Your future
is our future

Wairarapa Building Society

Consolidated financial statements 31 March 2023

DIRECTORY

For the year ended 31 March 2023

BOARD OF DIRECTORS

CHAIR
Kristy McDonald ONZM KC

DEPUTY CHAIR
Tony Beech

DIRECTORS
Adam Parker
Nick Rogers
Blair Stevens
Sarah Dalziell-Clout

MANAGEMENT

CEO
Jennie Mitchell (until January 2023)
John Healy (from January 2023)

FINANCE MANAGER
Katrina Neems

OPERATIONS MANAGER
Andrew Bond

INDEPENDENT AUDITORS

KPMG
10 Customhouse Quay, Wellington

SUPERVISOR

Trustees Executors Limited
42-52 Willis Street, Wellington

BANKERS

Bank of New Zealand
193-197 Queen Street, Masterton

Westpac Institutional Bank
157 Lambton Quay, Wellington

REGISTERED OFFICE

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DIRECTOR'S REPORT

For the year ended 31 March 2023

On behalf of the Board, I'm pleased to present the Directors Report for the year ended 31 March 2023, a year in which we have continued to pursue our value of helping our community prosper.

Celebrating 150 years as a mutual society

This year, 2023, WBS is celebrating being a mutual society for 150 years. We've been marking this milestone through several initiatives, including sharing a special 150 logo, storytelling, supporting significant and related events, and producing a video clip for public viewing. Our 150 logo stands clearly on our office window. We also plan a static display of related material inside our office.

Supporting our investors and borrowers into a new normal

Over the past year, inflation has become of increasing concern internationally. A major reason for this increase is the strong demand for goods and services as many economies 'restart' following the COVID-19 pandemic. Other factors, such as the war in Ukraine and global supply issues, have driven inflation even higher. These factors have all put pressure on the New Zealand economy., The Reserve Bank responded to this rise with a series of increases to the Official Cash Rate (OCR), from an historic low of 0.25% in early 2020 to the current rate of 5.50%.

For investors, the OCR's rate increase has been good news. In recent years they had been moving away from term deposits to chase higher returns in other markets. However, the new rates have been a welcome relief for those who rely on investment income to supplement living expenses.

Borrowers, on the other hand, are feeling the impacts of the cost of living crisis, increasing borrowing rates and falling house prices. Many homeowners are still transitioning from low fixed rates often to significantly higher rates. We expect to see the effects of the fiscal tightening through the coming year and will work hard to support borrowers through tough financial times.

Meeting increasing compliance and regulatory demands

Increasing compliance continues to be a challenge. The regulatory regime applied to non-bank deposit takers like us is under review. We've made various process and systems changes to meet Anti-Money Laundering and Credit Contracts & Consumer Finance Act requirements.

While some new regulations can be challenging, new compliance and regulatory requirements should give security holders greater confidence. For example, proposed changes to the Deposit Takers Act and the introduction of a Code of Conduct for Financial Institutions, along with a depositor insurance scheme will likely provide assurance and confidence to consumers.

Enjoying strong operational performance

This year we saw another strong financial operating result. While our return on equity (which measures financial performance) decreased to 3% in 2023 compared to 6% last year, this was due to write-downs in property values and the sale of two other properties. We continue to invest in our existing property portfolio and we're actively looking for other opportunities as they arise.

Acknowledging changes to our leadership team

We take this opportunity to note the departure of our former Chief Executive, Jennie Mitchell. Jennie was with us for three years, first as the Finance Manager and then as Chief Executive. We wish to acknowledge our appreciation of Jennie's contribution to our continuing success.

In January 2023, we welcomed the appointment of John Healy as WBS's new Chief Executive. John has enjoyed an extensive career in finance roles both in New Zealand and abroad. Most recently he held the role of Chief Financial Officer at ACC. John is settling into his new role after a seamless transition, enjoying being out and about in the community.

Farewell to former Board chair, Colin Oldfield

In July last year, our former Board Chair, Colin Oldfield, stepped down from his role after 10 years of service. We thank and acknowledge him for his leadership and significant contribution in moving WBS forward and we wish him all the best in the future.

Streamlining and celebrating community sponsorship and grants

Following a review of our grant and sponsorship processes, we received and approved an encouraging number of grant requests from our funding round in April. We're working with successful applicants to develop a 'library' of material — photos and testimonials — to share with customers, borrowers and the general public. We see this as a core part of fulfilling our purpose: helping our community prosper.

Looking ahead with confidence, despite forecast uncertainty

The year ahead will continue to be challenging, with most economists forecasting further turbulence in the domestic and global economies. However, we are confident that we have the team and systems in place to work through these challenges and deliver the best possible outcomes for our members and borrowers.

We'd like to thank the whole team at WBS for their hard work over the past year. They have us standing in a strong position to work through the next year with confidence.

Kristy McDonald

Kristy McDonald ONZM KC
Chair

30 June 2023

Independent Auditor's Report

To the Shareholders of Wairarapa Building Society

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the consolidated financial statements of Wairarapa Building Society (the 'society') and its subsidiaries (the 'group') on pages 9 to 38 present fairly, in all material respects:

i. the Group's financial position as at 31 March 2023 and its financial performance and cash flows for the year ended on that date;

in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 March 2023;
- the consolidated statements of comprehensive income and expenditure, changes in equity and cashflows for the year ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

Our firm has also provided other services to the group in relation to the Building Society Annual Return and reporting on the Society's Register. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $380,000 determined with reference to a benchmark of group net assets. We chose the benchmark because, in our view, this is a key measure of the group's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the Shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Provision for Credit Impairment	
Refer to Note 13 to the Financial Statements. The collective and specific expected credit loss ("ECL") provision is a key audit matter owing to the financial significance of loans and advances and the high level of judgement and complexity involved in estimating impairment provisions against these loans. A significant level of economic uncertainty remains in the current macro-economic environment with rising interest rates, inflationary pressures on cost of living and falling security values. The result is the judgements and complexity involved in estimating the provision remain heightened and there is continuing uncertainty in the Society's assessment of ECL. For loans that have been identified as impaired, judgement is involved primarily with estimating the timing and proceeds from the future sale of assets securing the loans. For loans not currently impaired, judgement is required as the collective impairment provision is forward-looking and involves estimating the likelihood that these loans will default in the future and the amount of loss if they do default.	Our audit procedures for the specific and collective provision for credit impairment included: **Provisions against specific individual loans (specific provision)** — Testing of lending related controls, including testing the approval of new lending facilities and monitoring of loans in arrears. — Re-performing the specific impairment provision calculations for a sample of individual loans. — Challenging the Group's assessment of loan recoverability and the impact on the provision for a sample of loans. To do this, we reviewed the information on the Group's loan file including third party valuations, discussed the case with management and performed our own assessment of recoverability. — Performing credit assessments of a sample of loans, focusing on larger exposures, areas of emerging risk and loans in arrears, to determine whether the loans have been appropriately monitored and provided for if necessary. **Provisions estimated for the loan portfolio as a whole (collective provision)** — Assessing the Society's methodology used in the Expected Credit Loss (ECL) model to calculate the collective provision against the requirements of NZ IFRS 9: Financial Instruments ("NZ IFRS 9") and industry practice. — Testing the accuracy of key inputs into the ECL model by checking a sample of balances to source systems and historic data (both internal and external data sources). — Assessing the development of economic scenarios against external economic information and the application into the ECL model. Given the current degree of disruption to the macro-economic environment, this

The key audit matter	How the matter was addressed in our audit
	included benchmarking management's estimates to a range of different market forecasts. — Testing the accuracy of the model calculations. — Assessing the Group's significant accounting policies and disclosures in the financial statements against the requirements of NZ IFRS 9.
Valuation of investment property	
Refer to Notes 14 and 15 to the Financial Statements. The value of investment property is a key audit matter owing to the financial significance of investment property and the high level of judgement and complexity involved in the valuations performed by independent valuers. Judgement is required in identifying comparable properties for performing the valuation, determining the rate at which to capitalise property rentals, and estimating the potential impacts that seismic strength assessments have on property values.	Our audit procedures included: — Assessing the appropriateness of the valuation model used, including compliance with relevant accounting standards and alignment to market practice. — Assessing the competence, objectivity and independence of the independent valuers engaged by the Society. — Challenging the assumptions in the valuations which are judgemental in nature and which have the largest impact on the value of investment property, such as: - Agreeing a sample of current property rentals to lease agreements, - Assessing the reasonableness of movements in the rental capitalisation rates in conjunction with assumptions of future market rentals, and -Assessing how seismic strength assessments and potential costs to remediate have been factored into the valuations.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the Group's Consolidated financial statements. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the Shareholders as a body. Our audit work has been undertaken so that we might state to the Shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Management for the consolidated financial statements

The Management, on behalf of the society, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate , they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

KPMG

KPMG
Wellington

30 June 2023

WBS

Consolidated financial statements 31 March 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In New Zealand dollar thousands

	Note	As at 31 March 2023	As at 31 March 2022
ASSETS			
Cash and cash equivalents	11	9,009	18,803
Loans to customers	13	147,659	124,499
Accrued interest receivable		14	155
Other receivables and accruals		244	203
Right of use asset	12	397	-
Deferred tax asset	10	39	88
Investment property	14	5,324	4,805
Property held for sale	15	-	1,575
Property, plant and equipment	16	462	1,857
Intangibles	17	217	205
Total assets		**163,441**	**152,190**
LIABILITIES			
Retail funding	18	135,096	126,538
Accrued interest payable		1,753	531
Other payables and accruals		734	519
Lease liability		402	-
Income tax payable	10	154	77
Total liabilities		**138,139**	**127,665**
Net Assets		**25,301**	**24,525**
EQUITY			
Share capital	27	300	300
Retained earnings		25,001	23,373
Revaluation reserve	27	-	852
Equity		**25,301**	**24,525**

The notes on pages 12 to 38 are an integral part of these consolidated financial statements.

For and on behalf of the Board:

Kristy McDonald ONZM KC
Chair – Board of Directors

Tony Beech
Chair – Audit and Risk Committee

30 June 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

In New Zealand dollar thousands

	Note	Year ended 31 March 2023	Year ended 31 March 2022
INTEREST INCOME			
Loans to customers		8,873	5,642
Cash and cash equivalents		117	402
Total interest income		**8,990**	**6,044**
INTEREST EXPENSE			
Retail funding		3,234	1,386
Total interest expense		**3,234**	**1,386**
Net interest income (NII)		**5,756**	**4,658**
Other operating income	7	878	900
Total operating income		**6,634**	**5,558**
Personnel expenses	8	1,745	1,394
Net credit impairment (release)/charge	13	118	(94)
Other operating expenses	9	2,296	1,938
Total operating expenses		**4,159**	**3,238**
Operating profit		**2,475**	**2,320**
Change in the fair value of investment property	14,15	(977)	(250)
Profit before tax		**1,498**	**2,070**
Income tax expense	10	724	595
Profit for the period		**774**	**1,475**
OTHER COMPREHENSIVE INCOME (OCI)			
Net change in revaluation reserve		-	16
Total comprehensive income for the period		**774**	**1,491**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In New Zealand dollar thousands

	Share capital	Retained earnings	Revaluation reserve	Total equity
Balance at 1 April 2022				
Opening equity	300	23,373	852	24,525
Profit for the period	-	774	-	774
Distributions to capital shareholders	-	-	-	-
Other comprehensive income	-	854	(852)	2
Taxation impact of revaluation	-	-	-	-
Balance at 31 March 2023	**300**	**25,001**	**-**	**25,301**
Balance at 1 April 2021				
Opening equity	300	21,898	836	23,034
Profit for the period	-	1,475	-	1,475
Distributions to capital shareholders	-	-	-	-
Other comprehensive income	-	-	16	16
Taxation impact of revaluation	-	-	-	-
Balance at 31 March 2022	**300**	**23,373**	**852**	**24,525**

The notes on pages 12 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS

In New Zealand dollar thousands

	Year ended 31 March 2023	Year ended 31 March 2022
CASHFLOWS FROM OPERATING ACTIVITIES		
Interest received	6,278	5,083
Interest paid	(2,012)	(1,640)
Net change in loans to customers	(21,356)	(15,694)
Other operating income	853	881
Payments to suppliers and employees	(2,733)	(3,200)
Net change in retail and non-retail funding	8,559	(7,541)
Income taxes paid	(598)	(455)
Net cash from operating activities	**(11,010)**	**(22,566)**
CASHFLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(365)	(88)
Acquisition of intangibles	(111)	(208)
Disposal of investment property	1,692	-
Net cash from investing activities	**1,216**	**(296)**
CASHFLOWS FROM FINANCING ACTIVITIES		
Distributions to capital shareholders	-	(20)
Net cash used in financing activities	**-**	**(20)**
Net decrease in cash and cash equivalents	**(9,794)**	**(22,882)**
Opening cash and cash equivalents	18,803	41,685
Closing cash and cash equivalents	**9,009**	**18,803**
NET CASH FROM OPERATING ACTIVITIES COMPRISES		
Profit for the year	**774**	**1,475**
Adjustments for non-cash items:		
- Depreciation and amortisation	196	176
- Capitalised interest	(2,853)	(1,139)
- Net movement in credit impairment provision	118	(94)
- Fair value change in investment property	977	250
- Loss on disposal of property, plant and equipment	48	-
- Deferred tax	(39)	95
	(779)	**763**
Changes in:		
- Accrued interest receivable	140	178
- Loans, other receivables and accruals	(20,538)	(15,718)
- Accrued interest payable	1,222	(254)
- Retail funding, other payables and accruals	8,779	(7,579)
- Income tax payable	165	44
Net cash from operating activities	**(11,010)**	**(22,566)**

The notes on pages 12 to 38 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

1. Reporting entity

These consolidated financial statements comprise the financial statements of Wairarapa Building Society (the 'Parent') and its wholly owned subsidiaries Wairarapa Property Investments Limited and Perry Street Properties Limited (together referred to as the 'Group').

The Group's primary activities are providing financial services (including savings and investment accounts; financing residential, rural and commercial property) and investment in properties. The Group is domiciled in New Zealand and operates primarily in the Wairarapa region.

The Group is an FMC Reporting Entity in terms of the Financial Markets Conduct Act 2013 and the consolidated financial statements have been prepared in accordance with the requirements of that Act, the Building Societies Act 1965 and the Financial Reporting Act 2013.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards as appropriate for Tier 1 for-profit entities.

Details of the Group's significant accounting policies are included in note 29. Where applicable, comparative information has been reclassified to ensure consistency with the current period's presentation.

3. Functional and presentation currency

These consolidated financial statements are presented in New Zealand dollars, which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4. Basis of measurement

These consolidated financial statements have been prepared on the historic cost basis except for the following items, which are measured on an alternative basis at each reporting date.

Items	Basis of measurement
Derivative financial instruments	Fair value
Property, plant and equipment – land and buildings component	Fair value
Investment property	Fair value
Property held for sale	Fair value

5. Use of judgements and estimates

In preparing these consolidated financial statements, directors and management have made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about judgements, estimates and assumptions that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 13 – Impairment of loans to customers.
- Note 14 – Fair value of investment property.
- Note 15 – Fair value of property held for sale.
- Note 16 – Fair value of land and buildings included within property, plant and equipment.

In New Zealand dollar thousands

6. Operating segments

	Financial services	Properties	Total
Year ended 31 March 2023			
External total operating income	9,142	726	9,868
External costs	(7,052)	(341)	(7,393)
Change in the fair value of investment property	-	(977)	(977)
Segment profit before tax	**2,090**	**(592)**	**1,498**
31 March 2023			
Segment assets	157,731	5,710	163,441
Segment liabilities	(137,977)	(162)	(138,139)
Segment net assets	**19,754**	**5,548**	**25,301**
Year ended 31 March 2022			
External total operating income	4,827	731	5,558
External costs	(2,592)	(646)	(3,238)
Change in the fair value of investment property	-	(250)	(250)
Segment profit before tax	**2,235**	**(165)**	**2,070**
31 March 2022			
Segment assets	143,833	8,357	152,190
Segment liabilities	(127,557)	(108)	(127,665)
Segment net assets	**16,276**	**8,249**	**24,525**

7. Other operating income

	Year ended 31 March 2023	Year ended 31 March 2022
Lending and facility fees	152	170
Investment property rental income	726	730
Total other operating income	**878**	**900**

8. Personnel expenses

	Year ended 31 March 2023	Year ended 31 March 2022
Directors' fees and expenses	157	158
Short-term employee benefits		
- Key management personnel	773	565
- Other	752	595
Other personnel-related expenses	62	76
Total personnel expenses	**1,745**	**1,394**

In New Zealand dollar thousands

9. Other operating expenses

	Year ended 31 March 2023	Year ended 31 March 2022
Fees to auditor	149	129
Other audit related fees	6	6
Office & technology costs	566	623
Depreciation and amortisation	238	176
Fee expenses	56	187
Investment property costs	341	200
Marketing and sponsorships	334	135
Compliance & facility fees	391	352
Other	215	130
Total other operating expenses	**2,296**	**1,938**

Included within fees to auditor are fees for review of the interim financial statements and for assurance engagements on the WBS annual return and the WBS Register.

10. Income taxes

A. AMOUNTS RECOGNISED IN PROFIT OR LOSS

	Year ended 31 March 2023	Year ended 31 March 2022
Income tax	676	497
Deferred tax	48	98
Total income tax expense	**724**	**595**

B. RECONCILIATION OF EFFECTIVE TAX RATE

	Year ended 31 March 2023	Year ended 31 March 2022
Profit before tax	**1,499**	**2,070**
Prima facie income tax at 28%	420	580
Change in tax legislation	-	-
Adjustment for items not subject to tax	304	15
Total current tax expense	**724**	**595**
Effective tax rate	49%	29%

In March 2020 the New Zealand Government reintroduced a tax deduction for depreciation on commercial and industrial buildings (including hotels and motels) in response to the economic impacts of COVID-19. From the 2020-21 income year, an entity may apply a 1.5% straight line or 2% diminishing value depreciation as a tax deduction for commercial and industrial buildings.

In New Zealand dollar thousands

10. Income taxes (continued)

C. DEFERRED TAX (ASSET)/LIABILITY

	31 March 2023	31 March 2022
Opening balance of deferred tax asset	(88)	(182)
Adjustment for change in tax legislation	-	-
Origination and reversal of temporary differences – to profit or loss	48	98
Origination and reversal of temporary differences – to other comprehensive income	-	(4)
Closing balance of deferred tax (asset)/liability	**(39)**	**(88)**
Deferred tax (asset)/liability attributable to:		
Tax effect of losses carried forward	-	-
Property, plant and equipment	65	84
Investment property	58	4
Provision for credit impairment	(168)	(135)
Other items	6	(41)
Deferred tax (asset)/liability	**(39)**	**(88)**

D. INCOME TAX PAYABLE

	31 March 2023	31 March 2022
Opening balance of income tax payable	77	34
Current income tax expense	676	497
Prior period income tax adjustments	0	26
Income taxes paid	(598)	(480)
Closing balance of income tax payable	**154**	**77**

E. IMPUTATION CREDIT ACCOUNT

	31 March 2023	31 March 2022
Opening balance of imputation credit account	9,519	9,039
Income tax paid during the year	598	480
Prior year adjustment	-	-
Closing balance of imputation credit account	**10,117**	**9,519**

11. Cash and cash equivalents

	31 March 2023	31 March 2022
Cash on-call with NZ registered banks	6,009	1,803
Cash on deposit with NZ registered banks	3,000	17,000
Total cash and cash equivalents	**9,009**	**18,803**

In New Zealand dollar thousands

12. Leases – Lessee

On 1 June 2022 we entered into a lease for office premises at 125 Queen Street, Masterton. The Group recognised a right of use asset and a lease liability at the lease commencement date.

The right of use asset is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. In addition, the right of use asset is periodically adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability include optional renewal periods.

13. Loans to customers

	31 March 2023	31 March 2022
Stage 1 loans	147,054	124,403
Stage 2 loans	1,187	321
Stage 3 loans	189	356
Gross loans to customers	**148,430**	**125,080**
Deferred fee income	(97)	(101)
Provision for credit impairment		
- Collective impairment allowance	(378)	(370)
- Individual impairment allowance	(220)	(110)
Total loans to customers	**147,735**	**124,499**

A. CREDIT QUALITY ANALYSIS

	31 March 2023	31 March 2022
Stage 1 loans		
Performing loans	143,112	121,032
Loans 0 to 30 days past due but not individually impaired	2,746	3,371
	145,858	**124,403**
Stage 2 loans		
Loans 31 to 90 days past due but not individually impaired	831	321
Loans with renegotiated terms in the ordinary course of business	-	-
	831	**321**
Stage 3 loans		
Loans more than 91 days past due but not individually impaired	173	167
Individually impaired loans	1,569	189
	1,742	**356**
Total gross loans to customers	**148,430**	**125,080**

The assessment of credit quality relating to loans made to customers is based on the criteria below.

Loans past due
Loans where the customer has failed to make a payment when contractually due, but which are not considered to be individually impaired.

Loans with renegotiated terms in the ordinary course of business
Loans where contractual terms have been restructured due to the customer having difficulties in complying with the original terms, but which are not otherwise considered to be impaired. Loans that are subject to contractual changes, including loan extensions, are considered to be fully performing loans. These loans come up in the ordinary course of business and are executed on normal commercial terms.

Individually impaired loans
Loans are considered to be individually impaired if there is objective evidence of impairment as a result of one or more loss events that have occurred after the initial recognition of the loan. Loss events related to these loans have a reliably measurable impact on the estimated future cashflows of the individual loan.

13. Loans to customers (continued)

B. PROVISION FOR CREDIT IMPAIRMENT

At each reporting date the Group assesses whether financial assets, including loans to customers, carried at amortised cost are impaired.

Impairment is assessed using an Expected Credit Loss (ECL) model where ECL represents the Group's assessment of the present value of the cashflow shortfall expected following a counterparty's default in relation to financial assets held by the Group. A cashflow shortfall is the difference between the cashflows that are due in accordance with the contractual terms of the asset and the actual cashflows that the Group expects to receive.

ECLs are based on the Group's assessment of the Probability of Default (PD), exposure at default and the Loss Given Default (LGD). The ECL is then discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased taking into account all reasonable and supporting information, including forward-looking economic assumptions and outcomes that the Group considers are likely to affect ECLs.

For the purposes of calculating ECL the Group uses a probability-weighted model based on four scenarios which are collectively considered to be a reasonable approximation of forward-looking potential loss outcomes.

<table>
<tr><th>ECL scenario</th><th>Significant unobservable inputs</th><th>Inter-relationship between inputs and fair value</th></tr>
<tr><td>Base</td><td>• PD rates based on the historic performance of the Group's loan book.
• LGD rates based on the estimated credit losses incurred by the Group.
• Domestic unemployment rate at or around 4%.
• Real estate prices at or around current levels.</td><td rowspan="4">ECLs could be expected to increase/(decrease) if:
• PD rates were higher/(lower).
• LGD rates were higher/(lower).
• Unemployment rates were higher/(lower).
• Average real estate prices were lower/(higher).</td></tr>
<tr><td>Downside</td><td>Industry default rates based on downside scenario of:
• Domestic unemployment rate at or around 7%.
• A decline of up to 10% in average real estate prices from current levels.</td></tr>
<tr><td>Market stress</td><td>Industry default rates based on stress scenario of:
• Domestic unemployment rate at or around 10%.
• A decline of up to 25% in average real estate prices from current levels.</td></tr>
<tr><td>Severe stress</td><td>Industry default rates based on severe scenario of:
• Domestic unemployment rate at or around 9%.
• A decline of up to 42% in average real estate prices from current levels.</td></tr>
</table>

In New Zealand dollar thousands

13. Loans to customers (continued)

B. PROVISION FOR CREDIT IMPAIRMENT (CONTINUED)

Weightings applied to each scenario are summarised below.

	31 March 2023	31 March 2022
Base scenario	10%	5%
Downside scenario	60%	50%
Market stress scenario	20%	30%
Severe stress scenario	10%	15%
	100%	**100%**

The change in weightings attributed to the scenarios reflects the Group's assessment of an increased risk to economic conditions. There has been no fundamental change in the Group's credit underwriting standards or a significant deterioration in the quality and extent of security available to the Group.

The ECL model under NZ IFRS-9 responds to economic conditions, recognising that factors may be outside the direct control or influence of the Group. If economic conditions are expected to worsen or observed rates of credit default increase, the amount of ECL and associated provision for credit impairment would be expected to increase.

The following table summarises the sensitivity of the Group's current year provision for credit impairment to the choice of scenario weighting applied as at balance date.

	31 March 2023	31 March 2022
Provision for credit impairment as reported	**598**	**480**
Provision for credit impairment assuming:		
- 100% weighting for Base scenario	38	127
- 100% weighting for Downside scenario	371	290
- 100% weighting for Market Stress scenario	830	456
- 100% weighting for Severe Stress scenario	1,665	975

The table over the page provides further information about the reconciliation of movements in the provision for credit impairment during the period.

In New Zealand dollar thousands

13. Loans to customers (continued)

B. PROVISION FOR CREDIT IMPAIRMENT (CONTINUED)

	Collective impairment allowance					
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Sub-total**	**Individual impairment allowance**	**Total**
Year ended 31 March 2023						
Opening balance	346	4	20	370	110	480
Net impairment allowances charged to P&L	-	-	-	-	84	84
Utilisation of impairment allowance	-	-	-	-	-	-
New allowance/(reversal of previously recognised allowance)	6	(1)	2	7	27	34
Closing balance	**352**	**3**	**22**	**378**	**220**	**598**
Gross carrying value of loans						
Opening balance	124,403	321	167	124,892	189	125,080
Net movement in loans	21,454	510	6	21,970	1,380	23,350
Closing balance	**145,858**	**831**	**173**	**146,861**	**1,569**	**148,430**
Year ended 31 March 2022						
Opening balance	344	10	34	388	186	574
Net impairment allowances charged to P&L	2	-	-	2	-	2
Utilisation of impairment allowance	-	-	-	-	-	-
Reversal of previously recognised allowance	-	(6)	(14)	(20)	(76)	(96)
Closing balance	**346**	**4**	**20**	**370**	**110**	**480**
Gross carrying value of loans						
Opening balance	106,493	856	617	107,967	186	108,153
Net movement in loans	17,910	(535)	(450)	16,925	3	16,928
Closing balance	**124,403**	**321**	**167**	**124,891**	**189**	**125,080**

C. THE IMPACTS OF ECONOMIC EVENTS ON PROVISION FOR CREDIT IMPAIRMENT

While the impacts of COVID-19 are moderating other economic events such as interest rate rises and inflation are ongoing as at the reporting date. A considerable degree of uncertainty exists about the potential future impacts on the Group's financial assets. To the extent that these impacts are known, or can be reliably estimated, they are reflected in the ECL model. However, where these impacts are not yet identifiable, the Group has specifically considered the potential borrower impacts and sought to reflect this by way of varying scenario weightings to the ECL model in order to try and reflect the inherent uncertainty over future outcomes.

Over time we expect that actual ECL outcomes will be better than the currently modelled ECL outcomes. However this will depend on a number of variables and events which are currently outside the direct control or influence of the Group.

In New Zealand dollar thousands

13. Loans to customers (continued)

D. PROVISION FOR CREDIT IMPAIRMENT - COLLECTIVE IMPAIRMENT ALLOWANCE

Loans that are not considered to be individually credit impaired are assessed for credit impairment on a collective basis. A collective impairment allowance is recognised against these loans.

	31 March 2023	31 March 2022
Opening collective impairment allowance	(370)	(389)
Increase in allowance during the year:		
- Due to new ECL scenario and change in weightings	(8)	19
- Other	-	-
Closing collective impairment allowance	**(378)**	**(370)**

E. PROVISION FOR CREDIT IMPAIRMENT - INDIVIDUAL IMPAIRMENT ALLOWANCE

On a regular basis, and at each reporting date, the Group assesses whether there is objective evidence that individual loans made to customers are considered to be impaired. Where appropriate, a specific allowance is raised against individually impaired loans.

	Gross individually impaired loans	Individual impairment allowance	Carrying value of individually impaired loans
Year ended 31 March 2023			
Opening balance	189	(110)	79
Bad debts written off	-	-	-
Individually impaired loans repaid	(170)	84	(86)
Net movement in individually impaired loans	1,550	(194)	1,356
Closing balance	**1,569**	**(220)**	**1,348**
Year ended 31 March 2022			
Opening balance	186	(186)	-
Bad debts written off	-	-	-
Individually impaired loans repaid	(35)	(35)	-
Net movement in individually impaired loans	38	41	79
Closing balance	**189**	**(110)**	**79**

F. UNDRAWN LOAN COMMITMENTS

	31 March 2023	31 March 2022
Loan facilities not fully drawn	18,977	18,692
Undrawn loan approvals	18,174	18,455
Total undrawn loan commitments	**37,151**	**37,147**

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

In New Zealand dollar thousands

14. Investment properties

Investment properties comprise commercial land and buildings leased to third parties which are held to earn rental income or for capital appreciation. Investment properties are measured initially at cost and subsequently at fair value. Any change in the fair value is recognised in profit or loss.

Year ended 31 March 2023	
Opening fair value of investment properties	**4,805**
Reclassified from held for sale	**1,575**
Additions (subsequent expenditure)	**29**
Moved to property held for sale	**(600)**
Disposals	**-**
Capital gain on sale	**-**
Change in fair value taken to profit or loss	**(470)**
Closing fair value of investment properties	**5,339**
Rating valuation	**6,390**
Date of last rating valuation	Sep-20
Year ended 31 March 2022	
Opening fair value of investment properties	6,630
Additions (subsequent expenditure)	-
Moved to property held for sale	(1,575)
Disposals	-
Capital gain on sale	-
Change in fair value taken to profit or loss	(250)
Closing fair value of investment properties	**4,805**

Fair values are reviewed annually (as at 31 March) with reference to the then market value as assessed by external valuers. The properties are valued by a professional with the appropriate qualifications and experience in the location and category of the property being valued.

The most recent independent market valuations were conducted in March 2023 by TelferYoung who are registered and ANZIV certified valuers (2022: TelferYoung). In carrying out their valuations, the valuers have taken into account seismic investigation and remediation design work undertaken on behalf of the Group. This includes the estimated cost of remediation required to achieve an acceptable seismic rating.

In New Zealand dollar thousands

14. Investment properties (continued)

A. MEASUREMENT OF FAIR VALUES

We have categorised the fair value measurement for all investment properties as a Level 3 fair value based on the inputs to the valuation techniques used. The following table shows the valuation techniques used in measuring the fair value of investment properties, as well as details of the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between inputs and fair value
Direct capitalisation approach - involves capitalising actual income or potential market income at an appropriate rate of return	• Existing rental rates used with no assumption of material uplift in potential market rental rates or rental growth. • Market capitalisation rates of between 6.0% and 7.5% used for existing tenancies.	The estimated fair values would increase/(decrease) if: • Future market rental growth rates were higher/(lower). • Market capitalisation rates were lower/(higher).
Net rate approach - ascribes land value at saleable worth and adds value for building and improvements based on sale comparisons	• Market data comparatives based on commercial zoned land sales over the 2021-2023 period.	The estimated fair values would increase/(decrease) if: • Future sales prices were higher/(lower).

	Carrying value	-1% impact on profit and equity	+1% impact on profit and equity
31 March 2023			
Investment properties	5,339	1,472	(1,107)
Tax effected (at 28%)		(412)	310
Net impact on profit/(loss) for the period and equity		**1,060**	**(797)**
31 March 2022			
Investment properties	4,805	1,246	(939)
Tax effected (at 28%)		(349)	263
Net impact on profit/(loss) for the period and equity		**897**	**(676)**

B. INVESTMENT PROPERTIES—LEASES AS LESSOR

Future minimum lease payments receivable by the Group under non-cancellable leases on investment properties are as follows:

	31 March 2023	31 March 2022
Less than 1 year	516	520
Between 1 and 5 years	879	782
More than 5 years	-	-
Total amounts due under non-cancellable leases	**1,395**	**1,302**

In New Zealand dollar thousands

15. Property held for sale

	Total
Year ended 31 March 2023	
Opening fair value of property held for sale	**1,575**
Property reclassified as held for sale	
- from investment properties	**600**
- from property, plant and equipment	**1,645**
Moved to investment properties	**(1,575)**
Additions (additional expenditure)	**50**
Loss on sale	**(32)**
Disposals	**(1,775)**
Change in fair value taken to profit and loss	**(488)**
Closing fair value of property held for sale	**-**
Year ended 31 March 2022	
Opening fair value of property held for sale	**-**
Property reclassified as held for sale	
from investment properties	**1,575**
Closing fair value of property held for sale	**1,575**

16. Property, plant and equipment

	Land & buildings	Other	Total
Year ended 31 March 2023			
Opening net book value	1,645	212	**1,857**
Additions (subsequent expenditure)	-	369	**369**
Disposals	-	(21)	**(21)**
Depreciation	-	(98)	**(98)**
Moved to assets held for sale	(1,645)	-	**(1,645)**
Closing net book value	**-**	**462**	**462**
Year ended 31 March 2022			
Opening net book value	1,645	112	**1,757**
Additions (subsequent expenditure)	-	149	**149**
Disposals	-	(7)	**(7)**
Depreciation	-	(42)	**(42)**
Closing net book value	**1,645**	**212**	**1,857**

The following table summarises the sensitivity of the Group's property, plant and equipment based on a 1 percent movement in market capitalisation rates.

	Carrying value	-1% impact on profit and equity	+1% impact on profit and equity
31 March 2023			
Property, plant and equipment	-	-	-
Tax effected (at 28%)		-	-
Net impact on profit/(loss) for the period and equity		**-**	**-**
31 March 2022			
Property, plant and equipment	1,645	365	(284)
Tax effected (at 28%)		(102)	80
Net impact on profit/(loss) for the period and equity		**263**	**(204)**

In New Zealand dollar thousands

17. Intangibles

	Software	Other	Total
Year ended 31 March 2023			
Opening net book value	205	-	**205**
Additions (subsequent expenditure)	111	-	**111**
Disposals	-	-	**-**
Amortisation	(99)	-	**(99)**
Closing net book value	**217**	**-**	**217**
Year ended 31 March 2022			
Opening net book value	199	-	**199**
Additions (subsequent expenditure)	100	-	**100**
Disposals	(2)	-	**(2)**
Amortisation	(92)	-	**(92)**
Closing net book value	**205**	**-**	**205**

18. Retail funding

	31 March 2023	31 March 2022
Call deposits	5,991	5,771
Term deposits	100	3,868
Deposits	**6,091**	**9,639**
Call redeemable shares	13,045	20,788
Term redeemable shares	115,960	96,111
Redeemable shares	**129,005**	**116,899**
Total retail funding	**135,096**	**126,538**

All deposits and redeemable shares issued by the Group are unsecured debt securities. Deposits rank ahead of redeemable shares which in turn rank ahead of the Group's capital shares.

A. RETAIL FUNDING GEOGRAPHIC CONCENTRATIONS

	31 March 2023	31 March 2022
Retail funding from:		
- customers living in the Wairarapa region	124,362	115,542
- customers living outside the Wairarapa region	10,734	10,996
Total retail funding	**135,096**	**126,538**

19. Non-retail funding

	31 March 2023	31 March 2022
Committed bank funding facilities	24,000	24,000
Undrawn bank funding facilities	(24,000)	(24,000)
Total drawn non-retail funding	**-**	**-**

19. Non-retail funding (continued)

The Group has committed funding facilities in place with Westpac New Zealand Limited and the Bank of New Zealand Limited. The Group has complied with all applicable financial covenants associated with these facilities. The Group has access to these bank funding facilities through to April 2024.

Bank funding facilities are unsecured but any funds drawn down under these facilities rank equally in priority with the Group's other deposits.

20. Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain development of the Group's business. The capital base includes capital shares, reserves and retained earnings.

The Group is subject to externally imposed minimum capital requirements via its Trust Deed and the regulatory requirements of the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. As at reporting date the Group complied with the capital ratio required by the Trust Deed.

Capital is allocated to business segments and for the Group's operations and activities. This allocation focuses on maintaining a balance between preserving the adequacy of the Group's capital and optimising the return on capital employed.

21. Financial risk management

The Audit and Risk Committee is responsible for ensuring that appropriate internal processes and procedures and risk management are in place and operating effectively. This includes reviewing and monitoring policies and processes adopted to ensure compliance with key financial, legislative and other risks.

In its normal course of activities, the Group is exposed to the following risks arising from financial instruments:

- Credit risk,
- Interest rate risk,
- Liquidity risk.

22. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk comes about principally from loans that the Group makes to its customers. For risk management reporting purposes, the Group considers all elements of credit exposure (such as individual customer default risk, sector risk and available security). The carrying value of financial assets represents the maximum credit exposure.

Credit risk is controlled through risk assessment, conservative lending policy, the credit approval process and holding sufficient and appropriate collateral.

Risk assessment is based on the degree of financial loss faced. An authorisation structure for approving and renewing credit facilities is in place and consistently applied, whereby authorisation limits are allocated to senior management with larger facilities requiring approval from the Board.

The Group's conservative lending policy further assists in managing and mitigating credit risk by ensuring that any credit risk assumed by the Group falls within acceptable parameters.

Collateral held includes registered mortgages and personal property charges. Group policy stipulates minimum levels of collateral required to be held in accordance with the assessed level of credit risk associated with each facility.

In New Zealand dollar thousands

22. Credit risk (continued)

A. CONCENTRATIONS OF CREDIT RISK BY SECTOR

	31 March 2023	31 March 2022
Residential housing loans	92,261	84,131
Commercial and other loans	51,653	36,537
Farming loans	4,516	4,412
Cash on hand	-	-
Cash and deposits lodged with registered banks	9,009	18,803
Other	258	358
Total financial assets	**157,697**	**144,241**

B. CONCENTRATIONS OF CREDIT RISK BY GEOGRAPHY

	31 March 2023	31 March 2022
Credit risk exposures:		
- Within the Wairarapa region	134,156	105,669
- Outside the Wairarapa region	23,541	38,572
Total financial assets	**157,697**	**144,241**

C. CONCENTRATIONS OF CREDIT RISK BY COUNTERPARTY

The table below shows the number of counterparties the Group has credit exposure to and is stratified based on the quantum of credit exposure expressed as a percentage of the Group's equity.

Number of counterparties	31 March 2023	31 March 2022
Between:		
- 10% and 20% of Group equity	4	7
- 20% and 30% of Group equity	2	-
- 30% and 40% of Group equity	-	-
- 40% and 50% of Group equity	-	1
- 50% and 60% of Group equity	-	-
- 60% and 70% of Group equity	1	-
- 70% and 80% of Group equity	-	-
- 80% and 90% of Group equity	-	-
- 90% and 100% of Group equity	-	-
Greater than 100% of Group equity	-	-
Total number of counterparties	**7**	**8**

The principal concentrations of credit risk relate to cash lodged with the Bank of New Zealand, and Heartland Bank Limited (2022: Bank of New Zealand Limited, Westpac New Zealand Limited and Heartland Bank Limited). Other credit exposures relate to loans made to an individual counterparty or group of closely related counterparties.

In New Zealand dollar thousands

23. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is inherent in any lending portfolio, and is managed where possible by the Group matching the interest rate maturity profile of its financial assets and liabilities.

The majority of the Group's loans to its customers undergo an interest rate review within one year. As at the reporting date the Group had no interest rate swaps (31 March 2022: $Nil).

A. EXPOSURE TO INTEREST RATE RISK

The following is a summary of the Group's interest rate gap position based on the earlier of contractual maturity or the next interest rate re-pricing date.

	Within 6 months	6-12 months	1-2 years	2-5 years	Non-int. bearing	Total
31 March 2023						
Cash and cash equivalents	8,895	-	-	-	114	**9,009**
Loans to customers	99,548	24,647	23,901	237	(598)	**147,659**
Accrued interest receivable	-	-	-	-	14	**14**
Other receivables and accruals	-	-	-	-	244	**244**
Total financial assets	108,443	24,647	23,901	237	(226)	**156,926**
Retail funding						
- On-call funding	19,036	-	-	-	-	**19,036**
- Term funding	72,534	39,643	2,921	952	-	**116,050**
Non-retail funding	-	-	-	-	-	**-**
Accrued interest payable	-	-	-	-	1,753	**1,753**
Other payables and accruals	-	-	-	-	734	**734**
Derivative financial instruments	-	-	-	-	-	**-**
Total financial liabilities	91,570	39,643	2,921	952	2,487	**137,573**
Effect of derivatives held for interest rate risk management	-	-	-	-	-	**-**
Net interest rate gap	**16,872**	**(14,996)**	**20,980**	**(715)**	**(2,713)**	**19,428**
31 March 2022						
Cash and cash equivalents	15,550	3,000	-	-	253	**18,803**
Loans to customers	91,685	13,829	19,465	-	(480)	**124,499**
Accrued interest receivable	-	-	-	-	155	**155**
Other receivables and accruals	-	-	-	-	291	**291**
Total financial assets	107,235	16,829	19,465	-	217	**143,748**
Retail funding						
- On-call funding	26,559	-	-	-	-	**26,559**
- Term funding	64,331	32,076	3,522	50	-	**99,979**
Non-retail funding	-	-	-	-	-	**-**
Accrued interest payable	-	-	-	-	531	**531**
Other payables and accruals	-	-	-	-	597	**597**
Derivative financial instruments	-	-	-	-	-	**-**
Total financial liabilities	90,890	32,076	3,522	50	1,128	**127,666**
Effect of derivatives held for interest rate risk management	-	-	-	-	-	**-**
Net interest rate gap	**16,345**	**(15,247)**	**15,943**	**(50)**	**(909)**	**16,082**

In New Zealand dollar thousands

23. Interest rate risk (continued)

B. INTEREST SENSITIVITY ANALYSIS

The Group actively manages interest rate risk to reduce the impact of short-term fluctuations on Group earnings. However, over the longer term, structural or permanent changes in interest rates may have an impact on earnings and equity.

The following table summarises the sensitivity of the Group's financial assets and liabilities. It also summarises the impact on profit and equity of a change in interest rates for the following 12 months based on a 1% movement in interest rates.

	Carrying value	-1% impact on profit and equity	+1% impact on profit and equity
31 March 2023			
Cash and cash equivalents	9,009	(28)	28
Loans to customers			
- Floating rate loans	79,657	(981)	981
- Fixed rate loans	69,554	-	-
Total interest sensitive financial assets	158,210	(1,009)	1,009
Retail funding			
- On-call funding	19,036	260	(260)
- Term funding	116,050	629	(629)
Non-retail funding	-	-	-
Derivative financial instruments	-	-	-
Total interest sensitive financial liabilities	135,086	890	(890)
Impact on profit/(loss) before tax		(119)	119
Tax effected (at 28%)		33	(33)
Net impact on profit/(loss) for the period and equity		**(86)**	**86**
31 March 2022			
Cash and cash equivalents	18,803	(128)	128
Loans to customers			
- Floating rate loans	83,240	(912)	912
- Fixed rate loans	41,840	-	-
Total interest sensitive financial assets	143,883	(1,040)	1,040
Retail funding			
- On-call funding	26,559	328	(328)
- Term funding	99,979	562	(562)
Non-retail funding	-	-	-
Derivative financial instruments	-	-	-
Total interest sensitive financial liabilities	126,538	890	(890)
Impact on profit/(loss) before tax		(150)	150
Tax effected (at 28%)		42	(42)
Net impact on profit/(loss) for the period and equity		**(108)**	**108**

The sensitivity analysis above assumes that:

- Interest rate changes are applied in accordance with the contractual interest rate repricing profile.
- The 1% movement in interest rates is applied at the beginning of the 12-month period and is otherwise held constant over that period.
- Term funding is reinvested in full at maturity for a term broadly equivalent to its original maturity.
- The value and mix of loans to customers remains essentially unchanged except that fixed rate loans which mature during the period are converted to floating rate loans.

In New Zealand dollar thousands

24. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity risk is to ensure, as far as possible, that it has sufficient access to liquidity to enable it to meet its financial liabilities as and when they fall due. This includes, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group maintains a portfolio of short-term liquid assets and access to committed funding facilities. This is done to ensure that sufficient liquidity is maintained across the Group as a whole.

The Group's liquidity position is monitored on a daily basis.

A. AVAILABLE SOURCES OF LIQUIDITY

	31 March 2023	31 March 2022
Cash on-call with NZ registered banks	6,009	1,803
Cash on deposit with NZ registered banks	3,000	17,000
Undrawn bank funding facilities	24,000	24,000
Total available liquid assets	**33,009**	**42,803**

B. CONTRACTUAL MATURITY ANALYSIS

The table below sets out the Group's expected liquidity profile based on contractual cashflows as at the reporting date. Values as presented are undiscounted cashflows, which include interest receipts and payments and may therefore not agree to the carrying value.

	Carrying value	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
31 March 2023							
Cash and cash equivalents	**9,009**	9,009	-	-	-	-	**9,009**
Loans to customers	**147,659**	34,016	16,091	20,463	27,068	136,728	**234,367**
Accrued interest receivable	**14**	14	-	-	-	-	**14**
Other receivables and accruals	**659**	659	-	-	-	-	**659**
Total financial assets	**157,341**	43,698	16,091	20,463	27,068	136,728	**244,049**
Retail funding							
- On-call funding	**19,036**	1,944	1,787	3,152	6,813	10,344	**24,040**
- Term funding	**116,060**	75,618	41,318	3,045	1,003	-	**120,994**
Non-retail funding	**-**	-	-	-	-	-	**-**
Accrued interest payable	**1,753**	1,753	-	-	-	-	**1,753**
Other payables and accruals	**1,244**	1,244	-	-	-	-	**1,244**
Derivative financial instruments	**-**	-	-	-	-	-	**-**
Total financial liabilities	**138,093**	80,559	43,115	6,197	7,815	10,344	**148,030**
Unrecognised loan commitments		37,152	-	-	-	-	**37,152**
Net contractual liquidity gap		**(74,012)**	**(27,024)**	**14,266**	**19,253**	**126,384**	**58,867**

In New Zealand dollar thousands

24. Liquidity risk (continued)

B. CONTRACTUAL MATURITY ANALYSIS (CONTINUED)

	Carrying value	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
31 March 2022							
Cash and cash equivalents	**18,803**	15,803	3,000	-	-	-	**18,803**
Loans to customers	**124,499**	16,613	23,552	20,679	16,512	105,149	**182,504**
Accrued interest receivable	**155**	155	-	-	-	-	**155**
Other receivables and accruals	**291**	291	-	-	-	-	**291**
Total financial assets	**143,748**	32,861	26,552	20,679	16,512	105,149	**201,753**
Retail funding							
- On-call funding	**26,559**	2,676	2,426	4,194	8,611	10,761	**28,668**
- Term funding	**99,979**	65,284	32,528	3,597	51	-	**101,460**
Non-retail funding	**-**	-	-	-	-	-	**-**
Accrued interest payable	**531**	531	-	-	-	-	**531**
Other payables and accruals	**596**	596	-	-	-	-	**596**
Derivative financial instruments	**-**	-	-	-	-	-	**-**
Total financial liabilities	**127,665**	69,087	34,954	7,791	8,662	10,761	**131,255**
Unrecognised loan commitments		37,147	-	-	-	-	**37,147**
Net contractual liquidity gap		**(73,473)**	**(8,402)**	**12,888**	**7,850**	**94,387**	**33,351**

C. EXPECTED MATURITY ANALYSIS

The Group's expected cashflows for some financial assets and financial liabilities may vary significantly from the actual or contractual cashflows. The principal differences are as follows:

- **Retail funding** – the Group has a historic rate of reinvestment in excess of 90% for its retail funding. It is considered likely that this level of reinvestment will be maintained, thereby materially deferring the contractual cash outflows associated with this funding source.
- **Loans to customers** – retail mortgage loans have original contractual maturities of up to 30 years. However, based on historic trends it is expected that a proportion of customers will repay some, or all, of their loans early depending on their personal circumstances.
- **Unrecognised loan commitments** – these commitments are not all expected to be fully drawn down and/or drawn at the same time. For the purpose of internal liquidity management, the Group assumes no more than 20% of outstanding loan commitments will be advanced in a 3 month period.

In New Zealand dollar thousands

24. Liquidity risk (continued)

C. EXPECTED MATURITY ANALYSIS (CONTINUED)

	Carrying value	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
31 March 2023							
Cash and cash equivalents	**9,009**	9,009	-	-	-	-	**9,009**
Loans to customers	**147,659**	26,187	24,309	37,267	80,001	-	**167,763**
Accrued interest receivable	**14**	14	-	-	-	-	**14**
Other receivables and accruals	**659**	659	-	-	-	-	**659**
Total financial assets	**157,341**	35,869	24,309	37,267	80,001	-	**177,445**
Retail funding							
- On-call funding	**19,036**	1,944	1,787	3,152	6,813	10,344	**24,040**
- Term funding	**116,060**	11,853	10,894	19,217	41,535	63,067	**120,994**
Non-retail funding	**-**	-	-	-	-	-	**-**
Accrued interest payable	**1,753**	1,753	-	-	-	-	**1,753**
Other payables and accruals	**1,244**	1,244	-	-	-	-	**1,244**
Derivative financial instruments	**-**	-	-	-	-	-	**-**
Total financial liabilities	**138,093**	16,794	12,681	22,368	48,348	73,411	**173,602**
Unrecognised loan commitments		37,152	-	-	-	-	**37,152**
Net expected liquidity gap		**(18,076)**	**11,628**	**14,898**	**31,653**	**(73,411)**	**(33,308)**
31 March 2022							
Cash and cash equivalents	**18,803**	15,803	3,000	-	-	-	**18,803**
Loans to customers	**124,499**	16,613	23,552	20,679	75,138	-	**135,982**
Accrued interest receivable	**155**	155	-	-	-	-	**155**
Other receivables and accruals	**291**	291	-	-	-	-	**291**
Total financial assets	**143,748**	32,861	26,552	20,679	75,138	-	**155,231**
Retail funding							
- On-call funding	**26,559**	2,676	2,426	4,194	8,611	10,761	**28,668**
- Term funding	**99,979**	10,072	9,132	15,787	32,415	40,511	**107,917**
Non-retail funding	**-**	-	-	-	-	-	**-**
Accrued interest payable	**531**	531	-	-	-	-	**531**
Other payables and accruals	**596**	596	-	-	-	-	**596**
Derivative financial instruments	**-**	-	-	-	-	-	**-**
Total financial liabilities	**127,665**	13,875	11,558	19,981	41,026	51,272	**137,712**
Unrecognised loan commitments		37,147	-	-	-	-	**37,147**
Net expected liquidity gap		**(18,161)**	**14,994**	**698**	**34,113**	**(51,272)**	**(19,628)**

25. Fair values of financial assets and liabilities

A. FAIR VALUE HIERARCHY

The Group measures fair values using the following fair value hierarchy, which reflects the transparency of the inputs used in the valuation techniques applied to arrive at the Group's assessment of fair value.

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Directly observable inputs (i.e. prices) or indirectly observable inputs (i.e. derived from prices).
- Level 3 – Inputs that are not based on observable market data.

There have been no transfers between levels during the reporting period (31 March 2022: $Nil).

B. FAIR VALUES

Fair values have been determined on the basis of the present value of cashflows expected to come about under the terms and conditions of each financial asset and financial liability. The Group has applied the following methods to reach an assessment of fair value.

Items	Basis of measurement
Cash and cash equivalents Accrued interest receivable Other receivables and accruals Non-retail funding Accrued interest payable Other payables and accruals	Carrying value is considered to approximate fair value on the basis that the periods to maturity are relatively short and, where applicable, interest rates approximate market rates.
Floating rate loans	Carrying value is considered to approximate fair value on the basis that loans are carried net of impairments and the loans can be repaid at the balance outstanding at any time.
Fixed rate loans	Fair values have been estimated by discounting projected cashflows (net of impairment), using market rates for fixed rate loans of a similar type and duration.
On-call funding	Carrying value is considered to approximate fair value on the basis that the funding can be required to be repaid at the balance outstanding at any time.
Term funding	Fair values have been estimated by discounting projected cashflows using market rates for fixed rate instruments of a similar type and duration.
Derivative financial instruments	Carrying value is the market to market valuation provided by Bank of New Zealand.

Financial assets and liabilities are not carried at fair value except for derivative financial instruments.

The following table is a comparison of the carrying values as reported and the fair value of financial assets and liabilities other than those financial assets and liabilities carried at fair value or where the carrying value is a reasonable approximation of fair value.

In New Zealand dollar thousands

25. Fair values of financial assets and liabilities (continued)

B. FAIR VALUES (CONTINUED)

	31 March 2023		31 March 2022	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans to customers	148,430	147,535	125,080	124,891
Financial liabilities				
Retail funding	135,096	134,276	126,538	126,177

26. Related party transactions

A. LOANS TO RELATED PARTIES

	31 March 2023	31 March 2022
Loans to directors and related parties	-	-
Loans to key management and related parties	-	-
Total loans to related parties	**-**	**-**

B. RETAIL FUNDING FROM RELATED PARTIES

	31 March 2023	31 March 2022
Retail funding from WBS Charitable Trust	61	66
Retail funding from directors and related parties	267	269
Retail funding from key management and related parties	-	-
Total retail funding from related parties	**328**	**335**
Range of interest rates	0% - 5.50%	0% - 2.00%
Maximum term of funding	2023	2022

All retail funding from directors and key management (and related parties of the directors and key management) is accepted in accordance with the parent's normal investment terms and conditions.

27. Capital and reserves

A. SHARE CAPITAL

Share capital comprises 30 million fully paid capital shares (31 March 2022: 30 million). All capital shares have equal voting rights and share equally in dividends and assets of the Group on winding up. All capital shares are held by the WBS Charitable Trust Board (the ultimate parent of the Group).

B. REVALUATION RESERVE

The revaluation reserve relates to the accumulated fair value movements of the Group's land and buildings.

28. Capital commitments and contingencies

The Group has no capital commitments as at the reporting date (31 March 2022: $156,000).

The Group discloses a contingent liability when it has a possible obligation arising from past events that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of that obligation cannot be measured with sufficient reliability.

There are no material contingent assets or liabilities as at the reporting date (31 March 2022: $Nil).

29. Subsequent events

There have been no events subsequent to the reporting date, and up to the date of these consolidated financial statements, that would have a material impact on the operations or consolidated financial statements of the Group.

30. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

A. BASIS OF CONSOLIDATION

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through exercising its power over the entity. The financial statements of subsidiaries are included in these consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions are eliminated in preparing these consolidated financial statements.

B. INTEREST

Interest income and expense are recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or financial liability to the carrying value of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cashflows considering contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and directly related transaction costs that are directly attributable to the financial asset or financial liability.

C. FEES, COMMISSION AND BROKERAGE

The measurement of effective interest rate includes fees, commission and brokerage income, and expenses that are integral to the effective interest rate on a financial asset or financial liability.

Fee income is recognised progressively in interest income over a 3-year period.

Fees, commission and brokerage expenses are expensed as the services are received.

D. INVESTMENT PROPERTY RENTAL INCOME

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

E. EMPLOYEE BENEFITS

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

F. GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised exclusive of GST except where GST is not recoverable. Unrecovered GST is recognised as part of the expense or acquisition cost of the asset. Receivables and payables are stated inclusive of any applicable GST.

G. INCOME TAX

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the reporting period and any adjustment required in respect of previous reporting periods. Current tax is measured using tax rates enacted or substantively enacted as at the reporting date.

ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- relating to investments in subsidiaries to the extent that it is probable that they will reverse in the foreseeable future
- arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets (both recognised and unrecognised) are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse. This tax is measured using tax rates enacted or substantively enacted as at the reporting date.

Deferred tax assets and liabilities are offset on the basis that all members of the Group are members of the same consolidated tax group.

H. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

i. Recognition

The Group initially recognises financial assets and financial liabilities on the date on which the Group becomes a party to the contractual provisions of the financial asset or financial liability.

ii. Derecognition

The Group derecognises a financial asset when:

- the contractual rights to the cashflows from the financial asset expire
- it transfers the rights to receive the contractual cashflows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred
- it is written off as being uncollectible.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

iii. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the amounts. The Group also intends to settle these assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

iv. Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which that asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

v. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

vi. Impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that financial assets are impaired.

Impairment is assessed using an expected credit loss (ECL) model where ECL represents the Group’s assessment of the present value of the cashflow shortfall expected to arise following a counterparty’s default in relation to financial assets held by the Group. A cashflow shortfall is the difference between the cashflows that are due in accordance with the contractual terms of the asset and the cashflows that the Group expects to receive.

ECLs are based on the Group’s assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information. This includes forward-looking economic assumptions and outcomes that the Group considers are likely to affect ECLs.

Stage 1: 12 month expected credit losses

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, an allowance for ECLs is made based on credit default events expected to occur within the next 12 months. ECLs for these Stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

Stage 2: Significant increase in credit risk

Financial assets are categorised as being within Stage 2 where an instrument has experienced a significant increase in credit risk since its initial recognition. For these assets, an allowance for ECLs is made based on credit default events expected to occur over the lifetime of the instrument.

The Group works out whether a significant increase in credit risk has occurred by comparing the risk of credit default at the reporting date to the risk of default at the date of initial recognition. This is made based on quantitative and qualitative factors, with a backstop presumption that all assets with an arrears status of more than 30 days past due on contractual payments are considered to be in Stage 2. Similarly, we presume that all loans with renegotiated terms, but where there is an expectation that full repayment of principal and interest will be received, are also considered to be in Stage 2.

Stage 3: Credit impaired (or defaulted) loans

Financial assets are transferred into Stage 3 when there is objective evidence that an instrument is credit impaired. An allowance for ECL is made on the basis of lifetime expected credit losses. Assets are considered to be credit impaired when:

- assets have an arrears status of more than 90 days past due on contractual payments of either principal or interest
- there are indications that the counterparty is unlikely to meet their contractual obligations, such as signs of financial difficulty, probable bankruptcy, breaches of contract, or where the Group has entered into loans with renegotiated terms where there is not an expectation that full repayment of principal and interest will be received
- contractual obligations are considered unlikely to be met without recourse to actions such as enforcement and realisation of security and/or financial guarantees that the Group holds as collateral
- the counterparty is otherwise considered to be in default of their contractual obligations.

Transfers between stages

Transfers from Stage 1 to Stage 2 occur when there has been a significant increase in credit risk, and from Stage 2 to Stage 3 when credit impairment is indicated as described above.

For financial assets in Stage 2 or 3, these assets can transfer back to Stage 1 or Stage 2 once the criteria for the initial transfer are no longer met.

Write-off

Financial assets remain on the balance sheet, net of associated allowances for impairment losses, until they are no longer deemed to be recoverable. Where an asset is no longer considered recoverable, it is written off against the related allowance for impairment loss once all the necessary procedures have been completed and the amount of the loss has been determined. Any subsequent recovery of amounts previously written off is reflected in the income statement in the period in which the recoveries occur.

I. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash balances, floats and bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's liquidity management are included as a component of cash and cash equivalents.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

J. LOANS TO CUSTOMERS

Loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

K. PROPERTY, PLANT AND EQUIPMENT

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses except for land and buildings which are measured at fair value. Cost includes expenses that are directly attributable to the acquisition of the asset.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

In New Zealand dollar thousands

iii. Land and buildings

Land and buildings included in property, plant and equipment are distinct from investment property in that more than 20% of the lettable area is occupied by the Group.

iv. Depreciation

Depreciation is calculated on a diminishing value basis to write off the cost of items of property, plant and equipment, less their estimated residual values, over their estimated useful lives.

Depreciation rates used for each class of asset are as follows:

Asset class	Rate %
Land	0
Buildings	1
Plant and equipment	10 - 60
Computer equipment	26 - 50
Motor vehicles	30
Marketing equipment	25

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

L. INTANGIBLE ASSETS

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a diminishing value basis from the date on which it is available for use.

Asset class	Rate %
Software	33 - 50

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

M. INVESTMENT PROPERTY

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss.

N. IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Group reviews the carrying values of its non-financial assets (other than investment property and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised, in profit or loss, if the carrying value of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying values of affected assets.

O. RETAIL FUNDING

Retail funding comprises unsecured interest-bearing debt securities issued by the Group and represents the Group's primary source of funding.

Debt securities issued by the Group include deposits and redeemable Shares issued on an on-call or term basis.

Redeemable shares are considered to be a compound instrument that contain both a financial liability component and an equity component. However, due to the debt component of the instrument being the material component, there is no equity component requiring disclosure. Redeemable shares are not convertible to capital shares.

Deposits and redeemable shares are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

P. NON-RETAIL FUNDING

Non-retail funding drawn down by the Group is initially measured at fair value plus incremental direct transaction costs, and subsequently measured at its amortised cost using the effective interest rate method.

Q. PROVISIONS

A provision is recognised if, as a result of a past event, there is a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in profit or loss.

31. New Standards

There are no new and revised NZ IFRS's that have been issued but which are not yet effective which will need to be adopted by the Group in future accounting periods.

Contact us

We'd love to talk to you and we want to make it easy, so choose an option that works best for you!

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