

Challenger Capital Notes Repurchase Booklet



Information about
the Repurchase
Invitation for
holders of
Challenger Capital
Notes

You have received this Booklet because you hold Challenger Capital Notes and there is an important decision for you to make in relation to your holding.

You have two options available to you:

1. Offer to sell your notes back to Challenger

Participate in the Repurchase Invitation and apply to have **all** of your Challenger Capital Notes repurchased for \$102 each in cash on 25 May 2021. If you want to choose this option you must read this Booklet and complete an Application Form or go online and complete your application there. See the section entitled 'How do I participate in the Repurchase Invitation'.

2. Do nothing

You will continue to hold Challenger Capital Notes, which will mandatorily convert into Challenger ordinary shares on or after 25 May 2022 in accordance with their terms (including that conversion is subject to mandatory conversion conditions).

Date of this Booklet: 27 April 2021

MORE DETAILS ARE CONTAINED WITHIN THIS BOOKLET. THIS IS AN IMPORTANT DOCUMENT AND SHOULD BE READ IN ITS ENTIRETY. NOT FOR DISTRIBUTION IN OR INTO OR TO ANY PERSON LOCATED OR RESIDENT IN THE UNITED STATES.

Copies of this Booklet, and all materials related to it, should not be sent or otherwise distributed in or into the United States because this Repurchase Invitation is not being made, directly or indirectly, in the United States.

If you are in any doubt as to the action you should take, please consult your financial, taxation or other professional adviser immediately.

This Booklet has been prepared by Challenger Limited (ABN 85 106 842 371).

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Important notices

About this Booklet

This invitation booklet ('**Booklet**') is dated 27 April 2021 and has been prepared by Challenger Limited ('**Challenger**') to provide information to holders of Challenger Capital Notes issued by Challenger on 9 October 2014 ('**Challenger Capital Notes 1**' or '**CCN1**').

This Booklet contains important information about the Repurchase Invitation and should be read in its entirety.

Defined words and expressions

Certain capitalised words and expressions used in this Booklet have defined meanings which are explained in the terms of Challenger Capital Notes 1 ('**CCN1 Terms**') and in the Glossary in this Booklet. If there is any inconsistency in definitions between the CCN1 Terms and the Glossary, the definitions in the Glossary prevail.

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

Eligibility to participate

You must be an Eligible CCN1 Holder in order to participate in the Repurchase Invitation.

Important notice

This is an important Booklet. It invites you to make an offer to sell your Challenger Capital Notes 1 to Challenger for \$102 per Challenger Capital Note 1. It contains information to assist you in making a decision as to whether to participate in the Repurchase Invitation. This Booklet does not provide financial product advice, tax advice, or investment advice, and has been prepared without taking into account your particular objectives, financial situation, taxation circumstances or needs. You should consider the appropriateness of the Repurchase Invitation having regard to these factors. If you are in any doubt as to the action you should take, please consult your financial, taxation or other professional adviser immediately.

The distribution of this Booklet in jurisdictions outside of Australia may be restricted by law and does not constitute an invitation to participate in any place where, or to any person to whom, it would be unlawful to do so. Persons who come into possession of this

Booklet should seek advice on it and observe any restrictions on distributing it.

Copies of this Booklet are not being mailed or otherwise distributed or sent into the United States. Any person receiving this Booklet must not distribute or send it into the United States, or make it available to any person who is in the United States or any U.S. Person.

Please note that the Repurchase Invitation does not constitute or give rise to a legally binding offer capable of your acceptance. If you tender your Challenger Capital Notes 1 into the Repurchase Invitation, you will be deemed to have made a formal offer to sell those Challenger Capital Notes 1 on the terms and conditions set out in this Booklet. If Challenger accepts your offer, a Repurchase Contract is formed and your Challenger Capital Notes 1 will be sold to Challenger on those terms and conditions.

Enquiries

If you have any questions in relation to the information contained in this Booklet, please visit www.challengercapitalnotes.com.au or call the CCN1 Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).

How to obtain a Booklet and Application Form

This Booklet is available to Challenger Capital Notes 1 holders in electronic form at www.challengercapitalnotes.com.au. The Repurchase Invitation contained in this Booklet in electronic form is available only to persons accessing and downloading or printing the electronic copy of the Booklet 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 Booklet, you should ensure that you download and read the entire Booklet before submitting an Application Form.

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

Chairman's letter

27 April 2021



Peter Polson
Chair

Dear Noteholder,

On behalf of the Board of Challenger Limited ('**Challenger**'), I am pleased to advise that the Challenger Board has decided to offer eligible holders the opportunity to participate in a Repurchase Invitation in respect of the Challenger Capital Notes (ASX: CGFPA) ('**Challenger Capital Notes 1**' or '**CCN1**').

The Repurchase Invitation is aimed at providing Eligible CCN1 Holders with the opportunity to have all of their Challenger Capital Notes 1 repurchased by Challenger for a price of \$102 each, payable in cash. The repurchase of participating Challenger Capital Notes 1 is expected to occur on 25 May 2021.

If you choose to participate in the Repurchase Invitation, you will also receive a final distribution of \$0.58 per Challenger Capital Note 1 payable on 25 May 2021¹.

Participation in the Repurchase Invitation is optional. If you choose not to participate, any outstanding Challenger Capital Notes 1 you hold will mandatorily convert into Challenger shares on or after 25 May 2022², and in the meantime you will continue to receive quarterly distribution payments¹.

Challenger intends to repurchase up to 100% of the remaining balance of Challenger Capital Notes 1 on issue, which is approximately \$47.5 million³ of Challenger Capital Notes 1. The Repurchase Invitation will be conducted via a tender process, where Eligible CCN1 Holders are invited to offer to sell all of their Challenger Capital Notes 1 to Challenger. If Challenger accepts those offers, then a Repurchase Contract is formed with participating Eligible CCN1 Holders and their Challenger Capital Notes 1 will be sold to Challenger on the terms and conditions set out in this Booklet and the Application Form.

This Booklet contains important information about the Repurchase Invitation and should be read in its entirety before you submit an Application Form.

For details of the application process and how to participate, please refer to Section 1 of this Booklet. Applications are now open and Application Forms must

be received by the Registry before the Closing Date, which is expected to be at 5:00pm (Sydney time) on 17 May 2021. The most efficient way to ensure your Application Form is received by this time is to apply online at www.challengercapitalnotes.com.au.

The taxation implications of participating in the Repurchase Invitation will depend on your individual circumstances. You should obtain your own taxation advice before you participate in the Repurchase Invitation. Please refer to Section 5 of this Booklet for a summary of the Australian tax consequences for certain Eligible CCN1 Holders who participate in the Repurchase Invitation. No brokerage or stamp duty is payable on the sale of your Challenger Capital Notes 1 to Challenger.

On behalf of the Board, I encourage you to read this Booklet carefully and consider the implications of the Repurchase Invitation for Challenger Capital Notes 1 holders set out in Section 3.

If you have any questions in relation to the Repurchase Invitation, please visit www.challengercapitalnotes.com.au or call the CCN1 Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia), Monday to Friday 8:30am to 5:00pm (Sydney time). You should also seek guidance from your financial, taxation or other professional adviser before deciding whether to participate in the Repurchase Invitation.

The key dates for the Repurchase Invitation are summarised on page 6.

On behalf of the Board, I thank you for your support and welcome you to consider this repurchase opportunity.

Yours faithfully,



Peter Polson
Independent Chair
Challenger Limited

1 Subject to no Payment Condition existing in respect of the relevant Distribution Payment Date, in each case as defined in the CCN1 Terms.

2 Subject to the Mandatory Conversion Conditions being satisfied, as defined in the CCN1 Terms.

3 Based on 474,688 Challenger Capital Notes 1 on issue with a face value of \$100 each.

Summary of the Repurchase Invitation

Why have I received this Booklet?

Challenger is seeking to repurchase the Challenger Capital Notes 1 for \$102 each on 25 May 2021 (the '**Repurchase Invitation**') and this Booklet explains what is required for holders of Challenger Capital Notes 1 to be able to participate in the Repurchase Invitation.

If you want to participate in the Repurchase Invitation, then you must read this Booklet.

If you are in any doubt as to the action you should take, please consult your financial, taxation or other professional adviser immediately.

What are my options in relation to my holding of Challenger Capital Notes 1?

You have two available options in relation to your holding of Challenger Capital Notes 1:

Option 1 – Offer to sell your notes back to Challenger: Participate in the Repurchase Invitation described in this Booklet and apply to have **all** of your Challenger Capital Notes 1 repurchased for \$102 each in cash on 25 May 2021.

You will also receive a final distribution of \$0.58 per Challenger Capital Note 1 repurchased, payable on 25 May 2021 (subject to the distribution payment conditions in the CCN1 Terms).

If this is the option you want to choose, you must complete an Application Form or go online at www.challengercapitalnotes.com.au and complete your application there. Please read the section entitled 'How do I participate in the Repurchase Invitation'.

Option 2 – Do nothing: Participation in the Repurchase Invitation is **optional**.

However, it is important to know that if you do nothing you will continue to hold your Challenger Capital Notes 1 in accordance with their terms. This means that your holding of Challenger Capital Notes 1 will convert to ordinary shares of Challenger on or after 25 May 2022 provided that the mandatory conversion conditions set out in the CCN1 Terms are satisfied. **If you do not want this to happen to your holding of Challenger Capital Notes 1, then you should elect to participate in the Repurchase Invitation.**

If you still hold Challenger Capital Notes 1 on the next distribution payment record date of 17 May 2021, you will receive a distribution of \$0.58 per Challenger Capital Note 1, payable on 25 May 2021 (subject to the distribution payment conditions in the CCN1 Terms).

Who can participate in the Repurchase Invitation?

For you to be eligible to participate in the Repurchase Invitation you must be a registered holder of Challenger Capital Notes 1 at 7:00pm (Sydney time) on 22 April 2021 and you must still be the registered holder on 17 May 2021, which is the Closing Date for the Repurchase Invitation.

In addition to this, to be eligible, unless otherwise determined by Challenger, you must be shown on the Challenger Capital Notes 1 register as having an address in Australia and not be an individual residing in the United Kingdom, a member state of the European Union or the United States or acting as a nominee for, or for the account or benefit of, a U.S. Person, or otherwise be prevented by the laws of any other jurisdiction from receiving the Repurchase Invitation.

If you satisfy all of the conditions described above, you will be considered to be an Eligible CCN1 Holder.

What proceeds will I receive for the sale of my Challenger Capital Notes 1?	If you are eligible and Challenger accepts your Application Form, you will receive \$102 for each Challenger Capital Note 1 paid in cash. The proceeds will be paid to you on 25 May 2021 to your nominated bank account. You will also receive a final distribution of \$0.58 per Challenger Capital Note 1 repurchased, payable on 25 May 2021 (subject to the distribution payment conditions in the CCN1 Terms). Please refer to Section 2.2 for details of how the Repurchase Price was determined.
When do I need to apply for the Repurchase Invitation?	Your Application Form can be submitted from 27 April 2021 and must be received before 5:00pm (Sydney time) on 17 May 2021. The Repurchase Invitation will remain open until 17 May 2021 unless the Repurchase Invitation is withdrawn. Applications under the Repurchase Invitation may be made by going online, using the personalised paper Application Form which accompanies this Booklet or instructing your controlling participant (usually your broker) if your Challenger Capital Notes 1 are held on the CHESS sub-register.
Why is Challenger conducting this Repurchase Invitation?	On 25 November 2020, Challenger announced the completion of the offer of Challenger Capital Notes 3 and the reinvestment offer and repurchase invitation in respect of Challenger Capital Notes 1, which provided eligible holders of Challenger Capital Notes 1 with the opportunity to either: i. reinvest some or all of their investment in Challenger Capital Notes 1 into Challenger Capital Notes 3; or ii. sell all of their Challenger Capital Notes 1 to Challenger for their face value of \$100 each, payable in cash, (the '2020 Repurchase Invitation'). Following the completion of the 2020 Repurchase Invitation, approximately \$47.5 million of Challenger Capital Notes 1 remained on issue. This Repurchase Invitation represents one further opportunity for eligible holders to offer to sell their Challenger Capital Notes 1 to Challenger prior to the scheduled mandatory conversion date on 25 May 2022. Under the CCN1 Terms, Challenger must convert any Challenger Capital Notes 1 that are outstanding on 25 May 2022 into Challenger ordinary shares, provided that the mandatory conversion conditions are satisfied.
Where can I direct any further enquiries?	If you have any questions in relation to the Repurchase Invitation, please visit www.challengercapitalnotes.com.au or call the CCN1 Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).

Key dates of the Repurchase Invitation

	Date
Record date for determining Eligible CCN1 Holders (7:00pm Sydney time)	22 April 2021
Opening Date for the Repurchase Invitation	27 April 2021
Closing Date for the Repurchase Invitation (5:00pm Sydney time)	17 May 2021
Record date for the May 2021 quarterly distribution payment	17 May 2021
Payment date for the May 2021 quarterly distribution ⁴	25 May 2021
Repurchase Date and payment of cash proceeds	25 May 2021

Key dates for Eligible CCN1 Holders not participating in the Repurchase Invitation

	Date
Scheduled mandatory conversion date ⁵ for Challenger Capital Notes 1	25 May 2022

These dates are indicative only and may change without notice - see Section 2.4 of this Booklet for further information.

⁴ Subject to no Payment Condition existing in respect of the relevant Distribution Payment Date, in each case as defined in the CCN1 Terms.

⁵ Subject to the Mandatory Conversion Conditions being satisfied, as defined in the CCN1 Terms.

Section 1 How to participate

1.1 How do I participate in the Repurchase Invitation?

If you are an Eligible CCN1 Holder and you want to participate in the Repurchase Invitation, you must submit an Application Form by choosing one of the below options.

Going online

- Complete the online Application Form via www.challengercapitalnotes.com.au and follow the instructions.
- You will require your Securityholder Reference Number ('**SRN**') or Holder Identification Number ('**HIN**'). You can find these numbers in the top right-hand corner of any noteholder forms or statements previously sent to you.
- Online Applications must be submitted by no later than 5:00pm (Sydney time) on the Closing Date, being 17 May 2021.
- If your Challenger Capital Notes 1 are held on the CHESS sub-register (identified by having a HIN which starts with an 'X'), you should be aware that your online Application is not validly submitted until your controlling participant confirms acceptance of your Application.
- Challenger strongly recommends that you submit your online Application in advance of 5:00pm (Sydney time) on the Closing Date to allow sufficient time for your controlling participant to confirm acceptance. Neither Challenger nor the Registry will be responsible if your controlling participant does not acknowledge and confirm your application in sufficient time.

Using a personalised paper Application Form

- If you received a paper copy of this Booklet, you will have also received with it a personalised paper Application Form.
- Complete and submit the personalised paper Application Form in accordance with the instructions set out on the Application Form.
- If you did not receive a personalised paper Application Form (or would like a replacement), please contact the CCN1 Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).
- Application Forms must be received by the Registry or processed by your broker by no later than 5:00pm (Sydney time) on 17 May 2021. The most efficient way to ensure your Application Form is received by this time is to apply online at www.challengercapitalnotes.com.au.

Instructing your controlling participant

- If your Challenger Capital Notes 1 are held on the CHESS sub-register via your controlling participant or broker (identified by having a HIN which starts with an 'X'), you can instruct your controlling participant (usually your broker) to submit your Application.
- If you submit your Application via your controlling participant, please allow sufficient time for them to process your instruction by no later than 5:00pm (Sydney time) on the Closing Date.
- Challenger strongly recommends that you instruct your controlling participant in advance of 5:00pm (Sydney time) on the Closing Date to allow sufficient time for your controlling participant to confirm acceptance. Neither Challenger nor the Registry will be responsible if your controlling participant does not acknowledge and confirm your application in sufficient time.

Section 2 Repurchase process

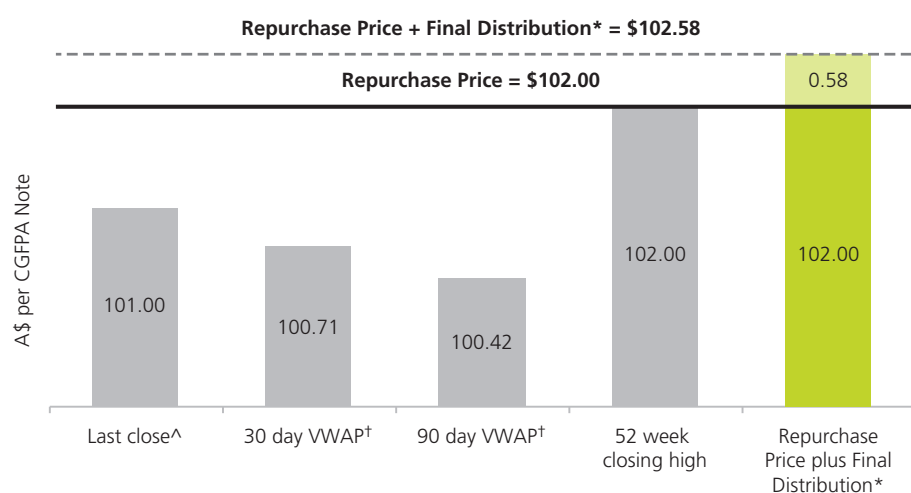
2.1 How does the repurchase work?

- If you choose to participate in the Repurchase Invitation, you must submit an Application Form (paper or electronic) to participate in respect of **all** (and not some) of your Challenger Capital Notes 1. Please see Section 1 of this Booklet for further information on how to participate in the Repurchase Invitation.
- An Application Form is irrevocable once submitted, but will only be effective if your offer is accepted by Challenger, and Challenger proceeds with the repurchase of the Challenger Capital Notes 1.
- Holders of Challenger Capital Notes 1 who have successfully participated in the Repurchase Invitation will receive a cash payment of \$102 per Challenger Capital Note 1, to be paid on 25 May 2021 to their nominated bank account.

2.2 What is the Repurchase Price and how was it determined?

- The Repurchase Price is \$102 per Challenger Capital Note 1 and is the cash amount that will be received by Eligible CCN1 Holders as consideration for each Challenger Capital Note 1 that is repurchased from them by Challenger under the Repurchase Invitation.
- In addition to the Repurchase Price of \$102 per Challenger Capital Note 1, Eligible CCN1 Holders who successfully participate in the Repurchase Invitation will also receive a final distribution of \$0.58 per Challenger Capital Note 1 on 25 May 2021 (subject to the distribution payment conditions in the CCN1 Terms).
- The Repurchase Price of \$102 per Challenger Capital Note 1 for the Repurchase Invitation was determined by reference to the recent ASX market price performance of Challenger Capital Notes 1 and was set at a level that was equal to, or in excess of, the relevant performance measure. The chart below summarises a number of these performance measures.

ASX market price performance measures (as at the close of trading on 23 April 2021)



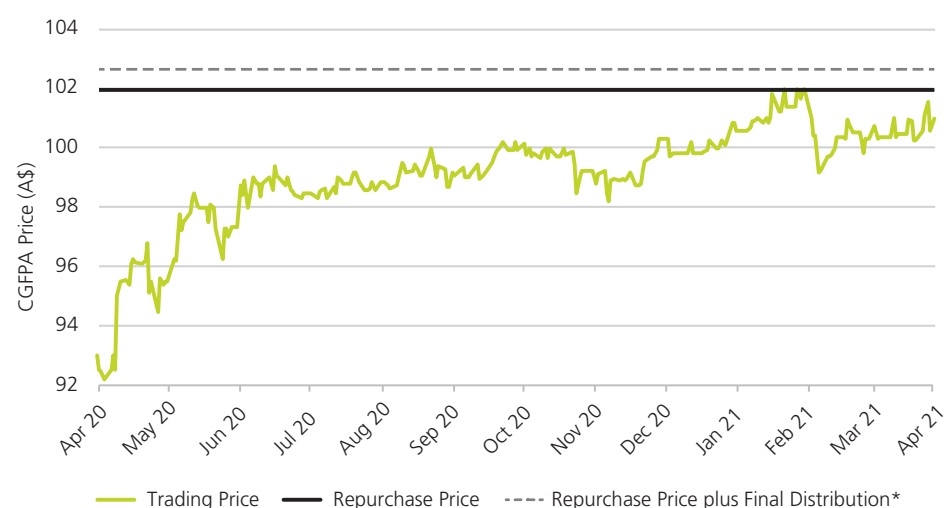
[^] As at 23 April 2021.

* Subject to no Payment Condition existing in respect of the relevant Distribution Payment Date, in each case as defined in the CCN1 Terms.

[†] Volume weighted average price.

- The market price of Challenger Capital Notes 1 on the ASX may move higher or lower than the Repurchase Price while the Repurchase Invitation is open. The market price of Challenger Capital Notes 1 following the Repurchase Invitation may be higher or lower than the Repurchase Price. You should consider the market price of Challenger Capital Notes 1 before deciding whether to participate in the Repurchase Invitation.
- The market price of Challenger Capital Notes 1 at the close of trading on 23 April 2021 was \$101.00. The current market price of Challenger Capital Notes 1 is available on the ASX website (www.asx.com.au), under the code 'CGFPA'.
- The chart below shows the Challenger Capital Notes 1 ASX market price performance over the past 12 months. Past performance should not be relied upon as being indicative of future performance.

ASX market price performance of Challenger Capital Notes 1 over the past 12 months



* Subject to no Payment Condition existing in respect of the relevant Distribution Payment Date, in each case as defined in the CCN1 Terms.

2.3 The effect of submitting an Application Form

- When you submit an Application Form (including where your controlling participant submits your Application), it constitutes an offer to sell your Challenger Capital Notes 1 to Challenger on the terms and conditions set out in this Booklet and the Application Form.
- An Application Form does not, of itself, constitute a binding contract for the sale of the Challenger Capital Notes 1 specified on the Application Form and cannot be enforced against Challenger. Challenger retains the discretion to accept or reject any offer to sell Challenger Capital Notes 1.
- If Challenger accepts your offer to sell your Challenger Capital Notes 1, a binding Repurchase Contract is then formed between you and Challenger for all of your Challenger Capital Notes 1 and you must sell those Challenger Capital Notes 1 to Challenger on the terms and conditions set out in this Booklet and the Application Form.
- Challenger has the approvals required from APRA to proceed with the Repurchase Invitation. Challenger will not proceed with the repurchase of Challenger Capital Notes 1 if APRA revokes its approval.

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- By submitting an Application Form (including where your controlling participant submits your Application), you will be deemed to have:
 - represented and warranted to Challenger that you are an Eligible CCN1 Holder;
 - represented and warranted to Challenger that you have good title to the Challenger Capital Notes 1 you are offering under your Application Form, and that Challenger will receive good title to those Challenger Capital Notes 1 free from any encumbrance of security interests on the Repurchase Date;
 - agreed not to transfer your Challenger Capital Notes 1 and authorise Challenger and its related bodies corporate and their respective officers to request the application of a holding lock on your Challenger Capital Notes 1;
 - agreed to indemnify Challenger for all costs or losses it incurs as a result of you selling or disposing of your Challenger Capital Notes 1 if you do sell or dispose of any of those Challenger Capital Notes 1; and
 - appointed Challenger (or its officers) as your attorney and agent to execute a master transfer form to transfer your Challenger Capital Notes 1 to Challenger, in such form as Challenger (or its officers) determines, and to transfer the Challenger Capital Notes 1 to Challenger.
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2.4 Challenger's rights to vary dates and times or to terminate the Repurchase Invitation

- While Challenger does not anticipate changing any of the dates and times set out in this Booklet (including the Closing Date), Challenger reserves the right to vary them.
 - Any change in date or time will take effect from the time the change is authorised by the Board and will be publicly announced on the ASX as soon as practicable following the Board's authorisation. Any such change will be taken to amend this Booklet accordingly without any further notice.
 - Challenger may also decide not to proceed with the repurchase of the Challenger Capital Notes 1. Without limitation, Challenger reserves the right to terminate such repurchase at any time prior to the date on which Challenger enters into Repurchase Contracts, by making an announcement to the ASX to that effect.
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Section 3 Implications for Challenger Capital Notes 1 holders

3.1 What will happen if I choose to participate in the Repurchase Invitation?

You must first read the Booklet, and if following that, you choose to participate in the Repurchase Invitation:

- you are electing to have **all** of your Challenger Capital Notes 1 repurchased by Challenger for \$102 per Challenger Capital Note 1 in cash on the Repurchase Date;
- a holding lock will be requested to be applied on all of your Challenger Capital Notes 1 once your Application Form is received, and you will not be able to deal with your Challenger Capital Notes 1;
- if Challenger's repurchase of the Challenger Capital Notes 1 proceeds and your offer is accepted, you will receive a cash payment representing the proceeds of the sale of your Challenger Capital Notes 1 for \$102 per Challenger Capital Note 1 on 25 May 2021 paid to your nominated bank account;
- you will receive a final distribution of \$0.58 per Challenger Capital Note 1 on 25 May 2021, subject to the distribution payment conditions in the CCN1 Terms;
- following the Repurchase Date, you will no longer hold Challenger Capital Notes 1 and will no longer be entitled to receive the benefit of distributions that may be payable on the Challenger Capital Notes 1 in the period following the Repurchase Date; and
- there may be Australian taxation consequences – please see Section 5 of this Booklet for further information.

3.2 What will happen if I choose not to participate at all?

- Participation in the Repurchase Invitation is optional.
- If you do nothing in respect of your Challenger Capital Notes 1 and you continue to hold Challenger Capital Notes 1, you should understand the impacts of this decision.
- On 25 November 2020, Challenger redeemed approximately 2.975 million Challenger Capital Notes 1 following a previous repurchase process. As a result, there are currently approximately 475,000 Challenger Capital Notes 1 on issue and liquidity of the market for Challenger Capital Notes 1 has reduced accordingly.
- Following completion of the Repurchase Invitation, it is expected that the number of Challenger Capital Notes 1 quoted on the ASX will reduce further. This may further affect the liquidity of the market for Challenger Capital Notes 1 and the market price at which they may be sold.
- In the event you continue to hold Challenger Capital Notes 1 until their scheduled mandatory conversion date (being 25 May 2022), your Challenger Capital Notes 1 will mandatorily convert into Challenger ordinary shares on or after that date (subject to and in accordance with the CCN1 Terms). Challenger ordinary shares rank behind Challenger Capital Notes 1 on a winding up of Challenger. Distributions on Challenger ordinary shares are discretionary and non-cumulative.
- If you continue to hold Challenger Capital Notes 1, you will continue to receive distributions in accordance with the CCN1 Terms. You should note that the payment of any distributions is subject to the satisfaction of the distribution payment conditions in the CCN1 Terms.

3.3 Can I still sell my Challenger Capital Notes 1 on market?

- If you do not participate in the Repurchase Invitation, you can continue to sell your Challenger Capital Notes 1 on market.
- You may choose to sell your Challenger Capital Notes 1 on market through your broker at the prevailing market price, that may be higher or lower than the price you would receive if you were to participate in the Repurchase Invitation. The market price of Challenger Capital Notes 1 is subject to change from time to time. The current market price of Challenger Capital Notes 1 is available on the ASX website (www.asx.com.au), under the code 'CGFPA'.
- If you elect to sell your Challenger Capital Notes 1 on market, you may have to pay brokerage and may receive a price different to that being offered under the Repurchase Invitation, being \$102 per Challenger Capital Note 1.

3.4 Will there be more repurchase invitations for Challenger Capital Notes 1 in the future?

- There is no guarantee that Challenger will make a further invitation to repurchase your Challenger Capital Notes 1 in future, prior to the scheduled mandatory conversion date for Challenger Capital Notes 1 (being 25 May 2022).
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Section 4 Effect of the Repurchase Invitation on Challenger

4.1 Introduction

This Section sets out the following financial information:

- the pro forma consolidated statement of financial position of the Challenger Group as at 31 December 2020; and
- the pro forma capital adequacy position as at 31 December 2020 demonstrating the effect of the Repurchase Invitation on Challenger Life Company Limited (ABN 44 072 486 938) ('CLC').

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

This information has been included to illustrate the Challenger Group's financial position and CLC's capital adequacy position as at 31 December 2020, assuming the repurchase and redemption of all Challenger Capital Notes 1 on that date.

The Challenger Group's consolidated statement of financial position as at 31 December 2020 included in this Section has been derived from Challenger's 2021 Interim Financial Report and has been prepared in accordance with the measurement and recognition requirements of the Australian Accounting Standards and other mandatory reporting requirements in Australia. This report is available at www.challenger.com.au/shareholder/financial-information.

4.2 Impact of the Repurchase Invitation on the Challenger Group's consolidated statement of financial position

The following table sets out the Challenger Group's statement of financial position as at 31 December 2020, as well as the Challenger Group's pro forma consolidated statement of financial position as at 31 December 2020 assuming repurchase and redemption of all Challenger Capital Notes 1 occurred on 31 December 2020.

Pro forma consolidated statement of financial position

As at	Actuals 31 Dec 2020 \$m	Adjustments ¹	Pro forma 31 Dec 2020 \$m
Assets			
Cash and cash equivalents	717.8	(48.7)	669.1
Cash and cash equivalents – SPV	56.1	-	56.1
Receivables	412.6	-	412.6
Derivative assets	1,042.4	-	1,042.4
Financial assets – fair value through profit and loss	21,094.9	-	21,094.9
Development property held for sale	6.7	-	6.7
Investment and development property	3,656.7	-	3,656.7
Mortgage assets – SPV	637.9	-	637.9
Finance leases	30.2	-	30.2
Property, plant and equipment	25.1	-	25.1
Investments in associates	63.3	-	63.3
Other assets	61.4	-	61.4
Deferred tax assets	3.8	-	3.8
Goodwill	579.9	-	579.9
Right-of-use lease assets	37.9	-	37.9
Other intangible assets	17.6	-	17.6
Total assets of shareholders of Challenger Limited and non-controlling interests	28,444.3	(48.7)	28,395.6
Liabilities			
Payables	985.6	-	985.6
Current tax liability	10.9	-	10.9
Derivative liabilities	682.3	-	682.3
Interest bearing financial liabilities	6,899.3	(47.5)	6,851.8
Interest bearing financial liabilities – SPV	415.4	-	415.4
External unit holders' liabilities	3,031.5	-	3,031.5
Provisions	31.8	-	31.8
Lease liabilities	72.4	-	72.4
Deferred tax liabilities	32.6	-	32.6
Life contract liabilities	12,769.7	-	12,769.7
Total liabilities of shareholders of Challenger Limited and non-controlling interests	24,931.5	(47.5)	24,884.0
Net assets of shareholders of Challenger Limited and non-controlling interests	3,512.8	(1.2)	3,511.6
Equity			
Contributed equity	2,422.6	-	2,422.6
Reserves	(55.5)	-	(55.5)
Retained earnings	1,145.7	(1.2)	1,144.5
Total equity of shareholders of Challenger Limited	3,512.8	(1.2)	3,511.6
Non-controlling interests	-	-	-
Total equity of shareholders of Challenger Limited and non-controlling interests	3,512.8	(1.2)	3,511.6

Notes:

1 These adjustments assume the repurchase and redemption of \$47.5 million of Challenger Capital Notes 1 on 31 December 2020, and that all transaction costs and any premium paid over the book value of Challenger Capital Notes 1 will impact on cash and retained earnings. To the extent that not all Challenger Capital Notes 1 are repurchased and redeemed under the Repurchase Invitation, Challenger will retain more cash and hold an equivalent amount of interest bearing financial liabilities and retained earnings. Under the CCN1 Terms, Challenger will also have ongoing obligations to pay distributions on those outstanding Challenger Capital Notes 1 until such time as they are converted or repurchased, and subject to no Payment Condition existing in respect of the relevant Distribution Payment Date.

4.3 CLC's capital adequacy position

CLC is a life insurance company regulated under the Life Insurance Act 1995 (Cth). That Act, via prudential standards issued by APRA, imposes minimum statutory capital requirements on all life insurance companies. CLC holds capital in order to ensure that under a range of adverse scenarios it can continue to meet its regulatory and contractual obligations to its customers.

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

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

The sum of Tier 1 Capital and Tier 2 Capital is called the **Regulatory Capital Base**. Common Equity Tier 1 Capital has the greatest capacity to absorb potential losses, followed by Additional Tier 1 Capital and then Tier 2 Capital.

CLC's regulatory capital base and prescribed capital amount have been calculated in accordance with APRA's prudential capital standards.

4.4 Impact of the Repurchase Invitation on CLC's capital adequacy position

The following table sets out CLC's pro forma capital adequacy position based on CLC's financial position as at 31 December 2020. The capital adequacy position as at 31 December 2020 has been obtained from Challenger's 2021 Interim Financial Report, which was subject to an external review. This report is available at www.challenger.com.au/shareholder/financial-information.

Pro forma capital adequacy position

CLC Regulatory Capital Base As at	Actuals 31 Dec 2020 \$m	Adjustments ²	Pro forma 31 Dec 2020 \$m
Common Equity Tier 1 Capital	2,622.9	-	2,622.9
Additional Tier 1 Capital	892.5	(47.5)	845.0
Tier 2 Capital – subordinated debt	402.7	-	402.7
CLC total Regulatory Capital Base¹	3,918.1	(47.5)	3,870.6
CLC prescribed capital amount (PCA)	2,401.7	-	2,401.7
CLC excess over PCA	1,516.4	(47.5)	1,468.9
CLC PCA ratio (times)³	1.63		1.61

Notes:

- 1 CLC's regulatory capital base includes a \$402.7 million subordinated debt instrument which is fully admissible as Tier 2 Capital as at 31 December 2020. This instrument has an optional call date in November 2022 and a legal final maturity in November 2042 and will remain fully eligible as Tier 2 Capital until its call date in November 2022, after which its eligibility begins amortising on a straight line basis over four years.
- 2 Assumes a reduction of \$47.5 million of Additional Tier 1 Capital of CLC relating to the repurchase and redemption of Challenger Capital Notes 1 on 31 December 2020. To the extent that not all of the Challenger Capital Notes 1 are repurchased and redeemed under the Repurchase Invitation, Challenger will retain more Additional Tier 1 Capital. Under the CCN1 Terms, Challenger will also have ongoing obligations to pay distributions on those outstanding Challenger Capital Notes 1 until such time as they are converted or repurchased, and subject to no Payment Condition existing in respect of the relevant Distribution Payment Date.
- 3 On 20 April 2021, Challenger announced its 2021 third quarter performance update that reported a CLC PCA ratio of 1.56 times as at 31 March 2021. The change in CLC's PCA ratio from 31 December 2020 reflected growth in the business and is after a one-off \$100 million distribution (equivalent to 4 points of PCA) to fund the recently announced MyLife MyFinance bank acquisition and its initial growth. The PCA ratio is CLC's Regulatory Capital Base divided by the PCA.

Section 5 Taxation considerations

The following is a summary of the Australian tax consequences for certain Eligible CCN1 Holders who participate in the Repurchase Invitation, hold their Challenger Capital Notes 1 on capital account for tax purposes and are either Australian tax resident Challenger Capital Notes 1 holders who are subject to Class Ruling CR 2014/87 (**'Resident Holders'**) or Challenger Capital Notes 1 holders who are not tax residents of Australia and do not hold Challenger Capital Notes 1 at or through a permanent establishment in Australia (**'Non-Resident Holders'**).

This summary is not exhaustive and you should seek advice from your financial adviser or other professional adviser before deciding to participate in the Repurchase Invitation. In particular, this summary does not consider the consequences for the following types of Challenger Capital Notes 1 holders:

- Resident Holders who hold Challenger Capital Notes 1 through a permanent establishment outside Australia;
- Non-Resident Holders who hold Challenger Capital Notes 1 through a permanent establishment in Australia;
- Eligible CCN1 Holders who are in the business of share trading, who are dealing in securities or otherwise hold Challenger Capital Notes 1 on revenue account;
- Eligible CCN1 Holders who are subject to the "taxation of financial arrangements" provisions in Division 230 of the Income Tax Assessment Act 1997 (Cth) in relation to their holding of Challenger Capital Notes 1; and/or
- Eligible CCN1 Holders who acquired their Challenger Capital Notes 1 otherwise than under the initial offer of Challenger Capital Notes 1.

This summary is based on the Australian tax law and administrative practice currently in force as at the date of this Booklet. It is necessarily general in nature and is not intended to be definitive tax advice to holders of Challenger Capital Notes 1. Accordingly, each Resident Holder and each Non-Resident Holder should seek their own tax advice that is specific to their particular circumstances.

5.1 Final distribution on Challenger Capital Notes 1

A distribution is scheduled to be paid on Challenger Capital Notes 1 on 25 May 2021, subject to the distribution payment conditions in the CCN1 Terms. If those conditions are satisfied, Eligible CCN1 Holders who successfully participate in the Repurchase Invitation will receive a distribution of \$0.58 per Challenger Capital Note 1 on 25 May 2021. This distribution will be the final distribution that such holders will receive on their Challenger Capital Notes 1 (**'Final Distribution'**).

(a) Resident Holders

With respect to Resident Holders, the Final Distribution should be subject to the same taxation treatment as other distributions paid on the Challenger Capital Notes 1, as outlined in Class Ruling CR 2014/87.

(b) Non-Resident Holders

With respect to Non-Resident Holders, the following should apply with respect to the Final Distribution:

- Dividend withholding tax (**'DWT'**) should not apply to the extent that the Final Distribution is franked.
- To the extent the Final Distribution is unfranked and the unfranked portion is not sourced from and declared to be 'conduit foreign income', DWT will apply at a rate of 30%, unless this rate is reduced under the terms of a double tax treaty that Australia has with the jurisdiction of the applicable Non-Resident Holder.
- A credit or refund for franking credits attached to the Final Distribution will not be available to Non-Resident Holders.

5.2 Disposal of Challenger Capital Notes 1

Eligible CCN1 Holders who participate in the Repurchase Invitation will be taken to have disposed of their Challenger Capital Notes 1.

(a) Resident Holders

The repurchase of the Challenger Capital Notes 1 will give rise to a capital gains tax event and Resident Holders will be required to recognise a capital gain if the disposal proceeds exceed their cost base in the Challenger Capital Notes 1 or a capital loss if the disposal proceeds are less than their reduced cost base in the Challenger Capital Notes 1.

The disposal proceeds should be \$102 per Challenger Capital Note 1, unless the market value of a Challenger Capital Note 1 on 25 May 2021 (determined as if the repurchase of the Challenger Capital Notes 1 had not occurred and was not proposed to occur) is greater or less than \$102.

An individual, qualifying trust or superannuation entity may be entitled to the capital gains tax discount on any gain realised on disposal if it has held the Challenger Capital Notes 1 for more than 12 months. Eligible CCN 1 Holders should take their own tax advice in relation to the availability of the capital gains tax discount.

(b) Non-Resident Holders

For Non-Resident Note Holders, any capital gain or capital loss resulting from the repurchase of Challenger Capital Notes 1 should be disregarded for capital gains tax purposes.

Section 6 Glossary

Additional Tier 1 Capital means certain securities recognised as Additional Tier 1 Capital under APRA's prudential standards, as defined by APRA from time to time.

Application means a valid application made pursuant to an Application Form or, in the case of Challenger Capital Notes 1 that are held on the CHES sub-register via a controlling participant or broker, a valid instruction submitted via CHES by the controlling participant or broker on behalf of the holder of those Challenger Capital Notes 1.

Application Form means the form (and its online equivalent) of offer by a Challenger Capital Notes 1 holder to sell Challenger Capital Notes 1 to Challenger under the Repurchase Invitation, which accompanies this Booklet.

APRA means Australian Prudential Regulation Authority or any authority succeeding to its powers and responsibility.

ASIC means the Australian Securities and Investments Commission.

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

Board means the board of directors of Challenger.

CCN1 Terms means the terms and conditions of Challenger Capital Notes 1, as amended from time to time.

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

Challenger Capital Notes 1 or **CCN1** means the perpetual, subordinated, unsecured notes issued by Challenger on 9 October 2014 and constituted by the trust deed between Challenger and The Trust Company (Australia) Limited (ABN 21 000 000 993) dated 27 August 2014, as amended and restated on 3 September 2014 and 13 October 2020.

Challenger Capital Notes 3 means the perpetual, subordinated, unsecured notes issued by Challenger on 25 November 2020 and constituted by the trust deed between Challenger and Equity Trustees Limited (ABN 46 004 031 298) dated 13 October 2020.

Challenger Group means the statutory consolidated group comprising Challenger and its subsidiaries.

CLC means Challenger Life Company Limited (ABN 44 072 486 938, AFSL 234670).

Closing Date means the last date by which Applications must be received for the Repurchase Invitation, expected to be 5:00pm (Sydney time) on 17 May 2021 (unless varied).

Common Equity Tier 1 Capital means ordinary share capital, retained earnings and certain other items recognised as Common Equity Tier 1 Capital under APRA's prudential standards, as defined by APRA from time to time.

Eligible CCN1 Holder means a Challenger Capital Notes 1 holder who is registered as a holder of Challenger Capital Notes 1 at 7:00pm (Sydney time) on 22 April 2021 (Challenger Capital Notes 1 must also be held on the Closing Date of the Repurchase Invitation) and, unless Challenger otherwise determines, is:

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

Opening Date means the day the Repurchase Invitation opens, being 27 April 2021 (unless varied).

Register means the register of holders maintained by the Registry on Challenger's behalf, including any sub-registers or branch register established and maintained by or on behalf of Challenger.

Registry means Computershare Investor Services Pty Limited (ABN 48 078 279 277) or any other registry that Challenger appoints to maintain the Register.

Repurchase Contract means the contract formed on the Repurchase Date between you and Challenger at the time that Challenger accepts your tender under the Repurchase Invitation (if and to the extent that Challenger accepts your offer).

Repurchase Date means 25 May 2021.

Repurchase Invitation means the invitation to Eligible CCN1 Holders to tender their Challenger Capital Notes 1 to be repurchased by Challenger for the cash price of \$102 per Challenger Capital Note 1 on the terms and conditions set out in this Booklet and the Application Form.

Repurchase Price means \$102 per Challenger Capital Note 1, being the cash amount that will be received by Eligible CCN1 Holders as consideration for each Challenger Capital Note 1 that is repurchased from them by Challenger under the Repurchase Invitation.

Tier 1 Capital means Common Equity Tier 1 Capital and Additional Tier 1 Capital under APRA's prudential standards, as defined by APRA from time to time.

Tier 2 Capital means certain securities recognised as Tier 2 Capital under APRA's prudential standards, as defined by APRA from time to time.

U.S. Person has the meaning given to it in Regulation S under the US Securities Act of 1933, as amended.

Corporate directory

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King & Wood Mallesons

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Sydney NSW 2000

Registry

Computershare

Investor Services Pty Limited

Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

Financial adviser

UBS AG, Australia Branch

Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Australian tax adviser

Greenwoods & Herbert Smith

Freehills Pty Limited

ANZ Tower
161 Castlereagh Street
Sydney NSW 2000

How to contact us

Please call the CCN1 Repurchase Information Line on 1800 780 782 (within Australia) or +61 3 9415 4065 (outside Australia) Monday to Friday 8:30am to 5:00pm (Sydney time).

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