

Westpac New Zealand Ltd.'s Issuance Of Perpetual Preference Shares Rated 'BBB+'

August 26, 2024

MELBOURNE (S&P Global Ratings) Aug. 26, 2024--S&P Global Ratings today assigned its 'BBB+' long-term issue rating to Westpac New Zealand Ltd.'s issuance of perpetual preference shares. The shares will likely qualify as additional tier 1 (AT1) capital for the bank.

We rate the perpetual preference shares (PPS) four notches below our 'AA-' long-term issuer credit rating on Westpac New Zealand Ltd. (WNZL; AA-/Stable/A-1+). This reflects:

- One notch for the subordinated status of the AT1 instrument.
- Two notches for the risk of partial or untimely distribution payment; and
- One notch for our expectation that the Australian government is unlikely to support the PPS.

We typically would deduct an additional notch when rating AT1 instruments issued in Basel III jurisdictions. We didn't in this case because the AT1 instruments that New Zealand banks issue do not have mandatory contingent capital features such as conversion to common equity or the write-down of principal under distress. These features are in line with the Reserve Bank of New Zealand's revised capital standards that came into effect in July 2022.

We expect WNZL's parent, Westpac Banking Corp. (WBC; AA-/Stable/A-1+), to support the PPS based on its stand-alone credit strength, if needed. This is because we consider WNZL to be a core subsidiary of the WBC group.

The PPS have intermediate equity content in our assessment of WNZL's capitalization. This reflects our view that the instrument can absorb losses or conserve cash, if needed, through a deferral of distribution, without causing a default or windup.

In addition, the PPS will likely remain a part of WNZL's capital structure for a long time. We also believe if the bank redeems the shares, it will replace them with instruments of equivalent or higher capital strength.

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Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021

Westpac New Zealand Ltd.'s Issuance Of Perpetual Preference Shares Rated 'BBB+'

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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