Analysts

Damien Williamson 613 9235 1958

Barry Ziegler 613 9235 1848

Authorisation

TS Lim 612 8224 2810

Bendigo and Adelaide Bank Convertible Preference Shares 4 (BENPG)

Fixed Income

Gaining access to limited new supply

Bendigo and Adelaide Bank's new $300m Convertible Preference Shares 4 (BENPG) has been launched as a Basel III compliant replacement issue for the $269m BENPD security ahead of its 13 Dec 2017 call date. While the bookbuild margin range of 3.75-3.95% above 3 month bank bill is the lowest since NABPC was priced at a 3.50% margin in Feb 2015, we see solid pent up demand for BENPG given there has no opportunity for investors to participate in a new money hybrid bookbuild for 6 months.

Pricing on BENPG effectively reflects the strength in both the hybrid and wholesale debt market. The momentum driven by the positive performance of the past 11 bank / financial hybrid listings since Dec 2015 has driven investors to actively seek participation in new issues. In the current market, securing a Reinvestment Offer allocation in BENPD has required buying on a negative trading margin, a trend last evident in 2014 with pre-positioning trading into CBAPA ahead of the CBAPD offer.

With a slightly longer optional call date in June 2024 (6.5 years), we see the potential for BENPG to be another successful issue when considering:

- **2017 redemptions currently exceeds new issuance by $3.9bn:** ASX listed debt & hybrid market redemptions for 2017 stand at $8.3bn vs issuance of $4.4bn.
- **Scarcity of new supply:** With ANZ's decision not to proceed with a new money bookbuild on ANZPH, the last new money offer was SUNPF in Mar 2017.
- **Strength in wholesale debt market:** The trading margin on 5 year major bank wholesale senior debt has firmed in from 1.10% to 0.78% since the start of 2017.

In the absence of an external shock event, we see a continuation of these factors supporting the hybrid market into the period of BENPG listing in late 2017 / early 2018.

Figure 1: Trading margins on debt and equity securities

	Ranking (prior to exchange)	Security	Trading Margin over BBSW	Maturity / Mand Conv*	First Call
Higher Ranking	Senior debt	BEN (OTC) senior	100bp	Apr 2021	
↑	Subordinated debt	BEN (OTC) subordinated	170bp	Dec 2026	Dec 2021
↓	**Preferred equity**	**BENPG (Additional Tier 1)**	**375-395bp**	**Jun 2026***	**Jun 2024#**
Lower Ranking	Equity	Ordinary BEN Shares	~600bp	Perpetual	

WHERE NOT CONVERTED OR WRITTEN-OFF ON ACCOUNT OF A CAPITAL TRIGGER EVENT OR A NON VIABILITY TRIGGER EVENT. FIRST CALL DATE IS DISCRETIONARY.

* MANDATORY CONVERSION IS SUBJECT TO SATISFYING THE MANDATORY CONVERSION CONDITIONS BENPG IS PERPETUAL AND MAY NOT BE EXCHANGED.

SOURCE: YIELDBROKER, BELL POTTER

Key features

- **Initial grossed up running yield of 5.45-5.65% (3.82-3.96% fully franked):** Floating rate based on 3 month bank bill of 1.70% + 3.75-3.95% bookbuild margin.
- **Option to exchange at year 6.5, mandatory conversion at year 8.5:** BEN has the option to redeem or covert BENPG at the Jun 2024 Call Date, subject to APRA approval and BEN being solvent, and a Capital Trigger or a Non-Viability Trigger Event not having occurred. BENPG may not be exchanged on the scheduled Mandatory Exchange Date, and you may continue to hold BENPG indefinitely.
- **Ordinary dividend restrictions:** Applies on the non payment of BENPG distributions. BENPG distributions are discretionary and subject to the distribution payment conditions being satisfied. Unpaid distributions are non-cumulative.

Issue overview

Issuer	Bendigo Bank
Issue ASX code	BENPG
Face value	$100
Estimated offer size	$300m
Bookbuild margin	3.75-3.95%
Franking	100%
Dividend payments	Quarterly
First dividend payment	13 Mar 2018
Minimum application	$5,000
Call Date	13 Jun 2024
Mandatory Conversion	15 Jun 2026

Timeline

Lodgement of prospectus	16 Oct 2017
Bookbuild margin	23 Oct 2017
Announcement of margin	23 Oct 2017
Offer opens	24 Oct 2017
Offer closes	
Securityholder	1 Dec 2017
Reinvestment BENPD	1 Dec 2017
Broker firm new money	12 Dec 2017
Issue date	13 Dec 2017
ASX listing (deferred settlement)	14 Dec 2017

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BENPD Key Dates	Dates
BENPD Ex Entitlement	11 Oct 2017
BENPD Record Date	12 Oct 2017
BENPD Cease Trading	24 Nov 2017
BENPD Ex Dividend	27 Nov 2017
Reinvestment Offer Close	1 Dec 2017
BENPD redemption	13 Dec 2017
BENPD div paid	13 Dec 2017
ASX listing (deferred settlement)	14 Dec 2017

Reinvestment Offer for BENPD

As the BENPG offer is essentially a replacement issue for $269m Bendigo Convertible Preference Shares (BENPD), BEN is offering the opportunity to reinvest BENPD securities held at the 12 October 2017 record date into new BENPG securities (i.e. guaranteed allocation).

BENPD holders essentially have three options:

- **Option 1: Participate in Reinvestment Offer:** For BENPD holders that lodge their Personalised Reinvestment Application form by 1 December 2017, their securities will be reinvested into BENPG. Holders will receive the full half yearly dividend of $2.4041 fully franked on 13 December 2017 (ex div 27 November, record date 28 November).
- **Option 2: Sell BENPD on market:** BENPD ceases trading 24 November 2017.
- **Option 3: Do nothing and receive $100 Cash Redemption:** In addition to receiving $100 cash redemption per BENPD security on 13 December 2017, holders will receive the $2.4041 fully franked dividend outlined in Option 1 on 13 December 2017.

Overall, BENPD investors need to consider whether the likely 3.75% issue margin on BENPG is sufficient to participate in the reinvestment offer. This is below the 5.00% issue margin on BENPD, reflecting the market strength in both the ASX listed hybrid market and wholesale debt market. With year to date net redemptions in the ASX listed debt and hybrid market standing at $3.9bn, there has been a diminishing supply of new issuance to reinvest into.

Broker Firm and Securityholder Offers

- **Broker Firm Offer:** Broker firm bids will participate in the Bookbuild to be held on 23 October 2017.
- **Securityholder Offer:** Available to investors in BEN, BENHB, BENPD, BENPE, or BENPF. Applications for investors holding these securities at the 12 October 2017 Record Date requires a HIN or SRN.

There is no Customer Offer or General Offer.

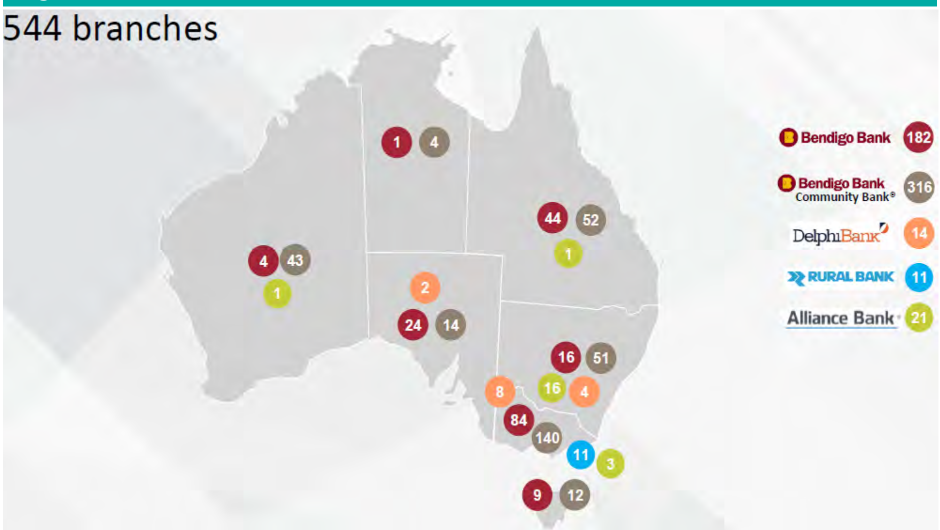
Bendigo and Adelaide Bank CPS4

Bendigo and Adelaide Bank overview

With a history dating back to 1858, BEN is today one of Australia's leading regional banks through a network of 544 branches, including 316 Community Bank branches. Its loan book is split 68% residential mortgages, 25% commercial, 4% consumer and 3% margin lending. BEN is currently a top 75 ASX listed company (market cap $5.7bn) and operates three key business segments:

- Local Connection (FY17 Cash Net Profit up 0.2% to $198m): Provides a full range of consumer and business banking products and solutions through brands including Bendigo Bank and Delphi Bank.
- Partner Connection (FY17 Cash Net Profit up 9.3% to $137m): Services include third party bank, wealth and protection solutions through brans such as Adelaide Bank, Sandhurst Trustees, Leveraged and Alliance Bank.
- Agribusiness (FY17 Cash Net Profit up 3.7% to $71m): Provision of banking services to agribusiness, rural and regional communities via Rural Bank.

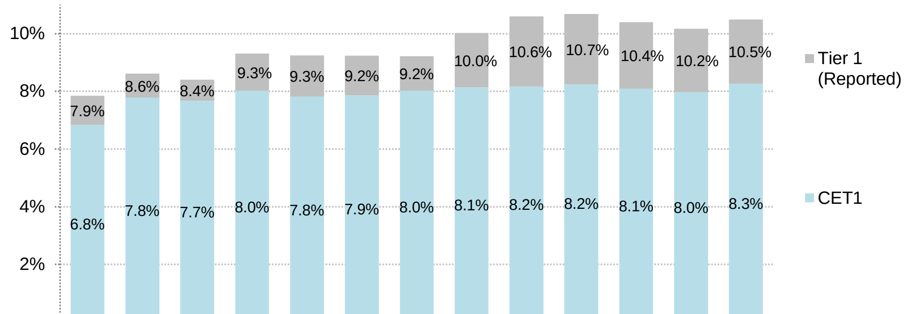
Figure 2: BEN network of 544 branches



SOURCE: COMPANY

BEN remains well capitalised with its Common Equity Tier 1 (CET1) ratio standing at a record 8.27% at 30 June 2017, representing a buffer of $1,198m above the 5.125% threshold for the Capital Trigger Event.

Figure 3: BEN Common Equity Tier 1 Ratio - 2011 to 2017



SOURCE: COMPANY DATA,

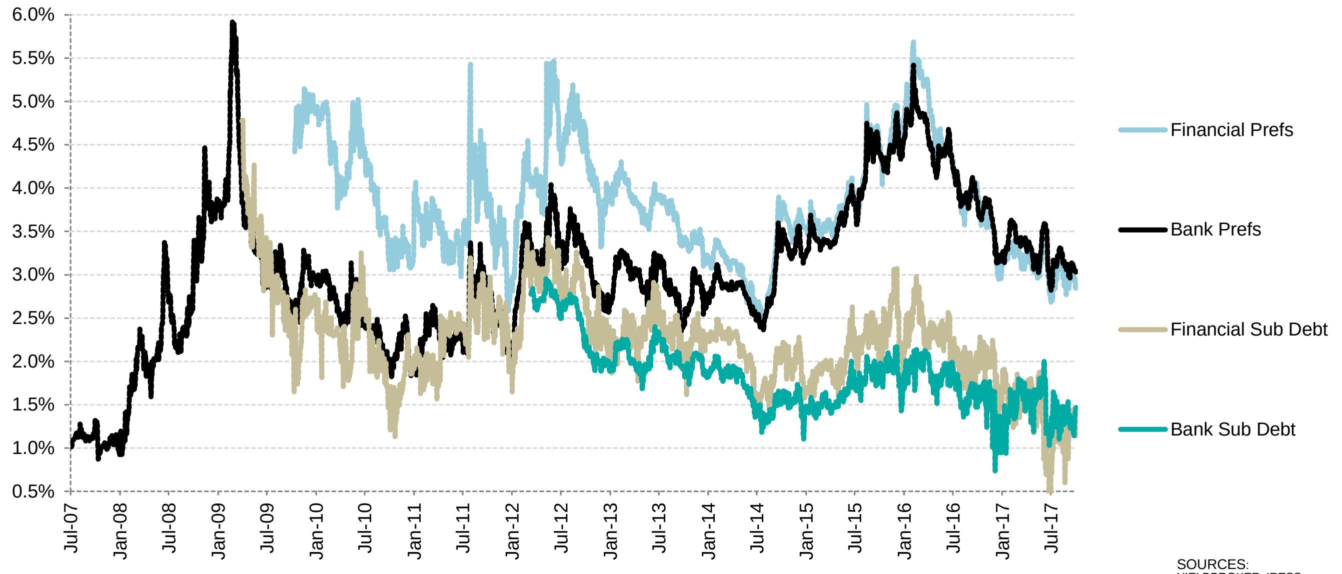
Bendigo and Adelaide Bank CPS4

Trading margins on bank and financial hybrids rally to 3 year lows

Figure 4 tracks the average trading margins split across 4 sectors:

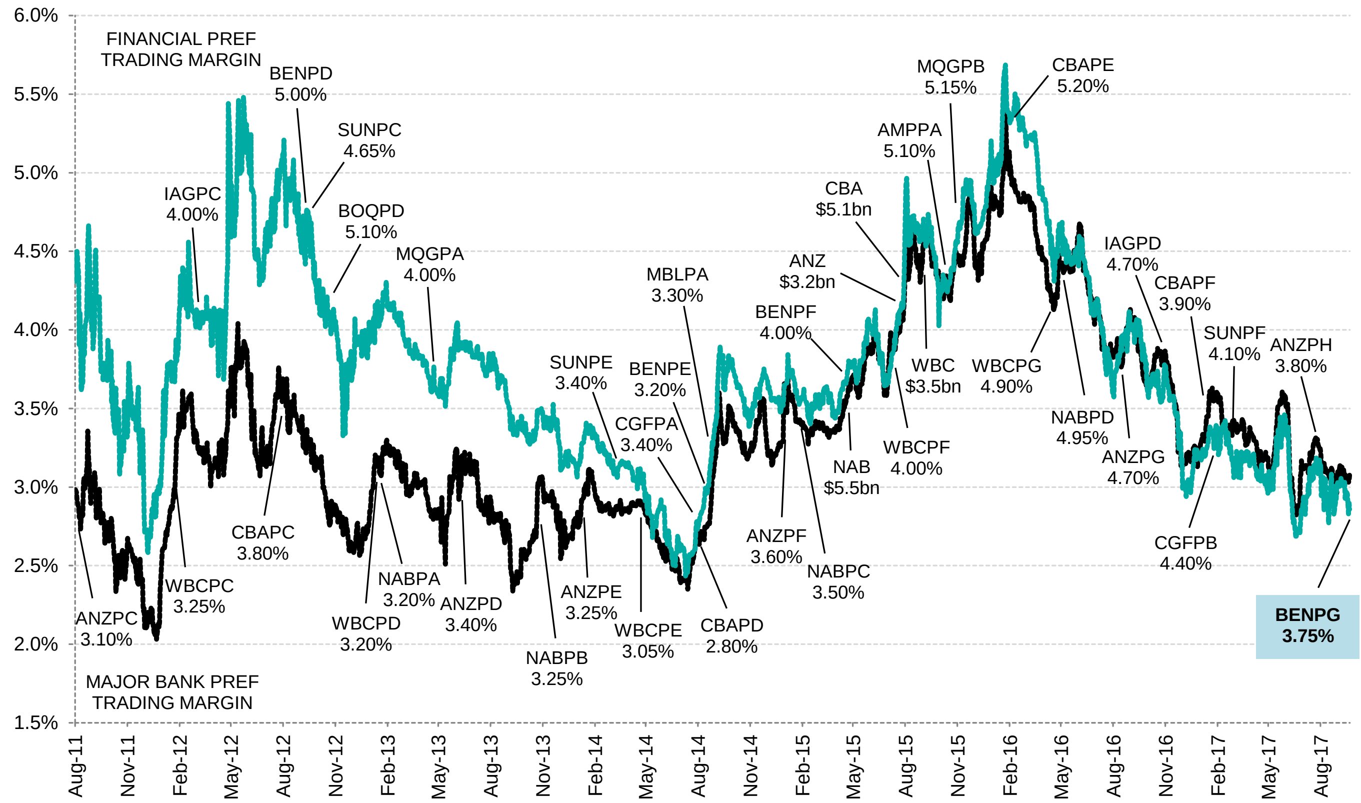
* Financial Prefs (AMPPA, BENPE, BENPF, CGFPA, CGFPB, IAGPD, IANG, MBLPA, MQGPA, MQGPB, SUNPE, SUNPF)
* Bank Prefs (ANZPD, ANZPE, ANZPF, ANZPG, ANZPH, CBAPC, CBAPD, CBAPE, CBAPF, NABPA, NABPB, NABPC, NABPD, WBCPD, WBCPE, WBCPF, WBCPG)
* Financial Subordinated Debt (AMPHA, SUNPD)
* Bank Subordinated Debt (NABPE, WBCHB).

Figure 4: Trading margins on ASX listed debt and hybrid sectors



SOURCES: YIELDBROKER, IRESS, BELL POTTER

Figure 5: Average trading margins on bank and financial prefs



SOURCES: IRESS, BLOOMBERG, BELL POTTER

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ASX listed debt & hybrid market net redemptions at $3.9bn

With net hybrid redemptions currently at $3.9bn, 2017 is set to be the first year of net hybrid redemptions since 2010. In addition, equity IPO volumes have been modest at $4.5bn, where 6 of the 8 IPOs over $100m have been Listed Investment Companies / Trusts. By contrast, Net Hybrid and Equity Issuance (including major bank raisings) in 2015 totalled $28.8bn. This 2015 spike in capital raisings coincided with weakness in the hybrid market, highlighted by the average trading margin on major bank prefs / capital notes jumping from 3.13% to 4.48% over the year.

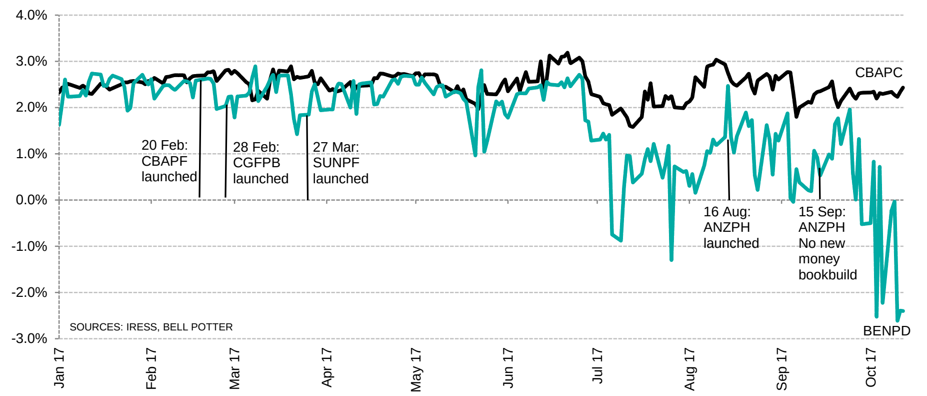
Figure 6: Net Hybrid Issuance 2010-2017

Issuance ($bn)	2010	2011	2012	2013	2014	2015	2016	2017YTD	Cumulative
Hybrid Issuance	0.92	3.42	13.16	8.66	7.46	5.60	7.03	4.40	50.65
Hybrid Redemptions	1.10	1.68	3.09	2.42	5.90	1.07	5.68	8.29	29.23
Net Hybrid Issuance	-0.17	1.75	10.07	6.24	1.56	4.53	1.35	-3.89	25.32
IPOs	7.98	1.56	1.27	9.69	18.65	7.00	8.32	4.49	58.96
Major Bank Raisings	0.00	0.00	0.00	0.00	0.00	17.30	0.00	0.00	17.30
Net Hybrid & Equity Issuance	**7.81**	**3.31**	**11.34**	**15.93**	**20.21**	**28.83**	**9.67**	**0.60**	**101.58**
Bank Pref Avg Trading Margin (31Dec)	1.92%	2.14%	2.76%	2.72%	3.13%	4.48%	3.22%	3.04%	
Bank Pref Avg Duration (years) (31Dec)	3.6	3.0	3.2	3.9	5.1	4.4	4.1	3.8	
Bank 5YrSnr Trading Margin (31Dec)	1.13%	1.54%	0.96%	0.94%	0.82%	1.07%	1.10%	0.78%	
CBA CET1 (30 June)	6.6%	7.3%	7.5%	8.2%	9.3%	9.1%	9.6%	10.1%	

SOURCES: ASX, AFR, BLOOMBERG, COMPANY DATA, BELL POTTER

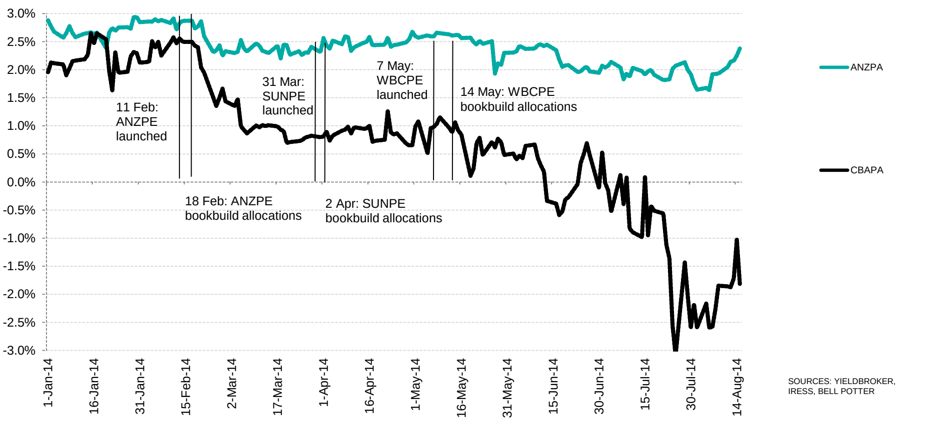
In the current environment of reducing access to new money hybrid bookbuild, investors are increasingly buying into maturing securities on a negative trading margin such as BENPD to secure a Reinvestment allocation.

Figure 7: Trading margins of BENPD (Dec 2017 call) and CBAPC (Dec 2018 call)



This trend was last evident in 2014 with pre-positioning trading into CBAPA ahead of the CBAPD refinancing offer.

Figure 8: Trading margins of ANZPA (Dec 2016 call) and CBAPA (Oct 2014 call)



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3.75% issue margin provides buffer between launch & listing

One key metric to consider when investing in a new hybrid issue is the attractiveness of the pricing compared with prevailing market pricing reflected by the average trading margin of the 12 financial prefs and capital notes. Attractive pricing to ensure a listing premium has been a key factor behind the last 11 bank / financial hybrids launched since AMPPA in Oct 2015 listing at a premium. This has been crucial for restoring investor confidence, and support for new hybrid issues.

Assuming BENPG's issue margin is set at the bottom end of the bookbuild range at 3.75%, this represents a spread of 0.85% to the prevailing market of 2.90% on the 12 financial convertible prefs / capital notes. This is above the median new issue spread of 0.35% on the 35 major bank / financial hybrid issues since 2011.

This spread 0.85% reflects the extra duration on BENPG with 6.5 years to its June 2024 optional call date, versus the average duration of the 12 financial hybrids of 3.4 years. It also provides a buffer for a modest adverse market move between BENPG launching and listing.

Figure 8: Listing performance of Basel III Compliant Additional Tier 1 Hybrid Issues: 2011-2017

Security	Launched	Issue Margin	Trading Margin Index Bank / Financial	Issue Margin Spread vs Trading Margin	Listing Date	Opening Price	Trading Margin Index Bank / Financial	Trading Margin Index Change Since Launch
BENPG	16 Oct 2017	3.75%	2.90%	0.85%	14 Dec 2017			
ANZPH	16 Aug 2017	3.80%	3.30%	0.50%	29 Sep 2017	$101.10	3.12%	-0.18%
SUNPF	27 Mar 2017	4.10%	3.10%	1.00%	8 May 2017	$101.26	3.05%	-0.05%
CGFPB	28 Feb 2017	4.40%	3.25%	1.15%	10 Apr 2017	$101.20	3.17%	-0.08%
CBAPF	20 Feb 2017	3.90%	3.45%	0.45%	3 Apr 2017	$102.00	3.37%	-0.08%
IAGPD	21 Nov 2016	4.70%	3.60%	1.10%	23 Dec 2016	$103.00	3.18%	-0.42%
ANZPG	16 Aug 2016	4.70%	3.80%	0.90%	28 Sep 2016	$100.63	4.02%	0.22%
NABPD	31 May 2016	4.95%	4.40%	0.55%	8 Jul 2016	$100.50	4.32%	-0.08%
WBCPG	17 May 2016	4.90%	4.20%	0.70%	1 Jul 2016	$100.90	4.49%	0.29%
CBAPE	16 Feb 2016	5.20%	5.40%	-0.20%	31 Mar 2016	$100.00	4.80%	-0.60%
MQGPB	23 Nov 2015	5.15%	4.57%	0.58%	21 Dec 2015	$100.51	4.77%	0.20%
AMPPA	26 Oct 2015	5.10%	4.27%	0.83%	1 Dec 2015	$100.10	4.70%	0.43%
WBCPF	27 Jul 2015	4.00%	3.94%	0.06%	9 Sep 2015	$99.00	4.51%	0.57%
BENPF	27 Apr 2015	4.00%	3.47%	0.53%	16 Jun 2015	$99.10	3.91%	0.44%
NABPC	17 Feb 2015	3.50%	3.43%	0.07%	23 Mar 2015	$100.00	3.40%	-0.03%
ANZPF	27 Jan 2015	3.60%	3.63%	-0.03%	6 Mar 2015	$99.99	3.33%	-0.30%
MBLPA	16 Sep 2014	3.30%	3.20%	0.10%	9 Oct 2014	$98.00	3.62%	0.42%
BENPE	3 Sep 2014	3.20%	2.92%	0.28%	13 Oct 2014	$98.00	3.76%	0.84%
CGFPA	27 Aug 2014	3.40%	2.82%	0.58%	10 Oct 2014	$99.00	3.69%	0.87%
CBAPD	18 Aug 2014	2.80%	2.62%	0.18%	2 Oct 2014	$97.00	3.45%	0.83%
WBCPE	7 May 2014	3.05%	2.90%	0.15%	24 Jun 2014	$101.48	2.61%	-0.29%
SUNPE	31 Mar 2014	3.40%	3.11%	0.29%	9 May 2014	$101.19	3.11%	0.00%
ANZPE	11 Feb 2014	3.25%	3.12%	0.13%	1 Apr 2014	$100.75	2.89%	-0.23%
NABPB	12 Nov 2013	3.25%	2.78%	0.47%	18 Dec 2013	$100.25	2.88%	0.10%
ANZPD	3 Jul 2013	3.40%	3.19%	0.21%	8 Aug 2013	$100.00	2.88%	-0.31%
MQGPA	14 May 2013	4.00%	3.65%	0.35%	20 Jun 2013	$100.70	3.91%	0.26%
NABPA	13 Feb 2013	3.20%	3.20%	0.00%	21 Mar 2013	$99.75	3.15%	-0.05%
WBCPD	30 Jan 2013	3.20%	3.12%	0.08%	12 Mar 2013	$99.94	3.15%	0.03%
BOQPD	7 Nov 2012	5.10%	4.17%	0.93%	27 Dec 2012	$101.00	4.07%	-0.10%
SUNPC	25 Sep 2012	4.65%	4.61%	0.04%	7 Nov 2012	$101.48	4.17%	-0.44%
BENPD	24 Sep 2012	5.00%	4.49%	0.51%	1 Nov 2012	$101.00	4.26%	-0.23%
CBAPC	3 Sep 2012	3.80%	3.34%	0.46%	18 Oct 2012	$101.61	3.10%	-0.24%
IAGPC	19 Mar 2012	4.00%	4.11%	-0.11%	2 May 2012	$99.60	4.01%	-0.10%
WBCPC	16 Feb 2012	3.25%	3.19%	0.06%	26 Mar 2012	$99.75	3.24%	0.05%
ANZPC	23 Aug 2011	3.10%	2.98%	0.12%	29 Sep 2011	$100.00	2.80%	-0.18%
			Median:	0.35%				

SOURCE: COMPANY DATA, IRESS, BELL POTTER

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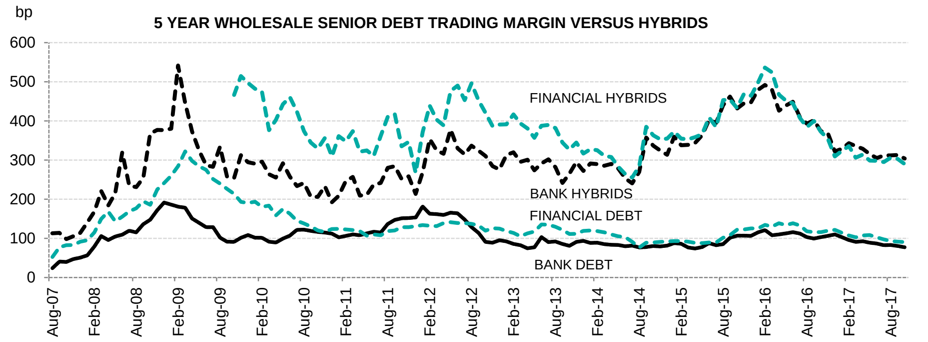
Hybrids still offer value relative to senior debt

In strong hybrid markets since 2010, the spread between major bank senior debt and hybrids has compressed below 2.00%. Assuming BENPG is priced at a margin of 3.75%, this represents a 2.75% spread above April 2021 (3.5 year) BEN wholesale senior debt. After factoring in the yield curve impact of the extra 3 years duration on BENPG (6.5 years to June 2024 call) this 2.75% spread remains sufficient.

Figure 9: Average trading margins versus wholesale senior debt



SOURCE: YIELDBROKER, BELL POTTER

BENPD reinvestment likely to raise $120-160m

If the participation trend in recent reinvestment offers continues at a range of 45-60%, then we expect between $120m to $160m of the $269m BENPD issue will be reinvested into BENPG. Given the strength of the hybrid market and lack of new issuance, there is the potential for reinvestment participation to be at the upper end of this range, which will further squeeze the supply available for new money investment.

Figure 10: Participation in reinvestment offer replacement issues

Security	Issue Margin	Maturity/ Call Date	Issue Size $m	Reinvestment $m	**Reinvestment Participation**	Replacement Issue	Issue Margin	Listing Date	Issue Size $m
AQNHA	4.75%	15 May 14	202.2	30.1	**14.9%**	AMPHA	2.65%	19 Dec 13	325
ANZPB	2.50%	16 Jun 14	1,081.2	626.9	**58.0%**	ANZPE	3.25%	1 Apr 14	1610
WBCPB	3.80%	30 Sep 14	908.3	528.9	**58.2%**	WBCPE	3.05%	24 Jun 14	1311
CBAPA	3.40%	31 Oct 14	2,000.0	1328.1	**66.4%**	CBAPD	2.80%	2 Oct 14	3000
AYUHA	3.55%	14 Apr 16	120.0	62.6	**52.2%**	AYUHB	2.80%	16 Dec 15	250
PCAPA	1.05%	6 Apr 16	1,166.5	260.0	**22.3%**	CBAPE	5.20%	31 Mar 16	1450
ANZPA	3.10%	15 Dec 16	1,968.7	900.4	**45.7%**	ANZPG	4.70%	28 Sep 16	1622
IAGPC	4.00%	1 May 17	377.4	224.4	**59.5%**	IAGPD	4.70%	23 Dec 16	404
NABHB	2.75%	20 Sep 23	1,172.5	538.8	**46.0%**	NABPE	2.20%	21 Mar 17	943
ANZPC	3.10%	1 Sep 17	1,340.0	682.0	**50.9%**	ANZPH	3.80%	29 Sep 17	931
Average					**47.4%**				

SOURCE: COMPANY DATA, IRESS, BELL POTTER

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Mandatory Conversion Conditions

In order for bank Convertible Preference Shares (CPS) and Capital Notes to qualify as Additional Tier 1 capital, APRA has imposed a maximum conversion number in order to limit the dilution of ordinary shares upon conversion.

This maximum conversion number represents the face value of the preference share divided by 50% of the volume weighted average price (VWAP) of the issuer on the 20 business days preceding the issue date (Issue Date VWAP). For example, if BEN's 20 day VWAP was $11.65 before the issue date, the maximum conversion number would be 17.17 BEN shares per BENPG security (i.e. $100 / (50% x $11.65)).

To protect BENPG holders from receiving less than face value at Mandatory Conversion, there are a number of Conversion Conditions to be aware of:

- First: VWAP of ordinary shares on the 25th business day before a possible Mandatory Conversion Date (8 May 2026) must be above 55% of the Issue Date VWAP. Using the BEN price on 13 October 2017 of $11.65 x 55% = $6.41.
- Second: VWAP of ordinary shares during the 20 business days immediately preceding a potential Mandatory Conversion Date (15 May 2026 - 12 June 2026) must be greater than 50.51% of the BENPG Issue Date VWAP (i.e. $5.88).
- Third: Continuous trading (i.e. No Delisting Event) prior to a possible Mandatory Conversion Date - to provide protection should investors wish to sell the ordinary shares they receive upon conversion. A Delisting Event occurs when BEN is delisted or suspended, or there is an Inability Event.

If the Mandatory Conversion Conditions are not satisfied, conversion on the Mandatory Conversion Date will not occur. Under this scenario, the security will remain on issue and continue to pay distributions at the same margin. The Conversion Conditions will be tested on each subsequent future quarterly distribution date. The payment of BENPG distributions is subject to satisfaction of the Distribution Payment Conditions.

Figure 11: Mandatory Conversion Conditions - Financial Prefs / Capital Notes

	BENPG	AMPPA	BENPD	BENPE	BENPF	BOQPD	CGFPA	CGFPB	IAGPD	MBLPA	MQGPA	MQGPB	SUNPC	SUNPE	SUNPF
Issue Date	13-Dec-17	30-Nov-15	1-Nov-12	10-Oct-14	15-Jun-15	24-Dec-12	9-Oct-14	7-Apr-17	22-Dec-16	8-Oct-14	7-Jun-13	18-Dec-15	6-Nov-12	8-May-14	5-May-17
Mandatory Conversion Date	15-Jun-26	22-Dec-23	13-Dec-19	30-Nov-22	15-Jun-23	15-Apr-20	25-May-22	22-May-25	16-Jun-25	24-Mar-23	7-Jun-21	18-Mar-24	17-Dec-19	17-Jun-22	17-Jun-24
Conversion Discount	1.0%	1.0%	2.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Issue Date VWAP	$11.65	$5.78	$7.98	$12.08	$12.09	$7.11	$7.23	$12.30	$5.75	$57.93	$42.42	$81.33	$9.49	$12.92	$13.50
50% Dilution Cap	$5.83	$2.89	$3.99	$6.04	$6.05	$3.55	$3.61	$6.15	$2.88	$28.97	$21.21	$40.67	$4.75	$6.46	$6.75
Max Conv No (Face Value/Dilution Cap)	17.17	34.60	25.06	16.56	16.54	28.15	27.67	16.26	34.78	3.45	4.71	2.46	21.07	15.48	14.81
Conv Test 1 - % Issue Date VWAP	55.00%	56.00%	57.50%	55.00%	55.00%	56.12%	55.00%	55.00%	57.50%	56.00%	56.00%	56.00%	55.00%	55.00%	55.00%
Conv Test 1 Security Price	$6.41	$3.24	$4.59	$6.64	$6.65	$3.99	$3.98	$6.77	$3.31	$32.44	$23.76	$45.54	$5.22	$7.11	$7.43
Conv Test 2 - % Issue Date VWAP	50.51%	50.51%	51.28%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%	50.51%
Conv Test 2 Security Price	$5.88	$2.92	$4.09	$6.10	$6.11	$3.59	$3.65	$6.21	$2.90	$29.26	$21.43	$41.08	$4.79	$6.53	$6.82
Conv Test 3 - Continuous Trading	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Parent Share Price - 13 Oct 2017	$11.65	$5.04	$11.65	$11.65	$11.65	$12.85	$12.48	$12.48	$6.49	$92.79	$92.79	$92.79	$13.35	$13.35	$13.35
Prem/Disc to Dilution Cap	100.0%	74.4%	192.0%	92.9%	92.7%	261.7%	245.3%	102.9%	125.7%	220.4%	337.5%	128.2%	181.3%	106.7%	97.8%
Prem/Disc to Conversion Test 1	81.8%	55.7%	153.9%	75.3%	75.2%	222.3%	213.9%	84.5%	96.3%	186.0%	290.6%	103.7%	155.8%	87.9%	79.8%

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Early Conversion Events: Capital Trigger and Non-Viability

The fallout from the Global Financial Crisis has seen the Basel Committee on Banking Supervision establish new capital reforms to be phased in between 1 January 2013 and 1 January 2019. The key objective of these new reforms is to ensure banks are adequately capitalised in the event of future crises. On 28 September 2012, APRA published its final Basel III prudential standards which include a number of changes to the eligibility criteria for capital instruments, including stricter criteria for instruments to qualify as Additional Tier 1 Capital.

These requirements include a Capital Trigger Event and a Non-Viability Trigger Event, where securities such as BENPG must be converted into ordinary equity if the financial position of BEN requires an immediate injection of capital. These prudential standards also require Australian banks to hold a minimum Common Equity Tier 1 Capital Ratio of 4.5% on 1 Jan 2013. This increased to 7.0% on 1 Jan 2016 after inclusion of the 2.5% Capital Conservation Buffer.

Capital Trigger Event

A Capital Trigger Event occurs when either BEN determines, or when APRA notifies BEN that it believes BEN's Common Equity Tier 1 Capital Ratio has is equal to or less than 5.125%. Under this Trigger, BEN must immediately Exchange enough BENPG, BENPF, BENPE, and BENPD securities to boost the Common Equity Tier 1 (CET1) Capital Ratio above 5.125%. BEN's Basel III CET1 Ratio at 30 June 2017 stood at 8.27%, providing a buffer of $1,198m. If we include BEN's cash net profit for the 12 months to June 2017 of $418m, a breach of the Common Equity Trigger requirement appears very low, particularly as BEN has options such as cutting ordinary dividends, divesting assets and undertaking equity raisings.

Non-Viability Trigger Event

In addition, BENPG will be Converted if APRA determines that BEN would be non-viable in the absence of an exchange or a public sector injection of capital. We note there are currently no precedents for a Non-Viability Trigger Event. Types of situations in which APRA may become concerned about non-viability include being insolvent, significant capital losses and financial stress, prolonged difficulties in raising funding in the public or private market, or maintaining sufficient liquidity.

Potential for Loss under Trigger Event if BEN under $2.33

Conversion resulting from a Capital Trigger Event or a Non-Viability Trigger Event will be done at the VWAP of BEN shares traded on the 5 Business Days immediately preceding the Conversion Date. While this is not subject to the Mandatory Exchange Conditions, it is still subject to the Maximum Conversion Number, which represents the face value of the preference share dividend by 20% of the issue date VWAP. If BEN's 20 issue date VWAP was $11.65, the maximum conversion number would be 42.92 BEN shares per BENPG security (i.e. $100 / (20% x $11.65)). As such, BENPG investors may be exposed to receiving less than face value if BENPG is converted at less than $2.33. In practice this will only occur in the unlikely scenario that the issuer suffers severe impairment losses and does not raise equity to absorb those losses.

As it is likely that conversion under one of these Trigger Events would occur prior to a company Wind Up, BENPG holders will hold ordinary shares and rank equally with other holders of ordinary shares (i.e. lose priority ranking).

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Inability Event

One additional risk is an Inability Event if BEN is not able to issue ordinary shares from Conversion under a Capital Trigger Event (i.e. Common Equity Trigger Event or Non-Viability Trigger). Scenarios under which this may occur include BEN being prevented from issuing ordinary shares by circumstances outside of its control, including an applicable law or order of any court, or action of any Government authority from issuing shares.

Under an Inability Event, the rights attached to BENPG from the intended Capital Event Conversion Date will be automatically varied. BENPG holders will lose priority ranking over ordinary equity and the economic interest will be effectively limited to the dividends payable on the number of ordinary shares BENPG holders would have receive on conversion.

The capital value under of BENPG under an Inability Event will most likely be significantly reduced as BENPG will become an investment which may not be able to be sold on the ASX. In the event of a winding up, BENPG holders claim relates to the surplus available to ordinary shareholders on the basis that BENPG was converted into ordinary shares (i.e. proportionate claim to the enlarged ordinary equity base).

ASIC “Be wary of the risks” warning: Money Smart website

ASIC’s Money Smart website provides information for retail investors who are considering investing in “Complex Investments” such as hybrid securities:

www.moneysmart.gov.au/investing/complex-investments/hybrid-securities-and-notes

Basically, hybrid securities (including subordinated notes and convertible preference shares) may be from well-known companies but they are very different from 'normal' corporate bonds.

Some hybrid securities make investors take on 'equity-like' risks. Some also have terms and conditions that allow the issuer to exit the deal or suspend interest payments when they choose. Some are very long-term investments (for example, more than 20 years).

Hybrid securities may be unsuitable for you if you need steady returns or capital security typically from a bank term deposit style of investment.

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Other investment risks

Investment risks

Key Security Risks include:

- BENPG is not a bank deposit protected by the Government guarantee scheme
- BENPG is subordinated and unsecured, and ranks behind deposits, senior debt and subordinated debt in BEN.
- BENPG distributions are non-cumulative and discretionary.
- BENPG distribution payments are subject to the following Payment Conditions:
  - ⇒ BEN, in its absolute discretion, making the Distribution;
  - ⇒ Payment not resulting in a breach of BEN's capital requirements as they are applied to the BEN Level 1 Group or the BEN Level 2 Group or both under APRA's prudential standards;
  - ⇒ Payment not resulting in BEN becoming insolvent; and
  - ⇒ APRA not otherwise objecting to the payment.
- Adverse movement in credit spreads as a result of a tightening in the availability and cost of credit.
- New issues may offer more attractive issue terms and margins, placing downward pressure on the security price.
- Adverse change in BEN's and financial performance which combined with a major bad debt event could lead to the Common Equity Tier 1 Capital Ratio falling below 5.125%, resulting in automatic conversion under the Capital Trigger Event. Automatic conversion may also be required under a Non-Viability Trigger Event.
- Under an Inability Event, BENPG will lose most of its value if BEN is not able to convert BENPG into ordinary shares within 5 business days from Conversion under a Capital Trigger Event or Non-Viability Trigger. Scenarios under which this may occur include BEN being prevented from issuing ordinary shares by circumstances outside of its control, including an applicable law or order of any court, or action of any Government authority from issuing shares.
- Conversion of BENPG at the 15 June 2026 Mandatory Exchange Date requires BEN's share price at the time of Mandatory Exchange to be above certain thresholds. If these thresholds are not met in June 2026 or at future quarterly dividend payment dates, BENPG may remain on issue indefinitely.
- BENPG holders may receive $101.01 of ordinary shares for each BENPG security held on the Mandatory Conversion Date, based on the 20 day VWAP. The VWAP may be higher than the market value of BEN shares on Conversion

Key Business Risks of BEN include:

- A material deterioration in global capital markets and the Australian economy.
- Weakening real estate markets in Australia.
- Adverse regulatory changes.
- Operational risks and trading errors.
- Increasing competition.
- Credit rating downgrades.
- Losses associated with counterparty exposures.
- Poor performance of acquired businesses.

Refer page 68 (Section 6) of the prospectus dated 16 October 2017 for further information on risks.

Fixed Income

Bell Potter Securities Limited
ACN 25 006 390 772
Level 38, Aurora Place
88 Phillip Street, Sydney 2000
Telephone +61 2 9255 7200
www.bellpotter.com.au

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
Industrials			
Sam Haddad	Industrials	612 8224 2819	shaddad
Tim Piper	Industrials	612 8224 2825	tpiper
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
Financials			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified	613 9235 1668	lsotiriou
Resources			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Duncan Hughes	Resources	618 9326 7667	dhughes
Associate			
James Filius	Associate Analyst	613 9235 1612	jfilius
Alexander McLean	Associate Analyst	612 8224 2886	amclean

Additional risks of hybrid securities

Hybrid securities are perpetual and do not constitute a deposit liability of the Issuer. They may be exchanged at the Issuer's discretion at the Optional Exchange Date (first call date) and then at the Mandatory Conversion Date if certain conditions have been satisfied. Hybrid securities pay discretionary dividends which are not cumulative if unpaid. Hybrid securities have complex terms of issue and each investment will differ in terms of conditions, time frame and interest rates. They often involve heightened risk and may not be suitable for all investors.

There are additional risks associated with this kind of investment as compared to a term deposit with the same issuer. These risks include:

- A 'trigger event' occurring leading to a deferral of interest payments or the Issuer repaying the hybrid early or much later than expected;
- Credit spreads widening making the return from the investment less attractive in comparison to other products;
- Additional new issuance at a higher margin;
- Market price volatility;
- Liquidity risk for hybrids is generally greater than shares in the Issuer company;
- Subordinated ranking;
- Distributions are at the discretion of the issuer;
- These products may be perpetual and can only be redeemed or exchanged for either cash or equity at the Issuer's option;
- Early repayment is at the Issuer's discretion

You should acquaint yourself with the specific returns, features, benefits and risks unique to any hybrid security before investing in them. If you do not understand, or have any concerns about a particular product you should talk to your Adviser. ASIC has published guidance, which may be relevant to your consideration of an investment of this kind, called "Hybrid securities and notes", under the heading 'Complex investments' at **www.moneysmart.gov.au/investing**