BELL POTTER

3 September 2014

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Bendigo and Adelaide Bank Convertible Preference Shares 2 (BENPE)

Fixed Income

Issue overview

Issuer	BEN
Issue ASX code	BENPE
Face value	$100
Estimated offer size	$200m
Bookbuild margin range	3.20-3.30%
Franking	100%
Dividend payments	Half yearly
First dividend payment	30 Nov 2014
Minimum application	$5,000
Optional exchange	30 Nov 2020
Mandatory conversion	30 Nov 2022

Timeline

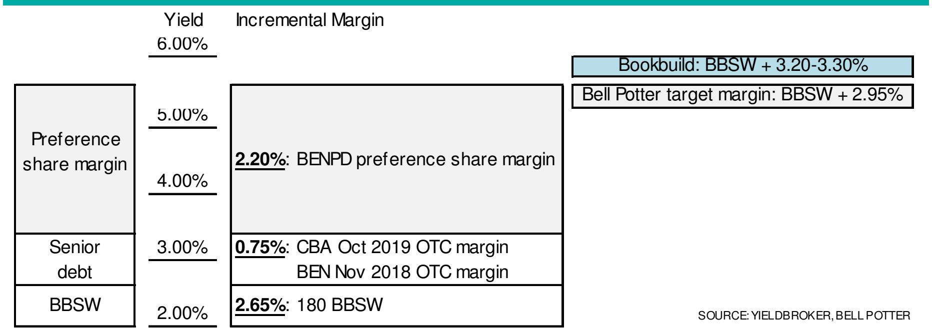
Lodgement of prospectus	3 Sep 2014
Bookbuild margin	8 Sep 2014
Announcement of margin	8 Sep 2014
Offer opens	11 Sep 2014
Offer closes:	
Securityholder & general	3 Oct 2014
Reinvestment	3 Oct 2014
Broker firm	9 Oct 2014
Issue date	10 Oct 2014
ASX listing (deferred settlement)	13 Oct 2014

A well priced issue to satisfy pent-up demand

BEN's new $200m Convertible Preference Shares 2 (BENPE) has been launched as a Basel III compliant replacement issue for the $100m BEN Step-up Preference Shares (BENPC), ahead of its 10 Oct 2014 step-up date. The Reinvestment offer appears a winner, with the 3.20-3.30% bookbuild range providing a healthy margin uplift on BENPC's current margin of 1.75%. Replacing a step-up pref with one which provides for Mandatory Conversion also provides greater certainty on the receipt of face value at an expected future date (subject to satisfying Mandatory Conversion Conditions).

While BENPE follows on from the recent $2.6bn CBA PERLS VII (CBAPD) and $340m Challenger Capital Notes (CGFPA), we expect another well priced new offer from a quality issuer will once again result in new money bookbuild bids closing within 24 hours of launch. These new issues essentially match the $3bn of pending redemptions of six hybrids (AAZPB, TPAPA, WBCPB, BENPC, HBSHA, CBAPA) by 31 Oct 2014.

Figure 1: Fair margin on BENPE



SOURCE: YIELDBROKER, BELL POTTER

Overall we assess a BENPE fair margin of 2.95%, equating to a 2.20% margin premium on BEN Nov 2018 and CBA Oct 2019 wholesale senior debt (0.75% trading margin). This also equates to a 0.30% premium above our assessed 2.65% fair margin on CBAPD (Dec 2022 call). The combination of historically high issue margins, prospect of improvement in credit spreads, relatively small issue size and reduced new issuance pipeline provides the potential for BENPE to trade at a modest premium.

Figure 2: Trading margins on debt and equity securities

	Ranking	Security	Trading Margin over BBSW	Maturity / Mand Conv	First Call
Higher Ranking	Senior debt	BEN (OTC) senior	75bp	Nov 2018	
↑	Subordinated debt	BEN (OTC) subordinated	189bp	Jan 2024	Jan 2019
	Preference securities	BENPD (Tier 1)	280bp	Dec 2019	Dec 2017
↓		**BENPE (Tier 1)**	**320-330bp**	**Nov 2022**	**Nov 2020**
Lower Ranking	Equity	Ordinary BEN shares	~500bp	Perpetual	

SOURCE: YIELDBROKER, BELL POTTER

Key features

- **Initial gross running yield of 5.85-5.95% (4.10-4.17% fully franked):** Floating rate based on 180BBSW of 2.65% + 3.20-3.30% bookbuild margin.
- **Option to redeem or convert at year 6 with mandatory exchange at year 8:** BEN has the option to redeem or convert in Nov 2020, subject to APRA approval.
- **Ordinary dividend restrictions:** Applies on the non payment of BENPE dividends
- **Automatic conversion under the Capital Trigger / Non-Viability Trigger Events**

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BENPC Key Dates	Dates
BENPC Ex Entitlement	29 Aug 2014
BENPC Record Date	2 Sep 2014
BENPC Ex Div	22 Sep 2014
BENPC Div Record Date	24 Sep 2014
BENPC Cease Trading	30 Sep 2014
Reinvestment Offer Close	3 Oct 2014
BENPC redemption	10 Oct 2014
BENPC div paid	10 Oct 2014
ASX listing (deferred settlement)	13 Oct 2014

Reinvestment Offer for BENPC step-up pref holders

As the BENPE offer is essentially a replacement issue for $100m BENPC, BEN is offering the opportunity to reinvest BENPC securities held at the 2 September 2014 record date into new BENPE securities (i.e. guaranteed allocation).

BENPC holders essentially have three options:

- **Option 1: Participate in Reinvestment Offer:** For BENPC holders that lodge their Personalised Application form by 3 October 2014, their securities will be reinvested into BENPE. Holders will receive the full quarterly dividend of $0.78 fully franked on 10 October 2014 (ex div 22 September, record date 24 September).
- **Option 2: Sell BENPC on market:** BENPC ceases trading 30 September 2014.
- **Option 3: Do nothing and receive $100 Cash Redemption:** In addition to receiving $100 cash redemption per BENPC security on 10 October 2014, holders will receive the $0.78 fully franked dividend outlined in Option 1 on 10 October 2014.

Offers for Broker Firm, Securityholder, Customer & General

- **Broker Firm Offer:** This is available to clients of Bell Potter, which is a Syndicate Broker to the BENPE issue. Broker firm bids will participate in the Bookbuild to be held on 8 September 2014.
- **Securityholder Offer:** Available to investors in BEN, BENHB, BENPB, BENPC or BENPD. Applications for investors holding these securities at the 2 September 2014 Record Date requires a HIN or SRN.
- **General Offer:** Open to all Australian residents.

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Bendigo and Adelaide Bank overview

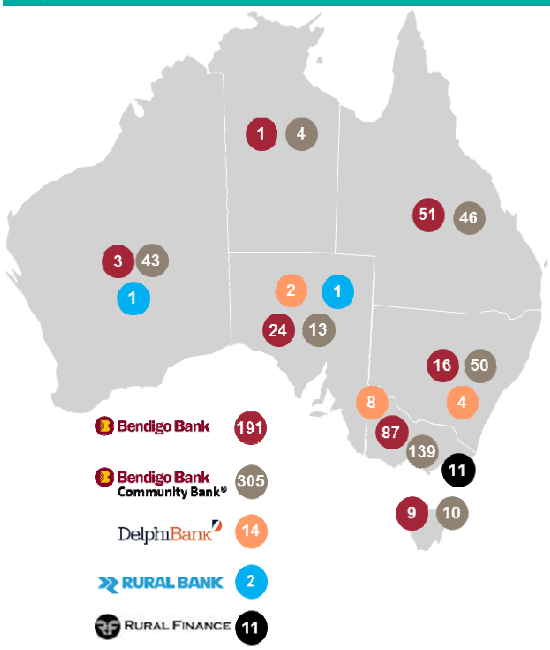
With a history dating back to 1858, BEN is today one of Australia's leading regional banks through a network of 523 branches, including 305 Community Bank branches. Its loan book is split 67% residential mortgages, 23% commercial, 7% consumer and 3% margin lending. BEN is currently the 53rd largest ASX listed company (market cap $5.6bn) and operates five key business segments:

- Retail Banking (FY14 Cash Net Profit up 18.8% to $241.7m): Division includes the company owned Bendigo Bank branch network, Community Bank, Delphi Bank and Community Telco Australia.
- Third Party Banking (FY14 Cash Net Profit up 22% to $204m): Origination and processing of residential home loans, distributed through mortgage brokers, mortgage managers, mortgage originators and alliance partners via Adelaide Bank. Result boosted by $25.2m increase in contribution from Homesafe trust.
- Wealth (FY14 Cash Net Profit down 2.8% to $41.5m): Financial planning services, wealth management and margin lending.
- Rural Bank (FY14 Cash Net Profit down 18.6% to $34.9m): Provision of banking services to agribusiness, rural and regional Australian communities.

Settlement of Great Southern Class Action

On 23 July 2014 BEN entered into an agreement (subject to court approval) to conclude the class actions brought forward by investors in managed investment schemes operated by Great Southern which entered liquidation in Nov 2009. This litigation related to $791m of loans between 2005 and 2008 where the class action was seeking to have these loans deemed void or unenforceable and for all money paid under these loans, including principal, interest and fees, to be repaid to borrowers. Under the settlement, BEN's borrowers who are members of the class action have admitted that their loans are valid and enforceable and have provided broad releases from future litigation. While principal and ordinary interest remains payable by the borrowers, BEN has agreed to waive interest on overdue amounts, which stood at $303.6m at June 2014.

Figure 3: BEN network of 523 branches



SOURCE: COMPANY

Bendigo and Adelaide Bank CPS2

Historically high margins limit downside risk

The BENPE security structure is that of a fully paid preference shares in the capital of Bendigo and Adelaide Bank Limited. Given the improvement in the ASX listed debt and hybrid market and wholesale markets, the 3.20-3.30% margin range on BENPE remains elevated compared with pre GFC levels.

Figure 4: Issue margins on comparative bank and insurance preference shares

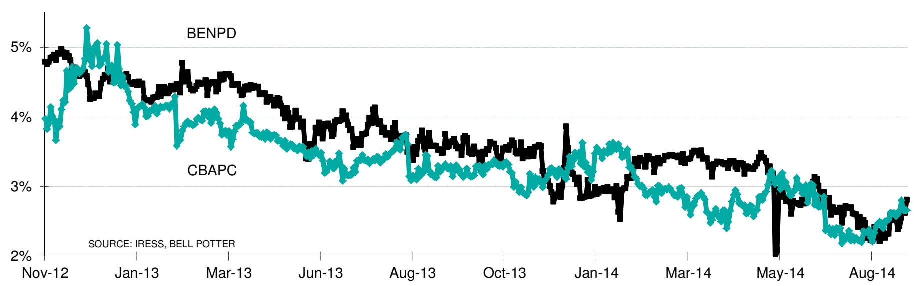
Date of Listing	Issuer	Hybrid Code	Description	Margin over BBSW
7-Apr-06	CBA	PCAPA	PERLS III	1.05%
22-Jun-06	WBC	WCTPA	Trust Preferred Securities	1.00%
11-Jul-07	CBA	CBAPB	PERLS IV	1.05%
13-Jun-08	SUN	SBKPB	Convertible Preference Shares	3.20%
29-Jul-08	WBC	WBCPA	Stapled Preferred Securities	2.40%
1-Oct-08	ANZ	ANZPB	Convertible Preference Shares	2.50%
30-Mar-09	WBC	WBCPB	Stapled Preferred Securities II	3.80%
13-Oct-09	CBA	CBAPA	PERLS V	3.40%
18-Dec-09	ANZ	ANZPA	Convertible Preference Shares 2	3.10%
29-Sep-11	ANZ	ANZPC	Convertible Preference Shares 3	3.10%
26-Mar-12	WBC	WBCPC	Convertible Preference Shares	3.25%
2-May-12	IAG	IAGPC	Convertible Preference Shares	4.00%
18-Oct-12	CBA	CBAPC	PERLS VI	3.80%
1-Nov-12	BEN	BENPD	Convertible Preference Shares	5.00%
7-Nov-12	SUN	SUNPC	Convertible Preference Shares 2	4.65%
27-Dec-12	BOQ	BOQPD	Convertible Preference Shares	5.10%
12-Mar-13	WBC	WBCPD	Capital Notes	3.20%
21-Mar-13	NAB	NABPA	Convertible Preference Shares	3.20%
11-Jun-13	MQG	MQGPA	Capital Notes	4.00%
8-Aug-13	ANZ	ANZPD	Capital Notes	3.40%
18-Dec-13	NAB	NABPB	Convertible Preference Shares II	3.25%
1-Apr-14	ANZ	ANZPE	Capital Notes 2	3.25%
9-May-14	SUN	SUNPE	Convertible Preference Shares 3	3.40%
24-Jun-14	WBC	WBCPE	Capital Notes 2	3.05%
2-Oct-14	CBA	CBAPD	PERLS VII Capital Notes	2.80%
8-Oct-14	CGF	CGFPA	Capital Notes	3.40%
13-Oct-14	BEN	BENPE	Convertible Preference Shares 2	3.20-3.30%

SOURCE: COMPANY DATA, BELL POTTER

Closing margin gap between financial and major bank prefs

In September 2012, CBAPC (Dec 2018 call) was priced at a margin of 3.80% to replace CBAPB, while BENPD (Dec 2017 call) was priced at a margin of 5.00% to replace BENPA. This has now narrowed to 2.80% on CBAPD (Dec 2022 call) to replace CBAPA versus 3.20-3.30% on BENPE (Nov 2020 call) to replace BENPC. If we compare the trading margin differential between CBAPC and BENPD since listing in Nov 2012, BENPD's trading margin has on average been 0.27% higher than CBAPC. Since 1 Aug 2014, this scenario has flipped with CBAPC's trading margin on average being 0.10% higher than BENPD.

Figure 5: Trading margin on CBAPC and BENPD



SOURCE: IRESS, BELL POTTER

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Bookbuild margin range attractive relative to financial prefs

The recovery in credit markets is highlighted by the chart in Figure 6 which tracks the average trading margins since January 2013 splits across 5 sectors:

* Financial Prefs (BENPD, BOQPD, IAGPC, IANG, MQGPA, SUNPC, SUNPE)
* Industrial Subordinated Debt (AGKHA, AQHHA, CTXHA, CWNHA, ORGHA, TAHHB)
* Bank Prefs (ANZPA, ANZPC, ANZPD, ANZPE, CBAPC, NABPA, NABPB, WBCPC, WBCPD, WBCPE)
* Financial Subordinated Debt (AMPHA, AYUHA, CNGHA, SUNPD)
* Bank Subordinated Debt (ANZHA, NABHB, WBCHA, WBCHB).

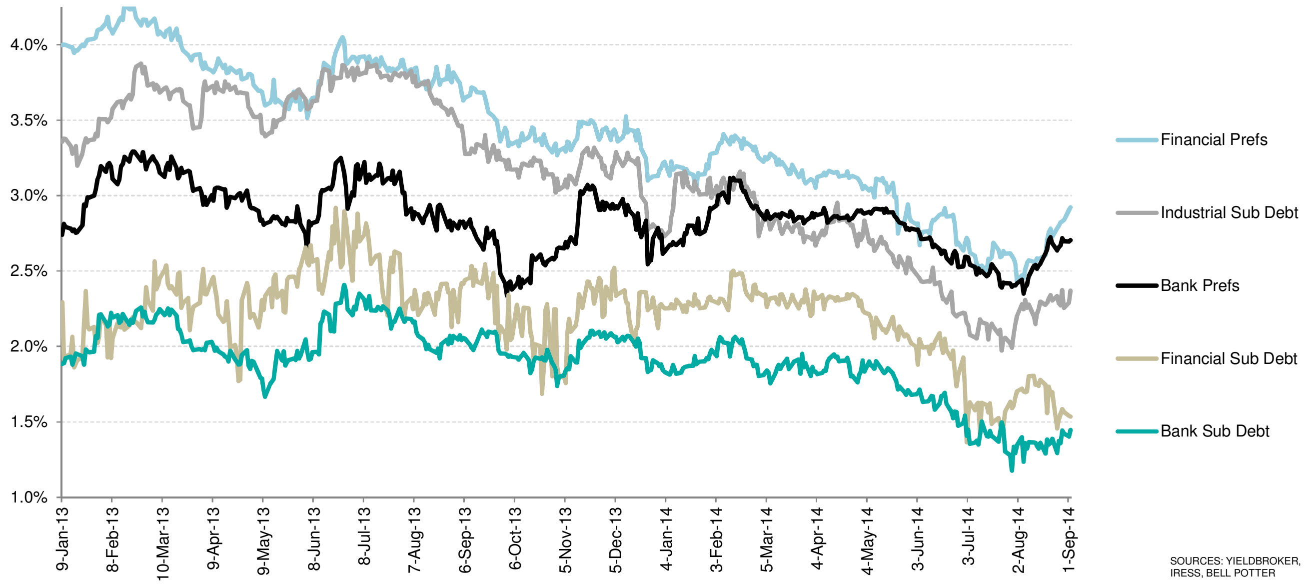
Up until early 2014, the two sectors with lower trading margins to major bank prefs were major bank subordinated debt and financial subordinated debt. As at 2 September 2014, the major bank prefs are at the upper end of these five sectors, on a trading margin fractionally below the lower rated financial prefs.

It is also worth noting the average of the average trading margin on the seven financial prefs from BEN, BOQ, IAG, MQG and SUN has continuously been below 3.00% since 20 May 2014, hitting a low of 2.43% on 1 August 2014. This highlighting the attractiveness of the 3.20-3.30% bookbuild margin range on BENPE.

The lack of new supply up until mid August 2014 saw trading margins firming lower. The launch of CBAPD, CGFPA and BENPE has seen greater value emerge in the major bank prefs and the financial prefs. These sectors have dominated new issuance since early 2013.

Lack of supply of new debt securities combined with redemptions has been a key factor behind the greater margin compression of the other three debt sectors.

Figure 6: Trading margins on ASX listed debt and hybrid sectors



SOURCES: YIELDBROKER, IRESS, BELL POTTER

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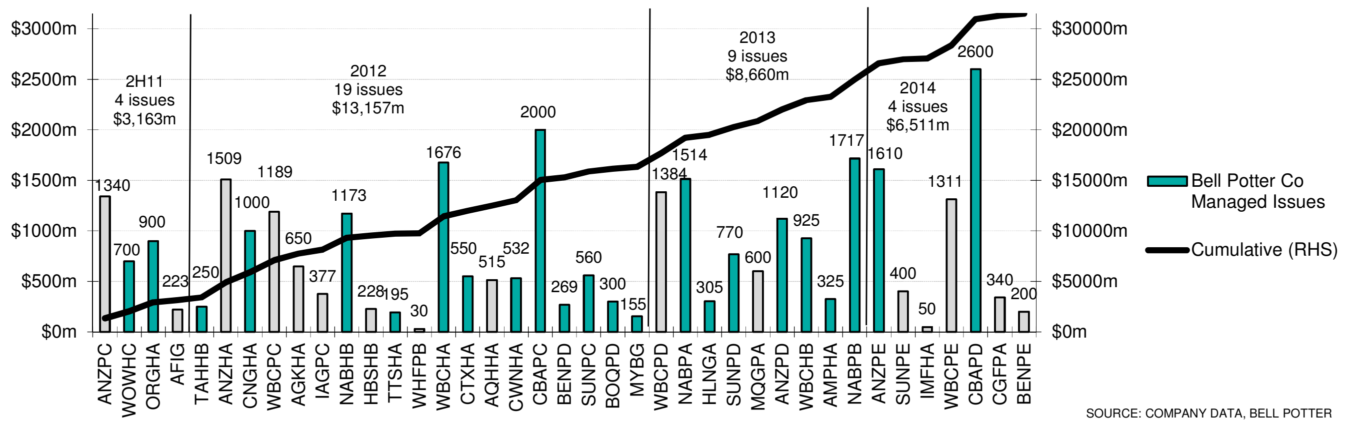
$3bn of redemption money looking for a home

Prior to the launch of CBAPD only $3,371m had been raised in the 4 issues in 2014. Factoring in year-to-date redemptions of $1,166m reduced net raisings to $2,205m. By the end of October 2014, it is expected six ASX listed debt and hybrids will be redeemed, with a face value of $3,054m. The CBAPD, CGFPA and BENPE issues currently have the potential to raise $3,140m, only adding $86m of net new issuance.

Figure 7: New ASX listed debt and hybrid issues: August 2011 - September 2014



SOURCE: COMPANY DATA, BELL POTTER

If bank new issuance is aligned with replacement of maturing securities, the next two hybrid issues could for the $90m BENPB ahead of its June 2015 step-up date and $1167m PCAPA ahead of its April 2016 step-up date.

Figure 8: Pending redemptions of ASX listed debt and hybrid securities

Security	Call / Maturity	Amount ($m)	Replacement Issue Considerations
BENHA	17-Mar-14	90.5	No - Jan 2014 $300m Basel III compliant Tier 2 subordinated debt issue (wholesale)
TAHHA	1-May-14	284.5	No - Senior debt refinancing
AQNHA	15-May-14	172.1	AMPHA
ANZPB	16-Jun-14	454.3	ANZPE
LEPHC	20-Aug-14	165.0	No - Senior debt refinancing
2014 YTD Redemptions		**1,166.4**	
AAZPB	12-Sep-14	275.0	Redemption $100 cash + $1.5155 interest (74 days) on 12 Sep 2014 following Change of Control event
TPAPA	30-Sep-14	250.0	Redemption $100 cash + $3.05 fully franked on 30 Sep 2014 following sale of NZ Business
WBCPB	30-Sep-14	379.4	Remaining securities from WBCPE offer will be redeemed
BENPC	10-Oct-14	100.0	$200m BENPE offer
HBSHA	27-Oct-14	50.0	"Strong preference" to redeem at 27 Oct 2014 step-up date (subject to APRA approval). Multiple refinancing options.
CBAPA	31-Oct-14	2,000.0	$2.6bn CBAPD offer
Total 2014 (remaining)		**3,054.4**	
BENPB	15-Jun-15	90.0	Chance of Basel III compliant Tier 1 replacement issue - BENPE raising may be sufficient to fund redemption
PRYHA	28-Sep-15	152.3	Senior debt refinancing increasingly likely
CBAHA	24-Dec-15	570.0	Ease of raising wholesale senior debt vs ASX listed
Total 2015		**812.3**	
PCAPA	6-Apr-16	1,166.5	Basel III compliant Tier 1 replacement issue expected
AYUHA	14-Apr-16	120.0	Multiple refiancing options
PPCG	16-Jun-16	50.0	Potential ASX issue for funding diversification
WCTPA	30-Jun-16	762.7	Basel III compliant Tier 1 replacement issue expected
WOWHC	24-Nov-16	700.2	WOWHA (1999) replaced by WOWHB (2006). WOWHC (2011) launched shortly after WOWHB redemption
ANZPA	15-Dec-16	1,968.7	Basel III compliant Tier 1 replacement issue expected
ORGHA	22-Dec-16	900.0	Gearing likely to reduce following completion of APLNG
Total 2016		**5,668.2**	

SOURCE: COMPANY DATA, 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 $12.61 before the issue date, the maximum conversion number would be 15.86 BEN shares per BENPE security (i.e. $100 / (50% x $12.61)).

To protect BENPE 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 Scheduled Conversion Date (25 Oct 2022) must be above 55% of the Issue Date VWAP. Using the BEN price on 2 Sep 2014 of $12.61 x 55% = $6.94.
- Second: VWAP of ordinary shares during the 20 business days immediately preceding a potential Mandatory Conversion Date (2 Nov 2022 - 29 Nov 2022) must be greater than 50.51% of the BENPE Issue Date VWAP (i.e. $6.37).
- 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 dividends at the same margin. The Conversion Conditions will be tested on each subsequent future half yearly dividend date.

Figure 9: Mandatory Exchange Conditions

	BENPE	ANZPA	ANZPC	ANZPD	ANZPE	BENPD	BOQPD	CBAPC	IAGPC	MQGPA	NABPA	NABPB	SUNPC	SUNPE	WBCPC	WBCPD	WBCPE
Date of Hybrid Issue	10-Oct-14	18-Dec-09	29-Sep-11	7-Aug-13	31-Mar-14	1-Nov-12	24-Dec-12	17-Oct-12	1-May-12	8-Jul-08	20-Mar-13	17-Dec-13	20-Mar-13	8-May-14	23-Mar-12	8-Mar-13	15-Jun-14
Mandatory Conversion Date	30-Nov-22	15-Dec-16	1-Sep-17	1-Sep-23	24-Mar-22	13-Dec-19	15-Apr-20	15-Dec-20	1-May-19	7-Jun-18	22-Mar-21	19-Dec-22	22-Mar-21	17-Jun-22	30-Mar-20	8-Mar-21	23-Sep-24
Conversion Discount	1.0%	1.0%	1.0%	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%
Issue Date VWAP	$12.61	$21.80	$19.53	$29.16	$32.30	$7.98	$7.11	$56.08	$3.46	$42.42	$30.64	$33.86	$9.49	$12.92	$20.83	$29.89	$34.37
50% Dilution Cap	$6.31	$10.90	$9.77	$14.58	$16.15	$3.99	$3.55	$28.04	$1.73	$21.21	$15.32	$16.93	$4.75	$6.46	$10.42	$14.95	$17.23
Max Conv No (Face Value/Dilution Cap)	15.86	9.17	10.24	6.86	6.19	25.06	28.15	3.57	57.80	4.71	6.53	5.91	21.07	15.48	9.60	6.69	5.81
Conv Test 1 - % Issue Date VWAP	55.00%	56.00%	56.00%	56.00%	56.00%	57.50%	56.12%	56.00%	57.50%	55.56%	56.00%	56.00%	56.00%	55.00%	55.56%	56.12%	56.12%
Conv Test 1 Security Price	$6.94	$12.21	$10.94	$16.33	$18.09	$4.59	$3.99	$31.41	$1.99	$23.57	$17.16	$18.96	$5.31	$7.11	$11.57	$16.77	$19.33
Conv Test 2 - % Issue Date VWAP	50.51%	50.51%	51.28%	50.51%	51.28%	51.28%	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	$6.37	$11.01	$10.01	$14.73	$16.56	$4.09	$3.59	$28.33	$1.75	$21.43	$15.48	$17.10	$4.79	$6.53	$10.52	$15.10	$17.40
Conv Test 3 - Continuous Trading	Yes	Yes	Yes	Yes	Yes	Yes	Yes	n/a	Yes	Yes	Yes	Yes	Yes	Yes	n/a	n/a	n/a
Parent Share Price - 2 Sep 2014	$12.61	$33.61	$33.61	$33.61	$33.61	$12.61	$12.77	$81.50	$6.56	$58.17	$35.09	$35.09	$14.60	$14.60	$35.17	$35.17	$34.09
Prem/Disc to Dilution Cap	100.0%	208.3%	244.2%	130.5%	108.1%	216.0%	259.4%	190.6%	279.2%	174.3%	129.0%	107.3%	207.7%	126.0%	237.7%	135.3%	97.9%
Prem/Disc to Conversion Test 1	81.8%	175.3%	207.3%	105.8%	85.8%	174.8%	220.3%	159.5%	229.7%	146.8%	104.5%	85.1%	174.7%	105.5%	203.9%	109.7%	76.3%

SOURCE: COMPANY DATA, BELL POTTER

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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 BENPE 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 increases 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 BENPE, and BENPD securities to boost the Common Equity Tier 1 (CET1) Capital Ratio above 5.125%. BEN's Basel III Common Equity Tier 1 Capital Ratio at 30 June 2014 stood at 8.02% (pro forma), providing a buffer of $993.5m. If we include BEN's cash net profit for the 12 months to June 2014 of $382m, 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, BENPE 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 $2.52

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 $12.61, the maximum conversion number would be 39.65 BEN shares per BENPE security (i.e. $100 / (20% x $12.61)). As such, BENPE investors may exposed to receiving less than face value if BENPE is converted at less than $2.52. 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, BENPE 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 BENPE from the intended Capital Event Conversion Date will be automatically varied. BENPE 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 BENPE holders would have receive on conversion.

The capital value under of BENPE under an Inability Event will most likely be significantly reduced as BENPE will become an investment which may not be able to be sold on the ASX. In the event of a winding up, BENPE holders claim relates to the surplus available to ordinary shareholders on the basis that BENPE 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

Key Security Risks include:

- BENPE is not a bank deposit protected by the Government guarantee scheme.
- As preferred equity, BENPE ranks behind deposits, senior debt and subordinated debt in BEN.
- BENPE dividends are at BEN's discretion and are non-cumulative.
- BENPE dividend payments must not exceed BEN's Distributable Profits (unless APRA provides approval), must not result in a breach of BEN's capital requirements under APRA's prudential standards, or payment must not result in BEN becoming insolvent.
- 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 Common Equity Trigger Event. Automatic conversion may also be required under a Non -Viability Trigger Event.
- Under an Inability Event, BENPE will lose most of its value if BEN is not able to convert BENPE into ordinary shares under a Capital Trigger Event.
- Conversion of BENPE at the Nov 2022 Mandatory Conversion Date requires BEN's share price at the time of Mandatory Conversion to be above certain thresholds. If these thresholds are not met in Nov 2022 or at future half yearly dividend payment dates, BENPE may remain on issue indefinitely.

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 71 of the prospectus for further information on risks.

Fixed Income

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