FIPS

Financial Institutions Performance Survey

December 2022 Quarterly Results

Overview

Information current as at 12 April 2023

> Forecasts from the RBNZ indicate that inflation will continue to hold around 7.3% for the March 2023 quarter before we begin to see any drop.

Headlines have been dominated by cost of living concerns, destructive weather events and increases to mortgage rates for some time now. The Official Cash Rate (OCR) has continued to rise in an attempt to battle high inflation, while more recently concerns of bank failures spread out of the US and into Europe.

The banking sector's net profit after tax in the December 2022 quarter has levelled off after a strong year as it reported earnings of $1.77 billion. This is unchanged from the September 2022 quarter. The global banking uncertainty has helped highlight the strength of our banks, while the commitment to helping their customers through weather-related financial hardship has seen them demonstrate their social licence.

Inflation and interest rates

The Consumer Price Index (CPI) was sitting at 7.2% for the December 2022 quarter, unchanged from the September 2022 quarter, but still down slightly from the peak we saw of 7.3% in the June 2022 quarter. Inflation still sits well above the Reserve Bank of New Zealand's (RBNZ's) monetary policy framework of keeping annual inflation between 1 and 3 percent. Forecasts from the RBNZ indicate that inflation will continue to hold around 7.3% for the March 2023 quarter before we begin to see any drop. Contributions to the historically high CPI continue to be the extremely tight labour market alongside enduring elevated wage growth as unemployment remains at a low of 3.4%[1].

There has been criticism over the RBNZ's controlling of inflation. The National Party's finance spokesperson, Nicola Willis, has pointed out predictions for inflation to remain outside the 1 to 3 percent range for three years, indicating a failure on the part of RBNZ's Governor Adrian Orr. Orr responded stating that they weren't failing, explaining that they were always forward looking with their monetary policy and other central banks globally were facing similar circumstances. The RBNZ believes that the annual CPI inflation will be within the 1 to 3 percent band by the second half of 2024 and down to 2% by the end of 2025[2].

In an attempt to tackle core inflation and future inflation expectations, the OCR was increased on 22 February 2023 by 50 basis points (bps) and again on 5 April 2023 by another 50 bps. The OCR now sits at 5.25% after 11 consecutive increases from 0.25% (the lowest rate since its inception in 1999)[3]. The most recent increase was larger than initially predicted with the big four banks having previously expecting a 25 bps increase and a peak rate of 5.25% in mid-2023[4]. The next update to the OCR is on 24 May 2023[5].

With impacts to the domestic economy in the form of Cyclone Gabrielle, comparisons have been drawn to the 50 bps cut we saw following the Christchurch earthquakes of 2011. Orr said that compared to after the earthquake, the economy has been running well beyond its capacity and to cut rates would only "be adding inflation to the already miserable situation"[6].

Economy and Gross Domestic Product (GDP)

Compared to the previous quarter's rise in GDP of 1.7%, the December 2022 quarter saw the local economy contract with GDP dropping 0.6%. The scale of the drop came as a surprise with ASB forecasting a fall of 0.5% and both

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“ Stats NZ shows that food prices have risen 12% for the year ended February 2023. Fruit and vegetables were big leaders, rising in price by 23.1% annually and 5.6% in January 2023 alone.

ANZ and Kiwibank expecting a 0.3% decline. While the 0.6% decline reduced the annual GDP increase for the year ended December 2022 to 2.4%, another decline would see the country experience two quarters in a row of negative growth, a common metric to indicate a recession[7].

Cost of living

Cost of living increases are still affecting households across the country as the price of food and home loans continue to rise.

Annual food price inflation has neared a 30-year peak. The factors contributing to this have been both domestic and global. Globally, the conflict in Ukraine is still having effects on food pricing, but it is also high global inflation that is aiding increasing prices on imported goods and services. Domestically, worker shortages continue to push food prices up, as well as the recent impacts of Cyclone Gabrielle, which we will experience into the future[8].

Stats NZ shows that food prices have risen 12% for the year ended February 2023. Fruit and vegetables were big leaders, rising in price by 23.1% annually and 5.6% in January 2023 alone[9].

Also increasing for many households are home loans payments. Currently the average mortgage rate is sitting at 4.5%; however, around half of all home loans are set to be repriced over the next 12 months. Estimates put the new average rate up to 6.5%, which would see debt servicing climb to nearly 22% of an average household's budget[10]. Westpac have said that on an average priced house, minimum repayments could rise by $530 per fortnight for most of the country. If you live in Auckland, the bank has said the increase could be around $900 a fortnight[11].

In an effort to combat the rising cost of living, Prime Minister Chris Hipkins has announced that superannuation and the main benefit payments will be increased on 1 April 2023. The increase to superannuation and benefits will be 7.22% on the current payment levels to reflect the current CPI across the country. These adjustments are expected to impact 1.4 million New Zealanders in the hope of preventing them going backwards financially[12].

Unemployment has remained low at 3.4%, up slightly from the previous low of 3.3%. While some households may have been lucky enough to offset the increased cost of living with rising incomes due to the labour shortage, others will be struggling to meet the ever-increasing costs[13].

Housing market

According to CoreLogic, house prices in February 2023 were 8.9% lower than a year earlier and 9.5% down from the housing market peak; however, other agencies believe the drop has been greater. This brought the average price of a house down from $1.04 million in at the peak of the housing prices to $0.94 million in February 2023[14].

“ Estimates put the new average [mortgage] rate up to 6.5%, which would see debt servicing climb to nearly 22% of an average household's budget.

House sales volume throughout the nation saw an annual decline of 12.4%. New property listings for the year were also down 26% at 10,185. Barfoot & Thompson data showed that unsold residential listings for November 2022 was at a 12-year high[15].

KPMG

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The RBNZ is predicting another 6% decline in prices from here and expects prices to turn around again in mid to late 2024[16]. While falling house prices are making the purchase prices more favourable for buyers, the cost of buying a house is still out of reach for many, with increasing mortgage interest rates making it more difficult for applicants to meet serviceability testing criteria.

Lending

New mortgage lending for the December 2022 quarter was up 5% on the previous quarter at $16.8 billion, but down 32% on the December 2021 quarter, which had new mortgage lending of $24.7 billion[17].

As at January 2023, demand for mortgages has declined, with new mortgage applications down 25.6% compared with the previous year. As a reflection of the current deteriorating economic conditions, there have also been increases to loan arrears. In January 2023, 430,000 New Zealanders were behind when looking at all of their loan repayments, an increase of 20,000 individuals since December 2022. Credit card arrears also rose to a two-year high of 5% of active accounts, while the Buy Now, Pay Later sector reached its highest recorded arrears at 9.3%[18].

In February 2023, the Government published changes to the Credit Contracts and Consumer Finance Act (CCCFA) in the form of an Exemption for Emergency Relief Amendment. This Amendment provided exemptions from the standard home loan and temporary overdraft sections, allowing banks to provide credit to those effected by recent weather events to help them avoid suffering financial hardship. The exemption closed on 31 March 2023 and was only available to borrowers in Auckland, Bay of Plenty, Northland and Waikato. Financial Services Federation Executive Director Lyn McMorran said, "The idea that lenders have to get statutory relief to assist customers in an emergency, suggests the law is fundamentally flawed, and more needs to be done to get this right for New Zealand consumers"[19].

Business struggles

In December 2022, the number of registered company insolvencies was 1,964. This was a 32% increase from December 2021 and a 76% increase on pre-pandemic levels in December 2019[20].

Struggling recently is the building and construction sector. Across January and February 2023, the sector made up 29% of all liquidations. Food and hospitality have been hit hard by both Covid-19 closures and more recently the flooding from Cyclone Gabrielle, leading to it being the sector with the second highest number of liquidations at 14%. Retail was the next biggest sector for liquidations at 11%[21].

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One example is KBL Joinery, which had been operating for 49 years and employed 28 staff, but had to appoint liquidators on 13 March 2023. They left behind nine unfinished properties and an estimated $2.5 million owed to creditors. On 9 March 2023, Stroud Homes in Pukekohe went under and earlier in January JHIM Homes also had to call in liquidators[22].

Four bars in Wellington have been declared insolvent (i.e. Love Not Lost, Birdcage, Amador, and Serious Happiness). Between them there are 47 employees seeking wages and leave

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payouts. Creditors also include ACC, the IRD, and food and beverage suppliers[23].

It will be interesting to see whether the number of business liquidations continue to increase and whether this begins to impact the provisioning losses within the banking sector.

Flooding and weather events

The start of 2023 brought with it adverse weather and flooding to many regions of the North Island as Cyclone Gabrielle's path crossed over the East Coast. Excess rainfall in Auckland saw the city record its wettest day since 1962. Cyclone Gabrielle also caused massive flooding and damage along the East Coast and Upper North Island as landslides and overflowing rivers have displaced thousands from their homes and businesses, as well as cutting transport routes to many regions, districts and townships.

A lot of the cost of damage is falling on insurers. Head of the Insurance Council, Tim Grafton, said insurers have paid $111 million already and expect much more to come. Following the Auckland Anniversary floods, 47,300 claims have been lodged for flood-related damage totalling more than $990 million. Cyclone Gabrielle has also resulted in a further 30,000 insurance claims lodged so far[24].

Many of our banks have offered financial support to their customers affected by the flooding. ASB has offered a one-off $2,000 payment to yellow or red stickered household customers and to small business customers impacted. Also on offer are $10,000 overdrafts for home loan customers and $100,000 in working capital loans for business and rural customers. ASB also announced a $2 million donation to the Red Cross New Zealand Disaster Fund[25]. BNZ has similar measures in place, offering temporary overdrafts of $10,000 for small business customers and $100,000 for larger businesses. BNZ is also offering overdrafts to personal and home loan customers at $5,000 and $10,000 respectively[26]. Kiwibank is offering reduced repayments and the option to change to interest-only repayments[27].

The cost on farmers is significant as the Federated Farmers policy team estimates that the total cost to farmers and growers who were affected by the weather events could be as high as $1 billion. Around 2,100 hectares of orchards in Hawke's Bay have seen severe damage or been destroyed entirely. Rural insurance provider, FMG, is already handling more than 3,000 insurance claims from the cyclone fallout[28].

Global bank failures

Around the world there has been a sharp decline in banking stocks. Over a period of a few weeks in March, global banks lost US$459 billion in market value. The large losses were led by uncertainty following the failure of two banks in the United States. Silicon Valley Bank (SVB) and Signature Bank both failed in quick succession. SVB was the United States' 16th largest bank, and after a run on the bank it went under on 10 March 2023, making it the largest banking collapse since the 2008 global financial crisis.

Following news of significant losses in its bond portfolio, SVB experienced withdrawals from its customers and was forced to close its doors as it struggled to meet its obligations. The Federal Deposit Insurance Corporation provides coverage to depositors up to US$250,000, which would have left many SVB customers facing losses. However, the US Government stepped in to make all funds available to depositors. SVB customers would have been pleased by this action; however, it is one that could also set a dangerous precedent for depositors at other mid-sized banks who may expect similar treatment should their banks fail[29].

Here in New Zealand, we don't yet have a deposit insurance system that would protect depositors in the unlikely situation that similar events were to unfold. However, the Deposit Takers Bill was introduced to Parliament in September 2022 and is expected to be approved by Parliament in late 2023 and up and running by early 2024. The Bill would give protection to New Zealand deposits of up to $100,000 per depositor, per institution, which would cover 93% of current depositors[30].

“Around the world there has been a sharp decline in banking stocks. Over a period of a few weeks in March, global banks lost **US$459 billion** in market value.

New Zealand also boasts banks with high credit ratings and stricter capital requirements than the US. Our banks have a required total capital ratio of 8% and all our largest banks have ratios well above that minimum with the sector average being 14%[31].

One of the impacts we may have experienced in New Zealand from the global bank issue is on our KiwiSaver accounts; however, these are well diversified, and therefore, the impact is minimal. Note that managers of KiwiSaver funds are not required to report on any losses on individual assets within a fund unless it is material to the investment portfolio as a whole[32]. However, managers are required to provide quarterly updates on fund size and the composition of its top ten holdings, while every six months they must provide a full list of holdings[32].

New Zealand's largest KiwiSaver provider, ANZ, had exposure to SVB of $31 million across total funds of $30.5 billion. Fisher Funds is our second largest KiwiSaver manager and it has reported having had an investment in Signature Bank. Across their funds they had exposures ranging between 0.2% and 0.6% of investments. ASB has reported that the impact on client funds is less than 0.01%. ASB had exposures to SVB of less than $2 million and to Signature Bank of less than $1 million. Milford Asset Management had a small exposure to SVB; however, it has said the impact is consistent with its usual daily variations within the fund and not material to its overall performance. All of these impacts are relatively small when looking at the value of the funds in totality[32].

Impacts of the SVB collapse have been felt strongly in Switzerland. After the collapse of SVB, and after its largest shareholder announced it would provide no more funding, Credit Suisse's share price dropped below 2 Swiss Francs (CHF) for the first time in its trading history. Credit Suisse has been operating for 166 years, but has been struggling recently and revealed in its Annual Report that there were 'material weaknesses' in its financial reporting[33].

Following concern over bank health stemming from SVB's collapse, depositors began withdrawing from Credit Suisse and it looked like the bank might experience difficulties even after an announcement that it had exercised an option to borrow CHF$50 billion from the central bank to help increase its liquidity[34].

UBS, the largest bank in Switzerland, has since agreed to buy Credit Suisse at a price of CHF$3 billion (US$3.2 billion). The Swiss market regulator FINMA was quick to push through the deal, wiping out $17 billion worth of Credit Suisse bonds as well as removing any need for UBS shareholders to vote on the acquisition. UBS will look to close down the Credit Suisse investment banking arm when they take over the bank[35].

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These are just a few examples of the challenges the banks face and some of the risks they must constantly monitor.

Banking performance

Quarterly Net Profit After Tax (NPAT) was flat in the December quarter, with the banking sector reporting NPAT of $1.77 billion as it did in the September quarter[36].

Net interest increased by 4.5% ($159 million) from $3.53 billion to $3.69 billion, driven by a 0.6% increase in gross loans and advances of the major banks and the majority of major banks reporting around a 10 bps increase in net interest margin (NIM).

However, this was offset by a decrease of $166 million in non-interest income. The negative movement represents a 26.6% fall from the previous quarter, resulting largely from lower gains on hedging and lower fees and commissions for the quarter[36].

Operating expenses, impaired asset expenses and tax expenses all remained relatively flat compared to the September quarter, resulting in the flat NPAT between the September and December quarters[36].

Concluding remarks

In summary, the December 2022 quarter's banking sector results show a strong finish to the calendar year. The final quarter helped push the sector to a record profit for the year, demonstrating resilience across the industry following the Covid-19 pandemic and the resulting global and domestic economic impacts. However, the December quarter has also represented a slow in growth for the sector as NPAT for the quarter remains level with the September quarter's results.

It may be that record profits are now behind us as the banking sector looks ahead to face continued high inflation, an OCR that continues to rise, house prices that many believe have yet to bottom out and an engineered recession by the RBNZ. These factors will all put pressure on households and many may struggle to make their loan repayments, with some moving onto mortgage interest rates well above what they were initially tested at.

The banking sector may also see a reduction in NIM as the Government's Funding for Lending Programme has come to an end, along with the cheap funding that it provided banks.

Bank failures caused some concern overseas; however, the banking sector remains strong in New Zealand. The incidents discussed in this overview highlight the challenges that banks face and the need to constantly monitor their risks.

While its impacts are not shown in the banking sector's December 2022 quarter results, the adverse weather events of early 2023 have created widespread damage across the North Island and may have an impact on food prices and inflation in the future. However, the banks have demonstrated an awareness of their social licence in their response to the situation, offering various options of support to their customers to help ease the financial strain.

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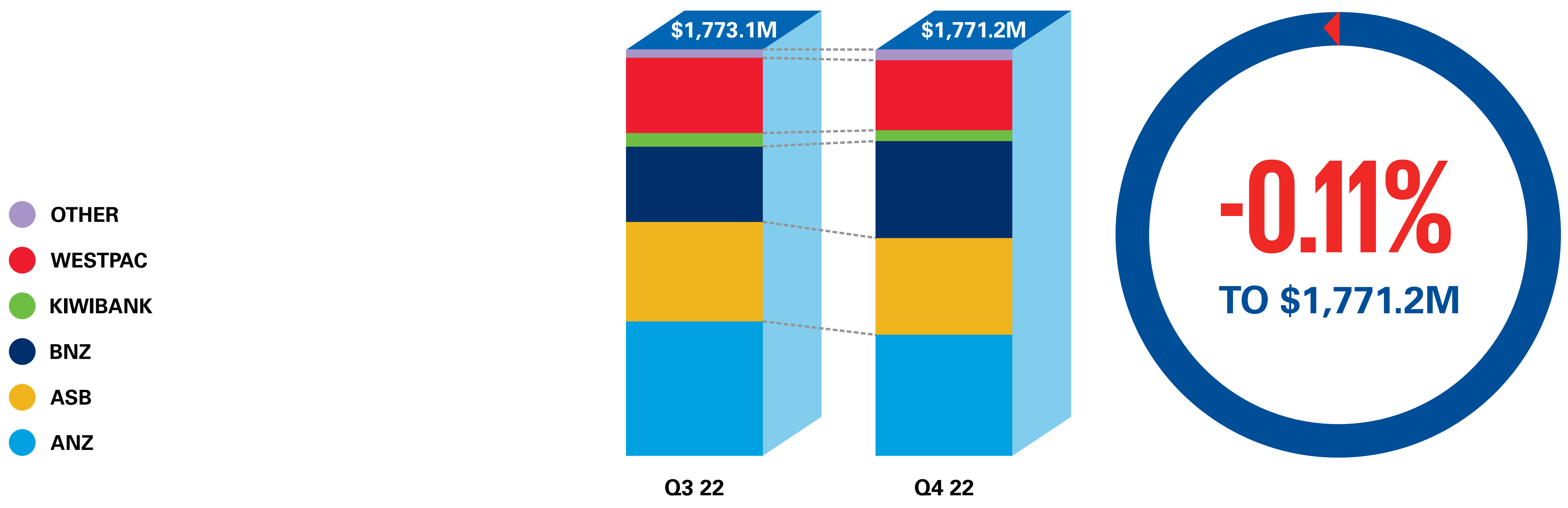
Net profit after tax

Q3 22–Q4 22 | Q4 21–Q4 22 | Q4 20–Q4 22 | Q4 17–Q4 22

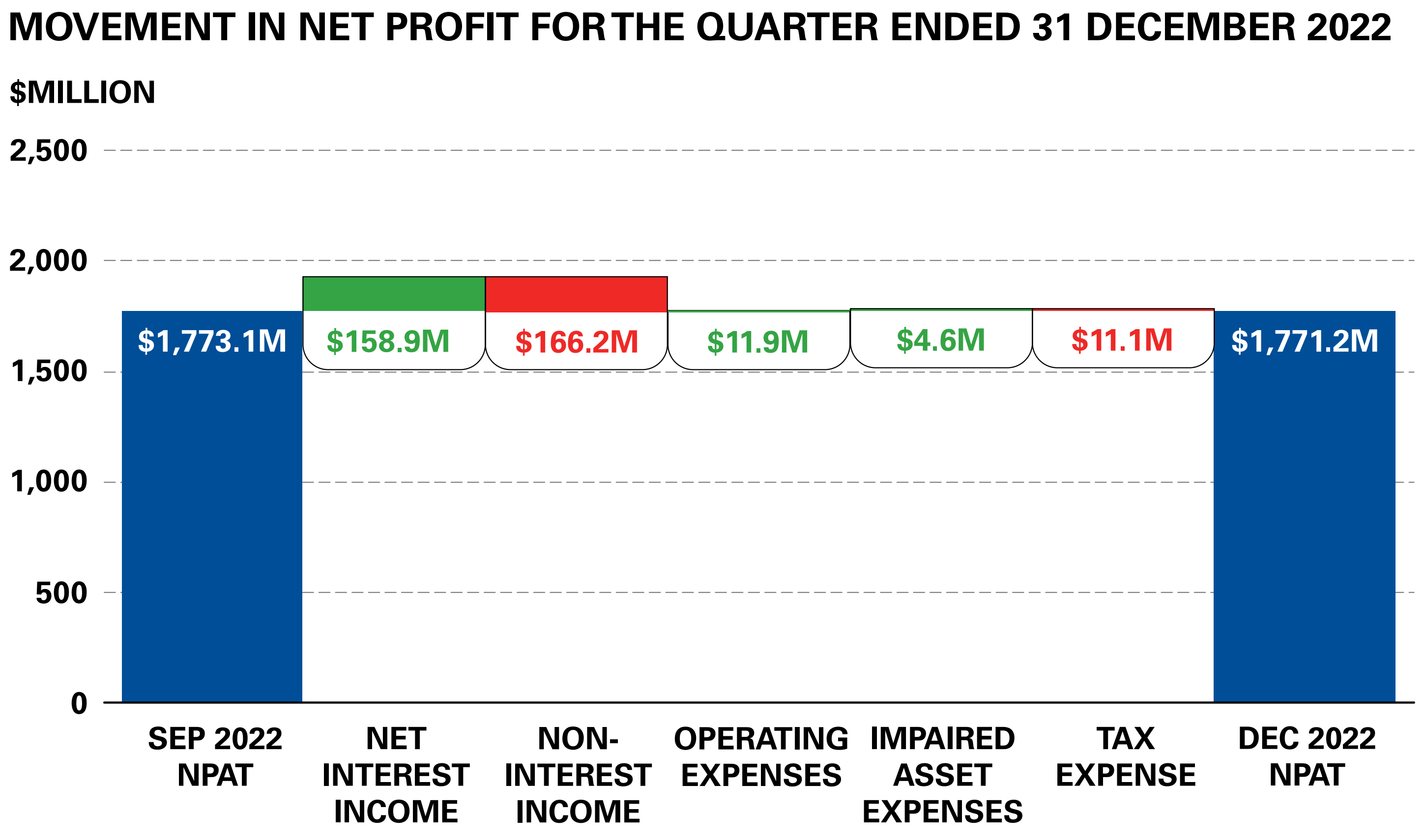
HOVER over the button to see the movement over time

Movement in net profit: Breakdown



Hover over the button to see historic quarterly results

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



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

HOVER over the button to see the movement in each quarter

Net interest income

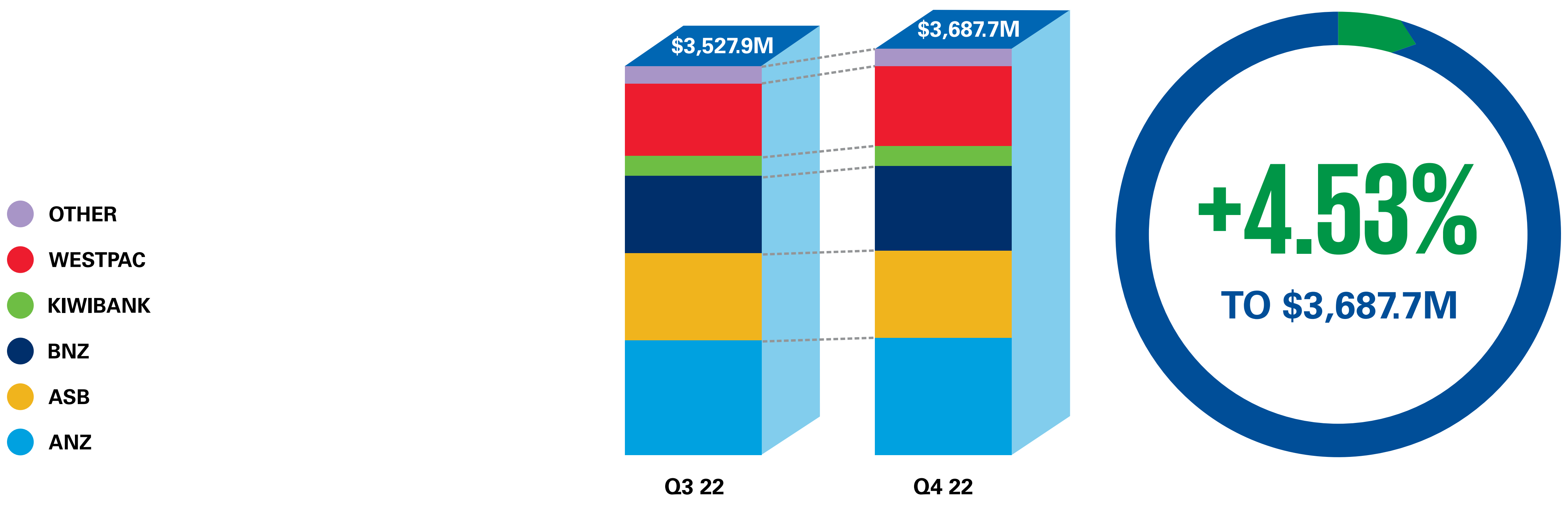


TABLE 1: Movement in interest margin

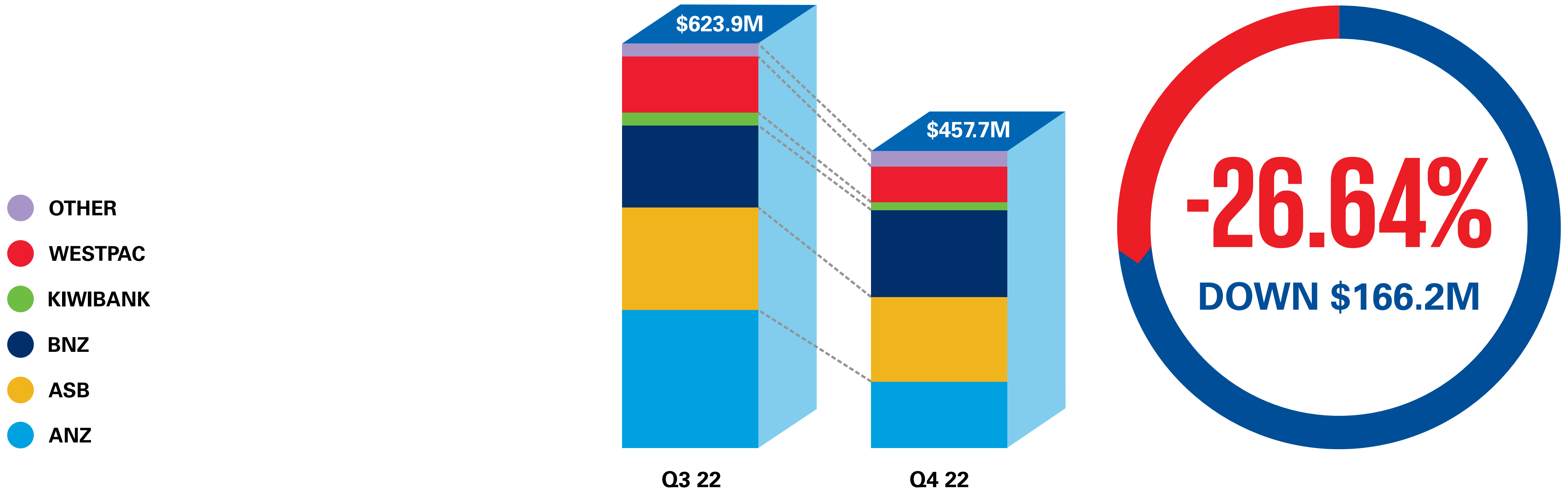
Entity[37]	Quarter ended 31 Dec 22 (%)	Mvmt. during the quarter (bps)	Mvmt. for the 6 months (bps)	Mvmt. for the 12 months (bps)
ANZ	2.4	10	20	40
ASB	2.5	0	30	40
bnz	2.5	10	30	50
HEARTLAND BANK	4.2	10	-40	-30
Kiwi bank.	2.5	10	20	50
sbs	2.7	10	10	0
TSB	2.2	10	10	30
The Co-operative Bank	2.6	-10	10	40
Westpac	2.3	10	20	30

Net profit after tax

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

HOVER over the button to see the movement in each quarter

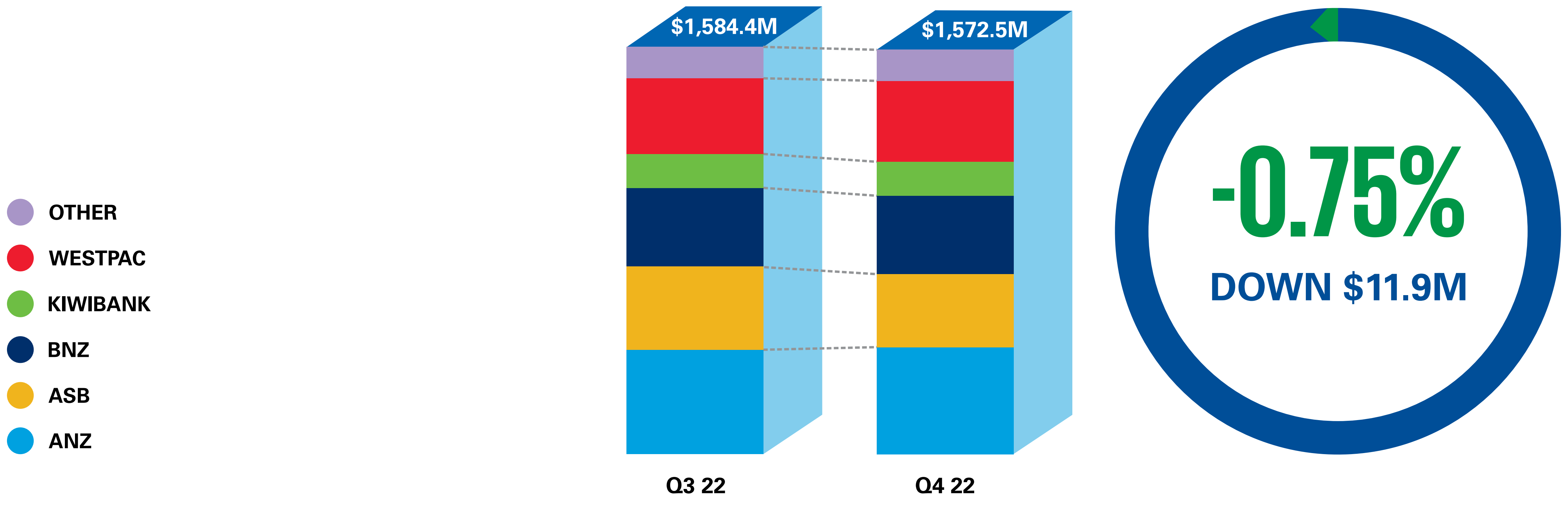
Non-interest income



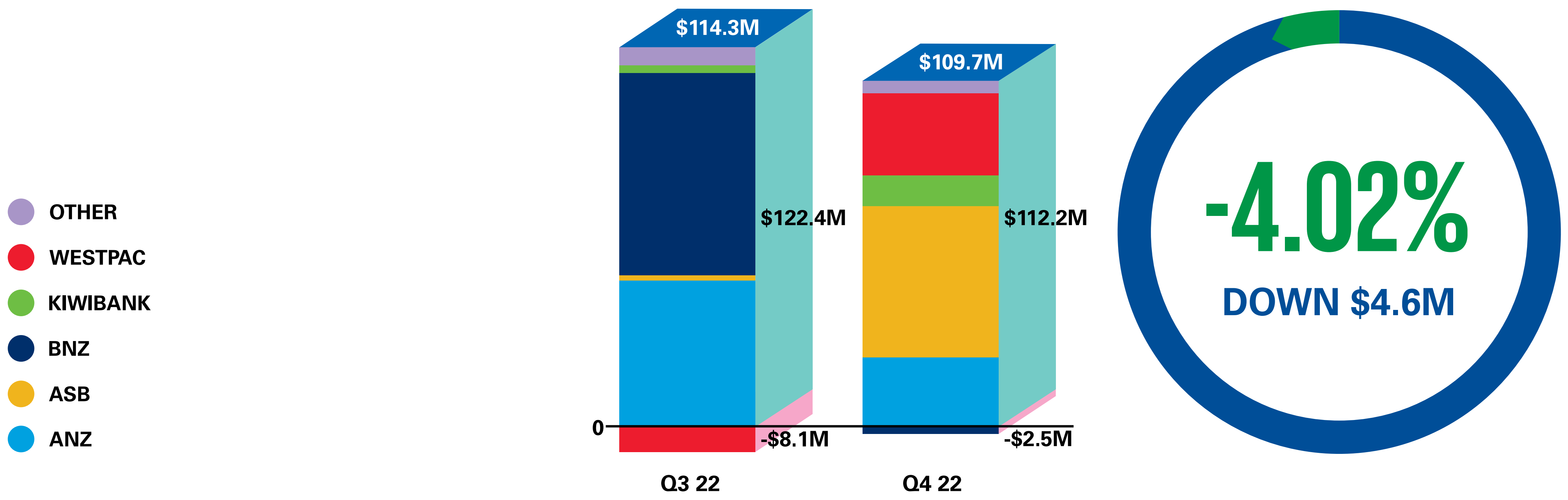
Q3 22–Q4 22 | Q2 22–Q4 22 | Q1 22–Q4 22 | Q4 21–Q4 22

HOVER over the button to see the movement in each quarter

Operating expenses



Impaired asset expenses (writebacks)



Lending

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

HOVER over the button to see the movement in each quarter

Gross loans

- OTHER
- WESTPAC
- KIWIBANK
- BNZ
- ASB
- ANZ

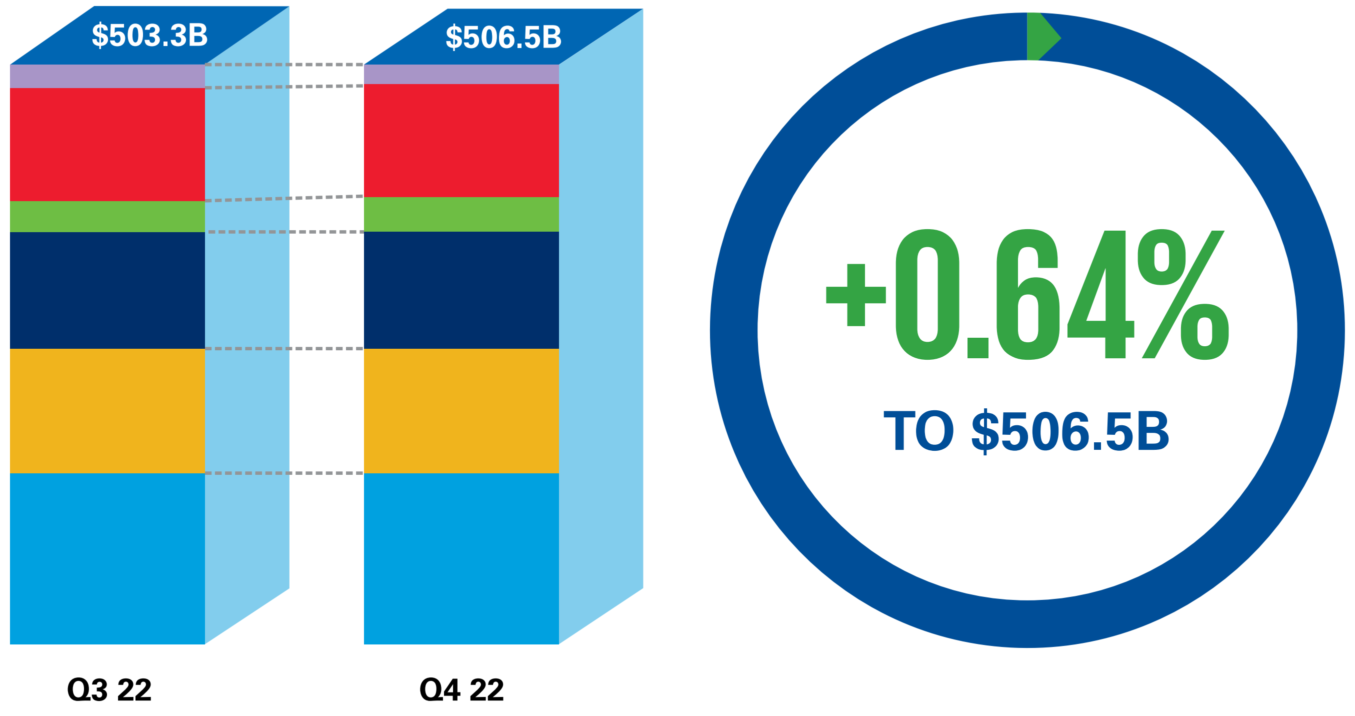


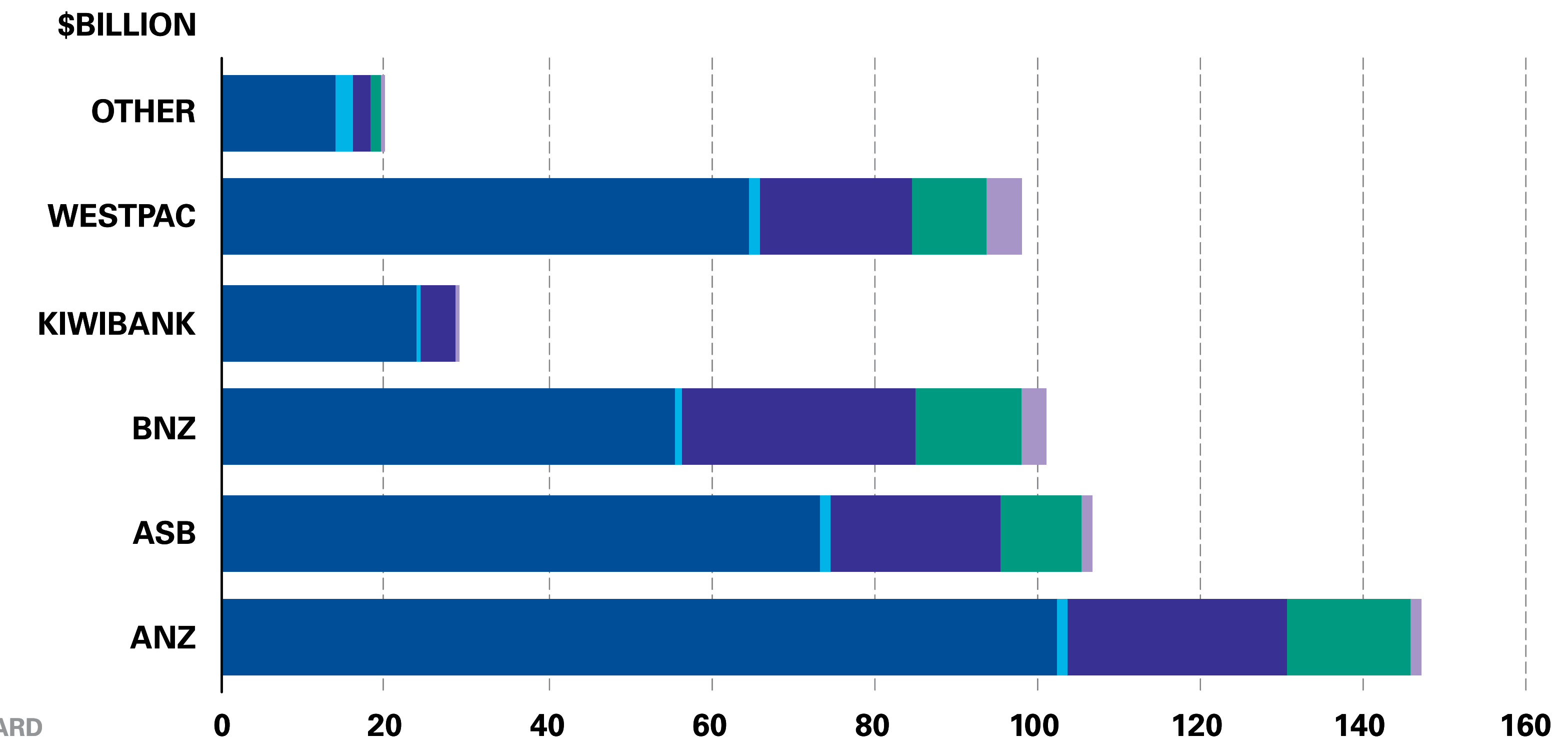
TABLE 2: Analysis of gross loans			
Entity[37] Quarterly analysis	Quarter ended 31 Dec 22 $Million	Quarter ended 30 Sep 22 $Million	% Increase (Quarterly)
ANZ	147,870	148,019	-0.10%
ASB	110,458	109,699	0.69%
bnz	101,313	100,492	0.82%
HEARTLAND BANK	4,714	4,617	2.09%
Kiwi bank.	28,976	28,331	2.28%
sbs	4,948	4,734	4.50%
TSB	7,035	6,816	3.21%
The Co-operative Bank	2,906	2,834	2.54%
Westpac	98,329	97,792	0.55%
Total	506,547	503,333	0.64%

Entity[37] Annual analysis	Quarter ended 31 Dec 22 $Million	Quarter ended 31 Dec 21 $Million	% Increase (Annual)
ANZ	147,870	144,219	2.53%
ASB	110,458	106,062	4.14%
bnz	101,313	97,895	3.49%
HEARTLAND BANK	4,714	4,170	13.03%
Kiwi bank.	28,976	27,237	6.38%
sbs	4,948	4,321	14.50%
TSB	7,035	6,734	4.48%
The Co-operative Bank	2,906	2,722	6.75%
Westpac	98,329	94,261	4.32%
Total	506,547	487,620	3.88%

Breakdown by bank

As at Q4 22

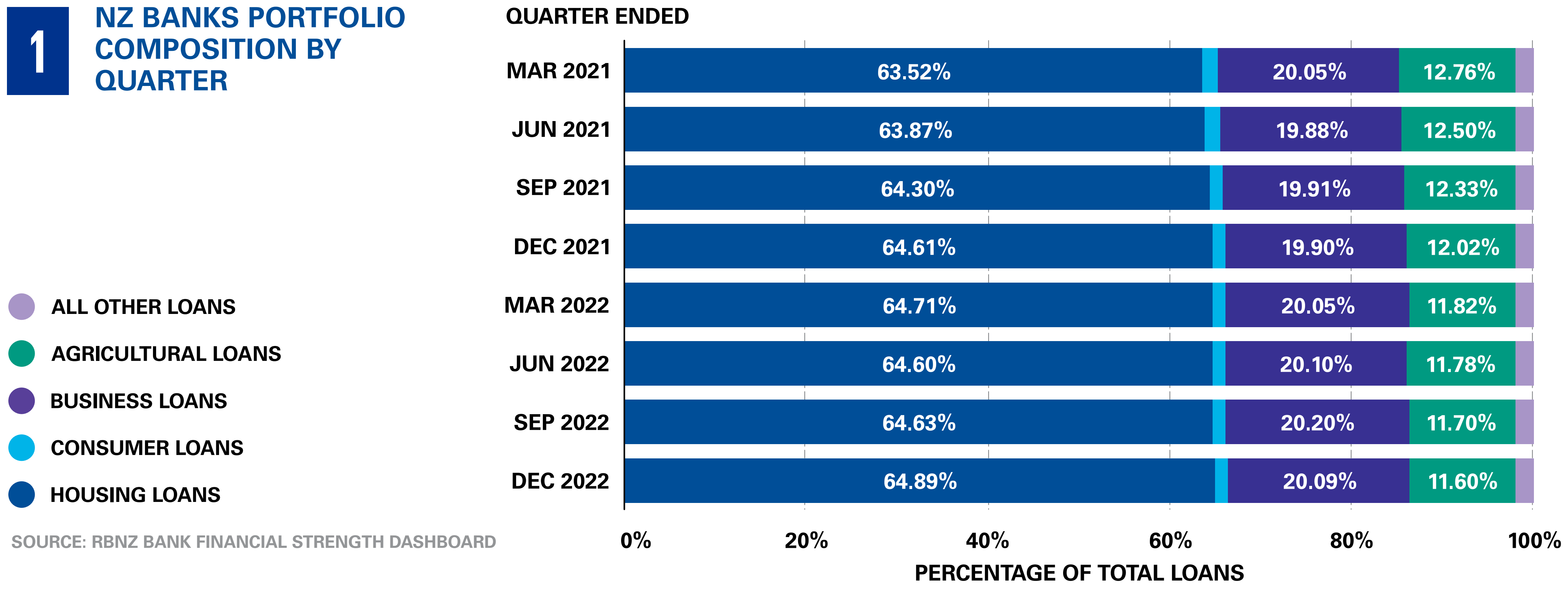
- ALL OTHER LOANS
- AGRICULTURAL LOANS
- BUSINESS LOANS
- CONSUMER LOANS
- HOUSING LOANS



SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

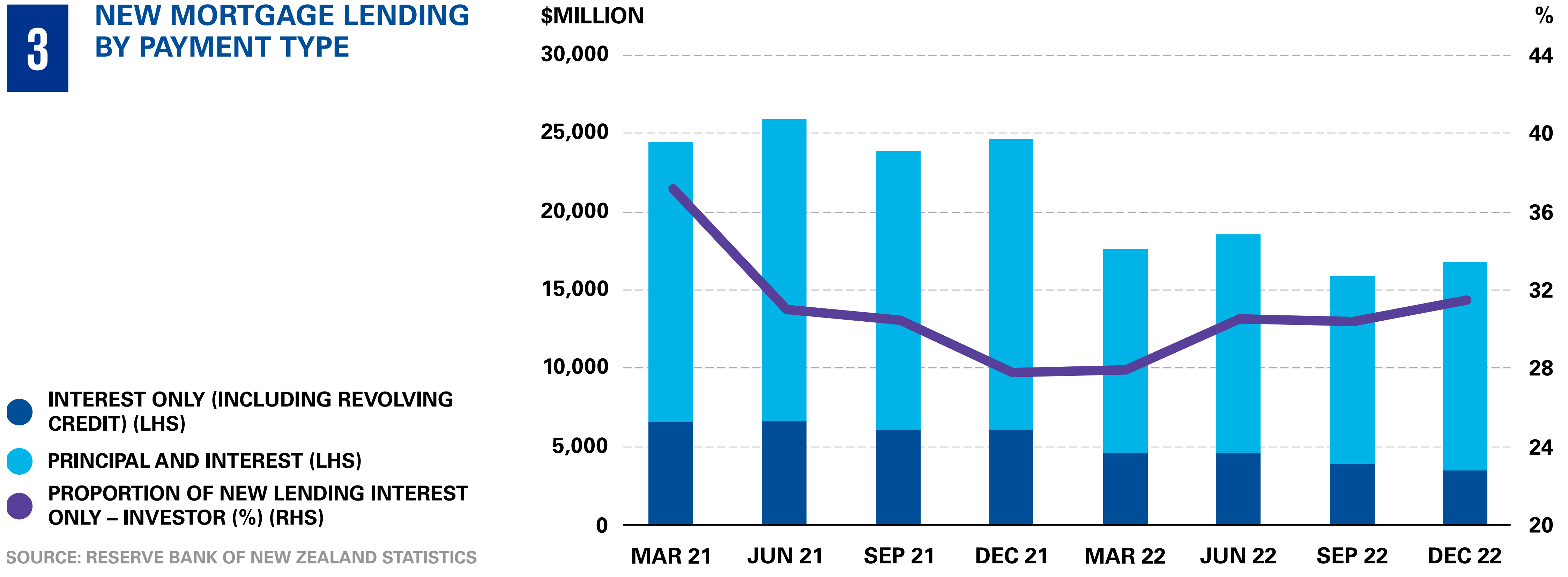
Lending

1 NZ BANKS PORTFOLIO COMPOSITION BY QUARTER



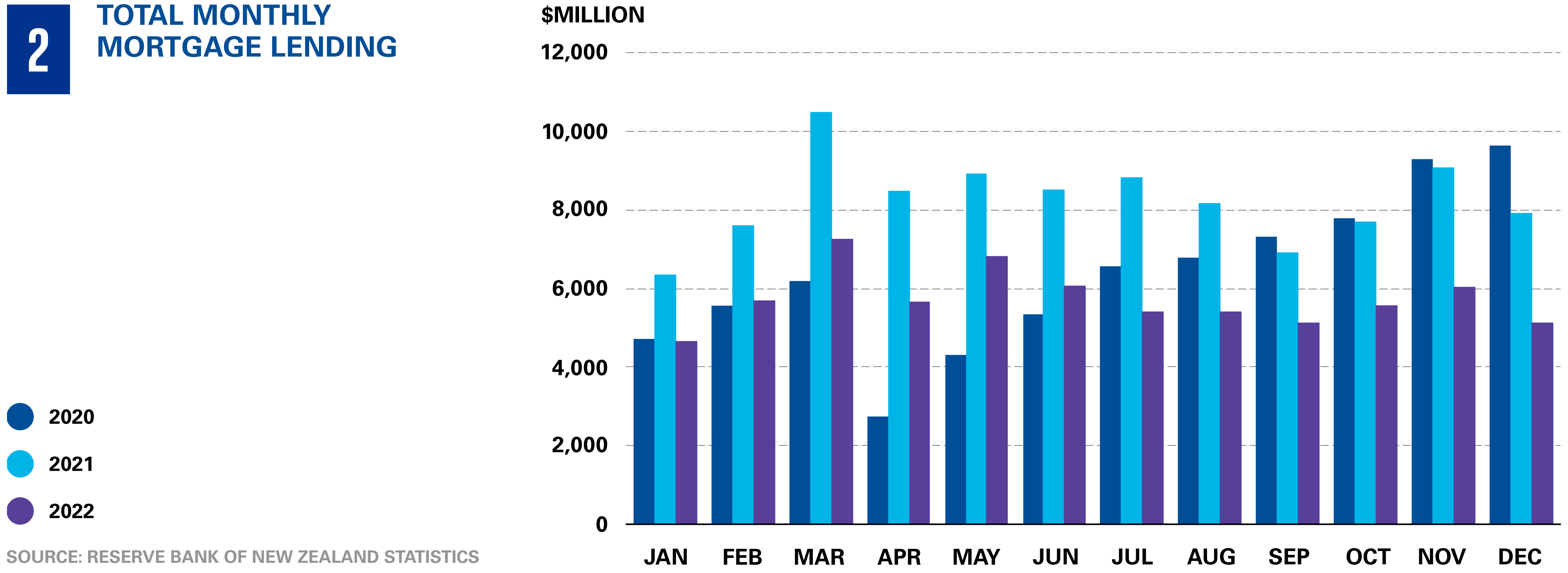
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

3 NEW MORTGAGE LENDING BY PAYMENT TYPE



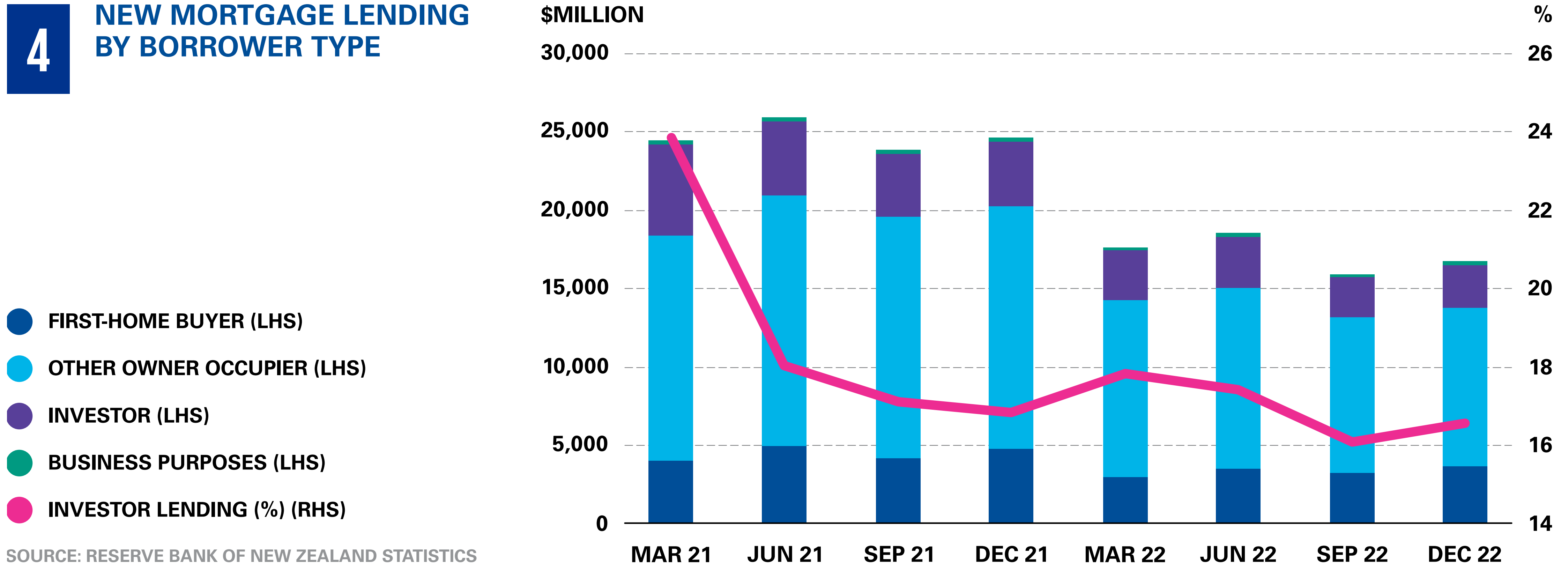
SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

2 TOTAL MONTHLY MORTGAGE LENDING



SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

4 NEW MORTGAGE LENDING BY BORROWER TYPE



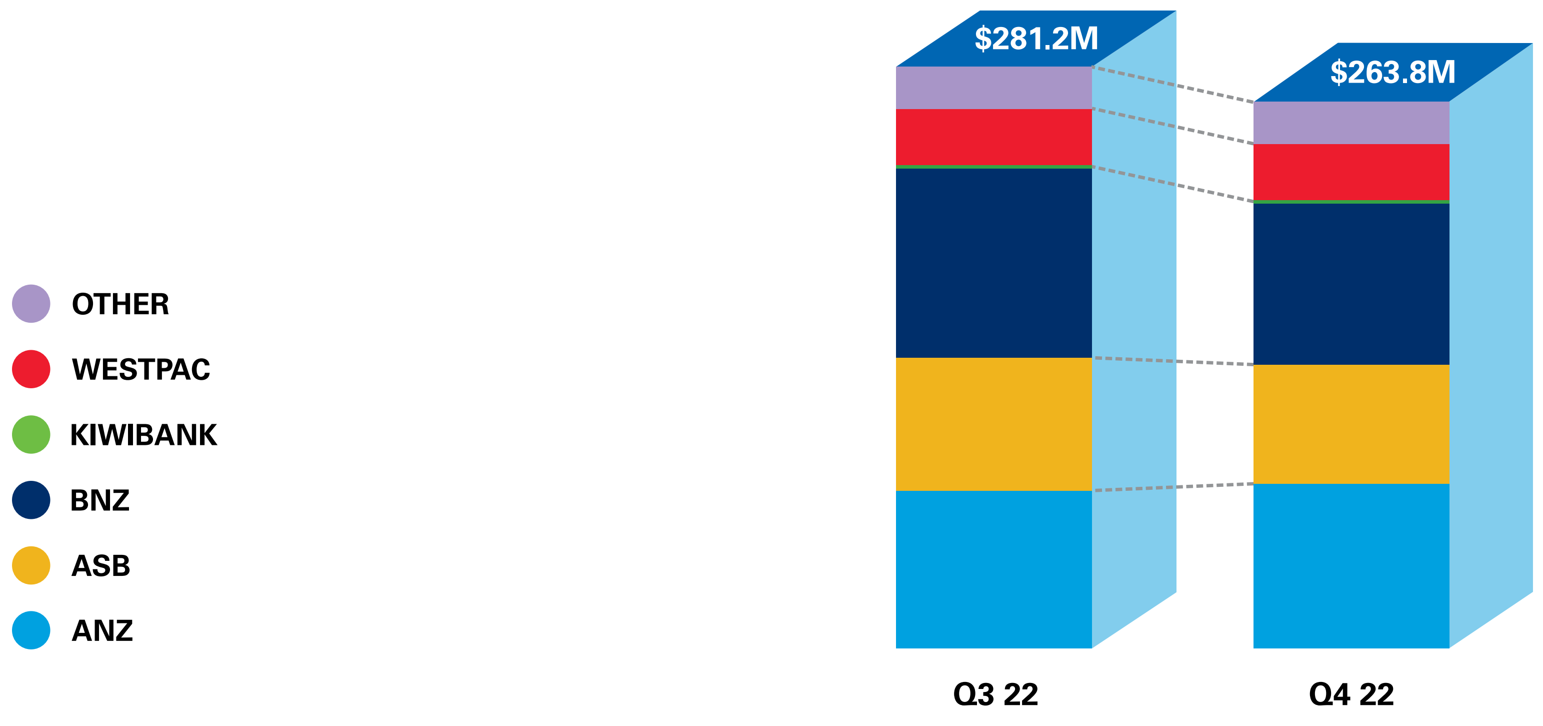
SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

Asset quality

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

HOVER over the button to see the movement in each quarter

Individually assessed provisions



Collectively assessed provisions

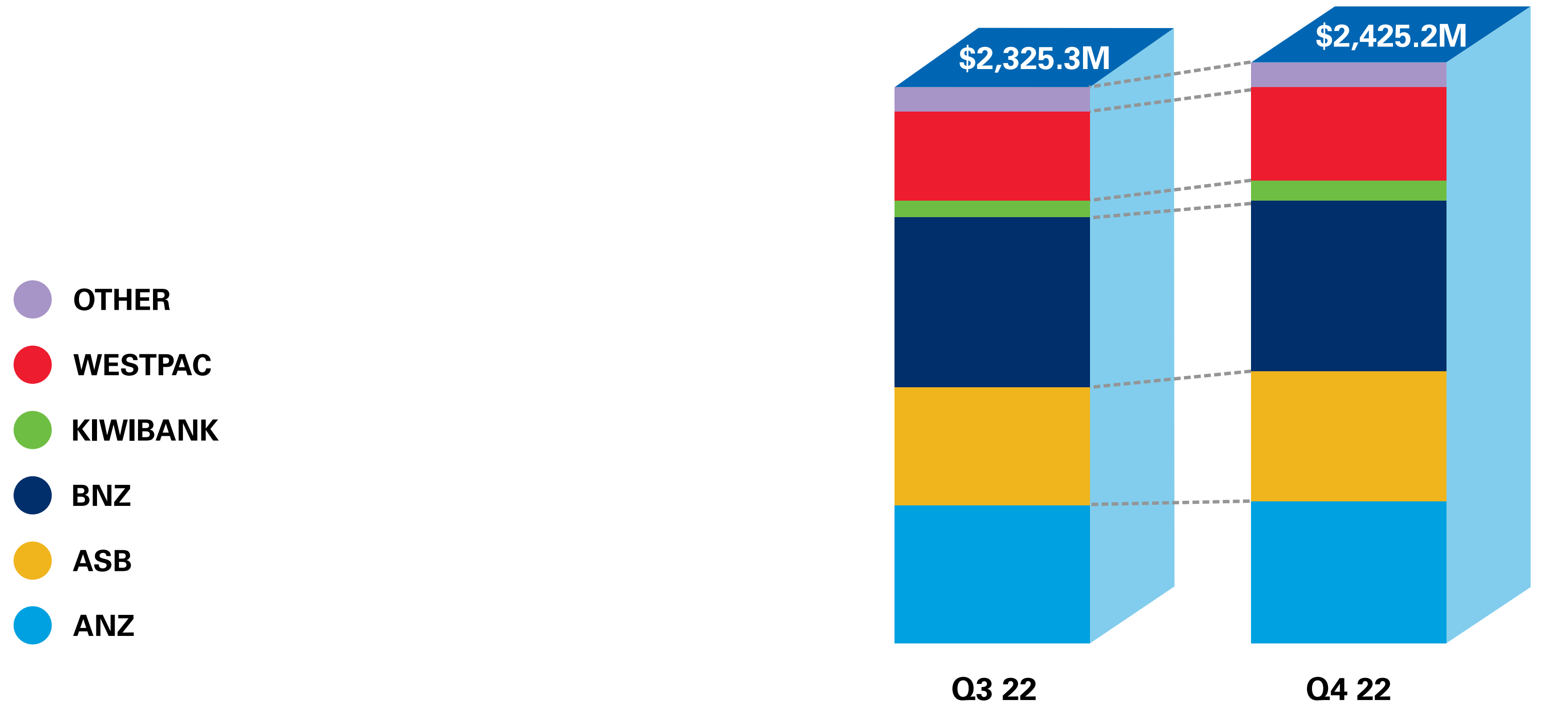


TABLE 3: Impaired asset expenses

	$Million		$Million
December 2022	$109.7	December 2021	-$35.0
September 2022	$114.3	September 2021	-$29.2
June 2022	$52.2	June 2021	-$70.7
March 2022	$52.7	March 2021	-$76.6

TABLE 4: Movement in impaired asset expense/Average gross loans

Entity[37]	Quarter ended 31 Dec 22 (%)	Mvmt. during the quarter (bps)	Mvmt. for the 6 months (bps)	Mvmt. for the 12 months (bps)
ANZ	0.06%	-7	3	9
ASB	0.18%	18	4	20
bnz	-0.01%	-27	-1	2
HEARTLAND BANK	0.42%	5	79	2
Kiwi bank.	0.14%	11	3	8
sbs	0.22%	-2	-9	0
TSB	-0.17%	-8	-12	-13
The Co-operative Bank	0.04%	-3	1	3
Westpac	0.11%	14	13	20
Average	0.09%	0	5	12

The results for the quarter ended December 2022 showed a continued trend of increasing collective provisioning. September 2020 results were a peak in collective provisioning, since then we have seen it dip down leading to December 2021 before rising for four consecutive quarters to reach the level we saw in December 2022. The coverage ratio (provisions compared to gross loans and advances) for the quarter increased slightly from 0.52% in September 2022 to 0.53% in December 2022. The coverage ratio has held relatively stable over the last five quarters, moving only 0.03% since the December 2021 quarter.

Provisioning levels are once again seeing an increasing trend that is not nearly as steep a rise as we saw during the height of the Covid-19 pandemic. The continued rise over the last year is likely driven by the deteriorating economic conditions. Lingering high inflation, increased cost of living burdens, and a tight labour market have had large impacts on households and businesses alike. These impacts are driving banks to increase provisioning in response to the increased likelihood of customers not meeting repayments, and we would expect this trend to continue through 2023 as the country enters a likely engineered recession.

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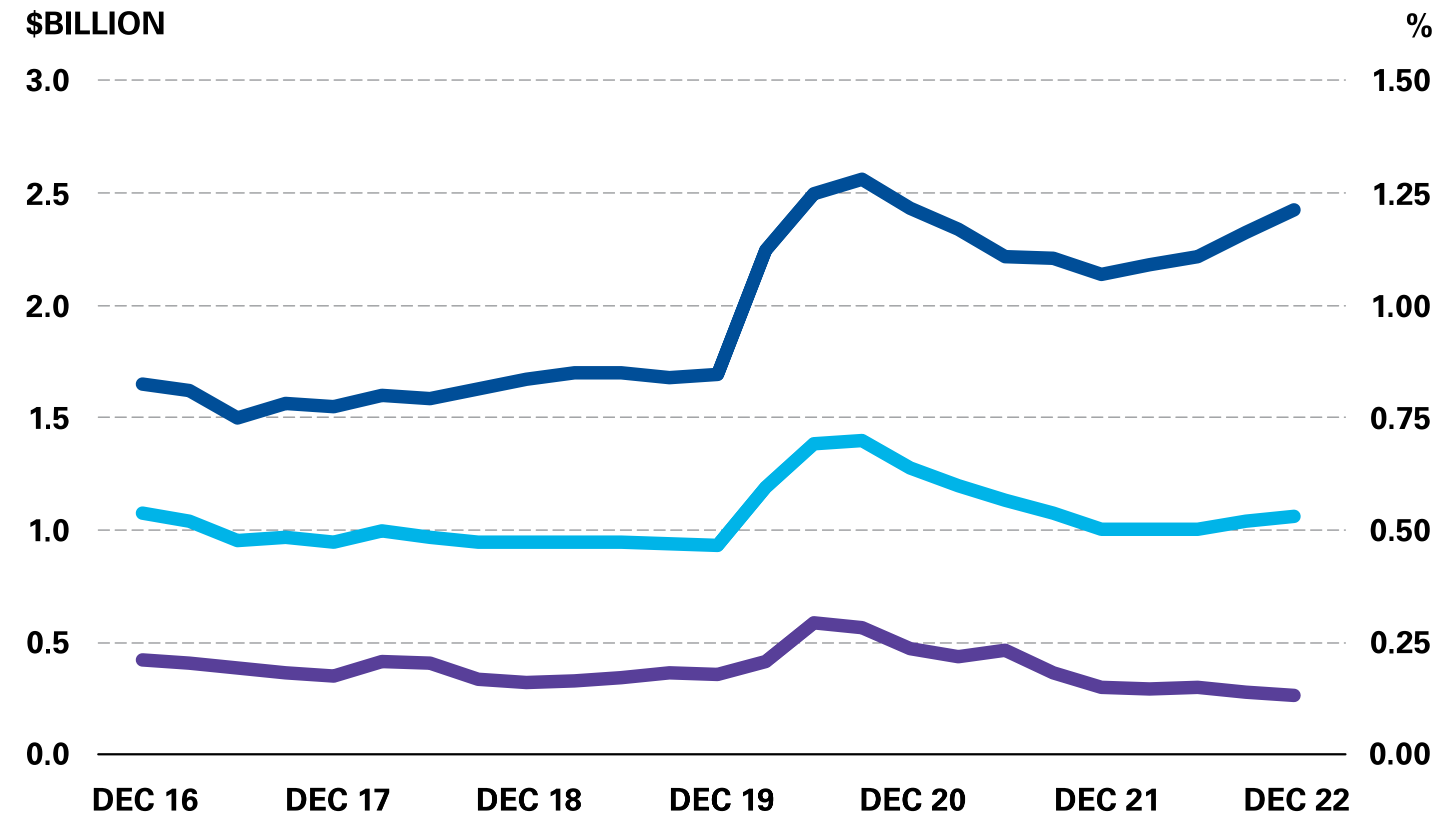
Asset quality

5 **MOVEMENT IN PROVISIONING**

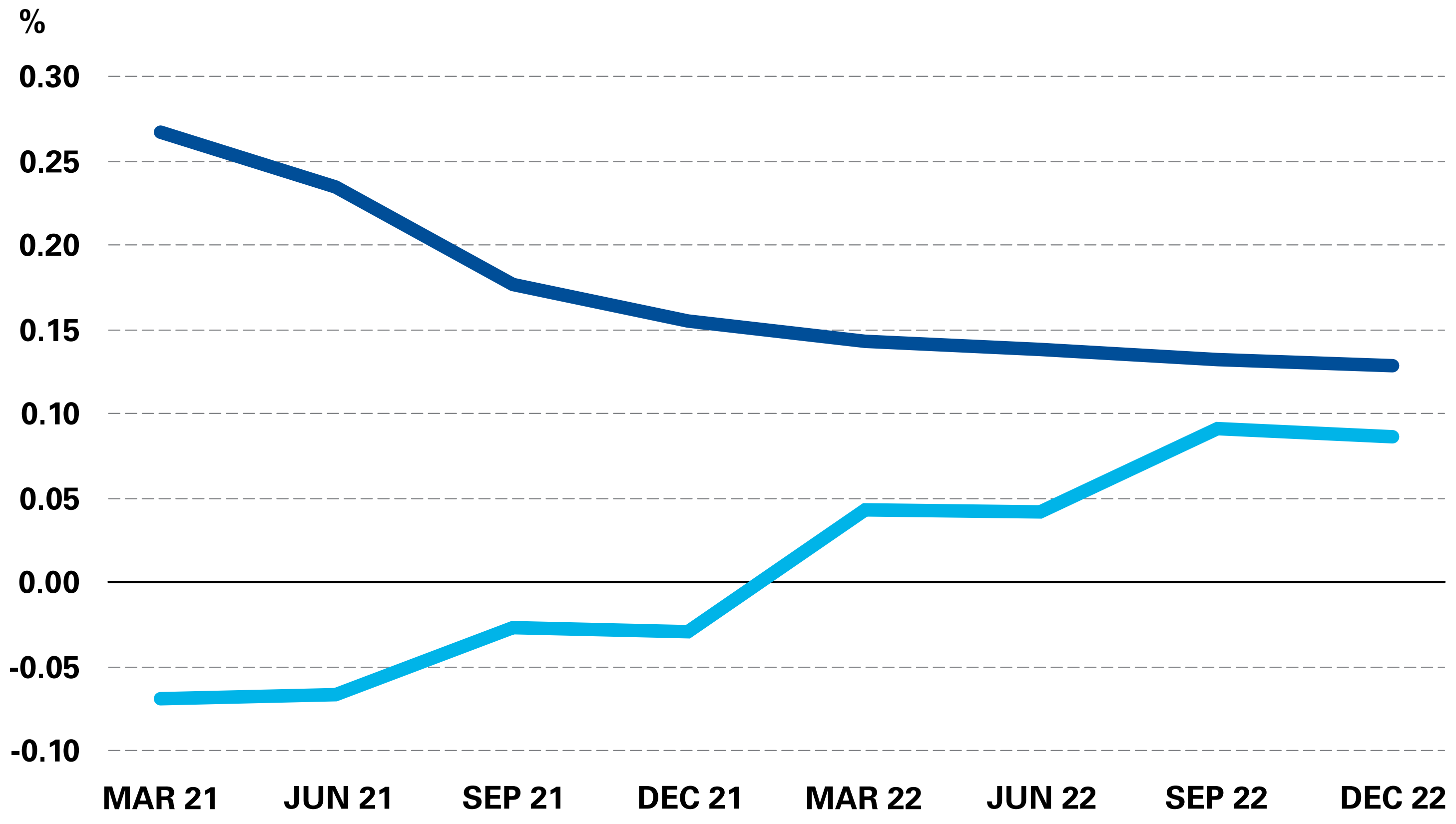


COLLECTIVE PROVISION (LHS)

INDIVIDUAL PROVISION (LHS)

TOTAL PROVISION FOR DOUBTFUL DEBTS/ GROSS LOANS AND ADVANCES (RHS)

6 **MAJOR BANKS: GROSS IMPAIRED VS. IMPAIRED ASSET EXPENSE**



GROSS IMPAIRED LOANS/ GROSS LOANS AND ADVANCES

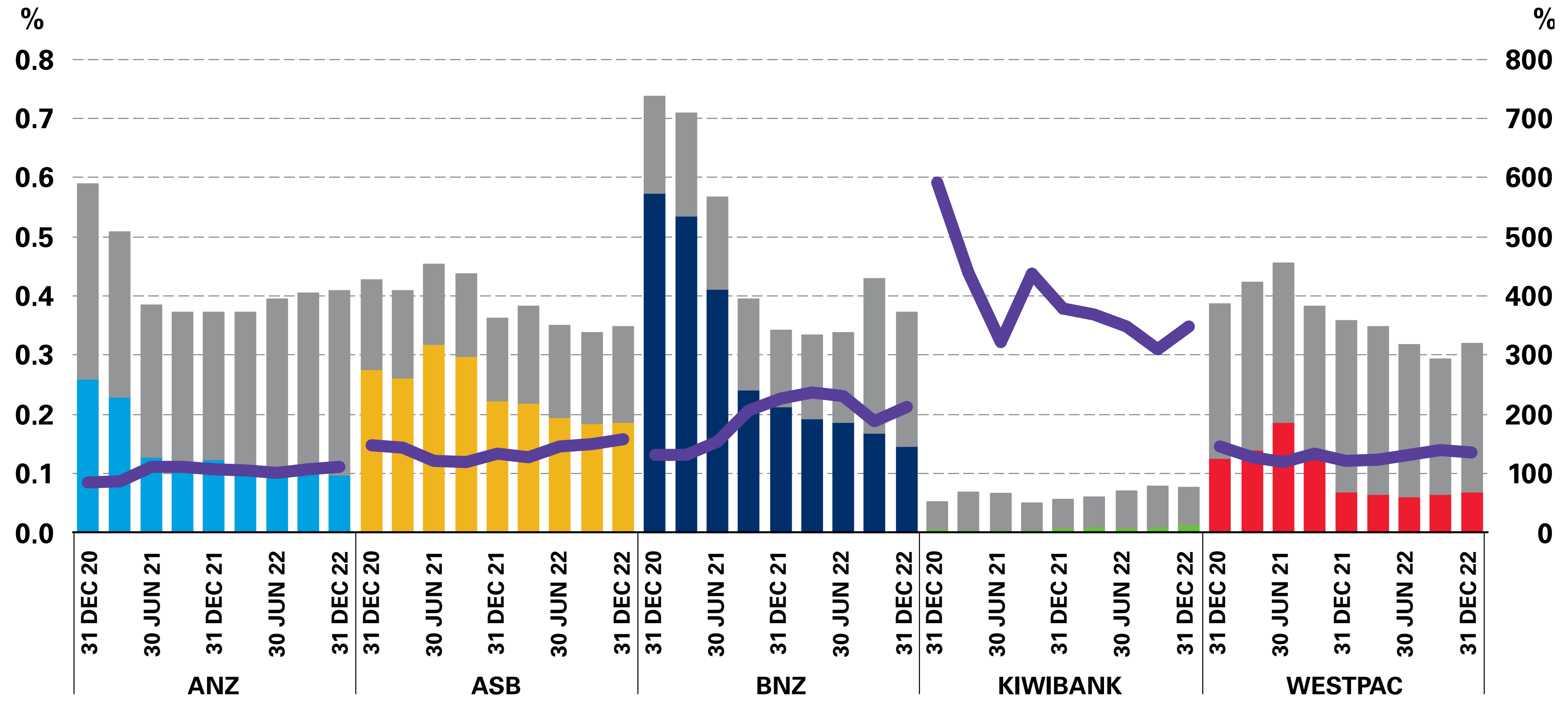
IMPAIRED ASSET EXPENSE/ AVERAGE GROSS LOANS AND ADVANCES

7 **MAJOR BANKS: PAST DUE AND GROSS IMPAIRED ASSETS VS. GROSS LOANS AND ADVANCES**

GROSS IMPAIRED/ GROSS LOANS AND ADVANCES (LHS)

PAST DUE/GROSS LOANS AND ADVANCES (LHS)

TOTAL PROVISIONS/ PAST DUE AND GROSS IMPAIRED ASSETS (RHS)



Major banks – Quarterly analysis

Size & strength measures

Entity[37]	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22
Total assets ($Million)								
ANZ	183,811	187,064	185,072	190,636	190,720	193,335	201,439	195,852
ASB	121,115	120,810	120,230	121,030	123,365	125,838	128,437	128,426
bnz	114,314	118,549	119,122	123,038	124,060	126,852	131,420	130,242
Heartland Bank	4,297	4,419	4,484	4,703	4,857	5,155	5,264	5,409
Kiwibank	27,546	28,230	29,379	30,970	30,589	31,548	32,017	33,368
SBS	4,832	4,789	4,889	5,024	5,220	5,421	5,519	5,771
TSB	8,789	8,725	8,780	8,934	8,961	8,925	8,943	9,124
The Co-operative Bank	3,122	3,171	3,194	3,239	3,198	3,189	3,261	3,331
Westpac	114,726	116,786	119,848	122,382	125,026	129,385	135,780	134,315
Total	582,552	592,543	594,998	609,954	615,994	629,647	652,079	645,838
Increase in gross loans and advances (%)								
ANZ	2.00	1.41	0.93	1.81	1.91	0.75	-0.03	-0.10
ASB	1.70	2.79	1.94	0.88	1.31	1.28	0.79	0.69
bnz	2.07	2.78	1.64	2.19	0.92	1.07	0.65	0.82
Heartland Bank	0.78	3.11	2.54	5.19	3.35	5.20	1.83	2.09
Kiwibank	3.16	2.51	3.49	3.87	0.85	1.27	1.84	2.28
SBS	0.01	0.23	2.00	3.78	2.59	2.82	3.87	4.50
TSB	2.09	2.32	1.53	1.70	-0.49	-0.23	1.96	3.21
The Co-operative Bank	1.61	2.05	-0.13	-1.36	-0.65	2.03	2.70	2.54
Westpac	1.40	2.13	0.15	0.81	0.65	1.40	1.65	0.55
Average	1.86	2.20	1.30	1.63	1.25	1.13	0.81	0.64

Entity[37]	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22
Capital adequacy (%)								
ANZ[38]	15.90	15.50	16.90	16.40	15.10	15.60	16.40	16.40
ASB[38]	14.80	15.10	14.50	14.60	13.40	15.00	15.00	15.50
bnz	16.00	16.50	16.90	16.40	15.30	15.00	15.40	15.30
Heartland Bank	14.40	13.90	14.00	14.00	13.10	13.40	12.90	13.10
Kiwibank	13.20	13.20	12.80	13.70	13.80	13.60	13.60	13.40
SBS	15.70	16.20	16.30	16.00	15.40	15.00	14.60	13.90
TSB	15.00	14.20	14.10	13.70	13.50	13.60	13.40	13.10
The Co-operative Bank	16.90	16.80	16.10	16.90	16.90	16.60	16.70	16.70
Westpac[38]	18.20	18.80	18.60	19.00	14.50	14.80	13.90	14.20
Net profit ($Million)								
ANZ	563	487	503	496	600	620	583	531
ASB	348	317	367	382	349	356	438	420
bnz	357	318	344	356	353	377	328	424
Heartland Bank	18	20	20	21	19	30	17	20
Kiwibank	40	31	32	32	36	32	55	44
SBS	12	13	11	10	11	8	10	11
TSB	11	13	12	9	5	13	7	10
The Co-operative Bank	4	4	5	4	-1	3	4	5
Westpac	290	249	219	305	373	290	331	307
Total	1,643	1,452	1,512	1,614	1,744	1,728	1,773	1,771

Major banks – Quarterly analysis

Profitability measures

Entity[37]	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22
Interest margin (%)								
ANZ	2.10	2.10	2.00	2.00	2.10	2.20	2.30	2.40
ASB	2.10	2.00	2.00	2.10	2.10	2.20	2.50	2.50
bnz	2.10	2.00	2.00	2.00	2.10	2.20	2.40	2.50
Heartland Bank	4.80	4.90	4.80	4.50	4.30	4.60	4.10	4.20
Kiwibank	2.10	2.10	2.10	2.00	2.10	2.30	2.40	2.50
sbs	2.70	2.90	2.80	2.70	2.60	2.60	2.60	2.70
TSB	1.80	1.80	1.80	1.90	1.90	2.10	2.10	2.20
The Co-operative Bank	2.40	2.40	2.30	2.20	2.30	2.50	2.70	2.60
Westpac	2.00	2.00	1.90	2.00	2.00	2.10	2.20	2.30

Entity[37]	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22
Non-interest income/Total assets (%)								
ANZ	0.53	0.40	0.53	0.54	0.65	0.71	0.43	0.21
ASB	0.56	0.55	0.67	0.48	0.53	0.55	0.51	0.41
bnz	0.72	0.50	0.66	0.61	0.51	0.53	0.39	0.41
Heartland Bank	0.32	0.39	0.39	0.33	0.29	0.45	0.18	0.35
Kiwibank	0.26	0.15	0.22	0.19	0.09	0.32	0.45	0.14
sbs	0.65	0.74	0.71	0.66	0.49	0.83	0.85	0.59
TSB	0.20	0.22	0.28	0.19	0.21	0.67	0.37	0.25
The Co-operative Bank	0.58	0.62	0.65	0.57	0.60	0.43	0.53	0.55
Westpac	0.48	0.33	0.42	0.40	0.65	0.64	0.51	0.16
Average	0.55	0.43	0.54	0.49	0.56	0.61	0.45	0.28

Entity[37]	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22
Impaired asset expense/Average gross loans and advances (%)								
ANZ	-0.17	-0.10	-0.03	-0.03	-0.03	0.03	0.13	0.06
ASB	-0.06	-0.07	-0.04	-0.02	0.06	0.14	0.00	0.18
bnz	0.04	-0.06	-0.07	-0.03	0.14	0.00	0.26	-0.01
Heartland Bank	0.52	0.54	0.46	0.40	0.36	-0.37	0.37	0.42
Kiwibank	0.01	-0.31	0.05	0.06	0.02	0.11	0.03	0.14
sbs	-0.13	0.06	0.28	0.22	0.03	0.31	0.24	0.22
TSB	-0.11	-0.12	-0.31	-0.04	-0.02	-0.05	-0.09	-0.17
The Co-operative Bank	-0.30	0.06	-0.06	0.01	0.00	0.03	0.07	0.04
Westpac	-0.05	0.04	0.02	-0.09	0.03	-0.02	-0.03	0.11
Average	-0.07	-0.06	-0.02	-0.03	0.04	0.04	0.09	0.09

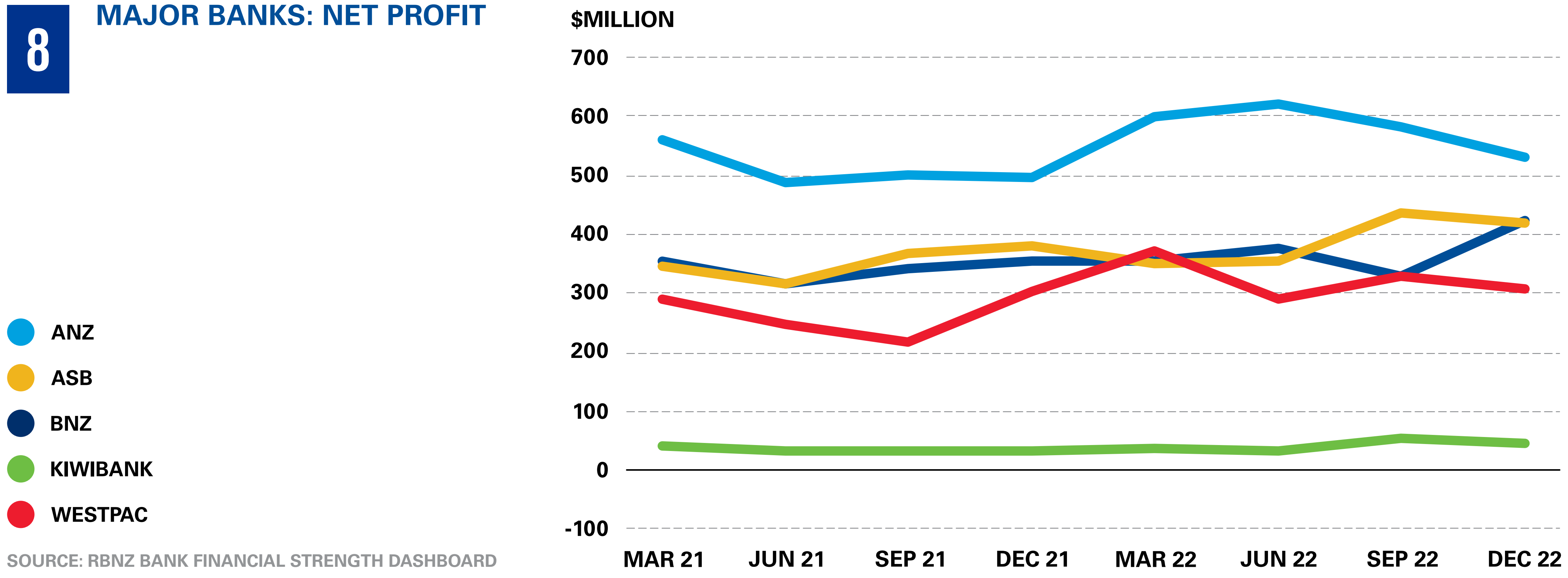
Entity[37]	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22
Operating expenses/Operating income (%)								
ANZ	34.29	38.88	39.25	39.19	32.19	32.76	32.08	35.26
ASB	37.66	44.62	37.77	32.43	37.51	38.03	34.68	31.42
bnz	32.75	38.23	39.02	35.31	29.70	34.67	37.28	33.80
Heartland Bank	43.47	42.93	42.53	43.40	42.00	39.29	48.91	43.98
Kiwibank	65.25	84.38	70.88	70.67	68.78	71.77	62.10	64.82
sbs	61.87	56.21	57.51	62.23	59.74	64.46	61.48	61.28
TSB	68.38	65.02	74.84	74.23	85.71	68.63	88.55	80.37
The Co-operative Bank	81.61	71.86	72.41	72.65	105.26	79.91	76.68	73.44
Westpac	41.67	44.98	49.95	41.15	38.40	43.00	40.05	41.29
Average	38.53	43.97	43.07	39.69	37.10	39.03	38.15	37.93

Major banks – Quarterly analysis

Q4 22 Q4 21 Q4 20 Q4 19

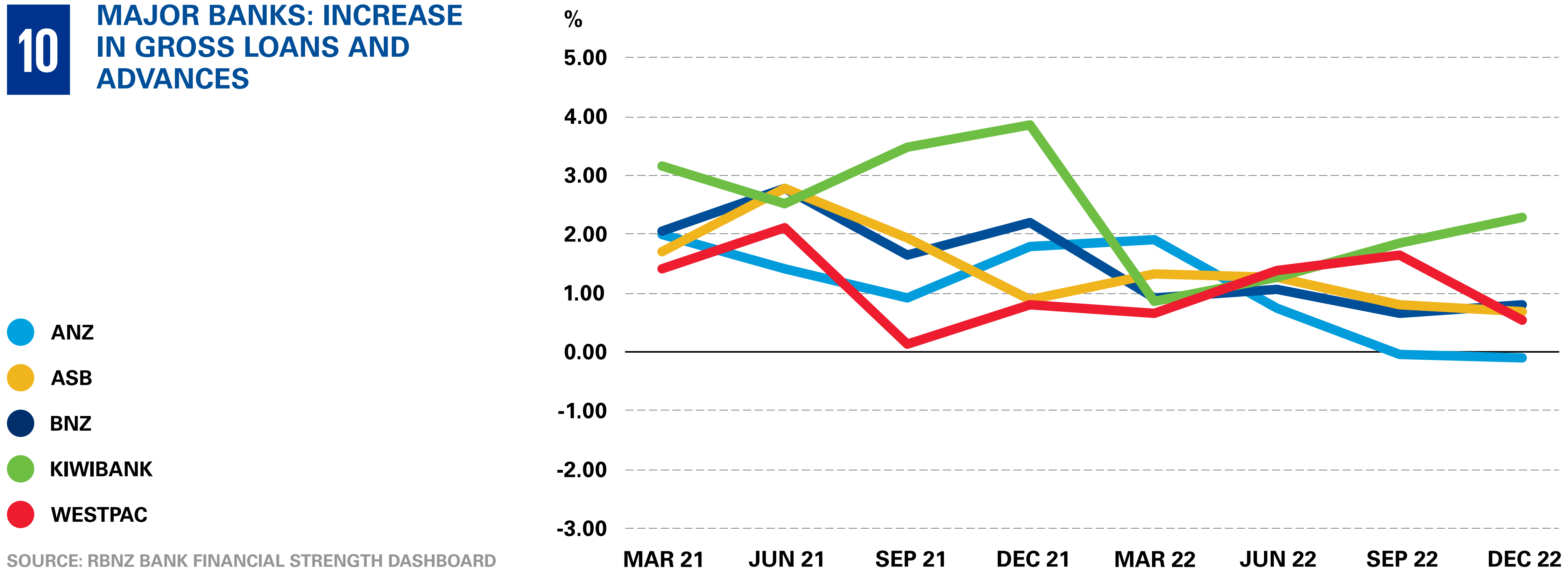
HOVER over the button to see the results for each quarter

8 MAJOR BANKS: NET PROFIT



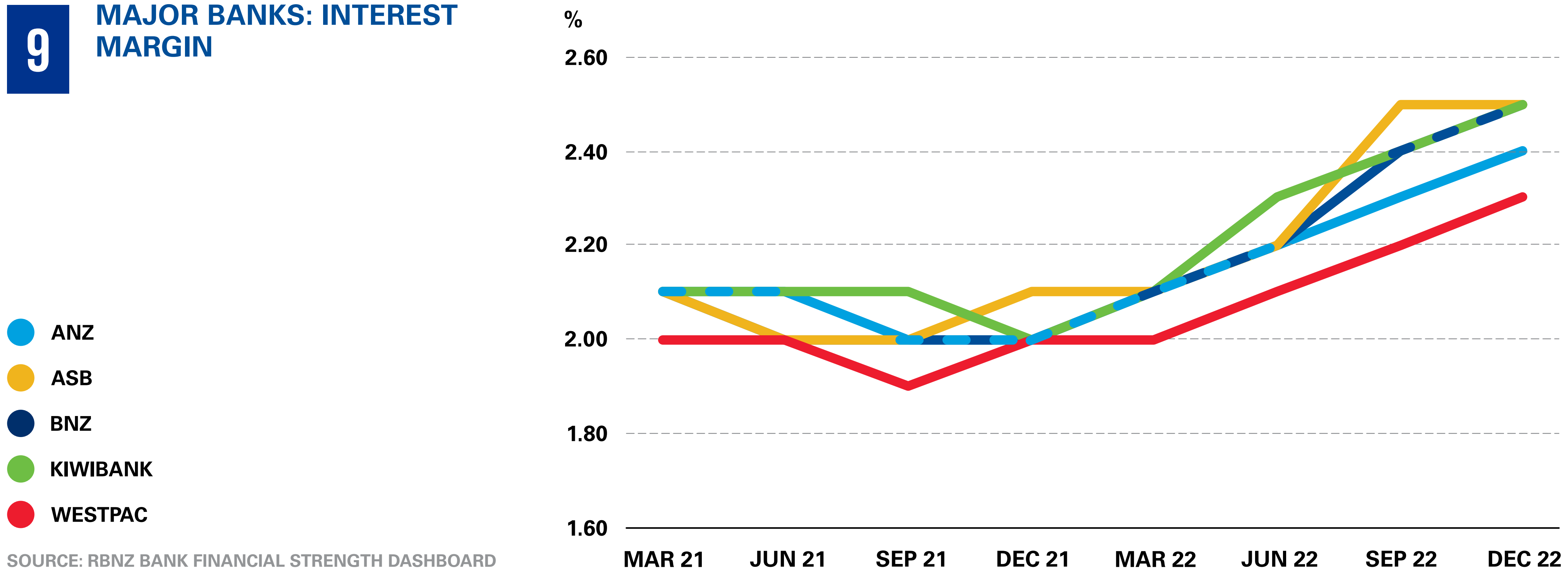
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

10 MAJOR BANKS: INCREASE IN GROSS LOANS AND ADVANCES



SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

9 MAJOR BANKS: INTEREST MARGIN



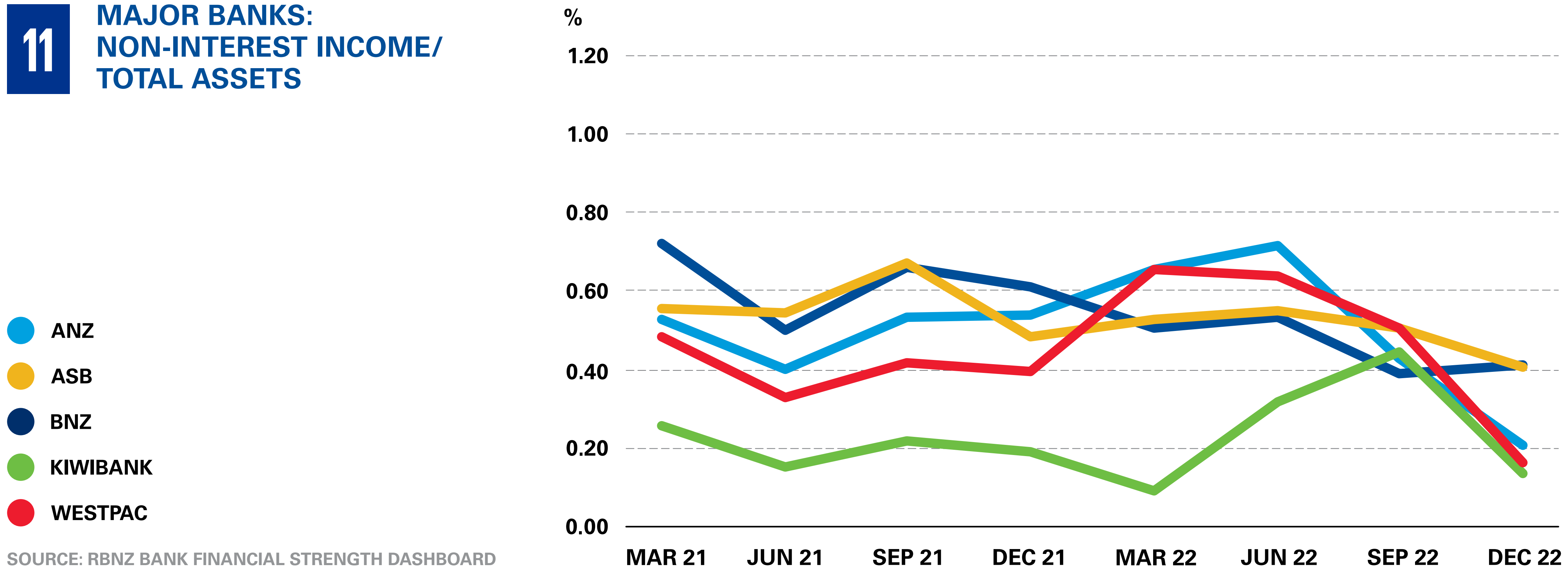
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

Major banks – Quarterly analysis

Q4 22 Q4 21 Q4 20 Q4 19

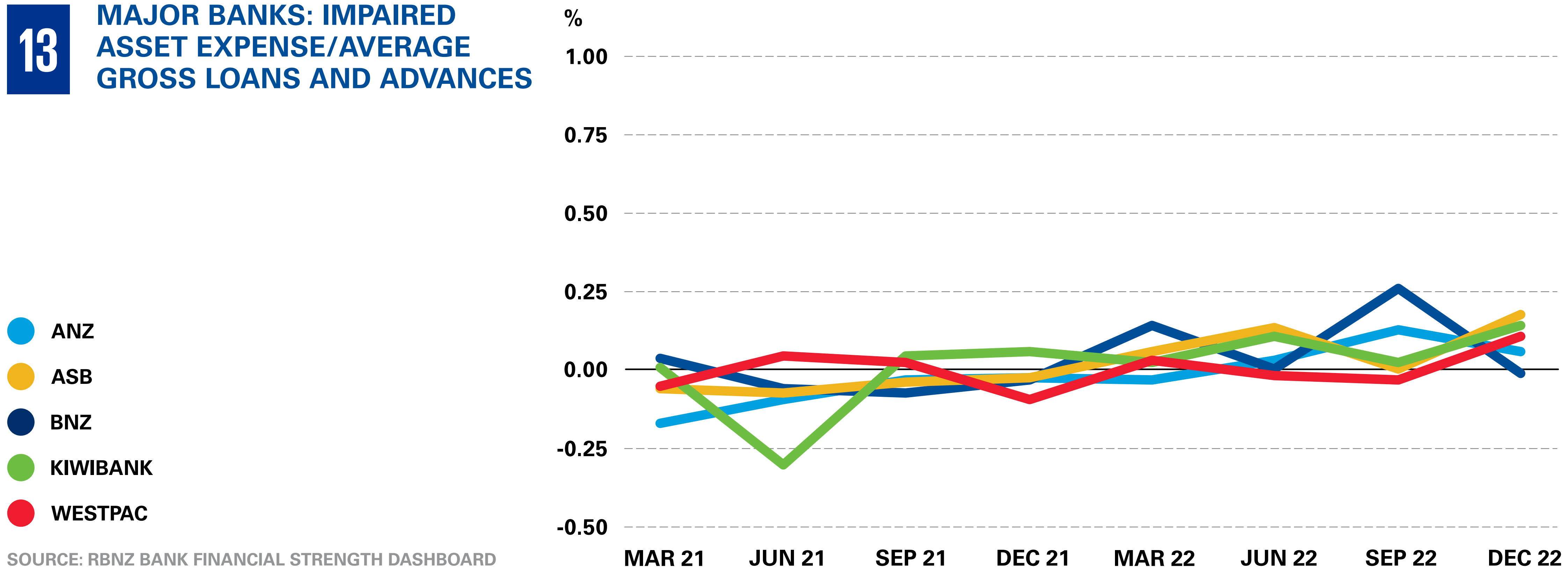
HOVER over the button to see the results for each quarter

11 MAJOR BANKS: NON-INTEREST INCOME/ TOTAL ASSETS



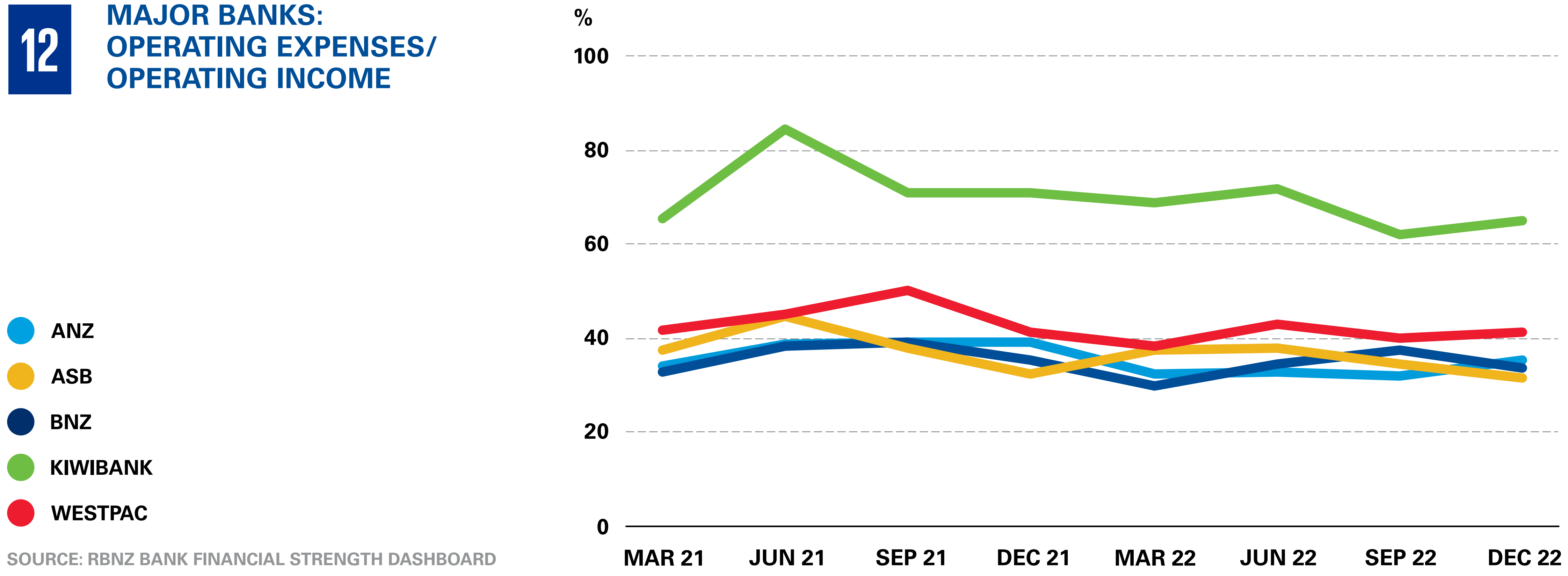
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

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



SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

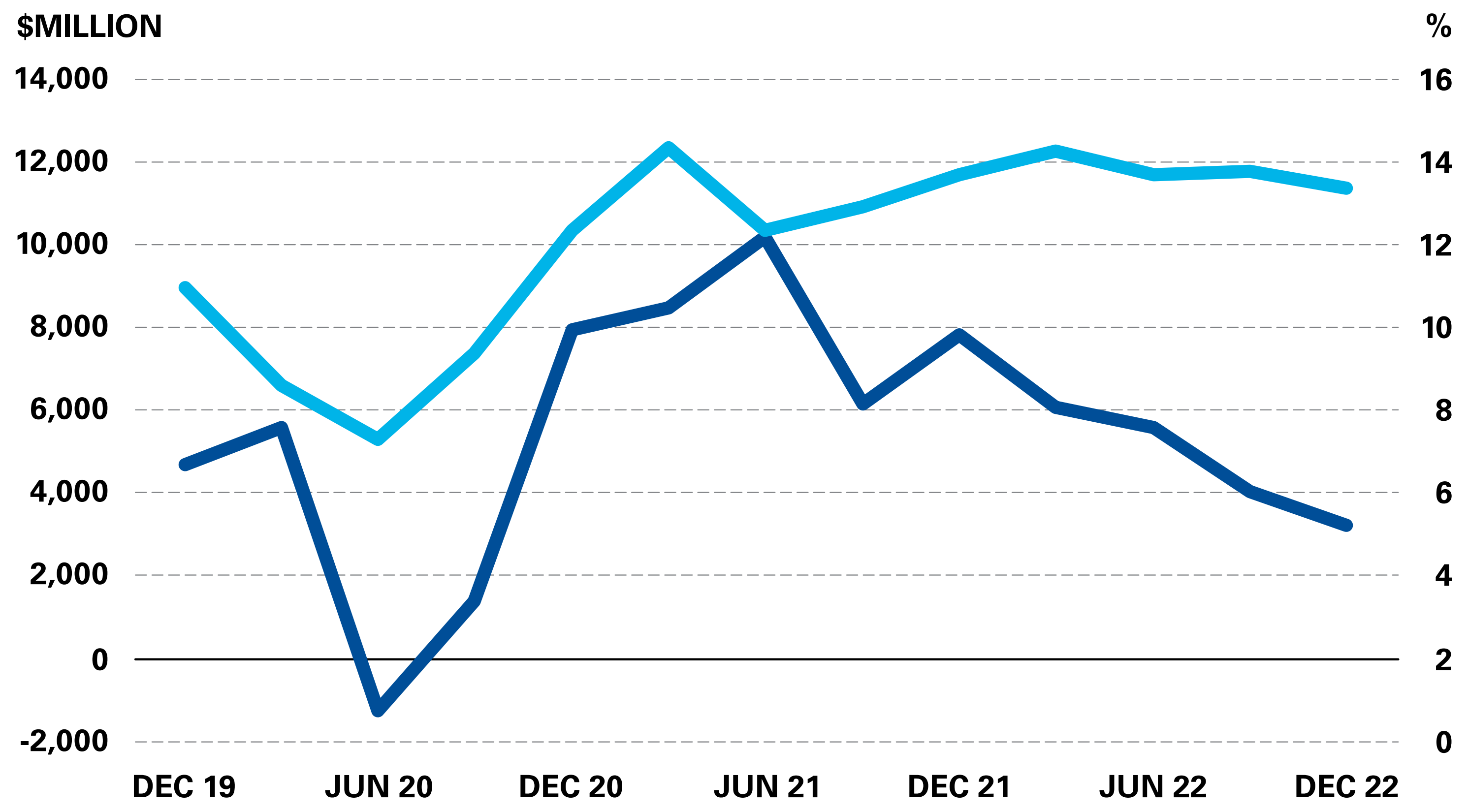
12 MAJOR BANKS: OPERATING EXPENSES/ OPERATING INCOME



SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

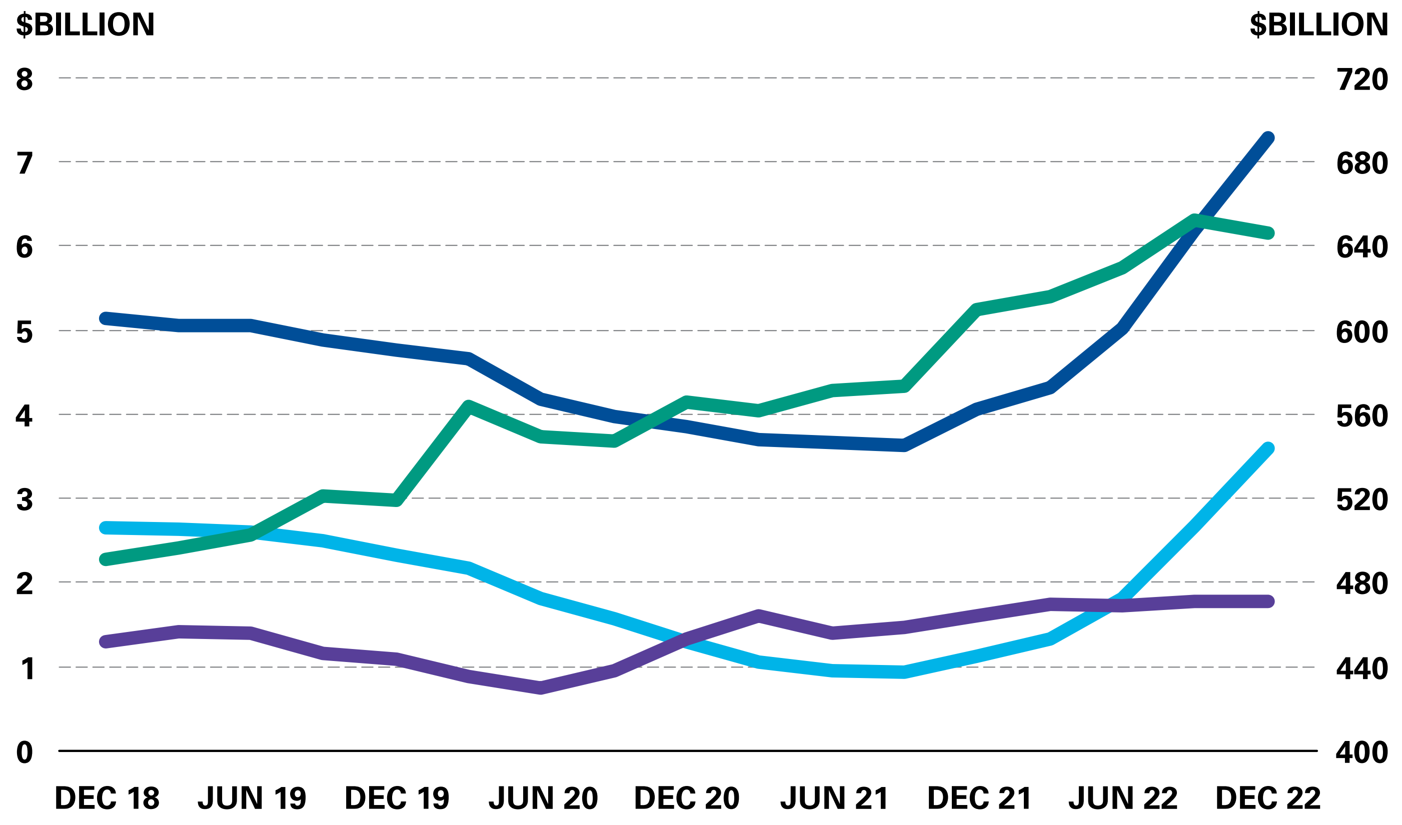
Quarterly analysis

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



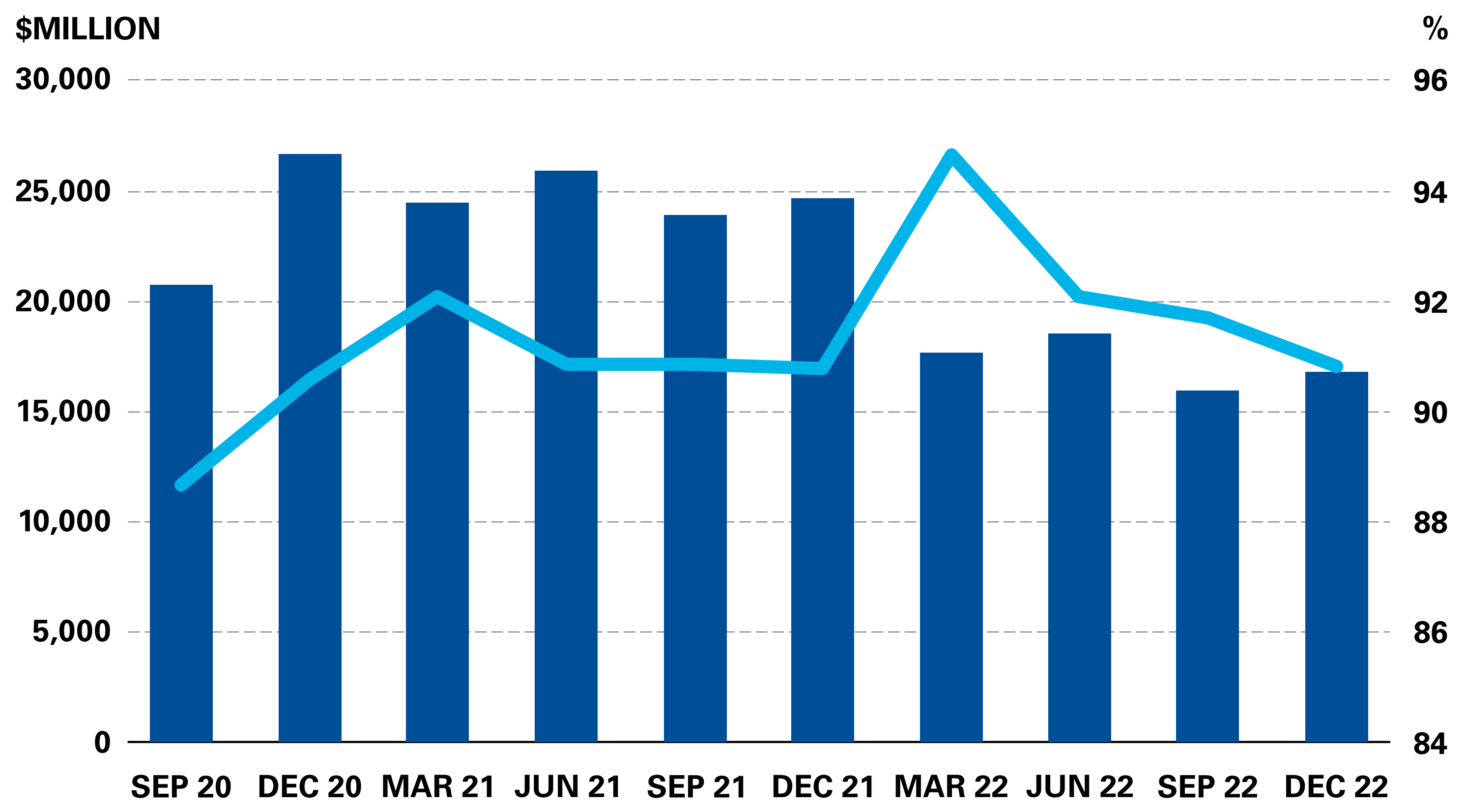
- GROWTH IN GROSS LOANS AND ADVANCES (LHS)
- RETURN ON EQUITY (RHS)

15 MAJOR BANKS: INTEREST EARNING ASSETS COMPARED TO INTEREST INCOME AND EXPENSE



- INTEREST INCOME (LHS)
- INTEREST EXPENSE (LHS)
- NET PROFIT (LHS)
- TOTAL ASSETS (RHS)

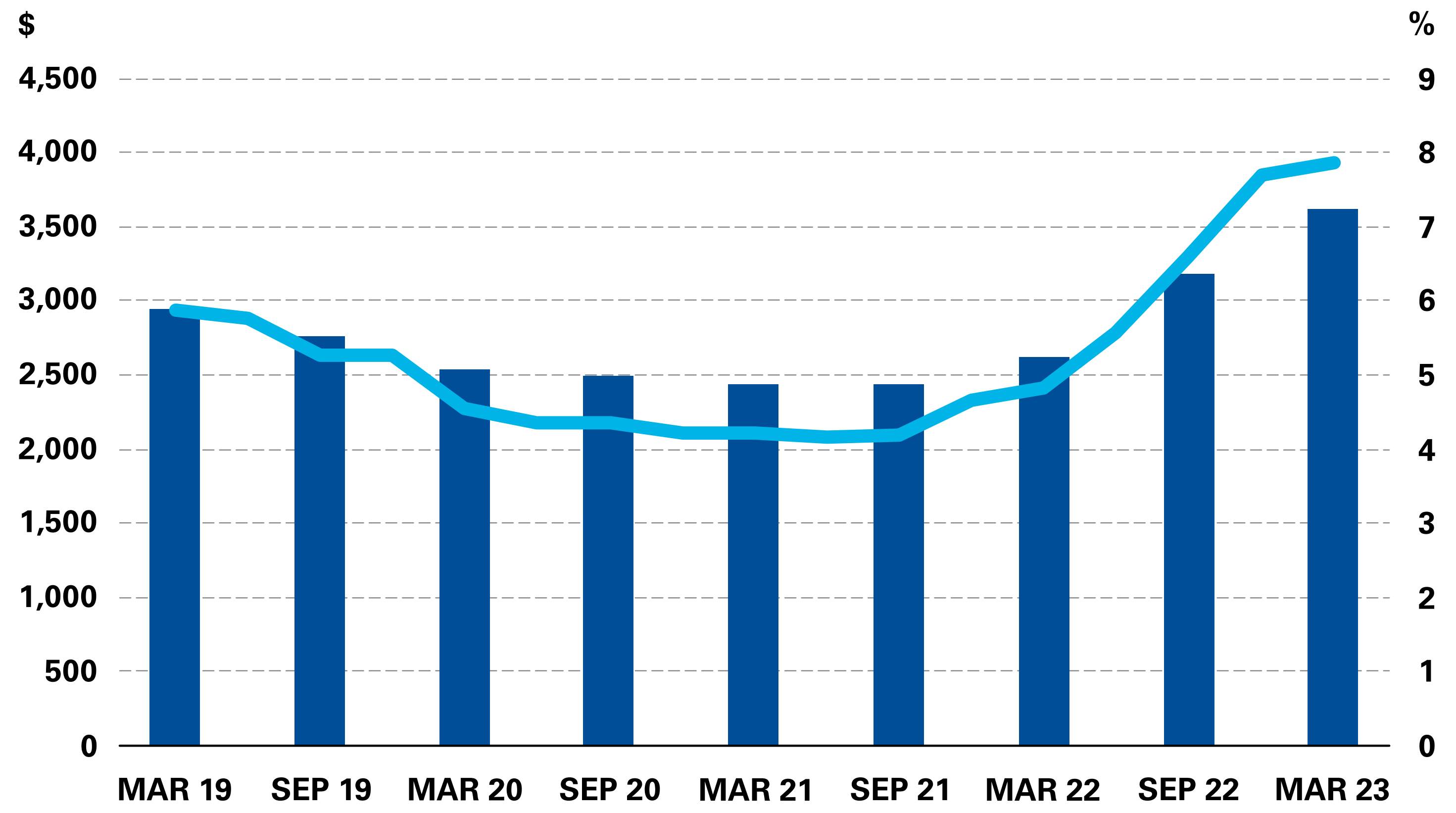
16 LVR ANALYSIS OF RESIDENTIAL MORTGAGES



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

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

17 MONTHLY MORTGAGE REPAYMENTS BASED UPON AVERAGE BANK FLOATING MORTGAGE INTEREST RATES ON A 30-YEAR $500,000 MORTGAGE



- MONTHLY MORTGAGE REPAYMENTS (LHS)
- AVERAGE BANK FLOATING MORTGAGE INTEREST RATE (%) (RHS)

SOURCE: INTEREST.CO.NZ

Credit challenges loom for Kiwi households in 2023

Keith McLaughlin
Managing Director,
Centrix Group Limited

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 end of 2022 was a challenge for many households across the country, as people continue to grapple with the high cost of living spurred on by inflation and climbing interest rates.

Adding to this sentiment was the fact New Zealand's Gross Domestic Product (GDP) fell 0.6% in the last three months of 2022. Despite coming off several quarters of consistent upward growth, this fall fuels ongoing concern that the country is heading towards an engineered recession this year.

Furthermore, in April 2023 the Reserve Bank of New Zealand (RBNZ) made the eleventh consecutive increase to the Official Cash Rate (OCR), up an additional 50 basis points (bps) to 5.25%. We expect 2023 will remain a challenging year for many Kiwi households who are adjusting to increasingly tough economic conditions.

High arrears indicate ongoing struggles

Looking at where the pressure points are, climbing mortgage arrears are a clear indication rising interest rates are beginning to take a toll on Kiwi households.

Mortgage arrears rose for the seventh consecutive month in February 2023, which is out of line with seasonal trends observed most years.

In fact, 1.29% of mortgages – or 18,900 – were recorded past due in February 2023. This is up 23% year-on-year and could be attributed to people rolling off fixed home loans and being unable to service higher interest rates.

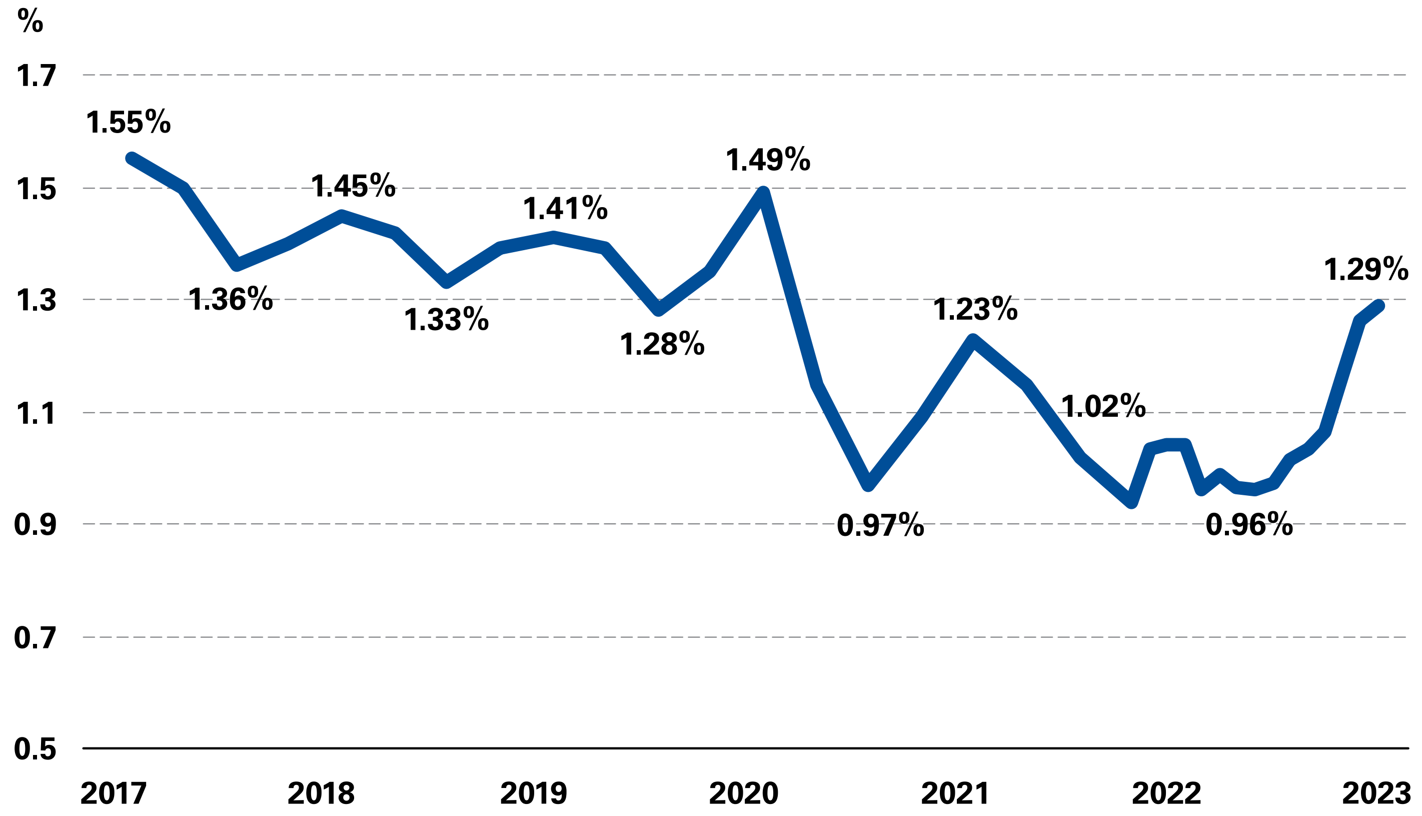
18 See Figure 18 – page 20

This is a concerning trend to observe, and only time will tell if this translates into increased mortgage defaults in the coming months.

> "We expect 2023 will remain a challenging year for many Kiwi households who are adjusting to increasingly tough economic conditions.

> "Mortgage arrears rose for the seventh consecutive month in February 2023.

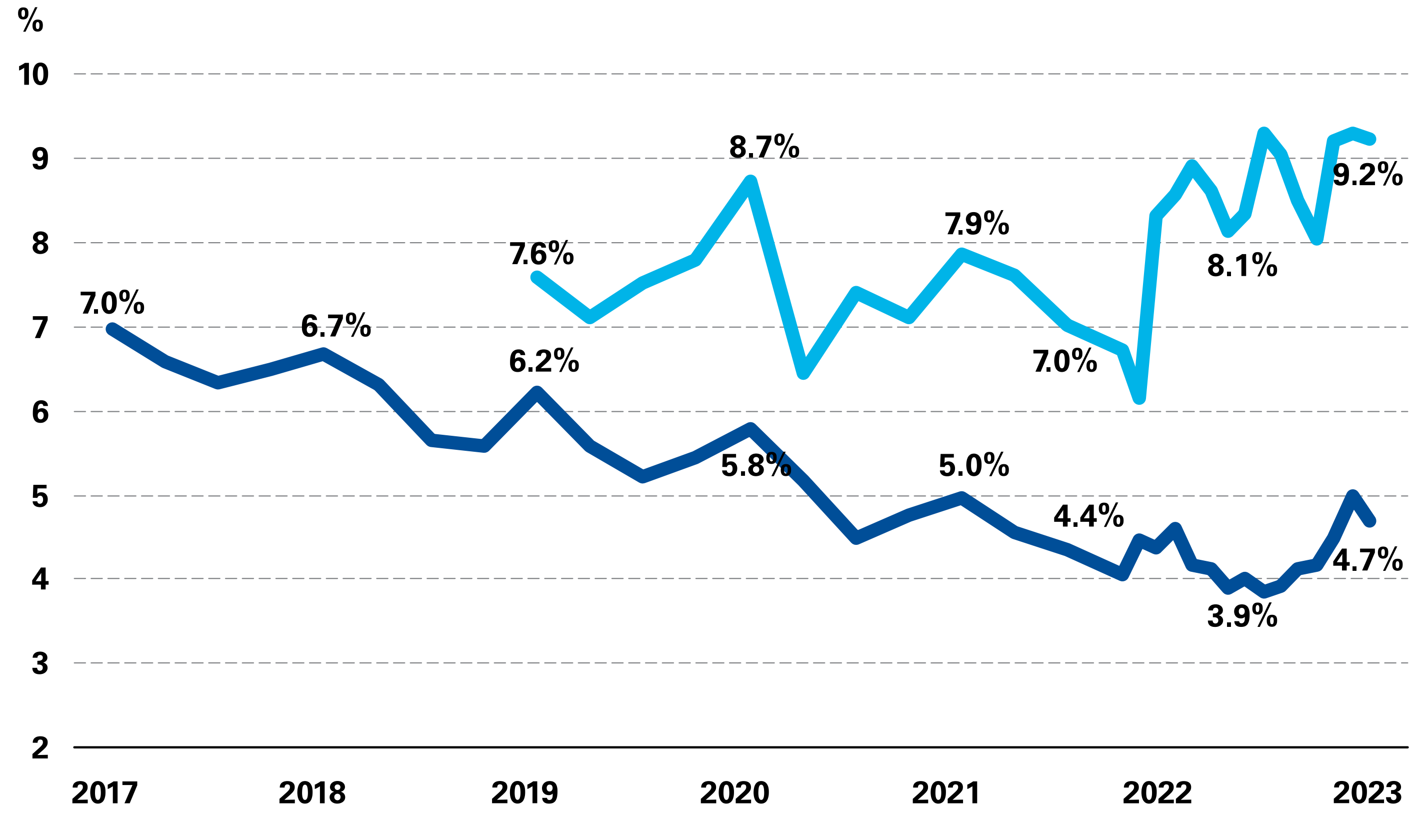
18 HOME LOAN ARREARS



HOME LOAN ARREARS

SOURCE: CENTRIX

20 CREDIT CARD AND BNPL ARREARS

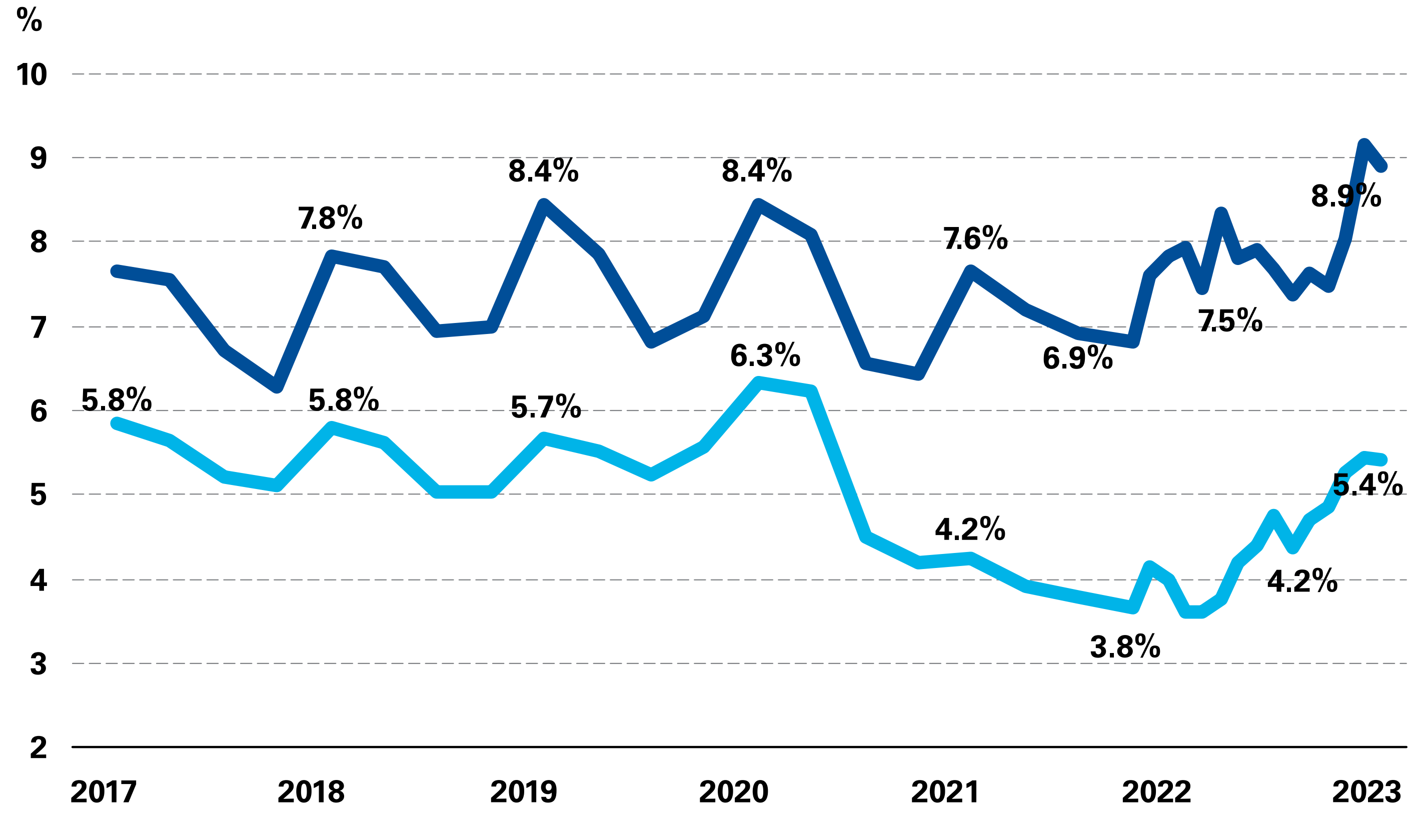


CREDIT CARDS

BNPL

SOURCE: CENTRIX

19 CONSUMER LOAN ARREARS

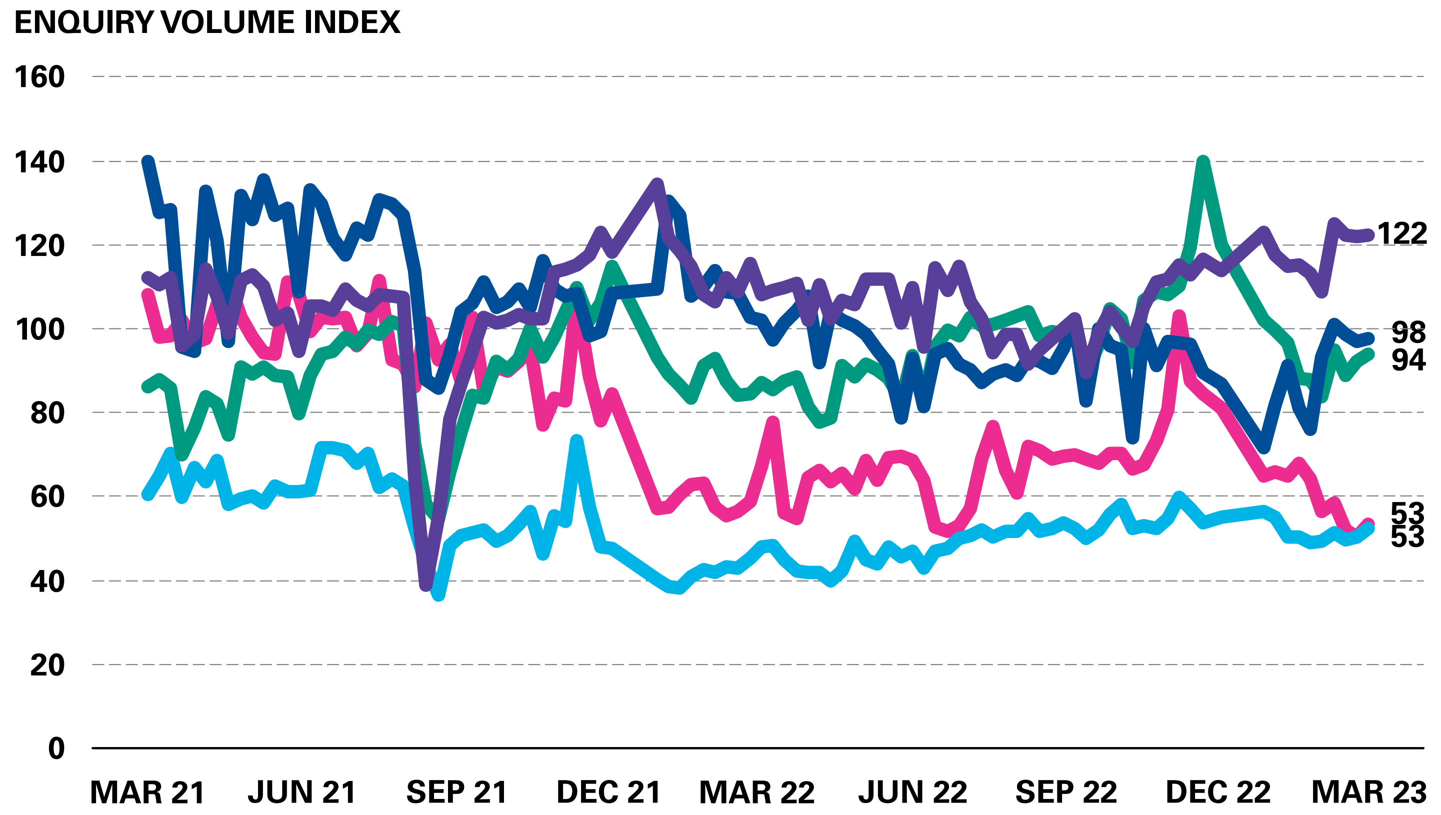


PERSONAL LOANS

AUTO LOANS

SOURCE: CENTRIX

21 CREDIT DEMAND BY PRODUCT TYPE



MORTGAGES

CREDIT CARDS

AUTO LOANS

PERSONAL LOANS

BNPL

SOURCE: CENTRIX

> When it comes to actual new lending figures, consumer lending was up 19% year-on-year in February 2023, driven largely by new personal and auto loans.

Overall arrears (for all consumer-related products) softened slightly in February when compared to January (8.9% compared to 9.2%), aligning to seasonal trends.

While they remain up year-on-year (compared to 7.8% in February 2022) as household cost pressures continue to persist, overall arrears still remain below pre-Covid-19 levels.

19 See Figure 19 – page 20

When we look at credit card and Buy Now, Pay Later (BNPL) arrears, we see a similar upward swing beginning during the Christmas season in 2022 and persisting into the first three months of 2023.

20 See Figure 20 – page 20

Consumer lending demand remains high

While arrears climbed, so too did demand for new lending across most credit products.

Consumer credit demand was up 3% year-on-year in February 2023, driven by demand for credit cards, auto and personal loans.

As we rounded out 2022, there was a spike in personal loan demand seen in November, which has subsequently slowed.

21 See Figure 21 – page 20

Furthermore, the demand for auto finance has also risen in early 2023 after fairly flat and subdued activity throughout 2022.

Interestingly, BNPL new customer enquiries have fallen to the lowest level recorded since 2017, down 9.9% year-on-year in February 2023.

After several years of strong, consistent growth in demand, this comes as less of a surprise as consumers who are interested in BNPL credit products are likely to already have them.

Coupled with the rising arrears, this decline in demand is a good indicator of consumer confidence and priorities when it comes to discretionary spending.

When it comes to actual new lending figures, consumer lending was up 19% year-on-year in February 2023, driven largely by new personal and auto loans.

22 See Figure 22 – page 22

Housing market remains subdued

The same, however, cannot be said for new mortgage lending. In fact, new mortgage lending was down 42% year-on-year in February 2023 as the housing market continues to grapple with the ongoing downturn in activity.

23 See Figure 23 – page 22

This downturn has been well recorded and reported on throughout 2022 following an extremely hot market in 2021.

When considered alongside mortgage arrears figures, the overall slowdown of the real estate market appears to point towards the broader economic sentiment of many households.

The latest RBNZ's OCR increase to 5.25% in April 2023 will likely lead to further mortgage repayment strain for many households across the country as mortgage interest rates may be impacted.

> New mortgage borrowing was down **42%** year-on-year in February 2023.

Those who took out mortgages at the height of the market are experiencing increased financial stress as arrears climb.

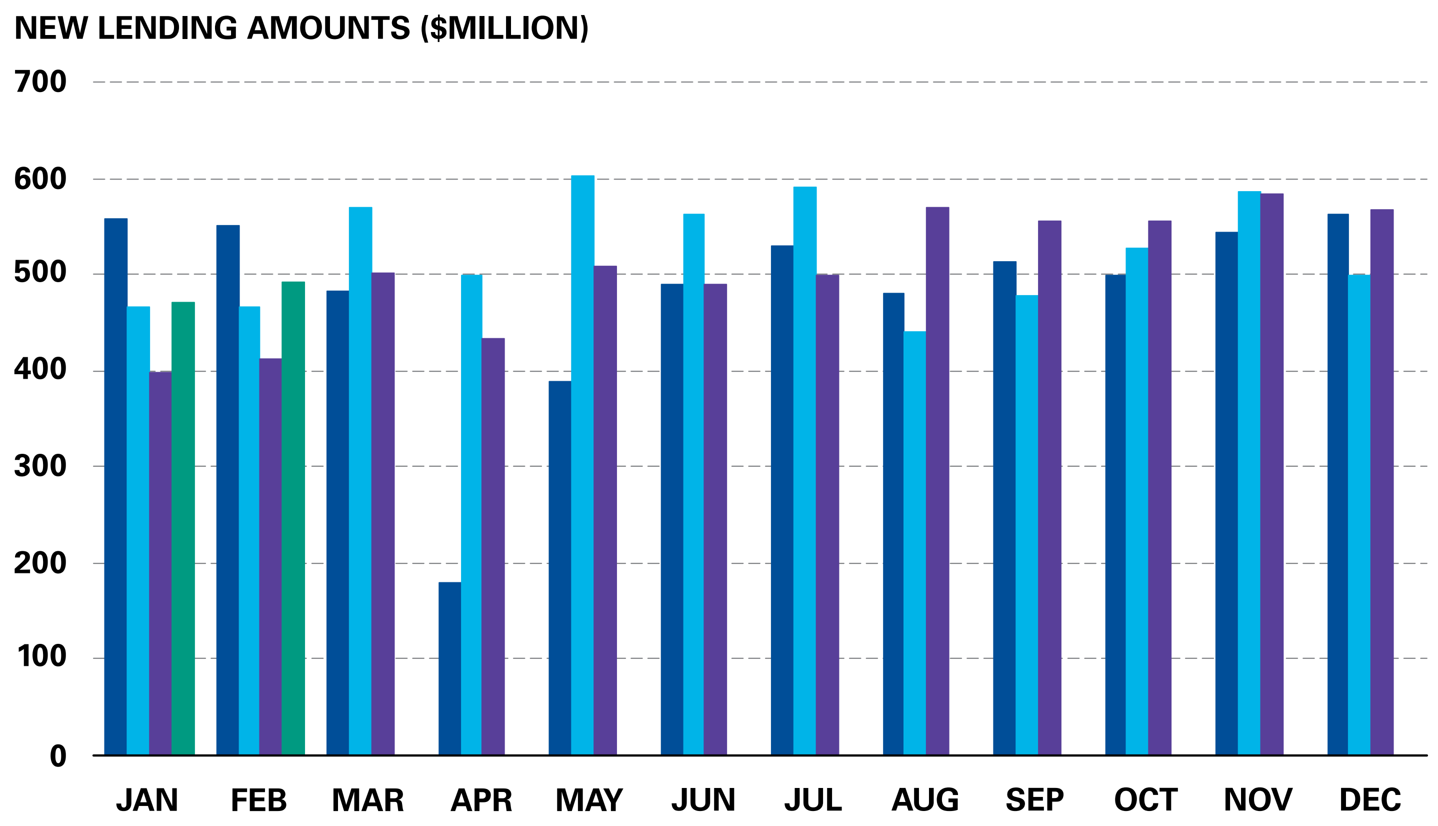
24 See Figure 24 – page 22

Another interesting out take is the rise of interest-only mortgages, which grew in January 2023 to make up 3.93% of all residential mortgages compared to 3.63% in January 2022.

25 See Figure 25 – page 22

As this figure grows, so to do the number of interest-only mortgages in arrears, climbing from 0.55% in January 2022 to 0.85% in January 2023 – a 54% year-on-year increase.

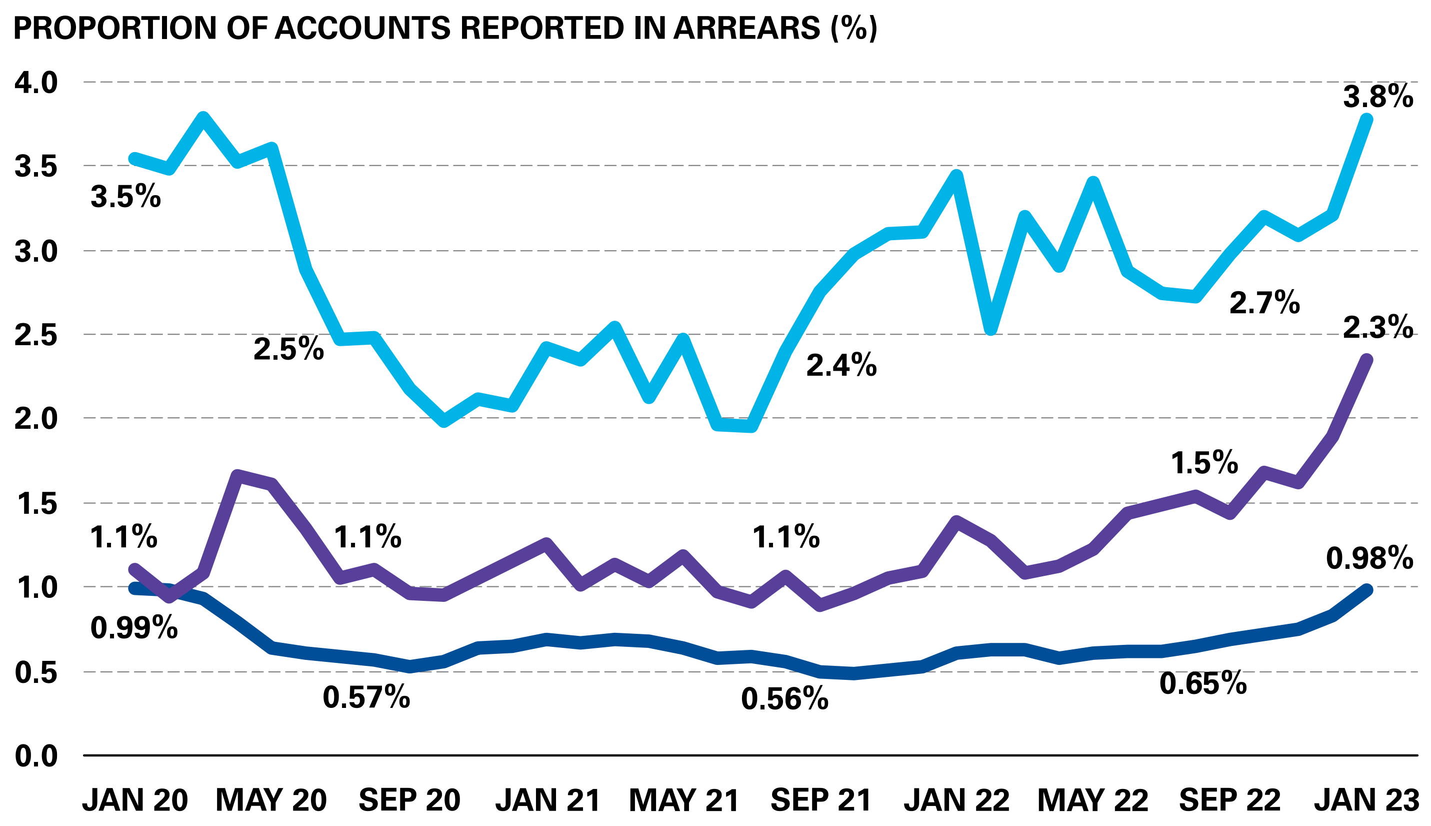
22 NEW LENDING EXPOSURE: CONSUMER LOANS



2020
2021
2022
2023

SOURCE: CENTRIX

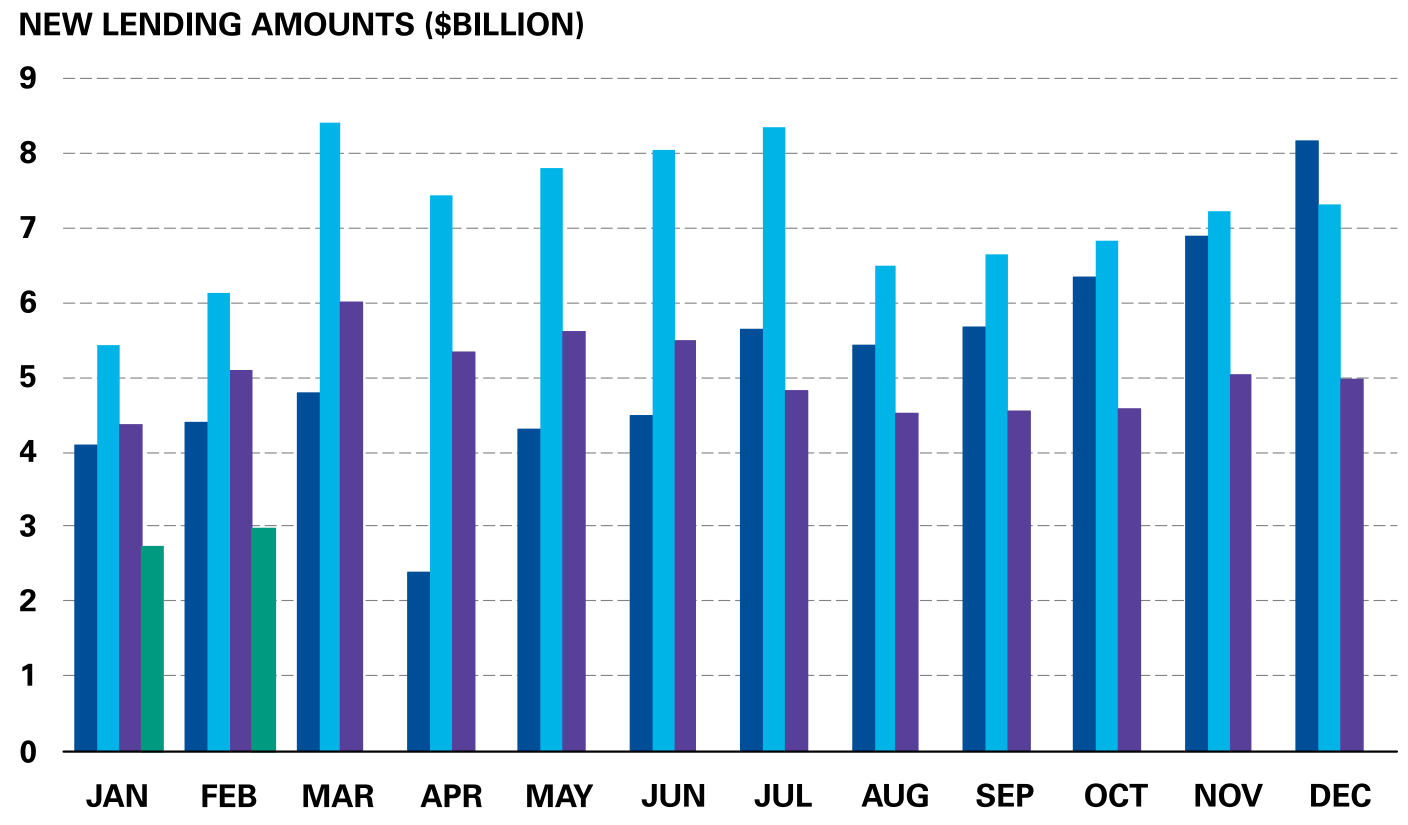
24 CONSUMER ARREARS FOR RECENT MORTGAGE BORROWERS



MORTGAGES
PERSONAL LOANS
AUTO LOANS

SOURCE: CENTRIX

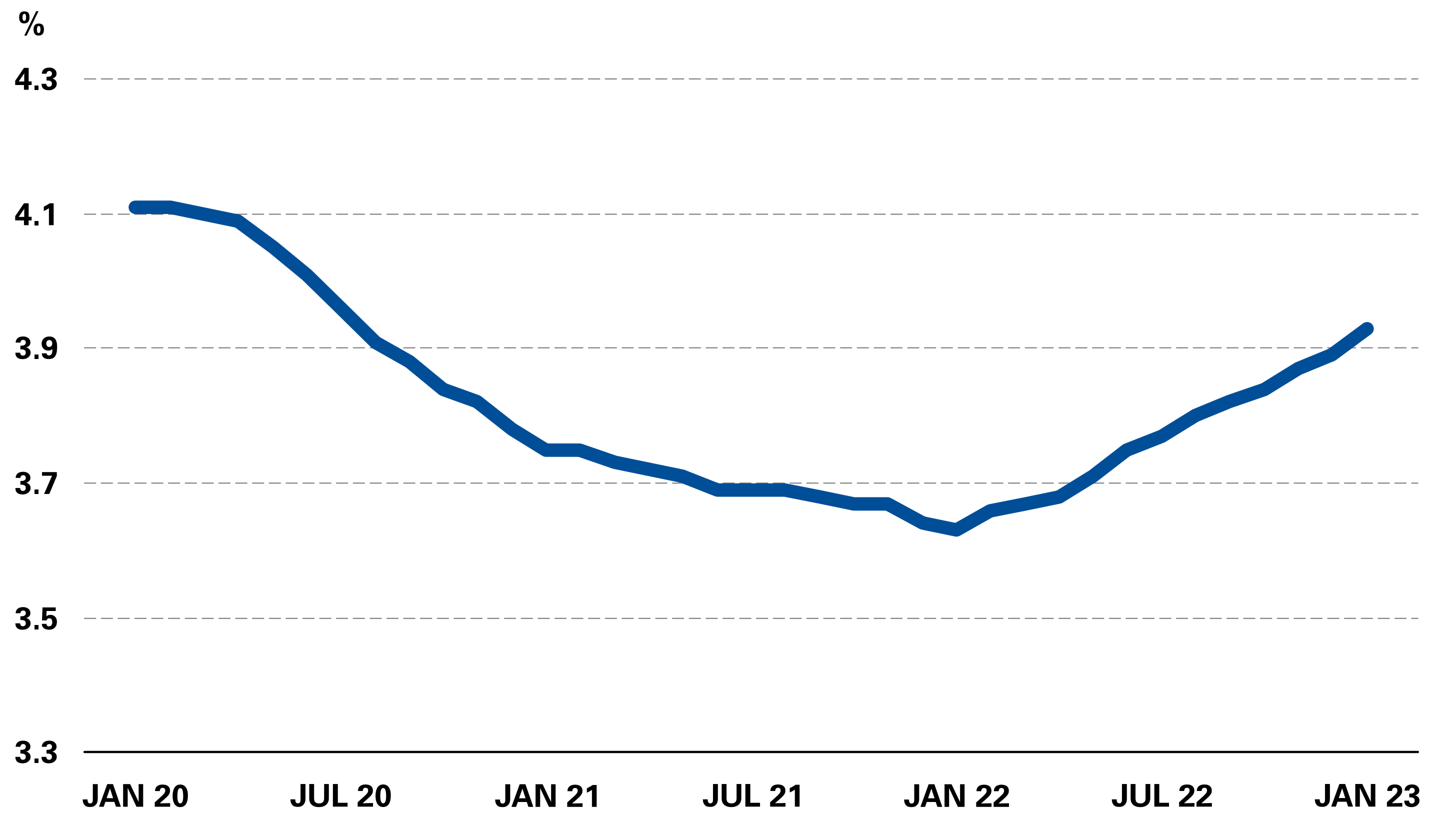
23 NEW LENDING EXPOSURE: MORTGAGES



2020
2021
2022
2023

SOURCE: CENTRIX

25 PERCENTAGE OF RESIDENTIAL MORTGAGES THAT ARE REPORTED AS INTEREST ONLY LOANS (NOT INCLUDING REVOLVING LOANS)



PERCENTAGE OF MORTGAGES THAT ARE INTEREST ONLY LOANS

SOURCE: CENTRIX

> **The RBNZ is showing no signs of slowing down their efforts to curb inflation, while the increased cost of living and higher interest rates are being passed onto Kiwi households.**

TABLE 5: Change in credit demand and credit defaults by sector

Sector	Δ Credit demand	Δ Credit defaults	Average credit score
Construction	+4%	+8%	765 ↓
Hospitality	-7%	-2%	748 ↓
Retail Trade	-8%	+3%	777 ↓
Transport	+10%	-9%	745 ↓
Property/Rental	-5%	-9%	824 ↑

Kiwi business owners split on credit

Hospitality and retail sectors have encouragingly seen improving credit defaults in the last month, while tourism continues strengthening after three downturned years due to Covid-19 border restrictions.

However, it seems that the RBNZ's attempts to curb inflation are ultimately resulting in pain for businesses in several sectors – most notably the construction and retail industries.

Both sectors saw defaults climb year-on-year in February 2023, with construction seeing an increased number of companies collapsing while owing significant debt resulting from a slowdown in projects due to both supply and labour shortages.

See **Table 5**.

The slowdown in retail also stems from low consumer confidence as the current economic climate isn't conducive to discretionary spending. After a lot of activity during the Christmas period, many Kiwi consumers are now working through their repayments rather than new spending.

This environment is also reflected in the New Zealand Institute of Economic Research's latest *Quarterly Survey of Business Opinion*[39], which found sales to be the biggest constraint on businesses for the first quarter of 2023.

What's next for 2023?

The RBNZ is showing no signs of slowing down their efforts to curb inflation, while the increased cost of living and higher interest rates are being passed onto Kiwi households.

In an election year, the economy is likely to be one of the major battlegrounds for political parties to stake their claim, which will continue to put pressure on the RBNZ to achieve results.

Furthermore, the next GDP update in June will be hotly anticipated to see whether Aotearoa has had two consecutive quarters of negative growth and is officially in a state of recession.

One thing seems certain though – many households across the country are likely to continue feeling the impact of the current economic climate for many months to come.

End notes

1. https://www.rbnz.govt.nz/hub/-/media/project/sites/rbnz/files/publications/monetary-policy-statements/2023/mpsfeb23.pdf
2. https://businessdesk.co.nz/article/reserve-banks-orr-cutting-ocr-in-light-of-cyclone-makes-no-sense
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