Midlands Smarter PIE Fund

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 March 2024

Midlands Smarter PIE Fund
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Midlands Smarter PIE Fund

Business Directory

Nature of Business	Midlands Smarter PIE Fund (formerly known as Midlands Income Fund) is a Group Investment Fund that aims to provide a competitive return to its stakeholders by investing in first ranking mortgage securities over land and buildings within New Zealand.
Registered office of Fund Manager	Midlands Funds Management Limited 1/111 Karamu Road North PO Box 609 Hastings 4156
Directors of the Manager	John McFadyen Rae - Chairman (appointed 23 September 2023) Kenneth Alan Horner Marise Lynne James Dinah Mary Clifford Kennedy Peter James Ellis (ceased 23 September 2023) John Baird Campbell (resigned 17 September 2023)
Supervisor & Trustee	Trustees Executors Limited Level 5 10 Customhouse Quay Wellington
Auditor	PricewaterhouseCoopers New Zealand 6 Albion Street Napier
Accountant	Nexia Hawkes Bay Limited 308 Queen Street East Hastings
Bankers	ANZ Bank New Zealand 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 Smarter PIE Fund
Statement of Comprehensive Income

For the year ended 31 March 2024

	Note	2024 $	2023 $
Interest Revenue	4	9,800,266	8,794,253
Other Income		3,962	20,487
Total Income		**9,804,228**	**8,814,740**
Administrative Expenses	5	58,987	68,100
Audit and Assurance Fees	5	137,313	110,429
Movement in Provision for Loan Impairment	7	313,349	98,408
Management Fees	3	1,980,311	1,984,562
Supervisor Fees	3	165,614	175,071
Total Expenses		**2,655,575**	**2,436,570**
Surplus Before Tax		**7,148,653**	**6,378,170**
Tax Expense/(Credit)	8	-	-
Surplus After Tax		**7,148,653**	**6,378,170**
Other Comprehensive Income			-
Total Comprehensive Income		**7,148,653**	**6,378,170**

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

Midlands Smarter PIE Fund
Statement of Changes in Equity

For the year ended 31 March 2024

	Unitholder Funds $	Accumulated Losses $	Total Equity $
Balance at 1 April 2022	106,856,449	(3,386,725)	103,469,725
Net Surplus/Total Comprehensive Income	-	6,378,170	6,378,170
Transactions with Unitholders			
Unitholder Funds Invested	35,667,025	-	35,667,025
Unitholder Funds Withdrawn	(28,856,453)	-	(28,856,453)
Distributions	-	(6,203,399)	(6,203,399)
Balance at 31 March 2023	113,667,021	(3,211,954)	110,455,068
Balance at 1 April 2023	113,667,021	(3,211,954)	110,455,068
Net Surplus/Total Comprehensive Income	-	7,148,653	7,148,653
Transactions with Unitholders			
Unitholder Funds Invested	27,781,442		27,781,442
Unitholder Funds Withdrawn	(21,579,816)	-	(21,579,816)
Distributions		(7,291,319)	(7,291,319)
Balance at 31 March 2024	119,868,647	(3,354,620)	116,514,028

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

Midlands Smarter PIE Fund
Statement of Financial Position

As at 31 March 2024

	Note	2024 $	2023 $
ASSETS			
Cash and Cash Equivalents	9	12,281,575	13,568,139
Short-Term Bank Deposits	10	-	3,289,359
Trade and Other Receivables	11	27,399	-
Advances on Mortgage	6	105,204,799	94,916,785
TOTAL ASSETS		**117,513,773**	**111,774,283**
LIABILITIES			
Trade and Other Payables	12	816,828	1,133,895
Payable to Midlands Funds Management Limited	13	182,917	185,321
Tax Payable	8	-	-
TOTAL LIABILITIES		**999,745**	**1,319,216**
NET ASSETS		**116,514,028**	**110,455,068**
EQUITY			
Unitholders' Funds	14	119,868,647	113,667,021
Accumulated Losses	15	(3,354,620)	(3,211,954)
TOTAL EQUITY		**116,514,028**	**110,455,068**

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

M James

Director

Date: 22.07.2024

JR Rae.

Director

Date: 22.07.2024

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

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Midlands Smarter PIE Fund
Statement of Cash Flows

For the year ended 31 March 2024

	Note	2024 $	2023 $
Cash Flows From Operating Activities			
Cash was provided from:			
Interest Received		9,776,140	9,018,536
		9,776,140	9,018,536
Cash was applied to:			
Payments to Suppliers		(2,661,007)	(2,089,626)
		(2,661,007)	(2,089,626)
Net Cash From Operating Activities Before Changes In Operating Assets		7,115,133	6,928,910
Net cash was provided from:			
Short Term Bank Deposit Investments		3,289,359	2,850,000
Net cash was applied to:			
Net Mortgage Advances		(10,601,363)	(3,501,216)
Net Cash Inflow/(Outflow) From Operating Activities	16	(196,871)	6,277,694
Cash Flows From Financing Activities			
Cash was provided from:			
Unitholder Funds Invested		27,781,442	33,306,213
Cash was applied to:			
Unitholder Funds Withdrawals		(21,579,816)	(28,805,935)
Distributions to Unitholders		(7,291,319)	(3,893,104)
Net Cash Inflow/(Outflow) From Financing Activities		(1,089,693)	607,174
Net Increase/(Decrease) In Cash and Cash Equivalents held		(1,286,564)	6,884,868
Plus Opening Cash and Cash Equivalents		13,568,139	6,683,271
Closing Cash and Cash Equivalents		12,281,575	13,568,139

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

Midlands Smarter PIE Fund
Notes to the Financial Statements

For the year ended 31 March 2024

1. REPORTING ENTITY

Midlands Smarter PIE 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 Smarter PIE Fund was previously known as Midlands Income Fund. The name change was effective from 1 April 2024.

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 Midlands Fund Management Limited ("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.

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 have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable applicable Financial Reporting Standards, as appropriate for tier 1 profit-oriented entities and International Financial Reporting Standards ("IFRS").

Measurement Basis

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

Presentation Basis

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

Functional and Presentation Currency

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

Critical Accounting Estimates and Judgements

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

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

Going Concern

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

Midlands Smarter PIE Fund
Notes to the Financial Statements

For the year ended 31 March 2024

Changes in Material Accounting Policies

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 has therefore been applied 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. For the year ended 31 March 2024 the Fund's non-current liabilities are nil.

There has been no other changes in accounting policies in the 2024 financial year.
All other policies have been applied on bases consistently during the year and with the prior year.

Financial reporting standards Issued But Not Yet Effective

In May 2024, the XRB introduced NZ IFRS 18 Presentation and Disclosure in Financial Statements (NZ IFRS 18) (effective for annual reporting periods beginning on or after 1 January 2027). This standard replaces NZ IAS 1 Presentation of Financial Statements (NZ IAS 1) and primarily introduces a defined structure for the statement of comprehensive income, disclosure of management-defined performance measures (a subset of non-GAAP measures) in a single note together with reconciliation requirements. The Fund has not early adopted this standard and is yet to assess its impacts.

3. RELATED PARTY TRANSACTIONS

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

Transactions with related parties:	2024	2023
Supervisor Fees To Trustees Executors Ltd	$ 165,614	$ 176,071
Management Fees to Midlands Funds Management Limited	$ 1,080,311	$ 1,548,562
Computer Service Fees to Midlands Funds Management Limited	$ 16,005	$ 16,000
Distributions paid to Midlands Income Wholesale Fund	$ 1,172,307	$ 627,449
Management fee rebate paid to Midlands Income Wholesale Fund from Midlands Funds Management Limited	$ 118,098	$ 67,561
Midlands Funds Management Limited Directors' & Officers net (withdrawals)/investments of unitholders' funds	(87,535) Units	(2,528,768) Units
Midlands Funds Management Limited Directors' & Officers net (withdrawals)/investments of unitholders' funds	$ (80,532)	$ (2,309,067)
Midlands Income Wholesale Fund's net (withdrawals)/investments of unitholders' funds	7,522,722 Units	7,429,229 Units
Midlands Income Wholesale Fund's net (withdrawals)/investments of unitholders' funds	$ 7,012,904	$ 6,833,071

Midlands Smarter PIE Fund
Notes to the Financial Statements

For the year ended 31 March 2024

Balances of related parties as at 31 March:	2024	2023
Midlands Funds Management Limited Directors' & Officers' Investments of unitholders' funds	3,234,858 Units	2,322,304 Units
Balances owed to Midlands Funds Management Limited	$ 182,917	$ 185,321
Midlands Income Wholesale Fund investment in the Fund	22,086,843 Units	14,463,922 Units
Investment from Midlands Fund Management Limited	$ 650,000	$ -

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% (2023: 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% (2023: 0.14%) calculated daily on the basis of the value of the Fund from day to day and paid quarterly in arrears during the year. Investments are redeemable within 90 days of notification of withdrawal.

4. REVENUE

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

	2024	2023
	$	$
Interest Revenue - Advances on Mortgages	9,077,177	8,458,211
Interest Revenue - Bank Deposits	723,090	333,043
	9,800,267	8,791,252

5. EXPENSES

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

Administrative Expenses	2024	2023
	$	$
Accountancy Fee	15,168	32,721
Computer Service Fee	16,000	10,000
Finance Expenses	2,044	1,289
Legal & Professional	-	8,511
Other Administrative Expenses	25,145	11,579
Total Administrative Expenses	58,357	56,100

Audit & Assurance Fees	2024	2023
	$	$
Audit of Financial Statements - PricewaterhouseCoopers New Zealand	84,000	-
Audit of Financial Statements - Crowe New Zealand Audit Partnership	25,168	94,746
Other Assurance Services - Registry Compliance	2,500	2,000
	111,668	96,746
Other		
Custodian controls assurance (Trople Ledger Ltd)	25,645	22,950
Total Audit & Assurance Fees	137,313	110,478

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 cost 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 cash flows 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.

	2024	2023
(iv) Security Property Classification	**$**	**$**
Residential	61,217,165	51,785,989
Commercial	30,808,412	22,427,113
Rural	14,084,227	20,651,689
Total	106,109,824	94,865,792
(v) Geographic Region		
Auckland	20,294,409	14,606,617
Bay of Plenty	13,760,643	14,439,001
Hawke's Bay	10,725,703	12,364,760
Waikato	14,652,321	12,295,790
Otago	12,389,627	8,421,935
Canterbury	9,509,100	12,814,901
Wellington	8,913,026	11,073,703
Northland	2,022,089	2,044,647
Taranaki	1,616,546	1,355,657
Manawatu / Whanganui	1,306,411	2,808,463
Southland	1,024,910	936,689
Gisborne	620,377	575,779
Total	106,109,824	94,865,792

(vi) Maturity

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

	2024	2023
	$	**$**
Current	66,162,165	70,519,910
Non-Current	39,947,659	24,345,882
Total	106,109,824	94,865,792
(vii) Reconciliation of Gross Advances to Carrying Value		
Loan Principal	106,109,824	94,865,792
Accrued Interest	621,745	542,669
Expected credit loss	(905,025)	(491,676)
Total	105,826,544	94,916,785

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 2023: 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 18 months) and because of the complexity and potential volatility of the security values. All metrics are within the limits prescribed in our SIPO. A breakdown of the current loan to security value ratio, including where new valuations have been undertaken, is as follows:

31 March 2024			
Residential	**LVR ≤ 75%**	**LVR > 75%**	**Total**
Commercial	**LVR ≤ 66.7%**	**LVR > 66.7%**	
Rural	**LVR ≤ 60%**	**LVR > 60%**	
	$	**$**	**$**
Residential	60,333,277	883,908	61,217,185
Commercial	30,046,521	761,891	30,808,412
Rural	14,084,227	-	14,084,227
	104,464,025	1,645,799	106,109,824

31 March 2023			
Residential	**LVR ≤ 75%**	**LVR > 75%**	**Total**
Commercial	**LVR ≤ 66.7%**	**LVR > 66.7%**	
Rural	**LVR ≤ 60%**	**LVR > 60%**	
	$	**$**	**$**
Residential	51,786,989		51,786,989
Commercial	23,427,113	-	23,427,113
Rural	19,651,689		19,651,689
	94,865,792	-	94,865,792

(x) Loan Impairment Aging Analysis

As at 31 March 2024	**Residential**	**Commercial**	**Rural**	**Total**
Neither past due or impaired	58,772,154	30,046,521	14,084,227	**102,902,902**
Past due assets not impaired:				
less than 30 days		-		-
30 to 59 days	65,673	-	-	**65,673**
60 to 89 days	-	-	-	-
90 days and over	-	-	-	-
Balance of past due but not impaired assets at the end of the year	**65,673**	-		**65,673**
% of total gross advances	**0.11%**	**0.00%**	**0.00%**	**0.06%**
Movements in individually impaired assets:				
Balance at the beginning of period		-		-
Additions	2,379,358	761,891		**3,141,249**
Amounts written off / loans closed	-	-	-	-
Balance of impaired assets at the end of the year	**2,379,358**	**761,891**	-	**3,141,249**
Total gross advances on mortgages	**61,217,185**	**30,808,412**	**14,084,227**	**106,109,824**

As at 31 March 2023	Residential	Commercial	Rural	Total
Neither past due or impaired	50,504,190	22,171,525	19,143,167	91,898,889
				-
Past due assets not impaired:				-
less than 30 days	-	526,365	508,522	1,034,887
30 to 59 days	65,071	729,223	-	795,194
60 to 89 days		-	-	-
90 days and over	1,136,822	-	-	1,136,822
Balance of past due but not impaired assets at the end of the year	1,202,793	1,255,588	508,522	2,966,903
% of total gross advances	2.32%	5.36%	2.59%	3.13%
Movements in individually impaired assets:				
Balance at the beginning of period	-	-		-
Additions	-	-	-	-
Amounts written off / loans closed		-		-
Balance of impaired assets at the end of the year	-	-	-	-
Total gross advances on mortgages	51,706,983	23,427,113	19,651,689	94,865,792

Effective Interest Rates

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

	31 March 2024	31 March 2023
Residential Mortgages	9.58%	8.70%
Commercial Mortgages	9.70%	9.09%
Rural Mortgages	9.58%	8.80%

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 uncollectable 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 Senior Management (namely the Senior Credit Manager, the Chief Financial Officer and the Chief Executive Officer). Senior Management has delegated authority of 3.5% of funds under management. Senior Management meet regularly, and at the least 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.

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

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

Measurement of ECL

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

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

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

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

Each loan is assigned a probability of default and loss given default rate, both expressed as percentages, based on:
- The internal risk indicator assigned;
- The classification of the loan as either commercial, rural or residential; and
- Whether the loan is in Stage 1, 2 or 3.

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

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

1. Internal Risk Indicator

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

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

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

2. Backstop Criteria

A SICR is considered to have occurred when the borrower meets one or more of the following criteria:
i) Direct debit cancellation or consecutive direct debit dishonours
ii) Extension of the terms granted
iii) Arrears of repayments in excess of 30 days within the last 12 months

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.

As at 31 March 2024	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Lending Assets				
Advances on mortgage (gross)				
Residential	58,772,154	65,673	2,379,358	61,217,185
Commercial	27,504,447	2,542,074	761,891	30,808,412
Rural	8,495,584	5,588,643	-	14,084,227
	94,772,185	**8,196,390**	**3,141,249**	**106,109,824**
Commitments to lend				
Residential	3,606,503		-	3,606,503
Commercial	400,000		-	400,000
Rural	-		-	
	4,006,503	-	-	**4,006,503**
ECL Rate				
Residential	0.31%	0.83%	2.70%	
Commercial	0.43%	2.02%	35.11%	
Rural	0.42%	2.59%	0.00%	
ECL Provision	***352,578***	***219,244***	***333,203***	***905,025***
Other Financial Assets				
Cash and Cash Equivalent	12,281,575			12,281,575
Short-term Deposits	-		-	-
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%

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 mortgages and individual impairment allowance on transfers of mortgage into Stage 3

As at 31 March 2023	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Lending Assets				
Advances on mortgage (gross)				
Residential	46,930,376	4,556,513	-	51,756,989
Commercial	21,585,691	1,126,755	714,667	23,427,113
Rural	14,802,601	4,848,998	-	19,651,599
	83,318,748	**10,532,276**	**714,667**	**94,085,792**
Commitments to lend				
Residential	1,127,452	77,806		1,205,258
Commercial	607,600			607,600
Rural	495,376			495,376
	2,230,628	**77,806**	-	**2,308,434**
ECL Rate				
Residential	0.31%	1.22%	0.00%	
Commercial	0.45%	2.66%	10.00%	
Rural	0.33%	2.50%	0.00%	
ECL Provision	***294,266***	***225,944***	***71,467***	***591,677***
Other Financial Assets				
Cash and Cash Equivalent	13,568,139	-	-	13,568,139
Short-term Deposits	3,289,359	-	-	3,289,359
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%

Movement in balances of credit impairment allowances

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

As at 1 April 2022	Stage 1	Stage 2	Stage 3	Total
Opening credit loss allowance	**241,065**	**252,202**	-	**493,267**
Transfer between stages	54,078	(73,735)	19,657	-
New and increased provisions (net of releases)	(877)	47,477	51,810	98,410
Write-backs	-	-	-	-
Bad debts written off (excluding recoveries)		-		
As at 31 March 2023	**294,266**	**225,944**	**71,467**	**591,677**
Transfer between stages	(120,503)	54,781	65,722	-
New and increased provisions (net of releases)	178,814	(61,481)	196,015	313,348
Write-backs	-			-
Bad debts written off (excluding recoveries)		-	-	-
As at 31 March 2024	**352,577**	**219,244**	**333,204**	**905,025**

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 analyses
The long lasting impact of Cyclone Gabrielle which occurred in February 2023, 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 loan advances are generally for a term up to 18 months. 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

	2024	2023
Residential	64%	46%
Commercial	50%	40%
Rural	36%	32%

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 2024 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 $49,213
- 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 $124,343

8. TAXATION

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

The entity is a widely-held group investment fund and derives Category B income for the purposes of section HR 2(3) of the Income Tax Act 2007
Usually all income of the Fund will be allocated to unitholders throughout the income year, or is paid and applied within six months of the year end. In these circumstances the Fund will have no liability for income tax. To the extent income is retained by the Fund it will be taxable to the Fund at 28%.

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

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

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

	2024	2023
	$	$
Current Period Tax		
Surplus/(Deficit) for the period	7,148,652	6,378,170
Less Distribution to Unitholders	(7,291,318)	(6,203,399)
Residual Taxable Income	(142,668)	174,771
Tax Charge at effective tax rate (28%)	(39,947)	48,936
Tax effect of permanent differences not recognised		
Add Non Taxable Distribution to Unitholders	1,804,941	-
Current Period Tax Charge	457,783	[illegible]
Tax effect of temporary difference not recognised		
Impairment Provision and Accruals Movement	64,563	28,198
Tax Losses Not Recognised/(Utilised)	(522,346)	(77,134)
Tax Expense/(Credit)	-	-
Current Tax Payable	-	-
Deferred Tax	-	
Tax Expense/(Credit)	-	-

The Fund has no tax losses to carry forward (March 2023: $9,354,903) as the Fund elected to become a PIE from 1 April 2024

9. CASH AND CASH EQUIVALENTS

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents also includes term deposits with maturities of less than 90 days

	2024	2023
	$	$
ANZ Bank New Zealand Limited	7,079,897	13,568,129
Kiwibank New Zealand Limited	10	10
Jarden Group Limited	5,701,668	-
Total	12,781,575	13,568,139

10. 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

	2024	2023
	$	$
Short-Term Bank Deposits		3,289,359
Total		3,289,359

Terms ranged from 314 - 400 days

No short term deposits were held at the end of the year (March 2023 effective interest rate range 5%-6.02%, weighted average 5.32%)

11. TRADE AND OTHER RECEIVABLES

Trade and other receivables are classified as current assets to the end of the financial year which they are outstanding. These amounts are expected to be settled in less than 12 months.
Accruals are recognised in the period in which they were earned.

	2024	2023
	$	$
Accruals	27,299	-
Total	27,299	-

12. 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.

	2024	2023
	$	$
Accruals	616,029	836,400
Resident Withholding Tax		297,495
Total	613,624	1,133,895

13. MIDLANDS FUNDS MANAGEMENT LIMITED

The following related party transactions exist with Midlands Fund Management Limited.

	2024	2023
	$	$
Management Fee Payable	174,285	166,157
Other Transactions	8,632	14,139
Total	182,917	185,371

14. 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.

	2024	2023
	#	#
Opening Units	119,571,307	112,135,779
Units Issued	30,196,798	38,758,505
Units Redeemed	(23,456,321)	(31,322,977)
Closing Units	126,311,784	119,571,307
Unitholder Funds	$110,868,847	$113,667,031

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. re-invested 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 (2023: $0.92). All units issued are fully paid. The price of units in the Fund is determined by the net asset value of the Fund divided by the total units in the Fund.

The average annualised income distribution per unit for the relevant accounting period is 5.77c/unit (March 2023: 5.1c/unit)

15. ACCUMULATED LOSSES

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. Distributions are determined by consideration of the surplus income in the Fund for a period and market rates of return for similar instruments.

16. STATEMENT OF CASH FLOWS

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

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

(a) Cash and cash equivalents are considered to be cash on hand and current accounts in banks, short term bank deposits (with terms less than 90 days), net of bank overdrafts.

(b) Investing activities are those activities relating to the acquisition, holding and disposal of long term assets.

(c) Financing activities are those activities that result in changes in the size and composition of the capital structure of the Fund; and

(d) Operating activities include all transactions and other events that are not investing or financing activities. Cashflows relating to Advances on Mortgage and Short Term Bank Deposits are considered operating activities.

Reconciliation of Surplus After Tax With Net Cash From Operations

	2024	2023
	$	$
Surplus after Tax	7,148,653	6,378,170
Plus/(Less) Non-Cash Items		
Impairment Provision Movement	313,340	98,408
	7,462,002	6,476,578
Plus/(Less) Cashflow Effect of Movement in Operating Assets and Liabilities		
Trade and Other Payables	(318,781)	248,526
Interest Accrued	(26,088)	205,730
Short Term Bank Deposits	2,259,359	2,850,000
Mortgage Advances	(10,501,505)	(3,601,210)
Net Cash Inflow/(Outflows) From Operating Activities	(190,871)	6,277,695

17. 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 Senior Management (namely the Senior Credit Manager, the Chief Financial Officer, and the Chief Executive Officer). Senior Management has delegated authority of 3.5% of funds under management. Senior Management meet regularly, and at the least 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.

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 investment 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 and residential investment properties 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 vacant land or a lessee's interest

• 66.7% of a registered valuation for other commercial properties or 60% of a registered valuation for special use commercial properties or 50% of the value of the lessee's interest in the case of vacant land or a leasehold property

There has been no significant change to the Fund's exposure to credit risk with respect to loans and receivables or the way the Manager manages the credit risk in the reporting period. The Fund has changed its measurement of ECL as detailed in note 7. Daily reports monitor loan repayments to detect delays in repayments and recovery action is undertaken immediately 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 (vi);
- Geographical sort 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 creditworthy commercial banks. ANZ Bank NZ Limited, the Fund's primary banker, is rated AA - by Standard and Poors. The risk of losses from bank investments is mitigated by the nature and quality of the independent rating of these banks.

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

The concentration of credit risk with respect to banks for short term bank deposits and cash and cash equivalents as at reporting date was 38% for ANZ Bank NZ Limited (2023: 75%), nil for Kiwibank Limited (2023: 11%), nil for Westpac New Zealand Limited (2023: 14%) and 42% Jarden Group Limited (2023: nil).

In the 2024 financial year Midlands introduced a cash management facility to assist with liquidity management. This facility is administered by Jarden Group Limited where as at 31 March 2024 the exposures sat with ANZ (ANZ Bank is rated AA- by Standard & Poors), Westpac (Westpac is rated AA- by Standard & Poors) and Rabo Bank (Rabo Bank is rated A+ by Standard & Poors).

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.

	2024	2023
	$	$
Cash and Cash Equivalents	12,281,075	11,588,139
Short-Term Bank Deposits	-	3,789,359
Advances on Mortgages	105,204,799	94,916,785
Loan Commitments	4,006,500	2,308,434
Maximum Credit Risk	**121,492,077**	**114,002,717**

Counterparty Exposure

The Fund has exposure to single counterparties in respect of:
a) advances on mortgages, and
b) cash and cash equivalents deposited with Banks.
The number of single counterparty exposures in bands of 10% of Funds Under Management (FUM) are as follows:

Number of single counterparty exposures as a % of FUM for below range	31 Mar 2024 Advances	31 Mar 2024 Banks	31 Mar 2023 Advances	31 Mar 2023 Banks
0% to 10%	104	2	118	2
10% to 20%	-		-	1
20% to 30%	-	-	-	

Liquidity Risk

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

The liquidity risk related to loan commitments is where there are insufficient ability to meet borrower drawdowns on undrawn commitments. Liquidity risk related to unit 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

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 2024: 10.07%, March 2023: 15.00%). The cash reserves are held so as to meet the loan commitments at the end of the year. Following the advance of the committed loans at year end, the cash reserve will be at 12%. 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 18

Funding Concentration

There is a concentration of unitholders in Hawkes Bay 64% (March 2023: 63%) and Taranaki 14% (March 2023: 16%).

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.

Interest Rate Sensitivity

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

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

31 March 2024	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	12,281,575	(30,704)		30,704	-
Short Term Bank Deposits	-			-	-
Advances on Mortgages	105,204,799	(263,012)	-	263,012	-
Total (Decrease)/Increase		**(293,716)**	-	**293,716**	-

31 March 2023	Carrying Amount	-0.25% Net Surplus	-0.25% Net Equity	+0.25% Net Surplus	+0.25% Net Equity
Financial Assets (Principal Value)	**$**	**$**	**$**	**$**	**$**
Cash & Cash Equivalents	13,568,139	(33,920)	-	33,920	-
Short Term Bank Deposits	3,289,359	(683)	-	683	
Advances on Mortgages	94,916,785	(237,292)		237,292	-
Total (Decrease)/Increase		**(271,895)**	-	**271,895**	-

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

19. MATURITY PROFILE

The following table is based on contractual maturities.
As at [illegible] advances of $862,527 (March 2023: $6,[illegible]13,918) have matured. The amount of fees accrued interest and other fees due less each [illegible] [illegible]. [illegible] amount of loan principal is $862,527 (March 2023: $6,057,267).

31 March 2024 ($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		9,282	2,[illegible]	1,[illegible]					12,282
Short term bank deposits	-			-	-			-	-
Advances on mortgage	862		4,1[illegible]	56,527	31,637	12,959	-	-	[illegible]
Future interest receivable	-	-	254	4,154	2,1[illegible]	1,275	-	-	8,479
Total Financial Assets	862	9,282	6,965	61,681	33,878	14,230	-	-	126,906
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)			27			-			27
Total Financial Liabilities		-	27	-	-	-	-	-	27
Loans Approved but not disbursed			3,0[illegible]	733	[illegible]				4,006
Net contractual cash flow	862	9,282	3,951	60,948	33,692	14,230	-	-	122,873
Cumulative contractual cash flow	862	10,144	13,995	74,943	108,635	122,873	122,873	122,873	122,873

31 March 2023 ($000's)

Financial Assets	Matured	On Demand	< 1 Month	1-6 Months	6-12 Months	1-2 Years	2-5 Years	>5 Years	Total
Cash and cash equivalents	-	12,074	432	451	-	-			13,960
Short term bank deposits	-	-	4[illegible]	2,387	5[illegible]	-	-	-	3,200
Advances on mortgage	6,057		3,305	35,959	23,619	24,346		-	94,[illegible]
Future interest receivable	-	-	631	2,424	2,059	404			5,5[illegible]
Total Financial Assets	6,057	12,664	5,410	42,170	26,789	24,750	-	-	117,270
Financial Liabilities	**Matured**	**On Demand**	**< 1 Month**	**1-6 Months**	**6-12 Months**	**1-2 Years**	**2-5 Years**	**>5 Years**	**Total**
Payables (excl accruals)	-	-	483						483
Total Financial Liabilities	-	-	482	-	-	-	-	-	482
Loans Approved but not disbursed		-	1,049	452	907			-	[illegible]
Net contractual cash flow	6,057	12,664	3,878	41,718	25,382	24,750	-	-	114,479
Cumulative contractual cash flow	6,057	18,751	22,629	64,347	89,729	114,479	114,479	114,479	114,479

Additional information regarding expected maturities of loans

Gross advances of $[illegible] at 31 March 2024 (2023: $[illegible]) 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:

	2024	2023
	$	$
0-6 Months	952,527	[illegible]
7-12 Months	-	714,067
1-2 Years	-	-
2-5 Years	-	-
Total carrying value	952,52[illegible]	6,087,268

19. COMMITMENTS

	2024	2023
	$	$
Approved loans to be advanced after balance date	4,990,503	2,109,935
Withdrawal applications to hand to process after balance date	1,297,712	520,517

20. 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 difference between fair value and carrying value of loans is not material as the interest rate is floating and the loans can be charged 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 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.

21. EVENTS SUBSEQUENT TO BALANCE DATE

From 1 April 2024 the Fund elected to be a portfolio investment Entity (PIE) fund at $1.00 per unit. As part of the transition to a PIE Fund Midlands reset the unit price from $0.92[illegible] to $1.00 to reflect the relaunch of the fund. The repricing was achieved through a pro-rata consolidation of units. No investor balance was impacted by the re-pricing exercise and this repricing was authorised by Trustees Executors Limited (the Supervisor) in accordance with the Trust Deed.

22. CONTINGENT ASSETS/LIABILITIES

There are no contingent assets or liabilities (March 2023: Nil).

Independent auditor's report

To the unitholders of Midlands Smarter PIE Fund (the Fund), previously known as Midlands Income Fund

Our opinion

In our opinion, the accompanying financial statements of the Fund present fairly, in all material respects, the financial position of the Fund as at 31 March 2024, 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 Accounting Standards (IFRS Accounting Standards).

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at 31 March 2024;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We are the auditor of the Midlands Funds Management Limited, the Manager. We have provided the following services to the Manager: agreed upon procedures on the net tangible assets calculation. We have provided services to the Fund through unitholder register compliance assurance and supervisor reporting. These services have not impaired our independence as auditor of the Fund.

Responsibilities of the Manager for the financial statements

The Manager, is responsible, on behalf of the Fund for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS Accounting Standards, and for such internal control as the Manager determines 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 Manager is 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 Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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 year. 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.

Description of the key audit matter	How our audit addressed the key audit matter
Provision for impairment on loans Advances on Mortgages were \$105.2m (2023: \$94.9m) which is after a provision for impairment of \$905k (2023: \$592k). As disclosed in note 6 to the financial statements, Advances on Mortgages represent the Fund's core activity and is a significant asset. The Fund may be exposed to credit losses from loans which become overdue, or are in default, and result in an impairment provision for expected credit losses (ECL). Determining an appropriate ECL provision is an area of significant management estimation and judgement. ECL are probability weighted estimates of cash shortfalls expected to result from defaults over the relevant timeframe of the asset. The standard (NZ IFRS 9) requires the Fund to determine the provision for ECL by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions, and forecasts of future economic conditions. The Fund calculates the provision for ECL at each reporting date to assess the level of expected credit loss. Management determines an individual impairment allowance provision, and for those loans not specifically provided for, a collective impairment allowance. In determining the individual impairment allowance, management estimates the potential impairment based on trigger events of each loan, including the length of time a loan has been in arrears and the value and nature of security held.	Our audit procedures included the following: ● We obtained an understanding of the lending process and particularly the process for assessing the recoverability of advances on loans and the calculation of the provision for impairment. This included evaluating the design effectiveness of relevant controls for the impairment calculation and provision of advances on loans, and confirming that they had been implemented. ● For a sample of new loans, we reviewed the loan agreement, security documentation provided (including assessing the valuation of the security), and other available information used to record the new loan into the system, including that the new loan input had been reviewed for accuracy and validity, and approved. ● We obtained a sample of management's monthly reviews of the loan book and associated impairment allowances to confirm appropriate review of the loan book and exposures has been undertaken by management throughout the year. In addition to the substantive and controls testing above, we have performed the following audit procedures: ● Tested the ECL model for mathematical accuracy. ● Assessed management's assumptions about the expected recoveries to test the basis of measuring individually assessed and collective provisions.

Description of the key audit matter	How our audit addressed the key audit matter
The collective impairment allowance is based on a calculation of expected credit loss which is based on a three stage approach. The ECL is calculated in stages depending on the level of credit deterioration. Management has adopted the rebuttable presumption that the credit risk has increased significantly since initial recognition (ie. Stage 2) when contractual payments are 30 days past due. If contractual payments are more than 90 days overdue or in default this is Stage 3. Where there is no additional credit risk this is Stage 1. At each stage an ECL is calculated which is based on a range of assumptions. The assumptions that we focused our audit on include those with greater levels of management judgement and for which variations have the most significant impact on the provision for ECL. Specifically these included the model inputs for the probability of default (PD) and loss given default (LGD) parameters, the forward-looking adjustment to the PD parameters, the macroeconomic scenarios used, and whether or not any model adjustments are required to the modelled output. We consider this a key audit matter due to the judgement involved regarding the recoverability of advances on loans, the related provision for impairment, and the significance of the advance on loans balance. Refer to notes 6 and 7 of the financial statements which explain the critical accounting estimates and judgements in determining the ECL provision for advances on loans.	• Assessed the appropriateness of methodologies and their application in the related model against the requirements of NZ IFRS 9. • Assessed management's application of stages 1 to 3 in the model to ensure they are appropriate. • For a sample of commercial, residential and rural loans, we've assessed the reasonableness of the stage assigned considering any significant increases in credit risks. • Tested the completeness and accuracy of critical data elements used in the calculation of the model. • Assessed the benchmarks used to support the provision, including the assumptions applied for PDs and LGDs. • Used sensitivity analysis to assess the appropriateness of certain forward-looking information incorporated into the model, including the macroeconomic scenarios developed, underlying forecasts and probability weightings applied against current market conditions, and other available evidence. • Considered whether there were any events occurring subsequent to the balance date that impact on the provision for ECL. • We also assessed the reasonableness of the financial statement disclosures against the requirements of NZ IFRS 9.

Our audit approach

Overview

Materiality	Our materiality for the Fund is $820,000, which represents approximately 0.75% of net assets for the Fund. We chose net assets as the benchmark because, in our view, the objective of the Fund is to provide unitholders with a total return on the Fund's net assets, taking into account both capital and income returns.

Key audit matters	As reported above, we have one key audit matter, being provision for impairment on loans.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements of the Fund as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements of the Fund as a whole.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements of the Fund as a whole, taking into account the structure of the Fund, the Fund's investments and the accounting and registry processes and controls.

The Manager is responsible for the governance and control activities of the Fund.

In completing our audit, we performed relevant audit procedures over the control environment of and the Manager to support our audit conclusions.

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) and ISAs 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 our responsibilities for the audit of the financial statements is located at the External Reporting Board’s website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/
This description forms part of our auditor’s report.

Who we report to

This report is made solely to the Fund's unitholders, as a body. 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 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 Maxwell John Dixon.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants

23 July 2024

Napier