



FIPS

Financial Institutions
Performance Survey

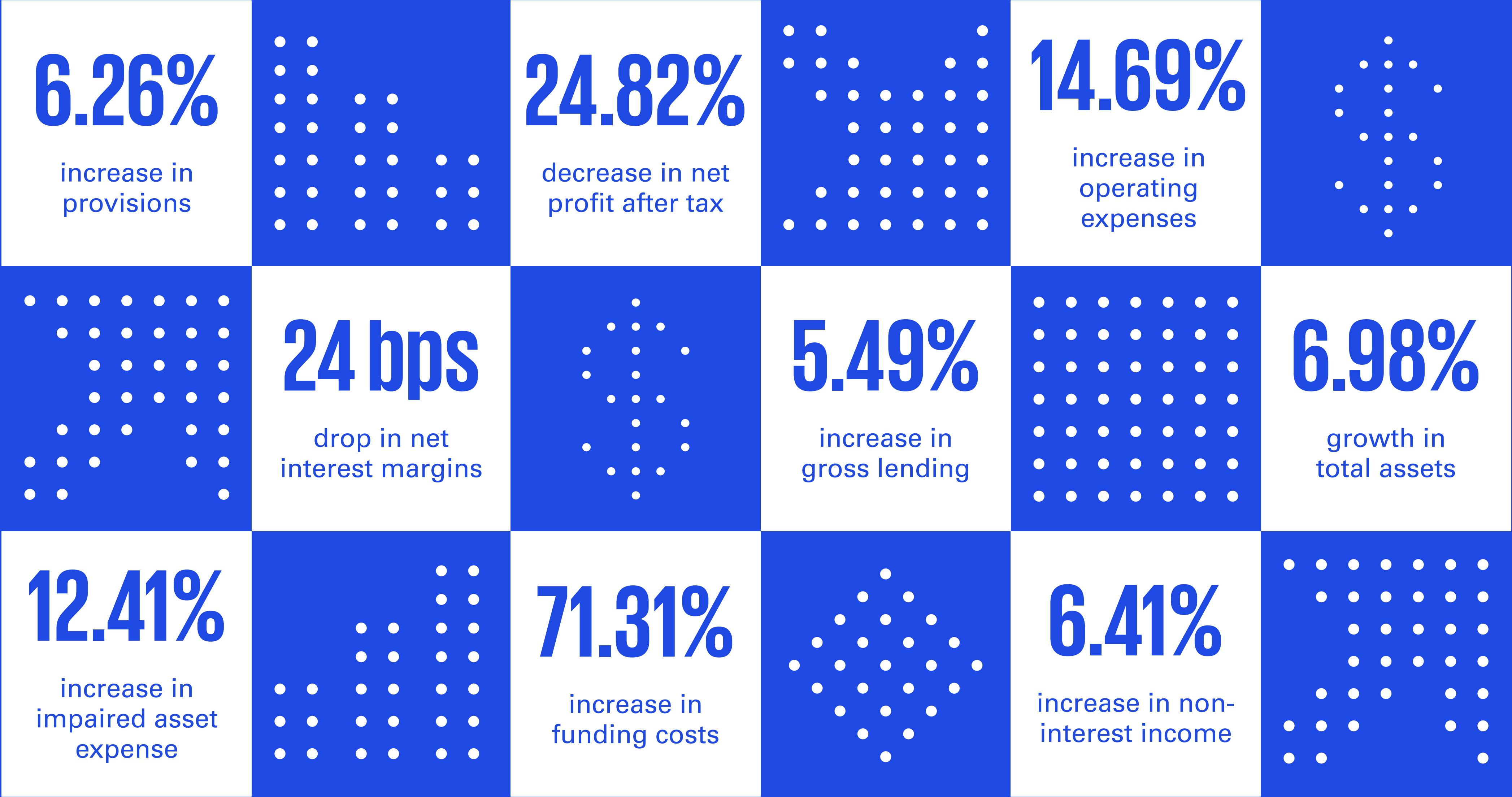
Specialist Lenders Review of 2024



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A snapshot of 2024



The Survey

Welcome to Part One of the 2024 edition of the Financial Institutions Performance Survey – the specialist lenders review

Our survey of specialist lending (previously referred to as non-banks) financial institutions captures the financial performance of entities with annual balance dates between 1 October 2023 and 30 September 2024. The threshold for inclusion in this year’s survey continues to be based on total assets of \$75 million in one of the last two years.

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

Most information used to compile this survey is extracted from publicly available annual reports for each financial institution. A limited number of participants provided

us with audited financial statements that might not otherwise be publicly available.

There have been a number of changes during the year, following the departure of two participants; Avanti Finance Limited and Resimac Financial Services Limited. Additionally, Prospa Group Limited has been switched out and replaced by the New Zealand entity, Prospa NZ Limited.

Due to the inclusion and departure of the entities listed above, as well as the impact from the introduction of NZ IFRS 17, in some entities some comparative totals have been restated from the 2023 edition of the non-bank FIPS publication. Further, the audited financial statements of Harmony Corp Limited are presented in AUD. For the purposes of presentation and currency cohesion in this FIPS publication, we have converted the financial statements into NZD using the applicable RBNZ exchange rate as at the respective balance date.

We would also like to draw special attention once again to the differing balance dates of our survey participants. While our survey covers the 2024 year, our respondents have

a range of balance dates, with the earliest being the 52 weeks to 29 October 2023 and the most recent reporting representing the year ended 30 September 2024. It is important to recognise that the results of each entity will reflect the different state of the economy at their various balance dates. When reading the industry analysis text and comparing the performance of any entities in the survey, these factors should be taken into consideration.

The other notable change this year is a re-branding of the survey from FIPS non-bank review to FIPS specialist lenders review. The rationale for this is that the historic title suggests what the sector is not, rather than calling it out what it is. By being a non-something (in this instance non-bank), this could imply that you might not be as good, when in fact you might be

better at what you do and in the space you do it in, than the thing you are not and not trying to be.

The total sector has 1.7 million customers, 20 billion of lending and plays an important and lead role in some specialist areas. Areas that a bank may not operate in and so an implied comparison to a bank isn't entirely relevant or appropriate, so... bring on the specialist lender review of 2024.

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

Table 1: Entity Movements

	Who’s out	Who’s in
26	Avanti Finance Limited, Prospa Group Limited, Resimac Financial Services Limited	Prospa NZ Limited

Looking back at the sector

		2020	2021	2022	2023	2024
FINANCE	Avanti Finance					Exited Survey
	BMW Financial Services					
	Instant Finance					
	John Deere Finance					
	Latitutde Financial Services					
	Mercedes-Benz Financial Services					
	Motor Trade Finance					
	Nissan Financial Services					
	ORIX					
	Ricoh					
	Toyota Finance					NZ IFRS 17 applied NZ IFRS 17 applied
	UDC Finance					
	Geneva Finance					Amalgamated with LeasePlan
	Turners Automotive Group					
	SG Fleet NZ Limited					Acquired by Anchorage Capital Partners
	Speirs Finance Group	Renamed from Leasing & Finance Limited Partnership		Renamed from Leasing & Finance		
FlexiGroup*	Exited Survey					
FUJIFILM Leasing New Zealand	Renamed from Fuji Xerox Finance	Exited Survey				
General Finance			First year of survey			
Harmony Corp		First year of survey	Changed functional and presentational currency to AUD			
Midlands Smarter PIE Fund			First year of survey	Renamed from Midlands Income Fund		
Prosopa Group*				First year of survey	"Acquired by Salter Brothers Delisted from ASX Exited Survey"	
Prosopa NZ					First year of survey	
Resimac Finanical Services*				First year of survey	Exited Survey	
SAVINGS	Christian Savings					
	First Credit Union					
	First Mortgage Trust					
	Nelson Building Society					
Police and Families Credit Union						
Wairarapa Building Society						
Unity Credit Union	NZCU Baywide amalgamated from Credit Union Baywide and Credit Union South	Renamed from NZCU Baywide				

A KPMG view from the editor

Whenever I sit down to draft the letter from the editor, I always have a sense of trepidation, wondering whether we have enough quality content. Fortunately, the sector always has plenty of interesting challenges, issues, and opportunities, and the CFOs and CEOs that we meet with are always more than willing to share their insights.

The first significant matter this year is a change to the name to the FIPS document. Discussions with a vast majority of CEOs and CFOs highlighted the fact that whilst we have been referring to this very diverse sector as “non-bank” for the last 20 years, it was discussed how the name needs to reflect how diverse the sector is, and how it is made up of a range of different lenders offering slightly different products tailored specifically to the market that they operate in. So, we have changed the name from Non-Banks to Specialist Lenders.

The rationale for this is two-fold. As previously stated, it doesn’t make sense to describe these entities as something that they are not and it makes more sense to describe it as something that they are.

None of the entities that we survey in the specialist lenders sector would consider themselves as doing a bank’s job as well as the bank does and that is because they don’t do a banks job. They do their own job. Whether it is a building society, credit union, captive lender, non-bank deposit taker, peer-to-peer lender, etc., each of these different structures not only operates uniquely as a result of that structure, but also due to the sector they operate in and clients they serve. We are hopeful that the title Financial Institutions Performance Survey - Specialist Lenders will provide a more accurate reflection of exactly what these entities do. ►



**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, KPMG’s Head of Banking and Finance and editor of this publication. John is also Deputy Chairman of the New Zealand Auditing and Assurance Standards Board (NZAuASB) and serves as a board member of the External Reporting Board (XRB). John is also a fellow of CA ANZ, a member of the Institute of Directors and a Trustee of Breast Cancer Cure.

"Whilst we have been referring to this very diverse sector as "non-bank" for the last 20 years, it was discussed how the name needs to reflect how diverse the sector is."

The second most noticeable theme from meetings with senior executives of the sector was that they were much more positive this year. A combination of a change in Government to one that is perceived as and starting to show that it is more business friendly, interest rates starting to drop, inflation coming under control and changes to the CCCFA have all been little rays of sunshine. While these were seen as positives, this was balanced with the fact that with change comes additional disruption and cost, and acknowledgement that this is the price changing processes to a more favourable environment. Whilst executives were more positive and had started to see that sentiment filter into the market, there was a very realistic recognition that there was still some way to go.

The third significant item discussed was the that, in light of points one and two, it is important for the sector to demystify and explain itself. The sector has 1.7m customers and provides \$20b of lending to the New Zealand economy. It does this in specialist areas, and in many cases in areas where a bank is not willing to or does not normally operate. This may be through the design of the product, the speed of getting the product to the customer, the products being offered in the quantities that they are. The sector is aware that it needs to demystify and explain itself both to customers, the media, regulators, and to

Government so that as the economy turns, and we move into a time of economic growth, they are able to compete and provide services that are much needed to their customer base.

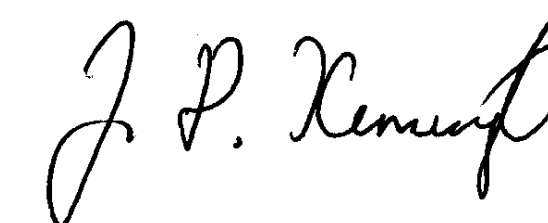
In addition to the themes above there was also the business-as-usual. Many executives talked about how the economy has been difficult, how we are not through it yet and that we may still encounter difficult times before we finally turn the corner.

Others focused the constant need for new regulation, changes to existing regulation and the impact this has on time, resources and money for organisations that are generally smaller than those for which the regulation is primarily designed. In addition, there was an across-the-board request for proportionality in applying regulations. The two areas of unanimous request were the reduction of the director's liability under the CCCFA, and the provision of safe harbour clauses for situations where a customer has been wronged but it has been remediated where the remediation is considered fair by the regulator. The view was that matters should stop there, rather than a costly legal battle, resulting in the naming of involved parties and potential brand and image damage.

Participants also addressed the fact that their market is more expensive because they do not enjoy some of the benefits

afforded to banks. Top of mind here was access to an ESAS or ESAS lite account and the ability to access funding more comparable to the levels achieved by banks.

I would like to take this opportunity to thank all of the survey participants that we met with for the time they gave us and their willingness to discuss open and honestly a range of topics that are discussed in more detail in this document. Without that level of participation and honesty, the survey would not be as interesting and insightful as it is. ●



Sector – Themes and issues

Speaking to the CEOs and CFOs of the specialist lenders, it was 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



Disruptors in sector/Fintech



Shortage of talent



Inflation/Cost pressures



Supply chain pressures



Climate reporting



Wealth redistribution



Demystifying the sector



Geopolitical uncertainty



ESG
(Environmental, Social and Governance)



Social licence



CCCFA/CoFI



Scalable regulation



Volatile interest rate environment



Conduct/remediation regulator response



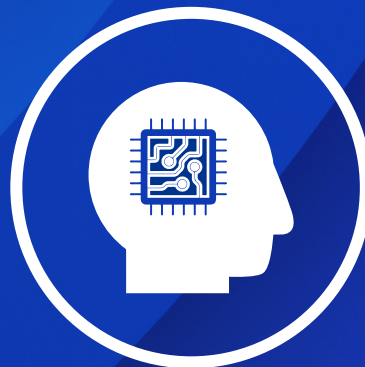
Flexible working/culture



Provisioning models



Cyber security



Product innovation, channel transformation and digital movement



Acquisition/consolidation



Capital and Funding Deployment

Sector – Themes and issues¹

The important role the specialist lending sector plays

The specialist lending sector encompasses a diverse range of business models and products. Even though they do not hold a banking license, they still play a pivotal role in the financial ecosystem – both New Zealand and abroad. These entities include, but are not limited to mortgage lenders, microfinance institutions, credit unions, finance companies, peer-to-peer lenders, private equity firms and building societies. One of the key differentiators of the specialist lending sector compared with banks, are that they derive capital and funding from the wholesale market, private investors, or other financial institutions such as banks and lend into areas that banks may not.

These entities play a critical role by catering to a variety of niche markets that are typically overlooked by traditional banks either due to a higher degree of perceived

risk or from banks not having that risk appetite. They bring innovation, flexibility, and accessibility through their ability to address the financial needs of individuals and businesses in a more specific, case by case manner and in doing so allow entities that might otherwise be excluded from the conventional banking system to receive much needed funding. Specialist lenders often have specialised knowledge in their industries and markets, enabling them to meet the needs of their markets more effectively and efficiently. By leveraging this and through innovative technology, they can offer fast and efficient financial services, which is very attractive to customers seeking expedited financial solutions.

Nonetheless, the sector still faces several challenges. The nature of specialist lenders and certain customer segments they target, leads to them being subject to regulation that was designed for traditional banks. There is an ongoing need for regulatory policies that are appropriately scaled to the size, business model and risk profile of the specialist lending sector. Further, they often struggle with the unfounded stigma associated with the industry as they

"There is an ongoing need for regulatory policies that are appropriately scaled"

are often associated with higher interest rates or unconventional lending practices. It is critical to address this stigma and demystify the sector to ensure their role is fully understood by all market participants so that funders, borrowers and regulators can better understand and recognise specialist lenders in the critical role they play in financial inclusivity, innovation and supporting the overall economy.

It is clear that the specialist lending sector is integral to the financial services industry. They address gaps in the markets that

banks may be unable or unwilling to reach and their innovation and ability to adapt to niche markets' needs drive economic growth. To ensure that financial services customers and our wider economy continue to benefit from their services, it is important to address the stigmas of the sector by increasing the understanding their value offering and promoting regulatory change to ensure that regulation is appropriate for the specialist lending sector, rather than just applying the same regulation as applies to traditional banks. ►

Capital deployment

Capital deployment within the finance sector is not necessarily occurring on a level playing field basis, and our specialist lender survey participants are among those feeling the impact. There are growing concerns about the inequity stemming from specialist lending entities' absence of an Exchange Settlement Account System (ESAS lite) or similar account. This situation means that when specialist lenders place excess funds they, compared to a bank with an ESAS account, get a lower return and have to hold additional capital. In most cases these placements are with banks who receive the benefit of a higher rate and lower capital.

Although regulatory obligations are generally deemed acceptable, consideration could be given to adjusting them to match the size of the institution. While these existing standards may be appropriate for larger banks, non-bank deposit takers (NBDTs) struggle with not accessing the Reserve Bank of New Zealand's Official Cash Rate (OCR) directly and are instead forced to borrow from banks at a higher cost. This situation increases costs and capital requirements for NBDTs.

Banks are in a favourable position, able to place funds at the OCR with the RBNZ with minimal risk. This situation highlights the

overall fairness issues within the current system, as specialist lenders are excluded from participating directly, perpetuating the imbalance in capital deployment across the sector. Additionally, when specialist lenders place deposits with banks, they are required to maintain 20% capital due to these placed funds.

Certain segments within the specialist lending sector, such as credit unions and building societies, face significant challenges as they have additional challenges raising capital to meet these requirements and often incur higher operational costs. This unfavourable situation combined with a need to achieve scale prompts these segments to consider the opportunity of merging, allowing them to achieve critical mass.

The specialist lending sector in New Zealand contributes to approximately 8% of the lending market. In comparison, countries like Australia have a specialist lending sector that represents between 15% and 30% of the market, while in the USA, it is approximately 50%. For the specialist lending sector in New Zealand to truly thrive and achieve market growth, the imbalances in lending ability and funding must be addressed to create equal opportunities for both the banking and specialist lending sectors.

Regulation

Specialist lenders have consistently remarked on how regulation affects the sector. Conceptually, regulators are striving to allow the provision of both protecting consumers, provide a wider range of services, increase inclusion, and ensure everyone has access to suitable products. While the specialist lending sector agrees these goals are appropriate, the legislation and its enforcement remain challenging and lead to unintended consequences.

Issues include disproportionate and unscaled regulation, meaning that costs are not proportional in relation to an entity's size. Most participants have noted changes to the CCCFA, and forthcoming changes related to the integration of FMA licencing and the Conduct of Financial Institutions Regime (CoFI) are positive. However, many participants are concerned about aligning their companies with these "once again changed" regulations, the cost of that and the lack of guidance provided. Coupled with the severe penalties for non-compliance, these harsh consequences seem unreasonable without proper support and guidance.

There is a general consensus that the specialist lending sector continues to prioritise customer protection. However, the significant penalties and absence of

practical guidance have resulted in many in the sector adopting a conservative approach to approving loans. With customer protection at the heart of their operations, the result of the stringent legislation and cautious loan approvals has meant borrowers at the bottom of the risk profile have increasingly turned to Buy Now, Pay Later schemes and Pay Day lenders, typically leading to less favourable outcomes for these borrowers.

However, at the same time some sector participants have benefited from the changes made to the CCCFA, noting an increase in the number of customers they are able to lend to. Additionally, these changes have enabled companies to lend again by making sensible judgement calls regarding their lending. The changes to the regulation have helped boost business and has given the sector the ability to investigate borrowers more thoroughly before approving loans, ensuring higher-quality business overall.

Another issue frequently noted was the lack of a safe harbour for self reported issues. All participants felt that if an issue was self reported and re-mediated satisfactorily, then it should end there. If a regulator spends the next few years prosecuting, fining and publicly shaming the entity, it may be considered unreasonable, especially if immaterial or satisfactorily rectified, and this can discourage reporting of issues. ►

CCCFA

There has been some positive feedback from survey participants regarding the recent changes to the CCCFA over the past year. From a credit quality and provisioning standpoint, these adjustments have allowed specialist lending entities to make better judgement calls and sensible, pragmatic lending decisions that meet customer needs. Furthermore, some specialist lending entities have experienced an increase in business and reduced cost pressures for borrowers due to these regulatory changes. The sector remains optimistic for future changes, and hope that any changes come with plenty of guidance from regulators to ensure best practice compliance. The two most requested future changes are the reduction of director penalties to a more realistic level and a safe harbour approach for self-reported issues that are remediated.

Stalled economy and economic uncertainty

In the wake of ongoing economic uncertainties, specialist lending entities in New Zealand continue to navigate various challenges influencing their business model. This year, discussions have revealed several key insights around the evolving economic landscape and the change they foresee necessary to maintain resilience and growth.

With the economy at or near the bottom of the cycle and seemingly stalled, the question is when will it start to grow, specialist lenders are finding it challenging to grow their business and achieve profitable growth. Fluctuating interest rates are affecting hedging, margins, and provisioning models, posing significant obstacles to lending opportunities. The impact of continued inflation, high interest rates and increasing unemployment are all showing signs of coming to an end – often referred to as the first signs of green shoots. This has provided some optimism to sector participants. Nevertheless, there remains a cautious optimism about the future among these entities and a recognition that we still have an extended period of challenging times until the end of 2025 and possibly into 2026.

Costs of climate reporting

Climate reporting has emerged as a significant challenge, with some estimating a \$1 million cost to their business. To be climate reporting ready, this figure includes internal time, reallocation of staff, and assurance costs. We heard that these costs are acting as a serious deterrent for companies considering becoming listed. It's viewed as an onerous obligation with little immediate benefit, only adding to the pressure on the business model in an already tough financial landscape. The necessity to invest in new systems,

1 Consumer Price Index (CPI) (annual % change)



Source: RBNZ Website ▶

compliance processes, and administrative resources have strained finances further. Although the immediate costs may be significant, the potential future strategic benefits could provide essential leverage for specialist lenders to navigate through uncertain times.

OCR reductions

This year, the reduction in the Official Cash Rate (OCR) delivered good news and a much-needed confidence boost to the market. Survey participants appreciated

the timing and scale of the reduction, noting its positive impact on market activity and business models. The Reserve Bank of New Zealand (RBNZ) has implemented additional OCR reductions to sustain this renewed optimism (subsequently proved correct last month). One of the observations for many participants was that the public expectation was that rates would continue to fall when in reality they will probably only fall into a mid 3% or early 4% range and not to the lows of Covid-19. While the OCR may reduce, a significant portion of New Zealand's funding is obtained from ►

offshore and some of those rates are increasing due to geopolitical factors - the offsetting impact could limit the level of decrease and the impact on borrowing rates as the different components of the sectors funding are subject to different pressures.

Sector growth

There is a growing inclination among consumers and businesses toward specialist lending. This trend can be attributed to the specialist lending sector's ability to introduce new and innovative financial products more rapidly than traditional banks. Survey participants observed that, while specialist lenders are gaining ground, their overall market share in New Zealand remains smaller compared to their counterparts in larger economies such as Australia and the USA.

This relatively modest market share presents a significant opportunity for growth in New Zealand. As awareness and trust in specialist lending continue to build, there is substantial potential for specialist lenders to expand their footprint. The shifting dynamics in the financial sector indicate that specialist lenders are well-positioned to capitalise on these changes. By leveraging their flexibility, innovation, and growing reputation, specialist lenders are set to capture a larger portion of the market, offering a broader array of lending options. Many participants

were increasingly optimistic that given the low share the sector has of lending compared to other markets, there was tremendous opportunity to grow the sector, despite the slow down in the current period.

Another issue commonly mentioned by survey participants was the public’s lack of perception of what the sector actually does. It has become quite apparent that there needs to be more awareness of how the sector operates and the functions it performs. This lack of awareness is seen as one of the key reasons the sector is held back, with some survey participants believing that the borrowers, lenders, the public and regulators lack a clear understanding of what the sector actually does, contributing to the issues in the regulatory environment. Another significant factor holding back the sector is its slightly elevated cost of funds (compared to the banks sector).

Geopolitical uncertainty

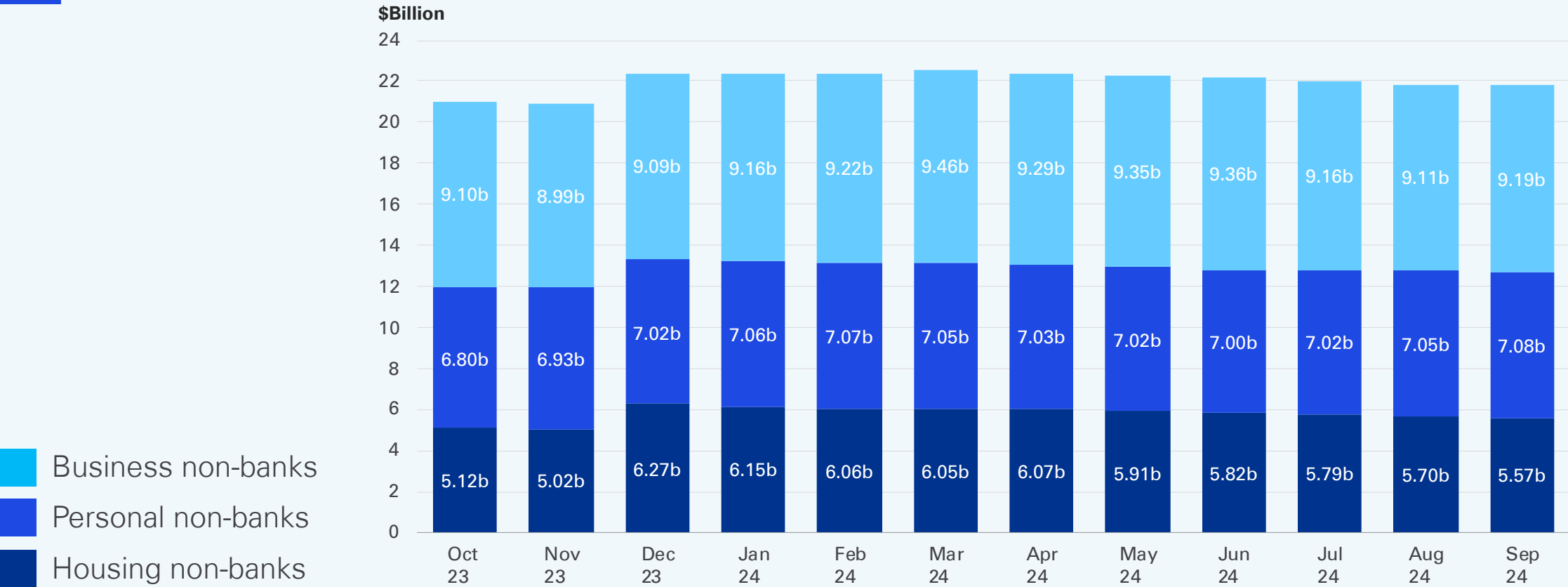
Donald Trump's recent victory in the US presidential election is just one of many factors that introduces considerable geopolitical uncertainty, further clouding New Zealand's economic outlook. Other factors include tensions in the middle east, the Russia/Ukraine conflict, and changing societal expectations and the impact that this has on governments and elections ▶

2 Official Cash Rate (OCR) (End of Month) September 2004 to September 2024



Source: RBNZ Website ▶

3 Non-bank lending



Source: RBNZ Website ▶

and the volatility that brings. This adds another layer of economic uncertainty to an already challenging environment where businesses are struggling to grow amid limited lending opportunities and fluctuating interest rates. As New Zealand has minimal influence over these global political shifts, businesses face added pressure to navigate these unpredictable external factors while seeking growth and stability.

Despite the challenges, a number of participants said there are ‘green shoots’ suggesting potential growth. These include a stable employment rate and cautious optimism about future economic conditions. Specialist lenders need to continue to innovate and adapt to market demands as they play a crucial role in reviving the financial performance of the sector.

Cyber security

Cyber security is, once again, one of the key risks survey participants have faced this year. As fraud, data breaches, scams, and other methods of cybercrime become increasingly complex, it is imperative that survey participants implement the necessary measures to combat cybercrime and remain digitally safe.

One key incident this year, that many are aware of, was the CrowdStrike software update. This update triggered a series

of events that affected systems globally, underscoring the profound risk associated with cyber-attacks. In response, many survey participants have since increased their investment in cyber security and revised their strategies to avoid falling victim to a cyber-attack.

As cyber-attacks are becoming increasingly complex, the risk of falling victim to these attacks continues to rise. Survey participants with parent companies overseas have noted the heightened risk of dealing with third parties via online portals. All survey participants are familiar with the consequences of a cyber-attack, either by witnessing one or being victims themselves. In the 12 months to 30 August 2024, New Zealanders have lost an estimated \$2.3b to digital scams, an increase of \$0.3b from 2023². As phishing, scams, and fraud comprise most of the cybercrime in New Zealand, survey participants have acknowledged the constant need to monitor their systems and continuously invest in strengthening them to prevent these cybercrimes from affecting them. As the complexity of online scams grows, it remains essential for entities to stay informed about cyber trends in order to safeguard themselves and their stakeholders.

Nearly all survey participants acknowledged the risks associated with the development of AI and its potential to support and

grow an entity. However, if implemented inadequately, it could create future risks. Some entities are reluctant to use AI, as entering confidential information and processes into AI applications could lead to severe data breaches. The other challenge with AI is those who are unaware asking “what can AI do” and those responsible for development saying “what do you want it to do”.

Credit quality and provisioning

Survey participants believe the interest rate environment is an important and difficult factor to deal with in terms of

credit quality and provisioning. The volatile nature of interest rates impacts hedging, margins, and provisioning models, making it challenging for specialist lenders to achieve profitable growth. The ability for borrowers to be able to meet their payment obligations is of paramount importance to lenders from both a moral and compliance point of view, in addition to forcing lenders to be able to estimate how much they might lose when providing a loan.

Employment

While interest rates are improving, concerns about job security persist, as the unemployment rate has slightly increased to 4.6% in 2024. Despite this, survey participants believe that the economy ►

"Despite the challenges, a number of participants said there are ‘green shoots’ suggesting potential growth."

remains stable, noting that unemployment rates are not alarmingly high and loan losses are minimal. This increase in the employment rate from 2023 to 2024 suggests a retention of provisions and higher impaired asset expenses reported in the past year. Ensuring that we continue to operate as close to full employment as possible is a key factor to ensuring losses remain manageable. Another critical factor identified recently was the need to improve productivity across the economy.

Interest rates

Up until two years ago, interest rates were at historic lows, allowing consumers easier access to affordable financing. However, the rising cost of living and inflationary pressures have led to increased impairment levels and past-due loans driven by pricing pressure causing borrowers and lenders alike to feel the pinch from pricing decisions. With interest rates starting to decrease, this hints at some optimism. But the question remains as to how far they will go and what impact these will have on the macroeconomic environment. In addition the falling OCR expectations may not alone result in interest rate reductions if global uncertainty and geopolitical unrest move wholesale market rates upwards when New Zealand is funded from both sources.

Opportunities and challenges

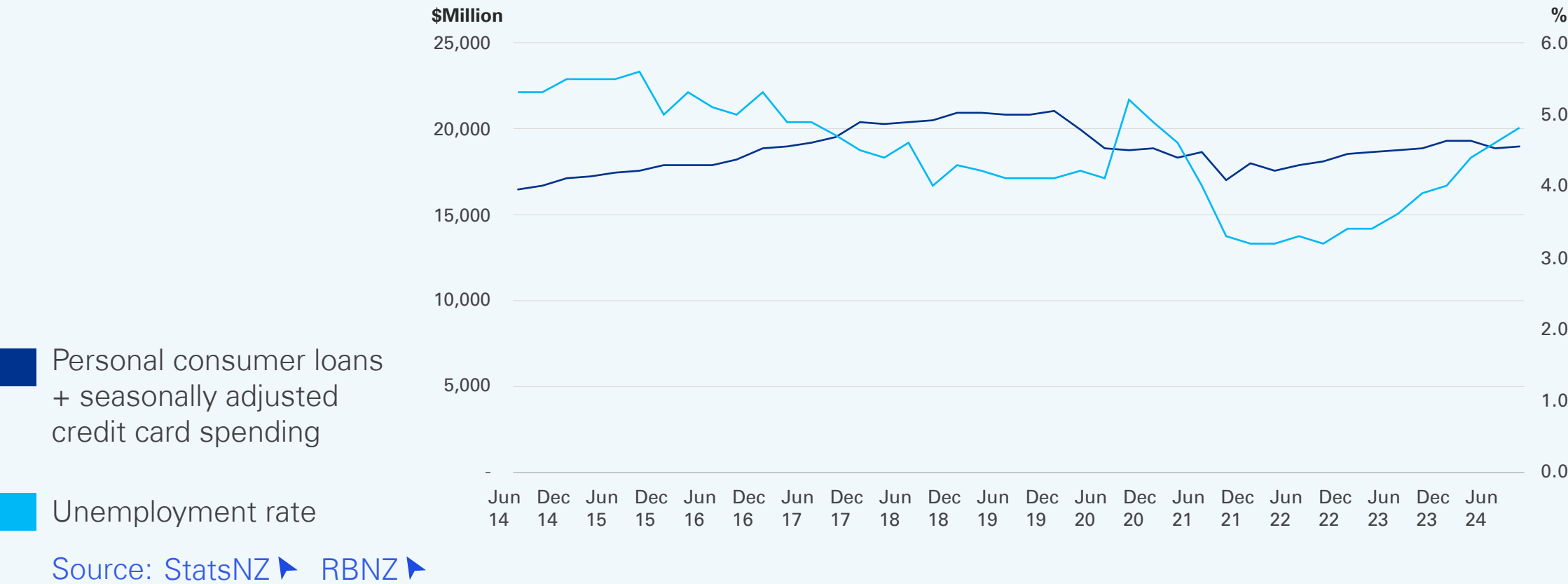
As part of our meetings with survey participants we asked what they saw as the key challenges and opportunities that the specialist lending sector has faced. The challenges and opportunities noted by survey participants directly related to the key themes we have discussed earlier in this publication (see Sector – Themes and issues on page 8).

Another important takeaway from the discussions was that, in many cases, the opposite side of the challenges also presented opportunities, and the same was true in reverse.

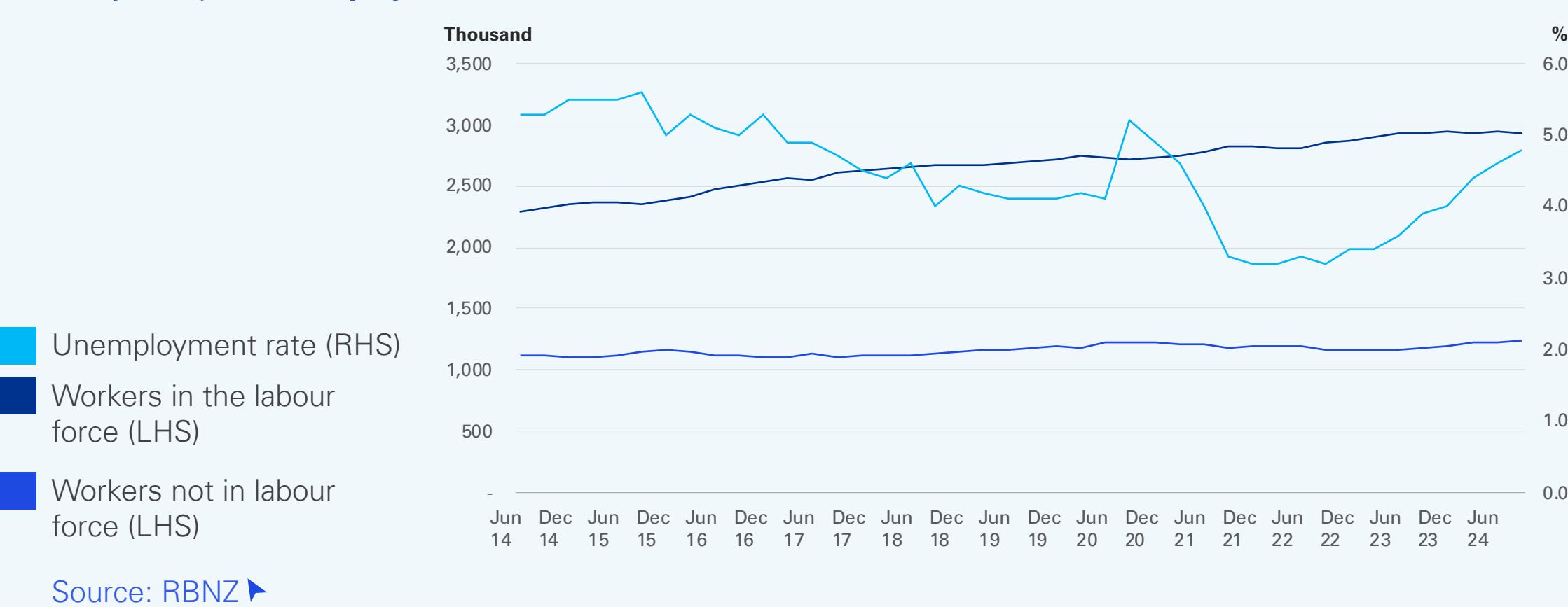
The challenges identified by the survey participants focused on:

- Participants felt they would really benefit from being able to access capital and funding as easily as banks and at similar rates.
- The industry needs to demystify itself to improve perception and understanding from borrowers, lenders, the public and regulators, as it plays a significant role in personal lending. Addressing misunderstandings and access to funding, especially for smaller entities, is crucial for the sector's growth as it will allow ►

4 Unemployment rate vs Personal loans & credit card spending



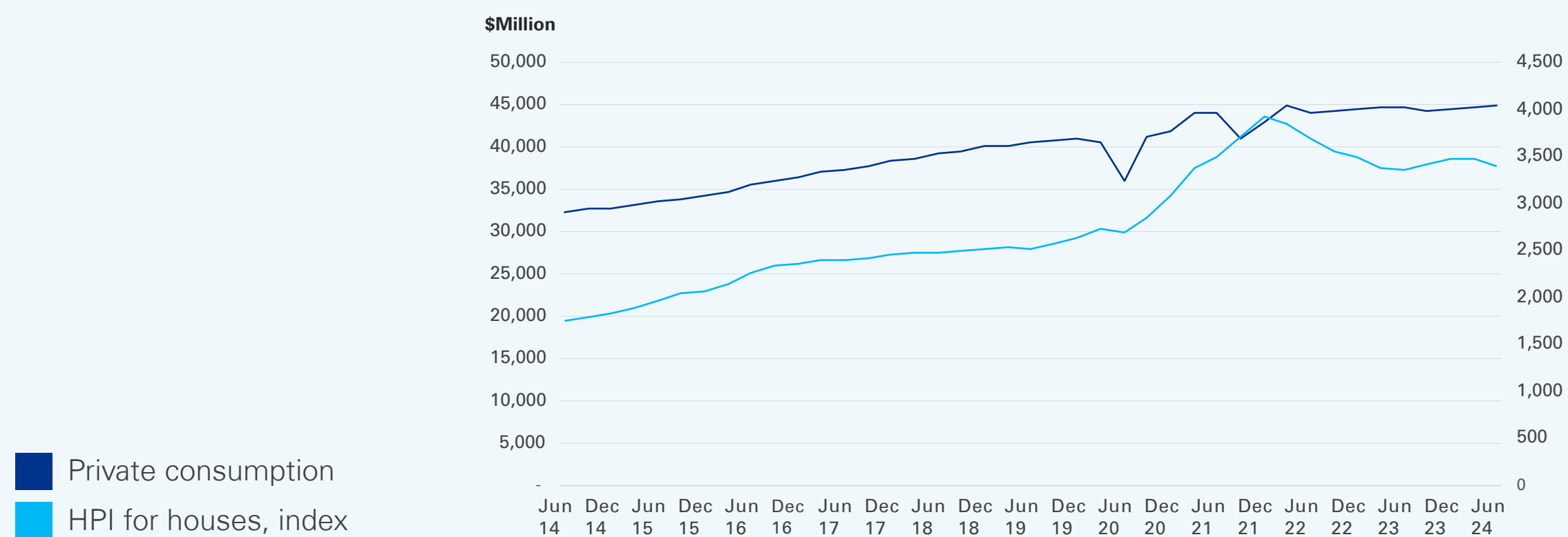
5 Workers in labour force (seasonally adjusted) and unemployment rate



6 Personal lending vs Number of people receiving Job Seeker Support



7 Private consumption vs HPI for houses index



customers the confidence to transact with the sector and regulators the ability to scope regulation proportionally to balance growth and compliance.

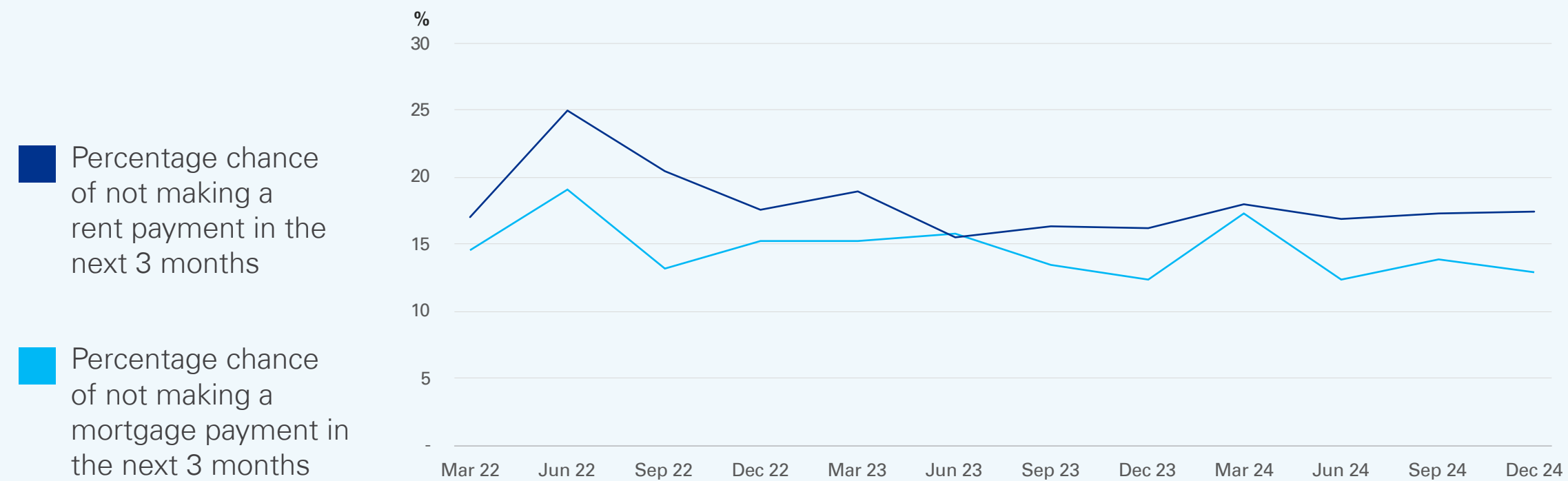
- The industry welcomes sensible CCCFA changes that ease the ability to lend but are concerned with the challenges with documentation, compliance and proportionality in regulations as they impact differently sized entities. Companies seek balanced and fair regulatory frameworks and legislative updates to support growth while ensuring compliance amidst evolving rules and regulatory expectations.
- Cyber security is identified as a key challenge, demanding significant investment and constant monitoring. Companies face complex fraud, high technology costs, and confidentiality concerns with AI. Opportunities lie in better data use, but open banking adds risks, and customer preferences for manual security must be balanced with advanced technology.

After recognising these as the main challenges, survey participants noted that effectively addressing them while taking care of customers represented a significant opportunity, as this could ultimately help build trust.

The key opportunities identified by our survey participants included:

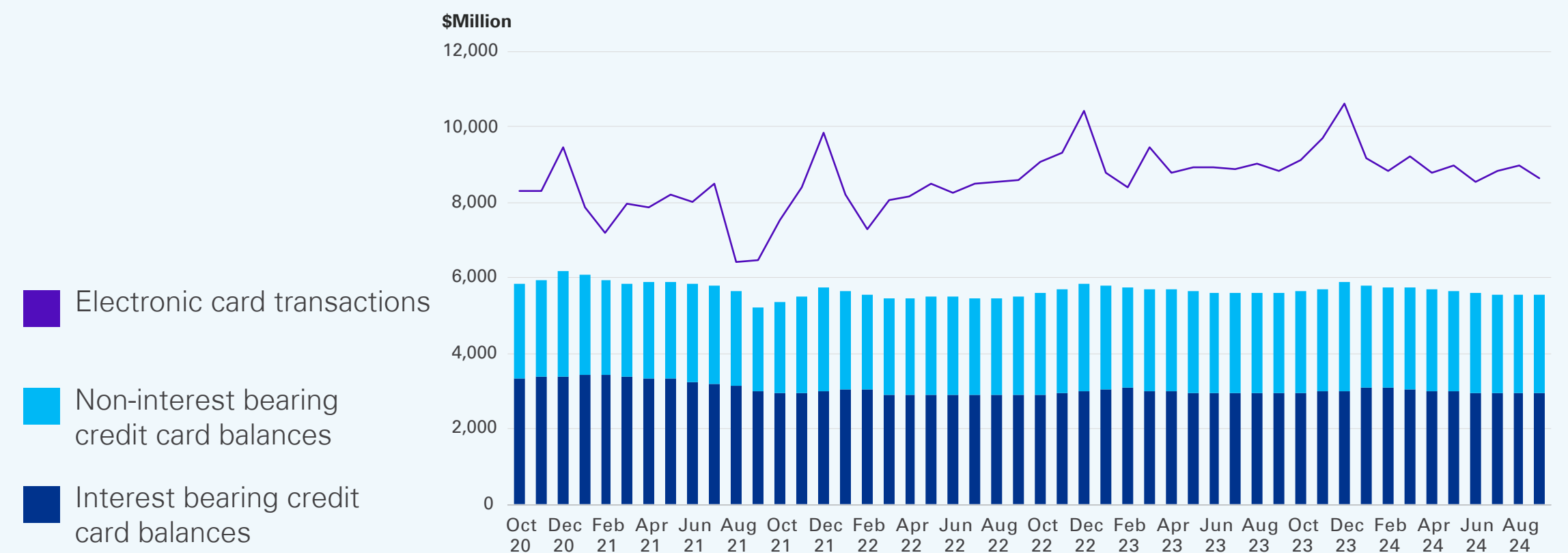
- Demystifying the specialist lending sector will improve transparency and understanding, attracting more customers and investors by clarifying benefits and operations, reducing misconceptions, and promoting informed engagement. This will flow on to making more finance available to a wider section of the population.
- More scalable regulation would provide a fairer framework, ensuring the dual cost of compliance and protecting consumers while supporting innovation and growth in the specialist lending sector through clear, proportionate rules that encourage responsible business practises.
- Enhancing cyber security strengthens trust and protects sensitive data, fostering customer confidence and security within the specialist lending sector, ultimately supporting growth and stability in an increasingly digital financial environment.
- With the specialist lending sector currently making up about 8% of the lending sector compared to other countries (for example Australia at 15-30% or the USA at 50%), participants felt that these ratios can only move one way provided they could provide a relevant offering that was easy to access. ●

8 Percentage change of not making a mortgage or rental payment in the next three months



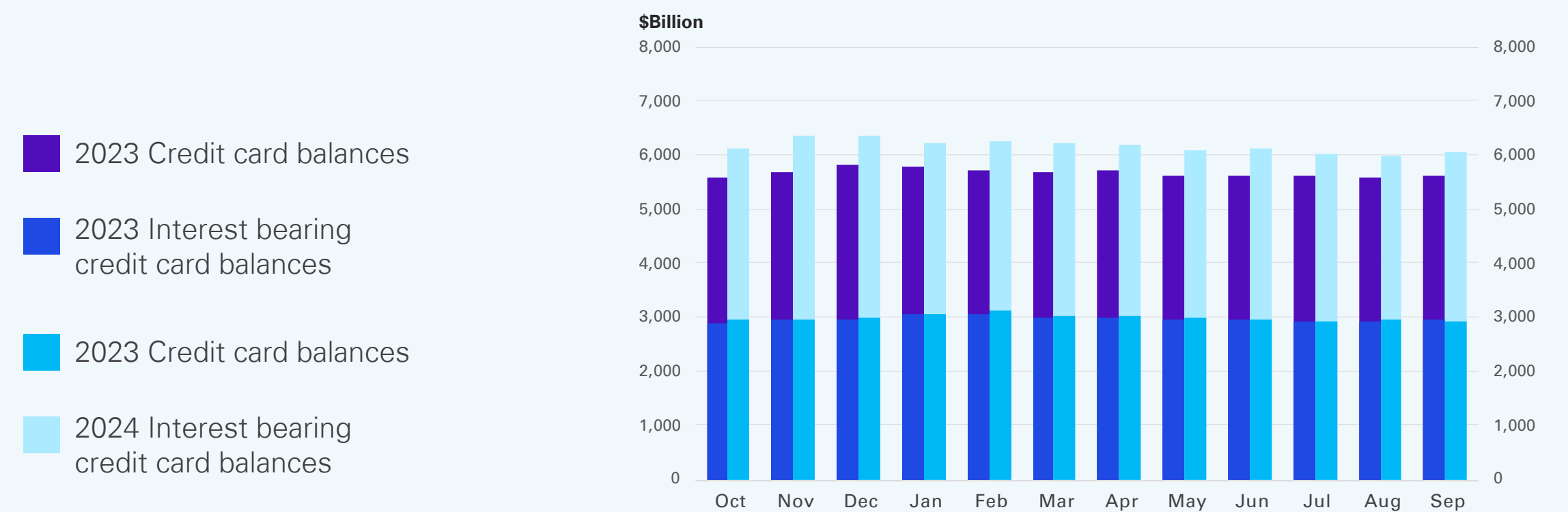
Source: RBNZ

9 Credit card balances vs Electronic card transactions



Source: StatsNZ

10 2023 v 2024 Credit card balances



Source: RBNZ

Opportunities and Challenges



Sector - Timeline of events³

The related articles are hyperlinked to provide access the respective news releases

OCT 2023	NOV 2023	JAN 2024	FEB 2024	MAR 2024	APR 2024
<ul style="list-style-type: none">• 4th October: The RBNZ’s Monetary Policy Committee agreed to leave the OCR at 5.5% ▶• 14th October: NZ Election 2023 – National set to govern.• 17th October: Inflation increases annually by 5.6% in the September 2023 quarter ▶	<ul style="list-style-type: none">• 1st November: Auckland Credit Union members unable to access money for days, encountered as part of a software re-platform. ▶• 29th November: The RBNZ’s Monetary Policy Committee agreed to leave the OCR at 5.5%. ▶	<ul style="list-style-type: none">• 24th January: Inflation decreases to its lowest rate in two years, now at 4.7%. ▶• 30th January: RBNZ’s chief economist Paul Conway continued to push back against financial markets, which are betting on the central bank cutting the OCR this year. ▶	<ul style="list-style-type: none">• 27th February: Prosopa Group acquired by Salter Brothers. ▶• 28th February: The RBNZ’s Monetary Policy Committee agreed to leave the OCR at 5.5%. ▶	<ul style="list-style-type: none">• 23rd March: New Zealand's GDP grew by 0.2% following declines in the December and September quarters, indicating the country is now out of a recession. ▶	<ul style="list-style-type: none">• 1st April: Changes to the interest limitation rule effective, now allowing claims of 80% of interest incurred on loans for residential property. ▶• 10th April: The RBNZ’s Monetary Policy Committee agreed to leave the OCR at 5.5%. ▶• 17th April: Inflation increased annually by 4.0% in the March 2024 quarter. ▶• 21st April: The government announced lending changes to simplify obtaining home loans and enhance customer protections. ▶

Sector - Timeline of events

The related articles are hyperlinked to provide access the respective news releases

MAY 2024	JUL 2024	AUG 2024	SEP 2024	OCT 2024	NOV 2024
<ul style="list-style-type: none">• 22nd May: The RBNZ’s Monetary Policy Committee agreed to leave the OCR at 5.5%. ▶• 23rd May: The Government announces an end to the First Home Buyer Grant. ▶• 28th May: Speirs Finance Group acquired by Anchorage Capital Partners ▶	<ul style="list-style-type: none">• 10th July: The RBNZ’s Monetary Policy Committee agreed to leave the OCR at 5.5%. ▶• 15th July: Squirrel exposes personal details of 600 investors in a “security incident”. ▶• 17th July: Inflation increased annually by 3.3% in the June 2024 quarter. ▶• 20th July: Microsoft users experience global IT outage. ▶• 31st July: Changes to Personal Income Tax thresholds effective. ▶	<ul style="list-style-type: none">• 14th August: The RBNZ’s Monetary Policy Committee agreed to reduce the OCR to 5.25%, the first reduction in more than four years. ▶	<ul style="list-style-type: none">• 19th September: New Zealand’s GDP declined by 0.2% over the quarter, surpassing the Global Financial Crisis after declining for seven consecutive quarters. ▶• 24th September: Squirrel acquires NZ Mortgages. ▶	<ul style="list-style-type: none">• 9th October: The RBNZ’s Monetary Policy Committee agreed to further reduce the OCR to 4.75%. ▶• 16th October: Inflation increased annually by 2.2% in the September 2024 quarter. ▶	<ul style="list-style-type: none">• 4th November: RBNZ warns that geopolitical risks from Russia, China, and the Middle East pose one of the most serious threats to New Zealand's financial stability. ▶• 6th November: Donald Trump elected as president of the USA. ▶• 27th November: The RBNZ’s Monetary Policy Committee agreed to reduce the OCR to 4.25%. ▶

Green shoots may be cause for optimism

It feels good to start this year's editorial on a slightly more optimistic note than the last couple of years' musings.

Optimism due to a welcome re-balancing of regulatory requirements, and because of the frequency of which we are hearing the words "green shoots" being used to describe the state of the economy.

This time last year we were wondering who the new Minister of Commerce and Consumer Affairs would be following the change of Government. With that, we also wondered what the promised programme for financial services regulatory reform would look like, including the much needed, and long-awaited, relaxation of the prescriptive requirements of the CCCFA.

Wonder no more!

Almost immediately after getting his feet under the desk in December, we were meeting with Minister Andrew Bayly to provide feedback on his early plans.

By the time we were all back from holiday in late January, Minister Bayly had called a meeting of officials, lenders including banks and our members, and financial mentors and consumer advocates, to discuss options for expedited relief from the CCCFA's affordability regulation requirements.

What was unique about this was that the Minister didn't just open the meeting and leave us to the discussion, he stayed for the full two hours listening and asking pertinent questions.

As it turned out, rather than tweaking the requirements of the affordability regulations which would have just been more tinkering at the edges, Minister Bayly took the somewhat unexpected step of revoking them altogether (except those applying to high-cost credit contracts).

This did leave lenders with the Lender Responsibility Principles in the CCCFA, including the one that requires lenders to ensure that the borrower can meet the repayments without suffering substantial hardship so it is still illegal to lend to someone who cannot afford to repay – which is entirely as it should be.

But there is now more discretion for lenders as to how that can be achieved and slightly more leeway for them to use their expertise and judgement if a "square" lending application does not quite fit in a "round" hole. ►



Lyn McMorran
Executive Director
Financial Services
Federation Inc.



FINANCIAL SERVICES FEDERATION

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

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

The Minister wasn't done there, overseeing the release of three meaty discussion papers on further financial services sector reform: one of fit for purpose consumer credit legislation; one on fit for purpose financial services conduct regulation; and one on effective financial dispute resolution.

Once submissions on each of these papers have been considered, this will set the direction for further financial services reform, some of which has already become clear.

The Minister has further announced that the CCCFA itself will be reformed to remove the overly punitive personal liability for the senior managers and directors of consumer credit providers, and to simplify disclosure requirements to make them more consumer centric.

Both of these are measures that will be very much welcomed by lenders, and we look forward to the release of an exposure draft or an amendment Bill early in the new year to bring these into effect.

Another confirmed change is the transfer of responsibility for enforcement of consumer credit regulation from the Commerce Commission to the Financial Markets Authority.

The reasoning is that the FMA is already the conduct regulator for entities covered by the conduct licensing regime, so bringing everyone under the conduct requirements makes sense to ensure fair outcomes for consumers.

On the face of it, we don't have any major concerns about this transfer of responsibility.

The FMA has proven through the conduct licensing process to be an engaging regulator who has gone out of their way to understand the needs of the smaller players represented by our Non-Bank Deposit Taker and credit-related insurer members. ►

"While there are good stories to be told, demand for credit from both consumers and businesses is still subdued."



The devil, as always, will be in the detail.

Questions exist around the cost to non-deposit-taking lenders who are currently outside of the scope of the conduct licensing regime, but who would likely have to obtain a market services licence from the FMA, for example.

It is certainly refreshing to be able to write that there is some light at the end of the regulatory tunnel, and I think we have a return to some good old fashioned commonsense to thank for that.

This will remove unnecessary barriers to accessing credit (to a certain extent) which will be welcomed by lenders and consumers alike.

But, as no doubt this FIPS report will reveal, while there are good stories to be told, demand for credit from both consumers and businesses is still subdued.

For our members, this is the case particularly for motor vehicle loans, non-bank mortgage lenders, personal loans and Buy Now, Pay Later.

According to Centrix data to the end of September, overall credit demand is still 2% less than it was this time last year and company liquidations and business credit defaults are up year on year at 25% and 16% respectively.

For the FSF as an organisation, 2024 has been a good year, not just in terms of some regulatory relief. This is particularly encouraging as we approach our 60th anniversary which we will celebrate next year.

We reached the milestone of admitting our 100th member and marked this by donating 100 sadly much-needed food parcels to the Salvation Army. We launched our Level 5 Micro-Credential in Consumer Credit which filled a gap in training offerings for people working in consumer credit that lenders had identified for many years.

One new initiative was driven from hearing from members. We heard from lenders that the only training option available to them when taking on new people or upskilling their existing workforce was to provide on the job training. They told us that a qualification that provided essential background to the legal landscape and obligations lenders must meet to be responsible credit providers would be very desirable to professionalise their workforce.

It's been very pleasing to see more than 70 people complete the Micro-Credential to date with very positive feedback from students as to the course content and value. Looking ahead, we are going to be making some exciting announcements in the New Year to further develop our educational offerings to members and

non-members, particularly those working in the commercial finance and leasing spheres.

The FSF continues to be well positioned as the voice of the specialist lending sector in New Zealand, and in this role, we won't be letting the Commerce Commission's market study and the Select Committee enquiry into banking competition go to waste.

Our members provide over \$20 billion in lending to 1.7 million consumers and businesses, those customers who see the value in dealing with smaller, more nimble and innovative providers who are therefore closer to their customer base, with the accompanying deeper understanding of the sectors their customers operate in than the large banks are able to be.

So, as is entirely appropriate for Spring, may the green shoots for New Zealand's specialist lending sector continue. ●



Centrix update:

What's Aotearoa New Zealand's credit situation heading into summer?



Keith McLaughlin
Managing Director,
Centrix Group Limited



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

As we round out one year under the Coalition Government, it's time to take stock of how Kiwi households and businesses are faring on the credit front.

The key takeaway? It's evident the tight economic conditions and cost-of-living crisis has continued to squeeze many over the last twelve months.

The good news is the Reserve Bank of New Zealand has reported a decrease in inflation for the September 2024 quarter, down to 2.2% from 3.3% in the previous quarter – sitting comfortably within the target range.

Despite these developments at a macro level, the credit trends for households and businesses across Aotearoa New Zealand present a more telling story as we near the end of 2024.

In September 2024, the number of New Zealanders falling behind on payments decreased slightly to 458,000 - a reduction of 3,000 compared to the previous month.

Nonetheless, this figure remains 3.5% higher than a year ago, exceeding levels recorded in 2018, and we anticipate an increase during the summer months due to seasonal spending patterns.

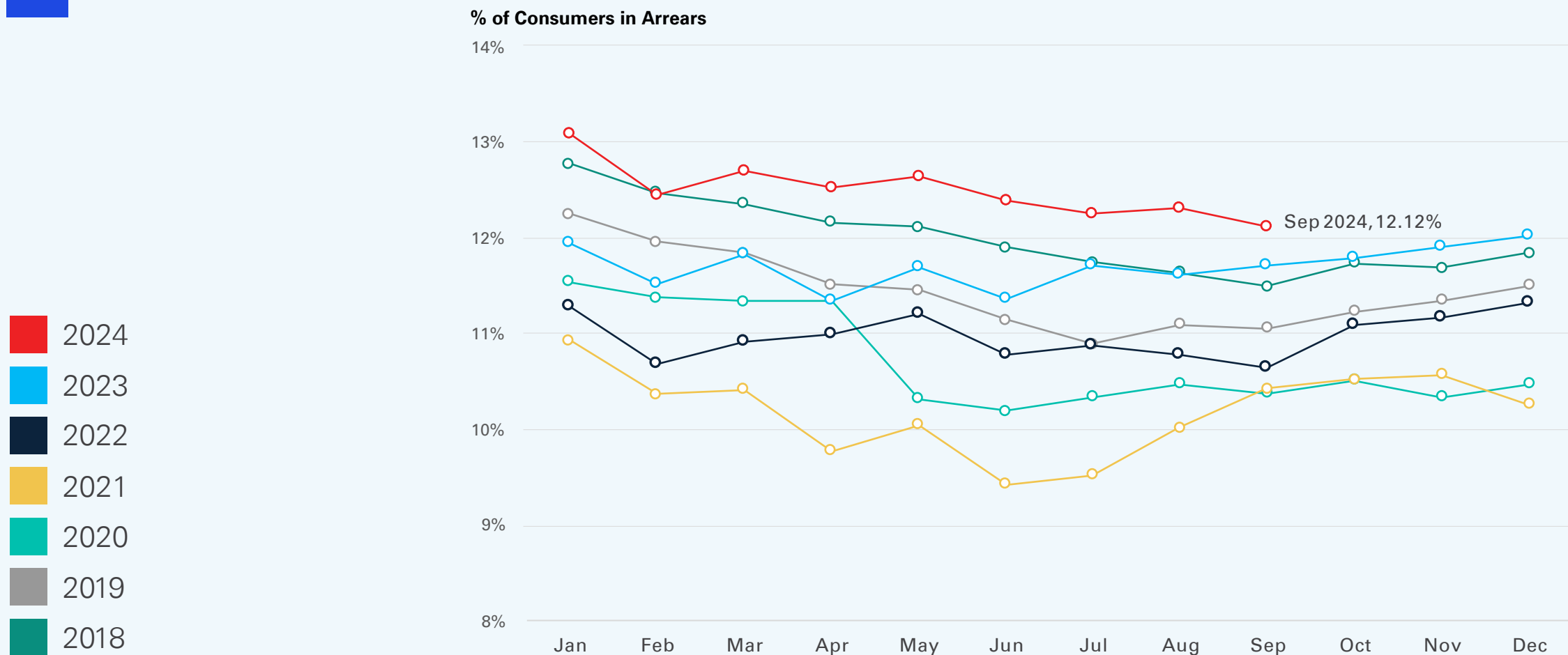
A closer look at these arrears reveals that 156,000 consumers are at least 30 days past due on their payments, with nearly half of this group – 74,000 individuals – being 90 days or more overdue. ▶

11 See Figure 11 - page 24

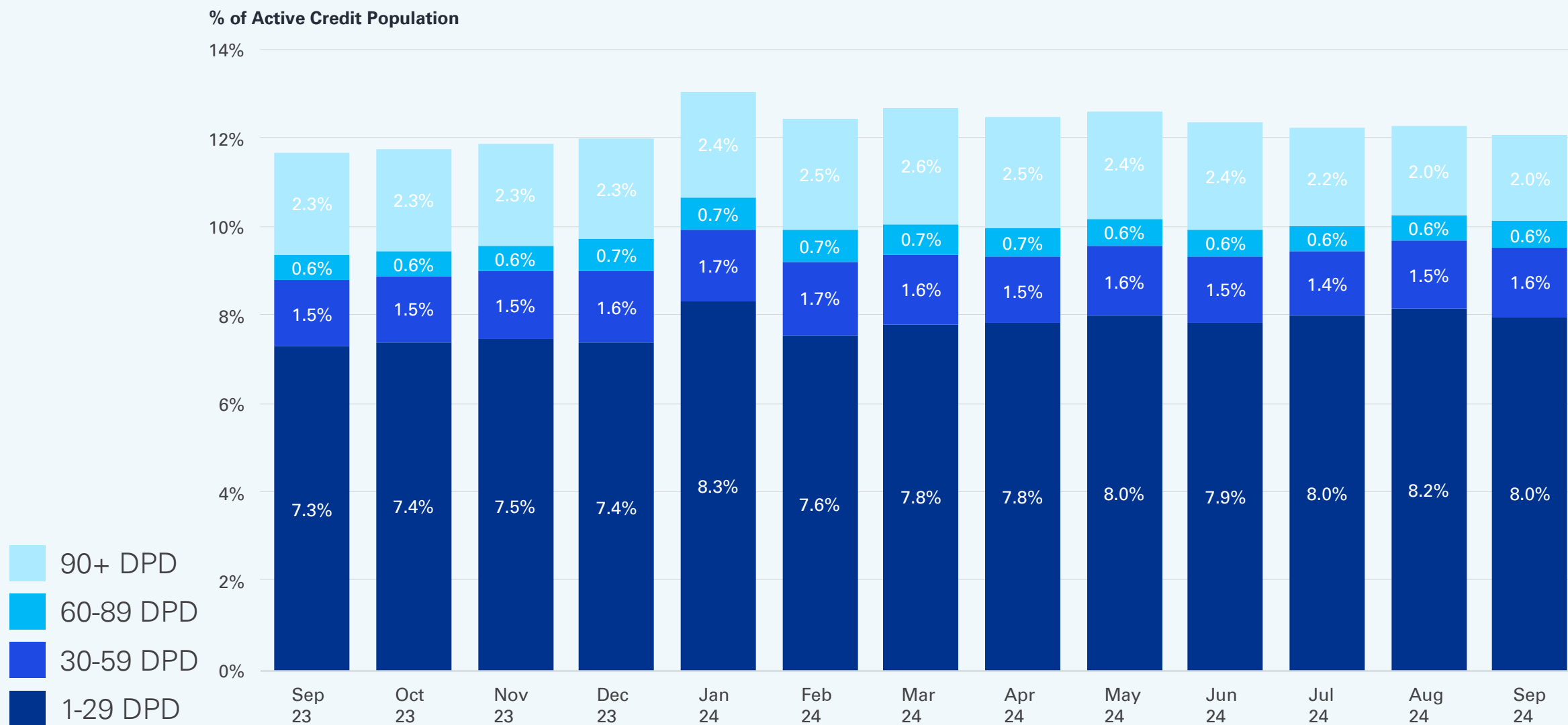
12 See Figure 12 - page 24

"The good news is the Reserve Bank of New Zealand has reported a decrease in inflation for the September 2024 quarter"

11 Consumer arrears trends



12 Consumer arrears by Days Past Due (DPD)



Credit card delinquencies have shown a slight month-on-month improvement, settling at 4.2%, while remaining stable year-on-year. Personal loan and retail energy arrears have held steady at 8.9% and 4.7%, respectively, indicating no significant changes in these sectors.

13 See Figure 13 - page 25

14 See Figure 14 - page 25

Interestingly, Buy Now Pay Later (BNPL) services have seen a positive development, with arrears dropping to 6.1% – the lowest level observed since January 2022.

Meanwhile, telecommunications and communication account arrears have remained steady at 9.7%.

15 See Figure 15 - page 25

The mortgage sector presents a mixed picture. While there has been a slight increase in mortgage arrears, with 21,200 home loans now past due – representing a 13% year-on-year rise – there are also signs of potential recovery in the housing market.

Mortgage applications have increased by 4% compared to the same period last year, possibly indicating renewed confidence among potential homebuyers as spring approaches.

16 See Figure 16 - page 25

Turning to credit demand, we’ve seen consumer credit demand decrease by 2% compared to last year, although the decline is beginning to slow.

Interestingly, demand for credit cards is on the rise, showing a 13% increase from the previous year. On the other hand, vehicle finance demand has seen a significant drop, down 16% year-over-year.

17 See Figure 17 - page 26

18 See Figure 18 - page 26

A notable trend is the increase in consumers new to credit, who are starting to take up credit products for the first time, helping them build their credit profiles. In 2023, around 160,000 consumers opened their first credit products, with another 110,000 doing so in 2024 so far.

In fact, our data indicates Buy Now Pay Later (BNPL) options have been the most popular initial credit product since 2018; however, uptake peaked in 2021 and is now declining as interest in telecommunications products resurges. ▶

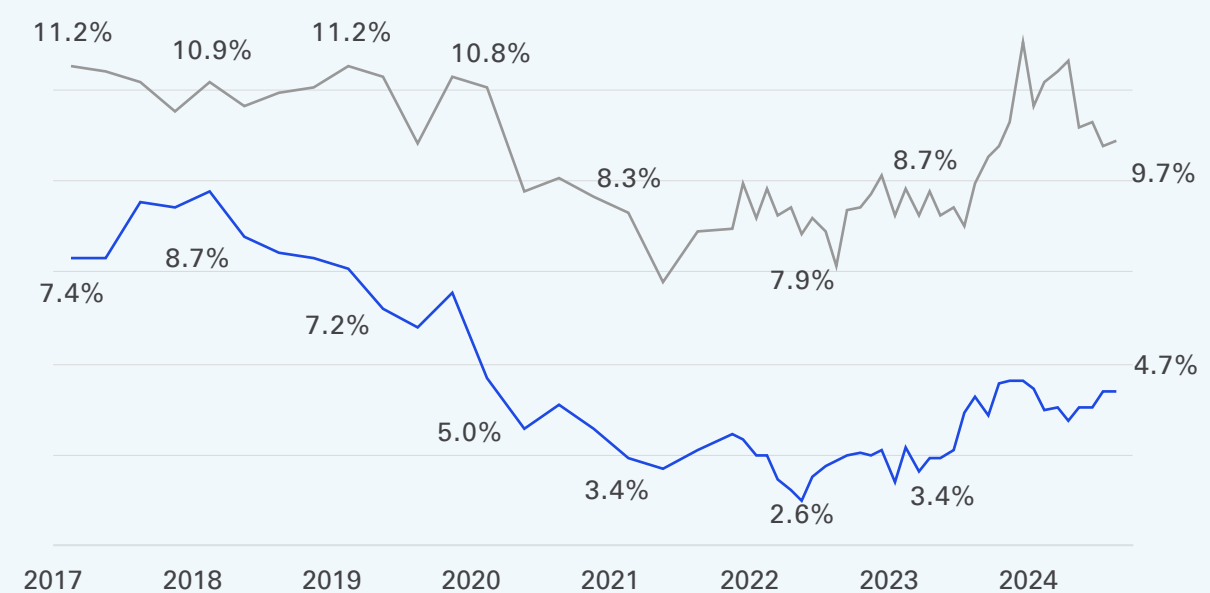
13 Credit card & auto loan arrears

Credit cards
Auto loans



14 Telco and Utility arrears

Telco
Utility



Despite this decline, in 2023 and 2024, one-third (32%) of new-to-credit consumers chose BNPL as their initial credit product.

19 See Figure 19 - page 27

Financial hardship continues to be a significant issue in the consumer credit landscape, with 13,300 accounts currently reported as experiencing difficulties.

However, there has been a modest decrease of 400 cases in the past month, suggesting a potential shift towards

improvement and indicates consumers are taking proactive measures to address their financial challenges.

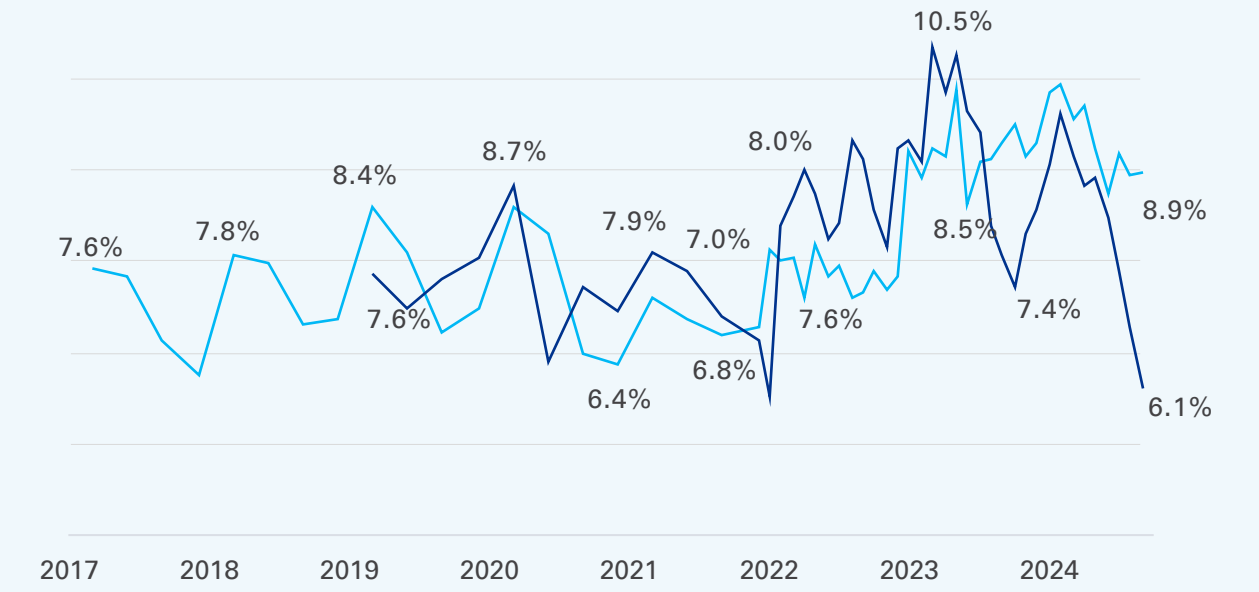
By formally declaring financial hardship, individuals are showing a commitment to managing their financial situations and seeking appropriate assistance. This proactive approach is a positive step towards long-term financial stability and resilience.

20 See Figure 20 - page 28

21 See Figure 21 - page 28

15 Personal loan & BNPL arrears

Personal loans
BNPL



16 Home loan arrears



Year-over-year comparisons reveal a 19% increase in financial hardship accounts. Notably, nearly half (47%) of these cases are linked to mortgage payment challenges, while credit card debt accounts for 29%, and personal loan repayment issues make up 15% of the total.

Since November 2022, the overall trend has shown an upward trajectory in financial hardship instances, but the growth rate is now decelerating.

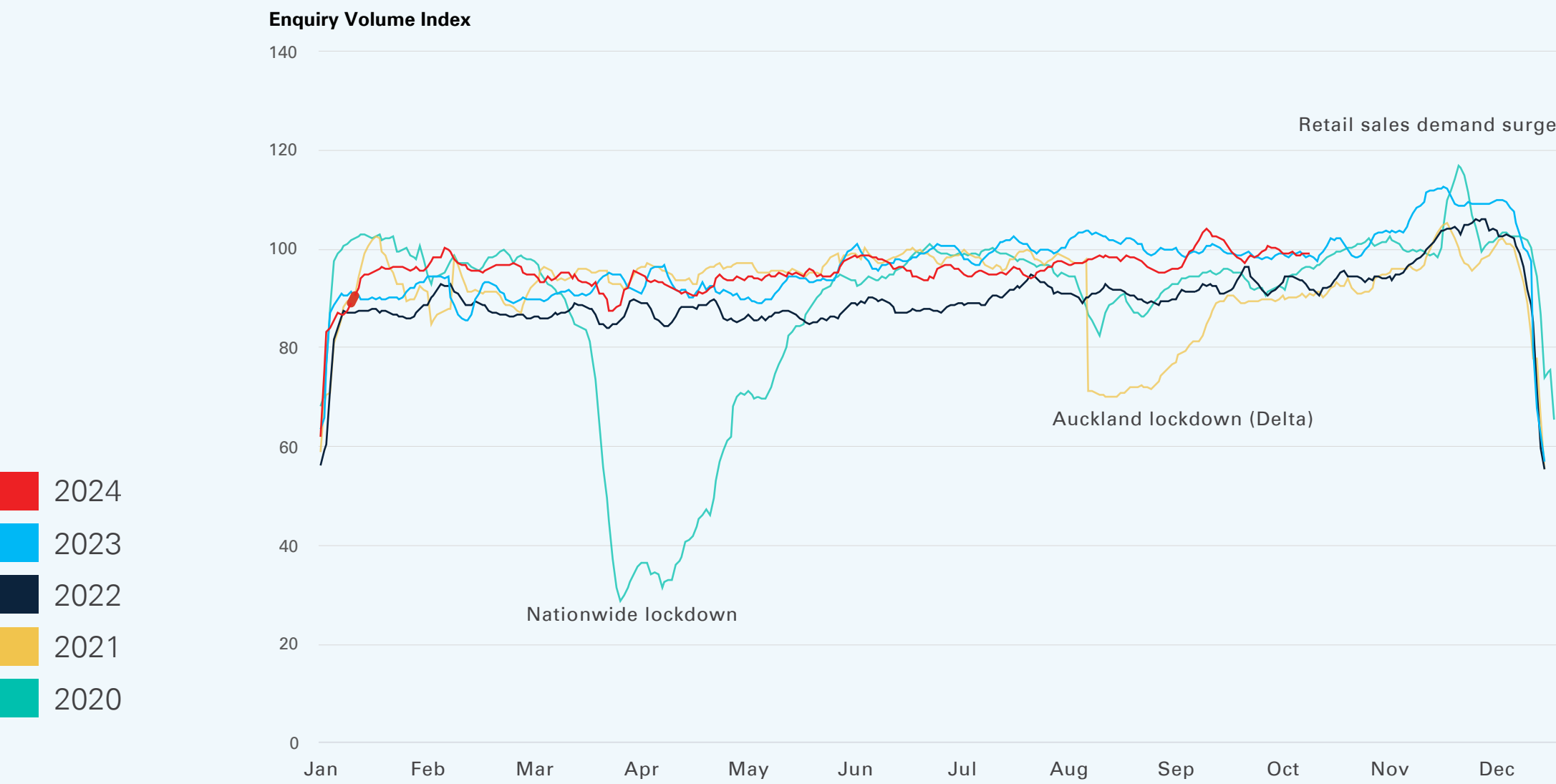
Geographically, the highest concentrations of financial hardship cases are found in the major urban centres of Auckland

and Wellington, indicating that economic pressures may be more pronounced in these high-cost metropolitan areas.

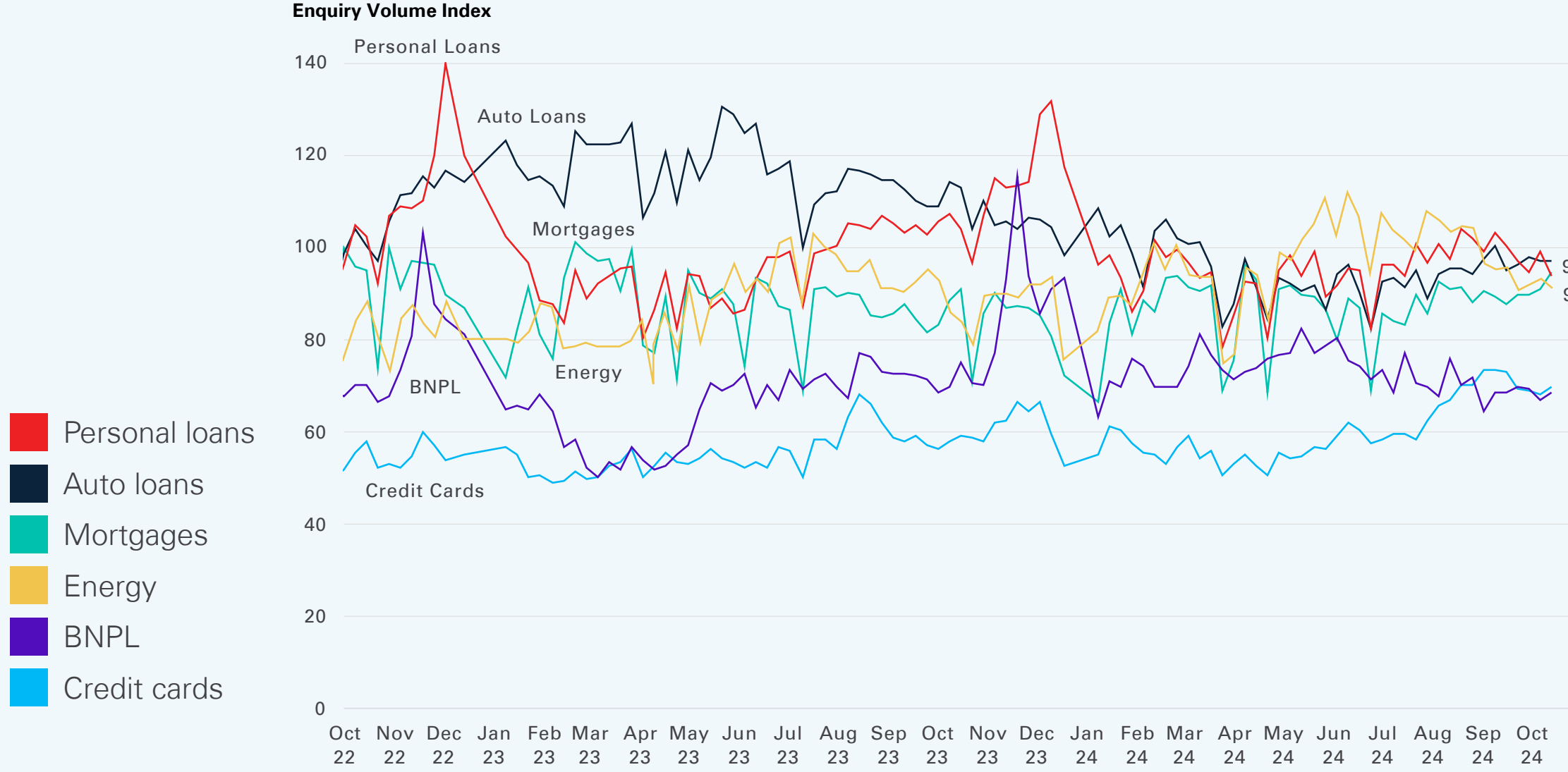
When we look at Kiwi businesses, it's evident the current climate continues to have a flow on effect to them and their bottom lines.

Heading into the last stretch of 2024, credit defaults across all industries have risen by 16% compared to the previous year, with the transport and construction sectors being the hardest hit. ►

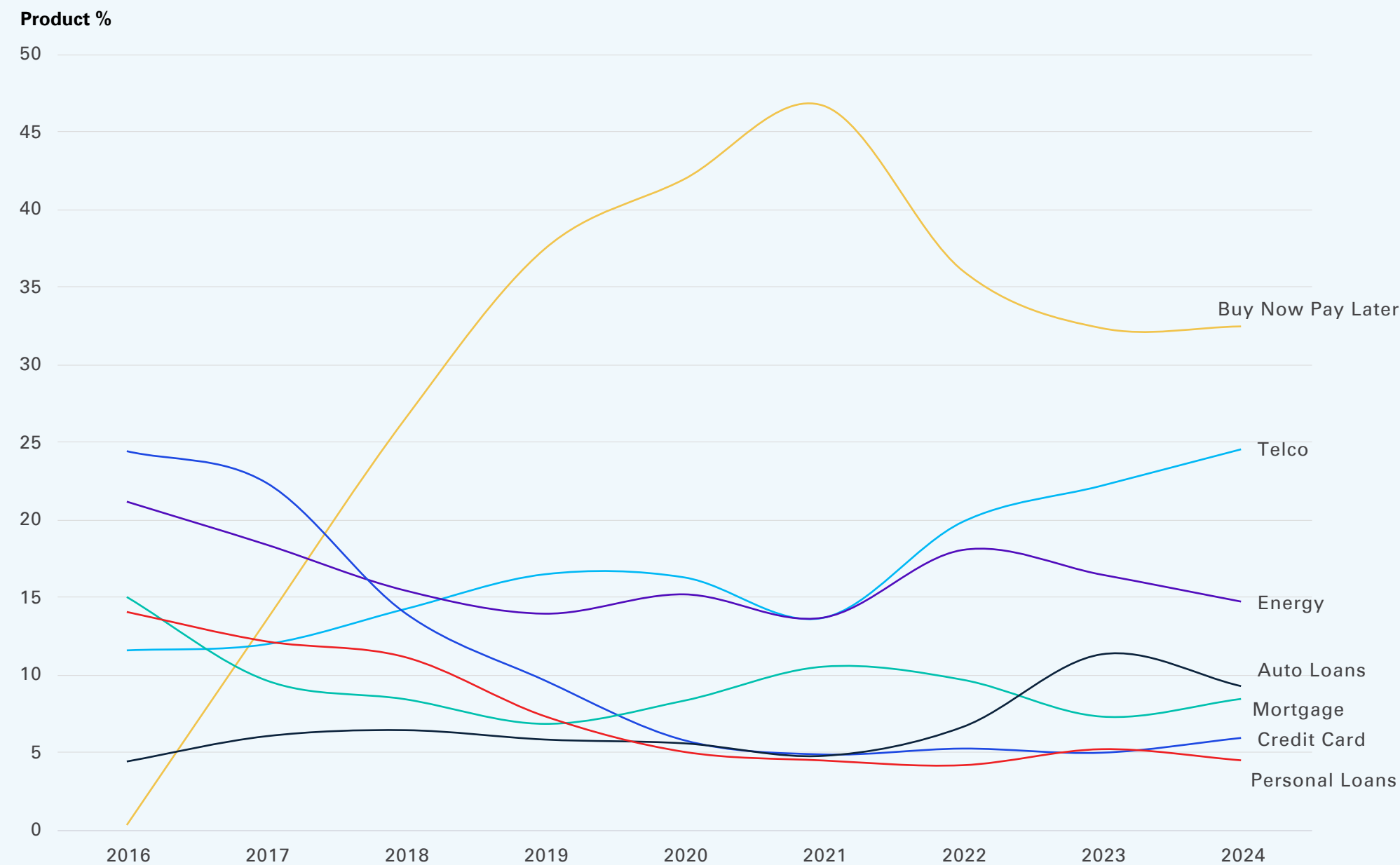
17 Consumer credit demand: 2020 to 2024



18 Credit demand by product type



19 First credit product for new to credit consumers



The transport industry has experienced a 35% increase in credit defaults year-on-year, closely followed by construction at 33%.

While the retail sector has also been affected, it has fared somewhat better with only a 3% increase in credit defaults.

23 See Figure 23 - page 29

Company liquidations have surged by 25% compared to the same period last year, reaching a decade-high of 306 in the most recent month.

The construction industry has been particularly hard hit, accounting for the largest proportion of these liquidations at 28% of the total in the third quarter of 2024.

During this period, 199 construction companies ceased operations, highlighting the severe challenges faced by this sector.

Over the past year, certain business types have shown heightened vulnerability to liquidation.

Property operators, residential building construction companies, and cafes and takeaway food establishments have been among the most affected.

This trend points to the specific difficulties these sectors are encountering in the current economic environment, reflecting broader challenges in the property market, construction industry, and hospitality sector.

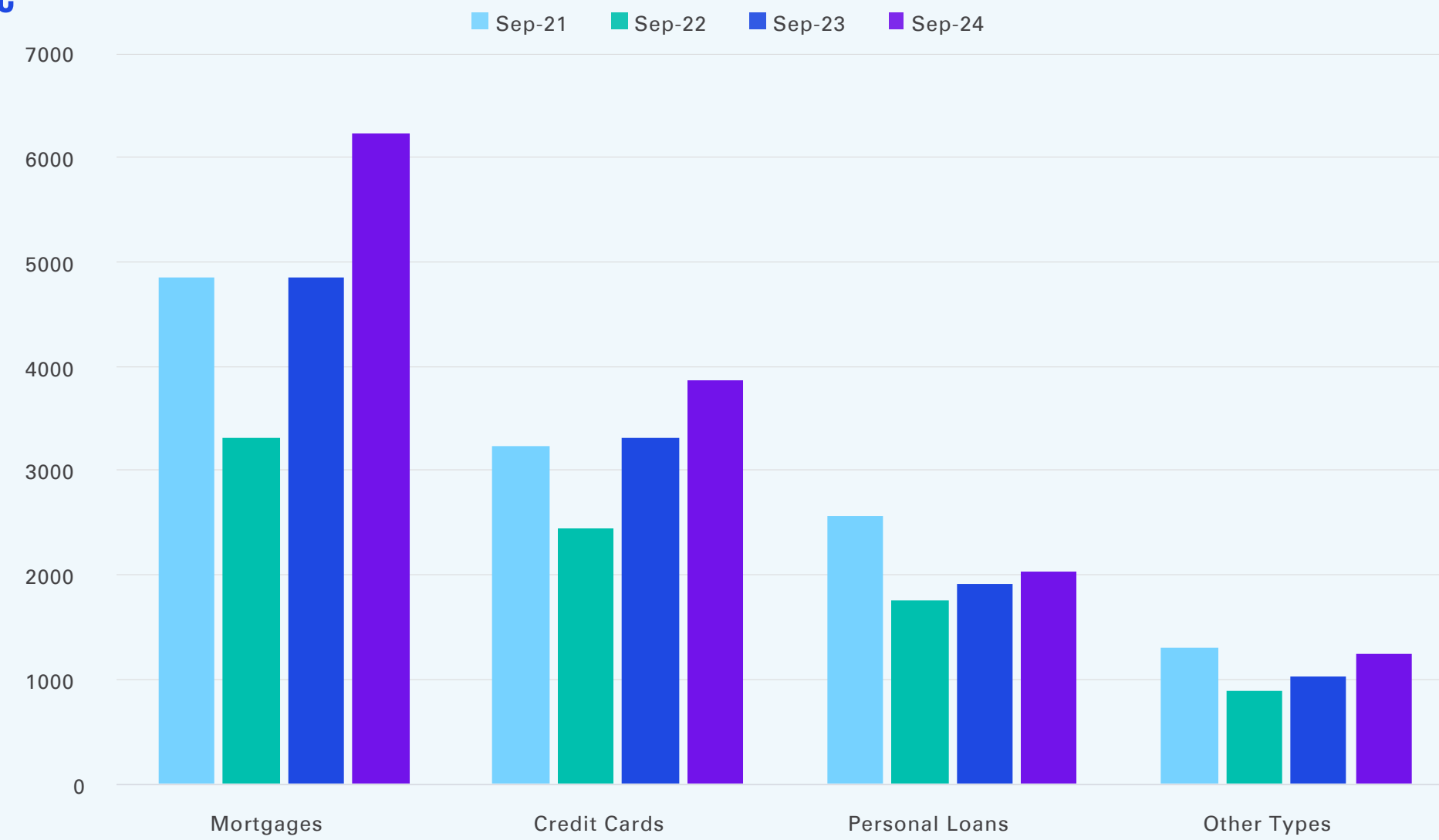
24 See Figure 24 - page 29

25 See Figure 25 - page 29

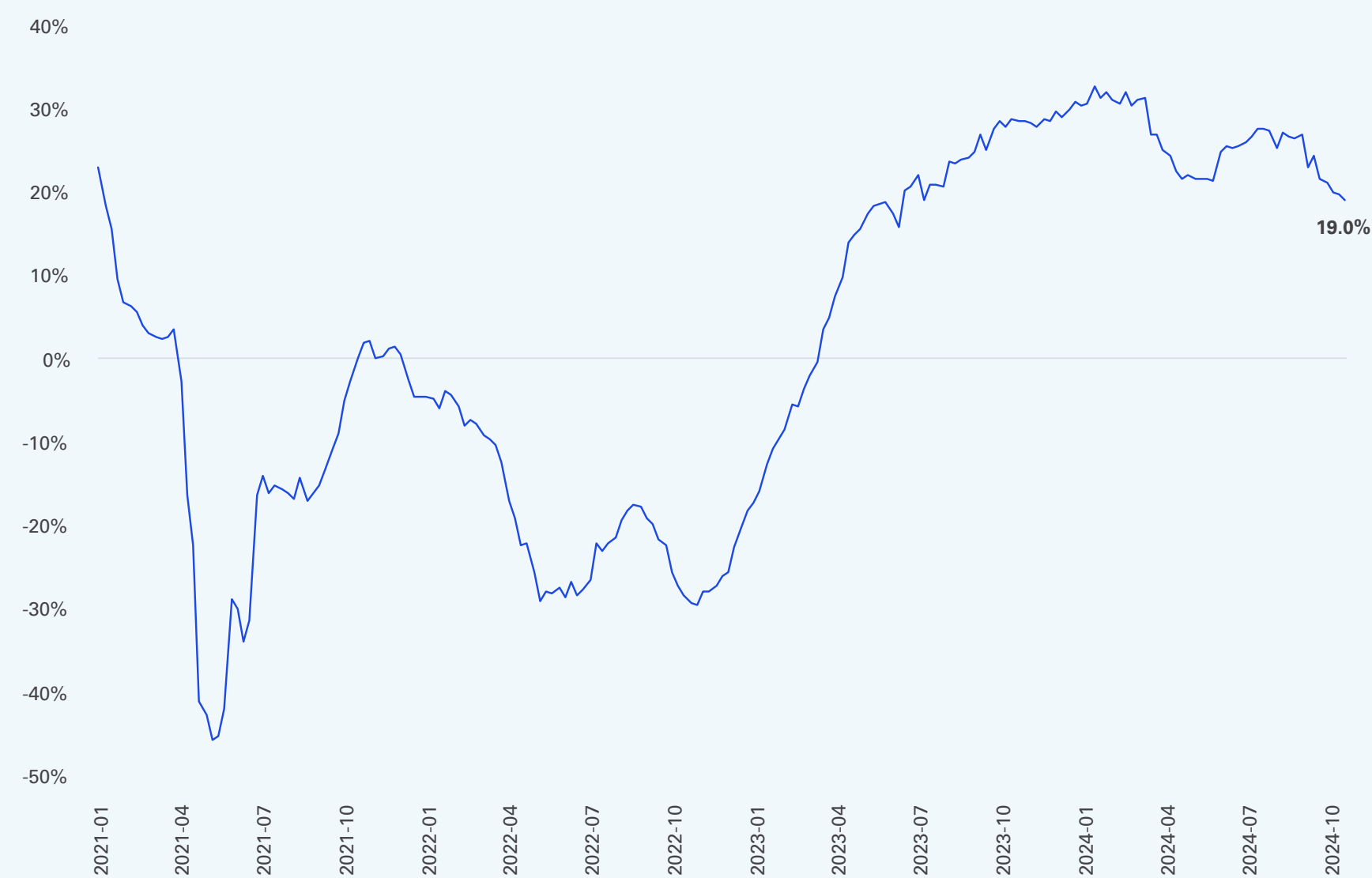
Reflecting on the year, while it's encouraging to see inflation get under control it's evident the challenges run deep for Kiwi consumers and businesses alike.

The task of getting the economy back on track may take a little longer than anticipated, with signs pointing to another difficult year in 2025. ●

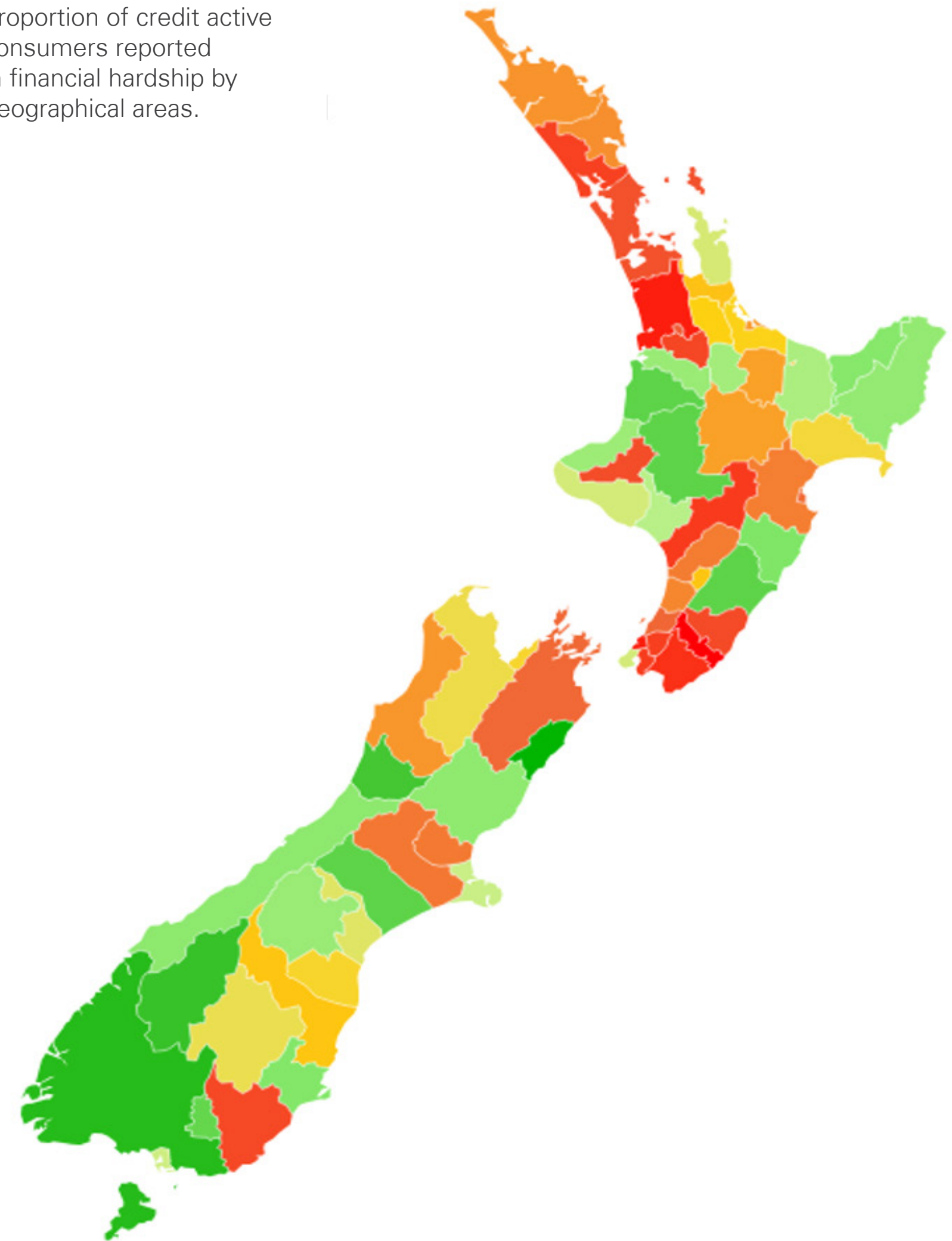
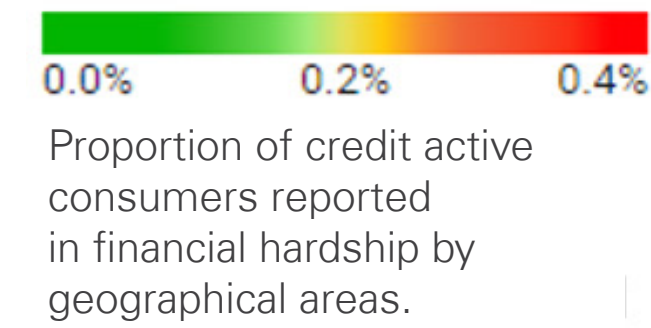
20 Financial hardship by product type



21 Annual change in financial hardship cases









22 Financial hardship heat map



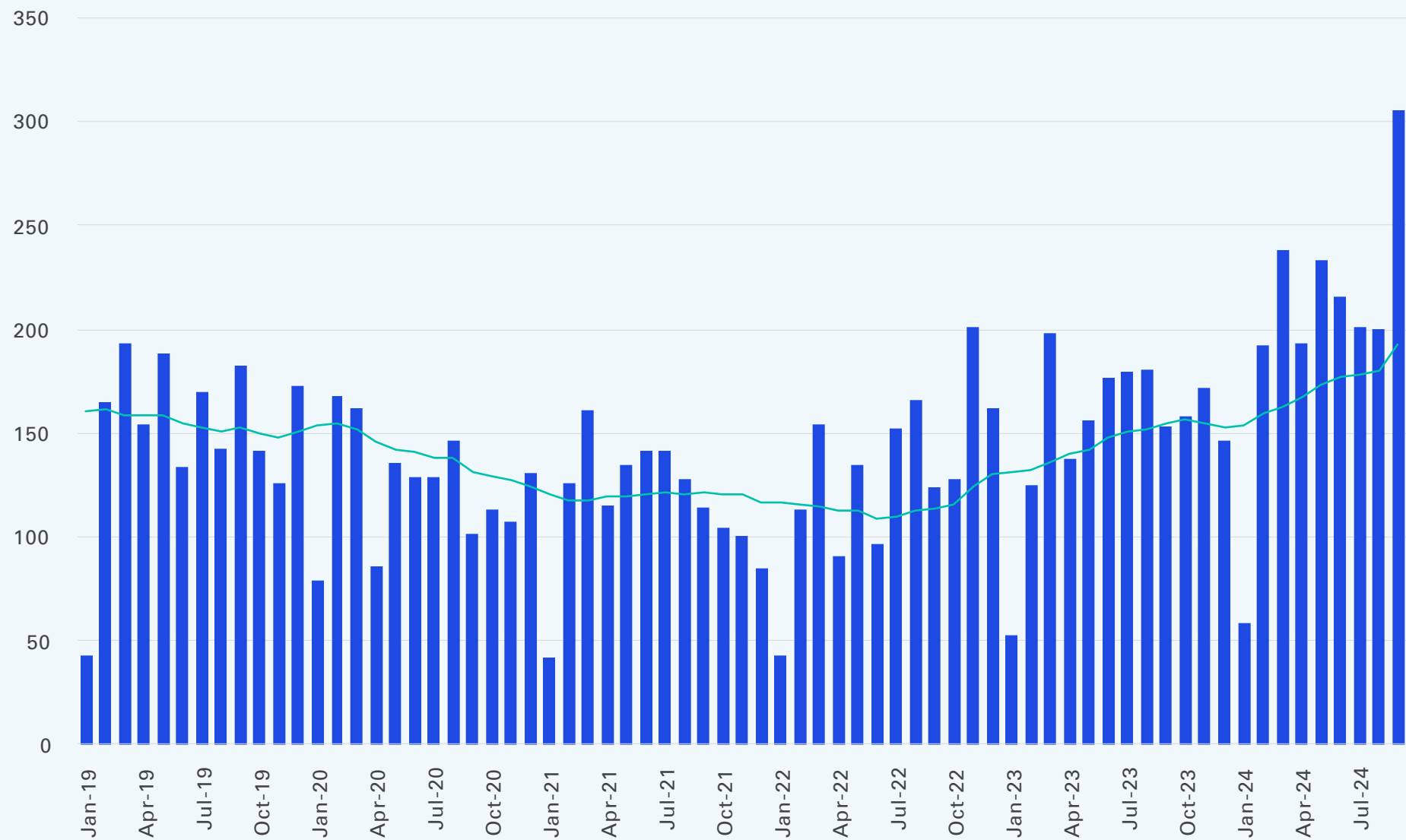
23

Company liquidations
by industry

	Sector	Δ Credit demand	Δ Credit defaults	Avg credit score	Δ Company liquidations	Liquidations rating
	Construction	+2%	+33%	754 ↓	+24%	2.2x
	Hospitality	+3%	+6%	738 ↓	+34%	2.2x
	Retail Trade	+5%	+3%	765 ↓	+1%	1.0x
	Transport	-4%	+35%	726 ↓	+59%	2.1x
	Property / Rental	+11%	+15%	812 ↓	+34%	0.8x
	Manufacturing	+3%	+12%	776 ↓	+22%	1.6x
	All Sectors	+4%	+16%	785 ↓	+25%	1.0x

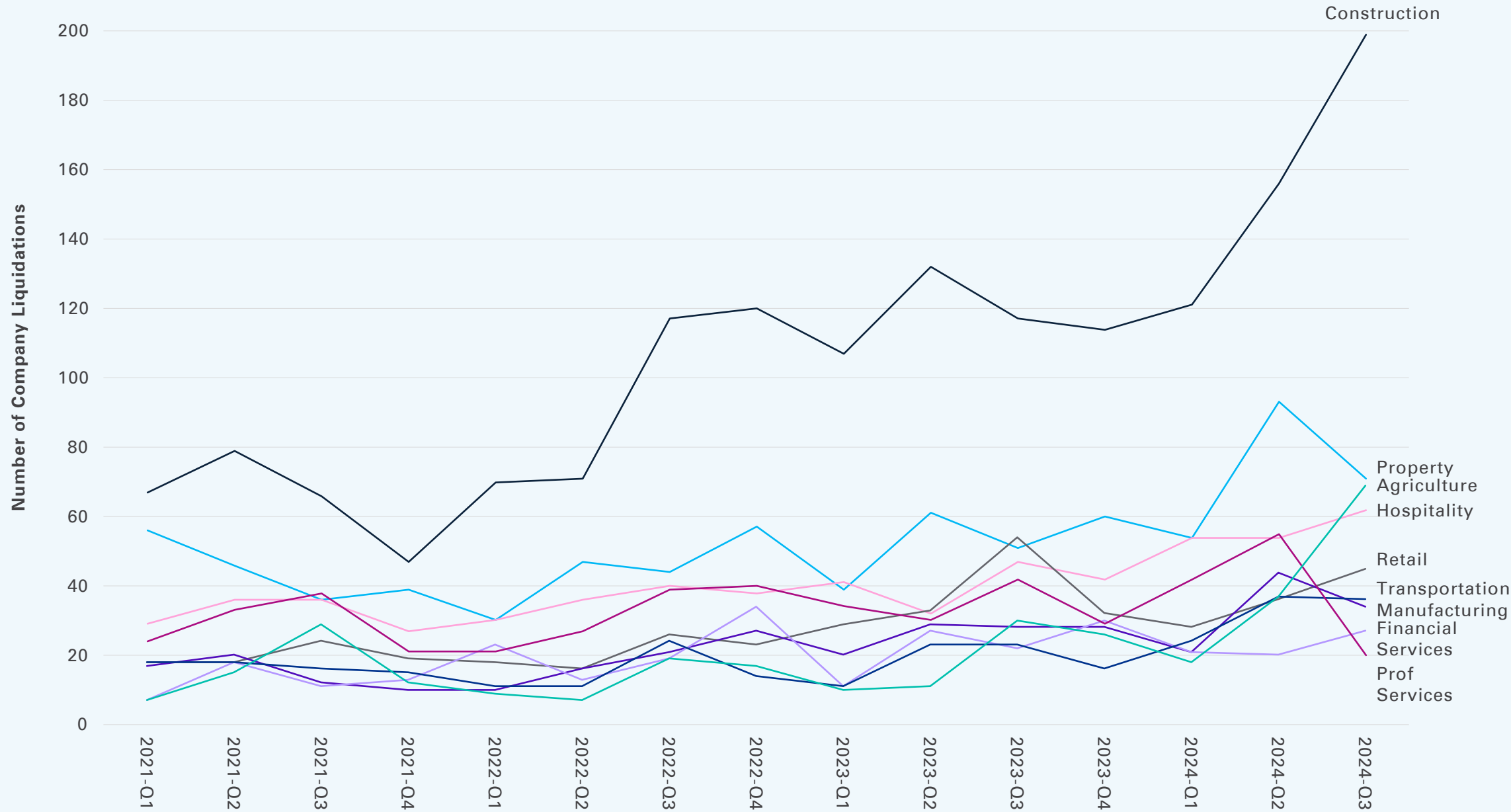
24

Company liquidations



25

Company liquidations
by industry



KPMG update:

A spotlight on greenhouse gas emissions disclosures



Sanel Tomlinson
Partner,
Sustainable Value

In recent years, the urgency to address climate change has drawn significant attention to the public disclosure and reporting of greenhouse gas (GHG) emissions. While certain large corporations and financial service providers are mandated to disclose their GHG emissions in New Zealand, many financial service providers fall outside of these regulatory boundaries.



Melinda Ponnampalam
Associate Director,
Audit Impact

As part of the KPMG 2024 survey of specialist lender institutions, we analysed the survey participants' publicly available GHG emissions information to gain insight into the level of prioritisation GHG emissions measurement and reporting plays within these organisations. Despite not all being qualifying climate reporting entities, the expectation was that the growing pressure for information from New Zealand climate reporting entities and other global market players would prompt entities to voluntarily report their GHG emissions or report on how they are planning to consider GHG emissions reduction within their business strategies and plans. However, our findings set out below tell a different story.



Gabrielle Wyborn
Senior Manager,
Audit Impact

Compliance remains the driving force behind participants' public disclosure of greenhouse gas emissions

4/26

Survey participants publically disclose GHG emissions information

Our review of the publicly available climate-related information for the 26 specialist lender survey participants indicates that this group is taking a compliance approach towards their climate-related disclosures and more specifically, disclosure of their GHG emissions.

Most of the entities in the specialist lender group are not caught under the Financial Markets Conduct Act 2013 as Climate Reporting Entities (CREs) and as a result, are not required to produce climate-related disclosures under the Aotearoa New Zealand Climate Standards (NZ CS). ►

"the urgency to address climate change has drawn significant attention to the public disclosure and reporting of greenhouse gas (GHG) emissions."

Just three of the 26 specialist lender survey participants are registered CREs. These entities have produced mandatory climate-related disclosures under NZ CS. **Only one of the remaining participants within the specialist lender group, Harmoney Corp Limited, is voluntarily disclosing GHG emissions information.**

Further, the 2024 survey revealed that participants see GHG emissions disclosure as part of the heavy regulatory load they face. Interestingly, those that are not mandated to disclose GHG emissions information seem to be anticipating that they will be in the future. However, the overall absence of GHG emissions information reported for this group, suggests they are not believing that there are commercial benefits from making these disclosures in advance of the disclosures being mandated.

However, we’ve heard from entities that have started their GHG measurement and reporting journey that there are benefits in doing this. So even if you decide not to report publicly, at least consider measuring GHG emissions to understand the potential impacts and where you could make the most of the business opportunities that this information could provide including cost savings, creating market differentiation,

attracting new customers, developing new products, and gaining access to new funding lines to name a few.

There is currently limited disclosure of Scope 3 GHG emissions, which we expect to be one of the highest emissions sources for the specialist lender group

Of the disclosures made relating to GHG emissions (both mandatory and voluntary), **two of the four survey participants disclosed some Scope 3 GHG emissions. All have excluded financed emissions, which typically would be the largest source of indirect emissions for entities providing investing and lending activities.**

Until recently, an exemption for Scope 3 was available for the first year of disclosure under the NZ CS and as such, these results are not surprising. The rules have recently changed allowing a further deferral of reporting. Disclosing Scope 3 GHG emissions will become mandatory for CREs in 2026, so it will be important that these entities continue to focus on identifying, capturing, and calculating Scope 3 GHG emissions. In particular, given that financed emissions is the most material category for financial service providers, the

expectation would be that entities reporting publicly would already be on their journey in measuring these emissions to reflect a complete view of their emissions profile.

Survey participants that are disclosing GHG emissions information are using a globally recognised measurement standard

100%

Disclosures that utilised a globally recognised measurement standard

Although the number of survey participants making disclosures relating to GHG emissions information (both mandatory and voluntary) is small, all are taking advantage of globally recognised measurement standards (e.g. GHG Protocol, ISO) rather than developing bespoke methodologies.

Using a standard that is globally recognised rather than one that is internally developed by an organisation, supports comparability, accuracy, and transparency in the GHG emissions information disclosed.

Assurance of GHG emissions

No assurance opinions were publicly disclosed relating to the assurance of GHG emissions of any of the specialist lender survey participants. This is understandable and consistent with what we’ve seen in other sectors given that the legal requirement for assurance only commenced on 27 October 2024.

Future pressure to measure GHG emissions may be on the horizon

We are anticipating the need for GHG emissions measurement and disclosure to become more important for those entities that are not currently required to gather and disclose GHG emissions information, as demand by their stakeholders for this information grows.

Of the 22 specialist lender survey participants that have not publicly disclosed GHG emissions information, **at least 40% are directly connected to other global entities.** As international disclosure requirements come into play, the New Zealand-based entities could face pressure from their global counterparts to measure their emissions to feed into disclosures required by foreign regulations. ►

In the same group of specialist lender entities, we found **at least 35% hold significant lending with New Zealand based banks**. As Scope 3 data collection and measurement requirements evolve in response to mandatory disclosure under the NZ CS, New Zealand banks are starting to request GHG emissions information from their borrowers. These banks also have to disclose their data quality and are working to improve their own data quality scores. We therefore anticipate that the information requests will become more targeted, with the related requirement to have robust supporting documentation and, in some instances, assurance over the reported information.

Where to from here?

This current year analysis on GHG emissions disclosures sets a starting point and baseline from which we will be building on year by year.

Please get in touch with us if you have any questions regarding our analysis. We would also be happy to discuss any aspects specific to your organisation's GHG emissions reporting journey.

If you, your customers and/or your suppliers are new to reporting sustainability related information, do refer to the Starter for Ten guide⁴ that we've developed in collaboration with the Centre for Sustainable Finance and with input from major banks, SMEs and other financial service providers for support on how to get started. ●

"Of the 21 specialist lender survey participants that have not publicly disclosed GHG emissions information, at least 40% are directly connected to other global entities."



Sector performance

The newly renamed specialist lenders survey participants have reported a combined decrease in net profit after tax of \$80.23m (24.82%) over the prior year.

Changes in the sector

There have been a number of changes during the year, including the departure of two participants; Avanti Finance Limited and Resimac Financial Services Limited. Additionally, Prospa Group Limited has been replaced by the New Zealand entity, Prospa NZ Limited.

Due to the inclusion and departure of the entities listed above, as well as the introduction of NZ IFRS 17, some comparative figures and totals have been restated from the 2023 edition of the specialist lenders FIPS publication then known as non-bank FIPS publication.

We would also like to draw special attention once again to the differing balance dates of our survey participants. While our survey covers the 2024 year, our respondents have a range of balance dates, with the earliest being the 52 weeks to 29 October 2023 and the most recent reporting representing the financial year ended 30 September 2024. It is important to recognise that the results of each entity will reflect the different state of the economy during the year of and as at their various balance dates.

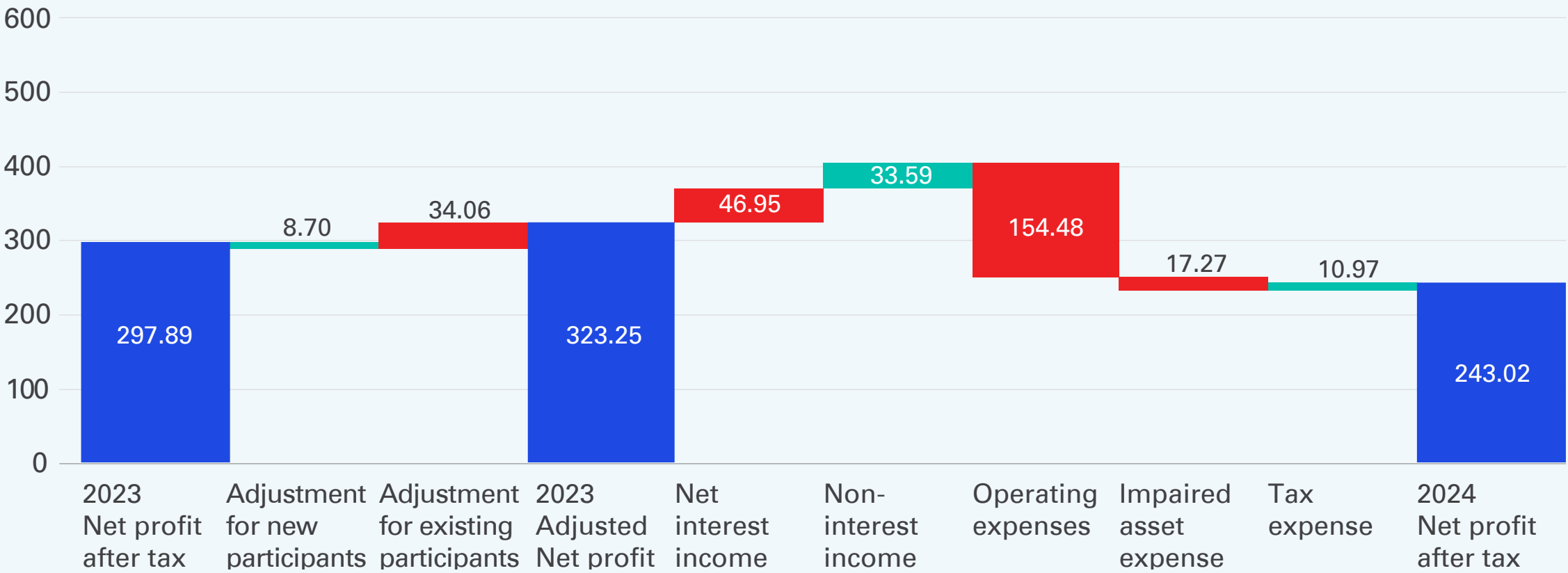
When reading the industry analysis text and comparing the performance of any entities in the survey, these factors should be taken into consideration. In addition, due to the diverse nature of the sector different sub sectors have fared differently from each other ►

Table 2: Performance Metrics

		Total
	Increase in Total Assets	6.98%
	Decrease in Net Profit After Tax (NPAT)	-24.82%
	Movement of Impaired Asset Expense (As a Percentage of Average Gross Loans and Advances)	bps4
	Decrease in Interest Margin	bps-24
	Decrease in NPAT/Average Total Assets	bps-57
	Decrease in NPAT/Average Equity	bps-227

26 Movement in net profit

Movement in net profit after tax for 2024
\$Million



2024

Net Profit After Tax (NPAT)

Following a 27.10% reduction in NPAT during 2023, the specialist lenders sector has experienced a further 24.82% drop in NPAT during 2024, decreasing NPAT to \$243.02m.

The observable decrease in NPAT is largely attributable to the increased cost of funding seen across the specialist lenders sector, with 18 of the 26 participants experiencing a decrease in NPAT. Whilst interest income grew by \$408.74m (25.66%) across the sector, this was mostly offset by increased interest expense of \$361.79m (71.31%). Increases to operating expenses and impairment expenses drove the remainder of the decrease in sector NPAT, with increases of \$154.48m (14.69%) and \$17.27m (12.41%) respectively.

Of the eight survey participants who achieved an increase in NPAT, the largest percentage growth was seen by Wairarapa Building Society, with an increase of 299.74% (\$2.32m). This was followed by First Mortgage Trust who saw a 32.36% (\$29.38m) increase, and Midlands Smarter PIE Fund (Midlands) with a 12.08% (\$0.77m) increase.

Although the majority of survey participants experienced a decrease in NPAT, six participants have reported a loss for their financial reporting periods, an additional three participants compared with the 2023 survey.

It will be interesting to see how this trend in profitability continues during the following financial year, and whether the specialist lenders sector can bounce back, and remain profitable going forward. The answer to that question might well depend on two factors:

- 1. How they manage the falling interest rate cycle we appear to be in; and
- 2. Where the New Zealand economy heads and how quickly and how strongly – will the much hoped for growth occur in HY2025 or will it be 2026. ▶

26 See Figure 26

27 Net interest income analysis

- Interest income (LHS)
- Interest expense (LHS)
- Net interest income (LHS)
- Net interest margin (LHS)

28 Gross loans and advances to net interest margin

- Total provisions (LHS)
- Net interest margin (RHS)

29 Impaired asset expense analysis

- Impaired asset expense (LHS)
- Impaired asset expense average loans and advances(RHS)

30 Provisions as a proportion of gross loans and advances

- Total provisions (LHS)
- Provisions/Gross loans & advances (%) (RHS)

Table 3: Gross Loans and Advances

Specialist Lender	2024 \$000	2023 \$000	Movement \$000	Movement %
BMW Financial Services New Zealand Limited	256,485	237,138	19,347	8.16%
Christian Savings Limited	256,736	249,047	7,689	3.09%
First Credit Union	360,790	332,326	28,464	8.57%
First Mortgage Trust	1,387,296	1,220,378	166,918	13.68%
General Finance Limited	132,693	109,611	23,083	21.06%
Geneva Finance Limited	120,936	125,385	-4,449	-3.55%
Harmony Corp Limited	826,550	807,103	19,447	2.41%
Instant Finance Limited	138,975	126,847	12,128	9.56%
John Deere Financial Limited	296,354	210,085	86,269	41.06%
Latitude Financial Services Limited	1,399,488	1,438,163	-38,675	-2.69%
Mercedes-Benz Financial Services New Zealand Limited	622,901	660,553	-37,652	-5.70%
Midlands Smarter PIE Fund (formerly Midlands Income Fund)	106,110	95,508	10,601	11.10%
Motor Trade Finance Limited	1,120,218	994,262	125,956	12.67%
Nelson Building Society	829,473	900,903	-71,431	-7.93%
Nissan Financial Services New Zealand Pty Limited	353,288	358,488	-5,200	-1.45%
ORIX New Zealand Limited	128,979	130,749	-1,770	-1.35%
Police and Families Credit Union	34,231	34,404	-173	-0.50%
Prospa NZ Limited	159,404	169,618	-10,214	-6.02%
Ricoh New Zealand Limited	91,974	88,613	3,361	3.79%
SG Fleet NZ Limited	11,093	11,597	-504	-4.35%
Speirs Finance Group Limited	487,938	381,464	106,474	27.91%
Toyota Finance New Zealand Limited	1,297,752	1,169,748	128,004	10.94%
Turners Automotive Group	442,000	436,215	5,785	1.33%
UDC Finance Limited	4,534,342	4,219,513	314,829	7.46%
Unity Credit Union	201,346	259,059	-57,713	-22.28%
Wairarapa Building Society	136,861	148,333	-11,472	-7.73%
Total	15,734,213	14,915,111	819,102	5.49%

As shown in Figure 26, the decrease in NPAT across the sector is driven by the following factors:

- Net interest income increased by 4.33% (\$46.95m) to \$1,132.29m. This is reflective of the increase in gross loan and funding books and the elevated interest rates most experienced during the period;
- Non-interest income increased 6.41% (\$33.59m) to \$557.23m;
- Operating expenses increased 14.69% (\$154.48m) to \$1,206.21m;
- Impaired asset expenses increased 12.41% (\$17.27m) to \$156.35m; and
- Tax expense decreased by 11.56% (\$10.97m) to \$83.94m

Total assets

This year, the specialist lending sector has experienced another year of growth in total assets of 6.98% (\$1.26b) to \$19.35b. This is slower than the prior year of 8.14% and above the five-year average of 6.51%

32 See Figure 32 - page 39

The continued year of growth has seen 20 of the 26 survey participants reporting an increase in their total assets, whilst the remaining six have seen a contraction.

Growth of gross loans and advances (GLA) increased in line with the growth seen in total assets, increasing by 5.49% (\$819.10m). However, only 15 of the 26 survey participants saw an increase in the loan books during the year, with the remaining 11 experiencing a contraction. Many participants saw growth in non-loan assets such as term investments and cash deposits with banks.

Of the six survey participants reporting a contraction in total assets, Unity Credit Union (Unity) experienced the largest percentage decrease of 9.19% (\$36.82m), to \$364.00m in 2024. This was reflected in a drop in GLA of 22.28% (\$57.71m); the largest percentage reduction of all survey participants.

John Deere Financial Limited (John Deere) has reported both the largest percentage increase in both total assets and gross loans and advances of 41.64% (\$90.73m) and 41.06% (\$86.27m) respectively. John Deere has also seen the largest percentage increase in market share based on GLA, increasing by 33.72% (47bps) to 1.88%. ▶

Toyota Finance New Zealand Limited (Toyota) has seen the largest dollar value growth in total assets of \$333.79m, closely followed by UDC Finance Limited (UDC), who experienced an increase of \$326.55m (which has almost entirely come from an increase in GLA of \$314.83m, the largest dollar value increase in GLA across the sector).

Nelson Building Society has experienced the largest dollar value reduction in GLA of \$71.43m, which has corresponded to a 77bps reduction in market share to 5.27%.

UDC has remained the largest participant in the survey, with its loan book now surpassing \$4.50b, and market share based on GLA increasing by a further 53bps to 28.82%. First Mortgage Trust experienced the largest basis points increase in market share of 63bps, increasing to 8.82%, and is the third largest participant in the survey, with their loan book at \$1.39b. Latitude has held their position as the second largest with a loan book of \$1.40b despite incurring a 75bps reduction in market share to 8.89%.

Net Interest Margin (NIM)

The specialist lenders sector has seen a decrease in its average NIM during 2024, dropping by 24bps from 6.57% to 6.33%. However, this has been partially skewed due to Prospa NZ Limited (Prospa)

experiencing a 409bps reduction, followed by Latitude and Unity experiencing a 186bps and 175bps reduction respectively, whilst SG Fleet NZ Limited (SG Fleet) recorded a 329bps increase.

The impact of RBNZ’s OCR has also played a role in another year of mixed NIM results, with 17 survey participants experiencing a decrease in their NIM. The impact of the OCR changes varied among participants dependent on respective balance dates and hedging strategies.

2 See Figure 2 - page 12

27 See Figure 27 - page 35

As noted above, the largest increases in NIM were experienced by SG Fleet with an increase of 329bps to 31.99%, followed by First Mortgage Trust who saw an increase of 110bps to 8.89%. The largest decreases were experienced by Prospa with a 409bps reduction to 18.23%, followed by Latitude with a 186bps reduction to 8.29%, and Unity with a 175bps reduction to 5.74%.

With respect to interest income, UDC saw the largest dollar value increase of \$141.39m (51.02%) to \$418.52m, whilst John Deere saw the largest percentage increase in interest income of 52.89% (\$5.68m) to \$16.43m. ►

Table 4: Movement in Net Interest Margin

Specialist Lender	2024 %	2023 %	Movement (bps)
BMW Financial Services New Zealand Limited	4.39	5.31	-92
Christian Savings Limited	2.39	2.34	5
First Credit Union	4.56	4.36	20
First Mortgage Trust	8.89	7.79	110
General Finance Limited	3.76	4.74	-98
Geneva Finance Limited	7.61	8.09	-48
Harmony Corp Limited	8.77	9.64	-87
Instant Finance Limited	18.59	20.21	-162
John Deere Financial Limited	2.24	3.25	-101
Latitude Financial Services Limited	8.29	10.15	-186
Mercedes-Benz Financial Services New Zealand Limited	2.02	2.84	-82
Midlands Smarter PIE Fund (formerly Midlands Income Fund)	8.55	8.14	41
Motor Trade Finance Limited	7.66	8.73	-107
Nelson Building Society	2.68	2.86	-18
Nissan Financial Services New Zealand Pty Limited	2.68	2.41	27
ORIX New Zealand Limited	9.44	9.71	-27
Police and Families Credit Union	2.67	2.60	7
Prospa NZ Limited	18.23	22.32	-409
Ricoh New Zealand Limited	7.12	7.86	-74
SG Fleet NZ Limited	31.99	28.70	329
Speirs Finance Group Limited	3.76	3.84	-8
Toyota Finance New Zealand Limited	6.87	6.39	48
Turners Automotive Group	5.96	6.68	-72
UDC Finance Limited	4.07	3.95	12
Unity Credit Union	5.74	7.49	-175
Wairarapa Building Society	2.91	3.84	-93
Sector Average	6.33	6.57	-24

When comparing the interest income as a percentage of average interest-earning assets, SG Fleet saw the greatest increase in the specialist lenders sector of 369bps, increasing to 36.52%.

This year, only three participants experienced a reduction in interest income as a percentage of average interest-earning assets. Prospa saw the largest decrease of 334bps to 31.49%, whilst Ricoh New Zealand Limited (RicoH) saw a reduction of 65bps to 11.01%, and Unity saw a 23bps reduction to 9.11%.

4 See Table 4 - page 37

28 See Figure 28 - page 35

Asset quality

The 2024 survey reveals a continuation of the trends observed in 2023. Similar to last year, provisioning levels increased from \$269.92m to \$286.83m in 2024, reflecting a rise of \$16.91m (6.26%). This upwards trend suggests that asset quality for the sector continues to face pressure, resulting in increased provisions and more rigorous monitoring of loan portfolios. However, participants pointed out that much of this provision growth was due to loan book growth and/or the impact of

worsening forward looking assumptions in their models and were not necessarily representative of actual losses.

29 See Figure 29 - page 35

As always, it's important to recognise that the varied balance dates of survey participants mean that the figures may capture different stages of the past year and they may not consistently align in terms of the economic pressures such as persistent high inflation, cost-of-living crises, and high interest rates. In comparison to previous years, specialist lenders are continuing to take a cautious approach to potential loan defaults. The impairment provision as a percentage of GLA increased by only 1bps to 1.82%.

30 See Figure 30 - page 35

Impaired asset expenses also saw a rise, increasing 12.41% to \$156.35m, and has resulted in the impaired asset expense to average loans and advances ratio increasing by 6bps to 0.99%. These figures reflect a sector grappling with the challenges of maintaining asset quality amid economic uncertainties, and fluctuating borrower repayment capacities, with 11 survey participants recording an increase.

The largest dollar value increase in impaired asset expense was recorded by Latitude, with an increase of \$26.39m to \$64.67m in 2024, which is the largest impaired asset expense recorded by all survey participants. Geneva Finance Limited (Geneva) saw the largest percentage movement of 6,624.29%, an increase of \$4.64m to \$4.71m in 2024.

This year, Prospa has recorded the largest dollar value decrease in impaired asset expense of \$14.42m (47.21%) to \$16.13m, and Wairarapa Building Society saw the largest percentage decrease of 322.88% (\$0.38m) to a recovery position of \$0.26m.

Four survey participants reported an impaired asset recovery. The largest recovery was reported by First Mortgage Trust at \$1.79m, followed by Toyota Finance New Zealand Limited (Toyota) at \$0.96m.

Overall, the consistent story behind this data from survey participants reflects a sector that has and continues to take proactive measures to safeguard against potential loan losses and maintain financial stability. The increased provisions and impaired asset expenses highlight the sector's cautious approach in navigating the unpredictable economic landscape. What is not evident from the numbers, but was from discussions across the board, was the time and effort the lenders invested to understand, assist, and manage their borrowers and loan books. ▶



31 Operating Expenses to Operating Expenses / Operating Income

Operating Expenses (LHS)
Operating Expenses/
Operating income (RHS)

32 Total assets vs underlying profit

Total assets (LHS)
Underlying profit (RHS)

Operating expenses

Operating expenses increased by 14.69% (\$154.48m) across the specialist lenders sector to \$1.21b in the 2024 survey. This movement is similar to the increase seen in 2023, which represented the increasing costs and inflationary pressures the economy continued to see over the year. Noted in the Sector – Themes and issues on page 9, the impact of increasing costs and risk in interest rates was seen across the board. This has correlated to the operating efficiency ratio (operating expenses as a proportion of operating income) decreasing by 244bps to 43.78%.

31 See Figure 31

This year, 23 of the 26 survey participants reported an increase in operating expenses. Nelson Building Society reported the largest percentage increase in operating expenses, increasing by 112.30% (\$18.86m) to \$35.66m. This was followed by Speirs Finance Group Limited (Speirs) who saw an increase of 57.44% (\$8.04m) to \$22.04m, and Toyota with an increase of 56.02% (\$24.85m) to \$69.20m.

Of the three survey participants that reported a decrease, BMW Financial Services New Zealand Limited (BMW) experienced the largest percentage and dollar-based decrease in operating expenses, reporting a 3.94% (\$0.48m) reduction. Nissan Financial Services New Zealand Pty Limited (Nissan) and Wairarapa Building Society also reported reductions in operating expenses of 3.11% (\$0.17m) and 2.05% (\$0.08m) respectively.

In another turbulent, volatile and challenging year for survey participants, operating efficiently proved challenging for some of them, illustrated by the mixed results from the data collected. 9 of the 26 participants saw an improvement in their operating efficiency ratio, with UDC reporting the lowest ratio at 13.58% after a decrease of 458bps from 2023. At the other end of the spectrum, Nelson Building Society reported the largest deterioration, increasing by 1,676bps to 47.09% and Unity Credit Union (Unity) reported the worst operating efficiency at 103.97% after worsening by 1,470bps. Wairarapa Building Society saw the greatest improvement in their operating efficiency ratio, decreasing by 1,862bps to 26.83%, which was primarily attributable to growth in gross revenue. ●

Analysis of consolidated accounts of finance companies

Specialist Lender			Size and strength measures			Growth measures				Credit quality measures			Profitability measures						Efficiency measures	
	Rank by total assets	Year	Total Assets \$000	Net Assets ⁵ \$000	Net loans and advances \$000	Increase in Net Profit After Tax %	Increase in Total Assets %	Increase in Gross Loans and Advances %	Increase in Net Interest Income %	Impaired asset expense \$000	Provision for doubtful debts/Gross loans & advances %	Impaired asset expense/Average loans & advances %	Net interest margin %	Interest spread %	Net profit after tax \$000	Underlying profit \$000	NPAT/Average total assets %	NPAT/Average equity %	Operating expenses/ Gross revenues %	Operating expenses/ Operating income %
BMW Financial Services New Zealand Limited	18	2023	260,846	17,080	253,181	-28.17	8.01	8.16	-14.65	-248	1.29	-0.10	4.39	4.09	1,038	1,453	0.41	6.27	48.87	90.61
		2022	241,512	16,042	233,586	-73.69	-0.68	-0.74	-23.25	986	1.50	0.41	5.31	5.11	1,445	2,010	0.60	7.66	56.87	80.17
Christian Savings Limited	16	2024	314,992	40,077	256,543	-16.19	7.47	3.09	7.25	8	0.08	0.00	2.39	1.65	3,003	3,003	0.99	7.77	20.75	60.14
		2023	293,108	37,232	248,861	-5.98	2.58	17.94	14.35	130	0.07	0.06	2.34	1.86	3,583	3,583	1.24	9.92	20.75	47.72
First Credit Union	12	2024	489,541	70,340	357,775	-22.78	6.65	8.57	9.83	2,004	0.84	0.58	4.56	4.16	1,797	1,814	0.38	2.60	58.14	86.94
		2023	459,036	68,112	330,398	-23.93	3.77	10.39	24.72	1,462	0.58	0.46	4.36	4.13	2,327	2,328	0.52	3.52	66.64	86.35
First Mortgage Trust	3	2024	1,707,577	1,687,349	1,383,235	32.36	5.52	13.68	23.39	-1,786	0.29	-0.14	8.89	8.89	120,163	121,830	7.23	7.28	18.40	18.40
		2023	1,618,214	1,613,035	1,214,041	37.29	10.84	4.24	35.61	3,512	0.52	0.29	7.79	7.79	90,787	90,771	5.90	5.92	20.92	20.92
General Finance Limited	24	2024	155,397	18,871	132,221	-11.16	21.70	21.06	-0.99	59	0.36	0.05	3.76	2.90	2,883	3,821	2.04	16.54	28.41	55.05
		2023	127,686	15,988	108,834	111.16	28.78	36.62	103.03	574	0.71	0.60	4.74	4.09	3,245	4,352	2.86	25.22	25.28	41.07
Geneva Finance Limited	19	2024	196,465	37,874	110,228	-32.40	13.21	-3.55	2.57	4,707	8.85	3.82	7.61	4.73	2,247	3,583	1.21	5.90	74.95	85.65
		2023	173,536	37,122	105,730	-44.08	11.49	11.19	-3.67	70	15.68	0.06	8.09	5.81	3,324	4,543	2.02	8.75	80.89	90.24
Harmony Corp Limited	7	2024	858,035	39,895	786,450	-74.86	0.27	2.41	0.62	33,372	4.85	4.09	8.77	8.58	-14,438	-14,438	-1.68	-29.33	40.30	74.06
		2023	855,766	58,547	766,893	60.28	21.72	26.26	27.19	35,265	4.98	4.88	9.64	9.35	-8,257	-8,257	-1.06	-13.32	39.65	63.13
Instant Finance Limited	23	2024	158,105	37,784	132,684	-9.55	7.40	9.56	6.97	4,449	4.53	3.35	18.59	16.13	6,384	8,748	4.18	15.12	56.20	70.04
		2023	147,213	37,619	121,139	-25.92	28.68	23.09	-2.46	4,821	4.50	4.19	20.21	17.81	7,058	9,459	5.40	17.08	56.67	66.52
John Deere Financial Limited	17	2023	308,605	23,198	296,354	-45.87	41.64	41.06	-11.37	0	0.00	0.00	2.24	1.96	1,342	1,864	0.51	5.95	23.62	67.56
		2022	217,878	21,940	210,085	-39.70	15.70	14.43	-26.38	0	0.00	0.00	3.25	3.04	2,479	3,327	1.22	11.98	29.44	48.78
Latitude Financial Services Limited	4	2023	1,455,684	-107,599	1,338,528	-399.97	-5.92	-2.69	-21.13	64,665	4.36	4.56	8.29	8.93	-45,638	-64,543	-3.04	-104.06	50.96	99.90
		2022	1,547,329	-42,705	1,392,357	-69.72	-0.12	2.21	-18.26	38,275	3.19	2.69	10.15	10.36	15,214	18,520	0.98	17.78	42.87	63.06
Mercedes-Benz Financial Services New Zealand Limited	9	2023	635,304	28,278	619,222	-42.24	-7.05	-5.70	-28.53	44	0.59	0.01	2.02	1.77	5,549	7,546	0.84	19.83	17.78	53.29
		2022	683,487	27,690	656,274	-4.36	8.58	7.95	-1.44	-487	0.65	-0.08	2.84	2.68	9,607	13,364	1.46	30.35	22.03	39.79
Midlands Smarter PIE Fund (formerly Midlands Income Fund)	26	2024	117,514	116,514	105,205	12.08	5.13	11.10	11.48	313	0.85	0.31	8.55	8.55	7,149	7,149	6.24	6.30	23.89	23.89
		2023	111,774	110,455	94,917	54.60	7.26	3.87	43.89	98	0.62	0.10	8.14	8.14	6,378	6,378	5.91	5.96	26.53	26.53
Motor Trade Finance Limited	5	2024	1,224,693	104,944	1,116,165	-54.90	12.00	12.67	10.32	535	0.36	0.05	7.66	6.95	5,211	7,895	0.50	5.01	55.62	92.03
		2023	1,093,500	104,930	990,451	44.42	43.63	46.88	21.89	333	0.38	0.04	8.73	8.20	11,555	16,004	1.25	11.44	59.54	83.37

Analysis of consolidated accounts of finance companies

			Size and strength measures			Growth measures				Credit quality measures			Profitability measures						Efficiency measures	
Specialist Lender	Rank by total assets	Year	Total Assets \$000	Net Assets ⁵ \$000	Net loans and advances \$000	Increase in Net Profit After Tax %	Increase in Total Assets %	Increase in Gross Loans and Advances %	Increase in Net Interest Income %	Impaired asset expense \$000	Provision for doubtful debts/Gross loans & advances %	Impaired asset expense/Average loans & advances %	Net interest margin %	Interest spread %	Net profit after tax \$000	Underlying profit \$000	NPAT/Average total assets %	NPAT/Average equity %	Operating expenses/ Gross revenues %	Operating expenses/ Operating income %
Nelson Building Society	6	2024	1,137,356	101,476	819,429	-158.04	-0.15	-7.93	-4.54	3,814	1.21	0.44	2.68	2.30	-5,771	-7,106	-0.51	-5.44	47.09	110.17
		2023	1,139,035	110,532	895,345	-20.90	4.69	4.04	11.72	2,633	0.62	0.30	2.86	2.66	9,944	13,876	0.89	9.32	30.33	50.43
Nissan Financial Services New Zealand Pty Limited	13	2024	475,995	72,673	347,208	-41.24	28.72	-1.45	4.68	1,831	1.72	0.51	2.68	1.92	4,272	12,101	1.01	5.90	20.27	28.01
		2023	369,777	72,203	351,715	-35.27	-29.65	-29.84	-42.50	-2,477	1.89	-0.57	2.41	1.90	7,270	13,179	1.62	10.83	22.93	34.33
ORIX New Zealand Limited	11	2024	582,269	210,806	128,909	8.39	13.84	-1.35	9.27	34	0.05	0.03	9.44	7.41	20,676	28,733	3.78	10.27	24.12	55.99
		2023	511,484	191,729	130,668	-6.00	11.23	24.31	10.09	127	0.06	0.11	9.71	8.44	19,076	26,519	3.93	10.48	25.53	54.90
Police and Families Credit Union	25	2024	147,668	28,251	34,122	-97.73	-5.74	-0.50	-0.65	7	0.32	0.02	2.67	2.26	13	13	0.01	0.05	53.35	99.54
		2023	156,654	28,241	34,281	-14.73	0.83	10.29	0.34	9	0.36	0.03	2.60	2.32	573	573	0.37	2.05	55.86	87.18
Prosopa NZ Limited	22	2024	168,152	-1,880	140,395	20.39	-4.88	-6.02	-8.34	16,132	11.93	9.81	18.23	18.34	-6,923	250	-4.01	-438.03	35.40	56.45
		2023	176,786	5,042	147,450	-2,427.91	30.88	33.80	63.81	30,556	13.07	20.62	22.32	21.92	-8,696	-12,065	-5.58	-92.62	36.13	53.29
Ricoh New Zealand Limited	21	2024	170,752	69,316	89,446	-30.34	10.53	3.79	-6.47	107	2.75	0.12	7.12	5.83	3,437	4,664	2.11	4.90	84.63	91.00
		2023	154,487	71,049	85,092	23.75	53.83	8.75	-4.64	338	3.97	0.45	7.86	6.09	4,934	7,092	3.87	10.81	79.73	85.57
SG Fleet NZ Limited	15	2024	349,170	82,242	10,906	1.61	0.46	-4.35	10.86	71	1.69	0.63	31.99	30.06	11,394	16,019	3.27	9.55	51.64	84.20
		2023	347,563	72,074	11,484	26.28	-1.61	22.65	6.61	113	0.97	1.07	28.70	27.23	11,214	15,587	3.20	10.23	48.59	82.90
Speirs Finance Group Limited	10	2024	625,528	419	480,963	-408.45	21.68	27.91	25.04	1,571	1.43	0.36	3.76	3.78	-9,491	-9,491	-1.67	-179.52	27.92	156.10
		2023	514,064	10,155	376,168	-71.03	31.52	30.61	12.17	2,117	1.39	0.63	3.84	3.87	3,077	2,915	0.68	44.31	21.93	73.56
Toyota Finance New Zealand Limited	2	2024	1,811,920	254,444	1,286,070	-6.49	22.58	10.94	23.73	-957	0.90	-0.08	6.87	6.02	36,258	50,838	2.20	13.86	28.03	58.11
		2023	1,478,134	243,098	1,155,637	54.05	8.71	14.14	24.95	-4,515	1.21	-0.41	6.39	5.86	38,776	54,093	2.73	16.38	28.00	47.22
Turners Automotive Group	8	2024	771,203	183,769	432,788	1.49	1.76	1.33	-9.93	2,737	2.08	0.62	5.96	5.12	32,966	49,139	4.31	12.02	80.79	86.60
		2023	757,829	175,428	427,546	3.84	3.36	-0.21	-3.23	1,908	1.99	0.44	6.68	6.08	32,483	45,424	4.36	12.43	82.65	87.13
UDC Finance Limited	1	2023	4,677,817	774,282	4,460,205	6.80	7.50	7.46	14.71	19,651	1.64	0.45	4.07	2.99	74,013	106,091	1.64	9.59	13.58	31.27
		2022	4,351,272	737,189	4,160,841	-13.80	16.02	19.16	3.34	11,570	1.39	0.30	3.95	3.33	69,301	97,318	1.71	9.78	18.16	31.82
Unity Credit Union	14	2024	364,000	26,366	192,630	-23.84	-9.19	-22.28	-29.43	3,494	4.33	1.52	5.74	5.45	-17,609	-17,609	-4.60	-50.07	103.97	151.63
		2023	400,824	43,975	247,667	-11,848.74	-8.90	-19.05	-14.72	11,548	4.40	3.99	7.49	7.27	-14,219	-14,219	-3.38	-27.13	89.27	107.17
Wairarapa Building Society	20	2024	189,775	28,395	136,526	299.74	16.11	-7.73	-14.65	-263	0.24	-0.18	2.91	2.24	3,094	3,596	1.75	11.52	26.83	54.29
		2023	163,441	25,302	147,735	-47.53	7.39	18.69	23.57	118	0.40	0.09	3.84	3.52	774	1,498	0.49	3.11	45.45	71.43
Sector Total		2024	19,354,363	3,945,164	15,447,388	-24.82	6.98	5.49	4.33	156,351	1.82	1.02	6.33	5.08	243,019	326,964	1.30	5.77	43.78	71.39
		2023	18,091,390	3,892,025	14,645,196	-9.82	9.47	11.57	6.35	139,085	1.81	0.98	6.57	5.75	323,253	418,172	1.87	8.04	46.22	65.37

Ownership

as at 1 December 2024

Specialist Lender	Ultimate shareholding	%
BMW Financial Services New Zealand Limited	BMW AG (Germany)	100
Christian Savings Limited	Various private shareholders	100
First Credit Union	Various depositors	100
First Mortgage Trust	Various unitholders	100
General Finance Limited	General Capital Limited	100
Geneva Finance Limited	Various investment/nominee companies; various private shareholders	100
Harmony Corp Limited	Various shareholders, listed on ASX	100
Instant Finance Limited	Various private shareholders	100
John Deere Financial Limited	John Deere Financial Limited Australia	100
Latitude Financial Services Limited	Latitude Group Holdings Limited (Australia)	100
Mercedes-Benz Financial Services New Zealand Limited	Mercedes-Benz Mobility AG (Germany)	100
Midlands Smarter PIE Fund	Various unitholders	100
Motor Trade Finance Limited	Various Licensed Motor Vehicle Dealers	100
Nelson Building Society	Various depositors	100

Specialist Lender	Ultimate shareholding	%
Nissan Financial Services New Zealand Pty Limited	Nissan Financial Services Australia Pty Ltd	100
ORIX New Zealand Limited	ORIX Corporation (Japan)	100
Police and Families Credit Union	Various depositors	100
Prosopa NZ Limited	Prosopa Advance Pty Ltd (Australia)	100
Ricoh New Zealand Limited	Ricoh Company, Ltd (Japan)	100
SG Fleet NZ Limited	Super Group Limited (South Africa)	100
Speirs Finance Limited	Anchorage Capital Partners	100
Toyota Finance New Zealand Limited	Toyota Motor Corporation of Japan	100
Turners Automotive Group	Various Investment/Nominee Companies	100
UDC Finance Limited	Shinsei Bank, Limited (Japan)	100
Unity Credit Union	Various depositors	100
Wairarapa Building Society	Various depositors	100
UDC Finance Limited	Shinsei Bank, Limited (Japan)	100
Unity Credit Union	Various depositors	100
Wairarapa Building Society	Various depositors	100

Credit Ratings

Specialist Lender	Standard & Poor's		Fitch Ratings		Moody's		Rating and Investment	
	Rating	Outlook	Rating	Outlook	Rating	Outlook	Rating	Outlook
BMW Financial Services New Zealand Limited ⁶	A	Stable			A2	Stable		
Christian Savings Limited			BB+	Stable				
First Credit Union			BB	Stable				
First Mortgage Trust								
General Finance Limited								
Geneva Finance Limited								
Harmony Corp Limited								
Instant Finance Limited								
John Deere Financial Limited ⁷			A+	Stable	A1	Stable		
Latitude Financial Services Limited ⁸								
Mercedes-Benz Financial Services New Zealand Limited ⁹	A	Stable	A	Stable	A2	Stable		
Midlands Smarter PIE Fund								
Motor Trade Finance Limited								
Nelson Building Society			BB+	Stable				
Nissan Financial Services NZ Pty Limited ¹⁰			BBB-	Stable	Baa3	Stable	A	Stable
ORIX New Zealand Limited ¹¹	BBB+	Stable	A-	Stable	A3	Stable	AA	Stable
Police & Families Credit Union								
Prospa NZ Limited								
Ricoh New Zealand Limited ¹²	BBB	Stable					A+	Stable
SG Fleet NZ Limited ¹³								
Speirs Finance Group Limited ¹⁴								
Toyota Finance New Zealand Limited ¹⁵	A+	Stable	A+	Stable	A1	Positive	AAA	Stable
Turners Automotive Group								
UDC Finance Limited ¹⁶	BBB	Stable			Baa1	Stable	A	Stable
Unity Credit Union			B	Negative				
Wairarapa Building Society			BB+	Stable				

Descriptions of the credit rating grades

Long-term credit rating grades assigned by Standard & Poor's	Description of the steps in the Standard & Poor's credit rating grades for the rating of the long-term senior unsecured obligations payable in New Zealand, in New Zealand dollars.
AAA	Extremely strong capacity to meet financial commitments. Highest rating.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BB	Less vulnerable in the near-term, but faces major ongoing uncertainties to adverse business, financial and economic conditions.
B	More vulnerable to adverse business, financial and economic conditions, but currently has the capacity to meet financial commitments.
CCC	Currently vulnerable and dependent on favourable business, financial and economic conditions to meet financial commitments.
CC	Currently highly vulnerable. Default has not yet occurred, but is expected to be a virtual certainty.
Plus (+) or Minus (-)	The ratings AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.
BB, B, CCC, and CC	Borrowers rated BB, B, CCC and CC are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and CC the highest. While such borrowers will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

Long-term credit rating grades assigned by Standard & Poor's	Description of the steps in the Standard & Poor's credit rating grades for the rating of the long-term senior unsecured obligations payable in New Zealand, in New Zealand dollars.
Assigned by Fitch Ratings	Fitch Ratings applies 'investment grade' rates 'AAA' to 'BBB' to indicate relatively low to moderate credit risk, while for those in the 'speculative' or 'non-investment grade' categories which have either signalled a higher level of credit risk or that a default has already occurred, Fitch Ratings applies a 'BB' to 'D' rating. The modifiers '+' or '-' may be appended to a rating to denote relative status within the major rating categories. Credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and not predictive of a specific frequency of default or loss.
Assigned by Moody's Investors Service	Moody's Investors Service appends numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates the lower end of that generic category.
Assigned by Rating and Investment Information, Inc.	Rating and Investment Information, Inc. applies a rating scale where the grades of 'AAA' to 'BB' indicate the highest level of creditworthiness supported by excellent factors, to a sufficient level of creditworthiness where some factors require attention at times. Grades of 'B' to 'C' are applied where creditworthiness is questionable and some factors require constant attention, to cases where an obligation is in default. Rating and Investment Information, Inc. include the use of modifiers, such as '+' or '-' to the categories of 'AA' to 'CCC' to indicate the relative standing within each rating category.

Definitions

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

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

Endnotes

1	For figures 1 to 10, the source has been hyperlinked next to each figure to provide the reader with the ability to access the respective data
2	Kiwis lose \$2.3b to digital scams, Government readies three big moves - NZ Herald ▶
3	The related articles are hyperlinked to provide the reader with the ability to access the respective news releases
4	Starter for Ten: 10 Topics for SMEs to Start Sustainability Reporting – Sustainable Finance NZ ▶
5	Net tangible assets

6	Rating of parent company BMW AG (Germany)
7	Rating of parent company John Deere Financial Limited Australia
8	Rating of parent company KVD Singapore Pte. Ltd (Singapore)
9	Rating of parent company Mercedes Benz Group AG (Germany)
10	Rating of parent company Nissan Motor Co. Limited (Japan)
11	Rating of parent company Orix Corporation (Japan)
12	Rating of parent company Ricoh Co. Limited (Japan)
13	Rating of parent company SG Fleet Group Limited (Australia)
14	Rating of parent company Anchorage Capital Partners
15	Rating of parent company Toyota Motor Corporation (Japan)
16	Rating of parent company SBI Shinsei Bank Ltd

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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.

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

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