FIPS

Non-bank Financial Institutions Performance Survey – Review of 2021

Growth in profits
3.24%
Increase in NPAT

Decline in net interest margins
66bps
decrease in NIM

Lower net interest income
8.27%
drop in net interest income

Flat lending growth
0.62%
rise in gross lending

Less provisioning
2.73%
decrease in provisions

Fewer write-offs
34.14%
decrease in impairment expense

Contents

KPMG's Financial Services team provides focused and practical audit, tax and advisory services to the insurance, retail banking, corporate and investment banking, and investment management sectors.

Our professionals have an in-depth understanding of the key issues facing financial institutions.

Our team is led by senior partners with a wealth of client experience and relationships with many of the market players, regulators and leading industry bodies.

The Survey

Welcome to the 2021 edition of the Non-bank Financial Institutions Performance Survey review.

Our survey of non-bank financial institutions captures the financial performance of entities with annual balance dates between 1 October 2020 and 30 September 2021. The threshold for inclusion in this year's survey continues to be based on total assets of $75 million or more in one of the last two years.

Most information used to compile this survey is extracted from publicly available annual reports for each financial institution. A limited number of survey participants provided us with audited financial statements that might not otherwise be publicly available.

The non-bank sector comprised a total of 26 survey participants this year following the inclusion of a new participant, Harmoney Corp Limited.

The 2021 survey includes Harmoney Corp Limited, as an entity that meets the threshold based on total assets and has publicly available audited financial statements. Although the total assets criterion was met last year, Harmoney was previously classified as a peer-to-peer lender and transitioned away from this model on 1 April 2020.

Harmoney offers personal loans to both the New Zealand and Australian markets.

The non-bank sector for the purposes of this survey includes a range of credit unions, non-bank deposit takers (NBDTs), building societies and finance companies in the business of providing lending and leasing opportunities for the motor vehicle, consumer, personal, commercial and mortgage lending sub-sectors.

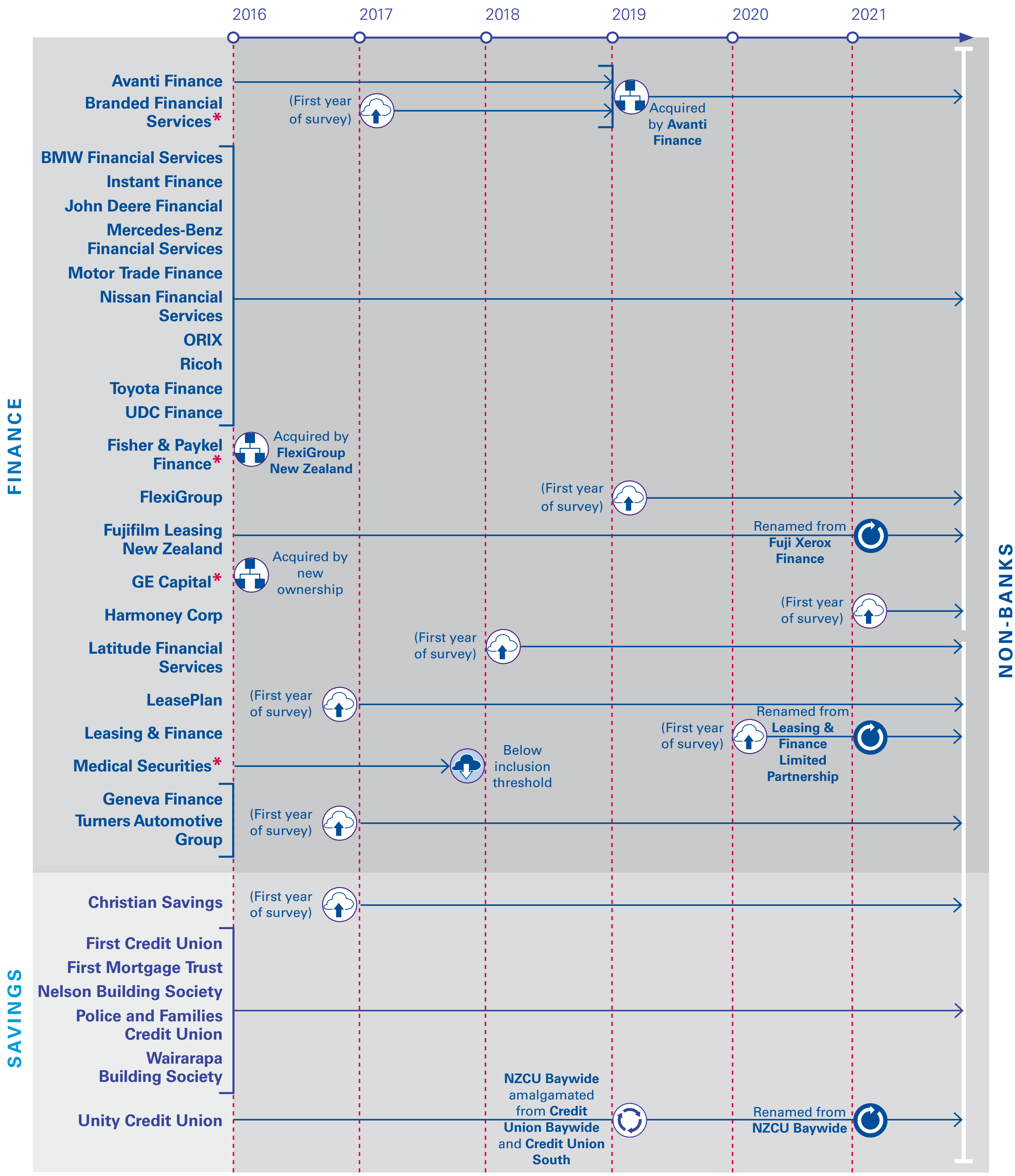
Just as each sub-sector is quite different, this year more than ever these differences when taken together with the different balance dates of the entities has translated into slight but distinct differences in the results.

We would like to acknowledge and thank the survey participants (CEOs and CFOs) for their valuable contributions which included making time to meet with us (albeit virtually this year) to discuss their experiences over the past 12 months and perspectives for the next 12 months.

TABLE 1: ENTITY MOVEMENTS

	Who's out	Who's in
Non-banks: 26	NIL	Harmoney Corp Limited

Looking back at the sector



* Entities are no longer participating in the survey for various reasons.

A KPMG view from the editor

John Kensington
Partner – Audit
Head of Banking and Finance
KPMG

John has been with KPMG's Financial Services audit team for over 37 years, 24 of these as a partner working with a wide range of financial services audit clients, specialising in banks and finance companies.

John has a wealth of experience in auditing and accounting for banking products and services including treasury, retail offerings, corporate loans and loan provisioning. He is currently KPMG's Head of Banking and Finance and editor of this publication. John is also Deputy Chairman of the New Zealand Auditing and Assurance Standards Board (NZAuASB) and serves as a board member of the XRB. John is also a fellow of CA ANZ, a member of the Institute of Directors and a Trustee of Breast Cancer Cure.

As I sat down to review this year's non-bank FIPS information, two things became abundantly clear to me. Firstly, this document, unlike the bank one, has not historically had a letter from the editor. Why this is historically so is not clear. Secondly, if there was ever a year in which one was justified and required, it's 2021.

2021 unfortunately follows hard on the heels of 2020 which in itself was an extraordinary year. By the time we got to the end of 2020, many people thought that we were starting to get on top of the impacts of Covid-19. In many senses we were. Loan books had shrunk and then rebounded with the post lockdown 'bounceback' that occurred through June and July of 2020. As we moved into this time last year, everybody was feeling more confident. The New Zealand economy had rebounded well and the non-bank sector had done remarkably well in light of the turmoil that it had been facing since March 2020. 2021 continued for seven and a half months with New Zealand and its economy seeming to grow its way through the pandemic and then 17 August arrived. It was not only the day that my wife got released from Managed Isolation and Quarantine (MIQ) after returning from the Tokyo Olympics, but the day that we got told that New Zealand was, for the first time since March 2020, entering Level 4 lockdown. Some regions have been luckier and have experienced lesser forms of restrictions, but Auckland has endured 107 days of lockdown restrictions.

When I look at the non-bank sector and the stories that have been shared with us by our sector participants, there are many key themes, but three particularly stand out.

1. Of course, with the deepest and longest lockdown impacting the Auckland region, there has been a reduction in the amount of business that was able to be conducted in some sectors and this has flowed through to the non-bank sector. Both personal lending and motor vehicle financing decreased when the lockdown initially kicked in, and lenders have been focused on trying to build back up to pre-lockdown volumes. Most sectors have been impacted to some degree due to the lockdown and are currently focused on recovering growth but motor vehicle and personal lending were the most affected.
2. Most sectors are seeing excellent credit quality, most survey participants stated that it is as strong as it has ever been – at least for now. What has been truly amazing is New Zealanders' willingness to recognise and adhere to their obligations during these difficult times. Yes, there has been Government support and yes, there will be longer-term impacts, particularly with the Christmas spending period upon us and the traditional New Year spending hangover. The future is unknown, but so far New Zealanders have met their financial obligations.
3. The most talked about and most concerning commentary from most people we spoke to was around our path out of the Covid-19 lockdown and how we deal with Covid-19 on an ongoing basis. The transition from the 'elimination' strategy to the 'living with Covid-19' strategy is something that is unknown and uncertain for everyone.

> Some real concern was expressed about entering the traffic light system on 3 December leaving just 22 days for the economy to get moving before the holiday period. It must be noted that large sectors of the economy have been significantly impacted by these lockdowns in particular hospitality, retail and other areas of service industries such as barbers, physios, dentists etc. The question many asked was whether these businesses will be able to get up and running again in the 22 days before Christmas to recoup the losses from being locked down for significant periods of time. For example, what will happen to those large number of inner-city businesses that had been without foot traffic for over 100 days? They are likely to have reduced business in the lead up to Christmas as some people stay in Auckland to then experience a city that empties out for Christmas.

While these things involve a degree of forecasting, they represent uncertainties that no-one has a definite answer for.

As New Zealand opens up progressively, under the traffic light system from 3 December and then further when the Auckland borders are lifted on 15 December, the question being posed by many is whether businesses that will need access to finance to reopen and trade again after having been closed, will be able to access it.

Following the impact of the lockdowns, the topic that most participants wanted to discuss was the impact that the Credit Contracts and Consumer Finance Amendment (CCCFA) Act changes may have on a very delicately balanced, post-lockdown economy.

The increased CCCFA requirements came into effect on 1 December, but banks and other lenders had already started acting in accordance with the new guidance prior to that.

At a time when people will need finance, our participants tell us that there is a real chance that the changes implemented by CCCFA may have unintended consequences. Businesses that have been locked down and unable to trade for over three months will need access to capital as will families who want to enjoy the traditional Kiwi family holiday after being separated from friends and family. Right across all sectors of the New Zealand economy, there will need to be a re-start, but that re-start will need to be funded. Personal capital reserves of many business owners have been depleted during the lockdown and New Zealanders traditionally rely on borrowing to drive many household and business decisions, particularly around Christmas.

Survey participants feared that these CCCFA changes will necessitate a more cautious approach among lenders. Some cited the possibility of as many as one in five loans being turned down along with the time taken to approve loans increasing by 25% to 50%. The additional processing time along with a requirement for increased documentation may cause friction where customers are unprepared for the changes. Participants understood that an advertising campaign was due from the Commerce Commission explaining these changes to the public, but that this has not materialised.

If lending slows at the very time it needs to be flowing quickly, it will take longer to get the economy up and running at full speed again.

If people are unable to access credit required, whether it is for their Christmas plans or to get their business back on track, our economy will be held back and will struggle to re-start. For many retail and hospitality businesses, the run-up to Christmas and the subsequent holiday period is when they earn a significant portion of their annual revenue.

Ultimately, only time will tell. Many survey participants that we spoke to were apprehensive about what late December and the early New Year might bring. Many were hopeful that an economic rebound similar to that experienced in July and August 2020 will occur over this period, but most were also realistic that there are some potential impediments, albeit unintended, that stand in the way of the New Zealand economic rebound reaching its full potential.

There were opinions expressed that the transition from the 'elimination' strategy to the 'living with Covid-19' strategy had happened without the clarity of communication that the Government excelled at during the initial lockdown phase.

On a positive note, New Zealanders have shown themselves to be a very resilient bunch, including the entities in this sector who stand ready to assist their clients as they move to face these new challenges. If I had written this column last year, I probably would have said that "Wow, what a year" and "I can't imagine next year being as filled with challenges and uncertainty". We faced uncertainty at the beginning of the Covid-19 pandemic and we will face more uncertainty as we, hopefully, begin the road of living with Covid-19, towards the regaining of freedoms and rebuilding of our economy.

Sector - Themes and issues

Information current as at 10 December 2021

Last year, we anticipated that there would be continued volatility in 2021 and we have certainly seen that!

2021 has proved to be a game of two halves. We started the year with very positive economic indicators and effective controls to stamp out Covid-19. The border restrictions made it difficult to travel overseas and inbound tourism was non-existent which heavily impacted a number of sectors, but, until August 2021, New Zealand was, for the most part, living a 'normal' life compared to the rest of the world. We enjoyed a strong economy and relative freedom.

The outbreak of the Delta variant of Covid-19 in the community and subsequent national lockdown on 17 August 2021 has seen a very different second half to 2021 with national restrictions being most prolonged and severely felt in Auckland which euphemistically has done most of the 'heavy lifting', the heart of which being in various stages of lockdown for over 100 days.

Impact of lockdowns

This year started with a reminder that we had not yet seen the back of the impacts of the Covid-19 pandemic. There were localised Alert Level changes in Auckland in February and March and Wellington in June as New Zealand continued to pursue the elimination of Covid-19 within its borders.

When the whole country entered a Level 4 lockdown in mid-August 2021, the assumption was that this would be 'short and sharp'[1] to stamp out the spread of Delta and that we would quickly return to normal. Unfortunately, the Delta variant of Covid-19 was not as easily contained and in October the Government was forced to pivot from an elimination strategy to one of 'living with Covid-19'[2].

Auckland spent 107 days under restrictions that meant a large swathe of businesses were unable to trade as normal until the country entered the new Covid-19 Protection Framework, colloquially referred to as the 'traffic light' system on 3 December 2021[3]. Despite Auckland entering at the most restrictive level of red, restrictions can be significantly reduced for those businesses who can ensure that customers and staff are fully vaccinated and that this is appropriately disclosed along with wearing masks. Until this point, those businesses that could operate with their workforce at home were doing so. Many of our survey participants told us that they were unlikely to see people back in the office in any meaningful numbers before Christmas.

Generally New Zealand businesses were better prepared when we went into lockdown in August 2021 compared to March 2020.

One News reported that 63% people were able to continue working at Level 4 in August 2021 compared to 53% in March 2020[4].

Generally New Zealand businesses were better prepared when we went into lockdown in August 2021.

Retail businesses were quicker to adjust to a contactless 'click and collect' or a delivery model. There was a much smaller drop-off in spending than in the March 2020 Level 4 lockdown[5] pointing towards the increased ability to transact in a contactless way as well as less fear by consumers of losing or reducing income. There was a general feeling that we had done this before and we got through it okay. After each lockdown, there had followed a 'bounceback' which had generally made up for the lost economic activity.

Our survey participants all reported that they had received significantly less requests for hardship assistance this time around. In fact, most reported that their credit quality is the best it has ever been. However, October 2021 figures released by Centrix show financial hardship up 15% since the lockdown in August 2021, so time will tell how the impact of this flows through to businesses (see Centrix article on **page 22**).

While a recent report from Kiwibank reported an encouraging increase in credit card spending following Auckland's move to Level 3, stage 2[6] which saw retail (with masks and physical distancing) open up, there has been increased concern that the hoped for 'bouncebank' may not happen, may not be enough or may not be sufficient for some impacted businesses[7].

Many fear that despite the easing of lockdowns following a move to 'red' in early December, many inner-city businesses will not benefit from a rebound as the large organisations whose staff make up the majority of inner-city foot traffic don't expect their staff to return to the office in meaningful numbers pre-Christmas. This combined with the usual exodus of people from the city for an extended Christmas break may prove a fatal blow for many of these businesses, given it will result in six months of little or no passing trade for retail and hospitality.

1 SEE FIGURE 1 – PAGE 10

2 SEE FIGURE 2 – PAGE 10

Previous post lockdown 'bouncebacks' have involved spending on vehicles, home improvement and consumer goods. With the Christmas holidays fast approaching and the international border re-opening in the first quarter of 2022, New Zealanders may well reserve their extra spending for travel, both domestically over the Christmas period and internationally in the first quarter of 2022.

CCCFA

The final tranche of the Credit Contracts and Consumer Finance Amendment (CCCFA) Act that came into effect on 1 December was the hottest topic amongst our industry participants. This was originally scheduled for 1 October 2021, but was pushed out as a result of the nationwide Level 4 lockdown.

Unsurprisingly, there was little objection to the overarching principle of ensuring that customers are protected from financially over-extending themselves, but there was a general consensus that the specific requirements under the legislation were unnecessarily onerous and would actually negatively impact customer outcomes. There was a feeling that the requirements had been designed with a theoretical lens rather than with practical application in mind and that there would be significant unintended consequences. Our survey participants emphasised that it has never been good business for them to lend money to people who were unable to repay borrowed money.

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None of the survey participants want to lend inappropriately, either deliberately or in error. Certainly, none of them want to be the subject of a news headline or, worse still, in court fighting a class type action against the Commerce Commission (ComCom) for an unfavourable interpretation that could have been avoided by a more collaborative approach. As a result, a number of lenders are currently being, and will continue to be, necessarily cautious. No-one wants to be the poster child of a ComCom action.

There were three main areas of concern for our survey participants:

Firstly, loans would take longer to process with more documentation required from the customer. This increased time and effort has cost implications which may end up being priced into the interest rates offered as there is no ability to charge higher establishment or administrative fees. With loans taking more time, it is likely that fewer loans will be written, and therefore, fewer loans to spread the cost of administration over.

Secondly, there will be more rejections as customers are not able to satisfy the documentation or credit requirements[8]. Some survey participants put this decline rate at 20-25%. With increased liability to those in the business, there will be less risk appetite and organisations will focus on safe and easy lending. This could benefit some of the lenders in the non-bank sector as they will gain lending applications usually channelled towards the banks, but it will also send some of the typical non-bank customers outside the system that is regulated to potentially unregulated entities.

Anecdotally, we heard that tier 2 lenders were benefiting from loans that tier 1 lenders would no longer write. Already tier 2, 3 and 4 lenders are seeing huge numbers of applications as banks and tier 1 non-bank lenders start to implement processes that take longer and say 'no' more often.

This could have the unintended consequence of increasing the number of 'underbanked' or 'unbanked'. Without the opportunity of borrowing and demonstrating both a willingness and ability to repay, they become stuck in a cycle of borrowing from the unscrupulous as you need credit to get a credit history, which you need in order to get a loan approval from a responsible lender.

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Thirdly, there will be an increase in the friction felt by customers as they progress through loan applications. Borrowers are likely to provide more documentation than they have in the past and may not understand why an institution that they have been a long-standing customer of requires considerably more information than in the past. In fact, our survey participants raised the point that there was supposed to be a significant advertising campaign launched by the Commerce Commission to explain the impact of the new CCCFA to the public, but this just hasn't seemed to have occurred and as a result they feared that lenders will find their frontline staff experiencing an increased level of anger from frustrated borrowers who are declined.

While the banks have all had large teams working on the changes required by CCCFA, the non-bank lenders tend to be smaller, and therefore, do not have specialised teams focused on it. However, this could provide opportunities as detailed in the article on **page 42**.

It remains to be seen whether the good intentions of the changes resulting from the regulation are greater or lesser than the long-term impact of some unintended consequences.

War on talent

Many of our survey participants highlighted that a key challenge for them was the shortage of skilled people. The October 2021 *Seek Employment Report*[9] illustrates that this is affecting the whole of New Zealand and not just the financial services sector. Job adverts are up 37% compared to October 2020 and 15% compared to October 2019.

Many of our survey participants highlighted that a key challenge for them was the shortage of skilled people.

However, this is not just a New Zealand trend, the 'great resignation' is a concern globally. The changes associated with Covid-19 and the associated disruptions are causing people to recalibrate their lives and how work fits into the bigger picture.

For employers, this is manifesting in increased turnover of staff and a difficulty in recruiting, particularly in specialised roles where there has been an historic reliance on bringing people in from overseas. In addition, many survey participants are now seeing pressures to retain operational staff. The increased turnover is impacting productivity because institutional knowledge is lost and it takes time for people to get up to speed in a new role. The prolonged lockdown in Auckland has also impacted the onboarding of new staff as remote onboarding is not as efficient as doing it in person. It is certainly harder to embed a sense of organisational culture while working remotely via Teams or Zoom.

3 **SEE FIGURE 3 – PAGE 10**

Many employers are finding that they need to offer higher wages to retain and recruit staff or they risk losing out to those that can. Even then, that is not always the solution considering there were 30% less applicants per job in October 2021 compared to October 2019[9]. Our survey participants all talked about the need to scale up their teams focused on regulation and compliance and how this action was challenging in the current environment. With closed borders for the past 18 months and no definitive timeline as to when they will reopen fully, there is a real concern about where organisations are going to find people with the requisite skills across the board and not just specialist skills.

However, the re-opening of the international border will be a double-edged sword as although it will enable skilled people to move to New Zealand, it could also encourage younger New Zealanders to leave for their long-awaited Overseas Experience (OE).

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Supply chain pressures

Those New Zealanders who are keen to spend on new vehicles or consumer goods may find their immediate demand stymied by the supply chain challenges currently being faced globally and felt strongly in New Zealand, due to our relative distance from suppliers.

There have been warnings that these supply chain issues might impact Christmas shopping[10]. They are certainly already impacting building, renovations and vehicles.

The delays in receiving new vehicles have resulted in high residual prices flowing through to used vehicles. There are also fewer cars being held in showrooms and on lots, so dealers are incurring a lot less on floorplan charges. Instead of the traditional sales model where vehicles land and sit on the yard until they are sold, many vehicles are presold (as much as 50%+ of current shipments) so showrooms don't need as much floorplan as they are only held on site long enough to have pre-delivery checks done. The reminder of the shipment is usually sold very quickly thus reducing both the quantum and term of the floorplan.

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People who are prepared to wait six months (which is a standard timeframe now) for a new vehicle are less likely to urgently need finance, but if they do, they have more time to shop around to organise it, which is also impacting the quantum of some of our survey participants' loan books.

Shift in strategy

The various Covid-19 related restrictions implemented in the first half of 2021 were familiar to us. New Zealand had successfully controlled the spread of Covid-19 using these tools and when the August 2021 Level 4 lockdown was announced, many assumed that it would follow the same path. Unfortunately, the Delta variant of Covid-19 has been shown to cause more infections and spread faster than previous forms of the virus, which has led the New Zealand Government to transition from an elimination plan to one which involves 'living with Covid-19'[11]. One of the most important tools for this approach is vaccination, along with hygiene, mask wearing and physical distancing.

While vaccinated people are still able to catch and transmit the disease, it is less likely they will get seriously sick and need hospitalisation.

When New Zealand entered Alert Level 4 on 17 August, our vaccination level was very low. Due to the success in dealing with the pandemic in 2020, New Zealand had been enjoying freedoms that were rare in the rest of the world, whereas countries that had suffered more prioritised their vaccine roll-out in order to slow down the disease and ease the pressure on their health systems and were starting to open up again. The vaccination roll-out in New Zealand started in February 2021 with border and other essential workers before then taking an age-based approach vaccinating the elderly first. By June 2021, a report had shown New Zealand at the bottom of an Organisation for Economic Co-operation and Development (OECD) table for vaccination rates[12].

The August 2021 outbreak and subsequent lockdown changed this due to a sharp focus on getting people vaccinated, which was especially important in New Zealand where our population had little or no natural immunity due to the comparatively low instances of Covid-19 compared to many other countries.

This drive for vaccinations was welcomed by many who saw it as a way to lift restrictions and reconnect with a world that was increasingly opening up. However, there was a significant minority who were less enthusiastic for a variety of reasons. New Zealand Media and Entertainment (NZME) must get the credit for starting a campaign to help bring New Zealand's vaccination rate up to 90% of our eligible population that has seen us go from one of the lowest vaccinated countries in the OECD to one of the highest.

For many, this change in messaging from fearing Covid-19 to living with Covid-19 appears to have been too quick and caused confusion and hesitancy. For others, the outcomes of the transition to living with it has not been implemented fast enough or consistently.

Many of our survey participants spoke of increasing concern at the Government's over-reliance on health advice with little apparent interaction with or consideration of business, particularly in Auckland. There was overwhelming support for the strong response at the beginning of the pandemic in 2020, which continued with respect to the Level 4 lockdown in August 2021. However, there are increasing concerns that the needs of businesses were being sidelined and that New Zealand would be easing restrictions too late for some.

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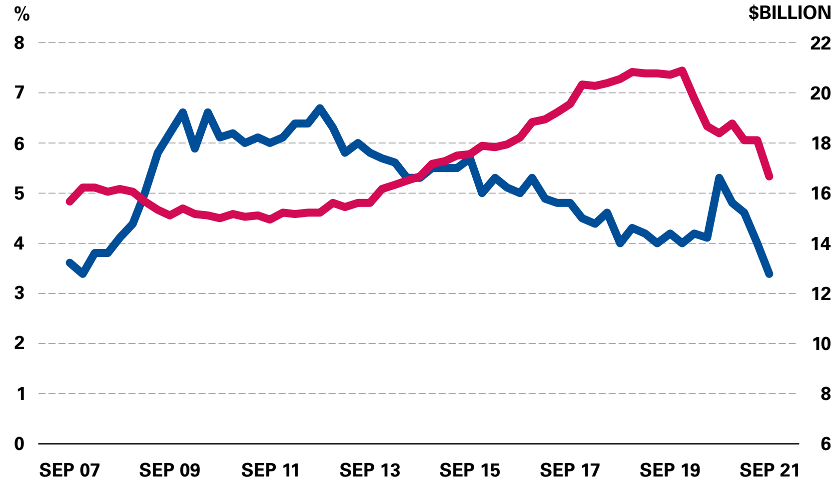
Many survey participants commented that they would have liked to have seen the Government partner more with the private sector to bring alternative ways of vaccinating people, alternative ways of testing people, improved contract tracing and ultimately trial different ways of conducting and managing Managed Isolation and Quarantine (MIQ) facilities along with a faster approach to the vaccine passport and app.

There was a desire to see lessons being learned more quickly and to embrace new ways of addressing Covid-19 issues to enable the country to open up quicker, both internally and externally.

1 UNEMPLOYMENT RATE VS. PERSONAL LOANS AND CREDIT CARD SPENDING

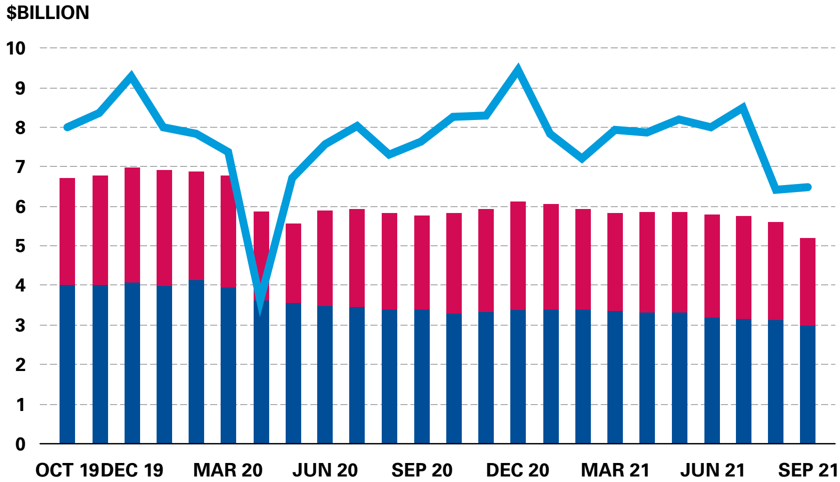


UNEMPLOYMENT RATE (LHS)

PERSONAL CONSUMER LOANS + SEASONALLY ADJUSTED CREDIT CARD SPENDING (RHS)

SOURCE: STATISTICS NEW ZEALAND

2 CREDIT CARD BALANCES VS. ELECTRONIC CARD TRANSACTIONS



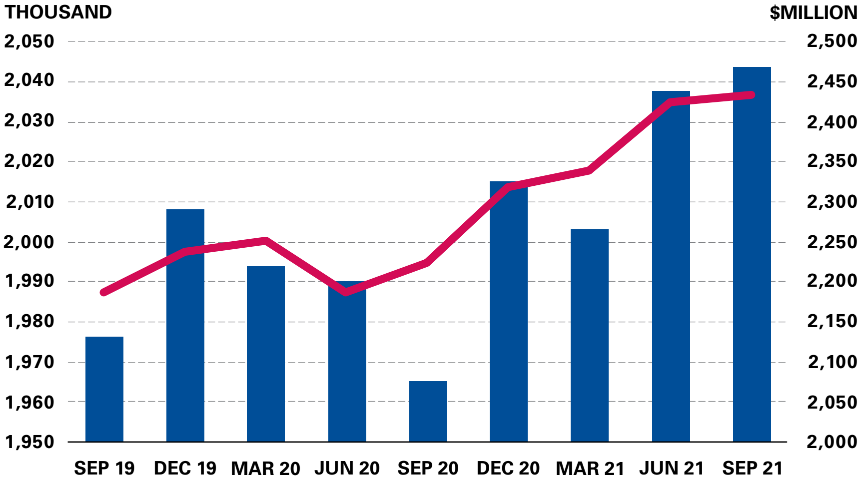
INTEREST BEARING CREDIT CARD BALANCES

NON-INTEREST BEARING CREDIT CARD BALANCES

ELECTRONIC CARD TRANSACTIONS

SOURCE: RESERVE BANK OF NEW ZEALAND

3 QUARTERLY FULL-TIME EQUIVALENT EMPLOYEES VS. WEEKLY GROSS EARNINGS

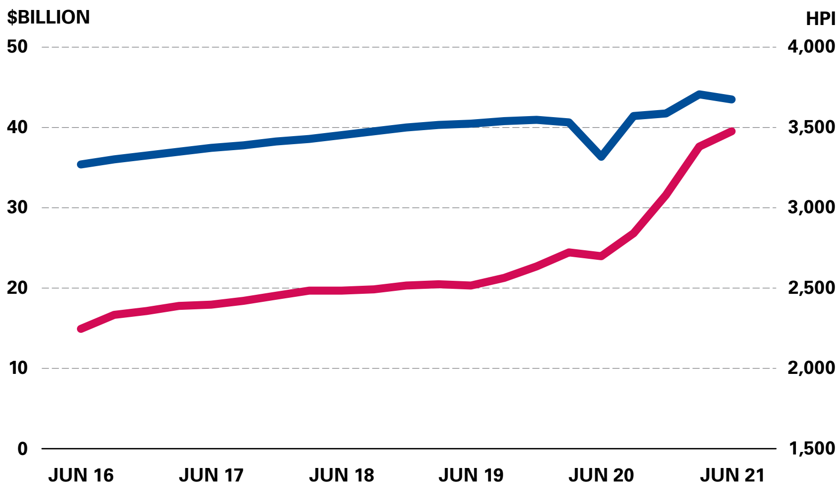


QUARTERLY FULL-TIME EQUIVALENT EMPLOYEES (LHS)

WEEKLY GROSS EARNINGS (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND

4 PRIVATE CONSUMPTION VS. HOUSE PRICE INDEX

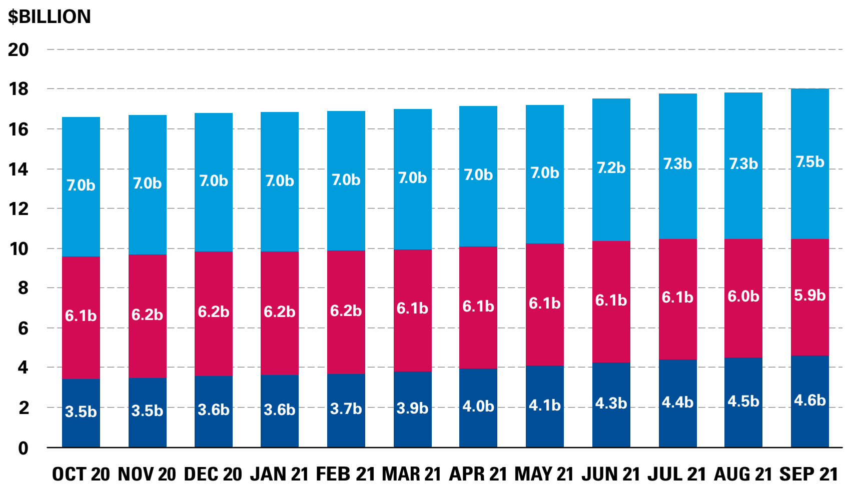


PRIVATE CONSUMPTION (LHS)

HOUSE PRICE INDEX (HPI) (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND

5 NON-BANK SECTOR LENDING OVER LAST 12 MONTHS



HOUSING – NON-BANKS

PERSONAL – NON-BANKS

BUSINESS – NON-BANKS

SOURCE: RESERVE BANK OF NEW ZEALAND

Many felt that while the Government had publicly changed its strategy to one of 'living with Covid-19', it was still exhibiting elimination strategy thinking in many areas and was struggling to convince itself that the new path was the right one and prepare its own departments for the change.

While it is all too easy to criticise from the sidelines, only time will tell what the right approach and timing should be. Nonetheless, many have contrasted the slow and inconsistent decision making in the recent Covid-19 response to other areas where the Government has been seen as more forceful, pushing ahead without seeming to consult with either the public or businesses.

While being critical of the Government in some aspects, there was universal recognition that the level of support pumped into the general economy via the wage subsidy had made a significant positive contribution to where we are today, although there was also resignation that this will need to be repaid somehow, someday.

Impact of working from home (WFH)

There has been much discussion globally over the past eighteen months about the impact of WFH on people, organisations and the economy. While many countries are beginning to return to the office after spending much of 2020 and 2021 WFH, here, in Auckland at least, we are still working out what that return to the office looks like, when and how it will happen.

Before August 2021, New Zealand had only experienced severe lockdowns for short periods of time. While many organisations have now embraced remote working and many employees prefer to do so at least part of the time, most workplaces were only strictly off-limits for seven weeks in the original 2020 lockdown.

The shorter lockdowns were seen as an interruption in our 'normal' lives. This time around, the prolonged restrictions in Auckland have encouraged people to rethink or prioritise the structure of their days. Whether it was spending more time with their children, being able to get some exercise in before work or being able to spend more time cooking, there have been some changes that many will be reluctant to give up. While the previous lockdowns enabled us to speed up the technology required and the change in mind-set necessary for successful remote working to take place, there are increasing concerns from our participants that organisational culture is at risk from being such a dispersed workforce.

Many of our survey participants spoke of the need to explicitly focus on organisational culture. In some cases, they have seen productivity increase where people have been working remotely, but there are also many who have struggled due to childcare requirements or living arrangements that make working from home impractical or stressful. There has been an increased focus on employees' mental health and wellbeing with people being encouraged to check in on each other, virtual social activities and 'care packages' being sent out.

For employers, there is a danger that employees who are WFH over an extensive period will see little difference between working for their existing employer and a different one and so will focus more on remuneration and less on culture. However, there are those for whom Covid-19 and the disruptions of the past two years have prompted a reassessment of their work and how it fits in with the other elements of their lives. Some people will place more weight on less tangible aspects such as purpose and meaningful work.

'Flexibility' was a word that was often used and it is now considered to be standard rather than a benefit for staff. The ability to be more flexible about hours worked and location is enabling some employees to reconsider their physical location and look at moving further out of the big cities.

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All of our survey participants were keen to encourage staff back into the office after this time away, at least for part of the week, as soon as they were able to. Many organisations spoke of operating a hybrid system where employees were able to work from home for two to three days per week but would be required to be in the office for activities where in-person connections were preferable such as team building, training, and mentoring.

With the rise of people wishing to work remotely at least part of the week, many organisations are reviewing their physical footprints with a view to 'right-sizing' their property commitments. Some survey participants are questioning the need for offices in the central business district (CBD) areas and are looking at lower-cost options further out.

Parents have been significantly impacted by the lockdowns due to the closure of schools and childcare facilities. This has continued the societal shift that we started to see last year with regard to the interaction of care giving responsibilities and work. It has become quite normal to meet your colleagues' children during meetings and people are more understanding of the juggle required by both men and women to facilitate both work and family life.

In short, remote working is seen as useful for practical and transactional tasks or for work that requires deep focus, but it is not so good for collaborative, problem solving or relationship-based work. WFH also requires more focus to ensure that organisational cultural and employees' wellbeing does not suffer.

Changing consumer behaviour

Working from home has not just impacted our survey participants with respect to their employees. Changing consumer behaviour has also had an impact. Customers are more comfortable shopping from home, engaging through digital channels driving transformation projects across the non-bank sector.

Disruptors like the Buy Now, Pay Later (BNPL) providers that only have a digital presence are impacting on the market share of the traditional providers. While BNPL can be a useful financial tool for spreading payments, there is concern that it encourages debt[13]. As there are no interest charges, BNPL does not qualify as debt, and therefore, does not currently fall under the CCCFA regime. However, the Government has indicated that it is considering regulation to deal with any hardship caused by BNPL and is consulting on three options ranging from a continuation of the status quo to bringing BNPL under the CCCFA regime[14]. The middle ground of a voluntary industry code would ensure that the sector acts responsibly but maintains the speed at which it is able to offer products to consumers. Often the best way to avoid regulation is to act as if you are already regulated.

Disruptors like the Buy Now, Pay Later (BNPL) providers that only have a digital presence are impacting on the market share of the traditional providers.

The move by one provider into the hospitality sector in Australia[15] could be viewed as increasing the need for this oversight as there is a higher potential for consumer harm from uninformed or rash decisions while on a night out on the town. After all, as we know from *How I Met Your Mother*, "Nothing good happens after 2 a.m.!"

Overheated housing market

The housing market has been a hot topic in the media through 2021, with annual house price growth rates of 27% seeing the national average property value in New Zealand pass the $1 million mark for the first time in October 2021[16]. It is perhaps not surprising that survey participants view the market as being overheated. Despite this, residential lending by non-bank financial institutions increased at a higher rate (33.13%), than property prices. While non-bank residential lending remains below the highs of 2007-2008, prior to the global financial crisis (GFC); the sector portfolio has steadily increased over the last few years[17].

4 SEE FIGURE 4 – PAGE 11

5 SEE FIGURE 5 – PAGE 11

The increasing trend in house prices can be attributed to several factors. Mortgage lending is increasingly an area that non-bank lenders are focusing on, but also an area we are hearing banks are pulling back on a little bit, with non-bank lenders taking up some of the slack. For new builds there are high land prices, a slow and expensive approval process and resource consent limitations preventing apartment style builds all of which are continuing to constrain supply.

Furthermore, Covid-19 has created supply chain challenges across product and labour supplies. The latest lockdown only exacerbated an already low number of weekly new property listings. The impact of demand on prices has been two-fold, with the relatively low supply of new listings, existing owner-occupiers may be less inclined to buy new houses as there is limited choice available for their next property and prices are already high. These individuals may have instead mortgaged family homes to purchase an investment property. For first home buyers, some have already been priced out of the market due to the increasing prices (especially so for those renting who are experiencing rental costs growing at 5.4%), and those that are getting a foot on the ladder are further limiting supply as they're not selling prior to purchase.

The increasing trend in house prices can be attributed to several factors.

The market has been operating in a low interest rate environment while the Reserve Bank of New Zealand's (RBNZ's) Official Cash Rate (OCR) remained at 0.25%, however, with the November increase to 0.75% and likely further increases in the OCR, mortgage rates have quickly followed suit. Lenders are conscious that for many new entrants to the housing market who have not yet experienced fluctuations in mortgage interest rates, an increase from the 2.5% (average bank two-year fixed rate) of early 2021 to the now greater than 4% in November[18] is a significant proportional change and may well not have been factored into the personal decision-making process of all borrowers despite the lenders having used a higher percentage in their lending calculations.

As the RBNZ focuses on responsible lending requirements for the banks, some banks have already introduced debt-to-income limits set at six times the borrower's income[19]. Coupled with rising house prices non-bank lenders can expect an increase in mortgage business as the banks pass on loans that they may have in the past accepted, but now fall outside the lending criteria currently used by the banks[20].

The increase in house prices provides confidence and security to those who already own property and makes them more likely to spend on consumer goods and services which will play a part in the 'bounceback' that the economy needs.

One of the industry participants we met with, while not included in the survey results at this time due to not having audited accounts above the threshold, operates within the sector of the market that focuses on socially responsible housing, creating opportunities for individuals who may not otherwise have had an avenue towards home ownership, to take their first steps towards this. For more on how Community Finance are providing opportunities for housing into new communities, see CEO James Palmer's article on **page 26**. We hope to officially welcome them to the survey next year.

Cyber security

Cyber security continues to be a necessary expense with all survey participants stating it to be a priority.

For more discussion on focus areas for 2022, see Philip Whitmore's article on **page 45**.

Climate and ESG reporting

Mandatory climate and environmental, social and governance (ESG) reporting is on the horizon for some of our larger participants and listed entities with the External Reporting Board (XRB) expected to release Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (NZ CS 1) in a year's time with disclosures required for accounting periods starting on or after 1 January 2023.

Mandatory climate and environmental, social and governance (ESG) reporting is on the horizon for some of our larger participants and listed entities.

On release of NZ CS 1, those survey participants with greater than $1 billion in assets or listed entities with market capitalisation exceeding $60 million will be required to transition to the standard, which incorporates recommendations from the Task Force on Climate-related Financial Disclosures (TCFD), with the requirement being that these additional disclosures be prepared alongside existing financial disclosures.

While reporting requirements will only be mandated for a handful of our survey participants, a number have mentioned they're beginning to receive questions from funders, with the expectation being that robust climate and ESG reporting will eventually be required for greater access to funding, while a lack thereof may lead to less-than-ideal funding outcomes. This will be especially true as all registered banks will be required to transition to NZ CS 1, and are no doubt beginning to consider not only their own immediate impact, but also that of their customers.

In addition, it is important to consider the transitioning of vehicle fleets towards lower emissions targets as the market for e-vehicles and hybrids becomes better established. This consideration is pertinent for both survey participants' vehicle fleets and for customers of those participants in the vehicle leasing and financing sub-sector.

Continued uncertainty

Once again, the only real certainty is uncertainty. While the non-bank sector continues to perform well, the overarching message from our conversations with the survey participants is that things are rosy if you apply a backward lens to see how well New Zealand has come through this so far as a team of five million but recognising that we are still facing into a great deal of uncertainty.

Once again, the only real certainty is uncertainty.

Many survey participants pointed out to us that there will be a different set of challenges as we open up the borders, restart our economy under the new traffic light system and learn to live with Covid-19 in our daily lives.

Sector - Timeline of events[21]

Events in blue relate to Covid-19 announcements from the New Zealand Government.

Oct. 2020

7th
The whole of New Zealand is at Alert Level 1.

Nov. 2020

19th
Harmoney Corp lists on the ASX after an initial public offering (IPO) of A$92.5 million having obtained a market capitalisation of A$353 million.

23rd
FlexiGroup announces partnership with Mastercard for 'Pay now, pay everywhere' platform with plans to go global.

26th
Finance Minister Grant Robertson urges the Reserve Bank of New Zealand (RBNZ) to help fight rising house prices. The RBNZ responds by considering reinstating loan-to-value ratio (LVR) restrictions.

Dec. 2020

2nd
Lenders will soon need to comply with stricter regulations in checking consumers' income and expenses to protect vulnerable parties from taking on too much debt.

12th
Credit Union Baywide (now Unity Credit Union) announced as the home lender for the co-ownership programme by Youown in $2 million investment.

Jan. 2021

10th
The RBNZ announces urgent response to breach into one of their data systems.

Feb. 2021

9th
The RBNZ is reinstating stricter LVR restrictions that were removed in April 2020 as part of the Covid-19 policy responses.

14th
Auckland moves to Alert Level 3.

Rest of New Zealand moves to Alert Level 2.

17th
Auckland moves to Alert Level 2.

Rest of New Zealand moves to Alert Level 1.

22nd
Fuji Xerox announces that the company will be known as Fujifilm from 1 April 2021.

Auckland moves to Alert Level 1.

28th
Auckland moves to Alert Level 3.

Rest of New Zealand moves to Alert Level 2.

Mar. 2021

4th
First Mortgage Trust wins New Zealand non-bank of the year award at the New Zealand Mortgage Awards, Avanti Finance receives Excellence Award.

7th
Auckland moves to Alert Level 2.

Rest of New Zealand moves to Alert Level 1.

11th
FlexiGroup launched Humm in New Zealand in 2020. Humm extends their Buy Now, Pay Later service to small and medium-sized enterprises.

12th
Auckland moves to Alert Level 1.

31st
Tony Kinzett, CEO of First Mortgage Trust, announces pending retirement.

Apr. 2021

6th
Financial Services Federation hopes to see government-funded Business Finance Guarantee Scheme (BFGS), intended to provide aid to businesses facing disruptions, be extended beyond June 30.

May. 2021

7th
UDC Finance reaches a settlement deal with the Commerce Commission for charging unreasonably high dishonour and late payment fees. This will see UDC Finance compensating affected borrowers.

23rd
According to the RBNZ, household debt continues to increase during the Covid-19 pandemic and has reached new heights due to increased home loan borrowing.

Jun. 2021

3rd
Fujifilm takes a cautious approach to a suspected ransomware attack by taking all servers and computers offline.

LeasePlan announces they have joined with other businesses and non-governmental organisations (NGOs) in building a sustainable future by signing the United Nations Global Compact.

23rd
Wellington moves to Alert Level 2.

29th
Wellington moves to Alert Level 1.

Jul. 2021

25th
Concerns around whether Buy Now, Pay Later finance schemes should be more heavily regulated are increasing as individuals take on more debt than what they can afford.

Aug. 2021

17th
The whole of New Zealand moves to Alert Level 4.

18th
The RBNZ's Monetary Policy Committee decides to retain the Official Cash Rate (OCR) at 0.25%.

22nd
Ministry of Business, Innovation and Employment (MBIE) officials evaluate whether regulation changes are necessary to offer better protection to users of Buy Now, Pay Later financial schemes.

27th
Harmoney agrees to pay settlement to Commerce Commission for allegation that the firm charged unreasonable fees to borrowers. The firm is required to rebate eligible borrowers $7 million over the next two years.

31st
The whole of New Zealand south of Auckland moves to Alert Level 3.

Sep. 2021

1st
LeasePlan announces the completion of their divestment of all shares held in LeasePlan New Zealand and LeasePlan Australia Ltd to SG Fleet.

2nd
Northland moves to Alert Level 3.

7th
The whole of New Zealand except Auckland moves to Alert Level 2.

13th
Samantha Barrass, an experienced international regulator, assigned as the new Chief Executive of the Financial Markets Authority (FMA).

21st
Auckland moves to Level 3.

23rd
The FMA urges credit card repayment insurance users to reconsider whether they are still needed after inquiry found that the policy offered very little value due to exclusions.

The RBNZ announces tightening of LVR restrictions from 1 November 2021 to reduce high-risk mortgage lending.

Oct. 2021

3rd
Parts of Waikato move to Alert Level 3.

5th
Ricoh announces partnership with the MBIE's initiative Digital Boost Alliance. This initiative intends to promote better technology and digital tools for New Zealand businesses.

Auckland moves to Alert Level 3, step 1.

6th
The RBNZ raises the OCR to 0.50%.

13th
New guidance around advertising financial products is issued by the FMA.

27th
Parts of Waikato move to Alert Level 3, step 1.

29th
Toyota announces that country-wide sales are booming after lockdown restrictions are lifted as households upgrade cars rather than travel overseas.

Nov. 2021

2nd
Parts of Waikato move to Alert Level 3, step 1.

9th
Auckland moves to Alert Level 3, step 2.

15th
Credit Union Baywide will now be known as Unity Credit Union and will trade under 'Unity'.

17th
Geneva Finance is censured and fined $65,000 after breaching the sharemarket listing rules after releasing earnings guidance 13 days after becoming aware of it.

The FMA announces release of three new tools to help financial advice providers (FAPs) in their preparations for full licensing.

The FMA publishes the financial sector implementation approach regarding regulatory changes in the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill. This will require certain entities to identify and report on their climate change impact and greenhouse gas emissions.

18th
Ricoh is recognised by the Dow Jones Sustainability World Index (DJSI World) for the second year in a row.

23rd
The RBNZ seeks feedback on the merits and design of debt serviceability restrictions on residential mortgage lending, options presented are imposing a cap on debt as a multiple of income; and a floor on test interest rates used to assess borrower repayment serviceability.

24th
The RBNZ raises the OCR to 0.75%.

Dec. 2021

3rd
New Zealand enters the Covid-19 Protection Framework traffic light settings. Auckland Northland, Taupō and Rotorua Lakes Districts, Kawerau, Whakatane, Ōpōtiki Districts, Gisborne District, Wairoa District, Rangitikei, Whanganui and Ruapehu Districts move in at Red. The rest of the North Island and the whole of the South Island move in at Orange.

Challenges and opportunities

Lyn McMorran
Executive Director
Financial Services Federation Inc.

FS
FINANCIAL SERVICES FEDERATION

Lyn McMorran is the Executive Director of the Financial Services Federation Inc., which is the industry body representing responsible finance and leasing providers in New Zealand (www.fsf.org.nz). Prior to joining the Financial Services Federation (FSF) in 2012, Lyn was Area Manager for Westpac's Private Bank in the Lower North and South Islands.

A Certified Financial Planner, Lyn is a past President of the Institute of Financial Advisers of New Zealand.

Lyn holds a Graduate Certificate in Management and a Post-Graduate Diploma in Business Studies (Personal Financial Planning) and is a Fellow of both the Institute of Financial Advisers and the Financial Services Institute of Australasia. She is also a Trustee of the Skylight Trust and a Commissioner for the Insurance and Savings Ombudsman disputes resolution scheme.

I've always considered myself a bit of an optimist, but when I look at my closing remark in last year's *Non-bank FIPS Review* – "with the promise of a vaccine on the horizon, let's hope [2021's] a less disruptive and uncertain year than this one has been" – it turns out you could have called me 'Pollyanna'.

There is no doubt the year of Delta has brought its own set of challenges, but I continue to be in awe of our members' ability to keep calm and carry on. They continue to look after their customers and hold high standards of conduct, all while facing significant regulatory upheaval, and for many, having not seen their colleagues for three months.

But with its challenges has also come opportunities, and for the FSF 2021 has also been the year of increased membership. In January we had 65 members and Affiliates (providers of services to non-bank lenders). Now in November, we have 84. An almost 30% increase in membership is phenomenal for us and what's really pleasing is the diverse range of non-bank lenders the membership now includes.

For the FSF 2021 has also been the year of increased membership.

The benefits of belonging to their community, or tribe, and the importance of the work the FSF can do on their behalf, has appealed to Credit Unions and Building Societies of whom we now have five amongst our membership.

The same goes for our five new insurance premium funders, together with new representatives from our more traditional non-bank lender membership base.

Being prepared and fully compliant with the Credit Contracts and Consumer Finance Amendment (CCCFA) Act changes from 1 December has continued to loom large in the minds of our members. The mammoth task of implementing the highly prescriptive new regime has certainly put pressure on the resources of all consumer lending members. Successfully advocating to Government for the extension to the commencement date from 1 October to provide some breathing space, particularly for those lenders whose project plans were constrained due to the prolonged Auckland lockdown, was a key achievement for the FSF.

We also provided proactive assistance to members to ensure their compliance through the development of a comprehensive CCCFA compliance plan and checklist by Chapman Tripp, which was provided to members in March 2021. The 125-page checklist (giving you a sense of how massive this compliance project is) covers all changes to the Act, the new regulations, and the corresponding guidance to lenders contained in the updated *Responsible Lending Code*.

It has proven to be an invaluable tool for members to ensure that have been able to develop their project plans to cover every compliance aspect to be fully ready for the new regime.

This is particularly important from the perspective of the directors and senior managers of consumer lenders, who now have significant personal liability for breaches of the CCCFA regime by their organisation – which they are unable to insure or indemnify themselves against.

We also partnered with financial services training provider, Strategi Group, to produce two training modules which have been offered to all FSF members at no cost. These covered changes to the way in which suitability and affordability must now be assessed for frontline staff, and the due diligence process and specific obligations for directors and senior managers.

Further work with Strategi is being undertaken to produce another training module covering the remaining CCCFA changes with respect to advertising of credit, disclosure and managing repayment difficulties and other issues. We are also developing a CCCFA overview training module for new frontline staff to be available to members in the first quarter of 2022.

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But there's another side to the coin when it comes to understanding what and how lending laws have changed – consumers need to know too. Because of this, we have also developed a resource for consumers in association with the New Zealand Bankers' Association and FinCap. This explains why it may take longer for lenders to process loan applications, and why they are requiring more detailed information and verification of this information in order to be able to assess the loan applications.

In addition to all of this, we have had the busiest year ever in responding to consultations on various regulatory and enforcement issues affecting some or all of our members. These range from responding to the Climate Change Commission's recommendations to Government on how to reduce New Zealand's carbon emissions to commenting on the Government's proposed Clean Vehicle Discount Scheme, through to consultation on the review of the Anti-Money Laundering and Countering Financing of Terrorism Act and proposed changes to the Insurance (Prudential Supervision) Act with many other issues in between.

So, the regulatory juggernaut continues apace at the same time as members are having to continue to be nimble in order to manage whatever it is that Covid-19 throws at us next.

So, the regulatory juggernaut continues apace at the same time as members are having to continue to be nimble in order to manage whatever it is that Covid-19 throws at us next.

Making predictions as to what 2022 might look like is not something I'm game to take on, but whatever it is, I do think the events of the last 20 months will have made us all the more resilient and agile for it. You can blame the optimist in me for that.

Promoting fair conduct in financial services

Clare Bolingford
Director of Banking and Insurance
Financial Markets Authority

FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

Clare leads coordination and market engagement at the Financial Markets Authority (FMA) for the expected conduct licensing regime of banks and insurers. Clare previously worked for the Financial Conduct Authority in the UK for almost 20 years, most recently as Head of Cross-Cutting Policy and Head of Supervision for Retail Banking Groups. She also spent two years at the UK Treasury, leading capital markets and prudential policy.

The conduct of providers in the non-bank sector is important because financial services delivered well can have positive benefits for consumers. Fair conduct benefits providers, their customers and the sector as a whole.

In this article we look at some of the risks and challenges facing the non-bank sector, and consider what these mean for the conduct of providers. The non-bank sector contains a range of different types of providers and none are immune to conduct risk.

More transformation is coming in the form of legislation regulating conduct; we outline what this means for the non-bank sector, and how the Financial Markets Authority (FMA) – Te Mana Tātai Hokohoko will support the sector to implement this significant change.

More transformation is coming in the form of legislation regulating conduct.

Risks and opportunities

Market forces combined with existing and emerging risks continue to shape the dynamics of the non-bank sector – and have implications for the conduct of providers and the consequent outcomes that customers receive.

Cyber risk is a significant one for the whole financial services sector, so it is critical that providers have adequate controls in place to prevent, detect and respond to cyber threats which have the potential to impact the business and its customers in a material way.

Big data, artificial intelligence and other technological developments provide both an opportunity to improve customer outcomes, and a risk if they are not used in an appropriate way. Providers in the non-bank sector need to manage and maintain technology to support fair outcomes over the product lifecycle, and have adequate controls and oversight to ensure that changes and innovation do not expose customers to increased levels of risk.

Big data, artificial intelligence and other technological developments provide both an opportunity to improve customer outcomes, and a risk if they are not used in an appropriate way.

When non-bank providers make changes to existing products or withdraw products from the market, there will likely be consequences. For example, customers may experience changes in the benefits that they receive from the products they use; how the provider manages the process and communications with customers is a key factor in the conduct experienced by customers.

Conduct expectations

Since 2017, the FMA has published several reports outlining the findings of our reviews in relation to conduct in the financial services sector, and guidance setting out expectations for necessary improvements in conduct.

While our reviews of conduct to date have focused on the bank and insurance sectors, many of the findings and recommendations are relevant for the non-bank sector, particularly those non-bank providers whose product offerings for their customers include insurance.

All non-bank providers should consult our reports and guidance on conduct to understand our expectations and to identify relevant opportunities to reflect on and improve their conduct.

We expect providers to improve their conduct towards customers because customers deserve to receive fair treatment from their financial services provider. The Financial Markets (Conduct of Institutions) Bill will, when passed into law, introduce new requirements to achieve this outcome, and give FMA new powers to monitor and enforce these requirements.

The new conduct regime will apply to banks, insurers and non-bank deposit takers. We will be engaging with providers in these sectors early in the process of implementing this regime to understand any questions and concerns, and to share insights and learnings about conduct risks specific to each sector.

The new conduct regime will apply to banks, insurers and non-bank deposit takers.

In the year ahead as we concentrate on preparing for this new legislation, we will continue to build our understanding of new sectors that we are being entrusted to regulate. We will continue working closely with other regulators to coordinate the range of regulatory change that is impacting all firms in financial services.

Consistently delivering fair conduct across an organisation and sector is not easy. But our expectation is that improvements in conduct need to be ongoing. We expect financial services firms, including those in the non-bank sector, to regularly review their conduct to identify potential risks to fair customer treatment and seeking to mitigate these. This includes examining the supporting processes, controls and systems.

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The external environment and expectations of fair conduct are rapidly and regularly changing, so firms need to be evolving their practices to adapt and improve as needed. We're here to support financial services firms on their conduct journey to make sure that investors and customers can have trust and confidence in the sector and the benefits that financial wellbeing brings.

Credit demand – an economic balancing act

Keith McLaughlin
Managing Director,
Centrix Group Limited

CENTRIX
Credit Bureau of New Zealand

Keith McLaughlin is the Managing Director of Centrix Group Limited, New Zealand's only locally owned credit bureau. A highly experienced senior executive and director, Keith started Centrix with a vision to offer New Zealand businesses a superior and cost-efficient credit offering, with a focus on long-term relationships. Previously the founder and Managing Director of Baycorp Holdings Limited, his strengths include strong leadership skills with an emphasis on empowerment, and a proven ability to forge and sustain high performance teams. Keith has a wealth of finance experience in business process, requirements analysis, banking, IT strategy and professional services and holds a number of major awards, including Deloitte/Management Magazine NZ Executive of the Year.

When New Zealand first entered lockdown 18 months ago, economic commentators quickly talked about the greatest economic crisis since the Second World War. Media headlines espoused fears of large-scale business failures and mass unemployment, leading many to fear the worst.

But rather than the deepest economic recession since the Great Depression, New Zealand achieved record levels of quarterly GDP growth, buoyed on by low interest rates, increasing house prices and rising capital markets.

The changing consumer credit market

On a micro level, Covid-19 seems to have triggered a change in consumer behaviour – especially when it comes to how we pay for goods and services.

In the past year, Kiwis have rapidly paid down their credit cards, with the number of accounts also down. In fact, credit card applications are at historically low levels.

In the past year, Kiwis have rapidly paid down their credit cards, with the number of accounts also down.

Simultaneously, there has been a rise of alternative payment methods such as Buy Now, Pay Later (BNPL) and debit cards, offering an effective alternative to credit cards when making online purchases.

The BNPL sector in particular continues to grow strongly, especially amongst younger consumers, as it provides a frictionless user experience to access interest-free payment options allowing them to spread their repayments. It is no coincidence we've seen BNPL applications increase every time the country has entered lockdown.

6 SEE FIGURE 6 – PAGE 23

The booming property market

Aside from Covid-19, the main story of the past year has been the housing market.

Driven by record low interest rates, the real estate market exploded monthly lending peaking at a record $10.487 billion in March 2021.[22]

Driven by record low interest rates, the real estate market exploded monthly lending peaking at a record $10.487 billion in March 2021.

This has seen capital markets grow strongly as consumers looked for higher returns through the purchasing of assets rather than the holding of cash deposits.

But with signs of inflationary pressure now emerging in the economy, it is likely that we will see monetary policy start to tighten, leading to a period of increasing interest rates.

But with signs of inflationary pressure now emerging in the economy, it is likely that we will see monetary policy start to tighten, leading to a period of increasing interest rates.

This, alongside increasing housing supply and government changes aimed at disincentivising property investment, will likely combine to subdue the property market as money becomes more expensive to borrow and bank deposit returns increase.

But rising interest rates are also likely to place increasing pressure on highly indebted households. While arrears have remained at record low levels for much of the year, we are now seeing early signs of increasing hardship, with the number of mortgages tagged in hardship increasing 24% since being in lockdown.

7 SEE FIGURE 7 – PAGE 25

What was the impact of August's lockdown?

This increasing hardship is partly the result of the economy moving back into lockdown in mid-August.

With New Zealand once again moving to Alert Level 4, consumer credit demand immediately dropped 30% as all but the most essential services were forced to close. However, while there was a significant reduction in credit demand, this fall was nowhere near as deep as last year's drop of 70%.

Why? The obvious answer is that businesses and consumers were more prepared this time around. Businesses invested in e-commerce capabilities, while consumers were more prepared to take advantage of online retail opportunities. This allowed businesses to easily pivot to operating online.

Ultimately, businesses and consumers entered this lockdown more confidently. Credit is a leading indicator of consumer confidence – people tend to borrow more when they feel secure, while they avoid and pay down debt when they are worried about their jobs.

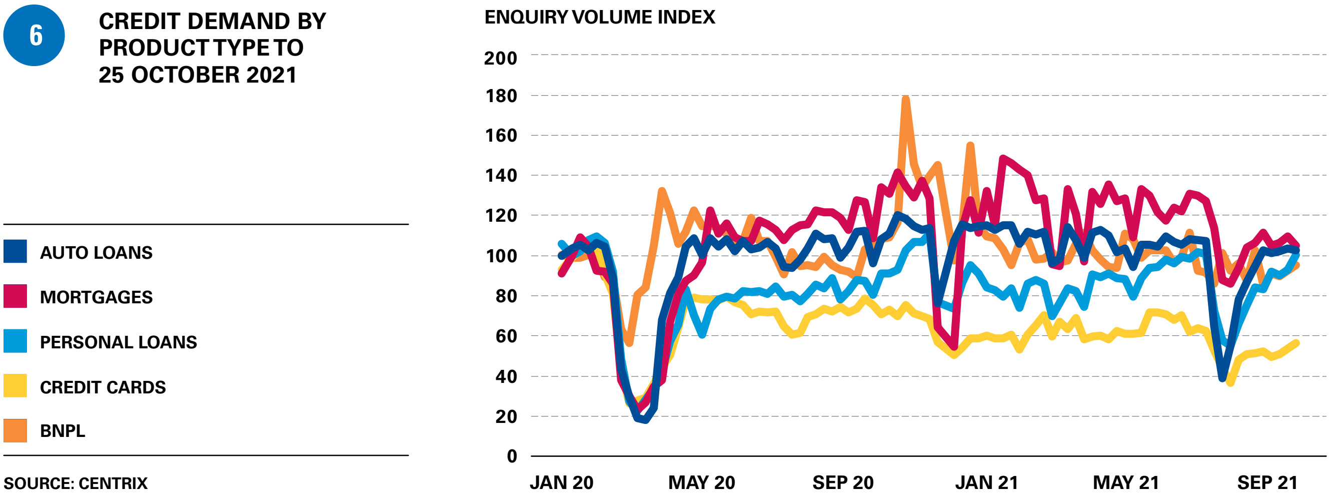
Remembering how quickly the economy recovered from the last lockdown, many businesses and consumers have taken this in their stride, spending and borrowing with confidence that it will rebound once again.

8 SEE FIGURE 8 – PAGE 25

But this time might be different. While the majority of New Zealand quickly moved down Alert Levels, allowing regional economies to reopen, the upper North Island found itself stuck in an extended lockdown. As a result, we saw a tale of two economies emerging.

We saw a tale of two economies emerging.

6 CREDIT DEMAND BY PRODUCT TYPE TO 25 OCTOBER 2021



SOURCE: CENTRIX

Businesses that can operate online have largely continued as usual. For those industries, however, reliant on in-person exchanges – such as hospitality, tourism and parts of the services sector – the restrictions have presented an existential crisis in these industries.

In Auckland, business credit defaults increased 18% on 2019 (pre-lockdown) figures in October, with many businesses now struggling with their cashflow.

This is likely to have flow-on ramifications, as suppliers increasingly face delayed payments and defaults, impacting their ability to meet their payment obligations, creating a vicious cycle.

9 SEE FIGURE 9 – PAGE 25

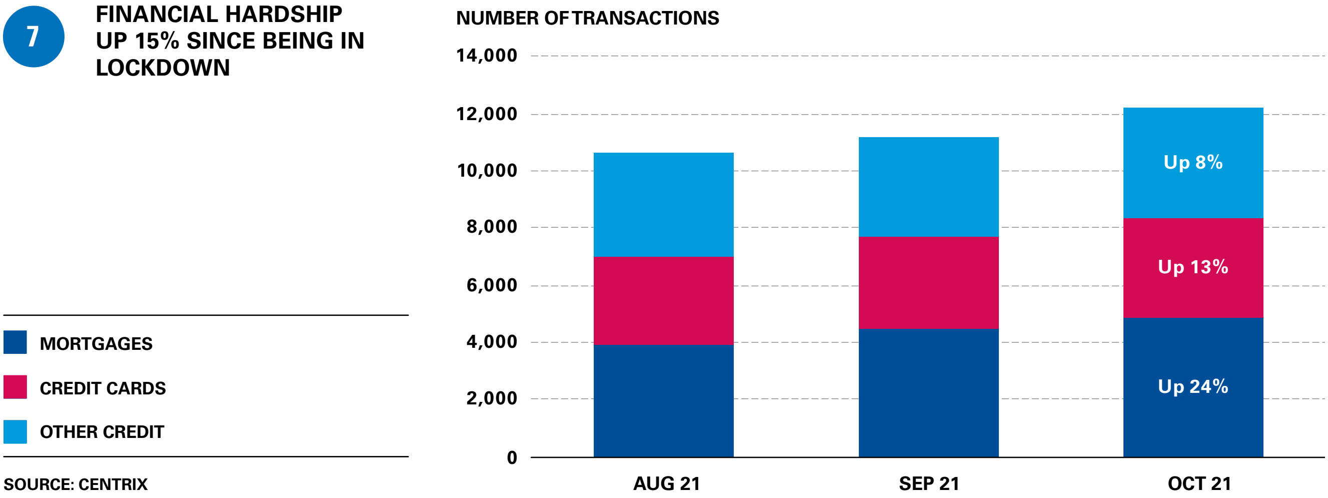
What does 2022 hold in store?

This all points to potential clouds on the economic horizon. While the fundamentals of the economy still look strong – with low unemployment and strong demand – rising defaults are likely to impact business confidence, while supply constraints are causing inflationary pressure.

Also, with the Reserve Bank of New Zealand (RBNZ) signalling a tightening of monetary policy, we are also likely to see interest rates begin to rise, increasing the cost of borrowing. This might place increasing pressure on highly indebted households.

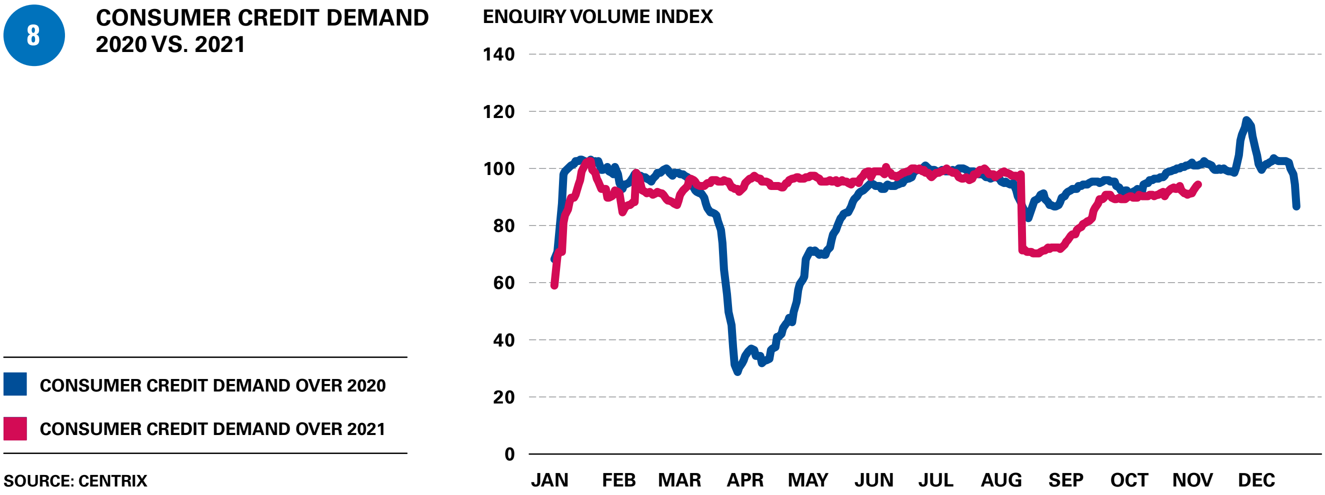
Just how much the RBNZ tightens monetary policy, and what impact it has on credit demand, is likely to be one of the prominent economic stories of 2022.

7 FINANCIAL HARDSHIP UP 15% SINCE BEING IN LOCKDOWN



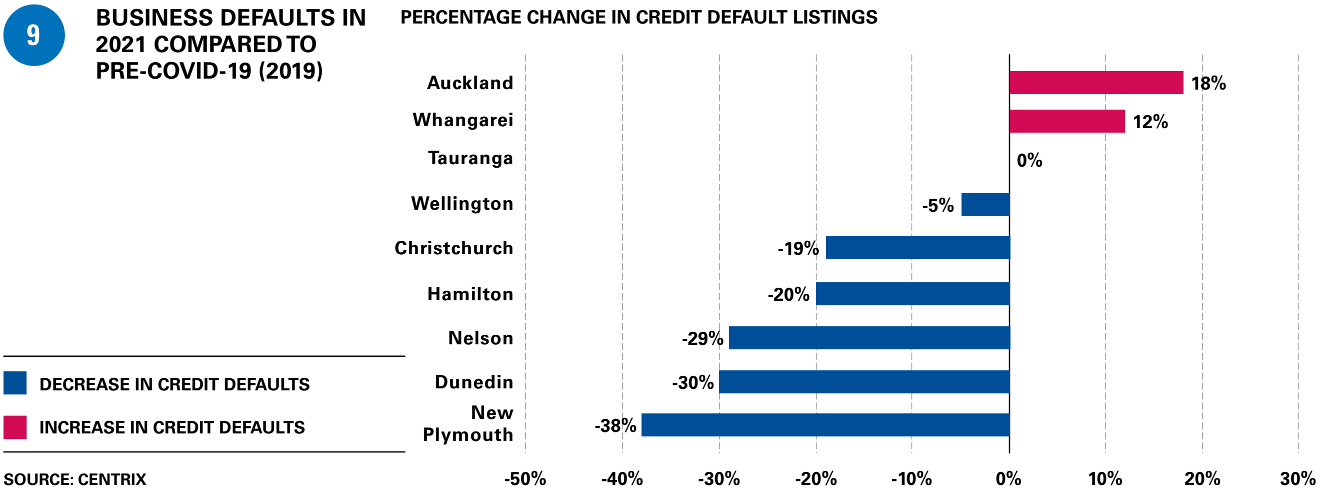
SOURCE: CENTRIX

8 CONSUMER CREDIT DEMAND 2020 VS. 2021



SOURCE: CENTRIX

9 BUSINESS DEFAULTS IN 2021 COMPARED TO PRE-COVID-19 (2019)



SOURCE: CENTRIX

Socially responsible lending – challenging the status quo

James Palmer
Chief Executive,
Community Finance Limited

James Palmer is the CEO of Community Finance Limited, New Zealand's largest open impact investment platform, which he founded in 2019. An experienced commercial lawyer, James was previously the CEO of Christian Savings Limited, a non-bank deposit taker, managing almost $250 million. James' strengths lie in his strong leadership skills and proven ability to forge relationships between key partners, linking investors and existing service providers to resolve the growing housing crisis in New Zealand. James garnered the INFINZ University of Auckland Business School's 'Emerging Leader 2021' Award, followed in quick succession by several other major accolades for Community Finance, including Mindful Money's Best Impact Investment Fund, Sustainable Business Outstanding Collaboration and the Sustainable Business Supreme Award for Transforming New Zealand.

Money is not morally neutral – it can be used to catalyse positive change through impact investing.

It goes without saying that following decades of neglect, affordable housing in New Zealand is at a crisis point and we need solutions now. The need is staggering, and lack of affordable housing has many flow-on impacts, draining health, education, hope and wellbeing from our children and communities. But what are we as a society actually doing about it? What is the finance sector doing to materially support more affordable housing? Has the finance sector, which has enabled house prices to soar on second-hand housing stock for decades, continued its singular focus on profits in this space? Is one of the best solutions to helping lower-income families into affordable homes already out there, simply waiting for us to join the dots to unlock social impact?

The answer is yes.

70% of the New Zealand rental market is now receiving some form of direct or indirect rental subsidy from the Government. In the year to June 2020, the Government paid over $3.5 billion in such payments. This scale of growing 'unaffordability' in the housing market shows how reliant an increasing number of Kiwis are on housing support. There are nearly 25,000 eligible households waiting for a home that doesn't (yet) exist – and this doesn't begin to scratch the surface of those at the bottom of the rental market who are very close to falling through the cracks. The Housing Register has 19,000 more households on the waiting list than just over three years ago.

70% of the New Zealand rental market is now receiving some form of direct or indirect rental subsidy from the Government.

In a time of such overwhelming need, our response in the finance and investment space must be to rise to the occasion. Surely, banks and non-banks can make a little less profit in targeted areas of lending, to create better outcomes for society.

So, let's join the dots. Lower-cost finance is a vital step in making a difference. We achieve this through collaboration and investment from the private sector. Secondly, as lenders we choose to make less margin to support positive social outcomes and better returns for investors and we do this at scale. Thirdly, Government funding, which has been increased to support better outcomes, is used to underpin our finance to Community Housing Providers (CHPs) via long-term funding contracts. This lowers credit risk and enables finance at greater scale to support CHPs like The Salvation Army, Habitat for Humanity or Emerge Aotearoa. These entities have decades of experience to deliver these homes around the country. When the lines connecting the public and private sectors are connected between these vital components, then we can revolutionise the way we support affordable housing in New Zealand, at scale.

To enable large-scale, private sector investment, entities like Community Finance have emerged, operating on a lower margin to create investment opportunities that deliver the right mix of returns, risk and social impact.

Community Finance was founded in 2019 and to date has advanced over $93 million through Community Bonds. Community Bonds are issued to the wholesale market on a lower margin (Community Finance's average net interest margin (NIM) is 64 basis points (bps)), thereby enabling those lower interest rates for borrowers and higher returns for investors. Community Finance's primary focus is on supporting the CHP sector, which plays a critical role in the housing system by providing affordable housing for the increasing number of Kiwis who cannot afford to pay their housing costs independently. There are currently over 60+ CHPs supporting 30,000 people in nearly 20,000 homes across the country. Traditionally, these CHPs have struggled to access construction and long-term finance at interest rates and terms that work, which in turn has constrained their capacity to deliver much-needed new supply.

The first Community Bond was offered to the market in 2020 and Community Finance raised $40 million to finance The Salvation Army to build 118 new warm, dry and affordable homes. Investors received a fixed interest return equivalent to other bonds in the market, fully secured by first registered mortgages over the new homes, with long-term Government funding.

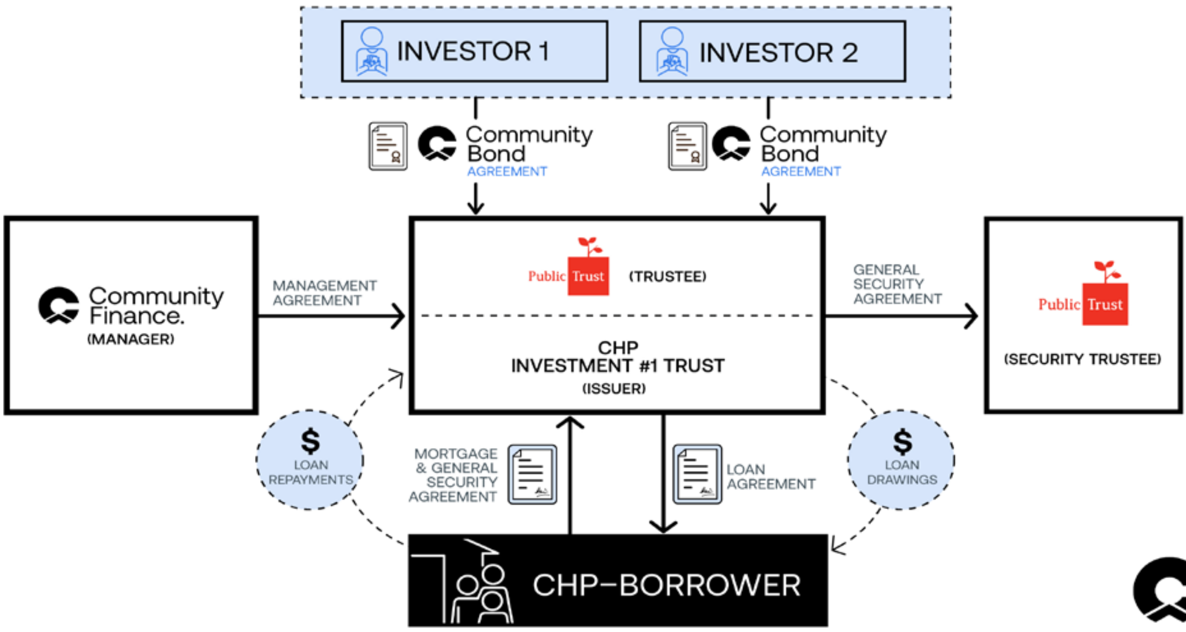
Following the success of the first Community Bond, the Aotearoa Pledge was launched in early 2021 to raise an additional $100 million from 'impact investors'. The Aotearoa Pledge builds a bridge between KiwiSaver providers and fund managers, which so far include Pathfinder, Simplicity, Generate and Forsyth Barr, with ANZ and philanthropic foundations and trusts like the Lindsay Foundation, Clare Foundation and WEL Energy Trust. We welcome others to join this movement and to obtain both returns and social impact.

People are voting with their feet as they consider where they invest their money and look at the genuine social impact and behaviour of investors and lenders. Whilst most ordinary Kiwis don't have millions to invest into bonds, most now have KiwiSaver for their retirement – and growing awareness of ethical investments show that they are keen to see that their providers are putting hard-earned dollars into investments which benefit New Zealanders. There is over $86 billion invested in KiwiSaver funds and over $248 billion invested in funds under management in New Zealand – our money – much of which is then invested offshore. Why don't we use those funds to solve the housing crisis via impact investment? Using New Zealand money to solve a New Zealand infrastructure problem. It's a no-brainer.

With over $70 million committed to date, the Aotearoa Pledge will see many more CHPs financed through Community Bonds in 2022 and there is much more yet to come. We are confident that others will join to help catalyse the impact that their funds can have – rather than sitting in long-term deposit accounts, it can be used to achieve real returns and create change. Community Finance demonstrates the power of finance to be a force for good and how impact investing can deliver a true win/win outcome, where both investors and borrowers alike can share in more of the benefits of finance. And with scale, a lower NIM does not have to mean you cannot achieve a fair profit.

Its sister entity, Positive Capital was launched in November 2021 with a $200 million programme for its innovative shared equity programme for the community housing sector.

Community Finance is a social enterprise. In 2021 it has received major accolades, including Mindful Money's Best Impact Investment Fund, from the Sustainable Business Network the Outstanding Collaboration Award and the Supreme Award for Transforming New Zealand, and its Chief Executive won the INFINZ University of Auckland Business School's 'Emerging Leader 2021' Award.



Sector performance

The non-bank survey participants have reported a combined increase in net profit after tax of $9.17 million (or 3.24%) over the year.

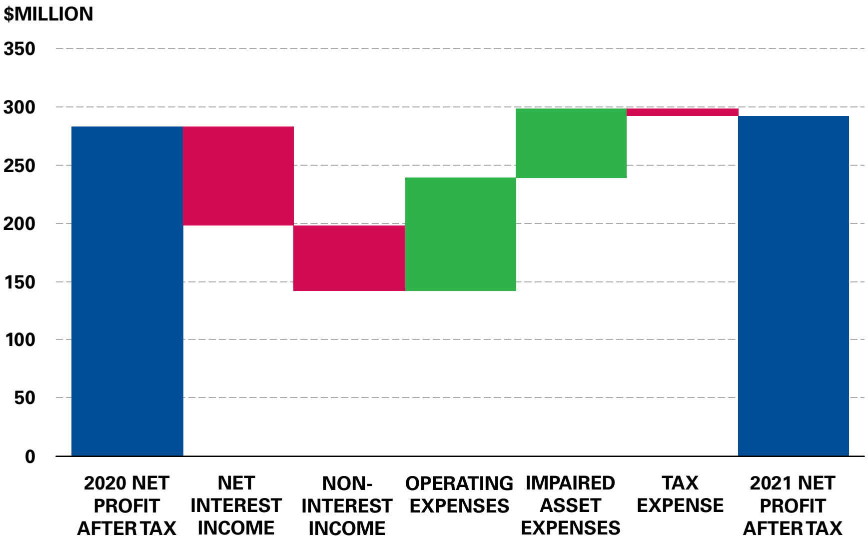
Changes in the sector

During the year, there have been a few changes within the non-bank sector, including the introduction of a new participant to the survey, a change in balance date of one participant, restructure of another participant, and the change in name of two other participants.

Harmoney Corp Limited (Harmoney) has been included in the survey as they meet the criteria for inclusion having transitioned away from peer-to-peer (P2P) lending and into a personal lending model. Harmoney has a 30 June balance date and is ranked 15th in terms of total assets when compared to the other survey participants. As Harmoney's financial statements for the 2020 financial year covering a period of 18 months (due to a change in balance date), we call attention to the fact that comparative profitability measures for this entity represent this longer period. Due to the inclusion of the new entity, some comparative totals may have been restated from the 2020 edition of non-bank FIPS.

UDC Finance (UDC) initiated a change in balance date during the year, changing from a 30 September to 31 December year-end. Where in previous surveys, the UDC result was one of the most recent given the 31 October cut-off for financial statement inclusion, these are now among the oldest financial results analysed in the survey.

10 MOVEMENT IN NET PROFIT AFTER TAX



Leasing & Finance Limited Partnership transferred many of its assets to a new entity L & F 2020-1 Warehouse Trust in December 2020. As Leasing & Finance Limited Partnership no longer receives an audit opinion, results from the first six months of the financial year whilst assets were held under the Partnership have not been included in the survey. As the L & F 2020-1 Warehouse Trust now represents the group entity within the survey, we have amended the name as presented within the survey to Leasing & Finance (L&F) and presented the financial results for the six-month period within the survey.

We draw special attention to the fact that with these changes, profitability measures for UDC represent only one quarter and profitability measures of L&F represent only six months of results. This should be kept in mind when reading the industry analysis text and comparing UDC and L&F's performance against other entities in the survey. Results for both entities will revert to annual results in the 2022 non-bank FIPS.

During the year two survey participants underwent rebranding; Fuji Xerox Finance became Fujifilm Leasing New Zealand (Fujifilm Leasing) and Credit Union Baywide became Unity Credit Union.

TABLE 2: PERFORMANCE METRICS		Total
Increase in Total Assets		0.54%
Increase in Net Profit After Tax (NPAT)		3.24%
Movement of Impaired Asset Expense (As a Percentage of Average Gross Loans and Advances)	bps	-44
Decrease in Interest Margin	bps	-66
Increase in NPAT/Average Total Assets	bps	1
Decrease in NPAT/Average Equity	bps	-49

We have now reflected these changes in how these entities are presented throughout the survey.

We would also like to draw special attention once again to the differing balance dates of our survey participants. While our survey covers the 2021 year, our respondents have a range of balance dates, with the earliest being the 52 weeks to 31 October (1 November 2020) and the most recent report bearing a 30 September 2021 year end. It is important to recognise that the results of each entity will reflect the different stages of the ongoing effects of the Covid-19 pandemic, the ability or otherwise to operate during the respective reporting periods and in particular the level of impairment provision and where it was in the cycle from booking the unknown provision early on in the global pandemic, to releasing some components of it in the later part of it. Those entities with earlier balance dates and reporting before the impacts were fully known tended to still be recognising provisions, whilst those entities with later balance dates and provisioning that was reflective of the potential impacts of Covid-19 tended to be releasing some of this provisioning. When reading the industry analysis text and comparing the performance of any entities in the survey, these factors should be taken into consideration.

Net profit after tax (NPAT)

NPAT for the non-bank sector increased 3.24% ($9.17 million) across 2021, indicating some recovery from the 7.97% reduction caused by Covid-19 in the prior year results. 18 of the 26 survey participants reported increases in NPAT. Those participants who achieved the largest growth in NPAT were Unity Credit Union and Ricoh New Zealand (Ricoh) increasing by 969.19% ($3.84 million) and 493.80% ($7.81 million) respectively.

10 SEE FIGURE 10 – PAGE 28

The top performers in terms of dollar-value increases were FlexiGroup with an increase of $20.07 million (86.41%) to $43.29 million and Avanti Finance (Avanti) increasing by $8.95 million (42.16%) to $30.16 million. Of the eight survey participants reporting a decrease in NPAT, Harmoney reported the largest decrease of $8.86 million (53.86%) across the year, being the only participant to record a loss for the reporting period of $25.30 million. The second largest reduction was recorded by Mercedes-Benz Financial Services (Mercedes-Benz) of $4.21 million (32.17%) to $8.87 million.

Profits among the motor vehicle financing industry seem to have been hit the hardest. Four of the nine motor vehicle financing participants reported reductions in NPAT indicating that while Covid-19 has prevented New Zealanders spending money overseas resulting in increases in motor vehicle prices, activity in the industry has been limited by both lockdowns and borrowers not requiring financing, using their savings rather than borrowing. The equipment financing companies were the best performing sub-sector, contributing $7.18 million of NPAT growth.

As shown in Figure 10, NPAT increased by $9.17 million (3.24%) to $292.33 million. This is driven by the following factors:

- net interest income fell $84.79 million (8.27%) to $940.94 million, reflective of the low interest rate environment the industry has been operating in over the last year;
- non-interest income fell $56.38 million (10.86%) to $462.87 million with only nine survey participants reporting increases;
- operating expenses fell $97.60 million (9.87%) to $891.55 million;
- impaired asset expense reduced $58.98 million (34.14%) to $113.78 million; and
- tax expense increased $6.23 million (6.24%) to $106.17 million.

Total assets

This year the growth of total assets within the non-bank sector has continued to plateau achieving only a 0.54% increase ($93.93 million) as survey participants continue operating within the global pandemic. This is a comparably small increase compared to the strong growth achieved over the previous three years in the sector, which saw increases in total assets of 14.73% ($1.80 billion) in 2018, 7.66% ($1.15 billion) in 2019 and 3.95% ($648.29 million) in 2020. The slowdown in the growth trajectory of total assets has meant that only 12 of the 26 survey participants reported an increase in this amount. The reduction in total assets/gross loans and advances growth in these entities was largely a factor of the stop and start that occurs to lending when locked down and opened up again. In 2021 this effect was still seen but to a lesser extent.

Growth of gross loans and advances (GLA) further slowed, increasing only 0.62% ($88.68 million) across the non-bank sector, compared with growth of 14.24% ($1.43 billion) in 2018, 12.54% ($1.52 billion) in 2019 and 3.19% ($434.63 million) in 2020. 13 of the 26 survey participants experienced growth in their loan books during 2021. See Table 3 on **page 30**.

The largest contractions in survey participants' total assets were experienced in the motor vehicle finance industry with only three of the nine in this industry reporting increases in total assets.

BMW Financial Services (BMW) and Mercedes-Benz reported decreases of 16.23% ($51.99 million) and 16.20% ($114.60 million) respectively.

Toyota Finance New Zealand (Toyota) reported the largest dollar value contraction in total assets with a drop of $177.26 million (12.06%), which is reflected in a reduction of their loan book of 4.81% ($51.58 million). Latitude Financial Services (Latitude) saw the next largest decrease in total assets of $175.84 million (9.92%).

Of the 12 survey participants reporting growth in total assets, Harmoney, Avanti and First Mortgage Trust reported the largest growth, with increases of 115.72% ($208.55 million), 29.09% ($363.96 million) and 17.58% ($164.38 million) respectively. Part of the Harmoney growth story is a result of its loan book progressively being brought on-balance sheet as it morphs from a P2P lender (off-balance sheet) to a finance company.

For the fifth consecutive year, Avanti reported the largest dollar growth of total assets in the non-bank sector, with an increase of $363.96 million (29.09%), which again has almost entirely come from an increase in their loan book of 26.65% ($324.76 million). Last year Avanti achieved a $166.3 million (15.33% increase) which indicated that their growth had appeared to slow off the back of the global pandemic. However, 2021 has seen increased growth and they have once again emerged as an industry leader when it comes to asset growth.

Harmoney claimed the largest incremental increase in market share based on GLA. Strong loan book growth of $173.02 million (128.04%) resulted in them increasing their market share by 126.62% from a market share of 0.95% they would have held had they been included in the 2020 survey to reach 2.15%.

TABLE 3: GROSS LOANS AND ADVANCES **Entity**	**2021 $'000**	**2020 $'000**	**Movement $'000**	**Movement %**
Avanti Finance Limited	1,543,200	1,218,440	324,760	26.65%
BMW Financial Services New Zealand Limited	253,772	313,161	-59,389	-18.96%
Christian Savings Limited	182,940	164,616	18,324	11.13%
First Credit Union	276,441	226,184	50,257	22.22%
First Mortgage Trust	869,009	791,234	77,775	9.83%
FlexiGroup (New Zealand) Limited	847,741	905,721	-57,980	-6.40%
Fujifilm Leasing New Zealand Limited	71,510	66,576	4,934	7.41%
Geneva Finance Limited	112,446	102,524	9,922	9.68%
Harmoney Corp Limited	308,145	135,129	173,016	128.04%
Instant Finance Limited	103,054	113,530	-10,476	-9.23%
John Deere Financial Limited	172,170	191,553	-19,383	-10.12%
Latitude Financial Services Limited	1,484,552	1,691,627	-207,075	-12.24%
LeasePlan New Zealand Limited	10,486	9,316	1,170	12.56%
Leasing & Finance[23]	258,254	231,517	26,737	11.55%
Mercedes-Benz Financial Services New Zealand Limited	579,215	687,661	-108,446	-15.77%
Motor Trade Finance Limited	676,921	675,635	1,286	0.19%
Nelson Building Society	719,624	680,022	39,602	5.82%
Nissan Financial Services New Zealand Pty Ltd	487,300	555,116	-67,816	-12.22%
ORIX New Zealand Limited	97,785	91,801	5,984	6.52%
Police and Families Credit Union	37,793	42,517	-4,724	-11.11%
Ricoh New Zealand Limited	98,207	100,817	-2,610	-2.59%
Toyota Finance New Zealand Limited	1,021,255	1,072,831	-51,576	-4.81%
Turners Automotive Group Limited	351,507	319,655	31,852	9.96%
UDC Finance Limited	3,308,429	3,350,140	-41,711	-1.25%
Unity Credit Union	322,811	349,447	-26,636	-7.62%
Wairarapa Building Society	108,046	127,164	-19,118	-15.03%
Sector Total	**14,302,613**	**14,213,934**	**88,679**	**0.62%**

Avanti gained the most market share this year, increasing by 222 basis points (bps) to reach 10.79%.

On the other side of the ledger, Latitude saw the largest loss of market share, dropping by 152 bps to 10.38%; this resulted in them dropping from the second largest participant in the survey to third. UDC remains the largest participant in the survey with 23.13% market share and is followed by Avanti as the second largest with a 10.79% market share. Latitude's loan book has dropped below the $1.5 billion mark this year, with their GLA reported at $1.48 billion. However, they still have the third largest loan book in the survey. Avanti have reached $1.54 billion only having cracked the $1 billion mark in 2019. Meanwhile UDC remains well ahead of any other survey participant with a $3.31 billion loan book. Notable mention is made of First Mortgage Trust with total assets exceeding $1 billion as at 31 March, increasing their market share of GLA to 6.08%.

Net interest margin (NIM)

The NIM felt the full force of the declining interest rate environment due to the record low Reserve Bank of New Zealand's (RBNZ's) Official Cash Rate (OCR) during 2021, dropping by 66 bps across the non-bank sector from 6.35% to 5.69%, the lowest it has been since 2017. Harmoney reported the largest decrease in NIM of 459 bps, largely driven by a 126.76% increase in interest earning assets while net interest income increased 76.59%.

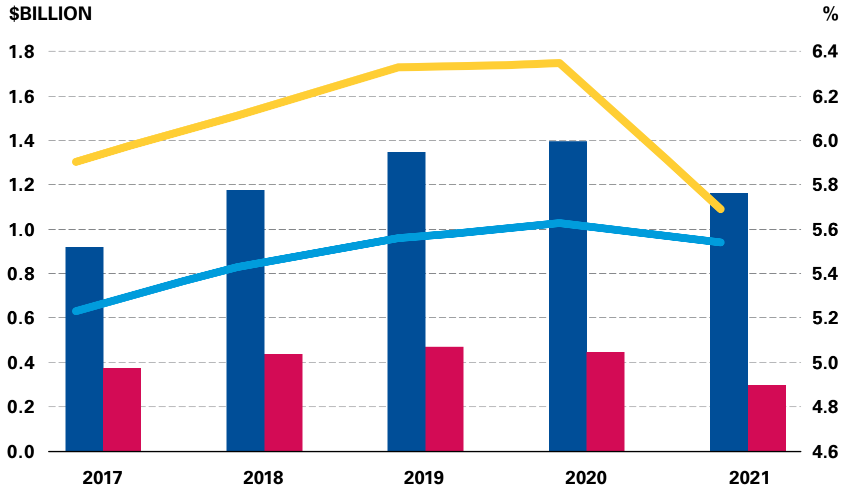
11 SEE FIGURE 11 – PAGE 32

See Table 4 on **page 31**.

TABLE 4: MOVEMENT IN INTEREST MARGIN

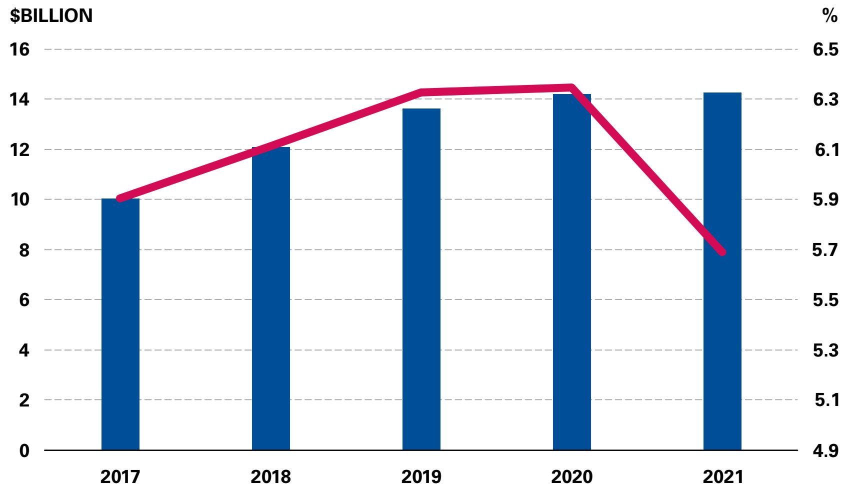
Entity	2021 %	2020 %	Movement (bps)
Avanti Finance Limited	5.05	5.54	-49
BMW Financial Services New Zealand Limited	6.69	6.46	23
Christian Savings Limited	1.94	1.75	19
First Credit Union	3.27	3.53	-26
First Mortgage Trust	6.12	6.93	-81
FlexiGroup (New Zealand) Limited	12.34	11.63	71
Fujifilm Leasing New Zealand Limited	16.32	6.18	1,014
Geneva Finance Limited	9.94	10.14	-20
Harmoney Corp Limited	10.52	15.11	-459
Instant Finance Limited	22.45	22.89	-44
John Deere Financial Limited	4.75	4.27	48
Latitude Financial Services Limited	11.86	11.46	40
LeasePlan New Zealand Limited	8.01	8.77	-76
Leasing & Finance[23]	2.88	6.30	-342
Mercedes-Benz Financial Services New Zealand Limited	3.11	3.21	-10
Motor Trade Finance Limited	8.73	8.23	50
Nelson Building Society	2.70	2.56	14
Nissan Financial Services New Zealand Pty Ltd	3.90	3.49	41
ORIX New Zealand Limited	9.04	8.87	17
Police and Families Credit Union	3.25	3.58	-33
Ricoh New Zealand Limited	10.71	8.77	194
Toyota Finance New Zealand Limited	4.51	4.17	34
Turners Automotive Group Limited	7.89	8.20	-31
UDC Finance Limited	1.16	4.31	-315
Unity Credit Union	6.83	6.23	60
Wairarapa Building Society	2.49	2.29	20
Sector Average	**5.69**	**6.35**	**-66**

11 NET INTEREST INCOME ANALYSIS



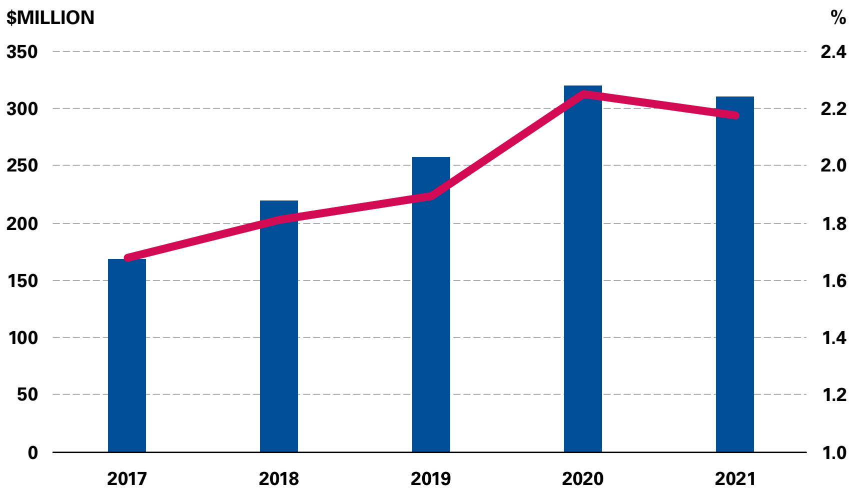
- INTEREST INCOME (LHS)
- INTEREST EXPENSE (LHS)
- NET INTEREST INCOME (LHS)
- NET INTEREST MARGIN (RHS)

12 GROSS LOANS AND ADVANCES VS. NET INTEREST MARGIN



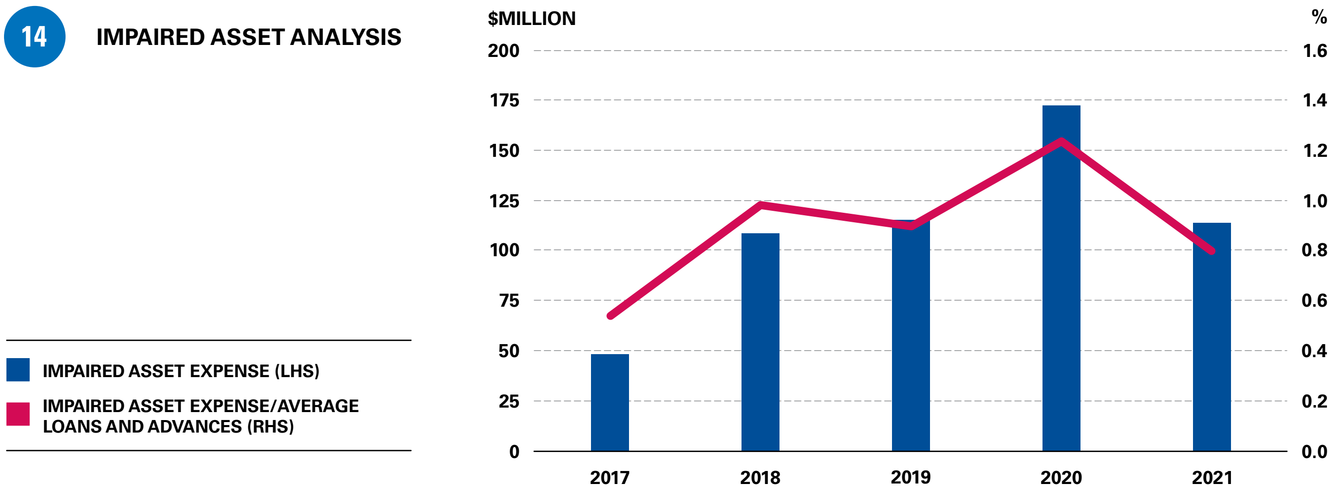
- GROSS LOANS AND ADVANCES (LHS)
- NET INTEREST MARGIN (RHS)

13 PROVISIONS AS A PROPORTION OF GROSS LOANS AND ADVANCES

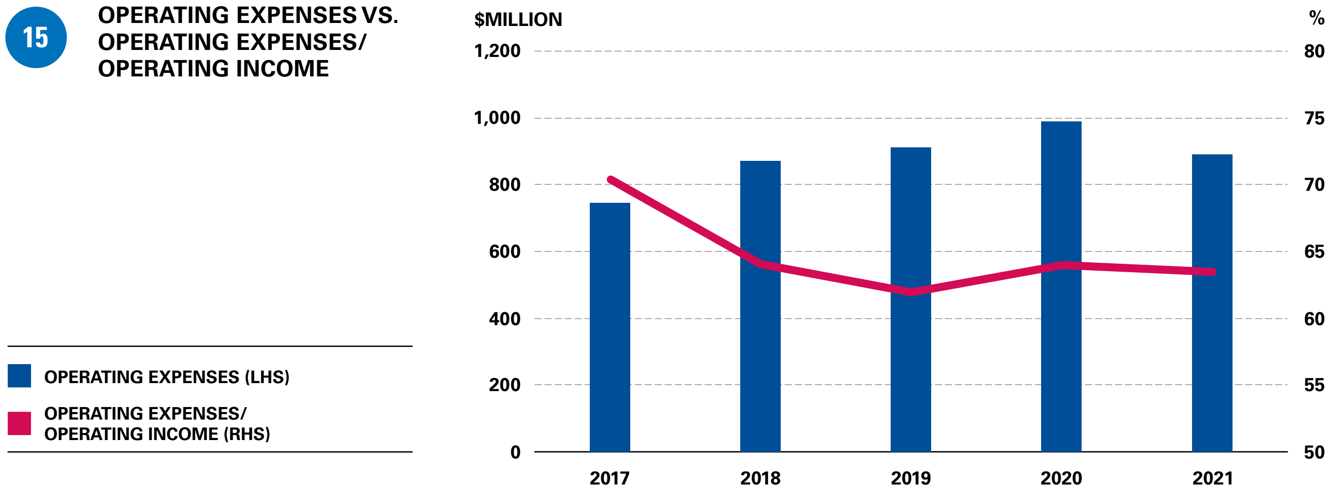


- TOTAL PROVISIONS (LHS)
- PROVISIONS/GROSS LOANS & ADVANCES (%) (RHS)

14 IMPAIRED ASSET ANALYSIS



15 OPERATING EXPENSES VS. OPERATING EXPENSES/ OPERATING INCOME



12 SEE FIGURE 12 – PAGE 32

L&F and UDC reported the next largest decreases in NIM; however, these reductions of 342 bps and 315 bps respectively are a reflection of lower net interest income reported in the profit or loss statements of the two entities which cover six- and three-month reporting periods, while interest earning assets for L&F increased 8.43% and UDC reported a decline of 2.67%. As mentioned in the **Changes in the sector** section, the performance metrics of these two entities will return to an annual format in the 2022 non-bank survey. Of the entities reporting full 12-month results First Mortgage Trust reported the next largest decrease of 81 bps from 6.93% to 6.12%. Even with the large overall decrease in NIM, 14 of the survey participants reported increases during 2021.

The decrease in NIM is mainly attributable to the fact that all but two survey participants realised a decrease in interest income/average interest earning assets, which indicates the struggle that the non-bank sector faced in trying to produce a return on their assets this year. The two entities that were able to produce a positive result for interest income/average interest earning assets were the Japanese printing companies Ricoh and Fujifilm Leasing, with increases of 38 bps and 598 bps respectively. However, these two positive results could not offset the decrease reported by the rest of the non-bank sector resulting in an overall decrease of 164 bps from 9.14% in 2020 to 7.50% in 2021.

The non-bank sector recorded mixed results when it came to interest earning assets with 12 survey participants recording an increase and the remaining 14 reporting decreases. These varied results offset each other with the total movement in interest earning assets being only a 0.67% increase from $16.47 billion to $16.58 billion. Harmoney produced the largest percentage increase in interest earning assets of 126.76% from $162.83 million to $369.23 million showing strong growth following the November 2020 initial public offering (IPO) and benefiting from the strategic decision as it bought more of its loan book on-balance sheet while it transitioned from a P2P lender to a finance company. On the other side, BMW realised the largest percentage decrease of 16.22% from $317.27 million to $265.82 million.

None of the survey participants reported an increase in their interest expense as a proportion of average interest-bearing liabilities, resulting in an overall decrease in 115 bps from 3.33% to 2.18%. This is driven by the large number of decreases in interest expense across the non-bank sector as survey participants continued to operate in a low interest rate environment. Harmoney was the only entity to realise an increase in interest expense since 2020; this was driven by a 117.59% increase in interest-bearing liabilities (as discussed above). Overall, the non-bank sector interest expense fell 33.77% from $450.80 million to $298.56 million, due to the reduction in the cost of funding. The entities that saw the largest percentage decrease in interest expenses were Fujifilm Leasing with a 99.21% decrease from $7.09 million to $56 thousand, followed by UDC who saw an 82.10% decrease from $77.02 million to $13.79 million. It must be noted that the sharp decline in the interest expense of Fujifilm Leasing was mainly due to a conversion of a significant amount of related party debt into capital through a share issue late in the 2020 financial year and in regard to UDC because their latest income statement only covers one financial quarter due to a change of balance date (as discussed above).

As we continue to navigate through New Zealand's Covid-19 pandemic response with the RBNZ beginning to unwind the stimulus of the low cash lending rate and record low lending rates start to increase, the NIM picture in the 2022 non-bank FIPS could be very different. Most survey participants talked about the challenge of having to carefully monitor interest rates during a year ahead where interest rate rises are more than likely, the question only being when and by how much.

Asset quality

The 2021 survey has seen the release of a large amount of provisioning within the non-bank sector (see Figure 13). This is consistent with what can be seen occurring in the banking sector; however, it appears to be occurring in a slightly more aggressive fashion than has been seen with the banks where release of provisions has occurred later.

13 SEE FIGURE 13 – PAGE 32

The trends we can observe from the data presented came from information which was current prior to the country entering lockdown in response to an outbreak of the Delta variant. As such any impact from the most recent lockdown is unlikely to be observed until we look at some of the survey participants' November or December financial year end results in the 2022 survey. This raises both a question and a potential risk: Do the provisioning and impairment numbers we see in Figure 13, and have commented on, reflect what the non-bank sector has experienced in the last quarter of the current year given our cut-off?

Through our conversations with survey participants, the outlook for the future levels of provisioning has been largely seen as positive. Unlike the banks who are more directly susceptible to macroeconomic factors and monetary policy, and therefore, react quicker to changes in OCR with funding lines more closely tied to the RBNZ rate moves, movements within the non-bank sector have been allowed to weather some of the macroeconomic shocks and have been influenced by the microeconomic trends of the different sub-sectors. Similarly, where bank lending is restricted by the LVRs, non-bank lending has been able to thrive absent from these restrictions. With this comes a need to provide for a wider range of lending risk, and as a result, trends in the non-bank sector provisioning reflect management's view of their business and the future outlook within their slice of the non-bank sector.

While the economic uncertainty surrounding Covid-19 has begun to subside as we gain a better understanding of the future impact of the virus, and our business processes adapt to life with Covid-19 the general trend of the non-bank sector has been an improvement in asset quality. 19 of the 25 survey participants saw a decrease in impaired asset expense, resulting in a 34.14% decrease from $172.75 million to $113.78 million.

14 **SEE FIGURE 14 – PAGE 33**

The largest decrease in impaired asset expense was recorded by UDC, with a decline from $26.04 million in 2020 to a $0.77 million recovery in 2021. This has been driven by an increased focus on credit quality and UDC results covering a three-month period.

There was also a change in ultimate ownership and the two different provisioning models could have had their own refinements. This drop was closely followed by FlexiGroup who saw a $23.04 million (55.25%) decrease in impairment expense, which comes after recording the largest increase in impairment expense in 2020. Of the six survey participants that saw an increase in impairment expense, Latitude realised the largest increase of $10.66 million from $38.02 million to $48.68 million.

Of the 24 survey participants who disclosed provisioning numbers, 11 recorded an increase in their provisioning of 16.25% ($20.72 million), while overall the non-bank sector reported a decrease of $8.75 million (2.73%). Interestingly when looking at changes to provisioning within the different sub-sectors, only the equipment financing sub-sector did not record any increases in provisioning at an individual entity level.

Of those 11 survey participants who reported an increase in provisioning, corresponding increases in GLA can be observed by seven of those participants, while the timing of the publication of their results in December 2020 for the likes of Latitude and Mercedes-Benz reflected a level of Covid-19 overlay within the increased level of provisioning despite decreases in GLA.

Christian Savings Limited (Christian Savings) was an exception to the trend, and it was the third entity recording an increase in provisioning despite a decrease in a GLA balance as at 30 June. However, Christian Savings also reported a decrease in both impaired asset expense and bad loans written off, and it reported the lowest impairment provision to GLA balance of the non-bank sector with this increasing 1 bps to 0.11% in 2021, so any movement will be dramatic as a percentage.

The non-bank sector has not seen a similar decrease in impairment provisions in line with the movement in impaired asset expense. Instead, it reported a small decrease of 7 bps in the proportion of provision for impairment over GLA from the previous year from 2.25% to 2.18%. This small change is driven by the stability shown in the impairment provision which decreased only 2.73% from $320.21 million to $311.47 million.

The survey participants that reported the largest decrease in their impairment provision to GLA ratios were Turners Automotive (Turners) (190 bps to 4.89%), followed closely by Fujifilm Leasing (129 bps to 5.26%) and Geneva Finance (Geneva) (112 bps to 18.05%). Turners' ratio fell 190 bps from 6.79% to 4.89%, mainly driven by the 20.80% decrease in their impairment provision. Fujifilm Leasing saw a decrease in their ratio of 129 bps from 6.55% to 5.26% and Geneva saw a decrease of 112 bps from 19.17% to 18.05%. Although Geneva reported one of the largest decreases in their impairment provision to GLA ratios, they still reported the highest ratio of the survey participants, 12.79% higher than the next participant, being Fujifilm Leasing.

Of the survey participants that saw an increase in their impairment provision to GLA ratios, Latitude, Nissan Financial Services (Nissan) and Mercedes-Benz realised the largest increase of the survey participants. Latitude's ratio increased by 74 bps from 3.13% to 3.87%, driven by an increase of 8.30% in their impairment provision from $53.00 million in 2020 to $57.40 million in 2021. Nissan reported an increase in their impairment provision to GLA ratio of 71 bps from 1.57% to 2.28%, followed by Mercedes-Benz who increased their ratio by 34 bps from 0.84% to 1.18%.

Operating expenses

In another turbulent year for survey participants, operating effectively and efficiently proved challenging, illustrated by the mixed results drawn from the data collected, with 17 of the 26 survey participants noticing an improvement in their operating efficiency ratio.

15 SEE FIGURE 15 – PAGE 33

Operating expenses decreased by 9.87% ($97.6 million) across the non-bank sector to $891.55 million for 2021. This non-bank sector decrease negates the prior year increase of 3.79% ($34.5 million), with many businesses trying to minimise operating expenses to mitigate the on-going effects of Covid-19. The operating efficiency ratio (operating expenses as a proportion of operating income) decreased 51 bps to 63.51%, as operating income decreased at a rate of 9.14% ($141.17 million), proportionally more than operating expenses. A number of survey participants noted the savings they had made would likely be locked in due to their nature. We again draw attention to the fact that both UDC and L&F financial results represent only three and six months respectively, as such operating expenses for both entities fall considerably below the levels reported in 2020.

Geneva had the largest dollar value increase in operating expenses of the survey participants with $2.54 million (12.23%) followed by BMW with an increase of $2.53 million (16.26%) this also being the second largest percentage increase across the industry behind Christian Savings who reported a 20.12% ($0.47 million) increase.

Notably, all three entities also recorded increases in operating profit, with Christian Savings reporting the greatest percentage increase in operating income of 22.60% ($0.86 million). Orix New Zealand experienced the second largest increase in operating profit of 17.25% ($6.70 million).

Turners reported both the highest operating expenditure in the non-bank sector of $250.90 million, and also the highest operating revenue of $291.32 million. These results are representative of the non-finance side of Turners' business with a large portion relating to sales and cost of goods sold. Latitude recorded the second largest operating expense of $114.63 million. It is worth noting that Latitude recorded the highest value increase in the 2020 survey, and the decrease ($23.68 million or 17.12%) reported in this year's survey is likely due to the effects of Covid-19 with Latitude reporting as at a December year-end.

Turners reported the largest decrease in operating expenses, with a reduction of $31.81 million (11.25%). Latitude recorded the second largest decrease, as mentioned above. The decrease in operating expense correlates with declines in the operating income of both entities, with Turners decreasing by 8.17% ($25.91 million) and Latitude decreasing by 2.78% ($5.55 million). Whilst UDC's 71.28% ($29.23 million) reduction in operating expenses exceeded that of Latitude, this is due to UDC's results covering one financial quarter to 31 December 2020.

Nissan again had the best operating efficiency ratio of the survey participants at 18.96% after an increase of 18 bps, while at the other end of the scale, our newest participant Harmoney reported a ratio of 146.45% which was up 820 bps from 138.25% in the prior year. This was driven by an increase in operating expenses and a decrease in operating income.

L&F and BMW both experienced a deterioration in their operating efficiency ratios during the year, increasing by 2,492 bps to 91.87% and 954 bps to 70.33% respectively. On the other hand, BMW had operating income remain stable with an increase of only 0.49% ($125 thousand); however, this was offset by a sharp increase of 16.26% ($2.53 million) for operating expenses.

The most notable improvement in operating efficiency ratio was reported by Ricoh of 1,832 bps from 92.30% to 73.98%, primarily due to a 26.48% ($13.03 million) reduction in operating expenditure. Another notable increase in operating efficiency was seen by Latitude, who improved efficiency by 1,024 bps from 69.37% to 59.13%, driven by the strong reduction in operating expenses against a smaller 2.78% ($5.55 million) reduction in operating income.

Analysis of annual results

				Size
Entity	**Rank by Total Assets**	**Balance Date**	**Year**	**Total Assets $000**
Avanti Finance Limited	2	30-Jun	2021 *2020*	1,615,033 *1,251,077*
BMW Financial Services New Zealand Limited	18	31-Dec	2020 *2019*	268,288 *320,274*
Christian Savings Limited	19	31-Aug	2021 *2020*	239,760 *221,466*
First Credit Union	14	30-Jun	2021 *2020*	415,313 *400,918*
First Mortgage Trust	5	31-Mar	2021 *2020*	1,099,438 *935,054*
FlexiGroup (New Zealand) Limited	6	30-Jun	2021 *2020*	958,926 *1,008,563*
Fujifilm Leasing New Zealand Limited	26	31-Mar	2021 *2020*	80,165 *72,131*
Geneva Finance Limited	24	31-Mar	2021 *2020*	142,499 *125,475*
Harmoney Corp Limited	15	30-Jun	2021 *2020*	388,766 *180,220*
Instant Finance Limited	25	31-Mar	2021 *2020*	114,406 *124,928*
John Deere Financial Limited	21	1-Nov	2020 *2019*	177,411 *194,851*
Latitude Financial Services Limited	3	31-Dec	2020 *2019*	1,597,546 *1,773,390*
LeasePlan New Zealand Limited	17	31-Dec	2020 *2019*	330,793 *356,578*
Leasing & Finance[23]	16	30-Jun	2021 *2020*	337,849 *307,367*
Mercedes-Benz Financial Services New Zealand Limited	10	31-Dec	2020 *2019*	592,684 *707,280*
Motor Trade Finance Limited	8	30-Sep	2021 *2020*	761,355 *753,809*
Nelson Building Society	7	31-Mar	2021 *2020*	948,155 *865,527*
Nissan Financial Services New Zealand Pty Ltd	11	31-Mar	2021 *2020*	494,459 *565,723*
ORIX New Zealand Limited	13	31-Mar	2021 *2020*	426,808 *431,513*
Police and Families Credit Union	23	30-Jun	2021 *2020*	152,103 *144,325*
Ricoh New Zealand Limited	20	31-Mar	2021 *2020*	191,200 *192,506*
Toyota Finance New Zealand Limited	4	31-Mar	2021 *2020*	1,292,834 *1,470,093*
Turners Automotive Group Limited	9	31-Mar	2021 *2020*	625,942 *615,851*
UDC Finance Limited	1	31-Dec *30-Sep*	2020 *2020*	3,465,293 *3,558,186*
Unity Credit Union	12	30-Jun	2021 *2020*	476,880 *513,802*
Wairarapa Building Society	22	31-Mar	2021 *2020*	158,714 *167,785*
Sector Total			**2021** ***2020***	**17,352,620** ***17,258,692***

n/d = not disclosed; n/a = not available.

and Strength Measures		**Growth Measures**			
Net Assets[24] $000	**Net Loans and Advances $000**	**Increase in Net Profit After Tax %**	**Increase in Total Assets %**	**Increase in Gross Loans and Advances %**	**Increase in Net Interest Income %**
209,103	1,515,099	42.16	29.09	26.65	11.73
136,837	*1,191,657*	*-20.19*	*15.33*	*15.51*	*1.94*
21,204	249,012	-26.36	-16.23	-18.96	-11.25
25,485	*307,944*	*24.33*	*-15.29*	*-13.30*	*-6.56*
31,231	182,739	39.50	8.26	11.13	26.14
28,156	*164,451*	*55.40*	*20.67*	*27.97*	*30.48*
59,495	273,561	138.14	3.59	22.22	-3.87
60,342	*223,224*	*-73.48*	*4.68*	*10.30*	*-0.15*
1,096,305	865,746	-2.08	17.58	9.83	3.09
932,022	*789,359*	*12.80*	*15.64*	*25.12*	*16.42*
37,831	816,917	86.41	-4.92	-6.40	1.75
-12,952	*862,862*	*-44.67*	*-2.45*	*-4.49*	*8.10*
66,848	67,752	3.44	11.14	7.41	15.82
64,805	*62,213*	*-47.22*	*-73.02*	*0.05*	*-15.87*
34,220	92,152	60.87	13.57	9.68	5.95
31,349	*82,868*	*-6.35*	*6.57*	*3.84*	*0.34*
75,694	292,770	-53.86	115.72	128.04	76.59
28,885	*128,054*	*-330.77*	*175.65*	*252.11*	*2,077.75*
35,359	98,418	9.23	-8.42	-9.23	-4.61
33,155	*108,383*	*-1.45*	*5.86*	*1.26*	*3.82*
15,350	172,170	19.17	-8.95	-10.12	8.24
10,986	*191,553*	*51.76*	*3.97*	*5.32*	*23.92*
-57,098	1,427,150	29.01	-9.92	-12.24	-0.08
-76,801	*1,638,623*	*23.91*	*5.25*	*3.08*	*8.80*
119,374	10,486	-22.32	-7.23	12.56	-12.67
112,383	*9,316*	*24.76*	*-2.98*	*-24.57*	*-11.45*
-1,661	252,832	-72.33	9.92	11.55	-48.69
5,796	*225,544*	*25.96*	*16.86*	*13.53*	*34.60*
34,607	572,387	-32.17	-16.20	-15.77	-9.56
50,770	*681,919*	*8.49*	*2.95*	*4.65*	*0.25*
93,852	672,478	61.31	1.00	0.19	3.99
97,482	*669,328*	*-55.49*	*-3.85*	*-2.65*	*0.56*
92,462	714,458	44.67	9.55	5.82	12.54
73,385	*675,812*	*9.22*	*4.43*	*5.95*	*19.29*
46,527	476,201	23.30	-12.60	-12.22	7.31
35,361	*546,393*	*14.04*	*5.10*	*4.49*	*13.18*
150,132	97,447	32.23	-1.09	6.52	8.36
154,595	*91,674*	*-6.25*	*15.36*	*17.93*	*4.03*
27,001	37,664	28.72	5.39	-11.11	-4.45
26,369	*42,401*	*-33.89*	*9.40*	*-12.22*	*-4.18*
74,187	94,046	493.80	-0.68	-2.59	25.99
73,799	*95,816*	*-81.91*	*19.60*	*12.61*	*-7.67*
230,525	1,001,161	0.25	-12.06	-4.81	6.54
204,706	*1,048,395*	*26.02*	*11.30*	*10.35*	*7.07*
141,061	334,317	28.21	1.64	9.96	0.73
130,514	*297,950*	*-7.77*	*9.65*	*0.55*	*-6.97*
564,206	3,248,219	-65.20	-2.61	-1.25	-73.16
538,731	*3,286,967*	*-10.43*	*2.13*	*-2.79*	*3.06*
60,954	318,495	969.19	-7.19	-7.62	3.00
57,514	*344,473*	*92.25*	*-1.39*	*-11.34*	*20.17*
23,188	107,471	-3.02	-5.41	-15.03	9.11
21,850	*126,544*	*15.36*	*4.86*	*0.44*	*-2.87*
3,281,957	**13,991,148**	**3.24**	**0.54**	**0.62**	**-8.27**
2,845,524	***13,893,723***	***-13.02***	***5.04***	***4.18***	***7.00***

Analysis of annual results

Entity	Year	Credit Quality Measures: Impaired Asset Expense $000	Credit Quality Measures: Provision for Doubtful Debts/ Gross Loans & Advances %	Credit Quality Measures: Impaired Asset Expense/ Average Loans & Advances %	Net Interest Margin %
Avanti Finance Limited	2021	11,675	1.82	0.85	5.05
	2020	*18,782*	*2.20*	*1.65*	*5.54*
BMW Financial Services New Zealand Limited	2020	2,046	1.88	0.72	6.69
	2019	*2,448*	*1.67*	*0.73*	*6.46*
Christian Savings Limited	2021	36	0.11	0.02	1.94
	2020	*165*	*0.10*	*0.11*	*1.75*
First Credit Union	2021	1,150	1.04	0.46	3.27
	2020	*1,786*	*1.31*	*0.83*	*3.53*
First Mortgage Trust	2021	1,450	0.38	0.17	6.12
	2020	*820*	*0.24*	*0.12*	*6.93*
FlexiGroup (New Zealand) Limited	2021	18,657	3.64	2.13	12.34
	2020	*41,693*	*4.73*	*4.50*	*11.63*
Fujifilm Leasing New Zealand Limited	2021	1,088	5.26	1.58	16.32
	2020	*-20*	*6.55*	*-0.03*	*6.18*
Geneva Finance Limited	2021	825	18.05	0.77	9.94
	2020	*1,854*	*19.17*	*1.84*	*10.14*
Harmoney Corp Limited	2021	13,072	4.99	5.90	10.52
	2020	*8,899*	*5.24*	*10.26*	*15.11*
Instant Finance Limited	2021	1,842	4.50	1.70	22.45
	2020	*3,939*	*4.53*	*3.49*	*22.89*
John Deere Financial Limited	2020	n/d	n/a	n/a	4.75
	2019	*n/d*	*n/a*	*n/a*	*4.27*
Latitude Financial Services Limited	2020	48,678	3.87	3.07	11.86
	2019	*38,023*	*3.13*	*2.28*	*11.46*
LeasePlan New Zealand Limited	2020	19	0.00	0.19	8.01
	2019	*377*	*0.00*	*3.48*	*8.77*
Leasing & Finance[23]	2021	258	2.10	0.11	2.88
	2020	*4,644*	*2.58*	*2.13*	*6.30*
Mercedes-Benz Financial Services New Zealand Limited	2020	1,609	1.18	0.25	3.11
	2019	*667*	*0.84*	*0.10*	*3.21*
Motor Trade Finance Limited	2021	127	0.66	0.02	8.73
	2020	*265*	*0.93*	*0.04*	*8.23*
Nelson Building Society	2021	1,354	0.72	0.19	2.70
	2020	*3,423*	*0.62*	*0.52*	*2.56*
Nissan Financial Services New Zealand Pty Ltd	2021	2,884	2.28	0.55	3.90
	2020	*4,332*	1.57	*0.80*	*3.49*
ORIX New Zealand Limited	2021	304	0.35	0.32	9.04
	2020	*116*	*0.14*	*0.14*	*8.87*
Police and Families Credit Union	2021	15	0.34	0.04	3.25
	2020	*28*	*0.27*	*0.06*	*3.58*
Ricoh New Zealand Limited	2021	147	4.24	0.15	10.71
	2020	*198*	*4.96*	*0.21*	*8.77*
Toyota Finance New Zealand Limited	2021	1,912	1.97	0.18	4.51
	2020	*3,023*	*2.28*	*0.30*	*4.17*
Turners Automotive Group Limited	2021	3,049	4.89	0.91	7.89
	2020	*5,453*	*6.79*	*1.71*	*8.20*
UDC Finance Limited	2020	-777	1.82	-0.02	1.16
	2020	*26,044*	*1.89*	*0.77*	*4.31*
Unity Credit Union	2021	2,400	1.34	0.71	6.83
	2020	*5,491*	*1.42*	*1.48*	*6.23*
Wairarapa Building Society	2021	-45	0.53	-0.04	2.49
	2020	*301*	*0.49*	*0.24*	*2.29*
Sector Total	**2021**	**113,775**	**2.18**	**0.80**	**5.69**
	2020	***172,751***	***2.25***	***1.24***	***6.35***

n/d = not disclosed; n/a = not available

Profitability Measures					Efficiency Measures	
Interest Spread %	**Net Profit After Tax $000**	**Underlying Profit $000**	**NPAT/Average Total Assets %**	**NPAT/Average Equity %**	**Operating Expenses/Gross Revenues %**	**Operating Expenses/ Operating Income %**
4.65	30,162	41,972	2.10	17.26	25.98	37.90
5.02	*21,217*	*30,596*	*1.82*	*16.36*	*26.15*	*39.87*
6.50	4,019	5,583	1.37	17.22	57.20	70.33
6.26	*5,458*	*7,586*	*1.56*	*20.32*	*45.12*	*60.79*
1.71	1,847	1,847	0.80	6.22	33.76	59.69
1.39	*1,324*	*1,324*	*0.65*	*5.59*	*25.69*	*60.92*
3.11	1,867	1,867	0.46	3.12	67.45	84.92
3.23	*784*	*798*	*0.20*	*1.31*	*60.94*	*87.33*
6.12	43,516	44,053	4.28	4.29	26.53	26.53
6.93	*44,440*	*44,705*	*5.10*	*5.13*	*24.22*	*24.22*
12.41	43,287	59,853	4.40	20.03	35.45	42.62
11.63	*23,222*	*30,870*	*2.27*	*9.78*	*37.11*	*47.14*
15.80	2,043	2,043	2.68	3.10	76.50	76.82
5.53	*1,975*	*1,975*	*1.16*	*8.80*	*52.25*	*83.51*
8.37	6,620	6,766	4.94	20.19	66.79	75.39
8.39	*4,115*	*4,102*	*3.38*	*13.51*	*66.71*	*77.67*
9.63	-25,295	-27,581	-8.89	-48.37	111.89	146.45
13.88	*-16,440*	*-21,056*	*-13.39*	*-65.53*	*117.23*	*138.25*
20.71	9,528	12,920	7.96	24.38	54.93	61.51
21.04	*8,723*	*11,969*	*7.18*	*23.43*	*54.89*	*62.30*
4.63	4,364	6,061	2.34	33.14	24.38	31.75
4.17	*3,662*	*5,086*	*1.92*	*40.00*	*24.82*	*37.46*
12.13	20,623	30,541	1.22	39.61	43.63	59.13
11.77	*15,986*	*23,061*	*0.92*	*46.16*	*48.59*	*69.37*
8.01	6,991	9,725	2.03	6.03	26.85	71.67
8.77	*9,000*	*12,517*	*2.49*	*8.23*	*26.93*	*66.40*
2.85	533	533	0.17	25.78	36.08	91.87
6.13	*1,926*	*1,926*	*0.68*	*39.85*	*29.18*	*66.95*
2.94	8,871	12,619	1.36	20.78	24.14	37.16
2.97	*13,079*	*17,567*	*1.88*	*24.40*	*21.19*	*33.91*
8.34	8,001	11,390	1.06	8.36	69.05	85.09
7.68	*4,960*	*7,085*	*0.65*	*5.13*	*67.19*	*89.63*
2.52	8,926	12,201	0.98	10.76	28.41	47.39
2.32	*6,170*	*8,610*	*0.73*	*9.36*	*23.47*	*48.44*
3.75	11,218	21,990	2.12	27.40	17.94	18.96
3.31	*9,098*	*20,590*	*1.65*	*29.64*	*16.60*	*18.78*
8.16	14,990	20,851	3.49	9.84	23.22	53.57
7.57	*11,336*	*15,757*	*2.81*	*6.91*	*23.70*	*59.16*
3.13	1,022	1,022	0.69	3.83	65.98	79.35
3.27	*794*	*793*	*0.57*	*3.06*	*59.81*	*83.62*
10.49	9,388	12,583	4.89	12.69	71.46	73.98
7.84	*1,581*	*3,910*	*0.89*	*2.04*	*86.75*	*92.30*
4.16	25,819	36,151	1.87	11.86	25.12	46.80
3.76	*25,754*	*35,821*	*1.85*	*13.43*	*20.56*	*46.15*
7.67	26,864	37,375	4.33	11.77	82.92	86.12
7.76	*20,953*	*29,065*	*3.56*	*9.32*	*85.13*	*89.12*
1.09	21,723	30,199	0.62	3.94	21.42	28.59
3.87	*62,420*	*86,689*	*1.77*	*10.84*	*17.77*	*26.67*
6.68	3,442	3,444	0.69	5.81	75.17	86.17
5.98	*-396*	*-396*	*-0.08*	*-0.69*	*67.95*	*87.02*
2.30	1,959	2,474	1.20	8.70	34.45	53.94
2.06	*2,020*	*2,131*	*1.23*	*9.68*	*30.65*	*54.94*
5.32	**292,328**	**398,482**	**1.69**	**8.39**	**48.05**	**63.51**
5.81	***283,161***	***383,081***	***1.68***	***8.87***	***45.54***	***64.02***

Changes to the CCCFA

Malcolm Bruce
Principal – Consulting
KPMG

Malcolm leads KPMG's Risk Consulting team and specialises in financial services risk and regulatory advisory work. The KPMG Risk Consulting team supports clients across a broad range of areas from operational risks to non-financial risk management issues including conduct and culture, anti-money laundering, controls and compliance.

Gordon Johnston
Senior Manager – Consulting
KPMG

Gordon is a regulatory change, risk and compliance professional with over 20 years' experience in investment and retail banking, finance, insurance and fintech. He has worked in a variety of roles in the USA, Europe and Asia-Pacific and has wide-ranging experience leading and implementing large regulatory, risk, compliance and governance programmes.

Annabel Venning
Assistant Manager – Consulting
KPMG

Annabel is an Assistant Manager specialising in conduct, compliance and operational risk. She has a legal background and joined the team earlier this year, bringing with her experience from private practice and the financial services industry in both the UK and New Zealand.

The Credit Contracts and Consumer Finance Amendment (CCCFA) Act has had a staggered introduction into operation, partially due to the impacts of Covid-19, with the final tranche of regulations coming into force on 1 December this year. The amended Act now has a full range of applicability to almost every aspect of consumer lending, which is combined with enhanced enforcement powers for the regulator, larger penalties for lenders, and more importantly for the leadership of the non-bank sector, larger penalties for individuals who fail to comply.

While non-bank lenders might not have the breadth of resources or the budget to match the major banks' approach to uplifting processes to remain compliant with the CCCFA,[25] concept of proportionality does not make smaller lenders immune. Those who have been penalised come from across the spectrum of lenders and range from large banks to smaller non-bank lenders and credit providers.

Some lenders in the non-bank sector might view the changes as positive for them, highlighting advantages that the non-bank sector has over banks[26]. Their smaller size may attract customers to their doors due to poor experience from the banks, leaving an opportunity for non-banks to show more efficient turnarounds with loan applications and an ability to be more flexible (read 'individualised') with servicing calculators and rates than banks.

Some lenders in the non-bank sector might view the changes as positive for them.

However, many are concerned about the additional time required for processing applications and the impact on their customers.

Through our work assisting organisations with their CCCFA compliance programmes, we have identified three key areas where the impact of CCCFA will be felt most by non-bank lenders, but also where non-bank lenders could gain a competitive edge on the traditional bank lenders.

1. Directors' and senior managers' duties

CCCFA brings in a range of new requirements, and at the top of this new tree are requirements that mandate the 'fit and proper' certification, and the duty of directors and senior managers, to exercise due diligence to ensure the lender complies with their obligations under CCCFA. Directors and senior managers must exercise 'care, diligence and skill' and take 'reasonable steps' to ensure procedures and policies are followed, and that any deficiencies are identified and promptly remedied. Now you might read this and say, "But I do that already". The real question is "Can you *evidence* it?"

Some of the larger lenders are having issues implementing this new level of oversight and providing visibility over compliance activities to those in governance (and ultimately to the regulators when they come calling). Attestation processes can be complex and come with a large administrative cost, relying on accurate upward reporting of information through several layers.

Non-bank lenders can have a strategic advantage here due to their size. Directors and senior managers are usually closer to CCCFA compliance programmes that are undertaken, and as a result should be better placed to fulfil these responsibilities with confidence.

Non-bank lenders can have a strategic advantage here due to their size.

This has never been more important in a regulatory environment where the directors and senior managers have a personal (uninsurable) liability to ensure that they follow the CCCFA regulations. A breach of Section 59B could result in statutory damages or a large compensation payment being levied against them.

Therefore, how are you feeling about the evidence trail of the inquiries you have made?

2. Suitability and affordability

In an environment focusing squarely on conduct, suitability and affordability of products for customers, and allowing them to make informed decisions, is of paramount importance.

In an environment focusing squarely on conduct, suitability and affordability of products for customers, and allowing them to make informed decisions, is of paramount importance.

The suitability of a financial product is at the forefront of compliance and good conduct trends globally. The new record-keeping requirements present a unique opportunity for smaller lenders to obtain useful information about their customers and their lending requirements. Rather than seeing the record-keeping obligation as a burden, leading non-bank lenders will utilise these additional details about a customer's requirements and objectives to provide more personalised and suitable offerings to the individual in the future. What may have suited a customer at the time of initial lending may no longer be suitable and non-bank lenders are best-placed, armed with the detail from their record-keeping (and great data insights), to assist customers with their changing needs over time and demonstrate compliance and responsible lending.

The regulations around the calculations for affordability have also increased in the expectations of granularity and complexity. Lenders must make reasonable inquiries and gather documentation to conduct a full income and expense estimate in most cases.

While the CCCFA changes relating to affordability may seem onerous, there is an opportunity here for non-bank lenders to challenge whether their tools and policies used to assess affordability are actually fit-for-purpose and working, or whether they need to go back to first principles in this area.

Deep-rooted compliance issues for small non-bank lenders often stem from the continued use of outdated legacy systems, untested off-the-shelf solutions or models/calculators with various iterations being used concurrently by employees across an organisation. We have seen lenders try a 'quick fix' of uplifting these inadequate systems, solutions and models to achieve compliance in the short-term, but sustainable compliance should be the goal of any work undertaken to comply with the CCCFA changes and this will help mitigate the risk of further costs to rectify a short-term fix that will likely fail.

The relative smaller size of a non-bank lenders' team also offers the possibility of delivering more customer-centric outcomes in this area. For example, a bank will often have a dedicated team to build and validate an affordability model/calculator. This is often IT-led and the implications of the model-outputs for the customer may not be fully appreciated (by the IT team). A non-bank lender has an advantage here to draw a closer connection between the assessment model, and have the same person understand and implement it through the frontline to their customers. Regularly reviewed performance monitoring of models and up-to-date on-boarding policies around compliance are essential to achieve and maintain compliance in this area.

A number of banks have implemented heavyweight technology-based solutions to uplift their processes to be compliant with CCCFA and have generally taken a conservative view on suitability and affordability. As a result, there may be more friction in customers' interactions with the banks, and lending decisions will appear to consumers to be more arbitrary (or just plain slower).

Non-bank lenders can take this opportunity to provide a more personalised service by making tailored decisions rather than being reliant on an inflexible policy. Providing good customer outcomes combined with good customer service will please consumers (and the regulator).

Non-bank lenders can take this opportunity to provide a more personalised service by making tailored decisions rather than being reliant on an inflexible policy.

3. Fees

Non-bank lenders and finance companies have in some instances been more dependent on fee income than larger entities and banks, and a lack of diverse revenue streams has led some non-bank lenders to charge higher fees than banks. Fees cannot be used to cover general business costs or generate profit, and non-bank lenders should exercise caution here to ensure the CCCFA fee obligations are being met. Non-bank lenders who are charging higher fees should be extremely diligent in the application of CCCFA and the ways in which these fees are justified.

Non-bank lenders who are charging higher fees should be extremely diligent in the application of CCCFA and the ways in which these fees are justified.

Lenders must now keep records about how they have calculated each credit and default fee. As well as keeping records at the time the fee is set, lenders must review their fees regularly to make sure that they are still reasonable and keep records of that review. The assessment of what can and can't be included can be complex and we recommend seeking specialist advice.

Previous enforcement action by regulators has demonstrated that some non-bank lenders have historically been poor at documenting processes for the setting and reviewing of fees and putting in place strong governance models. This has impacted the continuity of fee justification positions, which can lead to a reworking of the approach being likely as well as higher overall maintenance costs.

Many of the banks and larger entities have aggressively cut fees as they undertake fee justification exercises, and FinTechs are challenging the global lending status-quo by charging almost no fees, or a very low fee, to customers.

If non-bank lenders are not looking to make dramatic changes, then they should focus on fee justification and the 'close connection' test while considering facts such as not having brick and mortar businesses, and the depreciation that will inevitably bite into any development costs currently used to justify fees. This would also be an opportune time to review the approach to any fee discounting rules to ensure fairness across customers and minimise the risk of conduct issues.

Whether organisations see CCCFA as a potential advantage or an onerous requirement remains to be seen. What is certain is that the regulators will be paying close attention to the non-bank sector and the focus on good customer outcomes will continue.

KPMG has significant experience supporting customers with their CCCFA compliance. If you would like to speak to us please reach out to Malcolm, Gordon or Annabel.

Eight cyber security priorities for 2022

Philip Whitmore
Partner – Cyber Security Services
KPMG

Philip is a Partner in our Cyber Security Services practice with over 25 years' hands-on experience helping organisations manage their cyber security risks. He has worked extensively in the financial services sector, including with a range of banks.

Cyber security is about what you can do – not what you can't.

The threat landscape is expanding. Cyber-criminals are as entrepreneurial as ever and using increasingly sophisticated tools and technologies. In this fluid environment, we believe financial services organisations should adopt a mindset of enablement – cyber security is no longer just about prevention. It's not a matter of what you can't do, it's also what you can do – securely.

Looking toward 2022 and beyond, there are eight core topics that financial services organisations should prioritise. These themes, along with a focus on the increasing regulatory environment, can help financial services organisations better understand how cyber security can support the business with a security plan based on shared accountability.

1. Expanding the strategic security conversation

The last two years have redefined how we live, govern and conduct business. Securing and protecting critical assets, systems and, most importantly, sensitive customer data is no longer exclusively an issue for security and Information Technology (IT) professionals.

To better align security with the organisation's strategic business objectives, Chief Information Security Officers (CISOs) should help leadership across the business gain an appreciation for what goes into security and privacy by design. Change the conversation from cost and speed to a more effective security architecture aimed at delivering enhanced business value and user experience.

The costs of disruption of consumer-facing systems or compromised data outweigh what cyber teams typically quantify operationally and are magnified by degraded consumer and investor confidence, which can have a lasting impact.

Businesses need to strike a balance. Clearly, speed-to-market is essential for competitive advantage today, but it's equally important to embed security into business processes in a way that enables the organisation to maintain pace, rather than create a bottleneck within the cyber security team. The cost of not adequately focusing on security – in the form of lost customers, lost investors, and tarnished reputation – can be substantially higher than taking the time to do it right.

The cost of not adequately focusing on security … can be substantially higher than taking the time to do it right.

2. Achieving the X-factor: Critical talent and skillsets

It is becoming increasingly apparent that modern security programmes, led by forward-thinking security teams, empower organisations to move with agility, pursue growth and serve customers better.

Organisations should critically analyse where they and the cyber team spend their time, challenging the balance between strategy, planning, building and running (including reacting). With respect to cyber security, it's easy to get distracted by technology, however, when teams focus on their plan and their principles, technology decisions tend to become a little more obvious.

The opportunity is in the combination of automation, data analytics and artificial intelligence (AI), specifically machine learning, in a continuous controls monitoring model. That structure informs the data science aspects of decision-support systems and aligns real-time cyber security outcomes with the organisation's risk profile and response activities.

Cyber security professionals in general should continue to evolve their skills in a more system-based, strategic business direction. They need to adopt a multi-modal philosophy focused on standardisation, automation and data analytics.

Cyber security professionals in general should continue to evolve their skills in a more system-based, strategic business direction.

3. Adapting security for the cloud

Cyber security and cloud security are becoming synonymous. The only difference is the deployment environment, i.e. the technology stack. The environment in which these security controls are deployed requires extreme automation, from deployment through monitoring and remediation.

When it comes to security, cloud transformations must prioritise a broad array of regulatory and contractual factors. In terms of regulation, the veritable 'alphabet soup' of regimes continue to drive compliance complexity, especially around security, and should be top of mind. In this environment, cyber security teams are encouraged to add cloud security posture management (CSPM) to their toolbox.

This automated class of tools offer pre-configured policy checks mapped to specific regulatory regimes to help identify cloud-related misconfiguration issues and compliance risks. With the click of a button, potential misconfigurations can be scanned and identified.

On the contractual front, both cloud providers and the companies that use their services are entering into shared responsibility agreements that often are misunderstood, especially on the client side. As a result, ownership of security of the cloud versus security within the cloud can be a murky concept. Organisations should promote the view that all data that sits in the cloud is the responsibility of the organisation.

Organisations should ensure everyone understands cloud-specific security requirements and collaborate with the provider to avoid misconfigurations. Organisations that take this approach and seek to remain informed cloud customers can position themselves for success.

Organisations should ensure everyone understands cloud-specific security requirements.

4. Placing identity at the heart of 'Zero Trust'

With tens of thousands of employees working at their kitchen tables and in their home offices, and customers accessing information on their phones from anywhere and everywhere, protecting mission-critical and other sensitive data within a complex ecosystem of suppliers and partners has never been more essential.

In a post-pandemic business setting in which many staff are remote, interim fixes and temporary band-aids will likely prove to be unable to keep up with the pace and virulence of cyber-attacks and threats that are already bombarding organisations. It is likely that in the near future, users will likely no longer need to be 'on network' (i.e. through a persistent virtual private network (VPN) connection). Conditional access is expected to come from the trust and assurance that is engendered by the devices people use, and the authentication and decisioning processes that organisations implement.

There is growing interest in the concept of 'Zero Trust'[27] which has the guiding principle of 'never trust, always verify'. CISOs, and even more so, Chief Information Officers (CIOs) should continue to work toward the most effective means of implementing an organisation-wide zero-trust architecture, as well as a set of principles that aligns with business and operating priorities. All of this should be considered within the context of the organisation's overall cyber security, risk management and technology programmes.

Organisations should continue to view the least-privilege access principle as a core element of the zero-trust model to ensure that users do not have access to more than they need.

5. Exploiting security automation

While many see automation as a universal panacea, experience shows that the best outcomes derive from a pragmatic approach to its application. Start small and identify the use cases for automation that your organisation truly needs and with which it will be able to generate business value. While it is prudent to implement integrated corporate security architecture, keep it simple and do not over-engineer solutions.

While it is prudent to implement integrated corporate security architecture, keep it simple and do not over-engineer solutions.

Cyber security teams are increasingly overwhelmed by ever-growing workloads. It's a smart move to use tools sensibly in terms of automating some of your low-level incident management, so that you have enough time to devote to problems that require more nuanced or creative thinking.

Rather than having a separate security team for identifying vulnerabilities and breaches, security automation should shift left and be present at every critical intersection point in the systems development life cycle.

6. Protecting the privacy frontier

At most New Zealand financial services organisations, cyber security and data privacy are seen as different disciplines that often operate in separate silos. In an environment where so much sensitive data is captured and utilised, the review of third parties, new systems and new applications requires a multidisciplinary approach to privacy risk management – one that includes both privacy and security from the design phase through to organisational change management.

Keeping individuals' data secure and taking data privacy seriously is more than just implementing new processes to satisfy regulatory requirements – it's a cultural shift. Like security, organisations should adopt a privacy-first or privacy-by-design mindset. Embedding privacy and security into organisational change, culture, processes, technology and products is a good starting point and will likely help companies avoid costly retrofits and regulatory investigations as well as fostering trust inside and outside of the organisation.

Automation is critical for the effective management and enhanced efficiency of privacy processes, particularly privacy impact assessments and access requests. This can enable the organisation to leverage the governance, risk and compliance technologies in which they've invested – content and workflow management, and risk analytics, for example – which, in turn, can operationalise privacy modules that can make a tangible impact on data and access mapping.

Automation is critical for the effective management and enhanced efficiency of privacy processes.

Becoming familiar and conversant with emerging technologies such as automation and AI is important and recommended, but the basic principles from security and privacy perspectives are largely constant. That is:

- secure consent from individuals whose data you collect;
- only gather the data that is relevant;
- retain the data only as long as it is needed;
- dispose of the data when it's no longer needed; and
- protect it properly.

7. Securing beyond the boundaries

The race to transform digitally continues to be a high priority for financial services organisations, large and small. Becoming a digital-first organisation implies a data-centric approach in which data is shared on a near-constant basis throughout a complex and connected ecosystem of partners and suppliers.

A strong risk management framework that looks both inward and outward is key. Another key area of focus should be on automation, including the use of machine learning. Machine learning can be applied to security policies to address shadow IT issues and provide better oversight of third-party cloud products, as well as to implement self-service chatbots and automate many aspects of the organisation's third-party risk management processes.

Continuous controls monitoring (CCM) takes this a step further, moving security assessments away from point-in-time activities that become obsolete quickly. CCM can expedite vendor cycles through the use of machine-readable assessments, which ultimately enhance risk and control oversight.

8. Reframing the cyber resilience conversation

In today's volatile digital environment, resilience should include consideration of how well companies understand, anticipate, and are prepared to recover from the potential impact of a major cyber incident.

The cyber security team can't ensure cyber resilience on their own. It should be an organisation-wide effort with 'buy-in' and active support from senior management throughout the organisation.

Take the time to review your organisational cyber resilience plans and strive to ensure they're fit for purpose. Plans that were previously developed for physical resiliency issues are likely not suitable for a cyber event.

Don't wait for a cyber event to transpire to test your plans. Regularly simulating real-world cyber-attacks with executives is important and helps them understand the potential impact of a cyber-attack on the organisation, and what it takes to respond and recover.

Ownership
as at 1 December 2021

Non-bank Entity	Ultimate Shareholding	%
Avanti Finance Limited	Various investment/ nominee companies	100
BMW Financial Services New Zealand Limited	BMW AG (Germany)	100
Christian Savings Limited	Various private shareholders	100
First Credit Union	Various depositors	100
First Mortgage Trust	Various unitholders	100
FlexiGroup (New Zealand) Limited	Humm Group Limited (Australia)	100
Fujifilm Leasing New Zealand Limited	FUJIFILM Holdings Corporation (Japan)	100
Geneva Finance Limited	Various investment/ nominee companies; various private shareholders	100
Harmoney Corp Limited	Various shareholders, dual listed on NZX/ASX	100
Instant Finance Limited	Various private shareholders	100
John Deere Financial Limited	Deere & Company (USA)	100
Latitude Financial Services Limited	KVD Singapore Pte. Ltd	100
LeasePlan New Zealand Limited	SG Fleet Group Limited (Australia)	100

Non-bank Entity	Ultimate Shareholding	%
Leasing & Finance	Equipment, Leasing & Finance Holdings Limited	100
Mercedes-Benz Financial Services New Zealand Limited	Daimler AG (Germany)	100
Motor Trade Finance Limited	Various Licensed Motor Vehicle Dealers	100
Nelson Building Society	Various depositors	100
Nissan Financial Services New Zealand Pty Ltd	Nissan Motor Co. Ltd (Japan)	100
ORIX New Zealand Limited	ORIX Corporation (Japan)	100
Police and Families Credit Union	Various depositors	100
Ricoh New Zealand Limited	Ricoh Company, Ltd (Japan)	100
Toyota Finance New Zealand Limited	Toyota Motor Corporation (Japan)	100
Turners Automotive Group Limited	Various investment/ nominee companies	100
UDC Finance Limited	Shinsei Bank, Limited (Japan)	100
Unity Credit Union	Various depositors	100
Wairarapa Building Society	Various depositors	100

Credit ratings
as at 1 December 2021

	Standard & Poor's		Fitch Ratings		Moody's		Rating and Investment	
	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
Avanti Finance Limited	BB	Stable						
BMW Financial Services New Zealand Limited[28]	A	Stable			A2	Stable		
Christian Savings Limited			BB	Stable				
First Credit Union			BB	Stable				
First Mortgage Trust								
FlexiGroup (New Zealand) Limited								
Fujifilm Leasing New Zealand Limited[29]	AA-	Stable			A2	Stable	AA	Stable
Geneva Finance Limited								
Harmoney Corp Limited								
Instant Finance Limited								
John Deere Financial Limited[30]			A	Stable	A2	Stable		
Latitude Financial Services Limited[31]								
LeasePlan New Zealand Limited[32]								
Leasing & Finance								
Mercedes-Benz Financial Services New Zealand Limited[33]	A-	Stable	A-	Stable	A3	Stable		
Motor Trade Finance Limited								
Nelson Building Society			BB+	Stable				
Nissan Financial Services New Zealand Pty Ltd[34]	BBB-	Negative			Baa3	Negative	A	Negative
ORIX New Zealand Limited[35]	A-	Stable	A-	Negative	A3	Negative	AA-	Stable
Police and Families Credit Union								
Ricoh New Zealand Limited[36]	BBB+	Negative					A+	Stable
Toyota Finance New Zealand Limited[37]	A+	Stable	A+	Stable	A1	Stable	AAA	Stable
Turners Automotive Group Limited								
UDC Finance Limited[38]	BBB	Positive			Baa3	On Watch	A-	Stable
Unity Credit Union			BB	Stable				
Wairarapa Building Society			BB+	Stable				

Descriptions of the credit rating grades

Long-term credit rating grades assigned by Standard & Poor's	Description of the steps in the Standard & Poor's credit rating grades for the rating of the long-term senior unsecured obligations payable in New Zealand, in New Zealand dollars.
AAA	Extremely strong capacity to meet financial commitments. Highest rating.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BB	Less vulnerable in the near-term, but faces major ongoing uncertainties to adverse business, financial and economic conditions.
B	More vulnerable to adverse business, financial and economic conditions, but currently has the capacity to meet financial commitments.
CCC	Currently vulnerable and dependent on favourable business, financial and economic conditions to meet financial commitments.
CC	Currently highly vulnerable. Default has not yet occurred but is expected to be a virtual certainty.
Plus (+) or Minus (-)	The ratings AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.
BB, B, CCC, and CC	Borrowers rated BB, B, CCC and CC are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and CC the highest. While such borrowers will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.
Assigned by Fitch Ratings	Fitch Ratings applies 'investment grade' rates 'AAA' to 'BBB' to indicate relatively low to moderate credit risk, while for those in the 'speculative' or 'non-investment grade' categories which have either signalled a higher level of credit risk or that a default has already occurred, Fitch Ratings applies a 'BB' to 'D' rating. The modifiers '+' or '-' may be appended to a rating to denote relative status within the major rating categories. Credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and not predictive of a specific frequency of default or loss.
Assigned by Moody's Investors Service	Moody's Investors Service appends numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates the lower end of that generic category.
Assigned by Rating and Investment Information, Inc.	Rating and Investment Information, Inc. applies a rating scale where the grades of 'AAA' to 'BB' indicate the highest level of creditworthiness supported by excellent factors, to a sufficient level of creditworthiness where some factors require attention at times. Grades of 'B' to 'C' are applied where creditworthiness is questionable and some factors require constant attention, to cases where an obligation is in default. Rating and Investment Information, Inc. include the use of modifiers, such as '+' or '-' to the categories of 'AA' to 'CCC' to indicate the relative standing within each rating category.

Definitions

Terms and ratios used in this survey	Definitions used in this survey
Gross impaired assets	Includes all impaired assets, restructured assets, and assets acquired through the enforcement of security, but excludes past due assets.
Gross loans and advances	Includes loans and advances, lease receivables (net of unearned income) and accrued interest receivable (where identifiable), but excludes amounts due from banks, marketable securities, loans to related parties, sundry debtors and prepayments.
Gross revenue	Includes gross interest income, gross operating lease and net other income.
Impaired asset expense	The charge to the Profit or Loss Account for bad debts and provisions for doubtful debts, which is net of recoveries (where identifiable).
Interest bearing liabilities	Customer deposits (including accrued interest payable where identifiable), balances with banks, debt securities, subordinated debt and balances with related parties.
Interest earning assets	Cash on hand, money on call and balances with banks, trading and investment securities, net loans and advances (including accrued interest receivable where identifiable), leased assets net of depreciation and balances with related parties.
Interest expense	Includes all forms of interest or returns paid on debt instruments.
Interest spread	Difference between the average interest rate on average interest earning assets, and the average interest rate on average interest bearing liabilities.
Net assets	Total assets less total liabilities.
Net interest income	Interest income (including net income from acting as a lessor) less interest expense.
Net interest margin	Net interest income divided by average interest earning assets.
Net loans and advances	Loans and advances, net of provision for doubtful debts.
Operating expense	Includes all expenses charged to arrive at net profit before tax excluding interest expense, impaired asset expense, subvention payments, direct expense related to other income (where identifiable) and depreciation of leased assets where a lessor.
Operating income	Net interest income, net operating lease income and net other income (where direct expense related to other income is identifiable).
Past due assets	Includes any asset which has not been operated by the counterparty within its key terms for 90 days and which is not an impaired or restructured asset.
Provision for doubtful debts	Includes both collective and individual provisions for bad and doubtful debts.
Total assets	Excludes goodwill assets (unless specifically defined).
Ultimate shareholding	Identifies the ultimate holding company rather than any intermediate holding companies.
Underlying profit	Operating income less operating expense and impaired asset expense. Items of a non-recurring nature, unrelated to the ongoing operations of the entity, are excluded.

Endnotes

1 https://www.1news.co.nz/2021/08/17/ardern-wants-lockdown-to-be-short-and-sharp-not-light-and-long/
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20 https://www.stuff.co.nz/business/127082106/lvr-restrictions-turning-more-buyers-to-nonbank-lenders
21 The related articles are hyperlinked to provide the reader with the ability to access the respective news releases.
22 https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Statistics/tables/c31/hc31.xlsx?revision=bffb0eb2-bf43-4aa8-856b-488695106859
23 This data represents the results of the L & F 2020-1 Warehouse Trust.
24 Net Tangible Assets.
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27 https://en.m.wikipedia.org/wiki/Zero_trust_security_model
28 Rating of parent company BMW AG (Germany).
29 Rating of parent company FUJIFILM Holdings Corporation (Japan).
30 Rating of parent company Deere & Company (USA).
31 Rating of parent company KVD Singapore Pte. Ltd (Singapore).
32 Rating of parent company SG Fleet Group Limited (Australia).
33 Rating of parent company Daimler AG (Germany).
34 Rating of parent company Nissan Motor Co. Ltd (Japan).
35 Rating of parent company ORIX Corporation (Japan).
36 Rating of parent company Ricoh Company Ltd. (Japan).
37 Rating of parent company Toyota Motor Corporation (Japan), Moody's and Fitch. Rating of Toyota Finance New Zealand Limited, S&P.
38 Rating of parent company Shinsei Bank, Limited (Japan).

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