

Notice of Annual General Meeting

Challenger Financial Services Group Limited

ABN 85 116 842 371

NOTICE is hereby given that the Annual General Meeting of shareholders of Challenger Financial Services Group Limited ("the Company" or "Challenger") will be held at the Verbruggen Hall, Sydney Conservatorium of Music, Macquarie Street, Sydney, on 24 November 2005 at 10.30am (Sydney time)

Business

Financial Statements and Reports

1. To receive and consider the Financial Report, Directors' Report and Independent Auditor's Report for the Company and its controlled entities for the year ended 30 June 2005.

Election of Directors

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

2. That Mr Graham Cubbin, who retires by rotation in accordance with clause 6.1 of the Constitution of the Company, be re-elected as a director of Challenger.
3. That Mr Russell Hooper, who retires by rotation in accordance with clause 6.1 of the Constitution of the Company, be re-elected as a director of Challenger.

Non-Executive Directors' Remuneration

4. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

That the maximum aggregate amount of remuneration available to be paid to Non-Executive Directors be increased by \$550,000 per annum from \$950,000 per annum to \$1,500,000 per annum.

Remuneration Report

5. To consider and, if thought fit, to pass the following resolution as a non-binding shareholders' resolution:

That the Remuneration Report for the year ended 30 June 2005 be adopted.

Issue of Shares to Chief Executive Officer

6. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

That, for the purposes of Australian Stock Exchange Listing Rule 10.11, approval be given to the issue of three (3) million Challenger Shares to the Chief Executive Officer, Mr Michael Tilley, on the terms set out in the Explanatory Notes accompanying this Notice of Meeting.

Note: If this resolution is approved, approval is not required under Australian Stock Exchange Listing Rule 7.1.

Amendments to the Long Term Incentive Plan

7. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

That the rules of the Long Term Incentive Plan be amended in accordance with the terms that are summarised in the Explanatory Notes that accompany this Notice of Meeting.

Voting Exclusion

In accordance with the ASX Listing Rules, Challenger will disregard a vote on:

- Resolution 4 (Non-Executive Directors' Remuneration) by any director of the Company and their associates;
- Resolution 6 (Issue of Shares to Chief Executive Officer) by or on behalf of Mr Tilley and any of his associates.

However, Challenger need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

By order of the Board.

Christopher John Robson

Company Secretary

Sydney 21 October 2005

Notes on Proxies and Voting

Appointing a Proxy

A member is entitled to attend and vote at a meeting of members and may appoint not more than two people as the member's proxy to attend and vote for the member at the meeting. A proxy need not be a shareholder of the Company, and can be either an individual or a body corporate. A proxy form is included with this Notice of Meeting.

If the member appoints two proxies, the proxy form must specify the proportion of voting rights each proxy is appointed to exercise. If no proportions are specified, each proxy may exercise half the available votes.

If you require a second proxy form, please contact Computershare on 1800 780 728.

For an appointment of a proxy to be effective, the Company must receive at least 48 hours before the meeting, that is by no later than 10.30am on Tuesday, 22 November 2005:

- the proxy form; and
- if signed by the appointer's attorney, the authority under which the appointment was signed or a certified copy of the authority.

You can send your proxy form to Computershare by doing one of the following:

- lodging it online at Computershare's website www.computershare.com.au as instructed there (you will have been taken to have signed your proxy form if you lodge it in accordance with the instructions given on the website); or
- faxing it to (03) 9473 2118; or
- posting it by using the reply paid envelope to: Computershare Investor Services Pty Limited GPO Box 242, Melbourne VIC 8060; or
- delivering it to: Computershare Investor Services Pty Limited, Level 2, 60 Carrington Street, Sydney NSW 2000.

Appointing a proxy does not mean you cannot attend the meeting, however, under the Challenger Constitution, if you vote on any resolution, the proxy is not entitled to vote, and must not vote, as the appointer's proxy on the resolution.

Corporate Shareholders

Corporate shareholders wishing to appoint a representative to attend the meeting on their behalf must provide that person with a properly executed authorisation confirming that they are permitted to act as the company's representative. Such authorisation may be for this meeting only or for all meetings of the Company.

Eligibility

For the purposes of the meeting, those members registered as holding shares at least 48 hours before the meeting, that is 10.30am on Tuesday, 22 November 2005, will have voting entitlements for the meeting.

Registration

If you are attending the meeting in person, please bring the personalised proxy form enclosed with this Notice of Meeting with you. The bar code at the top of the proxy form will facilitate registration. If you do not bring the proxy form with you, you will still be able to attend the meeting, but at registration, representatives from Computershare will need to verify your identity. Registration will be available from 9.30am Sydney time on the day of the meeting.

Undirected Proxies

The Chairman of Challenger will chair the meeting. The Chairman will vote undirected proxies in favour of all of the resolutions. Challenger recommends that all shareholders who submit proxies direct their proxy how to vote on each resolution.

If you do not wish to direct your proxy how to vote, you should mark the appropriate box on the proxy form.

By doing this, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder would otherwise be disregarded because of that interest.

Explanatory Notes on the Resolutions

Item 1 – Financial Statements

The Financial Report, Directors' Report and Independent Auditor's Report for the Company and its controlled entities for the year ended 30 June 2005 will be laid before the meeting in accordance with the requirements of the Corporations Act. Shareholders will be provided with the opportunity to ask questions about the reports or the Company generally but there will be no formal resolution put to the meeting in relation to Item 1.

Items 2 and 3 – Election of Directors

In accordance with Challenger's Constitution, it is necessary for one-third of the directors, excluding the Chief Executive Officer (rounded down to the nearest whole number), to retire by rotation each year.

The directors have determined that the basis for determining which of them shall stand for re-election will be alphabetical.

Accordingly, Messrs Cubbin and Hooper will retire by rotation at the 2005 Annual General Meeting (AGM) and, being eligible, each offers himself for re-election as a director at the meeting.

The Board is accountable to shareholders for the activities and performance of Challenger. Board members have been selected for their experience and knowledge of the financial markets in which Challenger operates, their familiarity with Challenger's stakeholders and their capacity to assist the Board to act cohesively and with integrity.

A brief description of each director follows.

Graham Cubbin was appointed to the Challenger Board on 6 January 2004. Mr Cubbin has been a senior executive of Consolidated Press Holdings Limited (CPH) from 1991 until September 2005, including Chief Financial Officer for 13 years. Prior to joining CPH, Mr Cubbin held senior finance positions with a number of major companies, including Capita Financial Group and Ford Motor Company.

Committees

Mr Cubbin is a member of the Group Audit and Compliance Committee and the Nomination Committee.

Russell Hooper was appointed to the Challenger Board on 6 November 2003. Mr Hooper was previously a director and chairman of the audit committee for Commonwealth Insurance Limited, a subsidiary of the Commonwealth Bank. Mr Hooper was also previously Chief General Manager, Funds Management at St George Bank Limited and, prior to that, held various positions within the financial services group at St George Bank Limited and Advance Bank Limited for more than 13 years. Mr Hooper is a Fellow of the Australian Institute of Company Directors, the Australian Society of Certified Practising Accountants and the Australian Institute of Banking and Finance.

Committees

Mr Hooper is a member of the Remuneration Committee, the Group Audit and Compliance Committee and the Nomination Committee.

Recommendation

The Board has significantly benefited from the depth of Mr Cubbin's and Mr Hooper's commercial and financial experience and their background in the financial markets in which Challenger operates. The Board unanimously recommends that shareholders vote in favour of the re-election of both Mr Cubbin and Mr Hooper.

Item 4 – Non-Executive Directors' Remuneration

Item 4 proposes an increase in the maximum amount of fees that can be paid to non-executive directors each year from \$950,000 per annum to \$1,500,000 per annum, an increase of \$550,000 per annum. Resolution 4 is proposed for purposes of ASX Listing Rule 10.17 and Challenger's Constitution, which require shareholders to approve any increase in the total amount of non-executive directors' fees that can be paid each year.

An amount not exceeding the amount approved by shareholders is divided each year among the non-executive directors, as they agree. However, Mr J D Packer, Mr A Jacob and, until 30 June 2005, Mr G Cubbin have not received any remuneration for their services as directors of Challenger given their position with CPH, a substantial shareholder of Challenger. From 1 July 2005, Mr G Cubbin will be paid remuneration by Challenger for his services as a non-executive director as he then ceased to be an executive of CPH.

It should be noted that the aggregate amount of fees paid to non-executive directors does not include any amount paid or applied to a superannuation fund for a director, nor does it include any premium paid on an insurance policy for directors' liability.

The proposal to increase the maximum remuneration payable to non-executive directors to a maximum amount of \$1,500,000 per annum is necessary, in the opinion of the Board, in order to:

- ensure that Challenger can offer non-executive directors a competitive level of remuneration having regard to the remuneration paid by peer companies;
- ensure that Challenger is able to recompense non-executive directors for their increased workload both at Board level and on sub-committees; and
- enable Challenger to attract other non-executive, independent board members, as required, whose skills and experience will complement the skills and experience of existing Board members.

Item 5 – Remuneration Report

The Annual Report for the year ended 30 June 2005 contains a Remuneration Report, which sets out Challenger's remuneration policy and reports on the remuneration arrangements in place for executive directors, specified executives and non-executive directors. A copy of the Report is set out on pages 23 to 28 of the Annual Report and can also be found on Challenger's website at www.challenger.com.au.

Resolution 5, which is proposed pursuant to the requirements of section 250R(2) of the Corporations Act, proposes that shareholders adopt the Remuneration Report. Shareholders should note that the Corporations Act provides that the vote on Resolution 5 is advisory only; it does not bind the directors or the Company.

Item 6 – CEO Entitlements

On 23 June 2004, the Company engaged Mr Michael Tilley to be its Chief Executive Officer from 2 August 2004 and the terms of Mr Tilley's proposed service agreement were disclosed to the Australian Stock Exchange Limited (ASX).

As the ASX announcement noted it was proposed that Mr Tilley should be issued with 20 million Challenger shares (each at an issue price of 53 cents). This announcement was made before Challenger shareholders approved a consolidation of Challenger's shares at the 2004 Annual General Meeting, which resulted in every five Challenger shares then on issue being consolidated into one Challenger share.

As noted in Challenger's 2004 Notice of Annual General Meeting, the Board and Mr Tilley agreed that, subject to shareholder approval, the number of Challenger shares initially to be issued to Mr Tilley would be 5 million shares, each at an issue price of 53 cents, although it was also stated that the Board retained the discretion to issue Mr Tilley further Challenger shares, subject to shareholder approval.

As a consequence of the consolidation of Challenger's share capital and the shareholders approving the initial issue of shares to Mr Tilley, he was issued with 1 million Challenger shares each for an issue price of \$2.65.

The Board now proposes that shareholders approve the issue of an additional 3 million Challenger shares to Mr Tilley, on the terms and conditions set out below. If these shares are issued to Mr Tilley, the total number of shares contemplated in the June 2004 ASX announcement will have been issued to Mr Tilley.

The terms of issue are as follows:

- the issue price for each of 3 million shares will be \$2.65;
- the shares will be issued within one month after the date the shareholders approve the issue;
- the shares will not vest immediately upon issue. The initial 20% of the shares will vest on 2 August 2006. The remainder will vest subject to the achievement of performance hurdles, which are consistent with the terms of Challenger's Long Term Incentive Plan, on the basis that the shares were deemed issued when Mr Tilley became CEO on 2 August 2004; and
- if each of the performance hurdles are met, 20% of the shares will vest on each of 2 August 2007 and 2 August 2008, with the balance of the shares (40%) vesting on 2 August 2009. Mr Tilley must remain employed by Challenger on these dates for the shares to vest.

The applicable performance hurdles are set out in the schedule to these Explanatory Notes.

The issue price for the 3 million shares, aggregating \$7,950,000, will be funded by a loan to be provided by Challenger and secured solely against the shares.

The loan will not be recourse to Mr Tilley. The directors have approved this loan, subject to shareholders approving Resolution 6. The terms of the loan are consistent with the Challenger Long Term Incentive Plan loan rules and are set out in the Schedule.

The Board has determined that the totality of Mr Tilley's remuneration package, including the Company-funded shares proposed to be issued to Mr Tilley in accordance with Resolution 6, is fair and reasonable. Mr Tilley's remuneration package is disclosed in detail in the Remuneration Report, which is included in the 2005 Annual Report at pages 24 and 25. A copy of the 2005 Annual Report may also be viewed on the Company's website at www.challenger.com.au.

Each of the directors, except Mr Tilley, recommends that shareholders vote in favour of Resolution 6 for the following reasons:

- the Board foreshadowed to shareholders at the 2004 AGM that, subject to shareholder approval, it retained the discretion to issue Mr Tilley with more shares. If 3 million additional shares are approved to be issued to Mr Tilley in accordance with Resolution 6, Mr Tilley will have been issued with the total number of shares referred to in his service agreement with Challenger dated June 2004;
- remuneration through ownership of shares, that vest subject to performance hurdles, aligns CEO rewards with shareholder value;
- to retain high calibre executives requires a suitable remuneration framework, which, in the Board's view, includes a significant proportion of remuneration being deferred through a share ownership scheme;
- market data from the Financial Institutions Remuneration Group (FIRG) and analysis of a comparative group of financial and property related organisations from the ASX Top 150 companies, indicates that the totality of Mr Tilley's remuneration package (including the proposed issue of shares in accordance with this resolution) is in line with the remuneration packages provided to chief executives of this group of companies and is consistent with the Board's approach to remunerating senior executives; and
- the directors have obtained advice from Mr John Egan of Egan Associates in respect of Mr Tilley's total remuneration, including the shares to be issued if Resolution 6 is approved. Mr Egan has advised that the remuneration is reasonable.

Item 7 – Amendments to the Long Term Incentive Plan Rules

The Long Term Incentive Plan (LTIP) was approved by unitholders of Challenger Financial Services Group on 22 December 2003, when they also approved the corporatisation proposal which resulted in the unitholders becoming shareholders of Challenger.

The number of shares that can be issued under the LTIP in accordance with that approval must not, in the aggregate, exceed 10% of Challenger's issued share capital, at the time the proposed LTIP issue is to take place.

At the date of this Notice of Meeting, Challenger's issued share capital comprises 583,701,048 shares.

Explanatory Notes on the Resolutions continued

LTIP shares issued to date total 52,810,000 Challenger shares being approximately 9.05% of Challenger's current issued shares.

Accordingly, the 10% limit on the number of shares authorised to be issued under the LTIP will soon be reached.

Resolution 7 proposes an amendment to the terms of the LTIP which, if approved, will expand the number of Challenger shares that can be issued under the LTIP. Under that amendment, it is proposed that when determining the 10% LTIP limit, prior issues under the LTIP will be excluded if those LTIP shares have vested. This will have the effect of extending the scheme's longevity.

The terms of the LTIP set out the hurdles that must be satisfied before LTIP shares vest. These hurdles include a requirement that total shareholder returns exceed 15% per annum compound return. Further details of the vesting hurdles and conditions were included in the material provided at the time the LTIP was approved. Shareholders can request a copy of that material by calling the Company Secretary on 02 9994 7113.

At the date of this Notice of Meeting, of the 52,810,000 Challenger shares which have been issued under the LTIP, 6,896,000 have vested and, in the ordinary course, and subject to meeting the other performance hurdles to which the LTIP shares are subject, the following additional LTIP shares may vest over the next five years:

- 600,000 vest in December 2005;
- 8,346,000 vest during 2006;
- 10,421,000 vest during 2007;
- 16,422,000 vest during 2008;
- 5,975,000 vest during 2009; and
- 4,150,000 vest during 2010.

As a result of passing Resolution 7 there could be a further 6,896,000 Challenger shares issued under the LTIP at the date of this Notice of Meeting with further capacity to issue additional LTIP shares in the future as prior LTIP issues vest.

The Board unanimously recommends that shareholders approve the proposed amendment to the LTIP terms for the following reasons:

- the Company has grown rapidly since December 2003;
- future LTIP allocations are needed to fund the acquisition of organisations and attract and retain key personnel as part of such an acquisition;
- future LTIP allocations are needed to retain key existing executives;
- LTIP shares that vest may be disposed of by employees, within trading windows. As a result, vested shares may no longer achieve the aim of retaining key executives while still counted toward the 10% limit of issued shares; and
- shares provided to employees that become "good leavers" retain LTIP entitlements that are counted towards the 10% limit of issued shares.

Other Matters – Auditor Attendance

Challenger's auditor, Ernst & Young, will be in attendance at the meeting, and will take shareholders' questions about the conduct of the audit and the preparation and content of the auditor's report. Shareholders may also provide written questions to the auditor concerning the content of the audit report or the conduct of the audit in advance of the meeting. Written questions must be submitted to the Company no later than 5.00pm on 17 November 2005, and should be addressed as follows:

The Company Secretary
Challenger Financial Services Group Limited
Level 41, Aurora Place
88 Phillip Street
Sydney NSW 2000

A question list will be prepared by Ernst & Young and will be made available to members at the Annual General Meeting.

Schedule

Item 6 – CEO Entitlements

Performance hurdles applicable to Mr Tilley's CEO entitlement shares:

The vesting of 20% of the shares proposed to be issued to Mr Tilley, namely 600,000 shares, will take place on 20 August 2006. The vesting of these shares is not subject to the achievement of performance hurdles, however, Mr Tilley must remain employed by Challenger on 2 August 2006 if these shares are to vest in him. The balance of the 3,000,000 shares proposed to be issued to Mr Tilley, namely 2,400,000 shares, will vest on the following dates, subject to the achievement of the performance hurdles and Mr Tilley remaining employed by Challenger on those dates:

- 2 August 2007 – 600,000 shares;
- 2 August 2008 – 600,000 shares; and
- 2 August 2009 – 1,200,000 shares.

The performance hurdles require a total shareholder return of 15% per annum compounded between 2 August 2004 (the date when Mr Tilley commenced as Chief Executive Officer of Challenger) and the vesting day. The 15% per annum return is based on a reference price of \$2.65, which is the proposed issue price for the 3 million shares to be issued to Mr Tilley in accordance with Resolution 6.

When determining whether a performance hurdle is satisfied, reference is made to:

- the volume weighted average price of Challenger shares traded on the ASX over the 20 trading days immediately preceding the relevant vesting date (20 Day VWAP); and
- the amount of pro-rata distributions, whether dividend, capital distribution or otherwise, made to Challenger shareholders between 2 August 2004 and the relevant vesting date.

The performance hurdle will be satisfied on each of the vesting dates if Challenger's 20 Day VWAP is:

Vesting Date	Performance Hurdle	Challenger Share 20 Day VWAP
2 August 2007	\$4.04	\$4.04 less the amount of any distributions between 2 August 2006 and 2 August 2007.
2 August 2008	\$4.64	\$4.64 less the amount of any distributions between 2 August 2006 and 2 August 2008.
2 August 2009	\$5.34	\$5.34 less the amount of any distributions between 2 August 2006 and 2 August 2009.

Distributions to Challenger shareholders on their shares between 2 August 2004 and the date of this Notice of Meeting have totalled 5 cents per Challenger share.

Any unvested shares will not vest if Mr Tilley has been in material breach of his employment contract.

What happens if the shares fail to meet a target return?

If the return for a period does not equal or exceed the target return for that period, the relevant proportion of shares that could have been released in respect of that period will not be released and will not vest at the end of that period.

If the return for any subsequent period equals or exceeds the target return for that period, then the shares that could have, but (because of the return for an earlier period failing to equal or exceed the target return for that period) have not previously been released, will be released with effect from the end of that subsequent period and will vest. Shares that are not released on 2 August 2009 will not vest.

Loan to fund the issue price of shares:

The acquisition of shares will be funded by a loan to be provided by Challenger (Loan) and secured solely against the shares. The Loan will be non-recourse to Mr Tilley. The shares will be held by a Custodian, appointed by Challenger, until those shares are disposed of or the Loan is repaid in full. The material terms of the Loan are:

- interest on the Loan will be equal to the cash amount of dividends paid on the shares;
- capital distributions which are made on the shares will, to the extent of the capital distribution, be applied to reduce any outstanding Loan amount on the shares;
- subject to early repayment provisions discussed below, the Loan in respect of the shares is repayable on the earlier of the sixth anniversary of the reference date for the shares (2 August 2004), or an earlier date when the shares are sold;
- if Mr Tilley defaults in repaying the Loan when due, the shares may be sold by the Custodian, bought back by Challenger or cancelled, subject to compliance with legal requirements. The net proceeds are to be applied to repay the Loan with any excess, in respect of vested shares, to be paid to Mr Tilley;
- Mr Tilley does not need to make up any shortfall if the proceeds of sale are insufficient to discharge the Loan amount. In other words, the amount of the Loan is non-recourse to the participant, but recourse to the shares;
- 50% of any non-cash distributions (other than rights issues and bonus issues) on the shares must be applied to reduce any outstanding Loan amount on the shares, with the balance being provided to Mr Tilley. Bonus issues will become part of the shares; and
- If Mr Tilley does not, at his own cost, fund any rights issue entitlements then, to the extent possible, the Custodian will sell a sufficient number of rights to fund both the exercise of the remaining rights and a payment to Mr Tilley of 50% of the net proceeds of sale. Rights which are exercised on this basis will become part of the shares.

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