

ANZ Bank New Zealand Perpetual Preference Shares Under New Regulatory Standards Rated 'BBB'

June 22, 2022

SYDNEY (S&P Global Ratings) June 23, 2022--S&P Global Ratings today said it has assigned its 'BBB' issue rating to ANZ Bank New Zealand Ltd.'s (ANZ NZ) perpetual preference shares (PPS).

ANZ NZ is planning to issue Additional Tier 1 (AT1) capital in the form of PPS under the Reserve Bank of New Zealand's (RBNZ) revised capital standards. The proposed notes are unusual by international comparison, as they do not have a mandatory contingent capital clause leading to common-equity conversion or a principal write-down. Nevertheless, like other typical AT1 capital instruments, in liquidation the notes will rank below senior-ranking debt issued by ANZ NZ.

As such, we rate the new PPS three notches below the 'a' group stand-alone credit profile (SACP) of Australia and New Zealand Banking Group Ltd. (ANZ), reflecting:

- One notch for the notes' subordinated status; and
- Two notches for the risk of partial or untimely payment.

We do not deduct any further notches because the notes do not have a mandatory contingent capital clause leading to common-equity conversion or a principal write-down, or coupon deferral features.

We note that under the legislation, the RBNZ may bail in the AT1 instruments without triggering a default on the senior debt. Nevertheless, we consider that this legislative power does not create an equivalent of a mandatory contingent capital clause leading to common-equity conversion or a principal write-down.

The starting point for our ratings on ANZ NZ's PPS is the ANZ group SACP because we believe that: i) these instruments may absorb losses without triggering a default on the senior debt; ii) the ANZ group will support all of ANZ NZ's obligations--including subordinated debt and hybrid issues--as if they were ANZ's own obligations; and, iii) the Australian government is unlikely to extend any financial support to these instruments, if needed.

We have assessed the proposed issue as having intermediate equity content, reflecting our view that the notes would be able to absorb losses or conserve cash, if needed, through nonpayment (including noncumulative deferral) of dividends without causing a default or windup of the bank. In addition, we expect that ANZ NZ's PPS or its equivalent or stronger equity content replacement will remain part of NAB's capital structure for a long time.

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Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- 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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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