MIDLANDS MORTGAGE TRUST

GROUP INVESTMENT FUND

FINANCIAL ACCOUNTS

FOR THE TWELVE MONTHS ENDED

31 MARCH 2017

MIDLANDS
MORTGAGE TRUST

MIDLANDS
MORTGAGE TRUST

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BUSINESS DIRECTORY

NATURE OF BUSINESS

Midlands Mortgage Trust is a Group Investment Fund which aims to provide a competitive return to its stakeholders by investing in first ranking mortgage securities over New Zealand land and buildings.

THE BUSINESS ADDRESS & CONTACT DETAILS OF THE FUND MANAGER

Fund Managers Central Limited
120 Karamu Road, PO Box 609, Hastings 4156
General Manager: Peter Charles Harrison
Toll free: 0800 870 326
Fax: (06) 870 3261

DIRECTORS OF THE MANAGER

Peter James Ellis (Chairman) (Appointed November 2016)
John Baird Campbell
Steven Wyn-Harris
Graham Hunter Throp
Kenneth Alan Horner
Peter James Hutchison (Appointed June 2016)
B E Page (Retired October 2016)
P E Bulfin (Retired November 2016)
M I Taylor (Retired November 2016)
J L Armstrong (Retired July 2016)

SUPERVISOR

Trustees Executors Limited
Level 5, 10 Customhouse Quay, Wellington

AUDITORS

Staples Rodway Audit Limited
PO Box 46, Hastings 4156

ACCOUNTANTS

Brown Webb Richardson Ltd
PO Box 146, Hastings 4156

BANKERS

ASB Bank Limited
Cnr Hastings &
Emerson Streets
Napier

ANZ Bank NZ Limited
Level 10,
Featherston Street
Wellington

Westpac NZ Limited
16 Takutai Square
Auckland

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 Wyndam Street, Auckland

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Notes	2017	2016
		$	$
Interest revenue - Advances		1,986,116	1,951,865
Interest revenue - Impaired advances		5,881	37,586
Interest revenue - Bank deposits		167,806	119,185
Bad debts recovered		20,250	188,095
TOTAL INCOME		2,180,053	2,296,731
Fees paid to auditors			
- audit of financial statements		34,963	43,500
- Trust Deed and Prospectus		4,349	4,200
Bad debt write-offs		454,473	528,964
Individual impairment provision movement	7	(470,072)	(406,990)
Collective impairment provision movement	7	-	50,000
Management fees	4	487,772	409,304
Supervisor fees	4	43,586	31,430
Administration expenses		81,863	36,998
TOTAL EXPENDITURE		636,933	697,406
Surplus Before Taxation		1,543,120	1,599,325
Taxation expense/(credit)	6	17,611	71,826
SURPLUS AFTER TAX		1,525,509	1,527,499
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		1,525,509	1,527,499

The notes on pages 7 to 26 form an integral part of, and are to be read in conjunction with, these financial statements

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STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2017

	Unitholder Funds	Accumulated Funds	Total Equity
	$	$	$
Balance at 1 April 2015	30,757,905	(3,859,123)	26,898,782
Unitholder Funds invested	3,852,021	-	3,852,021
Unitholder Funds withdrawn	(2,198,521)	-	(2,198,521)
Net Surplus/Total Comprehensive Income	-	1,527,499	1,527,499
Distributions	-	(1,342,805)	(1,342,805)
Balance at 31 March 2016	32,411,405	(3,674,429)	28,736,976
Distribution per unit = 4.44c			
Balance at 1 April 2016	32,411,405	(3,674,429)	28,736,976
Unitholder Funds invested	10,202,024	-	10,202,024
Unitholder Funds withdrawn	(3,018,073)	-	(3,018,073)
Net Surplus/ Total Comprehensive Income	-	1,525,509	1,525,509
Distributions	-	(1,480,223)	(1,480,223)
Balance at 31 March 2017	39,595,356	(3,629,143)	35,966,213
Distribution per unit = 4.24c			

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STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Notes	2017	2016
		$	$
ASSETS			
Cash and Cash Equivalents	5	5,636,343	6,448,133
Advances on Mortgages	7	30,405,130	22,332,990
Deferred Tax Asset	6	34,061	51,671
TOTAL ASSETS		36,075,533	28,832,794
LIABILITIES			
Trade and Other Payables		109,320	95,818
TOTAL LIABILITIES		109,320	95,818
EQUITY			
Unitholders' Funds	8	39,595,356	32,411,405
Accumulated Funds	9	(3,629,143)	(3,674,429)
TOTAL EQUITY		35,966,213	28,736,976
TOTAL LIABILITIES AND EQUITY		36,075,533	28,832,794

Signed for and on behalf of the Manager, Fund Managers Central Limited

Director

Date: 24 July 2017

Director

Date: 24 July 2017

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STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

	Notes	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Bad Debts Recovered		20,250	12,500
Interest Received		2,093,337	2,299,270
		2,113,587	2,311,770
Cash was applied to:			
Payments to Suppliers		(639,031)	(525,298)
		(639,031)	(525,298)
NET CASH FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS		1,474,556	1,786,472
CHANGES IN OPERATING ASSETS			
Cash was provided from:			
Mortgage Advances Repaid		12,090,568	7,666,784
Cash was applied to:			
Mortgage Advances		(20,080,642)	(6,534,227)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	10	(6,515,517)	2,919,029
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Unitholders Funds Invested		10,202,024	3,852,021
Cash was applied to:			
Unitholders Funds Withdrawals		(3,018,073)	(2,198,521)
Distributions to Unitholders		(1,480,223)	(1,340,184)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		5,703,729	313,316
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS HELD		(811,789)	3,232,345
Plus Opening Cash and Cash Equivalents		6,448,133	3,215,788
Closing Cash and Cash Equivalents	5	5,636,343	6,448,133

The notes on pages 7 to 26 form an integral part of, and are to be read in conjunction with, these financial statements SR

1. REPORTING ENTITY

Midlands Mortgage Trust Group Investment 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 120 Karamu Road North, Hastings.

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

The financial statements of the Fund, as an individual entity, have been prepared by the Manager (Fund Managers Central Limited) on behalf of the Supervisor (Trustees Executors Limited) in accordance with the Financial Reporting Act 2013, the Trustee Companies Act 1967 and the provisions of the Trust Deed.

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").

Going Concern Basis

The going concern basis relies on the presumption that an entity will continue in operation for the foreseeable future.

The financial statements have been prepared on a going concern basis taking into account the commitment of the Manager to remain as Manager of the Fund for the foreseeable future and taking account of recent increases in unitholders fund and its 3 year forecast for the Fund adopted by the directors of the Manager. The Manager has made this commitment despite the level of unitholder funds not being sufficient to sustain the Manager's normal operating expenses. The commitment has been made to ensure the continued operation of the Fund for the benefit of unitholders. The Manager's strategy to increase unitholder funds is to continue to provide a competitive return to unitholders and continue to increase the unit price toward $1.00 per unit.

Measurement Basis

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

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.

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2. BASIS OF PREPARATION *continued*

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

Accounting policies requiring estimates subject to significant uncertainty relate to the determination of provisions for the impairment of advances (refer note 7) and the probability of recovery of deferred tax assets (refer note 6).

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies which materially affect the measurement of financial performance and financial position have been applied to all periods presented in these financial statements.

a) Revenue
Revenue comprises the fair value of the consideration received or receivable for interest income in the ordinary course of the Fund's activities.

The Fund recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Fund and when specific criteria have been met for each of the Fund's activities, as described below.

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

b) Finance Expenses
Finance expenses comprise interest expense and bank charges. Interest expenses are recognised in profit or loss using effective interest method. Bank charges are recognised as they are paid.

c) Taxation
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%.

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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

d) Financial Assets

Classification
The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. The Fund only has financial assets classified as loans and receivables.

Initial recognition and derecognition
Purchases and sales of investments are recognised on trade date – the date on which the Fund commits to purchase or sell the asset. Loan and receivable financial instruments are initially measured at fair value plus transactions costs. A financial instrument is recognised only when the Fund becomes a party to the contractual provisions of the financial instrument.

Subsequent to initial recognition these instruments are measured as set out below.

Financial instruments are derecognised when the rights to receive cash flows from the instruments have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership

Loans and receivables
Loans and receivables 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. Cash and cash equivalents and advances on mortgages listed in the Fund's statement of financial position are classified as loans and receivables.

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3. SIGNIFICANT ACCOUNTING POLICIES *continued*

e) 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 on financial instruments. As trade and other payables are usually paid within 30 days, they are carried at face value.

f) Impairment of Financial Assets

The Manager regularly assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. The advances are individually assessed.

The carrying amount is reduced through the use of an allowance account. When advances and receivables are considered uncollectible, they are written off against the allowance account.

A provision for impairment of advances is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the advances. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 30 days overdue) are considered objective evidence of impairment.

The amount of the provision is the difference between the advances carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate. The amount of the provision is recognised in the profit or loss.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to an advance, write offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expenses in the profit or loss. If advances previously written off are collected, they are recognised as revenue in the profit or loss.

All loans not individually impaired are then assessed collectively in loan portfolios with similar risk characteristics, to determine whether provision should be made due to incurred loss events where there is objective evidence but whose effects are not yet evident. The collective assessment from the loan portfolio (such as credit quality, levels of arrears and collateral type) uses historical loss information adjusted on the basis of current observable data.

Advances past due but not impaired are classified as follows:

“Past-due advances” means an advance or similar facility in arrears which has not been operated within its key terms by the borrower for at least 1 day and which is not an impaired loan.

“90 day past due advances” means an advance or similar facility in arrears which has not been operated within its key terms by the borrower for at least 90 days and which is not an impaired loan.

Impaired advances are classified into one of the following categories:

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3. SIGNIFICANT ACCOUNTING POLICIES *continued*

"Restructured advances" being advances where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the borrower and the yield on the asset following restructuring is equal to, or greater than, the Fund's average cost of funds.

"Financial assets acquired through the enforcement of security" being financial assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements. The Fund does not have any financial assets acquired through the enforcement of security.

"Other impaired advances" being advances that are individually determined to be impaired, but are not restructured, nor financial assets acquired through the enforcement of security.

g) Statement of Cashflows
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.

h) Goods and Services Tax
The Fund provides financial services. 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.

i) Current and Non-Current Assets and Liabilities
With the exception of Advances on Mortgages and Deferred Tax Asset, all assets and liabilities are current. The split of Advances on Mortgages between current and non-current is detailed in note 7.

j) Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year.

k) NZ IFRS issued but not yet effective
The following NZ IFRS have been issued but are not yet effective. There are no further standards or amendments to standards that have been issued but are not yet effective, that are materially relevant to the Fund.

Standard	*Effective for periods beginning on or after*	*Initial Application in year ending*
NZ IFRS 9 Financial instruments	1 January 2018	31 March 2019
NZ IFRS 15 Revenue from Contracts with Customers	1 January 2018	31 March 2019

NZ IFRS 9 *Financial instruments* simplifies the classification and recognition of financial assets and financial liabilities, introduces a new impairment model and aligns hedge accounting more closely with business risk management practices. It replaces the guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement.* The impairment model in NZ IFRS 9 now focusses on an expected credit loss model that replaces the incurred loss model under NZ IAS 39. Management have

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3. SIGNIFICANT ACCOUNTING POLICIES *continued*

assessed that this may result in more timely recognition of impairment losses.

The NZ IFRS 15 standard provides a single, comprehensive principles-based five-step model to be applied to all contracts with customers including some new disclosures about revenue. Management have assessed that due to the Fund's revenue being predominantly from interest and bad debts recovered, NZ IFRS 15 will not have an impact on the Fund.

4. 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, Fund Managers Central 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 Fund Managers Central Limited and their close family members. Transactions during the period under review in regard to parties directly related to the Fund:

TRANSACTIONS WITH RELATED PARTIES	*2017*	*2016*
Supervisor Fees to Trustees Executors Ltd	$43,586	$31,430
Management Fees to Fund Managers Central Ltd	$487,772	$409,304
Fund Managers Central Ltd Directors' & Officers' net (withdrawals)/investments of Unitholders' funds	30,515 units	38,795 units

BALANCES OF RELATED PARTIES AS AT 31 MARCH:	*2017*	*2016*
Fund Managers Central Ltd Directors' & Officers' Investments of Unitholders' funds	868,673 units	838,158 units
Balances owed to Fund Managers Central Ltd	$100	$1,341

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 1.50% 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 0.1% of the value of the Fund up to 31 December 2016 and 0.15% subsequent to that date. Investments are redeemable within 90 days of notification of withdrawal.

During the year the Fund took assignment of securities from related parties in respect of loans to the value of $7,202,250. All loans secured by these securities comply with Fund lending criteria. The related party relationship arises due to common Directorships in the manager and the assignors.

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5. CASH AND CASH EQUIVALENTS

	2017	*2016*
Current Accounts	3,022,032	1,931,187
Term Deposits	2,614,312	4,516,946
	5,636,343	6,448,133

Term deposits with maturity greater than 90 days are considered as cash and cash equivalents as they are held for liquidity purposes. The effective interest rates on term deposits held with financial institutions as at 31 March 2017 were in the range of 3.10% - 3.55% with a weighted average of 3.30%. (March 2016 range of 3.00% - 3.65% with a weighted average of 3.42%).

6. TAXATION

	2017	*2016*
a) CURRENT PERIOD TAX	$	$
Surplus/(Deficit) for the period	1,543,120	1,599,325
Distribution to Unitholders	(1,480,223)	(1,342,805)
Taxable Surplus	62,897	256,520
Tax Expense/(Credit) at 28%	17,611	71,826
Effective Tax Rate	28%	28%
Comprising:		
Current Tax Payable	-	-
Deferred Tax	17,611	71,826
Total Tax Expense/(Credit)	17,611	71,826

b) DEFERRED TAX

31 March 2017	Impairment	Total
Balance at 1 April 2016	51,671	51,671
Current year movement	(17,611)	(17,611)
Balance at 31 March 2017	34,061	34,061

31 March 2016	Impairment	Total
Balance at 1 April 2015	123,497	123,497
Current year movement	(71,826)	(71,826)
Balance at 31 March 2016	51,671	51,671

The deferred tax asset arising in respect of impairment losses will be realised from reversals of impairment provisions on realisation of impaired loans. The critical judgment in determining deferred tax asset recovery involves assessment of the probability of reduction of impairment provisions and estimating future taxable profits of the Fund.

The Fund has estimated tax losses to carry forward of $4,257,506 (March 2016: $3,850,330). Deferred tax on tax losses carried forward has not been recognised. The deferred tax asset is a non-current asset.

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7. ADVANCES

Analysis of advances (excluding accrued interest & provisions)		*2017*	*2016*
(i) Security property classification		$	$
Residential	- owner occupied	7,032,807	2,506,431
	- development	2,451,270	635,000
	- property for sale	1,277,261	2,469,147
	- rental	4,594,500	1,183,803
Commercial	- accommodation	390,000	571,200
	- industrial	2,330,070	1,193,238
	- office/retail	3,640,497	5,690,175
	- other	2,683,000	2,879,192
Rural	- farming/horticulture	389,434	2,630,843
	- other	5,569,818	3,058,147
Total		30,358,658	22,817,176

Analysis of advances (excluding accrued interest)	*2017*	*2016*
(ii) Geographic region	$	$
Auckland	6,550,742	4,500,415
Hawke's Bay	7,757,712	5,033,009
Wellington/Kapiti	2,650,064	3,929,029
Wairarapa	2,538,001	2,636,735
Taranaki/Manawatu	3,274,800	3,140,694
Canterbury	2,878,992	1,636,550
Other	4,708,346	1,940,744
Total	30,358,658	22,817,176
(iii) Maturity	$	$
Current	16,927,708	17,220,618
Non Current	13,430,950	5,596,558
Total	30,358,658	22,817,176
(iv) Reconciliation of gross advances to carrying value		
Loan principal	30,358,658	22,817,176
Accrued interest	196,472	135,886
Provision for impairment	(150,000)	(620,072)
Total	30,405,130	22,332,990

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7. ADVANCES *continued*

Credit Quality - 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 2016: due to the reduction in unitholder funds, exposure to one counterparty with loan principal totalling $1,711,735 individually exceeded the 5% threshold.)

Credit Quality – 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 11. It is impracticable to provide a current valuation of the collateral security held against the loans in all instances because this information is not regularly updated 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. It should be noted that in some cases, where valuations have decreased, Loan to Security Values now exceed lending policy guidelines. In these circumstances, the loan is not renewed and recovery action taken:

Residential **Commercial** **Rural**	**LVR ≤ 75%** **LVR ≤ 66.67%** **LVR ≤ 60%**	**LVR > 75%** **LVR > 66.67%** **LVR > 60%**	**Total**
March 2017	$	$	$
Residential	14,204,794	1,151,044	15,355,838
Commercial	7,718,710	1,324,857	9,073,567
Rural	5,472,502	486,750	5,959,252
	27,396,006	2,962,651	30,358,657

Residential **Commercial** **Rural**	**LVR ≤ 80%** **LVR ≤ 66.67%** **LVR ≤ 60%**	**LVR > 80%** **LVR > 66.67%** **LVR > 60%**	**Total**
March 2016	$	$	$
Residential	4,325,235	2,469,147	6,794,381
Commercial	6,470,360	3,863,445	10,333,805
Rural	5,688,990	-	5,688,990
	16,484,584	6,332,591	22,817,176

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7. ADVANCES *continued*

Credit Quality – Ageing Analysis

Residential Commercial Rural	LVR ≤ 75% LVR ≤ 66.67% LVR ≤ 60%	LVR > 75% LVR > 66.67% LVR > 60%	Total
March 2017	$	$	$
Fully compliant loan principal	24,878,808	2,962,651	27,841,460
Renegotiated loan principal	-	-	-
Past due but not impaired principal			
0 - 89 days	1,317,197	-	1,317,197
90 days - 6 months	-	-	-
6 - 12 months	1,200,000	-	1,200,000
Over 12 months	-	-	-
Impaired loan principal	-	-	-
	27,396,006	2,962,651	30,358,657
Accrued interest unimpaired loans			196,742
Accrued interest impaired loans			-
			30,555,129
Less:			
Individual provision for impairment			-
Collective provision for impairment			(150,000)
			30,405,129

Credit Quality – Ageing Analysis

Residential Commercial Rural	LVR ≤ 80% LVR ≤ 66.67% LVR ≤ 60%	LVR > 80% LVR > 66.67% LVR > 60%	Total
March 2016	$	$	$
Fully compliant loan principal	13,897,393	4,620,856	18,518,249
Renegotiated loan principal	-	1,711,735	1,711,735
Past due but not impaired principal			
0 - 89 days	698,000	-	698,000
90 days - 6 months	-	-	-
6 - 12 months	1,200,000	-	1,200,000
Over 12 months	-	-	-
Impaired loan principal	-	689,192	689,192
	15,795,393	7,021,783	22,817,176
Accrued interest unimpaired loans			135,886
Accrued interest impaired loans			-
			22,953,062
Less:			
Individual provision for impairment			(470,072)
Collective provision for impairment			(150,000)
			22,332,990

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7. ADVANCES *continued*

Individually impaired loan reconciliation

March 2017	Gross loans $	Provision $	Carrying value $
Opening balance	689,192	470,072	219,120
New/Increased impaired loans	-	-	-
Repayments/impairment reduction	(240,601)	(470,072)	229,472
Written off	(448,592)	-	(448,592)
Net Movement	(689,192)	(470,072)	(219,120)
Closing balance	-	-	-

March 2016	Gross loans $	Provision $	Carrying value $
Opening balance	1,393,083	877,062	516,021
New/Increased impaired loans	440,148	211,695	228,452
Repayments/impairment reduction	(630,517)	(105,165)	(525,352)
Written off	(513,522)	(513,522)	-
Net Movement	(730,891)	(406,990)	(296,900)
Closing balance	689,192	470,072	219,120

Uncertainty factors

Volatility in property market prices 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 collective provision is assessed on all loans that are not individually impaired.

Effective interest rates

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

	31 March 2017	31 March 2016
Residential Mortgages	7.89%	7.42%
Commercial Mortgages	6.80%	7.05%
Rural Mortgages	7.70%	8.96%

SR

8. UNITHOLDERS' FUNDS

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 assets of the Fund are held in the name of the Supervisor on behalf of the unitholders, in accordance with the Trust Deed. 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.

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. There is generally no restriction on withdrawals but the Trust Deed allows for the Manager to suspend withdrawals for 90 days or longer in certain circumstances.

The average annualised income distribution per unit for the relevant accounting period is 4.24c/unit (March 2016: 4.44c/unit).

The current price of units in the Fund is $0.92 (2016: $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.

	2017	2016
Opening Units	31,235,835	29,436,504
Units Issued	11,089,156	4,212,703
Units Redeemed	(3,280,514)	(2,413,372)
Closing Units	39,044,478	31,235,835
Unitholder funds	$39,595,356	$32,411,405

9. 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 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.

SR

10. RECONCILIATION OF SURPLUS AFTER TAX WITH NET CASH FROM OPERATIONS

	2017	*2016*
	$	$
Surplus after tax	1,525,509	1,527,499
Plus/(less) non-cash items		
Bad debts	454,473	491,378
Impairment Provision movement	(470,072)	(319,404)
Interest on impaired advances	(5,881)	(37,586)
Deferred tax movement	17,610	71,826
	1,521,639	1,733,713
Plus/(less) cash flow effect of movement in working capital items		
Trade and other payables	13,502	134
Mortgage interest accrued	(60,585)	52,625
Mortgage advances	(7,990,073)	1,132,557
Net cash inflow/(outflows) from operating activities	(6,515,518)	2,919,029

11. FINANCIAL 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:

Market risk policy management
Credit risk management
Liquidity risk management

The Manager has undertaken the following strategies to minimise the risks arising from financial instruments:

Market Risk Policy

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 reviewable at short periods of notice (7 days minimum). Interest rate risk is minimised because returns to unitholders are determined by the Fund's net income for the period.

SR

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

Interest rate re-pricing

The contractual re-pricing or maturity information for those financial assets is as follows. The Fund does not have 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.
- Cash and Cash equivalents maturities do not exceed 4 months.

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.

Sensitivity Analysis

The distributions to unitholders are determined by the return of the invested Fund. The financial position of the Fund itself is therefore not materially sensitive to interest rate changes. If interest rates were to increase/decrease by 1%, the net surplus of the Fund would increase/decrease by approximately $359,950 (March 2016: $285,771). 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 to 1% movement in interest rates assuming all net profit is paid out in distributions. The Fund does not have any interest sensitive liabilities.

31 March 2017

	Carrying Amount	-1% Net surplus	-1% Equity	+1% Net surplus	+1% Equity
Financial Assets (principal value)	$	$	$	$	$
Cash & Cash Equivalents	5,636,343	(51,356)	-	51,356	-
Advances on Mortgages (not impaired)	30,358,657	(303,587)	-	303,587	-
Total (Decrease)/ Increase		(334,943)	-	334,943	-

SR

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

31 March 2016

	Carrying Amount	-1% Net surplus	-1% Equity	+1% Net surplus	+1% Equity
Financial Assets (principal value)	$	$	$	$	$
Cash & Cash Equivalents	6,448,133	(64,481)	-	64,481	-
Advances on Mortgages (not impaired)	22,128,984	(221,290)	-	221,190	-
Total (Decrease)/ Increase		(285,771)	-	285,771	-

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

- The interest rate change would be applied equally over the advances on mortgages and cash and cash equivalents.
- The rate change would be as at the beginning of the 12-month period and no other rate changes would be effective during the year.
- Cash and cash equivalents would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable.
- The value and mix of advances on mortgages will be unchanged.
- Impaired loans would not generate a profit effect from interest rate changes.

Credit Risk - Advances on Mortgages

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Fund incurring a financial loss. This could occur when debtors fail to settle their obligations owing to the Fund. There is no geographical concentration of credit risk with respect to loans and receivables as the Fund has a large number of customers dispersed over all areas of New Zealand (see Note 7 (ii)). The credit policy is that loans and investments are only made to borrowers that are credit worthy and against the security of a first registered mortgage over land.

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.

SR

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

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 and measures credit risk in the reporting period. Daily reports monitor loan repayments to detect delays in repayments and recovery action is undertaken after 14 days if not rectified. The recent historic economic environment resulted in an unusually high level of defaults which are continuing to be worked through the financial statements.

Regular review of compliance is conducted by the Manager. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The policy followed is 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. However, advances to farming clients operating solely on leasehold land would be exceptions rather than the rule, and the borrower would need to have substantial financial assets;
- 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.

Credit Risk - Cash and Cash Equivalents

Credit risk is the risk that the other party 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.

There is a concentration of credit risk with respect to cash and cash equivalents with the placement of investments in reputable commercial banks. The credit policy is that investments are only made to credit worthy commercial banks. ASB Bank Limited, ANZ Bank NZ Limited and Westpac NZ Limited are rated AA - by Standard and Poors. The risk of losses from the liquid investments undertaken is reduced 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 cash and cash equivalents or the way the Manager manages and measures credit risk in the reporting period.

SR

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Maximum Credit Risk

The maximum credit risk is the carrying value of financial assets as detailed in the Statement of Financial Position.

	31 Mar 2017	31 Mar 2016
Cash and cash equivalents	$	$
Cheque Account	3,022,032	1,931,187
Bank Deposits	2,614,312	4,516,946
Advances on Mortgages	30,405,130	22,332,990
Maximum Credit Risk	36,041,473	28,781,123

The fund has exposure to counterparties in respect of advances on mortgages and cash and cash equivalents in bands of 10% of equity as follows.

% of Equity	31 Mar 2017 Advances	31 Mar 2017 Cash	31 Mar 2016 Advances	31 Mar 2016 Cash
0% to 10%	80	-	52	1
10% to 20%	-	1	-	1
20% to 30%	-	-	-	-

In respect of cash and cash equivalents exposure greater than 10% equity was to ANZ Bank NZ Limited. (2016: ANZ Bank NZ Limited).

Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. debt repayments, or unitholder withdrawals. It is the policy of the Manager to maintain cash reserves 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 accessible liquid assets as a requirement of the Supervisor (actual March 2017: 15.6%, March 2016: 22.3%). The Manager's current policy is to maintain liquidity at 7.5% of unitholder funds (actual March 2017: 14.2%, March 2016: 19.9%). The funds are held with New Zealand registered trading banks.

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.

The maturity profile of the financial assets and financial liabilities are set out in note 12.

Funding Concentration

There is a concentration of unitholders in Hawkes Bay 52% (March 2016: 42%), and Taranaki/Manawatu 26% (March 2016: 34%), with the remainder spread throughout other areas of New Zealand.

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.

SR

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Capital Management

The Fund has no externally imposed capital requirements and distributions must be approved by the Supervisor. Capital includes unitholder funds and accumulated income. Any undistributed income forms part of the Fund's accumulated income. (Refer also note 9). Unitholders ordinarily have the right to redeem their assets at their discretion therefore the Manager cannot directly manage the capital. However the Manager may under the Trust Deed suspend withdrawals for 90 days or longer in certain circumstances.

12. MATURITY PROFILE

The following tables are based on contractual maturities.
Advances of $7,702,106 (March 2016: $8,473,020) have matured. This amount includes accrued interest and other fees due less each loan's individual provision, however excludes the collective provision for impairment ($150,000).

Financial Assets 31 March 2017 ($000's)

	Matured	On demand	<1 mth	1-6 mths	6-12 mths	1-2 years	2-5 years	>5 years	Total
Cash & cash equivalents	-	3,022	400	2,201	-	-	-	-	5,622
Advances	7,702	-	350	3,791	5,201	8,485	5,027	-	30,555
Future interest receivable	-	-	191	626	629	652	172	-	2,270
Total financial assets	7,702	3,022	941	6,618	5,830	9,137	5,199	-	38,449

Financial Liabilities 31 March 2017 ($000's)

	Matured	On demand	<1 mth	1-6 mths	6-12 mths	1-2 years	2-5 years	>5 years	Total
Payables (excluding accruals)	-	-	76	-	-	-	-	-	76
Total financial liabilities	-	-	76	-	-	-	-	-	76
Loans approved but not disbursed	-	-	568	2,216	-	-	-	-	2,784
Net contractual cash flow	7,702	3,022	297	4,402	5,830	9,137	5,199	-	-
Cumulative contractual cash flow	7,702	10,724	11,021	15,423	21,253	30,390	35,589	35,589	35,589

SR

12. MATURITY PROFILE - continued

Financial Assets 31 March 2016 ($000's)

	Matured	On demand	<1 mth	1-6 mths	6-12 mths	1-2 years	2-5 years	>5 years	Total
Cash & cash equivalents	-	1,931	717	3,783	-	-	-	-	6,431
Advances	8,473	-	-	4,398	3,832	4,258	1,360	13	22,333
Future interest receivable	-	-	8	152	244	538	246	18	1,206
Total financial assets	8,473	1,931	725	8,333	4,076	4,796	1,606	31	29,970

Financial Liabilities 31 March 2016 ($000's)

	Matured	On demand	<1 mth	1-6 mths	6-12 mths	1-2 years	2-5 years	>5 years	Total
Payables (excluding accruals)	-	-	61	-	-	-	-	-	61
Total financial liabilities	-	-	61	-	-	-	-	-	61
Loans approved but not disbursed	-	-	449	113	413	-	-	-	975
Net contractual cash flow	8,473	1,931	215	8,220	3,663	4,796	1,606	31	-
Cumulative contractual cash flow	8,473	10,404	10,619	18,839	22,502	27,298	28,904	28,935	28,935

Additional information regarding expected maturities of loans

Advances of $7,702,106 at 31 March 2017 (2016: $8,473,020) have matured comprising of loans that are past due or impaired. Based on expected future cash flows the Manager anticipates repayment/refinance of the carrying value of these loans to be as follows:

	31 Mar 2017	31 Mar 2016
0-6 months	$ 3,697,227	$ 4,985,220
7-12 months	$ 1,794,162	$ 3,149,225
1-2 years	$ 981,505	$ 329,597
2-5 years	$ 1,229,212	$ 8,978
Total	$ 7,702,106	$ 8,473,020

Actual results may differ materially from the above estimates.

SR

13. 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 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.
- implementation of the internal audit procedures to promote a compliant culture and awareness of the duty to report exceptions by staff.
- 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 of premises or staff.

14. COMMITMENTS

	31 Mar 2017	31 Mar 2016
	$	$
Approved loans to be advanced after balance date	2,783,814	975,000
Withdrawal applications to hand to process after balance date	355,000	-

15. FAIR VALUE

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

Advances on mortgages 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". Additionally the loans are impaired if appropriate.

Cash and cash equivalents are available on demand or within a short period. They are at market interest rates, therefore carrying value approximates fair value.

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

16. EVENTS SUBSEQUENT TO BALANCE DATE

Effective 1 April 2017 the management fee payable to Fund Managers Central Limited has increased from 1.5% of Unitholders Funds to 1.75% of Unitholders Funds (2016: There were no events subsequent to balance date).

17. CONTINGENT ASSETS/LIABILITIES

There are no contingent assets or liabilities (March 2016: Nil).

SR

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of the Midlands Mortgage Trust Group Investment Fund

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Midlands Mortgage Trust Group Investment Fund ('the Fund') on pages 3 to 26, which comprise the statement of financial position as at 31 March 2017, 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 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 2017, 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') and International Financial Reporting Standards ('IFRS').

Our report is made solely to the Unitholders of Midlands Mortgage Trust Group Investment Fund. Our audit work has been undertaken so that we might state those matters which 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 Unitholders of Midlands Mortgage Trust Group Investment Fund, for our audit work, for our report or for the opinions we have formed.

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 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 and provider of other assurance services we have no relationship with, or interests in, Midlands Mortgage Trust Group Investment Fund. The provision of these other assurance services has not impaired our independence.

Responsibilities of the Directors of the Manager 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 IFRS, and for such internal control as the Directors of the Manager determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT

staplesrodway CHARTERED ACCOUNTANTS

To the Unitholders of the Midlands Mortgage Trust Group Investment Fund

Report on the Audit of the Financial Statements

In preparing the financial statements, the Directors of the Manager are responsible on behalf of the Fund 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 intends to liquidate the Fund or to cease operations, or has 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

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

Staples Rodway

Staples Rodway Audit Limited
Hastings, New Zealand
24 July, 2017

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