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UNIVERSITY OF NEW ZEALAND

FIPS

Financial Institutions Performance Survey

Banks – Review of 2023

Contents

A snapshot of 2023

1 **0.28%** increase in NPAT

2 **8.85%** increase in operating expenses

3 **3.06%** increase in gross lending

4 **24 bps** rise in net interest margins

5 **16.89%** rise in net interest income

6 **214 bps** rise in average funding costs

7 **16.77%** increase in gross impaired assets

8 **15.06%** increase in provisions

The Survey

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

The KPMG Financial Institutions Performance Survey (FIPS) report of 2023 represents the 37th year that KPMG has provided in-depth insights into New Zealand's banking sector. In this 37th edition we present industry commentary and analysis on the performance of the New Zealand registered banks, together with a range of topical articles from other key stakeholders such as industry experts, regulators and our own business leaders.

The survey covers registered bank entities with reporting dates between 1 October 2022 and 30 September 2023. As a result, registered banks with the reporting date of 31 December 2022 have had their 31 December 2022 financial results included in this year's survey as their most recent results. This includes Bank of China, China Construction Bank, Citibank, Industrial and Commercial Bank of China, JPMorgan Chase Bank, Kookmin Bank, Rabobank and The Hongkong and Shanghai Banking Corporation.

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

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

We would also like to draw special attention once again to the differing balance dates of our survey participants. While our survey covers the 2023 calendar year, our respondents have a range of balance dates, with the earliest being the 52 weeks to 31 December 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. This year continued the trend of seeing differing impacts in each quarter in particular from interest rate rises and expected credit loss assumptions.

TABLE 1: Entity movements[1]

	Who's out	Who's in
Banks: 27	Nil	Nil

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

Massey University continues to be a partner and key contributor to the compilation of the publication, assisting with the data collection as well as drafting the banks' profit forecasting section of this survey. We thank them from their continued contribution.

External contributors continue to play a vital role in our publication, providing insights on key issues and developments. We would like to acknowledge the contributors from the New Zealand Bankers' Association (NZBA), Centrix and Massey University for their exceptional contribution towards the compilation of this publication.

A KPMG view from the editor

John Kensington
Partner – Audit
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 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 the themes and messages coming out of our survey have been clearer than any other. They have been direct, there are fewer of them, they are related and they paint an uncertain, hesitant and slightly pessimistic view of the future.

The last two to three years have thrown significant challenges at New Zealand and the world. New Zealand has endured Covid-19 lockdowns, vaccine mandates, bounce backs in the economy after being 'let out' again, a broken supply chain, inflation, rising interest rates and significant weather events. In addition, all have occurred on top of each other and with unmatched volatility and severity.

New Zealanders' resilience has been sorely tested during this period of time.

While all of this was occurring, the economy received tremendous amounts of Government support pumped into it, in the form of wage subsidies and funding for lending programmes. At the same time, the previous Government's policies saw expenditure reach record levels, as it implemented its wide-ranging programme of change.

As we have emerged from the backend of the Covid-19 pandemic, we have entered a new phase. The Reserve Bank of New Zealand (RBNZ), like other reserve banks, commenced raising interest rates in an attempt to cool down the economy and hopefully engineer a 'soft-landing' recession as opposed to a financial crash. We are entering a new phase of the cycle with significant in-built inflation, together with heightened interest rates that seem likely to be around for some time, resulting in a lower level of residual income across the board. All of us are having to adjust to this new paradigm.

The one shining light to date that has provided a shock absorber for these challenging impacts, has been the level of employment, which has remained strong. The other factor that has stood out is Kiwis' resilience in these difficult times. One analogy that we heard from the participants in our survey was, that it seems like we used to go the beach and enjoy a hot sunny day, where a gentle breeze and having a swim was easy, enjoyable and safe. But now it seems like it is windy, the seas are turbulent, and it is difficult just to stay afloat.

People are feeling worn-out due to the constant uncertainty and range of challenges they have faced all packed into a relatively short timeframe.

In addition to these challenging times and the resulting pressure, these accumulated events have led people to become more outspoken about the things they do not like.

What we have is an economy that has seen a significant amount of upheaval and change and yet it is still faced with a significant amount of uncertainty. Most people feel that indicators show we must be near the top of the inflation and interest rate curves, but we cannot be sure. Everybody had hoped that inflation and interest rates would fall, certainly fall more quickly than they have. There is a slow sinking realisation that we might be in this for a longer haul.

Through all of this, we had a change of Government. The Government has already signalled a change in direction from the previous Government and this has seen quite different reactions form, dependant on their point of view. Some have strongly opposed the changes the Government has signalled, whereas business confidence has increased; however, underlying economic fundamentals have not changed or improved and the economy is probably faced with further changes to legislation. There is a very real hope that while there will be positive change(s) to the regulations, there will not be a wholesale throwing out of legislation that has already been implemented, which survey participants who have spent significant amounts of money preparing for this eventuality.

What would be preferred is that regulation is pragmatically fine-tuned so that it performs the dual purpose of providing protection to consumers, but also allowing business to be conducted efficiently. What is certain is that we are in for a continuation of the division of opinion around the way forward and the disagreement that comes with it.

New Zealanders have shown themselves to be particularly resilient in finding ways to deal with increased costs. However, the first signs of financial stress are starting to show up in some of the more recent economic figures around past dues and impairments.

Another area that rated a mention with all survey participants was the combined area of the risk of cyber related scams and fraud. Survey participants noted that the quantum of cyber attacks and scams have increased significantly and also noted with some alarm that in some quarters that regulators and commentators feel that banks should bear the cost of any scam or fraud regardless of how the customer may have either acted or contributed to the situation.

In summary, the current economic situation in New Zealand is delicately balanced, with many borrowers feeling significant pressure. While they have managed to date, there is now a real question as to how much longer can they deal with the level of inflation, heightened interest rates and the impact that this has on residual income. To date the economy has handled all of these challenges, but there is a very real concern that there will need to be some relief in the near future. The biggest questions are how far away is it until we see some relief, what form will it come in and will it come in time?

I have made the comment many times in my editor letter that the next 6 – 12 months will be the timeframe to watch. This year that comment has never been more pertinent.

Will inflation start to fall? Will the RBNZ either hold or decrease interest rates? Or will we face another rise and what will those factors have on the employment statistics? Most importantly will there be a recession, and if so, will it be via a soft landing?

There is no doubt that things are delicately balanced with a number of the drivers of the economy potentially moving in any direction.

I would like to extend my thanks once again to the executives that we met with in preparing the survey. The discussions that we had added significant colour and richness to this survey. I must also acknowledge the wider team of people involved in the FIPS from our staff to other contributors and external partners, the document is a reflection on their willingness to contribute.

Sector – Themes and issues

Speaking to the CEOs and CFOs of the banks emphasised that these icons represented the key themes and issues that have challenged them throughout the year.

Historically, business leaders viewed these themes as separate issues, but increasingly they are now inextricably interlinked.

In addition, the pace at which these issues need to be reacted to and that they change at, has increased.

- Housing market ↑↓
- Shortage of talent (easing)?
- Cyber security, fraud and scams
- Climate reporting
- Purpose
- CCCFA/CoFI
- Supply chain pressures
- Inflation/Cost pressures operational efficiency focus
- ESG (Environmental, Social and Governance)
- Provisioning models – performance, overlays and releases
- Rising interest rate environment
- Conduct/remediation regulator response
- Channel transformation and digital movement
- Regulation – volume, proportionality, and quantity
- Impact of AI
- Flexible working/culture
- Disruptors in sector/Fintech
- Acquisition/consolidation
- Product innovation
- Election 2023
- Social licence/culture
- Resilience

Industry overview

Information current as at 7 March 2024

Throughout the last year, we have faced heightened uncertainty, and for many, increasing financial hardship, as New Zealanders learnt to live with the reversal of the distortion of the Covid-19 pandemic-related financial support impacts. More recently we have dealt with soaring inflation and a rising interest rate environment as global supply chains struggled to rebuild themselves.

As we stepped into 2023, we have begun to see the effects of tighter monetary policy and the Reserve Bank of New Zealand (RBNZ) seeking to reduce inflation. The RBNZ's Governor had previously identified a recession as a high likelihood event. There is increasingly less doubt it is when, rather than if, this plays out and whether it can be a 'soft landing'. The banking sector will be called upon to support borrowers as they step through the more difficult economic environment. Our banks will be navigating through this period of uncertainty while dealing with a huge volume of regulatory change.

While the road ahead seemingly holds challenges for the banks, the sector is hopeful that a change in government will provide a clearer picture as to the direction the economy is heading and see changes that make it easier to do business. While it looks like interest rates and inflation may have peaked, that is not certain, and their impact will still be felt, and need to be managed, for some time to come.

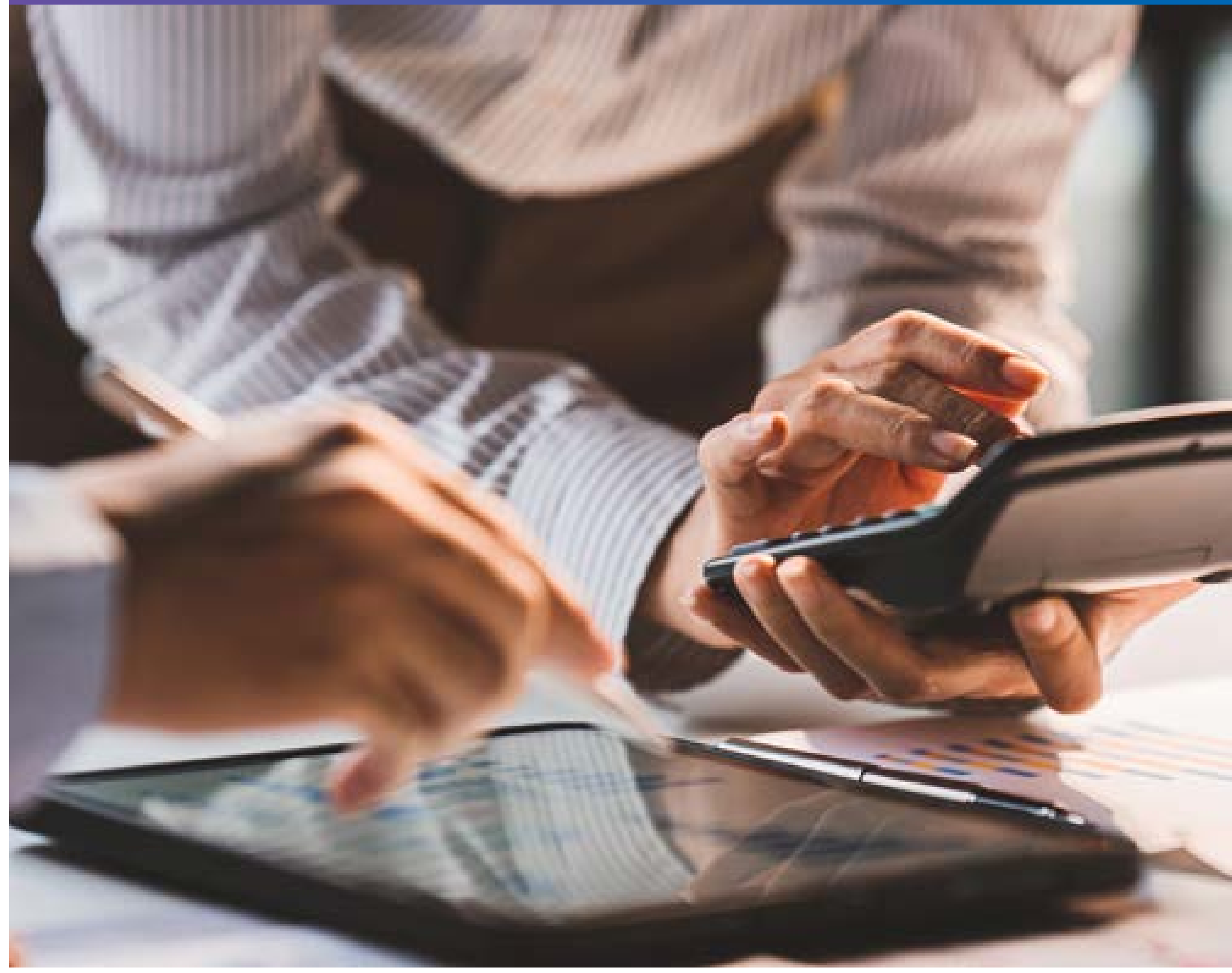
Economic conditions

The New Zealand banking sector experienced significant turbulence following the RBNZ's substantial Official Cash Rate (OCR) adjustment from 0.25% in September 2021 to 5.50% in May 2023.[2] This dramatic OCR increase resulted in a corresponding swift rise in interest rates. The banks found it challenging to pass the increases onto both prospective and existing borrowers.

The increasing OCR was mirrored by banks increasing lending rates at approximately the same rate while also improving their margins by 24 basis points (bps) on average over the period.

Reacting to the increasing funding rates, banks needed to implement stringent testing of customers' capacity to manage these higher interest rates. This led to a decrease in eligible borrowers, and in turn, decreased loan demand, as many applicants struggled with shrinking disposable income, caused by both heightened interest rates and inflation. We have also seen static retail spending and once inflation is factored in, the current spending levels are effectively a reduction.

> "The New Zealand banking sector experienced significant turbulence following the RBNZ's substantial OCR adjustment from **0.25%** in September 2021 to **5.50%** in May 2023.



> “Against this backdrop of escalating rates the banking sector recorded another year of strong performance.

Against this backdrop of escalating rates the banking sector recorded another year of strong performance. Net profit after tax increased slightly, but with many survey participants talking about a year of two halves and indicating a slowdown in the banking sector’s growth and profitability in the second half of the year.

The importance of interest-based income became apparent as there was a substantial decrease in non-interest income. There was also a noticeable slowdown in the growth of total tangible assets, due to the challenging housing market conditions, constrained credit caused by higher interest rates and inflation.

Survey participants discussed varying factors affecting their expected credit losses (ECL), such as global unrest, commodity markets, fluctuating interest rates, inflation and unemployment. The application of the less favourable future assumptions driving an increase in the modelled provisions. Record strong employment figures have been a significant buffer against these impacts; however, many survey participants expressed concerns over the economy’s continued ability to absorb the long-term impact if any of these factors worsen further. Near full employment’s role as a ’shock absorber’ has been noted by all of the survey participants. Many felt that there would need to be quite an increase in unemployment from present levels to create a serious issue for the economy, but a sustained increase in this metric would see a big impact across the banking sector.

Inflation and cost pressures are seen as key challenges facing the economy. While inflation as reported may have dipped compared to the previous quarter, this doesn’t represent inflation being stripped from the economy, only that it is going up at a slower rate; however, a certain level of cost pressures have now been ‘baked’ into the economy.

The housing market continues to experience a consistent decrease in national house prices, causing it to remain a focal point of discussion among survey participants. Over the past year, the average national house price dropped to $905,070, marking a decline of 4.2%.[3]

The economy presents a mix of optimism and challenges for New Zealand banks. While some anticipate growth and recovery in the market, there are concerns around cost pressures, inflation and rising interest rates. Despite demonstrating strong performance, many banks that we spoke to now anticipate a slowdown with rates flattening and revenue dipping in the latter half of the year. As the future unfolds, the banks are remaining cautious as they navigate these conditions, aiming to strike a balance between opportunity and risk.

One sentiment discussed throughout the survey is the widening impact that the current uncertain economic conditions have on different market participants. The impact that persistent inflation and cost-of-living pressure has had on the economy can be broadly categorised into three groups.

At one end of the age spectrum, there are those that don’t have a loan, and as a result, are less susceptible to lending rate changes purely on the basis that they don’t have debt. Through high inflation times they’ve demonstrated ways to overcome these hurdles by reducing unnecessary spending, potentially bringing in a flat mate, and when that is combined with seeing their annual earnings increase persistently over recent periods, these consumers’ household income has actually increased during this period.

In a similar situation, but at the other end of the age spectrum, you have those that are retired with little debt and more freedom. Over recent periods they’ve not enjoyed great returns on their investments, but with rising interest rates and equity markets, they are now seeing an ability to travel and experience life more fully again. These two groups have been less impacted by rising interest rates and inflationary pressures.

> “The housing market continues to experience a consistent decrease in national house prices, causing it to remain a focal point of discussion among survey participants.

> Despite demonstrating strong financial performance amid economic turbulence, all survey participants are preparing for further challenges ahead.

In the middle of these two, there is a group that has been hit the hardest as the average New Zealand household that has either a mortgage or a car loan and are seeing costs go up across the board. This is by far the largest group, and they are bearing the brunt of the economic pain.

Despite demonstrating strong financial performance amid economic turbulence, all survey participants are preparing for further challenges ahead. Looking ahead, the banks are approaching the future with increased caution, aware that the economy's toughest times may still be on the horizon. Banks adaptability, strategic foresight and social licence will be tested, as growth plateaus, costs remain high and the market continues through a difficult phase of the cycle.

Another factor that was noted by many survey participants was how resilient New Zealanders have become through the pandemic and how well placed the banking sector was to continue supporting them. Another point made was that when we talk about 'average growth', or other 'average statistics' the standard deviations across industries and economic sector is wider then they have been historically, with some parts of the economy doing well while others are struggling – the averages often discussed don't apply to everyone.

Government and regulation

The banking sector is optimistic that the new National-led Coalition Government will be more business-friendly, resulting in a boost to the economy, but there is also a realistic expectation of challenges that the Coalition Government will face. There remains uncertainty around the Government's actions regarding the Credit Contracts and Consumer Finance Act 2003 (CCCFA) and Financial Markets (Conduct of Institutions) Amendment Act 2022 (CoFI). The main concern is that most banks have either implemented or are well down the path to implementing the required processes, and there will be potential costs involved if the existing legislation were to be scrapped. The banking sector's preference was for the Government to focus on improving efficiency and removing bureaucratic hurdles within existing legislation to provide a more conducive environment for banking operations while retaining aspects of the current legislation. All of the survey participants acknowledged that the concept of the current legislation was appropriate.

Additionally, the banks have emphasised the importance of improving efficiency by providing more guidance and reducing red tape to get businesses moving.

The optimism, in particular the upswing in business sentiment, is currently based on what the Government is expected to do, rather than a change in the underlying economy (noting that it is early days in the new Government's tenure). Many survey participants hoped the tendency to mandate regulation without addressing the exact problem or considering the consequences, both intended and unintended, would come to an end under the new Government. The survey participants argued for better clarity of the reasons for any regulation and the need to focus on its impact.

Survey participants agreed on the crucial need to safeguard vulnerable borrowers. There was a shared sentiment that the CCCFA has missed these foundational objectives. Examples of possible improvements were identified around reducing the severity of penalties and the fact they were out of line with the nature of any particular issue, the lack of a safe harbour where self-reported and rectified issues could avoid any further penalty and a lack of guidance around some interpretations. As a result of these, and other, shortcomings, the legislation is believed to be directly contradicting its aim of increasing financial participation.

> There remains uncertainty around the Government's actions regarding the CCCFA and CoFI.

> **The 2023 survey has seen the retention of a significant amount of provisioning within the banking sector, together with an increase in provisioning levels.**

Survey participants also hinted at receiving inconsistent messages regarding the Coalition Government's position towards CoFI, stating that the Government had previously proposed to scrap the policy. This lack of clear direction was something survey participants hoped would be clarified quickly.

As in prior years survey participants also hoped that there would be some recognition of the layering impact that all of the recent implementation of regulation had and the compressed timelines that had been created, while the smaller banks in the survey noted some proportionality would also be helpful in regard to any penalties.

Provisioning

The 2023 survey results show the retention of a significant amount of provisioning within the banking sector, together with an increase in provisioning levels.

The majority of the increase is due to more negative future scenarios and assumptions being entered into the provisioning models as they try to predict the level of future losses that could arise if the assumed conditions eventuate rather than as a result of actual losses to date.

Persistently high levels of inflation and interest rates have been anticipated to continue for some time to come. The effect of this will result in increased unemployment, which has been a crucial factor in preventing the surge in impairments and provisions.

All survey participants agreed that the one factor that had helped to keep past dues and impairments in check was the strong employment figures. The near record low unemployment level has meant that, to date, bank customers have been able to manage their obligations – many described the unemployment data as a 'shock absorber'. Another factor contributing to lower defaults that was noted by many was that a significant number of borrowers had increased the equity in their property.

Cyber security

Cyber security has emerged as both a growing and continuously morphing concern among survey participants, evolving into one of the constant challenges in the banking sector. The threat of an incident is predicted to continue as a central aspect of business strategy and governance for New Zealand banks.

The Ministry of Business, Innovation and Employment has recorded that just under $200 million was lost by New Zealanders to scams over the past year according to 11 of the country's largest financial institutions.[4]

Most of our survey participants had also reported an increase in the number and frequency of cyber attacks within their organisations. Individuals aged 65 years and over have encountered 37% of the direct losses, highlighting the vulnerability of the older generation that is less familiar with new technology.[5]

The survey participants had concerns over the rise in sophisticated cyber crime and its impact on the reputation of the banks. They acknowledged a need for continued improvement in this area and highlighted fraud and scams as an added complication. There was recognition that, until recently, New Zealand had been relatively untouched, and increased focus will need to be placed on both awareness and control.

For additional information on what the New Zealand Banking Association is doing to battle scams, please see 'Raising the bar in the fight on scams' on page 33.

Survey participants were critical of global regulators, arguing that they should not be held accountable for fraudulent transactions either initiated or contributed to by customers. If banks are held responsible for all fraudulent events, even those caused by customers'

> **The survey participants had concerns over the rise in sophisticated cyber crime and its impact on the reputation of the banks. They acknowledged a need for continued improvement in this area and highlighted fraud and scams as an added complication.**

> **The evolution of AI has continued to present new challenges to cyber security. While generative AI is a useful tool in cyber security defences, it is also a dual-edged sword.**

negligence, it could then lead to reduced vigilance from customers, who are then more open to taking risks knowing that they will be reimbursed by their bank. This effectively incentivises the criminal to try harder to achieve scams, and if successful, this could result in the bank indirectly rewarding the criminal. The criminal would remain unpunished at the expense of the bank. Survey participants believed that this was an area where a degree of joint responsibility exists regarding these risks.

All survey participants noted their vigilance regarding cyber security and their efforts to reinforce preventive controls. However, none unequivocally asserted that their current measures provided absolute protection due in part to the constantly evolving cyber crime space. Additionally, they recognised the significant financial implications of dealing with a cyber attack, as well as the perceived negative impact from customers on reputation and trust.

Survey participants from organisations with international parent companies expressed appreciation for the help received in preparing for and addressing cyber crime incidents. These parent companies, having faced a greater number of cyber attacks for a longer period of time, have developed stronger networks and thus were able to extend support to their subsidiaries with cyber security measures. This collaborative approach continues to provide a valuable resource for enhancing protection against future threats. However, despite these measures, the banks remain a global target for many cyber criminals. The risk of having an underdeveloped cyber security environment cannot be overlooked by any entity.

The evolution of Artificial Intelligence (AI) has continued to present new challenges to cyber security. While generative AI is a useful tool in cyber security defences, it is also a dual-edged sword. It can also present risks, including potential backdoors to cyber systems and conversely can be used as a component of cyber attack strategies.

The affordability of AI applications makes it challenging for survey participants to invest sufficient resources in defence measures. Therefore, it is crucial that banks employ further cyber security strategies to minimise any risk associated with AI powered attacks.

Increase in capital

The banking sector is facing the requirements of increasing its capital base over the next few years to comply with RBNZ regulations. Capital can only be sourced from limited avenues, and these include:

- raising further capital from shareholders
- the use of hybrid instruments that qualify for capital treatment
- reduced dividend flows to shareholders

> **The banking sector is facing the requirements of increasing its capital base over the next few years to comply with RBNZ regulations.**

- profits flowing to retained earnings.

When looking at these avenues for various reasons the first two options may not be viable – the parents of many of the sector participants aren't permitted by home country regulations to inject further capital, are not willing to inject further capital or the entity has a capital structure that currently makes a capital increase complex to achieve.

When that is combined with many hybrid instruments that could be capital, having 'haircutting' provisions around their measurement, that option is also less effective and attractive.

Reducing dividend flows to shareholders will be perceived as not rewarding shareholders appropriately for the risks undertaken and will likely result in share price impacts is not an attractive option, and so the result is that the only certain way to increase capital is to increase profits.

> **Amid scrutiny and public opinion, New Zealand banks have shown a strong commitment to uphold ethical practices.**

Profits need to increase to allow for an appropriate return on (the greater) shareholder funds balance and subsequently fund the capital increase. The increase in interest rates has allowed for margin expansion, and consequently an increase in profits.

In an environment when banks are required to hold more capital, but there exists an inability to generate this capital from overseas parents and other shareholders, and complex capital issuances are not efficient and reduced dividends unplausible, the only remaining avenue to generate this capital is through profits and retained earnings.

Social licence

All survey participants acknowledged the integral and increasing role of demonstrating their social licence in their operations, that is, the societal expectations and obligations that banks must meet. Amid scrutiny and public opinion, New Zealand banks have shown a strong commitment to uphold ethical practices. Every survey participant we spoke with was determined to avoid being perceived as the 'poster child' for treating their customers unfairly. The importance of retaining public trust by ensuring fair behaviour and competitive rates was highlighted in the discussions, with banks prioritising societal obligations and community perception.

Yet, this overarching commitment to ethical practice is intertwined with concerns about regulatory pressures. Survey participants stressed the challenges that all, but particularly, smaller players faced while juggling regulatory compliance and future investments, and how increased regulation negatively impacts innovation. They argued that excessive regulatory measures constrain innovation, creativity and limit any growth potential. The banking sector sees regulatory costs as a prime hurdle, diverting and tying up significant resources and cash that could otherwise fuel innovation and growth.

A good example of this disproportionate impact across the banking sector of the need to have a strong social presence is the recent climate reporting requirements that the banking sector are beginning to comply with. While the banks want to demonstrate their acknowledgement of the importance of such legislation, the costs to generate the required information and drive the projects varies massively between the size of the bank and the ability of that bank to respond to the challenges faced in generating the respective information.

The banking sector must balance the complexity of preserving their reputations, innovating for future growth, while also grappling with a growing regulatory environment. Their narratives underlined the importance of a supportive regulatory environment that enables them to deliver on all of these various fronts, fostering innovation while safeguarding customer trust and public perception.

Climate reporting

On 14 December 2022, the External Reporting Board (XRB) released Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (NZ CS 1), effective for annual reporting periods beginning on or after 1 January 2023.

NZ CS 1 requires public companies and registered banks, with greater than $1 billion in assets or any listed entity with market capitalisation of more than $60 million, to adopt the standard alongside their existing financial disclosures.

Survey participants have now begun their journey into issuing climate-related disclosures. Some survey participants have noted that climate reporting will soon become business as usual. As mentioned in the 2022 survey, and as spoken about again in 2023, there still

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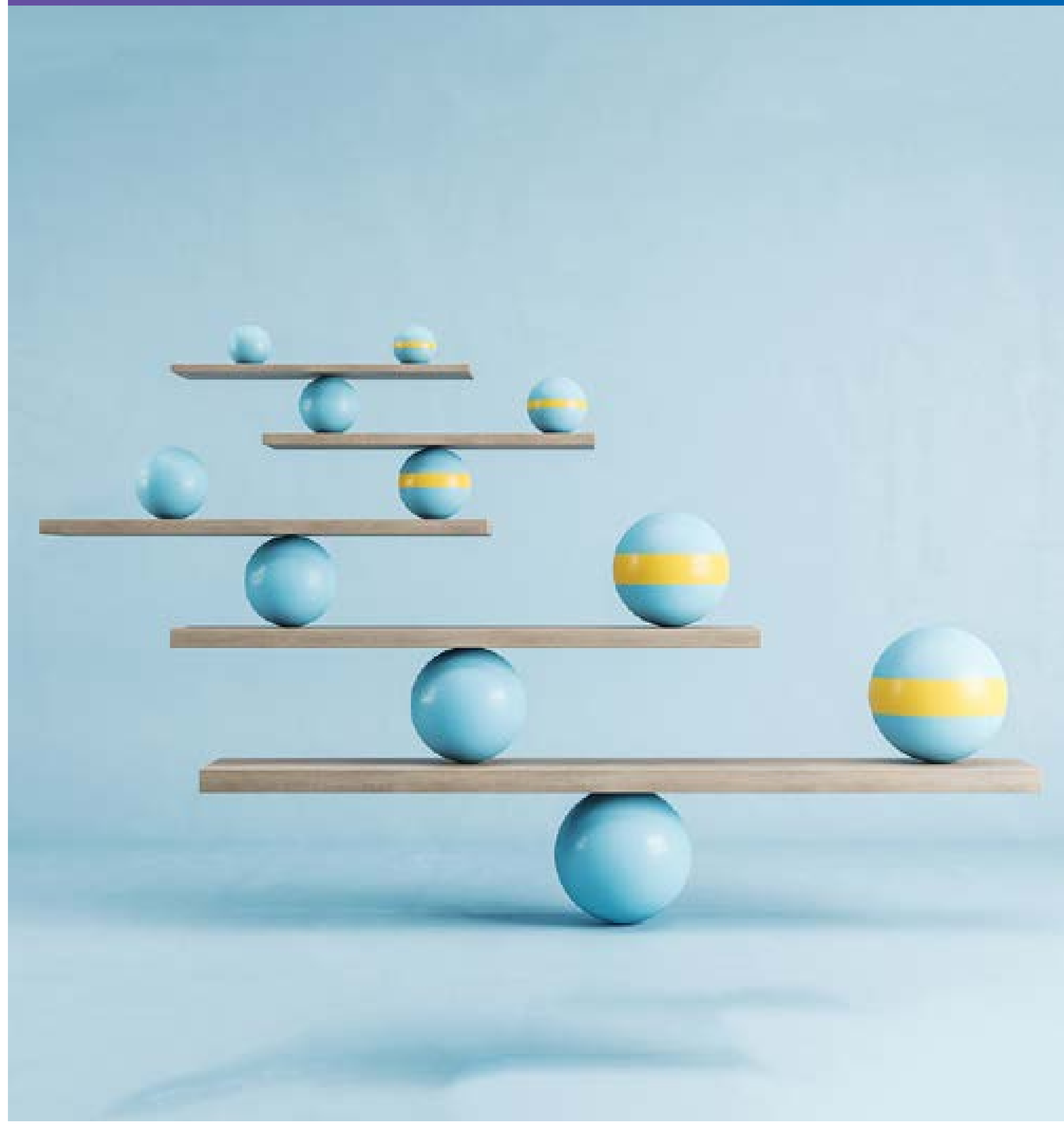

> Almost all survey participants have noted that climate reporting and ESG now present them with the biggest opportunities and challenges they have and will face in the medium to long term.

appears to be a lack of certainty around exactly what is required to be disclosed, in particular, around how much detail is required. In addition, survey participants expressed concerns around whether what they provide for the required disclosures will either match or satisfy what is expected by the regulators.

Almost all survey participants have noted that climate reporting and Environmental, Social and Governance (ESG) now present them with the biggest opportunities and challenges they have and will face in the medium to long term. As climate disclosures begin to be integrated into our survey participants' annual reports, it will be intriguing to observe how the banking sector interprets and presents them.

Another matter raised was the volume of this new reporting and whether it was really intended that it run to 50+ pages.

The final matter discussed by a number of survey participants was the healthy tension created by the excitement, exuberance and desire of the climate team to report in a very fulsome way and the risk awareness of senior management and directors around the impact that such detailed disclosures could have on their businesses.

Resilience

Resilience has been commented on by many of our survey participants. Over the last four years, the country has experienced a number of disruptions to the economy, the greatest was Covid-19. We have endured lockdowns and have seen bounce backs. We saw Government support in the form of wage subsidies and funds for lending programmes, flexible working becoming the norm while interest rates plummeted, supply chains struggled, labour shortages ensued, inflation and interest rates rose, major climate events came and then there was all the attendant challenges around dealing with such significant changes in a short-time frame. At the same time infrastructure breakdowns and business failures have increased.

> People are feeling worn down by the pace of, size of and continuity of changes and it is impacting not only resilience, but also tolerance.

The rate of change has accelerated in both speed and size. An analogy we heard was that pre-pandemic, it was like being at the beach with a gentle onshore breeze, a warm sunny day with one-foot-high waves gently rolling up the beach, making swimming enjoyable. It seems that over the last four years the breeze has built up to the point that we are dealing with more frequent waves of a much greater size such that swimming becomes more of a battle to stay afloat.

While there is no doubt the banking sector and its customers on average have come through this period remarkably well, all things being considered, resilience has been tested and looks like it will be for another 18 months and treading water is becoming more demanding.

People are feeling worn down by the pace of, size of and continuity of changes and it is impacting not only resilience, but also tolerance. Many in the banking sector are seeing the frustration of the average person being taken out on frontline staff.

Flexible working/Culture

Survey participants have noted that work from home, or the use of hybrid or flexible working spaces are still being used within the workplace. It was also identified as something that hadn't returned to a new norm. It is a real struggle to maintain a cohesive culture when employees are working remotely. However, there is a fine line to rebalance and mandate compulsory 'office days' without risking reducing team morale and culture further. The reduced collaboration time has also been seen to reduce the speed at which teams tackle challenges.

In the early phases of the pandemic, flexible working was required and as few staff moved roles/jobs, there was a lesser impact on

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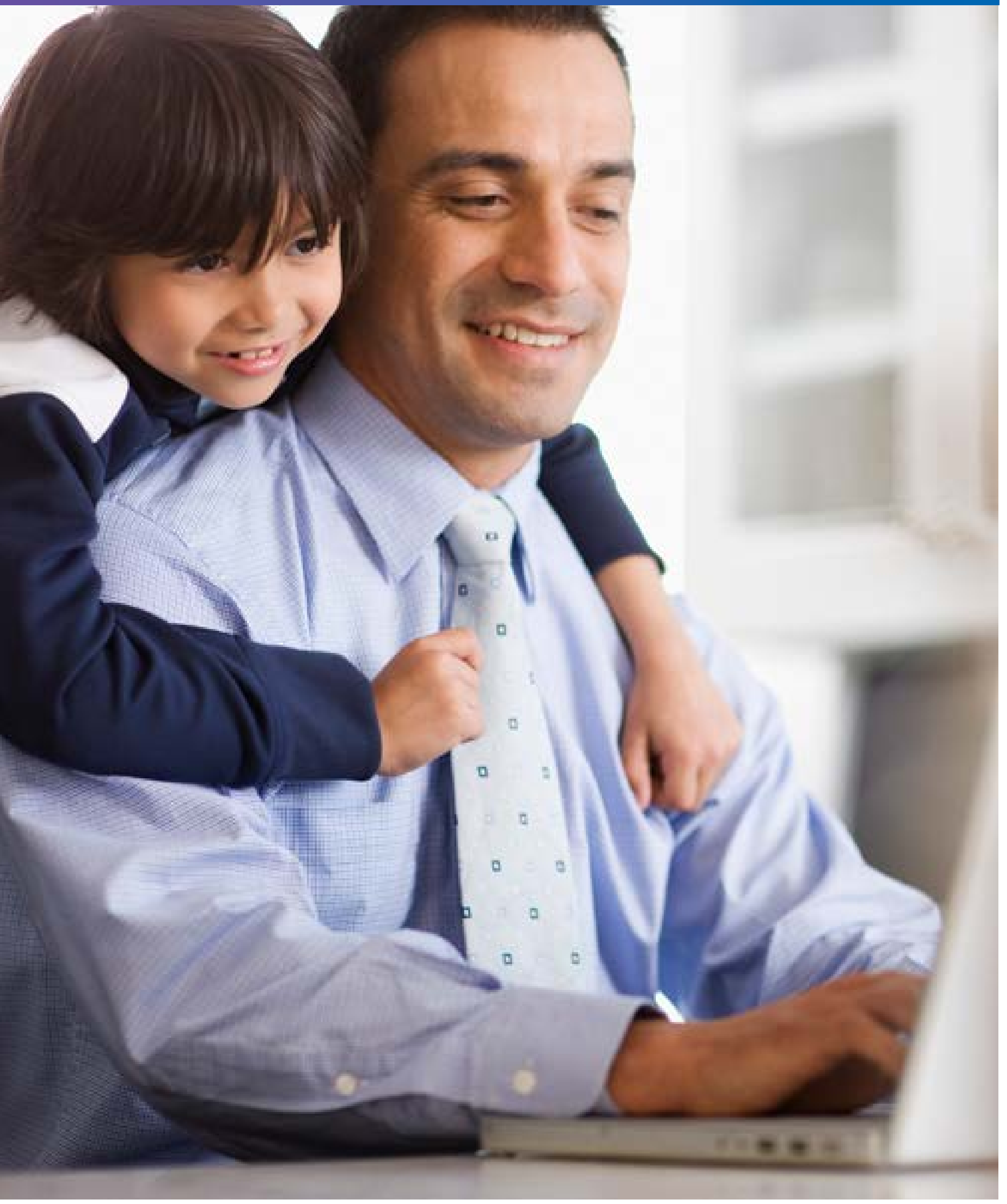


culture in a stable workforce. As the world has opened up and staff have moved around, the maintenance of culture as the work force changes has been a challenge. Trying to encourage the majority of the population that have been hit the hardest by the ever-increasing costs back into the office has proven difficult. Working from home has not only saved these people time in the day, it has also provided a small savings to the additional costs they would have otherwise incurred as a result of travelling into the office. Navigating through this evolving business environment and the needs of employees is proving more difficult during tougher times.

Opportunities and challenges

As part of our meetings with survey participants we asked what they saw as the key challenges and opportunities that the banking sector faced. The challenges and opportunities noted by survey participants are directly related to the key themes we have discussed earlier in this document (see Sector – Themes and issues on page 5).

The other key point to come forth from the discussions was that in many cases the inverse, or other side, of the challenges also represented an opportunity, and vice versa.

The key challenges identified by the survey participants focused on:

- Coming through the current uncertain economic environment that has been caused by rising interest rates, persistent inflation, the burden of regulation and the potential risk around loss of either trust or damage to the social licence for the banking sector (see page 14).
- All survey participants agreed that ESG and climate reporting have become increasingly important for the banking industry. Banks have a crucial role in helping fund the transition to more sustainable initiatives.
- The issue of cyber security (including both fraud and scams) has also continued to remain a challenge, in particular, the recent public expression from some global regulators that banks should cover all losses from either frauds or scams regardless of the behaviour of customers.

After having identified these as the key challenges, survey participants then commented that handling these things well, while looking after customers, represented the most significant opportunity in itself, as the end result would hopefully build trust.

The key opportunities identified in our discussions included:

- Digital transformation and innovation through technologies such as AI.
- Cost containment simplification and automation of processes were also identified as opportunities for improvement.

“As part of our meetings with survey participants we asked what they saw as the key challenges and opportunities that the banking sector faced.

- The smaller banks also saw potential opportunities for them to capitalise on more of the market should the major banks pull back slightly on their growth aspirations.

ESG and Climate Reporting

Flexible Working/Culture Resourcing

Cyber security Regulation

Interface with insurers Social Licence

Economic Navigation Increasing Capital

Cost Pressures AI Housing Market

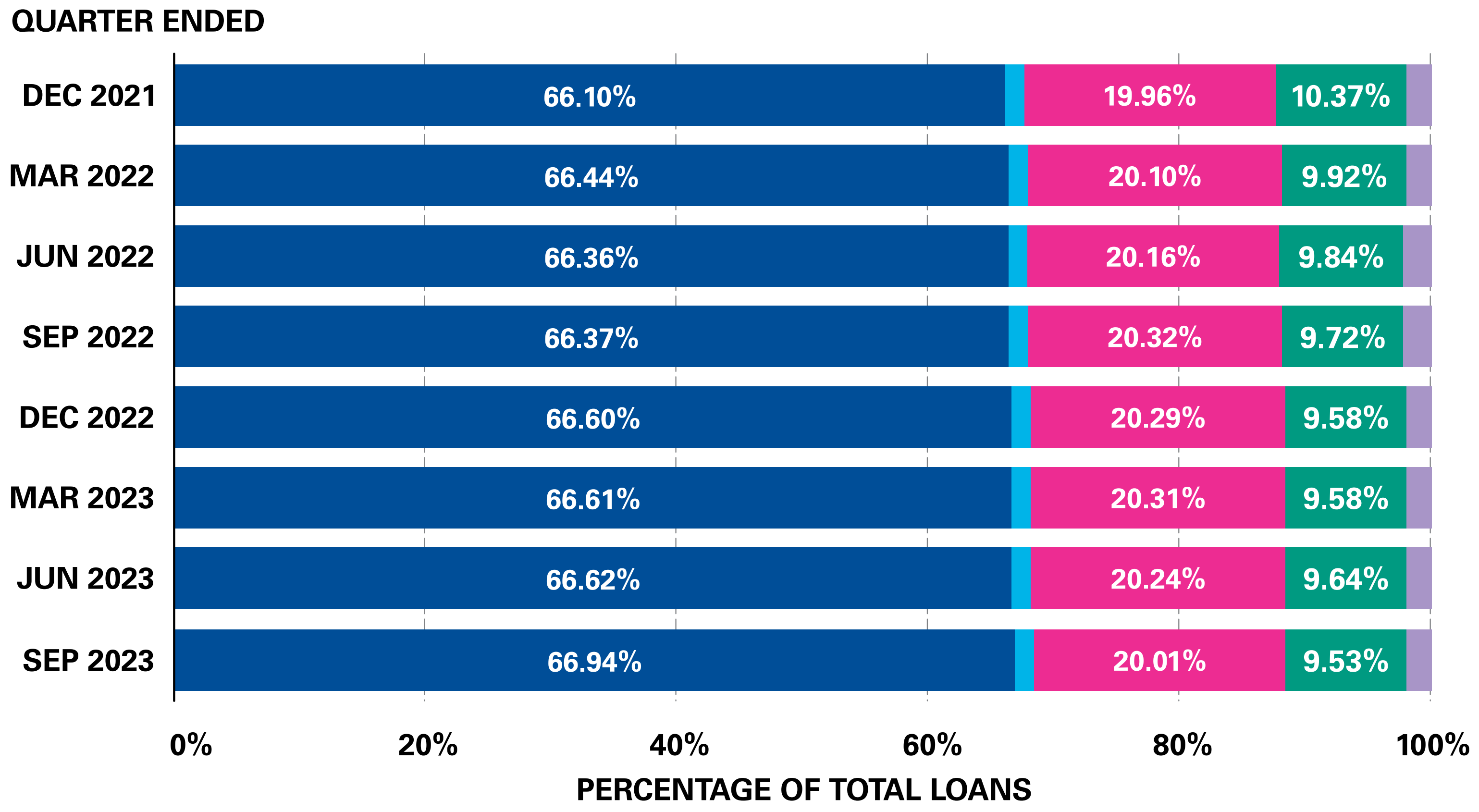
Digital Transformation Open Banking

Innovation Resilience

Meaningful Reporting

Credit Pressure

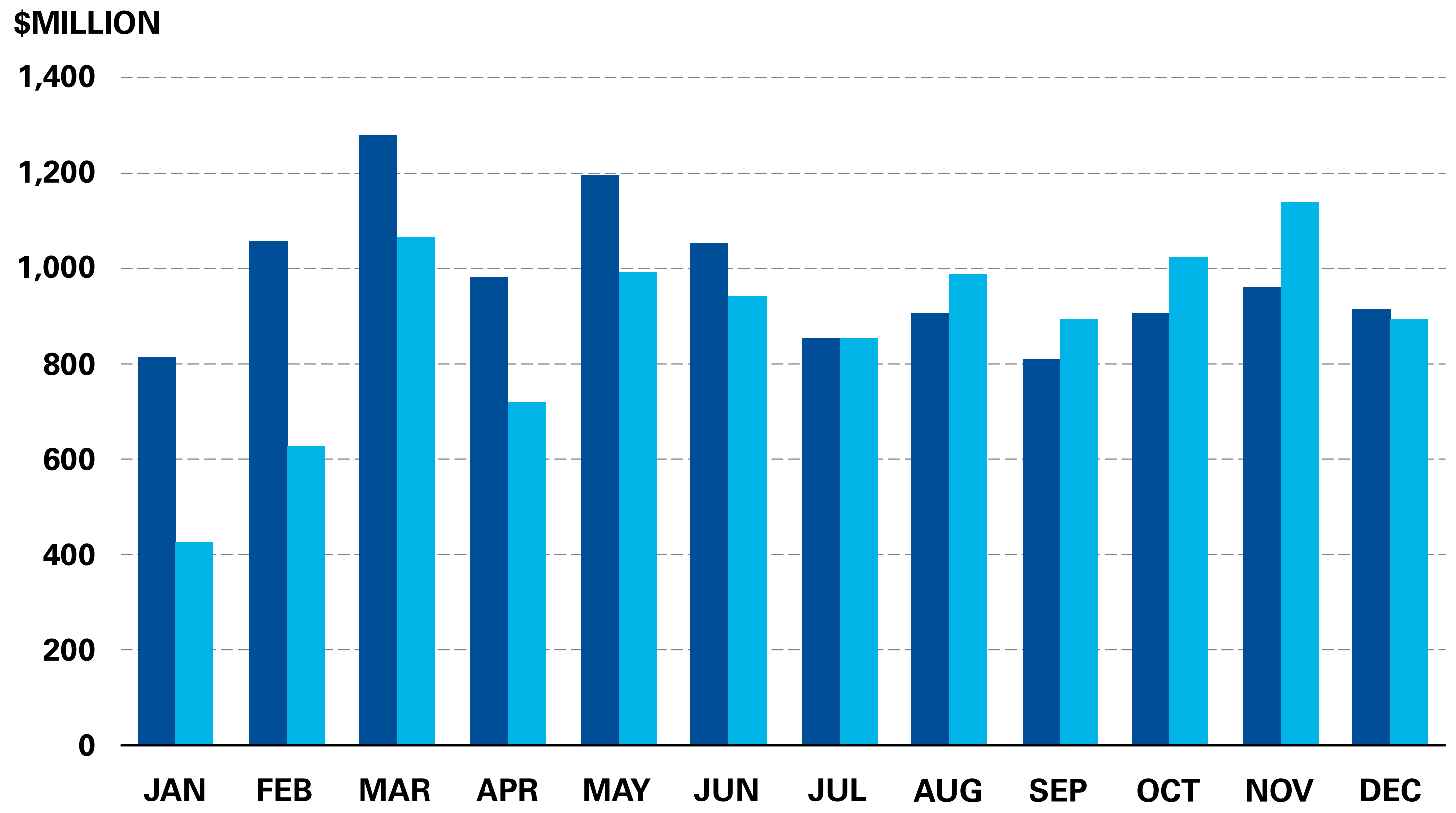
1 NZ BANKS PORTFOLIO COMPOSITION BY QUARTER



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

SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

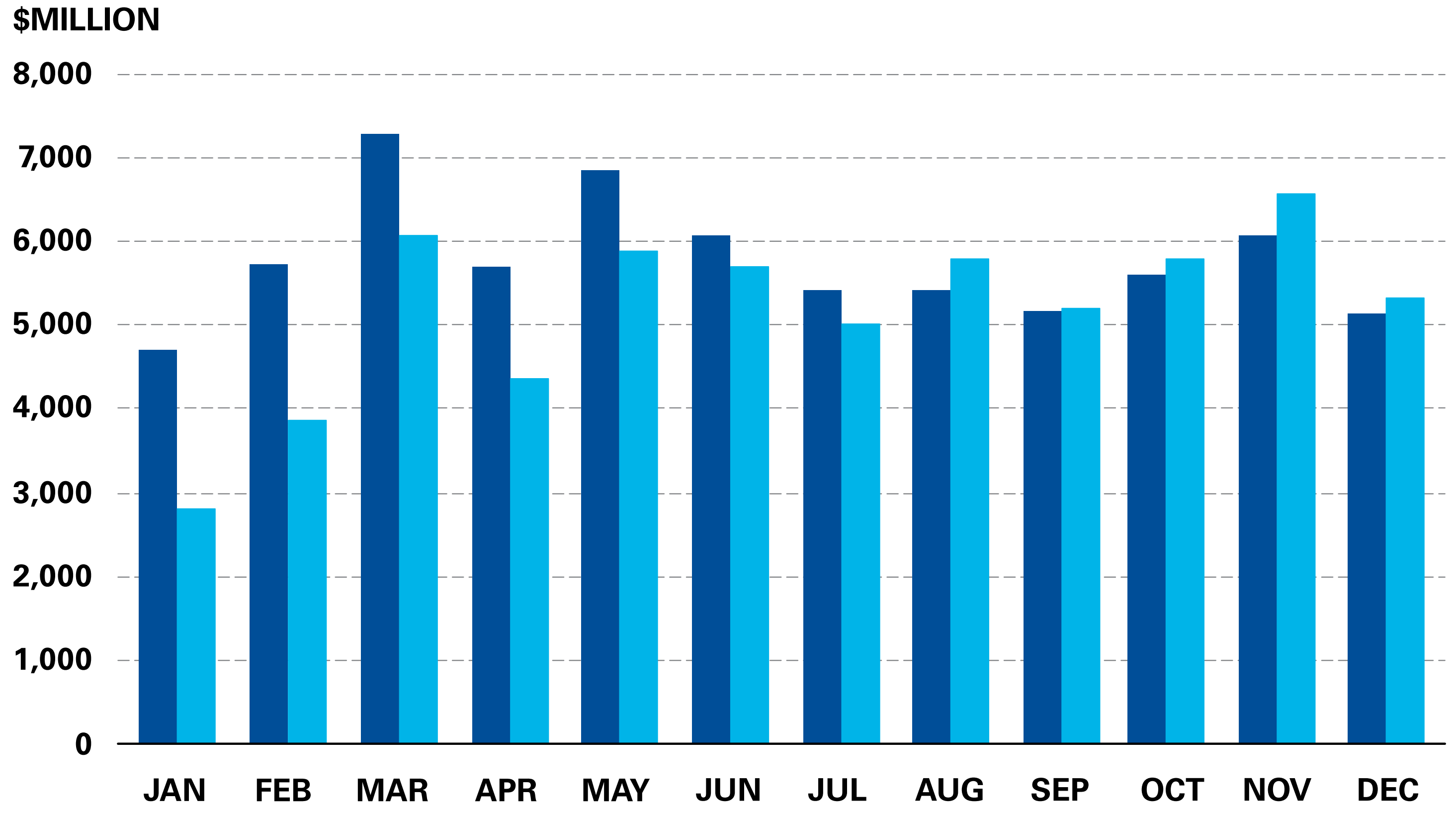
3 MONTHLY MORTGAGE LENDING: BY INVESTORS



- 2022
- 2023

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

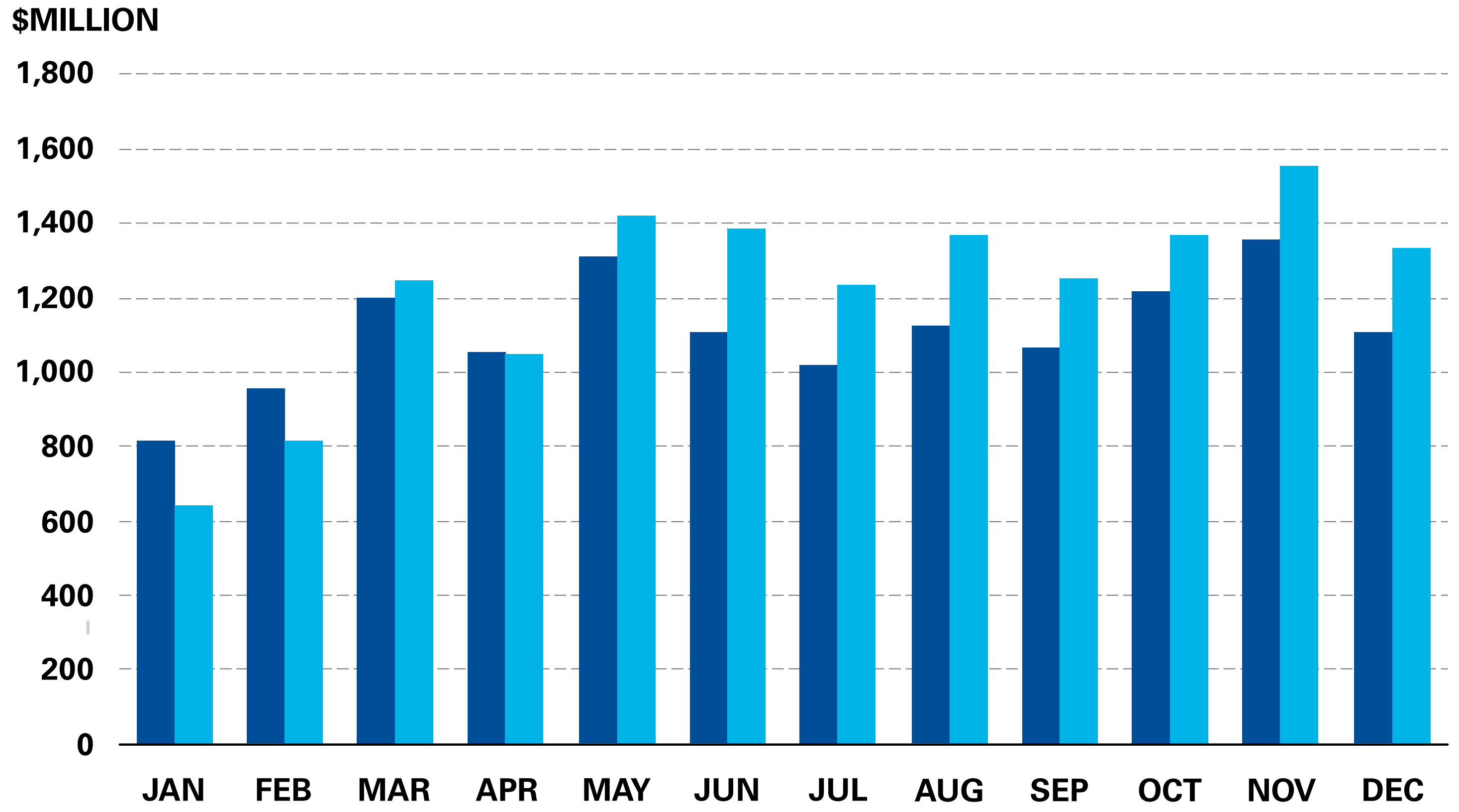
2 TOTAL MONTHLY MORTGAGE LENDING



- 2022
- 2023

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

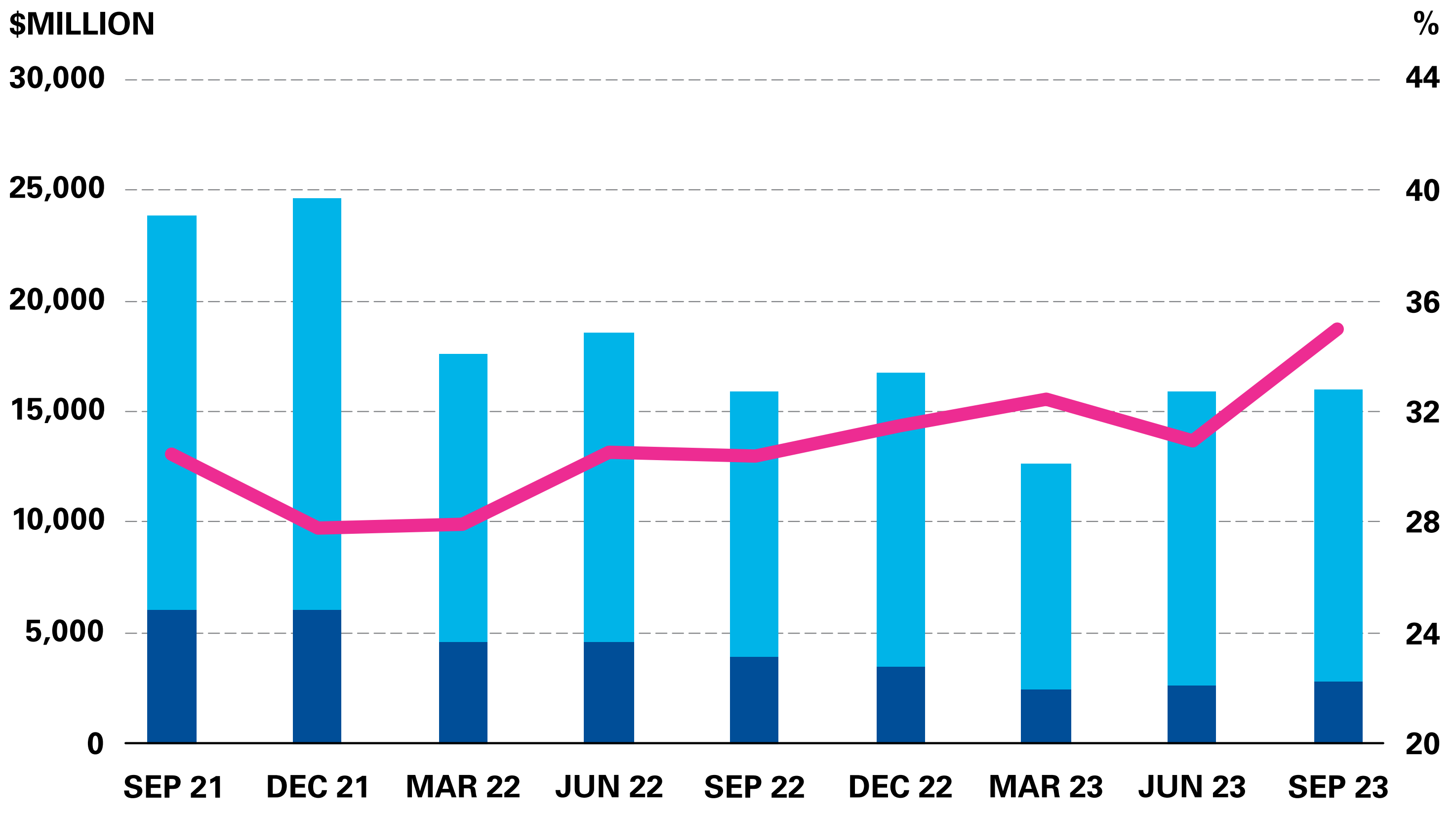
4 MONTHLY MORTGAGE LENDING: BY FIRST-HOME BUYERS



- 2022
- 2023

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

5 NEW MORTGAGE LENDING BY PAYMENT TYPE



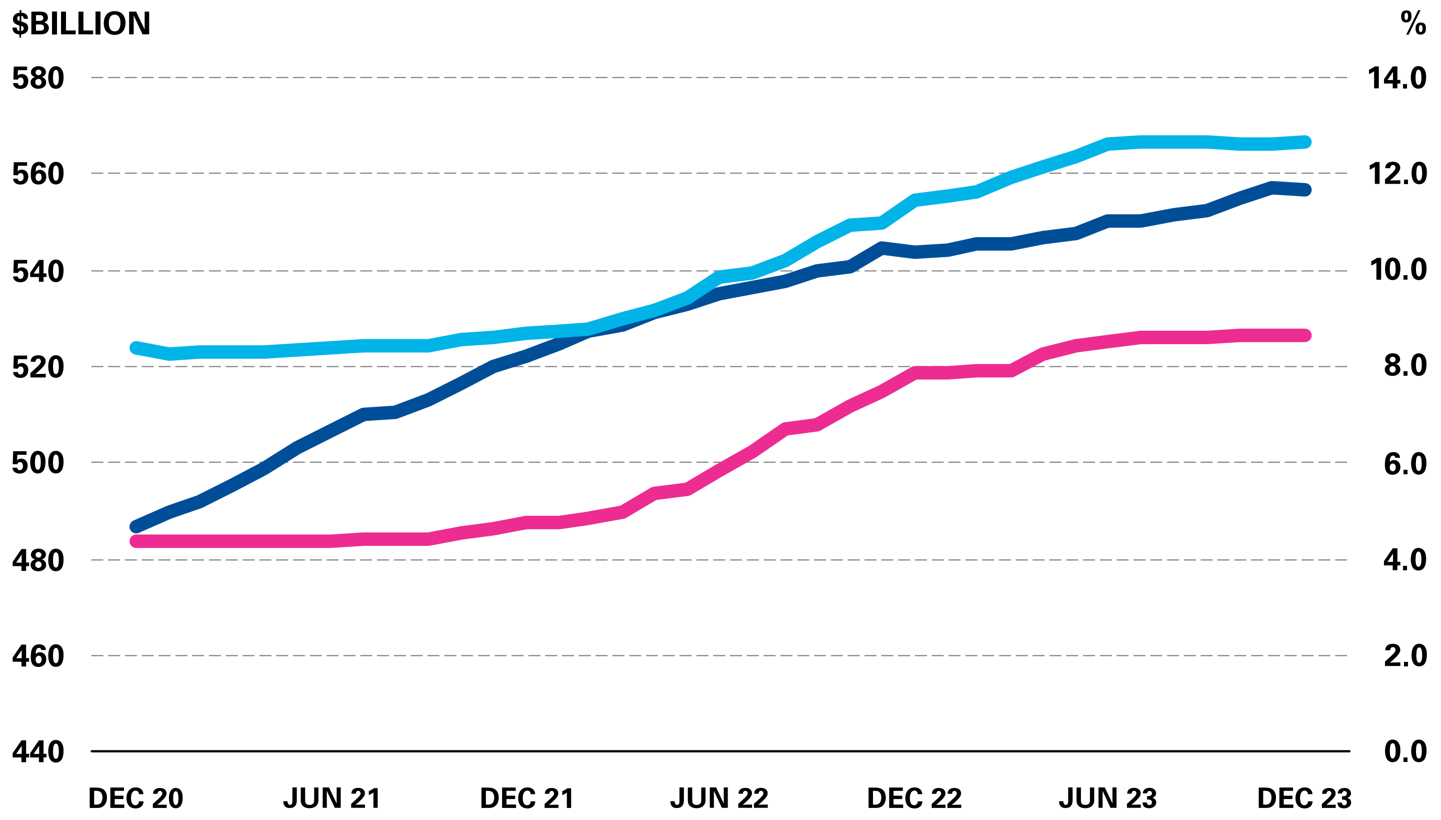
INTEREST ONLY (INCLUDING REVOLVING CREDIT) (LHS)

PRINCIPAL AND INTEREST (LHS)

PROPORTION OF NEW LENDING INTEREST ONLY – INVESTOR (%) (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

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



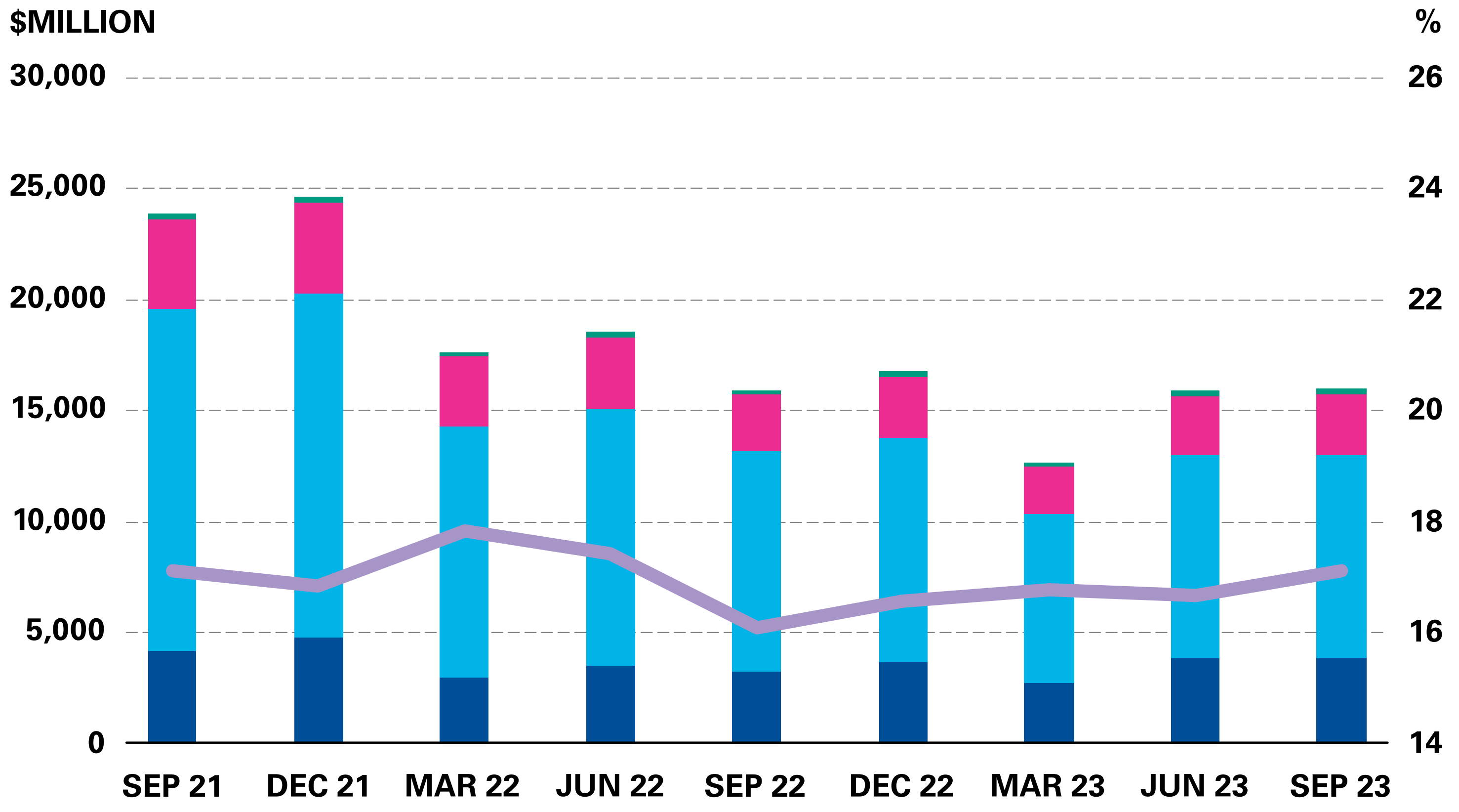
GROSS LOANS AND ADVANCES (LHS)

BUSINESS LENDING RETAIL RATE (RHS)

HOUSING LENDING RETAIL RATE (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

6 NEW MORTGAGE LENDING BY BORROWER TYPE



FIRST-HOME BUYER (LHS)

OTHER OWNER OCCUPIER (LHS)

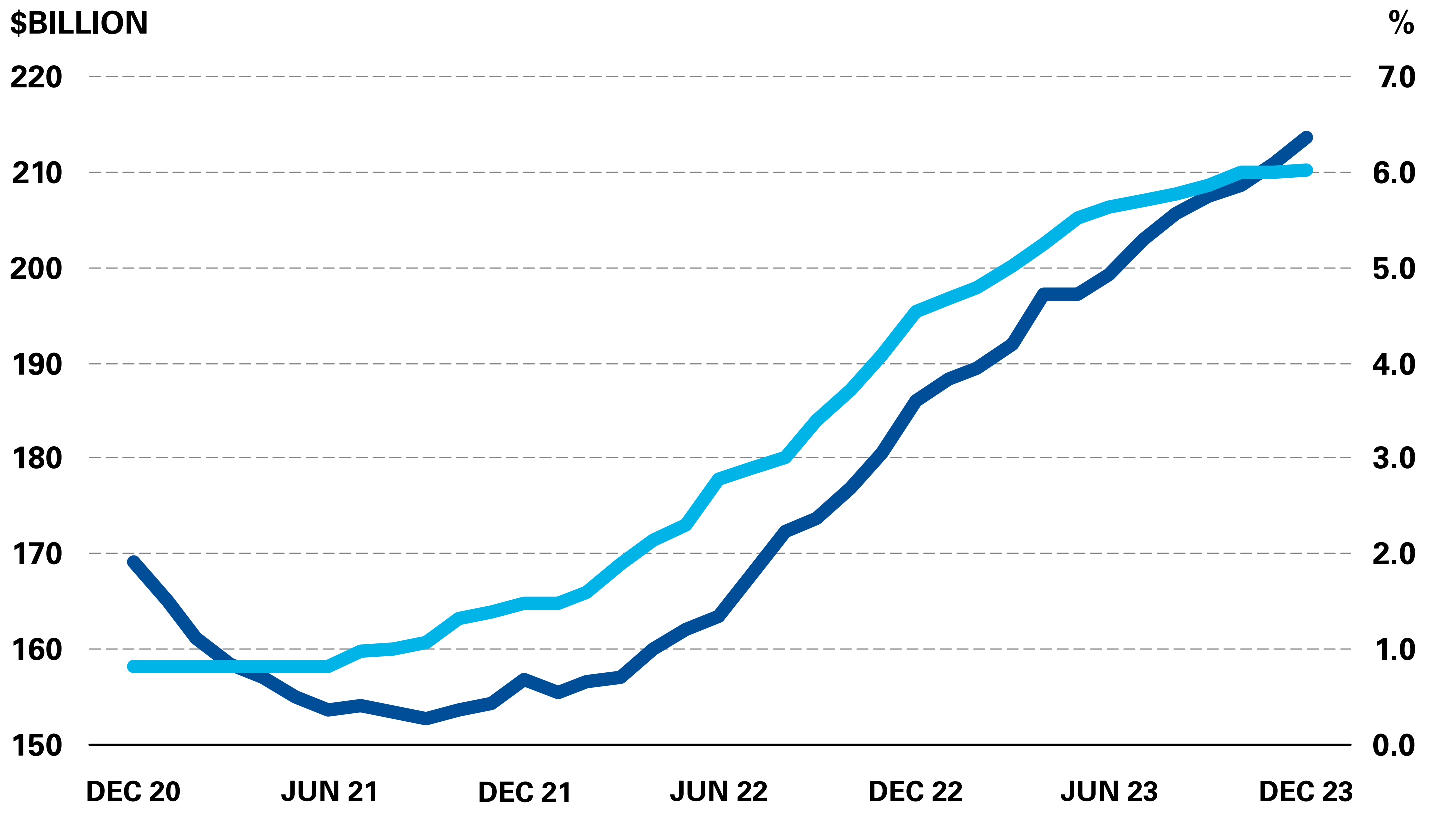
INVESTOR (LHS)

BUSINESS PURPOSES (LHS)

INVESTOR LENDING (%) (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

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

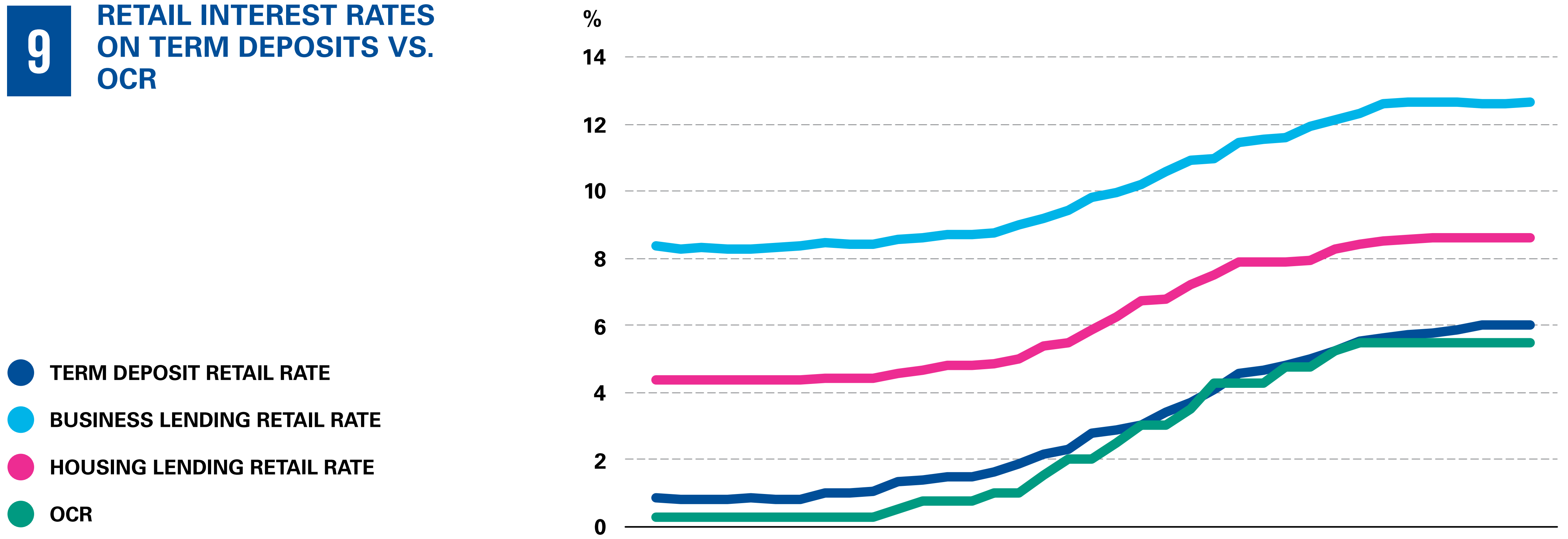


TERM DEPOSIT BALANCES (LHS)

TERM DEPOSIT RETAIL RATE (RHS)

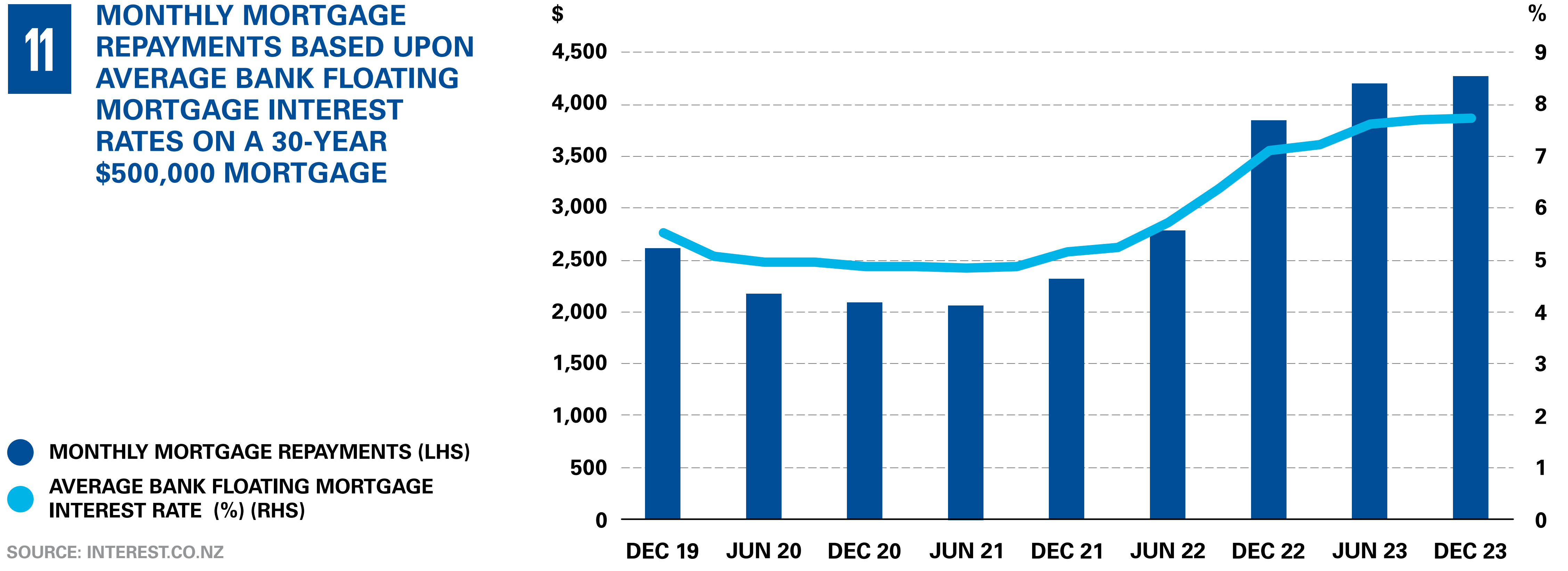
SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

9 RETAIL INTEREST RATES ON TERM DEPOSITS VS. OCR



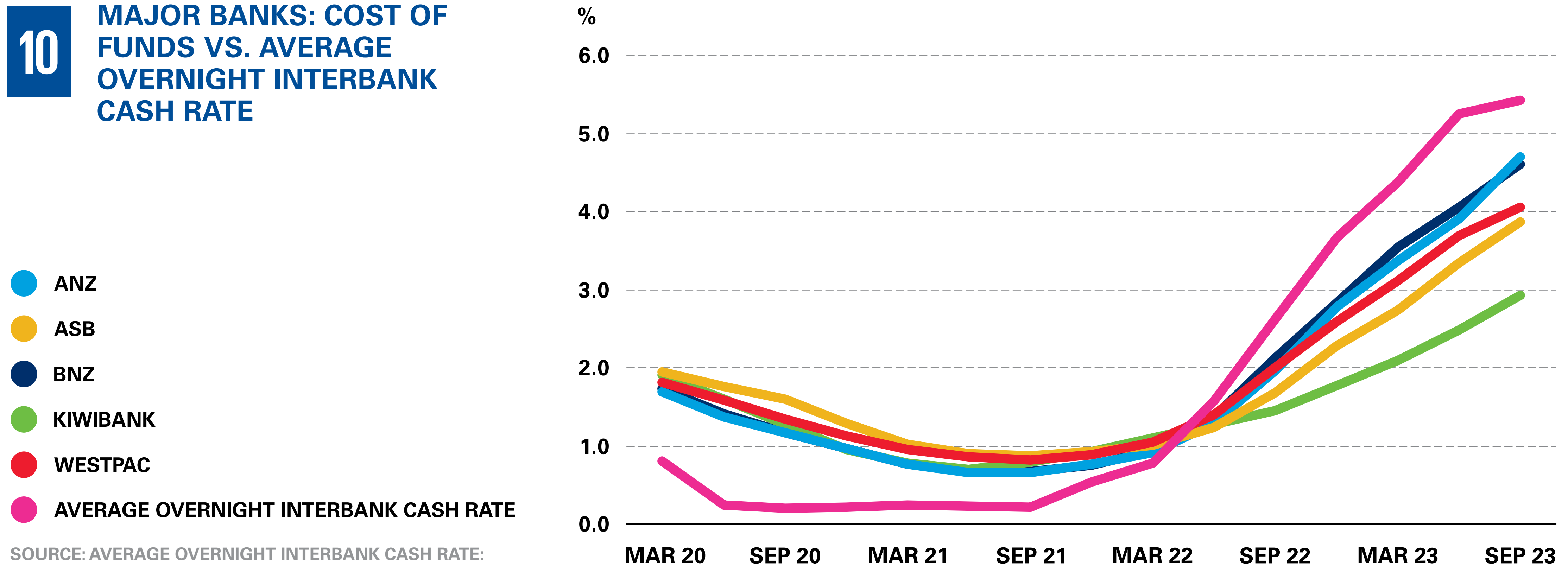
SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

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



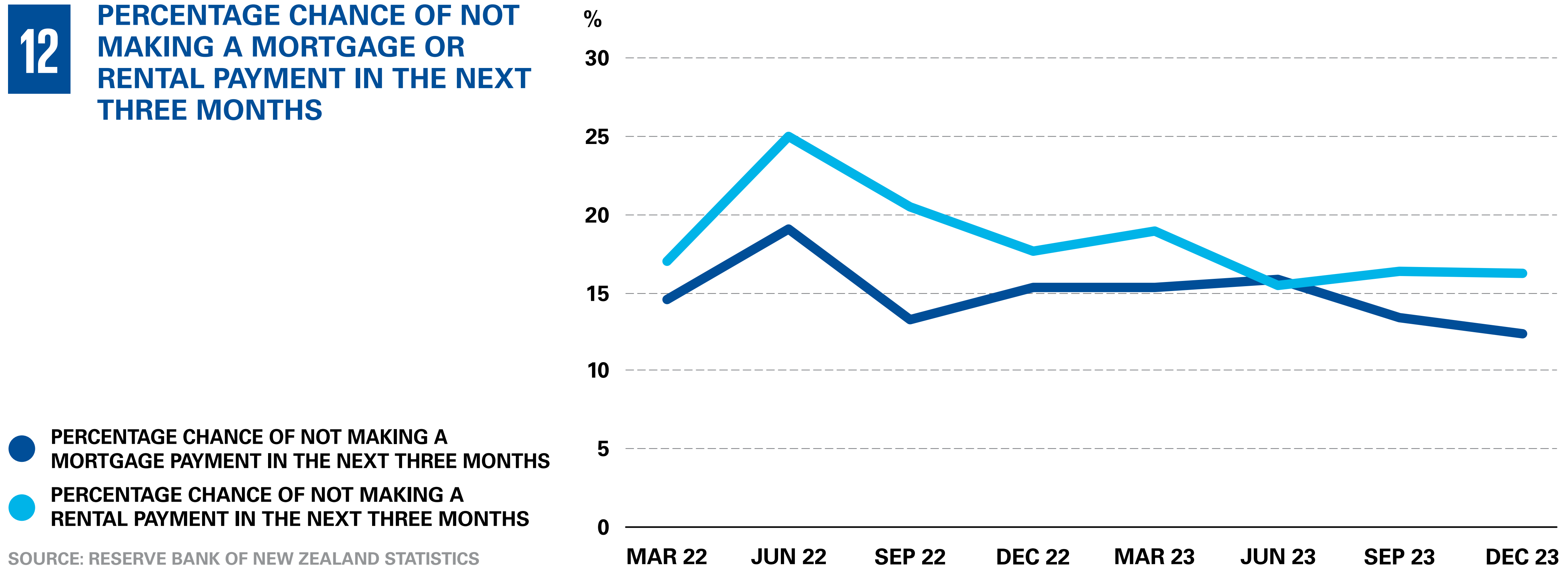
SOURCE: INTEREST.CO.NZ

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



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

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



SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

Sector – Timeline of events[6]

OCT 2022

- **5th**
  The Reserve Bank of New Zealand's (RBNZ's) Monetary Policy Committee raises the Official Cash Rate (OCR) to 3.5%
- **18th**
  Annual inflation increases by 7.2% in the September 2022 quarter
- **26th**
  ANZ confirms its proposed non-operating holding company structure
- **31st**
  The RBNZ releases the results of its bank solvency stress testing

NOV 2022

- **8th**
  The RBNZ reappoints Adrian Orr as Governor for another five-year term
- **23rd**
  The RBNZ's Monetary Policy Committee raises the OCR to 4.25%
- **24th**
  Adrian Orr admits to deliberately engineering a recession to slow down spending to relieve inflationary pressures

DEC 2022

- **2nd**
  Kiwibank changes its constitution to allow it to be listed on the NZX
- **6th**
  The RBNZ's Funding for Lending Programme for banks comes to an end

JAN 2023

- **11th**
  Cyclone Hale hits New Zealand
- **19th**
  Jacinda Ardern resigns as prime minister effective from 7th February
- **22nd**
  Labour Party appoints Chris Hipkins as next prime minister
- **27th**
  State of emergency declared as record rain causes flooding in Auckland, Northland, and Thames-Coromandel District

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

FEB 2023

- **3rd**
  ASB extends flood payments to affected customers
- **12th**
  Cyclone Gabrielle hits New Zealand, causing a national state of emergency
- **22nd**
  The RBNZ's Monetary Policy Committee raises the OCR to 4.75%

MAR 2023

- **8th**
  The National Party wants an inquiry into bank profits and the Green Party pushes for excess profits tax
- **10th**
  Collapse of Silicon Valley Bank, USA
- **12th**
  Collapse of Signature Bank, USA
- **14th**
  New Zealand banks make record profits in 2022

APR 2023

- **3rd**
  The RBNZ releases Debt-to-income Framework
- **5th**
  The RBNZ's Monetary Policy Committee raises the OCR to 5.25%
- **27th**
  The RBNZ reminds reporting entities of their Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) obligations following ANZ investigation

MAY 2023

- **1st**
  Collapse of First Republic Bank, USA
- **24th**
  The RBNZ's Monetary Policy Committee raises the OCR to 5.5%
- **26th**
  The RBNZ confirms Loan-to-value ratio (LVR) restriction easing

JUN 2023

- **12th**
  The RBNZ releases further decisions on bank risk weights
- **27th**
  The Government changes interest rate rules for the RBNZ

JUL 2023

- **10th**
  Mutual Capital instrument rules near completion
- **12th**
  The RBNZ's Monetary Policy Committee agrees to leave the OCR at 5.5%
- **31st**
  The RBNZ issues Financial Market Infrastructures Standards

AUG 2023

- **9th**
  Commerce Minister Duncan Webb announces Credit Contracts and Consumer Finance Act 2003 (CCCFA) subject to 'wider review', as the credit lending legislation in 2021 that aimed at protecting vulnerable borrowers has been found to have hindered borrowing
- **10th**
  The RBNZ releases 'Too Little, Too Late' climate stress test
- **16th**
  The RBNZ's Monetary Policy Committee agrees to leave the OCR at 5.5%

SEP 2023

- **5th**
  ASB hikes fixed mortgage rates
- **7th**
  Squirrel's CEO explains how interest rates are set and how banks have been able to boost their margins by 20%

OCT 2023

4th
FMA publishes final Climate Related Disclosures regime

The RBNZ's Monetary Policy Committee agrees to leave the OCR at 5.5%

12th
Kiwibank to pay $812,500 penalty for making false and misleading representations to customers

16th
New Zealand Election 2023 – National Party set to govern as Christopher Luxon to become next prime minister

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

NOV 2023

3rd
ASB launches $500 million accelerated housing fund

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

DEC 2023

11th
The RBNZ views the four major banks as being compliant with its Outsourcing Policy

14th
The RBNZ warns Citibank NZ over AML breaches

20th
ASB forecasts first OCR cut in August next year

22nd
Paul Gregory, ex-executive director of response and enforcement for Financial Markets Authority (FMA), joins ANZ as the head of investment partnerships

JAN 2024

18th
ANZ expects OCR to be at 3.5% by August 2025

23rd
The RBNZ proposes the introduction of debt-to-income ratio (DTI) restrictions that could allow RBNZ to loosen LVR settings without increasing risks to financial stability

24th
Inflation increases annually by 4.7% in the December 2023 quarter

30th
RBNZ chief economist Paul Conway continues to push back against financial markets, which are betting on the central bank cutting the OCR this year

FEB 2024

1st
Mortgage arrears are at a four-year high putting pressure on homeowners

7th
Unemployment rates return to pre-Covid-19 levels, following recent historic lows

14th
State of emergency in place as wildfire engulfs Christchurch's Port Hills

28th
The RBNZ's Monetary Policy Committee agrees to leave the OCR at 5.5%

Sector performance

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

Some of the survey participants restated prior year figures in their financial statements that are included in this year's survey. To remain consistent, the prior period figures have not been updated in this publication to reflect the comparative restatements.

Net profit after tax

The New Zealand banking sector has shown another year of strong performance during 2023. However, with an increase in net profit after tax (NPAT) of 0.28% ($20.2 million) to reach $7.21 billion for the year, the sector's growth appears to have plateaued. Regardless, the banking sector has sustained a NPAT of over $7 billion for the second time in history, after first reaching that mark in 2022.

13 See Figure 13 – page 21

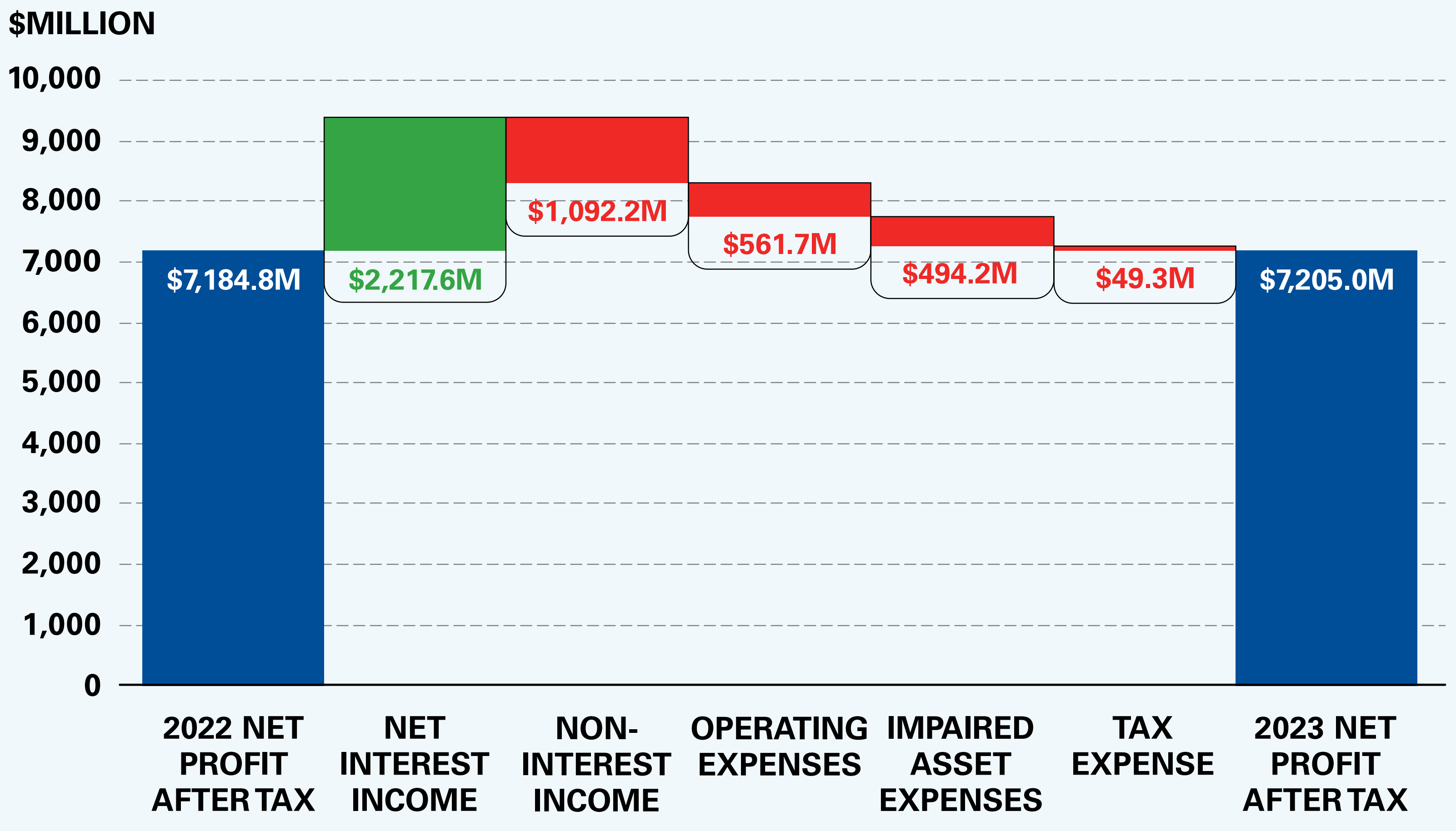
Overall, 10 of the 20 survey participants saw an increase in their NPAT. Of the major banks, only Bank of New Zealand (BNZ), ASB Bank Limited (ASB) and Kiwibank saw their NPAT increase in 2023.

Despite a 16.89% ($2.22 billion) increase in net interest income to $15.34 billion, this did not translate to increasing the banking sector's NPAT. There were three main drivers responsible for keeping the 2023 result similar to 2022. A 33.07% ($1.09 billion) decrease in non-interest income, together with an increase of 8.85% in operating expenses ($0.56 billion),

13 MOVEMENT IN NET PROFIT

Hover over the button to see historic results

2023 2020 2022 2019 2021 2018



Movement: 2022 to 2023

TABLE 2: Registered banks – Performance trends						
Year	Increase in total tangible assets	Increase in net profit after tax	Net profit after tax/ Average total assets	Interest margin	Operating expenses/ Operating income	Impaired asset expense/ Average gross loans and advances
2023	0.57%	0.28%	1.03%	2.34%	38.07%	0.12%
2022	9.14%	17.26%	1.08%	2.10%	37.53%	0.03%
2021	5.46%	47.92%	0.99%	1.97%	40.98%	-0.04%
2020	5.90%	-27.57%	0.71%	1.96%	43.44%	0.31%
2019	7.73%	-0.88%	1.04%	2.10%	38.41%	0.09%
2018	5.07%	11.21%	1.12%	2.12%	37.95%	0.06%

and an increase in impaired asset expense of 339.30% ($0.49 billion) together negated most of the gain made from interest revenue growth.

Overall, the largest increases and decreases in NPAT came from the big four banks. ASB saw the largest increase with an NPAT increase of $164 million (11.29%) to $1,617 million, followed by BNZ's NPAT increase of $95 million (6.72%) to $1,509 million. The largest NPAT decrease was experienced by ANZ Bank New Zealand Limited (ANZ) with a reduction in NPAT of $128 million (5.57%) to $2,171 million, followed by Westpac Banking Corporation – New Zealand Banking Group (Westpac) with a decrease of $114 million (8.78%) to an NPAT $1,184 million.

The largest percentage increase in NPAT came from JPMorgan Chase Bank N.A., New Zealand Banking Group (JPMorgan Chase) at 633.15% ($5.71 million) to $6.61 million. JPMorgan Chase had also experienced the largest decrease in NPAT during 2022. The largest decrease in NPAT came from Kookmin Bank (Kookmin) with a fall of 98.45% ($9.10 million) to $0.14 million.

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

- net interest income increased by $2.22 billion (16.89%) to $15.34 billion;
- non-interest income decreased by $1.09 billion (33.07%) to $2.21 billion;
- operating expenses (including amortisation) increased by $0.56 billion (8.85%) to $6.91 billion;
- impaired asset expense increased by $0.49 billion (339.30%) to $0.64 billion; and

TABLE 3: Registered banks – Analysis of performance of banks	New Zealand incorporated banks		New Zealand branch banks		All banks	
	2023	2022	2023	2022	2023	2022
Increase in total tangible assets	0.92%	8.63%	21.77%	5.46%	0.57%	9.14%
Increase in operating income	7.61%	12.30%	15.66%	1.42%	6.85%	13.84%
Increase in net profit after tax	1.77%	13.25%	15.17%	1.22%	0.28%	17.26%
Increase in gross loans and advances	2.98%	5.18%	11.03%	4.78%	3.06%	5.53%
Net profit after tax/ Average total tangible assets	1.06%	1.09%	0.51%	0.51%	1.03%	1.08%
Net profit after tax/ Average equity	12.21%	12.80%	23.35%	20.72%	12.48%	13.40%
Net interest income/ Average total tangible assets	2.28%	2.07%	0.83%	0.77%	2.20%	1.97%
Non-interest income/ Average total tangible assets	0.32%	0.45%	0.52%	0.56%	0.32%	0.50%
Operating expenses/ Average total tangible assets	0.99%	0.96%	0.61%	0.63%	0.96%	0.93%
Operating expenses/ Operating income	38.28%	38.02%	45.28%	47.37%	38.07%	37.53%
Impaired asset expense/ Average gross loans and advances	0.12%	0.03%	0.08%	0.02%	0.12%	0.03%
Collective provision/ Net loans and advances	0.52%	0.46%	0.13%	0.08%	0.51%	0.45%
Total provision for doubtful debts/ Gross loans and advances	0.57%	0.52%	0.14%	0.08%	0.56%	0.50%

- tax expense increased by $0.05 billion (1.79%) to $2.80 billion.

Net interest margin

The net interest margin (NIM) increased 24 bps to 2.34% during 2023 across the banking sector (see **Table 4**). 11 survey participants reported an increase in NIM from 2022, which is a decrease from the 16 survey participants who had reported an increase in their NIM during 2022. Net interest income saw an increase of 16.89% ($2.22 billion) to $15.34 billion, while interest-earning assets saw a proportionally smaller increase of 3.51% ($22.57 billion) to $666.31 billion, driving the increase in NIM.

Bank of Baroda (New Zealand) Limited (BOB) recorded the largest upward movement, rising 73 bps to 3.60%. Citibank N.A. New Zealand Branch (Citibank) also experienced a significant movement in NIM, increasing by 62 bps to 1.04%.

Heartland and Bank of India (New Zealand) Limited (BOI) maintained the highest NIMs in the banking sector for another year in a row; however, both banks experienced reductions decreasing by 42 bps to 4.17% and by 21 bps to 3.71% respectively. Meanwhile, Kookmin showed the largest deterioration in NIM, with a reduction of 174 bps to 0.68% in 2023 from 2.42% in 2022. This was driven by a decrease in net-interest income of $10.74 million (68.18%), which was the greatest decrease in net-interest income out of all survey participants. MUFG recorded the lowest NIM of all the banks at 0.43%.

Continuing the trend from 2022, all five major banks reported increases in NIM in 2023. Of the major banks, Kiwibank reported the largest NIM at 2.49%, narrowly followed by ASB at 2.48%. ASB also experienced the largest increase of the major banks, with an increase of 36 bps. All the major banks reported increases in their net interest income, with Kiwibank having the largest percentage movement of 26.03% ($164 million). The major banks' combined increase in net interest income of 17.59% ($2.08 billion), coupled with the slower growth in interest-earning assets of 2.42% ($13.85 billion), was the leading cause for the overall increase in the total NIM of the major banks.

BOB was the only survey participant that saw a decrease in interest-earning assets, down by 1.55% ($2.13 million). Meanwhile, JPMorgan Chase reported the largest increase in interest-earning assets of all the banks, increasing by 128.38% ($3.29 billion) to reach $5.85 billion.

Non-interest income

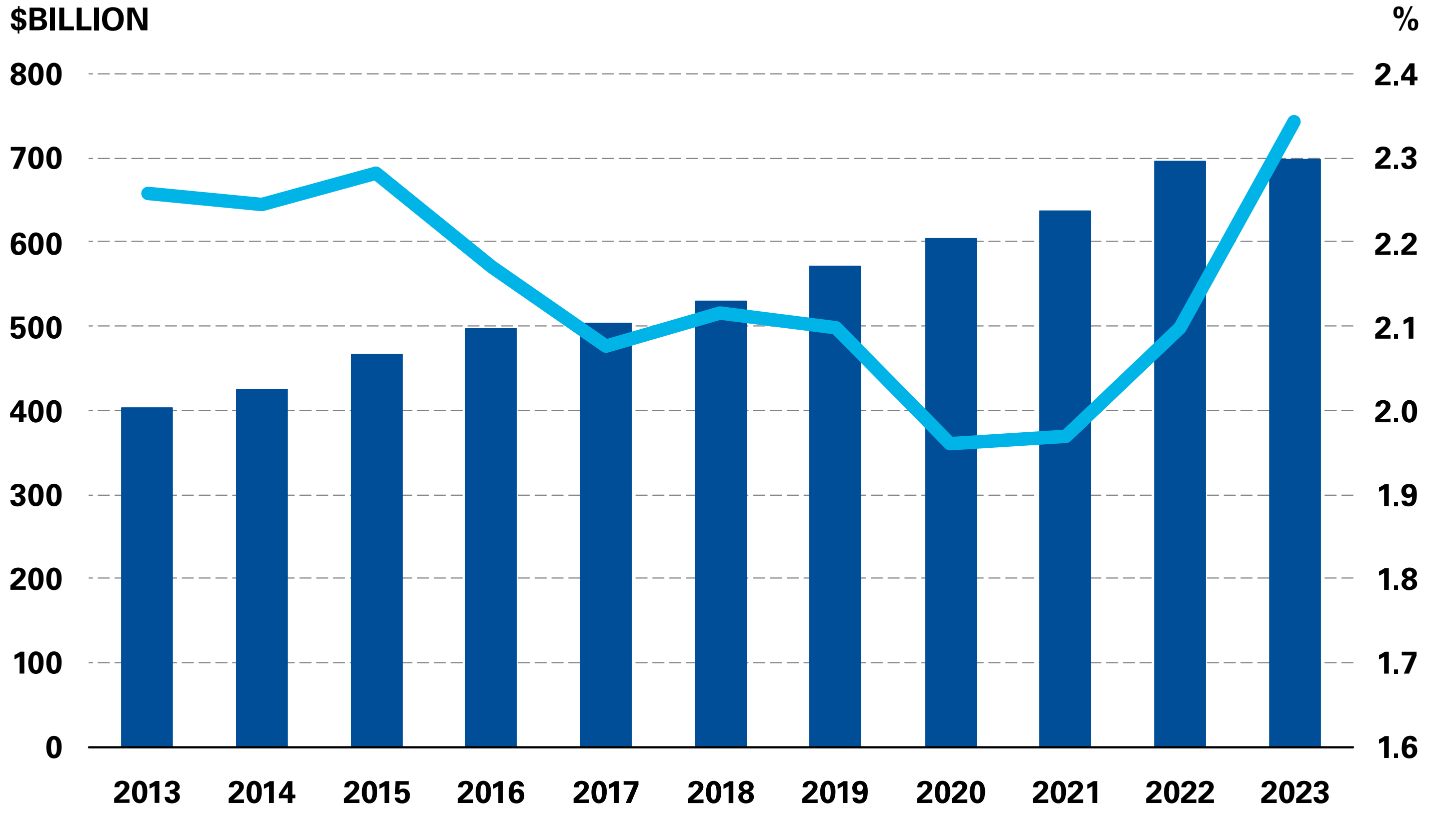
Non-interest income (NII) has decreased by 33.07% ($1.09 billion) to $2.21 billion, with 13 of the 20 survey participants seeing decreases in their NII.

TABLE 4: Movement in interest margin	2023	2022	Movement
Entity[7]	%	%	(bps)
Australia and New Zealand Banking Group Limited – ANZ New Zealand	2.35%	2.14%	21
Bank of Baroda (New Zealand) Limited	3.60%	2.87%	73
Bank of China New Zealand Banking Group	1.12%	1.32%	-20
Bank of India (New Zealand) Limited	3.71%	3.92%	-21
Bank of New Zealand	2.42%	2.19%	23
China Construction Bank Corporation New Zealand Banking Group	1.54%	1.60%	-6
Citibank, N.A. New Zealand Branch and Associated Banking Group	1.04%	0.42%	62
Commonwealth Bank of Australia New Zealand Operations	2.48%	2.12%	36
Coöperatieve Rabobank U.A. New Zealand Banking Group	2.51%	2.41%	10
Heartland Bank Limited	4.17%	4.59%	-42
Industrial and Commercial Bank of China New Zealand Banking Group	1.70%	1.72%	-2
JPMorgan Chase Bank, N.A., New Zealand Banking Group	0.67%	0.85%	-18
Kiwibank Limited	2.49%	2.16%	33
Kookmin Bank Auckland Branch	0.68%	2.42%	-174
MUFG Bank, Ltd., Auckland Branch	0.43%	0.57%	-14
Southland Building Society	2.60%	2.73%	-13
The Co-operative Bank Limited	2.56%	2.34%	22
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	1.28%	0.95%	33
TSB Bank Limited	2.11%	1.84%	27
Westpac Banking Corporation – New Zealand Banking Group	2.32%	2.01%	31
Sector average	**2.34%**	**2.10%**	**24**

Hover over the button
to see historic results

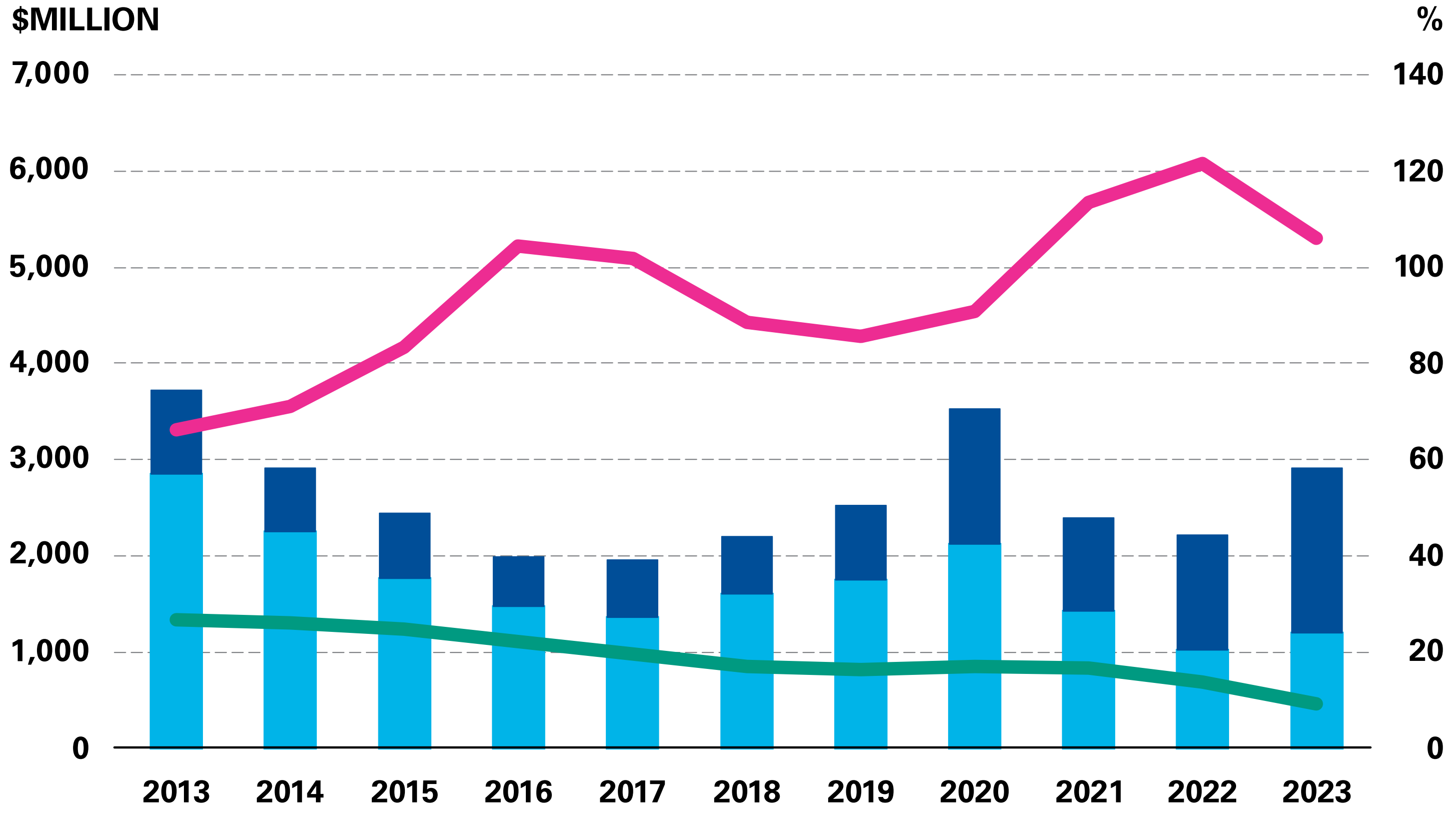
2023 2022 2021 2020

14 REGISTERED BANKS: TOTAL ASSETS VS. INTEREST MARGIN



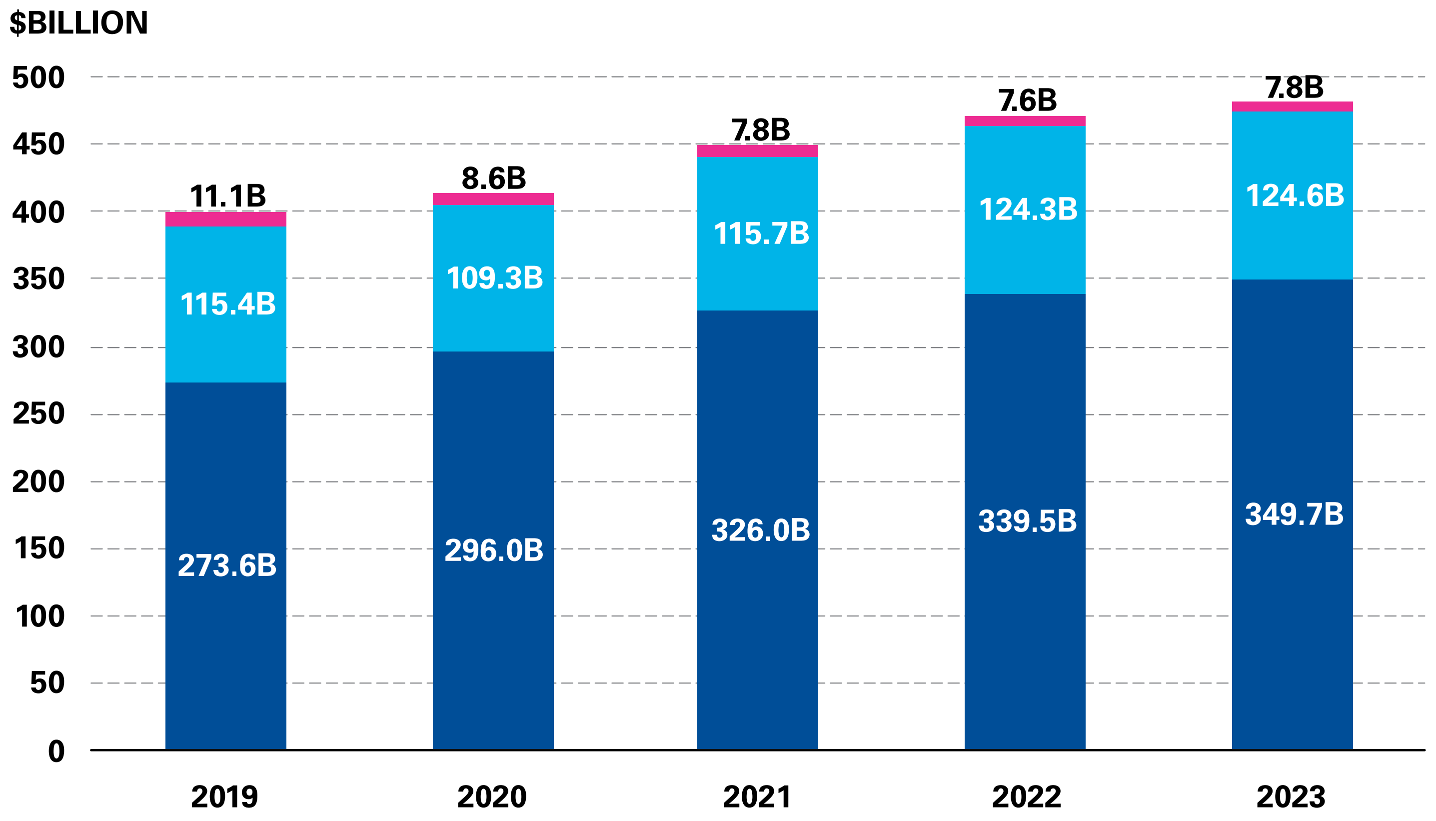
- TOTAL ASSETS (LHS)
- INTEREST MARGIN (RHS)

16 REGISTERED BANKS: GROSS IMPAIRED AND PAST DUE ASSETS



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

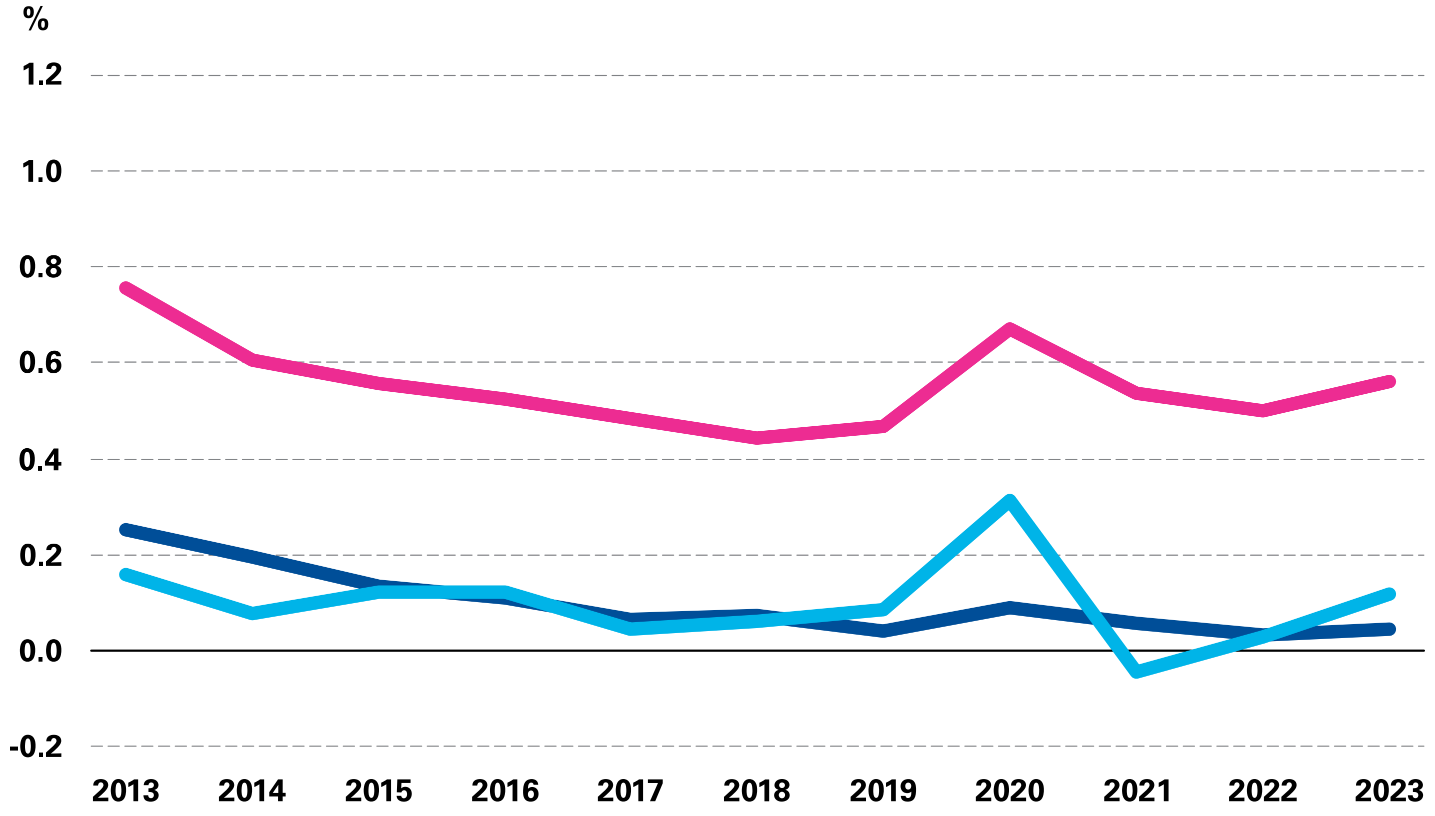
15 REGISTERED BANKS: BANK SECTOR LENDING



- HOUSING
- BUSINESS
- PERSONAL

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

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



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

China Construction Bank New Zealand Banking Group (CCB) saw the largest increase of all the banks, growing their NII by 92% ($5.29 million) in 2023. CCB had also seen the largest increase during 2022, growing their NII by 183.66%. The next largest increase was reported by Industrial and Commercial Bank of China New Zealand Banking Group (ICBC), who experienced a 69.03% ($2.53 million) increase in their NII for 2023.

The non-major bank with the largest reduction in NII was Rabobank New Zealand Limited (Rabobank), who recorded a decrease of 123.01% ($24.19 million) to record a non-interest expense of $4.53 million. The next largest decrease in NII was recorded by Heartland with a 62.69% ($20.93 million) reduction.

The major banks reported a combined decrease in NII of ($1.06 billion) with all five major banks recording a decrease in NII for 2023. The collective decrease was driven by ANZ with a decrease of 45.44% ($0.51 billion) in NII for 2023. BNZ recorded the smallest decline of the major banks, with a reduction in NII of 4.31% ($27 million).

Total assets and gross loan advances

The banking sector saw a slow year of growth in total tangible assets of 0.57% ($3.93 billion) to $699.54 billion in 2023.

All but four of the banks surveyed reported increases in their total assets over the year. The largest of these increases were ASB with a $3.97 billion increase to $129.52 billion and JPMorgan Chase with a $3.31 billion increase to $5.89 billion. The three largest decreases reported by survey participants were from ANZ, Westpac and BNZ, and these were the banks that had experienced the largest increases in total assets during 2022. ANZ experienced the largest decrease of $6.85 billion (3.45%), followed by Westpac and BNZ who saw a decrease of $2.98 billion (2.20%) and $1.36 billion (1.03%) respectively. BOB also experienced a decrease in total assets, and was the only survey participant to experience a decrease for the second year in a row.

Of the banks surveyed, JPMorgan Chase experienced the largest percentage-based growth of 128.67% ($3.31 billion), which increased total assets to $5.89 billion. This was followed by Southland Building Society (SBS) and Bank of China New Zealand Banking Group (BOC) who reported an increase of 15.08% ($785.75 million) and 14.95% ($805.35 million) respectively.

Gross loans and advances (GLA) for the overall banking sector grew by 3.06% ($16.43 billion), which is slightly slower than the previous years' growth rate of 5.53% ($28.06 billion). All five major banks increased their loan books, resulting in a combined growth rate of 2.49% ($12.00 billion) compared to a growth rate of 5.13% in 2022, possibly highlighting the tightened lending requirements of the Credit Contracts and Consumer Finance Act 2003 (CCCFA), as well as the declining economic conditions. The non-major banks collectively grew by 7.65% ($4.42 billion) compared to growth of 8.43% ($4.50 billion) in 2022.

Of the five major banks who dominate the lending market, again in 2023, Kiwibank achieved the largest percentage growth with an increase of 7.06% ($1.97 billion). BNZ and ASB reported the next highest growth, achieving 2.54% ($2.54 billion) and 2.51% ($2.73 billion) respectively. ANZ's growth of 1.58% ($2.34 billion) was the lowest of the major banks.

Of the non-major banks, Citibank achieved the largest expansion in their loan book of 44.33% ($102.47 million), followed by BOI and Kookmin with increases of 21.53% and 17.09% respectively.

This year, only two banks saw decreases in their GLA, with the largest decline being from BOB, which showed a reduction in its loan book of 5.09% ($6.31 million). The other decline was experienced by CCB who experienced a 4.64% ($159.13 million) decrease in its loan book.

The major banks have continued to dominate the banking sector; however, their collective market share has dropped by 50 bps from 90.05% in 2022 to 89.55% in 2023. This has resulted in the non-major banks experiencing an increase in their share of the sector's GLA from 9.95% in 2022 to 10.45% in 2023. Kiwibank has again experienced the greatest growth in the market share of the major banks, increasing by 20 bps to 5.39%. The largest decrease of the major banks was, again, experienced by ANZ, dropping by 40 bps to 27.22%; however, it has continued to maintain its position as the largest bank by GLA.

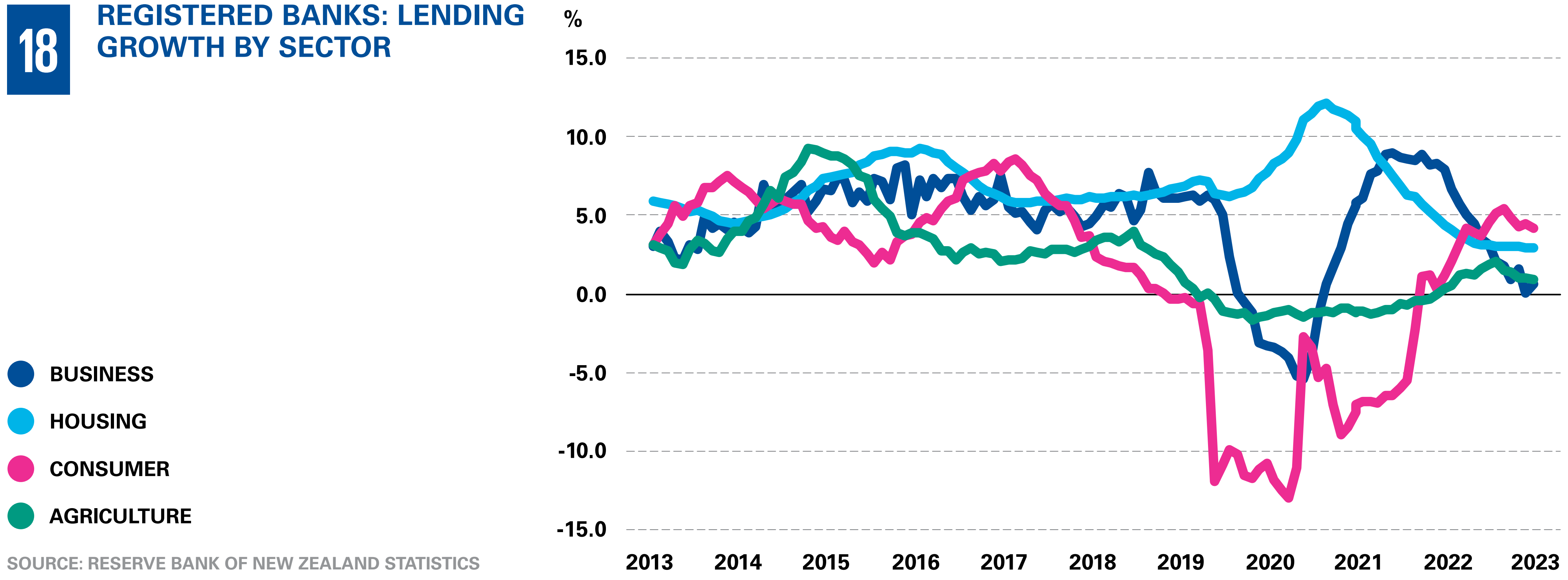
Despite experiencing a 3 bps decline in market share in 2022, Rabobank has seen a 14 bps increase in 2023 to a market share of 2.91%, and continues to maintain its position as the largest non-major bank by total GLA. Rabobank also experienced the largest growth of all the non-major banks, followed by SBS with a 9 bps growth in market share. On the other hand, CCB experienced the largest decline in market share of the non-major banks, decreasing by 5 bps to 0.59%.

Taking a look at the different types of lending, personal lending has had the largest year-on-year increase of 3.88%, mortgage lending saw an increase of 3.33%, and business lending saw a small increase of 0.32%.

Funding costs

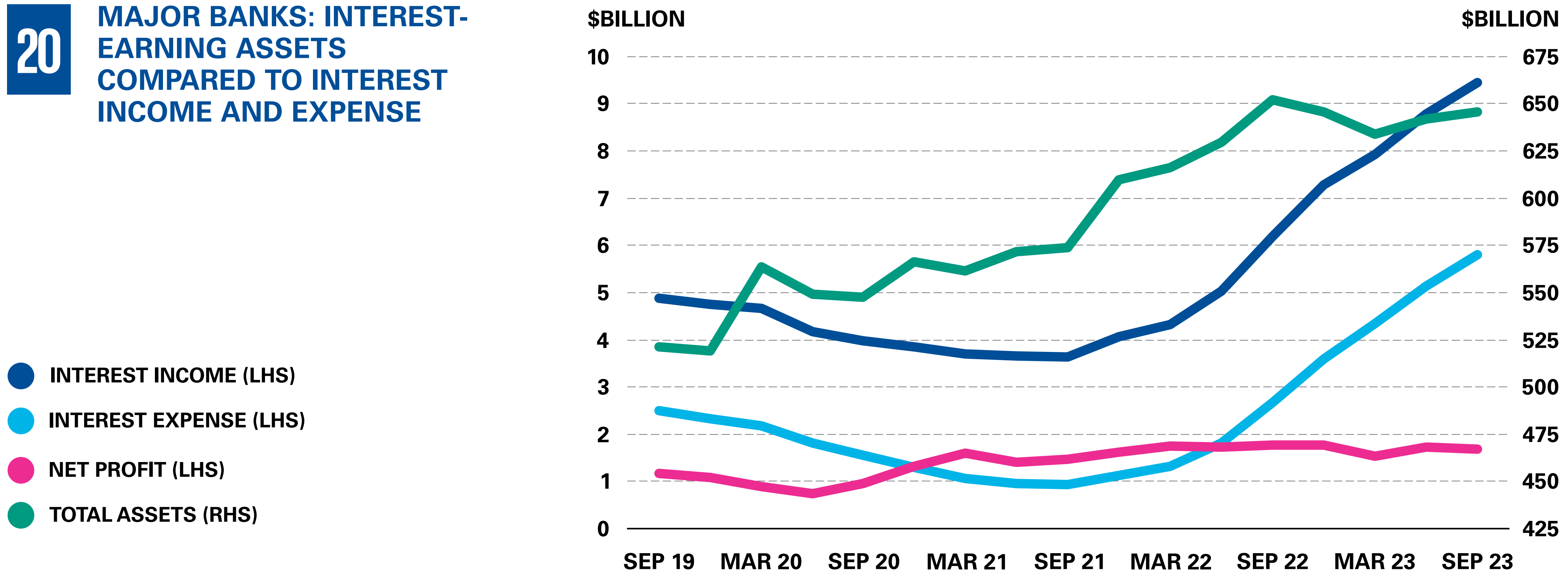
Funding costs (interest expense as a ratio of average interest-bearing liabilities) for the banking sector have seen a significant increase, of 214 bps from 1.35% in 2022 to 3.49% in 2023. This is a result of the rising interest rate environment with the Reserve Bank of

18 REGISTERED BANKS: LENDING GROWTH BY SECTOR

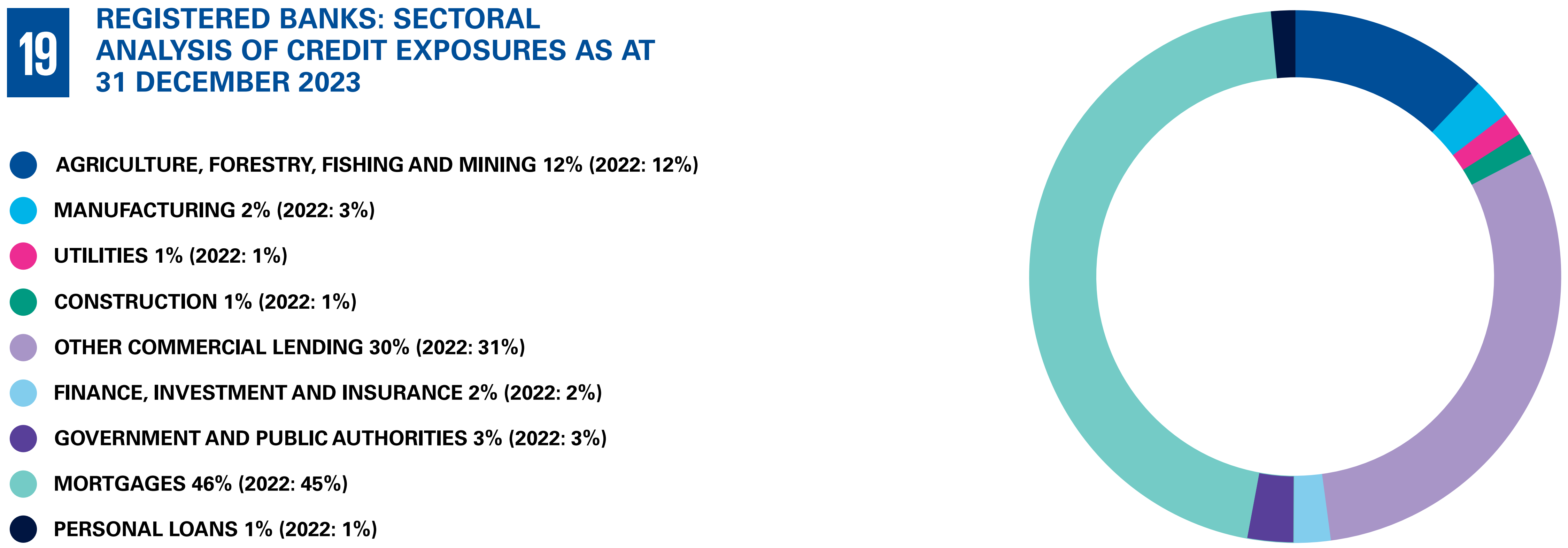


SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

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



19 REGISTERED BANKS: SECTORAL ANALYSIS OF CREDIT EXPOSURES AS AT 31 DECEMBER 2023



SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

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

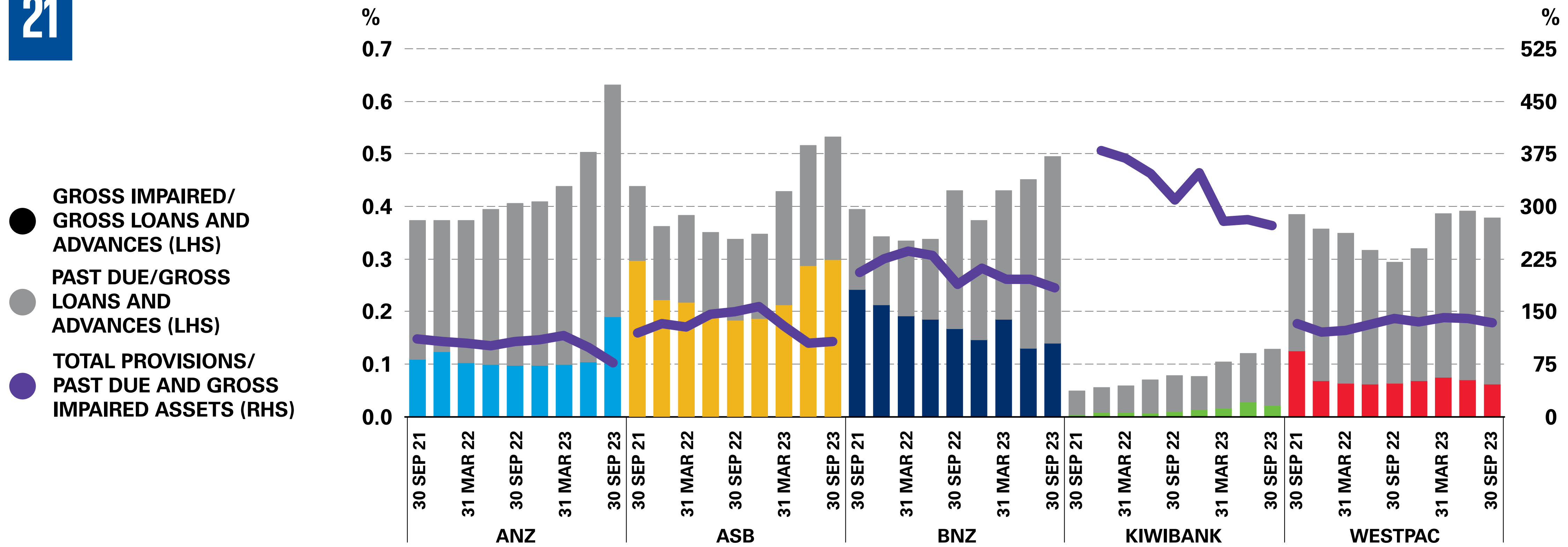


TABLE 5: Registered banks – Non-performing loans[1]	2020	2021	2022	2023
Past due assets/Gross loans and advances	0.29%	0.19%	0.22%	0.31%
Gross impaired assets/Gross loans and advances	0.45%	0.28%	0.19%	0.22%
Total	**0.74%**	**0.47%**	**0.41%**	**0.53%**

New Zealand's (RBNZ's) Official Cash Rate (OCR) increasing from 3.00% to 5.50% at the end of the September 2023 reporting period captured by the survey. These increasing interest rates resulted in the sector's interest expense increasing by 172.08% ($11.98 billion) to $18.94 billion over the year.

All the survey participants recorded an increase in their funding costs in 2023. Of the major banks, BNZ experienced the largest increase in funding costs, increasing by 280 bps from 1.49% in 2022 to 4.29% in 2023. This was a result from BNZ's 196.53% ($2.78 billion) increase in interest expense being proportionally greater than the 1.08% ($1.05 billion) increase in interest-bearing liabilities.

Outside of the major banks, BOB experienced the smallest increase in funding costs, up by 74 bps to 1.99%. JPMorgan Chase recorded the lowest funding cost in 2023 of 1.40%, up 110 bps from 2022. MUFG Bank, Ltd., Auckland Branch (MUFG) recorded the largest increase in funding costs of 273 bps to a cost of 3.51% and the greatest funding cost of all non-major banks. This was closely followed by Heartland who endured a 185 bps increase to 3.50% and took out the second greatest funding cost of the non-major banks.

The participating banks have had interest-bearing liabilities rise by 3.92% ($20.87 billion) compared to the significant increase in interest expense of 172.08% ($11.98 billion), meaning the increase in funding costs is primarily driven by increased interest expenses. The majority of the increase can be attributed to the five major banks, who have achieved a combined increase of $10.93 billion, 91.22% of the banking sector's total $11.98 billion increase.

The OCR has increased to its highest level since the global financial crisis and has simultaneously been reflected in the increased funding costs that banks have experienced over the past year. The end to cheap capital for banks has occurred, and it will be interesting to see what the effect of this will be on consumer interest rates and asset prices looking further into 2024.

Asset quality

After the 2022 survey saw the resumption of an impaired asset expense, with 11 of the 20 survey participants recording impaired asset expense, 2023 has seen this trend continue with 18 of the 20 survey participants now reporting an impaired asset expense. This indicates that the reversals made after (in hindsight) overcautious provisioning post-pandemic are now increasingly falling back to a new normal.

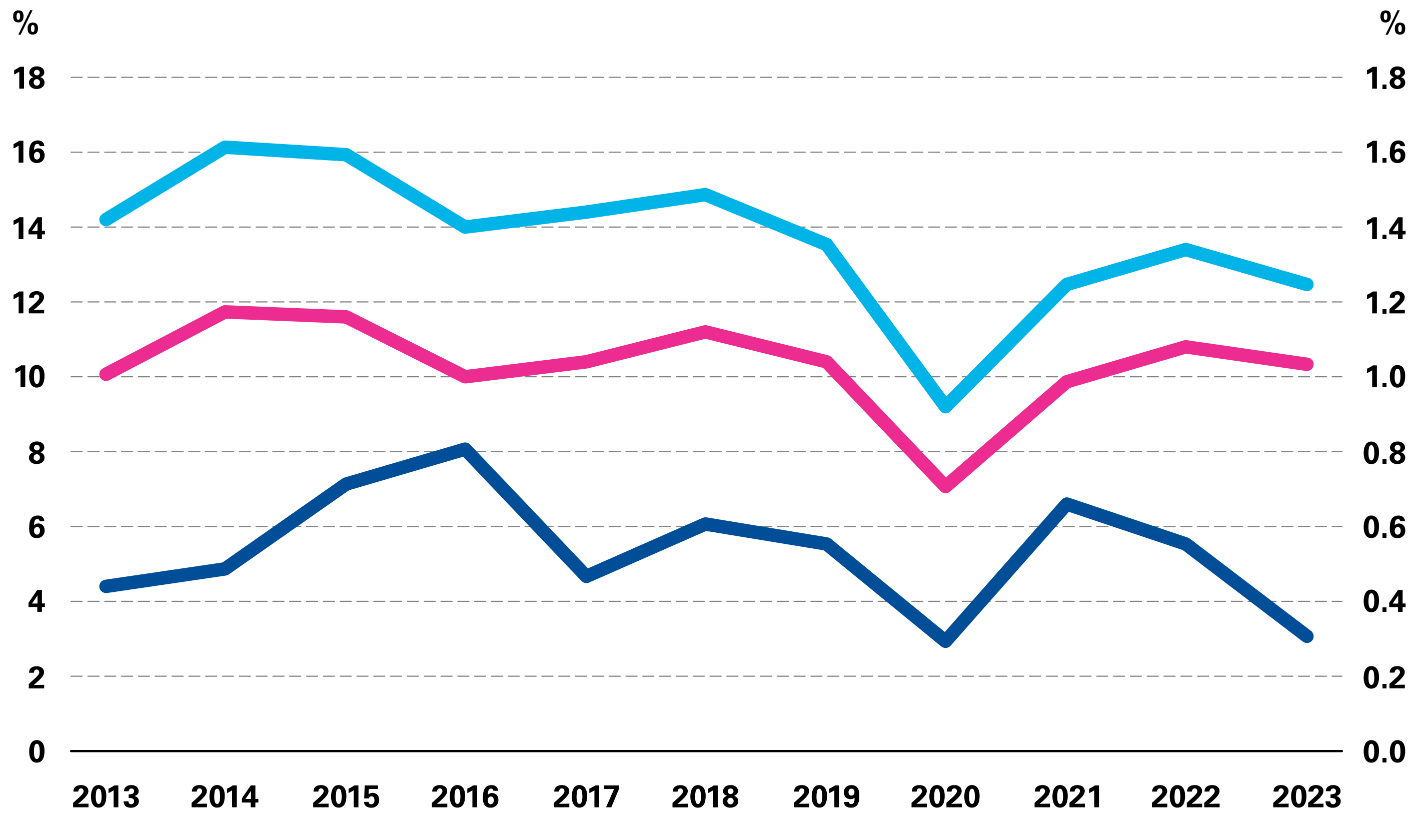
During 2023, 16 survey participants reported an increase in their impairment expense. The major banks were responsible for a large amount of the impairment expense movement, with all five major banks recording increases in the expense, combining for an increase of 280.00% ($434 million). Westpac recorded the largest movement in impaired asset expense after being the only major bank to remain in a recovery position in 2022. In addition, Westpac saw a movement of $162 million (600.00%) to shift from a recovery position of $27 million to an impaired asset expense of $135 million. ANZ followed with an impaired asset expense movement of $144 million from $39 million in 2022 to $183 million in 2023.

Impaired asset expense as a percentage of GLA increased by 9 bps from 0.03% in 2022 to 0.12% in 2023. Total provisions as a proportion of GLA has also increased, albeit not as significantly, moving from 0.50% in 2022 to 0.56% in 2023, a shift of 6 bps. This overall movement in total provisions as a proportion of GLA is attributable to the movements of the specific and collective provisioning across the banking sector. Specific provisions decreased by 11.95% ($35.95 million) from $300.68 million in 2022 to $264.73 million in 2023. Conversely, collective provisions increased by 18.46% ($440.81 million) from $2.39 billion in 2022 to $2.83 billion in 2023.

24 See Figure 24 – page 28

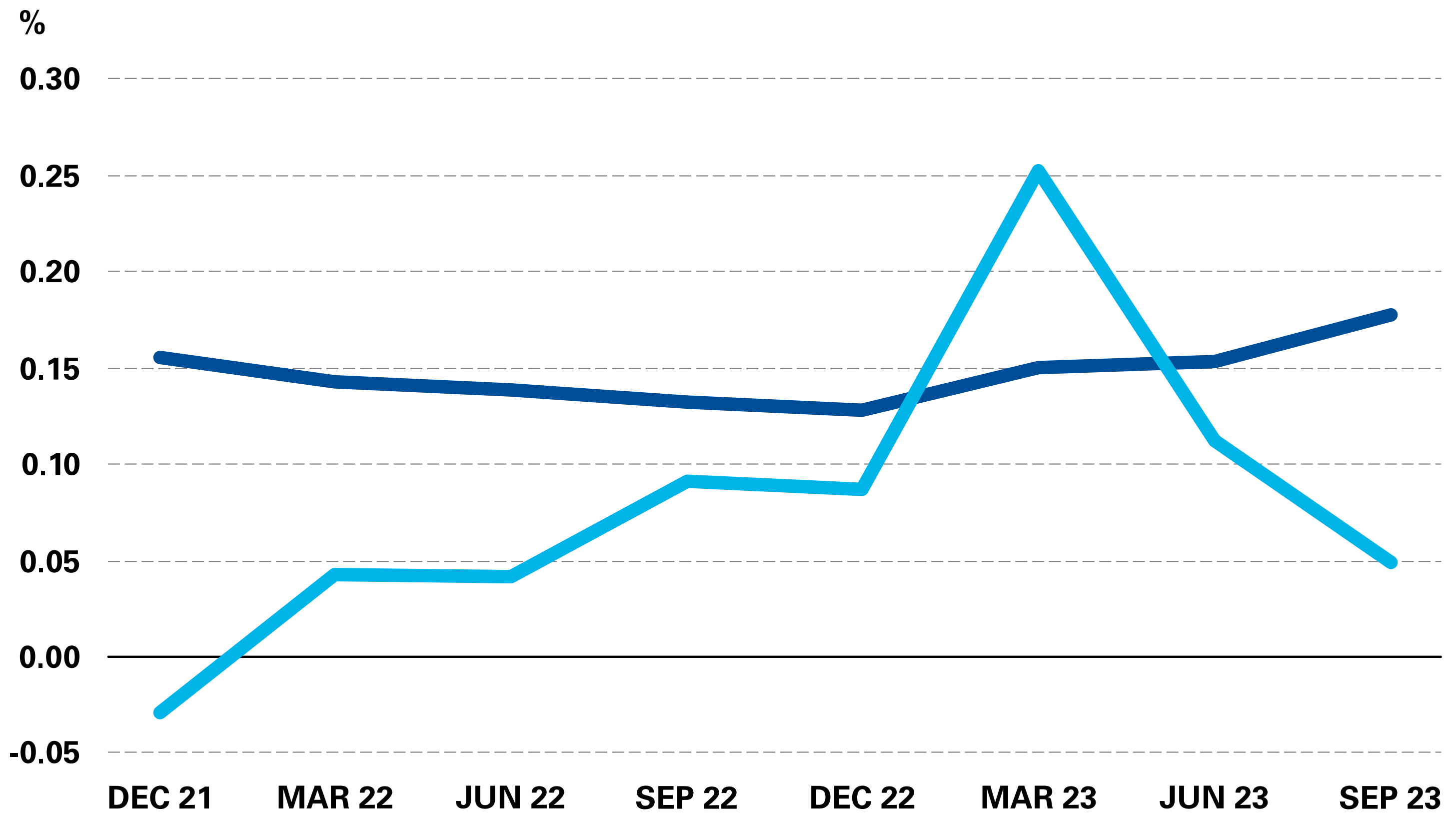
Three of the five major banks saw a decrease in their specific provisioning, namely ANZ, BNZ and Westpac. ANZ saw the largest decrease in specific provisions, dropping $17 million (22.08%). This was closely followed by BNZ, who had a decrease in specific provisions of $15 million (16.30%). ASB and Kiwibank had increases in their specific provisions of $5 million (7.14%) to reach $75 million, and $4 million (400.00%) to reach $5 million respectively. Kiwibank also experienced the largest percentage increase in specific provisions. The largest percentage decrease in specific provisions were incurred by TSB Bank Limited (TSB) with a 93.35% drop ($5.42 million), followed by ICBC with a 76.95% decline ($3.07 million).

22 REGISTERED BANKS: GROWTH IN GROSS LOANS AND ADVANCES VS. RETURN ON ASSETS AND RETURN ON EQUITY



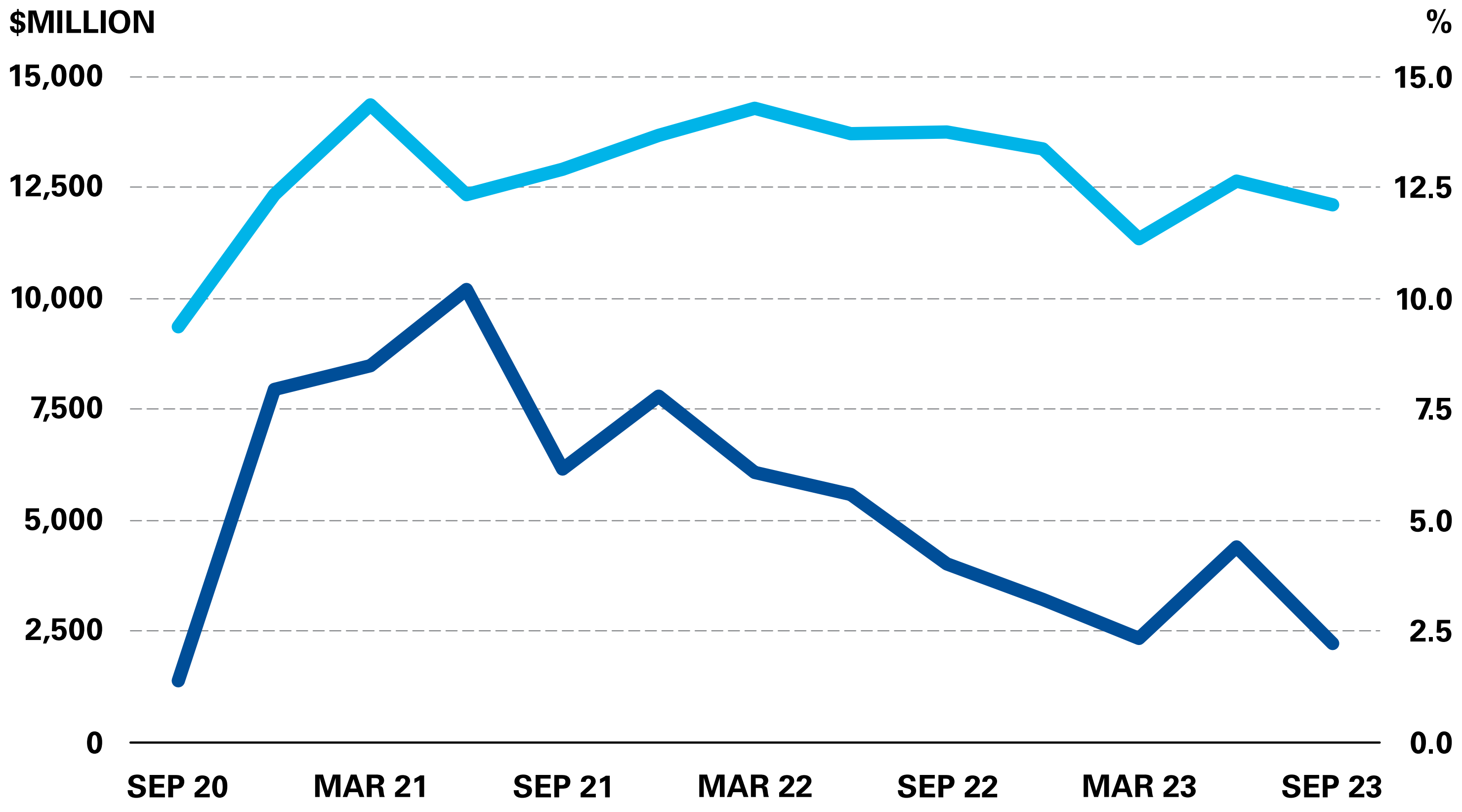
GROWTH IN GROSS LOANS AND ADVANCES (LHS)
RETURN ON EQUITY (LHS)
RETURN ON ASSETS (RHS)

24 MAJOR BANKS: GROSS IMPAIRED VS. IMPAIRED ASSET EXPENSE



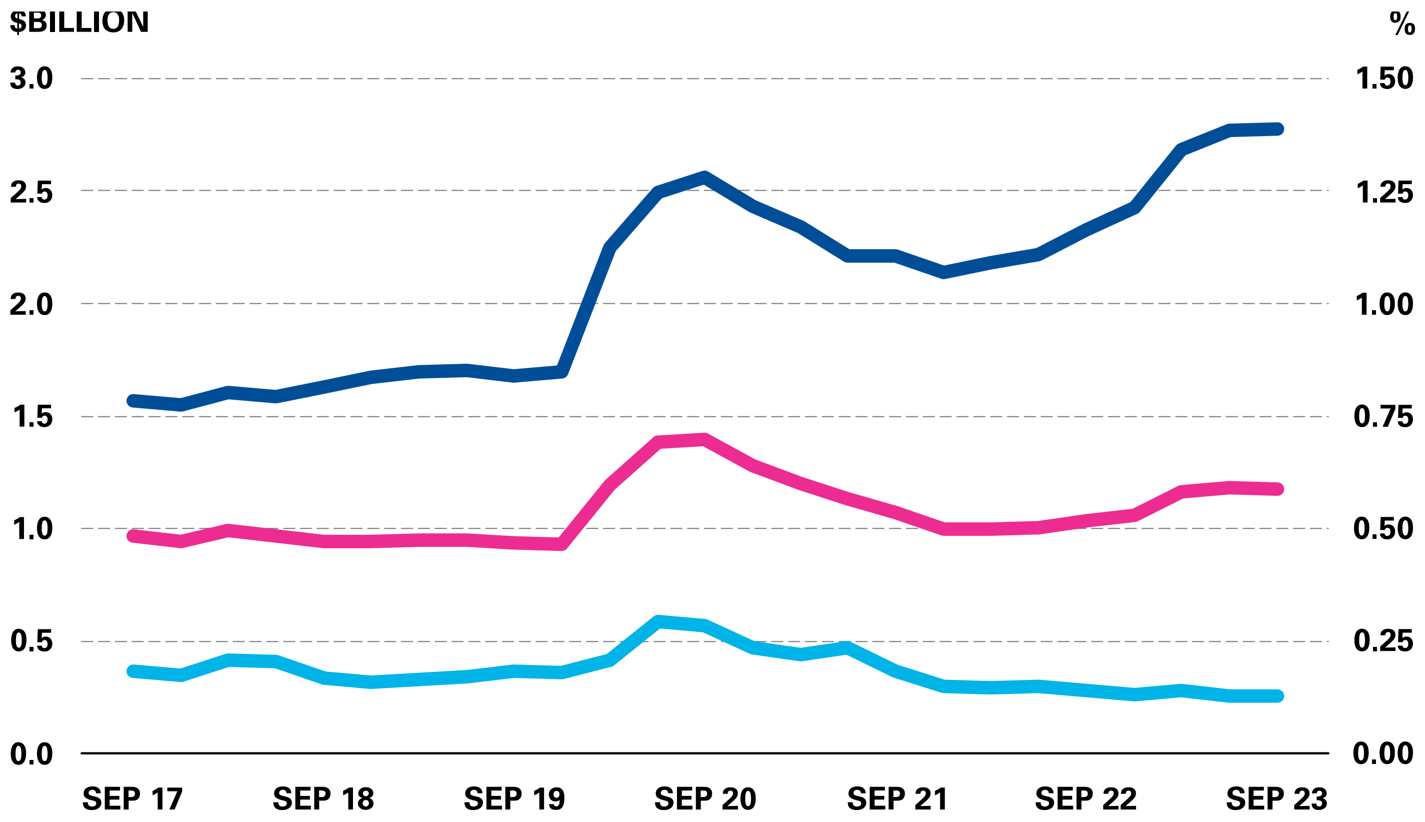
GROSS IMPAIRED LOANS/ GROSS LOANS AND ADVANCES
IMPAIRED ASSET EXPENSE/ AVERAGE GROSS LOANS AND ADVANCES

23 REGISTERED BANKS: GROWTH IN GROSS LOANS AND ADVANCES VS. RETURN ON EQUITY



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

25 MAJOR BANKS: MOVEMENT IN PROVISIONING



COLLECTIVELY ASSESSED PROVISIONS (LHS)
INDIVIDUALLY ASSESSED PROVISIONS (LHS)
TOTAL PROVISION FOR DOUBTFUL DEBTS/ GROSS LOANS AND ADVANCES (RHS)

The collective provisioning shows quite a different picture to the specific provisions, with 18 out of the 20 participants recording an increase, including all of the major banks.

25 See Figure 25 – page 28

The only banks who recorded decreases were TSB, decreasing by 6.09% ($1.66 million) and CCB, with a 2.24% ($0.34 million) decrease. BNZ experienced the largest increase in collective provisions of all the participating banks, enduring a $135 million (18.75%) increase. Westpac followed with a $111 million (29.76%) increase in collective provisions. The largest percentage increases in collective provisions were recorded by The Hongkong and Shanghai Banking Corporation (HSBC) at 227.21% ($3.38 million).

Past due but not impaired assets increased by 45.54% ($539.14 million) to $1.72 billion in 2023, with 8 out of the 10 survey participants who report past due assets reporting an increase. This sees past due assets returning to a new normal post-pandemic. The only two survey participants who did not report an increase were TSB with a $1.08 million (27.31%) decrease and Rabobank with a $0.30 million (84.66%) decrease. The major banks accounted for the vast majority of the increase seen in 2023. ANZ reported the largest increase at $207 million (45.59%). The second biggest increase was reported by BNZ with an increase of $100 million (37.88%). The largest percentage increases were seen by SBS at 191.13% ($9.48 million), followed by The Co-operative Bank Limited with a 150.62% ($4.98 million) increase.

Operating expenses

This year, the total cost to income ratio (CIR) for the banking sector has increased by 54 bps to 38.07%. The increase in the ratio is due to operating expenses increasing at a greater rate than operating income, with operating expenses (including amortisation expense) increasing by 8.85% ($561.68 million) over the year while operating income increased by 6.85% ($1.13 billion).

26 See Figure 26 – page 30

Of the major banks, two reported decreases in their CIR ratio. Kiwibank experienced the most significant decrease, with their CIR falling by 515 bps to 65.44%. This was due to a 20.00% ($136 million) increase in operating income, which outweighed the 11.25% ($54 million) increase in operating expenses. ASB reported the second largest decrease in their ratio of 113 bps to 33.45%. Westpac reported the largest increase in their ratio as it rose by 225 bps to 41.23% in 2023. This resulted from an increase in operating income of 7.32% ($214 million) being offset by a 13.52% ($154 million) increase in operating expenses.

TABLE 6: Major banks – Personnel cost

Entity[8]	2023			2022		
	Employee numbers	Personnel cost $Million	Cost/ average employees $000's	Employee numbers	Personnel cost $Million	Cost/ average employees $000's
ANZ	7,244	1,022	141	7,280	996	135
ASB	6,163	767	126	6,041	667	112
BNZ	5,400	707	133	5,246	663	132
Kiwibank	2,282	311	150	1,866	269	148
Westpac	5,397	710	131	5,402	658	125

JPMorgan Chase saw the largest drop in their CIR, falling from 79.80% to 54.36%. This was due to the combination of an increase in operating income of 38.28% ($6.17 million) and a decrease in operating expenses of 5.80% ($0.75 million). In contrast, Kookmin saw the most significant increase in CIR from 26.98% to 90.15%, which was a combination of Kookmin's operating income declining by 64.79% ($11.06 million) and an increase in operating expenses of 17.61% ($0.81 million).

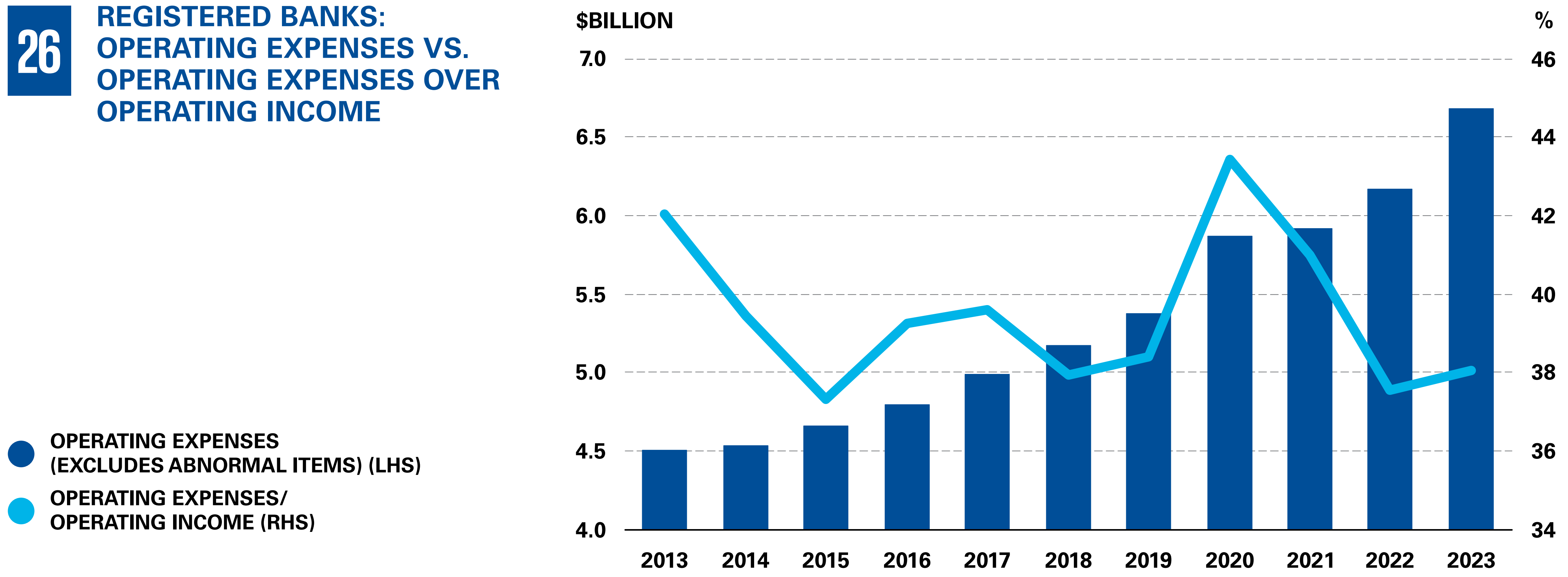
During 2023, 18 of the 20 survey participants had reported an increase in operating expenses. The only two banks to experience a decrease were JPMorgan Chase and BOB, which saw a decrease of 5.80% ($0.75 million) and 2.95% ($0.09 million) respectively. The largest increase of the major banks was experienced by Westpac, which saw an increase of 13.52% ($154 million). ANZ had the smallest increase of the major banks, with a rise of 0.48% ($8 million).

From the non-major banks, TSB saw the greatest increase in operating expenses of 39.11% ($53.12 million). This was followed by MUFG and Citibank, which had increases of 23.60% ($3.41 million) and 22.05% ($4.08 million) respectively.

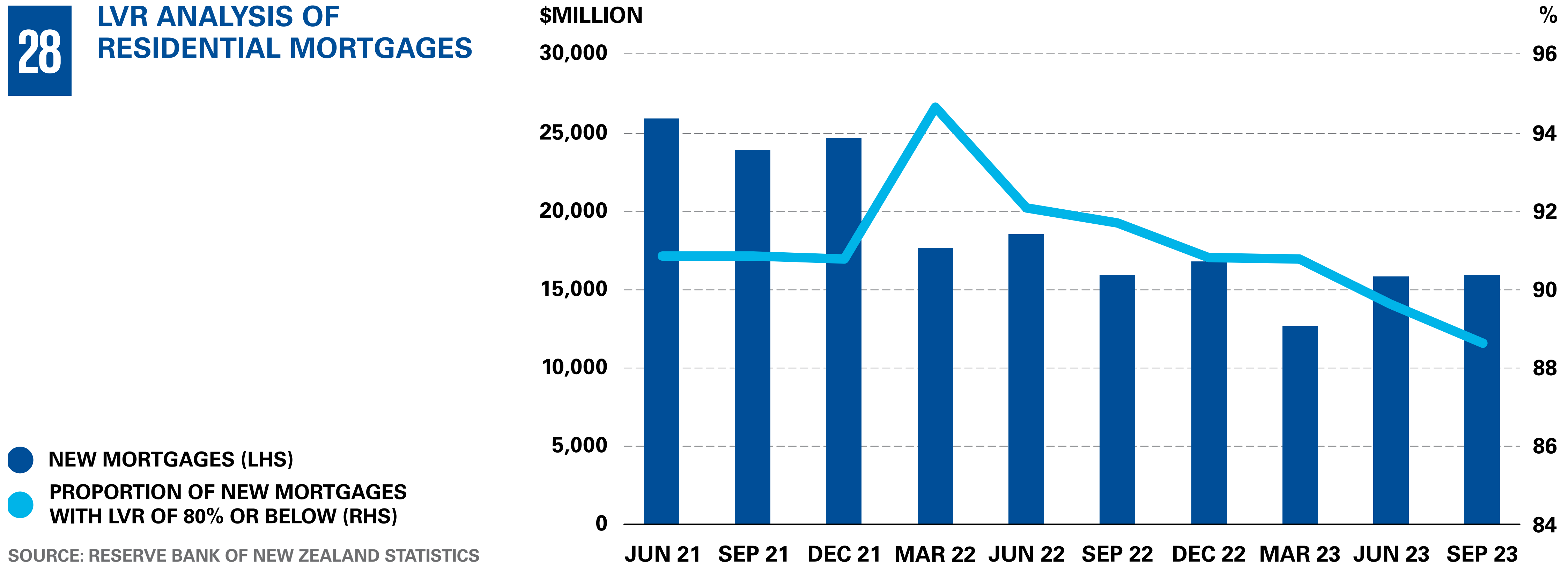
Personnel expenses across the banking sector rose by 8.60% ($310.73 million) and is a key contributor to the increased operating expenses.

27 See Figure 27 – page 30

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

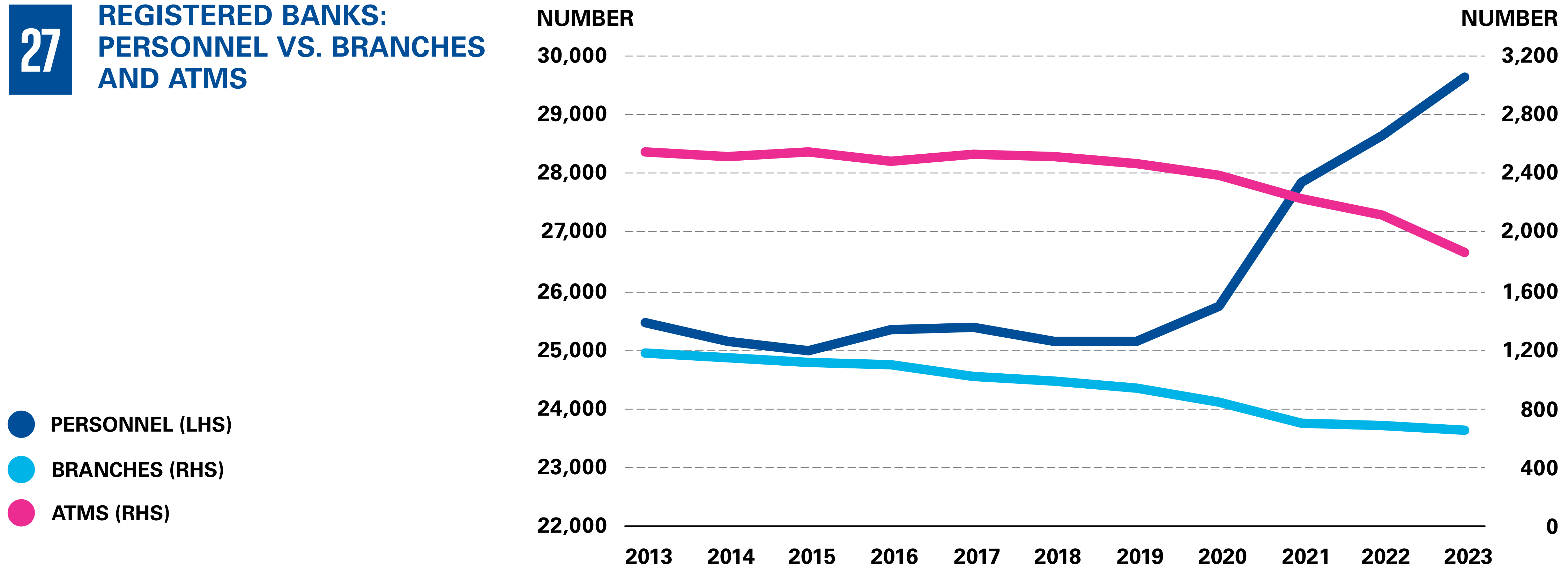


28 LVR ANALYSIS OF RESIDENTIAL MORTGAGES

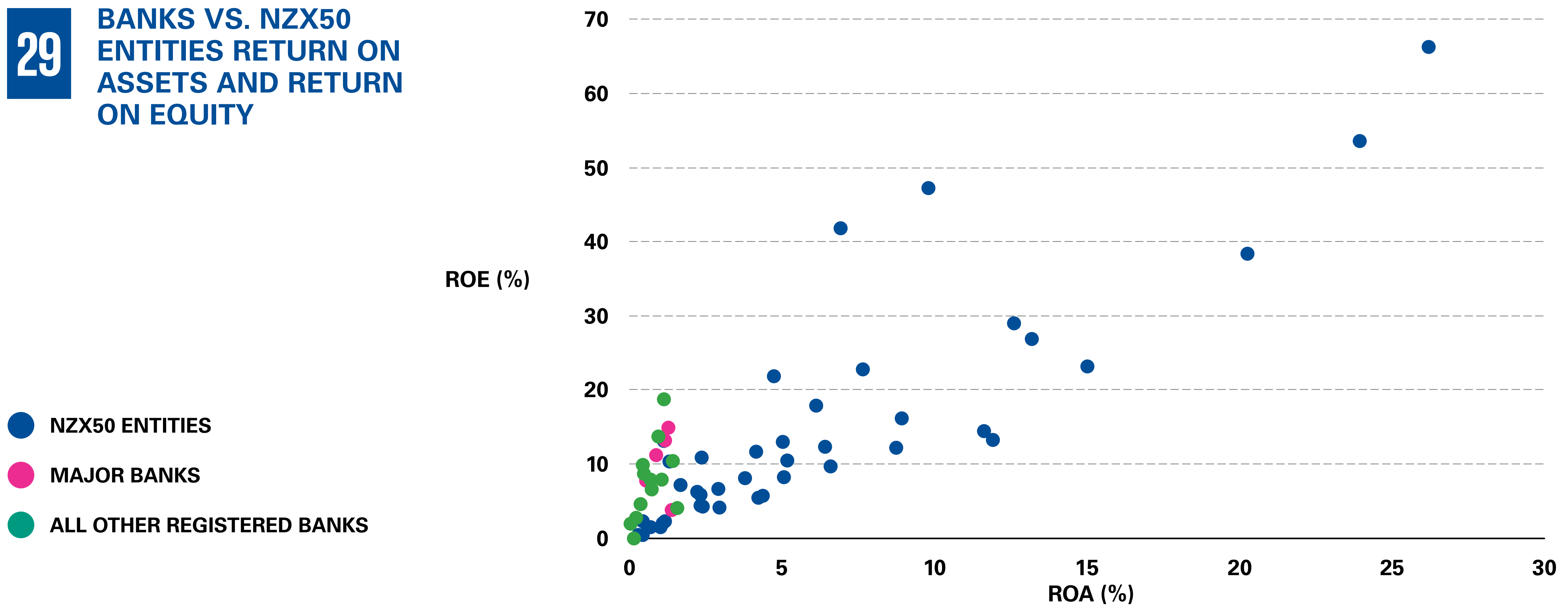


SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

27 REGISTERED BANKS: PERSONNEL VS. BRANCHES AND ATMS



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



All five of the major banks saw an increase in personnel expenses with the largest percentage increase coming from Kiwibank, with an increase of 15.61% ($42 million). ASB saw the largest dollar movement in personnel expenses of $100 million. See **Table 6**.

In total, the major banks' personnel expenses rose by 8.12% ($264 million). Of all the survey participants, TSB had the largest percentage growth in personnel expenses of 31.67% ($18.15 million). On the other hand, BOB had the largest decrease in personnel expenses, for the second year in a row, which fell by 12.50% ($0.20 million) to $1.43 million.

Return on equity/Return on assets

The banking sector has seen a decrease in the overall return on equity (ROE) in 2023 by 92 bps, down to 12.48%. This movement is largely attributable to the small increase in NPAT of 0.28% ($0.2 billion) compared to the larger increase in total equity of 7.97% ($4.43 billion).

HSBC has maintained the highest ROE at 286.36%, for a second year in a row, with the largest increase of 12,259 bps. This was followed by Citibank with a ROE of 18.68%, an increase of 907 bps. Kookmin endured the largest ROE decrease of 9,665 bps, moving their ROE down to 1.88%, the lowest of all survey participants. This was followed by Heartland and BOC, who experienced a decrease of 386 bps and 383 bps respectively. TSB had the second lowest ROE, behind Kookmin, of 2.74% a reduction of 252 bps from 2022.

Of the five major banks, four experienced a decline in their ROE. Kiwibank was the only major bank to experience an increase in ROE of 109 bps to 7.76%. ANZ reported the largest decrease in ROE of 151 bps to 13.28%, followed by Westpac's ROE decrease of 145 bps to 11.21% and BNZ who reported a ROE decrease of 33 bps to 13.17%. Despite ASB incurring a decrease in ROE of 32 bps to 14.84%, they have continued to remain as the major bank with the largest ROE.

The banking sector will be looking at increasing capital requirements over the coming years. Of the non-major banks, the HSBC saw the largest percentage increase in total equity, increasing 45.34% ($6.06 million) to $19.41 million. Additionally, CCB reported an increase of 13.11% ($37.62 million) in equity to $324.65 million, while Kookmin reported the largest decrease in total equity of 68.96% ($8.04 million) to $3.62 million.

Of the major banks, ASB experienced the largest equity percentage increase of 19.47% ($1.93 billion) to $11.86 billion. ANZ reported the smallest percentage change as equity increased 4.14% ($663 million) to $16.69 billion. The increase in total equity since 2022 of 7.97% ($4.42 billion) is the combination of the following factors:

- sector profitability across the period
- dividend restrictions in place for part of the period
- preparation for increased capital requirements.

The return on assets (ROA) ratio for the banking sector decreased by 5 bps in 2023 to 1.03%. This was due to the 0.57% ($3.93 billion) increase in total tangible assets outweighing the increase in NPAT of 0.28% ($0.2 billion). Increases in ROA were seen from 9 of the 20 banks, with Citibank recording the largest increase of 43 bps to 1.12%, followed by BOB with a 40 bps increase in ROA to 1.39%. Kookmin, on the other hand, recorded the largest decrease in ROA of 136 bps, down to 0.02%, and the lowest return from all the banks surveyed.

Three of the five major banks saw increases in their ROA. Kiwibank led the way with an increase of 10 bps to 0.54% followed by ASB whose ROA increased by 9 bps to 1.27%, and the largest ROA of the major banks. Westpac and ANZ's ROA decreased by 13 bps and 10 bps to 0.89% and 1.11% respectively.

See Figure 29 for a more detailed look at how the banking sector's ROE and ROA compared to a range of other NZX 50 companies.

29 **See Figure 29 – page 30**

Capital adequacy

There were 12 survey participants that reported a decrease in their capital adequacy ratio (CAR) in 2022; this year 11 survey participants recorded an increase in CAR. This comes as all participating banks are starting to see the flow on effects of the RBNZ dividend restrictions that were lifted on 1 July 2022. The RBNZ stated that the underlying strength remains in the economy (thus the removal of the dividend restrictions), but the RBNZ does expect that the registered banks will continue to be prudent in determining the appropriate size of dividends paid to shareholders.

Out of the 20 survey participants, 11 reported decreases in their tier 1 capital ratio. ANZ and Westpac both saw the biggest increase in their tier 1 capital ratios at 120 bps (to 15.20% and 14.60% respectively). Of the major banks, Kiwibank was the only one to report a decrease in their tier 1 capital ratio, dropping by 30 bps to 11.70%.

The biggest decrease in the tier 1 capital ratio was reported by BOI with its ratio decreasing by 600 bps from 51.00% in 2022 to 45.00% in 2023. Conversely, the biggest increase in tier 1 capital ratio outside of the major banks was CCB with an increase of 64 bps to 14.60%.

The most recent RBNZ financial stability report in 2023 highlighted a similar scenario for banks in 2023 as 2022.[9] The results of the solvency stress test showed the banks were resilient to a severe, but plausible 'stagflation' scenario,

TABLE 7: Major banks – Fund management activities			
Entity[7]	**2023 $Million**	**2022 $Million**	**Movement**
ANZ	37,108	34,313	8.15%
ASB	21,307	19,980	6.64%
BNZ	8,714	7,427	17.33%
Kiwibank[10]	6,235	5,215	19.56%
Westpac	15,730	14,239	10.47%
Total	**89,094**	**81,174**	**9.76%**

combining high interest rates, inflation and high unemployment. The results showed that the low points of the banks' capital ratios in 2023 were still higher than those achieved in 2022. The RBNZ also acknowledged that the banking sector is progressing well towards meeting the higher capital requirements that are being phased in over the next five years.

The next focus for banks is going to be working towards meeting the requirements of the full implementation of the new Capital Review standards in 2028.

Funds under management

The combined funds under management (FUM) for New Zealand's major banks has seen an increase during the year, increasing by 9.76% ($7.92 billion) from 2022. See **Table 7**.

Unlike 2022, in which four of the major banks suffered a decrease in FUM, all major banks during 2023 experienced an increase. Kiwibank saw the greatest movement with an increase of 19.56%. All of the major banks experienced an increase in FUM, ASB recorded the least significant increase of 6.64% ($1.33 billion). Again in 2023, ANZ remains the largest holder of FUM, accounting for 41.65% of all FUM reported by the major banks.

Raising the bar in the fight on scams

Roger Beaumont
Chief Executive
New Zealand Banking Association

New Zealand Banking Association
Te Rangapū Pēke

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

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

Scams targeting New Zealanders are on the rise, and they're becoming increasingly sophisticated. The impact can be devastating, with some people losing their life savings. Because of the customer impact, and the fact that banks are often at the end of a chain of events that concludes a scam, last September our retail banks came together to announce that they were working on a suite of initiatives to help prevent scams from happening.

The harm is real. Scams are like a 'digital ram raid'. The Ministry of Business, Innovation and Employment recently revealed that 11 of New Zealand's largest financial institutions reported $198 million was lost to scams in the last year.[11] In reality that might be the tip of the iceberg when you take into account the different types of scams and fraud losses that may not be reported.

The idea behind the launch of anti-scam initiatives was to help protect New Zealanders as a whole from scams, to provide individuals with greater protection from losing money to scams, and to raise awareness of scams and how to avoid them.

Banks already invest significantly in fraud analytics and prevention to identify unusual customer spending patterns, warn customers of potential scams, and shut down fake bank websites and phone numbers used in scams. Banks also facilitate two-factor authentication, which allows customers to stop unauthorised payments from their account. They also provide pop-up messages in online banking and mobile banking apps to alert customers to activity occurring in their bank accounts.

To raise the bar in the fight against scams, the retail banking industry has announced a commitment to the following key initiatives:

- supporting the establishment of a centralised, co-ordinated, multi-sector national Anti-Scam Centre

> "11 of New Zealand's largest financial institutions reported **$198 million** was lost to scams in the last year.

> Scams take many forms and often start with a digital hook, such as a fake website, fake ads on social media, and emails and texts from criminals pretending to be someone that you trust.

- bringing in an industry-wide ‘confirmation of payee’ account name checking service
- removing weblinks from texts to customers
- raising public awareness about scams.

Anti-Scam Centre

Scams take many forms and often start with a digital hook, such as a fake website, fake ads on social media, and emails and texts from criminals pretending to be someone that you trust. Scams often involve telcos, social media companies, internet service providers, and search engines, and of course the banks, which facilitate customer payments. So, it makes sense to bring all affected parties into the tent to help fight scams, along with Government agencies including the Police.

Banks got the ball rolling on the Anti-Scam Centre in December by focusing on detecting and sharing information on ‘mule’ bank accounts, which are used by criminals to transfer illegally obtained money. Mule bank account owners may be complicit with the criminals by receiving and making payments on their behalf, or unwittingly allowing access to their bank accounts for the fraudsters to make those transactions. Identifying and sharing information on mule bank accounts helps break an important link in the chain that scammers use to move stolen money.

Banks previously shared some information on money mules, but this initiative increases the speed and amount of information being shared.

This year the banking industry will work to engage other sectors to build the capacity and effectiveness of the Anti-Scam Centre.

Confirmation of payee

We’re currently assessing options for a confirmation of payee service to enable anyone making an online payment from one bank account to another to check the name of the account they’re paying. This will help people check who they’re making a payment to and may help identify payments to scammers. It will also help people avoid making mistaken payments to the wrong account. It’s a useful double-check when making online payments.

It’s important that we take the time to get confirmation of payee right for our payment’s environment. Along with looking at technical options for confirmation of payee, there’s extensive work underway to help ensure banks continue to protect customer privacy.

We’re expecting to announce progress on this initiative in April. To do that we are currently assessing a number of options to build our own confirmation of payee solution, or partner with a third-party technology provider, of which there are several in New Zealand and overseas.

Getting confirmation of payee designed, built, and implemented across the banking industry will be determined by a number of factors, including agreeing an account name and number matching solution, and ensuring it can be delivered by our retail banks. The data sharing solution will also need to comply with privacy law and banks’ obligations to protect customer confidentiality. Banks will need to build and implement relevant changes to their online banking and mobile app platforms. Getting confirmation of payee to go live will depend on addressing all of these elements.

It’s also important to recognise that none of these initiatives is a silver bullet in the war on scams, especially given the constantly evolving nature of this form of crime. UK Finance has reported that authorised push payment fraud is still rising in the UK, despite the introduction of confirmation of payee there in 2020.[12] It seems that reliance on a single scam

> We’re currently assessing options for a confirmation of payee service to enable anyone making an online payment from one bank account to another to check the name of the account they’re paying.

> Raising public awareness about scams and how to avoid them is also critical in helping to prevent scams.

prevention mechanism may have encouraged complacency. An effective anti-scam strategy needs a layered approach involving different protective measures and all the participants in the ecosystem working together to help prevent scams.

Removing links from texts

Scammers often use either weblinks or hyperlinks in text messages to gain access to people's bank accounts. To help reduce this kind of scam risk, banks have committed to removing links from texts to customers. Some banks are already there, with others adopting this approach as soon as they can.

Raising scam awareness

Raising public awareness about scams and how to avoid them is also critical in helping to prevent scams. Our banks already provide scam information tips to their customers through a variety of channels, including TV advertising, social media and on their websites. To complement these we ran a 'Take a Sec to Check' radio advertising campaign over the summer holidays. The idea was to encourage people to 'take a sec' before either making a payment or giving away personal information, just to be sure that it's not a scam.

Last year banks also funded a TV documentary commissioned by the Banking Ombudsman called *You've Been Scammed by Nigel Latta.*

We've partnered with online and print media companies to run special projects on scams to help raise public awareness. Because scammers never sleep, public awareness will need to be ongoing, even after we've implemented our scam prevention initiatives.

Improving outcomes for scam victims

Banks already reimburse fraud losses in cases of unauthorised payments from a customer's account, so long as they complied with the bank's terms and conditions and acted reasonably. We're consciously focusing on preventing scams, including those that involve authorised push payments, where people believe they are making payments to legitimate entities. In those cases, banks generally won't reimburse the loss, although it very much depends on what happened in each case. Given the harm caused by scams, we think focusing on prevention is much more effective in the long run.

That said, we are also working with the Banking Ombudsman to find ways to improve outcomes for customers who lose money to scams. That's around more consistency in outcomes for scam victims, which can be challenging because each case is different, and banks have their own processes in place to respond to scam loss claims. We are also working to improve the way banks communicate with customers who have been scammed, and the time taken to resolve scam claims, which once again can vary depending on the facts and complexity of the case.

A multi-sector layered approach

Our banks are proud of the commitments they've made to fight scams, and they know it's a fight that won't go away soon. The constantly evolving nature and sophistication of this kind of crime means we all need to be vigilant.

We need to work together. Banks are usually at the end of the scam chain, and to effectively crack down on scams we need all participants in the chain to play their part to help stop this crime. And as this is an issue for New Zealand, the Government also has a role to play.

We're taking a layered approach to preventing scams, and that's why the banking industry is committed to several initiatives we hope will work in with each other to reduce the financial and social harm caused by scams. None of this is easy, but we're taking on the fight.

> We're taking a layered approach to preventing scams, and that's why the banking industry is committed to several initiatives we hope will work in with each other to reduce the financial and social harm caused by scams.

2023 in retrospect: The credit trends seen in Aotearoa New Zealand

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, 2023 was a challenging year. The cost-of-living coupled with the uncertainty of an election year saw plenty of tentativeness across the country.

Over the year, we saw the Official Cash Rate (OCR) climb from 4.25% in January to 5.50% in November 2023 – resulting in a hike in interest rates for homeowners and business owners alike.

This situation coupled with the cost-of-living squeeze, indicated a large portion of the population were in for a difficult year financially.

One of the key indicators of financial stability are the credit trends emerging, giving us an insight on how people are faring when obtaining credit and meeting their repayment obligations.

Last year, we saw signs of a struggling populace. The question is whether this will persist into 2024 and how we can support Kiwis through these tough times.

Creeping arrears trends

The major credit story of 2023 was the climbing arrears as a reflection of the overarching cost-of-living crisis impacting Kiwi households across the country.

After plummeting to artificially low levels in 2020 as a result of softened credit policies in relation to the Covid-19 outbreak and subsequent lockdowns, arrears have been slowly trending back up.

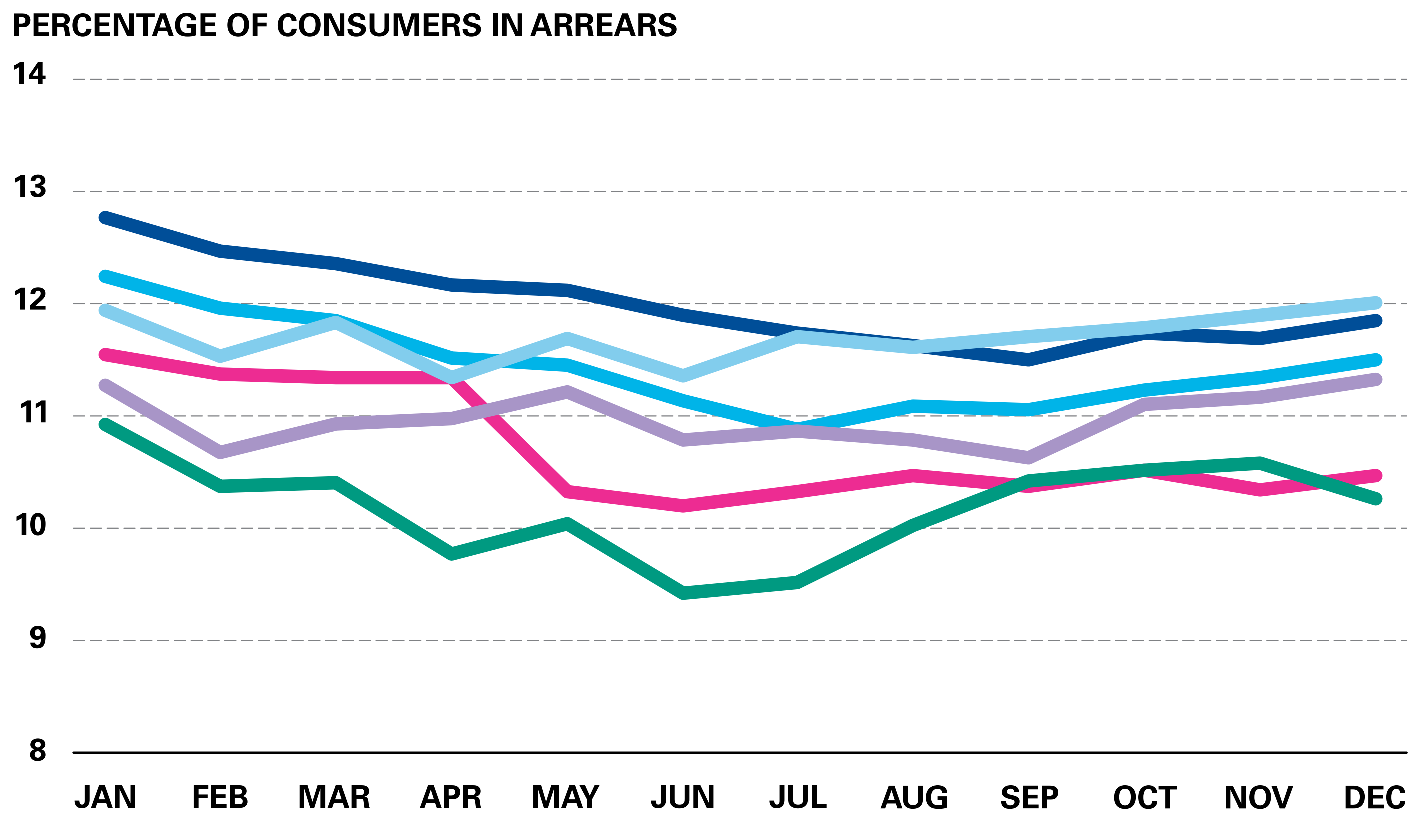
Rounding out 2023, arrears were above pre-pandemic levels not seen since February 2019. In fact, in December 2023 consumer arrears climbed to 12.01% of the credit active population.

30 See Figure 30 – page 37

Mortgage arrears steadily rose in 2023, coming off artificially low trends observed in 2022 due to Covid-19.

> "The major credit story of 2023 was the climbing arrears as a reflection of the overarching cost-of-living crisis impacting Kiwi households across the country.

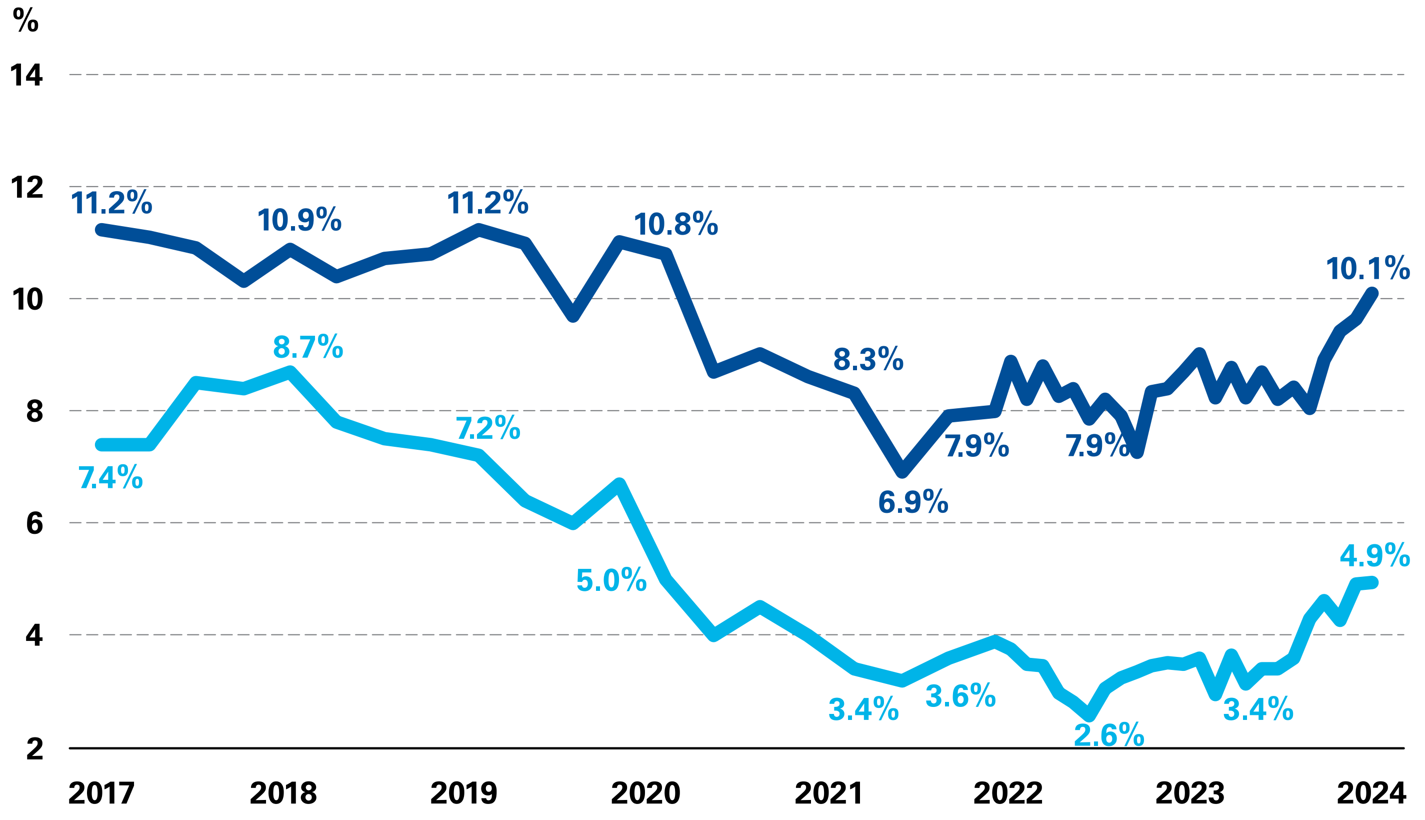
30 CONSUMER ARREARS TRENDS



2018
2019
2020
2021
2022
2023

SOURCE: CENTRIX

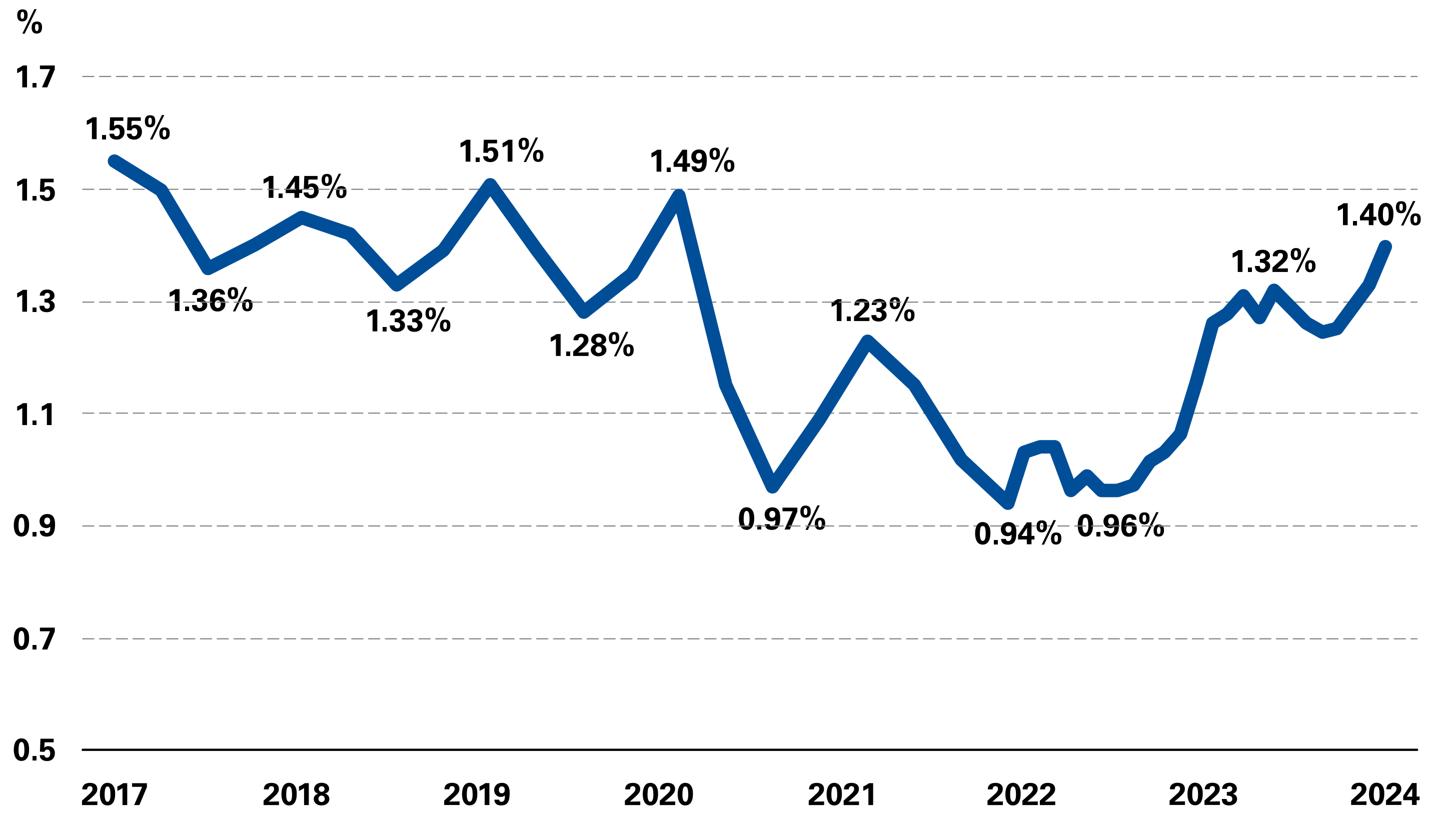
32 TELCO AND UTILITY ARREARS



TELCO ARREARS
UTILITY ARREARS

SOURCE: CENTRIX

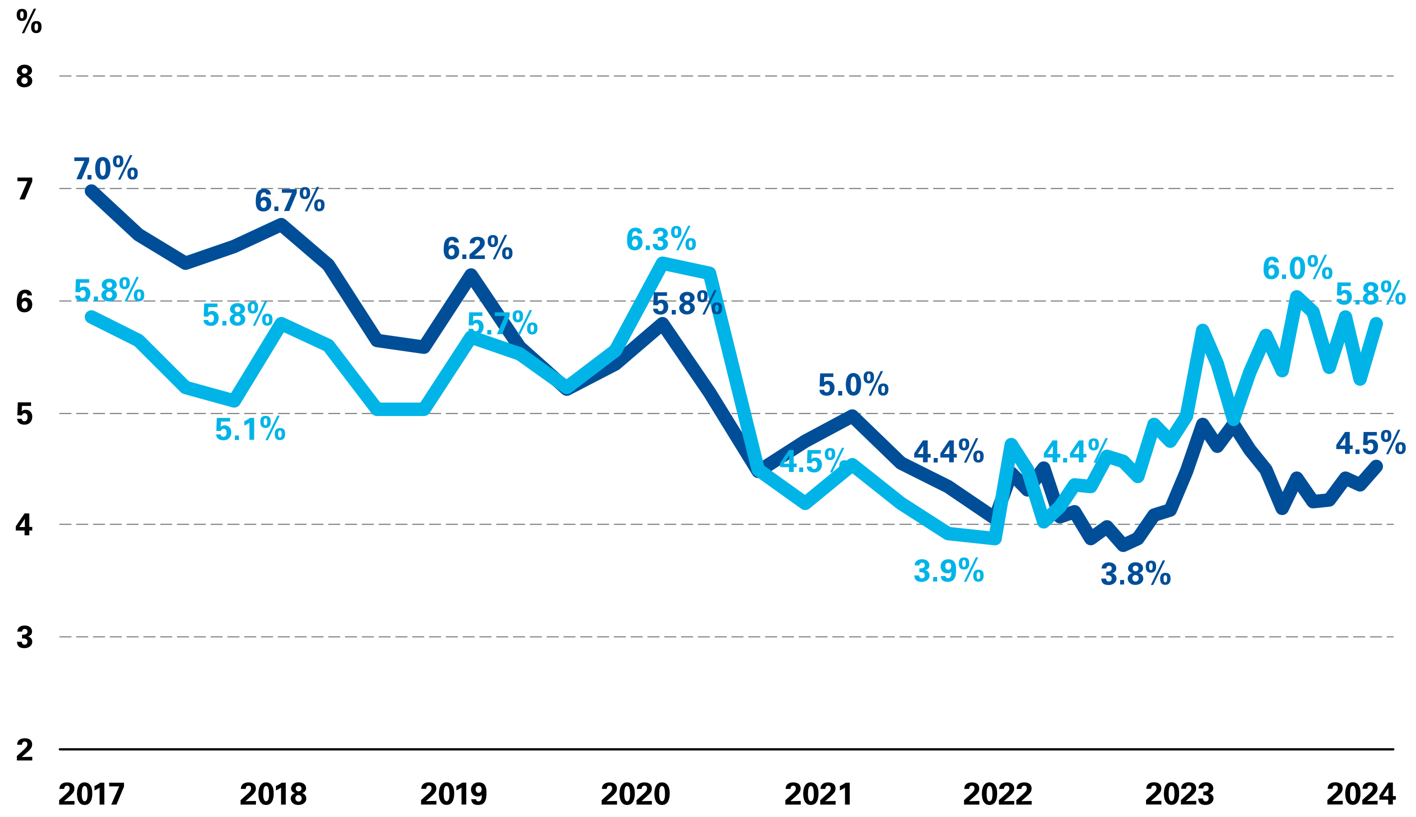
31 HOME LOAN ARREARS



HOME LOAN ARREARS

SOURCE: CENTRIX

33 CREDIT CARD AND AUTO LOANS ARREARS



CREDIT CARD LOANS ARREARS
AUTO LOANS ARREARS

SOURCE: CENTRIX

> “In December 2023, there were over **20,800** mortgages past due – a **21%** year-on-year increase.

In December 2023, there were over 20,800 mortgages past due – a 21% year-on-year increase – which was partially driven by homeowners refixing their mortgages in a landscape of higher interest rates.

31 See Figure 31 – page 37

With the OCR currently at 5.50% and rumours of possible further increases in 2024, this could be a sign of future pain for Kiwi homeowners who may need to refix their mortgage over the next 6 to 12 months.

Furthermore, both telco and utility arrears trended upwards and rounded out 2023 at levels not seen since before the pandemic. This is a similar story for auto loans, which zig zagged up and down throughout the year.

32 See Figure 32 – page 37

33 See Figure 33 – page 37

Discretionary arrears told an interesting story throughout 2023, with both Buy Now, Pay Later (BNPL) products and personal loans reaching record highs in the middle of the year.

34 See Figure 34 – page 39

This could be an indication of Kiwi households turning to these products to help soften the current cost-of-living crisis and subsequently failing to meet their repayment obligations.

While there was a drop towards the end of the year, the Christmas period saw a seasonal uptick in demand for both product types – and as such, an uptick in arrears at the beginning of 2024.

Credit demand and lending trends

Speaking of credit demand, purchasing a new vehicle seems to have been at the top of the minds of many Kiwi consumers as auto loan demand remained high throughout 2023.

We also saw the demand for personal loans and BNPL products spike around November and December 2023.

35 See Figure 35 – page 39

Furthermore, we saw somewhat muted mortgage demand when compared to 2022, which lines up with the subdued housing market.

Despite this, there was a surge in first-home buyer activity towards the end of the year, with this demographic making up almost a quarter (24%) of all new residential mortgage lending in the fourth quarter of 2023.

Overall mortgage lending remained significantly down following the red-hot highs of 2021, while consumer lending zig zagged throughout the year.

36 See Figure 36 – page 39

One of the reasons for this could be due to the conversion rate of credit due to the regulatory changes to the Credit Contracts and Consumer Finance Act 2003 (CCCFA) in 2021, with higher interest rates making the required serviceability levels harder to achieve.

CCCFA trends

In fact, since the CCCFA changes came into effect in December 2021, conversion rates have been on the decline with overall credit conversion rates 11% lower in 2023 compared to 2021.

37 See Figure 37 – page 39

This has been particularly impactful on credit cards and personal loans, although these have stabilised over the last year.

Since taking over as Commerce and Consumer Affairs Minister, Andrew Bayly has committed to reforming the CCCFA and earmarked this project as a priority for the Government.

The changes to this regulation will be simplified, making the Financial Markets Authority responsible for the conduct of finance firms, while the Reserve Bank of New Zealand (RBNZ) will be responsible for the integrity of banks and finance companies.

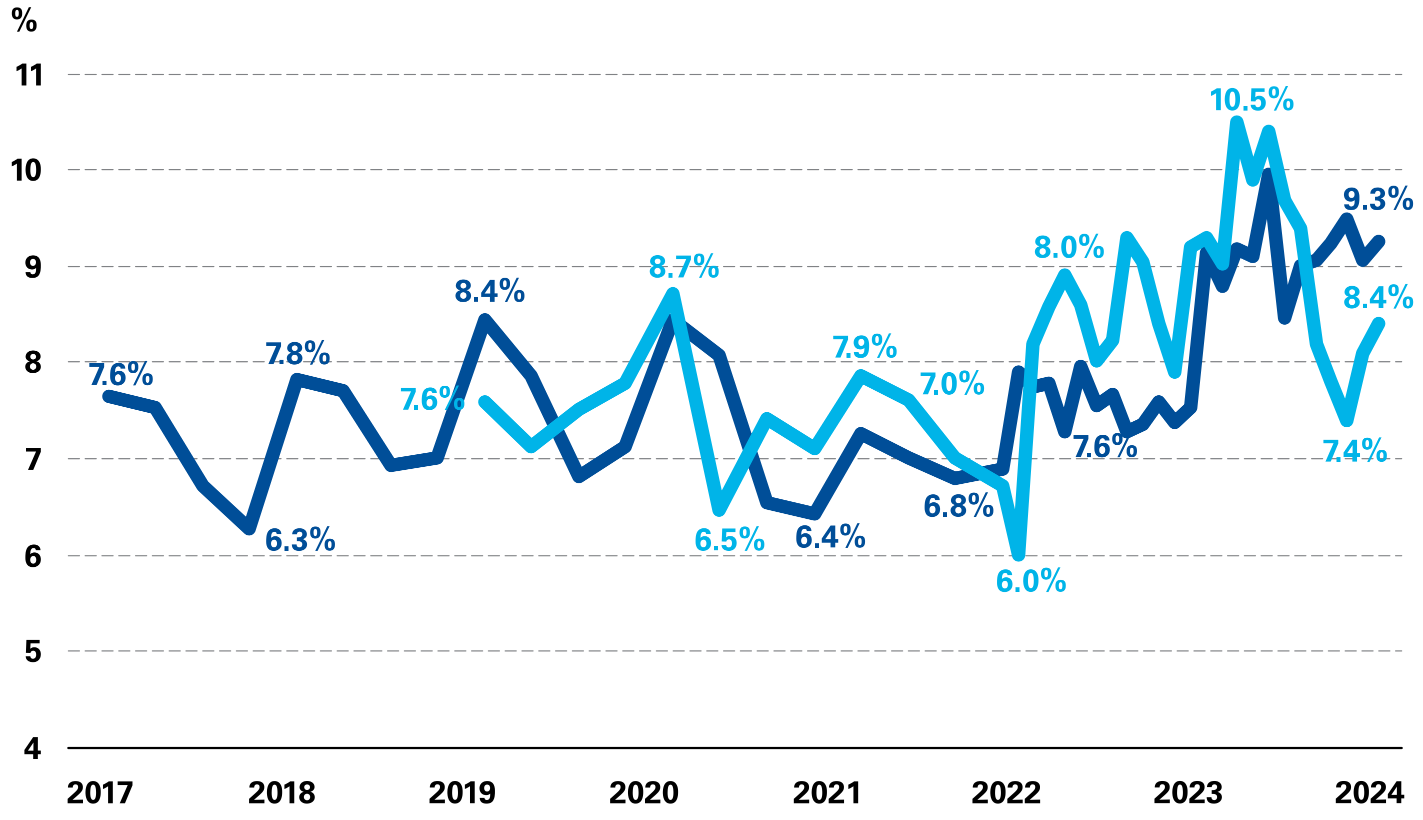
It remains to be seen what impact these changes will have on credit conversion rates in 2024, but it’s something we will be keeping a close eye on.

Business defaults and liquidations trends

It wasn’t just consumers who felt the pinch in 2023. Credit trends for Kiwi businesses also showed a degree of pain as the cost-of-living crisis saw households tightening their purse strings.

There was a marked upswing in business credit defaults, beginning towards the end of 2022 and continuing throughout 2023. In December

34 PERSONAL LOANS AND BNPL ARREARS

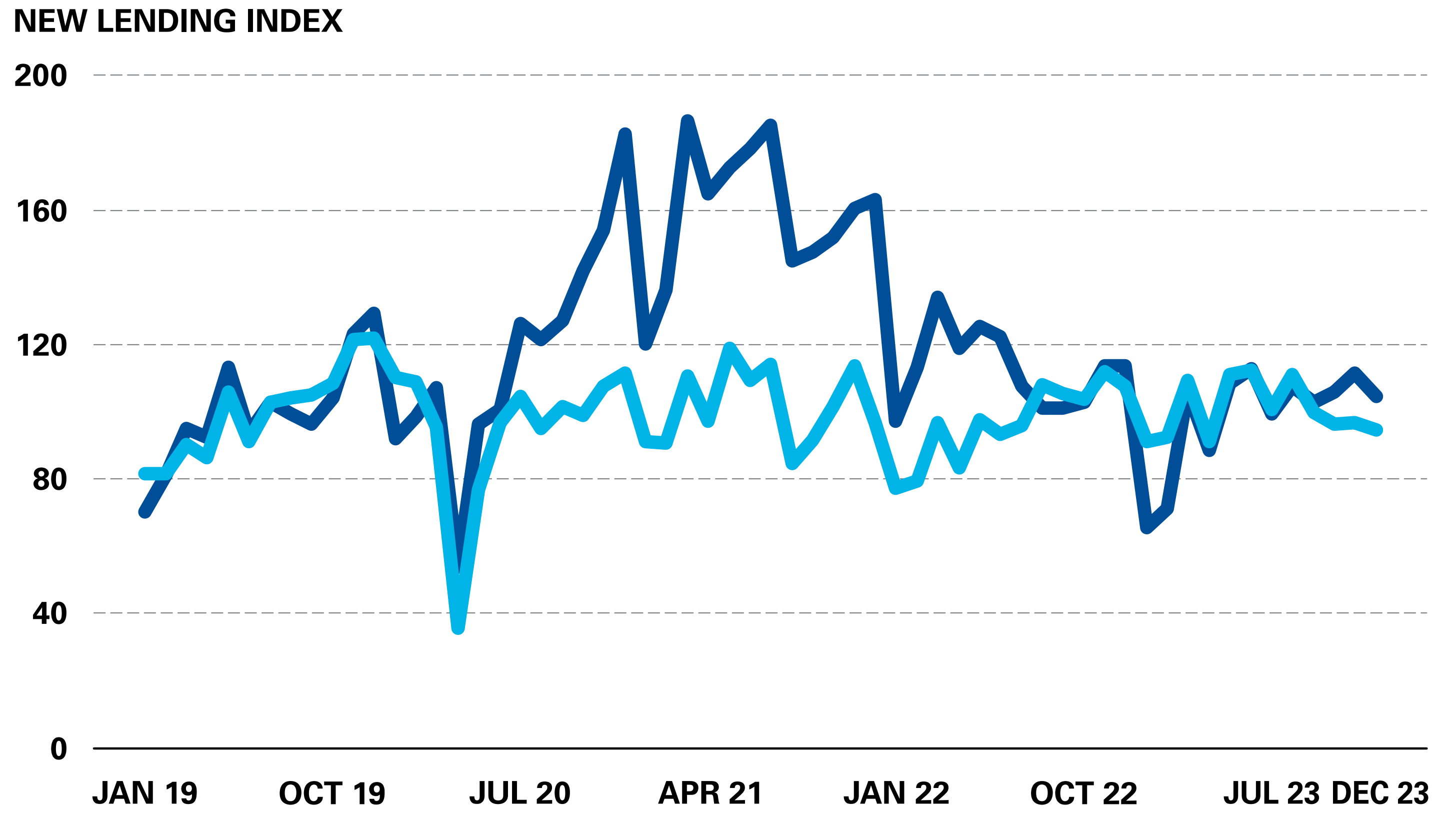


PERSONAL LOANS ARREARS

BNPL ARREARS

SOURCE: CENTRIX

36 NEW CONSUMER LENDING (INDEXED TO 2019)

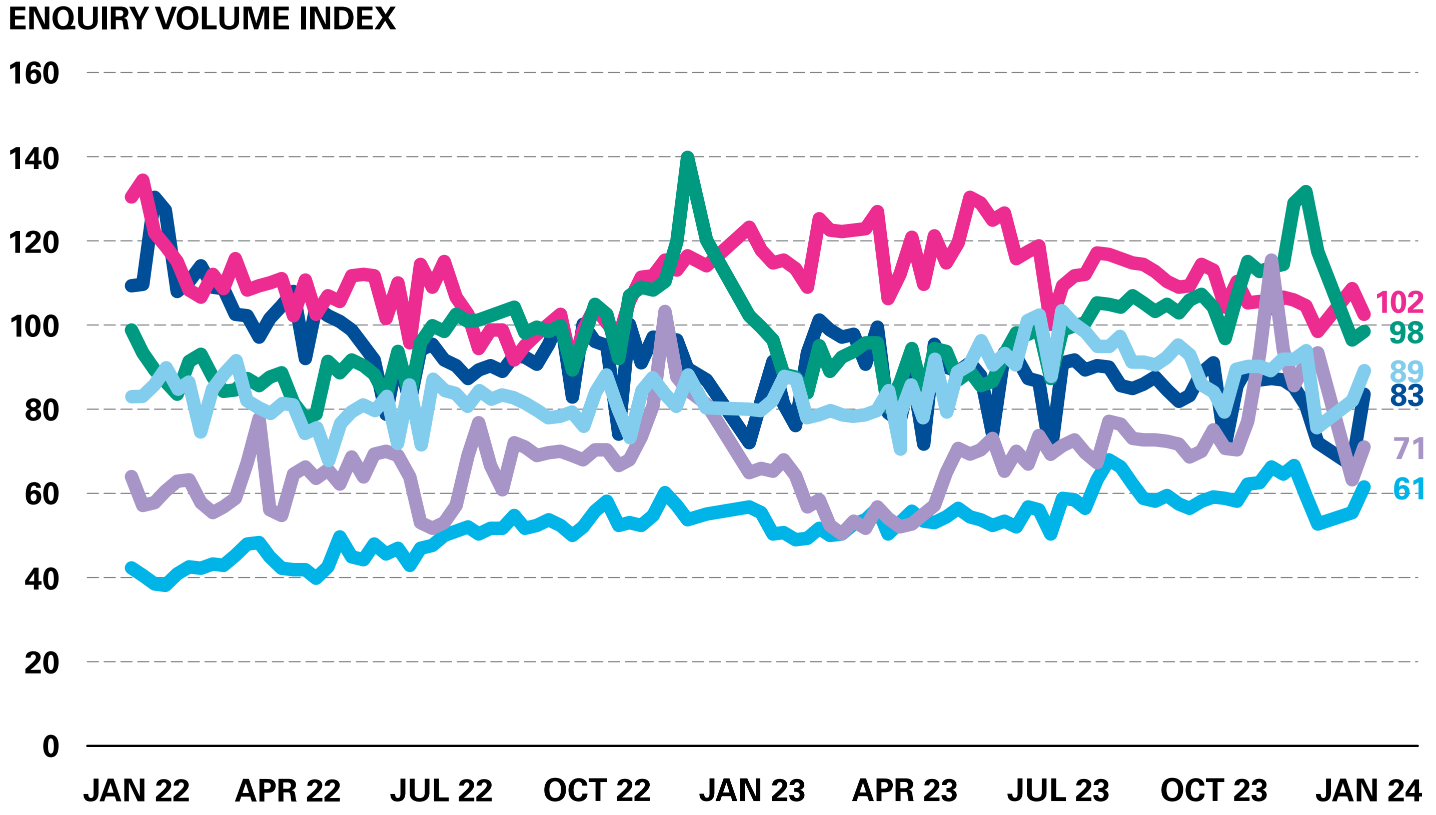


RESIDENTIAL MORTGAGES

NON-MORTGAGES

SOURCE: CENTRIX

35 CREDIT DEMAND BY PRODUCT TYPE



MORTGAGES

CREDIT CARDS

AUTO LOANS

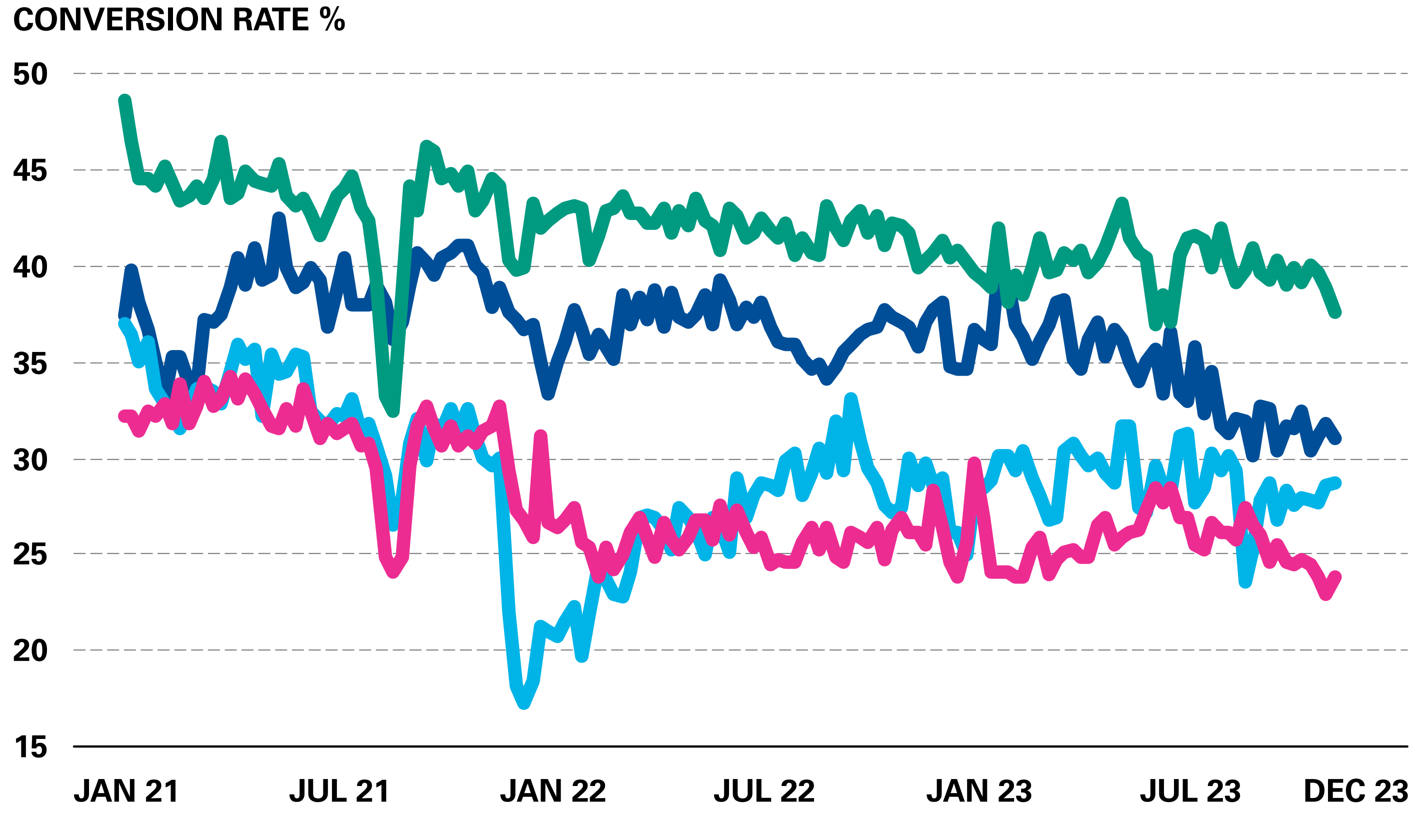
PERSONAL LOANS

BNPL

RETAIL ENERGY

SOURCE: CENTRIX

37 CONVERSION RATES BY CREDIT TYPE: OPEN ACCOUNTS AS A PROPORTION OF APPLICATION ENQUIRIES MADE



MORTGAGES

CREDIT CARDS

LOANS

AUTOS

SOURCE: CENTRIX

“The new Government has already started to make changes to reduce regulations and red tape to support economic growth, while all eyes remain on the RBNZ to see what happens next with the OCR in April.

TABLE 8: Change in credit demand, credit defaults, average company liquidations and liquidation rating by sector

Sector	Δ Credit demand	Δ Credit defaults	Average credit score	Δ Average company liquidations	Liquidation rating
Construction	-1%	+22%	763 ↓	+26%	2.2X
Hospitality	+19%	+4%	745 ↓	+13%	2.2X
Retail trade	+8%	+32%	773 ↓	+74%	1.3X
Transport	+7%	+34%	735 ↓	+17%	1.6X
Property/Rental	-5%	+65%	821 ↓	+7%	0.8X
All sectors	+3%	+27%	790 ↓	+16%	1.0X

Note: The above table shows change on a year-on-year basis.

2023, overall business credit defaults were up 27% year-on-year. Credit defaults are a lag indicator, and typically occur several months after the payments have been missed.

38 See Figure 38 – page 41

This trend flowed on to company liquidations, which peaked across July and August 2023. For specific industries in December 2023, all sectors saw defaults and liquidations up year-on-year.

39 See Figure 39 – page 41

Throughout the year, the construction sector has felt the brunt of this challenging environment, with liquidations climbing since the end of 2021.

There are over 85,000 registered companies in the construction sector, making up nearly 12% of all registered companies.

Construction companies are twice more likely to fail (2.2X) than the typical New Zealand business, with 26% of all company liquidations in 2023 coming from this sector.

See **Table 8**.

40 See Figure 40 – page 41

It will be interesting to see how the ongoing cost-of-living crisis and the impact it has on Kiwi households continues to translate for businesses.

Looking forward to 2024

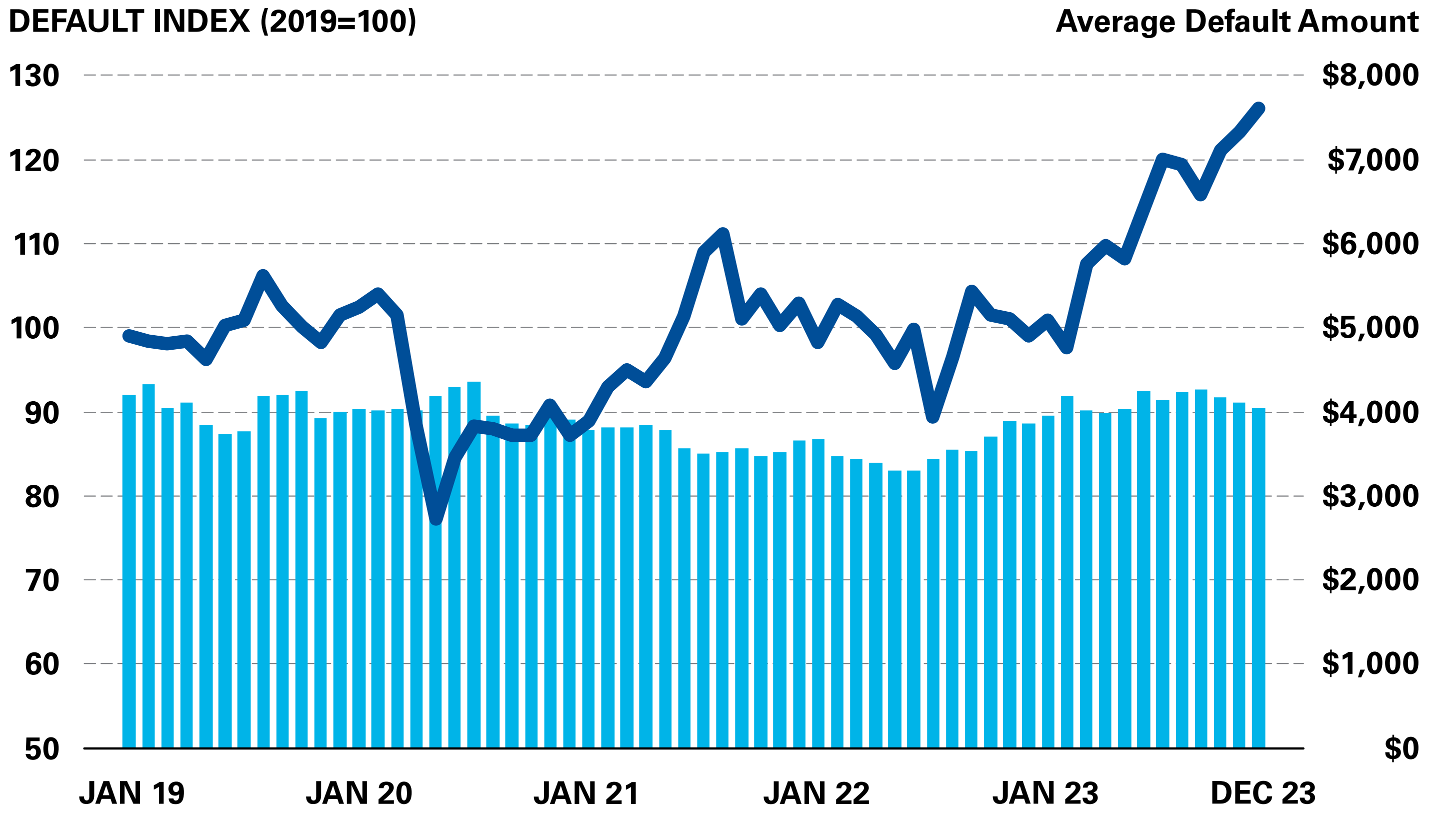
As we turn our attention to 2024, the uncertainty that permeated last year continues to linger for many.

The new Government has already started to make changes to reduce regulations and red tape to support economic growth, while all eyes remain on the RBNZ to see what happens next with the OCR in April.

Depending on who you talk to, the housing market is either warming up or remaining stagnant, while mortgage demand remains subdued and home loan interest rates continue to stay high.

It seems 2024 could be another tough year for many Kiwi households and businesses alike. It's going to be essential to extend understanding for people's financial situations and offer support to anyone falling behind on their repayment obligations.

38 BUSINESS CREDIT DEFAULTS: UP 27% YEAR-ON-YEAR 2022 TO 2023

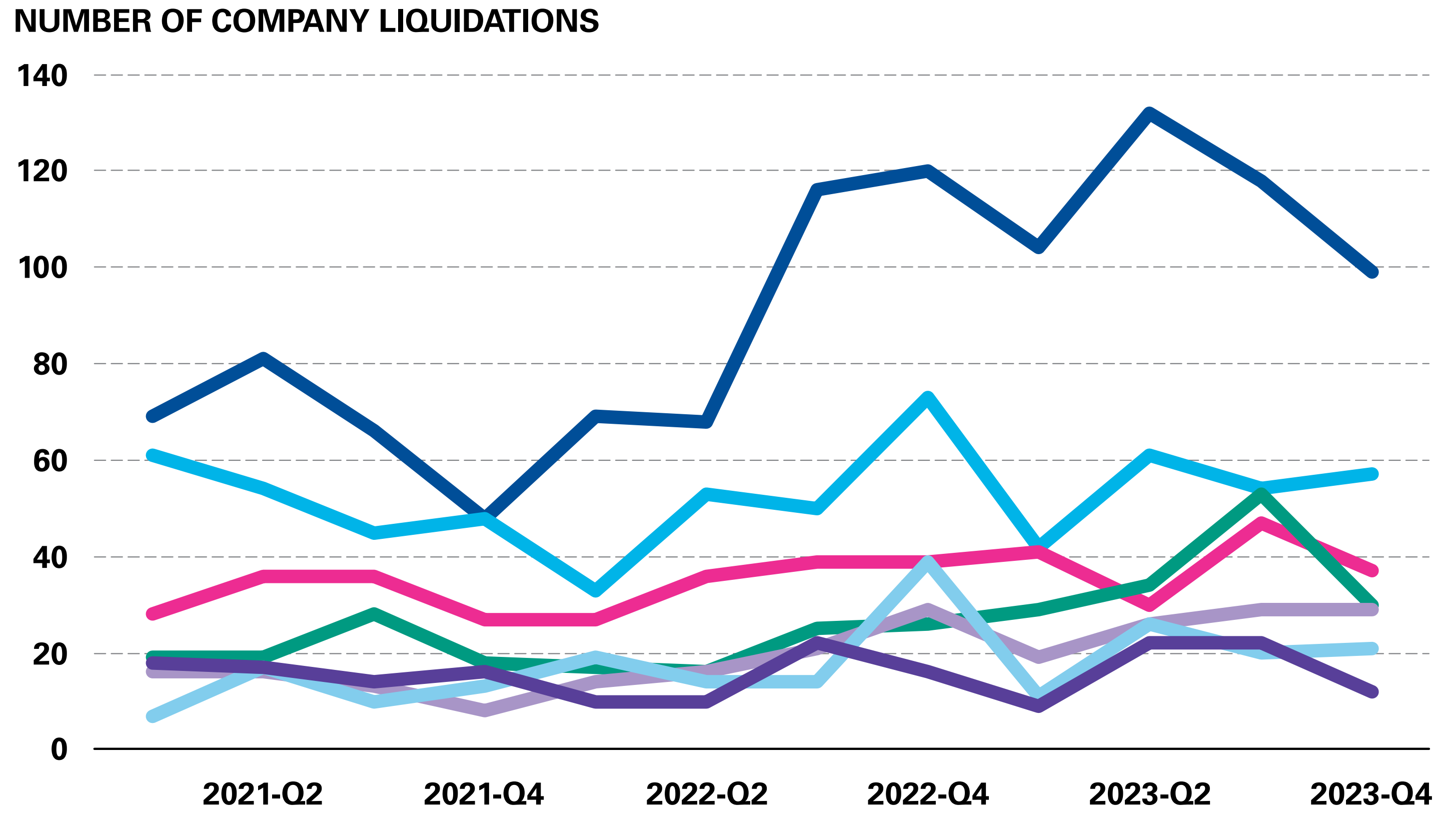


DEFAULT INDEX (LHS)

AVERAGE DEFAULT AMOUNT $ (RHS)

SOURCE: CENTRIX

40 NEW ZEALAND COMPANY LIQUIDATIONS BY INDUSTRY



CONSTRUCTION

PROPERTY

HOSPITALITY

RETAIL

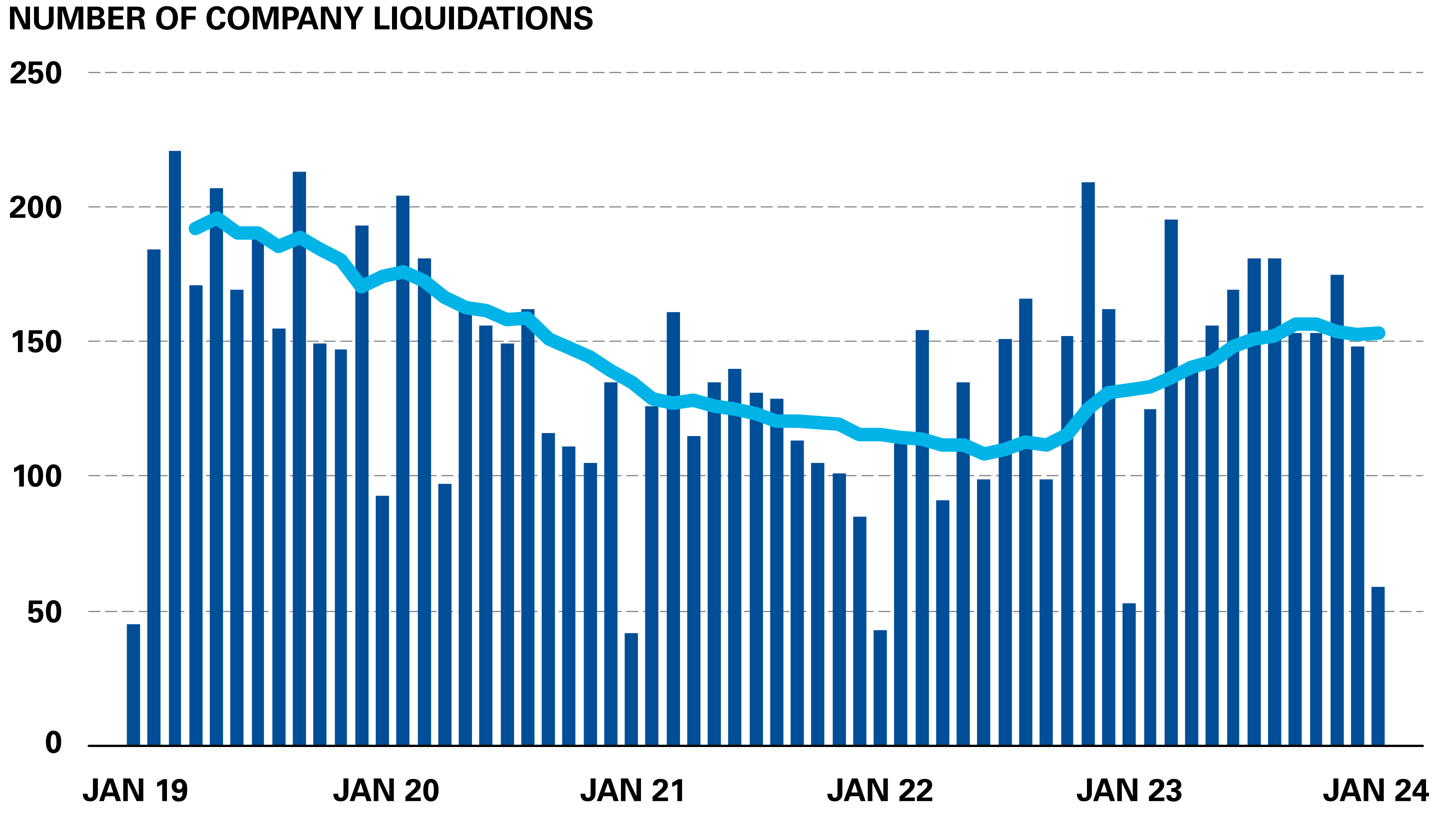
MANUFACTURING

FINANCIAL SERVICES

TRANSPORTATION

SOURCE: CENTRIX

39 COMPANY LIQUIDATIONS: UP 16% YEAR-ON-YEAR 2022 TO 2023



LIQUIDATIONS

ROLLING AVERAGE

SOURCE: CENTRIX

Massey University: Banking industry review and forecasts

> **We were in a recession for the first half of the year and might be in another technical recession.**

Dr Christoph Schumacher
Professor of Innovation and Economics
Massey University

MASSEY UNIVERSITY
TE KUNENGA KI PŪREHUROA
UNIVERSITY OF NEW ZEALAND

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

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

> **According to the standard view, the past is fixed, what happened happened, it cannot be undone, and the future is open, it depends on unpredictable contingencies. What we should propose here is a reversal of this standard view: the past is open to retroactive reinterpretations, while the future is closed, since we live in a determinist universe. ... This does not mean that we cannot change the future; it just means that, in order to change our future, we should first (not 'understand' but) change our past, reinterpret it in a way that opens up toward a different future from the one implied by the predominant vision of the past.**
>
> Slavoj Žižek, The Parallax View

For our economy, 2023 wasn't a particularly good year. Although initially Gross Domestic Product (GDP) growth seemed not terrible (-0.5%, 0%, 0.9% and -0.3% quarter over quarter growth in Q4, 2022; Q1, Q2 and Q3, 2023 respectively), after a revision of the values by Statistics New Zealand, the more accurate values of -0.6%, -0.2%, 0.5% and -0.3% (quarter over quarter growth in Q4, 2022; Q1, Q2 and Q3, 2023 respectively) mean that we were in a recession for the first half of the year and might be in another technical recession once the December quarter value is announced.

Inflation has steadily fallen in 2023 from 7.2% in the December quarter of 2022 to 4.7% in the December quarter of 2023, but we are still far away from the Reserve Bank of New Zealand's (RBNZ) midpoint target value of 2%.

Even more worrying is that non-tradable inflation, contributing 60% to our overall inflation value, came in higher than expected at 5.9% (Q4, 2023). Unlike tradable inflation, which is a measure of price increases of goods and services we import and export, non-tradable inflation covers goods provided and produced locally, such as medical treatments, electricity, hairdressing or government services. These goods are not exposed to international competition, and the prices of these items should be determined by domestic supply and demand. Therefore, non-tradable inflation highlights either domestic shortages or excess supply and provides a better picture of our economy.

The RBNZ's response to high inflation levels was a steady increase of the Official Cash Rate (OCR) from 1.0% in February 2022 to the current level of 5.5%. The hawkish monetary policy of the RBNZ has taken the pressure off our overheating economy and has put a lid on inflation, but at the cost of economic growth and financial pressure on households that have to service debt.

2023 was another very good year for the banking sector, although the ride was a bit bumpier. Quarterly before-tax profits in the December 2022 quarter were very strong, reaching $2.62 billion, the highest on record. What followed was a drop in Q1, 2023 to $2.30 billion with a recovery to $2.57 billion in Q2, 2023 and a mild drop to $2.55 billion in Q3, 2023. Expectations are that the calendar year will end on a similar value. The corresponding after-tax profits are $1.88 billion, $1.66 billion, $1.85 billion and $1.83 billion. Annualised before-tax profits (Q4, 2022 to Q3, 2023) were $10.04 billion, the same record-breaking value as for the same reporting period a year earlier.

TABLE 9: Forecasting results VAR

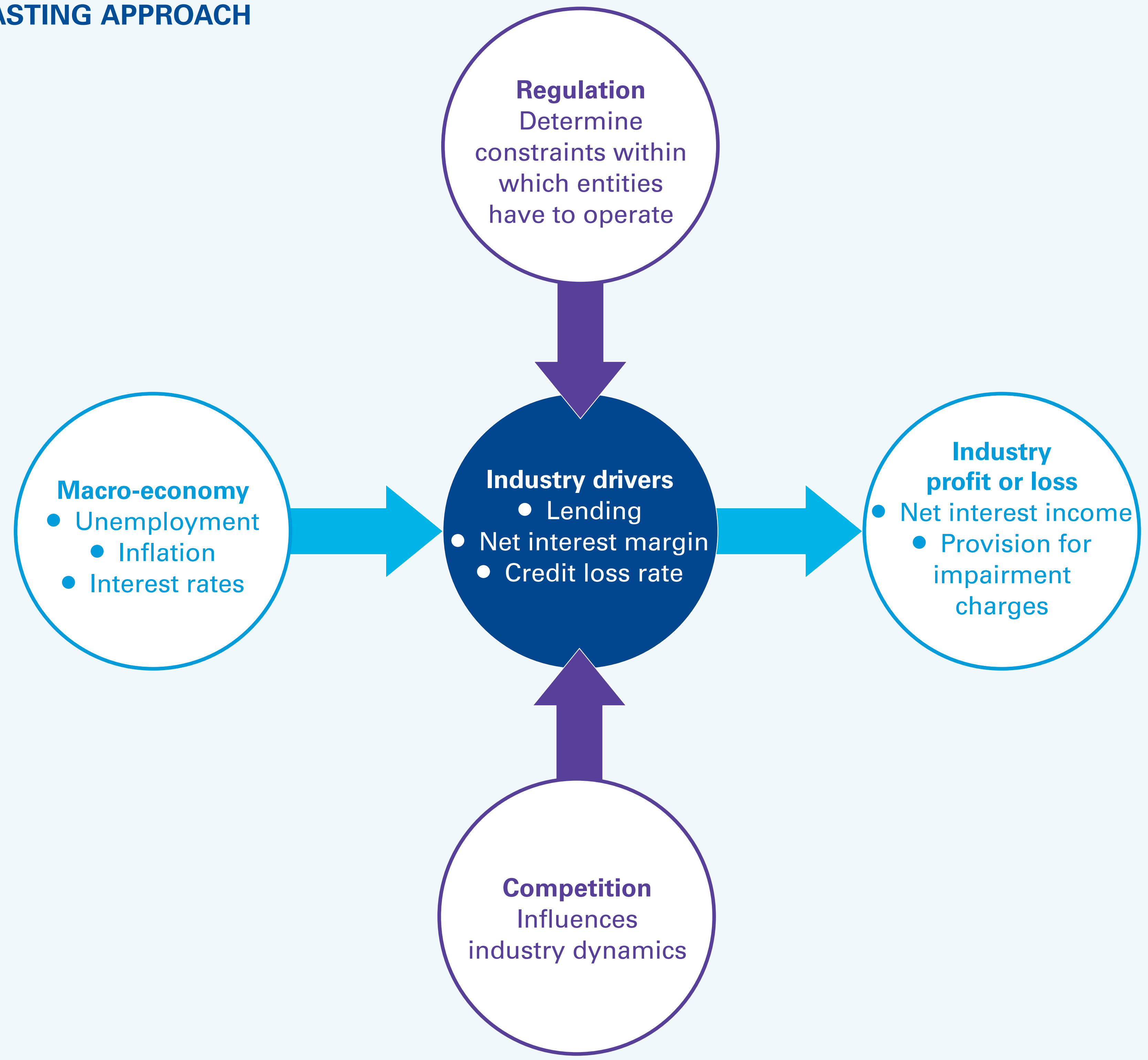
VAR industry driver		2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
		Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Lending ($Billion)	Upper CI								679	685	691	697	704
	Forecast	633	639	650	666	654	660	665	664	668	671	674	675
	Lower CI								650	652	651	652	652
Net interest margin (%)	Upper CI								2.48%	2.53%	2.56%	2.59%	2.61%
	Forecast	2.05%	2.17%	2.31%	2.37%	2.35%	2.38%	2.34%	2.32%	2.31%	2.30%	2.30%	2.30%
	Lower CI								2.18%	2.11%	2.07%	2.04%	2.02%
Credit loss rate (%)	Upper CI								0.13%	0.15%	0.18%	0.20%	0.20%
	Forecast	0.00%	0.00%	0.00%	0.05%	0.10%	0.10%	0.10%	0.08%	0.07%	0.07%	0.07%	0.07%
	Lower CI								0.04%	-0.01%	-0.05%	-0.07%	-0.07%
Profit before tax ($Billion)	Upper CI								2.92	3.07	3.13	3.17	3.19
	Forecast	2.49	2.55	2.61	2.62	2.30	2.57	2.55	2.55	2.58	2.60	2.61	2.63
	Lower CI								2.17	2.10	2.06	2.06	2.07

Note: See technical appendix in **Table 10** and **Figure 41** for further details.

TABLE 10: List of macro-economic indicators

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

41 FORECASTING APPROACH



The profit figures explain the industry's key performance measures briefly. Quarterly lending, which drives banking profits, very much mimicked profit values. A strong Q4 2022 value of $666 billion was followed by a drop in Q1 2023 to $654 billion and a recovery to $660 billion and $665 billion in Q2 and Q3 2023 respectively. Expectations are that we will see a small reduction in lending in the final quarter of 2023.

Net interest margins fluctuated over the year from 2.37%, 2.35%, and 2.38% to 3.34% from Q4 2022 to Q3 2023 respectively. The credit loss rate rose marginally in the first quarter of 2023 from 0.05% to 0.10% and remained there for the rest of the year. Given the minor changes in net interest margin and credit loss rate, the strong overall performance of the banking sector is a result of solid lending books.

> **"The New Zealand economic environment has been volatile due to unprecedented events.**

Let's set the stage before looking at what 2024 might have in stock for the banking sector. The New Zealand economic environment has been volatile due to unprecedented events. We have seen major global supply chain disruptions and labour shortages. At the same time, the Government stimulated the economy with monetary and fiscal support while the RBNZ increased the OCR faster than we have ever seen before. Then came the extreme weather events in early 2023 and very volatile commodity prices.

The RBNZ has confirmed that it will do what is necessary to create excess capacity in our economy and return inflation to target levels of 1-3%. This suggests that the OCR will remain high and might even increase if record net migration numbers and geopolitical crises put pressure on domestic supply. Statistics New Zealand figures show that 245,600 migrants arrived in New Zealand in 2023, while 116,700 people left. This is an increase of 165% from the arrival figures of the previous year, while only 26% more left. Both migrant arrivals and net migration gain are the highest annual values on record.

We also might see global supply chain issues re-emerge. Approximately 12-15% of the world's trade and 25-30% of container traffic typically passes through the Suez Canal, a crucial waterway currently facing potential threats due to Middle East conflicts. While vessels can still navigate the Suez Canal and the Red Sea, the daily volume of shipping containers passing through the Suez has sharply declined, dropping from 500,000 shipping containers in November 2023 to 200,000 in December 2023. Consequently, shipping container freight prices have experienced a significant increase, though not reaching the levels observed during the Covid-19 pandemic. A substantial disruption in global supply chains and the subsequent rise in transportation costs would exert pressure on prices, increasing tradable inflation.

The 2023 strong net migration will reignite a cooling housing market, especially in Auckland, where most immigrants tend to settle. While Auckland house price inflation fell steeply

> **"Both migrant arrivals and net migration gain are the highest annual values on record.**

> Overall, economic sentiment is improving, with consumer confidence recovering from very pessimistic levels due to softening inflation. Business sentiment is also rising, with most indicators back in the black.

during 2022, it has risen again since 2023. The expectation is that the housing market will get stronger in 2024.

Overall, economic sentiment is improving, with consumer confidence recovering from very pessimistic levels due to softening inflation. Business sentiment is also rising, with most indicators back in the black.

The banking industry is looking at another good year as profits are expected to grow at a similar pace as in 2023. The impact of the net migration surge and the recovering housing market will ensure healthy lending volumes. Profits should remain high with reasonably constant net interest margins and low loss rates.

I use a combination of macroeconomic variables and time-series analysis to forecast the industry's key performance measures, lending volume, net interest margins, credit loss rate and before-tax profit. The model uses a collection of past values of our drivers, a vector of time series, to predict future values. Specifically, I employ a vector autoregressive model (VAR) as it enables me to investigate how the interaction between the variables changes the forecast. Macroeconomic indicators are not explicitly used in the VAR model as the impact of these indicators is already factored into past values of the performance drivers. The results of my analysis are displayed in Table 9.

41 See Figure 41 – page 44

Our model suggests that lending will grow steadily from $668 billion in Q1 2024 to $675 billion in Q4 2024. While high interest rates are slowing lending growth down, the impact of net positive migration figures is pushing these values up.

42 See Figure 42 – page 46

Net interest margins[13] are expected to fall during 2024 from 2.32% in Q3 2023 to around 2.30% in Q4 2024 due to the higher cost of money and increased interest expenses.

43 See Figure 43 – page 46

The credit loss rate[14] grew marginally in 2023 to 0.10% and is expected to remain at similar levels in 2024. The New Zealand banking sector has been conservative in lending, keeping the loss rate low. Given the decrease in Consumer Price Index (CPI) inflation and the new Government's promise of stimulatory fiscal policies, we anticipate the credit loss rate to marginally drop to 0.07% by the end of the year.

44 See Figure 44 – page 46

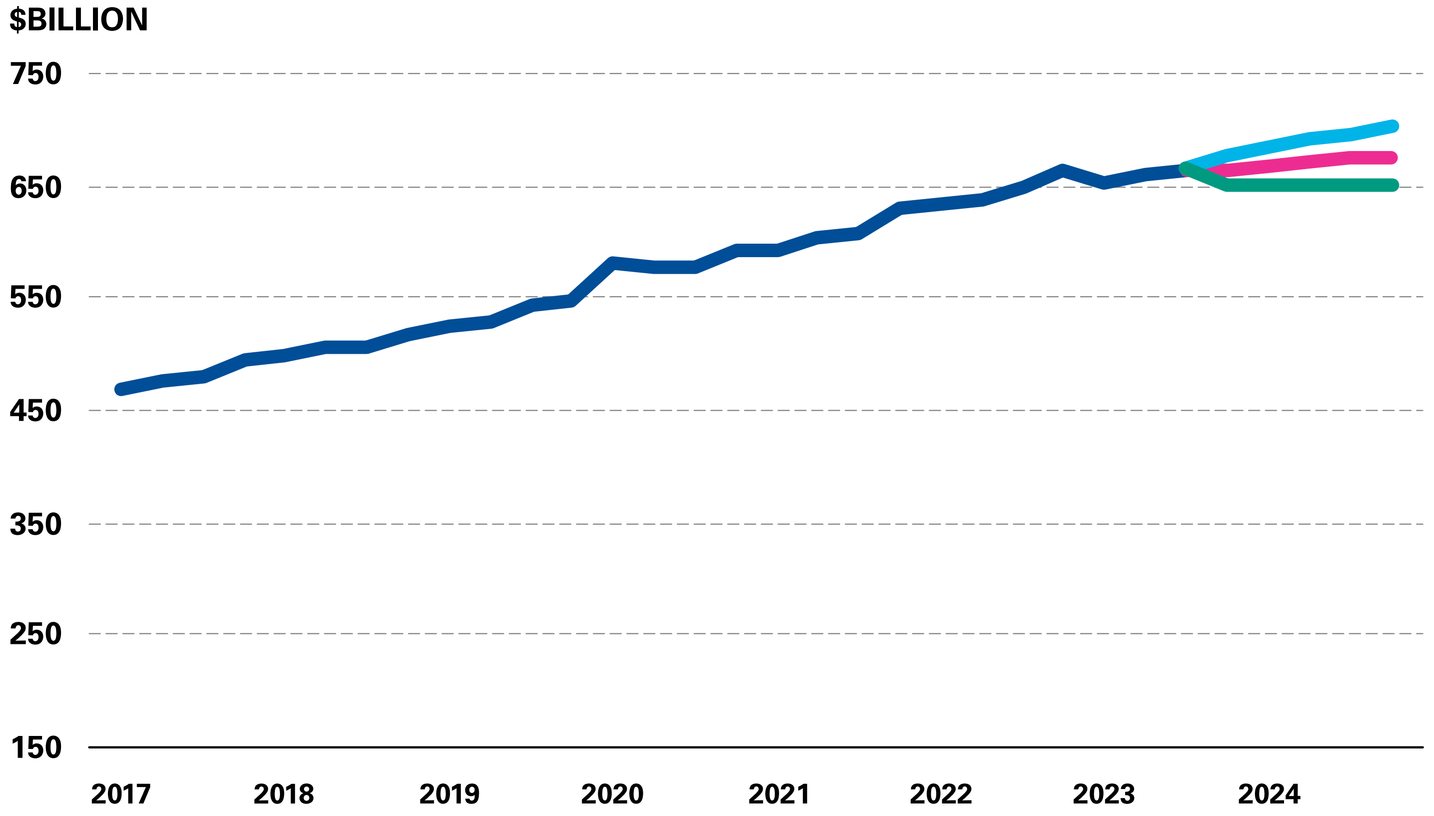
Banking profits reached record highs in 2022, and 2023 was more of the same. Our model suggests that profits will remain high with a growth momentum similar to the second half of 2023. We expect before-tax profits to rise from $2.55 billion in Q3 2023 to $2.63 billion by the end of 2024.

45 See Figure 45 – page 46

To sum up, expansionary fiscal policy, surging net migration, and a turning housing market will boost our struggling economy. However, the RBNZ's contractionary monetary policy, a looming global supply chain disruption and softer global demand will try to put a spanner into the recovery process. For our economy, 2024 will not be an easy year.

The outlook for the banking industry is more optimistic as banks will benefit from the record number of people settling down in New Zealand. For New Zealand's economy to get back on track, we need a strong banking sector and our numbers suggest that the banking industry is in very good shape.

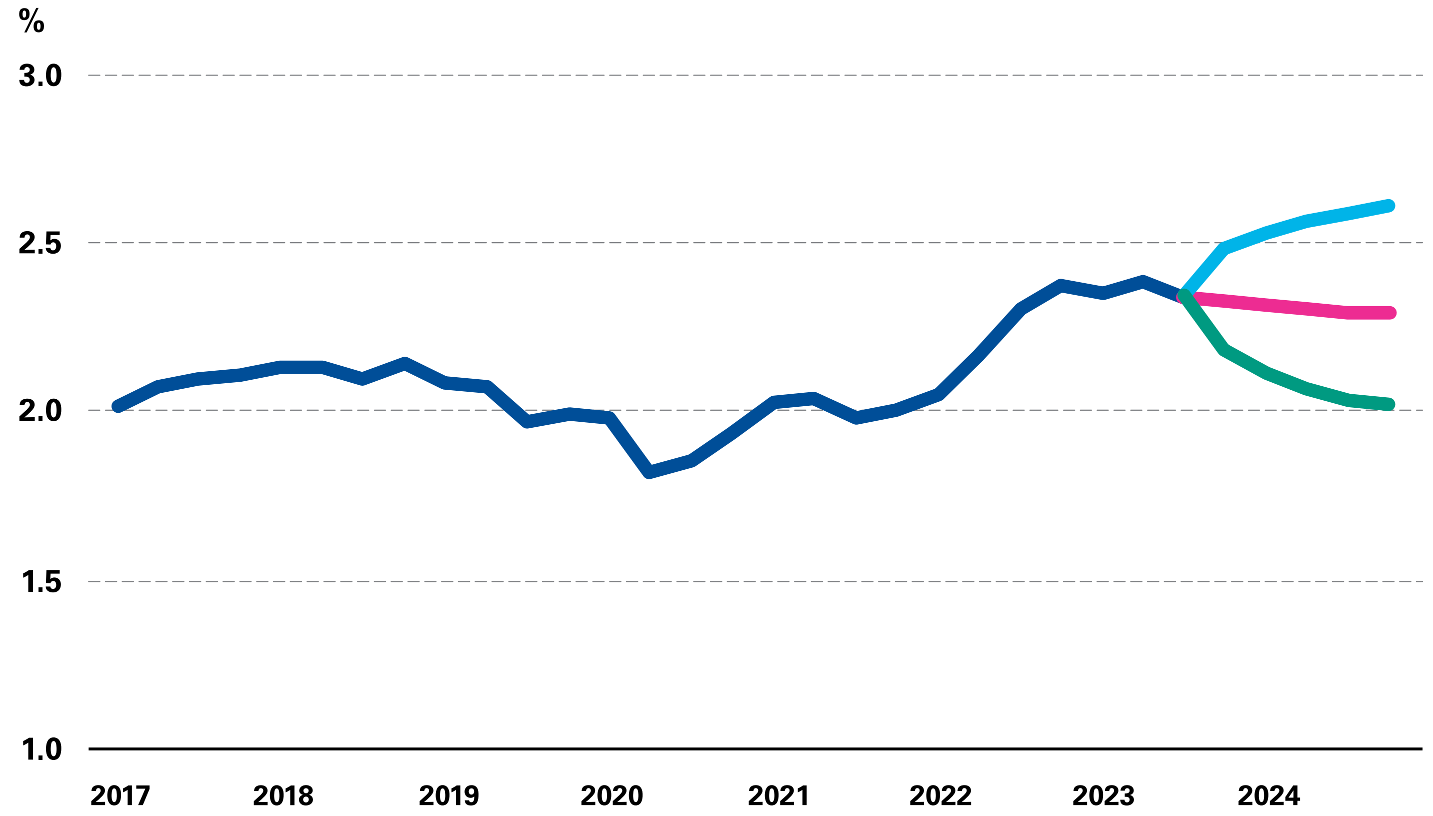
42 VAR INDUSTRY LENDING



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

SOURCE: MASSEY UNIVERSITY

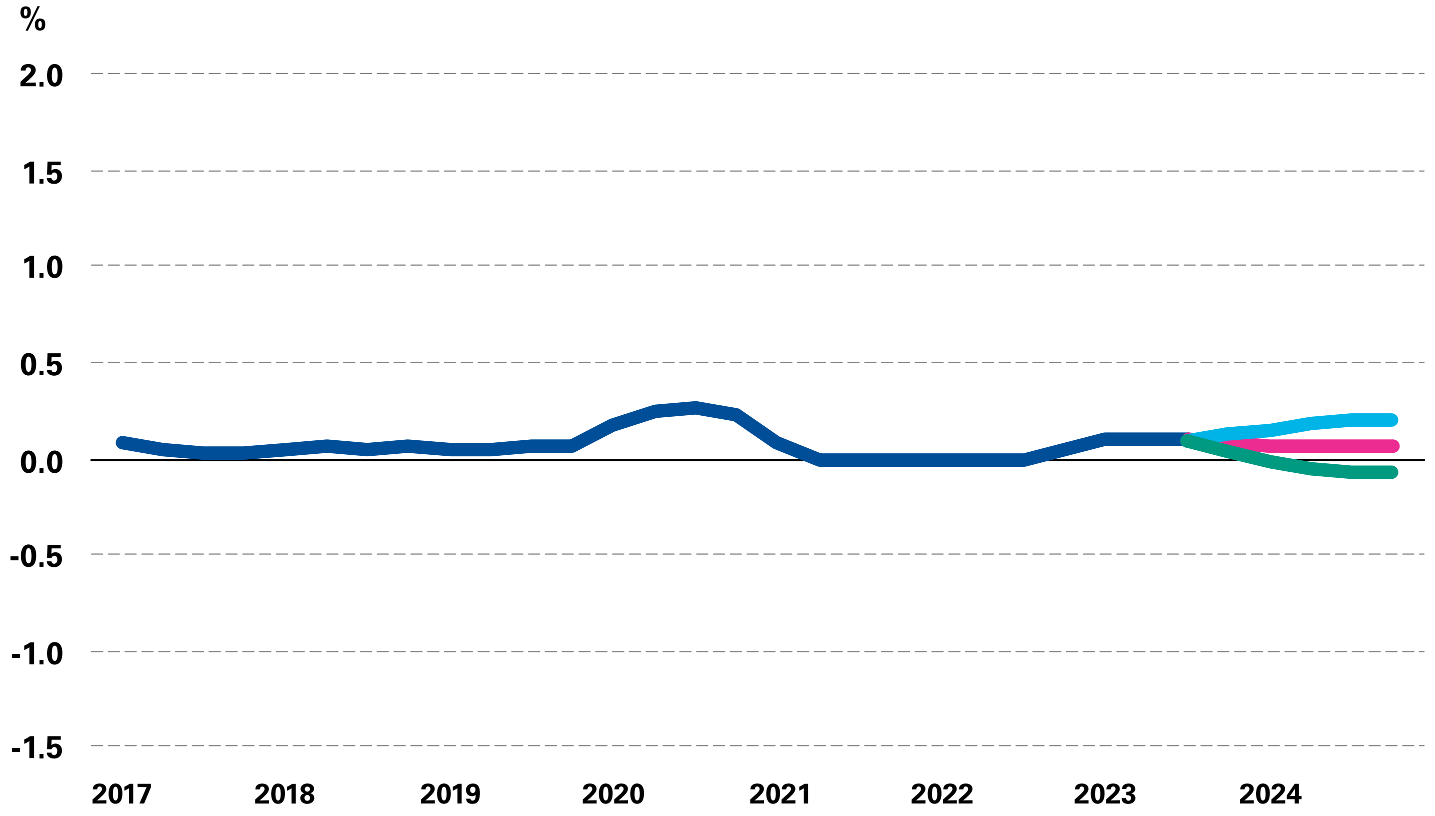
43 VAR INDUSTRY NET INTEREST MARGIN



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

SOURCE: MASSEY UNIVERSITY

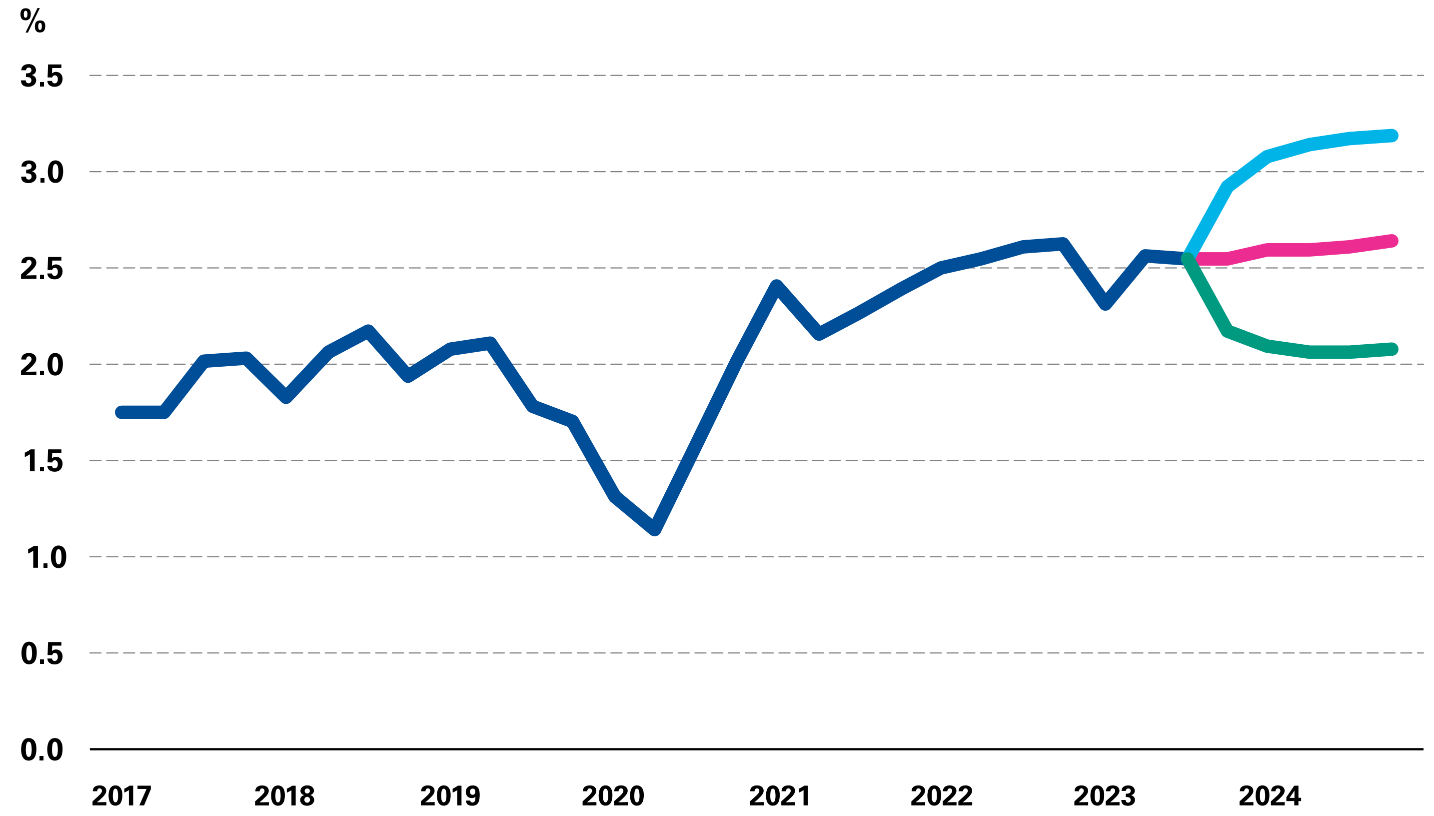
44 VAR CREDIT LOSS RATE



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

SOURCE: MASSEY UNIVERSITY

45 VAR PROFIT BEFORE TAX



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

SOURCE: MASSEY UNIVERSITY

Analysis of annual results

Analysis of financial statements					Size & strength measures									Growth measures		
Entity[7]	Location of head office	Reporting date	Survey year	Rank by total assets	Total assets* $Million	Net assets $Million	Total capital adequacy ratio %	Tier 1 capital adequacy ratio %	Net loans and advances $Million	Customer deposits $Million	Number of employees	Number of branches	Number of owned ATMS	Increase in net profit after tax %	Increase in underlying profit %	Increase in total assets %
Australia and New Zealand Banking Group Limited – ANZ New Zealand	Wellington	30/09/23	2023	1	191,507	13,603	21.00	15.20	150,297	132,527	7,244	103	480	(5.57)	(5.74)	(3.45)
		30/09/22	*2022*	*1*	*198,357*	*12,940*	*18.20*	*14.00*	*147,942*	*130,329*	*7,280*	*110*	*489*	*19.80*	*19.91*	*8.99*
Bank of Baroda (New Zealand) Limited	Auckland	31/03/23	2023	20	138	52	61.18	61.18	118	83	14	2	-	35.14	33.16	(5.19)
		31/03/22	*2022*	*20*	*146*	*51*	*61.24*	*61.24*	*124*	*92*	*14*	*2*	*2*	*31.77*	*36.06*	*(1.53)*
Bank of China New Zealand Banking Group	Auckland	31/12/22	2023	10	6,194	328	17.17	13.90	4,767	971	119	1	-	(24.39)	(24.38)	14.95
		31/12/21	*2022*	*10*	*5,388*	*306*	*16.53*	*13.32*	*4,520*	*804*	*108*	*1*	-	*40.62*	*42.18*	*8.50*
Bank of India (New Zealand) Limited	Auckland	31/03/23	2023	19	153	61	45.00	45.00	132	19	12	2	-	16.07	12.98	1.33
		31/03/22	*2022*	*19*	*151*	*59*	*51.00*	*51.00*	*108*	*13*	*10*	*2*	-	*84.30*	*84.68*	*48.51*
Bank of New Zealand	Auckland	30/09/23	2023	3	130,050	11,845	15.70	14.60	102,624	78,502	5,400	99	332	6.72	7.96	(1.03)
		30/09/22	*2022*	*3*	*131,405*	*11,046*	*15.40*	*13.80*	*100,066*	*74,205*	*5,246*	*104*	*543*	*6.96*	*7.89*	*10.33*
China Construction Bank Corporation New Zealand Banking Group	Auckland	31/12/22	2023	14	4,661	325	18.67	14.60	3,268	463	n/a	n/a	n/a	20.06	21.25	6.51
		31/12/21	*2022*	*13*	*4,376*	*287*	*17.25*	*13.96*	*3,427*	*415*	*n/a*	*n/a*	*n/a*	*98.69*	*96.86*	*32.16*
Citibank, N.A. New Zealand Branch and Associated Banking Group	Auckland	31/12/22	2023	17	2,703	161	16.45	15.12	334	1,613	25	-	-	81.10	80.56	9.25
		31/12/21	*2022*	*17*	*2,474*	*150*	*16.40*	*14.80*	*231*	*1,288*	*24*	-	-	*18.12*	*19.91*	*12.04*
Commonwealth Bank of Australia New Zealand Operations	Auckland	30/06/23	2023	4	129,521	11,578	20.00	14.50	111,494	79,260	6,163	86	373	11.29	11.16	3.16
		30/06/22	*2022*	*4*	*125,553*	*9,645*	*17.60*	*13.60*	*108,765*	*76,198*	*6,041*	*86*	*388*	*15.59*	*14.11*	*4.17*
Coöperatieve Rabobank U.A. New Zealand Banking Group	Wellington	31/12/22	2023	6	19,512	2,521	21.10	18.00	16,098	5,735	514	28	-	(7.49)	(7.51)	9.92
		31/12/21	*2022*	*6*	*17,751*	*2,340*	*22.60*	*19.20*	*14,815*	*5,543*	*498*	*28*	-	*72.51*	*72.40*	*1.47*
Heartland Bank Limited	Auckland	30/06/23	2023	13	5,532	699	14.71	12.68	4,879	4,131	525	4	-	(22.39)	(21.70)	7.94
		30/06/22	*2022*	*12*	*5,125*	*678*	*13.49*	*13.49*	*4,519*	*3,597*	*425*	*4*	-	*34.24*	*28.26*	*16.75*
Industrial and Commercial Bank of China New Zealand Banking Group	Auckland	31/12/22	2023	15	3,625	395	18.86	15.28	2,999	566	90	1	-	51.21	51.17	5.55
		31/12/21	*2022*	*14*	*3,435*	*370*	*17.45*	*14.68*	*2,580*	*601*	*82*	*1*	-	*39.95*	*39.50*	*49.20*

KPMG

Analysis of annual results

Analysis of financial statements					Size & strength measures									Growth measures		
Entity[7]	Location of head office	Reporting date	Survey year	Rank by total assets	Total assets* $Million	Net assets $Million	Total capital adequacy ratio %	Tier 1 capital adequacy ratio %	Net loans and advances $Million	Customer deposits $Million	Number of employees	Number of branches	Number of owned ATMS	Increase in net profit after tax %	Increase in underlying profit %	Increase in total assets %
JPMorgan Chase Bank, N.A., New Zealand Banking Group	Wellington	31/12/22	2023	12	5,889	-	18.70	18.30	83	369	9	-	-	633.15	578.83	128.67
		31/12/21	2022	16	2,576	-	19.50	19.20	16	319	9	-	-	(92.84)	(92.10)	7.98
Kiwibank Limited	Wellington	30/06/23	2023	5	33,838	2,311	14.30	11.70	29,778	25,500	2,282	154	224	33.59	33.15	7.26
		30/06/22	2022	5	31,547	2,202	13.60	12.00	27,817	24,131	1,866	158	219	3.97	(7.54)	11.75
Kookmin Bank Auckland Branch	Auckland	31/12/22	2023	18	829	4	17.46	14.92	585	209	18	1	-	(98.45)	(97.18)	11.93
		31/12/21	2022	18	741	12	17.47	14.98	499	239	18	1	-	86.74	85.33	23.96
MUFG Bank, Ltd., Auckland Branch	Auckland	31/03/23	2023	9	6,864	316	12.58	11.04	4,675	2,164	17	1	-	(15.20)	(17.76)	6.78
		31/03/22	2022	9	6,428	287	12.94	11.11	4,228	2,303	18	1	-	(4.51)	(5.00)	(0.49)
Southland Building Society	Invercargill	31/03/23	2023	11	5,995	497	13.60	12.40	5,060	4,166	538	14	-	(14.76)	(14.44)	15.08
		31/03/22	2022	11	5,209	453	15.40	13.10	4,435	3,469	496	14	-	9.05	8.34	8.03
The Co-operative Bank Limited	Wellington	31/03/23	2023	16	3,343	263	16.60	14.30	2,898	2,834	347	25	-	(8.58)	(9.41)	4.56
		31/03/22	2022	15	3,198	246	17.00	14.60	2,704	2,691	323	26	-	(18.49)	(14.54)	2.41
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	Auckland	31/12/22	2023	8	7,759	6	18.80	16.90	4,726	4,827	222	1	-	28.78	27.48	3.09
		31/12/21	2022	8	7,526	(0)	18.70	16.80	4,395	4,978	226	2	-	27.05	28.44	6.43
TSB Bank Limited	New Plymouth	31/03/23	2023	7	9,150	731	12.93	12.93	7,104	8,314	698	22	38	(47.62)	(45.66)	2.11
		31/03/22	2022	7	8,960	723	13.54	13.54	6,694	8,180	555	22	38	(11.21)	(16.02)	1.96
Westpac Banking Corporation – New Zealand Banking Group	Auckland	30/09/23	2023	2	132,273	10,304	20.50	14.60	100,195	79,783	5,397	112	413	(8.78)	(5.64)	(2.20)
		30/09/22	2022	2	135,255	9,779	18.40	13.40	97,765	77,909	5,402	115	439	22.80	17.92	13.35
Banking sector total			**2023**		**699,537**	**55,999**	**n/a**	**n/a**	**552,113**	**432,037**	**29,634**	**656**	**1,860**	**0.28**	**1.13**	**0.57**
			2022		**695,602**	**51,572**	**n/a**	**n/a**	**535,651**	**417,304**	**28,641**	**677**	**2,118**	**17.26**	**15.89**	**9.14**

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

Analysis of annual results

Analysis of financial statements		Credit quality measures							Profitability measures											Efficiency measures	
Entity[7]	Survey year	Impaired asset expense $Million	Past due assets $Million	Gross impaired assets $Million	Individual provision for doubtful debts/ Gross impaired assets %	Collective provision/ Net loans and advances %	Total provision for doubtful debts/ Gross loans and advances %	Impaired asset expense/ Average gross loans and advances %	Total operating income $Million	Net interest income/ Average total assets %	Interest margin %	Interest spread %	Non-interest income/ Average total assets %	Net profit after tax $Million	Net profit after tax/ Average equity %	Net profit after tax/ Average total assets %	Underlying profit $Million	Underlying profit/ Average total assets %	Operating expenses**/ Average total assets %	Operating expenses/ Operating income %
Australia and New Zealand Banking Group Limited – ANZ New Zealand	2023	183	661	287	20.91	0.45	0.49	0.12	4,849	2.17	2.35	1.63	0.31	2,171	13.28	1.11	3,003	1.54	0.85	34.30
	2022	*39*	*454*	*146*	*52.74*	*0.38*	*0.44*	*0.03*	*4,880*	*1.98*	*2.14*	*1.88*	*0.59*	*2,299*	*14.79*	*1.21*	*3,186*	*1.68*	*0.87*	*33.91*
Bank of Baroda (New Zealand) Limited	2023	0	-	-	n/a	0.36	0.36	0.05	6	3.46	3.60	2.81	0.57	2	3.84	1.39	3	1.93	2.06	51.18
	2022	*(0)*	-	-	*n/a*	*0.32*	*0.32*	*(0.00)*	*5*	*2.70*	*2.87*	*2.38*	*0.75*	*1*	*2.89*	*0.99*	*2*	*1.40*	*2.05*	*59.49*
Bank of China New Zealand Banking Group	2023	6	-	5	61.12	0.41	0.47	0.14	70	1.11	1.12	0.93	0.09	28	8.69	0.48	38	0.66	0.43	35.74
	2022	*1*	-	*5*	*59.92*	*0.27*	*0.34*	*0.03*	*75*	*1.32*	*1.32*	*1.25*	*0.12*	*36*	*12.52*	*0.70*	*51*	*0.98*	*0.44*	*30.53*
Bank of India (New Zealand) Limited	2023	0	-	-	n/a	0.57	0.57	0.09	6	3.64	3.71	2.66	0.24	2	4.01	1.58	3	2.16	1.65	42.51
	2022	*(0)*	-	-	*n/a*	*0.59*	*0.59*	*(0.08)*	*5*	*3.78*	*3.92*	*3.30*	*0.27*	*2*	*3.59*	*1.64*	*3*	*2.30*	*1.81*	*44.71*
Bank of New Zealand	2023	172	364	144	53.47	0.83	0.91	0.17	3,497	2.22	2.42	1.64	0.46	1,509	13.17	1.15	2,184	1.67	0.87	32.63
	2022	*89*	*264*	*167*	*55.09*	*0.72*	*0.81*	*0.09*	*3,131*	*2.00*	*2.19*	*1.93*	*0.50*	*1,414*	*13.50*	*1.13*	*2,023*	*1.62*	*0.81*	*32.55*
China Construction Bank Corporation New Zealand Banking Group	2023	3	-	-	n/a	0.45	0.45	0.08	80	1.53	1.54	1.37	0.24	42	13.68	0.93	59	1.30	0.42	23.49
	2022	*0*	-	-	*n/a*	*0.44*	*0.44*	*0.01*	*67*	*1.59*	*1.60*	*1.50*	*0.15*	*35*	*12.93*	*0.91*	*48*	*1.26*	*0.48*	*27.42*
Citibank, N.A. New Zealand Branch and Associated Banking Group	2023	0	-	-	n/a	0.30	0.30	0.17	64	1.03	1.04	0.94	1.43	29	18.68	1.12	41	1.57	0.87	35.38
	2022	*(0)*	-	-	*n/a*	*0.22*	*0.22*	*(0.02)*	*41*	*0.41*	*0.42*	*0.41*	*1.34*	*16*	*9.61*	*0.69*	*23*	*0.96*	*0.79*	*45.12*
Commonwealth Bank of Australia New Zealand Operations	2023	62	256	321	23.36	0.48	0.54	0.06	3,579	2.44	2.48	2.01	0.37	1,617	14.84	1.27	2,320	1.82	0.94	33.45
	2022	*38*	*171*	*212*	*33.02*	*0.45*	*0.51*	*0.04*	*3,248*	*2.09*	*2.12*	*1.92*	*0.55*	*1,453*	*15.16*	*1.18*	*2,087*	*1.70*	*0.91*	*34.58*
Coöperatieve Rabobank U.A. New Zealand Banking Group	2023	2	0	265	0.99	0.16	0.17	0.01	454	2.46	2.51	2.24	(0.02)	193	7.96	1.04	269	1.45	0.98	40.21
	2022	*(27)*	*0*	*323*	*1.23*	*0.15*	*0.18*	*(0.19)*	*435*	*2.36*	*2.41*	*2.30*	*0.11*	*209*	*9.33*	*1.19*	*291*	*1.65*	*0.97*	*39.43*
Heartland Bank Limited	2023	23	72	53	30.46	0.74	1.07	0.49	225	4.03	4.17	3.74	0.20	75	10.37	1.40	106	2.00	1.80	42.58
	2022	*15*	*41*	*66*	*22.67*	*0.78*	*1.11*	*0.35*	*241*	*4.41*	*4.59*	*4.39*	*0.66*	*96*	*14.23*	*2.02*	*136*	*2.86*	*1.90*	*37.49*
Industrial and Commercial Bank of China New Zealand Banking Group	2023	2	-	1	63.74	0.45	0.48	0.08	59	1.69	1.70	1.35	(0.03)	25	6.58	0.71	35	0.99	0.60	36.35
	2022	*3*	-	*5*	*73.49*	*0.44*	*0.59*	*0.12*	*45*	*1.71*	*1.72*	*1.55*	*(0.13)*	*17*	*4.60*	*0.58*	*23*	*0.81*	*0.68*	*43.12*

Analysis of annual results

Analysis of financial statements		Credit quality measures							Profitability measures										Efficiency measures	
Entity[7]	Survey year	Impaired asset expense $Million	Past due assets $Million	Gross impaired assets $Million	Individual provision for doubtful debts/ Gross impaired assets %	Collective provision/ Net loans and advances %	Total provision for doubtful debts/ Gross loans and advances %	Impaired asset expense/ Average gross loans and advances %	Total operating income $Million	Net interest income/ Average total assets %	Interest margin %	Interest spread %	Non-interest income/ Average total assets %	Net profit after tax $Million	Net profit after tax/ Average equity %	Net profit after tax/ Average total assets %	Underlying profit $Million	Underlying profit/ Average total assets %	Operating expenses**/ Average total assets %	Operating expenses/ Operating income %
JPMorgan Chase Bank, N.A., New Zealand Banking Group	2023	0	-	-	n/a	2.46	2.46	0.65	22	0.67	0.67	0.65	(0.14)	7	n/a	0.16	10	0.23	0.29	54.36
	2022	2	-	-	n/a	10.97	10.97	20.65	16	0.84	0.85	0.84	(0.19)	1	n/a	0.04	1	0.06	0.52	79.80
Kiwibank Limited	2023	37	28	8	62.50	0.32	0.34	0.13	816	2.43	2.49	2.00	0.07	175	7.76	0.54	245	0.75	1.63	65.44
	2022	16	17	2	50.00	0.24	0.24	0.06	680	2.11	2.16	1.87	0.17	131	6.67	0.44	184	0.62	1.61	70.59
Kookmin Bank Auckland Branch	2023	0	-	-	n/a	0.10	0.10	0.04	6	0.64	0.68	0.76	0.13	0	1.88	0.02	0	0.05	0.69	90.15
	2022	(0)	-	-	n/a	0.07	0.07	(0.09)	17	2.36	2.42	2.43	0.19	9	98.53	1.38	13	1.92	0.69	26.98
MUFG Bank, Ltd., Auckland Branch	2023	3	-	-	n/a	0.12	0.12	0.06	57	0.37	0.43	0.66	0.48	30	9.83	0.45	36	0.55	0.27	31.43
	2022	3	-	-	n/a	0.07	0.07	0.08	62	0.51	0.57	0.62	0.45	35	12.83	0.54	44	0.68	0.22	23.35
Southland Building Society	2023	13	14	1	35.15	0.67	0.68	0.27	172	2.51	2.60	2.15	0.56	38	7.89	0.68	53	0.95	1.90	61.89
	2022	6	5	1	47.39	0.72	0.73	0.14	164	2.66	2.73	2.50	0.62	45	10.54	0.89	62	1.23	1.93	58.73
The Co-operative Bank Limited	2023	(1)	8	4	15.84	0.31	0.33	(0.05)	96	2.47	2.56	2.19	0.46	12	4.58	0.36	21	0.65	2.33	79.47
	2022	(0)	3	4	12.90	0.31	0.33	(0.00)	91	2.28	2.34	2.13	0.62	13	5.44	0.40	23	0.74	2.16	74.53
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	2023	5	-	11	4.43	0.10	0.11	0.10	147	1.27	1.28	1.24	0.65	47	286.36	0.61	66	0.87	0.99	51.71
	2022	(3)	-	16	3.68	0.03	0.05	(0.07)	120	0.94	0.95	0.94	0.70	36	163.77	0.50	52	0.71	0.97	59.07
TSB Bank Limited	2023	(5)	3	34	1.13	0.36	0.36	(0.08)	213	2.07	2.11	1.84	0.28	20	2.74	0.22	29	0.32	2.09	88.72
	2022	(8)	4	17	34.68	0.41	0.49	(0.12)	182	1.82	1.84	1.70	0.22	38	5.26	0.43	54	0.61	1.53	74.79
Westpac Banking Corporation – New Zealand Banking Group	2023	135	316	62	37.10	0.48	0.51	0.14	3,136	2.12	2.32	1.63	0.22	1,184	11.21	0.89	1,708	1.28	0.97	41.23
	2022	(27)	224	60	45.00	0.38	0.41	(0.03)	2,922	1.84	2.01	1.70	0.46	1,298	12.66	1.02	1,810	1.42	0.89	38.98
Bank sector total	**2023**	**640**	**1,723**	**1,196**	**22.13**	**0.51**	**0.56**	**0.12**	**17,553**	**2.20**	**2.34**	**1.75**	**0.32**	**7,205**	**12.48**	**1.03**	**10,231**	**1.47**	**0.96**	**38.07**
	2022	**146**	**1,184**	**1,024**	**29.35**	**0.45**	**0.50**	**0.03**	**16,428**	**1.97**	**2.10**	**1.86**	**0.50**	**7,185**	**13.40**	**1.08**	**10,116**	**1.52**	**0.93**	**37.53**

** Operating Expenses = Total expenses - Interest expense-loan write offs and bad debts - abnormal expenses - amortisation of goodwill - Impairment charges
n/a = not applicable or not available

Analysis of annual results

Balance sheet breakdown		Assets ($Million)								
Entity[7]	Reporting date	Cash on hand, money at call and balances with other banks	Trading, investment securities, investments in subsidiaries and investment properties	Derivative financial instruments	Loans and advances (less provisions)	Balances with related parties	Fixed assets	Intangibles	Other assets	Total assets
2023										
Australia and New Zealand Banking Group Limited – ANZ New Zealand	30/09/23	14,119	16,879	3,241	149,627	5,733	371	3,119	1,500	194,589
Bank of Baroda (New Zealand) Limited	31/03/23	20	-	-	117	0	1	-	1	138
Bank of China New Zealand Banking Group	31/12/22	1,111	289	13	4,748	-	3	0	29	6,194
Bank of India (New Zealand) Limited	31/03/23	20	-	-	131	0	1	-	1	153
Bank of New Zealand	30/09/23	12,110	8,362	4,802	101,769	829	604	498	1,091	130,065
China Construction Bank Corporation New Zealand Banking Group	31/12/22	1,177	183	33	3,253	1	5	0	8	4,661
Citibank, N.A. New Zealand Branch and Associated Banking Group	31/12/22	1,955	322	-	333	87	1	-	6	2,703
Commonwealth Bank of Australia New Zealand Operations	30/06/23	9,002	7,108	436	110,962	850	327	514	607	129,806
Coöperatieve Rabobank U.A. New Zealand Banking Group	31/12/22	1,415	631	16	16,073	1,278	15	1	82	19,512
Heartland Bank Limited	30/06/23	216	317	37	4,843	-	26	72	51	5,562
Industrial and Commercial Bank of China New Zealand Banking Group	31/12/22	417	189	5	2,985	-	7	-	22	3,625
JPMorgan Chase Bank, N.A., New Zealand Banking Group	31/12/22	463	5,269	-	81	37	0	-	38	5,889

Analysis of annual results

Balance sheet breakdown		Assets ($Million)								
Entity[7]	Reporting date	Cash on hand, money at call and balances with other banks	Trading, investment securities, investments in subsidiaries and investment properties	Derivative financial instruments	Loans and advances (less provisions)	Balances with related parties	Fixed assets	Intangibles	Other assets	Total assets
2023										
Kiwibank Limited	30/06/23	1,156	2,299	447	29,682	-	129	25	100	**33,838**
Kookmin Bank Auckland Branch	31/12/22	57	-	-	584	181	3	-	4	**829**
MUFG Bank, Ltd., Auckland Branch	31/03/23	829	475	53	4,670	825	1	-	10	**6,864**
Southland Building Society	31/03/23	183	575	96	5,026	(1)	38	10	78	**6,005**
The Co-operative Bank Limited	31/03/23	326	8	57	2,889	-	30	11	23	**3,343**
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	31/12/22	1,861	283	1	4,721	837	27	16	27	**7,772**
TSB Bank Limited	31/03/23	560	1,366	86	7,078	-	32	1	26	**9,150**
Westpac Banking Corporation – New Zealand Banking Group	30/09/23	9,387	11,658	5,494	99,711	4,488	396	982	682	**132,798**
Banking sector total		**56,385**	**56,214**	**14,817**	**549,284**	**15,145**	**2,018**	**5,249**	**4,386**	**703,497**

Analysis of annual results

Balance sheet breakdown		Liabilities ($Million)								Equity ($Million)				
Entity[7]	Reporting date	Customer deposits	Balances with other banks and money market deposits	Debt securities	Derivative financial instruments	Balances with related parties	Sub-ordinated debt	Other liabilities	Total liabilities	Share capital – ordinary shares	Head office account	Other equity/ Cash flow hedge reserves	Retained earnings	Total equity
2023														
Australia and New Zealand Banking Group Limited – ANZ New Zealand	30/09/23	132,527	8,261	21,420	3,332	8,711	1,369	2,284	177,904	11,044	11	457	5,173	16,685
Bank of Baroda (New Zealand) Limited	31/03/23	83	-	-	-	2	-	2	86	40	-	-	12	52
Bank of China New Zealand Banking Group	31/12/22	971	1,361	170	13	3,288	-	62	5,865	223	36	(5)	74	328
Bank of India (New Zealand) Limited	31/03/23	19	-	-	-	71	-	2	92	50	-	-	11	61
Bank of New Zealand	30/09/23	78,502	7,435	23,290	4,321	2,349	-	2,308	118,205	9,056	-	459	2,345	11,860
China Construction Bank Corporation New Zealand Banking Group	31/12/22	463	1,444	754	70	1,583	-	23	4,336	199	37	(2)	90	325
Citibank, N.A. New Zealand Branch and Associated Banking Group	31/12/22	1,613	3	-	-	905	-	20	2,542	-	34	(2)	130	161
Commonwealth Bank of Australia New Zealand Operations	30/06/23	79,260	5,778	24,785	472	5,155	935	1,558	117,943	6,592	462	141	4,668	11,863
Coöperatieve Rabobank U.A. New Zealand Banking Group	31/12/22	5,735	164	3,915	78	7,035	-	64	16,990	551	410	(16)	1,575	2,521
Heartland Bank Limited	30/06/23	4,131	20	595	8	7	-	72	4,833	553	-	13	162	729
Industrial and Commercial Bank of China New Zealand Banking Group	31/12/22	566	0	741	11	1,861	-	52	3,230	234	97	65	-	395
JPMorgan Chase Bank, N.A., New Zealand Banking Group	31/12/22	369	-	236	-	5,273	-	12	5,889	-	-	-	-	-

Analysis of annual results

Balance sheet breakdown		Liabilities ($Million)								Equity ($Million)				
Entity[7]	Reporting date	Customer deposits	Balances with other banks and money market deposits	Debt securities	Derivative financial instruments	Balances with related parties	Sub-ordinated debt	Other liabilities	Total liabilities	Share capital – ordinary shares	Head office account	Other equity/ Cash flow hedge reserves	Retained earnings	Total equity
2023														
Kiwibank Limited	30/06/23	25,500	1,768	3,038	243	256	446	276	31,527	737	-	348	1,226	2,311
Kookmin Bank Auckland Branch	31/12/22	209	251	-	-	349	-	16	825	-	4	-	-	4
MUFG Bank, Ltd., Auckland Branch	31/03/23	2,164	-	-	133	4,229	-	21	6,548	-	83	(4)	237	316
Southland Building Society	31/03/23	4,166	668	495	19	-	64	87	5,499	-	-	37	469	506
The Co-operative Bank Limited	31/03/23	2,834	-	195	3	-	-	48	3,080	-	-	19	244	263
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	31/12/22	4,827	426	400	1	2,025	-	74	7,753	-	31	(11)	-	19
TSB Bank Limited	31/03/23	8,314	-	-	11	-	-	94	8,419	10	-	(3)	724	731
Westpac Banking Corporation – New Zealand Banking Group	30/09/23	79,783	5,782	21,010	4,858	4,666	3,051	2,819	121,969	6,045	2,772	94	1,918	10,829
Banking sector total		**432,037**	**33,361**	**101,044**	**13,574**	**47,766**	**5,865**	**9,891**	**643,537**	**35,334**	**3,977**	**1,590**	**19,059**	**59,959**

Analysis of annual results

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

Analysis of annual results

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

Analysis of annual results

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

KPMG

Analysis of annual results

Balance sheet breakdown		Liabilities ($Million)								Equity ($Million)				
Entity[7]	Reporting date	Customer deposits	Balances with other banks and money market deposits	Debt securities	Derivative financial instruments	Balances with related parties	Sub-ordinated debt	Other liabilities	Total liabilities	Share capital – ordinary shares	Head office account	Other equity/ Cash flow hedge reserves	Retained earnings	Total equity
2022														
Kiwibank Limited	30/06/22	24,131	1,839	2,570	207	94	250	254	**29,345**	983	-	145	1,074	**2,202**
Kookmin Bank Auckland Branch	31/12/21	239	211	-	-	273	-	6	**729**	-	12	-	-	**12**
MUFG Bank, Ltd., Auckland Branch	31/03/22	2,303	-	-	100	3,720	-	19	**6,141**	-	83	(4)	207	**287**
Southland Building Society	31/03/22	3,469	601	494	5	-	105	82	**4,757**	-	-	32	431	**463**
The Co-operative Bank Limited	31/03/22	2,691	-	196	10	-	-	55	**2,951**	-	-	14	232	**246**
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group	31/12/21	4,978	302	600	9	1,578	-	60	**7,527**	-	17	(4)	-	**13**
TSB Bank Limited	31/03/22	8,180	-	-	6	-	-	51	**8,237**	10	-	(1)	714	**723**
Westpac Banking Corporation – New Zealand Banking Group	30/09/22	77,909	5,001	22,872	6,777	8,292	2,576	2,049	**125,476**	6,045	2,624	138	1,497	**10,304**
Banking sector total		**417,304**	**32,265**	**104,013**	**20,715**	**51,849**	**9,734**	**8,149**	**644,030**	**29,435**	**3,749**	**1,490**	**20,859**	**55,533**

KPMG

Major banks – Quarterly analysis

Size & strength measures

Entity[8]	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22	31 Mar 23	30 Jun 23	30 Sep 23
Total assets ($Million)								
ANZ	190,636	190,720	193,335	201,439	195,852	189,253	192,048	194,589
ASB	121,030	123,365	125,838	128,437	128,426	128,191	129,807	129,592
bnz	123,038	124,060	126,852	131,420	130,242	126,460	130,406	130,066
Heartland Bank	4,703	4,857	5,155	5,264	5,409	5,476	5,564	5,714
Kiwibank	30,970	30,589	31,548	32,017	33,368	33,505	33,839	33,909
SBS	5,024	5,220	5,421	5,519	5,771	6,005	6,050	6,256
TSB	8,934	8,961	8,925	8,942	9,124	9,145	9,195	9,355
The Co-operative Bank	3,239	3,194	3,189	3,261	3,331	3,344	3,409	3,466
Westpac	122,382	125,026	129,385	135,780	134,315	132,735	131,669	132,798
Total	609,954	615,991	629,647	652,078	645,838	634,114	641,986	645,745

Entity[8]	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22	31 Mar 23	30 Jun 23	30 Sep 23
Increase in gross loans and advances (%)								
ANZ	1.81	1.91	0.75	-0.03	-0.10	0.21	1.19	0.28
ASB	0.88	1.31	1.28	0.79	0.69	-0.16	1.17	-0.44
bnz	2.19	0.92	1.07	0.65	0.82	0.67	0.76	0.03
Heartland Bank	5.19	3.35	5.20	1.83	2.09	2.91	0.92	2.37
Kiwibank	3.87	0.85	1.27	1.84	2.28	1.27	1.50	1.71
SBS	3.78	2.59	2.82	3.87	4.50	2.26	2.97	3.21
TSB	1.70	-0.49	-0.23	1.96	3.21	0.98	0.45	2.47
The Co-operative Bank	-1.36	-0.65	2.03	2.70	2.54	-0.30	0.88	3.91
Westpac	0.81	0.65	1.40	1.65	0.55	0.85	-0.11	1.18
Average	2.10	1.16	1.73	1.70	1.84	0.97	1.08	1.63

Entity[8]	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22	31 Mar 23	30 Jun 23	30 Sep 23
Capital adequacy (%)								
ANZ[15]	16.40	15.10	15.60	16.40	16.40	15.20	15.50	15.50
ASB[15]	14.60	13.40	15.00	15.00	15.50	15.70	15.70	16.20
bnz	16.40	15.30	15.00	15.40	15.30	15.70	15.20	15.70
Heartland Bank	14.00	13.10	13.40	12.90	13.10	12.60	14.80	13.80
Kiwibank	13.70	13.80	13.60	13.60	13.40	13.40	14.30	15.70
SBS	16.00	15.40	15.00	14.60	13.90	13.60	13.40	13.50
TSB	13.70	13.50	13.60	13.40	13.10	13.30	14.10	13.80
The Co-operative Bank	16.90	16.90	16.60	16.70	16.70	16.60	16.50	16.30
Westpac[15]	19.00	14.50	14.80	13.90	14.20	13.70	13.90	14.40

Entity[8]	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22	31 Mar 23	30 Jun 23	30 Sep 23
Net profit ($Million)								
ANZ	496	600	620	583	531	491	591	558
ASB	382	349	356	438	420	383	376	372
bnz	356	353	377	328	424	381	367	337
Heartland Bank	21	19	30	17	20	18	21	18
Kiwibank	32	36	32	55	44	41	36	59
SBS	10	11	8	10	11	10	7	9
TSB	9	5	13	7	10	3	6	7
The Co-operative Bank	4	-1	3	4	5	-3	3	3
Westpac	305	373	290	331	307	219	331	328
Total	1,614	1,744	1,728	1,773	1,771	1,542	1,738	1,691

Major banks – Quarterly analysis

Profitability measures

Entity[8]	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22	31 Mar 23	30 Jun 23	30 Sep 23
Interest margin (%)								
ANZ	2.00	2.10	2.20	2.30	2.40	2.40	2.40	2.30
ASB	2.10	2.10	2.20	2.50	2.50	2.50	2.40	2.40
bnz	2.00	2.10	2.20	2.40	2.50	2.40	2.40	2.30
Heartland Bank	4.50	4.30	4.60	4.10	4.20	4.10	4.00	3.80
Kiwibank	2.00	2.10	2.30	2.40	2.50	2.50	2.50	2.60
SBS	2.70	2.60	2.60	2.60	2.70	2.50	2.50	2.50
TSB	1.90	1.90	2.10	2.10	2.20	2.10	2.00	2.00
The Co-operative Bank	2.20	2.30	2.50	2.70	2.60	2.60	2.60	2.60
Westpac	2.00	2.00	2.10	2.20	2.30	2.30	2.40	2.30
Non-interest income/Total assets (%)								
ANZ	0.54	0.65	0.71	0.43	0.21	0.26	0.48	0.32
ASB	0.48	0.53	0.55	0.51	0.41	0.28	0.28	0.38
bnz	0.61	0.51	0.53	0.39	0.41	0.49	0.49	0.40
Heartland Bank	0.33	0.29	0.45	0.18	0.35	0.15	0.24	0.24
Kiwibank	0.19	0.09	0.17	0.24	0.14	-0.10	0.01	0.16
SBS	0.66	0.49	0.57	0.59	0.59	0.52	0.56	0.57
TSB	0.19	0.21	0.41	0.23	0.25	0.10	0.17	0.16
The Co-operative Bank	0.57	0.60	0.43	0.53	0.55	-0.28	0.45	0.50
Westpac	0.40	0.65	0.32	0.26	0.16	0.22	0.24	0.21
Average	0.44	0.45	0.46	0.37	0.34	0.18	0.32	0.33

Entity[8]	31 Dec 21	31 Mar 22	30 Jun 22	30 Sep 22	31 Dec 22	31 Mar 23	30 Jun 23	30 Sep 23
Impaired asset expense/Average gross loans and advances (%)								
ANZ	-0.03	-0.03	0.03	0.13	0.06	0.27	0.13	0.04
ASB	-0.02	0.06	0.14	0.00	0.18	0.04	0.00	0.10
bnz	-0.03	0.14	0.00	0.26	-0.01	0.25	0.23	0.13
Heartland Bank	0.40	0.36	-0.37	0.37	0.42	0.55	0.31	0.42
Kiwibank	0.06	0.02	0.11	0.03	0.14	0.12	0.22	0.07
SBS	0.22	0.03	0.31	0.24	0.22	0.30	0.37	0.26
TSB	-0.04	-0.02	-0.05	-0.09	-0.17	0.02	0.07	0.01
The Co-operative Bank	0.01	0.00	0.03	0.07	0.04	0.06	0.03	0.05
Westpac	-0.09	0.03	-0.02	-0.03	0.11	0.52	0.05	-0.12
Average	0.05	0.07	0.02	0.11	0.11	0.23	0.16	0.11
Operating expenses/Operating income (%)								
ANZ	39.19	32.19	32.76	32.08	35.26	33.70	32.73	35.56
ASB	32.43	37.51	38.03	34.68	31.42	36.62	39.44	37.97
bnz	35.31	29.70	34.67	37.28	33.80	31.88	35.37	39.68
Heartland Bank	43.40	42.00	39.29	48.91	43.98	43.66	44.25	46.80
Kiwibank	70.67	68.78	71.77	62.10	64.82	65.27	69.75	61.70
SBS	62.23	59.74	64.46	61.48	61.28	61.11	66.44	66.02
TSB	74.23	85.71	68.63	88.55	80.37	83.37	80.70	78.73
The Co-operative Bank	72.65	105.26	79.91	76.68	73.44	120.65	83.27	84.11
Westpac	41.15	38.40	43.00	40.05	41.29	43.26	41.74	46.20
Average	52.36	55.48	52.50	53.53	51.74	57.72	54.85	55.20

Major banks – Quarterly analysis

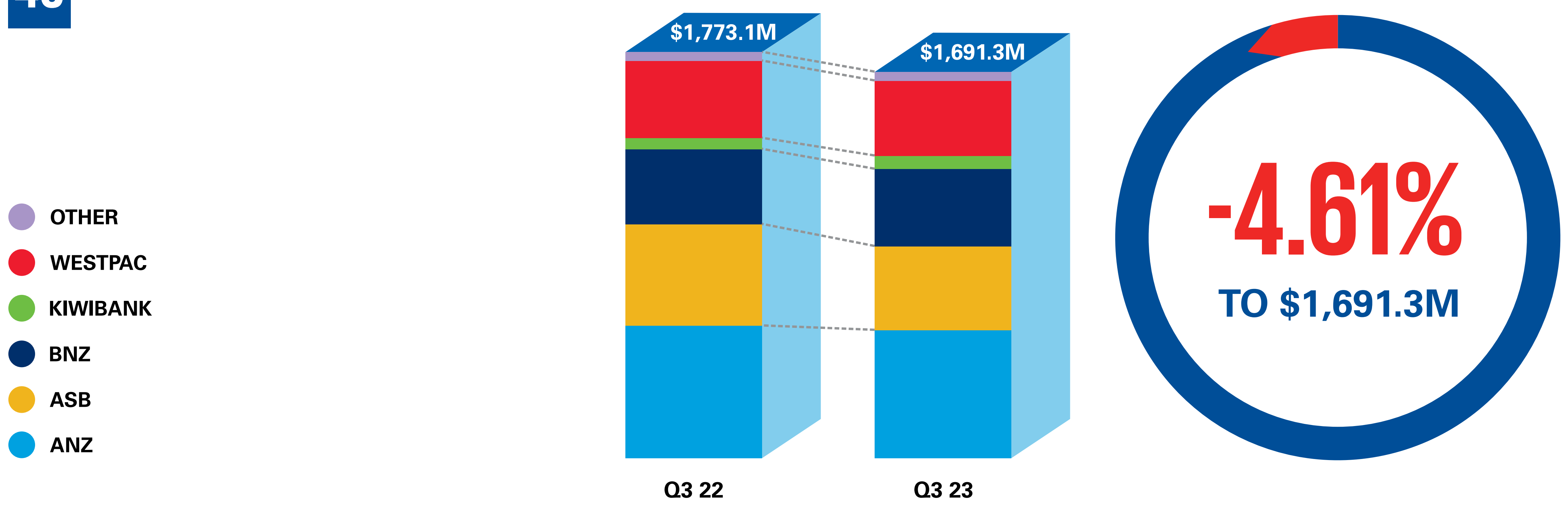
Q2 23–Q3 23 | Q1 23–Q3 23 | Q4 22–Q3 23 | Q3 22–Q3 23

HOVER over the button to see the movement in each quarter

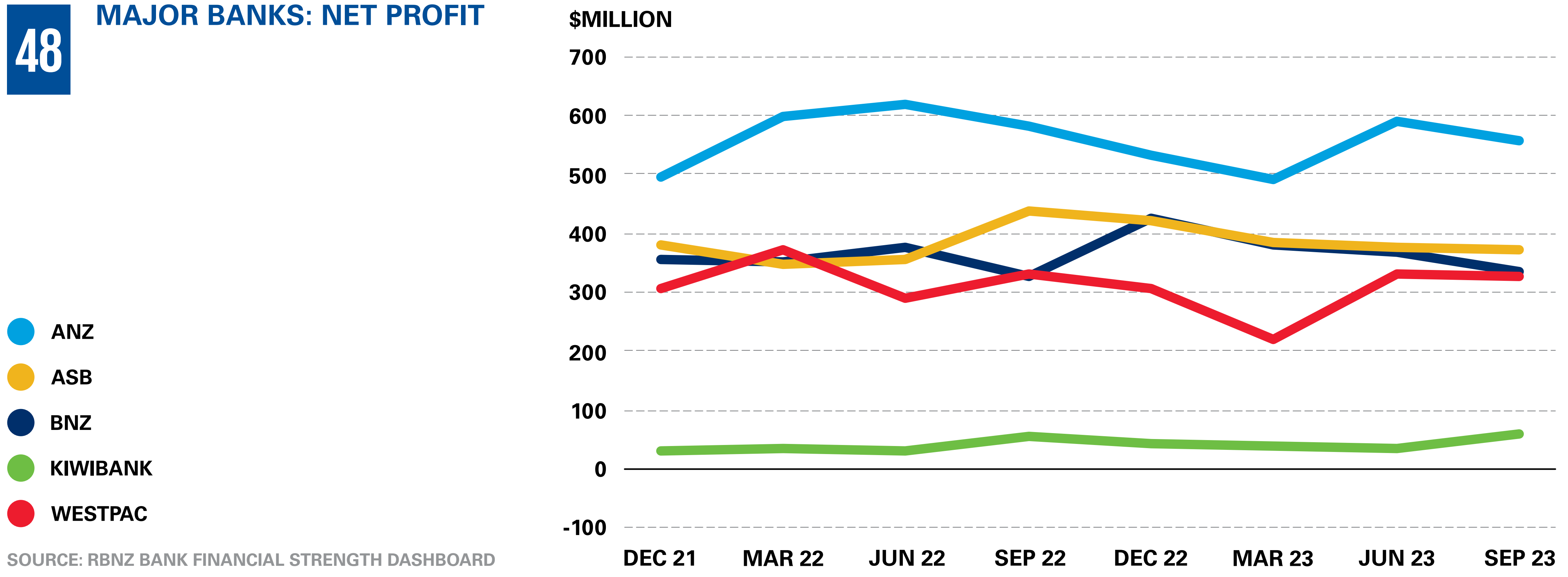
Q3 23 | Q3 22 | Q3 21 | Q3 20

HOVER over the button to see the results for each period

46 MAJOR BANKS: QUARTERLY MOVEMENT IN NET PROFIT: BREAKDOWN

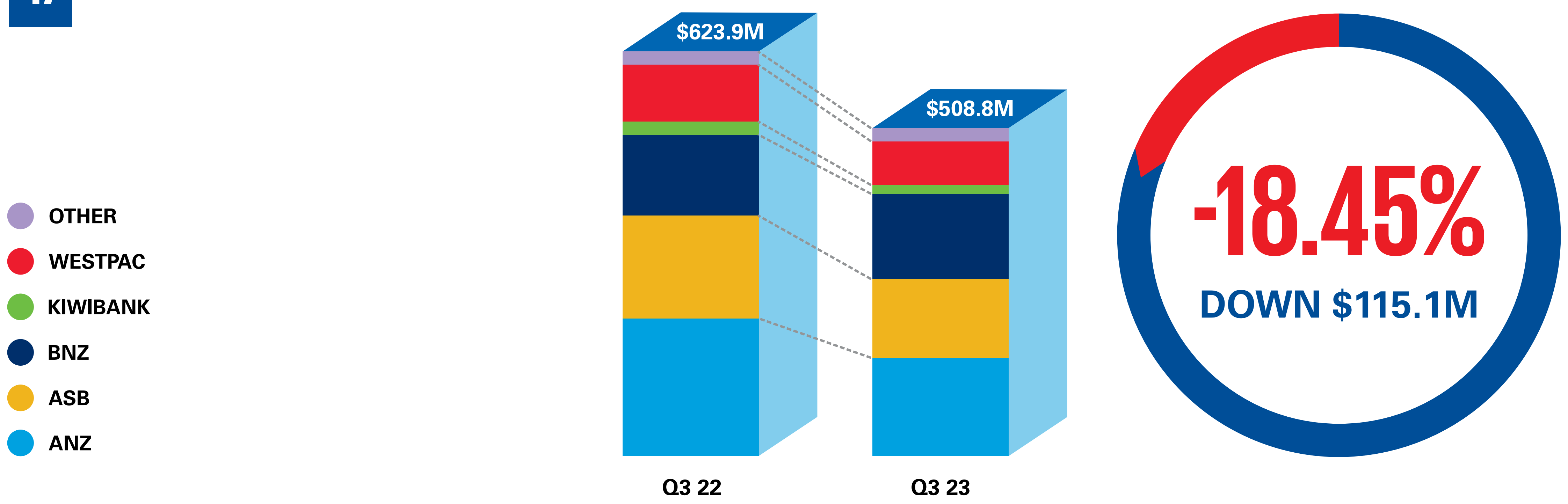


48 MAJOR BANKS: NET PROFIT

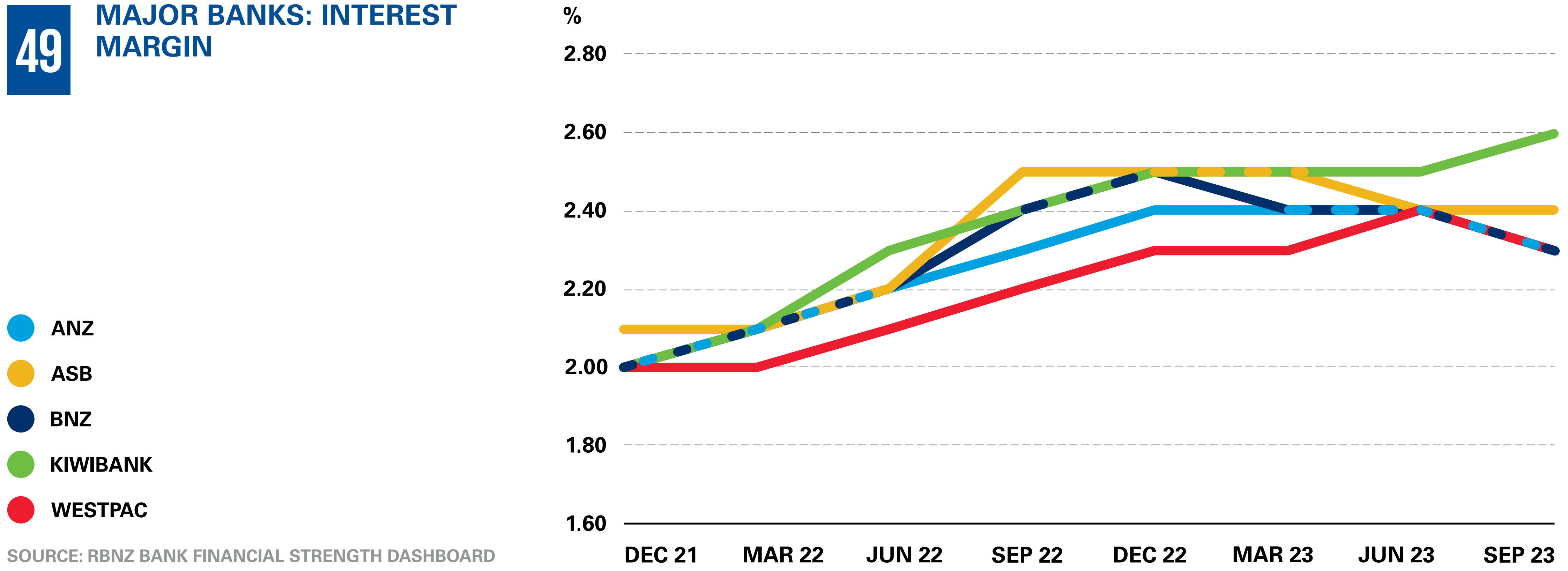


SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

47 MAJOR BANKS: NON-INTEREST INCOME



49 MAJOR BANKS: INTEREST MARGIN



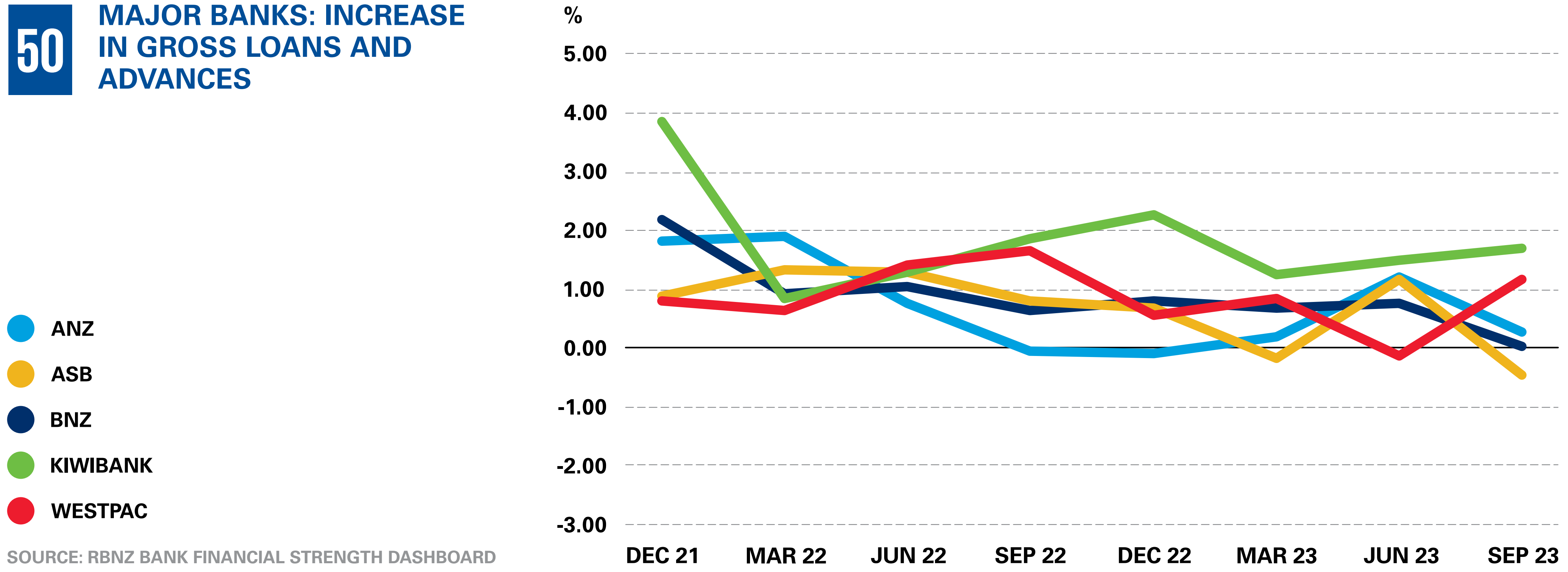
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

Major banks – Quarterly analysis

Q3 23 | Q3 22 | Q3 21 | Q3 20

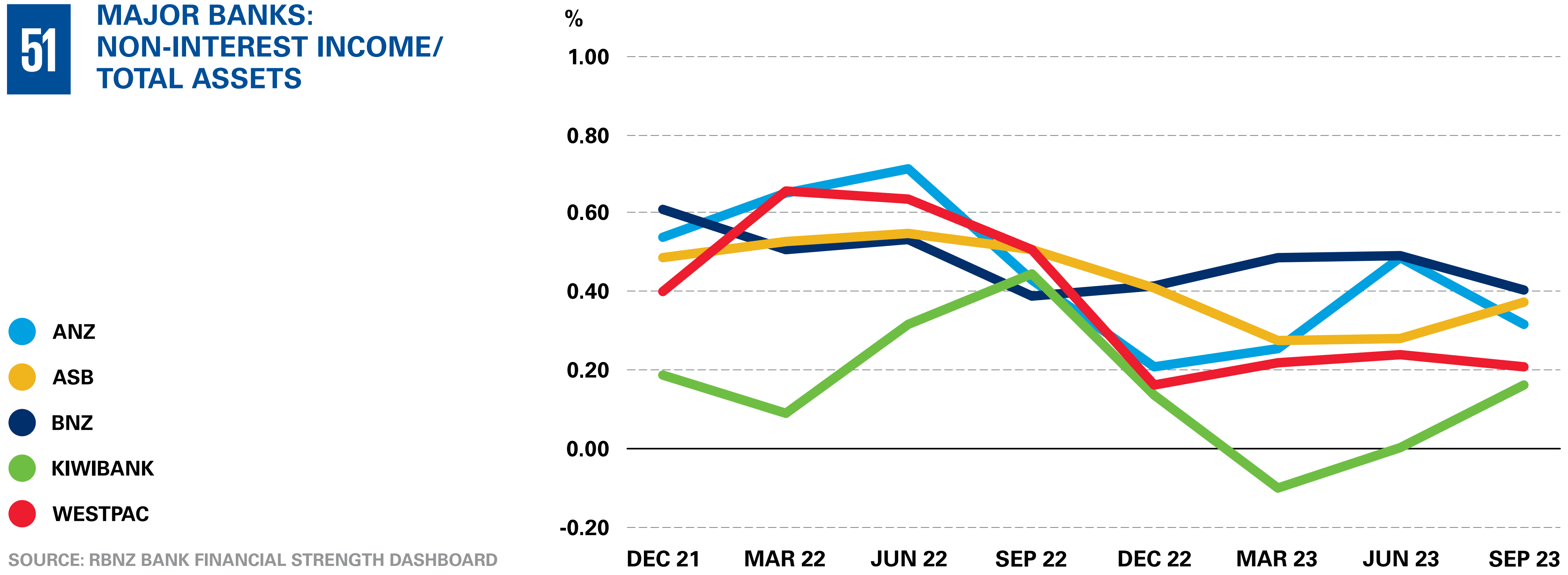
HOVER over the button to see the results for each period

50 MAJOR BANKS: INCREASE IN GROSS LOANS AND ADVANCES



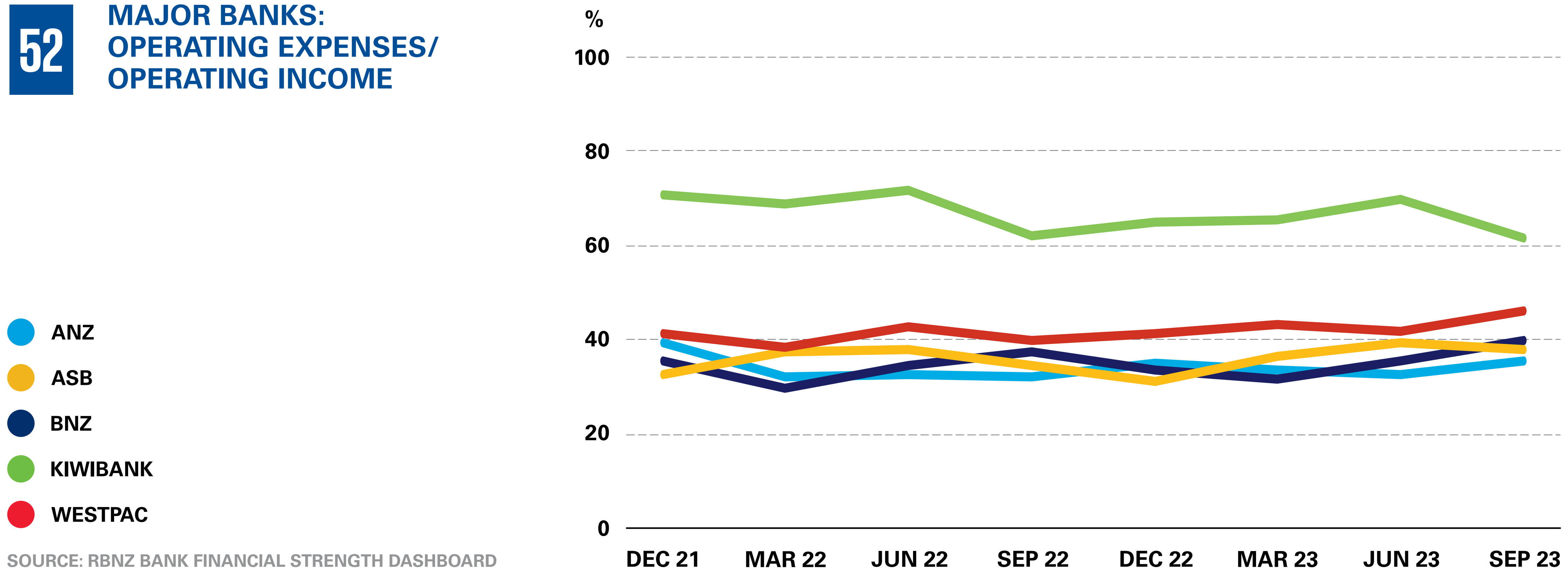
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

51 MAJOR BANKS: NON-INTEREST INCOME/ TOTAL ASSETS



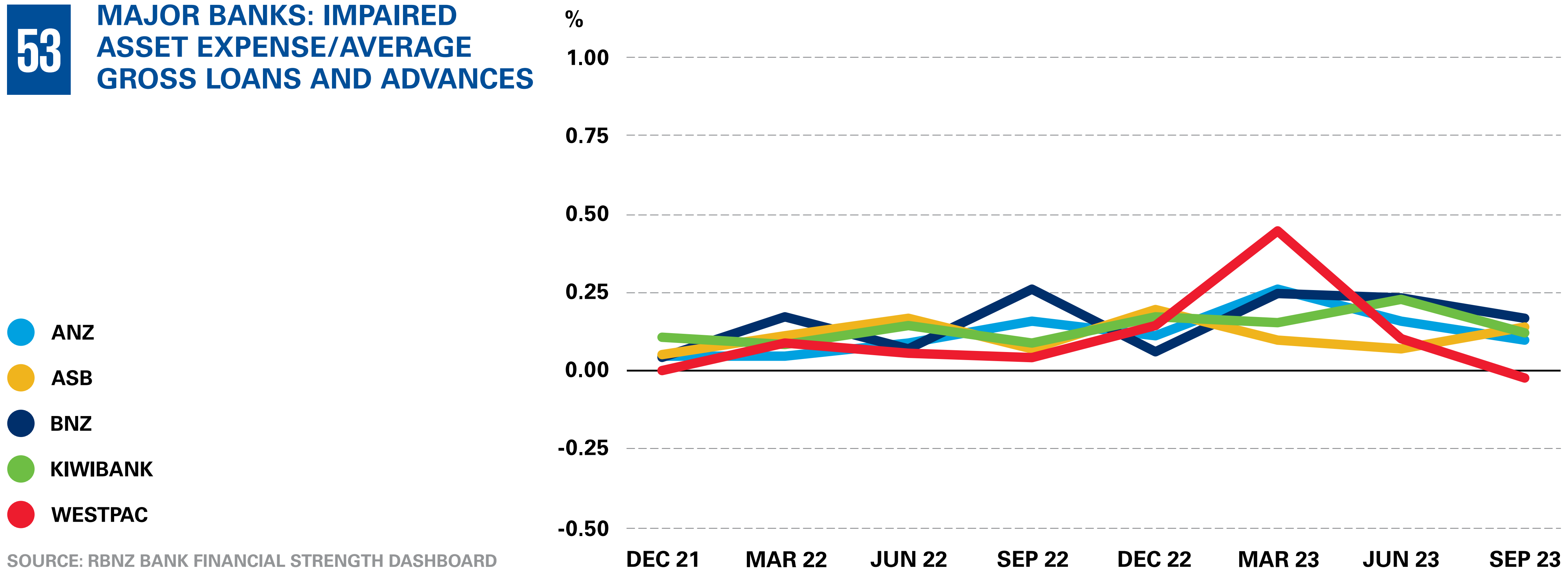
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

52 MAJOR BANKS: OPERATING EXPENSES/ OPERATING INCOME



SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

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



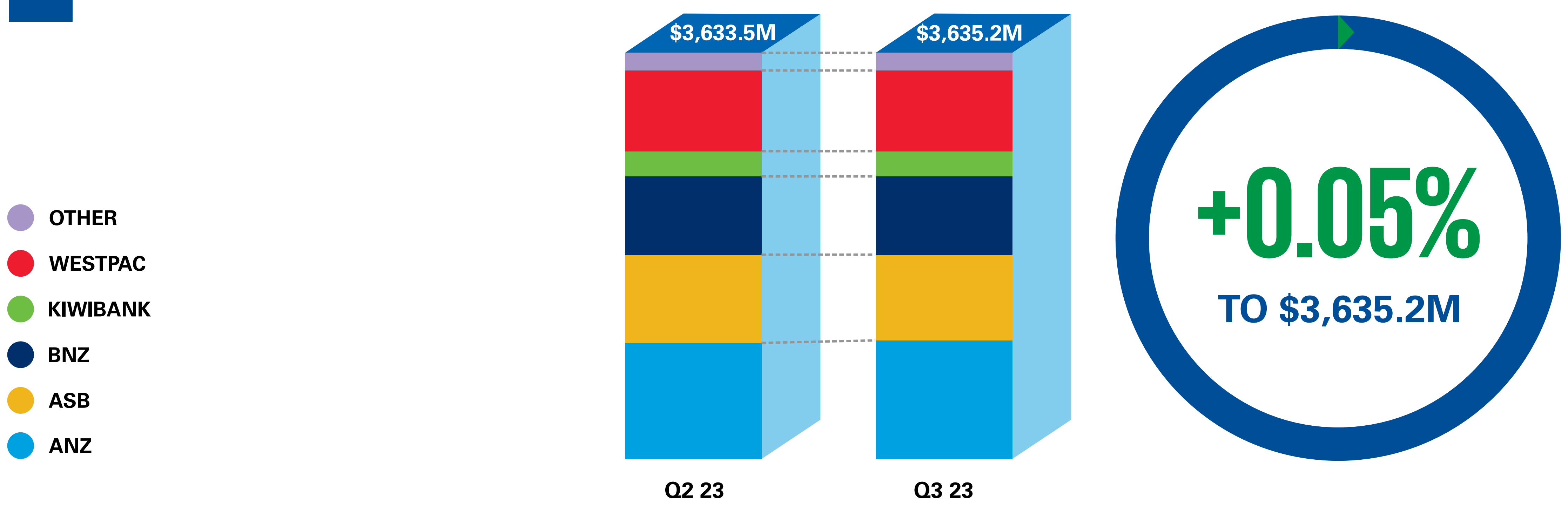
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

Major banks – Quarterly analysis

Q2 23–Q3 23 | Q1 23–Q3 23 | Q4 22–Q3 23 | Q3 22–Q3 23

HOVER over the button to see the movement in each quarter

54 **MAJOR BANKS: NET INTEREST INCOME**



55 **MAJOR BANKS: OPERATING EXPENSES**

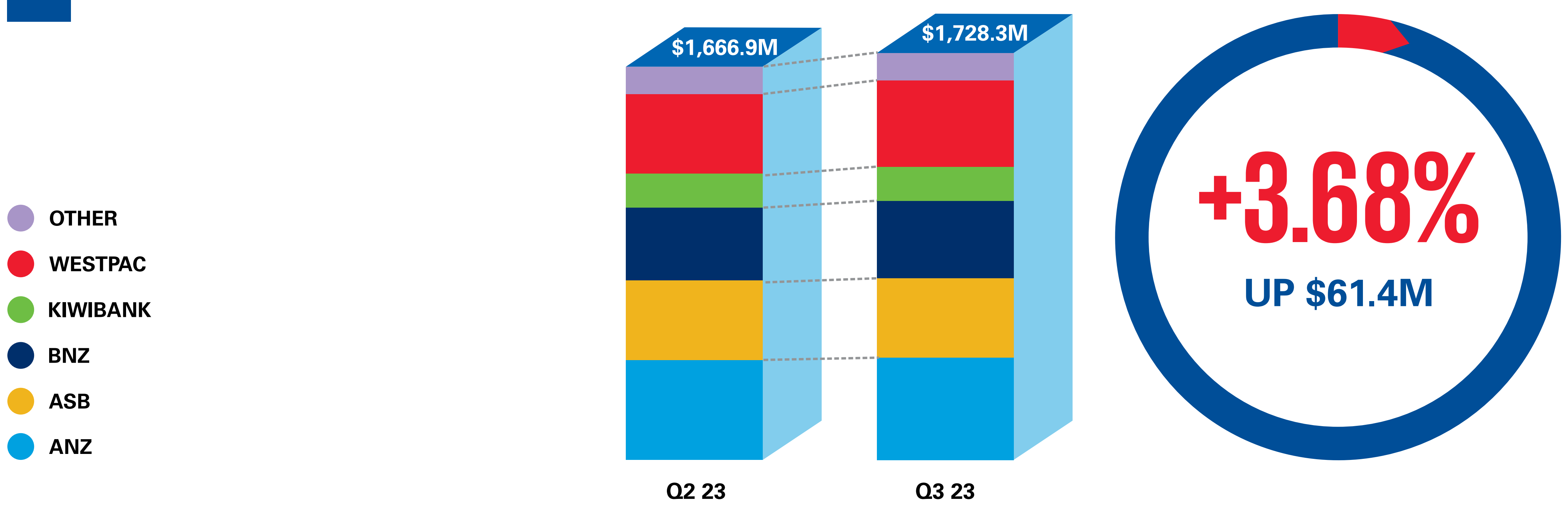
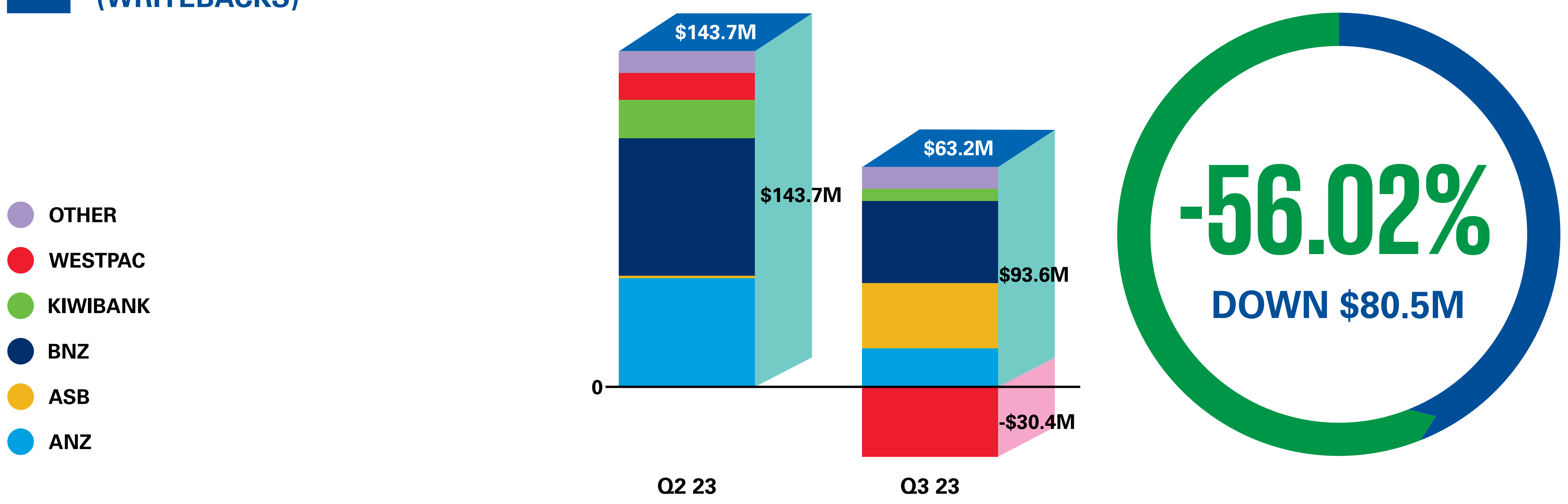


TABLE 11: Movement in interest margin				
Entity[8]	Quarter ended 30 Sep 23 (%)	Mvmt. during the quarter (bps)	Mvmt. for the 6 months (bps)	Mvmt. for the 12 months (bps)
ANZ	2.30	-10	-10	0
ASB	2.40	0	-10	-10
bnz	2.30	-10	-10	-10
HEARTLAND BANK	3.80	-20	-30	-30
Kiwi bank.	2.60	10	10	20
	2.50	0	0	-10
TSB	2.00	0	-10	-10
The Co-operative Bank	2.60	0	0	-10
Westpac	2.30	-10	0	10

56 **MAJOR BANKS: IMPAIRED ASSET EXPENSES (WRITEBACKS)**

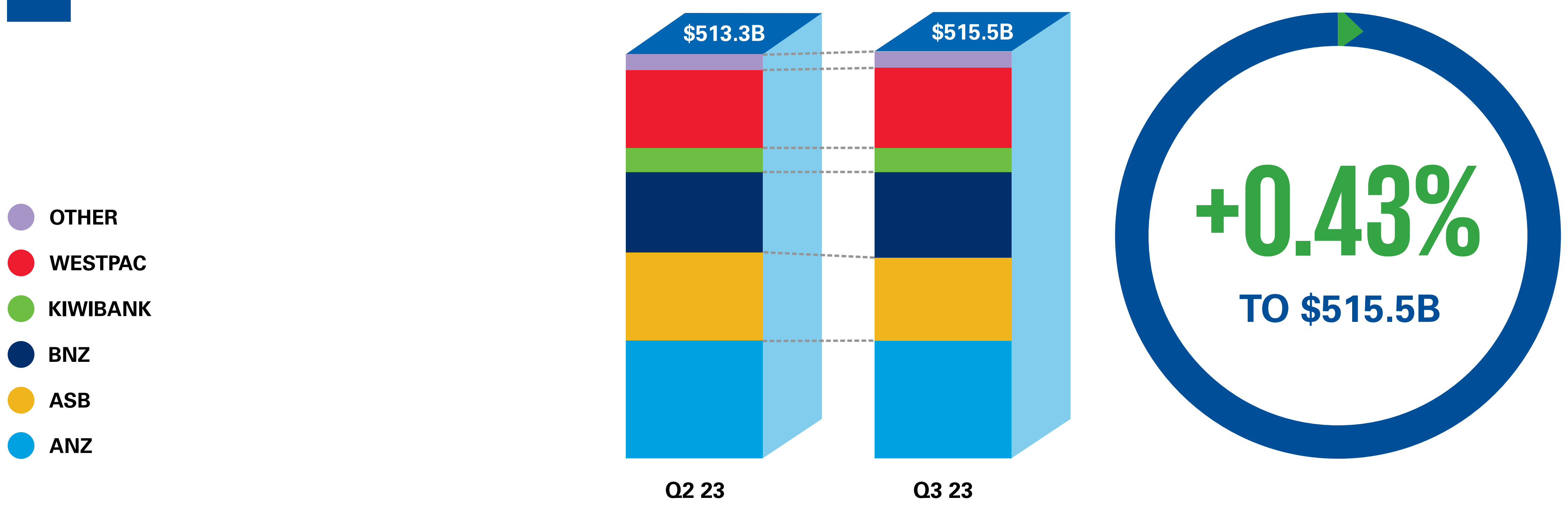


Major banks – Quarterly analysis

Q2 23–Q3 23 | Q1 23–Q3 23 | Q4 22–Q3 23 | Q3 22–Q3 23

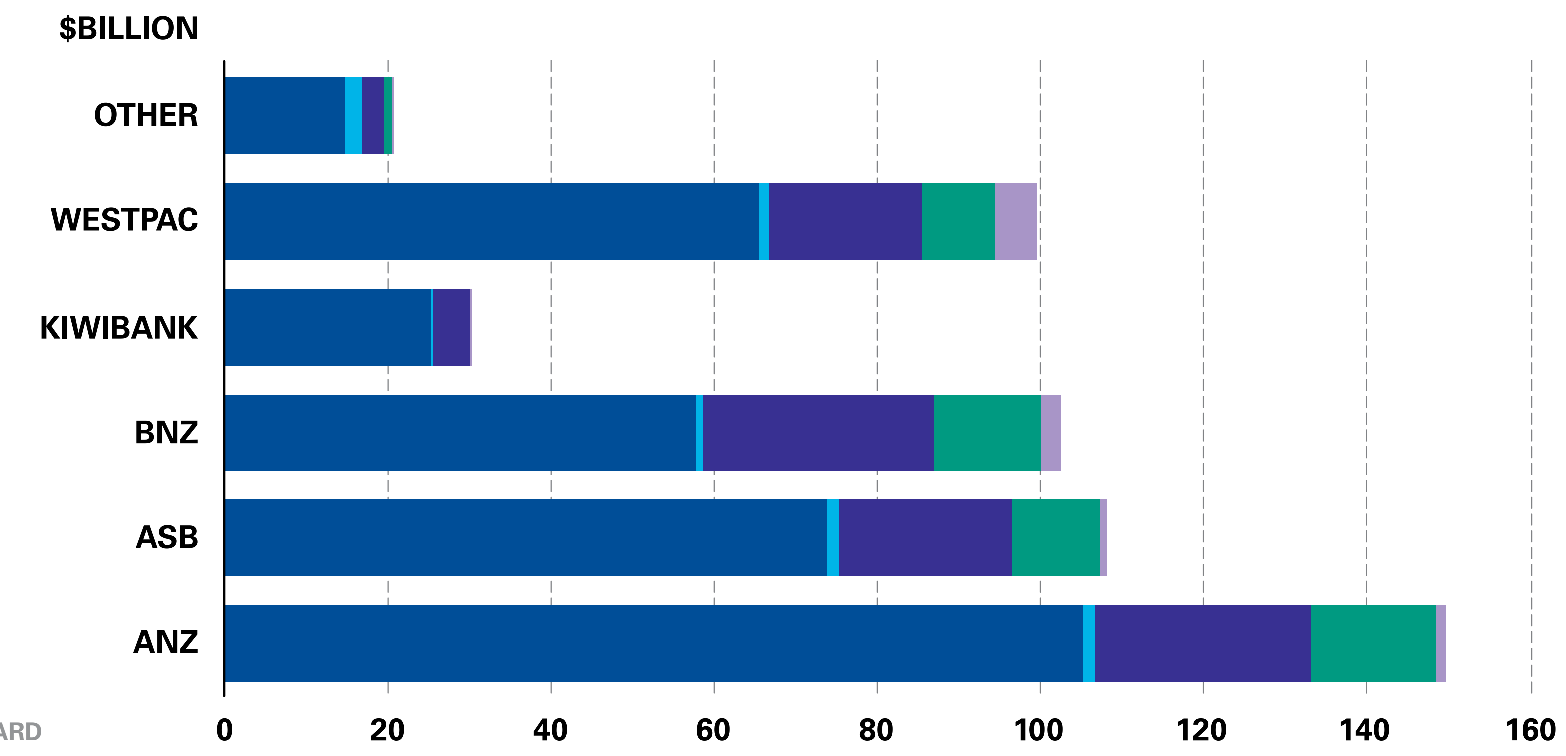
HOVER over the button to see the movement in each quarter

57 MAJOR BANKS: GROSS LOANS



58 MAJOR BANKS: GROSS LOANS BREAKDOWN BY BANK

As at Q3 23



SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

TABLE 12: Analysis of gross loans

Entity[8] Quarterly analysis	Quarter ended 30 Sep 23 $Million	Quarter ended 30 Jun 23 $Million	% Increase (Quarterly)
ANZ	150,357	149,942	0.28%
ASB	111,081	111,569	-0.44%
bnz	102,800	102,766	0.03%
HEARTLAND BANK	5,012	4,896	2.37%
Kiwi bank.	30,291	29,783	1.71%
	5,377	5,210	3.21%
TSB	7,312	7,136	2.47%
The Co-operative Bank	3,037	2,923	3.91%
Westpac	100,217	99,050	1.18%
Total	515,484	513,275	0.43%

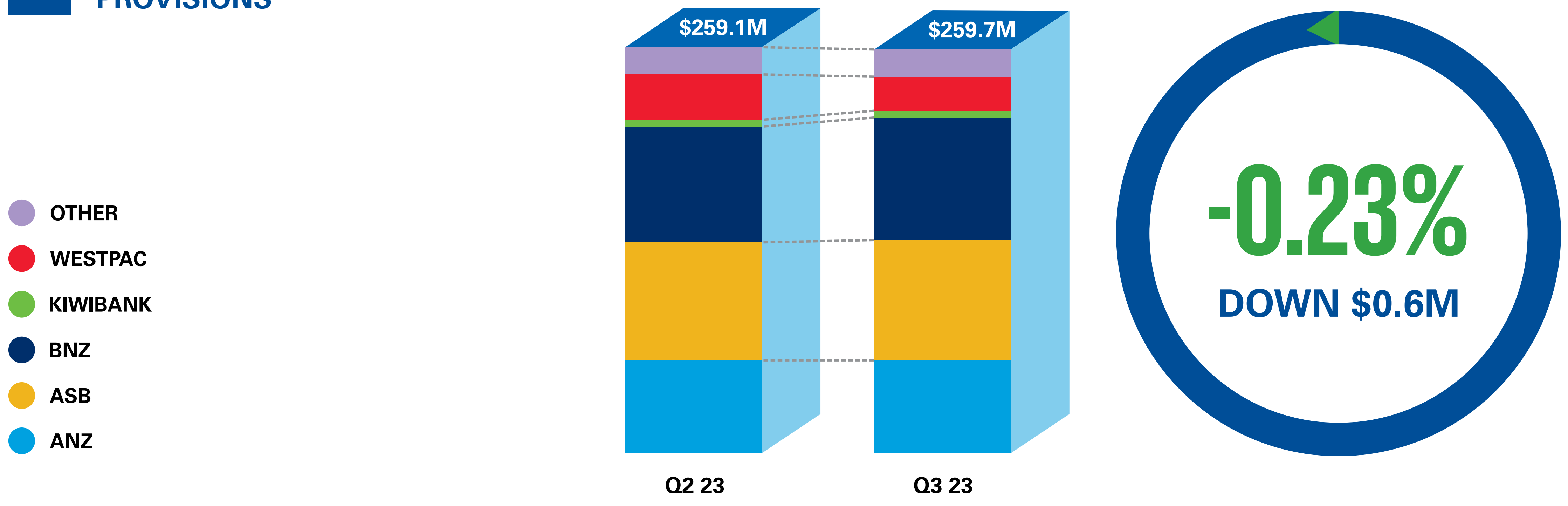
Entity[8] Annual analysis	Quarter ended 30 Sep 23 $Million	Quarter ended 30 Sep 22 $Million	% Increase (Annual)
ANZ	150,357	148,019	1.58%
ASB	111,081	109,699	1.26%
bnz	102,800	100,492	2.30%
HEARTLAND BANK	5,012	4,617	8.55%
Kiwi bank.	30,291	28,331	6.92%
	5,377	4,734	13.56%
TSB	7,312	6,816	7.28%
The Co-operative Bank	3,037	2,834	7.17%
Westpac	100,217	97,792	2.48%
Total	515,484	503,334	2.41%

Major banks – Quarterly analysis

Q2 23–Q3 23 | Q1 23–Q3 23 | Q4 22–Q3 23 | Q3 22–Q3 23

HOVER over the button to see the movement in each quarter

59 MAJOR BANKS: INDIVIDUALLY ASSESSED PROVISIONS



60 MAJOR BANKS: COLLECTIVELY ASSESSED PROVISIONS

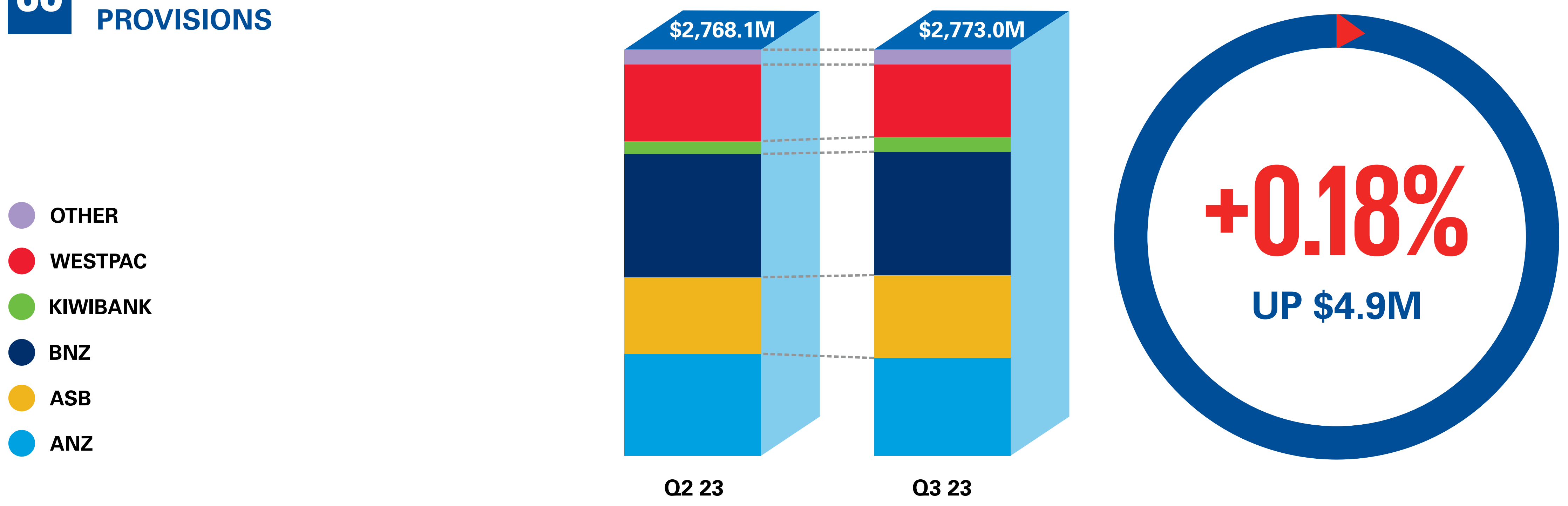


TABLE 13: Impaired asset expenses

	$Million		$Million
September 2023	$63.2	September 2022	$114.3
June 2023	$143.7	June 2022	$52.2
March 2023	$320.2	March 2022	$52.7
December 2022	$109.7	December 2021	-$35.0

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

Entity[8]	Quarter ended 30 Sep 23 (%)	Mvmt. during the quarter (bps)	Mvmt. for the 6 months (bps)	Mvmt. for the 12 months (bps)
ANZ	0.04%	-9	-23	-9
ASB	0.10%	10	6	10
bnz	0.13%	-10	-12	-13
Heartland Bank	0.42%	11	-13	5
Kiwibank	0.07%	-15	-5	4
SBS	0.26%	-11	-4	2
TSB	0.01%	-6	-1	10
The Co-operative Bank	0.05%	2	-1	-2
Westpac	-0.12%	-17	-64	-9
Average	0.05%	-6	-20	-4

Ownership
as at 31 December 2023

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

Credit ratings
as at 31 December 2023

Registered banks	Standard & Poor's		Fitch Ratings		Moody's	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
ANZ Bank New Zealand Limited	AA-	Stable	A+	Stable	A1	Stable
ASB Bank Limited	AA-	Stable	A+	Stable	A1	Stable
Australia and New Zealand Banking Group Limited – New Zealand Banking Group[16]	AA-	Stable	A+	Stable	Aa3	Stable
Bank of Baroda (New Zealand) Limited			BBB-	Stable		
Bank of China (New Zealand) Limited	A	Stable			A1	Stable
Bank of China New Zealand Banking Group[17]	A	Stable	A	Stable	A1	Stable
Bank of India (New Zealand) Limited			BBB-	Stable		
Bank of New Zealand	AA-	Stable	A+	Stable	A1	Stable
China Construction Bank (New Zealand) Limited			A	Stable	A1	Negative
China Construction Bank New Zealand Banking Group[18]	A	Stable	A	Stable	A1	Negative
Citibank, N.A. New Zealand Branch[19]	A+	Stable	A+	Stable	Aa3	Stable
Commonwealth Bank of Australia New Zealand Operations[20]	AA-	Stable	A+	Stable	Aa3	Stable
Coöperatieve Rabobank U.A. New Zealand Banking Group[21]	A+	Stable	A+	Stable	Aa2	Stable
Heartland Bank Limited			BBB	Negative		
Industrial and Commercial Bank of China (New Zealand) Limited	A	Stable			A1	Stable
Industrial and Commercial Bank of China New Zealand Banking Group[22]	A	Stable	A	Stable	A1	Stable
JPMorgan Chase Bank, N.A., New Zealand Banking Group[23]	A+	Stable	AA	Stable	Aa1	Negative
Kiwibank Limited			AA	Stable	A1	Stable
Kookmin Bank Auckland Branch[24]	A+	Stable	A	Stable	Aa3	Stable
MUFG Bank, Ltd., Auckland Branch[25]	A	Stable	A-	Stable	A1	Stable
Rabobank New Zealand Limited	A	Stable			Aa2	Stable
Southland Building Society			BBB	Stable		
The Co-operative Bank Limited			BBB	Positive		
The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group[26]	AA-	Stable	AA-	Stable	Aa3	Stable
TSB Bank Limited			A-	Stable		
Westpac Banking Corporation – New Zealand Banking Group[27]	AA-	Stable	A+	Stable	Aa3	Stable
Westpac New Zealand Limited	AA-	Stable	A+	Stable	A1	Stable

Descriptions of the credit rating grades

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

Definitions

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

Terms and ratios used in this survey	Definitions used in this survey
Net interest income	Interest income (including net income from acting as a lessor) less interest expense.
Net interest margin	Net interest income divided by average interest-earning assets.
Net loans and advances	Loans and advances, net of provision for doubtful debts.
Operating expense	Includes all expenses charged to arrive at net profit before tax excluding interest expense, impaired asset expense, subvention payments, direct expense related to other income (where identifiable) and depreciation of leased assets where a lessor.
Operating income	Net interest income, net operating lease income and net other income (where direct expense related to other income is identifiable).
Past due assets	Includes any asset which has not been operated by the counterparty within its key terms for 90 days and which is either not an impaired or restructured asset.
Provision for doubtful debts	Includes both collective and individual provisions for bad and doubtful debts.
Total assets	Excludes goodwill assets (unless specifically defined).
Ultimate shareholding	Identifies the ultimate holding company rather than any intermediate holding companies.
Underlying profit	Operating income less operating expense and impaired asset expense. Items of a non-recurring nature, unrelated to the ongoing operations of the entity, are excluded.

End notes

1. Our analysis of registered banks is from the view of the top geographic entity in New Zealand for each banking group and comprises 20 entities. The following entities hold a separate registered bank licence and are included within top level banking groups for the purposes of our analysis: ANZ Bank New Zealand Limited, ASB Bank Limited, Bank of China (New Zealand) Limited, China Construction Bank (New Zealand) Limited, Rabobank New Zealand Limited and Westpac New Zealand Limited.
2. https://www.rbnz.govt.nz/monetary-policy/about-monetary-policy/the-official-cash-rate
3. QV House Price Index
4. 198 million dollars lost to scams in the last year | Ministry of Business, Innovation & Employment (mbie.govt.nz)
5. CERT NZ Data Landscape Report Q3 2023
6. The related articles are hyperlinked to provide the reader with the ability to access the respective news releases. Grey-coloured entries are timeline markers and are not hyperlinked.
7. This data represents the top New Zealand level banking-licenced entity and is referred to using the name as per the entities respective disclosure statements.
8. This data represents the top New Zealand level banking-licenced entity and is referred to using the brand in common usage, and as per the RBNZ Bank Financial Strength Dashboard. ANZ represents Australia and New Zealand Banking Group Limited – ANZ New Zealand; ASB represents Commonwealth Bank of Australia New Zealand Operations; Heartland represents Heartland Bank Limited; SBS represents Southland Building Society (trading as 'SBS Bank'); TSB represents TSB Bank Limited; Co-op represents The Co-operative Bank Limited; and Westpac represents Westpac Banking Corporation – New Zealand Banking Group.
9. Financial Stability Report November 2023 – Reserve Bank of New Zealand – Te Pūtea Matua (rbnz.govt.nz)
10. Kiwibank's FUM only includes funds managed by entities in the Kiwibank Banking Group. Kiwibank Banking Group is part of Kiwi Group Holdings, which also has FUM in Kiwiwealth. Kiwiwealth's FUM is not included in Kiwibank's FUM presented above, as this balance has not been disclosed in the financial statements.
11. https://www.mbie.govt.nz/about/news/198-million-dollars-lost-to-scams-in-the-last-year/
12. https://www.ukfinance.org.uk/news-and-insight/press-release/over-ps12-billion-stolen-through-fraud-in-2022-nearly-80-cent-app
13. Difference between interest income and interest expense, expressed as a percentage of lending.
14. Provision for credit impairment, expressed as a percentage of lending.
15. The capital adequacy ratios reported are for the local bank.
16. Rating of Parent, Australia and New Zealand Banking Group Limited (Australia) – S&P's, Fitch and Moody's.
17. Rating of Parent, Bank of China Limited (China) – S&P's, Fitch and Moody's.
18. Rating of Parent, China Construction Bank Corporation (China) – S&P's, Fitch and Moody's.
19. Rating of Parent, Citibank N.A. (United States) – S&P's, Fitch and Moody's.
20. Rating of Parent, Commonwealth Bank of Australia (Australia) – S&P's, Fitch and Moody's.
21. Rating of Parent, Cooperative Rabobank U.A. (Netherlands) – S&P's, Fitch and Moody's.
22. Rating of Parent, Industrial and Commercial Bank of China Limited (China) – S&P's, Fitch and Moody's.
23. Rating of Parent, JPMorgan Chase Bank N.A. (United States) – S&P's, Fitch and Moody's.
24. Rating of Parent, Kookmin Bank (South Korea) – S&P's, Fitch and Moody's.
25. Rating of Parent, MUFG Bank Ltd (Japan) – S&P's, Fitch and Moody's.
26. Rating of Parent, The Hongkong and Shanghai Banking Corporation Limited (Hong Kong) – S&P's, Fitch and Moody's.
27. Rating of Parent, Westpac Banking Corporation (Australia) – S&P's, Fitch and Moody's.

About KPMG's Financial Services Team

KPMG's Financial Services team

provides focused and practical audit, tax and advisory services to the insurance, retail banking, corporate and investment banking, and investment management sectors.

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

Our team is led by senior partners

with a wealth of client experience and relationships with many of the market players, regulators and leading industry bodies.

Additional thanks to the team that makes this publication possible:

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