



MIDLANDS INCOME FUND

FINANCIAL ACCOUNTS

FOR THE YEAR ENDED
31 MARCH 2023



MIDLANDS
FUNDS MANAGEMENT

Midlands Income Fund

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Midlands Income Fund

Business Directory

Nature of Business

Midlands Income Fund (previously known as Midlands Mortgage Trust) is a Group Investment Fund that aims to provide a competitive return to its stakeholders by investing in first ranking mortgage securities over land and buildings within New Zealand.

Registered office of Fund Manager

Midlands Funds Management Limited
(formerly known as Fund Managers Central Limited)
1/111 Karamu Road North
PO Box 609
Hastings 4156

Directors of the Manager

Peter James Ellis (Chairman)
John Baird Campbell (resigned 26 April 2022, rejoined 27 January 2023)
Kenneth Alan Horner
Dinah Mary Clifford Kennedy
Steven Wyn-Harris (resigned 5 April 2022)
Marise Lynne James
Bridget Georgina Chrystall (appointed 27 April 2022, resigned 6 January 2023)
John Mcfadyen Rae (appointed 1 November 2022)

Supervisor & Trustee

Trustees Executors Limited
Level 5
10 Customhouse Quay
Wellington

Auditor

Crowe New Zealand Audit Partnership
Building A, Level 1, Farming House
211 Market Street South
Hastings 4122

Accountant

Baker Tilly Staples Rodway Hawkes Bay Limited
PO Box 46
Hastings 4156

Bankers

ANZ Bank NZ Limited

Solicitors to the Supervisor

D L A Piper
50-64 Customhouse Quay
Wellington

Solicitors to the Manager

Anthony Harper Lawyers
Level 8, Chorus House
66 Wyndham Street
Auckland

Midlands Income Fund

Statement of Comprehensive Income

For the year ended 31 March 2023

	Note	2023 \$	2022 \$
Interest Revenue	4	8,791,253	6,109,502
Other Income		23,487	4,384
Total Income		8,814,740	6,113,886
Administrative Expenses	5	68,100	57,205
Audit and Assurance Fees	5	110,429	104,270
Movement in Provision for Loan Impairment	7	98,408	18,644
Management Fees	3	1,984,562	1,668,691
Supervisor Fees	3	175,071	139,516
Total Expenses		2,436,570	1,988,326
Surplus Before Tax		6,378,170	4,125,560
Tax Expense/(Credit)	8	-	-
Surplus After Tax		6,378,170	4,125,560
Other Comprehensive Income		-	-
Total Comprehensive Income		6,378,170	4,125,560

This statement should be read in conjunction with the notes to the financial statements.

Midlands Income Fund

Statement of Changes in Equity

For the year ended 31 March 2023

	Unitholder Funds \$	Accumulated Funds \$	Total Equity \$
Balance at 1 April 2021	88,181,439	(3,457,404)	84,724,035
Net Surplus/Total Comprehensive Income	-	4,125,560	4,125,560
<i>Transactions with Unitholders</i>			
Unitholder Funds Invested	31,015,114	-	31,015,114
Unitholder Funds Withdrawn	(12,340,104)	-	(12,340,104)
Distributions	-	(4,054,881)	(4,054,881)
Balance at 31 March 2022	106,856,449	(3,386,725)	103,469,725
Distribution per unit = 3.96c			
Balance at 1 April 2022	106,856,449	(3,386,725)	103,469,725
Net Surplus/Total Comprehensive Income	-	6,378,170	6,378,170
<i>Transactions with Unitholders</i>			
Unitholder Funds Invested	35,667,025	-	35,667,025
Unitholder Funds Withdrawn	(28,856,453)	-	(28,856,453)
Distributions	-	(6,203,399)	(6,203,399)
Balance at 31 March 2023	113,667,021	(3,211,953)	110,455,068
Distribution per unit = 5.11c			


This statement should be read in conjunction with the notes to the financial statements.

Midlands Income Fund Statement of Financial Position

As at 31 March 2023

	Note	2023 \$	2022 \$
ASSETS			
Cash and Cash Equivalents		13,568,139	6,683,271
Short-Term Bank Deposits	9	3,289,359	6,061,664
Advances on Mortgage	6	94,916,785	91,480,108
TOTAL ASSETS		<u>111,774,283</u>	<u>104,205,043</u>
LIABILITIES			
Trade and Other Payables	10	410,445	345,205
Income Received in Advance		723,450	388,089
Payable to Midlands Funds Management Limited		185,321	2,025
Tax Payable	8	-	-
TOTAL LIABILITIES		<u>1,319,216</u>	<u>735,319</u>
NET ASSETS		<u>110,455,068</u>	<u>103,469,724</u>
EQUITY			
Unitholders' Funds	11	113,667,021	106,856,449
Accumulated Funds	12	(3,211,954)	(3,386,725)
TOTAL EQUITY		<u>110,455,068</u>	<u>103,469,724</u>

Signed for and on behalf of the Manager, Midlands Funds Management Limited



Director

Date: 10/08/2023



Director

Date: 10/08/2023

This statement should be read in conjunction with the notes to the financial statements.

Midlands Income Fund

Statement of Cash Flows

For the year ended 31 March 2023

	Note	2023 \$	2022 \$
Cashflows From Operating Activities			
<i>Cash was provided from:</i>			
Interest Received		9,018,536	6,244,802
		<u>9,018,536</u>	<u>6,244,802</u>
<i>Cash was applied to:</i>			
Payments to Suppliers		(2,089,626)	(1,835,353)
		<u>(2,089,626)</u>	<u>(1,835,353)</u>
Net Cash From Operating Activities Before Changes In Operating Assets		6,928,910	4,409,449
<i>Net cash was provided from:</i>			
Short Term Bank Deposit Investments		2,850,000	-
<i>Net cash was applied to:</i>			
Short Term Bank Deposit Investments		-	(553,152)
Net Mortgage Advances		(3,501,216)	(22,420,832)
Net Cash Inflow/(Outflow) From Operating Activities	13	<u>6,277,694</u>	<u>(18,564,535)</u>
Cashflows From Financing Activities			
<i>Cash was provided from:</i>			
Unitholder Funds Invested		33,366,213	29,028,838
<i>Cash was applied to:</i>			
Unitholder Funds Withdrawals		(28,805,935)	(11,738,991)
Distributions to Unitholders		(3,953,104)	(2,669,719)
Net Cash Inflow/(Outflow) From Financing Activities		<u>607,174</u>	<u>14,620,128</u>
Net Increase/(Decrease) in Cash and Cash Equivalents held		6,884,868	(3,944,407)
Plus Opening Cash and Cash Equivalents		6,683,271	10,627,678
Closing Cash and Cash Equivalents		<u>13,568,139</u>	<u>6,683,271</u>

This statement should be read in conjunction with the notes to the financial statements.

Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

1. REPORTING ENTITY

Midlands Income Fund (the Fund) is a group investment fund which was formed on October 1, 2004 and commenced operation on November 1, 2004. It is incorporated in New Zealand under the Trustee Companies Act 1967 and domiciled in New Zealand. The principal place of business is 1/111 Karamu Road North, Hastings. Midlands Income Fund was previously known as Midlands Mortgage Trust Group Investment Fund. The name change was effective from 21 July 2021.

The Fund is an issuer for the purposes of the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013.

The financial statements of the Fund, as an individual entity, have been prepared by the Manager on behalf of the Supervisor (Trustees Executors Limited) in accordance with the Financial Markets Conduct Act 2013, the Trustee Companies Act 1967 and the provisions of the Trust Deed. With effect from 19 April 2021, the name of the Manager was changed from Fund Managers Central Limited to Midlands Funds Management Limited.

The principal activity of the Fund is to facilitate collective investment secured by registered first mortgages over land.

2. BASIS OF PREPARATION

Statement of Compliance

These financial statements comply with generally accepted accounting practice in New Zealand ("NZ GAAP"). For the purposes of complying with NZ GAAP, the Fund is a for-profit entity. The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS").

Measurement Basis

These financial statements have been prepared under the historical cost convention, unless modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

Presentation Basis

Assets and liabilities are presented in the Statement of Financial Position in liquidity order. With the exception of Advances on Mortgages, all assets and liabilities are current.

Functional and Presentation Currency

The financial statements are presented in New Zealand dollars which is the functional currency of the Fund. All values are rounded to the nearest dollar, unless otherwise stated.

Critical Accounting Estimates and Judgements

The preparation of the financial statements requires the use of management estimates and judgements that affect reported amounts and the application of policies. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable.

Accounting policies requiring estimates and judgements subject to significant uncertainty relate to the determination of impairment provisions (refer note 6 & 7), the probability of recovery of deferred tax assets (refer note 8) and whether there are material uncertainties about the entity's ability to continue as a going concern (see below).

Going Concern

The financial statements are prepared on a going concern basis and the Manager has made significant judgements in the application of the going concern assumption for the Fund. This includes undertaking close daily monitoring of investor deposits and withdrawals activity, forecasting the future liquidity needs of the fund based on expected or historic investor and lending activity (refer note 14), keeping a close watch on relevant economic factors such as commentary from the NZ Reserve Bank and pro-actively assessing whether external events have impacted the fund immediately after the fact.

Changes in Accounting Policies

There has been no significant changes in accounting policies in the 2023 financial year. All policies have been applied on bases consistently during the year and with the prior year.

New and amended financial reporting standards adopted

There are no new financial reporting standards and amendments adopted for the first time during the annual reporting period commencing 1 April 2022 that have had an impact on these financial statements.



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

2. BASIS OF PREPARATION CONT.

Financial reporting standards Issued But Not Yet Effective

NZ IAS 1 – Presentation of Financial Statements: Classification of liabilities as current or non-current is applicable for annual periods beginning on or after 1 January 2023 and will therefore be applicable for the year ended 31 March 2024 for the Fund. This amendment clarifies the requirement for the presentation of liabilities in the statement of financial position as current or non-current. Management is yet to assess the impact of this financial reporting standard on the Fund.

3. RELATED PARTY TRANSACTIONS

The related parties are:

- Trustees Executors Limited (related by virtue of having influence over the Fund in its role as Supervisor), who provide Supervisor services to the Fund.
- Midlands Funds Management Limited (related by virtue of having significant influence over the Fund in its role as Manager), who provide management services to the Fund and the Directors and senior management of Midlands Funds Management Limited and their close family members.
- Midlands Income Wholesale Fund is a related party by virtue of Midlands Funds Management Limited being the manager of the Midlands Income Wholesale Fund and having a significant influence on Midlands Income Wholesale Fund. Midlands Income Wholesale Fund invests in the Fund and distributions were paid to Midlands Income Wholesale Fund from the Fund. Transactions during the period in regard to parties directly related to the Fund were:

Transactions with related parties:	2023	2022
Supervisor Fees To Trustees Executors Ltd	\$ 175,071	\$ 139,516
Management Fees to Midlands Funds Management Limited	\$ 1,984,562	\$ 1,668,691
Computer Service Fees to Midlands Funds Management Limited	\$ 16,000	\$ 16,000
Distributions paid to Midlands Income Wholesale Fund	\$ 627,449	\$ 127,117
Management fee rebate paid to Midlands Income Wholesale Fund from Midlands Funds Management Limited	\$ 67,561	\$ 13,559
Midlands Funds Management Limited Directors' & Officers' net (withdrawals)/investments of unitholders' funds	(2,508,768) Units	1,135,357 Units
Midlands Funds Management Limited Directors' & Officers' net (withdrawals)/investments of unitholders' funds	\$ (2,308,067)	\$ 1,044,529
Midlands Income Wholesale Fund's net (withdrawals)/investments of unitholders' funds	7,428,229 Units	7,035,692 Units
Midlands Income Wholesale Fund's net (withdrawals)/investments of unitholders' funds	\$ 6,833,971	\$ 6,472,837
Balances of related parties as at 31 March:	2023	2022
Midlands Funds Management Limited Directors' & Officers' Investments of unitholders' funds	342,551 Units	2,239,506 Units
Balances owed to Midlands Funds Management Limited	\$ 185,321	\$ 2,025
Midlands Income Wholesale Fund investment in the Fund	14,463,922 Units	7,035,692 Units

Related party investments and balances are on normal commercial terms. The balances are unsecured and the Fund has given no guarantees to related parties. Management fees are payable on demand and management and Supervisor fees are expected to be paid within one month of being invoiced. The management fee charge during the period was 1.78% (2022: 1.78%) per annum of unitholders funds at the prevailing unit price. The Manager is entitled to on-charge certain loan management costs at its discretion but does not on charge all allowable costs. The Supervisor fee charge during the period was 0.14% (2022: 0.14%) calculated daily on the basis of the value of the Fund from day to day and paid quarterly in arrears during the year. Investments are redeemable within 90 days of notification of withdrawal.



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

4. REVENUE

Interest income is recognised on a time-proportion basis using the effective interest method.

	2023	2022
	\$	\$
Interest Revenue - Advances on Mortgages	8,458,211	6,055,239
Interest Revenue - Bank Deposits	333,043	54,263
	<u>8,791,253</u>	<u>6,109,502</u>

5. EXPENSES

All expenses are recognised in profit or loss on an accrual basis.

Administrative Expenses		
	2023	2022
	\$	\$
Accountancy Fee	32,721	18,837
Computer Service Fee	16,000	16,000
Finance Expenses	1,289	1,321
Legal & Professional	6,511	7,181
Other Administrative Expenses	11,579	13,867
Total Administrative Expenses	<u>68,100</u>	<u>57,205</u>
Audit & Assurance Fees		
	2023	2022
	\$	\$
Audit of Financial Statements - Crowe New Zealand Audit Partnership	84,749	80,520
Other Assurance Services	2,000	1,900
	<u>86,749</u>	<u>82,420</u>
<i>Other</i>		
Custodian controls assurance (Triple Ledger Ltd)	23,680	21,850
Total Audit & Assurance Fees	<u>110,429</u>	<u>104,270</u>

6. ADVANCES ON MORTGAGE

Financial Assets

(I) Classification

The Fund classifies its financial assets as amortised cost. Cash and Cash Equivalents, Short Term Bank Deposits and Advances on Mortgage listed in the Fund's statement of financial position are classified as financial assets at amortised cost. The classification is based on the Fund's business model for managing the financial assets and collecting the contractual cashflows. Management determines the classification at initial recognition and re-evaluates this designation at every reporting date. The determination is considered at the portfolio level as this reflects the way the business is managed. Information considered includes the Fund's strategy on earning contractual interest income, the way in which the Fund realises the cash flows and the frequency, volume and timing of sales of financial assets in previous periods.

(II) Initial Recognition and Derecognition

Financial assets are initially measured at fair value plus or minus transactions costs. A financial asset is recognised only when the Fund becomes a party to the contractual provisions of the financial asset. Purchases and sales of financial assets are recognised on settlement date – for Advances on Mortgages this is the date that it is advanced or repaid.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Fund has transferred substantially all the contractual rights to receive the cashflows of the financial asset.

(III) Subsequent Measurement

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money directly to a debtor with no intention of selling the receivable.

Subsequent to initial recognition they are stated at amortised cost using the effective interest rate method less accumulated impairment losses.



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

6. ADVANCES CONT.

Analyses of Advances on Mortgage (gross principal balances)

Credit risk becomes concentrated when a number of customers are engaged in similar activities, have similar economic characteristics, or have similar activities within the same geographic region – therefore, they may be similarly affected by changes in economic or other conditions. The Fund monitors its credit portfolio to manage risk concentration and rebalance the portfolio on the following basis. The Fund also applies single customer counterparty limits to protect against unacceptably large exposures to one single customer.

	2023	2022
(iv) Security Property Classification	\$	\$
Residential	51,786,989	45,912,452
Commercial	23,427,113	28,510,454
Rural	19,651,689	16,941,671
Total	94,865,792	91,364,576
(v) Geographic Region		
Auckland	14,806,617	19,569,256
Bay of Plenty	14,439,561	10,495,760
Canterbury	12,814,901	6,496,674
Hawke's Bay	12,384,760	11,841,407
Waikato	12,298,750	14,857,472
Wellington	11,373,793	15,419,499
Otago	8,421,935	3,978,500
Manawatu / Whanganui	2,808,463	2,912,906
Northland	2,044,647	2,284,450
Other	3,472,365	3,508,652
Total	94,865,792	91,364,576

(vi) Maturity

The split of Advances on Mortgages between current and non-current is detailed as below.

	2023	2022
	\$	\$
Current	70,519,910	66,437,154
Non-Current	24,345,882	24,927,422
Total	94,865,792	91,364,576

(vii) Reconciliation of Gross Advances to Carrying Value

Loan Principal	94,865,792	91,364,576
Accrued Interest	642,669	588,799
Expected credit loss	(591,676)	(493,268)
Total	94,916,785	91,460,108

Credit Quality

(viii) Concentration

Lending policy prohibits advances to individuals, entities or related groups in excess of 5% of unitholders funds. There is no exposure to a single counterparty with loan principal values above this threshold. (March 2022: None.)

(ix) Loan to Security Value

All advances are secured by first registered mortgage at the inception of the loan in accordance with the lending policy outlined in note 14. It is impracticable to provide a current valuation of the collateral security held against the loans in all instances because this information is normally only updated at the time of loan renewal (which is generally up to 3 years) and because of the complexity and potential volatility of the security values. All metrics are within the limits prescribed in our SIPO. A breakdown of the current loan to security value ratio, including where new valuations have been undertaken, is as follows.

31 March 2023

	LVR ≤ 75%	LVR > 75%	Total
Residential	LVR ≤ 66.7%	LVR > 66.7%	
Commercial	LVR ≤ 60%	LVR > 60%	
Rural	\$	\$	\$
Residential	51,786,989	-	51,786,989
Commercial	23,427,113	-	23,427,113
Rural	19,651,689	-	19,651,689
	94,865,792	-	94,865,792



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

6. ADVANCES CONT.

31 March 2022			
Residential	LVR ≤ 75%	LVR > 75%	Total
Commercial	LVR ≤ 66.7%	LVR > 66.7%	
Rural	LVR ≤ 60%	LVR > 60%	
	\$	\$	\$
Residential	45,912,452	-	45,912,452
Commercial	28,510,454	-	28,510,454
Rural	16,941,671	-	16,941,671
	91,364,576	-	91,364,576

(x) Aging Analysis

As at 31 March 2023	Residential	Commercial	Rural	Total
Neither past due or impaired	50,584,196	22,171,525	19,143,167	91,898,889
Past due assets not impaired:				
less than 30 days	-	526,365	508,522	1,034,887
30 to 59 days	65,971	729,223	-	795,194
60 to 89 days	-	-	-	-
90 days and over	1,136,822	-	-	1,136,822
Balance of past due but not impaired assets at the end of the year	1,202,793	1,255,588	508,522	2,966,903
% of total gross advances	2.32%	5.36%	2.59%	3.13%
Movements in individually impaired assets:				
Balance at the beginning of period	-	-	-	-
Additions	-	-	-	-
Amounts written off / loans closed	-	-	-	-
Balance of impaired assets at the end of the year	-	-	-	-
Total gross advances on mortgages	51,786,989	23,427,113	19,651,689	94,865,792

As at 31 March 2022	Residential	Commercial	Rural	Total
Neither past due or impaired	45,472,068	27,863,510	16,941,671	90,277,249
Past due assets not impaired:				
less than 30 days	-	-	-	-
30 to 59 days	-	646,944	-	646,944
60 to 89 days	86,996	-	-	86,996
90 days and over	353,387	-	-	353,387
Balance of past due but not impaired assets at the end of the year	440,384	646,944	-	1,087,327
% of total gross advances	0.96%	2.27%	0.00%	1.19%
Movements in individually impaired assets:				
Balance at the beginning of period	141,140	-	-	141,140
Additions	-	-	-	-
Amounts written off / loans closed	(141,140)	-	-	(141,140)
Balance of impaired assets at the end of the year	-	-	-	-
Total gross advances on mortgages	45,912,452	28,510,454	16,941,671	91,364,576

Effective Interest Rates

The weighted average effective interest rates on the first mortgage investments as at balance date were as follows: -

	31 March 2023	31 March 2022
Residential Mortgages	8.70%	7.90%
Commercial Mortgages	9.09%	7.81%
Rural Mortgages	8.89%	8.16%



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

7. IMPAIRMENT OF FINANCIAL ASSETS

The Fund seeks to provide credit across its core customer base, encompassing residential, retail, agribusiness and the commercial and business sector, in the form of first mortgages. The Fund only offers credit to sound customers that have the intent, willingness and ability to repay. The Fund manages its credit exposures by maintaining an awareness of the prevailing economic conditions, monitoring repayment requirements and communicating closely with borrowers when necessary.

A provision for impairment is measured based on the expected credit loss (ECL) model. The Fund applies a three-stage model to measure the expected credit losses associated with its financial assets (advances on mortgage, short term deposits and cash & cash equivalents) by assessing the changes in credit quality of those financial assets since initial recognition.

Three-stage model is as follows:

- Stage 1 (12 month ECL): applies to all items resulting from possible default events within 12 months after reporting date.
- Stage 2 (Lifetime ECL): represents the ECL that results from all possible default events over the expected life of a financial instrument. If a financial instrument experiences a significant increase in credit risk since initial recognition then is moved to Stage 2 but is not yet deemed to be credit-impaired.
- Stage 3 (Lifetime ECL): when objective evidence of credit-impairment emerges with one or more events that have a detrimental impact on the estimated future cash flows of the financial assets then the asset is considered credit impaired and moved to Stage 3.

A significant change in the credit quality of a financial asset results in movements between stages 1 and 2. Financial assets which are known to be uncollectible are written off as an expense in the profit or loss. These are only written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the borrowers credit rating), the previously recognised impairment loss is reversed by adjusting the allowance amount, with the reversal being recognised in the profit or loss.

For stage 1 and 2 financial instruments, the interest revenue is recognised using the effective interest rate on the gross carrying amount. For stage 3 financial instruments, the interest revenue is recognised using the effective interest rate on the net carrying amount (gross carrying amount less provision).

Significant Increase in Credit Risk (SICR)

The Fund considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Fund compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward looking information.

The Fund considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The following indicators are incorporated in the review of credit risk:

- internal credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change in a borrower's ability to meet its obligation
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of a borrower, including changes in the payment status of borrowers and changes in the operating results of borrowers.

Credit risk is managed through the use of competent brokers, structured approval processes considering the character, capacity, capability, collateral and condition applicable to the borrower; validation of this information; hindsight reviews; and portfolio and exposure performance management.

Credit risk governance is managed through a delegation framework from the Board to the Loans Committee and to the Investment Committee. Subsequent to year end, the Loans Committee was disestablished. The Investment Committee now reports directly to the Board and the Audit Risk and Compliance Committee. The Investment Committee is chaired by the CEO and has a delegated authority of 3% of funds under management. Refer to note 14 for more details on Credit risk management.



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

7. IMPAIRMENT OF FINANCIAL ASSETS CONT.

The Fund employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Fund has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Fund's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Fund since the prior period.

Measurement of ECL

Measurement of Expected Credit Loss (ECL) is calculated as the product of the following credit risk factors at a facility level, discounted to incorporate the time value of money (TVM).

Probability of Default (PD): the estimate of the likelihood that a borrower will default over a given period of time. The Fund uses publicly available data on probabilities of default in New Zealand's retail banking market and adjusted, where appropriate, to match the Fund's lending profile.

Loss given default (LGD): the expected loss in the event of the borrower defaulting, expressed as a % of the facility's Exposure at default (EAD), taking into account direct and indirect recovery costs. The Fund uses the Reserve Bank of New Zealand's minimum LGD expectations as these conservatively approximate the Fund's own experience of loss given default on loans.

Exposure at default (EAD): the expected balance sheet exposure at default taking into account repayments of principal and interest, and accrued interest.

Each loan is assigned a probability of default and loss given default rate, both expressed as percentages, based on:

- The internal risk indicator assigned;
- The classification of the loan as either commercial, rural or residential; and
- Whether the loan is in Stage 1, 2 or 3.

Measurement of expected credit losses are collectively measured for each classification of Commercial, Rural and Residential. When estimating ECL for exposures in Stage 2 and 3, the Fund considers the expected lifetime over which it is exposed to credit risk. The Fund uses the maximum contractual period as the expected lifetime.

Stage 2 assets are those that have experienced a SICR since origination. In determining what constitutes a SICR, the Fund considers both qualitative and quantitative information.

1 - Internal Risk Indicator

The primary indicator of a SICR is a significant deterioration in the internal credit rating of a facility since origination and is measured by applicable thresholds.

A Risk Indicator is assigned to each borrower which reflects the probability of default of the borrower and incorporates both borrower and non-borrower specific information, including forward-looking information. The probability of default may increase if:

- a) There has been a deterioration in the economic outlook, or an increase in economic uncertainty; or
- b) There has been a deterioration in the customer's overall credit position, or ability to manage their credit obligations.

2 - Backstop Criteria

A SICR is considered to have occurred when the borrower meets one or more of the following criteria:

- i) Direct debit cancellation or consecutive direct debit dishonours
- ii) Extension of the terms granted
- iii) Arrears of repayments in excess of 30 days within the last 12 months



Midlands Income Fund Notes to the Financial Statements

For the year ended 31 March 2023

7. IMPAIRMENT OF FINANCIAL ASSETS CONT.

The Fund considers the underlying value of securities and credit assessments on borrowers while assessing the lifetime expected credit loss. Where loans or receivables have been written off, the Fund continues to engage in enforcement activity to attempt to recover the receivable due where appropriate. Where recoveries are made, these are recognised in profit or loss.

The Fund uses three categories for loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. A summary of the assumptions underpinning the Fund's expected credit loss model is as follows.

Category	Key assumptions	Basis for recognition of expected credit loss provision
Stage 1	Loans from borrowers with a low risk of default and a strong capacity to meet contractual cash flows.	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured for the remaining term.
Stage 2	Loans for which there is a significant increase in credit risk which is presumed if interest and/or principal repayments are 30 days past due.	Lifetime expected losses.
Stage 3	Loans which are deemed credit impaired with any of the following characteristics <ul style="list-style-type: none"> - they are over 90 days past due in making a contractual payment, - there is objective evidence of events that indicate the borrower is in significant financial difficulty - the borrower is insolvent - the borrower is in breach of financial covenants - concessions have been made by the Fund - becoming probable that the borrower will enter bankruptcy or - the Fund has exhausted all options to rehabilitate a mortgage debt and/or expects to incur a loss. 	Lifetime expected losses based on the specific circumstances of each loan.
Write-off	Loans are written off when there is no reasonable expectation of recovery.	Loan less any related provision is written off.

Over the term of the loans, the Fund accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. The following tables present the movements in the allowances for ECL for the year:



Midlands Income Fund
Notes to the Financial Statements

For the year ended 31 March 2023

7. IMPAIRMENT OF FINANCIAL ASSETS CONT.

As at 31 March 2023	Stage 1 Lifetime ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Lending Assets				
Advances on mortgage (gross)				
Residential	46,930,376	4,856,613	-	51,786,989
Commercial	21,585,681	1,126,765	714,667	23,427,113
Rural	14,802,691	4,848,998	-	19,651,689
	83,318,748	10,832,376	714,667	94,865,792
Commitments to lend				
Residential	1,127,452	77,806	-	1,205,258
Commercial	607,800	-	-	607,800
Rural	495,376	-	-	495,376
	2,230,628	77,806	-	2,308,434
ECL Rate				
Residential	0.31%	1.22%	0.00%	
Commercial	0.43%	2.66%	10.00%	
Rural	0.33%	2.80%	0.00%	
ECL Provision	294,266	225,944	71,467	591,677
Other Financial Assets				
Cash and Cash Equivalent	13,568,139	-	-	13,568,139
Short-term Deposits	3,289,359	-	-	3,289,359
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%

As at 31 March 2022	Stage 1 Lifetime ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Lending Assets				
Advances on mortgage (gross)				
Residential	42,146,794	3,765,657	-	45,912,451
Commercial	23,541,908	4,968,546	-	28,510,454
Rural	14,426,571	2,515,100	-	16,941,671
	80,115,273	11,249,303	-	91,364,576
Commitments to lend				
Residential	6,616,849	-	-	6,616,849
Commercial	476,111	-	-	476,111
Rural	315,615	-	-	315,615
	7,408,575	-	-	7,408,575
ECL Rate				
Residential	0.24%	0.66%	0.00%	
Commercial	0.32%	3.03%	0.00%	
Rural	0.32%	3.02%	0.00%	
ECL Provision	241,065	252,202	-	493,267
Other Financial Assets				
Cash and Cash Equivalent	6,683,271	-	-	6,683,271
Short-term Deposits	6,061,664	-	-	6,061,664
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

7. IMPAIRMENT OF FINANCIAL ASSETS CONT.

Movement in balances of credit impairment allowances

The movement in the expected credit loss during the year is due to the increase in the advances on mortgage and no individual or collective advances on mortgage in Stage 3.

As at 1 April 2021	Stage 1	Stage 2	Stage 3	Total
Opening credit loss allowance	97,132	377,492	-	474,624
Transfer between stages	130,763	(130,763)	-	-
New and increased provisions (net of releases)	13,170	5,474	-	18,644
Write-backs	-	-	-	-
Bad debts written off (excluding recoveries)	-	-	-	-
As at 31 March 2022	241,065	252,202	-	493,267
Transfer between stages	54,078	(73,635)	19,557	-
New and increased provisions (net of releases)	(877)	47,377	51,910	98,409
Write-backs	-	-	-	-
Bad debts written off (excluding recoveries)	-	-	-	-
As at 31 March 2023	294,266	225,944	71,467	591,677

Uncertainty Factors

Volatility in property market prices and realisation costs could materially affect potential recoveries of overdue loans and the time taken to realise securities.

The critical estimates in determining specific loan impairment provisions involve estimating the amounts and timing of future cash flows for security realisations. Amounts are based on valuations or agents' estimates of security properties or recent realisations of similar properties. Timing of future cash flows is based on historical sales patterns or expected activity based on recent interest. The actual cashflows could range from full collection of all gross impaired loans and interest through to not receiving any cashflows.

The collective provision is assessed on all loans that are not individually impaired.

Expected Credit Loss - Sensitivity analysis

The impact of Cyclone Gabrielle and associated government, business and consumer responses, increases the risk of economic forecast resulting in an understatement or overstatement of the ECL balances due to uncertainties around:

- The expected impact on the economy, including timing and speed of the economic response and differences between sectors; and
- The effects of progressive reductions in stimulus measures, in particular on the extent and duration of economic recovery.

The loan advances are generally for a term of 2 to 3 years. The weighted average loan to valuation ratio (LVR) of the Funds's advances (based on loan security valuations on origination of the loan) is as follows

	2023	2022
Residential	46%	45%
Commercial	45%	46%
Rural	32%	45%

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Fund should be considered as a best estimate within a range of possible estimates.

Management has undertaken sensitivity analysis varying some of the inputs at 31 March 2023 to identify the potential financial impact:

- an increase of 5% each on Commercial, Residential and Rural carrying amounts in Stage 2 with corresponding decrease in Stage 1 would result in an increase in provision of \$103,937.
- an increase of \$2,500,000 each on Commercial and Residential carrying amounts in Stage 2 with corresponding decrease in Stage 1 would result in an increase in provision of \$60,720.



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

8. TAXATION

Income Tax Expense

Income tax on profits for the period comprises current tax, deferred tax and any adjustment for tax payable in previous periods. Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

The entity is a widely-held group investment fund and derives Category B income for the purposes of section HR 2(3) of the Income Tax Act 2007.

Usually all income of the Fund will be allocated to unitholders throughout the income year, or is paid and applied within six months of the year end. In these circumstances the Fund will have no liability for income tax. To the extent income is retained by the Fund it will be taxable to the Fund at 28%.

Current Tax

Current tax is the expected tax payable on the income for the period, based on tax rates and tax laws which are enacted or substantively enacted by the reporting date.

Deferred Tax

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the balance date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised in the foreseeable future.

Goods and Services Tax

The Fund provides financial services and is not registered for GST. As such it cannot recover any GST incurred on expenditure. The non-recoverable GST is therefore included in the amounts recognised as expenses, liabilities and assets. There is no GST charged on revenue.

	2023 \$	2022 \$
Current Period Tax		
Surplus/(Deficit) for the period	6,378,170	4,125,560
Less Distribution to Unitholders	<u>(6,203,399)</u>	<u>(4,054,881)</u>
Residual Taxable Income	<u>174,772</u>	<u>70,679</u>
Tax Charge at effective tax rate (28%)	48,936	19,790
Tax effect of temporary difference not recognised:		
Impairment Provision and Accruals Movement	28,198	8,452
Tax Losses Not Recognised/(Utilised)	<u>(77,134)</u>	<u>(28,242)</u>
Tax Expense/(Credit)	<u>-</u>	<u>-</u>
<i>Comprising:</i>		
Current Tax Payable	-	-
Deferred Tax	-	-
Tax Expense/(Credit)	<u>-</u>	<u>-</u>

The Fund has tax losses to carry forward of \$3,354,963 (March 2022: \$3,612,218). Consistent with previous years, management has determined that no deferred tax asset be recognised, as under current distribution policy, there is considered to be low probability of realising the benefits of tax losses.



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

9. SHORT-TERM BANK DEPOSITS

Short-Term Bank Deposits with initial maturities greater than 90 days and held for liquidity purposes are separately classified as they do not meet the definition of Cash & Cash Equivalents

	2023	2022
	\$	\$
Short-Term Bank Deposits	3,289,359	6,061,664
Total	3,289,359	6,061,664

Terms ranged from 314 - 400 days.

The effective interest rates on short term deposits and classified as Cash and Cash Equivalents held as at the end of the year were in the range of 0%-5.03% with a weighted average of 3.32% (March 2022 effective interest rate range 0%-2.8%, weighted average 0.96%)

10. TRADE AND OTHER PAYABLES

These amounts represent unsecured liabilities for goods and services provided to the Fund prior to the end of the financial year which are unpaid. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. As trade and other payables are usually paid within 30 days, they are carried at face value.

	2023	2022
	\$	\$
Accruals	112,950	88,837
Resident Withholding Tax	297,495	256,368
Total	410,445	345,205

11. UNITHOLDERS' FUNDS

Unitholder funds are classified as equity as they meet the definition of equity in NZ IAS 32 *Financial Instruments: Presentation*, in that they are puttable financial instruments, the unitholders are entitled to receive a pro-rata share of the Fund's net assets on winding up, unitholders' funds are subordinate to all liabilities of the Fund, units have identical features, apart from the contractual obligation for the Fund to redeem the units for cash, the units do not include any contractual obligation to deliver cash and the total expected cash flows over the life of the units are substantially based on the profit or loss of the Fund.

	2023	2022
	#	#
Opening Units	112,135,779	92,236,037
Units Issued	38,768,505	33,312,899
Units Redeemed	(31,332,977)	(13,413,157)
Closing Units	119,571,307	112,135,779
Unitholder Funds	\$113,667,021	\$106,856,449

Each unitholder is entitled to one vote (irrespective of the number of units held) on matters concerning the Fund, but the Manager and Supervisor are not bound to follow the directions of the unitholders. The Manager and Supervisor can be removed by an extraordinary resolution of unitholders.

The assets of the Fund are held in the name of the Supervisor on behalf of the unitholders, in accordance with the Trust Deed. Deposits not in whole dollars are deemed to be advance subscriptions for units. Distributions not paid in cash (i.e. reinvested by members) are deemed to be subscriptions for units and add to the unitholders' unit balance in the Fund. The Trust Deed requires that withdrawals are paid out within 90 days of notification. The Manager generally processes withdrawals in a timely manner. The Trust Deed also provides for the suspension of withdrawals for 90 days or longer in certain circumstances.

The current price of units in the Fund is \$0.92 (2022: \$0.92). All units issued are fully paid. The price of units in the Fund is determined by the net asset value of the Fund divided by the total units in the Fund.

The average annualised income distribution per unit for the relevant accounting period is 5.11c/unit (March 2022: 3.96c/unit).



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

12. ACCUMULATED FUNDS

The Trust Deed allows the Manager to establish a reserve to meet losses on individual loans by setting aside a part of the Fund's income for that purpose. The amount to be set aside is at the discretion of the Manager and Supervisor and will be reviewed from time to time. Cumulative distributions have exceeded cumulative net surpluses due to historical losses on loan realisations and as a result there is an accumulated deficit. Distributions are determined by consideration of the surplus income in the Fund for a period and market rates of return for similar Instruments.

13. STATEMENT OF CASH FLOWS

The statement of cash flows has been prepared using the direct method and is inclusive of GST, which is consistent with the method used in the statement of comprehensive income and the statement of financial position.

The following are the definitions of the terms used in the statement of cash flows:

- (a) Cash and cash equivalents are considered to be cash on hand and current accounts in banks, short term bank deposits (with terms less than 90 days), net of bank overdrafts;
- (b) Investing activities are those activities relating to the acquisition, holding and disposal of long term assets;
- (c) Financing activities are those activities that result in changes in the size and composition of the capital structure of the Fund; and
- (d) Operating activities include all transactions and other events that are not investing or financing activities. Cashflows relating to Advances on Mortgage and Short Term Bank Deposits are considered operating activities.

Reconciliation of Surplus After Tax With Net Cash From Operations

	2023	2022
	\$	\$
Surplus after Tax	6,378,170	4,125,560
Plus/(Less) Non-Cash Items		
Bad Debts	-	-
Impairment Provision Movement	98,408	18,644
	<u>6,476,578</u>	<u>4,144,204</u>
Plus/(Less) Cashflow Effect of Movement in Operating Assets and Liabilities		
Trade and Other Payables	248,536	120,330
Interest Accrued	203,796	144,915
Short Term Bank Deposits	2,850,000	(553,152)
Mortgage Advances	(3,501,216)	(22,420,832)
Net Cash Inflow/(Outflows) From Operating Activities	<u>6,277,895</u>	<u>(18,564,535)</u>

14. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Manager has a policy of compliance and risk management to suit the risk profile of the Fund. Key risk management policies encompassed in the overall risk management framework include:

- Credit risk management
- Liquidity risk management
- Market risk management
- Operational risk management

The Manager has implemented the following strategies to mitigate these risks.

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge their obligation resulting in the Fund incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Fund. Credit risk governance is managed through a delegation framework from the Board to the Loans Committee and to the Investment Committee. The Investment Committee has delegated authority of 3% of funds. The Investment Committee meets weekly with reports from management provided to the Loans Committee. The Loans Committee meets monthly to review reporting and hindsight reviews to ensure that risks arising from credit activities are within parameters set by the Board. The loans are also risk graded at initiation using standardised models, experience and data provided on application. The Risk Indicator assigned to each borrower takes into account servicing capacity, LVR, location, asset type and loan size.

Subsequent to year end, the Loans Committee was disestablished. The Investment Committee now reports directly to the Board and the Audit Risk and Compliance Committee. The Investment Committee is chaired by the CEO and has a delegated authority of 3% of funds under management.



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

14. RISK MANAGEMENT OBJECTIVES AND POLICIES CONT.

Advances on Mortgage

The Manager has established policies or procedures over the:

- credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements.
- reassessing and review of the credit exposures on loans and facilities.
- establishing appropriate provisions to recognise the impairment of loans.
- debt recovery procedures.
- review of compliance with the above policies.

The credit policy is that loans are only made to borrowers that are creditworthy and against the security of a first registered mortgage over land. The policy requires that all loans, when advanced, comply with the following lending limits:-

- 75% of a registered valuation for owner occupied dwellings, residential investment properties and developed land in fee simple or 50% of the value of a lessee's interest and 50% of the value of vacant land;
- 60% of a registered valuation for farming properties in fee simple but in certain circumstances 66.67% of a registered valuation for farming land used for dairy purposes, or 50% of the value of a lessee's interest.
- 66.7% of a registered valuation for other commercial properties or 50% of the value of the lessee's interest in the case of a leasehold property.

There has been no significant change to the Fund's exposure to credit risk with respect to loans and receivables or the way the Manager manages the credit risk in the reporting period. The Fund has changed its measurement of ECL as detailed in note 7. Daily reports monitor loan repayments to detect delays in repayments and recovery action is undertaken after 14 days if not rectified.

The detailed quantitative analysis of credit risk is included in Note 6 in the following areas:

- Security property classifications amongst the portfolio in Note 6 (iv);
- Geographical split of loans in Note 6 (v);
- Loan to security ratios amongst the portfolio in Note 6 (ix); and
- An analysis of ageing including days past due in Note 6 (x).

Regular review of compliance is conducted by the Manager.

Short Term Bank Deposits and Cash

The Fund has a policy that ensures bank investments are only made with credit worthy commercial banks. ANZ Bank NZ Limited, the Fund's primary banker, is rated AA - by Standard and Poors. The risk of losses from bank investments is mitigated by the nature and quality of the independent rating of these banks.

There has been no significant change to the Fund's exposure to credit risk with respect to banks. The Manager has maintained a diversified spread of investments with banks to reduce the exposure to credit risk in the reporting period.

The concentration of credit risk with respect to banks for short term bank deposits and cash and cash equivalents as at reporting date was 76% for ANZ Bank NZ Limited (2022: 59%), 11% for Kiwibank Limited and 14% for Westpac New Zealand Limited.

Maximum Credit Risk

The maximum exposure to credit risk is the carrying value of financial assets as detailed in the Statement of Financial Position and loan commitments.

	2023	2022
	\$	\$
Cash and Cash Equivalents	13,568,139	6,683,271
Short-Term Bank Deposits	3,289,359	6,061,664
Advances on Mortgages	94,916,785	91,460,108
Loan Commitments	2,308,434	7,408,575
Maximum Credit Risk	114,082,717	111,613,618



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

14. RISK MANAGEMENT OBJECTIVES AND POLICIES CONT.

Counterparty Exposure

The Fund has exposure to single counterparties (in respect of advances on mortgages, short term bank deposits and cash and cash equivalents) in bands of 10% of equity as follows.

% of Equity	31 Mar 2023 Advances	31 Mar 2023 Banks	31 Mar 2022 Advances	31 Mar 2022 Banks
0% to 10%	118	2	121	3
10% to 20%	-	1	-	-
20% to 30%	-	-	-	-

Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. loan commitments, or unitholder withdrawals.

The liquidity risk related to loan commitments is where there are insufficient ability to meet borrower drawdowns on undrawn commitments. Liquidity risk related to unitholder withdrawals is where there is insufficient liquid funds, or an inability to quickly realise assets to meet the contractual obligation for unitholder withdrawals.

The Manager manages liquidity risk by:

- Monitoring forecast and actual daily cash flows
- Monitoring unitholder requests for withdrawals
- Reviewing the maturities of financial assets and liabilities
- Maintaining adequate cash reserves.

It is the policy of the Manager to maintain cash reserves (cash and cash equivalents and short-term bank deposits) so as to meet the anticipated withdrawal demands when requested. A minimum of 5% of the total gross asset value of the Fund is to be held in cash reserves as a requirement of the Supervisor (actual March 2023: 15.00%, March 2022: 12.17%). The Manager's current internal policy is to maintain cash reserves at 7.5% of unitholder funds (actual March 2023: 14.83%, March 2022: 11.93%). The cash reserves are held so as to meet the loan commitments at the end of the year. Following the advance of the committed loans at year end, the cash reserve will be at 12.8%. The funds are to be held with New Zealand registered trading banks.

Maturity Profile

The maturity profile of the financial assets and financial liabilities are set out in note 15.

Funding Concentration

There is a concentration of unitholders in Hawkes Bay 62% (March 2022: 63%), and Taranaki 16% (March 2022: 14%).

There has been no significant change to the Fund's exposure to liquidity risk or the way the Manager manages and measures liquidity risk, in the reporting period.

Capital Management

The Fund has no externally imposed capital requirements. Capital includes unitholder funds and accumulated income. Any undistributed income forms part of the Fund's capital. (Refer also note 11). Unitholders ordinarily have the right to redeem their assets at their discretion. The Manager cannot therefore directly manage the capital, however the Manager may under the Trust Deed suspend withdrawals for 90 days or longer in certain circumstances. Distributions must be approved by the Supervisor.

Market Risk

The Fund is exposed to interest rate risk arising from changes in market interest rates. Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The policy of the Manager is to manage the risk by placing loans at variable interest rates renewable at short periods of notice (7 days minimum). Interest rate risk to the Fund is minimised because returns to unitholders are determined by the Fund's net income for the period.



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

14. RISK MANAGEMENT OBJECTIVES AND POLICIES CONT.

Interest Rate Re-Pricing

The contractual re-pricing or maturity information for financial assets is as follows. The Fund does not have interest bearing liabilities subject to interest rate re-pricing.

- Advances on Mortgages are re-priced at the Fund's discretion with a minimum of 7 days' notice.
- Short Term Bank Deposits maturities do not exceed six months.
- Cash and Cash Equivalents are generally at call.

There has been no significant change to the Fund's exposure to market risk or the way the Manager manages and measures market risk in the reporting period.

The Fund is not exposed to currency risk and other price risk. The Fund does not trade in the financial instruments it holds on its books.

Interest Rate Sensitivity

The distributions to unitholders are determined by the returns on the invested funds. The financial position of the Fund itself is therefore not materially sensitive to interest rate changes. If interest rates were to increase/decrease this would be offset to a large extent by an increased/decreased distribution to unitholders, therefore the impact on equity would be minimal.

The following table summarises the sensitivity of the Fund's profit and equity to 0.25% movement in interest rates assuming all net profit is paid out in distributions. The Fund does not have any interest sensitive liabilities.

31 March 2023	Carrying Amount	-0.25% Net Surplus	-0.25% Net Equity	+0.25% Net Surplus	+0.25% Net Equity
Financial Assets (Principal Value)	\$	\$	\$	\$	\$
Cash & Cash Equivalents	13,568,139	(33,920)	-	33,920	-
Short Term Bank Deposits	3,289,359	(683)	-	683	-
Advances on Mortgages	94,916,785	(237,292)	-	237,292	-
Total (Decrease)/Increase		(271,895)	-	271,895	-
31 March 2022	Carrying Amount	-0.25% Net Surplus	-0.25% Net Equity	+0.25% Net Surplus	+0.25% Net Equity
Financial Assets (Principal Value)	\$	\$	\$	\$	\$
Cash & Cash Equivalents	6,683,271	(16,708)	-	16,708	-
Short Term Bank Deposits	6,061,664	(8,840)	-	8,840	-
Advances on Mortgages	91,460,108	(228,650)	-	228,650	-
Total (Decrease)/Increase		(254,198)	-	254,198	-

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on advances on mortgages, short term bank deposits and cash and cash equivalents for the next 12 months. In doing the calculation the following assumptions applied:

- Short term bank deposits and cash and cash equivalents would reprice to the new interest rate at maturity.
- Advances on mortgage rate change would be on 7 days notice from the beginning of the 12-month period.
- The value and mix of advances on mortgages will be unchanged.
- Impaired loans would not generate a profit effect from interest rate changes.

Operational Risk

Operational risks relate to those risks arising from a number of sources including from legal compliance, business continuity, data infrastructure, outsourced services failures and Manager's employee errors.

These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- the segregation of duties between the Manager's employee duties and functions, including approval and processing duties.
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour.
- effective dispute resolution procedures to respond to unitholder complaints.
- effective insurance arrangements to reduce the impact of losses.
- contingency plans for dealing with the loss of functionality of systems, premises or staff.



Midlands Income Fund

Notes to the Financial Statements

For the year ended 31 March 2023

15. MATURITY PROFILE

The following tables are based on contractual maturities.

As at balance date, advances of \$6,113,918 (March 2022: \$2,222,739) have matured. This amount includes accrued interest and other fees due less each loan's individual impairment provision. The gross amount of loan principal is \$6,087,267 (March 2022: \$2,205,003).

31 March 2023 (\$000's)

Financial Assets	Matured	On Demand	< 1 Month	1-6 Months	6-12 Months	1-2 Years	2-5 Years	>5 Years	Total
Cash and cash equivalents		12,664	453	451				-	13,568
Short term bank deposits			471	2,307	512			-	3,289
Advances on mortgage	6,087		3,855	36,959	23,619	24,346		-	94,866
Future interest receivable			631	2,454	2,058	404		-	5,547
Total Financial Assets	6,087	12,664	5,410	42,170	26,189	24,750	-	-	117,270
Financial Liabilities	Matured	On Demand	< 1 Month	1-6 Months	6-12 Months	1-2 Years	2-5 Years	>5 Years	Total
Payables (excluding accruals)	-	-	483	-	-	-	-	-	483
Total Financial Liabilities	-	-	483	-	-	-	-	-	483
Loans Approved but not disbursed			1,049	452	807			-	2,308
Net contractual cash flow	6,087	12,664	3,878	41,718	25,382	24,750	-	-	114,479
Cumulative contractual cash flow	6,087	18,751	22,629	64,348	89,729	114,479	114,479	114,479	114,479

31 March 2022 (\$000's)

Financial Assets	Matured	On Demand	< 1 Month	1-6 Months	6-12 Months	1-2 Years	2-5 Years	>5 Years	Total
Cash and cash equivalents	-	6,683						-	6,683
Short term bank deposits	-	-	853	4,300	900			-	6,053
Advances on mortgage	2,205		5,680	27,391	31,161	21,343	3,585	-	91,364
Future interest receivable	-	-	37	610	2,029	2,351	684	-	5,711
Total Financial Assets	2,205	6,683	6,570	32,301	34,090	23,694	4,269	-	109,812
Financial Liabilities	Matured	On Demand	< 1 Month	1-6 Months	6-12 Months	1-2 Years	2-5 Years	>5 Years	Total
Payables (excl. accruals)	-	-	331	-	-	-	-	-	331
Total Financial Liabilities	-	-	331	-	-	-	-	-	331
Loans Approved but not disbursed	-		3,592	2,432	1,385			-	7,409
Net contractual cash flow	2,205	6,683	2,647	29,869	32,705	23,694	4,269	-	102,072
Cumulative contractual cash flow	2,205	8,888	11,535	41,404	74,109	97,803	102,072	102,072	102,072



Midlands Income Fund
Notes to the Financial Statements
For the year ended 31 March 2023

15. MATURITY PROFILE CONT.

Additional information regarding expected maturities of loans

Gross advances of \$6,087,267 at 31 March 2023 (2022: \$2,205,003) have matured including loans that are past due or impaired. The Manager anticipates repayment/refinance of the carrying value of these loans (based on expected future cash flows) to be as follows:

	2023	2022
	\$	\$
0-6 Months	5,372,601	2,205,003
7-12 Months	714,667	-
1-2 Years	-	-
2-5 Years	-	-
Total carrying value	<u>6,087,267</u>	<u>2,205,003</u>

16. COMMITMENTS

	2023	2022
	\$	\$
Approved loans to be advanced after balance date	2,308,434	7,408,575
Withdrawal applications to hand to process after balance date	329,577	244,065

17. FAIR VALUES

The carrying value of all financial assets and liabilities approximates fair value, due to the short term nature of the financial instruments and the fact that they have a floating interest rate.

Advances on mortgage are carried at amortised cost less accumulated impairment losses. Any differences between fair value and carrying value of loans is not material as the interest rate is floating and the loans can be changed to "on demand". Impairment charges moderate the carrying value of loans to estimated recoverable value.

Cash and cash equivalents and *short-term bank deposits* are available either on demand or within a short period. They are earning market interest rates, therefore carrying value approximates fair value.

Trade and other payables are short term, therefore carrying value approximates fair value.

18. EVENTS SUBSEQUENT TO BALANCE DATE

There are no material events to disclose subsequent to balance date.

19. CONTINGENT ASSETS/LIABILITIES

There are no contingent assets or liabilities (March 2022: Nil).



INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Midlands Income Fund

Opinion

We have audited the financial statements of Midlands Income Fund (the Fund) on pages 4 to 25, which comprise the statement of financial position as at 31 March 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 March 2023, and its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund 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 we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Fund.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How we addressed the Key Audit Matter
Provision for expected credit losses on mortgage advances	
<ul style="list-style-type: none"> ▪ Mortgage advances represent a significant portion of the total assets of the Fund. ▪ These assets are required by NZ IFRS 9 <i>Financial Instruments</i> ("NZ IFRS 9") to be assessed for impairment using the expected credit loss model ("ECL model"). The ECL model includes a 	<p>Our audit procedures, among others, included:</p> <ul style="list-style-type: none"> ▪ Evaluating the design and implementation of key controls for mortgage advances including the initial advancing of mortgages and the ongoing monitoring of those advances, arrears and credit worthiness;

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Key Audit Matter	How we addressed the Key Audit Matter
Provision for expected credit losses on mortgage advances	
<p>significant amount of judgement by management in estimating the expected credit losses.</p> <ul style="list-style-type: none"> ▪ In applying the ECL model, management analyses historical loss experience for each stage of the three-stage model (as disclosed in Note 7) and adjusts for forward looking information. ▪ The ECL model has a high degree of complexity and subjectivity and therefore requires significant amount of audit effort to address the risks. 	<ul style="list-style-type: none"> ▪ Testing loan details on a sample basis by agreeing non-financial data such as loan value, interest rate and maturity date to external confirmations or supporting loan documentation; ▪ Assessing the Fund's methodology used in the ECL model to calculate the provision against the requirements of NZ IFRS 9; ▪ Evaluating and challenging management on the significant judgements and assumptions made by management in the ECL model; ▪ Testing key inputs of the ECL model; ▪ Assessing the Fund's disclosures in Note 7 of the financial statements against the requirements of NZ IFRS 7 <i>Financial Instruments: Disclosures</i>.
Going concern	
<ul style="list-style-type: none"> ▪ The ability for the Fund to continue as a going concern requires ongoing management of the mortgage advances and repayments and of the Fund's liquidity. The specific liquidity risks facing the Fund are disclosed in Note 14. ▪ The forecasting of future liquidity of the Fund requires significant judgement by the Manager including the undertaking of close daily monitoring of investor deposits and withdrawals activity, forecasting the future liquidity needs of the fund based on expected or historic investor and lending activity in the Fund. ▪ We identified going concern as a significant risk requiring special audit consideration, including assessing the appropriateness of the underlying assumptions. 	<p>Our audit procedures, among others, included:</p> <ul style="list-style-type: none"> ▪ Management's going concern assessment, including the liquidity forecasting for a period at least twelve months from the date the financial statements are expected to be signed. ▪ Critically evaluating management's significant judgements on the expected investor patterns including expected and forecasted investor outflows and renewals. ▪ Critically evaluating management's significant judgements on expected borrowers' behaviour on maturity including the repayment or renewal of maturing loans. ▪ Comparing actual trends subsequent to balance date with management's forecast to determine whether the forecast remains appropriate or further adjustments are required. ▪ Evaluating the disclosures in Notes 2 and 14 the Fund's financial statements against the requirements of NZ IAS 1 <i>Presentation of Financial Statements</i> and FRS-44 <i>New Zealand Additional Disclosures</i>.

Directors of the Manager's Responsibilities for the Financial Statements

The Directors of the Manager are responsible on behalf of the Fund for the preparation and fair presentation of the financial statements in accordance with NZ IFRS, and for such internal control as the Directors of the Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors of the Manager are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors of the Manager either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 and 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 financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors of the Manager and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors of the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors of the Manager with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors of the Manager, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Restriction on Use

This report is made solely to the Fund's Unitholders, as a body. Our audit has been undertaken so that we might state to the Fund's Unitholders those matters we are required to state to them in an 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 Fund and the Fund's Unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Les Foy.

For and on behalf of:



Crowe New Zealand Audit Partnership
CHARTERED ACCOUNTANTS
10 August 2023