

ANZPA Investment Summary

ANZPA listed on Friday 18 December 2009, slightly under par at \$99.45. This can be partly attributed to the Issuers action of significantly increasing the size of this Issue. The initial offer size of \$750m was increased to \$1.97bn. The ANZ Bank is not alone in significantly increasing the size of an issue from its initial estimate.

ANZ CPS2 trading at +315bps over SWAP does represent good value and when the over supply has been finally bedded down, this issue is likely to trade close to our fair margin of +275bps.

As the ANZ CPS2 series has a mandatory conversion date on 15 December, 2016. This is the longest dated Mandatory Conversion style of hybrid issued by a major Australian Bank and therefore has the greatest duration risk. The longer duration of this issue means that it is more sensitive to changes in our assessed credit margin than the shorter dated 5-year issues of the major banks which we currently value at +250bps. To account for the additional duration risk of the ANZPA's, we have calculated our Fair Value of \$101.61 using a 275bps fair margin, a 25bp premium to the other major banks. Table shows the various valuations of ANZPA at different fair value credit spread assumptions.

Table 1 – ANZPA Valuation Matrix

ANZPA	YTM	Fair Value Credit Spread	Running Yield
\$ 95.00	10.05%	4.04%	7.55%
\$ 97.50	9.55%	3.54%	7.36%
\$ 100.00	9.06%	3.05%	7.18%
\$ 101.61	8.96%	2.75%	7.06%
\$ 102.50	8.59%	2.58%	7.00%
\$ 102.96	8.51%	2.50%	6.97%
\$ 105.00	8.14%	2.12%	6.83%

Source: Citi Smith Barney Research Services Group

Should credit spreads contract during the life of this issue (which is our view), then this issue will trade at a premium to the issue margin of +310bps. However, if credit margins widen, then this issue will trade at a discount. The additional duration risks associated with this issue should be considered before investing in this security.

We Rate ANZPA as Undervalued, Low Risk with fair valuation of \$101.61.

Dividend for the First distribution period:

BBSW90	4.075%
Margin	3.10%
Gross	7.175%
Multiplied by	0.7 (1-tax rate)
Net rate	5.0225%p.a. fully franked

Distribution will be paid on 15 March, 2010