100%
WAIRARAPA

WBS

Wairarapa Building Society and Subsidiaries

ANNUAL REPORT 2018

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 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 region

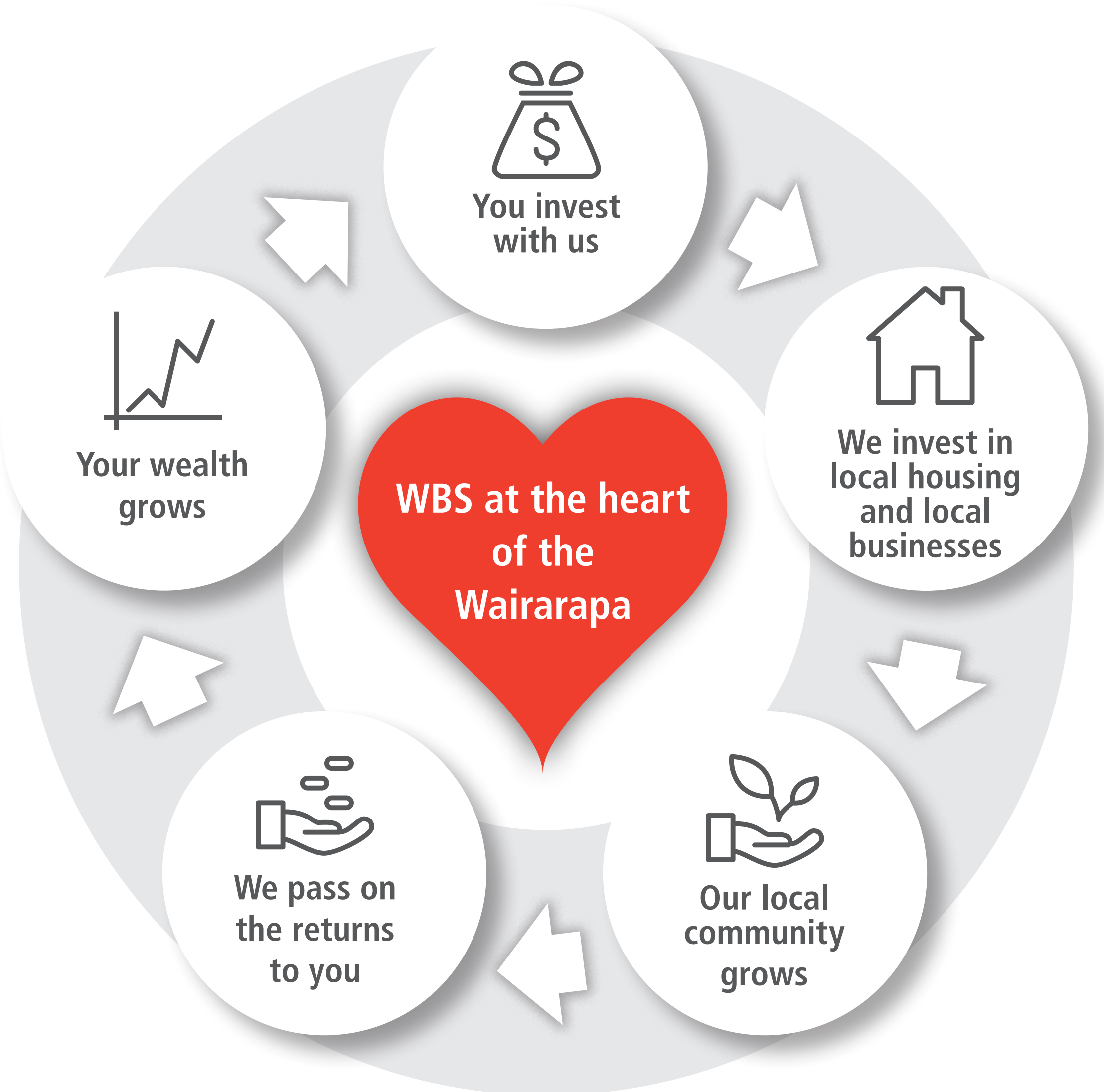
During the year WBS was proud to support the following Wairarapa organisations and events:

Balloon Festival
Bowls Wairarapa
Bowls Wairarapa Umpires Assn
Cancer Society of Wairarapa
Carrington Bowling & Croquet Club
Carterton Assn Football & Sport
Carterton Golf Club
Central Wairarapa Indoor Bowls
Clareville Indoor Bowls Assn
Eketahuna Golf Club
Eventing Wairarapa
Featherston Bowling Club
Featherston Golf Club
Fernridge School Muddy Muster
Heartland Wairarapa Football
Hospice Wairarapa
Lakeview School Big Day Out
Lansdowne Bowling Club
Lifeflight Trust
Mahunga Golf Club
Martinborough Bowling Club
Martinborough Football Club
Martinborough Golf Club
Martinborough Library Film Night
Masterton Racing Club
Masterton Squash Club
Masterton A&P Assn
Masterton Bowling Club
Masterton Bridge Club
Masterton East Indoor Bowling Club
Masterton Foodbank
Masterton Golf Club
Masterton Motorplex
Masterton Park Bowling Club
Masterton Petanque Club
Masterton Plunket Society Bride of the Year
Masterton South Rotary
Maths Wairarapa
Netball Wairarapa
Oversew Fashion Awards
Outward Bound Scholarships
Pukaha Mt Bruce
Riding for the Disabled
Riversdale Beach Golf Club
Rotary Inner Wheel Club
Solway School
Sport Wairarapa
St Johns Wairarapa
Sth Wairarapa Indoor Bowls
Wairarapa A&P Show
Wairarapa Bowling Greenkeepers Assn
Wairarapa College
Wairarapa Dog Obedience Club
Wairarapa Hockey Assn
Wairarapa Indoor Bowls Assn
Wairarapa Marathon
Wairarapa Maori Sports Awards
Wairarapa Multisports Kids Triathlon
Wairarapa Ploughing Match Assn
Wairarapa Pigeon & Poultry Club
Wairarapa REAP
Wairarapa Rose Society
Wairarapa Spitfires Baseball
Yarns In Barns

ABOUT US

WBS is different – 100% Wairarapa!

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 and local businesses to help the Wairarapa community grow.

Contact us today
wbs.net.nz • (06) 370 0070
or visit us at 75 Queen Street, Masterton

HIGHLIGHTS

RETAIL FUNDING
Member's funds invested with WBS
$139.3m (up 16%) (2017: $119.8m)

LOAN BOOK
Mortgage and other lending made by WBS
$132.5m (up 14%) (2017: $116.7m)

EQUITY
WBS's net worth
$18.0m (up 4%) (2017: $17.4m)

CAPITAL RATIO
Measures WBS's ability to absorb losses
11.7% (down 0.4%) (2017: 12.1%)

CREDIT RATING
Independent opinion of WBS's creditworthiness
BB+ (stable) (2017: BB+ (stable))

NET INTEREST INCOME
Measures net rate of return on lending activities after returns paid to investors
2.02% (up 7 bps) (2017: 1.95%)

OVERHEADS TO AVERAGE ASSETS
Measures cost to serve on core banking activities
1.80% (down 28 bps) (2017: 2.08%)

BAD DEBTS TO AVERAGE LOANS
Measures credit losses from WBS's lending activities
0.10% (up 6 bps) (2017: 0.04%)

PROFIT FOR THE PERIOD
WBS's net profit after tax
$677,000 (up 9%) (2017: $622,000)

5 YEAR SUMMARY

$m	FY18	FY17	FY16	FY15	FY14
Operating profit	1.2	0.6	0.7	0.8	0.6
Loans to customers	132	116	109	104	89
Retail funding	139	120	120	105	96
Equity	18	17	17	16	16
Capital ratio	11.7%	12.1%	12.1%	11.8%	12.9%

DIRECTOR'S REPORT

For the year ended 31 March 2018

On behalf of the Board, I am pleased to share with you, our members, WBS's Annual Report for the year ended 31 March 2018.

In last year's report I noted that the Wairarapa region had seen major growth both in terms of population and economic activity. I'm pleased to see that this growth has continued into the current year across almost all of the sectors. The region is involved in.

National recognition in the form of Most Beautiful City and Most Beautiful Small Town awards for Masterton and Greytown, together with an ever increasing level of tourism activity across the region only serve to highlight to the rest of New Zealand how diverse and beautiful the Wairarapa region is.

The continued inflow of people and economic resources to the region has seen a sustained surge in demand for real estate which in turn has seen a broad-based increase in personal asset values and wealth creation for Wairarapa residents.

Increase in residential house values March 2018 v March 2017

South Wairarapa
24.4% UP

Carterton
13.8% UP

Masterton
16.5% UP

FINANCIAL PERFORMANCE

As the only financial institution focused solely on the Wairarapa region, we're proud to play our part in helping Wairarapa residents achieve their financial goals and this is reflected in the financial performance of the Group for the year ended 31 March 2018.

The current year has seen solid growth in loans to customers with a 14% year on year increase in lending within the region.

Included in this increased lending is a significant component of construction finance to support locals in building new residential homes in the region. WBS is proud to have supported this wave of new construction as not only does it help local families into their dream homes, but improves the overall housing stock in the region and sees these funds retained and recirculated within the region to support local tradespeople and businesses.

Value of new residential building consents issued in 12 months to 31 March 2018

South Wairarapa	Carterton	Masterton
$39 MILLION	**$33** MILLION	**$55** MILLION

Total Wairarapa
$127
MILLION

Source: Stats NZ

WBS has been successful in retaining and growing retail funding to support this investment in the local community through offering competitive investment returns. This reflects members faith in WBS and the role that it plays in the local community and as a Board we thank you, our members, for your continued support.

Underlying profitability for the year just gone was very strong with operating profit (profit before tax and investment property revaluations) of $1.2 million representing a 96% increase on the same figure last year.

This result reflects in part benefits accruing from economies of scale generated by growth in the balance sheet but also reflects a concerted effort on the part of the WBS team to focus on managing the cost to serve. That this overhead reduction has occurred in an environment of ever increasing regulatory and compliance requirements speaks volumes for the commitment of the WBS team to continuing to provide a quality service without sacrificing investment returns to our members.

Balance sheet growth has been carefully managed to ensure that WBS's underlying asset quality remains strong and that the growth does not come at the cost of balance sheet strength. The Group's capital ratio of 11.7% (versus a regulatory minimum of 8.0%) highlights that this focus on managed growth has been successful with growth being in large funded out of underlying profit generation rather than growth for growth's sake.

LOOKING FORWARD

As foreshadowed in last year's Annual Report the Board and Management are continuing to undertake a strategic review of WBS's activities. This review has required us to look not only at how we are offering our products and services but also to review what products and services we offer with a view to ensuring WBS remains relevant and accessible to our customer base.

The on-going strategic review process has identified a number of potentially exciting opportunities for WBS to make continuous improvement in the way in which we interact with our customers and the overall customer experience. As a Board we are continuing to assess these opportunities but rest assured that our focus remains on doing what we do (investments and loans) better, more efficiently and interacting more easily with our customers.

On a personal note I'd like to take this opportunity to formally recognise the contribution of our Loans Officer Elva Simonsen who recently retired after 37 years with WBS. Many of you will have dealt with Elva over the years and I am sure you will join me in wishing Elva a happy retirement.

Elva epitomised everything that WBS customer service is about in terms of providing a personal, friendly, 'can-do' solution orientated approach to meeting our customers' needs. I believe this remains one of WBS's key points of difference and we look forward to having the opportunity to continue to provide you with this service and assist you in meeting your investment and loan needs.

Colin Oldfield
Chair

29 June 2018

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 2018 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 2018;

— 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 on the Register, Building Society Annual Returns 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 Goup 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 entity'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 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 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:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/

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

The engagement partner on the audit resulting in this independent auditor's report is Brent Manning

For and on behalf of

KPMG

KPMG
Wellington

29 June 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In New Zealand dollar thousands

	Note	As at 31 March 2018	As at 31 March 2017
ASSETS			
Cash and cash equivalents	*11*	16,813	12,310
Loans to customers	*12*	132,047	116,441
Accrued interest receivable		100	44
Other receivables and accruals		73	94
Investment property	*13*	8,390	8,370
Property, plant & equipment	*14*	2,378	2,407
Intangibles		8	17
Total assets		**159,809**	**139,683**
LIABILITIES			
Retail funding	*15*	139,272	119,795
Non-retail funding	*16*	-	400
Accrued interest payable		1,379	1,132
Other payables and accruals		550	477
Income tax payable	*10*	100	29
Deferred tax liabilities	*10*	409	422
Derivative financial instruments		50	44
Total liabilities		**141,760**	**122,299**
EQUITY			
Share capital	*24*	300	300
Retained earnings		16,564	15,915
Revaluation reserve	*24*	1,185	1,169
Equity		**18,049**	**17,384**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In New Zealand dollar thousands

	Share capital	Retained earnings	Revaluation reserve	Total equity
BALANCE AT 1 APRIL 2017				
Opening equity	300	15,915	1,169	17,384
Profit for the period	-	677	-	677
Distributions to capital share holders	-	(28)	-	(28)
Other comprehensive income	-	-	16	16
Balance at 31 March 2018	**300**	**16,564**	**1,185**	**18,049**
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**

The notes on pages 10 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 2018	Year ended 31 March 2017
INTEREST INCOME			
Loans to customers		7,364	6,403
Cash and cash equivalents		417	513
Total interest income		**7,781**	**6,916**
INTEREST EXPENSE			
Retail funding		4,646	4,119
Non-retail funding		-	1
Total interest expense		**4,646**	**4,120**
Net interest income (NII)		**3,135**	**2,796**
Other operating income	*7*	825	739
Total operating income		**3,960**	**3,535**
Personnel expenses	*8*	1,045	1,113
Other operating expenses	*9*	1,666	1,784
Total operating expenses		**2,711**	**2,897**
Operating profit		**1,249**	**638**
Change in the fair value of investment property	*13*	(174)	163
Profit before tax		**1,075**	**801**
Income tax expense	*10*	398	179
Profit for the period		**677**	**622**
OTHER COMPREHENSIVE INCOME (OCI)			
Net change in revaluation reserve		16	16
Total comprehensive income for the period		**693**	**638**

The notes on pages 10 to 32 are an integral part of these consolidated financial statements

For and on behalf of the Board of Directors:

C G Oldfield
Chair – Board of Directors

A G Beech
Chair – Audit and Risk Committee

29 June 2018

CONSOLIDATED STATEMENT OF CASH FLOWS

In New Zealand dollar thousands

	Year ended 31 March 2018	Year ended 31 March 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	7,584	6,946
Interest paid	(4,398)	(4,207)
Other operating income	833	800
Cash generated from operating activities	**4,019**	**3,539**
Payments to suppliers and employees	(2,432)	(2,680)
Income taxes paid	(340)	(200)
Net cash from operating activities	**1,247**	**659**
CASH FLOWS FROM INVESTING ACTIVITIES		
Advance of loans to customers	(64,963)	(62,013)
Repayment of loans to customers	49,324	54,121
Net change in loans to customers	**(15,639)**	**(7,892)**
Acquisition of property, plant & equipment	(2)	(81)
Acquisition of investment property	(424)	(531)
Disposal of investment property	244	-
Net cash used in investing activities	**(15,821)**	**(8,504)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in retail funding	19,477	34
Net change in non-retail funding	(400)	400
Net cash from financing activities	**19,077**	**434**
Net increase/(decrease) in cash and cash equivalents	**4,503**	**(7,411)**
Opening cash and cash equivalents	12,310	19,721
Closing cash and cash equivalents	**16,813**	**12,310**
NET CASH FROM OPERATING ACTIVITIES COMPRISES		
Profit for the period	**677**	**622**
Adjustments for non-cash items:		
- Depreciation and amortisation	55	67
- Capitalised interest	(139)	(34)
- Net impairment loss on loans	124	50
- Fair value change in investment property	174	(163)
- Gain on sale of investment property	(14)	-
- Deferred tax	-	(47)
- Other	7	(11)
	884	**484**
Changes in:		
- Accrued interest receivable	(56)	64
- Other receivables and accruals	21	60
- Accrued interest payable	247	(88)
- Other payables and accruals	73	113
- Income tax payable	78	26
Net cash from operating activities	**1,247**	**659**

The notes on pages 10 to 32 are an integral part of these consolidated financial statements

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, the 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.

In New Zealand dollar thousands

6. Operating segments

	Financial services	Investment properties	Total
YEAR ENDED 31 MARCH 2018			
External total operating income	3,242	718	3,960
External costs	(2,059)	(652)	(2,711)
Change in the fair value of investment property	-	(174)	(174)
Segment profit before tax	**1,183**	**(108)**	**1,075**
31 MARCH 2018			
Segment assets	149,057	10,752	159,809
Segment liabilities	(141,240)	(520)	(141,760)
Segment net assets	**7,817**	**10,232**	**18,049**
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**

7. Other operating income

	Year ended 31 March 2018	Year ended 31 March 2017
Lending and facility fees	107	93
Investment property rental income	704	646
Gain on sale of investment property	14	-
Total other operating income	**825**	**739**

8. Personnel expenses

	Year ended 31 March 2018	Year ended 31 March 2017
Directors fees	92	90
Short-term employee benefits		
- Key management personnel	586	602
- Other	347	361
Other personnel related expenses	20	60
Total personnel expenses	**1,045**	**1,113**

In New Zealand dollar thousands

9. Other operating expenses

	Year ended 31 March 2018	Year ended 31 March 2017
Audit fees	59	49
Other audit-related costs	37	14
Bank fees	320	313
Branch costs	453	561
Depreciation and amortisation	55	67
Insurance	48	46
Investment property costs	203	210
Marketing and sponsorships	184	167
Provision for credit impairment	124	50
Receivables written off	-	-
Regulatory costs	77	134
Other	106	173
Total other operating expenses	**1,666**	**1,784**

Other audit-related costs relate to services provided for the audit or review of financial information other than financial statements including Register reporting requirements, Building Society Annual Returns and certain of the Group's non-retail funding facilities.

10. Income taxes

A. AMOUNTS RECOGNISED IN PROFIT OR LOSS

	Year ended 31 March 2018	Year ended 31 March 2017
Income tax	401	220
Deferred tax	(13)	(35)
Current tax expense	**388**	**185**
Adjustments to prior period income tax	10	6
Adjustments to prior period deferred tax	-	(12)
Prior period tax adjustments	**10**	**(6)**
Total income tax expense	**398**	**179**

B. RECONCILIATION OF EFFECTIVE TAX RATE

	Year ended 31 March 2018	Year ended 31 March 2017
Profit before tax	**1,075**	**801**
Prima facie income tax at 28%	301	224
Adjustment for items not subject to tax	87	(39)
Total current tax expense	**388**	**185**
Effective tax rate	36%	23%

In New Zealand dollar thousands

10. Income taxes (continued)

C. DEFERRED TAX LIABILITY

	31 March 2018	31 March 2017
Opening balance of deferred tax liability	422	469
Origination and reversal of temporary differences	(13)	(35)
Prior period tax adjustments	-	(12)
Closing balance of deferred tax liability	**409**	**422**
Deferred tax liability/(asset) attributable to:		
Tax effect of losses carried forward	(22)	(22)
Property, plant & equipment	455	455
Investment property	40	40
Other items	(64)	(51)
Deferred tax liability	**409**	**422**

D. INCOME TAX PAYABLE

	31 March 2018	31 March 2017
Opening balance of income tax payable	29	3
Current income tax expense	401	220
Prior period income tax adjustments	10	6
Income taxes paid	(340)	(200)
Closing balance of income tax payable	**100**	**29**

E. IMPUTATION CREDIT ACCOUNT

	31 March 2018	31 March 2017
Opening balance of imputation credit account	7,393	7,200
Income tax paid during the year	340	200
Other	-	(7)
Closing balance of imputation credit account	**7,733**	**7,393**

In New Zealand dollar thousands

11. Cash and cash equivalents

	31 March 2018	31 March 2017
Cash on hand	158	104
Cash on-call with NZ registered banks	1,655	206
Cash on deposit with NZ registered banks	15,000	12,000
Total cash and cash equivalents	**16,813**	**12,310**

12. Loans to customers

	31 March 2018	31 March 2017
Loans secured by mortgage	129,774	114,499
Loans secured by other collateral	2,206	1,898
Unsecured loans	503	307
Gross loans to customers	**132,483**	**116,704**
Fair value hedge adjustment	50	44
Deferred fee income	(136)	(81)
Provision for credit impairment		
- Collective impairment allowance	(101)	(102)
- Individual impairment allowance	(249)	(124)
Total loans to customers	**132,047**	**116,441**

A. CREDIT QUALITY ANALYSIS

	31 March 2018	31 March 2017
Performing loans	117,603	110,061
Loans past due but not individually impaired		
- 0 – 30 days	5,688	358
- 31 – 90 days	3,896	365
- 91 days and over	2,373	1,942
Loans with renegotiated terms	1,911	3,110
Individually impaired loans	1,012	868
Total gross loans to customers	**132,483**	**116,704**

In New Zealand dollar thousands

12. Loans to customers (continued)

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.

The approach taken to determine the classification and quantum of loans past due has been modified in the current reporting period to better reflect the requirements of NZ IFRS 7. Loans past due now reflect all loans where the customer has failed to comply with contractual repayment obligations regardless of other qualitative factors that indicate the credit risk of the customer has not been adversely impacted. Comparative information in respect of loans past due has not been restated as retrospective application of the revised methodology is considered to be impracticable due to the volume of transactions and degree of manual recalculation required to determine the historic contractual repayment obligations that have not been complied with.

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 2018	31 March 2017
Opening collective impairment allowance	(102)	(73)
Decrease/(increase) in allowance during the year	1	(29)
Closing collective impairment allowance	**(101)**	**(102)**

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 2018			
Opening balance	868	(124)	744
Bad debts written off	-	-	-
Individually impaired loans repaid	-	-	-
Net movement in individually impaired loans	144	(125)	19
Closing balance	**1,012**	**(249)**	**763**
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**

In New Zealand dollar thousands

12. Loans to customers (continued)

D. UNDRAWN LOAN COMMITMENTS

	31 March 2018	31 March 2017
Loan facilities not fully drawn	10,488	12,627
Undrawn loan approvals	13,594	14,493
Total undrawn loan commitments	**24,082**	**27,120**

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

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 2018				
Opening fair value of investment property	5,275	1,300	1,795	8,370
Additions (subsequent expenditure)	387	37	-	424
Disposals	-	-	(230)	(230)
Change in fair value taken to profit or loss	(437)	(37)	300	(174)
Closing fair value of investment property	**5,225**	**1,300**	**1,865**	**8,390**
Rating valuation	5,670	2,000	1,730	
Date of last rating valuation	Sep-17	Sep-16	Sep-17	
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**

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 2018 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.

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	• Existing rental rates used with no assumption of material uplift in potential market rental rates and/or rental growth. • Market capitalisation rates of between 7.75% and 9.5% used for existing tenancies • Market capitalisation rates of 12.5% used for untenanted spaces.	The estimated fair values would increase/(decrease) if: • 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	• 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 2015-2018 period.	

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 2018	31 March 2017
Less than 1 year	547	595
Between 1 and 5 years	525	903
More than 5 years	72	148
Total amounts due under non-cancellable leases	**1,144**	**1,646**

In New Zealand dollar thousands

14. Property, plant & equipment

	Land & buildings	Other	Total
YEAR ENDED 31 MARCH 2018			
Opening net book value	2,300	107	2,407
Additions (subsequent expenditure)	-	2	2
Depreciation	(16)	(31)	(47)
Change in fair value taken to OCI	16	-	16
Closing net book value	**2,300**	**78**	**2,378**
Rating valuation	2,350		
Date of last rating valuation	Sep-17		
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**

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 2018 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	• Existing rental rates used with no assumption of material uplift in potential market rental rates and/or rental growth. • Market capitalisation rates of 8.75% used for existing tenancies. • Occupancy rate of 100% assumed.	The estimated fair values would increase/(decrease) if: • 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	• 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 2015-2018 period.	

In New Zealand dollar thousands

15. Retail funding

	31 March 2018	31 March 2017
Call deposits	5,911	7,148
Term deposits	7,207	5,808
Deposits	**13,118**	**12,956**
Call redeemable shares	14,074	11,616
Term redeemable shares	112,080	95,223
Redeemable shares	**126,154**	**106,839**
Total retail funding	**139,272**	**119,795**

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 2018	31 March 2017
Retail funding from:		
- Customers domiciled in the Wairarapa region	129,133	108,225
- Customers domiciled outside the Wairarapa region	10,139	11,570
Total retail funding	**139,272**	**119,795**

16. Non-retail funding

	31 March 2018	31 March 2017
Committed bank funding facilities	24,000	24,000
Undrawn bank funding facilities	(24,000)	(23,600)
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 11.7% (31 March 2017: 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.

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 2018	31 March 2017
Residential housing loans	91,452	79,212
Commercial and other loans	35,843	32,288
Farming loans	4,752	4,941
Cash on hand	158	104
Cash and deposits lodged with registered banks	16,655	12,206
Other	173	138
Total financial assets	**149,033**	**128,889**

B. CONCENTRATIONS OF CREDIT RISK BY GEOGRAPHY

	31 March 2018	31 March 2017
Credit risk exposures:		
- Within the Wairarapa region	122,155	107,506
- Outside the Wairarapa region	26,878	21,383
Total financial assets	**149,033**	**128,889**

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 2018	31 March 2017
Between:		
- 10% and 20% of Group equity	2	1
- 20% and 30% of Group equity	1	1
- 30% and 40% of Group equity	-	-
- 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	1
- 80% and 90% of Group equity	-	-
- 90% and 100% of Group equity	-	-
Greater than 100% of Group equity	-	-
Total number of counterparties	**4**	**3**

The principal concentrations of credit risk relate to cash lodged with the Bank of New Zealand Limited and Westpac New Zealand Limited (2017: Bank of New Zealand Limited only). 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 has entered into interest rate swaps with a notional contract amount of $2,100,000 (31 March 2017: $2,100,000) and a maximum outstanding term of 2.5 years (31 March 2017: 3.5 years).

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	Total
31 MARCH 2018							
Cash and cash equivalents	16,655	-	-	-	-	158	**16,813**
Loans to customers							
- Floating rate loans	99,624	-	-	-	-	(350)	**99,274**
- Fixed rate loans	9,135	11,377	9,671	2,590	-	-	**32,773**
Accrued interest receivable	-	-	-	-	-	100	**100**
Other receivables and accruals	-	-	-	-	-	73	**73**
Total financial assets	125,414	11,377	9,671	2,590	-	(19)	**149,033**
Retail funding							
- On-call funding	19,985	-	-	-	-	-	**19,985**
- Term funding	78,175	36,060	4,450	602	-	-	**119,287**
Non-retail funding	-	-	-	-	-	-	**-**
Accrued interest payable	-	-	-	-	-	1,379	**1,379**
Other payables and accruals	-	-	-	-	-	550	**550**
Derivative financial instruments	-	-	-	-	-	50	**50**
Total financial liabilities	98,160	36,060	4,450	602	-	1,979	**141,251**
Effect of derivatives held for interest rate risk management	2,100	-	-	(2,100)	-	-	**-**
Net interest rate gap	**29,354**	**(24,683)**	**5,221**	**(112)**	**-**	**(1,998)**	**7,782**
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**

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 2018			
Cash and cash equivalents	16,655	(136)	136
Loans to customers			
- Floating rate loans	99,624	(1,087)	1,087
- Fixed rate loans	32,773	-	-
Total interest sensitive financial assets	149,052	(1,223)	1,223
Retail funding			
- On-call funding	19,985	275	(275)
- Term funding	119,287	680	(680)
Non-retail funding	-	-	-
Derivative financial instruments	50	(21)	21
Total interest sensitive financial liabilities	139,322	934	(934)
Impact on profit/(loss) before tax		(289)	289
Tax effected (at 28%)		81	(81)
Net impact on profit/(loss) for the period and equity		**(208)**	**208**
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	101,030	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**

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

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 2018	31 March 2017
Cash on hand	158	104
Cash on-call with NZ registered banks	1,655	206
Cash on deposit with NZ registered banks	15,000	12,000
Undrawn bank funding facilities	24,000	23,600
Total available liquid assets	**40,813**	**35,910**

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 2018							
Cash and cash equivalents	**16,813**	16,813	-	-	-	-	**16,813**
Loans to customers	**132,047**	20,000	10,223	18,045	36,032	122,929	**207,229**
Accrued interest receivable	**100**	100	-	-	-	-	**100**
Other receivables and accruals	**73**	73	-	-	-	-	**73**
Total financial assets	**149,033**	36,986	10,223	18,045	36,032	122,929	**224,215**
Retail funding							
- On-call funding	**19,985**	19,985	-	-	-	-	**19,985**
- Term funding	**119,287**	79,345	37,493	5,385	637	71	**122,931**
Non-retail funding	**-**	-	-	-	-	-	**-**
Accrued interest payable	**1,379**	1,379	-	-	-	-	**1,379**
Other payables and accruals	**550**	550	-	-	-	-	**550**
Derivative financial instruments	**50**	14	14	28	12	-	**68**
Total financial liabilities	**141,251**	101,273	37,507	5,413	649	71	**144,913**
Unrecognised loan commitments	**-**	24,082	-	-	-	-	**24,082**
Net contractual liquidity gap		**(88,369)**	**(27,284)**	**12,632**	**35,383**	**122,858**	**55,220**

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 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**

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 or 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.

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 2018							
Cash and cash equivalents	**16,813**	16,813	-	-	-	-	**16,813**
Loans to customers	**132,047**	20,000	10,223	18,045	99,170	-	**147,438**
Accrued interest receivable	**100**	100	-	-	-	-	**100**
Other receivables and accruals	**73**	73	-	-	-	-	**73**
Total financial assets	**149,033**	36,986	10,223	18,045	99,170	-	**164,424**
Retail funding							
- On-call funding	**19,985**	2,035	1,864	3,274	6,995	10,145	**24,313**
- Term funding	**119,287**	12,145	11,129	19,541	41,750	60,557	**145,122**
Non-retail funding	**-**	-	-	-	-	-	**-**
Accrued interest payable	**1,379**	1,379	-	-	-	-	**1,379**
Other payables and accruals	**550**	550	-	-	-	-	**550**
Derivative financial instruments	**50**	14	14	28	12	-	**68**
Total financial liabilities	**141,251**	16,123	13,007	22,843	48,757	70,702	**171,432**
Unrecognised loan commitments	**-**	9,633	-	-	-	-	**9,633**
Net expected liquidity gap		**11,230**	**(2,784)**	**(4,798)**	**50,413**	**(70,702)**	**(16,641)**
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 contractual liquidity gap		**206**	**(2,943)**	**(4,907)**	**52,914**	**(60,392)**	**(15,122)**

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 2017: $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:

Valuation technique	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.

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 Level 1	Level 2	Level 3	Total
31 MARCH 2018					
Cash and cash equivalents	**16,813**				**16,813**
Loans to customers					
- Floating rate loans	**99,274**				**99,274**
- Fixed rate loans	**32,773**	-	32,749	-	**32,749**
Accrued interest receivable	**100**				**100**
Other receivables and accruals	**73**				**73**
Total financial assets not carried at fair value	**149,033**				**149,009**
Retail funding					
- On-call funding	**19,985**				**19,985**
- Term funding	**119,287**	-	119,143	-	**119,143**
Non-retail funding	**-**				**-**
Accrued interest payable	**1,379**				**1,379**
Other payables and accruals	**550**				**550**
Derivative financial instruments	**50**				**50**
Total financial liabilities not carried at fair value	**141,251**				**141,107**
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**

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.

In New Zealand dollar thousands

23. Related party transactions

A. LOANS TO RELATED PARTIES

	31 March 2018	31 March 2017
Loans to directors and related parties	92	143
Loans to key management and related parties	-	152
Total loans to related parties	**92**	**295**
Range of interest rates	4.90%-10.00%	4.90%-10.00%
Maximum term of loan	2032	2045

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 2018	31 March 2017
Retail funding from WBS Charitable Trust	87	89
Retail funding from directors and related parties	1,396	1,047
Retail funding from key management and related parties	208	3
Total retail funding from related parties	**1,691**	**1,139**
Range of interest rates	0%-4.00%	0%-4.00%
Maximum term of funding	2019	2018

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 2017: 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 no outstanding capital commitments as at the reporting date (31 March 2017: $281,133 in relation to the fit-out of the Group's investment property prior to a new tenant taking occupancy).

There are no material contingent assets or liabilities as at the reporting date (31 March 2017: $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 2017: $Nil).

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

Fes, 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.

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.

27. Significant accounting policies (continued)

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.

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.

In New Zealand dollar thousands

27. Significant accounting policies (continued)

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.

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.

In New Zealand dollar thousands

27. Significant accounting policies (cont.)

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

28. Standards issued but not yet effective (cont.)

NZ IFRS 9 FINANCIAL INSTRUMENTS (NZ IFRS 9)

NZ IFRS 9 replaces NZ IAS 39 Financial Instruments: Recognition and Measurement (NZ IAS 39) and includes requirements for impairment, classification and measurement and general hedge accounting and will be adopted by the Group in the year ending 31 March 2019.

Impairment

NZ IFRS 9 introduces an expected credit loss model as opposed to an incurred credit loss model under NZ IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date in order to reflect changes in credit risk since inception.

Loans to Customers will be subject to the impairment provisions of NZ IFRS 9.

Classification and measurement

Financial assets are classified taking into account the business model within which they are managed, and their contractual cash flow characteristics. The classification and measurement requirements for financial liabilities under NZ IFRS 9 are largely consistent with NZ IAS 39.

General hedge accounting

NZ IFRS 9 introduces general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

The Group is in the process of assessing the impact of the application of NZ IFRS 9 and is not yet able to reasonably estimate the impact on its financial statements.

NZ IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (NZ IFRS 15)

NZ IFRS 15 contains new requirements for the recognition of revenue and will be adopted by the Group in the year ending 31 March 2019.

Under NZ IFRS 15 an entity recognises revenue as each performance obligation within a contract is satisfied.

The Group is in the process of assessing the impact of application of NZ IFRS 15 and is not yet able to reasonably estimate the impact on its financial statements.

NZ IFRS 16 LEASES (NZ IFRS 16)

NZ IFRS 16 requires Lessees to recognise the right to use the underlying leased asset, as a right-of-use asset, and obligation to make lease payments as a lease liability. Lessor accounting requirements are substantially unchanged from those currently set out in NZ IAS 17 Leases.

The Group is in the process of assessing the impact of the application of NZ IFRS 16 and is not yet able to reasonably estimate the impact on its financial statements.

DIRECTORY

For the year ended 31 March 2018

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 Parker
N F Rogers

MANAGEMENT

CHIEF EXECUTIVE OFFICER
K P McCabe, BCA

CHIEF FINANCIAL OFFICER
P Bywater, CA, BBS

OPERATIONS MANAGER
A I Bond, BSc

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SUPERVISOR

Trustees Executors Limited
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