

Challenger Financial Services Group Limited

Notice of Extraordinary General Meeting



NOTICE is hereby given that an Extraordinary General Meeting of shareholders of Challenger Financial Services Group Limited ('the Company' or 'Challenger') will be held at Level 2, State Room of the Hilton Sydney, 488 George Street, Sydney NSW, on Friday, 19 October 2007 at 1.30 pm

Business

Ratification of agreement to issue options to Colony

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

1. That the agreement to issue 57,142,857 options to Colony Marlin-Holdings, LLC or its nominated affiliates ('Colony') be approved for all purposes, including under ASX Listing Rule 7.4.

The terms of the options, the price at which they will be issued and the intended use of the funds raised by the issue of the options are summarised in the Explanatory Notes that accompany this Notice of Meeting.

Approval of issue of ordinary shares

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

2. That the issue of 40,000,000 fully paid ordinary shares in the capital of the Company at the issue price of \$5.20 per share to The Bank of Tokyo-Mitsubishi UFJ, Ltd and Mitsubishi UFJ Securities Co. Ltd or their nominated affiliates ('BTMU and MUS') be approved for all purposes, including under ASX Listing Rule 7.1.

The terms of the ordinary shares and the intended use of the funds raised by the issue of those shares are summarised in the Explanatory Notes that accompany this Notice of Meeting.

Approval of options to be issued to Michael Tilley

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

3. That approval be given to the issue of 4,000,000 options to Michael Tilley under the Challenger Performance Plan for all purposes under the Corporations Act and the ASX Listing Rules.

The other details required by the ASX Listing Rules to be disclosed in relation to Resolution 3 are contained in the Explanatory Notes that accompany this Notice of Meeting.

Voting Exclusion Statement

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

- Resolution 1 (Ratification of issue of options) by Colony and its associates.
- Resolution 2 (Approval of issue of ordinary shares) by BTMU and MUS and any person who might obtain a benefit if the resolution is passed, except a benefit solely in the capacity of a holder of ordinary shares in the Company, and their associates;
- Resolution 3 (Approval of options to be issued to Michael Tilley) 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 it is cast by the Chairman of the meeting 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
13 September 2007

Information for shareholders

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 780 782.

For an appointment of a proxy to be effective, the Company must receive the proxy form duly completed and signed by no later than 1.30 pm on Wednesday, 17 October 2007; 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/proxy/cgf 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 7.00 am on Wednesday, 17 October 2007, 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 12.30 pm 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 – Ratification of issue of the options to Colony

On 25 August 2007, the Company agreed to issue 57,142,857 Challenger options ('Options') to Colony Marlin-Holdings, LLC or its nominated affiliates ('Colony') and Colony agreed to pay the Company \$63,960,000 in connection with the issue of the Options. The funds to be raised from the issue are to be used to fund organic growth and investment opportunities, as well as supporting the general working capital requirements of the Company.

Colony is an institutional shareholder falling within the definition of 'sophisticated investor' and 'professional investor' under sub-sections 708(8) and 708(11), respectively, of the Corporations Act 2001 (Cth). It is expected that the Options will be issued to Colony within 3 months of the extraordinary general meeting (if not beforehand).

A nominee of Colony will be invited to join the Board following the issue of the Options.

The terms of the options are as follows:

- each Option entitles Colony to subscribe for one fully paid ordinary share in the capital of the Company (subject to increases for bonus issues and adjustments for reconstructions in accordance with the ASX Listing Rules);
- the exercise price for each Option is \$7.00, (subject to adjustment for pro rata issues and reconstructions in accordance with the ASX Listing Rules);
- each Option may be exercised at any time during the 30 day period following the release to the ASX of the Company's half-year or full-year results or the date of the Company's annual general meeting or on the date prior to any record date for determining entitlements under a bonus issue or pro-rata issue;
- in addition, the Options may be exercised following a takeover bid, scheme of arrangement or other transaction relating to the Company's shares which has become unconditional and as a consequence a person

will become entitled to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of the Company;

- the Company will apply for quotation of ordinary shares issued on the exercise of the Options, which will rank equally with existing ordinary shares as at the date of issue;
- the Options are transferable but will not be quoted on ASX;
- the Options lapse on the later of the fifth anniversary of the issue date and Challenger's 2012 Annual General Meeting.

ASX Listing Rule 7.1 limits the maximum number of equity securities that can be issued in any 12 month period without shareholder approval to 15% of the number of fully paid ordinary shares on issue 12 months before the date of issue. The Options are included for the purposes of calculating this limit because they are options over unissued securities (being ordinary shares in the Company).

It is important to note that Resolution 1 is not a resolution as to whether to proceed with the issue of the Options. The Company has already agreed, subject to satisfaction or waiver of certain conditions, to issue (and may have, before the meeting, issued) the Options to Colony and did not require shareholder approval to do so because the issue of the Options (taken together with the equity securities issued by the Company in the preceding 12 months without either shareholder approval or being issued under an exception to ASX Listing Rule 7.1), do not exceed the 15% limit under ASX Listing Rule 7.1. Resolution 1 relates to the Company's ability to raise additional capital in the next 12 months without first obtaining shareholder approval.

Under ASX Listing Rule 7.4, the shareholders may ratify an issue of equity securities made without shareholder approval where the 15% limit has not been infringed. Resolution 1 ratifies the entry by the Company into the Agreement for the issue of the Options.

If Resolution 1 is approved, the Company will be able to disregard the issue of the Options to Colony when calculating the maximum number of equity securities that may be issued in the 12 months after the issue of the Options for the purposes of ASX Listing Rule 7.1. The ability of the Company to raise capital without obtaining shareholder approval is particularly important in situations where the Company needs to raise capital for an investment opportunity, which in a competitive situation may be lost by virtue of the delay due to the Company convening a general meeting to obtain such approval.

Recommendation

The Board unanimously recommends that the shareholders approve the issue of the Options to Colony.

Item 2 – Approval of issue of ordinary shares

Subject to receiving shareholder approval, the Company has agreed to issue 40,000,000 fully paid ordinary shares in the capital of the Company to The Bank of Tokyo-Mitsubishi UFJ, Ltd and Mitsubishi UFJ Securities Co. Ltd, or their nominated affiliates ('BTMU and MUS') for the issue price of \$5.20 per share. The issue of the shares to BTMU and MUS will take place five (5) business days after the extraordinary general meeting.

BTMU and MUS are institutional shareholders falling within the definition of 'sophisticated investor' and 'professional investor' under sub-sections 708(8) and 708(11), respectively, of the Corporations Act 2001 (Cth).

It is intended that the proceeds of the issue of the shares will be used to fund organic growth and investment opportunities, as well as supporting the general working capital requirements of the Company.

The ordinary shares will rank equally with all existing ordinary shares in the capital of the Company at the date of issue.

A nominee of BTMU will be invited to join the Board following the issue of the shares.

Resolution 2 relates to shareholder approval of the issue of ordinary shares to BTMU and MUS for the purposes of ASX Listing Rule 7.1. ASX Listing Rule 7.1 limits the maximum number of equity securities (such as ordinary shares) that can be issued in any 12 month period without shareholder approval to 15% of the number of fully paid ordinary shares on issue 12 months before the date of issue.

If Resolution 2 is approved (and assuming that Resolution 1 is also approved), the Company could in addition to the issue of the shares to BTMU and MUS, issue up to an additional 15% of shares (or other equity securities) without first obtaining shareholder approval under ASX Listing Rule 7.1 (subject to issues of options which have been made under Challenger's Performance Plan). The ability to raise additional capital quickly could, for example, enable the Company to take advantage of any significant investment opportunities which may otherwise be missed as a result of delays in raising capital incurred due to the requirement for obtaining shareholder approval.

If Resolution 2 is approved but Resolution 1 is not approved, the Company may issue the shares to BTMU and MUS and the options to Colony, but the issue of options to Colony will be included for the purposes of determining the number of equity securities which can be issued by the Company in the 12 months following their issue without first obtaining shareholder approval under ASX Listing Rule 7.1.

If Resolution 2 is not approved but Resolution 1 has been approved, the issue of the shares may still occur, but the failure to approve the issue of shares to BTMU and MUS for the purposes of ASX Listing Rule 7.1 means that the number of shares (or other equity securities) that the Company may issue in the next 12 months without the approval of the shareholders will be reduced by the number of shares issued to BTMU and MUS. For the

reasons earlier described, this may curtail the Company's ability to take advantage of future opportunities which require the Company to raise capital in a short time frame.

If neither Resolution 2 or Resolution 1 are approved, then the Company would be unable to comply with its obligations under the agreement with BTMU and MUS, and BTMU and MUS would be entitled to terminate the agreement forthwith.

Recommendation

The Board unanimously recommends that the shareholders approve the issue of the ordinary shares to BTMU and MUS.

ITEM 3 – APPROVAL OF THE ISSUE OF OPTIONS TO MICHAEL TILLEY

On 24 August 2007 the Board resolved, subject to shareholder approval, to issue 4,000,000 options at an exercise price of \$5.20 ('Performance Options') to Michael Tilley, the Chief Executive Officer of the Company pursuant to the Challenger Performance Plan ('Plan') as part of Mr Tilley's remuneration.

Description of terms of grant

Subject to satisfaction of the performance targets described below, each Performance Option entitles Mr Tilley on or within 150 days of the fourth anniversary of the date of issue of the Performance Options (or such later date as determined by the Board) to subscribe for one fully-paid ordinary share in the capital of the Company on payment by Mr Tilley of the exercise price.

Performance targets

The Board has imposed a vesting condition on the Performance Options so that they only vest after a performance target has been satisfied. The performance targets have been chosen by the Board in order to link remuneration to the important shareholder goals of Company performance and increase in shareholder value.

In order for 100% of the Performance Options issued to Mr Tilley to vest, the Company must have experienced compound growth in the earnings per share of 10% per annum during the financial years from 1 July 2007 to 30 June 2011.

If that target is not satisfied, but the 'total shareholder return' is greater than or equal to the 75th percentile of the total shareholder returns of other S&P ASX 100 companies for that period then 100% of those options will vest.

If neither of these targets are satisfied, but the 'total shareholder return' is greater than the 50th percentile of the total shareholder returns of other S&P ASX 100 companies, then 50% of those options will vest. For each part of a percentile by which 'total shareholder return' exceeds the 50th percentile of the total shareholder returns of other S&P ASX 100 companies, up to the 75th percentile, an additional portion of the options will vest pro rata on a straight line basis. (For example, if 'total shareholder return' is at the 62.5 percentile of other S&P ASX 100 companies, 3 million options will vest).

For these purposes 'total shareholder return' is determined by calculating the amount by which the sum of the 30 day volume weighted average price ('VWAP') for the Company's ordinary shares in the period up to and including 23 August 2011 and the dividends paid on an ordinary share in the Company between 24 August 2007 and 23 August 2011 exceeds the 30 day VWAP for the Company's ordinary shares in the period up to and including 24 August 2007, expressed as a percentage. The 'total shareholder return' for the other S&P ASX 100 companies will be calculated in a similar manner.

If none of those performance targets have been reached at the end of the four year vesting period, the options will lapse. No re-testing is allowed.

A basic Black & Scholes valuation of the Performance Options based on the closing price of Challenger shares on 24 August 2007 returns a value of \$1.23 per Performance Option. This valuation does not take into account that performance hurdles have to be satisfied.

Other key terms of the proposed grant

- Disposal of ordinary shares issued to Mr Tilley upon exercise of the Performance Options will be subject to Challenger's staff security trading policy.
- On Mr Tilley's death or cessation of employment due to retirement (if retirement occurs after 1 August 2011), or total or permanent disablement, Mr Tilley will maintain entitlement to Performance Options as if he had remained an employee.

Where Mr Tilley resigns his employment or his employment is terminated due to poor performance for cause, all Performance Options will lapse at the date he ceases to be employed by Challenger.

Where Mr Tilley ceases employment for any reason other than those described above, Mr Tilley will maintain entitlement to Performance Options as if he had remained an employee.

- Where a change of control in the Company has occurred, the Performance Options will vest immediately. A change of control occurs when a person acquires shares such that the person has a relevant interest in more than 50% of the shares of the Company.
- The Performance Options will not attract dividends and voting rights until they are exercised and ordinary shares are issued.

ASX Listing Rule 10.15 requires this Notice of Meeting to include the following information in relation to the proposed issue of Performance Options to be made to Mr Tilley pursuant to the Plan:

- The maximum number of Performance Options that may be issued to Mr Tilley is 4,000,000.
- The Performance Options will be issued for no monetary consideration, however, upon the exercise of each option Mr Tilley will be required to pay to the Company an amount equal to the exercise price of the option.
- Mr Tilley is currently the only director entitled to participate in the Plan. The Plan was established on 4 January 2007. No previous issues of options have

been made to Mr Tilley under the Plan. Further, non-executive directors do not participate in the Plan nor can associates of the directors. Accordingly, no other directors or associates of directors have been issued with Performance Options under the Plan.

- No loan will be provided by the Company in relation to the grant or exercise of the Performance Options
- The Performance Options will be issued to Mr Tilley no later than three months after the date of the Meeting.

Approvals sought

ASX Listing Rule 10.14 provides that the Company must not permit a director to acquire securities under an employee incentive scheme without the approval of holders of ordinary securities of the acquisition (unless the securities are purchased on market under the terms of a scheme that provides for purchase of securities by or on behalf of employees or directors, which is not the case with options issued under the Plan). Accordingly, approval is being sought for the purpose of ASX Listing Rule 10.14.

Under Section 200B of the Corporations Act, a company may only give a person a benefit in connection with their ceasing to hold a board or managerial office in the company or a related body corporate if it is approved by shareholders or an exemption applies. Accordingly, approval is also sought for any benefit which Mr Tilley may receive under the Plan if, for example, he is totally and permanently disabled.

Recommendation

The Board, other than Mr Tilley, unanimously recommends that the shareholders approve the issue of the Performance Options to Mr Tilley.

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