

Market
release

Challenger
Capital
Notes 2

Challenger
Limited

CHALLENGER CAPITAL NOTES 2 OFFER

28 February 2017, Sydney – Challenger Limited (Challenger) today announced its intention to issue a new subordinated, convertible security, Challenger Capital Notes 2 (Notes), expected to raise \$350 million with the ability to raise more or less (the Offer). Notes are expected to be listed and tradable on the Australian Securities Exchange (ASX).

Notes are subordinated, unsecured, perpetual and mandatorily convertible into Challenger ordinary shares. The Notes are issued by Challenger under a Trust Deed. Distributions are floating rate, discretionary, non-cumulative, expected to be fully franked and scheduled to be paid quarterly.

Challenger intends to use the proceeds of the Notes to fund a subscription for Additional Tier 1 Capital of Challenger Life Company (CLC), the registered life company of the Challenger Group.

Challenger's CFO Andrew Tobin said, "Challenger's Life business continues to grow strongly reflecting the demand for retirement income products from the rapidly increasing number of retirees. The proceeds from the Challenger Capital Notes 2 will be used to fund CLC's capital requirements resulting from this growth.

"This offer reflects our longstanding approach to proactively managing our capital position to ensure we remain well placed for future growth. As at 31 December 2016, Challenger held \$0.9 billion of excess regulatory capital and Group cash, representing 1.4 times its prescribed capital amount set by the Australian Prudential Regulation Authority (APRA) and within its target range of 1.3 times to 1.6 times."

Full details of this opportunity along with the terms of the Notes are set out in the prospectus lodged with the Australian Securities and Investments Commission (ASIC) and ASX today (Prospectus).

The Prospectus is available to Australian investors at www.challengercapitalnotes2.com.au or by calling the Challenger Notes 2 Offer Information Line on 1300 651 573 (within Australia) and +61 3 9415 4024 (outside Australia), between 8.30am and 5.00pm Monday to Friday. A replacement Prospectus, containing the Margin and an application form, is expected to be made available on 8 March 2017.

This announcement only contains a summary of the features of the Challenger Capital Notes 2 and the Offer. Investors should read and consider the Prospectus in full before deciding whether to invest in the Notes. Challenger strongly recommends that investors seek professional advice which takes into account their particular investment objectives and circumstances from a licensed adviser before deciding whether to participate in the Offer.

Challenger Securityholders wishing to invest in the Notes should complete the application form (either electronic or paper) included in or accompanying the replacement Prospectus.

UBS has been appointed as the Arranger and a Joint Lead Manager.

ANZ Securities, National Australia Bank and Westpac Institutional Bank have also been appointed as Joint Lead Managers.

For further enquiries

Challenger Capital Notes 2 Offer Information Line

1300 651 573 (within Australia) or

+61 3 9415 4024 (outside Australia)

Monday to Friday, 8.30am to 5.00pm (Sydney time)

Website: www.challengercapitalnotes2.com.au

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Further information about the Offer

Terms used but not defined in this announcement are defined in the Challenger Capital Notes 2 Prospectus.

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; and
- a Securityholder Offer made to Eligible Securityholders¹.

There is no general public offer.

Key features of Challenger Capital Notes 2

- Notes are fully paid, perpetual, unsecured, subordinated notes to be issued by Challenger
- Holders of Notes will receive floating rate, discretionary, non-cumulative Distributions, which are scheduled to be paid quarterly (subject to no Payment Condition existing). Distributions are expected to be fully franked
- The Distribution Rate will be calculated on a quarterly basis as the sum of the 3 month Bank Bill Rate plus the Margin, multiplied by $(1 - \text{the corporate tax rate}^2)$

¹ An Eligible Securityholder of Challenger is a person who is a registered holder of Ordinary Shares or a registered holder of Challenger Capital Notes 1; shown on the applicable register at 7.00pm (Sydney time) on 23 February 2017 as having an address in Australia; and is not in the United States, or acting as a nominee for a person in the United States.

² Currently 30%.

- The Margin will be determined under the Bookbuild, and is expected to be in the range of 4.40% and 4.60% per annum
- Notes will be converted into a variable number of Challenger Ordinary Shares on 22 May 2025 (subject to certain conditions being satisfied), unless Exchanged earlier
- Challenger has the option to Exchange Notes on 22 May 2023 or following a Tax Event, a Regulatory Event or a Potential Acquisition Event, subject to APRA's prior written approval
- Where a Non-Viability Trigger Event occurs, the Notes are subject to compulsory Conversion into ordinary shares, or may be Written-Off, in which case Note Holders are likely to suffer a material loss
- The minimum investment in Notes is \$5,000 (50 Notes)

Challenger Capital Notes 2 are subject to risks which could affect their performance, including interest rate risk and market price fluctuations. Information about the key risks of investing in Challenger Capital Notes 2 is set out in the Prospectus.

Indicative timetable

Key dates for the Offer	Date
Record date for determining Eligible Securityholders	23 February 2017
Lodgement of this 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 despatched by	12 April 2017
Notes commence trading on ASX (normal settlement basis)	13 April 2017

Key dates for Notes	Date
First Distribution Payment Date	22 August 2017
Optional Exchange Date	22 May 2023
Scheduled Mandatory Conversion Date	22 May 2025

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 the Notes are issued.

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

Disclaimer

This announcement does not constitute an offer of any securities (including the Notes) for sale or issue. No action has been taken to register or qualify Notes or the Offer or to otherwise permit a public offering of Notes outside Australia. In particular, this announcement does not constitute an offer of securities for sale in the United States. Neither the Notes nor the 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. The Notes are being offered and sold in the Offer solely outside the United States pursuant to Regulation S under the US Securities Act.