Challenger
Capital Notes 3

Challenger Capital Notes 3 are complex and involve different risks to a simple debt or ordinary equity instrument. They are not suitable for all investors and contain features which may make Challenger Capital Notes 3 difficult to understand. Challenger strongly recommends that you seek professional advice from a licensed adviser before you make an investment decision.

Prospectus for the issue of capital notes to raise $250 million, with the ability to raise more or less

Issuer

Challenger Limited
(ABN 85 106 842 371)

Date of this Prospectus

13 October 2020

Arrangers and Joint Lead Managers

Westpac Institutional Bank
National Australia Bank Limited
UBS AG, Australia Branch

Co-Managers

Bell Potter Securities Limited
Crestone Wealth Management Limited
Morgans Financial Limited

challenger

Important notices

About this Prospectus

This Prospectus relates to the offer by Challenger Limited (ABN 85 106 842 371) ('**Challenger**') of subordinated, unsecured, perpetual notes, Challenger Capital Notes 3 ('**Challenger Capital Notes 3**'), to raise $250 million, with the ability to raise more or less (the '**Offer**').

This Prospectus is dated and was lodged with the Australian Securities and Investments Commission ('**ASIC**') on 13 October 2020 pursuant to section 718 of the Corporations Act. It is a transaction-specific prospectus issued by Challenger under section 713(1) of the Corporations Act (as modified by ASIC Corporations (Offers of Convertibles) Instrument 2016/83). This Prospectus expires on the date which is 13 months after 13 October 2020 ('**Expiry Date**') and no Challenger Capital Notes 3 will be issued on the basis of this Prospectus after the Expiry Date.

Neither ASIC nor ASX Limited ('**ASX**') takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

Defined words and expressions

Certain capitalised words and expressions used in this Prospectus have defined meanings which are explained in the Terms of Challenger Capital Notes 3 as set out in Appendix A and in the Glossary in Appendix B of this Prospectus. If there is any inconsistency in definitions between Appendix A and Appendix B, the definitions in Appendix A prevail.

Unless otherwise stated or implied, references to times in this Prospectus are to the time in Sydney, New South Wales, Australia.

Offer and issuer

The Offer contained in this Prospectus is an offering by Challenger of Challenger Capital Notes 3 at $100 per Challenger Capital Note 3 to raise $250 million, with the ability to raise more or less. The Offer comprises the Reinvestment Offer, the Securityholder Offer, the Broker Firm Offer and the Institutional Offer. The Reinvestment Offer provides eligible holders of Challenger Capital Notes issued by Challenger on 9 October 2014 ('**Challenger Capital Notes 1**') with the opportunity to reinvest the proceeds of the sale of their Challenger Capital Notes 1 ('**CCN1 Resale Proceeds**') into Challenger Capital Notes 3.

Eligible CCN1 Holders will also have the opportunity to tender their Challenger Capital Notes 1 to be repurchased for the face value of $100 per Challenger Capital Note 1 payable in cash (the '**Repurchase**' or '**Repurchase Invitation**'). Information on the Repurchase Invitation and how to participate is contained in the Repurchase Booklet accompanying this Prospectus.

Challenger Capital Notes 3 are issued by Challenger, an ASX-listed non-operating holding company incorporated in Australia. Challenger is the ultimate parent company of an investment management group comprising a life business and a funds management business. Challenger Life Company Limited (ABN 44 072 486 938) (AFSL 234670) ('**CLC**'), which is the principal operating entity of the life business, is a subsidiary of Challenger and is a life company registered under the Life Insurance Act.

References in this Prospectus to Challenger are to the parent company on a standalone basis and references to the Challenger Group are to Challenger and its subsidiaries on a consolidated basis.

This Prospectus describes the activities and the financial performance and position of the Challenger Group.

Challenger Capital Notes 3 are not policy liabilities of Challenger, CLC or any other member of the Challenger Group, and are subordinated, unsecured and not guaranteed.

Challenger Capital Notes 3 are not:

- policy liabilities of Challenger, CLC or any other member of the Challenger Group;
- investments in any superannuation or other fund managed by a member of the Challenger Group; or
- guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction.

Challenger Capital Notes 3 (including any amounts payable in respect of each Challenger Capital Note 3) do not have the benefit of security granted by, and are not guaranteed by, Challenger or any other member of the Challenger Group or any other person. Challenger Capital Notes 3 are complex and may not be suitable for all investors. The investment performance of Challenger Capital Notes 3 is not guaranteed by Challenger or any other member of the Challenger Group. Challenger Capital Notes 3 are unsecured and subordinated and may be either Converted into Ordinary Shares or Written-Off in the circumstances detailed in the Terms. There is a risk that you may lose some or all of the money you invested in Challenger Capital Notes 3 because a Non-Viability Trigger Event occurs, or if on a winding-up of Challenger there are insufficient assets to satisfy securities and obligations ranking ahead of Challenger Capital Notes 3. In either case you will not be repaid any or all of the Face Value and will not receive any or all of the interest payments due and unpaid at that time.

Challenger Capital Notes 3 are unsecured notes for the purposes of section 283BH of the Corporations Act. Challenger Capital Notes 3 are issued by Challenger under the Trust Deed and Holders have no direct right to claim against Challenger except as provided in the Trust Deed (which includes the Terms).

The risks associated with investing in Challenger Capital Notes 3 are further detailed in Section 6 and you should read these carefully and consider these factors in light of your personal circumstances (including financial and taxation issues).

ASX quotation

Challenger will apply for Challenger Capital Notes 3 to be quoted on ASX. Challenger Capital Notes 3 are expected to trade under the ASX code 'CGFPC'.

About the Trustee

Equity Trustees Limited (ABN 46 004 031 298) ('**Trustee**'), and its directors, employees, officers, affiliates, agents, advisers, intermediaries and related bodies corporate:

- have not authorised or caused the issue or distribution of this Prospectus, were not involved in preparing this Prospectus and do not make any statement or purport to make any statement in this Prospectus or any statement on which a statement in this Prospectus is based;
- do not assume any responsibility for or make representations as to the truth, accuracy or completeness of any information contained in this Prospectus;
- to the maximum extent permitted by law, expressly disclaim all liability in respect of, make no representation or any statement regarding, and take no responsibility for, any part of this Prospectus, or any statements in, or omissions from, this Prospectus, other than (in the case of the Trustee only) references to its name which are included in this Prospectus with its written consent;
- in the case of the Trustee only, has given, and has not, before the lodgement of this Prospectus with ASIC, withdrawn, its written consent to be named in this Prospectus in the form and context in which it is named;
- have relied on Challenger for the accuracy of the contents of this Prospectus;
- do not make any representation or warranty as to the performance of Challenger or its maintenance of capital, the performance of Challenger Capital Notes 3, the payment of Distributions or Exchange of Challenger Capital Notes 3, or the value of any Ordinary Shares issued (or their proceeds of sale) on Conversion; and
- are not, subject to the Trustee's obligations under the Corporations Act, responsible for monitoring Challenger's business.

Exposure Period

The Corporations Act prohibits Challenger from accepting Applications to subscribe for Challenger Capital Notes 3 under this Prospectus in the seven-day period after the date of lodgement of this Prospectus with ASIC ('**Exposure Period**'). This period may be extended by ASIC by up to a further seven days. This period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of certain deficiencies in this Prospectus in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act. Application Forms will not be available until after the Exposure Period has ended.

How to obtain a Prospectus and Application Form

This Prospectus is available to Australian investors in electronic form at www.challengercapitalnotes.com.au. The Offer contained in this Prospectus in electronic form is available only to persons accessing and downloading or printing the electronic copy of the Prospectus within Australia and is not available to persons in any other jurisdictions (including the United States) without the prior approval of Challenger. If you access an electronic copy of the Prospectus, you should ensure that you download and read the entire Prospectus before submitting an Application for Challenger Capital Notes 3.

During the Offer Period, Eligible Securityholders (including **Eligible CCN1 Holders**) will be able to access an online Application Form at www.challengercapitalnotes.com.au.

Eligible Securityholders (including Eligible CCN1 Holders) may obtain a paper copy of this Prospectus and a personalised paper Application Form during the Offer Period (free of charge) by calling the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).

During the Exposure Period only, Eligible Securityholders (including Eligible CCN1 Holders) may register online at www.challengercapitalnotes.com.au to obtain a paper copy of this Prospectus and a personalised Application Form (free of charge).

Applications for Challenger Capital Notes 3 under this Prospectus may only be made during the Offer Period, using an Application Form (either electronic or paper) that is attached to or accompanying this Prospectus.

How to obtain a Repurchase Booklet and Application Form

If you hold Challenger Capital Notes 1, you may be eligible to participate in the Repurchase Invitation. Details of the Repurchase Invitation are contained in the Repurchase Booklet.

Eligible CCN1 Holders may obtain a paper copy of the Repurchase Booklet and a personalised paper Application Form during the Offer Period (free of charge) by calling the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).

Providing personal information

You will be asked to provide personal information to Challenger via Computershare Investor Services Pty Limited (ABN 48 078 279 277) ('**Registry**') if you apply for Challenger Capital Notes 3. See Section 9.15 for details of how your personal information is handled.

Withdrawals

Investors should note that no cooling-off rights (whether by law or otherwise) apply to an Application for Challenger Capital Notes 3. This means that, in most circumstances, Applicants may not withdraw their Applications once submitted.

Refunds

Applicants who are not issued any Challenger Capital Notes 3, or are issued fewer Challenger Capital Notes 3 than the number applied and paid for as a result of a scale back, will have all or some (as applicable) of their Application Payments refunded (without interest) as soon as practicable after the Issue Date.

In the event that the Offer does not proceed for any reason, all Applicants will have their Application Payments refunded (without interest) as soon as practicable.

Restrictions on distribution of this Prospectus and Challenger Capital Notes 3

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. As at the date of this Prospectus, no action has been taken to register or qualify Challenger Capital Notes 3 or the Offer or to otherwise permit a public offering of Challenger Capital Notes 3 outside Australia.

This Prospectus (including electronic copies) may not be distributed or released, in whole or in part, in the United States. Neither Challenger Capital Notes 3 nor Ordinary Shares have been or will be registered under the U.S. Securities Act or the securities laws of any state of the United States, and they may not be offered or sold in the United States. Challenger Capital Notes 3 are being offered and sold solely outside the United States pursuant to Regulation S under the U.S. Securities Act.

See Section 7.7.1 for further information.

Financial information and forward-looking statements

Section 5 sets out in detail the financial information referred to in this Prospectus. The basis of preparation of that information is also set out in Section 5.

All financial amounts contained in this Prospectus are expressed in Australian dollars and rounded to the nearest million unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'expects', 'intends' and other similar words that involve risks and uncertainties.

Any forward-looking statements are subject to various risk factors that could cause actual circumstances or outcomes to differ materially from the circumstances or outcomes expressed, implied or anticipated in these statements. Forward-looking statements should be read in conjunction with the risk factors as set out in Section 6, and other information in this Prospectus.

No representations other than in this Prospectus

No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Prospectus. You should rely only on information in this Prospectus.

Unless otherwise indicated, all information in this Prospectus, while subject to change from time to time, is current as at the date of this Prospectus.

This Prospectus does not provide financial product or investment advice – Challenger strongly recommends that you seek your own professional investment advice from a licensed adviser before making an investment decision.

The information in this Prospectus does not take into account your investment objectives, financial situation or particular needs as an investor. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues). See in particular the risks set out in Section 6.

If you do not understand any part of this Prospectus, or are in any doubt as to whether to invest in Challenger Capital Notes 3 or not, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant or other independent and qualified professional adviser before deciding whether to invest.

This Prospectus also contains information in relation to (amongst other things) the Reinvestment Offer and the Repurchase Invitation which involves the CCN1 Nominated Purchaser. Neither Challenger, the CCN1 Nominated Purchaser nor any other person is providing any investment advice or making any recommendation to Eligible CCN1 Holders in respect of the Reinvestment Offer or the Repurchase Invitation.

Website

Challenger maintains a website at www.challenger.com.au. Information contained in or otherwise accessible through this or a related website is not a part of this Prospectus.

Diagrams

The diagrams used in this Prospectus are illustrative only. They may not necessarily be shown to scale. The diagrams are based on information which is current as at the date shown.

Enquiries

If you are considering applying for Challenger Capital Notes 3 under the Offer, this Prospectus is important and should be read in its entirety.

If you have any questions in relation to the Offer or the Repurchase Invitation, please visit www.challengercapitalnotes.com.au or call the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).

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Chairman's letter

13 October 2020

Dear Investors,

On behalf of the Board of Challenger Limited ('**Challenger**'), I am pleased to offer you the opportunity to invest in Challenger Capital Notes 3.

Challenger is one of Australia's largest listed companies and is the ultimate parent company of an investment management group comprising a life business and a funds management business. Challenger Life Company Limited ('**CLC**'), which is the principal operating entity of the life business, is a life company registered under the Life Insurance Act and is regulated by APRA. CLC is the leading provider of annuities and guaranteed retirement income solutions in Australia.

Challenger intends to raise $250 million through the offer of Challenger Capital Notes 3, with the ability to raise more or less ('**Offer**'). Challenger will use the proceeds of Challenger Capital Notes 3 to fund the regulatory capital requirements of CLC and to refinance the Challenger Capital Notes ('**Challenger Capital Notes 1**') through the Reinvestment Offer and the Repurchase Invitation.

Challenger Capital Notes 3 will be issued by Challenger and are intended to be listed and tradeable on ASX. Subject to the terms and conditions outlined in this Prospectus, holders of Challenger Capital Notes 3 will be entitled to receive floating rate, discretionary, non-cumulative distributions which are initially expected to be partially franked.

If you currently hold Challenger Capital Notes 1, you may be eligible to participate in the Reinvestment Offer or the Repurchase Invitation. The Reinvestment Offer provides Eligible CCN1 Holders with the opportunity to reinvest all or part of the face value of their Challenger Capital Notes 1 in Challenger Capital Notes 3 and maintain an ongoing investment in Challenger. If you are an Eligible CCN1 Holder, you can also elect to participate in the Repurchase Invitation and have all of your Challenger Capital Notes 1 repurchased for their face value of $100 per Challenger Capital Note 1 in cash. Please refer to the Repurchase Booklet accompanying this Prospectus for further information about the Repurchase Invitation.

Challenger Capital Notes 3 may be redeemed or resold for cash or converted on 25 May 2026 at Challenger's option (or on an earlier date in certain circumstances) subject to APRA's prior written approval. Otherwise, Challenger Capital Notes 3 will mandatorily convert into Challenger Ordinary Shares on 25 May 2028 (subject to certain conditions being satisfied). If the conditions to mandatory conversion are not met on 25 May 2028, conversion will be deferred to a later date when the conditions are re-tested. The key features of Challenger Capital Notes 3 are set out in Section 2 of this Prospectus.

On behalf of the Directors, I encourage you to read this Prospectus carefully and consider the risk factors set out in Section 6. The Terms of Challenger Capital Notes 3 are more complex than a simple debt or ordinary equity security.

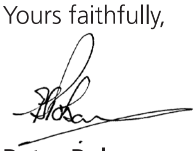
If you have any questions in relation to the Securityholder Offer, the Reinvestment Offer or the Repurchase Invitation, please see www.challengercapitalnotes.com.au or call the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia), Monday to Friday 8:30am to 5:00pm (Sydney time). You should also seek professional guidance from your stockbroker, solicitor, accountant or other independent and qualified professional adviser before deciding whether to apply for Challenger Capital Notes 3.

If you have any questions in relation to the Broker Firm Offer, please call your Syndicate Broker.

The key dates for the Offer are summarised on page 5. The Offer may close early, so I encourage you to submit your application as soon as possible after the Offer opens, being 21 October 2020.

On behalf of the Directors, I welcome you to consider this investment opportunity.

Yours faithfully,



Peter Polson
Independent Chair

Guidance for investors

1.	**Read this Prospectus in full**	• This Prospectus is important and should be read in its entirety. • You should have particular regard to the: – 'Important notices' at the front of this Prospectus; – 'Investment overview' in Section 1 and 'About Challenger Capital Notes 3' in Section 2; – 'About the Reinvestment Offer' in Section 3 (if you are an Eligible CCN1 Holder); – 'Investment risks' in Section 6; and – Terms of Challenger Capital Notes 3 in Appendix A. • In considering whether to apply for Challenger Capital Notes 3, it is important that you consider all risks and other information regarding an investment in Challenger Capital Notes 3 in light of your particular investment objectives and circumstances.
2.	**Speak to your professional adviser**	• If you are unsure whether to apply for Challenger Capital Notes 3, you should seek professional guidance from your stockbroker, solicitor, accountant or other independent and qualified professional adviser. • ASIC has published guidance on how to choose a professional adviser on its MoneySmart website. You can also search 'choosing a financial adviser' at www.moneysmart.gov.au.
3.	**CCN1 Holders**	• This prospectus contains information relevant to CCN1 Holders. If you are a CCN1 Holder, you may be eligible to: – reinvest your Challenger Capital Notes 1 into Challenger Capital Notes 3 under the Reinvestment Offer to maintain an ongoing investment in Challenger; – tender your Challenger Capital Notes 1 to have them repurchased by the CCN1 Nominated Purchaser for their face value of $100 per Challenger Capital Note 1 in cash; or – reinvest some of your Challenger Capital Notes 1 under the Reinvestment Offer and receive cash for your remaining Challenger Capital Notes 1 under the Repurchase Invitation. • If you elect to reinvest only some of your Challenger Capital Notes 1 under the Reinvestment Offer, you will be deemed to have tendered the balance of your Challenger Capital Notes 1 to be repurchased under the Repurchase Invitation for $100 per Challenger Capital Note 1. • CCN1 Holders should refer to the Repurchase Booklet accompanying this Prospectus for further information about the Repurchase Invitation. • Participation in the Reinvestment Offer and/or the Repurchase Invitation is optional. If you choose not to participate, you will continue to hold your Challenger Capital Notes 1 in accordance with the CCN1 Terms.
4.	**Consider ASIC guidance for retail investors**	• ASIC has published guidance on its MoneySmart website which may be relevant to your consideration of Challenger Capital Notes 3. You can find this guidance by searching 'hybrid securities and notes' at www.moneysmart.gov.au. • The guidance includes a series of questions you should ask before you invest in hybrid securities.
5.	**Obtain further information about Challenger and the Challenger Capital Notes 3**	• Challenger is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. Challenger must notify ASX immediately (subject to certain exceptions) if it becomes aware of information about Challenger that a reasonable person would expect to have a material effect on the price or value of its securities, including the Challenger Capital Notes 3. • Copies of documents lodged with ASIC which are publicly available can be obtained from ASIC's website www.asic.gov.au (a fee may apply) and Challenger's ASX announcements may be viewed at www.asx.com.au or www.challenger.com.au/shareholder/market-announcements.
6.	**Enquiries**	• If you have any questions in relation to the Offer, the Repurchase Invitation or an Application, please visit www.challengercapitalnotes.com.au or call the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).

Key dates

Key dates for the Offer	Date
Record date for determining Eligible Securityholders	8 October 2020
Lodgement of this Prospectus with ASIC	13 October 2020
Bookbuild to determine the Margin	20 October 2020
Announcement of the Margin	20 October 2020
Lodgement of the replacement Prospectus with ASIC	21 October 2020
Opening Date for the Offer	21 October 2020
Closing Date for the Securityholder Offer (5:00pm Sydney time)	13 November 2020
Closing Date for the Broker Firm Offer (5:00pm Sydney time)	13 November 2020
Issue Date of Challenger Capital Notes 3	25 November 2020
Challenger Capital Notes 3 commence trading on ASX (normal settlement basis)	26 November 2020
Holding Statements dispatched by	27 November 2020
Key dates for Challenger Capital Notes 3	**Date**
First Distribution Payment Date[1]	25 February 2021
Optional Exchange Date[2]	25 May 2026
Scheduled Mandatory Conversion Date[3]	25 May 2028
Key dates for the Reinvestment Offer	**Date**
Record date for determining Eligible CCN1 Holders	8 October 2020
Opening Date for the Reinvestment Offer	21 October 2020
Closing Date for the Reinvestment Offer	13 November 2020
Transfer of Reinvestment CCN1 to CCN1 Nominated Purchaser	25 November 2020
Issue Date of Challenger Capital Notes 3	25 November 2020
Challenger Capital Notes 3 commence trading on ASX (normal settlement basis)	26 November 2020
Holding Statements dispatched by	27 November 2020
Key dates for Eligible CCN1 Holders not participating in the Reinvestment Offer or the Repurchase Invitation	**Date**
Scheduled mandatory conversion date (subject to the mandatory conversion conditions) for Challenger Capital Notes 1	25 May 2022

Dates may change

These dates are indicative only and may change without notice. Except as otherwise specified in the Terms, if any of these dates are not Business Days and an event under the Terms is stipulated to occur on that day, then the event will occur on the next Business Day. Challenger and the Joint Lead Managers may at their discretion agree to vary the timetable, including extending any Closing Date, closing the Offer early without notice or accepting late Applications, whether generally or in particular cases, or withdrawing the Offer at any time before Challenger Capital Notes 3 are issued.

You are encouraged to apply as soon as possible after the Opening Date.

1 Subject to the absolute discretion of Challenger to pay the Distribution and no Payment Condition existing on 25 February 2021.

2 With APRA's prior written approval, Challenger may elect to Exchange the Challenger Capital Notes 3 on 25 May 2026. Holders should not expect that APRA's approval will be given for any optional Exchange. This date assumes the Issue Date is 25 November 2020.

3 Challenger Capital Notes 3 will Convert into Ordinary Shares on 25 May 2028 (subject to the Mandatory Conversion Conditions being satisfied and only if, prior to that date, Challenger Capital Notes 3 have not been Exchanged with APRA's prior written approval or Written-Off). This date assumes the Issue Date is 25 November 2020.

Section 1
Investment overview

This Section provides a summary of information that is key to a decision whether to invest in Challenger Capital Notes 3. Challenger Capital Notes 3 are not policy liabilities of CLC, Challenger or any member of the Challenger Group and are not guaranteed by any government or other person. Further details are provided in other Sections of this Prospectus, which you should read in its entirety.

1.1 Key features of the Offer

Topic	Summary	Further information
Who is the issuer?	• The issuer is Challenger Limited ('**Challenger**'). • Challenger is an ASX-listed non-operating holding company of an investment management group managing $85 billion in assets (as at 30 June 2020) and, through its wholly-owned life company CLC, is the leading provider of annuities and guaranteed retirement incomes in Australia.	Section 4
What is the Offer?	• The Offer is for the issue of Challenger Capital Notes 3 to raise $250 million, with the ability to raise more or less. • The final size of the Offer will depend on the volume of Applications received and accepted under the Securityholder Offer and the Reinvestment Offer, with Challenger reserving the right to scale back Applications or increase the final size of the Offer if there is excess demand.	Section 7.1 and 7.6.2
What are Challenger Capital Notes 3?	• Challenger Capital Notes 3 have the following features: – **fully paid** – at $100 per Challenger Capital Note 3; – **subordinated** – to claims of Senior Creditors, and rank equally with other Relevant Perpetual Subordinated Instruments (see Section 2.6.4 for further information) and ahead of Ordinary Shares; – **convertible** – in certain circumstances (including where a Non-Viability Trigger Event occurs), Challenger will be required to Convert Challenger Capital Notes 3 into Ordinary Shares and in certain circumstances Challenger may elect to Convert Challenger Capital Notes 3 into Ordinary Shares; – **redeemable and transferable** – in certain circumstances, Challenger may be permitted to repay the Face Value of Challenger Capital Notes 3 or transfer Challenger Capital Notes 3 to a third party (but there are restrictions on repayment or transfer of the Challenger Capital Notes 3); – **perpetual** – no fixed maturity date and could remain on issue indefinitely, in which case Holders may not get their capital back or be issued any Ordinary Shares; – **distributions** – are discretionary, non-cumulative and are initially expected to be partially franked; and – **not guaranteed or secured** – are not guaranteed or secured, and are also not policy liabilities of CLC, Challenger or any other member of the Challenger Group. • The Terms are complex and derive from the detailed requirements of APRA for Challenger Capital Notes 3. Challenger's ability to pay Distributions or to optionally Exchange (Convert, Redeem or Resell) Challenger Capital Notes 3 is dependent on APRA either not objecting (in the case of payment of Distributions) or giving prior written approval (in the case of Exchange at Challenger's option).	Section 2

Topic	Summary	Further information
Will Challenger Capital Notes 3 be quoted?	• Challenger will apply for Challenger Capital Notes 3 to be quoted on ASX so that they can be bought and sold on ASX. • If ASX does not grant permission for Challenger Capital Notes 3 to be quoted, Challenger Capital Notes 3 will not be issued and all Application Payments will be refunded (without interest) as soon as practicable. • Quotation of Challenger Capital Notes 3 on ASX does not mean that there will be a liquid market for Challenger Capital Notes 3.	Section 7.7.2
Why is Challenger issuing Challenger Capital Notes 3?	• Challenger intends to use the proceeds of Challenger Capital Notes 3 to fund a subscription for Additional Tier 1 Capital of CLC, the registered life company of the Challenger Group. Challenger Capital Notes 3 will refinance Challenger Capital Notes 1 through the Reinvestment Offer. • The Challenger Capital Notes 3 and Challenger's equity capital help to protect creditors of the Challenger Group by providing a loss-absorbing capital buffer that may support losses incurred by the Challenger Group. • The contribution of Additional Tier 1 Capital to CLC will assist with funding the regulatory capital requirements of CLC resulting from annuity sales growth and will similarly help protect CLC's creditors and policyholders.	Sections 2.6.1, 2.6.3 and 2.6.4

1.2 Key features of Challenger Capital Notes 3

Topic	Summary	Further information
Do Challenger Capital Notes 3 have a maturity date?	• Challenger Capital Notes 3 are perpetual, which means they do not have any fixed maturity date and could remain on issue indefinitely. • However, Challenger has rights to Convert Challenger Capital Notes 3 to Ordinary Shares or to Redeem or Resell Challenger Capital Notes 3 for cash on 25 May 2026 (or on an earlier date in certain circumstances) subject to APRA's prior written approval. • Otherwise, Challenger Capital Notes 3 will mandatorily Convert to Ordinary Shares on 25 May 2028 subject to certain conditions being satisfied. • What will happen to Challenger Capital Notes 3 is uncertain and depends on a number of factors including whether Mandatory Conversion will occur, whether Challenger elects to Convert, Redeem or Resell Challenger Capital Notes 3, and whether APRA's approval to a Conversion, Redemption or Resale is given when required under the Terms. Holders should not expect that APRA will give its approval for any Conversion, Redemption or Resale. • Holders will have no right to request Challenger to Convert Challenger Capital Notes 3 or Redeem or Resell them.	Sections 2.2 to 2.5

Topic	Summary	Further information
What Distributions are payable?	• Challenger Capital Notes 3 are expected to pay quarterly, floating rate, discretionary Distributions in arrears unless and until Converted, Redeemed or Written-Off. • The Distribution Rate is calculated in accordance with the following formula: **Distribution Rate = (Bank Bill Rate + Margin) x (1 – Tax Rate)** Where: – **Bank Bill Rate** is the relevant rate (described in Section 2.1.3) on the first Business Day of the relevant Distribution Period, or such other rate set in accordance with the Terms where the Bank Bill Rate is not published by the relevant time on the day for publication or is affected by an obvious error, or where Challenger determines that a Rate Disruption Event has occurred; – **Margin** is the margin determined under the Bookbuild, expected to be in the range of 4.60% and 4.80% per annum; and – **Tax Rate** means the Australian corporate tax rate applicable to Challenger's franking account at the relevant Distribution Payment Date. As at the date of this Prospectus, the Tax Rate is 30%. • Payment of Distributions is subject to the absolute discretion of Challenger and subject to no Payment Condition existing in respect of the relevant Distribution Payment Date. These include that APRA does not object to a Distribution being paid. • Distributions are non-cumulative, which means that if a Distribution has not been paid on a Distribution Payment Date then Challenger has no obligation to pay the Distribution at any later date. Holders will not have any right to compensation if Challenger does not pay Distributions. Failure to pay a Distribution when scheduled will not constitute an event of default. • If a Distribution is not paid in full on a Distribution Payment Date, Challenger must not, without the approval of Holders by a Special Resolution, declare, determine to pay or pay a dividend on its Ordinary Shares, or buy back or reduce capital on any of its Ordinary Shares, until and including the next Distribution Payment Date. This restriction will not apply if the relevant Distribution is paid in full within three Business Days of the relevant Distribution Payment Date.	Section 2.1
Will Distributions be franked?	• Distributions are initially expected to be partially franked at a Franking Rate of 50%. However, Holders should be aware that franking is not guaranteed and the laws relating to the availability of franking may change. • If a Distribution is not fully franked, it will be adjusted to reflect the applicable Franking Rate. The effect of Distributions being franked is to reduce the cash amount received by Holders on each Distribution Payment Date by an amount equal to the relevant level of franking. • The ability of Holders to use franking credits will depend on their individual tax position. Holders should also be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Distribution. • Holders should refer to the Australian taxation summary in Section 8 and each Holder should obtain professional advice in relation to its tax position.	Sections 2.1.4 and 2.1.5

Topic	Summary	Further information
Will Challenger Capital Notes 3 be Redeemed?	• If certain conditions are met, Challenger will have a right, but not an obligation, to Redeem Challenger Capital Notes 3: – on 25 May 2026; – on the occurrence of a Tax Event (for example, this may include where a change in Australian tax law after the Issue Date results in a more than insignificant increase in the costs to Challenger of Challenger Capital Notes 3 being on issue); or – on the occurrence of a Regulatory Event (for example, this may include where a change in Australian law or regulation after the Issue Date would impose additional requirements on Challenger in relation to Challenger Capital Notes 3 which the Directors determine would have a not insignificant impact on Challenger or if the proceeds of Challenger Capital Notes 3 may no longer be used to fund Additional Tier 1 Capital of CLC). • Challenger can only Redeem Challenger Capital Notes 3 if it has received APRA's prior written approval, and APRA is satisfied with the projected capital position of Challenger and the Challenger Group. This may mean that Challenger must replace the Challenger Capital Notes 3 with an instrument considered by APRA to be of the same or better quality. This is intended to protect Challenger's Senior Creditors. Holders should not expect that APRA will give its approval for any Redemption.	Section 2.3
Will Challenger Capital Notes 3 Convert to Ordinary Shares?	• Challenger Capital Notes 3 will be Converted to Ordinary Shares automatically on the occurrence of certain events, or at Challenger's option in a number of circumstances. In each case, a Challenger Capital Note 3 will Convert to a number of Ordinary Shares calculated based on the VWAP at the time of Conversion, but subject always to a Maximum Conversion Number. Except in the case of a Non-Viability Trigger Event, Conversion is subject to certain conditions designed to prevent Conversion from occurring in circumstances where, due to the Maximum Conversion Number, Holders would receive a number of Ordinary Shares per Challenger Capital Note 3 worth substantially less than Face Value. • **Mandatory Conversion or Acquisition Event:** All Challenger Capital Notes 3 must be Converted to Ordinary Shares on the Scheduled Mandatory Conversion Date (25 May 2028) or upon the occurrence of an Acquisition Event; however, Conversion cannot occur unless the Mandatory Conversion Conditions (or the equivalent tests for an Acquisition Event) are satisfied. Where these conditions are not satisfied, Conversion will be deferred until the next Distribution Payment Date where they are satisfied. Each Challenger Capital Note 3 which is the subject of a Conversion under these circumstances will be Converted to Ordinary Shares with a value of approximately $101 based on the VWAP at the time of Conversion. • **Non-Viability Trigger Event:** Some or all Challenger Capital Notes 3 must be Converted to Ordinary Shares if APRA determines that a Non-Viability Trigger Event has occurred. Conversion under these circumstances is not subject to any conditions, and Holders are likely to receive a number of Ordinary Shares per Challenger Capital Note 3 which are worth substantially less than the Face Value.	Sections 2.2 to 2.5

Topic	Summary	Further information
	• **Optional Exchange:** Challenger has the option, but not the obligation, to Convert, with APRA's prior written approval: – some or all (as Challenger may select) Challenger Capital Notes 3 to Ordinary Shares on the Optional Exchange Date (25 May 2026), or on the occurrence of a Tax Event or a Regulatory Event; and – all Challenger Capital Notes 3 to Ordinary Shares on the occurrence of a Potential Acquisition Event. In each case Challenger is restricted from exercising its option to Convert if the Optional Conversion Restrictions apply. Each Challenger Capital Note 3 which is the subject of a Conversion under these circumstances will be Converted to Ordinary Shares with a value of approximately $101 based on the VWAP at the time of Conversion.	
Will Challenger Capital Notes 3 be Written-Off?	• Where Challenger is required to Convert some or all Challenger Capital Notes 3 to Ordinary Shares on account of a Non-Viability Trigger Event, but Conversion does not occur for any reason within five Business Days of APRA's determination, then those Challenger Capital Notes 3 will be Written-Off. • If Challenger Capital Notes 3 are Written-Off, the relevant Holders' rights under the Challenger Capital Notes 3 (including to receive Distributions, payment of Face Value, or potential Conversion to Ordinary Shares) will be immediately terminated with effect on and from the date of the Non-Viability Trigger Event, and Holders will lose the entire amount of their investment in Challenger Capital Notes 3.	Section 2.4.6

1.3 Ranking of Challenger Capital Notes 3 in a winding-up of Challenger

In a winding-up of Challenger, if the Challenger Capital Notes 3 have not been Converted or Written-Off on account of a Non-Viability Trigger Event, the Challenger Capital Notes 3 will rank ahead of Ordinary Shares, equally with all other Relevant Perpetual Subordinated Instruments (including Challenger Capital Notes 1[4] and Challenger Capital Notes 2), but behind any securities or instruments that rank in priority to Challenger Capital Notes 3 and all other creditors (present and future) of Challenger, as shown below.

The Relevant Perpetual Subordinated Instruments include the $345 million Challenger Capital Notes 1 issued in October 2014 and the $460 million Challenger Capital Notes 2 issued in April 2017. There are no other Relevant Perpetual Subordinated Instruments on issue as at the date of this Prospectus. The Challenger Capital Notes 3 will be Relevant Perpetual Subordinated Instruments if and when issued.

Challenger has a senior unsecured facility with an Australian bank having a limit of $400 million. At the date of this Prospectus, this facility has $50 million drawn. In a winding-up of Challenger, any money owing by Challenger under this facility would rank in priority to the Challenger Capital Notes 3.

4 On the date of this Prospectus, Challenger issued the CCN1 Exchange Notice in accordance with the CCN1 Terms confirming that on 25 November 2020 the CCN1 Nominated Purchaser will purchase all Reinvestment CCN1 and Repurchase CCN1 for $100 per Challenger Capital Note 1.

	Type	Illustrative examples[5]
Higher ranking	Preferred and secured debt	Liabilities preferred by law, including policy liabilities, employee entitlements and secured creditors
	Unsubordinated and unsecured debt	Bonds and notes, trade and general creditors
	Subordinated and unsecured debt	Subordinated notes and other subordinated and unsecured debt obligations
	Relevant Perpetual Subordinated Instruments	Challenger Capital Notes 3, and any other securities expressed to rank equally with Challenger Capital Notes 3 (including Challenger Capital Notes 1[6] and Challenger Capital Notes 2)
Lower ranking	Ordinary Shares	Ordinary Shares

Holders should be aware that if Challenger is in a winding-up, it is likely that a Non-Viability Trigger Event will have occurred. If a Non-Viability Trigger Event occurs, Challenger is required to Convert some or all Challenger Capital Notes 3 to Ordinary Shares. If Challenger Capital Notes 3 are Converted, Holders will hold Ordinary Shares and rank equally with other holders of Ordinary Shares in a winding-up of Challenger. If for any reason (including an Inability Event), a Conversion on account of a Non-Viability Trigger Event does not occur within five Business Days of the Non-Viability Conversion Date, those Challenger Capital Notes 3 will not Convert and instead will be Written-Off. If Challenger Capital Notes 3 are Written-Off, all rights in relation to those Challenger Capital Notes 3 will be terminated (and Holders will not get their capital back).

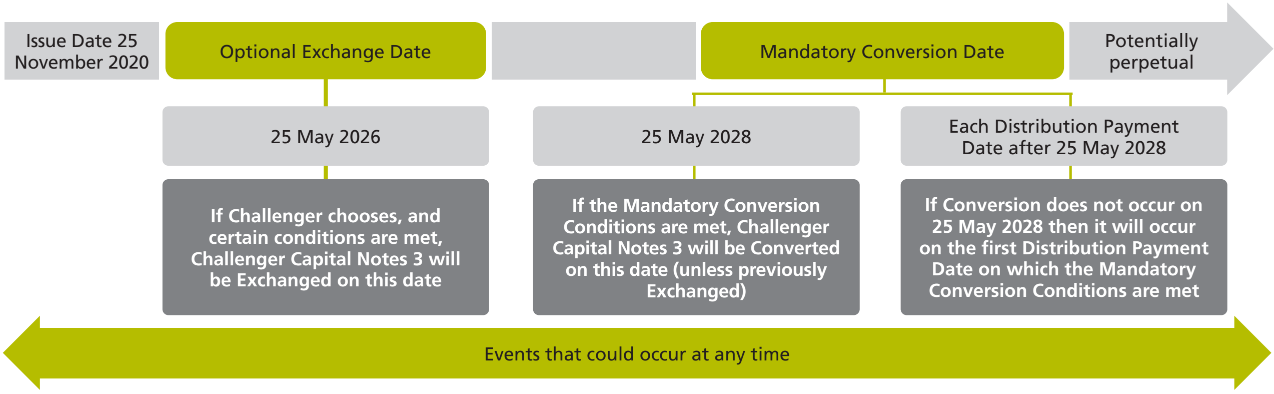
Challenger Capital Notes 3 are claims on Challenger, a non-operating holding company of the companies in the Challenger Group. Challenger Capital Notes 3 are not claims on any other member of the Challenger Group (including CLC). Challenger has claims on members of the Challenger Group, but its claims on each of those companies rank behind the relevant company's creditors and, in the case of CLC, also rank behind policyholders, in a winding-up of those companies. Challenger's right to receive dividends or other distributions from its subsidiaries may be restricted by regulation or by the terms of securities issued by those subsidiaries, including any regulatory capital securities.

1.4 Summary of certain events that may affect what Holders receive and when they receive it

The diagram and table below summarise certain events that may affect what Holders are likely to receive on Challenger Capital Notes 3, and if and when they may receive it. The events are subject to contingencies such as legislative, prudential or taxation framework changes, a potential or actual takeover of Challenger, non-viability of Challenger (as determined by APRA) and in some cases election by Challenger upon occurrence of some of these events, or on specified dates. These events may never occur and the Challenger Capital Notes 3 could remain on issue indefinitely, in which case the Face Value will never be repaid.

5 These examples note the order of ranking in the context of Challenger. Challenger is a non-operating holding company of companies in the Challenger Group and most of the claims Challenger has on these companies rank behind the relevant company's creditors, and in the case of CLC, also rank behind policyholders, in a winding-up of those companies.

6 Refer to footnote 4.



Tax Event or Regulatory Event	Exchange at Challenger's option, if certain conditions are met
Potential Acquisition Event or Acquisition Event	Conversion at Challenger's option, if certain conditions are met in the case of a Potential Acquisition Event, or automatic Conversion, if certain conditions are met in the case of an Acquisition Event
Non-Viability Trigger Event	Automatic Conversion or, if Conversion does not occur for any reason within five Business Days, the Challenger Capital Notes 3 will be Written-Off

The table below provides further summary details about events that may affect what Holders may receive in relation to the Challenger Capital Notes 3 under the Terms.

Event	When?[7]	Is APRA approval required?[8]	Do conditions apply?	What value will a Holder receive?[9]	In what form will that value be provided to Holders?	Further information
Optional Redemption or Resale	On 25 May 2026 or following a Tax Event or Regulatory Event	Yes	Yes	$100 per Challenger Capital Note 3	Cash	Section 2.3
Optional Conversion	On 25 May 2026 or following a Tax Event, Regulatory Event or Potential Acquisition Event	Yes	Yes	Approximately $101 per Challenger Capital Note 3	Variable number of Ordinary Shares	Section 2.3
Mandatory Conversion on specified dates	On 25 May 2028	No	Yes	Approximately $101 per Challenger Capital Note 3	Variable number of Ordinary Shares	Section 2.2

7 In the case of Conversion, other than Conversion on account of a Non-Viability Trigger Event, if the relevant conversion conditions are not met, Conversion is deferred until the first Distribution Payment Date on which all the relevant Conversion conditions are satisfied.

8 Holders should not expect that APRA will give its approval if requested.

9 In the case of Conversion, the value stated is the value a Holder will receive on Conversion based on the price of Ordinary Shares during a specified period prior to Conversion called the VWAP Period (20 Business Days except in the case of a Non-Viability Trigger Event, where the VWAP Period is 5 Business Days). The price of Ordinary Shares on and after the date of Conversion may be higher or lower than this price. Conversion on account of a Non-Viability Trigger Event is not subject to any conditions and since the Conversion Number must not exceed the Maximum Conversion Number the value received is likely to be substantially less than $101 per Challenger Capital Note 3.

Event	When?[7]	Is APRA approval required?[8]	Do conditions apply?	What value will a Holder receive?[9]	In what form will that value be provided to Holders?	Further information
Conversion upon Acquisition Event	On the Acquisition Conversion Date	No	Yes	Approximately $101 per Challenger Capital Note 3	Variable number of Ordinary Shares	Section 2.5
Conversion or Write-Off upon Non-Viability Trigger Event	Immediately on Non-Viability Trigger Event occurring	No (although APRA will determine that a Non-Viability Trigger Event has occurred)	No	Between $101 (and likely to be significantly less) and $0 per Challenger Capital Note 3	Variable number (capped at a Maximum Conversion Number) of Ordinary Shares or, if Conversion does not occur for any reason, Challenger Capital Notes 3 are Written-Off[10]	Section 2.4

1.5 Key risks associated with an investment in Challenger Capital Notes 3

Before applying for Challenger Capital Notes 3, you should consider whether Challenger Capital Notes 3 are a suitable investment for you. There are risks associated with an investment in Challenger Capital Notes 3 and in Challenger and in the life insurance and funds management industries generally. Many of these risks are outside the control of Challenger and its Directors. These risks include those outlined below and in Section 6 and other matters referred to in this Prospectus.

Topic	Summary	Further information
Not a policy liability	• Challenger Capital Notes 3 are not policy liabilities of CLC, Challenger or any member of the Challenger Group and are not guaranteed by any government or other person. The investment performance of Challenger Capital Notes 3 is not guaranteed by Challenger or any other member of the Challenger Group.	Section 6.1.1
Challenger Capital Notes 3 are perpetual, unsecured and subordinated	• Challenger Capital Notes 3 are perpetual with no maturity date but will Convert into Ordinary Shares on 25 May 2028 if they are still on issue on that date and if the Mandatory Conversion Conditions are satisfied. The Challenger Capital Notes 3 may never be repaid, and may never be Converted into Ordinary Shares. • Challenger is a non-operating holding company and substantially all its assets are made up of shares in, or other claims on, Challenger's subsidiaries. Accordingly, the claims of Holders against Challenger will be limited to the value of Challenger's residual claims to the net assets (if any) of the subsidiaries, after all liabilities, including to policyholders, have been discharged or provided for.	Sections 6.1.2 and 6.2.4

10 If a Challenger Capital Note 3 is Written-Off, all rights (including rights to Distributions) in respect of that Challenger Capital Note 3 are terminated with effect on and from the date of the Non-Viability Trigger Event and the Holder will not be repaid the Face Value of the Challenger Capital Note 3.

Topic	Summary	Further information
	• In a winding-up of Challenger, if Challenger Capital Notes 3 have not been Redeemed, Converted or Written-Off, Challenger Capital Notes 3 will rank equally with all other Relevant Perpetual Subordinated Instruments, but behind all Senior Creditors of Challenger. • If there is a shortfall of funds on a winding-up of Challenger to pay all amounts ranking higher than or equally with Challenger Capital Notes 3, Holders will lose all or some of their investment. • If the Challenger Capital Notes 3 have been Converted into Ordinary Shares on account of a Non-Viability Trigger Event prior to a winding-up of Challenger, the Ordinary Shares received on Conversion will rank equally with other Ordinary Shares. As such, a Holder's claim in a winding-up of Challenger will rank lower than it would have if the Challenger Capital Notes 3 had not been Converted. • If the Challenger Capital Notes 3 are Written-Off, those Challenger Capital Notes 3 will never be Exchanged and therefore the Holders will not get their capital back or receive compensation in respect of those Challenger Capital Notes 3.	
Market price of Challenger Capital Notes 3	• The price at which Holders are able to sell Challenger Capital Notes 3 on ASX is uncertain. The market price may be below the Face Value of $100 per Challenger Capital Note 3. • Circumstances in which the price of Challenger Capital Notes 3 may decline include general financial market conditions, the availability of better rates of return on other securities, interest rates, investor perceptions and Challenger's financial performance or position. • In particular, since March 2020 global financial markets have become more volatile due to the impact of the COVID-19 pandemic. The expected duration and magnitude of the COVID-19 pandemic and its full economic impact remains unclear. • Unlike Ordinary Shares, Challenger Capital Notes 3 do not carry rights to variable amounts of distributions and capital which in each case may increase returns in the event of the improved financial performance or position of Challenger, and accordingly do not provide a material exposure to growth in Challenger's business.	Section 6.1.3
Liquidity of Challenger Capital Notes 3	• There may be no liquid market for Challenger Capital Notes 3. • Holders who wish to sell their Challenger Capital Notes 3 may be unable to do so at a price acceptable to them, or at all. • The liquidity of Challenger Capital Notes 3 may also be impacted as a result of market volatility due to the COVID-19 pandemic. The expected duration and magnitude of the COVID-19 pandemic and the potential impact on the liquidity of Challenger Capital Notes 3 is unclear.	Section 6.1.4
Market price and liquidity of Ordinary Shares	• The market price of Ordinary Shares may go up or down due to various factors. These include investor perceptions, Australian and worldwide economic conditions and Challenger's financial performance and position. The market price may be affected by the actual or prospective Conversion of Challenger Capital Notes 3. • 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.	Section 6.1.5

Topic	Summary	Further information
Distributions may not be paid	• Distributions are discretionary and are only payable subject to no Payment Condition existing in respect of the relevant Distribution Payment Date. • Distributions are non-cumulative. Accordingly, in the event that Challenger does not pay a scheduled Distribution, a Holder has no entitlement to that Distribution.	Section 6.1.6 to 6.1.8
Changes in Distribution Rate, Distributions and Franking Rate	• The Distribution Rate will go up or down over time as a result of movements in the Bank Bill Rate. • Changes in the Australian corporate tax rate will also affect the Distribution Rate. • The Distribution Rate may be less than the Margin, or zero, depending on the levels of the Bank Bill Rate and the Tax Rate. • The cash amount paid as a Distribution will change if there is a change in the Franking Rate. The effect of Distributions being franked is to reduce the cash amount received by Holders on each Distribution Payment Date by an amount equal to the relevant level of franking. As at the date of this Prospectus, the Challenger Capital Notes 3 are initially expected to be partially franked. • Distributions are initially expected to be partially franked at a Franking Rate of 50%. The Franking Rate for a Distribution Period will vary depending upon Challenger's level of available franking credits. • The level of franking of Distributions is affected by the level of Challenger's available franking credits and distributable profits. • Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Distribution. • The value and availability of franking credits to a Holder will depend on that Holder's particular circumstances.	Section 6.1.7 to 6.1.8
It is not certain whether and when Challenger Capital Notes 3 may be Converted, Redeemed or Resold	• There are a number of scenarios in which Challenger Capital Notes 3 may be Converted, Redeemed or Resold. It is uncertain whether and when a Conversion, Redemption or Resale may occur. The timing of any Conversion, Redemption or Resale may not suit Holders. • Challenger Capital Notes 3 may not be Converted, Redeemed or Resold at all, in which case Challenger Capital Notes 3 are perpetual and have no maturity date.	Sections 6.1.9 to 6.1.13
No right for Holders to request Exchange	• Holders have no right to request that their Challenger Capital Notes 3 be Exchanged. Unless their Challenger Capital Notes 3 are Exchanged, in order to realise their investment, Holders would need to sell their Challenger Capital Notes 3 on ASX at the prevailing market price. That price may be less than the Face Value, and there may be no liquid market in the Challenger Capital Notes 3. The Terms contain no events of default.	Section 6.1.9
Conversion or Write-Off following a Non-Viability Trigger Event	• If Conversion occurs following a Non-Viability Trigger Event, Holders are likely to receive Ordinary Shares that are worth significantly less than the Face Value of Challenger Capital Notes 3. • Where Conversion on account of a Non-Viability Trigger Event does not occur for any reason within five Business Days after the Non-Viability Conversion Date, Challenger Capital Notes 3 will be Written-Off. • If Challenger Capital Notes 3 are Written-Off, all rights in relation to those Challenger Capital Notes 3 (including to Distributions) will be terminated and Holders will not get their capital back.	Section 6.1.13

Topic	Summary	Further information
Challenger may issue further securities and engage in other dealings	• Challenger may raise further debt or issue securities that rank equally with or ahead of Challenger Capital Notes 3 and may redeem, convert, buy back, return or distribute capital in respect of any share capital or other securities whether ranking behind, equally with or ahead of, Challenger Capital Notes 3. This may affect a Holder's ability to be repaid on a winding-up of Challenger.	Section 6.1.15
Global economic, market and business risks with respect to the COVID-19 pandemic	• The ongoing COVID-19 pandemic has had a significant impact on the global economy and the ability of individuals, businesses, and governments to operate. • The impacts of COVID-19 are beyond the Challenger Group's control and can have a material adverse effect on the overall business sentiment and environment, causing material uncertainties. These impacts can cause the Challenger Group's business and investments to suffer in ways that cannot be predicted (including but not limited to reductions in asset valuations, increases in losses due to defaulting counterparties, increases in regulatory capital requirements, losses of staff including key personnel) and which may have a material adverse impact on Challenger Group's operations, financial performance and position.	Section 6.2.1
Risks associated with Challenger generally	• Challenger operates in a highly regulated and competitive industry and is subject to financial and non-financial risks that can adversely impact its businesses, results of operations, financial condition and future performance. • Challenger's financial performance and position may affect the market price of Challenger Capital Notes 3 (and the Ordinary Shares into which they Convert). • Key risks associated with an investment in Challenger and the business of the Challenger Group generally are set out at Section 6.2.	Section 6.2

1.6 Comparison between Challenger Capital Notes 3 and other investments and securities

Challenger Capital Notes 3 are different from annuities, term deposits and ordinary shares. You should consider these differences in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) before deciding to apply for Challenger Capital Notes 3 and if you are unsure if Challenger Capital Notes 3 are a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant or other independent and qualified professional adviser.

Feature	Challenger Annuity	Term deposit	Challenger Capital Notes 1[11] and Challenger Capital Notes 2	Challenger Capital Notes 3	Ordinary Shares
Issuer	CLC	Bank, credit union or building society	Challenger	Challenger	Challenger

11 Refer to footnote 4.

Feature	Challenger Annuity	Term deposit	Challenger Capital Notes 1[11] and Challenger Capital Notes 2	Challenger Capital Notes 3	Ordinary Shares
Legal form	Policy (unsecured, unsubordinated debt obligation referable to a statutory fund under the Life Insurance Act)	Unsecured, unsubordinated debt	Unsecured, subordinated note	Unsecured, subordinated note	Ordinary share
Term	One year to lifetime (depending on the annuity)	One month to five years (usually)	Perpetual (subject to mandatory conversion into Ordinary Shares)	Perpetual (subject to Mandatory Conversion into Ordinary Shares)	Perpetual
Ranking in winding-up	Rank higher than Challenger Capital Notes 3 and Ordinary Shares	Rank higher than Challenger Capital Notes 3 and Ordinary Shares	Rank lower than Senior Creditors, equally with the Challenger Capital Notes 3, but higher than Ordinary Shares[12]	Rank lower than Senior Creditors, equally with Challenger Capital Notes 1 and Challenger Capital Notes 2 but higher than Ordinary Shares[12]	Rank lowest of all securities
Transferability	No (but policies may be assigned subject to certain conditions)	No	Yes – Challenger Capital Notes 1 are quoted on ASX as 'CGFPA' and Challenger Capital Notes 2 are quoted on ASX as 'CGFPB'	Yes – Challenger Capital Notes 3 are expected to be quoted on ASX as 'CGFPC'	Yes – Ordinary Shares are quoted on ASX as 'CGF'
Protected under the Financial Claims Scheme	No	Yes[13]	No	No	No
Distribution rate	Fixed or increasing by reference to the CPI or a fixed rate	Fixed (usually)	Challenger Capital Notes 1 – Floating (bank bill rate + margin of 3.40% per annum, adjusted for franking) Challenger Capital Notes 2 – Floating (bank bill rate + margin of 4.40% per annum, adjusted for franking)	Floating (Bank Bill Rate + Margin (to be determined under the Bookbuild, and expected to be in the range of 4.60% to 4.80% per annum), adjusted for franking)	Variable dividends

12 Any return in a winding-up may be adversely affected if APRA determines that a Non-Viability Trigger Event has occurred. Following Conversion, Holders will hold Ordinary Shares and rank equally with other holders of Ordinary Shares in a winding-up of Challenger. If Conversion on account of a Non-Viability Trigger Event does not occur for any reason within five Business Days of the Non-Viability Conversion Date, Challenger Capital Notes 3 will be Written-Off.

13 The protection for all protected accounts that an account holder has with an Australian deposit taking institution is limited to $250,000.

Feature	Challenger Annuity	Term deposit	Challenger Capital Notes 1[11] and Challenger Capital Notes 2	Challenger Capital Notes 3	Ordinary Shares
Distribution payment dates	Monthly, quarterly, semi-annually or annually	Monthly, quarterly, semi-annually or annually	Quarterly (distributions are discretionary)	Quarterly (Distributions are discretionary)	Semi-annually (dividends are discretionary)
Distributions cumulative / non-cumulative	Cumulative	Cumulative	Non-cumulative	Non-cumulative	Non-cumulative
Restriction on Ordinary Share dividends if Distribution not paid	No	No	Yes, until the next distribution payment date	Yes, until the next Distribution Payment Date	No
Franking	Unfranked	Unfranked	Expected to be partially franked[14]	Expected to be partially franked	Expected to be partially franked
Optional redemption (Challenger's option)	No	No	Yes. For Challenger Capital Notes 1, on 25 May 2020 and following a regulatory event or tax event[15] For Challenger Capital Notes 2, on 22 May 2023 and following a regulatory event or tax event	Yes, on 25 May 2026 and following a Regulatory Event or Tax Event	No
Optional resale (obligation on Holder to sell instrument at Challenger's option)	No	No	Yes. For Challenger Capital Notes 1, on 25 May 2020 and following a regulatory event or tax event[15] For Challenger Capital Notes 2, on 22 May 2023 and following a regulatory event or tax event	Yes, on 25 May 2026 and following a Regulatory Event or Tax Event	No

14 Initially, Challenger Capital Notes 1 were partially franked but distributions between 25 August 2015 and 25 November 2020 were fully franked. Distributions are expected to be partially franked going forward.

15 On 30 March 2020, Challenger announced that APRA had confirmed to Challenger that APRA had no objection, subject to the conditions which apply to an existing exchange, including prior written approval from APRA (which may or may not be given), to allow Challenger to repurchase, or procure the repurchase of, all or some of the Challenger Capital Notes 1 for their face value ($100) on any future quarterly distribution payment date following the optional exchange date for Challenger Capital Notes 1 (being 25 May 2020), up to (but not including) 25 May 2022.

Feature	Challenger Annuity	Term deposit	Challenger Capital Notes 1[11] and Challenger Capital Notes 2	Challenger Capital Notes 3	Ordinary Shares
Optional conversion to Ordinary Shares (Challenger's option)	No	No	Yes. For Challenger Capital Notes 1, on 25 May 2020 and following a regulatory event, tax event or potential acquisition event[15] For Challenger Capital Notes 2, on 22 May 2023 and following a regulatory event, tax event or potential acquisition event	Yes, on 25 May 2026 and following a Regulatory Event, Tax Event or Potential Acquisition Event	No
Mandatory conversion	No	No	Yes. For Challenger Capital Notes 1, on 25 May 2022 and each distribution payment date after this date, or at any time upon the occurrence of an acquisition event or a non-viability trigger event For Challenger Capital Notes 2, on 22 May 2025 and each distribution payment date after this date, or at any time upon the occurrence of an acquisition event or a non-viability trigger event	Yes, on 25 May 2028 and each Distribution Payment Date after this date, or at any time upon the occurrence of an Acquisition Event or a Non-Viability Trigger Event	No
Voting rights	No	No	No right to vote at general meetings of holders of Ordinary Shares	No right to vote at general meetings of holders of Ordinary Shares	Yes

Feature	Challenger Annuity	Term deposit	Challenger Capital Notes 1[11] and Challenger Capital Notes 2	Challenger Capital Notes 3	Ordinary Shares
Treated by APRA as regulatory capital?	No	No	No, but used to fund a subscription for Additional Tier 1 Capital of CLC	No, but may be used to fund a subscription for Additional Tier 1 Capital of CLC[16]	Not currently[17]

1.7 Information about the Offer

Topic	Summary	Further information
How is the Offer structured and who can apply?	The Offer comprises: – a Reinvestment Offer to Eligible CCN1 Holders; – an Institutional Offer to certain Institutional Investors; – a Broker Firm Offer made to Australian resident retail and other clients of Syndicate Brokers; and – a Securityholder Offer made to Eligible Securityholders.	Section 7.2
Reinvestment Offer	• The Reinvestment Offer provides Eligible CCN1 Holders with the opportunity to reinvest their CCN1 Resale Proceeds into Challenger Capital Notes 3 and maintain an ongoing investment in Challenger. • If you elect to reinvest only some of your Challenger Capital Notes 1 under the Reinvestment Offer, you will be deemed to have tendered the balance of your Challenger Capital Notes 1 to be repurchased for $100 per Challenger Capital Note 1 under the Repurchase Invitation. • On the date of this Prospectus, Challenger issued the CCN1 Exchange Notice in accordance with the CCN1 Terms. That notice confirms that on 25 November 2020 the CCN1 Nominated Purchaser will purchase all Reinvestment CCN1 for $100 per Reinvestment CCN1 ('**CCN1 Resale Proceeds**'). • You are an Eligible CCN1 Holder if you were registered as a holder of Challenger Capital Notes 1 at 7:00pm Sydney time on 8 October 2020 (Challenger Capital Notes 1 must also be held on the Closing Date) and, unless Challenger otherwise determines: – are shown on the Challenger Capital Notes 1 register as having an address in Australia; – are not an individual residing in a member state of the European Union; and – are not in the United States or acting as a nominee for, or for the account or benefit of, a U.S. Person, and not otherwise prevented from receiving the Reinvestment Offer or Challenger Capital Notes 3 under the laws of any jurisdiction.	Section 3

16 APRA has advised that it does not object to Challenger using the proceeds of Challenger Capital Notes 3 to fund a subscription for Additional Tier 1 Capital of CLC.

17 APRA has deferred the implementation of the capital related prudential standards for conglomerate groups. However, for Challenger Limited, as a non-operating holding company, if it becomes prudentially regulated in accordance with these standards, its ordinary shares will be treated as regulatory capital.

Topic	Summary	Further information
	• The options available to Eligible CCN1 Holders are detailed in Section 3 'About the Reinvestment Offer'. • Before submitting an Application under the Reinvestment Offer, Eligible CCN1 Holders should read Section 3.2 which describes the differences between Challenger Capital Notes 1 and Challenger Capital Notes 3. In particular, Eligible CCN1 Holders should note that the margin applicable to Challenger Capital Notes 1 is 3.40% per annum, and the Margin for Challenger Capital Notes 3 is expected to be in the range of 4.60% to 4.80% per annum.	
Repurchase Invitation	• Separate to the Offer and the Reinvestment Offer, Eligible CCN1 Holders may choose to tender their Challenger Capital Notes 1 to be repurchased for cash under the Repurchase Invitation. • Eligible CCN1 Holders who elect to reinvest only some of their Challenger Capital Notes 1 under the Reinvestment Offer will be deemed to have tendered the balance of their Challenger Capital Notes 1 to be repurchased for $100 per Challenger Capital Note 1 under the Repurchase Invitation.	Refer to the Repurchase Booklet
Is the Offer conditional on the resolutions to be passed at Challenger's Annual General Meeting?	• As the ASX Listing Rules impose a limit on the number of equity securities (including convertible securities such as Challenger Capital Notes 3) that a listed company can issue during any 12 month period without shareholder approval (placement capacity), the Offer is conditional on Challenger shareholders approving one of the following resolutions to be considered at Challenger's Annual General Meeting on 29 October 2020: - the resolution to ratify the issue of Challenger ordinary shares under the institutional placement announced on 22 June 2020; or - the resolution to approve the issue of Challenger Capital Notes 3.	
When is the Offer Period?	• The Offer is open from 21 October 2020 until the Closing Date on 13 November 2020.	Key dates and Section 7
Is there a minimum amount to be raised?	• No. The Offer is for the issue of Challenger Capital Notes 3 to raise $250 million, with the ability to raise more or less.	Section 7.1
How can I apply?	• If you are an Applicant applying under the Broker Firm Offer, you should contact your Syndicate Broker. • If you are an Eligible Securityholder applying under the Securityholder Offer, you can apply online at www.challengercapitalnotes.com.au and make your Application Payment via BPAY®. Alternatively, you can request a personalised paper Application Form and follow the instructions to make your Application Payment via BPAY. • If you are an Eligible CCN1 Holder applying under the Reinvestment Offer, you can apply online at www.challengercapitalnotes.com.au. You must provide your SRN or HIN and follow the instructions. Alternatively, you can request a personalised paper Application Form and follow the instructions to make your Application Payment via BPAY (if applicable).	Section 7.4

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Topic	Summary	Further information
	• If you are an Eligible CCN1 Holder and you intend to: – apply under the Repurchase Invitation only; or – apply under the Reinvestment Offer to reinvest some (and not all) of your Challenger Capital Notes 1 (in which case you will be deemed to have tendered the balance of your Challenger Capital Notes 1 under the Repurchase Invitation), refer to the Repurchase Booklet.	
How will Challenger Capital Notes 3 be allocated and how will I receive confirmation of my allocation?	• The allocation policy and confirmation process is different for the Institutional Offer, Broker Firm Offer, Securityholder Offer and Reinvestment Offer. • The allocation policy is described in Section 7.6.2. • Allocations will be confirmed in accordance with Section 7.6.3.	Sections 7.6.2 and 7.6.3
Is there a minimum Application size?	**Securityholder Offer, Broker Firm Offer and Institutional Offer** • Yes. • Your Application must be for a minimum of 50 Challenger Capital Notes 3 ($5,000). • If your Application is for more than 50 Challenger Capital Notes 3, then you must apply in multiples of 10 Challenger Capital Notes 3 ($1,000) thereafter. **Reinvestment Offer** • There is no minimum number of Challenger Capital Notes 1 that you must hold to be able to participate in the Reinvestment Offer. • If you are an Eligible CCN1 Holder and own less than 50 Challenger Capital Notes 1, you can still apply to participate in the Reinvestment Offer but you must apply to reinvest the CCN1 Resale Proceeds relating to **all** of your Challenger Capital Notes 1. • If you are an Eligible CCN1 Holder and you own 50 or more Challenger Capital Notes 1, you must apply to reinvest the CCN1 Resale Proceeds relating to at least 50 of your Challenger Capital Notes 1 and in multiples of 10 Challenger Capital Notes 1 thereafter.	Section 7.4.1
Is brokerage, commission or stamp duty payable?	• No brokerage, commission or stamp duty is payable by you on your Application. You may be required to pay brokerage if you sell your Challenger Capital Notes 3 on ASX after Challenger Capital Notes 3 have been quoted on ASX.	Section 7.5.3
What are the tax implications of investing in Challenger Capital Notes 3?	• A general description of the Australian taxation consequences of investing in Challenger Capital Notes 3 is set out in Section 8. • An outline of the Australian taxation consequences of participating in the Reinvestment Offer is also included in Section 8.	Section 8
Where can I find more information about the Offer?	• If you have any questions in relation to the Offer, please see www.challengercapitalnotes.com.au or call the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time). • If you are applying under the Broker Firm Offer, you should contact your Syndicate Broker.	Section 7.8

Section 2
About Challenger Capital Notes 3

This Section is intended to provide information about the key features of Challenger Capital Notes 3. Where indicated, more detailed information is provided in other Sections of this Prospectus.

2.1 Distributions

Distributions on Challenger Capital Notes 3 are discretionary, non-cumulative, floating rate payments and are subject to no Payment Condition existing in respect of the relevant Distribution Payment Date.

Topic	Summary	Further information
2.1.1 What are Distributions?	• Distributions are discretionary, non-cumulative, floating rate payments and are scheduled to be paid quarterly in arrears on the Distribution Payment Dates. • Distributions are subject to no Payment Condition existing in respect of the relevant Distribution Payment Date. • Distributions are initially expected to be partially franked at a Franking Rate of 50%, and accordingly Holders are expected to receive Distributions comprised of a combination of cash and franking credits. Where any Distribution payment is not fully franked, then the cash amount of the Distribution will increase to compensate for the reduction in franking credits. Holders should be aware that the level of franking may vary over time and Distributions may be partially franked, fully franked or not franked at all. • Holders should also be aware that the potential value of any franking credit does not accrue at the same time as the receipt of any Distribution and the ability of a Holder to use franking credits will depend on the individual tax position of each Holder. • Distributions are non-cumulative. If a Distribution or part of a Distribution is not paid on a Distribution Payment Date, Holders will have no claim or entitlement in respect of non-payment and no right to receive that Distribution at a later time. Failure to pay a Distribution when scheduled will not constitute an event of default.	Clause 3 of the Terms
2.1.2 How will the Distribution Rate be calculated?	• The Distribution Rate (expressed as a percentage per annum) for each quarterly Distribution will be calculated using the following formula: **Distribution Rate = (Bank Bill Rate + Margin) x (1 – Tax Rate)** Where: – **Bank Bill Rate** is the relevant rate (as defined below in Section 2.1.3) on the first Business Day of the relevant Distribution Period; – **Margin** is the margin determined under the Bookbuild, expected to be in the range of 4.60% and 4.80% per annum; and – **Tax Rate** means the Australian corporate tax rate applicable to Challenger's franking account at the relevant Distribution Payment Date. As at the date of this Prospectus, the Tax Rate is 30%. • Below are two worked examples of the Distribution Rate calculated using: – a Bank Bill Rate of 0.0800% per annum (i.e. if the Bank Bill Rate is positive); and – a Bank Bill Rate of -1.0000% per annum (i.e. if the Bank Bill Rate is negative).	Clause 3.1 of the Terms

Topic	Summary	Further information
	Using a Bank Bill Rate of 0.0800% (i.e. a positive Bank Bill Rate) As an example, assuming the Bank Bill Rate for a Distribution Period is 0.0800% per annum, the Margin is 4.6000% per annum, and the Tax Rate applicable to the franking account of Challenger is 30%, the Distribution Rate for that Distribution Period would be calculated as follows: Bank Bill Rate — 0.0800% per annum plus Margin — 4.6000% per annum Equivalent unfranked distribution rate — 4.6800% per annum Multiplied by (1 – Tax Rate) — x 70% Fully franked Distribution Rate = — 3.2760% per annum **Using a Bank Bill Rate of -1.0000% (i.e. a negative Bank Bill Rate)** As an example, assuming the Bank Bill Rate for a Distribution Period is -1.0000% per annum, the Margin is 4.6000% per annum, and the Tax Rate applicable to the franking account of Challenger is 30%, the Distribution Rate for that Distribution Period would be calculated as follows: Bank Bill Rate — -1.0000% per annum plus Margin — 4.6000% per annum Equivalent unfranked distribution rate — 3.6000% per annum Multiplied by (1 – Tax Rate) — x 70% Fully franked Distribution Rate = — 2.5200% per annum • If the result of the calculation of the Distribution Rate for a Distribution Period is negative, then the Distribution Rate will be zero for that Distribution Period.	
2.1.3 What is the Bank Bill Rate?	• The Bank Bill Rate in respect of a Distribution Period is the three month rate published through information vendors on the first Business Day of the relevant Distribution Period. • Challenger will announce the relevant Bank Bill Rate to ASX at the commencement of each Distribution Period. • The Bank Bill Rate is a benchmark floating interest rate for the Australian money market. It is based on an average of rates at which major Australian financial institutions lend short-term cash to each other over a period of approximately three months as published by ASX (or its successor). It changes to reflect supply and demand in the cash and currency markets. • Fall-back procedures apply under the Terms if the Bank Bill Rate does not appear, if there is an obvious error in that rate or if that rate is otherwise subject to disruption (see further on this below). • The graph below illustrates the movement in the Bank Bill Rate over the last 10 years. The rate on 9 October 2020 was 0.0800% per annum.	Clause 3.1 of the Terms

Topic	Summary	Further information

Bank Bill Rate (3 months) since 2010

- The above graph is for illustrative purposes only and does not indicate, guarantee or forecast the actual Bank Bill Rate. The actual Bank Bill Rate for the first and any subsequent Distribution Periods may be higher or lower than the rates in the above graph.
- If the Bank Bill Rate is negative, the Distribution Rate will be reduced by taking account of the negative value of that rate in the calculation of the Distribution Rate as set out in Section 2.1.2 (but there is no obligation on Holders to pay Challenger if the Distribution Rate were to become negative).

If Challenger determines that a Rate Disruption Event has occurred, then, subject to APRA's prior written approval (which may or not be given), Challenger will use as the Bank Bill Rate such Replacement Rate as it may determine and will make such adjustments to the Terms as it determines are reasonably necessary to calculate Distributions in accordance with such Replacement Rate. In making these determinations, Challenger is required to act in good faith and in a commercially reasonable manner, and may consult with such sources of market practice as it considers appropriate, but may otherwise make such determinations in its discretion.

A **'Rate Disruption Event'** will occur if, in Challenger's opinion, the Bank Bill Rate has been discontinued or otherwise ceased to be calculated or administered, or is no longer generally accepted in the Australian market as a reference rate appropriate to floating rate debt securities of a tenor and interest period comparable to the Challenger Capital Notes 3.

Any **'Replacement Rate'** would be the rate that is generally accepted in the Australian market as the successor to the Bank Bill Rate (or if Challenger is not able to ascertain such a rate, or there is no such rate, the rate would be a reference rate which is appropriate as a replacement for the Bank Bill Rate for securities such as the Challenger Capital Notes 3 or such other rate as Challenger considers appropriate as a replacement for the Bank Bill Rate having regard to comparable indices).

Topic	Summary	Further information
2.1.4 How will the Distribution be calculated for each Distribution Period?	• Distributions scheduled to be paid on each Distribution Payment Date will be calculated using the following formula: $$\frac{\textbf{Distribution Rate x \$100 x N}}{\textbf{365}}$$ Where: **Distribution Rate** means the rate (expressed as a percentage per annum) calculated as set out in Section 2.1.2; and **N** means the number of days in the Distribution Period calculated as set out in the Terms. Following the formula above, if the Distribution Rate was 3.2760% per annum, then the Distribution on each Challenger Capital Note 3 for a Distribution Period (if the Distribution Period was 91 days) would be calculated as follows: Fully franked Distribution Rate — 3.2760% per annum Multiplied by the Face Value — x $100.00 Multiplied by the number of days in the Distribution Period — x 91 Divided by 365 — ÷ 365 Fully franked cash Distribution payment per Challenger Capital Note 3 (rounded to nearest whole cent) — $0.82 Distributions paid on Challenger Capital Notes 3 are initially expected to be partially franked, and accordingly Holders are expected to receive Distributions comprised of a combination of cash and franking credits. The effect of Distributions being franked is to reduce the cash amount received by Holders on each Distribution Payment Date by an amount equal to the relevant level of franking. Where a Distribution is partially franked, the cash component of that Distribution will be calculated as set out in Section 2.1.5 below. The amount of franking credits will be notified to Holders shortly after a Distribution is paid. Following the above example, the amount of franking credits per Challenger Capital Note 3 would be $0.35142857 (franking credit calculations will be rounded down to 8 decimal places per $100 Challenger Capital Note 3). The above example is for illustrative purposes only and does not indicate, guarantee or forecast the actual Distribution payment (or franking credits) for the first or any subsequent Distribution Period. Actual Distribution payments (and franking credits) may be higher or lower than this example (or may not be paid at all).	Clauses 3.1 and 3.2 of the Terms
2.1.5 Will Distributions be franked? What is the effect of franking?	• Distributions paid on Challenger Capital Notes 3 are initially expected to be partially franked at a Franking Rate of 50%. However, Holders should be aware that franking is not guaranteed. • Holders are expected to receive Distributions comprised of a combination of cash and franking credits until Challenger Capital Notes 3 are Converted, Redeemed or Written-Off. The level of franking may vary over time and Distributions may be partially franked, fully franked or not franked at all. • The level of franking of Distributions is affected by the level of Challenger's available franking credits and distributable profits. If any Distribution is not fully franked, then the Distribution will be adjusted to reflect the applicable Franking Rate (see clause 3.2 of the Terms).	Clauses 3.1 and 3.2 of the Terms

Topic	Summary	Further information
	• If any Distribution is not franked or only partially franked, the amount of the cash component of the Distribution which is being paid will be increased to compensate for the unfranked component according to the following formula: $$\frac{\mathbf{D}}{\mathbf{1 - [Tax\ Rate\ x\ (1 - F)]}}$$ Where: – **D** is the Distribution (as defined above in Section 2.1.4); and – **F** is the applicable Franking Rate. For example, if the Franking Rate applicable to the Distribution was only 50% (rather than 100%), then the cash Distribution on each Challenger Capital Note 3 for a Distribution Period (if the Distribution Period was 91 days) would be calculated as follows: Fully franked Distribution Rate — 3.2760% per annum Multiplied by the Face Value — x $100.00 Multiplied by the number of days in the Distribution Period — x 91 Divided by 365 — ÷ 365 Sub-total — $0.8168 Divided by {1 – [Tax Rate x (1 – Franking Rate)]} — ÷ 0.8500 Partially franked cash Distribution payment per Challenger Capital Note 3 (rounded to nearest whole cent) — $0.96 The above example is for illustrative purposes only and does not indicate, guarantee or forecast the actual Distribution payment (or franking credits) for the first or any subsequent Distribution Period. Actual Distribution payments (and franking credits) may be higher or lower than this example (or may not be paid at all). • Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Distribution. Holders should also be aware that the ability to use the franking credits, either by offsetting a tax liability or by claiming a refund after the end of the income year, will depend on the individual tax position of each Holder. • If the corporate tax rate were to change, the cash amount of Distributions and the amount of any franking credits will change. • Holders should also be aware that the laws relating to the availability of franking may change. • Holders should refer to the Australian taxation summary in Section 8 and each Holder should obtain professional advice in relation to its tax position.	
2.1.6 When are the Distribution Payment Dates?	• The first Distribution Payment Date will be 25 February 2021. • The number of days in the first Distribution Period will be 92 days. • Distribution Payment Dates will be 25 February, 25 May, 25 August and 25 November in each year. • If any of these dates is not a Business Day, then the Distribution Payment Date will be the next Business Day.	Clause 3.5 of the Terms

Topic	Summary	Further information
2.1.7 What are the Payment Conditions?	• Distributions may not always be paid. The payment of each Distribution is subject to the absolute discretion of Challenger and to no Payment Condition existing in respect of the relevant Distribution Payment Date. • '**Payment Condition**' means: – the consolidated retained earnings of the Challenger Group as at the relevant Distribution Payment Date are, or would on payment of the Distribution become, negative; – the payment would result in Challenger becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or – APRA objecting to the payment.	Clauses 3.3 and 18.2 ('Payment Condition') of the Terms
2.1.8 What restrictions apply to Challenger if a Distribution is not paid?	• If for any reason a Distribution has not been paid on a Distribution Payment Date ('**Relevant Distribution Payment Date**'), Challenger must not, subject to certain exceptions, without the approval of a Special Resolution, until and including the next Distribution Payment Date: – declare, determine to pay or pay a dividend on any Ordinary Shares; or – buy back or reduce capital on any Ordinary Shares, unless the Distribution is paid in full within three Business Days of the Relevant Distribution Payment Date. • The Terms contain no events of default and accordingly, failure to pay a Distribution when scheduled will not constitute an event of default.	Clause 3.8 of the Terms
2.1.9 How will Distributions be paid?	• Distributions will be made to Holders whose details are recorded in the Register at the close of business on the relevant Record Date. • Distributions and any other amount payable in respect of a Challenger Capital Note 3 may be paid in any manner in which cash may be paid as Challenger decides, including by any method of direct credit determined by Challenger. Where no account is specified by a Holder, or where Challenger attempts to pay the relevant amount and the transfer is unsuccessful, the amount Challenger attempted to pay will be held by Challenger for the Holder in a non-interest bearing deposit account with a bank selected by Challenger. • The Terms include detailed provisions for the payment of Distributions – see clause 14 of the Terms.	Clause 14 of the Terms
2.1.10 Are any deductions made on the Distributions?	• Challenger may deduct from any Distribution or other amount payable in accordance with the Terms the amount of any withholding or other tax, duty or levy required by any applicable law to be deducted in respect of such amount, or on account of FATCA. • Challenger is not required to pay an additional amount (or take any further action) where it has made a deduction as described above.	Clauses 15.2 and 15.3 of the Terms

2.2 Mandatory Conversion

Challenger must Convert any Challenger Capital Notes 3 that are outstanding on 25 May 2028 into Ordinary Shares, provided that the Mandatory Conversion Conditions (summarised below) are satisfied.

The Mandatory Conversion Conditions and the associated Conversion calculations (as set out below) are designed to ensure that Holders receive Ordinary Shares with a value of approximately $101 per Challenger Capital Note 3, and that the Ordinary Shares they receive following Conversion may be sold on ASX.

Topic	Summary	Further information
2.2.1 What is Mandatory Conversion?	• Holders will receive Ordinary Shares on Conversion of Challenger Capital Notes 3 on the Mandatory Conversion Date unless the Mandatory Conversion Conditions are not satisfied, or Challenger Capital Notes 3 are not outstanding on that date. • Upon Conversion on the Mandatory Conversion Date, Holders will receive Ordinary Shares with a value of approximately $101 per Challenger Capital Note 3 based on the VWAP (the volume weighted average price of Ordinary Shares) during a period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date. • The VWAP 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 Mandatory Conversion Date. This means that the value of Ordinary Shares received may be more or less than approximately $101 when they are issued or at any time after that.	Clauses 4.1 and 4.3 of the Terms
2.2.2 What are the consequences of Mandatory Conversion?	• As a result of any Conversion of Challenger Capital Notes 3 to Ordinary Shares, Holders will hold Ordinary Shares in the capital of Challenger, which will rank equally with existing Ordinary Shares from the date of issue. The value of any holding of Ordinary Shares will fluctuate from time to time. • For Challenger more broadly, the composition of its capital base will alter as a consequence of any Conversion and result in Challenger's equity capital increasing.	Clauses 4 and 8.1 of the Terms
2.2.3 When is the Mandatory Conversion Date?	• The Mandatory Conversion Date will be 25 May 2028, provided the Mandatory Conversion Conditions are satisfied on that date. • If any of the Mandatory Conversion Conditions are not satisfied on that date, the Mandatory Conversion Date will be the next Distribution Payment Date on which they are satisfied. • The Mandatory Conversion Conditions may never be satisfied and consequently, Mandatory Conversion may never occur. Distributions will continue to be paid (subject to Challenger in its discretion determining not to pay a Distribution and to no Payment Condition existing in respect of the relevant Distribution Payment Date) until Mandatory Conversion occurs.	Clauses 4.2 and 4.3 of the Terms
2.2.4 What are the Mandatory Conversion Conditions?	• The Mandatory Conversion Conditions are as follows: – **First Mandatory Conversion Condition:** the VWAP of Ordinary Shares on the 25th Business Day immediately preceding (but not including) a possible Mandatory Conversion Date[18] is greater than 110% x Relevant Fraction of the Issue Date VWAP;	Clauses 4.3, 8.1 and 18.2 of the Terms

18 If no trading in Ordinary Shares took place on that date, the VWAP is the VWAP on the first Business Day preceding that date on which trading in Ordinary Shares took place.

Topic	Summary	Further information

- – **Second Mandatory Conversion Condition:** the VWAP of Ordinary Shares during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) a possible Mandatory Conversion Date is greater than 101.01% x Relevant Fraction of the Issue Date VWAP; and
- – **Third Mandatory Conversion Condition:** no Delisting Event applies in respect of a possible Mandatory Conversion Date. Broadly, a Delisting Event occurs when Challenger is delisted, or its Ordinary Shares have ceased to be quoted on ASX or have been suspended from trading for five consecutive Business Days prior to that date and suspension is continuing on the possible Mandatory Conversion Date, or it is prevented by any applicable law or order of any court or action of any government authority or any other reason from Converting Challenger Capital Notes 3.

- In the case of a Mandatory Conversion, the Relevant Fraction is 0.5[19].
- This means that the Issue Date VWAP will be multiplied by 55% in the case of the First Mandatory Conversion Condition and 50.51% in the case of the Second Mandatory Conversion Condition.
- The following diagram sets out the timeframes that are relevant for testing whether Conversion will occur, using the Scheduled Mandatory Conversion Date (25 May 2028) and a Relevant Fraction of 0.5. These dates are indicative only and may change.

Note: In the diagram above, dates rest on the assumption that during the VWAP Period, trading takes place on each of the Business Days, which may not be the case if trading in Ordinary Shares is suspended during the period leading up to the possible Mandatory Conversion Date.

19 Please see Sections 2.3, 2.4 and 2.5 for descriptions of other circumstances in which Challenger Capital Notes 3 may be Converted into Ordinary Shares of Challenger and where the Relevant Fraction is 0.2.

Topic	Summary	Further information
2.2.5 What is the purpose of the Mandatory Conversion Conditions?	• There is a limit on the number of Ordinary Shares that the Holder of a Challenger Capital Note 3 can be issued upon Conversion. This limit is the Maximum Conversion Number, described in Section 2.2.7 below. This limit arises from the prudential standards issued by APRA which govern the characteristics of instruments which may qualify as regulatory capital, and also from the equivalent criteria of rating agencies for such instruments. • The purpose of the Mandatory Conversion Conditions is to prevent Mandatory Conversion from occurring in circumstances where a Holder would receive a number of Ordinary Shares having a value below the total Face Value of their Challenger Capital Notes 3 due to the limitation imposed by the Maximum Conversion Number, or in circumstances where the Ordinary Shares a Holder receives cannot be sold on ASX. • The First Mandatory Conversion Condition and the Second Mandatory Conversion Condition are intended to help protect Holders against the risk of receiving a number of Ordinary Shares per Challenger Capital Note 3 limited to the Maximum Conversion Number, and hence having a value below approximately $101 per Challenger Capital Note 3 (based on the VWAP during the 20 Business Days before the Mandatory Conversion Date). • The Third Mandatory Conversion Condition is intended to protect Holders from the risk of receiving Ordinary Shares that cannot be sold on ASX, by making Conversion conditional on Ordinary Shares being quoted on ASX. • If the Mandatory Conversion Conditions are not satisfied in relation to any potential Mandatory Conversion, it will be deferred until such time that those conditions are satisfied. If the Mandatory Conversion Conditions are never satisfied, Challenger Capital Notes 3 will never be Converted to Ordinary Shares (however, note that no such conditions apply to Non-Viability Conversion – please see Section 2.4).	
2.2.6 How many Ordinary Shares will a Holder receive on the Mandatory Conversion Date?	• On the Mandatory Conversion Date, a Holder will receive a number of Ordinary Shares per Challenger Capital Note 3 ('**Conversion Number**') calculated in accordance with the following formula: $$\textbf{Conversion Number} = \frac{\textbf{Face Value}}{\textbf{99\% x VWAP}}$$ subject always to the Conversion Number being no greater than the Maximum Conversion Number (see below in Section 2.2.7), where: – **VWAP** is the volume weighted average price of Ordinary Shares during the VWAP Period; and – **VWAP Period** is the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date.	Clauses 4 and 8.1 of the Terms

Topic	Summary	Further information
	Illustrative example of Mandatory Conversion As an example, in the case of the Scheduled Mandatory Conversion Date on 25 May 2028, assuming the Issue Date VWAP was $4.15[20], and using a Relevant Fraction of 0.5, determination of whether the Mandatory Conversion Conditions are satisfied and what number of shares will be received on Conversion would be calculated as follows: **Step 1: satisfying the Mandatory Conversion Conditions – worked example** **The First Mandatory Conversion Condition** This condition requires that the VWAP on the 25th Business Day immediately preceding (but not including) 25 May 2028 (assuming there is trading in Ordinary Shares on that day) is greater than the First Test Date Percentage (being 110% x 0.5) of the Issue Date VWAP: • The First Test Date Percentage is 55% (being 110% x 0.5). • The First Test Date Percentage of the Issue Date VWAP would therefore be $2.28 (being 55% of $4.15). • Assume that the VWAP on 19 April 2028 (being the 25th Business Day immediately preceding, but not including, 25 May 2028) is $2.50. • Since the VWAP on 19 April 2028 ($2.50) is greater than the First Test Date Percentage of the Issue Date VWAP ($2.28), the First Mandatory Conversion Condition would be satisfied. **The Second Mandatory Conversion Condition** This condition requires that the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) 25 May 2028 is greater than the Conversion Test Date Percentage (being 101.01% x 0.5) of the Issue Date VWAP: • The Conversion Test Date Percentage is 50.5050% (being 101.01% x 0.5). • The Conversion Test Date Percentage of the Issue Date VWAP would be $2.10 (being 50.5050% of $4.15). • Assume that the VWAP during the period from (and including) 27 April 2028 to (and including) 24 May 2028 (being the 20 Business Days in which trading in Ordinary Shares took place immediately preceding 25 May 2028) is $2.60. • Since the VWAP from 27 April 2028 to 24 May 2028 ($2.60) is greater than the Conversion Test Date Percentage of the Issue Date VWAP ($2.10), the Second Mandatory Conversion Condition would be satisfied. **The Third Mandatory Conversion Condition** This condition requires that no Delisting Event applies on 25 May 2028, which means that on the Mandatory Conversion Date Challenger is listed on ASX, its Ordinary Shares are quoted on ASX and have not been suspended from trading for five consecutive Business Days prior to the Mandatory Conversion Date or on that date, and that Challenger is not prevented by any applicable law or order of any court or any action of any government authority or any other reason from Converting Challenger Capital Notes 3.	

20 The Issue Date VWAP may be adjusted as described in Section 2.2.8.

Topic	Summary	Further information
	In these circumstances, the Third Mandatory Conversion Condition would be satisfied. **Step 2: calculating the number of shares to be received by Holders on Mandatory Conversion** On the Mandatory Conversion Date, Holders will be entitled to receive in respect of each Challenger Capital Note 3 the Conversion Number of Ordinary Shares determined as follows: $$\textbf{Conversion Number} = \frac{\textbf{Face Value}}{\textbf{99\% x VWAP}}$$ • The assumed VWAP from 27 April 2028 to 24 May 2028 (being the 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) 25 May 2028) is $2.60. • The Face Value is $100. • The Conversion Number would be 38.8500 (being $100 divided by (99% x $2.60)). • Assuming a Holder has 100 Challenger Capital Notes 3, the Holder would be entitled to 3,885 Ordinary Shares (i.e. 100 x 38.8500)[21]. • This example is for illustrative purposes only. The figures in it are not forward-looking statements and do not indicate, guarantee or forecast the Issue Date VWAP or future VWAP or other price of Ordinary Shares.	
2.2.7 What is the Maximum Conversion Number?	• The Conversion Number (i.e. the number of Ordinary Shares a Holder will receive on Conversion per Challenger Capital Note 3) is subject always to a Maximum Conversion Number, which is calculated in accordance with the following formula: $$\textbf{Maximum Conversion Number} = \frac{\textbf{Face Value}}{\textbf{Issue Date VWAP x Relevant Fraction}}$$ where **Relevant Fraction** means 0.5 (in relation to a Mandatory Conversion). • For example, if the Issue Date VWAP is $4.15, the Maximum Conversion Number would be 48.1928 (being the Face Value of $100 divided by ($4.15 x 0.5)). • In this example the Second Mandatory Conversion Condition has been satisfied and the Conversion Number is less than the Maximum Conversion Number. Where the Second Mandatory Conversion Condition (or any other Mandatory Conversion Condition) is not satisfied, Mandatory Conversion would not occur and would be deferred until the next Distribution Payment Date when all Mandatory Conversion Conditions were satisfied.	Clause 8.1 of the Terms
2.2.8 What adjustments to the Issue Date VWAP are made to account for changes to Challenger's capital?	• The Issue Date VWAP, and consequently the Maximum Conversion Number, will be adjusted to reflect a consolidation, division or reclassification of Ordinary Shares and pro rata bonus issues as set out in the Terms (but not other transactions, including rights issues, which may affect the capital of Challenger).	Clauses 8.4 to 8.7 of the Terms

21 If the total number of Ordinary Shares to be issued in respect of a Holder's aggregate holding of Challenger Capital Notes 3 would include a fraction of an Ordinary Share, that fraction will be disregarded.

Topic	Summary	Further information
	• However, no adjustment will be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than one percent of the Issue Date VWAP then in effect.	
2.2.9 What will happen if the Mandatory Conversion Conditions are not satisfied on the Scheduled Mandatory Conversion Date?	• If any of the Mandatory Conversion Conditions are not satisfied on 25 May 2028, Challenger Capital Notes 3 continue to be on issue and Conversion is deferred until the first Distribution Payment Date on which all of the Mandatory Conversion Conditions are satisfied. • Challenger will give notice to the Holders and the Trustee that Conversion will not occur (or has not occurred) as a result of any of the Mandatory Conversion Conditions not being satisfied. • The Mandatory Conversion Conditions may never be satisfied and consequently Mandatory Conversion may never occur. Distributions will continue to be paid (subject to Challenger in its discretion determining to pay a Distribution and to no Payment Condition existing in respect of the relevant Distribution Payment Date) until Mandatory Conversion occurs.	Clauses 4.2 and 4.4 of the Terms

2.3 Optional Exchange by Challenger

Challenger may with APRA's prior written approval elect to Exchange all or some Challenger Capital Notes 3 on 25 May 2026 ('**Optional Exchange Date**') or on the occurrence of certain events. Exchange means a Challenger Capital Note 3 is Converted into Ordinary Shares with a value of approximately $101 (based on the VWAP over a specified period), or Redeemed or Resold for its Face Value ($100).

For any such Redemption, Resale or Conversion to occur, certain conditions (summarised below) need to be satisfied and APRA's prior written approval is required. Holders should not expect that Challenger will exercise its option to Exchange Challenger Capital Notes 3, that any requirements for Exchange of Challenger Capital Notes 3 will be satisfied, or that APRA will give its approval to any Exchange of Challenger Capital Notes 3.

Topic	Summary	Further information
2.3.1 When may Challenger choose to Exchange?	• Challenger may choose to Exchange: – all or some Challenger Capital Notes 3 on the Optional Exchange Date; – all or some Challenger Capital Notes 3 following the occurrence of a Tax Event or a Regulatory Event; or – all Challenger Capital Notes 3 on an Exchange Date following the occurrence of a Potential Acquisition Event. • In the case of an Exchange on the Optional Exchange Date, a Tax Event or a Regulatory Event, Exchange means: – Challenger Converts Challenger Capital Notes 3 into a variable number of Ordinary Shares with a value (based on the VWAP during a period of 20 Business Days immediately preceding (but not including) the Exchange Date) of approximately $101 per Challenger Capital Note 3; – Challenger Redeems Challenger Capital Notes 3 for $100 per Challenger Capital Note 3; or – Challenger Resells Challenger Capital Notes 3 for $100 per Challenger Capital Note 3.	Clauses 6.1, 6.3, 6.4 and 18.2 of the Terms

Topic	Summary	Further information
	• In the case of a Potential Acquisition Event, Exchange means only Conversion of Challenger Capital Notes 3 into a variable number of Ordinary Shares[22]. • Challenger's right to elect to Exchange is subject to APRA's prior written approval and is restricted in the circumstances described in Sections 2.3.4, 2.3.5, 2.3.6 and 2.3.7 below. • Holders should not expect that APRA will give its approval for any Exchange.	
2.3.2 When is the Optional Exchange Date?	• The Optional Exchange Date is 25 May 2026.	Clause 18.2 of the Terms

2.3.3 What is a Tax Event, Regulatory Event or Potential Acquisition Event?	• A summary of these events is as follows:
	– **Tax Event** means broadly that the Directors receive advice that, as a result of a change in tax law or regulation in Australia on or after the Issue Date (which Challenger did not expect on the Issue Date), there is more than an insubstantial risk which Challenger determines in its discretion to be unacceptable that any Distribution would not be frankable or that Challenger would be exposed to a more than insignificant increase in its costs, charges and expenses in relation to Challenger Capital Notes 3;
	– **Regulatory Event** means broadly that:
	  – the Directors receive legal advice that, as a result of a change in law or regulation on or after the Issue Date (which Challenger did not expect on the Issue Date), additional requirements would be imposed on Challenger in relation to Challenger Capital Notes 3, which the Directors determine would have a not insignificant adverse impact on it; or
	  – as a result of a change in law or regulation on or after the Issue Date (which Challenger did not expect on the Issue Date) or a statement received from APRA, the Directors determine that Challenger is not, or will not be, entitled to treat some or all Challenger Capital Notes 3 as a Relevant Perpetual Subordinated Instrument (as described in Section 2.6.4), except where this is because of a limit or other restriction on that treatment which is in effect on the Issue Date, or which Challenger expected on the Issue Date may come into effect; and
	– **Potential Acquisition Event** means broadly that:
	  – a takeover bid is made to acquire Challenger's Ordinary Shares and the offer is, or becomes, unconditional and the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue, or a majority of Directors recommend acceptance of the offer (without the need that all regulatory approvals necessary for the acquisition have been obtained); or
	  – a court orders the holding of meetings to approve a scheme of arrangement with respect to Challenger, which would result in a person having a relevant interest in more than 50% of the Ordinary Shares on issue after the scheme is implemented.
		Clause 18.2 of the Terms

22 If Conversion occurs as a result of a Potential Acquisition Event, the period for calculating the VWAP will be the lesser of (i) 20 Business Days and (ii) the number of Business Days on which Ordinary Shares were traded between the occurrence of the Potential Acquisition Event and the Exchange Date.

Topic	Summary	Further information
2.3.4 What are the restrictions on Conversion being elected as the Exchange Method?	• Challenger may not elect Conversion as the Exchange Method if, on the Non-Conversion Test Date (defined in Section 2.3.5 below), either of the Optional Conversion Restrictions apply. • Further, if Challenger has elected Conversion as the Exchange Method and issued an Exchange Notice, Challenger may not proceed to Convert Challenger Capital Notes 3 if, on the Exchange Date, certain further Conversion restrictions apply.	Clauses 6.5 and 6.6 of the Terms
2.3.5 What are the Optional Conversion Restrictions?	• The Optional Conversion Restrictions are: – **First Optional Conversion Restriction:** the VWAP on the Non-Conversion Test Date is less than or equal to 22% of the Issue Date VWAP; and – **Second Optional Conversion Restriction:** a Delisting Event applies on the Non-Conversion Test Date. • The **Non-Conversion Test Date** is the second Business Day before the date on which Challenger intends to send an Exchange Notice advising Holders that it wishes to Convert Challenger Capital Notes 3 (or, if trading in Ordinary Shares did not occur on that date, the last Business Day prior to that date on which trading in Ordinary Shares occurred).	Clause 6.5 of the Terms
2.3.6 What are the further restrictions on Conversion on the Exchange Date?	• The further Conversion restrictions on the Exchange Date are that either the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of the Exchange Date. • In determining whether the Second Mandatory Conversion Condition is satisfied in this case, the Relevant Fraction used is 0.2, i.e. the condition will be satisfied if the VWAP is greater than 20.202% of the Issue Date VWAP. • Challenger will notify Holders if the further Conversion restrictions on the Exchange Date apply, and the Conversion will be deferred until the first Distribution Payment Date on which all of the Mandatory Conversion Conditions would be satisfied as if that Distribution Payment Date were a 'Relevant Date' for the purpose of the Mandatory Conversion Conditions (unless Challenger Capital Notes 3 are otherwise Exchanged in accordance with the Terms).	Clause 6.6 of the Terms
2.3.7 When can Redemption or Resale be selected as the Exchange Method?	• Challenger may only elect Redemption or Resale as the Exchange Method: – on the Optional Exchange Date (25 May 2026); or – in the case of a Tax Event or Regulatory Event; and provided in all cases where Challenger elects Redemption that APRA is satisfied that either: – Challenger Capital Notes 3 which are the subject of the Redemption are replaced concurrently or beforehand with a Relevant Perpetual Subordinated Instrument of the same or better quality or Ordinary Shares and the replacement of Challenger Capital Notes 3 is done under conditions that are sustainable for Challenger's income capacity; or – having regard to the projected capital position of Challenger and the Challenger Group, Challenger does not have to replace Challenger Capital Notes 3 the subject of the Redemption.	Clause 6.4 of the Terms

Topic	Summary	Further information
2.3.8 What is a Resale?	• Resale is a process by which Challenger may select one or more third parties in its absolute discretion ('**Nominated Purchaser(s)**') to purchase some or all Challenger Capital Notes 3 from Holders (on such terms as may be agreed between Challenger and the Nominated Purchaser(s)). The terms of appointment may include terms: – as to the conditions of any Resale, the procedures for settlement of such Resale and the circumstances in which the Exchange Notice in respect of such Resale may be amended, modified added to or restated; – as to the substitution of another entity as Nominated Purchaser (in accordance with the Terms); or – on which any Challenger Capital Notes 3 acquired by a Nominated Purchaser may be Redeemed, Converted or otherwise dealt with. • To the extent any of the terms on which the Nominated Purchaser(s) is appointed causes APRA to object to Challenger using, or having used, the proceeds of the Challenger Capital Notes 3 to fund Additional Tier 1 Capital of CLC then the prior written approval of APRA is required before the Nominated Purchaser is appointed on those terms. • If Challenger appoints more than one Nominated Purchaser, some or all Challenger Capital Notes 3 may be purchased by any one or any combination of Nominated Purchasers, as determined by Challenger, for the Resale Price.	Clauses 10.1 and 10.2 of the Terms
2.3.9 What will I receive if my Challenger Capital Notes 3 are Resold?	• If a Challenger Capital Note 3 is Resold, the Holder of that Challenger Capital Note 3 will receive the Resale Price (being $100 per Challenger Capital Note 3). The Resale Price is equivalent to the Face Value.	Clause 18.2 of the Terms
2.3.10 When can a Resale occur?	• A Resale can occur on the Optional Exchange Date or following a Tax Event or a Regulatory Event.	Clause 6.1 of the Terms
2.3.11 Are there any requirements in relation to the identity of Nominated Purchaser(s) that Challenger can appoint?	• Challenger may not appoint a person as a Nominated Purchaser unless that person: – has undertaken to acquire Challenger Capital Notes 3 from each Holder for the Resale Price on the terms and conditions that Challenger reasonably determines for the benefit of each Holder; – has a long-term counterparty credit rating from one of S&P Global Ratings, Moody's Investors Service, Inc. or Fitch Ratings Ltd. of not less than investment grade; and – is not a Related Entity of Challenger.	Clause 10.3 of the Terms
2.3.12 What if a Nominated Purchaser does not pay the Resale Price?	• If a Nominated Purchaser does not pay the Resale Price on the Exchange Date when due, the Resale to that Nominated Purchaser will not occur and Holders will continue to hold Challenger Capital Notes 3 in accordance with the Terms until Challenger Capital Notes 3 are otherwise Converted, Redeemed or Resold.	Clause 10.6 of the Terms
2.3.13 Can Holders request Exchange?	• Holders do not have a right to request Exchange.	Clauses 6 and 11.2(c) (i) of the Terms

2.4 Non-Viability Conversion

Challenger Capital Notes 3 have certain loss absorption features, which will be triggered if APRA determines that Challenger is or may become 'non-viable'. APRA has not provided specific guidance as to how it would determine non-viability (however, in the context of regulatory capital instruments issued by authorised deposit-taking institutions ('**ADIs**'), APRA has indicated that non-viability is likely to arise prior to the insolvency of an ADI). It would be expected to include, but may not be limited to, serious impairment of Challenger's financial position. A determination by APRA of non-viability of Challenger may result in Conversion or Write-Off of Challenger Capital Notes 3. These features are required to be included in the Terms for prudential regulatory purposes.

Topic	Summary	Further information
2.4.1 Why do the Terms include a Non-Viability Trigger Event?	• A Non-Viability Trigger Event is a regulatory requirement for Challenger Capital Notes 3 to be treated by APRA as described in Section 2.6.	
2.4.2 What is a Non-Viability Trigger Event?	• A Non-Viability Trigger Event occurs when: – APRA issues a notice to Challenger that the conversion to Ordinary Shares or write-off of Relevant Perpetual Subordinated Instruments is necessary because, without it, APRA considers that Challenger would become non-viable; or – APRA notifies Challenger that it has determined that, without a public sector injection of capital (or equivalent support) Challenger would become non-viable. • If a Non-Viability Trigger Event occurs, Challenger must convert to Ordinary Shares or write-off: – all Relevant Perpetual Subordinated Instruments; or – where the first paragraph above applies, such amount of the Relevant Perpetual Subordinated Instruments which is required to enable APRA to conclude that Challenger is viable without further conversion or write-off. Where APRA considers Challenger would become non-viable without a public sector injection of capital or equivalent support, all Relevant Perpetual Subordinated Instruments must be converted or written-off. • As Challenger Capital Notes 3 are Relevant Perpetual Subordinated Instruments, if a Non-Viability Trigger Event occurs, Challenger must immediately Convert some or all Challenger Capital Notes 3 to Ordinary Shares. If Conversion on account of a Non-Viability Trigger Event does not occur for any reason within five Business Days of the Non-Viability Conversion Date, those Challenger Capital Notes 3 which are required to be Converted will be Written-Off. • Where Challenger is required to convert or write-off some (but not all) Relevant Perpetual Subordinated Instruments, Challenger must endeavour to treat Holders of Challenger Capital Notes 3 and holders of other Relevant Perpetual Subordinated Instruments on an approximately proportionate basis (with some exceptions). As at the date of this Prospectus there are only two other Relevant Perpetual Subordinated Instruments on issue, being Challenger Capital Notes 1 ($345 million issued in October 2014)[23] and Challenger Capital Notes 2 ($460 million issued in April 2017). • For the meaning of Relevant Perpetual Subordinated Instrument, please see Section 2.6.4.	Clauses 5.1, 5.2, 8.13 and 18.2 of the Terms

23 Refer to footnote 4.

Topic	Summary	Further information
2.4.3 What does non-viable mean?	• APRA has not provided specific guidance as to how it would determine non-viability (however, in the context of regulatory capital instruments issued by ADIs, APRA has indicated non-viability is likely to arise prior to the insolvency of an ADI). • Non-viability would be expected to include serious impairment of Challenger's financial position and insolvency. However, it is possible that APRA's definition of non-viable may not necessarily be confined to solvency measures or capital ratios. • Challenger intends to use the proceeds from the issue of Challenger Capital Notes 3 to fund a subscription for Additional Tier 1 Capital of CLC. CLC represents a substantial part of the business of the Challenger Group. If APRA determines that CLC would become non-viable then there is a significant risk it will also determine Challenger to be non-viable. • APRA may publish further guidance on the parameters used to determine non-viability. However, it is possible that APRA will not provide further guidance, and Challenger has no control over whether or not it will do so.	
2.4.4 When would Conversion on account of a Non-Viability Trigger Event occur?	• If a Non-Viability Trigger Event occurs, Challenger must on that date (whether or not that day is a Business Day), immediately and irrevocably, Convert some or all Challenger Capital Notes 3 into Ordinary Shares. • Conversion on the occurrence of a Non-Viability Trigger Event is not subject to any Mandatory Conversion Condition being satisfied. • Conversion is immediate and from the Non-Viability Conversion Date, Challenger will treat Holders as having been issued the Conversion Number of Ordinary Shares for each Challenger Capital Note 3 they hold (noting that the Conversion Number is subject to a Maximum Conversion Number – see Section 2.4.5 below). Challenger expects any ASX trades in Challenger Capital Notes 3 that have not settled on the date a Non-Viability Trigger Event occurs will continue to settle in accordance with the normal ASX T+2 settlement, although Challenger expects the seller will be treated as having delivered, and the buyer will be treated as having acquired, the Conversion Number of Ordinary Shares for each Challenger Capital Note 3 which has been Converted as a result of the occurrence of the Non-Viability Trigger Event. • Further, Challenger must make such decisions with respect to the identity of Holders whose Challenger Capital Notes 3 will Convert at the Non-Viability Conversion Date as may be necessary or desirable to ensure Conversion occurs in an orderly manner, including disregarding any transfers of Challenger Capital Notes 3 that have not been settled or registered at that time. • Challenger must give Holders and the Trustee notice as soon as practicable that Conversion on account of a Non-Viability Trigger Event has occurred. The notice must state the Non-Viability Conversion Date and details of the amount of Challenger Capital Notes 3 Converted.	Clause 5 of the Terms

Topic	Summary	Further information
2.4.5 How many Ordinary Shares will Holders receive on the Non-Viability Conversion Date?	• The number of Ordinary Shares a Holder will receive per Challenger Capital Note 3 on account of a Non-Viability Conversion is the Conversion Number (calculated as described below). The Conversion Number must not be greater than the Maximum Conversion Number. Since there are no conditions to a Non-Viability Conversion, the number of Ordinary Shares a Holder is likely to receive per Challenger Capital Note 3 on account of a Non-Viability Conversion may be worth significantly less than the Face Value of a Challenger Capital Note 3, and a Holder may suffer loss as a consequence. • The Conversion Number which will apply on the occurrence of a Non-Viability Trigger Event is calculated in accordance with the following formula, subject always to the Conversion Number being no greater than the Maximum Conversion Number: $$\textbf{Conversion Number} = \frac{\textbf{Face Value}}{\textbf{99\% x VWAP}}$$ where **VWAP** is the volume weighted average price of Ordinary Shares during the period of five Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Non-Viability Conversion Date. The Maximum Conversion Number is calculated as: $$\textbf{Maximum Conversion Number} = \frac{\textbf{Face Value}}{\textbf{Issue Date VWAP x Relevant Fraction}}$$ In the case of a Non-Viability Trigger Event, the Relevant Fraction is 0.2. **Illustrative example of Non-Viability Conversion** **Step 1: calculating the potential number of shares to be received on Non-Viability Conversion** Assume that on 27 September 2024 (as an example), a Non-Viability Trigger Event occurs. Holders would be potentially entitled to receive, in respect of each Challenger Capital Note 3 being Converted, the Conversion Number of Ordinary Shares determined as follows: $$\textbf{Conversion Number} = \frac{\textbf{Face Value}}{\textbf{99\% x VWAP}}$$ • Assume the VWAP from (and including) 20 September 2024 to (and including) 26 September 2024 (being the five Business Days on which trading in Ordinary Shares took place immediately preceding 27 September 2024) is \$0.50. • The Face Value is \$100. • The Conversion Number would be 202.0202 (being \$100 divided by (99% x \$0.50)), subject to this number not being greater than the Maximum Conversion Number.	Clauses 5, 8.1 and 18.2 of the Terms

Topic	Summary	Further information
	Step 2: calculating the maximum number of shares to be received on Non-Viability Conversion The Maximum Conversion Number is determined as: $$\textbf{Maximum Conversion Number} = \frac{\textbf{Face Value}}{\textbf{Issue Date VWAP x Relevant Fraction}}$$ Assuming the Issue Date VWAP is \$4.15, the Maximum Conversion Number would be 120.4819 (being \$100 / (\$4.15 x 0.2). **Step 3: calculating the number of shares to be received on Non-Viability Conversion** Since the Conversion Number of 202.0202 is greater than the Maximum Conversion Number of 120.4819, the Conversion Number is equal to 120.4819, and the number of Ordinary Shares which the Holder of 100 Challenger Capital Notes 3 would receive would be limited to 12,048. The market value of the Ordinary Shares received by the Holder of 100 Challenger Capital Notes 3 (based on the VWAP assumed in this example) is \$6,024.10 which is considerably less than \$10,000.00 (the nominal value of 100 Challenger Capital Notes 3 of \$100 each)[24]. • The Maximum Conversion Number is described in Section 2.2.7 (as that number may be adjusted as described in Section 2.2.8). • Additionally, if on the occurrence of a Non-Viability Trigger Event only some, but not all, Challenger Capital Notes 3 and other Relevant Perpetual Subordinated Instruments are required to be converted, Challenger: – must endeavour to treat Holders and holders of other Relevant Perpetual Subordinated Instruments on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels, other logistical considerations and the need to effect conversion immediately; and – where Relevant Perpetual Subordinated Instruments are not all in the same currency, Challenger may treat them as if converted into a single currency of Challenger's choice at such rate of exchange as Challenger considers reasonable (but may make adjustments among Holders and holders of other Relevant Perpetual Subordinated Instruments having regard to the need to effect Conversion immediately).	
2.4.6 What happens if Challenger Capital Notes 3 cannot be Converted on the Non-Viability Conversion Date?	• If for any reason (including, without limitation, an Inability Event) Conversion of any Challenger Capital Notes 3 on account of a Non-Viability Trigger Event does not occur within five Business Days of the Non-Viability Conversion Date, then Conversion of those Challenger Capital Notes 3 will not occur and Holders' rights (including to Distributions and payment of Face Value in relation to those Challenger Capital Notes 3, and potential Conversion to Ordinary Shares), are immediately and irrevocably Written-Off and terminated (with effect on and from the Non-Viability Conversion Date). This means that Holders will lose all of the value of their investment in the Challenger Capital Notes 3 without compensation.	Clauses 5.3, 8.13 and 18.2 of the Terms

24 The price at which Ordinary Shares may be sold may differ from the VWAP. The Ordinary Shares may not be listed or may not be able to be sold at prices representing their value based on the VWAP calculation or at all.

Topic	Summary	Further information
	• An **Inability Event** means that Challenger is prevented by applicable law or order of any court or action of any government authority (including regarding insolvency, winding-up or external administration) or any other reason from Converting the Challenger Capital Notes 3. The laws under which an Inability Event may arise, and the grounds on which a court or government authority may make orders preventing the Conversion of Challenger Capital Notes 3 (or other reasons which prevent Conversion), may change. • Recent changes to the law have given statutory recognition to the conversion and write-off provisions in regulatory capital instruments (such as the Challenger Capital Notes 3), subject to limited exceptions. • Challenger may (but is not required to) seek legal advice as to whether an Inability Event has occurred and is subsisting, and an Inability Event is taken to subsist if Challenger receives legal advice to that effect.	

2.5 Conversion on an Acquisition Event

Challenger is also required to Convert Challenger Capital Notes 3 into Ordinary Shares where Challenger is acquired by way of a takeover bid or scheme of arrangement which meets certain requirements (described below).

There are conditions to Conversion in these circumstances, which are designed to ensure that Holders receive Ordinary Shares with a value of approximately $101 for each Challenger Capital Note 3 they hold, and that the Ordinary Shares received may be sold on ASX.

These conditions may never be satisfied and accordingly Challenger Capital Notes 3 may never Convert into Ordinary Shares.

Topic	Summary	Further information
2.5.1 What is an Acquisition Event?	• An **Acquisition Event** means: (a) either: (i) a takeover bid is made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional and: (A) the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or (B) a majority of the Directors recommend acceptance of the offer; or (ii) a court approves a scheme of arrangement which, when implemented, would result in a person other than Challenger having a relevant interest in more than 50% of Ordinary Shares; and (b) all regulatory approvals necessary for the acquisition to occur have been obtained. • There may be ways in which control of Challenger or its business operations change, including as a result of regulatory intervention, which do not amount to an Acquisition Event. See Section 6.1.12 for further information.	Clause 18.2 ('Acquisition Event') of the Terms

Topic	Summary	Further information
2.5.2 What must Challenger do on the occurrence of an Acquisition Event?	• If an Acquisition Event occurs, subject to the conditions described in Sections 2.5.3 and 2.5.4 below being satisfied, Challenger must give Holders an '**Acquisition Conversion Notice**' and, on the Acquisition Conversion Date, Convert all Challenger Capital Notes 3 into a number of Ordinary Shares with a value of approximately $101 per Challenger Capital Note 3 (based on the VWAP during a period of 20 Business Days (or, if less, the number of Business Days on which trading in Ordinary Shares took place and on which Ordinary Shares were quoted for trading on ASX) immediately before (but not including) the Business Day before the Acquisition Conversion Date).	Clauses 4.3, 7.2, 8.1 and 18.2 of the Terms
2.5.3 Are there circumstances where Challenger is not required to give an Acquisition Conversion Notice?	• Challenger is not required to give an Acquisition Conversion Notice and Convert the Challenger Capital Notes 3 if either of the Optional Conversion Restrictions would apply (as if the Acquisition Conversion Notice were an 'Exchange Notice' for the purpose of the Optional Conversion Conditions).	Clauses 6.5 and 7.4 of the Terms
2.5.4 Are there cases where Challenger is not required to Convert the Challenger Capital Notes 3 following an Acquisition Event?	• If Challenger has given an Acquisition Conversion Notice, but either the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied on the Acquisition Conversion Date, Conversion will not occur. • In determining whether the Second Mandatory Conversion Condition is satisfied in this case, the Relevant Fraction used is 0.2, i.e. the condition will be satisfied if the VWAP is greater than 20.202% of the Issue Date VWAP.	Clauses 4.3 and 7.5 of the Terms
2.5.5 What happens if Conversion does not occur?	• If Challenger is not required to give an Acquisition Conversion Notice because either of the Optional Conversion Restrictions apply, or Conversion has not occurred because the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied, then Challenger will notify Holders that Conversion will not (or did not) occur (a '**Deferred Acquisition Conversion Notice**'). • Challenger must then (provided the Optional Conversion Restrictions would not apply) give a new Acquisition Conversion Notice providing for Conversion to occur on the next Distribution Payment Date (provided such date is at least 25 Business Days after the date of the Deferred Acquisition Conversion Notice). Conversion will not occur if the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied on that date. This process will be repeated until Conversion occurs or an alternative arrangement is made (see Section 2.5.6 below).	Clauses 7.4 and 7.5 of the Terms
2.5.6 What other obligations does Challenger have in connection with a takeover or scheme of arrangement?	• On the occurrence of a recommended takeover or scheme of arrangement which would result in an Acquisition Event, if the Directors consider that Challenger will not be permitted to Exchange Challenger Capital Notes 3, or the Second Mandatory Conversion Condition or Third Mandatory Conversion Condition will not be satisfied, the Directors will use all reasonable endeavours to procure that equivalent takeover offers are made to Holders, or that Holders are entitled to participate in the scheme of arrangement or a similar transaction.	Clause 12 of the Terms

2.6 Ranking and regulatory treatment of Challenger Capital Notes 3

In relation to payments in a winding-up of Challenger and payments of Distributions, Challenger Capital Notes 3 will rank ahead of Ordinary Shares, equally with all other Relevant Perpetual Subordinated Instruments (which include Challenger Capital Notes 1 and Challenger Capital Notes 2), and behind the claims of all Senior Creditors.

Challenger Capital Notes 3 will not constitute Additional Tier 1 Capital or any other form of regulatory capital of Challenger. APRA has advised that it does not object to Challenger using the proceeds of Challenger Capital Notes 3 to fund a subscription for Additional Tier 1 Capital of CLC.

Topic	Summary	Further information
2.6.1 How do Challenger Capital Notes 3 rank in relation to other Challenger instruments?	• In a winding-up of Challenger, Challenger Capital Notes 3 will rank, for payment of Face Value (being $100 per Challenger Capital Note 3) and for payment of Distributions, ahead of Ordinary Shares, equally with all other Relevant Perpetual Subordinated Instruments (including Challenger Capital Notes 1 and Challenger Capital Notes 2), but behind all Senior Creditors of Challenger. However, any return in a winding-up may be adversely affected if a Non-Viability Trigger Event occurs because all or some Challenger Capital Notes 3 will be required to be Converted or, if Conversion does not occur for any reason within five Business Days of the Non-Viability Trigger Event, Written-Off (see Sections 1.3 and 2.4 for further information).	Clauses 2.1, 5, 16.2 and 18.2 of the Terms
2.6.2 Who is APRA?	• APRA is the prudential regulator of the Australian financial services industry. APRA oversees life insurance companies, banks, credit unions, building societies, general insurance and reinsurance companies, private health insurance companies, friendly societies and most members of the superannuation industry. • APRA's mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions APRA supervises are met within a stable, efficient and competitive financial system. • APRA's website at www.apra.gov.au includes further details of its functions and prudential standards.	
2.6.3 What is regulatory capital?	• Any business requires capital to support its income generating activities in its chosen industry. • APRA's regulatory capital prudential standards aim to ensure that regulated institutions including life insurers, banks, general insurers and regulated registrable superannuation entities, maintain adequate capital to support the risks associated with their activities and can withstand unexpected losses. APRA has detailed guidelines and restrictions on the types of capital instruments that are permitted to form the capital base of the institutions it regulates. The types of capital deemed eligible for inclusion in the capital base of a regulated institution are referred to as regulatory capital. • APRA classifies regulatory capital of life insurers into two tiers for its supervisory purposes – referred to as Tier 1 Capital and Tier 2 Capital.	

Topic	Summary	Further information
	• Tier 1 Capital is higher quality capital than Tier 2 Capital and is comprised of: – Common Equity Tier 1 Capital; and – Additional Tier 1 Capital. • Tier 2 Capital is comprised of capital instruments with loss-absorption characteristics required for prudential capital instruments that do not satisfy the criteria for Tier 1 Capital. • The Challenger Group is subject to APRA's non-capital related prudential standards for the supervision of conglomerate groups (known as a 'Level 3 group'). APRA has published draft capital-related prudential standards applicable to Level 3 groups (such as the Challenger Group) but, in March 2016 APRA announced that it has deferred their implementation until a number of domestic and international policy initiatives are further progressed.	
2.6.4 What is the regulatory treatment of Challenger Capital Notes 3?	• If APRA's treatment of Challenger Capital Notes 3 as a Relevant Perpetual Subordinated Instrument changes, a Regulatory Event (as described in Section 2.3.3) may occur and Challenger may have an option to Exchange Challenger Capital Notes 3. • APRA has advised that: – it does not object to Challenger using the proceeds of Challenger Capital Notes 3 to fund a subscription for Additional Tier 1 Capital of CLC; and – Challenger Capital Notes 3 will not constitute Additional Tier 1 Capital or any other form of regulatory capital of Challenger. • An instrument (such as Challenger Capital Notes 3) which: – is capable of being converted into Ordinary Shares of Challenger or written-off where APRA makes a determination of non-viability; and – has been confirmed in writing by APRA to Challenger as constituting, as at the date of its issue, an instrument the proceeds of which APRA does not object to the Challenger Group using to fund a subscription for Additional Tier 1 Capital of CLC, is referred to in this Prospectus and the Terms as a '**Relevant Perpetual Subordinated Instrument**'. • Challenger Capital Notes 1, Challenger Capital Notes 2 and Challenger Capital Notes 3 are each Relevant Perpetual Subordinated Instruments and this concept is relevant to determining what happens on the occurrence of a Non-Viability Trigger Event (see Section 2.4.2 for further information). • Recent changes to the law have given statutory recognition to the conversion and write-off provisions in regulatory capital instruments (such as the Challenger Capital Notes 1, Challenger Capital Notes 2 and Challenger Capital Notes 3), subject to limited exceptions.	

2.7 Other

Topic	Summary	Further information
2.7.1 Can Challenger issue further Challenger Capital Notes 3, or other instruments?	• Challenger may, without the consent of any Holder, issue any securities ranking equally with Challenger Capital Notes 3 (on the same terms or otherwise) or ranking in priority or junior to Challenger Capital Notes 3, or incur or guarantee any indebtedness upon such terms as it may think fit in its sole discretion. • Challenger Capital Notes 3 confer no rights on a Holder to subscribe for new securities in Challenger or to participate in any bonus issues of shares in Challenger's capital. • Challenger may also redeem, convert, buy back, return or distribute capital in respect of any share capital or other securities whether ranking behind, equally with or ahead of Challenger Capital Notes 3.	Clauses 1.8 and 17.9 of the Terms
2.7.2 What voting rights do Challenger Capital Notes 3 carry?	• Holders have no voting rights at meetings of holders of shares in Challenger. • Holders may vote at meetings for Holders in accordance with the Trust Deed. • Ordinary Shares issued on Conversion would have all the usual rights conferred by Ordinary Shares.	Clause 1.8 of the Terms
2.7.3 Can Challenger amend the Terms and Trust Deed?	• Challenger may amend the Terms and Trust Deed without the approval of Holders in certain circumstances, with the approval of the Trustee. This may include amendments: – of a formal, minor or technical nature; – made to cure any ambiguity or correct any manifest error; – necessary or expedient for the purpose of enabling the Challenger Capital Notes 3 to be listed for quotation, or to retain quotation, on ASX (or any other securities exchange) or their offering for sale; – necessary to comply with the provisions of any statute, the requirements of any statutory authority or the ASX Listing Rules (or the listing or quotation requirements of any securities exchange); – to dates or time periods stated, required or permitted in connection with a Mandatory Conversion, Non-Viability Conversion or Exchange; – to the Terms to align with the terms of any Relevant Perpetual Subordinated Instruments after the Issue Date; or – that are not materially prejudicial to the interests of Holders as a whole. • Challenger may also, with the Trustee's approval (and APRA's prior written approval where required), amend the Terms and Trust Deed if the amendment has been approved by a Holder Resolution. Certain types of amendments require the approval of Holders by a Special Resolution. • APRA's prior written approval to amend the Terms and Trust Deed is required where the amendment may cause APRA to object to Challenger using, or having used, the proceeds of the issue of Challenger Capital Notes 3 to fund Additional Tier 1 Capital of CLC.	Clauses 17.4 to 17.6 of the Terms

Topic	Summary	Further information
2.7.4 Issues of Ordinary Shares to a Nominee	• In certain circumstances Challenger will issue the Ordinary Shares which a Holder is obliged to accept on Conversion to a nominee appointed by the Issuer ('**Nominee**'). • Ordinary Shares will be issued to a Nominee: – where the Holder does not wish to receive Ordinary Shares as a result of Conversion and notifies Challenger of this at any time on or after the Issue Date and no less than 15 Business Days prior to the Conversion Date; – where the Holder is a Foreign Holder, unless Challenger is satisfied that the laws of the Foreign Holder's country of residence permit the issue of Ordinary Shares to the Foreign Holder (subject to certain conditions); or – to the extent that a FATCA Withholding is required to be made in respect of Ordinary Shares. • Challenger will treat you as a Foreign Holder if your address in the Register is a place outside of Australia or Challenger otherwise believes you may not be a resident of Australia. • Any such Nominee: – must not be Challenger or a member of the Challenger Group or a Related Entity of Challenger; and – will sell those Ordinary Shares and pay a cash amount equal to the net proceeds to the relevant Holder. • The issue of Ordinary Shares to the Nominee satisfies Challenger's obligations in connection with the Conversion and Challenger and the Nominee do not owe any duty in relation to the price or terms on which the Ordinary Shares are sold and have no liability for any loss suffered as a result of such sale.	Clauses 8.10, 8.11 and 18.2 of the Terms
2.7.5 What are the taxation implications of investing in Challenger Capital Notes 3?	• The taxation implications of investing in Challenger Capital Notes 3 will depend on an investor's individual circumstances. Prospective investors should obtain their own taxation advice. • A general outline of the Australian taxation implications for certain investors of participating in the Offer (including through the Reinvestment Offer) is included in the Australian taxation summary in Section 8.	Section 8
2.7.6 Trustee and Trust Deed	• Challenger has appointed Equity Trustees Limited as Trustee for Holders, as required by Chapter 2L of the Corporations Act. The Trustee holds certain rights in relation to Challenger Capital Notes 3 on trust for Holders under the Trust Deed. In certain circumstances, the Trustee will act on behalf of Holders. • The Trustee holds on trust for Holders the right to enforce any obligations of Challenger under the Terms and the Trust Deed. The Trustee will be entitled to take any action against Challenger to enforce any obligations of Challenger, subject to the Terms and the Trust Deed. • A Holder is entitled to proceed directly against Challenger to enforce a right or remedy in respect of a Challenger Capital Note 3 or under the Trust Deed only in limited circumstances. • A copy of the Trust Deed can be obtained from www.challengercapitalnotes.com.au.	Section 9.9 and the Trust Deed

Topic	Summary	Further information
2.7.7 Notices	• Where Challenger Capital Notes 3 are quoted on ASX, all notices by Challenger to Holders may be given by publication to ASX. The Terms also permit notices to be given by newspaper advertisement, post, fax or by email or electronic message (if any). • Notices to Challenger, the Trustee and the Registry must be in writing and may be sent by fax or electronic message, post or may be left at the offices of Challenger, the Trustee or the Registry at the applicable address set out in the corporate directory at the end of this Prospectus.	Clause 18 of the Trust Deed
2.7.8 Payments to bank accounts	• Subject to the Terms and applicable law, payments will be made to the person shown as the Holder in the Register at the Relevant Time on the Record Date (in the case of Distributions) or on the applicable date for payment (in the case of the Redemption Price). • See clause 14 of the Terms for further detail relating to payments in respect of Challenger Capital Notes 3.	Clause 14 of the Terms
2.7.9 Time limit on claims	• Holders should be aware that a claim against Challenger for a payment in respect of a Challenger Capital Note 3 is void unless made within 10 years (in the case of the Redemption Price) or 5 years (in the case of Distributions and other amounts) from the date on which the payment first became due.	Clause 14.8 of the Terms
2.7.10 Determination and calculation final	• Except where there is fraud or a manifest error, any determination or calculation which Challenger makes in accordance with the Terms (including with respect to the calculation of payments under a Challenger Capital Note 3) is final and binds Challenger, the Registry and each Holder.	Clause 14.9 of the Terms
2.7.11 No set-off	• A Holder does not have any right to set-off any amounts owing to it by Challenger in connection with the Challenger Capital Notes 3 against any amount owing by it to Challenger in connection with the Challenger Capital Notes 3 or otherwise. • Challenger does not have any right to set-off any amounts owing to it by a Holder against any amount owing by it to the Holder in connection with the Challenger Capital Notes 3.	Clause 16.5 of the Terms
2.7.12 Power of attorney	• Each Holder appoints each of the Issuer, its officers and any External Administrator of the Issuer (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 the Terms including, but not limited to, effecting any Conversion, Redemption or Resale or making any entry in the Register or the register of any Ordinary Shares.	Clause 11.1 of the Terms

Section 3
About the Reinvestment Offer

For information on the Repurchase Invitation, please refer to the Repurchase Booklet accompanying this Prospectus.

3.1 Overview of the Reinvestment Offer

Topic	Summary
What are Challenger Capital Notes 1?	• Challenger Capital Notes 1 are fully paid, perpetual, subordinated, unsecured convertible notes issued by Challenger in 2014. Challenger Capital Notes 1 trade on the ASX under the code 'CGFPA'.
What is happening to Challenger Capital Notes 1?	• Challenger Capital Notes 1 that are the subject of an Application Form under the Reinvestment Offer or the Repurchase Invitation will be purchased by the CCN1 Nominated Purchaser on 25 November 2020. All other Challenger Capital Notes 1 will remain quoted on the ASX and will continue trading. • If you elect to reinvest only some (and not all) of your Challenger Capital Notes 1 under the Reinvestment Offer, you will be deemed to have tendered the balance of your Challenger Capital Notes 1 to be repurchased for $100 per Challenger Capital Note 1 under the Repurchase Invitation. See the Repurchase Booklet for information on the Repurchase Invitation. • On the date of this Prospectus, Challenger issued the CCN1 Exchange Notice in accordance with the CCN1 Terms, confirming that on 25 November 2020, the CCN1 Nominated Purchaser will purchase: – all Reinvestment CCN1 for $100 per Challenger Capital Note 1 ('**CCN1 Resale Proceeds**'); – all Repurchase CCN1 for $100 per Challenger Capital Note 1 ('**Repurchase Proceeds**'). • The CCN1 Exchange Notice is irrevocable, except as provided by the CCN1 Terms. The CCN1 Resale and/or the Repurchase Invitation may not occur for a number of reasons, including if a non-viability trigger event occurs, the CCN1 Nominated Purchaser does not for any reason pay the CCN1 Resale Proceeds or the Repurchase Proceeds in full on 25 November 2020, APRA revokes its approval of the CCN1 Resale or the Repurchase Invitation or the Challenger Capital Notes 1 cannot be transferred for any reason. If the CCN1 Resale or the Repurchase Invitation does not occur, except where a non-viability trigger event occurs in respect of Challenger Capital Notes 1, Eligible CCN1 Holders who are participating in the Reinvestment Offer and/or the Repurchase Invitation will continue to hold their Challenger Capital Notes 1. • Under the CCN1 Terms, Challenger must convert any Challenger Capital Notes 1 that are outstanding on 25 May 2022 into Challenger ordinary shares, provided that the mandatory conversion conditions are satisfied.
What is the Reinvestment Offer?	• The Reinvestment Offer is an invitation to Eligible CCN1 Holders to: – apply to Challenger to have the CCN1 Resale Proceeds relating to all or some of their Challenger Capital Notes 1 reinvested in the Challenger Capital Notes 3; and – direct the CCN1 Nominated Purchaser to pay the relevant CCN1 Resale Proceeds to Challenger as Application Payment for that number of Challenger Capital Notes 3. • The Reinvestment Offer is open to Eligible CCN1 Holders until the Closing Date. • There are some differences between Challenger Capital Notes 1 and the Challenger Capital Notes 3 that Eligible CCN1 Holders should consider before deciding whether to apply to participate in the Reinvestment Offer. See Section 3.2 for further information.

Topic	Summary
Am I eligible to participate in the Reinvestment Offer?	• Participation in the Reinvestment Offer is optional. You are eligible to participate in the Reinvestment Offer if you were registered as a holder of Challenger Capital Notes 1 at 7:00pm (Sydney time) on 8 October 2020 (Challenger Capital Notes 1 must also be held on the Closing Date) and, unless Challenger otherwise determines: – are shown on the Challenger Capital Notes 1 register as having an address in Australia; – are not an individual residing in a member state of the European Union; and – are not in the United States or acting as a nominee for, or for the account or benefit of, a U.S. Person, and not otherwise prevented from receiving the Reinvestment Offer or Challenger Capital Notes 3 under the laws of any jurisdiction.
What distribution(s) will I receive?	• **If you choose to participate in the Reinvestment Offer** – CCN1 Holders that have chosen to participate in the Reinvestment Offer will receive a final distribution of $0.62 per Challenger Capital Note 1 on 25 November 2020. • **If you choose <u>not</u> to participate in the Reinvestment Offer** – you will continue to receive distributions in accordance with the CCN1 Terms. You should note that the payment of any distributions are subject to the satisfaction of the distribution payment conditions in the CCN1 Terms.
Who is the CCN1 Nominated Purchaser?	• UBS AG, Australia Branch.
What is the purpose of the Reinvestment Offer?	• The purpose of the Reinvestment Offer is to refinance Challenger Capital Notes 1 as well as to give Eligible CCN1 Holders the opportunity to reinvest their CCN1 Resale Proceeds in Challenger Capital Notes 3 and maintain an ongoing investment in securities issued by Challenger. The funds raised through the Reinvestment Offer will be used to fund a subscription for Additional Tier 1 Capital of Challenger Life Company Limited.
How do I apply to participate?	• See Section 3.3 and Section 7.4 for information on how to apply to participate in the Reinvestment Offer. • See the Repurchase Booklet for information on how to apply to participate in the Repurchase Invitation. • The Reinvestment Offer will remain open until 13 November 2020 unless the Offer is withdrawn.
Do I need to apply for a minimum number of Challenger Capital Notes 3?	• There is no minimum number of Challenger Capital Notes 1 that you must hold to be able to participate in the Reinvestment Offer. • However, if you are an Eligible CCN1 Holder and own less than 50 Challenger Capital Notes 1, you can still apply to participate in the Reinvestment Offer but you must apply to reinvest the CCN1 Resale Proceeds relating to **all** of your Challenger Capital Notes 1. • If you are an Eligible CCN1 Holder and you own 50 or more Challenger Capital Notes 1, you must apply to reinvest the CCN1 Resale Proceeds relating to at least 50 of your Challenger Capital Notes 1 and in multiples of 10 Challenger Capital Notes 1 thereafter. • If you elect to reinvest only some (and not all) of your Challenger Capital Notes 1 under the Reinvestment Offer, you will be deemed to have tendered the balance of your Challenger Capital Notes 1 to be repurchased for $100 per Challenger Capital Note 1 under the Repurchase Invitation.

Topic	Summary
Can I sell my Challenger Capital Notes 1 after I have completed and returned my Application?	• No – once your Application has been received, a holding lock will be placed on your Challenger Capital Notes 1 and you will not be able to successfully deal with your Challenger Capital Notes 1. • If you receive less CCN1 Resale Proceeds than the amount you have elected to reinvest because you sold some of your Challenger Capital Notes 1, you will be taken to have applied for the number of Challenger Capital Notes 3 that you can pay for using the CCN1 Resale Proceeds you received. • An Application to participate in the Reinvestment Offer is irrevocable once submitted but will only be effective so long as it is accepted and the Offer proceeds.
Can I continue to sell my Challenger Capital Notes 1 on market if I do not participate in the Reinvestment Offer?	• If you do not participate in the Reinvestment Offer or the Repurchase Invitation, yes. You may choose to sell your Challenger Capital Notes 1 on market through your broker at the prevailing market price, that may be higher or lower than the price you would receive if you were to participate in the Reinvestment Offer or the Repurchase Invitation. • The market price of Challenger Capital Notes 1 is subject to change from time to time. The current market price of Challenger Capital Notes 1 is available on the ASX website (www.asx.com.au), under the code 'CGFPA'. • If you elect to sell your Challenger Capital Notes 1 on market, you: – may have to pay brokerage and may receive a price greater or less than the issue price of $100 per Challenger Capital Note 1; and – have the option to use the sale proceeds of the Challenger Capital Notes 1 you sell to subsequently acquire Challenger Capital Notes 3 on market. • Following completion of the Reinvestment Offer and the Repurchase Invitation, it is expected that the number of Challenger Capital Notes 1 quoted on the ASX will significantly reduce. This may affect the liquidity of the market for Challenger Capital Notes 1 and their market price.
Can I apply for additional Challenger Capital Notes 3?	• Eligible CCN1 Holders may apply for more Challenger Capital Notes 3 than the number of Challenger Capital Notes 1 registered in their name at 7:00pm (Sydney time) on 8 October 2020. • The minimum number of additional Challenger Capital Notes 3 you can apply for is 50 Challenger Capital Notes 3 ($5,000) and thereafter your Application must be in multiples of 10 Challenger Capital Notes 3 ($1,000).
Will I receive a priority allocation of Challenger Capital Notes 3?	• Reinvestment Offer Applications will be given priority over Securityholder Offer Applications in determining the allocation of Challenger Capital Notes 3. • See Section 7.6 for information on the allocation policy.
What will happen to my Challenger Capital Notes 1 if I do not apply for them to be reinvested under the Reinvestment Offer?	• Challenger Capital Notes 1 will remain on issue in accordance with their terms. Under the CCN1 Terms, Challenger must convert any Challenger Capital Notes 1 that are outstanding on 25 May 2022 into Challenger ordinary shares, provided that the mandatory conversion conditions are satisfied.
What will happen to the Challenger Capital Notes 1 once acquired by the CCN1 Nominated Purchaser?	• Once acquired by the CCN1 Nominated Purchaser, Challenger intends to redeem all Reinvestment CCN1 in the hands of the CCN1 Nominated Purchaser by payment to the CCN1 Nominated Purchaser of an amount equal to the face value in respect of each Reinvestment CCN1.

Topic	Summary
What are the tax implications of participating in the Reinvestment Offer and will any brokerage or stamp duty be payable?	• A general outline of the taxation implications for certain investors participating in the Offer (including through the Reinvestment Offer) can be found in the Australian taxation summary in Section 8. • No brokerage or stamp duty is payable on the sale of your Challenger Capital Notes 1 to the CCN1 Nominated Purchaser, or your Application for Challenger Capital Notes 3. • CCN1 Holders who choose to sell their Challenger Capital Notes 1 on market through their broker may be required to pay applicable brokerage. • The taxation implications of participating in the Reinvestment Offer will depend on an investor's individual circumstances. You should obtain your own taxation advice before you hold or dispose of Challenger Capital Notes 1 or invest in Challenger Capital Notes 3 (including through the Reinvestment Offer).

3.2 Key differences between Challenger Capital Notes 3 and Challenger Capital Notes 1

There are a number of differences between the Challenger Capital Notes 3 and Challenger Capital Notes 1 which you should be aware of before deciding to apply to participate in the Reinvestment Offer. The following table describes the key features of the Challenger Capital Notes 3 and Challenger Capital Notes 1 and highlights the main differences between them. You should consider these differences in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) before deciding to apply for Challenger Capital Notes 3.

Topic	Challenger Capital Notes 1	Challenger Capital Notes 3
Protected under the Financial Claims Scheme	No	No
Term	Perpetual[25]	Perpetual[26]
Margin	3.40% per annum	4.60% to 4.80% per annum
Distribution rate	Floating	Floating
Distribution payment dates	Quarterly	Quarterly
Franking	Expected to be partially franked	Expected to be partially franked
Conditions to payment of distribution	Subject to the discretion of Challenger, and only payable if a payment condition (as defined in the CCN1 Terms) does not exist on the distribution payment date. Distributions are non-cumulative	Subject to the discretion of Challenger, and only payable if a Payment Condition does not exist on the Distribution Payment Date. Distributions are non-cumulative
Restriction on ordinary share dividends if distribution not paid	Yes, applies to ordinary shares only, until the next distribution payment date (as defined in the CCN1 Terms)	Yes, applies to Ordinary Shares only, until the next Distribution Payment Date (see Section 2.1.8 for further information)
Transferable	Yes, quoted on ASX under the code 'CGFPA'	Yes, expected to be quoted on ASX under the code 'CGFPC'

25 On the date of this Prospectus, Challenger issued an exchange notice in accordance with the CCN1 Terms. That notice confirms that on 25 November 2020, the CCN1 Nominated Purchaser will purchase all Reinvestment CCN1 and Repurchase CCN1 for $100 per Challenger Capital Note 1.

26 The Challenger Capital Notes 3 are scheduled to Convert into Ordinary Shares on 25 May 2028, or on the occurrence of certain Acquisition Events. Challenger may also be required to Convert the Challenger Capital Notes 3 as a result of a Non-Viability Trigger Event. In addition, the Challenger Capital Notes 3 may be Converted, Redeemed or Resold with the prior written approval of APRA. Challenger Capital Notes 3 may also be Written-Off in certain circumstances.

Topic	Challenger Capital Notes 1	Challenger Capital Notes 3
Mandatory conversion into ordinary shares	Yes, on 25 May 2022 and each distribution payment date after this date, or at any time upon the occurrence of an acquisition event or a non-viability trigger event (as defined in the CCN1 Terms)	Yes, on 25 May 2028 and each Distribution Payment Date after this date, or at any time upon the occurrence of an Acquisition Event or a Non-Viability Trigger Event
Challenger's early conversion option	Yes, on 25 May 2020 and following a regulatory event, tax event or potential acquisition event (as defined in the CCN1 Terms)[27]	Yes, on 25 May 2026 and following a Regulatory Event, Tax Event or Potential Acquisition Event
Challenger's early redemption option	Yes, on 25 May 2020 and following a regulatory event or tax event (as defined in the CCN1 Terms)[27]	Yes, on 25 May 2026 and following a Regulatory Event or Tax Event
Loss absorption event	Yes	Yes – see Section 2.4 for further information
Treated as APRA regulatory capital?	No, but used to fund a subscription for Additional Tier 1 Capital of CLC	No, but used to fund a subscription for Additional Tier 1 Capital of CLC[28]
Voting rights	No right to vote at general meetings of holders of Ordinary Shares	No right to vote at general meetings of holders of Ordinary Shares

3.3 Options available to Eligible CCN1 Holders

Option	Summary
Option 1 – Apply directly to Challenger to participate in the Reinvestment Offer	• If you are an Eligible CCN1 Holder, you may apply to participate in the Reinvestment Offer by either completing an online Application at www.challengercapitalnotes.com.au or by completing a paper Application Form and choosing Alternative A or B below (as appropriate). Under Alternative C, you may apply for additional Challenger Capital Notes 3 under the Securityholder Offer. • Applications must be received by the Registry by 5:00pm (Sydney time) on the Closing Date of the Reinvestment Offer, which is expected to be 13 November 2020. See Section 7.4 for further information on how to make an Application. • If you make an Application under the Reinvestment Offer, your CCN1 Resale Proceeds will be used as the Application Payment and you will not be required to pay any additional amount in respect of your Application. • If you participate in the Reinvestment Offer, you will receive a final distribution on 25 November 2020, subject to the satisfaction of the distribution payment conditions in the CCN1 Terms.

27 On 30 March 2020, Challenger announced that APRA had confirmed to Challenger that APRA had no objection, subject to the conditions which apply to an existing exchange, including prior written approval from APRA (which may or may not be given), to allow Challenger to repurchase, or procure the repurchase of, all or some of the Challenger Capital Notes 1 for their face value ($100) on any future quarterly distribution payment date following the optional exchange date for Challenger Capital Notes 1 (being 25 May 2020), up to (but not including) 25 May 2022.

28 APRA has advised that it does not object to Challenger using the proceeds of Challenger Capital Notes 3 to fund a subscription for Additional Tier 1 Capital of CLC.

Option	Summary
	Alternative A. Reinvest all of your CCN1 Resale Proceeds in Challenger Capital Notes 3 • You may apply to reinvest the CCN1 Resale Proceeds relating to all of the Challenger Capital Notes 1 registered in your name at 7:00pm (Sydney time) on 8 October 2020 in Challenger Capital Notes 3. • To choose this alternative, you must either submit an online Application at www.challengercapitalnotes.com.au and follow the instructions (if applying online) or indicate 'Option A – Full reinvestment' on your paper Application Form (if applying under a paper Application Form). • If you wish to participate in the Reinvestment Offer and own 50 Challenger Capital Notes 1 or fewer you must choose this Alternative A, and not Alternative B. **Alternative B. Reinvest some CCN1 Resale Proceeds in Challenger Capital Notes 3** • You may reinvest the CCN1 Resale Proceeds relating to only some of the Challenger Capital Notes 1 registered in your name at 7:00pm (Sydney time) on 8 October 2020 in Challenger Capital Notes 3. • To choose this alternative, you must either submit an online Application at www.challengercapitalnotes.com.au and follow the instructions (if applying online) or indicate 'Option B – Partial reinvestment' and specify the amount of your CCN1 Resale Proceeds which you wish to reinvest on your Application Form (if applying under a paper Application Form). You must apply to reinvest at least $5,000 (being your CCN1 Resale Proceeds relating to at least 50 Challenger Capital Notes 1). • If you elect to reinvest only some (and not all) of your Challenger Capital Notes 1 under the Reinvestment Offer, you will be deemed to have tendered the balance of your Challenger Capital Notes 1 to be repurchased for $100 per Challenger Capital Note 1 under the Repurchase Invitation. **Alternative C. Apply for additional Challenger Capital Notes 3** • You may also apply for more Challenger Capital Notes 3 than the number of Challenger Capital Notes 1 registered in your name at 7:00pm (Sydney time) on 8 October 2020. The Application for additional Challenger Capital Notes 3 will be made under the Securityholder Offer. • The minimum number of additional Challenger Capital Notes 3 you can apply for is 50 Challenger Capital Notes 3 ($5,000) and in multiples of 10 Challenger Capital Notes 1 thereafter. • To choose this alternative, you must specify the number of additional Challenger Capital Notes 3 you wish to apply for under the Securityholder Offer, either as part of the online Application process (if applying online) or on your paper Application Form (if applying under a paper Application Form). • Online Applications must be submitted at www.challengercapitalnotes.com.au. You must follow the instructions and make your Application Payment via BPAY. If you are applying under a paper Application Form, you are required to make the Application Payment, via BPAY, for the additional Challenger Capital Notes 3 applied for under the Securityholder Offer. See Section 7.5 for further information.

Option	Summary
Option 2 – Apply through your Syndicate Broker to participate in the Reinvestment Offer	• If you are an Eligible CCN1 Holder and you are an Australian resident client of a Syndicate Broker, you may apply to participate in the Reinvestment Offer through your Syndicate Broker. • You may apply to reinvest the CCN1 Resale Proceeds relating to all or some of the Challenger Capital Notes 1 registered in your name at 7:00pm (Sydney time) on 8 October 2020 in Challenger Capital Notes 3. If you do this, your CCN1 Resale Proceeds will be used as the Application Payment and you will not be required to pay any additional amount in respect of your Application. You may also choose to apply for more Challenger Capital Notes 3. • If you elect to reinvest only some (and not all) of your Challenger Capital Notes 1 under the Reinvestment Offer, you will be deemed to have tendered the balance of your Challenger Capital Notes 1 to be repurchased for $100 per Challenger Capital Note 1 under the Repurchase Invitation. • You should contact your Syndicate Broker for instructions on how to submit an Application and, if applicable, the Application Payment.
Option 3 – Participate in the Repurchase Invitation	• If you are an Eligible CCN1 Holder, you may apply to participate in the Repurchase Invitation by either completing an online Application Form at www.challengercapitalnotes.com.au or by completing a paper Application Form and choosing Option C (Full participation in the Repurchase Invitation). • If you submit an Application under the Repurchase Invitation and your tender is accepted by Challenger and the CCN1 Nominated Purchaser, all of your Challenger Capital Notes 1 will be repurchased by the CCN1 Nominated Purchaser on the Repurchase Date and you will receive $100 per Challenger Capital Note 1 in cash. • You may only participate in the Repurchase Invitation in respect of all (and not some) of your Challenger Capital Notes 1. If you elect to reinvest only some (and not all) of your Challenger Capital Notes 1 under the Reinvestment Offer, you will be deemed to have tendered the balance of your Challenger Capital Notes 1 to be repurchased for $100 per Challenger Capital Note 1 under the Repurchase Invitation. • Applications must be received by the Registry by 5:00pm (Sydney time) on the Closing Date of the Repurchase Invitation, which is expected to be 18 November 2020[29]. See the Repurchase Booklet for further information on the Repurchase Invitation, including how to participate.
Option 4 – Sell your Challenger Capital Notes 1 on market through your broker	• You may choose to sell your Challenger Capital Notes 1 on market through your broker or otherwise at the prevailing market price in the usual course. • The market price of Challenger Capital Notes 1 is subject to change from time to time. The current market price of Challenger Capital Notes 1 is available on the ASX website (www.asx.com.au), under the code 'CGFPA'. • If you sell your Challenger Capital Notes 1 on market, you may have to pay brokerage and may receive a price greater or less than the face value of $100 per Challenger Capital Note 1.

29 Applications under the Repurchase Invitation may be made up to and including 13 November 2020 by going online, using the personalised paper Application Form which accompanies the Repurchase Booklet or instructing your controlling participant (usually your broker) if your Challenger Capital Notes 1 are held on the CHESS sub-register. After 13 November 2020, applications under the Repurchase Invitation must be made by going online. See the Repurchase Booklet for further information.

Option	Summary
Option 5 – Take no action	• Participation in the Reinvestment Offer and/or the Repurchase Invitation is optional. Eligible CCN1 Holders are not required to participate in the Reinvestment Offer or the Repurchase Invitation and as such are not required to take any action. • CCN1 Holders who continue to hold Challenger Capital Notes 1 not subject to the Reinvestment Offer or the Repurchase Invitation will continue to receive distributions on their Challenger Capital Notes 1, subject to the satisfaction of the distribution payment conditions in the CCN1 Terms. • Under the CCN1 Terms, Challenger must convert any Challenger Capital Notes 1 that are outstanding on 25 May 2022 into Challenger ordinary shares, provided that the mandatory conversion conditions are satisfied.

3.4 Risks associated with participating in the Reinvestment Offer

If you are an Eligible CCN1 Holder and you apply under the Reinvestment Offer, you may receive an allocation of Challenger Capital Notes 3. As such, you will be subject to the risks associated with an investment in the Challenger Capital Notes 3 and in Challenger, many of which are outside the control of Challenger and its Directors. These risks are outlined in Section 6 and should be considered before you apply under the Reinvestment Offer.

The Reinvestment Offer is not a simple rollover into an identical investment. The Challenger Capital Notes 3 and Challenger Capital Notes 1 have some differences, and must be evaluated separately (see Section 3.2 above).

Additionally, instead of participating in the Reinvestment Offer, Eligible CCN1 Holders may obtain a better financial outcome by participating in the Repurchase Invitation, selling their Challenger Capital Notes 1 on market and subsequently acquiring Challenger Capital Notes 3 on market or not reinvesting at all.

Section 4
About the Challenger Group

This Section sets out information about Challenger Limited ('**Challenger**') and the Challenger Group.

4.1 Introduction

Challenger Limited is an investment manager with a vision to provide its customers with financial security for retirement. Founded in 1985, Challenger is one of Australia's largest listed companies with a market capitalisation of $2.5 billion as at 30 September 2020.

Challenger Limited is a non-operating holding company listed on the Australian Securities Exchange ('**ASX**'), under the code 'CGF' and the ultimate parent company of the Challenger Group. Challenger operates two core investment businesses, a Life business ('**Life**') which is Australia's largest annuity provider[30] and a fiduciary Funds Management business ('**Funds Management**') which is one of Australia's largest active fund managers[31].

Both Life and Funds Management are expected to benefit from long term growth in Australia's superannuation system. Australia's superannuation system commenced in 1992 and is now the fourth largest pension system globally and the fastest growing, with assets increasing by 11% per annum over the past 20 years[32]. Growth in Australia's superannuation system is underpinned by mandatory contributions, which are scheduled to increase from the current rate of 9.5% of gross salaries to 12.0% by 2025. The superannuation system is forecast to grow from $2.9 trillion today[33] to almost $7 trillion over the next 15 years[34]. Growth in the superannuation system is also supported by changing demographics and the Government's focus on enhancing the retirement phase of superannuation.

The Life business is regulated by the Australian Prudential Regulatory Authority ('**APRA**'), the Australian banking, superannuation, general insurance and life insurance regulator. The Challenger Group's activities are also subject to supervision by other regulatory agencies both in Australia and in other markets in which it operates (refer to Section 4.6 for further information).

As at 30 June 2020, the Challenger Group employed over 700 people and had total assets under management of $85 billion and total shareholder equity of $3.25 billion.

For the financial year ended 30 June 2020, Challenger's normalised net profit after tax was $343.7 million, and statutory net profit/(loss) after tax was ($416.0) million. A reconciliation between normalised and statutory net profit/(loss) after tax is included in Section 5 (Financial information).

Challenger is a disclosing entity for the purposes of the Corporations Act and, as a result, is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules, including an obligation to lodge half-yearly and annual financial reports with ASIC and the ASX. Copies of these and other documents lodged with ASIC are available to the public and may be purchased by calling the ASIC Customer Contact Centre on 1300 300 630, or via the ASIC Connect website and can be obtained from, or inspected at, an ASIC office. Copies of these documents can also be obtained from www.asx.com.au and Challenger's online Shareholder Centre, www.challenger.com.au/shareholder, together with Challenger's other market announcements.

4.2 Overview of the Challenger Group

The Challenger Group operates two core investment businesses, as set out below.

1. **Life** – focuses on the retirement spending phase of superannuation by providing products that convert retirement savings into safe and secure income.
2. **Funds Management** – focuses on building savings for retirement by providing investment strategies that seek to deliver superior investment returns.

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

4.3 Business lines

4.3.1 Life

Challenger Life Company Limited ('**CLC**' or '**Life**') is Australia's leading provider of annuities[35] and guaranteed retirement income products.

30 Plan for Life – June 2020 – based on annuities under administration at 30 June 2020.
31 Consolidated FUM for Australian Fund Managers – Rainmaker Roundup, June 2020.
32 Willis Towers Watson Global Pension Study 2020.
33 APRA, as at June 2020.
34 Rice Warner 2019 superannuation projections.
35 Refer to footnote 30.

Life's annuity products appeal to retirees because they provide the security and certainty of guaranteed[36] income while protecting against risks from market downturns and inflation. Lifetime annuities protect retirees from the risk of outliving their savings by paying guaranteed income for life.

The retirement incomes Life pays to its customers are backed by a high-quality investment portfolio, predominantly invested in fixed income. These investments generate investment income to fund retirement incomes paid to customers.

Life's products are generally distributed via both independent financial advisers and financial advisers tied to administrative platforms serviced by the major Australian banks and hubs ('**Major Hubs**'). Challenger annuities are available on the investment and administration platforms accessible by approximately 70%[37] of Australian financial advisers via their primary investment and administration platform.

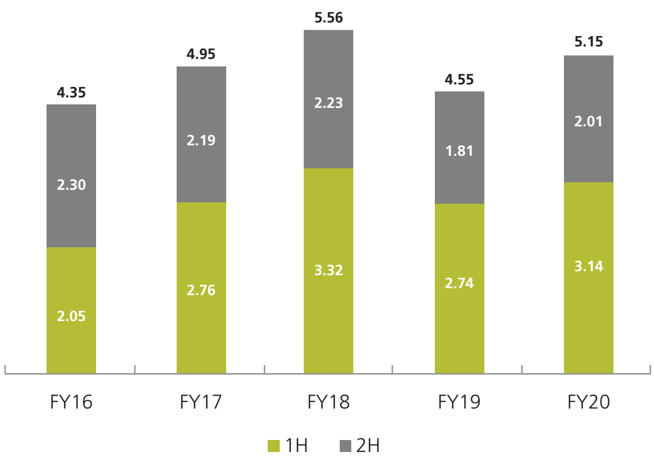
Challenger has been recognised as a retirement income product innovator and has won the Association of Financial Advisers 'Annuity Provider of the Year' for the last twelve consecutive years. Challenger remains the dominant retirement income brand in Australia and is recognised by 93%[38] of financial advisers as a leader in retirement incomes.

Life has an annuity relationship with Mitsui Sumitomo Primary Life Insurance Company Limited ('**MS Primary**'), a leading provider of foreign currency annuities in Japan and part of MS&AD Insurance Group Holdings Inc. ('**MS&AD**'), a Nikkei 225 company. Under a strategic relationship, Life reinsures both Australian-dollar and US-dollar denominated annuities distributed by MS Primary in Japan. As part of the agreement, MS Primary will provide Life an annual amount of reinsurance, across both Australian and US dollar annuities, of at least ¥50 billion (~A$670 million) per year for a minimum of five years[39, 40]. This is subject to review in the event of a material adverse change for either MS Primary or Life. MS&AD have a ~15%[41] equity interest in Challenger Limited and have a representative non-independent Non-Executive Director on the Challenger Limited Board.

The Life business also includes Accurium, one of Australia's largest providers of self-managed superannuation fund actuarial certificates. Life also participates in wholesale reinsurance longevity and mortality transactions.

The diagram below shows total Life sales for the last five years:

Total Life sales ($bn)



36 The word 'guaranteed' means payments are guaranteed by CLC from assets of its relevant statutory fund.

37 Primary platform used by advisers – Wealth Insights December 2019 Adviser Market Trends Report (provider footprint).

38 Market Pulse Adviser Study December 2019.

39 Life has entered into a new agreement with MS Primary to commence reinsuring the US dollar version of the 20-year term product from July 2019. Life will provide a guaranteed interest rate and assume the investment risk in relation to those policies issued by MS Primary and reinsured by Life.

40 Based on the exchange rate as at 30 June 2020.

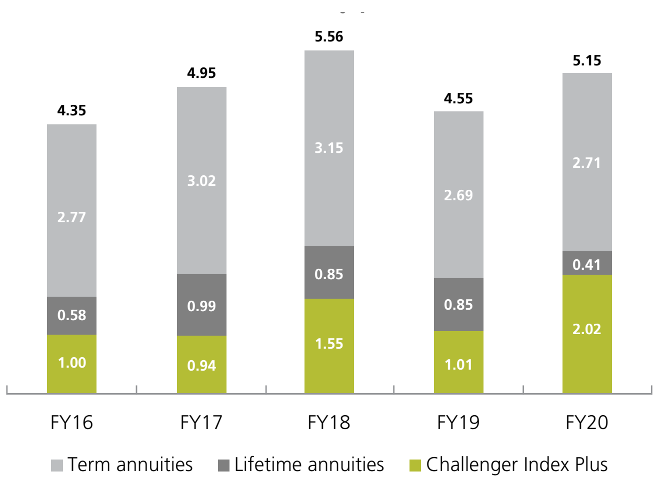
41 As at the date of this Prospectus.

The Life business provides a range of retirement income product solutions aimed at helping customers during retirement by converting retirement savings into safe and secure retirement income. Life's retirement income solutions are summarised below.

Product categories	Product features
Term annuities	Term annuity products provide a guaranteed regular income for a fixed term, regardless of how investment markets perform. Term annuities have flexible features, including length of term and ability to draw principal and interest over the term of the product. Term annuities complement other retirement income products and investments, including an account-based pension, a lifetime annuity, or the Government-funded age pension. Products are sold principally via financial advisers to retail customers. Term annuities include long term fixed rate annuities reinsured under an agreement with MS Primary.
Lifetime annuities	Lifetime annuities pay a guaranteed regular income for the life of the holder (and may also include a second person). Lifetime annuities complement other retirement investments and sources of income, such as superannuation, an account-based pension or the Government-funded age pension. Lifetime annuities include CarePlus, a lifetime annuity designed to help people receiving, or planning to receive, Government-subsidised residential aged care services. CarePlus provides guaranteed regular income for life, with a lump sum payable to the holders' beneficiaries or estate upon death. Products are sold principally via financial advisers to retail customers.
Challenger Index Plus	Challenger Index Plus is an institutional product offering guaranteed returns equal to the return of a relevant index plus a specified margin. Products are sold to institutional clients, such as superannuation funds, with returns used to provide their members with retirement income streams.

The diagram below shows the contribution of each product category to Life's total sales for the last five years:

Total Life sales, by product ($bn)

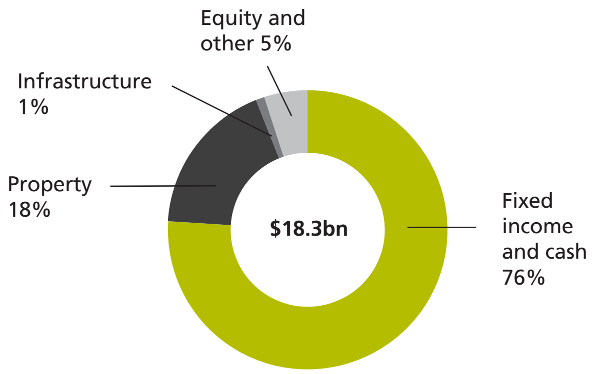


Life does not charge its customers fees or charges on any of its annuity products. Life generates income by investing the capital received from annuity holders in assets that, in aggregate, are expected to generate returns that are greater than the payments required to be made to annuity customers.

The Life business had $18.3 billion in assets under management as at 30 June 2020, which was up from $12.8 billion five years ago (as at 30 June 2015), and has been growing at a compound annual growth rate of ~7% over this period.

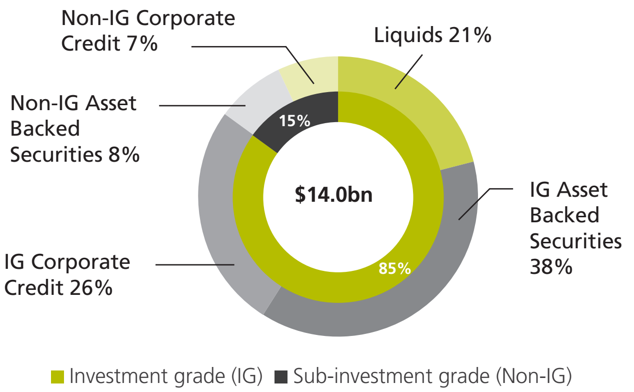
Life's investment assets comprising both policyholder and shareholder funds as at 30 June 2020 were invested in the following asset classes:

Life investment portfolio (%)



Fixed income is further broken down as at 30 June 2020 as follows:

Life fixed income portfolio (%)



Life 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, CLC and the Challenger Group, see Section 6.2). These risks are managed in accordance with Life's risk management framework and policies and procedures approved by its Board and with supervision by APRA.

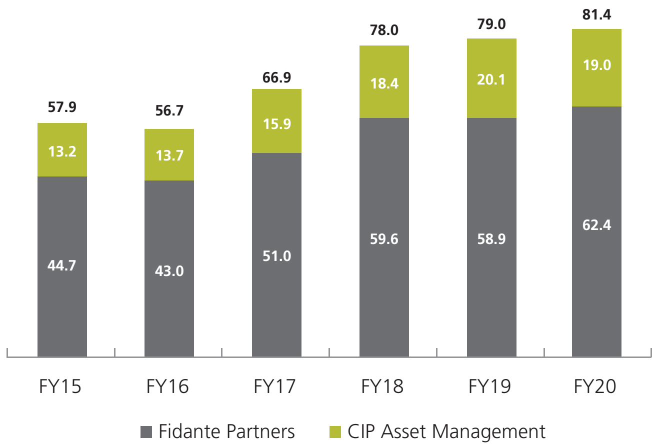
Life is well-positioned to capture long-term growth opportunities through increased superannuation savings and a greater allocation of retirement savings made to annuities.

4.3.2 Funds Management

Funds Management focuses on building savings for retirement by providing investment strategies that seek to deliver superior investment returns. Funds Management has operations in Australia, the United Kingdom and Japan.

Funds Management is Australia's fifth largest[42] and one of the fastest growing[43] asset managers and comprises Fidante Partners and CIP Asset Management. As at 30 June 2020, Funds Management had $81.4 billion in funds under management ('**FUM**'), up from $57.9 billion five years ago (as at 30 June 2015) with FUM growing at a compound annual growth rate of ~7% over this period. Growth in FUM can be attributed to the strength of Challenger's retail and institutional distribution teams, a market-leading business model focused on investor alignment and strong long-term investment performance.

Funds Management FUM ($bn)



42 Consolidated FUM for Australian Fund Managers – Rainmaker Roundup, June 2020.
43 Plan for Life analysis of Wholesale funds June 2020.

Funds Management brands and FUM as at 30 June 2020

Fidante Partners

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

The Fidante Partners business model involves taking minority equity interests in separately branded, boutique investment managers, with Challenger providing distribution, administration and business support, leaving investment managers to focus on managing investment portfolios. Fidante Partners earns distribution fees, administration fees, performance fees and shares in the equity accounted profits of boutique investment managers.

Fidante Partners continues to expand its product offering by adding new boutiques and accessing new distribution channels, including expanding into the active exchange traded funds market and forming a new strategic joint venture with global alternative asset manager, Ares Management Corporation (NYSE: ARES). These initiatives have helped grow Fidante Partners' FUM.

Fidante Partners had $62.4 billion of FUM as at 30 June 2020, increasing from $44.7 billion five years ago (as at 30 June 2015) and growing at a compound annual growth rate of ~7% over this period. FUM growth has been supported by Australia's mandatory superannuation system and Fidante Partners' product and boutique manager offering in Australia and offshore and strong investment performance. Over the past five years, 85% of Fidante Partners' Australian boutique FUM has outperformed its relevant benchmarks[44].

Challenger Investment Partners ('CIP') Asset Management

Challenger Investment Partners has been rebranded to CIP Asset Management as it transitions from an internally focused to an externally focused asset manager. The rebrand demonstrates Challenger's commitment to growing the business and building on the breadth of investment expertise.

CIP Asset Management originates and manages assets, principally across fixed income and real estate, predominantly for leading global and Australian institutions, including Life.

The CIP Asset Management Fixed Income team is a fundamentally driven, active investment manager that adopts a long-term focus. The team aims to provide diversified sources of income by seeking opportunities in both the public and private sectors, whilst maintaining capital stability.

The CIP Asset Management Real Estate team is a large scale investment manager that provides customised solutions for clients through matching investment capital with opportunities. The team has expertise across both equity and debt, together with experience in public and private markets, which provides deep insights and a significant pipeline.

CIP Asset Management had $19.0 billion of FUM as at 30 June 2020, increasing by a compound annual growth rate of ~8% over the last five years from $13.2 billion as at 30 June 2015.

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

44 As at 30 June 2020. Percentage of Fidante Partners Australian boutiques meeting or exceeding performance benchmark.

4.4 Financial summary for the year ended 30 June 2020

The following summarises the financial results for the Challenger Limited for the year ended 30 June 2020 (with comparisons against the year ended 30 June 2019):

- Normalised net profit after tax ('**NPAT**') decreased by 13.2% to $343.7 million.
- Statutory net profit/(loss) after tax attributable to equity holders was ($416.0) million.
- Normalised earnings per share ('**EPS**') decreased by 13.7% to 56.5 cents per share.
- Normalised return on equity ('**ROE**') (pre-tax) of 14.8%.
- Life annuity sales decreased by 11.7% to $3.1 billion.
- Life book growth of 2.1% for the year.
- Life investment assets decreased by 3.7% to $18.3 billion.
- Funds Management recorded total net flows of $2.5 billion.
- Total Group assets under management ('**AUM**') increased by 4.2% to $85.2 billion.
- FY20 full year dividend decreased by 18.0 cents per share to 17.5 cents per share (fully franked).
- Total equity of shareholders of Challenger Limited decreased by 9.7% to $3.25 billion.

Normalised cash operating earnings is Challenger's non-IFRS preferred profitability measure for the business, as it aims to reflect the underlying performance trends of the Life business by eliminating the volatility of fair value movements of assets and liabilities from the profit and loss (see Section 5.2.3 below). The normalised cash operating earnings framework removes the impact of period-on-period volatility of market and economic variables, which are generally non-cash and are a result of external market factors.

Normalised cash operating earnings includes cash earnings plus normalised growth but excludes investment experience. Cash earnings represents investment yield and other income, less interest expenses and distribution expenses.

Normalised capital growth is the expected capital growth for each asset class through the investment cycle and is based on Challenger's long-term expected investment returns for each asset class.

The asset and liability valuation movements are recorded as investment experience (for a description of investment experience, see Section 5.2.3). By separating these movements from the Life business result, the Life business's reported normalised earnings more closely represent the cash earnings of the business.

Challenger Group Normalised Earnings Before Interest & Tax ('EBIT') by Division and Normalised Net Profit Before Tax ('NPBT')

	Year ended 30 June 2020 ($m)	Year ended 30 June 2019 ($m)
Life	524.7	563.6
Funds Management	57.7	50.9
Corporate and other[45]	(69.4)	(60.9)
Normalised EBIT	**513.0**	**553.6**
Interest and borrowing costs	(6.5)	(5.3)
Normalised NPBT	**506.5**	**548.3**

4.5 Strategy

Challenger's vision is to provide its customers with financial security for retirement. Challenger has four strategic pillars to ensure that it achieves its vision over the long-term. The four strategic pillars are:

- increase the use of secure retirement income streams;
- lead the retirement incomes market and be recognised as the partner of choice;
- provide customers with excellent funds management solutions; and
- maintain leading operational and people practices.

4.6 Regulation

As a provider of annuities and funds management products, the Challenger Group is subject to ongoing oversight by financial services regulators in the markets in which it operates. The principal regulators that supervise and regulate the activities of the Challenger Group and the activities of the businesses and funds that members of the Challenger Group manage are APRA, ASIC, ASX, the ACCC and AUSTRAC.

45 Corporate and other comprises central functions such as Challenger Group executives, finance, treasury, legal, human resources, risk management and strategy. Corporate and other also includes interest received on the Challenger Group's cash balances and any borrowing costs associated with the Challenger Group's debt facilities.

APRA regulates companies operating in the Australian financial services industry, including Life. APRA has established prudential standards for life companies, general insurers and banks.

4.7 Directors of Challenger

The Directors of Challenger at the date of this Prospectus are:

- Peter Polson, Independent Chair;
- Richard Howes, Managing Director and Chief Executive Officer;
- John M Green, Independent Non-Executive Director;
- Steven Gregg, Independent Non-Executive Director;
- Masahiko Kobayashi[46], Non-Independent Non-Executive Director;
- JoAnne Stephenson, Independent Non-Executive Director;
- Duncan West, Independent Non-Executive Director; and
- Melanie Willis, Independent Non-Executive Director.

The Directors of Challenger may change from time to time due to the appointment or resignation of Directors.

The roles and responsibilities of the Directors are set out in the Challenger Board charter. The Board charter and further information on the Directors of Challenger, including their experience, qualifications and expertise can be found on Challenger's website at www.challenger.com.au. Information on the Board of Directors can be found under 'About'; while the Board charter can be found by selecting 'About' and then 'Corporate governance'.

46 Hiroyuki Iioka was appointed as an Alternate Director to Masahiko Kobayashi on 13 December 2019.

Section 5
Financial information

This Section sets out the following financial information:

- the historical consolidated statements of comprehensive income of Challenger Group for the years ended 30 June 2019 and 30 June 2020;
- the historical statements of comprehensive income of Challenger for the years ended 30 June 2019 and 30 June 2020;
- the historical consolidated statements of financial position of Challenger Group and the historical statement of financial position of Challenger as at 30 June 2019 and 30 June 2020,

(together, the '**Historical Financial Information**');

- the pro forma consolidated statement of financial position of Challenger Group as at 30 June 2020;
- the pro forma statement of financial position of Challenger as at 30 June 2020,

(together, the '**Pro Forma Historical Financial Information**');

- pro forma capital adequacy position as at 30 June 2020 demonstrating the effect of the Offer and the resale/redemption of Challenger Capital Notes 1 on CLC; and
- reconciliation of normalised profit to statutory profit for CLC for the years ended 30 June 2019 and 30 June 2020.

The Historical Financial Information and Pro Forma Historical Financial Information of Challenger and Challenger Group are collectively referred to as the 'Financial Information'.

5.1 Introduction

The presentation currency of the financial and capital adequacy position is Australian dollars.

The Pro Forma Historical Financial Information and pro forma capital adequacy position has been included to illustrate the Challenger Group's financial and capital position as at 30 June 2020, assuming Challenger Capital Notes 3 were issued on that date and the resale/redemption of all of Challenger Capital Notes 1 on that date. The adjustments do not impact the Challenger Group's historical consolidated statement of comprehensive income as they are assumed to occur at the balance sheet date.

The Challenger Group and the Challenger Historical Financial Information presented in this Section has been derived from Challenger's audited Annual Report for the financial year ended 30 June 2020. This report is available at www.challenger.com.au/shareholder/financial-information.

The Historical Financial Information has been prepared in accordance with the measurement and recognition requirements of the Australian Accounting Standards and other mandatory reporting requirements in Australia.

The pro forma historical consolidated statement of financial position has been prepared with the measurement and recognition requirements consistent with the accounting standards and requirements which are detailed in the Annual Report of Challenger for the financial year ended 30 June 2020, except that it includes adjustments to reflect the impact of the pro forma adjustments as if they had occurred as at 30 June 2020.

Investors should note that past performance is not a reliable indicator of future performance.

5.2 Consolidated financial information of the Challenger Group

5.2.1 Consolidated statement of comprehensive income

The following table sets out the Challenger Group's consolidated statement of comprehensive income for the financial year ended 30 June 2020 (as well as prior year comparatives).

$ million	Year ended 30 June 2020	Year ended 30 June 2019
Revenue	1,132.8	2,372.6
Expenses	(1,538.9)	(1,571.4)
Finance costs	(213.8)	(385.6)
Share of profits of associates	29.3	22.2
(Loss)/profit before income tax	**(590.6)**	**437.8**
Income tax benefit/(expense)	169.5	(127.1)
(Loss)/profit for the year after income tax	**(421.1)**	**310.7**
(Loss)/profit attributable to shareholders of Challenger Limited	(416.0)	307.8
(Loss)/profit attributable to non-controlling interests	(5.1)	2.9
(Loss)/profit for the year after income tax	**(421.1)**	**310.7**
Other comprehensive income **Items that may be reclassified to profit and loss, net of tax**		
Translation of foreign entities	1.6	35.4
Hedge of net investment in foreign entities	0.5	(34.7)
Cash flow hedges – SPV[1]	-	(0.2)
Other comprehensive income for the year	2.1	0.5
Total comprehensive income for the year after tax	**(419.0)**	**311.2**
Comprehensive income attributable to shareholders of Challenger Limited	(413.9)	308.3
Comprehensive income attributable to non-controlling interests	(5.1)	2.9
Total comprehensive income for the year after tax	**(419.0)**	**311.2**

Notes:
1 SPV = Special Purpose Vehicles.
This statement is prepared on a statutory basis in line with the Australian Accounting Standards and the Challenger Group's accounting policies.

5.2.2 Pro forma consolidated statement of financial position

The following table sets out the Challenger Group's consolidated statement of financial position as at 30 June 2020 (and prior year comparatives), as well as the pro forma consolidated statement of financial position as at 30 June 2020 assuming the Offer and the resale/redemption of Challenger Capital Notes 1 occurred on 30 June 2020.

$ million	Actuals as at 30 June 2019	Actuals as at 30 June 2020	Adjustments[2]	Pro forma as at 30 June 2020
Assets				
Cash and cash equivalents	725.4	603.9	(100.3)	503.6
Cash and cash equivalents – SPV	66.5	58.0	-	58.0
Receivables	580.0	594.1	-	594.1
Current tax assets	2.7	-	-	-
Derivative assets	762.5	1,112.5	-	1,112.5
Financial assets – fair value through profit and loss	19,929.6	20,834.0	-	20,834.0
Investment property held for sale	166.5	-	-	-
Investment and development property	3,562.7	3,685.9	-	3,685.9
Mortgage assets – SPV	860.6	706.6	-	706.6
Finance leases	49.5	31.7	-	31.7
Property, plant and equipment	28.6	25.9	-	25.9
Investments in associates	58.1	63.0	-	63.0
Other assets	76.6	65.8	-	65.8
Right-of-use lease assets[1]	-	32.4	-	32.4
Goodwill	557.3	579.9	-	579.9
Deferred tax assets	7.0	49.8	-	49.8
Other intangible assets	23.9	18.1	-	18.1
Total assets of shareholders of Challenger Limited and non-controlling interests	**27,457.5**	**28,461.6**	**(100.3)**	**28,361.3**
Liabilities				
Payables	1,168.2	1,640.9	-	1,640.9
Current tax liability	-	1.0	-	1.0
Derivative liabilities	569.2	725.4	-	725.4
Interest bearing financial liabilities	6,313.1	7,278.2	(100.3)	7,177.9
Interest bearing financial liabilities – SPV	763.4	460.7	-	460.7
External unit holders' liabilities	1,966.2	2,415.8	-	2,415.8
Provisions	19.2	35.5	-	35.5
Lease liabilities[1]	-	67.6	-	67.6
Deferred tax liabilities	165.2	5.7	-	5.7
Life contract liabilities	12,870.2	12,581.2	-	12,581.2
Total liabilities of shareholders of Challenger Limited and non-controlling interests	**23,834.7**	**25,212.0**	**(100.3)**	**25,111.7**
Net assets of shareholders of Challenger Limited and non-controlling interests	**3,622.8**	**3,249.6**	**-**	**3,249.6**

$ million	Actuals as at 30 June 2019	Actuals as at 30 June 2020	Adjustments[2]	Pro forma as at 30 June 2020
Equity				
Contributed equity	2,093.7	2,377.6	-	2,377.6
Reserves	(52.4)	(50.9)	-	(50.9)
Retained earnings	1,559.0	922.9	-	922.9
Total equity of shareholders of Challenger Limited	**3,600.3**	**3,249.6**	**-**	**3,249.6**
Non-controlling interests	22.5	-	-	-
Total equity of shareholders of Challenger Limited and non-controlling interests	**3,622.8**	**3,249.6**	**-**	**3,249.6**

Notes:

1 Reflects the adoption of AASB 16 on 1 July 2019. As permitted by the standard, the Challenger Group has not restated the comparative financial reporting periods.

2 These adjustments assume Offer proceeds of $250 million less $5.3 million in transaction fees (to be amortised over the life of the Challenger Capital Notes 3) and the resale/redemption of $345 million of Challenger Capital Notes 1. As at the date of this Prospectus, the final outcome of the Reinvestment Offer and the Repurchase Invitation is not known and the actual amount of Challenger Capital Notes 1 that are resold to the CCN1 Nominated Purchaser on 25 November 2020 may vary. To the extent that not all of the Challenger Capital Notes 1 are reinvested or repurchased under the Reinvestment Offer or the Repurchase Invitation, Challenger will retain more cash and hold an equivalent amount of additional interest bearing financial liabilities. Under the CCN1 Terms, Challenger will also have ongoing obligations to pay distributions on those Challenger Capital Notes 1 until such time as they are converted or repurchased.

5.2.3 Reconciliation of normalised profit to statutory profit

Challenger Life Company Limited ('**CLC**') represents the largest contributor to the Challenger Group's profits. CLC and its consolidated entities are required by the life insurance accounting standard AASB1038 Life Insurance Contracts to fair value all assets and policy liabilities unless otherwise stated in the standard. This gives rise to fluctuating valuation movements on assets and liabilities being recognised in the profit and loss of CLC and on consolidation for Challenger Limited. CLC is generally a long-term holder of assets and takes a long-term view of the expected capital growth of the portfolio rather than focusing on short-term movements. As a result, the Challenger Group reports its earnings on a non-IFRS normalised cash operating earnings basis which removes from the profit and loss period-on-period volatility within CLC caused by the fair value movements of the assets and liabilities.

Investment experience represents the difference between the actual investment gains/losses (both realised and unrealised) and expected gains/losses based on CLC's long-term expected returns through varying economic cycles. Investment experience also includes any economic and actuarial assumption changes arising from changes in market and other conditions.

A reconciliation of normalised earnings and investment experience to statutory profit for the Challenger Group is shown below. This reconciliation has been prepared in accordance with the methodology as detailed in the Annual Report of Challenger for the financial year ended 30 June 2020.

$ million	Year ended 30 June 2020	Year ended 30 June 2019
Net income[1]	797.4	821.0
Comprising:		
– Life normalised cash operating earnings	638.9	670.1
– Funds Management net income	158.1	149.9
– Corporate and other income	0.4	1.0
Operating expenses[1]	(284.4)	(267.4)
Normalised earnings before interest and tax (EBIT)	**513.0**	**553.6**
Comprising:		
– Life normalised EBIT	524.7	563.6
– Funds Management normalised EBIT	57.7	50.9
– Corporate and other income normalised EBIT	(69.4)	(60.9)
Interest and borrowing costs	(6.5)	(5.3)
Tax on normalised profit	(162.8)	(152.2)
Normalised net profit after tax	**343.7**	**396.1**
Investment experience after tax	(750.3)	(88.3)
Significant items after tax	(9.4)	-
Statutory net profit after tax attributable to equity holders	**(416.0)**	**307.8**

Notes:

1 'Net income' and 'Operating expenses' are internal classifications. These differ from the statutory revenue and expenses classifications, as certain costs (including distribution expenses, property expenses, management fees, special purpose vehicle expenses and finance costs) are netted against gross revenues. While the allocation of amounts to the above items and investment experience differs to the statutory view, both approaches result in the same total net profit after tax attributable to equity holders.

5.3 Financial information of Challenger Limited parent entity (standalone)

Challenger Limited is the issuing entity for Challenger Capital Notes 3. It is a non-operating holding company and the ultimate parent company of the Challenger Group. The following tables contain information extracted from Challenger Limited's audited Annual Report for the financial year ended 30 June 2020 (as well as prior year comparatives). Challenger applies the amendments to the Corporations Act that removed the requirement to prepare full parent entity financial statements. The disclosures below represent the specific parent entity disclosures for the financial year ended 30 June 2020 (as well as prior year comparatives).

5.3.1 Financial results

The following table sets out unaudited historical standalone financial results of Challenger (as parent entity).

Statement of comprehensive income

$ million	Year ended 30 June 2020	Year ended 30 June 2019
Dividends and interest from controlled entities	232.5	322.7
Finance costs	(31.1)	(36.5)
Profit before income tax	**201.4**	**286.2**
Income tax benefit	1.7	3.3
Total comprehensive income for the year	**203.1**	**289.5**

5.3.2 Pro forma historical statement of financial position

The following table sets out the standalone financial position for Challenger (as parent entity) as at 30 June 2020 (and prior year comparatives), as well as the pro forma financial position as at 30 June 2020, assuming the Offer and the resale/redemption of Challenger Capital Notes 1 occurred on 30 June 2020.

$ million	Actuals as at 30 June 2019	Actuals as at 30 June 2020	Adjustments[2]	Pro forma as at 30 June 2020
Assets				
Cash and cash equivalents	2.8	3.0	-	3.0
Receivables	1,224.1	1,439.0	-	1,439.0
Financial assets – fixed income securities[1]	805.0	805.0	(95.0)	710.0
Current tax asset	6.0	-	-	-
Deferred tax assets	-	84.1	-	84.1
Investment in controlled entities	2,088.9	2,373.8	-	2,373.8
Total assets	**4,126.8**	**4,704.9**	**(95.0)**	**4,609.9**
Liabilities				
Payables	344.7	661.6	5.3	666.9
Interest bearing financial liabilities	796.5	799.8	(100.3)	699.5
Total liabilities	**1,141.2**	**1,461.4**	**(95.0)**	**1,366.4**
Net assets	**2,985.6**	**3,243.5**	**-**	**3,243.5**
Equity				
Contributed equity	2,155.3	2,424.7	-	2,424.7
Share-based payment reserve	(113.6)	(111.0)	-	(111.0)
Retained earnings	943.9	929.8	-	929.8
Total equity	**2,985.6**	**3,243.5**	**-**	**3,243.5**

Notes:

1 'Financial assets – fixed income securities relates to the subscription by Challenger of notes issued by CLC that qualify as Additional Tier 1 Capital of CLC.

2 'Financial assets – fixed income securities' represents assumed Offer proceeds of $250 million which is invested in notes issued by CLC and offset by the resale/redemption of $345 million of Challenger Capital Notes 1. As at the date of this Prospectus, the final outcome of the Reinvestment Offer and the Repurchase Invitation is not known and the actual amount of Challenger Capital Notes 1 that are resold to the CCN1 Nominated Purchaser on 25 November 2020 may vary. To the extent that not all of the Challenger Capital Notes 1 are reinvested or repurchased under the Reinvestment Offer or the Repurchase Invitation, Challenger will hold more financial assets and hold an equivalent amount of additional interest bearing financial liabilities. Under the CCN1 Terms, Challenger will also have ongoing obligations to pay distributions on those Challenger Capital Notes 1 until such time as they are converted or repurchased.

'Interest bearing financial liabilities' represents the assumed liability for Challenger Capital Notes 3 issued under the Offer of $250 million, less total transaction fees of $5.3 million (to be amortised over the life of the Challenger Capital Notes 3). This is offset by the resale/redemption of $345 million of Challenger Capital Notes 1. As at the date of this Prospectus, the final outcome of the Reinvestment Offer and the Repurchase Invitation is not known and the actual amount of Challenger Capital Notes 1 that are resold to the CCN1 Nominated Purchaser on 25 November 2020 may vary. 'Payables' represents transaction fees of $5.3 million paid by another entity in the Challenger Group on behalf of Challenger (as parent entity).

5.4 Capital management

The capital management strategy of the Challenger Group is to ensure that there is sufficient capital to support the asset, market, operational and life insurance risks it takes within its risk appetite, to invest its capital to support those risks and to deliver a return on equity above its cost of capital. Challenger's Internal Capital Adequacy Assessment Process ('**ICAAP**') provides the framework to ensure that Challenger as a whole, and CLC in particular, is independently capitalised to meet internal and external requirements. CLC is subject to, and in compliance with, externally imposed capital requirements set and monitored by APRA. The ICAAP is reviewed annually and, where appropriate, adjustments are made to reflect changes in economic conditions and risk characteristics of Challenger's business activities.

Challenger Capital Notes 3 will not constitute regulatory capital of Challenger, although APRA has confirmed that the proceeds of Challenger Capital Notes 3 may be used to fund a subscription for Additional Tier 1 Capital of CLC.

For regulatory purposes, capital for CLC is classified as follows:

- Common Equity Tier 1 Capital comprising accounting equity with adjustments for intangible assets and regulatory reserves;
- Tier 1 Capital comprising Common Equity Tier 1 Capital plus Additional Tier 1 Capital such as certain hybrid capital instruments with 'equity-like' qualities; and
- Tier 2 Capital comprising certain securities recognised as Tier 2 Capital.

The sum of Tier 1 Capital and Tier 2 Capital is called the **Regulatory Capital Base**.

Common Equity Tier 1 Capital has the greatest capacity to absorb potential losses, followed by Additional Tier 1 Capital and then Tier 2 Capital.

APRA has developed a supervision framework for conglomerate groups which include APRA-regulated institutions, referred to as 'Level 3 groups'. The draft capital related standards are based on a Common Equity Tier 1 Capital regime, which means that eligible capital for the purposes of those standards will be required to be in the form of common equity only, subject to transitional arrangements confirmed by APRA. APRA's non-capital conglomerate prudential standards relating to measurement, management, monitoring and reporting aggregate risk exposures and intragroup transactions and exposures came into effect 1 July 2017.

In March 2016, APRA announced that it would defer the implementation of conglomerate capital requirements until a number of other domestic and international policy initiatives were further progressed. There has been no further update from APRA in relation to this position. Challenger is a non-operating holding company and is expected to be subject to the requirements of any new standards.

The capital position across CLC as at 30 June 2020 was:

- CLC's Regulatory Capital Base was 1.81 times the prescribed capital amount ('**PCA**'), and Common Equity Tier 1 Capital was 1.20 times the PCA; and
- CLC's excess Regulatory Capital Base over the PCA was $1,584.7 million.

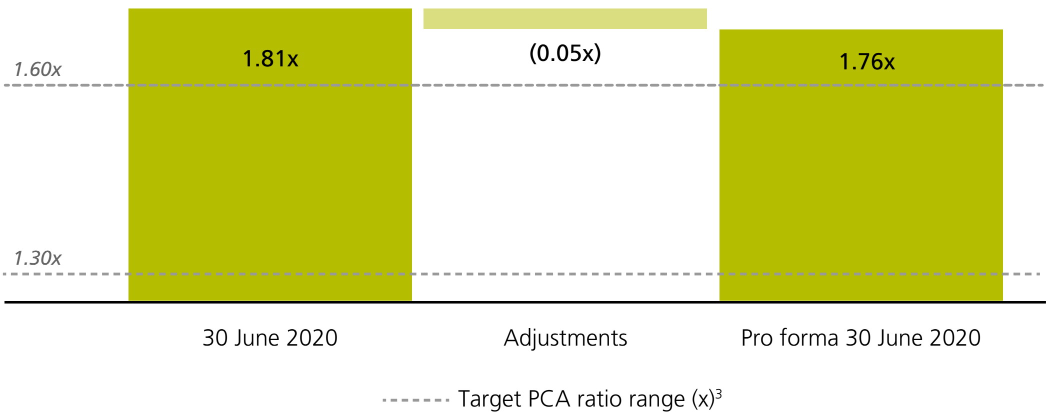
5.5 Pro forma capital adequacy position

The following table and chart set out CLC's pro forma capital adequacy position based on CLC's financial position as at 30 June 2020. The capital adequacy position as at 30 June 2020 has been obtained from Challenger's 2020 Annual Report.

CLC Regulatory Capital Base

$ million	Actuals as at 30 June 2020	Adjustments[2]	Pro forma as at 30 June 2020
Common Equity Tier 1 Capital	2,337.0	-	2,337.0
Additional Tier 1 Capital	805.0	(95.0)	710.0
Tier 2 Capital – subordinated debt	396.7	-	396.7
CLC total Regulatory Capital Base[1]	**3,538.7**	**(95.0)**	**3,443.7**
CLC prescribed capital amount	**1,954.0**	**-**	**1,954.0**
CLC excess over prescribed capital amount	**1,584.7**	**(95.0)**	**1,489.7**
CLC PCA ratio (times)	**1.81**	**-**	**1.76**

CLC PCA ratio (times)



Notes:

1 CLC's regulatory capital base includes a $396.7 million subordinated debt instrument which is fully admissible as Tier 2 Capital as at 30 June 2020. This instrument has an optional call date in November 2022 and a legal final maturity in November 2042 and will remain fully eligible as Tier 2 Capital until its call date in November 2022, after which its eligibility begins amortising on a straight line basis over four years.

2 Assumes Challenger uses the proceeds from the issue of Challenger Capital Notes 3 of $250 million to fund a subscription for Additional Tier 1 Capital of CLC for the same amount. APRA has confirmed that the proceeds of Challenger Capital Notes 3 can be used for such a purpose. This amount is offset by a reduction of $345 million of Additional Tier 1 Capital of CLC relating to the resale/redemption of Challenger Capital Notes 1. As at the date of this Prospectus, the final outcome of the Reinvestment Offer and the Repurchase Invitation is not known and the actual amount of Challenger Capital Notes 1 that are resold to the CCN1 Nominated Purchaser on 25 November 2020 may vary. Additionally, there is no assumed change in prescribed capital amount upon receipt and repayment of the funds by CLC. To the extent that not all of the Challenger Capital Notes 1 are reinvested or repurchased under the Reinvestment Offer or the Repurchase Invitation, Challenger will retain more Additional Tier 1 Capital. Under the CCN1 Terms, Challenger will also have ongoing obligations to pay distributions on those Challenger Capital Notes 1 until such time as they are converted or repurchased.

3 While CLC does not target a specific PCA ratio, CLC's internal capital models result in a PCA ratio under current circumstances in the range of 1.3 to 1.6 times. This range will change over time and is dependent on a number of factors.

Section 6
Investment risks

This Section describes some of the risks associated with an investment in Challenger Capital Notes 3 and in Challenger, CLC and the Challenger Group.

Challenger is subject to continuous disclosure obligations, requiring new material information to be announced to the ASX. The risks described in this Section are based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it did occur. They are not an exhaustive statement of all risks that might emerge, they are not listed in order of likelihood of occurrence or impact, and there is no guarantee or assurance that the importance of different risks will not change or that other risks will not emerge. Holders may suffer loss as a result of these risks. If you have any questions about these risks, you should seek professional advice from a licensed adviser before you make an investment decision.

Before applying for Challenger Capital Notes 3, you should consider whether Challenger Capital Notes 3 are a suitable investment for you. There are risks associated with an investment in Challenger Capital Notes 3 and in Challenger, CLC and the Challenger Group, many of which are outside the control of Challenger and its Directors. These risks include those referred to in this Section and other matters referred to in this Prospectus.

6.1 Risks associated with investing in Challenger Capital Notes 3

6.1.1 Challenger Capital Notes 3 are not policy liabilities

Investments in Challenger Capital Notes 3 are an investment in Challenger, CLC and the Challenger Group, and may be affected by the ongoing performance, financial position and solvency of Challenger. Challenger Capital Notes 3 are not:

- policy liabilities of CLC, Challenger or any other member of the Challenger Group;
- guaranteed or insured by any government, government agency or compensation scheme of Australia or any other jurisdiction; or
- secured over the assets of Challenger or any member of the Challenger Group.

The investment performance of Challenger Capital Notes 3 is not guaranteed by Challenger or any other member of the Challenger Group.

6.1.2 Challenger Capital Notes 3 are perpetual, unsecured and subordinated obligations

Challenger Capital Notes 3 are unsecured and subordinated obligations issued by Challenger. They are perpetual instruments, meaning they have no maturity date, so Holders may never be repaid the principal they have invested, and Challenger Capital Notes 3 may never be Converted to Ordinary Shares.

Challenger Capital Notes 3 are claims on Challenger, a non-operating holding company of the companies in the Challenger Group. The majority of Challenger's assets consist of investments in companies which are other members of the Challenger Group. Challenger's claims in respect of those investments rank behind the relevant company's creditors and, in the case of CLC, also rank behind policyholders, in a winding-up of those companies. Holders have no claim on any other member of the Challenger Group for payment of any amount in respect of Challenger Capital Notes 3.

In a winding-up of Challenger, if Challenger Capital Notes 3 have not already been Converted or Written-Off on account of a Non-Viability Trigger Event, Challenger Capital Notes 3 are subordinated and Holders rank behind Senior Creditors for payment of the Face Value. Challenger Capital Notes 3 will rank equally with, and shall be paid in proportion to, the claims of holders of other instruments issued as Relevant Perpetual Subordinated Instruments. Challenger Capital Notes 3 will rank ahead only of Ordinary Shares of Challenger. Holders will lose their investment in Challenger Capital Notes 3 if there are insufficient assets to satisfy Senior Creditors in a winding-up of Challenger. Distributions, which are payable at Challenger's absolute discretion, would not be payable and no claim may be brought in respect of any unpaid Distributions in a winding-up of Challenger.

If APRA determines that a Non-Viability Trigger Event has occurred, it will adversely affect the claims of Holders in the event of a winding-up. If a Non-Viability Trigger Event occurs, Challenger is required to Convert some or all Challenger Capital Notes 3 to Ordinary Shares. After Challenger Capital Notes 3 are Converted, Holders will then hold Ordinary Shares and rank below all creditors in a winding-up of Challenger. If Conversion does not occur for any reason within five Business Days of the Non-Viability Conversion Date, those Challenger Capital Notes 3 which are required to be Converted will be Written-Off. If Challenger Capital Notes 3 are Written-Off, all rights in relation to those Challenger Capital Notes 3 will be terminated, and Holders will lose the entire amount of their investment without compensation.

Although Challenger Capital Notes 3 may pay a higher rate of distribution than comparable securities and instruments which are not subordinated, there is a significant risk that Holders will lose all or some of their investment in Challenger Capital Notes 3 should Challenger become insolvent.

6.1.3 Market price of Challenger Capital Notes 3

The market price of Challenger Capital Notes 3 may go up and down due to various factors, including investor perceptions, Australian and worldwide economic conditions, better rates of return on other securities, interest rates, inflation rates, movements in foreign exchange rates, impacts of regulatory change (including intervention by ASIC in the market for Challenger Capital Notes 3 or similar securities), changes in the laws relating to the availability of franking, movements in the market price of Ordinary Shares or senior or subordinated debt, Challenger's financial performance and position, as a result of information disclosed to the market by Challenger in order to comply with its continuous disclosure requirements and other factors that may affect that performance and position. The market price of Challenger Capital Notes 3 may also be affected by changes in Challenger's credit rating (see Section 6.1.18 for further information). Challenger Capital Notes 3 may trade at a market price below the Face Value. There is no guarantee that Challenger Capital Notes 3 will remain continuously quoted on ASX.

In recent years, markets have sometimes been volatile. In particular, since March 2020 global financial markets have become more volatile due to the impact of the COVID-19 pandemic. The expected duration and magnitude of the COVID-19 pandemic and its full economic impact remain unclear. Volatility risk is the potential for fluctuations in the price of securities, sometimes markedly and over a short period. You should carefully consider the impact of volatility risk on the potential market price of the Challenger Capital Notes 3 before deciding whether to make an investment in Challenger Capital Notes 3.

Holders who wish to sell or otherwise transfer their Challenger Capital Notes 3 prior to Exchange may incur loss if Challenger Capital Notes 3 trade at a market price below the amount for which Challenger Capital Notes 3 were acquired by those Holders.

6.1.4 Liquidity of Challenger Capital Notes 3

Although Challenger intends to have Challenger Capital Notes 3 quoted on ASX, there is no guarantee that a liquid market will develop for Challenger Capital Notes 3. Any market for Challenger Capital Notes 3 may be less liquid than the market for Ordinary Shares or comparable securities issued by Challenger or other entities, and may be volatile. The market price of Challenger Capital Notes 3 is likely to go up or down and, if Holders wish to sell or otherwise transfer their Challenger Capital Notes 3 prior to Exchange, they may be unable to do so at a price acceptable to them, or at all, if insufficient liquidity exists in the market for Challenger Capital Notes 3.

The liquidity of the market for Challenger Capital Notes 3 may also be impacted as a result of market volatility due to the COVID-19 pandemic. The expected duration and magnitude of the COVID-19 pandemic and the potential impact on the liquidity of the market for Challenger Capital Notes 3 is unclear.

The liquidity of the market for Challenger Capital Notes 3 may be negatively impacted by a number of factors, including changes in law (including law relating to franking credits or other laws), or pursuant to the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019* (Cth) (**'DDOPIP Legislation**'), as outlined in Section 6.2.2, ASIC exercises its product intervention powers in relation to the Challenger Capital Notes 3 or comparable securities issued by Challenger or other entities.

The DDOPIP Legislation imposes design and distribution obligations on the issuers, providers and distributors of financial products and provide ASIC with a product intervention power. The impact of these new obligation remains untested, however there is a risk that they may adversely impact the issue, distribution and reinvestment of financial products in the future, including instruments like Challenger Capital Notes 3. These changes may also affect the liquidity of funding instruments (including hybrids such as Challenger Capital Notes 3), if they lead to a material reduction in future issuance volumes or secondary trading activity by investors.

6.1.5 Market price and liquidity of Ordinary Shares

Challenger Capital Notes 3 may Convert into Ordinary Shares as described in Sections 2.2 to 2.5 of this Prospectus, but there is no guarantee that this will necessarily occur. Conversion may be disadvantageous in light of market conditions or not suit the individual circumstances and preferences of Holders. The only conditions to Conversion are, in the case of Mandatory Conversion, the Mandatory Conversion Conditions and, in the case of an Exchange at Challenger's option or following an Acquisition Event, the conditions expressly applicable to such Conversion under clauses 6 and 7 of the Terms. No other conditions apply upon Conversion except as expressly provided in the Terms.

Where Challenger Capital Notes 3 are Converted, there may be no liquid market for Ordinary Shares at the time of Conversion, or the market for Ordinary Shares may be less liquid than that for comparable securities issued by other entities at the time of Conversion.

Upon Conversion, other than Conversion resulting from a Non-Viability Trigger Event, Holders will receive Ordinary Shares with a value of approximately $101 per Challenger Capital Note 3 (based on the VWAP during a period, typically 20 Business Days, immediately preceding (but not including) the relevant Conversion date).

The market price of Ordinary Shares may go up or down due to various factors, including Australian equity markets, recommendations by brokers and analysts, investor perceptions, interest rates and inflation, Australian and worldwide economic conditions (including, but limited to, the impact of and continued uncertainty surrounding the COVID-19 pandemic), changes in government, fiscal and monetary policy, global and geo-political events, hostilities and acts of terrorism, Challenger's financial performance and position, impacts of regulatory change (including product intervention by ASIC in the market for Challenger Capital Notes 3 or similar securities), as a result of information disclosed to the market by Challenger in order to comply with its continuous disclosure requirements and other factors that may affect that performance and position, and may also be affected by the actual or prospective Conversion of Challenger Capital Notes 3. The VWAP during the relevant 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 may be greater than or less than $101 per Challenger Capital Note 3 when they are issued or at any time after that, and 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 market price of Ordinary Shares may also be affected by changes in Challenger's credit rating. For further information about the impacts of credit ratings on Challenger, see Section 6.1.18.

Certain 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 Ordinary Shares issued on Conversion for quotation or any practical issues which affect that quotation, any suspension of trading of Ordinary Shares, any disruption to the market for 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.

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 Challenger Capital Notes 3 are Converted. That market price is also subject to the factors outlined above and may also be volatile.

6.1.6 Distributions may not be paid

There is a risk that Distributions will not be paid. The Terms do not oblige Challenger to pay Distributions, and Challenger has absolute discretion not to pay any Distribution.

In addition, a Distribution will not be paid if on a Distribution Payment Date:

- the consolidated retained earnings of the Challenger Group are negative (or would become negative on payment of the Distribution); or
- the payment of the Distribution would result in Challenger becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or
- APRA objects to the payment.

No Distribution will be paid on Conversion where Conversion occurs due to a Non-Viability Trigger Event.

Challenger may also be prevented from paying Distributions by the terms of securities issued, or which may be issued in future, by other members of the Challenger Group if a dividend, distribution or other payment has not been paid on those securities. The terms of securities issued by a member of the Challenger Group may also restrict that member from paying dividends, distributions or making other payments to Challenger if a payment on the relevant security is not paid. If Challenger or a member of the Challenger Group is subject to such a constraint, Challenger may not be able to pay Distributions on Challenger Capital Notes 3 without the approval of the holders of those other securities.

Changes in regulations applicable to Challenger, including changes in accounting standards, may affect Challenger's ability to pay a Distribution, or a dividend, distribution or other payment on other securities.

In response to the uncertainty resulting from the COVID-19 pandemic, APRA stated that it expects ADIs and insurers (such as the Challenger Group) to limit or materially reduce discretionary capital distributions until the economic outlook is clearer. In July 2020, APRA provided further guidance to all insurers that clarified their capital management expectations moving past the initial phase of the COVID-19 response. APRA expects all insures to 'maintain caution in planning capital distributions' and to use a 'measured approach to dividends, taking into account the ongoing uncertainty in the outlook'. APRA's guidance on capital management does not prohibit Challenger from paying Distributions, however there is a risk that if the economic outlook remains negative or uncertain for a prolonged period of time, then APRA may object to the payment of Distributions.

The Terms contain no events of default and, accordingly, failure to pay a Distribution when scheduled will not constitute an event of default or entitle a Holder to require Challenger to Redeem Challenger Capital Notes 3 early. Further, in the event that Challenger does not, or may become unable to, pay a Distribution when scheduled, a Holder:

- has no right to apply for Challenger to be wound up or placed in administration, or to cause a receiver or a receiver and manager to be appointed in respect of Challenger; and
- has no right of set-off and no offsetting rights or claims on Challenger under the Terms.

Distributions are non-cumulative, meaning that if not paid they may never be paid. If a Distribution is not paid for any reason, Holders will have no recourse whatsoever to Challenger for the unpaid amount. Holders will not receive any interest on unpaid Distributions.

However, if Challenger does not pay a Distribution in full on a Distribution Payment Date, a limited restriction applies to the payment of dividends on Ordinary Shares (see Section 6.1.14 for further information).

6.1.7 Changes in Distribution Rate and Distributions

The Distribution Rate is calculated for each Distribution Period by reference to the Bank Bill Rate (which is a benchmark floating interest rate for the Australian money market) plus the Margin (which is fixed). The Bank Bill Rate is influenced by a number of factors and will go up or down over time, resulting in the Distribution Rate also moving up or down over time.

In some offshore money markets in recent times certain benchmark floating interest rates have been negative for periods of time (for example, in certain European countries and Japan). If the Bank Bill Rate were to become negative, then the Distribution Rate would be less than the Margin, and in some cases could become equal to zero. In addition, the methodology used to calculate the Bank Bill Rate may change over time. The Distribution Rate will go up or down over time as a result of movements in the Bank Bill Rate.

Changes in the Australian corporate tax rate applicable to Challenger will also affect the Distribution Rate (see Section 6.1.19 for further information). The Distribution Rate may be less than the Margin even where the Bank Bill Rate is positive depending on the level of the Australian corporate tax rate, since the Distribution Rate is equal to the sum of the Bank Bill Rate and the Margin, multiplied by one minus the Australian corporate tax rate applying at the time.

If Challenger determines that a Rate Disruption Event has occurred, then, subject to APRA's prior written approval, Challenger will use as the Bank Bill Rate such Replacement Rate as it may determine and will make such adjustments to the Terms as it determines are reasonably necessary to calculate Distributions in accordance with such Replacement Rate.

As the Distribution Rate fluctuates, there is a risk that it may become less attractive when compared to the rates of return available on comparable securities issued by Challenger or other entities.

Distributions will go up or down (both increasing and decreasing) as a result of changes in the Distribution Rate due to the factors outlined above, changes in the Franking Rate (see Section 6.1.8 below), and also as a function of the number of days in each Distribution Period.

6.1.8 Distributions may or may not be franked

The Distributions paid on Challenger Capital Notes 3 are initially expected to be partially franked at a Franking Rate of 50%. The Franking Rate for a Distribution Period will vary depending upon Challenger's level of available franking credits. However, there is no guarantee that Challenger will have sufficient franking credits in the future to partially frank Distributions, or to frank them at all. The effect of Distributions being franked is to reduce the cash amount received by Holders on each Distribution Payment Date by an amount equal to the relevant level of franking.

The Franking Rate for a Distribution Period will be affected by Challenger's level of available franking credits and Challenger's distributable profits. Challenger's level of available franking credits may be affected by a wide range of factors, including its business performance, the applicable Australian corporate tax rate, the assessment of relevant tax authorities and the amount of other frankable distributions. Challenger's distributable profits may also be affected by a wide range of factors including its level of earnings and other distributions it makes.

Distributions will be franked at the same rate as Ordinary Shares. The Distribution Rate will be adjusted depending on the franking percentage and the Australian corporate tax rate both applicable to Challenger's franking account. If any

Distribution payment is not fully franked, then the cash amount of the Distribution will increase to compensate for the reduction in franking credits.

The value and availability of franking credits to a Holder will differ depending on that Holder's particular tax circumstances. Holders should be aware that the potential value of any franking credits does not accrue at the same time as the receipt of any cash Distribution, and that the ability to use any franking credits, either by offsetting a tax liability or by claiming a refund after the end of the income year, will depend on the individual tax position of each Holder. Each Holder should refer to the Australian taxation summary in Section 8 and obtain professional advice in relation to its tax position and monitor any such potential changes on an ongoing basis.

6.1.9 Exchange is at Challenger's option and may never occur

Challenger has the option, subject to APRA's prior written approval, to Exchange (Convert, Redeem or Resell) some or all Challenger Capital Notes 3 on the Optional Exchange Date or on the occurrence of a Tax Event or a Regulatory Event. Challenger is not obliged to Exchange any Challenger Capital Notes 3 on the Optional Exchange Date.

Challenger may also Exchange by way of Conversion all (but not some only) Challenger Capital Notes 3 after a Potential Acquisition Event. Challenger is not obliged to Exchange the Challenger Capital Notes 3 after a Potential Acquisition Event, and Holders should not expect that Challenger will do so. Challenger may not select Redemption or Resale as the Exchange Method for an Exchange after a Potential Acquisition Event.

Holders have no right to request or require an Exchange in any circumstances.

Any Exchange at Challenger's option may occur on dates not previously contemplated by Holders. This may be disadvantageous to Holders in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which Holders will be entitled to the benefit of the rights attaching to Challenger Capital Notes 3 (such as Distributions) is unknown.

Subject to certain restrictions, Challenger has discretion to elect which Exchange Method will apply to an Exchange, being Conversion, Redemption or Resale (and a combination of Exchange Methods may be chosen, as explained below). The method chosen by Challenger may be disadvantageous to Holders and may not coincide with their individual preference in terms of whether they receive Ordinary Shares or cash on the Exchange Date.

For example, if APRA approves an election by Challenger to Redeem or Resell Challenger Capital Notes 3, Holders will receive cash equal to $100 per Challenger Capital Note 3 rather than Ordinary Shares and, accordingly, they will not benefit from any subsequent increases in the Ordinary Share price after the Exchange occurs. In addition, where Holders receive cash on Redemption or Resale, the rate of return at which they could reinvest their funds may be lower than the Distribution Rate at the time. Where Holders receive Ordinary Shares on Conversion, they will have the same rights as other holders of Ordinary Shares, which are different to the rights attaching to Challenger Capital Notes 3.

Subject to certain restrictions on which Exchange Method may be selected by Challenger, Challenger may select a combination of Conversion, Redemption or Resale to apply to Challenger Capital Notes 3 held by a Holder and may select a different combination of Conversion, Redemption or Resale in respect of Challenger Capital Notes 3 held by different Holders. Challenger's choice may differ from the Holder's preference.

6.1.10 Exchange at Challenger's option is subject to certain conditions

If Challenger elects to Exchange Challenger Capital Notes 3 by way of Conversion, Redemption or Resale, APRA's prior written approval is required. Holders should not expect that APRA will give its approval to any Exchange. Challenger may not elect Conversion as the Exchange Method if an Optional Conversion Restriction applies. See Sections 2.3.4 and 2.3.5 for further information.

Challenger may not proceed to Conversion on an Exchange Date if further restrictions apply. These restrictions are that both the Second Mandatory Conversion Condition and the Third Mandatory Conversion Condition would not be satisfied in respect of the Exchange Date (as if the Exchange Date were a 'Relevant Date' for the purposes of the Mandatory Conversion Conditions). See Section 2.3.6 for further information.

If the requirements for Conversion on the Exchange Date are not satisfied, Challenger will notify Holders, and the Conversion will be deferred until the next Distribution Payment Date on which the requirements for Conversion would be satisfied.

Even if Challenger has elected to Exchange Challenger Capital Notes 3 and selected Conversion as the Exchange Method, and APRA has approved such election, the conditions to Conversion may never be satisfied, and Holders should not expect that it will occur.

Challenger may not select Redemption as the Exchange Method unless APRA is satisfied that either:

- Challenger Capital Notes 3 the subject of the Redemption will be replaced concurrently or beforehand with Relevant Perpetual Subordinated Instruments of the same or better quality, or Ordinary Shares, and the replacement of Challenger Capital Notes 3 is done under conditions that are sustainable for Challenger's income capacity; or
- having regard to the projected capital position of Challenger and the Challenger Group, Challenger does not have to replace Challenger Capital Notes 3 the subject of the Redemption.

Challenger may not select Redemption or Resale as the Exchange Method for an Exchange after a Potential Acquisition Event.

The timing of Exchange and the Exchange Method chosen by Challenger may be disadvantageous to Holders and may not coincide with their individual preference in terms of whether they receive Ordinary Shares or cash on the relevant date.

6.1.11 Mandatory Conversion is subject to certain conditions and may not occur when expected or at all

Challenger Capital Notes 3 must be Converted into Ordinary Shares on the Scheduled Mandatory Conversion Date (25 May 2028) (unless they have been Redeemed for cash, Converted to Ordinary Shares or Written-Off on an earlier date). However, Mandatory Conversion is subject to satisfaction of the Mandatory Conversion Conditions and may not occur on the Scheduled Mandatory Conversion Date, or at all. The Mandatory Conversion Conditions are described in Section 2.2.4. There is a risk that Conversion will not occur because the Mandatory Conversion Conditions are not satisfied due to a significant reduction in the Ordinary Share price relative to the Issue Date VWAP, or a Delisting Event applies. The Ordinary Share price may be affected by transactions impacting the share capital of Challenger, such as rights issues, placements, returns of capital, certain buy-backs and other corporate actions. The Issue Date VWAP is adjusted only for transactions by way of pro rata bonus issues of Ordinary Shares and a reorganisation of share capital as described in clause 8 of the Terms and not for other transactions, including rights issues, placements, returns of capital, buy-backs or special distributions. The Terms do not limit the transactions which Challenger may undertake with respect to its share capital, and any such action may affect whether Conversion will occur and the Conversion Number of Ordinary Shares, and may adversely affect the position of Holders.

If Mandatory Conversion does not occur on the Scheduled Mandatory Conversion Date, Mandatory Conversion will be deferred until the next Distribution Payment Date on which all of the Mandatory Conversion Conditions are satisfied (unless Challenger Capital Notes 3 are otherwise Exchanged on or before that date). The Mandatory Conversion Conditions may never be satisfied on any Mandatory Conversion Date, and Challenger Capital Notes 3 may never be Converted to Ordinary Shares.

6.1.12 Conversion as a result of an Acquisition Event

Challenger Capital Notes 3 are issued by Challenger, which, as an ASX-listed company, may be affected by merger and acquisition activity, including the possibility of being acquired by, or merged with, another company or group of companies, potentially resulting in a change of control.

Where this corporate activity constitutes an Acquisition Event, as defined in the Terms, Challenger is required, subject to satisfaction of certain conditions, to Convert all Challenger Capital Notes 3 to Ordinary Shares in accordance with clause 7 of the Terms. An Acquisition Event may occur at any time. Conversion may occur on dates not previously contemplated by Holders, which may be disadvantageous in light of market conditions or their individual circumstances and may not coincide with their individual preference in terms of timing. This also means that the period for which Holders will be entitled to the benefit of the rights attaching to Challenger Capital Notes 3 (such as Distributions) is unknown. Where Holders receive Ordinary Shares on Conversion, they will have the same rights as other holders of Ordinary Shares, which are different to the rights attaching to Challenger Capital Notes 3.

Not all corporate activities that have the effect of a change of control of Challenger or its business operations will be an Acquisition Event. In particular, it would not be an Acquisition Event if APRA were to require the compulsory transfer of the Challenger Group's life insurance business (see Section 6.2.3 for further information). Where the corporate activity is not an Acquisition Event, Challenger is not obliged to Convert the Challenger Capital Notes 3. Therefore, the outcomes for Holders arising from that corporate activity will be uncertain and Holders may face increased or different risks in holding the Challenger Capital Notes 3.

6.1.13 Conversion or Write-Off on account of a Non-Viability Trigger Event

Challenger must immediately Convert some or all Challenger Capital Notes 3 into Ordinary Shares on the occurrence of a Non-Viability Trigger Event. As APRA will determine if and when a Non-Viability Trigger Event has occurred, it may occur at any time and on dates not previously contemplated by Holders. This may be disadvantageous in light of market conditions or Holders' individual circumstances.

What is a Non-Viability Trigger Event?

A Non-Viability Trigger Event occurs when APRA has provided a written determination to Challenger that:

- the conversion or write-off of Relevant Perpetual Subordinated Instruments is necessary because without the conversion or write-off, APRA considers that Challenger would become non-viable; or
- without a public sector injection of capital into, or equivalent support with respect to, Challenger, APRA considers that Challenger would become non-viable.

APRA has not provided specific guidance as to how it would determine non-viability (however, in the context of regulatory capital instruments issued by ADIs, APRA has indicated that non-viability is likely to arise prior to the insolvency of an ADI). Non-viability could be expected to include serious impairment of Challenger's financial position and insolvency; however, it is possible that APRA's definition of non-viability may not necessarily be confined to solvency or capital measures, and APRA's position on these matters may change over time.

CLC represents a substantial part of the business of the Challenger Group. If APRA determines CLC to be non-viable, then there is a significant risk it will also determine Challenger to be non-viable. As the occurrence of a Non-Viability Trigger Event is at the discretion of APRA, there can be no assurance given as to the factors and circumstances that might give rise to this event.

Effect of a Non-Viability Trigger Event

If a Non-Viability Trigger Event occurs:

- Challenger must immediately Convert to Ordinary Shares all (or, if less than all Challenger Capital Notes 3 are required to be Converted, some) Challenger Capital Notes 3 on issue;
- if Converted, Conversion is immediate and, from the Non-Viability Conversion Date, Challenger will treat each Holder of a Challenger Capital Note 3 as having been issued the Conversion Number of Ordinary Shares. Challenger expects that any ASX trades in Challenger Capital Notes 3 that have not settled on the date a Non-Viability Trigger Event occurs will continue to settle in accordance with the normal ASX T+2 settlement, although Challenger expects that the seller of a Challenger Capital Note 3 will be treated as having delivered, and the buyer of a Challenger Capital Note 3 will be treated as having acquired, the Conversion Number of Ordinary Shares into which that Challenger Capital Note 3 has been Converted as a result of the occurrence of the Non-Viability Trigger Event;
- alternatively, Challenger may immediately seek a trading halt to prevent further trading in Challenger Capital Notes 3 on ASX, and if ASX permits, may refuse to register transfers of Challenger Capital Notes 3 that have not settled – this may result in disruption or failures in trading or dealings in Challenger Capital Notes 3 (which may cause a Holder to suffer loss);
- Challenger may make such decisions with respect to the identity of Holders as at the Non-Viability Conversion Date as may be necessary or desirable to ensure that Conversion occurs in an orderly manner, including disregarding any transfers of Challenger Capital Notes 3 that have not been settled or registered at that time;
- Conversion is not subject to the Mandatory Conversion Conditions or any other conditions being satisfied;
- Holders will not receive prior notice of Non-Viability Conversion or have any rights to vote in respect of any Non-Viability Conversion; and
- the Ordinary Shares issued on Non-Viability Conversion may not be quoted at the time of issue, or at all.

Conversion following a Non-Viability Trigger Event

The number of Ordinary Shares the Holder of a Challenger Capital Note 3 will receive on Conversion following a Non-Viability Trigger Event is calculated in accordance with the Conversion Number formula and is subject to a Maximum Conversion Number. There are no tests or conditions to Non-Viability Conversion occurring, and there is a substantial risk that this may result in a Holder receiving a number of Ordinary Shares which have an aggregate value significantly below the total Face Value of their Challenger Capital Notes 3, or receiving Ordinary Shares which are not listed or otherwise able to be traded on ASX. Holders may suffer loss as a result due to a number of factors:

- the number of Ordinary Shares which the Holder of a Challenger Capital Note 3 may be allocated on Conversion is limited to the Maximum Conversion Number. The Maximum Conversion Number is calculated as the number of Ordinary Shares a Challenger Capital Note 3 would Convert to based on an Ordinary Share price equal to 20% of the Issue Date VWAP. If the relevant VWAP at the time of Conversion is less than 20% of the Issue Date VWAP, Holders of Challenger Capital Notes 3 will receive fewer Ordinary Shares than their Challenger Capital Notes 3 are worth and may suffer loss as a consequence;
- the Conversion Number of Ordinary Shares per Challenger Capital Note 3 is calculated by reference to the VWAP during the five Business Days immediately preceding (but not including) the Non-Viability Conversion Date. This VWAP is likely to differ from the Ordinary Share price on or after that date. The Ordinary Shares may not be listed

or may not be able to be sold at prices representing their value based on the VWAP, or at any price;

- as noted in Section 2.2.8, the Maximum Conversion Number may be adjusted to reflect a reorganisation of share capital or pro rata bonus issue of Ordinary Shares. However, no adjustment will be made to it on account of other transactions which may affect the price of Ordinary Shares, including, for example, rights issues, placements, returns of capital, buy-backs or special distributions. The Terms do not limit the transactions that Challenger may undertake with respect to its share capital, and any such action may increase the risk that the Maximum Conversion Number is triggered if Challenger Capital Notes 3 are Converted. Such transactions may adversely affect the position of Holders.

If less than all Challenger Capital Notes 3 and other Relevant Perpetual Subordinated Instruments are required to be converted, Challenger:

- must determine which Challenger Capital Notes 3 will Convert and in doing so must endeavour to treat Holders and holders of other Relevant Perpetual Subordinated Instruments on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels, other logistical considerations and the need to effect conversions immediately. Accordingly, should a Non-Viability Trigger Event occur and some (but not all) Challenger Capital Notes 3 are required to be Converted, not all Holders may have their Challenger Capital Notes 3 Converted; and
- where Relevant Perpetual Subordinated Instruments are not all in the same currency, Challenger may treat them as if converted into a single currency of Challenger's choice at such rate of exchange as Challenger considers reasonable (but may make adjustments among Holders and holders of other Relevant Perpetual Subordinated Instruments having regard to effect Conversion immediately).

Accordingly, should a Non-Viability Trigger Event occur, and Challenger is permitted to Convert only some and not all Challenger Capital Notes 3, not all Holders may have their Challenger Capital Notes 3 Converted into Ordinary Shares.

Write-Off if Conversion does not occur

Notwithstanding any other provisions of the Terms, if for any reason (including, without limitation, an Inability Event) Conversion of any Challenger Capital Notes 3 on account of a Non-Viability Trigger Event does not occur within five Business Days of the Non-Viability Conversion Date, Conversion of those Challenger Capital Notes 3 will not occur and the relevant Holders' rights (including to Distributions and payment of Face Value in relation to such Challenger Capital Notes 3, and to be issued with Ordinary Shares) will be immediately and irrevocably Written-Off and terminated (with effect on and from the Non-Viability Conversion Date). This means Holders will lose all of their investment in the Challenger Capital Notes 3 without compensation.

An '**Inability Event**' means that Challenger is prevented by applicable law, or order of any court, or action of any government authority (including regarding the insolvency, winding-up or other external administration of Challenger) or any other reason from Converting the Challenger Capital Notes 3.

The laws under which an Inability Event may arise include laws relating to the ability of a person to acquire interests in an Australian corporation or financial sector entity. The laws and other ground on which an Inability Event may arise may change and may be adverse to the interests of Holders. An Inability Event is taken to subsist if Challenger receives legal advice to that effect.

Recent changes to the law have given statutory recognition to conversion and write-off provisions in regulatory capital instruments such as Challenger Capital Notes 3, subject to limited exceptions.

6.1.14 A Distribution Restriction applies but only in limited circumstances

If a Distribution is not paid in full within three Business Days of the scheduled Distribution Payment Date then, subject to certain exceptions set out in clause 3.9 of the Terms, Challenger must not declare, determine to pay, or pay a dividend on any Ordinary Shares, or buy back or reduce capital on any Ordinary Shares without the approval of a Special Resolution. This restriction applies only to payments on, or buy-backs or capital reductions in respect of, Ordinary Shares, and not to payments on, or buy-backs or capital reductions in respect of, securities ranking equally with Challenger Capital Notes 3 or any other class of security (if on issue). These restrictions will apply only until and including the next Distribution Payment Date.

The dates for the declaration, determination or payment of dividends on Ordinary Shares of Challenger, or on which Challenger may undertake a capital reduction or buy-back on any Ordinary Shares, are determined by Challenger in its discretion and are not related to the Distribution Payment Dates for Challenger Capital Notes 3. Accordingly, as soon as the next scheduled Distribution on Challenger Capital Notes 3 is paid, the restriction ceases to apply and Challenger will not be restricted from declaring, determining to pay, or paying a dividend or undertaking any buy-back or capital reduction.

6.1.15 Future issues or redemptions of securities by Challenger and other dealings

The Terms do not in any way restrict Challenger or other members of the Challenger Group from issuing further securities or from incurring further indebtedness (and which may rank senior to the Challenger Capital Notes 3). Challenger's obligations under Challenger Capital Notes 3 rank subordinate and junior in a winding-up to Challenger's obligations to holders of senior ranking securities and instruments, and other creditors, including subordinated creditors (other than creditors whose claims are subordinated to or rank equally with or behind Challenger Capital Notes 3). Accordingly, Challenger's obligations under Challenger Capital Notes 3 will not be satisfied unless it can satisfy in full all of its other obligations ranking senior to Challenger Capital Notes 3.

Challenger and other members of the Challenger Group may in the future issue securities that:

- rank for distributions or payments of capital (including on the winding-up of Challenger) equally with, behind or ahead of Challenger Capital Notes 3;
- have the same or different dividend, interest or distribution rates as the Distribution Rate for Challenger Capital Notes 3;
- have payment tests and distribution restrictions or other covenants which affect Challenger Capital Notes 3 (including by restricting circumstances in which Distributions can be paid or Challenger Capital Notes 3 can be Redeemed); or
- have the same or different terms and conditions as Challenger Capital Notes 3.

Challenger may incur further indebtedness and may issue further securities including further Relevant Perpetual Subordinated Instruments before, during or after the issue of Challenger Capital Notes 3.

An investment in Challenger Capital Notes 3 carries no right to participate in any future issue of securities (whether common equity, preference shares, subordinated or senior debt or otherwise) by Challenger.

The Terms of the Challenger Capital Notes 3 do not restrict any member of the Challenger Group from redeeming, buying back or undertaking a reduction of capital in certain circumstances or otherwise repaying its other securities (whether existing securities or those that may be issued in the future), other than to the extent the Distribution Restriction applies.

No prediction can be made as to the effect, if any, which a future issue of securities by Challenger, or a redemption, buy-back or capital reduction by Challenger, may have on the market price or liquidity of Challenger Capital Notes 3 or of the likelihood of Challenger making payments on Challenger Capital Notes 3.

Subject to APRA's prior written approval, Challenger or any member of the Challenger Group may purchase Challenger Capital Notes 3 at any time and at any price.

An investment in Challenger Capital Notes 3 carries no right to be redeemed or otherwise repaid at the same time as Challenger redeems or otherwise repays other securities (whether common equity, preference shares, subordinated or senior debt or otherwise).

6.1.16 Challenger Capital Notes 3 expose investors to Challenger's financial performance and position

If Challenger's financial performance or position declines, or if market participants anticipate that it may decline, an investment in Challenger Capital Notes 3 could decline in value even if Challenger Capital Notes 3 have not been Converted. Accordingly, when you evaluate whether to invest in Challenger Capital Notes 3, you should carefully evaluate the investment risks associated with an investment in Challenger and the Challenger Group. For the risks that may affect Challenger's financial performance or position, see Section 6.2.

6.1.17 Regulatory treatment

Challenger Capital Notes 3 will not constitute Additional Tier 1 Capital or any other form of regulatory capital of Challenger. APRA has advised that it does not object to Challenger using the proceeds of Challenger Capital Notes 3 to fund a subscription for Additional Tier 1 Capital of CLC.

However, in certain circumstances, if APRA subsequently determines that it objects to Challenger using the proceeds of Challenger Capital Notes 3 to fund a subscription for Additional Tier 1 Capital of CLC, Challenger may decide that a Regulatory Event has occurred. Challenger may then elect, at its option, to Exchange all or some Challenger Capital Notes 3 on issue (subject to APRA's prior written approval). A Regulatory Event will not have occurred if the change in regulatory treatment was expected by Challenger at the Issue Date.

Any such Exchange at Challenger's option may occur on dates not previously contemplated by Holders, which may be disadvantageous in light of market conditions or their individual circumstances. This also means that the period for which Holders will be entitled to the benefit of the rights attaching to Challenger Capital Notes 3 (such as Distributions) is unknown.

The Exchange Method chosen by Challenger may also be disadvantageous to Holders and may not coincide with their individual preference in terms of whether they receive Ordinary Shares or cash on the relevant date.

6.1.18 Changes to credit ratings

Challenger's cost of funds, margins, access to capital markets and competitive position and other aspects of its performance may be affected by its credit ratings (including any long-term credit ratings or the ratings assigned to any class of its securities). Credit rating agencies may withdraw, revise or suspend credit ratings or change the methodology by which securities are rated. Even though Challenger Capital Notes 3 will not be rated, such changes could adversely affect the market price, liquidity and performance of Challenger Capital Notes 3 or Ordinary Shares received on Conversion. A rating of Challenger is not a rating of Challenger Capital Notes 3.

6.1.19 Australian tax consequences

A general outline of the tax consequences of investing in Challenger Capital Notes 3 for certain potential investors is set out in the Australian taxation summary in Section 8. This 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.

If a change is made in Australian tax law, or an administrative pronouncement or ruling, and that change leads to a more than insubstantial risk that there would be a more than insignificant increase in Challenger's costs in relation to Challenger Capital Notes 3 being on issue or that any Distribution would not be frankable, Challenger may decide that a Tax Event has occurred. Challenger may then elect, at its option, to Exchange all or some Challenger Capital Notes 3 (subject to APRA's prior written approval). A Tax Event will not have occurred if the change in tax treatment was expected by Challenger at the Issue Date.

If the corporate tax rate were to change, the Distribution Rate, the cash amount of Distributions and the amount of any franking credits may change.

Challenger has applied for a Class Ruling from the ATO to confirm certain Australian tax consequences for certain Australian tax resident Holders, as discussed in Section 8.

6.1.20 FATCA and Common Reporting Standard

It is possible that, in order to comply with FATCA, Challenger (or if Challenger Capital Notes 3 are held through another non-U.S. financial institution, such other financial institution) may be required (pursuant to an agreement with the U.S. Internal Revenue Service ('**IRS**') or under an applicable law, including a non-U.S. law implementing an intergovernmental approach to FATCA) to request certain information from Holders or beneficial owners of Challenger Capital Notes 3, which information may be provided to the IRS, and to withhold at the rate of 30% on all or a portion of certain payments made with respect to Challenger Capital Notes 3 if (i) such information is not provided; or (ii) if payments are made to certain foreign financial institutions ('**FFIs**') that have not entered into a similar agreement with the IRS or are otherwise exempt from FATCA withholding. However, such FATCA withholding is not expected to apply if Challenger Capital Notes 3 are treated as debt for U.S. federal income tax purposes unless Challenger Capital Notes 3 are issued or 'materially modified' after 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.

In any event, FATCA withholding is not expected to apply on payments made before the date that is two years after the date on which final regulations defining the term 'foreign passthru payment' are filed with the U.S. Federal Register.

Reporting Australian Financial Institutions ('**RAFIs**') under the Australia–US FATCA Intergovernmental Agreement dated 28 April 2014 ('**Australian IGA**') must comply with specific due diligence procedures. In general, these procedures seek to identify account holders and provide the ATO with information on financial accounts (which may include the Challenger Capital Notes 3) held by U.S. persons and recalcitrant account holders. The ATO is required to provide such information to the IRS. Consequently, Holders may be requested to provide certain information and certifications to Challenger and to any other financial institutions through which payments on the Challenger Capital Notes 3 are made. A RAFI that complies with its obligations under the Australian IGA will not be subject to FATCA withholding on amounts it receives, and will not be required to deduct FATCA withholding from payments it makes, other than in certain prescribed circumstances.

If Challenger is required to withhold amounts under or in connection with FATCA from any payments made in respect of Challenger Capital Notes 3, Holders and beneficial owners of Challenger Capital Notes 3 will not be entitled to receive any gross up or additional amounts to compensate them for such withholding.

FATCA is particularly complex legislation. Holders should obtain their own professional advice about the requirements of FATCA, and how the Australian IGA may apply to them under the Challenger Capital Notes 3.

In addition, the OECD Common Reporting Standard for Automatic Exchange of Financial Account Information in Tax Matters ('**CRS**') requires certain financial institutions to report information regarding certain accounts (which may include the Challenger Capital Notes 3) 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* (Cth) to give effect to the CRS.

6.1.21 Accounting standards

New accounting standards or amendments to existing accounting standards issued by either the International Accounting Standards Board or the Australian Accounting Standards Board may affect the reported earnings and financial position of Challenger in future financial periods. This may adversely affect the ability of Challenger to pay Distributions.

6.1.22 Shareholding limits and Nominee sales

There is a risk that a Holder may, by acquiring any Challenger Capital Notes 3 (taking into account any Ordinary Shares into which they may Convert), breach applicable restrictions on ownership.

Laws, including the *Financial Sector (Shareholdings) Act 1998* (Cth) restrict ownership by people (together with their associates) of life insurers and their holding companies, such as Challenger, to a 20% stake. A shareholder may apply to the Australian Treasurer to extend its ownership beyond 20%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 20% is in the national interest.

Mergers, acquisitions and divestments of Australian public companies listed on ASX (such as Challenger) are regulated by detailed and comprehensive legislation and the rules and regulations of ASX. These provisions include restrictions on the acquisition and sale of relevant interests in certain shares in an Australian listed company under the Corporations Act and a requirement that acquisitions of certain interests in Australian listed companies by foreign interests are subject to review and approval by the Treasurer. Australian competition law also regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market.

Holders should take care to ensure that by acquiring any Challenger Capital Notes 3 (taking into account any Ordinary Shares into which they may Convert), Holders do not breach any applicable restrictions on ownership, and Holders should seek professional guidance from their solicitor, accountant or other independent qualified professional adviser in relation to their obligations.

Holders who do not wish to receive Ordinary Shares on Conversion may notify Challenger of this no less than 15 Business Days prior to the Conversion Date. In addition, if you are a Foreign Holder, you will not receive Ordinary Shares on Conversion (unless Challenger is satisfied that it may issue them to you). Instead, if you elect not to receive Ordinary Shares, the relevant number of Ordinary Shares will be issued to the Nominee (which must not be Challenger, a member of the Challenger Group or a Related Entity of Challenger), on terms that the Nominee will sell the Ordinary Shares and pay a cash amount equal to the net proceeds to the relevant Holder. No guarantee is given in relation to the timing or price at which any sale will occur. The issue of Ordinary Shares to Nominee satisfies Challenger's obligations in connection with the Conversion, and Challenger and the Nominee do not owe any duty in relation to the price or terms on which the Ordinary Shares are sold and have no liability for any loss suffered as a result of such of Ordinary Shares where required in the circumstances described above. Challenger will treat you as a Foreign Holder if your address in the Register is a place outside of Australia or Challenger otherwise believes you may not be a resident of Australia.

Further, if a FATCA Withholding is required to be made in respect of Ordinary Shares to be issued on Conversion, Challenger will only issue those Ordinary Shares to the Holder to the extent (if at all) that the issue of Ordinary Shares is net of FATCA Withholding. To the extent that a FATCA Withholding is required, Challenger will issue the Ordinary Shares to a Nominee who will sell those Ordinary Shares on the basis outlined above and will deal with the proceeds of sale in accordance with FATCA. See Section 6.1.20 for an explanation of circumstances in which a FATCA Withholding may be required.

6.1.23 No rights to vote

There is a risk that Holders may be affected by corporate decisions made by Challenger. Holders have no voting or other rights in relation to Ordinary Shares until Ordinary Shares are issued to them. In addition, the Challenger Capital Notes 3 do not confer on Holders any right to subscribe for new securities in Challenger or to participate in any bonus issue of securities. The rights attaching to Ordinary Shares, if Ordinary Shares are issued, will be the rights attaching to Ordinary Shares at that time. Holders have no right to vote on or otherwise to approve any changes to the Constitution in relation to the Ordinary Shares that may in the future be issued to them. Therefore, Holders will not be able to influence decisions that may have adverse consequences for them.

6.1.24 Amendment of Terms or Trust Deed

Challenger may, with the approval of the Trustee and, where required, with APRA's prior written approval, make certain amendments to the Terms or the Trust Deed without the approval of Holders. These include amendments of a formal, technical or minor nature, necessary or expedient for the listing or sale of Challenger Capital Notes 3 or to comply with applicable laws or any change which Challenger considers is not materially prejudicial to the interests of Holders as a whole.

In the case of alterations made to enable the Challenger Capital Notes 3 to be quoted on ASX, or sold, or to comply with applicable laws or listing rules, or which are not materially prejudicial to Holders as a whole, Challenger must provide to the Trustee an opinion of independent legal advisers of recognised standing in New South Wales that such alteration is otherwise not materially prejudicial to the interests of Holders as a whole.

Challenger may also amend the Terms if a Rate Disruption Event occurs, including in circumstances where the Bank Bill Rate ceases to be available or is no longer generally accepted as an appropriate reference rate, and, subject to APRA's prior written approval, may replace the Bank Bill Rate with an alternative rate that Challenger considers appropriate, acting in good faith and in a commercially reasonable manner, and make certain other consequential adjustments to the Terms. Such amendments could adversely affect the interests of Holders.

Challenger may also, with the approval of the Trustee and, where required, with APRA's prior written approval, amend the Terms or the Trust Deed if the amendment has been approved by a Holder Resolution or, in relation to certain amendments, a Special Resolution. Amendments under these powers are binding on all Holders despite the fact that a Holder may not agree with or did not attend or vote at any meeting in relation to the amendment.

APRA's prior written approval to amend the Terms is required where the amendment may cause APRA to object to the proceeds of Challenger Capital Notes 3 being used to fund Additional Tier 1 Capital of CLC.

See Section 2.7.3 and clauses 17.4 to 17.6 of the Terms for a more detailed list of the types of amendments Challenger may make to the Terms without the approval of Holders.

6.1.25 Powers of APRA

Under the Life Insurance Act, APRA has power to issue directions to Challenger. These powers of APRA are broad and may be exercised to intervene in the performance of obligations and the exercise of rights under the Challenger Capital Notes 3 (see Sections 6.2.2 and 6.2.3 for further information).

The Life Insurance Act gives APRA extensive powers to facilitate the resolution of the entities that it regulates (and their subsidiaries) in times of distress. Powers given to APRA include oversight, management and directions powers in relation to Challenger, CLC and other members of the Challenger Group, and powers with respect to statutory management. The Life Insurance Act also gives statutory recognition to provisions for the conversion or write-off of an instrument such as the Challenger Capital Notes 3.

In addition, APRA has powers to require the compulsory transfer of all or part of the business of Challenger pursuant to the *Financial Sector (Transfer and Restructure) Act 1999* (Cth) ('**FSTR Act**'). This power arises in circumstances where APRA has decided to make a compulsory transfer of the business of, or shares in, CLC. A transfer under the FSTR Act overrides anything in any contract or agreement to which Challenger is a party, including the Terms.

These powers of APRA may be exercised in a way which adversely affects the ability of Challenger to comply with its obligations in respect of the Challenger Capital Notes 3 (including in connection with the Exchange of the Challenger Capital Notes 3), and this may adversely affect the position of Holders.

In addition, Holders should be aware that secrecy obligations may apply to action taken by APRA. This means that information about action taken by APRA (including in exercise of its powers under the Life Insurance Act) may not be publicly disclosed.

6.2 Risks associated with Challenger, CLC and the Challenger Group

Set out below are some specific investment risks associated with Challenger, CLC and the Challenger Group. The Challenger Group is subject to risks that can adversely impact its businesses, results of operations, financial condition and future performance. These are relevant to an investment in Challenger Capital Notes 3, as Challenger's ability to fulfil its obligations under, or in respect of, Challenger Capital Notes 3 (including Challenger's ability to pay principal and Distributions) and the value of your investment will depend on the results of operations, financial condition and future performance and position of

Challenger, CLC and the Challenger Group, regardless of whether Challenger Capital Notes 3 remain outstanding or are Exchanged or Written-Off. The risks and uncertainties described below are not the only ones that Challenger, CLC or the Challenger Group may face. Additional risks and uncertainties that Challenger is not aware of, or that Challenger currently deems to be immaterial, may also become important factors that affect Challenger, CLC or the Challenger Group.

6.2.1 Global economic, market and business risks with respect to the COVID-19 pandemic

The ongoing COVID-19 pandemic has had a significant impact on the global economy and the ability of individuals, businesses, and governments to operate. Across the globe, travel, trade, business, working arrangements and consumption have been materially impacted by the COVID-19 pandemic. There continues to be considerable uncertainty as to the duration of, and the ongoing and further impact of, COVID-19 including (but not limited to) in relation to government, regulatory or health authority actions, work stoppages, lockdowns, quarantines and travel restrictions.

The impacts of COVID-19 are beyond the Challenger Group's control and can have a material adverse effect on the overall business sentiment and environment, causing material uncertainties. These impacts can cause Challenger Group's business and investments to suffer in ways that cannot be predicted (including but not limited to reductions in asset valuations, increases in losses due to defaulting counterparties, increases in regulatory capital requirements, losses of staff including key personnel) and which may have a material adverse impact on Challenger Group's operations, financial performance and position. Additionally, the investment portfolio (and, specifically, the valuations of investment assets held by the Challenger Group) has been, and may continue to be, adversely affected as a result of market developments from the COVID-19 pandemic and uncertainty regarding its outcome.

The Challenger Group's financial position may also be adversely impacted if certain of its suppliers (including its counterparties, suppliers of IT services, and other suppliers of goods and services) are unable to successfully implement business continuity plans in the current environment or if any such suppliers are unable to continue as going concerns as a result of the economic impact of COVID-19. The spread of COVID-19 has already resulted in governmental authorities in Australia, the United States, the United Kingdom and other countries around the world imposing a variety of measures restricting day-to-day life, including quarantines and travel restrictions of varying scope. This has resulted in significant disruptions in the global economy and the economies of particular countries, including travel, retail, tourism, health systems, food and manufacturing supply chains, consumption and overall economic output, which in turn has caused lower interest rates and significant volatility in global financial markets. However, the extent of the impact on the Challenger Group's business, results of operations, financial condition, liquidity and cash flows is largely dependent on future developments, which are highly uncertain and not predictable, including the scale of COVID-19 and actions taken to address its impact.

Moreover, changes in interest rates, reduced liquidity or a continued slowdown in Australia, Japan, the United States, the United Kingdom or global economic conditions may also adversely affect our business, financial condition, results of operations, liquidity or prospects. Further, extreme market volatility may leave the Challenger Group unable to react to market events in a prudent manner consistent with our historical practices in dealing with more orderly markets.

Furthermore, increased economic uncertainty and increased unemployment resulting from the economic impacts of the spread of COVID-19 could result in policyholders seeking sources of liquidity and withdrawing at greater rates than previously expected. It could also materially affect the Challenger Group's ability to obtain and retain new policyholders – in particular, to the extent that the economic downturn causes disruption to the financial advice industry, which results in declines in sales of annuities by independent financial advisers. The extent to which COVID-19 impacts the Challenger Group's business, results of operations, financial condition, liquidity or prospects will depend on future developments which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions taken to contain or treat its impact.

These factors are beyond the Challenger Group's control and could have a material adverse effect on the overall business sentiment and environment, causing material uncertainties, cause the Challenger Group's business to suffer in ways that cannot be predicted, and which may have a material adverse impact on Challenger Group's operations, financial performance and position.

Challenger Group has a pandemic plan which has been activated in response to the current COVID-19 pandemic. However, despite the business continuity and crisis management policies that the Challenger Group currently has in place, travel restrictions and the potentially prolonged impacts of the COVID-19 pandemic on the Challenger Group's personnel and operations may disrupt the Challenger Group's businesses and increase operational risk losses. The expected duration and magnitude of the COVID-19 pandemic and its potential impact on the economy and the Challenger Group's personnel and operations is unclear. The Challenger Group is monitoring the situation closely as the domestic and global business environment changes. Should the impact of COVID-19 and the actions taken to control its spread be prolonged or increasingly widespread and severe, this may adversely affect the Challenger Group's operations, financial position and prospects. Other epidemics or pandemics may arise in future which may again activate a crisis response leading to disruptions in the Challenger Group's operations.

6.2.2 Changes in Government policy, legislation or regulation

The Challenger Group provides annuity products and funds management services. Providers and distributors of these products and services in Australia are subject to various legislative and regulatory requirements (including prudential regulation), including the Corporations Act, the Life Insurance Act, the *Superannuation Industry (Supervision) Act 1993* (Cth), the Competition and Consumer Act, the Anti-Money Laundering and Counter-Terrorism Financing Act and the Privacy Act. This regulatory regime is complex and continues to undergo significant change, the most recent being the recommendations from the Royal Commission such as the Financial Accountability Regime and in relation to trustees of Registrable Superannuation Entities holding no other roles or offices, in addition to the new product suitability reforms.

In addition, the Challenger Group'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, the *Dodd-Frank Wall Street Reform and Consumer Protection Act 2010* (US) and other reforms.

The Challenger Group is subject to supervision and oversight by regulators which have broad administrative power over its businesses. These regulators include APRA, ASIC, ASX, the ATO, the ACCC and AUSTRAC along with offshore regulators (for example, those in the United Kingdom and Japan). An example of a broad administrative power available to regulatory authorities is the power available to APRA, in certain circumstances, to investigate the Challenger Group'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). In addition, the Challenger Group may be impacted by changes enacted by these regulators in response to the ongoing COVID-19 pandemic. The nature and extent of these future changes and impacts cannot be predicted with any certainty.

Challenger and its subsidiaries are responsible for ensuring they comply with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which they operate.

If the Challenger Group does not meet the legislative or prudential requirements or the requirements placed on the Challenger Group 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 Challenger Group's businesses, financial performance, financial condition and prospects and may also give rise to adverse publicity for the Challenger Group.

The Challenger Group may also be adversely affected if the pace or extent of regulatory change exceeds the Challenger Group's ability to adapt to such change and embed compliance processes adequately. The pace of regulatory change means that the regulatory context in which the Challenger Group operates is often uncertain and complex.

Reforms arising from Federal Government reviews and inquiries may have an impact on the activities and operations of the Challenger Group. For example, the wealth management and financial advice industry has experienced disruption following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry which was established by the Australian Government in December 2017 ('**Royal Commission**'). The Final Report of the Royal Commission was released publicly on 4 February 2019.

While Challenger was not called to give evidence at the Royal Commission and Challenger's customers are not questioning the quality of its products or services, the disrupted advice market is impacting Challenger's domestic annuity sales.

CLC also relies on third party financial advisers, both independent and part of the Major Hubs, to distribute its products. Following the public hearings and completion of the Royal Commission, there has been significant disruption across the financial advice market which has reduced customer confidence in retail financial advice and reduced the acquisition of new customers by financial advisers.

Following the Royal Commission, the financial advice landscape continues to evolve and recommendations made by the Royal Commission are likely to result in significant legislative and regulatory change. The Royal Commission may also prompt regulators (such as ASIC and APRA) to alter their existing policies and practices. This may or may not include increasing their expectations for the entities that they regulate, which includes Challenger.

Reforms resulting from the Royal Commission as well as future reviews and inquiries may require the Challenger Group 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 Challenger Group incurring significant expense and having to retrain its staff, pay additional tax, hold more capital or incur other costs. The Challenger Group 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 Challenger Group.

The following changes are also likely to occur (or continue to occur) as a result of the Royal Commission, which may have an impact on the Challenger Group:

- potential increased enforcement activity by ASIC, in response to the findings of the Royal Commission that ASIC's enforcement approach should focus on increased enforcement actions and on litigation rather than negotiated outcomes. There is also a higher likelihood of adverse outcomes due to an increase in the statutory penalties under the Corporations Act;
- a new 'constructively tough' approach by APRA to the use of enforcement powers and taking enforcement action; and
- APRA is directing additional resources to a multi-year effort involving inter-related streams of work to intensify supervision of governance, accountability and culture of APRA-regulated entities.

The Australian government has also announced its intentions to, or taken steps to, enact regulatory change in relation to the following matters which may have an impact on the Challenger Group:

- introduction of the consumer data right which is intended to give Australians greater control over their data, empowering customers to choose to share their data with trusted recipients only for the purposes that they have authorised;
- passing of the ***Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act*** ('**DDOPIP Legislation**') to impose design and distribution obligations on the issuers, providers and distributors of financial products and provide ASIC with a product intervention power. The product design and distribution obligations have a multi-year transitional period and do not come into force until October 2021. The impact of these new obligations remains untested, however there is a risk that they may adversely impact the issue, distribution and reinvestment of financial products in the future, including instruments like the Challenger Capital Notes 3. These changes may also affect the liquidity of funding instruments (including hybrid securities such as the Challenger Capital Notes 3), if they lead to a material reduction in future issuance volumes or secondary trading activity by investors. In December 2019, ASIC released draft regulatory guidance in respect of the design and distribution obligations, and opened consultation on its proposed guidance. The consultation process closed in March 2020 and the final form of the regulatory guidance is expected to be released in the second half of 2020;
- APRA, ASIC and the Reserve Bank of Australia are increasing the scrutiny of entities' approaches to climate change as a material risk and using the Taskforce on Climate-related Disclosures as the mechanism to facilitate entities conducting a deeper assessment and issuing greater disclosure. The Australian Accounting Standards Board ('**AASB**') and Auditing and Assurance Standards Board has released guidance stating that if climate-related risks are important to investors' decision-making, it should be considered material and reflected in the financial statements of the relevant entity;
- APRA's focus on integrating AASB 17 *Insurance Contracts* into the Life and General Insurance Capital framework and reporting frameworks, aligned with the international approach; and
- APRA has outlined an intention to establish a new prudential standard on resolution and improve its resolution capability. APRA defines resolution as being directed at protecting the Australian community from financial loss and disruption by planning for and implementing responses to crisis within the financial system. APRA has not yet indicated what the form or content of any new standard will be. However, it is possible Challenger may incur incremental costs in responding to or complying with the requirements of a new standard.

There is also a risk that the retirement income reforms (Comprehensive Income Products for Retirement) and other regulatory changes may impact the sales of annuities, including the new pension means testing rules, superannuation changes and retirement age changes. The Government is yet to release its Retirement Income Framework, which contemplates a new Retirement Income Covenant ('**Covenant**') in the *Superannuation Industry (Supervision) Act 1993* requiring trustees to have a retirement income strategy in place, as well as the development of standardised metrics in product disclosure. In May 2020 the Government announced the deferral of the Covenant, which had been scheduled to commence on 1 July 2020. In July 2020, the Government confirmed the new start date for the Covenant will be 1 July 2022. The deferral is to allow continued consultation, and legislative drafting to take place following the impact of the COVID-19 pandemic. The deferral will also allow the drafting to be informed by the Retirement Income Review.

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

6.2.3 Prudential regulation and capital adequacy

Certain entities within the Challenger Group are required to meet capital and liquidity standards prescribed by APRA and other regulators. If those entities fail 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 regulated entities within the Challenger Group and on the Challenger Group as a whole 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 CLC. Any such determination would have a significant negative impact on Challenger, its subsidiaries and the Challenger Group as a whole.

Challenger, as a non-operating holding company ('**NOHC**') is subject to the requirements of the Life Insurance Act and APRA's prudential standards applicable to NOHCs of life insurers. APRA has powers which, if exercised, may be adverse to the interests of Holders, including powers to direct Challenger not to pay or transfer any amount to any person (including in respect of any Challenger Capital Notes 3) or not to issue Ordinary Shares or not to pay a dividend in respect of any Ordinary Shares.

The Challenger Group is subject to APRA's non-capital related prudential standards for the supervision of conglomerate groups (known as a 'Level 3 group'). APRA has published draft capital-related prudential standards applicable to Level 3 groups (such as the Challenger Group) but has deferred their implementation until a number of domestic and international policy initiatives are further progressed.

It is possible that any new capital-related supervision framework for Level 3 groups will impact the level and nature of regulatory capital resources attributed to the Challenger Group and the level of capital requirements. Increased regulation in this area, including the introduction of internal capital adequacy assessment process requirements, may also increase the cost of compliance and the risk of non-compliance for the Challenger Group. Any significant change, whether or not related to the prudential framework for Level 3 groups, 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 Challenger Group, and the level of capital required to support Challenger's business units. 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 Challenger and regulated entities of the Challenger Group to hold a greater level of capital to support their businesses or require those entities not to pay dividends or restrict the amount of dividends that can be paid by them, including dividends paid by Challenger and any dividends paid by CLC to Challenger. The results of the above regulatory changes may require the Challenger Group 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 and having to retrain its staff, pay additional tax, hold more capital or incur other costs. While the Challenger Group 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 Challenger Group.

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 Challenger Group.

The Challenger Group operates an Internal Capital Adequacy Assessment Process ('**ICAAP**') to manage its capital levels and to maintain them above the minimum levels approved by the Board (which are currently set to exceed regulatory requirements). The ICAAP includes forecasting and stress testing of capital levels, which guide the Challenger Group in selecting any capital management initiatives it may undertake. Should the ICAAP forecast or stress tests prove to be ineffective, the Challenger Group may not be holding sufficient capital and may need to raise additional capital.

6.2.4 Structural subordination

Challenger is a NOHC whose assets consist of ownership interests in a life business (CLC) and a funds management business (CIP Asset Management and Fidante Partners). There is a risk that Challenger's subsidiaries may not be in a position to make funds available to Challenger to enable it to make payments on the Challenger Capital Notes 3. If Challenger or one or more of its subsidiaries are wound up, Holders may lose some or all of their investment in Challenger Capital Notes 3.

In the event that a Challenger subsidiary is wound up, the claims of Challenger in respect of the subsidiary would be limited to the net assets (if any) of that subsidiary after all liabilities, including to policyholders, and regulatory capital securityholders in relation to the relevant subsidiary, have been discharged or provided for. There may be insufficient net assets after satisfaction of senior claims to pay any amount to Holders in respect of Challenger Capital Notes 3.

In addition, Challenger is reliant on the continued receipt of dividends, distributions or other funding from its subsidiaries, in particular, CLC, to make payments on its securities, including Challenger Capital Notes 3. The terms of securities issued by CLC or other subsidiaries of Challenger may restrict CLC or another relevant subsidiary from paying dividends, distributions, or other payments to Challenger in certain circumstances, or such payments to Challenger may be subject to other regulatory, contractual or legal restrictions.

The Terms do not in any way restrict Challenger or subsidiaries of Challenger, including CLC, from issuing further securities or from incurring further indebtedness in future which may rank senior to the Challenger Capital Notes 3, or which may contain terms restricting the payment of dividends, distributions, or other payments to Challenger in certain circumstances.

6.2.5 Distribution channels

CLC distributes its products in Australia through third-party financial planning networks. Many of these financial planning networks are owned by product manufacturers that sell products that compete with CLC's products. This exposes CLC 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.

Advisers and licensees in third party financial planning networks may be subject to ASIC bans and disqualifications as a result of misconduct. Challenger has a process to monitor ASIC notifications regarding banned and disqualified advisers and licensees, and to remove them from Challenger's registry. Additionally, conduct by third party advisers may lead to reputational damage and have other material adverse effects on CLC's businesses.

Challenger also has agreements with MS&AD Insurance Group Holdings Inc. ('**MS&AD**') under which MS&AD's subsidiary, MS Primary, must provide a minimum annual amount of reinsurance to CLC in respect of MS Primary's foreign currency annuities issued in Japan in aggregate across reinsurance agreements entered into between CLC and MS Primary. The agreement provides that the parties are to agree in good faith any necessary adjustments to enable arrangements to continue in the event of a significant change in investment markets which has a material adverse effect on the economic returns of either MS Primary or CLC. The reinsurance agreements between CLC and MS Primary include mechanisms to regulate volumes between MS Primary and CLC, and also usual termination rights for both parties (including material breach, failure to pay and events that may be triggered by changes in MS Primary's regulatory environment). Nevertheless, CLC could be exposed to declines in reinsurance amounts under these arrangements if MS Primary's sales of foreign currency annuities in Japan fall.

Following the completion of the Royal Commission, there has been significant disruption across the financial advice market which has reduced customer confidence in retail financial advice, reduced the number of financial advisers (particularly in the case of institutionally owned or aligned, as opposed to independent, advisers) and reduced the acquisition of new customers by financial advisers. The financial advice market disruption is impacting the Australian wealth management industry sales (including sales of CLC's products) over the short term, including that distribution channels may no longer offer CLC's products, which in turn could have a material adverse impact on the Challenger Group's business and financial performance.

6.2.6 Market risk

Demand for Challenger'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 Challenger Group is significantly affected by changes in investment markets and economic conditions (including, but not limited to, the impact of the COVID-19 pandemic) both in Australia and globally in New Zealand, Japan, the United States, the United Kingdom and Europe where the Challenger Group 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, pandemics or disease outbreaks such as COVID-19, war and terrorism, geopolitical events such as the United Kingdom's departure from the European Union, political and social unrest such as the 2019-2020 Hong Kong protests, and sovereign debt restructuring and defaults.

Additionally, changes in market factors such as potential developments or future changes in the administration of financial benchmark interest rates could result in adverse consequences to the return on, value of and market for, securities and other instruments whose returns are linked to any such benchmark, including those securities issued by the Challenger Group.

Any deterioration in investment markets, investor sentiment or economic conditions (including, but not limited to, the ongoing impact of the COVID-19 pandemic) in the Challenger Group's core markets may lead to reductions in new business sales, and therefore reduced cash flows, and the value of investments, which may have an adverse impact on the overall financial performance and position of the Challenger Group. In particular, product margins across the Challenger Group may be adversely impacted by a number of factors, including interest rates (including potential negative 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/or unforeseen interest rate settings, and may have a material adverse impact on the financial performance and position of the Challenger Group.

The Challenger Group currently manages interest rate risk through hedging arrangements. Disruptions in financial markets (including, but not limited to, the ongoing impact of the COVID-19 pandemic) 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 Challenger Group.

Notwithstanding that the Challenger Group 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 CLC's annuity products to vary. CLC 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 investment returns on funds under the management of CIP Asset Management and Fidante Partners and the CLC investment portfolio, which may lead to changes in income or demand for the Challenger Group products; and
- the Challenger Group's funding costs.

There is a risk of sustained low interest rates (including the potential for zero or negative interest rates) and other monetary policy stimulus measures such as quantitative easing (asset purchases made by the central banks). Such monetary policy settings have the potential to have a material adverse impact on the financial performance and position of the Challenger Group.

Foreign exchange risk

Foreign exchange risk is the risk of the Challenger Group sustaining loss through adverse movements in exchange rates. Such losses can affect the Challenger Group's financial position and performance, and the level of capital supporting the Challenger Group's businesses. From an operational perspective, the Challenger Group 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 Challenger Group 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 Challenger Group's reputation, other asset values, financial performance and position.

Adverse movements in exchange rates may also impact sales of US dollar and Australian dollar annuities in Japan by Mitsui Sumitomo Primary Life Insurance Company Limited ('**MS Primary**') in respect of which CLC has a reinsurance agreement (see Section 4.3.1 for further information), which may adversely impact the Challenger Group's financial performance.

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

Inflation risk

CLC offers certain products where the benefits of those products are indexed to the CPI. CLC currently manages the inflation risk associated with these products through hedging arrangements, such as entering into inflation-linked derivatives, or purchasing assets such as index-linked government bonds, 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.

6.2.7 Investment performance

The Challenger Group has a significant investment portfolio supporting liabilities arising from its life business within CLC and is also exposed to investment performance in its funds management business. The Challenger Group's investment portfolio consists of:

- assets backing annuity and risk products issued by CLC;
- shareholder assets, e.g. CLC shareholder funds;
- assets as part of investment mandates managed by the CIP Asset Management business; and
- assets forming part of funds managed as part of the Fidante Partners business.

CLC's investment portfolio is managed in accordance with CLC's risk appetite, investment policy, investment approach and asset allocation plan. CLC'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. Investment mandates operated by CIP Asset Management and the funds managed by Fidante Partners are also exposed to some or all of those asset classes. The Challenger Group, through its investment in these assets, is exposed to risk and volatility in the markets (including, but not limited to, the ongoing impact of the COVID-19 pandemic), securities and other assets in which it invests. Those risks include, but are not limited to:

- investment risk, which includes the risk that CLC 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 Challenger Group's businesses, financial performance, capital resources, fee income and financial condition. In particular, the Challenger Group's management may take actions from time to time to rebalance its investment portfolio in response to adverse market conditions and volatility. Such actions may potentially adversely impact on the short term profitability of Challenger's investment portfolio.

Relative investment performance to peers or market returns more generally also affect the demand for products offered by the Challenger Group; particularly, the investment mandates operated by CIP Asset Management and the funds managed as part of the Fidante Partners business. If CIP Asset Management or the funds managed as part of the Fidante Partners business underperform peer investment managers or the market more generally for a prolonged period, the demand for these products may reduce materially. To the extent that this risk materialises, it may have a material adverse impact on the financial performance and position of the Challenger Group.

Fee income in the funds management business is primarily based on the level of assets under management and investment performance. A deterioration in investment performance may lead to a decline in assets under management and a decline in fee income including performance, management and transaction fees, which may have an adverse impact on the financial performance and position of the Challenger Group.

6.2.8 Declines in asset markets

The Challenger Group'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 (including, but not limited to, the ongoing impact of the COVID-19 pandemic), 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 Challenger Group. Credit spreads on fixed income securities that CLC or Challenger owns can deteriorate in less favourable business or economic conditions, or counterparties may default. Additionally, valuations of unlisted investments are subject to a number of assumptions which may not be accurate or which may change. These factors individually or combine may result in unrealised or realised losses which will affect the profitability, financial performance, capital resources and prospects of CLC and of Challenger.

As part of its asset portfolio backing the annuity liabilities it has originated, CLC provides loans in respect of, and owns, residential and commercial property primarily in Australia and Japan. Property markets in these jurisdictions can be variable, and some locations have experienced reduced asset values. As a result of the COVID-19 pandemic, increases to rental property arrears and tenant vacancy periods are possible as well as requests for rental relief. Declining property valuations may result in either unrealised or realised losses which will affect the profitability, financial performance, capital resources and prospects of the Challenger Group.

6.2.9 Fair value impact on earnings

CLC 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 CLC's statutory statement of comprehensive income. This effect may reverse over time depending upon market conditions and may not be realised if CLC 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, CLC may report lower earnings than its underlying level of earnings because it will include an unrealised loss in its statutory statement of comprehensive income. This may not accurately represent the underlying earnings because CLC did not have to sell the assets and realise the loss at the reporting date.

CLC's earnings currently represent a majority of the earnings of the Challenger Group. As a result, valuing CLC's assets and liabilities at fair value may have a material impact on the overall reported earnings of Challenger in its statutory statement of comprehensive income. This impact could be either positive or negative, but if the impact is negative, it may have a material adverse impact on Challenger's statutory financial performance and position.

Generally, in order to establish fair value for financial instruments, CLC 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 Challenger Group's earnings.

6.2.10 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. CLC sells annuity products with durations that range from one year to the life of the person purchasing the annuity. CLC 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 CLC 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 CLC will be required to sell assets before their stated maturity to meet the obligations it may have in relation to maturing annuity liabilities. CLC 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 both CLC and the Challenger Group.

6.2.11 Insurance risk

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

- longevity risk – the risk of insured lives living longer than expected;
- mortality risk – the risk of death rates being higher than expected (including, but not limited to, the impact of pandemics or disease outbreaks such as COVID-19); and
- morbidity risk – the risk of insured lives suffering greater disability than expected, which can be in respect of either the frequency or the severity of disability.

CLC sells annuity products that extend for the life of the policyholder. In addition, CLC issues longevity reinsurance treaties. These expose CLC and Challenger to longevity risk. CLC retains the longevity risk associated with these products and does not currently reinsure this risk. While CLC 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 CLC's and Challenger's business and financial condition.

CLC also has longevity risk associated with annuities products for which it has ceased writing new business (known as 'closed books'). CLC has reinsured part of the longevity risk associated with its closed books. CLC and

Challenger are also exposed to the risk of default on the part of the reinsurer for this risk.

CLC has exposure to mortality risk through reinsurance treaties. There is a risk of higher than expected mortality in relation to these reinsurance treaties. Higher than expected mortality may occur for a variety of reasons including as a result of pandemics or disease outbreaks such as COVID-19, natural disasters or other factors outside of CLC's and Challenger'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.

6.2.12 Funding and liquidity risk

Funding risk relates to the risk of one or more of the Challenger Group's sources of funding being reduced or eliminated or there being a significant increase in the cost of funding through either a systemic or a company-specific event.

If the Challenger Group'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 Challenger Group'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, reduced financial performance of these assets or funds, dividends not being available to be paid by CLC to Challenger, or a downgrade in the credit rating of any member of the Challenger Group. An inability to manage the funding risks for the Challenger Group may result in forced asset sales or default, which could adversely impact the Challenger Group's debt and equity market relationships, reputation and brand.

Further, business entities owned as investments by CLC or funds managed by CIP Asset Management and Fidante Partners, may breach or risk breaching their loan and other debt covenants. In the event of a 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 Challenger Group.

Liquidity risk is the risk that the Challenger Group fails to meet its payment obligations, which may arise as a result of a mismatch between those payment obligations and the Challenger Group's access to liquid assets, adequate funding or access to capital on acceptable terms, or cash flows generated by its businesses. Both the Challenger Group's payment obligations and accessibility to liquid assets may be impacted by a systemic (including, but not limited to, the direct and indirect impact of the COVID-19 pandemic) or a company-specific event. For example, the Australian Government's introduction of policy to enable individuals' early release of superannuation, if certain financial criteria resulting from COVID-19 have been met, may cause Challenger Group's payment obligations to investors to temporarily increase. An inability to manage the liquidity risk may have a material adverse impact on the Challenger Group's reputation, credit rating, financial position and performance.

6.2.13 Credit ratings

Credit ratings are opinions on Challenger's creditworthiness. Challenger'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 Challenger's products and services. Therefore, maintaining high quality credit ratings is important.

The credit ratings assigned to Challenger and its subsidiaries by rating agencies are based on an evaluation of a number of factors, including financial strength and support from members of the Challenger Group. 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 Challenger, or a member of the Challenger Group, fails to maintain its current credit rating, this could adversely affect Challenger's cost of funds and related margins, competitive position and its access to capital and funding markets, which, in turn, could adversely affect Challenger'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 Challenger, or any member of the Challenger Group, also impact Challenger's peers or the life insurance sector.

6.2.14 Credit and outsourcing risk

Credit risk is the risk that default by a counterparty will result in a financial loss to the Challenger Group. The Challenger Group is exposed to credit risk with the counterparties it deals with, including for derivative contracts. The risk exists in the investment portfolios of CLC, and the funds managed by CIP Asset Management and Fidante Partners.

A default by a counterparty can impact the Challenger Group's financial position and performance and the level of capital supporting the Challenger Group's businesses. Such a default can also impact investments of CLC and funds managed by CIP Asset Management and Fidante Partners, which may have a material adverse impact on Challenger's reputation, management fee income, other asset values, financial performance, position and liquidity.

Credit risk arises primarily in relation to exposures to debt securities, property leases, futures and options broker clearers and over-the-counter derivative counterparties. While the Challenger Group 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 and losses may occur.

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 CLC has lent money to counterparties. CLC 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 Challenger Group.

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 Challenger, CLC and the Challenger Group require that all material outsourcing 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.

6.2.15 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 Challenger Group 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 Challenger Group relies to a significant degree on information technology systems. Most of the Challenger Group'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 Challenger Group 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 Challenger. The Challenger Group 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.

In response to COVID-19, a material proportion of the Challenger Group's workforce is now working from home. This has been a rapid implementation and significant change in the way the Challenger Group and its workforce operates. This exposes the Challenger Group to additional operating risk, including increased risk of fraud, technology and related risks and employee health and safety risks.

The Challenger Group has disaster recovery and systems development roadmaps in place to mitigate some of these risks. However, any failure in the Challenger Group'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 Challenger Group's operations or adversely affect demand for its products and services and its reputation, which could adversely affect Challenger's businesses, financial performance and prospects.

The Challenger Group could also be adversely affected if an employee, contractor or external service provider does not act in accordance with regulations or the Challenger Group's policies and procedures, engages in inappropriate or fraudulent conduct, or unintentionally fails to meet a professional obligation to specific clients. Examples are privacy or data security breaches, AML/CTF Act breaches, market manipulation, insider trading and misleading or deceptive conduct in advertising. As a result, the Challenger

Group could incur losses, financial penalties and reputational damage and could be subject to legal or regulatory action.

6.2.16 Staff retention and key person risk

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

6.2.17 Strategic risks

Strategic risk is the risk of material value destruction or less than planned value creation, due to changes in the Challenger Group's external and internal operating environment. The Challenger Group 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 Challenger brand. Examples of these risks include competitor disruption, changing customer preferences, and changing political and regulatory environments. The Challenger Board sets the overall strategic direction of Challenger and the Challenger Group as part of the strategic planning process in connection with these risks.

Competitive environment

The wealth management industry in which the Challenger Group 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 fees and 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 Challenger Group.

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 Challenger Group 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 Challenger Group.

Dependence on the Australian economy

As the Challenger Group primarily conducts its life insurance and funds management businesses in Australia, its performance is influenced by the level and cyclical nature of business activity in Australia. This in turn, is impacted by both domestic and international economies and political events. A weakness in the Australian economy, and/or in the economic and business conditions of other countries, may have an adverse effect on the Challenger Group's financial conditions and on the results of its operations. This may include reduced demand for products and services but also lower investment performance and increased costs, which could have a material adverse impact on the Challenger Group's financial performance, financial condition and prospects.

The electoral cycle in Australia may lead to new regulatory, taxation or other legislative proposals. If enacted, these may impact the underlying performance of the Challenger Group or an investment in Challenger Capital Notes 3.

Investor activism

The Challenger Group may be challenged on its strategy by shareholders, including institutional shareholders, and special interest groups. Areas which have attracted investor activism in Australia include making socially responsible investments and avoiding financing or interacting with businesses that do not demonstrate responsible management of environmental and social issues. The prevalence of investor activism could impact management's decision-making and the implementation of the Challenger Group's initiatives, which could have a material adverse impact on the Challenger Group's financial performance, financial conditions and prospects.

6.2.18 Reputational damage

The Challenger Group's reputation is a valuable asset and a key contributor to the support that it receives from the community for its business initiatives and its ability to obtain funding and capital. Damage to the Challenger Group's reputation may arise where there are differences between stakeholders' expectations and the Challenger Group's actual or perceived practices. The risk of reputational damage may also be a secondary outcome of other sources of risk described in this Section or other risks that are not covered and which may emerge. The Challenger Group's ability to attract and retain customers and investors and its prospects could also be adversely affected if the Challenger Group'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 Challenger Group (or staff of its strategic business partners), improper conduct of companies in which it holds strategic investments, technology failures, security breaches and risk management failures. The Challenger Group'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 Challenger Group to regulatory enforcement actions, fines and penalties and could lead to loss of business, which could adversely affect the Challenger Group's financial performance, financial condition and prospects.

6.2.19 Mergers, acquisitions and divestments

The Challenger Group 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 Challenger Group's strategic direction. These strategic initiatives can be complex and costly and may require the Challenger Group to comply with additional local or foreign regulatory requirements which may carry additional risks. There can also be no guarantee that Challenger Group will identify any future strategic initiatives or that these strategic initiatives will deliver the anticipated positive business results. This could have a material adverse impact on the business, prospects, engagement with regulators, financial performance or position of the Challenger Group. Strategic alliances and relationships and joint ventures may involve significant counterparty risk.

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

Mergers or acquisitions may require assimilation of new operations and new personnel and may cause dissipation of the Challenger Group'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 Challenger Group to realise the financial benefits of the transaction, if any. During the period immediately following this type of transaction, the Challenger Group's operating results may be adversely affected.

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

The Challenger Group 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 Challenger Group'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.

For a discussion of the consequences of an Acquisition Event on the Challenger Capital Notes 3, see Section 6.1.12.

6.2.20 Accounting policies

Australian accounting standards require accounting policies to be selected and applied by the Challenger Group 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 Challenger Group. The choice of accounting policies and the Life Normalised Cash Operating Earnings framework can materially affect the analysis and interpretation of the Challenger Group's financial position and performance, particularly in comparison to other companies.

6.2.21 Tax risk

Australian tax law is frequently being changed, both prospectively and retrospectively. Of particular relevance to the Challenger Group 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 both impact on demand for financial products and services and also impact on shareholder returns and the level of franking available for dividends on Ordinary Shares and Distributions on Challenger Capital Notes 3.

The ATO, as part of its ordinary processes in reviewing large business taxpayers, takes into account their size and complexity. The Challenger Group, as a large and complex group, 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.

From time to time, the Challenger Group has interactions and matters under review or audit with the ATO in relation to the taxation treatment of various matters. The outcome of these reviews or audits may not always favour the Challenger Group and as a result, there is a risk that an adverse finding by the ATO may impact the Challenger Group's financial position and performance.

6.2.22 Litigation and contingent liabilities

From time to time, the Challenger Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect the Challenger Group's results. Details regarding the Challenger Group's material contingent liabilities are contained in Note 28 of Challenger's Annual Report for the financial year ended 30 June 2020.

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

6.2.23 Cyber and information security risk

Many of the day-to-day operations of the Challenger Group are reliant upon key systems and technology, which are supported by a combination of in-house expertise and select external providers.

The Challenger Group is exposed to industry-wide cyber security threats, including (but not limited to) denial of service attacks, network intrusions, malware, Trojans, viruses and insider attacks. Cyber and information security risk may arise from an array of factors including complexity within the technology environment and failure to keep technology up-to-date, a failure of Challenger's systems to operate effectively, an inability to restore or recover such systems in acceptable timeframes, a breach of data security, or other forms of cyber-attack or physical attack. The continuing evolution of cyber security threats and their increasing sophistication means constant vigilance and continuing control improvements are required. An information security breach may result in operational disruption, regulatory enforcement actions, financial losses, theft or loss of customer data, or breach of privacy laws, all of which may adversely impact the Challenger Group's reputation, and financial performance and position.

6.2.24 Environmental risk and climate change

The Challenger Group and its customers operate businesses and hold assets in a diverse range of geographical locations. Challenger invests in assets with long term cash flows to match the annuity payments required to be made within its portfolio. This means that Challenger must consider the risk of climate change within its risk management framework and work to ensure that these risks are mitigated where possible. Any significant environmental change, climate change related impacts or external event (including fire, storm, drought, flood, earthquake or pandemic) in any of these locations has the potential to disrupt the Challenger Group and its customers' business activities, damage property and otherwise affect the value of assets held in the affected locations. Challenger considers environmental factors in investment decision-making and ownership practices, including, where relevant, assessment of climate-related risks. However, environmental changes (including adverse climatic events), climate change-related impacts or external events may directly impact Challenger and its customers through reputational damage, environmental factors, insurance risk and business disruption and may have an adverse impact on financial performance.

Initiatives to mitigate or respond to adverse impacts of climate change may in turn impact market and asset prices, economic activity, and customer behaviour, particularly in geographic locations and industry sectors adversely affected by these changes. Failure to effectively manage these transition risks could adversely affect Challenger's business, prospects, reputation, financial performance or financial condition.

6.2.25 Failure of risk management strategies

The Challenger Group has implemented risk management strategies and internal controls involving processes and procedures intended to identify, monitor and mitigate the risks to which it is subject, including market risk (including interest rate and foreign exchange risk), strategic risk, financial risk, insurance risk, credit and counterparty risk and operational risk. The Board's Risk Appetite Statement outlines the level of risk that is acceptable in striving to achieve Challenger's strategic goals and financial objectives. This is combined with a robust risk management framework which monitors, mitigates and manages the risks to which Challenger is exposed.

However, there are inherent limitations with any risk management framework as there may exist, or develop in the future, risks that the Challenger Group has not anticipated or identified or controls that may not operate effectively.

If any of the Challenger Group's risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, the Challenger Group could suffer unexpected losses and reputational damage which could adversely affect the Challenger Group's businesses, financial performance, capital resources, financial condition and prospects.

Section 7
About the Offer

This Section provides information about the Offer, including how to apply. The key dates in relation to the Offer are outlined on page 5.

7.1 The Offer

The Offer is for the issue of Challenger Capital Notes 3 with a Face Value of $100 per Challenger Capital Note 3 to raise approximately $250 million, with the ability to raise more or less.

All Challenger Capital Notes 3 will be issued under and subject to the disclosure in this Prospectus.

7.2 Structure of the Offer

The Offer comprises:

- an Institutional Offer made to certain Institutional Investors;
- a Broker Firm Offer made to Australian resident retail and other clients of Syndicate Brokers;
- a Securityholder Offer made to Eligible Securityholders; and
- a Reinvestment Offer made to Eligible CCN1 Holders.

In conjunction with the Offer, Challenger is also providing Eligible CCN1 Holders with the opportunity to tender their Challenger Capital Notes 1 to be repurchased for their face value of $100 per Challenger Capital Note 1 payable in cash through the Repurchase Invitation. Information on the Repurchase Invitation (including how to participate) is contained in the Repurchase Booklet accompanying this Prospectus.

7.3 Obtaining a Prospectus and Application Form

During the Exposure Period, an electronic version of this Prospectus (without an Application Form) will be available to eligible investors at www.challengercapitalnotes.com.au. Application Forms will not be made available until after the Exposure Period.

During the Offer Period, an electronic version of this Prospectus with an Application Form will be available at www.challengercapitalnotes.com.au and may be available through your Syndicate Broker. You can also request a free paper copy of this Prospectus and a personalised Application Form by registering online at www.challengercapitalnotes.com.au, or by calling the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).

Eligible CCN1 Holders will also have access to download an electronic version of this Prospectus and Applications under the Reinvestment Offer can be submitted either online at www.challengercapitalnotes.com.au or by submitting a paper Application Form during the Offer Period.

The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to, or accompanied by, a printed copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applications will only be considered where Applicants have applied using an Application Form (either electronic or paper) that was attached to, or accompanied by, a copy of this Prospectus, and have provided an Application Payment.

7.3.1 Electronic access to this Prospectus

The following additional conditions apply if this Prospectus is accessed electronically:

- you must download the entire Prospectus;
- your Application will only be considered where you have applied using an Application Form (electronic or paper) that was attached to or accompanied by a copy of the Prospectus; and
- the Prospectus is available electronically to you only if you are accessing and downloading or printing the electronic copy of the Prospectus in Australia.

7.4 Applying for Challenger Capital Notes 3

7.4.1 Minimum Application

For the Institutional Offer, Broker Firm Offer and Securityholder Offer, Applications must be for a minimum of 50 Challenger Capital Notes 3 ($5,000) and after that in multiples of 10 Challenger Capital Notes 3 ($1,000).

For the Reinvestment Offer, there is no minimum number of Challenger Capital Notes 1 that you must hold to be able to participate. However, if you are an Eligible CCN1 Holder and own less than 50 Challenger Capital Notes 1, you must apply to reinvest the CCN1 Resale Proceeds relating to **all** of your Challenger Capital Notes 1. If you are an Eligible CCN1 Holder and you own 50 or more Challenger Capital Notes 1, you must apply to reinvest the CCN1 Resale Proceeds relating to at least 50 of your Challenger Capital Notes 1 and in multiples of 10 Challenger Capital Notes 1 thereafter.

7.4.2 Applying under the Institutional Offer

The Institutional Offer is available to Institutional Investors (provided that such investors may not be in the United States) who are invited by the Joint Lead Managers to bid for Challenger Capital Notes 3 in the Bookbuild expected to be conducted on 20 October 2020.

Application and settlement procedures for Institutional Investors will be advised by the Joint Lead Managers.

7.4.3 Applying under the Broker Firm Offer

The Broker Firm Offer is available to Australian resident clients of Syndicate Brokers invited to participate through the Broker Firm Offer.

If you are applying under the Broker Firm Offer, you should contact your Syndicate Broker for information about how and when to lodge your Application and accompanying Application Payment.

If you are an Eligible CCN1 Holder and you are an Australian resident client of a Syndicate Broker, you may apply to reinvest your Challenger Capital Notes 1 in Challenger Capital Notes 3 through your Syndicate Broker (refer to Section 3.3 for further information). Eligible CCN1 Holders who apply to reinvest through a Syndicate Broker will receive their allocation from their Syndicate Broker.

Generally, you will lodge your Application with your Syndicate Broker. Applications under the Broker Firm Offer (whether lodged through a Syndicate Broker or as otherwise directed) must be received by your Syndicate Broker in sufficient time for your Syndicate Broker to process the Application on your behalf by the Closing Date. The Closing Date for Applications in respect of the Reinvestment Offer is 5:00pm (Sydney time) on 13 November 2020. Applications for additional Challenger Capital Notes 3 under the Broker Firm Offer must also be received by 5:00pm (Sydney time) on 13 November 2020.

7.4.4 Applying under the Securityholder Offer

The Securityholder Offer is available to Eligible Securityholders. To be an Eligible Securityholder, you must:

- be a registered holder of Ordinary Shares or a registered holder of Challenger Capital Notes 1 or Challenger Capital Notes 2 at 7:00pm (Sydney time) on 8 October 2020;
- be shown on the applicable register as having an address in Australia; and
- not be in the United States or acting as a nominee for a person in the United States.

If you wish to apply for Challenger Capital Notes 3, we encourage you to apply as soon as possible after the Opening Date as the Offer may close early, without notice.

If you are an Eligible Securityholder, you may apply for Challenger Capital Notes 3 under the Securityholder Offer by either:

- applying online at www.challengercapitalnotes.com.au, providing your SRN and HIN, and following the instructions in relation to your Application Payment. When applying online, you will be required to pay for Challenger Capital Notes 3 using BPAY (you will not be required to submit a paper Application Form if applying online); or
- following the instructions set out on your personalised paper Securityholder Offer Application Form attached to, or accompanying, this Prospectus and making your Application Payment via BPAY.

Your Application must be received by the Registry by the Closing Date for the Securityholder Offer, which is expected to be 5:00pm (Sydney time) on 13 November 2020. The most efficient way to ensure your Application is received by this time is to apply online at www.challengercapitalnotes.com.au.

Paper copies of this Prospectus and your personalised Securityholder Offer Application Form can be obtained free of charge by registering online at www.challengercapitalnotes.com.au, or by calling the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).

7.4.5 Applying under the Reinvestment Offer

The Reinvestment Offer is available to Eligible CCN1 Holders. To be an Eligible CCN1 Holder, you must be a registered holder of Challenger Capital Notes 1 at 7:00pm (Sydney time) on 8 October 2020 (Challenger Capital Notes 1 must also be held on the Closing Date of the Reinvestment Offer) and, unless otherwise determined by Challenger:

- be shown on the Challenger Capital Notes 1 register as having an address in Australia;
- not be an individual residing in a member state of the European Union; and
- not be in the United States or acting as a nominee for, or for the account or benefit of, a U.S. Person, and not otherwise prevented from receiving the Reinvestment Offer or Challenger Capital Notes 3 under the laws of any jurisdiction.

If you are an Eligible CCN1 Holder and are an Australian resident client of a Syndicate Broker, you may apply to reinvest your Challenger Capital Notes 1 in Challenger Capital Notes 3 through your Syndicate Broker (refer to Section 3 for further information).

If you are an Eligible CCN1 Holder and you wish to apply for Challenger Capital Notes 3 directly, we encourage you to apply as soon as possible after the Opening Date, as the Offer may close early, without notice. Eligible CCN1 Holders, may apply for Challenger Capital Notes 3 directly under the Reinvestment Offer by either:

- applying online at www.challengercapitalnotes.com.au, providing your SRN or HIN and following the instructions. If your Challenger Capital Notes 1 are held on the CHESS sub-register (identified by having a HIN which starts with an 'X'), you should be aware that your online Application is not validly submitted until your controlling participant confirms acceptance of your Application;
- If your Challenger Capital Notes 1 are held on the CHESS sub-register via your controlling participant or broker (identified by having a HIN which starts with an 'X'), instructing your controlling participant (usually your broker) to submit your Application. If you submit your Application via your controlling participant, please allow sufficient time for them to process your instruction by no later than 5:00pm (Sydney time) on the Closing Date; or
- completing your personalised paper Application Form attached to, or accompanying, the paper copy of this Prospectus and lodging your Application by following the instructions on the form.

Your Application (electronic or paper based) in respect of the Reinvestment Offer must be received by the Registry by the Closing Date for the Reinvestment Offer, which is expected to be 5:00pm (Sydney time) on 13 November 2020.

If your Challenger Capital Notes 1 are held on the CHESS sub-register, Challenger strongly recommends that you instruct your controlling participant or submit your online Application in advance of 5:00pm (Sydney time) on the Closing Date to allow sufficient time for your controlling participant to confirm acceptance. Neither Challenger nor the Registry will be responsible if your controlling participant does not acknowledge and confirm your application in sufficient time.

If you did not receive a personalised paper Application Form, or would like a replacement personalised paper Application Form, you can call the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time). Should you have any further questions about how to complete your Application, please call the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).

If you elect to reinvest only some (and not all) of your Challenger Capital Notes 1 under the Reinvestment Offer, you will be deemed to have tendered the balance of your Challenger Capital Notes 1 to be repurchased for $100 per Challenger Capital Note 1 under the Repurchase Invitation.

7.5 Completing and lodging your Application

7.5.1 Lodging your Application (if you choose not to apply online)

If you are applying under the Broker Firm Offer, or the Reinvestment Offer via a Syndicate Broker, you should contact the Syndicate Broker who has offered you an allocation for information about how and when to lodge your Application. Generally, you will lodge your Application with your Syndicate Broker.

If you are an Eligible Securityholder applying under the Securityholder Offer, you should follow the instructions set out on your personalised paper Securityholder Offer Application Form and make your Application Payment via BPAY. You should ensure your Application is received by the Closing Date for the Securityholder Offer, which is expected to be 5:00pm (Sydney time) on 13 November 2020. The most efficient way to ensure your Application is received by this time is to apply online at www.challengercapitalnotes.com.au.

If you are an Eligible CCN1 Holder applying under the Reinvestment Offer, your Application must be received by the Registry (either online at www.challengercapitalnotes.com.au or by completing and returning your personalised paper Application Form) no later than 5:00pm (Sydney time) on 13 November 2020. If you are an Eligible CCN1 Holders and you have a CHESS Holding (that is, you have a HIN which starts with an 'X'), you can also instruct your controlling participant (usually your broker) to submit your Application (see Section 7.4.5 for further information).

Please note that paper Application Forms and Application Payments will not be accepted at Challenger's registered office or any other Challenger office or at other offices or branches of the Registry. If you are applying online, no paper Application Form is required to be sent to the Registry.

7.5.2 How to pay

BPAY

If you are an Eligible Securityholder applying under the Securityholder Offer and you are applying online, you must complete your Application by making a BPAY payment. If you apply using your personalised paper Application Form, your Application Payment must be made via BPAY and you should follow the instructions provided on the form and make payment using the specific biller code and unique reference number provided. Using the BPAY details provided, you will generally need to:

- access your participating BPAY financial institution through your internet or mobile banking site or call your telephone banking service centre;
- select the respective BPAY or bill payment option and follow the instructions;
- enter the biller code supplied;
- enter the unique Customer Reference Number supplied for each Application;
- enter the total Application Payment amount to be paid which corresponds to the number of Challenger Capital Notes 3 you wish to apply for under each Application (i.e. a minimum of $5,000 (50 Challenger Capital Notes 3) and incremental multiples of $1,000 (10 Challenger Capital Notes 3) thereafter). Note that your financial institution may apply limits on your use of BPAY. You should enquire about the limits that apply in your own personal situation;
- schedule your payment for the same day that you complete your Application, since Applications without payment cannot be accepted; and
- record your BPAY receipt number and date paid. Retain these details for your records.

BPAY payments must be made from an Australian dollar account of an Australian financial institution. You will need to check with your financial institution in relation to their BPAY closing times to ensure that your Application Payment will be received prior to the Closing Date. If you do not make an Application Payment, your Application will be incomplete and will not be accepted by Challenger.

If you are an Eligible Securityholder applying under the Securityholder Offer and you complete your Application online, you do not need to complete or return your personalised paper Securityholder Offer Application Form. By completing your online Application and making a BPAY payment, you make the acknowledgements, declarations, representations and warranties set out in Section 9.14 of this Prospectus.

Reinvestment Offer

If you are only applying under the Reinvestment Offer, your CCN1 Resale Proceeds will be used as the Application Payment and you will not be required to pay any additional amount in respect of your Application. However, if you also apply for additional Challenger Capital Notes 3 under the Securityholder Offer you will be required to make your Application Payment for those additional Challenger Capital Notes 3 via BPAY. Applications under the Reinvestment Offer will be accepted online at www.challengercapitalnotes.com.au, and you will be required to provide your SRN or HIN and follow the instructions. Alternatively, you may complete and submit your personalised paper Application Form attached to, or accompanying, the paper copy of this Prospectus (refer to Section 7.3 for further information on how to obtain a Prospectus and Application Form).

7.5.3 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable on your Application. You may have to pay brokerage, but will not have to pay any stamp duty, on any later sale of your Challenger Capital Notes 3 on ASX after Challenger Capital Notes 3 have been quoted on ASX.

7.5.4 Application Payments held on trust

All Application Payments received before Challenger Capital Notes 3 are issued will be held by Challenger on trust in an account established solely for the purpose of depositing Application Payments received. After Challenger Capital Notes 3 are issued to successful Applicants, the Application Payments held on trust in respect of those Applicants will be payable to Challenger.

7.5.5 Refunds

Applicants who are not issued any Challenger Capital Notes 3, or are issued fewer Challenger Capital Notes 3 than the number applied and paid for as a result of a scale back, will have all or some (as applicable) of their Application Payments refunded (without interest) as soon as practicable after the Issue Date.

In the event that the Offer does not proceed for any reason, all Applicants will have their Application Payments refunded (without interest) as soon as practicable. Refund amounts, if any, will be paid in Australian dollars.

If you wish to advise or change your banking instructions with the Registry, you may do so by going to www.computershare.com.au/easyupdate/cgf and following the instructions.

7.6 Bookbuild and allocation policy

7.6.1 Bookbuild

The Bookbuild is a process that will be conducted by the Joint Lead Managers before the Opening Date to determine the Margin and firm allocations of Challenger Capital Notes 3 to Bookbuild participants (being Syndicate Brokers and certain Institutional Investors), by agreement with Challenger. In this process, the Bookbuild participants are invited to lodge bids for a number of Challenger Capital Notes 3. On the basis of those bids, the Joint Lead Managers and Challenger will, by mutual agreement, determine the Margin and the firm allocations to Syndicate Brokers and to certain Institutional Investors.

Challenger reserves the right to increase the size of the Offer following the close of the Bookbuild.

7.6.2 What is the allocation policy?

Institutional Offer	• Allocations to Institutional Investors will be agreed by the Joint Lead Managers and Challenger following completion of the Bookbuild.
Broker Firm Offer	• Allocations to Syndicate Brokers will be agreed by the Joint Lead Managers and Challenger following completion of the Bookbuild. • Allocations to Applicants under the Broker Firm Offer by a Syndicate Broker are at the discretion of that Syndicate Broker. • Priority will be given to Broker Firm Offer Applicants applying to reinvest their CCN1 Resale Proceeds over other Broker Firm Offer Applicants. It is possible for Applications from Broker Firm Offer Applicants to be scaled back by a Syndicate Broker. Challenger takes no responsibility for any allocation, scale back or rejection decision of a Syndicate Broker.
Securityholder Offer and Reinvestment Offer	• Allocations for the Securityholder Offer and Reinvestment Offer will be determined by Challenger in consultation with the Joint Lead Managers after the Closing Date. • Challenger (at its discretion and in consultation with the Joint Lead Managers) reserves the right to scale back Applications from Applicants under the Securityholder Offer. Any scale back will be announced on ASX on the Issue Date – expected to be 25 November 2020. • In the event of excess demand, Challenger's current intention is to give preference to Applicants under the Reinvestment Offer over Applicants under the Securityholder Offer. How Challenger scales back Applications will depend on the extent of Applications from Eligible CCN1 Holders and general securityholders. • Challenger (at its discretion and in consultation with the Joint Lead Managers) reserves the right to: – allocate to any Applicant under the Securityholder Offer or the Reinvestment Offer all Challenger Capital Notes 3 for which they have applied; – reject any Application by an Applicant under the Securityholder Offer or the Reinvestment Offer; or – allocate to any Applicant under the Securityholder Offer or the Reinvestment Offer a lesser number of Challenger Capital Notes 3 than that applied for, including less than the minimum Application for Challenger Capital Notes 3, or none at all. • No assurance is given that any Applicant under the Securityholder Offer or Reinvestment Offer will receive an allocation.

7.6.3 How will the final allocations be announced?

Institutional Offer	• Allocations to Institutional Investors will be advised to those investors following completion of the Bookbuild.
Broker Firm Offer	• Allocations to Syndicate Brokers will be advised to those brokers following completion of the Bookbuild. • Applicants under the Broker Firm Offer will also be able to confirm their firm allocation through the Syndicate Broker from whom they received their allocation. • However, if you sell Challenger Capital Notes 3 before receiving a Holding Statement, you do so at your own risk, even if you confirmed your firm allocation through a Syndicate Broker.
Securityholder Offer and Reinvestment Offer	• Applicants under the Securityholder Offer or the Reinvestment Offer will be able to call the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time) to confirm their allocation. Any scale back and the basis of allocation will be announced on ASX on the Issue Date. • However, if you sell Challenger Capital Notes 3 before receiving a Holding Statement, you do so at your own risk, even if you obtained details of your holding by calling the Offer & Repurchase Information Line.

7.7 Other information

7.7.1 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, Challenger Capital Notes 3, the Offer or otherwise to permit a public offering of Challenger Capital Notes 3 in any jurisdiction outside Australia.

The distribution of this Prospectus (including an electronic copy) outside Australia may be restricted by law. If you come into possession of this Prospectus outside Australia, then you should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may violate securities laws. This Prospectus and the Offer do not constitute an offer or invitation in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

This Prospectus (including an electronic copy) may not be distributed or released, in whole or in part, in the United States. Neither Challenger Capital Notes 3 nor Ordinary Shares have been or will be registered under the U.S. Securities Act or the securities laws of any state of the United States, and they may not be offered or sold in the United States. Challenger Capital Notes 3 are being offered and sold in the Offer solely outside the United States pursuant to Regulation S under the U.S. Securities Act.

Any offer, sale or resale of Challenger Capital Notes 3 in the United States by a dealer may violate the registration requirements of the U.S. Securities Act.

Subject to Challenger's approval, Challenger Capital Notes 3 may be offered in certain permitted jurisdictions outside Australia under the Institutional Offer where such offer is made, and accepted, in accordance with the laws of such jurisdictions.

Each person submitting an Application will be deemed to have acknowledged that they are aware of the restrictions referred to in this Section 7 and to have represented and warranted that they are able to apply for and acquire Challenger Capital Notes 3 in compliance with those restrictions.

7.7.2 Application to ASX for quotation of Challenger Capital Notes 3

Challenger will apply to ASX for Challenger Capital Notes 3 to be quoted on ASX within seven days after the date of this Prospectus. If ASX does not grant permission for Challenger Capital Notes 3 to be quoted within three months after the date of this Prospectus, Challenger Capital Notes 3 will not be issued and all Application Payments will be refunded (without interest) to Applicants as soon as practicable.

7.7.3 CHESS and issuer sponsored holdings

Challenger will apply for Challenger Capital Notes 3 to participate in CHESS. No certificates will be issued for Challenger Capital Notes 3. Challenger expects that Holding Statements for issuer sponsored Holders and confirmations for CHESS Holders will be dispatched to successful Applicants by 27 November 2020.

7.7.4 Trading and selling on market

It is expected that Challenger Capital Notes 3 will begin trading on ASX on a normal settlement basis on 26 November 2020 under the ASX code 'CGFPC'.

You are responsible for confirming your holding before trading in Challenger Capital Notes 3. If you are a successful Applicant and sell your Challenger Capital Notes 3 before receiving your Holding Statement, you do so at your own risk.

You can call the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time), or your Syndicate Broker, after the Issue Date to enquire about your allocation.

7.7.5 Provision of bank account details for Distributions

Challenger's current policy is that all Holders will be paid Distributions by direct credit into a nominated Australian financial institution account (excluding credit card accounts). Where no account is specified by a Holder, Distributions will be held by Challenger for the Holder until the relevant account details are provided.

7.7.6 Provision of TFN or ABN and other information

If you are an Applicant who has not already quoted your TFN or ABN to Challenger and are issued any Challenger Capital Notes 3, then you may be contacted in relation to quoting your TFN, ABN or both.

The collection and quotation of TFNs and ABNs are authorised, and their use and disclosure is strictly regulated, by tax laws and the Privacy Act. It is not an offence not to quote your TFN or ABN; however, not doing so may result in tax being withheld from Distributions. Please refer to Section 8.4.4 ('Provision of TFN and/or ABN') for further information.

Successful Applicants who do not have an address in Australia registered with the Registry, or who direct the payment of any Distribution to an address outside of Australia, may have an amount deducted for Australian withholding tax from any Distribution paid, to the extent that the Distribution is not fully franked or declared to be conduit foreign income.

Challenger may also be required to request information from successful Applicants to comply with its obligations under FATCA. See Section 6.1.20 for further information.

7.7.7 Discretions regarding the Offer

Challenger reserves the right not to proceed with, and may withdraw, the Offer or the Reinvestment Offer at any time before the issue of Challenger Capital Notes 3 to successful Applicants.

If the Offer, or any part of it, does not proceed, all relevant Application Payments will be refunded (without interest) as soon as practicable.

Challenger and the Joint Lead Managers also reserve the right to close the Offer or the Reinvestment Offer or any part of it early, extend the Offer or the Reinvestment Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, or allocate to any Applicant or bidder fewer Challenger Capital Notes 3 than applied or bid for. This is at Challenger's discretion, and Challenger is under no obligation to exercise that discretion in any particular way.

Investors should also note that no cooling-off rights (whether by law or otherwise) apply to an Application for Challenger Capital Notes 3. This means that, in most circumstances, Applicants may not withdraw their Applications once submitted.

7.8 Enquiries

7.8.1 Applicants under the Securityholder Offer and the Reinvestment Offer

You can call the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time) if you:

- have further questions on how to apply for Challenger Capital Notes 3;
- require assistance to complete your Application;
- require additional copies of this Prospectus and personalised paper Application Forms; or
- have any other questions about the Offer or the Reinvestment Offer.

If you are unclear in relation to any matter relating to the Offer or the Reinvestment Offer or are uncertain whether Challenger Capital Notes 3 are a suitable investment for you, you should consult your stockbroker, solicitor, accountant or other independent and qualified professional adviser.

7.8.2 Applicants under the Broker Firm Offer

If you have further questions about the Offer or your Broker Firm Offer Application, call your Syndicate Broker.

Section 8
Australian taxation summary

Section 8 has been prepared by Greenwoods & Herbert Smith Freehills, who has been acting as tax adviser to Challenger in relation to the issue of the Challenger Capital Notes 3.

8.1 Introduction

The following is a summary of the Australian income tax, capital gains tax ('**CGT**') and goods and services tax ('**GST**') consequences for Australian tax resident Holders ('**Resident Note Holders**') and Holders who are not tax residents of Australia ('**Non-Resident Note Holders**') who subscribe for Challenger Capital Notes 3 and hold them on capital account for tax purposes.

This tax summary does not include tax consequences which may arise for the following types of Holders:

- Resident Note Holders who are in the business of share trading;
- Resident Note Holders who are dealing in securities or otherwise hold Challenger Capital Notes 3 on revenue account;
- Resident Note Holders who hold their Challenger Capital Notes 3 through a permanent establishment outside Australia; and
- Non-Resident Note Holders who hold their Challenger Capital Notes 3 through a permanent establishment in Australia.

This summary is based on the Australian tax law and administrative practice currently in force as at the date of the Prospectus. It is necessarily general in nature and is not intended to be definitive tax advice to Resident Note Holders or Non-Resident Note Holders. Accordingly, each Resident Note Holder and each Non-Resident Note Holder should seek their own tax advice that is specific to their particular circumstances.

8.2 Anticipated Class Ruling – applicable to certain Resident Note Holders

Challenger has applied to the Australian Taxation Office ('**ATO**') for a public class ruling ('**Class Ruling**') confirming certain tax consequences for Resident Note Holders. The Class Ruling does not become operative until it is published in the Government Gazette.

When issued, the Class Ruling will be available free of charge from the ATO's website (www.ato.gov.au).

It is expected that, when issued, the Class Ruling will:

- only be binding on the Commissioner of Taxation ('**Commissioner**') if the Offer is carried out in the specific manner described in the Class Ruling;
- only apply to Resident Note Holders that are within the class of entities specified in the Class Ruling ('**Applicable Resident Note Holders**'), being Resident Note Holders who acquire their Challenger Capital Notes 3 by initial subscription and hold them on capital account for tax purposes;
- only rule on the taxation laws as at the date the Class Ruling is issued;
- not consider the tax implications of the Conversion of Challenger Capital Notes 3 on a Non-Viability Trigger Event;
- not consider the tax implications of a Redemption of Challenger Capital Notes 3;
- not consider the taxation treatment of Distributions received by partnerships or trustee investors;
- not consider the tax implications for Resident Note Holders for whom gains and losses from Challenger Capital Notes 3 are subject to the taxation of financial arrangement rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) (see Section 8.5 below). It is noted that Division 230 will generally not apply to the financial arrangements of individuals, unless an election has been made for those rules to apply; and
- not consider the tax implications of the Reinvestment Offer.

The issue of the Class Ruling will not mean that the ATO guarantees or endorses the commercial viability of investing in Challenger Capital Notes 3.

Subject to the above qualifications or where otherwise indicated, it is expected that the Class Ruling will confirm the taxation consequences as outlined in Sections 8.3.1 to 8.3.6 below.

8.3 Tax consequences for Applicable Resident Note Holders expected to be addressed in the Class Ruling

8.3.1 Status of the Challenger Capital Notes 3 for tax purposes

The Challenger Capital Notes 3 should be characterised as non-share equity interests for Australian income tax purposes. This means that Distributions on the Challenger Capital Notes 3 should be treated as non-share dividends that are frankable, as outlined in Section 8.3.2 below.

It is anticipated that the Class Ruling will take the view that the Challenger Capital Notes 3 are not 'traditional securities' for tax purposes. Accordingly, gains and losses on the Challenger Capital Notes 3 should be subject to the CGT rules, as summarised further below.

8.3.2 Distributions on Challenger Capital Notes 3

Distributions paid on Challenger Capital Notes 3 (together with any attached franking credits) must be included in the assessable income of an Applicable Resident Note Holder.

Provided an Applicable Resident Note Holder is a '**qualified person**' (see discussion in Section 8.4.1 below) in relation to a Distribution on their Challenger Capital Note 3 holding, the Applicable Resident Note Holder will be entitled to a tax offset equal to the amount of the franking credits attached to the Distribution. To the extent that the tax offset attributable to the franking credits on a Distribution exceeds the income tax liability for an income year of an Applicable Resident Note Holder who is an individual or complying superannuation entity, the excess tax offset may be refunded to the Applicable Resident Note Holder.

If a Distribution (or a part of it) is either exempt income or non-assessable non-exempt income in the hands of an Applicable Resident Note Holder, then the amount of any franking credit on the Distribution should not be included in the assessable income of the Applicable Resident Note Holder, and the Applicable Resident Note Holder should not be entitled to a tax offset. However, certain tax-exempt entities may qualify for a refund of any tax offset to which they are entitled as a result of a franked Distribution.

There are anti-avoidance rules contained in the Australian tax law that may apply in certain circumstances to deny the benefit of franking credits. However, it is anticipated that the Commissioner will not apply any such anti-avoidance provisions to deny the whole or any part of the imputation benefits received by Applicable Resident Note Holders in relation to the Distributions payable in respect of the Challenger Capital Notes 3.

8.3.3 CGT cost base and acquisition date for Challenger Capital Notes 3

The cost base (or reduced cost base) of each Challenger Capital Note 3 acquired by an Applicable Resident Note Holder should include $100 (being the Face Value of each Challenger Capital Note 3). Although it is not expected to be addressed in the Class Ruling, the cost base (or reduced cost base) of each Challenger Capital Note 3 should also include any non-deductible incidental costs (e.g. broker fees, adviser fees) associated with the acquisition and disposal of the Challenger Capital Note 3. This will be relevant in determining the capital gain or capital loss resulting on a disposal of Challenger Capital Notes 3.

Each Challenger Capital Note 3 will be taken to have been acquired by an Applicable Resident Note Holder on the date Challenger accepts an Applicable Resident Note Holder's application for Challenger Capital Notes 3 (which is expected to be on the Issue Date).

8.3.4 Conversion of Challenger Capital Notes 3

Under specific provisions of the *Income Tax Assessment Act 1997* (Cth) dealing with convertible interests, any gain or loss that would arise on Conversion should be disregarded. The consequence of this is that the gain or loss on Conversion is effectively deferred, with an Applicable Resident Note Holder's cost base (or reduced cost base) in the Ordinary Shares acquired on Conversion reflecting the Applicable Resident Note Holder's cost base in their Challenger Capital Notes 3.

Upon Conversion, the cost base (or reduced cost base) of the Ordinary Shares issued to an Applicable Resident Note Holder will be determined by spreading the cost base (or reduced cost base) of all of the original Challenger Capital Notes 3 of an Applicable Resident Note Holder across all of the Ordinary Shares issued to that Applicable Resident Note Holder.

The Ordinary Shares issued on Conversion will be taken to have been acquired by an Applicable Resident Note Holder at the time of Conversion. This means that the 12-month holding period for the purposes of the CGT discount mentioned in Section 8.4.2 below will start from the acquisition date of the Ordinary Shares (i.e. on Conversion), and not from the time of acquisition of the Challenger Capital Notes 3.

Applicable Resident Note Holders may elect not to take and hold their allocation of Ordinary Shares upon Conversion and instead may instruct a nominee appointed by Challenger to sell those Ordinary Shares on their behalf. Under this arrangement, once an Applicable Resident Note Holder's allocation of Ordinary Shares has been sold, the nominee will pay to the Applicable Resident Note Holder a cash amount equal to the Proceeds (broadly, the net sale proceeds).

A capital gain for an Applicable Resident Note Holder will arise if the cash amount received exceeds the cost base of their Challenger Capital Notes 3. Conversely, a capital loss will arise if the reduced cost base of their Challenger Capital Notes 3 exceeds the cash amount received (capital losses of an Applicable Resident Note Holder may only be offset against capital gains of the same or later years of income).

Applicable Resident Note Holders who dispose of their Ordinary Share allocation via the sale facility should not be entitled to CGT discount treatment (in respect of any gain arising on disposal of their Ordinary Shares) where Ordinary Shares are sold by the nominee within 12 months of Conversion. In this regard, as noted above, the date of acquisition of Ordinary Shares for CGT discount purposes is the date of Conversion, rather than when the relevant Challenger Capital Notes 3 were acquired.

8.3.5 Write-Off of Challenger Capital Notes 3

In certain circumstances, an Inability Event may prevent Challenger Capital Notes 3 from being Converted into Ordinary Shares. In this situation, an Applicable Resident Note Holder's rights in relation to their Challenger Capital Notes 3 (including to Distributions and to the repayment of the Face Value) will be immediately and irrevocably Written-Off and terminated (with effect on and from the Non-Viability Conversion Date).

A CGT event arises for Applicable Resident Note Holders when Challenger Capital Notes 3 are Written-Off. No capital proceeds will be provided to Applicable Resident Note Holders for their Written-Off Challenger Capital Notes 3. Accordingly, Applicable Resident Note Holders should make a capital loss equal to the reduced cost base of their Written-Off Challenger Capital Notes 3. As noted in Section 8.4.2 below, capital losses of an Applicable Resident Note Holder may only be offset against capital gains of the same or later years of income.

8.3.6 Resale of Challenger Capital Notes 3

Challenger may elect to Resell Challenger Capital Notes 3 in certain circumstances. For each Challenger Capital Note 3 subject to a Resale, a Holder will be entitled to receive the Resale Price (which is equal to the Face Value) from the Nominated Purchaser. A Resale will constitute a disposal of Challenger Capital Notes 3 by an Applicable Resident Note Holder for CGT purposes. Accordingly, an Applicable Resident Note Holder may realise a capital gain or capital loss on such disposal to the extent that the Resale proceeds are greater or less than the Applicable Resident Note Holder's cost base or reduced cost base for the Challenger Capital Notes 3. The Applicable Resident Note Holder's capital proceeds should be equal to the Face Value of the Challenger Capital Notes 3 (i.e. being the amount the Applicable Resident Note Holder is entitled to be paid if a Resale occurs).

If the Challenger Capital Notes 3 have been held for at least 12 months prior to the Resale (excluding the days of acquisition and disposal), a qualifying Applicable Resident Note Holder (an individual, qualifying trust or complying superannuation fund) may be entitled to the CGT discount concession in respect of any capital gain arising on disposal, in the manner discussed in Section 8.4.2 below.

8.4 Other tax consequences for Resident Note Holders not expected to be addressed in the Class Ruling

The following tax consequences for Resident Note Holders are not expected to be addressed in the Class Ruling.

8.4.1 Qualification for franking credits on Distributions – 'qualified person'

A Resident Note Holder is not required to include the amount of the franking credits in their assessable income and is not entitled to the tax offset unless the Resident Note Holder is a 'qualified person' in relation to a Distribution.

A Resident Note Holder is a 'qualified person' if the 'holding period' and 'related payments' rules in the tax laws are satisfied in respect of the Distribution.

In relation to the 'holding period' rule, a Resident Note Holder must have held Challenger Capital Notes 3 'at risk' for a continuous period of at least 90 days (excluding the days of acquisition and disposal) within a period beginning on the day after the date on which the Resident Note Holder acquired the Challenger Capital Notes 3 and ending on the 90th day after the date on which Challenger Capital Notes 3 became 'ex dividend'.

If the 'related payments' rule applies, a Resident Note Holder is required to hold Challenger Capital Notes 3 'at risk' for at least 90 days (excluding the days of acquisition and disposal) within a period beginning 90 days before and ending 90 days after the date on which Challenger Capital Notes 3 became 'ex dividend' (i.e. the day on which Challenger Capital Notes 3 cease carrying the entitlement for their Holders to receive a particular Distribution). Broadly speaking, the related payments rule would apply where a Resident Note Holder makes a payment which passes the benefit of a Distribution to another person.

Alternatively, a Resident Note Holder is automatically taken to be a qualified person in relation to Distributions if the total amount of the tax offsets in respect of all franked distributions to which the Resident Note Holder would be entitled in an income year is $5,000 or less. This is referred to as the 'small shareholder rule'. However, a Resident Note Holder will not be a 'qualified person' by virtue of the small shareholder rule if related payments have been made, or will be made, in respect of a Distribution.

8.4.2 Sale of Challenger Capital Notes 3

A sale of Challenger Capital Notes 3 by a Resident Note Holder on ASX will give rise to a capital gain if the sale proceeds exceed the cost base of the Challenger Capital Notes 3. Conversely, a capital loss will arise if the reduced cost base of the Challenger Capital Notes 3 exceeds the sale proceeds.

If Challenger Capital Notes 3 have been owned for at least 12 months prior to the sale (excluding the days of acquisition and disposal), certain Resident Note Holders (individuals, trusts and complying superannuation entities) may be entitled to receive CGT discount treatment in respect of any gain arising on disposal of Challenger Capital Notes 3, such that a percentage of the gain is not included in assessable income. The discount percentage is applied to the amount of the capital gain after offsetting any current year or carried forward capital losses. The discount percentages are 50%, 50% and 33⅓% for Resident Note Holders who are individuals, trusts and complying superannuation entities respectively.

The Government has announced that "managed investment trusts" ('**MITs**') and "attribution MITs" ('**AMITs**') will no longer be entitled to the CGT discount at the trust level. This change was previously scheduled to apply from 1 July 2020, but has now been delayed and will instead apply for income years commencing on or after three months after the date of Royal Assent of the enabling legislation. While there can be no certainty at this time in relation to when this change will come into effect, the Government has indicated that is it committed to legislating this measure. Once this change comes into effect, MITs and AMITs that derive capital gains will continue to be able to distribute those amounts as capital gains that may be subject to the CGT discount in the hands of those beneficiaries who are entitled to the CGT discount. Investors should monitor any potential changes on an ongoing basis.

8.4.3 Redemption of Challenger Capital Notes 3

Challenger may elect to Redeem Challenger Capital Notes 3 in certain circumstances, in which case Challenger will pay an amount equal to the Face Value for each Challenger Capital Notes 3 that is being Redeemed.

Redemption of Challenger Capital Notes 3 will constitute a disposal of Challenger Capital Notes 3 for CGT purposes. Accordingly, a Resident Note Holder may derive a capital gain or a capital loss on such disposal to the extent to which the Redemption proceeds paid to the Resident Note Holders are greater than the cost base or are less than the reduced cost base of the Challenger Capital Notes 3 respectively (capital losses of a Resident Note Holder may only be offset against capital gains of the same or later years of income).

The Redemption proceeds will be an amount equal to the Face Value of each Challenger Capital Note 3, unless the market value of a Challenger Capital Note 3 on the Redemption Date (determined as if Redemption of the Challenger Capital Note 3 had not occurred or been proposed to occur) is greater or less than the Face Value. In that case, the greater or lesser market value amount will be deemed to be the capital proceeds of the Redemption, instead of the Face Value actually received. The Redemption proceeds should not be treated as a dividend to the extent to which they are debited against an amount standing to the credit of Challenger's non-share capital account.

A qualifying Resident Note Holder (an individual, trust or complying superannuation entity) may be entitled to CGT discount treatment in respect of any remaining capital gain, in the same manner as discussed in Section 8.4.2 above.

8.4.4 Provision of TFN and/or ABN

Resident Note Holders may, if they choose, notify Challenger of their Tax File Number ('**TFN**'), Australian Business Number ('**ABN**'), or a relevant exemption from withholding tax with respect to Distributions.

In the event that Challenger is not so notified, tax will be automatically deducted at the highest marginal tax rate (including applicable levies) from the cash amount of the unfranked part (if any) of the Distributions. The rate of withholding is currently 47%.

Challenger is required to withhold and remit to the ATO such tax until such time as the relevant TFN, ABN or exemption notification is given to it. Resident Note Holders will be able to claim a tax credit/rebate (as applicable) in respect of any tax withheld on the Distributions in their income tax returns.

8.4.5 Goods and services tax (GST)

Holders should not be liable for GST in respect of their investment in Challenger Capital Notes 3 or the disposal or Conversion of Challenger Capital Notes 3.

Holders registered for GST are unlikely to be entitled to an input tax credit for any GST paid in respect of costs associated with the acquisition of Challenger Capital Notes 3 (e.g. adviser fees).

8.5 Taxation of financial arrangements

Rules on the taxation of financial arrangements ('**TOFA**') are contained in Division 230 of the *Income Tax Assessment Act 1997* (Cth). The TOFA regime generally applies to 'financial arrangements' (as defined) such as the Challenger Capital Notes 3. However, the TOFA regime should generally not apply to individual Resident Note Holders in respect of their investment in Challenger Capital Notes 3.

In addition, the TOFA regime should generally not apply to other Resident Note Holders (such as companies and trusts) in respect of their investment in Challenger Capital Notes 3. This should be the case even if they exceed the relevant asset/turnover thresholds, unless certain specific elections under the TOFA regime are made by the relevant Resident Note Holder.

It is recommended that Resident Note Holders who have made one of the specific elections under the TOFA regime obtain tax advice relating to their particular circumstances regarding the application of the TOFA regime to their investment in Challenger Capital Notes 3.

8.6 Non-Resident Note Holders

Below is a summary of the Australian income tax consequences for Non-Resident Note Holders who do not carry on a business at or through a permanent establishment in Australia.

With respect to Distributions received by Non-Resident Note Holders, the following should apply:

- Dividend withholding tax ('**DWT**') should not apply to the extent the Distributions are franked.
- To the extent Distributions are unfranked, DWT should apply. The rate of withholding tax is 30%, unless reduced under the terms of a double tax treaty that Australia has with the jurisdiction of the applicable Non-Resident Note Holder. Challenger may source the unfranked portion of the Distribution from its 'conduit foreign income' ('**CFI**'). Unfranked Distributions which are declared by Challenger to be CFI will be exempt from DWT.
- A credit or refund for franking credits attached to Distributions will not be available to Non-Resident Note Holders.

For Non-Resident Note Holders, any capital gain or capital loss resulting from a disposal of Challenger Capital Notes 3 should be disregarded for CGT purposes.

8.7 Eligible CCN1 Holders who participate in the Reinvestment Offer

Under the Reinvestment Offer, Eligible CCN1 Holders who elect to participate in the Reinvestment Offer may apply to sell some or all of their Challenger Capital Notes 1 to the CCN1 Nominated Purchaser for $100 per Challenger Capital Note 1, and apply to reinvest the proceeds of their Reinvestment CCN1 in a corresponding number of Challenger Capital Notes 3. This will be effected via a direction to the CCN1 Nominated Purchaser to pay the relevant CCN1 Resale Proceeds ($100 per Challenger Capital Note 1) to Challenger as the Application Payment for the Challenger Capital Notes 3.

If an Eligible CCN1 Holder elects to reinvest only some (and not all) of their Challenger Capital Notes 1 under the Reinvestment Offer, they will be deemed to have tendered the balance of their Challenger Capital Notes 1 to be repurchased for $100 per Challenger Capital Note 1 under the Repurchase Invitation. Such Eligible CCN1 Holders should refer to the Repurchase Booklet for a summary of certain Australian tax consequences of participating in the Repurchase Invitation.

We have set out below some high-level comments in relation to Eligible CCN1 Holders who are subject to Class Ruling CR 2014/87, to the extent that they elect to participate in the Reinvestment Offer. This summary is not exhaustive, and you should seek advice from your own financial or tax adviser or other professional adviser before deciding to participate in the Reinvestment Offer.

In particular, this tax summary does not include tax consequences which may arise for Eligible CCN1 Holders who:

- are not Australian residents for tax purposes;
- are Australian residents but hold the Challenger Capital Notes 1 through a permanent establishment outside Australia;
- acquired Challenger Capital Notes 1 otherwise than under the initial offer;
- hold Challenger Capital Notes 1 in their business of share trading or dealing in securities, or who otherwise hold their Challenger Capital Notes 1 on revenue account or as trading stock;
- are subject to the TOFA provisions in Division 230 of the of the Income Tax Assessment Act 1997 (Cth) in relation to their holding of Challenger Capital Notes 1; or
- elect to reinvest only some (and not all) of their Challenger Capital Notes 1 under the Reinvestment Offer, to the extent that the balance of their Challenger Capital Notes 1 are repurchased under the Repurchase Invitation.

8.7.1 Final distribution on Reinvestment CCN1

A distribution is scheduled to be paid on Reinvestment CCN1 on 25 November 2020, subject to the distribution payment conditions in the CCN1 Terms. If those conditions are satisfied, Eligible CCN1 Holders who successfully participate in the Reinvestment Offer will receive a distribution of $0.62 per Challenger Capital Note 1 on 25 November 2020. This will be the final distribution that such holders will receive on their Reinvestment CCN1.

This final distribution should be subject to the same taxation treatment as other distributions paid on the Challenger Capital Notes 1, as outlined in Class Ruling CR 2014/87.

8.7.2 CGT consequences for Eligible CCN1 Holders

A CGT event will occur for Eligible CCN1 Holders upon sale of their Reinvestment CCN1 to the CCN1 Nominated Purchaser.

Eligible CCN1 Holders may make a capital gain if their capital proceeds from the disposal are more than their cost base for their Reinvestment CCN1, or may make a capital loss if their capital proceeds are less than their reduced cost base for their Reinvestment CCN1:

- **Cost base or reduced cost base:** the first element of an Eligible CCN1 Holder's cost base, or reduced cost base, for their Reinvestment CCN1 should be the amount paid by the Eligible CCN1 Holder for their Reinvestment CCN1. Certain other non-deductible incidental costs associated with the acquisition or disposal of the Reinvestment CCN1 (e.g. broker fees, adviser fees) may be included in the cost base or reduced cost base.
- **Capital proceeds:** the capital proceeds that will be received by an Eligible CCN1 Holder from the sale of their Reinvestment CCN1 to the CCN1 Nominated Purchaser should be $100 per Reinvestment CCN1.

A qualifying Eligible CCN1 Holder (an individual, qualifying trust or complying superannuation entity) may be entitled to the CGT discount concession in relation to any capital gain realised on the sale of their Reinvestment CCN1. In this regard, the CGT discount concession outlined in Section 8.4.2 above in relation to disposals by Resident Note Holders of Challenger Capital Notes 3 should be equally applicable to disposals by Eligible CCN1 Holders of Reinvestment CCN1.

8.7.3 CGT cost base and acquisition date for Challenger Capital Notes 3 acquired under the Reinvestment Offer

The amount of an Eligible CCN1 Holder's disposal proceeds that is applied in subscribing for Challenger Capital Notes 3 under the Reinvestment Offer should be included in the Eligible CCN1 Holder's cost base (and reduced cost base) for the purposes of determining any future capital gain or capital loss on the disposal, Conversion, Redemption or Resale of Challenger Capital Notes 3.

Each Challenger Capital Note 3 acquired by an Eligible CCN1 Holder under the Reinvestment Offer will be taken to have been acquired by that Holder on the Issue Date.

Section 9
Additional information

This Section provides information about a number of other matters not covered elsewhere in this Prospectus.

9.1 Interests and benefits

9.1.1 Directors' relevant interests

The Directors as at the date of this Prospectus had the following relevant interests in issued securities of Challenger:

Directors	Direct interests in Ordinary Shares	Indirect interests in Ordinary Shares
Peter Polson	-	128,944
Richard Howes[1]	461,478	445,648
John M Green	-	16,944
Steven Gregg	14,000	-
Masahiko Kobayashi[2]	-	-
JoAnne Stephenson	-	21,629
Duncan West	-	25,901
Melanie Willis	-	156,836

Notes:

1 Richard Howes also holds 1,234,617 Performance Rights comprising 224,497 Deferred Performance Rights and 1,010,120 Hurdled Performance Rights.

2 Hiroyuki Iioka was appointed as an Alternate Director to Masahiko Kobayashi on 13 December 2019 and he has no direct interests or indirect interests in Ordinary Shares.

Other than as set out in this Prospectus, no Director or proposed Director holds, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of Challenger;
- the Offer; or
- any property acquired or proposed to be acquired by Challenger in connection with the formation or promotion of Challenger or the Offer.

Other than as set out in this Prospectus, no amount (whether in cash, Ordinary Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any Director or proposed Director:

- to induce a person to become, or qualify as, a Director; or
- for services provided by a Director or proposed Director in connection with the formation or promotion of Challenger or the Offer.

9.1.2 Directors' fees

The Constitution contains provisions about the remuneration of the Directors. As remuneration for their services as Directors, the non-executive Directors are entitled to be paid an amount of remuneration for his or her services as a Director as determined by the Board, subject to a maximum annual aggregate amount of $2.5 million or such other amount fixed by the shareholders of Challenger in a general meeting. All Directors are entitled to be paid all travelling and other expenses properly incurred by them in connection with the affairs of Challenger.

Additional fees are paid to the Chair of the Board and its committees to reflect the additional responsibilities. The remuneration of the Chief Executive Officer is fixed by the Board. The remuneration may consist of salary or any other elements and may be provided as a contribution to a superannuation fund, but must not be a commission on or percentage of profits or operating revenue.

9.1.3 Participation in the Offer

The Directors (and certain related persons) may collectively acquire up to 0.2% of Challenger Capital Notes 3 offered under the Offer without shareholder approval (subject to certain conditions) – see Section 9.4 for further information.

9.1.4 Professionals

Westpac Institutional Bank, UBS and National Australia Bank have acted as the Arrangers and Joint Lead Managers to the Offer, in respect of which they will receive fees from Challenger. The estimated aggregate fees payable by Challenger to the Joint Lead Managers are approximately $4.25 million (exclusive of GST), making certain assumptions as to the allocation of Challenger Capital Notes 3 between the Broker Firm Offer, Institutional Offer, Reinvestment Offer and Securityholder Offer, as well as to the total value of Challenger Capital Notes 3 issued. The aggregate fees include an Arranger fee paid to Westpac Institutional Bank, and a Joint Lead Manager fee paid proportionately to each Joint Lead Manager on the basis of their Challenger Capital Notes 3 allocation.

The Joint Lead Managers on behalf of Challenger are responsible for paying all selling fees and other commissions payable to the Syndicate Brokers.

The Joint Lead Managers and their respective affiliates may provide products and services to, or in connection with, a wide range of companies and individuals, out of which conflicting interests or duties may arise. In the ordinary course of these activities, each may at any time hold long or short positions, and may trade or otherwise effect transactions, for their own account or the account of persons directly or indirectly involved with Challenger or the Offer or Repurchase Invitation, including (without limitation) investors in Challenger and their respective officers, directors, employees, partners, agents and advisers ('**Relevant Persons**'). These transactions may involve, without limitation, debt or equity securities, loans, financing arrangements or other financial accommodation, financial products or services, in connection with, or which rely on the performance of obligations by, any Relevant Person. The Joint Lead Managers and their respective affiliates may receive fees for, or profits and other financial benefits from, those activities. The Joint Lead Managers have represented to the Challenger that they will manage any conflicts in connection with their role as Joint Lead Managers in compliance with applicable legal obligations.

King & Wood Mallesons has acted as Challenger's Australian legal adviser in relation to the Offer. In respect of this work, King & Wood Mallesons will be paid approximately $495,000 (excluding disbursements and GST) for work performed by it until the date of this Prospectus. Further amounts may be paid to King & Wood Mallesons in accordance with its time-based charges.

Greenwoods & Herbert Smith Freehills has acted as Challenger's Australian tax adviser in relation to the Offer and has prepared the Australian taxation summary in Section 8. In respect of this work, Greenwoods & Herbert Smith Freehills will be paid approximately $110,000 (excluding disbursements and GST) for work performed by it until the date of this Prospectus. Further amounts may be paid to Greenwoods & Herbert Smith Freehills in accordance with its time-based charges.

Ernst & Young has provided due diligence services in relation to the Offer. In respect of this work, Ernst & Young will be paid approximately $140,000 (excluding disbursements and GST) for work performed by it up until the date of this Prospectus. Further amounts may be paid to Ernst & Young in accordance with its time-based charges.

The estimated fees payable to each adviser as set out in this Section 9.1.4 are inclusive of work done by each adviser in respect of an offer of Challenger Capital Notes 3 which was scheduled to be conducted earlier this year (but did not proceed due to disrupted market conditions and the unprecedented uncertainty caused by the COVID-19 pandemic) together with work in respect of the Offer described in this Prospectus.

Except as set out in this Prospectus, no:

- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus; or
- Joint Lead Manager,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of Challenger;
- the Offer; or
- any property acquired or proposed to be acquired by Challenger in connection with the formation or promotion of Challenger or the Offer,

nor has anyone paid or agreed to pay or given or agreed to give any benefit to such persons in connection with the formation or promotion of Challenger or the Offer.

9.2 Expenses of the Offer

Assuming the Offer raises $250 million, then the total expenses of the Offer (including fees payable to the Joint Lead Managers, legal, accounting, tax, marketing, administrative fees, as well as printing, advertising and other expenses related to this Prospectus and the Offer) are expected to be $5.3 million. All of these expenses have been, or will be, borne by a Challenger Group entity.

9.3 Consents

Except as set out below, each of the parties referred to in the following table:

- has given, and has not, before the lodgement of this Prospectus with ASIC, withdrawn, its written consent to be named in this Prospectus in the form and context in which it is named;
- has not made any statement in this Prospectus, or any statement on which a statement made in this Prospectus is based; and
- does not cause or authorise the issue of this Prospectus, and, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus.

Greenwoods & Herbert Smith Freehills has given, and has not, before the lodgement of this Prospectus with ASIC, withdrawn, its written consent to the inclusion of statements by it, or based on statements made by it, consisting of the Australian taxation summary in Section 8 in the form and context in which it appears.

Role	Consenting parties
Arrangers and Joint Lead Managers	Westpac Institutional Bank National Australia Bank Limited UBS AG, Australia Branch

Role	Consenting parties
Co-Managers	Bell Potter Securities Limited Crestone Wealth Management Limited Morgans Financial Limited
Auditor	Ernst & Young
Australian legal adviser	King & Wood Mallesons
Australian tax adviser	Greenwoods & Herbert Smith Freehills
Registry	Computershare Investor Services Pty Limited
Trustee	Equity Trustees Limited

9.4 ASX confirmation

9.4.1 Offer

In accordance with the ASX Listing Rules, the Challenger Capital Notes 3 will be classified as 'equity securities' for the purposes of the ASX Listing Rules and ASX has confirmed, in relation to the Offer, that:

- ASX Listing Rule 3.20.2 and 3.20.5 will not apply to the Conversion of Challenger Capital Notes 3 following a Non-Viability Trigger Event;
- the Terms are appropriate and equitable for the purposes of ASX Listing Rule 6.1;
- the Terms concerning APRA constraints on the payment of Distributions and potential exercise of the limited amendment powers do not amount to a removal of a right to a dividend for the purposes of ASX Listing Rule 6.10;
- ASX Listing Rule 6.12 does not apply to the Terms which provide for Conversion, Exchange, Write-Off or Redemption;
- it does not consider Challenger Capital Notes 3 to be options for the purposes of ASX Listing Rule 6.14 to 6.23;
- it does not consider Challenger Capital Notes 3 to be preference securities for the purposes of ASX Listing Rules 6.4 to 6.7;
- Challenger should count the maximum number of fully paid Ordinary Shares into which the Challenger Capital Notes 3 can convert in line with Listing Rule 7.1B.1(e) for the purposes of Listing Rule 7.1;
- the issue of Ordinary Shares on Exchange or Conversion of Challenger Capital Notes 3 would fall under ASX Listing Rule 7.2 (exception 9) and ASX Listing Rule 10.12 (exception 7);
- ASX Listing Rule 10.11 has been waived to the extent necessary to permit Directors and certain related persons (being the spouses, parents, children and associates of Directors) to participate in the Offer without shareholder approval, up to a maximum of 0.2% of the total number of Challenger Capital Notes 3 issued under the Offer collectively, provided that:
  - the participation of the Directors and their related persons in the Offer is on the same terms and conditions as applicable to other subscribers for Challenger Capital Notes 3;
  - Challenger releases the terms of the waiver to the market when it announces the Offer; and
  - when Challenger Capital Notes 3 are issued, Challenger announces to the market the total number of Challenger Capital Notes 3 issued to Directors and their related persons in aggregate; and
- the timetable for the Offer is acceptable.

ASX has also provided in-principle approval of the quotation of Challenger Capital Notes 3.

9.4.2 Reinvestment Offer and Repurchase Invitation

ASX has confirmed in relation to the Reinvestment Offer and Repurchase Invitation that:

- the amendments to the CCN1 Terms are appropriate and equitable under ASX Listing Rule 6.1;
- CHESS will apply a holding lock to any Challenger Capital Notes 1 the subject of an Application from a CCN1 Holder; and
- the timetable for the Reinvestment Offer and Repurchase Invitation is acceptable.

9.5 Reporting and disclosure obligations

Challenger is admitted to the official list of ASX and is a disclosing entity for the purposes of the Corporations Act. As a disclosing entity, it is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules. Broadly, these obligations require Challenger to prepare both yearly and half yearly financial statements and to report on its operations during the relevant accounting period, and to obtain an audit or review report from its auditor.

Copies of these and other documents lodged with ASIC are available to the public and may be purchased by calling the ASIC Customer Contact Centre on 1300 300 630, or via the ASIC Connect website and may be obtained from or inspected at an ASIC office.

Challenger must ensure that ASX is continuously notified of information about specific events and matters as they arise for the purposes of ASX making the information available to the Australian securities market.

Challenger has an obligation under the ASX Listing Rules (subject to certain exceptions) to notify ASX immediately of any information concerning it of which it becomes aware, which a reasonable person would expect to have a material effect on the price or value of its quoted securities.

9.6 ASIC modification

ASIC has granted relief from the provisions of Division 5A of Part 7.9 of the Corporations Act relating to unsolicited offers for Challenger to conduct the Reinvestment Offer and Repurchase Invitation (subject to certain conditions).

9.7 Design and distribution obligations and ASIC product intervention powers

The DDOPIP Legislation imposes additional obligations on Challenger regarding the design and distribution of certain financial products offered to retail investors (including hybrid securities), and grants product intervention powers to ASIC if it believes significant consumer detriment may occur.

The DDOPIP Legislation provides for the design and distribution obligations to come into force in October 2021 and therefore these obligations do not apply to the Offer. The design and distribution obligations in the DDOPIP Legislation are also limited to an initial offering of securities, which means that even if the obligations become effective while the Challenger Capital Notes 3 are on issue, they will not apply to secondary market trading of Challenger Capital Notes 3.

The DDOPIP Legislation gives ASIC a significant, proactive power to issue a product intervention order if it believes that a financial product has resulted in or will, or is likely to, result in significant detriment to retail clients or customers. It is uncertain whether ASIC would perceive significant consumer detriment in relation to the Challenger Capital Notes 3 or similar securities. The DDOPIP Legislation requires ASIC to undertake a consultation process before it makes a product intervention order.

9.8 Amendments to the CCN1 Terms

To facilitate the Reinvestment Offer and the Repurchase Invitation, certain amendments have been made to the CCN1 Terms under clause 17.4 of those terms and clause 15.1 of the Challenger Capital Notes 1 Trust Deed. Those amendments have been released to ASX.

The amendments include terms permitting the resale of the Reinvestment CCN1 and Repurchase CCN1 on the terms set out in this Prospectus and the Repurchase Booklet.

9.9 Availability of documents

Challenger will provide a copy of any of the following documents free of charge to any person upon their request during the Offer Period:

- the Annual Report for the financial year ended 30 June 2020 lodged with ASIC by Challenger;
- any continuous disclosure notices given by Challenger in the period after the lodgement of the Annual Report of Challenger for the financial year ended 30 June 2020 and before lodgement of this Prospectus with ASIC; and
- the Constitution.

The Annual Report for the financial year ended 30 June 2020 and copies of continuous disclosure notices lodged with ASX are available at www.asx.com.au or at www.challenger.com.au.

All written requests for copies of the above documents should be addressed to Challenger Investor Relations at the address set out in the corporate directory at the end of this Prospectus.

9.10 Rights and liabilities attaching to Challenger Capital Notes 3

The rights and liabilities attaching to Challenger Capital Notes 3 are contained in the Terms, which are set out in Appendix A. Rights and liabilities attaching to Challenger Capital Notes 3 may also arise under the Corporations Act, the ASX Listing Rules, the Constitution and other laws.

9.11 Rights and liabilities attaching to Ordinary Shares

Holders will receive Ordinary Shares on Conversion. The rights and liabilities attaching to the Ordinary Shares are set out in the Constitution and are also regulated by the Corporations Act, the ASX Listing Rules and the general law.

This Section 9.11 briefly summarises the key rights attaching to Ordinary Shares. 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 obtain a copy as provided under Section 9.9.

The key rights attaching to Ordinary Shares are as follows:

- the right 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 in proportion to the capital paid up on that Ordinary Share) on a poll;
- the right to be paid dividends from time to time, as determined by the Board, in their judgement, as the

financial position of Challenger justifies. Challenger may also be constrained from paying dividends on Ordinary Shares by the operation of prudential standards of APRA, or potentially in particular circumstances by the terms of certain instruments issued by it;

- the right to receive information required to be distributed under the Corporations Act and the ASX Listing Rules; and
- the right to participate in a surplus of assets on a winding-up of Challenger in proportion to the Ordinary Shares held (subject to the rights of holders of securities carrying preferred rights on winding-up, including Challenger Capital Notes 3).

9.12 Summary of the Trust Deed

Challenger has entered into a Trust Deed dated on or about the date of this Prospectus with the Trustee. The following is a summary only of the principal provisions of the Trust Deed.

9.12.1 Appointment of Trustee

The Trustee has been appointed under the Trust Deed and holds the following on trust for the Holders and itself in accordance with the terms of the Trust Deed:

- the right to enforce Challenger's duty to repay under Challenger Capital Notes 3 in accordance with the Terms;
- the right to enforce Challenger's obligation to pay all other amounts payable under Challenger Capital Notes 3 in accordance with the Terms;
- the right to enforce any other duties or obligations that Challenger has under the Terms, under the Trust Deed, to the Holders under the Trust Deed or under Chapter 2L of the Corporations Act;
- the amount of $10; and
- any other property held by the Trustee on the trust established under the Trust Deed (including, without limitation, the benefit of any covenants, undertakings, representations, warranties, rights, powers, benefits or remedies in favour of the Trustee under the Trust Deed).

9.12.2 Undertakings

In respect of each Challenger Capital Note 3, Challenger has undertaken to the Trustee, subject to any obligation of Challenger to Convert or Write-Off Challenger Capital Notes 3, to pay the amounts due and payable in respect of that Challenger Capital Note 3 under and in accordance with the Terms. The Trustee directs Challenger to pay such amounts under the Trust Deed directly to the Holders, unless a Winding-up Event has occurred and is subsisting, in which event the payment must be made to the Trustee.

Challenger also makes covenants with the Trustee for the benefit of the Holders to, among other things:

- comply with the Terms; and
- comply with all statutory and regulatory requirements applicable to it to the extent they relate to its obligations under the Terms and the Trust Deed, where a failure to do so would have or be likely to have a material adverse effect on the ability of Challenger to meet its payment obligations in respect of Challenger Capital Notes 3 or the validity and enforceability of the rights and remedies of Holders under the Transaction Documents.

9.12.3 Sale of Ordinary Shares

Under the Terms, if Challenger Capital Notes 3 held by a Foreign Holder are Converted, a Holder has elected not to receive Ordinary Shares as a result of Conversion or to the extent that a FATCA Withholding is required to be made in respect of Ordinary Shares, the number of Ordinary Shares which that Holder is obliged to accept on Conversion will be issued to the Nominee who will sell that number of Ordinary Shares and pay a cash amount equal to the net proceeds to the relevant Holder.

The Trustee is not liable to any Holder for the acts of any Nominee appointed in accordance with the Terms to sell the Ordinary Shares and has no duties in connection with any such sale and no responsibility for any costs, losses, liabilities, expenses, demands or claims which arise as a result of such sale.

9.12.4 Enforcement

Subject to the Transaction Documents and to section 283DA(h) of the Corporations Act, the Trustee may at any time in its discretion take action to enforce the Transaction Documents in accordance with their terms (which includes the Terms), but is not required to take any such action unless:

- it is requested to take such action by Holders who hold in aggregate 15% or more of the Face Value of all Challenger Capital Notes 3 then outstanding or by a Holder Resolution;
- it is indemnified and/or placed in funds, to its reasonable satisfaction, against all actions, proceedings, claims and demands to which the Trustee may render itself liable by taking such action, all costs which the Trustee may incur in taking the action and all reasonable management time spent by employees or officers of the Trustee in relation to such action; and
- the action is permitted under the Transaction Documents and is not prohibited by law.

No Holder is entitled to proceed directly against Challenger to enforce the performance of any of the provisions of the Challenger Capital Notes 3 or the Trust Deed (including any rights, powers or remedies in connection with the Challenger Capital Notes 3, whether under the Trust Deed or any other Transaction Document) unless the Trustee, being entitled, and having become bound, to proceed, fails to do so within 21 days and the failure is continuing.

Neither the Trustee nor any Holder may exercise any powers in a manner inconsistent with, or take any enforcement action which is contrary to, the Transaction Documents.

9.12.5 Liability

Except to the extent arising as a result of the Trustee's fraud, gross negligence, wilful default or breach of section 283DA(a), (b) or (c) of the Corporations Act ('**Trustee Default**'), the Trustee is not liable to Challenger or any other person in any capacity other than as trustee of the Trust and the Trustee's liability is further limited to the assets of the Trust available to indemnify the Trustee for the liability and to the extent permitted by law. The full limitation on the Trustee's liability is set out in clause 7.1 of the Trust Deed.

9.12.6 Fees and expenses

Challenger will pay the Trustee fees as agreed between Challenger and the Trustee from time to time. Challenger will also pay, on demand, the Trustee's:

- reasonable expenses incurred in connection with negotiating, preparing and executing the Transaction Documents and certain related expenses;
- losses and expenses incurred in connection with exercising, enforcing or preserving rights under the Transaction Documents (or attempting to do so);
- losses and expenses incurred by the Trustee which arise out of or in the course of acting as Trustee (except where these expenses are incurred by the Trustee as a direct result of a Trustee Default); and
- expenses reasonably and properly incurred by the Trustee as a result of a Winding-up Event.

9.12.7 Retirement and removal

Subject to applicable laws, the Trustee may retire at any time by giving notice to Challenger at least 60 days before the date it wants to retire or any other period which is agreed between Challenger and the Trustee.

Challenger may remove the Trustee at any time by giving notice to the Trustee of at least 60 days (or such other period as Challenger and the Trustee may agree) in certain circumstances, including where:

- the Trustee is in breach of its obligations under any Transaction Document in any material respect and has not rectified the breach within seven Business Days of receiving notice from Challenger requesting the breach be remedied;
- a Trustee Default has occurred and is continuing;
- the Trustee ceases or has ceased or has expressed an intention to cease to carry on business;
- the Trustee ceases to be a person which can be appointed as a trustee under the Corporations Act;
- the Trustee is placed in liquidation or is wound-up or dissolved or a receiver, liquidator, administrator or similar person is appointed to the Trustee;
- Challenger is authorised or requested to do so by a meeting of Holders; or
- the Trustee has breached section 283DA(a), (b) or (c) of the Corporations Act.

The removal or retirement of the Trustee does not take effect until the appointment of a new trustee is effective. Challenger has the power to appoint a new trustee and in certain circumstances, the retiring Trustee may do so.

9.12.8 Meetings

The Trustee or Challenger may at any time call a meeting of Holders. Challenger must call a meeting of Holders (or the relevant Holders) on request in writing of Holders who together hold 10% or more of the aggregate Face Value of all Challenger Capital Notes 3 to consider the financial statements that were laid before the last annual general meeting of Challenger or to give the Trustee directions in relation to the exercise of its powers under the Trust Deed. The Trustee must call a meeting of Holders as soon as reasonably practicable after becoming aware of a Winding-up Event occurring.

At a meeting of Holders, by a Holder Resolution, Holders have the power to give directions to the Trustee in respect of the performance or exercise of its duties under the Transaction Documents or in respect of a Challenger Capital Note 3 or approve an amendment to the Trust Deed which is required to be approved by a Holder Resolution. By Special Resolution, Holders have the power to release the Trustee from liability, approve any act taken by the Trustee or approve any amendment to the Trust Deed which is required to be approved by a Special Resolution.

Resolutions proposed in any meeting of Holders must be passed with the requisite majority of the persons voting on a show of hands unless a poll is demanded, then by a majority consisting of at least the requisite majority of the votes cast. A poll can be demanded by the chairperson, the Trustee or Challenger or by one or more Holders present or by attorney or proxy holding (in aggregate) Challenger Capital Notes 3 representing at least 5% of the aggregate Face Value of Challenger Capital Notes 3 outstanding when the meeting begins. On a show of hands, every Holder who is present has one vote and on a poll every Holder of Challenger Capital

Notes 3 who is present has one vote for every Challenger Capital Note 3 with respect to which it is the Holder.

9.12.9 No monitoring obligations

The Trustee has no obligation to monitor compliance by Challenger with its covenants and obligations under the Trust Deed or any other activities or status of Challenger, including taking steps to ascertain whether there has occurred or is likely to occur any Non-Viability Trigger Event or Inability Event, subject to the Trustee's obligations under the Corporations Act. In this regard, the Trustee is subject to certain statutory duties imposed on it under Chapter 2L of the Corporations Act including to:

- exercise reasonable diligence to ascertain whether:
  - the property of Challenger that is or should be available will be sufficient to repay the amounts lent by Holders in respect of Challenger Capital Notes 3 if and when it becomes due in accordance with the Terms; and
  - Challenger has breached the Terms, the Trust Deed or the provisions of Chapter 2L of the Corporations Act; and
- unless the Trustee is satisfied the breach will not materially prejudice Holders' interests, do everything in its power to ensure Challenger remedies any breach known to the Trustee of the Terms, the Trust Deed or the provisions of Chapter 2L of the Corporations Act.

9.12.10 Receipt of monies

All monies that are received by the Trustee under the Trust Deed must be held by the Trustee on trust and will be applied first in payment of any amounts owing to the Trustee in connection with any Transaction Document (including all remuneration payable to the Trustee and any payments under the Trustee's indemnity), secondly in or towards payment of all amounts due but unpaid under Challenger Capital Notes 3 to the relevant Holders, and thirdly, in payment of the balance (if any) of the money remaining after those payments to Challenger.

9.13 Summary of the Offer Management Agreement

9.13.1 Overview

Challenger and the Joint Lead Managers signed the Offer Management Agreement on 13 October 2020. Under the Offer Management Agreement, Challenger appointed National Australia Bank Limited, UBS AG, Australia Branch and Westpac Institutional Bank as Joint Lead Managers of the Offer. The following is a summary of the principal provisions of the Offer Management Agreement.

Under the Offer Management Agreement, the Joint Lead Managers have agreed to manage the Offer, including the Bookbuild and related allocation process for the Offer and to provide settlement support for the settlement obligations of successful applicants under the Bookbuild.

9.13.2 Fees

The estimated aggregate fees payable by Challenger to the Joint Lead Managers under the Offer Management Agreement are set out in Section 9.1.4. The actual amount payable will not be known until the allocation of Challenger Capital Notes 3 under the Offer. In addition, Challenger must reimburse each Joint Lead Manager for reasonable expenses, including legal costs (up to $50,000, including GST and disbursements) and travel costs, incurred by the Joint Lead Managers in relation to the Offer.

9.13.3 Representations and warranties

Customary and usual representations and warranties are given by the parties in relation to matters such as the power to enter into the Offer Management Agreement and corporate authority. Challenger gives a number of further representations and warranties, including that this Prospectus and the related public documents are not misleading or deceptive or likely to mislead or deceive and do not contain any statements that are misleading or deceptive and do not omit information required by applicable law.

9.13.4 Indemnity

Subject to certain exclusions relating to, amongst other things, fraud, recklessness, wilful misconduct, gross negligence or wilful default of an indemnified party, Challenger indemnifies the Joint Lead Managers and certain affiliated parties against losses suffered directly or indirectly by, or claims made against, such parties in connection with the Offer or the Offer Management Agreement.

9.13.5 Termination events

Each Joint Lead Manager may terminate its obligations under the Offer Management Agreement on the occurrence of a number of customary termination events, including (amongst others):

- credit rating downgrade of Challenger or CLC, withdrawal of either of those credit ratings, or placement of either of those credit ratings on credit watch negative or negative outlook;
- a specified fall in the S&P ASX 200 index;
- a specified rise in the iTraxx Australia index;
- ASIC issues a stop order in relation to this Prospectus;
- ASX refuses to quote Challenger Capital Notes 3 on ASX;
- Challenger withdraws this Prospectus or the Offer; and

- trading of Ordinary Shares is suspended from quotation, or Ordinary Shares cease to be quoted on ASX.

Certain other termination events will only give rise to a right to terminate if, in the reasonable opinion of the relevant Joint Lead Manager, the event has or is likely to have a material adverse effect on the Offer, or leads, or is likely to lead, rise to a contravention of, or liability of that Joint Lead Manager under, applicable laws. If termination occurs, the Joint Lead Manager who terminates will no longer be a Joint Lead Manager and will not be obliged to provide settlement support under the Bookbuild.

Under the Offer Management Agreement, if one Joint Lead Manager terminates, each other Joint Lead Manager may give notice in writing to Challenger and the terminating Joint Lead Manager(s) stating whether it will also terminate or whether it will assume the rights and obligations of the terminating Joint Lead Manager(s).

9.14 Acknowledgements

By submitting an Application Form and Application Payment you, as Applicant, will be deemed to have:

- agreed to be bound by the Terms and other terms and conditions of the Offer and on Conversion of Challenger Capital Notes 3, agreed to become a member of Challenger and to be bound by the terms of the Constitution;
- acknowledged having personally received a printed or electronic copy of the Prospectus (and any supplementary or replacement document) accompanying the Application Form and having read them all in full;
- acknowledged that you understand the Terms and have had the opportunity to consider the suitability of an investment in Challenger Capital Notes 3 with your professional advisers;
- declared that all details and statements in your Application Form are complete and accurate;
- declared that you, if a natural person, are over 18 years of age;
- acknowledged that once an Application Form is received by the Registry or submitted online it may not be withdrawn, except as is permitted by law;
- acknowledged that, in some circumstances, Challenger may not pay Distributions or any other amount payable on Challenger Capital Notes 3;
- acknowledged that investments can be subject to investment risk, including possible delays in repayment and loss of income and principal invested, and that Challenger does not in any way guarantee or stand behind the capital value or performance of Challenger Capital Notes 3;
- applied for the number of Challenger Capital Notes 3 at the Australian dollar amount shown on the front of the Application Form;
- agreed to being allocated the number of Challenger Capital Notes 3 applied for (or a lower number, or no Challenger Capital Notes 3 at all) in a way described in this Prospectus;
- authorised Challenger and the Joint Lead Managers, and their respective officers or agents, to do anything on your behalf which may be necessary for Challenger Capital Notes 3 to be allocated to you, including to act on instructions received by the Registry upon using the contact details in the Application Form;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement document) is not investment advice or a recommendation that Challenger Capital Notes 3 are suitable for you, given your investment objectives, financial situation or particular needs;
- declared that you are an Australian resident or otherwise a person to whom the Offer can be made, and Challenger Capital Notes 3 issued, in accordance with Section 7.7.1;
- consented to the use and disclosure of your personal information as described in Section 9.15, and understood and agreed that the use and disclosure of such personal information applies to any personal information collected by Challenger and any member of the Challenger Group in the course of the relationship between you and Challenger and any member of the Challenger Group;
- acknowledged that Challenger Capital Notes 3 have not been, and will not be, registered under the U.S. Securities Act or pursuant to the securities laws of any other jurisdiction outside Australia;
- represented and warranted that you are not in the United States or any other place outside Australia and are not a U.S. Person (as defined in Regulation S of the U.S. Securities Act) (and not acting for the account or benefit of a U.S. Person), and you will not offer, sell or resell Challenger Capital Notes 3 in the United States to, or for the account or benefit of, any U.S. Person; and
- represented and warranted that the laws of any other place, including any restrictions set out in Section 7.7.1 of this Prospectus, do not prohibit you from being given the Prospectus (or any supplementary or replacement Prospectus) or making an application on the Application Form or being issued with Challenger Capital Notes 3.

In addition, by submitting an Application in respect of the Reinvestment Offer, you, as Applicant will be deemed to have:

- if you have elected to reinvest only some (and not all) of your Challenger Capital Notes 1 under the Reinvestment Offer, tendered the balance of your Challenger Capital Notes 1 to be repurchased for $100 per Challenger Capital Note 1 under the Repurchase Invitation;
- represented and warranted to Challenger and the CCN1 Nominated Purchaser that you are an Eligible CCN1 Holder;
- represented and warranted to Challenger and the CCN1 Nominated Purchaser that you have good title to the Reinvestment CCN1 the subject of your Application, and that the CCN1 Nominated Purchaser will receive good title to those Challenger Capital Notes 1 free from any encumbrance of security interests on paying the CCN1 Resale Proceeds to you;
- directed the CCN1 Nominated Purchaser to pay the CCN1 Resale Proceeds for each Reinvestment CCN1 the subject of your Application to Challenger as the Application Payment for the Challenger Capital Notes 3;
- applied to Challenger for a corresponding number of Challenger Capital Notes 3, at $100 per Challenger Capital Note 3;
- agreed not to transfer your Challenger Capital Notes 1 and authorise Challenger and its related bodies corporate and their respective officers to request the application of a holding lock on your Challenger Capital Notes 1;
- agreed to indemnify Challenger for all costs or losses it incurs as a result of you selling or disposing of your Challenger Capital Notes 1 if you do sell or dispose of any of those Challenger Capital Notes 1;
- appointed Challenger (or its officers) as your attorney and agent to execute a master transfer form to transfer to the CCN1 Nominated Purchaser the Reinvestment CCN1 the subject of your Application, in such form as Challenger (or its officers) determines, and to transfer those Reinvestment CCN1 to the CCN1 Nominated Purchaser; and
- authorised Challenger to take all necessary steps to give effect to the reinvestment of their CCN1 Resale Proceeds the subject of your Application.

9.15 Privacy

The Registry has been engaged to maintain the Register on behalf of Challenger. Protecting your privacy and your personal information is important to the Registry.

If you apply for Challenger Capital Notes 3, the Registry on behalf of Challenger will collect your personal information to assess and process your Application and register you as a Holder, to communicate with you and service your needs as a Holder, and to carry out appropriate administration of your investment.

The Corporations Act requires the collection of certain information and for that information to be included in Challenger's register of investors. This register is public and able to be inspected by any person.

If you do not provide your personal information then it may not be possible to set up or administer your security holding.

The Registry may disclose your personal information to agents, contractors and service providers, including printers, mailing houses, call centres and general advisers who enable the Registry to provide its services to Challenger and Challenger activities applicable to you as a Holder. Some of these recipients may be located outside Australia, including in the following countries: Canada, India, New Zealand, the Philippines, the United Kingdom and the United States of America.

Under the Privacy Act, an Applicant may request access to their personal information held on behalf of Challenger. To request access to, or to correct, your personal information, please contact the Registry via the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time), or the Computershare Investor Services Privacy Officer can be contacted by email at privacy@computershare.com.au, or write to the Computershare Investor Services Privacy Officer at Computershare's address set out in the corporate directory at the back of this Prospectus.

You may also elect not to receive marketing material by contacting the Registry via the Offer & Repurchase Information Line (details in the paragraph above) or emailing privacy@computershare.com.au.

The Registry's privacy policy contains further information on how you can access or correct your personal information as well as how to complain about the handling of your personal information. The Registry's privacy policy can be found at www.computershare.com/au/privacy-policies.

The Registry may also disclose your personal information to Challenger and Challenger will have access to the Register. You can find Challenger's privacy policy at www.challenger.com.au/privacy.

9.16 Statement of Directors

This Prospectus is authorised by each Director who consents, and who has not withdrawn their consent, to its lodgement with ASIC and its issue.

Appendix A Challenger Capital Notes 3 Terms

1 Form of Capital Notes 3

1.1 Constitution under Trust Deed

Challenger Capital Notes 3 (the **Capital Notes**) are non-cumulative, convertible, transferable, redeemable, subordinated, perpetual, unsecured notes of the Issuer constituted by, and owing under, the Trust Deed. The Capital Notes (including any amounts payable in respect of each Capital Note) do not have the benefit of security granted by, and are not guaranteed by, the Issuer or a Related Entity of the Issuer or any other person.

1.2 Form

The Capital Notes are issued in registered form by entry in the Register.

1.3 Face Value

The Capital Notes have a Face Value of A$100 and are issued fully paid.

1.4 Currency

The Capital Notes are denominated in Australian dollars.

1.5 Clearing system

The Capital Notes will be entered into and dealt with in CHESS. For so long as the Capital Notes remain in CHESS, the rights of a person holding an interest in the Capital Notes are subject to the rules and regulations of CHESS but without affecting any Term which may cause APRA to object to the Challenger Group using, or having used, the proceeds of the issue of some or all of the Capital Notes to fund Additional Tier 1 Capital of CLC.

1.6 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.

1.7 ASX quotation

The Issuer must use all reasonable endeavours and furnish all such documents, information and undertakings as may be reasonably necessary in order to procure that the Capital Notes are, and until Redeemed, Converted or Written-Off remain, quoted on ASX.

1.8 No other rights

No Holder has:

(a) any claim against the Issuer (except as expressly set out in these Terms or the Trust Deed) or any other member of the Challenger Group; or

(b) any right to:

(i) vote at any meeting of shareholders of the Issuer;

(ii) subscribe for new securities (except in respect of Conversion) or to participate in any bonus issues of securities of the Issuer; or

(iii) otherwise participate in the profits or property of the Issuer.

2 Status and ranking

2.1 Status and ranking

The Capital Notes constitute direct and unsecured subordinated debt obligations of the Issuer, ranking for payment of Distributions and for payment of the Redemption Price in a winding-up of the Issuer:

(a) ahead of Ordinary Shares;

(b) equally among themselves and with all other instruments issued as Relevant Perpetual Subordinated Instruments; and

(c) behind the claims of Senior Creditors.

2.2 Unsecured Notes

The Capital Notes are unsecured notes for the purposes of section 283BH of the Corporations Act.

2.3 Not policies under Life Insurance Act

The Capital Notes are not policies with any member of the Challenger Group for the purposes of the Life Insurance Act.

3 Distributions

3.1 Distributions

Subject to these Terms, each Capital Note entitles the Holder on a Record Date to receive, in respect of a Distribution Period, on the Distribution Payment Date following the end of that Distribution Period, interest (Distribution) on its Face Value calculated according to the following formula:

$$\text{Distribution} = \frac{\text{Distribution Rate} \times \text{A\$}100 \times N}{365}$$

where:

Distribution Rate (expressed as a percentage per annum) in respect of a Capital Note for a Distribution Period is the rate calculated according to the following formula:

Distribution Rate = (Bank Bill Rate + Margin) x (1 – Tax Rate)

where:

Bank Bill Rate means:

(a) subject to paragraph (b) immediately below:

  (i) for a Distribution Period, the rate (expressed as a percentage per annum) designated "BBSW" in respect of prime bank eligible securities having a tenor of three months which ASX (or its successor as administrator of that rate) publishes through information vendors at approximately 10:30am Sydney time (or such other time at which such rate is accustomed to be so published) (the **Publication Time**), on the first Business Day of that Distribution Period; or

  (ii) if the Issuer determines that such rate as is described in paragraph (i) above;

    (A) is not published by midday (or such other time that the Issuer considers appropriate on that day); or

    (B) is published, but is affected by an obvious error,

  such other rate (expressed as a percentage per annum) that the Issuer determines having regard to comparable indices then available; and

(b) if the Issuer determines that a Rate Disruption Event has occurred, then, subject to APRA's prior written approval, the Issuer:

  (i) shall use as the Bank Bill Rate such Replacement Rate as it may determine;

  (ii) shall make such adjustments to these Terms as it determines are reasonably necessary to calculate Distributions in accordance with such Replacement Rate; and

  (iii) in making the determinations under paragraphs (i) and (ii) immediately above:

    (A) shall act in good faith and in a commercially reasonable manner;

    (B) may consult with such sources of market practice as it considers appropriate; and

    (C) may otherwise make such determination in its discretion;

  Holders should note that APRA's approval may not be given for any Replacement Rate it considers to have the effect of increasing the rate of Distributions contrary to applicable prudential standards.

Margin (expressed as a percentage per annum) means the margin determined under the Bookbuild;

Rate Disruption Event means that, in the Issuer's opinion, the rate described in paragraph (a) of the definition of "Bank Bill Rate" above:

(a) has been discontinued or otherwise ceased to be calculated or administered; or

(b) is no longer generally accepted in the Australian market as a reference rate appropriate to floating rate debt securities of a tenor and interest period comparable to that of the Capital Notes;

Replacement Rate means a rate other than the rate described in paragraph (a) of the definition of "Bank Bill Rate" that is generally accepted in the Australian market as the successor to the Bank Bill Rate, or if the Issuer is not able, after making reasonable efforts, to ascertain such rate, or there is no such rate;

(a) a reference rate that is, in the Issuer's opinion, appropriate to floating rate debt securities of a tenor and interest period most comparable to that of the Capital Notes; or

(b) such other rate as the Issuer determines having regard to available comparable indices; and

Tax Rate (expressed as a decimal) means the Australian corporate tax rate applicable to the franking account of the Issuer at the relevant Distribution Payment Date; and

N means in respect of:

(a) the first Distribution Payment Date, the number of days from (and including) the Issue Date until (but not including) the first Distribution Payment Date; and

(b) each subsequent Distribution Payment Date, the number of days from (and including) the preceding Distribution Payment Date until (but not including) the relevant Distribution Payment Date.

3.2 Franking Rate determination and adjustments to Distributions

(a) The Issuer must determine the Franking Rate for each Distribution in accordance with the Tax Act so that (unless the Tax Act otherwise requires):

  (i) the Franking Rate for a Distribution equals the Franking Rate of:

    (A) a Dividend paid or expected to be paid by the Issuer during the Franking Period in which that Distribution is paid (**Applicable Franking Period**); or

    (B) if a Dividend is not paid or expected to be paid by the Issuer in the Applicable Franking Period, a prior Distribution paid during the Applicable Franking Period; and

  (ii) if the circumstances in paragraphs (i)(A) or (i)(B) do not apply in respect of a Distribution, then the Franking Rate for that Distribution will be determined at the absolute discretion of the Issuer.

(b) If the Franking Rate for a Distribution is not 100%, the Distribution will be calculated according to the following formula:

$$\textbf{Distribution} = \frac{D}{1 - [\text{Tax Rate} \times (1 - F)]}$$

where:

D means the Distribution calculated under clause 3.1;

Tax Rate has the meaning given in clause 3.1; and

F means the applicable Franking Rate.

3.3 Payment of a Distribution

The payment of any Distribution on a Distribution Payment Date is subject to:

(a) the absolute discretion of the Issuer; and

(b) no Payment Condition existing in respect of the relevant Distribution Payment Date.

3.4 Distributions are discretionary, non-cumulative and only payable in cash

(a) Payments of Distributions are within the absolute discretion of the Issuer and are non-cumulative. If all or any part of a Distribution is not paid because of this clause 3.4 or because of any other reason:

 (i) the Issuer has no liability to pay the unpaid amount of the Distribution;

 (ii) Holders have no claim or entitlement in respect of such non-payment (including, without limitation, on a winding-up of the Issuer); and

 (iii) such non-payment does not constitute an event of default.

(b) No interest accrues on any unpaid Distributions and Holders have no claim or entitlement in respect of interest on any unpaid Distributions.

(c) Any payments of Distributions to Holders must be made in the form of cash.

3.5 Distribution Payment Dates

Subject to this clause 3, Distributions will be payable in arrear in respect of a Capital Note on the following dates (each a **Distribution Payment Date**):

(a) each 25 February, 25 May, 25 August and 25 November, commencing on 25 February 2021, until (but not including) the date on which the Capital Note is Converted or Redeemed in accordance with these Terms; and

(b) each date on which a Conversion, Redemption or Resale of the Capital Note occurs, in each case, in accordance with these Terms.

If a Distribution Payment Date is a day which is not a Business Day, then the Distribution Payment Date becomes the next day which is a Business Day.

3.6 Record Dates

A Distribution is only payable on a Distribution Payment Date to those persons registered as Holders on the Record Date for that Distribution.

3.7 Notification of Distribution, Distribution Rate and other items

For each Distribution Period, the Issuer must notify the Trustee, the Registrar and ASX of the Distribution Rate and the expected Distribution payable as soon as practicable, but in any event no later than the fourth Business Day of the Distribution Period.

3.8 Restrictions in the case of non-payment of a Distribution

Subject to clause 3.9, if for any reason a Distribution has not been paid in full on a Distribution Payment Date (the Relevant Distribution Payment Date), the Issuer must not, without the approval of a Special Resolution, until and including the next Distribution Payment Date:

(a) declare, determine to pay or pay a Dividend; or

(b) undertake any Buy-Back or Capital Reduction,

unless the Distribution is paid in full within three Business Days of the Relevant Distribution Payment Date.

3.9 Exclusions from restrictions in case of non-payment

The restrictions in clause 3.8 do not apply:

(a) to a Buy-Back or Capital Reduction in connection with any employment contract, benefit plan or other similar arrangement; and

(b) to the extent that at the time a Distribution has not been paid on the relevant Distribution Payment Date, the Issuer is legally obliged to pay on or after that date a Dividend or complete on or after that date a Buy-Back or Capital Reduction.

Nothing in these Terms prohibits the Issuer or a Controlled Entity from purchasing Challenger Shares (or an interest therein) in connection with a transaction for the account of a customer of the Issuer or a customer of a Controlled Entity or, with the prior written approval of APRA, in connection with the distribution or trading of Challenger Shares in the ordinary course of business. This includes where the Issuer or a Controlled Entity acquires Challenger Shares acting as trustee for another person and neither the Issuer nor any Controlled Entity has a beneficial interest in the trust (other than a beneficial interest that arises from a security given for the purposes of a transaction entered into in the ordinary course of business).

4 Mandatory Conversion

4.1 Mandatory Conversion

Subject to clauses 5, 6 and 7, on the Mandatory Conversion Date the Issuer must Convert all (but not some) of the Capital Notes on issue at that date into Ordinary Shares in accordance with clause 8 and this clause 4.

4.2 Mandatory Conversion Date

The **Mandatory Conversion Date** will be the first to occur of the following dates (each a **Relevant Date**) on which the Mandatory Conversion Conditions are satisfied:

(a) 25 May 2028 (the **Scheduled Mandatory Conversion Date**); and

(b) a Distribution Payment Date after the Scheduled Mandatory Conversion Date (a **Subsequent Mandatory Conversion Date**).

4.3 Mandatory Conversion Conditions

The Mandatory Conversion Conditions for each Relevant Date are:

(a) the VWAP on the 25th Business Day immediately preceding (but not including) the Relevant Date (the **First Test Date**, provided that if no trading in Ordinary Shares took place on that date, the First Test Date is the first Business Day before the 25th Business Day immediately preceding (but not including) the Relevant Date on which trading in Ordinary Shares took place) is greater than the First Test Date Percentage of the Issue Date VWAP (the **First Mandatory Conversion Condition**);

(b) the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Relevant Date (the **Second Test Period**) is greater than the Conversion Test Date Percentage of the Issue Date VWAP (the **Second Mandatory Conversion Condition**); and

(c) no Delisting Event applies in respect of the Relevant Date (the **Third Mandatory Conversion Condition** and together with the First Mandatory Conversion Condition and the Second Mandatory Conversion Condition, the **Mandatory Conversion Conditions**).

In this clause 4.3:

First Test Date Percentage	=	110% x **Relevant Fraction** (expressed as a percentage)
Conversion Test Date Percentage	=	101.01% x **Relevant Fraction** (expressed as a percentage)

4.4 Non-Conversion Notices

If:

(a) the First Mandatory Conversion Condition is not satisfied in relation to a Relevant Date, the Issuer will give notice to Holders and the Trustee between the 25th and the 21st Business Day before the Relevant Date; or

(b) the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition is not satisfied in relation to a Relevant Date, the Issuer will give notice to Holders and the Trustee on or as soon as practicable after the Relevant Date,

that Mandatory Conversion will not (or, as the case may be, did not) occur on the Relevant Date (each such notice a **Non-Conversion Notice**).

5 Conversion on Non-Viability Trigger Event

5.1 Non-Viability Trigger Event

(a) A **Non-Viability Trigger Event** occurs upon:

(i) the issuance of a notice, in writing, by APRA to the Issuer that the conversion to Ordinary Shares or write-off of Relevant Perpetual Subordinated Instruments in accordance with their terms or by operation of law is necessary because, without it, APRA considers that the Issuer would become non-viable; or

(ii) a determination by APRA, notified in writing to the Issuer, that without a public sector injection of capital, or equivalent support, the Issuer would become non-viable.

A determination by APRA under this clause 5.1(a) is a **Non-Viability Determination**.

(b) If a Non-Viability Trigger Event occurs, the Issuer must convert to Ordinary Shares or write-off:

(i) unless paragraph (ii) applies, all Relevant Perpetual Subordinated Instruments; or

(ii) where clause 5.1(a)(i) applies, such amount of the Relevant Perpetual Subordinated Instruments which is required to enable APRA to conclude that the Issuer is viable without further conversion to Ordinary Shares or write-off.

(c) Where a Non-Viability Trigger Event occurs under clause 5.1(a)(ii), the Issuer must immediately convert or write-off all Relevant Perpetual Subordinated Instruments then outstanding (including the Capital Notes).

APRA has stated that it will not approve partial conversion or partial write-off in those exceptional circumstances where a public sector injection of funds is deemed necessary.

5.2 Consequences of a Non-Viability Trigger Event

(a) If a Non-Viability Trigger Event occurs:

(i) on that date, 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 amount of Capital Notes that will be Converted into Ordinary Shares and the amount of other Relevant Perpetual Subordinated Instruments which will be converted into Ordinary Shares or written-off; and

(B) the identity of the Holders whose Capital Notes will Convert at the time that the Conversion is to take effect 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 Capital Notes that have not been settled or registered at that time;

(ii) subject only to clauses 5.1(b)(ii) and 8.13 and despite any other provision in these Terms, on the Non-Viability Conversion Date the relevant amount of Capital Notes will be Converted, and the relevant amount of other Relevant Perpetual Subordinated Instruments will be converted to Ordinary Shares or 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 and the Trustee as soon as practicable that Conversion has occurred which notice must state the Non-Viability Conversion Date, the amount of Capital Notes Converted and the relevant amount of Relevant Perpetual Subordinated Instruments converted to Ordinary Shares or written-off.

(b) Where the Issuer is required to convert or write-off some (but not all) Relevant Perpetual Subordinated Instruments on account of a Non-Viability Trigger Event:

(i) the Issuer must endeavour to treat Holders and holders of other Relevant Perpetual Subordinated Instruments on an approximately proportionate basis, but may discriminate to take account of the effect on marketable parcels and other logistical considerations and the need to effect the conversions or write-offs immediately; and

(ii) where the specified currency of Relevant Perpetual Subordinated Instruments is not the same for all Relevant Perpetual Subordinated Instruments, the Issuer may treat them as if converted into a single currency of the Issuer's choice at such rate of exchange as the Issuer considers reasonable but may make adjustments among Holders and holders of other Relevant Perpetual Subordinated Instruments having regard to the need to effect conversion immediately.

(c) None of the following shall prevent, impede or delay the Conversion of Capital Notes as required by this clause 5.2:

(i) any failure or delay in the conversion to Ordinary Shares or write-off of any other Relevant Perpetual Subordinated 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 Capital Notes are to be Converted in accordance with clause 5.2(a)(i)(B); or

(v) any requirement to treat Holders and holders of other Relevant Perpetual Subordinated Instruments as required by, or to make the determinations or adjustments in accordance with, clause 5.2(b).

(d) From the Non-Viability Conversion Date, the Issuer shall treat the Holder in respect of the Capital Notes as the holder of the Conversion Number of Ordinary Shares and will take all such steps, including updating any of its registers, required to record the Conversion.

5.3 Priority of Conversion obligations

(a) Conversion on account of the occurrence of a Non-Viability Trigger Event is not subject to the Mandatory Conversion Conditions.

(b) A Conversion required on account of a Non-Viability Trigger Event takes place on the date, and in the manner, required by clause 5.2 notwithstanding anything in clauses 4.1, 6, 7 or 16.

(c) If for any reason (including an Inability Event), a Conversion on account of a Non-Viability Trigger Event does not occur within five Business Days of the Non-Viability Conversion Date, the Capital Notes will not Convert and instead will be Written-Off in accordance with clause 8.13.

6 Optional Exchange by the Issuer

6.1 Optional Exchange by the Issuer

The Issuer may with APRA's prior written approval by notice to Holders and the Trustee (an **Exchange Notice**) elect to Exchange:

(a) all or some Capital Notes on an Exchange Date following the occurrence of a Tax Event or a Regulatory Event;

(b) all (but not some only) Capital Notes on an Exchange Date following the occurrence of a Potential Acquisition Event; or

(c) all or some Capital Notes on the Optional Exchange Date.

An Exchange Notice under this clause 6:

(i) cannot be given in the period of 20 Business Days preceding (and not including) a Relevant Date where the First Mandatory Conversion Condition has been met in respect of that Relevant Date; and

(ii) once given is irrevocable, unless a Non-Viability Trigger Event occurs after the giving of such notice, in which case, such notice will be taken to be revoked immediately and automatically and clause 5 will apply.

6.2 Contents of Exchange Notice

An Exchange Notice must specify:

(a) where clause 6.1(a) or clause 6.1(b) applies, the details of the Tax Event, Regulatory Event or Potential Acquisition Event to which the Exchange Notice relates;

(b) the date on which Exchange is to occur (the **Exchange Date**), which:

(i) in the case of a Potential Acquisition Event, is the Business Day prior to the date reasonably determined by the Issuer to be the last date on which holders of Ordinary Shares can participate in the bid or scheme concerned or such other earlier date as the Issuer may reasonably determine having regard to the timing for implementation of the bid or scheme concerned or such later date as APRA may require;

(ii) in the case of a Tax Event or a Regulatory Event, is the last Business Day of the month following the month in which the Exchange Notice was given by the Issuer unless the Issuer determines an earlier Exchange Date having regard to the best interests of Holders as a whole and the relevant event; or

(iii) in the case of clause 6.1(c), is the Optional Exchange Date, which must fall:

(A) no earlier than:

(aa) 25 Business Days, where the Exchange Method elected is Conversion; or

(ab) 15 Business Days, where the Exchange Method elected is Redemption or Resale; and

(B) in any case no later than 50 Business Days,

after the date on which the Exchange Notice is given;

(c) the Exchange Method in accordance with clause 6.3;

(d) if less than all Capital Notes are subject to Exchange, the proportion of the Capital Notes that are to be Exchanged;

(e) if the Exchange Notice provides that any Capital Notes are to be Resold, the identity of the Nominated Purchaser or Nominated Purchasers for that Resale; and

(f) whether any Distribution will be paid in respect of the Capital Notes to be Exchanged on the Exchange Date.

6.3 Exchange Method

(a) If the Issuer elects to Exchange Capital Notes in accordance with clause 6.1, it must, subject to clauses 6.3(b), 6.4 and 6.5 and subject to APRA's prior written approval, elect which of the following it intends to do in respect of Capital Notes (the **Exchange Method**):

(i) Convert Capital Notes into Ordinary Shares in accordance with clause 8;

(ii) Redeem Capital Notes in accordance with clause 9; or

(iii) Resell Capital Notes in accordance with clause 10.

Holders should not expect that APRA's approval will be given for any Exchange of Capital Notes under these Terms.

(b) Subject to clauses 6.4 and 6.5, in the election under clause 6.3(a), the Issuer may specify which of Conversion, Redemption or Resale applies to a particular Capital Note. Without limitation to the foregoing:

(i) the Issuer may select any one or more of Conversion, Redemption or Resale to apply to the Capital Notes held by a Holder; and

(ii) the Issuer may select a different combination of Conversion, Redemption and Resale in respect of Capital Notes held by different Holders,

but otherwise the Issuer must endeavour to treat Holders, in the case of an Exchange of only some Capital Notes, on an approximately proportionate basis (although it may discriminate to take account of the effect on marketable parcels and other logistical considerations).

6.4 Restrictions on election by the Issuer of Redemption or Resale as Exchange Method

The Issuer may elect Redemption or Resale as the Exchange Method in respect of an Exchange under this clause 6:

(a) on the Optional Exchange Date; and

(b) in the case of a Tax Event or Regulatory Event,

but not in any other case of Exchange and provided in all cases where the Issuer elects Redemption that APRA is satisfied that either:

(i) Capital Notes the subject of the Exchange are replaced concurrently or beforehand with a Relevant Perpetual Subordinated Instrument of the same or better quality or Ordinary Shares and the replacement of the instrument is done under conditions that are sustainable for the Issuer's income capacity; or

(ii) having regard to the projected capital position of the Issuer and the Challenger Group, the Issuer does not have to replace the Capital Notes the subject of the Redemption.

6.5 Restrictions on election by the Issuer of Conversion as Exchange Method

The Issuer may not elect Conversion as the Exchange Method in respect of an Exchange under this clause 6 if:

(a) on the second Business Day before the date on which an Exchange Notice is to be sent by the Issuer (or, if trading in Ordinary Shares did not occur on that date, the last Business Day prior to that date on which trading in Ordinary Shares occurred) (the **Non-Conversion Test Date)** the VWAP on that date is less than or equal to the First Test Date Percentage of the Issue Date VWAP (the **First Optional Conversion Restriction**); or

(b) a Delisting Event applies in respect of the Non-Conversion Test Date (the **Second Optional Conversion Restriction** and together with the First Optional Conversion Restriction, the **Optional Conversion Restrictions**).

6.6 Conditions to Conversion occurring once elected by the Issuer

If the Issuer has given an Exchange Notice in which it has elected Conversion as the Exchange Method but, if the Exchange Date were a Relevant Date for the purposes of clause 4, either the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date, then, notwithstanding any other provision of these Terms:

(a) the Exchange Date will be deferred until the first Distribution Payment Date on which the Mandatory Conversion Conditions would be satisfied if that Distribution Payment Date were a Relevant Date for the purposes of clause 4 (the **Deferred Conversion Date**);

(b) the Issuer must Convert the Capital Notes on the Deferred Conversion Date (unless the Capital Notes are Exchanged earlier in accordance with these Terms); and

(c) until the Deferred Conversion Date, all rights attaching to the Capital Notes will continue as if the Exchange Notice had not been given.

The Issuer will notify Holders and the Trustee on or as soon as practicable after an Exchange Date in respect of which this clause 6.6 applies that Conversion did not occur on that Exchange Date (a **Deferred Conversion Notice**).

7 Conversion on Acquisition Event

7.1 Notice of Acquisition Event

The Issuer must notify Holders and the Trustee of the occurrence of an Acquisition Event as soon as practicable after becoming aware of that event (an **Acquisition Event Notice**).

7.2 Conversion on occurrence of Acquisition Event

If an Acquisition Event occurs, subject to clause 7.4 and clause 7.5 the Issuer must give notice to Holders and the Trustee (an **Acquisition Conversion Notice**) and Convert all (but not some only) Capital Notes on the Acquisition Conversion Date in accordance with this clause 7 and clause 8.

7.3 Contents of Acquisition Conversion Notice

An Acquisition Conversion Notice must specify:

(a) the details of the Acquisition Event to which the Acquisition Conversion Notice relates;

(b) the date on which Conversion is to occur (the **Acquisition Conversion Date**), which must be:

(i) the Business Day prior to the date reasonably determined by the Issuer to be the last date on which holders of Ordinary Shares can participate in the bid or scheme concerned or such other earlier date as the Issuer may reasonably determine having regard to the timing for implementation of the bid or scheme concerned; or

(ii) such later date as APRA may require; and

(c) whether any Distribution will be paid in respect of the Capital Notes on the Acquisition Conversion Date.

7.4 Where Acquisition Conversion Notice not required

Notwithstanding any provision of clause 7.2 or clause 7.3, the Issuer is not required to give an Acquisition Conversion Notice if either or both of the Optional Conversion Restrictions would apply if the Acquisition Conversion Notice were an Exchange Notice under clause 6 and in this case the provisions of clause 7.5 will apply.

7.5 Deferred Conversion on Acquisition Event

If clause 7.4 applies or the Issuer has given an Acquisition Conversion Notice but, if the Acquisition Conversion Date were a Relevant Date for the purposes of clause 4.2, either the Second Mandatory Conversion Condition or the Third

Mandatory Conversion Condition would not be satisfied in respect of that date, then, notwithstanding any other provision of these Terms (but without limitation to the operation of clause 5.3):

(a) the Acquisition Conversion Notice, if given, is taken to be revoked and Conversion will not occur on the Acquisition Conversion Date specified in the Acquisition Conversion Notice;

(b) the Issuer will notify Holders and the Trustee as soon as practicable that Conversion will not (or, as the case may be, did not) occur (a **Deferred Acquisition Conversion Notice**); and

(c) the Issuer must, unless clause 7.4 then applies, give an Acquisition Conversion Notice (or, as the case may be, a new Acquisition Conversion Notice) on or before the 25th Business Day prior to the immediately succeeding Distribution Payment Date which is at least 25 Business Days after the date on which the Deferred Acquisition Conversion Notice was given.

The Acquisition Conversion Notice given in accordance with paragraph (c) above must comply with the requirements in clause 7.3.

If this clause 7.5 applies but:

(i) clause 7.4 applies in respect of the Distribution Payment Date referred to in paragraph (c) such that no Acquisition Conversion Notice (or, as the case may be, no new Acquisition Conversion Notice) is given under this clause 7.5; or

(ii) an Acquisition Conversion Notice (or, as the case may be, a new Acquisition Conversion Notice) is given under this clause 7.5 but, if the Acquisition Conversion Date specified in the Acquisition Conversion Notice were a Relevant Date for the purposes of clause 4.2, either the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of that date,

then this clause 7.5 will be reapplied in respect of each subsequent Distribution Payment Date until a Conversion occurs.

8 Conversion mechanics

8.1 Conversion

If the Issuer elects to Convert Capital Notes (with APRA's prior written approval) or must Convert Capital Notes in accordance with these Terms, then, subject to this clause 8, the following provisions shall apply:

(a) each Capital Note that is being Converted will Convert into the Conversion Number of Ordinary Shares. The Conversion Number will be calculated by the Issuer in accordance with the following formula:

$$\text{Conversion Number} = \frac{\text{Face Value}}{99\% \times \text{VWAP}}$$

subject always to the Conversion Number being no greater than the Maximum Conversion Number.

where:

VWAP (expressed in dollars and cents) means the VWAP during the VWAP Period;

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

$$\text{Maximum Conversion Number} = \frac{\text{Face Value}}{\text{Issue Date VWAP} \times \text{Relevant Fraction}}$$

Relevant Fraction means:

(i) in the case of a Mandatory Conversion, 0.5; and

(ii) in the case of any other Conversion, 0.2;

(b) each Holder's rights in relation to each Capital Note that is being Converted will be immediately and irrevocably terminated in full for an amount equal to the Face Value and the Issuer will apply the Face Value of each Capital Note by way of payment for the subscription for the Ordinary Shares to be issued to the Holder under clause 8.1(a). Each Holder is taken to have irrevocably directed the Issuer to apply any amount payable under this clause 8.1 in this way and Holders do not have any right to payment in any other way. Termination of a Holder's rights in relation to a Capital Note will not limit the Issuer's discretion to pay a Distribution on that Capital Note on the Mandatory Conversion Date, the Exchange Date or the Acquisition Conversion Date (as the case may be) in accordance with and subject to clause 3 (except in the case of Non-Viability Conversion, when no Distribution will be paid);

(c) if the total number of Ordinary Shares to be allotted and issued in respect of a Holder's aggregate holding of Capital Notes upon Conversion includes a fraction of an Ordinary Share, that fraction of an Ordinary Share will be disregarded; and

(d) upon Conversion, a Holder will be given all of the rights attaching to the Conversion Number of Ordinary Shares allotted and issued in respect of such Holder's aggregate holding of Capital Notes but these rights do not take effect until 5:00pm Sydney time on the Mandatory

Conversion Date, the Exchange Date or the Acquisition Conversion Date (as the case may be) or, in the case of a Conversion on the Non-Viability Conversion Date, the time at which such Conversion occurs on that date. At that time:

(i) all other rights conferred or restrictions imposed on that Capital Note under these Terms will no longer have effect (except for rights relating to a Distribution which has been determined to be payable but has not been paid on or before the Mandatory Conversion Date, the Non-Viability Conversion Date, the Exchange Date or the Acquisition Conversion Date (as the case may be), which rights will continue); and

(ii) the Ordinary Share resulting from the Conversion will rank equally with all other Ordinary Shares.

8.2 Adjustments to VWAP

For the purposes of calculating the VWAP in these Terms:

(a) where, on some or all of the Business Days in the relevant VWAP Period, Ordinary Shares have been quoted on ASX as cum dividend or cum any other distribution or entitlement and Capital Notes will Convert into Ordinary Shares after the date those Ordinary Shares no longer carry that dividend or any other distribution or entitlement, then the VWAP on the Business Days on which those Ordinary Shares have been quoted cum dividend or cum any other distribution or entitlement shall be reduced by an amount (the **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 clause 8.2(a)(i) which is traded on ASX on any of those Business Days), the volume weighted average sale price of all such entitlements sold on ASX during the VWAP Period on the Business 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 Directors; and

(b) where, on some or all of the Business Days in the VWAP Period, Ordinary Shares have been quoted on ASX as ex dividend or ex any other distribution or entitlement, and Capital Notes will Convert into Ordinary Shares in respect of which the relevant dividend or other distribution or entitlement would be payable, the VWAP on the Business Days on which those Ordinary Shares have been quoted ex dividend or ex any other distribution or entitlement shall be increased by the Cum Value.

8.3 Adjustments to VWAP for divisions and similar transactions

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

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

where:

A means the aggregate number of Ordinary Shares immediately before the Reorganisation; and

B means the aggregate number of Ordinary Shares immediately after the Reorganisation.

(b) Any adjustment made by the Issuer in accordance with clause 8.3(a) will be effective and binding on Holders under these Terms and these Terms will be construed accordingly. Any such adjustment must be promptly notified to all Holders.

8.4 Adjustments to Issue Date VWAP

For the purposes of determining the Issue Date VWAP, adjustments to the VWAP will be made in accordance with clauses 8.2 and 8.3 during the VWAP Period for the Issue Date VWAP. On and from the Issue Date, adjustments to the Issue Date VWAP:

(a) may be made by the Issuer in accordance with clauses 8.5 to 8.7 (inclusive); and

(b) if so made, will correspondingly:

(i) affect the application of the Mandatory Conversion Conditions and the Optional Conversion Restrictions; and

(ii) cause an adjustment to the Maximum Conversion Number.

(c) Any adjustment made by the Issuer in accordance with clause 8.5(a) or 8.6 will be effective and binding on all Holders under these Terms and these Terms will be construed accordingly.

8.5 Adjustments to Issue Date VWAP for bonus issues

(a) Subject to clause 8.5(b), if at any time after the Issue Date the Issuer makes a pro rata bonus issue of Ordinary Shares to holders of 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) Clause 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 purposes of clause 8.5(a), an issue will be regarded as a pro rata bonus issue notwithstanding that the Issuer does not make offers to some or all holders of Ordinary Shares with registered addresses outside Australia, provided that in so doing the Issuer is not in contravention of the ASX Listing Rules.

(d) No adjustments to the Issue Date VWAP will be made under this clause 8.5 for any offer of Ordinary Shares not covered by clause 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 clause 8.5(a) shall not in any way restrict the Issuer 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.

8.6 Adjustment to Issue Date VWAP for divisions and similar transactions

(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 Issuer shall adjust the Issue Date VWAP by multiplying the Issue Date VWAP applicable on the Business 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 immediately before the Reorganisation; and

B means the aggregate number of Ordinary Shares immediately after the Reorganisation.

(b) Each Holder acknowledges that the Issuer 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 any consent or concurrence.

8.7 No adjustment to Issue Date VWAP in certain circumstances

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

8.8 Announcement of adjustments

The Issuer will notify Holders and the Trustee (an **Adjustment Notice**) of any adjustment to the Issue Date VWAP under this clause 8 within 10 Business Days of the Issuer determining the adjustment.

8.9 Ordinary Shares

Each Ordinary Share issued or arising upon Conversion ranks pari passu with all other fully paid Ordinary Shares.

8.10 Issue of Ordinary Shares to Nominee

If:

(a) Capital Notes held by a Foreign Holder are to be Converted (unless the Issuer is satisfied that the laws of the Foreign Holder's country of residence permit the issue of Ordinary Shares to the Foreign Holder (but as to which the Issuer 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);

(b) the Issuer has elected or is required to Convert Capital Notes and the Holder has notified the Issuer that it does not wish to receive Ordinary Shares as a result of Conversion, which notice may be given by the Holder at any time on or after the Issue Date and no less than 15 Business Days prior to the date scheduled for Conversion; or

(c) the Issuer has elected or is required to Convert Capital Notes and a FATCA Withholding is required to be made in respect of Ordinary Shares issued on Conversion of the Capital Notes,

then, on the date for Conversion:

(i) in the case of paragraphs (a) and (b), the number of Ordinary Shares which the relevant Holder is obliged to accept, will be issued to a nominee appointed by the Issuer (which must not be a member of the Challenger Group or a Related Entity of the Issuer) ("**Nominee**"), which Nominee will sell that number of Ordinary Shares and pay a cash amount equal to the Proceeds to the relevant Holder accordingly; and

(ii) in the case of a FATCA Withholding, the Ordinary Shares which the Holder is obliged to accept will be issued to the Holder only to the extent (if at all) that the issue is net of FATCA Withholding, and the number of Ordinary Shares the subject of the FATCA Withholding will be issued to the Nominee and dealt with in accordance with FATCA.

8.11 No duty on sale

For the purposes of clause 8.10:

(a) the issue of Ordinary Shares to the Nominee satisfies all obligations of the Issuer in connection with the Conversion, the Capital Notes will be deemed Converted and will be dealt with in accordance with clause 8.1 and, on and from the issue of those Ordinary Shares, the rights of a Holder the subject of clause 8.10 in respect of those Ordinary Shares are limited to its rights in respect of the Ordinary Shares or the Proceeds as provided in clause 8.10; and

(b) neither the Issuer nor the Nominee owes any obligations or duties to the Holders in relation to the price for which, or other terms on which, Ordinary Shares are sold nor has any liability for any loss suffered by a Holder as a result of the sale of Ordinary Shares.

8.12 Listing Ordinary Shares issued on Conversion

The Issuer shall use all reasonable endeavours to list the Ordinary Shares issued upon Conversion of Capital Notes on ASX.

8.13 Write-Off

(a) Notwithstanding any other provisions of these Terms, if for any reason (including, without limitation, an Inability Event) Conversion of any Capital Notes on account of a Non-Viability Trigger Event does not occur within five Business Days of the Non-Viability Conversion Date, then Conversion of those Capital Notes will not occur, the Capital Notes will not be Exchanged on any subsequent date, and instead the relevant Holder's rights (including to Distributions and payment of Face Value in relation to such Capital Notes, and to be issued with Ordinary Shares), are immediately and irrevocably written-off and terminated (**Written-Off**) with effect on and from the Non-Viability Conversion Date.

(b) The Issuer may, but is not required to, seek advice from reputable legal counsel as to whether an Inability Event has occurred and is subsisting. An Inability Event is taken to have occurred and subsist if the Issuer receives advice to that effect from such counsel. The seeking of advice by the Issuer under this clause 8.13(b) shall not delay or impede the Write-Off of the Capital Notes when required under clause 8.13(a).

(c) The Issuer must give notice to Holders and the Trustee if Conversion has not occurred by operation of this clause 8.13 but failure to give that notice shall not affect the operation of this clause 8.13.

9 Redemption mechanics

9.1 Redemption mechanics

If, subject to APRA's prior written approval and compliance with the conditions in clause 6.4, the Issuer elects to Redeem Capital Notes in accordance with these Terms, the provisions of this clause 9 apply to that Redemption.

Holders should not expect that APRA's approval will be given for any Redemption of Capital Notes under these Terms.

9.2 Redemption

(a) A Capital Note will be Redeemed by payment on the Exchange Date of the Face Value to the relevant Holder (**Redemption Price**).

(b) Redemption may occur even if the Issuer, in its absolute discretion, does not pay a Distribution for the final Distribution Period.

9.3 Effect of Redemption on Holders

On the Exchange Date the only right Holders will have in respect of Capital Notes will be to obtain the Redemption Price payable in accordance with these Terms and upon payment of the Redemption Price, all other rights conferred, or restrictions imposed, by Capital Notes will no longer have effect.

10 Resale mechanics

10.1 Resale mechanics

If, subject to APRA's prior written approval and compliance with clause 6.4, the Issuer elects to Resell Capital Notes in accordance with these Terms, the provisions of this clause 10 apply to that Resale.

Holders should not expect that APRA's approval will be given for any Resale of Capital Notes under these Terms.

10.2 Appointment of Nominated Purchaser

(a) Subject to paragraph (d), the Issuer must appoint one or more Nominated Purchasers for the Resale on such terms as may be agreed between the Issuer and the Nominated Purchasers, including:

(i) as to the conditions of any Resale, the procedures for settlement of such Resale and the circumstances in which the Exchange Notice in respect of such Resale may be amended, modified, added to or restated;

(ii) as to the substitution of another entity (which must not be a member of the Challenger Group or a Related Entity of the Issuer) as Nominated Purchaser if, for any reason, the Issuer is not satisfied that the Nominated Purchaser will perform its obligations under this clause 10; and

(iii) as to the terms (if any) on which any Capital Notes acquired by a Nominated Purchaser may be Redeemed, Converted or otherwise dealt with.

(b) If the Issuer appoints more than one Nominated Purchaser in respect of a Resale, all or any of the Capital Notes held by a Holder which are being Resold may be purchased by any one or any combination of the Nominated Purchasers, as determined by the Issuer for the Resale Price.

(c) The obligation of a Nominated Purchaser to pay the Resale Price on the Exchange Date may be subject to such conditions as the Issuer may reasonably determine.

(d) Any terms of the appointment or of the Resale which may cause APRA to object to Challenger Group using, or having used, the proceeds of the issue of some or all of the Capital Notes to fund Additional Tier 1 Capital of CLC, are subject to the prior written consent of APRA.

10.3 Identity of Nominated Purchasers

The Issuer may not appoint a person as a Nominated Purchaser unless that person:

(a) has undertaken on such terms and subject to such conditions as the Issuer reasonably determines for the benefit of each Holder to acquire each Capital Note from each Holder for the Resale Price on the Exchange Date;

(b) has a long-term counterparty credit rating from one of S&P Global Ratings, Moody's Investors Service, Inc. or Fitch Ratings Ltd. of not less than investment grade; and

(c) is not a Related Entity of the Issuer.

10.4 Irrevocable offer to sell Capital Notes

Each Holder on the Exchange Date is taken irrevocably to offer to sell Capital Notes the subject of a Resale to the Nominated Purchaser or Nominated Purchasers on the Exchange Date for the Resale Price.

10.5 Effect of Resale

On the Exchange Date subject to payment by the Nominated Purchaser of the Resale Price to the Holders, all right, title and interest in such Capital Notes (excluding the right to any Distribution payable on that date) will be transferred to the Nominated Purchaser free from Encumbrances.

10.6 Effect of failure by Nominated Purchaser or Nominated Purchasers to pay

If a Nominated Purchaser does not pay the Resale Price to the Holders on the Exchange Date (a **Defaulting Nominated Purchaser**) (whether as a result of a condition to purchase not being satisfied or otherwise):

(a) the Exchange Notice as it relates to the Defaulting Nominated Purchaser will be void;

(b) Capital Notes will not be transferred to the Defaulting Nominated Purchaser on the Exchange Date; and

(c) Holders will continue to hold the Capital Notes referable to the Defaulting Nominated Purchaser until they are otherwise Redeemed, Converted or Resold in accordance with these Terms.

10.7 Payment of Resale Price

Clause 14 applies to payment of the Resale Price as if a reference in that clause to the Redemption Price includes a reference to the Resale Price.

11 General rights

11.1 Power of attorney

(a) Each Holder appoints each of the Issuer, its officers and any External Administrator of the Issuer (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 Terms including, but not limited to, effecting any Conversion, Redemption or Resale or making any entry in the Register or the register of any Ordinary Shares.

(b) The power of attorney given in this clause 11.1 is given for valuable consideration and to secure the performance by the Holder of the Holder's obligations under these Terms and is irrevocable.

11.2 Consent to receive Ordinary Shares and other acknowledgements

Each Holder irrevocably:

(a) upon receipt of the Conversion Number of Ordinary Shares following Conversion of Capital Notes, consents to becoming a member of the Issuer and agrees to be bound by the constitution of the Issuer, in each case in respect of Ordinary Shares issued on Conversion;

(b) acknowledges and agrees that it is obliged to accept Ordinary Shares on Conversion notwithstanding anything that might otherwise affect a Conversion of Capital Notes including:

   (i) any change in the financial position of the Issuer or any member of the Challenger Group since the Issue Date;

   (ii) any disruption to the market or potential market for Ordinary Shares or capital markets generally; or

   (iii) any breach by the Issuer of any obligation in connection with the Capital Notes;

(c) acknowledges and agrees that:

   (i) where clause 5.2 applies:

      (A) there are no other conditions to a Non-Viability Conversion occurring as and when provided in clauses 5.1 to 5.3 (inclusive);

      (B) Conversion must occur immediately on the Non-Viability Conversion Date and that Conversion or Write-Off may result in disruption or failures in trading or dealings in Capital Notes;

      (C) it will not have any rights to vote or right of approval in respect of any Non-Viability Conversion; and

      (D) the Ordinary Shares issued on Non-Viability Conversion may not be quoted at the time of issue, or at all;

   (ii) the only conditions to a Mandatory Conversion are the Mandatory Conversion Conditions;

   (iii) the only conditions to a Conversion on account of an Exchange under clause 6 or a Conversion under clause 7 are the conditions expressly applicable to such Conversion as provided in clauses 6 and 7 of these Terms and no other conditions or events will affect Conversion; and

   (iv) clause 8.13 is a fundamental term and where clause 8.13 applies, no other conditions or events will affect the operation of that clause and it will not have any rights to vote in respect of any Write-Off;

(d) agrees to provide to the Issuer any information necessary to give effect to a Conversion; and

(e) acknowledges and agrees that:

   (i) a Holder has no right to request a Conversion, Redemption or Resale of any Capital Note or to determine the Exchange Method;

   (ii) a Holder has no right to apply for the Issuer to be wound up, or placed in administration, or to cause a receiver, or a receiver and manager, to be appointed in respect of the Issuer merely on the grounds that the Issuer does not or is or may become unable to pay a Distribution when scheduled in respect of Capital Notes;

   (iii) these Terms contain no events of default. Accordingly (but without limitation) failure to pay in full, for any reason, a Distribution on a scheduled Distribution Payment Date, or a failure by the Issuer to comply with any of its obligations, will not constitute an event of default; and

   (iv) it has no remedy on account of a failure by the Issuer to issue Ordinary Shares to a Holder or a Nominee in accordance with these Terms other than (and subject always to clause 8.13) to seek specific performance of the obligation to issue Ordinary Shares.

12 Takeovers and schemes of arrangement

If:

(a) a takeover bid is made for Ordinary Shares, acceptance of which is recommended by the Directors; or

(b) the Directors recommend a scheme of arrangement in respect of the Ordinary Shares of the Issuer which will result in a person other than the Issuer having a relevant interest in more than 50% of the Ordinary Shares,

in each case which would result in an Acquisition Event then, if the Directors consider that:

(c) the Issuer will not be permitted to elect to Exchange the Capital Notes in accordance with clause 6 or to Convert the Capital Notes in accordance with clause 7; or

(d) the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition will not be satisfied in respect of the Acquisition Conversion Date in accordance with clause 7,

the Directors will use all reasonable endeavours to procure that equivalent takeover offers are made to Holders or that they are entitled to participate in the scheme of arrangement or a similar transaction.

13 Title and transfer of Capital Notes

13.1 Title

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

13.2 Effect of entries in Register

Each entry in the Register in respect of a Capital Note constitutes a separate and independent acknowledgement to the relevant Holder of the obligations of the Issuer to the relevant Holder.

13.3 Register conclusive as to ownership

Entries in the Register in relation to a Capital Note constitute conclusive evidence that the person so entered is the absolute owner of the Capital Note subject to correction for fraud or error.

13.4 Non-recognition of interests

(a) Except as required by law and as provided by these Terms, the Issuer, the Trustee and the Registrar must treat the person whose name is entered in the Register as the Holder of a Capital Note as the absolute owner of that Capital Note. This clause 13.4 applies whether or not a payment has been made as scheduled in respect of a Capital Note and despite any notice of ownership, trust or interest in the Capital Note.

(b) No notice of any trust, Encumbrance or other interest in, or claim to any Note will be entered in the Register.

13.5 Joint Holders

Where two or more persons are entered in the Register as the joint Holders of a Capital Note then they are taken to hold the Capital Note as joint tenants with rights of survivorship, but the Registrar is not bound to register more than four persons as joint Holders of any Capital Note.

13.6 Transfers in whole

Capital Notes may be transferred in whole but not in part.

13.7 Transfer

A Holder may, subject to this clause 13.7, transfer any Capital Notes:

(a) by a proper Transfer according to the ASX Settlement Operating Rules;

(b) by a proper transfer under any other computerised or electronic system recognised by the Corporations Act;

(c) under any other method of transfer which operates in relation to the trading of securities on any securities exchange outside Australia on which Capital Notes are quoted; or

(d) by any proper or sufficient instrument of transfer of marketable securities under applicable law.

The Issuer must not charge any fee on the transfer of a Capital Note.

13.8 Market obligations

The Issuer must comply with all Applicable Regulations and any other relevant obligations imposed on it in relation to the transfer of a Capital Note.

13.9 Issuer may request holding lock or refuse to register transfer

If Capital Notes are quoted on ASX, and if permitted to do so by the ASX Listing Rules and the Corporations Act, the Issuer may:

(a) request the CS Facility Operator or the Registrar, as the case may be, to apply a holding lock to prevent a transfer of Capital Notes approved by and registered on the CS Facility's electronic sub-register or Capital Notes registered on an issuer-sponsored sub-register, as the case may be; or

(b) refuse to register a transfer of Capital Notes.

13.10 Issuer must request holding lock or refuse to register transfer

(a) The Issuer must request the CS Facility Operator or the Registrar, as the case may be, to apply a holding lock to prevent a transfer of Capital Notes approved by and registered on the CS Facility's electronic sub-register or Capital Notes registered on an issuer-sponsored sub-register, as the case may be, if the Corporations Act, the ASX Listing Rules or the terms of a Restriction Agreement require the Issuer to do so.

(b) The Issuer must refuse to register any transfer of Capital Notes if the Corporations Act, the ASX Listing Rules or the terms of a Restriction Agreement require the Issuer to do so.

(c) During a breach of the ASX Listing Rules relating to Restricted Securities, or a breach of a Restriction Agreement, the Holder of the Restricted Securities is not entitled to any Distribution (or other distribution on), or voting rights in respect of, the Restricted Securities.

13.11 Notice of holding locks and refusal to register transfer

If, in the exercise of its rights under clauses 13.9 and 13.10, the Issuer requests the application of a holding lock to prevent a transfer of Capital Notes or refuses to register a transfer of Capital Notes, it must, within five Business Days after the date the holding lock is requested or the refusal to register a transfer, give written notice of the request or refusal to the Holder, to the transferee and the broker lodging the transfer, if any. Failure to give such notice does not, however, invalidate the decision of the Issuer.

13.12 Delivery of instrument

If an instrument is used to transfer Capital Notes according to clause 13.7, it must be delivered to the Registrar, together with such evidence (if any) as the Registrar reasonably requires to prove the title of the transferor to, or right of the transferor to transfer, the Capital Notes.

13.13 Refusal to register

The Issuer may only refuse to register a transfer of any Capital Notes if such registration would contravene or is forbidden by Applicable Regulations or the Terms.

If the Issuer refuses to register a transfer, the Issuer 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 the Registrar.

13.14 Transferor to remain Holder until registration

A transferor of a Capital Note remains the Holder in respect of that Capital Note until the transfer is registered and the name of the transferee is entered in the Register.

13.15 Effect of transfer

Upon registration and entry of the transferee in the Register the transferor ceases to be entitled to future benefits under the Trust Deed in respect of the transferred Capital Notes and the transferee becomes so entitled in accordance with clause 13.2.

13.16 Estates

A person becoming entitled to a Capital Note as a consequence of the death or bankruptcy of a Holder or of a vesting order or a person administering the estate of a Holder may, upon producing such evidence as to that entitlement or status as the Registrar considers sufficient, transfer the Capital Note or, if so entitled, become registered as the Holder of the Capital Note.

13.17 Transfer of unidentified Capital Notes

Where the transferor executes a transfer of less than all Capital Notes registered in its name, and the specific Capital Notes to be transferred are not identified, the Registrar may register the transfer in respect of such of the Capital Notes registered in the name of the transferor as the Registrar thinks fit, provided the aggregate of the Face Value of all the Capital Notes registered as having been transferred equals the aggregate of the Face Value of all the Capital Notes expressed to be transferred in the transfer.

14 Payments

14.1 Payments subject to law

All payments are subject to applicable law, but without prejudice to the provisions of clause 15.

14.2 Payments on Business Days

If a payment in respect of a Capital Note:

(a) is due on a day which is not a Business Day, then the due date for payment will be postponed to the first following day that is a Business Day; or

(b) 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, then the due date for payment to that Holder will be the first following day on which banks are open for general banking business in that place and the Holder is not entitled to any additional payment in respect of that delay.

Nothing in this clause applies to any payment referred to in clause 8.1(b), which occurs on the date of Conversion as provided in clause 8.1.

14.3 Payment of Redemption Price

Payments of the Redemption Price will be made to each person registered at the Relevant Time on the payment date as the Holder of a Capital Note.

14.4 Payment of Distribution

Payments of Distributions will be made to each person registered at the Relevant Time on the Record Date as the Holder of a Capital Note.

14.5 Payments to accounts

Monies payable by the Issuer to a Holder in respect of a Capital Note may be paid in any manner in which cash may be paid as the Issuer decides, including by any method of direct credit determined by the Issuer to the Holder or Holders shown on the Register or to such person or place directed by them.

14.6 Unsuccessful attempts to pay

Subject to applicable law and the ASX Listing Rules, where the Issuer:

(a) decides that an amount is to be paid to a Holder by a method of direct credit and the Holder has not given a direction as to where amounts are to be paid by that method;

(b) attempts to pay an amount to a Holder by direct credit, electronic transfer of funds or any other means and the transfer is unsuccessful;

(c) has made reasonable efforts to locate a Holder but is unable to do so; or

(d) has issued a cheque which has not been presented within six months of its date, then the Issuer may cancel such cheque,

then, in each case, the amount is to be held by the Issuer for the Holder in a non-interest bearing deposit account with a bank selected by the Issuer until the Holder or any legal personal representative of the Holder claims the amount or the amount is paid by the Issuer according to the legislation relating to unclaimed monies.

When this clause 14.6 applies, the amount payable in respect of the Capital Notes shall be taken to have been paid on the date scheduled for payment and no interest is payable in respect of any delay in payment.

14.7 Payment to joint Holders

A payment to any one of joint Holders will discharge the Issuer's liability in respect of the payment.

14.8 Time limit for claims

A claim against the Issuer for a payment under a Capital Note is void unless made within 10 years (in the case of the Redemption Price) or five years (in the case of Distributions and other amounts) from the date on which payment first became due.

14.9 Determination and calculation final

Except where there is fraud or a manifest error, any determination or calculation which the Issuer makes in accordance with these Terms is final and binds the Issuer, the Registrar and each Holder.

15 Taxation

15.1 No set-off, counterclaim or deductions

All payments in respect of the Capital Notes must be made in full without set-off or counterclaim, and without any withholding or deduction in respect of Taxes, unless prohibited by law.

15.2 Withholding tax

(a) If a law requires the Issuer to withhold or deduct an amount in respect of Taxes from a payment in respect of the Capital Notes such that the Holder would not actually receive on the due date the full amount provided for under the Capital Notes, then the Issuer agrees to deduct the amount for the Taxes.

(b) If any deduction is required, the Issuer must pay the full amount required to be deducted to the relevant revenue authority within the time allowed for such payment without incurring a penalty under the applicable law.

(c) If:

  (i) a deduction is made;

  (ii) the amount of the deduction is accounted for by the Issuer to the relevant revenue authority; and

  (iii) the balance of the amount payable has been paid to the Holder,

then the Issuer's obligation to make the payment to the Holder is taken to have been satisfied in full by the Issuer.

15.3 FATCA

(a) If requested by the Issuer, each Holder agrees to provide certain information required by it or the Trustee to comply with any applicable law, including FATCA and the OECD Common Reporting Standard.

(b) The Issuer 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 Capital Notes may be subject to FATCA, and may deal with such amount deducted or withheld, and any Ordinary Shares deducted or withheld, in accordance with FATCA and, in the case of Ordinary Shares, clause 8.10(c) of these Terms. If any withholding or deduction arises under or in connection with FATCA, the Issuer will not be required to pay any further amounts and the Issuer will not be required to issue any further Ordinary Shares on account of such withholding or deduction or otherwise reimburse or compensate, or make any payment to, a Holder or a beneficial owner of Capital Notes for or in respect of any such withholding or deduction. A dealing with such payment and any Ordinary Shares in accordance with FATCA satisfies the Issuer's obligations to that Holder to the extent of the amount of that payment or issue of Ordinary Shares.

16 Winding-up and Subordination

16.1 Winding-up

If an order of a court of competent jurisdiction is made (other than an order successfully appealed or permanently stayed within 30 days), or an effective resolution is passed, for the winding-up of the Issuer in Australia (a **Winding-up Event**), the Issuer is liable to Redeem each Capital Note for its Redemption Price in accordance with, and subject to, this clause 16.

16.2 Subordination

In a winding-up of the Issuer:

(a) a Holder (and the Trustee) shall be entitled to prove for the Redemption Price in respect of a Capital Note only subject to, and contingent upon, the prior payment in full of, the Senior Creditors; and

(b) the Holder's (and the Trustee's) claim for payment of the Redemption Price ranks equally with, and shall be paid in proportion to, the claims of holders of other instruments issued as Relevant Perpetual Subordinated Instruments,

so that the Holder receives, for the Capital Note, an amount equal to the amount it would have received if, in the winding up of the Issuer, it had held an issued and fully paid Preference Share.

16.3 Agreements of Holders and Trustee as to subordination

Each Holder (and the Trustee) irrevocably agrees:

(a) that clause 16.2 is a debt subordination for the purposes of section 563C of the Corporations Act;

(b) that it does not have, and waives to the maximum extent permitted by law, any entitlement to interest under section 563B of the Corporations Act to the extent that a holder of a preference share which is a Relevant Perpetual Subordinated Instrument would not be entitled to such interest;

(c) that it shall not have, and is taken to have waived, to the fullest extent permitted by law, any right to prove in a winding-up of the Issuer as a creditor in respect of the Capital Notes so as to diminish any distribution, dividend or payment that any Senior Creditor would otherwise receive;

(d) not to exercise any voting rights as a creditor in the winding-up or administration of the Issuer:

    (i) until after all Senior Creditors have been paid in full; or

    (ii) otherwise in a manner inconsistent with the ranking and subordination contemplated by clause 2 and clause 16.2;

(e) that it must pay or deliver to the liquidator or administrator any amount or asset received on account of its claim in the winding-up or administration of the Issuer in respect of the Capital Notes in excess of its entitlement under clause 2 and clause 16.2;

(f) that it must pay in full all liabilities it owes the Issuer before it may receive any amount or asset on account of its claim in the winding-up or administration in respect of a Capital Note;

(g) that the debt subordination effected by clause 2 and clause 16.2 is not affected by any act or omission of the Issuer or a Senior Creditor which might otherwise affect it at law or in equity; and

(h) that it has no remedy for the recovery of the Redemption Price other than to prove in the winding up in accordance with this clause 16.

16.4 No further rights

A Capital Note does not confer on the Holders any further right to participate in the winding-up of the Issuer beyond payment of the Redemption Price.

16.5 No set-off

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 Capital Notes held by the Holder or by the Holder to the Issuer (as applicable).

16.6 No consent of Senior Creditors

Nothing in clause 2 or this clause 16 shall be taken:

(a) to require the consent of any Senior Creditor to any amendment of these Terms; or

(b) to create a charge or security interest over any right of the Holder or the Trustee.

17 General

17.1 Enforcement by Trustee

Subject to clause 17.2, only the Trustee may enforce the provisions of the Trust Deed or these Terms and only in accordance with their terms and subject to the limitation and to the protections of the Trustee set out in the Trust Deed.

17.2 Holder's right to take action

No Holder shall be entitled to proceed directly against the Issuer to enforce any right or remedy under or in respect of any Capital Note or the Trust Deed unless the Trustee, being entitled, and having become bound, to proceed, fails to do so within 21 days and such failure is continuing, in which case any Holder may itself institute proceedings against the Issuer for the relevant remedy to the same extent (but not further or otherwise) that the Trustee would have been entitled to do so.

17.3 Voting

(a) The Trust Deed contains provisions for convening meetings of the Holders to consider any matter affecting their interests including certain variations of these Terms which require the consent of the Holders.

(b) A Holder has no right to attend or vote at any general meeting of the shareholders of the Issuer.

17.4 Alterations without consent

At any time and from time to time, but subject to compliance with the Corporations Act and all other applicable laws, the Issuer may, with the approval of the Trustee (such approval not to be unreasonably withheld or delayed), but without the consent of the Holders, alter these Terms if the Issuer is of the opinion that such alteration is:

(a) of a formal, technical or minor nature;

(b) made to cure any ambiguity or correct any manifest error;

(c) necessary or expedient for the purpose of enabling the Capital Notes to be:

  (i) listed for quotation, or to retain quotation, on any securities exchange; or

  (ii) offered for subscription or for sale under the laws for the time being in force in any place;

(d) necessary to comply with:

  (i) the provisions of any statute or the requirements of any statutory authority; or

  (ii) the ASX Listing Rules or the listing or quotation requirements of any securities exchange on which the Issuer may propose to seek a listing or quotation of the Capital Notes;

(e) made in accordance with the Issuer's adjustment rights in clause 8;

(f) in respect of any date or time period stated, required or permitted in connection with any Mandatory Conversion, Non-Viability Conversion or Exchange in a manner necessary or desirable to facilitate the Mandatory Conversion, Non-Viability Conversion or Exchange (including without limitation where in connection with a Redemption the proceeds of Redemption are to be reinvested in a new security to be issued by the Issuer or a Related Entity);

(g) made to:

  (i) alter the terms of any Capital Notes to align them with any Relevant Perpetual Subordinated Instruments issued after the date of such Capital Notes; or

  (ii) alter the definition of "Relevant Perpetual Subordinated Instruments" on account of the issue (after the date of any Capital Notes) of capital instruments of the Challenger Group; or

(h) in any other case, not materially prejudicial to the interests of the Holders as a whole,

provided that, in the case of an alteration pursuant to paragraph (c), (d) or (h), the Issuer has provided to the Trustee an opinion which is addressed to it and in a form reasonably satisfactory to it of independent legal advisers of recognised standing in New South Wales that such alteration is otherwise not materially prejudicial to the interests of Holders as a whole.

For the purposes of determining whether an alteration is not materially prejudicial to the interests of Holders as a whole, the taxation and regulatory capital consequences to a Holder (or any class of Holders) and other special consequences or circumstances which are personal to a Holder (or any class of Holders) do not need to be taken into account by the Issuer or its legal advisers.

17.5 Alteration with consent

At any time and from time to time, but subject to compliance with the Corporations Act and all other applicable laws, the Issuer may, with the approval of the Trustee (such approval not to be unreasonably withheld or delayed), alter these Terms:

(a) except as otherwise provided in paragraphs (b), (c) and (d) below, if such alteration is authorised by a Holder Resolution;

(b) in the case of an alteration to this clause 17.5 or any clause of the Trust Deed providing for Holders to give a direction to the Trustee by a Special Resolution, if a Special Resolution is passed in favour of such alteration;

(c) in the case of an alteration to the Meeting Provisions and to which clause 17.4 does not apply, if a Special Resolution is passed in favour of such alteration; and

(d) otherwise in accordance with the Trust Deed.

17.6 Consents

Prior to any alteration under this clause 17, the Issuer must obtain any consent needed to the alteration and, in particular, any alteration which may cause APRA to object to Challenger Group using, or having used, the proceeds of the issue of some or all of the Capital Notes to fund Additional Tier 1 Capital of CLC, is subject to the prior written consent of APRA.

17.7 Interpretation

In this clause 17, **alter** includes modify, cancel, amend, waive or add to, and **alteration** has a corresponding meaning.

17.8 Notices

The Trust Deed contains provisions for the giving of notices.

17.9 Further issues and dealings

(a) The Issuer may from time to time, without the consent of any Holder, issue any securities ranking equally with the Capital Notes (on the same terms or otherwise) or ranking in priority or junior to the Capital Notes, or incur or guarantee any indebtedness upon such terms as it may think fit in its sole discretion.

(b) Nothing in these Terms limits the ability of the Issuer or any other member of the Challenger Group, in its discretion from time to time, from redeeming, converting, buying back, returning or distributing capital in respect of any share capital or any other securities of any kind, whether ranking behind, equally with or in priority to the Capital Notes.

17.10 Purchase by agreement

Subject to APRA's prior written approval, the Issuer or any member of the Challenger Group may purchase Capital Notes at any time and at any price. Any Capital Note purchased by or on behalf of the Issuer shall be cancelled.

Holders should not expect that APRA's approval will be given for any purchase of Capital Notes under these Terms.

17.11 Governing law

These Terms and the Capital Notes are governed by the laws in force in New South Wales.

17.12 Rounding

For the purposes of any calculations required under these Terms:

(a) all percentages resulting from the calculations must be rounded, if necessary, to the nearest ten-thousandth of a percentage point (with 0.00005% being rounded up to 0.0001%);

(b) all figures must be rounded to four decimal places (with 0.00005 being rounded up to 0.0001); and

(c) all amounts that are due and payable must be rounded to the nearest one Australian cent (with 0.5 of a cent being rounded up to 1 cent).

18 Interpretation and definitions

18.1 Interpretation

In these Terms, except where the context otherwise requires:

(a) the singular includes the plural and vice versa, and a gender includes other genders;

(b) another grammatical form of a defined word or expression has a corresponding meaning;

(c) a reference to a document includes all schedules or annexes to it;

(d) a reference to a clause or paragraph is to a clause or paragraph of these Terms;

(e) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;

(f) a reference to **Australia** includes any political sub-division or territory in the Commonwealth of Australia;

(g) a reference to **Australian dollars, A$** or **Australian cent** is a reference to the lawful currency of Australia;

(h) a reference to time is to Sydney, Australia time;

(i) other than:

  (i) in relation to a Non-Viability Trigger Event and a Conversion or Write-Off, in each case on account of a Non-Viability Trigger Event; and

  (ii) where a contrary intention is expressed,

  if an event under these Terms must occur on a stipulated day which is not a Business Day, then the stipulated day will be taken to be the next Business Day;

(j) a reference to a person includes a reference to the person's executors, administrators, successors and permitted assigns and substitutes;

(k) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;

(l) a reference to a statute, ordinance, code, rule, directive or law (however described) includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

(m) the meaning of general words is not limited by specific examples introduced by "including", "for example" or similar expressions;

(n) any agreement, representation or warranty by two or more parties (including where two or more persons are included in the same defined term) binds them jointly and severally;

(o) headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of these Terms;

(p) if the principal securities exchange on which Ordinary Shares are listed becomes 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);

(q) any provisions which refer to the requirements of APRA or any other prudential regulatory requirements will apply to the Issuer only if the Issuer is an entity subject to regulation and supervision by APRA at the relevant time;

(r) a reference to any term defined by APRA (including, without limitation, Additional Tier 1 Capital) shall, if that term is replaced or superseded in any of APRA's applicable prudential regulatory requirements or standards, be taken to be a reference to the replacement or equivalent term;

(s) any provisions which require APRA's consent or approval (written or otherwise) will apply only if APRA requires that such consent or approval be given at the relevant time; and

(t) any provisions in these Terms requiring the prior approval of APRA for a particular course of action to be taken by the Issuer do not imply that APRA has given its consent or approval to the particular action as of the Issue Date or that it will at any time give its consent or approval to the particular action.

18.2 Definitions

In these Terms, these meanings apply unless the contrary intention appears:

Acquisition Conversion Date has the meaning given in clause 7.3.

Acquisition Conversion Notice has the meaning given in clause 7.2.

Acquisition Event means:

(a) either:

  (i) a takeover bid is made to acquire all or some Ordinary Shares and the offer is, or becomes, unconditional and:

    (A) the bidder has a relevant interest in more than 50% of the Ordinary Shares on issue; or

    (B) the Directors issue a statement that at least a majority of the Directors who are eligible to do so recommend acceptance of the offer (which may be stated to be in the absence of a higher offer); or

  (ii) a court approves a scheme of arrangement which, when implemented, will result in a person other than the Issuer having a relevant interest in more than 50% of Ordinary Shares; and

(b) all regulatory approvals necessary for the acquisition to occur have been obtained.

Acquisition Event Notice has the meaning given in clause 7.1.

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

Adjustment Notice has the meaning given in clause 8.8.

Applicable Franking Period has the meaning given in clause 3.2.

Applicable Regulations means such provisions of the ASX Listing Rules, the ASX Settlement Operating Rules, the ASX Operating Rules, the Corporations Act and any regulations or rules pursuant under or pursuant to any such provisions as may be applicable to the transfer.

APRA means the Australian Prudential Regulation Authority or any authority succeeding to its powers and responsibilities.

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.

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

Attorney has the meaning given in clause 11.1.

Bookbuild means the process conducted prior to the opening of the Offer whereby certain investors and brokers lodge bids for Capital Notes and, on the basis of those bids, the Issuer determines the Margin and announces its determination of the Margin prior to the opening of the Offer.

Business Day means:

(a) a day which is a business day within the meaning of the ASX Listing Rules; and

(b) for the purposes of calculation or payment of Distributions or any other amount, a day on which banks are open for business in Sydney, New South Wales.

Buy-Back means a transaction involving the acquisition by the Issuer of Ordinary Shares pursuant to an offer made at the Issuer's discretion in any way permitted by the provisions of Part 2J of the Corporations Act.

Capital Note has the meaning given in clause 1.1.

Capital Reduction means a reduction in capital initiated by the Issuer in its discretion in respect of Ordinary Shares in any way permitted by the provisions of Part 2J of the Corporations Act.

Challenger Capital Notes 1 means the perpetual, subordinated, unsecured notes issued by the Issuer on 9 October 2014 and constituted by the trust deed between the Issuer and The Trust Company (Australia) Limited (ABN 21 000 000 993) dated 27 August 2014, as amended and restated on 3 September 2014.

Challenger Capital Notes 2 means the perpetual, subordinated, unsecured notes issued by the Issuer on 7 April 2017 and constituted by the trust deed between the Issuer and Australian Executor Trustees Limited (ABN 84 007 869 794) dated 28 February 2017.

Challenger Group means the Issuer and its Controlled Entities.

Challenger Shares means Ordinary Shares or any other shares in the capital of the Issuer.

CHESS means the Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited (ABN 49 008 504 532) or any system that replaces it and which is relevant to the Capital Notes (including in respect of the transfer or Conversion of the Capital Notes).

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

Control has the meaning given in the Corporations Act.

Controlled Entity means, in respect of the Issuer, an entity the Issuer Controls.

Conversion means, in relation to a Capital Note, the conversion of the Capital Note into an Ordinary Share in accordance with and subject to clause 8 as it may be amended. **Convert, Converting** and **Converted** have corresponding meanings.

Conversion Number has the meaning given in clause 8.1.

Conversion Test Date Percentage has the meaning given in clause 4.3.

Corporations Act means the *Corporations Act 2001* (Cth).

CS Facility has the same meaning as "prescribed CS Facility" in the Corporations Act.

CS Facility Operator means the operator of a CS Facility.

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

Defaulting Nominated Purchaser has the meaning given in clause 10.6.

Deferred Acquisition Conversion Notice has the meaning given in clause 7.5.

Deferred Conversion Date has the meaning given in clause 6.6.

Deferred Conversion Notice has the meaning given in clause 6.6.

Delisting Event means, in respect of a date, that:

(a) the Issuer has ceased to be listed or Ordinary Shares have ceased to be quoted on ASX on or before that date (and where the cessation occurred before that date, the Issuer or the Ordinary Shares continue not to be listed or quoted (as applicable) on that date);

(b) trading of Ordinary Shares on ASX is suspended for a period of consecutive days which includes:

  (i) at least five consecutive Business Days prior to that date; and

  (ii) that date; or

(c) an Inability Event subsists.

Directors means some or all of the directors of the Issuer acting as a board.

Distribution has the meaning given in clause 3.1.

Distribution Payment Date has the meaning given in clause 3.5.

Distribution Period means in respect of:

(a) the first Distribution Period, the period from (and including) the Issue Date until (but not including) the first Distribution Payment Date after the Issue Date; and

(b) each subsequent Distribution Period, the period from (and including) the preceding Distribution Payment Date until (but not including) the next Distribution Payment Date.

Distribution Rate has the meaning given in clause 3.1.

Dividend means any interim, final or special dividend payable in accordance with the Corporations Act and the Issuer's constitution in relation to Ordinary Shares.

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 (including any security interest under the *Personal Property Securities Act 2009* (Cth)) and any other arrangement of any kind having the same effect as any of the foregoing other than liens arising by operation of law.

Exchange means:

(a) Conversion in accordance with and subject to clause 8;

(b) Redemption in accordance with and subject to clause 9;

(c) Resale in accordance with clause 10; or

(d) a combination of two or more of Conversion, Redemption or Resale in accordance with clause 6.3(b),

and **Exchanged** has a corresponding meaning.

Exchange Date has the meaning given in clause 6.2(b).

Exchange Method has the meaning given in clause 6.3.

Exchange Notice has the meaning given in clause 6.1.

External Administrator means, in respect of a person:

(a) a liquidator, a provisional liquidator, an administrator or a statutory 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,

or in either case any similar official.

Face Value means the principal amount of a Capital Note, being A$100.

FATCA means the *Foreign Account Tax Compliance Act* provisions, being Sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (or any consolidation, amendment, re-enactment or replacement of those sections and including any current or future regulations or official interpretations issued, agreements entered into or non-US laws enacted with respect to those provisions).

FATCA Withholding means any withholding or deduction imposed or required pursuant to FATCA.

First Mandatory Conversion Condition has the meaning given in clause 4.3.

First Optional Conversion Restriction has the meaning given in clause 6.5.

First Test Date has the meaning given in clause 4.3.

First Test Date Percentage has the meaning given in clause 4.3.

Foreign Holder means a Holder whose address in the Register is a place outside Australia or who the Issuer otherwise believes may not be a resident of Australia.

Franking Period means the franking period within the meaning of Part 3-6 of the Tax Act or any provisions that revise or replace that part applicable to the Issuer.

Franking Rate (expressed as a decimal) means the franking percentage (within the meaning of Part 3-6 of the Tax Act or any provisions that revise or replace that Part) applicable to the franking account of the Issuer at the relevant Distribution Payment Date, as determined by the Issuer in accordance with clause 3.2.

Holder means, in respect of a Capital Note, the person whose name is entered on the Register as the holder of that Capital Note.

Holder Resolution means a resolution passed:

(a) at a meeting of Holders of the Capital Notes, duly called and held under the Meeting Provisions:

   (i) by at least 50% of the persons voting on a show of hands (unless paragraph (b) below applies); or

   (ii) if a poll is duly demanded, by a majority consisting of at least 50% of the votes cast; or

(b) by postal ballot or written resolution under the Meeting Provisions by Holders representing (in aggregate) at least 50% of the aggregate Face Value of the outstanding Capital Notes.

Inability Event means the Issuer is prevented by applicable law, or order of any court, or action of any government authority (including regarding the insolvency, winding-up or other external administration of the Issuer) or any other reason from Converting the Capital Notes.

Issue Date means the date on which the issue and allotment of Capital Notes to successful applicants is completed, in accordance with these Terms.

Issue Date VWAP means the VWAP during the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Issue Date, as adjusted in accordance with clauses 8.4 to 8.7 (inclusive).

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

Life Insurance Act means the *Life Insurance Act 1995* (Cth).

Mandatory Conversion means the mandatory conversion of Capital Notes to Ordinary Shares on the Mandatory Conversion Date in accordance with clause 4.

Mandatory Conversion Conditions has the meaning given in clause 4.3.

Mandatory Conversion Date has the meaning given in clause 4.2.

Margin has the meaning given in clause 3.1.

Maximum Conversion Number has the meaning given in clause 8.1.

Meeting Provisions means the provisions for meetings of the Holders set out in schedule 2 to the Trust Deed.

Nominated Purchasers means, subject to clause 10.3, one or more third parties selected by the Issuer in its absolute discretion.

Nominee has the meaning given in clause 8.10.

Non-Conversion Notice has the meaning given in clause 4.4.

Non-Conversion Test Date has the meaning given in clause 6.5.

Non-Viability Conversion means the Conversion of Capital Notes to Ordinary Shares on the Non-Viability Conversion Date in accordance with clause 5.

Non-Viability Conversion Date has the meaning given in clause 5.2.

Non-Viability Trigger Event has the meaning given in clause 5.1.

Non-Viability Trigger Event Notice has the meaning given in clause 5.2.

Offer means the invitation under the Prospectus made by the Issuer for persons to subscribe for Capital Notes.

Optional Conversion Restrictions has the meaning given in clause 6.5.

Optional Exchange Date means 25 May 2026.

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

Payment Condition means, with respect to the payment of a Distribution on the Capital Notes on a Distribution Payment Date:

(a) the consolidated retained earnings of the Challenger Group as at the Distribution Payment Date are, or would on payment of the Distribution become, negative;

(b) the payment would result in the Issuer becoming, or being likely to become, insolvent for the purposes of the Corporations Act; or

(c) APRA objecting to the payment.

Potential Acquisition Event means:

(a) an event within paragraph (a) of the definition of Acquisition Event occurs (without the need that all regulatory approvals necessary for the acquisition to occur have been obtained); or

(b) a court orders the holding of meetings to approve a scheme of arrangement under Part 5.1 of the Corporations Act and the scheme would result in a person having a relevant interest in more than 50% of the Ordinary Shares that will be on issue after the scheme is implemented.

Preference Share means a notional preference share in the capital of the Issuer conferring a claim in the winding up of the Issuer equal to the Redemption Price and ranking in respect of return of capital in the winding up ahead only of Ordinary Shares and equally with Relevant Perpetual Subordinated Instruments.

Proceeds means the net proceeds of a sale of Ordinary Shares attributable to the Holder actually received by the Nominee calculated after deduction of any applicable brokerage, stamp duty and other taxes and charges, including the Nominee's reasonable out of pocket costs, expenses and charges properly incurred by it or on its behalf in connection with such sale from the sale price of the Ordinary Shares.

Prospectus means the prospectus relating to the Offer dated on or about 13 October 2020 published by the Issuer and any supplementary or replacement prospectus.

Publication Time has the meaning given in clause 3.1.

Rate Disruption Event has the meaning given in clause 3.1.

Record Date means, for payment of a Distribution:

(a) the date which is eight calendar days before the Distribution Payment Date for that Distribution (or, in the case of the first Distribution Payment Date, if the Issue Date is less than eight calendar days before the first Distribution Payment Date, the Issue Date); or

(b) such other date as is determined by the Issuer in its absolute discretion, subject to compliance with any relevant requirements under the ASX Listing Rules and provided that such new date is communicated to ASX not less than seven Business Days before the specified Record Date,

or in either case such other date as may be required by ASX.

Redemption means the redemption of a Capital Note in accordance with clause 9 and the words **Redeem**, **Redeemable** and **Redeemed** have corresponding meanings.

Redemption Price has the meaning given in clause 9.2.

Register means the register of Holders (established and maintained under clause 13 of the Trust Deed) and, where appropriate, the term Register includes:

(a) a sub-register maintained by or for the Issuer under the Corporations Act, the ASX Listing Rules or the ASX Settlement Operating Rules; and

(b) any branch register.

Registrar means Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other person appointed by the Issuer to maintain the Register and perform any payment and other duties as specified in that agreement.

Regulatory Event means:

(a) the receipt by the Directors of an opinion from a reputable legal counsel that, as a result of any amendment to, clarification of or change (including any announcement of a change that will be introduced) in any law or regulation or any official administrative pronouncement or action or judicial decision interpreting or applying such laws or regulations which amendment, clarification or change is effective, or pronouncement, action or decision is announced, on or after the Issue Date (and which the Issuer does not expect, as at the Issue Date, may come into effect) (a **Change in Law**), additional requirements would be imposed on the Issuer in relation to or in connection with Capital Notes which the Directors determine, in their absolute discretion, would have a not insignificant adverse impact on it; or

(b) as a result of a Change in Law or a statement received from APRA, the Directors determine that the Issuer is not or will not be entitled to treat some or all Capital Notes as a Relevant Perpetual Subordinated Instrument, (including where APRA has notified the Issuer in writing that it objects to the Challenger Group using or having used the proceeds of the Capital Notes to fund Additional Tier 1 Capital of CLC) except where the reason the Issuer is not or will not be entitled to treat some or all Capital Notes as a Relevant Perpetual Subordinated Instrument is because of a prudential limit or other restriction which is in effect on the Issue Date or which on the Issue Date is expected by the Issuer may come into effect.

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

Relevant Date has the meaning given in clause 4.2.

Relevant Distribution Payment Date has the meaning given in clause 3.8.

Relevant Fraction has the meaning given in clause 8.1.

Relevant Perpetual Subordinated Instrument means a perpetual subordinated instrument (whether in the form of a note, preference share or other security or obligation) issued by the Issuer or another member of the Challenger Group which:

(a) in accordance with its terms or by operation of law, is capable of being converted into Ordinary Shares or written-off where APRA makes a determination as referred to in clause 5.1(a); and

(b) has been confirmed in writing by APRA to the Issuer as constituting as at the date of its issue an instrument the proceeds of which APRA does not object to the Challenger Group using to fund Additional Tier 1 Capital of CLC,

and, for so long as they remain outstanding, includes the Capital Notes, the Challenger Capital Notes 1 and the Challenger Capital Notes 2.

Relevant Time means, in the case of:

(a) payment of a Distribution, 7.00 pm (or such other time as may be prescribed by ASX or, if not prescribed by ASX, a time determined by the Issuer and notified to ASX); and

(b) payments of the Redemption Price, a time determined by the Issuer and notified to ASX (or such other time as may be prescribed by ASX).

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

Replacement Rate has the meaning given in clause 3.1.

Resale means the sale of a Capital Note to a Nominated Purchaser in accordance with clause 10, and **Resold** and **Resell** have corresponding meanings.

Resale Price means, for a Capital Note, a cash amount equal to its Face Value.

Restricted Securities has the same meaning as in the ASX Listing Rules and extends to Capital Notes which are subject to voluntary restrictions by agreement between the Issuer and one or more Holders.

Restriction Agreement means an agreement which is required to be concluded under Chapter 9 of the ASX Listing Rules or is voluntarily concluded between the Issuer and one or more Holders.

Scheduled Mandatory Conversion Date has the meaning given in clause 4.2.

Second Mandatory Conversion Condition has the meaning given in clause 4.3.

Second Optional Conversion Restriction has the meaning given in clause 6.5.

Second Test Period has the meaning given in clause 4.3.

Senior Creditors means all creditors of the Issuer (present and future), including all holders of the Issuer's senior or subordinated debt whose claims:

(a) are admitted in a winding-up of the Issuer; and

(b) are not in respect of a Relevant Perpetual Subordinated Instrument.

Special Resolution means:

(a) a resolution passed at a meeting of the Holders duly called and held under the Meeting Provisions:
  (i) by at least 75% of the persons voting on a show of hands (unless paragraph (b) below applies); or
  (ii) if a poll is duly demanded, then by a majority consisting of at least 75% of the votes cast; or

(b) a resolution passed by postal ballot or written resolution under the Meeting Provisions by Holders representing (in aggregate) at least 75% of the aggregate Face Value of the outstanding Capital Notes.

Subsequent Mandatory Conversion Date has the meaning given in clause 4.2.

Tax Act means:

(a) the Income *Tax Assessment Act 1936* (Cth) or the *Income Tax Assessment Act 1997* (Cth) as the case may be and a reference to any section of the *Income Tax Assessment Act 1936* (Cth) includes a reference to that section as rewritten in the *Income Tax Assessment Act 1997* (Cth); and
(b) any other law setting the rate of income tax payable; and
(c) any regulation made under any of those laws.

Tax Event means the receipt by the Directors of an opinion from a reputable legal counsel or other tax adviser in Australia experienced in such matters to the effect that, as a result of any change in, or amendment to, the laws in force in Australia affecting taxation (or any change in their application or official or judicial interpretation) which change or amendment becomes effective on or after the Issue Date and which was not expected by the Issuer on the Issue Date, there is more than an insubstantial risk which the Issuer determines at its absolute discretion to be unacceptable that:

(a) any Distribution would not be a frankable distribution within the meaning of Division 202 of the Tax Act; or
(b) the Issuer would be exposed to a more than insignificant increase in its costs, charges and expenses (including without limitation through the imposition of any Taxes or assessments) in relation to Capital Notes.

Tax Rate has the meaning given in clause 3.1.

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.

Terms means these terms and conditions.

Transfer has the meaning given in the ASX Settlement Operating Rules.

Trust Deed means the deed entitled "Challenger Capital Notes 3 Trust Deed" between the Issuer and the Trustee and dated on or about 13 October 2020.

Trustee means Equity Trustees Limited (ABN 46 004 031 298).

VWAP means, subject to any adjustments under clause 8, the average of the daily volume weighted average sale prices (such average being rounded to the nearest full cent) of Ordinary Shares sold on ASX during the relevant period or on the relevant days 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 Operating Rules, or any overseas trades or trades pursuant to the exercise of options over Ordinary Shares.

VWAP Period means:

(a) in the case of a Conversion resulting from a Potential Acquisition Event or an Acquisition Event, the lesser of:
  (i) 20 Business Days on which trading in Ordinary Shares takes place; and
  (ii) the number of Business Days on which trading in Ordinary Shares takes place and on which Ordinary Shares are quoted for trading on ASX after the occurrence of the Potential Acquisition Event or Acquisition Event (as the case may be),

  in each case immediately preceding (but not including) the Business Day before the Exchange Date or Acquisition Conversion Date in respect of that event (as the case may be);
(b) in the case of a Conversion resulting from a Non-Viability Trigger Event, the period of five Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Non-Viability Conversion Date;
(c) in the case of any other Conversion, the period of 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the date on which Conversion is to occur in accordance with these Terms; or
(d) otherwise, the period for which VWAP is to be calculated in accordance with these Terms.

Winding-up Event has the meaning given in clause 16.1.

Written-Off has the meaning given in clause 8.13 and **Write-Off** has a corresponding meaning.

Appendix B
Glossary

This Appendix provides a glossary of key terms and abbreviations used throughout this Prospectus and the attached, or accompanying, Application Form. There is also a list of further defined terms in clause 18.2 of the Terms immediately prior to this Glossary.

Term	Meaning
ABN	Australian Business Number.
ACCC	Australian Competition and Consumer Commission.
Acquisition Conversion Date	Has the meaning given in clause 7.3 of the Terms.
Acquisition Conversion Notice	Has the meaning given in clause 7.2 of the Terms. See also Section 2.5.2 of this Prospectus.
Acquisition Event	Has the meaning given in clause 18.2 of the Terms. See also Section 2.5.1 of this Prospectus.
Additional Tier 1 Capital	Additional Tier 1 Capital as defined by APRA from time to time.
ADI	Authorised deposit-taking institution.
AFSL	Australian Financial Services Licence.
Anti-Money Laundering and Counter-Terrorism Financing Act	*Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth).
Applicable Resident Note Holders	Resident Note Holders who acquire their Challenger Capital Notes 3 by initial subscription and hold them on capital account for tax purposes.
Applicant	A person who submits an Application.
Application	A valid application made pursuant to either: • the applicable Application Form; or • in respect of the Institutional Offer, a duly completed confirmation letter or by such other procedure advised by the Joint Lead Managers.
Application Form	Each of the application forms attached to, or accompanying, this Prospectus upon which an Application may be made (or in the case of the Repurchase Invitation, upon which a tender of Challenger Capital Notes 1 under the Repurchase Invitation may be submitted), being either: • the personalised paper application form provided to Eligible Securityholders under the Securityholder Offer; • the personalised paper application form provided to Eligible CCN1 Holders under the Reinvestment Offer and the Repurchase Invitation; • the broker firm application form in the back of this Prospectus to be used by broker firm Applicants under the Broker Firm Offer; or • the electronic application form provided online to Eligible Securityholders under the Securityholder Offer and to Eligible CCN1 Holders under the Reinvestment Offer and the Repurchase Invitation.
Application Payment	The monies payable on each Application, calculated as the number of Challenger Capital Notes 3 applied for multiplied by the Face Value.
APRA	Australian Prudential Regulation Authority or any authority succeeding to its powers and responsibility.
Arranger	National Australia Bank Limited, UBS AG, Australia Branch and Westpac Institutional Bank.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691), or the securities market operated by it, as the context requires, or any successor.
ASX Listing Rules	The listing rules of ASX, as amended, varied or waived (whether in respect of Challenger or generally) from time to time.
ATO	Australian Taxation Office.
Attorney	Has the meaning given in clause 11.1 of the Terms.

Term	Meaning
AUSTRAC	The Australian Transaction Reports and Analysis Centre.
Bank Bill Rate	Has the meaning given in clause 3.1 of the Terms. See also Section 2.1.3 of this Prospectus.
Board	The board of directors of Challenger.
Bookbuild	The process described in Section 7.6 to determine the Margin.
Broker Firm Offer	The offer of Challenger Capital Notes 3 under this Prospectus to clients of Syndicate Brokers, resident in Australia who have received a firm allocation from their Syndicate Broker.
Business Day	A business day as defined in the ASX Listing Rules, and for the purposes of calculation or payment of Distributions or any other amount, a day on which banks are open for business in Sydney, New South Wales.
CCN1 Exchange Notice	The 'Exchange Notice' (as that term is defined in the CCN1 Terms) issued by Challenger in accordance with the CCN1 Terms on the date of this Prospectus.
CCN1 Holder	In relation to a Challenger Capital Note 1, the person whose name is registered in the Register as the holder of a Challenger Capital Note 1.
CCN1 Nominated Purchaser	UBS AG, Australia Branch (ABN 47 088 129 613, AFSL 231087).
CCN1 Resale	The purchase of Challenger Capital Notes 1 by the CCN1 Nominated Purchaser on 25 November 2020 pursuant to the CCN1 Exchange Notice and the terms of the Reinvestment Offer.
CCN1 Resale Proceeds	$100 per Reinvestment CCN1 acquired by the CCN1 Nominated Purchaser pursuant to the CCN1 Exchange Notice.
CCN1 Terms	Terms and conditions of Challenger Capital Notes 1, as amended from time to time.
CFI	Conduit foreign income.
CGT	Capital gains tax.
Challenger	Challenger Limited (ABN 85 106 842 371), the parent company of the Challenger Group.
Challenger Capital Notes 1 or CCN1	The perpetual, subordinated, unsecured notes issued by Challenger on 9 October 2014 and constituted by the trust deed between Challenger and The Trust Company (Australia) Limited (ABN 21 000 000 993) dated 27 August 2014, as amended and restated on 3 September 2014.
Challenger Capital Notes 2	The perpetual, subordinated, unsecured notes issued by Challenger on 7 April 2017 and constituted by the trust deed between Challenger and Australian Executor Trustees Limited (ABN 84 007 869 794) dated 28 February 2017.
Challenger Capital Notes 3	The non-cumulative, convertible, transferable, redeemable, subordinated, perpetual and unsecured notes to be issued by Challenger under this Prospectus.
Challenger Group	The statutory consolidated group comprising Challenger and its subsidiaries. The Challenger Group and its activities are described in Section 4.
CHESS	Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited (ABN 49 008 504 532) or any system that replaces it and which is relevant to the Challenger Capital Notes 3 (including in respect of the transfer or Conversion of the Challenger Capital Notes 3).
Class Ruling	Public class ruling.
CLC	Challenger Life Company Limited (ABN 44 072 486 938, AFSL 234670).
Closing Date	The last date by which Applications must be lodged for the Offer, expected to be: • 5:00pm (Sydney time) on 13 November 2020 for the Securityholder Offer, the Reinvestment Offer and the Broker Firm Offer (unless varied); or • 5:00pm (Sydney time) on 18 November 2020 for the Repurchase Invitation (unless varied).
Co-Managers	Bell Potter Securities Limited, Crestone Wealth Management Limited and Morgans Financial Limited.
Commissioner	Commissioner of Taxation.
Common Equity Tier 1 Capital	Common Equity Tier 1 Capital as defined by APRA from time to time.

Term	Meaning
Competition and Consumer Act	*Competition and Consumer Act 2010* (Cth).
Constitution	The constitution of Challenger, as amended from time to time.
Conversion	Has the meaning given in clause 18.2 of the Terms (Convert, Converting and Converted have corresponding meanings).
Conversion Number	Has the meaning given in clause 8.1 of the Terms.
Conversion Test Date Percentage	Has the meaning given in clause 4.3 of the Terms.
Corporations Act	*Corporations Act 2001* (Cth).
CPI	The Consumer Price Index, Australia, published by the Australian Bureau of Statistics.
Customer Reference Number	The unique number provided in the BPAY details section of the Application Form.
DDOPIP Legislation	*Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019* (Cth).
Delisting Event	Has the meaning given in clause 18.2 of the Terms.
Directors	Some or all of the directors of Challenger acting as a board or the individuals who are the directors of Challenger (as the context requires).
Distribution	Has the meaning given in clause 3.1 of the Terms. See also Section 2.1.1 of this Prospectus.
Distribution Payment Date	Has the meaning given in clause 3.5 of the Terms. See also Section 2.1.6 of this Prospectus.
Distribution Period	Has the meaning given in clause 18.2 of the Terms.
Distribution Rate	Has the meaning given in clause 3.1 of the Terms. See also Sections 2.1.2, 2.1.3 and 2.1.4 of this Prospectus.
Distribution Restriction	The restriction described in Sections 2.1.8 and 6.1.14 of this Prospectus.
DWT	Dividend withholding tax.
Eligible CCN1 Holder	A CCN1 Holder who is registered as a holder of Challenger Capital Notes 1 at 7:00pm (Sydney time) on 8 October 2020 (Challenger Capital Notes 1 must also be held on the Closing Date) and, unless otherwise determined by Challenger, is: • shown on the Challenger Capital Notes 1 register as having an address in Australia; • not an individual residing in a member state of the European Union; and • not in the United States or acting as a nominee for, or for the account or benefit of, a U.S. Person, and not otherwise prevented from receiving the Reinvestment Offer or Challenger Capital Notes 3 under the laws of any jurisdiction.
Eligible Securityholder	A person who is: • a registered holder of Ordinary Shares, Challenger Capital Notes 1 or Challenger Capital Notes 2 at 7:00pm (Sydney time) on 8 October 2020; • shown on the applicable register as having an address in Australia; and • not in the United States, or acting as a nominee for a person in the United States.
Ernst & Young	Ernst & Young (ABN 75 288 172 749).
Exchange	Has the meaning given in clause 18.2 of the Terms (Exchanged has a corresponding meaning).
Exchange Date	Has the meaning given in clause 6.2(b) of the Terms. See also Section 2.3 of this Prospectus.
Exchange Method	Has the meaning given in clause 6.3 of the Terms.
Exchange Notice	Has the meaning given in clause 6.1 of the Terms.
Expiry Date	The date which is 13 months after 13 October 2020.
Exposure Period	The seven-day period after the date this Prospectus was lodged with ASIC during which the Corporations Act prohibits the acceptance of Applications.
External Administrator	Has the meaning given in clause 18.2 of the Terms.

Term	Meaning
Face Value	The face value and issue price of Challenger Capital Notes 3, being $100 per Challenger Capital Note 3.
FATCA	*The Foreign Account Tax Compliance Act* provisions, being sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (or any consolidation, amendment, re-enactment or replacement of those sections and including any current or future regulations or official interpretations issued, agreements, including intergovernmental agreements, entered into, or non-US laws enacted with respect to those provisions).
FATCA Withholding	Any withholding or deduction imposed or required pursuant to FATCA.
Financial Claims Scheme	The Financial Claims Scheme for authorised deposit-taking institutions administered by APRA.
First Mandatory Conversion Condition	Has the meaning given in clause 4.3 of the Terms.
First Test Date Percentage	Has the meaning given in clause 4.3 of the Terms.
Foreign Holder	Has the meaning given in clause 18.2 of the Terms. See also Section 2.7.4 of this Prospectus.
FSTR Act	*Financial Sector (Transfer and Restructure) Act 1999* (Cth).
Greenwoods & Herbert Smith Freehills	Greenwoods & Herbert Smith Freehills Pty Limited (ABN 60 003 146 852).
GST	Has the meaning given by section 195-1 of the A New Tax System (Goods and Services Tax) Act 1999 (Cth).
HIN	Holder Identification Number for Ordinary Shares or Challenger Capital Notes 3 (when issued) held on the CHESS subregister.
Holder	In relation to a Challenger Capital Note 3, the person whose name is registered in the Register as the holder of a Challenger Capital Note 3.
Holder Resolution	Has the meaning given in clause 18.2 of the Terms.
Holding Statement	A statement issued to Holders by the Registry which sets out details of Challenger Capital Notes 3 issued to them under the Offer.
IFRS	International Financial Reporting Standards.
Inability Event	Has the meaning given in clause 18.2 of the Terms. See also Section 2.4.6 of this Prospectus.
Institutional Investor	An investor to whom offers or invitations in respect of Challenger Capital Notes 3 can be made without the need for a lodged prospectus (or other formality, other than a formality which Challenger is willing to comply with), including in Australia persons to whom offers or invitations can be made without the need for a lodged prospectus under section 708 of the Corporations Act, and who has been invited by the Joint Lead Managers to bid for Challenger Capital Notes 3 in the Bookbuild, provided that such investor may not be in the United States.
Institutional Offer	The invitation by the Joint Lead Managers to Institutional Investors to bid for Challenger Capital Notes 3 in the Bookbuild.
Issue Date	The date on which the issue of Challenger Capital Notes 3 to successful Applicants is completed in accordance with the Terms, expected to be 25 November 2020.
Joint Lead Managers	National Australia Bank, UBS and Westpac Institutional Bank.
Life Insurance Act	*Life Insurance Act 1995* (Cth).
Mandatory Conversion	Has the meaning given in clause 18.2 of the Terms. See also Section 2.2.1 of this Prospectus.
Mandatory Conversion Conditions	Has the meaning given in clause 4.3 of the Terms. See also Section 2.2.4 of this Prospectus.
Mandatory Conversion Date	Has the meaning given in clause 4.2 of the Terms. See also Section 2.2.3 of this Prospectus.
Margin	Has the meaning given in clause 3.1 of the Terms. See also Section 2.1.2 of this Prospectus.
Maximum Conversion Number	Has the meaning given in clause 8.1 of the Terms. See also Section 2.2.7 of this Prospectus.
National Australia Bank	National Australia Bank Limited (ABN 12 004 044 937).

Term	Meaning
Nominee	Has the meaning given in clause 8.10 of the Terms. See also Section 2.7.4 of this Prospectus.
Non-Conversion Test Date	Has the meaning given in clause 6.5 of the Terms. See also Section 2.3.5 of this Prospectus.
Non-Resident Note Holders	Holders of Challenger Capital Notes 3 who are not tax residents of Australia.
Non-Viability Conversion	Has the meaning given in clause 18.2 of the Terms. See also Section 2.4 of this Prospectus.
Non-Viability Conversion Date	Has the meaning given in clause 5.2 of the Terms. See also Section 2.4.4 of this Prospectus.
Non-Viability Trigger Event	Has the meaning given in clause 5.1 of the Terms. See also Section 2.4.2 of this Prospectus.
NPAT	Net profit after tax.
Offer	The offer by Challenger of Challenger Capital Notes 3 under this Prospectus to raise $250 million, with the ability to raise more or less, and incorporates the Securityholder Offer, Institutional Offer, Reinvestment Offer and Broker Firm Offer.
Offer & Repurchase Information Line	1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).
Offer Management Agreement	The offer management agreement entered into between Challenger and the Joint Lead Managers, as described in Section 9.13.
Offer Period	The period from the Opening Date to the Closing Date.
Opening Date	The day the Offer opens, being 21 October 2020, unless varied.
Optional Conversion Restrictions	Has the meaning given in clause 6.5 of the Terms. See also Section 2.3.5 of this Prospectus.
Optional Exchange Date	Has the meaning given in clause 18.2 of the Terms. See also Section 2.3 of this Prospectus.
Ordinary Share	A fully paid ordinary share in the capital of Challenger.
Payment Conditions	Has the meaning given in clause 18.2 of the Terms. See also Section 2.1.7 of this Prospectus.
Potential Acquisition Event	Has the meaning given in clause 18.2 of the Terms. See also Section 2.3.3 of this Prospectus.
Privacy Act	*Privacy Act 1988* (Cth).
Prospectus	This document (including the electronic form of this document), and any supplementary or replacement prospectus in relation to this document, including the Terms.
Rate Disruption Event	Has the meaning given in clause 3.1 of the Terms.
Record Date	Has the meaning given in clause 18.2 of the Terms.
Redemption	Has the meaning given in clause 18.2 of the Terms (Redeem and Redeemed have corresponding meanings).
Redemption Price	Has the meaning given in clause 9.2 of the Terms.
Register	The register of Holders maintained by the Registry on Challenger's behalf, including any subregisters or branch register established and maintained by, or on behalf of Challenger.
Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registry that Challenger appoints to maintain the Register.
Regulatory Event	Has the meaning given in clause 18.2 of the Terms. See also Section 2.3.3 of this Prospectus.
Reinvestment CCN1	Challenger Capital Notes 1 held by an Eligible CCN1 Holder that are, or are to be, reinvested in Challenger Capital Notes 3, under the terms of the Reinvestment Offer.
Reinvestment Offer	The invitation to Eligible CCN1 Holders to reinvest the CCN1 Resale Proceeds relating to all or some of their Challenger Capital Notes 1 into Challenger Capital Notes 3 under this Prospectus.
Related Entity	Has the meaning given by APRA from time to time.
Relevant Fraction	Has the meaning given in clause 8.1 of the Terms.
Relevant Perpetual Subordinated Instrument	Has the meaning given in clause 18.2 of the Terms and includes Challenger Capital Notes 1, Challenger Capital Notes 2 and Challenger Capital Notes 3 (when issued). See also Section 2.6.4 of this Prospectus.
Relevant Time	Has the meaning given in clause 18.2 of the Terms.

Term	Meaning
Replacement Rate	Has the meaning given in clause 3.1 of the Terms.
Repurchase Booklet	The booklet entitled 'Challenger Capital Notes Repurchase Booklet' containing the terms of the Repurchase Invitation and accompanying this Prospectus.
Repurchase CCN1	All Challenger Capital Notes 1 that have been offered by Eligible CCN1 Holders under the Repurchase Invitation and accepted by Challenger and the CCN1 Nominated Purchaser for $100 per Challenger Capital Note 1.
Repurchase Invitation	The invitation to CCN1 Holders to have all of their Challenger Capital Notes 1 repurchased by the CCN1 Nominated Purchaser for the face value of $100 per Challenger Capital Note 1 on the terms and conditions set out in the Repurchase Booklet.
Resale	Has the meaning given in clause 18.2 of the Terms (Resold and Resell have corresponding meanings).
Resale Price	Has the meaning given in clause 18.2 of the Terms.
Resident Note Holders	Holders of Challenger Capital Notes 3 who are tax residents of Australia.
Second Mandatory Conversion Condition	Has the meaning given in clause 4.3 of the Terms. See also Section 2.2.4 of this Prospectus.
Securityholder Offer	The offer to Eligible Securityholders to apply for Challenger Capital Notes 3 under this Prospectus.
Senior Creditors	Has the meaning given in clause 18.2 of the Terms.
Special Resolution	Has the meaning given in clause 18.2 of the Terms.
SRN	Securityholder Reference Number for Ordinary Shares, Challenger Capital Notes 1, Challenger Capital Notes 2 or Challenger Capital Notes 3 (when issued) held on the issuer sponsored subregister.
Syndicate Broker	Any of the Joint Lead Managers and any Co-Manager and brokers appointed by the Joint Lead Managers following consultation with Challenger.
Tax Event	Has the meaning given in clause 18.2 of the Terms. See also Section 2.3.3 of this Prospectus.
Terms	Terms and conditions of Challenger Capital Notes 3 as set out in Appendix A to this Prospectus, as amended from time to time.
TFN	Tax File Number.
Third Mandatory Conversion Condition	Has the meaning given in clause 4.3 of the Terms. See also Section 2.2.4 of this Prospectus.
Tier 1 Capital	Tier 1 Capital as defined by APRA from time to time.
Tier 2 Capital	Tier 2 Capital as defined by APRA from time to time.
TOFA	Taxation of financial arrangements.
Transaction Document	The Trust Deed and any other document agreed by the parties to the Trust Deed to be a Transaction Document under the terms of the Trust Deed.
Trust	The trust constituted by the Trust Deed.
Trust Deed	The trust deed between Challenger and the Trustee, dated on or about the date of this Prospectus.
Trustee	Equity Trustees Limited (ABN 46 004 031 298).
Trustee Default	Has the meaning given in the Trust Deed.
UBS	UBS AG, Australia Branch (ABN 47 088 129 613, AFSL 231087).
U.S. Person	Has the meaning given to it in Regulation S under the U.S. Securities Act.
U.S. Securities Act	*US Securities Act of 1933*, as amended.
VWAP	Has the meaning given in clause 18.2 of the Terms.
Westpac Institutional Bank	Westpac Institutional Bank, a division of Westpac Banking Corporation (ABN 33 007 457 141).
Winding-up Event	Has the meaning given in clause 16.1 of the Terms.
Written-Off	Has the meaning given in clause 8.13 of the Terms (Write-Off has a corresponding meaning).

Corporate directory

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Level 61, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Australian tax adviser
Greenwoods &
Herbert Smith Freehills Pty Limited
ANZ Tower
161 Castlereagh Street
Sydney NSW 2000

Auditor
Ernst & Young
200 George Street
Sydney NSW 2000

Registry
Computershare
Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

Trustee
Equity Trustees Limited
Level 19
56 Pitt Street
Sydney NSW 2000

Arrangers and Joint Lead Managers
Westpac Institutional Bank
Level 2, Westpac Place
275 Kent Street
Sydney NSW 2000

National Australia Bank Limited
Level 25, NAB House
255 George Street
Sydney NSW 2000

UBS AG, Australia Branch
Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Co-Managers
Bell Potter Securities Limited
Level 38, Aurora Place
88 Phillip Street
Sydney NSW 2000

Crestone Wealth Management Limited
Level 32, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Morgans Financial Limited
Level 29, Riverside Centre
123 Eagle Street
Brisbane QLD 4000

How to contact us
Please call the Offer & Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time)

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