

Challenger Limited

Challenger Capital Notes 2 Offer

28 February 2017



Important Notice

This presentation has been prepared and authorised by Challenger Limited (ABN 85 106 842 371) (“Challenger”) in relation to its proposed offer of non-cumulative, convertible, transferrable, redeemable, subordinated, perpetual and unsecured notes (“Challenger Capital Notes 2” or “Notes”) (the “Offer”). The Offer is made pursuant to a prospectus under Part 6D.2 of the Corporations Act 2001(Cth) which was lodged with the Australian Securities and Investments Commission (“ASIC”) on 28 February 2017 (“Prospectus”). Challenger intends to lodge a replacement prospectus which will include the offer size and the Margin, on or around 8 March 2017.

UBS AG, Australia Branch (ABN 47 088 129 613) (“UBS”) is the Arranger to the Offer. UBS, ANZ Securities Limited (ABN 16 004 997 111), National Australia Bank Limited (ABN 12 004 044 937) and Westpac Institutional Bank (a division of Westpac Banking Corporation) (ABN 33 007 457 141) are the joint lead managers to the Offer (“Joint Lead Managers”).

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Notes are complex and may not be suitable for all investors. The investment performance of Notes is not guaranteed by Challenger nor any other member of the Challenger Group. The risks associated with investing in these securities could result in the loss of your investment. Information about the risks associated with investing in Notes are detailed in the Prospectus.

All amounts are in Australian dollars unless otherwise indicated. Unless otherwise defined, capitalised terms in this presentation have the meaning in the Prospectus.

Outline

Section 1 Offer summary

Section 2 About Challenger

Section 3 Key features of Challenger Capital Notes 2

Section 4 Offer process

Section 1

Offer summary

Summary

Group Overview

- Challenger Limited ("Challenger") is the non-operating holding company and ultimate parent company of the Challenger Group
 - Challenger is an ASX100 listed company (under the code CGF) with a \$6.8 billion market capitalisation¹
 - The group operates two businesses, a Life business and a Funds Management business
 - The group manages \$64.7 billion in assets², is Australia's leading provider of annuities³ and 7th largest investment manager⁴
 - Over 630 employees and \$2.8 billion in net assets²
-

1. As at 23 February 2017.

2. As at 31 December 2016.

3. Strategic Insight – September 2016.

4. Rainmaker Roundup - September 2016.

Summary

Offer summary

Issuer	<ul style="list-style-type: none">• Challenger Limited (Challenger)
Offer	<ul style="list-style-type: none">• Fully paid, subordinated, perpetual, unsecured, convertible notes ("Notes")
Offer size	<ul style="list-style-type: none">• \$350 million with the ability to raise more or less
Purpose	<ul style="list-style-type: none">• To fund the regulatory capital requirements of Challenger Life Company (CLC)
Ranking	<ul style="list-style-type: none">• In a winding-up of Challenger, Notes will rank ahead of Ordinary Shares, equally with all other Relevant Perpetual Subordinated Instruments¹, but behind all Senior Creditors of Challenger
Distribution Payments	<ul style="list-style-type: none">• Floating rate, quarterly, discretionary, non-cumulative payments, subject to no Payment Condition existing²• Distributions are expected to be fully franked• Margin expected to be in the range of 4.40% – 4.60% per annum
Term	<ul style="list-style-type: none">• Perpetual (no fixed maturity date) unless Converted, Redeemed or Written-Off• Optional Exchange Date³ – 22 May 2023 or following a Regulatory, Tax or Potential Acquisition Event• Scheduled Mandatory Conversion Date⁴ – 22 May 2025• Non-Viability Trigger and Acquisition Events⁴ – Challenger must Convert Notes on a Non-Viability Trigger Event or on an Acquisition Event
Offer structure	<ul style="list-style-type: none">• Institutional Offer, Broker Firm Offer, Securityholder Offer
Lead Managers	<ul style="list-style-type: none">• UBS (Arranger), ANZ Securities, National Australia Bank, Westpac Institutional Bank
Quotation	<ul style="list-style-type: none">• Challenger will apply for Notes to be quoted on ASX under ASX code "CGFPB"

1. As at the date of the Prospectus there is only one other Relevant Perpetual Subordinated Instrument on issue, being Challenger Capital Notes 1 (\$345m issued in 2014).

2. Payment of any Distribution is at the absolute discretion of Challenger and subject to no Payment Condition existing.

3. Subject to certain conditions being met and APRA's prior written approval. Holders of Notes should not expect that APRA will give its approval for any Exchange.

4. Mandatory Conversion and Conversion on an Acquisition Event are subject to certain conditions being met. Non-Viability Conversion is not subject to any conditions.

Section 2

About Challenger

About Challenger

Business overview

Challenger Limited (ASX: CGF)

- Non-operating holding company and ultimate parent company of the Challenger Group
- ASX100 listed company (under the code CGF) with \$6.8 billion market capitalisation¹
- Over 630 employees and \$2.8 billion in net assets²
- \$64.7 billion of assets under management²
- Operates two businesses – Life and Funds Management
- Both businesses benefit from growth in Australia's superannuation system

Life

#1 market share in annuities³

- Regulated by APRA
- Leading provider of annuities and guaranteed retirement incomes in Australia
- Products offer certainty of guaranteed cash flows with protection against market, inflation and longevity risks

Funds Management

Australia's 7th largest fund manager⁴

- **Fidante Partners** — co-owned separately branded active fixed income, equity and alternative boutique investment managers
- **Challenger Investment Partners** — originates and manages assets for Life and 3rd party investors

1. As at 23 February 2017.

2. As at 31 December 2016.

3. Strategic Insight – September 2016.

4. Rainmaker Roundup - September 2016.

Australia's superannuation system

Attractive market with long term structural growth drivers

Two phases of superannuation

Accumulation phase

Super 'savings'

Funds Management target market

- Pre-retirement phase
- Supported by mandated and increasing contributions

Retirement phase

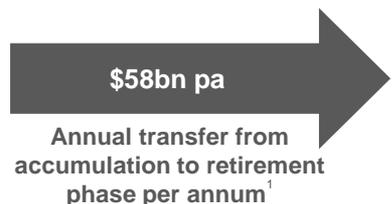
Super 'spending'

Life target market

- Post-retirement phase
- Supported by ageing demographics, rising savings and Government focused on enhancing retirement phase

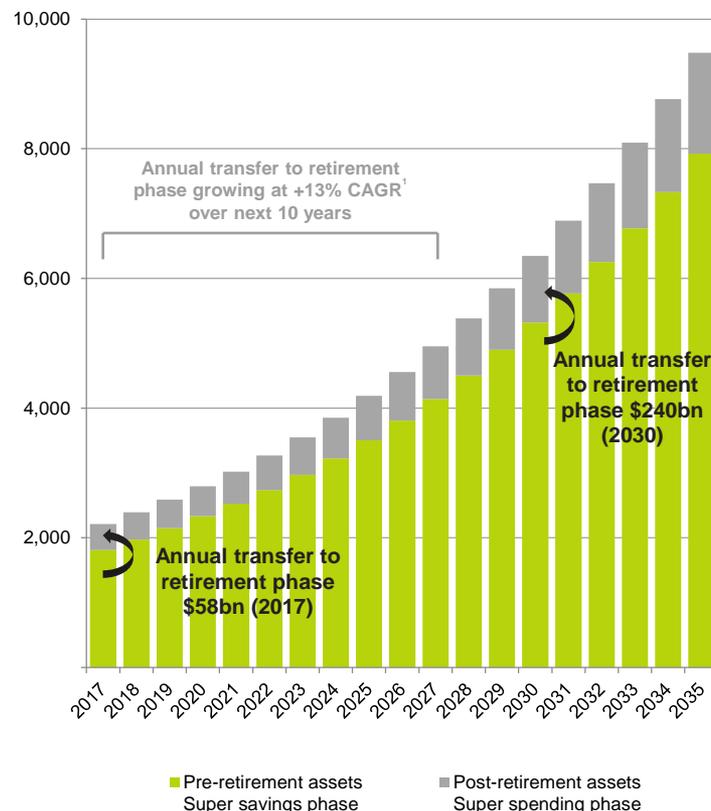
Accumulation phase

Retirement phase



- increasing 13% CAGR over next 10 years¹
- Challenger Life only capturing <5% of annual transfer

Projected superannuation assets 2017 – 2035² (\$bn)



1. Rice Warner 2015 Super Projections.

2. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.

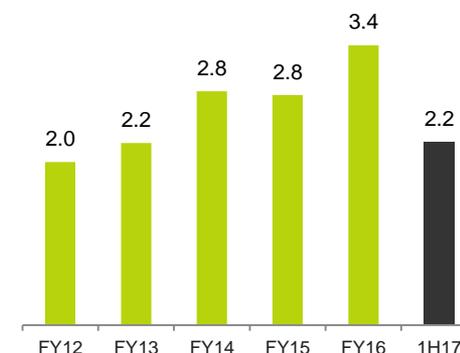
About Challenger

Life business (Challenger Life Company)

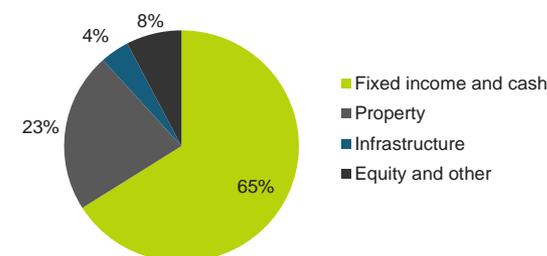
Overview

- Annuity and guaranteed retirement income products distributed to retail and industry superannuation members
- Products are distributed to retail customers through financial advisers, both aligned with the major hubs (for example AMP and major banks) and independent financial advisers
- Life generates income by investing capital received from annuity customers in assets generating an investment return in excess of the guaranteed annuity payments to its customers
- Total annuity sales in 1H17 were \$2.2bn and have grown at an annual CAGR of 17% over the last five years
 - 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
- Life manages a cash flow matched portfolio, with liability cash flows (i.e. payments to annuity customers) matched against cash flows from investment assets

Life annuity sales (\$bn)



Policyholder and shareholder funds¹ (Life investment assets)



1. As at 31 December 2016.

About Challenger

Funds Management business

Overview

- Funds Management comprises
 - Fidante Partners; and
 - Challenger Investment Partners
- Funds Under Management (FUM) of \$62.1bn¹
 - over the last 5 years (since 31 December 2011) FUM has increased by \$34.4bn, representing an annual growth rate of 18% p.a. compared to market growth of 9% p.a.²

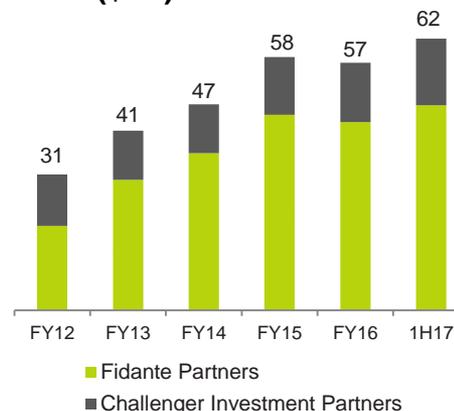
Fidante Partners

- 15 boutique brands across fixed income, equities and alternative (e.g. infrastructure) investment strategies
- Earns distribution and administration fees and shares in the equity accounted profits of boutique managers

Challenger Investment Partners

- Invests in fixed income and property assets on behalf of the Life business and 3rd party clients, including Australian industry superannuation funds and sovereign wealth funds
- Earns fee income in relation to the assets it manages

FUM (\$bn)



Fidante Partner's boutique brands



1. As at 31 December 2016.
2. Rainmaker Roundup - September 2016.

About Challenger

1H17 operating performance¹

Life

- Annuity sales up 34% to \$2.2bn
- Life net book growth of 7.8%
- AUM up 11% to \$14.6bn
- Life EBIT up 7% to \$267m
- CLC \$0.8bn of excess regulatory capital
- CLC PCA² ratio of 1.39 times

Funds Management

- Net flows of \$3.2bn
- FUM up 14% to \$62.1bn
- Normalised EBIT down 5% to \$21m
- 95% of funds outperforming benchmark³

Challenger Group

- Normalised EBIT up 7% to \$256m
- Normalised NPAT up 8% to \$197m
- Statutory NPAT of \$202m
- Normalised EPS up 7% to 35.0 cps
- 1H17 dividend up 6% at 17.0 cps
- 1H17 dividend payout ratio 49%⁴
- Normalised RoE (pre-tax)⁵ of 18.7%
- Strongly capitalised to support future growth

1. All comparatives are against the prior corresponding period.

2. Prescribed Capital Amount (PCA).

3. Investment performance represents percentage of mandates and FUM meeting or exceeding benchmark over the last 5 years.

4. Dividend payout ratio based on normalised EPS.

5. Normalised ROE calculated as normalised NPBT divided by average net assets.

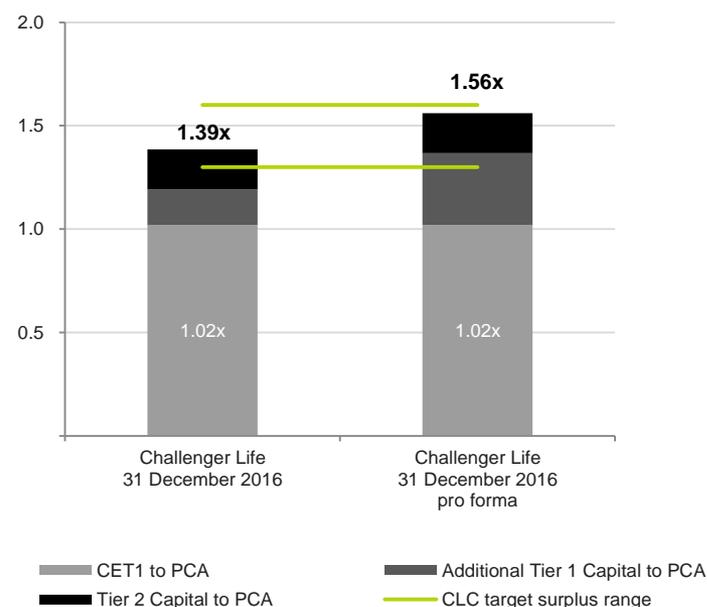
About Challenger

Capital management

Strongly capitalised

- Challenger Life Company (CLC) regulated by APRA
- CLC capital position at 31 December 2016
 - total regulatory capital of \$2.8bn
 - \$0.8bn excess regulatory capital
 - regulatory capital is 1.39 times APRA's total minimum capital requirement (before Challenger Capital Notes 2 issuance)
 - CET1 ratio¹ 1.02 times versus APRA's CET1 minimum requirement of 0.6 times
 - CLC targets regulatory capital in the range of 1.3x to 1.6x APRA's minimum requirement
- On pro forma basis (inc. \$350m Capital Notes 2) PCA² ratio increases to 1.56x³ (from 1.39x)

CLC pro forma regulatory capital (\$m)



1. CET1 ratio represents CLC common equity Tier 1 regulatory capital divided by APRA's total minimum prescribed capital amount.
2. Prescribed Capital Amount (PCA).
3. 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 amount ratio will decrease.

Section 3

Key features of Notes

Key features

Distributions

Distributions

- Distributions are floating rate, discretionary, non-cumulative payments
 - Distributions are expected to be paid quarterly in arrears, subject to no Payment Condition existing
 - the first Distribution Payment Date is 22 August 2017. This first Distribution Period is longer than subsequent quarterly periods
- Distribution Payment Dates are 22 February, 22 May, 22 August and 22 November in each year
- Distributions on Notes are expected to be fully franked. If any Distribution is not fully franked, then the Distribution will be adjusted to reflect the applicable Franking Rate

Distribution Rate

- $\text{Distribution Rate}^1 = (\text{Bank Bill Rate} + \text{Margin}) \times (1 - \text{Tax Rate})$
- Bank Bill Rate is the 3 month BBSW rate on the first Business Day of the relevant Distribution Period
- Margin expected to be 4.40% – 4.60% per annum, to be determined under the Bookbuild

Payment Condition

- Distributions are subject to no Payment Condition existing
- '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 objects to the payment.

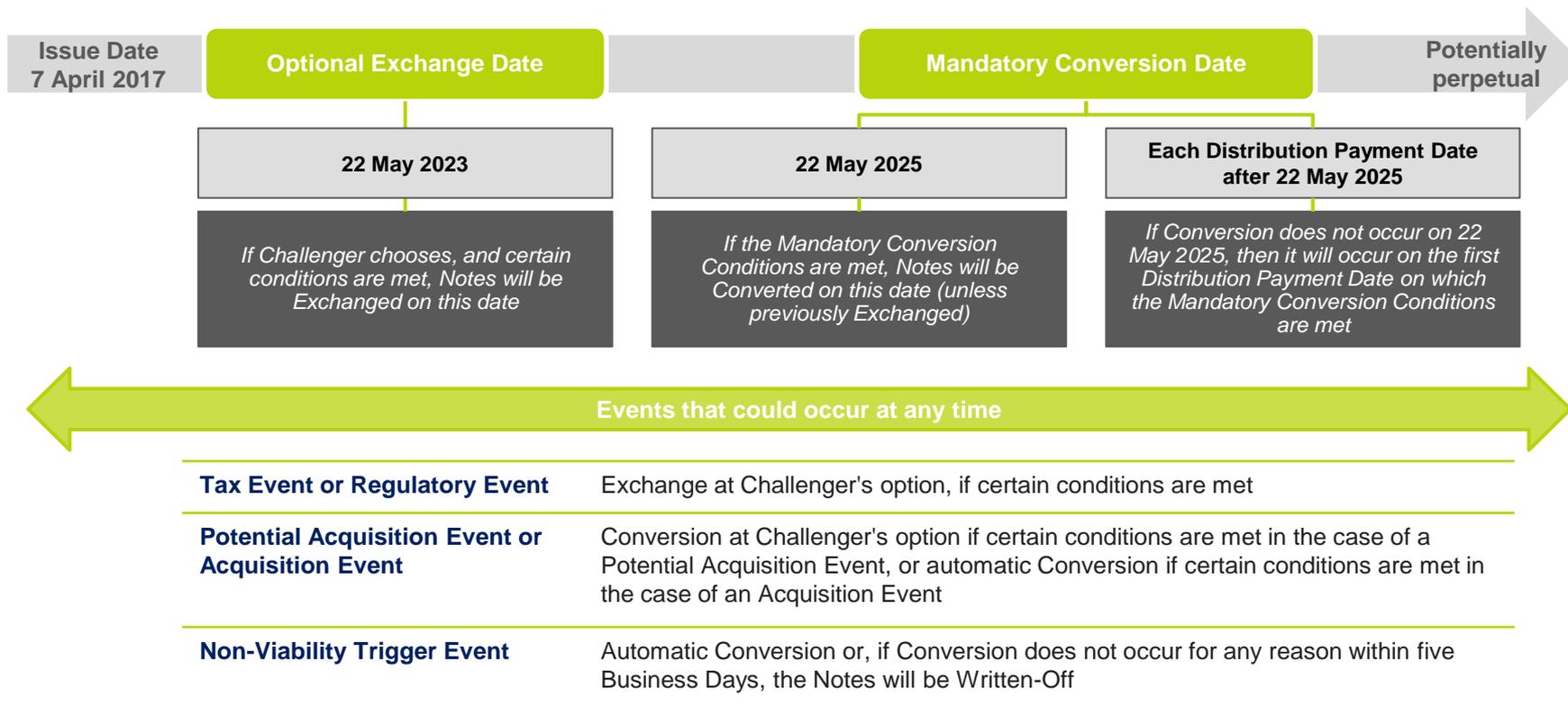
Distribution Restriction

- Unless a Distribution has been paid in full within 3 Business Days of the relevant Distribution Payment Date, Challenger must not, without 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.
- Failure to pay a Distribution when scheduled will not constitute an event of default
- Distributions that are not paid do not accrue and Challenger has no obligation to pay them at a later date

1. If the result of the calculation of the Distribution Rate for a Distribution Period is negative, then the Distribution Rate will be zero for that Distribution Period.

Key features

Summary of events that may affect the Notes



Key features

Optional Exchange and Conversion on Acquisition Event

Exchange by Challenger¹

- Challenger **may** choose to Exchange all or some Notes on 22 May 2023
- Challenger **may** choose to Exchange all or some Notes after a Tax Event or a Regulatory Event
- Challenger **may** choose to Convert all (but not some only) Notes after a Potential Acquisition Event

Exchange

- Exchange means:
 - Conversion to Ordinary Shares with a value of approximately \$101 per Note²;
 - Redemption for \$100 per Note;
 - Resale for \$100 per Note; or
 - a combination of Conversion, Redemption and Resale.

Holder rights

- Holders do not have a right to request Exchange

Acquisition Event

- If an Acquisition Event (as defined in the Terms of the Notes) occurs, Challenger must Convert all Notes on issue to Ordinary Shares worth approximately \$101 per Note² (Conversion on an Acquisition Event is subject to satisfaction of certain conditions)

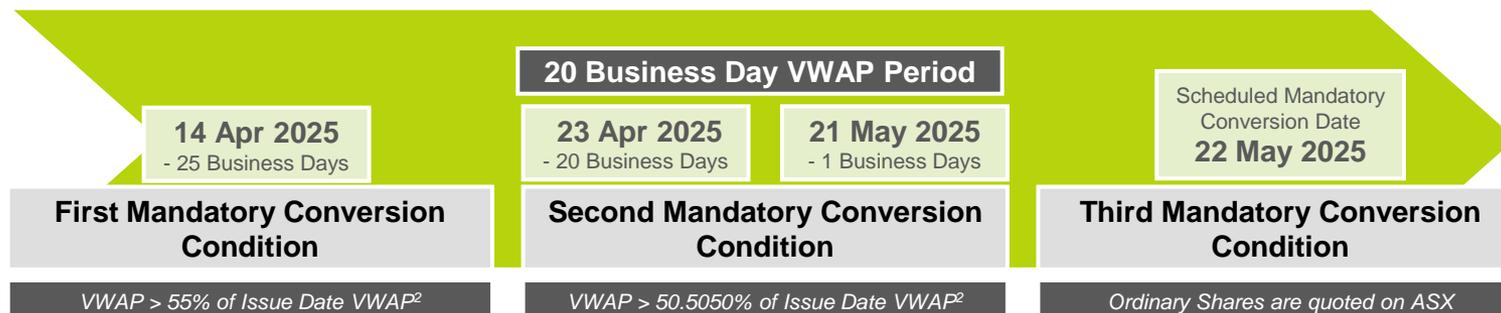
1. Challenger's right to elect to Exchange is subject to APRA's prior written approval and subject to restrictions in certain circumstances. Holders should not expect that APRA will provide its approval.

2. The exact number of Ordinary Shares to be received depends on the VWAP of Ordinary Shares over a period of 20 Business Days, therefore it may be worth more or less than \$101 per Note on the Conversion date.

Key features

Mandatory Conversion

- On 22 May 2025, subject to satisfaction of the Mandatory Conversion Conditions illustrated below, Notes will Mandatorily Convert to a variable number of Ordinary Shares at a 1% discount to the 20 Business Day VWAP¹, unless previously Converted, Redeemed or Written-Off
- If any of the Mandatory Conversion Conditions are not satisfied, the Mandatory Conversion Date will be deferred until the next Distribution Payment Date on which all of those conditions are satisfied. Notes may remain on issue indefinitely if those conditions are not satisfied



$$\text{Conversion Number} = \frac{\text{Face Value}}{99\% \times \text{VWAP}}$$

1. The VWAP during the 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Mandatory Conversion Date 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 worth more or less than approximately \$101 per Note.

2. Issue Date VWAP = VWAP during the 20 Business Days on which trading in Ordinary Shares took place immediately preceding (but not including) the Issue Date, as adjusted in accordance with the Terms of the Notes.

Key features

Non-viability conversion

Non-Viability Trigger Event

- A Non-Viability Trigger Event (NVTE) occurs where APRA determines that conversion to Ordinary Shares or write-off of Relevant Perpetual Subordinated Instruments¹ is necessary because:
 - without 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 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**

Conversion following a Non-Viability Trigger Event

- Upon occurrence of a NVTE, some or all Notes must be immediately Converted to Ordinary Shares
- If for any reason Conversion does not occur within 5 business days of APRA's determination, then Conversion will not occur and Holder's rights with respect to those Notes are immediately and irrevocably Written-Off

Maximum Conversion Number

- A Holder receives a number of shares calculated using the formula on the previous page² capped at the Maximum Conversion Number
- The Maximum Conversion Number is calculated as $\$100 / (\text{Issue Date VWAP} \times \text{Relevant Fraction})$
- The Relevant Fraction is 0.2 in the case of a Non-Viability Trigger Event

1. There is currently only one other Relevant Perpetual Subordinated Instrument on issue, being Challenger Capital Notes 1 (\$345 million issued in October 2014).
2. See Conversion Number formula on page 18.

Notes

Ranking of Notes in a winding-up

	Type	Illustrative examples ¹
 <p>High ranking</p>	<ul style="list-style-type: none"> Preferred and secured debt 	<ul style="list-style-type: none"> Liabilities preferred by law including employee entitlements and secured creditors
	<ul style="list-style-type: none"> Unsubordinated and unsecured debt 	<ul style="list-style-type: none"> Bonds and notes, trade and general creditors
	<ul style="list-style-type: none"> Subordinated and unsecured debt 	<ul style="list-style-type: none"> Subordinated notes and other subordinated and unsecured debt obligations
	<ul style="list-style-type: none"> Relevant Perpetual Subordinated Instruments 	<ul style="list-style-type: none"> Notes and any other securities expressed to rank equally with Notes (including Challenger Capital Notes 1)
	<ul style="list-style-type: none"> Ordinary Shares 	<ul style="list-style-type: none"> Ordinary Shares
<p>Low ranking</p>		

1. 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.

Key features

Comparison between Notes and other investments / securities

	Challenger annuity	Term deposit	Challenger Capital Notes 1	Challenger Capital Notes 2	Ordinary shares
Issuer	CLC	Bank, credit union or building society	Challenger	Challenger	Challenger
Legal form	Policy (unsecured, unsubordinated debt obligation referable to a statutory fund under the Life Insurance Act)	Unsecured, unsubordinated debt	Unsecured subordinated note	Unsecured subordinated note	Ordinary share
Term	One year to lifetime	One month to five years (usually)	Perpetual (subject to mandatory conversion to Ordinary Shares)	Perpetual (subject to mandatory conversion to 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, equally with Notes but higher than Ordinary Shares ¹	Rank lower than Senior Creditors, equally with Challenger Capital Notes 1 but higher than Ordinary Shares ¹	Rank lowest of all securities
Transferability	No	No	Yes – quoted on ASX as “CGFPA”	Yes – expected to be quoted on ASX as “CGFPB”	Yes – quoted on ASX as “CGF”
Protection under the Financial Claims Scheme	No	Yes ²	No	No	No
Distribution rate	Fixed or indexed	Fixed (usually)	Floating (Bank Bill Rate + Margin of 3.40% p.a., adjusted for franking)	Floating (Bank Bill Rate + Margin expected to be in the range of 4.40% to 4.60% p.a., adjusted for franking)	Variable dividends
Distribution payment dates	Monthly, quarterly, semi-annually or annually	Monthly, quarterly, semi-annually or annually	Quarterly (discretionary)	Quarterly (discretionary)	Semi-annually (discretionary)
Franking	Unfranked	Unfranked	Expected to be fully franked	Expected to be fully franked	Expected to be fully franked
Treated by APRA as regulatory capital	No	No	No, but used to fund a subscription for Additional Tier 1 Capital of CLC	No, but may be used to fund a subscription for Additional Tier 1 Capital of CLC	Not currently
Mandatory conversion to ordinary shares	No	No	Yes, on 25 May 2022, or upon an Acquisition Event or Non-Viability Trigger Event	Yes, on 22 May 2025, or upon an Acquisition Event or Non-Viability Trigger Event	No

1. Any return in a winding-up may be adversely affected if APRA determines that a Non-Viability Trigger Event has occurred. Following Conversion, Holders will hold Ordinary Shares and rank equally with other holders of Ordinary Shares in a winding-up of Challenger. If Conversion on account of a Non-Viability Trigger Event does not occur within 5 business days of APRA's determination, Notes will be Written-Off.
2. For deposits made after 1 January 2013 up to an amount of \$250,000 per Australian deposit taking institution.

Key features

Key risks associated with an investment in Notes

- Notes are not policy liabilities of CLC, Challenger or any other member of the Challenger Group, are not secured over the assets of Challenger or any member of the Challenger Group, and are not guaranteed or insured by any government or other person
 - 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
 - The price at which Holders may be able to sell Notes on ASX is uncertain
 - There may be no liquid market for Notes
 - The market price and liquidity of Challenger Ordinary Shares may fluctuate due to various factors
 - Distributions are discretionary and are only payable subject to no Payment Condition existing
 - Distributions will fluctuate (both increasing and decreasing) over time as a result of movements in the Bank Bill Rate, the franking rate or the tax rate
 - Distributions may or may not be franked
 - Conversion, Redemption and Resale are not certain. Holders have no right to request Exchange of Notes
 - 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
 - Where Conversion on account of a Non-Viability Trigger Event does not occur for any reason within five Business Days after the Non-Viability Conversion Date, Notes will be Written-Off
 - Challenger may raise further debt or issue securities that rank equally with or ahead of Notes
 - See Sections 1.5 and 5.1 of the Prospectus for more information on risks associated with Notes, and Section 5.2 for more information on risks associated with the Challenger, CLC and the Challenger Group
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Section 4

Offer process

Offer process

Structure

Institutional Offer

- Offer to certain institutional investors

Broker Firm Offer

- Offer to Australian resident retail and high net worth clients of Syndicate Brokers

Securityholder Offer

- Offer to Eligible Securityholders
 - registered holders of Ordinary Shares or registered holders of Challenger Capital Notes 1 at 7.00pm (Sydney time) on 23 February 2017 who are shown on the applicable register as having an address in Australia; and who are not in the United States, or acting as a nominee for a person in the United States

Offer process

Key dates

Event	Date ¹
Record date for determining Eligible Securityholders	23 February 2017
Lodgement of original Prospectus with ASIC	28 February 2017
Bookbuild to determine the Margin	7 March 2017
Announcement of the Margin	8 March 2017
Lodgement of the replacement Prospectus with ASIC	8 March 2017
Opening Date	8 March 2017
Closing Date for the Securityholder Offer	31 March 2017
Closing Date for the Broker Firm Offer	6 April 2017
Issue Date	7 April 2017
Notes commence trading on ASX (deferred settlement basis)	10 April 2017
Holding Statements dispatched by	12 April 2017
Notes commence trading on ASX (normal settlement basis)	13 April 2017
First Distribution Payment Date	22 August 2017
Optional Exchange Date	22 May 2023
Scheduled Mandatory Conversion Date	22 May 2025

1. These dates are indicative only and may change without notice.

Offer process

Contact directory

Issuer		
Challenger Limited	Andrew Tobin Gavin Buchanan	Chief Financial Officer Deputy Chief Financial Officer & Group Treasurer
		+61 2 9994 7000 +61 2 9994 7482
Structuring Adviser & Joint Lead Manager		
UBS	Andrew Buchanan Enrico Musso	
		+61 2 9324 2617 +61 2 9324 2985
Joint Lead Managers		
ANZ Securities Limited	Tariq Holdich	
		+61 2 8037 0622
National Australia Bank	Nicholas Chaplin Stefan Visser	
		+61 2 9237 9518 +61 2 9237 9505
Westpac Institutional Bank	Allan O'Sullivan Robert Moulton	
		+61 2 8254 1425 +61 2 8254 4342
Further information		
1300 651 573	www.challengercapitalnotes2.com.au	