

2 June 2022

Dear CEO,

**Reserve Bank to end dividend restriction but ongoing prudence is required**

I am writing to let you know that the dividend restrictions placed on the banks at the height of the COVID-19 pandemic will be removed from 1 July 2022.

We have published a news release today to announce this. The release also reiterates the importance of ongoing prudence around future dividend payments. The restrictions have supported financial stability and the provision of credit in the economy during the height of the COVID-19 pandemic.

While restrictions will be removed on 1 July 2022, I want to reiterate the Reserve Bank's ongoing expectation that banks put the need to support households and businesses at the centre of assessments of the appropriate level of dividends, and continue to be prudent in determining the appropriate amount of dividends paid to shareholders.

Headwinds to the New Zealand economy are strong. Heightened global economic uncertainty and higher inflation are dampening global and domestic consumer confidence. Asset prices, in particular house prices, have also declined, reflecting in part higher mortgage interest rates and increased supply of housing. You should ensure that your bank is well placed to manage the impacts of these headwinds on your balance sheet and to assist customers during challenging times.

Dividend decisions should also take into account the higher capital requirements set out in the Reserve Bank's Capital Review.

I will write to you again in the coming weeks to consult you about the changes required to your bank's Conditions of Registration in order to implement the change discussed in this letter.

Yours sincerely,



**Christian Hawkesby**

Deputy Governor / General Manager Financial Stability