

Challenger Financial Services Group Limited

Notice of Annual General Meeting 2010



NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of shareholders of Challenger Financial Services Group Limited ('Challenger') will be held at the Swissôtel, 68 Market Street, Sydney NSW, Level 8, Blaxland B Ballroom, on Thursday, 18 November 2010 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 Challenger and its controlled entities for the financial year ended 30 June 2010.

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 Challenger, 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 Challenger, be re-elected as a Director of Challenger.
4. That Mr Jonathan Grunzweig, who retires in accordance with clause 6.1 of the Constitution of Challenger, having been appointed by Directors since the previous Annual General Meeting, be 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 2010 be adopted.

Change of company name

To consider and, if thought fit, to pass the following resolution as a special resolution:

6. That for the purposes of section 157(1) of the Corporations Act 2001 ('Corporations Act') and for all other purposes, Challenger's name be changed to 'Challenger Limited'.

Buy Back of Shares

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

7. That the terms and conditions of the buy back agreement relating to the on-market buy back of up to 50,265,323 ordinary shares as described in the Explanatory Notes which accompany the Notice of Meeting convening the 2010 Annual General Meeting be approved.

Approval of Challenger Performance Plan

This resolution renews the Listing Rule 7.2 approval obtained in 2007 which is required every 3 years under the ASX Listing Rules.

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

8. That for 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 and rights in accordance with the terms of the Challenger Performance Plan.

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

Voting exclusion statements

Challenger will disregard a vote cast on Resolution 8 by:

- any Executive Director of Challenger; 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
- it is cast by the person chairing 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

7 October 2010

Information for shareholders

Appointing a Proxy

A member entitled to attend and vote at a meeting of members 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 Challenger, 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, Challenger must receive the proxy form duly completed and signed by no later than 10.30am on Tuesday, 16th November 2010; and if signed by the appointer's attorney or corporate representative, that power of attorney or corporate representative appointment or a certified copy of it.

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
- custodian voting – for Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions; or
- delivering it to:
Computershare Investor Services Pty Limited, Level 4, 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 and vote at the meeting on their behalf must provide that person with:

- a properly executed letter or certificate authorising the person to act as the company's representative in accordance with the company's constitution; or
- a copy of the resolution appointing the representative, certified by a secretary or director of the company.

Such authorisation may be for this meeting only or for all meetings of Challenger.

Eligibility to attend and vote

In accordance with Regulation 7.11.37 of the Corporations Regulations and ASX Settlement Operating Rule 5.6.1, the Board has determined that for the purposes of the meeting, those members registered as holding shares at 7.00pm on Tuesday, 16 November 2010, will have voting entitlements for the meeting. Transactions registered after that time will be disregarded in determining the shareholders entitled to attend and vote at 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.

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 Challenger 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 Challenger's financial report for the financial year ended 30 June 2010 in advance of the meeting. Written questions must be submitted to Challenger no later than 5.00pm on Thursday, 11 November 2010, 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 Challenger and its controlled entities for the year ended 30 June 2010 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 Challenger 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. Additionally, each director who was last elected at least three Annual General Meetings ago must stand for re-election.

Accordingly, Messrs Cubbin and Hooper will retire by rotation at the 2010 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 Cubbin

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. 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, the Remuneration Committee and the Nomination Committee.

Mr Hooper

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 the Chairman of the Group Audit and Compliance Committee, and a member of the Remuneration Committee and the Nomination Committee.

Recommendation

The Board has significantly benefited from the contributions of Mr Cubbin and Mr Hooper and their commercial experience. The Board (other than Mr Cubbin and Mr Hooper in relation to their own re-election) unanimously recommends that shareholders vote in favour of the re-election of both Mr Cubbin and Mr Hooper.

Item 4 – Election of Director Appointed by the Board

In accordance with Challenger's Constitution, Mr Jonathan Grunzweig has been appointed since the last Annual General Meeting, under Challenger's Constitution will cease to hold office if not elected at the AGM and, hence, is standing for election. Mr Grunzweig, of Colony Capital LLC, took a Board seat on the retirement of Mr Barrack Junior. Mr Barrack is the Founder of Colony Capital LLC and has been on the Board since November 2007.

Mr Grunzweig

Mr Grunzweig is Principal and Chief Investment Officer ('CIO') of Colony Capital, LLC. As CIO, Mr. Grunzweig oversees the sourcing, structuring, execution and management of all investments and divestments on a global basis. Prior to joining Colony in 1999, Mr. Grunzweig was a Partner with the law firm of Skadden, Arps, Slate, Meagher & Flom LLP, where he specialised in corporate finance and mergers and acquisitions.

Committees

Mr Grunzweig is a member of the Nomination Committee.

Recommendation

The Board has significantly benefited from the contribution of Mr Grunzweig. The Board (other than Mr Grunzweig) unanimously recommends that shareholders vote in favour of the election of Mr Grunzweig.

Item 5 – Remuneration Report

The Annual Report for the year ended 30 June 2010 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 20 to 35 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 Challenger.

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

Item 6 – Change of Company Name

This resolution seeks shareholder approval to effect a change in Challenger's name from 'Challenger Financial Services Group Limited' to 'Challenger Limited'.

The Board is in the process of developing a strategy to enhance the 'Challenger' brand. Simplifying the name of the Company is consistent with the strategy of creating a better 'Challenger' brand awareness amongst Challenger's customers and the purchasers of Challenger's products and services.

If this special resolution is passed, the change of name will take effect when ASIC alters the details of Challenger's registration.

Challenger's Australian Securities Exchange listing code will not change from CGF.

To be effective, this resolution must be passed as a special resolution which requires 75% of votes cast on the resolution to be in favour.

Recommendation

The Board unanimously recommends that shareholders approve the special resolution.

Item 7 – Extension of On Market Buy Back

(a) Introduction

This resolution, which is proposed pursuant to the requirements of section 257C(1) of the Corporations Act, proposes that shareholders refresh the Company's flexibility to buy back up to 50,265,323 ordinary shares ('Shares') on market (representing 10% of the Shares on issue and quoted on the ASX as at 1 October 2010) under an extension of Challenger's ongoing on market buy back announced in July 2008 (the 'Buy Back'). If approved, the Buy Back will extend Challenger's ability to buy back Shares (should it wish to do so) by expressly authorising the Buy Back of up to 50,265,323 ordinary shares on market over the 12 months following the 2010 Annual General Meeting, without the need to convene a further general meeting of shareholders. No decision has been made by the Board whether or when to implement any such Buy Back. The Board will only decide to buy back Shares on market if it considers it is in the best interests of Challenger.

(b) Why is the Buy Back being proposed?

As part of Challenger's capital management strategy, the Board regularly monitors and reviews the most cost efficient and effective forms of capital available and the uses of that capital. The objective of Challenger's capital management strategy is to achieve an appropriate balance between deployment of capital in existing businesses and strategic investments and distribution of surplus capital to shareholders.

This led the Board to form the view in July 2008 that Challenger should undertake an on market buy back of its Shares. Details of Challenger's existing on market buy back are available on Challenger's website at www.challenger.com.au. This buy back programme was extended at the 2009 Annual General Meeting.

(c) Why are we seeking shareholder approval?

Section 257C(1) of the Corporations Act requires that the terms of a buy back agreement in relation to the Buy Back be approved by an ordinary resolution passed at a general meeting of Challenger, if the number of votes attaching to voting shares proposed to be bought back thereunder (together with all other voting shares bought back over the previous 12 months) would exceed 10% of the smallest number of votes attaching to voting shares which were on issue at any time in that previous 12 months (the '10/12 Limit').

Challenger is seeking approval for the Buy Back for the purposes of section 257C(1) of the Corporations Act as the buy back of Shares by Challenger (whether on market or otherwise) may otherwise exceed the 10/12 Limit at some point during the 12 months following the 2010 Annual General Meeting.

Item 7 seeks approval to effectively refresh and extend the 10/12 Limit for Challenger by expressly authorising Challenger to buy back up to 10% of the Shares on issue and quoted on the ASX (as at 1 October 2010) on market over the 12 months following the 2010 Annual General Meeting (without any further restriction based on Shares previously bought back).

The policy of the Australian Securities and Investments Commission is that shareholder approval under section 257C(1) of the Corporations Act will remain current for no longer than 12 months. Accordingly, the Board anticipates that, if Item 7 is approved, it may seek to refresh the shareholder approval for the Buy Back at Challenger's 2011 Annual General Meeting (depending on the then prevailing market conditions and any alternative uses for its share capital surplus which may be available at that time).

(d) Will any Shares be bought back?

No decision has been made by the Board whether or when to implement any such Buy Back. The Board will only decide to buy back Shares on market if it considers it is in the best interests of Challenger.

(e) What is the purpose of these Explanatory Notes?

The purpose of these Explanatory Notes in relation to Item 7 is to state all information known to Challenger that is material to the decision on how to vote on the ordinary resolution in respect of the Buy Back.

The following additional information may be material to the decision on how to vote in relation to the proposed Buy Back.

(i) Number of Shares to be bought back

As at 1 October 2010, 73,460,362 Shares had been bought back by Challenger in the 12 months prior to that date.

Shareholder approval is being sought to allow the flexibility to buy back up to 50,265,323 Shares on market over the 12 months following the 2010 Annual General Meeting.

(ii) Terms of the Buy Back

Offers under the Buy Back will be made on behalf of Challenger by its broker on the ASX.

The terms upon which the Buy Back is to be implemented are as follows:

- the price to be paid by Challenger for Shares under the Buy Back will be the then prevailing market price for Challenger's Shares, subject to compliance with the ASX Listing Rules;
- the completion of the Buy Back of the relevant Shares is conditional on compliance with the ASX Listing Rules; and
- the usual rules for settlement of transactions which occur on market on the ASX will apply in respect of Shares acquired under the Buy Back. This means that each shareholder whose Shares are bought back under the Buy Back will be paid on a T+3 basis (meaning within three trading days after the trade is made).

All Shares bought back by Challenger will be cancelled.

(iii) Interests of directors

As at 1 October 2010, the following Directors have a relevant interest in the following number of Shares and options which are exercisable into Shares:

| Director | Shares | Options |
|--------------------|---------------|----------------|
| Graham Cubbin | 177,702 | nil |
| Jonathan Grunzweig | nil | nil |
| Russell Hooper | 160,000 | nil |
| Peter Polson | 112,000 | nil |
| Dominic Stevens | 3,067,555 | 6,800,000 |
| Leon Zwier | 2,360 | nil |

Challenger's share trading policy restricts the manner in which Directors may trade in Challenger's Shares. Further details on this policy are available from Challenger's website at www.challenger.com.au.

(iv) Financial effect of the Buy Back on Challenger

If approved, the Buy Back will involve a reduction in the number of Challenger's ordinary shares which are on issue and a corresponding reduction in its share capital.

Whilst Challenger is seeking approval to buy back up to 50,265,323 Shares on market over the 12 months following the 2010 Annual General Meeting, the actual number of Shares to be bought back (on market or otherwise) will be assessed by Challenger on an ongoing basis, having regard to, among other things, Challenger's net debt, capital surplus and cash flows, as well as broader market conditions and alternative investment opportunities.

Challenger will not buy back Shares if to do so would materially prejudice Challenger's ability to pay its creditors.

The Buy Back will not prevent Challenger from discharging its indebtedness or from conducting and growing its business. The Board will only buy back shares on the basis that Challenger will remain well capitalised following the completion of the purchase.

(v) Source of funds for the Buy Back

All funds required to be paid to shareholders under the Buy Back are to be sourced from Challenger's existing capital surplus and cash reserves. The Board believes that these sources of funds are sufficient to cover Challenger's financial obligations under the Buy Back. The Board reserves the right to suspend the operation of the Buy Back at any time.

(vi) Current market price

The closing price of Challenger's Shares on the ASX on 1 October 2010 was \$4.22. The highest and lowest market sale prices for Challenger's Shares on the ASX during each of the preceding four months were as follows:

| Month | Low | High | Volume Weighted average price* |
|-----------|--------|--------|--------------------------------|
| September | \$3.78 | \$4.42 | \$4.1345 |
| August | \$3.44 | \$3.94 | \$3.6930 |
| July | \$3.29 | \$3.84 | \$3.5923 |
| June | \$3.24 | \$3.74 | \$3.4887 |

Source: Bloomberg

*Calculated by price times shares traded divided by total shares traded.

For the current market price of Challenger's Shares, refer to Challenger's website at www.challenger.com.au.

(vii) Advantages and disadvantages

The Directors believe that the Buy Back is consistent with the objectives of Challenger's capital management strategies.

If approved, the Buy Back will ensure that Challenger has enhanced flexibility over the 12 months following the 2010 Annual General Meeting to buy back Shares.

By reducing the number of ordinary shares on issue Challenger expects the Buy Back to be earnings per share accretive for shareholders.

The Directors are not aware of any material disadvantages which would result from the Buy Back being implemented.

Recommendation

The Board unanimously recommends that the shareholders approve the ordinary resolution. Each Board member intends to vote in favour of the ordinary resolution in respect of the shares held by them.

Item 8 – Approval of Challenger Performance Plan

The purpose of this resolution is to seek approval of the extension for another 3 years of the exception under Listing Rule 7.2 (Exception 9) to the Challenger Performance Plan ('Plan'), which means that during that time, any offer of options ('Performance Options') and/or offers of rights ('Performance Rights') under the Plan will not be counted towards the 15% cap on issues of equity securities under Listing Rule 7.1. A summary of the effect of this resolution is contained at the end of Appendix A to these Explanatory Notes.

The Board last sought and obtained shareholder approval for the issue of Performance Options and Performance Rights under the Plan at the AGM held on 22 November 2007. The approval obtained at the 2007 AGM extended the approval for the purposes of sections 200B and 200E of the Corporations Act (in relation to the giving of benefits on termination). That part of the approval remains in effect. The approval being sought in this resolution does not affect that approval.

The terms of the Plan are the same as approved by shareholders in 2007; the only material exceptions to this are that they also now include an addendum dealing with UK based participants and a lapsing condition introduced to comply with Prudential Standard LPS 510 issued by the Australian Prudential Regulation Authority (refer to the highlighted boxes in Appendix A to these Explanatory Notes). A summary of Challenger's remuneration framework and the current terms of the Challenger Performance Plan, together with information about securities issued under the Plan, is contained in Appendix A to these Explanatory Notes.

Recommendation

The Board considers that approving the resolution is in the best interests of shareholders in that it will give the Board extra flexibility in managing the share capital of Challenger in the next 3 years within the boundaries of Listing Rule 7.1.

The Non-Executive Directors unanimously recommend that shareholders vote in favour of Resolution 8.

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Appendix A – Details of Resolution 8

Summary of Challenger's Remuneration Framework

Challenger's remuneration framework offers a mix of short-term employment benefits (such as fixed remuneration and short-term incentives), 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.

In 2007, Challenger replaced its Long Term Incentive Plan with the Challenger Performance Plan ('Plan'). At the 2007 Annual General Meeting of Challenger, Challenger obtained approval for the Plan for all purposes under the Listing Rules and the Corporations Act (including for the purposes of sections 200B and 200E of the Corporations Act (in relation to the giving of benefits on termination)).

Under the Plan, the Board may at any time make an offer of options ('Performance Options') and/or an offer of rights ('Performance Rights') to any permanent Executive Director, senior executive or employee of Challenger or of a subsidiary of Challenger ('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.

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 Plan.

At the date of this Notice of Annual General Meeting, Challenger has issued 62,240,000 Performance Options and 25,979,665 Performance Rights to eligible participants of the Plan. Since the date of Challenger's 2007 Annual General Meeting (when the Plan was last approved by shareholders for the purposes of Listing Rule 7.2 exception 9), Challenger has issued 42,665,000 Performance Options and 21,225,905 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;
- remains of a contemporary design and 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 and/or hurdled Performance Rights awards, represents a pay for performance component of executive remuneration.

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:

Summary of the Challenger Performance Plan

1. Permanent 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 Challenger; and/or
 - (b) 'Performance Rights', which are conditional rights to acquire a share in Challenger by transfer.

3. The Performance Rights and Performance Options are not quoted on ASX or other financial market and may be made subject to restrictions on transfer.
4. 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.

5. 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.
6. The vesting conditions (if any) may include performance requirements and/or time based conditions. The Plan provides for the Board to set a term (not exceeding 10 years) from the date of the grant by which the vesting conditions must have been satisfied or waived and, at the expiry of which, any unvested Performance Options or Performance Rights will lapse.

Performance Options and Performance Rights issued to date have had vesting periods of between 2 and 4 years, with the Performance Options and Performance Rights vesting either:

- (a) progressively in tranches each year;
- (b) progressively in tranches each year from the end of year 2; or
- (c) all at the end of the vesting period.

Performance Options and Performance Rights issued to date have been subject either to time based hurdles or a combination of time and performance based hurdles. Under the Plan, the Board may waive vesting conditions (including on termination of employment).

7. 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 unless (b), (c), (d) or (e) applies;
 - (b) where Performance Options or Performance Rights have vested 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 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 was an Executive Director at the time of the offer of Performance Rights and/or Performance Options held by them under the Plan ceases to hold office, except where the Performance Rights and/or Performance Options have vested and the Participant retires (and is not immediately re-appointed by election or otherwise), dies or suffers permanent incapacity, in which case the date shall be 180 days after the Participant ceases to hold office unless a later date is determined by the Board;
 - (f) the Board determining that the vesting conditions have not been satisfied on the date by which they are required to be satisfied or that they are incapable of being met;

(g) 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;

(h) in accordance with prudential requirements, the Board determining that unvested Performance Options and/or unvested Performance Rights shall lapse and Performance Options will be incapable of exercise to protect Challenger's financial soundness, or to respond to unexpected or unintended consequences that were significant and not foreseen by the Remuneration Committee. Note: This lapsing condition does not apply to Performance Rights and Performance Options issued prior to the change taking effect on 19 August 2010.

8. The Board may impose disposal restrictions on any share acquired upon exercise of a Performance Option and/or Performance Rights granted under the Plan.
9. 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 at the discretion of the Board.
10. The Board may amend the Plan rules (or the terms on which any Performance Options or Performance Rights have been issued under the Plan) provided that (subject to certain limited exceptions) no amendment may be made if it is adverse to the rights of any Participant.
11. The Plan rules were amended in November 2008 in respect of Participants under the Plan who reside in the United Kingdom only. As a result, Performance Rights for such Participants are conditional rights to acquire a share by exercise of the right and vested Performance Rights can only be exercised (usually in multiples of 100) by delivering a notice of exercise to Challenger.

Effect of Resolution 8 – Listing Rule 7.2 (Exception 9)

The Plan constitutes an 'employee incentive scheme' under the Listing Rules. Issues of securities under an exception in Listing Rule 7.2 are not taken into account for the purposes of calculating the 15% limit on the number of securities that Challenger may issue in any 12 month period under Listing Rule 7.1. In addition, if any Challenger Shares are issued as a result of the exercise of Performance Options granted under the Plan, those Shares are added to the denominator on which the 15% placement limit prescribed by Listing Rule 7.1 is calculated.

To obtain the benefit of that exception, shareholder approval is required under Listing Rule 7.2.

If Resolution 8 is passed, that exception will apply so that any Performance Options or Performance Rights issued under the Plan will be excluded from the calculation of the maximum number of securities that can be issued by Challenger 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.

Under the Plan Rules, the Board has the discretion either to:

- issue new shares; or
- transfer existing shares,

to a Participant on the vesting and exercise of their Performance Options. The Board may only transfer existing shares to a Participant on the vesting of their Performance Rights.

To date, the Board's practice has been to transfer to Participants existing shares on the exercise of their Performance Options, which have been acquired by and held in the Challenger Performance Plan Trust until the date of transfer. However, the Board retains the flexibility to issue shares on the vesting and exercise of Performance Options should it wish to do so in the future. Listing Rule 7.1 does not apply in the event existing shares are transferred to Participants (rather than new shares issued) on the vesting and exercise of Performance Options.

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320 Adelaide Street
Brisbane QLD 4000
Telephone 07 3218 8000
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Facsimile 08 8232 4446

Level 2
168 St Georges Tce
Perth WA 6000
Telephone 08 9223 7800
Facsimile 08 9221 2499

Investor services
13 35 66

Adviser services
1800 621 009
www.challenger.com.au

challenger 

Lodge your vote:

 **Online:**
www.investorvote.com.au

 **By Mail:**
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1800 780 782
(outside Australia) +61 3 9415 4065

Proxy Form



Vote online or view the annual report, 24 hours a day, 7 days a week:

www.investorvote.com.au

- Cast your proxy vote
- Access the annual report
- Review and update your securityholding

Your secure access information is:

Control Number:

SRN/HIN:

 **PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

 **For your vote to be effective it must be received by 10.30am (AEDT) on Tuesday, 16 November 2010**

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form →**

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

I/We being a member/s of Challenger Financial Services Group Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Challenger Financial Services Group Limited to be held at the Swissôtel, 68 Market Street, Sydney NSW, Blaxland B Ballroom, on Thursday, 18 November 2010 at 10.30am and at any adjournment of that meeting.

STEP 2 Items of Business

PLEASE NOTE: Your proxy may decide how to vote on any motion at the meeting except where specifically directed below. If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

| | For | Against | Abstain |
|---|--------------------------|--------------------------|--------------------------|
| 2 To re-elect Mr Graham Cubbin as a Director. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 To re-elect Mr Russell Hooper as a Director. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 To elect Mr Jonathan Grunzweig as a Director. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 That the Remuneration Report for the year ended 30 June 2010 be adopted. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 Approve the change of name of the Company to Challenger Limited. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 Approve the on-market buy back of up to 50,265,323 ordinary shares. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 For the purpose of Exception 9 in Listing Rule 7.2 approve the Challenger Performance Plan and grants under it. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____ Date ____/____/____