



TSB Bank Limited  
TSB Centre, 120 Devon St East  
PO Box 240, New Plymouth 4340  
New Zealand  
Ph 06 968 3700

3 October 2025

Reserve Bank of New Zealand – Te Pūtea Matua  
PO Box 2498  
2 The Terrace  
Wellington 6140

By email: [capitalreview@rbnz.govt.nz](mailto:capitalreview@rbnz.govt.nz)

## 2025 Review of key capital settings

TSB Bank Limited ('TSB') welcomes the opportunity to provide feedback to Te Pūtea Matua – The Reserve Bank of New Zealand ('Reserve Bank') as part of its review of the key capital settings for deposit takers. TSB has also contributed to a separate joint submission on behalf of New Zealand domestic banks, as well as the New Zealand Banking Association submission.

TSB is a New Zealand owned bank, operating for more than 175 years with a profit for purpose focus. TSB is owned by Toi Foundation, a philanthropic trust, which invests TSB's dividends into the Taranaki community. TSB believe that the preservation of smaller banks should be encouraged, as we offer a viable alternative to larger overseas owned banks and therefore keep the market competitive for consumers. We also take our role in contributing to our community seriously, both directly and through our shareholder, and are committed to the overall success of New Zealand Inc.

We broadly agree with the Reserve Bank's proposals with regard to capital settings, however, some further refinement is required to fully address the competition and proportionality issues that currently exist within the banking sector.

TSB's full responses to the consultation questions are included in **Appendix 1** of this letter, however, we would like to draw the Reserve Bank's attention to the following key points:

- I. Further alignment with international settings for standardised risk weights is required.

TSB has previously submitted to the Reserve Bank on the importance of prudential capital settings, such that they support competition and encourage a diverse range of deposit takers in the retail banking market. Additionally, we recently recommended to the Finance and Expenditure Committee (as part of their inquiry into banking competition) that more granular risk weights for standardised banks should be applied. While we largely support the Reserve Bank's proposals in respect of residential and small and medium enterprises ('SME') lending risk weights, the proposals continue to differ from international settings in some key areas, and as a result, may not accurately reflect the underlying credit risk of certain exposures. Specifically, TSB recommends that the Reserve Bank adopt the same approach as the Australian Prudential Regulation Authority ('APRA') regarding the standardised risk weights for residential mortgage lending, commercial property lending and personal lending. While we agree that risk weights need to reflect the New Zealand context, where there is divergence from APRA, the reasons for this should be clear.

TSB supports the Reserve Bank's intended approach of providing formal guidance to deposit takers to accompany the Capital Standard. This guidance will be particularly relevant for any changes to the standardised risk weights or risk exposure categories resulting from this review, and definitions should be aligned across all standards (for example, residential mortgage and personal lending definitions). We consider that loans secured by multiple security types and cross-collateralisation of loans are key areas to address in this guidance. This will

ensure greater consistency of application across the banks, as well as across different Reserve Bank standards (including BPR131, BS19 and BS20).

- II. The proposed changes to the capital stack are appropriate, but care should be taken with the design of any Loss Absorbing Capital ('LAC') instruments.

TSB agrees with the Reserve Bank's risk appetite assessment presented in the consultation paper and proposed changes to the capital stack, in particular the reduction in CET1 requirements and the removal of Additional Tier 1 ('AT1') capital. Whilst TSB can see some potential benefits from an additional layer of LAC to support orderly resolution of Group 1 deposit takers, we believe this is offset by the potential risks associated with attempting to incorporate new (and likely novel) instruments into the existing creditor hierarchy. This will add significant complexity to the capital regime and likely delay the implementation of the wider changes proposed. We are also concerned about the potential systemic impact to the domestic market for Tier 2 instruments if Group 1 deposit takers were forced to issue all their Tier 2 capital internally. This could also impact the ability for Group 2 deposit takers to issue these instruments through a reduction in investor demand or increased margins.

Certain information provided in this letter is confidential and commercially sensitive. We ask that the Reserve Bank preserves the confidentiality of the redacted information at all times. This includes with reference to section 9(2) of the Official Information Act 1982 ('OIA'). We also ask that TSB is notified of any request made to the Reserve Bank under the OIA for release of the redacted information provided to it and that the Reserve Bank seeks TSB's views as to whether the redacted information remains confidential at the time the response to such a request is considered.

TSB appreciates the Reserve Bank undertaking this review and we look forward to further engagement as it progresses. If you require any further information in relation to this submission, please contact

s 9(2)(a) .

Ngā mihi,

s 9(2)(a)

Matthew Poulton  
Acting Chief Financial Officer

## **Appendix 1: TSB submission responses on the Reserve Bank's 2025 review of key capital settings**

### **Chapter 1 - Introduction**

#### ***Q1: Do you have any comments on the proposed assessment criteria?***

TSB agrees with the Reserve Bank's proposed assessment criteria and has submitted previously on the importance of considering proportionality and competition when determining capital settings. We strongly support more alignment with international standards, however, we recommend the Reserve Bank take further steps regarding this, particularly for the standardised risk weights.

#### ***Q2: Do you have any comments on the appropriate risk appetite for New Zealand's capital settings?***

TSB agrees with the Reserve Bank's risk appetite assessment and supports the move away from a '1-in-x year event' metric to rely more on international comparisons. We also agree that the implementation of the Deposit Takers Act ('DTA') will be a demonstrable change in how New Zealand deposit takers are supervised, bringing us more in-line with most overseas jurisdictions, and that this supports an increased risk appetite relative to the 2019 review.

### **Chapter 2 - Context**

#### ***Q3: Do you have any feedback on our assessment of the impacts of legislative and policy changes since 2019?***

TSB agrees with the Reserve Bank's assessment of the impacts of legislative and policy changes since 2019, in particular that the introduction of the DTA and activation of Debt-to-Income restrictions both support lower capital requirements.

#### ***Q4: Do you have any feedback on our assessment of the new evidence since 2019?***

#### ***Q5: Is there other new evidence not discussed in this section that we should be considering?***

Whilst TSB supports the majority of the Reserve Bank's proposals, we believe there are additional steps that could be taken to support competition and proportionality, including further alignment of the standardised risk weights with international settings. TSB also believes the residual impact of the 2019 affordable lending changes to the Credit Contracts and Consumer Finance Act ('CCCFA') may be more significant than the Reserve Bank estimates, as many of the principles introduced as part of that review remain in place and still influence lending decisions.

#### ***Q6: Do you have any feedback on this analysis of how New Zealand deposit takers' current and planned capital levels compare to other jurisdictions?***

TSB agrees with the Oliver Wyman analysis comparing New Zealand deposit takers' capital levels with other jurisdictions. This is a much more comprehensive and robust approach than the '1-in-x year event' approach used previously.

### **Chapter 3 – Capital stack options**

#### ***Q7: Do you have any feedback on the two high-level options for Group 1?***

***Q8: Do you have any alternative proposals?***

TSB recommends that 'Option 1' (i.e., no Loss Absorbing Capital ('LAC')) be adopted for Group 1 deposit takers.

Whilst we see some potential benefits from an additional layer of LAC with regard to supporting orderly resolution of Group 1 deposit takers, we believe this is offset by the potential risks associated with attempting to incorporate a new (and likely novel) instrument into the existing creditor hierarchy. This will add significant complexity to the capital regime and likely delay the implementation of the wider changes proposed. We are also concerned about the potential systemic impact to the domestic market for Tier 2 instruments if Group 1 deposit takers were forced to issue all their Tier 2 capital internally. This could also impact the ability for Group 2 deposit takers to issue these instruments through a reduction in investor demand or increased margins.

***Q9: Do you have any feedback on the proposal for Group 2?***

***Q10: Do you have any alternative proposals?***

TSB supports the proposal for Group 2 deposit takers, in particular the removal of Additional Tier 1 instruments and the more appropriate level of proportionality (versus Group 1 deposit takers). As discussed above, the increased risk appetite and lower minimum capital requirements are supported by the Oliver Wyman analysis and the regulatory and policy changes since 2019.

Note TSB's response under questions 7&8 above, that we are concerned that removing the ability for Group 1 deposit takers to issue Tier 2 capital externally could indirectly impact Group 2 deposit takers.

***Q11: Do you have any feedback on the proposal for Group 3?***

***Q12: Do you have any alternative proposals?***

TSB supports the proposals for Group 3 deposit takers.

***Q13: Do you agree with the proposal of a 1% Counter-Cyclical Capital Buffer for Group 1 and 2 deposit takers under the options proposed?***

***Q14: Do you agree with the proposal that the Counter-Cyclical Capital Buffer should not apply to Group 3 deposit takers?***

TSB does not agree with the proposal to reduce the Counter-Cyclical Capital Buffer ('CCyB') and recommends that the CCyB remain at 1.5% (with no additional increase in Prudential Capital Buffer). A larger CCyB would provide the Reserve Bank with additional flexibility, should an adjustment ever be required.

***Q15: Do you have any feedback on our analysis of the proposed options against the criteria?***

TSB does not have any comments on this question.

***Q16: Do you think it would be preferable from a crisis management perspective to maintain a higher Prudential Capital Buffer or have a lower Prudential Capital Buffer and Loss-Absorbing Capacity for Group 1?***

***Q17: If you consider that one option is preferable, what are the reasons why?***

Please refer to our response under questions 7&8.

***Q18: Do you have any feedback on the degree of proportionality across the proposed options and capital stacks?***

***Q19: Do you have any feedback on the implications for competition from our proposed options?***

TSB supports the degree of proportionality across the capital stack, however, we recommend that additional steps be taken regarding more granular standardised risk weights, which will better align capital with risk and also support proportionality and competition (see our responses to questions 29 & 30 below).

#### **Chapter 4 – Additional Tier 1**

***Q25: Do you agree with the proposal to remove Additional Tier 1 capital as a form of regulatory capital?***

***Q26: Are there any other factors that you think we should take into account in making this decision?***

***Q27: Do you have any views on the most appropriate transitional arrangements, including how Additional Tier 1 capital instruments should be recognised after any possible removal?***

***Q28: Are there any additional factors that should be taken into account for Group 3 deposit takers?***

TSB strongly supports the removal of Additional Tier 1 (AT1) as a form of regulatory capital and we agree with the Reserve Bank's assessment that this proposal will support proportionality and competition. Issuance of AT1 would be challenging and expensive for smaller deposit takers and is unlikely to provide any material benefit regarding the resolvability of these entities.

#### **Chapter 5 – Standardised risk weights**

***Q29: Do you agree that the Reserve Bank should introduce more granular standardised risk weights for mortgage, corporate and agricultural lending?***

***Q30: Do you have any comments on the proposed changes to standardised risk weights for mortgage, corporate and agricultural lending?***

TSB strongly supports the introduction of more granular standardised risk weights, however, the proposed changes do not go far enough in terms of aligning New Zealand with international standards and ensuring capital requirements reflect the underlying credit risk. TSB recommends that the Reserve Bank adopt the APRA standardised risk weights, which include more granular risk buckets for residential mortgage exposures and a differentiated risk weights for commercial property lending.

As outlined in the consultation paper, the existing standardised risk weights have not been reviewed for some time and are now demonstrably different to most comparable jurisdictions offshore. TSB has submitted previously that this presents a significant impediment to competition and we support the Reserve Bank undertaking a review of these settings. Further alignment with the APRA requirements may also assist with encouraging new entrants into the New Zealand market.

TSB supports the Reserve Bank's proposals regarding the standardised risk weights for Agricultural and SME lending, however, we consider that the proposed threshold for SME of NZ\$1m is too low and should be increased. Regarding the risk weights for residential mortgage lending, we make the following recommendations:

- I. Owner-occupier with LVR  $\leq 50$ : TSB does not agree with the Reserve Bank's rationale for setting the proposed risk weight at 25%; loans underwritten by Kainga Ora only make up a very small proportion of

the total market for residential lending and shouldn't be used as a benchmark for 'standard' loans. TSB strongly recommends that the Reserve Bank applies the APRA standardised risk weight of 20% for these loans (along with consequential reductions to the risk weights for the higher LVR buckets, across both owner-occupied and investor loans).

- II. Splitting the 'LVR 60-80' bucket into 'LVR 60-70' and 'LVR 70-80': TSB recommends that additional granularity is applied to further align capital requirements with the underlying risk of the exposure and provide consistency with the APRA standardised risk weights. This is also supported by the analysis provided in tables 13 and 14 on page 76 of the consultation document; where in both the 2021 and 2022 Bank solvency stress tests the loss rates experienced on these two LVR buckets were materially different.

In addition to better reflecting the underlying risks, the recommendations above will also further support the proportionality and competition objectives of the capital review by better aligning standardised risk weights with Internal Ratings Based ('IRB') outcomes.

***Q31: For deposit takers: Can you quantify the overall and sectoral impact that the proposed changes to standardised risk weights for residential mortgage, corporate, and agricultural lending would have on your institution?***

Redacted.

***Q32: Would you expect more granular residential mortgage lending risk weights to lead to more differentiation in loan pricing to borrowers?***

TSB does not expect that more granular residential lending risk weights will lead to more differentiated loan pricing. The total market share of the standardised banks for residential lending is very small relative to the IRB banks and given they are already able to benefit from granular risk weights, we would not anticipate any significant pricing changes as a result of the proposed risk weights.

***Q33: For deposit takers: Can you provide a lending breakdown for your institution by the following corporate sectors: rating, small and medium-sized enterprise retail, small and medium-sized enterprise corporate, and other unrated corporate?***

Redacted.

***Q34: Do you agree with creating a new standardised risk weight category for all unrated corporate commercial property lending?***

TSB does not support this proposal. Whilst we believe it would be appropriate to separate corporate commercial property lending from other SME exposures, a single risk weight category is unlikely to reflect the underlying credit risk due to potentially very large variations in Loan-to-Value Ratios (LVR), the cash flows used to service the lending (i.e., dependent on the property or not) and if the exposure relates to an existing property or property development. TSB would recommend the Reserve Bank adopt the approach taken by APRA / Basel with regard to commercial property lending, whereby differentiated risk weights are applied based on LVR buckets and dependency on property cash flows, with a separate risk category for development or 'non-standard' lending. Whilst this can lead to lower minimum risk weights in some categories, it will ensure capital outcomes are much better aligned to the underlying credit risk of the loan and incentivise the right lending behaviours. This is

supported by Reserve Bank's solvency stress test outcomes (Figure 21, page 81 of the consultation paper) which show quite different loss rates for commercial property investment lending versus development lending.

***Q35: For deposit takers: Can you quantify the impact that a 100% risk weight under the standardised approach on all unrated commercial property lending would have on your institution?***

Redacted.

***Q36: Do you have any comments on increasing risk weights for personal lending?***

TSB does not support this proposal. Similar to our response under Q34 regarding commercial property lending; TSB does not believe a single risk weight category for personal lending is likely to reflect the different underlying risks of these exposures and this is supported by the Reserve Bank's solvency stress test outcomes (Figure 21, page 81 of the consultation paper), which show quite different loss rates for credit card exposures versus other types of personal lending. TSB recommends that the Reserve Bank apply the APRA risk weights for credit card exposures (75%) and other types of personal loans (100%, regardless of security).

***Q37: For deposit takers: Can you quantify the impact that a 100% risk weight on secured personal lending and a 150% risk weight on unsecured personal lending would have on your institution?***

Redacted.

***Q38: For deposit takers: Can you provide a lending breakdown for your institution for the following sectors: commercial property (investment, development, and a loan-to-value ratio breakdown within these categories), and personal lending (secured, unsecured, credit card and other)?***

Redacted.

***Q39: Do you think the proposed standardised risk weights more closely align with the actual risk of the underlying lending? If not, where do you think the biggest discrepancies are?***

As outlined in our responses above, the standardised risk weights proposed will better align with the underlying risk exposures, however, we recommend that further enhancements are required to ensure this. TSB strongly recommends that the Reserve Bank adopt APRA risk weights for residential, commercial property and personal lending.

***Q40: For deposit takers: Is there a desired lead-in time to adopt the proposed standardised risk weight categories and updated minimum capital ratio? What are the expected costs (and their magnitude) to systems and processes of the proposed standardised risk weight categories?***

***Q41: Is there anything else you think we should consider when contemplating changes to standardised risk weights or analysing their impacts?***

***Q42: Do you think the proposed approach to standardised risk weights aligns with the main purpose of the Deposit Takers Act 2023 (section 3(1)) and the additional purposes (section 3(2))?***

TSB recommends that any changes to the standardised risk weights are applied as soon as possible once finalised. Whilst there will be some implementation costs, this will be offset by the proportionality and competition benefits the changes will provide. TSB recommends that the Reserve Bank provides flexibility to deposit takers



over when they choose to transition to the new risk weights (perhaps over a 12-18 month period), rather than implementing a single implementation date.

TSB supports the Reserve Bank's intended approach of providing formal guidance to deposit takers to accompany the Capital Standard. This guidance will be particularly relevant for any changes to the standardised risk weights or risk exposure categories resulting from this review, and definitions should be aligned across all standards (for example, residential mortgage and personal lending definitions). This will help to reduce any unnecessary interpretation issues and ensure deposit takers apply the new requirements consistently.

An area of particular importance is the definitions for residential mortgage loans (RML). The RML definitions are also used for Loan to Value Ratios (BS19) and Debt to Income (BS20) requirements, with guidance split across the different standards and guidance notes. The consolidation into a single set of guidance (similar to APRA's approach<sup>1</sup>) will support consistency across the banks as well as across the different Reserve Bank standards. Key areas to consider are where borrowers have loans secured by different security types (e.g. owner-occupied, residential investment and commercial property) and cross-collateralisation of loans.

TSB believes the proposed approach to standardised risk weights does align with the purposes of the DTA; as mentioned above, the current standardised risk weights have not been reviewed for some time and are now inconsistent with most comparable jurisdictions offshore. The proposed changes are likely to support the property and well-being of New Zealanders through enhanced competition and access to financial products.

## **Whenua Māori**

TSB supports the Reserve Bank's focus on improving Māori access to capital and acknowledges the unique characteristics of whenua Māori that can create barriers to lending and investment. We are currently reviewing our internal policy settings to better support Māori financial inclusion and development outcomes.

### ***Q45: How has the Māori Land Court whenua Māori practice note altered borrowing and lending decisions?***

TSB welcomes the 2024 Māori Land Court practice note as a positive step toward clarifying lending processes on whenua Māori. However, we note that its practical impact on lending volumes and borrower confidence remains unclear. We support further engagement with stakeholders to assess its effectiveness.

### ***Q46: How do you treat lending where whenua Māori is the security? Does this affect your assessment of risk?***

TSB recognises that whenua Māori presents unique legal and cultural considerations. We are currently reviewing our internal credit policies to ensure we are supporting greater access.

### ***Q47: Does lending secured by whenua Māori have different risk characteristics than other lending, and if so, how should this be incorporated into prudential requirements? Is this relevant for residential mortgage lending, and/or other forms of lending?***

Yes, lending secured by whenua Māori may carry different risk characteristics due to collective ownership structures, marketability, and cultural sensitivities. These should be considered in prudential settings. We

---

<sup>1</sup> See [Capital Adequacy: Standardised Approach to Credit Risk | APRA](#)



recommend further exploration of tailored risk weights or mitigants that reflect actual risk rather than perceived complexity.

***Q48: Will lending secured by whenua Māori benefit from the other changes proposed in this Review?***

TSB agrees that whenua Māori lending may benefit from broader changes to Residential Mortgage Lending risk weights, particularly for low LVR lending. We support the inclusion of whenua Māori lending in revised standardised categories where appropriate.

***Q49: Are there other aspects of the prudential framework that could be addressed to more accurately align risk weights with actual risk for lending secured by whenua Māori?***

TSB recommends the Reserve Bank consider:

- Specific guidance on whenua Māori to accompany the Capital Standard;
- Recognition of community-based lending models and guarantees;
- Flexibility in collateral treatment for collective ownership structures; and
- Exemptions for whenua Māori for high DTI and high LVR under BS19 and BS20.

***Q50: What are the barriers to borrowing lending when whenua Māori is used as security?***

Key barriers include:

- Legal complexity and collective ownership;
- Lack of lender familiarity; and
- Perceived risk due to historical underinvestment.

TSB supports initiatives to improve lender education and borrower support, including partnerships with Māori entities and government programmes.

***Q51: Do you participate in the whenua Māori Lenders Mortgage Insurance underwriting programme run by Kāinga Ora?***

TSB does not currently participate in the Kāinga Ora programme but supports its role in de-risking lending on whenua Māori. We encourage expansion and simplification of such schemes to improve uptake.