



Reserve Bank
of New Zealand
Te Pūtea Matua

2025 Review of key capital settings

Decisions

17 December 2025

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Contents

Summary	3
Key decisions	8
Overview of key decisions	8
New Loss Absorbing Capacity (LAC) requirements for Group 1 deposit takers	10
We are maintaining our consultation proposals for Group 2 and 3 capital ratios to ensure stability, but requirements for Groups 2 and 3 will decline further due to additional reductions in risk weights	13
Remove Additional Tier 1 (AT1) from the capital stack	14
Standardised risk weights – additional changes provide more accuracy	14
Appendix A: Summary of policy decisions and key feedback	18
Appendix B: High-level implementation approach and indicative transition path	22
Appendix C: Risk appetite framework	27
Risk Appetite Framework	27
Risk Appetite	27
How this translates into prudential policy settings	27
How has our risk appetite for capital settings changed since 2019	28
Appendix D: Overview of the cost benefit analysis	29
Summary	29
The CBA of the new requirements	31
Option analysis	31

Summary

A stable financial system supports economic prosperity

Banking – or deposit taking as we refer to it in this document – is a large and leveraged sector that households and businesses rely on to spend, save, and invest over time. Periods of financial instability can cause direct costs and on-going damage to the economy. We are tasked with protecting and promoting the stability of the financial system. This includes ensuring the safety and soundness of deposit takers and promoting public confidence in the system.

Capital requirements need to be set at the right level to balance the costs and benefits of regulation

Capital requirements are a foundational part of our prudential framework. Our rules specify the minimum percentage of a deposit taker's funding that must come from its owners. Capital requirements that are too low risk deposit takers being unable to absorb unexpected losses when they arise and therefore failing – which may impose a direct fiscal cost on New Zealand taxpayers, as well as reducing the long-run prosperity and well-being of New Zealanders. Conversely, capital requirements that are too high can reduce credit availability and increase costs unnecessarily.

In 2019, we completed a multi-year review of New Zealand's capital framework ('the 2019 Review')

This resulted in the decision to significantly increase the quantity and improve the quality of capital that banks are required to operate with by 2028, to improve the resilience of the banking system.¹

Six years on, we are in the process of moving to a new suite of prudential standards under the Deposit Takers Act 2023 (DTA)¹

As well as operating under this updated legislative framework, a new Financial Policy Remit (FPR) was issued in 2024, which places a greater focus on efficiency and competition. Further, submitters to recent inquiries have expressed concerns that our bank capital settings may be unreasonably conservative – undermining competition and development of the New Zealand economy. As a good financial system steward, it is important we consider recent developments and any new evidence presented as part of recent inquiries.

Following consideration of new evidence, consultation paper submissions and independent reports, we have recalibrated our risk appetite, leading to an easing of requirements overall

Our new settings place a slightly greater emphasis on our tools and ability to resolve an entity in distress, which allows a relaxation of going concern capital requirements (as per 'Option 2' in our August consultation paper).

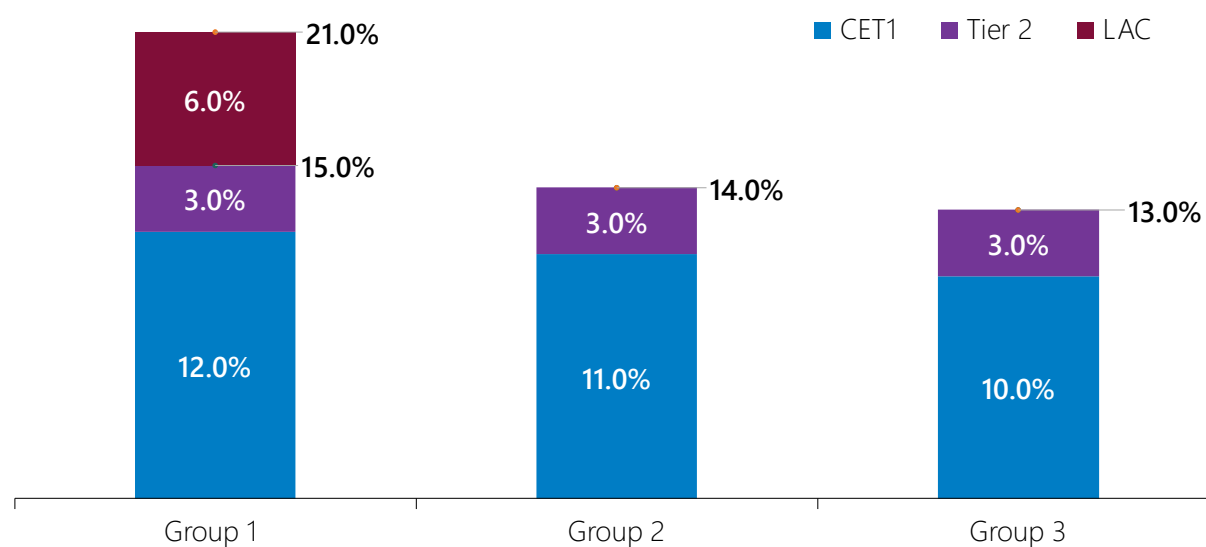
¹ Reserve Bank of New Zealand. (2025). *2017-2019 Capital Review*. <https://www.rbnz.govt.nz/regulation-and-supervision/oversight-of-banks/how-we-regulate-and-supervise-banks/our-policy-work-for-bank-oversight/capital-review>

The key features are:

- For the largest deposit takers (Group 1²), a reduction in Tier 1 capital ratio requirements relative to the 2028 settings under 2019 Review decisions, as well as a reduction in comparison with existing capital requirements, alongside the introduction of a requirement for additional loss absorbing capacity (**LAC**) instruments (see the next section for details)
- For Group 2, a reduction in both Tier 1 and total capital ratio requirements relative to the 2028 settings under 2019 Review decisions
- For Group 3, a reduction in Tier 1 capital ratio requirements relative to the DTA capital standard policy consultation (offset by an equal increase in Tier 2 capital)
- More granular standardised risk weights, including larger reductions for some categories than we proposed in August 2025, reflecting our assessment of the evidence provided in submissions.
- Removal of Additional Tier 1 (**AT1**) capital instruments.

A summary of the policy decisions and key feedback can be found in Appendix A.

Figure 1: New capital stack requirements



We are introducing a new loss absorbing capacity (LAC) requirement for Group 1 deposit takers

The new settings will require Group 1 deposit takers to have 6% of additional LAC in addition to their minimum capital ratio requirements. When a distressed deposit taker's going concern capital is significantly depleted, LAC instruments can be written-down or converted into equity to help recapitalise the deposit taker.

² Under the RBNZ's Proportionality Framework [Proportionality Framework for developing standards under the Deposit Takers Act](#)

As all existing Group 1 deposit takers have an Australian parent bank, qualifying LAC and Tier 2 instruments will be required to be issued to a deposit taker’s parent bank. The instruments that will qualify as LAC will have features that are consistent with international guidance, including write down and conversion provisions. New Tier 2 instruments for Group 1 deposit takers will also have the same features.³ This will support our preferred ‘single point of entry’ approach to recapitalising a distressed Group 1 deposit taker.

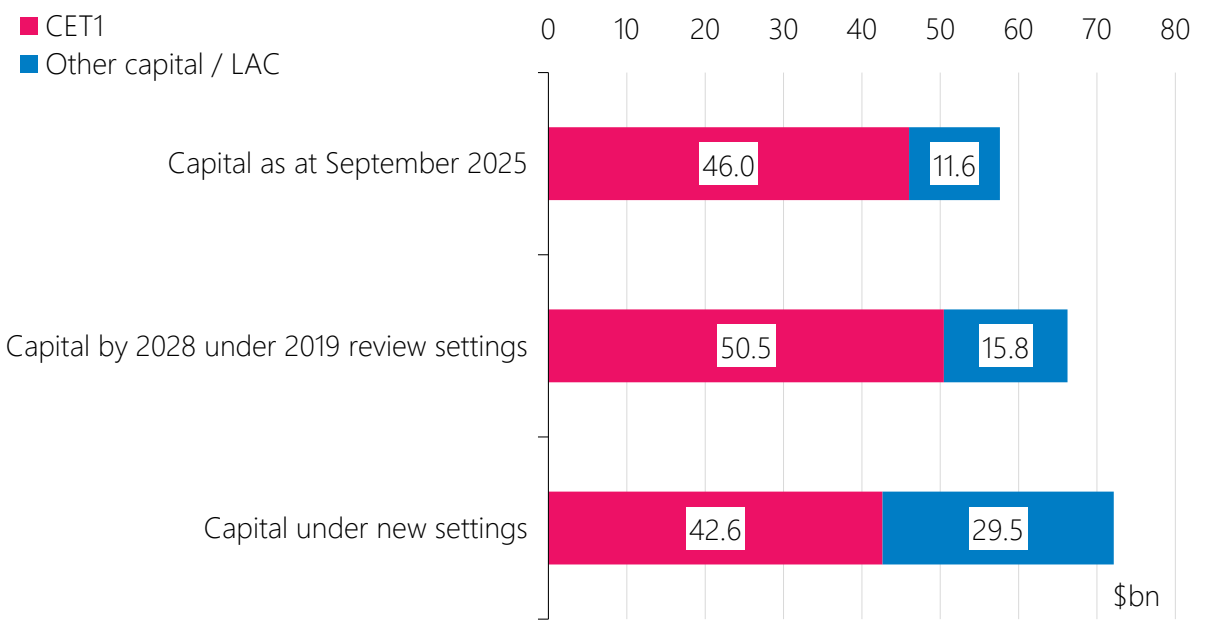
We intend to consult on the detailed design of LAC requirements in 2026 and 2027. This will include consultation on the transitional path for Group 1 deposit takers’ existing, externally issued Tier 2 instruments (discussed further in Appendix B).

The new settings substantially reduce overall system capital

We estimate that the net impact of the changes in this document will reduce Group 1 deposit takers’ CET1 capital by around \$3.4 billion compared with actual levels in September 2025. The changes will reduce CET1 capital levels for Group 2 by up to \$1.9 billion, with Group 3 levels reducing by up to \$70m. CET1 capital is the highest quality and most expensive form of capital, and therefore these changes will reduce the weighted average cost of deposit takers’ funding.

Lower CET 1 levels increase the risk of financial crises occurring, but the LAC requirements improve the ability to mitigate the cost of these crises if, and when, they occur.

Figure 2: Nominal capital amounts for Group 1



Note: Modelling assumes banks operate with a management buffer of 1% of CET1 above regulatory requirements.

³ New Tier 2 instruments for Group 1 deposit takers will also be required to include the same write-down and conversion provisions. This will mean that LAC and Tier 2 will be made up of the same types of instruments. However, for the sake of clarity we refer to LAC and Tier 2 as separate concepts throughout this document.

Group 2 and 3 deposit takers will see significant reductions in capital requirements, partly due to changes in risk weights

This will deliver substantial capital reductions compared to the 2028 settings under 2019 Review decisions, in line with our assessment that risk weights should be reduced to reflect actual risk as established by available data. We estimate Group 2's total capital will be up to 21% lower than the current levels, taking into account expected management buffers above the regulatory minimum. For Group 3, the expected reduction in capital is up to 20%.

We analysed options that considered further lowering of the capital ratio requirements for Group 2 and 3 deposit takers, but consider that further reductions would undermine financial stability. Group 2 and 3 deposit takers only have a small buffer for recovery when distressed and additional reductions in capital ratio requirements for these groups would further increase failure risk for deposit takers.

Furthermore, our proposed Group 3 requirements were already set at the minimum viable level needed to meet the purposes of the DTA i.e. to ensure the safety and soundness of *each* deposit taker and promote public confidence in the financial system.

We expect our decisions to reduce deposit-takers' average funding costs, supporting lower borrowing costs and providing more scope for lending

Compared to the 2028 settings under 2019 Review decisions, our cost benefit analysis estimates that the weighted average funding costs of deposit takers will be 0.12% lower under the new capital settings. This is expected to support improved access to credit.

We have carefully considered the advice of three international experts, Oliver Wyman's international comparison, and submissions on our consultation paper in reaching final decisions

Our decisions are made within our legislative framework. As such, we have ensured that the decisions focus on the statutory purposes set out in the Deposit Takers Act and other applicable legislation⁴, with consideration of the statutory principles and with regard to the Financial Policy Remit issued by the Minister of Finance in December 2024.

Three international experts – Professors Thorsten Beck, Elena Carletti and Sir John Vickers – provided their expertise to the Financial Stability Oversight Committee to support the Board's decision-making process. Their independent reports set out their conclusions on the options that were consulted on. These views were considered as part of the decision-making process. These reports have been published alongside this document.

Our analysis has also been informed and tested by a range of other sources including: feedback on the consultation paper from 43 submitters, a report we commissioned from Oliver Wyman examining how New Zealand's bank capital ratios compare internationally,⁵ our engagements with the Treasury and the Australian Prudential Regulatory Authority (APRA).

⁴ Decisions which are implemented prior to the standard making power in the Deposit Takers Act coming into force are generally made under the Non-bank Deposit Takers Act 2013 and the Banking (Prudential Supervision) Act 1989. The decisions in this document were made having given with consideration of the purposes of those statutes.

⁵ rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/banks/capital-review/2025/oliver-wyman-rbnz-capital-review.pdf.

Due to high interest, we have summarised key decisions in this document to provide certainty for deposit takers

More detailed information will be published in February 2026, including a detailed Response to Submissions, the full cost benefit analysis and proactive release of background material. Appendix B provides a high-level implementation approach for these decisions.

We will monitor the effects of our decisions to ensure that we have calibrated our settings correctly for New Zealand

This is core to our role as regulatory stewards. We expect to monitor the impacts and publish our findings every two years as we have been doing under the 2028 settings under 2019 Review decisions. This will include monitoring of trends in amounts and prices of capital instruments issued, whether costs of capital are tracking in line with our expectations, trends in lending rates (by sector), deposit taker's profits, and return on equity.

The changes will be implemented over several years to give deposit takers time to adjust. The new settings will need to be in place for a period of time before we can accurately assess their impacts. Therefore, our first monitoring report would likely be in 2028 to allow deposit takers to transition.

We also intend to monitor changes in observed risk weights and comparisons between modelling and standardised outcomes, and look for opportunities to continuously improve our settings.

Finally, we will monitor the overall risks to the system through our regular stress tests and our twice-yearly Financial Stability Reports.

Key decisions

Overview of key decisions

The key features of our Capital Review decisions are:

- A reduction in total capital ratio requirements relative to the 2028 settings under 2019 Review decisions:
 - Group 1 deposit takers: 12% of CET1 (6% of which is a buffer – firms do not always need to hold this, but are expected to normally do so, and can face restrictions (e.g. on dividend payments) when they do not), with a further 3% requirement that can be met by Tier 2, and 6% additional LAC.
 - Group 2 deposit takers: 11% of CET1 (5% of which is a buffer), with a further 3% requirement that can be met by Tier 2.
 - Group 3 deposit takers: 10% of CET1 (4% of which is a buffer), with a further 3% requirement that can be met by Tier 2.
- Introducing a LAC requirement for the largest deposit takers (Group 1 deposit takers).
- More granular standardised risk weights, including further refinements leading to larger reductions than consulted on in August. This reflects our assessment of the evidence provided in submissions, with our estimates suggesting the following risk weight impacts:
 - A fall in average risk weights of 5.8% for Group 1 deposit takers, compared with a revised 5.6% fall due to the proposals in the August consultation paper.⁶
 - A fall in average risk weights of 15.3% for Group 2 deposit takers, compared with a revised 12.6% fall due to the proposals in the August consultation paper.
 - A fall in average risk weights of 16% for Group 3 deposit takers, compared with 13% due to the proposals in the August consultation paper, with wide variation across deposit takers.
- Removal of Additional Tier 1 capital instruments.

This is shown in Figure 1 above, and in Table 1 below.

An overview of all the decisions and a high-level summary of the feedback we received is in Appendix A.

⁶ As part of the consultation, we asked deposit takers for more detailed information to help assess the impact of risk weight changes. We have used the information that we received from the submissions to refine our estimates and have included these updated numbers - including revising the expected impact of the original proposals from the consultation paper.

Table 1: Summary of decision on capital ratios (% of RWA)

Breakdown by instruments	<u>Group 1</u>	<u>Group 2</u>	<u>Group 3</u>
Tier 1 (CET1)	12	11	10**
Tier 2	3	3	3
Tier 2 (LAC)	6	-	-
Total	21	14	13

Breakdown by minima, buffers and LAC	<u>Group 1</u>	<u>Group 2</u>	<u>Group 3</u>
Minimum Total Capital	9	9	9
<i>Made up of:</i>			
<i>Tier 1* (CET1)</i>	6	6	6
<i>Tier 2 (up to a max)</i>	3	3	3
LAC (may be Tier 2)	6	-	-
Prudential Capital Buffer (all CET1)	6	5	4**
<i>Of which CCyB</i>	1	1	0
<i>Of which Domestic Systemically Important Bank (D-SIB) buffer</i>	1	n/a	n/a
Total	21	14	13

***Note:** This includes the decision to remove AT1 capital as a recognised form of regulatory capital. This means all Tier 1 capital will be made up of CET1 capital. CET1 beyond minimum levels may be used to fulfil Tier 2 and LAC requirements.

****Note:** Group 3 deposit takers without a credit rating are subject to a 5% Prudential Capital Buffer.

The decisions results in sizable reductions in CET1 requirements (the most expensive form of capital) compared with the amount deposit takers had at the end of September 2025. Taking into account expected management buffers, for Group 2 we estimate that their total capital will be up to 21% lower than the current amount held. For Group 3 the expected reduction in capital is up to 20%.

For Group 1 we estimate that total CET1 will reduce by around \$3.4 billion or 7% from current levels (from \$46.0 billion to \$42.6 billion). Due to the introduction of LAC, total Group 1 regulatory capital is expected to increase by 25% (from \$57.6 billion to \$72.2 billion), however this has a lower overall cost of funds to Group 1 deposit takers.⁷

Overall, total CET1 in New Zealand's deposit takers is expected to reduce by 10% or approximately \$5 billion from current levels, while total regulatory capital is expected to increase by 18%. We expect that replacing higher cost CET1 with LAC will reduce deposit taker's average funding costs

⁷ These changes are shown in Figure 2.

by around 0.06% (6bps) compared to current capital levels, and by 0.12% (12bps) compared to the 2028 settings under 2019 Review decisions.

More detailed information and supporting analysis to the decision will be published in February 2026.

New Loss Absorbing Capacity (LAC) requirements for Group 1 deposit takers

LAC helps support our preferred approach to recapitalising a distressed Group 1 deposit taker, if needed

The LAC requirement for Group 1 deposit takers will be able to be met with pre-positioned debt instruments, the outstanding balance of which could be written down or converted into equity when a deposit taker is in distress.

All existing Group 1 deposit takers in New Zealand have an Australian parent bank. We will require these Group 1 deposit takers to issue their LAC instruments to their parent – we call this ‘Internal LAC’. Tier 2 capital instruments for Group 1 deposit takers will have the same write-down and conversion features as LAC instruments, and will be required to be issued internally. Amongst other things, this is designed to support our preferred “single point of entry” (**SPE**) model for recovering or resolving a Group 1 deposit taker. An SPE model is designed to keep the group together rather than recovering or resolving the deposit taker on a standalone basis.⁸

There are two key outcomes that LAC will need to meet if it is to deliver the financial stability and efficiency benefits that we have identified in our cost benefit analysis:

- LAC operates effectively to recapitalise a distressed deposit taker under a range of crisis scenarios, recognising however that there will always be uncertainty in how a crisis will unfold in practice.
- LAC qualifies for Tier 2 corresponding deductions under the APRA’s rules. This was a key point made by Group 1 deposit takers in their submissions due to its impact on the flow-on costs facing each group. This means that LAC requirements will follow international guidance.

We intend to consult on the detailed design of Tier 2 and LAC requirements for Group 1 deposit takers in June 2026. The consultation will also cover how LAC requirements will apply to a future Group 1 deposit taker that is not a wholly-owned subsidiary of an Australian parent, to ensure there are not barriers to entry or growth.

We currently do not intend to introduce a LAC requirement for Group 2 or Group 3 deposit takers given the nature of their business and, the potential availability of other, more appropriate recovery and resolution options that do not rely as heavily on a recapitalisation. The detail of this will be consulted on alongside the crisis preparedness standard next year.

⁸ While the SPE model is our preferred approach for dealing with a distressed Group 1 deposit taker, in the coming years, other resolution approaches will need to be developed and prepositioned in order for the Reserve Bank to fulfil its future responsibilities as “resolution authority” under the DTA. The Reserve Bank’s approach to resolution of deposit takers will be consulted on in the coming years as part of the requirement to publish a Statement of Approach to Resolution under the DTA.

We are not changing any of the current Tier 2 requirements for Group 2 and 3 deposit takers at this time.⁹ This is being considered separately as part of the implementation of our crisis management framework under the DTA. Any proposed changes would be subject to consultation.

We received a wide range of views about the role of LAC in the New Zealand prudential capital framework

Some of the feedback supported LAC, some were opposed, and some pointed to a range of risks.

Stakeholder feedback was broadly divided by size and nature of business of deposit takers, with the international experts generally recommending against the use of LAC. Group 1 deposit takers supported the LAC option over the non-LAC option, though many noted that their support was conditional on LAC and Tier 2 instruments satisfying APRA's rules. However, some Group 2 deposit takers preferred the option without LAC. This was mostly due to concerns about the use of internal LAC potentially acting as a barrier to domestic banks moving to Group 1 and reducing the depth of the market for Tier 2 instruments for Group 2.

All our independent experts raised a number of concerns about the LAC option and two explicitly advised against this option. Their concerns include the need to confirm the design of LAC instruments, the risks that bail-in may not work as expected, the reduction in the depth and liquidity of markets for deposit takers' Tier 2 capital instruments and the fact that our crisis management framework is still under development.

We believe that introducing LAC will modernise our framework and bring enhanced efficiency

We have recalibrated our risk appetite framework, which sets out our approach to prudential policy for the deposit taking sector. It seeks to balance the:

- benefits to society of preventing or managing the failure of regulated entities.
- costs to society of regulation, for example compliance, administrative, and efficiency costs.

The framework and how it translates into prudential policy settings can be found in Appendix C.

Our assessment was finely balanced, with our quantitative CBA suggesting a LAC option would provide a larger net benefit to New Zealand (the CBA is discussed more in the next section). This is because we expect LAC would provide lower overall cost of funds, while also providing a tool which supports our preferred approach to dealing with a distressed Group 1 deposit taker (SPE recovery and resolution). In effect, while the risk of a distressed large bank increases somewhat as a result of lower CET1 capital, we have determined that this is offset by the benefits from lower funding costs and the utility of LAC in recovery and resolution.

Most countries use convertible loss absorbing instruments, especially for their largest banks (including Australia). There is a potential concern that converting LAC instruments in a crisis could worsen declines in market confidence. However, because New Zealand's largest banks are all subsidiaries and the LAC will be internal, rather than held by external investors, our assessment (built into the CBA) is that these concerns are more limited in New Zealand. However, there will always be significant uncertainty over how these events will unfold, and our crisis management

⁹ Section D3 of the Banking Prudential Requirements 110 (BPR110) sets out the eligibility of Tier 2 capital instruments. <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/banks/review-capital-adequacy-framework-for-registered-banks/bpr-documents/bpr110-capital-definitions-oct-23.pdf>

framework (which is under development) will need to accommodate optionality to preposition dealing with a distressed deposit taker in accordance with the DTA’s resolution objectives.¹⁰

The new capital settings represent a finely balanced calibration between crisis prevention and management

Final decisions required a careful assessment of all the evidence we received and heard on the consultation paper, including the views of the independent experts.

The CBA evaluates the economic impacts of different capital options, focusing on indirect effects from changes in lending rates, deposit taker failures, and wealth transfer costs under various sensitivities. An overview of the results in the CBA can be found in Appendix D. The full CBA will be released in February 2026.

Overall, the CBA suggests:

- Option 2 – the approach we have adopted – has a larger net benefit than the 2028 settings under 2019 Review decisions and Option 1.
- Lending rates are expected to be lower under all options analysed as compared to the 2028 settings under 2019 Review decisions, though only by relatively small amounts.
- The loss in GDP from a crisis is expected to be higher under all options analysed as compared to the 2028 settings under 2019 Review decisions.

The CBA is subject to relatively high levels of uncertainty, and so we have presented a sensitivity analysis below to demonstrate the range of possible outcomes.

Table 2: CBA results for the chosen option as compared to the 2028 settings under 2019 Review decisions

Sensitivity range of total net benefit	(% GDP)
Lower	-0.02%
Central estimate	0.12%
Upper	0.19%

The CBA is one input into the decision-making process – the modelling depends on assumptions, and the differences between viable options are small relative to the range of outcomes under different sensitivities. We also considered a range of other variations on these two central options, with different mixes of capital to help inform the decision-making process. One of these variations is discussed in Appendix D, and all of the variations we considered will be made available when we release the full CBA in February 2026.

We have adopted Option 2 as it aligns with our risk appetite and think that it best balances the costs and benefits for New Zealand. Some submitters (predominantly the Australian-owned banks) wanted us to adopt the same capital ratios as APRA (18.25% in total including LAC instruments, rather than the 21% under Option 2). The CBA did not support this option. We also note that the largest Australian banks currently have total capital ratios well above that 18.25% level (around

¹⁰ The resolution objectives are set out in section 259 of the DTA.

21%). New Zealand also has different risks to Australia, and as a result, the optimal ratio is likely to be higher. For example, Standard and Poors' Banking Industry Country Risk Assessment has a higher risk classification for New Zealand versus Australia. We also face different dynamics as a "host" country (i.e. our banking system is dominated by subsidiaries of foreign banks), which generally results in higher capital levels than those set in "home" countries (like Australia).

We are maintaining our consultation proposals for Group 2 and 3 capital ratios to ensure stability, but requirements for Groups 2 and 3 will decline further due to additional reductions in risk weights

We considered options which would have lowered Group 2's requirements even further but concluded that the risks outweigh the benefits

Some Group 2 stakeholders argued that Option 2 would reduce the degree of proportionality in the framework relative to the status quo, limiting their ability to compete. The D-SIB buffer – designed to reflect the greater systematic risk associated with the largest deposit takers – was 2% under the status quo of the 2028 settings under 2019 Review decisions, but is only 1% under Option 2.

Our decision has been calibrated to support proportionality between deposit takers while maintaining a baseline level of capital to promote the soundness and safety of each deposit taker. In particular, the following decisions support proportionality between deposit takers:

- Increasing granularity for standardised risk weights makes regulation more proportionate as the restriction imposed better reflects risk.
- Reducing regulatory burden on the smallest deposit takers by removing AT1 and not requiring them to hold LAC instruments.
- Maintaining the current output floor and scalar settings as these settings have been calibrated to maintain incentives for good credit risk management and create a role for improved risk modelling, while at the same time limiting divergence in capital requirements for similar lending between deposit takers, purely based on how risks are measured.

We are setting Group 3 requirements at a minimum viable capital ratio to ensure soundness

Group 3 deposit takers were also concerned about a loss of proportionality compared with the 2024 Capital Standard proposals and argued for a lower ratio requirement. They noted we proposed reductions in requirements for Group 1 and 2 based on a higher risk appetite in the consultation paper, but did not propose reductions for Group 3.

However, one of the purposes under the DTA is to promote the safety and soundness of individual deposit takers, and smaller deposit takers are inherently more vulnerable to failure. We therefore consider that there is a minimum amount of capital the smallest deposit takers must maintain to ensure soundness. Further, the risk weight changes proposed as part of this Review would reduce capital for Group 3s by around 16% on average – though this will vary by deposit taker, and is more uncertain than our other estimates as we have much less data.

Other decisions also support Group 3 entities, such as allowing a slower transition to higher capital ratios while bringing forward new risk weight changes, and allowing perpetual preference shares

(PPS) to count as Tier 2 capital for Group 3 (which gives smaller deposit takers more options for raising Tier 2 capital if desired).

We carefully considered whether there were options that could increase proportionality, without increasing Group 1 capital levels

This included considering whether any of the other prudential standards could be eased for Groups 1 and 2. However, the prudential standards have already been set at the minimum level required to meet our statutory purposes, and so there is no ability to recalibrate settings to change the relativities (other than by implicitly or explicitly increasing requirements for Group 1).

The decisions in the paper do however benefit Groups 2 and 3 more than Group 1 (in terms of the relative reduction in CET1). Accordingly, we consider the options represent a reasonable balance between the different groups of deposit takers.

Remove Additional Tier 1 (AT1) from the capital stack

Consultation feedback overwhelmingly supported removing AT1 from the capital stack.

Feedback emphasised the need for clear, proportionate transitional arrangements to avoid market disruption and unintended consequences.

For Group 1 and 2 deposit takers, AT1 will be fully phased out. For Group 3 deposit takers, we will gradually shift the recognition of their Perpetual Preference Shares (PPS) – which have similar characteristics to AT1 issued by banks – away from Tier 1 classification. We will recognise PPS issued by Group 3 deposit takers as Tier 2 capital on an ongoing basis. This approach mitigates impacts on Group 3 deposit takers and ensures proportionality and market stability.

Standardised risk weights – additional changes provide more accuracy

Consultation feedback broadly supported more granular standardised risk weights (which enable lower risk weights overall), but a desire for further reductions and greater alignment with APRA requirements was expressed in some areas. We refined our analysis and have introduced further granularity for the areas where strong supporting evidence was provided.

Residential Mortgage Lending (RML): Based on strong evidence provided by stakeholders, we will introduce APRA-aligned standardised risk weights for lending with loan-to-value ratios (LVRs) $\leq 70\%$. Risk weights for loans with higher LVRs will remain unchanged, based on evidence from stress tests and Internal Risk Based (IRB) outputs.

Community Housing Providers (CHPs): Instead of aligning risk weights with property investment RML, we have decided to set the risk weights equal to the owner-occupied RML, using the same LVR categories. This will include the reductions in RML covered in this decision document. To reflect the feedback that there is insufficient granularity for the lowest risk lending, we have also added a maximum risk weight of 30%, regardless of LVR, for CHPs with long-term funding contracts with government agencies. This reflects the secure income that these providers have. Housing co-operatives will be separated from CHPs and in general we would expect these to be classified as owner-occupier RML, so long as the lending meets the required features of RML lending definitions.

Small and Medium Enterprise (SME) Retail and Corporate Lending: More granularity for SME lending (with lower risk weights of 75% for SME retail and 85% for SME corporate) was widely

supported. Feedback primarily focused on SME thresholds, asking for an increase of the exposure size limit for qualification as an SME to align with APRA's rules. We will proceed with our consultation paper proposal to introduce granularity for SME lending. We will review SME thresholds as part of our work programme in 2026.

Agriculture: Consultation feedback broadly supported our proposed three new LVR-based categories. We will create three new categories to ensure more accurate and risk-sensitive weightings.

Personal lending: we will not proceed with adding the new sub-category for unsecured lending that we included in the consultation paper. We will not be reducing risk weights, in line with requests from some deposit takers, as we consider this lending to be high risk.

We received feedback on a range of **additional topics**. We intend to review these topics in 2026:

- **Reverse Mortgages** – risk weights for reverse mortgages were adjusted in 2023, following a substantial review. We will review these in 2026 in the context of our revised standardised risk weights.
- **Commercial Property** – we do not have enough data or granular stress test results to consider further changes to these categories at this time. We will seek data from deposit takers in 2026 and will consider this matter further.
- **Infrastructure** – we consider that borrowers who deliver large-scale public infrastructure, or who operate lifeline utilities (such as water, energy distribution and transmission, gas pipelines and fibre), who are backed by assets with strong credit enhancement frameworks such as Public Private Partnerships and the Infrastructure Funding and Financing Act 2020, are likely to be lower risk than other corporate borrowers. We will consider how to incorporate this, including in IRB modelling, in 2026.
- **Securitisations** – in 2026 we intend to carry out a tightly scoped review of an aspect of securitisation related to the risk weighting of warehouse funding deposit takers. This will be to set risk weights based on the risk of the underlying exposure and structure, rather than on the credit risk of the originating deposit taker or non-bank lending institution borrowing entity.

Table 3: Revised key standardised risk weight changes (%)

Type of lending	Current standardised risk weight	Proposed in August 2025 Consultation	New standardised risk weight
Owner-occupier residential mortgage lending (RML) with loan-to-value ratio (LVR) ≤50	35	25	20
Owner-occupier RML with LVR 50.01 – 60	35	30	25
Owner-occupier RML with LVR 60.01 – 70	35	35	30
Investor RML with LVR ≤50	40	30	25
Investor RML with LVR 50.01 – 60	40	35	30
Owner-occupier past due RML (principal and interest)	With LMI: Risk weight that corresponds with the LVR and LMI conditions set out in Table C3.10 ¹¹ Without LMI: 100	With LMI: 80 Without LMI: 100	With LMI: 80 Without LMI: 100
Other standardised residential property RML	With LMI: Risk weight that corresponds with the LVR and LMI conditions set out in Table C3.10 ¹² Without LMI: 100	With LMI: 95 Without LMI: 120	With LMI: 95 Without LMI: 120
Small and medium enterprise (SME) retail	100	75	75
SME corporate	100	85	85
Agriculture with LVR ≤30	100	50	50
Agriculture with LVR 30.01 – 50	100	75	75
Agriculture with LVR > 50	100	100	100

¹¹ BPR131 – Standardised Credit Risk RWAs¹² BPR131 – Standardised Credit Risk RWAs

Type of lending	Current standardised risk weight	Proposed in August 2025 Consultation	New standardised risk weight
Community housing providers	Treated as either RML, corporate, or income-producing real estate (IPRE), depending on the deposit taker.	New standardised category with risk weights aligned with property investment RML. Both standardised and IRB deposit takers required to use the new standardised category.	New standardised category with risk weights aligned with owner-occupier RML, plus a maximum risk weight cap of 30% where there is long-term government contract. Both standardised and IRB deposit takers required to use the new standardised category.
Housing co-operatives	Treated as either RML, corporate, or IPRE, depending on the deposit taker.	Included in same category as CHPs above.	To be treated as owner-occupier RML by deposit takers, under either the standardised or IRB approach.

Note: This table only lists the key standardised risk weights that are being changed as a result of this Review. If a standardised risk weight category is not discussed in this table, then no change has been made.

Appendix A: Summary of policy decisions and key feedback

#	Consultation paper position	Feedback received	Policy decision
Capital stack			
1	Design of LAC instrument LAC instruments would be designed in a manner consistent with Financial Stability Board (FSB) and Basel Committee on Banking Supervision guidance, subject to any necessary tailoring to reflect New Zealand circumstances. LAC would be issued by Group 1 deposit takers internally to their parent entities and used to recapitalise when they are distressed.	Feedback from stakeholders stressed the importance of any LAC instruments satisfying APRA rules (i.e. being Basel/FSB compliant).	LAC is expected to be designed in a manner consistent with the international guidance and may be similar to existing Tier 2 with the following changes: 1. Addition of conversion and write-off provisions. 2. Include qualitative contractual triggers 3. Discretion on whether to exercise trigger remains with the Reserve Bank. These changes will also be applied to Tier 2 instrument requirements for Group 1 deposit takers, meaning existing, non-convertible, externally issued Tier 2 for Group 1 would be phased out. We intend to consult on the LAC design in June 2026. We will also continue to work closely with APRA in developing LAC instruments.
2	Group 1 capital requirements We consulted on two options as set out in Table 2 of the consultation paper, noting we were open to alternative options.	Some respondents to the consultation argued the levels of capital in our proposals were too high – with many arguing for alignment with the risk weights and capital ratios used in Australia. On the other hand, the independent experts – and some other respondents – questioned whether the reduction in the amount of capital compared to the 2019 Capital Review decision is warranted at all.	We will proceed with our proposed Option 2, to reduce the prudential capital buffer and introduce internal LAC for Group 1 deposit takers only.
3	Group 2 capital requirements We consulted on settings as set out in Table 2 of the consultation paper.	Some Group 2 stakeholders argued that Option 2 for Group 1 would reduce the degree of proportionality in the framework relative to the status quo, limiting their ability to compete.	Risk weight changes will reduce capital requirements for Group 2, but we do not recommend further reducing capital ratios. We recognise that this results in less proportionality through capital ratios. Our assessment is that there is sufficient proportionality provided to Group 2 and 3 deposit takers through the impact of lower risk weights.
4	Group 3 capital requirements We consulted on settings as set out in Table 2 of the consultation paper.	Group 3 deposit takers were concerned about a loss of proportionality compared with 2024 Capital Standard proposals (given the reduction for Group 2) and argued for lower ratio requirement. They noted we proposed reductions in requirements for Group 1 and 2 based on a higher risk appetite in the consultation paper, but did not propose ratio reductions for Group 3.	Risk weight changes will reduce capital requirements. But we have not made any further reductions to capital requirements through ratios and our assessment is that these are at the lowest level possible in order to support the safety and soundness of individual deposit takers. We will recommend that transitional minimum capital requirements should be reduced from 10% as consulted on to 9%. This would align the minimum capital requirement with the Capital Standard being introduced in 2028, as submitted on by industry. This would mean from 2026, the lower standardised risk weights would apply to NBDTs. In addition, NBDTs would be required to have a minimum capital ratio not less than 9%. NBDTs with credit rating exemptions will continue to be required to have higher levels of capital.
5	Introducing Loss-Absorbing Capacity (LAC) for Group 1 deposit takers Option 2 proposed introducing LAC for Group 1 deposit takers	Group 1 deposit takers preferred Option 2 (LAC) over Option 1 provided it would qualify for corresponding deductions against Tier 2 for the parent authorised deposit-taking institution. Some Group 2 and 3 deposit takers were concerned about proportionality. Some indicated a preference for Option 1 (No LAC) over Option 2 as they would not be able to issue internal LAC to their parent if they became Group 1.	We will proceed with our proposal to introduce internal LAC for Group 1 deposit takers only under Option 2.
6	Additional Tier 1 (AT1) capital We proposed to remove AT1 from the capital stack.	Respondents overwhelmingly supported the proposal. Feedback focused on ensuring transitional arrangements were carefully managed and sensible.	We will proceed with our proposal to remove AT1 from the capital stack.

#	Consultation paper position	Feedback received	Policy decision
		<p>Respondents were keen that arrangements avoided market disruption, did not lead to unintended consequences, reduced or removed complexity and ambiguity, and also mitigated any impacts on the small deposit takers.</p> <p>Mixed views were received on whether to incentivise early redemption of existing instruments or whether that would lead to unnecessary market disruption.</p> <p>One Group 3 respondent highlighted that half of its regulatory capital requirements were met with perpetual preference shares (PPS).</p>	<p>We have developed proportionate transitional arrangements which treat PPS issued by Group 3 deposit takers differently to AT1 instruments issued by Group 1 and 2 deposit takers. For more information see Table 3.</p> <p>Group 1 and 2 deposit takers will be subject to a phase out schedule for recognition of AT1 as Tier 1 capital.</p> <p>Group 3 deposit takers will be able to meet a reducing proportion of their Tier 1 requirements with PPS during the transitional period with any remainder being recognised as Tier 2 capital. Eventually, no PPS will be recognised as Tier 1 capital. However, Group 3 deposit takers will be able to continue to issue PPS as Tier 2 capital on an ongoing basis as an alternative option to subordinated debt.</p> <p>This approach recognises the limited market access and issuance capacity smaller institutions face. Whilst adding complexity, we consider retaining PPS as Tier 2 capital for Group 3 only is proportional and mitigates impacts for smaller entities.</p> <p>We expect that clear and early communication about how the transition will operate for all deposit takers will mitigate any concerns relating to the impact of removing AT1.</p>
Standardised risk weights			
7	<p>Residential mortgage lending (RML)</p> <p>We proposed adding more granular lower risk weights for lower-risk low LVR lending – specifically for owner-occupier and property investor RML with LVR ≤ 60%.</p> <p>Currently, all RML within the same lending category (owner-occupier or investor) with an LVR ≤ 80% has the same risk weight under the standardised approach.</p> <p>RML past due</p> <p>We proposed adding further granularity in RML past due risk weights, by aligning further with APRA’s approach. We proposed this approach as we believe adding this further granularity also better reflects the underlying risk of past due RML.</p>	<p>Almost all submitters supported more granular risk weights but wanted further reductions than what was proposed to match the risk weights used by the APRA and Basel.</p> <p>Submitters provided robust evidence and analysis for lowering low-risk, low-LVR lending to be more in line with APRA and closer to IRB model outputs, including the introduction of further granularity by adding an extra LVR band with a lower risk weight for RML with LVR 60% – 70%.</p> <p>There were two respondents that were opposed to this proposal, and offered an alternative approach. However, the majority of respondents did not offer a strong view. Of those that commented on the proposal, most were seeking further clarification of the risk weights we were proposing for lending with and without Lender’s Mortgage Insurance (LMI). This clarification can be found in Table 3.</p>	<p>Based on the evidence presented in the feedback, we have revised our RML risk weight proposals. We decided to amend the consultation paper RML risk weight proposals to match APRA risk weights at lower LVRs (≤70). However, we have not made any changes from the RML risk weight proposals at higher LVRs as these risk weights are better aligned with IRB model outputs and stress test results.</p> <p>This change results in lower RWA and overall capital in the system. Compared to the status quo, we estimate an overall 7% reduction of RWA, which is an extra 0.5 percentage point fall on top of the proposals in the consultation paper. This is made up of a fall for Group 1 of approximately 5.8%, and for Group 2 of approximately 15.3%.¹³</p> <p>Regarding past due lending, the majority of respondents did not offer a strong view on this proposal, and there was no additional evidence provided to justify changing the proposal – which is more closely aligned with the APRA approach to past due risk weights. Therefore, we will proceed with these changes as proposed in the consultation paper.</p>
8	<p>Corporate lending</p> <p>We proposed introducing more granularity for unrated corporate lending through separate risk weight categories for SME retail and SME corporate lending, with proposed risk weights of 75% and 85% respectively. Currently, the standardised approach sets a 100% risk weight for all unrated corporate lending.</p>	<p>The proposed change for SME lending was widely supported. Most feedback focused on the definitions and thresholds for SME loan eligibility. The current \$1 million threshold was put in place in 2008 and many respondents asked for this to be revised to something closer to Australia’s \$1.5 million (AUD) which was updated in 2024.</p>	<p>We will proceed with introducing additional SME risk weight categories in line with the consultation paper. However, we will increase the threshold for standardised and IRB SME lending categories through the Exposure Draft process.</p>
9	<p>Agriculture</p> <p>We proposed introducing more granularity by introducing three new risk weight categories for agricultural lending, with risk weights assigned according to LVR. Currently, agricultural lending is treated as an unrated corporate with</p>	<p>Most submissions were supportive of the additional granularity and of the risk weights proposed. There was one submission that didn’t agree with introducing new categories for agricultural lending, one that suggested that the risk weights should be higher and more aligned with SME risk weights, and two that proposed alternative, lower risk weights for</p>	<p>We will proceed with introducing new agricultural lending categories as proposed in the consultation paper.</p>

¹³ As part of the consultation, we asked deposit takers for more detailed information to help assess the impact of risk weight changes. We have used the information that we received from the submissions to refine our estimates and have included these updated numbers - including revising the expected impact of the original proposals from the consultation paper.

#	Consultation paper position	Feedback received	Policy decision
	a 100% risk weight under the standardised approach as it is unlikely to have a credit rating.	agricultural lending. However, there was no strong evidence presented to support a change to our initial proposal.	
10	Commercial property We floated the possibility of introducing more granularity through a new risk weight category specifically for unrated commercial property lending. We suggested it could have a flat 100% risk weight, as we did not have the data available to be able assess a more granular option. We asked deposit takers for more information to help us assess the impact of introducing this new category.	<p>The 100% flat risk weight was strongly opposed by most respondents. They considered it to be too blunt and that it would not sufficiently capture the vastly different risk profiles that unrated commercial property can have.</p> <p>Some also noted that the default risk weight for this lending is already 100% (with the exception of those that will be captured under the new SME risk weights), so this change would do very little to deposit taker outcomes.</p> <p>Most respondents supported a separate category but wanted additional granularity and proposed a range of alternative risk weight calibrations for this.</p>	<p>We will seek further information on this in 2026. Commercial property lending can be very high risk, and we do not have the data to be able to fully assess the impacts of any alternative risk weight calibrations.</p> <p>To enable us to consider this matter further, starting in 2026 we will request more detailed data from deposit takers, undertake an assessment of IRB model outcomes, and potentially conduct further stress tests to help us assess the impacts of making any changes in this area.</p>
11	Personal lending We floated the possibility of introducing more granularity by splitting personal lending into unsecured and secured personal lending and assigning a 150% and 100% risk weight to those categories respectively. We felt this would more accurately reflect the inherent riskiness of this type of lending. We asked respondents for feedback and more data to be able to assess the impact of taking this action.	<p>The idea of raising the unsecured personal lending risk weight to 150% was unanimously opposed by respondents. Some also opposed keeping the 100% risk weight for secured personal lending. However, respondents were supportive of more granularity in personal lending and suggested alternative (lower) risk weight calibrations for consideration. Several recommended adopting APRA's approach of 75% risk weight for credit cards and 100% for other personal lending.</p>	<p>We will retain the status quo of applying a 100% risk weight to all personal lending. Although respondents supported more granularity, our assessment is that lower risk weights cannot be justified, based on our stress test results which show that personal lending is consistently significantly riskier than other types of lending. We also have limited data available on personal lending and its subcategories to enable us to estimate the impact of any potential changes.</p>
12	Community housing providers (CHPs) and housing co-operatives We proposed introducing a new risk weight category for these types of lending which would treat both CHPs and housing co-operatives as investor RML with risk weights assigned according to LVR.	<p>More granularity was welcomed by most respondents, with many grateful to see community housing included in this workstream.</p> <p>However, while many respondents supported the approach of creating a separate category for these types of lending, they also provided robust evidence that the risk of these types of lending is more like that of owner-occupiers than investors (or could be even lower risk than owner-occupiers). Respondents also noted that in circumstances where the CHP has a long-term service provision contract, the risk is significantly reduced, as their income is secure.</p> <p>Some also argued that CHPs and co-operatives have quite different risk profiles and should be considered separately.</p>	<p>We will amend the consultation paper proposal to introduce different treatments of CHPs and co-operatives.</p> <p>Co-operatives will be treated as owner-occupier RML within the existing risk weights approaches.</p> <p>A new category will be created for CHPs, which aligns their risk weights with that of owner-occupier RML according to their LVR. There will be an upper risk weight limit of 30% for any CHPs with long-term Crown service provision contracts, regardless of LVR, due to their materially lower risk profile. This upper limit at 30% has been included in response to feedback that our original proposal did not sufficiently reflect the lower risk associated with long term contracts, which substantially reduce risk.</p>
13	Other risk weights feedback <ul style="list-style-type: none"> Infrastructure Securitisation Reverse mortgages No proposals made about these in the original consultation.	<p>There were a range of additional topics we received feedback on in response to our standardised risk weight proposals, including on different approaches to infrastructure lending and securitisation.</p> <p>Several respondents also suggested that reverse mortgage risk weights were still too conservative and should be aligned more closely with the lower and more granular RML risk weights proposed in the consultation paper. These respondents proposed some alternative risk weights for reverse mortgages, and provided a range of evidence to support their proposals.</p>	<p>The scope of the Review was targeted to ensure that key stakeholder concerns are raised but without any unnecessary delay to the timeline to implement the Deposit Takers Act 2023 in 2028.</p> <p>As these issues require additional analysis and consultation, we have not had sufficient time to assess them at this stage and will look into them further as part of our 2026 work programme.</p>
Additional matters			

#	Consultation paper position	Feedback received	Policy decision
14	Long-run Counter-Cyclical Capital Buffer (CCyB) We proposed to set the long-run CCyB at 1% (of RWA).	<p>Respondents had mixed views on whether the long-run CCyB should be set at 1%.</p> <p>Some respondents suggested that the long-run CCyB should be higher. A 1% CCyB (reduced in a downturn) would not likely give deposit takers enough incentive to extend more credit during a downturn (and hence support economic recovery) - a higher long-run CCyB gives additional flexibility in responding to a range of shocks.</p> <p>Other respondents agreed with a long-run CCyB of 1% (which aligns with Australia) but stated that more guidance is needed under which conditions the settings of the CCyB would be changed (particularly during a period of stress) and interact with the broader capital framework (including the Capital Buffer Response Framework).</p>	<p>We will proceed with our proposal to set the long-run CCyB at 1% (of RWA). We note that given the structure of the capital stack (decided as part of this review), if the long-run CCyB was greater than 1%, then reduced to 0%, Group 2 deposit takers could end up with lower capital than Group 3 deposit takers (in percentage terms), which may be inconsistent with proportionality.</p>
15	CCyB and Group 3 deposit takers We proposed to not apply the CCyB to Group 3 deposit takers.	<p>Respondents had mixed views on whether CCyB should apply to Group 3 deposit takers.</p> <p>Some respondents supported the proposal, agreeing that it would not have a big impact on the financial system overall and would be consistent with our approach to using other macroprudential policy tools.</p> <p>Other respondents disagreed as applying a CCyB to Group 3 deposit takers would provide these deposit takers with some relief to capital requirements during a downturn and may lead to a competitive imbalance between Group 3 deposit takers and Group 1 and 2 deposit takers.</p>	<p>We will proceed with not applying the CCyB to Group 3 deposit takers. This is consistent with our approach under the Lending Standard, where we do not intend to apply other macroprudential tools such as LVR and debt-to-income restrictions to Group 3 deposit takers. Given the small size of the Group 3 sector, the impact on aggregate lending (and overall financial conditions) would be small if we applied the CCyB to Group 3 deposit takers.</p>
16	Output floor and scalar No original proposal made.	<p>Some feedback from respondents included views about the output floor for IRB credit risk weights. Group 1 deposit takers generally wanted a reduction of the output floor and/or IRB scalar to align with APRA (72.5% output floor and 1.1 scalar). Group 2 generally wanted the output floor increased to 100% to support proportionality and competition.</p>	<p>We will retain the 85% output floor and 1.2 scalar. These settings have been calibrated to a level that we consider is appropriate for New Zealand circumstances.</p> <p>This is consistent with our approach to maintain incentives for good credit risk management and create a role for improved risk modelling. At the same time, we want to limit the divergence in capital requirements for similar lending, purely based on how risks are measured. This is particularly relevant in New Zealand, given the relatively simple balance sheets and business models of New Zealand banks.</p>
17	Leverage ratio No original proposal made.	<p>The leverage ratio is part of the Basel capital framework. It compares capital to a non-risk-weighted measure of a bank's balance sheet. One expert questioned the absence of this measure from the NZ framework.</p>	<p>Given the Terms of Reference, and that the issue was considered in the 2019 Review, we do not recommend introducing a leverage ratio requirement through this Review.</p> <p>We will consider whether a leverage ratio should be introduced in the future. To prioritise the implementation of the Review decisions, any work on this would not begin until changes to enact key decisions have been made.</p>

Appendix B: High-level implementation approach and indicative transition path

The table below shows the high-level implementation approach for the decisions.

Date	Milestone
H1 2026	<p>February 2026: Full documentation published including summary of submissions with our detailed responses, an updated cost benefit analysis and full implementation schedule.</p> <p>March/April 2026: Short consultation on updated drafting of Banking Prudential Requirements (BPR) to give effect to changes for banks ahead of Capital Standard coming into effect in late 2028.</p> <p>H1 2026: Implementing ‘fast-tracked’ changes to non-bank deposit taker (NBDT) requirements to give effect to changes for NBDTs ahead of Capital Standard coming into effect in late 2028. This will include a short consultation.</p>
	<p>June-August 2026: Consultation on Capital Standard exposure draft and guidance (rules for all deposit takers from late 2028). Policy consultation on crisis preparedness standard and LAC requirements alongside the publication of indicative resolution strategies.</p>
H2 2026	<p>1 October 2026: Target date for updated BPRs to come into force, covering new risk weights and first annual step changes in capital ratios. No further Additional Tier 1 capital instruments can be issued after this date.</p> <p>1 October 2026: Target date for updated NBDT requirements to come into force, covering new risk weights and annual step change in capital ratios.</p>
2027	<p>February-April 2027: Consultation on an exposure draft of a LAC requirements.</p>
	<p>May 2027: Consultation on exposure draft of Crisis Preparedness Standard</p> <p>31 May 2027: Final Capital Standard (including the LAC requirements) issued.</p> <p>1 October 2027: Annual step change in bank capital ratios.</p>
2028	<p>1 December 2028: Capital Standard (including the LAC requirements) commences with phased-implementation, annual step change in capital ratios.</p> <p>Late 2028: Crisis Preparedness Standard issued.</p>
2029 and beyond	<p>Transition to new capital ratio requirements and LAC requirements.</p>
	<p>Mid-2029: Publish the Statement of Approach to Resolution.</p>

To enable deposit takers time to adapt to the new requirements, we will phase the transition to the new capital requirements. The tables below show an indicative transition path for all deposit taker groups.

Indicative transition path for Group 1 deposit takers

We will increase prudential capital buffer (PCB) by 0.5ppt to the steady-state level of 6% until the commencement of the DTA and then gradually replace part of the PCB with LAC. We intend to publicly consult on three implementation options as part of the policy consultation on LAC requirements in 2026. Depending on the incremental percentage point per year, the transitional period would be complete in:

- December 2033 (Slow implementation),
- December 2031 (Moderate implementation), or
- December 2030 (Fast implementation).

To give Group 1 deposit takers a sense of what their possible implementation pathway looks like, the table below shows an indicative transition path for the moderate implementation.

Table 4: Indicative transition path (moderate implementation) for Group 1 deposit takers

	Minimum CET1	Minimum Tier 1 (of which max AT1)	Minimum total (of which max Tier 2)	Prudential Capital Buffer (PCB) – all CET1	LAC	Total capital + LAC
Dec 2025	4.5	7 (2.5)	9 (2)	5.5	0	14.5
Oct 2026	4.5	7 (2.5)	9 (2)	6	0	15
Oct 2027	4.5	7 (2.5)	9 (2)	6	0	15
Dec 2028	6	6 (2.5)	9 (3)	6	1	16
Dec 2029	6	6 (1.675)	9 (3)	6	2	17
Dec 2030	6	6 (0.825)	9 (3)	6	4	19
Dec 2031	6	6 (0)	9 (3)	6	6	21

Note: Once the DTA takes effect in December 2028, the maximum amount of AT1 (issued under the rules currently in place) that a deposit taker can count towards Tier 1 requirements will gradually decline. The exact process for this will be set out in Exposure Draft of the Capital Standard.

Indicative transition path for Group 2 deposit takers

We will gradually increase the PCB, to its steady state level of 5%, in advance of the DTA commencing in 2028. The table below shows an indicative transition path for Group 2 deposit takers.

Table 5: Indicative transition path for Group 2 deposit takers

	Minimum CET1	Minimum Tier 1 (of which max AT1)	Minimum total (of which max Tier 2)	Prudential Capital Buffer (PCB) – all CET1	LAC	Total capital + LAC
Dec 2025	4.5	7 (2.5)	9 (2)	3.5	0	12.5
Oct 2026	4.5	7 (2.5)	9 (2)	3.5	0	12.5
Oct 2027	4.5	7 (2.5)	9 (2)	4	0	13
Dec 2028	6	6 (2.5)	9 (3)	5	0	14
Dec 2029	6	6 (1.675)	9 (3)	5	0	14
Dec 2030	6	6 (0.825)	9 (3)	5	0	14
Dec 2031	6	6 (0)	9 (3)	5	0	14

Note: Once the DTA takes effect in December 2028, the maximum amount of AT1 (issued under the rules currently in place) that a deposit taker can count towards Tier 1 requirements will gradually decline. The exact process for this will be set out in Exposure Draft of the Capital Standard.

Indicative transition path for Group 3 deposit takers

We will allow a slower transition to higher capital ratios for Group 3 deposit takers, while bringing forward new risk weight changes and allowing “perpetual preference shares” (PPS) to count as Tier 2 capital for Group 3. This gives smaller deposit takers more options for raising Tier 2 capital if desired. The table below shows an indicative transition path for Group 3 (Mutuals) deposit takers and Group 3 (Non-mutuals) deposit takers, respectively. We are targeting October 2026 to bring forward the new risk weight changes and for the step changes in gross capital to begin. This timing is subject to changes in the relevant requirements and will be confirmed in due course.

Table 6: Indicative transition path for Group 3 (Mutuals) deposit takers

	Minimum CET1	Gross Capital / Minimum Tier 1 (of which max PPS)	Minimum total (of which max Tier 2)	Prudential Capital Buffer (PCB): all CET1	LAC	Total capital + LAC
Dec 2025	-	8 (4)	8 (-)	0	0	8
Oct 2026	-	9 (4.5)	9 (-)	0	0	9
Oct 2027	-	9 (4.5)	9 (-)	0	0	9
Dec 2028	6	6 (3.5)	9 (3)	1	0	10
Dec 2029	6	6 (4)	9 (3)	2	0	11
Dec 2030	6	6 (2.5)	9 (3)	3	0	12
Dec 2031	6	6 (2.5)	9 (3)	4	0	13
Dec 2032	6	6 (0)	9 (3)	4	0	13

Note 1: Gross capital is a concept set out in the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. Before the DTA comes into force, NBDTs will continue to use this concept to calculate capital.

Note 2: Group 3 deposit takers will be able to issue Tier 2 capital from December 2028. From that point, existing PPS can be counted as either Tier 1 or Tier 2 capital. The fluctuation shown in the level of PPS that can count as Tier 1 capital is the result of gradually increasing the PCB whilst concurrently reducing the amount of PPS that can be used to meet Tier 1 capital requirements.

Note 3: Throughout the transition, NBDTs with credit rating exemptions will continue to be required to have higher levels of capital.

Table 7: Indicative transition path for Group 3 (Non-Mutuals) deposit takers

	Minimum CET1	Gross Capital / Minimum Tier 1 (of which max PPS)	Minimum total (of which max Tier 2)	Prudential Capital Buffer (PCB) – all CET1	LAC	Total capital + LAC
Dec 2025	-	8 (2)	8 (-)	0	0	8
Oct 2026	-	9 (2.25)	9 (-)	0	0	9
Oct 2027	-	9 (2.25)	9 (-)	0	0	9
Dec 2028	6	6 (3.5)	9 (3)	1	0	10
Dec 2029	6	6 (4)	9 (3)	2	0	11

	Minimum CET1	Gross Capital / Minimum Tier 1 (of which max PPS)	Minimum total (of which max Tier 2)	Prudential Capital Buffer (PCB) – all CET1	LAC	Total capital + LAC
Dec 2030	6	6 (2.5)	9 (3)	3	0	12
Dec 2031	6	6 (2.5)	9 (3)	4	0	13
Dec 2032	6	6 (0)	9 (3)	4	0	13

Note 1: Gross capital is a concept set out in the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. Before the DTA comes into force, NBDTs will continue to use this concept to calculate capital.

Note 2: Group 3 deposit takers will be able to issue Tier 2 capital from December 2028. From that point, existing PPS can be counted as either Tier 1 or Tier 2 capital. The fluctuation shown in the level of PPS that can count as Tier 1 capital is the result of gradually increasing the PCB whilst concurrently reducing the amount of PPS that can be used to meet Tier 1 capital requirements.

Note 3: Throughout the transition, NBDTs with credit rating exemptions will continue to be required to have higher levels of capital.

Appendix C: Risk appetite framework

Risk Appetite Framework

This Risk Appetite Framework sets out the Reserve Bank of New Zealand's approach to prudential policy for the deposit taking sector.

New Zealand is a small, open economy with a highly concentrated banking sector dominated by the four major Australian-owned banks. By international standards, our supervisory function is relatively lightly resourced, with less exhaustive scrutiny and bespoke interventions.

Given this context, our risk appetite seeks to balance the:

- benefits to society of preventing or managing the failure of regulated entities.
- costs to society of regulation, for example compliance, administrative, and efficiency costs.

Risk Appetite

We have a low appetite for events that could materially damage financial stability (often referred to as systemic risk). However, we do not operate a zero-failure regime. We have a moderate tolerance for risks that may lead to the failure of regulated entities where the impact is understood, manageable, and will not materially damage the financial system.

This approach supports the efficient operation of the financial system through enabling entry, exit, and expansion of participants.

How this translates into prudential policy settings

Our policies are:

- **Simple** – focusing on key risks to New Zealand, and only adopting international requirements to the extent they are relevant to New Zealand's financial system
- **Strong** – we set requirements that minimise the likelihood of failure and rely less on mitigating the cost of failure, should it occur
- **Proportionate** – requiring relatively higher requirements for large, systemically important entities
- **Efficient** – we operate a transparent framework, that seeks to minimise compliance costs and recognises the importance of the trans-Tasman regulatory framework

How has our risk appetite for capital settings changed since 2019

Our capital requirements are calibrated using two dimensions:

- Likelihood of failure.
- Cost of failure.

Historically, we maintained high headline Common Equity Tier 1 (CET1) levels, imposed few bespoke Pillar 2 add-ons, and operated a light-touch supervision regime with limited resolution capacity. This resulted in an extremely low likelihood of failure but moderate-to-high cost of failure, prioritising prevention over crisis management.

With the introduction of the Deposit Takers Act 2023 (DTA) and the step up in our broader prudential regime, we are transitioning to a model that maintains a low (but not extremely low) likelihood of failure while reducing the cost of failure through credible recovery and resolution tools.

Systemically important entities will hold the highest levels of CET1 plus sufficient Loss-Absorbing Capacity (LAC), while non-systemic entities will maintain sound capital without additional buffers.

We will continue to monitor and refine our settings against our desired risk appetite through our ongoing supervisory monitoring, our stress testing programme, and our twice-yearly Financial Stability Reports.

Appendix D: Overview of the cost benefit analysis

Summary

The cost benefit analysis (**CBA**) evaluates the economic impacts of changing the capital requirements - focusing on changes in lending rates, financial system failures, and wealth transfer costs under various sensitivities.

The CBA quantifies the trade-off made when deciding on the new capital requirements. However, certain costs and benefits that New Zealanders care about can be difficult to measure, for example, long terms benefits of enhanced competition. Therefore, the CBA should be read alongside the full assessment criteria which is based on our statutory parameters including the DTA purposes and principles:

Financial stability criteria

Going concern loss absorbency: Maintain a sufficient prudential capital buffer above the regulatory minimum to absorb losses, protect and promote the stability of the financial system, and promote the safety and soundness of each deposit taker (links to DTA section 3(1) and 3(2)(a) purposes).

Crisis management: Enable a distressed deposit taker to be dealt with in an orderly manner, recognising the need for a credible resolution strategy for deposit takers to promote financial stability and avoid the use of public money (links to DTA section 259 purposes).

Other criteria

Proportionality: Take a proportionate approach to regulation and supervision (links to DTA section 4(a)(i) and (ii) principles).

Competition: Maintain competition within the deposit-taking sector, recognising the desirability of a diverse deposit-taking sector that provides financial products and services to a diverse range of New Zealanders (links to DTA section 3(2)(c) purpose, and section 4(a) and (b) principles).

Funding costs: Consider the impact on deposit takers' weighted average funding costs, which in turn affect lending rates, recognising their importance for supporting the prosperity and well-being of New Zealanders (links to DTA section 3(1) and 3(2)(d) purposes).

Simplicity/achievability: Be practical to administer, easy to implement and avoid unnecessary compliance costs (links to DTA section 4(c) principle).

International alignment: Align with international standards where appropriate (links to DTA section 4(d) principle).

Submitters were generally supportive of the assessment criteria and we did not make any changes to the assessment criteria as a result of the feedback received.

The key finding of the CBA is that the new capital requirements has an expected annual net benefit of 0.12% of GDP for New Zealand, as compared to the 2028 settings

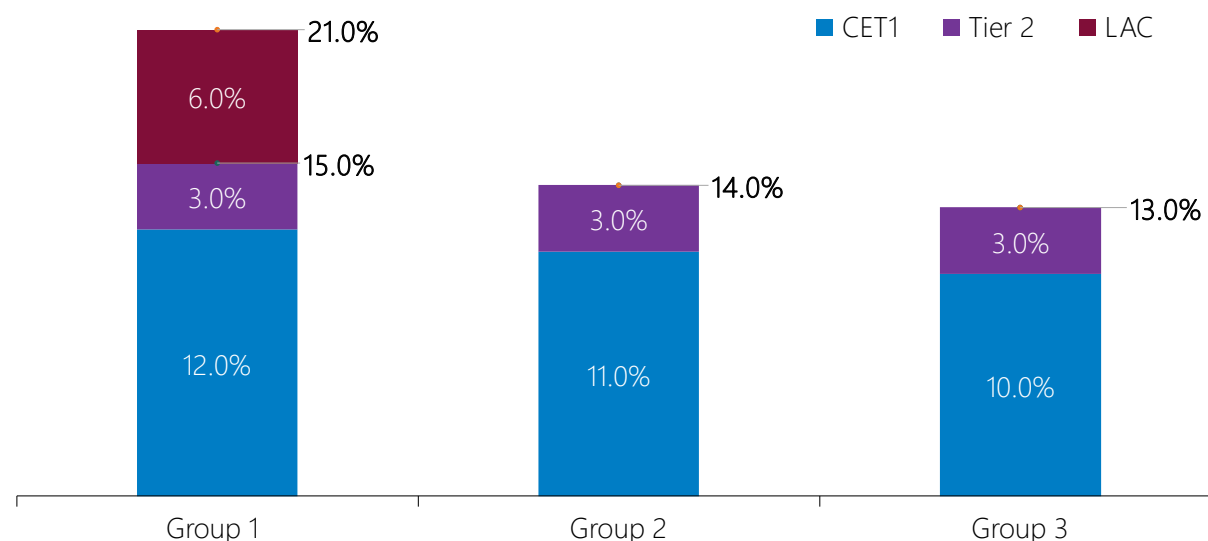
As shown by Table 8, we undertook a range of sensitivities and expect the net change to be between a net cost of 0.02% and a net benefit of 0.19% of GDP.

Table 8: Sensitivity of total net benefit for new requirement

Net benefit	
Lower	-0.02%
Central estimate	0.12%
Upper	0.19%

The new capital stack requirements used within the CBA are shown by Figure 3 below. The CBA also takes into account the significant reduction in risk weights that will now apply to deposit takers, as outlined in Table 3. We expect the new risk weights will reduce total risk weighted assets in the system by 7%, and on average by 15% across Group 2 deposit takers. The reduction in RWA will apply differently to each deposit taker.

Figure 3: New capital stack requirements



There is a high degree of uncertainty, as illustrated by the wide range. This primarily relates to uncertainty about:

- the costs associated with a financial system crisis, and the degree to which there is long-term scarring;
- the efficacy of Loss Absorbing Capacity when a deposit taker is in stress; and

- the degree to which lower average funding costs will be passed onto New Zealand borrowers through lower lending rates (e.g. mortgages and business lending rates).

For many of these parameters international examples and evidence must be relied upon. In recognition of the high degree of uncertainty we have tested the analysis against a range of sensitivities to these parameters. The key modelling inputs and the options analysed are provided in Table 11.

The CBA of the new requirements

Funding costs and lending rates are expected to fall

We expect deposit takers' lending rates to reduce by between 7 and 19 basis points, as compared to what they could have been under the 2028 settings. This is because deposit takers are able to have less high-cost CET1 capital, as compared to the status quo.

We expect lower lending rates should marginally:

- increase investment in New Zealand in the long run, and
- lower interest costs to households and businesses.

Cost of crisis is expected to rise

We expect the costs of crises to worsen under the new requirement but still remain within our risk appetite (which is discussed at Appendix C). The present value of the cost of crises is expected to increase by 0.11% to 0.16% of GDP. We assess that our capital requirements remain strong on an internationally comparable basis.

Overall, the option chosen is expected to be beneficial in net terms, although there is some uncertainty

Overall, we expect the higher costs of crisis to be smaller than the benefit of lower lending rates to New Zealanders in the preferred option (option 2). Almost all of the assumption sets shown in table 11 indicate net benefits for that option (see Figure 4).

Option analysis

We analysed a range of different capital stack options. This included options with LAC (Option 2) and without LAC (Option 1) for Group 1 deposit takers.

In addition, we have included an option that has the same headline requirements as those in Australia (referred to as the '**APRA-Like**' option). This option was suggested by submitters as an option that we should analyse. Caution should be used in making direct comparisons between New Zealand's and Australia's requirements. Or put another way, requirements for one country may not be appropriate for another because:

- How capital requirements are calculated varies significantly from country to country (see [Comparing New Zealand Bank Capital Ratios to International Peers](#)).
- The varied use of supervisory and resolution tools and requirements (for example, the use of any deposit taker specific requirements or Pillar 2 requirements, on top of the minimum requirements applying to all entities which we are modelling here).

- The risk profile and other banking, financial system and economic differences between countries.

Overall, the CBA analysis of the options provided evidence that was used within our assessment criteria:

- Options containing LAC, substituting for CET1, result in a greater reduction in costs for deposit takers. Therefore, a greater expected fall in lending rates is expected. (See: **Option 1 vs Option 2**)
- Internal LAC, if successful in recapitalising a stressed deposit taker, can have similar financial stability benefits as CET1. (See: **Option 1 vs Option 2**)
- There is a point where reducing regulatory capital has a net cost to New Zealand, due to the high cost of financial instability. The exact point is sensitive to the parameters assumed. For New Zealand, an option using APRA's minimums is likely to result in a net cost under most sensitivities. (**APRA-Like Option**)
- Finally, small changes to the option chosen are only expected to result in marginal changes in the net benefit.

Figure 4: Total Net Benefit – central estimate and sensitivity ranges (% of GDP)

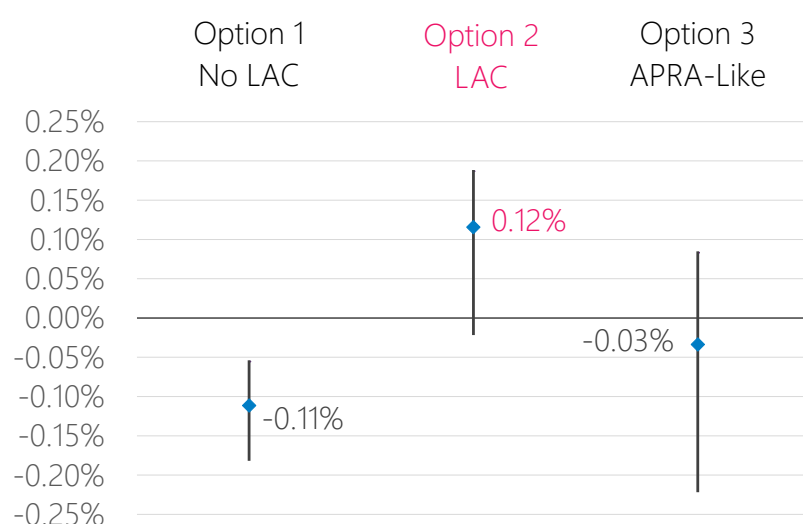


Table 9: Total net benefit with sensitivities

		Option 1 No LAC	Option 2 LAC	Option 3 APRA-Like
Indirect impact on Expected GDP	Lower lending rates	0.09%	0.15%	0.20%
	Higher bank failures	-0.27%	-0.15%	-0.41%
	Net expected GDP benefit	-0.18%	-0.01%	-0.20%
Direct impact	Net wealth transfer cost	0.07%	0.12%	0.17%
Total net benefit, compared to 2028 settings under 2019 Review decisions		-0.11%	0.12%	-0.03%
Sensitivity range of total net benefit		-0.18%, -0.06%	-0.02%, 0.19%	-0.22%, 0.08%

Table 10: Analysed options

	Status quo: 2028 settings under 2019 Review decisions	Option 1 No LAC	Option 2 LAC	Option 3 APRA-Like
Risk weights	No changes	✓ Proposed changes	✓ Proposed changes	✓ Proposed changes
Tier 1	G1: 16% G2: 14% G3: 11%	G1: 14% G2: 11% G3: 10%	G1: 12% G2: 11% G3: 10%	G1: 10.5% G2: 8% G3: 8%
Tier 2	G1: 2% G2: 2% G3: 2%	G1: 3% G2: 3% G3: 3%	G1: 3% G2: 3% G3: 3%	G1: 3.25% G2: 3.5% G3: 3.5%
LAC	G1: 0%	G1: 0%	G1: 6%	G1: 4.5%

Table 11: Option sensitivities

Sensitivity and description	Lending rate	Crisis costs	Overall impact and result
Central estimate	100% pass through ~37% MM offset	-63% GDP if crisis occurs -20% if minor crisis occurs	
Sensitivity 1 Equity (CET1) and debt (Tier 2 and marginal) costs do not adjust as capital requirements changes	100% pass through ~0% MM offset	No change to central estimate assumptions	Larger lending rate benefit from lower capital
Sensitivity 1a WAFC savings are not fully passed onto borrowers, 50% is absorbed by the deposit taker.	50% pass through ~37% MM offset	No change to central estimate assumptions	Smaller lending rate benefit from lower capital
Sensitivity 2 Equity (CET1) and debt (Tier 2 and marginal) costs adjust more than expected from capital requirements changes	100% pass through ~74% MM offset	No change to central estimate assumptions	Smaller lending rate benefit from lower capital
Sensitivity 3 Cost of crisis is reduced from 63% to 50%.	No change in central estimate assumptions	-50% GDP if crisis occurs -20% if minor crisis occurs	Smaller crisis cost from lower capital
Sensitivity 4 Cost of minor crisis is reduced from 20% to 15%	No change in central estimate assumptions	-63% GDP if crisis occurs -15% if minor crisis occurs	Lower cost from triggering LAC