Challenger
Capital Notes

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)

Structuring Adviser
UBS

Joint Lead Managers
J.P. Morgan
National Australia Bank
UBS
Westpac Institutional Bank

Co-Managers
JBWere
Ord Minnett

Important notices

About this Prospectus

This Prospectus relates to the offer by Challenger Limited (ABN 85 106 842 371) ('**Challenger**') of subordinated notes, Challenger Capital Notes ('**Notes**'), 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 27 August 2014 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. This Prospectus expires on the date which is 13 months after 27 August 2014 ('**Expiry Date**') and no Notes 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 Notes 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 Notes at $100 per Note to raise $250 million with the ability to raise more or less.

Notes 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.

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

Notes 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.

Notes are complex and may not be suitable for all investors. The investment performance of Notes is not guaranteed by Challenger or any other member of the Challenger Group. Notes 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 Notes, 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 Notes. 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.

Notes are unsecured notes for the purposes of section 283BH of the Corporations Act. Notes 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 Notes are further detailed in Section 5 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 Notes to be quoted on ASX. Notes are expected to trade under the ASX code '**CGFPA**'.

About the Trustee

The Trust Company (Australia) Limited ('**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 and 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 content in which it is named;
- have relied on Challenger for the accuracy of the contents of this Prospectus; and
- do not make any representation or warranty as to the performance of Challenger or its maintenance of capital, the performance of Notes, the payment of Distributions or Exchange of Notes, or the value of any Ordinary Shares issued (or their proceeds of sale) on Conversion.

Exposure Period

The Corporations Act prohibits Challenger from accepting Applications to subscribe for Notes 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 Notes.

Persons in Australia may, during the Offer Period, obtain a paper copy of this Prospectus (free of charge) by calling the Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia) Monday to Friday, 8:00am to 6:00pm (Sydney time), or by registering online to receive a Prospectus at www.challengercapitalnotes.com.au. A printable version of this Prospectus may be downloaded in its entirety by Eligible Shareholders from www.challengercapitalnotes.com.au.

Applications for Notes 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.

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 Notes. See Section 9.10 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 Notes. This means that, in most circumstances, Applicants may not withdraw their Applications once submitted.

Refunds

Applicants who are not issued any Notes, or are issued fewer Notes than the number applied and paid for as a result of a scale back, will have all or some of their Application Payments (as applicable) 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 Prospectus and Notes

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 Notes or the Offer or to otherwise permit a public offering of Notes outside Australia.

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

See Section 6.7.1 for further information.

Financial information and forward-looking statements

Section 4 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 4.

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 5, 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 – you should seek your own professional investment advice.

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 5.

If you do not understand any part of this Prospectus, or are in any doubt as to whether to invest in Notes 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.

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.

Enquiries

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

If you have any questions in relation to the Offer, please call the Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia) Monday to Friday, 8:00am to 6:00pm (Sydney time).

Chairman's letter

27 August 2014

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 ('**Notes**').

Challenger is a top 100 ASX-listed company 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 subsidiary of Challenger and is a life company registered under the Life Insurance Act and is regulated by the Australian Prudential Regulation Authority ('**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 Notes with the ability to raise more or less ('**Offer**'). Challenger will use the proceeds of Notes to fund the regulatory capital requirements of CLC resulting from annuity sales growth.

Notes 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 Notes will be entitled to receive floating rate, discretionary, non-cumulative distributions which are expected to be franked to the same level as dividends on Ordinary Shares.

Notes may be redeemed or resold for cash or converted by Challenger on 25 May 2020 (or on an earlier date in certain circumstances) subject to APRA's prior written approval. Otherwise, Notes will mandatorily convert into Ordinary Shares of Challenger on 25 May 2022 (subject to certain conditions being satisfied). If the conditions to mandatory conversion are not met on 25 May 2022 conversion will be deferred to a later date when the conditions are retested. The key features of Notes 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 5. The Terms of Notes are more complex than a simple debt or ordinary equity security.

If you have any questions in relation to the Shareholder Offer or General Offer, please call the Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia) Monday to Friday, 8:00am to 6:00pm (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 Notes.

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 day the Offer opens, being 4 September 2014.

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

Yours faithfully,

Peter Polson
Chairman

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How to apply for Notes

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' in Section 2; – 'Investment risks' in Section 5; and – Terms of Notes in Appendix A. • In considering whether to apply for Notes, it is important that you consider all risks and other information regarding an investment in Notes in light of your particular investment objectives and circumstances.
2. Speak to your professional adviser	• If you are unsure whether to apply for Notes, you should seek professional guidance from your stockbroker, solicitor, accountant or other independent and qualified professional adviser.
3. Consider ASIC guidance for retail investors	• ASIC has published guidance on its MoneySmart website which may be relevant to your consideration of Notes. You can find this guidance by searching 'hybrid securities' at www.moneysmart.gov.au. • The guidance includes a series of questions you should ask before you invest in hybrid securities, as well as a short quiz to check your understanding of how hybrids work, their features and risks.
4. Complete and submit your Application Form and Application Payment (as necessary)	• The Application process varies depending on whether you participate in the Institutional Offer, Broker Firm Offer, Shareholder Offer or General Offer. • If you have decided to apply for Notes under the Shareholder Offer or General Offer, you need to apply using the Application Form (either electronic or paper) attached to or accompanying this Prospectus. Your Application Payment (and paper Application Form, if paying by cheque or money order) must be received by the Closing Date for the Shareholder Offer and General Offer, expected to be 30 September 2014. • If you are applying under the Broker Firm Offer, you should contact your Syndicate Broker. Your Application must be received by the Closing Date for the Broker Firm Offer, expected to be 7 October 2014. • The Offer may close early, so you are encouraged to consider submitting your Application as soon as possible after the Opening Date. • See Section 6 for more details on how to apply.

Key dates

Key dates for the Offer	Date
Record date for determining Eligible Shareholders	19 August 2014
Lodgement of this Prospectus with ASIC	27 August 2014
Bookbuild to determine the Margin	3 September 2014
Announcement of the Margin	3 September 2014
Lodgement of the replacement prospectus with ASIC	4 September 2014
Opening Date	4 September 2014
Closing Date for the Shareholder Offer and the General Offer	30 September 2014
Closing Date for the Broker Firm Offer	7 October 2014
Issue Date	9 October 2014
Notes commence trading on ASX (deferred settlement basis)	10 October 2014
Holding Statements despatched by	14 October 2014
Notes commence trading on ASX (normal settlement basis)	15 October 2014

Key dates for Notes	Date
First Distribution Payment Date	25 February 2015
Optional Exchange Date	25 May 2020
Scheduled Mandatory Conversion Date	25 May 2022

Dates may change

These dates are indicative only and may change without notice.

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 Notes are issued.

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

1 Investment overview

This Section provides a summary of information that is key to a decision whether to invest in Challenger Capital Notes. Notes 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 more than $50 billion in assets (as at 30 June 2014) and, through its wholly-owned life company CLC, is the leading provider of annuities and guaranteed retirement incomes.	Section 3
What is the Offer size?	• The Offer is for the issue of Notes to raise $250 million with the ability to raise more or less.	Section 6.1
What are Challenger Capital Notes?	• Challenger Capital Notes have the following features: – **fully paid** – at $100 per Note; – **subordinated** – to claims of Senior Creditors, and rank equally with other Relevant Perpetual Subordinated Instruments if issued (see Section 2.6.4) and ahead of Ordinary Shares; – **convertible** – in certain circumstances, Challenger will be required to Convert Notes into Ordinary Shares and in certain circumstances Challenger may elect to Convert Notes into Ordinary Shares; – **redeemable and transferable** – in certain circumstances, Challenger may be permitted to repay the Face Value of Notes or transfer Notes to a third party (but there are restrictions on repayment or transfer of the Notes); – **perpetual** – no fixed maturity date and could remain on issue if they are not Converted, in which case Holders may not get their capital back or be issued any Ordinary Shares; – **distributions** – are non-cumulative, preferred and are expected to be franked to the same level as dividends on Ordinary Shares; – **not guaranteed or secured** – Notes 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 Notes. Challenger's ability to pay Distributions or to optionally Convert or Redeem Notes is dependent on APRA either not objecting or giving prior approval.	Section 2
Will Notes be quoted?	• Challenger will apply for Notes to be quoted on ASX so that they can be bought and sold on ASX. • If ASX does not grant permission for Notes to be quoted, Notes will not be issued and all Application Payments will be refunded (without interest) as soon as practicable. • Quotation of Notes on ASX does not mean that there will be a liquid market for Notes.	Section 6.7.2

Topic	Summary	Further information
Why is Challenger issuing Notes?	• Challenger intends to use the proceeds of Notes to fund a subscription for Additional Tier 1 Capital of CLC, the registered life company of the Challenger Group. • Notes 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 Notes

Topic	Summary	Further information
Do Notes have a maturity date?	• Notes do not have any fixed maturity date and could remain on issue indefinitely. • However, Challenger has rights to Convert Notes to Ordinary Shares or to Redeem or Resell Notes for cash on 25 May 2020 (or on an earlier date in certain circumstances) subject to APRA's prior written approval. • Otherwise, Notes will mandatorily Convert to Ordinary Shares on 25 May 2022 subject to certain conditions being satisfied. • What will happen to Notes is uncertain and depends on a number of factors including whether Mandatory Conversion will occur, whether Challenger elects to Convert, Redeem or Resell Notes, 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 Notes or Redeem or Resell them.	Sections 2.2, 2.3 and 2.5
What Distributions are payable?	• Notes are scheduled to pay quarterly, floating rate Distributions in arrears unless and until Converted, Redeemed or Resold. • The Distribution Rate is calculated for each Distribution Period and is the aggregate of the Bank Bill Rate plus the Margin, reduced by a factor reflecting the value of any franking credit attached to the Distribution. The Margin will be determined by a Bookbuild and is expected to be between 3.40% and 3.60%. • Payment of Distributions is in the absolute discretion of Challenger and subject to Payment Conditions. 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 or distribution 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

Topic	Summary	Further information
Will Distributions be franked?	• Distributions are expected to be franked to the same level as dividends on Ordinary Shares. The Franking Rate applicable to the first Distribution is expected to be 70%. The level of franking may vary over time and depends on Challenger's level of available franking credits. • To the extent a Distribution is franked, the cash amount of the Distribution will be lower than it would be if the Distribution were unfranked, reflecting the value of the franking credit attached to the Distribution. • 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.	Sections 2.1.3 and 2.1.5
Will Notes be Redeemed?	• If certain conditions are met, Challenger will have a right, but not an obligation, to Redeem Notes: – on 25 May 2020; – 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 an increase in the costs to Challenger of Notes 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 Notes which the Directors determine to be unacceptable or if the proceeds of Notes may no longer be used to fund Additional Tier 1 Capital of CLC). • There are restrictions on Challenger's right to Redeem (i.e. pay out) Notes with cash. • Most importantly, Challenger can only Redeem Notes if APRA is satisfied with Challenger's capital position which may mean that Challenger must replace Notes 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

Topic	Summary	Further information
Will Notes Convert to Ordinary Shares?	• Notes must Convert into Ordinary Shares on a Mandatory Conversion Date, on a Non-Viability Trigger Event or on an Acquisition Event (for example, a takeover of Challenger). This may or may not be advantageous for Holders. • **Mandatory Conversion** can only occur on or after 25 May 2022 and if the Mandatory Conversion Conditions are met on the relevant date. These conditions are intended to help protect Holders against receiving Ordinary Shares worth significantly less than $101 per Note and ensure that the Ordinary Shares are capable of being sold on ASX. • **Non-Viability Trigger Event:** Challenger will be required to Convert Notes to Ordinary Shares (or, where that is not possible, Write-Off Notes) if APRA determines that Challenger would be non-viable. If Conversion occurs in this circumstance, Holders are likely to receive Ordinary Shares that are worth significantly less than $101 for each Note they hold. • **Optional Exchange:** Challenger may also choose to Convert Notes to Ordinary Shares with APRA's prior written approval if a Tax Event, Regulatory Event or Potential Acquisition Event occurs. Challenger may also Convert Notes on 25 May 2020. If Challenger chooses to Convert Notes in these circumstances, each Holder should receive approximately $101 worth of Ordinary Shares for each Note they hold.[1]	Sections 2.2, 2.3, 2.4 and 2.5

1 By the time of Conversion the value of Ordinary Shares received may be worth more or less than $101 – see Section 5.1.4 for further information.

Topic	Summary	Further information
How would Notes rank in a winding-up of Challenger?	• In a winding-up of Challenger, Notes will rank ahead of Ordinary Shares, equally with all other Relevant Perpetual Subordinated Instruments, but behind any securities or instruments that rank in priority to Notes and all other creditors of Challenger, as shown below. • As of the date of this Prospectus there are no Relevant Perpetual Subordinated Instruments on issue. • Challenger has a senior unsecured facility with an Australian bank of $350 million. At the date of this Prospectus this facility is undrawn. Any money owing by Challenger under this facility, if it was drawn, would rank in priority to Notes.	Section 2.6

	Type	Illustrative examples[2]
Higher ranking	Preferred and secured debt	Liabilities preferred by law including 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
	Preference shares and equal ranking securities	Notes and any other preference shares or securities expressed to rank equally with Notes
Lower ranking	Ordinary Shares	Ordinary Shares

• However, 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 is not possible, Notes will be Written-Off, in which case all rights in relation to those Notes will be terminated (and Holders will not get their capital back).

• Notes are claims on Challenger. They are not claims on any other member of the Challenger Group (including CLC).

• Challenger is a non-operating holding company of the companies in the Challenger Group. Most of the claims Challenger has 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. The ability of Challenger 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.

2 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.

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

The table below summarises certain events that may affect what Holders are likely to receive on Notes. The events are subject to contingencies such as the solvency and/or non-viability of Challenger and in some cases election by Challenger. Accordingly, they may not occur.

Event	When?	Is APRA approval required?	Do conditions apply?	What value will a Holder receive?[3]	In what form will that value be provided to Holders?	Further information
Optional Redemption or Resale	On 25 May 2020 or following a Tax Event or Regulatory Event	Yes	Yes	$100	Payment in Australian dollars	Section 2.3
Optional Conversion	On 25 May 2020 or following a Tax Event, Regulatory Event or Potential Acquisition Event	Yes	Yes	Approximately $101	Variable number of Ordinary Shares	Section 2.3
Mandatory Conversion on specified dates	On 25 May 2022 or the first Distribution Payment Date after that date on which the Mandatory Conversion Conditions are satisfied	No	Yes	Approximately $101	Variable number of Ordinary Shares	Section 2.2
Mandatory Conversion upon Acquisition Event	On the Acquisition Conversion Date	No	Yes	Approximately $101	Variable number of Ordinary Shares	Section 2.5
Mandatory 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 possibly significantly less) and $0	Variable number of Ordinary Shares or, if Conversion is not possible, Notes are Written-Off[4]	Section 2.4

3 In the case of Conversion, the value stated is the value a Holder will receive on Conversion based on the share price during a specified period prior to Conversion (not on the share price on Conversion itself) and since the Conversion Number may not exceed the Maximum Conversion Number the value received may be less than $101 and, in the case of Conversion on account of a Non-Viability Trigger Event, substantially less than $101.

4 If a Note is Written-Off, the Holder will effectively lose its preferential rights to Distributions and returns of capital and instead all rights in relation to the Note will be terminated (and the Holder will not get its capital back).

1.4 Key risks associated with an investment in Notes

Before applying for Notes, you should consider whether Notes are a suitable investment for you. There are risks associated with an investment in Notes 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 5 and other matters referred to in this Prospectus.

Key risks associated with an investment in Notes

Topic	Summary	Further information
Not a policy liability	• Notes 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 Notes is not guaranteed by Challenger or any other member of the Challenger Group.	Section 5.1.1
Market price of Notes	• The price at which Holders are able to sell Notes on ASX is uncertain. The market price may be below the Face Value of $100. • Circumstances in which the price of Notes 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. • Unlike Ordinary Shares, Notes 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 5.1.2
Liquidity	• There may be no liquid market for Notes. • Holders who wish to sell their Notes may be unable to do so at a price acceptable to them, or at all.	Section 5.1.3
Market price and liquidity of Ordinary Shares	• The market price of Ordinary Shares may fluctuate 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 Notes. • 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 5.1.4
Distributions may not be paid	• Distributions are discretionary and are only payable subject to satisfying the Payment Conditions. • 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 5.1.5
Changes in Distribution Rate	• The Distribution Rate will fluctuate (both increasing and decreasing) over time as a result of movements in the Bank Bill Rate. The Distribution Rate will also fluctuate with changes in the franking of Distributions. • There is a risk that the Distribution Rate may become less attractive when compared with the rates of return available on comparable securities.	Section 5.1.6

Topic	Summary	Further information
Distributions may or may not be franked	• The Franking Rate when Notes are first issued is expected to be 70%. Distributions are expected to be franked to the same level as dividends on Ordinary Shares. The Franking Rate may be a lesser or higher percentage depending on Challenger's level of available franking credits. 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. • To the extent a Distribution is franked, the cash amount of the Distribution will be lower than it would be if the Distribution were unfranked, reflecting the value of the franking credit attached to the Distribution. • 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 the ability of a Holder to use franking credits will depend on the individual tax position of each Holder.	Section 5.1.7
It is not certain whether and when Notes may be Converted, Redeemed or Resold	• There are a number of scenarios in which Notes 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. • Notes may not be Converted, Redeemed or Resold at all, in which case Notes are perpetual and have no maturity date.	Sections 5.1.8 to 5.1.12
Conversion 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 Notes. • In cases where Challenger is prevented from Converting Notes for any reason within five Business Days after the Non-Viability Conversion Date, Notes which should have been Converted will be Written-Off. This means that all rights in relation to those Notes will be terminated (and Holders will not get their capital back).	Section 5.1.13
Restrictions on rights and ranking on a winding-up of Challenger	• In a winding-up of Challenger, if Notes have not been Redeemed, Converted or Written-Off, Notes 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 Notes, Holders will lose all or some of their investment.	Section 5.1.14
Challenger may issue further securities	• Challenger may raise further debt or issue securities that rank equally with or ahead of Notes. This may affect a Holder's ability to be repaid on a winding-up of Challenger.	Section 5.1.15
Risks associated with Challenger generally	• Key risks associated with an investment in Challenger and the business of the Challenger Group generally are set out at Section 5.2.	Section 5.2

1.5 Comparison between Notes and other investments and securities

Notes 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 Notes and if you are unsure if Notes 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	Notes	Ordinary Shares
Issuer	CLC	Bank, credit union or building society	Challenger	Challenger
Legal form	Policy (unsecured, unsubordinated debt obligation referable to a statutory fund under the Life Insurance Act)	Unsecured, unsubordinated debt	Unsecured note	Ordinary Share
Term	One year to lifetime	One month to five years (usually)	Perpetual (subject to mandatory conversion into Ordinary Shares)	Perpetual
Ranking in winding-up	Rank higher than Notes and Ordinary Shares	Rank higher than Notes and Ordinary Shares	Rank lower than Senior Creditors, but higher than Ordinary Shares[5]	Rank lowest of all securities
Transferability	No	No	Yes – Notes are expected to be quoted on ASX as 'CGFPA'	Yes – Ordinary Shares are quoted on ASX as 'CGF'
Protected under the Financial Claims Scheme	No	Yes[6]	No	No
Distribution rate	Fixed (usually)	Fixed (usually)	Floating (Bank Bill Rate + Margin to be determined under the Bookbuild (Margin expected to be in the range of 3.40% to 3.60% p.a.), adjusted for franking)	Variable dividends
Distribution payment dates	Monthly, quarterly, semi-annually or per annum (depending on the choice of the customer)	Monthly, quarterly, semi-annually or yearly	Quarterly (Distributions are discretionary)	Semi-annually (dividends are discretionary)
Distributions cumulative/ non-cumulative	Cumulative	Cumulative	Non-cumulative	Non-cumulative

5 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 is not possible, Notes will be Written-Off.

6 From 1 January 2013, the protection for all protected accounts that an account holder has with an Australian deposit taking institution is limited to $250,000.

1 Investment overview

Feature	Challenger Annuity	Term deposit	Notes	Ordinary Shares
Restriction on Ordinary Share dividends if Distribution not paid	No	No	Yes, until the next Distribution Payment Date	No
Franking	Unfranked	Unfranked	Expected to be initially partially franked	Expected to be partially franked
Optional redemption (Challenger's option)	No	No	Yes, on 25 May 2020 and following a Regulatory Event or Tax Event	No
Optional resale (obligation on Holder to sell instrument at Challenger's option)	No	No	Yes, on 25 May 2020 and following a Regulatory Event or Tax Event	No
Optional conversion to Ordinary Shares (Challenger's option)	No	No	Yes, on the Optional Exchange Date and following a Regulatory Event, Tax Event or Potential Acquisition Event	No
Mandatory conversion	No	No	Yes, on 25 May 2022 and each Distribution Payment Date after the Mandatory Conversion Date, following an Acquisition Event, and on a Non-Viability Trigger Event	No
Voting rights	No	No	No right to vote at general meetings of holders of Ordinary Shares	Yes
Treated by APRA as regulatory capital?	No	No	No, but may be used to fund a subscription for Additional Tier 1 Capital of CLC[7]	Not currently[8]

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

8 Should the Conglomerates Proposal take effect, Challenger Limited, as a non-operating holding company, is expected to be prudentially regulated and its ordinary shares will be treated as regulatory capital.

1.6 Information about the Offer

Topic	Summary	Further information
How is the Offer structured and who can apply?	• The Offer comprises: – an Institutional Offer to certain Institutional Investors; – a Broker Firm Offer made to Australian resident retail and high net worth clients of Syndicate Brokers; – a Shareholder Offer made to Eligible Shareholders; and – a General Offer made to members of the general public who are resident in Australia and who apply under the General Offer.	Section 6.4
When is the Offer Period?	• The Offer opens on 4 September 2014. • The Institutional Offer is expected to close on 7 October 2014. • The Shareholder Offer and General Offer are expected to close on 30 September 2014. • The Broker Firm Offer is expected to close on 7 October 2014.	Key dates Section 6
Is there a minimum amount to be raised?	• No. The Offer is for the issue of Notes to raise $250 million with the ability to raise more or less.	Section 6.1
How can I apply?	• If you are an Eligible Shareholder applying under the Shareholder Offer, or you are a member of the general public applying under the General Offer, you should apply using the Application Form and pay the Application Payment either electronically by BPAY or by cheque or money order. • If you are an Applicant applying under the Broker Firm Offer, you should contact your Syndicate Broker.	Section 6.4
How will Notes 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, Shareholder Offer and General Offer. • The allocation policy is described in Section 6.6.2. • Allocations will be confirmed in accordance with Section 6.6.3.	Sections 6.6.2 and 6.6.3
Is there a minimum Application size?	• Yes. Your Application must be for a minimum of 50 Notes ($5,000). • If your Application is for more than 50 Notes, then you must apply in multiples of 10 Notes ($1,000) after that.	Section 6.4.1
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 Notes on ASX after Notes have been quoted on ASX.	Section 6.5.3
What are the tax implications of investing in Notes?	• A general description of the Australian taxation consequences of investing in Notes is set out in Section 7.	Section 7
Where can I find more information about the Offer?	• If you have any questions in relation to the Offer, please call the Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia) Monday to Friday, 8:00am to 6:00pm (Sydney time). • If you are applying under the Broker Firm Offer, you should contact your Syndicate Broker.	Section 6.8

2 About Challenger Capital Notes

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

2.1 Distributions

Distributions on Notes are preferred, discretionary, non-cumulative floating rate payments and are subject to certain Payment Conditions.

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 the Payment Conditions. • To the extent a Distribution is franked, the cash amount of the Distribution will be lower than it would be if the Distribution were unfranked, reflecting the value of the franking credit attached to the Distribution. • Holders should 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 expected to be franked at the same rate as dividends on Ordinary Shares. Challenger expects to frank dividends on Ordinary Shares to 70% in the period in which the first Distribution is scheduled to be paid. The level of franking may vary over time and Distributions may be partially franked, fully franked or not franked at all. • 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 Franking Adjustment Factor** Where: – **Bank Bill Rate** is the relevant rate (as defined below in Section 2.1.4) on the first Business Day of the relevant Distribution Period; – **Franking Adjustment Factor** means $\frac{(1 - T)}{1 - [T \times (1 - F)]}$ where: '**F**' means the Franking Rate (being the franking percentage applicable to Challenger's franking account); and '**T**' means the Tax Rate (being the Australian corporate tax rate applicable to Challenger's franking account) at the relevant Distribution Payment Date; and – **Margin** is the margin determined under the Bookbuild, expected to be in the range of 3.40% to 3.60%. As an example, assuming the Bank Bill Rate for the first Distribution Period is 2.6350% per annum and the Margin is 3.40% per annum, and a Franking Rate of 70% and a Tax Rate of 30%, the Distribution Rate for that Distribution Period would be calculated as follows: Bank Bill Rate 2.6350% per annum plus Margin 3.4000% per annum Total 6.0350% per annum Multiplied by Franking Adjustment Factor x 76.9231% Indicative Distribution Rate = 4.6423% per annum	Clauses 3.1 and 3.2 of the Terms

<table>
<tr><th>Topic</th><th>Summary</th><th>Further information</th></tr>
<tr><td>2.1.3 Will Distributions be franked? What is the effect of franking?</td><td>

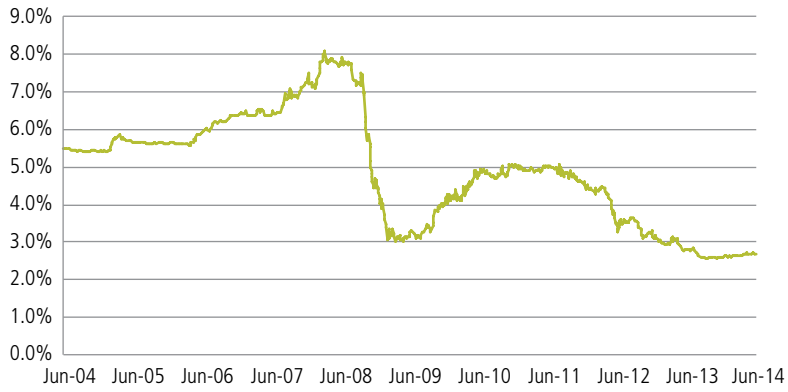
The Franking Rate when Notes are first issued is expected to be 70%. The Franking Rate for a Distribution Period may be a lesser or higher percentage depending on Challenger's level of available franking credits. Challenger's level of available franking credits may be affected by a wide range of factors, including its business performance, the applicable Australian corporate tax rate, the assessment of relevant tax authorities and the amount of other frankable distributions. Distributions are expected to be franked to the same level as Ordinary Shares.
The lower the Franking Rate, the higher the Distribution Rate (and the higher the amount of the cash Distribution) and the smaller the franking credit attached to the Distribution.
The higher the Franking Rate, the lower the Distribution Rate (and the lower the amount of the cash Distribution) and the larger the franking credit attached to the Distribution.
Examples of how the Distribution Rate (based on the Bank Bill Rate and Margin in the example in Section 2.1.2) varies according to the Franking Rate are illustrated in the table below:

<table>
<tr><th>Franking Rate</th><th>Franking Adjustment Factor</th><th>Distribution Rate (in cash)</th><th>Franking credit (expressed as a percentage rate)</th><th>Total (Distribution Rate plus franking credit)[9]</th></tr>
<tr><td>0%</td><td>100.000%</td><td>6.0350%</td><td>0.0000%</td><td>6.0350%</td></tr>
<tr><td>40%</td><td>85.3659%</td><td>5.1518%</td><td>0.8832%</td><td>6.0350%</td></tr>
<tr><td>70%</td><td>76.9231%</td><td>4.6423%</td><td>1.3927%</td><td>6.0350%</td></tr>
<tr><td>100%</td><td>70.0000%</td><td>4.2245%</td><td>1.8105%</td><td>6.0350%</td></tr>
</table>

The above examples are for illustrative purposes only and do not indicate, guarantee or forecast the actual Distribution Rate (or Franking Rate) for the first or any subsequent Distribution Period. Actual Distribution Rates (and Franking Rates) may be higher or lower than this example.
The above example assumes a Tax Rate of 30%. The Government has proposed that the tax rate applicable to most companies be reduced from 30% to 28.5% with effect from 1 July 2015 – refer to Section 6 of the letter contained in Section 7 for more detail. A reduction in the Tax Rate will operate to reduce the value of any franking credit and increase the Distribution Rate.
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.
The Distribution Rate for the first Distribution Period will be set on the Issue Date and will include the Margin to be determined under the Bookbuild.
Holders should refer to the Australian taxation summary in Section 7 and each Holder should obtain professional advice in relation to its tax position.

</td><td>Clause 3.1 of the Terms and Section 7</td></tr>
</table>

9 This assumes that the Holder is able to use the franking credits in its own individual circumstances and ignores any timing differences resulting from the value of the franking credit accruing at a different time to the receipt of the Distribution.

Topic	Summary	Further information
2.1.4 What is the Bank Bill Rate?	• The Bank Bill Rate is the average mid-rate for bills of a term of 90 days which is a reference rate displayed on Reuters page BBSW (or any page which replaces that page) on the first Business Day of each 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 one of the interest rate benchmarks published daily by the Australian Financial Markets Association and appearing on information services (e.g. Reuters page BBSW). Bank bill rates provide references for the pricing, rate-setting and valuation of Australian dollar financial securities. The graph below illustrates the movement in the Bank Bill Rate over the last 10 years. The rate on 25 August 2014 was 2.6350% per annum. **Bank Bill Rate (90 day) since 2004**  • 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.	Clause 3.1 of the Terms

Topic	Summary	Further information
2.1.5 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: $\frac{\text{Distribution Rate} \times \$100 \times N}{365}$ 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 6.0350% per annum, then the Distribution on each Note for a Distribution Period (if the Distribution Period was 91 days) would be calculated as follows: Indicative Distribution Rate 6.0350% 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 Indicative Distribution payment for the first Distribution Period per Note $1.5046 A franking credit would be attached to the Distribution. The amount will be notified to Holders shortly after a Distribution is paid. Following the above example, the amount of the franking credit per Note would be $0.3472 (assuming the Distribution is franked to 70%). The above examples are for illustrative purposes only and do not indicate, guarantee or forecast the actual Distribution payment (or franking credit) for the first or any subsequent Distribution Period. Actual Distribution payments (and franking credits) may be higher or lower than this example (and may not be paid at all).	Clause 3.1 of the Terms
2.1.6 When are the Distribution Payment Dates?	• The first Distribution Payment Date will be 25 February 2015. • The number of days in the first Distribution Period will be 139 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
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 of the Terms

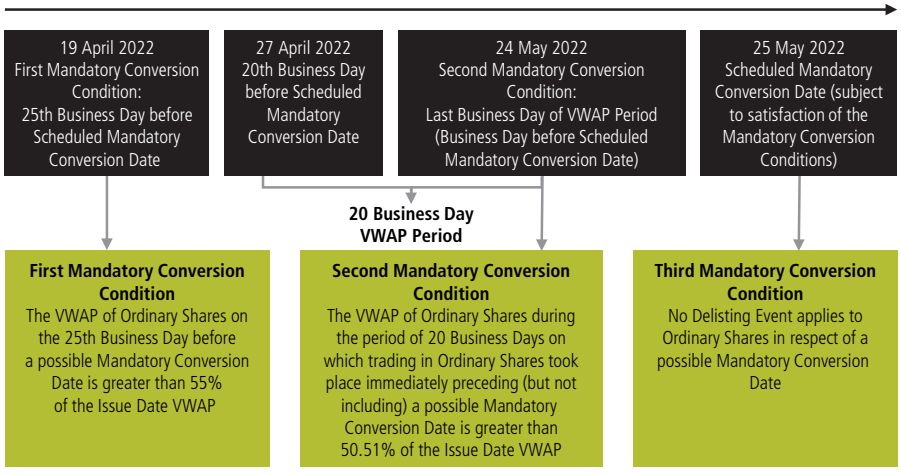
Topic	Summary	Further information
2.1.8 What restrictions apply to Challenger if a Distribution is not paid?	• If for any reason a Distribution has not been paid on a Distribution Payment Date ('**Relevant Distribution Payment Date**'), Challenger must not, subject to certain exceptions, without the approval of a Special Resolution, until and including the next Distribution Payment Date: – declare, determine to pay or pay a dividend or distribution 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

2.2 Mandatory Conversion

Challenger must convert any Notes that are outstanding on 25 May 2022 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 approximately $101 worth of Ordinary Shares for each Note they hold, and that the Ordinary Shares they receive following Conversion are capable of being sold on ASX.

Topic	Summary	Further information
2.2.1 What is Mandatory Conversion?	• Holders will receive Ordinary Shares on Conversion of Notes on the Mandatory Conversion Date unless the Mandatory Conversion Conditions are not satisfied or Notes are not outstanding on that date. • Upon Conversion on a Mandatory Conversion Date, Holders will receive approximately $101 worth of Ordinary Shares per Note 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 Notes 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.	Clause 4 of the Terms
2.2.3 When is the Mandatory Conversion Date?	• The Mandatory Conversion Date will be 25 May 2022, 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

Topic	Summary	Further information
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[10] is greater than (110% x Relevant Fraction) x Issue Date VWAP; – **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) x Issue Date VWAP; and – **Third Mandatory Conversion Condition:** no Delisting Event applies to Ordinary Shares 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 Notes. • In the case of a Mandatory Conversion, the Relevant Fraction is 0.5.[11] • 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 2022) and a Relevant Fraction of 0.5. These dates are indicative only and may change.  	Clauses 4.3, 8.1 and 18.2 of the Terms

10 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.

11 Please see Sections 2.3, 2.4 and 2.5 for descriptions of other circumstances in which Notes 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?	• The First Mandatory Conversion Condition and the Second Mandatory Conversion Condition are intended to help protect Holders against receiving significantly less than approximately $101 worth of Ordinary Shares per Note on Conversion (based on the VWAP during the 20 Business Days before the Mandatory Conversion Date). • The Third Mandatory Conversion Condition is intended to protect Holders by making Conversion conditional on Holders receiving Ordinary Shares which are capable of being sold on ASX.	
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 Note ('Conversion Number') calculated 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** 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. **Illustrative example of Mandatory Conversion** As an example, in the case of the Scheduled Mandatory Conversion Date on 25 May 2022, assuming the Issue Date VWAP was $7.00,[12] 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 2022 (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% of 0.5). • The First Test Date Percentage of the Issue Date VWAP would therefore be $3.85 (being 55% of $7.00). • Assume that the VWAP on 19 April 2022 (being the 25th Business Day immediately preceding, but not including, 25 May 2022) is $10.00. • Since the VWAP on 19 April 2022 ($10.00) is greater than the First Test Date Percentage of the Issue Date VWAP ($3.85), the First Mandatory Conversion Condition would be satisfied.	Clauses 4.1 and 8.1 of the Terms

12 The Issue Date VWAP will be adjusted as described in Section 2.2.8 below.

Topic	Summary	Further information
2.2.6 How many Ordinary Shares will a Holder receive on the Mandatory Conversion Date? (continued)	**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 2022 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 50.51% (being 101.01% of 0.5). • The Conversion Test Date Percentage of the Issue Date VWAP would be $3.54 (being 50.51% of $7.00). • Assume that the VWAP during the period from 27 april 2022 to 24 May 2022 (being the 20 Business Days in which trading in Ordinary Shares took place immediately preceding 25 May 2022) is $10.50. • Since the VWAP from 27 April 2022 to 24 May 2022 ($10.50) is greater than the Conversion Test Date Percentage of the Issue Date VWAP ($3.54), the Second Mandatory Conversion Condition would be satisfied. **The Third Mandatory Conversion Condition** This condition requires that no Delisting Event applies on 25 May 2022, which means that Challenger is listed on ASX on the Mandatory Conversion Date, trading in its Ordinary Shares has not been suspended during the five preceding Business Days 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 Notes. In these circumstances, the Third Mandatory Conversion Condition would be satisfied. **Step 2 – calculating the number of shares to be received by Holders on Conversion** On the Mandatory Conversion Date, Holders will be entitled to receive in respect of each Note the Conversion Number of Ordinary Shares determined as follows: $\text{Conversion Number} = \frac{\text{Face Value}}{99\% \times \text{VWAP}}$ • Assume the VWAP from 27 April 2022 to 24 May 2022 (being the 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date is $10.50. • The Face Value is $100. • The Conversion Number would be 9.6200 (being $100 divided by (99% x $10.50)). • Assuming a Holder has 100 Notes, the Holder would be entitled to 962 Ordinary Shares (i.e. 100 x 9.6200).[13] This example is for illustrative purposes only. The figures in it are not forward-looking statements and do not indicate, guarantee or forecast the First Test Date Percentage, the Conversion Test Date Percentage, the Issue Date VWAP or future VWAP or other price of Ordinary Shares.	

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

Topic	Summary	Further information
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) is subject always to the Maximum Conversion Number, which is calculated in accordance with the following formula: $\text{Maximum Conversion Number} = \frac{\text{Face Value}}{\text{Issue Date VWAP x Relevant Fraction}}$ where **Relevant Fraction** means 0.5 (in relation to a Mandatory Conversion).	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). • However, no adjustment will be made to the Issue Date VWAP where such adjustment (rounded if applicable) would be less than 1% of the Issue Date VWAP then in effect.	Clauses 8.4, 8.5, 8.6 and 8.7 of the Terms
2.2.9 What will happen if the Mandatory Conversion Conditions are not satisfied on the Mandatory Conversion Date?	• If any of the Mandatory Conversion Conditions are not satisfied on 25 May 2022, Notes 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 (or has not) occurred as a result of the First Mandatory Conversion Condition (or Second or Third 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 Notes on 25 May 2020 ('**Optional Exchange Date**') or on the occurrence of certain events. Exchange means a Note is Converted into Ordinary Shares worth approximately $101, or Redeemed or Resold for $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 those requirements will be satisfied or that APRA will give its approval to any Exchange.

Topic	Summary	Further information
2.3.1 When may Challenger choose to Exchange?	• Challenger may choose to Exchange: – all or some Notes on the Optional Exchange Date; – all or some Notes following the occurrence of a Tax Event or a Regulatory Event; or – all Notes on an Exchange Date following the occurrence of a Potential Acquisition Event. • Exchange means: – Challenger Converts Notes into a variable number of Ordinary Shares with a value (based on the VWAP during a period, usually 20 Business Days immediately preceding (but not including) the Exchange Date), of approximately $101[14] per Note; – Challenger Redeems Notes for $100 per Note (other than in the case of a Potential Acquisition Event); or – Challenger Resells Notes for $100 per Note (other than in the case of a Potential Acquisition Event). • 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.	Clauses 6.1, 6.3, 6.4 and 18.2 of the Terms
2.3.2 When is the Optional Exchange Date?	• The Optional Exchange Date is 25 May 2020.	Clause 18.2 of the Terms

14 If Conversion occurs as a result of an Acquisition Event or Potential Acquisition Event, the period for calculating the VWAP may be less than 20 Business Days before the Acquisition Conversion Date or the Exchange Date (as the case may be).

Topic	Summary	Further information
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 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 the Directors determine to be unacceptable that any Distribution would not be frankable or that Challenger would be exposed to an increase in its costs (which is not insignificant) in relation to Notes; – **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, additional requirements would be imposed on Challenger in relation to Notes, which the Directors determine to be unacceptable; or – the Directors determine that Challenger is not or will not be entitled to treat some or all Notes as a Relevant Perpetual Subordinated Instrument (as described in Section 2.6.4 below), 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; and – **Potential Acquisition Event** will broadly occur if: – 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
2.3.4 What are the restrictions on Conversion being elected as the Exchange Method?	• Challenger may not elect to Convert Notes under an Exchange if, on the second Business Day before the date on which Challenger sends a notice advising Holders that it wishes to Convert Notes (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) ('**Non-Conversion Test Date**'), an Optional Conversion Restriction applies. • Further, if Challenger has elected to Convert Notes, Challenger may not proceed to Convert Notes 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.	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 the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of the Exchange Date as if the Exchange Date were a possible Mandatory Conversion Date. • 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 possible Mandatory Conversion Date (unless Notes are otherwise Exchanged in accordance with the Terms).	Clause 6.6 of the Terms

Topic	Summary	Further information
2.3.7 When can Redemption or Resale be the Exchange Method?	• Challenger may only elect Redemption or Resale as the Exchange Method: – in the case of an Exchange on the Optional Exchange Date (25 May 2020); 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: – Notes which are 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 Notes is done under conditions that are sustainable for Challenger's income capacity; or – having regard to the projected capital position of the Challenger Group, Challenger does not have to replace Notes the subject of the Redemption.	Clause 6.4 of the Terms
2.3.8 What is a Resale?	• Resale is a process by which Challenger may elect one or more third parties ('**Nominated Purchaser(s)**') to purchase some or all Notes. • If Challenger appoints more than one Nominated Purchaser, some or all Notes may be purchased by any one or any combination of Nominated Purchasers, as determined by Challenger.	Clauses 10.1 and 10.2 of the Terms
2.3.9 What will I receive if my Notes are Resold?	• Each Holder will receive the Resale Price, being $100 per Note. 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 Notes 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 Standard & Poor's, Moody's or Fitch 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 Notes in accordance with the Terms until Notes 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.	Clause 6 of the Terms

2.4 Non-Viability Conversion

Notes have certain loss absorption features, which may be triggered where APRA determines that Challenger is encountering severe financial difficulties. This may result in Conversion or Write-Off of Notes. 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 Notes to be treated by APRA as described in Section 2.6 below.	
2.4.2 What is a Non-Viability Trigger Event?	• A Non-Viability Trigger Event means APRA has provided a written determination to Challenger that the conversion or write-off of Relevant Perpetual Subordinated Instruments is necessary because: – without that conversion or write-off APRA considers that Challenger would become non-viable; or – without a public sector injection of capital into (or equivalent capital support with respect to) Challenger APRA considers that 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 – an amount of the Relevant Perpetual Subordinated Instruments if APRA is satisfied that conversion or write-off of that amount will be sufficient to ensure that Challenger does not become non-viable. Where APRA considers Challenger would become non-viable without a public sector injection of capital or equivalent capital support, all Relevant Perpetual Subordinated Instruments must be converted or written-off. • As Notes are Relevant Perpetual Subordinated Instruments, if a Non-Viability Trigger Event occurs, Challenger must immediately Convert some or all Notes into the Conversion Number of Ordinary Shares. For the meaning of Relevant Perpetual Subordinated Instrument, please see Section 2.6.4. Where Challenger is required to Convert some (but not all) Relevant Perpetual Subordinated Instruments, Challenger must endeavour to treat Holders of Notes and of other Relevant Perpetual Subordinated Instruments on an approximately proportionate basis (with some exceptions). As at the date of this Prospectus, Challenger has no Relevant Perpetual Subordinated Instruments on issue and it has no obligation to maintain any other Relevant Perpetual Subordinated Instruments on issue and gives no assurance that it will do so.	Clauses 5.1 and 18.2 of the Terms

Topic	Summary	Further information
2.4.3 What does non-viable mean?	• APRA has not provided guidance as to how it would determine non-viability. • 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 Notes 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 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 Notes 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. Challenger expects any ASX trades in Notes that have not settled on the date a Non-Viability Trigger Event occurs will continue to settle in accordance with the normal ASX T+3 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 into which Notes have 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 Notes 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 Notes that have not been settled or registered at that time. • Challenger must give Holders and the Trustee notice as soon as practicable after a Non-Viability Trigger Event has occurred, including details of the amount of Notes Converted.	Clause 5.2 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 Note on account of a Non-Viability Conversion is the Conversion Number (calculated as described below). The Conversion Number cannot 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 on account of a Non-Viability Conversion may be worth significantly less than $101, 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: **Conversion Number** = Face Value / 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: **Maximum Conversion Number** = Face Value / Issue Date VWAP x Relevant Fraction In the case of a Non-Viability Trigger Event, the Relevant Fraction is 0.2. **Illustrative example of Conversion** **Step 1 – calculating the potential number of shares to be received on Conversion** Assume that on 18 September 2019, a Non-Viability Trigger Event occurs. Holders would be potentially entitled to receive, in respect of each Note being Converted, the Conversion Number of Ordinary Shares determined as follows: **Conversion Number** = Face Value / 99% x VWAP • Assume the VWAP from 11 September 2019 to 17 September 2019 (being the five Business Days on which trading in Ordinary Shares took place immediately preceding 18 September 2019) is $1.00. • The Face Value is $100. • The Conversion Number would be 101.01 (being $100 divided by (99% x $1.00)). • Assuming a Holder has 100 Notes, the total number of Ordinary Shares to which it would be potentially entitled would be 10,101[15] (i.e. 100 x 101.01) (subject to this number being no greater than 100 multiplied by the Maximum Conversion Number).	Clauses 5, 8.1 and 18.2 of the Terms

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

Topic	Summary	Further information
2.4.5 How many Ordinary Shares will Holders receive on the Non-Viability Conversion Date? (continued)	**Step 2 – calculating the maximum number of shares to be received on Conversion** The Maximum Conversion Number is determined as: $\text{Maximum Conversion Number} = \frac{\text{Face Value}}{\text{Issue Date VWAP x Relevant Fraction}}$ Assuming the Issue Date VWAP is $7.00 and a Relevant Fraction of 0.2, the Maximum Conversion Number would be 71.4286 (being $100/($7.00 x 0.2)). **Step 3 – calculating the number of shares to be received** Since the Conversion Number of 101.01 is greater than the Maximum Conversion Number of 71.4286 the number of Ordinary Shares which the holder of 100 Notes would receive would be limited to 7,142. The market value of the Ordinary Shares received (based on the VWAP assumed in this example) is $7,142.00 which is considerably less than $10,000 (which is the nominal value of the 100 Notes of $100 each).[16] • 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 Notes 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.	
2.4.6 What happens if Notes cannot be Converted on the Non-Viability Conversion Date?	• If, within five Business Days following a Non-Viability Trigger Event, 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 Notes (an '**Inability Event**'), they will be Written-Off. • This means that Holders' rights (including to Distributions) in relation to those Notes are immediately and irrevocably terminated. Holders will lose all of the value of their investments without compensation. • 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 Notes (or other reasons which prevent Conversion), may change. • Challenger may 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.	Clauses 5.3, 8.14 and 18.2 of the Terms

16 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.

2.5 Conversion on an Acquisition Event

Challenger is also required to Convert Notes 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 no less than $101 worth of Ordinary Shares for each Note they hold, and that Holders receive Ordinary Shares that are capable of being sold on ASX.

These conditions may never be satisfied and accordingly Notes 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 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.	Clause 18.2 of the Terms
2.5.2 What must Challenger do on the occurrence of an Acquisition Event?	• If an Acquisition Event occurs, Challenger must (by giving an Acquisition Conversion Notice) Convert all Notes into a number of Ordinary Shares with a value of $101 (based on the VWAP during a period, usually 20 Business Days, before the Acquisition Conversion Date but a lesser period if trading in Ordinary Shares in the period after the Acquisition Event and before the Acquisition Conversion Date is less than 20 Business Days), provided certain conditions are satisfied. • If certain requirements (described in Section 2.5.3 below) have not been satisfied, Challenger will not be required to give an Acquisition Conversion Notice to Holders and will not be required to Convert Notes at that time. However, Challenger must Convert Notes on the next Distribution Payment Date in respect of which the conditions to Conversion are satisfied.	Clauses 7.4, 7.5 and 18.2 of the Terms
2.5.3 What are the restrictions on Conversion occurring following an Acquisition Event?	• The restrictions on the giving of an Acquisition Conversion Notice are the same as the Optional Conversion Restrictions that would apply if that notice were an Exchange Notice.	Clauses 6.5 and 7.4 of the Terms
2.5.4 What are the further Conversion restrictions on the Acquisition Conversion Date?	• On the occurrence of an Acquisition Event, Challenger may not proceed to Convert Notes if, on the date on which Conversion is to occur ('**Acquisition Conversion Date**'), certain further restrictions apply. • These Conversion restrictions on the Acquisition Conversion Date apply if the Second Mandatory Conversion Condition or the Third Mandatory Conversion Condition would not be satisfied in respect of the Acquisition Conversion Date if the Acquisition Conversion Date were a Mandatory Conversion Date.	Clauses 4.3 and 7.5 of the Terms

Topic	Summary	Further information
2.5.5 What happens if Conversion does not occur?	• If Challenger is not required to give an Acquisition Event Notice or the further Conversion restrictions prevent Conversion, Challenger will give a new Acquisition Event Notice. The notice will provide for Conversion to occur on the next Distribution Payment Date, which is at least 25 Business Days after the date of the notice, unless the restrictions to Conversion apply. Conversion will not occur if the further Conversion restrictions apply on that date. This process will be repeated until Conversion occurs.	Clause 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 Notes 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 Notes

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

Notes 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 Notes to fund a subscription for Additional Tier 1 Capital of CLC.

Topic	Summary	Further information
2.6.1 How do Notes rank in relation to other Challenger instruments?	• In a winding-up of Challenger, Notes will rank for payment of $100 ahead of Ordinary Shares, equally with all other Relevant Perpetual Subordinated Instruments, 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 Notes will be required to be Converted or Written-Off (see Section 2.4.6). • For the payment of Distributions, Notes rank ahead of Ordinary Shares, equally with other securities ranking equally with Notes, but behind all Senior Creditors of Challenger.	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, 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.	

Topic	Summary	Further information
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 groups 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. The types of capital deemed eligible for inclusion in the capital base are referred to as regulatory capital. • APRA classifies regulatory capital into two tiers for its supervisory purposes – referred to as Tier 1 Capital and Tier 2 Capital. • Tier 1 Capital is generally considered from the perspective of a financial institution to be 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. • On 15 August 2014, APRA released prudential standards for the supervision of conglomerate groups. The framework is expected to apply to the Challenger Group as a conglomerate group (to be known as a 'Level 3 group'). The final capital 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 any transitional arrangements which may be confirmed by APRA. The exact implementation date of the new standards is still to be determined.	
2.6.4 What is the regulatory treatment of Notes?	• If APRA's treatment of Notes as a Relevant Perpetual Subordinated Instrument changes, a Regulatory Event may occur and Challenger may have an option to Exchange Notes as described above in Section 2.3.3. • APRA has advised that: – it does not object to Challenger using the proceeds of Notes to fund a subscription for Additional Tier 1 Capital of CLC; and – Notes will not constitute Additional Tier 1 Capital or any other form of regulatory capital of Challenger. • An instrument (such as Notes) 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'. • Notes are 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 above).	

2.7 Other

Topic	Summary	Further information
2.7.1 Can Challenger issue further Notes, or other instruments?	• Challenger may, without the consent of any Holder, issue any securities ranking equally with Notes (on the same terms or otherwise) or ranking in priority or junior to Notes, or incur or guarantee any indebtedness upon such terms as it may think fit. • Notes 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.	Clause 17.9 of the Terms
2.7.2 What voting rights do Notes 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.	Clause 1.8 of the Terms
2.7.3 Can Challenger amend the Terms and Trust Deed?	• Subject to complying with all applicable laws, and with APRA's prior written approval where required, Challenger may amend the Terms and Trust Deed without the approval of Holders in certain circumstances. This may include amendments which may affect the rights of Holders, including changes to dates or time periods necessary or desirable to facilitate a Mandatory Conversion, Non-Viability Conversion or Exchange, or if in Challenger's opinion they will not be materially prejudicial to the interests of Holders as a whole. In the case of alterations made to enable the Notes 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, 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 only where the amendment may affect the eligibility of Notes as a Relevant Perpetual Subordinated Instrument.	Clauses 17.4 and 17.6 of the Terms
2.7.4 What if a Holder is not resident in Australia or a Holder does not wish to receive ordinary shares on Conversion?	• If the Register indicates that a Holder's address is outside of Australia (or Challenger believes that a Holder may not be a resident of Australia) (such a Holder, a '**Foreign Holder**') and that Foreign Holder's Notes are to be Converted, Challenger is entitled in certain circumstances to issue the relevant Ordinary Shares to a nominee appointed by Challenger. • A Holder may also elect not to receive Ordinary Shares on Conversion, in which case those shares will be issued to a nominee appointed by Challenger. • Any such nominee: – may not be Challenger or a member of Challenger 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 that 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

Topic	Summary	Further information
2.7.5 Trustee and Trust Deed	• Challenger has appointed The Trust Company (Australia) Limited as Trustee for Holders, as required by Chapter 2L of the Corporations Act. The Trustee holds certain rights in relation to Notes 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 Note only in limited circumstances. • A copy of the Trust Deed can be obtained from www.challengercapitalnotes.com.au.	Section 9.5 and the Trust Deed

3 About the Challenger Group

This Section sets out information about Challenger and the Challenger Group.

3.1 Introduction

Challenger Limited is the non-operating holding company and ultimate parent company of the Challenger Group. Challenger is listed on the Australian Securities Exchange (ASX), under the code 'CGF' and has a market capitalisation of $4.2 billion as at 22 August 2014 and is one of Australia's 100 largest listed companies.

The Challenger Group operates two businesses, a life business and a funds management business with operations primarily in Australia.

As at 30 June 2014, the Challenger Group employed over 500 people and had total assets under management of $50.7 billion and total equity of $2.2 billion.

For the financial year ended 30 June 2014, Challenger's normalised net profit after tax was $329 million and statutory net profit after tax was $341 million. A reconciliation between normalised and statutory net profit after tax is included in Section 4 (Financial Information).

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

3.2 Overview of the Challenger Group

The Challenger Group is an investment management group operating primarily in Australia. It operates two businesses:

1. **Life business – the leading provider of annuities and guaranteed retirement incomes in Australia**

   The Life business is regulated by APRA and provides products aimed at investors seeking the security and certainty of guaranteed cash flows with protection against market, inflation and longevity risks.

2. **Funds Management business – Australia's seventh largest investment manager based on funds under management**

   Challenger's Funds Management business comprises Fidante Partners and Challenger Investment Partners. Fidante Partners comprises interests in 15 separately branded, active investment managers. Challenger Investment Partners originates and manages fixed income and property assets on behalf of the life business and third-party investors.

Both of the Challenger Group's two businesses participate in the growth resulting from Australia's superannuation system:

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

Both the Life and Funds Management businesses are supported by centralised distribution, product, marketing and support functions.

3.3 Business lines

3.3.1 Life

Challenger Life Company Limited ('**CLC**') is the leading provider of annuities and guaranteed retirement income solutions in Australia and is regulated by APRA. CLC's products appeal to investors seeking the security and certainty of guaranteed cash flows with protection against market, inflation and longevity risks.

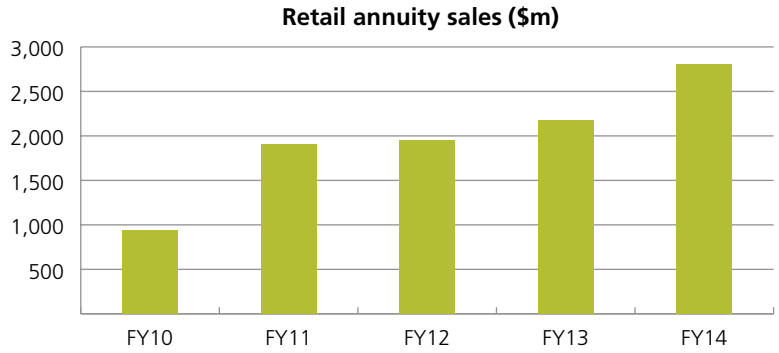
CLC's annuities and guaranteed retirement income products are distributed to retail customers, through independent financial advisers, and to financial advisers associated with the four major Australian banks and AMP Limited ('**Major Hubs**').

As an independent provider, CLC's annuities and guaranteed retirement income products are represented on the approved product lists of all Major Hub advice groups.

The Life business has been growing strongly, with sales increasing by a compound annual growth rate of 40% over the past five years. Total retail annuity sales were $2.8 billion in 2014 compared to $2.2 billion in 2013, representing growth of 28% over the year. Annuity sales growth has been underpinned by favourable macroeconomic trends, including an ageing population, changes in retiree risk preferences and an increased focus by retirees on longevity and market risks.

3 About the Challenger Group

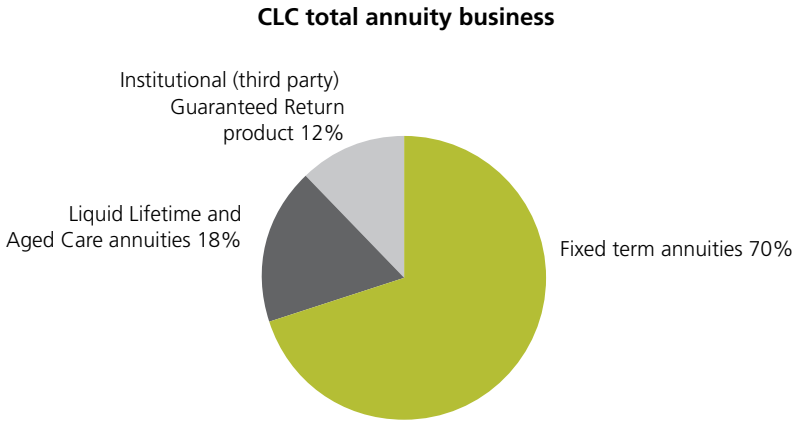
The diagram below shows retail annuity sales for the last five years:



The Life business offers the following products:

Product Categories	Product Features
Fixed term annuities	Fixed term annuity products offer a guaranteed rate of return over an agreed term. They have flexible features, including length of term and ability to draw principal and interest. Products are sold via financial advisers to retail investors.
Lifetime annuities	Lifetime annuity products pay a guaranteed amount of income for the life of the holder (and may also include a second person). These products have a liquidity feature, allowing in some cases voluntary withdrawal in the first 15 years. A variation of the lifetime annuity product is available specifically for customers in aged care, which has a liquidity feature in the first 10 years. Products are sold via financial advisers to retail investors.
Institutional (third party)	Guaranteed Return Index product paying a guaranteed rate of return to institutional investors.

The diagram below shows the contribution of each product category to CLC's total annuity business (as at 30 June 2014) based on the dollar value of annuities.

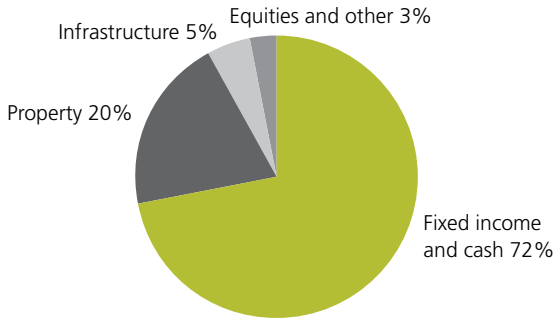


CLC does not charge its customers fees or charges on any of its annuity products. CLC generates income by ensuring that capital invested by annuity holders is invested in assets that generate a greater investment return than the payments required to be made to annuity holders.

As at 30 June 2014, the Life business had $11.1 billion in funds under management which was up from $7.6 billion at 30 June 2010.

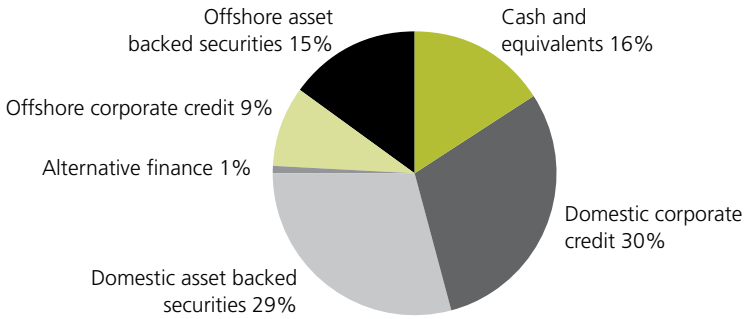
CLC's investment assets comprising both policyholder and shareholder funds at 30 June 2014 were:

Policy and shareholder funds – by investment type



Fixed income and cash is further broken down as at 30 June 2014 as follows:

Fixed income portfolio – by asset type

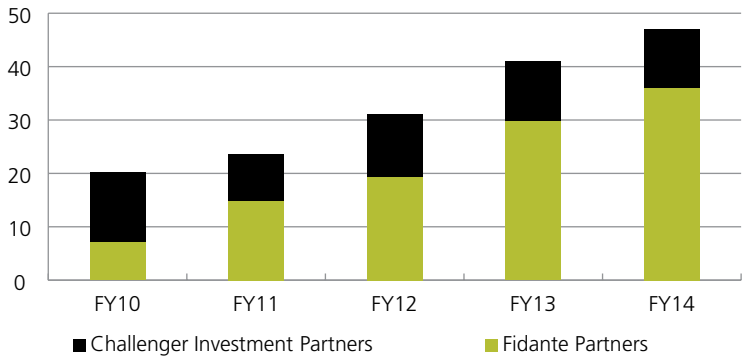


CLC is exposed to a number of risks in relation to both its liabilities and its assets (for a description of the risks associated with Challenger, CLC and the Challenger Group, see Section 5.2). These risks are managed in accordance with CLC's risk management framework and policies and procedures approved by its board and with supervision by APRA.

3.3.2 Funds Management

The Challenger Group's Funds Management business comprises Fidante Partners and Challenger Investment Partners. It is Australia's seventh largest investment manager based on funds under management ('**FUM**'). As at 30 June 2014, Challenger had $47.1 billion in FUM, up from FUM of $20.2 billion at 30 June 2010.

Funds Management – FUM ($bn)



This strong FUM growth has been driven by a clear business strategy, which is focused on investor alignment, which has helped deliver strong investment performance for both Fidante Partners and Challenger Investment Partners.

Fidante Partners

Fidante Partners comprises interests in fifteen separately branded active boutique investment managers. Fidante Partners manages a diverse range of asset classes, including fixed income, Australian equities, international equities and alternative investments including infrastructure.

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

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

Fidante Partners provides administration, distribution and partnership support for each boutique investment manager and shares in the profits of most boutique investment managers through equity ownership.

Fidante Partners has $35.9 billion of FUM as at 30 June 2014, increasing from FUM of $3.9 billion as at 30 June 2010. FUM growth has been supported by Australia's mandatory superannuation system and Fidante Partners' contemporary investment manager model. Since inception, 95% of FUM has outperformed its relevant benchmarks.

For the financial year ended 30 June 2014, Fidante Partners generated net fee income of $64.9 million, representing 59% of the Funds Management business total income.

FIDANTE PARTNERS

Alphinity Investment Management · Ardea Investment Management · Aretē · Bentham Asset Management · Greencape Capital · Kapstream Capital · kinetic Investment Partners · Merlon Capital Partners · metisq capital · Novaport Capital · River and Mercantile Asset Management · Tempo Asset Management · WaveStone Capital · Whitehelm Capital · WyeTree Asset Management

Challenger Investment Partners

Challenger Investment Partners originates and manages assets on behalf of the life business and third party institutional investors. Challenger Investment Partners invests in fixed income and property assets on behalf of CLC and external clients, including Australian industry superannuation funds and sovereign wealth funds.

Challenger Investment Partners earns fee income in relation to the assets it manages. This fee income comes in the form of management fees, performance fees and transaction fees.

For the financial year ended 30 June 2014, Challenger Investment Partners generated net fee income of $45.3 million, representing 41% of the Challenger Group's funds management business' total income.

3.4 Financial summary for the full year ended 30 June 2014

The following summarises Challenger's financial results for the full year ended 30 June 2014:

- Normalised net profit after tax ('**NPAT**') increased by 7% to $329 million.
- Normalised earnings per share ('**EPS**') increased by 9% to 64.0 cents per share.
- Statutory NPAT was $341 million.
- Life annuity sales increased by 28% to $2.8 billion.
- Funds Management recorded net inflows of $2.1 billion.
- Total AUM increased by 13% to $50.7 billion as at 30 June 2014.
- 2014 full year dividends increased by 30% to 26.0 cents per share due to both higher earnings and a higher dividend payout ratio (up from 34% to 41%).
- Total equity increased by 11% to $2.2 billion.

Normalised cash operating earnings is Challenger's 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 4.2.3). 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, less interest expenses and fees and commissions paid.

Normalised capital growth represents 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 4.2.3). These movements are generally non-cash and a result of external market factors. By separating them from the Life business result, the Life business' reported normalised earnings more closely represent the cash earnings of the business.

Challenger Group EBIT by Division

	FY13 EBIT ($m)	FY14 EBIT ($m)
Life	381.9	404.2
Funds Management	34.1	43.3
Corporate[17]	(51.2)	(59.6)
Total	364.8	387.9

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

3.5 Strategy

Challenger's vision is to provide Australians with financial security in retirement. Each of Challenger's teams are committed to achieving this goal, and their efforts are focused on:

- increasing the Australian retirement savings pool allocation to secure and lifetime income products;
- being recognised as the leader in retirement income solutions in Australia;
- being an active investment manager providing superior returns from platforms with alignment;
- delivering quality brands, products, services and platforms demonstrating value for money; and
- driving a diverse culture where our employees are highly engaged with a strong risk and compliance focus.

3.6 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, ACCC and AUSTRAC.

APRA regulates companies operating in the Australian financial services industry including CLC. APRA has established prudential standards for life companies, general insurers and banks and, as at the date of this prospectus, is in the process of developing prudential standards for conglomerate groups, which is expected to include Challenger. The exact commencement date of the new standards is still to be determined.

4 Financial information

4 Financial information

This Section sets out:

- summary financial information for Challenger and the Challenger Group;
- pro forma financial information demonstrating the effect of the Offer on Challenger; and
- pro forma capital information demonstrating the effect of the Offer on CLC.

4.1 Introduction

This Section provides summary actual historical financial and capital information and summary pro forma financial and capital information for Challenger, CLC and the Challenger Group. The pro forma financial and capital information has been included to illustrate the Challenger Group's financial and capital position as at 30 June 2014, assuming Notes were issued on that date. The adjustments do not impact the Challenger Group's consolidated statement of comprehensive income or the Challenger Group's summary financial results as they are assumed to occur at the balance sheet date.

The Challenger Group summary actual financial information presented in this Section has been extracted from Challenger's audited consolidated annual financial report for the year ended 30 June 2014. This report is available at www.challenger.com.au.

The summary financial and capital information has, except as otherwise noted, been prepared in accordance with the measurement and recognition requirements, but not the disclosure requirements, of the Australian Accounting Standards and other mandatory reporting requirements in Australia as well as APRA prudential standards. The presentation currency of the summary financial and capital information is in Australian dollars.

The pro forma consolidated statement of financial position has been prepared in accordance with the accounting standards and requirements which are detailed in the financial report of Challenger for the financial year ended 30 June 2014 (see section titled 'Notes to the financial statements' in that report) and then adjusted for pro forma transactions to reflect the impact of the completion of the Offer.

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

4.2 Consolidated financial information of the Challenger Group

4.2.1 Consolidated income statement and statement of comprehensive income

The following tables set out the Challenger Group's income statement and statement of comprehensive income for the financial year ended 30 June 2014.

Income statement

$ million	Year ended 30 June 2013	Year ended 30 June 2014
Revenue	1,617.8	1,615.8
Expenses	(786.8)	(945.8)
Finance costs	(298.8)	(262.3)
Share of profits of associates	13.4	15.9
Profit before income tax	**545.6**	**423.6**
Income tax expense	(84.3)	(53.9)
Profit for the year	**461.3**	**369.7**
Profit attributable to equity holders	416.8	340.6
Profit attributable to non-controlling interests	44.5	29.1
Profit for the year	**461.3**	**369.7**

This statement is prepared on a statutory basis in line with the Australian accounting standards and the Challenger Group's accounting policies.

Statement of comprehensive income

$ million	Year ended 30 June 2013	Year ended 30 June 2014
Profit for the year	**461.3**	**369.7**
Other comprehensive (expense)/income[18] from:		
Translation of foreign entities	(8.9)	(16.7)
– Recycled to the profit and loss	-	(5.4)
– Income tax benefit	4.6	4.9
	(4.3)	**(17.2)**
Hedge of net investment in foreign entities[18]	19.4	17.6
– Income tax expense	(8.7)	(2.4)
	10.7	**15.2**
Cash flow hedges – SPV[18,19]	4.5	(4.0)
Other comprehensive income net of tax for the year	**10.9**	**(6.0)**
Total comprehensive income for the year	**472.2**	**363.7**
Comprehensive income attributable to equity holders	427.7	334.6
Comprehensive income attributable to non-controlling interests	44.5	29.1
Total comprehensive income for the year	**472.2**	**363.7**

This statement is prepared on a statutory basis in line with the Australian accounting standards and the Challenger Group's accounting policies.

18 These items may eventually be recycled to the profit and loss section of the income statement.

19 SPV = Special Purpose Vehicles.

4.2.2 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 2014, as well as the pro forma consolidated statement of financial position as at 30 June 2014 assuming the Offer occurred on 30 June 2014.

$ million	Actuals as at 30 June 2013	Actuals as at 30 June 2014	Adjustments[20]	Pro forma as at 30 June 2014
Assets				
Cash and cash equivalents	1,030.6	391.4	518.0	909.4
Cash and cash equivalents – SPV	278.7	216.6	–	216.6
Receivables	333.4	148.5	–	148.5
Mortgage assets – SPV	4,039.4	2,978.9	–	2,978.9
Derivative assets	328.5	318.0	–	318.0
Financial assets – fair value through profit & loss	8,602.3	10,027.3	–	10,027.3
Investment property held for sale	–	222.7	–	222.7
Investment and development property	2,431.4	2,222.1	–	2,222.1
Finance leases	–	39.4	–	39.4
Property, plant and equipment	137.6	138.1	–	138.1
Investments in associates	40.0	39.4	–	39.4
Other assets	45.4	35.1	–	35.1
Goodwill	506.8	531.0	–	531.0
Other intangible assets	14.3	14.8	–	14.8
Total assets	**17,788.4**	**17,323.3**	**518.0**	**17,841.3**
Liabilities				
Payables	207.8	443.3	–	443.3
Derivative liabilities	385.0	222.5	–	222.5
Interest bearing financial liabilities	2,035.7	2,370.0	242.0	2,612.0
Interest bearing financial liabilities – SPV	3,825.8	2,931.4	–	2,931.4
External unit holders' liabilities	1,751.4	1,072.4	–	1,072.4
Provisions	27.0	26.5	–	26.5
Current tax liability	2.3	34.4	–	34.4
Deferred tax liabilities	135.9	122.4	–	122.4
Life contract liabilities	7,123.3	7,824.3	–	7,824.3
Total liabilities	**15,494.2**	**15,047.2**	**242.0**	**15,289.2**
Net assets	**2,294.2**	**2,276.1**	**276.0**	**2,552.1**
Equity				
Contributed equity	1,271.9	1,237.5	276.0	1,513.5
Reserves	49.8	69.8	–	69.8
Retained earnings	625.7	846.0	–	846.0
Total equity attributable to equity holders	**1,947.4**	**2,153.3**	**276.0**	**2,429.3**
Non–controlling interests	346.8	122.8	–	122.8
Total equity	**2,294.2**	**2,276.1**	**276.0**	**2,552.1**

20 These adjustments assume a $250 million Offer less $8 million transaction fees together with a $250 million underwritten institutional share placement undertaken on 20 August 2014 and a $30 million share purchase plan (**SPP**) less $4 million of transaction fees.

4.2.3 Historical 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 standards to fair value all assets and policy liabilities. 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 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 is shown below:

Summary reconciliation of management view of revenue to statutory revenue

$ million	Year ended 30 June 2013	Year ended 30 June 2014
Management analysis[21]		
Cash earnings	416.2	425.7
Normalised capital growth	36.0	55.6
Normalised cash operating earnings	452.2	481.3
Net fee income	99.4	110.2
Other income	4.9	1.8
Net income	556.5	593.3
Operating expenses	(191.7)	(205.4)
Normalised EBIT	364.8	387.9
Interest and borrowing costs	(4.6)	(4.1)
Normalised net profit before tax	**360.2**	**383.8**
Tax on normalised net profit	(51.7)	(55.1)
Normalised net profit after tax	**308.5**	**328.7**
Investment experience after tax	99.8	11.9
Significant items after tax[22]	8.5	–
Statutory net profit after tax attributable to equity holders	**416.8**	**340.6**

21 'Net income' and 'operating expenses' are internal classifications. These differ from the statutory revenue and expenses classifications as certain direct costs (including commissions and management fees) and interest expenses are netted against gross revenues. Whilst the allocation of amounts to the above items and investment experience differs to the statutory view, both approaches result in the same after tax profit due to equity holders of Challenger.

22 Primarily relates to the sale of investment in Homeloans Limited.

4.3 Summarised financial information of Challenger Limited parent entity (standalone)

Challenger Limited is the issuing entity for Notes. It is a non-operating holding company and the ultimate parent company of the Challenger Group. The following table contains information extracted from Challenger Limited's audited consolidated financial report for the year ended 30 June 2014. Challenger applies the amendments to the Corporations Act that removed the requirement to prepare full parent entity financial statements. The disclosures represent the specific parent entity disclosures made for the year ended 30 June 2014.

4.3.1 Summary financial results

The following table sets out summary financial results of Challenger.

Statement of comprehensive income

$ million	Year ended 30 June 2013	Year ended 30 June 2014
Revenue	300.1	189.0
Profit before income tax	**300.1**	**189.0**
Income tax benefit	18.8	5.8
Profit and total comprehensive income for the year	**318.9**	**194.8**

4.3.2 Pro forma summary financial position

The following table sets out Challenger's audited summary financial position as at 30 June 2013 and 30 June 2014, as well as the pro forma summary financial position as at 30 June 2014, assuming the Offer occurred on 30 June 2014.

$ million	Actuals as at 30 June 2013	Actuals as at 30 June 2014	Adjustments[23]	Pro forma as at 30 June 2014
Assets				
Cash and cash equivalents	1.6	1.4	–	1.4
Receivables	795.2	939.2	–	939.2
Current tax asset	0.3	–	–	–
Financial assets	–	–	250.0	250.0
Deferred tax assets	43.7	9.7	–	9.7
Investment in controlled entities	1,186.5	1,211.8	268.0	1,479.8
Total assets	**2,027.3**	**2,162.1**	**518.0**	**2,680.1**
Liabilities				
Payables	178.0	201.8	–	201.8
Current tax liability	–	30.2	–	30.2
Interest bearing financial liabilities	–	–	242.0	242.0
Total liabilities	**178.0**	**232.0**	**242.0**	**474.0**
Net assets	**1,849.3**	**1,930.1**	**276.0**	**2,206.1**
Equity				
Contributed equity	1,335.4	1,335.4	276.0	1,611.4
Share–based payment reserve	23.9	31.9	–	31.9
Retained earnings	490.0	562.8	–	562.8
Total equity	**1,849.3**	**1,930.1**	**276.0**	**2,206.1**

23 These adjustments assume a $250 million Offer together with a $250 million underwritten institutional share placement undertaken on 20 August 2014 and a $30 million share purchase plan (**SPP**). Total transaction fees of $12m have been deducted from the proceeds invested in 'Investment in controlled entities'. 'Financial assets' shows the proceeds of Notes are invested in notes issued by CLC. 'Investment in controlled entities' shows the proceeds of the underwritten institutional share placement and SPP (net of transaction fees) being invested into controlled entities as equity.

4.4 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, 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.

Notes will not constitute regulatory capital of Challenger, although APRA has confirmed that the proceeds of Notes 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;
- Tier 2 Capital comprising certain securities recognised as Tier 2 Capital; and
- the sum of Tier 1 Capital and Tier 2 Capital is called 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's Conglomerates Proposal develops a supervision framework for conglomerate groups. Standards were released on 15 August 2014, but the implementation date of these new prudential standards is still to be determined. The capital 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. Challenger is a non-operating holding company and is expected to be subject to the requirements of the Conglomerates Proposal. Based on the standards released, Challenger expects to be able to implement the requirements.

APRA also introduced new prudential standards for life and general insurance companies (the **LAGIC** standards) which came into effect on 1 January 2013. The introduction of the LAGIC standards increased CLC's prescribed capital amount ('**PCA**') by $323 million from 1 January 2013. However, APRA granted relief to CLC to allow the impact of the capital changes to occur over a three-year transition period. Accordingly, the increase in capital required to be held by CLC is phased in by three incremental steps of $108 million per annum. The first such increment was recognised and required to be held by CLC on 1 January 2014 with the remaining two increments being recognised on 1 January 2015 and 1 January 2016.

The capital position across CLC as at 30 June 2014 was:

- CLC's Capital Base was 1.7 times the PCA and Common Equity Tier 1 Capital was 1.3 times the PCA; and
- CLC's excess Capital Base over the PCA was $903 million.

On 20 August 2014, Challenger conducted an underwritten institutional share placement raising $250 million of equity. Challenger also announced its intention to offer a share purchase plan (**SPP**) for shareholders with an expectation that an additional $30 million of equity would be raised through this mechanism. The SPP is not underwritten and consequently the amount raised could be more or less than $30 million. The majority of the proceeds from the institutional share placement and SPP are expected to be injected into CLC as Common Equity Tier 1 Capital.

4.5 Pro forma capital adequacy position

The following table sets out CLC's pro forma capital adequacy position based on CLC's financial position as at 30 June 2014:

CLC's excess capital under LAGIC

$ million	Actuals as at 30 June 2013	Actuals as at 30 June 2014	Adjustments	Pro forma as at 30 June 2014
Common Equity Tier 1 regulatory capital	1,563.5	1,783.1	268.0	2,051.1[26]
Additional Tier 1 Capital	–	–	250.0	250.0[27]
Tier 2 Capital – subordinated debt	488.8	476.8	–	476.8
CLC total regulatory capital base[24]	**2,052.3**	**2,259.9**	**518.0**	**2,777.9**
Prescribed capital amount – excluding transition balance	1,477.7	1,572.5	–	1,572.5
Transition balance[25]	(322.8)	(215.2)	–	(215.2)
CLC prescribed capital amount	**1,154.9**	**1,357.3**	**–**	**1,357.3[28]**
CLC excess over prescribed capital amount	**897.4**	**902.6**	**518.0**	**1,420.6**
Prescribed Capital Adequacy ratio	**1.78**	**1.66**		**2.05**

24 CLC's regulatory capital base includes $476.8 million of subordinated debt admissible as Tier 2 regulatory capital. Under transition relief provided by APRA from the introduction of Life and General Insurance Capital (LAGIC) standards on 1 January 2013, this subordinated debt issuance continued to be fully eligible as Tier 2 regulatory capital until each tranche's first call date (or coupon date, where the tranche was already past its call date) after 1 January 2013, thereafter amortising over four years.

25 Life and General Insurance Capital (LAGIC) transition balance reduced by one third ($107.6 million) on 1 January 2014, and will reduce a further one third ($107.6 million) on each of 1 January 2015 and 1 January 2016.

26 The proceeds of the underwritten institutional placement and the SPP (net of all transaction fees) are assumed to be invested in CLC. The proceeds and the investment in CLC may be more or less than this amount.

27 Assumes Challenger uses the proceeds from the issue of Notes to fund a subscription for Additional Tier 1 Capital of CLC for the same amount. APRA has confirmed that the proceeds of Notes can be used for such a purpose.

28 Assumes no change in prescribed capital amount upon receipt of funds by CLC. As the capital received is progressively deployed, the prescribed capital amount will increase and the prescribed capital adequacy ratio will decrease.

5 Investment risks

5 Investment risks

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

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. There is no guarantee or assurance that the importance of different risks will not change or that other risks will not emerge.

Before applying for Notes, you should consider whether Notes are a suitable investment for you. There are risks associated with an investment in Notes 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.

5.1 Risks associated with investing in Notes

5.1.1 Notes are not policy liabilities

Notes are not:

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

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

5.1.2 Market price of Notes

The market price of Notes may fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions, better rates of return on other securities, interest rates, movements in the market price of Ordinary Shares or senior or subordinated debt, Challenger's financial performance and position and other factors that may affect that performance and position. Notes may trade at a market price below the Face Value. There is no guarantee that Notes will remain continuously quoted on ASX.

In recent years, markets have sometimes been volatile. 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 Notes before deciding whether to make an investment in Notes.

5.1.3 Liquidity of Notes

Although Challenger intends to have Notes quoted on ASX, there is no guarantee that a liquid market will develop for Notes. The market for Notes may be less liquid than the market for Ordinary Shares or comparable securities issued by Challenger or other entities. The market price of Notes is likely to fluctuate and, if Holders wish to sell or otherwise transfer their Notes 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 Notes.

5.1.4 Market price and liquidity of Ordinary Shares

Notes 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. Where Notes 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 approximately $101 worth of Ordinary Shares per Note (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 fluctuate due to various factors, including investor perceptions, Australian and worldwide economic conditions, Challenger's financial performance and position and other factors that may affect that performance and position, and may also be affected by the actual or prospective Conversion of Notes. 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 Note 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 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 Notes are Converted. That market price is also subject to the factors outlined above and may also be volatile.

5.1.5 Distributions may not be paid

There is a risk that Distributions will not be paid. The Terms do not oblige Challenger to pay Distributions.

If, on a Distribution Payment Date:

- the consolidated retained earnings of the Challenger Group are negative (or would on payment of the Distribution become negative); or
- Challenger becomes or is likely to become insolvent for the purposes of the Corporations Act; or
- if APRA objects to the payment

then a Distribution will not be paid. If Challenger, in its absolute discretion, decides not to pay a Distribution then that Distribution will not be paid.

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 the Holder to require Challenger to Redeem Notes 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
- will have no right of set-off and no offsetting rights or claims on Challenger under the Terms.

Distributions are non-cumulative, and therefore if a Distribution is not paid, Holders will have no recourse whatsoever to payment from Challenger and will not receive payment of those Distributions.

However, if Challenger does not pay a Distribution in full on a Distribution Payment Date, then, subject to certain exceptions set out in clause 3.9 of the Terms, Challenger must not, 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 that date.

Challenger may also be prevented from paying Distributions by the terms of other securities of members of the Challenger Group if a dividend or other distribution 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 or making other distributions to Challenger if a distribution on the relevant security is not paid. The USPP Notes issued by CLC contain such a provision.

If Challenger or a member of the Challenger Group is subject to such a constraint, Challenger may not be able to pay Distributions on Notes without the approval of the holders of those other securities.

Changes in regulations applicable to Challenger may impose additional restrictions on Challenger paying a Distribution or a dividend or distribution on other securities.

5.1.6 Changes in Distribution Rate

The Distribution Rate is calculated for each Distribution Period by reference to the Bank Bill Rate, which is influenced by a number of factors and varies over time. The Distribution Rate will fluctuate (both increase and decrease) over time as a result of movements in the Bank Bill Rate. The Distribution Rate will also fluctuate (both increase and decrease) with changes in the rate of franking of Distributions and changes in the Australian corporate tax rate applicable to Challenger (see Section 5.1.7).

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.

5.1.7 Distributions may or may not be franked

The Franking Rate when Notes are first issued is expected to be 70%. The Franking Rate for a Distribution Period may be a lesser or higher percentage depending on Challenger's level of available franking credits. 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. 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. Holders should 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. Each Holder should refer to the taxation summary in Section 7 and obtain professional advice in relation to its tax position.

5.1.8 Notes are perpetual and Mandatory Conversion may not occur on the Scheduled Mandatory Conversion Date or at all

Notes may be Redeemed or Resold for cash or Converted on 25 May 2020 (or on an earlier date in certain circumstances) subject to APRA's prior written approval. Otherwise Notes will mandatorily Convert into Ordinary Shares of Challenger on 25 May 2022 (subject to certain conditions being satisfied). However, 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 where 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 clauses 8.5 and 8.6 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 would then occur on the next Distribution Payment Date on which all of the Mandatory Conversion Conditions are satisfied (unless Notes are otherwise Exchanged on or before that date). If Mandatory Conversion does not occur on a possible Mandatory Conversion Date and Notes are not otherwise Exchanged, Distributions may continue to be paid on Notes, subject to no Payment Condition existing.

Notes are a perpetual instrument. If the Ordinary Share price deteriorates significantly and never recovers, it is possible that the Mandatory Conversion Conditions will never be satisfied and, if this occurs, unless Notes are otherwise Converted, Notes will never Convert.

5.1.9 Exchange is at Challenger's option

Challenger may (subject to APRA's prior written approval) elect to Exchange some or all Notes on the Optional Exchange Date or on the occurrence of a Tax Event or a Regulatory Event and may elect to Exchange by way of Conversion all (but not some) Notes after a Potential Acquisition Event. In addition, Challenger must (subject to certain conditions) Convert all Notes on the occurrence of an Acquisition Event (see section 5.1.10). Holders have no right to request or require an Exchange.

Any 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 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 Notes (such as Distributions) is unknown.

Subject to certain conditions, Challenger also has discretion to elect which Exchange Method will apply to an Exchange (and a combination of Exchange Methods may be chosen). 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 relevant date.

For example, if APRA approves an election by Challenger to Redeem or Resell Notes, Holders will receive cash equal to $100 per Note 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 Notes.

5.1.10 Conversion on an Acquisition Event

Notes 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 Notes in accordance with clause 7 of the Terms. 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 Notes (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 Notes.

5.1.11 Exchange by Challenger is subject to certain events occurring

If Challenger elects to Exchange Notes 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.

The choice of Conversion as the Exchange Method is subject to the level of the Ordinary Share price on the second Business Day before the date on which an Exchange Notice is to be sent by Challenger (or if trading in Ordinary Shares did not occur on that date, the Business Day prior to that date on which trading in Ordinary Shares did occur). If the VWAP on that date is less than or equal to 22% of the Issue Date VWAP, Challenger is not permitted to choose Conversion as the Exchange Method. Also, if a Delisting Event applies, Challenger is not permitted to choose Conversion as the Exchange Method.

The conditions to Conversion on the Exchange Date are that both the Second Mandatory Conversion Condition and the Third Mandatory Conversion Condition must be satisfied in respect of the Exchange Date as if the Exchange Date were a possible Mandatory Conversion Date.

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 as if that Distribution Payment Date were a possible Mandatory Conversion Date.

The choice of Redemption as the Exchange Method is subject to the condition that APRA is satisfied that either:

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

Challenger is not permitted to elect to Redeem or Resell Notes on account of an Acquisition Event or a Potential Acquisition Event.

Challenger may select any one or more of Conversion, Redemption or Resale to apply to Notes held by a Holder and may select a different combination of Conversion, Redemption or Resale in respect of Notes held by different Holders. Challenger's choice may differ from the Holder's preference. If Challenger chooses Conversion as the method of Exchange, Holders will receive Ordinary Shares and have the same rights as other holders of Ordinary Shares, which are different to the rights attaching to Notes.

5.1.12 Conversion conditions

The only conditions to Conversion are, in the case of Mandatory Conversion, the Mandatory Conversion Conditions and, in the case of Conversion following an Acquisition Event, the conditions expressly applicable to such Conversion under clauses 6.5 and 7.5 of the Terms.

Although one of the Mandatory Conversion Conditions is that a Delisting Event does not apply, other events and conditions may affect the ability of Holders to trade or dispose of the 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 the Ordinary Shares or to capital markets generally, the availability of purchasers for Ordinary Shares and any costs or practicalities associated with trading or disposing of Ordinary Shares at that time.

Further, as outlined in Section 5.1.13, Conversion following a Non-Viability Trigger Event is not subject to any conditions.

5.1.13 Conversion on account of a Non-Viability Trigger Event

Challenger must immediately Convert Notes into Ordinary Shares if at any time a Non-Viability Trigger Event occurs. This could be at any time. Accordingly, any Conversion on account of a Non-Viability Trigger Event may occur on dates not previously contemplated by Holders, which may be disadvantageous in light of market conditions or their individual circumstances.

A Non-Viability Trigger Event occurs if APRA has provided a written determination to Challenger that the conversion or write-off of Relevant Perpetual Subordinated Instruments is necessary because either:

- 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 capital support with respect to, Challenger, APRA considers that Challenger would become non-viable.

Challenger intends to use the proceeds from the issue of Notes to subscribe for Additional Tier 1 Capital of CLC. 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.

If less than all Notes and other Relevant Perpetual Subordinated Instruments are required to be Converted, Challenger must determine which Notes 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) Notes are required to be Converted, not all Holders may have their Notes Converted.

Non-Viability Trigger Event

APRA has not provided guidance as to how it would determine non-viability. 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. 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 all (or, if less than all Notes are required to be Converted, some) Notes on issue into the Conversion Number of Ordinary Shares for each Note required to be Converted;
- Conversion is immediate and from the Non-Viability Conversion Date Challenger will treat Holders as having been issued the Conversion Number of Ordinary Shares. Challenger expects any ASX trades in Notes that have not settled on the date a Non-Viability Trigger Event occurs will continue to settle in accordance with the normal ASX T+3 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 into which Notes have 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 Notes on ASX, and if ASX permits, may refuse to register transfers of Notes that have not settled – this may result in disruption or failures in trading or dealings in Notes (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 Conversion occurs in an orderly manner, including disregarding any transfers of Notes 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.

The number of Ordinary Shares a Holder will receive on Conversion following a Non-Viability Trigger Event is calculated in accordance with the Conversion Number formula which provides for a calculation based on a discounted five Business Day VWAP but cannot be more than the Maximum Conversion Number. Accordingly, this may result in a Holder receiving significantly less than $101 worth of Ordinary Shares per Note and suffering loss as a result. This is because:

- the number of Ordinary Shares is limited to the Maximum Conversion Number and this number of Ordinary Shares may have a value of less than $101;
- where the number of shares is calculated by reference to the five Business Day VWAP, the VWAP during the five Business Days immediately preceding (but not including) the Non-Viability Conversion Date may 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. In particular, VWAP prices will be based wholly on trading days which occurred before the Non-Viability Trigger Event; and
- 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, 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 Holders receive only the Maximum Conversion Number and so may adversely affect the position of Holders.

Inability Event

If, following a Non-Viability Trigger Event, 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 by any other reason from Converting Notes within five Business Days after the Non-Viability Conversion Date (an '**Inability Event**'), those Notes will not be Converted but will instead be Written-Off, in which case all rights in relation to those Notes will be terminated (and Holders will not get their capital back).

The laws under which an Inability Event may arise include laws relating to the insolvency, winding-up or other external administration of Challenger. Those laws and the grounds on which a court or government authority may make orders preventing the Conversion of Notes may change and may be adverse to the interests of Holders and the change may increase the risk of Notes being Written-Off. An Inability Event is taken to subsist if Challenger receives legal advice to that effect.

5.1.14 Restrictions on rights and ranking in a winding-up of Challenger

Notes are issued by Challenger under the Terms. A Holder has no claim on Challenger in respect of Notes except as provided in the Terms and has no claim on any other member of the Challenger Group. Notes are unsecured.

Claims in respect of Notes are subordinated in, and notwithstanding, a winding-up of Challenger, so as to rank senior to Ordinary Shares as set out in the Terms. Notes are also subordinated to any creditors (including any regulatory capital security holders) of CLC.

In the event of a winding-up of Challenger, and assuming Notes have not been Exchanged and are not required to be Converted due to a Non-Viability Trigger Event, Holders (and the Trustee) shall be entitled to prove for the Redemption Price in respect of a Note (being an amount equal to the Face Value of the Note) only subject to, and contingent upon, the prior payment in full of, the Senior Creditors. The Holders' 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 (as if the Holder held a preference share conferring a claim in Challenger's winding-up for the Redemption Price and ranking ahead only of Ordinary Shares).

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

5.1.15 Future issues or redemptions of securities by Challenger

The Terms do not in any way restrict Challenger from issuing further securities or from incurring further indebtedness. Challenger's obligations under Notes 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 Notes). Accordingly, Challenger's obligations under Notes will not be satisfied unless it can satisfy in full all of its other obligations ranking senior to Notes.

Challenger 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 Notes;
- have the same or different dividend, interest or distribution rates as the Distribution Rate for Notes;
- have payment tests and distribution restrictions or other covenants which affect Notes (including by restricting circumstances in which Distributions can be paid or Notes can be Redeemed); or
- have the same or different terms and conditions as Notes.

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

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

No prediction can be made as to the effect, if any, which the future issue of securities by Challenger may have on the market price or liquidity of Notes or of the likelihood of Challenger making payments on Notes.

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

An investment in Notes 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).

5.1.16 Notes 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 Notes could decline in value even if Notes have not been Converted. Accordingly, when you evaluate whether to invest in Notes 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 5.2.

5.1.17 A Distribution Restriction applies in limited circumstances

The Distribution Restriction restricts distributions only in respect of Ordinary Shares and not distributions in respect of securities ranking equally with Notes or any other class of security (if on issue). Further, the Distribution Restriction in Notes only applies until and including the next Distribution Payment Date. The dates for dividends are determined by Challenger in its discretion and are not related to the Distribution Payment Dates for Notes. Accordingly, as soon as the Distribution Restriction ceases to apply (because the next scheduled Distribution on Notes is paid), Challenger will not be restricted from paying a dividend (assuming that Challenger has determined to pay a dividend).

5.1.18 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 Notes will not be rated, such changes could adversely affect the market price, liquidity and performance of Notes or Ordinary Shares received on Conversion. A rating of Challenger is not a rating of Notes.

5.1.19 Regulatory treatment

Notes 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 Notes 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 Notes 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 Notes 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 Notes (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.

5.1.20 Australian tax consequences

A general outline of the tax consequences of investing in Notes for certain potential investors who are Australian residents for tax purposes is set out in the Australian taxation summary in Section 7. 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 Notes being on issue or that any Distribution would not be frankable, Challenger is entitled to Exchange all or some Notes (subject to APRA's prior written approval).

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

5.1.21 Accounting standards

New accounting standards or amendments to existing accounting standards issued by either the International Accounting Standards Board or 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.

5.1.22 Shareholding limits

The Financial Sector (Shareholdings) Act 1998 (Cth) restricts ownership by people (together with their associates) of life insurers and their holding companies, such as Challenger, to a 15% stake. A shareholder may apply to the Australian Treasurer to extend its ownership beyond 15%, but approval will not be granted unless the Treasurer is satisfied that a holding by that person greater than 15% 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 Notes (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.

5.1.23 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 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 Notes 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 Notes 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, with the approval of the Trustee and, where required, with APRA's prior written approval, amend the Terms or 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 Notes being used to fund a subscription for Additional Tier 1 Capital of CLC.

5.1.24 FATCA withholding

It is possible that, in order to comply with sections 1471 through 1474 of the US Internal Revenue Code of 1986 ('**FATCA**'), Challenger (or if Notes are held through another non-US financial institution, such other financial institution) may be required (pursuant to an agreement with the US Internal Revenue Service ('**IRS**') or under an applicable law, including a non-US law implementing an intergovernmental approach to FATCA) to request certain information from Holders or beneficial owners of Notes, which information may be provided to the IRS, and to withhold at the rate of 30% on all or a portion of payments made after 31 December 2016 with respect to Notes 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 Notes are treated as debt for US federal income tax purposes unless Notes 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 US Federal Register.

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

On 28 April 2014, Australia and the US signed an intergovernmental agreement in respect of FATCA ('**Australian IGA**'). The Australian Government has enacted legislation amending the Taxation Administration Act 1953 of Australia and the Income Tax Assessment Act 1997 of Australia to give effect to the Australian IGA ('**FATCA Amendments**'). Under the FATCA Amendments, Australian FFIs will generally be able to be treated as 'deemed compliant' with FATCA. Depending on the nature of the relevant FFI, FATCA withholding may not be required from payments made with respect to Notes other than in certain prescribed circumstances. Under the FATCA Amendments, an FFI may be required to provide the Australian Taxation Office with information on financial accounts (for example, Notes) held by US persons and recalcitrant account holders and on payments made to non-participating FFIs.

The above description is based in part on US Treasury regulations issued on 17 January 2013 and 20 February 2014, official guidance and the FATCA Amendments, all of which are subject to change or may be implemented in a materially different form. Future guidance may affect the application of FATCA to Notes. The requirements of FATCA and the FATCA Amendments may not impact all Holders in the same way. Holders should obtain their own advice about the requirements of FATCA and the FATCA Amendments.

5.2 Risks associated with Challenger, CLC and the Challenger Group

Set out below are specific investment risks associated with Challenger, CLC and the Challenger Group. Challenger's business is subject to risks that can adversely impact its business, results of operations, financial condition and future performance. These are relevant to an investment in Notes as Challenger's ability to fulfil its obligations under, or in respect of, Notes (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 Notes remain in force, are Converted, 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.

5.2.1 Regulatory and compliance risk

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 prudential requirements, including the Corporations Act and the Life Insurance Act. This regulatory regime is complex and is presently undergoing significant change, including the FOFA regulatory changes, the Stronger Super regulatory changes, the new APRA prudential standard for superannuation funds and the rules relating to the treatment of annuities (in the context of means testing and the aged pension).

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, 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, ACCC and AUSTRAC along with offshore regulators (for example, those in the United Kingdom). As 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 and/or issue a direction to it (such as a direction to comply with a prudential requirement to conduct an audit, to remove a director, executive officer or employee or not to undertake transactions).

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

If the 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 cannot predict the impact of future legislation and regulatory change on its business. However, as the amount and complexity of regulation increases, so may the cost of compliance and the risk of non-compliance.

Further, the Federal Government is in the process of conducting a review of the retirement income stream regulation and inquiries into the financial system and tax reform. The Review of retirement income stream regulation discussion paper was released on 21 July 2014 and submissions are due by 5 September 2014. The Financial System Inquiry's Interim Report was published on 15 July with the Final Report expected to be published by November 2014. A Taxation White Paper is expected to be published by the end of 2015. Reforms arising from these inquiries may have an impact on the activities and operations of the Challenger Group. The reforms may require the Challenger Group to revise and/or withdraw its range of products and/or services, change its premiums, fees and/or charges, redesign its technology or other systems, which may result in the Challenger Group incurring significant expense and having to retrain its staff, pay additional tax, hold more capital and perhaps 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 nature, timing and impact of future regulatory 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.

5.2.2 Capital adequacy

Certain entities within the Challenger Group are required to meet the capital and liquidity standards prescribed by APRA and other regulators. If those entities fail to meet these prudential standard requirements or these standards change, the Challenger Group may not be able to achieve its strategic plans and objectives.

In 2013, APRA implemented the Life and General Insurance Capital ('**LAGIC**') standards following a period of regulatory review. The standards imposed greater capital requirements on CLC as a result of a changed approach to asset stresses, new requirements for operational risk capital and revised treatment of excess policyholder capital. See Section 4.4 for the impact of the introduction of LAGIC on CLC. 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.

APRA has also developed a supervision framework for conglomerate groups. Standards were released on 15 August 2014, but the exact implementation date of these new prudential standards is still to be determined. The capital 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. It is possible that the new supervision framework for conglomerate 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 conglomerate groups, in the standards prescribed by regulators 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 and/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 and/or withdraw its range of products and/or services, change its product pricing, fees and/or charges, redesign its technology or other systems incurring significant expense, retrain its staff, pay additional tax, hold more capital or incur other costs. While the 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.

5.2.3 Market risk

Demand for Challenger's financial products and services is affected by changes in economic conditions, investment markets, investor sentiment and customer preferences. The global financial crisis saw a deterioration in market values across most asset classes as well as a slowdown in the growth of the global economy. Although the Australian investment market has generally improved since then, local economic conditions and investment markets remain susceptible to global economic and market uncertainty. Any deterioration in investment markets, investor sentiment or economic conditions in the Challenger Group's core markets may lead to reductions in new business sales, and therefore reduced cash flows, which may have an adverse impact on the overall financial performance and position of the Challenger Group.

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

Interest rate risk

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

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

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.

Foreign exchange hedging 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 CPI. CLC purchases assets such as property and infrastructure in order to hedge this liability. The assets purchased may not exactly match the risk contained in the liability portfolio and this may give rise to losses or it may result in additional capital being required.

5.2.4 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 Challenger Investment Partners 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 Challenger Investment Partners 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, securities and other assets in which it invests. Those risks include, but are not limited to:

- 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 or share prices; and
- liquidity risk, including that the 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.

Relative investment performance to peers or market returns more generally also affect the demand for certain of the products offered by the Challenger Group, particularly, the investment mandates operated by Challenger Investment Partners and the funds managed as part of the Fidante Partners business. If Challenger Investment Partners or the funds managed as part of the Fidante Partners business underperform peer investment managers and/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.

5.2.5 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, 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 and/or counterparties may default. This 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, New Zealand and Japan. The Challenger Group's funds management business also provides loans in respect of commercial property located in Australia. Property markets in these jurisdictions can be variable and some locations have experienced reduced asset values. Declining property valuations may result in either unrealised or realised losses which will affect the profitability, financial performance, capital resources and prospects of the Challenger Group.

5.2.6 Fair value impact on earnings

Under Australian Accounting Standards, CLC is required to recognise most assets and liabilities at fair value. This gives rise to unrealised gains and losses being included in CLC's statutory profit and loss statement. 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 profit and loss statement which will reduce earnings. This may not accurately represent the underlying earnings because CLC did not have to sell the assets and realise the loss.

CLC's earnings currently represent a material proportion 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 profit and loss statement. This impact could be either positive or negative, but if the impact is negative it may have a material adverse impact on Challenger's business, reputation, 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.

5.2.7 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 whose duration ranges 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 Challenger.

5.2.8 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:

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

5.2.9 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 a significant increase in the cost of funding through either a systemic or company-specific event. '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.

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, or reduced financial performance of these assets or funds, dividends not being available to be paid by CLC to Challenger, and/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 reputation, brand and debt and equity market relationships.

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

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

5.2.10 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, whether the factors affecting the ratings of Challenger, or any member of the Challenger Group, also impact Challenger's peers or life insurance sector.

5.2.11 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 Challenger Investment Partners 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 Challenger Investment Partners 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 from debt securities, property leases, futures and options broker clearers and 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.

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 outsource arrangements are structured, managed and controlled in such a manner that its market reputation, service to customers, financial performance and obligations to regulators are enhanced or preserved, there remains a risk that these arrangements might fail.

5.2.12 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;
- capacity 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 of information or technology arising from external or internal security threats.

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.

5.2.13 Staff retention/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 and qualified 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.

5.2.14 Distribution channels

CLC distributes its products through third party financial planning networks. Many of these financial planning networks are owned by product manufacturers that sell products that compete with 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.

5.2.15 Competitive 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.

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 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.

5.2.16 Reputational damage

The Challenger Group's ability to attract and retain customers and investors and its prospects could 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, 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.

5.2.17 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 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. These decisions may, for a variety of reasons, not deliver the anticipated positive business results and could have a material adverse impact on the business, prospects, engagement with regulators, financial performance or position of the Challenger Group.

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, 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.

5.2.18 Structural subordination

Challenger is a holding company which owns or holds interests in a life business (CLC) and a funds management business (Challenger Investment Partners and Fidante Partners) in Australia. 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 security holders, have been discharged or provided for.

In addition, Challenger is reliant on the continued receipt of distributions or other funding from its subsidiaries, in particular, CLC, to make payments on its securities, including Notes. The ability of CLC and Challenger's subsidiaries to pay distributions or to otherwise make funds available to Challenger may in certain circumstances be subject to regulatory, contractual or legal restrictions. In the case of CLC, the terms of its USPP Notes restrict it from paying distributions to Challenger if a distribution has not been paid on the USPP Notes.

5.2.19 Accounting policies

The accounting policies and methods that the Challenger Group applies are fundamental to how it records and reports its financial position and the results of its operations. These accounting policies and methods change from time to time and management must exercise judgement in selecting and applying many of these accounting policies and methods so that they not only comply with generally accepted accounting principles but they also reflect the most appropriate manner in which to record and report on the financial position and results of operations. However, these accounting policies may be applied inaccurately, resulting in a misstatement of financial position and results of operations.

In some cases, management must select an accounting policy or method from two or more alternatives, any of which might comply with generally accepted accounting principles and be reasonable under the circumstances, yet might result in reporting materially different outcomes than would have been reported under another alternative.

5.2.20 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. Significant recent tax law changes and current proposals for further reforms give rise to risks, as the status and precise scope of many new and proposed tax laws is not yet known.

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 Distribution of Notes.

The Australian Taxation Office, 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 Australian Taxation Office and overseas tax regulators in respect of ongoing taxation compliance.

5.2.21 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 41 of Challenger's audited annual consolidated financial statements for the year ended 30 June 2014.

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

6 About the Offer

6 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.

6.1 The Offer

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

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

6.2 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 high net worth clients of Syndicate Brokers;
- a Shareholder Offer made to Eligible Shareholders; and
- a General Offer made to members of the general public who are resident in Australia.

6.3 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 through Challenger's website (www.challenger.com.au) and may be available through your Syndicate Broker. You can also request a free paper copy of this Prospectus and an Application Form by calling the Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia) Monday to Friday, 8:00am to 6:00pm (Sydney time) or by registering online to receive a Prospectus at www.challengercapitalnotes.com.au.

Eligible Shareholders will also have access to download an electronic version of this Prospectus and a personalised Application Form through www.challengercapitalnotes.com.au.

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.

6.3.1 Electronic access to this Prospectus

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

- you must download the entire Prospectus;
- the Prospectus is available electronically to you only if you are accessing and downloading or printing the electronic copy of the Prospectus in Australia.

6.4 Applying for Notes

6.4.1 Minimum Application

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

6.4.2 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 Notes in the Bookbuild expected to be conducted on 3 September 2014.

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

6.4.3 Applying under the Broker Firm Offer

The Broker Firm Offer is available to Australian resident retail or high net worth 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.

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 the Registry by the Closing Date. The Closing Date for the Broker Firm Offer is expected to be 5:00pm (Sydney time) on 7 October 2014.

6.4.4 Applying under the Shareholder Offer

The Shareholder Offer is available to Eligible Shareholders. To be an Eligible Shareholder, you must:

- be a registered holder of Ordinary Shares at 7:00pm (Sydney time) on 19 August 2014;
- 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 Notes, we encourage you to apply as soon as possible after the Opening Date as the Offer may close early.

If you are an Eligible Shareholder, you may apply for Notes under the Shareholder 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 Notes using BPAY (you will not be required to submit a personalised Application Form if applying online); or
- completing the personalised paper Application Form attached to, or accompanying, this Prospectus, or downloaded from www.challengercapitalnotes.com.au, providing your SRN or HIN and lodging your personalised paper Application Form and accompanying Application Payment (made by cheque or money order) with the Registry.

Your BPAY payment or completed personalised paper Application Form and Application Payment must be received by the Registry by the Closing Date and time. The Closing Date for the Shareholder Offer is expected to be 5:00pm (Sydney time) on 30 September 2014.

If you did not receive a personalised paper Application Form or would like a replacement personalised paper Application Form, you can either download your personalised Application Form from www.challengercapitalnotes.com.au or call the Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia) Monday to Friday, 8:00am to 6:00pm (Sydney time).

6.4.5 Applying under the General Offer

The General Offer is available to members of the general public who are residents in Australia.

If you wish to apply for Notes, we encourage you to apply as soon as possible after the Opening Date as the Offer may close early.

If you are a General Applicant, you may apply for Notes under the General Offer by either:

- applying online at www.challengercapitalnotes.com.au. Instructions on how to complete your Application Form are provided online. When applying online, you will be required to pay for Notes using BPAY. If you are applying online and paying by BPAY, you do not need to return a paper Application Form to the Registry; or
- completing the Broker Firm and General Offer Application Form at the back of this Prospectus. Instructions on how to complete the Application Form are set out on the form. When applying via a paper Application Form you may pay for Notes using cheque(s) and/or money order(s). If you apply using a paper Application Form, you cannot pay for Notes by BPAY.

Your BPAY payment or completed paper Application Form and Application Payment must be received by the Registry by the Closing Date and time. The Closing Date for the General Offer is expected to be 5:00pm (Sydney time) on 30 September 2014.

6.5 Completing and lodging your Application

6.5.1 Delivering Application Forms

If you are an Eligible Shareholder applying under the Shareholder Offer, or a General Applicant applying under the General Offer, and you are paying by cheque and/or money order you should return your completed paper Application Form and Application Payment to one of the addresses below so that they are received by the Registry before the Closing Date and time, which is expected to be 5:00pm (Sydney time) on 30 September 2014.

If you are applying under the Broker Firm Offer, 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.

Applicants under the Shareholder Offer
Challenger Capital Notes Offer
c/- Computershare Investor Services
GPO Box 505
Melbourne VIC 3001

Applicants under the General Offer
Challenger Capital Notes Offer
c/- Computershare Investor Services
GPO Box 2115
Melbourne VIC 3001

Please note that paper Application Forms and Application Payments will not be accepted at any other address or office and 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 or paying by BPAY, no paper Application Form is required to be sent to the Registry.

6.5.2 How to pay

BPAY

If you are an Eligible Shareholder applying under the Shareholder Offer, or a General Applicant applying under the General Offer, and you are applying online, you must complete your Application by making a BPAY payment. If you apply using a paper Application Form, you cannot pay for Notes using BPAY. Instead you must pay via cheque and/or money order.

Using the BPAY details provided, you need to:

- access your participating BPAY financial institution either through telephone banking or internet banking;
- select BPAY and follow the prompts;
- enter the biller code supplied;
- enter the unique Customer Reference Number supplied for each Application;
- enter the total amount to be paid which corresponds to the number of Notes you wish to apply for under each Application (i.e. a minimum of $5,000 (50 Notes) and incremental multiples of $1,000 (10 Notes) after that). 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;
- select the account you wish your payment to be made from;
- schedule your payment for the same day that you complete your online 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 and time. 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 Shareholder applying under the Shareholder Offer or a General Applicant applying under the General Offer, and you complete your Application by making a BPAY payment, you do not need to complete or return the paper Application Form. Simply use the biller code and Customer Reference Number provided on your paper Application Form and follow the BPAY instructions. By completing a BPAY payment, you acknowledge you are applying pursuant to the Application Form.

Cheque and/or money order

If you are an Eligible Shareholder applying under the Shareholder Offer, or a General Applicant applying under the General Offer, and you do not wish to pay by BPAY, Application Payments must be paid by cheque and/or money order in Australian dollars drawn on an Australian branch of a financial institution. It should be made payable to 'Challenger Capital Notes Offer Account' and be crossed 'Not Negotiable'.

Your completed Application Form and Application Payment must be received by the Registry by the Closing Date and time.

6.5.3 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 Notes on ASX after Notes have been quoted on ASX.

6.5.4 Application Payments held on trust

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

6.5.5 Refunds

Applicants who are not issued any Notes, or are issued fewer Notes 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.

6.6 Bookbuild and allocation policy

6.6.1 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 Notes 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 Notes. 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 may increase the size of the Offer following the close of the Bookbuild.

6.6.2 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.
Shareholder Offer and General Offer	• Allocations for the Shareholder Offer and General 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 Shareholder Offer and General Offer. Any scale back will be announced on ASX on the Issue Date – expected to be 9 October 2014. • If there is excess demand for Notes after allocations to Institutional Investors and Syndicate Brokers, Applicants under the Shareholder Offer will be given priority over General Applicants. • Challenger (at its discretion and in consultation with the Joint Lead Managers) and the Joint Lead Managers reserve the right to: – allocate to any Applicant under the Shareholder Offer and General Offer all Notes for which they have applied; – reject any Application by an Applicant under the Shareholder Offer and General Offer; or – allocate to any Applicant under the Shareholder Offer or General Offer a lesser number of Notes than that applied for, including less than the minimum Application for Notes, or none at all. • No assurance is given that any Applicant under the Shareholder Offer and General Offer will receive an allocation.

6.6.3 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 Notes before receiving a Holding Statement, you do so at your own risk, even if you confirmed your firm allocation through a Syndicate Broker.
Shareholder Offer and General Offer	• Applicants under the Shareholder Offer or General Offer will be able to call the Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia) Monday to Friday, 8:00am to 6:00pm (Sydney time) to confirm their allocation. It is expected that this information will be advertised in The Australian and The Australian Financial Review on or about 10 October 2014. • However, if you sell Notes before receiving a Holding Statement, you do so at your own risk, even if you obtained details of your holding by calling the Challenger Capital Notes Offer Information Line.

6.7 Other information

6.7.1 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, Notes, the Offer or otherwise to permit a public offering of Notes 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 Notes nor Ordinary Shares have been or will be registered under the US 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. Notes are being offered and sold in the Offer solely outside the United States pursuant to Regulation S under the US Securities Act.

Any offer, sale or resale of Notes in the United States by a dealer may violate the registration requirements of the US Securities Act.

Subject to Challenger approval, Notes 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 6 and to have represented and warranted that they are able to apply for and acquire Notes in compliance with those restrictions.

6.7.2 Application to ASX for quotation of Notes

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

6.7.3 CHESS and issuer sponsored holdings

Challenger will apply for Notes to participate in CHESS. No certificates will be issued for Notes. Challenger expects that Holding Statements for issuer sponsored holders and confirmations for CHESS holders will be despatched to successful Applicants by 10 October 2014.

6.7.4 Deferred settlement trading and selling on market

It is expected that Notes will begin trading on ASX on a deferred settlement basis on 10 October 2014 under the ASX code '**CGFPA**'. Trading is expected to continue on that basis until 15 October 2014, when it is anticipated that trading of Notes will begin on a normal settlement basis. Deferred settlement will occur as a consequence of trading which takes place before Holding Statements are despatched to successful Applicants.

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

You can call the Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia) Monday to Friday, 8:00am to 6:00pm (Sydney time) or your Syndicate Broker, after the Issue Date to enquire about your allocation.

6.7.5 Provision of bank account details for Distributions

Challenger's current policy is that Holders with a registered address in Australia and New Zealand will be paid Distributions by direct credit into nominated Australian or New Zealand financial institution accounts (excluding credit card accounts) and for all other Holders, payments will be made by Australian dollar cheque.

6.7.6 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 Notes, 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 'Pay-as-you-go withholding tax' in Section 7 for additional 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 5.1.24 for further information.

6.7.7 Discretions regarding the Offer

Challenger reserves the right not to proceed with, and may withdraw, the Offer at any time before the issue of Notes 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 any part of it early, extend the 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 Notes 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 Notes. This means that, in most circumstances, Applicants may not withdraw their Applications once submitted.

6.8 Enquiries

6.8.1 Applicants under the Shareholder Offer and General Offer

You can call the Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia) Monday to Friday, 8:00am to 6:00pm (Sydney time) if you:

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

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

6.8.2 Applicants under the Broker Firm Offer

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

7 Australian taxation summary

This Section includes a summary of the Australian tax consequences for certain Australian resident Holders who subscribe for Notes under the Offer.

If you are considering applying for Notes, it is important that you understand the taxation consequences of investing in Notes. You should read the Australian taxation summary from Greenwoods & Freehills in this Section, and discuss the taxation consequences with your tax adviser, financial adviser or other professional adviser, before deciding whether to invest.

Greenwoods & Freehills

The Directors
Challenger Limited
Level 15
255 Pitt Street
SYDNEY NSW 2000

27 August 2014

Dear Directors,

Australian tax consequences of investing in Challenger Capital Notes

We have been instructed by Challenger Limited (**Challenger**) to prepare a tax summary for inclusion in the Prospectus dated on or about 27 August 2014 in relation to the offer of Challenger Capital Notes (**Notes**).

1 Scope

This letter provides a summary of the Australian income tax, capital gains tax (**CGT**) and goods and services tax (**GST**) consequences for Australian tax resident holders of Notes (**Resident Note Holders**) and holders of Notes who are not tax residents of Australia (**Non Resident Note Holders**) who subscribe for Notes 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 Note Holders:

- Resident Note Holders who are in the business of share trading;
- Resident Note Holders who are dealing in securities or otherwise hold Notes on revenue account; and
- Non Resident Note Holders who carry on a business at or 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.

The representatives of Greenwoods & Freehills involved in preparing this tax summary are not licensed to provide financial product advice in relation to dealing in securities. Accordingly, Greenwoods & Freehills does not seek to recommend, promote or otherwise encourage any party to participate in the issue of Notes. Potential investors should consider seeking advice from a suitably qualified Australian Financial Services licence holder before making any investment decision. Potential investors should also note that taxation is only one of the matters that may need to be considered.

Unless defined in this letter or the context indicates otherwise, all capitalised terms in this letter bear the same meaning as those contained in the Prospectus and the Terms.

Greenwoods & Freehills has given its consent to the inclusion of this letter in the Prospectus.

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) or from Challenger's website (www.challengercapitalnotes.com.au).

ANZ Tower 161 Castlereagh Street Sydney NSW 2000 Australia
GPO Box 4982 Sydney NSW 2001 Australia
Telephone +61 2 9225 5955 Facsimile +61 2 9221 6516
www.gf.com.au DX 482 Sydney

Greenwoods & Freehills

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 Notes by initial subscription and hold them on capital account for tax purposes. Accordingly, the Class Ruling will not apply to Resident Note Holders who hold their Notes as trading stock or revenue assets;
- only rule on the taxation laws as at the date the Class Ruling is issued;
- not consider the tax implications of the Conversion or Write Off of Notes on a Non-Viability Trigger Event;
- not consider the tax implications of a Redemption or Resale of Notes;
- not consider the taxation treatment of Distributions received by partnerships or trustee investors; and
- not consider the tax implications for Resident Note Holders for whom gains and losses from Notes are subject to the taxation of financial arrangement rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) (refer section 5 of this letter). 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.

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

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 3.1 to 3.4 below.

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

3.1 Status of the Notes for tax purposes

The Notes should be characterised as non-share equity interests for Australian income tax purposes. This means that Distributions on the Notes should be treated as non-share dividends that are frankable, as outlined in section 3.2 below, rather than as interest income.

It is anticipated that the Class Ruling will take the view that the Notes are not "traditional securities" for tax purposes. Accordingly, gains and losses on the Notes should be subject to the CGT rules, as summarised further below, rather than subject to the specific rules in sections 26BB and 70B of the *Income Tax Assessment Act 1936* (Cth) that apply to such securities.

3.2 Distributions on Notes

Distributions paid on Notes (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 below in section 4.1 for further details) in relation to a Distribution on their Note 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 is not included in the assessable income of the Applicable Resident Note Holder and the Applicable Resident Note Holder is not 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.

It is anticipated that the Commissioner will not apply the anti-avoidance provisions contained in the Australian tax law 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 Notes.

Greenwoods & Freehills

3.3 CGT cost base and acquisition date for Notes

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

Each Note 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 Notes (which is expected to be on the Issue Date).

3.4 Conversion of Notes[1]

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 Notes.

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 Notes of an Applicable Resident Note Holder across all of the Ordinary Shares issued to that 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 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 Notes.

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 a Resident Note Holder's allocation of Ordinary Shares has been sold, the nominee will pay to the 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 Capital Notes. Conversely, a capital loss will result if the reduced cost base of their Capital Notes 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 Notes were acquired.

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.

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 law are satisfied in respect of the Distribution.

In relation to the "holding period" rule, a Resident Note Holder must have held Notes "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 Notes and ending on the 90th day after the date on which Notes became ex Distribution.

If the "related payments" rule applies, a Resident Note Holder is required to hold Notes "at risk" for at least 90 days (excluding the days of acquisition and disposal) within a period beginning 90 days

[1] The Class Ruling is not expected to specifically address the tax implications of Conversion arising on the occurrence of a Non-Viability Trigger Event or a Conversion in the context of an Optional Exchange or an Acquisition Event. Although it is not expected that Conversion in these circumstances will be addressed in the Class Ruling, the tax implications should be the same as set out in section 3.4.

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before and ending 90 days after the date on which Notes became "ex dividend" (i.e. the day on which Notes 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.

4.2 Sale of Notes

A sale of Notes by a Resident Note Holder on ASX will give rise to a capital gain if the sale proceeds exceed the cost base of the Notes. Conversely, a capital loss will result if the reduced cost base of the Notes exceeds the sale proceeds (capital losses of a Resident Note Holder may only be offset against capital gains of the same or later years of income).

If Notes have been owned for at least 12 months prior to the sale (excluding the days of acquisition and disposal), a Resident Note Holder (other than a company) may be entitled to receive CGT discount treatment in respect of any gain arising on disposal of Notes, 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.

Resident Note Holders who dispose of their Notes within 12 months of acquiring them, or who dispose of Notes under an agreement entered into within 12 months of acquiring them, will not receive CGT discount treatment. Companies are not entitled to obtain CGT discount treatment in respect of any gain arising on disposal of Notes.

4.3 Redemption of Notes

Challenger will pay an amount equal to the Face Value in certain circumstances for each Note that is being Redeemed. The Redemption proceeds (i.e. an amount equal to Face Value) 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.

Redemption of Notes will constitute a disposal of Notes 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 Notes respectively (capital losses of a Resident Note Holder may only be offset against capital gains of the same or later years of income). A Resident Note Holder (other than a company) may be entitled to CGT discount treatment in respect of any remaining capital gain, in the same manner as discussed in section 4.2 above.

4.4 Resale of Notes

Challenger may elect to Resell Notes in certain circumstances for an amount equal to Face Value. The tax implications arising on Resale should be the same as the tax implications arising on a sale of Notes (refer section 4.2 above). In relation to a Resale, the capital proceeds should be equal to the Face Value of the Notes (i.e. being the amount the Note Holder is entitled to be paid if a Resale occurs).

4.5 Write Off of Notes

In certain circumstances an Inability Event may prevent Notes being Converted into Ordinary Shares. In this situation, a Resident Note Holder's rights in relation to their Notes (including to Distributions and to the repayment of the Face Value) will be immediately and irrevocably written-off and terminated.

A CGT event arises for Resident Note Holders when Notes are Written Off. No capital proceeds will be provided to Resident Note Holders for their Written Off Notes. Accordingly, Resident Note Holders should make a capital loss equal to the reduced cost base of their Written Off Notes. As noted in section 4.2 above, capital losses of a Resident Note Holder may only be offset against capital gains of the same or later years of income.

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4.6 Pay-as-you-go withholding tax

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 49%, including a Temporary Budget Repair Levy of 2%, which applies until 30 June 2017.

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.

4.7 Goods and services tax (GST)

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

Note 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 Notes (e.g. adviser fees).

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 Notes. However, the TOFA regime should generally not apply to individual Resident Note Holders in respect of their investment in Notes.

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 Notes. 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 Notes.

6 Possible future change to Challenger's tax rate

The current Coalition Government has proposed a reduction in the income tax rate applying to companies from 30% to 28.5% with effect from 1 July 2015. It is expected that this measure if enacted would apply to Challenger from that date. A change in Challenger's applicable tax rate would affect:

- the cash amount of a Distribution; and
- the value of any franking credit attached to that Distribution.

In conjunction with this measure, the Government has also proposed a 1.5% special levy to apply to companies with taxable income exceeding $5 million. This measure is also expected to apply to Challenger from that date. However, such a levy is not expected to be treated as part of the corporate tax rate for the purposes of the dividend imputation rules and will not give rise to franking credits.

It is not clear when legislation to enact the above measures will be introduced into Parliament and whether that legislation would ultimately be enacted.

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7 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 generally apply to the unfranked portion of any Distributions that are paid by Challenger. However, 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.
- Where DWT applies, the payment will be made to Non Resident Note Holders net of any tax withheld by Challenger. The statutory rate of DWT is 30% of the unfranked portion of the payment. However, the rate is generally reduced to 15% depending on any applicable double tax treaty that Australia has with the home jurisdiction of the applicable Non Resident Note Holder.

  The amount of any withholding tax may be available as a credit against local tax payable by a Non Resident Note Holder, depending upon applicable laws in their home jurisdiction.
- In the event that a fully franked Distribution is paid by Challenger, that payment should not be subject to DWT.

  A credit or refund for franking credits attached to Distributions should not be available to Non Resident Note Holders.

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

* * * * *

Yours faithfully

GREENWOODS & FREEHILLS PTY LIMITED

per:

Tony Frost

Managing Director
Greenwoods & Freehills

8 Key people, interests and benefits

8 Key people, interests and benefits

This Section provides information about the Board of Challenger, the interests of certain people involved in the Offer and any benefits they may receive.

8.1 Board

Peter L Polson

Independent Chair

Mr Polson was appointed a Director of Challenger in November 2003 and Chair of Challenger in June 2004.

Mr Polson holds a Bachelor of Commerce degree from the Witwatersrand University in South Africa, a Master of Business Leadership from the University of South Africa and has completed the Harvard Management Development program.

Mr Polson retired from the Commonwealth Bank in October 2002, where he had held the position of Group Executive, Investment and Insurance Services. Mr Polson joined the Colonial group in 1994, where he became Chief Executive of Colonial First State Limited, which was subsequently acquired by the Commonwealth Bank. Previously, Mr Polson was Managing Director of National Mutual Funds Management (International) Limited.

Mr Polson is Chair of the Nomination Committee, and a member of the Group Risk and Audit Committee and the Remuneration Committee.

Mr Polson was Chair of Customers Limited (appointed as a director on 23 November 2010) and ceased to be Chair and director on 4 July 2012 when the company was acquired by DirectCash Payments Inc. Mr Polson was previously the Chair of AWB Limited (appointed 31 March 2003) and ceased to be Chair and director on 3 December 2010 following the acquisition of AWB Limited by Agrium Inc.

Brian R Benari

Managing Director and Chief Executive Officer

Mr Benari was appointed Managing Director and Chief Executive Officer of Challenger in February 2012, having previously been Challenger's Group CFO/ Group COO for over three years. Joining Challenger in March 2003, Mr Benari established and was founding Chief Executive of Challenger's Mortgage Management ('**CMM**') division.

Having originally qualified as a chartered accountant, Mr Benari joined Challenger with many years of finance industry experience, both offshore and onshore. He has held senior executive roles with institutions including J.P. Morgan, Bankers Trust, Macquarie Bank and Zurich Capital Markets.

Mr Benari was a director of Homeloans Limited from 3 May 2007 until 17 February 2012.

Graham A Cubbin

Non-Executive Director, Independent

Mr Cubbin was appointed a Director of Challenger in January 2004.

Mr Cubbin holds a Bachelor of Economics (Hons) from Monash University and is a Fellow of the Australian Institute of Company Directors.

Mr Cubbin was a senior executive with CPH Investments Management Pty Limited ('**CPH**') from 1990 until September 2005, including Chief Financial Officer for 13 years. Prior to joining CPH, Mr Cubbin held senior finance positions with a number of major companies including Capita Financial Group and Ford Motor Company.

Mr Cubbin is Chair of the Remuneration Committee, and a member of the Group Risk and Audit Committee and the Nomination Committee.

Mr Cubbin is a non-executive director of Bell Financial Group Limited (appointed 12 September 2007), STW Communications Group Limited (appointed 20 May 2008), White Energy Company Limited (appointed 17 February 2010) and McPherson's Limited (appointed 28 September 2010).

Steven Gregg

Non-Executive Director, Independent

Mr Gregg was appointed a Director of Challenger in October 2012.

Mr Gregg holds a Bachelor of Commerce from the University of New South Wales.

Mr Gregg has had an extensive executive career in management consulting and investment banking. His more recent senior executive roles included Partner and Senior Adviser at McKinsey & Company and Global Head of Investment Banking at ABN AMRO. His experience has spanned both domestic and international arenas, having worked in the United States of America and the United Kingdom.

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

Mr Gregg is the Chair of Goodman Fielder Limited and a non-executive director of Tabcorp Holdings Limited. Mr Gregg was a director of Austock Group Limited until May 2012.

Jonathan Grunzweig

Non-Executive Director, Independent

Mr Grunzweig was appointed a Director of Challenger in October 2010.

Mr Grunzweig holds a Bachelor of Arts Degree from Cornell University and a Juris Doctor in Law from Harvard University.

Mr Grunzweig is Principal and Chief Investment Officer ('**CIO**') of Colony Capital, LLC. As CIO, Mr Grunzweig oversees the sourcing, structuring, execution and management of all investments and divestments on a global basis.

Prior to joining Colony in 1999, Mr Grunzweig was a partner with the law firm of Skadden, Arps, Slate, Meagher & Flom LLP, where he specialised in corporate finance and mergers and acquisitions.

Mr Grunzweig is a member of the Nomination Committee.

Russell R R Hooper

Non-Executive Director, Independent

Mr Hooper was appointed a Director of Challenger in November 2003.

Mr Hooper is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Society of Practising Accountants and a Fellow of the Financial Services Institute of Australasia, and has completed the Advanced Management Program, Harvard Business School.

Mr Hooper has experience at chief executive level in life insurance and wealth management.

Mr Hooper is a member of the Nomination Committee.

Mr Hooper was a director of Century Australia Investments Limited until 17 June 2013.

Brenda M Shanahan

Non-Executive Director, Independent

Ms Shanahan was appointed a Director of Challenger in April 2011.

Ms Shanahan is a Graduate of Melbourne University in Economics and Commerce and a Fellow of the Australian Institute of Company Directors.

Ms Shanahan has a research and institutional background in finance in Australia and overseas economies and equity markets. She has held executive positions in stock broking, investment management and an actuarial firm.

Ms Shanahan is a member of the Group Risk and Audit Committee, the Nomination Committee and the Remuneration Committee.

Ms Shanahan is a non-executive director of Clinuvel Pharmaceuticals Limited (appointed 6 February 2007) and of Bell Financial Group Limited (appointed 5 June 2012).

JoAnne M Stephenson

Non-Executive Director, Independent

Ms Stephenson was appointed a Director of Challenger in October 2012.

Ms Stephenson holds a Bachelor of Commerce and a Bachelor of Laws (Honours) from the University of Queensland. She is a member of both the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.

Ms Stephenson has extensive experience in financial services both in Australia and the United Kingdom. She was previously a partner with KPMG and has significant experience in internal audit, risk management and consulting.

Ms Stephenson is Chair of the Group Risk and Audit Committee and a member of the Nomination Committee.

Ms Stephenson is a non-executive director of Asaleo Care Limited (appointed 30 May 2014).

Leon Zwier

Non-Executive Director, Independent

Mr Zwier is a partner in the law firm Arnold Bloch Leibler.

Mr Zwier was appointed a Director of Challenger in September 2006.

Mr Zwier holds a Bachelor of Laws from the University of Melbourne.

Mr Zwier is a member of the Nomination Committee.

8.2 Interests and benefits

8.2.1 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	–	122,000
Brian Benari[29]	650,000	350,000
Graham Cubbin	90,001	7,701
Steven Gregg	10,000	–
Jonathan Grunzweig	250	–
Russell Hooper	–	160,000
Brenda Shanahan	–	250,000
JoAnne Stephenson	–	2,000
Leon Zwier	–	2,360

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.

29 Brian Benari also holds 3,024,838 Performance Rights comprising 473,170 Deferred Performance Rights and 2,551,668 Hurdled Performance Rights.

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 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.

Participation in the Offer

The Directors (and certain related persons) may collectively acquire up to 0.2% of Notes offered under the Offer without shareholder approval (subject to certain conditions) – see Section 9.8.

8.2.2 Professionals

UBS has acted as the Structuring Adviser for the Offer, and each of J.P. Morgan, National Australia Bank, UBS and Westpac Institutional Bank have acted as the 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 $6 million (exclusive of GST), making certain assumptions as to the allocations of Notes between the Broker Firm Offer, Institutional Offer, Shareholder Offer and General Offer. The aggregate fees include a Structuring Adviser fee payable to UBS and a Joint Lead Manager fee split equally amongst the Joint Lead Managers.

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

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 $490,000 (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 & Freehills has acted as Challenger's Australian tax adviser in relation to the Offer and has prepared the Australian taxation summary in Section 7. In respect of this work, Greenwoods & Freehills will be paid approximately $85,000 (excluding disbursements and GST) for work performed by it until the date of this Prospectus. Further amounts may be paid to Greenwoods & Freehills in accordance with its time-based charges.

Ernst & Young has provided due diligence services on certain financial disclosures in relation to the Offer. In respect of this work, Ernst & Young will be paid approximately $100,000 (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.

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.

8.3 Expenses of the Offer

The total expenses of the Offer will be paid out of the proceeds of the Offer. Assuming the Offer raises $250 million, then the net proceeds of the Offer are expected to be $242 million and 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 $8 million. All of these expenses have been, or will be, borne by Challenger.

9 Additional information

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

9.1 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 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.

9.2 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 financial report for the financial year ended 30 June 2014 and the half year financial report for the period ended 31 December 2013 lodged with ASIC by Challenger;
- any continuous disclosure notices given by Challenger in the period after the lodgement of the financial report of Challenger for the year ended 30 June 2014 and before lodgement of this Prospectus with ASIC; and
- the Constitution.

The financial report for the year ended 30 June 2014, the half year financial report for the period ended 31 December 2013 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.

9.3 Rights and liabilities attaching to Notes

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

9.4 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 9.4 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 do so at the registered office of Challenger during normal office hours or may obtain a copy as provided under Section 9.2.

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, in proportion to the capital paid up on the Ordinary Shares held (in accordance with the Constitution and the Corporations Act). Challenger may also be restricted from paying dividends on Ordinary Shares by prudential standards of APRA, or potentially in particular circumstances by the terms of certain of its regulatory capital instruments;
- 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, at the commencement of the winding-up (subject to the rights of holders of securities carrying preferred rights on winding-up, including Notes).

9.5 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.

9.5.1 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 Notes;
- the right to enforce Challenger's obligation to pay all other amounts payable under Notes;
- 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).

9.5.2 Undertakings

In respect of each Note, Challenger has undertaken to the Trustee, subject to any obligation of Challenger to Convert or Write-Off Notes, to pay the amounts due and payable in respect of that Note 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 its obligations under 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 meets it obligations in respect of Notes or the validity and enforceability of the rights and remedies of Holders under the Trust Deed.

9.5.3 Sale of Ordinary Shares

Under the Terms, if Notes held by a Foreign Holder are Converted, or a Holder has elected not to receive Ordinary Shares as a result of Conversion, the number of Ordinary Shares which that Holder is obliged to accept on Conversion will be issued to a nominee appointed by Challenger 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.

9.5.4 Enforcement

Subject to section 283DA(h) of the Corporations Act, the Trustee may at any time in its discretion take action to enforce the Trust Deed in accordance with its 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 Notes then outstanding or by a Holder Resolution;
- it is indemnified to its 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 Trust Deed and is not prohibited by law.

No Holder is entitled to proceed directly against Challenger to enforce any right or remedy under or in respect of any Note or the Trust Deed unless the Trustee, having become bound to proceed, fails to do so within 21 days and the failure is continuing.

9.5.5 Liability

Except to the extent arising as a result of the Trustee's fraud, gross negligence or wilful default ('**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.

9.5.6 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 of the Trust Deed and certain related expenses;
- losses and expenses incurred in connection with exercising, enforcing or preserving rights under the Trust Deed (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 properly incurred by the Trustee as the result of a Winding-up Event.

9.5.7 Retirement and removal

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 the Trust Deed 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.

9.5.8 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 Notes 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 Trust Deed or the Terms 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) Notes representing at least 5% of the aggregate Face Value of Notes 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 Notes who is present has one vote for every Note with respect to which it is the Holder.

9.5.9 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 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 Notes when it becomes due; 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.

9.5.10 Receipt of moneys

All moneys 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, secondly in or towards payment of all amounts due but unpaid under Notes to the relevant Holders, and thirdly, in payment of the balance (if any) of the money remaining after those payments to Challenger.

9.6 Summary of the Offer Management Agreement

9.6.1 Overview

Challenger and the Joint Lead Managers signed the Offer Management Agreement on 27 August 2014. Under the Offer Management Agreement, Challenger appointed J.P. Morgan, National Australia Bank, UBS 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.

9.6.2 Fees

The estimated aggregate fees payable by Challenger to the Joint Lead Managers under the Offer Management Agreement are set out in Section 8.2.2. The actual amount payable will not be known until the allocation of Notes under the Offer. In addition, Challenger must reimburse each Joint Lead Manager for reasonable expenses, including reasonable legal and travel costs, incurred by the Joint Lead Managers in relation to the Offer.

9.6.3 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 or omissions that are misleading or deceptive.

9.6.4 Indemnity

Subject to certain exclusions relating to amongst other things, fraud, negligence, material breach of law (not caused or contributed to by Challenger) or wilful default of an indemnified party (or the Joint Lead Manager which the indemnified party is associated with or any other associated indemnified party), Challenger indemnifies the Joint Lead Managers and certain affiliated parties against losses incurred or suffered directly or indirectly in connection with the Offer or the Offer Management Agreement.

9.6.5 Termination events

Any/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;
- a specified fall in the S&P/ASX 200 index;
- ASIC issues a stop order in relation to this Prospectus;

- ASX refuses to quote Notes on ASX;
- Challenger withdraws this Prospectus or the Offer; and
- Trading of Ordinary Shares is suspended for a certain period of time, or Ordinary Shares cease to be quoted on ASX.

Certain other termination events will only give rise to a right to terminate if it is in the reasonable opinion of the Joint Lead Managers that the event has or is likely to have a material adverse effect on the Offer or give rise to a contravention of, or liability to a Joint Lead Manager, under applicable laws. If termination occurs, the Joint Lead Manager who terminates (or each Joint Lead Manager) will no longer be a 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 managers.

9.7 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;
- does not cause or authorise the issue of the Prospectus, and to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus;
- in the case of Greenwoods & 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, consisting of the Australian taxation summary in Section 7 in the form and context in which it appears in Section 7; and
- in the case of Ernst & Young, has given and has not before the lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of statements made by it or based on statements made by it in Section 4 in the form and context in which they appear.

Role	Consenting parties
Structuring Adviser	UBS
Joint Lead Managers	J.P. Morgan National Australia Bank UBS Westpac Institutional Bank
Co-Managers	JBWere Ord Minnett
Auditor	Ernst & Young
Australian legal adviser	King & Wood Mallesons
Australian tax adviser	Greenwoods & Freehills
Accounting adviser	Ernst & Young
Registry	Computershare Investor Services Pty Limited
Trustee	The Trust Company (Australia) Limited

9.8 ASX confirmation

ASX has classified Notes as 'equity securities' for the purposes of the ASX Listing Rules and has confirmed, in relation to the Offer, that:

- the Terms are appropriate and equitable for the purposes of ASX Listing Rule 6.1;
- the Terms of the APRA constraints in Notes on the payment of Distributions do not amount to a removal of a right to a distribution for the purposes of ASX Listing Rule 6.10;
- the divestment of Notes from Holders, to the extent such divestment occurs as a result of Conversion, Exchange, Write-Off or Redemption as provided in the Terms, is appropriate and equitable for the purposes of ASX Listing Rule 6.12;

- it does not consider Notes to be options for ASX Listing Rule purposes;
- under ASX Listing Rule 7.1B.1(c), ASX does not object to Challenger, for the purposes of calculating the number of Notes that may be issued without prior shareholder approval, notionally converting Notes into Ordinary Shares based on the market price, calculated as the average volume weighted average price for Ordinary Shares in the 20 Business Days on which trading in Ordinary Shares took place prior to the date of this Prospectus;
- the issue of Ordinary Shares on Conversion of Notes would fall under ASX Listing Rule 7.2 (exception 4);
- 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 Notes issued under the Offer collectively provided that:
  - the participation of the directors and certain related persons in the Offer is on the same terms and conditions as applicable to other subscribers for Notes;
  - Challenger releases the terms of the waiver to the market when it announces the Offer; and
  - when Notes are issued, Challenger announces to the market the total number of Notes issued to Directors and their related persons in aggregate;
- the issue of Ordinary Shares on Conversion of Notes would fall within ASX Listing Rule 10.12 (exception 7);
- that ASX Listing Rule 3.20.2 will not apply to the Conversion of Notes following a Non-Viability Trigger Event; and
- the timetable for the Offer is acceptable.

ASX has also provided in principle approval of the quotation of Notes and has agreed to allow Notes to trade on a deferred settlement basis for a short time following the issue of Notes (subject to certain conditions).

9.9 Acknowledgements

Each person submitting an Application Form and/or Application Payment will be deemed to have:

- agreed to be bound by the Terms and other terms and conditions of the Offer and on Conversion of Notes, agrees 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 the Applicant(s) understand the Terms and have had the opportunity to consider the suitability of an investment in Notes with their professional advisers;
- declared that all details and statements in their Application Form are complete and accurate;
- declared that the Applicant(s), if a natural person, is/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 Notes;
- applied for the number of Notes at the Australian dollar amount shown on the front of the Application Form;
- agreed to being allocated the number of Notes applied for (or a lower number allocated in a way described in this Prospectus), or no Notes at all;
- authorised Challenger and the Joint Lead Managers and their respective officers or agents, to do anything on the Applicant's(s') behalf necessary for Notes to be allocated to the Applicant(s), including to act on instructions received by the Registry upon using the contact details in the Application Form;
- acknowledged that if the amount of any cheque or money order is insufficient to pay for the number of Notes that the Applicant(s) has applied for, or, if there are insufficient funds held in a relevant account to cover a cheque that the Applicant(s) have drawn, then Challenger may, in consultation with the Joint Lead Managers determine that the Applicant(s) has applied for such lower number of Notes as the Applicant's(s') cleared Application Payment will pay for (in multiples of 10 Notes) and the Applicant's(s') will be deemed to have specified that number in the Applicant's(s') Application Form. If the Applicant's(s') provide a cheque, draft or money order for an amount that is not in multiples of 10 Notes, Challenger will round down the dollar amount of Notes that the Applicant's(s') are applying for to the next lowest multiple of 10 Notes;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement document) is not investment advice or a recommendation that Notes are suitable for the Applicant(s), given the Applicant's(s') investment objectives, financial situation or particular needs;

- declared that the Applicant(s) is an Australian resident or otherwise a person to whom the Offer can be made, and Notes issued, in accordance with Section 6.7.1;
- consented to the use and disclosure of the Applicant's(s') personal information as described in Section 9.10, and understood and agreed that the use and disclosure of the Applicant's(s') personal information applies to any personal information collected by Challenger and any member of the Challenger Group in the course of the Applicant's(s') relationship with Challenger and any member of the Challenger Group;
- acknowledged that Notes have not been, and will not be, registered under the US Securities Act or pursuant to the securities laws of any other jurisdiction outside Australia;
- represented and warranted that the Applicant(s) is not in the United States or other place outside Australia and is not a US Person (as defined in Regulation S of the US Securities Act) (and not acting for the account or benefit of a US Person), and the Applicant(s) will not offer, sell or resell Notes in the United States to, or for the account or benefit of, any US Person;
- represented and warranted that the laws of any other place, including any restrictions set out in Section 6.7.1 of this Prospectus, do not prohibit the Applicant(s) from being given the Prospectus (or any supplementary or replacement Prospectus) or making an application on the Application Form or being issued with Notes; and
- investments can be subject to investment risk, including possible delays in repayment and loss of income and principal invested. Challenger does not in any way guarantee or stand behind the capital value or performance of Notes.

9.10 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 Notes, 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 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.

Under the Privacy Act, an Applicant may request access to their personal information held on behalf of Challenger. To request access or correct your personal information, please contact the Registry via the Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia), or +61 3 9415 4320 (outside Australia), Monday to Friday, 8:00am to 6:00pm (Sydney Time) or the Privacy Officer can be contacted by email at privacy@computershare.com.au or write to Privacy Officer, Computershare Investor Services, Yarra Falls, 452 Johnston Street, Abbotsford, VIC 3067, Australia. 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. 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/general/privacy.

9.11 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 Terms

1 Form of Capital Notes

1.1 Constitution under Trust Deed

Challenger Capital Notes (the Capital Notes) are non-cumulative, convertible, transferable, redeemable, subordinated, perpetual, unsecured notes of the Issuer constituted by, and owing under, the Trust Deed.

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

The Capital Notes confer no rights on a Holder:

(a) to vote at any meeting of shareholders of the Issuer;

(b) to subscribe for new securities or to participate in any bonus issues of securities of the Issuer; or

(c) to otherwise participate in the profits or property of the Issuer,

except as set out in these Terms or the Trust Deed.

2 Status and ranking

2.1 Status and ranking

The Capital Notes constitute direct and unsecured subordinated 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.

Appendix A
Challenger Capital Notes Terms

3 Distributions

3.1 Distributions

Subject to these Terms, each Capital Note entitles the Holder on a Record Date to receive, on the relevant Distribution Payment Date, interest ('Distribution') on its Face Value calculated according to the following formula:

$$\text{Distribution} = \frac{\text{Distribution Rate} \times A\$100 \times N}{365}$$

where:

Distribution Rate (expressed as a percentage per annum) is calculated according to the following formula:

Distribution Rate = (Bank Bill Rate + Margin) x Franking Adjustment Factor

where:

Bank Bill Rate (expressed as a percentage per annum) means, for a Distribution Period, the average mid-rate for bills of a term of 90 days which average mid-rate is displayed on Reuters page BBSW (or any page which replaces that page) on the first Business Day of the Distribution Period or, if there is a manifest error in the calculation of that average mid-rate or that average mid-rate is not displayed by 10:16am (Sydney time) on that date, the rate specified in good faith by the Issuer at or around 10:30am (Sydney time) on that date having regard, to the extent possible, to:

(a) the rates otherwise bid and offered for bills of a term of 90 days or for funds of that tenor displayed on Reuters page BBSW (or any page which replaces that page) at or around that time on that date; or

(b) if bid and offer rates for bills of a term of 90 days are not otherwise available, the rates otherwise bid and offered for funds of that tenor at or around that time on that date;

Franking Adjustment Factor means:

$$\frac{(1 - T)}{1 - [T \times (1 - F)]}$$

where:

(i) **F** means the Franking Rate; and

(ii) **T** means the Tax Rate;

Margin (expressed as a percentage per annum) means the margin determined under the Bookbuild; 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 on Distributions

The Issuer must determine the Franking Rate for each Distribution in accordance with the Tax Act so that (unless the Tax Act otherwise requires):

(a) the Franking Rate for a Distribution equals the Franking Rate of:

  (i) 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

  (ii) 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

(b) if the circumstances in paragraphs (a)(i) or (a)(ii) 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.

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 2015 until (but not including) the date on which the Capital Note is Converted, Redeemed or Resold 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).

Appendix A
Challenger Capital Notes Terms

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 2022 (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 when APRA provides a written determination 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:

(i) without the conversion to Ordinary Shares or write-off, APRA considers that the Issuer would become non-viable; or

(ii) without a public sector injection of capital into, or equivalent capital support with respect to, the Issuer, APRA considers that the Issuer would become non-viable.

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:

(i) all Relevant Perpetual Subordinated Instruments; or

(ii) where clause 5.1(a)(i) applies, an amount of the Relevant Perpetual Subordinated Instruments if APRA is satisfied that conversion to Ordinary Shares or write-off of that amount will be sufficient to ensure that the Issuer does not become non-viable.

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 APRA's determination under clause 5.1:

(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; and

(B) the identity of the Holders whose Capital Notes will Convert at the time that the Conversion or write-off 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 clause 5.1(b)(ii) 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 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.

(b) If in accordance with clause 5.1(b)(ii) the Issuer is required to convert some (but not all) Relevant Perpetual Subordinated Instruments, 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 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 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 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 on the Non-Viability Conversion Date an Inability Event subsists, then to the extent such event prevents the Issuer from Converting Capital Notes within five Business Days of that date:

(i) Conversion on account of the Non-Viability Trigger Event will not occur; and

(ii) clause 8.14 shall apply.

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.

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 Challenger Group, that 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 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 (except for rights relating to Distributions which have been determined to be payable but have 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) 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 allotted and issued under clause 8.1(a). Each Holder is taken to have irrevocably directed that any amount payable under this clause 8.1 is to be applied as provided for in this clause 8.1 and Holders do not have any right to payment in any other way;

(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 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.

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) Any adjustment made by the Issuer in accordance with clause 8.6(a) will be effective and binding on Holders under these Terms and these Terms will be construed accordingly.

(c) 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 Foreign Holders

Where 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, the number of Ordinary Shares which the Foreign 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 Related Entity of the Issuer) who will sell that number of Ordinary Shares and pay a cash amount equal to the Proceeds to the Foreign Holder accordingly.

8.11 Conversion where the Holder does not wish to receive Ordinary Shares

If 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 then, on the date for Conversion, the number of Ordinary Shares which that 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 Related Entity of the Issuer) who will sell that number of Ordinary Shares and pay a cash amount equal to the Proceeds to the relevant Holder.

8.12 No duty on sale

For the purposes of clauses 8.10 and 8.11:

(a) the issue of Ordinary Shares to the nominee satisfies the obligation of the Issuer to issue Ordinary Shares in connection with the Conversion and on and from the issue of those Ordinary Shares, the rights of a Holder the subject of, as applicable, clause 8.10 or 8.11 in respect of those Ordinary Shares are limited to its rights in respect of the Proceeds as provided in, as applicable, clause 8.10 or 8.11; 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 and has no liability for any loss suffered by a Holder as a result of the sale of Ordinary Shares.

8.13 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.

8.14 Write-Off

(a) Notwithstanding any other provisions of these Terms, if an Inability Event has occurred and is subsisting and Conversion of any Capital Notes has not been effected within five Business Days of the Conversion Date, then to the extent the Inability Event prevents the Conversion of any Capital Notes, Conversion of those Capital Notes will not occur but 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**').

(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 8.14(b) shall not delay or impede the Write-Off of the Capital Notes when required under clause 8.14(a).

(c) The Issuer must give notice to Holders and the Trustee if Conversion has not occurred by operation of this clause 8.14 but failure to give that notice shall not affect the operation of this clause 8.14.

9 Redemption mechanics

9.1 Redemption mechanics to apply to Redemption

If, subject to APRA's prior written approval and compliance with the conditions in clause 6.3(a)(ii), 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 the Issuer elects to Resell Capital Notes in accordance with these Terms, the provisions of this clause 10 apply to that Resale.

10.2 Appointment of Nominated Purchaser

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. 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.

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.

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, is 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 Standard & Poor's, Moody's or Fitch 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 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 8.14 is a fundamental term and where clause 8.14 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 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 8.14) to seek specific performance of the obligation to issue Ordinary Shares.

11.3 No other rights

A Capital Note confers no rights on a Holder:

(a) to participate in the profits or property of the Issuer, except as set out in these Terms; or
(b) to subscribe for new securities in the Issuer or to participate in any bonus issues of shares in the Issuer's capital.

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 acknowledgment 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, 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 payment has not 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 ASTC transfer according to the ASTC Settlement 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 Regulation 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 Conversion Date 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 10:00am 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 close of business on the Record Date as the holder of that 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 Payments by cheque

The Issuer may decide that payments in respect of a Capital Note will be made by cheque sent by prepaid post on the payment date, at the risk of the registered Holder, to the Holder (or to the first named joint holder of the Capital Note) at its address appearing in the Register at the close of business on the Record Date. Cheques sent to the nominated address of a Holder will be taken to have been received by the Holder on the payment date and, no further amount will be payable by the Issuer in respect of the Capital Notes as a result of the Holder not receiving payment on the due date.

14.7 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 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 moneys.

14.8 Payment to joint Holders

A payment to any one of joint Holders will discharge the Issuer's liability in respect of the payment.

14.9 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.

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

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 payment, and any Ordinary Shares in accordance with FATCA. 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 provision 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 Note or the Trust Deed unless the Trustee, having become bound to proceed, fails to do so within 14 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 7;

(f) amends 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 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

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.

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.

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, ASTC Settlement 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.

Appendix A
Challenger Capital Notes Terms

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 Issuer's 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 ASTC Settlement 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.

ASTC means the ASX Settlement Pty Limited (ABN 49 008 504 532).

ASTC Settlement Rules means the operating rules of ASTC.

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.

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 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 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 Sub-register System operated by ASTC or any other applicable securities trading and/or clearance system on which the Capital Notes are lodged and traded.

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 of Australia.

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 of 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 of Australia) 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.

Appendix A
Challenger Capital Notes Terms

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

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 Adjustment Factor has the meaning given in clause 3.1.

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.

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.

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.

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 2020.

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 of Capital Notes dated on or about 27 August 2014 published by the Issuer and any supplementary or replacement prospectus.

Prudential Standards means the prudential standards and guidelines of APRA applicable to the Challenger Group and to entities within the Challenger Group from time to time.

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 Directors in their absolute discretion and 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 ASTC Settlement Rules; and

(b) any branch register.

Registrar means Computershare Investor Services Pty Limited 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, to be unacceptable; 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 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 includes the Capital Notes.

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.

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.

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.

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.

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 of Australia or the Income Tax Assessment Act 1997 of Australia as the case may be and a reference to any section of the Income Tax Assessment Act 1936 of Australia includes a reference to that section as rewritten in the Income Tax Assessment Act 1997 of Australia; and

(b) any other Act setting the rate of income tax payable and any regulation promulgated under it.

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

Tax Event means the receipt by the 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:

(a) any amendment to, clarification of, or change (including any announcement of a change that will be introduced), in the laws or treaties or any regulations of Australia or any political subdivision or taxing authority of Australia affecting taxation;

(b) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) (**Administrative Action**); or

(c) any amendment to, clarification of, or change in an Administrative Action that provides for a position that differs from the current generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change or Administrative Action is made known, which amendment, clarification, change or Administrative Action is effective, or which pronouncement or decision is announced, on or after the Issue Date and which is not expected by the Issuer on the Issue Date, there is more than an insubstantial risk which the Directors determine (having received all approvals they consider in their absolute discretion to be necessary (including from APRA)) at their absolute discretion to be unacceptable that:

(i) any Distribution would not be a frankable distribution within the meaning of Division 202 of the Tax Act; or

(ii) the Issuer would be exposed to more than a de minimis increase in its costs (including without limitation through the imposition of any taxes, duties, assessments or other charges) in relation to Capital Notes.

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.

Terms means these terms and conditions.

Trustee means The Trust Company (Australia) Limited (ABN 21 000 000 993).

Trust Deed means the deed entitled 'Challenger Capital Notes Trust Deed' between the Issuer and the Trustee and dated on or about 27 August 2014.

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 that the 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 8.14 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 Forms. 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. See also Section 2.5.4 of this Prospectus.
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.
Acquisition Event Notice	Has the meaning given in clause 7.1 of the Terms.
Additional Tier 1 Capital	Additional Tier 1 Capital as defined by APRA from time to time.
AFSL	Australian Financial Services Licence.
Applicant	A person who submits an Application.
Application	A valid application for a specified number of Notes 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, being either: • the personalised application form provided to Eligible Shareholders under the Shareholder Offer; • the broker firm and general offer application form in the back of this Prospectus to be used by General Applicants under the General Offer and Broker Firm Applicants under the Broker Firm Offer; or • the electronic application form provided online to Eligible Shareholders under the Shareholder Offer and General Applicants under the General Offer.
Application Payment	The monies payable on each Application, calculated as the number of Notes applied for multiplied by the Face Value.
APRA	Australian Prudential Regulation Authority.
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.
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 2.1.4 of this Prospectus.
Board	The board of directors of Challenger, the current members of which are described in Section 8.1.
Bookbuild	The process described in Section 6.6 to determine the Margin.
Broker Firm Offer	The offer of Notes under this Prospectus to retail and high net worth 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.

Appendix B Glossary

Term	Meaning
Challenger	Challenger Limited (ABN 85 106 842 371), the parent company of the Challenger Group.
Challenger Capital Notes Offer Information Line	1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia), available Monday to Friday, 8:00am to 6:00pm (Sydney time).
Challenger Group	The statutory consolidated group comprising Challenger and its subsidiaries. The Challenger Group and its activities are described in Section 3.
CHESS	Clearing House Electronic Subregister System operated by ASX Settlement Pty Limited (ABN 49 008 504 532).
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 30 September 2014 for the Shareholder Offer and the General Offer (unless varied); and • 5:00pm (Sydney time) on 7 October 2014 for the Broker Firm Offer (unless varied).
Co-Managers	JBWere and Ord Minnett.
Common Equity Tier 1 Capital	Common Equity Tier 1 Capital as defined by APRA from time to time.
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.
Conglomerates Proposal	Has the meaning given in Section 4.4 of this Prospectus.
Corporations Act	Corporations Act 2001 (Cth).
Customer Reference Number	The unique number provided for each Eligible Shareholder in the BPAY details section of their personalised paper Application Form.
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 is described in Sections 2.1.8 and 5.1.17 of this Prospectus.
Eligible Shareholder	A person who is: • a registered holder of Ordinary Shares (as applicable) at 7:00pm (Sydney time) on 19 August 2014; • 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.
EPS	Earnings per share.
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.

Term	Meaning
Exchange Method	Has the meaning given in clause 6.3 of the Terms.
Expiry Date	The date which is 13 months after 27 August 2014.
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.
Face Value	The face value and issue price of Notes, being $100 per Note.
FATCA	The Foreign Account Tax Compliance Act provisions, sections 1471 through 1474 of the United States Internal Revenue Code (including any regulations or official interpretations issued, agreements, including intergovernmental agreements, entered into, or non-US laws enacted with respect to those provisions).
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. See also Section 2.2.4 of this Prospectus.
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.
Franking Adjustment Factor	Has the meaning given in clause 3.1 of the Terms. See also Sections 2.1.2 and 2.1.3 of this Prospectus.
Franking Rate	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 (expressed as a decimal)
FUM	Funds under management.
General Applicant	A member of the general public who is an Australian resident and who applies under the General Offer.
General Offer	The invitation to members of the general public who are resident in Australia to apply for Notes under this Prospectus.
Greenwoods & Freehills	Greenwoods & 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 Notes (when issued) held on the CHESS subregister.
Holder	In relation to a Note, the person whose name is registered in the Register as the holder of a Note.
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 Notes issued to them under the Offer.
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 Notes 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 Notes 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 Notes in the Bookbuild.

Appendix B Glossary

Term	Meaning
Issue Date	The date on which the issue of Notes to successful Applicants is completed in accordance with the Terms, expected to be 9 October 2014.
JBWere	JBWere Limited (ABN 68 137 978 360)
Joint Lead Managers	J.P. Morgan, National Australia Bank, UBS and Westpac Institutional Bank.
J.P. Morgan	J.P. Morgan Australia Limited (ABN 52 002 888 011).
Life Insurance Act	Life Insurance Act 1995 (Cth).
Margin	Has the meaning given in clause 3.1 of the Terms. See also Section 2.1.2 of this Prospectus.
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.
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).
Nominated Purchaser(s)	Means, subject to clause 10.3, one or more third parties selected by the Issuer in its absolute discretion.
Non-Conversion Test Date	Has the meaning given in clause 6.5 of the Terms. See also Section 2.3.4 of this Prospectus.
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.
Notes or Challenger Capital Notes	The non-cumulative, convertible, transferable, redeemable, subordinated, perpetual and unsecured notes to be issued by Challenger under this Prospectus.
NPAT	Net profit after tax.
Offer	The offer by Challenger of Notes under this Prospectus to raise $250 million with the ability to raise more or less, and incorporates the Shareholder Offer, General Offer, Institutional Offer and Broker Firm Offer.
Offer Management Agreement	The offer management agreement entered into between Challenger and the Joint Lead Managers, as described in Section 9.6.
Offer Period	The period from the Opening Date to the Closing Date.
Opening Date	The day the Offer opens, being 4 September 2014, 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.
Ord Minnett	Ord Minnett Limited (ABN 86 002 733 048).
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.
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.

Term	Meaning
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.
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 Distribution Payment Date	Has the meaning given in clause 3.8.
Relevant Perpetual Subordinated Instrument	Has the meaning given in clause 18.2 of the Terms. See also Section 2.6.4 of this Prospectus.
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.
Second Mandatory Conversion Condition	Has the meaning given in clause 4.3 of the Terms. See also Section 2.2.4 of this Prospectus.
Senior Creditors	Has the meaning given in clause 18.2 of the Terms.
Shareholder Offer	The offer to Eligible Shareholders to apply for Notes under this Prospectus.
Special Resolution	Has the meaning given in clause 18.2 of the Terms.
SRN	Shareholder Reference Number for Ordinary Shares or Notes (when issued) held on the issuer sponsored subregister.
Structuring Adviser	UBS AG, Australia Branch (ABN 47 088 129 613, AFSL 231087).
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.
Tax Rate	Means the Australian corporate tax rate applicable to the franking account of the Issuer at the relevant Distribution Payment Date (expressed as a decimal).
Terms	Terms and conditions of Notes 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.
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	The Trust Company (Australia) Limited (ABN 21 000 000 993).
Trustee Default	Has the meaning given in the Trust Deed.
UBS	UBS AG, Australia Branch (ABN 47 088 129 613, AFSL 231087).

Appendix B Glossary

Term	Meaning
USPP Notes	• US$85,000,000 6.29% Series A Subordinated Notes due 2016 issued by CLC and referable to its Statutory Fund No. 2; • US$40,000,000 Floating Rate Series B Subordinated Notes due 2016 issued by CLC and referable to its Statutory Fund No. 2; • US$25,000,000 6.53% Series C Subordinated Notes due 2026 issued by CLC and referable to its Statutory Fund No. 2; and • A$400,000,000 Floating Rate Subordinated Notes due 2037 issued by CLC and referable to its Statutory Fund No. 2, or any one or more of them, as the context requires.
US Securities Act	US Securities Act of 1933.
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 8.14 of the Terms (Write-Off has a corresponding meaning).
VWAP	Has the meaning given in clause 18.2 of the Terms.

Corporate directory

Issuer

Challenger Limited
Level 15
255 Pitt St
Sydney NSW 2000

Australian legal adviser

King & Wood Mallesons
Level 61, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Australian tax adviser

Greenwoods & Freehills
ANZ Tower
161 Castlereagh Street
Sydney NSW 2000

Auditor

Ernst & Young
680 George Street
Sydney NSW 2000

Structuring Adviser

UBS AG, Australia Branch
Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Joint Lead Managers

J.P. Morgan Australia Limited
Level 18, J.P. Morgan House
85 Castlereagh Street
Sydney NSW 2000

National Australia Bank Limited
Level 25, 255 George Street
Sydney NSW 2000

UBS AG, Australia Branch
Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Westpac Institutional Bank
Level 2, Westpac Place
275 Kent Street
Sydney NSW 2000

Co-Managers

JBWere Limited
Level 16
101 Collins St
Melbourne VIC 3000

Ord Minnett Limited
Level 8, NAB House
255 George Street
Sydney NSW 2000

Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

Trustee

The Trust Company (Australia) Limited
(part of the Perpetual Limited group)
Level 12, Angel Place
123 Pitt Street
Sydney NSW 2000

How to contact us

Challenger Capital Notes Offer Information Line on 1300 466 519 (within Australia) or +61 3 9415 4320 (outside Australia)
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