2025 Review of key capital settings

ANZ response to the Reserve Bank of New Zealand

3 October 2025

Executive summary

1. Capital review options must be assessed against the New Zealand Government Finance and Expenditure Committee's Banking Inquiry recommendations

1.1. RBNZ is seeking feedback on capital options that have been calibrated to a higher risk appetite than what the RBNZ's 2019 capital decisions were based on. These options, in their current form, do not address the recommendations of the New Zealand Parliament Finance and Expenditure Committee's (**FEC**) recent Banking Inquiry. In particular, to "cease capital increases for banks" effective immediately and "revisit Reserve Bank prudential settings" including if "market efficiency" was a key objective of the RBNZ under the Reserve Bank of New Zealand Act 2021. These recommendations were published only three days before the Consultation materials. It's not clear if RBNZ considered the recommendations before they were made public or intend to do so as part of their response to submissions later in 2025. Regardless, it is imperative that any future changes from the Consultation are assessed against these recommendations.

1.2. The FEC's recommendation to "cease the capital impost on banks" was made in the context of business and agriculture lending. Nearly 90% of lending to businesses and 80% of lending to agriculture is from deposit takers that use the Internal Ratings Based (**IRB**) framework[1]. As RBNZ has acknowledged, the proposed standardised risk weighted asset (**RWA**) changes, including corporate and agriculture RWA settings, will have relatively limited impact on IRB deposit takers[2]. In this context, including the IRB framework in the scope of the Consultation could have a more significant impact on the business and agriculture sectors.

2. Oliver Wyman's international comparability analysis highlights the conservatism of the 2019 capital decisions, especially regarding the most expensive form of capital

2.1. RBNZ is moving away from a '1 in x-year event' basis to an international benchmarking approach. This is a positive development. However, it is not clear what the RBNZ's risk appetite is now; for example, has the revised risk appetite been calibrated against the new legislation since the 2019 capital decisions, the Deposit Takers Act 2023 (**DTA**)? The main purpose of the DTA is to "promote the prosperity and well-being of New Zealanders and <u>contribute to a sustainable and productive economy</u> by protecting and promoting the stability of the financial system." How does RBNZ view where New Zealand deposit takers should sit relative to international peers with this new context?

2.2. The Oliver Wyman report provides a useful comparative analysis of New Zealand's largest deposit takers' capital ratios against international peers as a starting point.

2.3. The report highlights the conservative nature of the RBNZ's approach to capital adequacy, particularly in relation to Common Equity Tier 1 (**CET1**) capital. For New Zealand deposit takers' CET1 capital ratios to be compared on the same basis with international peers they must be adjusted an estimated 780 basis points higher.

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[1] RBNZ Dashboard, June 2025
[2] Page 58 of the Consultation document

2.4. This conservatism requires an estimated additional 780 basis points to be added to New Zealand deposit takers' CET1 capital ratios to make them comparable internationally.

2.5. New Zealand deposit takers already maintain notably high CET1 capital ratios. According to Oliver Wyman's report, we are second only to Norway of the comparator countries and only by 40 basis points. An additional 350 basis point increase in the RBNZ's CET1 capital ratio requirement was planned.

2.6. Under the 2019 capital decisions and the two options outlined in the Consultation, New Zealand deposit takers would have the highest CET1 capital ratios, in some cases by a considerable distance, relative to peer countries[3]. Buffers that deposit takers will maintain above the minimum regulatory requirement must also be factored in.

2.7. The Oliver Wyman report also highlights that New Zealand deposit takers have a lower amount of debt pre-positioned to recapitalise a deposit taker that fails or is close to failing. Such debt, whether in the form of tier 2 capital or loss absorbing capacity (**LAC**), has a significantly lower cost than CET1 capital. Fitch Ratings has published that ANZ's long term issuer default rating may be upgraded if LAC requirements are introduced in New Zealand[4]. Cost-effective tier 2 and LAC debt should be the primary focus of any future changes from the Consultation.

3. New Zealand should seek closer alignment to Australia's more efficient capital settings

3.1. RBNZ should more closely align the capital settings of Group 1 banks with APRA's capital settings in Australia. The key differences between APRA and RBNZ's capital stacks is apparent in the Oliver Wyman report. Australia's CET1 capital ratio was fifth highest of peers but their total capital ratio was the highest. This suggests a greater focus on efficiency than in New Zealand, shown by a higher proportion of lower cost forms of capital. As they are required to under the DTA, RBNZ should respond to the practices of APRA, that oversees Group 1 deposit takers, when determining the appropriate capital settings for New Zealand.

3.2. In early September 2025 Trans-Tasman political and business leaders met in Canberra and discussed taking Australia-New Zealand Closer Economic Relations to another level. Better aligning Trans-Tasman financial regulations was one of the proposed outcomes.

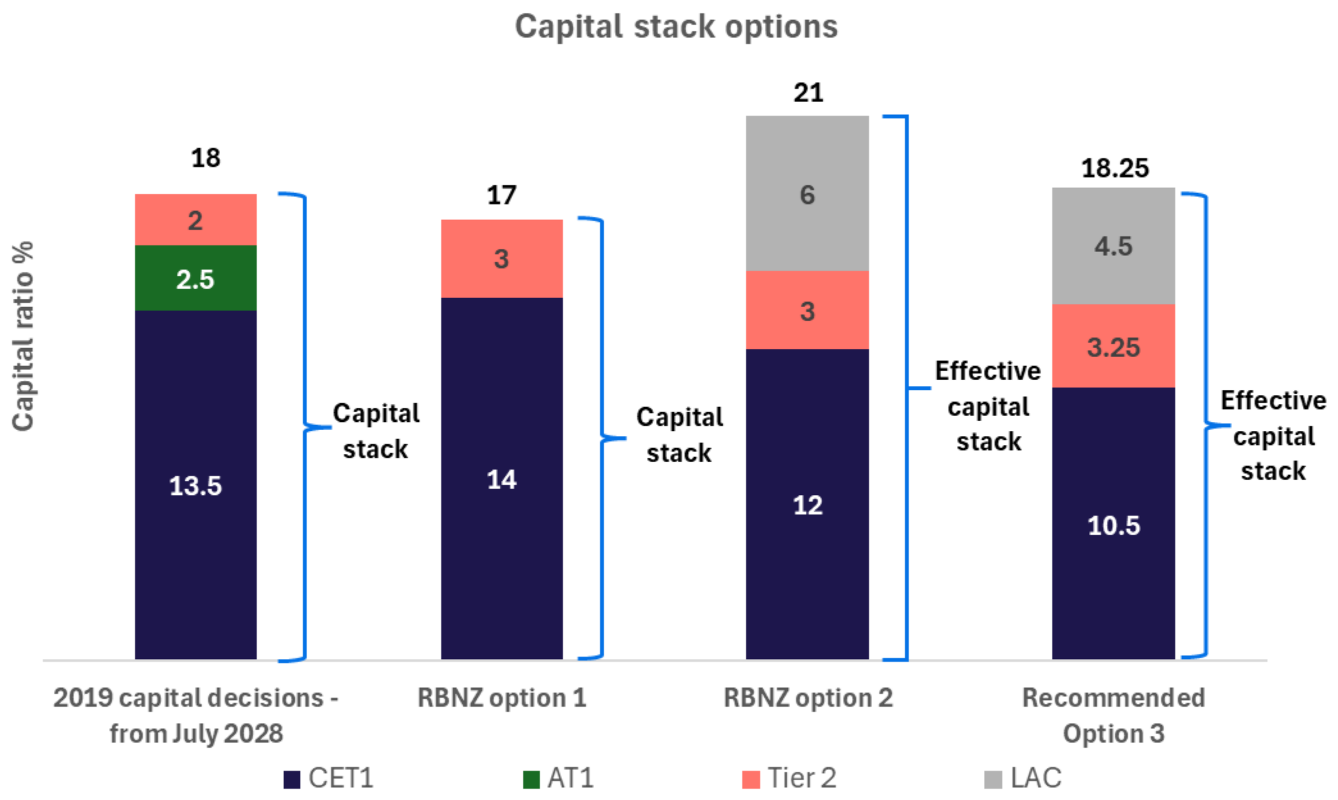
4. ANZ recommends an alternative capital stack that would deliver the highest adjusted total capital ratio relative to peer countries, stop the impost of capital costs on banks, and align closer with capital requirements in Australia

4.1. It is possible to have the highest total capital ratio of comparative international peers whilst also meeting the FEC recomendation to cease the capital cost impost on banks. ANZ recommends an alternative option that achieves just that, and aligns with APRA's capital requirements, including recent proposed updates. It takes the approach that RBNZ has outlined in Option 2 but recalibrates the capital stack. We recommend a CET1 requirement of 10.5% (including regulatory buffers), total capital requirement of 13.75%, and a total LAC requirement of 18.25%. LAC instruments would also be aligned to APRA requirements under this option. APRA currently only permits tier 2 instruments that contribute to total capital as eligible LAC. So in

[3] Page 62 of the Consultation document
[4] ANZ Bank New Zealand Limited Rating Report (23 September 2025)

effect, our recommendation provides a higher total capital requirement than was being implemented under the 2019 capital decisions, just delivered far more efficiently.

Figure 1



4.2. The recommended option, Option 3, aligns with APRA's proposed capital stack that they are looking to finalise by December 2025, the same timeline as the Consultation.

4.3. ANZ's recommendation would address the recommendations of the FEC's Banking Inquiry that are relevant to the Consultation, including to cease the capital impost on banks. It is a balanced approach that partially unwinds the conservatism of the 2019 capital review decisions once fully implemented and more closely aligns New Zealand in the international context.

4.4. Under our recommended option, deposit takers will be able to lend 33% more against each dollar of CET1 capital than under RBNZ's Option 1.

4.5. ANZ estimates our recommended option can be achieved quicker than the other options and would lower the cost of credit to New Zealanders by 11 basis points relative to the 2019 capital decisions once fully implemented. Importantly, that is an average. The impact on the cost of credit will be more for loans that attract a high risk-weighting and vice versa.

Table 1

ANZ's estimated impact on the cost of credit relative to the 2019 capital decisions once fully implemented		
RBNZ option 1	**RBNZ option 2**	**Recommended option 3**
-1 basis point	-6 basis points	-11 basis points

4.6. Business and agricultural loans at a portfolio level attract higher risk weightings compared to housing loans. At least double using ANZ's IRB models[5]. Lowering the expensive CET1 capital requirement that must be held against all loans, as proposed in our recommended option, will have a larger impact on productive sectors of the economy. The cost of credit impact for each sector is relative to the risk weighting that applies, so the expected impact for productive sectors is at least double what it would be for housing.

Table 2

CET1 required for sample $1,000,000 loans under the various capital stack options (using proposed standardised risk weights)									
	Owner occupied residential home loan (loan to value ratio less than 50)			**Agriculture loan (loan to value ratio 30.01 – 50)**			**Small and medium enterprise corporate loan**		
	RBNZ option 1	**RBNZ option 2**	**Option 3**	**RBNZ option 1**	**RBNZ option 2**	**Option 3**	**RBNZ option 1**	**RBNZ option 2**	**Option 3**
RWA (%)	25	25	25	75	75	75	85	85	85
CET1 requirement (%)	14	12	10.5	14	12	10.5	14	12	10.5
CET1 required ($)	**35,000**	**30,000**	**26,250**	**105,000**	**90,000**	**78,750**	**119,000**	**102,000**	**89,250**

4.7. Regular industry capital stress tests undertaken by the largest deposit takers support a lower CET1 requirement as proposed under our recommended option. In 2024, deposit takers modelled a broad range of extreme but plausible events that would lead them to breach an RBNZ minimum capital ratio if no action was taken by management to mitigate. In many cases, to breach a minimum capital ratio required multiple sources of major stress concurrently, and no management response. There is no doubt that deposit takers would take action to respond to the impact on their customers and business, including deteriorating capital levels, should such a scenario arise. The potential actions that were modelled by deposit takers materially increased capital ratios. The article RBNZ published following that exercise acknowledged that in recent

[5] ANZ's Disclosure Statement, 31 March 2025

years the world has experienced “a global pandemic, the two largest weather-related insurance events in New Zealand’s history, the war in Ukraine, high inflation, and cyber attacks. None of these has had the extreme impacts on global economic and financial stability that could have eventuated. This is due in part to the fact that banks in New Zealand and globally are well capitalised by historical standards[6].” That assessment was based on lower capital settings than are in place in New Zealand currently and lower than proposed under our recommended option.

4.8. The LAC requirement under ANZ’s recommended option is conservative relative to international guidance. The internationally regarded Financial Stability Board’s (**FSB**) total LAC guiding principles support LAC requirements being sized off the parent bank’s external LAC requirements as proposed by our recommended option, but the guiding principles suggest scaling internal LAC requirements to 75-90% of external LAC issuance[7]. ANZ’s recommended option is scaled to a more conservative 100% (unadjusted for international comparability) of parent banks’ external LAC.

4.9. Consistent with the RBNZ Option 2 approach, all tier 2 and LAC instruments under our recommended option would be issued to the parent bank. To ensure this approach is cost efficient, the form of the tier 2 must align to APRA’s requirements to be a deduction from tier 2 capital at the parent bank, not CET1 capital.

4.10. Group 2 and 3 capital settings would need to be recalibrated to this alternative option.

5. ANZ supports the removal of additional tier 1 capital with a carefully managed transition

5.1. ANZ supports the removal of additional tier 1 (**AT1**) capital.

5.2. Transitional arrangements to remove AT1 capital need to be carefully managed in order to:

- avoid confusion as to how the instruments that have already been issued will operate and rank in any crisis; and
- not unfairly penalise deposit takers that have been active in trying to overcome the challenges of AT1 instruments that are currently eligible.

5.3. To avoid unintended consequences, existing AT1 instruments must continue to be recognised as regulatory capital and carry the label “AT1”. AT1 must fully contribute to a deposit taker’s total capital ratio requirement until at least its first optional redemption date.

5.4. If a deposit taker can demonstrate compliance with any revised capital requirements they should be permitted to seek RBNZ’s written approval to redeem existing AT1 instruments if they choose to do so. This would provide an avenue to avoid significant unnecessary compliance costs.

6. The internal ratings based framework should be reviewed against RBNZ’s higher risk appetite and revised criteria; key settings are conservative relative to international peers

6.1. The scope of the risk weights component of the capital settings review should not be limited to the standardised approach. We acknowledge that the Consultation proposals will impact the standardised output floor adjustment calculation under the IRB framework, but they do not reflect any increase in risk

[6] RBNZ Financial Stability Report article “Exploring vulnerabilities through reverse stress testing” (November 2024)
[7] Guiding principle 5, FSB’s “Guiding Principles on the Internal Total Loss-Absorbing Capacity of G-SIBs, 6 July 2017

appetite for IRB banks. When the RBNZ's risk appetite increases, the IRB framework and other adjustments must also be reassessed.

6.2. RBNZ has acknowledged that the New Zealand capital framework is more conservative than the Basel framework, and that Group 1 banks' capital ratios would be higher if they were calculated under the Basel framework[8]. We have provided additional commentary below on key elements of underlying conservatism built into the IRB framework, being the standardised output floor, the scalar, slotting, and IRB model calibration.

RBNZ's 85% output floor

6.3. The RBNZ's 85% output floor calculation for IRB banks is conservative relative to the APRA and Basel frameworks. Those capital frameworks both include a lower 72.5% output floor. Many major jurisdictions have deferred implementing even a 72.5% output floor (e.g. US, UK and Canada). Over and above the headline conservatism, there is an additional layer of conservatism in the calculation of the output floor in New Zealand as the RBNZ calculation is based on a comparison to the standardised equivalent for credit risk-weighted assets (**RWA**) only. International standards are based on a comparison to total standardised RWA (includes credit, market and operational risk RWA). ANZ estimates this results in an output floor for Group 1 banks of around 87%-88%.

Scalar

6.4. The RBNZ's 1.2x scalar, or multiplier that must be applied to IRB exposures, is conservative relative to the APRA and Basel frameworks. RBNZ's scalar was increased from 1.06x to 1.2x as an outcome of the 2019 capital decisions. APRA applies a 1.1x scalar, and the Basel framework no longer includes a scalar following the introduction of the 72.5% output floor.

Slotting

6.5. RBNZ continues to follow the slotting approach that assigns prescribed risk weights to commercial property exposures for IRB banks. This approach is conservative resulting in high, fixed risk weights and therefore higher capital requirements. APRA and Basel frameworks have now removed the slotting requirement for commercial property exposures. Instead, they allow banks to use more risk-sensitive approaches that better reflect the actual risk of each loan, rather than applying a blanket conservative treatment. Removal of slotting from the IRB framework would make a meaningful difference to the cost of credit to the commerial property sector.

IRB model calibration

6.6. IRB models have been calibrated to RBNZ's risk appetite; if that risk appetite has increased, IRB models should be recalibrated accordingly.

7. The proposed more granular standardised risk weights are a positive step, but remain conservative compared to international peers

7.1. The proposed update of standardised risk weight settings should go further. After the proposed revisions the RBNZ's standardised RWA would still be conservative relative to both APRA and Basel requirements.

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[8] Page 38 of the Consultation document