Analysts

Damien Williamson 613 9235 1958

Barry Ziegler 613 9235 1848

Authorisation

TS Lim 612 8224 2810

Westpac Capital Notes 6 (WBCPI)

Fixed Income

Issue overview

Issuer	Westpac
Issue ASX code	WBCPI
Face value	$100
Estimated offer size	$750m
Bookbuild margin	3.70-3.90%
Franking	100%
Distribution payments	Quarterly
First distribution payment	22 Jun 2018
Minimum application	$5,000
Call Date	31 Jul 2024
Scheduled Conversion	31 Jul 2026

Timeline

Lodgement of prospectus	12 Nov 2018
Bookbuild margin	19 Nov 2018
Announcement of margin	19 Nov 2018
Offer opens	20 Nov 2018
Offer closes	11 Dec 2018
Issue date	18 Dec 2018
ASX listing (deferred settlement)	19 Dec 2018

WBCPI are not deposit liabilities of WBC, are riskier than bank deposits and may not be suitable for some investors. Their overall complexity may make them difficult to understand and the risks associated with WBCPI could result in the loss of all of your investment.

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

Closing out 2018 with an early refinance

Westpac's new $750m Capital Notes 6 (WBCPI) has been launched as a Basel III compliant replacement issue for the $1,384m WBCPD security ahead of its 8 March 2019 optional call date. In an environment of shrinking new issuance, WBCPI is likely to be the final new issue launched for 2018.

The bookbuild margin of 3.70-3.90% above 3 month bank bill is identical to the CBA PERLS XI (CBAPH) offer, where the duration of both securities to the optional call date is ~5.5 years. The bookbuild range is also consistent with the secondary market for longer dated hybrid securities such as WBCPH (7 years to optional call) on a 3.84% trading margin at $97.10 and CBAPG (6.5 years to optional call) on a 3.79% trading margin at $98.75.

Factors that may support the new WBCPI issue include:

- **0.50% margin uplift from Reinvestment Offer:** We see the potential for strong Reinvestment Offer support from the increase in issue margin from 3.20% on WBCPD to an expected 3.70% on the early WBCPI refinance. This could push demand to the upper end of the 45-60% historical reinvestment participation rate.
- **Squeeze on allocation for new money bookbuild / Securityholder bids:** CBAPH saw a significant scaling of new money bookbuild bids, highlighting pent up demand from the 6 month issuance drought since MQGPC was launched in May.
- **$1.1bn of pending debt redemptions:** Confirmed redemption of $770m for SUNPD on 22 Nov and expected $325m redemption for AMPHA on 18 Dec. We forecast redemption of non-reinvested WBCPD and CBAPC securities of ~$1.5bn.
- **Scarcity of new supply:** Assuming new issuance continues to be dominated by hybrid reinvestment offers, 2019 may only see replacement issues for the $1.5bn NABPA in early 2019 and $550m IANG in late 2019.

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	95bp	Nov 2023	
	Subordinated debt	WBC (OTC) subordinated	185bp	Jun 2028	Jun 2023
	Preferred equity	**WBCPI (Additional Tier 1)**	**370-390bp**	**Jul 2026***	**Jul 2024#**
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. FIRST CALL DATE IS DISCRETIONARY.

SOURCE: YIELDBROKER, BELL POTTER

* SCHEDULED CONVERSION IS SUBJECT TO SATISFYING THE SCHEDULED CONVERSION CONDITIONS

WBCHI IS PERPETUAL AND MAY NOT BE EXCHANGED.

Key features

- **Initial grossed up running yield of 5.65-5.85% (3.96-4.10% fully franked):** Floating rate based on 3 month bank bill of 1.95% + 3.70-3.90% bookbuild margin.
- **Option to exchange at year 5.5 with scheduled conversion at year 7.5:** WBC has the option to redeem or convert WBCPI at the Jul 2024 Optional Call Date, subject to APRA approval and WBC being solvent, and a Capital Trigger or a Non-Viability Trigger Event not having occurred. WBCPI may not be exchanged on the Scheduled Conversion Date, and you may continue to hold WBCPI indefinitely.
- **Ordinary distribution restrictions:** Applies on the non payment of WBCPI distributions. WBCPI distributions are discretionary and subject to the distribution payment conditions being satisfied. Unpaid distributions are non-cumulative.

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WBCPD Reinvestment	Dates
WBCPD Ex Entitlement	2 Nov 2018
WBCPD Record Date	5 Nov 2018
Reinvestment offer opens	20 Nov 2018
WBCPD Ex Div	29 Nov 2018
WBCPD Div paid	10 Dec 2018
WBCPD Ex Div (pro rata)	10 Dec 2018
Reinvestment offer closes	11 Dec 2018
WBCPD Div Paid (pro rata)	18 Dec 2018
Reinvestment Issue Date	18 Dec 2018
ASX listing (deferred settlement)	19 Dec 2018

WBCPD Redemption	Dates
WBCPD Ex Entitlement	2 Nov 2018
WBCPD Record Date	5 Nov 2018
WBCPD Ex Div	29 Nov 2018
WBCPD Div paid	10 Dec 2018
WBCPD Ex Div (pro rata)	10 Dec 2018
WBCPD Div Paid (pro rata)	18 Dec 2018
WBCPD Ex Div (pro rata)	27 Feb 2019
WBCPD cease trading	28 Feb 2019
WBCPD Div Paid (pro rata)	8 Mar 2019
WBCPD Redemption	8 Mar 2019

Reinvestment Offer for WBCPD

As the WBCPI offer is essentially a replacement issue for $1,384m Westpac Capital Notes (WBCPD), WBC is offering the opportunity to reinvest WBCPD securities held at the 5 November 2018 record date into new WBCPI securities.

WBCPD holders essentially have three options:

- **Option 1: Participate in Reinvestment Offer:** For WBCPD holders that lodge their Personalised Reinvestment Application form by 11 December 2018, their securities will be reinvested into WBCPI on the 18 December 2018 Issue Date. WBCPD investors will be entitled to two distribution payments. The first is the full quarterly distribution for 91 days of $0.8956 fully franked ($1.2794 grossed up) payable on 10 December 2018 (ex div 29 Nov, record date 30 Nov). The second is a pro-rata March 2019 quarterly distribution. Assuming a 3 month bank bill of 1.94%, we estimate a pro-rata payment of $0.0789 fully franked ($0.1127 grossed up) for a period of 8 days payable on 18 December 2018 (ex div 10 Dec, record date 11 Dec).
- **Option 2: Sell WBCPD on market:** WBCPD ceases trading 28 February 2019.
- **Option 3: Do nothing and receive $100 Cash Redemption:** In addition to receiving $100 cash redemption per WBCPD security on 8 March 2019, holders will also receive 3 distributions. The first is the full quarterly distribution for 91 days of $0.8956 fully franked ($1.2794 grossed up) payable on 10 December 2018 (ex div 29 Nov, record date 30 Nov). The March 2019 quarterly distribution period of 88 days has been split into two pro-rata payments. Assuming a 3 month bank bill of 1.94%, we estimate the first pro-rata payment of $0.0789 fully franked ($0.1127 grossed up) for a period of 8 days payable on 18 December 2018 (ex div 10 Dec, record date 11 Dec). The second pro-rata payment is estimated at $0.7886 fully franked ($1.1266 grossed up) for a period of 80 days payable on 8 March 2019 (ex div 27 Feb, record date 28 Feb).

Overall, WBCPD investors need to consider whether the likely 3.70% issue margin on WBCPI is sufficient to participate in the reinvestment offer. Noting the WCBPI margin is expected to be 0.50% above the WBCPD issue margin of 3.20%, an incentive to support reinvestment is the income uplift provided by WBCPI listing 80 days before WBCPD's 8 March 2019 optional call date. Another key consideration is the reinvestment options available, particularly given the diminishing supply of new issuance to reinvest into.

Offers for Broker Firm and Securityholders

- **Broker Firm Offer:** This is available to clients of Bell Potter, which is a Co-Manager to the WBCPI issue. Broker firm bids will participate in the Bookbuild to be held on 19 November 2018.
- **Securityholder Offer:** Available to investors in WBC, WBCPC, WBCPD, WBCPE, WBCPF, WBCPG or WBCPH. Applications for investors holding these securities at the 5 November 2018 Record Date requires a HIN or SRN.

There is no Customer Offer or General Offer.

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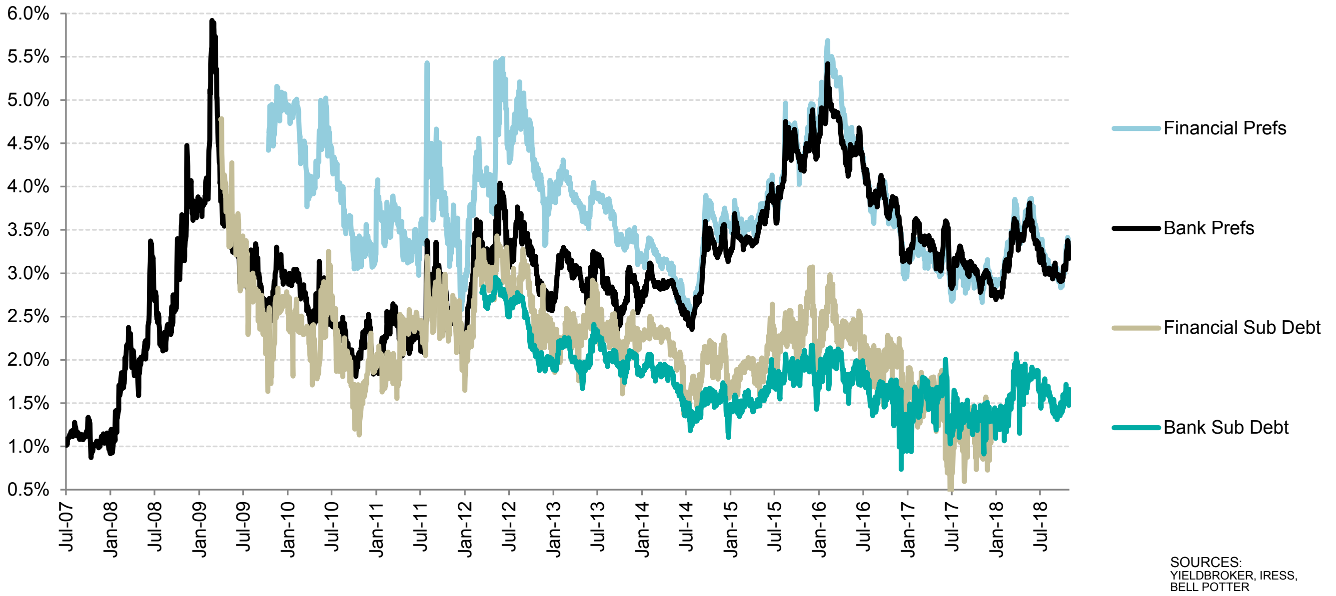
Hybrid market recovery since May driven by issuance drought

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

* Financial Prefs (AMPPA, BENPE, BENPF, BENPG. BOQPE, CGFPA, CGFPB, IAGPD, IANG, MBLPA, MQGPB, MQGPC, SUNPE, SUNPF, SUNPG)
* Bank Prefs (ANZPD, ANZPE, ANZPF, ANZPG, ANZPH, CBAPD, CBAPE, CBAPF, NABPA, NABPB, NABPC, NABPD, WBCPD, WBCPE, WBCPF, WBCPG, WBCPH)
* Bank Subordinated Debt (NABPE)

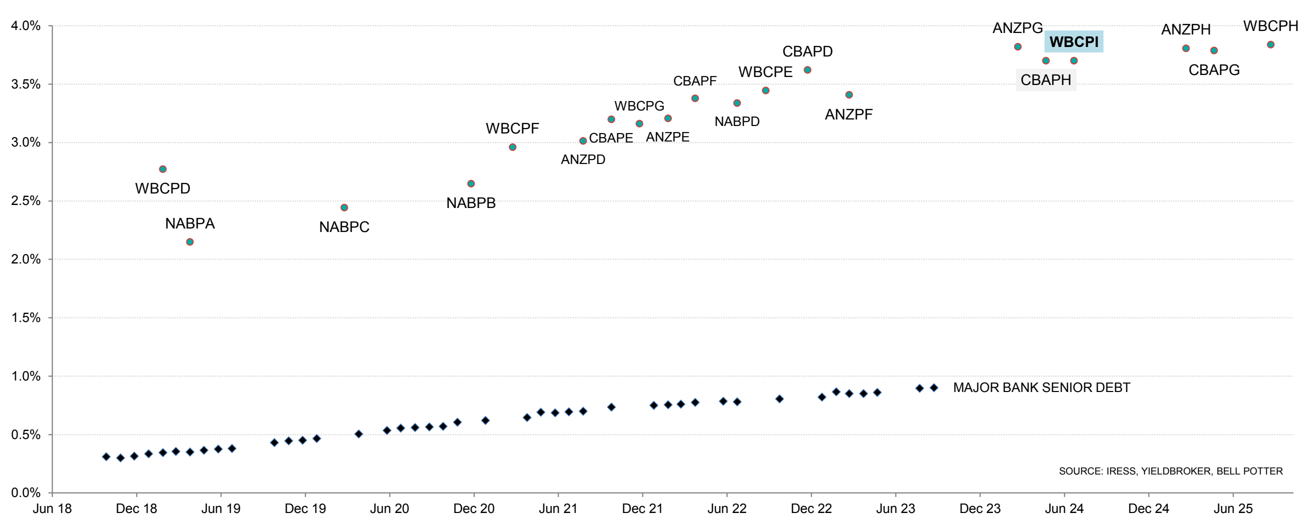
Figure 2: Trading margins on ASX listed debt and hybrid sectors



WBCPI margin reflects current pricing of longer dated hybrids

The 3.70-3.90% bookbuild margin on WBCPI (Jul 2024 optional call) reflects duration of 5.5 years to the optional call date, consistent with the secondary market pricing for longer dated WBC hybrids such as WBCPH (Sep 2025 optional call) on a 3.84% trading margin at $97.10. These secondary market trading margins do not factor in any reduction from the incorporation of brokerage costs. By contrast, there is no brokerage charge on subscribing for new issues. Investors also have the ability to bid for their desired holding at face value, versus chasing ASX listed stock where there may be limited liquidity.

Figure 3: Trading margin on ASX listed major bank prefs & capital notes versus wholesale senior debt (9 Nov 2018)



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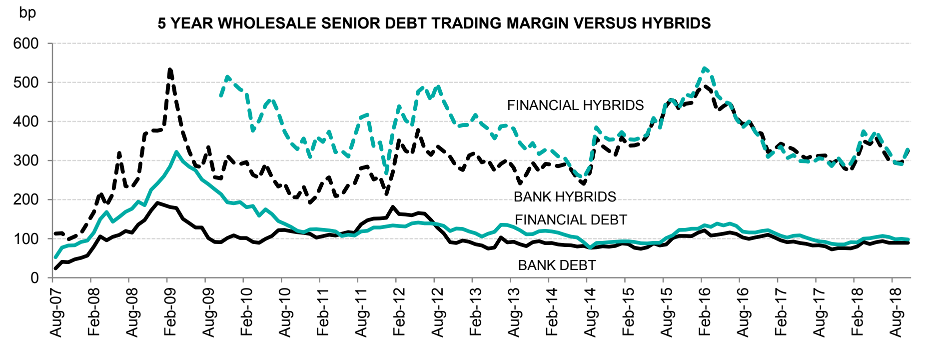
Wholesale funding costs stabilised

The recovery in the hybrid market has seen the spread between the average trading margin on major bank prefs / capital notes and major bank 5 year wholesale senior debt firm from 3.7% to a recent low of 2.0% since early 2016. The weakness in bank share prices and share market volatility has seen this spread modestly increase to the current spread of 2.3%. This compares with an average spread of 2.1% since Jan 2010.

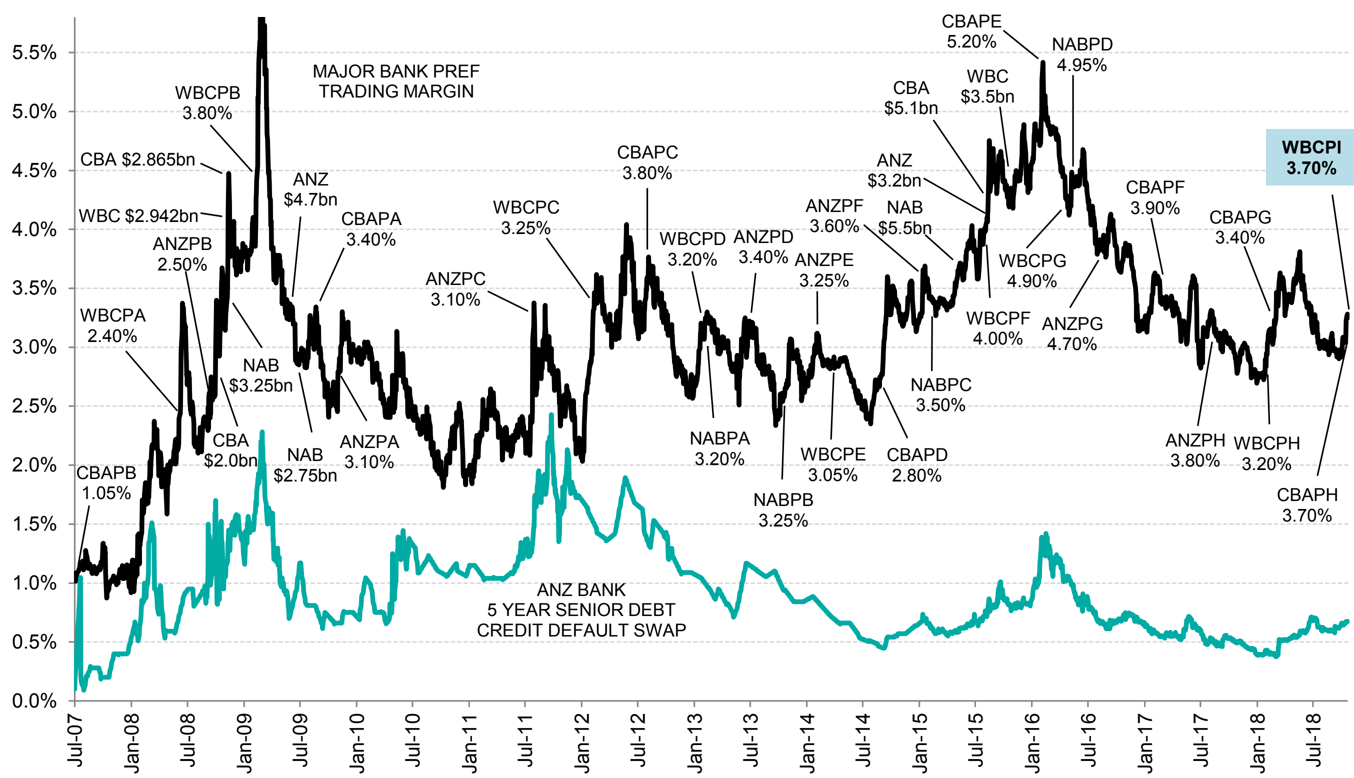
Figure 4: Average trading margins versus wholesale senior debt



SOURCE: YIELDBROKER, BELL POTTER

Assuming WBCPI is priced at the bottom end of the bookbuild range at a margin of 3.70%, this will offer a margin uplift of 0.50% when compared with the WBCPH issue launched in Feb 2018. Excluding major bank issuance launched in the hybrid bear market between July 2015 to August 2016, all major bank new issue margins have been below 4.00%.

Figure 5: 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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Fairly priced at a 0.45% spread to the prevailing market average for a 5.5 year security

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 18 major bank prefs and capital notes. Attractive pricing to ensure a listing premium has been a key factor behind the last 14 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 WBCPI's issue margin is set at the bottom end of the bookbuild range at 3.70%, this represents a spread of 0.45% to the prevailing market of 3.25% on the 18 major bank convertible prefs / capital notes which have an average duration of 3.5 years. The 0.45% spread indicates WBCPI is fairly priced for the extra 2 years duration with to WBCPI's optional call date in 5.5 years (Jul 2024), providing a reasonable buffer for an adverse market move between WBCPI launching and listing.

This 0.45% spread is in-line with the median new issue spread of 0.45% on the 42 major bank / financial hybrid issues since 2011. We also note the 14 positive new listings launched between Oct 2015 (AMPPA) and Nov 2017 (BOQPE) had a median spread to the prevailing market of 0.79%. This winning sequence was broken with both WBCPH and CBAPG failing to list at a premium, where the 0.45% and 0.35% issue spreads provided an insufficient buffer longer dated securities (7-7.5 yrs to optional call). Hybrid market weakness also followed from the March 2018 announcement of the Shorten franking policy in March 2018 seeking to stop the cash refund on excess franking credits from July 2019 if the ALP wins the Federal Election.

Figure 6: Listing performance of Basel III Compliant Additional Tier 1 Hybrid Issues: 2011-2018

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
WBCPI	12 Nov 18	3.70%	3.25%	0.45%	19 Dec 2018			
CBAPH	1 Nov 18	3.70%	3.25%	0.45%	18 Dec 2018			
MQGPC	7 May 2018	4.00%	3.50%	0.50%	8 Jun 2018	$100.65	3.76%	0.26%
CBAPG	7 Mar 2018	3.40%	3.05%	0.35%	9 Apr 2018	$97.00	3.46%	0.41%
WBCPH	5 Feb 2018	3.20%	2.75%	0.45%	14 Mar 2018	$99.00	3.47%	0.72%
BOQPE	22 Nov 2017	3.75%	2.90%	0.85%	29 Dec 2017	$101.50	2.86%	-0.04%
SUNPG	23 Oct 2017	3.65%	2.90%	0.75%	27 Nov 2017	$101.50	2.97%	0.07%
BENPG	16 Oct 2017	3.75%	2.90%	0.85%	14 Dec 2017	$101.64	3.00%	0.10%
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:	0.45%				

SOURCE: COMPANY DATA, IRESS, BELL POTTER

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Lower capital raisings and redemptions supporting hybrids

A recovery in sentiment can be attributed to a couple of key supply factors:

- **Hybrid redemptions set to exceed issuance for a second consecutive year:** Following net redemptions in the ASX listed debt and hybrid market of $3.8bn in 2017 ($5.4bn issuance vs $9.2bn of redemptions), 2018 remains on track to be a second consecutive year of net redemptions with $7.5bn of pending redemptions.
- **Modest IPO volumes and no bank equity raisings since 2015:** weakness in hybrids in 2015 coincided with $17.3bn of major bank equity raisings that year. Recent market volatility has resulted in the withdrawal of some IPOs, the largest being PEXA, which went to market with an equity valuation range of $1.88-$2.18bn.

Figure 7: Issuance 2010-2018

Issuance ($bn)	2010	2011	2012	2013	2014	2015	2016	2017	2018YTD	Cumulative
Hybrid Issuance	0.92	3.42	13.16	8.66	7.46	5.60	7.03	5.42	5.36	57.03
Hybrid Redemptions	1.10	1.68	3.09	2.42	5.90	1.07	5.68	9.24	5.22	35.39
Net Hybrid Issuance	-0.17	1.75	10.07	6.24	1.56	4.53	1.35	-3.82	0.14	21.64
IPOs	7.98	1.56	1.27	9.69	18.65	7.00	8.32	5.74	6.95	67.17
Major Bank Raisings	0.00	0.00	0.00	0.00	0.00	17.30	0.00	0.00	0.00	17.30
Net Hybrid & Equity Issuance	**7.81**	**3.31**	**11.34**	**15.93**	**20.21**	**28.83**	**9.67**	**1.92**	**7.09**	**106.11**
Bank Pref Avg Trading Margin (31Dec)	1.92%	2.14%	2.76%	2.72%	3.13%	4.48%	3.22%	2.80%	3.25%	
Bank Pref Avg Duration (years) (31Dec)	3.6	3.0	3.2	3.9	5.1	4.4	4.1	3.8	3.5	
Bank 5YrSnr Trading Margin (31Dec)	1.13%	1.54%	0.96%	0.94%	0.82%	1.07%	1.10%	0.76%	0.90%	
CBA CET1 (30 June)	6.6%	7.3%	7.5%	8.2%	9.3%	9.1%	9.6%	10.1%	10.1%	

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

New hybrid issuance to increasingly aligns with refinancings

With WBC pushing the WBCPD refinancing into 2018, the pipeline of 2019 issuance appears skinny with the only likely refinancing transactions for the $1.5bn NABPA in early 2019 and $550m IANG in late 2019.

Figure 8: Pipeline of pending redemptions of ASX listed debt and hybrids

ASX Code	Security	Call Date	Issue Size	ASX Listed Replacement Issue
SUNPD	Suncorp Subordinated Notes	22 Nov 2018	$770m	No
AMPHA	AMP Subordinated Notes 2	18 Dec 2018	$325m	Unlikely - $250m wholesale issue
AGLHA	AGL Energy Subordinated Notes	8 Jun 2019	$650m	Unlikely
IMFHA	Bentham IMF Bonds	30 Jun 2019	$50m	Proposal to extend issue to 2022
TTSHA	Tatts Bonds	5 Jul 2019	$192m	Unlikely
ASX Listed Debt Redemptions Pending			$1,987m	
WHFPB	Whitefield Convertible Reset Pref	30 Nov 2018	$40m	Reset / Holder Exchange offered
CBAPC	CBA PERLS VI	15 Dec 2018	$2,000m	CBAPH
WBCPD	Westpac Capital Notes	8 Mar 2019	$1,384m	WBCPI
NABPA	NAB Convertible Preference Shares	20 Mar 2019	$1,514m	Likely
IANG	IAG Reset Exchangeable Securities	16 Dec 2019	$550m	Likely
ASX Listed Hybrid Redemptions Pending			$5,488m	
			$7,475m	

SOURCES: COMPANY DATA, BELL POTTER

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WBCPD reinvestment likely to raise $625-825m

If the participation trend in recent reinvestment offers continues at a range of 45-60%, then we expect between $625m to $825m of the $1,384m WBCPD issue will be reinvested into WBCPI.

Figure 9: 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
BENPD	5.00%	13 Dec 17	268.9	124.0	**46.1%**	BENPG	3.75%	14 Dec 17	322
SUNPC	4.65%	18 Dec 17	560.0	315.3	**56.3%**	SUNPG	3.65%	27 Nov 17	375
BOQPD	5.10%	16 Apr 18	300.0	158.7	**52.9%**	BOQPE	3.75%	29 Dec 17	350
WBCPC	3.25%	31 Mar 18	1,189.4	623.4	**52.4%**	WBCPH	3.20%	14 Mar 18	1690
MQGPA*	4.00%	7 Jun 18	600.0	445.7	**74.3%**	MQGPC	4.00%	8 Jun 18	1000
CBAPC	*3.80%*	*15 Dec 18*	*2,000.0*	*Bookbuild ~870*	*43.5%*	*CBAPH*	*3.70%*	*18 Dec 18*	*>1250*
				Average	**50.0%**				

* 75%SCALING, FINAL REINVESTMENT $334.3m

SOURCE: COMPANY DATA, IRESS, BELL POTTER

Given the strength of bidding in the CBAPH new money bookbuild, lack of new issuance, and 0.50% margin uplift offered by reinvesting WBCPD into WBCPI, there is the potential for reinvestment participation to be at the upper end of this range. This will further squeeze the supply available for new money investment. We also note before WBCPI lists on 19 Dec 2018, Suncorp has announced redemption of the $770m Suncorp Subordinated Notes on 22 Nov, and we expect the $325m AMP Subordinated Notes 2 (AMPHA) to be redeemed on 18 Dec.

Figure 10: Increasing squeeze on new money components of hybrid issues

Issue	Target	Bookbuild Completion	Reinvestment Offer	Securityholder Offer	Final Size	Securityholder Full Allocation Cap	Allocation Above Cap	Cornerstone (BNP Paribas Noms)
CBAPE	$1,250m	$910m	PCAPA $260m (22.3%)	$540m	$1,450m	$15,000	95.0%	$285m
WBCPG	$750m	$1,450m	WCTPA undisclosed	$252m	$1,702m	$25,000	87.5%	$300m
NABPD	$750m	$1,350m	No	$149m	$1,499m	Full Allocation		$300m
ANZPG	$1,000	$1,300m	ANZPA $900m (45.7%)	$322m	$1,622m	Full Allocation		
IAGPD	$300m	$350m	IAGPC $224m (59.5%)	$0m	$404m	No Offer		
CBAPF	$750m	$1,450m	CNGHA undisclosed	$190m	$1,640m	$15,000	0%	$230m
CGFPB	$350m	$430m	No	$30m	$460m	$300,000	89.7%	
SUNPF	$250m	$300m	No	$75m	$375m	$300,000	28.5%	
ANZPH	$1,000m	$552m	ANZPC $682m (50.9%)	$248m	$931m	Full Allocation		
BENPG	$300m	$260m	BENPD $124m (46.1%)	$62m	$322m	$10,000	0%	
SUNPG	$250m	$300m	SUNPC undisclosed	$0m	$375m	No Offer		
BOQPE	$300m	$325m	BOQPD $159m (52.9%)	$25m	$350m	Full Allocation		
WBCPH	$750m	$1,450m	WBCPC $623m (52.4%)	$240m	$1,690m	Full Allocation		
CBAPG	$750m	$1,250m	No	$115m	$1,365m	Full Allocation		$103m
MQGPC	$600m	$650m	MQGPA $445.7m (74.3%) Scaling 75%, Allocation $334.3m	$15.7m	$1,000m	$5,000	13%	
CBAPH	$750m	$1,250m	CBAPC ~$870m (43.5%)					

NOTE: ANZPH DID NOT CONDUCT A NEW MONEY BOOKBUILD.

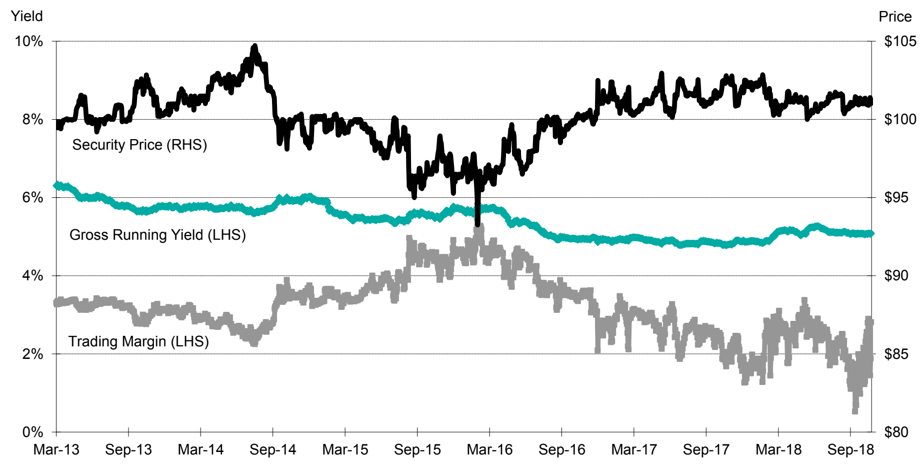
SOURCES: COMPANY DATA, IRESS, BELL POTTER

Westpac Capital Notes 6

Lack of pre-positioning trading leading into WBCPD launch

There has been minimal pre-positioning trade in WBCPD in the lead up to the launch of WBCPI, where over recent years we have seen investors pay premiums to ensure a reinvestment allocation in the maturing security.

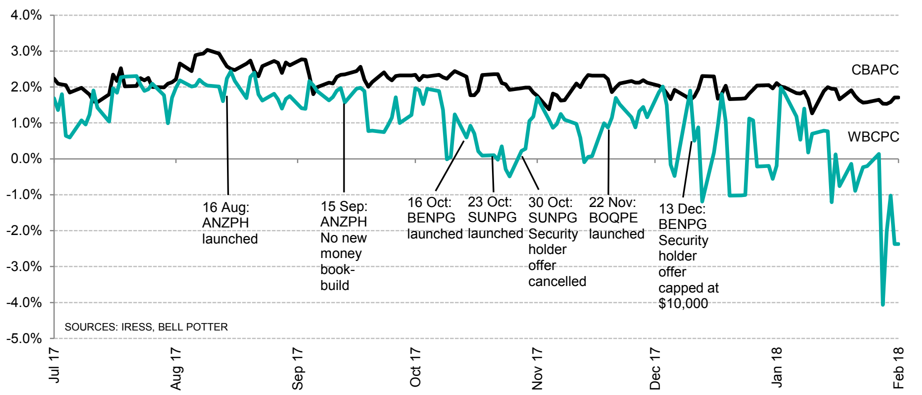
Figure 11: WBCPD security price and trading margin



SOURCE: IRESS, BELL POTTER

By contrast, we saw a significant pre-positing trade in WBCPC push its trading margin as low as –4.0% ahead of the launch of WBCPH on 5 Feb 2018. Such trade is evident during a string of positive hybrid listings, which was broken with the listing of WBCPH on 14 Mar 2018. We also suspect the early refinancing had a surprise element to the market.

Figure 12: Trading margins WBCPC (Mar18 opt call) & CBAPC (Dec18 opt call)



Westpac Capital Notes 6

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.

The Scheduled Conversion Date is 31 July 2026, or, if the Scheduled Conversion Conditions are not satisfied on that date, the first Distribution Payment Date after that date on which the Scheduled Conversion Conditions are satisfied.

On the Scheduled Conversion Date (subject to Maximum Conversion Number and Scheduled Conversion Conditions), investors will receive for each WBCPI security a variable number of ordinary shares with a value equal to $101.01. This is based on the initial face value and the VWAP of ordinary shares during the period of 20 business days before the Scheduled Conversion Date with the benefit of a 1% conversion discount. The value of ordinary shares received could be less than this amount if the face value has previously been reduced (following a Capital Trigger Event or Non-Viability).

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 WBC's 20 day VWAP was $27.70 before the issue date, the maximum conversion number would be 7.22 WBC shares per WBCPI security (i.e. $100 / (50% x $27.70)).

To protect WBCPI 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 (26 Jun 2026) must be above 56.12% of the Issue Date VWAP. Using the above example with the WBC price on 9 Nov 2018 of $27.70 x 56.12% = $15.55.
- Second: VWAP of ordinary shares during the 20 business days immediately preceding a potential Scheduled Conversion Date (3 Jul 2026 - 30 Jul 2026) must be greater than 50.51% of the WBCPI Issue Date VWAP (i.e. $13.99 using the above example for Issue Date VWAP).

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 at the discretion of the Issuer. The Conversion Conditions will be tested on each subsequent future quarterly distribution date. The payment of WBCPI distributions is subject to satisfaction of the Distribution Payment Conditions.

Figure 13: Scheduled Conversion Conditions

	WBCPI	ANZPD	ANZPE	ANZPF	ANZPG	ANZPH	CBAPD	CBAPE	CBAPF	CBAPG	NABPA	NABPB	NABPC	NABPD	WBCPE	WBCPF	WBCPG	WBCPH
Issue Date	18-Dec-18	7-Aug-13	31-Mar-14	5-Mar-15	27-Sep-16	28-Sep-17	1-Oct-14	30-Mar-16	31-Mar-17	6-Apr-18	20-Mar-13	17-Dec-13	23-Mar-15	7-Jul-16	15-Jun-14	8-Sep-15	30-Jun-16	13-Mar-18
Scheduled Conversion Date	31-Jul-26	1-Sep-23	24-Mar-24	24-Mar-25	20-Mar-26	20-Mar-27	15-Dec-24	15-Oct-23	31-Mar-24	15-Apr-27	22-Mar-21	19-Dec-22	23-Mar-22	8-Jul-24	23-Sep-24	22-Mar-23	20-Dec-23	22-Sep-27
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%	1.0%	1.0%
Issue Date VWAP	$27.70	$29.16	$32.30	$35.18	$26.80	$29.70	$78.62	$75.50	$84.08	$74.57	$30.64	$33.86	$38.03	$25.27	$34.37	$31.23	$29.48	$30.37
50% Dilution Cap	$13.85	$14.58	$16.15	$17.59	$13.40	$14.85	$39.31	$37.75	$42.04	$37.28	$15.32	$16.93	$19.02	$12.64	$17.23	$15.62	$14.74	$15.19
Max Conv No (Face Value/Dilution Cap)	7.22	6.86	6.19	5.69	7.46	6.73	2.54	2.65	2.38	2.68	6.53	5.91	5.26	7.91	5.81	6.40	6.78	6.59
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%	56.00%	56.00%	56.12%	56.12%	56.12%	56.12%
Conv Test 1 Security Price	$15.55	$16.33	$18.09	$19.70	$15.01	$16.63	$44.02	$42.28	$47.09	$41.76	$17.16	$18.96	$21.30	$14.15	$19.29	$17.53	$16.54	$17.04
Conv Test 2 - % Issue Date VWAP	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%	50.51%	50.51%	50.51%	50.51%	50.51%
Conv Test 2 Security Price	$13.99	$14.73	$16.31	$17.77	$13.54	$15.00	$39.71	$38.14	$42.47	$37.66	$15.48	$17.10	$19.21	$12.76	$17.36	$15.77	$14.89	$15.34
Conv Test 3 - Continuous Trading	n/a	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	n/a	n/a	n/a	n/a
Parent Share Price - 9 Nov 2018	$27.70	$25.93	$25.93	$25.93	$25.93	$25.93	$69.23	$69.23	$69.23	$69.23	$25.21	$25.21	$25.21	$25.21	$26.85	$26.85	$26.85	$26.85
Prem/Disc to Dilution Cap	100.0%	77.8%	60.6%	47.4%	93.5%	74.6%	76.1%	83.4%	64.7%	85.7%	64.6%	48.9%	32.6%	99.5%	55.9%	72.0%	82.2%	76.8%
Prem/Disc to Conversion Test 1	78.2%	58.8%	43.4%	31.6%	72.8%	55.9%	57.3%	63.7%	47.0%	65.8%	46.9%	33.0%	18.4%	78.1%	39.2%	53.2%	62.3%	57.5%

SOURCE: COMPANY DATA, BELL POTTER

Westpac Capital Notes 6

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 2020. 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 WBCPI must be converted into ordinary equity if the financial position of WBC requires an immediate injection of capital. These prudential standards also require Australian banks to hold a minimum Common Equity Tier 1 (CET1) 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.

The release of APRA's Information Paper 'Strengthening banking system resilience - establishing unquestionably strong capital ratios' on 19 July 2017 outlined a target CET1 ratio inclusive of buffers for the major Australian banks of 10.5% by 1 Jan 2020.

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, WBC must immediately convert enough WBCPD, WBCPE, WBCPF, WBCPG, WBCPH, WBCPI and WBC USD Additional Tier 1 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 30 Sep 2018 stood at 10.6%, providing a buffer of over $23bn above the 5.125% threshold. If we include WBC's cash net profit for the 12 months to Sep 2018 of $8.1bn, a breach of the Common Equity Trigger requirement currently appears very low, particularly as WBC has options such as cutting ordinary dividends and undertaking equity raisings.

Non-Viability Trigger Event

In addition, WBCPI 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.

Westpac Capital Notes 6

Potential for Loss under Trigger Event if WBC below $5.54

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 Issue Date VWAP was $27.70, the maximum conversion number would be 18.05 WBC shares per WBCPI security (i.e. $100 / (20% x $27.70)). As such, WBCPI investors may be exposed to receiving less than face value if WBCPI is converted at less than $5.54. 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, WBCPI holders will hold ordinary shares and rank equally with other holders of ordinary shares (i.e. lose priority ranking).

Inability Event

One additional risk is an Inability Event where WBCPI 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 due to laws relating to the insolvency, winding-up or other external administration of WBC, Australian foreign investment laws, the Corporations Act or other applicable laws, an order of a court, an action of any Government authority or operational delays.

Under an Inability Event, WBCPI holder's rights (including to distributions and face value) are immediately and irrevocably terminated, resulting in WBCPI losing its value and investors will not receive any compensation.

Westpac Capital Notes 6

Investment risks

Key Security Risks include:

- WBCPI is not a bank deposit protected by the Government guarantee scheme
- WBCPI is subordinated and unsecured, and ranks behind deposits, senior debt and subordinated debt in WBC.
- WBCPI distributions are non-cumulative and discretionary.
- WBCPI 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 WBC (on a Level 1 basis) or the WBC Group (on a Level 2 basis) under APRA's current Prudential Standards at the time of payment;
  - ⇒ 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.
- In elected at the 2019 Federal Election, the ALP intends to introduce a policy to prevent certain individuals and superannuation funds being entitled to receive a cash refund on any excess franking credits from 1 July 2019. If introduced, WBC will not be required to gross up WBCPI distributions and no redemption right is expected to be triggered. This policy may impact the cost and efficiency of WBC raising Tier 1 and Additional Tier 1 Capital in the future.
- Adverse change in WBC's 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.
- WBCPI 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 WBCPI at the 31 July 2026 Scheduled Conversion Date requires WBC's share price at the time of Scheduled Conversion to be above certain thresholds. If these thresholds are not met in July 2026 or at future quarterly distribution payment dates, WBCPI may remain on issue indefinitely.
- WBCPI holders may receive $101.01 of ordinary shares for each WBCPI 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 6

Investment risks (continued)

Key Business Risks of Westpac include:

- A material deterioration in global capital markets and the Australian economy.
- Adverse regulatory changes.
- Adverse regulatory impact as a result of the Royal Commission into the banking, superannuation, and financial services industries. The Royal Commission is scheduled to table its final report due by 1 Feb 2019.
- Operational risks and trading errors.
- Increasing competition.
- Credit rating downgrades.
- Losses associated with counterparty exposures.
- Poor performance of acquired businesses.

Refer page 52 (Section 5) of the prospectus dated 12 November 2018 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 WBCPI - 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 or via the link at www.westpac.com.au/westpaccapnotes5

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 a web-based guide to help investors understand some of the typical features and risks associated with an investment in bank hybrid securities. Westpac’s Guide to Bank Hybrids is available at: **westpac.com.au/bankhybridguide**

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
Analysts			
James Filius	Analyst	613 9235 1612	jfilius
Alexander McLean	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**

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Additional disclosure:

Bell Potter Securities Limited has acted as Co-manager to the following issues: AMPHA, ANZPD, ANZPE, BOQPD, CBAPC, CBAPD, CBAPE, CBAPF, CWNHA, IANG, MXUPA, MQGPB, NABPA, NABPB, NABPD, NFNG, SUNPD, TTSHA, WBCHB, WBCPF, WBCPG. Bell Potter Securities Limited received fees for these services.

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

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