

Analysts

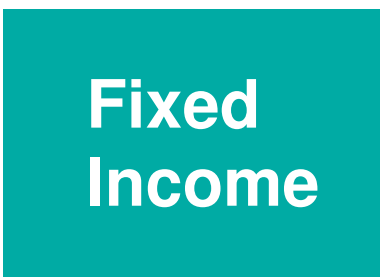
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Fixed Interest Weekly



Contents

Hybrids: Buy / Hold / Sell	2
Trading margins - debt & hybrids	6
Commonwealth Govt Bonds	7
State Government Bonds	8
Quantitative overview	9
Summary tables	10

The Buy / Hold / Sell investment case for bank hybrids

It appears as an anomaly that bank hybrid margins remain elevated, with investors currently being rewarded with attractive premiums to go down the capital structure to achieve an uplift in yield. Hybrid margins remain elevated despite a reduction in wholesale and deposit funding margins.

Basel III requirements on improving regulatory capital have the potential to reduce the risk profile of the issuers. This is reinforced by the key recommendation of the Murray Report on the Financial System Inquiry being the strengthening of bank capital levels such that they are “unquestionably strong” by being in the top quartile of international banks CET1 ratios.

While fundamentals appear sound, sentiment remains subdued. After being swamped with over \$4bn of new issuance in Aug/Sep 2014 from CBAPD (\$3bn), CGFPA (\$345m), BENPE (\$292m) and MBLPA (\$429m), market pricing adjusted to push margins higher, reflecting the impact of new supply. Investors who had seen hybrid issues since late 2012 typically trade at a premium, we now potentially holding hybrids at a discount to face value. This has contributed to a change in investor sentiment towards the hybrid sector. (Continued page 2)

Figure 1: Bank financial metrics

Metric	Jun 2007	Feb 2012	Apr 2015	Likely trend
CBA Common Equity Tier 1 Capital (CET1)	4.5%	7.7%	9.2%	Potential to further strengthen
CBA Impairment Charge / Gross Loans	0.19%	0.21%	0.14%	Cyclical low
CBA 5 yr Credit Default Swap	0.10%	1.45%	0.57%	
CBA Deposit funding vs total funding	54%	62%	63%	Stable - now at target level
Major Bank 1 yr term deposit rate vs 1 yr swap	-0.44%	1.40%	0.50%	Lower - less competition chasing deposits
5 yr wholesale major bank senior debt margin	0.17%	1.92%	0.77%	
CBA 1 year forward P/E	15.8x	11.1x	16.0x	
10 yr Commonwealth Government Bond	6.1%	3.9%	2.5%	
Major Bank Hybrid New Issue Margin	1.05%	3.25%	3.50%	Should reflect wholesale funding market

SOURCE: COMPANY DATA, IRESS, BLOOMBERG, YIELDBROKER, BELL POTTER

BENPF upscaled to \$225m

BEN has completed the bookbuild on its new Convertible Preference Shares 3 (BENPF) issue, upscaling the issue from \$200m to \$225m. Launched as a replacement issue for the \$90m BENPB ahead of its 15 June 2015 step-up date, the bookbuild included \$22m of acceptances for the BENPB reinvestment offer. With the margin set at 4.00%, bottom of the 4.00-4.20% bookbuild range, it provides a healthy uplift on BENPB’s current margin of 1.50%.

Weekly trading idea: Buy NABPB

On the theme of the current value with elevated hybrid margins, NABPB (Dec 2020 call) remains one of our top picks. At \$98.38, the discount to face value increases the 3.25% issue margin to a trading margin of 3.76% - which boost its yield to maturity to the key 6.00% threshold. Given the low fixed interest returns available, NABPB continues to offer value at current levels.

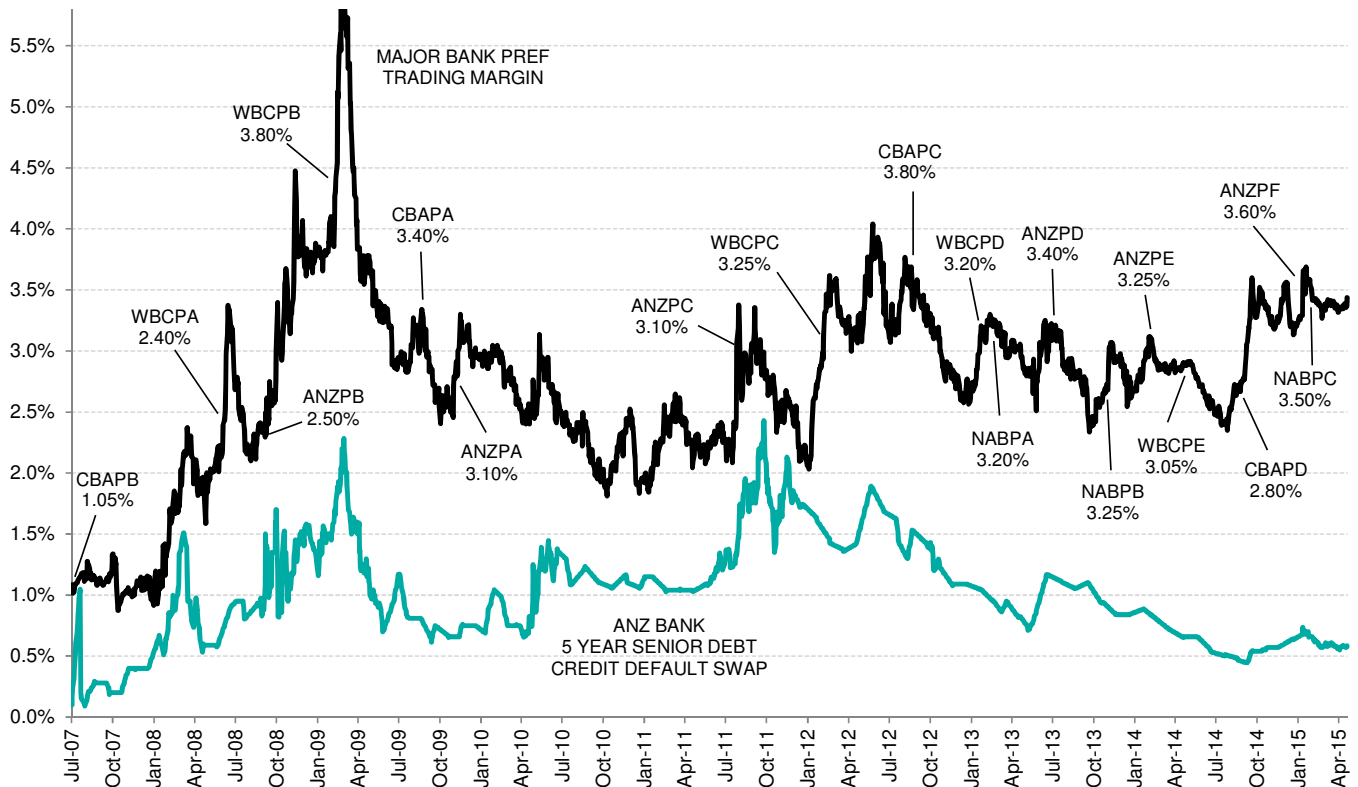
Hybrids: Buy / Hold / Sell

Reasons to Buy Hybrids

1. Historically high margins with decreasing levels of default risk

The ANZ 5 year senior debt credit default swap (CDS) is a way of measuring the risk associated with the issuer. The CDS represents the insurance margin the holder of the ANZ bond pays to the seller of the CDS to protect against default. The financial strength of ANZ has been a key factor to the decline in the CDS margin over recent years. While the perceived default risk on senior debt has declined, it appears as an anomaly that the average trading margin on bank prefs has increased.

Figure 2: Average trading margin - major bank prefs and capital notes versus 5 year senior debt credit default swaps



SOURCES: IRESS, BLOOMBERG, BELL POTTER

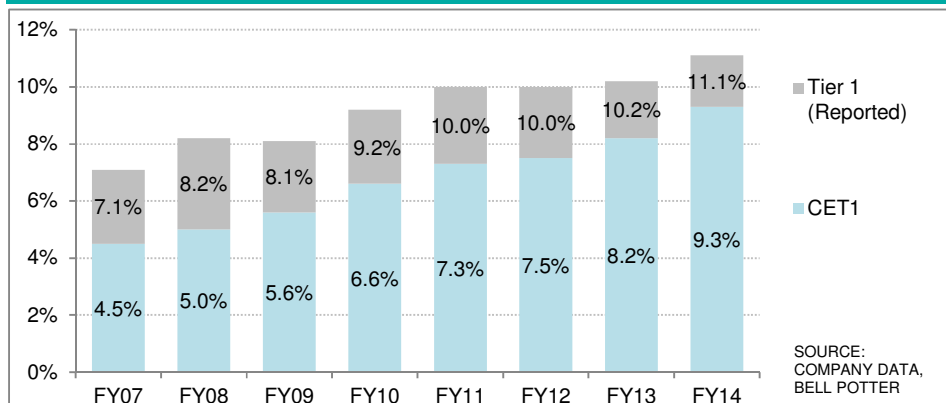
Hybrids: Buy / Hold / Sell

Reasons to Buy Hybrids

2. Strong bank capital levels

Basel III requirements to strengthen capital levels provide a more attractive risk profile for bank hybrids. CBA's Common Equity Tier 1 (CET1) capital has more than doubled since FY07 to stand at 9.3% at June 2014.

Figure 3: CBA Common Equity Tier 1 and Report Tier 1 Capital - FY07 to FY14



While the Capital Trigger Event applies if CET1 falls below 5.125%, it is currently unthinkable for the major banks to go below 8% CET1. Such a fall will force banks to cut discretionary payments to organically rebuild capital levels. Given most banks have a dividend payout ratio of ~75%, CET1 slipping below 8% will force banks to cut dividends.

Figure 4: Capital Conservation Buffer levels from 1 January 2016

CET1	% of earnings for discretionary payments
>8.000%	100%
7.125-8.000%	60%
6.250-7.125%	40%
5.375-6.250%	20%
4.500-5.375%	0%

SOURCE: CBA

3. Attractive risk / reward returns

On a risk / reward basis, bank hybrids provide an attractive uplift in yield versus what is available from other fixed income investments, such as Government bonds, corporate debt and bank deposits. In addition, wholesale funding margins continue to fall, as well as the margin over swap the banks pay for deposits. Over recent years, banks have increased deposit funding increasing to target levels. Given the strength of most issuers, investors are currently being rewarded with attractive premiums to go down the capital structure to achieve an uplift in yield.

Reason to Hold Hybrids

1. New supply may cap potential for sector to recover

While the market was desperate for new hybrid supply in July 2014, the impact of the market absorbing \$6.6bn of subsequent new issuance from bank and financial issuers has resulted in margins being pushed higher. The potential for ongoing new issuance as banks build capital levels has the potential to keep margins elevated in the near term.

Hybrids: Buy / Hold / Sell

Reasons to Sell Hybrids

1. Equity like risks but bond like returns

The moneysmart website states: "Some hybrid securities make investors take on 'equity like risk but only give them at best, 'bond-like' returns. Some have terms and conditions that allow the issuer to exit the deal or suspend interest payments when they choose. Others may convert into ordinary shares, or be written off completely if the issuer experiences financial difficulty."

This quote of equity like risks but bond like returns is frequently quoted in reports focusing on the risks of investing in hybrids.

Two key factors generally behind a material decline in a hybrid price are:

- a. Deteriorating financial metrics
- b. Movement in credit spread / margins

Deteriorating financial metrics

Deteriorating financial metrics create uncertainty that hybrid investor will receive face value of the hybrid at a set date in the future. The issuer may also take the decision to suspend hybrid dividends in an attempt to retain capital. Essentially hybrid investors need to be comfortable that the financial strength of the issuer is consistent with their risk profile.

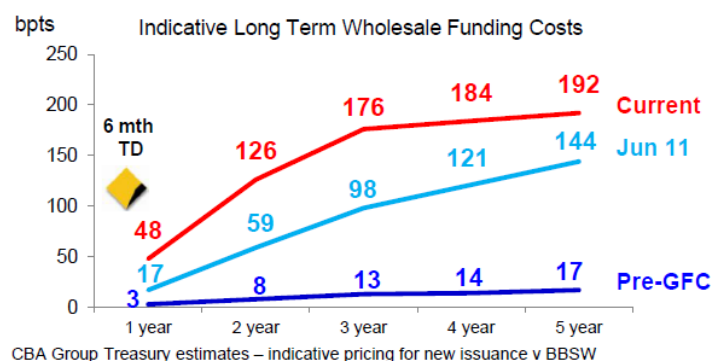
Default risk has been priced into hybrids such as PaperlinX (PXUPA) and Elders (ELDPA). High debt levels and poor profitability were key factors behind both issuers suspending hybrid dividends a couple of years ago.

Movement in credit spreads / margins

A repricing event such as the GFC resulted in a sharp increase in credit spreads as global capital markets repriced risk from unsustainable pre GFC lows. The GFC also resulted in increasing anxiety about the ability of corporates to access debt markets to refinance maturing debt.

The extent of the repricing can be seen in Figure 5 from the CBA 1H12 results where the cost of CBA floating rate senior debt increased from 17bp pre GFC at 192bp at Feb 2012. Repricing a 5 year floating rate note from 17bp to 192bp would see its value fall; from \$100.00 to \$92.22.

Figure 5: CBA funding costs at February 2012 versus pre GFC



Hybrids: Buy / Hold / Sell

Reasons to Sell Hybrids (continued)

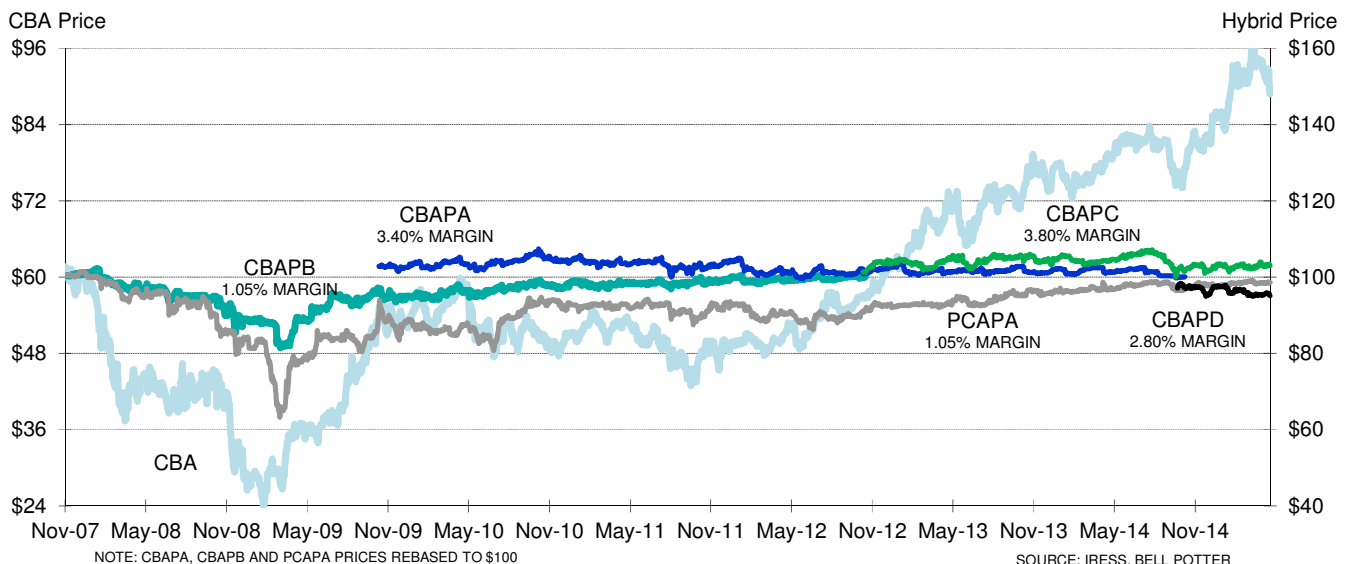
Hybrid price downside potential from movement in credit spreads / margins

If 5 year CBA senior debt has the potential to fall to this extent through a spike in credit spreads, lower ranking securities will suffer greater declines. CBAPB (PERLS IV) which was issued at a margin of 1.05% in July 2007 is the most comparable security to the Basel III compliant convertible preference shares and capital notes issued today. Both style of securities have a Mandatory Conversion Date, subject to the Mandatory Conversion Conditions being met. CBAPB hit an all time low of \$160.50 (19.75% decline) on 4 March 2009, which repriced this security to reflect the 3.80% WBCPB bookbuild margin.

PCAPA (PERLS III) which was issued at a margin of 1.05% in April 2006, has different conversion terms. If CBA does not wish to redeem or convert at the April 2016 step-up date, it has the option to apply a one-off step-up margin increase of 1.00%. With a conversion date of April 2046, this security fell to an all-time low of \$125.00 (37.5% decline) on 3 March 2009 as the market increasing priced in PCAPA as a perpetual security. Today this step-up risk is virtually gone as banks are in the process of replacing old style prefs with Basel III compliant Additional Tier 1 securities ahead of their reset / step-up / mandatory conversion dates.

Given hybrid markets remain elevated since the GFC, it would appear a major credit system shock would be required to push hybrid margins materially higher from current levels in the near term.

Figure 6: Performance of CBA, CBAPA, CBAPB, CBAPC, CBAPD, PCAPA since November 2007



2. Complexity

It is also easy to point out to investors the complexity involved with hybrids, particularly with the introduction of the Capital and Non Viability Trigger Events. Some investors may now believe that they are not being adequately compensated given the increased risk the Trigger Events place on hybrids. Ultimately what needs to be considered is it better to have Trigger Events on hybrids in conjunction with stronger capitalised banks under the Basel III requirements than no Trigger Events on banks with the capital levels held back in FY07.

Trading Margins - ASX listed debt & hybrids

Figure 7 tracks the average trading margins split across 5 sectors:

- * Financial Prefs (BENPD, BENPE, BOQPD, CGFPA, IAGPC, IANG, MBLPA, MQGPA, SUNPC, SUNPE)
- * Industrial Subordinated Debt (AGLHA, AQHHA, CTXHA, CWNHA, CWNHB, ORGHA, TAHHB)
- * Bank Prefs (ANZPA, ANZPC, ANZPD, ANZPE, ANZPF, CBAPC, CBAPD, NABPA, NABPB, NABPC, WBCPC, WBCPD, WBCPE)
- * Financial Subordinated Debt (AMPHA, AYUHA, CNGHA, SUNPD)
- * Bank Subordinated Debt (ANZHA, NABHB, WBCA, WBCHB).

Figure 7: Trading margins on ASX listed debt and hybrid sectors

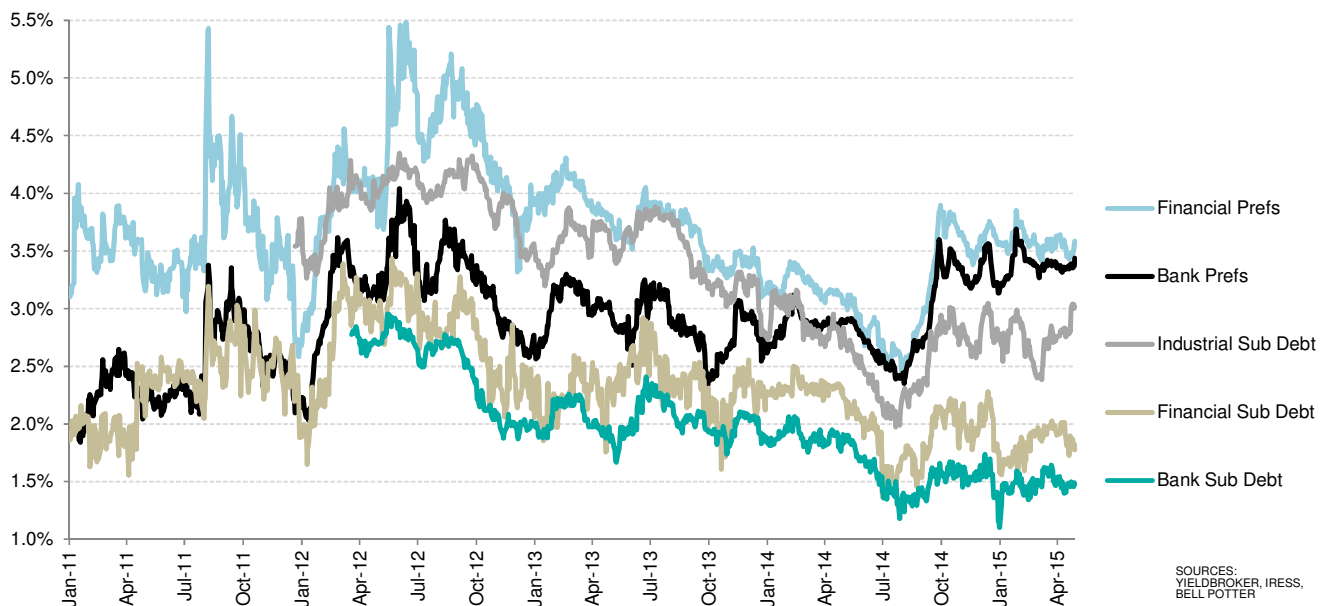


Figure 8: Attractive ASX listed debt and convertibles

ASX Code	Price 30-Apr-15	Fair Value	Rec	Trading Margin	Fair Margin	Trading Margin vs Fair Margin
ORGHA	\$101.00	\$102.67	Buy	3.84%	2.75%	1.09%
WCTPA	\$97.98	\$98.93	Buy	3.13%	2.25%	0.88%
BENPD	\$105.95	\$108.02	Buy	3.75%	2.90%	0.85%
NABPA	\$99.22	\$101.88	Buy	3.63%	2.85%	0.78%
BOQPD	\$104.01	\$106.13	Buy	3.72%	2.95%	0.77%
NABPB	\$98.38	\$101.96	Buy	3.76%	3.00%	0.76%
CWNHA	\$104.90	\$107.06	Buy	3.70%	3.00%	0.70%
WBCPD	\$99.70	\$102.03	Buy	3.54%	2.85%	0.69%
PCAPA	\$197.20	\$198.33	Buy	2.90%	2.25%	0.65%
CGFPA	\$98.34	\$101.06	Buy	4.04%	3.40%	0.64%
NABPC	\$100.11	\$102.77	Buy	3.63%	3.00%	0.63%
ANZPD	\$99.40	\$102.34	Buy	3.72%	3.15%	0.57%
SUNPC	\$104.05	\$105.39	Buy	3.35%	2.80%	0.55%
CWNHB	\$100.09	\$102.82	Buy	4.03%	3.50%	0.53%
BENPE	\$99.40	\$101.85	Buy	3.88%	3.35%	0.53%
ANZPC	\$101.00	\$102.05	Buy	3.09%	2.60%	0.49%
CBAPD	\$95.15	\$97.99	Buy	3.73%	3.25%	0.48%
MQGPA	\$103.60	\$104.86	Buy	3.70%	3.25%	0.45%
WBCPC	\$100.90	\$102.07	Buy	3.09%	2.65%	0.44%
ANZPE	\$98.20	\$100.64	Buy	3.69%	3.25%	0.44%
CBAHA	\$100.30	\$100.57	Buy	0.89%	0.45%	0.44%
GMPPA	\$102.80	\$103.77	Buy	2.93%	2.50%	0.43%
ANZPF	\$100.35	\$102.88	Buy	3.71%	3.30%	0.41%

Expensive ASX listed debt and convertibles

ASX Code	Price 30-Apr-15	Fair Value	Rec	Trading Margin	Fair Margin	Trading Margin vs Fair Margin
AMPHA	\$104.38	\$103.14	Sell	1.54%	1.90%	-0.36%
IMFHA	\$104.80	\$104.05	Hold	3.05%	3.25%	-0.20%
WOWHC	\$104.05	\$103.75	Hold	1.26%	1.45%	-0.19%
AGLHA	\$106.50	\$106.09	Hold	2.29%	2.40%	-0.11%
NABHB	\$103.48	\$103.29	Hold	1.36%	1.45%	-0.09%
AYUHA	\$102.00	\$101.92	Hold	1.72%	1.80%	-0.08%
WBCA	\$103.99	\$103.82	Hold	1.37%	1.45%	-0.08%
ANZHA	\$103.41	\$103.26	Hold	1.38%	1.45%	-0.07%
SUNPD	\$104.00	\$104.09	Hold	1.93%	1.90%	0.03%
CTXHA	\$105.80	\$105.91	Hold	2.30%	2.25%	0.05%
MBLPA	\$99.99	\$100.21	Hold	3.45%	3.40%	0.05%
AQHHA	\$106.00	\$106.35	Hold	2.48%	2.35%	0.13%
ANZPA	\$101.70	\$101.90	Hold	2.48%	2.35%	0.13%
WBCHB	\$102.48	\$102.89	Hold	1.78%	1.65%	0.13%
PRYHA	\$101.45	\$101.51	Hold	1.90%	1.75%	0.15%
TAHNB	\$103.58	\$103.91	Hold	2.38%	2.20%	0.18%
CNGHA	\$103.00	\$103.40	Hold	1.87%	1.65%	0.22%
IANG	\$103.99	\$105.10	Buy	3.22%	2.95%	0.27%
WBCPE	\$97.62	\$99.46	Buy	3.57%	3.25%	0.32%
IAGPC	\$101.75	\$102.38	Buy	3.09%	2.75%	0.34%
TTSHA	\$105.15	\$106.47	Buy	1.84%	1.50%	0.34%
SUNPE	\$99.90	\$101.44	Buy	3.61%	3.25%	0.36%
CBAPC	\$103.08	\$104.26	Buy	3.11%	2.75%	0.36%

SOURCES: IRESS, YIELDBROKER, BELL POTTER

Commonwealth Government Bonds

Figure 9: ASX Listed Commonwealth Government Guaranteed Bonds

Exchange-traded Treasury Bonds (eTBs)							ASX Quoted			ASX Quoted
ASX Code	Coupon Rate	Mat.Date	Bid Yield	Offer Yield	Cap.Price /\$100	Acc/int	Sett. Price/\$100	Cap.Price/\$100	Acc/int	Sett. Price/\$100
GSBS15	4.75	21-Oct-15	1.997	1.817	101.265	0.169	101.434	101.349	0.169	101.518
GSBK16	4.75	15-Jun-16	1.985	1.845	103.033	1.827	104.860	103.191	1.827	105.018
GSBC17	6.00	15-Feb-17	1.927	1.840	107.107	1.293	108.400	107.266	1.293	108.559
GSBM17	4.25	21-Jul-17	1.940	1.870	104.983	1.209	106.192	105.140	1.209	106.349
GSBA18	5.50	21-Jan-18	1.948	1.888	109.346	1.565	110.911	109.513	1.565	111.078
GSBE19	5.25	15-Mar-19	1.986	1.936	112.080	0.713	112.793	112.280	0.713	112.993
GSBG20	4.50	15-Apr-20	2.115	2.077	111.147	0.234	111.381	111.337	0.234	111.571
GSBU20	1.75	21-Nov-20	2.234	2.198	97.486	0.793	98.279	97.673	0.793	98.466
GSBI21	5.75	15-May-21	1.826	1.779	122.308	-0.175	122.133	122.614	-0.175	122.439
GSBM22	5.75	15-Jul-22	2.419	2.372	121.880	1.731	123.611	122.230	1.731	123.961
GSBG23	5.50	21-Apr-23	2.530	2.490	121.298	0.195	121.493	121.620	0.195	121.815
GSBG24	2.75	21-Apr-24	2.633	2.591	100.926	0.098	101.024	101.263	0.098	101.361
GSBG25	3.25	21-Apr-25	2.686	2.656	104.906	0.115	105.021	105.169	0.115	105.284
GSBG26	4.25	21-Apr-26	2.729	2.680	114.331	0.151	114.482	114.831	0.151	114.982
GSBG27	4.75	21-Apr-27	2.797	2.765	119.742	0.169	119.911	120.103	0.169	120.272
GSBG29	3.25	21-Apr-29	2.914	2.872	103.827	0.115	103.942	104.327	0.115	104.442
GSBG33	4.50	21-Apr-33	3.064	3.033	119.720	0.160	119.880	120.200	0.160	120.360
GSBK35	2.75	21-Jun-35	3.134	3.104	94.299	1.012	95.311	94.730	1.012	95.742
GSBG37	3.75	21-Apr-37	3.171	3.141	109.105	0.133	109.238	109.605	0.133	109.738

Investor information: http://www.asx.com.au/documents/products/AGB_Investor_Information_Statement_Exchange-traded_Treasury_Bonds.pdf

SOURCE: IRESS, YIELDBROKER, BELL POTTER

State Government Bonds

Figure 10: State Government Bonds

Issuer	Coupon Rate	Mat.Date	Yield to Mat.	Cap.Price/\$100	Acc/int	Sett. Price/\$100
NSW Treasury Corp.	6.50	1-Apr-16	2.180	103.903	0.533	104.436
NSW Treasury Corp.	4.00	20-Feb-17	2.170	103.222	0.773	103.996
NSW Treasury Corp.	6.00	1-Feb-18	2.210	110.069	1.475	111.544
NSW Treasury Corp.	3.50	20-Mar-19	2.270	104.548	0.399	104.948
NSW Treasury Corp.	6.00	1-May-20	2.330	117.227	0.000	117.227
NSW Treasury Corp.	4.00	8-Apr-21	2.720	106.973	0.251	107.224
NSW Treasury Corp.	6.00	1-Mar-22	2.780	119.912	0.995	120.907
NSW Treasury Corp.	4.00	20-Apr-23	2.920	107.629	0.120	107.749
NSW Treasury Corp.	5.00	20-Aug-24	3.010	116.044	0.967	117.010
NSW Treasury Corp.	4.00	20-May-26	3.110	108.269	1.790	110.059
NSW Treasury Corp.	6.00	1-May-30	3.300	131.742	0.000	131.742
Treasury Corporation of Victoria	2.75	10-Nov-15	2.270	100.249	1.307	101.555
Treasury Corporation of Victoria	5.75	15-Nov-16	2.150	105.419	2.653	108.072
Treasury Corporation of Victoria	3.50	17-Nov-17	2.210	103.174	1.595	104.769
Treasury Corporation of Victoria	5.50	15-Nov-18	2.260	110.958	2.537	113.496
Treasury Corporation of Victoria	6.00	15-Jun-20	2.350	117.519	2.258	119.778
Treasury Corporation of Victoria	6.00	17-Oct-22	2.850	121.038	0.230	121.267
Treasury Corporation of Victoria	5.50	17-Dec-24	3.010	120.677	2.040	122.717
Treasury Corporation of Victoria	5.50	17-Nov-26	3.100	123.140	2.507	125.647
Treasury Corporation of Victoria	4.75	20-Nov-30	3.350	116.861	2.126	118.987
Treasury Corporation of Victoria	4.25	20-Dec-32	3.440	110.641	1.541	112.182
Queensland Treasury Corp.	6.00	21-Apr-16	2.200	103.636	0.164	103.800
Queensland Treasury Corp.	3.50	21-Sep-17	2.220	102.960	0.390	103.350
Queensland Treasury Corp.	6.00	21-Feb-18	2.240	110.179	1.144	111.322
Queensland Treasury Corp.	4.00	21-Jun-19	2.290	106.715	1.440	108.155
Queensland Treasury Corp.	6.25	21-Feb-20	2.340	117.683	1.191	118.875
Queensland Treasury Corp.	5.50	21-Jun-21	2.780	115.253	1.979	117.232
Queensland Treasury Corp.	6.00	21-Jul-22	2.890	120.140	1.657	121.797
Queensland Treasury Corp.	4.25	21-Jul-23	3.010	108.970	1.174	110.144
Queensland Treasury Corp.	5.75	22-Jul-24	3.080	121.297	1.573	122.869
Queensland Treasury Corp.	4.75	21-Jul-25	3.190	113.514	1.312	114.826
Queensland Treasury Corp.	6.50	14-Mar-33	3.490	139.765	0.848	140.613
Western Australian Treasury Corp.	3.00	8-Jun-16	2.220	100.845	1.187	102.032
Western Australian Treasury Corp.	8.00	15-Jul-17	2.240	112.332	2.343	114.674
Western Australian Treasury Corp.	3.75	23-Oct-18	2.330	104.717	0.082	104.799
Western Australian Treasury Corp.	7.00	15-Oct-19	2.410	119.283	0.306	119.589
Western Australian Treasury Corp.	7.00	15-Jul-21	2.860	123.387	2.050	125.437
Western Australian Treasury Corp.	6.00	16-Oct-23	3.090	121.515	0.246	121.761
Western Australian Treasury Corp.	5.00	23-Jul-25	3.240	115.215	1.354	116.569
South Australia Finance Authority	5.75	20-Sep-17	2.170	108.278	0.656	108.934
South Australia Finance Authority	4.75	6-Aug-19	2.300	109.902	1.102	111.004
South Australia Finance Authority	5.00	20-May-21	2.760	112.406	2.238	114.643
South Australia Finance Authority	4.25	20-Nov-23	2.990	109.445	1.902	111.347
Tascorp	2.75	9-Nov-16	2.230	100.774	1.314	102.088
Tascorp	5.00	20-Sep-17	2.230	106.399	0.571	106.970
Tascorp	6.00	14-Jun-20	2.420	117.142	2.275	119.416
Tascorp	4.25	8-Mar-22	2.880	108.462	0.624	109.086
Tascorp	4.00	11-Jun-24	3.150	106.685	1.549	108.235

Futures Contracts

Bank Bill 90	97.89	2.11
3yr bond	98.08	1.92
10yr bond	97.33	2.67

Prices as at 01-May-15

yields quoted are indicative and subject to market movements

SOURCE: IRESS, YIELDBROKER, BELL POTTER

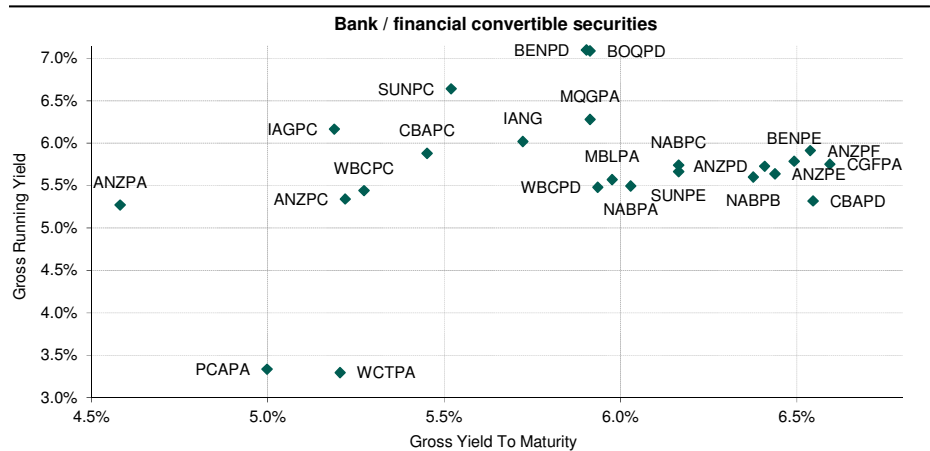
Quantitative Overview

Below we have split the coverage universe into 3 groups to enable comparison on both a gross yield to maturity and gross running yield basis. On a pure quantitative basis, the securities further right and higher in the chart offer the most attractive returns, while those sitting in the bottom left are the most expensive.

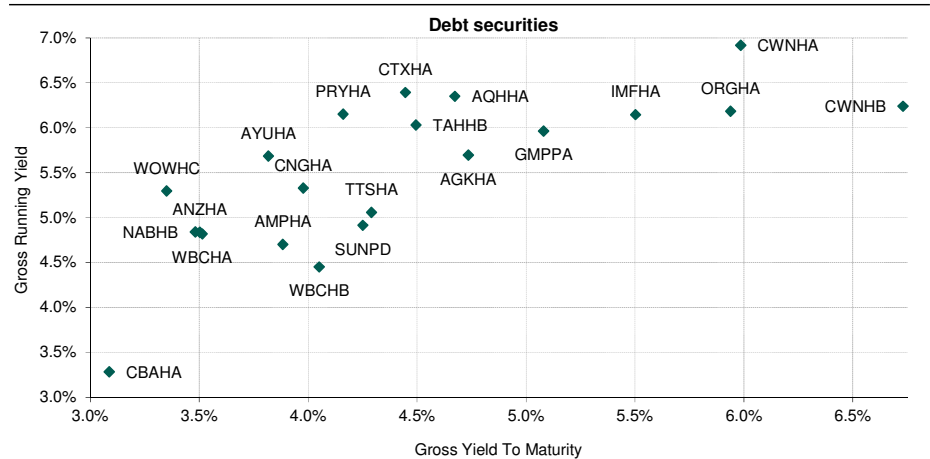
Investors do need to consider our qualitative overlay for the inherent risks associated with each security.

Figure 11: Quantitative overview at 30 April 2015

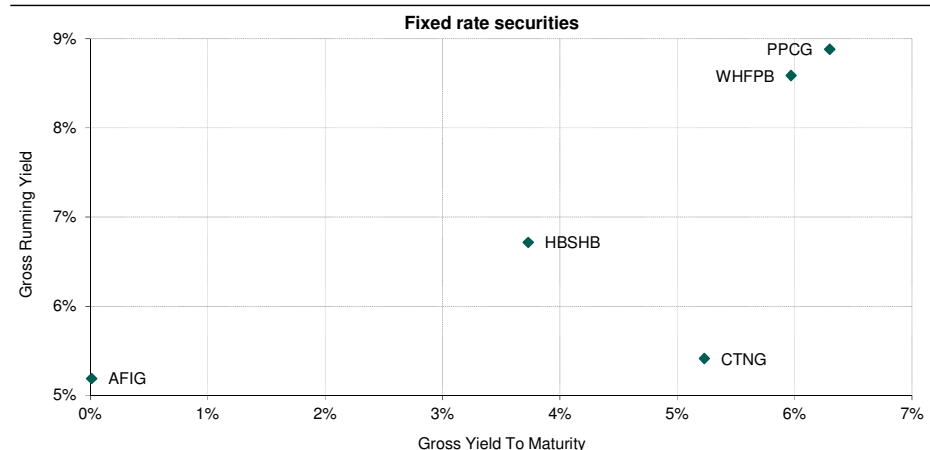
On a quantitative basis, CGFPA offers value



The new CWNHB issue offers the highest yield to maturity of the ASX listed debt securities



PPCG and WHFPB are the most attractive on a quant basis. The low yield to maturity on AFIG is compensated by over \$14 of option value.



SOURCE: IRESS, BELL POTTER

Figure 12: Summary table

Floating rate convertible securities

Issue	ASX Code	Price	Fair Value	Rec	Risk Rating	Trading Margin	Fair Margin	Face Value	Mkt Cap	Call Date	Conv Method	Ex Div	Div Pay	Amt	Frank	Div Freq	Accrued Income	Swap Rate	Gross Yield	
ANZ CFS2	90BBSW+310bp0.7	ANZPA	\$101.70	\$101.90	Hold	Low	2.48%	\$100	\$2,002	Dec-16	Mand Conv	26-May-15	15-Jun-15	\$0.95	100%	Q	\$0.52	2.10%	4.58%	5.27%
ANZ CFS3	180BBSW+310bp0.7	ANZPC	\$101.00	\$102.05	Buy	Low	3.09%	\$100	\$1,353	Sep-17	Mand Conv	13-Aug-15	1-Sep-15	\$1.90	100%	HY	\$0.66	2.13%	5.22%	5.34%
ANZ CAP NTS	180BBSW+340bp0.7	ANZPD	\$99.40	\$102.34	Buy	Low	3.72%	\$100	\$1,113	Sep-21	Mand Conv	20-Aug-15	1-Sep-15	\$2.01	100%	HY	\$0.70	2.69%	6.41%	5.73%
ANZ CAP NT2	180BBSW+325bp0.7	ANZPE	\$98.20	\$100.64	Buy	Low	3.69%	\$100	\$1,581	Mar-22	Mand Conv	14-Sep-15	24-Sep-15	\$1.96	100%	HY	\$0.45	2.75%	6.44%	5.64%
ANZ CAP NT3	180BBSW+360bp0.7	ANZPF	\$100.35	\$102.88	Buy	Low	3.71%	\$100	\$974	Mar-23	Mand Conv	14-Sep-15	24-Sep-15	\$2.33	100%	HY	\$0.70	2.83%	6.54%	5.91%
BEN CFS	180BBSW+500bp0.7	BENPD	\$105.95	\$108.02	Buy	Low	3.75%	\$100	\$285	Dec-17	Mand Conv	26-May-15	15-Jun-15	\$2.71	100%	HY	\$2.10	2.16%	5.90%	7.10%
BEN CFS2	180BBSW+320bp0.7	BENPE	\$99.40	\$101.85	Buy	Low	3.88%	\$100	\$290	Nov-20	Mand Conv	18-May-15	1-Jun-15	\$2.10	100%	HY	\$1.79	2.61%	6.49%	5.79%
BOQ CFS	180BBSW+510bp0.7	BOQPD	\$104.01	\$106.13	Buy	Low	3.72%	\$100	\$312	Apr-18	Mand Conv	25-Sep-15	15-Oct-15	\$2.59	100%	HY	\$0.28	2.19%	5.91%	7.09%
CBA PERLS V1	90BBSW+380bp0.7	CBA1PC	\$103.08	\$104.26	Buy	Low	3.11%	\$100	\$2,062	Dec-18	Mand Conv	3-Jun-15	15-Jun-15	\$1.08	100%	Q	\$0.59	2.34%	5.45%	5.88%
CBA PERLS V7	90BBSW+280bp0.7	CBA1PD	\$95.15	\$97.99	Buy	Low	3.73%	\$100	\$2,855	Dec-22	Mand Conv	3-Jun-15	15-Jun-15	\$0.90	100%	Q	\$0.49	2.81%	6.55%	5.32%
CGF CAP NTS	90BBSW+340bp0.7	CGFPA	\$98.34	\$101.06	Buy	Low	4.04%	\$100	\$339	May-20	Mand Conv	13-May-15	25-May-15	\$1.07	70%	Q	\$0.83	2.55%	6.59%	5.75%
IAG CFS	180BBSW+400bp0.7	IAGPC	\$101.75	\$102.38	Buy	Low	3.09%	\$100	\$384	May-17	Mand Conv	22-Oct-15	2-Nov-15	\$2.22	100%	HY	\$0.05	2.10%	5.19%	6.16%
IAG RES	90BBSW+400bp0.7	IANG	\$103.99	\$105.10	Buy	Low	3.22%	\$100	\$572	Dec-19	Redeem/Reset	3-Jun-15	15-Jun-15	\$1.10	100%	Q	\$0.61	2.50%	5.72%	6.02%
MBL CAP NTS	180BBSW+330bp0.7	MBLPA	\$99.99	\$100.21	Hold	Low	3.45%	\$100	\$429	Mar-20	Mand Conv	14-Sep-15	24-Sep-15	\$2.40	40%	HY	\$0.55	2.52%	5.98%	5.57%
MQG CAP NTS	180BBSW+400bp0.7	MQGPA	\$103.60	\$104.86	Buy	Low	3.70%	\$100	\$622	Jun-18	Mand Conv	27-May-15	9-Jun-15	\$2.88	40%	HY	\$2.33	2.21%	5.93%	6.28%
NAB CFS	90BBSW+320bp0.7	NABPA	\$99.22	\$101.88	Buy	Low	3.63%	\$100	\$1,503	Mar-19	Mand Conv	2-Jun-15	22-Jun-15	\$0.99	100%	Q	\$0.48	2.40%	6.01%	5.49%
NAB CFS II	90BBSW+325bp0.7	NABPB	\$98.38	\$101.96	Buy	Low	3.76%	\$100	\$1,689	Dec-20	Mand Conv	28-May-15	17-Jun-15	\$0.98	100%	Q	\$0.52	2.61%	6.38%	5.60%
NAB CAP NTS	90BBSW+350bp0.7	NABPC	\$100.11	\$102.77	Buy	Low	3.63%	\$100	\$1,344	Mar-20	Mand Conv	11-Jun-15	23-Jun-15	\$1.02	100%	Q	\$0.48	2.53%	6.16%	5.74%
SUN CFS2	90BBSW+465bp0.7	SUNPC	\$104.05	\$105.39	Buy	Low	3.35%	\$100	\$583	Dec-17	Mand Conv	5-Jun-15	17-Jun-15	\$1.23	100%	Q	\$0.65	2.17%	5.52%	6.64%
SUN CFS3	90BBSW+340bp0.7	SUNPE	\$99.90	\$101.44	Buy	Low	3.61%	\$100	\$400	Jun-20	Mand Conv	29-May-15	17-Jun-15	\$1.01	100%	Q	\$0.54	2.56%	6.16%	5.66%
WBC CFS	180BBSW+325bp0.7	WBCPC	\$100.90	\$102.07	Buy	Low	3.09%	\$100	\$1,200	Mar-18	Mand Conv	18-Sep-15	30-Sep-15	\$1.91	100%	HY	\$0.37	2.18%	5.27%	5.44%
WBC CAP NTS	90BBSW+320bp0.7	WBCPD	\$99.70	\$102.03	Buy	Low	3.54%	\$100	\$1,379	Mar-19	Mand Conv	27-May-15	9-Jun-15	\$0.98	100%	Q	\$0.59	2.40%	5.94%	5.48%
WBC CAP NT2	90BBSW+305bp0.7	WBCPE	\$97.62	\$99.46	Buy	Low	3.57%	\$100	\$1,279	Sep-22	Mand Conv	11-Jun-15	23-Jun-15	\$0.94	100%	Q	\$0.44	2.79%	6.36%	5.42%

Floating rate step-up preference securities

Issue	ASX Code	Price	Fair Value	Rec	Risk Rating	Trading Margin	Fair Margin	Face Value	Mkt Cap	Call Date	Conv Method	Ex Div	Div Pay	Amt	Frank	Div Freq	Accrued Income	Swap Rate	Gross Yield	
BEN FS	90BBSW+150bp0.7	BENFB	\$100.06	\$100.54	Buy	Low	5.98%	\$100	\$90	Jun-15	Step-Up	20-May-15	15-Jun-15	\$0.67	100%	Q	\$0.37	2.24%	8.22%	3.74%
CBA PERLS III	90BBSW+105bp0.7	PCAIPA	\$197.20	\$198.33	Buy	Low	2.90%	\$200	\$1,150	Apr-16	Step-Up	24-Jun-15	6-Jul-15	\$1.10	100%	Q	\$0.34	2.10%	5.00%	3.31%
WBC TPS	90BBSW+100bp0.7	WCTPA	\$97.98	\$98.93	Buy	Low	3.13%	\$100	\$747	Jun-16	Step-Up	11-Jun-15	30-Jun-15	\$0.56	100%	Q	\$0.21	2.08%	5.21%	3.29%

Floating rate perpetual securities

Issue	ASX Code	Price	Fair Value	Rec	Risk Rating	Trading Margin	Fair Margin	Face Value	Mkt Cap	Call Date	Conv Method	Ex Div	Div Pay	Amt	Frank	Div Freq	Accrued Income	Swap Rate	Gross Yield	
ELD HYBRIDS	90BBSW+470bp0.7	ELDPA	\$68.00	\$67.50	Hold	Spec	n/a	\$100	\$102	n/a	n/a	n/a	n/a	n/a	n/a	Q	\$0.00	2.24%	n/a	0.00%
MQG INC SEC	90BBSW+170bp	MBLHB	\$78.10	\$84.22	Buy	High	n/a	\$100	\$312	n/a	n/a	26-Jun-15	15-Jul-15	\$0.99	0%	Q	\$0.22	2.24%	n/a	5.05%
MXG SITES	90BBSW+390bp	MXLUPA	\$89.50	\$91.12	Hold	High	n/a	\$100	\$403	n/a	n/a	26-Jun-15	15-Jul-15	\$1.52	0%	Q	\$0.30	2.24%	n/a	6.86%
NAB INC SEC	90BBSW+125bp	NABHA	\$76.70	\$83.06	Buy	Medium	n/a	\$100	\$1,534	n/a	n/a	29-Jul-15	15-Aug-15	\$0.88	0%	Q	-\$0.10	2.24%	n/a	4.55%
NUF STEP-UP	180BBSW+390bp	NFNFG	\$86.00	\$85.56	Hold	High	n/a	\$100	\$216	n/a	n/a	2-Oct-15	15-Oct-15	\$3.09	0%	HY	\$0.34	2.27%	n/a	7.17%
PaperlinX SPS	180BBSW+465bp	PXLUPA	\$8.50	\$10.00	Hold	Spec	n/a	\$100	\$23	n/a	n/a	n/a	n/a	n/a	n/a	HY	\$0.00	2.27%	n/a	0.00%
RHC CARES	180BBSW+485bp0.7	RHCOPA	\$105.50	\$105.93	Hold	High	n/a	\$100	\$274	n/a	n/a	1-Oct-15	20-Oct-15	\$2.50	100%	HY	\$0.20	2.27%	n/a	6.97%
SUN CAP NTS	90BBSW+75bp	SBKHB	\$76.80	\$77.20	Hold	High	n/a	\$100	\$55	n/a	n/a	13-May-15	1-Jun-15	\$0.75	0%	Q	\$0.53	2.24%	n/a	3.92%
SEV TEL Y54	180BBSW+475bp0.7	SWWPA	\$87.50	\$96.93	Buy	High	n/a	\$100	\$434	n/a	n/a	13-May-15	1-Jun-15	\$2.64	100%	HY	\$2.25	2.27%	n/a	8.33%

SOURCE: IRESS, BELL POTTER

Prices as at 30 April 2015.

Floating rate debt securities

Issue	Details	ASX Code	Price	Fair Value	Rec	Risk Rating	Trading Margin	Fair Margin	Face Value	Mkt Cap	Call Date	Conv Method	Ex Div	Div Pay	Amnt	Frank	Div Freq	Accrued Income	Swap Rate	Gross Yield	Gross Run Yld
AGL NOTES	90BBSW+380bp	AGLHA	\$106.50	\$106.09	Hold	Low	2.29%	2.40%	\$100	\$692	Jun-19	Redeem	27-May-15	9-Jun-15	\$1.55	0%	Q	\$0.96	2.44%	4.74%	5.69%
AMP NOTES 2	90BBSW+265bp	AMPHA	\$104.38	\$103.14	Sell	Low	1.54%	1.90%	\$100	\$339	Dec-18	Redeem	5-Jun-15	18-Jun-15	\$1.25	0%	Q	\$0.65	2.34%	3.89%	4.70%
ANZ NOTES	90BBSW+275bp	ANZHA	\$103.41	\$103.26	Hold	Low	1.38%	1.45%	\$100	\$1,560	Jun-17	Redeem	10-Jun-15	22-Jun-15	\$1.30	0%	Q	\$0.63	2.13%	3.50%	4.84%
APA NOTES	90BBSW+450bp	AQHHA	\$106.00	\$106.35	Hold	Low	2.48%	2.35%	\$100	\$546	Mar-18	Redeem	18-Jun-15	30-Jun-15	\$1.67	0%	Q	\$0.64	2.20%	4.67%	6.35%
AYU NOTES	90BBSW+355bp	AYUHA	\$102.00	\$101.92	Hold	Low	1.72%	1.80%	\$100	\$122	Apr-16	Redeem	2-Jul-15	14-Jul-15	\$1.45	0%	Q	\$0.33	2.10%	3.82%	5.68%
CBA BONDS	90BBSW+105bp	CBAHA	\$100.30	\$100.57	Buy	Low	0.89%	0.45%	\$100	\$572	Dec-15	Redeem	3-Jul-15	15-Jul-15	\$0.83	0%	Q	\$0.18	2.20%	3.09%	3.28%
COL NOTES	90BBSW+325bp	CNGHA	\$103.00	\$103.40	Hold	Low	1.87%	1.65%	\$100	\$1,030	Mar-17	Redeem	18-Jun-15	30-Jun-15	\$1.30	0%	Q	\$0.53	2.11%	3.98%	5.33%
CTX NOTES	90BBSW+450bp	CTXHA	\$105.80	\$105.91	Hold	Low	2.30%	2.25%	\$100	\$582	Sep-17	Redeem	3-Jun-15	15-Jun-15	\$1.78	0%	Q	\$0.93	2.15%	4.45%	6.39%
CWN NOTES	90BBSW+500bp	CWNHA	\$104.90	\$107.06	Buy	Low	3.70%	3.00%	\$100	\$558	Sep-18	Redeem	3-Jun-15	15-Jun-15	\$1.82	0%	Q	\$1.00	2.29%	5.99%	6.92%
CWN NOTES II	90BBSW+400bp	CWNHB	\$100.09	\$102.82	Buy	Low	4.03%	3.50%	\$100	\$631	Jul-21	Redeem	3-Jun-15	15-Jun-15	\$0.91	0%	Q	\$0.21	2.70%	6.73%	6.24%
GMG PLUS	90BBSW+390bp	GMPPA	\$102.80	\$103.77	Buy	Low	2.93%	2.50%	\$100	\$336	Sep-17	Redeem	18-Jun-15	30-Jun-15	\$1.52	0%	Q	\$0.58	2.15%	5.08%	5.96%
IMF BONDS	90BBSW+420bp	IMFHA	\$104.80	\$104.05	Hold	Medium	3.05%	3.25%	\$100	\$52	Jun-19	Redeem	26-Jun-15	8-Jul-15	\$1.61	0%	Q	\$0.48	2.45%	5.50%	6.15%
NAB NOTES	90BBSW+275bp	NABHB	\$103.48	\$103.29	Hold	Low	1.36%	1.45%	\$100	\$1,213	Jun-17	Redeem	5-Jun-15	18-Jun-15	\$1.28	0%	Q	\$0.67	2.13%	3.48%	4.84%
ORG NOTES	90BBSW+400bp	ORGHA	\$101.00	\$102.67	Buy	Low	3.84%	2.75%	\$100	\$909	Dec-16	Redeem	10-Jun-15	22-Jun-15	\$1.56	0%	Q	\$0.74	2.10%	5.94%	6.18%
PRY BONDS	90BBSW+400bp	PRYHA	\$101.45	\$101.51	Hold	Low	1.90%	1.75%	\$100	\$154	Sep-15	Redeem	17-Jun-15	29-Jun-15	\$1.57	0%	Q	\$0.61	2.26%	4.16%	6.15%
SUN NOTES	90BBSW+285bp	SUNPD	\$104.00	\$104.09	Hold	Low	1.93%	1.90%	\$100	\$801	Nov-18	Redeem	12-May-15	22-May-15	\$1.25	0%	Q	\$1.01	2.32%	4.25%	4.91%
TAB NOTES	90BBSW+400bp	TAHNB	\$103.58	\$103.91	Hold	Low	2.38%	2.20%	\$100	\$259	Mar-17	Redeem	10-Jun-15	22-Jun-15	\$1.56	0%	Q	\$0.74	2.11%	4.50%	6.03%
TATTS BONDS	90BBSW+310bp	TTSHA	\$105.15	\$106.47	Buy	Low	1.84%	1.50%	\$100	\$205	Jul-19	Redeem	24-Jun-15	6-Jul-15	\$1.29	0%	Q	\$0.40	2.45%	4.29%	5.06%
WBC NOTES	90BBSW+275bp	WBCHA	\$103.99	\$103.82	Hold	Low	1.37%	1.45%	\$100	\$1,743	Aug-17	Redeem	13-May-15	25-May-15	\$1.24	0%	Q	\$0.99	2.14%	3.51%	4.82%
WBC NOTES II	90BBSW+230bp	WBCHB	\$102.48	\$102.89	Hold	Low	1.78%	1.65%	\$100	\$948	Aug-18	Redeem	12-May-15	22-May-15	\$1.13	0%	Q	\$0.90	2.27%	4.05%	4.45%
WOW NOTES II	90BBSW+325bp	WOWHC	\$104.05	\$103.75	Hold	Low	1.26%	1.45%	\$100	\$729	Nov-16	Redeem	13-May-15	25-May-15	\$1.37	0%	Q	\$1.07	2.10%	3.35%	5.29%

Fixed rate issues

Issue	Details	ASX Code	Price	Fair Value	Rec	Risk Rating	Trading Margin	Fair Margin	Face Value	Mkt Cap	Call Date	Conv Method	Ex Div	Div Pay	Amnt	Frank	Div Freq	Accrued Income	Swap Rate	Gross Yield	Gross Run Yld
AFC NOTES	6.25% Unfranked	AFIG	\$120.49	\$120.83	Hold	Low	-6.01%	0.70%	\$100	\$268	Feb-17	Redeem	14-Aug-15	28-Aug-15	\$3.15	0%	HY	\$1.10	2.20%	-3.81%	5.19%
CTN NOTES	5.50% Unfranked	CTNG	\$101.65	\$103.40	Hold	Medium	2.69%	2.95%	\$100	\$27	Mar-20	Redeem	22-Sep-15	30-Sep-15	\$2.76	0%	HY	\$0.53	2.55%	5.23%	5.41%
HBS BONDS	7.25% Unfranked	HBSHB	\$108.00	\$107.72	Hold	Low	1.60%	1.65%	\$100	\$246	Jun-17	Redeem	10-Jun-15	22-Jun-15	\$1.87	0%	Q	\$0.91	2.13%	3.73%	6.71%
PEET NOTES	9.5% Unfranked	PPCG	\$107.00	\$106.45	Hold	High	4.21%	4.50%	\$100	\$54	Jun-16	Redeem	3-Jun-15	16-Jun-15	\$4.74	0%	HY	\$3.64	2.09%	6.30%	8.88%
WHF RP	7.00% Fully Franked	WHFFB	\$116.50	\$120.07	Buy	Low	3.47%	2.45%	\$100	\$47	Nov-18	Redeem/Reset	20-May-15	12-Jun-15	\$3.50	100%	HY	\$2.75	2.50%	5.97%	8.58%

Reference Rates	30-Apr-15
30 Day BBSW	2.220%
60 Day BBSW	2.230%
90 Day BBSW	2.240%
120 Day BBSW	2.250%
150 Day BBSW	2.260%
180 Day BBSW	2.270%
1 Year Sw ap	2.085%
2 Year Sw ap	2.123%
3 Year Sw ap	2.213%
4 Year Sw ap	2.400%
5 Year Sw ap	2.545%
7 Year Sw ap	2.763%
10 Year Sw ap	2.988%

Gross Yield to Maturity: Annualised internal rate of return on the security's cash flows, factoring in income returns for future interest / dividend payments grossed up for franking credits, and the capital gain/loss from the purchase (current) price of the security and the face value of the security at the first call date. The Swap Rate applied is based on the Swap Curve.

Trading Margin: Gross Yield to Maturity less Swap Rate applied.

Fair Margin: Bell Potter assessed fair valuation margin, which takes into considerations factors such as trading margins of debt securities in the wholesale debt markets, security ranking, and certainty of redemption at a set future date.

Gross Running Yield: Forecast dividend income over next 12 months, based on next declared interest / dividend payment and future payments based on current BBSW.

SOURCE: iRESS BELL POTTER

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