

24 November 2017

Manager
ASX Market Announcements
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

Challenger Limited (“Challenger”) and Challenger Life Company Limited (“CLC”) - Notice under section 708A(12H)(e) of the Corporations Act 2001 (Cth) (“Act”) as notionally inserted by ASIC Corporations (Regulatory Capital Securities) Instrument 2016/71 (“ASIC Instrument”)

1. CLC has today issued A\$400,000,000 of unsecured, subordinated notes (“**Subordinated Notes**”).
2. The Subordinated Notes may be exchanged for fully paid ordinary shares of Challenger (“**Ordinary Shares**”) in the circumstances described in the schedule to this notice (“**Schedule**”), which include the occurrence of a Non-Viability Trigger Event, or on Conversion at the request of the Holder, subject to certain conditions. The redacted Information Memorandum included as the Schedule has been modified from the original Information Memorandum dated 16 November 2017 to delete certain information relating to the Subordinated Notes in order comply with Australian legal requirements.
3. The terms and conditions of the Subordinated Notes are described on pages 62 to 105 of the Schedule, and the terms and conditions of the Ordinary Shares are described on pages 106 to 107 of the Schedule.
4. In order to enable Ordinary Shares issued on Conversion to be sold without disclosure under Chapter 6D.2 of the Act, Challenger and CLC have elected to jointly give this notice under section 708A(12H)(e) of the Act as notionally inserted by the ASIC Instrument. The Schedule forms part of this notice.
5. Challenger and CLC jointly confirm that:
 - (a) Subordinated Notes were issued without disclosure to investors under Part 6D.2 of the Act;
 - (b) the information in this notice (including the Schedule) remains current as at the date of this notice; and
 - (c) this notice (including the Schedule) complies with section 708A of the Act, as notionally modified by the ASIC Instrument.

Melbourne Level 19, 31 Queen Street PO Box 297, Flinders Lane, Melbourne VIC 3000 Telephone 02 9994 7000 Facsimile 02 9994 7777
Brisbane Level 9, 241 Adelaide Street GPO Box 3234, Brisbane QLD 4001 Telephone 07 3136 5400 Facsimile 07 3136 5407
Perth Level 5, 50 St Georges Terrace, Perth WA 6000 Telephone 08 9261 7412 Facsimile 08 9321 5277
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Challenger Limited ABN 85 106 842 371 Challenger Group Services Pty Limited ABN 91 085 657 307
 Challenger Life Company Limited ABN 44 072 486 938 AFSL 234670 Howard Commercial Lending Limited ABN 65 000 033 143
 Challenger Management Services Limited ABN 29 092 382 842 AFSL 234 678
 Challenger Retirement and Investment Services Limited ABN 80 115 534 453 AFSL295642 RSE Licence No. L0001304
 Challenger Mortgage Management Pty Ltd ABN 72 087 271 109 Challenger Securitisation Management Pty Ltd ABN 56 100 346 898 AFSL 244593
 Challenger Investment Solutions Management Pty Ltd ABN 63 130 035 353 AFSL 487354

6. **Effect of the Subordinated Notes offer on CLC**

CLC will use the proceeds of the Subordinated Notes for general corporate, funding and capital management purposes of the Statutory Fund. CLC has agreed to repay the USPP Notes on 30 November 2017.

APRA has confirmed that the Subordinated Notes will qualify as Tier 2 Capital of CLC under the prudential standard for life companies (LPS 112). This will assist CLC to meet its regulatory capital requirements and maintain the diversity of its sources and types of capital funding.

The aggregate principal amount of the Subordinated Notes is A\$400,000,000. The proceeds of the issue of the Subordinated Notes will be recorded as a liability of the Statutory Fund.

7. **Effect of the Subordinated Notes offer on Challenger**

The issue of Subordinated Notes will not have a material impact on Challenger's financial position. If Challenger issues Ordinary Shares on Conversion, the impact of Conversion on Challenger would be to increase Challenger's shareholders' equity. The number of Ordinary Shares issued on Conversion is limited to a Maximum Conversion Number, as described in the Schedule.

8. Unless otherwise defined, capitalised expressions in this notice have the meaning given to them in the Schedule.

This notice (including the Schedule) is not a prospectus under the Act. Subordinated Notes are only intended for wholesale investors.

SCHEDULE TO CLEANSING NOTICE DATED 24 NOVEMBER 2017

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Information Memorandum following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Information Memorandum. In accessing the Information Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES DESCRIBED HEREIN MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING INFORMATION MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Information Memorandum or make an investment decision with respect to the securities described herein, investors must not be in the United States (“**U.S.**”) and must not be either a U.S. person or acting for the account or benefit of a U.S. person (within the meaning of Regulation S under the Securities Act). The Information Memorandum is being sent at your request and by your acceptance of the e-mail attaching the Information Memorandum and accessing the Information Memorandum, you shall represent to Challenger Life Company Limited (ABN 44 072 486 938) (the “**Issuer**”), National Australia Bank Limited (ABN 12 004 044 937), UBS AG, Australia Branch (ABN 47 088 129 613) and Westpac Banking Corporation (ABN 33 007 457 141) that you are not in the U.S. or a U.S. person or acting for the account or benefit of a U.S. person, your stated electronic mail address to which this e-mail has been delivered is not located in the U.S. and that you consent to delivery of such Information Memorandum by electronic transmission.

You are reminded that the Information Memorandum has been delivered to you on the basis that you are a person into whose possession the Information Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Information Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

The Information Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, National Australia Bank Limited, UBS AG, Australia Branch, Westpac Banking Corporation or the Registrar, nor any person who controls any of them nor any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any such alteration or change from the original Information Memorandum.



Challenger Life Company Limited

(ABN 44 072 486 938)

(incorporated with limited liability in the Commonwealth of Australia)

as Issuer of A\$400,000,000 floating rate Subordinated Notes

The A\$400,000,000 floating rate Subordinated Notes ("**Subordinated Notes**") are expected to be issued on 24 November 2017 (the "**Issue Date**") by Challenger Life Company Limited (the "**Issuer**"). The Subordinated Notes are direct, unsecured, subordinated debt obligations of the Issuer, issued for the purposes of, and referable to, the business of Statutory Fund No. 2 of the Issuer (the "**Statutory Fund**"). Cumulative deferrable interest ("**Interest**") will accrue on the Subordinated Notes from (and including) the Issue Date at a rate equal to the sum of (i) the BBSW Rate (as defined in the terms and conditions of the Subordinated Notes (the "**Conditions**")) applicable to the relevant Interest Period and (ii) a margin of 2.10% per annum, and will be payable, subject to the Conditions, quarterly in arrear on 24 February, 24 May, 24 August and 24 November each year, as adjusted by the Business Day Convention (as defined in the Conditions), commencing on 24 February 2018 (each, an "**Interest Payment Date**").

The payment of interest may be deferred at the option of the Issuer on any Optional Interest Payment Date (as defined in the Conditions) and all payment obligations will be deferred if the Solvency Condition (as defined in the Conditions) would not be satisfied at the time of the relevant payment or immediately after making such payment.

The Subordinated Notes will mature on 24 November 2042, however they may, with the prior written approval of the Australian Prudential Regulation Authority ("**APRA**"), be redeemed earlier at the option of the Issuer in full (but not in part only) on the fifth anniversary of the Issue Date or following the occurrence of a Tax Event or a Regulatory Event (see Condition 5). If a Non-Viability Trigger Event occurs prior to the redemption of the Subordinated Notes in full, they may be required to be Converted into ordinary shares in the capital of the Issuer's ultimate parent company, Challenger Limited (ABN 85 106 842 371) ("**Challenger**") ("**Ordinary Shares**"). If for any reason Conversion has not occurred where required within a certain time, Subordinated Notes will be Written-Off, whereupon all obligations (or, where applicable, the applicable Nominal Amounts) in respect of those Subordinated Notes will terminate (see Condition 6).

An investment in the Subordinated Notes is subject to risk, including the risk that investors may lose some or all of their investment if a Non-Viability Trigger Event occurs or otherwise. See the section entitled *Risk Factors* below for a discussion of certain risk factors that should be considered by prospective investors.

Neither the Subordinated Notes nor the Ordinary Shares have been or will be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the U.S. Unless they are so registered, the Subordinated Notes may be offered only in transactions that are exempt from, or not subject to registration under, the Securities Act or the securities laws of any other jurisdiction. Accordingly, the Subordinated Notes may only be offered outside the U.S. to non-U.S. persons in reliance on Regulation S under the Securities Act. Prospective investors should read the section entitled *Subscription and Sale* for information on restrictions that apply to the purchase and sale of the Subordinated Notes.

Subordinated Notes are not guaranteed or insured by any government, government agency or compensation scheme of the Commonwealth of Australia or any other jurisdiction, by any of the Issuer's subsidiaries or by any other person.

The Subordinated Notes will be constituted by a deed poll dated on or about 22 November 2017 ("**Deed Poll**") made by the Issuer and will be issued in registered form in denominations of A\$10,000 per Subordinated Note. The Subordinated Notes will be lodged in the Austraclear System.

Arranger

**UBS AG, Australia Branch
(ABN 47 088 129 613)**

Joint Lead Managers

**National Australia Bank Limited
(ABN 12 004 044 937)**

**UBS AG, Australia Branch
(ABN 47 088 129 613)**

**Westpac Banking Corporation
(ABN 33 007 457 141)**

The date of this Information Memorandum is 16 November 2017

IMPORTANT NOTICE

No offer

This Information Memorandum is not, and should not be construed as, an offer or invitation to any person to subscribe for or purchase or otherwise deal in any Subordinated Notes.

Responsibility for information

The Issuer accepts responsibility for the information contained in this Information Memorandum. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Information Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

No independent verification

None of National Australia Bank Limited, UBS AG, Australia Branch and Westpac Banking Corporation (together, the “**Joint Lead Managers**”) and the Registrar, nor any other party named or referred to in this Information Memorandum (other than the Issuer) or any of their respective affiliates or any external adviser to the Issuer or any of the foregoing (each, an “**Other Party**”) has independently verified the information contained or incorporated in this Information Memorandum. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any Other Party as to the accuracy or completeness of the information contained or incorporated in this Information Memorandum. No Other Party accepts any liability in relation to the information contained or incorporated by reference in this Information Memorandum.

Currency of information

The information contained in this Information Memorandum is prepared as of its Preparation Date. Neither the delivery of this Information Memorandum nor any offer, issue or sale made in connection with this Information Memorandum at any time implies that the information contained in it is correct at any time subsequent to the Preparation Date or that any other information supplied in connection with the issue of the securities described herein is correct as of any time subsequent to the Preparation Date or that there has been no change (adverse or otherwise) in the financial condition, affairs or creditworthiness of the Issuer and Challenger and any of its subsidiaries (Challenger and its subsidiaries together being referred to herein as the “**Group**”) or any other party named in this Information Memorandum at any time subsequent to the Preparation Date.

In this Information Memorandum, “**Preparation Date**” means:

- in relation to this Information Memorandum, the date included on its face or, if the Information Memorandum has been amended or supplemented, the date indicated on the face of that amendment or supplement;
- in relation to the financial reports incorporated by reference in this Information Memorandum, the date up to or as at the date on which such reports relate; and
- in relation to any other item of information which is to be read in conjunction with this Information Memorandum, the date indicated on its face as being its date of release or effectiveness.

It should not be assumed that the information contained in this Information Memorandum is necessarily accurate or complete in the context of any offer to subscribe for or an invitation to subscribe for or buy any of the Subordinated Notes at any time after the date of this Information Memorandum, even if this Information Memorandum is circulated in conjunction with the offer or invitation.

Neither the Issuer nor any Other Party is obliged or has undertaken to review the financial condition or affairs of the Issuer or any other member of the Group during the life of the Subordinated Notes or to advise any investor in the Subordinated Notes of any information coming to their attention.

If an amendment or other circumstance occurs between the date of this Information Memorandum and the Issue Date which would make any statement in this Information Memorandum misleading or deceptive in any material respect, the Issuer will prepare a supplement to this Information Memorandum or a new Information Memorandum to replace this Information Memorandum.

Authorised material

No person is or has been authorised by the Issuer to give any information or to make any representation which is not expressly contained in or consistent with this Information Memorandum and any information or representation not contained in this Information Memorandum must not be relied upon as having been authorised by or on behalf of the Issuer.

Intending purchasers to make independent investment decision

This Information Memorandum contains only summary information concerning the Issuer and the Subordinated Notes. The information contained in this Information Memorandum is not intended to provide the basis of any credit or other evaluation in respect of the Issuer or any Subordinated Notes and should not be considered or relied upon as a recommendation or a statement of opinion, or a report of either of those things, by any of the Issuer, the Joint Lead Managers, or their respective related bodies corporate, that any recipient of this Information Memorandum should subscribe for, purchase or otherwise deal in any Subordinated Notes or any rights in respect of any Subordinated Notes. Furthermore, this Information Memorandum contains only general information and does not take into account the objectives, financial situation or needs of any potential investor.

Each investor contemplating subscribing for, purchasing or otherwise dealing in any Subordinated Notes or any rights in respect of any Subordinated Notes should:

- (a) make and rely upon (and shall be taken to have made and relied upon) its own independent investigation of the Conditions and the rights and obligations attaching to the Subordinated Notes and Ordinary Shares and of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and Challenger;
- (b) determine for itself the relevance of the information contained in this Information Memorandum;
- (c) assess its own situation and consult other appropriate advisers in respect of any other matters upon which it requires advice; and
- (d) base its investment decision solely upon its own independent assessment and such investigation and consultation with advisers and such other investigations as it considers appropriate or necessary.

No advice is given in respect of the legal or taxation treatment of investors or purchasers or any other matter in connection with an investment in any Subordinated Notes or rights in respect of them and each investor is advised to consult its own professional adviser.

Any person contemplating the subscription or purchase of the Subordinated Notes should have regard to the risk factors described under the section entitled *Risk Factors* below. However, this Information Memorandum does not describe all of the risks of an investment in the Subordinated Notes.

Disclosure of interests

In addition to the arrangements and interests described in this Information Memorandum, each of the Joint Lead Managers discloses that it and its respective affiliates and their respective directors and employees (each a “**Relevant Entity**”) may from time to time:

- (a) be a Holder or have a pecuniary or other interest in the Subordinated Notes;
- (b) receive fees, brokerage and commissions or other benefits, and may act as principal, in any dealings in the Subordinated Notes; and
- (c) be involved in a broad range of transactions including, without limitation, dealing in financial products, credit, derivative and liquidity transactions, investment management, corporate and corporate advisory and research in various capacities in respect of the Subordinated Notes, the Issuer or any other member of the Group, both on its own account and for the account of other persons.

Prospective investors should be aware that:

- (i) each Relevant Entity in the course of its business (including in respect of interests described above) may act independently of any other Relevant Entity, any Other Party and any Holder;
- (ii) to the maximum extent permitted by applicable law, the duties of each Relevant Entity in respect of the Subordinated Notes are limited to the relevant contractual obligations set out in the Subscription Agreement and, in particular, no advisory or fiduciary duty is owed by any Relevant Entity to any person;
- (iii) a Relevant Entity may have or come into possession of information not contained in this Information Memorandum that may be relevant to any decision by a potential investor to acquire the Subordinated Notes and which may or may not be publicly available to potential investors (“**Relevant Information**”);
- (iv) to the maximum extent permitted by applicable law, no Relevant Entity is under any obligation to disclose any Relevant Information to any other Relevant Entity, to the Issuer, to any Holder or to any potential investor and this Information Memorandum and any subsequent conduct by a Relevant Entity should not be construed as implying that the Relevant Entity is not in possession of such Relevant Information; and
- (v) each Relevant Entity may have various potential and actual conflicts of interest arising in the ordinary course of its business, including in respect of the interests described above. For example, a Relevant Entity’s dealings with respect to a Subordinated Note or a member of the Group, or the exercise of a Relevant Entity’s rights under the Subscription Agreement may affect the value of a Subordinated Note. These interests may conflict with the interests of a Holder and a Holder may suffer loss as a result. To the maximum extent permitted by applicable law, a Relevant Entity is not restricted from entering into, performing or enforcing its rights in respect of the Subscription Agreement or the interests described above and may otherwise continue or take steps to further or protect any of those interests and its business even where to do so may be in conflict with the interests of a Holder, and the Relevant Entities may in so doing act without notice to, and without regard to, the interests of any such person.

Not guaranteed or insured

A Subordinated Note is not guaranteed or insured by any government agency or compensation scheme of the Commonwealth of Australia or any other jurisdiction, by any member of the Group, any Other Party or by any other person.

Not policy liabilities

A Subordinated Note is not a policy liability of any member of the Group.

Risk factors

An investment in the Subordinated Notes is subject to certain risks, including the possible deferral of payments and of the loss of all or part of the principal amount invested in the Subordinated Notes and Interest relating thereto (see the section entitled *Risk Factors* below).

Forward looking statements

This Information Memorandum contains forward-looking statements including, without limitation, words and expressions such as expect, believe, plan, intend, estimate, project, anticipate, may, will, would, could or similar words or statements (however, these words are not the exclusive means of identifying forward looking statements), in particular, in the section entitled *Description of the Issuer* in this Information Memorandum, in relation to future events, the Group's prospects, its expected financial condition, its business strategies, the future developments of the Group's operations and industry and the future development of the general domestic, regional and global economy.

These statements are based on assumptions regarding the Group's present and future business strategy and the environment in which it expects to operate in the future. These matters and the Group's future results could differ materially from those expressed or implied by these forward-looking statements and although these forward-looking statements reflect its current view of future events, they are not a guarantee of future performance or other matters. In addition, the Group's future performance may be affected by various factors and risks. Should one or more risks or uncertainties materialise, or should any underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of these forward-looking statements.

In this Information Memorandum, statements of, or references to, intentions of the Issuer or those of any of its directors are made as at the date of this Information Memorandum. Any such intentions may change in light of future developments.

Each of the Issuer, the Joint Lead Managers, the Registrar and the Other Parties expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based or any change in the intentions of the Issuer or any of its directors.

Definitions

Unless the context otherwise requires, all terms used in this Information Memorandum and not separately defined will have the meanings given to them in the Conditions. All terms separately defined in this Information Memorandum are indexed in the *Index of Defined Terms* appearing at the end of this Information Memorandum.

Documents incorporated by reference

This Information Memorandum is to be read in conjunction with all of the documents that are incorporated by reference (see the section entitled *Documents Incorporated by Reference* below).

References to websites

Any references to website addresses provided in this Information Memorandum are for reference only and the content of any such internet sites is not incorporated by reference into and does not form part of this Information Memorandum (unless expressly provided in this Information Memorandum).

Transaction documents

The Conditions, the Deed Poll, the Registry Agreement, the Implementation Deed and the constitution of Challenger (which describes the rights and liabilities of holders of the Ordinary Shares) are Available Documents (as defined in the section entitled *General Information* below). The Available Documents should be reviewed by any intending purchaser. If there is any inconsistency between this Information Memorandum and the Available Documents, the Available Documents should be regarded as containing the definitive information. A copy of the Available Documents may be viewed by intending purchasers at the offices of the Issuer referred to in the section entitled *Directory* at the back of this Information Memorandum.

Offering restrictions

Neither this Information Memorandum nor any other disclosure document (as defined in the Corporations Act 2001 of Australia ("**Corporations Act**")) in relation to the Subordinated Notes has been, or will be, lodged with the Australian Securities and Investments Commission ("**ASIC**") or any other government agency. The Information Memorandum is not a prospectus or other disclosure document for the purposes of the Corporations Act. No action has been taken which would permit an offering of Subordinated Notes in circumstances that would require disclosure under Parts 6D.2 or 7.9 of the Corporations Act. Subordinated Notes may only be subscribed for, purchased by or otherwise dealt in by professional or sophisticated investors (see "Subscription and Sale" below). This Information Memorandum is not intended for and should not be distributed to any person other than such professional or sophisticated investors. Its contents may not be reproduced or used in whole or in part for any purpose other than in connection with the issue or sale of the Subordinated Notes in accordance with this Information Memorandum, nor furnished to any other person without the express written permission of the Issuer. The distribution of this Information Memorandum and the offer or sale of Subordinated Notes may be restricted by law in certain jurisdictions. Neither Challenger nor the Issuer nor any Other Party represents that this document may be lawfully distributed, or that any Subordinated Notes or Ordinary Shares may be lawfully offered, in compliance with any application, registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by Challenger, the Issuer or any Other Party which would permit a public offering of any Subordinated Notes or Ordinary Shares or distribution of this Information Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Subordinated Notes or Ordinary Shares may be offered or sold, directly or indirectly, and neither this Information Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Information Memorandum or any Subordinated Notes or Ordinary Shares come must inform themselves about, and observe any such restrictions.

Neither the Issuer nor any Other Party makes any representation to any investor in the Subordinated Notes regarding the legality of its investment under any applicable laws. Any investor in the Subordinated Notes should be able to bear the economic risk of an investment in the Subordinated Notes for an indefinite period of time.

For a description of certain restrictions on offers, sales and deliveries of the Subordinated Notes and on the distribution of the Information Memorandum and other offering material relating to the Subordinated Notes see the section entitled *Subscription and Sale* below.

U.S. INFORMATION

THE SUBORDINATED NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE SUBORDINATED NOTES MAY NOT BE

OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS THE SUBORDINATED NOTES ARE REGISTERED UNDER THE SECURITIES ACT OR OFFERED AND SOLD IN COMPLIANCE WITH AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

THE SUBORDINATED NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE THE FOREGOING AUTHORITIES APPROVED THIS INFORMATION MEMORANDUM OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THE INFORMATION CONTAINED IN THIS INFORMATION MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

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SUMMARY

This summary must be read as an introduction to this Information Memorandum and any decision to invest in the Subordinated Notes should be based on a consideration of this Information Memorandum as a whole, including the documents incorporated by reference herein. The following overview is qualified in its entirety by the remainder of this Information Memorandum and the documents incorporated by reference. Capitalised expressions in this summary have the meanings given in the Conditions unless otherwise defined.

Key parties

Issuer	Challenger Life Company Limited (ABN 44 072 486 938), a limited liability company established under the laws of the Commonwealth of Australia. See the section entitled <i>Description of the Issuer</i> below.
Challenger	Challenger Limited (ABN 85 106 842 371), being the non-operating holding company (“ NOHC ”) and ultimate parent company of the Group that issues Ordinary Shares on Conversion.
Registrar	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any successor registrar appointed from time to time in accordance with the terms of the Registry Agreement.

Key dates and periods

Issue Date	The date on which the Subordinated Notes are issued, which is expected to be 24 November 2017.
Interest Payment Dates	Quarterly in arrear on 24 February, 24 May, 24 August and 24 November of each year, as adjusted by the Business Day Convention (as defined in the Conditions), commencing on 24 February 2018. Interest payments may be deferred by the Issuer on Optional Interest Payments Dates and are subject to satisfaction of the Solvency Condition. See “Optional Interest Payment Date” and “Payment Deferral Provisions” below.
Interest Period	Each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date provided that the first Interest Period commences on (and includes) the Issue Date.
Optional Redemption Date	24 November 2022.

Optional Interest Payment Date	An Interest Payment Date where no interest payments, dividends or other distributions have been made on Equal Ranking Instruments or Junior Ranking Instruments (other than an Equal Ranking Instrument in the case where the terms of that instrument do not enable the Issuer to defer, pass on or eliminate the relevant payment on such Equal Ranking Instrument) during the Financial Year in which such Interest Payment Date falls and no dividend has been made on any ordinary shares in the capital of the Issuer (" Issuer Ordinary Shares ") during the period of 12 consecutive months preceding such Interest Payment Date.
Financial Year	Any year beginning on 1 July of a calendar year and ending on 30 June of the next calendar year.
Non-Viability Conversion Date	The date on which a Non-Viability Trigger Event occurs.
Maturity Date	24 November 2042, as adjusted by the Business Day Convention.
Key events	
Non-Viability Trigger Event	A Non-Viability Trigger Event occurs when APRA provides a written determination to the Issuer that the conversion or write-off of Relevant Capital Instruments in accordance with their terms or by operation of law is necessary because: (a) without the conversion or write-off, APRA considers that the Issuer would become non-viable; (b) without the conversion or write-off, APRA considers that the Statutory Fund would become non-viable; (c) without a public sector injection of capital into, or equivalent capital support with respect to, the Issuer, APRA considers that the Issuer would become non-viable; or (d) without a public sector injection of capital into, or equivalent capital support with respect to, the Statutory Fund, APRA considers that the Statutory Fund would become non-viable.
Regulatory Event	A Regulatory Event occurs upon the introduction of, or an amendment or clarification to or change in, or a change in the interpretation of a law or regulation of Australia or any state or territory thereof, or a rule, regulation, prudential standard, directive, order or requirement of APRA, after the Issue Date (" Regulatory Change ") (or the announcement of a prospective Regulatory Change which the Issuer expects will take effect within no more than 12 months), which has or (in the case of an announced Regulatory Change) will have the effect that the Issuer is not (or will not be) entitled to treat all of the Subordinated Notes as Tier 2 Capital, or its then equivalent, provided that on the Issue Date the Issuer did not expect that the matters giving rise to the

Regulatory Event would occur.

Tax Event

A Tax Event occurs on the receipt by the Issuer of an opinion of competent tax counsel to the effect that, as a result of the introduction of, or amendment or clarification to, or change in, or change in the interpretation of (or announcement of a prospective introduction of, amendment or clarification to or change in) a law or regulation by any legislative body, court, government agency or regulatory authority in Australia after the Issue Date, there is more than an insubstantial risk that:

- (a) the Issuer would be required to pay any Additional Amounts;
- (b) interest payments on the Subordinated Notes are not or may not be allowed as a deduction for the purposes of Australian income tax; or
- (c) the Issuer, Challenger or the head entity of any consolidated tax group of which the Issuer or Challenger is a member would be exposed to more than a *de minimis* increase in its costs in relation to the Subordinated Notes as a result of any taxes, duties or other governmental charges or civil liabilities,

provided that on the Issue Date the Issuer (or, in the case of item (c) above, Challenger) did not expect that the matters giving rise to the Tax Event would occur.

Event of Default

An Event of Default occurs if:

- (a) either:
 - the Issuer does not pay the Redemption Price in respect of the Subordinated Notes when such payment becomes due and payable and such failure continues for a period of 5 days after the applicable due date; or
 - the Issuer does not pay any interest (including any Deferred Interest or any Additional Interest) or other amount when such payment becomes due and payable and such failure continues for a period of 30 days after the applicable due date,(a “**Payment Default**”); or
- (b) either:
 - the making of an order by a court (including a court with appellate jurisdiction) with competent jurisdiction in Australia which is not appealed or stayed within 60 days of the entry of that order; or
 - an effective resolution is passed by the shareholders of the Issuer,

for the Winding-Up of the Issuer in each case other than in connection with a scheme of amalgamation or reconstruction not involving the bankruptcy or insolvency of the Issuer (a “**Winding-Up Default**”).

To the extent that a payment is not required to be made by operation of any Payment Deferral Provision, the amount is not due and payable and a Payment Default will not occur.

Summary of key conditions of the Subordinated Notes

Form of Subordinated Notes

Direct, unsecured and subordinated debt obligations of the Issuer, issued for the purposes of, and referable to, the business of the Statutory Fund. Subordinated Notes will be issued in registered form by entry in the Register. No certificate will be issued to Holders unless the Issuer determines that certificates should be made available or it is required to do so pursuant to any applicable law.

Ranking in a Winding-Up

Condition 2.1 provides for the following ranking of claims under the Subordinated Notes in the event of a Winding-Up.

The claims of Holders against the Issuer in respect of Subordinated Notes will, in the event of a Winding-Up, be subordinated to the claims of Senior Statutory Fund Creditors and Senior General Creditors as follows:

- (a) as regards the claims of Senior Statutory Fund Creditors:
 - all claims of Senior Statutory Fund Creditors must be paid in full out of the assets of the Statutory Fund before the Holder's claim is paid; or
 - until the Senior Statutory Fund Creditors have been paid in full, the Holder must not claim in the Winding-Up in competition with the Senior Statutory Fund Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Senior Statutory Fund Creditors would have been entitled to receive; and
 - for the purposes of section 187 of the Life Insurance Act 1995 (Cth) (“**Life Insurance Act**”), any claim that the Holder has in respect of a Subordinated Note as a liability of the Statutory Fund is determined after all Senior Statutory Fund Creditors have been paid in full;
- (b) as regards the claims of Senior General Creditors, in the event that the amount owing by the Issuer is not paid in full out of the assets of the Statutory Fund, the Holder's claim for payment of the unpaid amount (the

“Unpaid Amount”) out of the assets of the General Fund is subject to the following:

- all claims of the Senior General Creditors must be paid in full out of the assets of the General Fund before the Holder’s claim to the Unpaid Amount is paid; and
- until the Senior General Creditors have been paid in full, the Holder must not claim in the Winding-Up in competition with the Senior General Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Senior General Creditors would have been entitled to receive.

For an explanation of Statutory Fund, General Fund and the law governing the winding-up of the Issuer, see “Regulation of the Issuer as a Life Insurance Company”.

“Senior Statutory Fund Creditors” means all creditors of the Issuer which are referable to the Statutory Fund (including policyholders in respect of the Statutory Fund) other than the Holders and holders of other Relevant Tier 2 Capital Instruments which are issued for the purposes of, and referable to, the business of the Statutory Fund. Holders of the USPP Notes are Senior Statutory Fund Creditors.

“Senior General Creditors” means all creditors of the Issuer whose claims are referable to the General Fund other than creditors in respect of Relevant Capital Instruments. The term “Senior General Creditors” does not include claims of holders of instruments issued by the Issuer which constitute Tier 1 Capital.

Holders should be aware that if the Issuer is in a Winding-Up, it is likely that a Non-Viability Trigger Event will have occurred, following which it is likely that the Holder’s Subordinated Notes will be Converted to Ordinary Shares or Written-Off as described in the sections entitled *Risk Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of the non-viability of the Issuer or the Statutory Fund*.

Interest Rate

The sum of (i) the BBSW Rate applicable to the relevant Interest Period and (ii) a margin of 2.10% per annum.

Day Count Fraction

The actual number of days in the relevant period divided by 365.

Gross Up

If any withholding or deduction is required by a law of Australia or any authority in Australia having power to tax, subject to the Solvency Condition, the Issuer must pay an additional amount in respect of the Subordinated Notes ("**Additional Amount**") to the Holders so that the Holders receive the same amount in respect of that payment as if no such deduction had been made from the payment, subject to certain exceptions.

See Condition 11.3.

Payment of Interest

Interest in respect of each Subordinated Note will be payable out of the Statutory Fund in arrear on each relevant Interest Payment Date subject to the Payment Deferral Provisions described immediately below.

Payment Deferral Provisions

The Issuer may elect to defer payment of all or part only of any interest amount on any Optional Interest Payment Date to any future date specified by the Issuer (not being later than the Maturity Date). Any such deferred payment of interest is referred to as "**Deferred Interest**". If Subordinated Notes are Converted or Written-Off following the occurrence of a Non-Viability Trigger Event, Holders will lose any entitlement to Deferred Interest in respect of such Subordinated Notes or, in the case of Conversion or Write-Off of only a part of a Subordinated Note, that part which is Converted or Written-Off.

In addition, if on the date on which a payment under the Subordinated Notes falls due for payment, the Solvency Condition is not met or will not be met if such payment is made, the due date for payment of such amount shall be postponed until the earliest of (i) the date on which the Subordinated Notes are redeemed; (ii) the date on which a Winding-Up Default occurs; and (iii) first Interest Payment Date on which such payment may be made in compliance with the Solvency Condition and the terms of any indebtedness owing to Senior Statutory Fund Creditors.

The "**Solvency Condition**" means when the Issuer is not in a Winding-Up in Australia:

- (a) the obligations of the Issuer to make any payment in respect of the Subordinated Notes will be conditional on the Issuer being Solvent at the time of payment; and
- (b) no payments in respect of the Subordinated Notes will be made unless the Issuer will be Solvent immediately after making the payment.

“Solvent” means in respect of the Issuer:

- (a) on an unconsolidated standalone basis:
 - (i) it is able to pay its debts when they fall due; and
 - (ii) its assets exceed its liabilities; and
- (b) it is in compliance with the solvency and capital adequacy standards applicable to each of the Issuer and the Statutory Fund.

Interest that has been deferred will continue to accrue interest.

See Condition 4.

Non-payment of interest in accordance with Condition 4 is not an Event of Default.

Payment of Deferred Interest

Deferred Interest may be paid in whole or in part at any time by payment out of the Statutory Fund upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Holders. All Deferred Interest (together with any Additional Interest) on a Subordinated Note will, subject to the Solvency Condition being satisfied, automatically become immediately due and payable in whole upon the earliest of the following dates:

- (a) the date on which any interest payment or payment in respect of interest is made on any Junior Ranking Instruments or Equal Ranking Instruments (excluding any such payment on an Equal Ranking Instrument in a case where the terms of that instrument do not enable the Issuer to defer, pass on or eliminate the relevant payment on such Equal Ranking Instruments) or on which a dividend or other distribution on any class of the Issuer's share capital is paid or becomes payable;
- (b) the date specified by the Issuer to which it has elected to defer payment;
- (c) (without double counting) the date on which the Subordinated Notes are redeemed in accordance with the Conditions;
- (d) the date on which a Winding-Up Default occurs; or
- (e) the date fixed for:
 - any redemption of Subordinated Notes; or
 - any purchase of Subordinated Notes by or on behalf of the Issuer,pursuant to Condition 5.

See Condition 4.1(c).

Redemption at maturity	Unless previously redeemed in full, Converted in full, Written-Off in full or otherwise cancelled in full, the Issuer shall redeem each Subordinated Note on the Maturity Date by payment out of the Statutory Fund of its Redemption Price.
Redemption at the option of the Issuer	Unless previously redeemed in full, Converted in full, Written-Off in full or otherwise cancelled in full, and subject to the prior written approval of APRA the Issuer may redeem all (but not some only) of the Subordinated Notes: (a) on the Optional Redemption Date; or (b) if a Tax Event or Regulatory Event occurs. Holders of Subordinated Notes should not expect that APRA's approval will be given for any redemption of Subordinated Notes at the option of the Issuer.
No redemption at the option of Holders	No Holder has a right to require the redemption of any Subordinated Note earlier than the Maturity Date. If a Winding-Up Default occurs, a Holder may declare by notice to the Issuer that the Redemption Price in respect of its Subordinated Notes is payable on a date specified in the notice and, subject to certain conditions, may prove in the Winding-Up of the Issuer for that amount.
Redemption Price	In respect of a Subordinated Note being redeemed, the "Redemption Price" will be an amount equal to the sum of the Face Value of that Subordinated Note together with any Deferred Interest, any Additional Interest, any Additional Amounts and any accrued but unpaid interest to the date of redemption determined in accordance with Condition 3, provided always that any amounts of interest payable on the Redemption Date which are separately paid in full on that date shall be excluded from the Redemption Price.
Conversion on a Non-Viability Trigger Event	If a Non-Viability Trigger Event occurs, the Issuer must convert or write-off: (a) unless paragraph (b) applies, all Relevant Capital Instruments (including the Subordinated Notes); or (b) where paragraph (a) or (b) in <i>Non-Viability Trigger Event</i> (above) (being Condition 6.1(a)(i) or Condition 6.1(a)(ii)) applies, an amount of the Relevant Capital Instruments (which may include an amount of Subordinated Notes) that is less than all Relevant Capital Instruments if APRA is satisfied that conversion or write-off of that amount will be sufficient to ensure that the Issuer or the Statutory Fund does not become non-viable. In the case of paragraph (b) above (i.e., if the Issuer is required to convert an amount of Relevant Capital Instruments which is less than all Relevant Capital Instruments), the Issuer must:

- (i) in the case of an Issuer Non-Viability Trigger Event — first procure the conversion or write-off of all Relevant Tier 1 Capital Instruments before Conversion of the Subordinated Notes. If conversion or write-off of Relevant Tier 1 Capital Instruments is not sufficient to satisfy APRA that the Issuer would not become non-viable, the Issuer must Convert Subordinated Notes and procure the conversion or write-off of other Relevant Tier 2 Capital Instruments in an aggregate Face Value and nominal amount which, when added to the aggregate nominal amount of Relevant Tier 1 Capital Instruments converted or written-off, will satisfy APRA that the Issuer would not become non-viable; or
- (ii) in the case of a Statutory Fund Non-Viability Trigger Event — Convert Subordinated Notes and convert or write-off other Relevant Tier 2 Capital Instruments in an aggregate Face Value and nominal amount which will satisfy APRA that the Statutory Fund would not become non-viable.

If for any reason (including an Inability Event) Conversion of a Subordinated Note required to be Converted in connection with a Non-Viability Trigger Event (including the Related Conversion Steps) does not occur within five Scheduled Trading Days after the Non-Viability Conversion Date the Subordinated Note will be Written-Off and the Statutory Fund will be credited with an increase in net assets equal to the Nominal Amount of the Subordinated Note Written-Off. See *Write-Off* below.

Conversion at the option of Holders

A Subordinated Note may also be Converted if a Holder gives a written notice (a “**Holder Conversion Notice**”) to the Issuer in advance of the Interest Payment Date falling on or immediately following the seventh anniversary of the Issue Date (the “**Holder Conversion Date**”), exercising its option to Convert the Subordinated Note. If a Holder exercises its option to require Conversion, all of its Subordinated Notes must be Converted and are required to be Converted on the Holder Conversion Date.

In order to elect to Convert its Subordinated Notes, the Holder must deliver a Holder Conversion Notice to the Issuer (with a copy to Challenger) no earlier than 30 Business Days and no later than 21 Business Days prior to the Holder Conversion Date. The Holder Conversion Notice must contain the information and be given in accordance with Condition 7.2(b), including the Holder’s security account details in CHESS. Once given, a Holder Conversion Notice will be irrevocable. Holders should refer to the sections entitled *Risk Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of the non-viability of the Issuer or Statutory Fund—Restrictions on holding and trading Ordinary Shares* and

Subordinated Notes and Description of the Ordinary Shares of Challenger below.

If Conversion in respect of a Subordinated Note does not occur on a Holder Conversion Date, the Subordinated Note will remain on issue and interest and other amounts will continue to accrue until the Ordinary Shares are issued to the Holder (or the Subordinated Note is redeemed or purchased under Condition 5 or Converted or Written-Off following a Non-Viability Trigger Event). The remedy of a Holder in respect of Challenger's failure to issue or deliver Ordinary Shares on the Holder Conversion Date is limited to seeking an order for specific performance of Challenger's obligations to issue or deliver Ordinary Shares in accordance with the Conditions.

Conversion mechanics

Each Subordinated Note (or part thereof) to be Converted will Convert into a number of Ordinary Shares calculated in accordance with a formula which provides for a calculation based:

- (a) in the case of Non-Viability Conversion, on the Face Value (or portion thereof) of the Subordinated Note to be Converted divided by a discounted volume weighted average price of Challenger's Ordinary Shares traded on the ASX during the period of five Trading Days immediately preceding (but not including) the relevant Non-Viability Conversion Date; and
- (b) in the case of Conversion at the election of a Holder on the Nominal Amount of the Subordinated Note to be Converted as set out in the Holder Conversion Notice, together with any Additional Amount, any Deferred Interest and any Additional Interest in respect of that Subordinated Note, divided by a discounted volume weighted average price of Challenger's Ordinary Shares traded on the ASX during the period of 20 Trading Days immediately preceding (but not including) the relevant Holder Conversion Date,

subject always to a Maximum Conversion Number calculated by dividing the Nominal Amount (or part thereof) by an amount equal to, in the case of Non-Viability Conversion, 20% or in the case of Conversion at the election of a Holder, 50% of the volume weighted average price of Challenger's Ordinary Shares traded on the ASX during the period of five Trading Days immediately preceding (but not including) the Issue Date, as may be adjusted in limited circumstances under the Conditions).

All rights of a Holder (including to payment of interest) in respect of a Subordinated Note the subject of the Conversion shall be transferred to Challenger or, only with APRA's prior written approval, a Subsidiary of Challenger which is a holding company of the Issuer ("**Approved Nominee**") free from any Encumbrance on the date for Conversion in proportion to the principal amount of

that Subordinated Note which is Converted on that date, and the Holder has no right to payment in respect of such amount. Challenger, the Issuer and their Related Bodies Corporate will deal with the Subordinated Notes being Converted so that Issuer Ordinary Shares are issued to, or as directed by, Challenger or to a Related Body Corporate of Challenger nominated by it (which Related Body Corporate itself issues ordinary shares to, or as directed by, Challenger), for an aggregate issue price equal to the aggregate Nominal Amount of the Subordinated Notes to be Converted and the Subordinated Notes transferred to Challenger or to an Approved Nominee shall be transferred to the Issuer and cancelled. The foregoing are referred to as the “**Related Conversion Steps**”.

See Conditions 6, 7 and 8 and the Implementation Deed.

Issue of Ordinary Shares to Nominee

Ordinary Shares issued on account of a Conversion of the Subordinated Notes of a Holder will be issued to a nominee appointed by Challenger (rather than to the Holder) if, subject to certain conditions:

- (a) in the case of Conversion on account of a Non-Viability Trigger Event, the Holder has notified the Issuer that it does not wish to receive such Ordinary Shares;
- (b) the Holder of the relevant Subordinated Notes is a person which the Issuer believes in good faith may not be a resident of Australia;
- (c) in the case of Conversion on account of a Non-Viability Trigger Event, the Issuer has not received information from the relevant Holder required by the Issuer to allow the issue of Ordinary Shares to such Holder; or
- (d) a FATCA Withholding is required to be made in respect of the Ordinary Shares issued on the Conversion.

Such nominee will sell those Ordinary Shares and pay a cash amount equal to the net proceeds received, after deducting any applicable brokerage, stamp duty and other taxes and charges, to the relevant Holder unless, in the case of paragraph (c) above, the nominee receives (within 30 days) the information from the relevant Holder required to allow the transfer of those shares to such Holder.

See Condition 8.12.

Write-Off

Where, for any reason (including, without limitation, where the Issuer, Challenger or any of their Related Bodies Corporate is prevented by applicable law, an order of any court, an action of

any government agency (including regarding the insolvency, winding-up or other external administration of the Issuer, Challenger or any of their Related Bodies Corporate), or for any other reason, from observing and performing their obligations in respect of a Conversion) (an “**Inability Event**”), a Conversion in respect of a Subordinated Note required in connection with a Non-Viability Trigger Event (including the Related Conversion Steps) does not occur within five Scheduled Trading Days after the Non-Viability Conversion Date, then the rights of the relevant Holder (including without limitation to the payment of Interest and the Redemption Price) in relation to the Nominal Amount of that Subordinated Note required to be Converted are immediately and irrevocably written-off and terminated, and the Statutory Fund will be immediately credited with an increase in net assets equal to the amount of the Subordinated Notes Written-Off, in each case with effect on and from the Non-Viability Conversion Date.

See Condition 6.3.

Variation and waiver

The Issuer may vary the provisions of the Deed Poll or the Conditions only if the Holders (by Special Resolution) have approved that variation and, to the extent that such variation may affect the eligibility of the Subordinated Notes as Tier 2 Capital, APRA has given its prior written approval to that variation. However, the approval of the Holders shall not be required if, in the opinion of the Issuer, the variation:

- (a) is necessary to comply with any applicable law;
- (b) is necessary to correct a manifest error, or is otherwise of a formal, minor, technical or administrative nature;
- (c) is made to:
 - alter the terms of any Subordinated Notes to align them with any Equal Ranking Instruments issued after the Issue Date; or
 - alter the definition of “Equal Ranking Instrument” on account of the issue of capital instruments of the Group; or
- (d) is not materially prejudicial to the interests of the Holders as a whole.

See Condition 14.

Voting and resolutions

The Deed Poll contains provisions for the passing of resolutions by the Holders in respect of matters affecting their interests.

A resolution is passed if approved by more than 50% (in the case

of an Ordinary Resolution) or at least 75% (in the case of a Special Resolution) of votes cast (on a poll) or persons voting (on a show of hands) at the relevant meeting (or, in the case of a written resolution, Holders representing, respectively, more than 50% and at least 75% of the aggregate Face Value of all Subordinated Notes outstanding).

The quorum for meetings of Holders regarding Ordinary Resolutions is one or more persons representing 10% (in the case of an unadjourned meeting) or one or more persons representing any amount (in the case of a meeting previously adjourned because of lack of quorum) of the aggregate Face Value of Subordinated Notes outstanding.

The quorum for meetings of Holders regarding Special Resolutions is:

- (a) in the case of a Special Quorum Resolution, any one or more persons representing $66 \frac{2}{3}\%$ (in the case of an unadjourned meeting) or $33 \frac{1}{3}\%$ (in the case of a meeting previously adjourned because of lack of quorum); and
- (b) in the case of any other Special Resolution, any one or more persons representing 50% (in the case of an unadjourned meeting) or 25% (in the case of a meeting previously adjourned because of lack of quorum),

in each case of the aggregate outstanding Face Value of all Subordinated Notes.

Subordinated Notes beneficially held in the name of any member of the Group (other than a life insurance company in respect of a statutory fund other than the Statutory Fund) must be disregarded, and shall not (unless and until ceasing to be so held) carry an entitlement to vote, form quorums or execute a written resolution.

No set-off or offsetting rights

A Holder may not exercise any right of set-off and has no offsetting rights against the Issuer or Challenger.

Neither the Issuer nor Challenger may exercise any right of set-off against a Holder in respect of any claim by that Holder against the Issuer or Challenger.

See Condition 10.8.

No Listing

The Subordinated Notes will not be listed or quoted on any securities exchange.

Clearing and settlement

Transactions in Subordinated Notes may be carried out through the Austraclear System. Subordinated Notes which are held in the Austraclear System will be registered in the name of Austraclear Limited. Payments through the Austraclear System may only be made in Australian dollars.

Transactions relating to interests in the Subordinated Notes may also be carried out through the settlement system operated by Euroclear Bank S.A./N.V. ("**Euroclear**") or the settlement system operated by Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Interests in the Subordinated Notes traded in the Austraclear System may be held for the benefit of Euroclear or Clearstream, Luxembourg. In these circumstances, entitlements in respect of holdings of interests in Subordinated Notes in Euroclear would be held in the Austraclear System by a nominee of Euroclear (currently HSBC Custody Nominees (Australia) Limited) while entitlements in respect of holdings of interests in Subordinated Notes in Clearstream, Luxembourg would be held in the Austraclear System by a nominee of J.P. Morgan Chase Bank, N.A. as custodian for Clearstream, Luxembourg.

The rights of a holder of interests in a Subordinated Note held through Euroclear or Clearstream, Luxembourg are subject to the respective rules and regulations for accountholders of Euroclear and Clearstream, Luxembourg, the terms and conditions of agreements between Euroclear and Clearstream, Luxembourg and their respective nominee and the rules and regulations of the Austraclear System. In addition, any transfer of interests in a Subordinated Note, which is held through Euroclear or Clearstream, Luxembourg will, to the extent such transfer will be recorded on the Austraclear System, be subject to the Corporations Act and the requirements for minimum consideration as set out in the Conditions.

The Issuer will not be responsible for the operation of the clearing arrangements, which is a matter for the clearing institutions, their nominees, their participants and the investors.

Where Subordinated Notes are held in Austraclear, for the purposes of determining the person entitled to be issued Ordinary Shares, or, where Ordinary Shares are issued to a nominee in accordance with Condition 8.12, the person entitled to the net proceeds of sale of such shares, the Issuer and Challenger will treat the relevant Austraclear Participant as the holder of the Subordinated Notes. Any investor who is not an Austraclear Participant will have to maintain arrangements with an Austraclear Participant in order to hold an interest in Subordinated Notes or to

receive any Ordinary Shares issued on Conversion. The Issuer has no responsibility for these arrangements or for the performance by any Austraclear Participant of its obligations.

ISIN

AU3FN0039426

Common Code

171825270

Governing law

The laws of the State of New South Wales, Australia.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Information Memorandum prior to making any investment decision with respect to the Subordinated Notes.

Each of the risks highlighted below, being risks relating to the Issuer, Challenger and the Group and its businesses, could have a material adverse effect on the Issuer's business, operations, financial condition or prospects, which, in turn, could have a material adverse effect on the amount which investors will receive in respect of the Subordinated Notes. In addition, each of the risks highlighted below, being risks relating to the Subordinated Notes, could adversely affect the trading price of the Subordinated Notes or the rights of investors under the Subordinated Notes and, as a result, investors could lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks faced by the Issuer or relating to the Subordinated Notes. There may be additional risks and any of these risks could have the effects set forth above.

RISKS RELATING TO THE ISSUER

Regulatory and compliance risk

The Issuer is a provider of annuity products. Providers and distributors of these products in Australia are subject to various legislative and prudential requirements, including the Corporations Act and the Life Insurance Act. This regulatory regime is complex and continues to undergo significant change, the most recent being taxation changes, proposed changes to superannuation rules for retirement income products and new product suitability reforms.

In addition, the Issuer's businesses may be affected by changes to the regulatory framework in other jurisdictions, including the cost of complying with regulation that has extra-territorial application such as the Bribery Act 2010 (UK), FATCA, Dodd–Frank Wall Street Reform and Consumer Protection Act 2010 (US) and other reforms.

The Issuer is subject to supervision and oversight by regulators which have broad administrative power over its businesses. These regulators include APRA, ASIC, ASX, the Australian Competition and Consumer Commission and the Australian Transaction Reports and Analysis Centre, along with offshore regulators (for example, those in the United Kingdom). An example of a broad administrative power available to regulatory authorities is the power available to APRA, in certain circumstances, to investigate the Issuer's affairs or issue a direction to it (such as a direction to comply with a prudential requirement to conduct an audit, to remove a director or senior manager from office, or not to undertake transactions).

The Issuer is responsible for ensuring that it complies with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which it operates.

If the Issuer does not meet the legislative or prudential requirements or the requirements placed on it by regulators, it may suffer penalties, such as fines or obligations to pay compensation, the cancellation or suspension of its authority to conduct business (including its licences), or a requirement to hold a greater level of capital to support its business. Non-compliance with regulations may adversely affect the Issuer's businesses, financial performance, financial condition and prospects and may also give rise to adverse publicity for the Issuer. The Issuer cannot predict the impact of future legislation and regulatory change on its business. However, as the amount and complexity of regulation increases, so may the cost of compliance and the risk of non-compliance.

Reforms arising from Federal Government reviews and inquiries may have an impact on the activities and operations of the Issuer. For example, the Financial Services Inquiry (“FSI”) which was established by the Federal Government made 44 recommendations in its final report released in December 2014, some of which were relevant to the Issuer’s business. The Federal Government’s response to the FSI was released in October 2015, with the majority of the FSI’s recommendations accepted and implementation to occur in stages over coming years. Some of the reforms most relevant to the Issuer are the legislating of the objective of superannuation, the review of retirement income streams (including related tax and social security measures) and the development of Comprehensive Income Products for Retirement (“CIPRs”). Reforms resulting from future reviews and inquiries may require the Issuer to revise or withdraw its range of products or services, change its premiums, fees or charges, or redesign its technology or other systems (among other things), which may result in the Issuer incurring significant expense and having to retrain its staff, pay additional tax, hold more capital or incur other costs. Although regulators, including APRA, have indicated support for a variety of FSI Report recommendations and released information that provides some indication as to the approach they will likely adopt, ultimately the reform agenda of the Federal Government, reflected in its response to the FSI, will now dictate the extent and timing of any changes. At this stage, it is difficult to judge the likely overall impact. The Issuer will work through the impacts of any relevant changes as they occur; however, these changes may still have a material adverse impact on the financial performance and position of the Issuer.

The nature, timing and impact of future regulatory reforms or changes are not predictable and are beyond the Issuer’s control. Regulatory compliance and the management of regulatory change is an increasingly important part of the Issuer’s strategic planning. Regulatory change may also impact the Issuer’s operations by requiring it to have higher levels, and better quality, of capital as well as place restrictions on the businesses the Issuer operates, or require the Issuer to alter its product or service offerings. If regulatory change has any such effect, it could adversely affect one or more of the Issuer’s businesses, restrict its flexibility, require it to incur substantial costs and impact the profitability of one or more of the Issuer’s businesses. Any such costs or restrictions could adversely affect the Issuer’s businesses, financial performance, financial condition and prospects.

Prudential regulation and capital adequacy

The Issuer is required to meet the capital and liquidity standards prescribed by APRA and other regulators. If it fails to meet these prudential standard requirements or these standards change, APRA has a number of broad powers at its disposal which may have an adverse effect on the Issuer which would prevent it from achieving its strategic plans and objectives.

In addition, in certain circumstances (for example, contravention of the Life Insurance Act), APRA has the power to order the compulsory transfer of the business of a life insurer to another entity, including to an entity which is not a life insurer in particular circumstances. This could include a compulsory transfer of the business of the Issuer. Any such determination could have a significant negative impact on the Issuer.

In 2013 APRA implemented the Life and General Insurance Capital (“LAGIC”) standards following a period of regulatory review. The standards imposed greater capital requirements on the Issuer as a result of a changed approach to asset stresses and new requirements for operational risk capital.

The Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016 was passed by Parliament in early February 2017. The proposed reforms encompass a significant impact on the types of commission that can be paid for life risk insurance products. ASIC has also undertaken a review of the claims handling procedures in the life insurance industry and, in conjunction with APRA, will be introducing enhanced reporting measures regarding life insurance claims.

The Federal Government is developing a legislative framework aimed at improving the professional, ethical and education standards of advisers in the financial services industry.

Any significant change in the standards prescribed by regulators or in the approach APRA takes towards prudential supervision may have a significant impact on the financial performance and position of the Issuer, and the level of capital required to support the Issuer's business. It is possible that global events could result in further changes to requirements prescribed by regulators. In certain circumstances, APRA or other regulators may require the Issuer to hold a greater level of capital to support its businesses or require it not to pay dividends or restrict the amount of dividends that can be paid by it to its parent entity. The results of the above regulatory changes may require the Issuer to revise or withdraw its range of products or services, change its product pricing, fees or charges, redesign its technology or other systems incurring significant expense, retrain its staff, pay additional tax, hold more capital or incur other costs. While the Issuer may try to mitigate the impacts of these changes should they occur, they may still have a material adverse impact on the financial performance and position of the Issuer.

There are other regulatory capital reviews currently underway or which may occur in the future which may also impact the business, financial performance or prospects of the Issuer.

Market risk

Demand for the Issuer's financial products and services is affected by changes in economic conditions, investment markets, investor sentiment and customer preferences. There is a risk that the financial performance of the Issuer is significantly affected by changes in investment markets and economic conditions both in Australia and globally in New Zealand, Japan, the US, the UK and Europe where the Issuer conducts business. Domestic and international economic conditions and forecasts are influenced by a number of factors such as economic growth rates, cost and availability of capital, central bank intervention, inflation and deflation rates and market volatility and uncertainty. Economic conditions may also be impacted by major shock events such as natural disasters, war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

Any deterioration in investment markets, investor sentiment or economic conditions in the Issuer's core markets may lead to reductions in new business sales, and therefore reduced cash flows, which may have an adverse impact on the overall financial performance and position of the Issuer.

In particular, product margins across the Issuer may be adversely impacted by a number of factors, including interest rates, foreign exchange and inflation, each of which are described in further detail below.

Interest rate risk

Interest rate risk is the risk of financial loss arising from adverse fluctuations in interest rates, and may have a material adverse impact on the financial performance and position of the Issuer.

The Issuer currently manages interest rate risk through hedging arrangements. Disruptions in financial markets may affect the availability of hedging, and even if available, hedging may become more expensive or be provided on unfavourable terms, which may have a material adverse impact on the financial performance and position of the Issuer.

Notwithstanding that the Issuer hedges its interest rate risk, fluctuations in interest rates can impact:

- the rate at which certain liabilities are discounted, causing the liabilities in respect of the Issuer's annuity products to vary. The Issuer values annuity liabilities at a risk-free discount rate whereas some assets, and in particular, fixed income assets are valued at a margin to

the relevant interest rate benchmark (usually the swap rate) which is a higher discount rate. Accordingly, the balance sheet value of these liabilities is more sensitive to interest rate movements than the assets. This may lead to losses where there is a reduction in interest rates as the value of liabilities will increase more than the assets;

- the Issuer's investment portfolio which may lead to changes in the Issuer's income; and
- the Issuer's funding costs.

Foreign exchange risk

Foreign exchange risk is the risk of the Issuer sustaining loss through adverse movements in exchange rates. Such losses can affect the Issuer's financial position and performance, and the level of capital supporting the Issuer's businesses. From an operational perspective, the Issuer faces exposure to foreign exchange risks through its investment in foreign currency denominated assets and certain foreign currency denominated liabilities, and some direct foreign income and expenses.

The Issuer hedges its foreign exchange exposure through derivative instruments that are rolled periodically. Foreign exchange losses can occur when rolling these derivative instruments and this can impact the liquidity of funds which in turn may have a material adverse impact on the Issuer's reputation, other asset values, financial performance and position.

Foreign exchange hedging can also change the Issuer's effective exposure to assets and therefore change the asset allocation mix. This movement may have a negative capital impact by requiring the Issuer to hold more capital against the assets that it owns.

Inflation risk

The Issuer offers certain products where the benefits of those products are indexed to the consumer price index ("CPI"). The Issuer currently manages the inflation risk associated with these products through hedging arrangements, such as entering into inflation-linked derivatives, or purchasing assets such as property and infrastructure, the income derived from which may be CPI indexed or have inflation-related characteristics. There is a risk that the hedging arrangements entered into may not perfectly offset the underlying exposures in the liability portfolio, and this may give rise to losses or it may result in additional capital being required.

Investment performance

The Issuer has a significant investment portfolio supporting liabilities arising from its life business. The Issuer's investment portfolio consists of:

- assets backing annuity and risk products issued by the Issuer; and
- shareholder assets, e.g. the Issuer shareholder funds.

The Issuer's investment portfolio is managed in accordance with the Issuer's risk appetite, investment policy, investment approach and asset allocation plan. The Issuer's investment approach for the assets backing annuity and risk products and shareholder assets is to invest in a range of assets comprising fixed-income, property, infrastructure and equity investments. The Issuer, through its investment in these assets is exposed to risk and volatility in the markets, securities and other assets in which it invests. Those risks include, but are not limited to:

- investment risk, which includes the risk that the Issuer will not be able to invest in assets at a rate of return which is sufficient to service its annuity liabilities;

- asset/liability risk, which is the risk that the value of an investment portfolio will decrease relative to the value of the liabilities, as a result of fluctuation in investment factors including interest rates, credit spreads, counterparty default, exchange rates, property prices or share prices; and
- liquidity risk, including the risk that assets cannot be sold without a significant impairment in value.

Such risks can be heightened during periods of high volatility, market disruption and periods of sustained low interest rates, such as those that occurred during the global financial crisis and could adversely affect the Issuer's businesses, financial performance, capital resources, fee income and financial condition.

Declines in asset markets

The Issuer's performance is influenced by asset markets in Australia and other jurisdictions, including fixed income, property, infrastructure, equity and other investment asset markets.

Declining asset prices caused by less favourable business or economic conditions, whether generally or in a specific industry sector or geographic region, could impact counterparties and cause them to fail to meet their obligations in accordance with agreed terms.

In particular, the fixed income and property markets are important to the overall performance of the Issuer. Credit spreads on fixed income securities that the Issuer owns can deteriorate in less favourable business or economic conditions or counterparties may default. This may result in unrealised or realised losses which will affect the profitability, financial performance, capital resources and prospects of the Issuer.

As part of its asset portfolio backing the annuity liabilities it has originated, the Issuer provides loans in respect of, and owns, residential and commercial property primarily in Australia, New Zealand and Japan. Property markets in these jurisdictions can be variable and some locations have experienced reduced asset values. Declining property valuations may result in either unrealised or realised losses which will affect the profitability, financial performance, capital resources and prospects of the Issuer.

Fair value impact on earnings

The Issuer and its consolidated entities are required by the life insurance accounting standard AASB 1038 Life Insurance Contracts to fair value all assets and policy liabilities unless otherwise stated in the standard. This gives rise to unrealised gains and losses being included in the Issuer's statutory statement of comprehensive income. This effect may reverse over time depending upon market conditions and may not be realised if the Issuer is not required to sell assets or repay liabilities ahead of their stated maturity date. For example, if fair market values of the assets have reduced, the Issuer may report lower earnings than its underlying level of earnings because it will include an unrealised loss in its statutory statement of comprehensive income which will reduce earnings. This may not accurately represent the underlying earnings because the Issuer did not have to sell the assets and realise the loss at the balance date.

Generally, in order to establish fair value for financial instruments, the Issuer relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, fair values are based on present value estimates or other accepted valuation techniques. In certain circumstances, the data for individual financial instruments or classes of financial instruments used by such estimates or techniques may not be available or may become unavailable due to changes in market conditions. In these circumstances, the fair value is determined using data derived and extrapolated from market data, and tested against historic transactions and observed market trends.

The methods used to determine fair values, or any changes made to the methods used, may have a material adverse effect on the Issuer's earnings.

Asset and liability matching risk

Asset and liability matching risk refers to the risk that the duration of the assets does not match those of the liabilities. The Issuer sells annuity products whose duration ranges from one year to the life of the person purchasing the annuity. The Issuer may or may not be able to purchase assets with a duration that exactly matches the duration of the underlying annuity liabilities. If the duration of the assets is less than the duration of the annuity liabilities, then the Issuer will be exposed to the risk that it is unable to reinvest the asset proceeds at the same or a better rate of return to service the annuity liabilities. This is known as reinvestment risk. If the duration of the annuity liabilities is less than the duration of the assets, then the Issuer will be required to sell assets before their stated maturity to meet the obligations it may have in relation to maturing annuity liabilities. The Issuer may not be able to sell sufficient assets to meet these liabilities or it may be required to sell assets at lower prices in order to meet its annuity liabilities. This is known as liquidity risk. Reinvestment risk and liquidity risk may affect the financial performance, capital resources and prospects of the Issuer.

Insurance risk

In addition to other risks associated with its annuities business, the Issuer is, or may become, exposed to a number of types of risk:

- mortality risk – which is the risk of death rates being higher than expected;
- longevity risk – which is the risk of policyholders living longer than expected; and
- morbidity risk – which is the risk of a policyholder suffering greater disability than expected, which can be in respect of either the frequency or the severity of disability.

The Issuer sells annuity products that extend for the life of the policyholder. In addition, the Issuer issues longevity reinsurance treaties. These expose the Issuer to longevity risk. The Issuer retains the longevity risk associated with these products and does not currently reinsure this risk. While the Issuer holds capital for this risk, the amount of capital held is based on certain assumptions about the longevity risk retained. The actual longevity risk experienced may be different to the risk that was assumed at the time the policy was written. As a result, this may have an adverse impact on the Issuer's business and financial condition.

The Issuer also has longevity risk associated with annuities products for which it has ceased writing new business (known as "closed books"). The Issuer has reinsured the longevity risk associated with its closed books. The Issuer is also exposed to the risk of default on the part of the reinsurer for this risk.

The Issuer has exposure to mortality and morbidity risk through reinsurance treaties. There is a risk of higher than expected mortality or morbidity in relation to these reinsurance treaties. Higher than expected mortality or morbidity may occur for a variety of reasons including as a result of pandemics, natural disasters or other factors outside of the Issuer's control. If this were to occur, the capital set aside for these reinsurance treaties may not be sufficient which may lead to losses being suffered.

Funding and liquidity risk

Funding risk relates to the risk of one or more of the Issuer's sources of funding being reduced or eliminated or there being a significant increase in the cost of funding through either a systemic or company-specific event. Liquidity risk is the risk that the Issuer fails to meet its payment obligations, which may arise as a result of a mismatch between those payment obligations and the Issuer's

access to liquid assets, adequate funding or access to capital on acceptable terms, or cash flows generated by its businesses.

If the Issuer's current sources of funding prove insufficient, it may be forced to seek alternative funding which may not be available on acceptable terms or at all. The availability of such funding, and the terms on which it may be made available, will depend on a number of factors, including market conditions, the availability of credit, the Issuer's credit ratings and credit and capital market capacity.

These funding risks may arise due to an increased cost of funding, reduced availability of credit and capital, a decline in asset values, or reduced financial performance of these assets or funds, and/or a downgrade in the credit rating of the Issuer. An inability to manage the funding risks for the Issuer may result in forced asset sales or default, which could adversely impact the Issuer's reputation, brand and debt and equity market relationships.

Further, business entities owned as investments by the Issuer, may breach or risk breaching their loan and other debt covenants. In the event of breach, the financiers have the ability to demand immediate repayment of the debt and enforce their other rights, which may give rise to the funding risks described above. To the extent those circumstances arise, this may have a material adverse impact on the financial performance and position of the Issuer.

A deterioration of financial market conditions may also have a material adverse impact on the financial performance and position of the Issuer, and its ability to perform its obligations in respect of Subordinated Notes, including the payment of interest and principal.

Credit ratings

Credit ratings are opinions on the Issuer's creditworthiness. The Issuer's credit ratings affect the cost and availability of its funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating the Issuer's products and services. Therefore, maintaining high quality credit ratings is important.

The credit ratings assigned to the Issuer by rating agencies are based on an evaluation of a number of factors, including financial strength. A credit rating downgrade could be driven by the occurrence of one or more of the risks identified in this section or by other events including changes to the methodologies used by the rating agencies to determine ratings.

If the Issuer fails to maintain its current credit rating, this could adversely affect the Issuer's cost of funds and related margins, competitive position and its access to capital and funding markets, which, in turn, could adversely affect the Issuer's businesses, financial performance, and prospects. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, and whether the factors affecting the ratings of the Issuer also impact Challenger's peers or the life insurance sector.

Credit and outsourcing risk

Credit risk is the risk that default by a counterparty will result in a financial loss to the Issuer. The Issuer is exposed to credit risk with the counterparties it deals with, including for derivative contracts.

A default by a counterparty can impact the Issuer's financial position and performance and the level of capital supporting the Issuer's businesses.

Credit risk arises primarily in relation to exposures from debt securities, property leases, futures and options broker clearers and over-the-counter derivative counterparties. While the Issuer utilises

mechanisms to mitigate a number of those exposures, including security, collateral and netting agreements, there can be no assurance that these arrangements fully limit those exposures.

The annuity portfolio is managed with assets matched to expected annuity cash outflows. A significant proportion of the annuity portfolio is invested in fixed income assets where the Issuer has lent money to counterparties. The Issuer is exposed to the risk of counterparty default as well as the risk of widening credit spreads on the portfolio of fixed income assets.

To the extent that any of the above risks arise, this may have a material adverse impact on the financial performance and position of the Issuer.

Outsourcing involves an organisation entering into an agreement with another party (including a related company) to perform, on a continuing basis, a business activity that currently is, or could be, undertaken within that organisation. While the Issuer requires that all material outsource arrangements are structured, managed and controlled in such a manner that its market reputation, service to customers, financial performance and obligations to regulators are enhanced or preserved, there remains a risk that these arrangements might fail.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. As a financial services organisation, the Issuer is exposed to a variety of operational risks such as fraud and other dishonest activities, management practices, workplace safety, project and change management, compliance, business continuity and crisis management, key person risk, information and systems integrity as well as reliance on suppliers and outsourcing.

The Issuer relies to a significant degree on information technology systems. Most of the Issuer's daily operations are computer based and its information technology systems are essential to maintaining effective communication with customers and keeping pace with the competitive environment. The Issuer is exposed to a number of system risks, including:

- complete or partial failure of the information technology systems;
- inadequacy of internal, partner or third party information technology systems;
- data inadequacy and corruption;
- incapacity of the existing systems to effectively accommodate Challenger's planned growth and integrate existing and future acquisitions and alliances;
- information technology systems changes not being implemented appropriately or not working in accordance with intended operation;
- systems integration programs not being completed within the timetable or budget; and
- compromise or loss of information or technology arising from external or internal security threats, including cyberattacks or other information security breaches.

The growing sophistication and activities of organised crime have resulted in increased information security risks for financial institutions including the Issuer. The Issuer has information technology security systems in place to detect cyberattacks and has implemented measures to protect the security, integrity and confidentiality of its information; however, these systems and measures may not be successful in all circumstances.

The Issuer has disaster recovery and systems development roadmaps in place to mitigate some of these risks. However, any failure in the Issuer's information technology systems could result in

business interruption, the loss of customers, damaged reputation and weakening of its competitive position.

Operational risks, including information technology, could impact on the Issuer's operations or adversely affect demand for its products and services and its reputation, which could adversely affect the Issuer's businesses, financial performance and prospects.

Staff retention and key person risk

The Issuer has a large base of qualified and experienced personnel. The Issuer's future success will depend on its continued ability to attract and retain highly skilled and qualified personnel. There can be no assurance that key personnel will continue to be employed by, or contracted to, the Issuer or that the Issuer will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse impact on the Issuer's business, reputation, financial performance and position.

Distribution channels

The Issuer distributes its products through third party financial planning networks. Many of these financial planning networks are owned by product manufacturers that sell products that compete with the Issuer's products. This exposes the Issuer and therefore Challenger to the risk that it may lose access to certain distribution networks because of actions by its competitors to limit distribution of competing products.

Competitive environment

The Issuer faces risks in connection with the competitive positioning of the business, and its ability to respond in a timely manner to changes in its competitive landscape and protect the value of the Issuer's and Challenger's brand. Examples of these risks include competitor disruption, changing customer preferences, and changing political and regulatory environments. The Issuer's board sets the overall strategic direction of the Issuer as part of the strategic planning process in connection with these risks.

The wealth management industry in which the Issuer operates in Australia is becoming increasingly competitive. Factors contributing to this include entry of new participants, development of alternative distribution methods and increased diversification of product mix by major competitors. Responses to increased competition may include lower prices, increased costs (such as marketing), reduced persistency, higher redemptions, more aggressive risk taking (such as higher benefit levels in risk products) or a combination of these, which may have a material adverse impact on the financial performance and position of the Issuer.

Customer preferences continue to change rapidly in the current financial services environment, driven in particular by advances in technology and competitive dynamics. The failure of the Issuer to adapt its capabilities and operating model in order to remain relevant to customers, within a rapidly changing environment, may impact new business and retention of existing business, resulting in lower than anticipated revenues and profits. This could have a material adverse impact on the financial performance and position of the Issuer.

Reputational damage

The Issuer's ability to attract and retain customers and investors and its prospects could be adversely affected if the Issuer's reputation is damaged. There are various potential sources of reputational damage including potential conflicts of interest, pricing policies, failing to comply with legal and regulatory requirements (including money laundering laws, trade sanctions legislation or privacy laws), ethical issues, litigation, failing to comply with information security policies, improper sales and trading

practices, or personnel and supplier policies, unfair or inappropriate behaviour of staff of the Issuer, improper conduct of companies in which it holds strategic investments, technology failures, security breaches and risk management failures. The Issuer's reputation could also be adversely affected by the actions of the financial services, wealth management and allied industries in general or from the actions of its customers and counterparties.

Failure to appropriately address issues that could or do give rise to reputational damage could also give rise to additional legal risks, subject the Issuer to regulatory enforcement actions, fines and penalties and could lead to loss of business which could adversely affect the Issuer's financial performance, financial condition and prospects.

Mergers, acquisitions and divestments

The Issuer at times evaluates and may undertake a range of initiatives, including mergers, acquisitions, joint ventures, strategic alliances and relationships and divestment activity which facilitates the Issuer's strategic direction. These strategic initiatives can be complex and costly and may require the Issuer to comply with additional local or foreign regulatory requirements which may carry additional risks. These decisions may, for a variety of reasons, not deliver the anticipated positive business results and could have a material adverse impact on the business, prospects, engagement with regulators, financial performance or position of the Issuer. Strategic alliances and relationships and joint ventures may involve significant counterparty risk.

It is likely that the Issuer would raise additional capital to finance any major merger or acquisition, and this would cause the Issuer to face the financial risks and costs associated with additional capital.

Mergers or acquisitions may require assimilation of new operations and new personnel and may cause dissipation of the Issuer's management resources. Changes in ownership and management may result in impairment of relationships with employees and customers of the acquired businesses. Depending on the type of transaction, it could take a substantial period of time for the Issuer to realise the financial benefits of the transaction, if any. During the period immediately following this type of transaction, the Issuer's operating results may be adversely affected.

Where the Issuer decides to divest a business or asset, this may involve a loss against book value, particularly of any goodwill or other intangibles. The Issuer's failure to adequately manage the risks associated with any mergers, acquisitions or divestments could adversely affect the Issuer's businesses, financial performance, financial condition and prospects.

The Issuer may invest in types of assets not currently represented in its asset portfolio. These new types of assets may have risks associated with them that are not currently contemplated by the Issuer's policies and procedures, which may require change to those policies and procedures and potentially a change to the capital being held in respect of those risks.

Accounting policies

Australian accounting standards require accounting policies to be selected and applied by the Issuer in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, and is comparable and understandable. A change to an accounting policy is only permitted if it is necessary in order to comply with another Australian accounting standard, or if the change will result in an overall improvement in the relevance and reliability of financial information about the performance and financial position of the Issuer. The choice of accounting policies can materially affect the analysis and interpretation of the Issuer's financial position and performance, particularly in comparison to other companies.

Tax risk

Australian tax law is frequently being changed, both prospectively and retrospectively. Of particular relevance to the Issuer are expected future changes to tax laws affecting the superannuation and financial services industries, following a number of recent Australian Government reviews.

There are risks that any changes to the tax law, including the current rate of company income tax, may impact on demand for financial products and services. Investors should refer to the section entitled *Taxation* below for a summary of the taxation consequences of an investment in Subordinated Notes, noting that such consequences are also subject to change at any time.

The Australian Taxation Office (ATO), as part of its ordinary processes in reviewing large business taxpayers, takes into account their size and complexity. The Issuer, as a large and complex entity, can be expected to be subject to a high level of review by the ATO and overseas tax regulators in respect of ongoing taxation compliance.

Litigation and contingent liabilities

From time to time, the Issuer may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect the Issuer's results.

There is a risk that these contingent liabilities may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

Insolvency reform – stays on “ipso facto” rights

On 18 September 2017, the Treasury Laws Amendment (2017 Enterprise Incentives No.2) Act 2017 of Australia was enacted. The legislation provides for a stay on enforcement of certain rights arising under a contract (such as a right entitling a creditor to terminate the contract or to accelerate payments or providing for automatic acceleration) for a certain period of time (and in some cases indefinitely), if the reason for enforcement is the occurrence of certain events relating to specified insolvency proceedings, namely the appointment of an administrator or managing controller or an application for a scheme of arrangement, or the company's financial position during those proceedings (known as “ipso facto” rights). The specified proceedings do not include a winding up or liquidation. The operation of the legislation introducing the stay will commence on the earlier of 1 July 2018 and the date fixed by Proclamation.

The stay will apply to ipso facto rights arising under contracts, agreements or arrangements entered into after the commencement date, subject to certain exclusions. This may include some investments made by the Issuer, and may impact certain rights the Issuer may otherwise have in connection with those investments.

RISKS RELATING TO CHALLENGER AND THE GROUP

Impact of risks associated with the Group on an investment in Subordinated Notes

Risks associated with the Group are relevant to an investment in Subordinated Notes because they may affect the Issuer's ability to fulfil its obligations under the Subordinated Notes, the market value of Subordinated Notes and the market value of, and any dividends paid on, Ordinary Shares issued on a Conversion of Subordinated Notes. There are a number of risks faced by the Group, including those that encompass a broad range of economic and commercial risks, many of which are not within the control of the Issuer or other members of the Group. The performance of all of the Group's major businesses can be influenced by external market and regulatory conditions. If all or most of the

Group's businesses were affected by adverse circumstances at or about the same time, overall earnings would suffer significantly.

Risks upon Conversion

Ordinary Shares are a different type of investment to Subordinated Notes. For example, dividends on Ordinary Shares are not determined by a formula. Ordinary Shares are an investment in Challenger (as the ultimate parent of the Group) rather than in the Issuer. Ordinary Shares rank behind the claims of all other securities and debts of Challenger in a winding-up of Challenger. Ordinary Shares trade in a manner that is likely to be more volatile than that of Subordinated Notes and the market price is expected to be more sensitive to changes in the performance, prospects and business of the Group. Other events and conditions may affect the ability of Holders to trade or dispose of Ordinary Shares issued on Conversion – for example, the willingness or ability of ASX to accept the Ordinary Shares issued on Conversion for quotation or any practical issues which affect that quotation, any disruption to the market for the Ordinary Shares or to capital markets generally, the availability of purchasers for Ordinary Shares and any costs or practicalities associated with trading or disposing of Ordinary Shares at that time.

RISKS RELATING TO THE SUBORDINATED NOTES

Subordinated Notes may not be a suitable investment for all investors

The Subordinated Notes will constitute subordinated, unsecured obligations of the Issuer, issued for the purposes of, and referable to, the business of the Statutory Fund. An investor in Subordinated Notes relies on the creditworthiness of the Statutory Fund and the Issuer and no other person. The Subordinated Notes are not guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction, or by Challenger or any member of the Group. Investment in the Subordinated Notes involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the Subordinated Notes.

Each potential investor in any Subordinated Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Subordinated Notes (and the Ordinary Shares which may be issued on Conversion of the Subordinated Notes), the merits and risks of investing in the Subordinated Notes and the information contained or incorporated by reference in this Information Memorandum or any applicable supplement to this Information Memorandum;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Subordinated Notes and the impact the Subordinated Notes will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Subordinated Notes, including where the currency for payments in respect of the Subordinated Notes is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Subordinated Notes and the Available Documents and be familiar with the behaviour of any relevant interest rates and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Subordinated Notes are complex financial instruments and are not a suitable investment for all investors. In particular, the Subordinated Notes are not intended to be promoted, offered, distributed and/or sold to retail investors. A potential investor should not invest in Subordinated Notes unless it

has the expertise (either alone or with a financial adviser) to evaluate how the Subordinated Notes will perform under changing conditions, the resulting effects on the value of the Subordinated Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Payments are subject to satisfaction of the Solvency Condition and the Issuer's right to defer the due date for payment

When the Issuer is not in a Winding-Up in Australia, all of the Issuer's obligations to make payments in respect of the Subordinated Notes are subject to the Solvency Condition being satisfied.

If the Solvency Condition is not satisfied in respect of any payment (that is, if the Issuer is not able to pay all its debts as they become due and payable, the Issuer's assets do not exceed its liabilities or the Issuer is not in compliance with the solvency standards and the capital adequacy standards (each as defined by APRA from time to time) applicable to it and the Statutory Fund, both at the time the relevant payment would otherwise fall due or immediately after making the payment), no payment will be made in respect of the Subordinated Notes. The Issuer's failure to pay in such circumstances will not be an Event of Default. Amounts not paid on account of the Solvency Condition will be payable on the earliest of (i) the date on which the Subordinated Notes are redeemed; (ii) the date on which a Winding-Up Default occurs; and (iii) first Interest Payment Date on which such payment may be made in compliance with the Solvency Condition and the terms of any indebtedness owing to Senior Statutory Fund Creditors.

In addition, the Issuer may elect, on any Optional Interest Payment Date, for any or no reason, to defer the due date for payment of any amount of Interest under the Subordinated Notes to any future date specified by the Issuer (not being later than the Maturity Date). The result of any such deferral is that the relevant payment is not due and, accordingly, no Event of Default will or can occur as a result of the non-payment resulting from such deferral.

Any amount of principal not paid on account of the Solvency Condition will continue to accrue Interest until paid, and interest will accrue on any Deferred Interest and any Interest not paid on account of the Solvency Condition until it is paid unless, in each case, the Subordinated Notes are Converted or Written-Off prior to the unpaid amount being paid. However, if a Non-Viability Trigger Event occurs, to the extent that Subordinated Notes are required to be Converted to Ordinary Shares or Written-Off (as more fully described in the section entitled *Risk Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of the non-viability of the Issuer* below), all of the Issuer's obligations to make payments in respect of the Subordinated Notes (including in respect of accrued but unpaid interest) will cease and Holders will have no rights to recover any unpaid amounts.

Any deferral of Interest payments is likely to have an adverse effect on the market price of the Subordinated Notes. In addition, as a result of the Payment Deferral Provisions of the Subordinated Notes, the market price of the Subordinated Notes may be more volatile than the market prices of other debt securities which are not subject to such deferrals. The market price of the Subordinated Notes may also be more sensitive generally to adverse changes in the Issuer's financial condition than other debt securities which are not subject to such deferrals.

Risk of mandatory Conversion or Write-Off on account of the non-viability of the Issuer or the Statutory Fund

Under the Conditions, the Subordinated Notes are subject to mandatory Conversion or Write-Off if a Non-Viability Trigger Event occurs.

Occurrence of a Non-Viability Trigger Event

A Non-Viability Trigger Event occurs when APRA provides a written determination to the Issuer that the conversion or write-off of Relevant Capital Instruments in accordance with their terms or by operation of law is necessary because:

- (a) without the conversion or write-off, APRA considers that the Issuer would become non-viable;
- (b) without the conversion or write-off, APRA considers that the Statutory Fund would become non-viable;
- (c) without a public sector injection of capital into, or equivalent capital support with respect to, the Issuer, APRA considers that the Issuer would become non-viable; or
- (d) without a public sector injection of capital into, or equivalent capital support with respect to, the Statutory Fund, APRA considers that the Statutory Fund would become non-viable.

Potential investors should consider Conditions 6 and 8 where the Non-Viability Trigger Event and related provisions are set out.

It is a requirement under APRA's prudential standards that any term subordinated debt, in order to be eligible for inclusion as regulatory capital, contain provisions for conversion or write-off in the event of non-viability.

The Non-Viability Trigger Event for a life insurance company is triggered by the non-viability of the life company or the non-viability of a particular statutory fund (in the case of the Subordinated Notes, the Statutory Fund).

The prudential standards do not define non-viability for a life company or a statutory fund and APRA has not provided any guidance on how it would determine non-viability of a life company or the particular statutory fund. Non-viability could be expected to include a serious impairment of the Issuer's or the Statutory Fund's financial position and insolvency. However, it is possible that APRA's view of non-viability may not be confined to solvency or capital measures and APRA's position on these matters may change over time. As the occurrence of a Non-Viability Trigger Event is at the discretion of APRA, there can be no assurance as to the factors and circumstances that might give rise to such an event or in which cases, if any, the Statutory Fund alone might be non-viable. Non-viability may be significantly impacted by a number of factors, including factors which impact the business, operation and financial condition of the Issuer, such as systemic and non-systemic macro-economic, environmental and operational factors.

A Non-Viability Trigger Event could occur at any time. It could occur on dates not previously contemplated by investors or which may be unfavourable in light of then prevailing market conditions or investors' individual circumstances or timing preferences.

Conversion or write-off of Relevant Capital Instruments

On a Non-Viability Conversion Date, the Issuer will be required:

- (a) unless paragraph (b) below applies, to Convert all of the nominal amount of all (but not some only) of the Subordinated Notes into Ordinary Shares; or
- (b) where Condition 6.1(a)(i) or Condition 6.1(a)(ii) applies, if APRA is satisfied that the conversion or write-off of less than all Relevant Capital Instruments (which term includes the Subordinated Notes) will be sufficient to ensure that the Issuer or the Statutory Fund (as applicable) does not become non-viable:
 - i. in the case of a Non-Viability Trigger Event in respect of the Issuer, first, to procure the conversion or write-off of all Relevant Tier 1 Capital Instruments before Conversion of the Subordinated Notes and, second, if conversion or write-off of

Relevant Tier 1 Capital Instruments is less than the amount sufficient to satisfy APRA that the Issuer would not become non-viable, to Convert Subordinated Notes and convert or write-off of other Relevant Tier 2 Capital Instruments in an aggregate Face Value and nominal amount which, when added to the aggregate nominal amount of Relevant Tier 1 Capital Instruments converted or written-off, will satisfy APRA that the Issuer would not become non-viable (which amount may include some or all of the nominal amount of some or all of the Subordinated Notes); and

- ii. in the case of a Non-Viability Trigger Event in respect of the Statutory Fund, the Issuer must Convert Subordinated Notes and convert or write-off other Relevant Tier 2 Capital Instruments in an aggregate Face Value and nominal amount which will satisfy APRA that the Statutory Fund would not become non-viable; and
- (c) alternatively, in either case, if, for any reason (including, without limitation, an Inability Event), the Conversion has not been effected within five Scheduled Trading Days after the Non-Viability Conversion Date, to Write-Off and immediately and irrevocably terminate that part of those Subordinated Notes which have not, for any reason, been Converted into Ordinary Shares.

Potential investors in Subordinated Notes should be aware that, as at the date of this Information Memorandum, the Issuer has on issue A\$400,000,000 floating rate subordinated notes due 2037 (**"USPP Notes"**), A\$345,000,000 subordinated, perpetual, unsecured notes issued in October 2014 (to Challenger) (**"Internal Capital Notes 1"**) (representing the proceeds of the issue of capital notes by Challenger (**"Challenger Capital Notes 1"**) at the same time) and A\$460,000,000 subordinated, perpetual, unsecured notes issued in April 2017 (to Challenger) (**"Internal Capital Notes 2"** and, together with the Internal Capital Notes 1, **"Internal Capital Notes"**) (representing the proceeds of the issue of capital notes by Challenger (**"Challenger Capital Notes 2"** and, together with the Challenger Capital Notes, the **"Challenger Capital Notes"**) at the same time). The USPP Notes were issued prior to the above prudential requirements and are not Relevant Capital Instruments. Holders of the Subordinated Notes are therefore likely to be in a worse position in the event of the occurrence of a Non-Viability Trigger Event than holders of the USPP Notes so long as the USPP Notes remain on issue.

Potential investors in Subordinated Notes should note that, subject to APRA approval, the Issuer has agreed to repay the USPP Notes on 30 November 2017.

The only Relevant Tier 1 Capital Instruments the Issuer has on issue at the date of this Information Memorandum are the Internal Capital Notes.

Where a Non-Viability Trigger Event occurs in respect of the Issuer, the Internal Capital Notes are Relevant Tier 1 Capital Instruments and will be written-off before, or concurrently with, Conversion or Write-Off of the Subordinated Notes, as described in paragraphs (a) and (b) above.

Where a Non-Viability Trigger Event occurs in respect of the Statutory Fund, since the capital base of the Statutory Fund does not include Relevant Tier 1 Capital Instruments of the Issuer, the Subordinated Notes (and any other Relevant Tier 2 Capital Instruments) would be Converted or Written-off.

Potential investors should be aware that the Issuer has no obligation to Holders to issue or keep on issue any Relevant Tier 1 Capital Instruments or any Relevant Tier 2 Capital Instruments or any other securities.

Conversion

Where Subordinated Notes are Converted, Holders may receive Ordinary Shares worth significantly less than the principal amount of the Holder's Subordinated Notes. This may occur for a number of reasons, some of which are described below.

Potential investors in Subordinated Notes should understand that, if a Non-Viability Trigger Event occurs and Subordinated Notes are Converted into Ordinary Shares, unless, prior to the Non-Viability Conversion Date, a Holder has notified the Issuer that it does not wish to receive Ordinary Shares as a result of the Conversion (whether entirely or to the extent specified in the notice), Holders are obliged to accept the Conversion Number of Ordinary Shares in respect of each Subordinated Note they hold which is required to be Converted, even if they do not consider the Ordinary Shares to be an appropriate investment for them at the time and despite any change in the financial position of the Issuer since the date of issue of the Subordinated Notes or any disruption to the market for Ordinary Shares or to capital markets generally. Holders have no right to elect to have Subordinated Notes Written-Off instead of being Converted. If, (a) prior to the Non-Viability Conversion Date, a Holder has notified the Issuer that it does not wish to receive Ordinary Shares as a result of the Conversion (whether entirely or to the extent specified in the notice); (b) the Subordinated Notes are held by a person which the Issuer believes in good faith may not be a resident of Australia; (c) for any reason (whether or not due to the fault of a Holder) the Issuer has not received any information required by it so as to impede the Issuer issuing the Ordinary Shares to a Holder on the Non-Viability Conversion Date; or (d) a FATCA Withholding is required to be made in respect of the Ordinary Shares issued on the Conversion, the Issuer will, subject to certain conditions, issue the Ordinary Shares to a nominee which will sell the Ordinary Shares and pay the net proceeds to that Holder or, in the case of (d) above, deal with those Ordinary Shares in accordance with FATCA. In this situation, Holders will have no further rights against the Issuer in relation to the Conversion. The nominee will have no duty to obtain a fair market price in such sale.

Further, the number of Ordinary Shares that a Holder will receive on Conversion if a Non-Viability Trigger Event occurs is calculated in accordance with a formula which provides for a calculation based on a discounted five Trading Days volume weighted average price ("**VWAP**") but cannot be greater than a Maximum Conversion Number based on 20% of the VWAP during the period of five Trading Days preceding the Issue Date (the "**Issue Date VWAP**"). The Issue Date VWAP is adjusted only for limited corporate actions of the Issuer, namely bonus issues, divisions and similar transactions. The Conditions do not limit the transactions that the Issuer may undertake with respect to its share capital and any such action may increase the risk that Holders receive only the Maximum Conversion Number of Ordinary Shares on Conversion of a Subordinated Note and so adversely affect the position of Holders.

To enable Challenger to issue Ordinary Shares to a Holder on Conversion, Holders need to have appropriate securities accounts in Australia for the receipt of Ordinary Shares and to provide to the Issuer (for itself and Challenger), no later than the Non-Viability Conversion Date, their name and address and certain security holder account and other details. Potential investors should understand that a failure to provide this information to the Issuer on time may result in Challenger issuing the Ordinary Shares to a nominee which will sell the Ordinary Shares and pay the net proceeds to the Holders. In this situation, Holders will have no further rights against the Issuer in relation to the Conversion. The nominee will have no duty to obtain a fair market price in such sale.

There may be no market in Ordinary Shares received on Conversion and Holders may not be able to sell the Ordinary Shares at a price equal to the value of their investment or at all and as a result may suffer loss. The Ordinary Shares may not be able to be sold at prices representing the price ascribed to them in order to determine the Conversion Number of Ordinary Shares to be issued on Conversion. In particular, the price ascribed to the Ordinary Shares in order to determine the Conversion Number will be based on trading which occurred before the occurrence of the Non-Viability Trigger Event, and the occurrence of such an event may have a negative impact on the price at which Ordinary Shares may be sold.

While Challenger currently has Ordinary Shares listed on the ASX, the Ordinary Shares issued on Conversion may not be listed, including, for example, if Challenger is acquired by another entity and delisted, and this may affect the ability of Holders to sell Ordinary Shares, as well as the price at which they may be sold. Ordinary Shares are a different type of investment to the Subordinated Notes.

Dividends are payable at the absolute discretion of Challenger and the amount of each dividend is also discretionary. The payment of dividends is also subject to a number of factors including (without limitation) sanctions laws, dividend withholding tax (as to which, see the section entitled *Taxation—Other Australian Tax Matters*, below), other taxes and APRA's power to object to the payment of a dividend. In a winding-up of Challenger, claims of holders of Ordinary Shares rank behind claims of holders of all other securities and debts of Challenger. The market price of Ordinary Shares may be more sensitive to changes in Challenger's performance, operational issues and other business issues than the market price of the Subordinated Notes is to the Issuer's performance. The constitution of Challenger ("**Constitution**") and the Corporations Act set out the rights attaching to Ordinary Shares. Changes to the Corporations Act may vary certain rights attaching to Ordinary Shares. Rights attaching to the Ordinary Shares may also be varied if the Constitution of Challenger is amended, which may occur if the amendment is approved by the requisite majority of holders of Ordinary Shares in accordance with the processes for amendment set out in the Constitution. For a summary of some of the key rights and liabilities attaching to the Ordinary Shares, see the section entitled *Description of the Ordinary Shares of Challenger*, below.

Write-Off

Potential investors should also understand that if the Issuer is required to Convert a Subordinated Note in connection with a Non-Viability Trigger Event (including the Related Conversion Steps) but, for any reason (including an Inability Event), Conversion of that Subordinated Note does not occur within five Scheduled Trading Days after the Non-Viability Conversion Date, the Conversion will not occur and the rights of the relevant Holder (including without limitation in respect of the payment of Interest and the Redemption Price) in relation to the Nominal Amount of that Subordinated Note required to be Converted will be Written-Off with effect on and from the Non-Viability Conversion Date. In this situation, Holders will lose some or all of the value of their investment and will not receive any compensation.

Restrictions on holding and trading Ordinary Shares and Subordinated Notes

Mergers, acquisitions and divestments of Australian public companies listed on the ASX (such as Challenger) are regulated by detailed and comprehensive legislation and the rules and regulations of the ASX.

Under the Corporations Act, a person must not acquire a relevant interest in issued voting shares in an Australian listed company if, broadly, because of the transaction, that person's or someone else's voting power in the company increases from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, unless those shares are acquired in a manner specifically permitted by law. This restriction also limits the options available to a shareholder wanting to sell a shareholding of more than 20% in an Australian listed company.

Australian law also regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market in Australia, in a state, in a territory or in a region of Australia.

Acquisitions of certain interests (which may include the Subordinated Notes and the Ordinary Shares, or interests therein) in Australian companies by foreign interests are regulated by the Foreign Acquisitions and Takeovers Act 1975 of Australia ("**FATA**"). FATA applies (subject to certain monetary thresholds) to, among other things, any acquisition or issue of shares or options to acquire shares (which may include the Subordinated Notes) which results in either:

- (a) a foreign person or foreign-controlled corporation alone or together with any associates being in a position to control 15% or more of the voting power or potential voting power or hold any legal or equitable interest in 15% or more of the issued shares or rights to issued shares in a corporation carrying on an Australian business; or

- (b) two or more foreign persons or foreign-controlled corporations, together with any associates of any of those foreign persons or foreign-controlled corporations being in a position to control 40% or more of the voting power or potential voting power or hold any legal or equitable interest in 40% or more of the issued shares or rights to issued shares in a corporation carrying on an Australian business.

In either of these cases, and in certain other circumstances, the Treasurer of the Commonwealth of Australia (the “**Australian Treasurer**”) may prohibit the acquisition if it would be contrary to the Australian national interest.

There are also specific limitations on the acquisition of a shareholding in a life insurance company or the NOHC of a life insurance company under the Financial Sector (Shareholdings) Act 1998 of Australia (the “**FSSA**”). Under the FSSA, a person (including a company) must not acquire an interest in an Australian financial sector company (which includes a life insurance company such as the Issuer and the NOHC of a life insurance company such as Challenger) where the acquisition would take that person’s voting power (which includes the voting power of the person’s associates) in the financial sector company to more than 15% of the voting power of the financial sector company without first obtaining the Australian Treasurer’s approval. Even if a person has less than 15% of the voting power, the Australian Treasurer has the power to declare that a person has practical control of that company and, by applying for an order from the Federal Court of Australia, may require the person to relinquish that control.

The Corporations Act also enables persons to compulsorily acquire shares in a company (including Ordinary Shares in Challenger) in certain circumstances, including where they obtain a relevant interest in 90% or more of the issued voting shares of a company through a takeover bid or other means. A person may also compulsorily acquire shares pursuant to a court order in connection with a scheme of arrangement under the Corporations Act, following approval of the scheme of arrangement by the requisite number of shareholders at a prior vote.

The Australian Takeovers Panel also has the ability to make orders requiring persons to divest interests in shares (including Ordinary Shares in Challenger), or to seize shares from persons, or restrict voting rights, where the Takeovers Panel (on an application by an interested party) makes a decision that unacceptable circumstances exist in relation to the affairs of a company that warrant the granting of such an order.

The restrictions discussed above and other laws (including, but not limited to insolvency laws) may operate to prevent a Holder from acquiring or holding Subordinated Notes, or Conversion from occurring, or both. Laws in relation to the subject matter discussed above may also change in the future, and this may increase the likelihood that conversion cannot be effected.

If for any reason (including any of the restrictions discussed above) Conversion of the Subordinated Notes required to be Converted in connection with a Non-Viability Trigger Event (including the Related Conversion Steps) does not occur within five Scheduled Trading Days after the Non-Viability Conversion Date, the rights of the Holder in relation to the Nominal Amount of that Subordinated Note required to be Converted will be immediately and irrevocably written-off and terminated, as described more fully in the section entitled *Risk Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of the non-viability of the Issuer or Statutory Fund—Write-Off* above.

There may be no market in Ordinary Shares received on Conversion (particularly if Conversion is in connection with a Non-Viability Trigger Event) and the nominee may not be able to sell the Ordinary Shares at a price equal to the value of the investment made by investors and as a result investors may suffer loss. Unlike the Subordinated Notes, Ordinary Shares will not be cleared and settled through Austraclear (they will be cleared and settled through CHESS, the Clearing House Electronic Subregister System of the ASX).

It is the Issuer's expectation that any Ordinary Shares issued on a Conversion of Notes will be freely tradeable.

However, the sale or purchase of Ordinary Shares and Subordinated Notes may be restricted where one or more of the seller and the purchaser of those Ordinary Shares or Subordinated Notes are in possession of "inside information", that is, information that is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Ordinary Shares.

The restrictions referred to above may also restrict Ordinary Shares being issued to a nominee on Conversion. A nominee might not be able to be found to hold Ordinary Shares on Conversion due to the restrictions referred to above or for any other reason. That may prevent the Issuer from issuing Ordinary Shares on Conversion, in which case the Subordinated Notes will be Written-Off in the circumstances described in the section entitled *Risk Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of the non-viability of the Issuer or Statutory Fund—Write-Off* above.

The Corporations Act and ASX Listing Rules impose restrictions on certain persons and their associates or related entities from voting at general meetings of Challenger in certain circumstances. These restrictions include, to the extent applicable to a shareholder, voting on: related party transactions involving the shareholder; change of control transactions involving the shareholder; capital actions involving the shareholder (including issues of shares requiring shareholder approval, share consolidations, splits and buy-backs); remuneration related resolutions presented to shareholders for approval, and other similar corporate actions.

If Holders elect to Convert their Subordinated Notes or are issued Ordinary Shares in connection with a Non-Viability Trigger Event, they should take their own advice having regard to their particular circumstances in relation to any compliance obligations arising in connection with that shareholding.

Ranking on Conversion and Write-Off

The requirement for Conversion or Write-Off on account of a Non-Viability Trigger Event applicable to the Subordinated Notes does not apply to some capital instruments issued by the Issuer and forming part of the Tier 1 Capital or Tier 2 Capital of the Issuer, for example ordinary shares in the Issuer and instruments issued under APRA's previous prudential standards (such as the USPP Notes). Accordingly, if a Non-Viability Trigger Event occurs in respect of the Issuer or the Statutory Fund, it is possible that Holders of Subordinated Notes will be in a worse position than holders of those other instruments.

Risks for a Holder exercising its right of Conversion

A Holder who wishes to exercise their option to Convert Subordinated Notes into Ordinary Shares on the Holder Conversion Date will not receive any Ordinary Shares unless the Holder has included in the Holder Conversion Notice its share trading account details. Further, if the Issuer is not satisfied that the issue of the Ordinary Shares to the Holder is permitted (because the Holder is a Foreign Holder), then the Holder's Ordinary Shares will be issued to a nominee rather than the Holder.

The amount of Ordinary Shares which the Holder may receive if it exercises its right to Convert is limited to a Maximum Conversion Number and where that Maximum Conversion Number applies the value of the Ordinary Shares received may be significantly less than the nominal amount of the Holder's investment.

Where a Holder has exercised their option to Convert Subordinated Notes and Challenger fails to issue or deliver the Ordinary Shares on Conversion because of the restrictions discussed above (or for any other reason), the Subordinated Notes will remain on issue and the remedy of a Holder will be

limited to seeking an order for specific performance of Challenger's obligations to issue or deliver the Ordinary Shares.

The information relating to the restrictions on holding and trading Ordinary Shares in the section above entitled *Risk Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of the non-viability of the Issuer or the Statutory Fund—Restrictions on holding and trading Ordinary Shares and Subordinated Notes* is also relevant to a Holder exercising the right to Convert.

The Issuer's obligations under the Subordinated Notes are unsecured and subordinated

Prior to a Winding-Up of the Issuer, the obligations of the Issuer to make any payment in respect of the Subordinated Notes will be conditional on the Issuer being Solvent at the time of the payment and no payment in respect of the Subordinated Notes will be made unless the Issuer will be Solvent immediately after making the payment. If on the date on which a payment under the Subordinated Notes falls due for payment, the Solvency Condition is not met or will not be met if such payment is made, the due date for payment of such amount shall be postponed until the earliest of the date on which the Subordinated Notes are redeemed, the date on which a Winding-Up Default occurs and the first Interest Payment Date on which interest may be paid in compliance with the Solvency Condition and the terms of any indebtedness owing to Senior Statutory Fund Creditors. This means that, prior to the Winding-Up of the Issuer, the rights of Holders of Subordinated Notes to receive payments of Interest and the Redemption Price may be subordinated to other creditors of the Issuer whose rights against the Issuer are not subject to an equivalent solvency condition.

In a Winding-Up, claims of Holders of Subordinated Notes will be subordinated to the claims of Senior Statutory Fund Creditors and Senior General Creditors (as described in *Summary—Summary of key conditions of the Subordinated Notes—Ranking in a Winding-Up*). The assets of another statutory fund of the Issuer cannot be used to satisfy the liabilities of the Statutory Fund (including the Issuer's obligations under the Subordinated Notes). The claims of Holders of Subordinated Notes will be determined after all Senior Statutory Fund Creditors have been paid in full and any unpaid amount is subordinated to the claims of the Senior General Creditors of the Issuer (i.e. creditors whose claims are referable to the General Fund).

For so long as they are on issue, the USPP Notes will rank ahead of the Subordinated Notes (and, as stated above, they are not subject to conversion or write-off if the Issuer becomes non-viable). The Internal Capital Notes will rank behind the Subordinated Notes (but they will be subject to write-off if the Issuer becomes non-viable – see *Risk Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of non-viability of the Issuer or Statutory Fund—Conversion or Write-Off of Relevant Capital Instruments*).

It is likely that a Non-Viability Trigger Event will have occurred before the Issuer is in Winding-Up. To the extent that a Subordinated Note has been Converted into Ordinary Shares, an investor holding those Ordinary Shares would rank as an ordinary shareholder in a winding-up of Challenger. To the extent that a Subordinated Note has been Written-Off, an investor would have no claim in the Winding-Up of the Issuer or in a winding-up of Challenger.

If the Issuer's financial condition were to deteriorate, Holders could lose all or a part of their investment

If the Issuer's financial condition were to deteriorate, payments of Interest or other payments on the Subordinated Notes may not be made or the market price of the Subordinated Notes may decrease. Potential investors should not assume that unfavourable market or other conditions or events will not harm the Issuer's financial condition. Accordingly, potential investors should carefully evaluate the investment risks associated with an investment in the Issuer and the Group, including those risks discussed in the section entitled *Risk Factors—Risks Relating to the Issuer and the Group*. If the

Issuer is liquidated, dissolved or wound up, Holders could lose all or a part of their investment. A significant deterioration in the Issuer's financial condition may also result in the occurrence of a Non-Viability Trigger Event. See the section entitled *Risk Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of non-viability of the Issuer or Statutory Fund—Conversion or write-off of Relevant Capital Instruments* above.

Future issues or redemptions of securities may impact the Subordinated Notes

The Subordinated Notes do not in any way restrict the Issuer or Challenger from issuing further securities or from incurring further indebtedness. In a Winding-Up of the Issuer, the Issuer's obligations under the Subordinated Notes rank subordinate and junior to its obligations in respect of Senior Statutory Fund Creditors and Senior General Creditors. Accordingly, the Issuer's obligations under the Subordinated Notes may not be satisfied in a Winding-Up of the Issuer unless it can satisfy in full all of its other obligations ranking senior to and equally with the Subordinated Notes.

The Issuer may in the future issue securities that:

- rank for payment of interest, distributions or return of capital (including on the Winding-Up of the Issuer) equally with, behind or ahead of the Subordinated Notes;
- have the same or different interest or distribution rates as those applicable to the Subordinated Notes;
- have payment tests and distribution restrictions or other covenants which affect the Subordinated Notes (including by restricting circumstances in which Interest can be paid or the Subordinated Notes can be redeemed); or
- have the same or different terms and conditions as the Subordinated Notes. The Issuer or Challenger may incur further indebtedness and may issue further securities including further Tier 2 Capital securities before, or after the issue of the Subordinated Notes.

An investment in the Subordinated Notes carries no right to participate in any future issue of securities (whether shares (including Ordinary Shares), Tier 1 Capital, Tier 2 Capital, subordinated or senior debt or otherwise) by the Issuer or any other member of the Group (except for the right of Holders to require Conversion of their Subordinated Notes on a Holder Conversion Date). No prediction can be made as to the effect, if any, which the future issue of securities by the Issuer or any other member of the Group may have on the market price or liquidity of the Subordinated Notes or on the likelihood of the Issuer making payments in respect of the Subordinated Notes. No prediction can be made as to the effect, if any, which the issue of future securities or the future redemption or repayment by the Group of existing securities may have on the market price or liquidity of the Subordinated Notes or on the Issuer's or the Group's financial position or performance.

In order to comply with increasing regulatory capital requirements imposed by applicable regulations, the Issuer may need to raise additional capital. Further capital raisings by the Issuer (which are not in any way restricted) could result in the dilution of the interests of the Holders.

The Conditions of the Subordinated Notes do not restrict the Issuer from redeeming or otherwise repaying its other existing securities, including other existing securities which rank equally with or junior to the Subordinated Notes, and carry no rights to require the Subordinated Notes to be redeemed along with any other securities (whether shares (including Ordinary Shares), Tier 1 Capital, Tier 2 Capital, subordinated or senior debt or otherwise).

No guarantee

A Subordinated Note is not guaranteed or insured by any government agency or compensation scheme of the Commonwealth of Australia or any other jurisdiction, by any other member of the Group, any Other Party or by any other person.

No policy liability

A Subordinated Note is not a policy liability of the Issuer, Challenger or any other member of the Group.

Interest payments on the Subordinated Notes may be restricted by the terms of other similar instruments

The terms of certain of the Issuer's outstanding instruments could limit the Issuer's ability to make payments on the Subordinated Notes in certain circumstances prescribed in those instruments. These include the USPP Notes. These instruments, with certain exceptions, restrict the payment of interest or repayment of principal on instruments such as the Subordinated Notes if a scheduled payment is not made on the relevant instrument.

The Issuer may issue other securities with payment tests or distribution restrictions or other covenants which affect the Subordinated Notes (including by restricting circumstances in which Interest can be paid on the Subordinated Notes or the Subordinated Notes can be redeemed) and is not restricted in any way from doing so by the Conditions.

Interest on the Subordinated Notes is subject to interest rate risk

An investment in Subordinated Notes involves the risk that subsequent changes in market interest rates or changes in market interest rates during an Interest Period may adversely affect the return on and value of the Subordinated Notes.

The Issuer may redeem or purchase the Subordinated Notes early under certain circumstances

The Issuer may (subject to APRA's prior written approval) elect to redeem some or all of the Subordinated Notes on an Optional Redemption Date or all (but not some) of the Subordinated Notes upon the occurrence of a Tax Event or a Regulatory Event.

Redemption may occur at a time when prevailing market interest rates or margins are lower than the prevailing Interest Rate under the Subordinated Notes. If Subordinated Notes are redeemed in such circumstances, the Holder may not be able to reinvest the redemption proceeds in a comparable security with an effective interest rate equal to or higher than that applicable to the Subordinated Notes being redeemed.

Holders of Subordinated Notes should not expect that APRA's approval will be given for any redemption of Subordinated Notes at the option of the Issuer. Payment of any principal upon redemption of the Subordinated Notes is subject to the Solvency Condition being satisfied. See the section entitled *Risk Factors—Risks Relating to the Subordinated Notes—Payments are subject to satisfaction of the Solvency Condition* above.

The Issuer and any of its Related Entities may at any time with APRA's prior written approval purchase Subordinated Notes in the open market or otherwise and at any price. Such Subordinated Notes will be cancelled following any such purchase. Any such purchase may affect the liquidity of the market (if any) for any Subordinated Notes not purchased by the Issuer or its Related Entities.

There are limited remedies available to Holders for non-payment of amounts owing or non-performance of obligations under Subordinated Notes

If there is a Payment Default, Holders are limited to bringing proceedings to recover the amount then due and payable (subject to the Issuer being able to make the payment and remain Solvent) or to obtain an order for specific performance of any other obligation. In the case of a Winding-Up Default, in addition to the aforementioned remedies, a Holder may declare by notice to the Issuer that the

Redemption Price is payable on a date specified in the notice (and may, subject to the Solvency Condition, prove for that amount in the Winding-Up).

There are no other remedies in respect of a failure by the Issuer to pay. In particular, Holders cannot apply to a court for the Issuer to be wound-up under any circumstances. To the extent that a payment is not required to be made by operation of any Payment Deferral Provision or the Solvency Condition, the amount is not due and payable, a Payment Default cannot occur and the above remedies cannot be exercised.

If Ordinary Shares are not issued on a Holder Conversion Date, the Subordinated Notes shall remain on issue and remedy of a Holder in respect of Challenger's failure to issue or deliver the Ordinary Shares on the Holder Conversion Date is limited to seeking an order for specific performance of Challenger's obligations to issue or deliver the Ordinary Shares to the Holder in accordance with the Conditions.

Although the Conditions specify certain remedies (for example, seeking an order for the specific performance of the obligation to issue Ordinary Shares), the grant of those remedies may be in the discretion of the court, and as such may not be granted.

See further the section entitled *Risk Factors—Risks Relating to the Subordinated Notes—There are limited rights to accelerate amounts owing under Subordinated Notes*, below.

No remedy on account of acquisition of Issuer or Challenger

If a person or persons acquire control of the Issuer or Challenger, the Conditions do not provide any right or remedy for the Holders on account of that acquisition occurring. There is no remedy for a change in control of the Issuer or Challenger. Also, an acquisition of Challenger may result in Challenger's Ordinary Shares no longer being quoted on the ASX.

If a Non-Viability Trigger Event occurs after an acquisition or change of control of the Issuer or Challenger, the number of Ordinary Shares issued on Conversion (if any) will reflect the VWAP for the period of five Trading Days on which the Ordinary Shares were last traded on the ASX. This may be well before the Non-Viability Trigger Event and accordingly the value of the Conversion Number of Ordinary Shares when issued may be very different from the value based on that VWAP. The circumstances of the acquisition or change of control of the Issuer or Challenger may also mean that Conversion is unable to occur. This may adversely affect the position of Holders.

If an acquisition or change of control of the Issuer or Challenger occurs before the Holder Conversion Date, Ordinary Shares may no longer be quoted on ASX and in that case Holders will not receive quoted or tradeable Ordinary Shares, and the Ordinary Shares may not be able to be sold for an amount equal to the Nominal Amount of Subordinated Notes (if any) Converted

There are limited rights to accelerate amounts owing under Subordinated Notes

Holders have no right to require the Issuer to redeem all or some of the Subordinated Notes held by that Holder before their Maturity Date. A Holder may only accelerate its Subordinated Notes if a Winding-Up Default occurs in relation to the Issuer.

There are no other rights to accelerate the Subordinated Notes.

The Subordinated Notes have no voting rights

A Holder of the Subordinated Notes has no voting rights in respect of meetings of members of the Issuer and has limited voting rights at a meeting of Holders or creditors. A Holder's voting rights as an unsecured creditor in respect of the Subordinated Notes cannot be exercised so as to defeat the subordination of the Subordinated Notes.

Modification and waivers

The Conditions and the Deed Poll contain provisions for calling meetings of Holders to consider, or for entering into written resolutions on, matters affecting their interests generally. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting (or, in the case of a written resolution, Holders who did not execute such written resolution) and Holders who voted in a manner contrary to the majority.

The Conditions and the Deed Poll also provide that the Issuer may, without the consent of the Holders, agree to certain variations and waivers to the Deed Poll (including the Conditions) which will bind the Holders. The prior written approval of APRA is required in respect of any variation in respect of the Deed Poll (including the Conditions) where such variation may affect the eligibility of the Subordinated Notes as Tier 2 Capital.

RISKS RELATED TO THE MARKET GENERALLY

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

Market price of Subordinated Notes

The market price of Subordinated Notes may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions, better rates of return on other securities, interest rates, movements in the market price of Ordinary Shares or senior or subordinated debt, the Issuer or Challenger's financial performance and position and other factors that may affect that performance and position. Subordinated Notes may trade at a market price below the Face Value.

The global financial system has experienced difficulties in recent years following the global financial crisis in 2008 and 2009 with global credit and capital markets frequently experiencing extreme volatility, disruption and decreased liquidity. While there have been some periods of relative market stability, the environment has become more volatile and unpredictable. The potential for sovereign debt defaults and/or bank failures has contributed to much of the volatility in equity values, credit spreads and sovereign yields. During certain periods, including during severe market stress, many investors substantially reduced and, in some cases, stopped their funding to borrowers, including other financial institutions, reflecting concern about the stability of the financial markets generally and the strength of counterparties.

Potential investors in the Subordinated Notes should be aware of the potential for global credit market conditions to deteriorate, which may result in a severe lack of liquidity in the secondary market for instruments similar to the Subordinated Notes. As a result there exist significant additional risks which may affect the returns on Subordinated Notes to potential investors.

There is no prior market for Subordinated Notes and Subordinated Notes are not quoted or listed

The Subordinated Notes have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid and may not be sustained. Therefore, investors may not be able to sell their Subordinated Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The Subordinated Notes will not be quoted or listed on any securities exchange.

Market price and liquidity of Ordinary Shares

Subordinated Notes may Convert into Ordinary Shares in accordance with the Conditions and as described in this Information Memorandum. Where Subordinated Notes are Converted, there may be no liquid market for Ordinary Shares at the time of Conversion (particularly if Conversion is in

connection with a Non-Viability Trigger Event) or the market for Ordinary Shares may be less liquid than that for comparable securities issued by other entities at the time of Conversion.

The market price of Ordinary Shares may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions, Challenger's financial performance and position and other factors that may affect that performance and position, and may also be affected by the actual or prospective Conversion of Subordinated Notes. The VWAP during the period before the date of Conversion that is used to calculate the number of Ordinary Shares that Holders receive will most likely differ from the Ordinary Share price on or after the date of Conversion. As a result, the value of Ordinary Shares received upon Conversion could be less than the Face Value. Holders receiving Ordinary Shares on Conversion may not be able to sell those Ordinary Shares at the price on which the Conversion calculation was based, or at all.

The Ordinary Shares held as a result of any Conversion will, following Conversion, rank equally with existing Ordinary Shares. Accordingly, the ongoing value of any Ordinary Shares received upon Conversion will depend upon the market price of Ordinary Shares after the date on which Subordinated Notes are Converted. That market price is also subject to the factors outlined above and may also be volatile.

The value of and return on Subordinated Notes may be adversely affected by movements in the BBSW Rate

The Interest Rate for each Interest Period is calculated by reference to the BBSW Rate, which is influenced by a number of factors and varies over time. The Interest Rate will fluctuate over time as a result of movements in the BBSW Rate. As the Interest Rate fluctuates, the rate of return received by Holders by way of interest will vary, and there is a risk that Subordinated Notes may become less attractive when compared to the rates of return available on comparable securities issued by the Issuer, Challenger or other entities.

RISKS RELATING TO THE LEGAL AND REGULATORY LANDSCAPE

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Subordinated Notes are legal investments for it; (b) the Subordinated Notes can be used as collateral for various types of borrowing; and (c) other restrictions apply to its purchase or pledge of the Subordinated Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Subordinated Notes under any applicable risk-based capital or similar rules.

Change of law

Investors should also be aware that certain changes in law, regulation or prudential standards or interpretation thereof may trigger a Regulatory Event. For example, although the Subordinated Notes are only issued after APRA has confirmed their regulatory treatment, if APRA subsequently determines that some or all of the Subordinated Notes do not qualify as Tier 2 Capital, the Issuer may decide that a Regulatory Event has occurred and may elect to redeem all (but not some) of the Subordinated Notes in accordance with the Conditions (subject to APRA's prior written approval).

Australian taxation consequences

A general outline of the tax consequences of investing in Subordinated Notes for certain potential investors is set out in the section entitled *Taxation*. That discussion is in general terms and is not intended to provide specific advice addressing the circumstances of any particular potential investor. Accordingly, potential investors should seek independent advice concerning their own individual tax position. Investors should also be aware that certain changes in law, regulation or interpretation

thereof may trigger a Tax Event, following which the Issuer may elect to redeem all (but not some) of the Subordinated Notes in accordance with the Conditions (subject to APRA's prior written approval).

Accounting Standards

A change in accounting standards by either the International Accounting Standards Board or Australian Accounting Standards Board may affect the reported earnings and financial position of the Issuer or the Group in future financial periods. This may adversely affect the ability of the Issuer to make payments in respect of Subordinated Notes.

On 20 July 2017, accounting standard AASB 17 Insurance Contracts was released to align with the new IFRS 17 *Insurance Contracts*. The effective date of this standard for the Issuer is for the financial year ending 30 June 2022. An assessment of the impact of this standard on the Issuer is currently being undertaken.

Prudential regulation

As a prudentially regulated life company, the Issuer is subject to the requirements of, among other things, the Life Insurance Act and prudential standards set by APRA. The Life Insurance Act includes certain powers that APRA may exercise in a manner that may be adverse to the interests of Holders, including powers to direct the Issuer not to pay or transfer any amount to any person (including in respect of any Subordinated Notes) or to conduct its business in a particular way and to direct Challenger not to issue Ordinary Shares in connection with a Conversion of Subordinated Notes or not to pay a dividend in respect of any Ordinary Shares. APRA's prudential standards may also restrict the payment of dividends or other distributions in respect of Ordinary Shares in particular circumstances.

RISKS RELATING TO CREDIT AGENCY RATINGS

Credit ratings may not reflect all risks

One or more independent credit rating agencies may from time to time assign credit ratings to the Subordinated Notes or the Issuer or Challenger. The ratings may not reflect the potential impact of all risks related to structure, market, the additional factors discussed above, and other factors that may affect the value of the Subordinated Notes or Ordinary Shares. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Credit rating may change

Credit ratings agencies review and amend their rating methodology and review ratings assigned to instruments (such as the Subordinated Notes) and may change either as a result of a number of factors, including changes to the ratings methodology of one or more of the other independent rating agencies. Any changes to rating methodology could affect the market price and liquidity of the Subordinated Notes or Ordinary Shares.

REGULATION OF THE ISSUER AS A LIFE INSURANCE COMPANY

Powers of APRA under Life Insurance Act

The Issuer is a life insurance company regulated by APRA under the Life Insurance Act and the Financial Sector (Business Transfer and Group Restructure) Act 1999 of Australia (“**FSBTGRA**”). As a result, it is subject to the requirements of, among other things, the Life Insurance Act, the FSBTGRA and prudential standards set by APRA.

The Life Insurance Act includes certain powers that APRA may exercise in a manner that may be adverse to the interests of Holders, including powers to direct the Issuer not to pay or transfer any amount to any person (including in respect of any Subordinated Notes) or to conduct its business in a particular way and to direct Challenger not to issue Ordinary Shares in connection with a Conversion of Subordinated Notes or not to pay a dividend in respect of any Ordinary Shares.

Under FSBTRGA, the Issuer may be required to transfer some or all of its business to another person. If such a transfer is required it may affect the creditworthiness of the Issuer or the Statutory Fund, and may increase the likelihood that Holders will suffer losses.

APRA’s prudential standards may also restrict the payment of dividends or other distributions in respect of Ordinary Shares in particular circumstances.

Judicial management

APRA or the life insurance company itself (if it has given APRA at least one month’s written notice of its intention to do so) may apply to the court for an order that a life insurance company (or part of the business of a life insurance company) be placed under judicial management. On an application by APRA or the life insurance company, the court may make an order that the life insurance company (or part of the business) be placed under judicial management if the court is satisfied that the life insurance business has been investigated by APRA under Division 3 of Part 7 of the Life Insurance Act and having regard to the investigation, it is in the interests of policyholders of the life insurance company that the order be made. The court may also make such an order if the court is satisfied that one of the grounds set out in section 159 of the Life Insurance Act exist (this would include where the court is satisfied that the life insurance company is, or is likely to become, unable to meet its policy or other liabilities as they become due, the life insurance company has failed to comply with a prudential standard relating to solvency or a direction from APRA or there are reasonable grounds for believing that the financial position or management of the company may be unsatisfactory), and that the time needed to make or complete an investigation under Division 3 of Part 7 of the Life Insurance Act would be likely to prejudice the interests of policyholders of the life insurance company.

Reforms to APRA’s crisis management powers

On 19 October 2017, the Federal Government introduced into Parliament the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Bill 2017 (“**Crisis Measures**”). Amongst other things, the Bill will amend the Life Insurance Act and related legislation to enhance APRA’s powers to resolve a life insurer and its related entities. The Bill includes provisions which, if passed into law by Parliament, will include Challenger, the Issuer and certain other entities within the Group among the entities to which APRA may appoint a statutory manager in the event of financial difficulty or in the event its financial position seriously deteriorates and increases APRA’s powers to give directions to Challenger. The Bill also prevents certain enforcement action from being taken in relation to the Issuer or Challenger if it becomes subject to the exercise of the powers and

gives statutory recognition to the conversion and write-off of regulatory capital instruments. At this stage the direct impacts of the Crisis Measures on the Issuer, Challenger and the Group are uncertain.

Statutory Funds

A life insurance company is required to establish in its records a statutory fund which relates solely to the life insurance business of the life company (or a part of that business).

All amounts received by a life insurance company in respect of the business of a statutory fund must be credited to that fund, all assets and investments related to the business of a statutory fund must be included in that fund and all liabilities (including policy liabilities) of the life company arising out of the conduct of the business of a statutory fund must be treated as liabilities of that fund. The prudential standard relevant to the capital adequacy of life insurance companies, LPS 112, requires that Tier 2 Capital of a life company must be issued out of, or be referable, to a statutory fund, so the Subordinated Notes must be referable to a statutory fund.

All assets and liabilities held or incurred by the Issuer are classified as either (a) an asset or liability of a particular statutory fund or (b) a general asset or liability not referable to any statutory fund (such asset or liability would be referable to the shareholders' fund of the Issuer (the "**General Fund**"). The assets of a statutory fund include all assets relating to the business conducted in that fund, and the liabilities of a statutory fund would include all liabilities incurred by the Issuer in connection with the operation of the business conducted by that fund. The assets of a particular statutory fund can only be used:

- to meet the liabilities and expenses of that fund;
- to be invested to further the business of the fund; or
- to the extent of retained profits of the statutory fund to make a distribution to holders of participating policies, to shareholder funds or to another statutory fund.

They cannot be used to satisfy the liabilities of another statutory fund or any of the liabilities of the General Fund.

The Issuer has established four statutory funds: Statutory Fund No. 1, Statutory Fund No. 2, Statutory Fund No. 3 and Statutory Fund No. 4. Statutory Fund No. 1 and Statutory Fund No. 3 are closed to new business. Statutory Fund No. 2 contains non-investment linked contracts, including the Issuer's term annuity business, lifetime annuity policies and related reinsurance, plus the wholesale mortality, wholesale morbidity and longevity reinsurance. Statutory Fund No. 4 was established on 7 March 2017 and contains retrocession of fixed term business written in Japan. Life contract liabilities of Statutory Fund Nos. 1, 2, 3 and 4 are \$2.8 million, \$9,746.6 million, \$3.0 million and \$569.8 million, respectively. The Subordinated Notes are referable to the business and constitute a liability of the Statutory Fund – see Conditions 1.1, 1.3, 5.1 and 5.2.

The Issuer may establish other statutory funds in the future and would in certain circumstances be required to establish another statutory fund, for example, to undertake foreign life insurance business.

Since the Subordinated Notes are referable to the Statutory Fund, they are to be paid out of the assets of the Statutory Fund. They do not confer a right to be paid out of the assets of any other Statutory Fund.

The prudential standards require the Issuer to maintain capital of the Statutory Fund at certain levels and limit the unsecured borrowings that may be made in respect of a Statutory Fund to 50% of free assets.

Winding-up a life company

The rules governing the winding-up of life insurance companies differ significantly from the rules governing ordinary companies formed under the Corporations Act. The court can order a winding-up only on the application of a judicial manager or APRA. A creditor, such as the holder of Subordinated Notes, has no right to apply for the Issuer to be wound up.

Section 187 of the Life Insurance Act specifies how the assets of a statutory fund are to be applied in the winding-up of a life company. In accordance with section 187(3) of the Life Insurance Act, after payment of debts preferred under section 556(1) of the Corporations Act (to the extent that those debts or claims are liabilities referable to the business of the Statutory Fund), the assets of the Statutory Fund (or another statutory fund of the Issuer) are to be applied:

- (a) first, in discharge of policy liabilities referable to that fund;
- (b) secondly, in discharge of other liabilities referable to the business of the fund;
- (c) thirdly, as the court directs. The directions are those the court considers equitable, having regard to:
 - i. the interests of the owners of policies referable to the fund;
 - ii. the interests of the owners of policies referable to statutory funds of the Issuer other than the statutory fund that is being wound up;
 - iii. the interests of creditors of the Issuer whose debts have not been discharged by the application of assets in discharge of other liabilities that are referable to the business of the fund (whether or not those creditors are creditors of the Issuer in respect of that statutory fund); and
 - iv. the interests of shareholders of the Issuer.

The Subordinated Notes are liabilities referable to the Statutory Fund, but by their terms are to be paid from the Statutory Fund only after Senior Statutory Fund Creditors have been paid. To the extent they are not paid out of the Statutory Fund assets in a winding-up, the amount unpaid may be claimed in the winding-up out of the assets in the General Fund, subject to the prior payment of Senior General Creditors.

DOCUMENTS INCORPORATED BY REFERENCE

The financial statements of the Issuer filed with ASIC in respect of the two most recent Financial Years shall be deemed to be incorporated into, and to form part of, this Information Memorandum. These financial statements are available on the website www.challenger.com.au/share.

This Information Memorandum should be read in conjunction with all supplements or amendments to this Information Memorandum published by the Issuer between the date of this Information Memorandum and the Issue Date (which themselves may expressly incorporate additional documents with which this Information Memorandum should be read).

Any statement contained herein or in a document which is deemed to be incorporated herein by reference shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document which is deemed to be incorporated herein by reference modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum.

The Issuer will provide, without charge, to each person to whom a copy of this Information Memorandum has been validly delivered, upon receipt of a request from such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its registered office set out in the section entitled *Directory* at the end of this Information Memorandum.

Challenger is a “disclosing entity” for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. Documents lodged by Challenger with the ASX are available electronically on the website of the ASX, at www.asx.com.au. The Issuer is not a disclosing entity under the Corporations Act.

The Issuer’s obligations under the Subordinated Notes are not guaranteed by Challenger.

Copies of documents regarding Challenger and the Issuer lodged with ASIC may be obtained from, or inspected at, any ASIC office for a fee. In addition, copies of documents incorporated by reference may be obtained from the Issuer free of charge at its registered office set out in the section entitled *Directory* at the end of this Information Memorandum.

The information on any websites referred to in this Information Memorandum or any website directly or indirectly linked to such websites is not incorporated by reference into, and does not form part of, this Information Memorandum and should not be relied upon unless expressly stated to be incorporated into, and to form part of, this Information Memorandum.

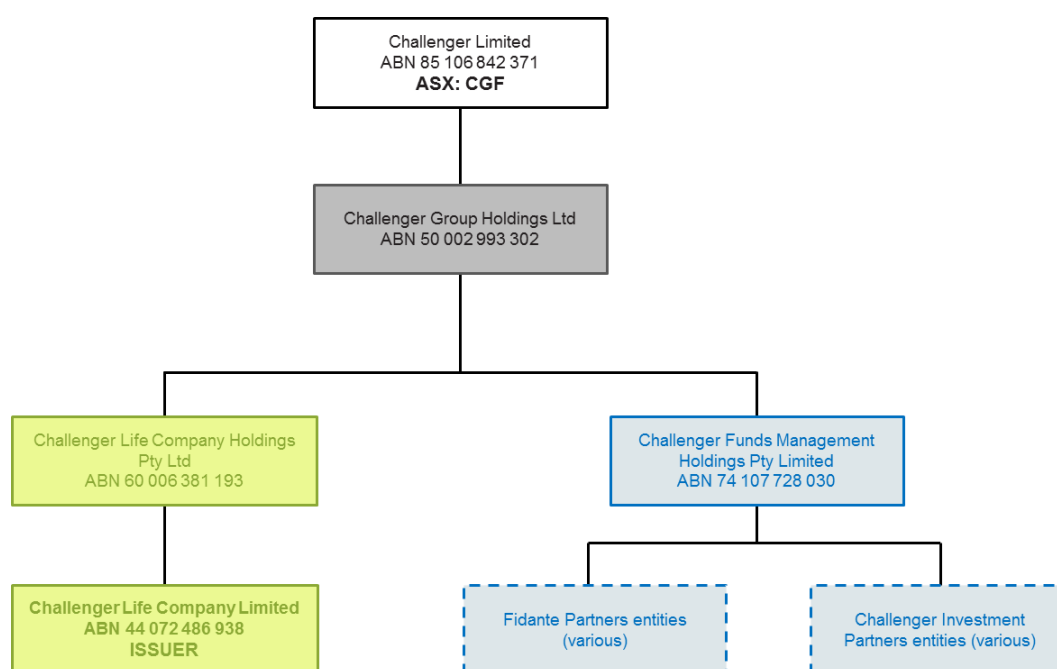
DESCRIPTION OF THE ISSUER

DETAILS OF THE ISSUER

The legal name of the Issuer is Challenger Life Company Limited. Its Australian Business Number (“ABN”) is 44 072 486 938.

The Issuer is incorporated in the Commonwealth of Australia and it operates under Australian legislation including the Corporations Act. Its registered office is Level 2, 5 Martin Place, Sydney NSW 2000, Australia.

The Issuer is a wholly owned subsidiary of Challenger Limited. Challenger is listed on the Australian Securities Exchange (ASX), under the code ‘CGF’, has a market capitalisation of \$8.1 billion as at 31 October 2017 and is one of Australia’s 100 largest listed companies. The following diagram shows the chain of ownership between the Issuer and Challenger:



Challenger Group’s Life business unit includes the Issuer and Accurium Pty Limited. The Issuer is the leading provider of annuities and guaranteed retirement income solutions in Australia. The Issuer is regulated by APRA as a life insurer.

THE ISSUER’S LIFE BUSINESS

The Issuer provides annuities and guaranteed retirement income products aimed at investors seeking the security and certainty of guaranteed cash flows with protection against market, inflation and longevity risks.

The Issuer’s products are distributed to retail customers through independent financial advisers, and to financial advisers associated with the four major Australian banks and AMP Limited (“Major Hubs”).

As an independent provider, the Issuer’s annuities and guaranteed retirement income products are represented on the approved product lists of all Major Hubs. The Issuer has made its annuities more broadly available through leading platforms and superannuation funds following relationships with Colonial First State, AMP and ClearView Wealth Solutions, and is scheduled to be launched on the BT Financial Group platform in FY18.

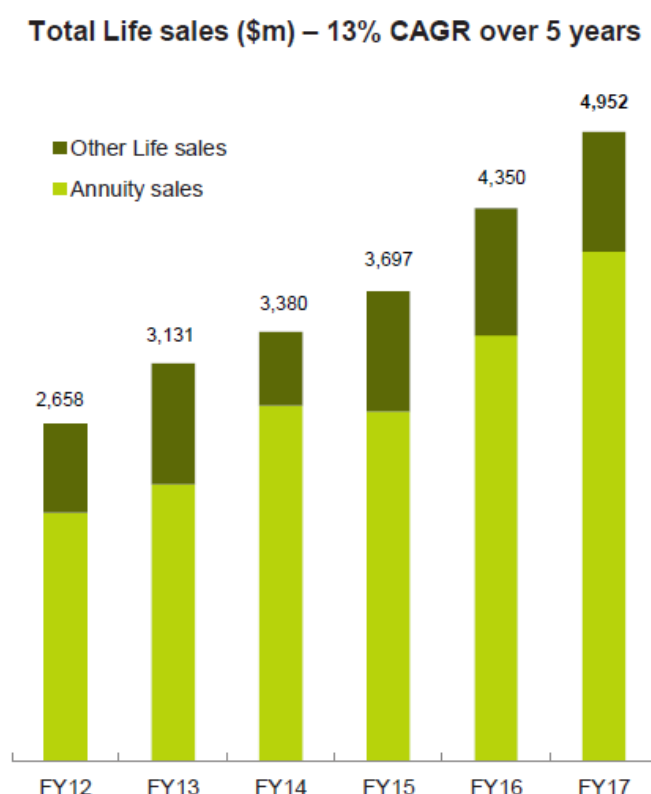
Challenger annuities are also being made available via white label arrangements with VicSuper and Suncorp. In addition, the Issuer formed a partnership with Link Group, which services the needs of 10 million Australian industry superannuation member accounts. The Link Group can now offer Challenger annuities to industry fund members using Link's administration platform.

In November 2016, the Issuer commenced an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited ("**MS Primary**"). MS Primary is a leading provider of Australian dollar denominated annuity products in Japan. Through this new relationship, the Issuer is issuing Australian dollar fixed rate 20-year term annuities in order to support a reinsurance agreement with MS Primary.

The Issuer has several statutory funds into which it writes its life business. The Subordinated Notes are referable to Statutory Fund No.2 which currently represents a significant majority of the Issuer's Australian domestic annuity business. It does not include the entire business of the Issuer. Statutory Funds Nos. 1 and 3 are closed to new business, while Statutory Fund No.4 contains the retrocession of the fixed term business written in Japan by MS Primary. The Issuer may establish other statutory funds.

The Life business has been growing strongly, with annuity sales increasing by a compound annual growth rate of 15% over the past five years. Total annuity sales were \$4.0 billion in FY17 compared to \$3.4 billion in FY16, representing growth of 20% over the year. Annuity sales growth has been underpinned by favourable demographic trends, including an ageing population, changes in retiree risk preferences and an increased focus by retirees on longevity and market risks.

The diagram below shows Total Life sales (comprising annuity sales and other Life sales) for the last five years:

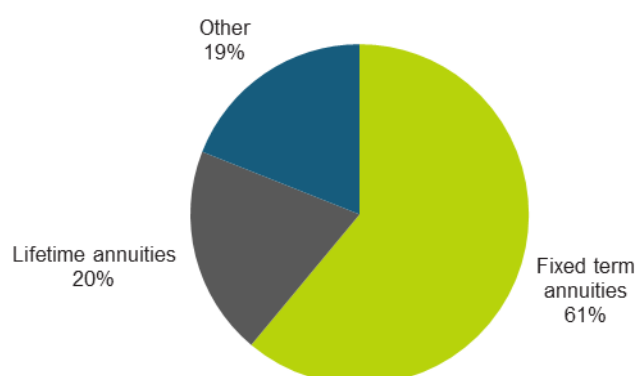


The Life business offers the following major products:

Product Categories	Product Features
Fixed term annuities	Fixed term annuity products offer a guaranteed rate of return over an agreed term. They have flexible features, including length of term and ability to draw principal and interest. Products are sold via financial advisers to retail investors.
Lifetime annuity	Lifetime annuity products pay a guaranteed amount of income for the life of the holder (and may also include a second person). These products have a liquidity feature, allowing in some cases voluntary withdrawal for a defined period. A variation of the lifetime annuity product is available specifically for customers in aged care (CarePlus). Products are sold via financial advisers to retail investors.
Other	Guaranteed Return Index (“GIR”) product paying a guaranteed rate of return to institutional investors. Challenger Index Plus Fund is a pooled GIR product launched in December 2016.

The diagram below shows the contribution of each product category to the Issuer's total annuity business (as at 30 June 2017) based on the dollar value of annuity sales.

Life Sales by product as at 30 June 2017

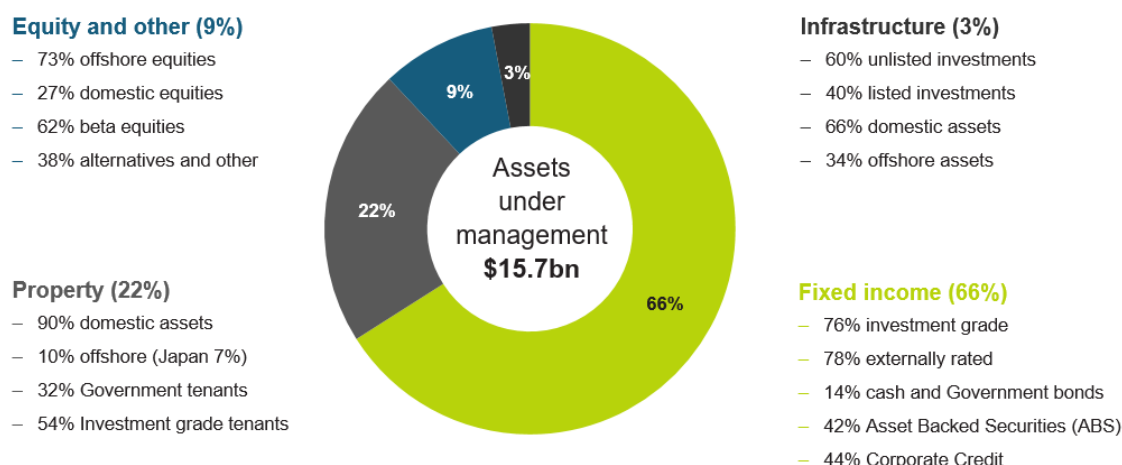


The Issuer does not charge its customers fees or charges on any of its annuity products. The Issuer generates income by investing the capital received from annuity holders in assets that, in aggregate, are expected to generate a greater return than the payments required to be made to annuity holders.

As at 30 June 2017, the Life business had \$15.7 billion in assets under management which was up from \$9.8 billion at 30 June 2012, and has been growing at a compound annual growth rate of 10%

over the past five years. The Issuer's assets under management has grown due to annuity net flows, growth in other products, new capital and retained Life earnings.

The Issuer's assets under management comprising both policyholder and shareholder funds at 30 June 2017 were:



The Issuer is exposed to a number of risks in relation to both its liabilities and its assets (for a description of the risks associated with Challenger, the Issuer and the Group, refer to the section entitled *Risk Factors—Risks Relating to the Issuer and the Group* above). These risks are managed in accordance with the Issuer's risk management framework and policies and procedures approved by its board and with supervision by APRA.

OVERVIEW OF THE GROUP

The Issuer is a member of the Challenger Group, an investment management group operating primarily in Australia. The Group is headquartered in Sydney and its ultimate parent company (and the non-operating holding company of the Group) is Challenger.

As at 30 June 2017, the Group employed 655 people and had total assets under management of \$70.0 billion and net assets of \$2.9 billion.

For the financial year ended 30 June 2017, Challenger's normalised net profit after tax was \$385 million and statutory net profit after tax was \$398 million.

The Group operates two businesses:

1. Life business – operated by the Issuer (as described above) and comprising 92% of the Group's FY17 earnings, Challenger is the leading provider of annuities and guaranteed retirement incomes in Australia; and
2. Funds Management business – comprising 8% of the Group's FY17 earnings, the Group's Funds Management business is one of Australia's fastest growing fund managers based on funds under management.

Challenger's Funds Management business comprises Fidante Partners and Challenger Investment Partners.

Fidante Partners comprises interests in separately branded, active investment managers.

Challenger Investment Partners originates and manages fixed income and property assets on behalf of the Life business and third-party investors.

Both the Life and Funds Management businesses benefit from Australia's growing superannuation system:

- the Life business participates in the retirement, or 'spending' phase of superannuation by providing retirement income products with guaranteed cash flows to assist retirees in managing their savings and helping them fund their retirement; and
- the Funds Management business participates in the accumulation, or 'saving' phase of superannuation, providing active investment management to help investors save for retirement.

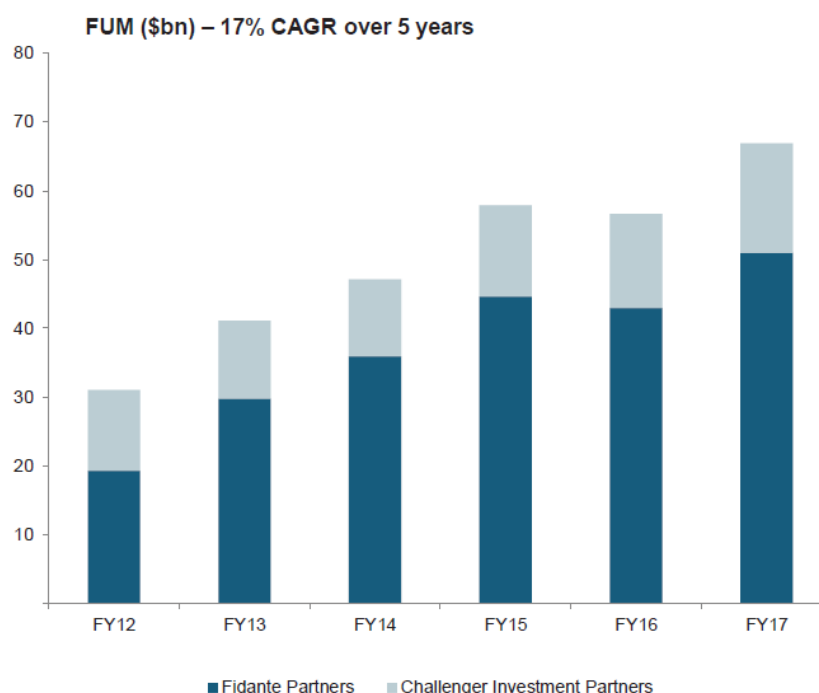
Each business is supported by centralised distribution, product, marketing and support function teams.

More information about the Group can be found at www.challenger.com.au.

NON-LIFE BUSINESS LINES OF THE GROUP

Funds Management

The Group's Funds Management business comprises Fidante Partners and Challenger Investment Partners. It is one of Australia's fastest growing fund managers based on funds under management ("FUM"). As at 30 June 2017, Challenger had \$66.9 billion in FUM, up from FUM of \$31.0 billion at 30 June 2012.



Over the past five years, FUM has increased by \$35.9bn, increasing by on average 17% per annum. This strong FUM growth has been driven by a clear business strategy, which is focused on investor alignment, which has helped deliver strong investment performance for both Fidante Partners and Challenger Investment Partners.

Fidante Partners

Fidante Partners is a multi-boutique platform comprising separately branded active boutique investment managers across a diverse range of asset classes, including fixed income, equities and alternative investments including infrastructure.

The Fidante Partners business model is to invest in boutique investment managers and to provide the distribution and administration services for these managers. Fidante Partners earns distribution fees, administration fees, performance fees and shares in the equity accounted profits of most boutique investment managers.

This business model allows the boutique investment managers to focus on making investment decisions and generating appropriate investment returns, with Fidante Partners left to focus on the distribution and administration services.

In July 2015, Fidante Partners expanded its presence in Europe, where it already held interests in UK-based alternative asset managers, through the acquisition of Dexion Capital, which has been rebranded as Fidante Partners Europe.

Fidante Partners has \$51.0 billion of FUM as at 30 June 2017, increasing from FUM of \$19.3 billion at 30 June 2012, and has been growing at a compound annual growth rate of 17% over the past five years. FUM growth has been supported by Australia's mandatory superannuation system and Fidante Partners' product and boutique manager offering both in Australia and offshore. Over the past five years, 97% of Fidante Partners' FUM has outperformed its relevant benchmarks.

For the financial year ended 30 June 2017, Fidante Partners generated net fee income of \$80.0 million, representing 60% of the Funds Management business total income.

Challenger Investment Partners

Challenger Investment Partners originates, manages and invests in fixed income and property assets on behalf of institutional clients including the Issuer.

Challenger Investment Partners had \$15.9 billion of FUM as at 30 June 2017, increasing from \$11.7 billion as at 30 June 2012.

Challenger Investment Partners earns fee income in relation to the assets it manages. This fee includes management fees, other income such as leasing fees, acquisition and disposal fees, development and placement fees and performance fees.

For the financial year ended 30 June 2017, Challenger Investment Partners generated net fee income of \$54.0 million, representing 40% of the Group's funds management business' total income.

FM – multiple brands and strategies
 \$67bn of FUM as at 30 June 2017



TERMS AND CONDITIONS OF THE SUBORDINATED NOTES

Set out below are the terms and conditions of the Subordinated Notes. The Subordinated Notes are constituted under the Deed Poll and the terms and conditions below are subject to the provisions of the Deed Poll. In particular, but without limitation, the Deed Poll contains provisions:

- (a) for the holding of meetings of Holders; and*
- (b) for the variation and waiver of the Conditions and Deed Poll, including (without limitation) circumstances in which those documents may be varied without the consent of Holders.*

Prospective investors should conduct their own independent investigation and review of the Deed Poll and the Conditions.

1 Form and Face Value

1.1 Constitution

The Subordinated Notes ("Subordinated Notes") are direct, unsecured, subordinated debt obligations of the Issuer, issued for the purposes of, and referable to, the business of the Statutory Fund and constituted by, and owing under, the Deed Poll.

1.2 Form

Subordinated Notes are issued in registered form by entry in the Register. Each entry in the Register constitutes a separate and individual acknowledgment to the relevant Holder of the indebtedness of the Issuer to that Holder and which that Holder is entitled to enforce without having to join any other Holder or any predecessor in title of a Holder.

1.3 Face Value, proceeds of issue and restriction on issue

- (a) Each Subordinated Note has a Face Value of A\$10,000 and is issued fully paid.
- (b) The proceeds of issue of the Subordinated Notes will be contributed to the Statutory Fund and recorded as a liability of the Statutory Fund.
- (c) No person shall subscribe for the Subordinated Notes in Australia unless:
 - (i) the aggregate consideration payable to the Issuer by the subscriber is at least A\$500,000 (disregarding moneys lent by the Issuer or its associates) or the Subordinated Notes are otherwise issued in a manner which does not require disclosure in accordance with Part 6D.2 or Part 7 of the Corporations Act; and
 - (ii) the offer or invitation from which the issue results does not constitute an offer to a "retail client" as defined for the purposes of section 761G of the Corporations Act.

1.4 Currency

The Subordinated Notes are denominated in Australian dollars.

1.5 No certificates

No certificates will be issued to Holders unless the Issuer determines that certificates should be available or are required by any applicable law.

1.6 Acknowledgement in favour of Registrar

Each person in whose account a Subordinated Note is recorded is deemed to acknowledge in favour of the Registrar and each relevant person that:

- (a) the Registrar's decision to act as the Registrar of the Subordinated Note does not constitute a recommendation or endorsement by the Registrar or the relevant person in relation to the Subordinated Note but only indicates that such Subordinated Note is considered by the Registrar to be compatible with the performance by it of its obligations as Registrar under its agreement with the Issuer to act as Registrar of the Subordinated Note;
- (b) in acting under the Registry Agreement in connection with the Subordinated Notes, the Registrar acts solely as agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for or with any of the Holders save insofar as any funds received by the Registrar are required in accordance with the Registry Agreement, pending their application in accordance with the Registry Agreement, to be held by it in a segregated account on trust for the persons entitled thereto; and
- (c) the Holder does not rely on any fact, matter or circumstance contrary to Condition 1.6(a).

2 Status and subordination

2.1 Status and ranking

- (a) In a Winding-Up, the Subordinated Notes rank:
 - (i) equally without any preference among themselves;
 - (ii) equally with the obligations of the Issuer in respect of Equal Ranking Instruments; and
 - (iii) prior to the obligations of the Issuer in respect of Junior Ranking Instruments.
- (b) The claims of Holders against the Issuer in respect of Subordinated Notes will, in the event of a Winding-Up, be subordinated to the claims of Senior Statutory Fund Creditors and Senior General Creditors as follows:
 - (i) as regards the claims of Senior Statutory Fund Creditors:
 - (A) all claims of Senior Statutory Fund Creditors must be paid in full out of the assets of the Statutory Fund before the Holder's claim is paid;
 - (B) until the Senior Statutory Fund Creditors have been paid in full, the Holder must not claim in the Winding-Up in competition with the Senior Statutory Fund Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Senior Statutory Fund Creditors would have been entitled to receive; and
 - (C) for the purposes of section 187 of the Life Insurance Act, any claim that the Holder has in respect of a

Subordinated Note as a liability of the Statutory Fund is determined after all Senior Statutory Fund Creditors have been paid in full; and

- (ii) as regards the claims of Senior General Creditors, in the event that the amount owing by the Issuer is not paid in full out of the assets of the Statutory Fund, the Holder's claim for payment of the unpaid amount (the "Unpaid Amount") out of the assets of the General Fund is subject to the following:
 - (A) all claims of the Senior General Creditors must be paid in full out of the assets of the General Fund before the Holder's claim to the Unpaid Amount is paid; and
 - (B) until the Senior General Creditors have been paid in full, the Holder must not claim in the Winding-Up in competition with the Senior General Creditors so as to diminish any distribution, dividend or payment which, but for that claim, the Senior General Creditors would have been entitled to receive.
- (c) Each Holder must not, and is taken to have waived, to the fullest extent permitted by law, any right to, prove in a Winding-Up as a creditor in respect of the Subordinated Notes ranking for payment equally with any Senior Statutory Fund Creditor or Senior General Creditor.
- (d) No Holder may exercise its voting rights (as a creditor in respect of the Notes) in a Winding-Up so as to defeat the subordination in this Condition 2.
- (e) Neither the Issuer nor any Holder shall be entitled to set-off any amounts, merge accounts or exercise any other rights the effect of which is or may be to reduce any amount payable by the Issuer in respect of the Subordinated Notes held by the Holder or by the Holder to the Issuer (as applicable).
- (f) For the avoidance of doubt, all amounts payable under these Conditions are subject to Condition 4.2.

2.2 Agreements and acknowledgments of Holders in relation to subordination

Each Holder irrevocably acknowledges and agrees that:

- (a) this Condition 2 is a debt subordination for the purposes of section 563C of the Corporations Act;
- (b) without limiting its rights other than in respect of a Subordinated Note, it must not exercise its voting rights as an unsecured creditor in a Winding-Up or administration of the Issuer in any jurisdiction to defeat the subordination in this Condition 2;
- (c) the debt subordination effected by this Condition 2 is not affected by any act or omission of the Issuer or any Senior General Creditor or Senior Statutory Fund Creditor which might otherwise affect it at law or in equity; and

- (d) it must pay or deliver to the liquidator any amount or asset received on account of its claim in the Winding-Up in any jurisdiction in connection with a Subordinated Note in excess of its entitlement under Condition 2.1 above.

2.3 Effect of Non-Viability Trigger Event

If a Non-Viability Trigger Event occurs, despite any other provision in these Conditions (including, for the avoidance of doubt, any Conversion in accordance with Condition 7, whether or not a Holder Conversion Notice has been delivered), Subordinated Notes will be Converted into Ordinary Shares as provided in Condition 6 or, if Condition 6.3 applies, Written-Off.

2.4 No consent of senior ranking creditors

Nothing in this Condition 2 shall be taken to require the consent of any Senior General Creditor or Senior Statutory Fund Creditor to any provision of these Conditions or any amendment thereto.

2.5 No security interest

Nothing in this Condition 2 shall be taken to create an Encumbrance on or over any right of a Holder.

2.6 Not policies under Life Insurance Act or guaranteed

- (a) A Subordinated Note is not a policy liability of the Issuer or any other member of the Group for the purposes of the Life Insurance Act.
- (b) Without limitation, neither Challenger nor any other member of the Group guarantees the performance of obligations in respect of the Subordinated Notes and has no obligation in respect of any Subordinated Note except as expressly set out in these Conditions.

3 Interest

3.1 Subordinated Notes bear interest

Each Subordinated Note bears interest ("**Interest**") on its Face Value from and including the Issue Date to but excluding the Maturity Date or any earlier date on which it is redeemed in full, Converted in full, Written-Off in full or otherwise cancelled in full. Interest accrues daily.

3.2 Interest Payment Dates

Subject to the Deferral Provisions, Interest in respect of each Subordinated Note will be payable out of the Statutory Fund quarterly in arrear, on 24 February, 24 May, 24 August and 24 November each year, as adjusted by the Business Day Convention (each, an "**Interest Payment Date**"), commencing on 24 February 2018.

3.3 Interest amounts

Subject to these Conditions, the Issuer shall pay Interest on each Subordinated Note in respect of an Interest Period in arrear on the relevant Interest Payment Date calculated by multiplying the Interest Rate applicable to the Subordinated Notes in respect of that Interest Period by the Face Value and multiplying the product by the Day Count Fraction in respect of that Interest Period.

“Interest Rate” means the rate (expressed as a percentage per annum) calculated according to the following formula:

$$\text{Interest Rate} = (\text{BBSW Rate} + \text{Margin})$$

where:

BBSW Rate (expressed as a percentage per annum) means, for an Interest Period, the rate for prime bank eligible securities having a tenor of 3 months, which is designated as the “AVG MID” on the Thomson Reuters Screen BBSW Page (or any designation which replaces that designation on that page, or any page that replaces that page) at approximately 10:15am, Sydney time (or such other time at which such rate customarily appears on that page) on the relevant day (“**Publication Time**”), on the first Business Day of the Interest Period. However, if such rate does not appear on the Thomson Reuters Screen BBSW Page (or any page that replaces that page) by 10:30am, Sydney time, on that day (or such other time that is 15 minutes after the then prevailing Publication Time), or if it does appear but the Issuer determines that there is an obvious error in that rate, “**BBSW Rate**” means the rate determined by the Issuer having regard to comparable indices then available; and

Margin means 2.10% per annum.

3.4 Broken periods

If an interest amount is to be calculated in respect of interest accruing on a Subordinated Note for a period other than an Interest Period, such interest shall be calculated by multiplying the Interest Rate applicable to the Subordinated Notes by the amount accruing interest and multiplying the product by the Day Count Fraction in respect of that period.

3.5 Determination and notification

The Issuer shall:

- (a) determine the Interest Rate for each Interest Period and the amount of interest payable in respect of that Interest Period; and
- (b) give notice to the Holders of its determination no later than the fifth Business Day after the first day of the Interest Period.

4 Interest deferral

4.1 Optional deferral

- (a) The Issuer may elect to defer payment of all or part only of any interest amount payable in respect of the Subordinated Notes (including any Additional Amount, any Deferred Interest and any Additional Interest) on any Optional Interest Payment Date to any future date specified by the Issuer (not being later than the Maturity Date), by giving no less than five Business Days’ notice to the Holders prior to the Record Date relating to such Optional Interest Payment Date. Notwithstanding the requirements to give notice pursuant to this Condition 4.1, failure to give such notice shall not prejudice the right of the Issuer to defer the payment of any interest amount pursuant to this Condition 4.1.
- (b) If payment of an interest amount is deferred pursuant to paragraph (a) above, such interest amount shall constitute “Deferred Interest”.

- (c) Any Deferred Interest may be paid in whole or in part at any time by payment out of the Statutory Fund upon the expiry of not less than 14 days' notice to such effect given by the Issuer to the Holders. All Deferred Interest (together with any Additional Interest) on a Subordinated Note will, subject to the Solvency Condition being satisfied, automatically become immediately due and payable in whole upon the earliest of the following dates:
- (i) the date on which any interest payment or payment in respect of interest is made on any Junior Ranking Instruments or Equal Ranking Instruments (excluding any such payment on an Equal Ranking Instrument in a case where the terms of that instrument do not enable the Issuer to defer, pass on or eliminate the relevant payment on such Equal Ranking Instruments) or on which a dividend or other distribution on any class of the Issuer's share capital is paid or becomes payable;
 - (ii) the date specified in the relevant notice delivered pursuant to paragraph (a);
 - (iii) (without double counting) the date on which the Subordinated Notes are redeemed in accordance with these Conditions;
 - (iv) the date on which a Winding-Up Default occurs; or
 - (v) the date fixed for:
 - (A) any redemption of Subordinated Notes; or
 - (B) any purchase of Subordinated Notes by or on behalf of the Issuer,
 pursuant to Condition 5.

4.2 Solvency Condition deferral

- (a) When the Issuer is not in a Winding-Up in Australia:
- (i) the obligations of the Issuer to make any payment (whether of principal, Interest, any Additional Interest, any Deferred Interest or any Additional Amount) in respect of the Subordinated Notes will be conditional on the Issuer being Solvent at the time of the payment; and
 - (ii) no payment in respect of the Subordinated Notes will be made unless the Issuer will be Solvent immediately after making the payment,
- (the "**Solvency Condition**").
- (b) Any amount not paid on account of the Solvency Condition remains as a debt owing by the Issuer to the relevant Holders, which is payable on the earliest of the following dates:
- (i) the date on which the Subordinated Notes are redeemed in accordance with these Conditions (including the Solvency Condition);
 - (ii) the date on which a Winding-Up Default occurs; and

- (iii) the first Interest Payment Date on which Interest, Deferred Interest, Additional Interest and any Additional Amount in respect thereof may be paid in compliance with the Solvency Condition and the terms of any indebtedness owing to Senior Statutory Fund Creditors.
- (c) For so long as an amount of Interest (including without limitation any Deferred Interest or Additional Interest) is not paid on account of the Solvency Condition, that amount shall accrue additional interest in accordance with Condition 4.3 as if that amount were Deferred Interest.
- (d) A certificate signed by an Authorised Officer of the Issuer, its auditor or, if the Issuer is being Wound-Up, its liquidator, as to whether the Issuer is Solvent at any time is (in the absence of wilful default, bad faith or manifest error) conclusive evidence of the information contained in the certificate and will be binding on the Holders. In the absence of such a certificate, the Holders are entitled to assume (unless the contrary is proved) that the Issuer is Solvent at the time of, and will be Solvent immediately after, any payment in respect of the Subordinated Notes.

4.3 Additional Interest

- (a) Interest will accrue on Deferred Interest at the applicable Interest Rate from time to time in accordance with Condition 3 and such interest shall constitute "Additional Interest". Any Additional Interest shall be payable out of the Statutory Fund in accordance with Condition 3 and this Condition 4, subject to deferral on the same basis as is provided in this Condition 4.
- (b) Any Additional Interest accrued up to an Interest Payment Date and not paid on that Interest Payment Date shall, for the purposes of determining any subsequent amount accruing under this Condition 4.3, constitute Deferred Interest.

4.4 Amounts not due and payable

Notwithstanding any other provision of these Conditions:

- (a) to the extent that a payment is not required to be made by operation of any Deferral Provision, the amount is not due and payable; and
- (b) no Event of Default or other default or breach of these Conditions can occur as a result of any such non-payment.

4.5 Interest on unpaid interest

If an amount of interest (including without limitation any Deferred Interest or Additional Interest) is not paid for any reason other than the operation of a Deferral Provision, that amount shall accrue Additional Interest in accordance with Condition 4.3 as if that amount were Deferred Interest.

5 Redemption

5.1 Redemption on the Maturity Date

Unless previously redeemed in full, Converted in full, Written-Off in full or otherwise cancelled in full, the Issuer shall redeem each Subordinated Note on the Maturity Date by payment out of the Statutory Fund of its Redemption Price.

5.2 Early redemption by the Issuer

Unless previously redeemed in full, Converted in full, Written-Off in full or otherwise cancelled in full, with the prior written approval of APRA, the Issuer may redeem:

- (a) all (but not some only) of the Subordinated Notes on the Interest Payment Date falling on or immediately following the fifth anniversary of the Issue Date (the “Optional Redemption Date”); or
- (b) all (but not some only) of the Subordinated Notes if a Tax Event or a Regulatory Event occurs,

in each case by payment out of the Statutory Fund of the Redemption Price in respect of each Subordinated Note redeemed.

5.3 Early Redemption Notice

In order to redeem Subordinated Notes in accordance with Condition 5.2, the Issuer must provide the Holders with written notice of its election to redeem (an “**Early Redemption Notice**”), which must specify:

- (a) where Condition 5.2(a) applies, the aggregate Face Value of Subordinated Notes to be redeemed;
- (b) where Condition 5.2(b) applies, the details of the Tax Event or Regulatory Event to which the Early Redemption Notice relates; and
- (c) in either case, the Early Redemption Date, which:
 - (i) where Condition 5.2(a) applies, will be the Optional Redemption Date (in which case the date of the Early Redemption Notice must be at least 15 days prior to the Optional Redemption Date); and
 - (ii) where Condition 5.2(b) applies, is the date nominated by the Issuer, provided that such date is at least 15 days and no more than 50 days after the date of the Early Redemption Notice.

5.4 Effect of an Early Redemption Notice

An Early Redemption Notice given under Condition 5.3 is irrevocable and obliges the Issuer, subject to the Solvency Condition, to redeem the specified aggregate Face Value of Subordinated Notes on the Early Redemption Date, by payment out of the Statutory Fund of the Redemption Price in respect of each Subordinated Note to be redeemed.

5.5 No early redemption at the option of Holders

Without prejudice to Condition 12, a Holder cannot require the Issuer to redeem all or some of the Subordinated Notes held by that Holder before their Maturity Date.

5.6 Effect of redemption

Upon payment of the Redemption Price in respect of a redemption of a Subordinated Note, all of the Holder's rights in relation to that Subordinated Note will be immediately and irrevocably terminated.

5.7 Purchases

The Issuer and any of its Related Entities may at any time with APRA's prior written approval purchase Subordinated Notes in the open market or otherwise and at any price. Such Subordinated Notes will be cancelled following any such purchase.

5.8 Early redemption and purchase restrictions

The Issuer may only elect to redeem any Subordinated Notes under Condition 5.2, and the Issuer or any of its Related Entities may only elect to purchase any Subordinated Notes under Condition 5.7, if either:

- (a) before or concurrently with the redemption or purchase, the Issuer replaces the Subordinated Notes the subject of the redemption or purchase with a capital instrument which is of the same or better quality (for the purposes of APRA's prudential standards as they are applied to the Issuer) and the Issuer obtains confirmation from APRA that APRA is satisfied that the replacement of the relevant Subordinated Notes is done under conditions that are sustainable for the income capacity of the Issuer; or
- (b) the Issuer obtains confirmation from APRA that APRA is satisfied, having regard to the capital position of the Issuer, that the Issuer does not have to replace the Subordinated Notes the subject of the redemption or purchase.

Holders should not expect that APRA's approval will be given for any early redemption or purchase of Subordinated Notes under these Conditions.

6 Conversion on Non-Viability Trigger Event

6.1 Non-Viability Trigger Event

- (a) A "Non-Viability Trigger Event" occurs when APRA provides a written determination to the Issuer that the conversion or write-off of Relevant Capital Instruments in accordance with their terms or by operation of law is necessary because:
 - (i) without the conversion or write-off, APRA considers that the Issuer would become non-viable;
 - (ii) without the conversion or write-off, APRA considers that the Statutory Fund would become non-viable;
 - (iii) without a public sector injection of capital into, or equivalent capital support with respect to, the Issuer, APRA considers that the Issuer would become non-viable; or
 - (iv) without a public sector injection of capital into, or equivalent capital support with respect to, the Statutory Fund, APRA considers that the Statutory Fund would become non-viable.
- (b) If a Non-Viability Trigger Event occurs, the Issuer must convert or write-off:
 - (i) unless paragraph (ii) applies, all Relevant Capital Instruments; or

- (ii) where Condition 6.1(a)(i) or Condition 6.1(a)(ii) applies, an amount of the Relevant Capital Instruments that is less than all Relevant Capital Instruments if APRA is satisfied that conversion or write-off of that amount will be sufficient to ensure that the Issuer or the Statutory Fund (as applicable) does not become non-viable.

A Non-Viability Determination takes effect immediately on the day it is received by the Issuer, whether or not such day is a Business Day, and the Issuer and Challenger must perform their respective obligations as set out in these Conditions and the Implementation Deed in respect of the determination immediately on that day. This Condition 6 is included for the purposes of the conversion and write-off provisions in APRA's prudential standards as at the Issue Date.

6.2 Consequences of a Non-Viability Trigger Event

- (a) If a Non-Viability Trigger Event occurs:
 - (i) on the date that event occurs, whether or not that day is a Business Day (the "Non-Viability Conversion Date"), the Issuer must immediately determine in accordance with the Non-Viability Determination:
 - (A) the aggregate Face Value of Subordinated Notes that will Convert (such amount being the "Required Amount") and the aggregate nominal amount of other Relevant Capital Instruments which will convert or be written-off; and
 - (B) the identity of the Holders at the time that the Conversion is to take effect on that date (and in making that determination the Issuer may make any decisions with respect to the identity of the Holders at that time as may be necessary or desirable to ensure Conversion occurs in an orderly manner, including disregarding any transfers of Subordinated Notes that have not been settled or registered at that time);
 - (ii) subject only to Condition 6.3 and despite any other provision in these Conditions, on the Non-Viability Conversion Date the Required Amount of Subordinated Notes will Convert, and the relevant aggregate nominal amount of other Relevant Capital Instruments will convert or be written-off, in each case immediately and irrevocably; and
 - (iii) the Issuer must give notice of the Non-Viability Trigger Event (a "Non-Viability Trigger Event Notice") to Holders as soon as practicable that Conversion or Write-Off has occurred which notice must state the Non-Viability Conversion Date, the Required Amount of Subordinated Notes Converted or Written-Off and the relevant amount of other Relevant Capital Instruments converted or written-off.
- (b) If, in accordance with Condition 6.1(b)(ii), the Issuer is required to convert or write-off only an amount of Relevant Capital Instruments, the Issuer will determine the Required Amount of Subordinated Notes which will Convert and the principal amount of other Relevant Capital Instruments which will convert or be written-off on the following basis:

- (i) in the case of an Issuer Non-Viability Trigger Event, the Issuer must:
 - (A) first, convert, or write-off all Relevant Tier 1 Capital Instruments before Conversion of the Subordinated Notes; and
 - (B) second, if conversion or write-off of Relevant Tier 1 Capital Instruments is less than the amount sufficient to satisfy APRA that the Issuer would not become non-viable (and provided that APRA has not withdrawn the Non-Viability Determination as a result of the conversion or write-off of the Relevant Tier 1 Capital Instruments), Convert Subordinated Notes and convert or write-off other Relevant Tier 2 Capital Instruments in an aggregate Face Value and nominal amount which, when added to the aggregate nominal amount of Relevant Tier 1 Capital Instruments converted or written-off, will satisfy APRA that the Issuer would not become non-viable;
 - (ii) in the case of a Statutory Fund Non-Viability Trigger Event, the Issuer must Convert Subordinated Notes and convert or write-off other Relevant Tier 2 Capital Instruments in an aggregate Face Value and nominal amount which will satisfy APRA that the Statutory Fund would not become non-viable;
 - (iii) in Converting Subordinated Notes or converting or writing-off other Relevant Tier 2 Capital Instruments, the Issuer will endeavour to treat Holders and holders of other Relevant Tier 2 Capital Instruments (and Holders as between themselves) on a pro rata basis or such other basis as may, in the Issuer's and Challenger's opinions, be fair and reasonable, but may elect to Convert some but not all Subordinated Notes in whole, may elect to Convert some or all Subordinated Notes in part rather than in whole and may otherwise discriminate to take account of logistical considerations and the need to effect the Conversion of Subordinated Notes and the conversion or write-off of other Relevant Tier 2 Capital Instruments immediately; and
 - (iv) where the currency of issuance of Relevant Tier 2 Capital Instruments is not the same for all Relevant Tier 2 Capital Instruments, the Issuer may treat all such instruments as if converted into a single currency of the Issuer's choice at such rate of exchange as the Issuer considers reasonable but the Issuer may make adjustments among Holders and holders of other Relevant Tier 2 Capital Instruments having regard to the need to effect the Conversion of Subordinated Notes and the conversion or write-off of other Relevant Tier 2 Capital Instruments immediately.
- (c) None of the following shall prevent, impede or delay the Conversion of Subordinated Notes as required by this Condition 6.2:
- (i) any failure of, or delay in, the conversion or write-off of any other Relevant Capital Instruments;

- (ii) any failure or delay in giving a Non-Viability Trigger Event Notice;
 - (iii) any failure or delay in quotation of the Ordinary Shares to be issued on Conversion;
 - (iv) any decision as to the identity of Holders whose Notes are to be Converted in accordance with Condition 6.2(a)(i)(B); or
 - (v) any requirement to select or adjust the amount of Subordinated Notes to be Converted in accordance with Condition 6.2(b)(iii).
- (d) From (and including) the Non-Viability Conversion Date, subject to Condition 6.3 and Condition 15.2(c), the Issuer and Challenger shall treat the Holder in respect of the Subordinated Notes as the holder of the Conversion Number of Ordinary Shares and will take all such steps, including updating any register relating to the Ordinary Shares, required to record the Conversion.

6.3 No further rights if Conversion does not occur

Where, for any reason (including, without limitation, an Inability Event), a Conversion in respect of a Subordinated Note required by these Conditions in connection with a Non-Viability Trigger Event (including the Related Conversion Steps) does not occur within five Scheduled Trading Days after the Non-Viability Conversion Date:

- (a) the rights of the relevant Holder (including without limitation in respect of a redemption (whether or not a notice of that redemption has been given) and to the payment of Interest (including without limitation any Deferred Interest and any Additional Interest) and the Redemption Price) in relation to the Nominal Amount of that Subordinated Note required to be Converted are immediately and irrevocably written-off and terminated ("Written-Off"); and
- (b) the Statutory Fund will be immediately credited with an increase in net assets equal to the Nominal Amount of the Subordinated Notes Written-Off,

in each case with effect on and from the Non-Viability Conversion Date.

6.4 Partial Conversion or Write-Off

To the extent that a Subordinated Note has been Converted or Written-Off in part only:

- (a) the Face Value (including without limitation for the purposes of calculating interest), the Redemption Price, the amount of any Interest (including any Deferred Interest and Additional Interest) applicable to that Subordinated Note and any related amount shall be reduced in the same proportion as the Nominal Amount Converted or Written-Off in respect of that Subordinated Note bore to the Face Value of that Subordinated Note before such Conversion or Write-Off and these Conditions (including without limitation this Condition 6) continue to apply in respect of the Subordinated Note as so reduced;
- (b) where the Non-Viability Conversion Date is not an Interest Payment Date, the amount of Interest or Additional Interest payable in respect of that Subordinated Note on each Interest Payment Date falling after that Conversion Date will be reduced and calculated on the Face

Value of that Subordinated Note as so reduced on the date of the Conversion or Write-Off; and

- (c) for the purposes of the transfer of that portion of the Subordinated Note to Challenger in accordance with Condition 8.1(b), the Nominal Amount of that Subordinated Note to be Converted and the Face Value not to be Converted shall each be deemed to be a separate Subordinated Note with a denomination equal to the relevant Face Value.

To the extent that some but not all Subordinated Notes are Converted or Written-Off in full, any Subordinated Notes not Converted or Written-Off in full shall remain outstanding and these Conditions shall remain in full force and effect as regards such Subordinated Notes.

6.5 No Conversion at the option of Holders

A Holder cannot require the Issuer or Challenger to Convert all or some of the Subordinated Notes held by that Holder into Ordinary Shares other than in accordance with Condition 7.

7 Conversion at the option of Holders

7.1 Holder Conversion Date

A Holder may at its option give a written notice (a “**Holder Conversion Notice**”) requesting that, on the Interest Payment Date falling on or immediately following the seventh anniversary of the Issue Date (the “**Holder Conversion Date**”), all (but not some only) of its Subordinated Notes be Converted in accordance with and subject to Condition 7.2 and, if such a Holder Conversion Notice is duly given in accordance with this Condition 7, the Subordinated Notes the subject of the Holder Conversion Notice will be Converted into Ordinary Shares on the Holder Conversion Date in accordance with the mechanics set out in Condition 8.

7.2 Holder Conversion Notice

- (a) In order to elect to Convert all (but not some only) of its Subordinated Notes, a Holder must deliver a Holder Conversion Notice duly given in accordance with this Condition 7 to the Issuer (with a copy to Challenger) no earlier than 30 Business Days and no later than 21 Business Days prior to the Holder Conversion Date,
- (b) A Holder Conversion Notice must:
 - (i) set out the information required by Condition 8.11;
 - (ii) specify the identity and Nominal Amount of each Subordinated Note to be Converted;
 - (iii) include such other information as is reasonably requested by the Issuer or Challenger for the purposes of enabling them to Convert the Subordinated Notes and, as applicable, to issue the Conversion Number of Ordinary Shares to the relevant Holder; and
 - (iv) be accompanied by a duly executed (and, if required by the Issuer or Challenger, stamped) transfer form in respect of the Subordinated Notes to be transferred to Challenger in connection with the Conversion.

Neither the Issuer nor Challenger has any duty to seek or obtain any of the information referred to above.

- (c) Subject to Condition 2.3, a Holder Conversion Notice, once given, is irrevocable.

7.3 Settlement of Holder Conversion

On the Holder Conversion Date, Challenger, the Issuer and the Holder of each Subordinated Note the subject of a Holder Conversion Notice shall perform their respective obligations in respect of the Conversion as provided in Condition 8, and those Subordinated Notes shall be Converted accordingly.

7.4 Impediments to completion of Holder Conversion

If, for any reason, Challenger issues the Conversion Number (which number must not be greater than the Maximum Conversion Number) of Ordinary Shares to the relevant Holder on the Holder Conversion Date in accordance with the requirements of this Condition 7 but a Subordinated Note is not transferred to Challenger free from Encumbrance, on and from the issue of those Ordinary Shares, and despite any other provision of these Conditions:

- (a) all amounts payable in respect of that Subordinated Note (or part thereof) are payable to Challenger as and when they fall due in accordance with these Conditions;
- (b) Challenger is absolutely beneficially entitled to such moneys; and
- (c) the Subordinated Note (or part thereof) shall be taken to have been Converted accordingly.

7.5 Failure to Convert

- (a) If, on the Holder Conversion Date, the Conversion Number of Ordinary Shares is not issued or delivered in respect of a Subordinated Note, that Subordinated Note shall remain on issue and any interest (including any Additional Amount, any Deferred Interest and any Additional Interest) shall continue to accrue until such time as the Ordinary Shares are issued to the Holder (which date shall be deemed to be the Holder Conversion Date in respect of that Subordinated Note) or the Subordinated Note is redeemed or purchased in accordance with Condition 5, or Converted or Written-Off as required by Condition 6.
- (b) Condition 7.5(a) does not affect the obligation of Challenger to issue or deliver Ordinary Shares when required in accordance with these Conditions.
- (c) The remedy of a Holder in respect of Challenger's failure to issue or deliver the Ordinary Shares in accordance with this Condition 7 and Condition 8 is limited to seeking an order for specific performance of Challenger's obligations to issue or deliver the Ordinary Shares to the Holder in accordance with the Conditions (subject always to Condition 2.3 and Condition 6.3).

8 Conversion mechanics

8.1 Conversion

On a Non-Viability Conversion Date or the Holder Conversion Date (as applicable), subject to Conditions 6.3 and 8.12, the following will apply:

- (a) Challenger will allot and issue the Conversion Number of Ordinary Shares in respect of each Subordinated Note required to be Converted to the relevant Holder or as contemplated in Condition 8.12. The “Conversion Number” for each Subordinated Note is calculated according to the following formula, and subject always to the Conversion Number being no greater than the Maximum Conversion Number:

Conversion Number =

$$\frac{\text{Nominal Amount}}{99\% \times \text{VWAP}}$$

where:

“**Nominal Amount**” means:

- (i) in respect of Conversion on account of a Non-Viability Trigger Event and a Subordinated Note, all or such lesser amount of the Face Value of that Subordinated Note determined by the Issuer in accordance with Condition 6.2(b) and the other provisions of Condition 6 to be the proportionate allocation of the Required Amount to the Face Value of that Subordinated Note; and
- (ii) in respect of Conversion on account of a Holder Conversion Notice and a Subordinated Note, the Nominal Amount of the Subordinated Note to be Converted as set out in the Holder Conversion Notice, together with any Additional Amount, any Deferred Interest and any Additional Interest in respect of that Subordinated Note.

“**Maximum Conversion Number**” means a number calculated according to the following formula:

Maximum Conversion Number =

$$\frac{\text{Nominal Amount}}{\text{Relevant Fraction} \times \text{Issue Date VWAP}}$$

where:

“**Relevant Fraction**” means:

- (i) in respect of Conversion on account of a Non-Viability Trigger Event, 0.20; and
 - (ii) in respect of Conversion on account of a Holder Conversion Notice, 0.50.
- (b) On and from the time that Conversion occurs:
- (i) the rights of each Holder (including to payment of interest) in relation to the Nominal Amount of each Subordinated Note or portion thereof that is being Converted will be immediately and irrevocably transferred free from any Encumbrance to Challenger or, only with APRA’s written approval obtained prior to the relevant Non-Viability Conversion Date or Holder Conversion Date (as applicable), to another Subsidiary of

Challenger nominated by Challenger and which is a holding company of the Issuer on the relevant Non-Viability Conversion Date or Holder Conversion Date (as applicable) (an “Approved Nominee”) for an amount payable by Challenger equal to the Nominal Amount of that Subordinated Note (or portion thereof) that is being Converted and Challenger will apply that Nominal Amount (or portion thereof) by way of payment for subscription for the Ordinary Shares to be allotted and issued under Condition 8.1(a). Each Holder is taken to have irrevocably directed that any amount payable under this Condition 8.1(b)(i) is to be applied as provided for in this Condition 8.1 and no Holder has any right to payment in any other way; and

- (ii) as agreed between, amongst others, Challenger and the Issuer on or about the Issue Date, Challenger, the Issuer and their Related Bodies Corporate will deal with the Subordinated Notes (or portions thereof) being Converted so that Issuer Ordinary Shares are issued to, or as directed by, Challenger or to a Related Body Corporate of Challenger nominated by it (which Related Body Corporate itself issues ordinary shares to, or as directed by, Challenger), for an aggregate issue price equal to the aggregate Nominal Amount of the Subordinated Notes to be Converted and the Subordinated Notes transferred to Challenger or to an Approved Nominee in accordance with this Condition 8.1 shall be transferred to the Issuer and cancelled,

(the “**Related Conversion Steps**”).

- (c) If the total number of Ordinary Shares to be allotted and issued in respect of a Holder’s aggregate holding of Subordinated Notes includes a fraction of an Ordinary Share, that fraction of an Ordinary Share will be disregarded and the relevant Holder shall have no rights whatsoever in respect of that fraction.
- (d) The VWAP and Issue Date VWAP are each to be determined by or on behalf of Challenger.

8.2 **Adjustments to VWAP generally**

For the purposes of calculating VWAP under Condition 8.1:

- (a) where, on some or all of the Trading Days in the relevant VWAP Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and Subordinated Notes will be Converted into Ordinary Shares after that date and those Ordinary Shares will no longer carry that dividend or any other distribution or entitlement, the VWAP on the Trading Days on which those Ordinary Shares have been quoted cum dividend or cum any other distribution or entitlement will be reduced by an amount (“Cum Value”) equal to:
 - (i) in the case of a dividend or other distribution, the amount of that dividend or other distribution including, if the dividend or other distribution is franked, the amount that would be included in the assessable income of a recipient of the dividend or other distribution who is both a resident of Australia and a natural person under the Tax Act;

- (ii) in the case of any other entitlement that is not a dividend or other distribution under Condition 8.2(a)(i) which is traded on ASX on any of those Trading Days, the volume weighted average sale price of all such entitlements sold on ASX during the VWAP Period on the Trading Days on which those entitlements were traded; or
 - (iii) in the case of any other entitlement which is not traded on ASX during the VWAP Period, the value of the entitlement as reasonably determined by the Issuer;
- (b) where, on some or all of the Trading Days in the VWAP Period, Ordinary Shares have been quoted on ASX as ex dividend or ex any other distribution or entitlement, and Subordinated Notes will be Converted into Ordinary Shares which would be entitled to receive the relevant dividend, distribution or entitlement, the VWAP on the Trading Days on which those Ordinary Shares have been quoted ex dividend or ex any other distribution or entitlement will be increased by the Cum Value;
- (c) any adjustment made by the Issuer in accordance with this Condition 8.2 will be effective and binding on Holders under these Conditions and will be construed accordingly; and
- (d) the Issuer must notify the Holders promptly of a corporate action that it reasonably expects will give rise to an adjustment to the VWAP or Issue Date VWAP required to be made in accordance with this Condition 8.

8.3 Adjustments to VWAP for Reorganisation

- (a) Where during the relevant VWAP Period there is a change to the number of Ordinary Shares on issue as a result of a Reorganisation, in calculating the VWAP for the VWAP Period, the VWAP for each Trading Day in the relevant VWAP Period which falls before the date on which trading in those Ordinary Shares is conducted on a post Reorganisation basis shall be adjusted by multiplying the applicable VWAP by the following formula:

$$\frac{A}{B}$$

where:

“**A**” means the aggregate number of Ordinary Shares on issue immediately before the Reorganisation; and

“**B**” means the aggregate number of Ordinary Shares on issue immediately after the Reorganisation.

- (b) Any adjustment made by the Issuer in accordance with this Condition 8.3 will be effective and binding on Holders under these Conditions and these Conditions will be construed accordingly.

8.4 Adjustments to Issue Date VWAP generally

- (a) For the purposes of determining the Issue Date VWAP only, adjustments will be made in accordance with Conditions 8.2 and 8.3 during the VWAP Period for the Issue Date VWAP.

- (b) On and from the Issue Date, adjustments to the Issue Date VWAP:
 - (i) may be made by the Issuer in accordance with Conditions 8.5 to 8.7 (inclusive); and
 - (ii) if so made, will correspondingly cause an adjustment to the Maximum Conversion Number.
- (c) The Issuer must notify the Holders promptly of a corporate action that it reasonably expects will give rise to an adjustment to the Issue Date VWAP required to be made in accordance with this Condition 8.

8.5 Adjustments to Issue Date VWAP for bonus issues

- (a) Subject to Condition 8.5(b), if at any time after the Issue Date, Challenger makes a pro rata bonus issue of Ordinary Shares to holders of those Ordinary Shares generally, the Issue Date VWAP will be adjusted in accordance with the following formula:

$$V = V_o \times \frac{RD}{RD + RN}$$

Where:

“**V**” means the Issue Date VWAP applying immediately after the application of this formula;

“**V_o**” means the Issue Date VWAP applying immediately prior to the application of this formula;

“**RD**” means the number of Ordinary Shares on issue immediately prior to the allotment of new Ordinary Shares pursuant to the bonus issue; and

“**RN**” means the number of Ordinary Shares issued pursuant to the bonus issue.

- (b) For the avoidance of doubt, Condition 8.5(a) does not apply to Ordinary Shares issued as part of a bonus share plan, employee or executive share plan, executive option plan, share top up plan, share purchase plan or a dividend reinvestment plan.
- (c) For the purpose of Condition 8.5(a), an issue will be regarded as a pro rata bonus issue notwithstanding that Challenger does not make offers to some or all holders of the Ordinary Shares with registered addresses outside Australia, provided that in so doing Challenger is not in contravention of the ASX Listing Rules.
- (d) No adjustments to the Issue Date VWAP will be made under this Condition 8.5 for any offer of Ordinary Shares not covered by Condition 8.5(a), including a rights issue or other essentially pro rata issue.
- (e) The fact that no adjustment is made for an issue of Ordinary Shares except as covered by Condition 8.5(a) shall not in any way restrict Challenger from issuing Ordinary Shares at any time on such terms as it sees fit nor be taken to constitute a modification or variation of rights or privileges of Holders or otherwise requiring any consent or concurrence of the Holders.

- (f) Any adjustment made in accordance with this Condition 8.5 will be effective and binding on Holders under these Conditions and these Conditions will be construed accordingly.

8.6 Adjustments to Issue Date VWAP for Reorganisation

- (a) If at any time after the Issue Date there is a change in the number of Ordinary Shares on issue as a result of a Reorganisation, the Issue Date VWAP shall be adjusted by multiplying the Issue Date VWAP applicable on the Trading Day immediately before the date of any such Reorganisation by the following formula:

$$\frac{A}{B}$$

where:

“A” means the aggregate number of Ordinary Shares on issue immediately before the Reorganisation; and

“B” means the aggregate number of Ordinary Shares on issue immediately after the Reorganisation.

- (b) Any adjustment made in accordance with this Condition 8.6 will be effective and binding on the Holders under these Conditions and these Conditions will be construed accordingly.
- (c) Each Holder acknowledges that Challenger may consolidate, divide or reclassify securities so that there is a lesser or greater number of Ordinary Shares at any time in its absolute discretion without any such action constituting a modification or variation of rights or privileges of Holders or otherwise requiring the consent or concurrence of any person.

8.7 No adjustment to Issue Date VWAP in certain circumstances

Despite the provisions of Conditions 8.5 and 8.6, no adjustment will be made to the Issue Date VWAP where any such adjustment (rounded if applicable) would be less than one percent of the Issue Date VWAP then in effect.

8.8 Announcement of adjustments to Issue Date VWAP

The Issuer will notify the Holders of any adjustment to the Issue Date VWAP under Condition 8 within 10 Business Days of the Issuer determining the adjustment.

8.9 Status of Ordinary Shares

Ordinary Shares issued upon Conversion (if any) will be issued fully paid in consideration of the transfer free from Encumbrance of the Subordinated Note the subject of Conversion (or, if such Subordinated Note is not transferred free from Encumbrance, the Writing-Off of that Subordinated Note in accordance with Condition 6.3) and will rank equally with all other fully paid Ordinary Shares on issue at the time of such Conversion.

8.10 Listing Ordinary Shares issued on Conversion

The Issuer and Challenger must use reasonable endeavours to:

- (a) list the Ordinary Shares issued upon Conversion on ASX; and

- (b) procure that the Ordinary Shares issued upon Conversion are able to be freely traded after their issue date on ASX in compliance with all requirements of the Corporations Act, all other applicable laws and the ASX Listing Rules without requirement for further disclosure or other action by any Holder or persons to whom its shares are issued (except in case of applicable law other than Chapter 6D of the Corporations Act, to the extent that a restriction on trading is attributable to the particular circumstances of the Holder and is not otherwise within the control of the Issuer or Challenger (as applicable)).

The Holder agrees not to trade Ordinary Shares issued on Conversion (except as permitted by the Corporations Act, other applicable laws and the ASX Listing Rules) until Challenger has taken such steps as are required by the Corporations Act, other applicable laws and the ASX Listing Rules for the shares to be freely tradeable without such further disclosure or other action and agrees to allow Challenger to impose a holding lock or refuse to register a transfer in respect of Ordinary Shares until such time. Challenger will promptly notify Holders when this restriction on trading ceases to apply.

8.11 Provision of information

Where a Nominal Amount of Subordinated Notes held by a Holder is required to be Converted under Condition 6 or a Holder has elected to require the Conversion of all of its Subordinated Notes in accordance with Condition 7, a Holder wishing to receive Ordinary Shares must, no later than the Non-Viability Conversion Date (in the case of Conversion under Condition 6) or in the Holder Conversion Notice (in the case of Conversion in accordance with Condition 7), have provided to the Issuer (for itself and Challenger) (which notice shall be irrevocable):

- (a) its name and address (or the name and address of any person in whose name it directs the Ordinary Shares to be issued) for entry into any register of title and receipt of any certificate or holding statement in respect of any Ordinary Shares;
- (b) the Holder's security account details in CHESS or such other account to which the Ordinary Shares may be credited; and
- (c) such other information as is reasonably requested by the Issuer or Challenger for the purposes of enabling Challenger to issue the Conversion Number of Ordinary Shares to the Holder,

provided that any notice specifying a person other than the Holder as the proposed recipient of any Ordinary Shares must be accompanied by the written agreement of that person to become a member of Challenger.

8.12 Issue to nominee

- (a) If any Subordinated Notes are required to be Converted under Condition 6 or Condition 7 and:
 - (i) in the case of Conversion under Condition 6 only, a Holder has notified the Issuer that it does not wish to receive Ordinary Shares as a result of the Conversion (whether entirely or to the extent specified in the notice), which notice may be given at any time prior to the Non-Viability Conversion Date;

- (ii) the Subordinated Notes are held by a person which the Issuer believes in good faith may not be a resident of Australia (a "Foreign Holder"); or
- (iii) in the case of Conversion under Condition 6 only, if for any reason (whether or not due to the fault of a Holder) the Issuer has not received any information required by it in accordance with Condition 8.11 so as to impede Challenger issuing the Ordinary Shares to a Holder on the Non-Viability Conversion Date; or
- (iv) a FATCA Withholding is required to be made in respect of the Ordinary Shares issued on the Conversion,

on the Non-Viability Conversion Date or Holder Conversion Date (as applicable):

- (v) where subparagraph (i), (ii) or (iv) applies, Challenger is obliged to issue the Ordinary Shares to that Holder only to the extent (if at all) that:
 - (A) where subparagraph (i) applies, the Holder wishes to receive them;
 - (B) where subparagraph (ii) applies, the Issuer is satisfied that the laws of both Australia and the Foreign Holder's country of residence permit the issue of the Ordinary Shares to the Foreign Holder (but as to which neither the Issuer nor Challenger is not bound to enquire), either unconditionally or after compliance with conditions which the Issuer, in its absolute discretion, regards as acceptable and not unduly onerous; or
 - (C) where subparagraph (iv) applies, the issue to that Holder is net of the FATCA Withholding;

and to the extent that Challenger is not obliged to issue Ordinary Shares to that Holder, Challenger will issue the balance of the Ordinary Shares to the nominee in accordance with subparagraph (vi) of this Condition 8.12(a); and

- (vi) otherwise, subject to applicable law, Challenger will issue the balance of Ordinary Shares in respect of that Holder to a nominee appointed by Challenger (which nominee may not be the Issuer, Challenger or a Related Entity thereof) and, subject to applicable law:
 - (A) where sub-paragraph (iii) applies, the nominee will hold Ordinary Shares in an aggregate amount equal to the aggregate number to be issued in respect of that Holder and will transfer Ordinary Shares to that Holder if, within 30 days of the Non-Viability Conversion Date, the Holder provides the nominee with the information required to be provided by that Holder under Condition 8.11 (as if a reference in paragraph (c) of Condition 8.11 to Challenger is a reference to the nominee and a reference to the issue of Ordinary Shares is a reference to the transfer of Ordinary Shares);

- (B) where subparagraph (iv) applies, the nominee shall deal with Ordinary Shares the subject of a FATCA Withholding and any proceeds of their disposal in accordance with FATCA; and
 - (C) the nominee will as soon as reasonably possible (or, where sub-paragraph (iii) applies, as soon as reasonably possible after the expiration of the period of 30 days), sell the Ordinary Shares it receives and pay a cash amount equal to the net proceeds received, after deducting any applicable brokerage, stamp duty and other taxes and charges, to that Holder.
- (b) The issue of Ordinary Shares to a nominee pursuant to paragraph (a)(vi) will satisfy all obligations of the Issuer and Challenger to that Holder in connection with the Conversion and on and from the time of issue of Ordinary Shares to such nominee such Subordinated Notes will be deemed to be Converted and the rights of the Holder the subject of this Condition shall be limited to its rights in respect of the Ordinary Shares or their net cash proceeds as provided in this Condition.
 - (c) Nothing in this Condition 8.12 shall affect the Conversion of the Subordinated Notes of a Holder which is not a person to which any of subparagraphs (a)(i) to (a)(iv) (inclusive) applies.

8.13 No duty on sale

For the purpose of Condition 8.12, neither the Issuer nor Challenger owes any obligations or duties to the Holders in relation to the price at which any Ordinary Shares are sold and has no liability for any loss suffered by a Holder as a result of the sale of Ordinary Shares by any such nominee.

8.14 Power of attorney

- (a) Each Holder appoints each of the Issuer, Challenger, their respective officers and any External Administrator of the Issuer or Challenger (each an "Attorney") severally to be the attorney of the Holder with power in the name and on behalf of the Holder to sign all documents and transfers and do any other thing as may in the Attorney's opinion be necessary or desirable to be done in order for the Holder to observe or perform the Holder's obligations under these Conditions including, but not limited to, effecting any Conversion or Write-Off of Subordinated Notes, making any entry in the Register or the register of any Ordinary Shares or exercising any voting power in relation to any consent or approval required for Conversion or Write-Off.
- (b) The power of attorney given in this Condition 8.14 is given for valuable consideration and to secure the performance by the Holder of the Holder's obligations under these Conditions and is irrevocable.

8.15 Holder acknowledgments

Each Holder irrevocably acknowledges and agrees that:

- (a) where it is required to accept Ordinary Shares under these Conditions, or it elects to require the Conversion of Subordinated Notes in accordance with these Conditions, it consents to becoming a member of Challenger and agrees to be bound by the constitution of

Challenger, in each case in respect of the Ordinary Shares issued on Conversion;

- (b) its Subordinated Notes will be Converted or, where applicable, Written-Off, when required by these Conditions notwithstanding:
 - (i) any change in the financial position of the Issuer or Statutory Fund since the Issue Date;
 - (ii) any disruption to the market or potential market for Ordinary Shares or to capital markets generally;
 - (iii) any breach by the Issuer or Challenger of any obligation in connection with the Subordinated Notes; or
 - (iv) any other circumstance which might affect a Conversion of the Subordinated Notes;
- (c) Conversion and, where applicable, Write-Off, of the Subordinated Notes in accordance with Condition 6 and this Condition 8 are fundamental terms of the Subordinated Notes and are not subject to any other conditions other than those expressly provided in Condition 6 and this Condition 8;
- (d) Conversion in connection with a Non-Viability Trigger Event must occur immediately on the Non-Viability Conversion Date and Conversion or Write-Off may result in disruption or failures in trading or dealings in the Subordinated Notes or other loss to Holders;
- (e) it will not have any rights to vote in respect of any Conversion or Write-Off;
- (f) without prejudice to the obligations of the Issuer and Challenger under Condition 8.10, the Ordinary Shares issued on Conversion may not be quoted at the time of issue, or at all;
- (g) the determinations made by the Issuer under Condition 6.2 are final and binding; and
- (h) it has no remedies on account of a failure by the Issuer or Challenger to issue Ordinary Shares in accordance with Condition 8 other than (and subject always to Condition 6.3) to seek specific performance of the obligation to issue the Ordinary Shares to it or, where Condition 8.12 applies, to the nominee.

9 Title and transfer

9.1 Title

Title to Subordinated Notes passes when details of the transfer are entered in the Register.

9.2 Register conclusive as to ownership

Except as required by law or expressly provided in these Conditions or the Deed Poll and subject to correction for fraud or error, the Issuer and the Registrar must treat the person whose name is entered in the Register as the holder of a Subordinated Note as the absolute owner of that Subordinated Note. This Condition 9.2 applies whether or not a Subordinated Note is overdue and despite any notice of ownership, trust or interest in any Subordinated Note. No person shall be liable for so treating such Holder.

9.3 Non-recognition of interests

No notice of any trust, Encumbrance or other interest in, or claim to, any Subordinated Note will be entered in the Register. Neither the Issuer, nor the Registrar need take notice of any trust, Encumbrance or other interest in, or claim to, any Subordinated Note, except as ordered by a court of competent jurisdiction or required by law, and no trust, Encumbrance or other interest in, or claim to, any Subordinated Note or against any current or former Holder will in any way affect any provision of these Conditions.

9.4 Joint Holders

Where two or more persons are entered in the Register as the joint Holders of a Subordinated Note, they are taken to hold the Subordinated Note as joint tenants with rights of survivorship, but neither the Registrar nor the Issuer is bound to register more than three persons as joint Holders of a Subordinated Note.

9.5 Transfer procedures

- (a) Unless Subordinated Notes are lodged in Austraclear, application for the transfer of Subordinated Notes must be made by the lodgement of a Transfer Form with the Registrar. Transfer Forms are available from the Registrar. Each form must be duly stamped (if applicable) and accompanied by such evidence (if any) as the Registrar may require to prove the title of the transferor or the transferor's right to transfer the Subordinated Notes and be signed by both the transferor and the transferee.
- (b) Subordinated Notes lodged in the Austraclear System will be transferable only in accordance with the Austraclear Regulations.

9.6 Transfer restrictions

- (a) Subordinated Notes may only be transferred pursuant to offers received in Australia if:
 - (i) the aggregate consideration payable at the time of transfer is at least A\$500,000 (disregarding moneys lent by the transferor or its associates) or the Subordinated Notes are otherwise transferred in a manner which does not require disclosure in accordance with Part 6D.2 or Part 7 of the Corporations Act; or
 - (ii) the transfer does not constitute an offer to a "retail client" as defined for the purposes of section 761G of the Corporations Act.
- (b) Subordinated Notes may only be transferred between persons in a jurisdiction or jurisdictions other than Australia if the transfer is in compliance with the laws of the jurisdiction in which the transfer takes place and the transfer of the Subordinated Notes otherwise does not require disclosure to investors in accordance with the laws of the jurisdiction in which the transfer takes place.

9.7 No charge on transfer

Transfers will be registered without charge provided taxes, duties or other governmental charges (if any) imposed in relation to the transfer have been paid.

9.8 Estates

The Registrar must register a transfer of a Subordinated Note to or by a person who is entitled to make or receive the transfer in consequence of:

- (a) death, bankruptcy, liquidation or winding-up of a Holder; or
- (b) the making of a vesting order by a court or other body with power to make the order,

on receiving the evidence of entitlement that the Registrar or the Issuer requires.

9.9 Refusal to register

- (a) The Registrar may refuse to register a transfer of any Subordinated Note if:
 - (i) such registration would contravene these Conditions; or
 - (ii) the Corporations Act or any other law or regulation binding on the Issuer forbids registration.
- (b) If the Registrar refuses to register a transfer, it must give the lodging party notice of the refusal and the reasons for it within five Business Days after the date on which the transfer was delivered to it.

10 Payments

10.1 Method of payment when Subordinated Notes are in the Austraclear System

If the Subordinated Notes are in the Austraclear System, subject to all applicable fiscal or other laws and regulations payments in respect of each Subordinated Note will be made by crediting on the relevant Payment Date the amount then due to the account of the Holder in respect of that Subordinated Note in accordance with the Austraclear Regulations.

10.2 Method of payment when Subordinated Notes are not in the Austraclear System

If the Subordinated Notes are not in the Austraclear System, subject to all applicable fiscal or other laws and regulations payments in respect of each Subordinated Note will be made by crediting on the Payment Date the amount then due to an account previously notified to the Issuer and the Registrar by the Holder in respect of that Subordinated Note. If the Holder has not notified the Issuer and the Registrar of such an account by close of business on the relevant Record Date or upon application by the Holder to the Issuer and the Registrar no later than close of business on the relevant Record Date, payments in respect of the relevant Subordinated Note will be made by cheque, mailed on the Business Day immediately preceding the relevant Interest Payment Date in the case of payments of interest or on the due date for redemption or repayment, in the case of payments of principal, at the Holder's risk to the Holder (or to the first named Holder in the case of joint registered holders) of such Subordinated Note at the address appearing in the Register as at the Record Date. Cheques to be despatched to the nominated address of a Holder will in such cases be deemed to have been received by the Holder on the relevant Payment Date and no further amount will be payable by the Issuer in respect of the relevant Subordinated Note as a result of payment not being received by the Holder on the due date.

10.3 Entitlement to payment

Monies payable by the Issuer in respect of a Subordinated Note shall be paid:

- (a) in the case of a payment of interest (including without limitation any Deferred Interest and any Additional Interest), to the Holder appearing in the Register at the close of business on the Record Date; and
- (b) in the case of a payment of the Redemption Price, to the Holder appearing in the Register at 10:00am (Sydney time) on the date which is three Business Days prior to the date fixed for redemption.

10.4 Time limit for claims

A claim against the Issuer for payment according to these Conditions is void, to the fullest extent permitted by applicable law, unless made within 10 years of the date for payment (in the case of principal) or five years (in the case of interest and other amounts).

10.5 Determinations and calculations final

Except where there is fraud or a manifest error, any determination or calculation made by or on behalf of the Issuer in accordance with these Conditions (including without limitation by the Registrar) is final and binds each Holder.

10.6 Rounding

Unless otherwise specified in these Conditions:

- (a) all calculation of amounts payable in respect of a Subordinated Note will be rounded to four decimal places; and
- (b) for the purposes of making payment to a Holder in respect of the Holder's aggregate holding of Subordinated Notes, any fraction of a cent will be disregarded.

10.7 Payment to joint Holders

If a Subordinated Note is held jointly by more than one Holder, a payment to the first named joint Holder of that Subordinated Note will discharge the Issuer's liability in respect of the payment.

10.8 No set-off or offsetting rights

A Holder:

- (a) may not exercise any right of set-off against the Issuer or Challenger in respect of any claim by the Issuer or Challenger (as applicable) against that Holder; and
- (b) will have no offsetting rights or claims on the Issuer or Challenger if the Issuer does not pay an amount when scheduled under these Conditions.

Neither the Issuer nor Challenger may exercise any right of set-off against a Holder in respect of any claim by that Holder against the Issuer or Challenger.

10.9 Payment on Business Days

If a payment is to be made to an account on a Business Day on which banks are not open for general banking business in the place in which the account is located, the due date for payment will be the first following day on which banks are open for general banking business in that place, and, in either case, the Holder is not entitled to any additional payment in respect of that delay. Nothing in this Condition applies to any payment referred to in Condition 8.1(b), which occurs on the Non-Viability Conversion Date as provided in Condition 8.1.

10.10 Applicable law

Subject to Condition 11, the Issuer's obligation to make any payment is subject to applicable law.

10.11 References to payments out of the assets of the Statutory Fund

Where, in these Conditions, it is provided that a payment is to be made out of the assets of the Statutory Fund, such a provision is not to be taken as in any way limiting the Issuer's obligations to pay and the Holders' obligations to receive payment to the assets of the Statutory Fund.

11 Taxation

11.1 General

All payments in respect of the Subordinated Notes shall be made free and clear of, and without withholding or deduction for, any Taxes unless such withholding or deduction is required by law.

11.2 Deductions

If the Issuer is required by law to make a withholding or deduction, the Issuer shall pay the full amount required to be withheld or deducted by law to the relevant authority within the time allowed for such payment without incurring any penalty under the applicable law.

Subject to Condition 11.3, if any withholding or deduction has been made and the amount of the withholding or deduction has been paid by the Issuer to the relevant authority and the balance of the amount payable paid to the relevant Holder, the full amount payable to such Holder shall be deemed to have been duly paid and satisfied by the Issuer.

11.3 Additional Amounts

Where a withholding or deduction for Taxes is required by a law of Australia or any authority in Australia having power to tax, subject to the Solvency Condition, the Issuer shall pay such additional amounts ("**Additional Amounts**") to the Holders as will result in those Holders receiving the amounts that would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts will be payable with respect to any Subordinated Notes:

- (a) in respect of which the Holder, or a third party recipient on behalf of a Holder, is liable for those Taxes by reason of its having some connection with Australia, other than the mere holding of the Subordinated Notes or the receipt of the relevant payment provided that a Holder shall not be regarded as having a connection with Australia for the reason that the Holder is a resident of Australia within the meaning of the Tax Act where, and to the extent that, such taxes are payable by reason of section 128B(2A) of the Tax Act;

- (b) in respect of which the Holder, or a third party recipient on behalf of a Holder, is an Offshore Associate of the Issuer (acting other than in the capacity of a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme within the meaning of the Corporations Act);
- (c) in respect of which the Holder could lawfully avoid (but has not so avoided) such Taxes by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or similar case for exemption to any tax authority; or
- (d) to, or to a third party on behalf of, an Australian resident Holder or a non-resident Holder who is engaged in carrying on business in Australia at or through a permanent establishment of the non-resident in Australia, if that person has not supplied an appropriate tax file number, Australian Business Number or other exemption details.

11.4 FATCA

The Issuer or Challenger (as applicable) may withhold or make deductions from payments or from the issue of Ordinary Shares to a Holder where it is required to do so under or in connection with FATCA, or where it has reasonable grounds to suspect that the Holder or a beneficial owner of Subordinated Notes may be subject to FATCA, and may deal with such amount deducted or withheld, and any such Ordinary Shares deducted or withheld in accordance with FATCA and, in the case of Ordinary Shares, Condition 8.12. If any withholding or deduction arises under or in connection with FATCA, neither the Issuer nor Challenger will be required to pay any further amounts or issue any further Ordinary Shares to the Holder on account of such withholding or deduction or otherwise reimburse or compensate, or make any payment to, a Holder or a beneficial owner of Subordinated Notes for or in respect of any such withholding or deduction.

11.5 Tax file number

The Issuer will deduct tax from payments of interest (including without limitation any Deferred Interest and any Additional Interest) at the rate prescribed by law if an Australian resident investor or a non-resident investor carrying on business in Australia at or through a permanent establishment of the non-resident in Australia has not supplied an appropriate tax file number, Australian Business Number or exemption details and no Additional Amount is payable in respect of any such deduction.

11.6 References to amounts in respect of Subordinated Notes

Any reference in these Conditions to any amount owing in respect of Subordinated Notes (including any amount in respect of Interest, any Deferred Interest, any Additional Interest and any Redemption Price) includes a reference to any Additional Amount which may be payable in respect of that amount under this Condition 11.

12 Events of Default

12.1 Events of Default

An “**Event of Default**” occurs if:

- (a) either:

- (i) the Issuer does not pay the Redemption Price in respect of the Subordinated Notes when payment of the Redemption Price becomes due and payable and such failure continues for a period of 5 days after the applicable due date; or
- (ii) the Issuer does not pay any interest (including any Deferred Interest or any Additional Interest) or other amount when such payment becomes due and payable and such failure continues for a period of 30 days after the applicable due date,

(a “**Payment Default**”); or

(b) either:

- (i) the making of an order by a court (including a court with appellate jurisdiction) with competent jurisdiction in Australia which is not appealed or stayed within 60 days of the entry of that order; or
- (ii) an effective resolution is passed by the shareholders of the Issuer,

for the Winding-Up of the Issuer in each case other than in connection with a scheme of amalgamation or reconstruction not involving the bankruptcy or insolvency of the Issuer (a “**Winding-Up Default**”).

To the extent that a payment is not required to be made by operation of any Deferral Provision, the amount is not due and payable and a Payment Default cannot occur.

12.2 Notification

If an Event of Default occurs, the Issuer must promptly after becoming aware of it notify the Holders of the occurrence of the Event of Default, specifying whether it is a Payment Default or a Winding-Up Default.

12.3 Enforcement

If an Event of Default occurs and is continuing:

- (a) in the case of a Payment Default, a Holder of a Subordinated Note may bring proceedings:
 - (i) to recover any amount then due and payable but unpaid on that Subordinated Note (subject to the Issuer being able to make the payment and remain Solvent); or
 - (ii) to obtain an order for specific performance of any other obligation in respect of that Subordinated Note; and
- (b) in the case of a Winding-Up Default, in addition to taking any of the actions specified in Condition 12.3(a), a Holder of a Subordinated Note may declare by notice to the Issuer that the Redemption Price of that Subordinated Note is payable on a date specified in the notice and, subject to Condition 2, may prove in the Winding-Up of the Issuer for that amount.

12.4 No other remedies

No Holder may exercise any other remedies (including any right to sue for damages which has the same economic effect as acceleration) as a consequence of an Event of Default or other default except as specified in this Condition 12 or as otherwise expressly provided in these Conditions (but this does not affect the Holders' rights, subject to these Conditions and the Deed Poll, to seek an injunction or order for specific performance in respect of an obligation).

13 Meetings of Holders

13.1 Meeting provisions

Meetings of Holders may be held in accordance with the Meeting Provisions and the Deed Poll. Subject to the Meeting Provisions, a meeting may consider any matter affecting the interests of Holders, including any variation to these Conditions proposed by the Issuer or Challenger in accordance with Condition 14.

13.2 Convening a meeting

- (a) The Meeting Provisions contain provisions governing notice, quorum requirements and other matters relevant to the conduct of a meeting.
- (b) The Issuer or Challenger:
 - (i) may convene a meeting at any time; and
 - (ii) must convene a meeting upon the request in writing of Holders who together hold not less than 10% of the aggregate Face Value of all Subordinated Notes outstanding,

in each case as further described in the Meeting Provisions and the Deed Poll.
- (c) The Meeting Provisions also contain provisions for the passing of resolutions by writing signed by defined majorities of Holders.

13.3 Quorums and voting thresholds

The Meeting Provisions include provisions that:

- (a) a resolution is passed if approved by no less than 50% (in the case of an Ordinary Resolution) or 75% (in the case of a Special Resolution) of votes cast (on a poll) or persons voting (on a show of hands) at the relevant duly convened and quorate meeting (or, in the case of a written resolution, respectively, 50% and 75% of the aggregate Face Value of all Subordinated Notes outstanding);
- (b) the quorum for meetings of Holders regarding Ordinary Resolutions is one or more persons representing 10% (in the case of an unadjourned meeting) or one or more persons representing any proportion (in the case of a meeting previously adjourned because of lack of quorum) of the aggregate Face Value of Subordinated Notes outstanding;
- (c) the quorum for meetings of Holders regarding Special Resolutions is:
 - (i) in the case of a Special Quorum Resolution, any one or more persons representing 66 2/3% (in the case of an unadjourned

meeting) or 33 1/3% (in the case of a meeting previously adjourned because of lack of quorum); and

- (ii) in the case of any other Special Resolution, any one or more persons representing 50% (in the case of an unadjourned meeting) or 25% (in the case of a meeting previously adjourned because of lack of quorum),

in each case of the aggregate Face Value of all Subordinated Notes outstanding; and

- (d) Subordinated Notes held by or on behalf of or for the benefit of any member of the Group (other than a life insurance company in respect of a statutory fund other than the Statutory Fund), in each case as beneficial owner, shall (unless and until ceasing to be so held) carry no entitlement to vote, shall not count towards quorums requirements nor shall it carry any entitlement to execute a written resolution.

13.4 Resolutions binding

Any resolution passed at any meeting of the Holders or by writing, in each case, in accordance with the Meeting Provisions, is binding on Holders, whether or not they are present at the meeting or they have signed the resolution.

14 Variation

14.1 Variation with approval

Subject to Conditions 14.2 and 14.3 and paragraph 33 of the Meeting Provisions, the Issuer may vary the Deed Poll or these Conditions with the approval of the Holders by Special Resolution.

14.2 Variation without approval

Subject to Condition 14.3 and compliance with all applicable laws, the Issuer may vary the Deed Poll or these Conditions without the approval of the Holders if, in the opinion of the Issuer, the variation:

- (a) is necessary to comply with any applicable law;
- (b) is necessary to correct a manifest error, or is otherwise of a formal, minor, technical or administrative nature;
- (c) is made to:
 - (i) alter the terms of any Subordinated Notes to align them with any Equal Ranking Instruments issued after the Issue Date; or
 - (ii) alter the definition of “Equal Ranking Instruments” on account of the issue (after the Issue Date) of capital instruments of the Group; or
- (d) is not materially prejudicial to the interests of the Holders as a whole.

14.3 No variation which may affect Tier 2 Capital eligibility

The prior written approval of APRA is required in respect of any variation in respect of the Deed Poll or these Conditions where such variation may affect the eligibility of the Subordinated Notes as Tier 2 Capital.

14.4 Notice to Holders

The Issuer must notify the Holders of any variation to the Deed Poll or these Conditions promptly after it is made.

14.5 Meaning of vary and variation

In this Condition 14 "**vary**" includes amend, modify, cancel, alter or add to and "**variation**" has a corresponding meaning.

14.6 Holder approval not required for other arrangements

The Issuer does not require the approval of Holders to vary or terminate the Registry Agreement or any other agreement in respect of Subordinated Notes (other than the Deed Poll and these Conditions).

15 General rights

15.1 Further issues

The Issuer and Challenger may, from time to time without the consent of the Holders, issue any securities or other instruments ranking equally with the Subordinated Notes (on the same terms or otherwise) or ranking junior to the Subordinated Notes or issue, guarantee or otherwise support any securities or other instruments ranking in priority to the Subordinated Notes.

15.2 No other rights

No person, by virtue of being a Holder, has:

- (a) any claim against the Issuer or Challenger except as expressly set out in these Conditions;
- (b) any right to participate in the issue of any shares or any other securities of any kind of the Issuer, any of the Issuer's Subsidiaries, Challenger or any other member of the Group; or
- (c) any right to receive notice of or vote at any meeting of members of the Issuer or Challenger.

16 Notices

16.1 Notices to the Holders

A notice or other communication is properly given to a Holder if it is:

- (a) delivered personally to the address of the Holder shown in the Register five Business Days before the date of the notice or communication;
- (b) sent by prepaid post (airmail, if appropriate) to the address of the Holder shown in the Register five Business Days before the date of the notice or communication;
- (c) sent by fax to the fax number of the Holder (if any) shown in the Register five Business Days before the date of the notice or communication;
- (d) sent by email or electronic message to the address of the Holder (if any) shown in the Register five Business Days before the date of the notice or communication; or

- (e) set out in an advertisement published in The Australian Financial Review or any other newspaper or newspapers circulating in Australia generally,

and, if a Subordinated Note is held jointly by more than one Holder, if it is given, sent or delivered (as applicable) to the first named Holder or published in accordance with Condition 16.1(e).

16.2 When notices to the Holders take effect

Notices or other communications to Holders take effect from the time they are taken to be received unless a later time is specified in them.

Notices and communications to Holders are taken to be received:

- (a) if sent by post, six Business Days after the day on which the notice was posted (or ten days after posting if sent from one country to another);
- (b) if sent by fax, at the time shown in the transmission report as the time that the whole fax was sent;
- (c) if sent by email, when the sender receives an automated message confirming delivery or four hours after sending, whichever occurs first; and
- (d) if published in accordance with Condition 16.1(e), on the date on which the notice is first published.

16.3 Non-receipt of notice by a Holder

The non-receipt of a notice or other communication by a Holder or an accidental omission to give notice to a Holder will not invalidate the giving of that notice either in respect of that Holder or generally.

16.4 Notices to the Issuer or Challenger

All notices and other communications to the Issuer or Challenger must be in writing and must be:

- (a) delivered personally to the address set out below;
- (b) sent by prepaid post (airmail, if appropriate) to the address set out below;
- (c) sent by fax to the fax number set out below; or
- (d) given in any other manner determined by the Issuer and notified to the Holders in accordance with these Conditions.

For the purposes of this Condition 16.4, the Issuer's address and fax number for notices and other communications is the address set out below or as otherwise notified by the Issuer to Holders:

Name: Challenger Life Company Limited

Address: Level 2, 5 Martin Place
Sydney NSW 2000
Australia

Attention: Company Secretary

Fax: +61 2 9994 7777

For the purposes of this Condition 16.4, Challenger's address and fax number for notices and other communications is the address set out below or as otherwise notified by the Issuer to Holders:

Name: Challenger Limited

Address: Level 2, 5 Martin Place
Sydney NSW 2000
Australia

Attention: Company Secretary

Fax: +61 2 9994 7777

16.5 When notices to the Issuer or Challenger take effect

Notices or other communications from Holders to the Issuer or Challenger take effect from the time they are received unless a later time is specified in them.

17 Governing law and jurisdiction

17.1 Governing law

The Subordinated Notes are governed by, and shall be construed in accordance with, the laws in force in the State of New South Wales, Australia.

17.2 Jurisdiction

The courts of the State of New South Wales, Australia are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with this deed and, accordingly, any legal action or proceedings arising out of or in connection with this deed ("**Proceedings**") may be brought in such courts. Each of the Issuer and Challenger irrevocably and unconditionally submits to the jurisdiction of such courts and courts of appeal from them and waives any right to object to Proceedings being brought in such courts including, without limitation, by claiming that the action has been brought in an inconvenient forum or that those courts do not have jurisdiction.

18 Interpretation and definitions

18.1 Definitions

In these Conditions the following expressions have the following meanings:

Additional Amount has the meaning given in Condition 11.3.

Additional Interest has the meaning given in Condition 4.3.

Approved Nominee has the meaning given in Condition 8.1.

APRA means the Australian Prudential Regulation Authority (ABN 79 635 582 658) or any successor body responsible for prudential regulation of the Issuer.

ASX means ASX Limited (ABN 98 008 624 691) or the securities market operated by it, as the context requires.

ASX Listing Rules means the listing rules of ASX as amended, varied or waived (whether in respect of Challenger or generally) from time to time.

ASX Settlement Operating Rules means the settlement operating rules of ASX as amended, varied or waived (whether in respect of Challenger or generally) from time to time.

Attorney has the meaning given in Condition 8.14.

Austraclear means Austraclear Limited (ABN 94 002 060 773).

Austraclear Regulations means the regulations known as the “Regulations and Operating Manual” established by Austraclear as amended, varied or waived (whether in respect of Challenger or generally) from time to time to govern the use of the Austraclear System.

Austraclear System means the system operated by Austraclear for holding securities and electronic recording and settling of transactions in those securities between members of that system.

Australian Business Number has the meaning given in the A New Tax System (Australian Business Number) Act 1999 of Australia.

Authorised Officer means:

- (a) any person who is a director or the secretary of the Issuer or Challenger (as applicable) or who has been notified by the Issuer in writing to the Holders as being duly authorised to sign documents and to do other acts and things on behalf of the Issuer for the purposes of the Deed Poll and these Conditions; and
- (b) without limiting paragraph (a) above, the Issuer’s or Challenger’s (as applicable) Chief Executive Officer, Chief Financial Officer or Appointed Actuary.

BBSW Rate has the meaning given in Condition 3.3.

Business Day means a day on which commercial banks are open for general business in Sydney, Australia.

Business Day Convention has the meaning given in Condition 18.2(f).

Challenger means Challenger Limited (ABN 85 106 842 371).

CHESS means the Clearing House Electronic Subregister System operated by ASX.

Conditions means these terms and conditions.

Conversion Number has the meaning given in Condition 8.1(a).

Convert means the conversion of all, some or a proportion of the Subordinated Notes into Ordinary Shares under these Conditions and the performance of the Related Conversion Steps, and **Conversion**, **Converting** and **Converted** have corresponding meanings.

Corporations Act means the Corporations Act 2001 of Australia.

Cum Value has the meaning given in Condition 8.2(a).

Day Count Fraction means, in respect of a period, the actual number of days in the period divided by 365.

Deed Poll means the deed poll entitled “Subordinated Note Deed Poll” executed on or about 22 November 2017 by the Issuer and Challenger.

Deferral Provision means any of Condition 4.1(a) or 4.2.

Deferred Interest has the meaning given in Condition 4.1.

Determination Date means:

- (a) in respect of the first Interest Period, the Issue Date; and
- (b) in respect of any other Interest Period, the first Business Day of such Interest Period.

Early Redemption Date means the date on which a Subordinated Note is to be redeemed as specified in the applicable Early Redemption Notice, as adjusted by the Business Day Convention.

Early Redemption Notice means a notice given by the Issuer under Condition 5.3.

Encumbrance means any mortgage, pledge, charge, lien, assignment by way of security, hypothecation, security interest, title retention, preferential right or trust arrangement, any other security agreement or security arrangement and any other arrangement of any kind having the same effect as any of the foregoing other than liens arising by operation of law.

Equal Ranking Instrument means any instrument issued for the purposes of, and referable to, the business of the Statutory Fund that ranks in a Winding-Up of the Issuer as the most junior claim in the Winding-Up of the Issuer ranking senior to Junior Ranking Instruments and includes (without limitation) instruments issued by the Issuer after 1 January 2013 as Relevant Tier 2 Capital Instruments.

Event of Default has the meaning given in Condition 12.1.

External Administrator means, in respect of a person:

- (a) a liquidator, provisional liquidator, administrator, statutory manager or Judicial Manager of that person; or
- (b) a receiver, or a receiver and manager, in respect of all or substantially all of the assets and undertakings of that person.

Face Value means, in respect of a Subordinated Note, the outstanding principal amount of that Subordinated Note, as such principal amount may have been reduced by Conversion or Write-Off.

FATCA means the Foreign Account Tax Compliance Act provisions, sections 1471 through 1474 of the United States Internal Revenue Code (including any regulations or official interpretations issued, agreements entered into or non-US laws enacted with respect to those provisions).

FATCA Withholding means any deduction or withholding made for or on account of FATCA.

Financial Year means any year beginning on 1 July of a calendar year and ending on 30 June of the next calendar year.

Foreign Holder has the meaning given in Condition 8.12(a)(ii).

General Fund means the shareholders' fund of the Issuer as defined by APRA from time to time.

Group means Challenger and each of its Subsidiaries.

Holder means:

- (a) for the purposes of determining the person entitled to be issued Ordinary Shares (or, where Condition 8.12 applies, the net proceeds of sale of such shares) and the amount of their entitlements for so long as such Subordinated Notes are held in the Austraclear System, a person who is an Austraclear Participant (as defined in the Austraclear Regulations); and
- (b) for all other purposes, a person whose name is for the time being entered in the Register as the holder of a Subordinated Note or, where a Subordinated Note is held jointly by two or more persons, the persons whose names appear in the Register as the joint holders of that Subordinated Note.

Holder Conversion Date has the meaning given in Condition 7.1.

Holder Conversion Notice has the meaning given in Condition 7.1.

Implementation Deed means the deed entitled "Subordinated Notes Implementation Deed" executed on or about 22 November 2017 by, amongst others, the Issuer and Challenger.

Inability Event means any of the Issuer, Challenger or any of their Related Bodies Corporate being prevented by applicable law, an order of any court, an action of any government agency (including regarding the insolvency, winding up or other external administration of the Issuer, Challenger or a Related Body Corporate thereof), or for any other reason, from observing and performing their obligations in respect of a Conversion (including, if applicable in connection with the issue of Ordinary Shares or the performance of any Related Conversion Steps).

Interest has the meaning given in Condition 3.1.

Interest Payment Date has the meaning given in Condition 3.2.

Interest Period means each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date, provided that the first Interest Period commences on (and includes) the Issue Date.

Interest Rate means the interest rate (expressed as a percentage per annum) so defined in Condition 3.3.

Issue Date means the date on which a Subordinated Note is issued being 24 November 2017.

Issue Date VWAP means the VWAP during the applicable VWAP Period, as adjusted in accordance with Condition 8.

Issuer means Challenger Life Company Limited (ABN 44 072 486 938).

Issuer Non-Viability Trigger Event means the Non-Viability Trigger Event described in Condition 6.1(a)(i) or Condition 6.1(a)(iii).

Issuer Ordinary Share means a fully paid ordinary share in the capital of the Issuer.

Judicial Manager means a judicial manager appointed in respect of the Issuer in accordance with the Life Insurance Act.

Junior Ranking Instrument means:

- (a) any instrument of the Issuer issued as Tier 1 Capital (whether or not constituting Tier 1 Capital at the Issue Date or at the time of commencement of the Winding-Up of the Issuer); and
- (b) any shares (including Issuer Ordinary Shares) in the capital of the Issuer.

Life Insurance Act means the Life Insurance Act 1995 of Australia.

Margin has the meaning given in Condition 3.3.

Maturity Date means 24 November 2042, as adjusted by the Business Day Convention.

Maximum Conversion Number has the meaning given in Condition 8.1(a).

Meeting Provisions means the provisions for the convening of meetings of, and passing of resolutions by, Holders set out in the Deed Poll.

Nominal Amount has the meaning given in Condition 8.1.

Non-Viability Conversion Date has the meaning given in Condition 6.2(a)(i).

Non-Viability Determination means a written determination by APRA made under Condition 6.1(a).

Non-Viability Trigger Event has the meaning given in Condition 6.1(a).

Non-Viability Trigger Event Notice has the meaning given in Condition 6.2(a).

Offshore Associate means an associate (as defined in section 128F of the Tax Act) of the Issuer that is either:

- (a) a non-resident of Australia which does not acquire the Subordinated Notes in carrying on a business at or through a permanent establishment in Australia; or
- (b) a resident of Australia that acquires the Subordinated Notes in carrying on a business at or through a permanent establishment outside Australia.

Optional Interest Payment Date means an Interest Payment Date where no interest payments, dividends or other distributions have been made on any Equal Ranking Instruments or Junior Ranking Instruments (other than an Equal Ranking Instrument in the case where the terms of that instrument do not enable the Issuer to defer, pass on or eliminate the relevant payment on such

Equal Ranking Instrument) during the Financial Year in which such Interest Payment Date falls and no dividend has been made on any Issuer Ordinary Shares during the period of 12 consecutive months preceding such Interest Payment Date.

Optional Redemption Date has the meaning given in Condition 5.2(a).

Ordinary Resolution has the meaning given in the Deed Poll.

Ordinary Share means a fully paid ordinary share in the capital of Challenger.

Payment Date means, in respect of a Subordinated Note, an Interest Payment Date, the Maturity Date or other relevant payment date (including an early payment date).

Payment Default has the meaning given in Condition 12.1(a).

Proceedings has the meaning given in Condition 17.2.

Record Date means, in respect of a payment of interest, the date which is five Business Days before the Interest Payment Date or other date for payment or such other date as may be approved from time to time by the Issuer in its absolute discretion.

Redemption Date means the Maturity Date or an Early Redemption Date (as applicable).

Redemption Price means an amount equal to the Face Value together with any Deferred Interest, any Additional Interest, any Additional Amounts and any accrued but unpaid interest to the date of redemption determined in accordance with Condition 3, provided always that any amounts payable under Condition 3 on the Redemption Date which are separately paid in full on that date shall be excluded from the Redemption Price.

Register means a register of Holders established and maintained by or on behalf of the Issuer.

Registrar means Computershare Investor Services Pty Limited or such other entity as the Issuer appoints from time to time to maintain the Register.

Registry Agreement means the agreement dated on or about 22 November 2017 between the Issuer and Computershare Investor Services Pty Limited.

Regulatory Event means the introduction of, or an amendment or clarification to or change in, or a change in the interpretation of a law or regulation of Australia or any state or territory thereof, or a rule, regulation, prudential standard, directive, order or requirement of APRA, after the Issue Date ("**Regulatory Change**") (or the announcement of a prospective Regulatory Change which the Issuer expects will take effect within no more than 12 months), which has or (in the case of an announced Regulatory Change) will have the effect that the Issuer is not (or will not be) entitled to treat all of the Subordinated Notes as Tier 2 Capital, or its then equivalent, provided that on the Issue Date the Issuer did not expect that the matters giving rise to the Regulatory Event would occur.

Related Body Corporate has the meaning given in the Corporations Act.

Related Conversion Steps has the meaning given in Condition 8.1(b).

Related Entity has the meaning given by APRA from time to time.

Relevant Capital Instrument means Relevant Tier 1 Capital Instruments and Relevant Tier 2 Capital Instruments.

Relevant Fraction has the meaning given in Condition 8.1(a).

Relevant Tier 1 Capital Instrument means a capital instrument forming part of the Tier 1 Capital of the Issuer that, in accordance with its terms or by operation of law, is capable of being converted or written-off where APRA makes a Non-Viability Determination.

Relevant Tier 2 Capital Instrument means:

- (a) in relation to an Issuer Non-Viability Trigger Event, a capital instrument forming part of the Tier 2 Capital of the Issuer; and
- (b) in relation to a Statutory Fund Non-Viability Trigger Event, a capital instrument of the Issuer which is issued for the purposes of, and referable to, the business of the Statutory Fund that, in accordance with its terms or by operation of law, is capable of being converted or written-off where APRA makes a Non-Viability Determination.

Reorganisation means, in relation to Challenger, a division, consolidation or reclassification of that entity's share capital not involving any cash payment or other distribution or consideration to or by holders of Ordinary Shares.

Required Amount has the meaning given in Condition 6.2.

Scheduled Trading Day means a day which is a business day within the meaning of the ASX Listing Rules.

Senior General Creditors means all creditors of the Issuer whose claims are referable to the General Fund other than creditors in respect of Relevant Capital Instruments. The term "Senior General Creditors" does not include claims of holders of instruments issued by the Issuer which constitute Tier 1 Capital including claims described in sections 563AA and 563A of the Corporations Act.

Senior Statutory Fund Creditors means all creditors of the Issuer which are referable to the Statutory Fund (including, without limitation, every holder of a policy in respect of the Statutory Fund) other than:

- (a) the Holders; and
- (b) holders of other Relevant Tier 2 Capital Instruments which are issued for the purposes of, and referable to, the business of the Statutory Fund.

Solvency Condition has the meaning given in Condition 4.2(a).

Solvent means in respect of the Issuer:

- (a) on an unconsolidated stand-alone basis:
 - (i) it is able to pay its debts when they fall due; or
 - (ii) its assets exceeds its liabilities; and

- (b) it is in compliance with the solvency standards and the capital adequacy standards (each as defined by APRA from time to time) applicable to it and the Statutory Fund.

Special Resolution has the meaning given in the Deed Poll.

Special Quorum Resolution has the meaning given in the Deed Poll.

Statutory Fund means Statutory Fund No. 2 of the Issuer which is established in accordance with the Life Insurance Act.

Statutory Fund Non-Viability Trigger Event means the Non-Viability Trigger Event described in Condition 6.1(a)(ii) or Condition 6.1(a)(iv).

Subordinated Note means a note constituted by the Deed Poll issued by the Issuer pursuant to the Deed Poll and on the terms and the conditions set forth in these Conditions, the details of which are recorded in the Register.

Subsidiary has the meaning given in the Corporations Act.

Tax Act means:

- (a) the Income Tax Assessment Act 1936 of Australia, the Income Tax Assessment Act 1997 of Australia or the Taxation Administration Act 1953 of Australia (and a reference to any section of the Income Tax Assessment Act 1936 of Australia includes a reference to that section as rewritten in the Income Tax Assessment 1997 of Australia);
- (b) any other law setting the rate of income tax payable; and
- (c) any regulation made under such laws.

Taxes means taxes, levies, imposts, charges and duties (including stamp and transaction duties) imposed by any authority together with any related interest, penalties, fines and expenses in connection with them, except if imposed on, or calculated having regard to, the net income of the Holder.

Tax Event means the receipt by the Issuer of an opinion of competent tax counsel to the effect that, as a result of the introduction of, or amendment or clarification to, or change in, or change in the interpretation of (or announcement of a prospective introduction of, amendment or clarification to or change in) a law or regulation by any legislative body, court, government agency or regulatory authority in Australia after the Issue Date, there is more than an insubstantial risk that:

- (a) the Issuer would be required to pay any Additional Amounts;
- (b) interest payments on the Subordinated Notes are not or may not be allowed as a deduction for the purposes of Australian income tax; or
- (c) the Issuer, Challenger or the head entity of any consolidated tax group of which the Issuer or Challenger is a member would be exposed to more than a *de minimis* increase in its costs in relation to the Subordinated Notes as a result of any taxes, duties or other governmental charges or civil liabilities,

provided that on the Issue Date the Issuer (or, in the case of item (c) above, Challenger) did not expect that the matters giving rise to the Tax Event would occur.

Tier 1 Capital means Tier 1 capital as defined by APRA from time to time.

Tier 2 Capital means Tier 2 capital as defined by APRA from time to time.

Trading Day means any day:

- (a) which is a Scheduled Trading Day; and
- (b) on which the Ordinary Shares:
 - (i) are not suspended from trading on ASX (excluding any intra-day trading halt which Challenger considers has not materially affected the VWAP on that day) or such other principal exchange on which the Ordinary Shares are then listed; and
 - (ii) have traded at least once on the ASX.

Transfer Form means a form substantially in the form set out in Schedule 3 of the Deed Poll or such other form as the Issuer may determine from time to time and notify to the Holders.

Unpaid Amount has the meaning given in Condition 2.1(b).

VWAP means the average of the daily volume weighted average prices of the Ordinary Shares traded on ASX during the relevant VWAP Period, subject to any adjustments made under Condition 8 (such average being rounded to the nearest full cent) but does not include any “Crossing” transacted outside the “Open Session State” or any “Special Crossing” transacted at any time, each as defined in the ASX Settlement Operating Rules, or any overseas trades pursuant to the exercise of options over the Ordinary Shares.

VWAP Period means:

- (a) in the case of the Issue Date VWAP, the period of five Trading Days immediately preceding (but not including) the Issue Date;
- (b) in the case of Conversion on account of a Non-Viability Trigger Event, the period of five Trading Days immediately preceding (but not including) the Non-Viability Conversion Date; and
- (c) in the case of Conversion on account of a Holder Conversion Notice, the period of twenty Trading Days immediately preceding (but not including) the Holder Conversion Date.

Winding-Up means, in relation to the Issuer, a winding-up by a court of competent jurisdiction under applicable law (which, in the case of Australia, includes the Corporations Act) and the terms “**Wind-Up**” and “**Wound-Up**” shall, when used in relation to the Issuer, have corresponding meanings.

Winding-Up Default has the meaning given in Condition 12.1(b).

Written-Off has the meaning given in Condition 6.3 and “**Write-Off**” has a corresponding meaning.

18.2 Interpretation

- (a) Unless otherwise specified, a reference to a Condition is a reference to a provision of these Conditions.
- (b) If a calculation is required under these Conditions, unless the contrary intention is expressed, the calculation will be rounded to four decimal places (with 0.00005 being rounded up to 0.0001).
- (c) Headings and boldings are for convenience only and do not affect the interpretation of these Conditions.
- (d) The singular includes the plural and vice versa.
- (e) A reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them and references to the law includes statutes, ordinances, directives or common law and principles of equity having general application.
- (f) If an event under these Conditions must occur on a stipulated day which is not a Business Day, then, for an event other than a Non-Viability Trigger Event and a Non-Viability Conversion Date, the stipulated day will be taken to be the next Business Day (unless the next Business Day is in the following month, in which case the stipulated day will be taken to be the preceding Business Day), unless a contrary intention is expressed (the “**Business Day Convention**”).
- (g) A reference to Australian Dollars, AUD, A\$, \$ or Australian Cents is a reference to the lawful currency of Australia.
- (h) A period of time dating from a given day or the day of an act or event is to be calculated exclusive of that day.
- (i) A day is to be interpreted as the period of time commencing at midnight and ending 24 hours later.
- (j) Any reference to any requirements of APRA or any other prudential regulatory requirements in these Conditions will apply or be operative with respect to the Issuer only if the Issuer is an entity, or the holding company of an entity, or is a direct or indirect subsidiary of a holding company, which is subject to regulation and supervision by APRA at the relevant time.
- (k) Any requirement for APRA’s consent or approval in any provision of these Conditions will apply only if APRA requires that such consent or approval be given at the relevant time.
- (l) Where, under these Conditions, APRA’s approval is required for any act to be done or not done, that term does not imply that APRA’s approval has been given as at the Issue Date.
- (m) Nothing in these Conditions shall confer rights on the holder of any Relevant Capital Instrument or any other person other than the Holders.
- (n) A reference to a term defined by the ASX Listing Rules or the ASX Settlement Operating Rules shall, if that term is replaced in those rules, be taken to be a reference to the replacement term.

- (o) If the principal securities exchange on which Ordinary Shares are listed becomes an exchange other than ASX, unless the context otherwise requires, a reference to ASX shall be read as a reference to that principal securities exchange and a reference to the ASX Listing Rules, ASX Settlement Operating Rules or any term defined in any such rules, shall be read as a reference to the corresponding rules of that exchange or corresponding defined terms in such rules (as the case may be).
- (p) A reference to a Registrar includes a reference to any successor agent appointed in accordance with the Registry Agreement.
- (q) A reference to an agreement, deed or instrument (including these Conditions) includes a reference to that agreement, deed or instrument as amended, added to or restated from time to time.
- (r) The words "includes" or "including", "for example" or "such as" do not exclude a reference to other items, whether of the same class or genus or not.

DESCRIPTION OF THE ORDINARY SHARES OF CHALLENGER

The rights and liabilities attaching to the Ordinary Shares to be issued on Conversion of the Subordinated Notes are set out in the Constitution of Challenger and are also regulated by the Corporations Act, the ASX Listing Rules and the general law. The circumstances where Subordinated Notes may be Converted into Ordinary Shares and the risks associated with Conversion and holding Ordinary Shares are described in the section entitled Risk Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of the non-viability of the Issuer or the Statutory Fund, above. Set out below is a summary of some of the key rights, liabilities and features attaching to the Ordinary Shares as at the date of this Information Memorandum. It is not intended to be an exhaustive summary of the rights and obligations of holders of Ordinary Shares. Investors who wish to inspect the Constitution may do so at the registered office of Challenger during normal office hours or may obtain a copy as provided under General Information below.

Voting rights

Subject to the Constitution and to the rights or restrictions attached to any shares or class of shares, a registered holder of an Ordinary Share (“**Member**”) is entitled to receive notice of, attend and vote at general meetings of Challenger (either in person or by proxy, attorney or representative) on the basis of one vote on a show of hands or one vote for each fully paid Ordinary Share (or a fraction of a vote equal to the proportion which the amount paid (not credited) on the Ordinary Share bears to the total amounts paid and payable (excluding amounts credited) on the Ordinary Share) on a poll. Any resolution being considered at a general meeting is decided on a show of hands unless a poll is demanded.

Voting rights may be restricted by applicable law and ASX Listing Rules in certain circumstances — see the section entitled *Risks Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of the non-viability of the Issuer or the Statutory Fund—Restrictions on holding and trading Ordinary Shares and Subordinated Notes*, above.

No rights to redemption

Members have no right to require the redemption of any Ordinary Shares they hold.

General meetings

Each Member is entitled to receive notices, financial statements and other documents required to be sent to Members under the Constitution, Corporations Act and ASX Listing Rules.

Dividend entitlement

Subject to the Corporations Act, the Constitution and the terms of issue of Ordinary Shares, Members have the right to be paid dividends from time to time, as determined by the board of directors of Challenger (“**Board**”), in their judgement, as the financial position of Challenger justifies, in proportion to the amount paid on the Ordinary Shares held (in accordance with the Constitution and the Corporations Act). Challenger may also be restricted from paying dividends on Ordinary Shares by prudential standards of APRA, or potentially in particular circumstances by the terms of certain of its regulatory capital instruments.

Rights of Members on a winding-up of Challenger

Members have the right to participate in a surplus of assets on a winding-up of Challenger in proportion to the Ordinary Shares held irrespective of the amounts paid on the Ordinary Shares (subject to the rights of holders of securities carrying preferred rights on winding-up).

Transfer of Ordinary Shares

Ordinary Shares may be transferred by any means permitted by the Constitution, or by law. Challenger may in limited circumstances decline to register a transfer where permitted or required to do so under the ASX Listing Rules or the ASX Settlement Operating Rules.

Limitations on ownership

There are detailed Australian laws and regulations which govern the acquisition of interests in Challenger, and a summary of these is described in the section entitled *Risks Factors—Risks Relating to the Subordinated Notes—Risk of mandatory Conversion or Write-Off on account of the non-viability of the Issuer or the Statutory Fund—Restrictions on holding and trading Ordinary Shares and Subordinated Notes*, above. The Constitution also contains certain limitations on the rights to own securities in Challenger, such as providing that Challenger will not, in certain circumstances, recognise a person as holding an Ordinary Share on any trust, and prescribing limitations in respect of joint holders of Ordinary Shares. The Constitution also provides rights for the directors of Challenger, subject to certain conditions, to cause Challenger to sell parcels of Ordinary Shares which are not marketable parcels.

Issues of further shares

Subject to the Constitution, Corporations Act and ASX Listing Rules, the Board may issue or grant options in respect of Ordinary Shares on such terms as the Board decides. The Board may also issue preference shares, including redeemable preference shares, or convertible notes with preferred, deferred or special rights or restrictions in relation to dividends, voting, return of capital and participation in surplus on a winding-up of the Issuer.

Variation of rights

Challenger may modify or vary the rights attaching to any class of shares with the consent in writing of the holders of 75% of the issued shares of that class; or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

Issued capital

As at 31 October 2017, Challenger has 610,582,776 Ordinary Shares on issue, all of which are fully paid. As at the date of this Information Memorandum, the Ordinary Shares are listed on the ASX. See www.asx.com.au.

USE OF PROCEEDS

The net proceeds from the issue of the Subordinated Notes will be used for general corporate, funding and capital management purposes of the Statutory Fund.

Subject to APRA approval, the Issuer has agreed to repay the USPP Notes on 30 November 2017.

TAXATION

*This section summarises the principal Australian taxation consequences arising from the acquisition, holding and disposal of Subordinated Notes by Holders who hold their Subordinated Notes on capital account for Australian income tax purposes. This section also summarises the consequences of investing in the Subordinated Notes arising from the U.S. Foreign Account Tax Compliance Act (“**FATCA**”) and the OECD Common Reporting Standard.*

The summary is based on tax law and practice in force as at the date of this Information Memorandum, unless otherwise indicated. It is of a general nature only and is neither exhaustive nor definitive and it does not purport to be a complete analysis of all of the tax considerations relating to the Subordinated Notes. The summary does not apply to Holders who hold Subordinated Notes on revenue account, as trading stock or as part of a securities trading business and may not apply to certain other classes of persons. It is not intended to be advice and should not be relied upon as such.

This summary does not address the taxation consequences of holding or disposing of Ordinary Shares following Conversion of Subordinated Notes (except as expressly noted below).

Prospective holders of Subordinated Notes should seek independent taxation advice having regard to their own particular circumstances before making a decision to invest in Subordinated Notes.

INTRODUCTION

This summary of the Australian tax consequences is based on the Income Tax Assessment Acts of 1936 and 1997 of Australia (together, “**Australian Tax Act**”), the Taxation Administration Act 1953 of Australia, the A New Tax System (Goods and Services Tax) Act 1999 and any relevant regulations, rulings or judicial or administrative pronouncements, as at the date of this Information Memorandum.

This summary applies to Holders that are:

- (a) residents of Australia for tax purposes that do not hold their Subordinated Notes in the course of carrying on a business outside of Australia, and non-residents of Australia for tax purposes that hold their Subordinated Notes in the course of carrying on a business at or through a permanent establishment in Australia (“**Australian Holders**”) and
- (b) non-residents of Australia for tax purposes that do not acquire their Subordinated Notes in the course of carrying on a business in Australia, and Australian tax residents that acquire their Subordinated Notes in the course of carrying on a business at or through a permanent establishment outside of Australia (“**Non-Australian Holders**”).

AUSTRALIAN INCOME TAX

Interest payments

Australian Holders will be required to include any interest in respect of their Subordinated Notes in their Australian assessable income.

Whether the interest should be recognised as assessable income on a realisation or accruals basis will depend on the individual circumstances of the Australian Holder (see also the “taxation of financial arrangements” summary below).

Non-Australian Holders should not generally be subject to Australian income tax in respect of interest payments received on their Subordinated Notes. This is on the basis that the Issuer intends to satisfy the requirements of section 128F of the Australian Tax Act in respect of interest paid on Subordinated Notes (see summary below).

Gain on disposal or redemption of Subordinated Notes

Australian Holders will be required to include any gain or loss on disposal or redemption of Subordinated Notes in their assessable income. Depending on the circumstances of the Australian Holder, either the rules relating to “taxation of financial arrangements” (see summary below) or “traditional securities” (in sections 26BB and 70B of the Australian Tax Act) should apply.

For the purpose of calculating an Australian Holder’s gain or loss on disposal or redemption of Subordinated Notes:

- (a) the cost of a Subordinated Note should generally be its issue price for Holders who acquire Subordinated Notes under this Information Memorandum;
- (b) the proceeds from a disposal will generally be the gross amount received by the Holder in respect of the disposal of Subordinated Notes; and
- (c) if the Subordinated Notes are redeemed by the Issuer, the proceeds from the redemption may be taken to exclude any parts of the redemption amount paid to Holders that are referable to any accrued and unpaid interest on Subordinated Notes. Those interest amounts may be treated in the same manner as interest payments received during the term of Subordinated Notes. Again, Holders should seek their own taxation advice in relation to the application of the Australian Tax Act to their particular circumstances.

Non-resident Holders should not be subject to Australian income tax on gains made on the disposal or redemption of Subordinated Notes, provided:

- (a) if the non-resident Holder is not a resident of a country with which Australia has entered into a comprehensive double tax treaty—such gains do not have an Australian source; or
- (b) if the non-resident Holder is a resident of a country with which Australia has entered into a comprehensive double tax treaty—the non-resident Holder is fully entitled to the benefits of the double tax treaty and does not carry on business at or through a permanent establishment in Australia.

A gain arising on the sale of Subordinated Notes by a non-resident Holder to another non-resident Holder where Subordinated Notes are sold outside Australia and all negotiations are conducted, and documentation executed, outside Australia should not be regarded as having an Australian source.

If a gain realised by a Non-Australian Holder is subject to Australian income tax, depending on the circumstances of the Non-Australian Holder, either the rules relating to “taxation of financial arrangements” or “traditional securities” should apply.

No gain on Conversion of Subordinated Notes

Holders (whether an Australian Holder or a Non-Australian Holder) should not generally make any taxable gain or loss if Subordinated Notes are Converted into Ordinary Shares. This is because any gain or loss on the Conversion should be generally disregarded under the Australian Tax Act. Holders should seek their own taxation advice if their Subordinated Notes are Converted into Ordinary Shares.

Ordinary Shares acquired as a consequence of the Conversion should generally be treated as having a cost base and reduced cost base for Australian capital gains tax (“CGT”) purposes equal to the cost base of Subordinated Notes at the time of Conversion. For Australian CGT purposes, the acquisition date of the Ordinary Shares should generally be the time of Conversion. This will be relevant in the event that the Holder subsequently disposes of the Ordinary Shares. In the case of a Holder who is not a resident of Australia for tax purposes, any capital gain or loss made by that Holder from any subsequent disposal of Ordinary Shares is likely to be disregarded for Australian CGT purposes. This is because the Ordinary Shares are not likely to be “taxable Australian property” (as defined under the Australian Tax Act) at the time of disposal.

AUSTRALIAN INTEREST WITHHOLDING TAX

Interest Withholding Tax

For Australian interest withholding tax (“**IWT**”) purposes, “interest” is defined in section 128A(1AB) of the Australian Tax Act to include amounts in the nature of, or in substitution for, interest and certain other amounts. The interest paid on Subordinated Notes should be “interest” as defined in the Australian Tax Act.

Australian Holders should not be subject to Australian IWT in respect of payments of interest on Subordinated Notes.

Non-Australian Holders may be subject to Australian IWT at a rate of 10% of the gross amount of interest paid by the Issuer to the Non-Australian Holder unless an exemption is available.

Section 128F exemption from IWT

An exemption from IWT is available in respect of interest paid on Subordinated Notes if the requirements of section 128F of the Australian Tax Act are satisfied.

The Issuer intends to issue Subordinated Notes in a manner which will satisfy the requirements of section 128F of the Australian Tax Act.

In broad terms, the requirements are as follows:

- (a) the Issuer is a resident of Australia and a company (as defined in section 128F(9) of the Australian Tax Act) when it issues Subordinated Notes and when interest is paid;
- (b) Subordinated Notes are issued in a manner which satisfies the “public offer” test in section 128F of the Australian Tax Act.

In relation to Subordinated Notes, there are six principal methods of satisfying the public offer test. In summary, the six methods are:

- offers to 10 or more unrelated financiers, or securities dealers or entities that carry on the business of investing in securities;
 - offers to 100 or more investors of a certain type;
 - offers of listed Subordinated Notes;
 - offers via publicly available information sources;
 - offers to a dealer, manager or underwriter who offers to sell Subordinated Notes within 30 days by one of the preceding methods; or
 - the offering of a ‘global bond’ which satisfies the requirements of section 128F(10) of the Australian Tax Act.
- (c) the Issuer does not know, or have reasonable grounds to suspect, at the time of issue, that Subordinated Notes (or interests in those Subordinated Notes) were being, or would later be, acquired, directly or indirectly, by an “associate” of the Issuer, except as permitted by section 128F(5) of the Australian Tax Act (see below); and
 - (d) at the time of the payment of interest, the Issuer does not know, or have reasonable grounds to suspect, that the payee is an “associate” of the Issuer, except as permitted by section 128F(6) of the Australian Tax Act (see below).

An “associate” of the Issuer for the purposes of section 128F of the Australian Tax Act includes, when the Issuer is not a trustee:

- a person or entity which holds more than 50% of the voting shares of, or otherwise controls, the Issuer;

- an entity in which more than 50% of the voting shares are held by, or which is otherwise controlled by, the Issuer;
- a trustee of a trust where the Issuer is capable of benefiting (whether directly or indirectly) under that trust; and
- a person or entity who is an “associate” of another person or company which is an “associate” of the Issuer under any of the foregoing.

However, for the purposes of sections 128F(5) and (6) of the Australian Tax Act (see paragraphs (c) and (d) above) an “associate” of the Issuer does not include a Non-Australian Holder that is acting in the capacity of:

- in the case of section 128F(5) only, a dealer, manager or underwriter in relation to the placement of the relevant Subordinated Notes, or a clearing house, custodian, funds manager or responsible entity of a registered managed investment scheme (for the purposes of the Corporations Act); or
- in the case of section 128F(6), a clearing house, paying agent, custodian, funds manager, responsible entity of a registered managed investment scheme (for the purposes of the Corporations Act).

Exemptions under certain double tax conventions

Exemptions from IWT are also available for certain non-residents of Australia under double tax conventions.

The Australian government has signed new or amended double tax conventions (“**New Treaties**”) with a number of countries (each a “**Specified Country**”).

Broadly, the New Treaties effectively prevent IWT applying to interest derived by:

- the governments of the Specified Countries and certain governmental authorities and agencies in a Specified Country; and
- a “financial institution” resident in a Specified Country which is unrelated to and dealing wholly independently with the Issuer. The term “financial institution” refers to either a bank or any other enterprise which substantially derives its profits by carrying on a business of raising and providing finance. However, interest paid under a back-to-back loan or an economically equivalent arrangement will not qualify for this exemption.

The Australian Federal Treasury maintains a listing of Australia’s double tax conventions which provides details of country, status, withholding tax rate limits and Australian domestic implementation. This listing is available to the public at the Federal Treasury’s Department website.

Payment of Additional Amounts

As set out in more detail in Condition 11 (Taxation), if the Issuer is at any time compelled or authorised by law to deduct or withhold an amount in respect of any Australian withholding taxes imposed or levied by the Commonwealth of Australia in respect of Subordinated Notes, the Issuer must, subject to certain exemptions contained in Condition 11.3, pay such Additional Amounts as may be necessary in order to ensure that the net amounts received by the Holders of those Subordinated Notes after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required. If the Issuer is compelled by law in relation to any Subordinated Notes to pay an Additional Amount in respect of a Subordinated Note under Condition 11.3 (Additional Amounts), the Issuer may, subject to the prior written approval of APRA and certain other conditions being satisfied, have the option to redeem those Subordinated Notes in accordance with Condition 5.2.

OTHER AUSTRALIAN TAX MATTERS

Under Australian laws as presently in effect:

- **taxation of financial arrangements**—Division 230 of the Australian Tax Act contains tax timing rules for certain taxpayers to bring to account gains and losses from “financial arrangements”. The rules do not alter the rules relating to the imposition of IWT nor override the IWT exemption available under section 128F of the Australian Tax Act.

A number of elective tax timing methods are available under Division 230. If none of the tax timing elections are made, the default accruals/realisation methods should apply to the taxpayer. Under the default methods, if the gains or losses from a financial arrangement are sufficiently certain, they should be brought to account for tax on an accruals basis. Otherwise, they should be brought to account for tax when they are realised.

Division 230 does not apply to certain taxpayers or in respect of certain short term “financial arrangements”. Division 230 should not, for example, generally apply to Holders of Subordinated Notes which are individuals and certain other entities (e.g. certain superannuation entities and managed investment schemes) which do not meet various turnover or asset thresholds, unless they make an election that the rules apply to their “financial arrangements”. Potential holders should seek their own tax advice regarding their own personal circumstances as to whether such an election should be made;

- **death duties**—no Subordinated Notes will be subject to death, estate or succession duties imposed by Australia, or by any political subdivision or authority therein having power to tax, if held at the time of death;
- **stamp duty and other taxes**—no ad valorem stamp, issue, registration or similar taxes are payable in Australia on the issue, transfer or redemption of any Subordinated Notes or the issue or transfer of Ordinary Shares (including an issue of Ordinary Shares as a result of a Conversion) provided that:
 - if all the shares in Challenger are quoted on ASX at the time of issue or transfer of the Ordinary Shares, no person, either directly or when aggregated with interests held by associates of that person, obtains an interest in Challenger of 90% or more; or
 - if not all the shares in Challenger are quoted on ASX at the time of issue or transfer of the Ordinary Shares, no person, either directly or when aggregated with interests held by associates of that person, obtains an interest in the Issuer of 50% or more.

The stamp duty legislation generally requires the interests of associates to be added in working out whether the relevant threshold is reached. In some circumstances, the interests of unrelated entities can also be aggregated together in working out whether the relevant threshold is reached;

- **TFN/ABN withholding**—withholding tax is presently imposed on the payment of interest on certain securities unless the relevant payee has quoted an Australian tax file number (“TFN”), (in certain circumstances) an ABN or proof of some other exception (as appropriate). A withholding rate of 47% currently applies. A Bill has been introduced into the Federal Parliament which, if passed, would increase the rate of withholding to 47.5% from 1 July 2019.

Assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to Subordinated Notes, then withholding will not apply to payments to a Non-Australian Holder who does not hold their Subordinated Notes in the course of carrying on a business at or through a permanent establishment in Australia. Payments to Australian Holders in respect of Subordinated Notes may be subject to a withholding where the

Australian Holder does not quote a TFN, ABN or provide proof of an appropriate exemption (as appropriate);

- **Dividend Withholding Tax**—Non-Australian Holders may be subject to dividend withholding tax (“DWT”) on certain distributions paid on equity interests in Australian resident entities (such as Ordinary Shares). DWT is generally imposed to the extent “franking credits” do not attach to the relevant distribution. Australian DWT is imposed at a general rate of 30% but the rate may be reduced under an applicable double tax treaty. Holders should consider the application of DWT in the event the Holder’s Subordinated Notes are Converted into Ordinary Shares. Challenger does not “gross-up” distributions on its Ordinary Shares to account for the imposition of DWT;
- **additional withholdings from certain payments to non-residents**—the Governor-General may make regulations requiring withholding from certain payments to non-residents of Australia (other than payments of interest and other amounts which are already subject to the current IWT rules or specifically exempt from those rules). Regulations may only be made if the responsible Minister is satisfied the specified payments are of a kind that could reasonably relate to assessable income of foreign residents. The possible application of any future regulations to the proceeds of any sale of Subordinated Notes will need to be monitored by Holders;
- **garnishee directions by the Commissioner of Taxation**—the Commissioner may give a direction requiring the Issuer to deduct from any payment to a Holder or the holder of an Ordinary Share any amount in respect of Australian tax payable by the Holder. If the Issuer is served with such a direction, then the Issuer will comply with that direction and will make any deduction required by that direction;
- **supply withholding tax**—payments in respect of Subordinated Notes can generally be made free and clear of any “supply withholding tax”; and
- **goods and services tax**—neither the issue nor receipt of Subordinated Notes should give rise to a liability for GST in Australia on the basis that the supply of Subordinated Notes should comprise either an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply. Furthermore, neither the payment of the Redemption Price or interest by the Issuer, nor the disposal of the Subordinated Notes by the Holder, should give rise to any GST liability in Australia.

U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT

FATCA establishes a new due diligence, reporting and withholding regime. FATCA aims to detect U.S. taxpayers who use accounts with “foreign financial institutions” (“FFIs”) to conceal income and assets from the U.S. Internal Revenue Service (“IRS”).

Under FATCA, a 30% withholding may be imposed (i) in respect of certain payments of U.S. source income, (ii) from 1 January 2019 in respect of gross proceeds from the sale or disposition of assets that give rise to U.S. source interest or dividends and (iii) from 1 January 2017, at the earliest, in respect of “foreign passthru payments” (a term which is not yet defined under FATCA), which are, in each case, paid to or in respect of entities that fail to meet certain certification or reporting requirements (“**FATCA Withholding**”).

The Issuer and other financial institutions through which payments on the Subordinated Notes are made may be required to withhold on account of FATCA if (i) an investor does not provide information sufficient for the Issuer or the relevant financial institution to determine whether the investor is subject to FATCA Withholding; or (ii) an FFI to or through which payments on the Subordinated Notes are made is a “non-participating FFI”.

FATCA Withholding is however not expected to apply if the Subordinated Notes are treated as debt for U.S. federal income tax purposes and the grandfathering provisions from withholding under

FATCA are applicable. The grandfathering provisions require, amongst other things, that the Subordinated Notes are issued on or before the date that is six months after the date on which final regulations defining the term “foreign passthru payment” are filed with the U.S. Federal Register.

Australia and the United States signed an intergovernmental agreement (“**Australian IGA**”) in respect of FATCA on 28 April 2014. The Australian Government has enacted legislation amending, among other things, the Taxation Administration Act 1953 of Australia to give effect to the Australian IGA.

Australian financial institutions which are Reporting Australian Financial Institutions under the Australian IGA must comply with specific due diligence procedures to identify their account holders (for example, the Holders) and provide the Australian Taxation Office with information on financial accounts (for example, the Subordinated Notes) held by U.S. persons and recalcitrant account holders. The Australian Taxation Office is required to provide that information to the IRS. Consequently, Holders may be requested to provide certain information and certifications to the Issuer and to any other financial institutions through which payments on the Subordinated Notes are made in order for the Issuer and such other financial institutions to comply with their FATCA obligations.

Reporting Australian Financial Institution that complies with its obligations under the Australian IGA will not generally be subject to FATCA Withholding on amounts it receives, and will not generally be required to deduct FATCA Withholding from payments it makes with respect to the Subordinated Notes, other than in certain prescribed circumstances.

In the event that any amount is required to be withheld or deducted from a payment on the Subordinated Notes or the Ordinary Shares, or Ordinary Shares are required to be withheld or deducted from an issue of Ordinary Shares upon Conversion of the Subordinated Notes, in each case as a result of FATCA, pursuant to the Conditions, no additional amounts will be paid and no additional Ordinary Shares will be issued by the Issuer as a result of the deduction or withholding.

FATCA is particularly complex legislation. Investors should consult their own tax advisers on how these rules may apply to them under the Subordinated Notes and Ordinary Shares.

OECD COMMON REPORTING STANDARD

The OECD Common Reporting Standard for Automatic Exchange of Financial Account Information (“**CRS**”) requires certain financial institutions to report information regarding certain accounts (which may include the Subordinated Notes) to their local tax authority and follow related due diligence procedures. Holders may be requested to provide certain information and certifications to ensure compliance with the CRS. A jurisdiction that has signed a CRS Competent Authority Agreement may provide this information to other jurisdictions that have signed the CRS Competent Authority Agreement. The Australian Government has enacted legislation amending, among other things, the Taxation Administration Act 1953 of Australia to give effect to the CRS.

SUBSCRIPTION AND SALE

Subscription for the Subordinated Notes

Pursuant to a subscription agreement dated on or about 6 November 2017 (the “**Subscription Agreement**”) between the Joint Lead Managers and the Issuer, each Joint Lead Manager has agreed to subscribe for its commitment in respect of Subordinated Notes at a price of 100% of their principal amount on the terms and conditions set out in the Subscription Agreement.

The Subscription Agreement is subject to a number of conditions and may be terminated by the Joint Lead Managers (acting together on behalf of the Joint Lead Managers) in certain circumstances prior to payment for the Subordinated Notes to the Issuer. The Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue of the Subordinated Notes and the Joint Lead Managers will be reimbursed for certain of their expenses in connection with the issue and sale of the Subordinated Notes.

The Joint Lead Managers will also be paid fees determined as an agreed percentage of the issue price of the Subordinated Notes.

Selling Restrictions

Australia

No prospectus or other disclosure document (as defined in the Corporations Act) in relation to the offer of the Subordinated Notes has been, or will be, lodged with ASIC. Each Joint Lead Manager has represented and agreed that it:

- (a) has not made or invited, and will not make or invite an offer of the Subordinated Notes for the issue, sale or purchase of any Subordinated Notes in Australia, including an offer or invitation received in Australia; and
- (b) has not distributed or published, and will not distribute or publish, any Information Memorandum or memorandum, advertisement or other offering material or advertisement relating to the Subordinated Notes in Australia or received in Australia,

in each case unless:

- (i) the aggregate consideration payable by each offeree or invitee for the Subordinated Notes is a minimum of A\$500,000 (or its equivalent in an alternative currency and, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation does not otherwise require disclosure to investors under Parts 6D.2 or 7.9 of the Corporations Act;
- (ii) the offer or invitation does not constitute an offer to a “retail client” within the meaning of section 761G of the Corporations Act;
- (iii) such action complies with all applicable Australian laws, regulations and directives in Australia (including, without limitation, the licensing requirements of Chapter 7 of the Corporations Act); and
- (iv) such action does not require any document to be lodged with ASIC or any other regulatory authority in Australia.

United States

This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Neither the Subordinated Notes nor the Ordinary Shares issued on Conversion have been registered, and neither the Subordinated Notes nor the Ordinary Shares issued on Conversion will be registered under the Securities Act, as amended and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

Each Joint Lead Manager has represented and agreed that it has offered and sold any Subordinated Notes and will offer and sell any Subordinated Notes (a) as part of its distribution at any time and (b) otherwise until 40 days after the later of the commencement of the offering and the closing date, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, none of the Joint Lead Managers, their respective affiliates or any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Subordinated Notes, and each Joint Lead Manager, its affiliates and any person acting on their behalf have complied and will comply with the offering restriction requirements of Regulation S.

Each Joint Lead Manager has agreed that, at or prior to confirmation of a sale of the Subordinated Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Subordinated Notes from it or through it during the restricted period a confirmation or notice to substantially the following effect:

“The Subordinated Notes covered hereby have not been registered under the Securities Act and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons (a) as part of their distribution at any time and (b) otherwise until forty days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by the Securities Act or Regulation S thereunder.”

Terms used in the above paragraph have the meanings given to them by Regulation S under the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Joint Lead Manager has represented and agreed, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Subordinated Notes which are the subject of the offering contemplated by this Information Memorandum to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Subordinated Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Joint Lead Manager or Joint Lead Managers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Subordinated Notes referred to above shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Subordinated Notes to the public" in relation to any Subordinated Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Subordinated Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Subordinated Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant Member State.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that, from 1 January 2018, it will not offer, sell or otherwise make available any Subordinated Notes which are the subject of the offering contemplated by this Information Memorandum in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Subordinated Notes to be offered so as to enable an investor to decide to purchase or subscribe the Subordinated Notes.

Singapore

This Information Memorandum and any other materials relating to the Subordinated Notes have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Information Memorandum and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Subordinated Notes, may not be issued, circulated or distributed, nor may the Subordinated Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This Information Memorandum has been given to you on the basis that you are (i) an “institutional investor” (as defined in the SFA) or (ii) a “relevant person” (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this Information Memorandum immediately. You may not forward or circulate this Information Memorandum to any other person in Singapore.

Any offer is not made to you with a view to the Subordinated Notes being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Subordinated Notes. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

Hong Kong

WARNING: This Information Memorandum has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the “SFO”). No action has been taken in Hong Kong to authorise or register this Information Memorandum or to permit the distribution of this Information Memorandum or any documents issued in connection with it. Accordingly, the Subordinated Notes have not been and will not be offered or sold in Hong Kong other than to “professional investors” (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the Subordinated Notes has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Subordinated Notes that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted Subordinated Notes may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this Information Memorandum have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this Information Memorandum, you should obtain independent professional advice.

New Zealand

This Information Memorandum has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (New Zealand) (the “FMC Act”). The Subordinated Notes are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

General

No representation is made that any action has been taken in any country or jurisdiction by the Issuer or any Other Party that would permit an offering of any Subordinated Notes, or possession or distribution of the Information Memorandum in relation thereto, in any country or jurisdiction where action for that purpose is required.

Each Joint Lead Manager has agreed to comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers any Subordinated Notes or has in its possession or distributes offering material in relation thereto, in all cases at its own expense, and neither the Issuer nor any Other Party shall have responsibility therefor.

Neither the Issuer nor any Other Party represents that any Subordinated Notes may at any time lawfully be sold in compliance with any applicable law or directive or any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Persons into whose hands this Information Memorandum comes are required to comply with any applicable law and directive in each jurisdiction in which they purchase, offer, sell or deliver Subordinated Notes or have in their possession or distribute or publish the Information Memorandum or other offering material and to obtain any authorisation required by them for the purchase, offer, sale or delivery by them of any Subordinated Notes under any applicable law or directive in force in any jurisdiction to which they are subject or in which they make such purchases, offers, sales or deliveries, in all cases at their own expense, and neither the Issuer nor any Other Party has any responsibility for such matters.

In these selling restrictions, "directive" includes a treaty, official directive, request, regulation, guideline or policy (whether or not having the force of law) with which responsible participants in the relevant market generally comply.

GENERAL INFORMATION

1. Copies of the following documents (together, the “**Available Documents**”) will be available for inspection at the registered office of the Issuer:
 - (a) the financial statements of the Issuer and Challenger filed with ASIC in respect the Financial Year ended 30 June 2016;
 - (b) the financial statements of the Issuer and Challenger filed with ASIC in respect the Financial Year ended 30 June 2017;
 - (c) the Deed Poll (including the Conditions);
 - (d) the Implementation Deed dated on or about 22 November 2017 between the Issuer, Challenger and other members of the Group (“**Implementation Deed**”);
 - (e) the Registry Agreement;
 - (f) the constitutions of the Issuer and Challenger; and
 - (g) any continuous disclosure notices given by Challenger after the lodgement of the Group’s 2017 Annual Report, but before the date of this Information Memorandum.

Requests for such documents should be directed to the Issuer at its offices set out in the *Directory* at the end of this Information Memorandum. The Issuer will not be obliged to provide a copy of any Available Document unless it is satisfied that the person requesting the document is either a current Holder or a genuine prospective holder of Subordinated Notes.

In the case of the financial statements of the Issuer listed above and any future financial statements of the Issuer, these will also be available on the website www.challenger.com.au/share.

2. Challenger has obtained a confirmation from the ASX of the effect of the issue of Subordinated Notes on its placement capacity under Listing Rule 7.1. No shareholder approval of the issue of Ordinary Shares on Conversion by Challenger will be required.

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DIRECTORY

ISSUER

Challenger Life Company Limited
(ABN 44 072 486 938)

REGISTERED OFFICE OF ISSUER

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Westpac Banking Corporation

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