

CHALLENGER CAPITAL NOTES UPDATE

Challenger Limited (ASX: CGF) (Challenger) refers to Challenger Capital Notes (ASX:CGFPA), which are subordinated, unsecured convertible notes issued by Challenger with a value of \$345 million.

Under the terms of Challenger Capital Notes¹, Challenger may with APRA's prior written approval elect to Exchange all or some Challenger Capital Notes on 25 May 2020 (Optional Exchange Date). Exchange includes where Challenger Capital Notes are Redeemed or Resold² for their face value (\$100).

Under those terms, Challenger may only Redeem or Resell Challenger Capital Notes on the Optional Exchange Date, and where Challenger elects to Redeem the notes APRA must be satisfied that either:

- Challenger Capital Notes are replaced concurrently or beforehand with another perpetual subordinated instrument of the same or better quality than the Challenger Capital Notes or Challenger ordinary shares and the replacement of Challenger Capital 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 the Challenger Capital Notes the subject of the redemption'

(the above condition referred to in this market release as the APRA Approval Condition).

If the Challenger Capital Notes are not Redeemed or Resold on the Optional Exchange Date, and absent a Tax Event, a Regulatory Event or a Potential Acquisition Event, then the Challenger Capital Notes will mandatorily convert into ordinary Challenger shares on or after 25 May 2022 if the Mandatory Conversion Conditions are met on the relevant date³.

Challenger notes the significantly disrupted investment market conditions and volatility in recent weeks caused by the coronavirus pandemic. Challenger would ordinarily have sought, with APRA's approval, to Redeem or Resell Challenger Capital Notes on or before the Optional Exchange Date from the proceeds of another perpetual subordinated instrument. The likelihood of sustained volatility and the absence of an orderly market in the short to medium term, results in it not being feasible to proceed with a replacement issuance in time to Redeem or Resell the

¹ The Capital Challenger Notes terms of issue are set out in the prospectus issued by Challenger Limited and dated 4 September 2014 (Prospectus). The Prospectus (including the terms of Challenger Capital Notes) can be viewed at <https://www.challenger.com.au/shareholder/debt-instruments/challenger-capital-notes-cgfp>. Capitalised terms used in this market release have the same meaning as in the Prospectus.

² Resale is a process by which Challenger may elect one or more third parties (Nominated Purchaser(s)) to purchase some or all of the Challenger Capital Notes.

³ These conditions are intended to help protect noteholders against receiving ordinary shares worth significantly less than \$101 per Challenger Capital Notes and ensure that the ordinary shares are capable of being sold on ASX.

Challenger Capital Notes by the Optional Exchange Date. Challenger notes that other issuers have recently withdrawn offers of similar instruments because of the unprecedented market disruption and the inability to price such an offer in the absence of an orderly market.

In these circumstances, APRA has confirmed to Challenger that APRA has no objection, subject to the conditions which apply to an existing Exchange, including the APRA Approval Condition, to allowing Challenger to repurchase, or procure the repurchase of, all or some of the Challenger Capital Notes for their face value (\$100) on any future Distribution Payment Date following the Optional Exchange Date up to (but not including) 25 May 2022⁴.

There can be no guarantee that on a future Distribution Payment Date that APRA will give its approval for Challenger to repurchase, or procure the repurchase of, some or all of the Challenger Capital Notes.

Challenger notes that the terms of the Challenger Capital Notes remain unchanged and are not required to be amended to facilitate these arrangements.

ENDS

About Challenger

Challenger Limited (Challenger) is an investment management firm focusing on providing customers with financial security for retirement.

Challenger operates two core investment businesses, a fiduciary Funds Management division and an APRA-regulated Life division. Challenger Life Company Limited is Australia's largest provider of annuities.

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⁴ Ordinarily APRA requires there to be at least two years from the date upon which the company may have an option to call the instrument to the nearest subsequent date upon which a conversion option may be exercised.