

Challenger Financial Services Group Limited

Notice of Annual General Meeting 2008



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 Museum of Contemporary Art, 140 George Street, The Rocks, Sydney NSW, Foundation Hall, on Thursday, 20 November 2008 at 10.30 am

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 2008.

Election of Directors

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

2. That Mr Ashok Jacob, 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 James Packer, 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 Thomas Barrack Jr., who retires in accordance with clause 6.1 of the Constitution of the Company, be re-elected as a Director of Challenger.
5. That Mr Tatsuo Tanaka, who retires 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:

6. That the Remuneration Report for the year ended 30 June 2008 be adopted.

Chief Executive Officer Entitlements

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

7. That for all purposes under the Corporations Act 2001 (Cwlth) ('Corporations Act') and the Listing Rules of the Australian Securities Exchange ('ASX Listing Rules'), including (as applicable) for the purposes of ASX Listing Rule 10.14 and section 200B of the Corporations Act, approval be given to:

- the issue of 5,500,000 performance options to Mr Dominic Stevens under the Challenger Performance Plan in accordance with the terms of the proposed service agreement ('Service Agreement') between Challenger and Mr Dominic Stevens ('2008 Performance Options') and the issue of fully-paid ordinary shares in Challenger to Mr Dominic Stevens on the exercise of some or all of the 2008 Performance Options;
- the provision of benefits under the terms of the Service Agreement in connection with Mr Dominic Stevens ceasing to hold a board or managerial office in Challenger,

each on the terms and conditions as more particularly described in the Explanatory Notes to this Notice of Meeting.

The other details required by the ASX Listing Rules to be disclosed in relation to Resolution 7 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 any votes cast on Resolution 7 (Chief Executive Officer Entitlements) by a director of Challenger (except one who is ineligible to participate in any employee incentive scheme in relation to Challenger) 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 if 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 Robson

Company Secretary
16 October 2008

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, 18th November 2008; 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.investorvote.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 2555; or
- posting it by using the reply paid envelope to:
Computershare Investor Services Pty Limited
GPO Box 242, Melbourne Vic 3001; 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, 18 November 2008, 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 2001, 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 2008 in advance of the meeting. Written questions must be submitted to the Company no later than 5.00pm on Thursday, 13 November 2008, 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 2008 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 by rotation

In accordance with Challenger's Constitution, it is necessary for one-third of the directors, excluding the Managing Director (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 who were last elected as directors on the same day shall stand for re-election will be alphabetical.

Accordingly, Messrs Jacob and Packer will retire by rotation at the 2008 Annual General Meeting 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.

Mr Jacob was appointed to the Challenger Board on 6 November 2003. Mr Jacob is Chief Executive Officer of Consolidated Press Holdings Limited (CPH). Prior to joining CPH in 1998 he was the Managing Director of the investment arm of the Pratt group of companies.

Mr Jacob is a Director of Consolidated Media Holdings Limited, Crown Limited and Ellerston Capital Limited.

Committees

Mr Jacob is a member of the Nomination Committee.

Mr Packer was appointed to the Challenger Board on 6 November 2003. Mr Packer is Executive Chairman of Consolidated Press Holdings Limited. Mr Packer is Executive Chairman of Crown Limited, Executive Deputy Chairman of Consolidated Media Holdings Limited, Chairman of SEEK Limited and a director of Ellerston Capital Limited and Sunland Group Limited.

Committees

Mr Packer is a member of the Nomination Committee and the Remuneration Committee.

Recommendation

The Board has significantly benefited from the depth of Mr Jacob's and Mr Packer's commercial and financial experience and their background in the markets in which Challenger operates. The Board (other than Mr Jacob and Mr Packer in relation to their own re-election) unanimously recommends that shareholders vote in favour of the re-election of both Mr Jacob and Mr Packer.

Items 4 and 5 – Election Of Directors appointed by the Board

In accordance with Challenger's Constitution, two directors, Mr Thomas Barrack Junior and Mr Tatsuo Tanaka, have been appointed since the last Annual General Meeting and are standing for re-election.

A brief description of each director follows.

Mr Barrack Jr. is the Founder, Chairman and Chief Executive Officer of Colony Capital LLC and Colony Advisors LLC. Prior to forming Colony, Mr Barrack was a principal with the Robert M. Bass Group, Inc. Mr Barrack also served in the Reagan Administration as Deputy Under

Secretary of the Department of the Interior. Previously, Mr Barrack was a Senior Vice President at EF Hutton in New York City and President of Oxford Development Ventures, Inc. Mr Barrack was appointed as a director on 22 November 2007.

Committees

Mr Barrack is a member of the Nomination Committee.

Mr Tanaka is Deputy President and Chief Executive of Global Business Unit for The Bank of Tokyo-Mitsubishi UFJ Limited (BTMU), where he has held this position since June 2008. Prior to this, Mr Tanaka held senior executive positions in BTMU before the mergers with UFJ Bank and Mitsubishi Bank. Mr Tanaka was appointed as a director on 22 November 2007.

Committees

Mr Tanaka is a member of the Nomination Committee.

Recommendation

The Board has significantly benefited from each of the contributions of Mr Barrack and Mr Tanaka. Challenger will continue to benefit from the strategic relationships that come with the shareholders that each of Mr Barrack and Mr Tanaka represent. The Board (other than Mr Barrack and Mr Tanaka in relation to their own re-election) unanimously recommends that shareholders vote in favour of the re-election of both Mr Barrack and Mr Tanaka.

Item 6 – Remuneration Report

The Annual Report for the year ended 30 June 2008 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 37 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 7 – Chief Executive Officer Entitlements

Mr Dominic Stevens commenced as CEO and Managing Director of Challenger on 1 September 2008.

Under the proposed Service Agreement between Challenger and Mr Stevens ('Service Agreement'), Mr Stevens' remuneration package comprises the following elements:

- salary package (consisting of base salary and superannuation contributions) of \$1,000,000;
- an annual short term incentive payable in cash and/or performance rights under the Challenger Performance Plan ('CPP'); and
- a long term incentive (as detailed below) comprising the grant of performance options under the CPP.

ASX Listing Rule 10.14 requires that Shareholders approve the acquisition of shares in Challenger or other securities by Directors of Challenger under an employee incentive scheme (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).

The CPP (which was approved by Shareholders at the 2007 Annual General Meeting) is an employee incentive scheme for this purpose and caters for the award of:

- performance rights, which are conditional rights to acquire a share in Challenger by transfer; and
- performance options, which are options to acquire either an issued share or an unissued share in Challenger. Such shares will be fully-paid and rank equally in all respects with issued ordinary shares in the capital of Challenger.

Under Resolution 7, Shareholders are being asked to approve the equity components of the CEO's remuneration package.

Shareholders are also being asked to approve, for the purposes of section 200B of the Corporations Act, the provision of benefits in connection with Mr Stevens ceasing to hold a board or managerial office on

termination under the terms of the Service Agreement (as described below). 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.

2008 Performance Options

Challenger proposes, within 30 business days of the date of Shareholder approval, to issue 5,500,000 performance options to Mr Stevens for no monetary consideration at an exercise price payable by Mr Stevens of \$2.36 per option ('2008 Performance Options'). The exercise price of the 2008 Performance Options reflects the volume weighted average price of shares in Challenger during the five trading days immediately before 25 August 2008, the date on which Mr Stevens' appointment as CEO of Challenger was announced.

The 2008 Performance Options will be eligible to vest on 25 August 2011.

However, the 2008 Performance Options will only vest if either the total shareholder return ('TSR') performance hurdle or the earnings per share ('EPS') performance hurdle, as described below, has been satisfied.

The 2008 Performance Options will vest under the TSR performance hurdle as follows:

- 100% will vest if Challenger achieves TSR compound annual growth of 15% or more in the period commencing 25 August 2008 and ending on 24 August 2011 ('Performance Period');
- if Challenger achieves TSR compound annual growth during the Performance Period equal to or greater than 10% but less than 15% a corresponding number of options will vest on a straight line basis. For example, if TSR compound annual growth is 10% then 50% will vest, if TSR compound annual growth is 12.5% then 75% will vest; and
- if Challenger achieves TSR compound annual growth of less than 10% during the Performance Period, none will vest under the TSR performance hurdle.

TSR is determined by calculating the amount by which the sum of the 30 day volume weighted average price ('VWAP') for Challenger's ordinary shares in the period up to and including 24 August 2011 and the dividends paid on an ordinary share in Challenger during the Performance Period exceeds the 30 day VWAP for Challenger's ordinary shares in the period up to and including 24 August 2008 expressed as a percentage.

All the 2008 Performance Options will vest under the EPS performance hurdle if Challenger achieves compound annual growth in its normalised EPS (as described below) of 10% or more in the period commencing 1 July 2008 and ending on 30 June 2011.

Under the EPS performance hurdle, the normalised basic EPS for the year ended 30 June 2008 was 37.1 cents per share as calculated under the normalised cash operating earnings methodology (as disclosed to the market on 25 August 2008).

Growth in normalised EPS will be measured by comparing normalised EPS in the base year (i.e. 37.1 cents per share) to the normalised EPS achieved for the year ended 30 June 2011.

Any 2008 Performance Options that have not vested as at 25 August 2011 will vest if, at any time up to and including 29 February 2012, Challenger achieves the TSR growth or EPS growth that would have enabled them to vest as at 25 August 2011.

Mr Stevens will have a period of 12 months in which to exercise any vested 2008 Performance Options.

If a change of control in Challenger occurs, and any 2008 Performance Options have not vested, they 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 Challenger or a person disposes of shares so that their relevant interest falls from more than 50% to less than 50%.

The 2008 Performance Options will not attract dividends and voting rights until they are exercised and ordinary shares are transferred or issued to Mr Stevens.

The maximum number of 2008 Performance Options that may be issued to Mr Stevens is 5,500,000. No loan will be provided by Challenger in relation to the grant or exercise of the 2008 Performance Options.

No current directors or associates of directors, other than Mr Stevens, have been issued with securities under the CPP. Mr Stevens is currently the only director entitled to participate in the CPP. Non-executive directors do not participate in the CPP nor do associates of the directors.

An indicative valuation of the 2008 Performance Options based on the closing price of Challenger shares on 22 August 2008 is \$0.64 per 2008 Performance Option. A Monte Carlo simulation model was used to value the 2008 Performance Options. This was based on certain assumptions regarding expected dividend yields and share price volatility of Challenger shares.

Termination Rights and Entitlements

Mr Stevens may resign by giving 26 weeks' notice to Challenger, in which event he will receive accrued statutory entitlements up to the termination date. If the Board does not approve the resignation, Mr Stevens will not be entitled to any:

- termination payment (other than any payment in lieu of notice which would be based on his salary package at the termination date ('Payment in Lieu of Notice');
- short term incentive payments and his unvested performance options including the 2008 Performance Options, and unvested performance rights will lapse (vested performance options and performance rights will continue to be held by Mr Stevens subject to the rules of the CPP).

If Challenger terminates Mr Stevens' Service Agreement (other than for cause), Mr Stevens will be entitled to a payment of \$1,500,000 ('Termination Payment'). The Termination Payment is in addition to accrued statutory entitlements.

Where Mr Stevens' employment is terminated for cause all unvested performance rights and all unvested performance options including any unvested 2008 Performance Options will lapse at the termination date. If his employment terminates for any other reason (including resignation with Board approval):

- unvested performance rights will vest in full at the termination date ('Accelerated Vesting Entitlement');

- unvested performance options, including unvested 2008 Performance Options, will continue to be held by Mr Stevens in accordance with, and subject to, the terms relating to the original issue ('Retained Option Arrangement').

The Payment in Lieu of Notice, the Termination Payment, the Accelerated Vesting Entitlement and the Retained Option Arrangement may constitute the giving of a benefit to Mr Stevens by Challenger in connection with him ceasing to hold a board or managerial office (within the meaning of section 200B of the Corporations Act).

Board Comments

Mr Stevens' remuneration package has been designed by the Board to achieve retention and provide performance based incentives which align the interests of Mr Stevens with those of shareholders in order to increase company performance.

Given the volatility in financial markets, the Board considers a compound TSR performance hurdle, and an EPS performance hurdle, to be the most appropriate measures. The performance hurdles have been chosen by the Board in order to link Mr Stevens' remuneration to the important shareholder goals of Company performance and increase in shareholder value.

The Board has examined carefully the totality of Mr Stevens' remuneration package. As part of that examination the Board has sought and relied on the advice of an external remuneration consultant, PricewaterhouseCoopers, in relation to the reasonableness of the proposed remuneration under section 211 of the Corporations Act in the context of Mr Stevens' employment as Chief Executive Officer of Challenger.

Based on the advice received and its own examination, the Board has concluded that the totality of Mr Stevens' remuneration package, including the 2008 Performance Options component, is reasonable in the circumstances of Challenger, in light of Mr Stevens' experience and knowledge of the financial services industry.

Recommendation

The Board, other than Mr Stevens, unanimously recommends that the shareholders approve the resolution.

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