FIPS

Financial Institutions Performance Survey

Review of 2016

Summary

After achieving an all-time record profit of $5.17 billion in 2015, our Financial Institutions Performance Survey 2016 reveals New Zealand banks' net profit after tax (NPAT) decreased by 6.46% to $4.84 billion in 2016.

The profit decrease is the result of growing competition and tightening margins, which were primarily caused by volatility in global markets making funding more difficult and expensive. At the same time the sector has faced rising loan impairments.

Continued investment in technology and digital capabilities along with the growing regulatory burden drove increased operating expenditure in 19 out of the 21 Survey participants, which also had a notable effect on NPAT levels.

Lending growth for the banking sector was at its fastest pace in the last eight years, however many executives spoken to felt that funding pressures from rising interest costs offshore and a more competitive local deposit market, as well as the other measures taken by the major banks, could slow lending growth in the upcoming year. The continued squeeze on margins means homeowners need to be prepared for there being little likelihood any OCR cut will be passed on to mortgagors.

Beyond filling the growing funding gap, the banks have three areas of focus in 2017 – further digitisation of bank services, managing regulatory pressures and the importance of conduct risk.

Key findings

- New Zealand banks' net profit after tax (NPAT) decreased by 6.46% to $4.84 billion in 2016.
- The single largest factor in this year's performance was a reduction in non-interest income of 11.20% ($350.20 million).
- Interest margins for the year were down 13 bps, from 2.28% to 2.15%.
- Midway through the year, lending growth was at an eight-year high, while at the same time domestic deposits were decreasing and offshore funding costs were on the rise, causing a mismatch between borrowing and deposits in the system.
- Out of 21 Survey participants, 19 reported higher operating expenses in 2016 than in the previous year due to larger personal expenses and the continued investment in technology and digital capabilities and the growing regulatory burden.