



WAIRARAPA BUILDING SOCIETY
AND SUBSIDIARIES

ANNUAL REPORT 2017



WBS - locally famous and part of the Wairarapa community for over 140 years

It has always been part of our philosophy to actively support the community that our members work, live and play in

We achieve this through returning the majority of our income to our members either by way of higher interest rates on your investments, offering lower everyday fees or through sponsoring many of the wonderful local community organisations and events that bring colour and diversity to our wonderful region

During the year WBS was proud to support the following Wairarapa organisations and events:

Athletics Wairarapa	Martinborough Football Club	Sport Wairarapa
Balloon Festival	Martinborough Golf Club	St Johns Wairarapa
Bowls Wairarapa	Masterquilters	St Matthews Collegiate
Bowls Wairarapa Umpires Assn	Masterton AFC Inc	Sth Wairarapa Indoor Bowls
Cancer Society	Masterton A&P Assn	The Kids Foundation
Carrington Bowling & Croquet Club	Masterton A&P Assn - Home Industries	Vintage Car Club Wairarapa
Carterton Assn Football & Sport	Masterton Bowling Club	Wainuioru School
Carterton Golf Club	Masterton Bridge Club	Wairarapa A&P Show
Carterton Rose Society	Masterton Cycling	Wairarapa Bird Club
Carterton Rugby Club	Masterton District Library	Wairarapa Bowling Greenkeepers Assn
Central Districts Cat Fanciers Assn	Masterton East Indoor Bowling Club	Wairarapa Bush Rugby Union
Central Wairarapa Indoor Bowls	Masterton Foodbank	Wairarapa College Rugby
Chocol'Art Festival	Masterton Golf Club	Wairarapa District Golf Sub Assn
Clareville Indoor Bowls Assn	Masterton Masters Swimming	Wairarapa Dog Obedience Club
Dalefield Womens Hockey	Masterton Miniature Rifle Club	Wairarapa Dressage
Down on the Farm Depression Awareness	Masterton Motorplex	Wairarapa Hockey Assn
Eketahuna Golf Club	Masterton Park Bowling Club	Wairarapa Indoor Bowls Assn
Featherston Bowling Club	Masterton Petanque Club	Wairarapa JAB Rugby
Featherston Golf Club	Masterton Plunket Society	Wairarapa Marathon
Featherston Toy Library	Masterton Racing Club	Wairarapa Multisports Kids Triathlon
Fernridge School	Masterton Rotary Teddy Bears Picnic	Wairarapa Pigeon & Poultry Club
Glistening Waters Showjumping Championship	Masterton Squash Club	Wairarapa Ploughing Match Assn
Golden Shears	Maths Wairarapa	Wairarapa Rose Society
Heartland Wairarapa Football	Moki \$1000 Fishing Competition	Wairarapa Ruahine Aero Club
Hospice Wairarapa	Netball Wairarapa	Wairarapa Search & Rescue
JP's in Libraries	NZ Fire Service	Wairarapa Smallbore Rifle Club
Lansdowne Bowling Club	Oddfellows Bowling Club	Wairarapa Sports Fishing Club
Lifelight Trust	Oversew Fashion Awards	Wairarapa Tennis
Mana Films	Opaki School	Wellington Free Ambulance
Masterton Racing Club	Outward Bound Full Scholarship	Wings over Wairarapa
Masterton Rotary Teddy Bears Picnic	Pukaha Mt Bruce	WOOPS
Masterton Squash Club	Redstar Squash Club	Woops-A-Daisies Marching Team
Martinborough Bowling Club	Redstar Womens Hockey	Yarns In Barns
	Riding for the Disabled	
	Riversdale Beach Golf Club	



ABOUT US

WBS is different !

We're locally owned by you - our members. As our name suggests we operate within the Wairarapa region for the benefit of the Wairarapa region. We don't answer to offshore shareholders or directives and our Board and staff are all Wairarapa locals.



We're here to help make the Wairarapa region a better place by providing a local and secure option for investors who want to obtain a great return and promote investment in local housing, local businesses and help the Wairarapa community thrive.

Contact us today at wbs.net.nz on (06) 370 0070

or visit us at 75 Queen Street, Masterton

HIGHLIGHTS

RETAIL FUNDING

Member's funds invested with WBS

\$119.8m (stable)

(2016: \$119.8m)

LOAN BOOK

Mortgage and other lending made by WBS

\$116.7m (up 7%)

(2016: \$108.8m)

EQUITY

WBS's net worth

\$17.4m (up 4%)

(2016: \$16.7m)

CAPITAL RATIO

Measures WBS's ability to absorb losses

12.1% (stable)

(2016: 12.1%)

CREDIT RATING

Independent opinion of WBS's creditworthiness

BB+ (stable)

(2016: BB+ (stable))

NET INTEREST INCOME

Measures net rate of return on lending activities after returns paid to investors

1.95% (down 5 bps)

(2016: 2.00%)

OVERHEADS TO AVERAGE ASSETS

Measures cost to serve on core banking activities

2.08% (stable)

(2016: 2.08%)

BAD DEBTS TO AVERAGE LOANS

Measures credit losses from WBS's lending activities

0.04% (down 7 bps)

(2016: 0.11%)

PROFIT FOR THE PERIOD

WBS's net profit after tax

\$622,000 (up 3%)

(2016: \$602,000)

DIRECTOR'S REPORT

For the year ended 31 March 2017

On behalf of the Board, I am pleased to share with you, our members, WBS's Annual Report for the year ended 31 March 2017.

The year just gone has seen major growth in the Wairarapa region from both existing sources and from an increasing inflow of external people and economic resources who are beginning to realise the potential and opportunities that our region has to offer.

WBS has played its part in helping facilitate this regional growth not only through continuing to offer highly competitive, low-cost investment options for the region's investors but also by reinvesting these monies into productive assets in the region.

This is reflected in the 7% year on year increase in WBS's loan book. This loan book growth includes \$8 million of new loans approved under WBS's flagship New Build Loan promotion which has seen home ownership become a reality for these borrowers whilst seeing these funds reinvested directly into the local construction sector.

This growth has been delivered without detriment to WBS's capital adequacy nor a material uplift in credit risk, through a continued focus on conservative lending policies and sustainable growth.

Profit levels remain solid, despite a number of one-off overhead costs incurred during the year. In the current low interest rate environment the challenge remains, consistent with all financial institutions, how to balance delivery of long term growth in returns, whilst at the same time continuing to deliver the level of personal service that our members have come to expect from us.

On that note I would like to take the opportunity, on behalf of the Board, to thank the WBS team for the dedicated and outstanding level of personal service they continue to provide to our members.

Regulation and industry developments

The regulatory environment we operate in continues to evolve and demands an ever increasing investment of our time and resources.

During the year we, along with the rest of the financial services industry, transitioned into the Financial Markets Conduct Act 2013 ('FMC Act'). The FMC Act is a major piece of legislation that seeks to reform some of New Zealand's securities laws and regulations through creating a level playing field that promotes investor confidence and participation in capital markets.

For WBS this has seen the traditional semi-annual prospectus replaced by a Product Disclosure Statement and enhanced continuous disclosure requirements to ensure our members are kept up to-date with respect to the status of their investments. I'm pleased to report that the transition was a very smooth one and if you haven't already done so, I recommend you familiarise yourself with the information available on our website at www.wbs.net.nz/WBSDocs or at www.companiesoffice.govt.nz/disclose

As referenced in the recent newsletter to members, current global events have once again unfortunately highlighted the everyday threats that society is forced to confront from terrorism and cyber-crime. We continue to play our part in actively monitoring and combatting these threats across multiple fronts.

We have invested heavily during the current year in monitoring and continuously improving the resilience and performance of our IT infrastructure to protect against external threats.

At the same time we have continued to develop and maintain compliance with our obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act.

We take our obligations to preserve the security of our members' assets and personal information seriously and we remain alert and responsive to new developments.

However, this comes at a significant financial cost and there may come a point in the future when we need to balance risk against reward and make some difficult choices about the best way for WBS to serve its customers. While we have not fully considered how best to do that, some options may require us to review our product set and the way in which we offer those products in order to strike the right balance between ensuring we meet our obligations to you, while continuing to deliver a low-cost service that maximises the returns we pay to investors.

Strategic developments

Consistent with this, the Board has continued to develop WBS's strategic plans to ensure that, as we head towards 2020 we remain focused on supporting our community by offering a relevant, dependable and accessible alternative to the big banks for our members.



We look forward to being able to share the outcomes of these strategic initiatives with you over the coming months.

In summary

The domestic New Zealand and Wairarapa region economies appear well placed as we head into the second half of 2017. However, amidst a potentially volatile global backdrop it is important that we remain vigilant and focused on maintaining the stable and dependable platform that WBS has provided for its members since 1873.

In the Board's view, WBS is in a strong position and will continue to focus on meeting the core financial needs of our members through sustainable growth and investing in our collective long term futures.

I would like to personally take this opportunity to thank you, our members, for choosing to be part of a truly local financial institution that works solely for the benefit of the Wairarapa region.

Colin Oldfield
Chair

23 June 2017



Independent Auditor's Report

To the Shareholders of Wairarapa Building Society

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Wairarapa Building Society ("the Society") and its subsidiaries ("the Group") on pages 6 to 32:

- i. present fairly in all material respects the Group's financial position as at 31 March 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 March 2017;
- the consolidated statements of profit or loss and OCI, changes in equity and cash flows for the year then 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 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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 assurance services to the Group in relation to reporting under the Trust Deed and certain of the Group's non-retail funding facilities. 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.



Other information

The Directors, on behalf of the Group, are responsible for the other information included in the Group's Annual Report. Other information includes Financial Highlights and the Directors' Report. 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 report is made solely to the Society's 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 report, or any of the opinions we have formed.



Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the Group, 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;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and 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 consolidated 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:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page5.aspx

This description forms part of our Independent Auditor's Report.



Brent Manning

For and on behalf of
KPMG
Wellington

23 June 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
In New Zealand dollar thousands

	Note	As at 31 March 2017	As at 31 March 2016
Assets			
Cash and cash equivalents	11	12,310	19,721
Loans to customers	12	116,441	108,587
Accrued interest receivable		44	108
Other receivables and accruals		94	704
Investment property	13	8,370	7,676
Property, plant & equipment	14	2,407	2,354
Intangibles		17	39
Total assets		139,683	139,189
Liabilities			
Retail funding	15	119,795	119,761
Non-retail funding	16	400	-
Accrued interest payable		1,132	1,220
Other payables and accruals		477	313
Income tax payable		29	604
Deferred tax liabilities	10	422	469
Derivative financial instruments		44	71
Provisions		-	5
Total liabilities		122,299	122,443
Equity			
Share capital	24	300	300
Retained earnings		15,915	15,293
Revaluation reserve	24	1,169	1,153
Equity		17,384	16,746

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
In New Zealand dollar thousands

	Share Capital	Retained Earnings	Revaluation Reserve	Total Equity
Balance at 1 April 2016				
Opening equity	300	15,293	1,153	16,746
Profit for the period	-	622	-	622
Other comprehensive income	-	-	16	16
Balance at 31 March 2017	300	15,915	1,169	17,384
Balance at 1 April 2015				
Opening equity	300	14,691	1,137	16,128
Profit for the period	-	602	-	602
Other comprehensive income	-	-	16	16
Balance at 31 March 2016	300	15,293	1,153	16,746

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OCI
In New Zealand dollar thousands

	Note	Year ended 31 March 2017	Year ended 31 March 2016
Interest income			
Loans to customers		6,403	6,989
Cash and cash equivalents		513	277
Total interest income		6,916	7,266
Interest expense			
Retail funding		4,119	4,562
Non-retail funding		1	8
Total interest expense		4,120	4,570
Net interest income (NII)		2,796	2,696
Other operating income	7	739	784
Total operating income		3,535	3,480
Personnel expenses	8	1,113	956
Other operating expenses	9	1,784	1,805
Total operating expenses		2,897	2,761
Operating profit		638	719
Change in the fair value of investment property	13	163	54
Profit before tax		801	773
Income tax expense	10	179	171
Profit for the period		622	602
Other comprehensive income (OCI)			
Net change in revaluation reserve		16	16
Total comprehensive income for the period		638	618

The notes on pages 9 to 32 are an integral part of these consolidated financial statements.

For and on behalf of the Board of Directors:


C G Oldfield
Chair


K P McDonald
Deputy Chair

23 June 2017

CONSOLIDATED STATEMENT OF CASH FLOWS
In New Zealand dollar thousands

	Year ended 31 March 2017	Year ended 31 March 2016
Cash flows from operating activities		
Cash flows from operating activities		
Interest received	6,946	6,879
Interest paid	(4,207)	(4,619)
Other operating income	800	760
Cash generated from operating activities	3,539	3,020
Payments to suppliers and employees	(2,680)	(2,622)
Income taxes paid	(200)	(361)
Net cash from operating activities	659	37
Cash flows from investing activities		
Advance of loans to customers	(62,013)	(59,765)
Repayment of loans to customers	54,121	55,593
Net change in loans to customers	(7,892)	(4,172)
Acquisition of property, plant & equipment	(81)	(32)
Acquisition of investment property	(531)	(701)
Disposal of investment property	-	2,628
Net cash used in investing activities	(8,504)	(2,277)
Cash flows from financing activities		
Net change in retail funding	34	14,465
Net change in non-retail funding	400	(400)
Net cash from financing activities	434	14,065
Net (decrease)/increase in cash and cash equivalents	(7,411)	11,825
Opening cash and cash equivalents	19,721	7,896
Closing cash and cash equivalents	12,310	19,721
Net cash (used in)/from operating activities comprises		
Profit for the period	622	602
Adjustments for non-cash items:		
- Depreciation and amortisation	67	98
- Capitalised interest	(34)	(400)
- Amortisation of contributions	-	57
- Net impairment loss on loans	50	112
- Fair value change in investment property	(163)	(54)
- Gain on sale of investment property	-	(46)
- Deferred tax	(47)	(72)
- Other	(11)	7
	484	304
Changes in:		
- Accrued interest receivable	64	13
- Other receivables and accruals	60	(294)
- Accrued interest payable	(88)	(49)
- Other payables and accruals	113	(104)
- Income tax payable	26	167
Net cash from operating activities	659	37

The notes on pages 9 to 32 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; Perry Street Properties Limited; Manawatu Permanent Building Society; and Wairarapa Property Traders 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, the Securities Act 1978, Securities Regulations 2009 and the Financial Reporting Act 2013.

2. BASIS OF ACCOUNTING

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 27. 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 historical 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 & equipment - land and buildings component	Fair value
Investment property	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 12** - impairment of loans to customers.
- **Note 13** - fair value of investment property.
- **Note 14** - fair value of land and buildings included within property, plant & equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

6. OPERATING SEGMENTS

	Financial services	Investment properties	Total
Year ended 31 March 2017			
External total operating income	2,889	646	3,535
External costs	(2,199)	(698)	(2,897)
Change in the fair value of investment property	-	163	163
Segment profit before tax	690	111	801
31 March 2017			
Segment assets	128,970	10,713	139,683
Segment liabilities	(121,832)	(467)	(122,299)
Segment net assets	7,138	10,246	17,384
Year ended 31 March 2016			
External total operating income	2,753	727	3,480
External costs	(2,059)	(702)	(2,761)
Change in the fair value of investment property	-	54	54
Segment profit before tax	694	79	773
31 March 2016			
Segment assets	129,187	10,002	139,189
Segment liabilities	(121,917)	(526)	(122,443)
Segment net assets	7,270	9,476	16,746

7. OTHER OPERATING INCOME

	Year ended 31 March 2017	Year ended 31 March 2016
Lending and facility fees	93	57
Investment property rental income	646	681
Gain on sale of investment property	-	46
Total other operating income	739	784

8. PERSONNEL EXPENSES

	Year ended 31 March 2017	Year ended 31 March 2016
Directors fees	90	86
Short-term employee benefits		
- Key management personnel	602	479
- Other	361	372
Other personnel related expenses	60	19
Total personnel expenses	1,113	956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

9. OTHER OPERATING EXPENSES

	Year ended 31 March 2017	Year ended 31 March 2016
Audit fees	49	44
Other audit-related fees	14	17
Bank fees	313	297
Branch costs	561	448
Depreciation and amortisation	67	98
Insurance	46	49
Investment property costs	210	245
Marketing and sponsorships	167	239
Provision for credit impairment	50	57
Receivables written off	-	55
Regulatory costs	134	78
Other	173	178
Total other operating expenses	1,784	1,805

Other audit-related fees relate to services provided for the audit or review of financial information other than financial statements including Trust Deed reporting requirements (2016: services included anti-money laundering services and prospectus reporting requirements).

10. INCOME TAXES

A. Amounts recognised in profit or loss

	Year ended 31 March 2017	Year ended 31 March 2016
Income tax	220	243
Deferred tax	(35)	(72)
Current tax expense	185	171
Adjustments to prior period income tax	6	-
Adjustments to prior period deferred tax	(12)	-
Prior period tax adjustments	(6)	-
Total income tax expense	179	171

B. Reconciliation of effective tax rate

	Year ended 31 March 2017	Year ended 31 March 2016
Profit before tax	801	773
Prima facie income tax at 28%	224	216
Adjustment for items not subject to tax	(39)	(45)
Total current tax expense	185	171
Effective tax rate	23%	22%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In New Zealand dollar thousands

10. INCOME TAXES (continued)

C. Deferred tax liability

	31 March 2017	31 March 2016
Opening balance of deferred tax liability	469	541
Origination and reversal of temporary differences	(35)	(72)
Prior period tax adjustments	(12)	-
Closing balance of deferred tax liability	422	469
<i>Deferred tax liability/(asset) attributable to:</i>		
Tax effect of losses carried forward	(22)	(22)
Property, plant & equipment	455	455
Investment property	40	56
Other items	(51)	(20)
Deferred tax liability	422	469

D. Income tax payable

	31 March 2017	31 March 2016
Opening balance of income tax payable	3	121
Current income tax expense	220	243
Prior period income tax adjustments	6	-
Income taxes paid	(200)	(361)
Closing balance of income tax payable	29	3

E. Imputation credit account

	31 March 2017	31 March 2016
Opening balance of imputation credit account	7,200	6,839
Income tax paid during the year	200	361
Other	(7)	-
Closing balance of imputation credit account	7,393	7,200

11. CASH AND CASH EQUIVALENTS

	31 March 2017	31 March 2016
Cash on hand	104	95
Cash on-call with NZ registered banks	206	525
Cash on deposit with NZ registered banks	12,000	19,101
Total cash and cash equivalents	12,310	19,721

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In New Zealand dollar thousands

12. LOANS TO CUSTOMERS

	31 March 2017	31 March 2016
Loans secured by mortgage	114,499	106,466
Loans secured by other collateral	1,898	2,011
Unsecured loans	307	317
Gross loans to customers	116,704	108,794
Fair value hedge adjustment	44	71
Deferred fee income	(81)	(78)
Provision for credit impairment		
- Collective impairment allowance	(102)	(73)
- Individual impairment allowance	(124)	(127)
Total loans to customers	116,441	108,587

A. Credit quality analysis

	31 March 2017	31 March 2016
Performing loans	110,061	101,252
Loans past due but not individually impaired		
- 0 - 30 days	358	1,405
- 31 - 90 days	365	1,013
- 91 days and over	1,942	1,279
Loans with renegotiated terms	3,110	2,010
Individually impaired loans	868	1,835
Total gross loans to customers	116,704	108,794

The assessment of credit quality relating to loans made to customers is based on the following criteria:

- **Loans past due** - loans where the customer has failed to make a payment when contractually due but which are not considered to be impaired.
- **Loans with renegotiated terms** - 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, which arise in the ordinary course of business and are executed on normal commercial terms are considered to be fully performing loans.
- **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 and that the loss event(s) has a reliably measureable impact on the estimated future cash flows of the individual loan.

B. Provision for credit impairment - collective impairment allowance

Loans to customers with a loan to security value ratio (LVR) below 80%, secured by way of a registered first ranking mortgage and which are not in arrears are assessed for credit impairment on a collective basis with a collective impairment allowance recognised against these loans.

	31 March 2017	31 March 2016
Opening collective impairment allowance	(73)	(51)
Increase in allowance during the year	(29)	(22)
Closing collective impairment allowance	(102)	(73)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

12. LOANS TO CUSTOMERS (continued)

C. 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 not covered by the collective impairment allowance are considered to be impaired. Where appropriate a specific allowance is raised against individually impaired loans.

	Gross impaired loans	Individual impairment allowance	Carrying value of impaired loans
Year ended 31 March 2017			
Opening balance	1,835	(127)	1,708
Bad debts written off	(24)	24	-
Individually impaired loans repaid	-	-	-
Net movement in individually impaired loans	(943)	(21)	(964)
Closing balance	868	(124)	744
Year ended 31 March 2016			
Opening balance	2,471	(92)	2,379
Individually impaired loans repaid	(984)	-	(984)
Net movement in individually impaired loans	348	(35)	313
Closing balance	1,835	(127)	1,708

D. Undrawn loan commitments

	31 March 2017	31 March 2016
Loan facilities not fully drawn	12,627	8,426
Undrawn loan approvals	14,493	3,862
Total undrawn loan commitments	27,120	12,288

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

13. INVESTMENT PROPERTY

Investment property comprises commercial and residential land and buildings leased to 3rd parties which are held to earn rental income and/or for capital appreciation. Investment property is measured initially at cost and subsequently at fair value with any change in the fair value recognised in profit or loss.

	Commercial Masterton	Commercial Wanganui	Residential Masterton	Total
Year ended 31 March 2017				
Opening fair value of investment property	4,661	1,300	1,715	7,676
Additions (subsequent expenditure)	530	-	1	531
Change in fair value taken to profit or loss	84	-	79	163
Closing fair value of investment property	5,275	1,300	1,795	8,370
Rating valuation	5,150	2,040	1,500	8,690
Date of last rating valuation	Sep-14	Sep-16	Sep-14	
Year ended 31 March 2016				
Opening fair value of investment property	6,654	1,400	1,635	9,689
Additions (subsequent expenditure)	515	-	-	515
Disposals	(2,628)	-	-	(2,628)
Gain on sale of investment property	46	-	-	46
Change in fair value taken to profit or loss	74	(100)	80	54
Closing fair value of investment property	4,661	1,300	1,715	7,676

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

The most recent independent market valuations were conducted in March 2017 by Blackmore & Associates and Wairarapa Property Consultants Limited (both of whom are registered and ANZIV certified valuers). In carrying out their valuations, the valuers have assumed all buildings have a seismic strength above 67% of the standard for new buildings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

13. INVESTMENT PROPERTY (continued)

A. Measurement of fair values

The fair value measurement for all investment property has been categorised 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 property 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 and/or potential market income at an appropriate rate of return	<ul style="list-style-type: none"> Existing rental rates used with no assumption of material uplift in potential market rental rates and/or rental growth. Market capitalisation rates of between 7.5% and 9.0% used for existing tenancies Market capitalisation rates of 11.0% used for untenanted spaces. 	<p>The estimated fair values would increase/(decrease) if:</p> <ul style="list-style-type: none"> Future market rental growth rates were higher/(lower). Market capitalisation rates were lower/(higher). Occupancy rates of untenanted space were higher/(lower).
Net rate approach – ascribes land value at saleable worth and adds value for building and improvements based on sale comparisons	<ul style="list-style-type: none"> Potential sales prices of between \$200 and \$300 per sqm have been assumed based on comparable sales analysis. Market data comparatives based on commercial zoned land sales over the 2015-2017 period. 	<p>The estimated fair values would increase/(decrease) if:</p> <ul style="list-style-type: none"> Future sales prices were higher/(lower).

B. Investment property leases as lessor

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

	31 March 2017	31 March 2016
Less than 1 year	595	567
Between 1 and 5 years	903	1,771
More than 5 years	148	952
Total amounts due under non-cancellable leases	1,646	3,290

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

14. PROPERTY, PLANT & EQUIPMENT

	Land & buildings	Other	Total
Year ended 31 March 2017			
Opening net book value	2,300	54	2,354
Additions (subsequent expenditure)	-	87	87
Depreciation	(16)	(34)	(50)
Change in fair value taken to OCI	16	-	16
Closing net book value	2,300	107	2,407
Rating valuation	2,130		
Date of last rating valuation	Sep-14		
Year ended 31 March 2016			
Opening net book value	2,300	80	2,380
Additions (subsequent expenditure)	-	16	16
Depreciation	(16)	(42)	(58)
Change in fair value taken to OCI	16	-	16
Closing net book value	2,300	54	2,354

The fair value of land & buildings is reviewed annually (as at 31 March) with reference to the then market value as assessed by external valuers, having the appropriate recognised professional qualifications and experience in the location and category of the property being valued.

The most recent independent market valuation was conducted in March 2017 by Blackmore & Associates (whom are registered and ANZIV certified valuers). In carrying out their valuations, the valuers have assumed all buildings have a seismic strength above 67% of the standard for new buildings.

A. Measurement of fair values

The fair value measurement for land & buildings included in property, plant & equipment has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

Valuation technique	Significant unobservable inputs	Inter-relationship between inputs and fair value
Direct capitalisation approach - involves capitalising actual income and/or potential market income at an appropriate rate of return	<ul style="list-style-type: none"> Existing rental rates used with no assumption of material uplift in potential market rental rates and/or rental growth. Market capitalisation rates of between 7.5% and 9.0% used for existing tenancies Market capitalisation rates of 11.0% used for untenanted spaces. 	<p>The estimated fair values would increase/(decrease) if:</p> <ul style="list-style-type: none"> Future market rental growth rates were higher/(lower). Market capitalisation rates were lower/(higher). Occupancy rates of untenanted space were higher/(lower).
Net rate approach - ascribes land value at saleable worth and adds value for building and improvements based on sale comparisons	<ul style="list-style-type: none"> Potential sales prices of between \$200 and \$300 per sqm have been assumed based on comparable sales analysis. Market data comparatives based on commercial zoned land sales over the 2015-2017 period. 	<p>The estimated fair values would increase/(decrease) if:</p> <ul style="list-style-type: none"> Future sales prices were higher/(lower).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

15. RETAIL FUNDING

	31 March 2017	31 March 2016
Call deposits	7,148	7,508
Term deposits	5,808	6,459
Deposits	12,956	13,967
Call redeemable shares	11,616	11,050
Term redeemable shares	95,223	94,744
Redeemable shares	106,839	105,794
Total retail funding	119,795	119,761

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 2017	31 March 2016
Retail funding from:		
- Customers domiciled in the Wairarapa region	108,225	111,370
- Customers domiciled outside the Wairarapa region	11,570	8,391
Total retail funding	119,795	119,761

16. NON-RETAIL FUNDING

	31 March 2017	31 March 2016
Committed bank funding facilities	24,000	24,000
Undrawn bank funding facilities	(23,600)	(24,000)
Total drawn non-retail funding	400	-

The Group has committed funding facilities in place with Westpac New Zealand Limited and the Bank of New Zealand Limited. These facilities have maturities in excess of 12 months as at the reporting date and are renewed annually. The Group has complied with all applicable financial covenants associated with these facilities.

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

17. 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 had a capital ratio of 12.1% (31 March 2016: 12.1%).

The allocation of capital between business segments and in undertaking the Group's operations and activities is focused on ensuring a balance is maintained between preserving the adequacy of the Group's capital and optimising the return on capital employed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

18. FINANCIAL RISK MANAGEMENT

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

- Credit risk;
- Interest rate risk; and
- Liquidity risk.

19. 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 and arises 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 amount 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 the approval and renewal of 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 management and mitigation of 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.

A. Concentrations of credit risk by sector

	31 March 2017	31 March 2016
Residential housing loans	79,212	68,098
Commercial and other loans	32,288	35,206
Farming loans	4,941	5,283
Cash on hand	104	95
Cash and deposits lodged with registered banks	12,206	19,626
Other	138	812
Total financial assets	128,889	129,120

B. Concentrations of credit risk by geography

	31 March 2017	31 March 2016
Credit risk exposures:		
- Within the Wairarapa region	107,506	99,719
- Outside the Wairarapa region	21,383	29,401
Total financial assets	128,889	129,120

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

19. CREDIT RISK (continued)

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 % of the Group's equity

Number of counterparties	31 March 2017	31 March 2016
Between:		
- 10% and 20% of Group equity	1	1
- 20% and 30% of Group equity	1	-
- 30% and 40% of Group equity	-	1
- 40% and 50% of Group equity	-	-
- 50% and 60% of Group equity	-	-
- 60% and 70% of Group equity	-	-
- 70% and 80% of Group equity	1	-
- 80% and 90% of Group equity	-	-
- 90% and 100% of Group equity	-	-
Greater than 100% of Group equity	-	1
Total number of counterparties	3	3

The exposure of between 70% and 80% of Group equity represents cash lodged with the Bank of New Zealand of \$12,206,360 (31 March 2016: \$19,626,000). Other credit exposures relate to loans made to an individual counterparty or group of closely related counterparties.

20. 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. All of the Group's loans with a fixed rate term of greater than two years are hedged by interest rate swaps which remain in place for the fixed rate term of the loans. As at the reporting date the Group had entered into interest rate swaps with a notional contract amount of \$2,100,000 (31 March 2016: \$2,350,000) and a maximum outstanding term of 3.5 years (31 March 2016: 4.5 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

20. INTEREST RATE RISK (continued)

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	Over 5 years	Non-int bearing	Group total
31 March 2017							
Cash and cash equivalents	12,206	-	-	-	-	104	12,310
Loans to customers							
- Floating rate loans	83,514	-	-	-	-	(226)	83,288
- Fixed rate loans	8,848	9,192	12,955	2,158	-	-	33,153
Accrued interest receivable	-	-	-	-	-	44	44
Other receivables and accruals	-	-	-	-	-	94	94
Total financial assets	104,568	9,192	12,955	2,158	-	16	128,889
Retail funding							
- On-call funding	18,764	-	-	-	-	-	18,764
- Term funding	76,041	23,137	1,238	615	-	-	101,031
Non-retail funding	400	-	-	-	-	-	400
Accrued interest payable	-	-	-	-	-	1,132	1,132
Other payables and accruals	-	-	-	-	-	477	477
Derivative financial instruments	-	-	-	-	-	44	44
Total financial liabilities	95,205	23,137	1,238	615	-	1,653	121,848
Effect of derivatives held for interest rate risk management	2,100	-	-	(2,100)	-	-	-
Net interest rate gap	11,463	(13,945)	11,717	(557)	-	(1,637)	7,041
31 March 2016							
Cash and cash equivalents	15,101	4,000	-	-	-	620	19,721
Loans to customers	89,720	7,266	9,326	2,553	-	(278)	108,587
Other financial assets	-	-	-	-	-	812	812
Total financial assets	104,821	11,266	9,326	2,553	-	1,154	129,120
Retail funding	98,340	18,171	2,295	955	-	-	119,761
Non-retail funding	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	71	71
Other financial liabilities	-	-	-	-	-	2,142	2,142
Total financial liabilities	98,340	18,171	2,295	955	-	2,213	121,974
Effect of derivatives held for interest rate risk management	2,100	-	-	(2,100)	-	-	-
Net interest rate gap	8,581	(6,905)	7,031	(502)	-	(1,059)	7,146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

20. 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 and the impact on profit and equity for the following 12 months of a change in interest rates based on a 1% movement in interest rates.

	Carrying value	-1% impact on profit and equity	+1% impact on profit and equity
31 March 2017			
Cash and cash equivalents	12,206	(106)	106
Loans to customers			
- Floating rate loans	83,514	(915)	915
- Fixed rate loans	33,153	-	-
Total interest sensitive financial assets	128,873	(1,021)	1,021
Retail funding			
- On-call funding	18,764	260	(260)
- Term funding	101,031	611	(611)
Non-retail funding	400	-	-
Derivative financial instruments	44	(21)	21
Total interest sensitive financial liabilities	120,239	850	(850)
Impact on profit/(loss) before tax		(171)	171
Tax effected (at 28%)		48	(48)
Net impact on profit/(loss) for the period and equity		(123)	123
31 March 2016			
Impact on profit/(loss) before tax		(82)	82
Tax effected (at 28%)		23	(23)
Net impact on profit/(loss) for the period and equity		(59)	59

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

21. 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, 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 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 2017	31 March 2016
Cash on hand	104	95
Cash on-call with NZ registered banks	206	525
Cash on deposit with NZ registered banks	12,000	19,101
Undrawn bank funding facilities	23,600	24,000
Total available liquid assets	35,910	43,721

B. Contractual maturity analysis

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

	Carrying amount	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
31 March 2017							
Cash and cash equivalents	12,310	12,310	-	-	-	-	12,310
Loans to customers	116,441	12,814	8,231	14,707	35,412	115,044	186,208
Accrued interest receivable	44	44	-	-	-	-	44
Other receivables and accruals	94	94	-	-	-	-	94
Total financial assets	128,889	25,262	8,231	14,707	35,412	115,044	198,656
Retail funding							
- On-call funding	18,764	18,764	-	-	-	-	18,764
- Term funding	101,031	77,312	24,099	1,868	707	-	103,986
Non-retail funding	400	400	-	-	-	-	400
Accrued interest payable	1,132	1,132	-	-	-	-	1,132
Other payables and accruals	477	477	-	-	-	-	477
Derivative financial instruments	44	6	6	12	20	-	44
Total financial liabilities	121,848	98,091	24,105	1,880	727	-	124,803
Unrecognised loan commitments	-	27,120	-	-	-	-	27,120
Net contractual liquidity gap		(99,949)	(15,874)	12,827	34,685	115,044	46,733

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

21. LIQUIDITY RISK (continued)

B. Contractual maturity analysis (continued)

	Carrying amount	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years	Total
31 March 2016							
Cash and cash equivalents	19,721	15,721	4,000	-	-	-	19,721
Loans to customers	108,587	17,233	9,314	13,203	42,764	149,708	232,222
Other financial assets	812	812	-	-	-	-	812
Total financial assets	129,120	33,766	13,314	13,203	42,764	149,708	252,755
Retail funding	119,761	99,503	18,171	2,295	955	-	120,924
Non-retail funding	-	-	-	-	-	-	-
Derivative financial instruments	71	-	-	-	71	-	71
Other financial liabilities	2,142	2,142	-	-	-	-	2,142
Total financial liabilities	121,974	101,645	18,171	2,295	1,026	-	123,137
Net contractual liquidity gap		(67,879)	(4,857)	10,908	41,738	149,708	129,618

The approach taken to model contractual cash flows received from the Group's loans to customers has been modified in the current reporting period in order to better reflect the expected cash flows over the contractual life of the loans.

C. Expected maturity analysis

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

- Retail funding - the Group has a historical 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 historical 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 internal liquidity management purposes the Group assumes no more than 20% of outstanding loan commitments will be advanced in a 3 month period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

21. LIQUIDITY RISK (continued)

C. Expected maturity analysis (continued)

	Carrying amount	Within 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Over 5 years	Total
31 March 2017							
Cash and cash equivalents	12,310	12,310	-	-	-	-	12,310
Loans to customers	116,441	12,814	8,231	14,707	94,764	-	130,516
Accrued interest receivable	44	44	-	-	-	-	44
Other receivables and accruals	94	94	-	-	-	-	94
Total financial assets	128,889	25,262	8,231	14,707	94,764	-	142,964
Retail funding							
- On-call funding	18,764	1,910	1,749	3,070	6,552	9,460	22,741
- Term funding	101,031	10,283	9,419	16,532	35,278	50,932	122,444
Non-retail funding	400	400	-	-	-	-	400
Accrued interest payable	1,132	1,132	-	-	-	-	1,132
Other payables and accruals	477	477	-	-	-	-	477
Derivative financial instruments	44	6	6	12	20	-	44
Total financial liabilities	121,848	14,208	11,174	19,614	41,850	60,392	147,238
Unrecognised loan commitments	-	10,848	-	-	-	-	10,848
Net expected liquidity gap		206	(2,943)	(4,907)	52,914	(60,392)	(15,122)

	Carrying amount	Within 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Over 5 years	Total
31 March 2016							
Cash and cash equivalents	19,721	15,721	4,000	-	-	-	19,721
Loans to customers	108,587	17,233	9,314	13,203	94,586	-	134,336
Other financial assets	812	812	-	-	-	-	812
Total financial assets	129,120	33,766	13,314	13,203	94,586	-	154,869
Retail funding	119,761	9,950	1,817	230	96	108,831	120,924
Non-retail funding	-	-	-	-	-	-	-
Derivative financial instruments	71	-	-	-	71	-	71
Other financial liabilities	2,142	2,142	-	-	-	-	2,142
Total financial liabilities	121,974	12,092	1,817	230	167	108,831	123,137
Net expected liquidity gap		21,674	11,497	12,973	94,419	(108,831)	31,732

The approach taken to model expected cash flows received from the Group's loans to customers has been modified in the current reporting period in order to better reflect the expected cash flows over the contractual life of the loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In New Zealand dollar thousands

22. 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 2016: \$Nil).

B. Fair values

Fair values have been determined on the basis of the present value of cash flows expected to arise under the terms and conditions of each financial asset and financial liability. In arriving at an assessment of fair value the Group has applied the following methods:

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 cash flows (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 cash flows using market rates for fixed rate instruments of a similar type and duration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

22. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities including their level in the fair value hierarchy into which each fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
31 March 2017					
Cash and cash equivalents	12,310				12,310
Loans to customers					
- Floating rate loans	83,288				83,288
- Fixed rate loans	33,153	-	32,976	-	32,976
Accrued interest receivable	44				44
Other receivables and accruals	94				94
Total financial assets not carried at fair value	128,889				128,712
Retail funding					
- On-call funding	18,764				18,764
- Term funding	101,031	-	100,853	-	100,853
Non-retail funding	400				400
Accrued interest payable	1,132				1,132
Other payables and accruals	477				477
Derivative financial instruments	44				44
Total financial liabilities not carried at fair value	121,848				121,670
31 March 2016					
Cash and cash equivalents	19,721				19,721
Loans to customers	108,587				108,587
Other receivables and accruals	812				812
Total financial assets not carried at fair value	129,120				129,120
Retail funding	119,761				119,761
Non-retail funding	-				-
Other payables and accruals	2,137				2,137
Provisions	5				5
Derivative financial instruments	71				71
Total financial liabilities not carried at fair value	121,974				121,974

The fair value information presented is only relevant to the circumstances as at each reporting date and actual fair values may vary depending on actual contractual cash flows and the prevailing market rates and conditions at the time of any subsequent valuation.

In the ordinary course of business the Group's assets are not traded. Therefore, unless required to be disposed of in order to assist with liquidity management, the Group would not be exposed to or affected by changes in the fair value of these assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
In New Zealand dollar thousands

23. RELATED PARTY TRANSACTIONS

A. Loans to related parties

	31 March 2017	31 March 2016
Loans to directors and related parties	143	944
Loans to key management and related parties	152	436
Total loans to related parties	295	1,380
Range of interest rates	4.90%-10.00%	4.39% - 10.00%
Maximum term of loan	2045	2032

All loans to directors and key management (and related parties of the directors and key management) are advanced in accordance with the Parent's normal lending terms and conditions.

B. Retail funding from related parties

	31 March 2017	31 March 2016
Retail funding from WBS Charitable Trust	89	96
Retail funding from directors and related parties	1,047	1,167
Retail funding from key management and related parties	3	18
Total retail funding from related parties	1,139	1,281
Range of interest rates	0% - 4.00%	1.25% - 4.80%
Maximum term of funding	2018	2017

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.

24. CAPITAL AND RESERVES

A. Share capital

Share capital comprises 30 million fully paid capital shares (31 March 2016: 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.

25. CAPITAL COMMITMENTS AND CONTINGENCIES

The Group has outstanding capital commitments as at the reporting date of \$281,133 (31 March 2016: \$300,000) in relation to the fit-out of the Group's investment property prior to a new tenant taking occupancy (31 March 2016: in relation to seismic strengthening works).

There are no material contingent assets or liabilities as at the reporting date (31 March 2016: \$Nil).

26. 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 (31 March 2016: \$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

27. 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.

The Parent undertakes all monetary transactions on behalf of its subsidiaries, with the transactions recharged at cost through the related party intercompany loan accounts. No interest is charged or paid on the related party intercompany loan accounts and the intercompany loans have no fixed maturity date.

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 amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows 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

Fees, commission and brokerage income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Fee income is recognised progressively in interest income over a three 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. It 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 amount 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

27. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 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 cash flows from the financial asset expire;
- it transfers the rights to receive the contractual cash flows 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 and it intends to settle them 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 the financial asset or financial 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 of 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.

A financial asset is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

Impairment losses on assets carried at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against the asset. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

I. Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge certain of its interest rate risk exposures. The Group does not hold derivatives for trading purposes.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value and changes therein recognised in profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability, changes in the fair value of the derivative are recognised in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

27. SIGNIFICANT ACCOUNTING POLICIES (continued)

If the hedging instrument expires or is sold or terminated, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

If hedge accounting is discontinued the resulting adjustment to the carrying amount of the hedged item is amortised to profit or loss over its remaining life. If the hedged item is sold or repaid, the resulting adjustment is recognised in profit or loss immediately.

J. 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.

K. 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.

L. Property, plant & equipment

i. Recognition and measurement

Items of property, plant & 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.

iii. Land and buildings

Land and buildings included in property, plant & 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 & 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	2%
Plant & equipment	10% - 60%
Computer equipment	26% - 48%
Motor vehicles	30%
Marketing equipment	25%

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

M. 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	48% - 50%

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

N. Investment property

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

27. SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts 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 amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amounts of affected assets.

P. 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.

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.

Q. 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 their amortised cost using the effective interest rate method.

R. 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 cash flows 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.

28. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised NZ IFRS's that have been issued but which are not yet effective:

		Effective for annual periods beginning on or after
NZ IFRS 9	Financial instruments	1 January 2018
NZ IFRS 15	Revenue from contracts with customers	1 January 2018
NZ IFRS 16	Leases	1 January 2019
NZ IAS 7	Disclosure initiative	1 January 2017
NZ IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017

The requirements of these revised standards have not yet been fully assessed. As a result it is not yet practicable to provide a reasonable estimate of the potential effects until a detailed review has been completed.

DIRECTORY
For the year ended 31 March 2017

BOARD OF DIRECTORS

Chair
C G Oldfield

Deputy Chair
K P McDonald, QC

Directors
A G Beech, FCA
S W Brown
G D Hayes
A G McLeod
A G Parker

MANAGEMENT

Chief Executive Officer
K P McCabe, BCA

Chief Financial Officer
P Bywater, CA, BBS

Operations Manager
A I Bond, BSc

INDEPENDENT AUDITORS

KPMG
10 Customhouse Quay
Wellington

SUPERVISOR

Trustees Executors Limited
10 Customhouse Quay
Wellington

BANKERS

Bank of New Zealand
193-197 Queen Street
Masterton

Westpac Institutional Bank
157 Lambton Quay
Wellington

REGISTERED OFFICE

Wairarapa Building Society
PO Box 441, Masterton 5840

W: www.wbs.net.nz

E: wbs@wbs.net.nz

T: (06) 370 0070

F: (06) 370 0076

75 Queen Street, Masterton



**One in Four
Wairarapa
Residents are
WBS Customers**

**100%
Wairarapa
Owned**



**Invest in WBS
and Invest in
Wairarapa!**



Wairarapa Building Society
PO Box 441, Masterton 5840
06 370 0070
75 Queen Street, Masterton

wbs.net.nz