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Westpac Capital Notes 4 (WBCPG)

Fixed Income

Issue overview

Issuer	Westpac
Issue ASX code	WBCPG
Face value	$100
Estimated offer size	$750m
Bookbuild margin	4.90-5.10%
Franking	100%
Dividend payments	Quarterly
First distribution payment	30 Sep 2016
Minimum application	$5,000
Call Date	20 Dec 2021
Scheduled Conversion	20 Dec 2023

Timeline

Lodgement of prospectus	17 May 2016
Bookbuild margin	25 May 2016
Announcement of margin	25 May 2016
Offer opens	26 May 2016
Offer closes	21 Jun 2016
Issue date	30 Jun 2016
ASX listing (deferred settlement)	1 Jul 2016

Additional Disclosure: Bell Potter Securities Limited is acting as Co-manager to the WBCPG issue and will receive fees for this service.

Ride the recovery

Westpac's new $750m Capital Notes 4 (WBCPG) has been launched as a Basel III compliant replacement issue for the $763m Westpac Trust Preferred Securities (WCTPA) ahead of its 30 June 2016 step-up date. The Reinvestment Offer appears highly attractive, with the 4.90-5.10% bookbuild range providing a substantial uplift on WCTPA's 1.00% issue margin. Replacing a step-up pref with one which provides for Mandatory Conversion also provides greater certainty on receipt of face value at a expected future date (subject to satisfying Scheduled Conversion Conditions).

WBCPG has been launched into a market where investor sentiment towards ASX listed hybrids has improved, assisted by the successful recent listings of AMPPA ($105.99 peak), AYUHB ($104.62) and CBAPE ($103.50). WBCPG has the potential to be another successful issue, when considering the following assessment criteria:

- **Historically high issue margin:** Second only to the 5.2% issue margin on CBAPE
- **Sufficient uplift relative to secondary market:** Assuming WBCPG is priced at a bookbuild margin of 4.90%, it provides a 0.20% margin uplift on CBAPE (Oct 2021 call) on a 4.70% trading margin at $103.25. It also offers a margin uplift of 0.67% relative to the avg trading margin of 4.20% on the index of 15 major bank prefs / capital notes, providing investors the potential to switch from lower margin issues.
- **Substantial margin uplift from Reinvestment Offer:** A 3.90% margin uplift when compared with the 1.00% issue margin on WCTPA should support solid participation in the Reinvestment Offer, reducing supply available for new money.
- **Low deposit rates:** In a world of record low interest rates, high margin securities should become even more attractive to investors seeking income.

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	WBC (OTC) senior	100bp	Oct 2020	
	Subordinated debt	WBC (OTC) subordinated	250bp	Mar 2026	Mar 2021
	Preferred equity	CBAPE (Tier 1)	470bp	Oct 2023*	Oct 2021#
	(Perpetual Notes)	**WBCPG (Tier 1)**	**490-510bp**	**Dec 2023***	**Dec 2021#**
Lower Ranking	Equity	Ordinary WBC Shares	~600bp	Perpetual	

WHERE NOT CONVERTED OR WRITTEN-OFF ON ACCOUNT OF A CAPITAL TRIGGER EVENT OR A NON VIABILITY TRIGGER EVENT.

SOURCE: YIELDBROKER, BELL POTTER

* SCHEDULED CONVERSION IS SUBJECT TO SATISFYING THE SCHEDULED CONVERSION CONDITIONS

WBCPG IS PERPETUAL AND MAY NOT BE EXCHANGED.

Key features

- **Initial grossed up running yield of 6.90-7.10% (4.83-4.97% fully franked):** Floating rate based on 3 month bank bill of 2.00% + 4.90-5.10% bookbuild margin.
- **Option to exchange at year 5.5 with scheduled conversion at year 7.5:** WBC has the option to redeem or convert WBCPG at the 20 Dec 2021 Call Date, subject to APRA approval and WBC being solvent, and a Capital Trigger or a Non-Viability Trigger Event not having occurred. WBCPG may not be exchanged on the Scheduled Conversion Date, and you may continue to hold WBCPG indefinitely.
- **Ordinary dividend restrictions:** Applies on the non payment of WBCPG distributions. WBCPG distributions are discretionary and subject to the distribution payment conditions being satisfied. Unpaid distributions are non-cumulative.

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WCTPA Reinvestment	Dates
WCTPA Ex Entitlement	9 May 2016
WCTPA Record Date	10 May 2016
Reinvestment offer opens	26 May 2016
WCTPA cease trading	10 Jun 2016
WCTPA ex distribution	14 Jun 2016
Reinvestment offer closes	21 Jun 2016
Reinvestment Issue Date	30 Jun 2016
WCTPA distribution paid	30 Jun 2016
ASX listing (deferred settlement)	1 Jul 2016

WCTPA Redemption	Dates
WCTPA Ex Entitlement	9 May 2016
WCTPA Record Date	10 May 2016
Reinvestment offer opens	26 May 2016
WCTPA cease trading	10 Jun 2016
WCTPA ex distribution	14 Jun 2016
Reinvestment offer closes	21 Jun 2016
WCTPA redemption	30 Jun 2016
WCTPA distribution paid	30 Jun 2016

Reinvestment Offer for WCTPA holders

As the WBCPG offer is essentially a replacement issue for WCTPA, Westpac is offering the opportunity to reinvest WCTPA securities held at the 10 May 2016 record date into new WBCPG securities (ex entitlement date 9 May 2016). Westpac will also give priority to allocations under the Reinvestment Offer over applications received under the Securityholder Offer.

WCTPA holders essentially have three options:

- **Option 1: Participate in Reinvestment Offer:** For WCTPA holders that lodge their Personalised Reinvestment form by 21 June 2016, Westpac will buy participating securities at $100 on the 30 June 2016 Reinvestment Date. Westpac will then reinvest proceeds into WBCPG. Investors will also receive a final WCTPA distribution payment of $0.5724 fully franked on 30 June 2016.
- **Option 2: Sell WCTPA on market:** WCTPA is expected to cease trading on 10 June 2016.
- **Option 3: Do nothing and receive $100 Cash Redemption:** In addition to receiving $100 cash redemption per WCTPA security on 30 June 2016, holders will also receive the final $0.5724 fully franked distribution.

Overall the Reinvestment Offer appears highly attractive, given the uplift in issue margin from 1.00% on WCTPA to 4.90-5.10% on WBCPG.

Offers for Broker Firm and Securityholders

- **Broker Firm Offer:** This is available to clients of Bell Potter, which is a Syndicate Broker to the WBCPG issue. Broker firm bids will participate in the Bookbuild to be held on 25 May 2016.
- **Securityholder Offer:** Available to investors in WBC, Subordinated Notes (WBCHA, WBCHB), Convertible Preference Shares (WBCPC), and Capital Notes (WBCPD, WBCPE, WBCPF). Applications for investors holding these securities at the 10 May 2016 record date requires a HIN or SRN. The closing date for the Securityholder Offer is 21 June 2016.

There is no Customer Offer or General Offer.

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Trading margins on bank hybrids on the road to recovery

Figure 2 tracks the average trading margins split across 4 sectors:

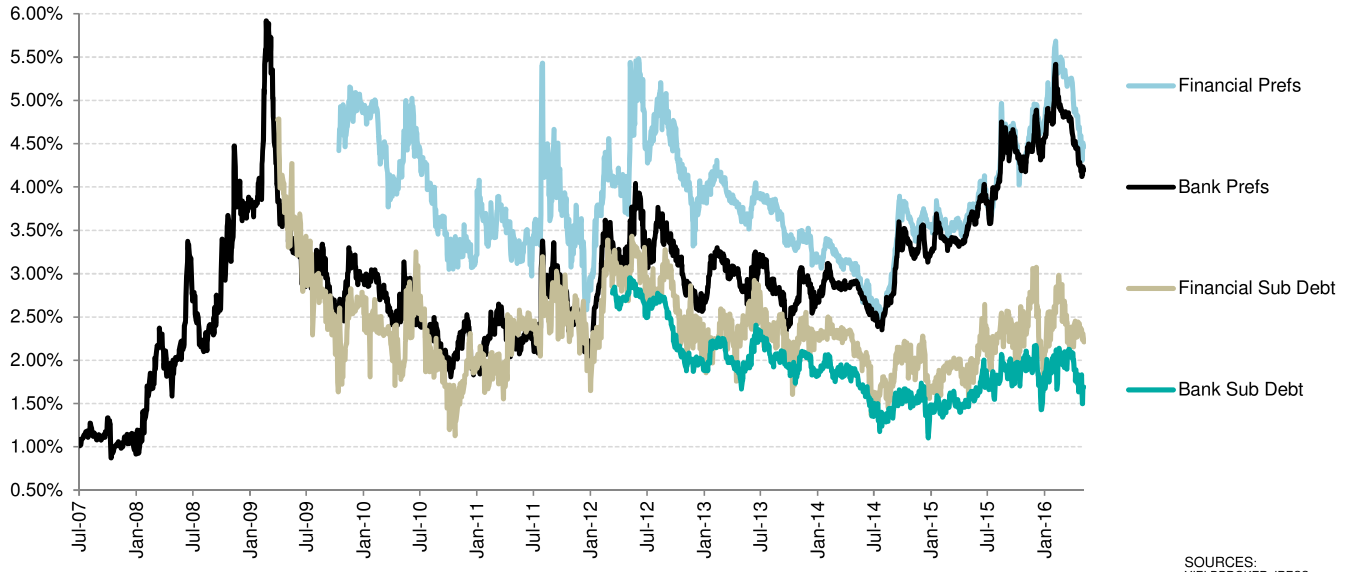
* Financial Prefs (AMPPA, BENPD, BENPE, BENPF, BOQPD, CGFPA, IAGPC, IANG, MBLPA, MQGPA, MQGPB, SUNPC, SUNPE)

* Bank Prefs (ANZPA, ANZPC, ANZPD, ANZPE, ANZPF, CBAPC, CBAPD, CBAPE, NABPA, NABPB, NABPC, WBCPC, WBCPD, WBCPE, WBCPF)

* Financial Subordinated Debt (AMPHA, CNGHA, SUNPD)

* Bank Subordinated Debt (ANZHA, NABHB, WBCHA, WBCHB).

Figure 2: Trading margins on ASX listed debt and hybrid sectors

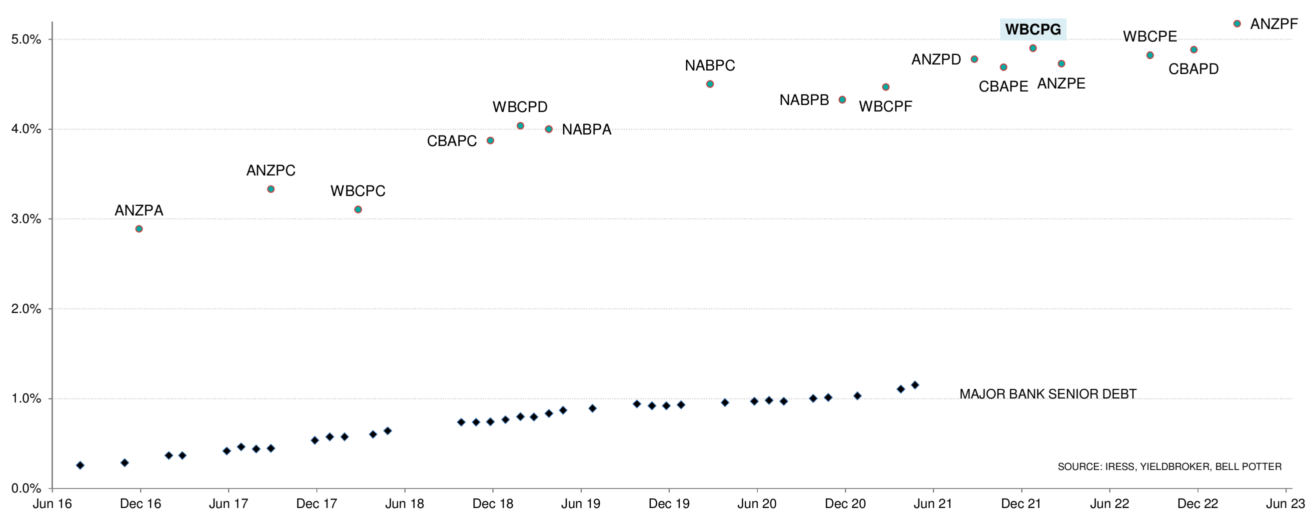


SOURCES: YIELDBROKER, IRESS, BELL POTTER

ANZPF is the only security trading above bookbuild range

On a trading margin of 5.12% at $93.00, ANZPF (Mar 2023 call) is currently the only security on a higher trading margin than the WBCPG bookbuild range. WBCPG has the advantage of 2 years shorter duration than ANZPF, superior income levels from the higher issue margin (4.90% vs 3.60%), and quarterly coupons versus half yearly.

Figure 3: Trading margin on ASX listed major bank prefs & capital notes versus wholesale senior debt (16 May 2016)



SOURCE: IRESS, YIELDBROKER, BELL POTTER

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WBCPG pricing attractive relative to the prevailing market

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 15 major bank prefs and capital notes - which currently stands at 4.20%.

Figure 4: New issue spreads versus prevailing hybrid margins

Security	Launched	Issue Margin	Trading Margin Bank Index	Issue Margin Spread vs Trading Margin
WBCPG	17 May 2016	4.90%	4.20%	0.70%
NABPB	12 Nov 2013	3.25%	2.78%	0.47%
CBAPC	3 Sep 2012	3.80%	3.34%	0.46%
ANZPD	3 Jul 2013	3.40%	3.19%	0.21%
CBAPD	18 Aug 2014	2.80%	2.62%	0.18%
WBCPE	7 May 2014	3.05%	2.90%	0.15%
WBCPD	30 Jan 2013	3.20%	3.12%	0.08%
WBCPF	27 Jul 2015	4.00%	3.94%	0.06%
WBCPC	16 Feb 2012	3.25%	3.19%	0.06%

SOURCE: COMPANY DATA, IRESS, BELL POTTER

Assuming pricing of the WBCPG issue margin is set at the bottom end of the bookbuild range at 4.90%, this 0.70% spread appears to sufficiently compensate investors for a modest adverse market movement before listing, representing the highest spread above the prevailing market for any major bank offer. In recent years, it has been common to see some weakness in hybrid securities during the offer period as investors seek funding to participate in new issues.

Figure 5: Listing performance of Basel III Compliant Additional Tier 1 Hybrid Issues: 2011-2016

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
WBCPG	17 May 2016	4.90%	4.20%	0.70%	1 Jul 2016			
CBAPE	16 Feb 2016	5.20%	5.42%	-0.22%	31 Mar 2016	$100.00	4.80%	-0.62%
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%

SOURCE: COMPANY DATA, IRESS, BELL POTTER

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Margin attractive considering market recovery

When comparing Westpac's two most recent hybrid issues, the bottom end of the WBCPF bookbuild of 4.00% was only 0.06% above the prevailing average major bank hybrid margin of 3.94%. Pricing deteriorated in the weeks subsequent to its 27 July 2015 launch, amid growing concerns over China and Greece, combined with the funding event of ANZ, CBA and Westpac raising a combined $11.8bn of ordinary equity. WBCPF is yet to trade above $100.00.

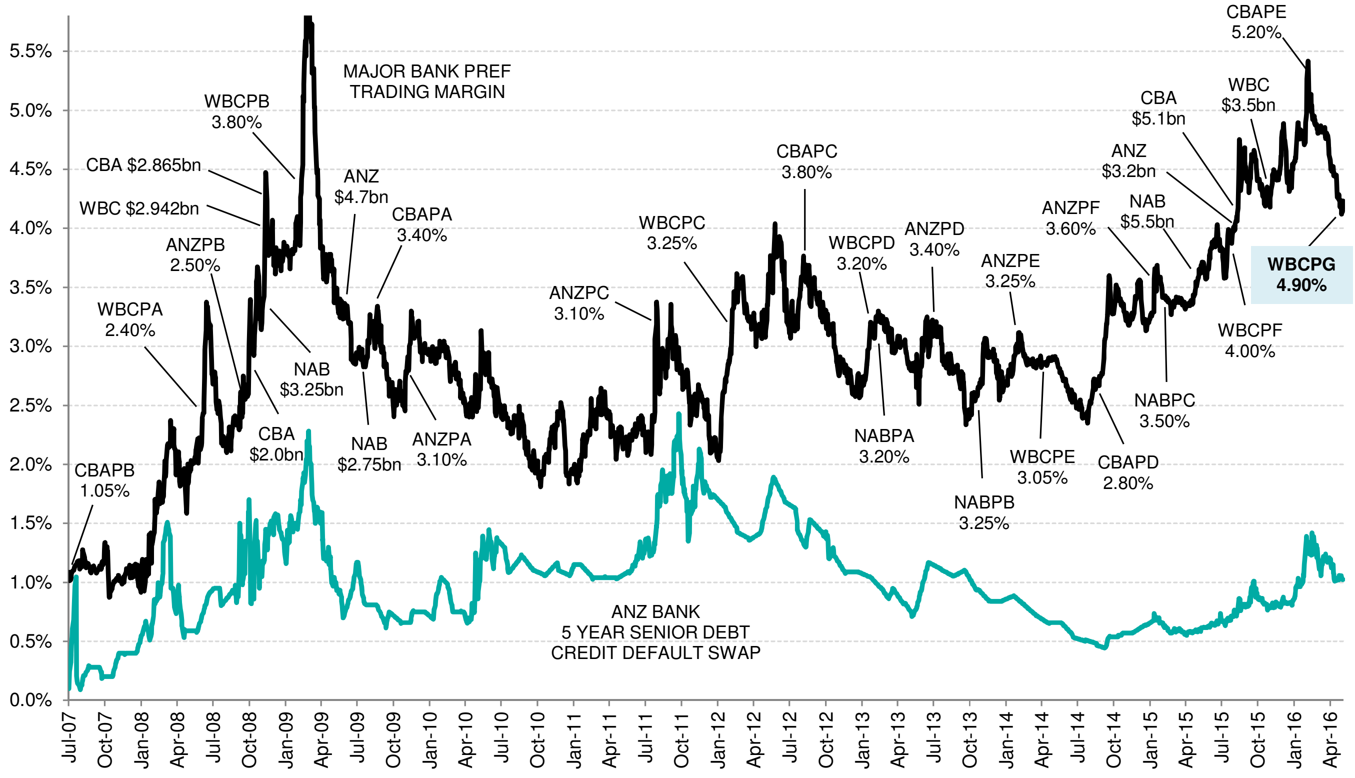
By contrast, WBCPG has been launched in an environment of improving sentiment, reflected by the prevailing bank hybrid margin firming in from a 7 year peak of 5.42% on 15 Feb 2016 to 4.20%. The 4.90-5.10% bookbuild margin range ensures a sufficient buffer should there be an adverse market move between WBCPG launch and listing.

One risk we view as unlikely in the near term is the repeat of the major funding event of bank equity raisings absorbed in 2015. The previous round of banks raising ordinary equity was undertaken in 2008-2009.

The most likely near term funding event is from NAB undertaking a new hybrid issue. In its 1H16 result, NAB stated: "As part of NAB's ongoing commitment to maintaining a strong and efficient capital position, NAB is considering issuance of a new ASX listed Additional Tier 1 capital security, subject to market conditions, including any competing supply". We note NAB has the potential refinancing of $400m of National Capital Instruments (Additional Tier 1) ahead of the 30 September 2016 step-up date.

ANZ is also required to refinance its $1.97bn ANZPA security by its Mandatory Conversion Date on 15 December 2016.

Figure 6: Average trading margin - major bank prefs and capital notes versus 5 year senior debt credit default swaps



SOURCES: IRESS, BLOOMBERG, BELL POTTER

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Investor preference for high margin / high income securities

The desire for higher income provides the potential for greater investor support of WBCPG relative to other lower margin bank hybrids of a similar duration. Historically, CBAPC (PERLS VI) launched in September 2012 has been one of the better supported securities in the ASX listed hybrid market, highlighted by it trading on a monthly high above $100 every month since listing in November 2012.

Its 3.80% issue margin was first surpassed by the 4.00% issue margin on WBCPF launched in July 2015. When comparing CBAPC with WBCPD whose issue margin is 0.60% less at 3.20%, the average trading margin on CBAPC has been 0.26% lower since WBCPD listed on 12 March 2013. There is only 81 days difference in duration between the call dates: 17 December 2018 on CBAPC and 8 March 2019 for WBCPD.

Figure 7: Average Trading Margin: CBAPC versus WBCPD

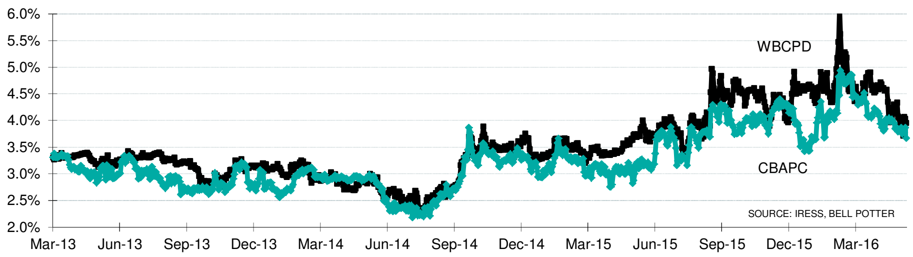
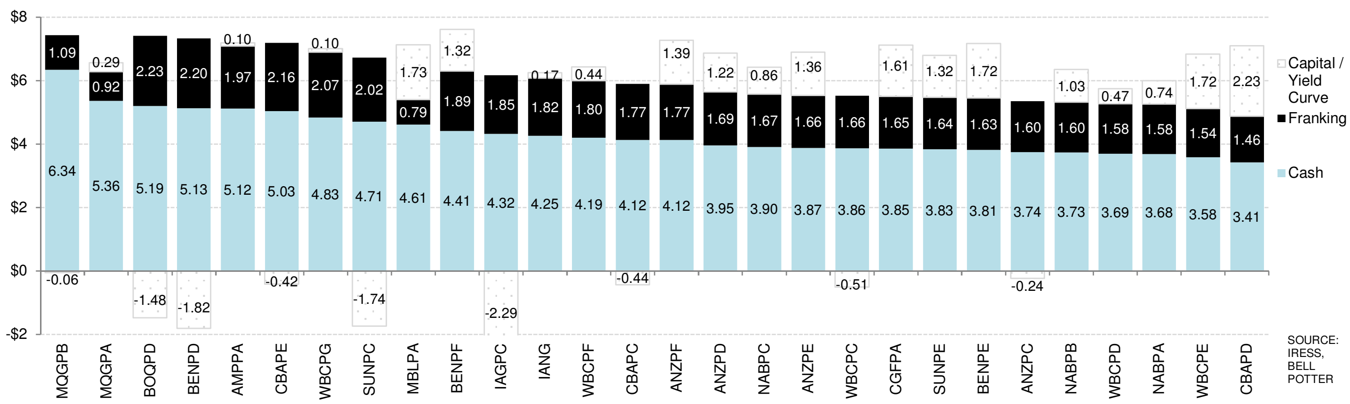


Figure 8 provides a ranking of securities on the highest cash distribution component. The white box represents the gap between income levels and Yield to First Call (maturity), where this component of return is associated with the impact of the capital price premium / discount allowing for bank bill movements priced in by the yield curve. In a low interest rate world, there appears to be continued investor support for high margin securities over lower margin securities.

Assuming pricing is set at a margin of 4.90% above the current 3 month bank bill rate of 2.00%, WBCPG is expected to provide investors with annual cash income of $4.83 per security, plus franking of $2.07 ($6.90 grossed up).

Figure 8: Forecast cash and franking payments per bank and financial hybrid security (annualised) at 16 May 2016



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Scheduled 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 exchange 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 Westpac's 20 day VWAP was $30.04 before the issue date, the maximum exchange number would be 6.66 WBC shares per WBCPG security (i.e. $100 / (50% x $30.04)).

To protect WBCPG holders from receiving less than face value at Scheduled 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 (15 Nov 2023) must be above 56.12% of the Issue Date VWAP. Using the WBC price on 16 May 2016 of $30.04 x 56.12% = $16.86.
- Second: VWAP of ordinary shares during the 20 business days immediately preceding a potential Scheduled Conversion Date (22 Nov 2023 - 19 Dec 2023) must be greater than 50.51% of the WBCPG Issue Date VWAP (i.e. $15.17).

If the Scheduled Exchange Conditions are not satisfied, conversion on the Scheduled 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 WBCPG distributions is subject to satisfaction of the Distribution Payment Conditions.

Figure 9: Scheduled Conversion Conditions

	WBCPG	ANZPA	ANZPC	ANZPD	ANZPE	ANZPF	CBAPC	CBAPD	CBAPE	NABPA	NABPB	NABPC	WBCPC	WBCPD	WBCPE	WBCPF
Date of Hybrid Issue	30-Jun-16	18-Dec-09	29-Sep-11	7-Aug-13	31-Mar-14	5-Mar-15	17-Oct-12	1-Oct-14	30-Mar-16	20-Mar-13	17-Dec-13	23-Mar-15	23-Mar-12	8-Mar-13	15-Jun-14	8-Sep-15
Scheduled Conversion Date	20-Dec-23	15-Dec-16	1-Sep-17	1-Sep-23	24-Mar-22	24-Mar-15	15-Dec-20	15-Dec-24	15-Oct-21	22-Mar-21	19-Dec-22	23-Mar-22	30-Mar-20	8-Mar-21	23-Sep-24	22-Mar-23
Conversion Discount	1.0%	1.0%	1.0%	1.0%	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	$30.04	$21.80	$19.53	$29.16	$32.30	$35.18	$56.08	$78.62	$78.00	$30.64	$33.86	$38.03	$20.83	$29.89	$34.37	$31.23
50% Dilution Cap	$15.02	$10.90	$9.77	$14.58	$16.15	$17.59	$28.04	$39.31	$39.00	$15.32	$16.93	$19.02	$10.42	$14.95	$17.23	$15.62
Max Conv No (Face Value/Dilution Cap)	6.66	9.17	10.24	6.86	6.19	5.69	3.57	2.54	2.56	6.53	5.91	5.26	9.60	6.69	5.81	6.40
Conv Test 1 - % Issue Date VWAP	56.12%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	56.00%	55.56%	56.12%	56.12%	56.12%
Conv Test 1 Security Price	$16.86	$12.21	$10.94	$16.33	$18.09	$19.70	$31.41	$44.02	$43.68	$17.16	$18.96	$21.30	$11.57	$16.77	$19.29	$17.53
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%	50.51%
Conv Test 2 Security Price	$15.17	$11.01	$10.01	$14.73	$16.31	$17.77	$28.33	$39.71	$39.40	$15.48	$17.10	$19.21	$10.52	$15.10	$17.36	$15.77
Conv Test 3 - Continuous Trading	n/a	Yes	Yes	Yes	Yes	Yes	n/a	Yes	Yes	Yes	Yes	Yes	n/a	n/a	n/a	n/a
Parent Share Price - 16 May 2016	$30.04	$24.31	$24.31	$24.31	$24.31	$24.31	$78.00	$78.00	$78.00	$29.02	$29.02	$29.02	$30.04	$30.04	$30.04	$30.04
Prem/Disc to Dilution Cap	100.0%	123.0%	149.0%	66.7%	50.5%	38.2%	178.2%	98.4%	100.0%	89.4%	71.4%	52.6%	188.4%	101.0%	74.4%	92.4%
Prem/Disc to Conversion Test 1	78.2%	99.1%	122.3%	48.9%	34.4%	23.4%	148.3%	77.2%	78.6%	69.1%	53.0%	36.3%	159.6%	79.1%	55.7%	71.4%

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 WBCPG must be converted into ordinary equity if the financial position of Westpac 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 8.0% on 1 Jan 2016 after inclusion of the 2.5% Capital Conservation Buffer and a further 1.0% D-SIB (Domestically Systemically Important Banks) Capital Buffer.

Capital Trigger Event

A Capital Trigger Event occurs when either WBC determines, or when APRA notifies WBC that it believes WBC's Common Equity Tier 1 Capital Ratio is equal to or less than 5.125%. Under this Trigger, Westpac must immediately convert enough WBCPC, WBCPD, WBCPE, WBCPF and WBCPG securities on an approximate pro rata basis to boost the Common Equity Tier 1 (CET1) Capital Ratio above 5.125%. WBC's Basel III Common Equity Tier 1 Capital Ratio at 31 March 2016 stood at 10.5%, providing a buffer of $19.4bn, reducing to $16.8bn (pro forma) post mortgage risk weighting changes to be introduced on 1 July 2016. If we include WBC's cash net profit for the 12 months to March 2016 of $7.9bn, a breach of the Common Equity Trigger requirement appears very low, particularly as WBC has options such as cutting ordinary dividends and undertaking equity raisings.

Non-Viability Trigger Event

In addition, WBCPG will be converted if APRA determines that WBC 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 WBC below $6.01

Exchange resulting from a Capital Trigger Event or a Non-Viability Trigger Event will be done at the VWAP of WBC shares traded on the 5 Business Days immediately preceding the Conversion Date. While this is not subject to the Scheduled Conversion Conditions, it is still subject to the Maximum Conversion Number, which represents the face value of the preference share divided by 20% of the issue date VWAP. If WBC's 20 day VWAP was $30.04, the maximum conversion number would be 16.64 WBC shares per WBCPF security (i.e. $100 / (20% x $30.04)). As such, WBCPG investors may be exposed to receiving less than face value if WBCPG is converted at less than $6.01. 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, WBCPG 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 where WBCPG will be written off if WBC is not able to issue ordinary shares from Conversion within five Business Days of the Trigger Event Conversion Date (i.e. Capital Trigger Event or Non-Viability Trigger Event). Scenarios under which this may occur include WBC 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, WBCPG holder's rights (including to distributions and face value) are immediately and irrevocably terminated, resulting in WBCPG losing its value and investors will not receive any compensation.

Investment risks

Key Security Risks include:

- WBCPG is not a bank deposit protected by the Government guarantee scheme
- WBCPG is subordinated and unsecured, and ranks behind deposits, senior debt and subordinated debt in Westpac.
- WBCPG distributions are non-cumulative and discretionary.
- WBCPG distribution payments are subject to the following Payment Conditions:
  - ⇒ WBC, in its absolute discretion, making the Distribution;
  - ⇒ Payment not resulting in a breach of WBC's capital requirements as they are applied to the WBC Level 1 Group or the WBC Level 2 Group or both under APRA's prudential standards;
  - ⇒ Payment not resulting in WBC 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 WBCs 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.
- WBCPG will lose its value and investors will not receive any compensation if WBC is not able to issue ordinary shares within 5 business days from Conversion under a Capital Trigger Event or Non-Viability Trigger. Scenarios under which this may occur include WBC 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 WBCPG at the 20 December 2023 Scheduled Conversion Date requires WBC's share price at the time Scheduled Conversion to be above certain thresholds. If these thresholds are not met in Dec 2023 or at future quarterly distribution payment dates, WBCPG may remain on issue indefinitely.
- WBCPG holders may receive $101.01 of ordinary shares for each WBCPG security held on the Scheduled Conversion Date, based on the 20 day VWAP. This VWAP may be higher than the market value of WBC shares converted.

Westpac Capital Notes 4

Investment risks (continued)

Key Business Risks of WBC include:

- A material deterioration in global capital markets and the Australian economy.
- 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 55 (Section 5) of the prospectus dated 17 May 2016 for further information on risks.

Additional investment risk:

ASIC "Be wary of the risks" warning: Money Smart website

The ASIC publication should be used as guidance which may be relevant to your consideration of WBCPG – namely, information for retail investors who are considering investing in hybrid securities.

You can find this guidance by searching 'hybrid securities' at www.moneysmart.gov.au.

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.

Learning more about investing in bank hybrid securities

Westpac has developed an interactive module on bank hybrid securities basics which may assist you to better understand bank hybrid securities, their features and risks.

The module is available from www.westpac.com.au/bankhybridguide

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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**