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FIPS

Financial Institutions Performance Survey

June 2022 Quarterly Results

Overview

Information current as at 12 September 2022

The June quarter headlines have been dominated by inflation, the cost of living crisis and the softening housing market. The quarter has seen the Reserve Bank of New Zealand (RBNZ) use increases in the Official Cash Rate (OCR) and the resulting increases in interest rates as its primary tool to bring inflation back within its targeted band.

Despite these seemingly challenging circumstances, the banking sector has continued to post impressive profits, with the June quarter's result being just shy of the record set in March 2022. A highlight for the sector was the highest net interest margin seen in three years[1].

Inflation and interest rates

The Consumer Price Index (CPI) increased by 7.3% for the year ended 30 June 2022 due to both domestic and international factors in roughly equal measure. Drivers of this high level of inflation continue to be increased fuel, freight and food prices along with material shortages in the construction sector[2]. Widespread tightness in the labour market has been greater than previously assumed by the RBNZ[2], with median weekly earnings from wages and salaries rising 8.8% in the year ended 30 June 2022[3].

Despite the high levels of inflation, the RBNZ remains confident that it will return inflation to the 1-3% target band within the next two years. ANZ recently projected that this normalisation could occur as early as 2023. However, the consensus from economists is that inflation will stay above 5% for the remainder of 2022 before seeing a decline below 3% as we approach mid-2024[4].

> The RBNZ remains confident that it will return inflation to the **1-3%** target band within the next two years.

In its continued aim to reduce inflation, the RBNZ raised the OCR by 50 basis points (bps) for the third consecutive time, from 2.5% to 3.0%, on 17 August 2022[5]. The Monetary Policy Committee (MPC) believes that the increase in OCR remains appropriate to continue to tighten monetary conditions to maintain price stability and contribute to maximum sustainable employment, as core CPI remains too high at present and labour resources remain scarce. The RBNZ have now projected that the OCR will peak at 4.10% during the second half of 2023, rather than the 3.9% peak as predicted in their May 2022 statement[2]. The RBNZ noted that any Government expenditure above what was included in the Government's Budget 2022 would most likely require even higher interest rates in response so that the domestic economy has an opportunity to rebalance[2].

The RBNZ has been scrutinised for its performance over the last few years, with criticism (albeit with varying degrees of hindsight) that it should not have printed $55 billion from late 2020 through to 2021 so as to push down longer-term interest rates, amid suggestions the prolonged money flow was at least partly responsible for inflation surging to 7.3% this year. National Party Leader, Christopher Luxon has rejected suggestions from the RBNZ that its own review of its performance by independent overseas experts was sufficient instead of a fully independent review proposed by National[6].

Cost of living

Households continue to come under pressure from the rising cost of living and increasing home loan rates.

In July, the Government announced that the 25 cent cut in fuel excise duty and half-price public transport would be extended into 2023 to help offset some of the other cost of living increases. It also suggested expanding eligibility criteria for the cost of living payment which is currently being paid out to those who earn less than $70,000 and don't currently receive the Government's winter energy payment.

> The Government announced that the 25 cent cut in fuel excise duty and half-price public transport would be extended into 2023.

Treasury analysts have opposed both ideas, advising the Government that extending the reductions past the planned date would set the expectation that they are here to stay. It was also noted that expanding eligibility would make the exercise too broad-based to support those struggling the most. The actual impact of the measures remains uncertain as some have argued that they could be seen to further fuel inflation[7]. However, what was clear is that the execution of the cost of living payment led to much criticism as many eligible people struggled to get the payment, while many ineligible people (e.g. those overseas) received it. Greater planning and organisation is needed to ensure that this payment functions as intended.

Despite recent increases in the OCR and further increases projected, some economists are projecting that mortgage interest rates may be nearing their peak. A combination of flattening swap curves and borrowers choosing longer term fixed mortgage interest rates has led to some major banks decreasing mortgage interest rates in early August 2022[8]. When the OCR was increased in late August 2022, retail banks moved variable mortgage interest rates and deposit rates higher, but kept fixed mortgage rates stable[9].

Some households may have received partial relief from the cost of living pressures with increases to either their salaries or wages, as median weekly earnings increased by 8.8% to $1,189, for the year ended 30 June 2022[3].

The 'great resignation' has been well publicised in the media and is partly a result of the historically low unemployment rate of 3.3% and tight labour market[2] caused by sectors of the workforce leaving New Zealand during the Covid-19 pandemic and being unable to be replaced. Despite the borders now being open, there are immigration backlogs and delays in getting workers into the country for most sectors and businesses. There has also been anecdotal evidence of the younger workforce taking the opportunity to have their overseas experience (OE) now that borders are opening and restrictions are lifting in other parts of the world. In simple terms, the outflow of people is running ahead of the inflow.

Households which have been able to take advantage of the tight labour market and have obtained either wage or salary increases may not be feeling the effects of inflation as much as those who have not been so fortunate.

Housing market

National house prices have now seen a fall of 7.9% to date since their monthly peak in November 2021. Contributing factors to the softer market include rising interest rates, continued effects from the Credit Contracts and Consumer Finance Act 2003 (CCCFA), tighter loan-to-value restrictions, weaker population growth and strong building activity[2].

Some economists are also forecasting that New Zealand will come out of its lengthy

> Median weekly earnings increased by **8.8%** to **$1,189,** for the year ended 30 June 2022.

housing shortage in approximately 12 months. For the year ended 30 June 2022, over 41,000 homes are estimated to have been built. This construction boom far outweighs what was achieved in the mid-2000's construction peak, which saw 30,000 homes produced annually. Additionally, 11,500 long-term migrants left New Zealand during the same period, lowering the overall population growth figure to 0.2%. This was the lowest rate of population growth since 1986. Kiwibank forecast that the country would start accumulating a surplus of housing over the coming years as projected building activity finally outstrips demand[10].

Despite the decrease in house prices, calculations show that those looking to purchase their first home would now require a higher annual income than what they would have needed to purchase a home when house

> New mortgage lending was down **29%** from $8.5 billion in the month of June 2021 to $6.1 billion in June 2022.

prices peaked in November 2021[11]. This is due to tighter debt servicing requirements as mortgage interest rates have increased, the impacts of changes to the CCCFA and banks adopting appropriate caution in a tightening market. Some have estimated that the average annual income now required to purchase a home is $142,000, up from $135,000 in November 2021[11].

Lending

New mortgage lending was down 29% from $8.5 billion in the month of June 2021 to $6.1 billion in June 2022. This decrease has continued the trend since December 2021 of new mortgage lending being lower than the corresponding month in the previous year. The decrease in new mortgages occurred across all borrower types, with the quarter ended June 2022 seeing decreases of 30% in first-home buyer mortgages, 28% in other owner-occupier mortgages and 31% in investor mortgages[1].

The Government announced in early August that further changes to the CCCFA were expected to come into effect in March 2023. These changes looked to reduce the struggles that 'borrow-ready Kiwis' faced when applying for a loan. The primary change would narrow the scope of expenses to be analysed by lenders with the explicit exclusion of discretionary expenses. These discretionary expenses are those that the borrower would be willing to give up in the face of hardship, which leaves lenders with only the requirement to estimate expenses that are essential[12].

Other changes to take effect in March 2023 include reducing the double counting of expenses associated with credit cards and Buy Now, Pay Later (BNPL) schemes and helping make either debt refinancing or debt consolidation more accessible, where appropriate, for borrowers. The announced changes were seen by experts as positive as it will remove the grey area for lenders attempting to abide by these new rules[12].

In commenting on the changes, Commerce and Consumer Affairs Minister, Hon. Dr. David Clark said that he recognised that unintended consequences relating to the CCCFA have emerged, but he was now confident that a balance had been struck between maintaining a strong level of consumer protection and ensuring people have access to credit[13].

A number of commentators noted that it was not ideal how long it had taken for the changes to be made, and that three rounds of legislation had been required to reach a more practical solution. It was also mentioned by some that there may have been better options, such as targeting affordability requirements to support those most at risk, while freeing up lending for those who can afford it[12, 13].

Business struggles

New Zealand businesses are facing increased input costs and a tight labour market forcing wages and salaries up. Others are still struggling to even receive raw materials, with supply chain bottlenecks still lingering from Covid-19 and the conflict in Eastern Europe causing continued disruption[2].

Some banks have identified certain industries as more vulnerable and have increased provisions on these borrowers accordingly. These industries include commercial property, discretionary retail trade, entertainment, leisure and tourism.

The construction and development sector has seen increases in the cost of inputs with housing material prices up over a third in the past 12 months and another 9% rise expected over the next six months. A recent survey showed that rising freight costs and higher overseas material costs had the potential to slow the building industry down further[14].

> The construction and development sector has seen increases in the cost of inputs with housing material prices up over a third in the past 12 months.

> **The June 2022 quarter saw the second highest profit for the banking sector following the record set in the previous quarter.**

It wasn't only builders feeling the strain; suppliers of structural products have also seen a 45% increase in the cost of their source materials over the past year, while only having increased their sale prices by 33%[14].

Kiwibank sale

The Government has entered into an agreement to purchase Kiwibank from state-owned shareholders, NZ Post, ACC and the New Zealand Superannuation Fund for $2.1 billion. The Government noted that the transaction would ensure that the bank remained 100% Kiwi-owned. It also committed to recapitalise the bank to help it grow if necessary, pledging its full support to make Kiwibank a genuine competitor in the banking industry.

Some commentators have expressed concern that the acquisition sets a risky precedent for Government actions when other smaller banks find themselves in trouble. It has also been discussed that there is a risk that future governments may be inclined to meddle in the bank's operations, although the present Government has expressed a promise not to do so[15, 16]. A number of people in the investment sector expressed the view that an initial public offering (IPO) would have been welcomed by both the New Zealand Exchange (NZX) and small investors.

Banking performance

The June 2022 quarter saw the second highest profit for the banking sector following the record set in the previous quarter. Profit for the June 2022 quarter was $1.73 billion, down fractionally from the record $1.74 billion recorded in the March 2022 quarter. The Co-operative Bank bounced back from a loss in the March 2022 quarter, posting a $3 million profit in the most recent quarter[1].

The June quarter saw a $227 million increase in the sector's net interest income offset by a $148 million increase in operating expenses, $37 million decrease in non-interest income and a $58 million increase in tax expense.

A highlight of the result was the 7.6% increase in net interest income, primarily driven by an expansion of net interest margins across a range of banks and a modest increase in total lending. The net interest margins of the big five banks were each the highest that they have been since at least June 2019, with increases of approximately 10–30 bps between March 2022 and June 2022 alone[1]. This may be due to more borrowers rolling off their historically low fixed interest rates and onto longer term higher interest rates which have priced in future increases in the OCR. It will be interesting to see whether these interest margins can be maintained over the next year.

Another highlight was the 10.4% increase in operating expenses from the March 2022 quarter to the June 2022 quarter[1]. This reflected more normal levels of operating expenses after the March 2022 quarter, which saw the operating expenses/operating income ratio reach a five-year record low. Banks will be facing the same tight labour market and other inflationary pressures that other businesses are facing, which will be a potential factor into rising operating expenses.

Impaired asset expense in the June 2022 quarter remained relatively flat compared to the prior quarter at $52 million. Provisions on finance receivables increased slightly with a 2.3% increase in individual provisions and a 1.6% increase in collective provisions. Despite the increases in provisions, there has been a similar increase in total loans, and therefore, the coverage ratio has remained flat at 50 bps[1].

Concluding remarks

In summary, the June 2022 quarter's banking sector results still haven't shown the direct impacts of the economic and regulatory changes which are having an impact on the wider economy. The sector results seem to be immune from the combined impact of inflation, rising interest rates, supply chain issues, regulatory impacts on lending volumes and a decrease in both business and consumer confidence.

Overall, while there has been anecdotal evidence of credit quality coming under pressure, there has been at present no increase in arrears and impaired loans, although it is hard to believe that this trend will continue given the current economic environment. It will be interesting to see when or even whether an increase in arrears eventuates and the impact that this will have on the level of provisions held by banks to cover potential losses on loans.

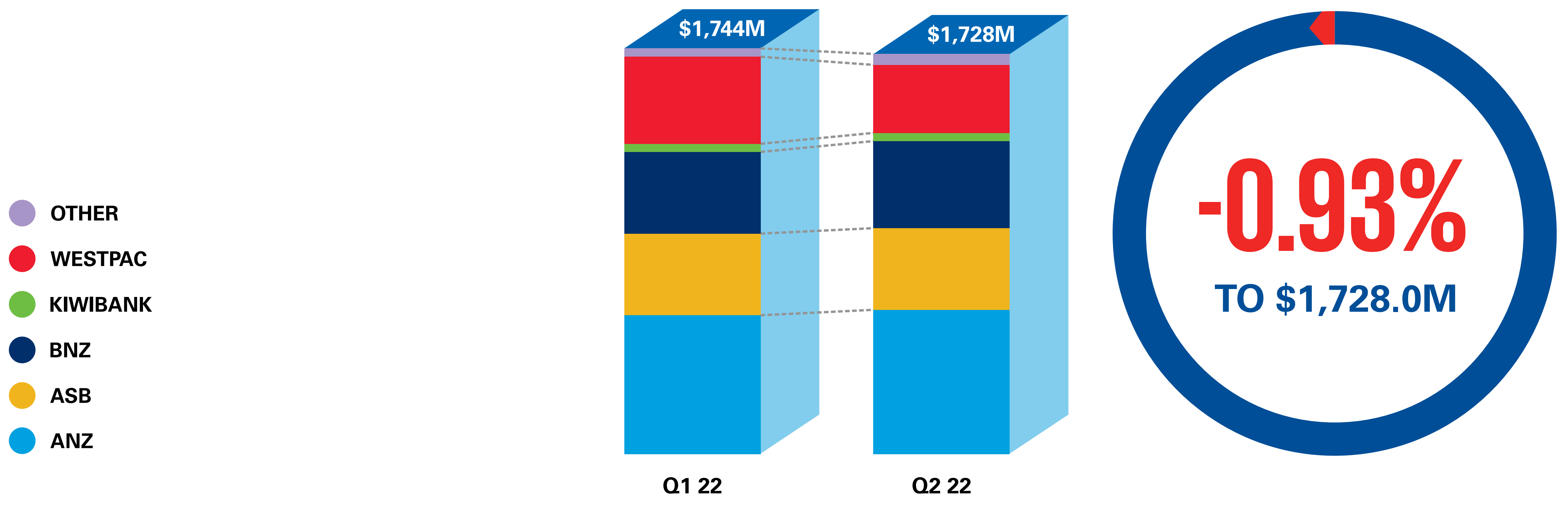
Both households and businesses are focused on maintaining their loan repayments despite facing cost of living challenges. Whether they are able to keep these repayments up throughout the rest of the year, and the impact this would have on the banking sector, remains to be seen. This was also something we saw at the start of the Covid-19 pandemic with New Zealanders recognising their obligations, and despite uncertain times, they did remarkably well in meeting them.

Net profit after tax

Q1 22–Q2 22 | Q2 21–Q2 22 | Q2 20–Q2 22 | Q2 17–Q2 22

HOVER over the button to see the movement over time

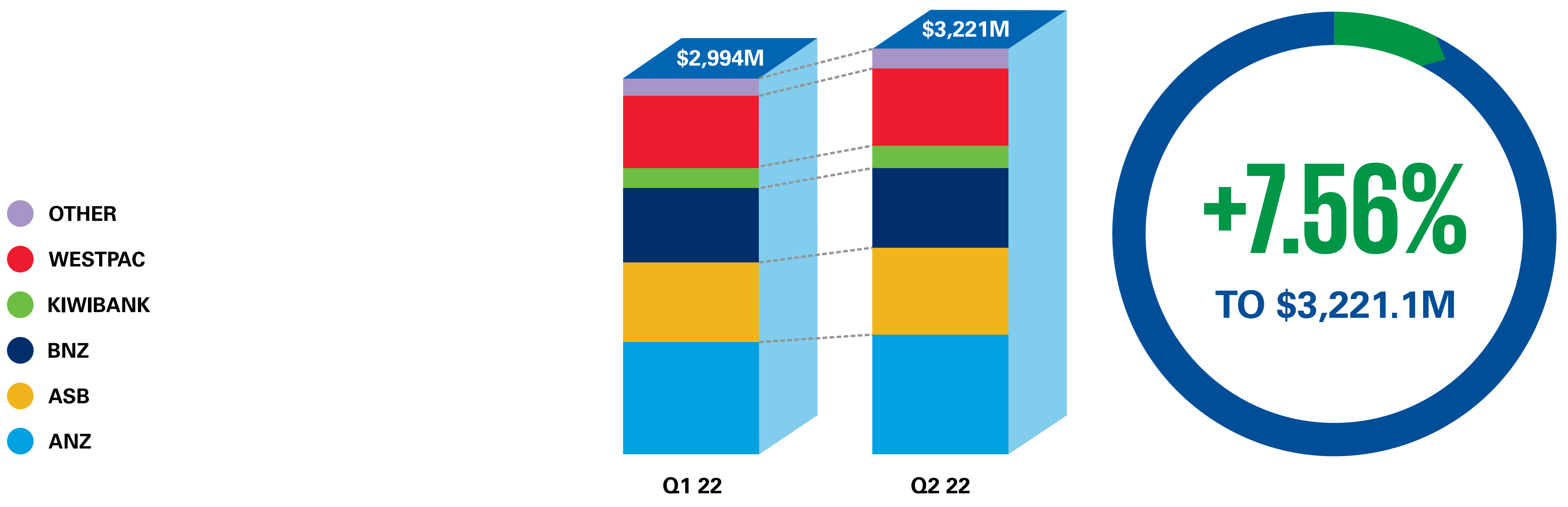
Movement in net profit: Breakdown



Q1 22–Q2 22 | Q4 21–Q2 22 | Q3 21–Q2 22 | Q2 21–Q2 22

HOVER over the button to see the movement in each quarter

Net interest income



Hover over the button to see historic quarterly results

Q2 22 | Q2 21
Q1 22 | Q1 21
Q4 21 | Q4 20
Q3 21 | Q3 20

MOVEMENT IN NET PROFIT FOR THE QUARTER ENDED 30 JUNE 2022

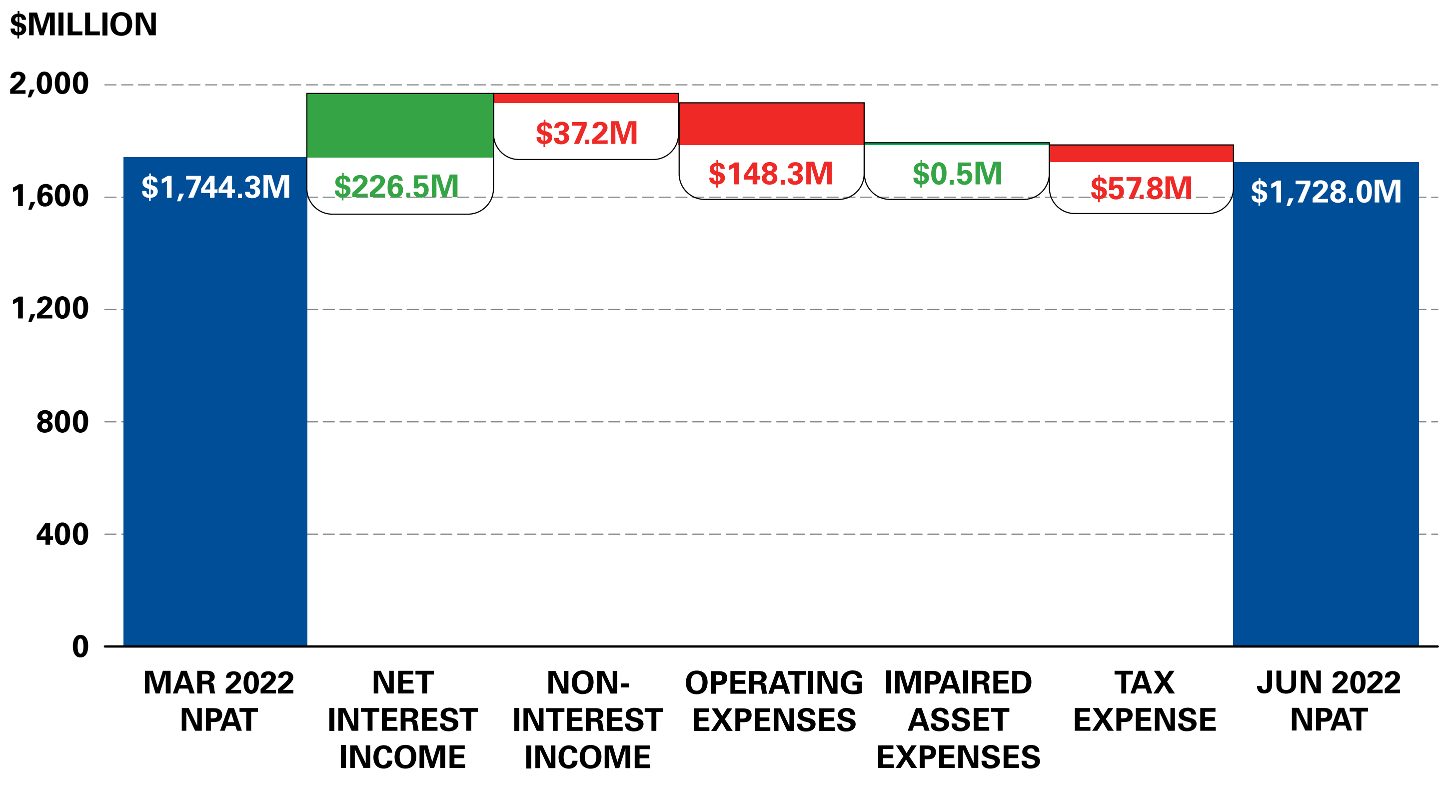


TABLE 1: Movement in interest margin

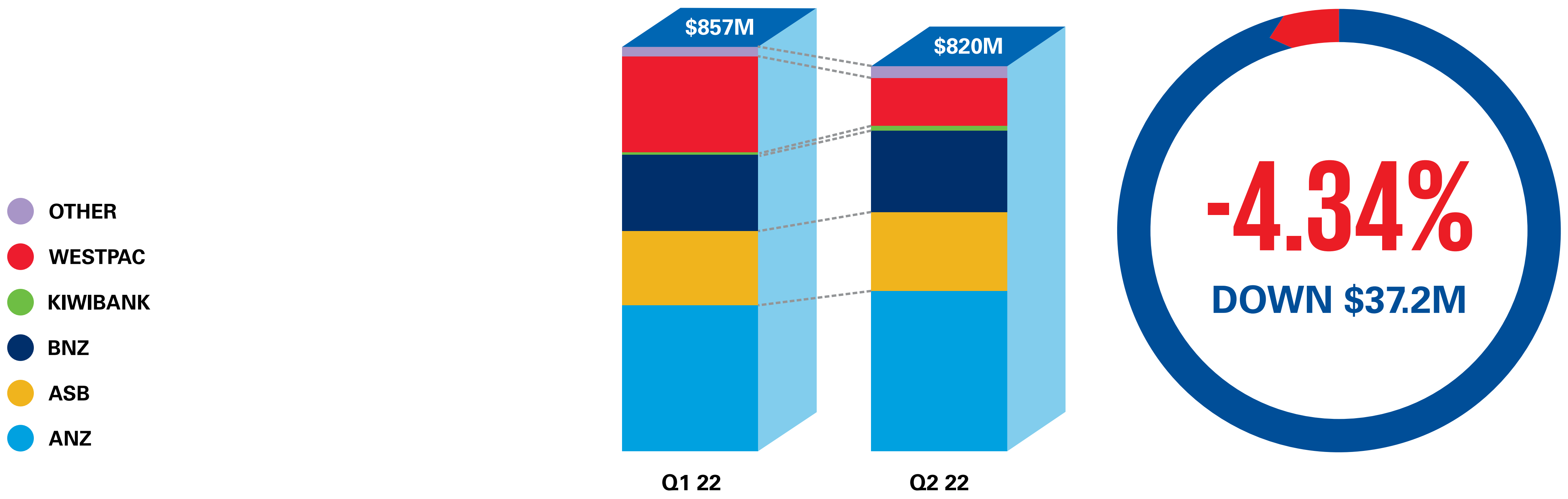
Entity[17]	Quarter ended 30 Jun 22 (%)	Mvmt. during the quarter (bps)	Mvmt. for the 6 months (bps)	Mvmt. for the 12 months (bps)
ANZ	2.2	10	20	10
ASB	2.2	10	10	20
bnz	2.2	10	20	20
HEARTLAND BANK	4.6	30	10	-30
Kiwi bank.	2.3	20	30	20
sbs	2.6	0	-10	-30
TSB	2.1	20	20	30
The Co-operative Bank	2.5	20	30	10
Westpac	2.1	10	10	10

Net profit after tax

Q1 22–Q2 22 | Q4 21–Q2 22 | Q3 21–Q2 22 | Q2 21–Q2 22

HOVER over the button to see the movement in each quarter

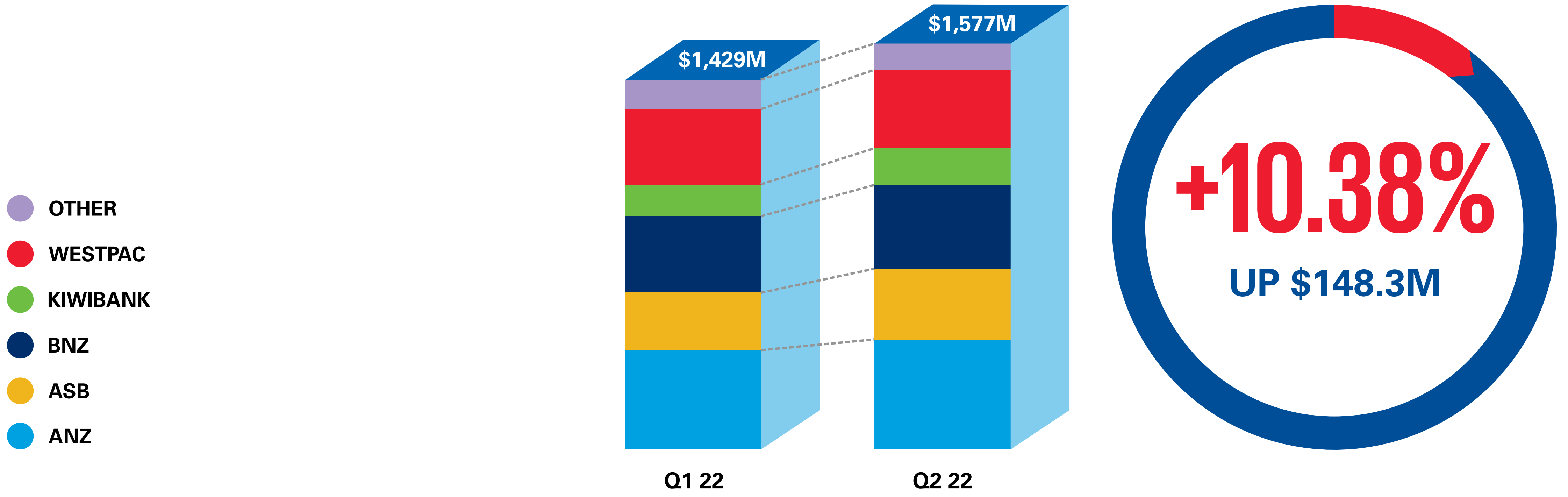
Non-interest income



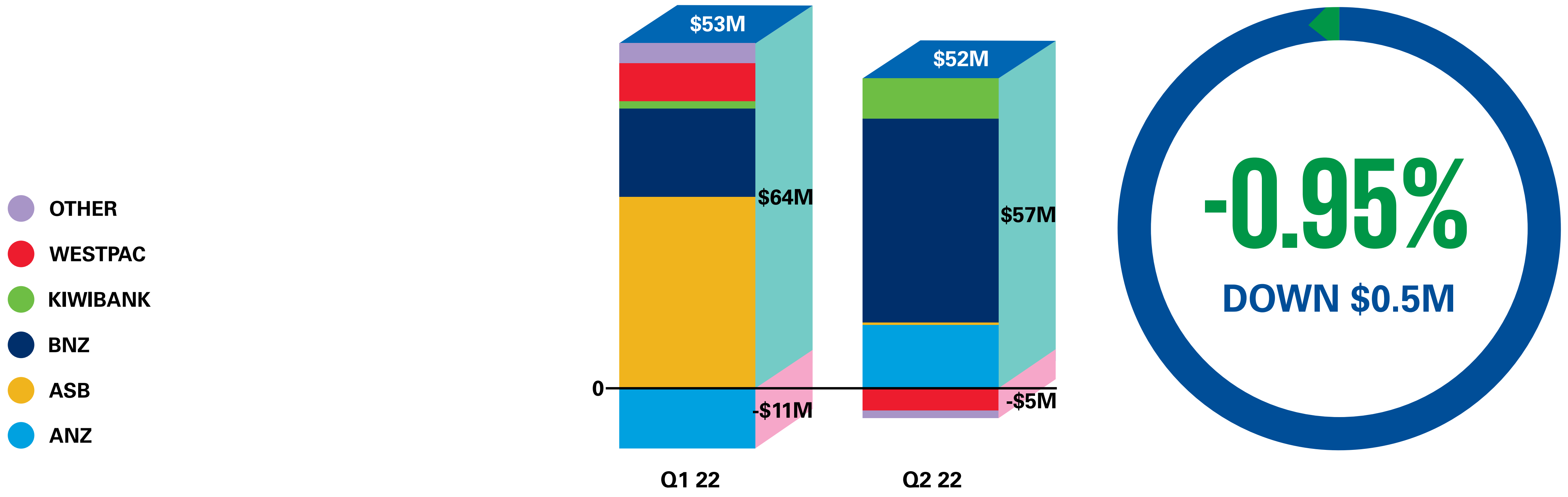
Q1 22–Q2 22 | Q4 21–Q2 22 | Q3 21–Q2 22 | Q2 21–Q2 22

HOVER over the button to see the movement in each quarter

Operating expenses



Impaired asset expenses (writebacks)

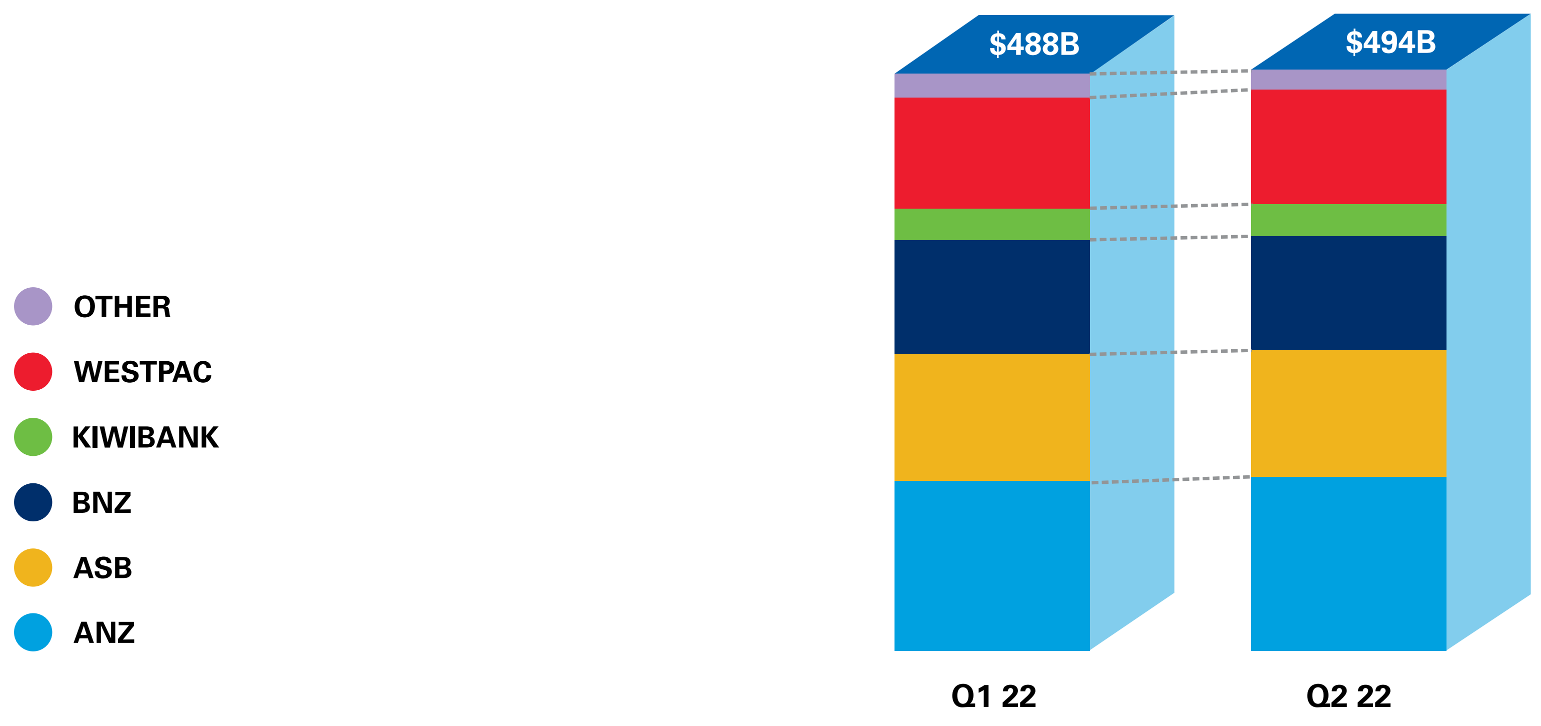


Lending

Q1 22–Q2 22 | Q4 21–Q2 22 | Q3 21–Q2 22 | Q2 21–Q2 22

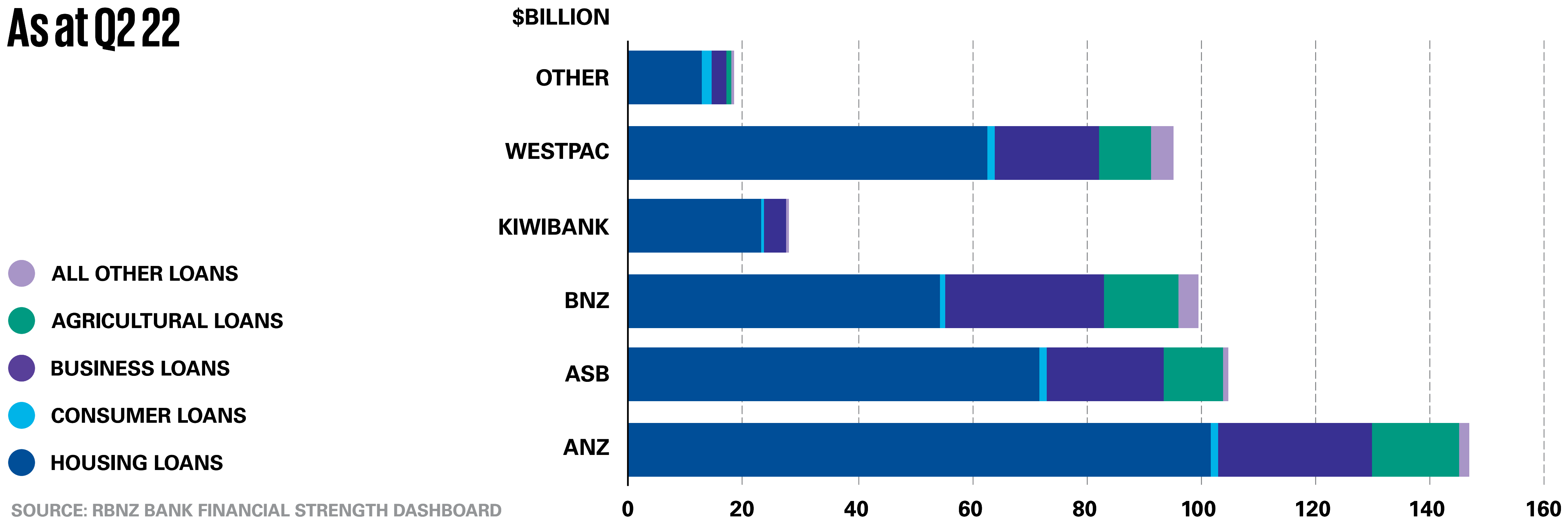
HOVER over the button to see the movement in each quarter

Gross loans



Breakdown by bank

As at Q2 22



SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

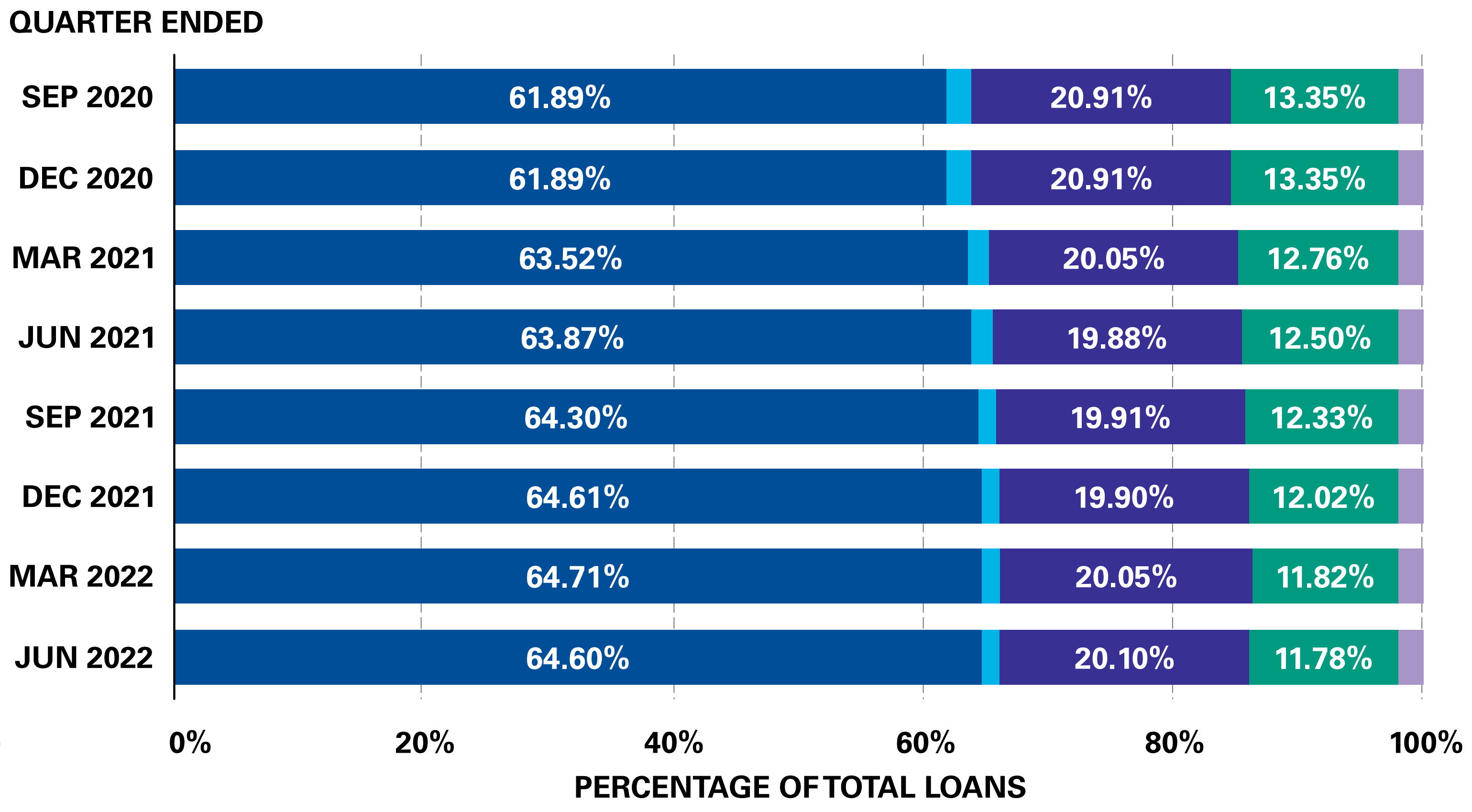
TABLE 2: Analysis of gross loans

Entity[17] Quarterly analysis	Quarter ended 30 Jun 22 $Million	Quarter ended 31 Mar 22 $Million	% Increase (Quarterly)
ANZ	148,068	146,971	0.75%
ASB	108,835	107,456	1.28%
bnz	99,847	98,791	1.07%
HEARTLAND BANK	4,534	4,310	5.20%
Kiwi bank.	27,818	27,468	1.27%
sbs	4,558	4,433	2.82%
TSB	6,685	6,700	-0.23%
The Co-operative Bank	2,759	2,704	2.03%
Westpac	96,200	94,872	1.40%
Total	**499,304**	**493,705**	**1.13%**

Entity[17] Annual analysis	Quarter ended 30 Jun 22 $Million	Quarter ended 30 Jun 21 $Million	% Increase (Annual)
ANZ	148,068	140,358	5.49%
ASB	108,835	103,130	5.53%
bnz	99,847	94,250	5.94%
HEARTLAND BANK	4,534	3,866	17.27%
Kiwi bank.	27,818	25,337	9.79%
sbs	4,558	4,082	11.65%
TSB	6,685	6,521	2.51%
The Co-operative Bank	2,759	2,763	-0.15%
Westpac	96,200	93,364	3.04%
Total	**499,304**	**473,671**	**5.41%**

Lending

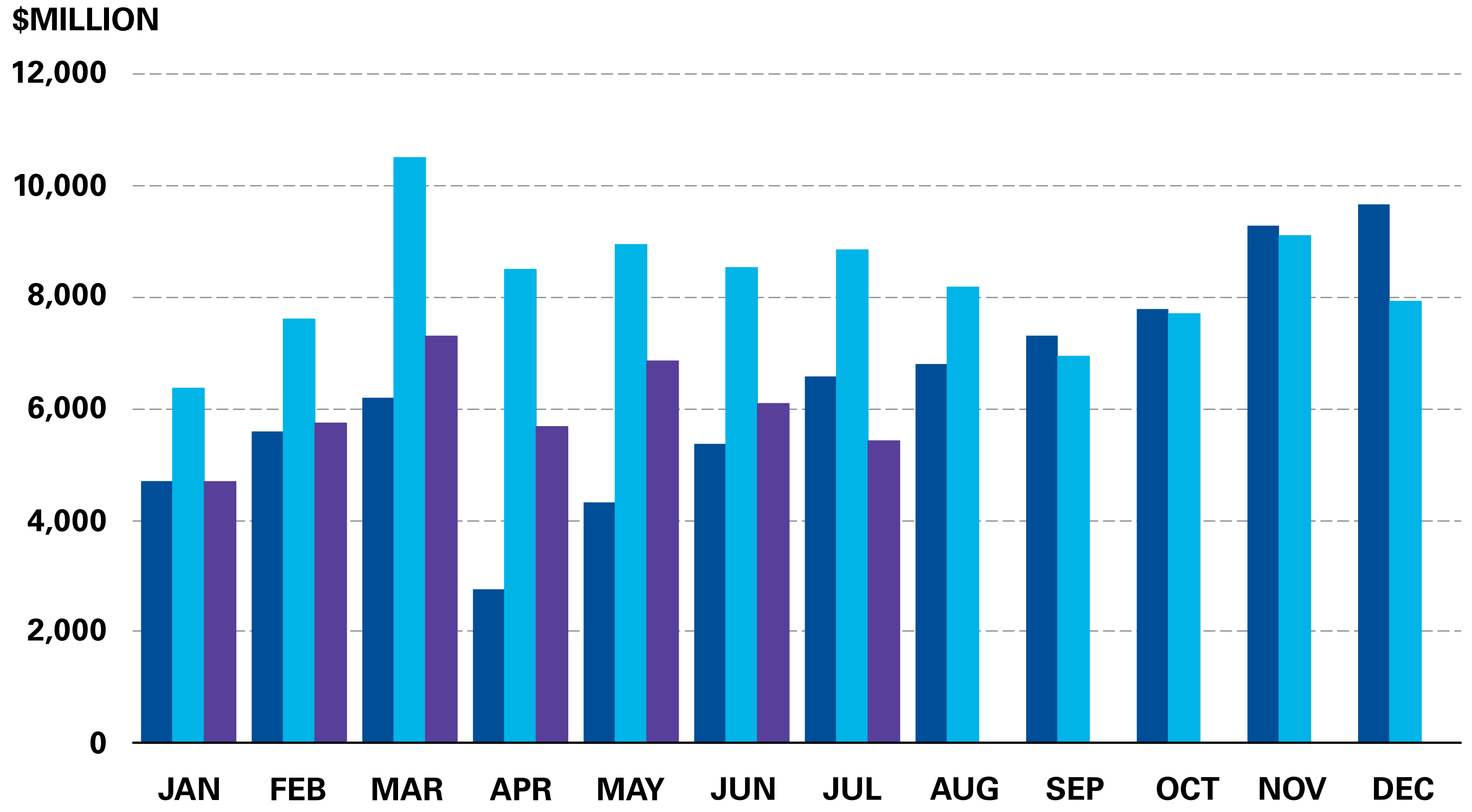
1 NZ BANKS PORTFOLIO COMPOSITION BY QUARTER



- ALL OTHER LOANS
- AGRICULTURAL LOANS
- BUSINESS LOANS
- CONSUMER LOANS
- HOUSING LOANS

SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

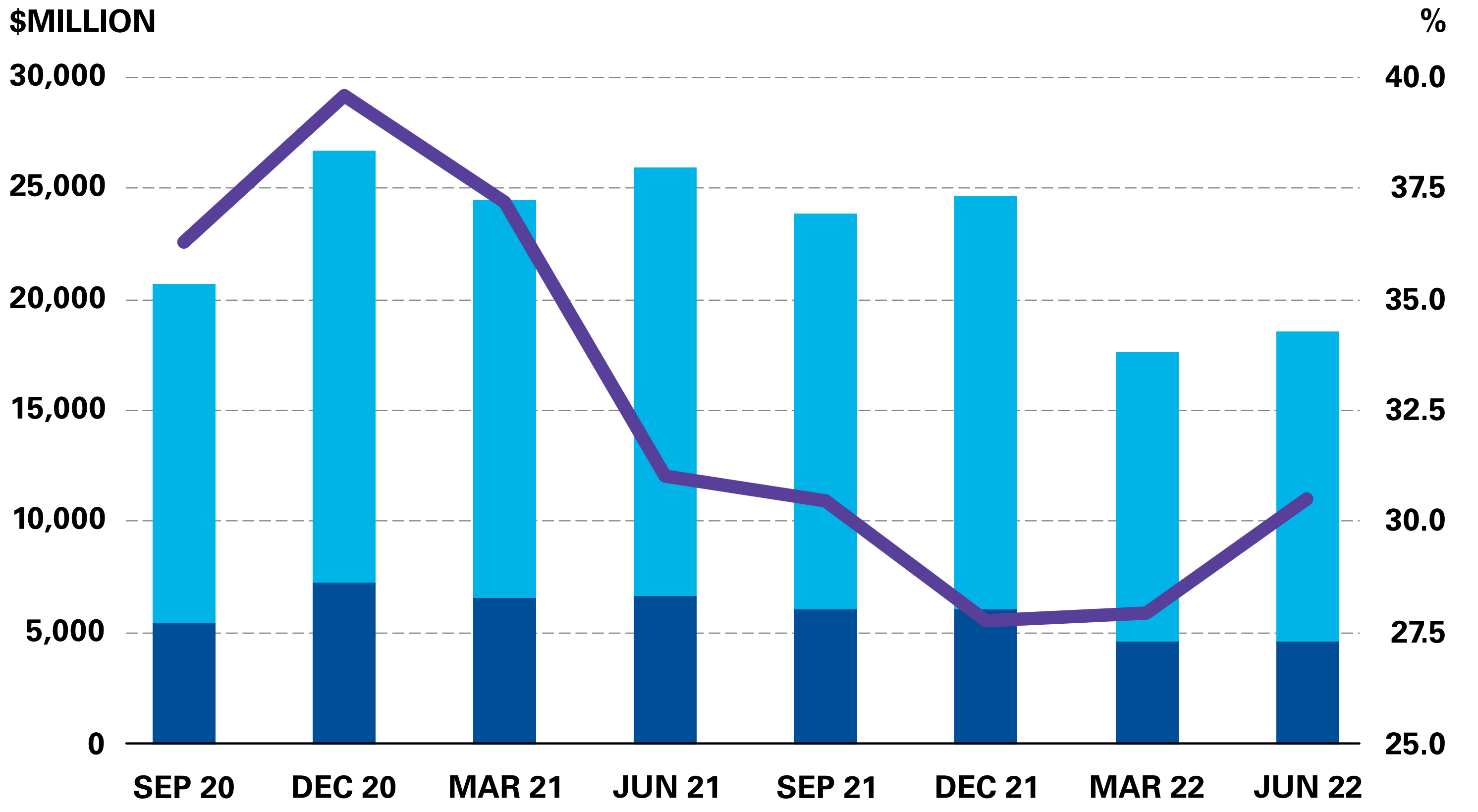
2 TOTAL MONTHLY MORTGAGE LENDING



- 2020
- 2021
- 2022

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

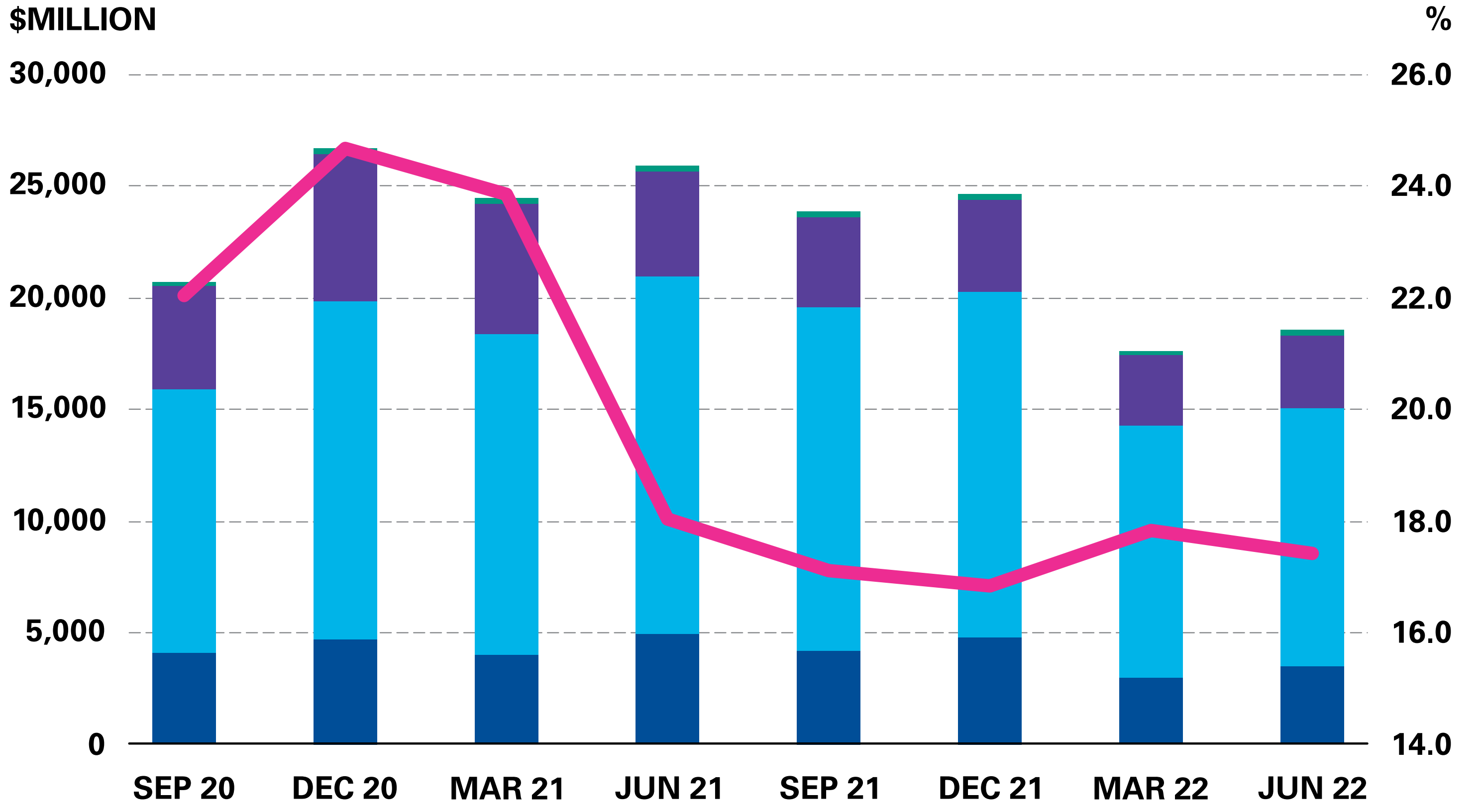
3 NEW MORTGAGE LENDING BY PAYMENT TYPE



- INTEREST ONLY (INCLUDING REVOLVING CREDIT) (LHS)
- PRINCIPAL AND INTEREST (LHS)
- PROPORTION OF NEW LENDING INTEREST ONLY – INVESTOR (%) (RHS)

SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

4 NEW MORTGAGE LENDING BY BORROWER TYPE



- FIRST-HOME BUYER (LHS)
- OTHER OWNER OCCUPIER (LHS)
- INVESTOR (LHS)
- BUSINESS PURPOSES (LHS)
- INVESTOR LENDING (%) (RHS)

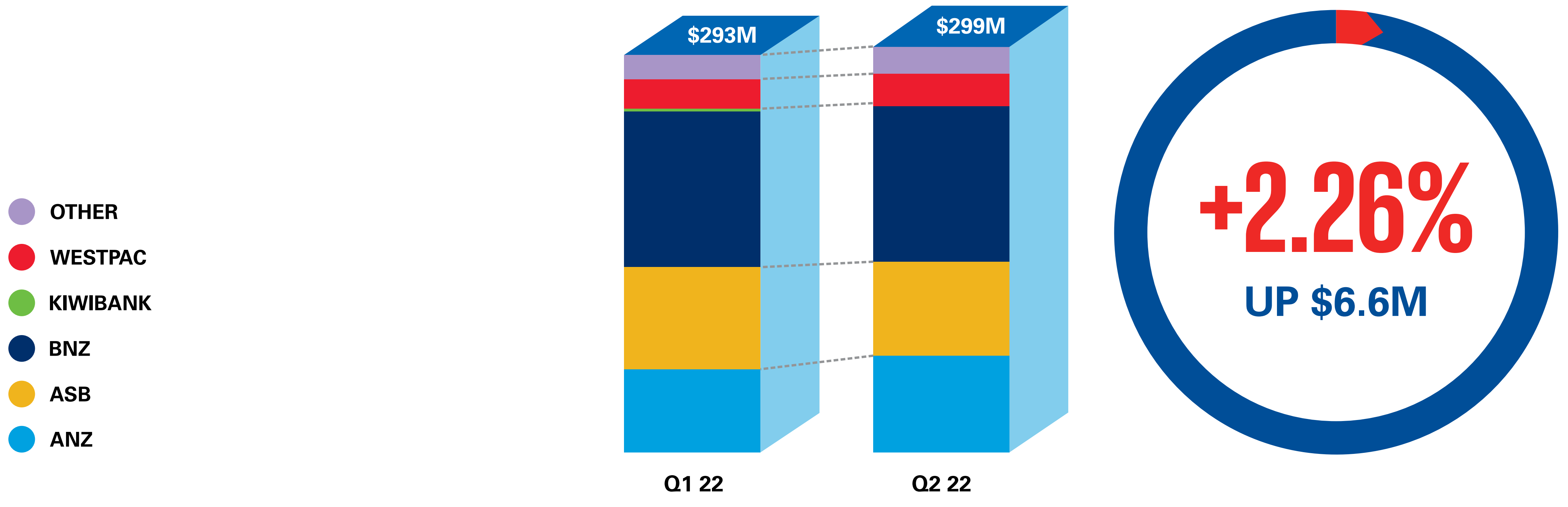
SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

Asset quality

Q1 22–Q2 22 | Q4 21–Q2 22 | Q3 21–Q2 22 | Q2 21–Q2 22

HOVER over the button to see the movement in each quarter

Individually assessed provisions



Collectively assessed provisions

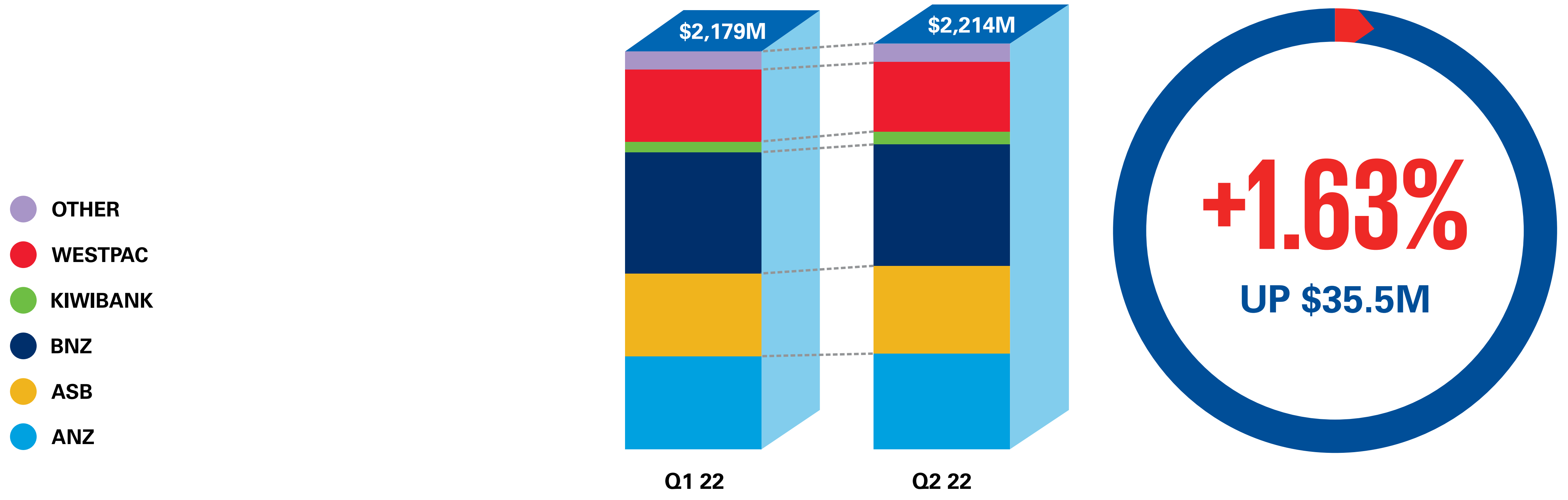


TABLE 3: Impaired asset expenses

	$Million		$Million
June 2022	$52.2	June 2021	-$70.7
March 2022	$52.7	March 2021	-$76.6
December 2021	-$35.0	December 2020	-$126.0
September 2021	-$29.2	September 2020	$188.6

TABLE 4: Movement in impaired asset expense/Average gross loans

Entity[17]	Quarter ended 30 Jun 22 (%)	Mvmt. during the quarter (bps)	Mvmt. for the 6 months (bps)	Mvmt. for the 12 months (bps)
ANZ	0.03%	6	6	13
ASB	0.14%	8	16	21
bnz	0.00%	-14	3	6
HEARTLAND BANK	-0.37%	-73	-77	-91
Kiwi bank.	0.11%	9	5	42
sbs	0.31%	28	9	25
TSB	-0.05%	-3	-1	7
The Co-operative Bank	0.03%	3	2	-3
Westpac	-0.02%	-5	7	-6
Average	0.04%	0	7	10

The results for the quarter ended June 2022 showed the second increase in the total provisioning level since September 2020 following a modest increase in the previous quarter. Despite the increase in the total provisioning level, the increase in total gross loans and advances meant the coverage ratio (provisions held compared to total gross loans and advances) remained flat. This ratio rose from 0.47% in December 2019 to a peak of 0.70% in September 2020, before falling to 0.50% in December 2022 and remaining flat since.

Provisioning levels still remain above those seen before the Covid-19 pandemic, likely driven by the economic uncertainty with high inflation and interest rates driving the cost of living difficulties for many households along, in addition to lower business confidence. It will be interesting to see whether these factors place further pressure on borrowers over the coming months and lead to an increase in missed repayments and arrears. Once this flows through the banking sector's provisioning models, it may lead to an increase in collective provisions and reduce profits.

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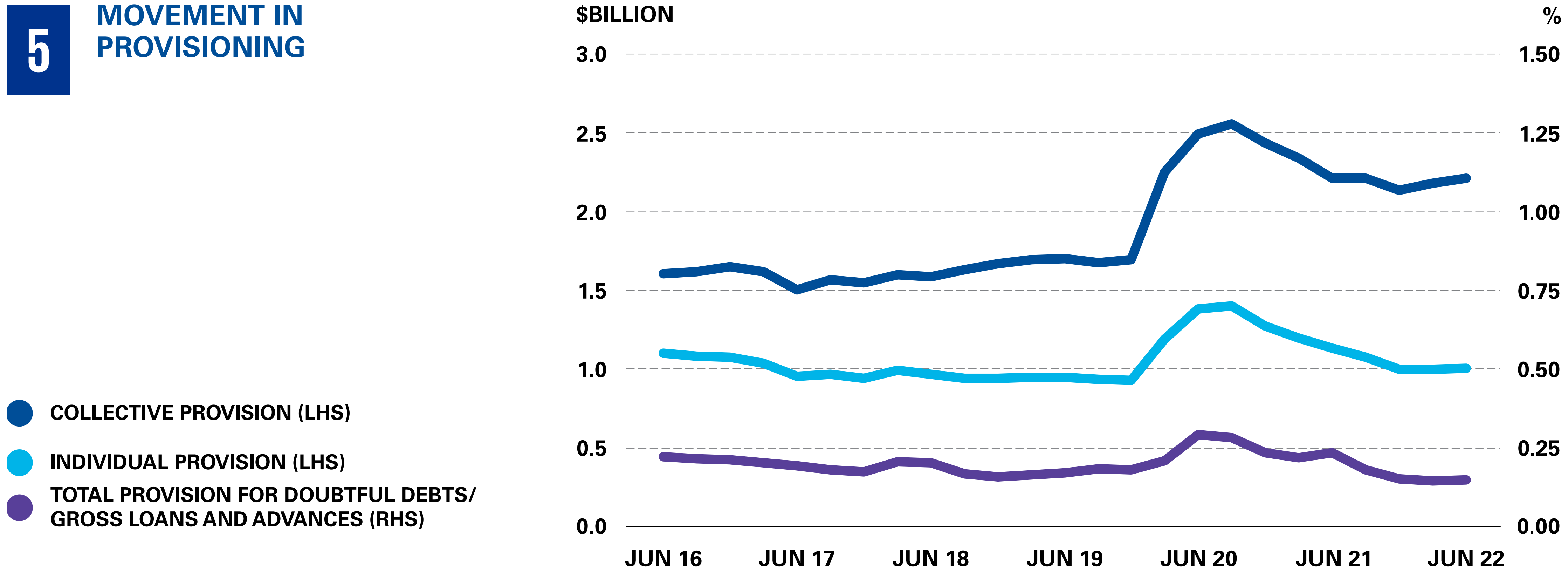
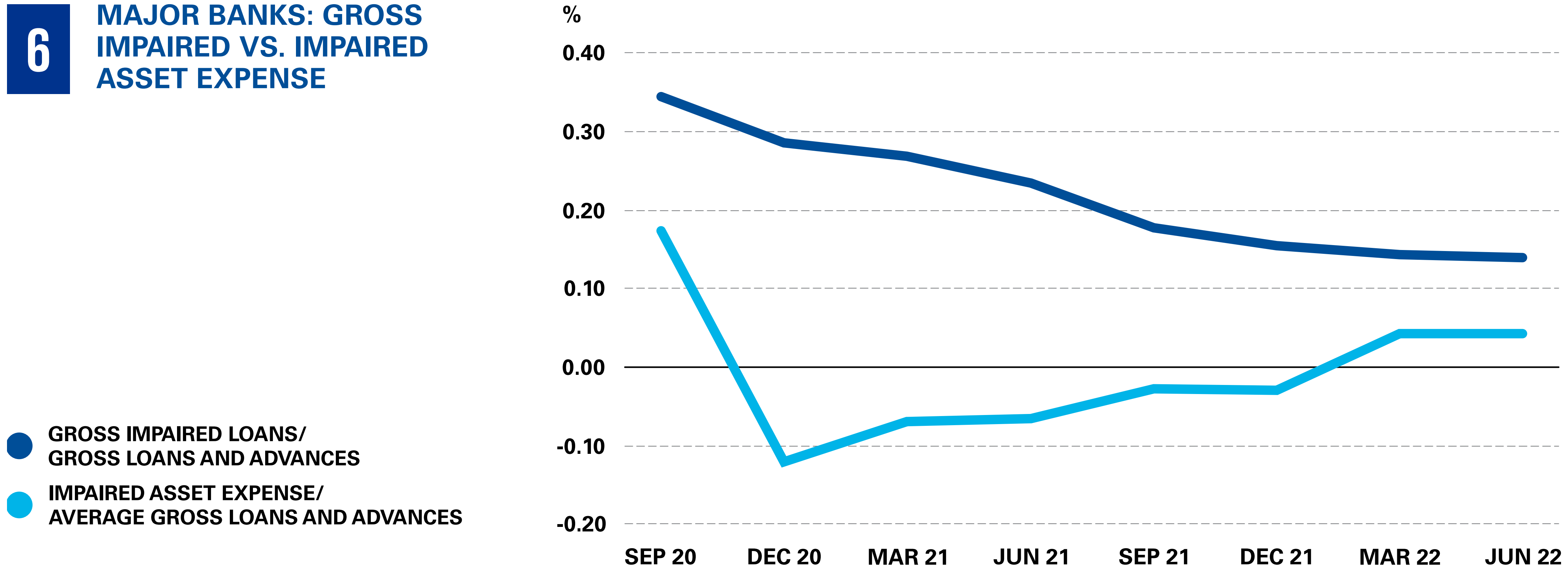
Asset quality

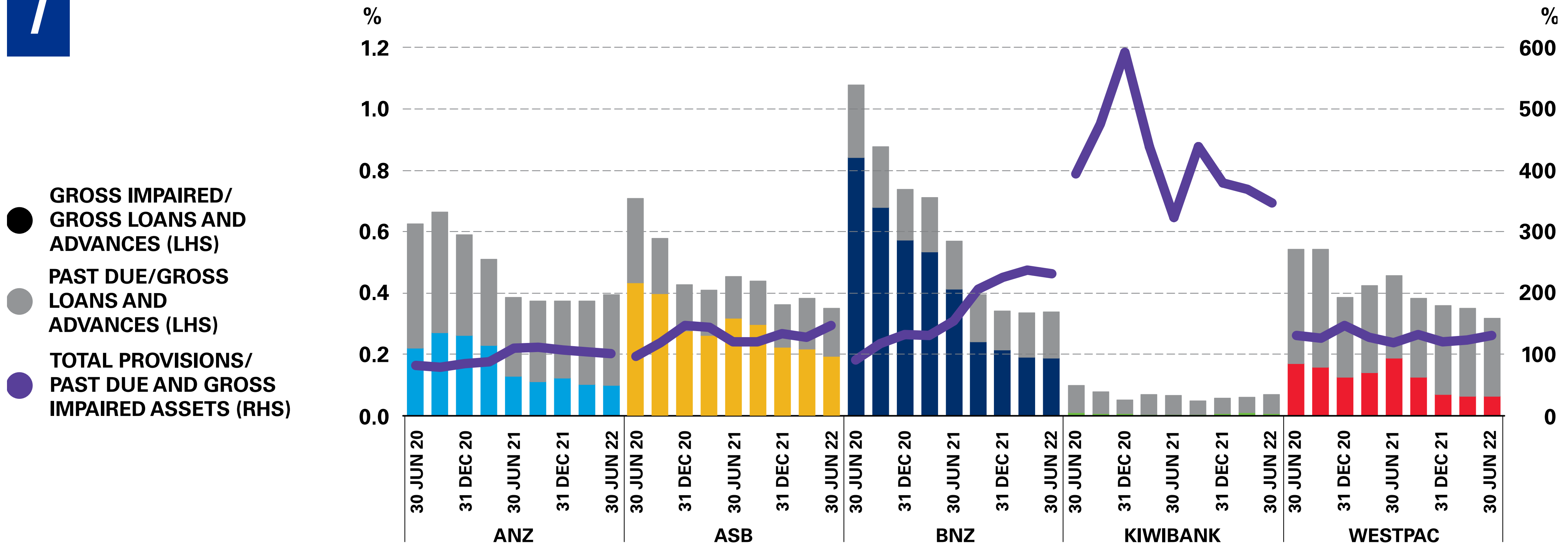
5 MOVEMENT IN PROVISIONING



6 MAJOR BANKS: GROSS IMPAIRED VS. IMPAIRED ASSET EXPENSE



7 MAJOR BANKS: PAST DUE AND GROSS IMPAIRED ASSETS VS. GROSS LOANS AND ADVANCES



Major banks – Quarterly analysis

Size & strength measures

Entity[17]	30 Sep 20	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22
Total assets ($Million)								
ANZ	180,087	186,404	183,811	187,064	185,072	190,636	190,720	193,335
ASB	115,064	117,967	121,115	120,810	120,230	121,030	123,365	125,838
BNZ	112,310	117,287	114,314	118,549	119,122	123,038	124,060	126,852
Heartland Bank	4,288	4,358	4,297	4,419	4,484	4,703	4,857	5,159
Kiwibank	26,645	27,283	27,546	28,230	29,379	30,970	30,589	2,079
SBS	4,842	4,839	4,832	4,789	4,889	5,024	5,220	2,079
TSB	8,575	8,761	8,789	8,725	8,780	8,934	8,961	2,079
The Co-operative Bank	3,048	3,064	3,122	3,171	3,194	3,239	3,194	3,189
Westpac	113,187	117,160	114,726	116,786	119,848	122,382	125,026	2,079
Total	568,047	587,123	582,552	592,543	594,998	609,954	615,991	462,691

Entity[17]	30 Sep 20	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22
Increase in gross loans and advances (%)								
ANZ	-1.92	1.51	2.00	1.41	0.93	1.81	1.91	0.75
ASB	2.41	2.58	1.70	2.79	1.94	0.88	1.31	1.28
BNZ	-0.30	1.43	2.07	2.78	1.64	2.19	0.92	1.07
Heartland Bank	-0.62	0.72	0.78	3.11	2.54	5.19	3.35	5.20
Kiwibank	3.06	3.86	3.16	2.51	3.49	3.87	0.85	1.27
SBS	-0.36	-1.10	0.01	0.23	2.00	3.78	2.59	2.82
TSB	0.58	0.81	2.09	2.32	1.53	1.70	-0.49	-0.23
The Co-operative Bank	1.14	2.83	1.61	2.05	-0.13	-1.36	-0.65	2.03
Westpac	1.47	1.34	1.40	2.13	0.15	0.81	0.65	1.40
Average	0.31	1.78	1.86	2.20	1.30	1.63	1.25	1.13

Entity[17]	30 Sep 20	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22
Capital adequacy (%)								
ANZ[18]	14.40	15.00	15.90	15.50	16.90	16.40	15.10	15.60
ASB[18]	14.20	13.90	14.80	15.10	14.50	14.60	13.40	15.00
BNZ	14.90	15.50	16.00	16.50	16.90	16.40	15.30	15.00
Heartland Bank	13.40	14.00	14.40	13.90	14.00	14.00	13.10	13.40
Kiwibank	12.30	13.30	13.20	13.20	12.80	13.70	13.80	13.60
SBS	14.90	15.20	15.70	16.20	16.30	16.00	15.40	15.00
TSB	15.10	15.10	15.00	14.20	14.10	13.70	13.50	13.60
The Co-operative Bank	16.90	17.00	16.90	16.80	16.10	16.90	16.90	16.60
Westpac[18]	17.10	17.60	18.20	18.80	18.60	19.00	14.50	14.80

Entity[17]	30 Sep 20	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22
Net profit ($Million)								
ANZ	220	367	563	487	503	496	600	620
ASB	270	321	348	317	367	382	349	356
BNZ	209	303	357	318	344	356	353	377
Heartland Bank	21	12	18	20	20	21	19	30
Kiwibank	24	31	40	31	32	32	36	32
SBS	10	12	12	13	11	10	11	8
TSB	12	11	11	13	12	9	5	13
The Co-operative Bank	4	5	4	4	5	4	-1	3
Westpac	238	300	290	249	219	305	373	290
Total	1,008	1,361	1,643	1,452	1,512	1,614	1,744	1,728

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Major banks – Quarterly analysis

Profitability measures

Entity[17]	30 Sep 20	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22
Interest margin (%)								
ANZ	1.90	1.90	2.10	2.10	2.00	2.00	2.10	2.20
ASB	1.80	1.90	2.10	2.00	2.00	2.10	2.10	2.20
bnz	2.00	2.00	2.10	2.00	2.00	2.00	2.10	2.20
Heartland Bank	4.50	4.60	4.80	4.90	4.80	4.50	4.30	4.60
Kiwibank	1.90	2.00	2.10	2.10	2.10	2.00	2.10	2.30
sbs	2.40	2.50	2.70	2.90	2.80	2.70	2.60	2.60
TSB	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.10
The Co-operative Bank	2.20	2.30	2.40	2.40	2.30	2.20	2.30	2.50
Westpac	1.80	2.00	2.00	2.00	1.90	2.00	2.00	2.10

Entity[17]	30 Sep 20	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22
Non-interest income/Total assets (%)								
ANZ	0.29	0.18	0.53	0.40	0.53	0.54	0.65	0.71
ASB	0.58	0.54	0.56	0.55	0.67	0.48	0.53	0.55
bnz	0.35	0.42	0.72	0.50	0.66	0.61	0.51	0.53
Heartland Bank	0.28	0.42	0.32	0.39	0.39	0.33	0.29	0.45
Kiwibank	0.63	0.27	0.26	0.15	0.22	0.19	0.09	0.32
sbs	0.74	0.82	0.65	0.74	0.71	0.66	0.49	0.83
TSB	0.22	0.22	0.20	0.22	0.28	0.19	0.21	0.67
The Co-operative Bank	0.69	0.60	0.58	0.62	0.65	0.57	0.60	0.43
Westpac	0.35	0.28	0.48	0.33	0.42	0.40	0.65	0.64
Average	0.39	0.34	0.55	0.43	0.54	0.49	0.56	0.61

Entity[17]	30 Sep 20	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22
Impaired asset expense/Average gross loans and advances (%)								
ANZ	0.27	-0.03	-0.17	-0.10	-0.03	-0.03	-0.03	0.03
ASB	0.15	-0.01	-0.06	-0.07	-0.04	-0.02	0.06	0.14
bnz	0.31	-0.13	0.04	-0.06	-0.07	-0.03	0.14	0.00
Heartland Bank	0.05	0.44	0.52	0.54	0.46	0.40	0.36	-0.37
Kiwibank	0.03	-0.03	0.01	-0.31	0.05	0.06	0.02	0.11
sbs	0.09	0.09	-0.13	0.06	0.28	0.22	0.03	0.31
TSB	-0.05	0.03	-0.11	-0.12	-0.31	-0.04	-0.02	-0.05
The Co-operative Bank	0.09	0.05	-0.30	0.06	-0.06	0.01	0.00	0.03
Westpac	-0.04	-0.39	-0.05	0.04	0.02	-0.09	0.03	-0.02
Average	0.17	-0.11	-0.07	-0.06	-0.02	-0.03	0.04	0.04

Entity[17]	30 Sep 20	31 Dec 20	31 Mar 21	30 Jun 21	30 Sep 21	31 Dec 21	31 Mar 22	30 Jun 22
Operating expenses/Operating income (%)								
ANZ	54.60	44.39	34.29	38.88	39.25	39.19	32.19	32.76
ASB	38.55	36.97	37.66	44.62	37.77	32.43	37.51	38.03
bnz	41.65	39.83	32.75	38.23	39.02	35.31	29.70	34.67
Heartland Bank	40.28	61.61	43.47	42.93	42.53	43.40	42.00	39.29
Kiwibank	78.94	70.89	65.25	84.38	70.88	70.67	68.78	71.77
sbs	59.36	58.31	61.87	56.21	57.51	62.23	59.74	64.46
TSB	60.76	62.80	68.38	65.02	74.84	74.23	85.71	68.63
The Co-operative Bank	74.65	70.59	81.61	71.86	72.41	72.65	105.26	79.91
Westpac	44.14	45.34	41.67	44.98	49.95	41.15	38.40	43.00
Average	47.85	44.13	38.53	43.97	43.07	39.69	37.10	39.03

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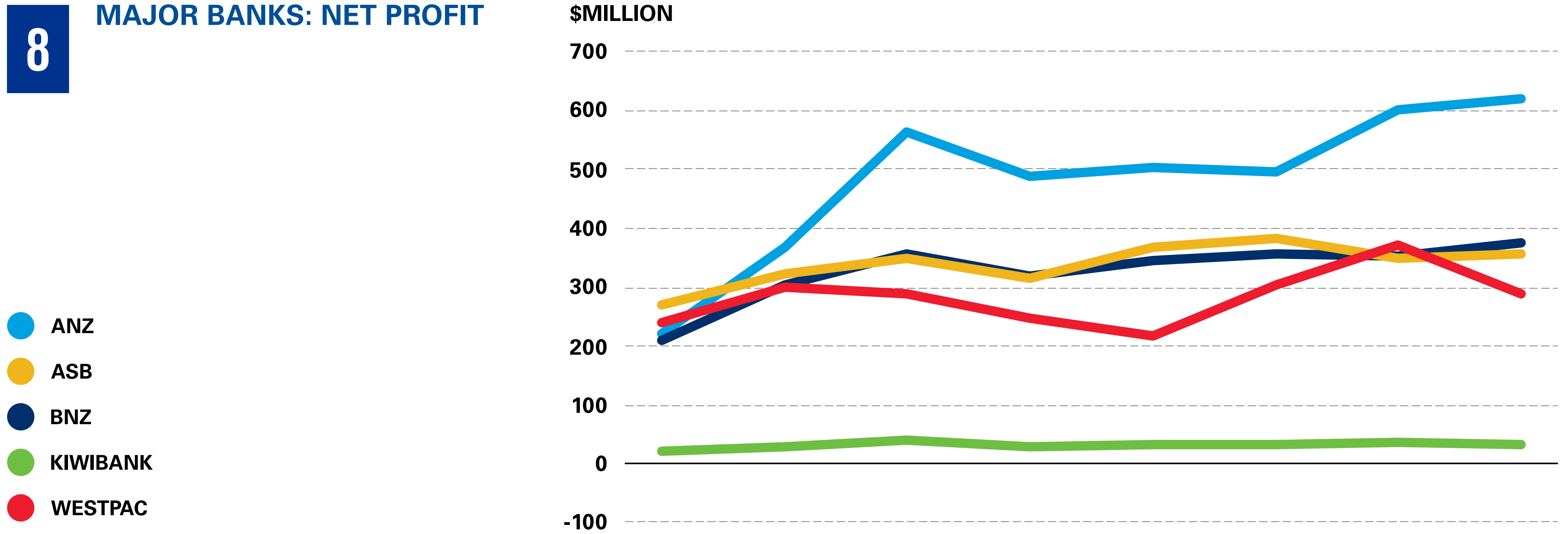
Major banks – Quarterly analysis

Q2 22 Q2 21 Q2 20 Q2 19

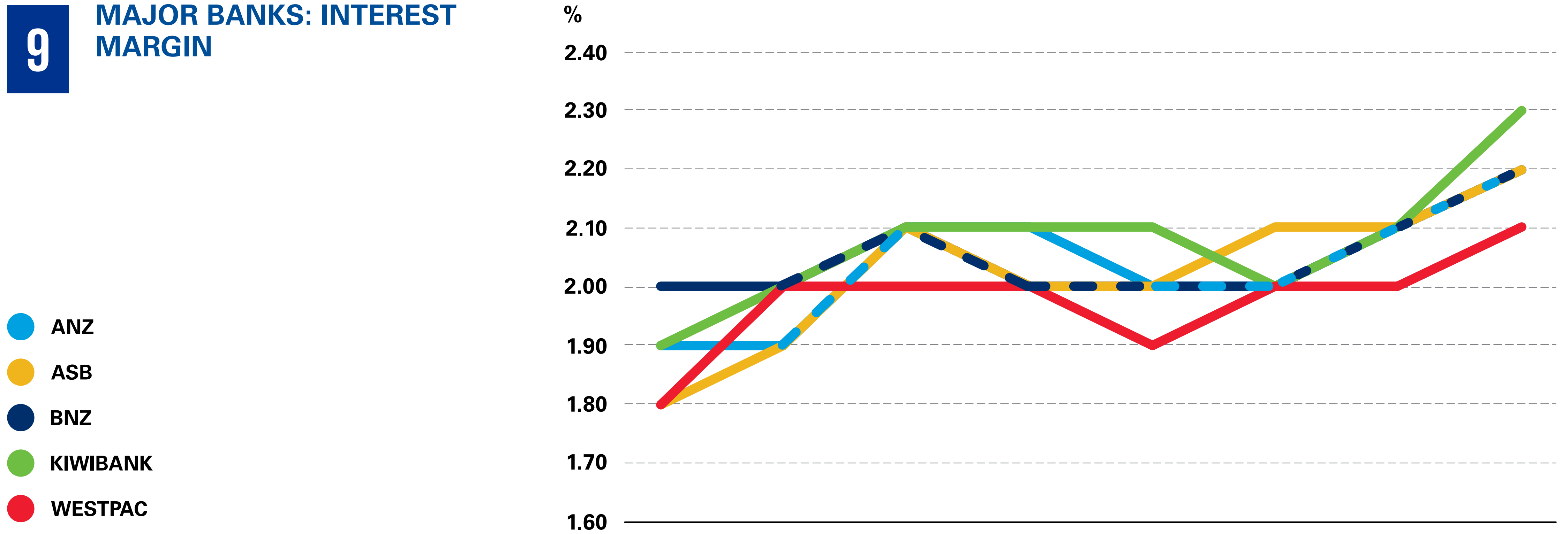
HOVER over the button to see the results for each quarter

8 MAJOR BANKS: NET PROFIT



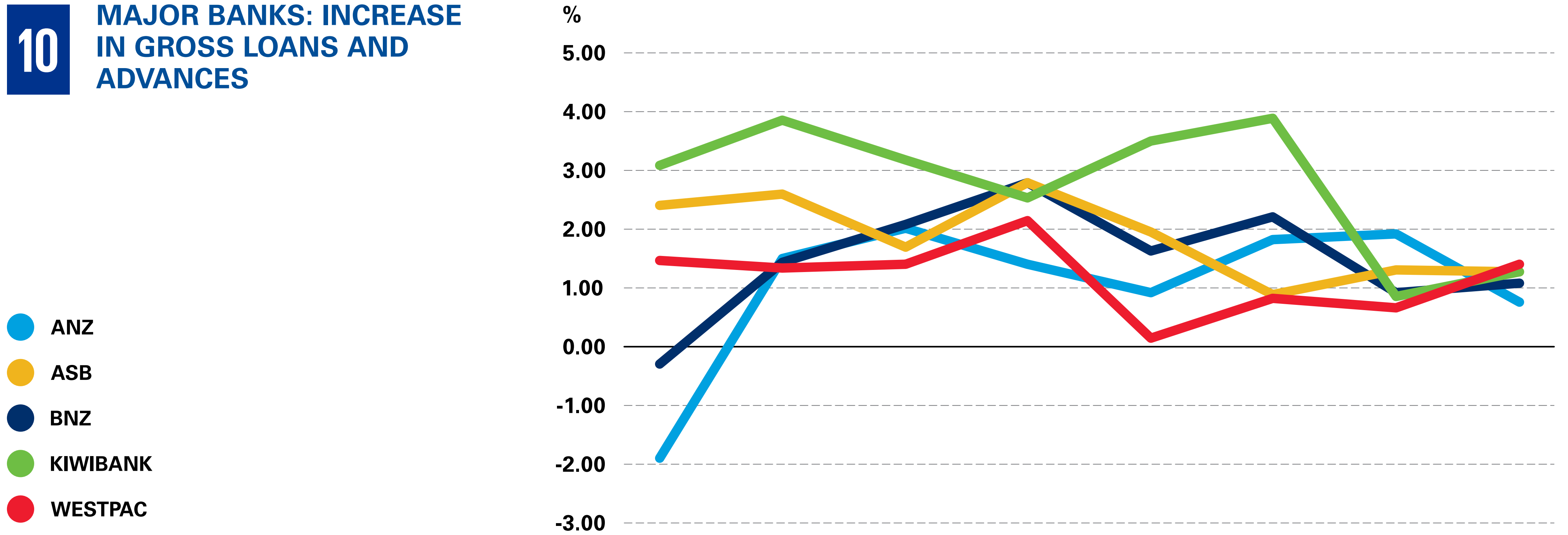
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

9 MAJOR BANKS: INTEREST MARGIN



SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

10 MAJOR BANKS: INCREASE IN GROSS LOANS AND ADVANCES



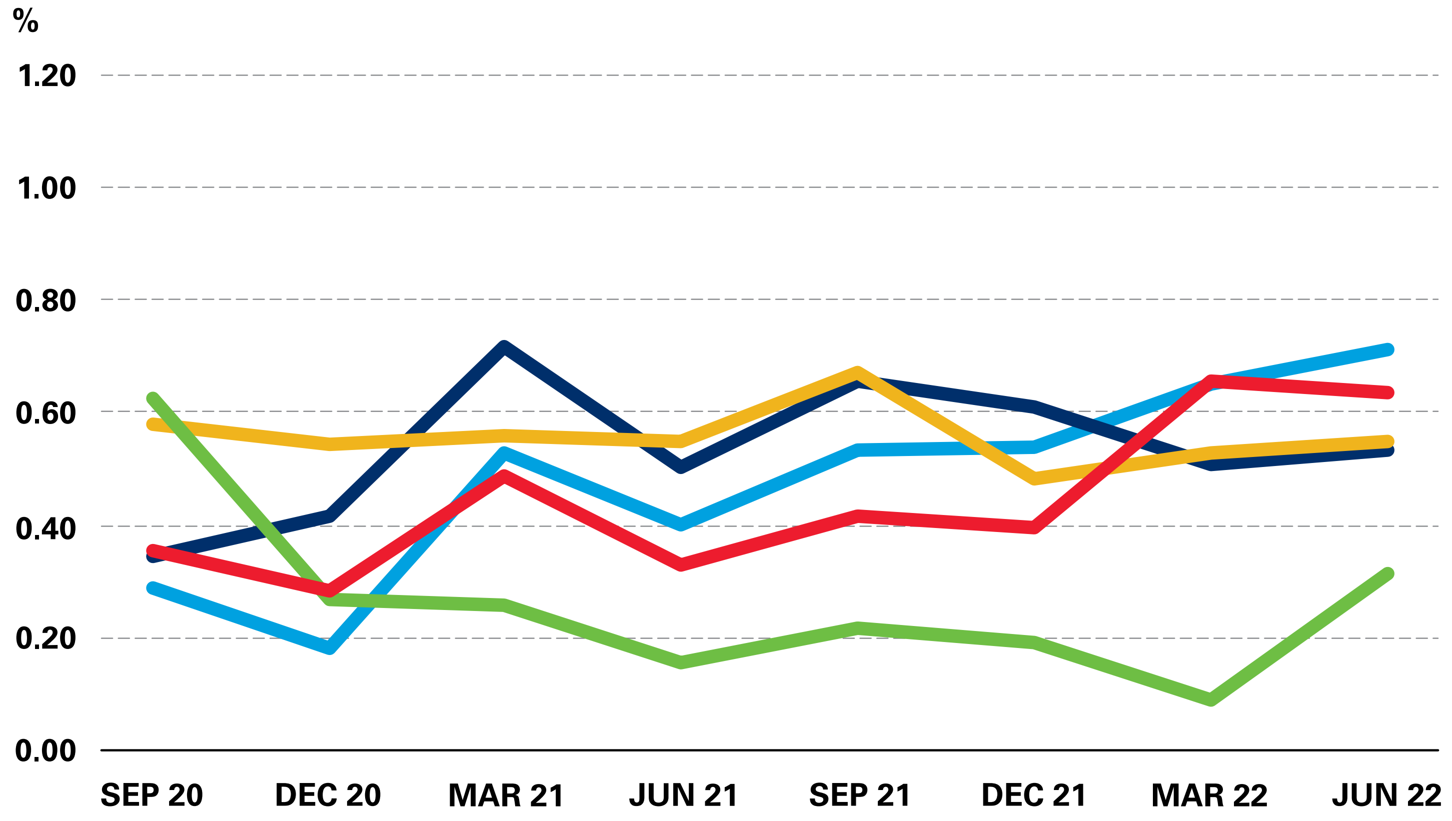
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

Major banks – Quarterly analysis

Q2 22 | Q2 21 | Q2 20 | Q2 19

HOVER over the button to see the results for each quarter

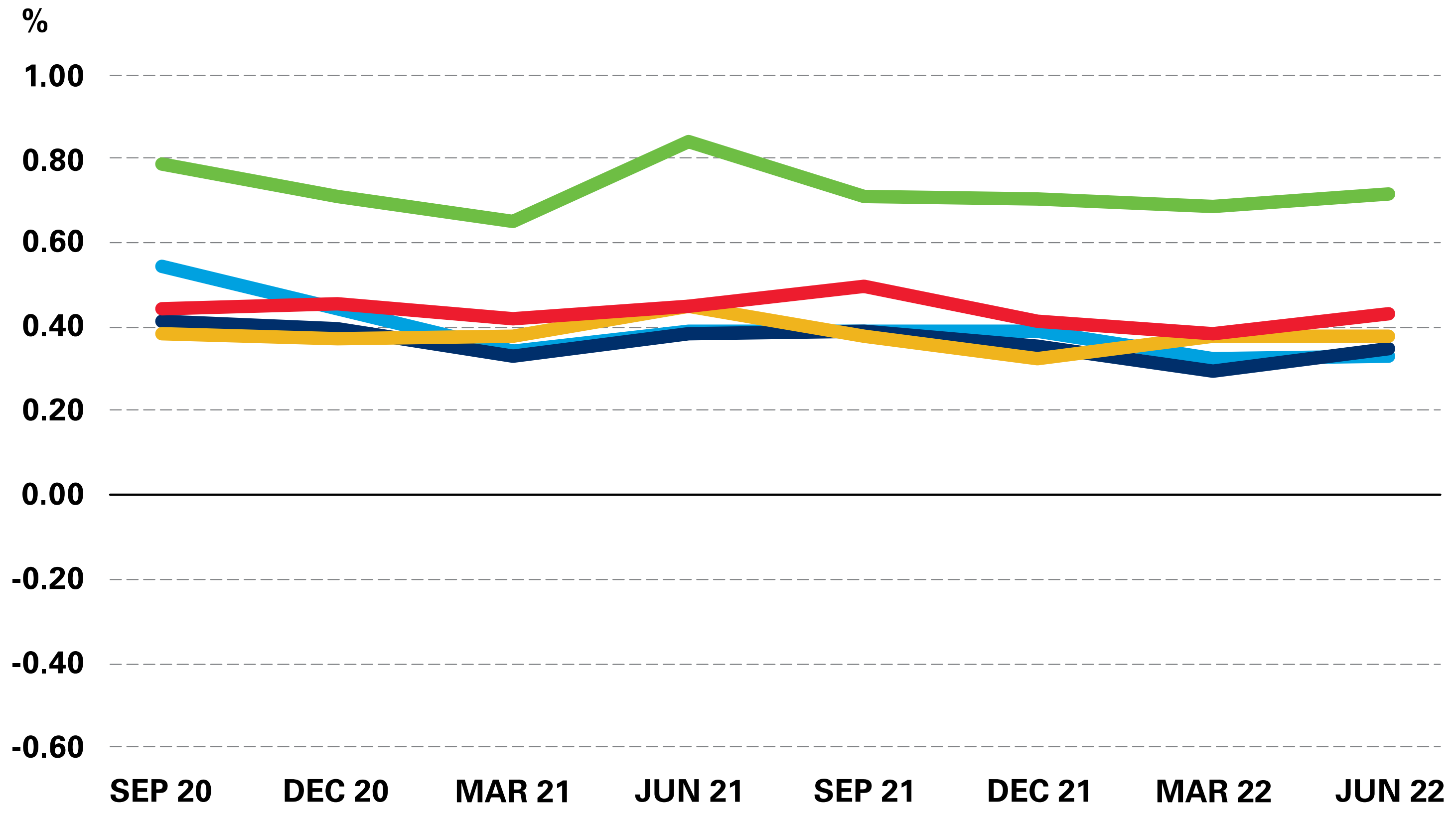
11 MAJOR BANKS: NON-INTEREST INCOME/ TOTAL ASSETS



ANZ
ASB
BNZ
KIWIBANK
WESTPAC

SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

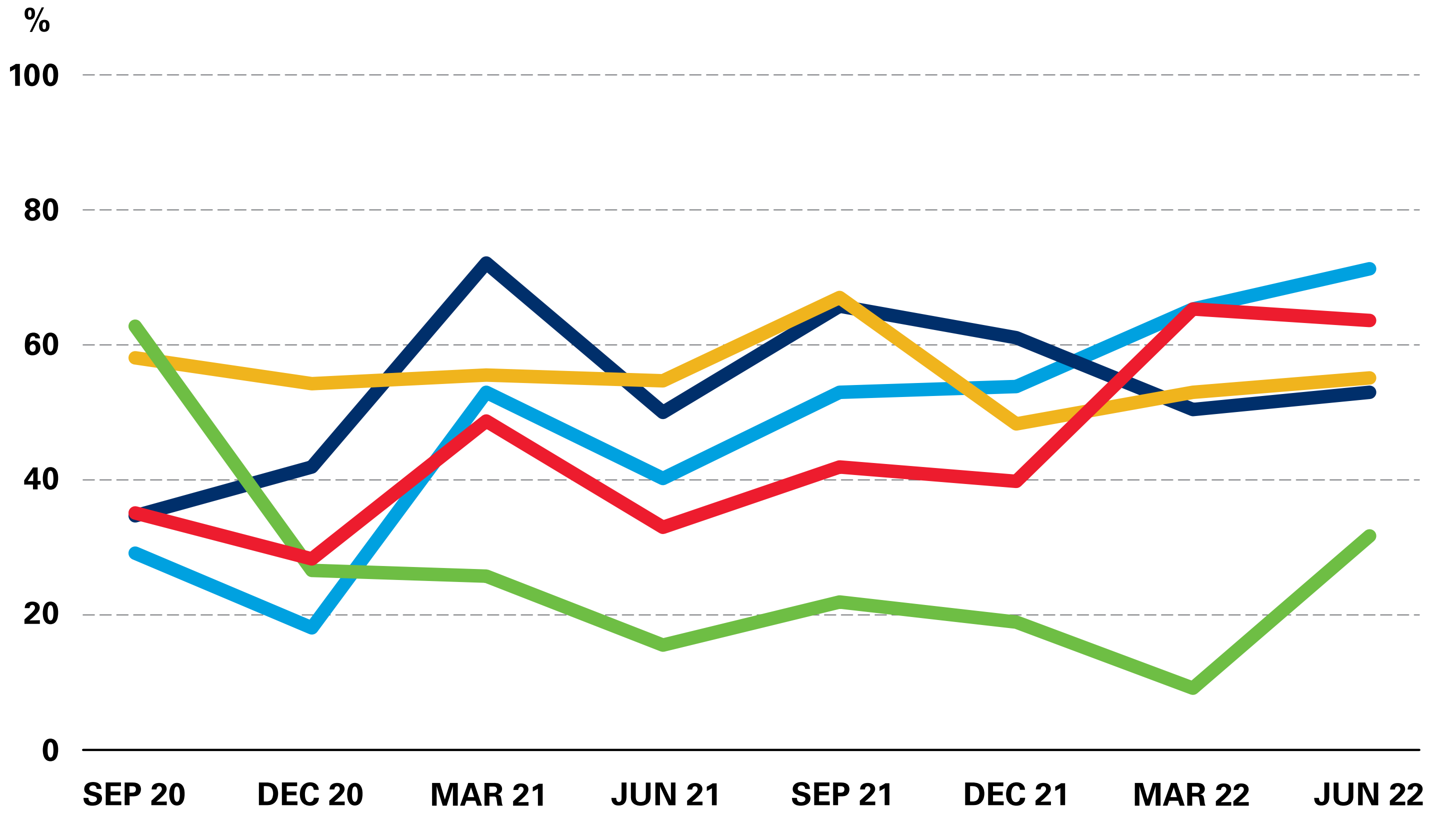
13 MAJOR BANKS: IMPAIRED ASSET EXPENSE/AVERAGE GROSS LOANS AND ADVANCES



ANZ
ASB
BNZ
KIWIBANK
WESTPAC

SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

12 MAJOR BANKS: OPERATING EXPENSES/ OPERATING INCOME

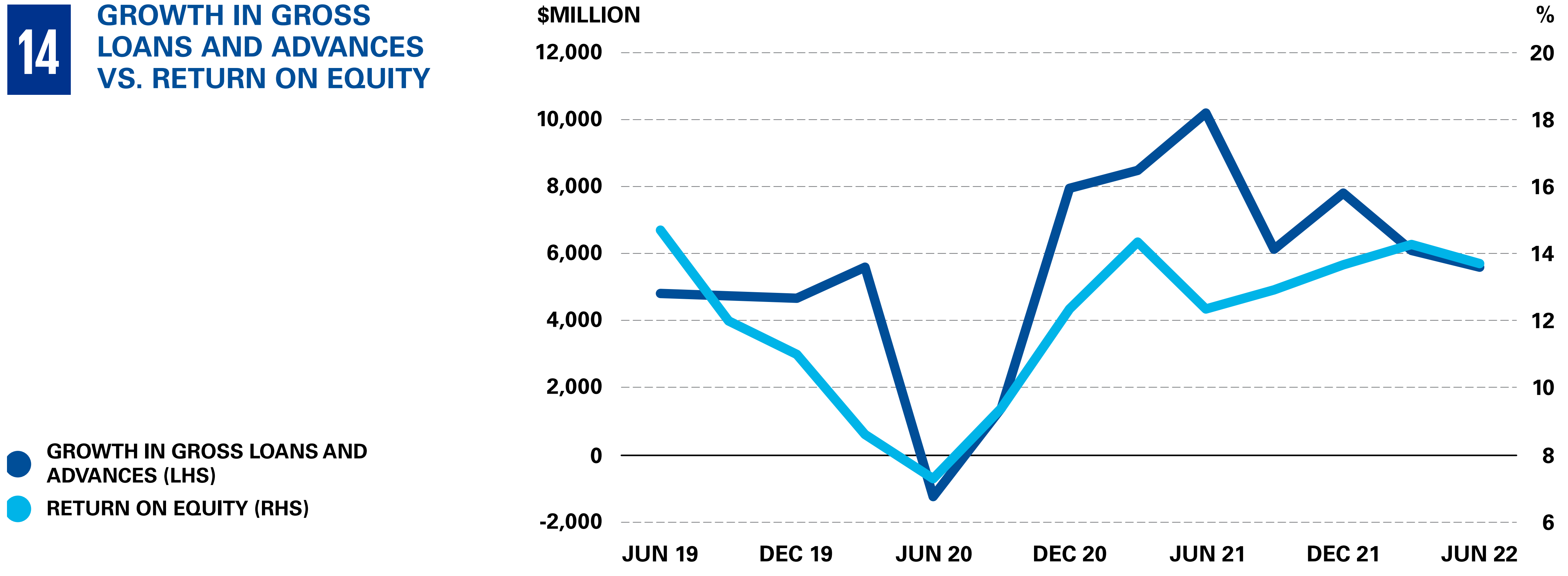


ANZ
ASB
BNZ
KIWIBANK
WESTPAC

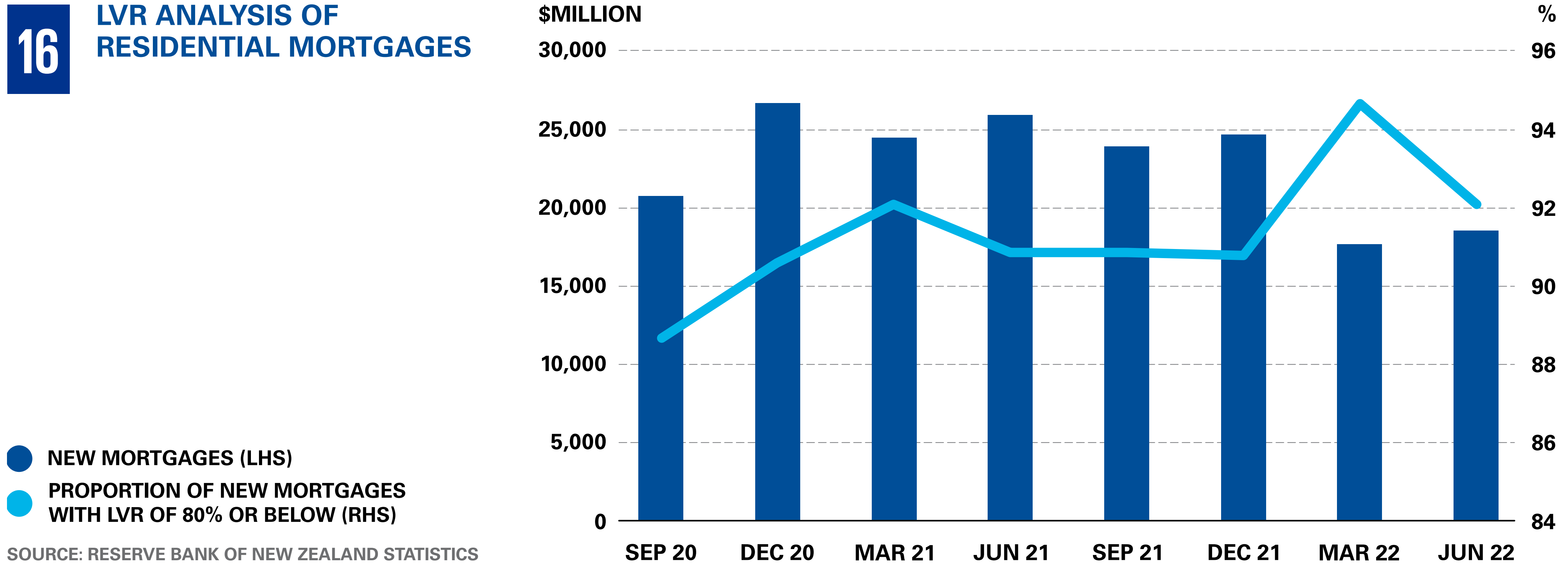
SOURCE: RBNZ BANK FINANCIAL STRENGTH DASHBOARD

Quarterly analysis

14 GROWTH IN GROSS LOANS AND ADVANCES VS. RETURN ON EQUITY

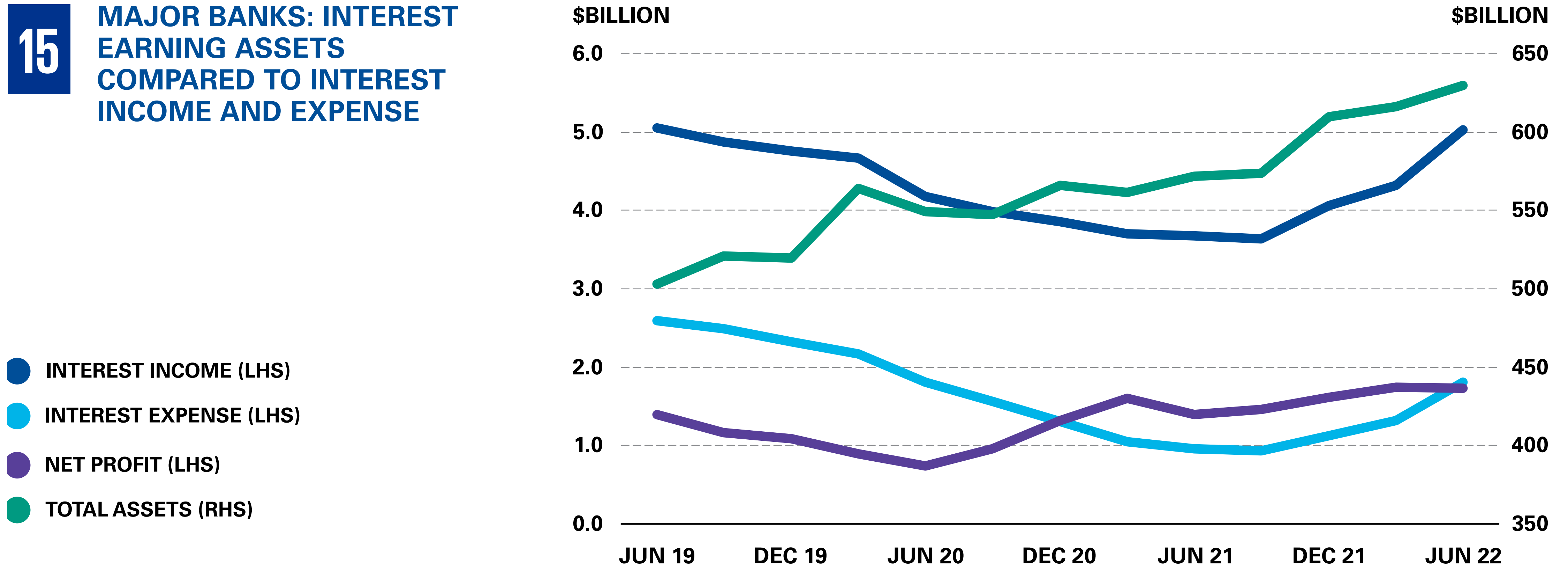


16 LVR ANALYSIS OF RESIDENTIAL MORTGAGES



SOURCE: RESERVE BANK OF NEW ZEALAND STATISTICS

15 MAJOR BANKS: INTEREST EARNING ASSETS COMPARED TO INTEREST INCOME AND EXPENSE



Consumer credit demand softens as inflation and interest rates hit

Keith McLaughlin
Managing Director,
Centrix Group Limited

Keith McLaughlin is the Managing Director of Centrix Group Limited, New Zealand's only locally owned credit bureau. A highly experienced senior executive and director, Keith started Centrix with a vision to offer New Zealand businesses a superior and cost-efficient credit offering, with a focus on long-term relationships. Previously the founder and Managing Director of Baycorp Holdings Limited, his strengths include strong leadership skills with an emphasis on empowerment, and a proven ability to forge and sustain high performance teams.

Annual inflation hit a thirty-year high of 7.3% for the June 2022 quarter, delivering a sobering effect, signalling that the good times are over, as consumer credit demand softened and arrears rose. High inflation stems from constrained supply, coupled with strong demand.

The unprecedented volume of stimulus – both from increased Government spending and loose monetary policy – boosted demand well above supply levels.

Strong demand enabled businesses to pass on higher costs more easily to customers. So through both the June quarter and its lead up to it, we saw broad-based price increases.

Low inflation, steady growth and falling interest rates, resulting in accessible and cheap financing, were hallmarks of the last decade. But that is changing, and Kiwis know it.

Throughout the June quarter, inflationary pressures and the rising cost of living continued to negatively impact both consumer confidence and behaviour.

This translated into muted credit demand for new products across the board, as households cut back on discretionary spending to help navigate this economic climate. Consumer credit demand was down 10% year-on-year in June 2022.

17 **See Figure 17 – page 18**

Adding to this financial squeeze is the rising cost of borrowing. Approximately 23.3% of owner-occupied mortgages in June 2022 will be due for repricing by the end of this year[19]. For many households, they will roll off some of the lowest mortgage rates in a generation and climb up to something north of 5%.

While borrowers are stress tested at higher interest rates, this will undoubtedly put some household budgets under additional pressure, and reductions in credit demand suggest consumers are bracing themselves for challenges ahead.

> **“Approximately 23.3% of owner-occupied mortgages in June 2022 will be due for repricing by the end of this year.**

But it's important to place current economic conditions in the broader context of New Zealand. As at the end of June, the OCR was still well off peak of its 8.25% in 2007 and 2008, and most pundits are forecasting an OCR peak considerably lower than this figure during this current economic cycle.

And compared to the Global Financial Crisis (GFC) times, better credit data coupled with responsible lending obligations, gives New Zealand's financial system more layers of protection. Certainly, there will always be people who try to push borrowing limits. But those people aren't getting credit to the same extent that they used to.

> **54%** of credit consumers under the age of 30 years' old actively use BNPL products, compared to **25%** that use credit cards.

It is true that we are seeing consumer credit arrears increase, but we need to acknowledge the low base this is coming off. Arrears levels have come down consistently during the last five years, demonstrating that on the whole New Zealanders are managing debt extremely well.

Despite this, consumer arrears have started creeping up year-on-year across the board, against the usual seasonal trends – up 12% year-on-year in April 2022, 11.7% year-on-year in May 2022 and 14% year-on-year in June 2022.

This growth appears to be mainly focused on unsecured consumer lending, with home loan arrears dropping as Kiwis prioritise their mortgage repayments during these tough economic times.

18 See Figure 18 – page 18

Shifting appetite for credit types

There has been a change in both spending and credit habits – particularly among younger people who would be the new card applicants.

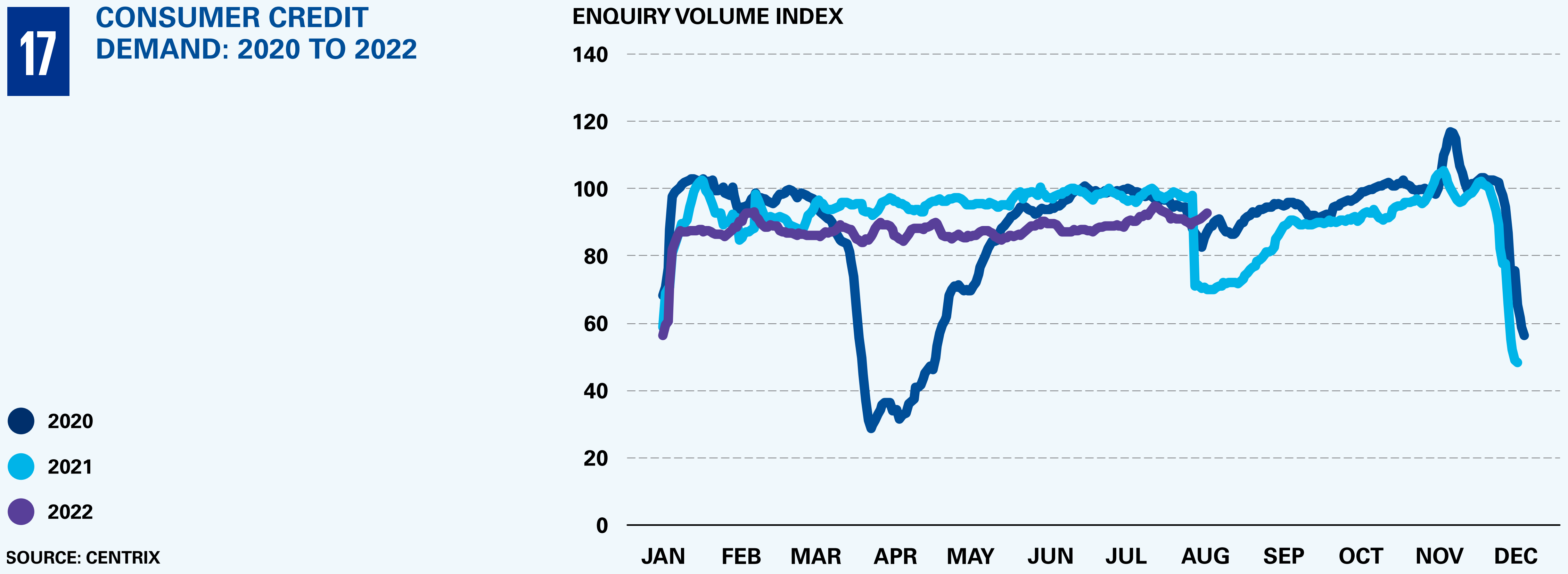
Applications for new credit cards have been trending down recently as younger Kiwis lean towards alternative products such as Buy Now, Pay Later (BNPL). This is largely due to the perceived cost of having a credit card, and the 'uber-like' customer experience that the younger generation loves.

In fact, 54% of credit consumers under the age of 30 years' old actively use BNPL products, compared to 25% that use credit cards.

19 See Figure 19 – page 19

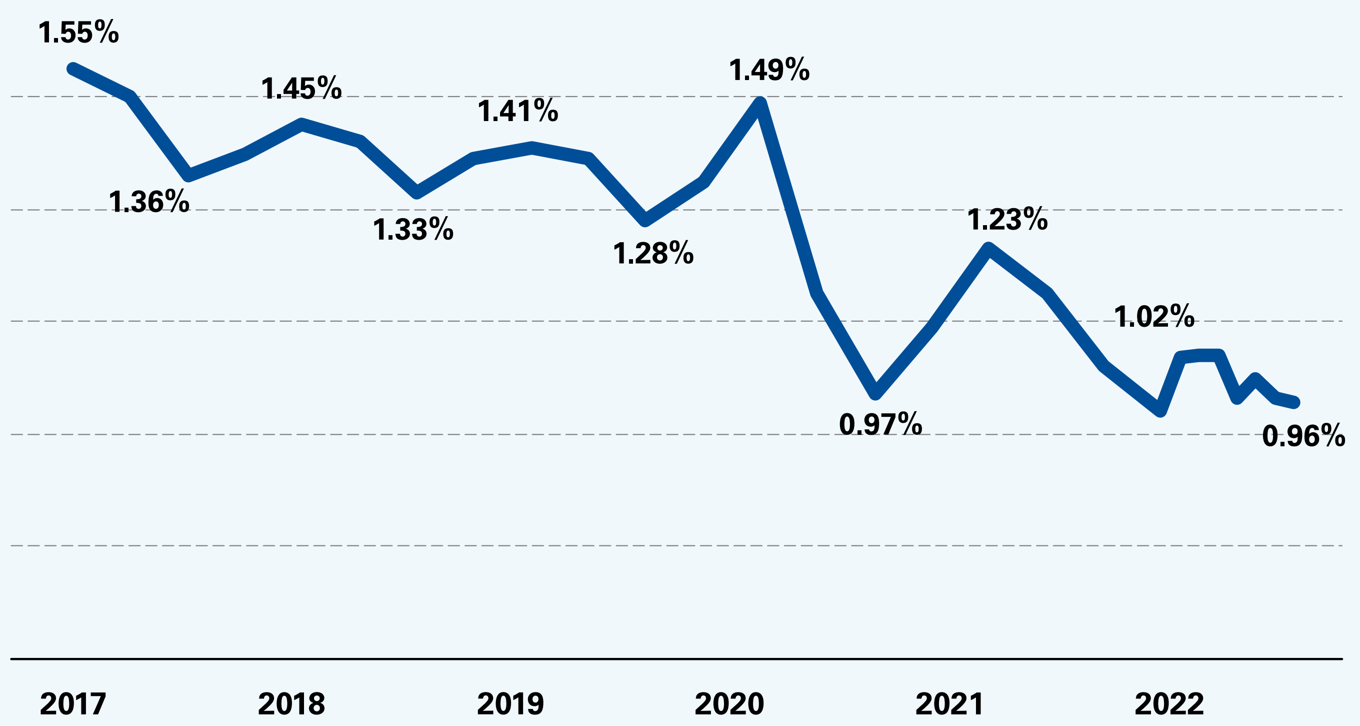
There has also been a marked decline in mortgage applications and successful lending across 2022, following the overall downward trend of the housing market.

17 CONSUMER CREDIT DEMAND: 2020 TO 2022



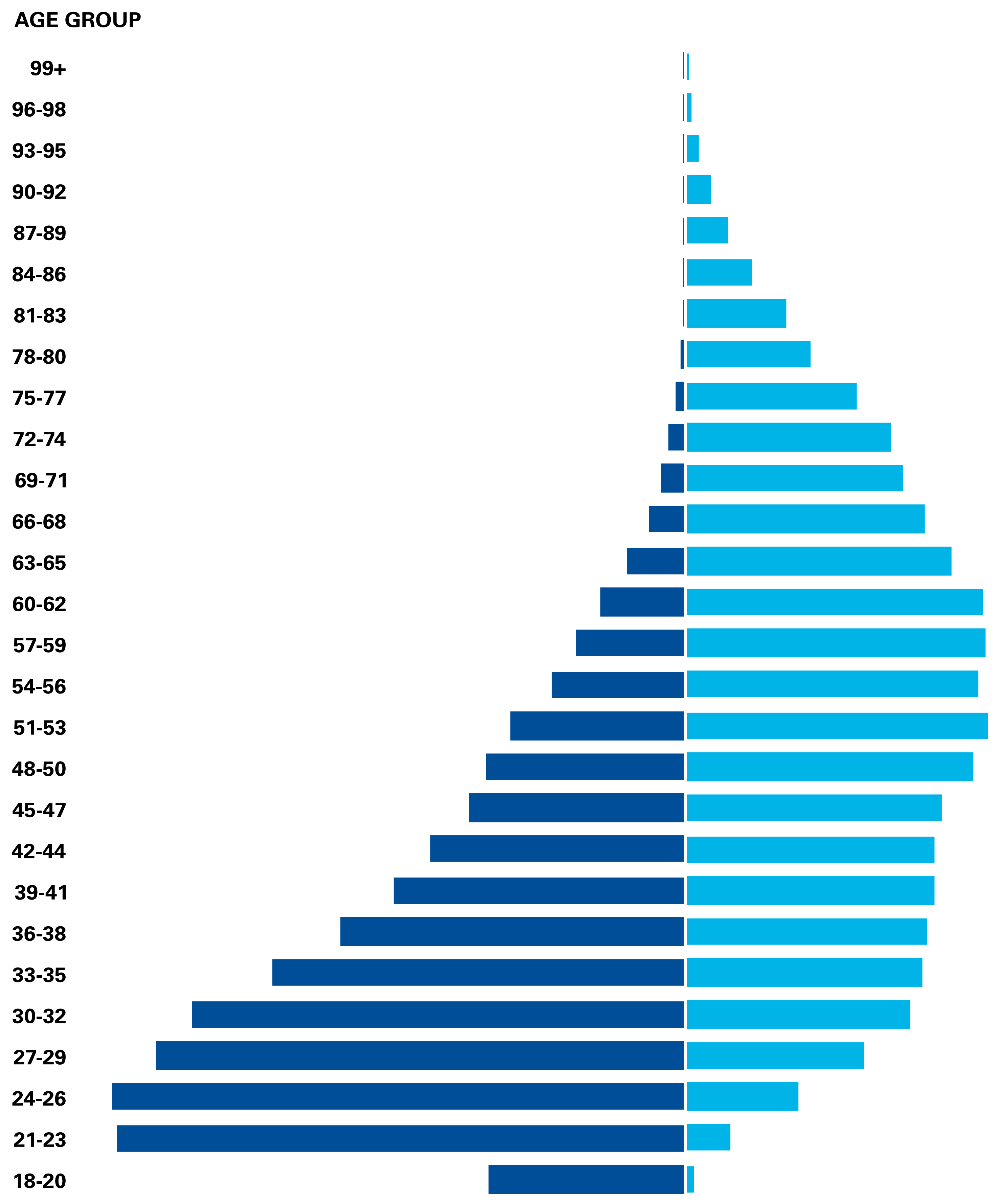
SOURCE: CENTRIX

18 HOME LOAN ARREARS



SOURCE: CENTRIX

19 DIFFERING AGE PROFILE OF BNPL AND CREDIT CARD USERS

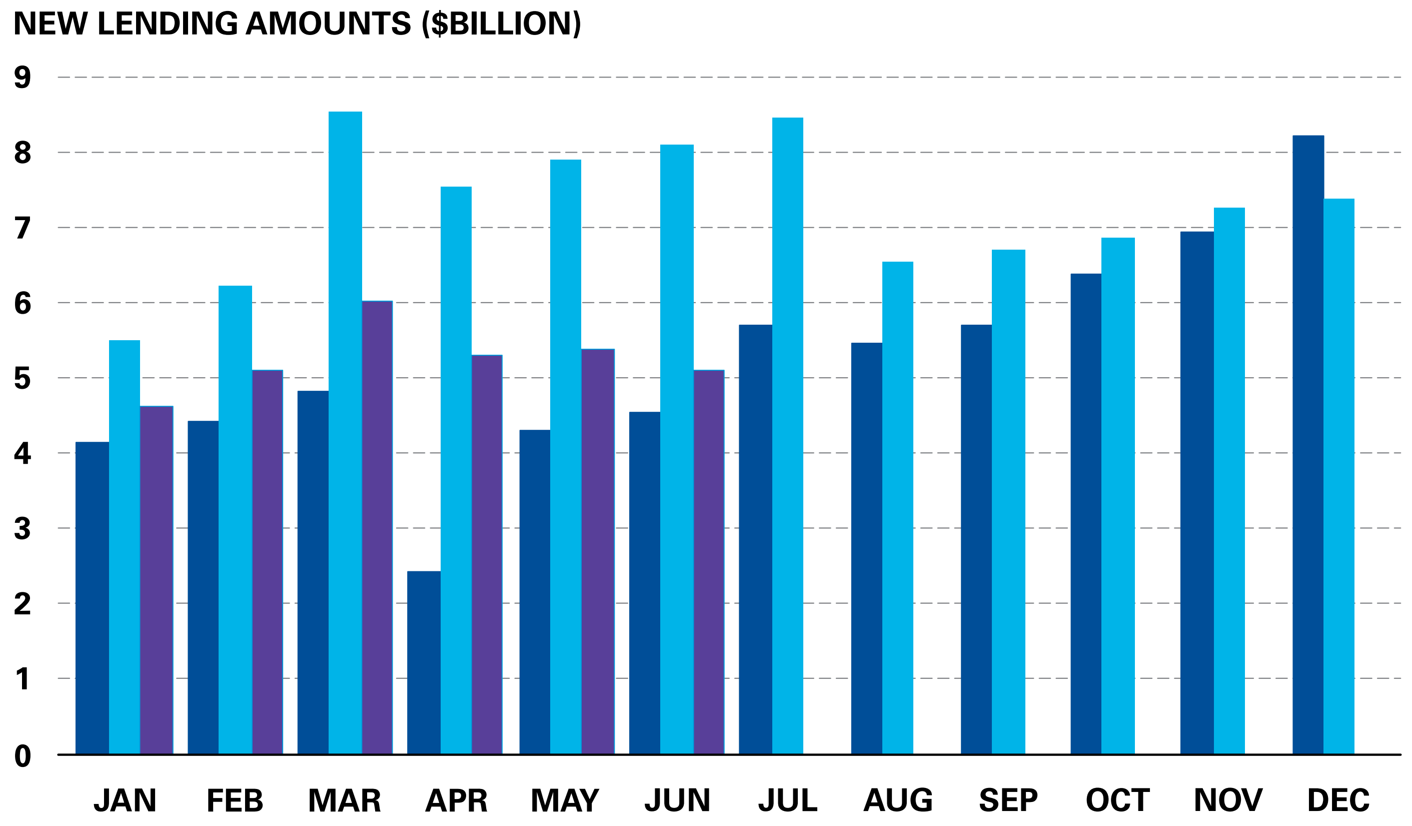


BUY NOW, PAY LATER

CREDIT CARD

SOURCE: CENTRIX

20 NEW LENDING EXPOSURES: MORTGAGES



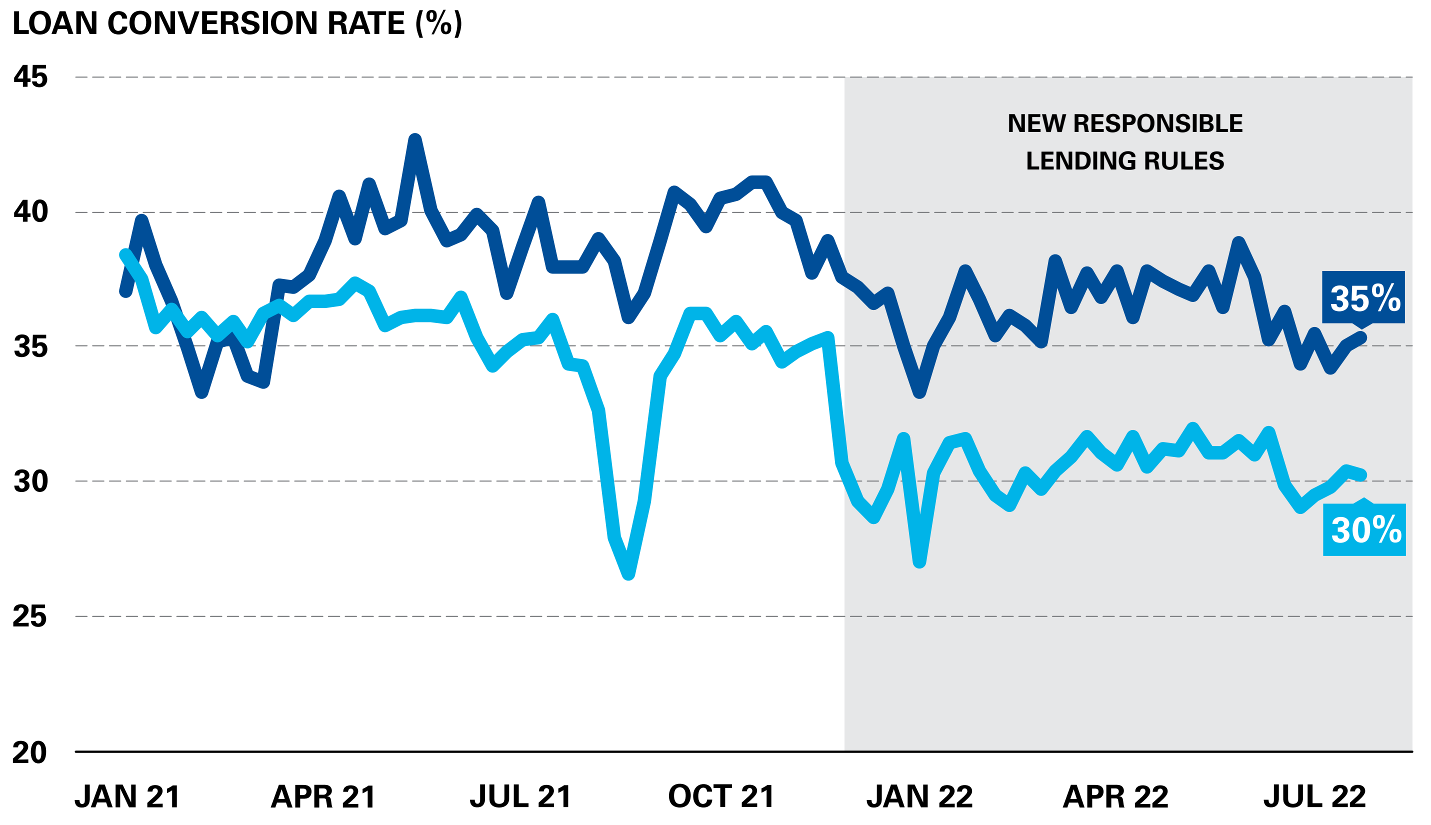
2020

2021

2022

SOURCE: CENTRIX

21 CONSUMER LOAN CONVERSION RATE TREND: CREDIT APPROVALS AS A PROPORTION OF APPLICATION ENQUIRIES MADE



MORTGAGE LOANS

CONSUMER FINANCE

SOURCE: CENTRIX

> **The value of all new household lending was down 36% year-on-year.**

The value of all new household lending was down 36% year-on-year in June 2022, although mortgage lending is now back above pre-Covid-19 pandemic levels.

20 See Figure 20 – page 19

Furthermore, the changes to the Credit Contracts and Consumer Finance Act at the end of last year has had a major impact on reducing successful mortgage applications across New Zealand.

21 See Figure 21 – page 19

How are Kiwi businesses faring?

The tough economic climate during this quarter has impacted the business sector too, with large and continued increases in operating costs resulting in business profit margins shrinking, even in sectors where demand has been strong[20].

In June 2022, company closures were down 37%, compared to the previous quarter, and company liquidations were also down 14% year-on-year.

Despite this, company credit defaults are beginning to increase, specifically in the building and hospitality sectors, as they have experienced the highest default rates since the final quarter of 2019.

22 See Figure 22 – page 20

Credit demand in the hospitality sector fell sharply to 21% year-on-year, while demand is up 23% year-on-year in the agriculture sector.

Looking at specific sectors, retailers are facing the strongest challenges, such as supply chain issues, staff shortages and high inflation placing considerable pressure on the sector.

What's ahead for New Zealand?

Starting from a strong position, New Zealand's economy is slowing down.

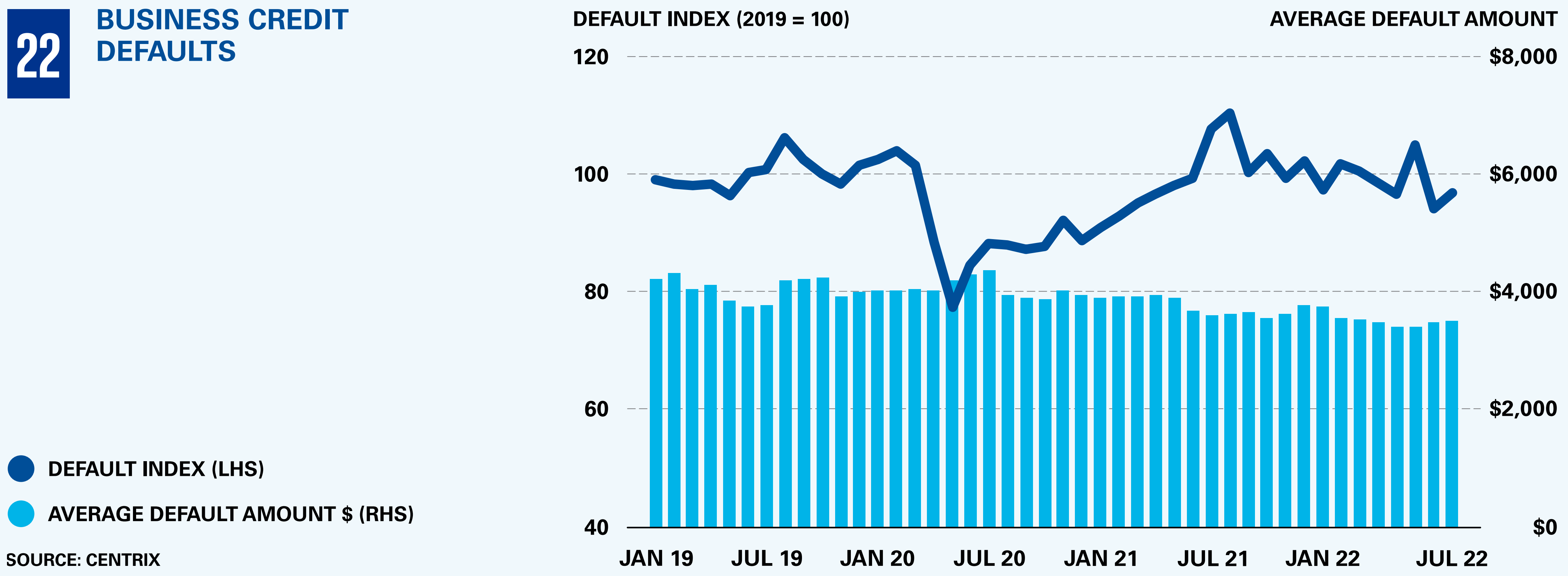
New Zealand is coming out of an extraordinary time, and for a large percent of the population this will be the first time they've experienced interest rates and inflation at these highs.

Our data shows the fall in consumer confidence has translated into less credit demand for both consumers and businesses.

> **Company credit defaults are beginning to increase, specifically in the building and hospitality sectors.**

However, as long as unemployment stays low and credit continues to be responsibly lent and borrowed, New Zealand is well positioned to deal with the drag effect of both high inflation and interest rates.

22 BUSINESS CREDIT DEFAULTS



SOURCE: CENTRIX

Implementation of Aotearoa New Zealand climate standards is gaining momentum

Sanel Tomlinson
Principal – Impact
KPMG

Sanel is a Principal in KPMG's Impact team, supporting clients in navigating the various financial and broader corporate performance reporting requirements.

Ceri Horwill
Partner – Consulting
KPMG

Ceri is a partner in KPMG's consulting team and leads the Financial Services Consulting practice in New Zealand across all the disciplines and skills that support the financial services sector.

Ronja Lidenhammar
Senior Manager – Sustainable Value
KPMG

Ronja is a Senior Manager in KPMG's Sustainable Value team, supporting clients in accelerating strategic and operational environmental solutions, and delivering on climate change mitigation and greenhouse gas accounting projects.

If you want more information on the topics discussed in this article or related to your broader climate change resilience journey, then please reach out to Sanel, Ceri or Ronja.

At the time of writing, the new climate-related disclosure framework becomes effective in less than four months. We can expect to see the first 'official' climate statements required by law being published by April 2024. However, beyond regulatory requirements, we are increasingly seeing that market and societal pressures are determining who makes disclosures and are also driving the quality of disclosures. Whether or not your organisation is within the scope of the legislation, it would be prudent to take note and determine your approach to climate reporting.

"We are increasingly seeing that market and societal pressures are determining who makes disclosures and are also driving the quality of disclosures.

Although the legislative requirement to provide climate-related disclosures extends beyond organisations in the financial services sector, it's commonly expected that this sector will be key enablers of the effectiveness of the regime. Banks, in particular, will play a crucial role in facilitating the shift to a system-wide awareness of the importance of climate reporting through investment and lending product design and service offerings. The stated purpose of the climate reporting legislation underlines this:

- to ensure that the effects of climate change are routinely considered in business, **investment**, **lending**, and insurance underwriting **decisions**;
- to help entities better demonstrate responsibility and foresight in their consideration of climate issues; and
- to lead to smarter, **more efficient allocation of capital, and help smooth the transition** to a more sustainable, low-emissions economy.

This expectation is echoed by Roger Beaumont, Chief Executive of the New Zealand Bankers' Association (NZBA).

The banking industry supports the Paris Agreement and New Zealand's carbon emissions reduction targets. Banks know they have an important role in addressing the challenges of climate change and the transition to net zero emissions.

Banks are tackling this crisis together, and as competitors, by significantly reducing their corporate carbon footprints, implementing individual climate lending policies, and working with customers to reduce emissions.

Banks have set aside billions of dollars of financing to support the Paris Agreement. Major financing initiatives include green bonds, sustainability loans for customers such as encouraging renewable heating sources and insulation, as well as business sustainability loans to encourage de-carbonisation.

Banks are taking a close look at the industries they lend to, with some no longer lending to sectors such as coal mining.

Others are taking a risk-based approach to carbon emissions across their whole loan book.

Major banks have clear plans to become net zero businesses and our smaller banks are also working on plans to achieve this status.

No single institution working alone can achieve meaningful progress on a global challenge such as climate change, so it's encouraging to see financial institutions and industry bodies coming together to tackle some of the more challenging requirements of the new climate reporting regime. Here are two such initiatives:

1. Developing industry climate scenarios.
2. Accounting for Greenhouse Gas (GHG) emissions relating to lending and investment.

Climate scenarios

According to NZBA a major regulatory focus for the industry is supporting Minister Shaw's climate-related financial disclosures regime. As part of this regime, climate scenarios help organisations assess risk and understand how climate risk and opportunities could evolve and impact their business. In addition, under the NZ Climate Standard 1 banks will be required to disclose their scenario analysis.

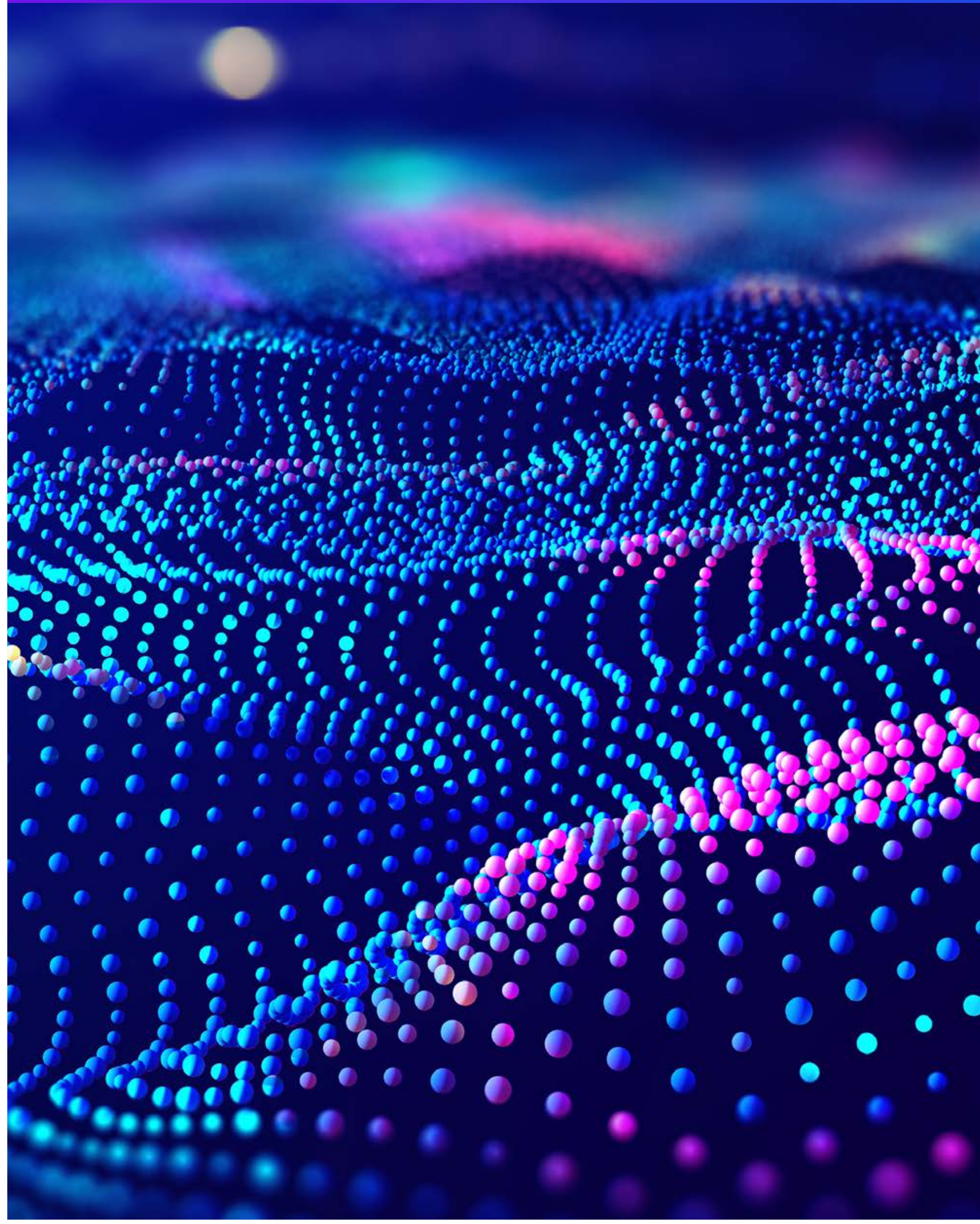
When scenarios are developed at the sector level, climate disclosures are simple to compare as they use the same scenario inputs and assumptions. The recent External Reporting Board (XRB) guidance for developing sector level scenarios provides a well-articulated reason for why this work is important for creating clear and comparable climate risk reporting between both organisations in the banking sector and across other sectors of the economy.

NZBA has stood up a project to assist the banking sector in developing climate change scenarios to align with legislative requirements.

We agree that the work on developing climate change scenarios for the banking sector is one of the key priorities. It would also be useful to consider cross-sectoral collaboration, for example, working with the insurance sector that undertook a similar exercise, as there are synergies in understanding common risks and data needs which in turn will further support 'whole of system' thinking. Landing this work well will have a ripple effect across the system and could ultimately lead to systemic solutions that bring change at pace and scale.

However, we shouldn't lose sight of the fact that each organisation will still need to revise the scenarios to reflect their individual business model and strategy, and the guidance is not yet clear on how organisations might document their transition plans and strategic shifts. There's a lot still to discover as financial institutions work through the whole process.

> **"Cross-sectoral collaboration ... could ultimately lead to systemic solutions that bring change at pace and scale.**



> Another priority for banks will be calculating their GHG emissions.

Accounting for GHG emissions

Another priority for banks will be calculating their GHG emissions or more informally referred to as 'getting to know their numbers'. For most banks, 'Scope 3 emissions' will make up a very significant part of the total carbon footprint. In particular, 'financed emissions' – or emissions associated with loans and investments (Category 15 of the Greenhouse Gas Protocol's Value Chain Standard) are likely to be significant for many banks.

Help is at hand from a global industry-led partnership, the Partnership for Carbon Accounting Financials (PCAF). This is a group of global financial institutions that work together to develop and implement a harmonised approach to assess and disclose the GHG emissions associated with loans and investments. This harmonised accounting approach (known as the Global GHG Accounting and Reporting Standard for the Financial Industry) provides financial institutions with the starting point required to set science-based targets and align their portfolio with the Paris Climate Agreement. It also enables transparency and accountability.

It's interesting to note on PCAF's website that only one bank in New Zealand, and two banks in Australia out of 307 financial institutions globally, have formally committed to measure and disclose the GHG emissions associated with their portfolio of loans and investments. It will be interesting to see if or how these numbers change over the next year or so, as the New Zealand regime becomes effective, and climate legislation is introduced in Australia.

But wait, there is more

We've highlighted two key focus areas for banks that are quite complex and will take time to implement. However, the climate-related disclosure standards include many other requirements. Some of these are quick and simple, such as establishing governance policies and procedures to ensure climate risks are part of your key decision making. Others, such as quantifying your climate risks are more difficult, a fact the XRB has recognised in it's phased implementation schedule for the new disclosure regime.

In our view, the new climate standards have real potential to drive the change that is needed in New Zealand, but not if adoption is seen as merely a compliance exercise. Based on our experience in working with early adopters of similar requirements, we know that the regime can create many benefits and opportunities if implemented properly. Fortunately, as the implementation of the new climate standards is gaining momentum, we see more and more of those 'a-ha moments'. For those that haven't yet quite made it past 'go', there's no need to wait for the standards to be finalised – the expectations are clear, and the opportunities are there for the taking. Just make a start and get going!

> In our view, the new climate standards have real potential to drive the change that is needed in New Zealand, but not if adoption is seen as merely a compliance exercise.

> Only one bank in New Zealand, and two banks in Australia out of **307** financial institutions globally, have formally committed to measure and disclose the GHG emissions.

GST on fund fees: What happened and where to from here?

Darshana Elwela
Partner –
Tax
KPMG

Darshana is a Partner in KPMG's tax team. Darshana has over 20 years' tax experience. He specialises in funds management and international taxation issues and leads KPMG's wealth management sector focus. Darshana is heavily involved in working with both tax policy and government officials on various tax policy changes, including on behalf of a range of clients.

Rachel Piper
Partner –
Tax
KPMG

Rachel is a Partner in KPMG's tax team. Rachel has over 25 years' experience advising financial institutions, including retail banks, branch banks, leasing companies and other financial services providers. Rachel has also provided specialist advice on the tax treatment of financial instruments to a number of large New Zealand corporates and has extensive knowledge on the interaction between the tax rules for financial instruments and New Zealand equivalents to International Financial Reporting Standards' treatment.

KPMG has experience working with financial services clients across a range of tax matters. If you would like to speak to us about tax, then please reach out to Darshana or Rachel.

The proposal by the Government to charge GST on fund management fees received a lot of media coverage and ultimately forced a u-turn. So what happened?

Was it a simple tax grab as some commentators suggested? Or was it an attempt to correct an anomaly in the current GST rules, which have been lauded for their broad coverage and simplicity, by levelling the playing field as the Government claimed.

Before attempting to answer this, it is worth reflecting on the current GST landscape for managed funds.

While New Zealand's GST is relatively broad based, there are some notable exceptions to (or, more accurately, exemptions from) its coverage. One such exemption is for 'financial services'.

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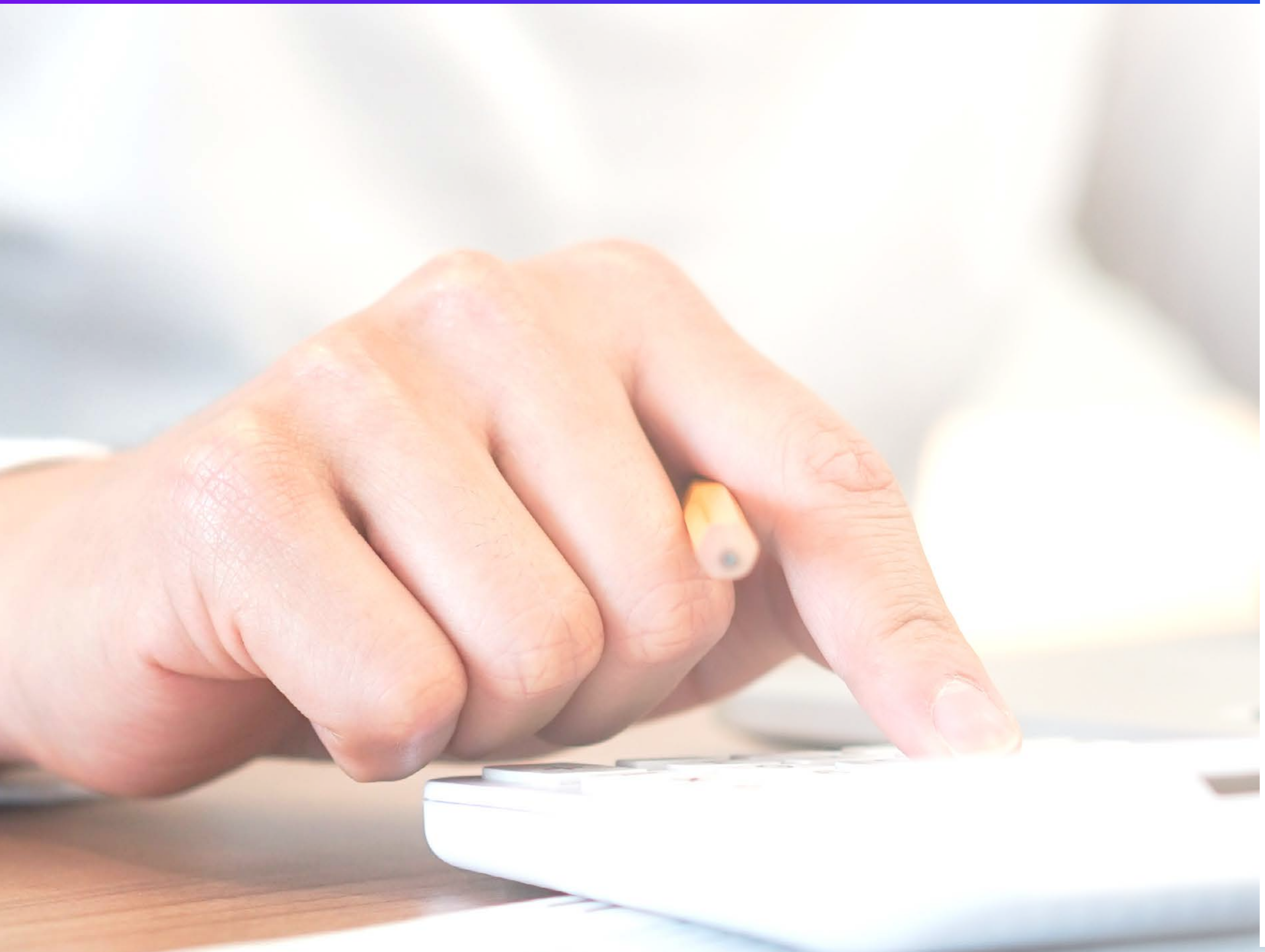
> Financial advice on investments, or certain administrative tasks, such as investor reporting, are not financial services. Therefore, these activities attract GST at the standard rate of 15%.



The Goods and Services Tax Act 1985 contains a definition of activities that are 'financial services'. That definition includes arranging the issue, purchase or sale of financial products, such shares or bonds (i.e. 'arranging investments'). However, related activities, such as financial advice on investments, or certain administrative tasks, such as investor reporting, are not financial services. Therefore, these activities attract GST at the standard rate of 15%.

The rationale for this distinction is that GST is meant to be a tax on consumption of goods and services. It should not apply to the actual investment or savings activity, but should be imposed on services, such as financial advice, that help investors decide both how and where to invest.

This line can get blurred, particularly when investing in managed funds. This is because the fees that fund managers charge to investors in funds will be for a variety of services. These fees will include:

- issuing the investments in the fund to investors and managing the investments of the fund ('fund manager services');
- providing advice to the fund on investments or outsourcing this activity ('investment manager services'); and
- reporting to investors and regulators and other costs of running the fund ('administrative services').

Depending on the underlying service being provided, GST may or may not apply to the associated fee component. However, a single fee may be charged to investors, for simplicity, meaning that the GST treatment is not obvious.

Given the potential difficulties in untangling the different components, a variety of approaches have been historically adopted by different fund managers. This includes:

- Treating 90% of the fees relating to both fund manager and investment manager services as exempt from GST. This treatment is favoured by most large fund managers and was agreed with the Inland Revenue Department (IRD) under an industry agreement in the early 2000's. (In some cases, this treatment has also been applied to administrative services, which the IRD considers to be incorrect.)
- Applying GST on all fund fees (on the basis that the fees charged are principally for investment advice). This treatment is favoured by some smaller (or 'boutique') fund managers.

To complicate things further, the management of a retirement scheme is a financial service that is fully exempt from GST. This means that

> So was this proposed change a tax grab or an attempt to make the GST rules more consistent across different funds? The answer is both.

no GST applies to management fees charged to investors in KiwiSaver schemes. (However, if the KiwiSaver scheme invests in a non-KiwiSaver fund, for example, investors may indirectly incur GST on fees charged in the non-KiwiSaver fund.)

Given the range of GST treatments that currently apply in practice, the IRD has indicated its preference for a single, consistent treatment. Getting agreement on what that should be has been the thorny issue given the different (and sometimes entrenched) industry views.

As the Regulatory Analysis accompanying the former August Tax Bill (yes, the original Tax Bill was withdrawn and introduced without the GST change in September) notes, there are a myriad of different options, with pros and cons for each:

- **Option 1:** Legislating current industry practice – i.e. a full exemption for KiwiSaver scheme management fees and a 90% exemption or full GST treatment depending on the approach adopted for other funds.
- **Option 2:** Make fund manager and investment manager services fees subject to full GST.
- **Option 3:** Make fund manager and investment manager services fees fully GST exempt.
- **Option 4:** No legislative change and enforcing the IRD's current view of the law – i.e. a full exemption for fund manager services and full GST on investment manager and administrative services[21].

The IRD's preferred approach, and the option that was included in the August Tax Bill, was to make all fund fees subject to full GST (Option 2). This was on the basis of providing a certain and consistent GST treatment and simplifying compliance.

The main disadvantage was the additional GST cost (estimated to raise $225+ million a year) and who would bear this costs – investors or fund managers? The Regulatory Analysis indicated that at least some of the additional GST cost was likely to be passed on to investors by way of higher fees. Modelling by the Financial Markets Authority, included in the analysis, suggested that KiwiSaver balances would be lower by $103 billion by 2070 (compare to $2.196 trillion of total KiwiSaver balances) and lower by $83 billion (compare to $1.757 trillion of total balances) for other funds as a result. The rest, as they say, is history.

So was this proposed change a tax grab or an attempt to make the GST rules more consistent across different funds? The answer is both.

There was no doubt that the preferred option was going to raise additional revenue when KiwiSaver scheme fees were explicitly included within the scope. It was also likely that at least some (if not most) of the additional GST cost was likely to be passed on to investors. So, the reaction from the public and media was not surprising, particularly when there was no mention of the GST change in the press release accompanying the August Tax Bill, fuelling theories of a stealth tax increase.

> The question will be how (and if) the IRD will look to apply the current GST rules and the industry and public reaction to that.

But it is also correct that applying GST to fees across the board would have resulted in greater consistency. The alternative approach to get consistency, a full exemption, was not favoured by the IRD policy officials on the grounds that it would be less sustainable over time as it could create boundary issues in determining whether a service was a management service or another type of service (depending on how the relevant services are defined). That concern too has some merit.

Whichever argument you prefer will be 'in the eye of the beholder'. What is clear, however, is that with the August Tax Bill re-introduced without the GST change for managed fund fees, we are now left in a state of limbo. It seems unlikely that this Government (or any future Government) will want to revisit this matter in a hurry. In which case, what happens now?

If, as we now expect, the status quo remains the question will be how (and if) the IRD will look to apply the current GST rules and the industry and public reaction to that. Get ready for round two.

End notes

1. https://bankdashboard.rbnz.govt.nz/summary
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5. Latest OCR rise may not hit mortgage rates | CoreLogic New Zealand
6. https://www.interest.co.nz/public-policy/117305/national-leader-rejects-reserve-bank-suggestion-review-its-performance
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9. Hawkish Reserve Bank unlikely to push fixed mortgage rates higher | NZ Herald
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11. The Front Page: OCR hike piles more pressure on first-home buyers | NZ Herald
12. Government announces further changes to the CCCFA regime (buddlefindlay.com)
13. Government unveils plans to further loosen consumer lending rules | NZ Herald
14. Not out of the woods yet on supply chain costs | BusinessDesk
15. Government to buy Kiwibank for $2.1 billion | NZ Herald
16. The Govt taking full ownership of Kiwibank is a bailout in all but name – what are the risks now? | NZ Herald
17. This data represents the top New Zealand level banking-licenced entity and is referred to using the brand in common usage, and as per the RBNZ Bank Financial Strength Dashboard. ANZ represents Australia and New Zealand Banking Group Limited – ANZ New Zealand; ASB represents Commonwealth Bank of Australia New Zealand Operations; Heartland represents Heartland Bank Limited; SBS represents Southland Building Society (trading as 'SBS Bank'); TSB represents TSB Bank Limited; Co-op represents The Co-operative Bank Limited; and Westpac represents Westpac Banking Corporation – New Zealand Banking Group.
18. The capital adequacy ratios reported are for the local bank.
19. https://www.rbnz.govt.nz/statistics/series/registered-banks/banks-assets-loans-fully-secured-by-residential-mortgage
20. https://www.westpac.co.nz/assets/Business/tools-rates-fees/documents/economic-updates/2022/Other/Economic-Overview-Aug-2022-Westpac-NZ.pdf
21. This view was issued in draft in 2017 but not finalised, pending consideration of possible legislative change.

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