wbs
loans & investments

Your future
is our future

Wairarapa Building Society

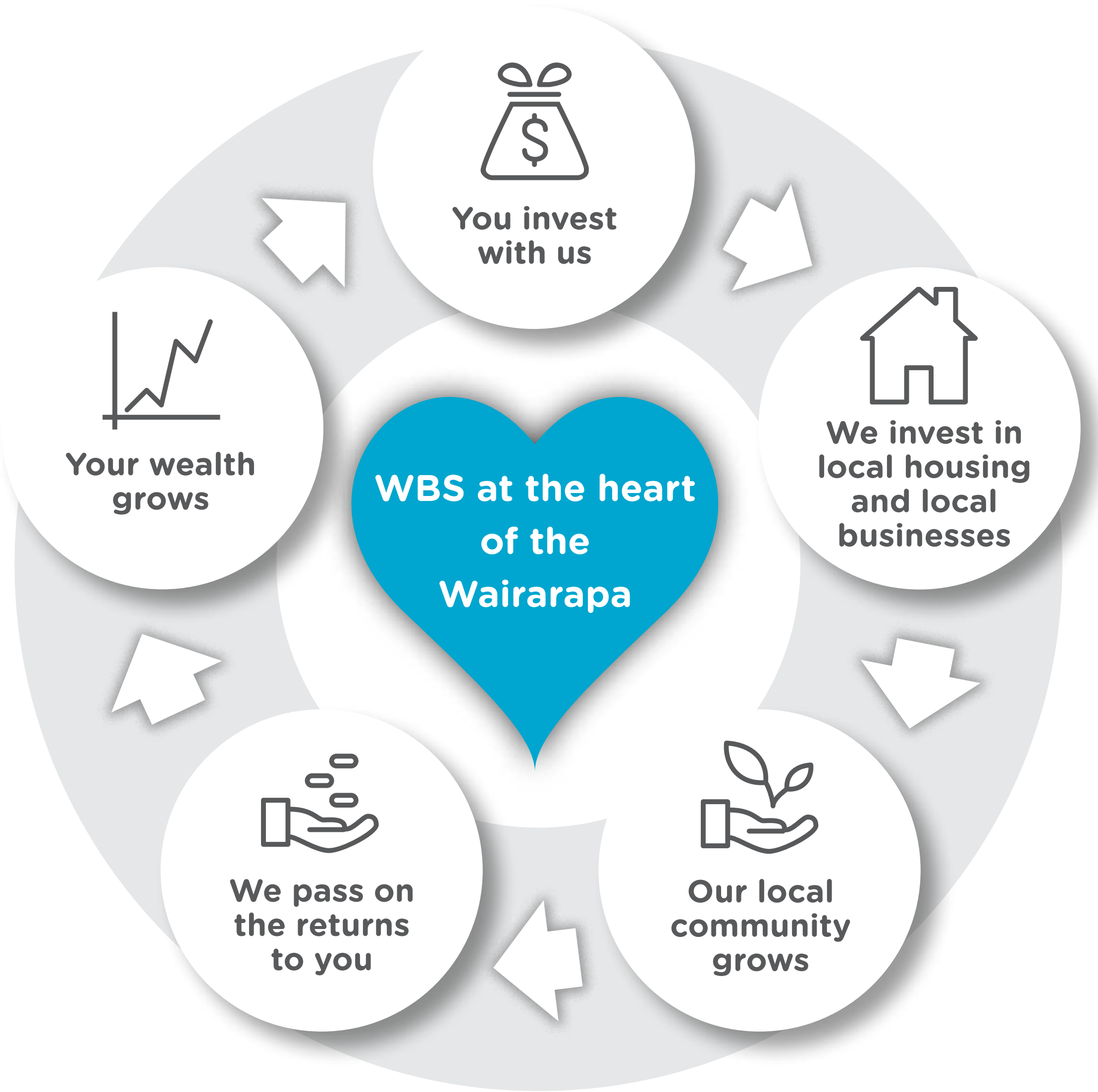
Consolidated financial statements 31 March 2021

ABOUT US

Our Promise

At WBS we personalise loans and investments - for you. Because we get to know you, we find the best financial solution for your situation. Whether you want to borrow or invest, we'll guide you every step of the way.

Like you, we're local. In fact, we're 100% locally owned - by you.



Our profits don't head out the door to offshore shareholders – they stay right here in the Wairarapa. We use them to help you grow your savings and investments by offering great rates; we use them to help local people and businesses grow by giving them access to flexible finance; and we use them to invest in and give back to our local community.

We're proud to be a mutual building society, and not a bank. This means we are in partnership – with you.

It's a promise we have with you and our community. That's why we mean it when we say your future is our future.

HIGHLIGHTS

RETAIL FUNDING
Member's funds invested with WBS
$134.1m (down 6.8%)

LOAN BOOK
Mortgage and other lending made by WBS to customers
$107.5m (down 15.1%)

EQUITY
WBS's net worth
$23.2m (up 6.1%)

CAPITAL RATIO
Measures WBS's ability to absorb future losses
15.8% (up 1.5%)

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
2.31% (up 0.18%)

PROFIT FOR THE PERIOD
WBS's operating profit
$2.03m (up 65.8%)

5 YEAR SUMMARY

$m	FY21	FY20	FY19	FY18	FY17
Operating profit	2.0	1.2	1.7	1.2	0.6
Loans to customers	108	127	126	132	116
Retail funding	134	144	138	139	120
Equity	23	22	20	18	17
Capital ratio	15.8%	14.3%	13.2%	11.7%	12.1%

DIRECTOR'S REPORT

For the year ended 31 March 2021

On behalf of the Board, I am pleased to report another very strong result for the financial year to 31 March 2021, in what has been a period of significant transformation for WBS.

This has been achieved in what was, and continues to be, an extremely challenging environment for many businesses. Covid-19 has changed the way we operate as a society and as a nation, and while we in New Zealand have been fortunate enough to avoid the significant losses and extended lockdowns experienced by other countries, the inherent uncertainty has highlighted the need to remain vigilant and adapt to rapidly changing environments.

Despite this volatility and uncertainty, Wairarapa as a region has experienced substantial growth, and WBS remains committed to enabling and supporting that growth.

Our core values, of being community focussed, relevant, dependable, accessible and flexible, have stood us in good stead to weather the effects of the past 12 months. Our focus on personalised service, supporting our members and customers, and providing a safe and credible option for loans and investments has further secured our strong position within the local financial services market.

That is not to say that the past 12 months have not been without challenge. Record low interest rates have seen cash investments fall out of favour with some investors. At the same time, the unprecedented level of fiscal and monetary policy support made available by the NZ Government and Reserve Bank of New Zealand (RBNZ) to offshore registered banks (but unfortunately not to local community owned institutions such as WBS), has created a somewhat uneven playing field when it comes to our core lending activities.

Despite this, we remain committed to delivering superior outcomes for our members, customers and community by focusing on the aspects of our business which we can directly control.

WBS is in the midst of an exciting transformation project that has seen us refresh our brand, update our website and transform our core banking system.

Our ongoing investment in the future is aimed at ensuring our systems, products and services keep pace with the rapidly evolving needs and aspirations of our members and customers. Over the coming months we will continue to implement changes to simplify our business, focussing on our strengths and further developing new and easier ways for our customers to connect with us, and for us to connect with them.

Our new online customer portal – myWBS – will increasingly become a key interface for those who choose to engage with us in this way, and a lot of work has gone into making myWBS as intuitive and responsive as possible.

In April 2021 we farewelled longstanding staff member Lois Foster after 31 years with WBS. Lois was a familiar face to many of our members and customers, and epitomised our commitment to personalised service. She will be greatly missed by the WBS team and members alike, and we wish Lois all the best for a long and happy retirement.

I would like to thank sincerely the Board, WBS team, members and customers for your ongoing dedication and support. The past year has been hugely challenging for everyone; and there will undoubtedly be challenging times ahead. We continue to build resilience within the organisation, and I am confident that the changes we have made will ensure we are in a strong position to face whatever the future may hold.

Colin Oldfield
Chair

25 June 2021

KPMG

Independent Auditor's Report

To the Shareholders of Wairarapa Building Society

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Wairarapa Building Society (the 'Society') and its subsidiaries (the 'Group') on pages 10 to 41:

i. present fairly in all material respects the Group's financial position as at 31 March 2021 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 2021;

— the consolidated statements 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 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $59,000 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.

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

Economic outlook

The significant impact created by the COVID-19 pandemic, particularly in the assessment of the provision for credit impairment, has continued. Whilst New Zealand has performed stronger than initial forecasts made at the beginning of the pandemic, there remains uncertainty in the general macro-economic environment. The judgement applied by the Society in determining a collectively assessed allowance for expected credit losses associated with the Covid-19 pandemic should be considered as a best estimate within a range of possible estimates. The key audit matter "Provision for Credit Impairment", detailed below, is unchanged from last year.

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 the ongoing uncertain impact of COVID-19 on the macro-economic environment, this judgement and complexity remains heightened in respect of assessing the long-term impact of the pandemic and the path to recovery. 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 loans will default in the future and the amount of loss if they do default	Our audit procedures for the specific and collective provision for credit impairment included: **Provisions against specific individual loans (specific provision)** — Testing of lending related controls, including testing the approval of new lending facilities and monitoring of loans in arrears. — Re-performing the specific impairment provision calculations for a sample of individual loans. — Challenging the 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 benchmarking management's estimates to a range of different market forecasts. — Testing the accuracy of the model calculations.

The key audit matter	How the matter was addressed in our audit
	— 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 Notes 13 and 14 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.	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: - Agreeing a sample of current property rentals to lease agreements, - Assessing the reasonableness of future market rentals, and - Assessing the reasonableness of movements in the rental capitalisation rates applied.

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 the 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

25 June 2021

WBS

Consolidated financial statements 31 March 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In New Zealand dollar thousands

	Note	As at 31 March 2021	As at 31 March 2020
ASSETS			
Cash and cash equivalents	11	41,685	29,612
Loans to customers	12	107,471	126,544
Accrued interest receivable		333	208
Other receivables and accruals		88	112
Deferred tax assets	10	182	-
Investment property	13	6,630	8,645
Property, plant & equipment	14	1,757	2,624
Intangibles	15	568	40
Total assets		**158,714**	**167,785**
LIABILITIES			
Retail funding	16	134,079	143,782
Accrued interest payable		785	1,398
Other payables and accruals		568	579
Income tax payable	10	94	96
Deferred tax liabilities	10	-	46
Derivative financial instruments		-	34
Total liabilities		**135,526**	**145,935**
EQUITY			
Share capital	25	300	300
Retained earnings		22,052	20,093
Revaluation reserve	25	836	1,457
Equity		**23,188**	**21,850**

The notes on pages 13 to 41 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

25 June 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OCI

In New Zealand dollar thousands

	Note	Year ended 31 March 2021	Year ended 31 March 2020
INTEREST INCOME			
Loans to customers		6,080	6,948
Cash and cash equivalents		713	820
Total interest income		**6,793**	**7,768**
INTEREST EXPENSE			
Retail funding		2,985	4,278
Total interest expense		**2,985**	**4,278**
Net interest income (NII)		**3,808**	**3,490**
Other operating income	7	1,026	1,003
Total operating income		**4,834**	**4,493**
Personnel expenses	8	1,353	1,255
Net credit impairment (release)/charge	12	(45)	301
Other operating expenses	9	1,492	1,710
Total operating expenses		**2,800**	**3,266**
Operating profit		**2,034**	**1,227**
Change in the fair value of investment property	13	440	904
Profit before tax		**2,474**	**2,131**
Income tax expense	10	515	111
Profit for the period		**1,959**	**2,020**
OTHER COMPREHENSIVE INCOME (OCI)			
Net change in revaluation reserve		(621)	16
Total comprehensive income for the period		**1,338**	**2,036**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In New Zealand dollar thousands

	Share capital	Retained earnings	Revaluation reserve	Total equity
Balance at 1 April 2020				
Opening equity	300	20,093	1,457	21,850
Profit for the period	-	1,959	-	1,959
Distributions to capital shareholders	-	-	-	-
Other comprehensive income	-	-	(864)	(864)
Taxation impact of revaluation	-	-	243	243
Balance at 31 March 2021	**300**	**22,052**	**836**	**23,188**
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 shareholders	-	(80)	-	(80)
Other comprehensive income	-	-	16	16
Balance at 31 March 2020	**300**	**20,093**	**1,457**	**21,850**

The notes on pages 13 to 41 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

In New Zealand dollar thousands

	Year ended 31 March 2021	Year ended 31 March 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	5,867	7,396
Interest paid	(3,598)	(4,323)
Net change in loans to customers	19,963	205
Other operating income	1,053	1,012
Payments to suppliers and employees	(2,865)	(3,195)
Net change in retail and non-retail funding	(9,703)	6,245
Income taxes paid	(502)	(435)
Net cash from operating activities	**10,215**	**6,905**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant & equipment	(57)	(49)
Acquisition of intangibles	(544)	(57)
Acquisition of investment property	(154)	(176)
Disposal of investment property	2,613	1,010
Net cash from investing activities	**1,858**	**728**
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions paid to capital shareholders	-	(60)
Net cash used in financing activities	-	**(60)**
Net increase in cash and cash equivalents	**12,073**	**7,573**
Opening cash and cash equivalents	29,612	22,039
Closing cash and cash equivalents	**41,685**	**29,612**
NET CASH FROM OPERATING ACTIVITIES COMPRISES		
Profit for the period	**1,959**	**2,020**
Adjustments for non-cash items:		
- Depreciation and amortisation	73	67
- Capitalised interest	(801)	(416)
- Net movement in provision for credit impairment	(45)	301
- Fair value change in investment property	(440)	(904)
- Gain on sale of investment property	-	(20)
- Deferred tax	15	(311)
	761	**737**
Changes in:		
- Accrued interest receivable	(125)	43
- Loans, other receivables and accruals	19,937	159
- Accrued interest payable	(613)	(45)
- Retail funding, other payables and accruals	(9,743)	6,020
- Income tax payable	(2)	(9)
Net cash from operating activities	**10,215**	**6,905**

The notes on pages 13 to 41 are an integral part of these consolidated financial statements

1. Reporting entity

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

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

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

2. Basis of 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 historic cost basis except for the following items, which are measured on an alternative basis at each reporting date.

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

5. Use of judgements and estimates

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

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

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

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

In New Zealand dollar thousands

6. Operating segments

	Financial services	Properties	Total
Year ended 31 March 2021			
External total operating income	4,069	765	4,834
External costs	(2,156)	(644)	(2,800)
Change in the fair value of investment property	-	440	440
Segment profit before tax	**1,913**	**561**	**2,474**
31 March 2021			
Segment assets	150,267	8,447	158,714
Segment liabilities	(135,470)	(56)	(135,526)
Segment net assets	**14,797**	**8,391**	**23,188**
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**

7. Other operating income

	Year ended 31 March 2021	Year ended 31 March 2020
Lending and facility fees	261	217
Investment property rental income	765	766
Gain on sale of investment property	-	20
Total other operating income	**1,026**	**1,003**

8. Personnel expenses

	Year ended 31 March 2021	Year ended 31 March 2020
Directors fees and expenses	130	122
Short-term employee benefits		
- Key management personnel	587	530
- Other	574	511
Other personnel related expenses	62	92
Total personnel expenses	**1,353**	**1,255**

In New Zealand dollar thousands

9. Other operating expenses

	Year ended 31 March 2021	Year ended 31 March 2020
Audit fees	110	91
Other audit-related fees	6	10
Bank fees	361	314
Branch costs	388	510
Depreciation and amortisation	73	68
Insurance	111	68
Investment property costs	185	232
Marketing and sponsorships	23	78
Loan receivables written off	-	3
Regulatory costs	82	102
Strategic initiatives	88	82
Other	65	152
Total other operating expenses	**1,492**	**1,710**

Other audit-related fees relate to services provided for the audit or review of financial information other than financial statements including Trust Deed reporting requirements.

10. Income taxes

A. AMOUNTS RECOGNISED IN PROFIT OR LOSS

	Year ended 31 March 2021	Year ended 31 March 2020
Income tax	500	422
Deferred tax	15	(311)
Total income tax expense	**515**	**111**

B. RECONCILIATION OF EFFECTIVE TAX RATE

	Year ended 31 March 2021	Year ended 31 March 2020
Profit before tax	**2,474**	**2,131**
Prima facie income tax at 28%	693	597
Change in tax legislation	-	(238)
Adjustment for items not subject to tax	(178)	(248)
Total current tax expense	**515**	**111**
Effective tax rate	21%	5%

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

In New Zealand dollar thousands

10. Income taxes (continued)

C. DEFERRED TAX (ASSET)/LIABILITY

	Year ended 31 March 2021	Year ended 31 March 2020
Opening balance of deferred tax liability	46	357
Adjustment for change in tax legislation	-	(238)
Origination and reversal of temporary differences		
- Profit or Loss	15	(73)
- Other Comprehensive income	(243)	-
Closing balance of deferred tax (asset)/liability	**(182)**	**46**
Deferred tax (asset)/liability attributable to:		
Tax effect of losses carried forward	(22)	(22)
Property, plant & equipment	85	319
Investment property	3	5
Provision for credit impairment	(161)	(174)
Other items	(87)	(82)
Deferred tax (asset)/liability	**(182)**	**46**

D. INCOME TAX PAYABLE

	Year ended 31 March 2021	Year ended 31 March 2020
Opening balance of income tax payable	96	101
Current income tax expense	500	422
Prior period income tax adjustments	-	8
Income taxes paid	(502)	(435)
Closing balance of income tax payable	**94**	**96**

E. IMPUTATION CREDIT ACCOUNT

	Year ended 31 March 2021	Year ended 31 March 2020
Opening balance of imputation credit account	8,537	8,171
Income tax paid during the year	502	435
Prior year adjustment	-	(69)
Closing balance of imputation credit account	**9,039**	**8,537**

11. Cash and cash equivalents

	Year ended 31 March 2021	Year ended 31 March 2020
Cash on hand	-	69
Cash on-call with NZ registered banks	1,185	343
Cash on deposit with NZ registered banks	40,500	29,200
Total cash and cash equivalents	**41,685**	**29,612**

In New Zealand dollar thousands

12. Loans to customers

	Year ended 31 March 2021	Year ended 31 March 2020
Stage 1 loans	106,494	113,398
Stage 2 loans	856	11,244
Stage 3 loans	803	2,627
Gross loans to customers	**108,153**	**127,269**
Deferred fee income	(107)	(105)
Provision for credit impairment		
- Collective impairment allowance	(389)	(276)
- Individual impairment allowance	(186)	(344)
Total loans to customers	**107,471**	**126,544**

A. CREDIT QUALITY ANALYSIS

	Year ended 31 March 2021	Year ended 31 March 2020
Stage 1 loans		
Performing loans	98,627	101,167
Loans 0 to 30 days past due but not individually impaired	7,867	5,608
Loans with renegotiated terms due to COVID-19	-	6,623
	106,494	**113,398**
Stage 2 loans		
Loans 31 to 90 days past due but not individually impaired	326	1,151
Loans with renegotiated terms due to COVID-19	-	9,180
Loans with renegotiated terms in the ordinary course of business	530	913
	856	**11,244**
Stage 3 loans		
Loans more than 91 days past due but not individually impaired	617	1,065
Individually impaired loans	186	1,562
	803	**2,627**
Total gross loans to customers	**108,153**	**127,269**

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

12. Loans to customers (continued)

A. CREDIT QUALITY ANLAYSIS (CONTINUED)

- 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 historic 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 four 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 historic performance of the Group's loan book. • LGD rates based on the estimated credit losses incurred by the Group. • Domestic unemployment rate at or around 4%. • Real estate prices at or around current levels.	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 current 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 current levels.	
Severe Stress	Industry default rates based on severe scenario of: • Domestic unemployment rate at or around 13%. • A decline of up to 35% in average real estate prices from current levels.	

Weightings applied to each scenario are summarised below.

	31 March 2021	31 March 2020
Base scenario	15%	10%
Downside scenario	55%	60%
Market Stress scenario	20%	30%
Severe Stress Scenario	10%	-
	100%	**100%**

The change in weightings attributed to the Downside and Market Stress scenarios and the addition of the Severe Stress Scenario in the March 2021 reporting period reflect the Reserve Bank of New Zealand (RBNZ) and 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.

In New Zealand dollar thousands

12. Loans to customers (continued)

B. PROVISION FOR CREDIT IMPAIRMENT (CONTINUED)

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.

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 2021	31 March 2020
Provision for credit impairment as reported	**574**	**620**
Provision for credit impairment assuming:		
100% weighting for Base scenario	240	385
100% weighting for Downside scenario	432	537
100% weighting for Market Stress scenario	730	863
100% weighting for Severe Stress scenario	998	n/a

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

	Collective impairment allowance					
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Sub total	Individual impairment allowance	Total
Year ended 31 March 2021						
Opening balance	142	50	84	276	344	620
Net impairment allowances charged to P&L	202	-	-	202	-	202
Utilisation of impairment allowance	-	-	-	-	-	-
Reversal of previously recognised allowance	-	(40)	(50)	(90)	(158)	(248)
Closing balance	**344**	**10**	**34**	**388**	**186**	**574**
Gross carrying value of loans						
Opening balance	113,398	11,244	1,065	125,707	1,562	127,269
Net movement in loans						
- Due to COVID-19 restructuring	9,179	(9,179)	-	-	-	-
- Other	(16,083)	(1,209)	(448)	(17,740)	(1,376)	(19,116)
Closing balance	**106,494**	**856**	**617**	**107,967**	**186**	**108,153**
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**

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 were:

- Reclassification of certain loans to customers which had been temporarily restructured as a direct result of COVID-19 as described in note 12A.
- Increased PD's for loans to customers which had been temporarily restructured as a direct result of COVID-19.
- Changes in the probability weightings of scenarios as described in note 12B

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 2021	31 March 2020
Opening collective impairment allowance	(276)	(111)
Decrease/(Increase) in allowance during the year:		
- Due to COVID-19 restructures	43	(43)
- Due to new ECL scenario and change in weightings	(156)	(129)
- Other	-	7
Closing collective impairment allowance	**(389)**	**(276)**

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 2021			
Opening balance	1,562	(344)	1,218
Bad debts written off	-	-	-
Individually impaired loans repaid	(534)	161	(373)
Net movement in individually impaired loans	(842)	(3)	(845)
Closing balance	**186**	**(186)**	**-**
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**

F. UNDRAWN LOAN COMMITMENTS

	31 March 2021	31 March 2020
Loan facilities not fully drawn	20,688	12,464
Undrawn loan approvals	17,476	13,544
Total undrawn loan commitments	**38,164**	**26,008**

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 Masterton	Residential Masterton	Total
Year ended 31 March 2021			
Opening fair value of investment property	6,465	2,180	8,645
Additions (subsequent expenditure)	154	-	154
Disposals	-	(2,609)	(2,609)
Capital gain on sale	-	429	429
Change in fair value taken to profit or loss	11	-	11
Closing fair value of investment property	**6,630**	**-**	**6,630**
Rating valuation	6,465		
Date of last rating valuation	Sep-20		
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**

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 2021 by TelferYoung (formerly Blackmore & Associates) (2020: Blackmore & Associates and Wairarapa Property Consultants Limited). Both TelferYoung and Wairarapa Property Consultants Limited are registered and ANZIV certified valuers. In carrying out their valuations, the valuers have assumed all buildings have a seismic strength above 67% of the standard for new buildings.

In New Zealand dollar thousands

13. Investment property (continued)

A. MEASUREMENT OF FAIR VALUES

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

Valuation technique	Significant unobservable inputs	Inter-relationship between inputs and fair value
Direct capitalisation approach - involves capitalising actual income and/or potential market income at an appropriate rate of return	• Existing rental rates used with no assumption of material uplift in potential market rental rates and/or rental growth. • Market capitalisation rates of between 7.5% and 8.5% used for existing tenancies.	The estimated fair values would increase/(decrease) if: • Future market rental growth rates were higher/(lower). • Market capitalisation rates were lower/(higher).
Net rate approach - ascribes land value at saleable worth and adds value for building and improvements based on sale comparisons	• 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 2019-2021 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 2021			
Investment property	6,630	1,393	(1,069)
Tax effected (at 28%)		(390)	299
Net impact on profit/(loss) and equity for the period		**1,003**	**(770)**
31 March 2020			
Investment property	8,645	931	(722)
Tax effected (at 28%)		(57)	2
Net impact on profit/(loss) and equity for the period		**874**	**(720)**

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 2021	31 March 2020
Less than 1 year	621	714
Between 1 and 5 years	1,276	1,732
More than 5 years	-	24
Total amounts due under non-cancellable leases	**1,897**	**2,470**

14. Property, plant & equipment

	Land & buildings	Other	Total
Year ended 31 March 2021			
Opening net book value	2,540	84	2,624
Additions (subsequent expenditure)	-	65	65
Disposals	-	(3)	(3)
Depreciation	(16)	(34)	(50)
Change in fair value taken to OCI	(879)	-	(879)
Closing net book value	**1,645**	**112**	**1,757**
Rating valuation	2,930		
Date of last rating valuation	Sep-20		
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**

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 2021 by TelferYoung (formerly Blackmore & Associates) who are registered and ANZIV certified valuers. In carrying out their valuations, the valuers have taken into account a Detailed Seismic Assessment (DSA) completed on behalf of Wairarapa Property Investments Limited which indicates a seismic strength below 67% of the standard for new buildings.

A. MEASUREMENT OF FAIR VALUES

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

In New Zealand dollar thousands

14. Property, plant & equipment (continued)

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 to reduce in the coming year.	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 2019-2021 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 2021			
Property, plant & equipment	1,645	365	(284)
Tax effected (at 28%)		(102)	80
Net impact on profit/(loss) and equity for the period		**263**	**(204)**
31 March 2020			
Property, plant & equipment	2,540	365	(284)
Tax effected (at 28%)		(106)	75
Net impact on profit/(loss) and equity for the period		**259**	**(209)**

15. Intangibles

	Software	Other	Total
Year ended 31 March 2021			
Opening net book value	40	-	40
Additions (subsequent expenditure)	551	-	551
Amortisation	(23)	-	(23)
Closing net book value	**568**	**-**	**568**
Year ended 31 March 2020			
Opening net book value	4	-	4
Additions (subsequent expenditure)	57	-	57
Amortisation	(21)	-	(21)
Closing net book value	**40**	**-**	**40**

In New Zealand dollar thousands

16. Retail funding

	31 March 2021	31 March 2020
Call deposits	5,926	5,832
Term deposits	6,369	6,755
Deposits	**12,295**	**12,587**
Call redeemable shares	17,101	14,474
Term redeemable shares	104,683	116,721
Redeemable shares	**121,784**	**131,195**
Total retail funding	**134,079**	**143,782**

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 2021	31 March 2020
Retail funding from:		
- Customers domiciled in the Wairarapa region	124,862	135,089
- Customers domiciled outside the Wairarapa region	9,217	8,693
Total retail funding	**134,079**	**143,782**

17. Non-retail funding

	31 March 2021	31 March 2020
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.

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 capital ratio required by the Trust Deed.

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 2021	31 March 2020
Residential housing loans	74,299	94,826
Commercial and other loans	30,133	28,786
Farming loans	2,996	2,932
Cash on hand	-	69
Cash and deposits lodged with registered banks	41,685	29,543
Other	417	320
Total financial assets	**149,530**	**156,476**

In New Zealand dollar thousands

20. Credit risk (continued)

B. CONCENTRATIONS OF CREDIT RISK BY GEOGRAPHY

	31 March 2021	31 March 2020
Credit risk exposures:		
- Within the Wairarapa region	95,420	112,809
- Outside the Wairarapa region	54,110	43,667
Total financial assets	**149,530**	**156,476**

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 2021	31 March 2020
Between:		
- 10% and 20% of Group equity	2	2
- 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	1	-
- 60% and 70% of Group equity	-	-
- 70% and 80% of Group equity	-	-
- 80% and 90% of Group equity	-	-
- 90% and 100% of Group equity	-	-
Greater than 100% of Group equity	1	1
Total number of counterparties	**5**	**4**

The principal concentrations of credit risk relate to cash lodged with the Bank of New Zealand Limited, Westpac New Zealand Limited and Heartland Bank Limited (2020: 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 no interest rate swaps (31 March 2020: interest rate swaps with a notional contract amount of $2,500,000 and a maximum outstanding term of 1 year).

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 2021						
Cash and cash equivalents	20,600	18,000	3,000	-	85	41,685
Loans to customers	87,632	9,035	11,378	-	(574)	107,471
Accrued interest receivable	-	-	-	-	333	333
Other receivables and accruals	-	-	-	-	84	84
Total financial assets	108,232	27,035	14,378	-	(72)	**149,573**
Retail funding						
- On-call funding	23,027	-	-	-	-	23,027
- Term funding	70,058	35,031	5,097	866	-	111,052
Non-retail funding	-	-	-	-	-	-
Accrued interest payable	-	-	-	-	785	785
Other payables and accruals	-	-	-	-	574	574
Derivative financial instruments	-	-	-	-	-	-
Total financial liabilities	93,085	35,031	5,097	866	1,359	**135,438**
Effect of derivatives held for interest rate risk management	-	-	-	-	-	**-**
Net interest rate gap	**15,147**	**(7,996)**	**9,281**	**(866)**	**(1,431)**	**14,135**
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**

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 2021			
Cash and cash equivalents	41,685	(210)	210
Loans to customers			
- Floating rate loans	72,705	(856)	856
- Fixed rate loans	35,448	-	-
Total interest sensitive financial assets	149,838	(1,066)	1,066
Retail funding			
- On-call funding	23,027	301	(301)
- Term funding	111,052	610	(610)
Non-retail funding	-	-	-
Derivative financial instruments	-	-	-
Total interest sensitive financial liabilities	134,079	911	(911)
Impact on profit/(loss) before tax		(155)	155
Tax effected (at 28%)		43	(43)
Net impact on profit/(loss) and equity for the period		**(112)**	**112**
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) and equity for the period		**(89)**	**89**

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 2021	31 March 2020
Cash on hand	-	69
Cash on-call with NZ registered banks	1,185	343
Cash on deposit with NZ registered banks	40,500	29,200
Undrawn bank funding facilities	24,000	24,000
Total available liquid assets	**65,685**	**53,612**

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 2021							
Cash and cash equivalents	41,685	20,685	18,000	3,000	-	-	41,685
Loans to customers	107,471	16,410	11,911	14,096	20,982	66,729	130,128
Accrued interest receivable	333	333	-	-	-	-	333
Other receivables and accruals	84	84	-	-	-	-	84
Total financial assets	149,573	37,512	29,911	17,096	20,982	66,729	172,230
Retail funding							
- On-call funding	23,027	23,027	-	-	-	-	23,027
- Term funding	111,052	70,891	35,562	5,256	917	-	112,626
Non-retail funding	-	-	-	-	-	-	-
Accrued interest payable	785	785	-	-	-	-	785
Other payables and accruals	574	574	-	-	-	-	574
Derivative financial instruments	-	-	-	-	-	-	-
Total financial liabilities	135,438	95,277	35,562	5,256	917	-	137,012
Unrecognised loan commitments		38,164	-	-	-	-	38,164
Net contractual liquidity gap		**(95,929)**	**(5,651)**	**11,840**	**20,065**	**66,729**	**(2,946)**

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 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	-	149,091
Unrecognised loan commitments		26,008	-	-	-	-	26,008
Net contractual liquidity gap		**(83,869)**	**(29,227)**	**14,180**	**23,438**	**92,514**	**17,036**

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 historic rate of reinvestment in excess of 90% for its retail funding. It is considered likely that this level of reinvestment will be maintained thereby materially deferring the contractual cash outflows associated with this funding source.
- **Loans to customers** - retail mortgage loans have original contractual maturities of up to 30 years. However, based on historic trends, it is expected that a proportion of customers will repay, some or all of their loans early depending on their personal circumstances.
- **Unrecognised loan commitments** - these commitments are not all expected to be fully drawn down and/or drawn at the same time. For 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 2021							
Cash and cash equivalents	41,685	20,685	18,000	3,000	-	-	41,685
Loans to customers	107,471	16,190	11,911	14,114	75,197	-	117,412
Accrued interest receivable	333	333	-	-	-	-	333
Other receivables & accruals	84	84	-	-	-	-	84
Total financial assets	149,573	37,292	29,911	17,114	75,197	-	159,514
Retail funding							
- On-call funding	23,027	2,084	1,890	3,269	6,718	8,422	22,383
- Term funding	111,052	11,190	10,148	17,549	36,066	45,216	120,169
Non-retail funding	-	-	-	-	-	-	-
Accrued interest payable	785	785	-	-	-	-	785
Other payables and accruals	574	574	-	-	-	-	574
Derivative financial instruments	-	-	-	-	-	-	-
Total financial liabilities	135,438	14,633	12,038	20,818	42,784	53,638	143,911
Unrecognised loan commitments		38,164	-	-	-	-	38,164
Net expected liquidity gap		**(15,505)**	**17,873**	**(3,704)**	**32,413**	**(53,638)**	**(22,561)**
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 & 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	145,793	17,563	14,220	24,820	52,438	72,845	181,886
Unrecognised loan commitments		26,008	-	-	-	-	26,008
Net expected liquidity gap		**8,377**	**(5,752)**	**(9,640)**	**42,014**	**(72,845)**	**(37,846)**

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 2020: $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)

B. FAIR VALUES (CONTINUED)

	31 March 2021		31 March 2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans to customers	107,471	107,509	126,544	126,833
Financial liabilities				
Retail funding	134,079	134,273	143,782	143,815

24. Related party transactions

A. LOANS TO RELATED PARTIES

	31 March 2021	31 March 2020
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 2021	31 March 2020
Retail funding from WBS Charitable Trust	66	77
Retail funding from directors and related parties	280	1,060
Retail funding from key management and related parties	-	-
Total retail funding from related parties	**346**	**1,137**
Range of interest rates	0% - 2.00%	0% - 2.90%
Maximum term of funding	2022	2020

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 2020: 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 no outstanding capital commitments as at the reporting date (31 March 2020: $181,211 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 2020: $Nil).

27. Subsequent events

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

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.

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.

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.

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% - 50%
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.

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

Asset class	Rate
Software	33% - 50%

N. INVESTMENT PROPERTY

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

O. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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.

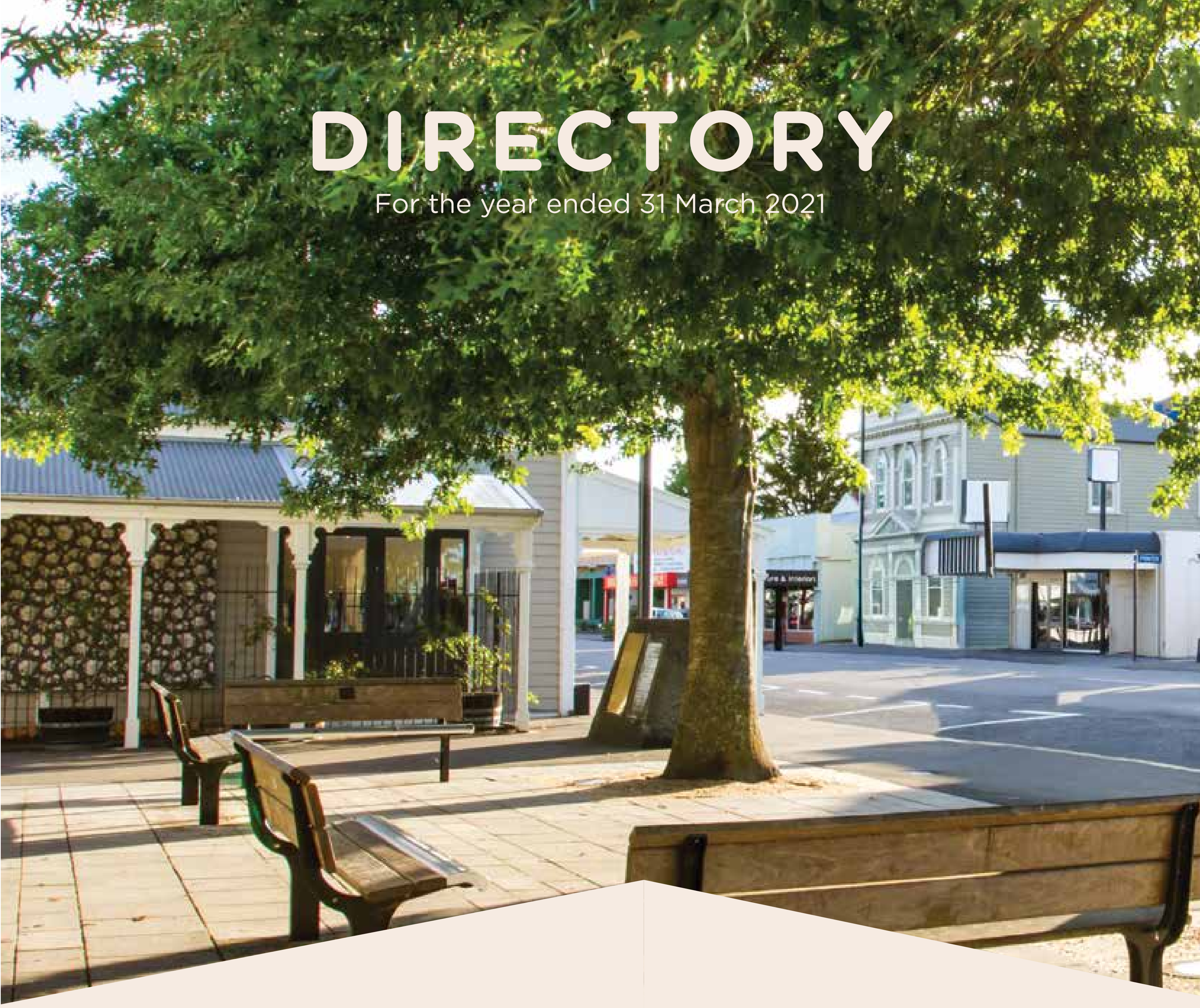
Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in profit or loss.

29. New Standards

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 2021



BOARD OF DIRECTORS

CHAIR
Colin Oldfield

DEPUTY CHAIR
Kristy McDonald, QC

DIRECTORS
Tony Beech
Adam Parker
Nick Rogers
Blair Stevens

MANAGEMENT

CEO
Paul Bywater

FINANCE MANAGER
Jennie Mitchell

OPERATIONS MANAGER
Andrew Bond

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

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