

# Bank of New Zealand Perpetual Preference Shares Rated 'BBB'

May 25, 2023

MELBOURNE (S&P Global Ratings) May 26, 2023--S&P Global Ratings today assigned its 'BBB' long-term issue credit rating to Bank of New Zealand's perpetual preference shares. The shares will likely qualify as Additional Tier 1 (AT1) capital for the New Zealand bank.

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

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

We do not deduct an additional notch, unlike our typical treatment when rating AT1 instruments issued in Basel III jurisdictions. This is 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. This follows revised capital standards by the Reserve Bank of New Zealand in July 2022.

We expect BNZ's parent, National Australia Bank Ltd. (NAB; AA-/Stable/A-1+), to support the PPS based on its stand-alone credit strength, if needed. This is because we consider BNZ to be a core subsidiary of the NAB group.

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

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

## PRIMARY CREDIT ANALYST

**Lisa Barrett**  
Melbourne  
+ 61 3 9631 2081  
lisa.barrett  
@spglobal.com

## SECONDARY CONTACTS

**Nico N DeLange**  
Sydney  
+ 61 2 9255 9887  
nico.delange  
@spglobal.com

**Sharad Jain**  
Melbourne  
+ 61 3 9631 2077  
sharad.jain  
@spglobal.com

## Related Criteria

- 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
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10,

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2021

- 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

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