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UNIVERSITY OF NEW ZEALAND

FIPS

Financial Institutions Performance Survey

Banks – Review of 2022

Contents

A snapshot of 2022

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The Survey

Welcome to Part Two of the 2022 edition of the Financial Institutions Performance Survey – the bank sector review.

The KPMG Financial Institutions Performance Survey (FIPS) report of 2022 represents the 36th year that KPMG has provided in-depth insights into New Zealand's banking sector. In this 36th edition we present industry commentary and analysis on the performance of the New Zealand registered banks, together with a range of topical articles from other key stakeholders such as industry experts, regulators and our own business leaders.

The survey covers registered bank entities with reporting dates between 1 October 2021 and 30 September 2022. As a result, registered banks with the reporting date of 31 December 2021 have had their 31 December 2021 financial results included in this year's survey as their most recent annual results. This includes Bank of China, China Construction Bank, Citibank, Industrial and Commercial Bank of China, JPMorgan Chase Bank, Kookmin Bank, Rabobank and The Hongkong and Shanghai Banking Corporation.

There have been no changes to the bank participants this year.

As with previous FIPS, the information used in compiling our analysis is extracted from publicly available annual reports and disclosure statements for each organisation, with the exception of certain information which is provided directly from the survey participants.

We wish to thank the survey participants for their valued contribution, both for the additional information provided and for the time made available to meet and discuss the industry issues with us.

TABLE 1: Entity movements[1]		
	Who's out	Who's in
Banks: 27	Nil	Nil

Massey University continues to be a partner and key contributor to the compilation of the publication, assisting with the data collection as well as drafting the banks' industry review and forecasts section of this survey and providing an insight into their GDP live model. We thank them for their continued contribution.

External contributors continue to play a vital role in our publication, providing insights on key issues and developments that we might not otherwise have. We would like to acknowledge the contributors from Centrix, the Council of Financial Regulators (CoFI), the New Zealand Banking Association (NZBA) and the External Reporting Board (XRB) for their exceptional contribution towards the compilation of this publication.

We have supplemented their external thought leadership commentary with some of KPMG's own business line thought leadership. We trust you find the content of this survey of interest.

A KPMG view from the editor

John Kensington
Partner – Audit
Head of Banking and Finance
KPMG New Zealand

John has been with KPMG's Financial Services audit team for over 38 years, 25 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, a committee member of the Royal New Zealand Yacht Squadron and a Trustee of Breast Cancer Cure.

As I sit down to write this letter, I reflect on the level of change that has occurred both during the year covered by the review and up until now – and the turbulent nature of that change.

At the beginning of the year, we were just getting used to living with Covid-19 after having endured the lockdowns and moving from the 'eliminating it' phase to the 'living with it' phase. Then the conflict in Ukraine broke out impacting supply chains. Shortly after this the Reserve Bank of New Zealand (RBNZ) embarked on the first steps of removing the substantial amounts of money pumped into the economy via quantitative easing, to support it during Covid-19.

Interest rates rose at a pace not previously seen and to a level that surpassed all expectations. Global events put further pressure on supply chains and together with the quantitative tightening saw inflation move to record levels in record time.

Even as I write this foreword, I am reflecting in shock on the impact that tropical cyclone Gabrielle and the associated storm and weather events have had across the country, in particular the impact that it has had in certain regions of the country.

What has become apparent is that in all walks of life, the pace of change that we have faced this year has been unlike any other. The ups, downs (and sideways) that have impacted the economy, our businesses and our personal lives have been severe and have emanated from a number of different fronts – and are showing no signs of slowing down.

The banking sector is not immune from this and we have seen some incredible events over the year.

We have seen a raft of legislation introduced that, despite submissions from industry groups and other interested parties, has at times missed the mark and, in some cases, inadvertently created further problems. According to survey participants the sheer volume of regulation has not slowed and there is little phasing to its implementation and no proportionality to it.

The banks have also had to deal with the impact of both rising interest rates and inflation, not just on their own businesses, but also the businesses of their customers, and during this period the banks have made record profits much to the surprise of some commentators.

This year, in light of the record profits and resulting commentary, we have analysed the level of bank profits, what has caused them and the contributions that the banks make to the New Zealand economy and society. On **page 19** of this document we have attempted to present a balanced picture. Bank profits are not all bad and there is a reason that in the current period, the banks have done so well. They have had available until recently, significant pools of cheap funding and have been able to lend to customers who, upon seeing the lowest interest rates we've ever experienced, have been more than willing to borrow. This does not mean banks have lent recklessly, quite the contrary, given they have been somewhat restricted by new regulation (i.e. the Credit Contracts and Consumer Finance Act 2003 (CCCFA)) and careful credit decisioning.

What has become apparent while compiling the survey is that the banking sector has had to deal with a significant number of challenges this year including rising interest rates, rising inflation, and an array of new and extremely demanding regulatory requirements which sometimes have unintended consequences and don't necessarily address the most critical issues.

It is clear that the banks have realised New Zealand is heading into a recession. The RBNZ Governor has even indicated that this is where he is looking to take the economy – albeit gently. The banks have used this time to tidy up their balance sheets and assist their customers to do the same so that over the next two to three years the banks are well placed to continue to be able to provide a full range of products and support to their customers. What has also become apparent is that the banking sector recognises ahead of many others that the next few years are going to be incredibly difficult from an economic perspective, and even more so when the climate, sustainability and social impacts that are affecting our country are factored in. The banks recognise that over the next two to three years, New Zealanders are going to have a number of economic and fiscal challenges and they have positioned themselves to assist. In fact, many have indicated that this is their chance to truly demonstrate their social license and rebuild trust by assisting their customers through what will undoubtedly be a challenging period.

These coming years will be 'interesting times' because New Zealand has traditionally come through global crises (e.g. the share market crash of 1987, the Asian crises of 1997–99 and the Global Financial Crisis (GFC) of 2008) particularly well for the first couple of years but, historically, have been harder hit in years three and four. This is the precipice on which we find ourselves standing right now. If the economic challenges from trying to remove the enormities of quantitative easing from the economy, battling a broken supply chain, inflation and rising interest rates were not great enough, we now also have significant social issues to face.

In addition, it's an election year. The incumbent two term Government has tried to implement an ambitious set of policies that some might say have happened at too fast a pace for a number of New Zealanders to readily accept. This has led to the country undergoing certain social challenges and degrees of unease not seen before. When this is wrapped up with the economic challenges and the ever increasing climate challenges (both from an awareness perspective and the speed of the change and the impact of it) we are in for a bumpy couple of years. There is no doubt that many of the changes and challenges we're facing, whether economic, social or climatic, need to be phased into our current ways of operating.

While the majority of people do not naturally like change, we are fortunate that in comparison to others, our economy is in not too bad a shape and the engine room of that economy, our banking system is in good stead. I do truly believe that as we tackle some of the economic, social and climatic changes over the next couple of years, we will be able to look back and be very grateful for the strength of our banks. Only time will tell, however, I believe that not only will we be grateful for this strength, but we will also see that they play a pivotal role in helping our economy through the challenges that it faces.

J. P. Kemp

Sector – Themes and issues

Speaking to the CEOs and CFOs of the banks emphasised that these icons represented the key themes and issues that they considered daily. Historically, business leaders thought of these themes as separate issues, but increasingly they are now inextricably interlinked.

- Faltering housing market
- Shortage of talent
- Inflation/Cost pressures
- Cybersecurity
- Purpose
- Climate reporting
- ESG (Environmental, Social and Governance)
- CCCFA
- Provisioning models – performance, overlays and releases
- Rising interest rate environments
- Conduct/ remediation regulator response
- Volume of regulation
- Supply chain pressures
- Impact of work from home (WFH)
- Channel transformation and digital movement
- Disruptors in the sector/ Fintech
- Acquisition/ consolidation
- Product innovation

Industry overview

Information current as at 8 March 2023

Over the past few years, we have faced heightened uncertainty, firstly through the pandemic and the lockdowns it brought, and more recently as we have dealt with soaring inflation and a rising interest rate environment. As we move through 2023, we have commenced the year with major weather events, including Cyclone Gabrielle, and we will continue to see the effects of a tighter monetary policy and potentially a lengthy engineered recession. The Reserve Bank of New Zealand's (RBNZ's) Governor has identified the recession as a high likelihood event. There is increasingly less doubt it is when, rather than if, this plays out that the banking sector will then be called upon to support borrowers as they step into a more difficult economic environment. All the while the banks will be navigating a huge volume of regulatory change themselves. There is an increasing likelihood that the next two to three years could be the most challenging that the New Zealand economy has seen and the banks will play a pivotal role in steering the country and New Zealanders through it.

Economic uncertainty

Inflation

Inflation remains at the forefront of our survey participants' minds when discussing the economic uncertainty facing them and their borrowers. The Consumer Price Index (CPI) increased 7.2% annually in the December 2022 quarter. This follows an annual increase of 7.2% in the September 2022 quarter and 7.3% in the June 2022 quarter, which was a 32-year record high.

The main driver noted for increased inflation was housing and household utilities, which were due to rising prices for both construction and rentals. Following this, the next largest contributor to the annual increase was from food prices and transport costs[2]. The impacts of the monetary policy decisions during the Covid-19 pandemic and the Russian invasion of Ukraine have combined to lead to an increase in prices worldwide and along with this has come inflation.

A key contributor to domestic inflation noted by survey participants was the continued high levels of Government expenditure. This is seemingly at odds with what the RBNZ is both trying to do itself and signal to the economy, that is, to limit expenditure and implement austerity measures, and in the words of the RBNZ's Governor, engineer a recession with increasing interest rates being used to achieve this.

> "Inflation remains at the forefront of our survey participants' minds when discussing the economic uncertainty facing them and their borrowers.

Some survey participants have conducted their own research and found that the bulk of the domestic inflation was driven by immigration issues, noting that it is an area that any incoming government needs to address, and swiftly. Cost pressures and operational efficiency were two consequences of high inflation, and while our survey participants noted that this is always present and there is always a risk existing, these current circumstances are currently pushing the limits. The country needs to see inflation decrease, and one way to do this would be to ensure that there are sufficiently skilled resources available in order to improve productivity.

Some commentators believe that the problem is not too much demand for products, as the current cost of living is already causing the demand outlook to soar as wage increases are not keeping pace with costs. Rather, the issue is too little supply, with prices increasing due to global supply constraints brought on by factors such as the conflict in Ukraine, pandemic-

> **Economists have lowered their forecasts for the peak OCR to around 5% following unemployment data coming in slightly higher than expected.**

induced logistics problems and the reduced availability of resources. Therefore, the RBNZ's current monetary policy could be perceived as a very blunt tool[3].

Interest rates

In November 2022, the RBNZ raised the Official Cash Rate (OCR) by 75 basis points (bps) to a 14-year high of 4.25% as part of its continued response to inflation, with expectations of a peak of 5.5%[4]. More recently, economists have lowered their forecasts for the peak OCR to around 5% following unemployment data coming in slightly higher than expected[5]. In February 2023, the RBNZ raised the OCR again, this time by 50 bps to 4.75% which is lower than what many anticipated due in part to the recent weather events related to Cyclone Gabrielle. Over the course of the last year the OCR has been increased by a record 350 bps[6].

Some of those surveyed believed it took longer in New Zealand compared to other countries for increases in the OCR to impact households as a large percentage of loans were fixed rather than floating. Therefore, the RBNZ were forced to signal what they intended to do (or saw the economy doing in the future) to help drive decision making to reduce inflation.

The delay in the impact of re-fixed interest rates increases the chances of the rate rises overshooting their target.

Looking at the banking sectors' net interest margin (NIM), survey participants have been able to price their loans and deposits to maintain or increase margins. However, with older deposits at lower rates now maturing, some participants noted that it might be more difficult to maintain their margins going forward. Some also acknowledged that many banks were assisted by the Funding for Lending Program access to cheaper funding and that their rates will have to increase slightly since the programme ended in December 2022.

When thinking of their customers, survey participants were concerned about borrowers' ability to service their debt as interest rates rise. Some banks noted that around half of their borrowers still had loans with an interest rate under 4%. As these were re-fixed or floated in the first or second quarter of 2023, those interest rates would increase to above 6%. This, accompanied with the rising cost of living, may put a number of borrowers under great pressure. This is particularly the case if those borrowers had their serviceability tested at a rate lower than current interest rates and those who purchased with a higher loan-to-value ratio (LVR) at the peak of the market.

Another area of concern to the banking sector is the belief held by some of the younger generation that interest rates will revert to what they believe is the 'normal' level of 2–3%. This generation noted that they could withstand the current interest rates for a couple of years, but were looking forward to when they returned to the levels seen through the pandemic. Sector participants were concerned with this naivety shown by some of their borrowers, with rates unlikely to fall that low again anytime soon. On the flip side, the older generation who had paid off their debt were quite happy that deposit rates were climbing back to around 5%.

5 See Figure 5 – page 15

Overall, survey participants believed interest rates would stay at these higher levels for a couple of years, and borrowers would have to get used to this new level of debt repayments.

An engineered recession

The RBNZ's Governor has worried a number of sector participants by openly stating that he intends to engineer a recession. While everyone understands the impact of reversing the quantitative easing measures taken during the pandemic might cause a recession, it is the fact that he has publicised this intention that left many participants surprised. Some have asked how the RBNZ suddenly has accurate enough data to predict this when for the last two years most forecasts, not just the RBNZ's, have not come to fruition.

Despite the questions raised about the RBNZ announcing the intended engineered recession, most in the banking sector believe we will face a recession that will last years rather than months. This is not something we have experienced in New Zealand for a long time. Some noted that the predicted recession was continuing a pattern as it was expected to occur two to three years after the pandemic, likening it to the delayed impact of the share market crash in 1987, which was felt in 1991, the Asian crisis of 1997 felt in 1999, or the impact of the global financial crisis (GFC) in 2008–09, which wasn't felt until 2011. Sector participants also noted that there was an expectation on them to help customers through recessionary times by doing whatever they could to assist. We have seen this before during the pandemic, the recent Auckland floods, and the response to Cyclone Gabrielle and may see it continue as borrowers battle the cost of living, higher interest rates and potentially rising unemployment. The sector itself noted that many of its customers were well placed to weather a potential recession with bolstered balance sheets.

Cooling housing market

Not much has changed with the cooling housing market since the release of the 2022 Non-Bank FIPS publication, except the continued steady decline in national house prices.

> “ Decreasing house prices can be attributed to several factors, including stricter lending standards from banks, inflation and higher interest rates.

In December 2022, the average national house price was $944,767, a 10.3% reduction over the last 12 months, and a 0.1% reduction from November 2022[7]. Although there are signs that the pace of the decline may be slowing, most survey participants and economic commentators expect that the housing market will continue to fall throughout 2023.

Decreasing house prices can be attributed to several factors, including stricter lending standards from banks, inflation and higher interest rates.

Many of the survey participants have commented that they have been more cautious about potential borrowers they lend money to due to both the uncertainty surrounding New Zealand's future economic environment and the tighter lending regulations that the Credit Contracts and Consumer Finance Act 2003 (CCCFA) imposed. This Act limits the amount of people able to get funding, and in turn decreases the demand for houses in New Zealand which has led to the falling property market.

Inflation is another factor impacting the market as it leads to an increase in interest rates, with the RBNZ raising the OCR to a 14-year high of 4.75%. Increasing interest rates have had a significant impact on many home buyers in the market, especially first-home buyers. Mortgage interest rates have increased from 4.2% (average bank two-year fixed rate) in December 2021 to over 6.5% in December 2022[8].

This increased cost of finance is driving both uncertainty and affordability issues, resulting in the slowdown of the housing market and declining house prices.

1 See Figure 1 – page 14

2 See Figure 2 – page 14

3 See Figure 3 – page 14

Many borrowers would not have factored in such a steep increase in interest rates throughout the year and may struggle to service their loans after needing to re-fix or float at higher rates at the same time as trying to cope with the cost of living rises. Survey participants are starting to worry about some of their current borrowers who may face challenges with increasing interest payments as rates move outside of their serviceability tested range.

It will be interesting to see whether prices continue to fall later in the year as interest rates are predicted to level off. There may also be a chance that property investors may re-enter the market if there is a change of government in October 2023, with the Opposition indicating that they would reverse the interest deductibility rules and scale back the bright-line test.

Credit quality

In last year's survey of the banking sector, we saw an impairment recovery of over $200 million across the banking sector. This was not unexpected given New Zealand's strong initial recovery from lockdowns during the pandemic.

4 See Figure 4 – page 14

It was not expected that the banking sector could or would report another impairment recovery in 2022, but the improvement of loan books and credit quality is something that survey participants have continued to see across the board. It is important to note that for the majority of the reporting periods captured by the survey, interest rates and unemployment remained low, leading to the low impairment charge.

The total provision for doubtful debts as a percentage of gross loans and advances decreased from 0.53% in the 2021 survey to 0.50% in the current year's survey, illustrating that banks believe the quality of their loan books have continued to improve in the periods captured by the survey (see **Table 7**).

25 See Figure 25 – page 43

26 See Figure 26 – page 43

> Participants believed that the economic environment was going to prove difficult for some borrowers and that an increase in arrears could be expected in another year of uncertainty.

However, there have been signs of the tide starting to turn in the second half of 2022 and early into 2023 with an increasing interest rate environment, a cost of living crisis, falling house prices and the RBNZ stating their intention to engineer a soft recession. See **Table 8**. Many banks are now watching their arrears and past due loans with a little more interest, with some of these already starting to rise. Survey participants believed that the economic environment was going to prove difficult for some borrowers and that an increase in arrears could be expected in another year of uncertainty.

Looking forward, it will be interesting to see whether the level of provisioning across the sector begins to increase again as borrowers are forced to deal with higher interest rates for a longer period of time, the continuing cost of living crisis, house prices which are expected to continue falling over the year and the potential engineered recession predicted by the RBNZ. It will also be key for the sector to have adequate models in place to estimate their expected credit losses, with the results from the last few years making this a tricky process.

Further analysis of this year's survey results on impairment and provisioning levels is included on **pages 48** and **92**.

CCCFA

The CCCFA remained a hot topic among survey participants, just as it did within the non-banks sector survey. Over a year since the legislative changes were introduced, the consequences and impacts of the regulations have started to become clearer. For many, the CCCFA was the posterchild for poor regulation, it was not well thought out and there have been a range of negative unintended consequences, all of which were predicted.

The unintended consequences were partially due to the mistaken belief that a one size fits all approach would be appropriate, combined with lack of oversight of how the practical implementation would work. Our survey participants reinforced the negative outcomes that the CCCFA is having on borrowers and felt the extremely poor piece of legislation was looking to solve a problem that did not exist. This in turn caused widespread disruptions to lending.

1 **See Figure 1 – page 14**

2 **See Figure 2 – page 14**

3 **See Figure 3 – page 14**

None of the survey participants felt that it is good business to lend money to those who are unable to repay borrowed money, as the bank would be the one which ends up losing out. However, they emphasised that the legislation was restricting finance to people that really needed it. The CCCFA was constructed to provide protections against predatory lending. However, due to its untested nature, lack of guidance and lack of public announcement of its impacts, it has had widespread unintended consequences.

Major lending institutions remain uncertain and cautious about the interpretation of the regulations and potential liability under it, which has meant that their policies surrounding lending have shifted to a highly conservative approach. This has resulted in more rejections of applications as major lending institutions' appetite for risk has decreased. This has sent many borrowers to lenders from a lower tier, with some people with lower credit scores unfortunately being forced to borrow from the predatory lenders that the Act was looking to remove from the market. It also frustrated survey participants that the legislation was introduced at a time when genuine lenders and borrowers needed to work together to help restart the economy after the pandemic.

> While the Government has made changes to the legislation, they have never really apologised or admitted to the shortfalls of the legislation.

Another concern mentioned was in relation to the regulatory penalties for non-compliance with the Act being far too excessive. Many participants noted that the penalties under the legislation were not proportionate to the potential damage done to borrowers, and that the onus to identify any errors was always on the bank. Participants indicated that minor breaches and delays in the lending process have led to largely excessive fines. The fact that the legislation left banks vulnerable to class actions also worried those surveyed. Lastly, the liability on directors was deemed as an overkill by some participants and was forcing lenders to be over conservative, leading to a restriction in lending.

To conclude, while the Government has made changes to the legislation, they have never really apologised or admitted to the shortfalls

> A commonly expressed sentiment was that the regulation is "detrimental and onerous, putting those bank branches at a disadvantage due to the resultant costs and other implications".

of the legislation. Instead, the Government pointed towards seasonality for the lower volume of lending and noted that the CCCFA enforces responsible lending across the sector. However, the data does not support the assumption that historical lending was inappropriate and led to higher levels of borrowers defaulting.

Finally, it is also worth mentioning that some survey participants noted one positive unintended consequence from the implementation of the CCCFA for banks – the time that the legislation came into effect coincided with the peak in the housing market. This meant the banks which dialled back lending in response to the legislation did not lend as much to borrowers on property which would now be considered riskier due to the higher LVR and higher debt-to-income ratio (DTI) of the loan and the fact they were issued at the peak of the market, a market that has since fallen. The confusion caused by the CCCFA has resulted in banks' lending less at the property market peak.

Volume of regulation

In addition to dealing with the difficulties of the CCCFA, the banking sector has also had to navigate a range of other legislation being piled on top of one another including the RBNZ's review of policy for branches of overseas banks, the Deposit Takers Bill, and the Financial Markets (Conduct of Institutions) Amendment Act 2022 (CoFI).

On top of this are the new climate reporting standards which came into effect for reporting periods beginning on or after 1 January 2023 (see the External Reporting Board's (XRB's) article, *Climate-related disclosures — What you need to know*, on **page 23**).

The RBNZ's review of policy for branches of overseas banks seeks to alter the way an overseas bank can operate a branch in New Zealand. It either must be an incorporated subsidiary in New Zealand (complying with New Zealand regulation), or be dual registered with lending and deposit limits. This regulation has the potential to be a game changer in the industry, especially for smaller players which rely on retail deposits for lending operations. The purpose of the Branch policy is to capture overseas banks within New Zealand regulations; however, some unintended consequences could arise, the most serious of which could be the overseas parents looking at the cost of doing business in New Zealand together with the regulation placed on the branch and then concluding that New Zealand isn't a core place for them to do business.

A commonly expressed sentiment was that the regulation is "detrimental and onerous, putting those bank branches at a disadvantage due to the resultant costs and other implications"[9].

Survey participants acknowledged that strong regulation is necessary, but it needs to be scalable and proportional. The RBNZ is set to confirm the outcome of the submissions and this policy review in early 2023.

The Deposit Takers Bill establishes a Depositor Compensation Scheme run by the RBNZ to protect depositors from loss if a deposit taker fails. The scheme is to guarantee deposits of up to $100,000 per depositor per bank. The scheme would be fully funded by levies from licensed deposit takers (with a funding backstop from the Crown)[10], which adds further costs to a bank's operations. A number of banks have argued that the risk of them collapsing is mitigated by other regulation, such as the RBNZ requiring them to increase the level of capital they hold over a seven-year period. There is also discussion within the industry on how levies are spread between banks and whether these should be risk-based[11]. A few survey participants noted their deposits were already insured or guaranteed by their overseas parent.

CoFI is an amendment to the Financial Markets Conduct Act 2013 (FMCA) aimed to ensure that banks treat customers fairly. Survey participants believed this would bring a very real change with high expectations on both standards and behaviours. Some noted that the amendment lacked logic as regulators had previously said the conduct of banks was pretty good. Therefore, it would be odd for the Financial Markets Authority (FMA) to now come up suddenly with more serious findings under CoFI.

> One of the most significant challenges identified by many survey participants was the shortage of skilled labour.

A primary concern of sector participants was that all of these regulations are being piled on top of each other at the same time, without any indication of which should be prioritised. With a shortage of skilled workers in this area, it is increasingly difficult for some banks to meet all the requirements to the standard that they would like. There is little or no thought to sequencing of these regulatory changes.

Competition for talent

Once again, one of the most significant challenges identified by many survey participants was the shortage of skilled labour. The unemployment rate has remained at historical lows, increasing very slightly to 3.4% in the December 2022 quarter.

Similar to the non-bank sector, the shortage of talent has driven up salaries, with many survey participants experiencing inflationary pressures in employee costs (due to both the competition for talent and increased regulation requiring a larger workforce). While the non-bank sector indicated their staff were being poached by the banking sector who could offer larger salaries and signing bonuses, the banking sector has pointed towards the Government and other regulators as the entities that were growing in size, and therefore, taking their skilled labour, and driving up inflation.

Survey participants also emphasised that there was a smaller pool of talent to be shared around, primarily due to New Zealand's border restrictions through the visa process. Sector participants believed this was a key area that the Government needed to address in order to prevent wage costs from continuing to spiral out of control, while at the same time allow businesses to staff up and operate closer to capacity. It was noted that the administrative requirements relating to immigrant workers moving to New Zealand were significant, and often took months to a year to be completed. Relaxing these requirements was identified by many as a lever the Government could pull to assist businesses attract the talent that they needed to operate efficiently. However, many thought that the Government was holding on to the ideological idea that immigration restrictions would improve New Zealand's low wage economy without considering other consequences such as its contribution to inflation.

In addition to the slow inflow of talent into the country, there was also an increase in outflow. A number of employees were moving back to their home countries to be reunited with their friends and family. There was also a build-up of young professionals seeking to go on their overseas experience (OE) now that it was safer to do so.

Many of those surveyed thought the talent shortages hit the banking sector particularly hard due to the skillset it required. The ever-increasing regulatory requirements led to a shortage in this area, including in the ESG (Environmental, Social and Governance) space

> Mandatory climate reporting has finally arrived at the doorstep for most of the banks included in the survey.

where survey participants noted that there were not enough people in the market who had the necessary skills to implement the required disclosures. Additionally, the well-known shortage in the technology sector was hitting banks who were upgrading legacy systems, trying to innovate to provide a better online offering, and maintaining the necessary level of cybersecurity.

The staff shortages meant some survey participants could not compete with some of the 'over-the-top' salaries offered by other organisations. Some noted this high level was underestimated in the highly regulated industry where it was important to have staff with knowledge of the business and the experience required to keep up with regulations in order to prevent financial and reputational damage. One participant compared the situation to a year ago when everyone in their organisation had around five years' experience, while now most employees had been with the bank for less than a year.

> Participants believed that the climate reporting requirements were important and necessary and presented an opportunity for New Zealand to be a global leader.

Others believed the shortage would increase the move to artificial intelligence (AI) which could ultimately lead to the closure of further branches and even call centres.

Climate reporting

Mandatory climate reporting has finally arrived at the doorstep for most of the banks included in the survey. The XRB released Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (NZ CS 1) on 14 December 2022, effective for annual reporting periods beginning on or after 1 January 2023.

With the release of NZ CS 1, those survey participants with greater than $1 billion in assets or a listed entity with market capitalisation of more than $60 million will be required to adopt the standard alongside existing financial disclosures.

Participants believed that the climate reporting requirements were important and necessary and presented an opportunity for New Zealand to be a global leader. It was apparent that the industry was working together collaboratively to tackle the new climate reporting requirements, particularly with scope 3 emissions proving to be a challenge to measure.

It was noted from survey responses that there were varying levels of progress in terms of compliance with the new standards, with the larger banks tending to have been better resources and were further down the path than some of the smaller banks. Resourcing was an issue for some as there was a shortage of talent in the market with the necessary skills for high quality climate reporting. Due to this, some survey participants expressed concern around whether they would be able to provide reporting to the standards expected from the regulators.

Some of the smaller banks noted that they did not have many small or medium-sized clients, and it was easier to obtain climate reporting information from their portfolio of larger clients. The small number of banks, which did not meet the threshold for climate reporting in New Zealand, noted that they would still need to report on similar information to their parent entities.

Cybersecurity

With the transition of the world into a more digital society, the importance of cybersecurity has never been greater, with the cost of crime reaching unprecedented heights and expected to rise. With many survey participants planning to digitalise their businesses further, they noted cybersecurity as one of the most important challenges the banking sector was facing.

Survey participants mentioned that processes and controls around the prevention of fraud and scams were crucial to ensure that they, and their customers, were protected. No company is immune from a cyber-attack, and the banking sector was focused on always being one-step ahead of the cybercriminals.

Survey participants noted that the increase in cybercrime was being driven by more data being collected and held by banks, meaning there was a greater reward for successful attacks with this data being able to be used inappropriately or sold. These thoughts were backed up by statistics showing that for the quarter ended 30 September 2022, the cost of cybercrime reached a historic high with New Zealanders losing $8.9 million. The most common cybercrimes noted were phishing, scams and fraud[12]. Just recently a new scam conned New Zealand investors out of millions in just a few weeks[13].

Banks were aware of this risk, but had to weigh up the benefits of holding customers' data (such as improved customer service and better

> With many survey participants planning to digitalise their business further, they noted cybersecurity as one of the most important challenges the banking sector was facing.

suited product offerings) with the risk of being a larger target of cyber-attacks. On another note, they also had to consider the public's expectation that their data was not shared with anyone, against the future of open banking where customer data was expected to be easily transferred between banks.

Cyber-attacks were often targeted at vulnerable customers such as those who are elderly and not as aware of phishing attacks and scams. Survey participants were concerned that the onus of protecting customers from phishing attacks and scams always fell on the bank rather than the customer, with the customer often being misled to hand out sensitive information such as bank card details or passwords. The banking sector was trying to inform customers of such attacks so that they could be better prepared, but also had to take action themselves as the responsibility seemed to always fall upon them.

Survey participants mentioned that they had been subjected to a number of attacks over the past year, and therefore, needed to put in additional work to gain back the public's trust as it would not come automatically.

Many survey participants with parent companies overseas were grateful that they could utilise the cybersecurity systems of their parent and learn from their experiences. Of those without a parent overseas, many had not yet experienced a large cyber-attack, but were focusing on preventing attacks in the future.

Looking ahead

There are a number of areas to consider when thinking of the year ahead for the banking sector.

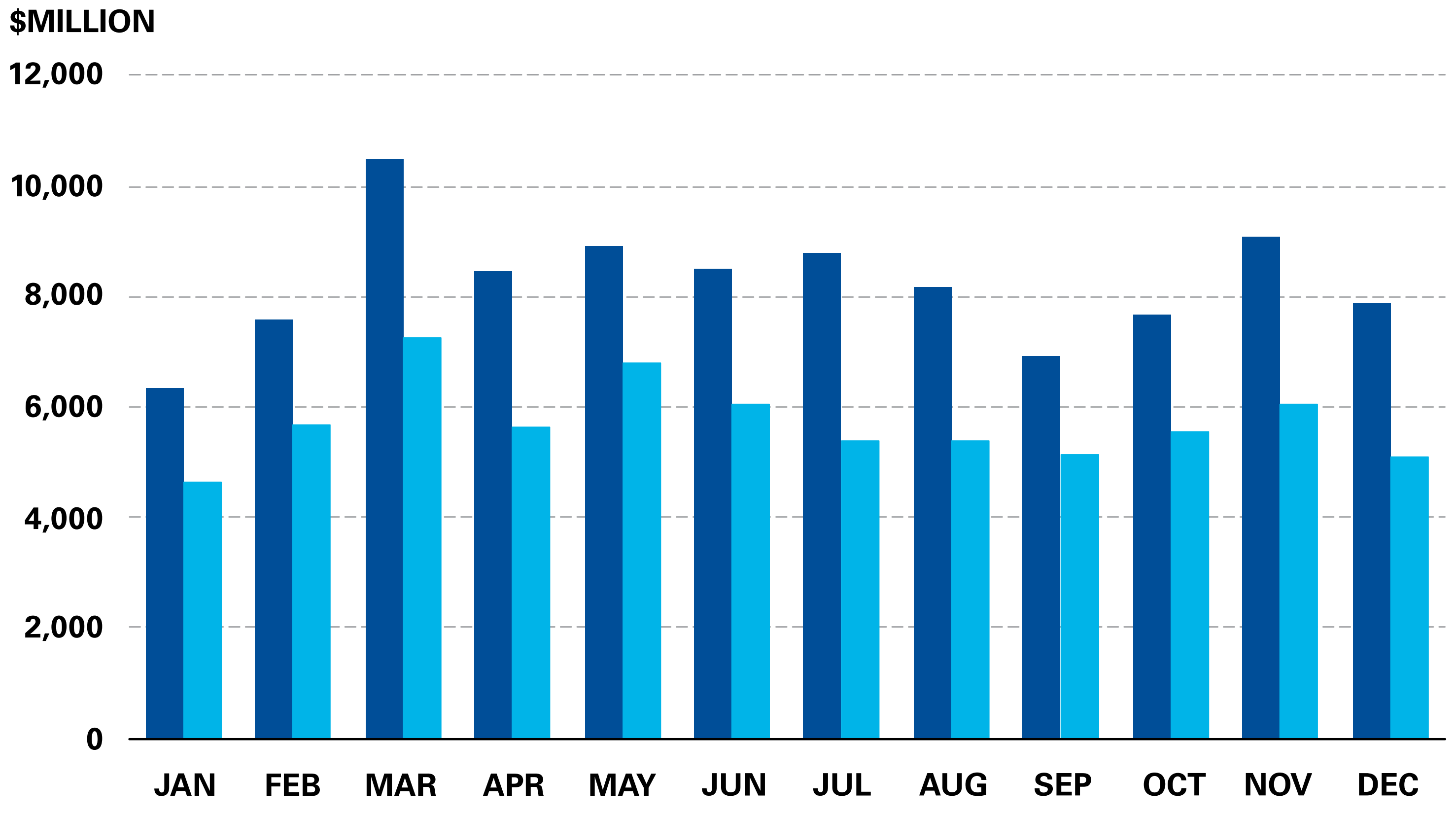
Firstly, many customers face a tough year with interest rates and costs still rising and some residential borrowers re-fixing to interest rates above the levels that they were tested on when taking out their loans. With an engineered recession on the cards, the banking sector sees the next couple of years as an opportunity to play their role in supporting customers as they act on their social licence and build trust with the public.

Secondly, it's an election year. This usually means additional spending to appease voters, which is counterproductive to what the RBNZ is trying to achieve in its effort to reduce inflation to within the 1–3% band. With polls indicating a close result, it will also be interesting to see what policies are offered by the major parties. The Labour leadership change has signalled a softer approach to some of its policies.

Lastly, it would be saddening if we reached a point where some of the smaller banks in the banking sector are forced to close due to the outcome of regulatory change (e.g. branch consultancy, Deposit Takers Act etc) or New Zealand simply being seen as a place that was either too hard or too expensive to do business in. This is a very real possibility with the increased burden of regulation making it difficult for some to remain profitable. The Government and regulators will need to be careful not to make it too hard to operate in New Zealand, because if they do then they run the risk of losing some of the niche, but important services offered by smaller banks in the sector. As one CEO pointed out, New Zealand has a very diverse sector of locally incorporated and branch banks from a range of countries that all offer particular services – some niche – that we don't want to lose.

To conclude, the year ahead appears as though it will once again be dominated by the economic environment and increased regulatory requirements imposed on banks. However, the sector has shown it is resilient and we can be hopeful that it continues to be so over the coming year, while supporting customers through some potentially difficult times.

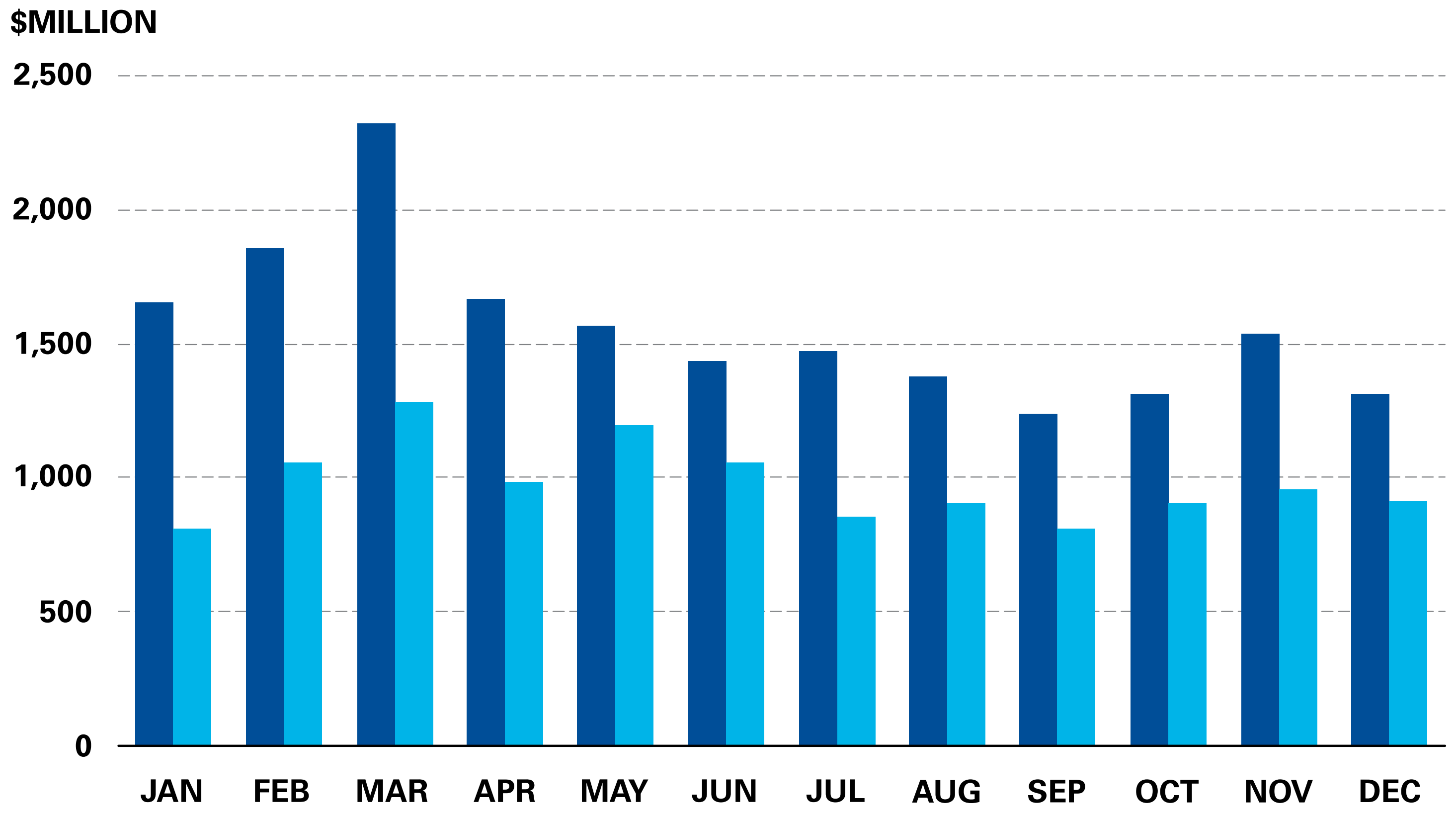
1 TOTAL MONTHLY MORTGAGE LENDING



2021
2022

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

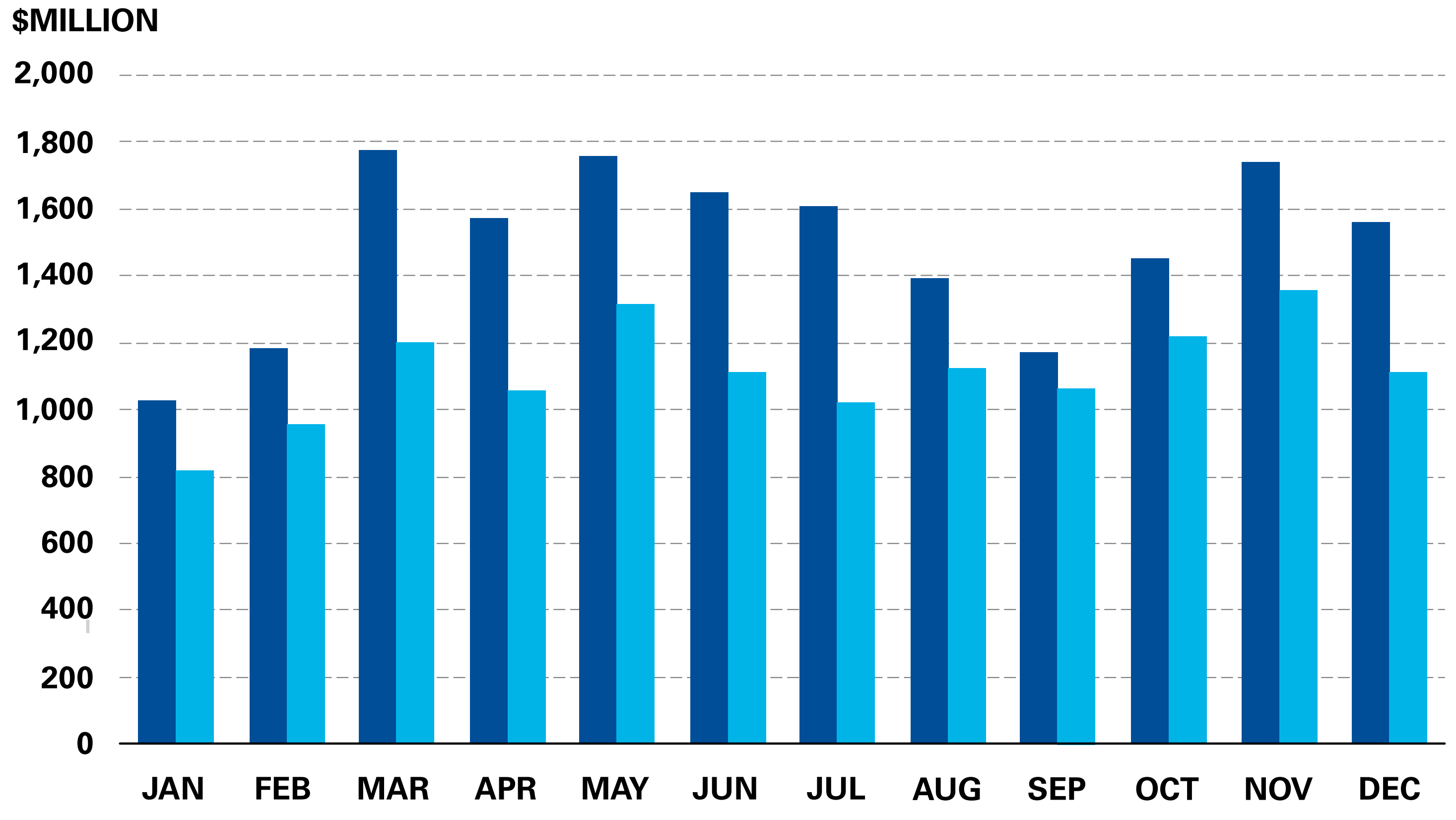
2 MONTHLY MORTGAGE LENDING: BY INVESTORS



2021
2022

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

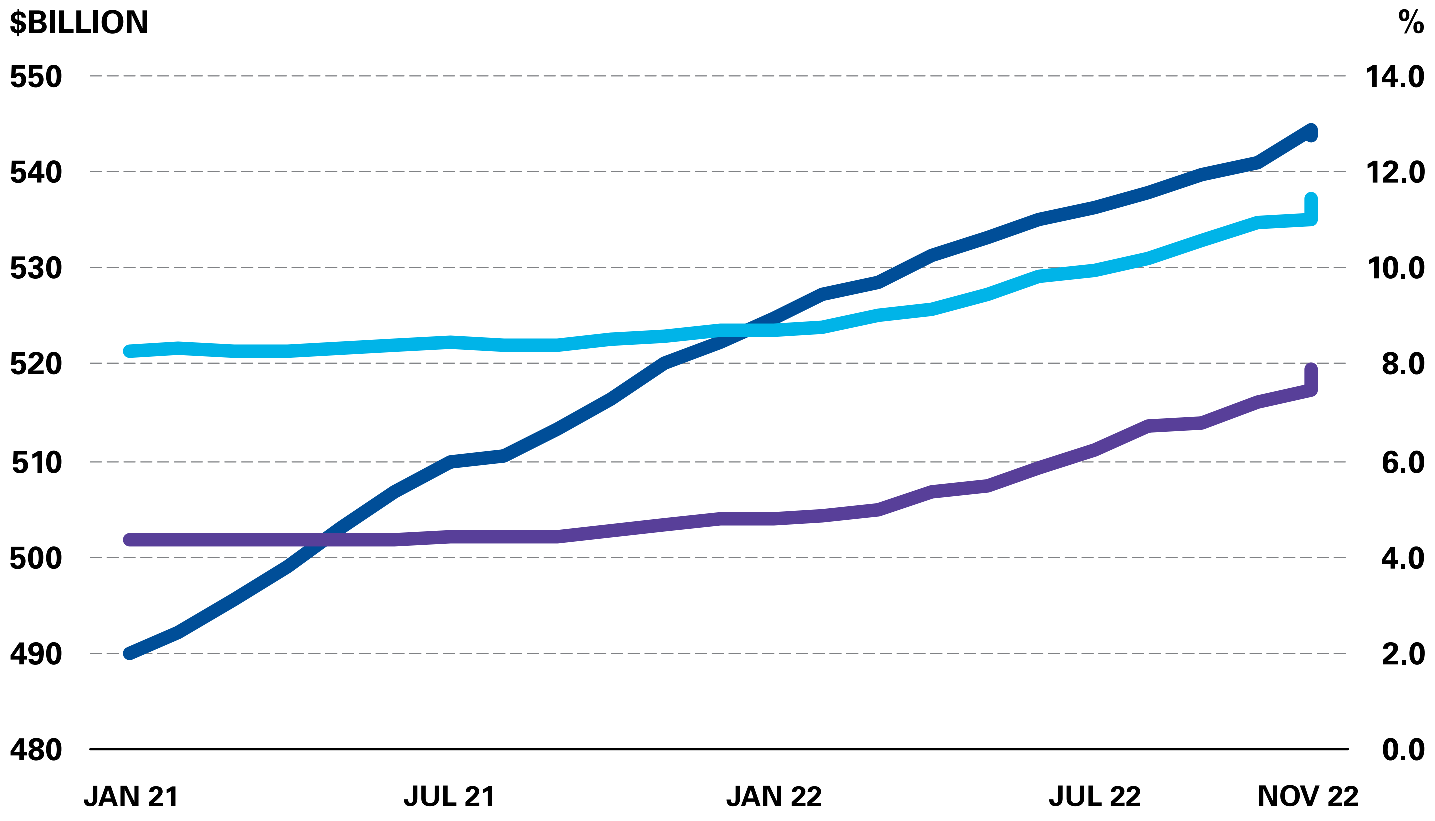
3 MONTHLY MORTGAGE LENDING: BY FIRST-HOME BUYERS



2021
2022

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

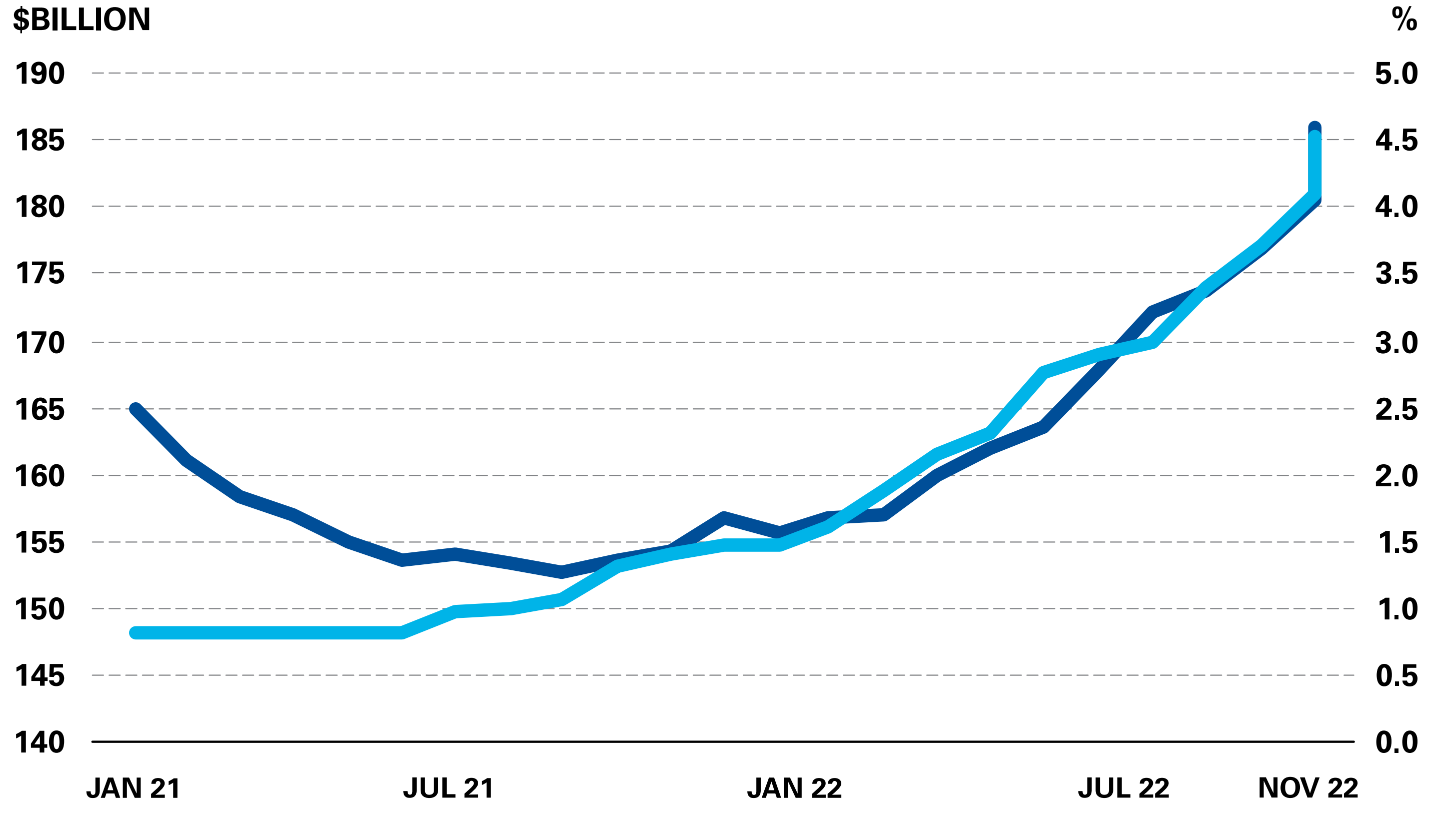
4 RETAIL INTEREST RATES ON LENDING VS. GROSS LOANS AND ADVANCES



GROSS LOANS AND ADVANCES (LHS)
BUSINESS LENDING RETAIL RATE (RHS)
HOUSING LENDING RETAIL RATE (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

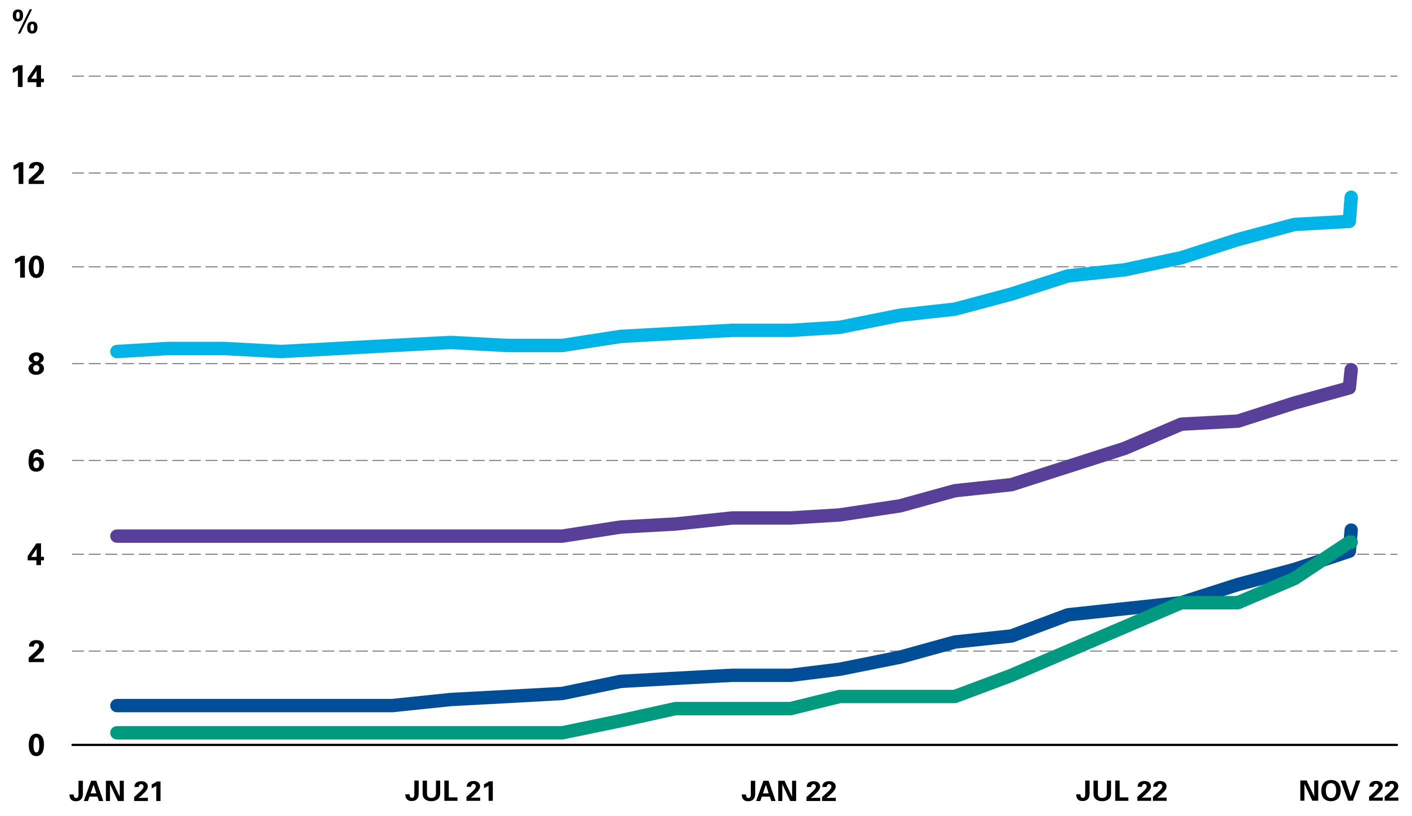
5 RETAIL INTEREST RATES ON TERM DEPOSITS VS. TERM DEPOSIT BALANCE



- TERM DEPOSIT BALANCES (LHS)
- TERM DEPOSIT RETAIL RATE (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

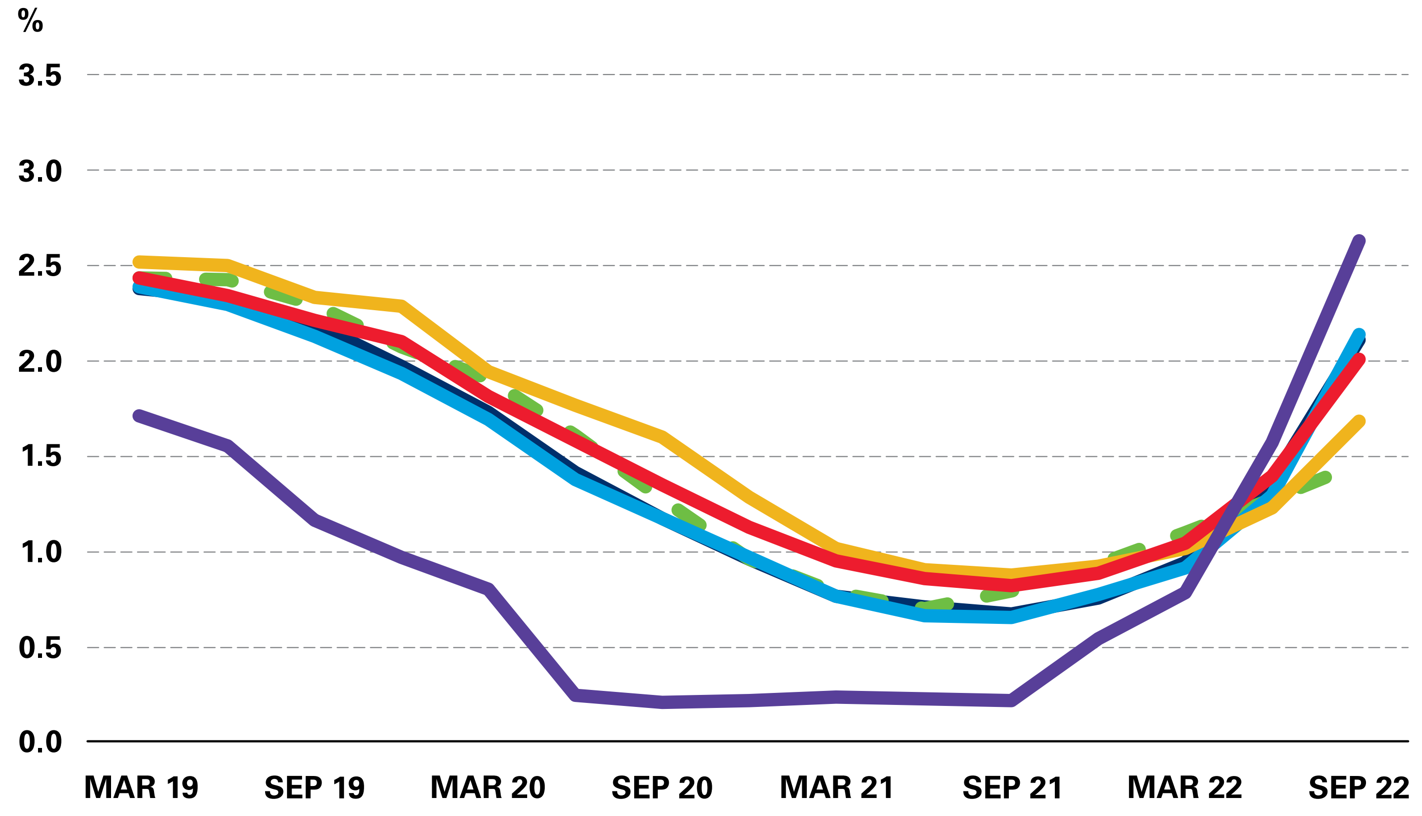
6 RETAIL INTEREST RATES ON TERM DEPOSITS VS. OCR



- TERM DEPOSIT RETAIL RATE
- BUSINESS LENDING RETAIL RATE
- HOUSING LENDING RETAIL RATE
- OCR

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

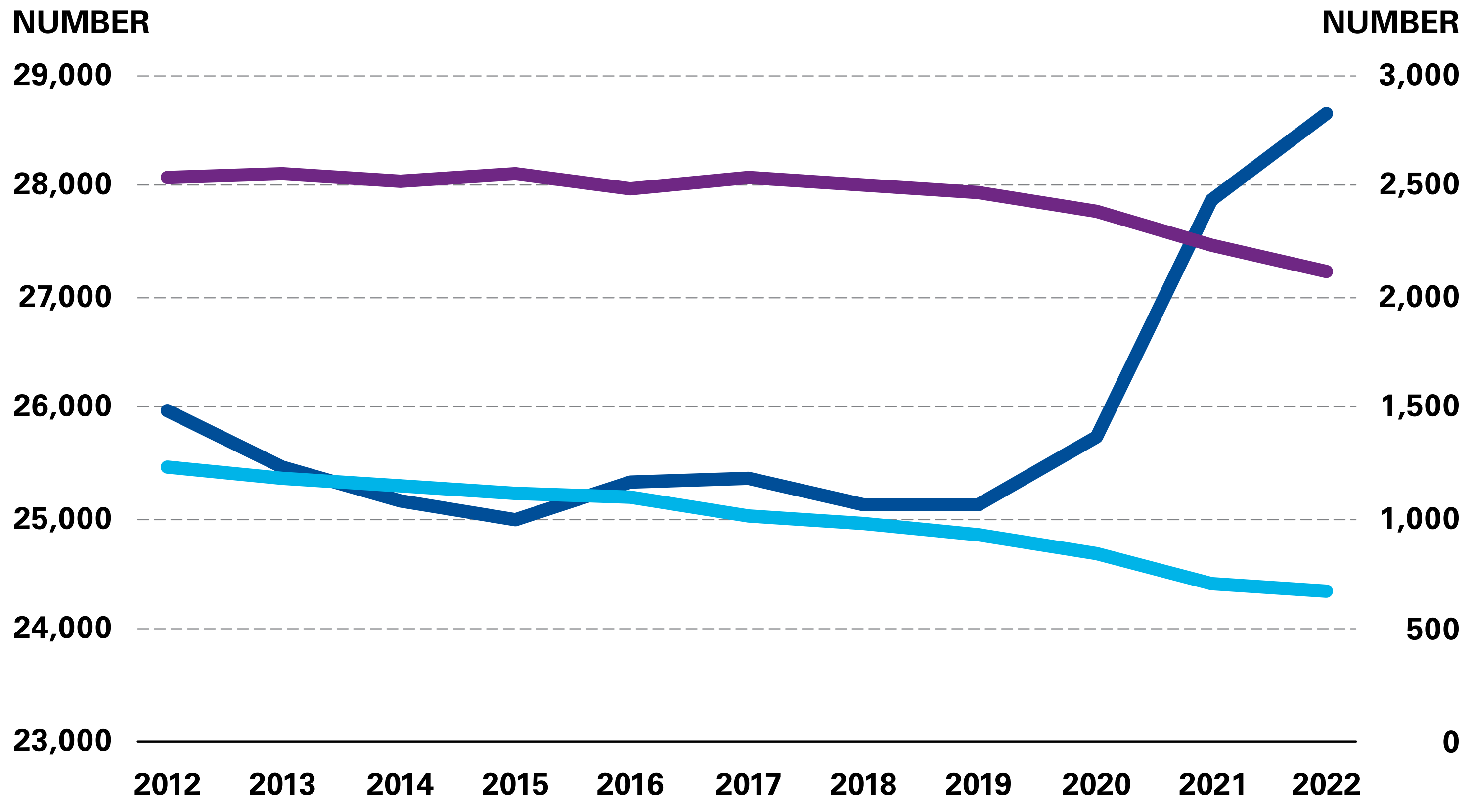
7 MAJOR BANKS: COST OF FUNDS VS. AVERAGE OVERNIGHT INTERBANK CASH RATE



- ANZ
- ASB
- BNZ
- KIWIBANK
- WESTPAC
- AVERAGE OVERNIGHT INTERBANK CASH RATE

SOURCE: AVERAGE OVERNIGHT INTERBANK CASH RATE: RESERVE BANK OF NEW ZEALAND STATISTICS

8 REGISTERED BANKS: PERSONNEL, BRANCHES AND ATMS



- PERSONNEL
- BRANCHES
- ATMS

Sector – Timeline of events[14]

OCT 2021

3rd
Parts of Waikato move to Alert Level 3

5th
Auckland moves to Alert Level 3, Step 1

6th
The Reserve Bank of New Zealand's (RBNZ's) Monetary Policy Committee raises the Official Cash Rate (OCR) to 0.50%

8th
Westpac provides staff with an additional five days 'wellbeing leave'

Kiwibank launches $250 million preference share issue

11th
The Co-operative Bank names Mark Wilkshire as new CEO, filling the position left vacant by David Cunningham's departure in July

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

Westpac and Pāmu sign the largest sustainability linked loan in the agriculture sector to date, $85 million over three years

NOV 2021

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

3rd
Kiwibank reveals that 1.2% of its house lending portfolio is at risk of coastal flooding and this is expected to increase to 1.8% by 2050

5th
SBS Bank names Mark McLean as new CEO, replacing departing Shaun Drylie

8th
Westpac launches money app from Buy Now, Pay Later (BNPL) giant Afterpay, the first product utilising Westpac's banking as a service model

12th
The Government announces intentions to issue Green Bonds to deliver low-carbon projects in late 2022

23rd
The RBNZ consults on its debt servicing restrictions framework

24th
OCR = 0.75%

DEC 2021

3rd
New Zealand enters the Covid-19 Protection Framework traffic light setting. Auckland, Northland, Taupo and Rotorua Lakes Districts, Kawerau, Whakatane, Opotiki 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

7th
The RBNZ releases the outcomes of their liquidity stress test

9th
The Financial Markets Authority (FMA) files court proceedings against Kiwibank for making false or misleading representations under the Financial Markets Conduct Act 2014

15th
Auckland border lifts and Aucklanders can leave the city for the first time in over 100 days

Concerns raised about the new lending regime under the Credit Contracts and Consumer Finance Act (CCCFA)

30th
Auckland and other areas in the Red setting of the Covid-19 Protection Framework (except Northland) move to Orange

JAN 2022

8th
Politicians call for an inquiry onto the 'unintended consequences' of the CCCFA changes

19th
ANZ predicts OCR will hit 3% next year

20th
The RBNZ and FMA release their findings on the systematic importance of the Financial Markets Infrastructures

21st
Northland joins the rest of New Zealand in the Orange setting of the Covid-19 Protection Framework

23rd
The whole of New Zealand moves into the Red setting of the Covid-19 Protection Framework after Omicron cases detected in the community

26th
Government announced three step public health response to Omicron variant and New Zealand entered Phase One

FEB 2022

11th
RBNZ welcomes inclusion of New Zealand in new Interbank lending rate (IBOR) Fallbacks

23rd
OCR = 1%

24th
Russia invades Ukraine

26th
Western allies announce new sanctions, including restrictions on Russia's Central bank and expelling key banks off the main global payments system

27th
New Zealand border to reopen in stages from 27 February

MAR 2022

16th
Capital instruments for mutual banks being considered by the RBNZ

24th
RBNZ launches material breach register

APR 2022

13th
OCR = 1.5%

19th
Sanctions placed against Russia's largest bank and financial institutions

27th
Feedback on debt servicing restrictions framework informs future policy direction

MAY 2021

10th
RBNZ supports proposals to strengthen climate-related disclosure

18th
RBNZ strengthening enforcement framework

25th
OCR = 2.0%

30th
Independent Report finds improvement in Westpac NZ's liquidity management

JUN 2022

1st
RBNZ commences five-yearly framework review

2nd
End of dividend restriction requires ongoing prudence

29th
Central Banks committed to economic prosperity and wellbeing in the South Pacific

JUL 2022

1st
New Capital Requirements for banks in New Zealand now in effect

8th
BNZ receives issue of formal warning under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML CFT Act)

13th
OCR = 2.5%

18th
CPI increases to 7.3% in the June 2022 quarter compared with the June 2021 quarter (32-year high)

AUG 2022

1st
New Zealand borders are reopened to visitors from anywhere in the world

17th
OCR = 3%

22nd
New Zealand Government buys back 100% of Kiwibank's Holding company

24th
Feedback sought on policy for branches of overseas banks

SEP 2022

1st
First Privacy Act compliance notice successfully closed

12th
Covid-19 Protection Framework ended, with the last Government vaccine mandates ending on 26 September

19th
Climate changed – and why climate matters to RBNZ

19th
Westpac NZ lists $600 million of bonds on New Zealand's Exchange (NZX)

29th
Proposals to enhance clarity of risk weighting requirements

OCT 2022

5th
OCR = 3.5%

18th
Annual inflation in the September 2022 quarter recorded at 7.2%

26th
Change in ANZ non-operating holding company structure

31st
Results of bank solvency stress test

NOV 2022

8th
Adrian Orr reappointed as the RBNZ's Governor for five-year term

23rd
OCR = 4.25%

24th
The RBNZ's Governor Adrian Orr admits to deliberately engineering a recession to slow down spending to relieve inflationary pressures

DEC 2022

2nd
Kiwibank change in constitution allowing for it to be listed on the NZX

JAN 2023

11th
Cyclone Hale hits New Zealand

19th
Jacinda Ardern announces that she will resign as New Zealand's Prime Minister no later than 7th February

22nd
Chris Hipkins announced as the next Prime Minister

25th
Annual inflation remains at 7.2 percent

27th
State of emergency declared as record rain causes flooding in Auckland, Northland, and Thames-Coromandel District

ASB scraps monthly fees, benefiting 120,000 businesses and 40,000 customers

FEB 2023

3rd
ASB to extend flood payments to affected customers

12th
Cyclone Gabrielle hits New Zealand causing a national state of emergency

22nd
OCR = 4.75%

Bank profits

Some questions we should all ask ourselves:

- Are banks' profits justifiable?
- Are bank profits bad?
- Have we thought about what might happen if banks didn't make profits?
- Do we understand the full range of services a bank provides?
- Do we understand the level of cross subsidisation for some services?

We've all seen the headlines about banks making excessive profits in the billions of dollars. These articles sit next to others discussing the cost of living crisis and rising interest rates. This raises the question for many, are banks really making too much money?

But before we reach any conclusions, we need to define what is too much and understand what happens to these profits while being aware of what other benefits banks offer and how their vast array of services are paid for. In addition, a clear picture of the market they operate in and the risks they manage would also help to validate the basis from which we make any conclusions.

Some members of the community have strong opinions – former Prime Minister Jacinda Ardern criticised banks for consistently producing very high profits at a time when others in the community were struggling. She implied banks were not demonstrating social licence and needed to take a long hard look at themselves[15], while at the same time, the Green Party called for a windfall tax to rein in excess profits of large corporates[16].

These claims were reported in the press without any real research as to their validity or whether there was indeed another side to the story.

Members of the banking industry have also defended themselves, with ANZ CEO Antonia Watson and the New Zealand Banking Association (NZBA) saying in essence that while the profit figure represented a big number it was important to see it in context, with the banking sector's profitability level being about the middle of the road when compared to the return on equity for the top NZX companies[17]. So, who is right? Could there be another side to the story that hasn't been reported in a balanced way?

At a glance the numbers do look high – ANZ alone recently achieved a $2.0 billion profit, while the other large banks weren't too far behind with ASB and BNZ at around $1.4 billion each and Westpac over $1.0 billion. In February, ASB reported another record interim profit with an increase of 10%.

However, looking at a profit figure alone does not consider the size of the company, the range of essential services that the industry provides to customers and the importance of the sector to New Zealand's economy.

> "Looking at a profit figure alone does not consider the size of the company, the range of essential services the industry provides to customers and the importance of the sector to New Zealand's economy.

An essential sector

Firstly, we need to remember the importance of the banking industry and the fundamental services it provides to society. From families buying their first home to small business owners seeking extra capital for the purposes of business growth, to everyday transactions like using cash, a card or a smartphone to buy a coffee through to obtaining a personal loan or mortgage. All New Zealanders rely upon the sector in one way or another and they expect to be able to use it 24/7, across multiple platforms with zero friction. You only have to see the angst ensue when an EFTPOS terminal goes down for an hour.

> All New Zealanders rely upon the sector in one way or another and they expect to be able to use it 24/7, across multiple platforms with zero friction.

Banks have proved that they will always be around to meet these demands, providing all the services customers demand, while employing thousands of staff and supporting local economies in addition to managing their customers and their own risk. It is worth remembering that no bank has needed a Government bailout in recent memory.

We don't always realise the extensive range of services that the banking sector provides. We are offered everyday transactional accounts, debit and credit cards, personal loans, savings accounts, term deposits, home loans, KiwiSaver, foreign exchange services and in some cases access to other financial markets such as equity investments. We can bank in person through a branch, at an ATM, via the phone, computer, or a smartphone app and can do it all 24/7 with little or no breakdown. In addition, we can move money overnight (noting that this is not the case in all countries overseas).

There are also the services we receive that we don't realise and often don't acknowledge, such as protecting our data and savings from cyber-attacks (think of the text messages received when your account has been accessed from an unusual computer, phone or in an unusual location or payment methods on a weekend trip to Sydney). In addition, evolving online services and apps give us the ability to access our money around the clock. We don't pay directly for each of these services, but they are crucial and provide us some comfort of mind and with fees constantly being reduced or removed (sometimes by regulation) we should at least reflect on how these are funded and the benefit customers receive from them[18]. The reality is that these services are all cross-subsidised and incorporated into interest rates and to a lesser extent the fees that we pay or receive. All these services we happily use as and when we want them and the extensive infrastructure to support them as well as the rigorous checks to ensure that they comply with various regulations all need to be paid for by someone.

But it is not only financial services that the banking sector provides. They also contribute to the wider economy by employing a huge number of New Zealanders – in 2021 it was reported that the industry employed over 27,000 people to which they paid over $3 billion in salaries and wages noting the recipients of these also pay tax[19]. See **Table 9**. As the banks are some of the largest companies in New Zealand, they also end up paying a significant amount of tax. Some are sceptical that the industry underpays income tax; however, financial results reported for 2022 show that the tax payments made by banks amounted to 28% of their overall profit before tax; this is in line with the company tax rate. Further, each of the banks are involved in a myriad of wide ranging social and community services touched on below.

As we know, a portion of the big four banks' profits are repatriated to their Australia parents as dividends. These Australian banks are listed on the ASX (and some on the NZX) and form a part of many of our investment portfolios. Some of us won't realise that we receive a share of the big banks' profits through investments made by our KiwiSaver schemes. There are also banks with different ownership structures, such as Kiwibank which is ultimately owned by the New Zealand Government (with profits benefitting all of us), or The Co-operative Bank which gives its customers a share of its profits each year. It must also be remembered that during the early period of the Covid-19 pandemic that the subsidiaries of the Australian banks were prohibited from repatriating profits to their parents. This imposition was only placed on the banking sector while other overseas corporates were able to repatriate profits. If we consider a 'normal year' while it is true that the profits may be repatriated it is also true that a portion of them is normally reinvested in the capital of the New Zealand subsidiary.

When looking at profits we also need to remember how fundamental the banking sector is to the country. Associate Professor Claire Matthews of Massey Business School noted that if banks don't make a profit, it means they make a loss and then they get into a situation where they may not be able to repay their depositors, and fail, which creates a myriad of problems. If they're losing money, it's the customers who potentially are at risk in terms of losing the funds that they've got on deposit. Matthews also goes on to say that it's been a whole generation since the banks lost substantial money in the late 1980s and early 1990s[20].

The economy weathered the recent pandemic better than expected and the banks continue to 'make hay while the sun shines' so as to be in a position to support businesses and households if and when there is an economic downturn.

New Zealand is a relatively young country with an absence of large tracts of generational wealth, while also being a country of small businesses very reliant on capital from external sources such as the banking sector. In part, one of the reasons New Zealanders are able to achieve what they do in life – potentially the house, the business, the BMW, the boat and the bach – is due primarily to the funding provided by the banks.

> **If banks did make losses or significantly lower profits there would be a whole range of other impacts that would come into play that we have never seen before.**

It is also worth noting that if banks did make losses or significantly lower profits there would be a whole range of other impacts that would come into play that we have never seen before and these are impacts we probably wouldn't want to deal with:

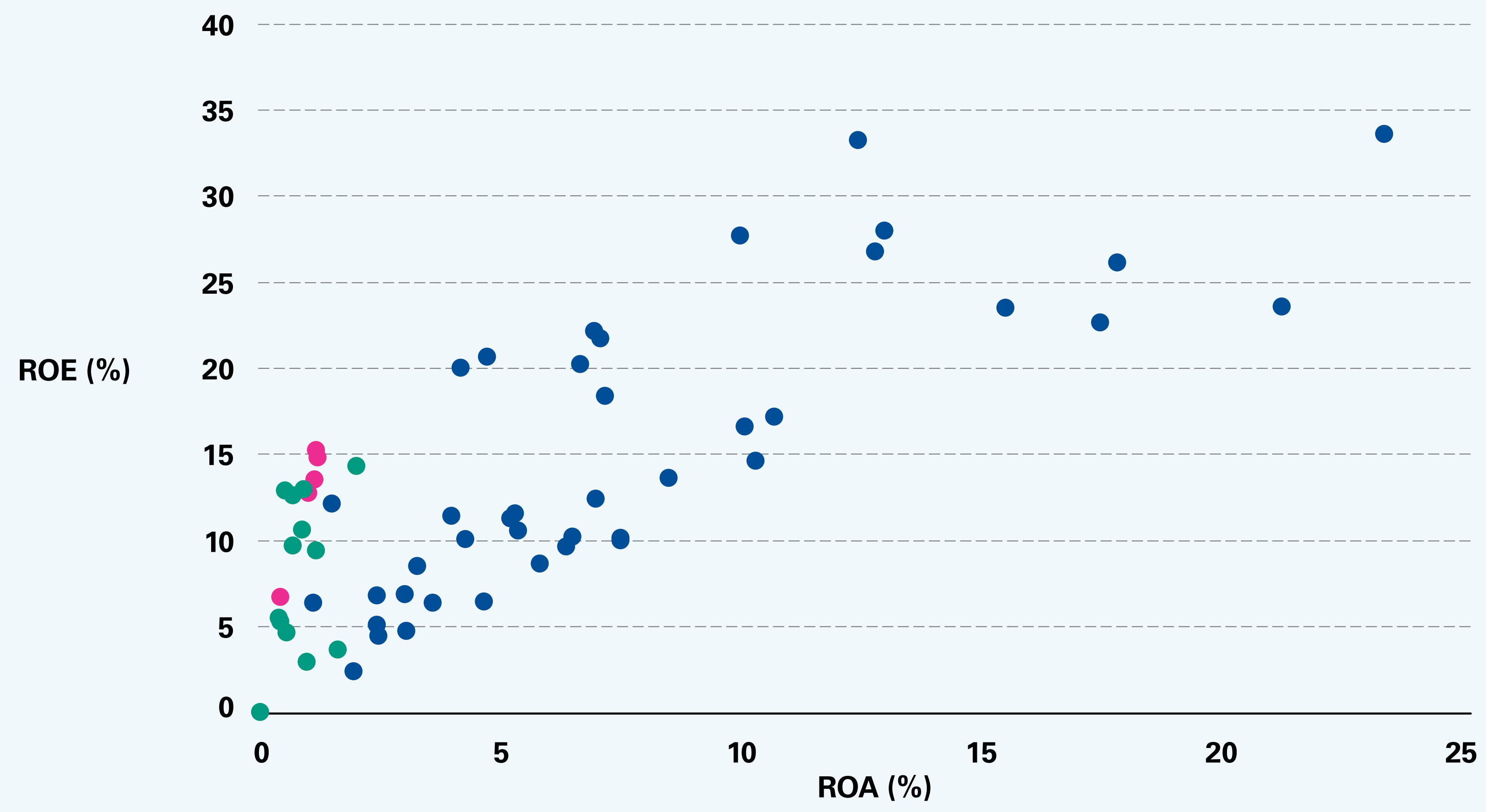
- Losses could cause the bank to have a capital breach which could have the effect of forcing the bank to reduce its lending activities including reducing current facilities and other limits.
- Undoubtedly we would also see greater scrutiny over lending decisions on what was lent to whom and how much.
- A reduced profit or an actual loss would impact the respective share price and dividend flows to the parent and with that a reduction in the value of many investment or funds holdings (e.g. KiwiSaver) for many New Zealanders.
- A follow-on impact would be a decrease in credit ratings by international agencies resulting in an increase in the cost of borrowings for the bank, which would in turn affect profitability and would cause a further downward spiral and result in higher borrowing costs for the bank's customers.
- The reduction of post-tax free cash would also impact the quality of service and the level of investment in new services technologies. Bank products require constant innovation and strong systems which require funding from profits.
- In a worst scenario the bank might be placed in some form of statutory management.
- Another worst-case scenario might require a bailout of some kind to protect depositors.

The numbers

Although the banking sector provides a range of essential services and is fundamental to our economy, some will still say that the profits are still not justifiable.

One of the most accepted ways of comparing profits between companies is by looking at the return on equity (ROE – calculated as profit after tax as a percentage of average equity through the period). The New Zealand banking sector had a return on equity of 13.40%, while the average ROE of NZX50 companies (based on their latest annual financial statements) was 15.00%.

9 BANKS VS. NZX50 ENTITIES RETURN ON ASSETS AND RETURN ON EQUITY



This shows that comparative to their size, the profits made by the banking sector are in fact marginally lower in comparison to 50 of the largest listed companies in New Zealand.

The scatterplot in Figure 9 plots the ROE of banks against NZX50 companies (please note that the graph excludes a few companies which made a loss or negligible profit). It also plots their return on assets (ROA – calculated as profit after tax as a percentage of assets). This alternative profitability measure also shows that the ROA for banks was 1.08% for the year, which was significantly lower than the 7.60% achieved by the NZX50 companies (based on their latest financial statements). However, this measure is impacted more by the industry that an entity operates within, and therefore, is not so comparable.

9 See Figure 9 – page 21

Another aspect to consider is the Reserve Bank of New Zealand's (RBNZ's) new capital requirements expected to be implemented gradually through until 2028. This means that many banks will have to increase their level of capital, driving the need to make larger profits in order to comply with the more demanding capital requirements (while also maintaining dividends expected by both shareholders and capital markets). There are benefits of banks complying with tougher capital requirements in that they will be more resilient to economic downturns and less likely to fail; however, it appears that it may come at a slight cost to customers in the form of higher interest rates on loans to ensure profits preserve the risk

> **The banking sector has acknowledged its social licence and has increasingly taken action to support society in the form of both helping customers through difficult times.**

versus the return equilibrium and meet the RBNZ's mandated capital levels.

The level of capital invested is in itself another significant matter that is often overlooked. The four major foreign banks have invested $25.92 billion in capital into their New Zealand businesses. This is a significant investment in the New Zealand's economy and shows the confidence that the banks have in New Zealand.

Supporting society

The banking sector has acknowledged its social licence and has increasingly taken action to support society in the form of helping customers through difficult times both prior to and during the pandemic, and making donations to charitable organisations.

The pandemic was a good example of the banking sector supporting customers by allowing interest or payment holidays, and providing businesses with additional easy to access lending facilities to get through the Covid-19 lockdowns.

More recently, all of the major banks have offered assistance to those effected by the Auckland and Napier flooding, and Cyclone Gabrielle, through temporary easily accessible overdraft facilities and the ability to defer loan repayments. Westpac, TSB, Kiwibank, ANZ, ASB and BNZ have all announced they would offer either interest-free loans or overdraft facilities to people struggling in the aftermath of the cyclone[21]. This is made possible by the emergency lending regulation the Government passed allowing banks to make loans to flood and cyclone victims in financial need[22]. We have seen ASB, ANZ and Westpac make donations in the range of $2 million to $4 million to communities devastated by Cyclone Gabrielle. Kiwibank and BNZ continue to donate to charities workings specifically towards the relief effort.

Many banks are also involved with charities which give back to their communities. A couple of the most well-known ones are the Auckland Westpac Rescue Helicopter, ASB's partnership with St John, ANZ's multiple sports sponsorships and financial hardship programmes, and BNZ's low or no interest loans 'Good Loans'. However, there are many more community organisations supported by the banking sector.

Closing remarks

To conclude, we currently have a strong banking sector which is pivotal to our country, the economy and an essential to the everyday lives of New Zealanders. Banks are large organisations with equally large profits, but the numbers show that they are no more profitable that many other major companies operating within New Zealand.

Over the next few years, New Zealanders will need the banking sector's support more than ever as we face a cost of living crisis, higher interest rates and the RBNZ Governor engineering a recession, a recession that may last between two to three years. As ANZ's CEO Antonia Watson said, we have some dark clouds on the horizon and having a strong banking system going into a period of economic uncertainty is a really good thing[23]. We have a strong banking sector because it has been able to build up that strength by being profitable and achieving strong profits year on year.

Many people who claim lower profits 'would be better' perhaps haven't fully thought through the consequences of what they are wishing for. Hopefully this article provides balance and identifies some of the facts that aren't mentioned when bank profits are described as being too high.

> **Many people who claim lower profits 'would be better' perhaps haven't fully thought through the consequences of what they are wishing for.**

Climate-related disclosures — What you need to know

Amelia Sharman
Director Sustainability Reporting
External Reporting Board

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Amelia is Director Sustainability Reporting at the External Reporting Board (XRB), responsible for managing the execution and coordination of the climate-related disclosure framework for Aotearoa New Zealand, as well as the XRB's wider sustainability reporting work programme. Dr Sharman has an extensive background in climate and sustainability policy areas, most recently as Head of Policy at Ara Ake, focused on supporting the transition to a low-emissions energy future. She has held a range of project and policy roles across the public and private sectors in New Zealand and the United Kingdom.

Misha Pieters
Director Auditing & Assurance
External Reporting Board

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Misha heads the team that develops and issues auditing and assurance standards for New Zealand reporting entities.

Misha has been with the XRB from its establishment in 2011, and has over 20 years of experience in audit and assurance standard setting. She recently completed a secondment to the International Ethics Standards Board of Accountants in New York.

Prior to joining the XRB, she worked for KPMG, in both New Zealand and South Africa, providing assurance and technical advisory services, specialising in IFRS implementation and interpretation.

Following three rounds of public consultation, the XRB issued the climate-related disclosure framework for Aotearoa New Zealand on 15 December 2022. The climate-related disclosure framework is made up of three climate standards which are collectively referred to as *Aotearoa New Zealand Climate Standards*.

We get into the detail with the XRB's Director Sustainability Reporting – Dr Amelia Sharman and Director Auditing & Assurance – Misha Pieters.

> "The ultimate aim of *Aotearoa New Zealand Climate Standards* is to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.

Aotearoa New Zealand climate-related disclosure framework

The three climate standards set out 'what' entities are required to disclose, each standard is a piece of secondary legislation. It is important to note that we do not determine 'who' is required to make climate-related disclosures, the 'who' is contained in primary legislation — see Part 7A of the Financial Markets Conduct Act 2013.

10 See Figure 10 – page 24

We designed the three standards as a package, and it is important that they are read together. For example, NZ CS 3 contains the principles that an entity must apply when preparing and presenting climate-related disclosures required by NZ CS 1. While NZ CS 2 provides temporary exemptions to some of the required disclosures in NZ CS 1 and NZ CS 3.

Who do the standards apply to?

See **Table 2**.

NZ CS 1 *Climate-related Disclosures*

NZ CS 1 *Climate-related Disclosures* (NZ CS 1) contains the climate-related disclosure requirements for each of the four thematic areas (i.e. Governance, Strategy, Risk Management and Metrics, and Targets). Those entities already providing voluntary climate-related disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) will be very familiar with these four thematic areas. NZ CS 1 also identifies the scope of the mandatory assurance that is required over greenhouse gas (GHG) emissions disclosures.

Scenario analysis

NZ CS 1 requires an entity to include a description of how an entity has analysed, at a minimum, a 1.5 degrees Celsius climate-related scenario, a 3 degrees Celsius or greater climate-related scenario, and a third climate-related scenario. Last year we ran a parallel work stream to encourage climate-reporting entities to construct scenarios at a sector level; because, in our view, a sectoral approach is likely to be a less costly and less resource-intensive way to get started. A sectoral approach can also help entities to avoid inadvertently using contradictory assumptions, and provides increased consistency in both understanding and approach, while remaining permissive to analysis at the entity level. We are very pleased to note that the general insurance sector has completed construction of three scenarios and the banking sector is about 90% through the process.

> **Entities must apply the three standards for annual reporting periods beginning on or after 1 January 2023.**

10 CLIMATE-RELATED DISCLOSURE FRAMEWORK:
AOTEAROA NEW ZEALAND CLIMATE STANDARDS

Aotearoa New Zealand Climate Standard 1:	Aotearoa New Zealand Climate Standard 2:	Aotearoa New Zealand Climate Standard 3:
Climate-related Disclosures (NZ CS1)	*Adoption of Aotearoa New Zealand Climate Standards* (NZ CS2)	*General Requirements for Climate-related Disclosures* (NZ CS3)

Aotearoa New Zealand Climate Standards are secondary legislation and apply to Climate Reporting Entities (CREs) as defined in the Act. They are designed as a package and should be read together.

TABLE 2: *Aotearoa New Zealand Climate Standards* apply to the following financial institutions

Entity type	Threshold[24]
Registered banks, credit unions, and building societies	Greater than $1 billion in total assets
Managers of registered investment schemes	Total assets under all schemes managed by the manager or managed by an authorised body under the manager's market service licence are greater than $1 billion
Licensed insurers	Greater than $1 billion in total assets under management or annual premium income greater than $250 million

GHG emissions

NZ CS 1 requires an entity to disclose its gross scope 1, 2 and 3 GHG emissions. For most entities, scope 3 is where the most material emissions risks and opportunities lie. The GHG emissions associated with financial institutions' investing, lending and underwriting activities (scope 3 category 15 financed emissions) are on average over 700 times higher than their direct emissions, according to a first-of-its-kind report by non-profit CDP.

11 See Figure 11 – page 26

NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards*

Based on feedback received during our consultation, we heard that the standards needed to acknowledge that there was a wide variety of capability within CREs and that it may take time for entities to develop the capability to produce high-quality climate-related disclosures. In recognition of this, and the fact that some disclosure requirements, by their nature, may require an exemption, we developed an adoption standard NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards* (NZ CS 2). NZ CS 2 provides a limited number of adoption provisions – an entity can choose which adoption provisions it wishes to use.

NZ CS 3 *General Requirements for Climate-related Disclosures*

NZ CS 3 *General Requirement for Climate-related Disclosures* (NZ CS 3) contains the principles and the underlying concepts such as materiality and the general requirements.

NZ CS 3 is based on the overarching principle of fair presentation. Fair presentation requires an entity to disclose information in accordance with the principles in NZ CS 3 and the disclosure objectives and requirements in *Aotearoa New Zealand Climate Standards*.

Materiality

The need for materiality judgements is pervasive in the preparation and presentation of all disclosure requirements in *Aotearoa New Zealand Climate Standards*. We have included the following definition of 'material' in NZ CS 3, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of an entity's climate-related disclosures". It is important to note that material information could include information about an entity's impacts on the climate if those impacts could reasonably be expected to influence decisions that primary users make on the basis of an entity's climate-related disclosures.

Methods and assumptions, and data and estimation uncertainty

We recognise that the use of uncertain data, and reasonable estimates based upon them, is an essential part of preparing climate-related disclosures. We also understand that there may also be disclosures for which the methods available to entities are relatively novel or uncertain. In our view, the usefulness of the information disclosed is not undermined if the use of a novel or uncertain method, assumption, or uncertain data and estimation, is accurately and transparently described and explained. This is why we have included in NZ CS 3 disclosure requirements on methods and assumptions, and data and estimation uncertainty.

Assurance of GHG emissions disclosures

The Financial Markets Conduct Act 2013, as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 requires assurance over parts of climate statements that relate to GHG emissions. Assurance engagements are required to be undertaken in accordance with the XRB's auditing and assurance standards. NZ CS 1 requires that this assurance engagement is a limited assurance engagement at a minimum.

Our objective is to develop a standard that contributes to high quality assurance over the GHG emissions disclosures made by CREs.

> "These are some of New Zealand's most economically significant entities and so ensuring high quality, independent assurance of the GHG emissions disclosures is vital.

> **The proposed standard is intended to bridge the gap, until we know more about the scope of assurance, clarification regarding licensing, and where the international standards being developed land.**

We are currently consulting on a proposed assurance standard where our objective has focused on enabling all competent and independent assurance practitioners to provide consistent, high-quality and independent assurance over GHG disclosures.

This is a temporary and narrow-scope standard, which applies only to the current mandatory assurance engagement requirements of the Act.

Development of a temporary standard is deliberate. The standard setting environment is rapidly evolving with international assurance standards for sustainability assurance engagements still in development. The scope of mandatory assurance in New Zealand may also extend beyond the GHG emissions disclosures to the full climate statement and an assurance practitioner licensing and oversight regime may be developed.

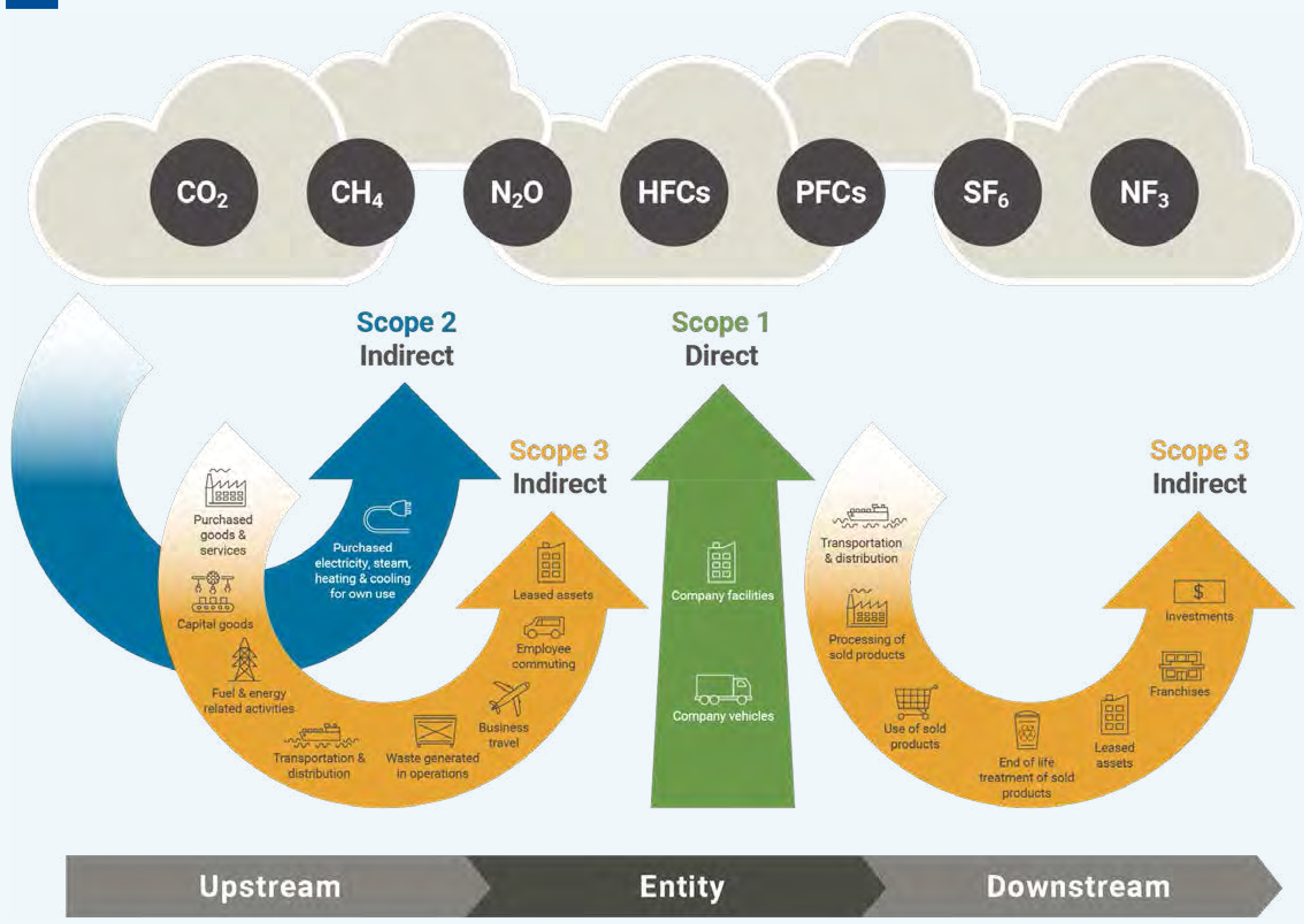
To develop this standard, we have built on existing international standards currently used in New Zealand that we consider will contribute to high quality assurance over GHG emissions disclosures. We have consulted extensively with those undertaking assurance engagements over GHG emissions disclosures in New Zealand to ensure the standard builds on, rather than replicates, existing requirements. We intend to issue the standard in July 2023 to allow time for assurance practitioners to prepare for mandatory assurance engagements.

Assurance of GHG emissions will apply to annual reporting periods that end on or after 27 October 2024.

Monitoring and enforcement

The Financial Markets Authority, who will be responsible for independently monitoring and enforcing the climate-related disclosure regime, has indicated that it will take a broadly educative and constructive approach at first, moving to a proactive regulatory role as the regime becomes more established[25].

11 GREENHOUSE GAS EMISSIONS



Fasten your seatbelts

Roger Beaumont
Chief Executive
New Zealand Banking Association

New Zealand Banking Association
Te Rangapū Pēke

The New Zealand Banking Association – Te Rangapū Pēke (NZBA) is the voice of the banking industry. Roger leads NZBA's commitment to support a strong and stable banking system that benefits New Zealand households, businesses and the economy.

Roger joined NZBA in January 2019. Prior to this role, Roger spent seven years in executive leadership roles in the banking industry in New Zealand and Australia. The earlier part of his career was pre-dominantly in the broadcast and digital media industry.

We continue to live in interesting times. Since the arrival of Covid-19 three years ago, provoking an unprecedented response around the world and in New Zealand, nothing seems quite the same. While New Zealand weathered the Covid-19 onslaught relatively well compared to other countries, the economic consequences are still very much with us. Added to that, in the last year we've seen war in Ukraine, devastating flooding and cyclone damage in the North Island, and an occupation at Parliament. We've also seen our borders re-open with New Zealanders travelling overseas again, and we're welcoming back tourists and migrants.

Supporting customers through the rising cost of living

After a very eventful year, the biggest single issue affecting most New Zealanders is the high cost of living driven by rates of inflation we haven't seen in decades. That moved the Reserve Bank of New Zealand (RBNZ) to raise the Official Cash Rate (OCR) sharply from 0.75% in January 2022 to 4.75% in February 2023, with more rate rises in the offering. New Zealand is now braced for a potential recession this year.

The rising OCR and cost of borrowing means that some New Zealand households and businesses are already doing it tough and more will face financial challenges in the year ahead. Our banks are well-placed to support customers and the economy through these difficult times. They are well capitalised and are regularly stress-tested by the RBNZ.

Banks are proactively contacting customers in cases where those customers are moving from a relatively low interest rate loan to a higher interest rate loan.

"After a very eventful year, the biggest single issue affecting most New Zealanders is the high cost of living driven by rates of inflation we haven't seen in decades.

> Recent unprecedented flooding in the North Island and the devastating impact of Cyclone Gabrielle has presented a further challenge to households and businesses struggling with the cost of living.

Banks understand that the rate difference can have a significant impact, especially in the current climate, and they are able to talk though options with affected customers. In other cases, where a change in a customer's circumstances may not be so obvious, customers are encouraged to contact their bank as soon as possible. For customers experiencing difficulties, early engagement with their bank means that the bank will be more likely to have extra options to offer assistance.

Depending on the circumstances, there are a number of ways in which banks can help people facing financial difficulty. Banks can work with customers to develop a plan to suit their particular needs.

Banks are responsible lenders and when assessing a loan application, they apply higher 'serviceability' rates to see if the borrower could still repay the loan if interest rates go up. So typically, there's a buffer already built in for borrowers.

Some borrowers also built in their own buffer against rising interest rates. When rates fell to historic lows, many borrowers maintained or increased their minimum loan repayments. That left them well placed to face an increase in interest rates because they were ahead on repaying their loan. In June last year nearly 46% of people with a home loan were ahead on their loan repayments. This shows good financial capability among many borrowers.

There's a similar story for people with credit cards. Around two thirds of card holders pay off their balance without incurring any interest costs.

Responding to climate change

Recent unprecedented flooding in the North Island and the devastating impact of Cyclone Gabrielle has presented a further challenge to households and businesses struggling with the cost of living. It also shows that we are now living with the effects of climate change.

Banks responded quickly to affected customers by offering a range of support including cash payments, reduced loan repayments, waived fees, access to term deposits and donations to flood relief funds.

For the longer-term response to climate change, we are working with the government and other stakeholders to improve access to meaningful climate data. It's only with the right information, in a format that's easily understood, that banks can assess the relevant risks when assessing credit applications for households and businesses. It also assists them to make meaningful climate-related disclosures.

We will engage with the government on the Climate Adaptation Bill, which should help provide a coordinated response for at risk areas and address issues around funding of climate adaptation.

We've previously worked closely with the External Reporting Board in their development of the climate-rated disclosure regime. We are assisting with further engagement as banks work through their first year of reporting the effects of climate change across their business.

Raising scam awareness

Adding to the pressures of a challenging economy and climate change, the spectre of financial crime is an ever-present threat to banks and their customers. Banks have a range of systems and processes in place to help protect their customers from scams.

> Adding to the pressures of a challenging economy and climate change, the spectre of financial crime is an ever-present threat to banks and their customers.

> **Scams are constantly evolving and increasingly sophisticated. While bank security systems can help detect and prevent financial crime, customer vigilance is also essential to tackling scams and stemming financial losses.**

Many customers enjoy the convenience of banking online or on mobile apps. Fraudsters can take advantage of this and pretend to be a trusted person or organisation who then persuade people to make payments to them or hand over personal information in order to access their bank accounts.

Scams are constantly evolving and increasingly sophisticated. While bank security systems can help detect and prevent financial crime, customer vigilance is also essential to tackling scams and stemming financial losses.

Earlier this year NZBA ran an advertising campaign to encourage people to 'take a sec to check' before they parted with their money or personal information. The aim was to raise awareness of the risks, what they looked like, and how to respond. People were encouraged to be alert to suspicious emails, texts and phone calls, to be proactive in protecting access to their banking, to take their time and not be pressured by demands from potential criminals, and to report any suspicious activity to their bank.

Testing new ways to access banking services

Access to banking services and meeting the needs of all customers is a priority for the banking industry, and especially relevant in the current economic climate. Last year NZBA and the six participating banks decided to expand the Regional Banking Hubs trial until the end of 2023, opening four new model hubs and adapting the existing four.

The original trial was launched in November 2020, with hubs opened in Martinborough, Ōpunake, Stoke and Twizel. The four new hubs will be in Whangamatā, Ōpōtiki, Tūrangi and Waimate and, subject to consultation with the local communities, are expected to open by the middle of 2023. The original four hubs are largely based in towns with fewer than 2,000 people. The new hubs, with increased services, will test demand in larger towns. The criteria for new model hubs are towns with more than 3,000 people, at least half an hour's drive from an existing bank branch.

The four new hubs will have a Smart ATM and full cash change services, a full-time dedicated concierge, an employee from each bank available on site for a few hours on separate weekdays, a private meeting room, and private areas for phone and internet banking.

The second phase of the trial is based on lessons learnt from the first phase.

The participating banks have also renewed their commitment to not close any regional branches until the end of 2023. The renewed commitment is the same as before – it does not include branches within the six main urban centres of Auckland, Tauranga, Hamilton, Wellington, Christchurch, and Dunedin. It also does not cover TSB's network in Taranaki.

Another important part of the industry's support for access to banking services in small towns where branches are no longer viable, or never existed, comes through NZBA's funding partnership with FinCap. We have committed $5 million over five years to help financial mentors make a real difference for people in the communities they support. Part of the funding is for banking collaboration projects where mentors help clients access banking services.

Facing into the headwinds

This year is already proving to be a challenge for many households and businesses. The ride may get bumpier and it's a case of fastening your seatbelts and hanging on as we face into the economic headwinds. The banking industry is well-placed to help their customers through, and to support the economy.

The rise of non-bank lending in New Zealand

> More and more non-bank lenders are becoming a credible option for Kiwis to obtain finance, delivering a broad range of home-grown options.

Keith McLaughlin
Managing Director
Centrix Group Limited

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.

The early 2020s saw large amounts of global economic uncertainty, kick started by the Covid-19 pandemic and fuelled by inflation and growing cost of living concerns.

In New Zealand, the story is no different. As a nation seemingly on the verge of a possible recession, now's the time to take stock of how Kiwi consumer finances stand.

One thing we observed during the last few years – and especially in 2022 – was a shift in lending from banks to non-bank lenders.

While mortgages remained the key territory of banks, there was a shift to non-bank lenders for credit cards and personal loan finance.

More and more non-bank lenders are becoming a credible option for Kiwis to obtain finance, delivering a broad range of home-grown options.

How has lending changed?

When it comes to personal and unsecured lending for the big four banks, loans have halved since 2019 (from $1.05 billion in 2019 to $0.48 billion in 2022).

For non-bank lenders, this figure has remained stable with a slight upswing ($3.11 billion in 2019, $3.23 billion in 2022) as consumers appear to be turning away from banks for personal lending.

12 See Figure 12 – page 32

By the end of 2022, non-bank lenders were responsible for more than three quarters of all consumer loans (76%) while the big four banks were responsible for just 11.3% – a decline from one fifth in 2019 (20.3%). Other banks outside of the big four account for the remaining 12.7% of consumer loans.

New credit card lending has also grown for non-bank lenders (45.5% in 2019 compared to 62.2% in 2022), while the big four banks

> It appears many consumers turned to non-bank lenders to finance their short term, small credit needs that the banks would not consider.

have seen the rate of new credit cards issued decline (41.4% in 2019 to 31.6% in 2022).

The average new limit per personal loan accounts also points to an increase in non-bank lending across Aotearoa.

For the big four banks, the average new limit per personal loan account remained fairly flat from 2019 to 2022, climbing from $13,562 to $14,456. The other banks also saw the average new limit per personal loan account climb from $20,943 in 2019 to $23,633 in 2022.

On the other hand, non-bank lenders saw the average new limit per personal loan account climb from $10,859 in 2019 to $15,750 in 2022.

13 See Figure 13 – page 32

When it comes to arrears, these remain similar across both bank and non-bank lending for unsecured loans – 6.6% and 5.9% respectively in 2022. However, credit card arrears are elevated for non-bank lenders when compared to banks – 6.3% and 3.1% respectively in 2022.

14 See Figure 14 – page 32

What is driving these trends?

While there's no single concrete reason for these shifting lending trends, we can look to the last few years and make some inferences.

Non-bank lenders are typically smaller and more agile. Their flexibility and ability to quickly digitise application processes and adjust to regulatory requirements is attracting some Kiwis.

Banks typically take a more conservative approach to lending, and as a result, an unintended consequence of the Credit Contracts and Consumer Finance Act 2003 (CCCFA) changes early in 2022 saw many turned away from banks due to an adjusted affordability assessment in the credit application process.

It appears many consumers turned to non-bank lenders to finance their short term, small credit needs that the banks would not consider.

Despite this shift, the big four banks still maintain the largest proportion of mortgages in Aotearoa with 85% of new lending in 2022.

However, the big four bank new mortgage lending is 33% down on 2021 as the country's housing market continues to cool together with economic conditions.

15 See Figure 15 – page 32

We saw demand for personal loans up 14.5% year-on-year in January 2023, so it's clear Kiwi consumers still have an appetite for credit,

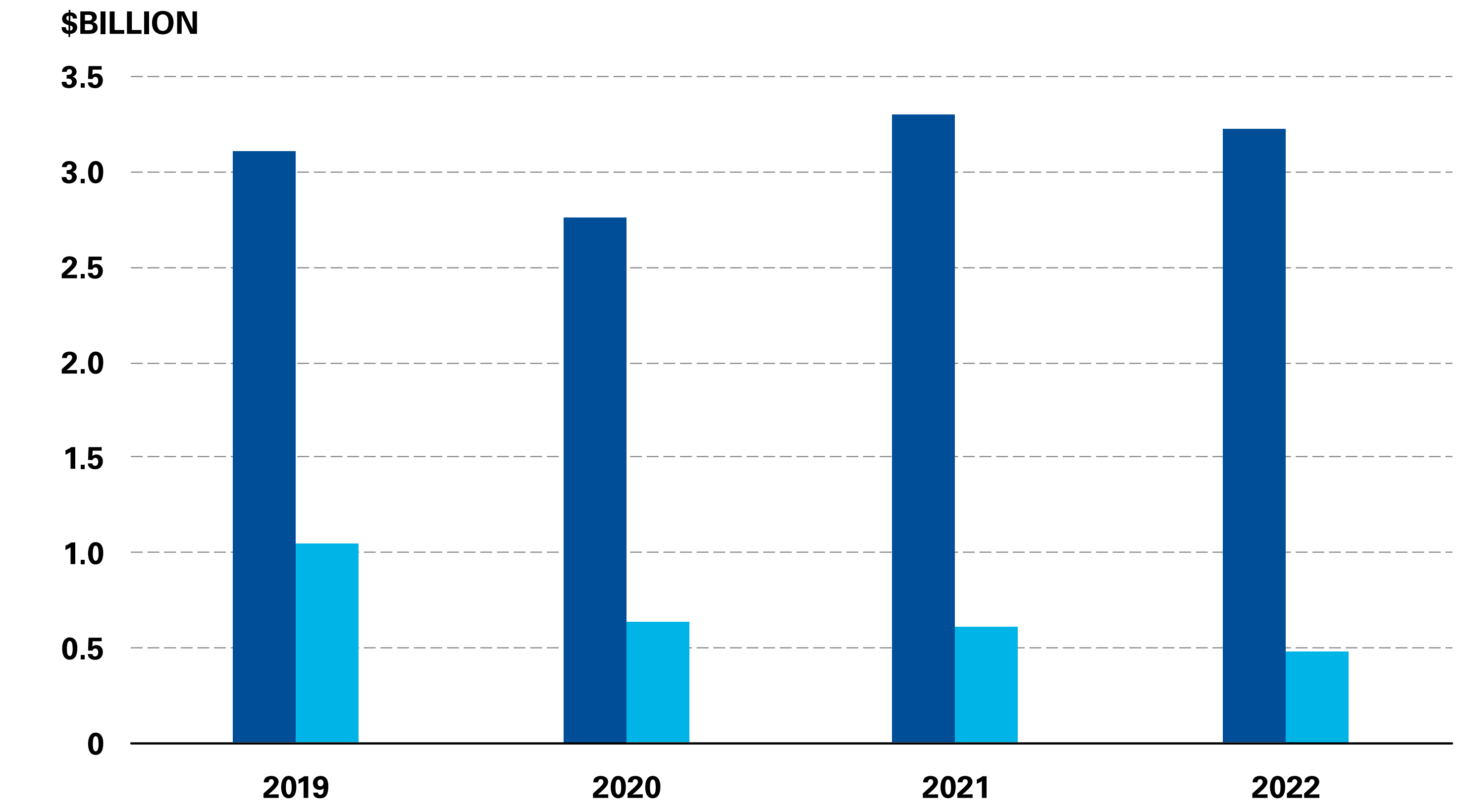
> The big four bank new mortgage lending is **33%** down on 2021 as the country's housing market continues to cool together with economic conditions.

possibly driven by an increase in holidays now the borders are open again.

But while conditions remain unclear for 2023, our key concern is people getting into unserviceable debt levels resulting from the impacts of interest rate and cost of living increases.

For many households, this year will prove extremely challenging. The flow on effect that these challenges will have on consumer confidence and business performance points to an uncertain future.

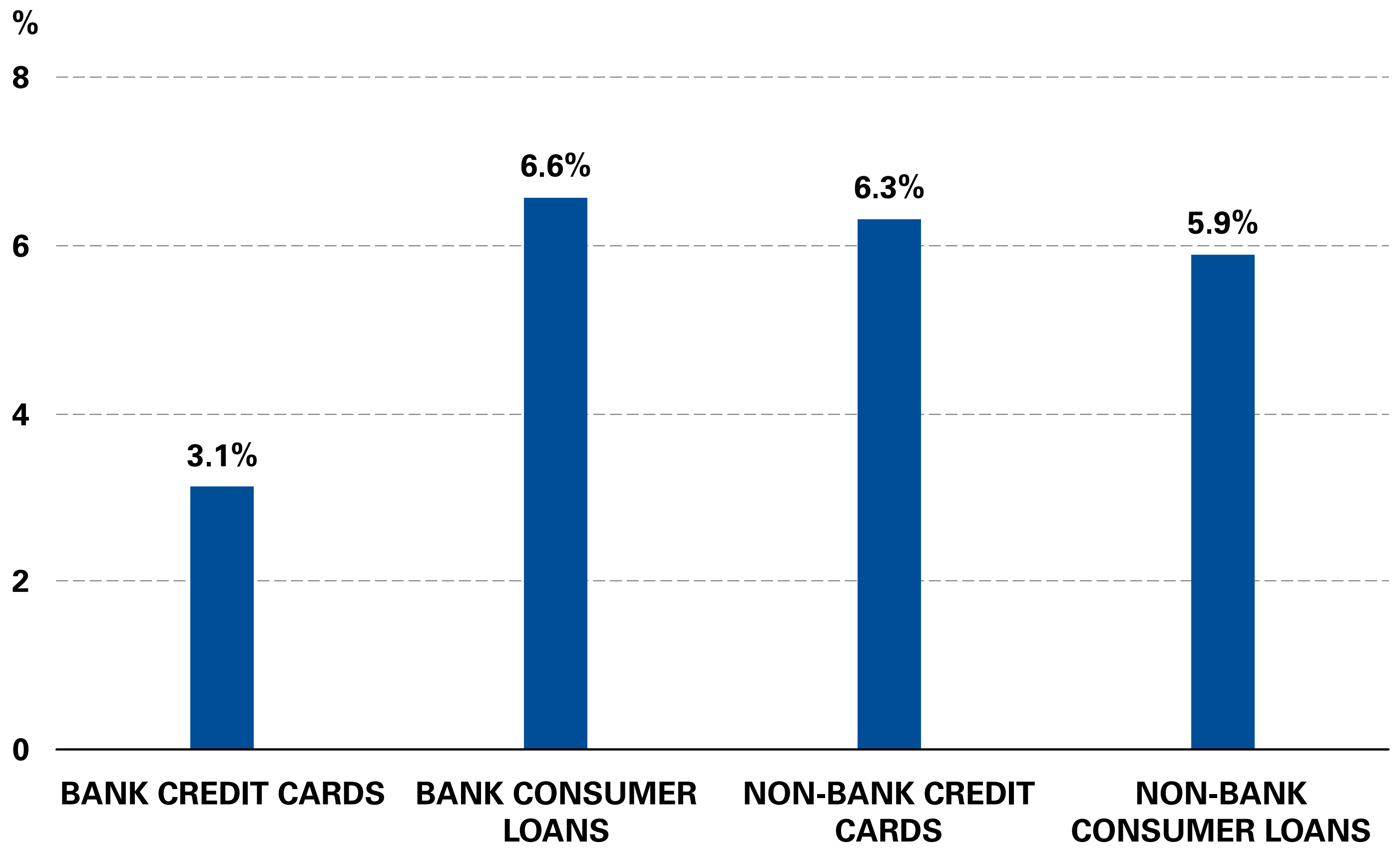
12 NEW CONSUMER LOANS



NON-BANK
BIG FOUR BANKS

SOURCE: CENTRIX

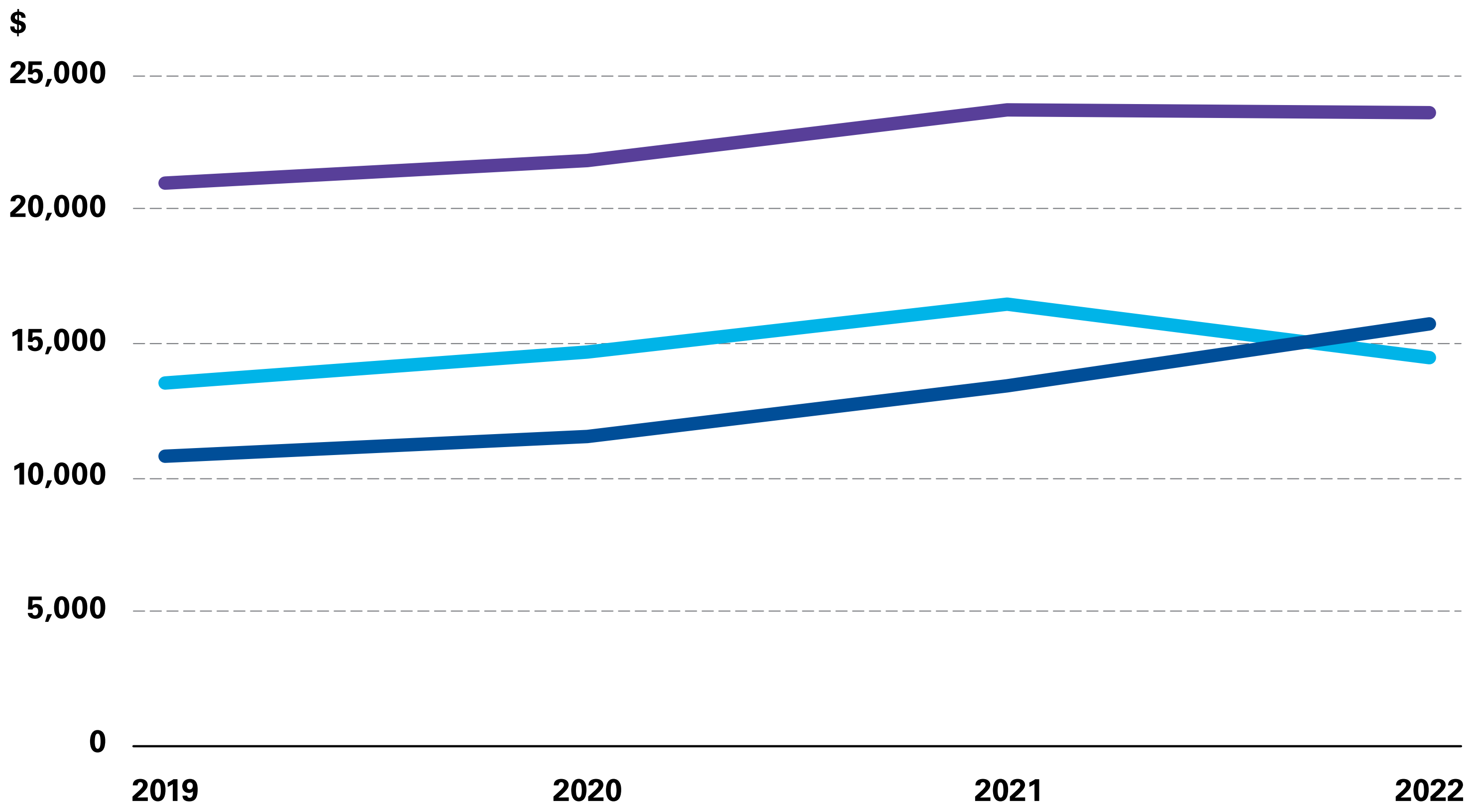
14 ARREARS LEVELS FOR 2022 BY CREDIT TYPE



PERCENTAGE OF ACCOUNTS REPORTED IN ARREARS

SOURCE: CENTRIX

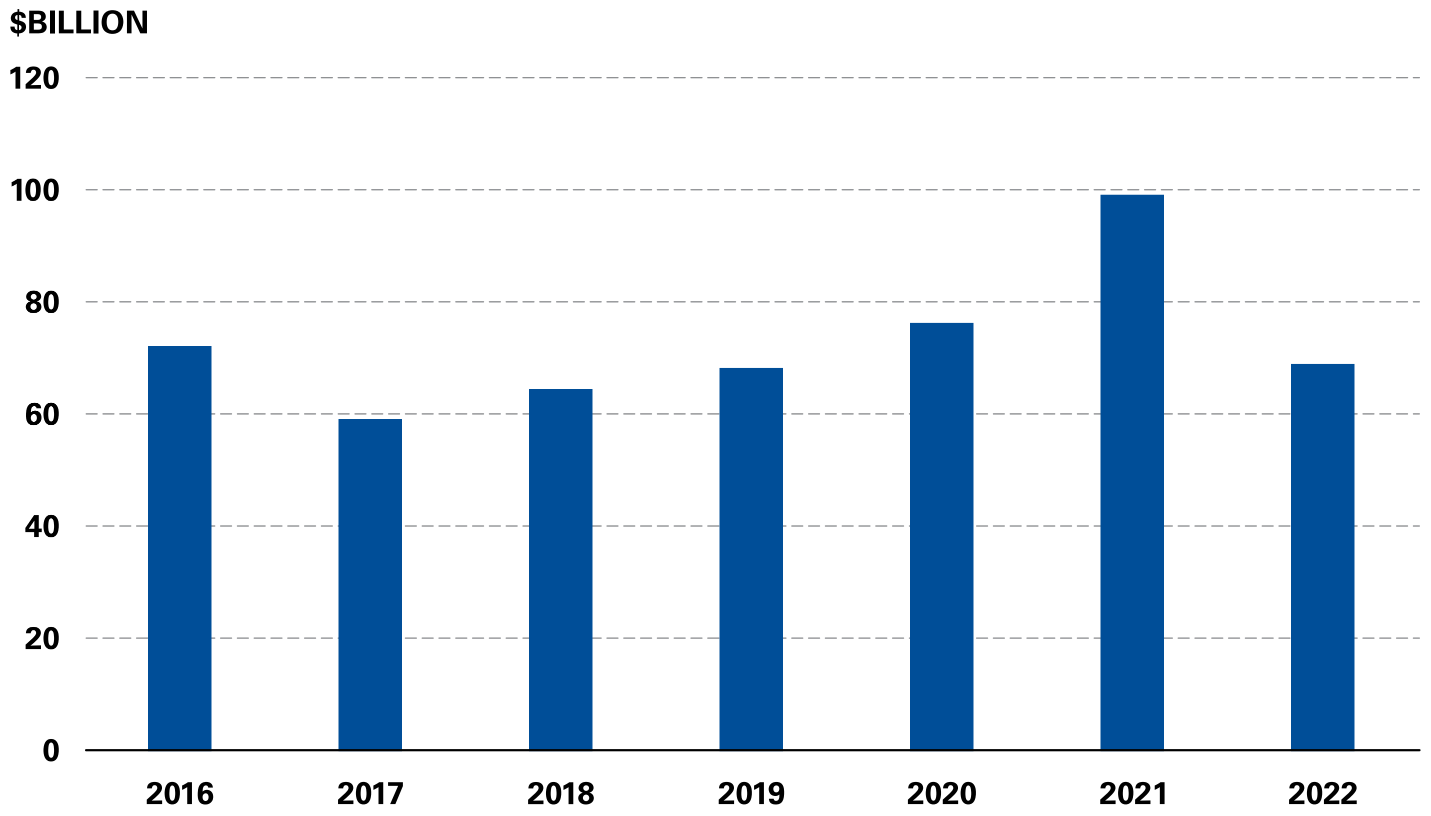
13 AVERAGE NEW CONSUMER LOAN AMOUNT



NON-BANK
BIG FOUR BANKS
OTHER BANKS

SOURCE: CENTRIX

15 TOTAL NEW MORTGAGE LENDING



NEW MORTGAGE LENDING PER YEAR

SOURCE: CENTRIX

Year ahead for financial regulatory initiatives

Daryl Collins
CoFR Adviser

Kaunihera Kaiwhakarite Ahumoni
Council of Financial Regulators

Daryl advises New Zealand's Council of Financial Regulators to ensure the regulation of New Zealand's financial system is both effective and responsive.

Daryl joined the Reserve Bank of New Zealand in 2018 where his initial role was to manage the Banking and Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Supervision team. Prior to this, Daryl spent 11 years in financial regulation in the UK, both in policy and supervisory roles, initially at the Financial Services Authority and then the Bank of England. He started his career at the New Zealand Treasury after studying post graduate Economics at the University of Auckland.

New Zealand has five regulators covering the financial system. Each has different roles and responsibilities, but the thread that ties them together is the Council of Financial Regulators – Kaunihera Kaiwhakarite Ahumoni – or CoFR for short.

CoFR has been meeting since 2011, but its role has stepped up a gear since the 2018 Conduct and Culture reviews into banks and life insurers. With the recent implementation of the Reserve Bank of New Zealand Act 2021, CoFR now has a legislative mandate.

The Act specifies the function of CoFR is to facilitate co-operation and co-ordination between members of CoFR so as to support effective and responsive regulation of the financial system in New Zealand.

CoFR is co-chaired by the Reserve Bank of New Zealand – Te Pūtea Matua and the Financial Markets Authority – Te Mana Tātai Hokohoko. The three other members are the Treasury – Te Tai Ōhanga, Ministry of Business, Innovation and Employment – Hīkina Whakatutuki and the Commerce Commission – Te Komihana Tauhokohoko.

On a practical level, CoFR publishes a quarterly Regulatory Initiatives Calendar to provide the industry with an overview of the planned regulatory activity emanating from CoFR's members. CoFR also runs a simple website providing readouts from its meetings and an overview of its work: www.cofr.govt.nz

CoFR facilitates meetings between policymakers and regulators at a variety of levels, from Chief Executives right down to policy staff. It enables staff to take a system level approach to issues.

The Council has identified five priority themes where it intends to focus attention over the medium term. These are: climate risks; digital and innovation; cyber resilience; inclusion; and regulatory effectiveness. For each priority theme a community of relevant experts from across CoFR's membership regularly meet to enhance co-ordination and progress regulatory development and implementation in the most effective way. Where relevant these communities extend beyond the five CoFR members (for example, the climate risks community includes the Ministry for the Environment – Manatū Mō Te Taiao and the External Reporting Board – Te Kāwai Ārahi Pūrongo Mōwaho).

> "The Council has identified five priority themes where it intends to focus attention over the medium term. These are: climate risks; digital and innovation; cyber resilience; inclusion; and regulatory effectiveness.

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Massey University: GDPLive – Real-time GDP and Inflation Tracker for New Zealand

Dr Christoph Schumacher
Professor of Innovation and Economics
Massey University

MASSEY UNIVERSITY
TE KUNENGA KI PŪREHUROA
UNIVERSITY OF NEW ZEALAND

Professor Christoph Schumacher joined Massey University in 2003. He is Professor of Innovation and Economics at the university and Director of the Knowledge Exchange Hub. Christoph holds under and post-graduate degrees in Engineering and International Business as well as a PhD in Economics (game theory). He also completed a course in Big Data Analytics at the Massachusetts Institute of Technology (USA).

Christoph is the co-creator of GDPLive (gdplive.net) and the New Zealand Shared Prosperity Index (sharedprosperity.co.nz). His work has been published in international journals such as the Journal of Health Economics, Applied Economics, the European Journal of Marketing, the Journal of Industrial Economics and Economics Letters.

Inflation is the hottest topic in economics right now, with economic powerhouses like the US, Germany and UK about to hit (or have already reached) double figures. Even our once-called 'rock-solid' economy is trending in this direction, yet the Reserve Bank of New Zealand (RBNZ) only now seems to be making the necessary monetary policy measures.

Part of the uncertainty and anxiety caused by inflation is the lack of real-time values. For example, we know that at the end of the December 2022 quarter, New Zealand's inflation was 7.2% and we know, that the annual Gross Domestic Product (GDP) growth rate at the end of the September quarter was 2.0%. The RBNZ has suggested that we have reached the peak and inflation will fall soon, and that GDP is also expected to fall, but unless we know today's values, we have no idea if this is true.

If GDP growth and the inflation rate are measures of the health of our economy, then imagine going to the doctor for your health check and being told you were healthy six months ago?

To finally add real-time data to the important GDP and inflation discussion, my team at Massey's Knowledge Exchange Hub developed the NZ Live GDP and Inflation Tracker (gdplive.net). This publicly available artificial intelligence (AI)-powered tool uses daily industry data to track GDP and inflation in real-time. This is a world-first as no other country has a live tracker of key economic indicators.

16 See Figure 16 – page 35

> "Part of the uncertainty and anxiety caused by inflation is the lack of real-time values.

16 **GDPLIVE SCREENSHOT#1**

17 **GDPLIVE SCREENSHOT#2**

Our tool uses huge amounts of data. Every night, we receive information about the previous day's financial transactions in the economy. We have trained an algorithm to analyse that data and distil key economic figures from it.

In this way, we can estimate not what GDP or inflation were last month or in the last quarter. We know with a high degree of precision what these figures were *yesterday*.

With our tool, we know how the economy is ticking. We can track GDP for the country, by region and for 16 industry sectors. We furthermore track inflation and where the RBNZ's Official Cash Rate (OCR) should be using the Taylor-Rule-based optimal. And we can compare that value to where the RBNZ actually set the OCR.

> **"With our tool, we know how the economy is ticking.**

Real-time GDP growth, inflation and optimal OCR values will remove uncertainty about our economy's health and increase accountability. Go and check out the website on (gdplive.net), and you might be surprised at what you see.

17 **See Figure 17 – page 35**

The rise of inflation is slowing down, but it looks like we haven't reached the peak yet. To contain inflation, our OCR should be much higher, and the economy seems to be slowing down.

If you want to learn more about GDPLive or become a supporter, now that university funding has run out, please get in touch because we rely on support from the public.

Christoph Schumacher
Professor in Innovation and Economics
Massey University
c.schumacher@massey.ac.nz

Massey University: Banking industry review and forecasts

Dr Christoph Schumacher
Professor of Innovation and Economics
Massey University

MASSEY UNIVERSITY
TE KUNENGA KI PŪREHUROA
UNIVERSITY OF NEW ZEALAND

Professor Christoph Schumacher joined Massey University in 2003. He is Professor of Innovation and Economics at the university and Director of the Knowledge Exchange Hub. Christoph holds under and post-graduate degrees in Engineering and International Business as well as a PhD in Economics (game theory). He also completed a course in Big Data Analytics at the Massachusetts Institute of Technology (USA).

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> "The best way to predict the future is to create it.
>
> Abraham Lincoln

In 2022, the economy's rollercoaster ride continued with a drop in the quarterly Gross Domestic Product (GDP) growth rate in the first quarter (-0.4%), a recovery in the next two quarters (1.9%, Q2 and 2%, Q3) and an anticipated drop again in the final quarter (-0.2%). Inflation at the same time increased from 1.5% at the beginning of the year to a 32-year high of 7.3% by the end of the second quarter. While inflation is expected to drop due to monetary tightening, inflation levels well outside the 1–3% target band are here to stay.

> "Annualised before-tax profits (Q4, 2021 to Q3, 2022) reached an all-time high of **$10.04** billion, compared to **$8.83** billion in the same period a year earlier.

The story of the banking sector is very different. Profits increased in every quarter, setting one new record after another. Quarterly profits before tax rose from $2.39 billion in Q4, 2021 to $2.49 billion in Q1, 2022, $2.55 billion in Q2, 2022 and $2.61 billion in Q3, 2022 (corresponding after-tax values are: $1.17 billion, $1.83 billion, $1.83 billion and $1.89 billion). Annualised before-tax profits (Q4, 2021 to Q3, 2022) reached an all-time high of $10.04 billion, compared to $8.83 billion in the same period a year earlier.

A quick look at the banking industry's key performance measures explains the profit figures. Quarterly lending increased steadily from $629 billion (Q4, 2021) to $650 billion Q3, 2022), and so did the net interest margins (from 2% in Q4, 2021 to 2.31% in Q3, 2022). Quarterly operating expenses were fairly steady ($1.56 billion in Q3, 2021 and $1.68 billion in Q3, 2022) while the credit loss rate was almost zero. Higher lending volumes, higher margins and stable expenses made it a record year for banks.

Economically, 2022 was the year when we saw the return of inflation, labour shortages, the bursting of asset bubbles and a sharp increase in interest rates. This has put immense pressure on many firms and households.

How did we get here? To ease the pain of the Covid-19 lockdowns, the Government and the Reserve Bank of New Zealand (RBNZ) injected money into the economy and kept borrowing costs low. While such a significant fiscal and monetary stimulus boosted the economy, it also increased prices.

At the same time as demand was heating, salaries started to rise. Productivity-driven wage growth is a good thing, but this is not what was happening in New Zealand. In 2022 we saw more people leaving New Zealand than arriving. While a small net negative outflow in migration might not cause a significant shock to our economy, the closed borders and lack of work visas impacted our labour market.

TABLE 3: Forecasting results VAR

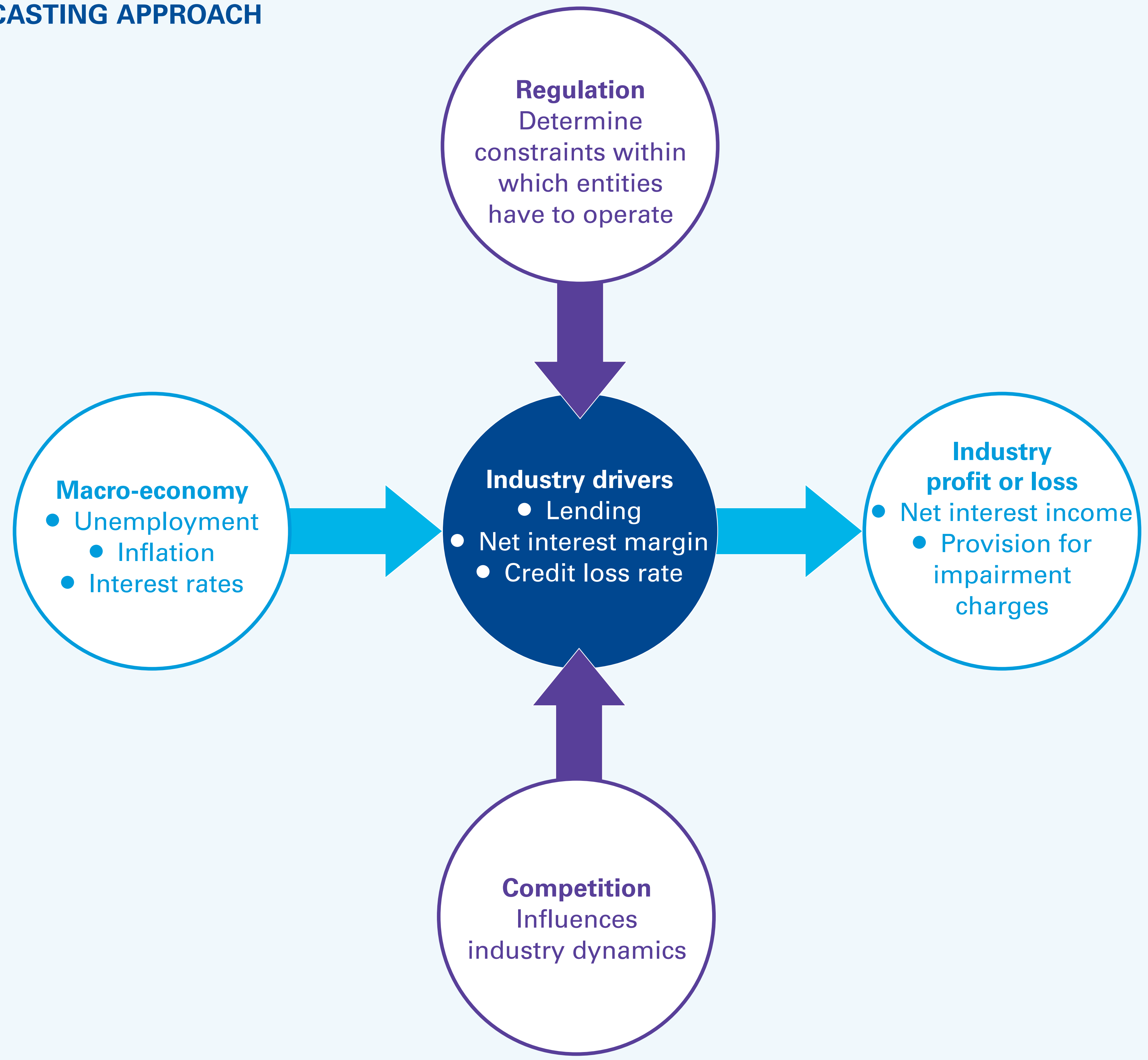
VAR industry driver		2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4
		Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Lending ($Billion)	Upper CI								674	682	693	704	717
	Forecast	591	603	609	629	633	639	650	660	665	674	682	693
	Lower CI								646	649	654	661	670
Net interest margin (%)	Upper CI								2.34%	2.32%	2.33%	2.32%	2.30%
	Forecast	2.03%	2.04%	2.00%	2.00%	2.05%	2.17%	2.31%	2.19%	2.13%	2.11%	2.09%	2.06%
	Lower CI								2.05%	1.95%	1.91%	1.88%	1.85%
Credit loss rate (%)	Upper CI								0.09%	0.12%	0.13%	0.12%	0.12%
	Forecast	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%	0.04%	0.02%	0.02%	0.02%
	Lower CI								0.00%	-0.04%	-0.10%	-0.14%	-0.16%
Profit before tax ($Billion)	Upper CI								3.03	3.16	3.23	3.26	3.27
	Forecast	2.40	2.15	2.27	2.39	2.49	2.55	2.61	2.65	2.65	2.66	2.68	2.66
	Lower CI								2.67	2.14	2.10	2.07	2.05

Note: See technical appendix in **Table 4** and **Figure 18** for details.

TABLE 4: List of macro-economic indicators

Macro variable	Description	Units	Source
gdp	Gross Domestic Product (expenditure based)	$mn, nominal index	RBNZ
bankbill90	90-day bank bills rate	%, annualised	RBNZ
govbond10y	10-year government bond yield	%, annualised	RBNZ
unemployed	Number of registered unemployed	Number	RBNZ
avgqhouseloancount	Average number of home loans approved	Number	RBNZ
estpop	Estimated population of New Zealand	Thousands	Statistics NZ
cpindx	Consumer Price Index	Index level	RBNZ
housepricendx	REINZ house price index	Index level	REINZ
weeklyearnings	Weekly earnings	$, nominal	Statistics NZ
nzstocksndx	New Zealand all stocks index	Index level	NZSE (NZ Stock Exchange)

18 FORECASTING APPROACH



If migration had continued at pre-Covid-19 levels, we would have around 100,000 more people in New Zealand right now, of which approximately 50,000 would be part of the workforce.

A tight labour market gives employees more bargaining power and salaries tend to rise. This is precisely what happened in 2022: average hourly earnings grew by 8.6% in the past year outpacing inflation over the same period (September quarter labour market statistics).

It is well known that low unemployment will lead to wage rises and spur inflation (the idea was published by the New Zealand economist William Phillips in 1957 and is generally known as the Phillips Curve). Still, the immediate impact on businesses came as a surprise. A lack of workers caused productivity to fall, and companies were forced to either increase prices, live with reduced margins, or invest in replacing labour with technology.

> "A lack of workers caused productivity to fall, and companies were forced to either increase prices, live with reduced margins, or invest in replacing labour with technology.

In short, the economy grew because of significant monetary and fiscal stimulation, but labour is in short supply due to work-visa issues. Increased spending and rising wages have put immense pressure on prices, forcing the RBNZ to increase the Official Cash Rate (OCR) from 0.75% at the beginning of the year to the current value of 4.75%.

Let's now look ahead. Our economy is likely to slow down with an expected annual production GDP growth rate of well below 2% caused by a slowdown of private consumption and residential investment. Unemployment will remain low, but is expected to rise from its current value of 3.4% to possibly 4.5%. This would take some pressure off the labour supply shortage, but the labour market is expected to remain tight.

Exports are likely to grow due to softer domestic demand and a relatively weak NZD, plus the anticipated recovery of international tourism, our main export earner. A robust net export recovery and loosening labour constraints are crucial for economic stability.

House prices are expected to fall further during 2023 by as much as 18% as new housing supply exceeds new demand. Higher interest rates, affordability issues and lack of migration mean the current housing surplus is at a six-year high.

Tradable inflation is expected to fall as global supply chains return to normal, shipping costs decline and commodity prices fall. This situation, however, is different for non-tradable inflation. While falling housing prices are taking some pressure off our domestic inflation, the current mismatch between labour supply and labour demand is pushing prices up. Labour supply needs to increase in order to stop the record-high wage growth; otherwise, the impact of monetary tightening is lost.

The expectation is that the OCR will increase further to 5.0% or even 5.5% to slow down demand and keep up with the wage growth momentum. Rising interest rates will put immense pressure on households, especially those with high debt-to-income ratios.

> **Our economy is stretched and needs to transition back to sustainable levels. The expected contraction is, therefore, a good thing to ensure long-term economic stability.**

While higher salaries might bring some relief, households that have to refinance their mortgages this year will struggle to cope with the sharp rise in their debt-servicing burden.

For the banking industry, 2023 is likely to be another good year. Profits are expected to remain high, although growth is slowing down due to an anticipated drop in the net interest margin.

The model uses a collection of past values of our drivers, that is, a vector of time series, to predict future values. Specifically, I employ a vector autoregressive model (VAR) as it enables me to investigate how the interaction between the variables changes the forecast.

18 See Figure 18 – page 38

Macroeconomic indicators are not explicitly used in the VAR model as the impact of these indicators is already factored into past values of the performance drivers. The results of my analysis are displayed in **Table 3**.

The quarterly lending volume increased steadily in 2022 from $633 billion in Q1 to $650 billion in Q3. We expect this trend to continue in 2023, although at a slightly slower pace. While higher interest rates are slowing lending growth down, the expectation of net positive migration figures is pushing values up. Our model suggests that lending will grow to around $693 billion by the end of 2023.

19 See Figure 19 – page 40

Net interest margins[26] grew from 2.05% in Q1 to 2.31% in Q3 2022. We expect interest margins to fall during 2023 to around 2.06% due to the higher cost of money and increased interest expenses.

20 See Figure 20 – page 40

The credit loss rate[27] remained at 0% during 2022, supported by conservative lending, low unemployment and the government's financial support for businesses. Given the upward pressure on prices, increasing interest rates and the sharply increasing household debt-servicing pressure, we expect the credit default rate to grow in the first half of the year to around 0.04% and then stabilise at 0.02%.

21 See Figure 21 – page 40

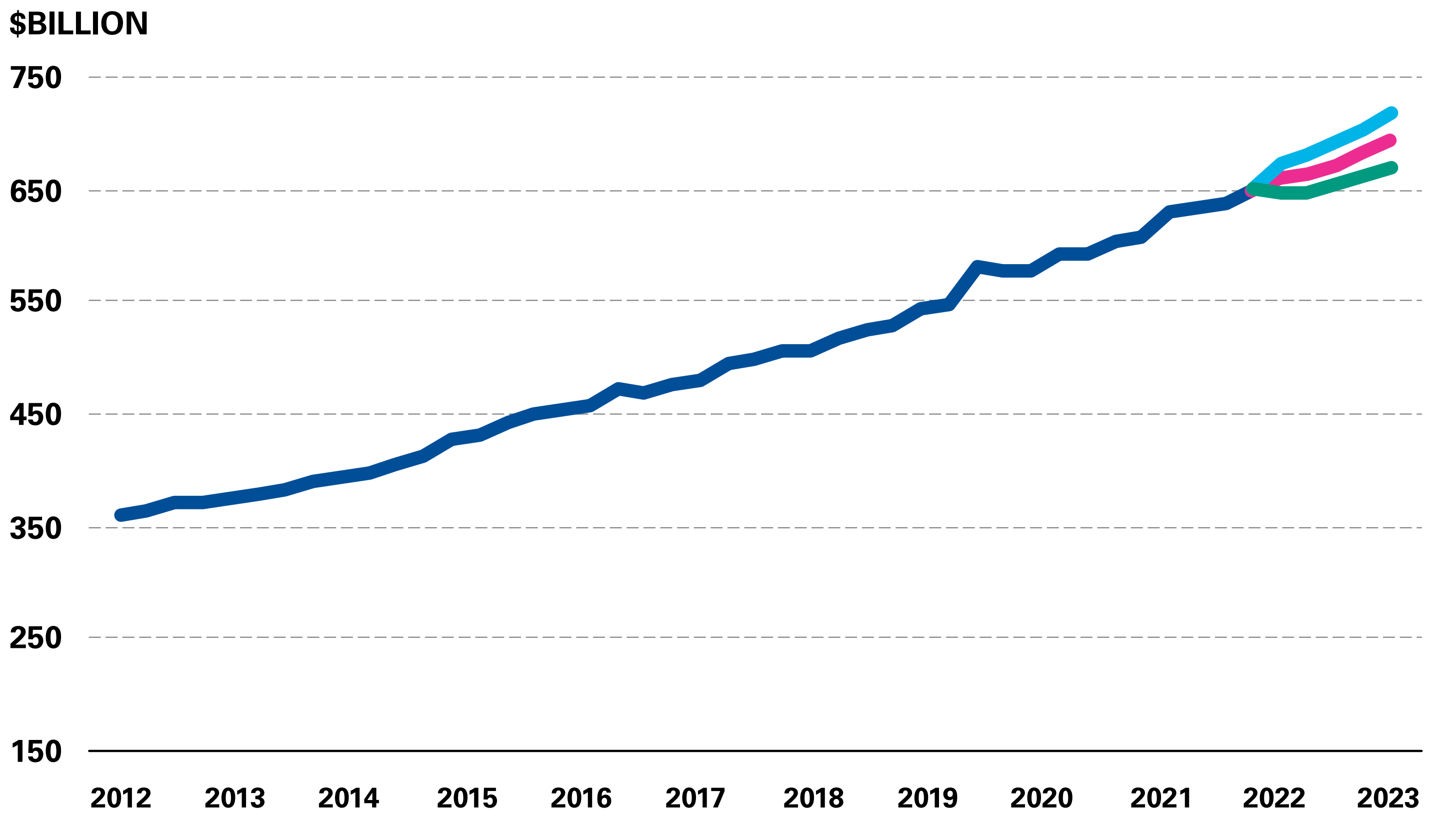
Banking profits reached record highs in 2022. While our model suggests that profits will remain high, the growth momentum is expected to slow down. Before-tax profits increased in 2022 from $2.49 billion in Q1 to $2.61 billion in Q3, and we see quarterly profits reaching $2.66 billion by the end of the year.

22 See Figure 22 – page 40

Note that the latest current values are Q3 2022, so the time series do not explicitly cover the impact of the latest OCR increase. This might suggest that the lending volume predictions and the profit forecasts might be optimistic.

To conclude, our economy is stretched and needs to transition back to sustainable levels. The expected contraction is, therefore, a good thing to ensure long-term economic stability. Once tourists and workers return to our shores and wage increases are driven by a productivity gain rather than a supply shortage, the rest will likely fall into place. The outlook for the banking sector remains very positive. We want our banks to be strong to carry New Zealand through what might be another challenging year.

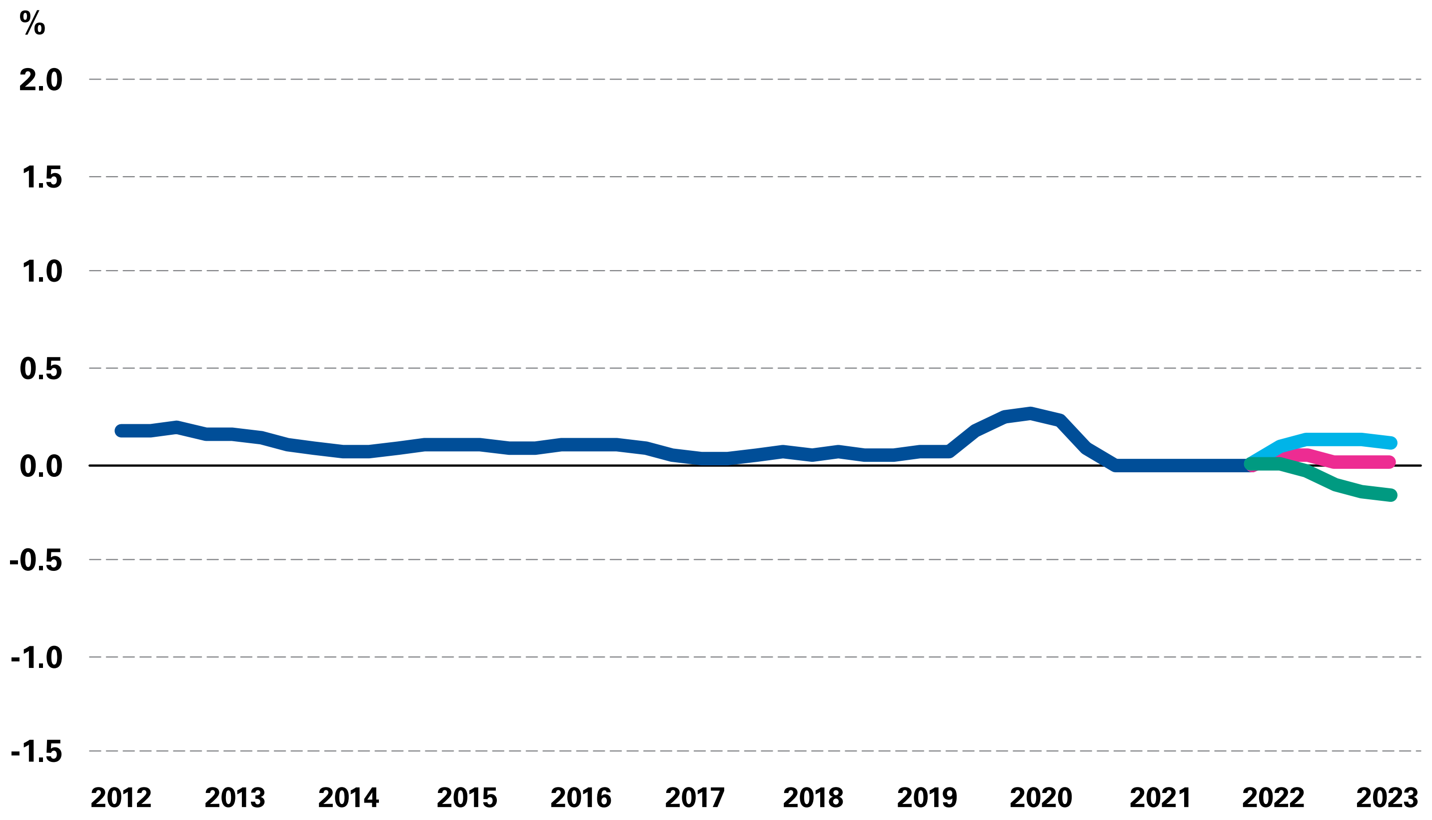
19 VAR INDUSTRY LENDING



- LENDING (ACTUAL)
- UPPER 95% CONFIDENCE INTERVAL
- LENDING (FORECAST)
- LOWER 95% CONFIDENCE INTERVAL

SOURCE: MASSEY UNIVERSITY

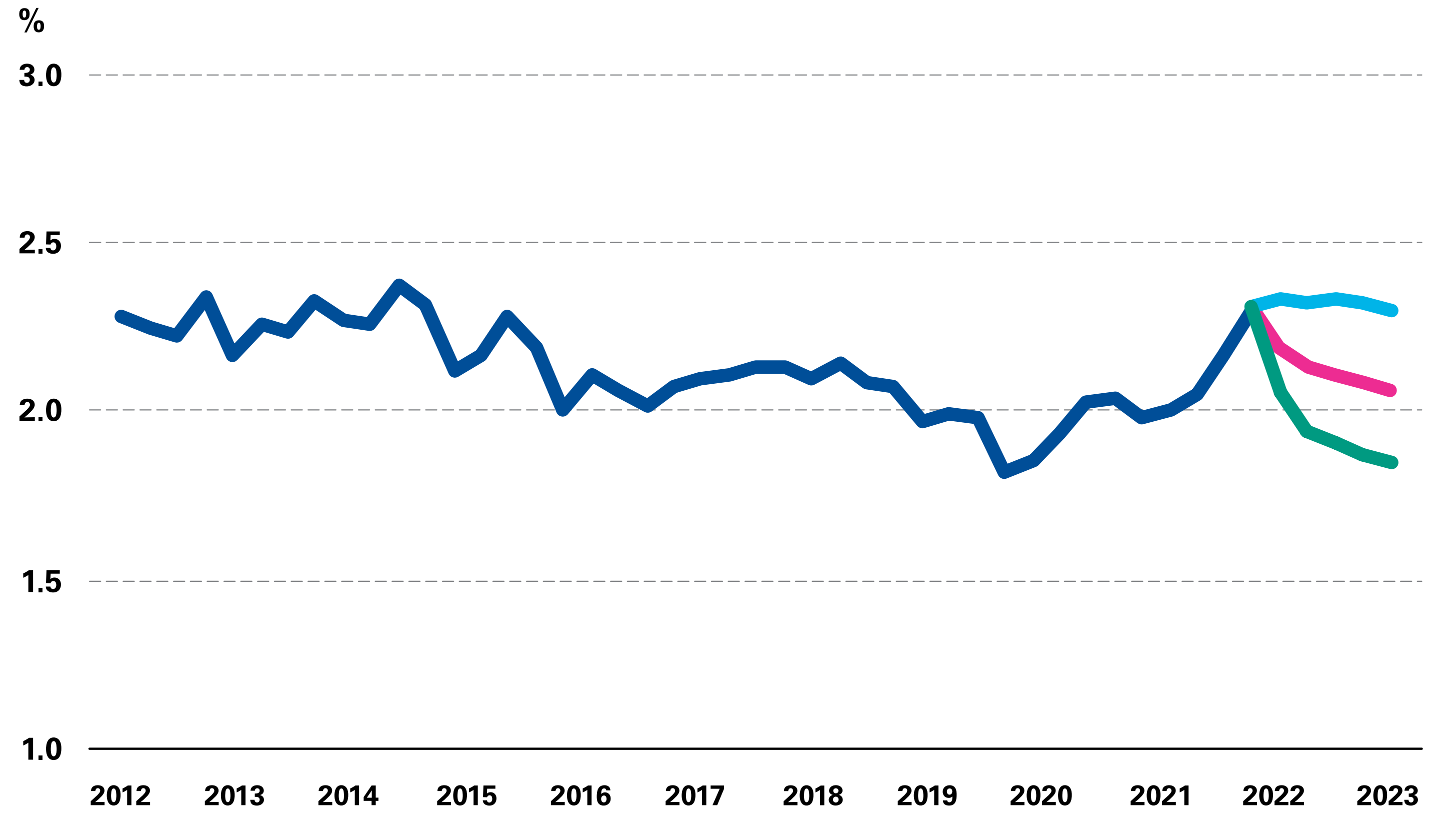
21 VAR CREDIT LOSS RATE



- CREDIT LOSS RATE (ACTUAL)
- UPPER 95% CONFIDENCE INTERVAL
- CREDIT LOSS RATE (FORECAST)
- LOWER 95% CONFIDENCE INTERVAL

SOURCE: MASSEY UNIVERSITY

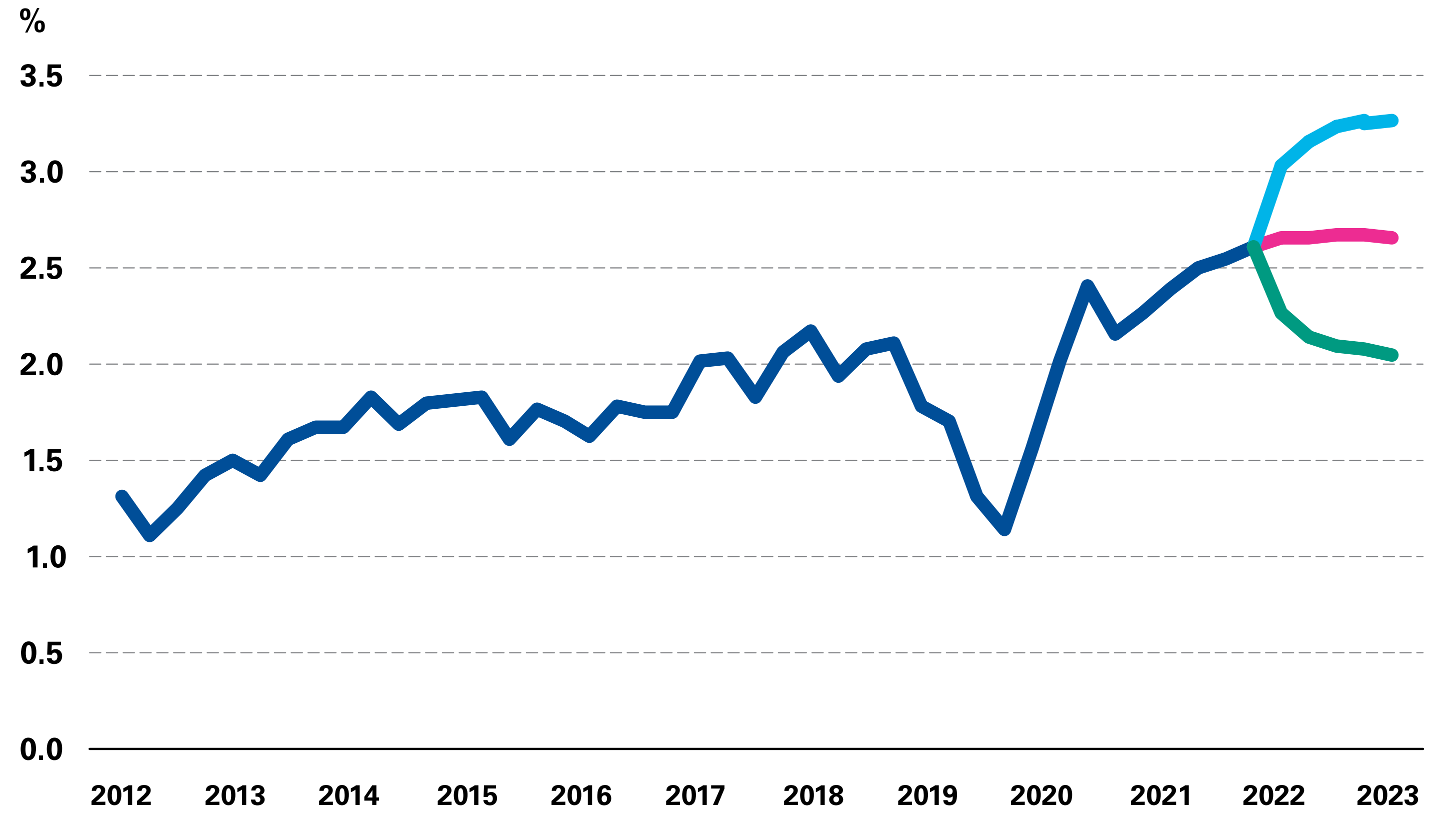
20 VAR INDUSTRY NET INTEREST MARGIN



- NET INTEREST MARGIN (ACTUAL)
- UPPER 95% CONFIDENCE INTERVAL
- NET INTEREST MARGIN (FORECAST)
- LOWER 95% CONFIDENCE INTERVAL

SOURCE: MASSEY UNIVERSITY

22 VAR PROFIT BEFORE TAX



- PROFIT BEFORE TAX (ACTUAL)
- UPPER 95% CONFIDENCE INTERVAL
- PROFIT BEFORE TAX (FORECAST)
- LOWER 95% CONFIDENCE INTERVAL

SOURCE: MASSEY UNIVERSITY

Sector performance

Consistent with previous surveys, our analysis of bank performance is performed over the top-level entity's consolidated results. For dual registered banks with a local bank and branch structure, the New Zealand banking group level results are used. Results only include operations within the banking group, and any operations within wider groups, but operations outside the registered banking group, such as the Kiwibank and Heartland Bank structures, have not been included.

Some entities in the survey reported restated prior year figures in their financial statements included in this year's survey. To remain consistent, the 2021 figures have not been updated in this publication to reflect the comparative restatements.

Net profit after tax

The New Zealand banking sector has shown another year of strong performance during 2022, with an increase in net profit after tax (NPAT) of 17.26% ($1.06 billion) to reach $7.18 billion for the year. This is the first time in the history of the survey that we have reported a NPAT of over $7 billion, after 2021 saw the first time the sector reached $6 billion. This continued strength reflects how the sector is continuing to bounce back from the lower profits experienced in 2020 resulting from the Covid-19 pandemic.

23 See Figure 23 – page 41

Overall, 16 of the 20 survey participants saw an increase in their NPAT. Those which did not experience an increase were JPMorgan Chase Bank (JPMorgan), The Co-operative Bank (Co-op), TSB Bank (TSB) and MUFG Bank (MUFG).

The key to the success of the banking sector over the year was a $1.53 billion increase in net interest income. This was driven by an increase in net interest margin from 1.97% to 2.10% along with a 5.53% increase in gross loans and advances. Non-interest income also contributed to the increase in NPAT with a rise of 16.50% ($0.47 billion).

The largest percentage increase came from the cohort of banks with a December reporting date. They saw a 52.16% increase in NPAT for the year ended December 2021 compared to the year ended December 2020. This is because the comparative year included a greater effect of the onset of the pandemic leading to lower profits. Overall, the largest increases in NPAT came from the big four banks with ANZ Bank (ANZ) increasing by $380 million (19.80%) to $2,299 million, Westpac increasing by $241 million (22.80%) to $1,298 million, ASB Bank (ASB) increasing by $196 million (15.59%) to $1,453 million, and Bank of New Zealand (BNZ) increasing by $92 million (6.96%) to $1,414 million.

23 MOVEMENT IN NET PROFIT

Hover over the button to see historic results

2022 2019 2021 2018 2020

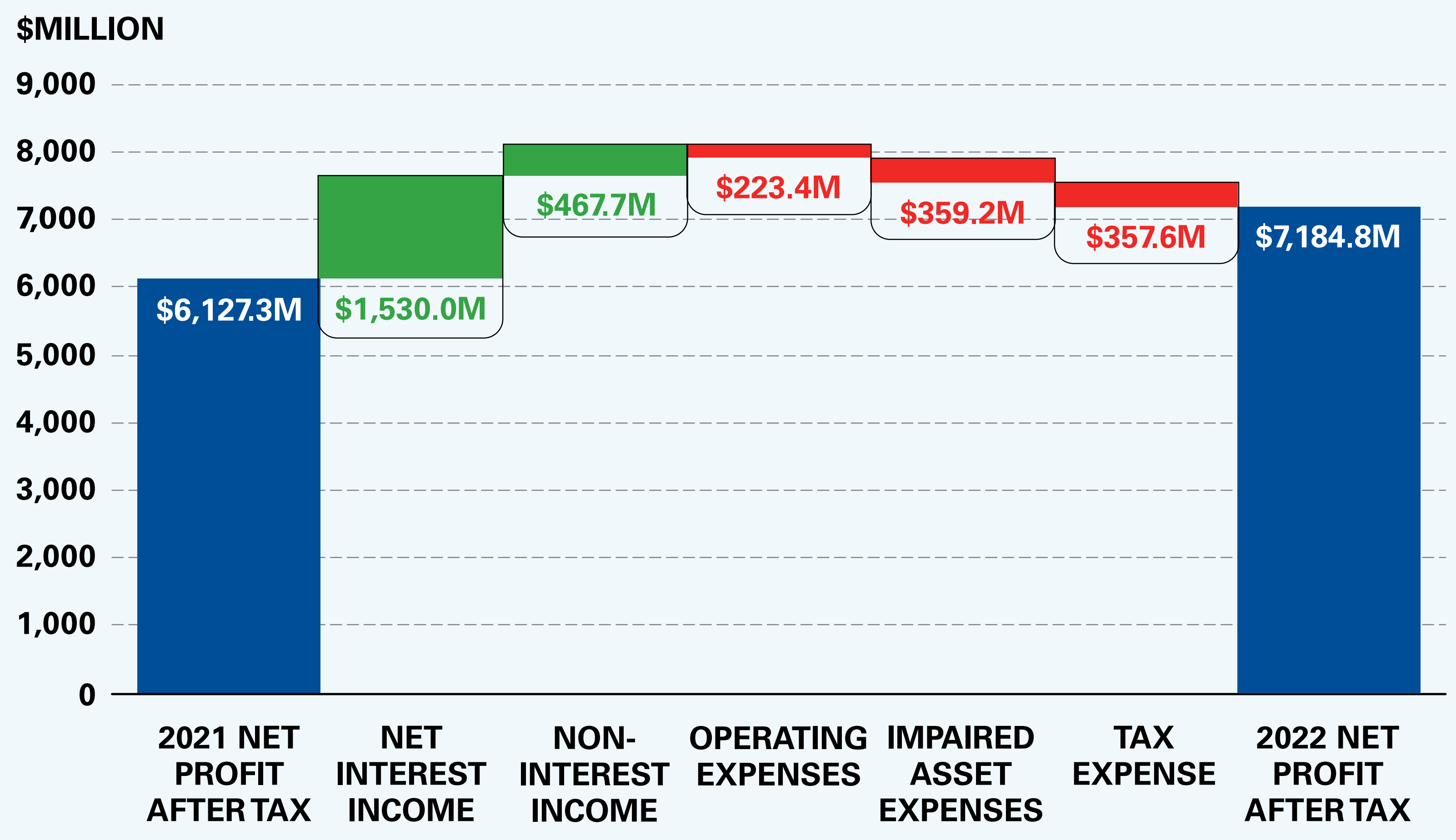


TABLE 5: Registered banks – Performance trends						
Year	**Increase in total assets**	**Increase in net profit after tax**	**Net profit after tax/ Average total assets**	**Interest margin**	**Operating expenses/ Operating income**	**Impaired asset expense/ Average gross loans and advances**
2022	9.14%	17.26%	1.08%	2.10%	37.53%	0.03%
2021	5.46%	47.92%	0.99%	1.97%	40.98%	-0.04%
2020	5.90%	-27.57%	0.71%	1.96%	43.44%	0.31%
2019	7.73%	-0.88%	1.04%	2.10%	38.41%	0.09%
2018	5.07%	11.21%	1.12%	2.12%	37.95%	0.06%
2017	1.42%	7.35%	1.04%	2.08%	39.61%	0.04%

Together, they accounted for 86.44% ($914 million) of the increase in the sector's profits. The largest increase in NPAT outside of the big four banks was by Rabobank, rising by $88 million (72.51%) to $209 million.

The largest percentage increases in NPAT came from China Construction Bank at 98.69% ($17.31 million), Kookmin Bank (Kookmin) at 86.74% ($4.29 million) and Bank of India (BOI) at 84.30% ($0.95 million). The largest decrease in NPAT came from JPMorgan with a fall of 92.84% to $0.90 million.

The financial performance of the survey participants can be summarised as follows:

- net interest income increased by $1.53 billion (13.19%) to $13.13 billion;
- non-interest income increased by $0.47 billion (16.50%) to $3.30 billion;
- operating expenses (including amortisation) increased by $0.22 billion (3.65%) to $6.35 billion;
- impaired asset expense increased by $0.36 billion (168.32%) from a $0.21 billion recovery to $0.15 billion expense; and
- tax expense increased by $0.36 billion (14.93%) to $2.75 billion.

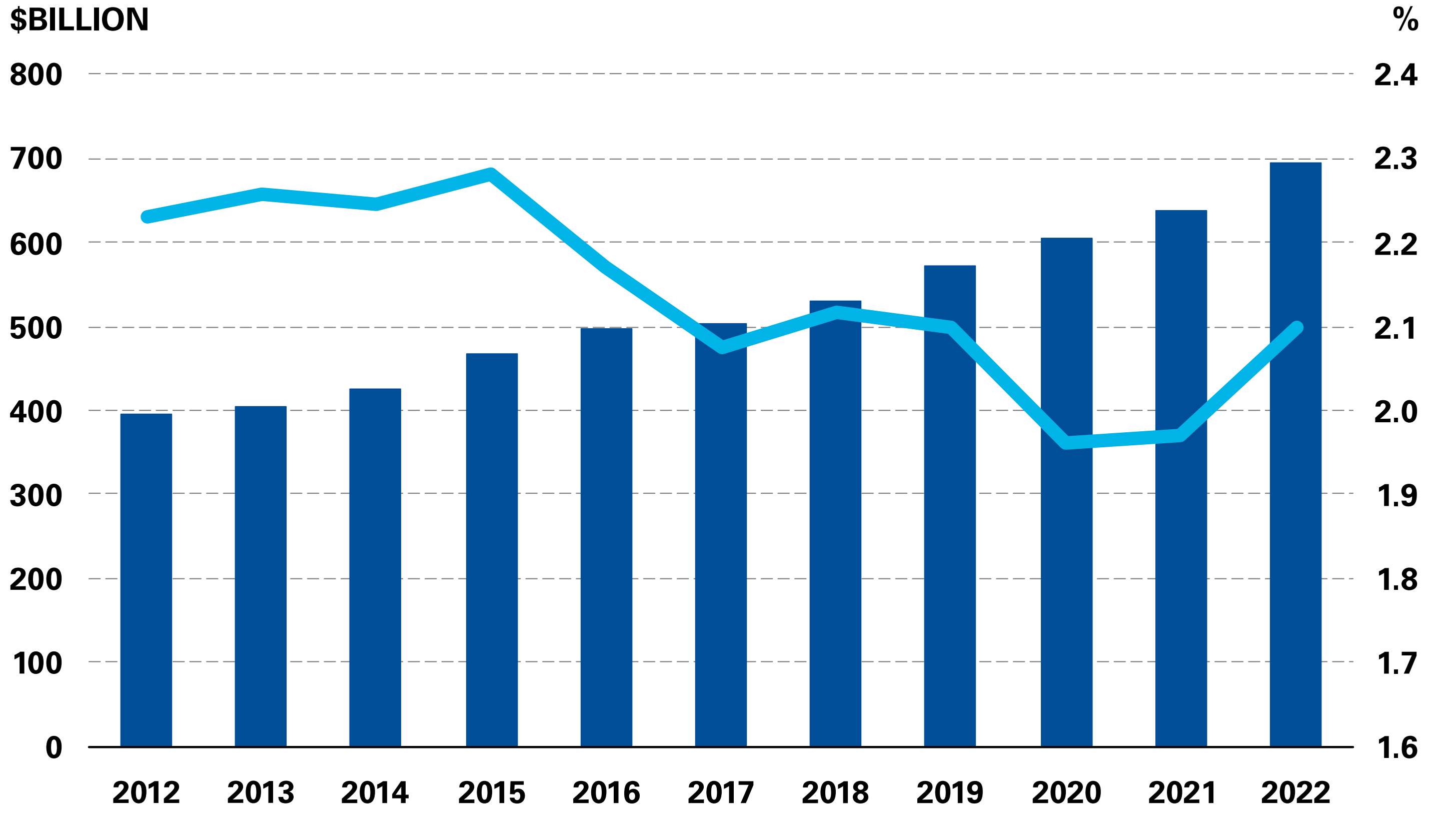
It is worth noting that the majority of the effect of the four-month lockdown of Auckland (and the lesser impact for the rest of the country) that occurred from August to December 2021 has been included in the current year's results due to the reporting periods captured by the survey.

TABLE 6: Movement in interest margin	2022	2021	Movement
Entity[28]	**%**	**%**	**(bps)**
Australia and New Zealand Banking Group Limited – ANZ New Zealand	2.14%	2.02%	12
Bank of Baroda (New Zealand) Limited	2.87%	2.56%	31
Bank of China New Zealand Banking Group	1.32%	1.23%	9
Bank of India (New Zealand) Limited	3.92%	3.94%	-2
Bank of New Zealand	2.19%	2.04%	15
China Construction Bank Corporation New Zealand Banking Group	1.60%	1.54%	6
Citibank, N.A. New Zealand Branch	0.42%	0.62%	-20
Commonwealth Bank of Australia New Zealand Operations	2.12%	1.97%	15
Coöperatieve Rabobank U.A. New Zealand Banking Group	2.41%	2.22%	19
Heartland Bank Limited	4.59%	4.76%	-17
Industrial and Commercial Bank of China New Zealand Banking Group	1.72%	1.32%	40
JPMorgan Chase Bank, N.A., New Zealand Banking Group	0.85%	0.36%	49
Kiwibank Limited	2.16%	2.02%	14
Kookmin Bank Auckland Branch	2.42%	1.86%	56
MUFG Bank, Ltd., Auckland Branch	0.57%	0.41%	16
Southland Building Society	2.73%	2.50%	23
The Co-operative Bank Limited	2.34%	2.26%	8
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	0.95%	1.02%	-7
TSB Bank Limited	1.84%	1.71%	13
Westpac Banking Corporation – New Zealand Banking Group	2.01%	1.90%	11
Sector average	**2.10%**	**1.97%**	**13**

Hover over the button
to see historic results

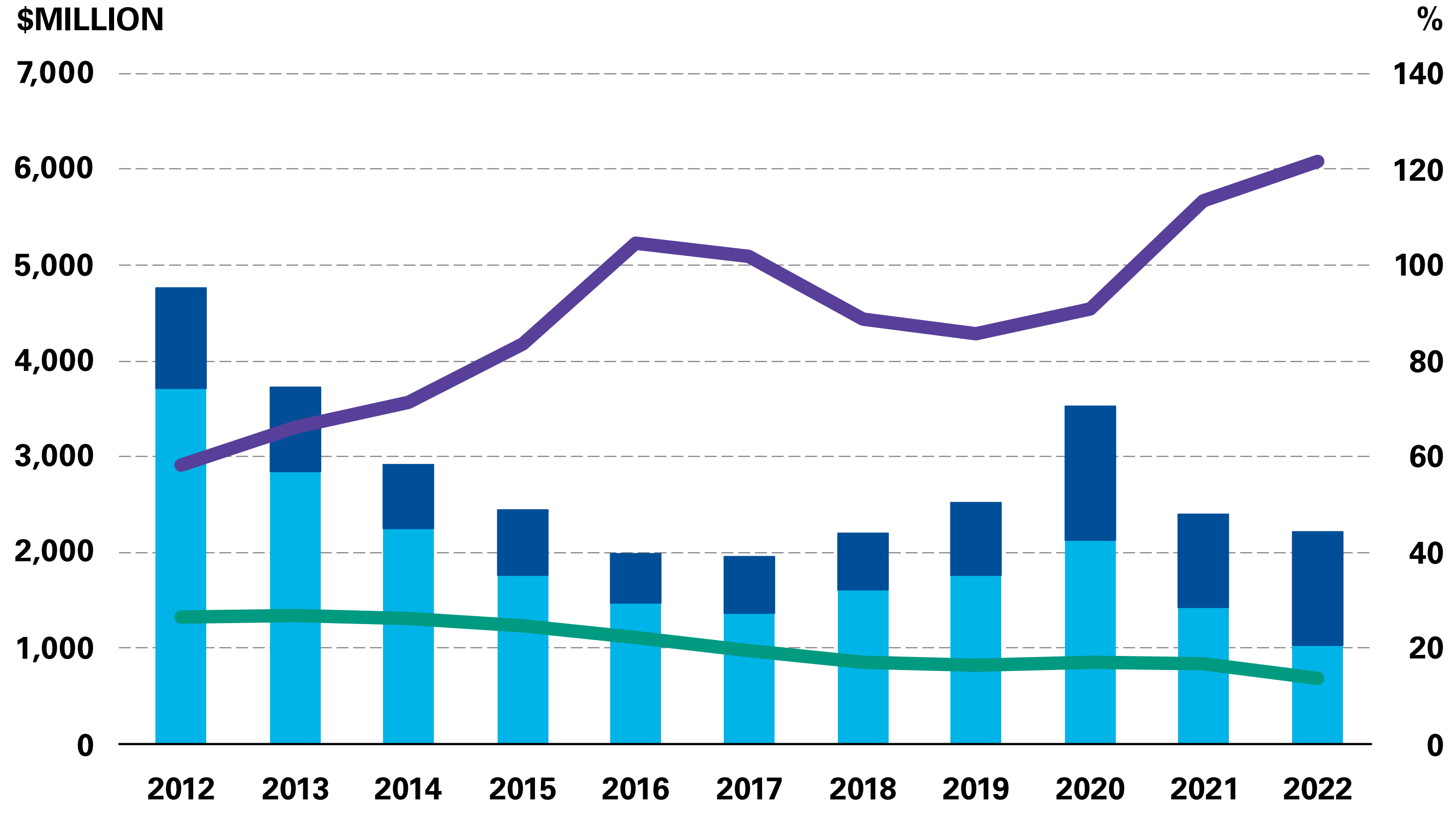
2022 2021 2020 2019

24 REGISTERED BANKS: TOTAL ASSETS VS. INTEREST MARGIN



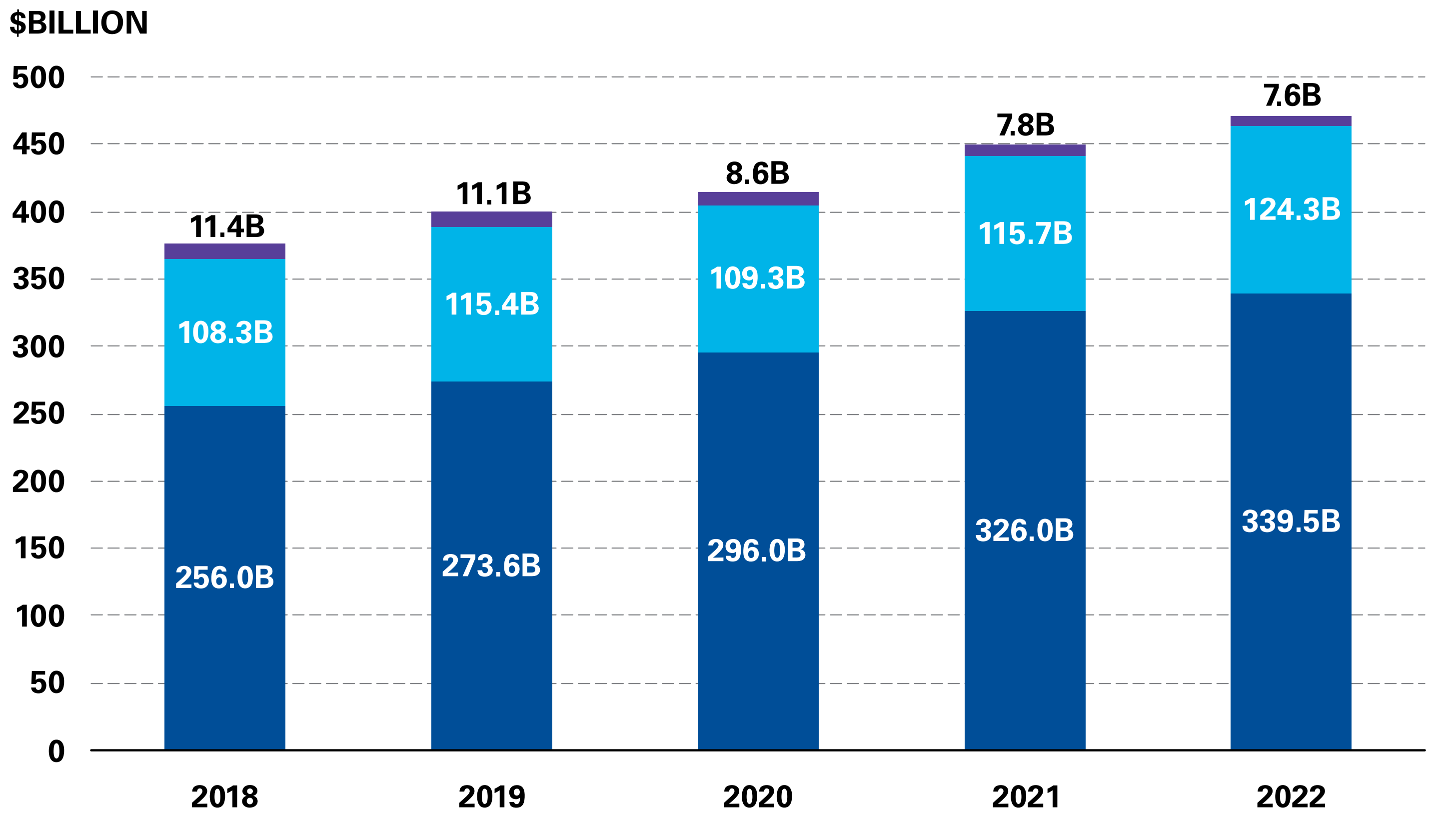
- TOTAL ASSETS (LHS)
- INTEREST MARGIN (RHS)

26 REGISTERED BANKS: GROSS IMPAIRED AND PAST DUE ASSETS



- PAST DUE ASSETS (LHS)
- GROSS IMPAIRED ASSETS (LHS)
- SPECIFIC PROVISION/GROSS IMPAIRED AND PAST DUE ASSETS (RHS)
- TOTAL PROVISION/GROSS IMPAIRED AND PAST DUE ASSETS (RHS)

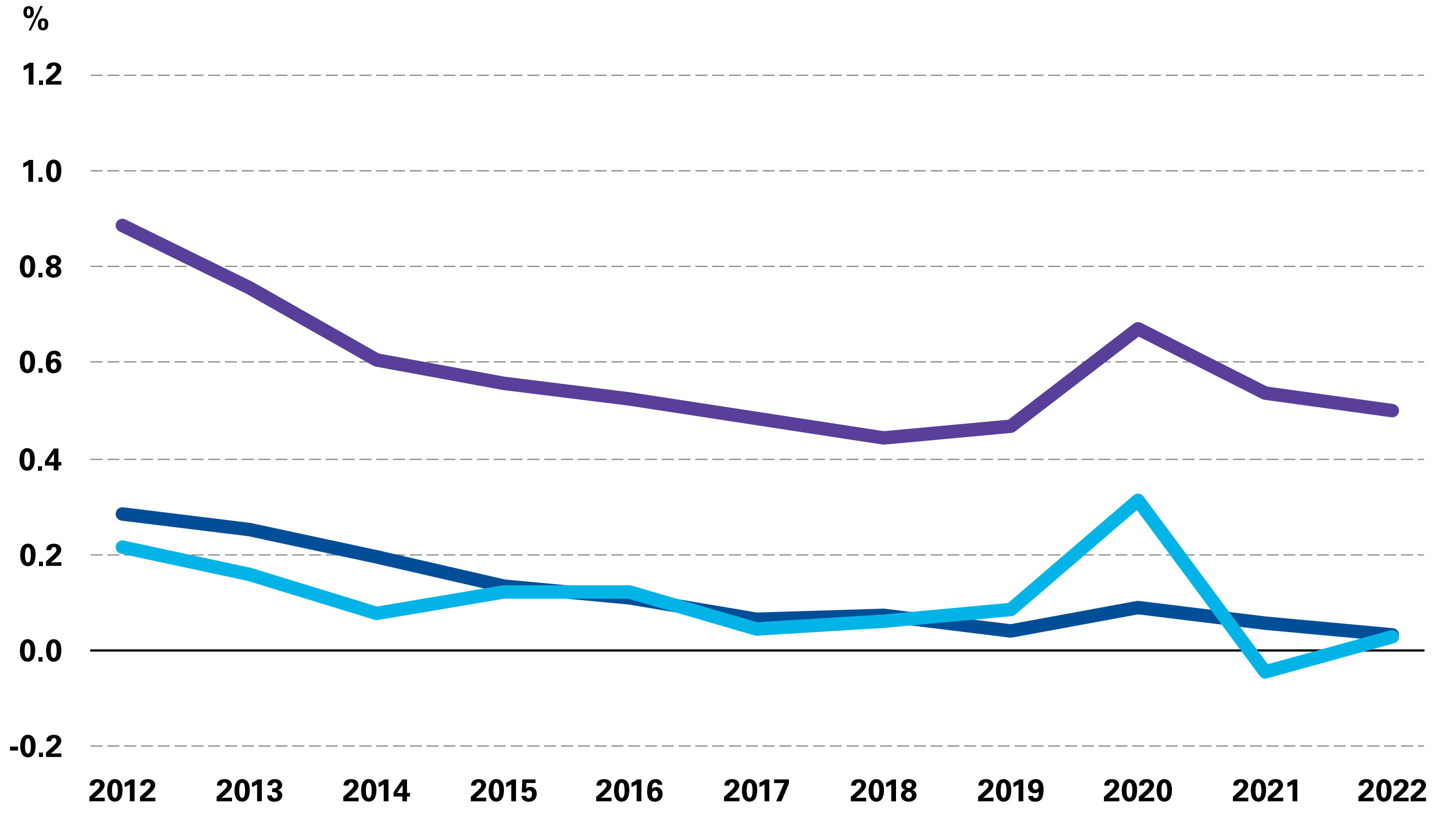
25 BANK SECTOR LENDING



- HOUSING
- BUSINESS
- PERSONAL

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

27 REGISTERED BANKS: IMPAIRED ASSET EXPENSE TO GROSS LOANS AND ADVANCES



- NET LOAN WRITE OFFS/ AVERAGE GROSS LOANS AND ADVANCES
- IMPAIRED ASSET EXPENSE/ AVERAGE GROSS LOANS AND ADVANCES
- TOTAL PROVISIONS FOR DOUBTFUL DEBT/ GROSS LOANS AND ADVANCES

Net interest margin

The net interest margin (NIM) increased 13 basis points (bps) from 1.97% to 2.10% across the banking sector in 2022. See **Table 5**. This has brought the sector back in-line with pre-pandemic (2019) figures. Net interest income saw an increase of 13.19% ($1.53 billion) to $13.13 billion, while interest-earning assets saw a proportionally smaller increase of 6.01% ($36.47 billion) to $643.74 billion, resulting in the increase of NIM. Of the 20 survey participants, all but four banks reported an increase in their NIM from 2021. See **Table 6**.

Of the 16 banks reporting an increase in NIM, Kookmin had the largest upward movement, rising 56 bps to 2.42%. This increase was a result of a 57.66% ($5.76 million) increase in net interest income against a 20.70% ($121.90 million) increase in interest-earning assets. Other notable expansions in NIM were the Industrial and Commercial Bank of China (ICBC) increasing by 40 bps to 1.72% and Bank of Baroda (BOB) increasing by 31 bps to 2.87%.

Heartland Bank (Heartland) and BOI maintained the highest NIMs in the banking sector, although both experienced slight reductions decreasing by 17 bps to 4.59% and by 2 bps to 3.92% respectively. Meanwhile, Citibank showed the largest deterioration in NIM with a reduction of 20 bps to 0.42% from 0.62% over the year, falling to the lowest NIM out of all the survey participants. This was driven by a 19.41% ($2.34 million) reduction in net interest income, with an increase in interest-earning assets of 12.00% ($264.22 million).

All five major banks reported increases in NIM, with both BNZ and ASB seeing the largest increases of 15 bps to 2.19% and 2.12% respectively. BNZ maintained the highest NIM of the five major banks in 2022. All the major banks reported increases in net interest income, with Kiwibank having the largest percentage movement of 19.32% ($102 million). This movement resulted in a combined expansion of net interest income for the major banks of 13.11% ($1.37 billion), while interest-earning assets saw slightly slower growth of 5.83% ($31.55 billion) causing the overall increase in NIM for the major banks.

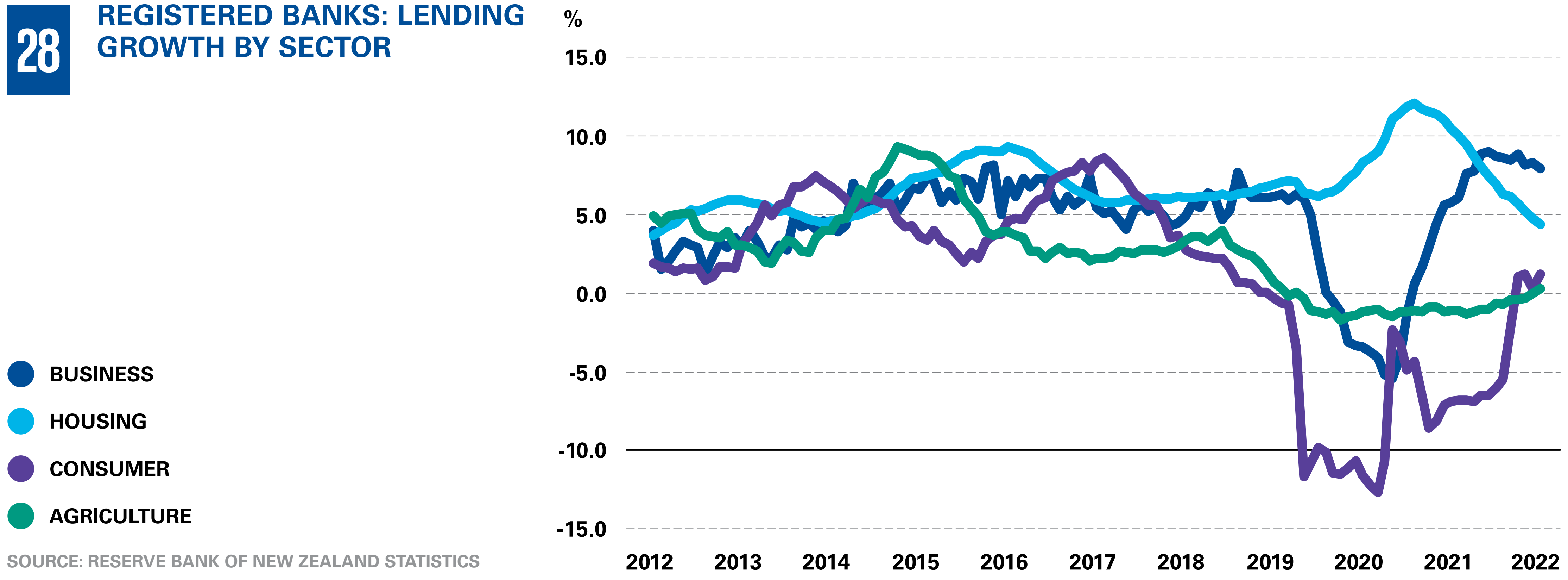
Only two survey participants saw decreases in interest-earning assets, being BOB and MUFG, down by 1.37% ($1.91 million) and 4.52% ($262.91 million) respectively. Meanwhile, BOI reported the largest increase in interest-earning assets of all the banks, increasing 52.11% ($50.30 million) to $146.84 million. ICBC also saw significant growth in interest-earning assets, with an increase of 49.78% ($1.14 billion) to reach $3.42 billion.

Non-interest income

Non-interest income increased by 16.50% ($0.47 billion) to $3.30 billion, with 12 of the 20 survey participants seeing increases in their non-interest income.

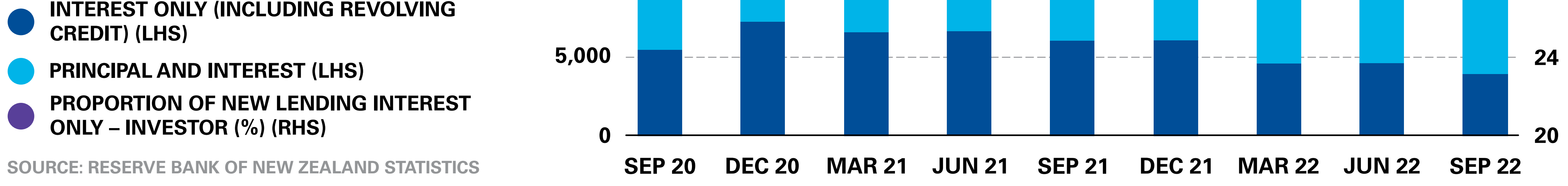
TABLE 7: Registered banks – Analysis of performance of banks	New Zealand incorporated banks		New Zealand branch banks		All banks	
	2022	2021	2022	2021	2022	2021
Increase in total tangible assets	8.63%	5.81%	5.46%	7.85%	9.14%	5.46%
Increase in operating income	12.30%	6.97%	1.42%	-3.01%	13.84%	6.85%
Increase in net profit after tax	13.25%	49.91%	1.22%	-4.51%	17.26%	47.92%
Increase in gross loans and advances	5.18%	7.06%	4.78%	-18.49%	5.53%	6.58%
Net profit after tax/ Average total tangible assets	1.09%	1.03%	0.51%	0.53%	1.08%	0.99%
Net profit after tax/ Average equity	12.80%	12.32%	20.72%	20.99%	13.40%	12.49%
Net interest income/ Average total tangible assets	2.07%	1.98%	0.77%	0.68%	1.97%	1.87%
Non-interest income/ Average total tangible assets	0.45%	0.42%	0.56%	0.72%	0.50%	0.46%
Operating expenses/ Average total tangible assets	0.96%	0.98%	0.63%	0.67%	0.93%	0.95%
Operating expenses/ Operating income	38.01%	40.87%	47.37%	47.76%	37.53%	40.98%
Impaired asset expense/ Average gross loans and advances	0.03%	-0.05%	0.02%	0.01%	0.03%	-0.04%
Collective provision/ Net loans and advances	0.46%	0.46%	0.08%	0.05%	0.45%	0.46%
Total provision for doubtful debts/ Gross loans and advances	0.52%	0.54%	0.08%	0.08%	0.50%	0.53%

28 REGISTERED BANKS: LENDING GROWTH BY SECTOR



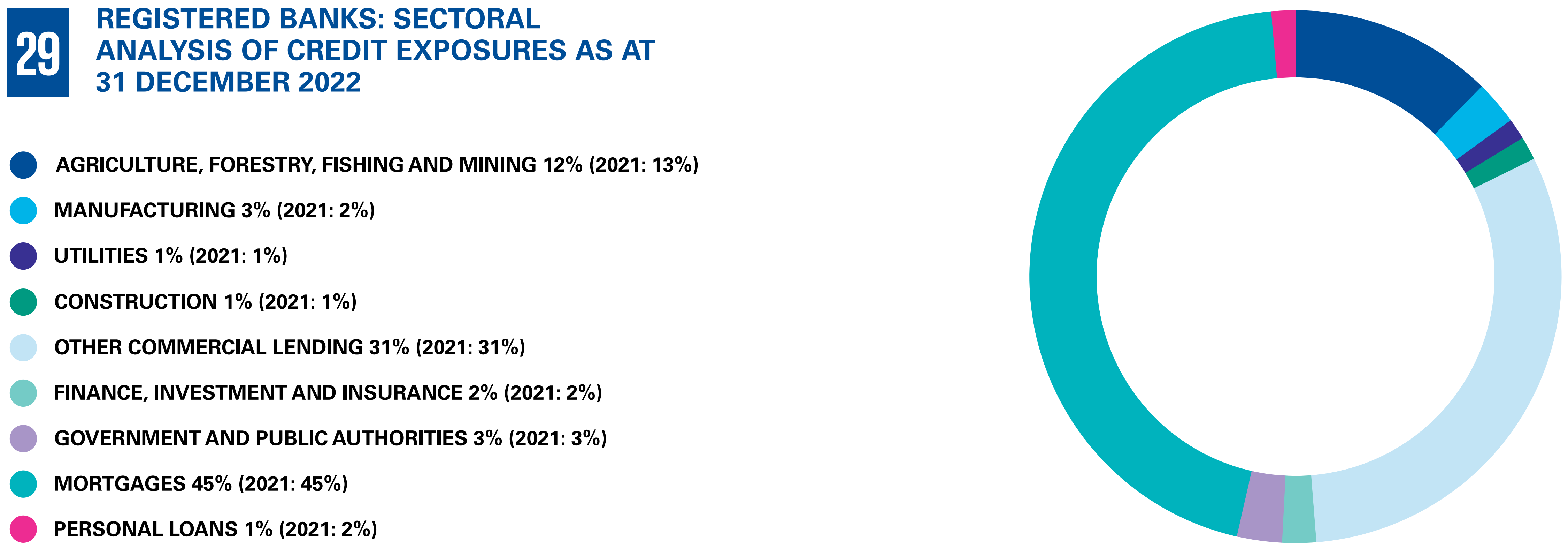
SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

30 NEW MORTGAGE LENDING BY PAYMENT TYPE



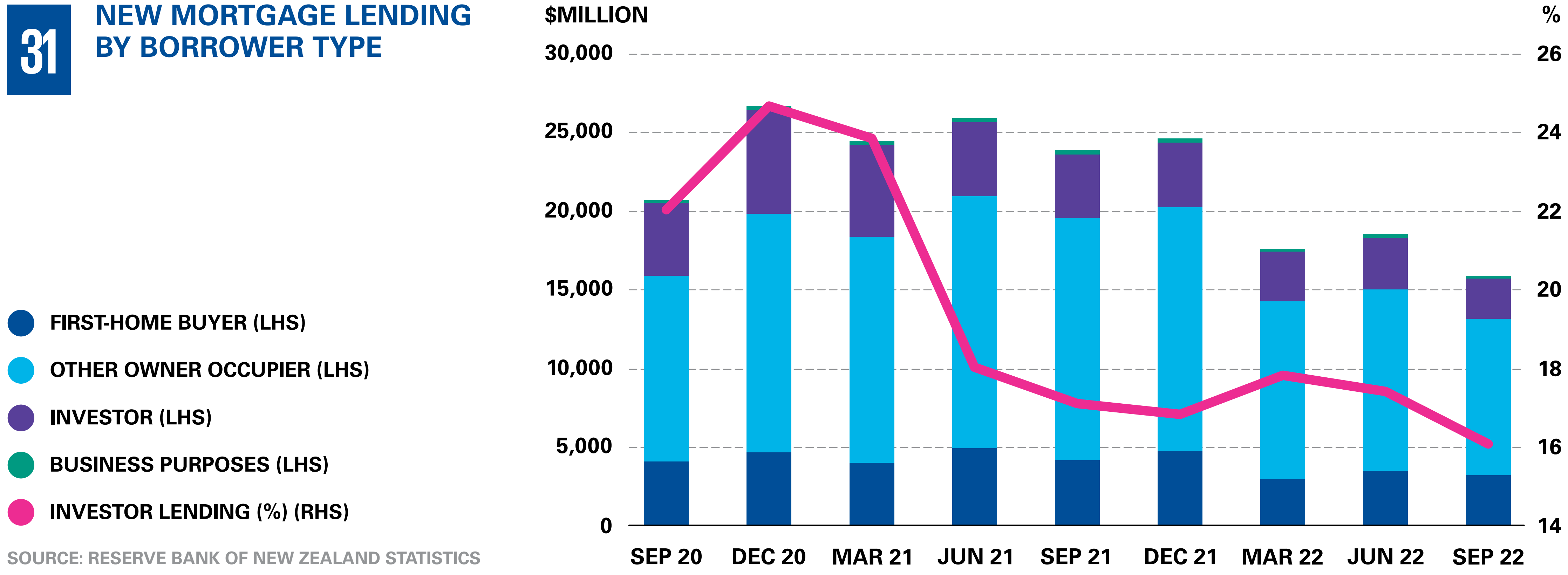
SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

29 REGISTERED BANKS: SECTORAL ANALYSIS OF CREDIT EXPOSURES AS AT 31 DECEMBER 2022



SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

31 NEW MORTGAGE LENDING BY BORROWER TYPE



SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

China Construction Bank saw the largest percentage increase of all the banks, growing their non-interest income by 183.66% ($3.71 million). This was followed by Rabobank and Heartland, who saw increases of 168.00% ($48.59 million) and 119.36% ($18.17 million) respectively.

The major banks reported a combined growth of 16.17% ($426 million), with four out of the five major banks recording an increase in non-interest income for 2022. This built on the growth of 7.90% increase experienced in 2021. The collective increase was driven by ANZ with an increase of 47.11% ($358 million) in non-interest income, primarily due to rising net foreign exchange earnings and other financial instruments income. BNZ was the only major bank to experience a decline, falling by 7.52% ($51 million) to $627 million in 2022 after driving the increase in the previous period.

The non-major bank with the largest reduction in non-interest income was ICBC, who recorded a decrease of 167.90% ($9.1 million) in 2022. This is after they reported the largest increase in non-interest income in 2021. The next largest decrease in non-interest income was recorded by JPMorgan with a 118.17% ($29.9 million) reduction.

Total assets and gross loan and advances

The banking sector saw continued growth in total tangible assets with an increase of 9.14% ($58.26 billion) to $695.60 billion in 2022. See **Table 7**. The growth is almost double the rate of the 5.46% increase in 2021 reflecting the resilience of the industry despite the impact of the Credit Contracts and Consumer Finance Act 2003 (CCCFA), the lockdowns captured in the survey period, a falling housing market (and therefore, smaller funding requirements by borrowers) and the start of the rising interest rate environment.

All but two of the banks surveyed reported increases in their total assets over the year. The largest of these increases were ANZ with a $16.37 billion increase to $198.36 billion and Westpac with a $15.93 billion increase to $135.26 billion. The two survey participants facing declines in total assets for this year were BOB and MUFG, with both seeing relatively small declines of 1.53% and 0.49% respectively.

While the major five banks account for 89.44% of total tangible assets within the banking sector and were responsible for 90.87% of the overall growth, ICBC and BOI saw the largest percentage increases in total assets, up 49.20% to $3.44 billion and 48.51% to $150.92 million respectively.

Of the major banks, Westpac experienced the largest percentage growth of 13.35% ($15.93 billion) which increased total assets to $135.26 billion, closely followed by Kiwibank that saw an increase of 11.75% ($3.32 billion) to $31.55 billion.

Gross loans and advances (GLA) for the overall banking sector grew by 5.53% ($28.07 billion), which is slightly slower than the previous years' growth rate of 6.58% ($31.35 billion). See **Table 7**. All five major banks increased their loan books, resulting in a combined growth rate of 5.13% ($23.57 billion) compared to growth of 7.28% in 2021, possibly highlighting the full year of CCCFA requirements being in place which has seen the major banks tighten lending. The non-major banks collectively grew by 8.43% ($4.50 billion), a large increase compared to the prior year growth of just 0.43% ($208.95 million). Again, this shift is likely attributable to the effects of CCCFA affecting the major banks leaving a larger proportion of the lending market available to the non-major players.

Of the five major banks who dominate the lending market, Kiwibank achieved the largest percentage growth with an increase of 10.12% ($2.56 billion). ASB and BNZ reported the next highest growth, achieving 5.53% ($5.71 billion) and 4.88% ($4.66 billion) respectively. ANZ's growth of 4.49% ($6.36 billion) was the lowest of the major banks.

Of the non-major banks with significant loan books, ICBC achieved the most notable expansion in their loan book of 46.66% ($822.03 million), followed by Bank of China and Kookmin with increases of 25.58% and 24.23% respectively. Interestingly, BOC and Kookmin were also identified in the 2021 survey as having strong percentage growth in their loan books.

Three banks saw decreases in their gross loans and advances, with the largest decline of the non-major banks being from Citibank, which showed a reduction in its loan book of 41.27% ($162.43 million). The other two declines were less significant, being a 1.46% decrease for BOB and a 0.12% decrease for Co-op.

The major banks have continued to dominate the banking sector despite the slight decrease in their collective market share, which was down to 90.05% in 2022 from 90.39% in 2021. This has resulted in the smaller banks experiencing an increase in their collective share of the sector's GLA from 9.61% in 2021 to 9.95% in 2022. Kiwibank experienced the greatest growth in market share out of the major banks, increasing by 22 bps to 5.19%. Of the major banks, the one which saw its market share decrease the most was ANZ (a fall of 27 bps to 27.62%); however, it maintained its position as the largest bank by GLA.

Despite its market share declining by 3 bps to 2.77%, Rabobank has maintained its position as the largest non-major bank by total GLA. ICBC experienced the largest growth of all non-major banks, increasing its market share by 13 bps to 0.48%, while Citibank had the largest decline with its market share halving from 0.08% to 0.04%.

Taking a look at the different types of lending, business lending has grown the most with a year-on-year increase of 8.78%. Mortgage lending saw an increase of 5.30%, while personal lending was down by 1.44%.

Looking ahead to 2023, it will be interesting to see what the impact of increased regulation, higher interest rates throughout the year and economic uncertainty will have on the levels of lending across the banking sector and how this lending is distributed.

Funding costs

For the first time in five years, funding costs (interest expense as a ratio of average interest-bearing liabilities) for the banking sector have risen, with an increase of 26 bps from 1.09% in 2021 to 1.35% in 2022. This is a result of the rising interest rate environment with the Reserve Bank of New Zealand's (RBNZ's) Official Cash Rate (OCR) increasing from 0.25% to 3.00% at the end of the September 2022 reporting period captured by the survey. These increasing interest rates resulted in the sector's interest expense increasing by 30.54% ($1.63 billion) to $6.96 billion over the year.

The reporting period of each entity captured by the survey had a significant impact on whether an entity saw an increase or decrease in interest expense. On average, entities with reporting periods ended December 2021, March 2022 and June 2022 saw a decrease in their interest expense for the year given much of the interest rate rises occurred after the end of the period. In contrast, those with a September 2022 reporting period all saw significant increases in their interest expense compared to the prior period, as the majority of the OCR rises were captured.

On average, interest expense decreased by 33.58% for December 2021 reporting periods, decreased by 31.57% for March 2022 reporting periods, deceased by 6.90% for June reporting periods, and increased by 66.83% for September reporting periods.

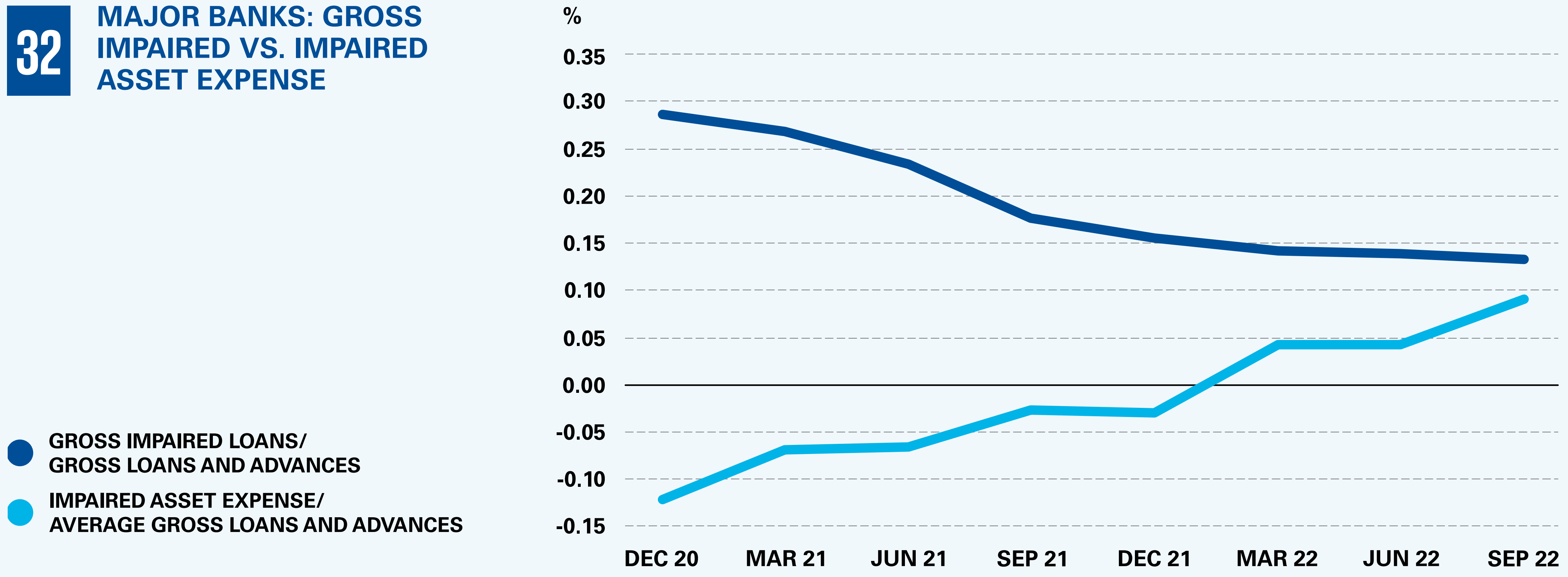
The largest increases in funding costs were experienced by the three banks with September 2022 reporting periods. These were BNZ with a 62 bps increase to 1.49%, ANZ with a 57 bps increase to 1.44% and Westpac with a 46 bps increase to 1.59%. All three of these banks saw an increase in their interest-bearing liabilities relatively in line with their increase in their interest-earning assets, with the increases in funding costs coming from higher interest rates.

The only other two banks to see an increase in funding costs were Kiwibank with a 14 bps increase to 1.27% in the year ended 30 June 2022 and MUFG with a 5 bps increase to 0.78% in the year ended 31 March 2022.

The largest decreases in funding costs were experienced by entities with December 2021 or March 2022 reporting periods, being Kookmin with a 112 bps decrease to 0.67%, Southland Building Society with a 93 bps decrease to 1.44% and ICBC with an 88 bps decrease to 1.07%.

The highest funding cost seen in the survey went to Heartland at 1.65%; however, they also had the highest NIM of all the banks.

32 MAJOR BANKS: GROSS IMPAIRED VS. IMPAIRED ASSET EXPENSE



33 GROWTH IN GROSS LOANS AND ADVANCES VS. RETURN ON ASSETS AND RETURN ON EQUITY

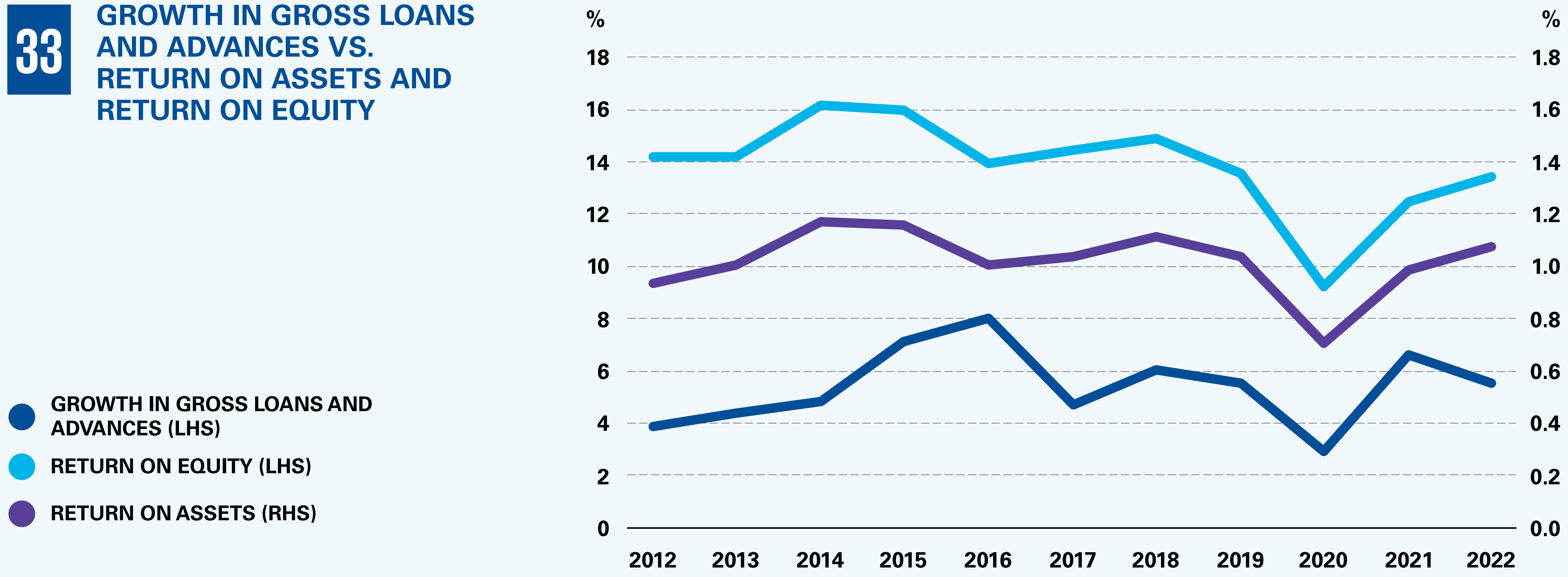


TABLE 8: Registered banks – Non-performing loans	2019	2020	2021	2022
Past due assets/Gross loans and advances	0.17%	0.29%	0.19%	0.22%
Gross impaired assets/Gross loans and advances	0.38%	0.45%	0.28%	0.19%
Total	**0.54%**	**0.74%**	**0.47%**	**0.41%**

The lowest funding cost was achieved by Citibank at 0.10% after an 8 bps reduction during the year to 31 December 2021. It will be interesting to see how much funding costs rise in next year's survey as a full year of the higher interest rate environment will be captured.

Asset quality

Last year we reported the largest impairment recovery in the survey's history at $213.43 million. This year the banking sector has returned to an aggregate impairment expense; however, it is still the second lowest level of impairment reported since 2006 (behind last year). Additionally, this year's survey shows the second lowest impaired asset expense as a percentage of average GLA since 1997 (again behind last year). This didn't come as a surprise as some of the large provisions raised in 2020 continue to be released.

However, some banks may be reconsidering whether some of these provisions raised during the pandemic may still be needed over the next couple of years as we enter an 'engineered recession'. This can already be seen by comparing the impairment expense or recovery of banks with differing reporting dates captured in the survey. All but one of the eight banks which reported an impairment recovery had a reporting period to December 2021 or March 2022 captured in the survey, while only one bank with a June 2022 or September 2022 reporting period showed an impairment expense. This illustrates that banks have slowed down their releases of impairments in 2022 compared to the back end of 2021.

Acknowledging the differing reporting periods captured in the survey, 13 of the 18 survey participants who report an asset impairment had an increase in their impairment expense compared to the prior year. Given the majority of 2021 comparative figures for impairment expense are negative (and have since turned positive), we have looked at the dollar amount movements for the banks as opposed to percentage changes. The major banks were responsible for $413 million of the sector's impairment expense movement, with all five major banks recording increases in impairment expense. Naturally, as the largest player, ANZ recorded a most substantial increase in impaired asset expense of $154 million from a $115 million recovery to a $39 million expense. BNZ recorded the second highest increase of $126 million, shifting from a $37 million recovery to a $89 million expense. Westpac was the only major bank which remained in an impairment recovery position, reporting a $27 million recovery compared to the previous years' $84 million.

32 See Figure 32 – page 47

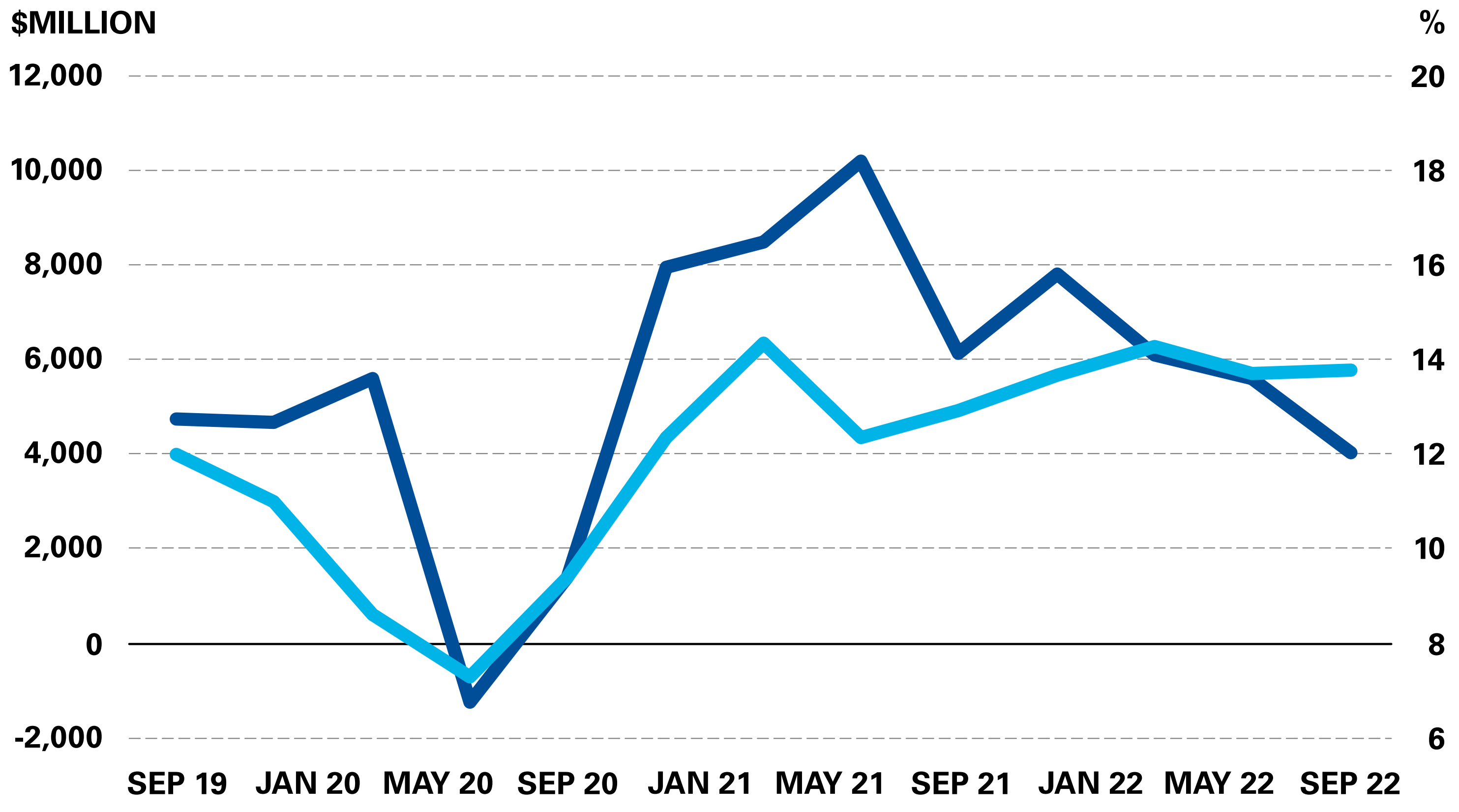
Impaired asset expense as a percentage of GLA increased by 7 bps from -0.04% in 2021 to 0.03% in 2022. Total provisions as a proportion of GLA continued to decrease back to pre-pandemic levels as a result of the minimal impairment expense recorded. It has fallen to 0.50% from 0.53% in the prior year, after hitting 0.67% during the pandemic. See **Table 6**. This is more in line with pre-pandemic levels which saw the ratio average 0.49% between 2015 and 2019.

This overall movement in total provisions as a proportion of GLA is attributable to the 5.53% increase in GLA combined with a 0.99% decrease in the total provisioning number. The slight decline in provisions held was made up of a 25.08% ($100.63 million) decrease in specific provisions from $401.31 million in 2021 to $300.68 million in 2022, partially offset by a 3.18% ($73.70 million) increase in collective provisions from $2.31 billion in 2021 to $2.39 billion in 2022.

Three of the five major banks saw a decrease in their specific provisioning, with ANZ being the only bank to see an increase and Kiwibank experiencing no change at all. Westpac saw the largest percentage decrease in specific provisions, dropping 60.87% ($42 million). This was closely followed by BNZ, who had the same dollar value decrease of $42 million, but as a percentage of 31.34%. ANZ, the only major bank to record an increase in specific provisions, increased by 28.33% ($17 million) from $60 million in 2021 to $77 million in 2022. Outside of the major banks, the Hongkong and Shanghai Banking Corporation (HSBC) noted the largest decrease in specific provisions as it reported an 80.32% ($2.34 million) decrease for 2022. Conversely, Heartland reported the largest increase of 96.63% ($7.37 million) from $7.63 million in 2021 to $15 million in 2022.

Collective provisioning for the major banks shows quite a different picture to specific provisions, with four out of the five banks recording increases. Westpac was the only major bank to record a decrease in collective provisions of 8.35% ($34 million) in 2022. Kiwibank had the largest increase in collective provisions, moving from $53 million in 2021 to $66 million in 2022, an increase of 24.53% ($13 million). Of the non-major banks, Kookmin recorded the largest decrease of 55.37% ($0.41 million).

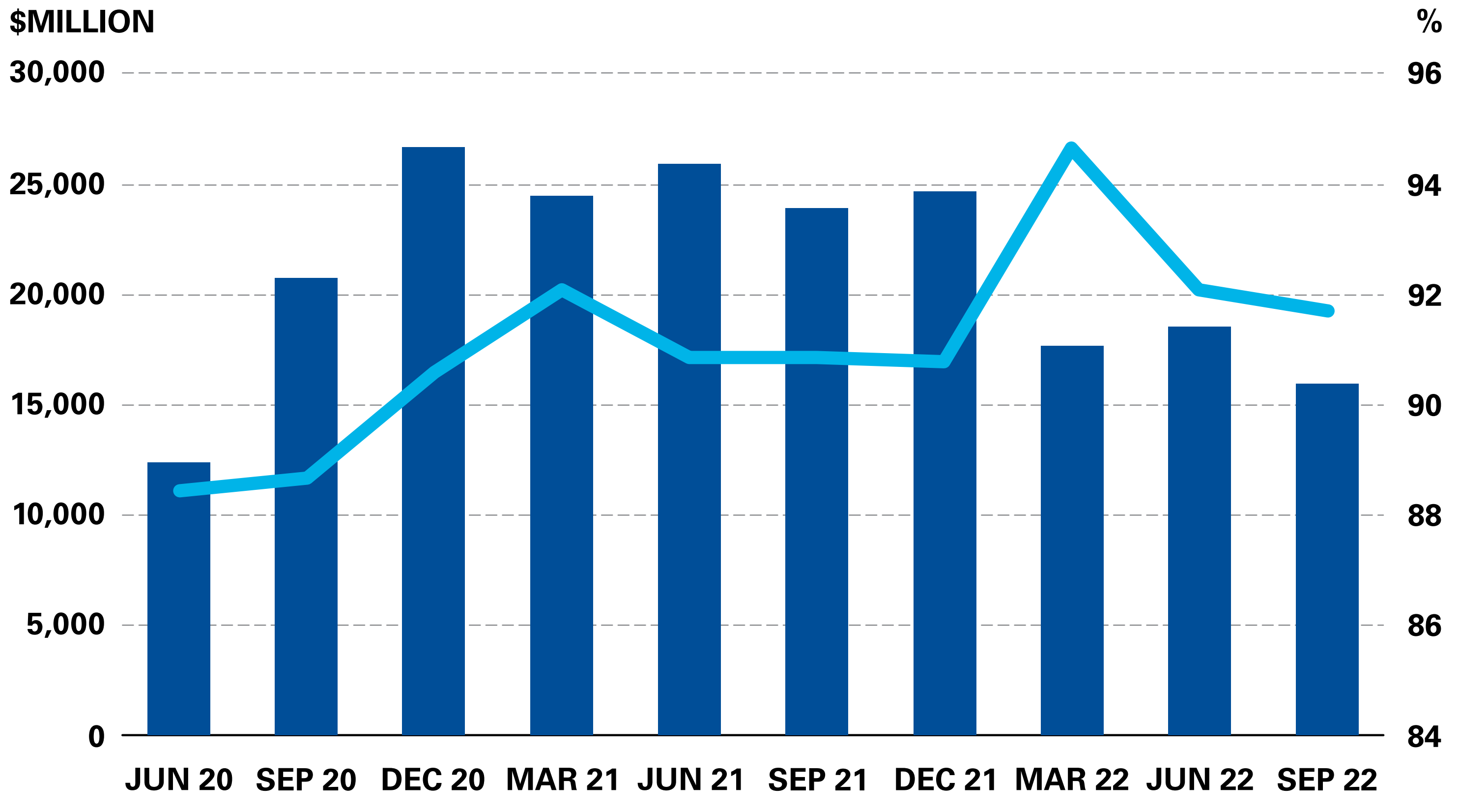
34 GROWTH IN GROSS LOANS AND ADVANCES VS. RETURN ON EQUITY



GROWTH IN GROSS LOANS AND ADVANCES (LHS)

RETURN ON EQUITY (RHS)

36 LVR ANALYSIS OF RESIDENTIAL MORTGAGES

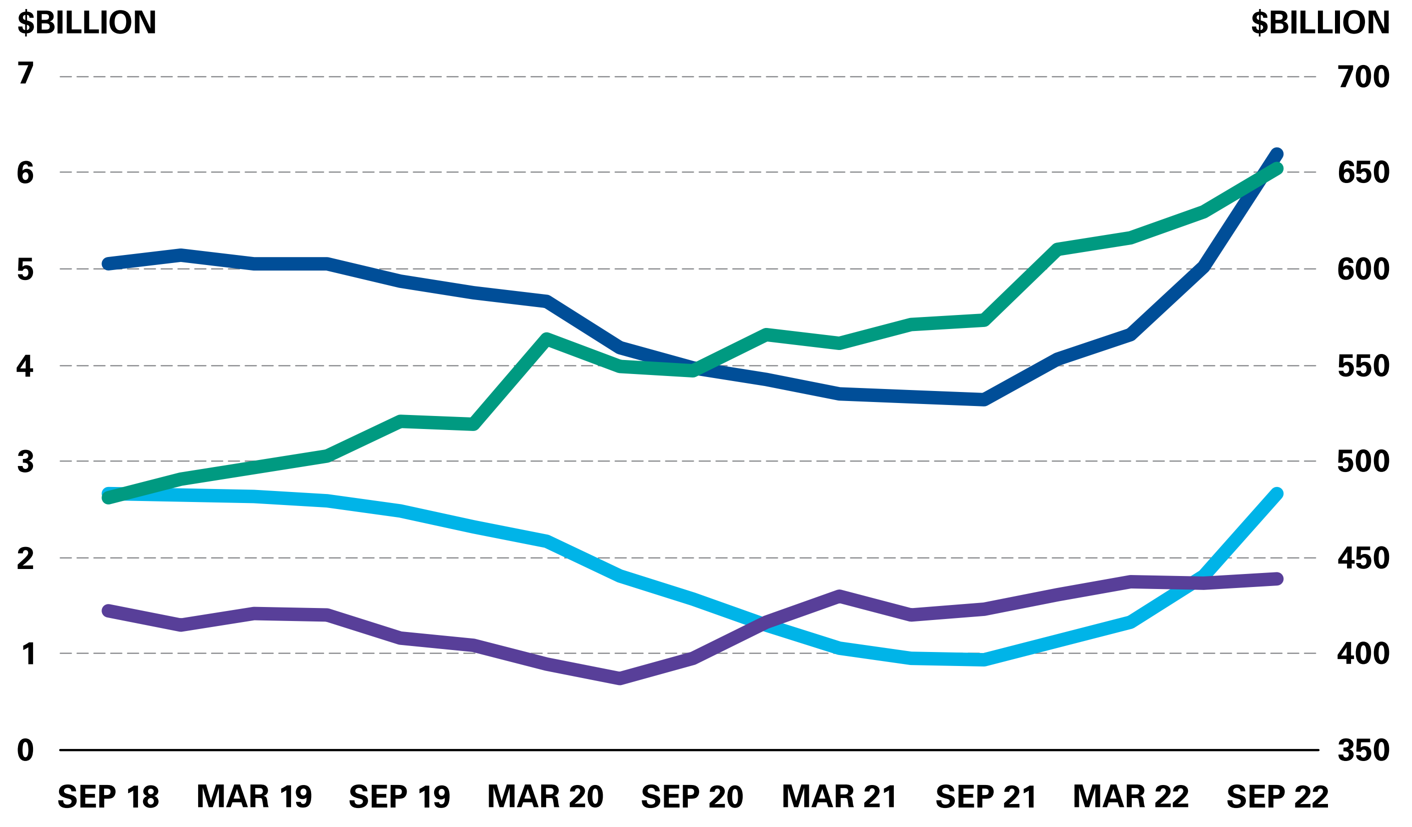


NEW MORTGAGES (LHS)

PROPORTION OF NEW MORTGAGES WITH LVR OF 80% OR BELOW (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

35 MAJOR BANKS: INTEREST-EARNING ASSETS COMPARED TO INTEREST INCOME AND EXPENSE



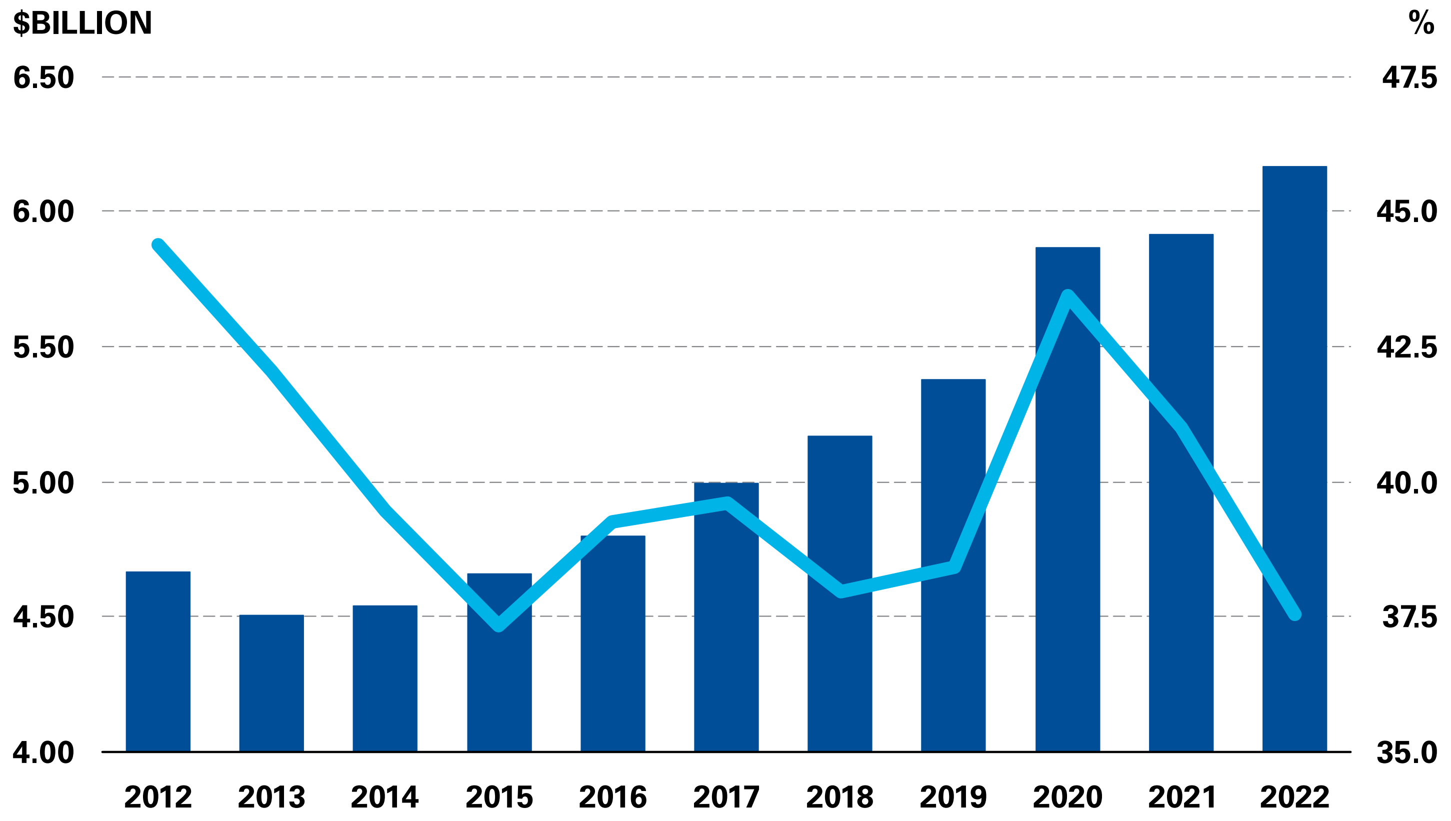
INTEREST INCOME (LHS)

INTEREST EXPENSE (LHS)

NET PROFIT (LHS)

TOTAL ASSETS (RHS)

37 REGISTERED BANKS: OPERATING EXPENSES VS. OPERATING EXPENSES OVER OPERATING INCOME



OPERATING EXPENSES (EXCLUDES ABNORMAL) (LHS)

OPERATING EXPENSES/ OPERATING INCOME (RHS)

TABLE 9: Major banks – Personnel cost

Entity[29]	2022			2021		
	Employee numbers	Personnel cost $Million	Cost/ average employees $000's	Employee numbers	Personnel cost $Million	Cost/ average employees $000's
ANZ	7,280	996	135	7,473	935	130
ASB	6,041	667	112	5,883	662	118
BNZ	5,246	663	132	4,785	612	129
Kiwibank	1,866	269	148	1,781	213	122
Westpac	5,402	658	125	5,152	600	126

This was also the highest percentage decrease across the whole of the banking sector. MUFG recorded the largest percentage increase at 190.58% ($1.94 million) moving from $1.02 million in 2021 to $2.96 million in 2022.

Past due but not impaired assets increased by 22.21% ($215.15 million) to $1.18 billion in 2022. This was driven by the major banks, particularly BNZ which had an 80.82% ($118 million) increase to $264 million and ANZ, which had a 21.39% ($80 million) increase to $454 million. Both of these banks had reporting periods ended September 2022 included in the survey, indicating that the level of past due assets was picking up towards the back end of 2022.

Overall, the banking sector had a relatively even spilt of movements, with 6 of the 11 survey participants who reported past due assets disclosed increases. The largest of these out of the non-major banks was TSB, which experienced a 197% ($2.63 million) increase in past due assets. HSBC had the largest decrease in past due assets at 100%, eliminating the $0.34 million past due assets recorded in 2021 to have a nil balance in 2022. Westpac was the only major bank to report a decrease at 7.44% ($18 million), moving from $242 million in 2021 to $224 million in 2022.

Operating expenses

This year, the total cost to income ratio (CIR) for the banking sector has fallen by 345 bps to 37.53%. This decrease follows a similar decrease of 246 bps to 40.98% in 2021. The decrease in the ratio is due to operating income increasing at a greater rate than operating expenses, with operating income increasing by 13.84% ($2.00 billion) over the year while operating expenses only increased by 4.25% ($0.25 billion).

37 See Figure 37 – page 49

Of the major banks, ANZ experienced the most significant decrease, with their CIR falling by 506 bps to 33.91%. This was due to a 17.17% ($715 million) increase in operating income which outweighed its 1.97% ($32 million) increase in operating expenses. Kiwibank was the only major bank to see an increase in their CIR as it rose by 179 bps from 68.80% in 2021 to 70.59% in 2022. This resulted from an increase in operating income of 17.85% ($103 million) being offset by a 20.91% ($83 million) increase in operating expenses.

BOI saw the largest drop in their CIR for the second year in a row, falling from 62.76% to 41.70%. This was due to the combination of an increase in operating income of 29.86% ($1.18 million) and a decrease in operating expenses of 13.71% ($0.34 million). In contrast, JPMorgan saw the largest increase in CIR from 44.45% to 79.80%. Even though JPMorgan's operating expenses did decrease by 12.40% ($1.82 million), this was offset by a larger drop in operating income of 51.21% ($16.91 million).

This year there has been a significant change in the number of banks surveyed who had a decrease in their operating expenses. Last year saw an equal split of survey participants experiencing both an increase and a decrease in operating expenses, whereas 2022 saw 14 of the 20 participants recorded an increase and only six recorded a decrease. Four of the five major banks had increases in their operating expenses. BNZ was the exception, recording a decrease of 0.20% ($2 million). The largest increase from the major banks was Kiwibank's 20.91% ($83 million) increase, with the remaining major banks experiencing increases that ranged from between 2% to 3.6%. Of the non-major banks, MUFG had the largest increase of operating expenses at 39.59% ($4.09 million), followed closely by TSB which had an increase of 35.90% ($35.87 million).

Personnel expenses across the banking sector rose by 7.38% ($248.33 million) and it is a significant factor in the resulting increase in operating expenses across the board. All five of the major banks saw an increase with the largest percentage increase coming from Kiwibank, having an increase of 26.29% ($56 million). See **Table 9**. This accounts for a large portion of Kiwibank's movement in operating expenditure which was a $58 million increase. In total, the major banks' personnel expenses rose by 7.64% ($231 million). Of all the survey participants, TSB had the largest percentage growth in personnel expenses of 26.95% ($12.16 million). On the other end, BOB had the largest decrease in personnel expenses, which fell by 7.85% ($0.139 million) to $1.63 million. The overall increase in personnel expenses can be attributed to the tight labour market forcing banks to increase salaries to retain or replace staff, as discussed further in the 'Competition for talent' section on **page 11**.

Return on equity/Return on assets

The banking sector saw its return on equity (ROE) ratio increase by 91 bps to 13.40% during the year. The movement is due to the increase in NPAT of 17.26% ($1.06 billion) being partially offset by the increase in total equity of 7.39% ($3.82 billion).

HSBC and Kookmin maintained the highest ROEs at 163.77% and 98.53% respectively. The two entities with the lowest ROEs remained as BOB and BOI; however, they switched positions with BOI's ROE increasing by 159 bps to 3.59% while BOB's ROE increased by 65 bps to 2.89%.

MUFG saw the largest reduction in ROE of all survey participants, with a 244 bps decline to 12.83%. The next largest declines were Co-op, which had a decrease of 192 bps to 5.44% and TSB, which had a decrease of 84 bps to 5.26%.

Of the five major banks, three experienced an increase in ROE while two saw decreases. Westpac showed the largest improvement, increasing its ROE by 168 bps to 12.66%. ANZ followed with a 159 bps increase to 14.79%, while ASB experienced a 57 bps increase to maintain the highest ROE of the major banks at 15.16%. Of the major banks, Kiwibank reported the largest decrease in ROE of 98 bps to 6.67%, followed by BNZ's decrease of 76 bps to 13.50%.

All but three of the survey participants that report an equity balance saw an increase in their total equity in 2022, this was primarily due to profits across the banking sector being moved to retained earnings. Many banks will be looking at increasing their capital requirements and strengthening their level of equity over the coming years. Kookmin saw the largest percentage increase in total equity, increasing 63.85% ($4.54 million) to $11.65 million. HSBC reported the largest decrease in total equity of 57.10% ($17.78 million) to $13.36 million, followed by Citibank and TSB which saw decreases of 18.52% ($34.08 million) and 0.33% ($2.40 million) respectively.

Of the major banks, Kiwibank experienced the largest percentage increase of 27.73% ($478 million) to $2.20 billion. BNZ reported the largest dollar increase of $1.18 billion (11.94%), increasing its level of equity to $11.06 billion. The increase in total equity since 2020 shows the amplified level of caution the banks have taken to ensure that they are prepared in the case of a major economic downturn.

The return on assets (ROA) ratio for the banking sector increased by 9 bps in 2022 to 1.08%. This was due to the 17.26% increase in NPAT outweighing the 9.14% ($58.26 billion) increase in total tangible assets. Increases in ROA were seen in 13 of the 20 banks, with Rabobank seeing the largest increase of 48 bps to 1.19%. Following Rabobank was Kookmin with a 47 bps increase in ROA to 1.38% and BOI with a 45 bps increase to 1.64%. Meanwhile, JPMorgan recorded the largest decrease of 53 bps to 0.04%, the lowest ROA of all the banks surveyed.

Three of the five major banks saw increases in their ROA. ANZ led the way with an increase of 14 bps to 1.21%, giving it the highest ROA of the major banks. Kiwibank and BNZ reported decreases of 3 bps to 0.44% and 1 bp to 1.13% respectively.

See page 21 for a more detailed look at how the banking sector's ROE and ROA compare to a range of other NZX50 companies.

9 See Figure 9 – page 21

Capital adequacy

After the 2021 survey saw a majority of banks report an increase in their capital adequacy ratio (CAR) in response to the RBNZ's restrictions on dividends, 12 out of the 20 survey participants reported a decrease in 2022 once the last of those restrictions were removed on 1 July 2022. The RBNZ stated that the dividend restrictions could be removed due to the underlying strength of the economy; however, they expected the registered banks to continue to be prudent in determining the appropriate size of dividends paid to shareholders[30].

The easing of the restrictions led to the four big banks all paying dividends in the 2022 year. Of the major banks, ASB reported the largest decrease in its tier 1 capital ratio of 210 bps from 15.70% to 13.60%. The second largest decrease was seen by BNZ with a 130 bps decrease from 15.10% to 13.80%. Kiwibank saw an improvement in its tier 1 ratio of 10 bps from 11.90% to 12.00%.

The largest improvement in a tier 1 ratio was seen by JPMorgan with an increase of 180 bps from 17.40% to 19.20%, closely followed by BOB with an increase of 125 bps to report the highest tier 1 ratio of 61.24%. After BOB, the second highest was BOI despite a 1,100 bps decrease from 62.00% to 51.00% in its tier 1 ratio.

The most recent RBNZ stress test of the banking sector was conducted late in 2022. This was the first stress conducted under the new capital framework that requires banks to hold more capital in the future. The combination of this stress event and rising capital requirements could make it difficult for banks to meet the new capital requirements when they are fully implemented in 2028. The stress test concluded that the scenario of higher interest rates and losses resulting from a severe economic downturn would result in a reduction of bank capital buffers. In aggregate, banks would be able to continue to operate, but some would face more stress than others. The RBNZ noted that most banks would need to initiate mitigating actions such as capital issuance or distribution or expense reductions to replenish their capital buffers and meet the rising capital requirements[31].

TABLE 10: Major banks – Fund management activities			
Entity[29]	**2022 $Million**	**2021 $Million**	**Movement**
ANZ	34,313	39,043	-12.11%
ASB	19,980	21,750	-8.14%
BNZ	7,427	7,563	-1.80%
Kiwibank[32]	5,215	4,436	17.56%
Westpac	14,239	14,923	-4.58%
Total	**81,174**	**87,715**	**-7.46%**

The continued focus for banks is going to be working towards meeting the new capital requirements when they are fully implemented in 2028.

Funds under management

The combined funds under management (FUM) for the major banks has seen a decrease during the year, down 7.46% ($6.54 billion) from 2021. This decrease in FUM can be attributable to the following:

- fall in the NZX50 equity market over the 2022 year resulting in lower returns on more aggressive funds;
- decrease in KiwiSaver balances of roughly $2 billion across ANZ and ASB specifically, as consumers either move their KiwiSaver to other providers or make withdrawals, potentially to get on the property ladder;
- the wind up of ANZ's Bonus Bonds scheme; and
- continued uncertainty about the future of financial markets and an engineered recession leading to less confidence in market returns.

ANZ reported the largest decrease in FUM of $4.7 billion with ASB following with a decrease of $1.8 billion. All other major banks' FUM also decreased, with the exception being Kiwibank that reported an increase. ANZ remains the largest holder of FUM holding 42.27% of FUM reported by the major banks, despite the wind up of Bonus Bonds. See **Table 10**.

Is sustainable finance growing sustainably?

Alton Pollard
Director and Sustainable Finance Lead
Deal Advisory, KPMG

Alton is KPMG's Sustainable Finance Lead as well as a Director and Head of Debt Advisory in our Deal Advisory team. He has extensive experience in corporate finance and investment banking both in New Zealand and internationally.

Jessica Retter
Senior Analyst, Sustainable Finance, KPMG

Jessica is an Senior Analyst in our Deal Advisory practice and part of KPMG IMPACT's global network as a member of the Sustainable Finance team.

If you want more information on the topics discussed in this article then please reach out to either Alton or Jessica.

As the focus on sustainability and Environmental, Social and Governance (ESG) gains pace across the globe, why has the global sustainable finance market slowed?

With ESG becoming more prevalent on board agendas, why is the flow of capital not following suit? We know that significant volumes of capital need to be unlocked and directed differently if we are to mitigate global threats such as climate change, which is only getting more urgent.

Internationally, the sustainable finance market appears to have reduced slightly during 2022 following a period of significant growth. Exchange-traded funds with an ESG theme dropped below 2020 levels and the GSSS[33] debt markets slowed dramatically during 2022, with the issuance of GSSS debt products down 15.5% in 2022 when compared to 2021[34].

38 See Figure 38 – page 54

> “ At the end of 2022, the value of publicly announced sustainable debt transactions exceeded **$23** billion.

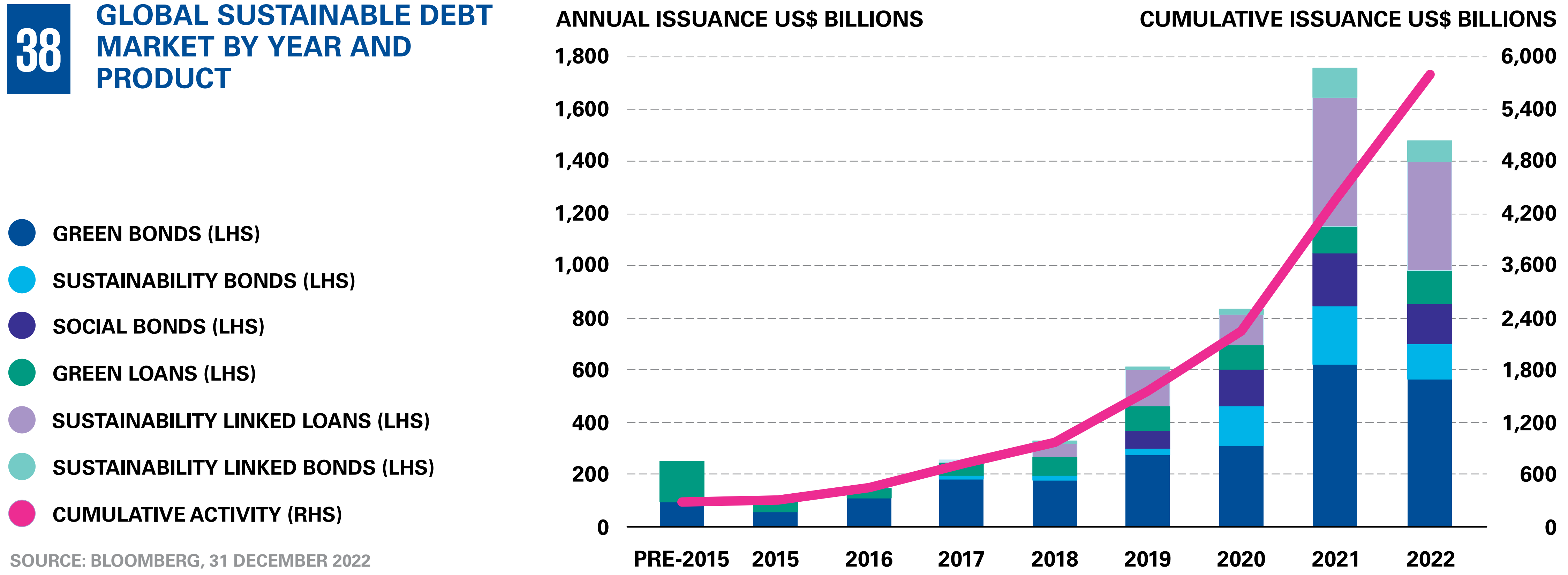
39 See Figure 39 – page 54

Political rhetoric, a shift in focus due to Covid-19 and increased scrutiny on the quality of ESG funds have all played a part in cooling the growth of the sustainable finance market around the world. There may also be a lack of investable products available to fund managers, despite strong demand.

New Zealand, however, has not seen the same trends. In particular, it has not experienced the same slowing of GSSS debt issuance.

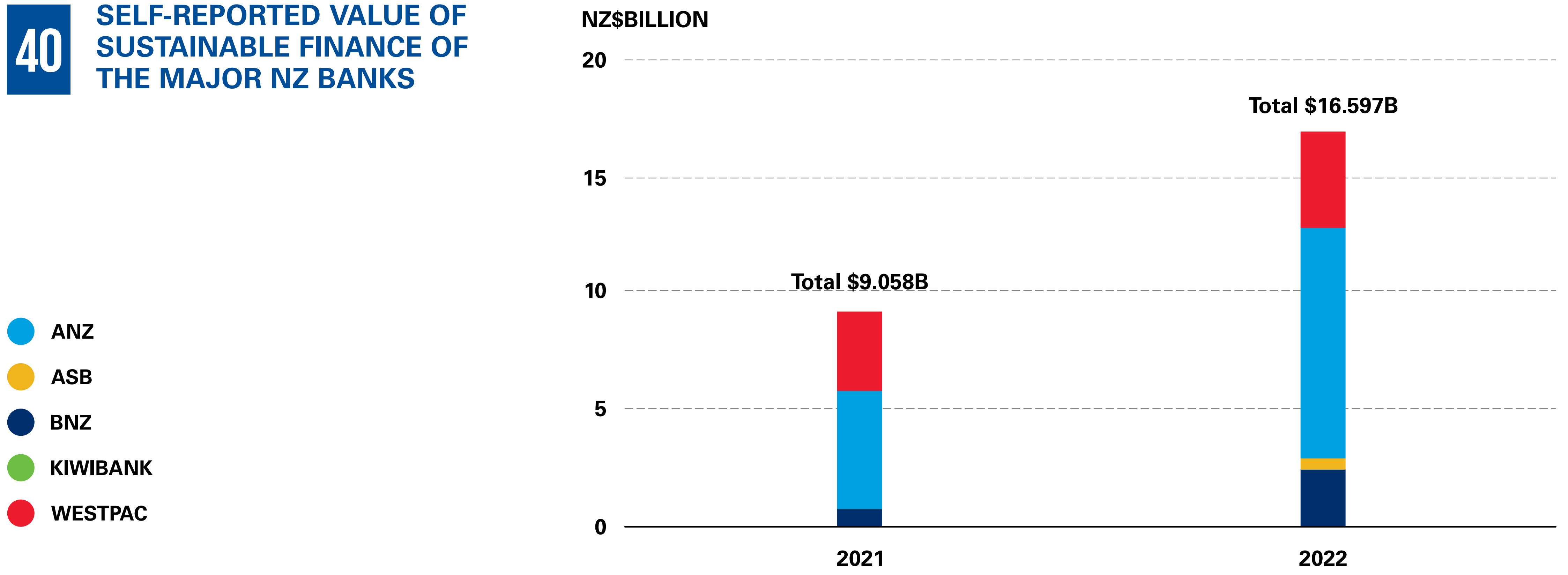
Last year, we evaluated the local sustainable finance market and summarised its total value exceeded $13 billion[35]. We saw an encouraging increase in both the quantity and diversity of products and actors.

38 GLOBAL SUSTAINABLE DEBT MARKET BY YEAR AND PRODUCT

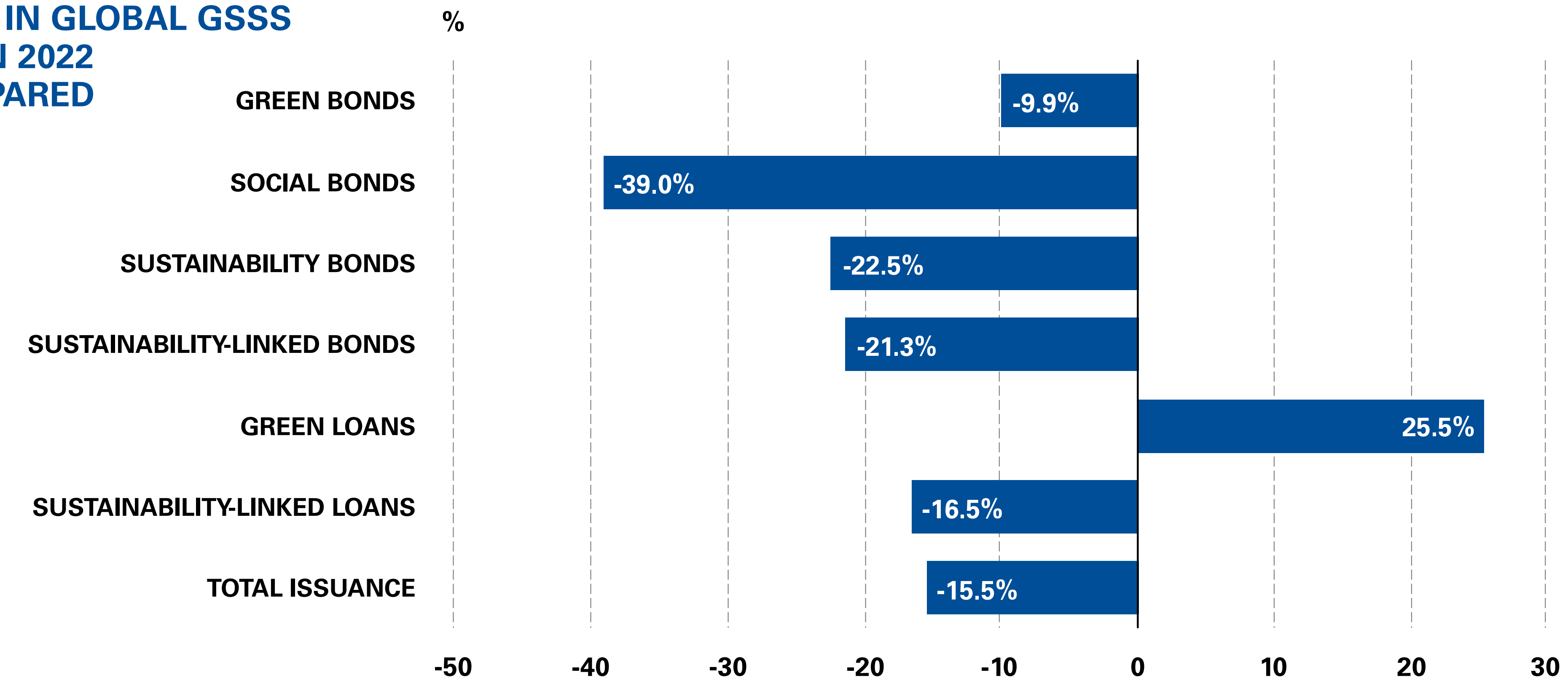


SOURCE: BLOOMBERG, 31 DECEMBER 2022

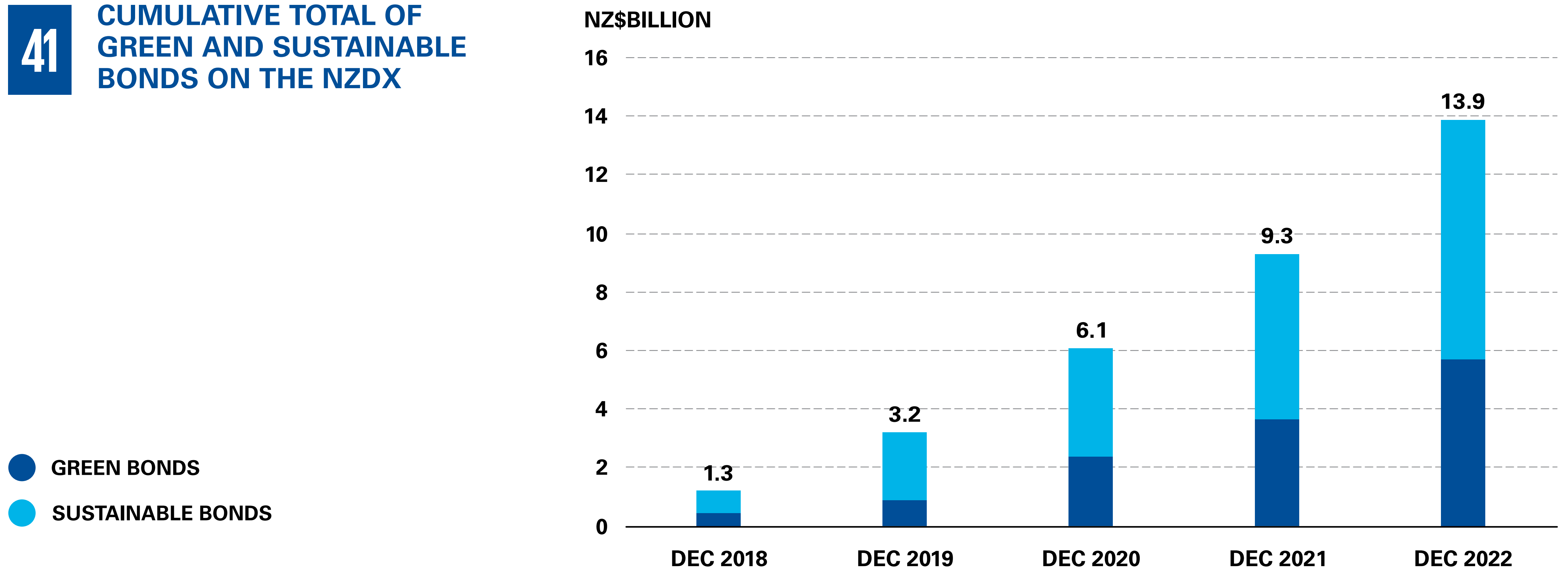
40 SELF-REPORTED VALUE OF SUSTAINABLE FINANCE OF THE MAJOR NZ BANKS



39 DIFFERENCE IN GLOBAL GSSS ISSUANCE IN 2022 WHEN COMPARED TO 2021



41 CUMULATIVE TOTAL OF GREEN AND SUSTAINABLE BONDS ON THE NZDX



> **At the end of 2022, the value of publicly announced sustainable debt transactions exceeded $23 billion.**

At the end of 2022, the value of publicly announced sustainable debt transactions exceeded $23 billion.

The significant increase was not the only change in New Zealand's sustainable finance market; we also found measuring the value of sustainable finance in 2022 more challenging, due in part to the considerable increase in activity. As the announcements increased, the media coverage of sustainable finance issuance decreased meaning the total value issued is likely higher than we have calculated. This in itself may be an encouraging sign – sustainable finance in New Zealand is becoming more normalised and less newsworthy.

That said, it would be remiss to assume quantity and quality always go hand-in-hand. Our deep dive into New Zealand's sustainable finance market, *Mobilising Capital for Impact* powered by Toitū Tahua: Centre for Sustainable Finance, explored the challenges around scaling up issuance and the risks of greenwashing. From the need for regulation around ESG claims to the finite number of sustainable finance professionals, the challenges to establishing a mature and flourishing sustainable finance market are numerous. But so are the opportunities that come with it.

One theme in the report was 'scale and innovation', looking at the products, supply and demand currently in the market. Even since it was published, we've seen progress. 2022 saw increased diversification in the types of sustainable debt products issued. New Zealand bond issuers like Auckland City Council are beginning to issue green bonds overseas[36]. Companies, such as Contact Energy and Meridian Energy, have issued US Private Placements (USPP) which align with the requirements of their respective green financing frameworks[37, 38]. ESG-linked derivatives were issued for the first time in New Zealand in 2022[39]. These are all good signs that the sustainable finance market in New Zealand is beginning to expand.

New Zealand banks

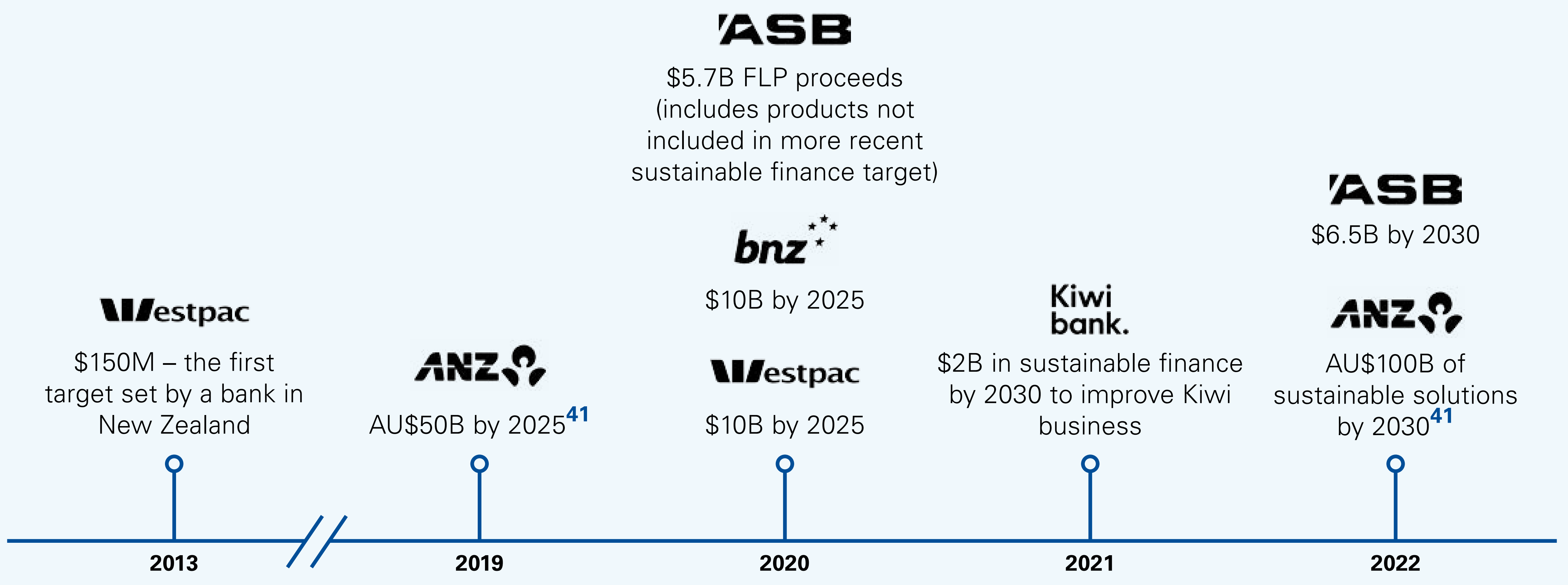
While it is pleasing to see sustainable finance coming from a range of organisations, our banks are critical drivers of change. In 2022, each of the five major banks in New Zealand reported on sustainable finance activity. The self-reported total of the sustainable funding or financing activity for the 2022 financial year (FY22) was $16.5 billion, a substantial increase when compared to the $9.05 billion reported in the 2021 financial year (FY21)[40].

40 See Figure 40 – page 54

At the end of FY22, all of the five major banks have set themselves sustainable finance targets. These targets have evolved over time, with the level of ambition increasing as new targets are set. Some of the targets to date are included in Figure 42.

42 See Figure 42 – page 55

42 BANK'S ANNOUNCED SUSTAINABLE FINANCE TARGETS TIMELINE



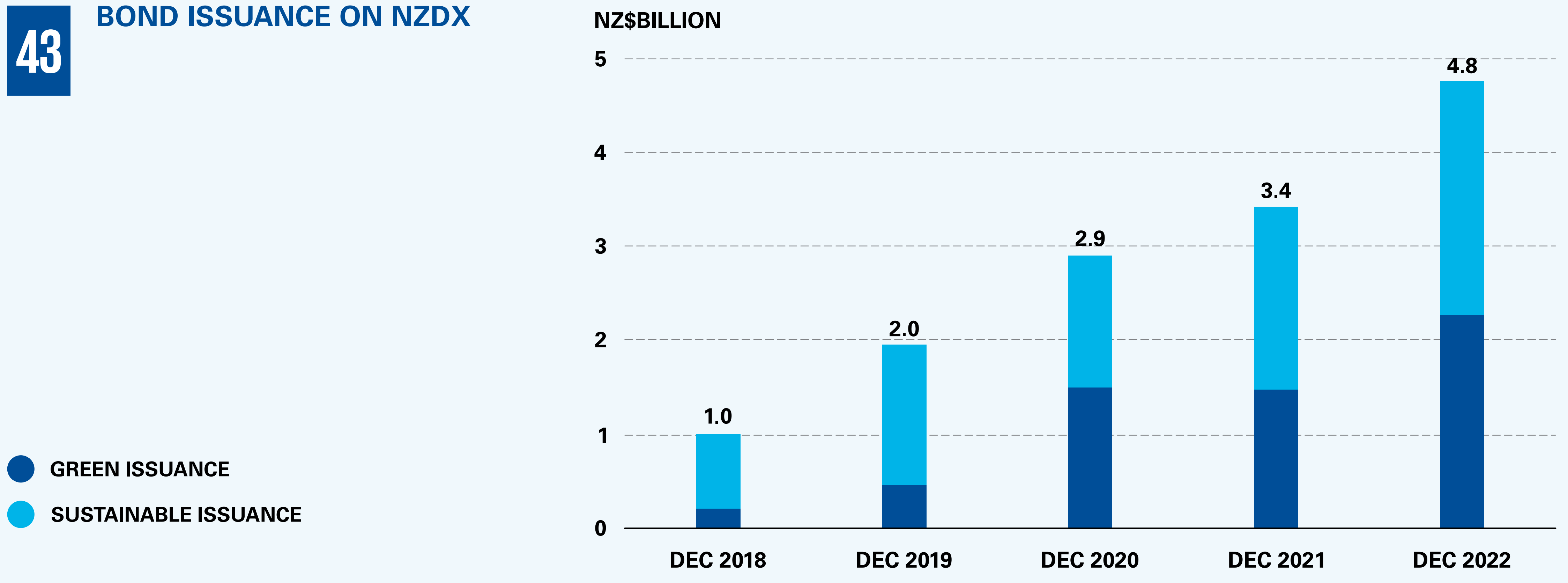
> **While it is pleasing to see sustainable finance coming from a range of organisations, our banks are critical drivers of change.**

In addition to the increase of sustainable financing for institutional customers, banks are at the forefront of main-streaming sustainable finance by creating products to suit the needs of either small and medium-sized enterprises (SMEs) or retail borrowers. Some of the range of offerings to date include:

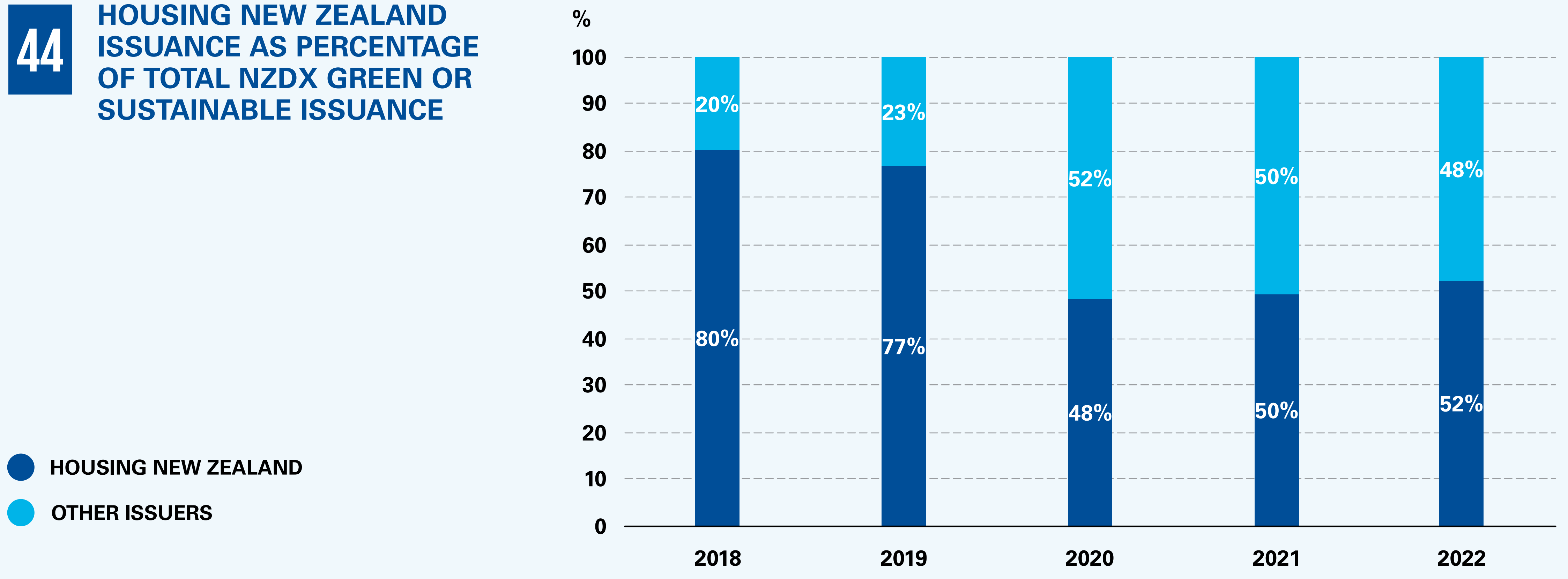
ANZ	**Good energy home loans**[42]	ANZ is offering its good energy home loan product to qualifying customers. This is a maximum of $80,000 in lending at a 1% per annum interest rate to purchase solar power systems, batteries, sustainable water systems and electric vehicles.
ASB	**Rural sustainability loans**[43]	ASB has an innovative funding solution for the agricultural sector that supports food and fibre growers to improve on-farm sustainability, meet environmental compliance and reduce emissions.
BNZ	**Agribusiness sustainability-linked loans**[44]	BNZ is offering farmers of all sizes the ability to set up a sustainability-linked loan to encourage them to become more sustainable. Farmers can select three to five of six approved target areas (with greenhouse gas (GHG) emissions reduction a mandatory target).
HSBC	**Sustainable supply chain financing**[45]	HSBC offers customers in New Zealand a Sustainable Supply Chain Financing (SCF) proposition, where HSBC can make early payments to a customer's suppliers on terms that take into account the suppliers' sustainability performance. It aims to service the customer's needs by ensuring sustainable sourcing and reduction of the carbon footprint within the customer's supply chain.
Kiwibank	**Sustainable business loans**[46]	Kiwibank is offering preferential pricing to eligible businesses for approved sustainability purposes. This will enable companies to implement sustainability initiatives that will assist in reducing their carbon footprint.
Westpac	**Warm up loans**[47]	Westpac is offering retail customers up to $40,000 interest-free for five years to invest in insulation, heat pumps, double glazing, ventilation, wood burners, solar power and electric vehicle chargers.

First published in Mobilising Capital for Impact in 2022.

43 BOND ISSUANCE ON NZDX



44 HOUSING NEW ZEALAND ISSUANCE AS PERCENTAGE OF TOTAL NZDX GREEN OR SUSTAINABLE ISSUANCE



“Transforming how capital is distributed can enact real change for our society, environment and economy.

Sustainable debt markets

At the end of December 2022, the value of green and sustainable bonds on the NZX debt markets (NZDX) totalled $13.9 billion, which represented a $4.6 billion[48] increase compared to 2021. In addition to bonds issued through the NZDX, some notable private bond placements, including the New Zealand Government’s issuance of $3.0 billion worth of sovereign green bonds[49], occurred in 2022.

41 **See Figure 41 – page 54**

43 **See Figure 43 – page 56**

Kāinga Ora, through its main subsidiary Housing New Zealand, has been the most active sustainable issuer on the NZDX with over 50% of all issuances each year. In November 2022 it was announced that Kāinga Ora will not be issuing any additional wellbeing bonds on the NZDX, instead opting to borrow directly from the Crown via New Zealand Debt Management[50], with Cabinet noting that this would be cheaper and provide greater certainty than borrowing from private sources. This may signal lower non-public issuance in 2023.

44 **See Figure 44 – page 56**

What lies ahead?

As we progress through 2023, we hope to see sustainable finance activity continue to ramp up in New Zealand. Both the demand and supply sides should work to be ambitious in their target-setting, going beyond ESG-related targets that only marginally improve their performance to setting goals that will have a real impact.

Quality and assurance will also be high on the agenda. Our research found that only 45% of sustainable finance professionals surveyed received external reviews over sustainability claims[51]. With the new Climate Standards coming into effect and regulators being more active in setting expectations, we hope to see a rise in the integrity of reporting and claims in the ESG space more broadly.

Transforming how capital is distributed can enact real change for our society, environment and economy. Our Sustainable Finance team is here to help you take tangible steps to accelerate a positive impact in New Zealand.

Climate reporting: We have lift off ...

Sanel Tomlinson
Principal, Impact Measurement, Assurance & Reporting
KPMG

Sanel is a Principal in KPMG's Impact team, supporting clients in navigating the various financial and broader corporate performance reporting requirements.

If you want more information on the topics discussed in this article then please reach out to Sanel.

It is official. On 1 January 2023, mandatory climate reporting became a reality for around 200 entities in Aotearoa New Zealand with the vast majority of entities being in the financial services sector. As mentioned in many articles on this topic over the last year, this is just the start. However, it is a significant milestone in the trajectory to mainstreaming Environmental, Social and Governance (ESG) reporting and bringing non-financial reporting on par with financial reporting.

The overall requirements are not new. Many New Zealand financial institutions already consider international frameworks in their existing ESG reporting. Some may have already provided some disclosures under the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations in the past, either as part of their own external reporting or feeding into the disclosures of their parents based overseas. However, as the cliché goes, the 'devil is in the detail', and the *Aotearoa New Zealand Climate Standards* include more detailed requirements than the TCFD recommendations.

Also, in the past, entities could choose their own path and pace in implementing these types of disclosures. However, the outcome of this approach is not all that heartening. After five years, only 4% of the almost 4,000 entities globally that committed to reporting in accordance with the TCFD recommendations are providing disclosures in respect of all of the 11 recommendations. The majority of these entities provide information on less than five of the 11 recommendations.

> **“*The Aotearoa New Zealand Climate Standards* include more detailed requirements than the TCFD recommendations.**

In respect of banks, we have been tracking the information provided by banks globally about climate-related risks and opportunities, including how they have adopted the TCFD recommendations over the last two years[52]. This included 35 major banks across UK and Europe, Australia, Canada, Asia and the US. 97% of these banks disclosed that they followed the TCFD recommended reporting for their climate-related disclosures.

Our overall observations include:

- Progress on climate-related disclosures in annual reports slowed down in 2021, despite increasing consensus on the need for enhanced climate impact transparency.
- There are significant differences identified between countries where there is heightened regulation on climate-related disclosures and where that is not (yet) the case.

- 86% of banks disclosed that they obtained an assurance report on certain climate-related financial information. The majority of assurance reporting is limited in nature and primarily relates to scope 1 and 2 emissions, and the total of green or sustainable financing granted to date.
- Currently a lack of quantitative disclosures makes it hard to understand the full picture on climate-related impacts.
- Scenario analysis and financed emissions are areas where significant progress is yet to be seen.

It is worth noting that the general theme across our global benchmarking exercise is how we see banks continue to develop and mature their climate-related disclosures over time, particularly as more guidance is made available and understanding develops from the performing of scenario analysis and calculating the true extent of greenhouse gas (GHG) emissions.

Across the four thematic areas we noted that:

1. **Governance –** Disclosures are relatively advanced in maturity

   Banks have enhanced their governance and risk management frameworks, but we are yet to see the full impacts of these changes on their strategies, metrics and targets.

2. **Strategy –** More work is required on these disclosures

   Many banks have committed to achieving net zero carbon emissions by 2050. However, their transition plans on how they intend to achieve this over the short, medium and long term are not yet clear. There are limited quantitative disclosures of scenario analysis so it is challenging to use the information currently disclosed by banks to assess the resilience of their strategies.

3. **Risk management –** Disclosures are relatively advanced in maturity

   Unsurprisingly, disclosures within risk management are more advanced due to the banks' traditional focus in this area. Banks have started integrating climate-related risks into their credit risk processes. However, there is less clarity on how they are considering the impacts on other risks such as market and liquidity risks.

4. **Metrics and targets –** More work is required on these disclosures

   Metrics are not yet disclosed at a granular level which makes it challenging for users to understand and assess how banks have progressed in achieving their targets. Banks are also yet to calculate and disclose their financed emissions across their full lending and investment activities.

How do these observations extend to the New Zealand context?

Our survey of sustainability reporting published in November 2022[53] found that:

60% of financial institutions recognise climate change as a risk, down from 67% in 2020

67% of financial institutions report on carbon reduction targets, down from 78% in 2020

Three organisations reported on the potential impacts of climate-related risks through scenario modelling, and this has only been done at a parent level where their headquarters are overseas.

These findings are concerning given that New Zealand entities are on a different trajectory to their global counterparts. They will be required to provide disclosures in respect of all 14 of the key disclosures in their first climate statements, i.e. within one year. Yes, there are some first-time adoption exemptions, but remember, these relate only to providing disclosures. In our experience, the work and data gathering will have to be done this year regardless of whether an entity takes an exemption because of the interrelatedness of the disclosures. For example, to provide disclosures in your first climate statements about relevant risks and opportunities, some degree of financial modelling is necessary. So, you will have to ensure that you get your head around the financial impacts before you publish your first climate statements even though the disclosures about financial impacts may be included in the second climate statements only.

45 **See Figure 45 – page 60** – for a summary of the key disclosures

For New Zealand financial institutions users of the reports will not so much be interested in 'whether' or 'which' disclosures requirements have been applied. They will be assessing entities on the quality and informativeness of the disclosures made and how these improve over time as practice matures.

With the big shifts we are facing, the time has most definitely come for New Zealand financial institutions to start to take bigger steps forward. Our team is here to help you take those tangible steps that will accelerate positive impact in New Zealand.

Key disclosures

Governance

Support evaluations of whether climate-related risks and opportunities receive appropriate attention from the governance body and management

- Describe the 'identity' of the governance body responsible for oversight.
- Describe the oversight of climate-related risks and opportunities by the governance body.
- Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy

Inform expectations about the entity's actions to achieve a better strategic position and build resilience given current and anticipated climate-related impacts

- Describe the current and anticipated climate-related impacts.
- Describe scenario analysis undertaken, including the climate-related scenarios used.
- Describe the climate-related risks and opportunities identified over the short, medium and long term.
- Describe how the entity will position itself as the global and domestic economy transitions to a low-emissions, climate-resilient future state.

Risk management

Support evaluations of the entity's overall risk profile and the quality and robustness of the entity's risk management activities

- Describe the processes for identifying, assessing and managing climate-related risks.
- Describe how these processes are integrated into the entity's overall risk management processes.

Metrics and targets

Support evaluations of the entity's progress in managing or adaption to climate-related risks and opportunities

- Describe the metrics that are relevant to all entities regardless of industry and business model (eight metrics included in the Standard).
- Describe the industry-based metrics relevant to industry and business model used to measure and manage climate-related risks and opportunities.
- Describe any other key performance indicators used to measure and manage climate-related risks and opportunities.
- Describe targets used to manage climate-related risks and opportunities, and performance against those targets.

Aligning CoFI and ESG

Ceri Horwill
Partner – Risk Consulting
KPMG

Ceri is a partner in KPMG's consulting team and leads the Financial Services Consulting practice in New Zealand across all the disciplines and skills that support the financial services sector.

Kate Stewart
Director, Risk Consulting
KPMG

Kate is a Director specialising in conduct and regulation. Kate joined the KPMG team from the Financial Markets Authority and brings with her valuable experience in conduct regulation from both the UK and New Zealand. Kate previously worked for a major New Zealand life insurer in marketing and product development roles.

Charles Ehrhart
Partner, Sustainable Value
KPMG

Charles has nearly 30 years of professional experience working within governments, civil society, the UN and private sector to address the challenges of climate change and sustainable development. He currently leads KPMG New Zealand's climate change, decarbonisation, ESG and sustainability services. He also serves as Technical Lead for KPMG IMPACT in New Zealand – KPMG's platform for accelerating its sustainability journey and empowering its team of 1200+ professionals to play their part in creating a more inclusive, prosperous, and resilient Aotearoa.

Banks are thinking hard about their role in achieving impact. The sector is starting to get real about the role that they play in taking responsibility for their own Environmental, Social and Governance impacts as well as the role they have in influencing change in others, facilitating the deployment of capital to have real impact on New Zealand's environmental and social challenges.

If you want more information on the topics discussed in this article then please reach out to Ceri, Kate or Charles.

> **The [banks] will have to start preparing for other more socially focused regulatory imperatives on the New Zealand horizon such as the newly released modern slavery legislation.**

Practically the industry is engaged in some of the immediate priorities facing them in this area; building sustainability centres of excellence, responding to RBNZ stress tests, preparing for climate-related disclosures, developing and executing overall ESG strategies, measuring scope three emissions and identifying particularly climate-related risks and opportunities to inform their adaptation strategies. Shortly they will have to start preparing for other more socially focused regulatory imperatives on the New Zealand horizon such as the newly released modern slavery legislation.

But as climate-related focus progresses, other parts of our banks are busy preparing for another piece of legislation where perhaps the connection to sustainability is less obvious; The Financial Markets (Conduct of Institutions) Amendment Act 2022 (CoFI). While we don't have mandatory reporting of social capital, risks and opportunities there is a substantial overlap between the 'S' in ESG and the social outcomes in CoFI and it is absolutely worth the investment to use the opportunity that is CoFI to really think about how social outcomes are embedded in your strategy, operationalised within your operating model and how they are prioritised in the day-to-day activities of the bank and their impact on customers and wider society.

Social regulation?

CoFI is not a specific piece of ESG or social regulation – like those that are being developed in the rest of the world – and nor should it be. It's our foundational piece of legislation that sets the standard for a focus on driving fair outcomes for customers. Social regulation is still some way away for the New Zealand market, but eventually there might be requirements to disclose your activities that have socially sustainable outcomes in the same way that we are preparing to disclose our environmental impacts. Or more prescriptively, we might get to the point of setting the standard for what constitutes a social undertaking and limiting that to those entities that have social objectives beyond profit. The recent work of the RBNZ around Māori access to capital is an important piece of work for New Zealand's social outcomes.

To achieve social impact successfully, in the same way that we are raising our expectations around environmental impact, would require an objective classification and criteria for what is a social outcome (i.e. social taxonomy and the development of social taxonomy is progressing globally). For example, in jurisdictions such as the EU there has been substantial work done in this space, but progress is slow and still a long way behind the environmental taxonomy. However, that doesn't mean that social outcomes and the related UN sustainable development goals are any less important. Social outcomes are rapidly gaining prominence, particularly in a post-Covid-19 world. For example, these can include the following types of topics: access and affordability, data security, customer privacy, rising poverty levels, gender equality, hunger, health, financial literacy, financial inclusion, trust and transparency, reducing inequality, conduct and ethics, well-being and resilience. This is just to name a few in a fast-expanding list.

Where are the overlaps?

One of the challenges around social impact is the wide variety of topics that it includes. Let's focus in really specifically on some of the topics where there is a shared priority with the objectives of CoFI. In our view those are:

- **Product design, quality and safety:** When designing products and services under the CoFI regime you must ensure you meet your customers' requirements and needs. You will also need to monitor whether the product is operating as intended throughout the lifecycle of the product.
- **Customer welfare:** The central principle of CoFI is to treat customers fairly. You will need to implement a fair conduct programme that ensures delivery of the principle and will mean customers are at the centre of your decision making. The Financial Markets Authority (FMA) has been clear that consumers should have trust and confidence in their banks and their products.

> **To achieve social impact successfully, in the same way that we are raising our expectations around environmental impact, would require an objective classification and criteria for what is a social outcome.**

> You have to build social capital in order to have a social licence to operate. Both CoFI and social impact need to be transformational. Expectations of customers of their banks to deliver corporate responsibility has never been greater.

- **Selling practices and product disclosure:** Banks are required to comply with regulations that ban volume and value-based sales incentives. Your customers must not be subjected to unethical sales practices such as undue pressure. Banks must also assist customers to make informed decisions.
- **Data and privacy issues:** The FMA have articulated that they view technology incidents and technology resiliency of systems that deliver for the customer, as being fundamental to good customer outcomes, i.e. instead of viewing technological failure of these systems as an operational risk to the bank, they are viewing them as an outward facing social risk for customer outcomes.
- **Marketing communication and disclosure:** Banks must apply their fair conduct programme to their marketing and disclosures, ensuring they act ethically, transparently and in good faith to ensure customers are making informed decisions.
- **Vulnerability and reducing inequality:** Circumstances arise for customers which can make them vulnerable, create disadvantage or inequality and exercising particular care and support for those customers is key. Banks must have regard for customers in vulnerable circumstances when complying with the fair conduct principle.

As the bank is building its response to these areas of the CoFI legislation and lifting the quality of its related processes, policies and activities there, is therefore, huge potential to have real social impact and a responsibility to respond to those social outcomes proactively and to get those outcomes right for the good of its customers and society as a whole.

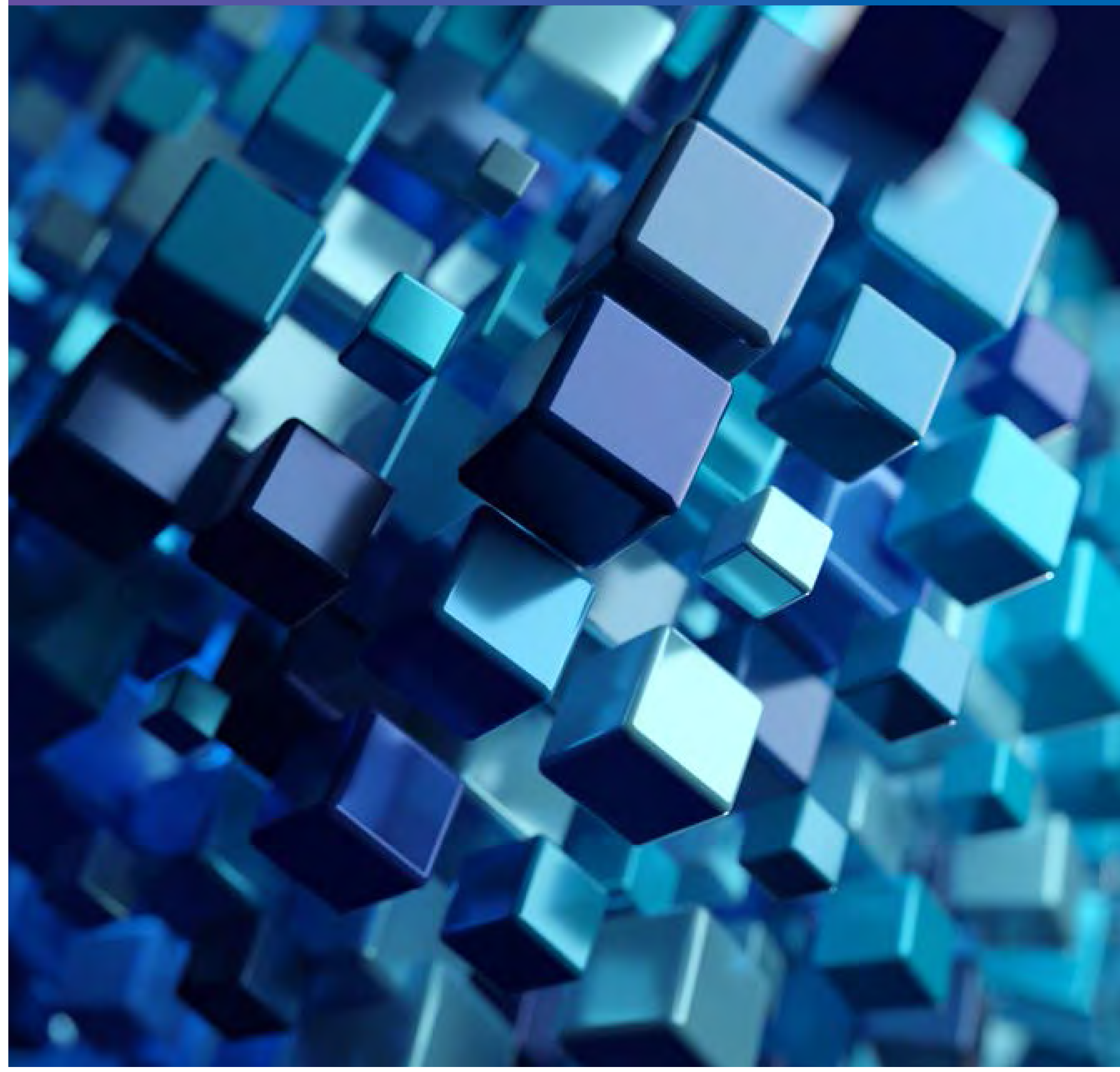
Why does this overlap matter?

Just as ESG is becoming a strategic imperative for banks, responding to the various facets of 'E', 'S' and 'G' can't be done in isolation from the rest of the strategy if we want to embed change, but also if we want to respond to change efficiently rather than in siloes.

The FMA has made their expectations clear around CoFI; they are expecting a demonstrable change in our banks. Our 2022 Customer Experience Excellence survey makes it clear that customers are increasingly wanting to deal with businesses that have a social purpose and are making a real impact. Society as a whole is making our expectations even clearer; you have to build social capital in order to have a social licence to operate. Both CoFI and social impact need to be transformational. Expectations of customers of their banks to deliver corporate responsibility has never been greater, but our customers don't expect us to be meeting our regulatory obligations in isolation from our societal responsibilities. Joining up CoFI and social impact is the right thing to do.

- It allows the best minds to collaboratively work on putting customers' outcomes and social capital first.
- It aligns strategic imperatives around ESG and the customer. This helps them to start moving in the same direction at the same time.
- It makes the best use of scarce resources to meet multiple objectives, avoid double ups and drive greater impact.
- It will allow you to start the process of gaining a better understanding of what your social objectives are – and drive an integrated approach to those.

> We suggest banks start by bringing together the people that matter in this space, your customer team, your outcomes and conduct team, and importantly your impact or sustainability team.



- It sets the standard for integrating individual pieces of social legislation (e.g. health and safety, Modern Slavery etc) with our overall social objectives and ESG strategy.

Overall it creates an aligned foundation of thinking in this space which will set the banking sector up well to do the deeper thinking, influencing and shaping that will be needed to help achieve real societal change in New Zealand and to prepare for the social regulation that will inevitably eventually accompany that.

Where should I start?

It's tempting when you have a firm regulatory deadline such as CoFI to just do what you need to do in order to achieve that specific outcome, but that route only meets one narrow objective. We suggest banks start by bringing together the people that matter in this space, your customer team, your outcomes and conduct team, and importantly your impact or sustainability team. You need to be able to start from a foundation of shared strategic understanding and respond to the strategic objectives you have set yourself both around customer and social impact.

A good place to start this process would be from an outside perspective. From a CoFI perspective your organisation needs to have a shared understanding of what 'fair' treatment means for you and your customers. Your fair conduct programme will eventually be built to explain how you are achieving this. Asking your customers what 'fair' means to them will likely also gain you significant insight into your customers' social expectations of your business.

Secondly, aim to have a shared understanding of what your goals, commitments, objectives, and priorities are for both your sustainability and impact team and your conduct and customer outcomes team. Building a shared understanding will help you to be conscious of meeting both objectives in everything that you do and will allow you to align and share insight in both of these teams.

Your learnings from this work should form the foundation for a conversation with all the multiple stakeholders across the bank that need to achieve both fair outcomes and social responsibility. Your goal is aligning your strategy in these areas, both to achieve your long-term ambitions as a business, but also to meet and align your short-term commitments and obligations in both spaces. As your strategies align so too will your need to align your operating models, frameworks, policies and processes that support these.

Both CoFI and social impact create a real opportunity for strategic change across the full product and customer lifecycle. Taking the time and responsibility to invest in both will enable you to meet your own business growth ambition and the social expectations of your customers.

> **"Both CoFI and social impact create a real opportunity for strategic change across the full product and customer lifecycle.**

Operational resilience

> Growing complexity in banks and financial services organisations, as well as increasing exposure to external events, have made organisations increasingly vulnerable to operational disruptions.

Stephen McDaid
Director – Risk Consulting
KPMG

Stephen is a Director in KPMG's Risk Consulting practice and has extensive non-financial risk management experience. His experience is drawn from working as a regulatory litigation solicitor for over a decade, as well as the Head of first-line risk for the Personal Banking and Data and Marketing business units of one of New Zealand's largest banks.

Skye McGregor
Senior Manager – Risk Consulting
KPMG

Skye is a risk professional with just under a decade of experience across the banking and insurance industries working across all risk classes, including operational risk, compliance and financial crime, as well as holding several business roles. Skye also has experience supporting the delivery of several complex transformation, remediation and regulatory change projects.

Alex Economou
Associate Director – Risk Consulting
KPMG

Alex joined KPMG in May 2022 from Australia and has over a decade of risk and compliance financial services experience focussing on non-financial risk. Her experience is drawn from working as the Head of Risk and Compliance where she acted for financial services institutions, fintechs and large banks on risk and compliance strategies, framework development, oversight and monitoring, conduct and regulatory engagement.

If you want more information on the topics discussed in this article then please reach out to Stephen, Skye or Alex.

Introduction

Growing complexity in banks and financial services organisations, as well as increasing exposure to external events, have made organisations increasingly vulnerable to operational disruptions. Operational resilience aims to prevent harm to both consumers and the financial system by minimising the impact of disruption on critical operations. By taking a holistic firm-wide view of critical operations, a more resilient organisation can effectively manage operational disruption, increase trust, reduce customer harm, and realise the commercial benefits of both good business and risk management.

The following article compares operational resilience with other risk management disciplines, details current regulatory expectations and future requirements, and outlines the wide-ranging benefits of operational resilience.

The operating environment in financial services has become increasingly complex. New technologies, climate change, political instability ... and business model evolution are all potential threats to operational stability.

What is operational resilience?

Operational resilience is the ability of a bank to deliver **critical operations** through disruption. It refers to the ability of an organisation to prevent, respond to, recover, and learn from operational disruptions. Those disruptions could include technology outages, cyber-attacks, natural disasters or global pandemics (as was recently experienced).

How is operational resilience different to operational risk?

Operational resilience is the next evolution of operational risk. Operational risk management has its origins in financial stability and focuses on the effectiveness of controls within vertical organisational structures – the design and maintenance of controls coupled with sufficient capital set aside to cover risk events, ensures ongoing financial stability. Operational resilience, however, recognises that a firm may cause great harm to their customers and, in turn, the financial system, but at the same time not be in a position of financial stress. Operational resilience is more holistic, with an emphasis on the continuity of horizontal business services. It is the end-to-end business service that must be resilient.

How is operational resilience different to business continuity planning (BCP)?

There is an important distinction between BCP and operational resilience. BCP's focus is traditionally vertical – how we react when a technology system goes down or a physical site is unavailable. Operational resilience on the other hand looks at how organisations continue to deliver their critical operations in the face of disruption.

46 See Figure 46 – page 67

Operational resilience and the regulatory landscape

The operating environment in financial services has become increasingly complex. New technologies, climate change, political instability (such as the current Russia-Ukraine conflict) and business model evolution are all potential threats to operational stability.

"Given the increasing digitisation of financial services, the growing prevalence of cyber-attacks and the increasing numbers of technology incidents reported to the FMA, we have heightened our focus on cyber and operational resilience…we will be enhancing our regulatory approach and engaging with stakeholders and other regulators to raise awareness and capability."

New Zealand Financial Markets Authority (FMA) June 2022

Examples include:

- Covid-19 resulted in organisations pivoting quickly to maintain a standard of service (including new and modified products and/or services) for customers.
- The cybersecurity landscape has changed significantly in recent years which has led to new opportunities for cybercriminals.
- The increasingly complex technology being adopted by organisations to further innovation, security, and delivery also brings about operational risks.
- While banks and financial services organisations have introduced mobile apps and online access to products and services, decreasing their dependence on physical sites being open and, thereby, increasing their resilience, this has introduced complexity into their technology environment (including through the increased use of and reliance on third parties).

Globally, there is a regulatory trend towards holistic operational resilience frameworks.

46 Key elements of operational resilience

Key elements of operational resilience

Governance

Management is responsible for the operational resilience strategy, ensuring appropriate resource planning and promoting an operational resilience culture with clear communication to all relevant parties

Critical operations

Resilience should be prioritised when disruptions occur within operations deemed critical and their related activities, processes, services and supporting assets

Mapping and assessment

Organisations should map relevant assets to critical operations and interconnections, provide an evaluation of threats, vulnerabilities, impacts of possible disruptions and the overarching controls environment

Tolerance for disruption

Tolerance for disruptions should be set for each critical operation, according to the bank's risk appetite

Scenario analysis

The ability of the firm to deliver critical operations through disruption needs to be tested under a range of severe but plausible scenarios that incorporate disruptive events and incidents

Recovery strategies

Clear recovery strategies should be identified to limit the disruption and restore critical operations in line with the firm's tolerance for disruption

Harmonisation

Appropriate coordination among Risk Management and other relevant risk management frameworks is necessary to delivering a consistent and effective approach to operational resilience

- The increased frequency of extreme weather events impacts not only an organisation's ways of working, but also the methods of delivering services to their customers.

Disruption stemming from the global or local environment can impact the stability of a single firm or an entire economy. As a result, global regulators, including in New Zealand and Australia, are focusing on operational resilience standards.

Policy and global trends

Globally, there is a regulatory trend towards holistic operational resilience frameworks.

- **United Kingdom:** Joint campaign in 2018 of Bank of England, Prudential Regulation Authority and the Financial Conduct Authority to strengthen operational resilience requirements, noting that operational disruptions and the unavailability of important business services have the potential to cause wide-reaching harm to consumers and/or risk to market integrity.
- **European Union:** The European Commission in 2022 concluded its consultation on the Digital Operational Resilience Act (DORA) for financial services. DORA acknowledges that information and communications technology (ICT) incidents and a lack of operational resilience have the possibility to jeopardise the soundness of the entire financial system, even if there is 'adequate' capital for the traditional risk categories.
- **Australia:** From 10 March 2023 Australian Securities and Investments Commission (ASIC) Market Integrity Rules will apply. These rules are aimed at promoting the technological and operational resilience of securities and futures market operators.

Australia – APRA Prudential Standard CPS 230: *Operational Risk Management* (CPS 230)

Australian Prudential Regulation Authority (APRA) are introducing a new operational risk and resilience standard. CPS 230 sets out clear expectations of financial services organisations (including New Zealand-based subsidiaries of APRA-regulated parents) around operational risk and resilience, business continuity and material service providers[54].

APRA-regulated entities must:

a. identify, assess, and manage operational risks that may result from inadequate or failed internal processes or systems, the actions or inactions of people or external events;

b. to the extent practicable, prevent disruption to critical operations, adapt processes and systems to continue to operate within tolerance levels; and

c. not rely on service providers unless they can ensure that in doing so, they can continue to meet their prudential obligations in full.

What is happening in New Zealand?

Following comprehensive reviews of the conduct and culture of banks and insurers by the FMA, the Conduct of Financial Institutions (CoFI) regime was introduced. CoFI is a new regime requiring banks and insurers to apply fair conduct principles when providing relevant services to consumers in New Zealand.

A requirement of CoFI is that banks and other captured financial services organisations must hold a Financial Institution licence. The standard licence conditions include requirements related to outsourcing, operational resilience and business continuity. The FMA licensing submission requires significant detail on the review and maturity assessment of each area[55]:

- Standard Condition 4:
  - — If you outsource … you must be satisfied that the provider can perform the service to the standard required to enable you to meet your market services obligations.
- Standard Condition 5:
  - — Organisations must have and maintain a BCP that is appropriate for the scale and scope of your financial institution service (tested annually), and that restores service as a whole and not just technology systems.
  - — Organisations must ensure operational resilience across their critical technology.
  - — Operational risk must be managed within risk appetite.
  - — The FMA must be notified of material technology or cyber disruptions and events.

The FMA plans to publish draft guidance in early 2023, before allowing entities to submit applications for a Financial Institution licence from July 2023. The regime will come into full force early 2025 in which all relevant organisations will require a licence to conduct business.

Operational resilience-related legislation is generally (but not exclusively) driven from a prudential perspective, whereas in New Zealand the key driver has been conduct legislation, demonstrating an increased recognition that the continued provision of critical services during disruption is essential to minimise customer harm.

> "A requirement of CoFI is that banks and other captured financial services organisations must hold a Financial Institution licence.

Organisations based in New Zealand that are subject to regulation by APRA and FMA must meet the specific requirements of both regimes.

Top five challenges globally

The top five challenges we see globally in the market are:

1. Identifying and defining critical operations.
2. Understanding and mapping the risks, key data and controls:
   — Mapping all inputs onto critical processes, including risks, obligations and controls, as well as people, technology systems and third parties.
3. Measuring resilience and disruption through metrics, testing and data quality:
   — Defining metrics, scenarios for testing and management information dashboards.
4. Identifying Material Service Providers and influencing them to uplift their resilience practices.
5. Embedding operational resilience into business as usual:
   — Including Board ownership, embedding into existing risk practices, and driving accountability into the DNA of all staff.

The benefits of effective operational resilience for your organisation

An effective approach to operational resilience can have the following commercial benefits:

- **Crisis response is faster and more effective**
  — Preparing for a wide range of potential threats, identifying interdependencies of critical operations, and prioritising operations allows for faster recovery.
- **Improve stakeholder experiences, trust and loyalty**
  — Reducing the likelihood of reputational damage from disruption, which results in increased customer and investor satisfaction.
- **Foster innovation and a sustainable business model**
  — Operational resilience can ensure that organisations innovate within a safe environment that increases sustainability and growth.
- **Improved decision making**
- **Establishing and embedding a common language, confirming roles and responsibilities, uplifting governance, and escalation processes, and enhancing key decision-making when evaluating outcomes and selecting responses and treatments.**

How KPMG can help:

By leveraging off international best practise and by utilising experienced local expertise, KPMG can support banks and financial service organisations to build robust, resilient operations. KPMG can support:

1. defining what an organisation's critical operations are;
2. mapping critical business processes, all inputs, and related activities and services;
3. setting risk appetite and tolerance levels against international best practice;
4. scenario testing and testing tolerance levels to further identify vulnerabilities;
5. reviewing, developing, and harmonising risk frameworks; and
6. defining and implementing an organisation's operational resilience target operating model.

Data risk management

Greg Scott
Director – Financial Risk Management
KPMG

Greg has significant risk, data governance, and analytics and reporting experience having worked in senior roles in the banking sector, as well as in criminal intelligence and investigation roles in public sector agencies in New Zealand and Australia.

If you want more information on the topics discussed in this article then please reach out to Greg.

How confident are you that the data that feeds your most important models and reports and influences your biggest decisions is correct? Do you have an end-to-end view of where your data comes from and understand how it is transformed and interpreted? Is your customer's private information protected from the moment you capture it until disposal?

The need to enhance data risk management capabilities in financial organisations globally, and in New Zealand, is being fuelled by various factors, including new regulations (and regulatory action), as well as a heightened focus on reputational and operational risk. However, incorporating good data risk management practices is not just about preventing issues occurring, it is also about helping unlock the value of data within an organisation by:

- creating effective and efficient data related processes;
- being confident in the quality of integral data used to make business decisions; and
- generating trust from customers who know their data is protected and that accurate data driven insights are being used to ensure that they are treated fairly and the products and services they receive are appropriate for their circumstances.

> "Incorporating good data risk management practices is not just about preventing issues occurring, it is also about helping unlock the value of data within an organisation.

What is data risk?

Data risk is the risk associated with a failure in the collection, storage, usage, transfer, management, security, retention and disposal of data that is captured, created, processed or acquired by an organisation.

Types of data risks include:

- **Business delivery failures and disruption risks** – Disruption to a business service or objective (including regulatory or legal requirements) because of poor data management practices resulting in inaccurate, incomplete, out of date, unavailable, or misinterpreted data.
- **Privacy related risks** – Failure to comply with privacy laws and regulations in respect of collection, transfer or processing of data.
- **Cybersecurity risks** – Failure to protect non-public data from unauthorised external access, or malicious or unintentional leakage.
- **Fraud or unauthorised use risks** – Failure to protect non-public data from unauthorised internal access.
- **3rd party risks** – Inability to maintain control of data after being shared with third parties.
- **Information lifecycle management risks** – Failure to retain and dispose of records in compliance with applicable laws and regulations.

47 **Data risks**

Why data risk management matters

Implementing a data risk management framework can be difficult. A key challenge is getting an organisation-wide view of data risk management activities as components to be incorporated within other risk management frameworks (i.e. operational risk, model risk, credit risk and technology risk) and controls and processes can be operated by different teams across Risk, Finance, Technology, Data and Customer facing teams. Without an end-to-end view there can be duplication of effort and other operational inefficiencies, or gaps in controls that are not identified and result in increased levels of risk.

When data risk eventuates, there can be wide reaching consequences, not only for the organisation, but also for its customers, so a framework that helps to either prevent risks occurring or mitigates the impacts of the event is vital.

For example, failure to manage data risk can result in:

- **Data breaches and associated financial and reputational damage**

  The cyber-attacks on Medibank[56] and Optus[57] in Australia last year are stark reminders of the importance of the ongoing protection of non-public data and highlights the consequences, both reputationally and financially, when a successful cyber-attack occurs.

> **"When data risk eventuates, there can be wide reaching consequences, not only for the organisation, but also for its customers.**

Optus has reportedly set aside AUD $140 million[58] to cover related costs, and Medibank's costs will also be in the tens of millions if not higher. Closer to home, Mercury IT, a small independent IT services provider, suffered a ransomware attack in December 2022. It resulted not only in a compromise of critical systems, but also loss of clients' data, which appeared for sale on the dark web.

In New Zealand, the Privacy Act 2020 governs how organisations collect, store, use and share data. While non-compliance with that Act could have some direct financial consequences, it is the reputational damage, loss of trust, and associated remediation costs from a data breach that will have the most impact to your organisation.

- **Lack of trust and regulatory action**

  Financial service organisations already provide aggregated data to regulators, however, both the Australian Prudential

Regulation Authority and the Reserve Bank of New Zealand have started their journeys to collect granular data to develop deeper insights and reduce the reporting burden[59]. The move to granular data collection, once it is in place, could reveal underlying data quality issues that have not been apparent within aggregated data sets provided previously. This could result in some pointed questions, as well as time and effort spent unravelling issues and responding.

Data quality, calculation and coding errors have resulted in regulatory action, large fines, and significant remediation projects for several New Zealand banks over the last few years. While the dollar impact from these events is high, the effort needed from scarce internal data resources to help remediate these issues is significant and takes them away from delivering other strategic projects for their organisations.

Additionally, as more organisations start to report their greenhouse gas emissions as required by the Climate-related Disclosures that came into effect on 1 January 2023, or organisations can undertake this type of reporting voluntarily, there is a risk of unintentional 'greenwashing' if poor data management practices result in inaccurate climate disclosures.

The impending Consumer Data Right legislation will require New Zealand banks to securely share customer data with accredited third parties. Data risk will need to be considered throughout the development of this data sharing capability to ensure accurate data is shared by consent, transferred, held securely by a third party, used and then disposed of accordingly.

- **Inability to unlock value from data**

  It is easy to be caught up in the promise that flash new digital tools will improve customer service and generate value, but often the real challenge surrounds foundational data management activities. Common issues include ad-hoc master and reference data management, limited active data quality management, disconnected data architecture and model decision making and no organisation-wide data strategy or governance framework.

  Unless underlying issues get fixed then new tools or services are not going to provide the benefits anticipated and will potentially create more technical debt that will need to be fixed in the future.

Key data risk management components

Global peers are focusing on the following components to ensure data risks are well managed within their organisations:

> **"The move to granular data collection, once it is in place, could reveal underlying data quality issues that have not been apparent within aggregated data sets provided previously.**

Organisation data risk management

- Defining an updated data risk appetite and framework in line with emerging risks
- Establishing key risk indicators across the organisation and lines of business
- Enhancing policies, standards and procedures to manage data risk and ensuring effective governance and oversight
- Ensuring that training develops organisation-wide competencies.

Data governance and operating model

- Facilitating leadership alignment and appropriate funding levels to operationalise a target operating model
- Creating a comprehensive set of documentation (e.g. policies, procedures and standards)
- Documenting an organisation-wide inventory of critical data
- Mapping end-to-end processes for critical reports, overlaying controls and making sure that there is appropriate governance in place to ensure these processes remain accurate
- Implementing standardised data quality processes and tools to measure, monitor and control data across environments.

Internal controls

- Developing and strengthening of procedures and processes for identifying, reporting, monitoring, escalating and remediating all data quality concerns, as well as procedures for improvement of data quality
- Designing and implementing a data management strategy that has the capacity to measure, monitor and control data quality
- Establishing 'key control indicators' across the lines of business to regularly test the quality of controls and their effectiveness.

Compliance risk management

- Establishing a compliance risk governance framework for all three lines of defence
- Creating policies, processes and controls for the first line of defence to assess, measure and limit regulatory compliance exposure
- Establishing a programme for effective third-party risk management
- Producing readily available data risk compliance metrics that can be monitored up to the Board level for timely response and oversight.

Oversight and ownership

- Board and management oversight – governance processes should be in place (e.g. review and credible challenge by the risk committee, escalation protocols, documented reporting lines)
- Staffing – identifying the correct number of staff with aggregate skills and expertise needed for safe and sound internal controls and risk management across three lines of defence
- Technology – identifying the number and types of technology resources required for safe and sound internal controls and risk management.

How we can help

KPMG have been working with organisations from across the Financial Services Industry to enhance Data Risk Management. Specifically, KPMG professionals can help with:

- defining data risk and controls frameworks;
- developing data strategy;
- conducting data management and data risk management maturity assessments;
- developing and embedding a data-governance framework;
- undertaking model validations;
- documenting data-related business processes;
- assisting with meeting climate-related disclosure obligations; and
- preparing to meet Consumer Data Right legislative requirements.

Analysis of annual results

Analysis of financial statements					Size & strength measures									Growth measures		
Entity[28]	Location of head office	Reporting date	Survey year	Rank by total assets	Total assets* $Million	Net assets $Million	Total capital adequacy ratio %	Tier 1 capital adequacy ratio %	Net loans and advances $Million	Customer deposits $Million	Number of employees	Number of branches	Number of owned ATMS	Increase in net profit after tax %	Increase in underlying profit %	Increase in total assets %
Australia and New Zealand Banking Group Limited – ANZ New Zealand	Wellington	30/09/22	2022	1	198,357	12,940	18.20	14.00	147,942	130,329	7,280	110	489	19.80	19.91	8.99
		30/09/21	*2021*	*1*	*181,990*	*11,994*	*18.40*	*14.30*	*141,599*	*125,129*	*7,473*	*124*	*504*	*43.64*	*40.36*	*2.82*
Bank of Baroda (New Zealand) Limited	Auckland	31/03/22	2022	20	146	51	61.24	61.24	124	92	14	2	2	31.77	36.06	(1.53)
		31/03/21	*2021*	*19*	*148*	*50*	*59.99*	*59.99*	*126*	*95*	*18*	*3*	*3*	*24.22*	*24.81*	*12.40*
Bank of China New Zealand Banking Group	Auckland	31/12/21	2022	10	5,388	306	16.53	13.32	4,520	804	108	1	-	40.62	42.18	8.50
		31/12/20	*2021*	*10*	*4,966*	*276*	*16.22*	*13.19*	*3,935*	*862*	*93*	*1*	-	*(15.62)*	*(17.50)*	*36.00*
Bank of India (New Zealand) Limited	Auckland	31/03/22	2022	19	151	59	51.00	51.00	108	13	10	2	-	84.30	84.68	48.51
		31/03/21	*2021*	*20*	*102*	*56*	*62.00*	*62.00*	*91*	*16*	*9*	*2*	-	*348.40*	*353.31*	*17.68*
Bank of New Zealand	Auckland	30/09/22	2022	3	131,405	11,046	15.40	13.80	100,066	74,205	5,246	104	543	6.96	7.89	10.33
		30/09/21	*2021*	*4*	*119,107*	*9,866*	*16.90*	*15.10*	*95,365*	*71,244*	*4,785*	*108*	*592*	*73.49*	*50.60*	*6.07*
China Construction Bank Corporation New Zealand Banking Group	Auckland	31/12/21	2022	13	4,376	287	17.25	13.96	3,427	415	n/a	n/a	n/a	98.69	96.86	32.16
		31/12/20	*2021*	*13*	*3,311*	*252*	*16.88*	*13.86*	*2,729*	*420*	*69*	-	-	*(11.53)*	*(11.61)*	*7.99*
Citibank, N.A. New Zealand Branch	Auckland	31/12/21	2022	17	2,474	150	16.40	14.80	231	1,288	24	-	-	18.12	19.91	12.04
		31/12/20	*2021*	*17*	*2,208*	*184*	*15.94*	*14.33*	*394*	*1,306*	*28*	*1*	-	*(20.03)*	*(20.71)*	*28.47*
Commonwealth Bank of Australia New Zealand Operations	Auckland	30/06/22	2022	4	125,553	9,645	17.60	13.60	108,765	76,198	6,041	86	388	15.59	14.11	4.17
		30/06/21	*2021*	*2*	*120,525*	*8,951*	*19.80*	*15.70*	*103,037*	*69,748*	*5,883*	*86*	*401*	*42.19*	*39.09*	*6.49*
Coöperatieve Rabobank U.A. New Zealand Banking Group	Wellington	31/12/21	2022	6	17,751	2,340	22.60	19.20	14,815	5,543	498	28	-	72.51	72.40	1.47
		31/12/20	*2021*	*6*	*17,494*	*2,142*	*24.20*	*19.00*	*14,199*	*5,732*	*483*	*33*	-	*(6.58)*	*(7.39)*	*4.40*
Heartland Bank Limited	Auckland	30/06/22	2022	12	5,125	678	13.49	13.49	4,519	3,597	425	4	-	34.24	28.26	16.75
		30/06/21	*2021*	*12*	*4,390*	*612*	*13.88*	*13.88*	*3,859*	*3,220*	*404*	*4*	-	*17.81*	*21.60*	*2.45*
Industrial and Commercial Bank of China New Zealand Banking Group	Auckland	31/12/21	2022	14	3,435	370	17.45	14.68	2,580	601	82	1	-	39.95	39.50	49.20
		31/12/20	*2021*	*16*	*2,302*	*353*	*16.88*	*14.28*	*1,758*	*651*	*72*	*1*	-	*(48.23)*	*(48.06)*	*0.91*

Analysis of annual results

Analysis of financial statements					Size & strength measures									Growth measures		
Entity[28]	**Location of head office**	**Reporting date**	**Survey year**	**Rank by total assets**	**Total assets* $Million**	**Net assets $Million**	**Total capital adequacy ratio %**	**Tier 1 capital adequacy ratio %**	**Net loans and advances $Million**	**Customer deposits $Million**	**Number of employees**	**Number of branches**	**Number of owned ATMS**	**Increase in net profit after tax %**	**Increase in underlying profit %**	**Increase in total assets %**
JPMorgan Chase Bank, N.A., New Zealand Banking Group	Wellington	31/12/21	2022	16	2,576	-	19.50	19.20	16	319	9	-	-	(92.84)	(92.10)	7.98
		31/12/20	*2021*	*15*	*2,385*	*-*	*17.80*	*17.40*	*1*	*250*	*9*	*-*	*-*	*37.37*	*27.20*	*19.01*
Kiwibank Limited	Wellington	30/06/22	2022	5	31,547	2,202	13.60	12.00	27,817	24,131	1,866	158	219	3.97	(7.54)	11.75
		30/06/21	*2021*	*5*	*28,229*	*1,724*	*13.20*	*11.90*	*25,260*	*22,121*	*1,781*	*161*	*221*	*121.05*	*99.00*	*10.66*
Kookmin Bank Auckland Branch	Auckland	31/12/21	2022	18	741	12	17.47	14.98	499	239	18	1	-	86.74	85.33	23.96
		31/12/20	*2021*	*18*	*597*	*7*	*17.78*	*15.42*	*402*	*259*	*18*	*1*	*-*	*16.45*	*17.33*	*21.16*
MUFG Bank, Ltd., Auckland Branch	Auckland	31/03/22	2022	9	6,428	287	12.94	11.11	4,228	2,303	18	1	-	(4.51)	(5.00)	(0.49)
		31/03/21	*2021*	*9*	*6,460*	*258*	*15.04*	*12.76*	*4,047*	*2,270*	*17*	*1*	*-*	*20.47*	*18.50*	*(0.86)*
Southland Building Society	Invercargill	31/03/22	2022	11	5,209	453	15.40	13.10	4,435	3,469	496	14	-	9.05	8.34	8.03
		31/03/21	*2021*	*11*	*4,822*	*379*	*15.70*	*12.90*	*4,076*	*3,552*	*498*	*14*	*-*	*119.40*	*155.86*	*(2.18)*
The Co-operative Bank Limited	Wellington	31/03/22	2022	15	3,198	246	17.00	14.60	2,704	2,691	323	26	-	(18.49)	(14.54)	2.41
		31/03/21	*2021*	*14*	*3,122*	*223*	*16.90*	*14.70*	*2,707*	*2,591*	*306*	*26*	*-*	*133.22*	*83.78*	*4.79*
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	Auckland	31/12/21	2022	8	7,526	(0)	18.70	16.80	4,395	4,978	226	2	-	27.05	28.44	6.43
		31/12/20	*2021*	*8*	*7,072*	*17*	*20.80*	*18.80*	*4,096*	*4,451*	*227*	*1*	*-*	*(28.60)*	*(28.02)*	*6.70*
TSB Bank Limited	New Plymouth	31/03/22	2022	7	8,960	723	13.54	13.54	6,694	8,180	555	22	38	(11.21)	(16.02)	1.96
		31/03/21	*2021*	*7*	*8,789*	*726*	*14.47*	*14.47*	*6,371*	*7,999*	*539*	*22*	*43*	*39.19*	*43.63*	*7.45*
Westpac Banking Corporation – New Zealand Banking Group	Auckland	30/09/22	2022	2	135,255	9,779	18.40	13.40	97,765	77,909	5,402	115	439	22.80	17.92	13.35
		30/09/21	*2021*	*3*	*119,323*	*9,679*	*18.90*	*14.60*	*93,432*	*75,917*	*5,152*	*117*	*464*	*55.21*	*50.93*	*5.90*
Banking sector total			**2022**		**695,602**	**51,572**	**n/a**	**n/a**	**535,651**	**417,304**	**28,641**	**677**	**2,118**	**17.26**	**15.89**	**9.14**
			2021		***637,343***	***47,750***	***n/a***	***n/a***	***507,482***	***397,831***	***27,864***	***706***	***2,228***	***47.92***	***41.59***	***5.46***

* Total assets = Total assets - Goodwill - Other intangibles
n/a = not applicable or not available

Analysis of annual results

Analysis of financial statements		Credit quality measures							Profitability measures										Efficiency measures	
Entity[28]	Survey year	Impaired asset expense $Million	Past due assets $Million	Gross impaired assets $Million	Individual provision for doubtful debts/ Gross impaired assets %	Collective provision/ Net loans and advances %	Total provision for doubtful debts/ Gross loans and advances %	Impaired asset expense/ Average gross loans and advances %	Total operating income $Million	Net interest income/ Average total assets %	Interest margin %	Interest spread %	Non-interest income/ Average total assets %	Net profit after tax $Million	Net profit after tax/ Average equity %	Net profit after tax/ Average total assets %	Underlying profit $Million	Underlying profit/ Average total assets %	Operating expenses*/ Average total assets %	Operating expenses*/ Operating income %
Australia and New Zealand Banking Group Limited – ANZ New Zealand	2022	39	454	146	52.74	0.38	0.44	0.03	4,880	1.98	2.14	1.88	0.59	2,299	14.79	1.21	3,186	1.68	0.87	33.91
	2021	*(115)*	*374*	*155*	*38.71*	*0.37*	*0.41*	*(0.08)*	*4,165*	*1.90*	*2.02*	*1.87*	*0.42*	*1,919*	*13.20*	*1.07*	*2,657*	*1.48*	*0.90*	*38.97*
Bank of Baroda (New Zealand) Limited	2022	(0)	-	-	n/a	0.32	0.32	(0.00)	5	2.70	2.87	2.38	0.75	1	2.89	0.99	2	1.40	2.05	59.49
	2021	*(0)*	*-*	*-*	*n/a*	*0.33*	*0.33*	*(0.04)*	*4*	*2.39*	*2.56*	*1.78*	*0.81*	*1*	*2.24*	*0.79*	*2*	*1.08*	*2.14*	*67.07*
Bank of China New Zealand Banking Group	2022	1	-	5	59.92	0.27	0.34	0.03	75	1.32	1.32	1.25	0.12	36	12.52	0.70	51	0.98	0.44	30.53
	2021	*3*	*-*	*5*	*59.08*	*0.30*	*0.38*	*0.09*	*59*	*1.24*	*1.23*	*1.05*	*0.14*	*26*	*9.86*	*0.60*	*36*	*0.83*	*0.48*	*35.03*
Bank of India (New Zealand) Limited	2022	0	-	-	n/a	0.59	0.59	0.08	5	3.78	3.92	3.30	0.27	2	3.59	1.64	3	2.30	1.69	41.70
	2021	*(0)*	*-*	*-*	*n/a*	*0.79*	*0.79*	*(0.14)*	*4*	*3.80*	*3.94*	*2.87*	*0.39*	*1*	*2.00*	*1.19*	*2*	*1.67*	*2.63*	*62.76*
Bank of New Zealand	2022	89	264	167	55.09	0.72	0.81	0.09	3,131	2.00	2.19	1.93	0.50	1,414	13.50	1.13	2,023	1.62	0.81	32.55
	2021	*(37)*	*146*	*231*	*58.01*	*0.68*	*0.81*	*(0.04)*	*2,859*	*1.89*	*2.04*	*1.91*	*0.59*	*1,322*	*14.26*	*1.14*	*1,875*	*1.62*	*0.88*	*35.71*
China Construction Bank Corporation New Zealand Banking Group	2022	0	-	-	n/a	0.44	0.44	0.01	67	1.59	1.60	1.50	0.15	35	12.93	0.91	48	1.26	0.48	27.42
	2021	*8*	*-*	*-*	*n/a*	*0.59*	*0.59*	*0.31*	*51*	*1.53*	*1.54*	*1.38*	*0.06*	*18*	*7.21*	*0.55*	*25*	*0.77*	*0.57*	*35.98*
Citibank, N.A. New Zealand Branch	2022	(0)	-	-	n/a	0.22	0.22	(0.02)	41	0.41	0.42	0.41	1.34	16	9.61	0.69	23	0.96	0.79	45.12
	2021	*(0)*	*-*	*-*	*n/a*	*-*	*-*	*(0.01)*	*37*	*0.61*	*0.62*	*0.60*	*1.29*	*14*	*7.33*	*0.69*	*19*	*0.96*	*0.95*	*49.94*
Commonwealth Bank of Australia New Zealand Operations	2022	38	171	212	33.02	0.45	0.51	0.04	3,248	2.09	2.12	1.92	0.55	1,453	15.16	1.18	2,087	1.70	0.91	34.58
	2021	*(3)*	*140*	*329*	*28.27*	*0.46*	*0.55*	*(0.00)*	*2,916*	*1.93*	*1.97*	*1.76*	*0.56*	*1,257*	*14.59*	*1.08*	*1,829*	*1.57*	*0.93*	*37.38*
Coöperatieve Rabobank U.A. New Zealand Banking Group	2022	(27)	0	323	1.23	0.15	0.18	(0.19)	435	2.36	2.41	2.30	0.11	209	9.33	1.19	291	1.65	0.97	39.43
	2021	*16*	*1*	*499*	*3.59*	*0.29*	*0.42*	*0.11*	*345*	*2.18*	*2.22*	*2.04*	*(0.17)*	*121*	*5.82*	*0.71*	*169*	*0.99*	*0.94*	*46.50*
Heartland Bank Limited	2022	15	41	66	22.67	0.78	1.11	0.35	241	4.41	4.59	4.39	0.66	96	14.23	2.02	136	2.86	1.90	37.49
	2021	*15*	*37*	*38*	*20.00*	*1.13*	*1.32*	*0.38*	*212*	*4.58*	*4.76*	*4.51*	*0.31*	*72*	*11.54*	*1.65*	*106*	*2.44*	*2.11*	*43.16*
Industrial and Commercial Bank of China New Zealand Banking Group	2022	3	-	5	73.49	0.44	0.59	0.12	45	1.71	1.72	1.55	(0.13)	17	4.60	0.58	23	0.81	0.68	43.12
	2021	*1*	*-*	*6*	*67.65*	*0.56*	*0.78*	*0.05*	*35*	*1.31*	*1.32*	*1.01*	*0.24*	*12*	*3.90*	*0.52*	*17*	*0.73*	*0.78*	*50.53*

Analysis of annual results

Analysis of financial statements		Credit quality measures							Profitability measures										Efficiency measures	
Entity[28]	Survey year	Impaired asset expense $Million	Past due assets $Million	Gross impaired assets $Million	Individual provision for doubtful debts/ Gross impaired assets %	Collective provision/ Net loans and advances %	Total provision for doubtful debts/ Gross loans and advances %	Impaired asset expense/ Average gross loans and advances %	Total operating income $Million	Net interest income/ Average total assets %	Interest margin %	Interest spread %	Non-interest income/ Average total assets %	Net profit after tax $Million	Net profit after tax/ Average equity %	Net profit after tax/ Average total assets %	Underlying profit $Million	Underlying profit/ Average total assets %	Operating expenses*/ Average total assets %	Operating expenses*/ Operating income %
JPMorgan Chase Bank, N.A., New Zealand Banking Group	2022	2	-	-	n/a	10.97	10.97	20.65	16	0.84	0.85	0.84	(0.19)	1	n/a	0.04	1	0.06	0.52	79.80
	2021	*-*	*-*	*-*	*n/a*	*-*	*-*	*-*	*33*	*0.35*	*0.36*	*0.36*	*1.15*	*13*	*n/a*	*0.57*	*18*	*0.84*	*0.67*	*44.45*
Kiwibank Limited	2022	16	17	2	50.00	0.24	0.24	0.06	680	2.11	2.16	1.87	0.17	131	6.67	0.44	184	0.62	1.61	70.59
	2021	*(19)*	*16*	*1*	*100.00*	*0.21*	*0.21*	*(0.08)*	*577*	*1.97*	*2.02*	*1.78*	*0.18*	*126*	*7.65*	*0.47*	*199*	*0.74*	*1.48*	*68.80*
Kookmin Bank Auckland Branch	2022	(0)	-	-	n/a	0.07	0.07	(0.09)	17	2.36	2.42	2.43	0.19	9	98.53	1.38	13	1.92	0.69	26.98
	2021	*0*	*-*	*-*	*n/a*	*0.19*	*0.19*	*0.12*	*11*	*1.83*	*1.86*	*1.86*	*0.24*	*5*	*72.75*	*0.91*	*7*	*1.27*	*0.72*	*34.76*
MUFG Bank, Ltd., Auckland Branch	2022	3	-	-	n/a	0.07	0.07	0.08	62	0.51	0.57	0.62	0.45	35	12.83	0.54	44	0.68	0.22	23.35
	2021	*0*	*-*	*-*	*n/a*	*0.03*	*0.03*	*0.01*	*57*	*0.38*	*0.41*	*0.41*	*0.50*	*37*	*15.27*	*0.56*	*46*	*0.72*	*0.16*	*18.14*
Southland Building Society	2022	6	5	1	47.39	0.72	0.73	0.14	164	2.66	2.73	2.50	0.62	45	10.54	0.89	62	1.23	1.93	58.73
	2021	*5*	*7*	*1*	*40.72*	*0.99*	*1.01*	*0.11*	*151*	*2.44*	*2.50*	*2.17*	*0.66*	*41*	*11.43*	*0.84*	*57*	*1.17*	*1.84*	*59.16*
The Co-operative Bank Limited	2022	(0)	3	4	12.90	0.31	0.33	(0.00)	91	2.28	2.34	2.13	0.62	13	5.44	0.40	23	0.74	2.16	74.53
	2021	*(0)*	*5*	*7*	*11.79*	*0.35*	*0.38*	*(0.01)*	*87*	*2.22*	*2.26*	*1.96*	*0.63*	*16*	*7.36*	*0.51*	*27*	*0.89*	*1.96*	*69.01*
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	2022	(3)	-	16	3.68	0.03	0.05	(0.07)	120	0.94	0.95	0.94	0.70	36	163.77	0.50	52	0.71	0.97	59.07
	2021	*-*	*0*	*20*	*14.50*	*0.06*	*0.13*	*-*	*113*	*1.00*	*1.02*	*0.99*	*0.65*	*29*	*103.98*	*0.42*	*41*	*0.59*	*1.06*	*64.20*
TSB Bank Limited	2022	(8)	4	17	34.68	0.41	0.49	(0.12)	182	1.82	1.84	1.70	0.22	38	5.26	0.43	54	0.61	1.53	74.79
	2021	*(2)*	*1*	*23*	*31.44*	*0.58*	*0.69*	*(0.04)*	*162*	*1.69*	*1.71*	*1.48*	*0.22*	*43*	*6.10*	*0.51*	*64*	*0.76*	*1.18*	*61.72*
Westpac Banking Corporation – New Zealand Banking Group	2022	(27)	224	60	45.00	0.38	0.41	(0.03)	2,922	1.84	2.01	1.70	0.46	1,298	12.66	1.02	1,810	1.42	0.89	38.98
	2021	*(84)*	*242*	*109*	*63.30*	*0.44*	*0.51*	*(0.09)*	*2,550*	*1.77*	*1.90*	*1.68*	*0.42*	*1,057*	*10.98*	*0.91*	*1,535*	*1.32*	*0.95*	*43.10*
Banking sector total	**2022**	**146**	**1,184**	**1,024**	**29.35**	**0.45**	**0.50**	**0.03**	**16,428**	**1.97**	**2.10**	**1.86**	**0.50**	**7,185**	**13.40**	**1.08**	**10,116**	**1.52**	**0.93**	**37.53**
	2021	***(213)***	***969***	***1,425***	***28.16***	***0.46***	***0.53***	***(0.04)***	***14,430***	***1.87***	***1.97***	***1.79***	***0.46***	***6,127***	***12.49***	***0.99***	***8,729***	***1.41***	***0.95***	***40.98***

* Operating expenses = Total expenses - Interest expense - Loan write offs and bad debts - Abnormal expenses
n/a = not applicable or not available

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Analysis of annual results

Balance sheet breakdown		Assets ($Million)								
Entity[28]	Reporting date	Cash on hand, money at call and balances with other banks	Trading, investment securities, investments in subsidiaries and investment properties	Derivative financial instruments	Loans and advances (less provisions)	Balances with related parties	Fixed assets	Intangibles	Other assets	Total assets
2022										
Australia and New Zealand Banking Group Limited – ANZ New Zealand	30/09/22	14,728	18,585	6,925	147,373	8,933	450	3,099	1,346	201,439
Bank of Baroda (New Zealand) Limited	31/03/22	19	-	-	123	2	1	-	1	146
Bank of China New Zealand Banking Group	31/12/21	756	96	7	4,508	-	4	0	18	5,388
Bank of India (New Zealand) Limited	31/03/22	41	-	-	108	1	1	-	0	151
Bank of New Zealand	30/09/22	12,767	7,414	9,540	99,346	210	428	409	1,306	131,420
China Construction Bank Corporation New Zealand Banking Group	31/12/21	808	83	38	3,412	24	6	0	6	4,376
Citibank, N.A. New Zealand Branch	31/12/21	1,203	487	-	231	551	1	-	2	2,474
Commonwealth Bank of Australia New Zealand Operations	30/06/22	6,948	7,601	645	108,276	1,065	354	478	471	125,838
Coöperatieve Rabobank U.A. New Zealand Banking Group	31/12/21	773	568	18	14,793	1,498	12	1	88	17,751
Heartland Bank Limited	30/06/22	221	276	44	4,483	2	21	58	49	5,155
Industrial and Commercial Bank of China New Zealand Banking Group	31/12/21	440	194	2	2,569	207	8	0	14	3,435
JPMorgan Chase Bank, N.A., New Zealand Banking Group	31/12/21	701	1,565	-	15	281	0	-	14	2,576

Analysis of annual results

Balance sheet breakdown		Assets ($Million)								
Entity[28]	Reporting date	Cash on hand, money at call and balances with other banks	Trading, investment securities, investments in subsidiaries and investment properties	Derivative financial instruments	Loans and advances (less provisions)	Balances with related parties	Fixed assets	Intangibles	Other assets	Total assets
2022										
Kiwibank Limited	30/06/22	1,660	1,431	477	27,751	-	142	35	51	**31,547**
Kookmin Bank Auckland Branch	31/12/21	26	-	-	499	212	4	-	0	**741**
MUFG Bank, Ltd., Auckland Branch	31/03/22	929	359	60	4,225	845	1	-	9	**6,428**
Southland Building Society	31/03/22	151	495	64	4,403	(3)	44	10	55	**5,220**
The Co-operative Bank Limited	31/03/22	384	8	47	2,696	-	33	10	20	**3,198**
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	31/12/21	1,930	460	8	4,393	678	29	18	24	**7,540**
TSB Bank Limited	31/03/22	714	1,459	65	6,667	-	32	1	21	**8,960**
Westpac Banking Corporation – New Zealand Banking Group	30/09/22	11,249	9,124	9,383	97,392	6,609	402	834	787	**135,780**
Banking sector total		**56,446**	**50,205**	**27,324**	**533,263**	**21,115**	**1,973**	**4,954**	**4,282**	**699,563**

Analysis of annual results

Balance sheet breakdown		Liabilities ($Million)								Equity ($Million)				
Entity[28]	Reporting date	Customer deposits	Balances with other banks and money market deposits	Debt securities	Derivative financial instruments	Balances with related parties	Sub-ordinated debt	Other liabilities	Total liabilities	Share capital – ordinary shares	Head office account	Other equity/ Cash flow hedge reserves	Retained earnings	Total equity
2022														
Australia and New Zealand Banking Group Limited – ANZ New Zealand	30/09/22	130,329	10,604	22,253	4,848	12,890	2,521	1,972	**185,417**	11,044	11	598	4,369	**16,022**
Bank of Baroda (New Zealand) Limited	31/03/22	92	-	-	-	1	-	2	**95**	40	-	-	11	**51**
Bank of China New Zealand Banking Group	31/12/21	804	942	370	7	2,930	-	31	**5,083**	223	16	(0)	67	**306**
Bank of India (New Zealand) Limited	31/03/22	13	-	-	-	78	-	1	**92**	50	-	-	9	**59**
Bank of New Zealand	30/09/22	74,205	7,294	24,130	8,228	4,110	-	2,392	**120,359**	4,056	-	296	6,709	**11,061**
China Construction Bank Corporation New Zealand Banking Group	31/12/21	415	569	1,138	41	1,906	-	19	**4,089**	199	24	(0)	64	**287**
Citibank, N.A. New Zealand Branch	31/12/21	1,288	8	-	-	1,018	-	10	**2,324**	-	34	(0)	116	**150**
Commonwealth Bank of Australia New Zealand Operations	30/06/22	76,198	4,883	24,623	431	4,547	4,282	944	**115,908**	5,447	462	225	3,796	**9,930**
Coöperatieve Rabobank U.A. New Zealand Banking Group	31/12/21	5,543	-	2,642	35	7,136	-	54	**15,411**	551	379	(4)	1,415	**2,340**
Heartland Bank Limited	30/06/22	3,597	10	739	6	2	-	93	**4,447**	553	-	6	148	**708**
Industrial and Commercial Bank of China New Zealand Banking Group	31/12/21	601	0	794	5	1,636	-	29	**3,065**	234	88	48	-	**370**
JPMorgan Chase Bank, N.A., New Zealand Banking Group	31/12/21	319	-	592	-	1,638	-	27	**2,576**	-	-	-	-	**-**

Analysis of annual results

Balance sheet breakdown		Liabilities ($Million)								Equity ($Million)				
Entity[28]	Reporting date	Customer deposits	Balances with other banks and money market deposits	Debt securities	Derivative financial instruments	Balances with related parties	Sub-ordinated debt	Other liabilities	Total liabilities	Share capital – ordinary shares	Head office account	Other equity/ Cash flow hedge reserves	Retained earnings	Total equity
2022														
Kiwibank Limited	30/06/22	24,131	1,839	2,570	207	94	250	254	29,345	983	-	391	1,074	2,202
Kookmin Bank Auckland Branch	31/12/21	239	211	-	-	273	-	6	729	-	12	-	-	12
MUFG Bank, Ltd., Auckland Branch	31/03/22	2,303	-	-	100	3,720	-	19	6,141	-	83	(4)	207	287
Southland Building Society	31/03/22	3,469	601	494	5	-	105	82	4,757	-	-	32	431	463
The Co-operative Bank Limited	31/03/22	2,691	-	196	10	-	-	55	2,951	-	-	14	232	246
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	31/12/21	4,978	302	600	9	1,578	-	60	7,527	-	17	(4)	-	13
TSB Bank Limited	31/03/22	8,180	-	-	6	-	-	51	8,237	10	-	(1)	714	723
Westpac Banking Corporation – New Zealand Banking Group	30/09/22	77,909	724	22,872	6,777	8,292	2,576	6,326	125,476	6,045	2,624	138	1,497	10,304
Banking sector total		**417,304**	**27,988**	**104,013**	**20,715**	**51,849**	**9,734**	**12,426**	**644,030**	**29,435**	**3,749**	**1,737**	**20,859**	**55,533**

Analysis of annual results

Balance sheet breakdown		Assets ($Million)								
Entity[28]	Reporting date	Cash on hand, money at call and balances with other banks	Trading, investment securities, investments in subsidiaries and investment properties	Derivative financial instruments	Loans and advances (less provisions)	Balances with related parties	Fixed assets	Intangibles	Other assets	Total assets
2021										
Australia and New Zealand Banking Group Limited – ANZ New Zealand	30/09/21	8,466	21,511	3,952	141,074	5,524	509	3,091	945	**185,072**
Bank of Baroda (New Zealand) Limited	31/03/21	20	-	-	125	0	2	-	1	**148**
Bank of China New Zealand Banking Group	31/12/20	772	162	8	3,923	71	6	0	25	**4,966**
Bank of India (New Zealand) Limited	31/03/21	9	-	-	90	2	1	-	0	**102**
Bank of New Zealand	30/09/21	10,531	7,348	2,691	94,721	1,892	466	293	1,180	**119,122**
China Construction Bank Corporation New Zealand Banking Group	31/12/20	531	33	26	2,713	1	2	0	6	**3,311**
Citibank, N.A. New Zealand Branch	31/12/20	1,232	542	-	394	35	1	-	5	**2,208**
Commonwealth Bank of Australia New Zealand Operations	30/06/21	2,972	10,973	567	102,566	2,292	413	453	574	**120,810**
Coöperatieve Rabobank U.A. New Zealand Banking Group	31/12/20	531	676	21	14,157	1,992	9	2	104	**17,494**
Heartland Bank Limited	30/06/21	113	359	14	3,815	0	24	53	41	**4,419**
Industrial and Commercial Bank of China New Zealand Banking Group	31/12/20	211	197	8	1,748	118	9	0	11	**2,302**
JPMorgan Chase Bank, N.A., New Zealand Banking Group	31/12/20	428	1,882	-	1	(7)	0	-	81	**2,385**

Analysis of annual results

Balance sheet breakdown		Assets ($Million)								
Entity[28]	Reporting date	Cash on hand, money at call and balances with other banks	Trading, investment securities, investments in subsidiaries and investment properties	Derivative financial instruments	Loans and advances (less provisions)	Balances with related parties	Fixed assets	Intangibles	Other assets	Total assets
2021										
Kiwibank Limited	30/06/21	741	1,704	228	25,207	77	161	50	61	**28,229**
Kookmin Bank Auckland Branch	31/12/20	22	-	-	401	169	5	-	0	**597**
MUFG Bank, Ltd., Auckland Branch	31/03/21	1,210	456	78	4,046	652	1	-	17	**6,460**
Southland Building Society	31/03/21	118	562	13	4,036	5	43	10	45	**4,832**
The Co-operative Bank Limited	31/03/21	347	8	8	2,698	-	35	11	16	**3,122**
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	31/12/20	1,428	529	10	4,094	959	28	19	19	**7,086**
TSB Bank Limited	31/03/21	438	1,939	11	6,334	-	33	22	12	**8,789**
Westpac Banking Corporation – New Zealand Banking Group	30/09/21	8,811	9,215	3,852	93,025	1,739	410	721	2,075	**119,848**
Banking sector total		**38,930**	**58,096**	**11,487**	**505,167**	**15,521**	**2,159**	**4,725**	**5,217**	**641,303**

Analysis of annual results

Balance sheet breakdown		Liabilities ($Million)								Equity ($Million)				
Entity[28]	Reporting date	Customer deposits	Balances with other banks and money market deposits	Debt securities	Derivative financial instruments	Balances with related parties	Sub-ordinated debt	Other liabilities	Total liabilities	Share capital – ordinary shares	Head office account	Other equity/ Cash flow hedge reserves	Retained earnings	Total equity
2021														
Australia and New Zealand Banking Group Limited – ANZ New Zealand	30/09/21	125,129	4,990	24,776	2,708	8,262	2,105	2,026	**169,996**	11,044	11	70	3,951	**15,076**
Bank of Baroda (New Zealand) Limited	31/03/21	95	-	-	-	1	-	3	**98**	40	-	-	10	**50**
Bank of China New Zealand Banking Group	31/12/20	862	877	530	15	2,377	-	30	**4,690**	223	6	1	46	**277**
Bank of India (New Zealand) Limited	31/03/21	16	-	-	-	29	-	1	**45**	50	-	-	6	**56**
Bank of New Zealand	30/09/21	71,244	5,388	24,382	1,837	4,608	-	1,782	**109,241**	4,056	-	20	5,805	**9,881**
China Construction Bank Corporation New Zealand Banking Group	31/12/20	420	503	1,074	126	925	-	10	**3,059**	199	11	0	42	**252**
Citibank, N.A. New Zealand Branch	31/12/20	1,306	3	-	-	707	-	8	**2,024**	-	34	0	150	**184**
Commonwealth Bank of Australia New Zealand Operations	30/06/21	69,748	3,560	25,990	151	4,252	6,987	886	**111,574**	3,167	2,887	(36)	3,218	**9,236**
Coöperatieve Rabobank U.A. New Zealand Banking Group	31/12/20	5,732	-	3,267	45	6,278	-	30	**15,352**	551	330	3	1,257	**2,142**
Heartland Bank Limited	30/06/21	3,220	40	463	5	3	-	47	**3,778**	553	-	1	88	**642**
Industrial and Commercial Bank of China New Zealand Banking Group	31/12/20	651	0	603	3	667	-	25	**1,949**	234	83	36	-	**353**
JPMorgan Chase Bank, N.A., New Zealand Banking Group	31/12/20	250	-	267	-	1,791	-	77	**2,385**	-	-	-	-	**-**

Analysis of annual results

Balance sheet breakdown		Liabilities ($Million)								Equity ($Million)				
Entity[28]	Reporting date	Customer deposits	Balances with other banks and money market deposits	Debt securities	Derivative financial instruments	Balances with related parties	Sub-ordinated debt	Other liabilities	Total liabilities	Share capital – ordinary shares	Head office account	Other equity/ Cash flow hedge reserves	Retained earnings	Total equity
2021														
Kiwibank Limited	30/06/21	22,121	718	2,544	195	284	415	228	26,505	737	-	20	967	1,724
Kookmin Bank Auckland Branch	31/12/20	259	70	-	-	257	-	5	590	-	7	-	-	7
MUFG Bank, Ltd., Auckland Branch	31/03/21	2,270	-	-	45	3,853	-	33	6,202	-	83	2	172	258
Southland Building Society	31/03/21	3,552	341	344	22	-	106	78	4,444	-	-	3	386	389
The Co-operative Bank Limited	31/03/21	2,591	-	245	13	-	-	50	2,899	-	-	4	219	223
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	31/12/20	4,451	374	900	65	1,213	-	52	7,054	-	22	9	-	31
TSB Bank Limited	31/03/21	7,999	-	-	10	-	-	55	8,063	10	-	12	703	726
Westpac Banking Corporation – New Zealand Banking Group	30/09/21	75,917	320	19,754	2,620	2,410	2,988	5,635	109,644	488	2,487	3	7,226	10,204
Banking sector total		**397,831**	**17,184**	**105,139**	**7,860**	**37,917**	**12,601**	**11,061**	**589,593**	**21,352**	**5,962**	**149**	**24,247**	**51,710**

Major banks – Quarterly analysis

Size & strength measures

Entity[29]	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22
Total assets ($Million)								
ANZ	186,404	183,811	187,064	185,072	190,636	190,720	193,335	201,439
ASB	117,967	121,115	120,810	120,230	121,030	123,365	125,838	128,437
bnz	117,287	114,314	118,549	119,122	123,038	124,060	126,852	131,420
Heartland Bank	4,358	4,297	4,419	4,484	4,703	4,857	5,159	5,264
Kiwibank	27,283	27,546	28,230	29,379	30,970	30,589	31,548	32,017
sbs	4,839	4,832	4,789	4,889	5,024	5,220	5,421	5,519
TSB	8,761	8,789	8,725	8,780	8,934	8,961	8,925	8,942
The Co-operative Bank	3,064	3,122	3,171	3,194	3,239	3,194	3,189	3,261
Westpac	117,160	114,726	116,786	119,848	122,382	125,026	129,385	135,780
Total	587,123	582,552	592,543	594,998	609,954	615,991	629,652	652,078
Increase in gross loans and advances (%)								
ANZ	1.51	2.00	1.41	0.93	1.81	1.91	0.75	-0.03
ASB	2.58	1.70	2.79	1.94	0.88	1.31	1.28	0.79
bnz	1.43	2.07	2.78	1.64	2.19	0.92	1.07	0.65
Heartland Bank	0.72	0.78	3.11	2.54	5.19	3.35	5.20	1.83
Kiwibank	3.86	3.16	2.51	3.49	3.87	0.85	1.27	1.84
sbs	-1.10	0.01	0.23	2.00	3.78	2.59	2.82	3.87
TSB	0.81	2.09	2.32	1.53	1.70	-0.49	-0.23	1.96
The Co-operative Bank	2.83	1.61	2.05	-0.13	-1.36	-0.65	2.03	2.70
Westpac	1.34	1.40	2.13	0.15	0.81	0.65	1.40	1.65
Average	1.78	1.86	2.20	1.30	1.63	1.25	1.13	0.81

Entity[29]	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22
Capital adequacy (%)								
ANZ[60]	15.00	15.90	15.50	16.90	16.40	15.10	15.60	16.40
ASB[60]	13.90	14.80	15.10	14.50	14.60	13.40	15.00	15.00
bnz	15.50	16.00	16.50	16.90	16.40	15.30	15.00	15.40
Heartland Bank	14.00	14.40	13.90	14.00	14.00	13.10	13.50	12.90
Kiwibank	13.30	13.20	13.20	12.80	13.70	13.80	13.60	13.60
sbs	15.20	15.70	16.20	16.30	16.00	15.40	15.00	14.60
TSB	15.10	15.00	14.20	14.10	13.70	13.50	13.60	13.40
The Co-operative Bank	17.00	16.90	16.80	16.10	16.90	17.00	16.60	16.70
Westpac[60]	17.60	18.20	18.80	18.60	19.00	14.50	14.80	13.90
Net profit ($Million)								
ANZ	367	563	487	503	496	600	620	583
ASB	321	348	317	367	382	349	356	438
bnz	303	357	318	344	356	353	377	328
Heartland Bank	12	18	20	20	21	19	30	17
Kiwibank	31	40	31	32	32	36	32	55
sbs	12	12	13	11	10	11	8	10
TSB	11	11	13	12	9	5	13	7
The Co-operative Bank	5	4	4	5	4	-1	3	4
Westpac	300	290	249	219	305	373	290	331
Total	1,361	1,643	1,452	1,512	1,614	1,744	1,728	1,773

Major banks – Quarterly analysis

Profitability measures

Entity[29]	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22
Interest margin (%)								
ANZ	1.90	2.10	2.10	2.00	2.00	2.10	2.20	2.30
ASB	1.90	2.10	2.00	2.00	2.10	2.10	2.20	2.50
bnz	2.00	2.10	2.00	2.00	2.00	2.10	2.20	2.40
Heartland Bank	4.60	4.80	4.90	4.80	4.50	4.30	4.60	4.10
Kiwi bank.	2.00	2.10	2.10	2.10	2.00	2.10	2.30	2.40
sbs	2.50	2.70	2.90	2.80	2.70	2.60	2.60	2.60
TSB	1.70	1.80	1.80	1.80	1.90	1.90	2.10	2.10
The Co-operative Bank	2.30	2.40	2.40	2.30	2.20	2.30	2.50	2.70
Westpac	2.00	2.00	2.00	1.90	2.00	2.00	2.10	2.20
Non-interest income/Total assets (%)								
ANZ	0.18	0.53	0.40	0.53	0.54	0.65	0.71	0.43
ASB	0.54	0.56	0.55	0.67	0.48	0.53	0.55	0.51
bnz	0.42	0.72	0.50	0.66	0.61	0.51	0.53	0.39
Heartland Bank	0.42	0.32	0.39	0.39	0.33	0.29	0.45	0.18
Kiwi bank.	0.27	0.26	0.15	0.22	0.19	0.09	0.32	0.45
sbs	0.82	0.65	0.74	0.71	0.66	0.49	0.83	0.85
TSB	0.22	0.20	0.22	0.28	0.19	0.21	0.67	0.37
The Co-operative Bank	0.60	0.58	0.62	0.65	0.57	0.60	0.43	0.53
Westpac	0.28	0.48	0.33	0.42	0.40	0.65	0.64	0.51
Average	0.34	0.55	0.43	0.54	0.49	0.56	0.61	0.45

Entity[29]	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22
Impaired asset expense/Average gross loans and advances (%)								
ANZ	-0.03	-0.17	-0.10	-0.03	-0.03	-0.03	0.03	0.13
ASB	-0.01	-0.06	-0.07	-0.04	-0.02	0.06	0.14	0.00
bnz	-0.13	0.04	-0.06	-0.07	-0.03	0.14	0.00	0.26
Heartland Bank	0.44	0.52	0.54	0.46	0.40	0.36	-0.37	0.37
Kiwi bank.	-0.03	0.01	-0.31	0.05	0.06	0.02	0.11	0.03
sbs	0.09	-0.13	0.06	0.28	0.22	0.03	0.31	0.24
TSB	0.03	-0.11	-0.12	-0.31	-0.04	-0.02	-0.05	-0.09
The Co-operative Bank	0.05	-0.30	0.06	-0.06	0.01	0.00	0.03	0.07
Westpac	-0.39	-0.05	0.04	0.02	-0.09	0.03	-0.02	-0.03
Average	-0.11	-0.07	-0.06	-0.02	-0.03	0.04	0.04	0.09
Operating expenses/Operating income (%)								
ANZ	44.39	34.29	38.88	39.25	39.19	32.19	32.76	32.08
ASB	36.97	37.66	44.62	37.77	32.43	37.51	38.03	34.68
bnz	39.83	32.75	38.23	39.02	35.31	29.70	34.67	37.28
Heartland Bank	61.61	43.47	42.93	42.53	43.40	42.00	39.29	48.91
Kiwi bank.	70.89	65.25	84.38	70.88	70.67	68.78	71.77	62.10
sbs	58.31	61.87	56.21	57.51	62.23	59.74	64.46	61.48
TSB	62.80	68.38	65.02	74.84	74.23	85.71	68.63	88.55
The Co-operative Bank	70.59	81.61	71.86	72.41	72.65	105.26	79.91	76.68
Westpac	45.34	41.67	44.98	49.95	41.15	38.40	43.00	40.05
Average	44.13	38.53	43.97	43.07	39.69	37.10	39.03	38.15

Major banks – Quarterly analysis

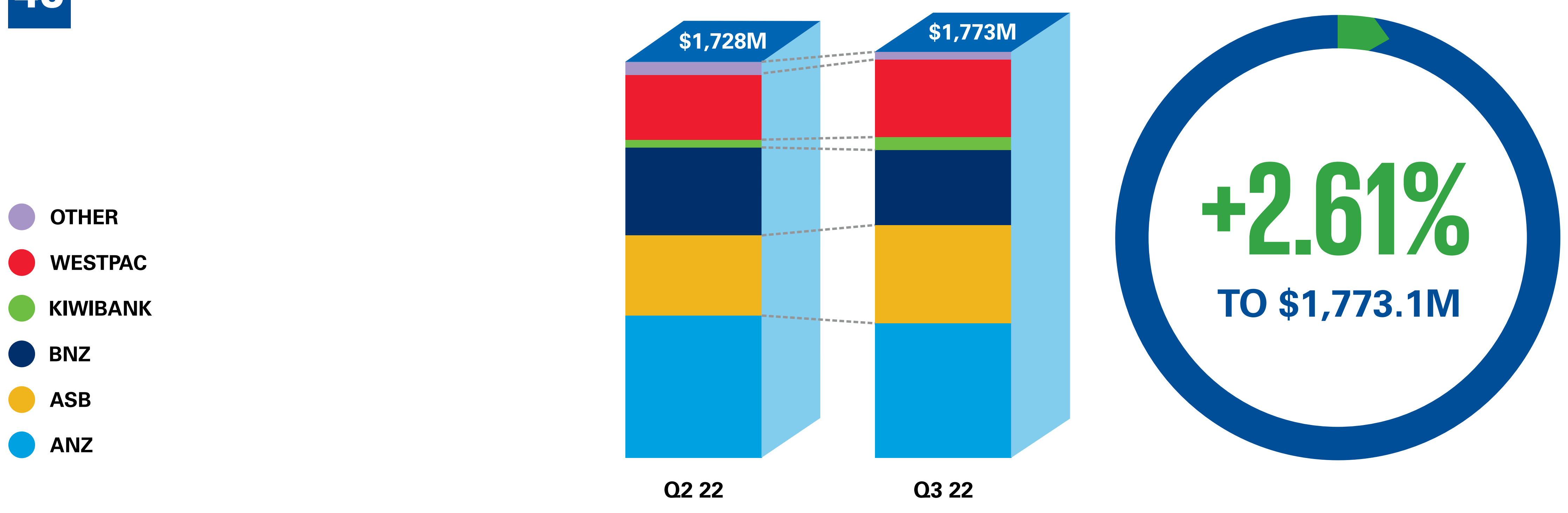
Q2 22–Q3 22 | Q1 22–Q3 22 | Q4 21–Q3 22 | Q3 21–Q3 22

HOVER over the button to see the movement in each quarter

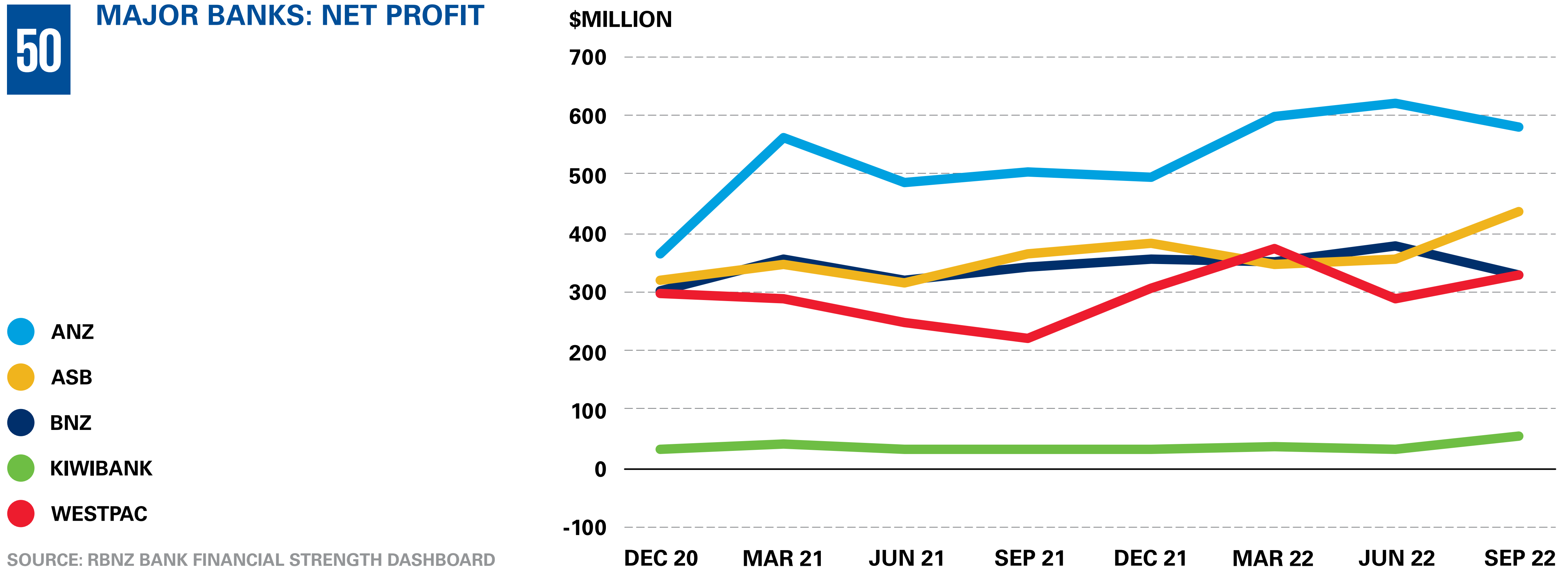
Q3 22 | Q3 21 | Q3 20 | Q3 19

HOVER over the button to see the results for each period

48 MAJOR BANKS: MOVEMENT IN NET PROFIT: BREAKDOWN

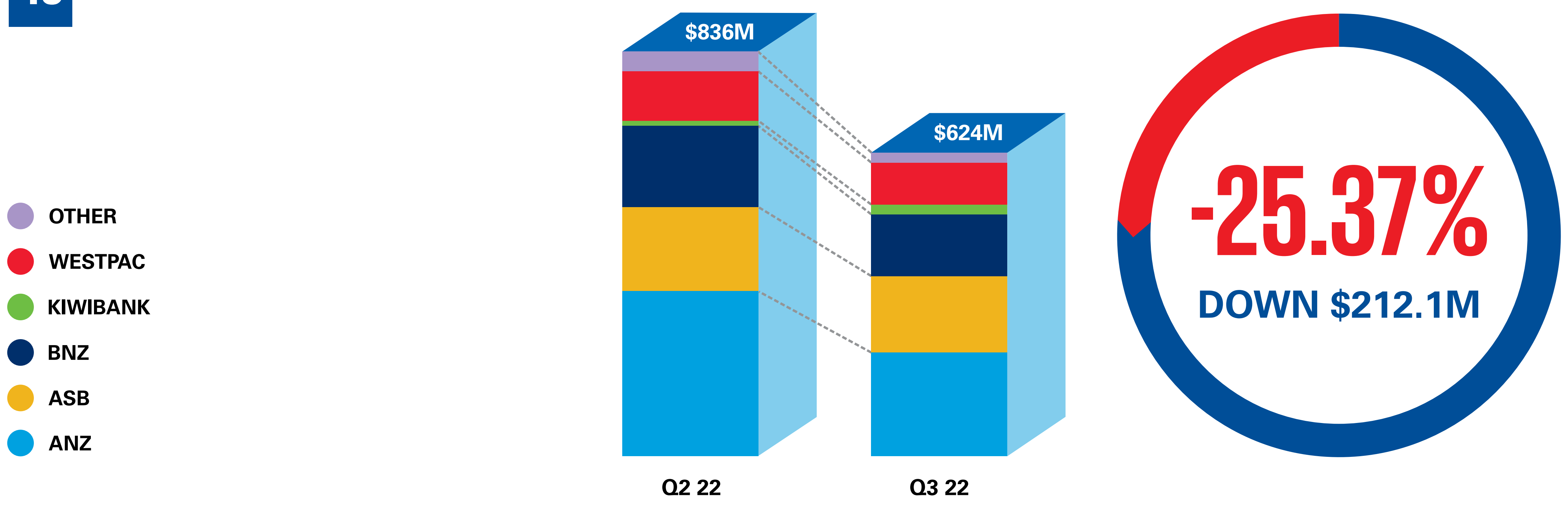


50 MAJOR BANKS: NET PROFIT

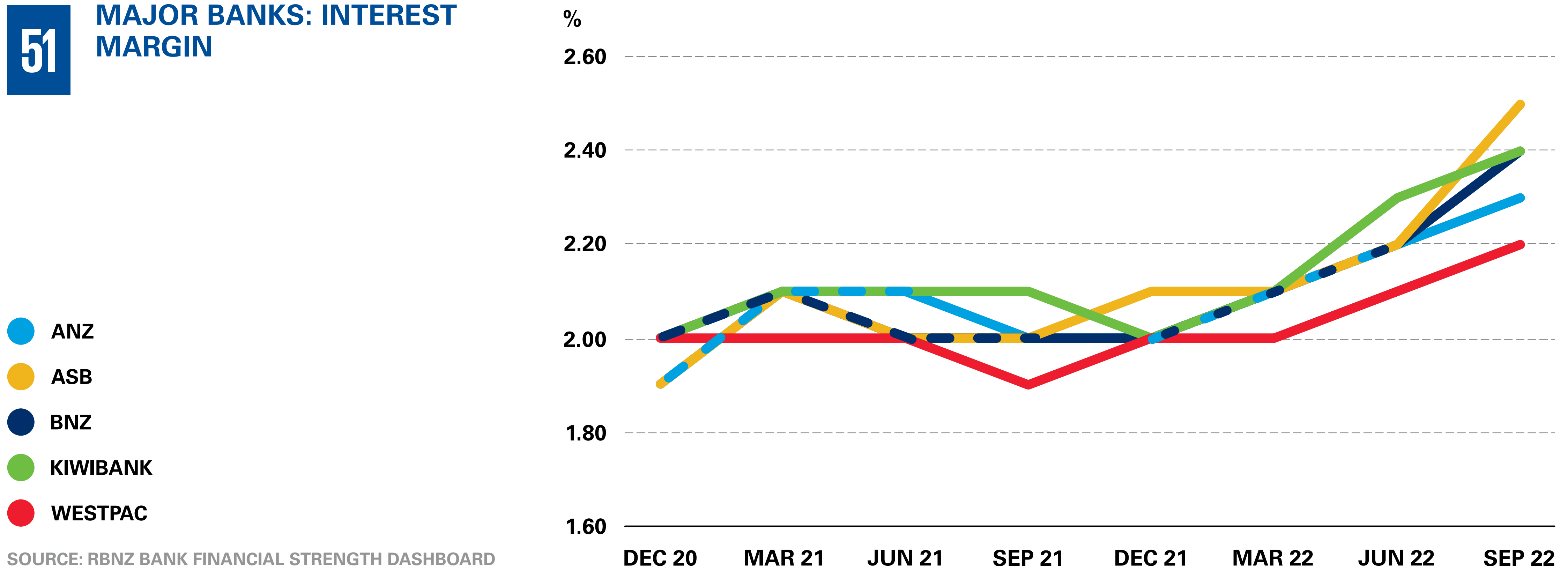


SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

49 MAJOR BANKS: NON-INTEREST INCOME



51 MAJOR BANKS: INTEREST MARGIN



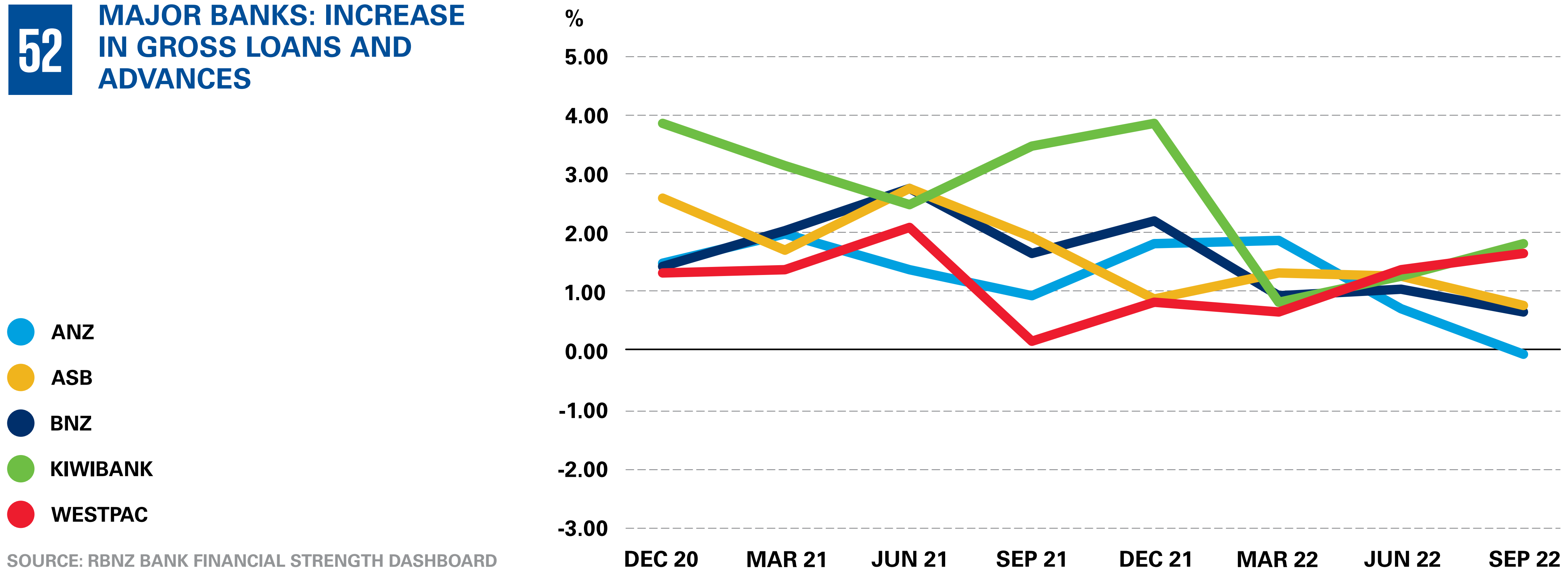
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

Major banks – Quarterly analysis

Q3 22 Q3 21 Q3 20 Q3 19

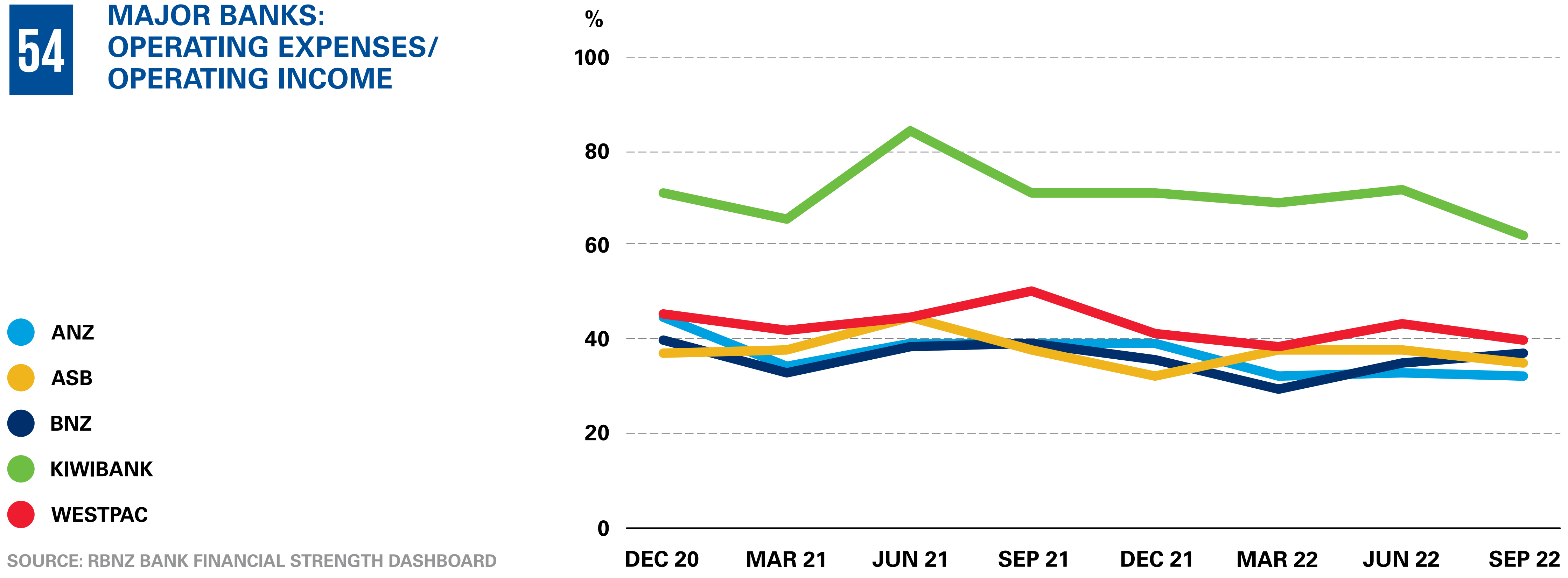
HOVER over the button to see the results for each period

52 MAJOR BANKS: INCREASE IN GROSS LOANS AND ADVANCES



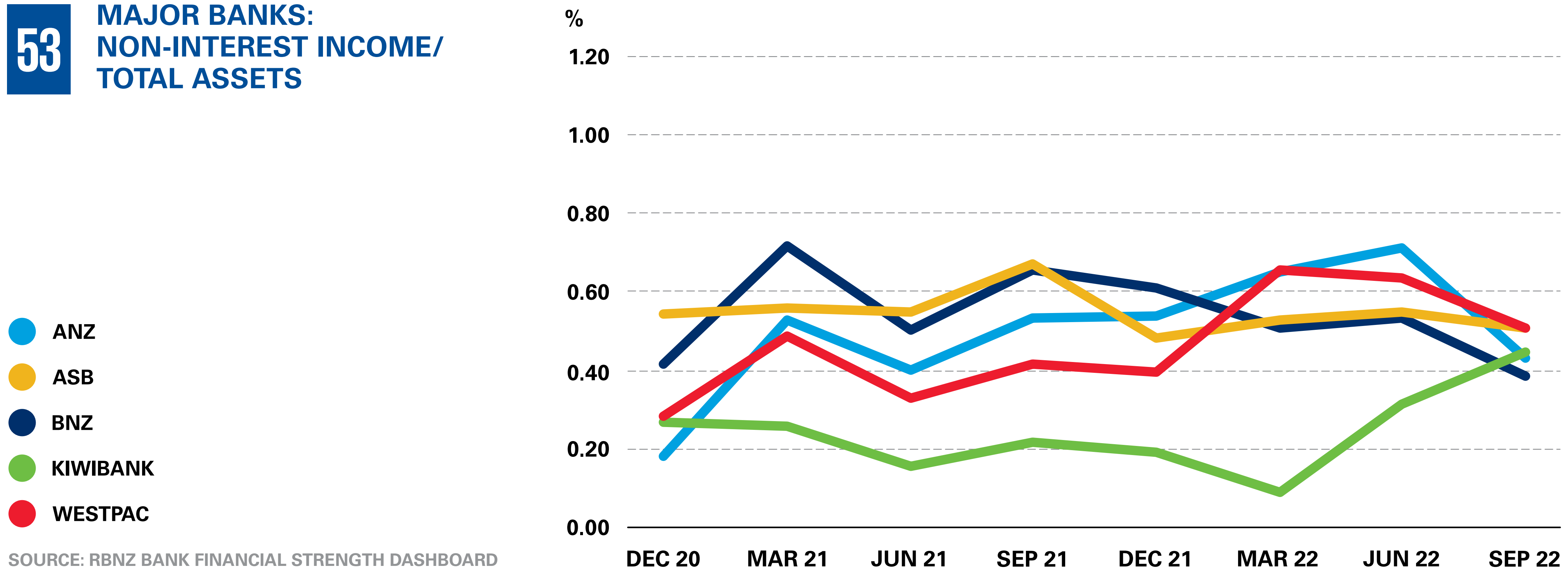
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

54 MAJOR BANKS: OPERATING EXPENSES/ OPERATING INCOME



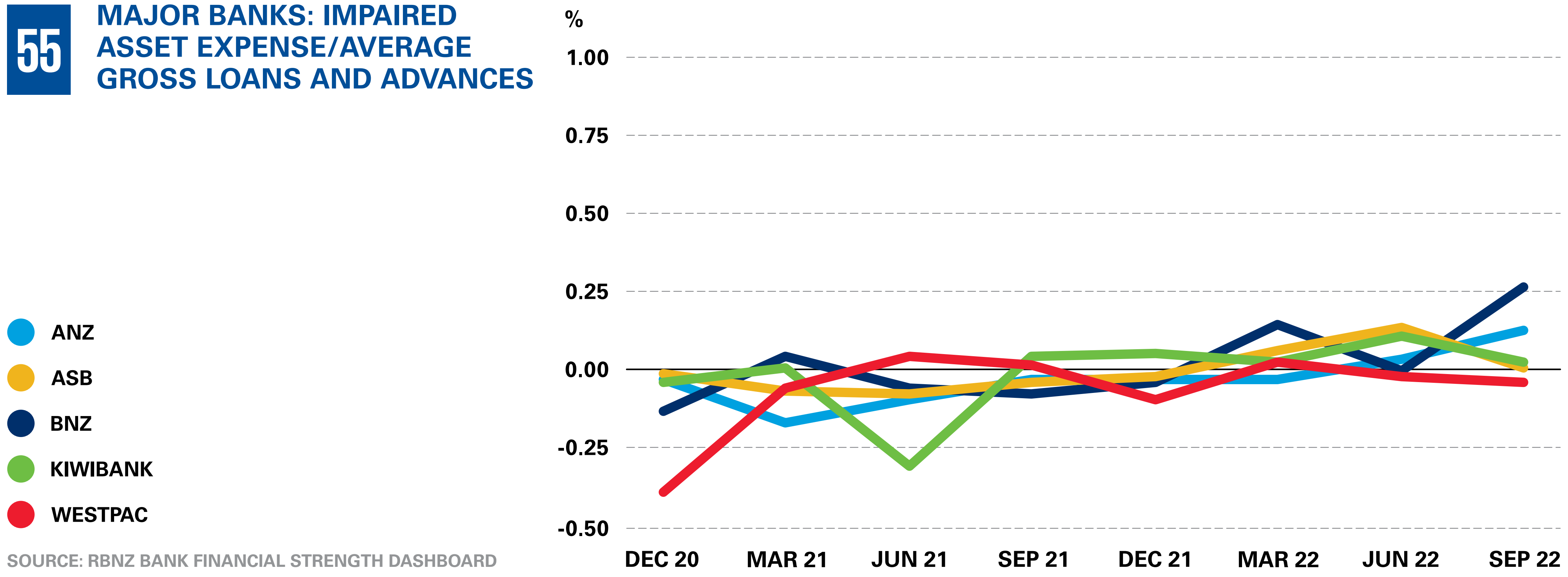
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

53 MAJOR BANKS: NON-INTEREST INCOME/ TOTAL ASSETS



SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

55 MAJOR BANKS: IMPAIRED ASSET EXPENSE/AVERAGE GROSS LOANS AND ADVANCES



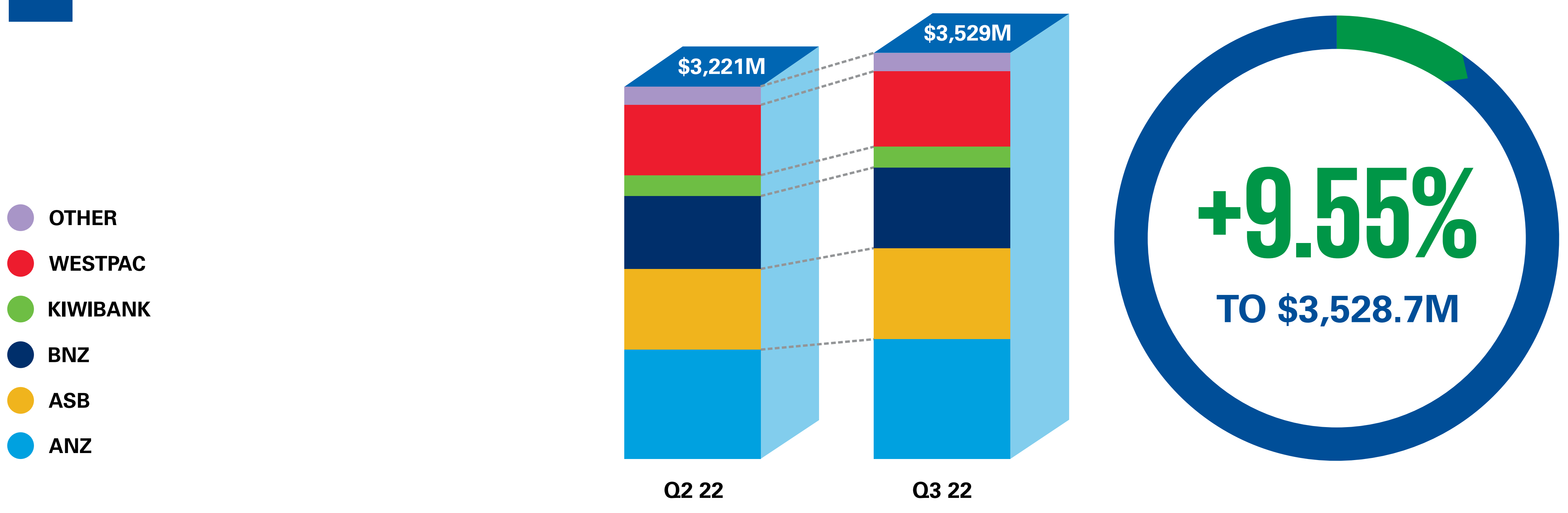
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

Major banks – Quarterly analysis

Q2 22–Q3 22 | Q1 22–Q3 22 | Q4 21–Q3 22 | Q3 21–Q3 22

HOVER over the button to see the movement in each quarter

56 MAJOR BANKS: NET INTEREST INCOME



57 MAJOR BANKS: OPERATING EXPENSES

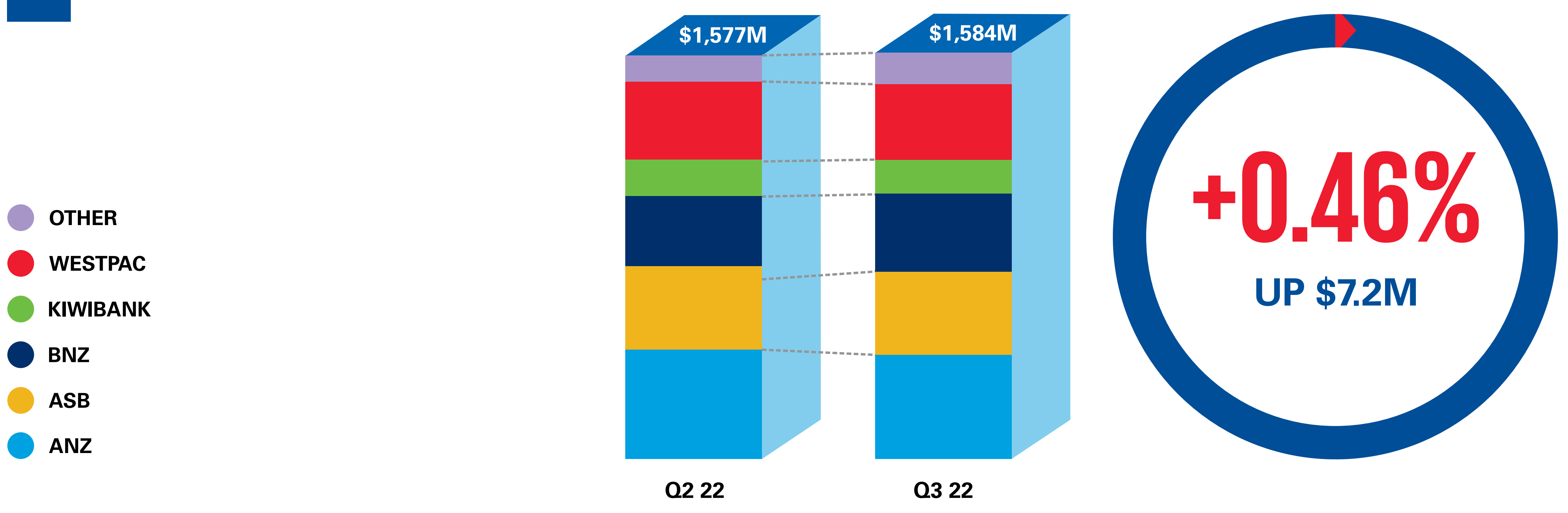
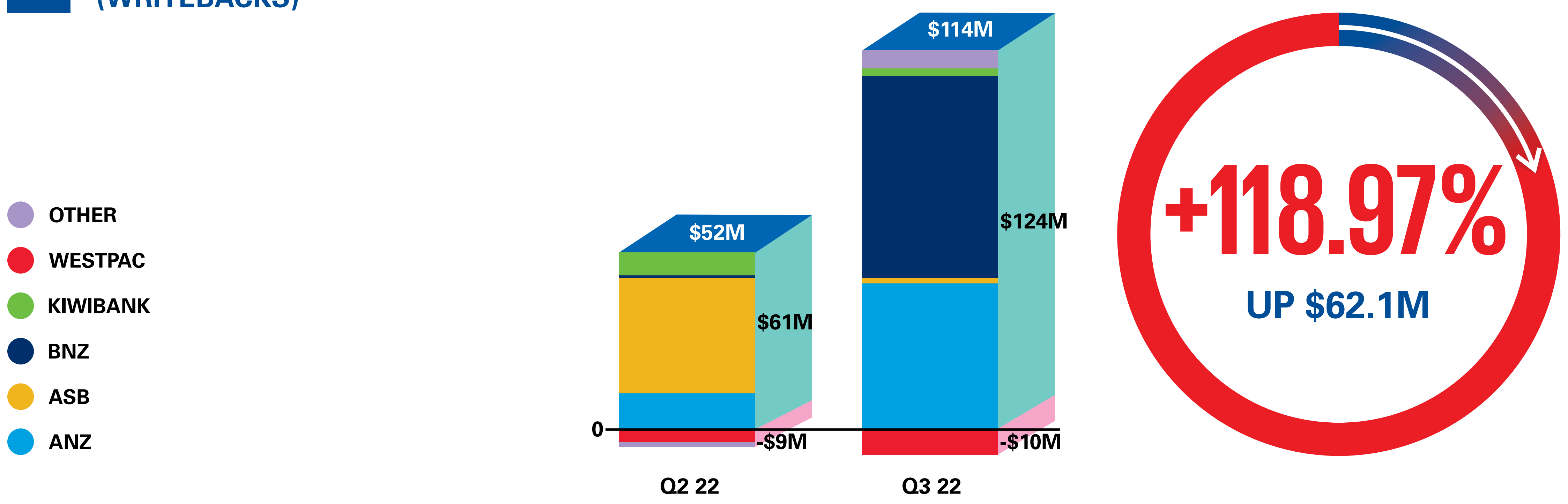


TABLE 11: Movement in interest margin

Entity[28]	Quarter ended 30 Sep 22 (%)	Mvmt. during the quarter (bps)	Mvmt. for the 6 months (bps)	Mvmt. for the 12 months (bps)
ANZ	2.3	10	20	30
ASB	2.5	30	40	50
bnz	2.4	20	30	40
Heartland Bank	4.1	-50	-20	-70
Kiwibank	2.4	10	30	30
sbs	2.6	0	0	-20
TSB	2.1	0	20	30
The Co-operative Bank	2.7	20	40	40
Westpac	2.2	10	20	30

58 MAJOR BANKS: IMPAIRED ASSET EXPENSES (WRITEBACKS)

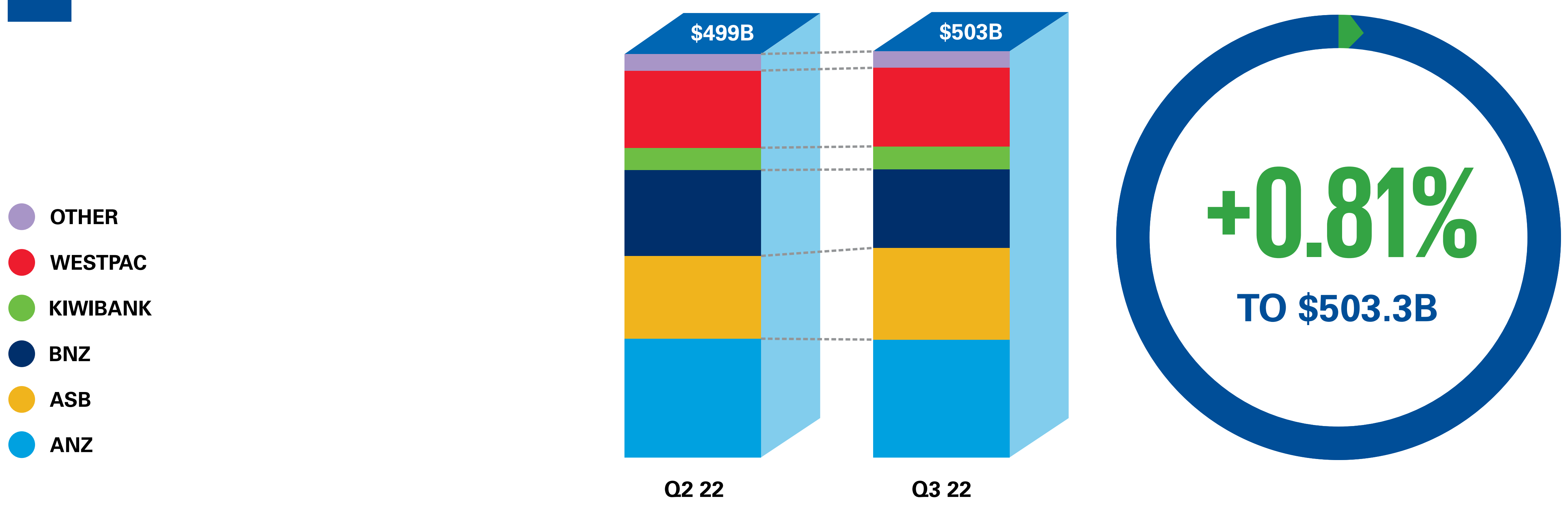


Major banks – Quarterly analysis

Q2 22–Q3 22 | Q1 22–Q3 22 | Q4 21–Q3 22 | Q3 21–Q3 22

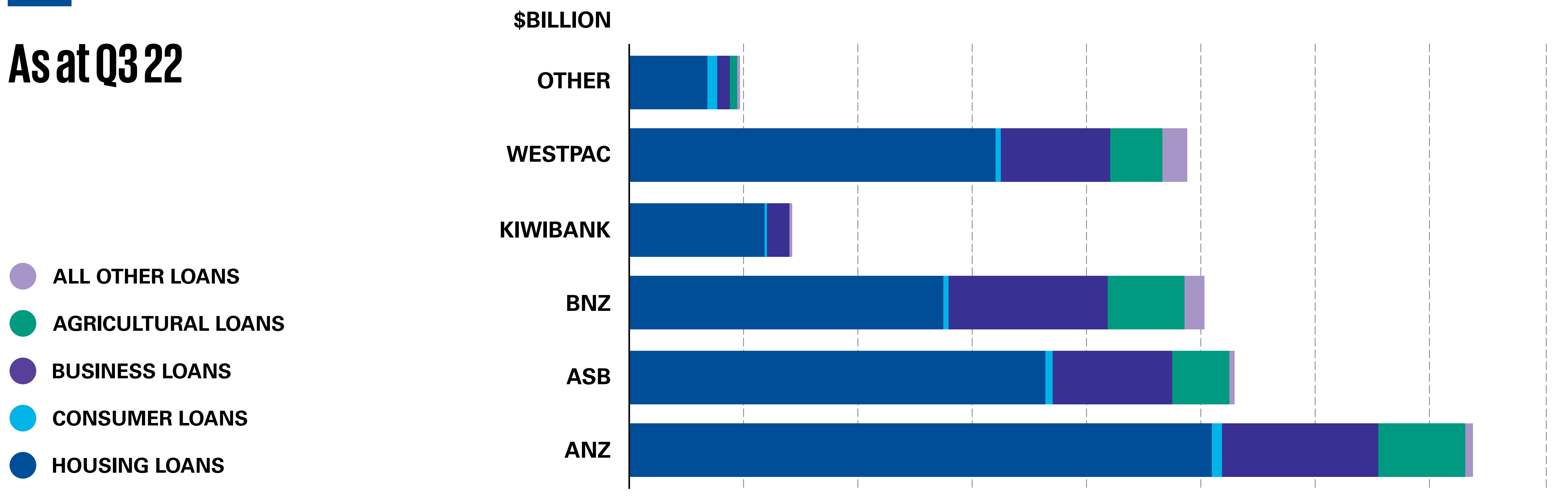
HOVER over the button to see the movement in each quarter

59 MAJOR BANKS: GROSS LOANS



60 MAJOR BANKS: GROSS LOANS BREAKDOWN BY BANK

As at Q3 22



SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

TABLE 12: Analysis of gross loans

Entity[28] Quarterly analysis	Quarter ended 30 Sep 22 $Million	Quarter ended 30 Jun 22 $Million	% Increase (Quarterly)
ANZ	148,019	148,068	-0.03%
ASB	109,699	108,835	0.79%
bnz	100,492	99,847	0.65%
HEARTLAND BANK	4,617	4,534	1.83%
Kiwi bank.	28,331	27,818	1.84%
sbs	4,734	4,558	3.87%
TSB	6,816	6,685	1.96%
The Co-operative Bank	2,834	2,759	2.70%
Westpac	97,792	96,200	1.65%
Total	503,333	499,304	0.81%

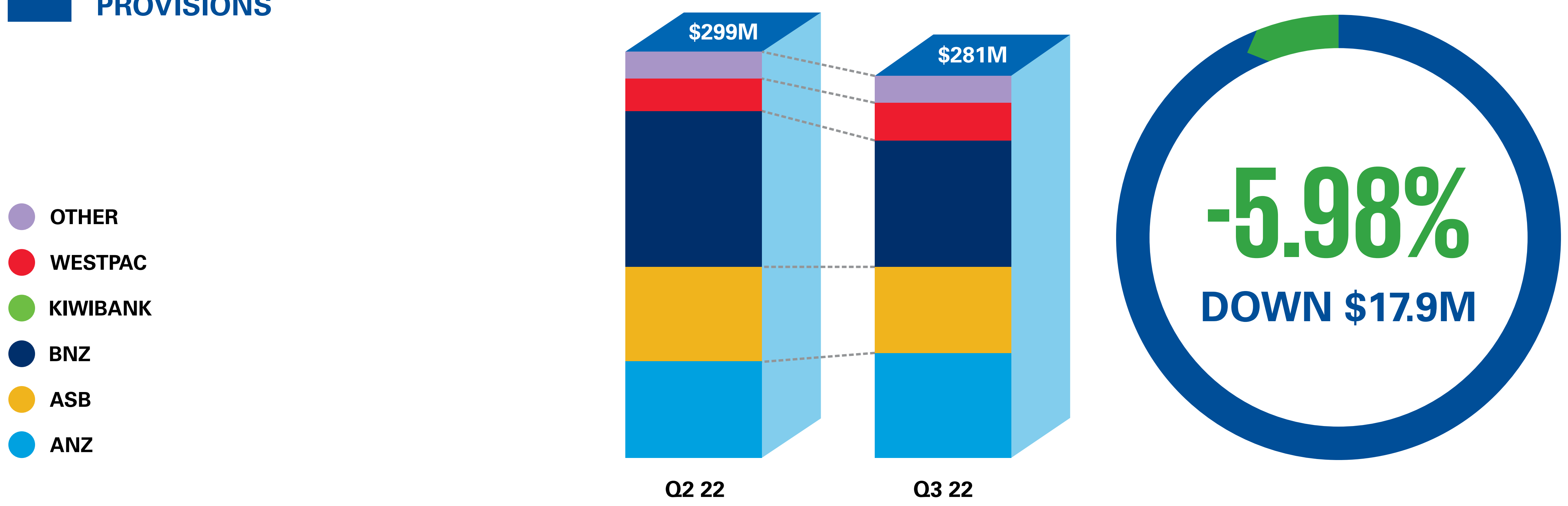
Entity[28] Annual analysis	Quarter ended 30 Sep 22 $Million	Quarter ended 30 Sep 21 $Million	% Increase (Annual)
ANZ	148,019	141,658	4.49%
ASB	109,699	105,132	4.34%
bnz	100,492	95,794	4.90%
HEARTLAND BANK	4,617	3,964	16.47%
Kiwi bank.	28,331	26,221	8.04%
sbs	4,734	4,164	13.70%
TSB	6,816	6,621	2.95%
The Co-operative Bank	2,834	2,760	2.68%
Westpac	97,792	93,501	4.59%
Total	503,333	479,815	4.90%

Major banks – Quarterly analysis

Q2 22–Q3 22 | Q1 22–Q3 22 | Q4 21–Q3 22 | Q3 21–Q3 22

HOVER over the button to see the movement in each quarter

61 MAJOR BANKS: INDIVIDUALLY ASSESSED PROVISIONS



62 MAJOR BANKS: COLLECTIVELY ASSESSED PROVISIONS

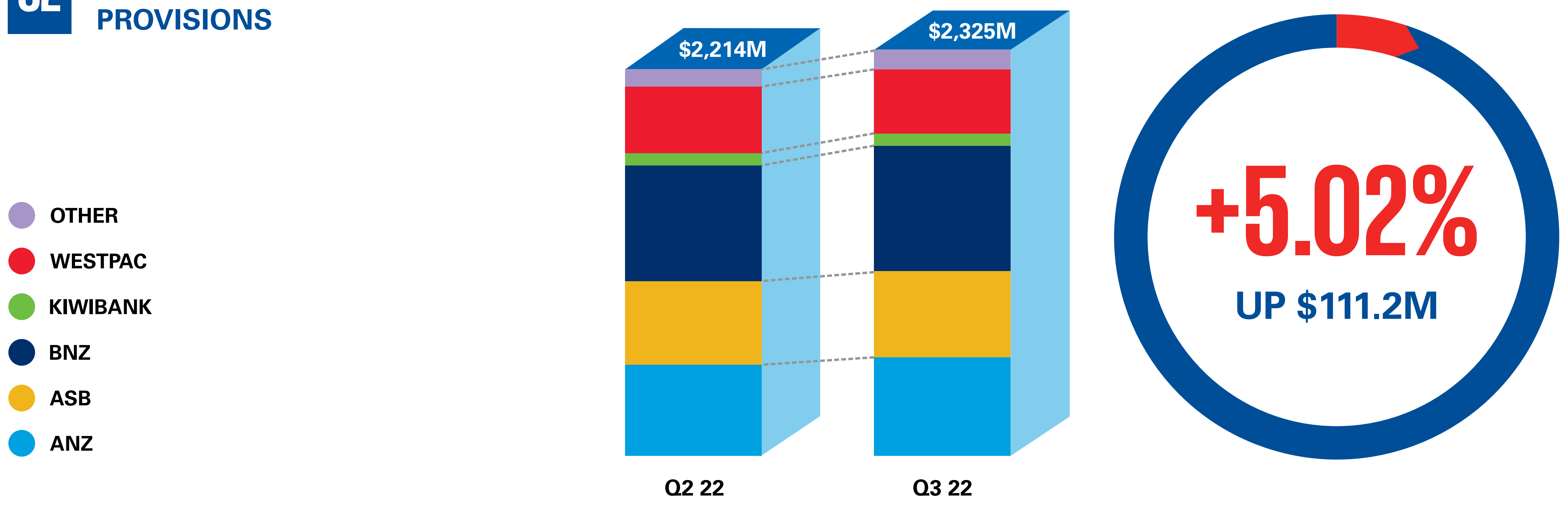


TABLE 13: Impaired asset expenses

	$Million		$Million
September 2022	$114.3	September 2021	-$29.2
June 2022	$52.2	June 2021	-$70.7
March 2022	$52.7	March 2021	-$76.6
December 2021	-$35.0	December 2020	-$126.0

TABLE 14: Movement in impaired asset expense/Average gross loans

Entity[28]	Quarter ended 30 Sep 22 (%)	Mvmt. during the quarter (bps)	Mvmt. for the 6 months (bps)	Mvmt. for the 12 months (bps)
ANZ	0.13%	10	16	16
ASB	0.00%	-14	-6	5
bnz	0.26%	26	12	34
HEARTLAND BANK	0.37%	74	1	-9
Kiwi bank.	0.03%	-8	1	-2
sbs	0.24%	-7	21	-4
TSB	-0.09%	-4	-7	22
The Co-operative Bank	0.07%	4	7	13
Westpac	-0.03%	-1	-6	-5
Average	0.09%	5	5	11

Ownership
as at 31 December 2022

Registered banks	Ultimate shareholding	%
ANZ Bank New Zealand Limited	ANZ Group Holdings Limited	100
ASB Bank Limited	Commonwealth Bank of Australia	100
Australia and New Zealand Banking Group Limited – New Zealand Banking Group	ANZ Group Holdings Limited	100
Bank of Baroda (New Zealand) Limited	Bank of Baroda (India)	100
Bank of China (New Zealand) Limited	Bank of China Limited (China)	100
Bank of China New Zealand Banking Group	Bank of China Limited (China)	100
Bank of India (New Zealand) Limited	Bank of India Limited (India)	100
Bank of New Zealand	National Australia Bank Limited	100
China Construction Bank (New Zealand) Limited	China Construction Bank Corporation	100
China Construction Bank Corporation New Zealand Banking Group	China Construction Bank Corporation	100
Citibank, N.A. New Zealand Branch	Citigroup Inc.	100
Commonwealth Bank of Australia New Zealand Operations	Commonwealth Bank of Australia	100
Coöperatieve Rabobank U.A. New Zealand Banking Group	Coöperatieve Rabobank U.A.	100
Heartland Bank Limited	Heartland Group Holdings Limited	100
Industrial and Commercial Bank of China (New Zealand) Limited	Industrial and Commercial Bank of China Limited (China)	100
Industrial and Commercial Bank of China New Zealand Banking Group	Industrial and Commercial Bank of China Limited (China)	100
JPMorgan Chase Bank, N.A., New Zealand Banking Group	JPMorgan Chase & Co.	100
Kiwibank Limited	Various	100
Kookmin Bank Auckland Branch	KB Financial Group Inc.	100
MUFG Bank, Ltd., Auckland Branch	Mitsubishi UFJ Financial Group, Inc	100
Rabobank New Zealand Limited	Coöperatieve Rabobank U.A.	100
Southland Building Society	Mutual	100
The Co-operative Bank Limited	Mutual	100
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	HSBC Holdings plc	100
TSB Bank Limited	TSB Community Trust	100
Westpac Banking Corporation – New Zealand Banking Group	Westpac Banking Corporation	100
Westpac New Zealand Limited	Westpac Banking Corporation	100

Credit ratings

as at 31 December 2022

Registered banks	Standard & Poor's		Fitch Ratings		Moody's	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
ANZ Bank New Zealand Limited	AA-	Stable	A+	Stable	A1	Stable
ASB Bank Limited	AA-	Stable	A+	Stable	A1	Stable
Australia and New Zealand Banking Group Limited – New Zealand Banking Group[61]	AA-	Stable	A+	Stable	Aa3	Stable
Bank of Baroda (New Zealand) Limited	–	–	BBB-	Stable	–	–
Bank of China (New Zealand) Limited	A	Stable	–	–	A1	Stable
Bank of China New Zealand Banking Group[62]	A	Stable	A	Stable	A1	Stable
Bank of India (New Zealand) Limited	BB+	Stable	–	–	–	–
Bank of New Zealand	AA-	Stable	A+	Stable	A1	Stable
China Construction Bank (New Zealand) Limited	–	–	A	Stable	A1	Stable
China Construction Bank Corporation New Zealand Banking Group[63]	A	Stable	A	Stable	A1	Stable
Citibank, N.A. New Zealand Branch[64]	A+	Stable	A+	Stable	Aa3	Stable
Commonwealth Bank of Australia New Zealand Operations[65]	AA-	Stable	A+	Stable	Aa3	Stable
Coöperatieve Rabobank U.A. New Zealand Banking Group[66]	A+	Stable	A+	Stable	Aa2	Stable
Heartland Bank Limited	–	–	BBB	Stable	–	–
Industrial and Commercial Bank of China (New Zealand) Limited	A	Stable	–	–	A1	Stable
Industrial and Commercial Bank of China New Zealand Banking Group[67]	A	Stable	–	–	A1	Stable
JPMorgan Chase Bank, N.A., New Zealand Banking Group[68]	A+	Positive	AA	Stable	Aa2	Stable
Kiwibank Limited	–	–	AA	Stable	A1	Stable
Kookmin Bank Auckland Branch[69]	A+	Stable	A	Stable	Aa3	Stable
MUFG Bank, Ltd., Auckland Branch[70]	A	Stable	A-	Stable	A1	Stable
Rabobank New Zealand Limited	A	Stable	–	–	–	–
Southland Building Society	–	–	BBB	Positive	–	–
The Co-operative Bank Limited	–	–	BBB	Positive	–	–
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group[71]	AA-	Stable	AA-	Stable	Aa3	Stable
TSB Bank Limited	–	–	A-	Stable	–	–
Westpac Banking Corporation – New Zealand Banking Group[72]	AA-	Stable	A+	Stable	Aa3	Stable
Westpac New Zealand Limited	AA-	Stable	A+	Stable	A1	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.

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.
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.

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.

Terms and ratios used in this survey	Definitions used in this survey
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.

End notes

1. Our analysis of registered banks is from the view of the top geographic entity in New Zealand for each banking group and comprises 20 entities. The following entities hold a separate registered bank licence and are included within top level banking groups for the purposes of our analysis: ANZ Bank New Zealand Limited, ASB Bank Limited, Bank of China (New Zealand) Limited, China Construction Bank (New Zealand) Limited, Rabobank New Zealand Limited and Westpac New Zealand Limited.
2. https://www.stats.govt.nz/news/annual-inflation-remains-at-7-2-percent/
3. https://fisherfunds.co.nz/news-and-insights/what-if-rate-hikes-are-doing-more-harm-than-good
4. https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/monetary-policy-statements/2022/mps-nov-22/mpsnov22.pdf
5. https://www.rnz.co.nz/news/business/483499/higher-unemployment-rate-prompts-banks-to-lower-ocr-forecast
6. Reserve Bank raises Official Cash Rate to 4.75% from 4.25% | interest.co.nz
7. https://qv.co.nz/price-index/
8. https://www.interest.co.nz/charts/interest-rates/mortgage-rates
9. https://www.interest.co.nz/banking/117358/hsbc-reviewing-rbnz-proposals-would-require-it-quit-nz-retail-banking-or-incorporate
10. https://www.rbnz.govt.nz/about-us/responsibility-and-accountability/our-legislation/proposed-deposit-takers-act/dta-questions-and-answers
11. https://www.nzherald.co.nz/business/how-much-should-banks-pay-to-in-sure-your-money/67GFJVGPABFWPLLB-64BWLZSQQM/
12. https://www.cert.govt.nz/about/quarterly-report/quarter-three-cyber-security-insights-2022/
13. https://www.newshub.co.nz/home/money/2023/02/warning-as-major-new-scam-cons-new-zealand-investors-out-of-millions-in-just-a-few-weeks.html
14. The related articles are hyperlinked to provide the reader with the ability to access the respective news releases. Grey-coloured entries are timeline markers and are not hyperlinked.
15. https://www.interest.co.nz/public-policy/118348/pm-says-banks-not-demonstrating-social-license-repeatedly-making-very-high
16. https://www.newsroom.co.nz/taxing-banks-excessive-profits-be-careful-what-you-wish-for
17. https://www.nzherald.co.nz/business/anz-ceo-defends-record-profit-and-warns-of-dark-clouds-ahead/PFPRD-W7REG64SOLOVBX2ISAUXI/#:~:text=ANZ%20CEO%20Antonia%20Watson%20said,got%20%24200%20billion%20of%20assets.%22
18. https://www.westpac.co.nz/about-us/media/westpac-nz-removes-nine-lending-and-overdraft-fees/
19. https://www.nzba.org.nz/banking-information/banking-stats/banking-industry-facts-figures/#:~:text=Banks%20employ%20over%2027%2C000%20people,to%20over%2025%2C000%20employees%20nationwide.
20. https://www.1news.co.nz/2022/10/28/expert-explains-why-banks-making-big-profits-isnt-a-bad-thing/
21. ANZ latest bank to offer interest-free overdrafts to flood/cyclone victims, while ASB will charge just 0.01% | Stuff.co.nz
22. Emergency move to relax lending laws for flood, cyclone victims | Stuff.co.nz
23. https://www.nzherald.co.nz/business/anz-ceo-defends-record-profit-and-warns-of-dark-clouds-ahead/PFPRDW7REG64SOLOVBX2ISAUXI/
24. This is a summary; please see Part 7A of the Financial Markets Conduct Act 2013 to determine if you are a climate reporting entity.
25. See FMA initial monitoring approach.
26. Provision for credit impairment, expressed as a percentage of lending.
27. Difference between interest income and interest expense, expressed as a percentage of lending.
28. This data represents the top New Zealand level banking-licenced entity and is referred to using the name as per the entities respective disclosure statements.
29. This data represents the top New Zealand level banking-licenced entity and is referred to using the brand in common usage, and as per the RBNZ Bank Financial Strength Dashboard. ANZ represents Australia and New Zealand Banking Group Limited – ANZ New Zealand; ASB represents Commonwealth Bank of Australia New Zealand Operations; Heartland represents Heartland Bank Limited; SBS represents Southland Building Society (trading as 'SBS Bank'); TSB represents

TSB Bank Limited; Co-oRating of Parent, Cooperative Rabobank U.A. (Netherlands) - S&P's and Fitch represents The Co-operative Bank Limited; and Westpac represents Westpac Banking Corporation – New Zealand Banking Group.

30. https://www.interest.co.nz/banking/116192/reserve-bank-will-lift-all-restrictions-retail-banks-nz-paying-shareholders
31. https://www.rbnz.govt.nz/-/media/affb8d6c421e487f842ee54de3359907.ashx
32. Kiwibank's FUM only includes funds managed by entities in the Kiwibank Banking Group. Kiwibank Banking Group is part of Kiwi Group Holdings, which also has FUM in Kiwiwealth. Kiwiwealth's FUM is not included in Kiwibank's FUM presented above, as this balance has not been disclosed in the financial statements.
33. Green, Social, Sustainability and Sustainability-Linked
34. https://www.bloomberg.com/news/articles/2022-12-15/sustainable-debt-esg-markets-turn-frosty-in-2022?leadSource=uverify%20wall
35. https://assets.kpmg.com/content/dam/kpmg/nz/pdf/2022/03/fips-banks-interactive-2021-v2.pdf
36. https://www.kanganews.com/news/14541-auckland-council-reaps-euro-pricing-benefit-from-regular-issuer-status
37. https://contact.co.nz/aboutus/investor-centre/report
38. https://meridian-production-media.s3.ap-southeast-2.amazonaws.com/public/Investors/Reports-and-presentations/Annual-results-and-reports/2022/Meridian-Integrated-Report-30June22.pdf
39. https://blog.bnz.co.nz/2022/02/first-esg-linked-derivative-deal-inked-in-new-zealand
40. Note that BNZ, Westpac and ANZ have 30 September balance dates while ASB and Kiwibank have 30 June balance dates. ASB and Kiwibank did not report on sustainable finance progress in FY21.
41. This is an ANZ Group target; it is not specific to its New Zealand business.
42. https://news.anz.com/new-zealand/posts/2022/07/good-energy-home-loan
43. Rural Sustainability Loan for farmers | ASB
44. https://www.bnz.co.nz/assets//bnz/business-banking/Agribusiness/pdfs/Agribusiness-Sustainability-Linked-Loan-SLL-Fact-Sheet.pdf
45. https://www.business.hsbc.com.cn/en-gb/campaigns/sustainable-finance/sustainable-supply-chain-financing#:~:text=Sustainable%20Supply%20Chain%20Financing%20(SCF,account%20the%20suppliers'%20sustainability%20performance.
46. https://www.kiwibank.co.nz/about-us/news-and-updates/media-releases/2020-08-08-kiwibank-to-mainstream-access-to-sustainable-business-lending/
47. Westpac Warm Up loan | Westpac NZ
48. $200 billion of bonds matured or were re-called during 2022.
49. https://www.beehive.govt.nz/release/new-zealand-sovereign-green-bonds-issued
50. https://www.nzx.com/announcements/402196
51. Mobilising Capital for Impact (kpmg.com)
52. See our website for more detailed analysis and other information: Banking survey on climate-related disclosures – KPMG Global
53. Opportunity is passing us by – KPMG New Zealand
54. Prudential Standard CPS 230 *Operational Risk Management* (apra.gov.au)
55. Standard-Conditions-for-full-FAP-licences.pdf (fma.govt.nz)
56. Customer Notice | Medibank
57. Cyberattack Support (optus.com.au)
58. Optus $140 million allocation to cover data breach costs – Tech News (techbusinessnews.com.au)
59. APRA lays out five-year data collection roadmap | APRA, Collect once, use multiple times – the Reserve Bank of New Zealand's data collection approach (bis.org)
60. The capital adequacy ratios reported are for the local bank.
61. Rating of Parent, Australia and New Zealand Banking Group Limited (Australia) – S&P's, Fitch and Moody's.
62. Rating of Parent, Bank of China Limited (China) – S&P's, Fitch and Moody's.
63. Rating of Parent, China Construction Bank Corporation (China) – S&P's, Fitch and Moody's.
64. Rating of Parent, Citibank N.A. (United States) – S&P's, Fitch and Moody's.
65. Rating of Parent, Commonwealth Bank of Australia (Australia) – S&P's, Fitch and Moody's.
66. Rating of Parent, Cooperative Rabobank U.A. (Netherlands) – S&P's and Fitch.
67. Rating of Parent, Industrial and Commercial Bank of China Limited (China) – S&P's and Moody's.
68. Rating of Parent, JPMorgan Chase Bank N.A. (United States) – S&P's, Fitch and Moody's.
69. Rating of Parent, MUFG Bank Ltd (Japan) – S&P's, Fitch and Moody's.
70. Rating of Parent, Kookmin Bank (South Korea) – S&P's, Fitch and Moody's.
71. Rating of Parent, The Hongkong and Shanghai Banking Corporation Limited (Hong Kong) – S&P's, Fitch and Moody's.
72. Rating of Parent, Westpac Banking Corporation (Australia) – S&P's, Fitch and Moody's.

About KPMG's Financial Services Team

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.

Additional thanks to the team that makes this publication possible:

Alton Pollard, Deal Advisory Director

Michelle Littlejohn, Marketing Communications Senior Manager

Matt Brak, Financial Services Manager

Sophie O'Connell, Assistant Manager

Michaela Gasparini, Auditor

Emma Brooks, Auditor

Seb Wharton, Audit Intern

Aniselina Aholelei, Executive Assistant

Meet KPMG's Financial Services Team

John Kensington
Head of Banking and Finance
+64 (09) 367 5866
jkensington@kpmg.co.nz

Matthew Prichard
Executive Chair
+64 (09) 367 5846
matthewprichard@kpmg.co.nz

Godfrey Boyce
Chief Executive Officer
+64 (04) 816 4514
gboyce@kpmg.co.nz

Brent Manning
National Managing Partner – Audit
+64 (04) 816 4513
bwmanning@kpmg.co.nz

Jack Carroll
National Managing Partner – Advisory
+64 (04) 816 4516
jackcarroll@kpmg.co.nz

Dinesh Naik
National Managing Partner – Tax
+64 (09) 367 5867
dnaik@kpmg.co.nz

Kay Baldock
National Managing Partner – Brand & Growth
+64 (09) 367 5316
kbaldock@kpmg.co.nz

Jamie Munro
Partner – Audit
+64 (09) 367 5829
jamiemunro@kpmg.co.nz

Nicola Raynes
National Industry Leader – Financial Services
+64 (09) 367 5994
nraynes@kpmg.co.nz

Graeme Edwards
Partner – Audit
+64 (04) 816 4522
gdedwards@kpmg.co.nz

Malcolm Bruce
Partner – Consulting
+64 (09) 367 5990
malcolmbruce@kpmg.co.nz

Ceri Horwill
Head of Financial Services – Consulting
+64 (09) 367 5348
cerihorwill@kpmg.co.nz

Rajesh Megchiani
Partner – Consulting
+64 (09) 363 3581
rmegchiani@kpmg.co.nz

Simon Wilkins
Partner – KPMG IMPACT
+64 (09) 363 3480
swilkins1@kpmg.co.nz

Alton Pollard
Director – Deal Advisory
+64 (09) 363 3234
altonpollard@kpmg.co.nz

Leon Bowker
Partner – Deal Advisory
+64 (09) 367 5333
lbowker@kpmg.co.nz

Contact us

Auckland
KPMG Centre
18 Viaduct Harbour Avenue
PO Box 1584
Tel: (09) 367 5800

Tauranga
Level 2
247 Cameron Road
PO Box 110
Tel: (07) 578 5179

Christchurch
The Terrace, Level 5
79 Cashel Street
PO Box 1739
Tel: (03) 363 5600

Ashburton
151 Burnett Street
PO Box 564
Tel: (03) 307 6355

Hamilton
KPMG Centre
85 Alexandra Street
PO Box 929
Tel: (07) 858 6500

Wellington
10 Customhouse Quay
PO Box 996
Tel: (04) 816 4500

Timaru
24 The Terrace
PO Box 526
Tel: (03) 683 1870

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