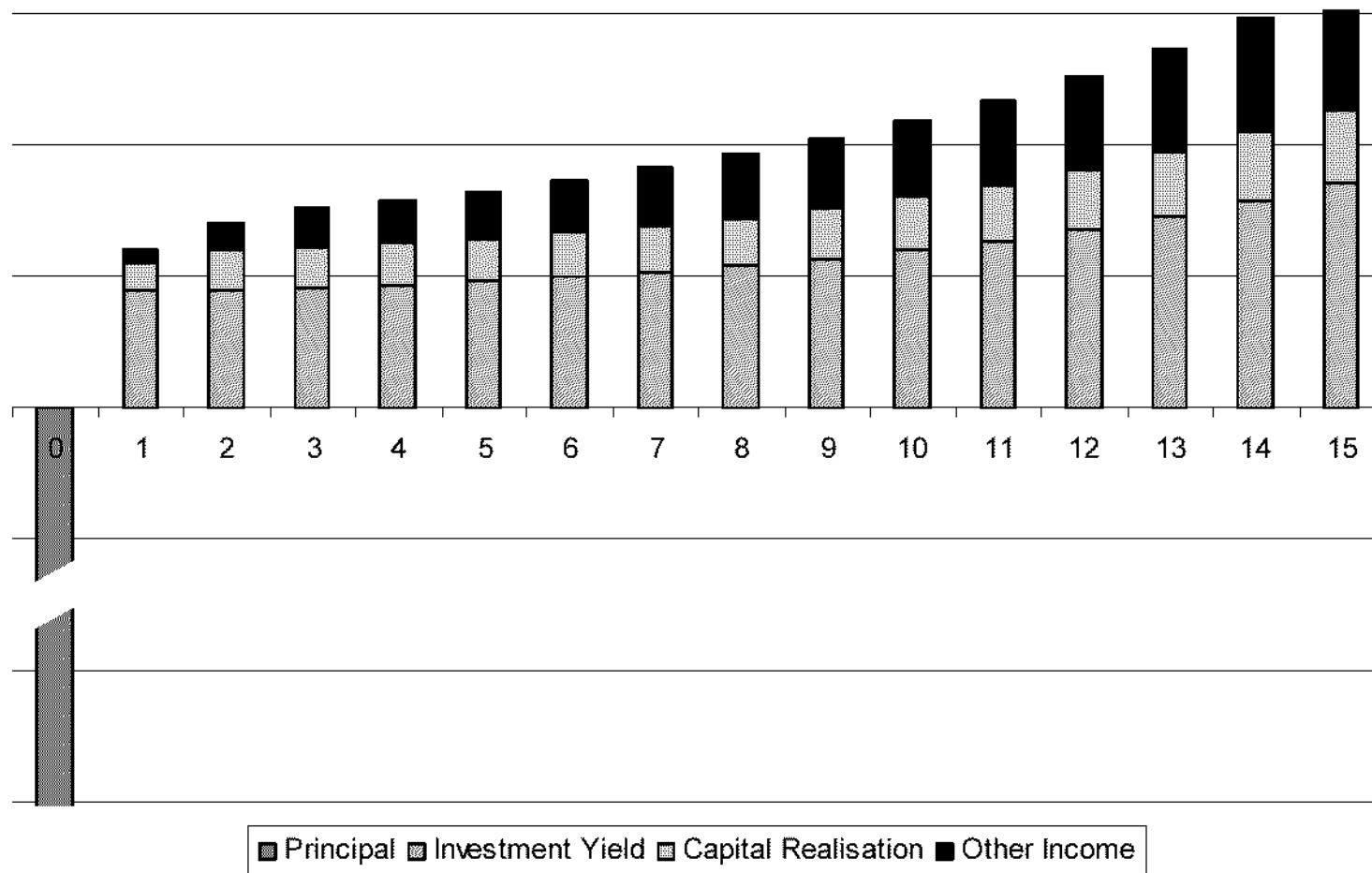
Property model

Net cash flow



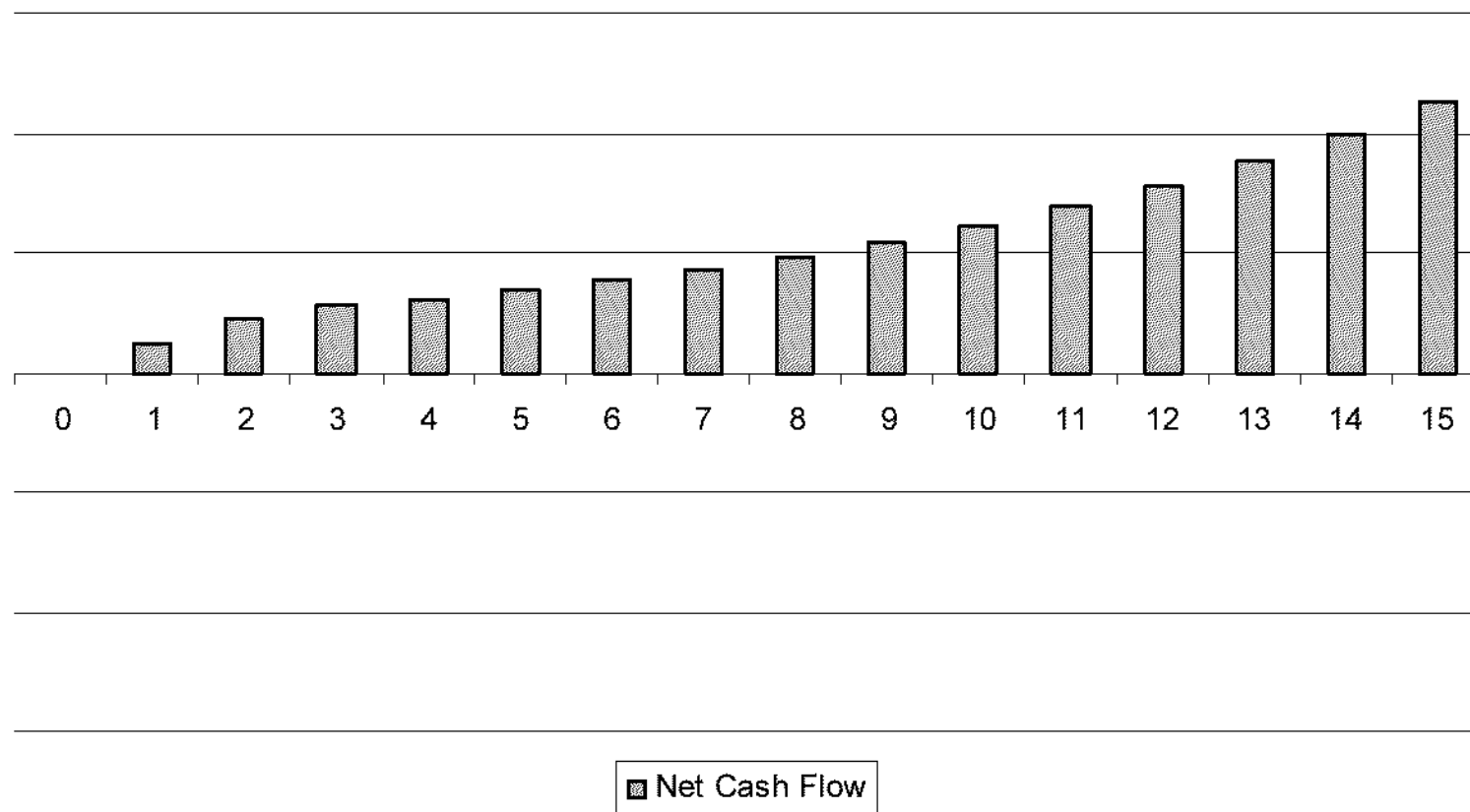
Diversified model

Investment cash flow



Diversified model

Net cash flow after annuity payments



Challenger Life

Financials

Tony Bofinger, Chief Operating Officer & Appointed Actuary

Statutory balance sheet

Annuity products

Policy liability basis		June 2003 \$m	June 2004 \$m
Assets	Property	2,614	2,535
	FX hedging	67	40
	Equities	21	63
	Fixed interest	811	1,181
	Cash receivables	473*	546
		3,986	4,365
Liabilities	Policyholder	1,705	1,948
	Senior debt	1,725	1,689
	Swaps	141	31
	Other	12	214
Net shareholder assets		403	483

* Post \$235m CPHIC injection at 30/6/03

Statutory capital

Annuity products – excess above solvency

Solvency basis		June 2003 \$m	June 2004 \$m
Assets	Property	2,614	2,535
	FX hedging	67	40
	Equities	21	63
	Fixed interest	811	1,181
	Cash, receivables & other	473	546
		3,986	4,365
Liabilities	Solvency requirement	2,054	2,160
	Senior debt	1,725	1,689
	Swaps	141	31
	Other	12	214
Excess above solvency		54	271

'Historic Cost' accrual 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:			
Third party commissions - annuities	7	7	14
Challenger – annuities gathering costs	8	8	16
Challenger – investment and other costs	9	8	17
Total expenses	137	136	273
Profit before tax	15	40	55

Key earnings drivers

- Historical cost accrual accounting improves stability and predictability of profits
- Future growth is a function of:
 - Transition from cash and short term assets into
 - Long term
 - Higher yielding
 - Capital growth assets
 - Continue to grow our annuities book
 - Relentless on costs
 - Ability to use balance sheet to create Alternative Asset Management business

Summary

Our strategy

- Will require no increase in capital
- Will produce long term stable income streams
- Will grow earnings substantially
- Is cashflow positive
- Complements Wholesale Finance and Wealth Management businesses
- Will seed new business opportunities

Discussion / Questions