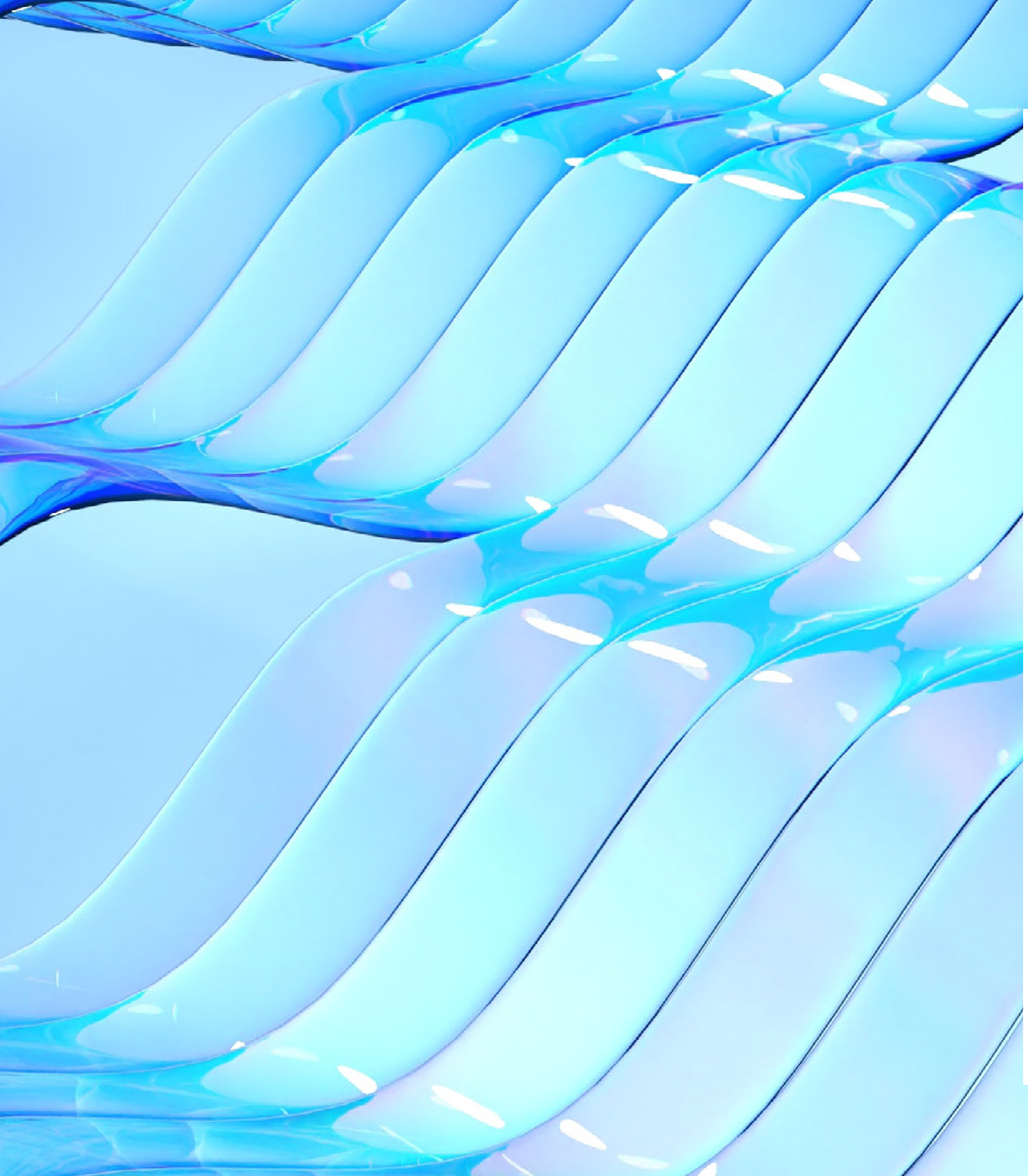
FIPS

Financial Institutions Performance Survey

Non-Bank – Review of 2023



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A snapshot of 2023

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2 **15.37%** increase in operating expenses

3 **9.16%** rise in net interest income

4 **18 bps** drop in net interest margins

5 **9.59%** increase in gross lending

6 **93.30%** rise in average funding costs

7 **50.40%** decrease in gross impaired assets

8 **28.69%** increase in provisions

The Survey

Welcome to Part One of the 2023 edition of the Financial Institutions Performance Survey – the non-bank sector review.

Our survey of non-bank financial institutions captures the financial performance of entities with annual balance dates between 1 October 2022 and 30 September 2023. The threshold for inclusion in this year's survey continues to be based on total assets of $75 million in one of the last two years.

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

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

There have been a number of changes during the year, following the introduction of three new survey participants: General Finance Limited, Prospa Group Limited and Resimac Financial Services Limited.

The 2023 survey incorporates these new participants, as they meet the threshold based on total assets and have publicly available audited financial statements.

General Finance Limited is a financial services group listed on the NZX and is a NBDT. It accepts deposits from the public and lends funds to borrowers secured over residential property.

Prospa Group Limited is one of Australia and New Zealand's larger online lenders to small businesses. The company is listed on the ASX and has delivered over $3.6 billion in loans and facilities since their inception.

Resimac Financial Services Limited is one of Australia and New Zealand's premier non-bank home loan lenders. Resimac is listed on the ASX and has a loan book of over $14 billion.

Additionally, we note that FUJIFILM Leasing New Zealand Limited has departed the survey this year.

Due to the inclusion and departure of the entities listed above, some comparative totals have been restated from the 2022 edition of the non-bank FIPS publication. Further, the audited financial statements of both Harmoney Corp Limited and Prospa Group Limited are presented in AUD. For the purposes of presentation and currency cohesion in this FIPS publication, we have converted these financial statements into NZD using the applicable Reserve Bank of New Zealand exchange rate as at their respective balance dates.

We would also like to draw special attention once again to the differing balance dates of our survey participants. While our survey covers the 2023 year, our respondents have a range of balance dates, with the earliest being the 52 weeks to 30 October 2022 and the most recent reporting period for the year ended 30 September 2023. It is important to recognise that the results of each entity will reflect the different state of the economy during the year and at their various balance dates, with the results of those entities with later balance dates reflecting the impact of the rapidly rising Official Cash Rate and high inflation. When reading the industry analysis text and comparing the performance of any entities in the survey, these factors should be taken into consideration.

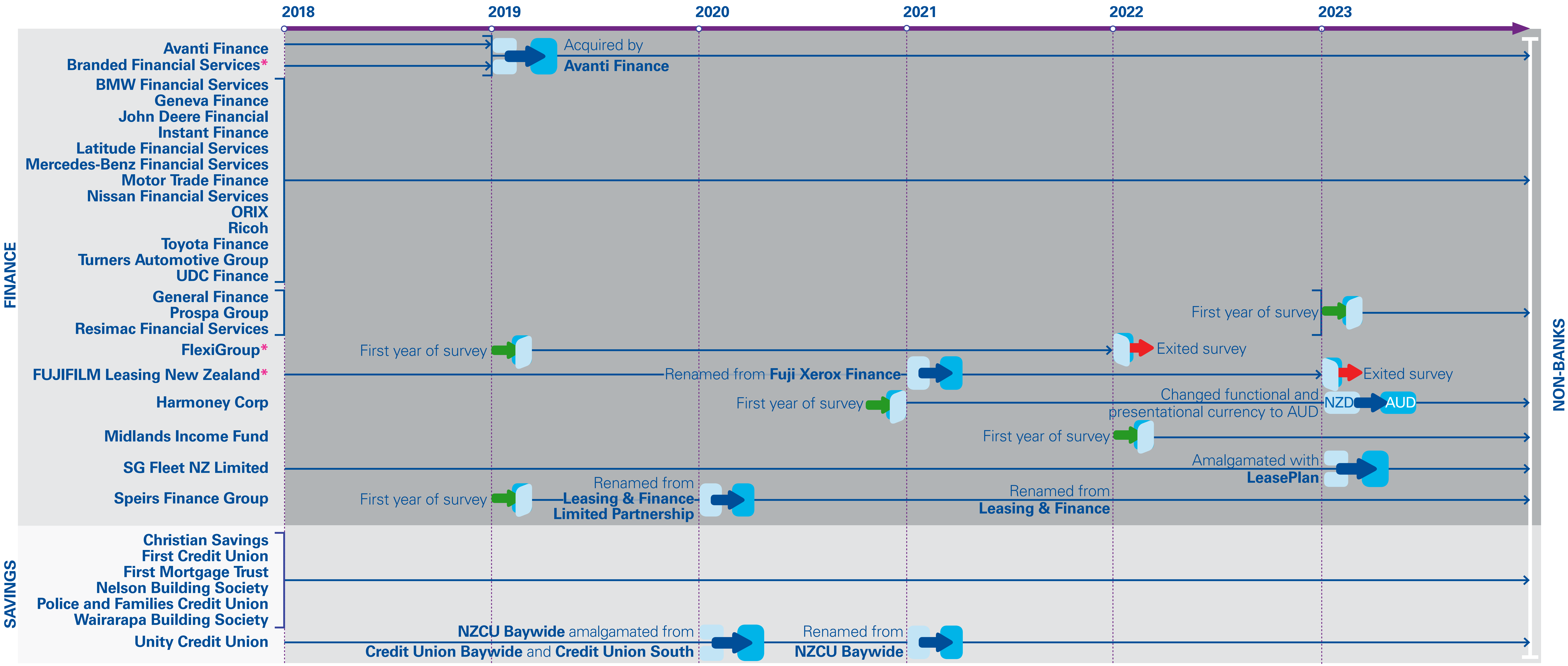
We would also note the inclusion of the results of our parallel survey on **page 6** we conducted alongside the CEO/CFO interviews. The survey identifies what the non-bank sector sees as the biggest risks, top priorities, largest area of expenditure, key technology challenges and the importance of Environmental, Social and Governance as mentioned by survey participants.

Finally, we would like to acknowledge and thank the survey participants (CEOs and CFOs) for their valuable contributions. Their time and contributions are greatly appreciated as they add significant insights around the challenges and opportunities that the non-bank sector faces.

TABLE 1: Entity movements

	Who's out	Who's in
Non-banks: 28	FUJIFILM Leasing New Zealand Limited	General Finance Limited, Prospa Group Limited, Resimac Financial Services Limited

Looking back at the sector



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

A KPMG view from the editor

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

John has been with KPMG's Financial Services audit team for over 39 years, 26 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 a Financial services audit partner, 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 External Reporting Board (XRB). John is also a fellow of CA ANZ, a member of the Institute of Directors and a Trustee of Breast Cancer Cure.

This year as I sit down to write the letter from the Editor for the non-bank FIPS, I find myself in the unusual situation of having heard six very clear and dominant themes from the sector participants.

The non-bank sector has, despite more challenging economic circumstances, continued to grow and while profitability is down a little and interest margins have come under pressure, by and large survey participants were confident that they continue to fill an important part of the market. The participants' view is that there remains a real need for their services and products and they will just need to adjust the way that they operate slightly in these tougher time.

Across the wide range of interviews that we conducted with CEOs and CFOs there were six clear messages they discussed with us.

1. **The current economic environment** – over the past two years, survey participants have endured the fastest and steepest rise in interest rates as the Reserve Bank of New Zealand (RBNZ) raised the Official Cash Rate (OCR) from a low of 0.25% to its current position of 5.5%. Many participants were unsure at the beginning of this journey how far the interest rate rises would go or how quickly they would occur, but they have all noted that their cost of funds have risen at least as quickly, if not more quickly, than they are able to pass rate rises on to customers in both new lending and their back book. Many participants talked about how foregoing the passing on of one of the rate rises proved to be a bit of a tactical error particularly with the quantum and speed of the following rate rises.

   The other point that survey participants made alongside this was that at the same time, with rising rates they were needing to test customers' ability to pay at rates that were a lot higher than the quoted OCR which is often used as the reference rate in discussions. While conducting this testing they noticed that the majority of loan applicants were also facing a reduction in their disposable income due to the dual impact of rising interest rates and inflation. In order to comply with the Credit Contracts and Consumer Finance Act 2003 and responsible lending, many loans were unable to be completed. As such their businesses faced the threat of increasing costs, increasing cost of funds and a downturn in both their margin and loan growth. This led many to question whether or not they needed a change in business models such that they could react more quickly to such accelerated rate changes. Kiwis prefer their borrowing to be fixed so that they know their costs and this adds an extra risk management aspect for the entities who fund those loans if they fund them as floating.

2. **Regulation** – the messages we heard in relation to regulation have not changed from prior years, but were still strong. The comments that we most commonly heard were that sometimes it was hard to see what the exact problem was that the regulation was trying to fix, and when it was enacted, it always seemed to be a gilt-edged product and there never seemed to be any proportionality. Other comments we heard were around the severity of penalties for a breach. We also heard that there is a real hope that with the election of a National-led Coalition Government that the legislation might be changed. Suggestions included the lessening

of the current penalties to something that is more aligned to the nature of the breach, the recognition of safe harbour provisions applying where the lender has done everything within their powers and the breach is down to a simple error that has been corrected and the customer has been remediated and additional guidance on how to apply some of the more judgemental aspects of the Act.

3. A theme that had increased its presence this year was around **the importance of the non-bank sector** to the economy and how that might not be understood. The non-bank sector has 1.7 million customers and provides some very critical financing to them. This was financing that might be at a higher rate than the OCR or a bank mortgage, but it is absolutely critical for the borrower. By way of a simple example, the funding of a car can allow both parents to get to work, the children to be dropped off at school and then the whole reverse to happen at the end of the day, together with allowing the family to partake in other societal norms. The question should not be whether the interest rate is too high, but whether the family can do without the lending (e.g. if they are not able to be lent the money they will not be able to get to work, their children will not be able to partake fully in school activities and the family may become reliant on government assistance such as benefits). There was also a very real recognition that the non-bank sector provided important lending to a range of people, businesses and industries through a range of products that currently banks will simply not do (i.e. the non-bank sector is currently operating in a very important series of niches).

4. **Non-bank sector awareness and promotion** – following on from point 3 was the related point that also noted that the non-bank sector perhaps needs to continue to be promoting the benefits that it provides to the wider society. There was a feeling that those in the non-bank sector and those using this sector fully understand its importance and the benefits obtained through the services that it provides, but perhaps some outside this sector including regulators and prospective customers simply do not understand what the non-bank sector does and how it does it. In New Zealand, the non-bank sector is much smaller than some other countries and it is clear that the non-bank sector still has the potential to penetrate further into the market and take market share away from existing providers while still providing much needed products.

5. Another theme that came out very strongly albeit anecdotally is **the social changes in New Zealand** that have occurred over the last four years from a social perspective. When you think about the last four years we have endured Covid-19 with its lockdowns, followed by bounce backs after each lockdown. We have had healthy debate as to the length of time of each lockdown and debate around Covid-19 vaccine passes and mandates. People have gradually become less supportive of those restrictions, wanting their freedoms back. Once New Zealand was re-opened (later than the rest of the world) we then endured a year where the majority of people caught the disease and business was affected by an underlying lack of staff combined with the impact of temporary illness. During Covid-19 the Government did a magnificent job of injecting enormous amounts of money into the economy to support it. However, like any party it has to come to an end and it is normally followed by a hangover. It would be fair to say that we are now well into the hangover period with the RBNZ now trying to reduce the money supply and get inflation under control. Whenever money supply is removed from the economy while the economy is enduring inflation it is never the easiest of times. If all of these impacts were not enough, the Christmas of 2022–23 and the remaining months of summer were cut short and spoilt by a number of serious weather events. It could be said that for the last 3.5 to 4 years New Zealanders have been enduring a difficult time from many different challenges without the normal releases. Many of the survey participants that we spoke to talked about how these factors combined with the ambitious social change of the previous Government have led to people becoming frustrated and angry. Tensions that had previously been hidden below the surface have now come to the surface and New Zealand has become a slightly more divided and angry place. Nearly all survey participants agreed that hopefully over the summer break we can all finally get the Christmas holiday we have hoped for and enjoy the opportunity to relax and reset. Looking to the future, the new Coalition Government has already signalled significant policy changes, which like any change, will require adjustments and these could create further pressures.

6. There was a final point, a real dual concern expressed by survey participants that firstly the current tighter economic times will be with us for another two to three years and this will cause pain for some sectors of our society, and while the **new Coalition Government** will hopefully be more business-friendly they need to be careful as they execute change. With immigration rising again and more business-friendly policies on the way they need to be careful that they do not create a mini boom in the housing market which will in turn require the RBNZ to intervene further to control inflation. Most survey participants observed that inflation and interest rate rises are starting to slow down and may be coming to an end and no one we spoke to wanted to see the RBNZ in a position where it is forced to start raising interest rates again.

As with every year I will end with what has become a repetitive closing comment – it will be very interesting to see how the next year plays out because yet again uncertainty is the only certainty.

J. P. Kemp

Results of CEO and CFO feedback from our 2023 survey

We surveyed CEOs and CFOs what they saw as the biggest risks, top priorities, largest areas of expenditure, key technology challenges and importance of ESG.

What do you see as the **biggest risks** for your organisation?

*

- **75%** Information technology (including cyber risk)
- **69%** Compliance and regulations
- **50%** Domestic economic outlook

What are the **top priorities** for your organisation over the next three years?

*

- **81%** Maintaining profitable and sustainable growth
- **63%** Growing market share
- **38%**
  = Margin and pricing
  = Regulatory and environmental changes

What are your **largest areas of expenditure** over the next three years?

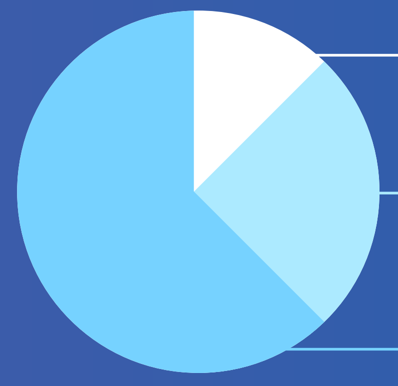
- **#1** Technology including cybersecurity
- **#2** Attracting and retaining talent
- **#3** Lending operations

What do you see as the **key technology challenges** for your organisation over the next three years?

*

- **69%** Cybersecurity
- **50%** Digitisation of product channels
- **44%** Legacy systems and/or data management

How important is ESG (Environmental, Social and Governance) reporting and disclosure to your business?



- **12.5%** We place **high importance** on this area and it is a way to differentiate ourselves
- **25.0%** This is an important area for us, but **we are not looking to go above and beyond**
- **62.5%** This is **not an important area for us** and is not currently an immediate priority

* Please note that the survey responses do not add up to 100% as each respondents chose their top three options.

Sector – Themes and issues

Information current as at 7 December 2023

Throughout the last three and a half years, many businesses have had to operate through heightened uncertainty and for some financial hardship as New Zealand learned to live with the distortion of Covid-19 pandemic related impacts. In particular the money pumped into the economy to stimulate and support it, the restrictions on immigration and broken supply chains were key factors in driving up inflation and uncertainty with it.

As we moved into 2023, our survey participants highlighted that their major concerns have shifted towards uncertainty over the path the economy takes going into 2024 as it navigates its way through an uncertain economy.

However, while the road ahead seemingly holds challenges for many of our survey participants, they are hopeful a change in government will provide a clearer picture as to the direction the economy is heading, if not the exact path it might take and how long and bumpy that path might be.

Pressure on business model

During the uncertain economic environment of the past year, businesses within the non-bank sector faced challenges stemming from the pressure on the business model, driven by the combined impact of pricing decisions, the cost of funding, inflation in their expense base and the challenge around the volume of business they could write in a tightening economy. In particular, responsible lending and the Credit Contracts and Consumer Finance Act (CCCFA) requirements have stifled lending in the rising interest rate environment. A common theme across survey participants was how they have responded to these challenges as best they can, and looking forward, whether they need to modify their business model so they can respond to the combined impact of such significant and fast changing set of circumstances.

Rising interest rates and cost of funding – margin squeeze

The impact of rising interest rates applying pressure to lending margins have been a major discussion point among survey participants this year. Interest rate (OCR) hikes has led to the cost of funding increasing at a speed and by a quantum not seen before. Most non-bank entities have found it difficult to directly pass this increase in costs onto borrowers due to a combination of reasons.

Competition and affordability concerns have seen some other lenders not passing on all of their interest rate increases, and borrowers either pushing back on interest rates offered

> “The impact of rising interest rates applying pressure to lending margins have been a major discussion point among survey participants this year.

or reconsidering whether they really require finance due to the higher borrowing cost. Whether a borrower actually needs to borrow has become a common consideration due to the increased cost of living faced by borrowers across the non-bank sector with many being forced to rationalise potential borrowing decisions as a result. At the same time, the CCCFA has forced lenders to test borrowers at higher, and by definition less affordable rates given their reduced disposable income. Another complication that was noted was that as interest rates rose so quickly, many participants struggled to reprice their lending as quickly as their funding repriced and/or struggled to put in place hedging to reduce the mismatch. The combination of these factors has meant that non-bank entities have experienced increased pressure on their margins this year.

> “The persistent high levels of inflation combined with elevated interest rates continue to apply downward pressure on borrowers' disposable income.

Most felt anecdotally at least that rates are probably at a peak and while it may be some time before they start to fall, and when they do, it will probably be a longer and more gradual process than the increases that occurred. However, there are the beginning of signs of some relief. Additionally, customers have become accustomed to the higher interest rate environment over time and have managed to rearrange their affairs to cope. The question many survey participants pondered was … but for how much longer?

Inflation

Another substantial impact felt by survey participants was inflation. Although we are no longer at the peak annual inflation experienced at the end of 2022, annual inflation remains high measured at 5.6% for the September 2023 quarter[1] with no significant easing in sight. The persistent high levels of inflation combined with elevated interest rates continue to apply downward pressure on borrowers' disposable income.

Overall impacts on lending ability

Rising interest rates and inflation, along with the CCCFA and responsible lending requirements around loan approvals, have all put significant pressure on the non-bank entities' business models. The high cost of borrowing caused by increased funding costs has led to borrowers reconsidering debt or delaying the transaction that they were considering. High inflation has resulted in reductions in borrowers' disposable income. Combined with the requirements of the CCCFA and responsible lending around loan approvals, there has been a reduction in the number of loan applications being approved, despite the number of applications increasing because of the needs of borrowers.

Regulation

Non-bank entities consistently commented on the impact of regulation on the non-banking sector. At a conceptual level, regulators want a diversity of offering, inclusion and access to appropriate products for everyone. The non-bank sector expressed real concern that while these are appropriate goals, the actual legislation and its application produce hidden challenges and unintended consequences.

Issues mentioned by survey participants included a lack of scalability of regulation, leading to proportionally higher compliance costs that are not reflective of an entity's size. Some participants commented on not having the same benefits as banks such as access to the Reserve Bank of New Zealand's (RBNZ's) Exchange Settlement Account System (ESAS) accounts. Others questioned what the actual issue that needed solving was.

There is agreement that customers' protection and inclusion must be ensured. However, the lack of practical guidance on how to apply many aspects of the new legislation and concern over the significant penalties for a breach have resulted in a more conservative approach being adopted among non-bank entities when it comes to approving loans. The result of this is that the goal of inclusion inherent in the legislation is compromised, and some borrowers have in turn resorted to Buy Now, Pay Later schemes that are not captured by the same regulation requirements, or worse still, pay day lenders, and this leads to worse outcomes for these borrowers.

There was also unanimous sentiment that the products and services that the non-bank sector offered were not well understood or appreciated. The sector touches 1.7 million customers and provides products and services that the banking sector doesn't currently and potentially won't offer. In this way the non-bank sector is for many borrowers the only available source of funding, and that borrowing is critical to their involvement in society or the mainstay of their business.

Social change

Another interesting theme raised by the majority of survey participants was the pressure that has been placed on society over the last four years and the way that such pressure has been manifesting itself. If we think back to 2020 and 2021, we had

> Numerous concerns were raised around the lack of proportionality with [the CCCFA], pointing out that compliance burdens and the substantial penalties for non-compliance have slowed down the lending process significantly.

Covid-19 related lockdowns and the related uncertainty caused by this new territory, and an unprecedented bounce back occurred. The impact that Covid-19 had along the way and the uncertainty it created was managed as we negotiated the longer-term economic impacts of a global downturn. Most of us then contracted the disease in 2021–22, in the form of Delta or Omicron. 2022 began with an occupation of Parliament grounds with a sector of society displeased at losing what it saw as its freedoms. From early 2022 we have had to deal with inflation and the Official Cash Rate (OCR) rising at a speed never seen before. At the beginning of 2023 we suffered severe weather incidents. During this period we had a Government that embarked on an ambitious social change programme.

New Zealanders have been put under pressure from a wide-ranging set of factors for an extended period without the access to traditional releases in the form of normal freedoms. Then the summer holiday of 2022–23 was ruined by the weather events.

New Zealanders have become less tolerant and more opinionated, and this has shown up in society with people expressing their positions on matters more stridently. This has exposed some divisions in society that were previously hidden.

Economic conditions and the election result

Non-bank entities are now seeing some optimism with hope that the new National-led Coalition Government will create a more business-friendly environment. The change of Government has generated a positive consensus among the survey participants, hopeful of a more pragmatic approach when dealing with the CCCFA and other regulations.

While there is a positive reaction to the change in government, it is still to be seen how this will play out, and at this very early stage of the new Government's tenure, many survey participants have taken to calling this 'green shoots', a sign of positive things yet to come, but with a lot of work still to be done.

The non-bank sector is looking forward to more announcements to what the new Government will do in the regulatory space.

CCCFA

The effects of the CCCFA continued to be a talking point among the survey participants. The change in government has been greeted with cautious optimism by the sector.

Numerous concerns were raised around the lack of proportionality with this legislation, pointing out that compliance burdens and the substantial penalties for non-compliance have slowed down the lending process significantly. Lack of proportionality around these large penalties forced non-bank lenders to take a more conservative approach in their lending and resulted in many more borrowers being turned away who often desperately need the finance, many of whom are unable to source this funding from banks.

The high interest rate environment further worsened this phenomenon. Perversely, some noted the compliance burden has aided non-banks as it created a barrier to entry into the sector, but the lack of new entrants does not benefit borrowers struggling to obtain financing and is in direct contrast to the 'inclusion' element of the legislation.

Survey participants were in consensus that protection of vulnerable borrowers was essential, but that the CCCFA has thus far been unable to align with regulators' promotion of inclusion due to these unintended consequences.

> Over the past year, the non-bank sector has been able to see the flow on effects of improved credit quality in prior periods.

Credit quality and provisioning

Over the past year, the non-bank sector has been able to see the flow on effects of improved credit quality in prior periods. While this may seem counter-intuitive it has occurred as a by-product of historic tighter lending regulations. At the same stage defaults and past dues seen by the survey participants have started to trend back upwards, moving past record lows seen in pre-Covid-19 times, they have not ballooned despite the challenging environment.

Up until early last year, interest rates were at an all-time low, allowing for consumers to have easy access to affordable financing. However, the rising cost of living and inflationary pressures has started to put strain and financial pressure on some of these borrowers, which is evidenced by increased impairment levels and past dues. Harder economic times have bought employment statistics into focus, with the majority of survey participants acknowledging

> Up until early last year, interest rates were at an all-time low, allowing for consumers to have easy access to affordable financing.

that high employment has been an important factor in supporting credit quality.

Furthermore, implementation and recent updates to the CCCFA have ensured that the non-bank sector has continued to be responsible with whom they lend to and how much they lend. Although the CCCFA has been harshly criticised in the past, in hindsight, it seems as though the non-bank sector is seeing the benefits of what this piece of legislation and its predecessor was trying to do from a credit quality and provisioning perspective.

Looking at the numbers, we are seeing the retention of provisions and higher impaired asset expenses reported in the 2023 year (see Figure 21).

21 See Figure 21 – page 27

As voiced by many of the survey participants this year, the two main theories that can explain the improvement in credit quality are the low unemployment rates coupled with stricter lending regulations and responsible lending pre-dating the latest CCCFA changes.

All survey participants cautioned that if we start to see any large-scale unemployment, the outlook for our non-banks provision and loss levels will then be very different.

Changing lending volumes

Ever-increasing interest rates are a prominent theme across the survey participants when discussing the changes in lending volumes. There was a consistent message from our participants that while lending volumes were growing strongly, this growth was at a reduced rate compared to what had been seen in recent years, alongside a general decrease in the size of individual loans.

Cybersecurity

Cybersecurity has remained a hot topic in this year's survey, with many survey participants noting this is a never-ending and ongoing project, and one that will likely forever remain at the forefront of businesses strategy and governance requirements across the board.

During March 2023, Latitude Financial Services Limited (Latitude) was victim to a well-organised and malicious cyberattack. On the back of this attack on Latitude, many survey participants mentioned that this has caused them to revisit and refocus their cybersecurity strategy, with many almost doubling their investment into this issue.

Cyber-related attacks and financial losses have halved since the 2022 survey, which was at a record high of $8.9 million. Despite this decline, many survey participants have outlined that they are aware and surprised at the significant number of attacks occurring every single day. For those survey participants with a parent company operating overseas, although they are confident that their parent has sufficient systems in place, they remain as a global target for many cyber-criminals. No entity can afford to disregard the risk posed by having an inefficient cybersecurity environment.

All survey participants expressed a degree of confidence that they should be adequately protected, but none could be 100% sure, and all noted that even if they have unlimited resources, they could still do more. Many participants have responded to the Latitude incident by increasing their investment into cybersecurity, however, they are still worried that this simply isn't enough.

Further developments in the AI space have added an additional layer off complexity to the cybersecurity strategies of our survey participants. Generative AI is considered to be a double-edged sword, where although it can be used as a cybersecurity defence layer, cyber-criminals are increasing their use of AI as part of their attack strategies, which provides them with a lower cost than businesses can

> Cyber-related attacks and financial losses have halved since the 2022 survey, which was at a record high of $8.9 million.

bear to defend against them. It is crucial that organisations employ further cybersecurity strategies to minimise the risk of AI-powered attacks from occurring.

Acquisition

Although growth in the non-bank sector has slowed, survey participants have mentioned that with growth rates being low, this is the biggest opportunity for them to expand and acquire new entities.

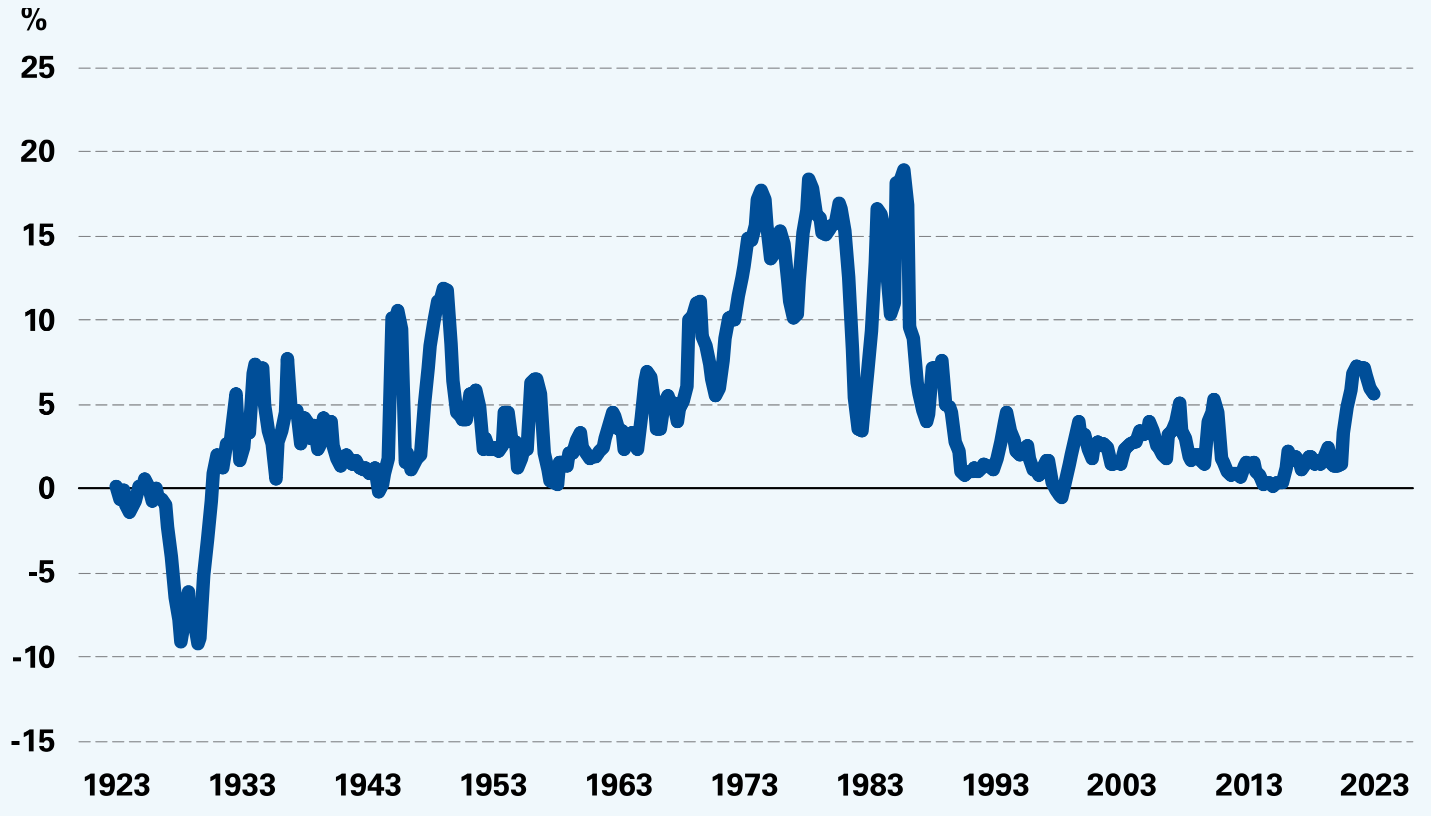
Those survey participants who are willing to grow through acquisition opportunities have noted that caution must be taken. The three key factors that are considered for looking at acquisition opportunities, as identified by our survey participants, are the current economic environment and market volatility, the cost of goodwill, and any acquisition needs to be a good fit.

The cost of goodwill has been of significant discussion. Many survey participants question themselves to understand why they would pay goodwill in the current market for a business that is or may be struggling.

Although acquiring new entities will help the expansion of our non-banks, it is important that they understand the costs of what they are actually trying to buy and whether this will continue to be profitable in the foreseeable future.

> **“Although growth in the non-bank sector has slowed, survey participants have mentioned that with growth rates being low, this is the biggest opportunity for them to expand and acquire new entities.**

1 CONSUMER PRICE INDEX (CPI) (ANNUAL % CHANGE) 1923 TO 2023



CONSUMER PRICE INDEX

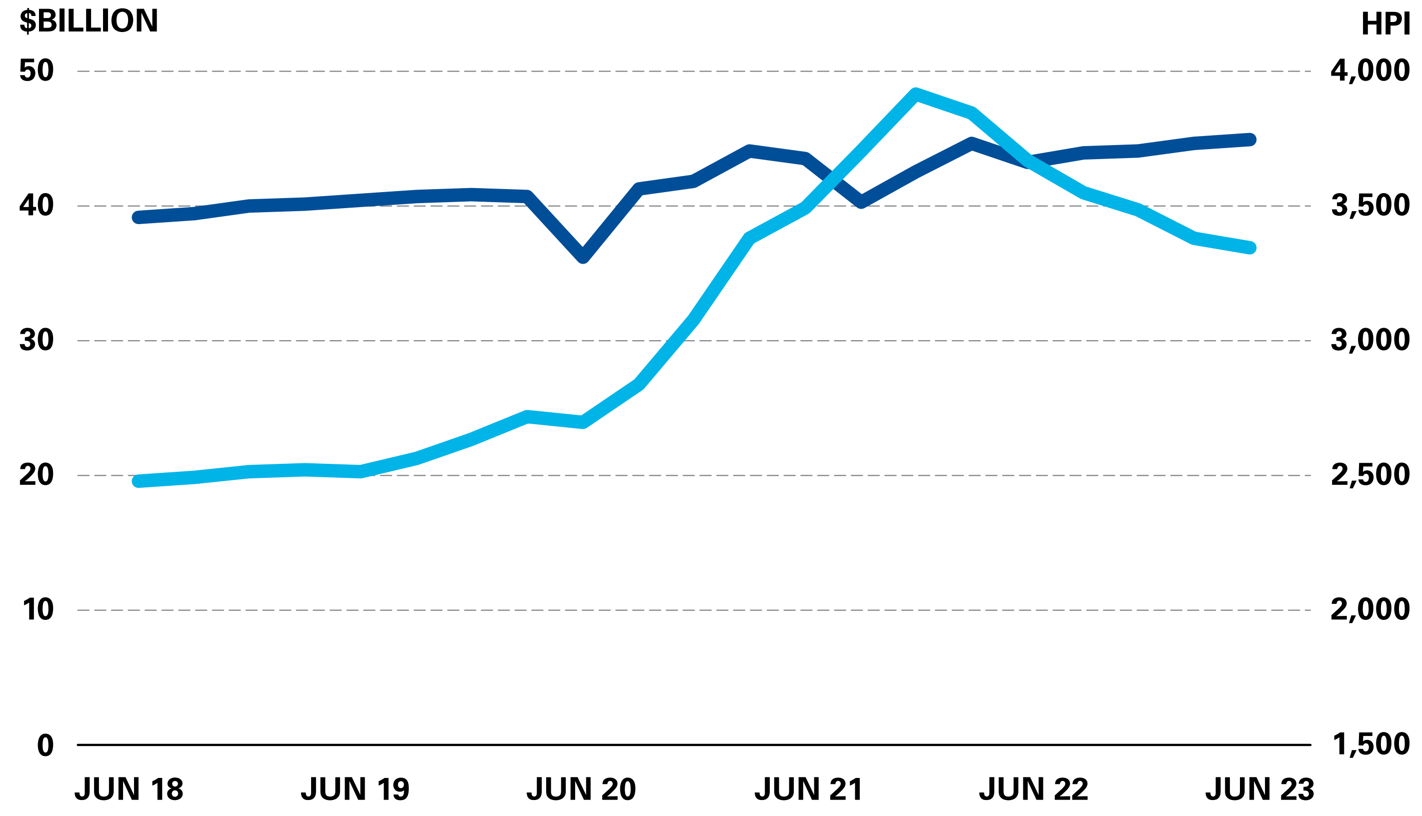
SOURCE: RESERVE BANK OF NEW ZEALAND

2 OFFICIAL CASH RATE (OCR) (END OF MONTH) OCTOBER 2003 TO OCTOBER 2023

OFFICIAL CASH RATE

SOURCE: RESERVE BANK OF NEW ZEALAND

3 PRIVATE CONSUMPTION VS. HOUSE PRICE INDEX

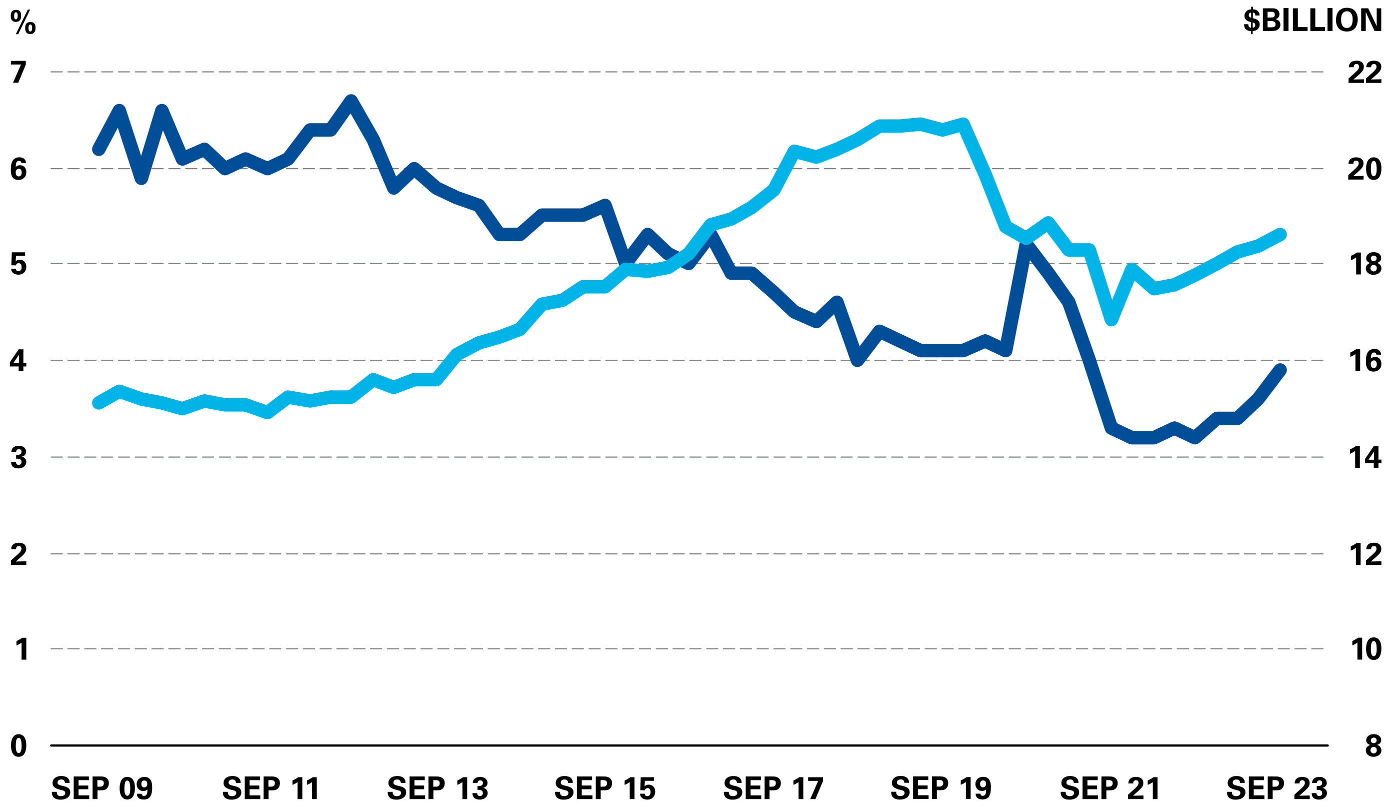


PRIVATE CONSUMPTION (LHS)

HOUSE PRICE INDEX (HPI) (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND

5 UNEMPLOYMENT RATE VS. PERSONAL LOANS AND CREDIT CARD SPENDING

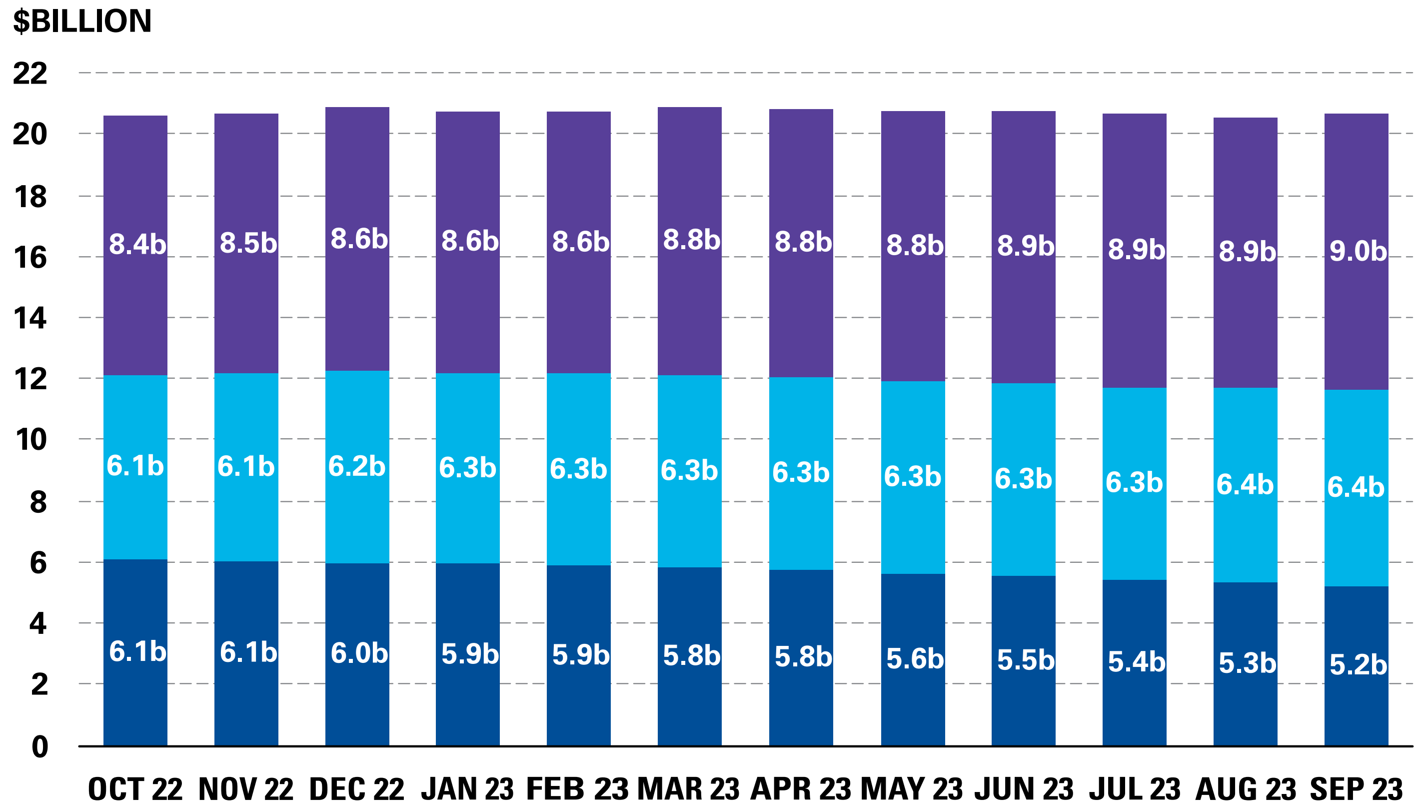


UNEMPLOYMENT RATE (LHS)

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

SOURCE: STATISTICS NEW ZEALAND

4 NON-BANK SECTOR LENDING



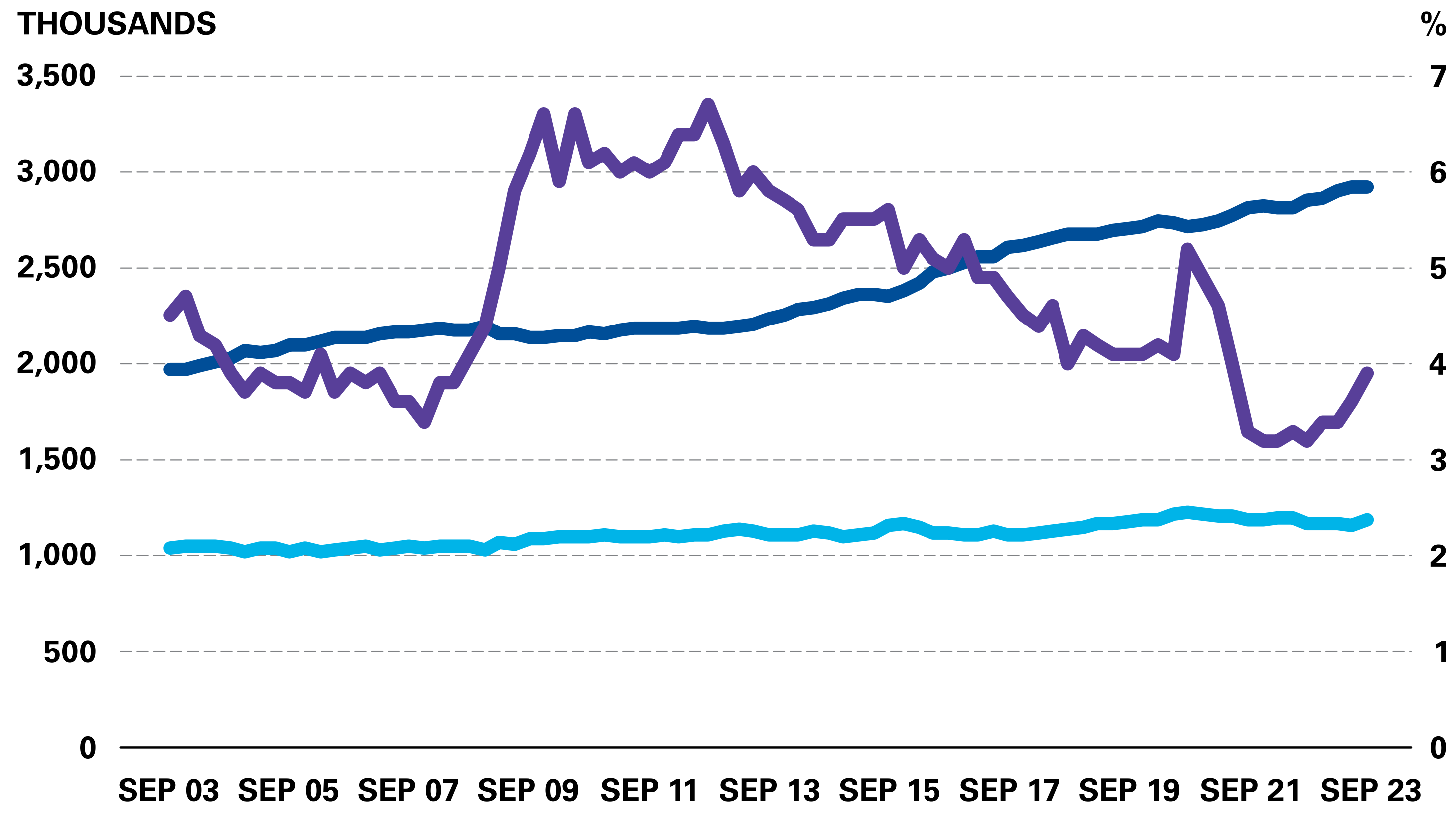
HOUSING – NON-BANKS

PERSONAL – NON-BANKS

BUSINESS – NON-BANKS

SOURCE: RESERVE BANK OF NEW ZEALAND

6 WORKERS IN LABOUR FORCE (SEASONALLY ADJUSTED) AND UNEMPLOYMENT RATE 2003 TO 2023



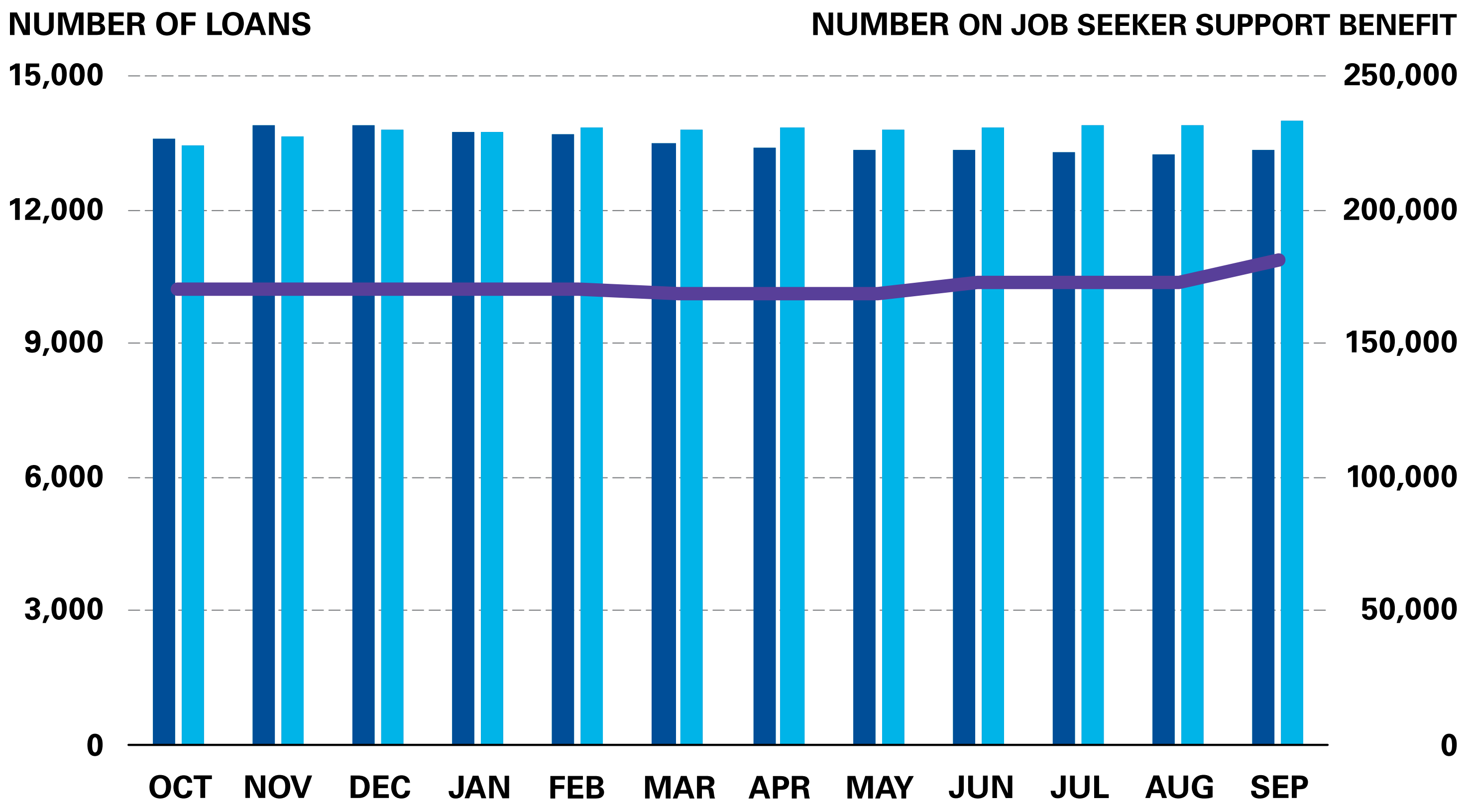
WORKERS IN LABOUR FORCE (LHS)

WORKERS NOT IN LABOUR FORCE (LHS)

UNEMPLOYMENT RATE (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND

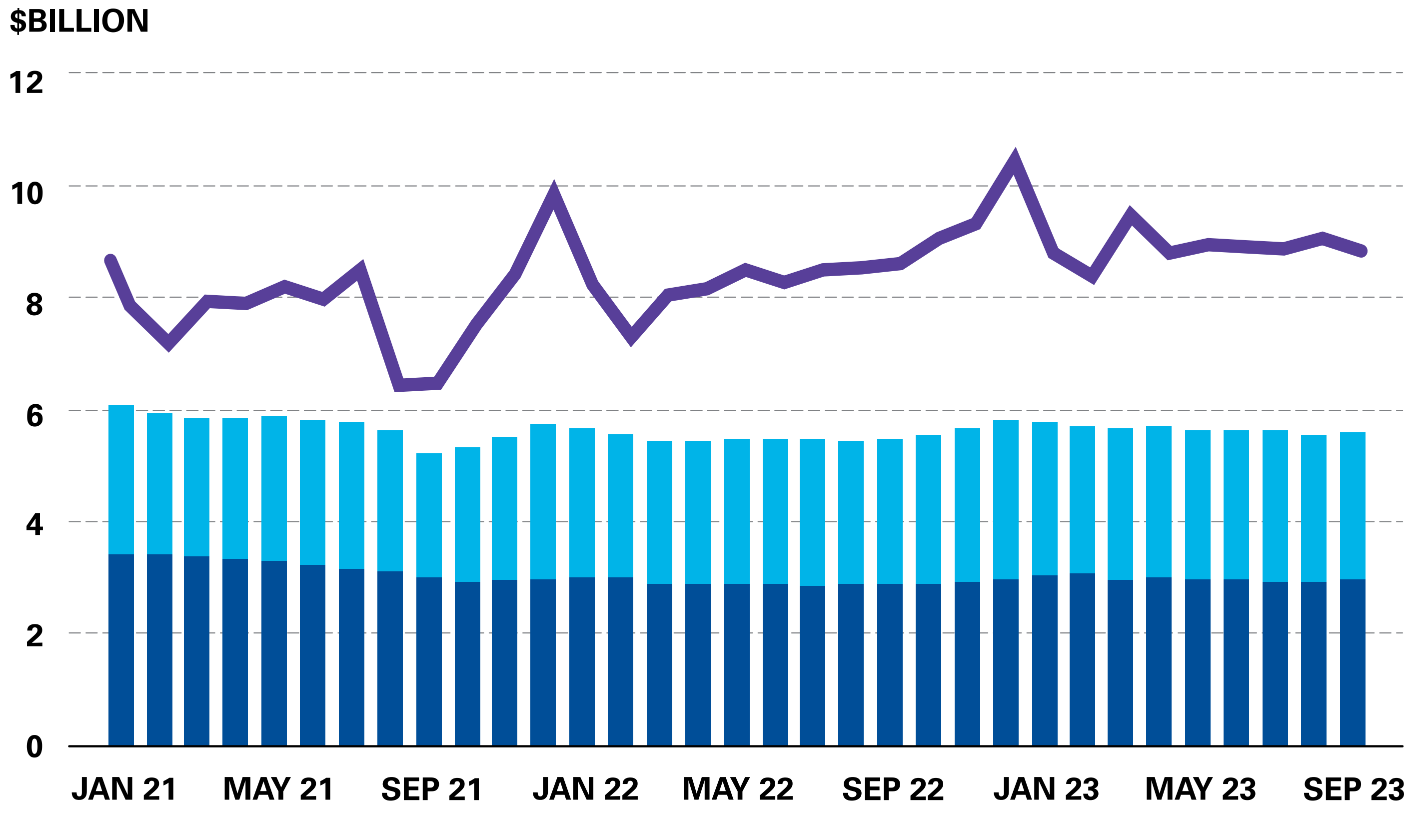
7 PERSONAL LENDING VS. NUMBER OF PEOPLE RECEIVING JOB SEEKER SUPPORT



- 2022 PERSONAL LOANS (LHS)
- 2023 PERSONAL LOANS (LHS)
- JOB SEEKER SUPPORT BENEFIT 2023 (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND

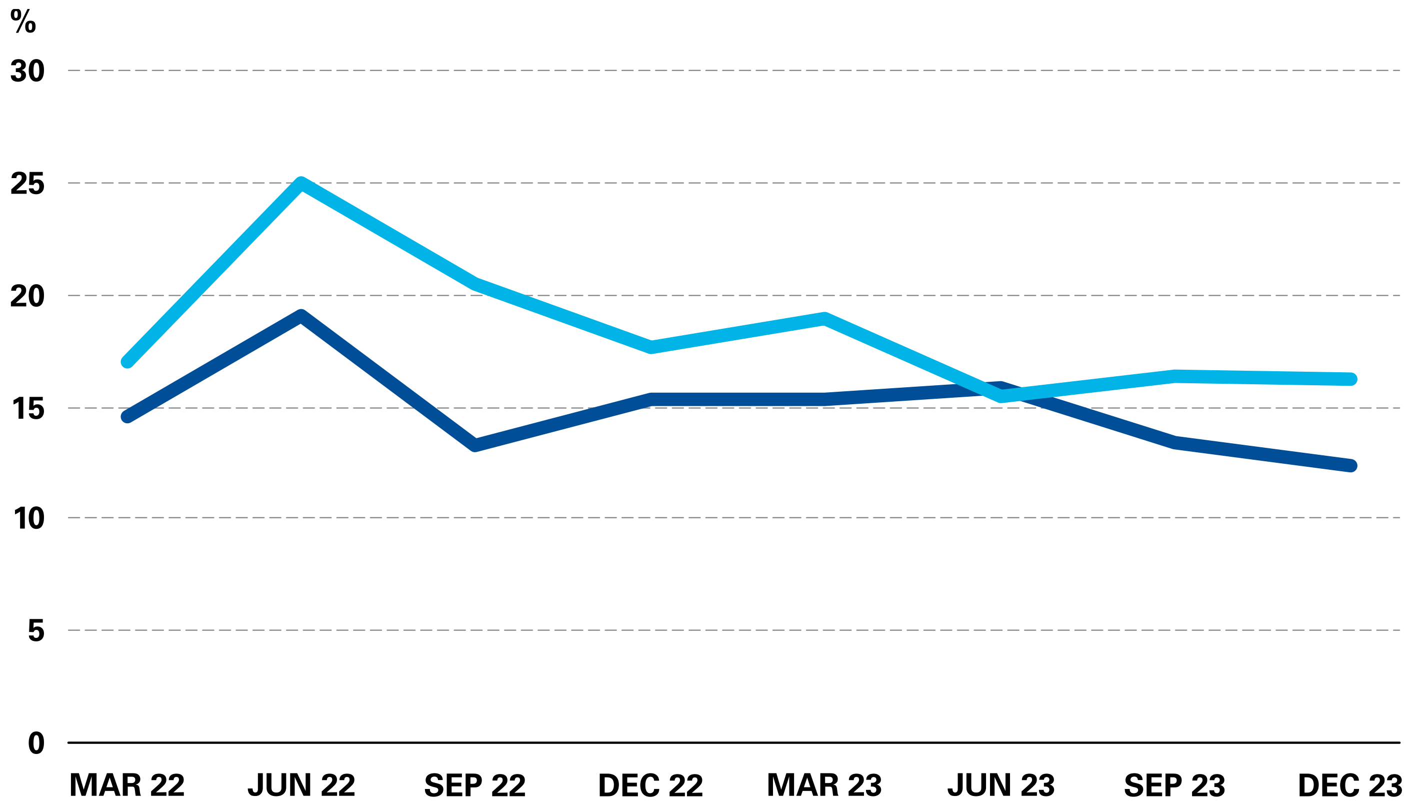
9 CREDIT CARD BALANCES VS. ELECTRONIC CARD TRANSACTIONS



- INTEREST-BEARING CREDIT CARD BALANCES
- NON-INTEREST-BEARING CREDIT CARD BALANCES
- ELECTRONIC CARD TRANSACTIONS

SOURCE: RESERVE BANK OF NEW ZEALAND

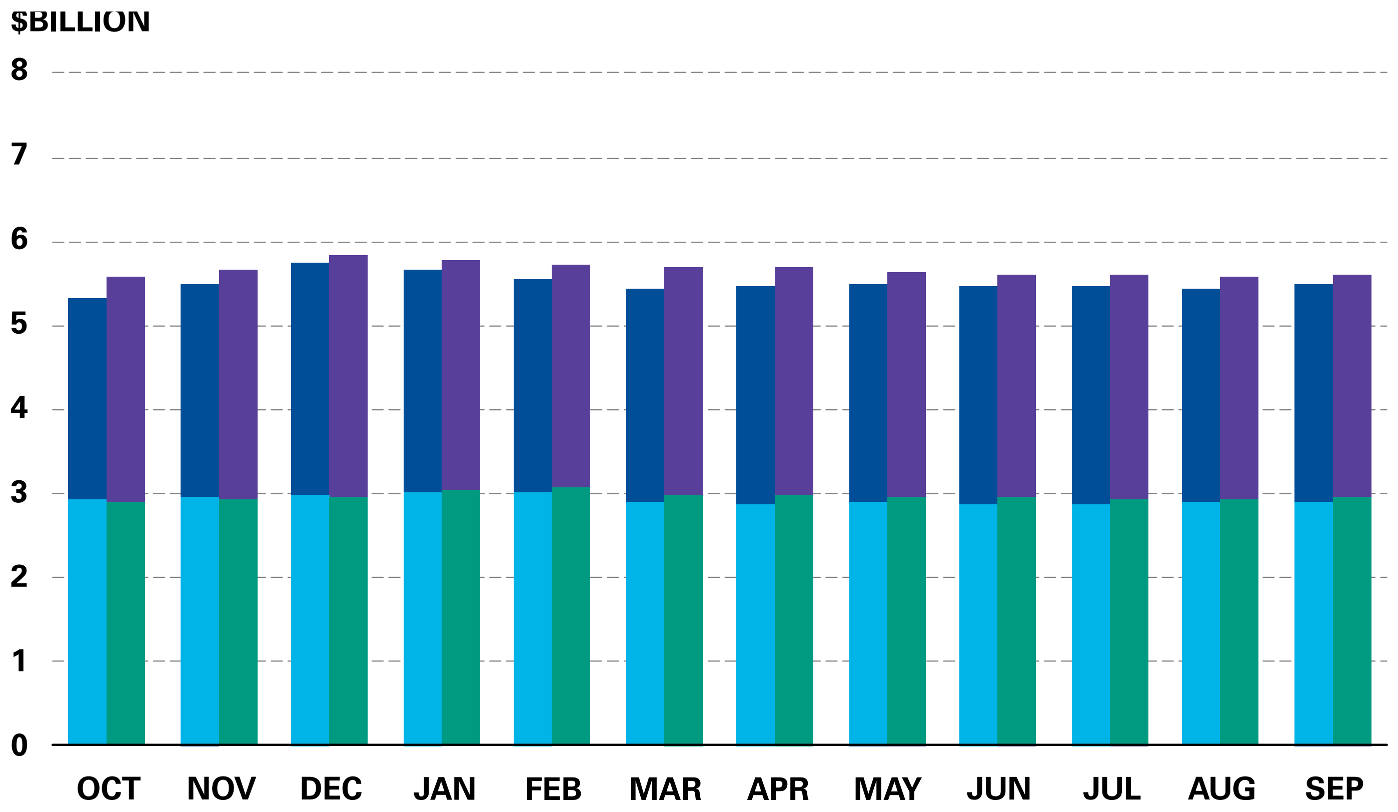
8 PERCENTAGE CHANCE OF NOT MAKING A MORTGAGE OR RENTAL PAYMENT IN THE NEXT THREE MONTHS



- PERCENTAGE CHANCE OF NOT MAKING A MORTGAGE PAYMENT IN THE NEXT THREE MONTHS
- PERCENTAGE CHANCE OF NOT MAKING A RENTAL PAYMENT IN THE NEXT THREE MONTHS

SOURCE: RESERVE BANK OF NEW ZEALAND

10 2021/22 VS. 2022/23 CREDIT CARD BALANCES



- 2022 CREDIT CARD BALANCES
- 2022 INTEREST-BEARING CREDIT CARD BALANCES
- 2023 CREDIT CARD BALANCES
- 2023 INTEREST-BEARING CREDIT CARD BALANCES

SOURCE: RESERVE BANK OF NEW ZEALAND

Sector – Timeline of events[2]

OCT 2022

- **5th**
  The Reserve Bank of New Zealand's (RBNZ's) Monetary Policy Committee raised the Official Cash Rate (OCR) to 3.5%
- **11th**
  The Serious Fraud Office closed its investigation into Fuji Xerox's accounting scandal
- **14th**
  Unity Credit Union was the target of an online scam attack where customers' money was transferred out of their accounts
- **27th**
  FMA released a document focused on the 200 climate reporting entities and together with all financial reporting entities regarding its expectations on the impact of climate risks in financial reporting

NOV 2022

- **1st**
  Parliament Select Committee sought feedback on Deposit Takers Bill which intended on helping to protect society from the damage to New Zealand's financial system and wider economy from unexpected external factors, excessive risk taking and unmanaged failures
- **2nd**
  The Government announced the next steps to protect consumers from potential financial harm when using Buy-Now, Pay-Later
- **22nd**
  Payments associated with the Clean Car Standard was deferred until July 2023 to ensure smooth implementation
- **23rd**
  The RBNZ's Monetary Policy Committee raised the OCR to 4.25%

DEC 2022

- **6th**
  Payday lender Moola went into liquidation after its parent company was placed into receivership
- **6th**
  RBNZ's Funding for Lending Programme for banks ceased
- **15th**
  XRB released New Zealand's first Climate-related Disclosure Standards

JAN 2023

- **11th**
  Cyclone Hale hit New Zealand
- **26th**
  Squirrel Mortgages launched a new on-call account, with an interest rate of 3.5% p.a. to encourage saving
- **27th**
  State of emergency declared as record rain caused flooding in Auckland, Northland, and Thames-Coromandel District

FEB 2023

- **12th**
  Cyclone Gabrielle hit New Zealand and caused a national state of emergency
- **22nd**
  The RBNZ's Monetary Policy Committee raised the OCR to 4.75%

MAR 2023

- **10th**
  Silicon Valley Bank, USA, collapsed
- **12th**
  Signature Bank, USA, collapsed

APR 2023

- **5th**
  The RBNZ's Monetary Policy Committee raised the OCR to 5.25%
- **11th**
  Latitude Financial Services received ransom demand after a major data hack

MAY 2023

- **1st**
  First Republic Bank, USA, collapsed
- **10th**
  Latitude data breach – Privacy Commissioner to investigate New Zealand's largest data breach
- **24th**
  The RBNZ's Monetary Policy Committee raised the OCR to 5.5%

JUN 2023

27th
Government changed interest rate rules for the RBNZ

JUL 2023

12th
The RBNZ's Monetary Policy Committee agreed to leave the OCR at 5.5%

AUG 2023

9th
Commerce Minister Duncan Webb announced that the CCCFA would be subject to 'wider review', as the credit lending legislation in 2021 that aimed to protect vulnerable borrowers was found to have hindered borrowing

10th
The RBNZ released 'Too Little, Too Late' climate stress test

16th
The RBNZ's Monetary Policy Committee agreed to leave the OCR at 5.5%

SEP 2023

7th
Squirrel's CEO explained how interest rates are set and how banks have been able to boost their margins by 20%

OCT 2023

4th
The RBNZ's Monetary Policy Committee agreed to leave the OCR at 5.5%

14th
New Zealand Election 2023 – National-led Coalition Government set to govern

17th
Inflation increased annually by 5.6% in the September 2023 quarter

NOV 2023

1st
Auckland Credit Union members were unable to access money for days due to a 'teething problem' encountered as part of a software re-platform

7th
The RBNZ announced key decisions on the review of policy for branches of overseas banks

29th
The RBNZ's Monetary Policy Committee agreed to leave the OCR at 5.5%

The possibility of proportional projected political policy impacting profitability

Lyn McMorran
Executive Director
Financial Services
Federation Inc.

FS
FINANCIAL SERVICES FEDERATION

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

A Certified Financial Planner, Lyn is a past President of the Institute of Financial Advisers of New Zealand. She is also a Trustee of the Skylight Trust and a Commissioner for the Insurance and Savings Ombudsman disputes resolution scheme.

This year's FSF editorial is brought to you by the letter 'P' – P for Politics, P for Policy, P for Proportionality and P for "Possibly the most talked about and unpopular piece of finance-related legislation ever written". Admittedly, since that last P is a bit of a stretch, so apologies to Sesame Street fans.

Over the last few months, it has become increasingly obvious that one can have too much of the first P, even for long-time Wellington political observers (myself included). First, we had the not-all-that-shocking news that Prime Minister Ardern was stepping down to be swiftly replaced by Chris Hipkins. That event was followed by the re-shuffling of portfolios as first one then another Minister toppled.

We then had the election campaign which seemed interminable, followed by the scramble to form a government and allocate portfolios.

What is clear is that nothing was a given with a three-way coalition arrangement. Given the time taken to work out the various compromises, we can be hopeful that realistic policy agreements were being forged, along with a clear playbook on the way forward for the next three years.

Currently, though, we are no further ahead with understanding this new Coalition Government's policy with respect to amending the disastrous Credit Contracts and Consumer Finance Act 2003 (CCCFA) (the fourth 'P' referred to above), or the Financial Markets (Conduct of Institutions) Amendment Act 2022 (CoFI) regime or any new policy ideas they may have. What we have seen in the early policy announcements, however, is a willingness to change.

On the subject of the CCCFA, in the last 12 months we have heard Christopher Luxon, Nicola Willis and Andrew Bayly talk

> "We are no further ahead with understanding this new Coalition Government's policy with respect to amending the disastrous CCCFA.

> We have heard … talk about repealing it for the banks while leaving the full prescriptive regime in place for all other lenders. Naturally, this move is not something we would support for a second.

about repealing it for the banks while leaving the full prescriptive regime in place for all other lenders. Naturally, this move is not something we would support for a second, mainly because it would continue to stifle innovation in consumer credit products (which will come from the non-banks rather than the banks); also, it would support offshore mega corporates over New Zealand's small and medium-sized enterprises, and would probably be in breach of New Zealand's competition laws by favouring one sector over another.

We have also had the second round of regulatory tweaks to the affordability regulations which was initially announced by Minister Clark in August last year, come into force in May this year followed by a further announcement by the then Minister, Duncan Webb, of yet another 'no regrets' review of the CCCFA.

We met with then Minister Webb to discuss the terms of reference for this latest review, and note that with the change in government there will undoubtedly be a change in the terms of reference of the review.

While we know the National Party's stated policy with respect to the CCCFA, and we understand that its reform is one of their priorities, from the FSF's perspective the sensible outcome would be to repeal the current affordability regulations and return to the previous principles-based approach for all lenders (except those that meet the definition of providing high-cost loans), and reinstate Principle 9(C)7 which allowed lenders to rely on the information provided by the borrower (unless they had reason to believe the information in question was unreliable).

The Responsible Lending Code should then more clearly define the characteristics of a consumer in vulnerable circumstances to make them more easily recognisable than they were, and place higher expectations on lenders to make more enquiries of those borrowers in order to ensure that the loan meets their needs and is affordable without substantial hardship. Lenders could then be expected to keep adequate records of the way in which they identified and supported those consumers in vulnerable circumstances.

It is with respect to CoFI that the second 'P' comes in. This 'P' is all about proportionality. The CoFI regime (which requires financial institutions to obtain a conduct licence from the Financial Markets Authority (FMA) by demonstrating how their fair conduct programme ensures good customer outcomes) covers such matters as the way in which intermediaries are remunerated to ensure that sales targets and the like do not create conflicts that are not in the best interests of consumers. The financial institutions that are covered by this regime are the registered banks, Non-Bank Deposit Takers (NBDTs) and licensed insurers. On that basis, our NBDT and credit-related insurance provider members are within its scope.

> No proportionality framework has been built in to ensure that the obligations do not place an overly onerous burden on smaller players as they are essential to competition and financial inclusion.

> The FSF was strongly opposed to CoFI introducing yet another licensing regime on top of the licence that those affected financial institutions already have to apply for in order to operate.

The FSF was strongly opposed to CoFI introducing yet another licensing regime on top of the licence that those affected financial institutions already have to apply for in order to operate, not to mention the requirement to report to and to be regulated by yet another regulator (in this case the FMA) when they are already supervised by the Reserve Bank of New Zealand (RBNZ) and are regulated for their consumer credit-related activities by the Commerce Commission.

The regime imposes the same requirements on the small NBDTs and credit-related insurers as it does on the major banks and large insurers. No proportionality framework has been built in to ensure that the obligations do

We have heard … talk about repealing it for the banks, whilst leaving the full prescriptive regime in place for all other lenders – naturally not something we would support for a second.

"1.7 million New Zealand businesses and consumers have a relationship with one of our members because of the competitive solutions they offer, so we represent a large slice of New Zealand and have a perspective worth listening to.

not place an overly onerous burden on smaller players as they are essential to competition and financial inclusion.

For the credit-related insurers, there is no consideration of the fact that the following criteria apply:

a) they are extremely small compared to the large life, fire and general insurers; therefore, they will be more severely impacted by the compliance obligations and penalties; and

b) unlike their large insurer counterparts, they are also subject to the CCCFA for the responsible selling of their products.

To be fair to the FMA, they have been working hard to understand the smaller players represented by our members because, until now, they have had little to do with them. However, there is nothing they can do about an Act that places the same penalties on the small providers as it does on the larger ones.

Whether the National Party will make good on its stated promise to repeal the CoFI regime or not remains to be seen. While it was never something that the FSF believed was necessary and therefore did not support, members have already invested heavily in preparing to apply for their conduct licences.

'Throwing the baby out with the bathwater' is something that would require a bit more consideration, so it is to be hoped that Andrew Bayley (as our new Minister of Commerce and Consumer Affairs) is prepared to listen, not just to the large institutions but also to the smaller ones. After all, 1.7 million New Zealand businesses and consumers have a relationship with one of our members because of the competitive solutions they offer, so we represent a large slice of New Zealand and have a perspective worth listening to.

The Deposit Takers Act 2023 brings banks and NBDTs under the same RBNZ supervisory regime and repeals the Banking (Prudential Supervision) Act 1989 and the Non-Bank Deposit Takers Act 2013. The Deposit Takers Act 2023 has a requirement for the RBNZ to develop a proportionality framework in order to take into account the vast disparity in size of the institutions in its scope, a strategy employed largely due to submissions made on behalf of NBDT members by the FSF.

At this point, however, it is not clear how the framework will work in practice to ensure that a small NBDT with a total FTE of 13 (such as one of our members) is not held to the same exacting standards as a large bank with significantly more than that number of people working in compliance with the Deposit Takers Act or the conduct regime alone.

The Deposit Takers Act introduces a depositor guarantee scheme which FSF's NBDT members strongly supported. However, the way in which the RBNZ proposes to calculate the levies to be paid by each deposit

"The Deposit Takers Act introduces a depositor guarantee scheme which FSF's NBDT members strongly supported.

taker is based on the risk that they pose of default (according to the RBNZ's complex calculations). Unfortunately, this method places a proportionately higher cost on the smaller NBDTs than it does on the much larger and more systemically important banks, thus resulting in a significant reduction to the profitability (another important 'P' word) of NBDTs that will not be shared proportionately by the larger players.

In that case, maybe we should finish with the following 'P' words: Probability – the probability that there will be some reform of the current regime for financial services; and Possibility – the possibility that what currently exists will remain as such for a while and lenders (particularly the non-banks) can get on with what they do best without the all-consuming focus on compliance. Those are the opportunities they provide for financial inclusion; and the reality of responsible access to both credit, and competitive and innovative products.

Credit pain points: Where are Kiwis feeling the pinch?

Keith McLaughlin
Managing Director,
Centrix Group Limited

CENTRIX
Credit Bureau of New Zealand

Keith McLaughlin is the Managing Director of Centrix Group Limited, New Zealand's only locally owned credit bureau. A highly experienced senior executive and director, Keith started Centrix with a vision to offer New Zealand businesses a superior and cost-efficient credit offering, with a focus on long-term relationships. Previously the founder and Managing Director of Baycorp Holdings Limited, his strengths include strong leadership skills with an emphasis on empowerment, and a proven ability to forge and sustain high performance teams.

For many Kiwi households and businesses, the recent forming of a coalition Government among National, ACT and NZ First is a sign of change after what has been an extremely challenging year.

The cost-of-living crisis, financial recession and high interest rates have all put the squeeze on many, with consumers and business owners alike hoping for an easing of these pressures in 2024.

But what legacy is this new Government inheriting, and where are the major pain points for everyday Kiwis?

According to the latest credit data for November, it is evident that these challenges are likely to linger into the new year, and are partially driven by climbing mortgage arrears and high interest rates impacting refinancing households.

11 See Figure 11 – page 20

Figure 11 shows the dollar value of mortgage arrears at more than 30+ days past due. From October 2022, the stress started to bite as borrowers began to feel the impact of interest rate hikes alongside the climbing Official Cash Rate.

The evidence appears to show that the usual seasonal recovery did not occur in the early parts of 2023, thus setting the stage for what was to come.

12 See Figure 12 – page 20

When we look at a blend of mortgage rates across the country, we clearly see an upward trajectory which is forecast to continue into

> “From October 2022, the stress started to bite as borrowers began to feel the impact of interest rate hikes alongside the climbing Official Cash Rate.

> **In 2020–21, a boom of activity in the property market occurred where many people (including first-home buyers) took out mortgages with low interest rates.**

2024. This trend will likely remain a pain point for many Kiwi households as high interest rates continue to impact their mortgage repayments.

In 2020–21, a boom of activity in the property market occurred where many people (including first-home buyers) took out mortgages with low interest rates. In fact, 30% of all existing loans were taken out during this period.

13 See Figure 13 – page 21

The low interest rates allowed for people to purchase more expensive properties with smaller initial deposits and lower mortgage repayments. Over the last year, however, we have seen a change in this dynamic, with property values falling and activity in the real estate market slowing down.

Many of those who took out mortgages in 2020–21 will now be feeling the squeeze from both decreased property values and shifting interest rates, with many rolling off from two–three percent to higher rates.

This trend is resulting in a spike in the number of mortgages values at over $500,000 going into arrears in this cohort.

14 See Figure 14 – page 21

Looking how this stress translates to Kiwi business owners, we notice that there has also been an upswing in mortgage stress for sole traders – many of whom have leveraged their mortgage to continue funding their businesses.

15 See Figure 15 – page 21

This aspect is especially true during a time of economic downturn because many are feeling the pinch of reduced discretionary spending.

While the real estate market is showing signs of rejuvenation, this trend has yet to translate into demand for mortgages.

However, we have seen the seasonal surge in demand for credit in the lead up to the likes of Black Friday sales and Christmas preparation, especially in credit cards, Buy Now, Pay Later products and personal loans.

16 See Figure 16 – page 22

It is interesting that the volume of credit enquiries this year is similar to what we've

11 RESIDENTIAL MORTGAGE ARREARS AT 30+ DAYS PAST DUE

30+ DAYS PAST DUE

SOURCE: CENTRIX

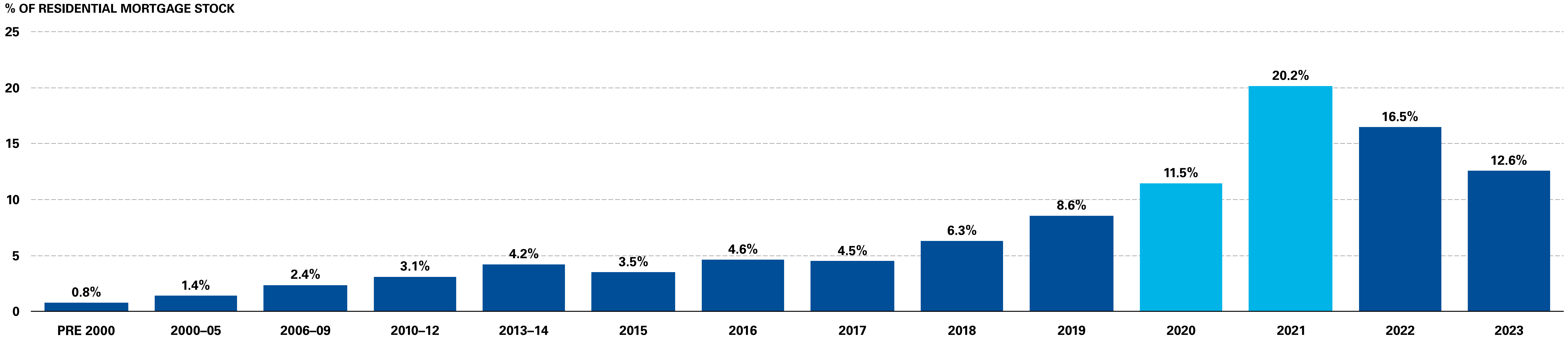
12 MORTGAGE BLENDED INTEREST RATES

ACTUAL

FORECAST

SOURCE: CENTRIX

13 MORTGAGE STOCK BY YEAR OF LOAN ORIGINATION

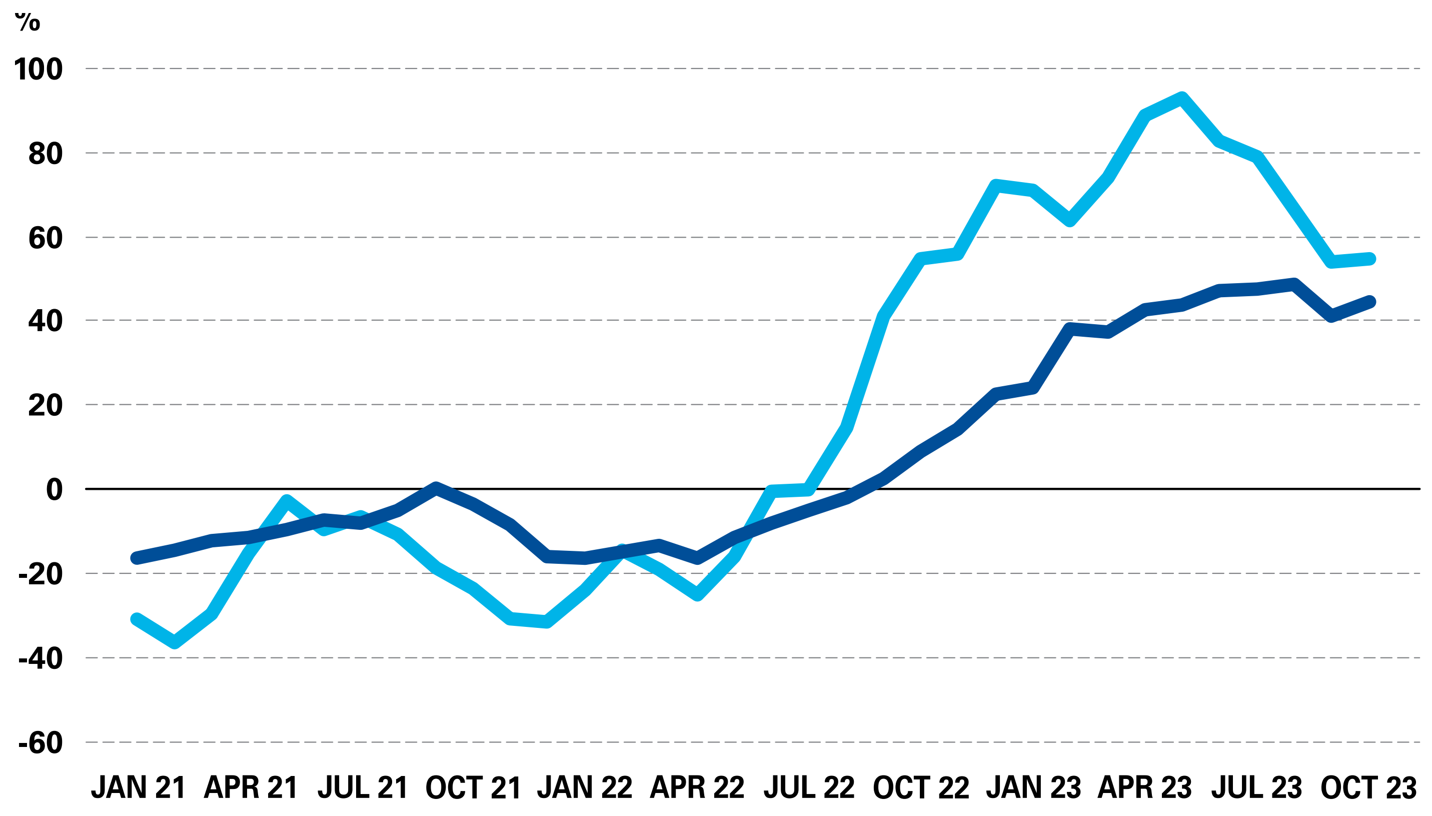


MORTGAGE STOCK

MORTGAGE STOCK 2020–21

SOURCE: CENTRIX

14 ANNUAL CHANGE IN MORTGAGE 30+ DAYS PAST DUE RATES

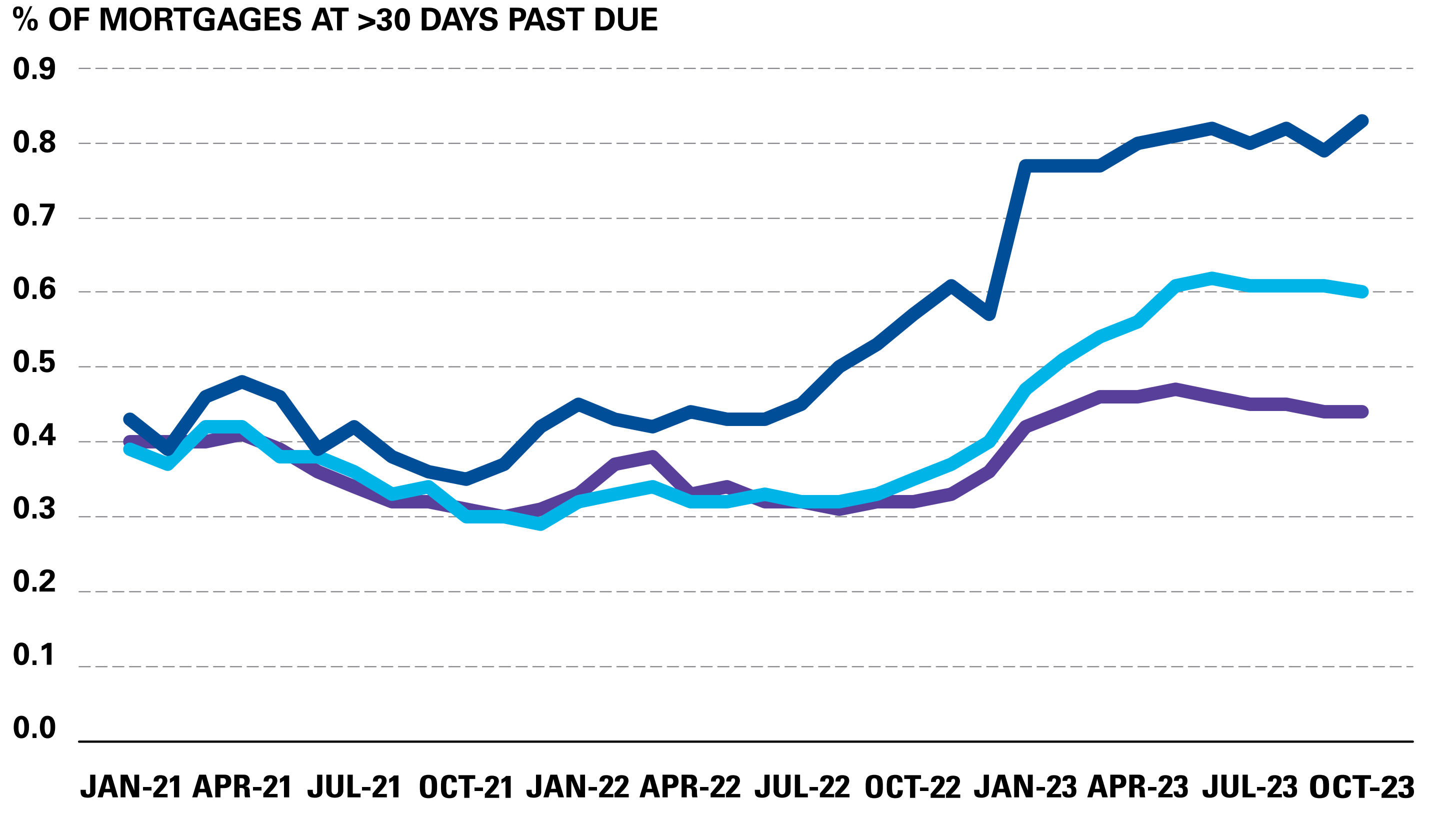


MORTGAGES $500K+ IN 2020–21 COHORT

ALL RESIDENTIAL MORTGAGES

SOURCE: CENTRIX

15 MORTGAGE STRESS BY BUSINESS OWNERSHIP



SOLE TRADER WITH TWO OR MORE BUSINESSES

SOLE TRADER WITH ONE BUSINESS

NON-BUSINESS OWNERS

SOURCE: CENTRIX

observed in previous years, despite the cost-of-living crisis causing households to tighten their purse strings in general.

This trend points to the possibility of Kiwi households trying to manage their cashflows by taking advantage of reduced prices ahead of Christmas, and in some cases spreading out their payments over time.

Unfortunately, there will be a segment of the population that are stretching beyond their means; in turn, this trend could spell trouble in 2024.

This group will likely be those aged under 25 years old, who are already feeling the pinch. The debt stress and arrears for this cohort is up 16% compared to that in the beginning of 2020.

17 See Figure 17 – page 22

Those in the older demographics are faring better overall. These factors can be put down to their likely having either lower or no mortgages to pay off and established savings to help weather the current financial landscape.

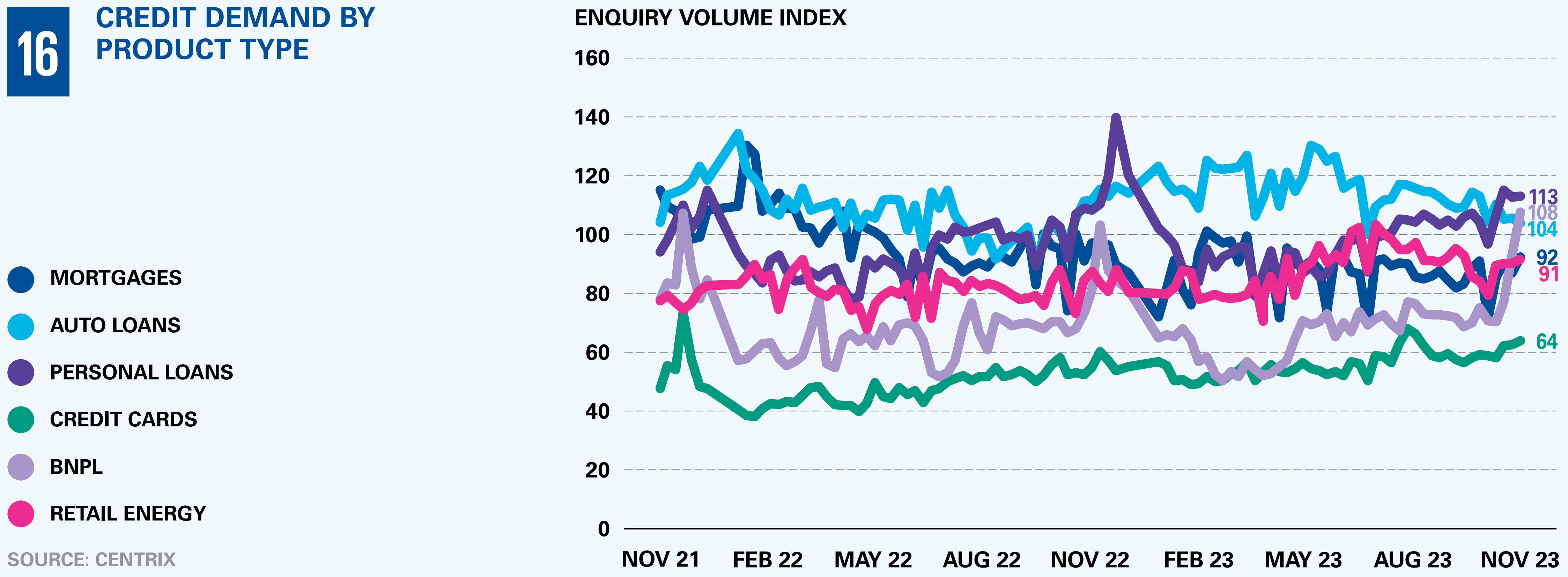
An emergence of two economies now exists in Aotearoa New Zealand, with a huge split between those who are carrying relatively large, recently acquired mortgages and those who have paid down or paid off their mortgages and may have funds on deposit.

Only time will tell how 2024 plays out for Aotearoa New Zealand's economy. Since the Reserve Bank of New Zealand seems confident that the Official Cash Rate will not climb higher than 5.5%, this lack of growth could see interest rates begin to stabilise in the coming months.

Despite these factors, it is clear that a very real need exists to get the cost-of-living crisis under control and help those financially stretched households – problems which the nation will be looking towards the new Government to alleviate.

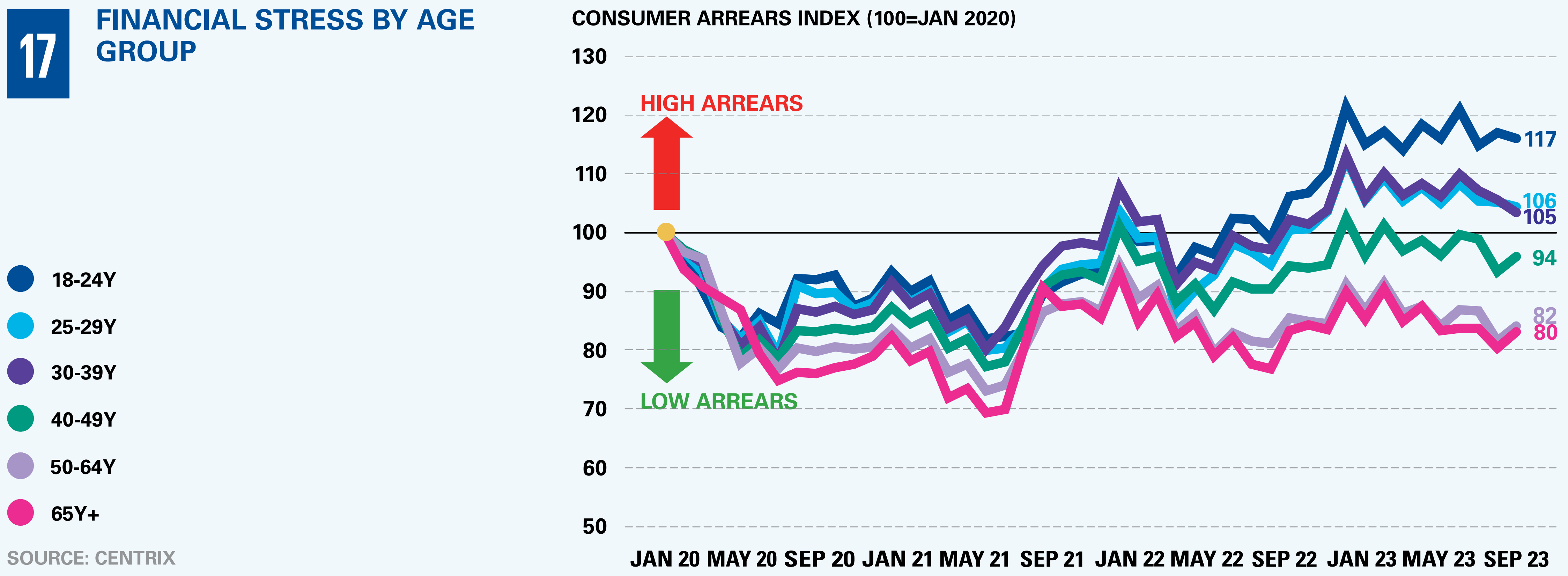
> "Unfortunately, there will be a segment of the population that are stretching beyond their means; in turn, this trend could spell trouble in 2024.

16 CREDIT DEMAND BY PRODUCT TYPE



SOURCE: CENTRIX

17 FINANCIAL STRESS BY AGE GROUP



SOURCE: CENTRIX

Sector performance

The non-bank survey participants have reported a combined decrease in net profit after tax of $110.84 million (or 27.10%) over the year.

Changes in the sector

There have been a number of changes during the year, including the introduction of three new participants to the survey and one entity departing the survey.

We welcome General Finance Limited, Prospa Group Limited (Prospa) and Resimac Financial Services Limited (Resimac) to the survey in 2023 after they met the size thresholds to be included in the survey.

FUJIFILM Leasing New Zealand Limited has departed the survey this year after being included in the annual non-banks FIPS publications for many years.

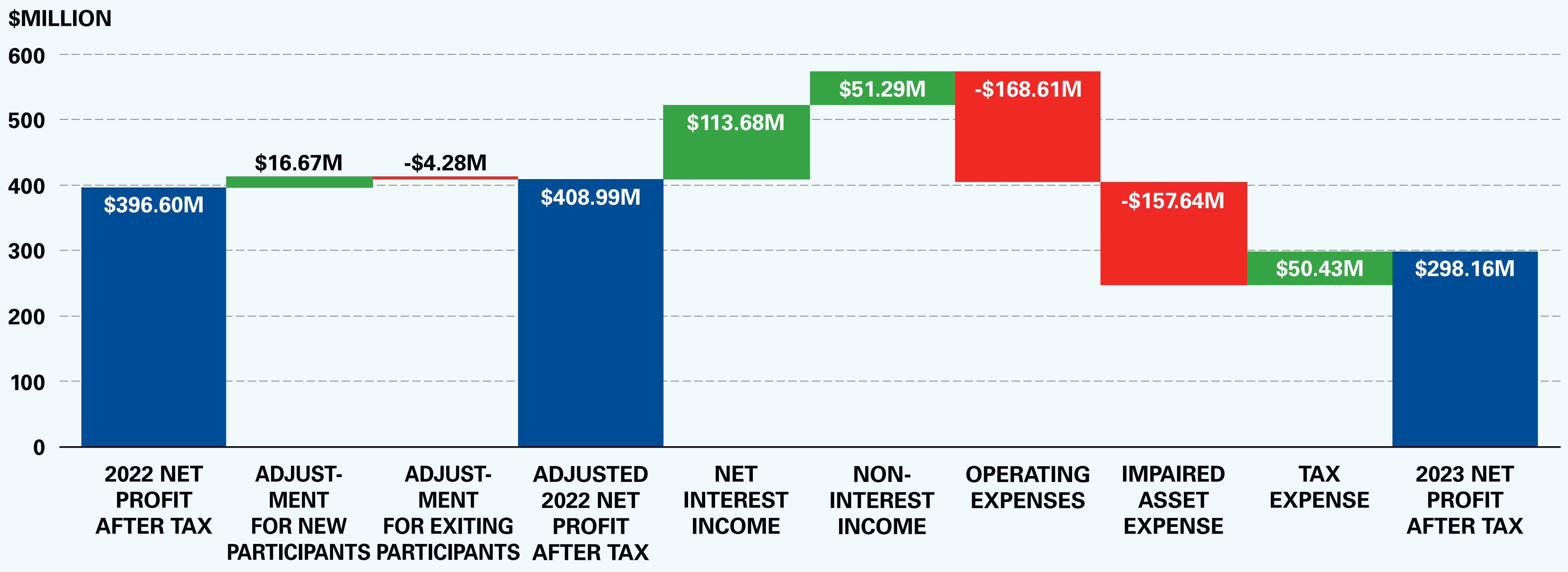
Due to the inclusion of three new entities and the departure of another, some comparative totals may have been restated from the 2022 edition of non-bank FIPS impacting graphs (Figures 18–24) and tables.

We would also like to draw special attention once again to the differing balance dates of our survey participants. While our survey covers the 2023 year, our respondents have a range of balance dates, with the earliest being the 52 weeks to 30 October 2022 and the most recent reporting period for the year ended 30 September 2023. It is important to recognise that the results of each entity will reflect the different state of the economy during the year and at their various balance dates, with the results of those entities with later balance dates reflecting both the high Official Cash Rate (OCR) and inflation. When reading the industry analysis text and comparing the performance of any entities in the survey, these factors should be taken into consideration.

Net profit after tax (NPAT)

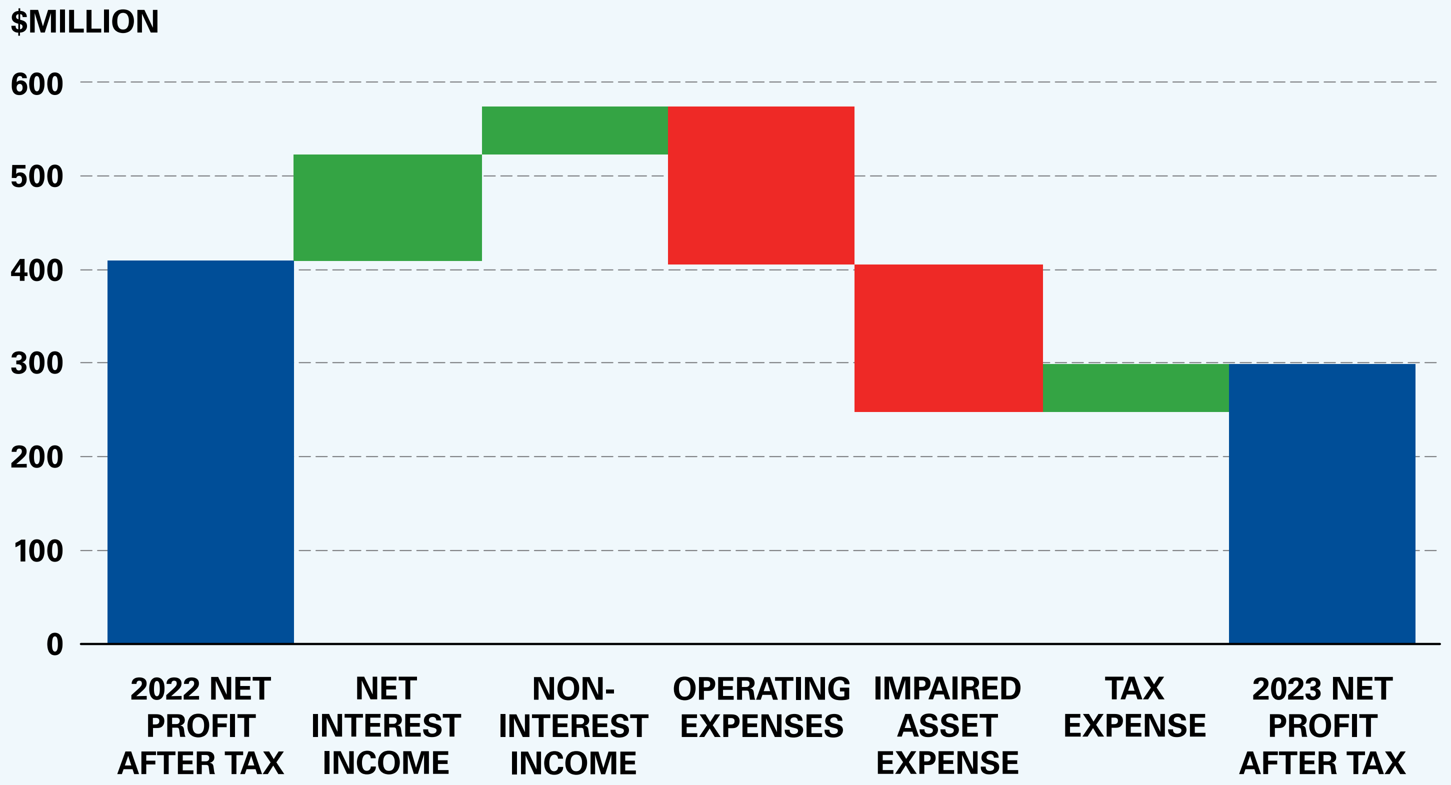
Following strong growth in NPAT over the past year, the non-bank sector has experienced a

18 MOVEMENT IN NET PROFIT



Hover over the button to see historic results

MOVEMENT IN NET PROFIT FOR 2023



2023
2020
2022
2019
2021

TABLE 2: Performance metrics		Total
Increase in total assets		8.14%
Decrease in net profit after tax (NPAT)		-27.10%
Movement of impaired asset expense (As a percentage of average gross loans and advances)	bps	80
Decrease in interest margin	bps	-18
Decrease in NPAT/Average total assets	bps	-76
Decrease in NPAT/Average equity	bps	-342

significant drop in the NPAT growth rate to a 27.10% decrease in 2023.

The observable decrease in NPAT is largely due to the increased cost of funding seen across the non-bank sector, with 19 of the 28 participants experiencing a decrease in NPAT.

Of the nine survey participants who achieved an increase in NPAT, the largest percentage growth was seen by General Finance Limited (General Finance), with a positive movement of 111.16% ($1.71 million), Midlands Income Fund (Midlands), who saw a 54.6% increase ($2.25 million), and Toyota Finance New Zealand Limited (Toyota Finance) with a 54.05% increase ($13.61 million).

Although the majority of survey participants experienced a percentage decrease in NPAT, only 4 out of the 28 participants reported a loss for their financial reporting periods. It will be interesting to see if this trend continues, and whether the non-bank sector can remain profitable going forward.

18 See Figure 18 – page 23

As shown in Figure 18, NPAT has experienced a percentage decrease of 27.10% ($110.84 million). This is driven by the following factors:

- Net interest income increased by $113.68 million to $1,355 million. This is reflective of the increased gross loan books and the interest rate rising during the period.
- Non-interest income decreased 9.88% ($51.29 million) to $570.47 million.
- Operating expenses increased 15.37% ($168.61 million) to $1,266 million.
- Impaired asset expense increased 129.30% ($157.64 million) to $279.56 million.
- Tax expense decreased by 38.07% to $79.29 million.

TABLE 3: Gross loans and advances	2023	2022	Movement	Movement
Entity	$'000	$'000	$'000	%
Avanti Finance Limited	2,070,136	2,068,230	1,906	0.09%
BMW Financial Services New Zealand Limited	237,138	238,912	-1,774	-0.74%
Christian Savings Incorporated	249,047	211,169	37,878	17.94%
First Credit Union	332,326	301,057	31,269	10.39%
First Mortgage Trust	1,220,378	1,170,727	49,651	4.24%
General Finance Limited	109,611	80,230	29,381	36.62%
Geneva Finance Limited	125,385	112,769	12,616	11.19%
Harmoney Corp Limited	807,103	639,249	167,854	26.26%
Instant Finance Limited	126,847	97,140	29,707	30.58%
John Deere Financial Limited	210,085	183,588	26,497	14.43%
Latitude Financial Services Limited	1,438,163	1,407,000	31,163	2.21%
Mercedes-Benz Financial Services New Zealand Limited	660,553	611,896	48,657	7.95%
Midlands Income Fund	95,508	91,953	3,555	3.87%
Motor Trade Finance Limited	994,430	740,527	253,903	34.29%
Nelson Building Society	894,577	865,907	28,670	3.31%
Nissan Financial Services New Zealand Pty Limited	358,488	510,931	-152,443	-29.84%
ORIX New Zealand Limited	130,749	105,182	25,567	24.31%
Police and Families Credit Union	34,404	31,195	3,209	10.29%
Prospa Group Limited	939,087	776,580	162,508	20.93%
Resimac Financial Services Limited	823,899	861,241	-37,342	-4.34%
Ricoh New Zealand Limited	88,613	92,914	-4,301	-4.63%
SG Fleet NZ Limited (formerly LeasePlan)	11,597	9,455	2,142	22.65%
Speirs Finance Group Limited	381,464	292,066	89,398	30.61%
Toyota Finance New Zealand Limited	1,169,748	1,024,815	144,933	14.14%
Turners Automotive Group	436,215	437,132	-917	-0.21%
UDC Finance Limited	4,219,513	3,540,979	678,534	19.16%
Unity Credit Union	259,059	320,038	-60,979	-19.05%
Wairarapa Building Society	148,333	124,979	23,354	18.69%
Sector total	18,572,458	16,947,861	1,624,596	9.59%

Total assets

This year, the non-bank sector has experienced another year of growth in total assets of $1.66 billion (8.14%) to $22.00 billion. The majority of survey participants enjoyed another strong year in terms of asset growth.

24 See Figure 24 – page 28

The continued growth of total assets has meant that 21 of the 28 survey participants reported an increase in their total assets, while the other seven participants saw a contraction.

Growth of gross loans and advances (GLA) during the year mirrored the growth seen in the total assets, increasing by 9.59% ($1.62 billion). Much like total assets, 21 of the 28 survey participants experienced growth in their loan books during 2023 with the remaining six seeing a contraction.

Of the seven survey participants reporting a contraction in total assets, Nissan Financial Services New Zealand Pty Limited (Nissan) experienced the largest decrease of 29.65%, reducing total assets by $155.86 million, to $369.77 million in 2023. This was reflected in a drop in GLA of 29.84% ($152.44 million).

This year, UDC Finance Limited (UDC) reported the largest dollar value growth of total assets in the non-bank sector, with an increase of $617.0 million (16.45%), which has almost entirely come from an increase in their loan book of 19.16% ($678.53 million).

General Finance has claimed the largest incremental increase in market share based on GLA with a movement of 36.62% in GLA ($29.4 million). This is closely followed by Motor Trade Finance Limited (MTF) who recorded a 34.29% ($253.9 million) increase in GLA. The strong loan book growth of both General Finance and MTF have led to them increasing their market share from 0.47% and 4.37% in 2022 to 0.59% and $5.35% in 2023, respectively.

UDC has remained the largest participant in the survey with its loan book passing $4.2 billion this year, and they have a market share of 22.72%, a 183 bps increase over 2022. Avanti has remained as the second largest entity based upon market share, despite their market share reducing by 106 bps to 11.15%. Latitude Financial Services Limited's (Latitude's) loan book has experienced an increase this year, following two years of decreases, with their GLA reported at nearly $1.4 billion and representing 7.93% of the market, placing them just ahead of Toyota Finance, who has a $1.12 billion loan book and 6.30% market share in 2023.

Net interest margin (NIM)

The non-bank sector has seen a decrease in its average NIM over the period dropping by 18 bps from 6.86% to 6.68%. However, this figure has been partially skewed due to Prospa and SG Fleet NZ Limited (formerly LeasePlan), who recorded a 665 bps and 456 bps increase in NIM respectively. This result shows that survey participants have maintained their NIM through the current interest rate environment, which has seen the Reserve Bank of New Zealand's (RBNZ's) OCR increasing from 3.5% in October 2022 to 5.5% in September 2023.

2 See Figure 2 – page 11

The non-bank sector experienced another year of mixed results, with 12 survey participants experiencing an increase in their NIM, and 16 participants experiencing decreases. One thing that all participants acknowledged was that never before had they seen such sharp and sustained increases in funding costs bought about by the RBNZ moving the OCR as it battled inflation. The impact of these rate increases varied among participants dependant on respective balance dates and hedging strategies.

19 See Figure 19 – page 27

The largest increases in NIM were experienced by Prospa with an increase of 665 bps from 18.52% to 25.17%, while Latitude saw the largest decrease in NIM as it dropped by 210 bps from 12.25% to 10.15%. This was followed by Ricoh who experienced the second largest decrease in NIM of 177 bps from 9.53% to 7.76%.

When comparing the interest income as a percentage of average interest-bearing assets, Prospa led the non-bank sector when comparing the 2023 results to 2022 results, with a 1,000 bps increase to 31.60%. This was followed by SG Fleet NZ Limited and General Finance, who were the only other survey participants to see an increase above 300 bps (369 bps). These movements increased their interest income to average interest-bearing assets to 32.83% and 9.36% respectively.

Five of the 28 survey participants experienced a decrease in interest income as a percentage of average-interest bearing assets, with Latitude experiencing the largest improvement, decreasing by 50 bps to 15.06%. This was followed by Geneva Finance Limited and Nissan, who experienced decreases of 36 bps and 17 bps respectively, to 12.05% and 4.99% respectively.

As we continue to navigate the recession New Zealand is currently in, it will be interesting to see how the NIM shapes up for the non-bank sector in 2024.

See Table 4 on page 26.

20 See Figure 20 – page 27

Asset quality

The 2023 survey has seen the retention of a large amount of provisioning within the non-bank sector, with provisioning increasing year on year among survey participants. This is consistent with what has been seen in the banking sector. This increase in provisioning levels is the first increase since 2020, and represents an uptake in provisions after record lows in 2022.

21 See Figure 21 – page 27

It is important to recognise that the differing balance dates among the survey participants means that the provisioning balances and impairment expense levels reflect different times of the year when the provisions were established. As such, the provisioning and impairment numbers may not reflect the impact that persistently high inflation, the cost-of-living crisis, and rapidly rising interest rates had on them.

Nevertheless, based on the data captured by the survey, asset quality has decreased, resulting in impaired asset expense increasing by 129.30% to $279.6 million in 2023. This reflected 22 of the 28 survey participants experiencing an increase in impaired asset expense.

The largest increase in impaired asset expense was recorded by Prospa, with an increase from $52.4 million in 2022 to $151.9 million in 2023. This can be partially attributed to a 20.9% growth seen in its gross loan book from $776.6 million in 2022 to $939.1 million in 2023.

The largest decrease in impaired asset expense was recorded by Nissan, with a decrease from $0.3 million in 2022 to a $2.5 million recovery in 2023, a decrease of 841.6%. This is the largest, and only, recovery Nissan has recorded during their participation in the survey since 2015.

22 See Figure 22 – page 27

This year, only two of the survey participants reported an impaired asset recovery rather than an expense. The largest impaired asset recovery was experienced by Nissan at $2.5 million, followed by Mercedes-Benz Financial Services New Zealand Limited with a recovery of nearly $0.5 million. This was the second year in a row that they saw an impaired asset recovery.

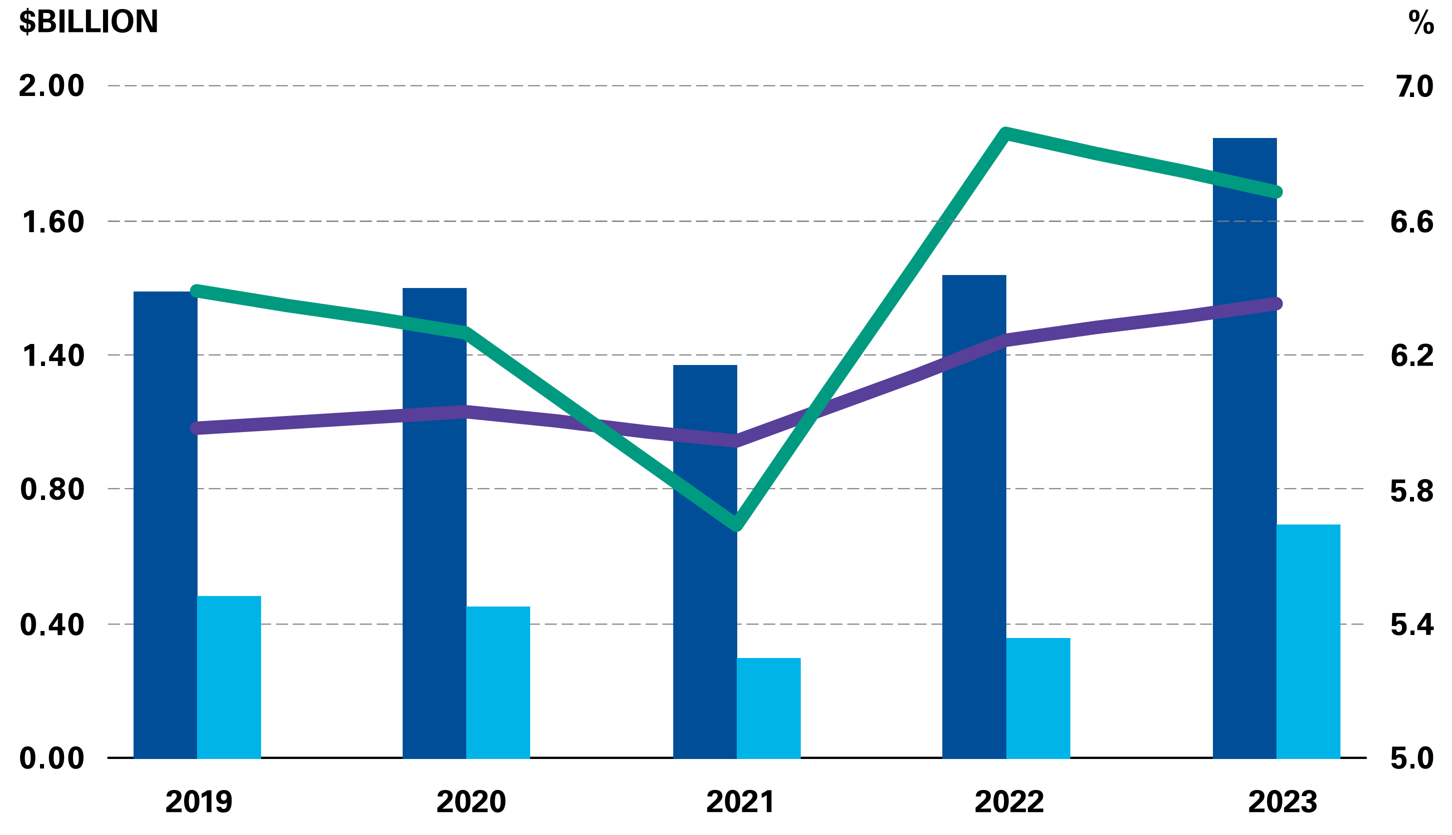
Total provisioning for the non-bank sector increased by 28.69% to $395.1 million in 2023. This increase reflected the New Zealand economy entering into a recession and a lowered credit environment compared to the prior year. The largest increase in impairment provision was recorded by Prospa, who increased provisions by $63.0 million (111.96%) in 2023. These results are consistent with the expectations predicted in 2022, as provisioning numbers have increased following the deteriorating economic environment.

TABLE 4: Movement in net interest margin	2023	2022	Movement
Entity	%	%	(bps)
Avanti Finance Limited	3.24	4.67	-143
BMW Financial Services New Zealand Limited	5.31	6.49	-118
Christian Savings Incorporated	2.34	2.25	9
First Credit Union	4.36	3.67	69
First Mortgage Trust	7.79	6.90	89
General Finance Limited	4.74	2.67	207
Geneva Finance Limited	8.09	9.21	-112
Harmoney Corp Limited	9.64	10.83	-119
Instant Finance Limited	20.21	21.62	-141
John Deere Financial Limited	3.27	4.84	-157
Latitude Financial Services Limited	10.15	12.25	-210
Mercedes-Benz Financial Services New Zealand Limited	2.84	3.08	-24
Midlands Income Fund	8.14	6.46	168
Motor Trade Finance Limited	8.73	8.60	13
Nelson Building Society	2.87	2.80	7
Nissan Financial Services New Zealand Pty Limited	2.41	3.64	-123
ORIX New Zealand Limited	9.71	9.59	12
Police and Families Credit Union	2.60	2.61	-1
Prospa Group Limited	25.17	18.52	665
Resimac Financial Services Limited	0.81	0.88	-7
Ricoh New Zealand Limited	7.76	9.53	-177
SG Fleet NZ Limited (formerly LeasePlan)	32.83	28.27	456
Speirs Finance Group Limited	3.84	4.38	-54
Toyota Finance New Zealand Limited	6.39	5.45	94
Turners Automotive Group	6.68	7.57	-89
UDC Finance Limited	3.95	4.27	-32
Unity Credit Union	7.49	8.15	-66
Wairarapa Building Society	3.84	3.19	65
Sector average	6.68	6.86	-18

Hover over the button
to see historic results

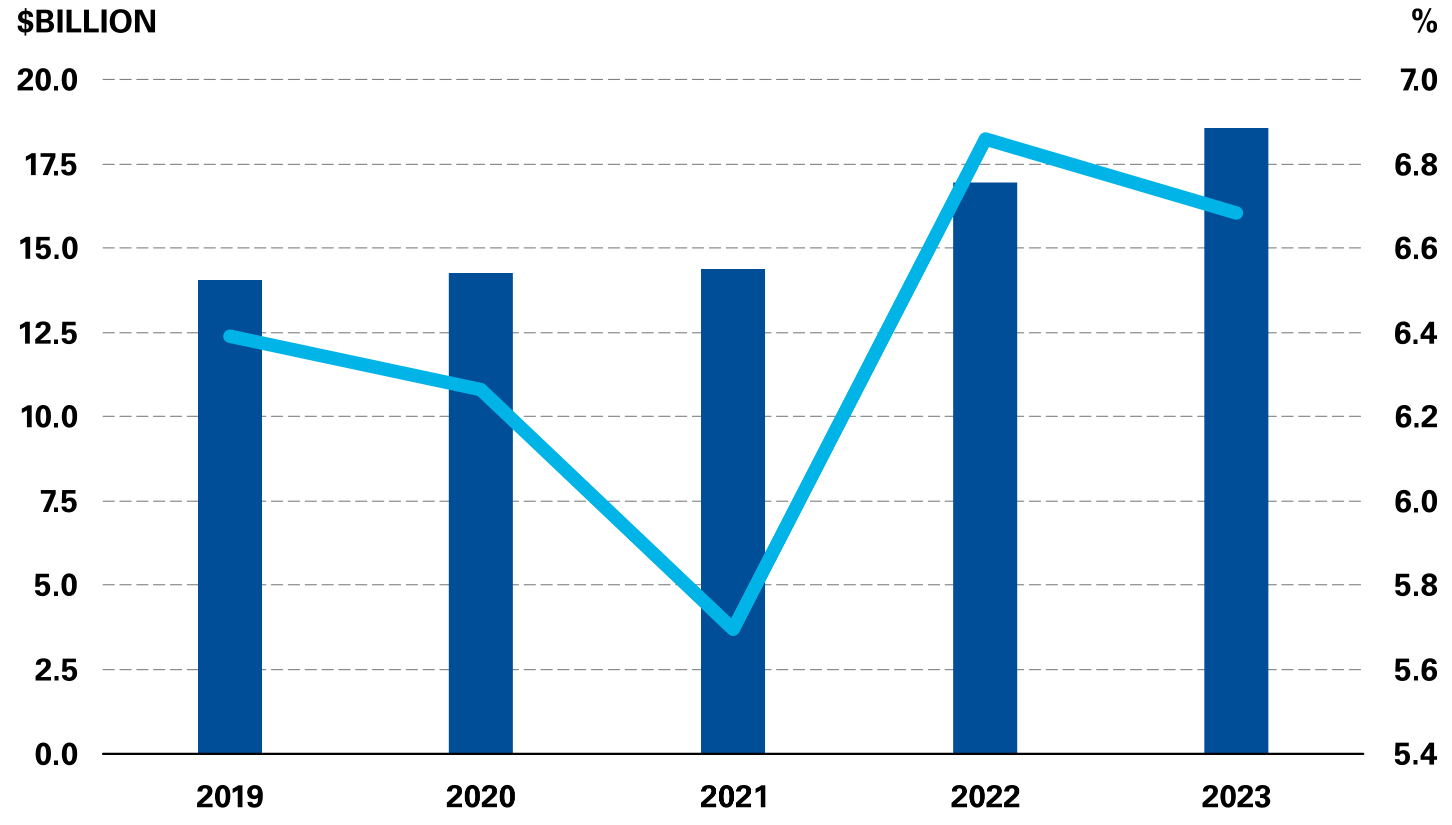
2023 2022 2021 2020 2019

19 NET INTEREST INCOME ANALYSIS: 2023



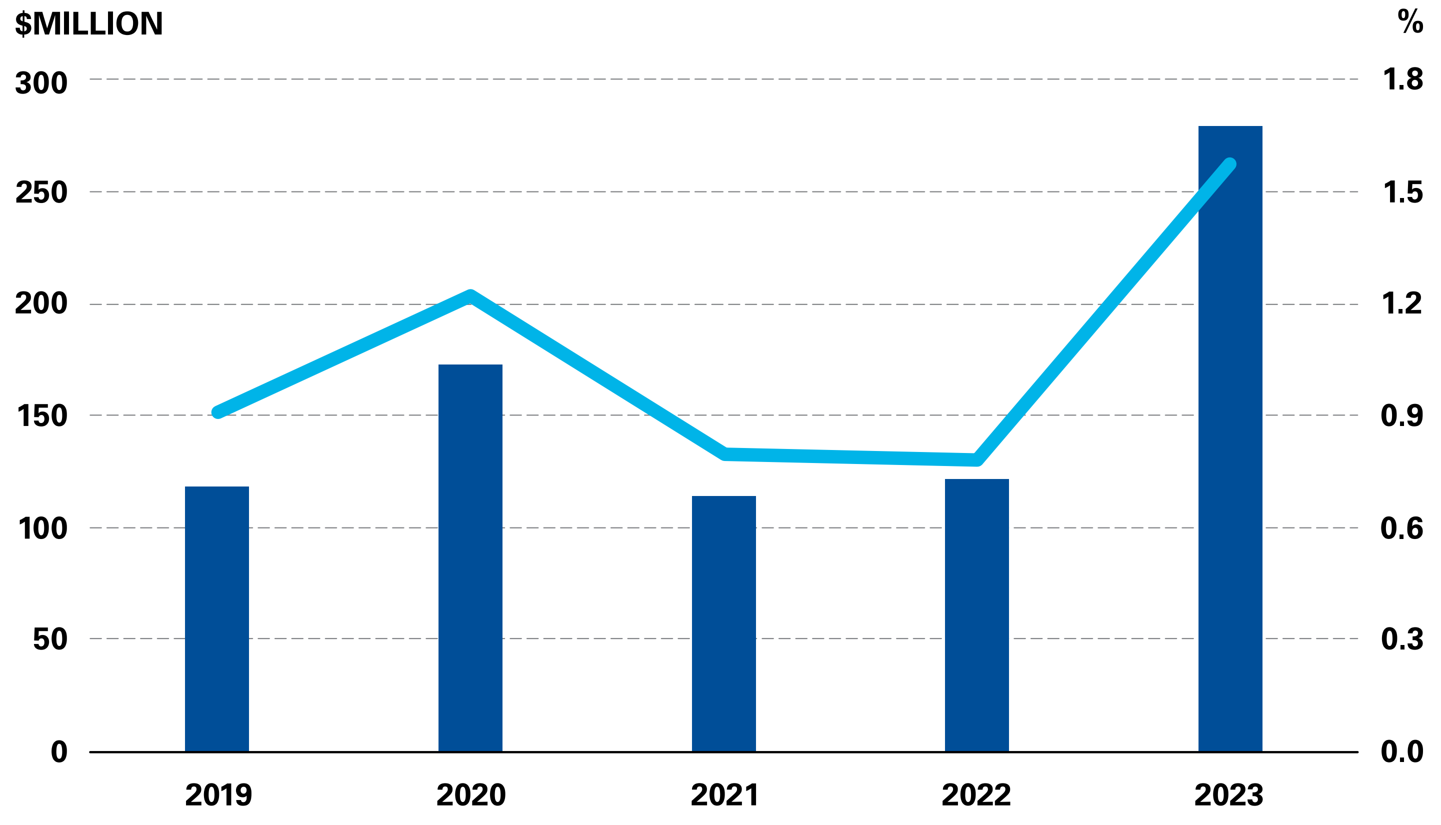
- INTEREST INCOME (LHS)
- INTEREST EXPENSE (LHS)
- NET INTEREST INCOME (LHS)
- NET INTEREST MARGIN (RHS)

20 GROSS LOANS AND ADVANCES VS. NET INTEREST MARGIN: 2023



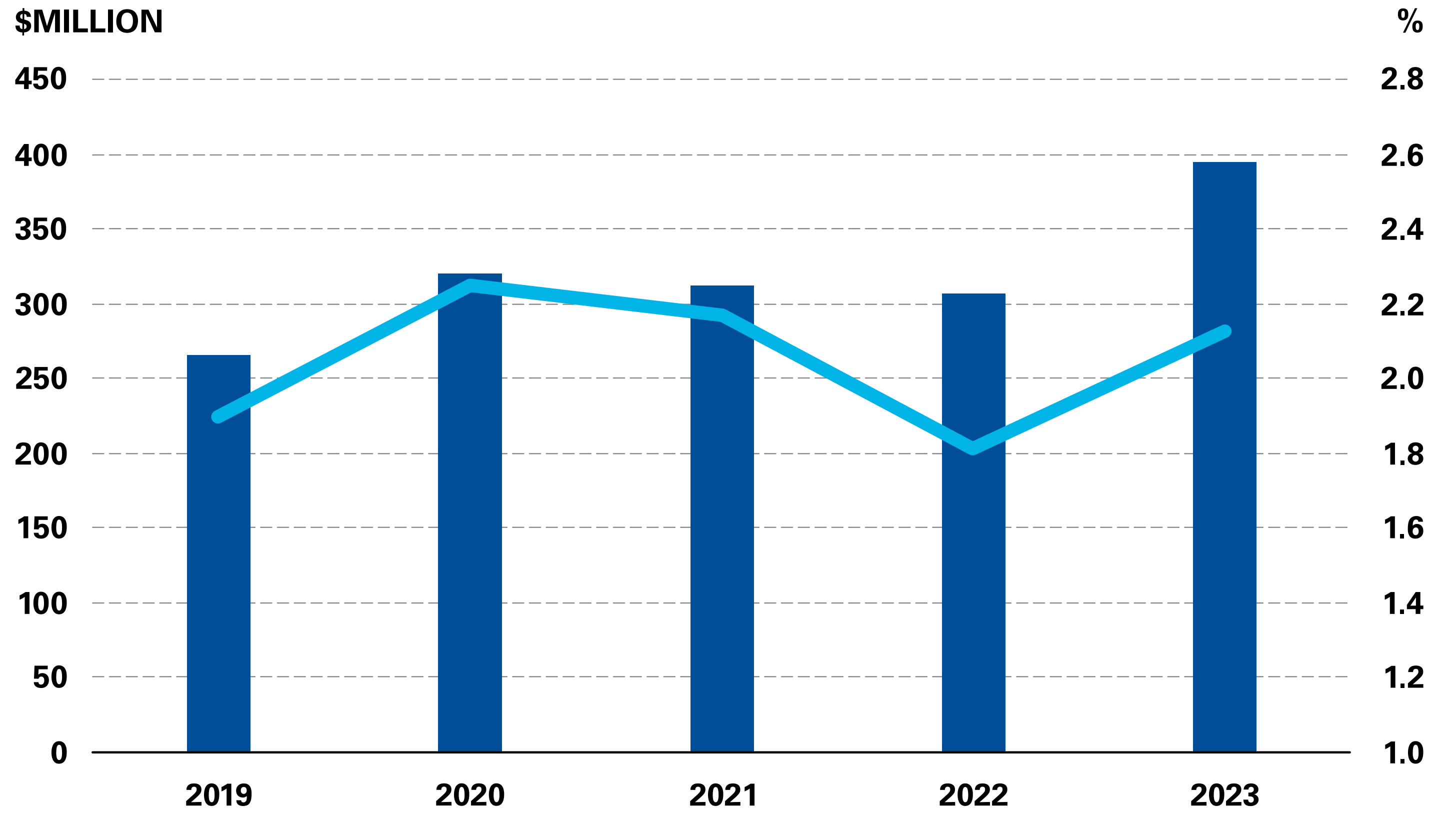
- GROSS LOANS AND ADVANCES (LHS)
- NET INTEREST MARGIN (RHS)

21 IMPAIRED ASSET ANALYSIS: 2023



- IMPAIRED ASSET EXPENSE (LHS)
- IMPAIRED ASSET EXPENSE/AVERAGE LOANS AND ADVANCES (RHS)

22 PROVISIONS AS A PROPORTION OF GROSS LOANS AND ADVANCES: 2023

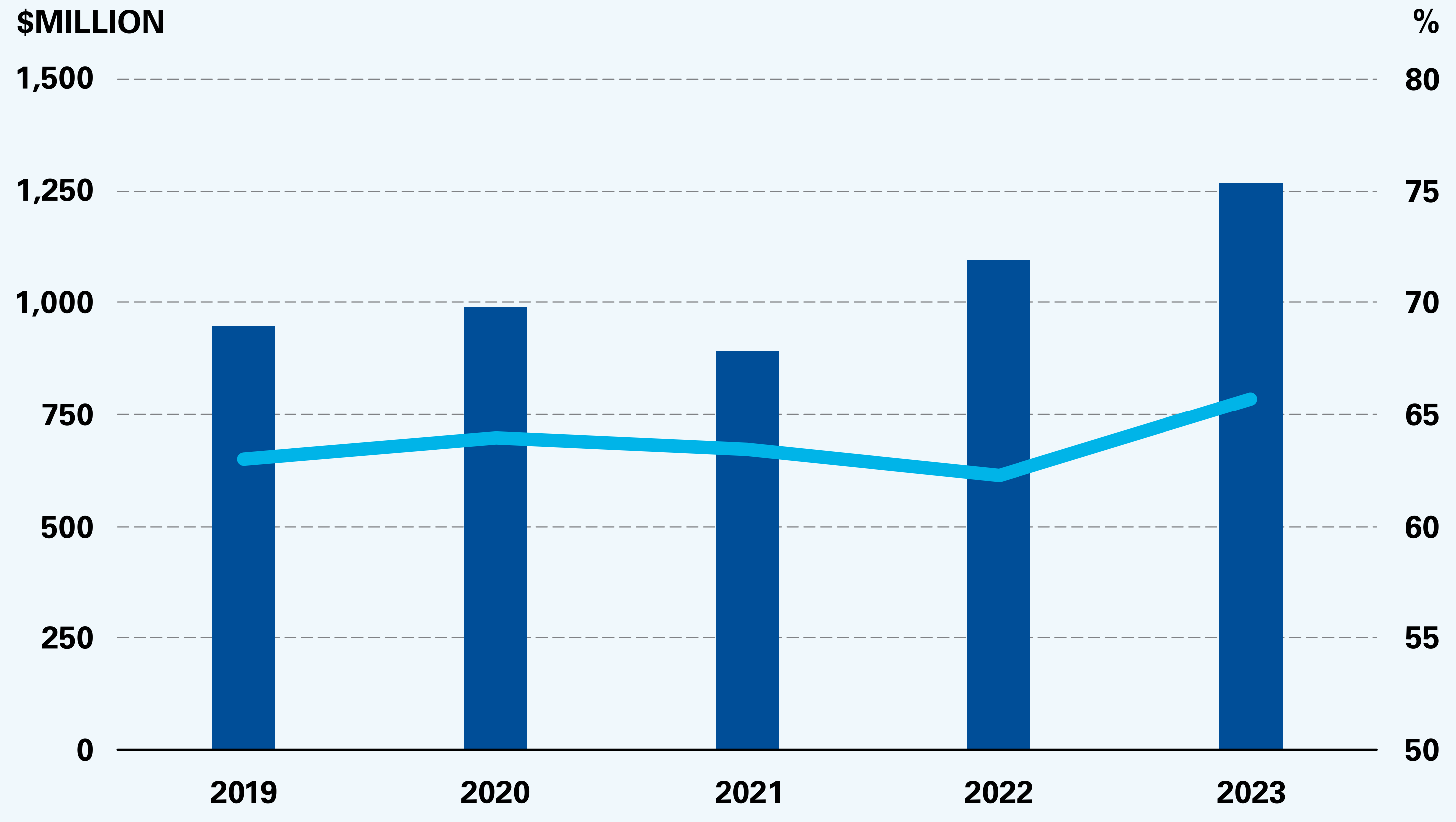


- TOTAL PROVISIONS (LHS)
- PROVISIONS/GROSS LOANS & ADVANCES (%) (RHS)

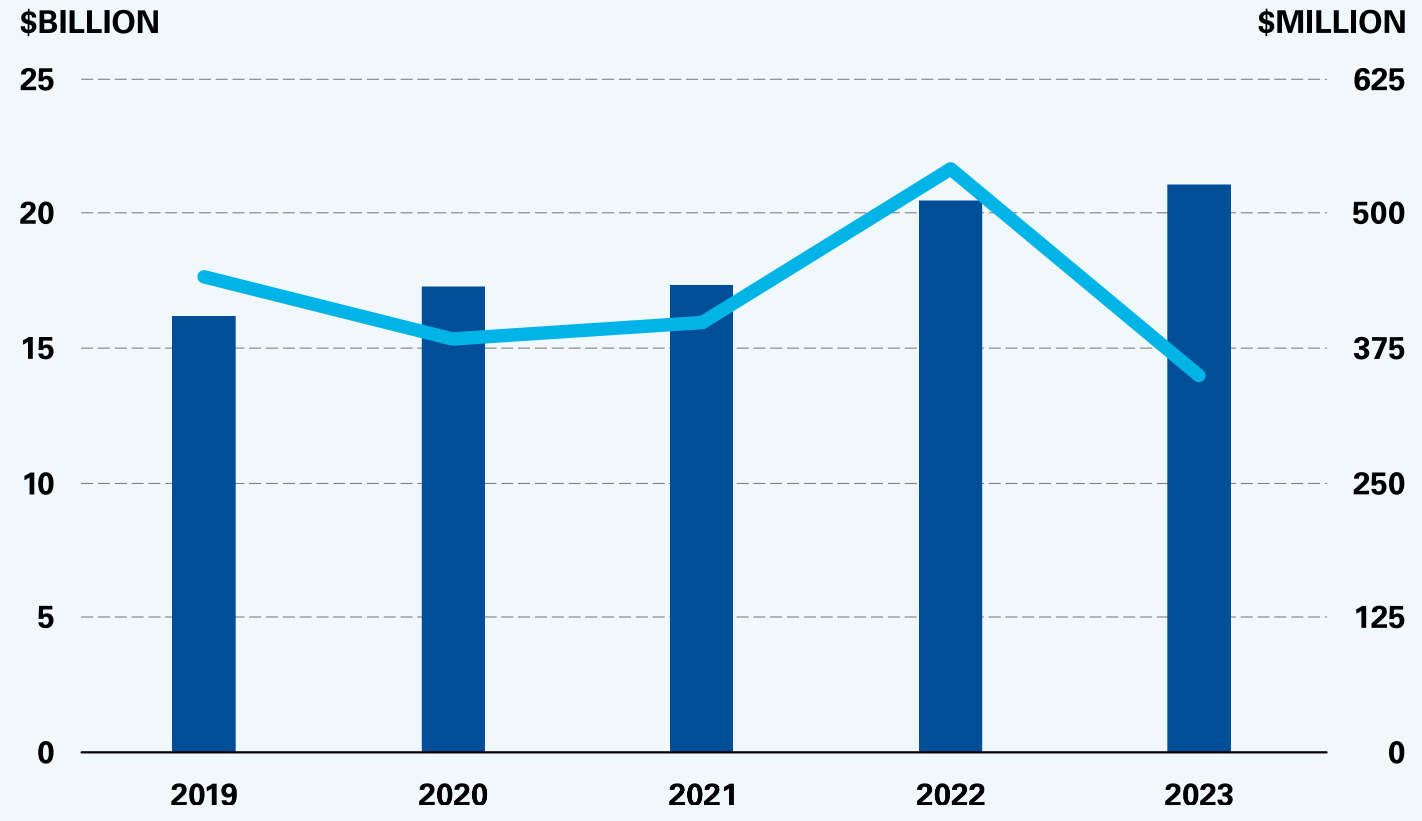
Hover over the button to see historic results

2023 2022 2021 2020 2019

23 OPERATING EXPENSES VS. OPERATING EXPENSES/ OPERATING INCOME: 2023



24 TOTAL ASSETS VS. UNDERLYING PROFIT: 2023



Nine of the survey participants recorded a decrease in their provisioning numbers, and 11 of the survey participants experienced a decrease in their impairment provision to GLA ratio.

Operating expenses

Operating expenses increased by 15.37% ($168.61 million) across the non-bank sector to $1,266 million in the 2023 survey. This movement is similar to the increase seen in 2022, which represented the increasing costs and inflationary pressures the economy was continuing to see over the year. Noted in the Sector – Themes and issues on **page 7**, the impact of increasing costs and the rise in interest rates was seen across the board, which correlates with the operating efficiency ratio (operating expenses as a proportion of operating income) increasing by 342 bps to 62.31% from 65.73%.

23 **See Figure 23 – page 28**

Of the 28 survey participants, 22 reported increases to operating expenses. Resimac saw the largest percentage increase in operating expenses of the participants of 55.72% ($4.12 million). Following Resimac was Nelson Building Society with an increase of 53.23% ($5.83 million) and Prospa followed third with a 46.78% increase ($54.9 million).

Of the six survey participants that reported a decrease, Speirs Finance Group Limited (Speirs) experienced the largest percentage decrease in operating expenses, with a 15.45% decrease ($2.56 million). This decrease in operating expenses correlated with the decline in operating income for Speirs, with a reported decrease of 31.11% ($8.59 million). Toyota Finance experienced the second largest percentage decrease in operating expenses of 13.28% ($5.41 million).

In another turbulent year for survey participants, operating efficiently proved challenging for some participants, illustrated by the mixed results drawn from the data collected. Ten of the 28 participants saw an improvement in their operating efficiency ratio, with First Mortgage Trust leading the pack. First Mortgage Trust had an operating efficiency ratio of 20.92%, after a decrease of 281 bps. While at the other end of the scale, Resimac reported a ratio of 124.70%, up from 40.81% in the prior year. This was largely driven by the increase in operating expenses and a comparatively smaller increase in operating income.

Again, the most notable improvement in operating efficiency was reported by Harmoney Corp Limited of 2,463 bps, which dropped from 87.76% to 63.13%, primarily due to a 20.93% ($12.68 million) increase in operating income. Another notable increase in operating efficiency was seen by Toyota Finance, who improved their efficiency by 1,378 bps from 51.39% to 37.61%, driven by the strong increase of 18.50% ($14.66 million) in their operating income.

Analysis of annual results

				Size and strength measures			Growth measures			
Non-bank entity	**Rank by total assets**	**Balance date**	**Year**	**Total assets $000**	**Net assets[3] $000**	**Net loans and advances $000**	**Increase in net profit after tax %**	**Increase in total assets %**	**Increase in gross loans and advances %**	**Increase in net interest income %**
Avanti Finance Limited	2	30-Jun	2023	2,218,537	228,593	2,042,180	-45.17	37.37	34.15	-14.36
			2022	*2,157,515*	*236,178*	*2,041,474*	*65.37*	*72.45*	*69.74*	*22.80*
BMW Financial Services New Zealand Limited	20	31-Dec	2022	241,512	16,042	233,586	-73.69	-0.68	-0.74	-23.25
			2021	*243,164*	*21,697*	*236,346*	*36.68*	*-9.36*	*-5.86*	*-15.87*
Christian Savings Incorporated	19	31-Aug	2023	293,108	37,232	248,861	-5.98	2.58	17.94	14.35
			2022	*285,749*	*34,971*	*211,113*	*106.33*	*19.18*	*14.42*	*32.55*
First Credit Union Incorporated	15	30-Jun	2023	459,036	68,112	330,398	-23.93	3.77	10.39	24.72
			2022	*442,356*	*63,967*	*298,282*	*63.85*	*6.51*	*8.90*	*18.54*
First Mortgage Trust	3	31-Mar	2023	1,618,214	1,613,035	1,214,041	37.29	10.84	4.24	35.61
			2022	*1,459,923*	*1,455,002*	*1,167,684*	*51.97*	*32.79*	*34.72*	*41.96*
General Finance Limited	27	31-Mar	2023	127,686	15,988	108,834	111.16	28.78	36.62	103.03
			2022	*99,151*	*9,743*	*80,028*	*0.00*	*0.00*	*0.00*	*0.00*
Geneva Finance Limited	22	31-Mar	2023	174,465	38,796	105,730	-41.52	12.09	11.19	-3.67
			2022	*155,651*	*37,760*	*93,203*	*-10.21*	*9.23*	*0.29*	*2.73*
Harmoney Corp Limited	10	30-Jun	2023	855,766	58,547	766,893	60.28	21.72	26.26	27.19
			2022	*703,034*	*65,469*	*607,290*	*17.82*	*80.84*	*107.45*	*101.01*
Instant Finance Limited	26	31-Mar	2023	147,213	37,619	121,139	-25.92	28.68	23.09	-2.46
			2022	*109,404*	*33,573*	*92,769*	*-22.01*	*-12.43*	*-14.44*	*-11.22*
John Deere Financial Limited	21	30-Oct	2022	217,878	21,940	210,085	-39.70	15.70	14.43	-26.12
			2021	*188,321*	*19,461*	*183,588*	*-5.80*	*6.15*	*6.63*	*0.02*
Latitude Financial Services Limited	4	31-Dec	2022	1,547,329	-42,705	1,392,357	-69.72	-0.12	2.21	-18.26
			2021	*1,549,182*	*-24,185*	*1,367,919*	*143.61*	*-3.03*	*-5.22*	*-3.07*
Mercedes-Benz Financial Services New Zealand Limited	12	31-Dec	2022	683,487	27,690	656,274	-4.36	8.58	7.95	-1.44
			2021	*629,454*	*35,610*	*606,452*	*13.23*	*6.20*	*5.64*	*-6.84*
Midlands Income Fund	28	31-Mar	2023	111,774	110,455	94,917	54.60	7.26	3.87	43.89
			2022	*104,205*	*103,470*	*91,460*	*34.86*	*22.69*	*32.73*	*33.21*
Motor Trade Finance Limited	7	30-Sep	2023	1,093,667	105,050	990,619	44.86	43.65	46.90	21.89
			2022	*845,198*	*99,628*	*736,628*	*68.67*	*12.12*	*9.60*	*7.17*
Nelson Building Society	6	31-Mar	2023	1,132,709	110,532	889,019	-20.90	4.10	3.31	11.72
			2022	*1,088,058*	*102,838*	*862,099*	*40.84*	*14.76*	*20.33*	*16.29*

Analysis of annual results

				Size and strength measures			Growth measures			
Non-bank entity	**Rank by total assets**	**Balance date**	**Year**	**Total assets $000**	**Net assets[3] $000**	**Net loans and advances $000**	**Increase in net profit after tax %**	**Increase in total assets %**	**Increase in gross loans and advances %**	**Increase in net interest income %**
Nissan Financial Services New Zealand Pty Limited	17	31-Mar	2023	369,777	72,203	351,715	-35.27	-29.65	-29.84	-42.50
			2022	*525,634*	*62,057*	*500,551*	*0.12*	*6.30*	*4.85*	*-10.23*
ORIX New Zealand Limited	14	31-Mar	2023	511,484	191,729	130,668	-6.00	11.23	24.31	10.09
			2022	*459,859*	*172,262*	*105,151*	*35.38*	*7.74*	*7.56*	*8.96*
Police and Families Credit Union	24	30-Jun	2023	156,654	28,241	34,281	-14.73	0.83	10.29	0.34
			2022	*155,357*	*27,673*	*31,066*	*-34.25*	*2.14*	*-17.46*	*-17.54*
Prospa Group Limited	8	30-Jun	2023	979,103	101,247	819,851	-756.08	9.32	20.93	43.07
			2022	*895,653*	*150,812*	*720,324*	*0.00*	*0.00*	*0.00*	*0.00*
Resimac Financial Services Limited	9	30-Jun	2023	879,528	55,933	822,452	-122.61	-2.62	-4.34	-8.73
			2022	*903,172*	*43,606*	*859,887*	*0.00*	*0.00*	*0.00*	*0.00*
Ricoh New Zealand Limited	25	31-Mar	2023	154,487	71,049	86,342	23.75	53.83	8.75	-4.64
			2022	*168,201*	*73,151*	*91,177*	*-20.87*	*-12.03*	*-5.39*	*-17.36*
SG Fleet NZ Limited (formerly LeasePlan)	18	30-Jun	2023	347,563	72,074	11,484	26.28	-1.61	22.65	21.94
			2022	*353,250*	*59,953*	*9,328*	*26.71*	*14.17*	*0.00*	*400.67*
Speirs Finance Group Limited	13	30-Jun	2023	514,064	10,155	376,168	-71.03	31.52	30.61	12.17
			2022	*390,864*	*3,732*	*284,944*	*451.45*	*27.17*	*26.15*	*-16.15*
Toyota Finance New Zealand Limited	5	31-Mar	2023	1,478,519	243,484	1,155,637	54.05	8.74	14.14	24.95
			2022	*1,359,700*	*229,879*	*1,009,072*	*-2.51*	*5.17*	*0.35*	*15.58*
Turners Automotive Group	11	31-Mar	2023	759,422	179,731	427,546	4.11	3.58	-0.21	-3.23
			2022	*733,176*	*159,880*	*426,112*	*16.44*	*17.13*	*24.36*	*9.36*
UDC Finance Limited	1	31-Dec	2022	4,367,429	753,346	4,160,841	-13.80	16.45	19.16	3.34
			2021	*3,750,418*	*663,560*	*3,489,454*	*270.10*	*8.23*	*7.03*	*276.19*
Unity Credit Union	16	30-Jun	2023	400,824	43,975	247,667	-11,848.74	-8.90	-19.05	-14.72
			2022	*439,993*	*60,836*	*312,906*	*-103.46*	*-7.74*	*-0.86*	*10.04*
Wairarapa Building Society	23	31-Mar	2023	163,441	25,302	147,735	-47.53	7.39	18.69	23.57
			2022	*152,190*	*24,525*	*124,499*	*-24.71*	*-4.11*	*15.67*	*22.32*
Sector total			2023	22,004,677	4,295,396	18,177,320	-27.10	8.14	9.59	9.16
			2022	*20,347,832*	*4,027,107*	*16,640,807*	*38.46*	*16.69*	*17.91*	*31.28*

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

Analysis of annual results

Non-bank entity	Year	Credit quality measures: Impaired asset expense $000	Credit quality measures: Provision for doubtful debts/ Gross loans & advances %	Credit quality measures: Impaired asset expense/ Average loans & advances %	Profitability measures: Net interest margin %	Profitability measures: Interest spread %	Profitability measures: Net profit after tax $000	Profitability measures: Underlying profit $000	Profitability measures: NPAT/ Average total assets %	Profitability measures: NPAT/ Average equity %	Efficiency measures: Operating expenses/ Gross revenues %	Efficiency measures: Operating expenses/ Operating income %
Avanti Finance Limited	2023	10,431	1.35	0.58	3.24	2.40	16,538	21,716	0.86	6.88	24.69	60.68
	2022	*8,395*	*1.29*	*0.51*	*4.67*	*4.28*	*35,086*	*50,160*	*2.06*	*18.63*	*24.59*	*38.46*
BMW Financial Services New Zealand Limited	2022	671	1.50	0.28	5.31	5.11	1,445	2,010	0.60	7.66	58.35	82.25
	2021	*1,365*	*1.07*	*0.55*	*6.49*	*6.35*	*5,493*	*7,770*	*2.15*	*25.61*	*43.96*	*52.78*
Christian Savings Incorporated	2023	130	0.07	0.06	2.34	1.86	3,583	3,583	1.24	9.92	20.75	47.72
	2022	*-146*	*0.03*	*-0.07*	*2.25*	*2.03*	*3,811*	*3,811*	*1.45*	*11.51*	*24.87*	*40.88*
First Credit Union Incorporated	2023	1,462	0.58	0.46	4.36	4.13	2,327	2,328	0.52	3.52	66.64	86.35
	2022	*1,099*	*0.92*	*0.38*	*3.67*	*3.55*	*3,059*	*3,060*	*0.71*	*4.96*	*68.76*	*81.60*
First Mortgage Trust	2023	3,512	0.52	0.29	7.79	7.79	90,787	90,771	5.90	5.92	20.92	20.92
	2022	*9*	*0.26*	*0.00*	*6.90*	*6.90*	*66,130*	*67,051*	*5.17*	*5.18*	*23.73*	*23.73*
General Finance Limited	2023	574	0.71	0.60	4.74	4.09	3,245	4,352	2.86	25.22	25.28	41.07
	2022	*66*	*0.25*	*0.00*	*2.67*	*2.31*	*1,537*	*2,062*	*0.00*	*0.00*	*32.09*	*53.09*
Geneva Finance Limited	2023	270	15.68	0.23	8.09	5.81	3,476	4,754	2.11	9.08	79.15	88.80
	2022	*-430*	*17.35*	*-0.38*	*9.21*	*7.52*	*5,944*	*8,238*	*3.99*	*16.52*	*72.28*	*79.82*
Harmoney Corp Limited	2023	35,265	4.98	4.88	9.64	9.35	-8,257	-8,257	-1.06	-13.32	39.65	63.13
	2022	*28,200*	*5.00*	*5.95*	*10.83*	*10.31*	*-20,788*	*-20,788*	*-3.81*	*-29.45*	*65.92*	*87.76*
Instant Finance Limited	2023	4,821	4.50	4.19	20.21	17.81	7,058	9,459	5.40	17.08	56.67	66.52
	2022	*2,303*	*4.50*	*2.19*	*21.62*	*19.82*	*6,803*	*8,783*	*5.81*	*17.81*	*61.83*	*69.77*
John Deere Financial Limited	2022	0	0.00	0.00	3.27	3.06	2,479	3,327	1.22	11.98	29.44	48.78
	2021	*0*	*0.00*	*0.00*	*4.84*	*4.77*	*4,111*	*5,710*	*2.25*	*23.62*	*31.20*	*35.09*
Latitude Financial Services Limited	2022	38,275	3.19	2.69	10.15	10.36	15,214	18,520	0.98	17.78	42.87	63.06
	2021	*16,617*	*2.78*	*1.15*	*12.25*	*12.39*	*50,240*	*71,519*	*3.19*	*64.11*	*41.45*	*52.50*
Mercedes-Benz Financial Services New Zealand Limited	2022	-487	0.65	-0.08	2.84	2.68	9,607	13,364	1.46	30.35	22.03	39.79
	2021	*-1,354*	*0.89*	*-0.23*	*3.08*	*2.97*	*10,045*	*13,918*	*1.64*	*28.61*	*31.13*	*42.68*
Midlands Income Fund	2023	98	0.62	0.10	8.14	8.14	6,378	6,378	5.91	5.96	26.53	26.53
	2022	*19*	*0.54*	*0.02*	*6.46*	*6.46*	*4,126*	*4,126*	*4.36*	*4.38*	*32.22*	*32.22*
Motor Trade Finance Limited	2023	163	0.38	0.02	8.73	8.20	11,590	16,172	1.25	11.47	59.54	83.38
	2022	*204*	*0.53*	*0.03*	*8.60*	*8.25*	*8,366*	*11,863*	*1.05*	*8.49*	*69.10*	*85.08*
Nelson Building Society	2023	2,633	0.62	0.30	2.87	2.67	9,944	13,876	0.90	9.32	30.33	50.43
	2022	*1,276*	*0.44*	*0.16*	*2.80*	*2.67*	*12,571*	*17,525*	*1.23*	*12.87*	*25.93*	*36.83*

Analysis of annual results

		Credit quality measures			Profitability measures						Efficiency measures	
Non-bank entity	**Year**	**Impaired asset expense $000**	**Provision for doubtful debts/ Gross loans & advances %**	**Impaired asset expense/ Average loans & advances %**	**Net interest margin %**	**Interest spread %**	**Net profit after tax $000**	**Underlying profit $000**	**NPAT/ Average total assets %**	**NPAT/ Average equity %**	**Operating expenses/ Gross revenues %**	**Operating expenses/ Operating income %**
Nissan Financial Services New Zealand Pty Limited	2023	-2,477	1.89	-0.57	2.41	1.90	7,270	13,179	1.62	10.83	22.93	34.33
	2022	*334*	*2.03*	*0.07*	*3.64*	*3.42*	*11,231*	*20,121*	*2.20*	*20.69*	*19.66*	*21.89*
ORIX New Zealand Limited	2023	127	0.06	0.11	9.71	8.44	19,076	26,519	3.93	10.48	25.53	54.90
	2022	*12*	*0.03*	*0.01*	*9.59*	*8.71*	*20,293*	*28,188*	*4.58*	*12.59*	*22.74*	*48.68*
Police and Families Credit Union	2023	2	0.36	0.01	2.60	2.32	573	573	0.37	2.05	55.96	87.33
	2022	*3*	*0.41*	*0.01*	*2.61*	*2.53*	*672*	*673*	*0.44*	*2.46*	*73.00*	*85.27*
Prospa Group Limited	2023	151,879	12.70	17.70	25.17	24.33	-48,862	-69,803	-5.21	-38.77	55.39	67.73
	2022	*52,393*	*7.24*	*0.00*	*18.52*	*17.96*	*7,448*	*1,844*	*0.00*	*0.00*	*59.45*	*68.39*
Resimac Financial Services Limited	2023	93	0.18	0.01	0.81	0.54	-1,737	-2,372	-0.19	-3.49	20.83	124.70
	2022	*21*	*0.16*	*0.00*	*0.88*	*0.77*	*7,682*	*10,698*	*0.00*	*0.00*	*18.50*	*40.81*
Ricoh New Zealand Limited	2023	338	2.56	0.45	7.76	5.94	4,934	7,092	3.87	10.81	79.73	85.57
	2022	*126*	*1.87*	*0.13*	*9.53*	*9.08*	*7,429*	*10,463*	*4.13*	*10.08*	*75.91*	*79.22*
SG Fleet NZ Limited (formerly LeasePlan)	2023	0	0.97	0.00	32.83	32.83	11,214	15,587	3.20	10.23	57.01	85.14
	2022	*0*	*1.34*	*0.00*	*28.27*	*28.27*	*8,880*	*12,517*	*2.68*	*7.70*	*55.36*	*85.47*
Speirs Finance Group Limited	2023	2,117	1.39	0.63	3.84	3.87	3,077	2,915	0.68	44.31	21.93	73.56
	2022	*448*	*2.44*	*0.17*	*4.38*	*4.31*	*10,621*	*10,621*	*3.04*	*222.94*	*26.40*	*59.93*
Toyota Finance New Zealand Limited	2023	4,515	1.21	0.41	6.39	5.86	38,776	54,093	2.73	16.38	22.30	37.61
	2022	*3,778*	*1.54*	*0.37*	*5.45*	*5.10*	*25,172*	*34,758*	*1.90*	*10.93*	*29.60*	*51.39*
Turners Automotive Group	2023	1,908	1.99	0.44	6.68	6.08	32,566	45,545	4.36	12.41	82.62	87.10
	2022	*1,877*	*2.52*	*0.48*	*7.57*	*7.23*	*31,281*	*43,120*	*4.60*	*12.87*	*83.71*	*86.46*
UDC Finance Limited	2022	11,570	1.39	0.30	3.95	3.33	69,301	97,318	1.71	9.78	18.16	31.82
	2021	*-3,850*	*1.46*	*-0.11*	*4.27*	*3.94*	*80,396*	*111,787*	*2.23*	*13.10*	*22.13*	*30.32*
Unity Credit Union	2023	11,548	4.40	3.99	7.49	7.27	-14,219	-14,219	-3.38	-27.13	89.27	107.17
	2022	*9,248*	*2.23*	*2.88*	*8.15*	*8.05*	*-119*	*-119*	*-0.03*	*-0.20*	*73.19*	*79.08*
Wairarapa Building Society	2023	118	0.40	0.09	3.84	3.52	774	1,498	0.49	3.11	45.45	71.43
	2022	*-94*	*0.38*	*-0.08*	*3.19*	*3.07*	*1,475*	*2,070*	*0.95*	*6.18*	*49.78*	*62.77*
Sector total	2023	279,557	2.13	1.57	6.68	5.87	298,158	380,278	1.41	6.71	45.49	65.73
	2022	*121,919*	*1.81*	*0.78*	*6.86*	*6.39*	*408,994*	*541,548*	*2.16*	*10.13*	*48.16*	*62.31*

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

Ownership

as at 1 December 2023

Non-bank entity	Ultimate shareholding	%
Avanti Finance Limited	Various investment/nominee companies	100
BMW Financial Services New Zealand Limited	BMW AG (Germany)	100
Christian Savings Incorporated	Various private shareholders	100
First Credit Union Incorporated	Various depositors	100
First Mortgage Trust	Various unitholders	100
General Finance Limited	General Capital Limited	100
Geneva Finance limited	Various investment/nominee companies; various private shareholders	100
Harmoney Corp Limited	Various shareholders, listed on ASX[4]	100
Instant Finance Limited	Various private shareholders	100
John Deere Financial Limited	Deere & Company (USA)	100
Latitude Financial Services Limited	Latitude Group Holdings Limited	100
Mercedes-Benz Financial Services New Zealand Limited	Mercedes-Benz Mobility AG	100
Midlands Income Fund	Various unitholders	100

Non-bank entity	Ultimate shareholding	%
Motor Trade Finance Limited	Various Licensed Motor Vehicle Dealers	100
Nelson Building Society	Various depositors	100
Nissan Financial Services New Zealand Pty Limited	Nissan Financial Services Australia Pty Ltd	100
ORIX New Zealand Limited	Orix Australia (International) Pty Ltd	100
Police and Families Credit Union	Various depositors	100
Prospa Group Limited	Various shareholders, listed on ASX	100
Resimac Financial Services Limited	Resimac Limited	100
Ricoh New Zealand Limited	Ricoh Company, Ltd (Japan)	100
SG Fleet NZ Limited	SG Fleet Group Limited (Australia)	100
Speirs Finance Group Limited	Equipment, Leasing & Finance Holdings Limited	100
Toyota Finance New Zealand Limited	Toyota Motor Corporation of Japan	100
Turners Automotive Group	Various investment/nominee companies	100
UDC Finance Limited	Shinsei Bank, Limited (Japan)	100
Unity Credit Union	Various depositors	100
Wairarapa Building Society	Various depositors	100

Credit ratings

as at 1 December 2023

Non-bank entity	Standard & Poor's		Fitch Ratings		Moody's		Rating and Investment	
	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
Avanti Finance Limited	BB	Stable						
BMW Financial Services New Zealand Limited[5]	A	Stable			A2	Stable		
Christian Savings Incorporated			BB+	Stable				
First Credit Union Incorporated			BB	Stable				
First Mortgage Trust								
General Finance Limited								
Geneva Finance Limited								
Harmoney Corp Limited								
Instant Finance Limited								
John Deere Financial Limited[6]			A+	Stable	A2	Positive		
Latitude Financial Services Limited[7]								
Mercedes-Benz Financial Services New Zealand Limited[8]	A	Stable	A	Stable				
Midlands Income Fund								
Motor Trade Finance Limited								
Nelson Building Society			BB+	Positive				

Non-bank entity	Standard & Poor's		Fitch Ratings		Moody's		Rating and Investment	
	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
Nissan Financial Services New Zealand Pty Limited[9]			BBB-	Stable	Baa3	Stable	A	Negative
ORIX New Zealand Limited[10]	A-	Negative	A-	Stable	A3	Stable	AA-	Stable
Police and Families Credit Union								
Prospa Group Limited								
Resimac Financial Services Limited[11]								
Ricoh New Zealand Limited[12]							A+	Stable
SG Fleet NZ Limited[13]								
Speirs Finance Group Limited[14]								
Toyota Finance New Zealand Limited[15]	A+	Stable	A+	Stable	A1	Stable	AAA	Stable
Turners Automotive Group								
UDC Finance Limited[16]	BBB	Stable			Baa1	Stable	A	Stable
Unity Credit Union			BB	Negative				
Wairarapa Building Society								

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.
Assigned by Rating and Investment Information, Inc.	Rating and Investment Information, Inc. applies a rating scale where the grades of 'AAA' to 'BB' indicate the highest level of creditworthiness supported by excellent factors, to a sufficient level of creditworthiness where some factors require attention at times. Grades of 'B' to 'C' are applied where creditworthiness is questionable and some factors require constant attention, to cases where an obligation is in default. Rating and Investment Information, Inc. include the use of modifiers, such as '+' or '-' to the categories of 'AA' to 'CCC' to indicate the relative standing within each rating category.

Definitions

Terms and ratios used in this survey	Definitions used in this survey
Gross impaired assets	Includes all impaired assets, restructured assets, and assets acquired through the enforcement of security, but excludes past due assets.
Gross loans and advances	Includes loans and advances, lease receivables (net of unearned income) and accrued interest receivable (where identifiable), but excludes amounts due from banks, marketable securities, loans to related parties, sundry debtors and prepayments.
Gross revenue	Includes gross interest income, gross operating lease and net other income.
Impaired asset expense	The charge to the Profit or Loss Account for bad debts and provisions for doubtful debts, which is net of recoveries (where identifiable).
Interest bearing liabilities	Customer deposits (including accrued interest payable where identifiable), balances with banks, debt securities, subordinated debt and balances with related parties.
Interest earning assets	Cash on hand, money on call and balances with banks, trading and investment securities, net loans and advances (including accrued interest receivable where identifiable), leased assets net of depreciation and balances with related parties.
Interest expense	Includes all forms of interest or returns paid on debt instruments.
Interest spread	Difference between the average interest rate on average interest earning assets, and the average interest rate on average interest bearing liabilities.
Net assets	Total assets less total liabilities.

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. Consumers price index (CPI) | Stats NZ
2. The related articles are hyperlinked to provide the reader with the ability to access the respective news releases
3. Net tangible assets
4. No longer dual listed on NZX/ASX as at 31 October 2022
5. Rating of parent company BMW AG (Germany)
6. Rating of parent company John Deere Financial Limited Australia
7. Rating of parent company Latitude Group Holdings Limited
8. Rating of parent company Mercedes-Benz Mobility AG (Germany)
9. Rating of parent company Nissan Motor Co. Limited (Japan)
10. Rating of parent company Orix Corporation (Japan)
11. Rating of parent company Resimac Limited
12. Rating of parent company Ricoh Co. Limited (Japan)
13. Rating of parent company SG Fleet Group Limited (Australia)
14. Rating of parent company Equipment, Leasing and Finance Holdings Limited
15. Rating of parent company Toyota Motor Corporation (Japan)
16. Rating of parent company SBI Shinsei Bank Ltd

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.

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