

Challenger Financial Services Group Limited

Notice of Annual General Meeting 2007



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 Hilton Hotel Sydney, 488 George Street, Sydney NSW, Ballroom A on Thursday, 22 November 2007 at 10.30am

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 financial year ended 30 June 2007.

Election of Directors

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

2. That Mr Peter Polson 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 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.
4. 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.

Remuneration Report

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

5. That the Remuneration Report for the year ended 30 June 2007 be adopted.

Non-Executive Directors' Remuneration

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

6. That the maximum aggregate amount of remuneration available to be paid to Non-Executive Directors be increased by \$500,000 per annum from \$1,500,000 per annum to \$2,000,000 per annum.

Challenger Performance Plan

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

7. That for all purposes under the Corporations Act and Listing Rules of ASX Limited, including the purposes of Listing Rule 7.2 (Exception 9), approval be given to the equity-based reward plan called the Challenger Performance Plan for the provision of long term incentives to Executive Directors, executives and employees of Challenger and its subsidiaries and the granting of options in accordance with the terms of the Challenger Performance Plan.

The terms of the Challenger Performance Plan are summarised in the Explanatory Notes that accompany this Notice of Meeting.

Ratification of the issue of options under the Challenger Performance Plan

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

8. That the issue of 15,575,000 options to participants under the Challenger Performance Plan be approved for all purposes, including under ASX Listing Rule 7.4.

Details of the options issued under the Challenger Performance Plan, together with the terms of the options and other details required by the ASX Listing Rules are summarised 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 6 (Non-Executive Directors' remuneration) by all Directors of the Company and their associates.
- Resolution 7 (Challenger Performance Plan) by any Executive Director of the Company and their associates.
- Resolution 8 (Ratification of the issue of options under the Challenger Performance Plan) by any person who participated in the issue of the options and their 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

17 October 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 10.30am on Tuesday, 20 November 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

The Board has determined that for the purposes of the meeting, those members registered as holding shares at 7.00pm on Tuesday, 20 November 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 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.

Questions and Comments by Shareholders at the meeting

In accordance with the Corporations Act, a reasonable opportunity will be given to shareholders – as a whole – to ask questions about or to make comments on Challenger’s management or its Remuneration Report at the meeting. Similarly, a reasonable opportunity will be given to shareholders – as a whole – to ask Challenger’s auditor, Ernst & Young, questions about:

- the conduct of the audit;
- the preparation and content of the auditor’s report;
- the accounting policies adopted by the Company in relation to the preparation of its financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

Shareholders may also provide written questions to the auditor concerning the content of the audit report or the conduct of the audit of the Company’s financial report for the financial year ended 30 June 2007 in advance of the meeting. Written questions must be submitted to the Company no later than 5.00pm on Thursday, 15 November 2007, and should be addressed as follows:

The Company Secretary
Challenger Financial Services Group Limited
Level 15,
255 Pitt 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.

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 2007 will be laid before the meeting in accordance with the requirements of the Corporations Act 2001 (Cwlth) ('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, 3 and 4 – Election of Directors by rotation

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 order.

Accordingly, Messrs Polson, Cubbin and Hooper will retire by rotation at the 2007 Annual General Meeting (AGM) and, being eligible, each offers himself for re-election as a director at the meeting. Mr Service and Ms Shanahan will not be offering themselves for re-election.

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.

Mr Polson was appointed to the Challenger Board on 6 November 2003. Mr Polson retired from the Commonwealth Bank in October 2002, where he held the position of Group Executive, Investment and Insurance Services, responsible for all investment and insurance services for the group. Mr Polson joined the Colonial group in 1994 prior to its acquisition by the Commonwealth Bank. Previously, Mr Polson was Managing Director of National Mutual Funds Management (International) Limited.

Committees

Mr Polson is Chairman of both the Remuneration Committee and the Nomination Committee.

Mr Cubbin was appointed to the Challenger Board on 6 January 2004. Mr Cubbin has previously 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 a member of the Nomination Committee.

Mr 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.

Committees

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

Recommendation

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

Item 5 – Remuneration report

The Annual Report for the year ended 30 June 2007 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 24 to 31 of the Annual Report and can also be found on Challenger's website at www.challenger.com.au.

This resolution, 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 this resolution is advisory only; it does not bind the Directors or the Company.

A reasonable opportunity will be provided for discussion of and questions relating to the Remuneration Report at the meeting.

Item 6 – Non-Executive Directors' remuneration

Item 6 proposes an increase in the maximum amount of fees that can be paid to Non-Executive Directors each year from \$1,500,000 per annum to \$2,000,000 per annum, an increase of \$500,000 per annum. The resolution for Item 6 is proposed for the 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.

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 \$2,000,000 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 Board 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 7 – Challenger performance plan

The Company's remuneration framework offers a mix of short-term employment benefits (such as fixed remuneration and short-term incentive), post-employment benefits (superannuation) and equity-based reward plans.

The Board believes that equity-based rewards are a key tool in enabling the achievement of superior and sustainable performance for shareholders by providing direct alignment between the interests of executives, key employees and shareholders.

Under the Challenger Performance Plan ('Plan') the Board may at any time make an offer of options ('Performance Options') and/or an offer of rights ('Performance Rights') to any Executive Director, senior executive or employee of the Company or of a subsidiary of the Company ('eligible participants'). The terms and conditions of the offer, including the exercise price of the options and any vesting conditions, are in the sole discretion of the Board.

The Board seeks shareholder approval of:

- the Plan (to replace existing Long Term Incentive Plan previously approved by shareholders ('LTIP')); and,
- the grant of Performance Rights and Performance Options under the Plan for all purposes under the Corporations Act and the Listing Rules of ASX Limited ('Listing Rules').

The Plan is a flexible scheme that provides for the award of either or both Performance Options or Performance Rights to each eligible participant. Directors other than Executive Directors are not eligible to participate in the Challenger Performance Plan.

At the date of this Notice of Annual General Meeting, the Company has issued 15,575,000 Performance Options and 4,731,063 Performance Rights to eligible participants of the Plan.

The Board believes that the Plan;

- aligns the interests of Executive Directors, senior executives, key employees and shareholders;
- is of a contemporary design and is in line with market best practice;
- is simple for participants to value as part of their annual remuneration;

- acts as an effective reward, motivation and retention mechanism for key employees across the business; and
- in relation to Performance Options awards, represents a pay for performance component of executive remuneration.

Key features of the Challenger Performance Plan

The Board is responsible for administering the Plan in accordance with the Challenger Performance Plan Rules ('Plan Rules') and the terms and conditions of the specific grants to participants in the Plan. The Plan Rules include the following provisions:

- 1 Executive Directors, executives, full-time and part-time employees of the Company or any of its subsidiaries and any other person determined by the Board may be offered the opportunity to participate in the Plan by the Board ('Participants').
 - 2 The Plan Rules permit the Board to award either or both:
 - a) 'Performance Options', which are options to acquire either an issued share or an unissued share in the Company. If shares are issued they will be fully-paid ordinary shares which rank equally in all respects with issued ordinary shares in the capital of the Company; and/or
 - b) 'Performance Rights', which are conditional rights to acquire a share in the Company by transfer.
 - 3 The Board shall determine the terms and conditions of any offer of Performance Options or Performance Rights. The terms and conditions of any offer will include:
 - a) the number of Performance Options and/or Performance Rights offered,
 - b) the amount payable on the grant of a Performance Option (if any),
 - c) the amount payable on the exercise of a Performance Option (if any),
 - d) the expiry date of the grant and the vesting conditions (if any), and
 - e) the class of shares or any rights attaching to the class of shares in respect of the relevant Performance Options and/or Performance Rights.
- At its discretion, the Board may impose additional terms and conditions on any offer.
- 4 Each Performance Option will only vest and become exercisable and each Performance Right will only vest if the applicable vesting conditions have been satisfied or waived by the Board. The Board shall determine whether the vesting conditions have been satisfied.
 - 5 The vesting conditions (if any) may include performance requirements and/or time based conditions. Whilst the Plan provides that the expiry of the term set by the Board must not exceed 10 years from the date of the grant, the Board's intention is that Performance Options should vest over 4 years, and Performance Options issued to date have all had 4 year vesting periods.
 - 6 The Board has broad discretion to determine when a Performance Option or Performance Right shall lapse and when a Performance Option shall be incapable of exercise. Generally, unless the Board determines otherwise, this will occur:
 - a) if a Participant was an employee, on the date the Participant ceases to be an employee;
 - b) where Performance Options or Performance Rights have vested and have not been exercised, and a Participant voluntarily resigns, 60 days after the Participant ceases to be an employee;
 - c) where Performance Options or Performance Rights have vested and have not been exercised, and a Participant retires, is retrenched, made redundant, dies or suffers permanent incapacity, 180 days after the Participant ceases to be an employee;
 - d) where an employee is employed by or for a company which was, but ceases to be, a subsidiary of the Company, 180 days after the company ceases to be a subsidiary of the Company;
 - e) the date a Participant who is an Executive Director (but is no longer an employee) ceases to hold office;
 - f) where the Performance Option and/or Performance Right has vested and have not been exercised, and a Participant who was an Executive Director but not an employee retires, dies or suffers permanent incapacity, the date 180 days after the Participant ceases to hold office;
 - g) the Board determining that the vesting conditions have not been satisfied on the date by which they are required to be satisfied or are incapable of being met;

- h) a Participant committing an act of dishonesty, being deemed ineligible to hold office for the purposes of Part 2D.6 of the Corporations Act, being found to have acted in a manner that the Board considers to be gross misconduct or being dismissed with cause.
- 7 The Board may impose disposal restrictions on any share acquired upon exercise of a Performance Option and/or Performance Rights granted under the Plan.
- 8 If in the Board's opinion there has been or will be a change of control in the Company, the Board may determine the manner in which the Performance Options and/or Performance Rights will be dealt with providing that any determination does not adversely affect the accrued rights of Participants. This may include acceleration of their vesting.

Effect of Resolution 7

If Resolution 7 is passed:

- a) any benefits received by a Participant under the Plan upon cessation of employment will not be prohibited under the retirement benefit provisions of section 200B of the Corporations Act. Benefits may include the early vesting of Performance Options or Performance Rights or the release of disposal restrictions on shares approved by the Board in limited circumstances set out in the rules of the Plan. The value of any such benefits cannot be ascertained at the time of issuing this Notice of Meeting. However, the calculation of the value of the benefits would be affected by the number of Performance Options or Performance Rights which are allowed to be exercised with the discretion of the Board and the market value of the Company's shares at the time of exercise; and
- b) any Performance Options or Performance Rights issued under the Plan will be excluded under ASX Listing Rule 7.2 exception 9 from the calculation of the maximum number of securities that can be issued by the Company in any 12 month period under ASX Listing Rule 7.1 (currently 15% of shares previously on issue) for a period of 3 years from the date of this approval.

The Board considers that the Plan is in the best interests of shareholders, as the Plan strengthens the link between performance and remuneration and acts as a tool to assist in the retention of all employees critical to Challenger's success.

Recommendation

The Non-Executive Directors unanimously recommend that shareholders vote in favour of the Plan and in favour of grants of Performance Options under the Plan.

Item 8 – Ratification of the issue of options under the Challenger performance plan

Under the Challenger Performance Plan ('Plan') the Board may at any time make an offer of options ('Performance Options') and/or offer of rights (Performance Rights) to any Executive Director, senior executive or employee of the Company or of a subsidiary of the Company ('eligible participants'). The terms and conditions of the offer, including the exercise price of the options and any vesting conditions, are at the sole discretion of the Board.

Subject to the Board determining otherwise prior to an offer of Performance Options made under the Plan, and pending the satisfaction or waiver of any applicable vesting condition, each Performance Option entitles the holder to subscribe for one fully-paid ordinary share in the capital of the Company which will rank equally in all respects with the ordinary share capital of the Company.

Pursuant to the Plan, a total of 15,575,000 Performance Options have been, or will before the date of the meeting be, issued to eligible participants under the Plan¹ as follows:

Date	Number of Performance Options	Exercise Price
27 February 2007	7,600,000	\$4.00
21 May 2007	200,000	\$3.5545 ²
28 September 2007	7,725,000	\$5.5653 being the five day volume weighted average price of Challenger shares up to and including 14 September 2007

¹ This does not include 4 million Performance Options put for approval at the Extraordinary General Meeting of 19 October 2007 in favour of Chief Executive Officer, Mike Tilley.

² Options granted in place of previous employment arrangements. Exercise price of \$3.5545 being the relevant reference price in September 2006 pursuant to the then Challenger LTIP employee share scheme.

Allotees under each tranche were determined by the Board on the basis of applying the Company's remuneration policy which is designed to align the interest of key executives and shareholders.

The Performance Options were issued for no consideration. The funds raised on any exercise of the Performance Options will be used for the Company's general working capital purposes.

In relation to the Performance Options issued to date and listed above, the Board has imposed a vesting condition so that they do not vest until 4 years after the date of the offer of the Performance Option to the relevant person and only then after performance targets have 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. Options must be exercised within 60 days of the 4 year vesting period, otherwise they lapse.

The exception to these vesting arrangements is that 2,000,000 of the Performance Options issued on 28 September 2007 will vest over 4 years, one third to vest on each of the second, third and fourth anniversary of offer to the Participant. These Performance Options were granted as part of a sign on arrangement for an executive. These Performance Options are otherwise subject to the same terms and vesting conditions as the other Performance Options granted on 28 September 2007, subject to performance conditions being assessed on the second, third and fourth anniversary of offer.

In order for 100% of the Performance Options issued to a person to vest, the Company must have experienced compound growth in the earnings per share of 10% per annum or more during the financial years between the date of issue of the Performance Option and the date four years after the offer.

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 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 the performance test date and the dividends paid on an ordinary share in the Company over the vesting period exceeds the 30 day VWAP for the Company's ordinary shares in the period up to and including the date of offer, 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 vesting period, the options will lapse. No re-testing is allowed.

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 Performance Options are included for the purposes of calculating this limit because they are an option over an unissued security (being ordinary shares in the Company).

Resolution 8 is not a resolution as to whether to proceed with the issue of the Performance Options. The Company has already issued the Performance Options referred to in the table above to eligible participants under the Plan and did not require shareholder approval to do so because the issue of the Performance Options (taken together with the number of 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), did not exceed the 15% limit under ASX Listing Rule 7.1. Resolution 8 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 8 ratifies the issue by the Company of the Performance Options and would therefore provide the Company with greater flexibility in raising equity capital, which would be of benefit to the Company for the reasons discussed above.

Recommendation

The Board unanimously recommends that the shareholders approve the issue of the Performance Options under the Plan.

Level 15
255 Pitt Street
Sydney NSW 2000
telephone 02 9994 7000
facsimile 02 9994 7777

Level 10
101 Collins Street
Melbourne VIC 3000
telephone 03 8616 1000
facsimile 03 8616 1111

Level 9
175 Eagle Street
Brisbane QLD 4000
telephone 07 3218 8000
facsimile 07 3220 3132

Level 3
55 St Georges Terrace
Perth WA 6000
telephone 08 9223 7800
facsimile 08 9221 2499

Level 1
212 Pirie Street
Adelaide SA 5000
telephone 08 8228 3270
facsimile 08 8212 1661

Investor services
13 35 66

Adviser services
1800 621 009

www.challenger.com.au

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