

Dear shareholder,

On 27 August 2007, Challenger announced it was entering into a series of strategic relationships that will provide Challenger with significant opportunities over the medium to long term. Shareholders are being asked to consider a series of resolutions relating to these developments at an Extraordinary General Meeting, details of which are provided in the enclosed notice of meeting.

Resolution 1 – Colony Marlin-Holdings, LLC ('Colony')

The first resolution concerns a new relationship that has been formed with Colony, a private, international investment firm focusing primarily on real estate related assets and operating companies. Challenger and Colony believe that the complementary skills of both companies in real estate and selected commercial and residential developments, combined with Colony's global reach, will provide significant opportunities over the medium to long term.

As part of this relationship, Colony will acquire an option over 57.1 million Challenger ordinary shares, exercisable over a 5 year period at \$7.00 per share. Colony will pay \$64 million in connection with the grant of the option. These funds will be used to fund organic growth and investment opportunities for Challenger, as well as support the general working capital requirements of the company.

The issue of these options does not require shareholder approval as it does not exceed the 15% limit under ASX Listing Rule 7.1. What is being sought is ratification for the issue of the options, under ASX Listing Rule 7.4. This would provide Challenger with the ability to raise further capital in the next 12 months without obtaining shareholder approval first. This would be particularly important should Challenger need to raise capital for an investment opportunity, which in a competitive situation may be lost as a consequence of the delay associated with obtaining such approval.

Resolution 2 – The Bank of Tokyo-Mitsubishi UFJ, Ltd and Mitsubishi UFJ Securities Co. Ltd ('BTMU and MUS')

Challenger, BTMU and MUS propose to enter into a long term strategic relationship to pursue opportunities in Australia, Japan and the Asian region. The parties plan to pursue opportunities for mutual co-operation in the Asian region, in particular relating to real estate, structured credit, mortgage origination and securitisation, other investment banking products and the distribution of investment products. BTMU and MUS have extensive operations throughout Asia.

As part of this relationship, subject to receiving Challenger shareholder approval, BTMU and MUS intend to subscribe for 40 million new Challenger shares at \$5.20 per share. Once again these funds will be used to fund organic growth and investment opportunities for Challenger, as well as support the general working capital requirements of the company.

Resolution 3 – Approval of the issue of options to Michael Tilley

The commencement of these strategic relationships marks the beginning of an exciting new phase of growth for Challenger. The Board of Challenger Financial Services Group Limited ('the Board') recognizes that stability of leadership is imperative if the opportunities presented by these new relationships are to be fully maximized. Hence the Board has reviewed the remuneration of Challenger's Chief Executive Officer, Michael Tilley, to ensure the appropriate incentives are in place to retain Mr Tilley's services during the next stage of Challenger's development.

Consistent with Challenger's reward strategy to align business and individual performance, the Board has resolved, subject to shareholder approval, to issue 4,000,000 options, at an exercise price of \$5.20, to Mr Tilley as part of his overall remuneration package. The Board has imposed a vesting condition on these options so that they only vest after particular performance targets are met and only after the fourth anniversary of their date of issue. The structure proposed will assist in achieving the Board's objective of retaining Mr Tilley for the foreseeable future, as well as provide the appropriate link to shareholder goals of company performance and increased shareholder value.

Notice of Extraordinary General Meeting

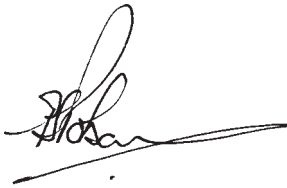
The Board unanimously recommends that shareholders approve the three resolutions. These resolutions will be put to shareholders at an Extraordinary General Meeting, which is being held at 1.30pm on 19 October 2007, at the State Room of the Hilton Hotel, 488 George Street, Sydney.

The explanatory notes section of the Notice of Extraordinary General Meeting contains important information about these resolutions and I encourage you to read the notice carefully.

I hope that you will join us in person at the Extraordinary General Meeting, otherwise a proxy form and a reply paid envelope have been included to assist you with voting on these proposals.

On behalf of the Board, I thank you for your continued support.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter Polson', with a long horizontal flourish extending to the right.

Peter Polson
Chairman