

# Fixed Interest Report

## RBNZ Removes Redemption Restrictions

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The Reserve Bank of New Zealand (RBNZ) has now lifted the temporary redemption restriction on New Zealand registered banks redeeming Capital Securities. The restriction was put in place in April 2020 until 31 March 2021 in response to New Zealand's COVID-19 lockdown and the uncertain economic outlook.

**Figure 1. Capital Securities impacted**

Issuer / Security	NZX Code	Amount on issue	Coupon	Freq	Next Coupon Payment	Call / Reset	Comment re potential call
ANZ	ANBHB	NZ\$500m	3.79%	Qtly	25/05/2021	25/05/22	Potentially via a 'Regulatory Event' clause
Kiwibank	KCFHA	NZ\$150m	3.99%	Qtly	27/05/2021	27/05/22	Potentially via a 'Regulatory Event' clause
ASB Sub Notes #2	ABB050	NZ\$400m	5.25%	Qtly	15/06/2021	15/12/21	First call date in December 2021
BNZ Sub Notes	BNZ090	NZ\$550m	2.73%	Qtly	17/06/2021	17/12/25	Can call on any coupon payment date

Source: Forsyth Barr analysis, WBC010 issued by parent

### Permission still required

Whilst the RBNZ has lifted the restriction on redeeming Capital Securities, banks must first seek approval from the RBNZ. The RBNZ has stated that it "intends to take a cautious view around the capital levels that would prevail after redemption". The RBNZ has restricted ordinary bank dividends to 50% of earnings, which would be favourable, in our view, to granting permission if sought.

### New regime on track

The 1 July 2021 commencement date for new Capital Securities remains intact. From this date banks can apply for recognition of new qualifying Capital Securities. The RBNZ has removed the ability for banks to use loss absorbing features and hence the current crop of Capital Securities will begin to be de-recognised from 1 July 2021, further enhancing the incentive to redeem.

It's still a 'grey' area as to the timing of possible redemption of the four Capital Securities (as in Figure 1). In our view ANZ and BNZ would be the most keen to get their respective instruments redeemed.

ANZ faces a 'Mandatory Conversion' date in May 2022 where its NZ\$500m of Additional Tier One Capital Securities (**ANBHB**) will be converted into ordinary shares (assuming certain conditions are met). We, therefore, believe ANZ will be very keen to redeem its NZ\$500m of ANBHB Additional Tier One Capital Securities once permission is granted.

In our view BNZ would also likely to be one of the first in line to ask for redemption permission. The NZ\$550m of subordinated notes (**BNZ090**) were due to be called in December 2020, however, the redemption restrictions saw BNZ090 'rolled over' for a further five years. BNZ090 can be called on any coupon payment date from December 2020 at par.

Kiwibank has been proactive in this sector issuing a Tier 2 security in December 2020 that will remain on issue post the 1 July 2021 transition date. We believe that Kiwibank may also be proactive in dealing with its NZ\$150m Additional Tier One security – **KCFHA** and seek redemption sooner rather than later. Its May 2021 coupon payment date appears to be a sensible option for redemption.

ASB has some time on its hands if it chooses, with **ABB050**'s first call date occurring in December 2021.

The next couple of months may be an interesting time in the New Zealand debt market if the banks begin to redeem the Capital Securities given their size. It is possible that banks may wait until the new rules are in place and redeem and reissue post 1 July 2021. Regardless of the precise timing, 2021 looks to be a busy one on the redemption front.

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