WBS

Wairarapa Building Society and Subsidiaries

ANNUAL REPORT 2020

Here for you.
Here for the Wairarapa.

Here for you.
Here for the Wairarapa.

Yvonne & Kevin, Carterton Food Bank
Anna, WBS

Wairarapa has been our home for nearly 150 years and we've always supported our communities during tough times.

That's why we recently chose to support all of our wonderful local Food Banks across the region.

Now more than ever, they need our support to help families in need across the Wairarapa. It's just one of the ways in which WBS is supporting local and giving back.

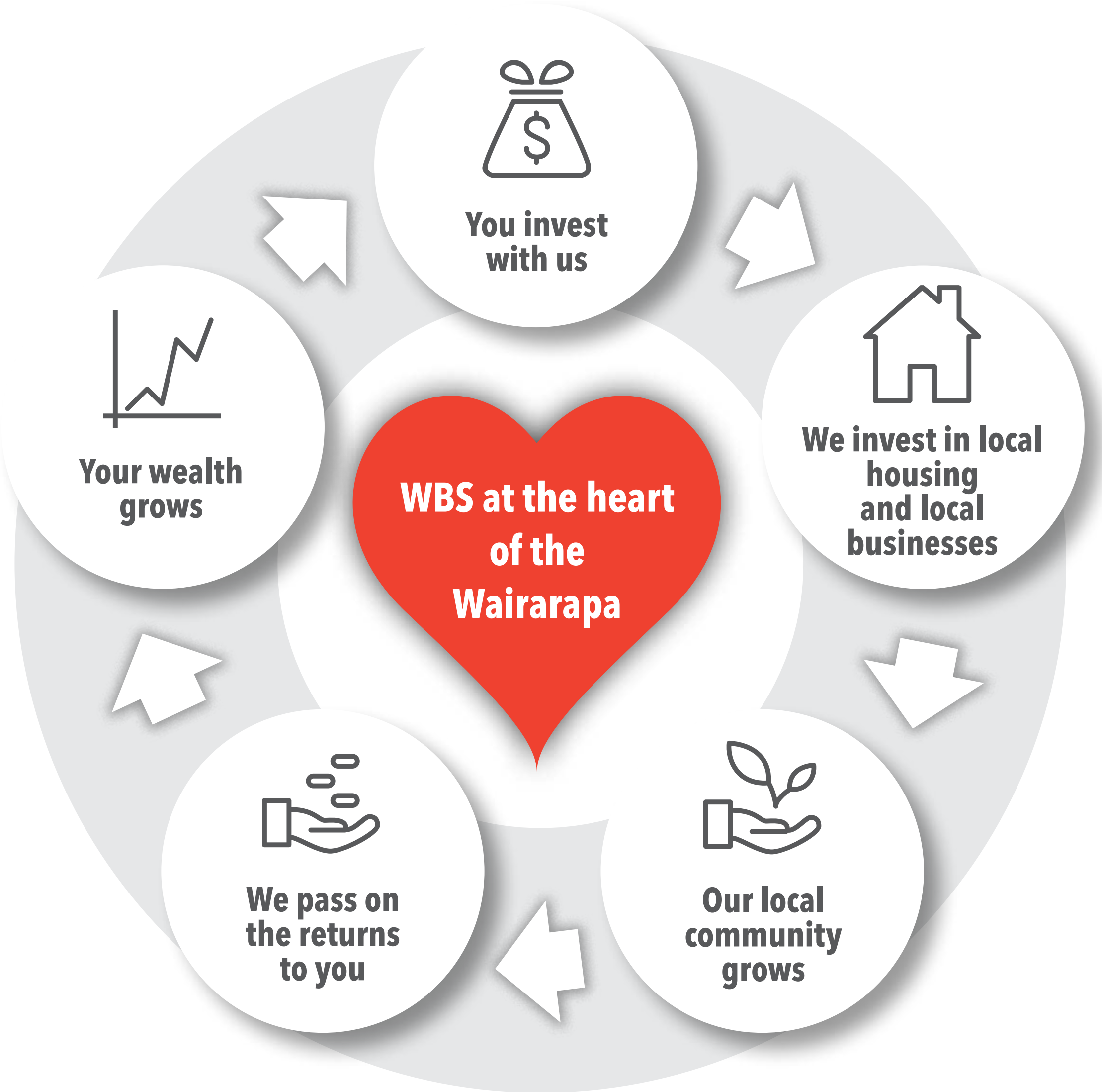
Visit www.wbs.net.nz/community or like our Facebook page for more details and to find out how you can help our local Food Banks.

WBS
Growing Local

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.

HIGHLIGHTS

RETAIL FUNDING
Member's funds invested with WBS
$143.8m (up 4.5%)

LOAN BOOK
Mortgage and other lending made by WBS to customers
$126.5m (up 0.3%)

EQUITY
WBS's net worth
$21.9m (up 9.8%)

CAPITAL RATIO
Measures WBS's ability to absorb future losses
14.3% (up 1.1%)

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

NET INTEREST INCOME
Measures net rate of return on lending activities after returns paid to investors
2.13% (Down 0.1%)

PROFIT FOR THE PERIOD
WBS's operating profit
$1.23m (Down 27.9%)

5 YEAR SUMMARY

$m	FY20	FY19	FY18	FY17	FY16
Operating profit	1.2	1.7	1.2	0.6	0.7
Loans to customers	127	126	132	116	109
Retail funding	144	138	139	120	120
Equity	22	20	18	17	17
Capital ratio	14.3%	13.2%	11.7%	12.1%	12.1%

DIRECTOR'S REPORT

For the year ended 31 March 2020

On behalf of the Board I am pleased to share with you, our members, WBS's Annual Report for the year ended 31 March 2020.

2020 has already proven to be quite a year ! The economic and social impacts of COVID-19 continue to reverberate across the globe. Aspects of our daily life that we took for granted only a matter of months ago have been irrevocably altered as we all adapt and transition to a 'new normal'.

While the long-term impacts of COVID-19 are yet to be fully felt, I feel confident about the outlook for the Wairarapa region. Our region has (so far) not suffered the same level of economic and social upheaval that a number of other regions reliant on the tourism dollar in New Zealand are facing. The economic fundamentals that have underpinned the Wairarapa region for decades remain firmly in place. In addition, COVID-19 has only served to highlight and accelerate work and lifestyle trends that make the Wairarapa region highly attractive to New Zealander's looking to enjoy the physical and emotional benefits that living in the regions offer.

I've also been encouraged to see the way in which COVID-19 has brought our communities together and focused us all on the need to support local in order to ensure that all the members of our communities are cared for and come out of the challenges of COVID-19 stronger and positioned to take the region forward. Here at WBS we've always been immensely proud of our connection with our local communities. After all the Wairarapa has been our home for nearly 150 years.

During that time we've seen a number of major crises affect our region but we've always been here on the ground and ready to support our local communities during the tough times as well as the good times. We're not going anywhere and we're committed to you and the Wairarapa region.

Key to our success has been our focus on our members and ensuring we have sufficient financial resources to weather any crisis while still being able to offer safe and solid returns on your investments. The strategy in recent years of building the strength and quality of our balance sheet, rather than a focus on short term profits or asset growth, has positioned us extremely well for any potential downturn in the local economy that may arise over the coming months.

Despite all the positives, it would be foolish to assume that the worst is behind us. The coming months and years will continue to be volatile. The already challenging interest rate environment going into COVID-19 has become increasingly difficult for WBS and the rest of the NBDT sector. Actions being taken by global and domestic central banks will continue to exacerbate the challenges for financial institutions like us who are reliant on the margin we can generate between lending rates and the investment rates we pay to our members. Unlike the big banks we don't have access to global wholesale debt and equity markets or rely on complex financial products to generate our profits. We keep it simple and we know how important it is that we continue to offer competitive returns to our members.

In the face of this challenging interest environment we have been reviewing what steps WBS can take to ensure that it retains the ability to deliver returns for our members while also ensuring that the financial strength and resilience of WBS are not put at risk. As part of our review we have identified the need to make some changes to simplify our business and assist with minimising the continual increase in compliance and operational costs while ensuring that we continue to offer the core products and high quality service that our members and customers have come to expect from us.

The most obvious change members will have noted to date is the decision to remove cash over-the-counter services with effect from 1 September 2020. This is not a decision that the Board and Management of WBS have taken lightly. However, the counter-factual would be that we either move to a full user-pays fee model for these services or continue to ask the majority of our member base to subsidise the very small number of members who utilise cash. Neither of these options sit well with us. We've been up-front and made contact about this change with members and the WBS team are working one-on-one with affected members to come up with solutions to help meet their ongoing needs.

Over the coming months we will continue to roll out a number of positive changes that I believe will help WBS continue to evolve and cement its position in the community as a safe, viable and credible option for your saving, investment and loan needs.

I would also like to take this opportunity, on behalf of the Board, to recognise and thank the WBS team for their commitment during the COVID-19 lockdown period. During a period of great upheaval and uncertainty the team were on hand to support our members and customers and ensure that your needs were met. Their commitment epitomises everything that makes WBS special – knowing that you can immediately access personal, friendly, and solution orientated customer service is a unique point of difference when compared to what is on offer from other financial service providers.

WBS remains committed to supporting the Wairarapa and we trust that our members and customers, whether past, present, or future remain equally committed to continuing to support WBS.

Colin Oldfield
Chair

31 July 2020

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 10 to 42:

i. present fairly in all material respects the Group's financial position as at 31 March 2020 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 2020;

— the consolidated statement of profit or loss and other comprehensive income, 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 the Building Society Annual Return and reporting on the Register and tax consulting services. Subject to certain restrictions, employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $65,000 determined with reference to a benchmark of group total revenue. We chose the benchmark because, in our view, this is a key measure of the group's performance.

KPMG

Key audit matters

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

Key changes in the assessment of audit risks

Covid-19

The Covid-19 pandemic has created significant additional risks across a number of areas of the business, particularly the assessment of the provision for credit impairments and the valuation of investment property and land and buildings. All forward looking assumptions are inherently more uncertain during these unprecedented times. While the key audit matters "Provision for Credit Impairment" and "Valuation of investment property and land and buildings", detailed below, are unchanged from last year, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather.

The key audit matter	How the matter was addressed in our audit
Provision for credit impairment	
Refer to Note 12 to the Financial statements. The collective and specific expected credit loss ("ECL") provision is a key audit matter owing to the financial significance of loans and advances and the high level of judgement and complexity involved in estimating impairment provisions against these loans. Due to COVID-19 and New Zealand entering into a Government imposed lockdown just prior to year-end, this judgement and complexity is heightened in respect of assessing the immediate impact of the pandemic and the path to recovery from the lockdown. This is reflected in the increased uncertainty in relation to judgements about future cashflows, security values and the underlying assumptions made to estimate expected credit losses. For loans that have been identified as impaired, judgement is involved primarily with estimating the timing and proceeds from the future sale of assets securing the loans. For loans not currently impaired, judgement is required as the collective impairment provision is forward-looking and involves estimating the likelihood that these	Our audit procedures for the specific and collective provision for credit impairment included: **Provisions against specific individual loans (specific provision)** — Testing of lending related controls, including testing the approval of new lending facilities and monitoring of loans in arrears. — Re-performing the specific impairment provision calculations for a sample of individual loans. — Challenging the Society's assessment of loan recoverability and the impact on the provision for a sample of loans. To do this, we reviewed the information on the Society's loan file including third party valuations, discussed the case with management and performed our own assessment of recoverability. — Performing credit assessments of a sample of loans, focusing on larger exposures, areas of emerging risk and loans in arrears, to determine whether the loans have been appropriately monitored and provided for if necessary. **Provisions estimated for the loan portfolio as a whole (collective provision)** — Assessing the Society's methodology used in the Expected Credit Loss (ECL) model to calculate the collective provision against the requirements of NZ IFRS 9: *Financial Instruments* ("NZ IFRS 9") and industry practice. — Testing the accuracy of key inputs into the ECL model by checking a sample of balances to source systems and historic data (both internal and external data sources). — Assessing the development of economic scenarios against external economic information and the application into the ECL model. Given the degree of uncertainty in respect of forecast macroeconomic inputs in a COVID-19 scenario, this included

The key audit matter	How the matter was addressed in our audit
loans will default in the future and the amount of loss if they do default.	benchmarking management's estimates to a range of different market forecasts. — Testing the accuracy of the model calculations. — Assessing the Society's significant accounting policies and disclosures in the financial statements against the requirements of NZ IFRS 9.
Valuation of investment property and land and buildings	
Refer to Note 13 and 15 to the Financial statements. The value of investment property and land and buildings is a key audit matter owing to the financial significance of investment property and land and buildings and the high level of judgement and complexity involved in the valuations performed by independent valuers. Judgement is required in identifying comparable properties for performing the valuation or determining the rate at which to capitalise property rentals. The independent valuers have undertaken their valuations with reference to COVID-19 and the material uncertainty involved in assessing the fair value of the investment property and land and buildings in the current economic environment.	Our audit procedures included: — Assessing the appropriateness of the valuation model used, including compliance with relevant accounting standards and alignment to market practice. — Assessing the competence, objectivity and independence of the independent valuers engaged by the Society. — Challenging the assumptions in the valuations which are judgemental in nature and which have the largest impact on the value of investment property and land and buildings, such as: o Agreeing a sample of current property rentals to lease agreements, o Assessing the reasonableness of movements in the rental capitalisation rates applied, and o Comparing values for a sample of properties to recent sales data.

Other information

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

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

Use of this independent auditor's report

This 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 Society, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- 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-1/

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

The engagement partner on the audit resulting in this independent auditor's report is Sonia Isaac

For and on behalf of

KPMG

KPMG
Wellington

31 July 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In New Zealand dollar thousands

	Note	As at 31 March 2020	As at 31 March 2019
ASSETS			
Cash and cash equivalents	*11*	29,612	22,039
Loans to customers	*12*	126,544	126,169
Accrued interest receivable		208	251
Other receivables and accruals		112	125
Investment property	*13*	8,645	7,495
Held for sale investment property	*14*	-	1,457
Property, plant & equipment	*15*	2,624	2,619
Intangibles		40	4
Total assets		**167,785**	**160,159**
LIABILITIES			
Retail funding	*16*	143,782	137,537
Accrued interest payable		1,398	1,442
Other payables and accruals		579	626
Income tax payable		96	101
Deferred tax liabilities	*10*	46	357
Derivative financial instruments		34	56
Held for sale investment property deposit	*14*	-	146
Total liabilities		**145,935**	**140,265**
EQUITY			
Share capital	*25*	300	300
Retained earnings		20,093	18,153
Revaluation reserve	*25*	1,457	1,441
Equity		**21,850**	**19,894**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In New Zealand dollar thousands

	Share capital	Retained earnings	Revaluation reserve	Total equity
Balance at 1 April 2019				
Opening equity	300	18,153	1,441	19,894
Profit for the period	-	2,020	-	2,020
Distributions to capital share holders	-	(80)	-	(80)
Other comprehensive income	-	-	16	16
Balance at 31 March 2020	**300**	**20,093**	**1,457**	**21,850**
Balance at 1 April 2018				
Opening equity	300	16,564	1,185	18,049
Adjustment on transition to NZ IFRS-9	-	(162)	-	(162)
Profit for the period	-	1,751	-	1,751
Other comprehensive income	-	-	256	256
Balance at 31 March 2019	**300**	**18,153**	**1,441**	**19,894**

The notes on pages 13 to 42 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 2020	Year ended 31 March 2019
INTEREST INCOME			
Loans to customers		6,948	7,472
Cash and cash equivalents		820	699
Total interest income		**7,768**	**8,171**
INTEREST EXPENSE			
Retail funding		4,278	4,578
Total interest expense		**4,278**	**4,578**
Net interest income (NII)		**3,490**	**3,593**
Other operating income	*7*	1,003	928
Total operating income		**4,493**	**4,521**
Personnel expenses	*8*	1,255	1,171
Net credit impairment loss/(gain)	*12*	301	(126)
Other operating expenses	*9*	1,710	1,774
Total operating expenses		**3,266**	**2,819**
Operating profit		**1,227**	**1,702**
Change in the fair value of investment property	*13*	904	526
Profit before tax		**2,131**	**2,228**
Income tax expense	*10*	111	477
Profit for the period		**2,020**	**1,751**
OTHER COMPREHENSIVE INCOME (OCI)			
Net change in revaluation reserve	*15*	16	256
Total comprehensive income for the period		**2,036**	**2,007**

The notes on pages 13 to 42 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

31 July 2020

CONSOLIDATED STATEMENT OF CASH FLOWS

In New Zealand dollar thousands

	Year ended 31 March 2020	Year ended 31 March 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	7,396	8,006
Interest paid	(4,323)	(4,516)
Net change in loans to customers	205	5,798
Other operating income	1,012	929
Payments to suppliers and employees	(3,195)	(2,762)
Net change in retail and non-retail funding	6,245	(1,785)
Income taxes paid	(435)	(528)
Net cash from operating activities	**6,905**	**5,142**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant & equipment	(49)	(80)
Acquisition of intangibles	(57)	-
Acquisition of investment property	(176)	-
Disposal of held for sale investment property	1,010	164
Net cash from investing activities	**728**	**84**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to capital shareholders	(60)	-
Net cash used in financing activities	**(60)**	**-**
Net increase in cash and cash equivalents	**7,573**	**5,226**
Opening cash and cash equivalents	22,039	16,813
Closing cash and cash equivalents	**29,612**	**22,039**
NET CASH FROM OPERATING ACTIVITIES COMPRISES		
Profit for the period	**2,020**	**1,751**
Adjustments for non-cash items:		
- Depreciation and amortisation	67	41
- Capitalised interest	(416)	(367)
- Net movement in provision for credit impairment	301	(126)
- Fair value change in investment property	(904)	(526)
- Gain on sale of investment property	(20)	-
- Deferred tax	(311)	-
	737	**773**
Changes in:		
- Accrued interest receivable	43	(287)
- Other receivables and accruals	159	4,357
- Accrued interest payable	(45)	63
- Other payables and accruals	6,020	287
- Income tax payable	(9)	(51)
Net cash from operating activities	**6,905**	**5,142**

The notes on pages 13 to 42 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In New Zealand dollar thousands

1. Reporting entity

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

During the current reporting period the Parent wound up two non-operating wholly owned subsidiaries. As a result, Manawatu Permanent Building Society and Wairarapa Property Traders Limited no longer form part of these consolidated financial statements.

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 28. 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 15** - 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 2020			
External total operating income	3,707	786	4,493
External costs	(2,495)	(771)	(3,266)
Change in the fair value of investment property	-	904	904
Segment profit before tax	**1,212**	**919**	**2,131**
31 March 2020			
Segment assets	156,555	11,230	167,785
Segment liabilities	(145,757)	(178)	(145,935)
Segment net assets	**10,798**	**11,052**	**21,850**
Year ended 31 March 2019			
External total operating income	3,811	710	4,521
External costs	(2,203)	(616)	(2,819)
Change in the fair value of investment property	-	526	526
Segment profit before tax	**1,608**	**620**	**2,228**
31 March 2019			
Segment assets	148,705	11,454	160,159
Segment liabilities	(139,765)	(500)	(140,265)
Segment net assets	**8,940**	**10,954**	**19,894**

7. Other operating income

	Year ended 31 March 2020	Year ended 31 March 2019
Lending and facility fees	217	218
Investment property rental income	766	710
Gain on sale of investment property	20	-
Total other operating income	**1,003**	**928**

8. Personnel expenses

	Year ended 31 March 2020	Year ended 31 March 2019
Directors fees	122	111
Short-term employee benefits		
- Key management personnel	530	573
- Other	511	403
Other personnel related expenses	92	84
Total personnel expenses	**1,255**	**1,171**

In New Zealand dollar thousands

9. Other operating expenses

	Year ended 31 March 2020	Year ended 31 March 2019
Audit fees	91	77
Other audit-related fees	10	6
Bank fees	314	420
Branch costs	510	547
Depreciation and amortisation	68	41
Insurance	68	64
Investment property costs	232	212
Marketing and sponsorships	78	71
Loan receivables written off	3	-
Regulatory costs	102	82
Strategic initiatives	82	137
Other	152	117
Total other operating expenses	**1,710**	**1,774**

Other fees to the Auditor relate to services provided for assurance on the Building Society annual return and the Society's Register and tax consulting services.

10. Income taxes

A. AMOUNTS RECOGNISED IN PROFIT OR LOSS

	Year ended 31 March 2020	Year ended 31 March 2019
Income tax	422	466
Deferred tax	(311)	11
Total income tax expense	**111**	**477**

B. RECONCILIATION OF EFFECTIVE TAX RATE

	Year ended 31 March 2020	Year ended 31 March 2019
Profit before tax	**2,131**	**2,228**
Prima facie income tax at 28%	597	624
Change in tax legislation	(238)	-
Adjustment for items not subject to tax	(248)	(147)
Total current tax expense	**111**	**477**
Effective tax rate	5%	21%

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

In New Zealand dollar thousands

10. Income taxes (continued)

C. DEFERRED TAX LIABILITY

	Year ended 31 March 2020	Year ended 31 March 2019
Opening balance of deferred tax liability	357	409
Temporary differences recognised on transition to NZ IFRS-9	-	(63)
Adjustment for change in tax legislation	(238)	-
Origination and reversal of temporary differences	(73)	11
Prior period deferred tax adjustments	-	-
Closing balance of deferred tax liability	**46**	**357**
Deferred tax liability/(asset) attributable to:		
Tax effect of losses carried forward	(22)	(22)
Property, plant & equipment	319	522
Investment property	5	40
Provision for credit impairment	(174)	(124)
Other items	(82)	(59)
Deferred tax liability	**46**	**357**

D. INCOME TAX PAYABLE

	Year ended 31 March 2020	Year ended 31 March 2019
Opening balance of income tax payable	101	100
Current income tax expense	422	466
Prior period income tax adjustments	8	-
Income taxes paid	(435)	(465)
Closing balance of income tax payable	**96**	**101**

E. IMPUTATION CREDIT ACCOUNT

	Year ended 31 March 2020	Year ended 31 March 2019
Opening balance of imputation credit account	8,171	7,713
Income tax paid during the year	435	458
Prior year adjustment	(69)	-
Closing balance of imputation credit account	**8,537**	**8,171**

11. Cash and cash equivalents

	Year ended 31 March 2020	Year ended 31 March 2019
Cash on hand	69	57
Cash on-call with NZ registered banks	343	182
Cash on deposit with NZ registered banks	29,200	21,800
Total cash and cash equivalents	**29,612**	**22,039**

In New Zealand dollar thousands

12. Loans to customers

	Year ended 31 March 2020	Year ended 31 March 2019
Stage 1 loans	113,398	122,585
Stage 2 loans	11,244	2,539
Stage 3 loans	2,627	1,611
Gross loans to customers	**127,269**	**126,735**
Deferred fee income	(105)	(122)
Provision for credit impairment		
- Collective impairment allowance	(276)	(111)
- Individual impairment allowance	(344)	(333)
Total loans to customers	**126,544**	**126,169**

A. CREDIT QUALITY ANALYSIS

	Year ended 31 March 2020	Year ended 31 March 2019
Stage 1 loans		
Performing loans	101,167	111,950
Loans 0 to 30 days past due but not individually impaired	5,608	10,635
Loans with renegotiated terms due to COVID-19	6,623	-
	113,398	**122,585**
Stage 2 loans		
Loans 31 to 90 days past due but not individually impaired	1,151	1,655
Loans with renegotiated terms due to COVID-19	9,180	-
Loans with renegotiated terms in the ordinary course of business	913	884
	11,244	**2,539**
Stage 3 loans		
Loans more than 91 days past due but not individually impaired	1,065	598
Individually impaired loans	1,562	1,013
	2,627	**1,611**
Total gross loans to customers	**127,269**	**126,735**

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 individually impaired.

Loans with renegotiated terms due to COVID-19

Performing loans where contractual terms have been restructured due to the customer experiencing difficulties or anticipating difficulties in complying with the original terms of their loan due solely to the impacts of COVID-19, but which are not otherwise considered to be individually impaired.

The majority of these loans have been restructured on a short term basis (generally for periods of 3 months or less) with the terms of these loans being modified to allow the customer to repay on an interest only basis, or in some cases a full deferral of principal and interest during the restructure period.

12. Loans with renegotiated terms due to COVID-19 (continued)

A. CREDIT QUALITY ANLAYSIS (CONTINUED)

Classification of these loans between Stage 1 and Stage 2 is based on the Group's assessment of the underlying credit risk having regard to the following:

- *Stage 1* - loans where the Group considers that, upon completion of the initial restructure period, the loan is likely to revert to a fully performing loan in accordance with its original terms. This assessment has been made by way of reference to the customer's historical loan performance and an initial assessment of the likely impact of COVID-19 on the current and future debt service capacity of the customer.
- *Stage 2* - loans where the Group considers that there is potential that further restructuring may be required beyond the initial restructure period but which are not otherwise considered to be impaired. This assessment has been made based on the potential for COVID-19 to give rise to an adverse impact on the customer's future debt service capacity due to the industries in which their income is primarily generated. This assessment of future risk involves a high degree of subjectivity and judgement given it is forward-looking and based on the Group's assessment of potential future market conditions and outcomes.

Loans with renegotiated terms in the ordinary course of business

Loans where contractual terms have been restructured due to the customer having difficulties in complying with the original terms but which are not otherwise considered to be impaired. Loans that are subject to contractual changes, including loan extensions, 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 measurable impact on the estimated future cash flows of the individual loan.

B. PROVISION FOR CREDIT IMPAIRMENT

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

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

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

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

In New Zealand dollar thousands

12. Loans to customers (continued)

B. PROVISION FOR CREDIT IMPAIRMENT (CONTINUED)

ECL scenario	Significant unobservable inputs	Inter-relationship between inputs and fair value
Base	• PD rates based on the historical performance of the Group's loan book. • LGD rates based on the estimated credit losses incurred by the Group. • Domestic unemployment rate at or around 4%. • Real estate prices at or around pre COVID-19 levels.	ECL's could be expected to increase/(decrease) if: • PD rates were higher/(lower). • LGD rates were higher/(lower). • Unemployment rates were higher/(lower). • Average real estate prices were lower/(higher).
Downside	Industry default rates based on downside scenario of: • Domestic unemployment rate at or around 7%. • A decline of up to 10% in average real estate prices from pre COVID-19 levels.	
Market Stress	Industry default rates based on stress scenario of: • Domestic unemployment rate at or around 10%. • A decline of up to 25% in average real estate prices from pre COVID-19 levels.	

Weightings applied to each scenario are summarised below.

	31 March 2020	31 March 2019
Base scenario	10%	100%
Downside scenario	60%	-
Market Stress scenario	30%	-
	100%	**100%**

The increase in weightings attributed to the Downside and Market Stress scenarios in the current reporting period reflect primarily the Group's assessment of an increased risk to economic conditions arising from the effects of the COVID-19 pandemic. There has been no fundamental change in the Group's credit underwriting standards or a significant deterioration in the quality and extent of security available to the Group.

The nature of the ECL model under NZ IFRS-9 is such that if expectations of economic conditions worsen, or observed rates of credit default increase then the amount of ECL and associated provision for credit impairment would be expected to increase due to factors outside the direct control or influence of the Group.

In New Zealand dollar thousands

12. Loans to customers (continued)

B. PROVISION FOR CREDIT IMPAIRMENT (CONTINUED)

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

	31 March 2020
Provision for credit impairment as reported	**620**
Provision for credit impairment assuming:	
100% weighting for Base scenario	385
100% weighting for Downside scenario	537
100% weighting for Market Stress scenario	863

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

	Collective impairment allowance				Individual impairment allowance	Total
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Sub total		
Year ended 31 March 2020						
Opening balance	50	9	52	111	333	444
Net impairment allowances charged to P&L	92	41	32	165	203	368
Utilisation of impairment allowance	-	-	-	-	(126)	(126)
Reversal of previously recognised allowance	-	-	-	-	(66)	(66)
Closing balance	**142**	**50**	**84**	**276**	**344**	**620**
Gross carrying value of loans						
Opening balance	122,585	2,539	598	125,722	1,013	126,735
Net movement in loans						
- Due to COVID-19 restructuring	(9,179)	9,179	-	-	-	-
- Other	(7)	(474)	467	(15)	549	534
Closing balance	**113,398**	**11,244**	**1,065**	**125,707**	**1,562**	**127,269**
Year ended 31 March 2019						
Opening balance	-	-	-	277	249	526
Restated upon adoption of NZ IFRS-9	55	14	208	-	44	44
New impairment allowances charged to P&L	(5)	(5)	(156)	(166)	40	(126)
Closing balance	**50**	**9**	**52**	**111**	**333**	**444**
Gross carrying value of loans						
Opening balance	-	-	-	131,471	1,012	132,483
Restated upon adoption of NZ IFRS-9	123,291	5,807	2,373	-	-	-
Net movement in loans	(706)	(3,268)	(1,775)	(5,749)	1	(5,748)
Closing balance	**122,585**	**2,539**	**598**	**125,722**	**1,013**	**126,735**

In New Zealand dollar thousands

12. Loans to customers (continued)

C. THE IMPACTS OF COVID-19 ON PROVISION FOR CREDIT IMPAIRMENT

The events and impacts of COVID-19 are ongoing as at the reporting date and there is a considerable degree of uncertainty about the potential future impacts on the Group's financial assets. To the extent that these impacts are known, or can be reliably estimated, they are reflected in the ECL model. However, where these impacts are not yet identifiable, the Group has specifically considered the potential industry specific and borrower impacts and sought to reflect this by way of varying some of the core inputs to the ECL model in order to try and reflect the inherent uncertainty over future outcomes.

The primary variation in inputs to the ECL model taken in response to COVID-19 are:

- Reclassification of certain loans to customers which have been temporarily restructured as a direct result of COVID-19 as described in note 12A.
- Increased PD's for loans to customers which have been temporarily restructured as a direct result of COVID-19.

The net effect of varying these inputs to the ECL model is to increase the overall level of ECL's by $43,000 as at the reporting date due solely to the effects of COVID-19.

The Group's expectations are that as the COVID-19 situation develops additional information will become available that will enable the Group to better assess and evolve the true level of ECL's in relation to these loans to customers. Over time the expectation is that actual ECL outcomes will be better than the currently modelled ECL outcomes, however this will depend on a number of variables and events which are currently outside the direct control or influence of the Group.

D. PROVISION FOR CREDIT IMPAIRMENT - COLLECTIVE IMPAIRMENT ALLOWANCE

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

	31 March 2020	**31 March 2019**
Opening collective impairment allowance	(111)	(101)
Increase in allowance during the year:		
- Due to COVID-19 restructures	(43)	-
- Due to changes in ECL scenario weightings	(129)	-
- Other	7	(10)
Closing collective impairment allowance	**(276)**	**(111)**

In New Zealand dollar thousands

12. Loans to customers (continued)

E. PROVISION FOR CREDIT IMPAIRMENT - INDIVIDUAL IMPAIRMENT ALLOWANCE

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

	Gross individually impaired loans	Individual impairment allowance	Carrying value of individually impaired loans
Year ended 31 March 2020			
Opening balance	1,013	(333)	680
Bad debts written off	(321)	126	(195)
Individually impaired loans repaid	(677)	66	(611)
Net movement in individually impaired loans	1,547	(203)	1,344
Closing balance	**1,562**	**(344)**	**1,218**
Year ended 31 March 2019			
Opening balance	1,012	(249)	763
Bad debts written off	-	-	-
Individually impaired loans repaid	-	-	-
Net movement in individually impaired loans	1	(84)	(83)
Closing balance	**1,013**	**(333)**	**680**

F. UNDRAWN LOAN COMMITMENTS

	31 March 2020	31 March 2019
Loan facilities not fully drawn	12,464	13,047
Undrawn loan approvals	13,544	15,898
Total undrawn loan commitments	**26,008**	**28,945**

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

In New Zealand dollar thousands

13. Investment property

Investment property comprises commercial and residential land and buildings leased to third 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 Whanganui	Commercial Masterton	Residential Masterton	Total
Year ended 31 March 2020				
Opening fair value of investment property	-	5,525	1,970	**7,495**
Additions (subsequent expenditure)	-	246	-	**246**
Disposals	-	-	-	**-**
Change in fair value taken to profit or loss	-	694	210	**904**
Closing fair value of investment property	**-**	**6,465**	**2,180**	**8,645**
Rating valuation		5,670	1,730	
Date of last rating valuation		Sep-17	Sep-17	
Year ended 31 March 2019				
Opening fair value of investment property	1,300	5,225	1,865	**8,390**
Additions (subsequent expenditure)	-	-	-	**-**
Disposals	-	(18)	-	**(18)**
Investment property reclassified as held for sale	(1,300)	-	-	**(1,300)**
Change in fair value taken to profit or loss	-	318	105	**423**
Closing fair value of investment property	**-**	**5,525**	**1,970**	**7,495**

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 2020 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.

The impact of the COVID-19 pandemic on the property market is yet to be identified with the market direction being uncertain. As such the independent market valuations rely on pre-COVID-19 market data for valuation determination.

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 7.5% and 8.5% 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 $500 per sqm have been assumed based on comparable sales analysis. • Market data comparatives based on commercial zoned land sales over the 2016-2020 period.	The estimated fair values would increase/(decrease) if: • Future sales prices were higher/(lower).

The following table summarises the sensitivity of the Group's investment property based on a 1% movement in market capitalisation rates.

	Carrying value	-1% impact on profit and equity	+1% impact on profit and equity
31 March 2020			
Investment property	8,645	931	(722)
Tax effected (at 28%)		(57)	2
Net impact on profit/(loss) for the period and equity		**874**	**(720)**
31 March 2019			
Investment property	7,495	733	(576)
Tax effected (at 28%)		-	-
Net impact on profit/(loss) for the period and equity		**733**	**(576)**

In New Zealand dollar thousands

13. Investment property (continued)

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 2020	31 March 2019
Less than 1 year	714	710
Between 1 and 5 years	1,732	1,077
More than 5 years	24	362
Total amounts due under non-cancellable leases	**2,470**	**2,149**

14. Investment property held for sale

The investment property at 321 Victoria Street, Whanganui was the subject of an unconditional sale and purchase agreement as at 31 March 2019 and the property sale settled on 31 May 2019.

	Commercial Whanganui	Total
Year ended 31 March 2020		
Opening fair value of investment property held for sale	1,457	1,457
Additions (subsequent expenditure)	94	94
Disposals	(1,551)	(1,551)
Closing fair value of investment property held for sale	**-**	-
Year ended 31 March 2019		
Opening fair value of investment property held for sale	-	-
Investment property reclassified as held for sale	1,300	1,300
Additions (subsequent expenditure)	54	54
Change in fair value taken to profit or loss	103	103
Closing fair value of investment property held for sale	**1,457**	**1,457**

In New Zealand dollar thousands

15. Property, plant & equipment

	Land & buildings	Other	Total
Year ended 31 March 2020			
Opening net book value	2,540	79	2,619
Additions (subsequent expenditure)	-	49	49
Disposals	-	(14)	(14)
Depreciation	(16)	(30)	(46)
Change in fair value taken to OCI	16	-	16
Closing net book value	**2,540**	**84**	**2,624**
Rating valuation	2,350		
Date of last rating valuation	Sep-17		
Year ended 31 March 2019			
Opening net book value	2,300	78	2,378
Additions (subsequent expenditure)	-	26	26
Depreciation	(16)	(25)	(41)
Change in fair value taken to OCI	256	-	256
Closing net book value	**2,540**	**79**	**2,619**

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 2020 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.

The impact of the COVID-19 pandemic on the property market is yet to be identified with the market direction being uncertain. As such the independent market valuations rely on pre-COVID-19 market data for valuation determination.

In New Zealand dollar thousands

15. Property, plant & equipment (continued)

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.
The following table shows the valuation techniques used in measuring the fair value of land & buildings 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 8% 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 2016-2020 period.	The estimated fair values would increase/(decrease) if: • Future sales prices were higher/(lower).

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

	Carrying value	-1% impact on profit and equity	+1% impact on profit and equity
31 March 2020			
Property, plant & equipment	2,540	365	(284)
Tax effected (at 28%)		(106)	75
Net impact on profit/(loss) for the period and equity		**259**	**(209)**
31 March 2019			
Property, plant & equipment	2,540	365	(284)
Tax effected (at 28%)		-	-
Net impact on profit/(loss) for the period and equity		**365**	**(284)**

In New Zealand dollar thousands

16. Retail funding

	31 March 2020	31 March 2019
Call deposits	5,832	6,442
Term deposits	6,755	5,239
Deposits	**12,587**	**11,681**
Call redeemable shares	14,474	14,009
Term redeemable shares	116,721	111,847
Redeemable shares	**131,195**	**125,856**
Total retail funding	**143,782**	**137,537**

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 2020	31 March 2019
Retail funding from:		
- Customers domiciled in the Wairarapa region	135,089	129,582
- Customers domiciled outside the Wairarapa region	8,693	7,955
Total retail funding	**143,782**	**137,537**

17. Non-retail funding

	31 March 2020	31 March 2019
Committed bank funding facilities	24,000	24,000
Undrawn bank funding facilities	(24,000)	(24,000)
Total drawn non-retail funding	**-**	**-**

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

Subsequent to the reporting date the Group has renewed these funding facilities for a further 12 month term beyond their original expiry date. Consequently the Group has access to these bank funding facilities through to April 2022.

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

In New Zealand dollar thousands

18. Capital management

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

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

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.

19. Financial risk management

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

In 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.

20. 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 2020	31 March 2019
Residential housing loans	94,826	95,886
Commercial and other loans	28,786	27,062
Farming loans	2,932	3,221
Cash on hand	69	57
Cash and deposits lodged with registered banks	29,543	21,982
Other	320	376
Total financial assets	**156,476**	**148,584**

In New Zealand dollar thousands

20. Credit risk (continued)

B. CONCENTRATIONS OF CREDIT RISK BY GEOGRAPHY

	31 March 2020	31 March 2019
Credit risk exposures:		
- Within the Wairarapa region	112,809	113,214
- Outside the Wairarapa region	43,667	35,370
Total financial assets	**156,476**	**148,584**

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 2020**	**31 March 2019**
Between:		
- 10% and 20% of Group equity	2	3
- 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
- 80% and 90% of Group equity	-	-
- 90% and 100% of Group equity	-	-
Greater than 100% of Group equity	1	-
Total number of counterparties	**4**	**5**

The principal concentrations of credit risk relate to cash lodged with the Bank of New Zealand and Westpac New Zealand Limited (2019: Bank of New Zealand Limited and Westpac New Zealand Limited). Other credit exposures relate to loans made to an individual counterparty or group of closely related counterparties.

21. Interest rate risk

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

The majority of the Group's loans to its customers undergo an interest rate review within one year. All of the Group's loans with a fixed rate term of greater than two years are hedged by interest rate swaps which remain in place for the fixed rate term of the loans. As at the reporting date the Group had entered into interest rate swaps with a notional contract amount of $2,500,000 (31 March 2019: $2,500,000) and a maximum outstanding term of 1 year (31 March 2019: 1.5 years).

In New Zealand dollar thousands

21. 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	Non-int. bearing	Total
31 March 2020						
Cash and cash equivalents	29,200	-	-	-	412	29,612
Loans to customers	95,008	13,485	18,776	-	(620)	126,649
Accrued interest receivable	-	-	-	-	103	103
Other receivables and accruals	-	-	-	-	112	112
Total financial assets	124,208	13,485	18,776	-	7	156,476
Retail funding						
- On-call funding	20,306	-	-	-	-	20,306
- Term funding	85,397	36,611	528	939	-	123,475
Non-retail funding	-	-	-	-	-	-
Accrued interest payable	-	-	-	-	1,398	1,398
Other payables and accruals	-	-	-	-	684	684
Derivative financial instruments	-	-	-	-	34	34
Total financial liabilities	105,703	36,611	528	939	2,116	145,897
Effect of derivatives held for interest rate risk management	400	(400)	-	-	-	-
Net interest rate gap	**18,905**	**(23,526)**	**18,248**	**(939)**	**(2,109)**	**10,579**
31 March 2019						
Cash and cash equivalents	17,800	4,000	-	-	239	22,039
Loans to customers	100,922	12,319	13,494		(566)	126,169
Accrued interest receivable	-	-	-	-	251	251
Other receivables and accruals	-	-	-	-	125	125
Total financial assets	118,722	16,319	13,494	-	49	148,584
Retail funding						
- On-call funding	20,451	-	-	-	-	20,451
- Term funding	76,795	39,128	355	809	-	117,087
Non-retail funding	-	-	-	-	-	-
Accrued interest payable	-	-	-	-	1,442	1,442
Other payables and accruals	-	-	-	-	626	626
Derivative financial instruments	-	-	-	-	56	56
Total financial liabilities	97,246	39,128	355	809	2,124	139,662
Effect of derivatives held for interest rate risk management	-	-	-	-	-	-
Net interest rate gap	**21,476**	**(22,809)**	**13,139**	**(809)**	**(2,075)**	**8,922**

In New Zealand dollar thousands

21. 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 2020			
Cash and cash equivalents	29,543	(223)	223
Loans to customers			
- Floating rate loans	81,303	(933)	933
- Fixed rate loans	45,966		-
Total interest sensitive financial assets	156,812	(1,156)	1,156
Retail funding			
- On-call funding	20,306	284	(284)
- Term funding	123,476	728	(728)
Non-retail funding	-	-	-
Derivative financial instruments	34	21	(21)
Total interest sensitive financial liabilities	143,816	1,033	(1,033)
Impact on profit/(loss) before tax		(123)	123
Tax effected (at 28%)		(34)	34
Net impact on profit/(loss) for the period and equity		**(157)**	**157**
31 March 2019			
Cash and cash equivalents	17,800	(157)	157
Loans to customers			
- Floating rate loans	88,635	(999)	999
- Fixed rate loans	38,100	-	-
Total interest sensitive financial assets	144,535	(1,156)	1,156
Retail funding			
- On-call funding	20,451	277	(277)
- Term funding	117,086	656	(656)
Non-retail funding	-	-	-
Derivative financial instruments	-	23	(23)
Total interest sensitive financial liabilities	137,537	956	(956)
Impact on profit/(loss) before tax		(199)	199
Tax effected (at 28%)		(56)	56
Net impact on profit/(loss) for the period and equity		**(255)**	**255**

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

22. 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 2020	31 March 2019
Cash on hand	69	57
Cash on-call with NZ registered banks	343	182
Cash on deposit with NZ registered banks	29,200	21,800
Undrawn bank funding facilities	24,000	24,000
Total available liquid assets	**53,612**	**46,039**

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 value	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
31 March 2020							
Cash and cash equivalents	29,612	29,612	-	-	-	-	29,612
Loans to customers	126,544	21,968	8,468	14,757	24,496	92,514	162,203
Accrued interest receivable	208	208	-	-	-	-	208
Other receivables and accruals	112	112	-	-	-	-	112
Total financial assets	156,476	51,900	8,468	14,757	24,496	92,514	192,135
Retail funding							
- On-call funding	20,306	20,306	-	-	-	-	20,306
- Term funding	123,476	87,432	37,672	577	1,058	-	126,739
Non-retail funding	-	-	-	-	-	-	-
Accrued interest payable	1,398	1,398	-	-	-	-	1,398
Other payables and accruals	579	579	-	-	-	-	579
Derivative financial instruments	34	46	23	-	-	-	69
Total financial liabilities	145,793	109,761	37,695	577	1,058	-	149,090
Unrecognised loan commitments		26,008	-	-	-	-	26,008
Net contractual liquidity gap		**(83,868)**	**(29,227)**	**14,180**	**23,438**	**92,514**	**17,037**

In New Zealand dollar thousands

22. Liquidity risk (continued)

B. CONTRACTUAL MATURITY ANALYSIS (CONTINUED)

	Carrying value	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
31 March 2019							
Cash and cash equivalents	22,039	22,309	-	-	-	-	22,039
Loans to customers	126,169	24,454	8,361	15,512	25,278	124,866	198,471
Accrued interest receivable	251	251	-	-	-	-	251
Other receivables and accruals	125	125	-	-	-	-	125
Total financial assets	148,584	46,869	8,361	15,512	25,278	124,866	220,886
Retail funding							
- On-call funding	20,451	20,451	-	-	-	-	20,451
- Term funding	117,086	74,453	43,874	1,868	642	-	120,837
Non-retail funding	-	-	-	-	-	-	-
Accrued interest payable	1,442	1,442	-	-	-	-	1,442
Other payables and accruals	626	626	-	-	-	-	626
Derivative financial instruments	56	6	5	9	20	28	68
Total financial liabilities	139,661	96,979	43,879	1,877	662	28	143,425
Unrecognised loan commitments		28,945	-	-	-	-	28,945
Net contractual liquidity gap		**(79,054)**	**(35,518)**	**13,635**	**24,616**	**124,838**	**48,516**

C. EXPECTED MATURITY ANALYSIS

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

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

In New Zealand dollar thousands

22. Liquidity risk (continued)

C. EXPECTED MATURITY ANALYSIS (CONTINUED)

	Carrying value	Within 6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
31 March 2020							
Cash and cash equivalents	29,612	29,612	-	-	-	-	29,612
Loans to customers	126,544	22,015	8,468	15,180	94,452	-	140,115
Accrued interest receivable	208	208	-	-	-	-	208
Other receivables and accruals	112	112	-	-	-	-	112
Total financial assets	156,476	51,947	8,468	15,180	94,452	-	170,047
Retail funding							
- On-call funding	20,306	3,006	2,746	4,801	10,143	14,091	34,787
- Term funding	123,476	12,534	11,451	20,019	42,295	58,754	145,053
Non-retail funding	-	-	-	-	-	-	-
Accrued interest payable	1,398	1,398	-	-	-	-	1,398
Other payables and accruals	579	579	-	-	-	-	579
Derivative financial instruments	34	46	23	-	-	-	69
Total financial liabilities	145,792	17,563	14,220	24,820	52,438	72,845	181,885
Unrecognised loan commitments		26,008	-	-	-	-	26,008
Net expected liquidity gap		**8,376**	**(5,752)**	**(9,640)**	**42,014**	**(72,845)**	**(37,846)**
31 March 2019							
Cash and cash equivalents	22,039	22,039	-	-	-	-	22,039
Loans to customers	126,169	24,702	8,361	15,857	91,510	-	140,161
Accrued interest receivable	251	251	-	-	-	-	251
Other receivables and accruals	125	125	-	-	-	-	125
Total financial assets	148,584	47,117	8,361	15,857	91,510	-	162,576
Retail funding							
- On-call funding	20,451	2,244	2,056	3,611	7,715	11,194	26,820
- Term funding	117,086	11,921	10,923	19,181	40,985	59,470	142,481
Non-retail funding	-	-	-	-	-	-	-
Accrued interest payable	1,442	1,442	-	-	-	-	1,442
Other payables and accruals	626	626	-	-	-	-	626
Derivative financial instruments	56	6	5	9	20	28	68
Total financial liabilities	139,661	16,239	12,984	22,801	48,720	70,692	171,437
Unrecognised loan commitments		28,945	-	-	-	-	28,945
Net expected liquidity gap		**1,934**	**(4,623)**	**(7,214)**	**42,790**	**(70,692)**	**(37,805)**

23. 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 2019: $Nil).

B. FAIR VALUES

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

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

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

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

In New Zealand dollar thousands

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

	31 March 2020		31 March 2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans to customers	126,544	126,833	126,169	125,911
Financial liabilities				
Retail funding	143,782	143,815	139,661	139,496

24. Related party transactions

A. LOANS TO RELATED PARTIES

	31 March 2020	31 March 2019
Loans to directors and related parties	-	-
Loans to key management and related parties	-	-
Total loans to related parties	**-**	**-**

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 2020	31 March 2019
Retail funding from WBS Charitable Trust	77	74
Retail funding from directors and related parties	1,060	811
Retail funding from key management and related parties	-	45
Total retail funding from related parties	**1,137**	**930**
Range of interest rates	0% - 2.90%	0% - 3.30%
Maximum term of funding	2020	2019

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.

25. Capital and reserves

A. SHARE CAPITAL

Share capital comprises 30 million fully paid capital shares (31 March 2019: $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.

26. Capital commitments and contingencies

The Group has outstanding capital commitments as at the reporting date of $181,211 (31 March 2019: $Nil) 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 2019: $Nil).

27. Subsequent events

As set out in note 12, loans totalling $15.8 million had been temporarily restructured (generally for periods of 3 months or less) as at 31 March 2020 due to the effects of COVID-19. Of these, loans totalling $14.0 million have subsequently reverted to performance in accordance with their original contractual terms as at the date of these consolidated financial statements.

Other than this 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.

28. Significant accounting policies

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

A. BASIS OF CONSOLIDATION

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

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

B. INTEREST

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

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

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

C. FEES, COMMISSION AND BROKERAGE

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

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

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

D. INVESTMENT PROPERTY RENTAL INCOME

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

28. Significant accounting policies (continued)

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.

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.

28. Significant accounting policies (continued)

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.

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

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

Stage 1: 12 month expected credit losses

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

Stage 2: significant increase in credit risk

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

Whether a significant increase in credit risk has occurred is ascertained by comparing the risk of credit default at the reporting date to the risk of default at the date of initial recognition, and is made based on quantitative and qualitative factors, with a backstop presumption that all assets with an arrears status of more than 30 days past due on contractual payments are considered to be in Stage 2.

Similarly, it is presumed that all loans with renegotiated terms, but where there is an expectation that full repayment of principal and interest will be received, are also considered to be in Stage 2.

Stage 3: credit impaired (or defaulted) loans

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

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

Transfers between stages

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

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

Write-off

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

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.

In New Zealand dollar thousands

28. Significant accounting policies (continued)

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.

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	1%
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.

28. Significant accounting policies (continued)

O. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

P. RETAIL FUNDING

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

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

Redeemable Shares are considered to be a compound instrument that contain both a financial liability component and an equity component. However, due to the debt component of the instrument being the material component, there is no equity component requiring disclosure.

Redeemable shares are not convertible to capital shares.

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

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.

29. New Standards

Effective 1 April 2019 the group adopted IFRS-16 Leases. As a lessor, this had no material impact on the Group's financial statements.

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

DIRECTORY

For the year ended 31 March 2020

BOARD OF DIRECTORS

CHAIR
Colin Oldfield

DEPUTY CHAIR
Kristy McDonald, QC

DIRECTORS
Tony Beech, FCA
Dean Hayes
Adam Parker
Nick Rogers
Blair Stevens

MANAGEMENT

CEO
Paul Bywater, BBS CA

FINANCE MANAGER
Jennie Mitchell, BBS CA

OPERATIONS MANAGER
Andrew Bond, BSc

BRAND AND MARKETING MANAGER
Kirsty Ryan

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Printing: GREENLEES PRINT Design & Production: SUGAR DESIGN STUDIO

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