MIDLANDS INCOME FUND

FINANCIAL ACCOUNTS

FOR THE YEAR ENDED
31 MARCH 2022

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) aims to provide a competitive return to its stakeholders by investing in first ranking mortgage securities over New Zealand land and buildings.
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 Steven Wyn-Harris Kenneth Alan Horner Dinah Mary Clifford Kennedy Marise Lynne James (appointed 1 September 2021)
Supervisor & Trustee	Trustees Executors Limited Level 5 10 Customhouse Quay Wellington
Auditor	Crowe New Zealand Audit Partnership Building A, Level 1, Farming House 221 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 2022

	Note	2022 $	2021 $
Interest Revenue	4	6,109,502	4,586,466
Other Income		4,384	-
Total Income		**6,113,886**	**4,586,466**
Administrative Expenses	5	57,205	71,134
Audit and Assurance Fees	5	104,270	89,330
Movement in Provision for Loan Impairment	7	18,644	23,702
Management Fees	3	1,668,691	1,234,400
Supervisor Fees	3	139,516	108,677
Total Expenses		**1,988,326**	**1,527,243**
Surplus Before Tax		**4,125,560**	**3,059,222**
Tax Expense/(Credit)	8	-	-
Surplus After Tax		**4,125,560**	**3,059,222**
Other Comprehensive Income		-	-
Total Comprehensive Income		**4,125,560**	**3,059,222**

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 2022

	Unitholder Funds $	Accumulated Funds $	Total Equity $
Balance at 1 April 2020	63,784,629	(3,625,239)	60,159,389
Net Surplus/Total Comprehensive Income	-	3,059,222	3,059,222
Transactions with Unitholders			
Unitholder Funds Invested	34,421,088	-	34,421,088
Unitholder Funds Withdrawn	(10,024,278)	-	(10,024,278)
Distributions	-	(2,891,387)	(2,891,387)
Balance at 31 March 2021	88,181,439	(3,457,404)	84,724,035
Distribution per unit = 3.89c			
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
Transactions with Unitholders			
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)	103,469,724
Distribution per unit = 3.96c			

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 2022

	Note	2022 $	2021 $
ASSETS			
Cash and Cash Equivalents		6,683,271	10,627,678
Short-Term Bank Deposits	9	6,061,664	5,504,653
Advances on Mortgage	6	91,460,108	68,804,603
TOTAL ASSETS		**104,205,043**	**84,936,935**
LIABILITIES			
Trade and other payables	10	345,205	204,999
Income received in advance		388,089	-
Payable to Midlands Funds Management Limited		2,025	7,901
Tax payable	8	-	-
TOTAL LIABILITIES		**735,319**	**212,900**
NET ASSETS		**103,469,724**	**84,724,035**
EQUITY			
Unitholders' Funds	11	106,856,449	88,181,439
Accumulated Funds	12	(3,386,725)	(3,457,404)
TOTAL EQUITY		**103,469,724**	**84,724,035**

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

Director

Date: 25/08/2022

Simon Kennedy
Director

Date: 25/08/2022

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 2022

	Note	2022 $	2021 $
Cashflows From Operating Activities			
Cash was provided from:			
Bad Debts Recovered		-	-
Interest Received		6,244,802	4,783,524
		6,244,802	4,783,524
Cash was applied to:			
Payments to Suppliers		(1,835,353)	(1,513,944)
		(1,835,353)	(1,513,944)
Net Cash From Operating Activities Before Changes In Operating Assets		4,409,449	3,269,580
Net cash was provided from:			
Short Term Bank Deposit Investments		-	-
Net cash was applied to:			
Short Term Bank Deposit Investments		(553,152)	(3,900,000)
Mortgage Advances		(22,420,832)	(14,518,720)
Net Cash Inflow/(Outflow) From Operating Activities	13	(18,564,535)	(15,149,140)
Cashflows From Financing Activities			
Cash was provided from:			
Unitholder Funds Invested		29,028,838	33,122,619
Cash was applied to:			
Unitholder Funds Withdrawals		(11,738,991)	(9,608,084)
Distributions to Unitholders		(2,669,719)	(2,008,999)
Net Cash Inflow/(Outflow) From Financing Activities		14,620,128	21,505,536
Net Increase/(Decrease) in Cash and Cash Equivalents held		(3,944,407)	6,356,396
Plus Opening Cash and Cash Equivalents		10,627,678	4,271,282
Closing Cash and Cash Equivalents		6,683,271	10,627,678

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

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).

COVID 19 Implications

The ongoing economic effects, supply chain disruption and COVID-19-related illnesses have continued to create a challenge to the Manager’s operating environment as well as for our customers. The Fund continues to monitor developments and initiate plans to mitigate adverse impacts and maximise opportunities.

While actual results achieved in the 31 March 2022 financial statements have been better than expected in the COVID-19 environment, residual market uncertainty regarding the economic impact of the pandemic remains. Due to the ongoing presence and impacts of the COVID-19 pandemic, the Fund continues to factor into the expected credit loss allowance an assumption that expected losses will not be less than historic loss experience.

It is not possible to estimate the full impact of the COVID-19 pandemic’s short and long-term effects. As at the date of the signing of these financial statements, all reasonably known and available information with respect to the COVID-19 pandemic, has been taken into consideration and all reasonably determinable adjustments have been made in preparing these financial statements.

2. BASIS OF PREPARATION CONT.

Changes in Accounting Policies

There has been no significant changes in accounting policies in the 2022 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 2021.

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 manger 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:	**2022**	**2021**
Supervisor Fees To Trustees Executors Ltd	$ 139,516	$ 108,677
Management Fees to Midlands Funds Management Limited	$ 1,668,691	$ 1,234,400
Computer Service Fees to Midlands Funds Management Limited	$ 16,000	$ 16,000
Distributions paid to Midlands Income Wholesale Fund	$ 127,117	$ -
Management fee rebate paid to Midlands Income Wholesale Fund from Midlands Funds Management Limited	$ 13,559	$ -
Midlands Funds Management Limited Directors' & Officers' net (withdrawals)/investments of unitholders' funds	1,135,357 Units	1,714,332 Units
Midlands Funds Management Limited Directors' & Officers' net (withdrawals)/investments of unitholders' funds	$ 1,044,529	$ 1,577,185
Midlands Income Wholesale Fund's net (withdrawals)/investments of unitholders' funds	7,035,692 Units	- Units
Midlands Income Wholesale Fund's net (withdrawals)/investments of unitholders' funds	$ 6,472,837	$ -

Balances of related parties as at 31 March:	**2022**	**2021**
Midlands Funds Management Limited Directors' & Officers' Investments of unitholders' funds	2,239,506 Units	3,964,956 Units
Balances owed to Midlands Funds Management Limited	$ 2,025	$ 7,901
Midlands Income Wholesale Fund investment in the Fund	7,035,692 Units	- Units

3. RELATED PARTY TRANSACTIONS - CONT.

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% (2021: 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% (2021: 0.15%) 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.

4. REVENUE

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

	2022 $	2021 $
Interest Revenue - Advances on Mortgage	6,055,239	4,493,427
Interest Revenue - Bank Deposits	54,263	93,039
	6,109,502	4,586,466

5. EXPENSES

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

Administrative Expenses	**2022** **$**	**2021** **$**
Accountancy Fee	18,837	7,874
Computer Service Fee	16,000	16,000
Finance Expenses	1,321	1,516
Legal & Professional	7,181	24,821
Other Administrative Expenses	13,867	20,923
Total Administrative Expenses	57,205	71,134

Audit & Assurance Fees	**2022** **$**	**2021** **$**
Audit of Financial Statements - Baker Tilly Staples Rodway Audit Limited	-	9,307
Audit of Financial Statements - Crowe New Zealand Audit Partnership	80,520	55,430
Other Assurance Services	1,900	2,070
	82,420	66,807
Other		
Custodian controls assurance (PWC)	-	22,523
Custodian controls assurance (Triple Ledger Ltd)	21,850	-
Total Audit & Assurance Fees	104,270	89,330

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.

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.

	2022	2021
(iv) Security Property Classification	**$**	**$**
Residential		
Owner Occupied	9,579,425	14,872,606
Development	9,716,152	7,209,406
Rental	26,616,875	12,260,320
Commercial		
Accommodation	265,500	390,000
Industrial	13,419,316	11,387,019
Office/Retail	9,196,593	3,782,967
Other	5,629,045	7,488,857
Rural		
Farming/Horticulture	8,956,053	1,353,747
Lifestyle	4,228,706	7,565,436
Other	3,756,912	2,629,000
Total	91,364,576	68,939,358

6. ADVANCES CONT.

(v) Geographic Region

Auckland	19,569,256	16,223,902
Bay of Plenty	10,495,760	14,393,164
Hawke's Bay	11,841,407	12,745,025
Wellington	15,419,499	11,152,389
Waikato	14,857,472	2,614,420
Canterbury	6,496,674	2,981,641
Otago	3,978,500	1,512,499
Manawatu / Whanganui	2,912,906	892,270
Northland	2,284,450	3,099,100
Other	3,508,652	3,324,948
Total	91,364,576	68,939,358

(vi) Maturity

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

	2022 **$**	**2021** **$**
Current	66,437,154	34,977,124
Non-Current	24,927,422	33,962,234
Total	91,364,576	68,939,358

(vii) Reconciliation of Gross Advances to Carrying Value

Loan Principal	91,364,576	68,939,358
Accrued Interest	588,799	339,869
Expected credit loss	(493,268)	(474,624)
Total	91,460,108	68,804,603

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 2021: 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. A breakdown of the current loan to security value ratio, including where new valuations have been undertaken, is as follows.

31 March 2022

Residential	**LVR ≤ 75%**	**LVR > 75%**	**Total**
Commercial	**LVR ≤ 66.67%**	**LVR > 66.67%**	
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

31 March 2021

Residential	**LVR ≤ 75%**	**LVR > 75%**	**Total**
Commercial	**LVR ≤ 66.67%**	**LVR > 66.67%**	
Rural	**LVR ≤ 60%**	**LVR > 60%**	
	$	**$**	**$**
Residential	34,342,332	-	34,342,332
Commercial	21,793,923	1,254,920	23,048,843
Rural	11,182,183	366,000	11,548,183
	67,318,438	1,620,920	68,939,358

6. ADVANCES CONT.

(x) Aging Analysis

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**
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 net advances on mortgages	**45,912,452**	**28,510,454**	**16,941,671**	**91,364,576**

As at 31 March 2021	Residential	Commercial	Rural	Total
Neither past due or impaired	33,681,926	23,048,843	11,548,183	**68,278,952**
				-
Past due assets not impaired:				**-**
less than 30 days				**-**
30 to 59 days	519,266	-	-	**519,266**
60 to 89 days	-	-	-	**-**
90 days and over	-	-	-	**-**
Balance of past due but not impaired assets at the end of the year	**519,266**	**-**	**-**	**519,266**
Movements in individually impaired assets:				
Balance at the beginning of period	1,556,242	333,500	-	**1,889,742**
Additions	141,140	-	-	**141,140**
Amounts written off / loans closed	(1,556,242)	(333,500)	-	**(1,889,742)**
Balance of impaired assets at the end of the year	**141,140**	**-**	**-**	**141,140**
Total net advances on mortgages	**34,342,332**	**23,048,843**	**11,548,183**	**68,939,358**

Effective Interest Rates

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

	31 March 2022	31 March 2021
Residential Mortgages	7.90%	7.20%
Commercial Mortgages	7.81%	7.47%
Rural Mortgages	8.16%	6.62%

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.

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 in the 2022 financial year

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 dishonour
ii) Extension of the terms granted
iii) Arrears of repayments in excess of 30 days within the last 12 months

Measurement of ECL in the 2021 financial year

The Fund utilised an explicit loss rate approach for measuring expected credit losses for the comparative year ending 31 March 2021. This model incorporates changes in the risk of default occuring since intital recognition, the expected life of the advances on mortgage and other supporting information. The approach has been to separately group Advances on Mortgages into the three classifications of Commercial, Rural and Residential due to the availability of sufficient historical information without undue cost or effort, and that there are distinct risk characteristics between these three lending types.

Measurement of expected credit losses are collectively measured for each classification of Commercial, Rural and Residential. An explicit loss rate approach has been adopted for lifetime expected credit losses, and this explicit loss rate has been adjusted to an annualised basis to measure explicit loss rates for 12-month expected credit losses by considering historic per annum average defaults.

- historical loss experience over the past six years by loan classifications (Commercial, Rural and Residential)
- historic per annum average defaults
- historic new advances (number of advances and total advances) made during the past six years.

7. IMPAIRMENT OF FINANCIAL ASSETS CONT.

The Fund considers forward looking macroeconomic data in adjusting the explicit credit loss rate where applicable. In forming the Fund's view at balance date it considered that:

- there is no increase in the probability of default events occuring over the next 12 months and/or over the life of the advances compared to historical trends; and
- there is no increase in the credit loss per advance compared to historical losses per advance.

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 - 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:

For the year ended 31 March 2022

7. IMPAIRMENT OF FINANCIAL ASSETS CONT.

As at 31 March 2022	Stage 1 Lifetime ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Lending Assets				
Advances on mortgage (gross)				
Commercial	23,541,908	4,968,546	-	28,510,454
Rural	14,426,571	2,515,100	-	16,941,671
Residential	42,146,794	3,765,657	-	45,912,451
	80,115,273	**11,249,303**	**-**	**91,364,576**
Commitments to lend				
Commercial	476,111	-	-	476,111
Rural	315,615	-	-	315,615
Residential	6,616,849	-	-	6,616,849
	7,408,575	**-**	**-**	**7,408,575**
ECL Rate				
Commercial	0.32%	3.03%	0.00%	
Rural	0.32%	3.02%	0.00%	
Residential	0.24%	0.66%	0.00%	
ECL Provision	***241,065***	***252,202***	**-**	***493,268***
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%

Period ending 31 March 2022	Stage 1	Stage 2	Stage 3	Total
Opening credit loss allowance	97,132	377,492	-	474,624
Loss allowance on individual financial assets repaid	(15,430)	(93,015)	-	(108,445)
Loss allowance on new individual financial assets	150,184	36,879	-	187,063
Individual financial assets transferred to Stage 1	129,961	(129,961)	-	-
Individual financial assets transferred to Stage 2	802	(802)	-	-
Changes in loss allowance on existing financial assets	(121,584)	61,609	-	(59,975)
Write-offs	-	-		-
Recovery	-	-		-
Closing credit loss allowance	**241,065**	**252,202**	**-**	**493,268**

7. IMPAIRMENT OF FINANCIAL ASSETS CONT.

As at 31 March 2021	Stage 1 Lifetime ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Lending Assets				
Advances on mortgage (gross)				
Commercial	9,907,890	13,140,953	-	23,048,843
Rural	11,444,483	103,700	-	11,548,183
Residential	30,862,842	3,338,350	141,140	34,342,332
	52,215,215	**16,583,003**	**141,140**	**68,939,358**
Commitments to lend				
Commercial	2,543,750	-	-	2,543,750
Rural	-	-	-	-
Residential	5,290,000	-	-	5,290,000
	7,833,750	**-**	**-**	**7,833,750**
ECL Rate				
Commercial	0.45%	2.70%	0.00%	
Rural	0.00%	0.00%	0.00%	
Residential	0.11%	0.68%	0.00%	
ECL Provision	***97,132***	***377,492***	***-***	***474,624***
Other Financial Assets				
Cash and Cash Equivalent	10,627,678	-	-	10,627,678
Short-term Deposits	5,504,653	-	-	5,504,653
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%

Period ending 31 March 2021	Stage 1	Stage 2	Stage 3	Total
Opening credit loss allowance	101,741	296,259	80,000	478,000
Loss allowance on individual financial assets repaid	(104,861)	(154,230)	-	(259,091)
Loss allowance on new individual financial assets	82,037	222,793	-	304,830
Individual financial assets transferred to Stage 1	-	(6,107)	-	(6,107)
Individual financial assets transferred to Stage 2	(823)	-	-	(823)
Changes in loss allowance on existing financial assets	19,039	18,777	-	37,816
Write-offs	-	-	(27,078)	(27,078)
Recovery	-	-	(52,922)	(52,922)
Closing credit loss allowance	**97,132**	**377,492**	**-**	**474,624**

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.

	2022	2021
Balance at beginning of period	474,624	478,000
Add: new provisions	18,644	76,624
Reversal of previously recognised provision	-	(80,000)
Provision balance at end of period	**493,268**	**474,624**

Impairment losses recognised in profit or loss	**2022**	**2021**
Individual impairment expenses	-	27,078
Movement in provision	18,644	(3,376)
Total impairment expense	**18,644**	**23,702**

7. IMPAIRMENT OF FINANCIAL ASSETS CONT.

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 uncertain evolution of Covid-19 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:

a) The expected impact on the economy, including timing and speed of the economic response and differences between sectors; and

b) The effects of progressive reductions in stimulus measures, in particular on the extent and duration of economic recovery.

The post COVID-19 environment has not caused any significant change in credit risk status.

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

	2022	2021
Residential	45%	48%
Commercial	46%	45%
Rural	45%	44%

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 2022 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 $11,177
- 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 $80,805.

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.

8. TAXATION CONT.

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.

	2022 $	2021 $
Current Period Tax		
Surplus/(Deficit) for the period	4,125,560	3,059,222
Less Distribution to Unitholders	(4,054,881)	(2,891,387)
Residual Taxable Income	70,679	167,835
Tax Charge at effective tax rate (28%)	19,790	46,994
Tax effect of temporary difference not recognised:		
Impairment Provision and Accruals Movement	8,452	(945)
Tax Losses Not Recognised/(Utilised)	(28,242)	(46,049)
Tax Expense/(Credit)	-	-
Comprising:		
Current Tax Payable	-	-
Deferred Tax	-	-
Tax Expense/(Credit)	-	-
Tax payable		
Start of Year	-	-
Less: Tax Refund	-	-
Plus: Tax Paid	-	-
Current Year Tax Charge	-	-
Tax payable / (receivable) - End of Year	**-**	**-**

The Fund has tax losses to carry forward of $3,612,219 (March 2021: $3,727,082). 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.

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

	2022 $	2021 $
Short-Term Bank Deposits	6,061,664	5,504,653
Total	6,061,664	5,504,653

Terms range from 120 - 366 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%-2.8% with a weighted average of 0.96% (March 2021 effective interest rate range 0%-0.70%, weighted average 0.38%)

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.

	2022 $	2021 $
Accruals	88,837	68,724
Resident Withholding Tax	256,368	136,275
Total	345,205	204,999

CROWE NEW ZEALAND

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.

	2022 #	2021 #
Opening Units	92,236,037	65,337,159
Units Issued	33,312,899	37,794,833
Units Redeemed	(13,413,157)	(10,895,955)
Closing Units	112,135,779	92,236,037
Unitholder Funds	$106,856,449	$88,181,439

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 (2021: $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 3.96c/unit (March 2021: 3.89c/unit).

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.

13. STATEMENT OF CASHFLOWS CONT.

Reconciliation of Surplus After Tax With Net Cash From Operations

	2022	2021
	$	**$**
Surplus after Tax	4,125,560	3,059,222
Plus/(Less) Non-Cash Items		
Bad Debts	-	27,078
Impairment Provision Movement	18,644	(3,376)
	4,144,204	3,082,924
Plus/(Less) Cashflow Effect of Movement in Operating Assets and Liabilities		
Trade and Other Payables	120,330	(10,862)
Interest Accrued	130,915	197,518
Short Term Bank Deposits	(553,152)	(3,900,000)
Mortgage Advances	(22,420,832)	(14,518,720)
Tax payable	-	-
Net Cash Inflow/(Outflows) From Operating Activities	(18,578,535)	(15,149,140)

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 2% 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.

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.

• 66.67% 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.

14. RISK MANAGEMENT OBJECTIVES AND POLICIES CONT.

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 diversified the 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 59% for ANZ Bank NZ Limited (2021: 100%), 28% for Kiwibank Limited and 13% 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.

	2022 $	2021 $
Cash and Cash Equivalents	6,683,271	10,627,678
Short-Term Bank Deposits	6,061,664	5,504,653
Advances on Mortgages	91,460,108	68,804,603
Loan Commitments	7,408,575	7,833,750
Maximum Credit Risk	**111,613,618**	**92,770,685**

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 2022 Advances	31 Mar 2022 Banks	31 Mar 2021 Advances	31 Mar 2021 Banks
0% to 10%	121	3	111	1
10% to 20%	-	-	-	-
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 uinit holder 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.

14. RISK MANAGEMENT OBJECTIVES AND POLICIES CONT.

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 2022: 12.17%, March 2021: 18.89%). The Manager's current internal policy is to maintain cash reserves at 7.5% of unitholder funds (actual March 2022: 11.93%, March 2021: 18.29%). The cash reserves are held so as to meet the loan committments at the end of the year. Following the advance of the comiitted loans at year end, the cash reserve will be at 5%. 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 63% (March 2021: 56%), and Taranaki 14% (March 2021: 18%).

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.

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.

14. RISK MANAGEMENT OBJECTIVES AND POLICIES CONT.

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 0.5% movement in interest rates assuming all net profit is paid out in distributions. The Fund does not have any interest sensitive liabilities.

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 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**	**-**

31 March 2021

	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	10,627,678	(26,569)	-	26,569	-
Short Term Bank Deposits	5,504,653	(10,321)	-	10,321	-
Advances on Mortgages	68,804,603	(172,203)	-	172,203	-
Total (Decrease)/Increase		**(209,093)**	**-**	**209,093**	**-**

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.

15. MATURITY PROFILE

The following tables are based on contractual maturities.
As at balance date, advances of $2,862,739 (March 2021: $1,884,864) 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 $2,845,003 (March 2021: $1,877,901).

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 (excluding 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**

31 March 2021 ($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	-	7,625	3,003	-	-	-	-	-	10,628
Short term bank deposits	-	-	5,505	-	-	-	-	-	5,505
Advances on mortgage	1,878	-	652	13,219	19,717	23,755	9,592	127	68,939
Future interest receivable	-	-	387	1,604	1,504	1,612	393	243	5,743
Total Financial Assets	***1,878***	***7,625***	***9,546***	***14,822***	***21,221***	***25,367***	***9,985***	***370***	***90,814***

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)	-	-	136	-	-	-	-	-	136
Total Financial Liabilities	***-***	***-***	***136***	***-***	***-***	***-***	***-***	***-***	***136***
Loans Approved but not disbursed	-	1,630	5,396	808	-	-	-	-	7,834
Net contractual cash flow	***1,878***	***5,995***	***4,015***	***14,014***	***21,221***	***25,367***	***9,985***	***370***	***82,844***
Cumulative contractual cash flow	**1,878**	**7,872**	**11,887**	**25,901**	**47,122**	**72,490**	**82,475**	**82,844**	**82,844**

15. MATURITY PROFILE CONT.

Additional information regarding expected maturities of loans

Gross advances of $2,205,003 at 31 March 2022 (2021: $1,877,901) 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:

	2022 $	2021 $
0-6 Months	2,205,003	143,020
7-12 Months	-	300,000
1-2 Years	-	686,881
2-5 Years	-	748,000
Total carrying value	2,205,003	1,877,901

16. COMMITMENTS

	2022 $	2021 $
Approved loans to be advanced after balance date	7,408,575	7,833,750
Withdrawal applications to hand to process after balance date	244,065	29,000

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

Anton Douglas finished as CEO of Midlands Funds Management Limited on 12 August 2022. Rhys Trusler has been appointed as CEO and starts on 19 September 2022. Miles Standeaven is Acting CEO in the interim. There are no other material events to disclose subsequent to balance date.

19. CONTINGENT ASSETS/LIABILITIES

There are no contingent assets or liabilities (March 2021: Nil).

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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 27, which comprise the statement of financial position as at 31 March 2022, 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 2022, 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	
Mortgage advances disclosed in Note 7 of the financial statements represent a significant portion of the total assets of the Fund. These assets are required by NZ IFRS 9 *Financial Instruments* ("NZ IFRS 9") to be assessed for impairment using the expected credit loss model ("ECL model"). The ECL model includes a significant amount of judgement by management in estimating the expected credit losses. In applying the ECL model, management has improved the model from the analyses of historical loss experienced and adjustments for forward looking information to a model which takes into account current market and industry information when providing forward looking adjustments. The ECL model has a high degree of complexity and subjectivity and therefore requires significant amount of audit effort to address the risks.	Our audit procedures, among others, included: ▪ 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; ▪ Testing loan details on a sample basis by agreeing non-financial data such as loan value, interest rate and maturity date to external confirmations; ▪ Assessing the Fund's methodology used in the ECL model to calculate the provision against the requirements of NZ IFRS 9; ▪ Critically 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 the financial statements against the requirements of NZ IFRS 7 *Financial Instruments: Disclosures.*

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 the audit.

We also provide the Directors of the Manager with a statement that the 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, related safeguards.

From the matters communicated with the Directors of the Manager, we determine those matters that are 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 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

Crowe New Zealand Audit Partnership
CHARTERED ACCOUNTANTS
25 August 2022