

Wairarapa Building Society

Key Rating Drivers

Ratings Constrained by Franchise: Wairarapa Building Society's (WBS) ratings reflect its small franchise, sound asset quality and adequate capital buffers, partly offset by its higher earnings volatility, which is in part driven by the society's investment-property portfolio. Fitch Ratings believes WBS has some competitive advantages in its home market, supported by its local ownership and community links. However, we consider WBS a 'price-taker' in its key segments due to its limited franchise.

Sound Asset Quality: WBS's underwriting standards are consistent with those of domestic peers and should continue to underpin its asset quality over the medium term. Fitch expects WBS to remain focused on residential mortgages in the Wairarapa region and to target local commercial customers. Asset quality should continue to be supported by the low-interest-rate environment and improved arrears management. Single-name and geographic concentration remains high, although single-name concentration has improved slightly from previous years.

Pressure on Earnings: We believe the society will face rising pressure from continued competition for assets and deposits in the next two years. WBS's cost-to-income ratio remains higher than that of some of its domestic peers due to its smaller scale. Ongoing investments in systems and regulatory compliance could add pressure on its profitability in 2020.

Adequate Capital Buffer: The society's capitalisation compares favourably against that of non-bank deposit takers in New Zealand, reflecting management's focus on financial resilience and stability. The recent slowdown in credit growth has further strengthened its capital ratios, which should continue to improve in 2020. However, the capital mid-point also reflects WBS's small capital base in absolute terms and its high geographic concentration.

Investment Property: WBS's investment-property portfolio remains small, although it may result in higher earnings volatility than peers. Nevertheless, over the longer term, these investments have provided significant support to WBS's earnings. WBS has reduced its property holdings in recent years and sold a commercial property in late 2019. We expect management to maintain the portfolio around the current size.

Stable Funding Profile: WBS's funding structure remains sound with its loans fully funded by customer deposits, and we do not expect any material changes to this composition in the short to medium term. Deposit growth is likely to be in line with loan growth in 2020. WBS's liquidity ratios were well in excess of its trust-deed requirements as of September 2019. WBS does not have other contingent liquidity resources, similar to other non-bank deposit takers.

Rating Sensitivities

Aggressive Growth: WBS's Issuer Default Ratings (IDRs) and Viability Rating would come under pressure if its risk appetite increases substantially, possibly the result of aggressive loan growth, expansion outside its home market, or weaker underwriting standards in an effort to enlarge its franchise. This could lead to weaker asset quality and profitability during a downturn.

Positive Action Unlikely: Positive rating action is not probable due to the society's small absolute capital base, moderate franchise, concentration risk, and limited access to contingent liquidity sources.

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B

Local Currency

Long-Term IDR	BB+
Short-Term IDR	B

Viability Rating	bb+
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign-Currency IDR	AA
Long-Term Local-Currency IDR	AA+
Country Ceiling	AAA

Outlooks/Watches

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(October 2018\)](#)

[Short-Term Ratings Criteria \(May 2019\)](#)

Related Research

[Fitch Affirms Wairarapa Building Society at 'BB+'; Outlook Stable \(December 2019\)](#)

[Wairarapa Building Society - Ratings Navigator \(January 2020\)](#)

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Environmental, Social and Governance Considerations

FitchRatings Wairarapa Building Society

Credit-Relevant ESG Derivation

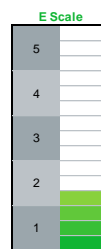
Wairarapa Building Society has 5 ESG potential rating drivers

- Wairarapa Building Society has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale	
key driver	0	issues	5	
driver	0	issues	4	
potential driver	5	issues	3	
not a rating driver	4	issues	2	
	5	issues	1	

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

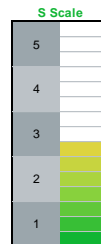
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

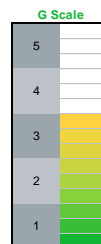
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Income Statement

	31 Mar 2019		31 Mar 2018		31 Mar 2017		31 Mar 2016		As % of Risk Weighted Assets
	Year End	Year End	As % of	Year End	As % of	Year End	As % of	Year End	
	USDm	NZD'000	Risk Weighted Assets	NZD'000	Risk Weighted Assets	NZD'000	Risk Weighted Assets	NZD'000	
	Audited - Unqualified	Audited - Unqualified		Audited - Unqualified		Audited - Unqualified		Audited - Unqualified	
1. Gross Interest and Dividend Income	6	8,171.0	5.5	7,781.0	5.1	6,916.0	4.9	7,266.0	5.3
2. Total Interest Expense	3	4,578.0	3.1	4,646.0	3.0	4,120.0	2.9	4,570.0	3.3
3. Net Interest Income	2	3,593.0	2.4	3,135.0	2.0	2,796.0	2.0	2,696.0	1.9
4. Net Fees and Commissions	0	218.0	0.1	107.0	0.1	93.0	0.1	57.0	0.0
5. Trading and Investment Income	n.a.	n.a.	n.a.	-174.0	-0.1	163.0	0.1	54.0	0.0
6. Other Non-Interest Operating Income	0	710.0	0.5	704.0	0.5	646.0	0.5	681.0	0.5
7. Total Non-Interest Operating Income	1	928.0	0.6	637.0	0.4	902.0	0.6	792.0	0.6
8. Total Operating Income	3	4,521.0	3.0	3,772.0	2.5	3,698.0	2.6	3,488.0	2.5
9. Personnel Expenses	1	1,171.0	0.8	1,045.0	0.7	1,113.0	0.8	956.0	0.7
10. Other Operating Expenses	1	1,248.0	0.8	1,542.0	1.0	1,734.0	1.2	1,693.0	1.2
11. Total Non-Interest Expenses	2	2,419.0	1.6	2,587.0	1.7	2,847.0	2.0	2,649.0	1.9
12. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
13. Pre-Impairment Operating Profit	1	2,102.0	1.4	1,185.0	0.8	851.0	0.6	839.0	0.6
14. Loan Impairment Charge	0	-126.0	-0.1	124.0	0.1	50.0	0.0	57.0	0.0
15. Securities and Other Credit Impairment Charges	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	55.0	0.0
16. Operating Profit	2	2,228.0	1.5	1,061.0	0.7	801.0	0.6	727.0	0.5
17. Non-Operating/ Non-Recurring Income/Expense	n.a.	n.a.	n.a.	14.0	0.0	n.a.	n.a.	46.0	0.0
18. Pre-tax Profit	2	2,228.0	1.5	1,075.0	0.7	801.0	0.6	773.0	0.6
19. Tax Expense	0	477.0	0.3	398.0	0.3	179.0	0.1	171.0	0.1
20. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
21. Net Income	1	1,751.0	1.2	677.0	0.4	622.0	0.4	602.0	0.4
22. Other Comprehensive Income	0	256.0	0.2	16.0	0.0	16.0	0.0	16.0	0.0
23. Total Comprehensive Income	1	2,007.0	1.3	693.0	0.5	638.0	0.4	618.0	0.4
Exchange rate		USD1 = NZD1.473839		USD1 = NZD1.38831		USD1 = NZD1.4304		USD1 = NZD1.4466	

Source: Fitch Ratings, Fitch Solutions, WBS

Balance Sheet

	31 Mar 2019		31 Mar 2018		31 Mar 2017		31 Mar 2016		
	Year End	Year End	As % of	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	NZD'000	Assets	NZD'000	Assets	NZD'000	Assets	NZD'000	Assets
Assets									
A. Loans									
1. Gross Loans	86	126,613.0	79.1	132,397.0	82.8	116,667.0	83.5	108,787.0	78.2
2. Less: Loan Loss Allowances	0	444.0	0.3	350.0	0.2	226.0	0.2	200.0	0.1
3. Net Loans	86	126,169.0	78.8	132,047.0	82.6	116,441.0	83.4	108,587.0	78.0
4. Memo: Impaired Loans included in Gross Loans above	1	1,611.0	1.0	1,012.0	0.6	868.0	0.6	1,835.0	1.3
5. Memo: Specific Loan Loss Allowances	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Memo: Gross Retail Loans	65	95,886.0	59.9	91,452.0	57.2	79,212.0	56.7	68,098.0	48.9
B. Other Earning Assets									
1. Loans and Advances to Banks	15	21,800.0	13.6	15,000.0	9.4	12,000.0	8.6	19,101.0	13.7
2. Reverse Repos and Securities Borrowing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. Other Earning Assets	5	7,495.0	4.7	8,390.0	5.3	8,370.0	6.0	7,676.0	5.5
6. Total Earning Assets	105	155,464.0	97.1	155,437.0	97.3	136,811.0	97.9	135,364.0	97.3
C. Non-Earning Assets									
1. Cash and Due From Banks	0	239.0	0.1	1,813.0	1.1	310.0	0.2	620.0	0.4
2. Foreclosed Assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Goodwill and Other Intangibles	0	4.0	0.0	8.0	0.0	17.0	0.0	39.0	0.0
4. Other Assets	3	4,452.0	2.8	2,551.0	1.6	2,545.0	1.8	3,166.0	2.3
5. Total Assets	109	160,159.0	100.0	159,809.0	100.0	139,683.0	100.0	139,189.0	100.0
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Total Customer Deposits	93	137,537.0	85.9	139,272.0	87.1	119,795.0	85.8	119,761.0	86.0
2. Deposits from Banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Repos and Securities Lending	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Commercial Paper and Short-term Borrowings	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. Total Long-Term Funding	n.a.	n.a.	n.a.	n.a.	n.a.	400.0	0.3	n.a.	n.a.
6. Trading Liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7. Total Funding	93	137,537.0	85.9	139,272.0	87.1	120,195.0	86.0	119,761.0	86.0
8. Derivatives	0	56.0	0.0	50.0	0.0	44.0	0.0	71.0	0.1
9. Total Funding and Derivatives	93	137,593.0	85.9	139,322.0	87.2	120,239.0	86.1	119,832.0	86.1
E. Non-Interest Bearing Liabilities									
1. Other Liabilities	2	2,672.0	1.7	2,438.0	1.5	2,060.0	1.5	2,611.0	1.9
2. Total Liabilities	95	140,265.0	87.6	141,760.0	88.7	122,299.0	87.6	122,443.0	88.0
F. Hybrid Capital									
1. Preference Shares and Hybrid Capital	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
G. Equity									
1. Total Equity	13	19,894.0	12.4	18,049.0	11.3	17,384.0	12.4	16,746.0	12.0
2. Total Liabilities and Equity	109	160,159.0	100.0	159,809.0	100.0	139,683.0	100.0	139,189.0	100.0
3. Memo: Published Equity including Preference Shares and Hybrid Capital Accounted for as Equity	13	19,894.0	12.4	18,049.0	11.3	17,384.0	12.4	16,746.0	12.0
4. Memo: Fitch Core Capital	13	19,890.0	12.4	18,041.0	11.3	17,367.0	12.4	16,707.0	12.0
Exchange rate		USD1 = NZD1.473839		USD1 = NZD1.38831		USD1 = NZD1.4304		USD1 = NZD1.4466	

Source: Fitch Ratings, Fitch Solutions, WBS

Summary Analytics

	31 Mar 2019 Year End	31 Mar 2018 Year End	31 Mar 2017 Year End	31 Mar 2016 Year End
A. Interest Ratios (%)				
1. Interest Income/ Average Earning Assets	5.5	5.3	5.1	5.7
2. Interest Expense/ Average Interest-bearing Liabilities	3.3	3.5	3.4	4.1
3. Net Interest Income/ Average Earning Assets	2.4	2.1	2.1	2.1
4. Net Int. Inc Less Loan Impairment Charges/ Average Earning Assets	2.5	2.0	2.0	2.1
B. Other Operating Profitability Ratios (%)				
1. Operating Profit/ Risk-Weighted Assets	1.5	0.7	0.6	0.5
2. Non-Interest Expense/Gross Revenues	53.5	68.6	77.0	76.0
3. Loans and Securities Impairment Charges/ Pre-impairment Operating Profit	-6.0	10.5	5.9	13.4
4. Operating Profit/ Average Total Assets	1.4	0.7	0.6	0.6
5. Operating Profit/ Average Equity	11.9	6.0	4.7	4.4
6. Non-Interest Income/ Gross Revenues	20.5	16.9	24.4	22.7
7. Non-Interest Expense/ Average Total Assets	1.5	1.7	2.0	2.0
8. Pre-impairment Operating Profit/ Average Equity	11.2	6.7	5.0	5.1
9. Pre-impairment Operating Profit/ Average Total Assets	1.3	0.8	0.6	0.6
C. Other Profitability Ratios (%)				
1. Net Income/ Average Total Equity	9.3	3.8	3.6	3.7
2. Net Income/ Average Total Assets	1.1	0.5	0.5	0.5
3. Net Income/ Risk Weighted Assets	1.2	0.4	0.4	0.4
D. Capitalisation (%)				
1. Fitch Core Capital (FCC)/ FCC-Adjusted Risk Weighted Assets	13.3	11.8	12.2	12.1
2. Tangible Common Equity/ Tangible Assets	12.4	11.3	12.4	12.0
3. Basel Leverage Ratio	n.a.	n.a.	n.a.	n.a.
4. Common Equity Tier 1 Capital Ratio	n.a.	n.a.	n.a.	n.a.
5. Fully Loaded Common Equity Tier 1 Capital Ratio	n.a.	n.a.	n.a.	n.a.
6. Impaired Loans less Loan Loss Allowances/ Fitch Core Capital	5.9	3.7	3.7	9.8
7. Risk-Weighted Assets/ Total Assets	93.2	96.1	101.9	99.4
8. Growth of Risk-Weighted Assets	-2.8	7.9	2.9	n.a.
E. Loan Quality (%)				
1. Impaired Loans/ Gross Loans	1.3	0.8	0.7	1.7
2. Growth of Gross Loans	-4.4	13.5	7.2	4.6
3. Loan Loss Allowances/ Impaired Loans	27.6	34.6	26.0	10.9
4. Loan Impairment Charges/ Average Gross Loans	-0.1	0.1	0.0	0.1
5. Net Charge-offs/ Average Gross Loans	n.a.	0.0	0.0	n.a.
F. Funding and Liquidity (%)				
1. Gross Loans/ Customer Deposits	92.1	95.1	97.4	90.8
2. Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.
3. Customer Deposits/ Total Funding (Excluding Derivatives)	100.0	100.0	99.7	100.0
4. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.
5. Growth of Total Customer Deposits	-1.3	16.3	0.0	13.7
6. Fitch Qualifying Junior Debt/ Risk-Weighted Assets	0	0	0	0
7. Net Loans/ Customer Deposits	91.7	94.8	97.2	90.7

Source: Fitch Ratings, Fitch Solutions, WBS

Reference Data

	Year End USDm	31 Mar 2019 Year End NZD'000	31 Mar 2018 Year End NZD'000	31 Mar 2017 Year End NZD'000	31 Mar 2016 Year End NZD'000
A. Average Balance Sheet					
1. Average Gross Loans	87	128,774.7	126,010.0	112,727.0	106,400.0
2. Average Earning Assets	101	148,673.3	147,944.3	136,087.5	128,361.5
3. Average Total Assets	108	159,532.3	151,291.0	139,436.0	131,863.0
4. Average Interest-Bearing Liabilities	94	138,203.7	131,391.3	120,035.5	112,786.0
5. Average Equity	13	18,802.0	17,734.7	17,065.0	16,437.0
6. Average Customer Deposits	94	138,150.3	131,209.3	119,778.0	112,550.5
7. Average Risk Weighted Assets	102	149,978.4	150,228.0	140,301.5	138,279.3
B. Risk Weighted Assets					
1. Risk Weighted Assets	101	149,244.2	153,579.4	142,323.7	138,279.3
2. Fitch Core Capital Adjustments for Insurance and Securitisation Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.	n.a.
3. Fitch Core Capital Adjusted Risk Weighted Assets	101	149,244.2	153,579.4	142,323.7	138,279.3
4. Other Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.	n.a.
5. Fitch Adjusted Risk Weighted Assets	101	149,244.2	153,579.4	142,323.7	138,279.3
C. Fitch Core Capital Reconciliation					
1. Total Equity as reported (including non-controlling interests)	13	19,894.0	18,049.0	17,384.0	16,746.0
2. Fair-value adjustments relating to own credit risk on debt issued	0	0.0	0.0	0.0	0.0
3. Non-loss-absorbing non-controlling interests	0	0.0	0.0	0.0	0.0
4. Goodwill	0	0.0	0.0	0.0	0.0
5. Other intangibles		4.0	8.0	17.0	39.0
6. Deferred tax assets deduction	0	0.0	0.0	0.0	0.0
7. Net asset value of insurance subsidiaries	0	0.0	0.0	0.0	0.0
8. First loss tranches of off-balance sheet securitizations	0	0.0	0.0	0.0	0.0
9. Fund for general banking risks if not already included and readily convertible into equity	0	0.0	0.0	0.0	0.0
10. Fitch Core Capital	13	19,890.0	18,041.0	17,367.0	16,707.0
D. Fitch Qualifying Junior Debt Buffer Reconciliation					
1. Subordinated Borrowing	n.a.	n.a.	n.a.	n.a.	n.a.
2. Preference Shares and Hybrid Capital	0	0.0	0.0	0.0	0.0
3. Fitch Adjustments to Qualifying Junior Debt	0	0.0	0.0	0.0	0.0
4. Fitch Qualifying Junior Debt Buffer	0	0.0	0.0	0.0	0.0
Exchange Rate		USD1 = NZD1.473839	USD1 = NZD1.38831	USD1 = NZD1.4304	USD1 = NZD1.4466

Source: Fitch Ratings, Fitch Solutions, WBS

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